



OTAY WATER DISTRICT



Adopted Operating and Capital Budget

Fiscal Year
2006- 2007



**ADOPTED
OPERATING AND CAPITAL BUDGET
FISCAL YEAR 2006-2007**

Board of Directors

Jaime Bonilla - President, Division 2

Jose Lopez - Vice President, Division 4

Mark Robak - Treasurer, Division 5

Gary Croucher - Division 3

Larry Breitfelder - Division 1

Management

Mark Watton - General Manager

German Alvarez - Assistant General Manager, Finance and Administration

Manny Magaña - Assistant General Manager, Engineering and Operations

Joseph R. Beachem - Chief Financial Officer

ADOPTED OPERATING AND CAPITAL BUDGET FISCAL YEAR 2006-2007

TABLE OF CONTENTS

	<u>Page</u>
Letter of Transmittal	iv
Awards	xi
BUDGET FOREWORD	
Otay Water District At-A-Glance	1
General Information	2
Statement of Values	3
Balanced Scorecard	4
Organization Chart	8
Budget Guide	9
Budget Calendar	11
Budget Process & Basis	12
Resolution No. 4079	15
POLICIES	
Summary of Financial Policies	16
Reserve Policy	17
Investment Policy	45
Debt Policy	57
HISTORY AND COMMUNITY PROFILE	
Past, Present, and Future	70
Historic Timeline	71
Current Economic Conditions and Outlook	73
The Future	74
Ten Largest Customers	75
Service Area Assessed Valuation	76
Ten Principal Taxpayers	77
San Diego County Rainfall	78
FINANCIAL SUMMARIES	
Budget Summary	79
Operating Budget Summary – General Fund	83
Operating Budget Summary by Business	84
Operating Revenues & Expenditures	85
Fund Balance Summary by Fund	86
Revenues & Expenditures by Fund	87
FIVE-YEAR FORECAST	
Five-Year Forecast	89
General Fund Forecast	90
Fund Balances	91
Debt Management	92
Schedule of Outstanding Debt	93

REVENUES AND EXPENDITURES

Potable Revenues and Expenditures

Potable Narrative	94
Operating Budget Summary	96
Classification of Water Sales	97
Water Sales Summary by Service Class	98
Unit Sales History by Customer Class	99
System Fees	100
MWD & CWA Fixed Fees (Pass-Through)	101
Meter Fees	102
Revenue History	103
Water Purchases and Related Costs	104
Power Costs	105
Administrative Expenses	106
Materials and Maintenance Expenses	107
Potable Water Service Area Maps	108

Recycled Revenues and Expenditures

Recycled Narrative	109
Operating Budget Summary	112
Classification of Water Sales	113
Water Sales Summary by Service Class	114
System Fees	115
Meter Fees	116
Revenue History	117
Water Purchases	118
Power Costs	119
Administrative Expenses	120
Materials and Maintenance Expenses	121
Recycled Water Service Area Maps	122

Sewer Revenues and Expenditures

Sewer Narrative	123
Operating Budget Summary	125
Customers and Assigned Service Units	126
Revenue History	127
Power Costs	128
Administrative Expenses	129
Materials and Maintenance Expenses	130
Formula for Sewer Rates	131
Sewer Service Area Map	132

General Revenues and Expenditures

General Revenues and Expenses Narrative	133
General Revenues	135
General Expenses	136

DEPARTMENTAL OPERATING BUDGET

Departmental Operating Budget Narrative	138
Labor & Benefits	141
Position Count by Department	143
Administrative Expenses	148
Materials and Maintenance Expenses	149
Operating Expenditures by Department	150
Operating Expenditures by Object	151
Departmental Budgets:	
Board of Directors	152
General Manager	156
Administrative Services	161
Finance	170
Information Technology and Strategic Planning	179
Water Operations	186
Engineering and Planning	194
Development Services	203
General Expense	211

CAPITAL BUDGET

Capital Improvement Program Narrative	214
Major CIP Projects	216
Flagship CIP Projects Completed	217
CIP Projects in Construction and Ahead of Schedule	220
CIP Reserve Funds	223
CIP Funding Source and Category	224
CIP Schedule	225
CIP Justification and Impact on Operating Budget	227
Capital Purchases Budget	229

APPENDIX

Glossary	230
List of Acronyms	236



...Dedicated to Community Service

2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91977-7299
TELEPHONE: 670-2222, AREA CODE 619



September 1, 2006

Honorable Board of Directors
Otay Water District

I am pleased to present the Otay Water District Adopted Operating and Capital Budget for Fiscal Year 2006-07. The District's 50th year of providing quality potable and recycled water, and sewer, there is an emphasis on new water sources, system reliability, and new maintenance requirements. This year's budget establishes the management plan to finance all of the District's services and programs during the 2007 Fiscal Year.

The District is a publicly-owned water and sewer agency, authorized as a California special district in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective divisions, to serve staggered four-year terms on its Governing Board. The District is a "revenue neutral" public agency, meaning that each end-user pays his or her fair share of the District's costs of water acquisition and the operation and maintenance of the public water and sewer facilities.

In 2006, the District celebrates its 50th anniversary. It began on an overcast summer day in 1955 when a plumber, a civil engineer, an attorney, a newspaper publisher, and two owners of large tracts of land gathered for lunch at Christie's Restaurant in Chula Vista. They met to discuss how together they could bring life-giving water to an arid region of southeastern San Diego County. By the end of the day, the group had a common vision, a few thousand dollars in capital, and the framework for what would later become the Otay Water District. Their vision was realized on January 27, 1956, when the District was authorized by the California Legislature to an entitlement to import water.

Over the next 50 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 663 miles of pipelines, 37 reservoirs, a sewer treatment plant, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master-planned communities.





Today, the District provides water service to nearly 46,830 potable and 540 recycled customers within approximately 125 square miles of southeastern San Diego County. All of the potable water delivered by the District is purchased from the San Diego County Water Authority (CWA) who in turn purchases water from the region’s water importer, the Metropolitan Water District of Southern California. In Fiscal Year 2007, the District began purchasing raw water from CWA and made an agreement with the City of San Diego to treat the water. By taking raw water through CWA’s system there is increased reliability of water supplied to the District. This water is delivered through the Lower Otay Pump Station.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,570 homes and businesses (or 6,600 Assigned Service Units) within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF project is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional six million gallons per day of recycled water from the City’s South Bay Water Reclamation Plant (SBWRP).

BUDGET SUMMARY

For Fiscal Year 2007, the budget totals \$94 million, with operating expenditures of \$59 million and capital expenditures of \$35 million. The District’s goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The operating expenditures are derived from three major sectors: water, reclamation, and sewer. Revenues for the water utility in Fiscal Year 2007 are projected to be \$47,616,200 about \$4.2 million (9.7%) greater than Fiscal Year 2006. Water sales are expected to increase as a result of a slowing but continuing growth trend occurring within the District’s service area. This growth should add over 870 new customer accounts and increase the District’s assets by approximately \$35 million for the year.

Significant aspects of the Operating Budget are:

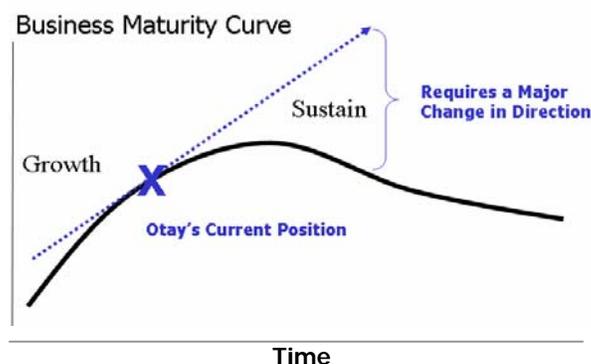
- A balanced budget meeting the goals of the Strategic Plan.
- The District has updated a six-year Rate Model to ensure sound financial planning and reserve levels.
- The District implemented rate increases in potable and reclaimed water, and sewer. This included pass-through rate increases from CWA, City of San Diego, and County of San Diego who raised costs to the water and sewer customers.

- Of San Diego County's 23 water agencies, Otay's water rate is the seventh-lowest and below the county-wide average.
- The District is planning on issuing debt in Fiscal Year 2007 to fund the construction of new facilities, and replacement or enhancement of facilities.
- Includes funding for the six million gallons per day recycled water purchase agreement with the City of San Diego.
- Includes funding for new regulations for air vac, valve maintenance, and the automated meter reading change-out program.
- Expands residential, landscape, and commercial water conservation programs.
- Enhances Storm Water Control Best Management Practices.
- Funds the fourth year of a Five-Year Labor Agreement ending in Fiscal Year 2008.

The projected operating cost for salaries and benefits is \$14.6 million, which is an increase of \$1,149,000 (8.5%) compared to Fiscal Year 2006. The increase in labor is predominately the result of negotiated pay and benefit increases.

Estimated growth of 870 potable and recycled water accounts will bring the new customer count to 47,670 potable and 570 recycled accounts by the end of Fiscal Year 2007 that equates to approximately 74,600 equivalent dwelling units (EDUs). The ultimate population projection of 277,000 will result in an estimated 114,000 EDUs and an average annual water demand of approximately 56 million gallons per day (MGD). To accommodate this growth, the District will need to invest an estimated \$530 million in capital assets through ultimate build-out. The Fiscal Year 2006-07 Capital Budget consists of 90 projects and a budget of \$35 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth.

The District has begun to address the transformation from a growth-centric to a maintenance-based organization. Capital and developer fees support growth but replacement and maintenance is supported by rates and operating expenses. Otay has been very successful in managing growth and now needs to focus on managing long-term maintenance and replacement of its aging infrastructure.



STRATEGIC BUSINESS PLAN

To guide operations and planning efforts during this time of sustained growth, in 2001 the District began developing a Strategic Business Plan. This plan was designed to address the unique challenges and opportunities resulting from growth. It would also guide the District as it strives to develop the necessary infrastructure and operational practices to perform its primary business while ensuring quality customer service and competitive rates are maintained.

The first multi-year Strategic Business Plan was adopted by the Board of Directors in 2002. Each year the Board of Directors reviews and updates the plan. While the first plan guided the District through a period of record growth, the updated plan using a balanced scorecard method, looks forward to a time when the majority of the requisite physical infrastructure is in place and the District begins to transform from a growth-centric entity to a maintenance-based organization. The District has been very successful managing growth and recognizes that continued success is predicated on developing reliable, long-term, water supplies as well as managing long-term maintenance and replacement of its infrastructure. (A summary of the Balanced Scorecard is provided on pages 4-7.)

One key to addressing the challenges is to capitalize on the significant investment that has been made in implementing integrated information systems. With the Otay Information System in place, the District has focused on business process improvement utilizing best-in-class technology. Other Strategic Business Plan objectives include securing additional water sources, continuing expansion of its potable and recycled water networks, expanding use of recycled water, and continuing efforts to promote conservation.

The vision incorporated in the Strategic Plan calls for: continuing to enhance the District's financial document capabilities; developing an Integrated Water Resources Plan (IRP) including potable, recycled water, and wastewater services; identifying and supporting the development of new water sources such as desalination, agricultural to urban water transfers, groundwater development, and the use of recycled water; and utilizing new technologies to continue streamlining operations to minimize rate increases and to ensure the District's viability through the entire build-out of its customer base.

Putting the Strategic Business Plan to Work

With the Strategic Business Plan serving as its primary guide, the Board of Directors adopted a balanced \$59 million Operating Budget and \$35 million Capital Improvement Program (CIP) for Fiscal Year 2006-2007. The budget is also aligned with the District's long-range financing plan, Rate Model, and financial statements. In conjunction with a Bond refinancing, the credit rating firm Standard and Poor's awarded the Otay Water District an A+ credit rating. Standard and Poor's presented the A+ rating after reviewing the District's financing plan, Rate Model, Strategic Plan, budget, and financial statements.

Water Resources



The Strategic Plan drives advances in every aspect of District operations. For instance, the Strategic Plan called for updating of the Urban Water Management Plan (UWMP), which was completed in December 2005. The UWMP serves as a long-range planning document for water supply and demand, and provides an overview of the District's water supply and usage, recycled water, and conservation programs. The UWMP works to ensure the District always has the water resources it needs to meet the demands of a growing community.

The need to develop an Integrated Water Resources Plan (IRP) is identified within the Strategic Plan. The mission of the IRP is to find the optimal mix of imported water, local supplies, and conservation efforts to meet projected ultimate supply requirements in a cost-effective manner while also incorporating environmental impacts, implementation risks, and other factors. The planning objectives are to maintain affordability, meet water quality standards, achieve supply reliability, increase system flexibility, increase supply diversity, and address environmental and institutional constraints. The IRP planning effort will identify and evaluate all potential water resource supply opportunities to arrive at a recommended diverse water supply portfolio. The water supply portfolio will provide a strategic approach and focused direction to be incorporated into the water resources master plan and the Capital Improvement Program for the development of sufficient water supply to meet the planning objectives for long-term sustainability. The water supply alternatives include all potential opportunities such as desalination, groundwater, water transfers, recycled water supply development, and interagency agreements.

Recycled Water

Included in the UWMP is an agreement with the City of San Diego allowing the District to purchase recycled water from the City's South Bay Reclamation Facility. This contract will deliver, on average, more than six million gallons per day of recycled water to the District's growing population. Recycled water purchased from this facility will be used to irrigate golf courses, parks, open space, road medians, and other commercial processes. Using this mostly untapped resource to address specific demands will result in the District reducing its potable water use by approximately 15%, maximizing the beneficial use of an alternative resource, which also makes millions of gallons per day of potable water available for higher quality and better purposes. In May 2005, the District awarded a contract for approximately six miles of pipeline connecting the City's reclamation facility to the District's pumping station and reservoir facilities, with construction scheduled to be completed in spring 2007. The District will be receiving \$4 million from Proposition 50 from the State Water Resources Control Board (SWRCB) for partial funding of this project.

The Future

The Otay Water District continues to use the challenges presented by growth to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Plan, it has captured the Board of Director's vision and united its staff in a common mission. The organization has achieved a number of significant accomplishments based on its successful adherence to the plan. As a result, the District is poised to successfully continue providing an affordable, safe, and reliable water supply for the people of its service area.



AWARDS AND ACKNOWLEDGMENTS

This year, the District received the State of California's "Flex Your Power" award for its Demand Response Program. Since 2003, the OWD has upgraded pumps, motors, lights, as well as heating and air conditioning equipment to improve efficiency and save energy. Energy savings from these actions save 1.7 million kilowatt-hours of energy each year.

The District also reduced electricity use by cutting demand during peak hours when energy supplies are tight. Through participation in the Flex Your Power Demand Response Program, the District was able to cut its peak demand by 56% through time-of-use metering and off-peak pumping. While participating in the Flex Your Power campaign, the District has cut energy use and produced approximately \$93,000 in annual energy savings. Reducing energy use during peak periods also reduced demand on the state-wide power grid. Across California, the Flex Your Power campaign has reduced electricity demand by more than two million kilowatts, the equivalent capacity of two nuclear power plants.

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. In addition, the CAFR received the *Outstanding Financial Reporting Award* from the California Society of Municipal Finance Officers (CSMFO). We believe that our current Comprehensive Annual Financial Report continues to meet both of the program's requirements and are submitting it to the GFOA and CSMFO to determine its eligibility for future awards.

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2005, as well as three

awards from the CSMFO for *Excellence in Public Communications*, *Meritorious in Innovation in Budgeting*, and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

This budget reflects the Board of Directors' vision for the District, management, and its employees. The budget prioritizes its strategic goals and provides staff with a road map for prioritizing programs and achieving the District's mission. We will continue to strive to make improvements in our budget process, including an extensive review and analysis of projections for revenues, expenditures, capital projects, and reserves. I would like to thank all of the staff involved in this process for the efforts put forth in the preparation of this budget, to ensure a successful outcome.

To the Board of Directors, we acknowledge and appreciate their continued support and direction in achieving excellence in financial management.



Mark Watton, General Manager

FINANCIAL AWARDS



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to Otay Water District for its annual budget for the fiscal year beginning July 1, 2005. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



FINANCIAL AWARDS



AWARD





Budget Foreword

OTAY WATER DISTRICT AT-A-GLANCE

HISTORY

The Otay Water District was formed in January 1956 and joined the San Diego County Water Authority (CWA) in September 1956 to acquire the right to purchase and distribute imported water throughout its service area. The District is also responsible for the collection, treatment, and disposal of wastewater from a portion of the northern region of the District.

MISSION STATEMENT

The District's mission is to provide safe and reliable water and wastewater services to its community with innovation, in a cost efficient, water-wise, and environmentally responsible manner.

SERVICE AREA

The District's boundaries encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the City of San Diego metropolitan area and running from the City of El Cajon south to the international border.

GOVERNMENT

The Otay Water District is a publicly-owned water and sewer agency, authorized as a California special district under the provisions of the Municipal Water District Act of 1911. The District's ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective division, to serve staggered four-year terms on its Governing Board. The District is a "revenue neutral" public agency, meaning that each end-user pays a fair share of the District's costs of water acquisitions and the operation and maintenance of the public facilities.

ORGANIZATIONAL STRUCTURE

The General Manager manages the day-to-day District operations and reports directly to the Board of Directors. Two Assistant General Managers report to the General Manager. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning while the other oversees the departments of Water Operations, and Engineering and Development Services. These and other lines of reporting are shown on the organization chart on page 8.

**Otay Water District
2554 Sweetwater Springs Blvd
Spring Valley, CA 91978
(619) 670-2222
www.otaywater.gov**

GENERAL INFORMATION

For Fiscal Year 2007, the District will have a staff of 174.75 full-time equivalent employees under the leadership of the General Manager.

The District provides water service to approximately 39% of its service area with a population of more than 189,000 people. This percentage increases as the District's service area continues to develop. The District is projected to deliver approximately 36,900 acre-feet of potable water to about 47,670 potable customer accounts and to ultimately serve 277,000 people, creating an average demand of 56 million gallons per day (MGD). The rate of growth, as projected by the San Diego Association of Governments (SANDAG) for San Diego County, is approximately 5.8% per year over the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 1.8% for Fiscal Year 2007.

Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF project is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional 6,720 acre-feet per year of recycled water beginning in Fiscal Year 2007. This makes Otay Water District the largest provider of recycled water in the County.

The District also owns and operates a wastewater collection system providing public sewer service to approximately 4,570 customer accounts (or 6,600 Assigned Service Units) within the Jamacha drainage basin. The sewer service area covers approximately 8,797 acres, which is about 11% of the District's total service area. Residential customers comprise 98% of the sewer customer base.

The District is a publicly-owned water and sewer agency authorized as a California special district in 1956 by the state legislature under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by its Board of Directors.

Since 1956, the District has provided high quality water and utility services to an arid region of the southeastern San Diego County. For 50 years, the available supply of water has helped transform the District service area from a mostly scrub and cactus-covered backcountry into a wonderful balance of diverse environments.

Photo Credits: Aerial photos, including the cover and pages intentionally left blank, courtesy of Manny Ramirez, also see pages 14, 16, 70 and 73; Soak City, courtesy of City of Chula Vista, page 14; Aqueduct, courtesy of Bureau of Reclamation, page 95.

STATEMENT OF VALUES

As Otay Water District employees we dedicate ourselves to:

CUSTOMERS

We take pride that our commitment to customer-centered service is our highest priority.

EXCELLENCE

We strive to provide the highest quality and value in all that we do.

INTEGRITY

We commit ourselves to doing the right thing.
Ethical behavior, trustworthiness and accountability are the District's foundation.

TEAMWORK

We promote mutual trust.
We share information, knowledge and ideas to reach our common goals.

EMPLOYEES

We see each individual as unique and important.
We value diversity and open communication to promote fairness, dignity and respect.

Otay Water District Employees



Dedicated to Community Service

BALANCED SCORECARD

The District's strategies have been categorized into the following four Balanced Scorecard perspectives:



Customer

Customers are the most important aspect of its business. The District provides its customers with a variety of public water utility services. The surrounding community and customers trust that the District will provide for a safe, secure, and reliable water supply far into the future at an affordable price. These customers also expect prompt and courteous service from all District staff, with a continually increasing demand for additional convenience and access. The customers seek accurate information in the areas of water quality, cost savings, water conservation, and the regulatory limitations and beneficial uses of recycled water. In order to continually increase the District's level of customer services, the District will implement the following customer perspective strategies, goals, and objectives.

◆ Customer Satisfaction

- Enhance the customer satisfaction focus by evaluating customer feedback.
- Enhance customer communications for increased accessibility and ease of use.
- Improve customer service by expanding employee access to Otag Information System (OIS) information.
- Enhance communication with developers.

BALANCED SCORECARD

◆ **Community Outreach**

- Expand water conservation in new commercial and residential construction.
- Maximize recycled water use.
- Expand the Public Education Program.
- Define a program for increased relations with Mexico.
- Update and implement the District's Government and Public Relations Programs.

◆ **Industry Involvement**

- Learn industry trends and promote District achievements.

Finance

The District is a steward of public funds to provide a range of public utility services to a rapidly growing customer base. Strengthening and acquiring water supply for reliability and growth places upward pressure on water rates. These are in addition to the normal inflationary pressures on the cost to operate and maintain the existing treatment and distribution systems. During this growth period, the District is able to fund new capital with developer fees and bond financings in congruence with the strategy that growth pays for growth.

Over time, the District will require significant funding to rehabilitate and replace the District's infrastructure including pipelines, treatment plant, and associated processing equipment. The District ensures its continued financial health through long-term financial planning, formalized financial policies, enhanced budget controls, fair pricing, debt planning, and improved financial reporting. In alignment with this, the District has developed the following financial perspective strategies, goals, and objectives.

◆ **Financial Planning**

- Establish the District's long-term financial plans.
- Aggressively pursue all relevant grants.
- Evaluate potential real property trades, leases, or sales to increase revenues.

◆ **Controls**

- Update the District's financial policies.
- Improve the District's budget controls.

BALANCED SCORECARD

◆ Full Cost of Services

- Provide full and accurate cost accounting of District services.

◆ Reporting

- Improve the District's financial reporting.

Business Processes

The District is committed to improving its business processes to better achieve the desired strategies, goals, and objectives. The District recognizes that efficient and effective business processes are essential to achieving the desired return on investment and improving operational excellence. As the growth in the District's sphere of influence continues, implementing infrastructure management, integrated information solutions, and business process reengineering to achieve the most efficient and effective business practices possible are critical to its success.

◆ Planning for Infrastructure and Supply

- Meet current and future potable water demands.
- Develop an Integrated Resources Plan (IRP) for evaluating alternative sources of water.
- Implement planned security initiatives.

◆ Recycled Water Leader

- Develop the District's Sewer Master Plan.
- Obtain more recycled water supplies.
- Seek additional recycled water customers.

◆ Stewards of Public Infrastructure

- Conduct best practice preventative maintenance activities.

◆ Business Efficiency

- Fully integrate the Otay Information System (OIS).
- Complete business process reengineering effort.
- Develop a comprehensive Knowledge Management Plan.
- Implement field technology solutions.
- Implement the Legal Plan.

BALANCED SCORECARD

Learning and Growth

The District is in a period of significant growth and change that will require a highly flexible and skilled workforce. Continually increasing cost pressures and foreseeable changes as the District's business cycle matures will require doing more with fewer resources. In order to meet these upcoming challenges, the District wishes to train and motivate its workforce by providing all employees with a professional workplace culture, effective employee relations, enhanced employee development, and a recognition program. The goal is to increase the capacity of the overall organization to achieve the strategies, goals, and objectives of the District.

◆ Plan for the Future

- Generate a Long-Term Staffing Plan.
- Develop a Long-Term Facility and Space Plan.

◆ Highly Qualified Staff

- Continue to recruit and retain a highly qualified workforce.

◆ Train and Develop at All Organizational Levels

- Evaluate and implement an Executive Training Program targeted at future strategic goals.
- Continue a Management Development Program.
- Promote and recognize District staff participation in industry research projects and publications.
- Enhance employee training with new programs.
- Continue Incentive Program.

◆ Staff Inclusion

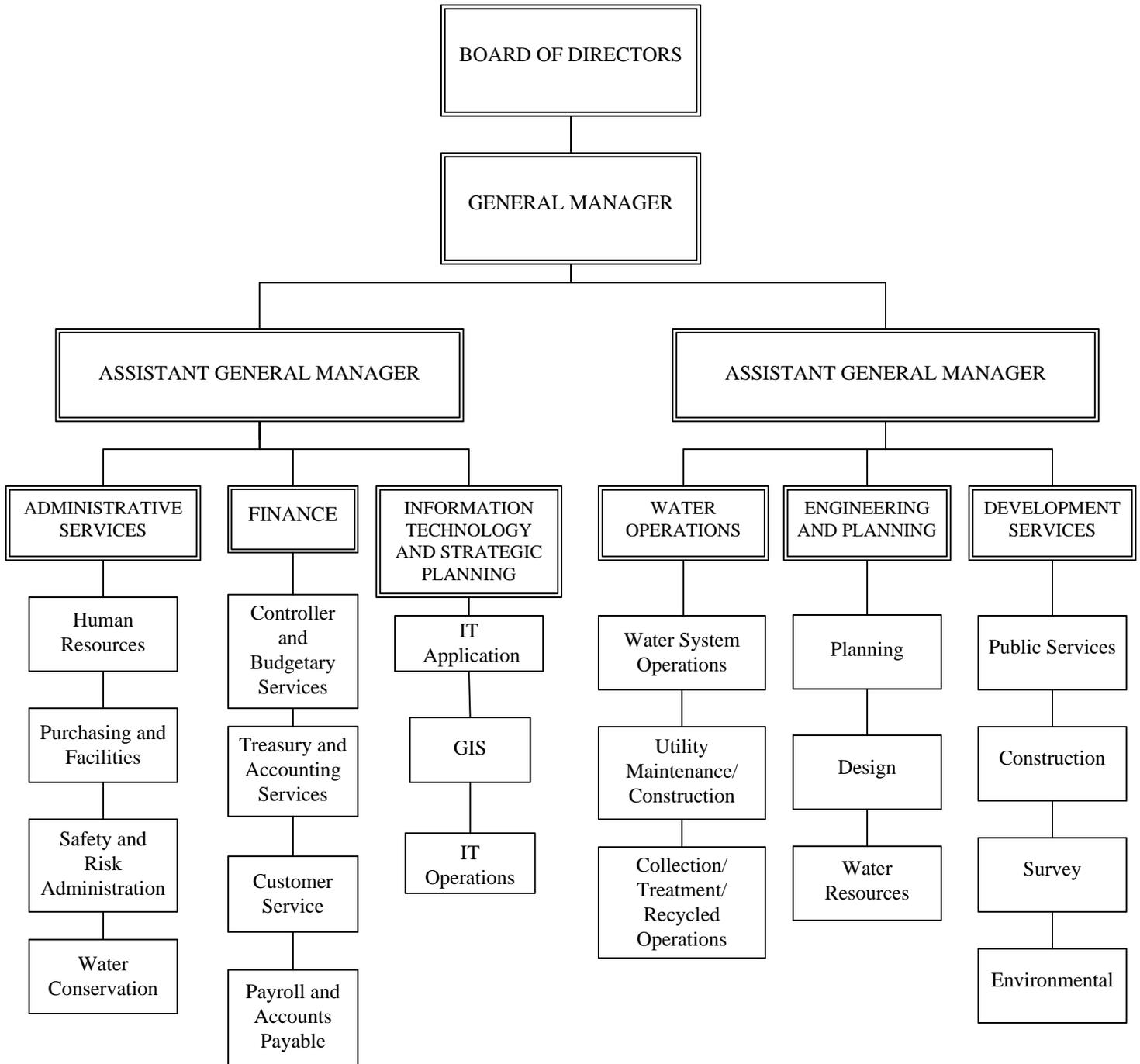
- Formalize Collaborative Improvement Teams (CIT).

◆ Monitor and Celebrate Success

- Finalize and implement the District's Recognition and Reward Program.
- Establish a repeatable Employee Survey Program and benchmark against others.



ORGANIZATION CHART



BUDGET GUIDE

The District views the budget as an essential tool for proper financial management. This budget is developed with input from the various department levels of the organization and is adopted prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and citizens. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future plans.

Budget Foreword

This introductory section contains description and general information about the District, Strategic Focus Areas highlighting major initiatives and accomplishments, and the Budget Calendar and Process.

Policies

This section includes a summary of the District's financial policies and practices, including the Reserve Policy, Investment Policy, and Debt Policy.

History and Community Profile

Included in this section is the history of the District, along with the current and future prospects. It also includes statistics on the District's customers, the region's tax base, and rainfall.

Financial Summaries

This section contains an overview of the District's revenues and expenditures by fund for the current budgeted fiscal year and prior two years' actual and estimated amounts. It includes a description of each of the revenue and expense categories as well as charts depicting their relationships.

Five-Year Forecast

The District prepares a comprehensive Rate Model each year based on budget input, trends, new programs, and requirements. Estimates of cost increases, rate increases, targeted fund balances, capital needs, and debt requirements are made. Analysis for the current budget year plus five additional years is conducted and a five-year forecast is prepared based on the Rate Model results.

BUDGET GUIDE

Revenues and Expenditures

The District budgets revenues and expenditures by potable, recycled, and sewer systems. General revenues and expenditures that are not specific to one system or department are budgeted in a general revenues and expenditures section.

Departmental Operating Budget

This section provides a summary of each department's operating expenditures and detailed budget information including its mission, responsibilities, three-year staffing, performance indicators, accomplishments, and goals. Also provided are graphical presentations of departmental budget percentages to District total, as well as summary expenditure information by division, for three fiscal years.

Capital Budget

An overview of the District's Capital Improvement Program (CIP), the Water Resources Master Plan (WRMP), major assumptions and criteria, a five-year listing of CIP project expenditures, the justification and impact on the Operating Budget and capital purchases budget for the fiscal year are located in this section.

Appendix

This last section consists of a Glossary of budget and financial terms, and a List of Acronyms used in this budget book.

BUDGET CALENDAR

Each year the Finance Department prepares a Budget Workbook for distribution to the departments. This workbook gives instructions and deadlines for each phase of the budget. The budget process is explained on pages 12 and 13.

February 1, 2006	Budget workbooks and instructions for Operating and Capital Budget are distributed to departments.
February 24, 2006	Departments submit requests for new personnel and/or personnel reclassifications to Human Resources.
March 6, 2006	Human Resources Department performs a preliminary review of submitted requests.
March 17, 2006	General Manager approves new personnel and personnel reclassification requests.
March 10, 2006	Each department submits the following items: <ul style="list-style-type: none"> • Position analysis questionnaires • Operating and administrative budget • Capital purchases and justification • Personnel budget and work order percentage allocation • CIP budget sheets submitted to Engineering for review
March 15, 2006 to March 22, 2006	<ol style="list-style-type: none"> 1. Finance Department reviews Operating Budget and reconciles with departments. 2. Engineering and Planning Department reviews and prepares CIP budget and submits to Finance for review and incorporation into the Rate Model to calculate proposed rates.
April 26, 2006	General Manager performs preliminary review of the budget.
May 15, 2006	Final review of the proposed budget and rates is done by the General Manager.
May 30, 2006	Board of Directors adopts Fiscal Year 2007 Operating and Capital Budgets.

BUDGET PROCESS

The District has integrated the Capital Improvement Program (CIP) Budget and the Operating Budget. These budgets are developed based on the District's Water Resources Master Plan and Strategic Business Plan, then categorized into the Balanced Scorecard perspectives. Appropriate budget amounts are determined by using the historical data of operations, growth, developers' input, SANDAG projections, and economic outlook. The District is accounted for and budgeted on an enterprise basis and conforms to the guidelines of Generally Accepted Accounting Principles (GAAP).

To assure reliable, high-quality service to the growing customer base, the District has committed to a number of long-range strategies that drive the budgeting process. The strategies and assumptions used to develop the District's integrated budget are:

- an average projected long-term growth rate of 3%
- pass-through rate increases for cost imposed on the District by the wholesale water providers
- accurate projections of capital budget needs
- reserve funding in accordance with the Reserve Policy to meet future growth demands
- funding of the Strategic Plan initiatives as categorized into the Balanced Scorecard perspectives

Each year, the Finance Department prepares a Budget Workbook for distribution to the departments. This workbook gives instructions to departments on how to budget for positions, administrative, and materials expenses. Included in this workbook are historical trends, assumptions, and training on how to enter the expense data into the District budget system.

Administrative and materials expenses are entered into the budget system by individual requests. These requests are compared to last year's budget and expenditures to determine reasonableness by the Finance Department. New or large increases in costs are supported by explanations for these costs and presented to the General Manager and the Board of Directors prior to budget adoption.

Position budgeting is used for the salaries and benefits portion of the budget. Departments submit requests for new positions, reclassifications, or advancements to the Assistant General Managers. These requests are reviewed by the Assistant General Managers and then presented to the General Manager for approval. Upon their approval, the Finance Department enters these changes, as well as negotiated pay increases and benefit rate changes, into the position budget system. Position budgeting calculates the salaries and benefits to be included in the District's budget.

BUDGET PROCESS

The Finance Department prepares the budget for the potable, recycled, and sewer systems based on estimated cost increases by the District's wholesale water providers, and sewer system charges, growth in customer accounts, and other factors such as weather. Additionally, all general revenue and expense budgets are calculated using trend analysis and any external factors that may affect these items.

The Engineering and Planning Department issues budget instructions for the CIP budget process. Each project manager receives a report of year-to-date project expenses and then estimates cost to the end of the fiscal year, plus future costs to complete the project. Costs are adjusted for scope changes as well as construction cost increases. Engineering and Planning then compiles the CIP Budget and submits it to the Assistant General Managers and the General Manager for review prior to presentation to the Board of Directors.

Once all of these budgets have been calculated, the Finance Department inputs all of the operating revenues and expenses, CIP expenses, reserve funding, and reserve levels into the District's Rate Model. Inflatons for cost and volume changes are input into the Rate Model and cost and rates are calculated for the current fiscal year plus five subsequent years. Using this comprehensive modeling tool, the District is able to smooth future rate increases, determine when debt should be issued, and monitor all of the reserve levels in accordance with the Reserve Policy.

In the spring, the Strategic Plan is presented to the Board of Directors for adoption. This is followed by the Finance, Engineering and Planning Departments presenting to the Board of Directors their recommendations at a special budget meeting in May of each year. The adoption of the Strategic Plan and budget on an annual basis gives the District its direction for the following fiscal year.

During the year, each department receives monthly budget and cost reports that are essential to monitor and control costs. As events occur or conditions change, modifications to or deviations from the original budget may be necessary. In the event the General Manager determines that an emergency exists which requires immediate action, he may transfer appropriation within the budget allocations, or request that the Board of Directors increase the current budgeted funds.

Due to the size of the District's CIP, a separate budget book has been prepared outlining in detail the projects and expenditures required to ultimate build-out. A synopsis of the CIP may be found under the Capital Budget section of this report. As part of the integrated budget, Capital Purchases have been included with the CIP Budget.

The Budget Report is intended as a financial guide and may be modified by the Board of Directors during Fiscal Year 2007.

BUDGET BASIS

The District utilizes the accrual basis for budget and accounting, recognizing revenues and expenses in the period in which they are earned and incurred, respectively. The District reports its activities on an enterprise basis, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.



RESOLUTION NO. 4079

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2007 OPERATING AND CAPITAL
BUDGET

WHEREAS, the Otay Water District Board of Directors have been presented with a budget for the operation of Otay Water District for Fiscal Year 2007; and

WHEREAS, the Operating and Capital Budget has been reviewed and considered by the Board, and it is in the interest of the District to adopt a budget for said year; and

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Operating and Capital Budget for the operation of the District, incorporated herein by reference, is hereby adopted as the District's budget for Fiscal Year 2007.

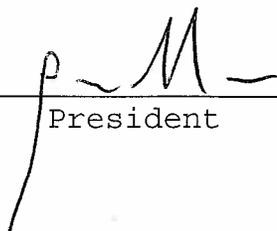
PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 30th day of May 2006, by the following vote:

Ayes: Directors Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes: None
Abstain: None
Absent: None

ATTEST:



District Secretary



President

This page intentionally left blank





Policies

SUMMARY OF FINANCIAL POLICIES

Introduction

This section includes the District's Reserve Policy, Investment Policy, and Debt Policy.

The Reserve Policy is a comprehensive policy which explains how the District is operated, including the distinction of business segments to ensure users pay their fair share of costs. It explains how fees are collected and what they are used for, including restricted and designated funds, appropriate targets, and fund transfers. The District adopted this new policy in March 2006, replacing the District Financial Policies.

The Investment Policy is a guideline for the prudent investment of cash. It follows government code as well as authority granted by the Board of Directors. The primary objectives are to invest safely, with adequate liquidity, and to achieve sufficient return on investments. This policy was revised in September 2006.

The Debt Policy addresses which conditions are appropriate for the use of debt, to minimize the District's debt service requirements and cost to issue debt. Additionally, the District strives to retain the highest practical credit rating, with full disclosure and financial flexibility for the District. The District adopted this new policy in April 2004.



This page intentionally left blank



RESERVE POLICY

INTRODUCTION

1.0 The District

The Otay Water District is a publicly-owned water and sewer service agency, more specifically, a California special district, authorized in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. The District is a "revenue neutral" public agency, meaning each end user pays its fair share of the District's costs of water acquisition, construction of infrastructure and the operation and maintenance of the public water facilities.

The District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has a distinct customer base. In addition, the developer community, large and small, makes up a significant class of customer for each business segment. As a result, the District has four distinct customer service types:

- Developers
- Potable water users
- Recycled water users
- Sewer users

The District has established practices and developed computer systems that have enabled the District to maintain a clear separation between these service costs. Regardless of customer class, financial principles regarding cost allocation and fund accounting are fundamental to the District's Reserve Policy. These principles are derived from the statements of the Governmental Accounting Standards Board (GASB), and from oversight and advisory bodies such as the California State Auditor, the Little Hoover Commission, and the Government Finance Officers Association (GFOA). These have significant impacts on how the finances of the District are organized and how financial processes work within the organization.

1.1 The District's Use of Funds

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The Operating and Maintenance (O&M) expenditures generally support the purchase and delivery of potable and recycled water, and the transportation and treatment of



sewage. The capital expenditures support the construction of infrastructure necessary to deliver service. The District uses various reserves to support the operating and capital efforts. Capital infrastructure is funded using two methods: pay-as-you-go or debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction of infrastructure in all three business areas: potable, recycled, and sewer. Both the capital and operating efforts within the District are different for each of the four distinct customer types.

The District uses a set of funds to accumulate and account for revenues allocated to different activities. Those funds receive funding up to the levels defined in this policy. Each year, as a part of the annual budget process, the District's rate model is updated for each fund with the current fund balances and the estimated revenues and expenditures for the next six years. The expenditure or funding requirements are then evaluated to ensure that the existing fund levels and additional revenues are sufficient within the current budget cycle and the next five years. If a deficit is identified, then options for transfers, debt, and/or rate increases are evaluated.

1.2 The District's Capital Improvement Program (CIP)

The planning, design, and construction costs of all facilities within the three business segments are allocated to three cost areas: Expansion, Betterment, and/or Replacement. The funding allocation for these three cost areas is defined in the District's Capital Improvement Program (CIP) and is determined by an engineering analysis which identifies which type of customers will benefit from the facility. Expansion is for new customers, betterment is for existing customers where the facility is improved, and replacement is for existing customers where the facility is replaced. If an expansion capital project also results in betterment or replacement, the costs are allocated to new users (Expansion) and existing users (Betterment and Replacement) so that the developers will only pay the expansion portions. This policy protects both the developing and established areas from incurring inappropriate costs. Developing areas are not required to finance facilities that are due for replacement or betterment; conversely, established areas are not required to replace facilities before they are worn out simply because of new development. Each facility has the potential to be classified into all three categories to various degrees. In addition to these standard categories there are occasional CIPs that may be billable to a third party such as relocations.

a. Expansion Fund

The portion of a project that benefits new users is funded by the developing areas through capacity fees. Future expansion costs are divided by all future connections to calculate the capacity fee. This capacity fee is the primary funding source for expansion projects and is accounted for separately and used solely for the planning, design, and construction of expansion facilities. The majority of the funding sources are restricted in nature with the exception of the general use funds placed into the Designated Expansion Fund.



b. Betterment Fund

The District may construct a project that results in a significant benefit to existing users. Facilities that improve reliability or meet new or increased standards of service are considered betterment facilities. In such a case, user rate charges and betterment fees could be used as a funding source for that portion of the project that results in a lowering of overall operation and maintenance costs or an improvement to the existing users. Betterment may also be a result of increased standards or regulations on water or sewer systems. If the existing system must be improved in order to meet the new standards this cost is a betterment cost. The majority of the funding sources are restricted in nature of their use and the geographic area of use, with the exception of the general use funds placed in the Designated Betterment Fund.

c. Replacement Fund

Replacement of facilities is funded primarily by general user rates. The portion of a project that benefits existing users is funded by the Replacement Fund. It is expected that the District will debt finance a significant portion of the future replacement facilities. The District has a Debt Policy (Policy No. 45) that guides the debt issuance process. The replacement reserve will serve as an immediate funding source for replacement projects and will provide the necessary flexibility to begin projects while the appropriate debt financing is being obtained.



1.21 Relocations

Occasionally, relocation of facilities is required when the District has easements for the pipe location. When a project is relocated, the cost of the new facility shall be funded by the party without an easement or if no parties have easements then it is funded by the party causing the relocation. When this occurs, a CIP project may be created which is wholly or partially funded by a third party who must reimburse the District for the cost of the relocation. Depending on the nature of the facilities, the funding source for these projects could be from replacement, expansion, betterment or third party funding of projects at the District. Each project is individually negotiated. When determining how much this fund will pay for construction, the following guideline is suggested: If a project has more than five years of useful life remaining then funding is incremental, if there is less than five years remaining funds are contributed from the Replacement Fund on a pro-rata basis.

1.22 Oversizing

In some cases, where reasonable, the developer may be required by the District to oversize new facilities for future development in order to obtain economies of scale. The developer will be reimbursed for incremental over-sizing costs as per Policy No. 27. These reimbursements are only for backbone facilities funded by capacity fees - not for the distribution system within a development which is an obligation of the developer separate from the capacity fees. These smaller distribution pipes serving the individual homes within a development are often referred to as “in-tract” pipelines.

1.23 Exclusion of Developed Areas from Expansion Costs

Developed areas are considered to have sufficient supply and capacity to meet their current requirements as provided by the developers. In addition, they are considered to have borne capital financial costs that are at least proportionate to the benefits they have received from capital facilities. Accordingly, no regional capital financial costs are allocated to these areas so that they will not incur any costs for newly developing areas. In the case of a capital project that produces District-wide cost savings, however; the District may provide financial support to new facilities.

1.24 Improvement Districts (IDs)

Improvement Districts are established in order to facilitate the funding of a particular improvement by the specific beneficiaries. The District has a number of Improvement Districts that were established for General Obligation (GO) debt repayment. Many of these GO issuances have been paid off and, as outlined in the Debt Policy, it is unlikely that the District will issue additional GO debt. IDs continue to be used for other funding purposes. First, to distinguish sewer customers from water customers on the county tax roll; second, to place parcels on the county tax roll for the collection of availability fees; third, for the charging of special water rates; and fourth, to track which properties have paid annexation fees.

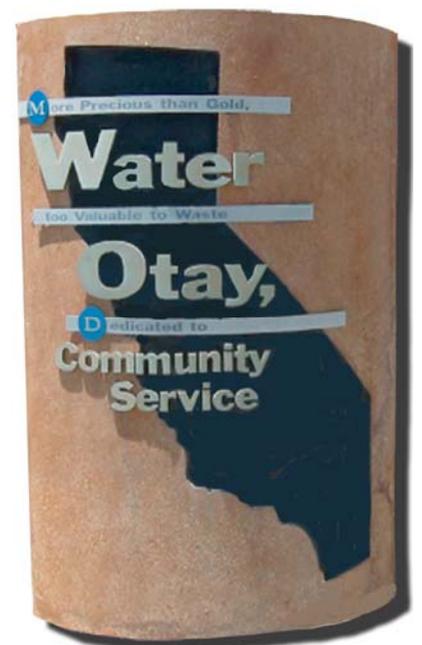
Over the years, the District has taken a district-wide perspective to funding improvements. This philosophy is evident by the district-wide capacity fee and annexation fee. The District also uses district-wide water rates. As time continues, it is expected that IDs will continue to outgrow their purpose. So, while many IDs remain their use will diminish over time.

1.3 The Purpose of the Policy

Public entities accumulate and maintain reserves to ensure both financial stability and the continuation of the ability to provide services. Financial stability and the increase in credit quality that result from stability allow the public entity to weather times of uncertainty and the impacts of negative events, both major and minor. Funded reserves allow for the continued maintenance of property and payment of expenses beyond the magnitude of the funds available in a single fiscal period. In the final analysis, the type and level of reserves are driven by the type and magnitude of uncertainty faced by the District.

A “reserve” has a number of meanings:

- Working capital required to insure timely payment of obligations
- A buffer against volatility in revenues
- Liquidity required to obtain other goods and services (e.g., bank services)
- Designated funds to protect creditors
- Funds set aside to replace assets at the end of their useful lives
- Funds set aside to repair or replace assets damaged or destroyed at unanticipated times



It is important to note that reserve, fund balance, and net assets are not the same. Fund balance and net assets are accounting terms and may not always be in the form of cash or liquid investments. Fund balances and net assets may not always be reserves unless a designation of all or a portion of fund balance is made. It is important to note that the term, fund balance was recently replaced by net assets as codified by the Governmental Accounting Standards Board (GASB).

In short, reserves are the liquid assets of the District, accumulated and maintained for application to fund contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the management and use of these funds. Few policies have a more significant impact on the financial health and stability of the District. This policy explains several key financial concepts used by the District and provides some background information to the overall strategies and practices utilized. The District has a fiduciary obligation to its customers to manage and direct the use of public funds for the purpose of providing water and sewer services in an efficient and financially sound manner.

1.4 Policy Guidelines

In 2000, the Little Hoover Commission reviewed the levels of reserve funds for special districts in California and prepared a report reflecting that special districts were accumulating unreasonable levels of funds. As a proactive response, the California Special Districts Association (CSDA) prepared Reserve Guidelines for its members. The Reserve Guidelines were significant in noting that reserve levels need to be in context of the organization's overall business model and capital improvement plan.

There are a number of potential events which the District should consider in the development of reserves:

- Economic Uncertainty—performance of the regional economy and the impact of that performance on demand for water
- Weather—the amount of rainfall and the impact of weather on the availability and the cost of water
- Government Mandates—the impact of federal and state regulation, particularly environmental regulation
- Tax Changes—Limitations on the District's taxing and spending powers through the passage of a voter referendum, the impound of District property taxes or the removal of the District's power to levy property taxes, further increases to ERAF contributions or changes in calculation methodology
- Operating Costs—Increases in operating and maintenance costs because of inflation, labor agreement or other modification
- Force Majeure—Unanticipated expenditures resulting from natural disasters or intentional acts
- Emergency Maintenance—Unanticipated expenditures resulting from unexpected failure of assets (e.g. rupture in the primary transmission system)
- Unexpected Variation in Cash Flow—the incidence of additional costs or decreased revenues that requires short-term borrowing in the absence of sufficient funds

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled,

“California’s Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable,” dated June 2004, 2003-137. Each of these recommendations has been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

- Distinguish between restricted and unrestricted reserves
- Establish distinct purposes for all reserves
- Set target levels, such as minimums and maximums, for the accumulation of reserves
- Identify the events or conditions that prompt the use of reserves
- Conform with plans to acquire or build capital assets
- Receive Board approval and be in writing
- Require periodic review of reserve balances and rationale for maintaining them

Yet, the State Auditor’s report acknowledges that the California Constitution (Article XIII B, Section 5) is vague in its provisions governing the accumulation and use of reserve. Specifically, the Constitution states that “each entity of the government can establish contingency, emergency, reserve, or similar funds as it deems reasonable and proper.”¹ Similarly, the State’s Water Code does not impose any requirements as to specific or recommended reserve fund levels. As a result, the public finance community as a whole has yet to settle on any real objective standards for the level of reserve funds appropriate for governmental enterprises. This lack of consensus as to specific standards is indicative of the wide variance of the financial and operations contexts for different districts and different contingencies justifying reserve of funds.

The Government Finance Officers Association (GFOA) in its Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund (2002) states:

In establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).

¹ California State Auditor, Bureau of State Audits, “California’s Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable,” dated June 2004, 2003-137; p. 8.

- Designations (i.e., governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

In the preparation of this policy, each of the CSDA guidelines and the GFOA recommendations has been considered. In addition, all seven objectives provided by the State Auditor are specifically addressed for each reserve. The District wholly supports the State Auditor's efforts to bring a high-level of quality to reserve governance and establishing a standard of performance.

The District recognizes that the customer pays for services provided. Quality management requires that periodic valuations be performed so that fees and charges can be set at appropriate levels to recover the cost of service. The District's Reserve Policy has been drafted with consideration of the GFOA, CSDA, and State Auditor general guidelines as provided above. In addition, the District has adopted the following principles in the management of its funds:

- Funds are held and used only for the purpose for which they are collected. This is done to maintain equity between customers.
- Each of the service types is tracked separately so that expenditures and revenues can be monitored and evaluated for each customer type. This provides the District with the necessary information to appropriately charge for each of the services.
- Separation of O&M from capital expenditures occurs within each of the service types. This is done because the funding of these expenditures is often on different timelines or use different funding sources.
- The District will hold its reserve at responsible and prudent levels. This policy sets minimum, maximum, and target levels for each of the various funds. This has been done so that the District can maintain funds to meet the purpose for which the funds were established. The levels are set by reference to line items in the District's financial statements and approved budgets. This allows reserve levels to adjust to the District's changing financial circumstances.
- Debt financing of facilities provides intergenerational equity and maintains rates at reasonable levels. This equity is accomplished with the long-term financing by spreading the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use them. Optionally, the District could amass significant reserves by pre-collecting funds in a Replacement Reserve Fund allowing the District to cash fund all replacements. In order to obtain those funds, significant rate increases would be required, burdening the current customers and creating reserve levels difficult to defend to the ratepayers or other oversight entities.

These concepts are fundamental to the way the District manages its funds and have a direct impact on the way rates and charges are set. The District performs annual budget evaluations and updates its rate study model on at least an annual basis to monitor and adjust the various funds and revenue sources. The separation, tracking, and projecting of the various funds and expenditures create the essential information necessary for the equitable rate structure maintained by the District. The annual review preserves the balance between services provided and the prices charged. This review also insures that funds will be available to continue to serve the District's customers.

SOURCES OF FUNDS

2.0 Developers

a. Meter Installation Charges (General Use)

Meter fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

b. Annexation Fees (General Use)

Annexation Fees are outlined in Section 9 of the Code of Ordinances. This is the buy-in to the District's potable and recycled water facilities paid by the developer and based on the excess capacity built by existing users. This fee insures that future users fund a portion of the facilities that were sized and built for their future use by prior customers. The annexation fees are general use funds and help to offset current customer costs. The calculation of the fee uses a system-wide evaluation that combines the potable and reclamation systems. This methodology is used because the two water systems work hand-in-hand, the recycled system brings a new supply of water to the District reducing the need for potable systems and the higher cost of obtaining new potable supplies.

c. Developer Deposits (General Use)

These deposits are for the engineering and operations services provided to developers. They are tracked separately for each developer and any excess amount is returned to the developer.

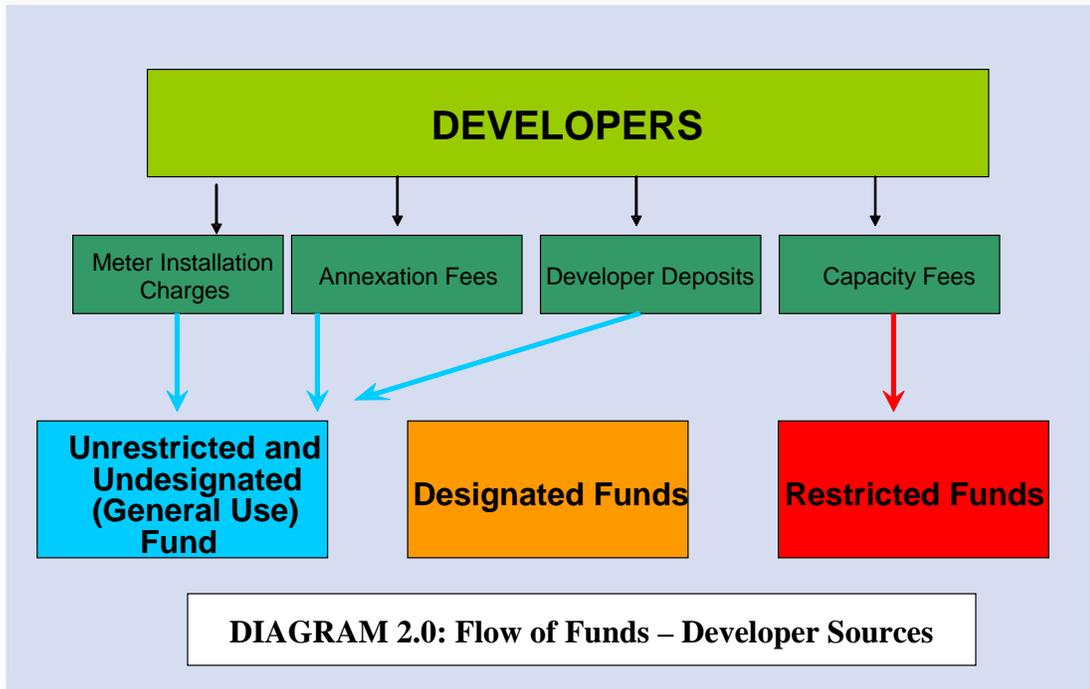
d. Capacity Fees (Restricted)

The capacity fee is outlined in Section 28 of the Code of Ordinances. Capacity fees are based on the estimated construction cost of expansion divided by the number of future Equivalent Dwelling Units (EDUs). The capacity fee covers costs including, but not limited to, planning, design, construction, and financing associated with facilities for the District's expansion needs. Ultimate facility needs are based on projected land use planning. These needs and the projected costs change over time as regulatory agencies determining land use make changes. Significant variations in future land use occur and can alter projected facility requirements. As these changes occur, the District will review the capacity fee calculation. These fees are paid by developers.

The District's construction of infrastructure occurs prior to the addition of EDUs. This serves two purposes: one it ensures that the District can serve the pending construction as it is completed; two, it is more efficient to oversize many facilities at the outset rather than build for the current need and then reconstruct when the future need is realized. As a result of this strategy, the District has financed construction with bond financing as the existing expansion funds are depleted.

The capacity fee is calculated based on the expansion costs of the combined recycled and potable water systems needs. This methodology, just like the annexation fee methodology, is used because the two water systems work hand-in-hand. All capacity fees can be used for either potable or recycled but only for expansion needs. So, while

capacity fees are not restricted separately, one portion for potable and the other portion for recycled, they are tracked separately.



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

Charges to users for water, sewer, and recycled water are uniform throughout the District for similar customer types. This policy reduces possible misunderstanding that might occur among customers if rates varied between geographical areas. It also provides for an administratively straightforward billing process.

b. Monthly System Fees (General Use)

This is a fixed revenue source that is charged monthly. The amount of the charge is based on the meter size.

c. Energy Charges (General Use)

The energy pumping fee is \$0.032 per unit of water for each 100 feet of lift, or fraction thereof, above the base elevation of 450 feet. This charge is placed on the monthly water bills of all water customers.

d. Penalties (General Use)

Penalties are added to the monthly water and sewer bills for late charges, locks, etc.

e. Pass-through Fixed Charges (General Use)

A fixed monthly charge to the District's customers intended to collect sufficient funds to pass-through the increased fixed cost from CWA and MWD.

f. Special Rates and Charges (Restricted)

In addition to the uniform water charges, the District currently has five special water rates and one sewer rate. The five water rates are all for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines in the respective areas. Each of these is listed as follows:

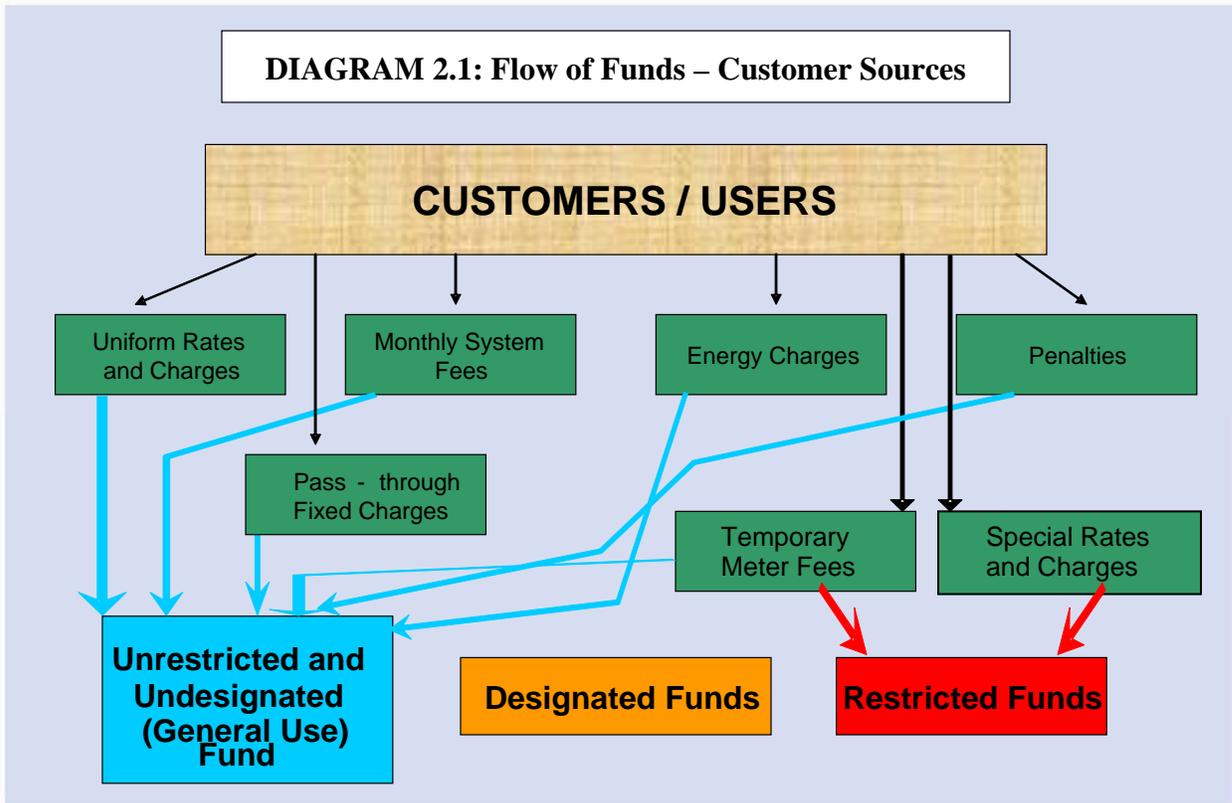
- North District water charge (code section 25.03H)
- ID 9 water charge (code section 25.03I)
- ID 3 water charge (code section 25.03J)
- ID 10 water charge (code section 25.03J)
- La Presa water charge (code section 25.03J)
- Russell Square sewer charge (code section 53.04C)

When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas that they were collected. Therefore, these are Restricted Funds by geographic area as well as by purpose. These fees however, can be used for maintenance, unlike the availability fees. These six special fees along with availability fees are tracked separately, by geographic area, so they can be evaluated for the target funding levels separately. To meet this need, each special rate and charge is accounted for in a “sub-fund” of the betterment fund.



g. Temporary Meter Fees (General Use/Restricted)

Water charges, in lieu of capacity fees, are charged on temporary meters. This is done because while temporary meters use system capacity they are not charged a capacity fee. Temporary water use is charged at two times the water rate with the added charge placed in the Restricted Expansion Fund. The primary users of these temporary meters are developers however, general customers also use these for various purposes.



2.2 County-Collected Taxes and Fees

a. General Levy Property Tax Receipts (1% Property Tax) (General Use)

In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of one percent of the assessed value. Subsequent legislation, AB 8, established that the receipts from the one percent levy were to be distributed to taxing agencies proportionate to each agency's general levy receipts prior to Proposition 13. Funds received are for general use.

b. Availability Charges (General Use/Restricted)

The District levies availability charges each year in developed and undeveloped areas. Current legislation provides that any amount up to \$10 per parcel is general use and any amount over \$10 per parcel is restricted to be expended in and for that Improvement District (ID). IDs were formed to provide the lowest cost funding possible for the development of water and sewer systems. Accordingly, the District may use any amount over \$10 to develop water and sewer systems which are either, expansion, betterment, or replacement. This portion is geographically restricted and restricted by purpose. The Restricted Funds are accounted for in "sub-funds" of the Betterment Fund (see 2.1 f.).

Availability fees can be used for the development of facilities consistent with the purpose of the ID which they are collected in, while special rates and fees can also cover the maintenance of those facilities. As charges are incurred on these projects the respective IDs are charged reducing the betterment fund. In the event that funds are not used, the Restricted Funds must be returned to the property owners that paid them. Therefore, the

monies in this fund may only be used to finance the construction, installation, and maintenance of the systems within the geographic area of the specific IDs. The District has historically used these funds for betterment capital facilities however, they are available for any facility construction purpose benefiting the ID whether replacement, betterment, or expansion.

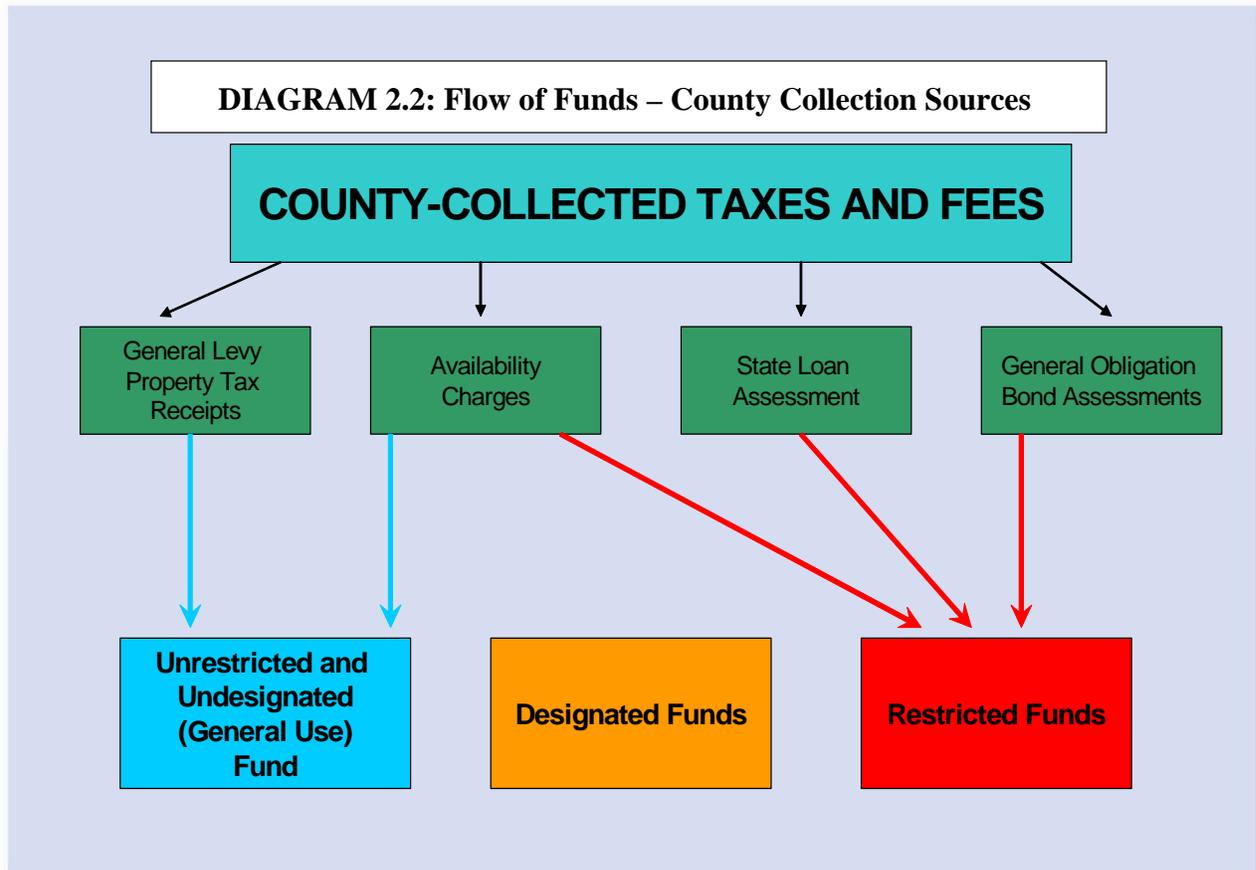
Each year the District sends notices to all new customers informing them of the availability fees and their purpose. This notice also informs the customers of the date and time of the public hearing to receive public comment on this fee. The availability fees are split between the Betterment Fund and the General Fund.

c. State Loan Assessment (Restricted)

The District assesses a \$54 charge per unit of sewer service each year on the sewer customers. This is collected via the County Tax Roll and is specifically collected for the repayment of the State Loan.

d. General Obligation (GO) Bond Assessments (Restricted)

The District occasionally issues GO debt and establishes an Improvement District for the repayment of that debt. When this financing method is used, the County Tax Roll can be used to collect funds and pay debt obligation.



2.3 Miscellaneous Income

a. Miscellaneous Rents and Leases (General Use)

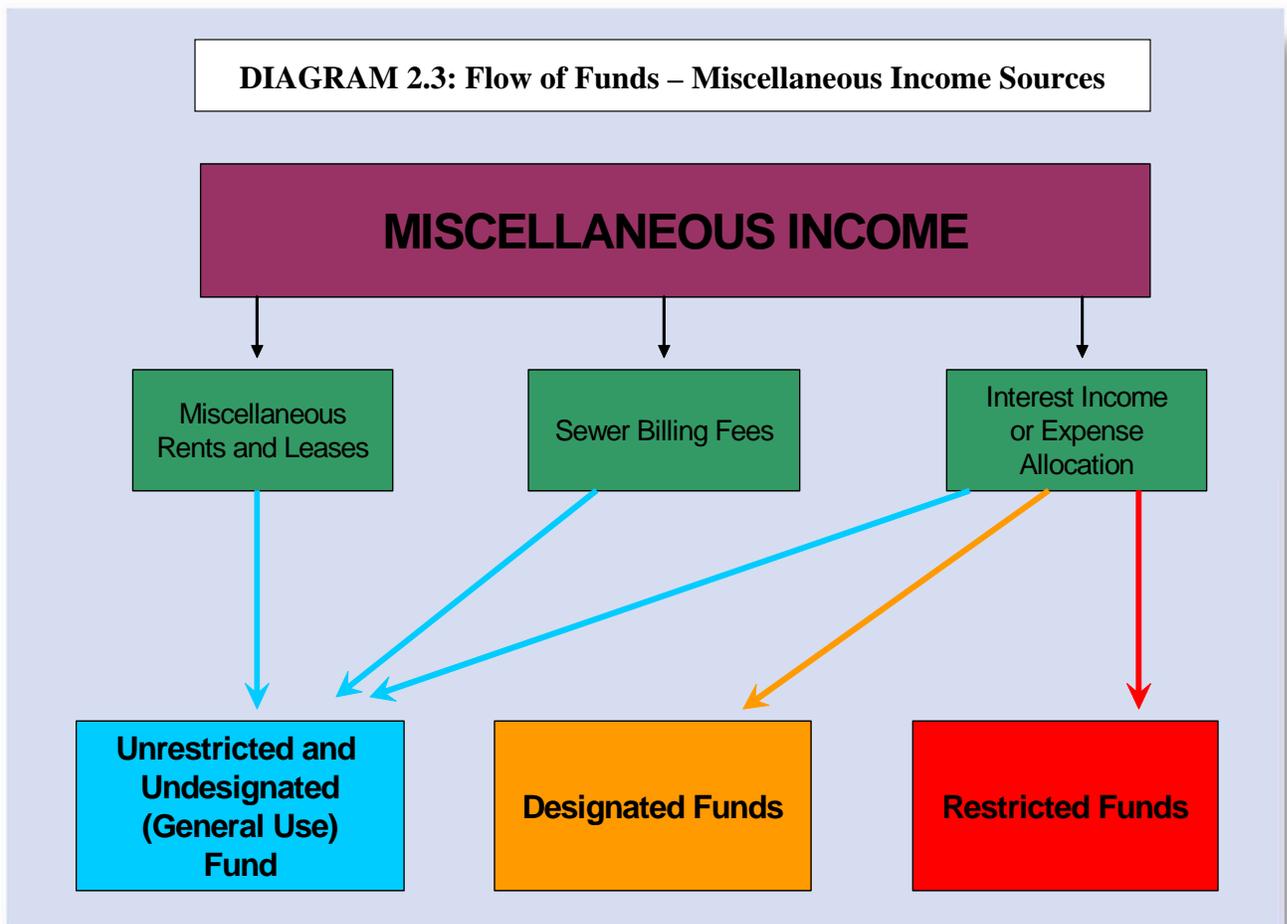
Revenues received from the rental and lease of District property. There is also a one-time fee charged with the set-up of each new lease. The District incurs expenses related to these rents and leases and this fee's purpose is to recover the cost to set up the lease.

b. Sewer Billing Fees (General Use)

Fees received from the City of Chula Vista for processing and billing of their sewer customers within our District.

c. Interest Income or Expense Allocation (General Use, Designated, and Restricted)

Interest income (expense) will be allocated each month based upon each fund's month-ending balance.



2.4 Debt Issuance

a. Loans (General/Restricted Use)

As the District determines that additional funding is required for a particular purpose the option of borrowing is considered. The determination to borrow is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is

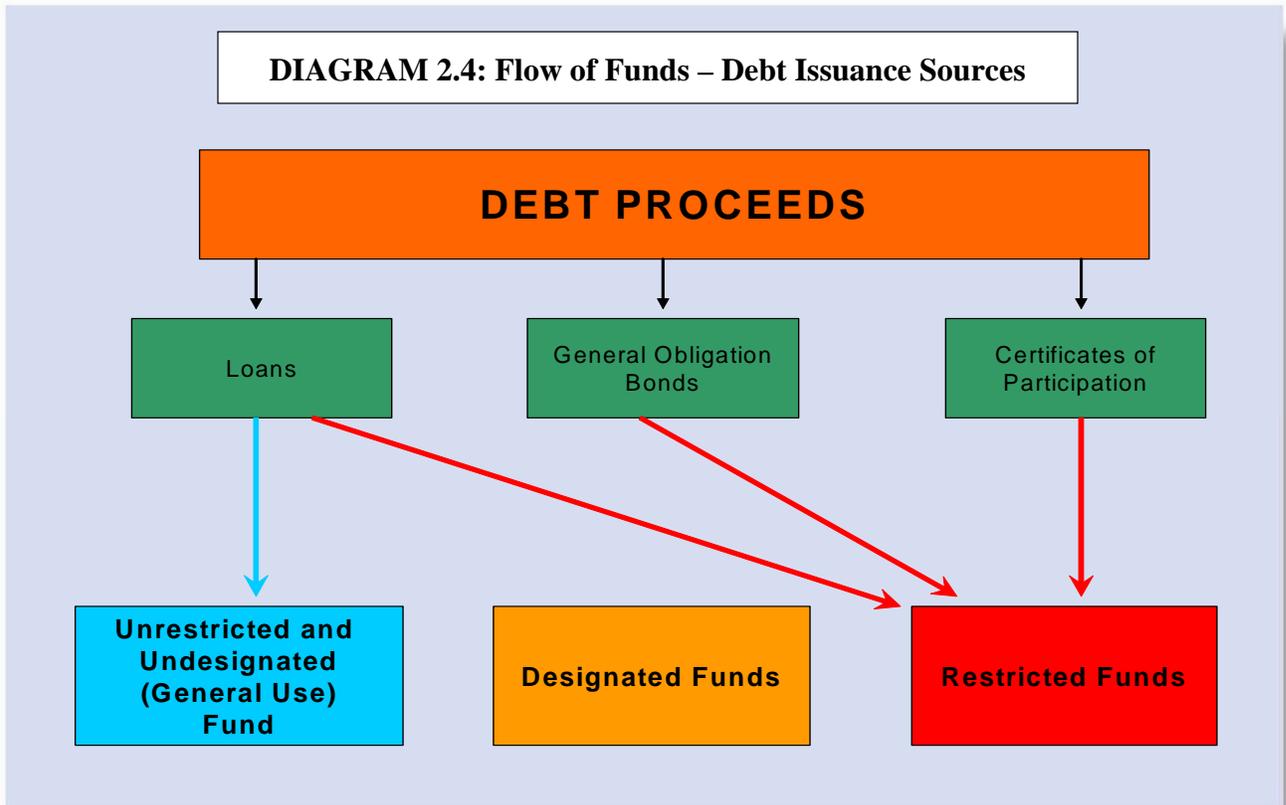
recommended to the Board for action. As an option to bond indebtedness, loans are available especially to satisfy short term financing needs. These loans may or may not be contractually restricted for a particular purpose.

b. General Obligation (GO) Bonds (Restricted)

As the District becomes more developed it becomes less likely that GO debt will be used as it requires a vote of the public to be approved. Bond proceeds are restricted for the construction of those facilities identified in the GO bond issuance. Occasionally, specific portions of bond proceeds may be allocated for the repayment of the principal and interest, also called debt service, on these bonds. As the District determines that additional funding is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action.

c. Certificates of Participation (Restricted)

General revenues of the District are pledged as security for COPs indebtedness. Before issuing COPs, the District will determine that additional funding is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate study update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. This form of financing has become the industry's preferred form of financing as it does not require a vote of the general public.



2.5 Inter-fund Transfers

Each year in the budgeting process future reserve levels are projected over the next six years. Based on these projections, fund transfers are recommended. Monies may be transferred between Unrestricted and General Fund (see 4.0 “Funding Levels” and 4.1 “Fund Transfers”). Funds may not be transferred to or from any of the restricted funds.

FUND TYPES

3.0 General Funds

a. Purpose

The General Fund is neither restricted nor designated. The District maintains only one General Fund for each business segment (water, sewer, and recycled). This fund holds the working capital and emergency operating reserves. This fund can be used to supplement the District’s rates and charges and be a temporary source of revenue to balance the Operating Budget and avoid spikes in the rates or significant and abrupt increases. This would only occur if there was a temporary need for funds that would smooth out a rate spike or to ramp up what would otherwise be a dramatic rate increase.

This fund also plays a role in the debt planning of the District. It is an industry practice to have a fund that can be used to stabilize rates. This fund is viewed by the debt markets as a commitment by the District to ensure financial stability of the rates and charges of the District. The District is anticipated to issue a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also access low cost financing for future projects.

While the General Fund has a short-term focus to fund the District’s annual operations, it is supported by the six year rate model. This fund is primarily used to fund the operations of the District however; it can be used for any District purpose.

b. Sources

Meter installation charges, annexation fees, temporary meter fees, uniform rates and charges, monthly system fees, energy charges, penalties, pass-through fixed charges, general levy property tax receipts, availability charges, miscellaneous rents and leases, sewer billing fees, interest incomes or expense allocation, loans, and a portion of the temporary meter fees.

c. Levels

- i. **Minimum Level** – The minimum funding level for the General Fund is three months of operating budget expenses.
- ii. **Maximum Level** – The maximum funding level for the General Fund is nine months of operating budget expenses. In the event that this fund exceeds the seven month level, the excess will be evaluated or transferred to one or more of the designated funds.

- iii. **Target Level** – The target level of funding is three months of operating budget expenses. In the event that the fund drops below the target level rate increases or fund transfers would be considered.

3.1 Designated Funds

a. Purpose

Designated cash funds are “general use” funds that have been set apart by Board action for a specific purpose. These funds can only be used for those purposes. However, these funds are at the discretion of the Board and can be used for any other District purpose by an action of the Board. The District maintains designated cash funds as follows:

- Other Post Employment Benefits Fund (OPEB)
- Designated Expansion Fund
- Designated Betterment Fund
- Replacement Fund

Detailed descriptions of the funds are as follows:

i. **Other Post Employment Benefits Fund (OPEB)**

The OPEB Fund is used to fund the medical benefits of qualified retirees as outlined in the District’s benefits plan. It is fully funded by user rates. Every two years the fund is evaluated for additional funding requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, costs of health insurance, or general market conditions.

These funds are currently designated but may be placed into a trust effectively removing the District’s day-to-day access to the funds. This would allow the funds to offset the actuarial liability of the District to fund OPEB. However, these funds are currently designated and therefore, may be used at Board direction for any purpose.

ii. **Designated Expansion Fund**

The purpose of this fund is to supplement the financing of expansion projects. In the event the restricted expansion funds are not sufficient to fund the expansion projects these funds may be used. This fund must be evaluated in conjunction with the Restricted Expansion Fund as they work in concert.

There is significant interdependency between the District’s potable and recycled water systems. For this reason, the two systems are supported by one combined capacity fee. The same capacity fee is charge on all water connection regardless of whether they are potable or recycled. For this reason the Restricted and Designated Expansion Funds for these two business segments must be considered jointly when using the rate model and setting fees.

The District currently has not sewer expansion and therefore has no sewer capacity fees and no active sewer expansion funds.

This fund contains general use funds and at the direction of the Board may be used for any District purpose.

iii. Designated Betterment Fund

The purpose of this fund is to supplement the Restricted Betterment Fund for sewer, water, or recycled. The District maintains three separate designated betterment funds, one for each business segment. In the event a Restricted Betterment Fund is not sufficient to fund betterment projects this fund will be used. This fund must be evaluated in conjunction with the Restricted Betterment Fund as they work in concert. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.). This is a general use fund and at the direction of the Board may be used for any District purpose.



iv. Replacement Fund

The purpose of this fund is to pay for the replacement of capital infrastructure and capital purchases. This is a Designated Fund and was created to meet a portion of the District's replacement needs. This fund is not to be used for the replacement of non-capital items. Debt financing of replacement will be the primary source of funds for replacement however; this reserve is established to fund a portion of replacement and ensure that necessary replacements will occur regardless of the immediate availability of the debt markets. With the District's development of its financial systems and the greater need and ability to separate funds, the Replacement Fund has been separated into three funds: water, recycled, and sewer.



Projects undertaken solely for the purpose of replacing major capital equipment or facilities, i.e., where the cost exceeds \$10,000 for capital purchases or \$20,000 for infrastructure items, generally are not considered normal maintenance. Where the cost is below \$10,000 the costs are financed annually as operational maintenance. As charges are incurred on a replacement project the funds are deducted from the Replacement Fund on a monthly basis.



This is a Designated Fund and may be redirected for any purpose at Board direction.

b. Sources

The sources of funding for designated funds are limited to interfund transfers from available unrestricted funds (see 3.0 b.) and interest earnings on fund balances within designated funds. Unrestricted funds may come from other designated funds or from the General Fund. The operating budget is another source of designated general revenues. As a part of the normal budget process the general revenues are sufficient to fund a significant portion of the ongoing needs of the designated funds.

c. Levels Other Post Employment Benefits Fund

A. **Minimum Level** – Fully funded as identified under the actuarial study of the District’s OPEB liability.

B. **Maximum Level** – Fully funded as identified by an actuarial study. In the event that the fund is over funded, the District will target for the full funding within five (5) years reducing the annual funding levels.

C. **Target Level** – Fully funded to meet the actuarially defined valuation. In the event that the fund is not fully funded, the District will target for full funding within five (5) years by increasing funding levels. This increased funding would be in the form of either annual budget funding or fund transfers.



i. Designated Expansion Fund

A. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for expansion funds will decrease and eventually be reduced to zero. When considering the funding of expansion the Restricted Expansion Fund and the Designated Expansion Fund work in concert and must be considered jointly.

B. **Maximum Level** – The maximum level of this fund is limited to five years of unfunded expansion needs as described in the District’s CIP Budget. To determine the unfunded amount the total expansion costs must be reduced by the projected restricted expansion revenues. Bond financing is expected to fund a large portion of expansion.

C. **Target Level** – In order to facilitate debt financing of expansion, it is important that the expansion funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of expansion funds. If the combined expansion funds drop below six months

of expenditures this would trigger either a transfer of general use funds or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Expansion Fund while transfers would be placed in the Designated Expansion Fund. If the combined expansion funds exceeded target the District should consider the need to reduce capacity fees or transferring designated funds to meet another purpose.

ii. Designated Betterment Fund

A. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for betterment funds will decrease and eventually be reduced to zero. When considering the funding of expansion the Restricted Betterment Fund and the Designated Betterment fund work in concert and must be considered jointly.

B. **Maximum Level** – The maximum level of this fund is limited to five years of unfunded betterment needs as described in the District’s CIP Budget. To determine the unfunded amount the total betterment costs must be reduced by the projected restricted betterment revenues. Bond financing is expected to fund a large portion of betterment.

C. **Target Level** – In order to facilitate debt financing of betterment, it is important that the betterment funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of betterment funds. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.). If the combined betterment funds drop below six months of expenditures this would trigger either a transfer of general use funds or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Betterment Fund while transfers would be placed in the Designated Betterment Fund. If this target is exceeded, then the District should evaluate reductions in the special water rates and availability fees and also consider transfers to other funds.

iii. Replacement Fund

A. **Minimum Level** – The minimum level of funding is 3% of the historical value of existing assets as identified in the District’s current financial statement.

B. **Maximum Level** – The maximum level of funding is 6% of existing assets. In the event the maximum level is exceeded in any year, then the excess will be transferred as per the general transfer guidelines found in Section IV.

C. **Target Level** – The target level of funding is 4% of existing assets. In the event that the fund falls below the recommended target level, transfers or operating revenues would be shifted to support the

Replacement Funds. The District will act based on the annual five (5) year rate study to insure that at the end of that planning horizon the fund exceeds the minimum level and is approaching the target level.

3.2 Restricted Funds

a. Purpose

Restricted cash funds are those that are legally set aside for a particular purpose and cannot be used for any other purpose. The District maintains three Restricted Funds:

- Restricted Expansion Fund
- Restricted Betterment Fund
- Debt Reserve Fund

The definition and purpose of each of these funds is described below:

i. Restricted Expansion Fund

The Restricted Expansion Fund works hand-in-hand with the Designated Expansion Fund. When evaluating the need for additional funding, both the restricted and designated funds must be considered as one fund. The sole purpose of this fund is to construct potable, recycled, and sewer facilities to the extent they serve the expansion needs of the District. Recycled and potable are jointly accounted for as these water systems work in concert. The sewer expansion is accounted for separately but is currently inactive as there is no sewer expansion.

This fund is restricted by law and therefore is a Restricted Fund that can be used for no other purpose. Government Code section 66001 requires that these funds be accounted for separately and upon request that an accounting be provided. In addition, five years after the first deposit into the account or fund, the Code requires the District make specific findings regarding any unexpended funds, whether those funds are committed to expenditure or not (Government Code section 66001). The same findings must continue to be made once every five years thereafter. If the findings are not made, the statute requires the District refund the fees to the current owner of the affected property. The manner of the refund is at the District's discretion.



As charges are incurred on a project, and the project has been identified as an expansion project, the costs are deducted from the Expansion Fund. This allocation of funds is done on a monthly basis. In the event that funds are not used for the expansion of District facilities the funds must be

returned to the developers who paid them. In the case where a policy change requires a betterment project that would have been an expansion project at the time the capacity fee was collected, reserves may be used for that betterment project. The expansion reserves may also be used for bond repayment, to the extent the debt was incurred to fund expansion.

ii. Restricted Betterment Fund

The Betterment Reserve covers the cost to construct, install, and in some cases to maintain the potable, recycled, and sewer systems. The District maintains three separate designated betterment funds, one for each business segment. These funds are restricted by law for use within the area in which the fees are collected (Water Code 71631.6). However, the legal restriction of this fund depends upon the particular revenue source. (see Section 2.1 f. for a review of the special rates and availability fees).

iii. Debt Reserve Fund

The purpose of the Debt Reserve Fund is to pay periodic principal and interest debt payments on the outstanding debt. As these payments are made the funds are reduced. As additional debt is incurred, new property tax assessments may be authorized funded from assessments on the Property Tax Roll. Annually, the District sets the tax rate at a level necessary to fund that year's debt payments. These rates are applied to the assessed valuation of the property. Changes in property values in assessment areas result in inverse fluctuations in the tax rate necessary to generate the required debt payments.

In other cases, such as assessment districts, the debt service is funded through an assessment being levied on each parcel within the district. In assessment districts, the amount of the levy will vary by parcel and is based on the amount of benefit that parcel received from the improvement.

In addition, debt service may be funded through water rates. In the case of funding from water rates, there would not be a restriction on those debt reserve funds. They may remain in the General Fund or be placed in a Designated Fund if the Board were to take specific action to designate rate funds for the purpose of debt payments.

These funds are legally restricted for the specific debt issuance for which they are collected. These funds are not available for any other purpose and may not be designated for any other purpose. If these funds are not used for the payment of the specific debt for which they are collected they must be returned to the customers who made the tax roll payments. The District must evaluate the exact need of funds to avoid the costly reimbursement process.

b. Sources

Temporary meter fees and capacity fees fund expansion while special rates and charges and availability charges fund the betterment fund. The debt

reserves are funded by the State Loan Assessment, and GO bond assessments. Each debt fund can also be funded with the proceeds of the debt. Lastly, each fund is allotted its share of the interest income or expense.

c. Levels

i. Restricted Expansion Fund

A. **Minimum Level** –While there is no minimum balance, an action is required when the balance of the combined Restricted Expansion Fund and the Designated Expansion Fund drops below six months of expenditures. This would trigger either a transfer of funds from a non-Restricted Fund or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Expansion Fund while transfers would be placed in the Designated Expansion Fund.

B. **Maximum Level** – The maximum of this fund is limited not by a particular dollar amount but by the limited ability to collect funds for this purpose. This limitation is mandated by Government Code section 66001. Under the Code, the District must identify the purpose of the fee and the use to which it will be put, effectively establishing a nexus between the development project or class of project and the improvement being financed. The District must further establish that the amount of the funds being collected will not exceed that needed to pay for the improvement (Government Code section 66005). Under this mandate, also referred to as AB 1600, the Mitigation Fee Act and Government Code sections 66000 et seq., the District can only collect capacity fees for expansion projects. To insure compliance with this, the District performs periodic rate studies, a part of which is the calculation of the legally defensible capacity fee. Therefore, the District is limited in this fund by the nexus between the need for expansion expenditures and the fee that is approved for its collection.

With the lack of a dollar limitation for the maximum, it is incumbent on the District to maintain the planned construction of capital infrastructure. While building ahead of the need makes it unlikely that the capacity fees will accumulate to any great degree, significant delays in construction may result in high levels of the Restricted Expansion Fund. This is one reason why the District reports to the Board on a periodic basis the progress of the CIP spending. Further, the annual update of the rate model brings the Restricted and Designated Expansion Fund balances to the Board's attention. Also, the District provides annual Developer meetings where the existing and projected reserve levels are reviewed.

C. **Target Level** – In order to facilitate debt financing of expansion, it is important that the expansion funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of expansion funds.



ii. Restricted Betterment Fund

A. **Minimum Level** – While there is no minimum, less than six months of available funds in the combined Restricted Betterment and Designated Betterment Funds would trigger either a transfer of funds from a non-Restricted Fund or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Betterment Fund while transfers would be placed in the Designated Betterment Fund.

B. **Maximum Level** – The maximum to be retained in this fund is five years of unfunded CIP betterment expenditures as defined in the CIP budget forecast. To determine the unfunded amount the total betterment costs must be reduced by the projected restricted betterment revenues. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees and also consider transfers to other funds.

C. **Target Level** – In order to facilitate debt financing of betterment, it is important that the betterment funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of betterment funds. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.).

iii. Debt Reserve Fund

A. **Minimum Level** – As debt service payments are made the funds may be completely depleted if no other payments are required.

B. **Maximum Level** – Sufficient to pay the periodic annual debt service payments. As levels approach this maximum, the District must evaluate the rate at which funds are being collected so as to not over collect. Reductions in the tax rates have been

common as property values have risen. Even if the maximum is exceeded, no refunds would occur if future debt payments are necessary. The action required if funds exceed the maximum is a reduction of the rate of collection which will bring the balance down over time.

C. **Target Level** – The target level of funds for the various debt issuances is six months of debt service. This target level will be reduced as the term of the debt comes to a close.

DIAGRAM 3.0: Fund Targets

FUND	ACTIONS TO CONSIDER IF BELOW TARGET	TARGET	MAXIMUM
Restricted Expansion Fund *	Capacity fee increase Bond financing	Six months of capital expenditures	Nexus of cost to fee
Restricted Betterment Funds **	Rate increase Bond financing	Six months of capital expenditures	5 yr unfunded needs
Debt Reserve Fund	Increase tax collection	One semi-annual payment	Two semi-annual payments
Designated Expansion Fund *	Fund transfers	Six months of capital expenditures	5 yr unfunded needs
Designated Betterment Fund **	Fund transfers	Six months of capital expenditures	5 yr unfunded needs
OPEB Fund	Fund transfers	Full funding	Full funding
Replacement Fund	Fund transfers	4% of infrastructure	6% of infrastructure
General Fund	Rate increase Fund transfers	Three months of operating budget expenses	Nine months

* Expansion needs must consider the Restricted and Designated Expansion Funds as well as any available bond financing.

** Betterment needs must consider the Restricted and Designated Betterment Funds as well as any available bond financing

FUND TRANSFERS

4.0 Funding Levels

As described in the preceding sections, the District maintains funds for its operating and capital activities. These funds fall into three accounting categories; 1) unrestricted and undesignated, or general use funds, 2) designated, and 3) restricted. The source of the money for each fund was discussed along with the purpose, source of funds, and levels. Key determinants of these funds are the target levels, minimums, and maximums. The funding levels must be viewed in the context of the economic environment, political environment, and must always be viewed in light of a District's rate model. The District's six-year rate model not only shows the current balance but also shows the trend of the fund balances. Often the trend of the fund is a greater indicator of financial stability than is the current balance.

The rate model is updated each year with the budget process and evaluates each fund over the next six years. The rate model will take into account the general economic environment, looking at the development rate, supply rate increases, the possibility of raising rates, capital infrastructure spending, and strategic plan initiatives. The fund balances may at times be over the target amount or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the District's financial activities and the guidelines of this policy.

4.1 Fund Transfers

A significant portion of the funding for the District's designated funds comes from interfund transfers from the Unrestricted or General Funds. It is important to note that the District has the ability to use General Funds for any business purpose. General Funds may be transferred to any other unrestricted fund for any business need. Designated funds are General Funds which have been set aside for a specific purpose by Board action. These funds can only be used for the purpose they were designated, or with Board action, they may be used for any business purpose. General Funds may also be used for any restricted purpose but are not transferred to Restricted Funds due to the sensitivity of the tracking of Restricted Funds. If funds are needed for a restricted purpose they are transferred to a Designated Fund identified with the restricted purpose. Restricted Funds may only be used for the purpose that they were collected therefore no transfers are made to or from these funds.

In many situations, fund transfers are expected as some funds will exceed their maximum or drop below their minimums. Only funds that are below the stated target are eligible to receive transferred funds. Funds that exceed their maximums are first to be considered for transfers out followed by funds that exceed their targets. Funds that exceed their minimums are also available for fund transfer out but only when other options are not available.

The rationale for prioritizing fund transfers is based on the immediacy of the need and the availability of funds from other funding sources. For example, the General Fund is first to receive funds when it drops below its target or minimum levels. This is because of the immediate and ongoing nature of the expenditures that are served by this fund. The operation of the District is first and foremost of the objectives of the District. On the other end of the spectrum, the Replacement Fund has a long-term perspective and will be used to partially fund replacement assets for many years to come. Debt financing is available to respond to this long

term, foreseeable, and planned cash flow. This fund is less likely to have immediate needs and has other funding options.

When making the determination of when transfers are necessary, all funds work as independent funds. The exceptions to this rule are the two expansion funds (one restricted and one designated) and the two betterment funds (one restricted and one designated). Each of these two sets of funds work as one but are kept separate due to the significant difference in the fund types, one being restricted and one originating from General Funds. It is unlikely to have high immediacy of need in these funds as they, like the Replacement Fund, are long term in nature and have debt financing as an alternative funding source.

As an example, if during the rate model update process it was determined that the expansion funds (designated and restricted) would drop and stay below the minimum during the planning horizon, this would trigger a bond sale or a transfer of unrestricted funds. If in the cash planning process, it was anticipated that the General Fund would remain above target during the planning horizon of six (6) years and that the trend did not present a problematic underfunded status, then those funds would be considered available for transfer prior to making funds available from the sale of bonds. Also, if during this period another Designated Fund was anticipated to exceed its maximum then the excess would be transferred to the Designated Expansion Fund prior to any other transfers. Funds are evaluated to determine which has the greatest need or availability of funds before any fund transfer recommendation is presented to the Board.

GLOSSARY

The Reserve Policy contains terminology that is unique to public finance and budgeting. The following glossary provides assistance in understanding these terms.

Annexation Fees: Whenever utility service is requested for land outside the boundaries of an improvement district, the land to be serviced must first be annexed. The annexation fee for water was set on March 3, 1997 at \$1,000 per EDU. The fee for sewer annexation was set at \$3,819 on December 16, 1998. These base rates are adjusted quarterly according to a cost of living index.

Assets: Resources owned or held by Otay Water District that have monetary value.

Availability Fees: The District levies charges each year in developed areas to be used for upgrades, betterment, or replacement and in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be used only for the purpose of the improvement district for which it was assessed.

Betterment Fees: In addition to other applicable water rates and charges, water customers pay a fee based on water service zone or Improvement District. These fees are restricted for use in the area where they are collected and may be used for the construction and maintenance of facilities.

Bond: A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are authorized in a District bond resolution. The most common types of bonds are General Obligation (GO) bonds and Certificates of Participation (COPs). These are frequently used for construction of large capital projects such as buildings, reservoirs, pipelines and pump stations.

Capital Equipment: Fixed assets such as vehicles, marine equipment, computers, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000.

Capital Improvement Program: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

CWA: The County Water Authority was organized in 1944 under the State County Water Authority Act for the primary purpose of importing Colorado River water to augment the local water supplies of the Authority's member agencies. The Authority purchases water from the Metropolitan Water District of Southern California (MWD) which imports water from the Colorado River and the State Water Project.



Debt Service: The District's obligation to pay the principal and interest of bonds and other debt instruments according to a predetermined payment schedule.

Expenditures/Expenses: These terms refer to the outflow of funds paid or to be paid for an asset, goods, or services obtained regardless of when actually paid for. (Note: An encumbrance is not an expenditure). An encumbrance reserves funds to be expended in a future period.

Fund: An account used to track the collection and use of monies for a specifically defined purpose.

Fund Balance: The current funds on hand resulting from the historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the results of operations.

Interest Income: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to the various funds each month based upon each fund's prior month-ending balance.

Late Charges/Penalties: Charges and penalties are imposed on customer accounts for late payments, returned checks, and related telephone contacts.

Operating Budget: The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel, and does not include purchases of major capital plant or equipment which is budgeted for separately in the Capital Budget. The Operating Budget also identifies planned non-operating revenues and expenses.

Revenue: Monies that the District receives as income. It includes such items as water sales and sewer fees. Estimated revenues are those expected to be collected during the fiscal year.

System Fees: Each water service customer pays a monthly system charge for water system replacement, maintenance, and operation expenses. The charge is based on the size of the meter and class of service.

Taxes: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on General Obligation bonds approved by the voters prior to July 1, 1978.

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. All non-residential customers are charged a flat rate per unit. A unit of water is 100 cubic feet or 748 gallons of water.

INVESTMENT POLICY

1.0: POLICY

It is the policy of the Otay Water District to invest public funds in a manner which will provide maximum security with the best interest return, while meeting the daily cash flow demands of the entity and conforming to all state statues governing the investment of public funds.

2.0: SCOPE

This investment policy applies to all financial assets of the Otay Water District. The District pools all cash for investment purposes. These funds are accounted for in the District's audited Comprehensive Annual Financial Report (CAFR) and include:

- 2.1) General Fund
- 2.2) Capital Project Funds
 - 2.2.1) Designated Expansion Fund
 - 2.2.2) Restricted Expansion Fund
 - 2.2.3) Designated Betterment Fund
 - 2.2.4) Restricted Betterment Fund
 - 2.2.5) Designated Replacement Fund
- 2.3) Other Post Employment Fund (OPEB)
- 2.4) Debt Reserve Fund

Exceptions to the pooling of funds do exist for tax-exempt debt proceeds and deferred compensation funds. Funds received from the sale of general obligation bonds, certificates of participation or other tax-exempt financing vehicles are segregated from pooled investments and the investment of such funds are guided by the legal documents that govern the terms of such debt issuances.

3.0: PRUDENCE

Investments should be made with judgment and care, under current prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "Prudent Person" and/or "Prudent Investor" standard (California Government Code 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market

price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0: OBJECTIVE

As specified in the California Government Code 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

- 4.1) Safety: Safety of principal is the foremost objective of the investment program. Investments of the Otay Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.
- 4.2) Liquidity: The Otay Water District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.
- 4.3) Return on Investment: The Otay Water District's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

5.0: DELEGATION OF AUTHORITY

Authority to manage the Otay Water District's investment program is derived from the California Government Code, Sections 53600 through 53692. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer (CFO), who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the CFO. The CFO shall establish written investment policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

6.0: ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from

undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

7.0: AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Chief Financial Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers who are authorized to provide investment services in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the District with the following, as appropriate:

- Audited Financial Statements.
- Proof of National Association of Security Dealers (NASD) certification.
- Proof of state registration.
- Completed broker/dealer questionnaire.
- Certification of having read the District’s Investment Policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the CFO. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

8.0: AUTHORIZED AND SUITABLE INVESTMENTS

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. The District is governed by the California Government Code, Sections 53600 through 53692, to invest in the following types of securities, as further limited herein:

- 8.01) United States Treasury Bills, Bonds, Notes or those instruments for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.
- 8.02) Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by State Law (currently \$40 million). The District may also invest bond proceeds in LAIF with the same but independent maximum limitation.
- 8.03) Bonds, debentures, notes and other evidence of indebtedness issued by any of the following government agency issuers:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- Federal National Mortgage Association (FNMA or "Fannie Mae")
- Government National Mortgage Association (GNMA or "Ginnie Mae")
- Student Loan Marketing Association (SLMA or "Sallie Mae")
- Federal Farm Credit Bank (FFCB)

There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

- 8.04) Interest-bearing demand deposit accounts and Certificates of Deposit (CD) will be made only in Federal Deposit Insurance Corporation (FDIC) insured accounts. For deposits in excess of the insured maximum of \$100,000, approved collateral shall be required in accordance with California Government Code, Section 53652. Investments in CD's are limited to 15 percent of the District's portfolio.
- 8.05) Commercial paper, which is short-term, unsecured promissory notes of corporate and public entities. Purchases of eligible commercial paper may not exceed 10 percent of the outstanding paper of an issuing corporation, and maximum investment maturity will be restricted to 270 days. Investment is further limited as described in California Government Code, Section 53601(g). Purchases of commercial paper may not exceed 15 percent of the District's portfolio.
- 8.06) Medium-term notes defined as all corporate debt securities with a maximum remaining maturity of five years or less, and that meet the further requirements of California Government Code, Section 53601(j). Investments in medium-term notes are limited to 15 percent of the District's portfolio.
- 8.07) Money market mutual funds that invest only in Treasury securities and repurchase agreements collateralized with Treasury securities, and that meet the further requirements of California Government Code, Section 53601(k). Investments in money market mutual funds are limited to 15 percent of the District's portfolio.
- 8.08) The San Diego County Treasurer's Pooled Money Fund, which is a County managed investment pool, may be used by the Otay Water District to invest excess funds. There is no percentage limitation of the portfolio which can be invested in this category.
- 8.09) Under the provisions of California Government Code 53601.6, the Otay Water District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment that may result in a zero interest accrual if held to maturity. Also, the borrowing of funds for investment purposes, known as leveraging, is prohibited.

9.0: INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc., utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

10.0: COLLATERALIZATION

Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

11.0: SAFEKEEPING AND CUSTODY

All security transactions entered into by the Otay Water District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the District and evidenced by safekeeping receipts.

12.0: DIVERSIFICATION

The Otay Water District will diversify its investments by security type and institution, with limitations on the total amounts invested in each security type as detailed in Paragraph 8.0, above, so as to reduce overall portfolio risks while attaining benchmark average rate of return. With the exception of U.S. Treasury securities, government agencies, and authorized pools, no more than 50% of the District's total investment portfolio will be invested with a single financial institution.

13.0: MAXIMUM MATURITIES

To the extent possible, the Otay Water District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five years from the date of purchase. However, for time deposits with banks or savings and loan associations, investment maturities will not exceed two years. Investments in commercial paper will be restricted to 270 days.

14.0: INTERNAL CONTROL

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

15.0: PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The Otay Water District's investment strategy is passive. Given this strategy, the basis used by the CFO to determine whether market yields are being achieved shall be the State of California Local Agency Investment Fund (LAIF) as a comparable benchmark.

16.0: REPORTING

The Chief Financial Officer shall provide the Board of Directors monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value, and market value.
- Percentage of the portfolio represented by each investment category.

17.0: INVESTMENT POLICY ADOPTION

The Otay Water District's investment policy shall be adopted by resolution of the District's Board of Directors. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

APPENDIX A: GLOSSARY

ACTIVE INVESTING: Active investors will purchase investments and continuously monitor their activity, often looking at the price movements of their stocks many times a day, in order to exploit profitable conditions. Typically, active investors are seeking short term profits.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BROKER/DEALER: Any individual or firm in the business of buying and selling securities for itself and others. Broker/dealers must register with the SEC. When acting as a broker, a broker/dealer executes orders on behalf of his/her client. When acting as a dealer, a broker/dealer executes trades for his/her firm's own account. Securities bought for the firm's own account may be sold to clients or other firms, or become a part of the firm's holdings.

CERTIFICATE OF DEPOSIT (CD): A short or medium term, interest bearing, FDIC insured debt instrument offered by banks and savings and loans. Money removed before maturity is subject to a penalty. CDs are a low risk, low return investment, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from a few months to several years.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured short-term promissory note, issued by corporations, with maturities ranging from 2 to 270 days.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Otay Water District. It includes detailed financial information prepared in conformity with generally accepted accounting principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a set date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures deposits in member banks and thrifts, currently up to \$100,000 per deposit.

FEDERAL FARM CREDIT BANK (FFCB): The Federal Farm Credit Bank system supports agricultural loans and issues securities and bonds in financial markets backed by these loans. It has consolidated the financing programs of several related farm credit agencies and corporations.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANK (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac):

A stockholder owned, publicly traded company chartered by the United States federal government in 1970 to purchase mortgages and related securities, and then issue securities and bonds in financial markets backed by those mortgages in secondary markets. Freddie Mac, like its competitor Fannie Mae, is regulated by the United States Department of Housing and Urban Development (HUD).

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):

FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):

A government owned agency which buys mortgages from lending institutions, securitizes them, and then sells them to investors. Because the payments to investors are guaranteed by the full faith and credit of the U.S. Government, they return slightly less interest than other mortgage-backed securities.

INTEREST-ONLY STRIPS: A mortgage backed instrument where the investor receives only the interest, no principal, from a pool of mortgages. Issues are highly interest rate sensitive, and cash flows vary between interest periods. Also, the maturity date may occur earlier than that stated if all loans within the pool are pre-paid. High prepayments on underlying mortgages can return less to the holder than the dollar amount invested.

INVERSE FLOATER: A bond or note that does not earn a fixed rate of interest. Rather, the interest rate is tied to a specific interest rate index identified in the bond/note structure. The interest rate earned by the bond/note will move in the opposite direction of the index. An inverse floater increases the market rate risk and modified duration of the investment.

LEVERAGE: Investing with borrowed money with the expectation that the interest earned on the investment will exceed the interest paid on the borrowed money.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MUTUAL FUNDS: An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds raise money by selling shares of the fund to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds, and money market instruments.

MONEY MARKET MUTUAL FUNDS: An open-end mutual fund which invests only in money markets. These funds invest in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A self-regulatory organization of the securities industry responsible for the operation and regulation of the NASDAQ stock market and over-the-counter markets. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

PASSIVE INVESTING: An investment strategy involving limited ongoing buying and selling actions. Passive investors will purchase investments with the intention of long term appreciation and limited maintenance, and typically don't actively attempt to profit from short term price fluctuations. Also known as a buy-and-hold strategy.

PRIMARY DEALER: A designation given by the Federal Reserve System to commercial banks or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions. These dealers submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission registered securities broker/dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC SECURITIES ASSOCIATION (PSA): A trade organization of dealers, brokers, and bankers who underwrite and trade securities offerings.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RANGE NOTE: An investment whose coupon payment varies and is dependent on whether the current benchmark falls within a pre-determined range.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REGIONAL DEALER: A securities broker/dealer, registered with the Securities & Exchange Commission (SEC), who meets all of the licensing requirements for buying and selling securities.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding securities issues following their initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.), and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

STUDENT LOAN MARKETING ASSOCIATION (SLMA or Sallie Mae): A federally established, publicly traded corporation which buys student loans from colleges and other lenders, pools them, and sells them to investors.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio.

Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

DEBT POLICY

Introduction

The following policies and procedures are enacted in an effort to standardize the issuance and management of debt by the Otay Water District. The primary objective is to establish conditions for the use of debt, to minimize the District's debt service requirements and cost of issuance, to retain the highest practical credit rating, maintain full and complete financial disclosure and reporting and to maintain financial flexibility for the District. The policies apply to all debt issued by the District including general obligation bonds, revenue bonds, capital leases and special assessment debt.

Regularly updated debt policies and procedures are an important tool to insure the use of the District's resources to meet its commitments, to provide the highest quality of service to the District's customers and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions as circumstances dictate.

Definitions

The following terms are used in this document:

“Advance Refunding” means to provide for the refinancing of debt prior to its Optional Redemption date by setting aside funds in trust to pay debt service on the debt until the Optional Redemption date is reached and the debt can be paid in full.

“CIP” means Capital Improvement Program.

“Optional Redemption” means the redemption of an obligation prior to its stated maturity, which can only occur on dates specified in the bond indenture.

“Pay-as-you-go” means to pay for capital improvements from current resources and fund balances rather than from debt proceeds.

“Rate Covenant” means a covenant between the District and bondholders, under which the District agrees to maintain a certain level of net income compared to its debt payments, and covenants to increase rates if net income is not sufficient to meet such level.

Capital Facilities Funding

Financial Plan

The District maintains a multi-year financial projection that identifies operating requirements and public facility and equipment requirements and is developing a Financial Plan for funding the District's Five-Year Capital Improvement Program (the “Financial Plan”). The Financial Plan places the capital requirements in order of priority and schedules them for funding and implementation. It identifies a full range of capital needs, provides for the ranking of the

importance of such needs and identifies all the funding sources that are available to cover the costs of the projects. In cases where the Financial Plan identifies project funding through the use of debt financing, the Financial Plan should provide information needed to determine debt capacity. The Financial Plan gives the Board part of the data needed to make informed judgments concerning the possibility of issuing debt.

Funding Criteria

The Chief Financial Officer will evaluate all capital project requests and develop a proposed funding plan. Priority may be given to those projects that can be funded with current resources (annual cash flow, fund balances or reserves). Those projects that cannot be funded with current resources may be deferred or the Chief Financial Officer may recommend that they be funded with debt financing. However, debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term cash-flow instruments is excluded from this limitation.

The General Manager will recommend the funding plan to the Board. The General Manager may deem it necessary or desirable, in certain circumstances, to convene a Finance Subcommittee of the Board to evaluate funding options presented by the Chief Financial Officer.

Funding Sources

The District's capital improvements can be classified in three categories: those related to an expansion of the system ("expansion"), those related to upgrading the existing system ("betterment") and those related to repairing or replacing existing infrastructure ("replacement"). In general, capital improvements for betterment or replacement are financed primarily through user charges, availability charges and betterment charges. Capital improvements for expansion are financed through capacity fees and capacity surcharge fees. Accordingly, user charges and capacity fees should be implemented at levels sufficient to ensure that new development pays its fair share of the costs of constructing necessary infrastructure.

Pay-As-You-Go Projects

The District's capacity fees are the major funding source in financing additions to the water system and the recycled water system. Over time, the fees collected and the cost to construct the capital projects should balance. However, collection of these fees is subject to significant fluctuation based on the rate of new development. Accordingly, the Chief Financial Officer in developing the funding plan for the CIP will determine that current revenues and adequate fund balances are available so project phasing can be accomplished.

If this is not the case, the Chief Financial Officer may recommend that:

1. The project be deferred until funds are available, or
2. Based on the priority of the project, long-term debt is issued to finance the project.

Debt Financed Projects

If a project or projects are to be financed with long-term debt, the District should use the following criteria to evaluate the suitability of the financing for the particular project or projects:

1. The life of the project or asset to be financed is ten years or longer and its useful life is expected to exceed the term of the financing.
2. Revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed without jeopardizing the credit rating of the District.
3. Market conditions present favorable interest rates and demand for District financing.
4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.
5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.

Debt Structure

General

The District will normally issue debt with a maturity of not more than 30 years. The structure should approximate level debt service for the term where it is practical or desirable. There will be no debt structures that include increasing debt service levels in subsequent years, with the first and second year of a debt payoff schedule the exception and related to projected additional income to be generated by the project to be funded. There will be no “balloon” debt repayment schedules that consist of low annual payments and one large payment of the balance due at the end of the term. There will always be at least interest paid in the first fiscal year after debt issuance and principal starting no later than the first fiscal year after the date the facility or equipment is expected to be placed in service. Capitalized interest will not be for a period of more than necessary to provide adequate security for the financing.

Limitations on the Issuance of Variable Rate Debt

The District will normally issue debt with a fixed rate of interest. The District may issue variable rate for the purpose of managing its interest costs. At the same time, the District should protect itself from too much exposure to interest rate fluctuations. In determining that it is in the District’s best interest to issue certain debt at variable rates instead of fixed rates, at the time of issuing any variable rate debt, there should be at least a 10% estimated reduction in annual debt costs by issuing variable rate debt when compared to a similar issuance of fixed rate debt. If the estimated overall cost savings from issuing variable rate debt is not at least 10% at the time of issuance, relatively small fluctuations in rates could actually increase the District’s financing costs over the life of the bonds compared to a similar fixed rate financing. By using this 10% factor at the time of issuance, the District can be relatively assured that its variable rate financing will be cost-effective over the term of the bonds.

The comparison will be based on the following criteria:

1. The interest rate used to estimate interest costs will be the ten (10) year average for weekly variable rates.
2. The variable rate debt costs will include an estimate for annual costs such as letter of credit fees, liquidity fees, remarketing fees, monthly draw fees and annual rating fees applicable to the letter of credit.
3. Any potential reserve fund earnings will reduce the fixed rate debt service or variable rate debt service as applicable. Periodically, using the criteria described above, the Chief Financial Officer will compare the estimated annual debt service costs to maturity of any variable rate debt with estimated debt service if the debt was converted to fixed rates. If this analysis produces a break even in total payments over the life of the issue, the Chief Financial Officer will recommend converting such variable rate debt to a fixed rate.

Variable rate debt should not represent more than 25% of the District's total debt portfolio. This level of exposure to interest rate fluctuations is considered to be manageable in an environment of increasing interest rates. At a higher ratio than this, the District might be faced with an unplanned water rate increase to meet its Rate Covenants. Rating agencies use this ratio in their analysis of the District's overall credit rating. Further, Rate Covenants applicable to variable rate debt shall not compromise the issuance of additional debt planned by the District and variable rate debt should always contain a provision to allow conversion to a fixed rate at the District's option.

Credit Objectives

The Otay Water District seeks to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic services and achievement of District policy objectives. Factors taken into account in determining the credit rating for a financing include:

1. Diversity of the District's customer base;
2. Proven track record of completing capital projects on time and within budget;
3. Strong, professional management;
4. Adequate levels of staffing for services provided;
5. Reserves; and
6. Ability to consistently meet or exceed Rate Covenants. The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the District is committed to ensuring that actions within its control are prudent and well-planned.

Competitive and Negotiated Sale Criteria

The District will use a competitive bidding process in the sale of debt unless the nature of the issue or specific circumstances warrants a negotiated sale. Types of debt that would typically lend themselves to the negotiated sale format are variable rate debt and unrated debt. Circumstances that might warrant a negotiated sale may occur when the issue is of a limited size that would not attract wide-spread investor interest, during periods of high levels of issuance by other entities in the State or during periods of market volatility.

If the size of the District's proposed issue is not cost effective, the District may also consider issuing its debt through the California Statewide Communities Development Authority, which provides a mechanism for pooling financings with similar issuers to obtain economies of scale.

Refunding Debt

Purpose

Periodic reviews of all outstanding debt will be undertaken by the Chief Financial Officer to determine refunding and/or refinancing opportunities. The purpose of the refinancing may be to:

1. Lower annual debt service by taking advantage of lower current interest rates.
2. Update or revise covenants on outstanding debt issue if a Rate Covenant appears to be too high, has precluded the District from implementing its financing plan or has caused the District to increase rates to customers.
3. Restructure debt service associated with an issue to facilitate the issuance of additional debt, usually in order to smooth out peaks in total debt service, which can occur frequently, as one debt issue is layered on top of existing debt issues.
4. Alter bond characteristics such as call provisions or payment dates.
5. Pay for conversion costs such as funding a reserve fund or paying for credit enhancement when converting variable rate debt to fixed rate debt.

Restrictions on Refunding

Tax-exempt bonds typically have provisions that preclude early redemption of the bonds for a period of years after issuance. The number of times a tax-exempt bond can be refinanced prior to its Optional Redemption date (known as Advance Refunding) is limited by the IRS. For debt issued after 1986, issuers may only provide for Advance Refunding of obligations in advance of the Optional Redemption date, one time. There is no limit by the IRS on the ability of issuers to redeem bonds early once the Optional Redemption date has been reached.

Savings Criteria

In cases where an Advance Refunding is intended to provide debt service savings, the District may commence the refinancing process if a minimum five percent (5%) present value savings

net of issuance costs and any cash contributions can be demonstrated. Since interest rates may fluctuate between the time when a refinancing is authorized and when the debt is issued, beginning the process with at least a 5% savings should provide the District with some level of protection that it can achieve a minimum of three percent (3%) net present value savings of the refunding bonds when and if the debt is issued. These minimum standards are intended to protect the District staff from spending time on refinancings that become marginally cost-effective after the entire issuance process is complete.

The savings target may be waived, however, if sufficient justification for lowering the savings target can be provided by meeting one or more of the other refunding objectives described above.

Subordinate Lien Debt

The District will issue subordinate lien debt only if it is financially beneficial to the District or consistent with creditworthiness objectives. Subordinate lien debt is structured to be payable second in priority to the District's other outstanding debt. Typically, subordinate lien debt might be issued if the District desired a more flexible Rate Covenant with respect to its new obligations and did not want to refinance all of its existing debt to obtain that less restrictive Rate Covenant.

Derivatives

The District may consider the use of derivative products on a case-by-case basis, consistent with State statute and financial prudence. The most common derivatives include transactions known as "swaps," in which the District, by contract with an investment bank (known as a "provider"), swaps its fixed rate debt payments for variable rate debt payments or vice versa, and "forwards," in which the District enters into a purchase contract with an underwriter to purchase refunding bonds at a future date at interest rates locked in today (not at today's rates, but at rates locked in today).

Derivative products introduce an additional risk factor into a financing, called "third-party risk." Once a derivative product is entered into, the District must rely upon the financial stability of the provider to perform under the contract. Because the nature of derivatives is speculative, that is, the District is assuming that rates will either go up or down over the period of the contract and therefore expects to lock in a financial benefit today based on that assumption, the financial benefits actually obtained from any derivative contract need to be monitored periodically to determine if it is in the District's interest to terminate the contract and what the penalty might be for early termination. This requires a certain level of vigilance and impartial advice in this area is actually difficult to obtain, since the derivative market is not particularly liquid or price-transparent and is currently made up of a small handful of reputable providers.

There must be an overwhelming demonstrable financial benefit to the District based on reasonable assumptions concerning future interest rates in order for the District to use derivative products.

Financing Participants

The District's purchasing guidelines provide the process for securing professional services related to individual debt issues. The solicitation and selection process include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

Financial Advisor. The use of a Financial Advisor is necessary for the sale of debt by a competitive bid process and is desirable when issuing debt through a negotiated sale. The Financial Advisor has a fiduciary duty to the District and will seek to structure the District's debt in the manner that is saleable, yet meets the District's objectives for the financing. The Financial Advisor will advise the District on alternative structures for its debt, the cost of different debt structures and potential pricing mechanisms that can be expected from underwriters (such as call features, term bonds and premium and discount bond pricing) and, at the District's direction, will write the offering document (Preliminary Official Statement). With respect to competitive sales, the Financial Advisor will arrange for distributing the preliminary official statement, accepting bids via the Internet, verifying the lowest bid and provide detailed instructions for the flow of funds at closing to the winning Underwriter, the Trustee and the District. In a negotiated sale, the Financial Advisor will provide independent confirmation on the Underwriter's proposed pricing to ensure that interest rates and Underwriter's compensation are appropriate for the credit quality of the issue and competitive in the overall public finance market in California.

Underwriter. The Underwriter markets the bonds for sale to investors. While the District's preference is to select the Underwriter for the debt via sale of the debt at competitive bid, there are circumstances when a negotiated issue is in the best interests of the District. Negotiated sales are preferable if the security features are particularly complex or market conditions are volatile. The Chief Financial Officer will recommend whether the method of sale is competitive or negotiated based on the type of issue and other market conditions. In the case of negotiated sales, the Underwriter will be required to demonstrate sufficient capitalization and sufficient experience related to the specific type of debt issuance. The Underwriter will work in connection with the District's Financial Advisor on structuring the issue and offering different pricing ideas.

Bond Counsel. The District's Bond Counsel provides the primary legal documents that detail the security for the bonds and the authority under which bonds are issued. The Bond Counsel also provides an opinion to bond holders that the bonds are tax-exempt under both State and Federal law. All closing documents in connection with an issue are also prepared by Bond Counsel.

Disclosure Counsel. The District's Disclosure Counsel provides legal advice to the District regarding the adequacy of the District's disclosure of financial information or risks of investing in the District's debt issue to the investing public. The Disclosure Counsel can prepare the official statement or review the official statement and gives the District an opinion that there is no information missing from the official statement of a material nature that would be necessary for an investor to make an informed decision about investing in the District's bonds.

Trustee. The Trustee is a financial institution selected by the District to administer the collection of revenues pledged to repay the bonds and to distribute those funds to bondholders.

Letter of Credit Bank. The Letter of Credit Bank is a U.S. and foreign bank that has issued a letter of credit providing both credit enhancement (the Letter of Credit Bank will pay the debt in the event that the District defaults on the payment) and liquidity for a variable rate bond issue. These banks have their own short-term credit rating, which is generally higher than the District's short-term credit rating. Liquidity is needed because variable rate bondholders are allowed to "put" their bonds back to the District if they do not like the interest rate currently being offered. The District's Remarketing Agent then finds a new buyer for those bonds, but in the event that no buyer is found, a draw is made under the letter of credit to purchase the bonds that have been "put." As soon as the bonds are remarketed to another buyer, the letter of credit is repaid. The letter of credit fees are paid annually. Letters of credit are typically issued for 5-7 years and must be renewed during the life of the bonds. Credit enhancement is discussed further under the heading "CREDIT ENHANCEMENT."

Municipal Bond Insurer. The Municipal Bond Insurer can be one of several insurance companies that provide municipal bond insurance policies securing payment of the District's debt. These policies provide that the Municipal Bond Insurer will pay the District's debt in the event that the District defaults on its payments. Debt which is insured carries the Municipal Bond Insurer's credit rating, in most cases, "AAA." The insurance premium for the bond insurance policy is paid one time at the issuance of the debt and is non-cancelable for the term of the debt. Unlike a letter of credit, bond insurance policies do not provide liquidity and are most typically purchased for fixed rate debt.

Remarketing Agent. The Remarketing Agent is an investment bank that, each week, determines the interest rate for the District's variable rate obligations. The rate is set at the rate at which the obligations could be sold on the open market at 100% of their face value. The Remarketing Agent also finds new buyers for any of the obligations that are "put" back to the District.

Rating Agencies. Currently, there are three rating agencies that rate municipal debt in the United States: Standard & Poor's, Moody's Investors Service and Fitch Investors Service. Rating agencies establish objective criteria under which each type of financing undertaken by the District is to be analyzed. Upon request, a rating agency will rate the underlying strength of the District's financings, without regard to the purchase of any credit enhancement. The rating is released to the general public and thereafter, the rating agency will periodically update its analysis of a particular issue, and may raise or lower the rating if circumstances warrant. Investment-grade ratings range from "AAA" to "BBB." A rating below "BBB" is not investment grade. Many mutual funds cannot buy bonds that do not carry an investment grade.

Verification Agent. In a refunding, the District will deposit funds with an escrow agent (usually the trustee) in an amount sufficient, together with earnings thereon, to pay the debt service and redemption price of the debt being refunded through and including the call date.

The Verification Agent verifies the mathematical accuracy of calculation of the amount to be deposited in escrow and the bond counsel relies on this verification in giving their opinion that the debt is defeased within the meaning of the indenture and that the lien of the debt on the revenues pledged to the debt being refunded is released.

Conflict of Interest and Standards of Conduct

Members of the District, the Board of Directors and its consultants, service providers and underwriters shall adhere to standards of conduct and conflict of interest rules as stipulated by the California Political Reform Act or the Municipal Securities Rulemaking Board (MSRB), as applicable. All debt financing participants shall maintain the highest standards of professional conduct at all times, in accordance with MSRB Rules, including Rule G-37. There shall be no conflict of interest with the District with any debt financing participant.

Continuing Disclosure

The District acknowledges the responsibilities of the underwriting community and pledges to make all reasonable efforts to assist underwriters in their efforts to comply with SEC Rule 15c2-12 and MSRB Rule G-36. The District will file its official statements with the MSRB and the nationally recognized municipal securities information repositories. The District will also provide a copy of its comprehensive financial reports upon request and will disseminate other information that it deems pertinent to the market in a timely manner. While initial bond disclosure requirements pertain to underwriters, the District will provide financial information and notices of material events on an ongoing basis throughout the life of the issue. Material events are defined as those events which are considered to likely reflect on the credit supporting the securities.

The events considered material according to the Securities and Exchange Commission (SEC) are:

1. Rating changes.
2. Non-payment related defaults.
3. Adverse tax opinions or events affecting the tax exempt status.
4. Unscheduled draws on debt service reserves or credit enhancements reflecting financial difficulties.
5. Modifications to the rights of securities holders.
6. Defeasance.
7. Bond calls.
8. Release, substitution, or sale of property securing repayment of the securities.
9. Substitution of credit or liquidity providers, or their failure to perform.
10. Principal and interest payment delinquencies.

Arbitrage Compliance

Tax-exempt bonds are required to meet certain provisions of the federal tax code in order to maintain their tax-exempt status. In order to prevent municipal issuers from borrowing money at tax-exempt rates solely for the purpose of investing the proceeds in higher yielding investments and making a profit (“arbitrage”), the federal tax code contains a provision that requires issuers to compare the interest earned on any bond funds held (such as a reserve fund) with interest that would theoretically be earned if the funds were invested at the yield of the bonds, and to “rebate” to the federal government any interest earned in excess of the theoretical earnings limit.

The Chief Financial Officer will maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code.

Types of Debt Financing

General Obligation Bonds

General obligation bonds are secured by a pledge of the ad-valorem taxing power of the issuer and are also known as a full faith and credit obligations. Bonds of this nature must serve a public purpose to be considered lawful taxation of the property owners within the District and require a two third's majority vote in a general election. The benefit of the improvements or assets constructed and acquired as a result of this type of bond must be generally available to all property owners.

The District can issue general obligation bonds up to but not in excess of 15% of the assessed valuation under Article XVI, Section 18 of the State Constitution. An annual amount of the levy necessary to meet debt service requirements is calculated and placed on the tax roll through the County of San Diego. The District also has a policy that the ad-valorem tax to be used to pay debt service on general obligation bonds will not exceed \$.10 per \$100 of assessed value.

Voters within Improvement District (ID) No. 27 of the District authorized \$100 million general obligation bonds in 1989. The District issued \$11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately \$29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

General obligation bonds generally are regarded as the broadest and soundest security among tax-secured debt instruments. An unlimited tax pledge would enable a trustee to invoke mandamus to force the District to raise the tax rate as much as necessary to pay off the bonds. General obligation bonds have other credit strengths as well; the property tax tends to be a steady and predictable revenue source, and when a vote is required to issue them, bondholders have some indication of taxpayers' willingness to pay. General obligation bonds carry the highest credit rating that a public agency can achieve and therefore, the lowest interest cost. General obligation bonds typically are issued to finance capital facilities and not for ongoing operational or maintenance costs.

The District will use an objective analytical approach to determine whether it can afford to assume new general obligation debt for the improvement districts, or in the case of projects not approved by the original ID 27 vote, prior to any submission of a general obligation bond ballot measure to voters. This process will compare generally accepted standards of affordability to the current values for the District. These standards will include debt per capita, debt as a percent of taxable value, debt service payments as a percent of current revenues and current expenditures, and the level of overlapping net debt of all local taxing jurisdictions. The process will also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to assume new debt will be based on these costs and benefits, the current conditions of the municipal bond market, and the District's ability to "afford" new debt as determined by the aforementioned standards.

Revenue Bonds

Revenue bonds are limited-liability obligations that pledge net revenues of the District to debt service. The net revenue pledge is after payment of all operating costs. Though revenue bonds are not generally secured by the full faith and credit of the District, the financial markets require coverage ratios of the pledged revenue stream and a covenant to levy rates and charges sufficient to produce net income at some level in excess of debt service.

Also, there may be a test required to demonstrate that future revenues will be sufficient to maintain debt service coverage levels after any proposed additional bonds are issued. The District will strive to meet industry and financial market standards with such ratios. Annual adjustments to the District's rate structure may be necessary to maintain these coverage ratios.

The underlying credit of revenue bonds is judged on the ability of the District's existing rates to provide sufficient net income to pay debt service and the perceived willingness of the District to raise rates and charges in accordance with its Rate Covenant. Actual past performance also plays a role in evaluating the credit quality of revenue bonds, as well as the diversity of the customer base. Revenue bonds generally carry a credit rating one or two investment grades below a general obligation bond rating.

The District may use a debt structure called "Certificates of Participation" to finance capital facilities. However, if the Certificates of Participation contain a pledge of net revenues and a Rate Covenant, they are treated as essentially the same as a revenue bond.

Lease/Purchase Agreements

Over the lifetime of a lease, the total cost to the District will generally be higher than purchasing the asset outright. As a result, the use of lease/purchase agreements in the acquisition of vehicles, equipment and other capital assets will generally be avoided, particularly if smaller quantities of the capital asset(s) can be purchased on a "pay-as-you-go" basis.

The District may utilize lease-purchase agreements to acquire needed equipment and facilities. Criteria for such agreements should be that the asset life is three years or more, the minimum value of the agreement is \$50,000 and interest costs must not exceed the interest rate earned by the District's portfolio for the average of the past six months. Lease payments of this type are considered operating expenses and would reduce net operating income available to pay any District revenue bonds. There are no coverage requirements or rate covenants associated with lease/purchase agreements.

State Water Loans

The State Water Resources Control Board makes certain funds available to water districts throughout the State. These loans typically carry a below-market rate of interest and are short term in nature. While State loans should be incorporated into the District's debt portfolio for the financing of capital improvements, the payment of the loan should not compromise the District's ability to issue other planned debt or cause the District to violate its rate covenants or make it necessary for the District to increase rates to maintain existing rate covenants.

Land Based Financing

The District may consider developer or property owner initiated applications requesting the formation of community facilities or assessment districts and the issuance of bonds to finance eligible District facilities necessary to serve newly developing commercial, industrial and/or residential projects. Facilities will be financed in accordance with the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915, or the Mello-Roos Community Facilities Act of 1982.

Typically, the bonds issued would be used to prepay, in a lump-sum, the District's capacity fees with respect to a large tract of land under development, or to finance in-tract infrastructure that will eventually be dedicated to the District. The bonds are secured by a special tax or assessment to be levied on property within the boundaries established for the community facilities district (sometimes known as a "Mello-Roos" district) or the assessment district. If the District becomes the sponsoring public agency for such financing district and the issuance of debt, the District will be required to enter into a Funding, Construction and Acquisition agreement for any of the facilities to be dedicated to the District upon completion. This agreement governs the type of facilities to be constructed with bond proceeds and how the facilities will be accepted by the District.

In some cases, the District may not be asked to be the sponsoring agency for the formation of a financing district, rather, the developer or property owner may approach a school district or a city to be the sponsoring agency. Nonetheless, the property owner may want to include lump-sum payment of District fees in the financing or construction of certain facilities to be dedicated the District upon completion. In this case, if the District desired to participate, the District would enter into a Joint Financing Agreement with the sponsoring agency, again governing the type of facilities to be constructed with bond proceeds and how the facilities will be accepted by the District.

On a case-by-case basis, the Board shall make the determination as to whether a proposed district will proceed under the provisions of the Assessment Acts or the Mello-Roos Community Facilities Act. The Board may confer with other consultants and the applicant to learn of any unique district requirements such as long-term development phasing, prior to making any final determination.

All District and District consultant costs incurred in the evaluation of new development, district applications and the establishment of districts will be paid by the applicant(s) by advance deposits in those instances where a party or parties other than the District have initiated a proposed district. Expenses not legally reimbursable by the financing district will be borne by the applicant. The District may incur expenses for analyzing proposed assessment or community facilities districts where the District is the principal proponent of the formation or financing of the district.

Prior to the issuance of any land secured financing and in accordance with State law, the Board will adopt policies and procedures with criteria to be met before any special tax bonds or assessment district bonds may be issued. These criteria include the qualifications of the appraiser, the minimum value to lien ratio to be achieved prior to issuing the land secured debt and the maximum tax to be levied on different categories of property.

Use of Credit Enhancement

Credit enhancement is a generic term that means any third-party guarantee of debt service. Credit enhancement providers include municipal bond insurance companies or financial institutions. The purchase of credit enhancement allows the District's bond issue to carry the same credit rating as the credit provider. The District will seek to use credit enhancement when such credit enhancement proves cost-effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines.

Fixed Rate Bonds

Credit enhancement for fixed rate bonds is obtained by the purchase of bond insurance. With few exceptions, bond insurance companies are rated AAA. If a commitment for bond insurance is obtained for a particular issue, the District will estimate the annual debt service for the issue based on current AAA-rated bond interest rates with the cost of issuance including the payment of the bond insurance premium. If the estimated debt service on this basis is less than or equal to estimated debt service for the issue based on interest rates for bonds with the District's underlying or stand-alone credit rating, the District will purchase the bond insurance. Any intention of the District to prepay the debt ahead of its scheduled maturity will be taken into account in the analysis. Credit enhancement may be used to improve or establish a credit rating on a District debt obligation even if such credit enhancement is not cost effective if, in the opinion of the Chief Financial Officer, the use of such credit enhancement meets the District's debt financing goals and objectives.

Variable Rate Bonds

Credit enhancement for variable rate bonds is comprised of two components, credit support and liquidity. The interest on variable rate bonds is based on a seven-day investment rate. Any investor can tender their bonds back to the District to be repurchased on seven days' notice. Because of the short-term nature of the investment, the securities that the District is "competing" with for investors are AAA-rated or AA-rated mutual funds. Therefore, variable debt needs to have credit enhancement to achieve a comparable AAA or AA rating, as well as liquidity support to provide the District with a mechanism to purchase any bonds that are tendered before they can be remarketed to new investors. A limited number of financial institutions offer letters of credit that combine both credit support and liquidity for one fee. An alternative is to purchase bond insurance to provide credit support and enter into a separate purchase agreement with a financial institution to provide liquidity. The difference in cost between the two structures will be analyzed before either alternative is selected for variable rate debt.

This page intentionally left blank





History and Community Profile

PAST, PRESENT, AND FUTURE

On January 27, 2006, the Otay Water District (OWD) celebrated its golden anniversary. Fifty years ago, the California State Legislature officially authorized the OWD to an entitlement to imported water. The Otay Water District was formed in 1956 by a small group of ranchers, farmers and other property owners concerned about the declining quality and quantity of well water. In 1957, developers in south Spring Valley created the La Presa County Water District to gain water from the San Diego County Water Authority (CWA). In the fall of 1969, these two districts merged into the Otay Water District.

Since then, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 663 miles of pipelines, 37 reservoirs, a sewer treatment plant, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching to businesses, high-tech industries, and large master-planned communities. The new water district's boundaries stretch from Otay Mesa and eastern Chula Vista to Spring Valley, southern El Cajon, and Jamul.

“This is a historic year for us,” said Board President Jaime Bonilla. “We are pleased to celebrate 50 years of providing reliable, quality water to our customers in South Bay and East County.” To commemorate the 50th anniversary the District held special events including a community open house in the summer of this year.

“The founders of the District had an optimistic vision of the future of this part of San Diego County,” said Bonilla. “They knew that a reliable supply of clean water would make it happen, and the prosperity we see today is the result of that vision.”

The name of the District is derived from *Otai*, a group of Native Americans that resided in the area around Otay Mountain and the Otay River prior to the arrival of Europeans.



Otay Water District

1929



Alfred Isham's "Calif Waters of Life," an early water bottling company in Spring Valley.

1959



La Presa headquarters, located near the intersection of Jamacha and Sweetwater Springs Rd.

1953

Independent efforts by Ralph W. Chapman and Fred J. Hansen to annex "dry lands" in Spring Valley to neighboring water agencies prove unsuccessful.

1956

California Legislature authorizes the Otay Municipal Water District to an allocation of imported water.

1955

Ray Coyle, Publisher of the Chula Vista Star News and Vice Chairman of the San Diego County Water Authority is contracted by farmers in the South Bay about declining quality and quantity of well water.

1957

La Presa County Water District is formed to provide water service to La Presa and south Spring Valley.

1956-1961



Otay Municipal Water District headquarters next to the Star News in Chula Vista.

1962

Otay Municipal Water District and La Presa enter into a Joint Powers Agreement to share equipment, labor and management.

1963



Headquarters

1997



Otay Water District's new administrative office is dedicated.

1963



The Otay & La Presa Boards of Directors celebrate the Grand Opening of their joint headquarters.

1979

Jamacha Basin Wastewater Reclamation Facility opens to provide sewer service to the Middle Sweetwater River Basin.

1969

Otay and La Presa Boards of Directors vote unanimously to dissolve the La Presa County Water District. Otay Water District takes control of all La Presa assets and resources.

1986

Recycled water is used for dust suppression and compaction in eastern Chula Vista.

1968



Early packaged sewer treatment plant

2006



The Otay Water District celebrates its 50th Anniversary.

50 Years of Quality Water

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

Currently, the District services the needs of a growing population by purchasing water from the County Water Authority (CWA). CWA purchases its water from the Metropolitan Water District of Southern California (MWD) and the Imperial Irrigation District. Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. In Fiscal Year 2007, the District began purchasing raw water from the CWA and having the City of San Diego treat the water. This new water source is taken through the Lower Otay Pump Station which takes pressure off the potable system and increases the reliability through diversifying the District's supply.

For almost as long as it has been delivering potable water, the Otay Water District has collected and reclaimed wastewater generated within the Jamacha drainage basin and pumped the recycled water south to the Salt Creek basin where it is used for irrigation and other non-potable uses. Through a new agreement with the City of San Diego, the District will receive an average six million gallons a day of recycled water. This allows the District to discontinue supplementing its recycled demand with potable water. Once again, this decreases the demand on the potable supply and increases the reliability of the District's supply.

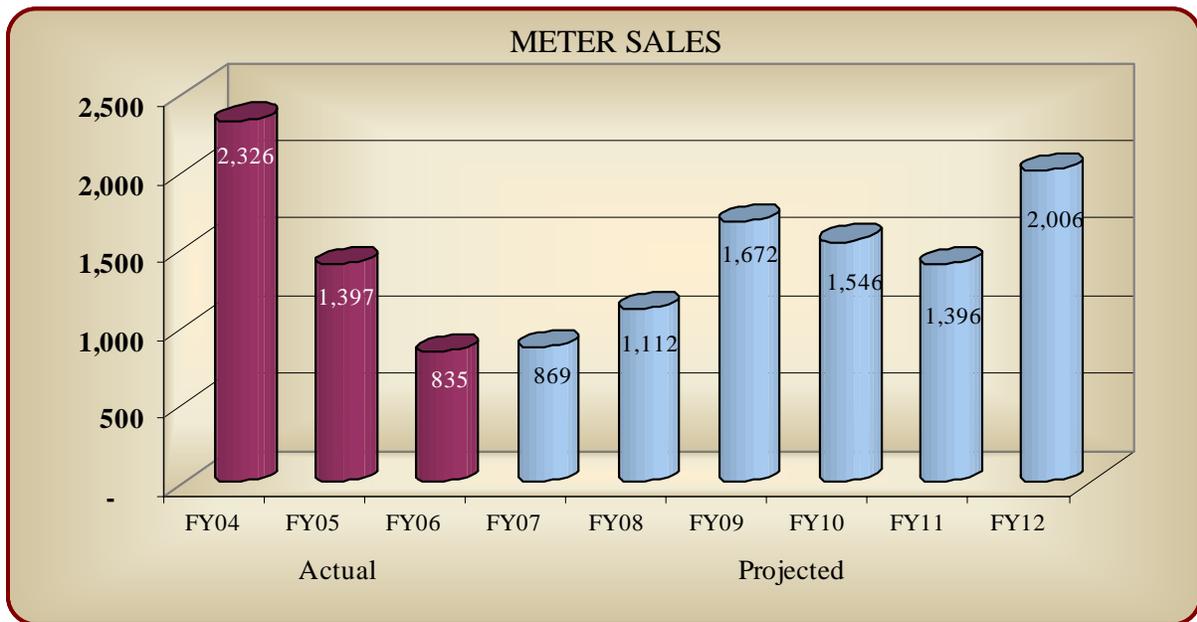
The District's sewer service area is growing at a slow but steady rate of approximately 1.6% each year. Most of this growth is from small development projects or homeowners converting their septic system into sewer because of environmental issues.

The District's service area is in one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. The phenomenal growth has slowed slightly in the past several years, and is continuing at a slower pace. It is estimated that the District is currently serving approximately 189,000 residents. In just the past four years, the District has added more than 5,000 new customer connections. This is reflected internally as the District's Development Services Department approved 70 permits per month, and sold 835 water meters in Fiscal Year 2005-2006.



THE FUTURE

The Otay Water District continues to use the challenges presented by growth to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Business Plan, it has captured the Board of Director's vision and united its staff in a common mission. The organization has achieved a number of significant accomplishments based on its successful adherence to its Strategic Business Plan. The Otay Water District is poised to continue successfully providing an affordable, safe, and reliable water supply for the people of its service area.



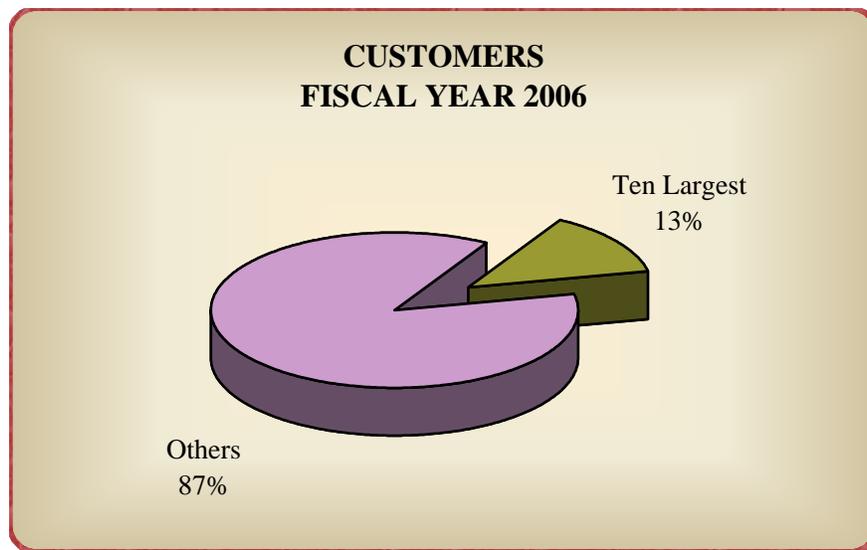
The Engineering and Planning Department projects that over the next six years the District will sell another 8,600 meters. The San Diego Association of Governments (SANDAG), the regional planning agency, estimates the District's rate of growth will continue for a decade or more.





TEN LARGEST CUSTOMERS - FISCAL YEAR 2006

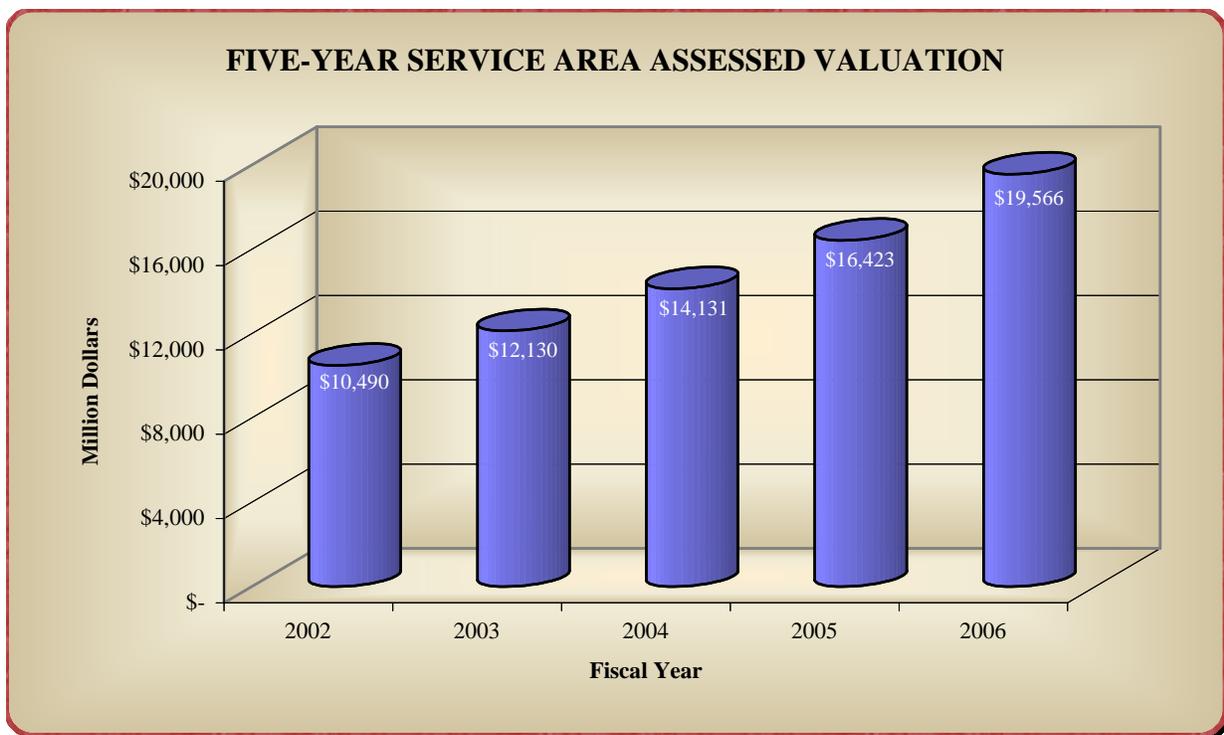
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 1,320,142	3.0%
2. State of California	Publicly Owned	948,696	2.2%
3. McMillin	Construction (Potable)	666,771	1.5%
4. County of San Diego	Publicly Owned	665,694	1.5%
5. Eastlake III	Business/Irrigation (Reclaimed)	502,189	1.1%
6. Country Hills Apartments	Residential (Master Meter)	461,985	1.1%
7. Country Club Eastlake	Irrigation (Reclaimed)	417,029	1.0%
8. Steele Canyon	Irrigation (Potable Permanent)	319,216	0.7%
9. California Bank & Trust	Irrigation (Reclaimed)	284,783	0.7%
10. The EastLake Company	Construction (Potable)	214,593	0.5%
Total		<u>\$ 5,801,098</u>	<u>13.3%</u>
Estimated FY06 Water Sales		<u>\$ 43,755,610</u>	





SERVICE AREA ASSESSED VALUATION

Otay Water District's service area encompasses approximately 125 square miles in San Diego County. Properties are assessed at 100% of their full value less any exemptions such as, exemption from taxation under the law and homeowner's exemptions. The significant increase in the assessed value of properties in the District service area is due to both growth in the number of new homes, as well as increases in home prices. This growth in new homes is expected to continue at a long-term rate of 3% until ultimate build-out. The District receives its portion of the 1% property tax according to Proposition 13 and AB8.

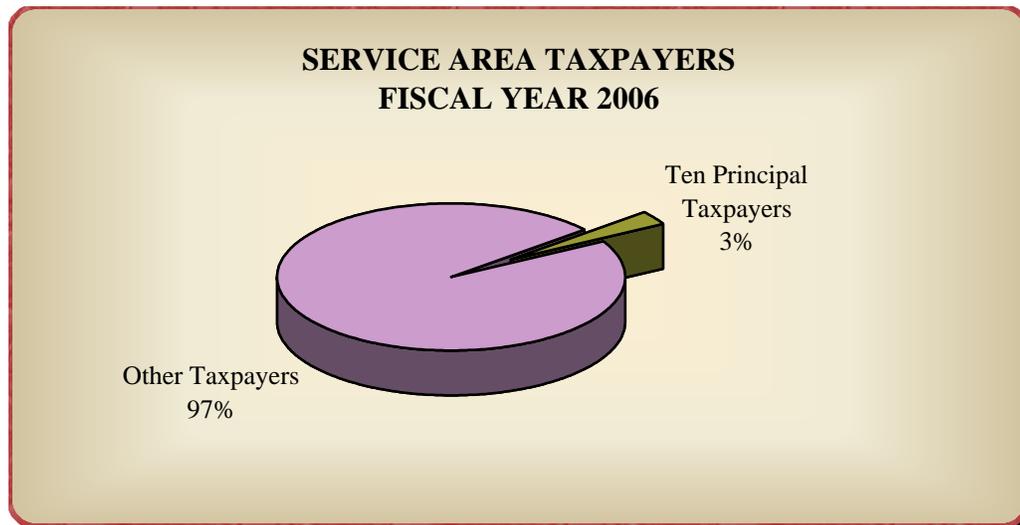


Source: County of San Diego Auditor and Controller



TEN PRINCIPAL TAXPAYERS AS OF JUNE 30, 2006

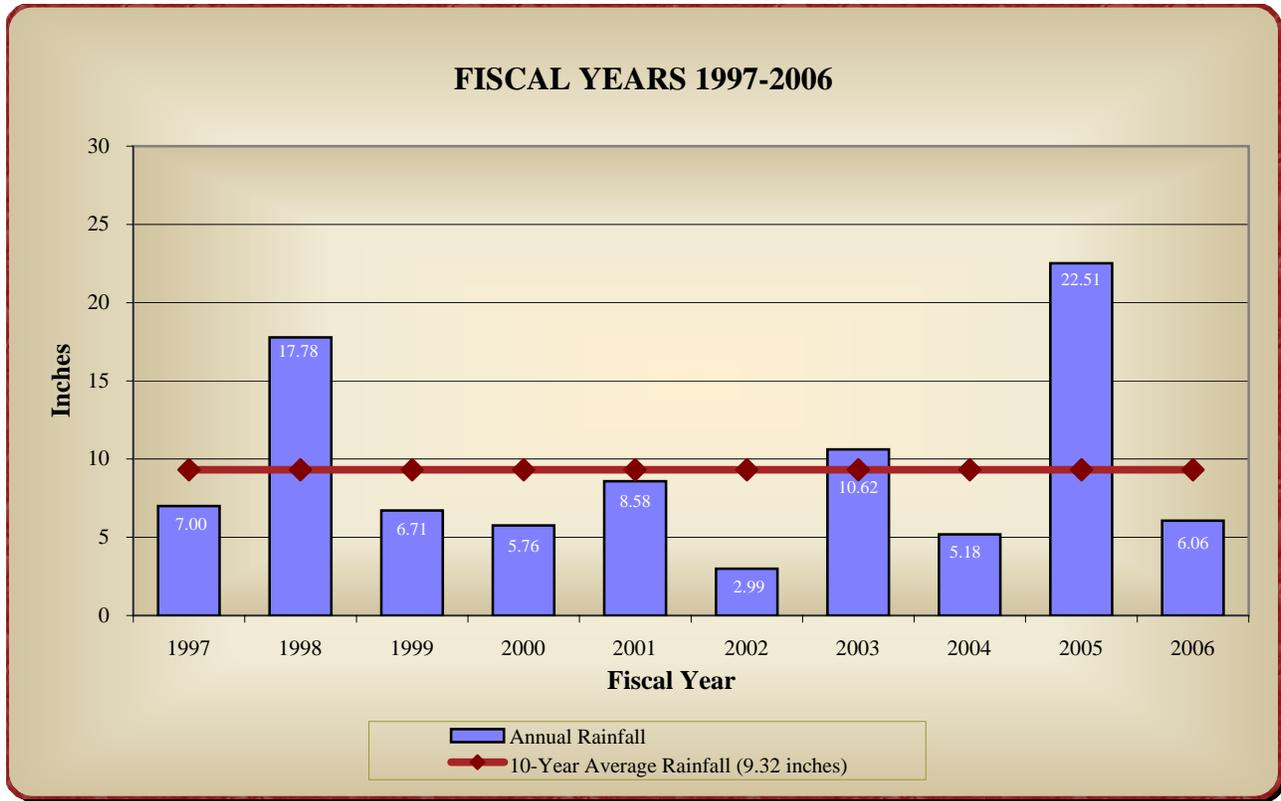
Organization	Assessed Value	Percent to Total
1. Corrections Corp of America	\$ 80,282,150	0.41%
2. Proctor Valley West Partners LLC	76,499,998	0.39%
3. SP La Vida Real LLC	72,000,000	0.37%
4. SSR Realty Advisors/Calstrs	71,828,419	0.37%
5. BRE Properties Inc	66,388,974	0.34%
6. Camden USA Inc	58,777,852	0.30%
7. CON AM Partners	50,176,051	0.26%
8. EQR - Missions At Sunbow LLC	48,274,560	0.25%
9. Pacifica Sunbow LP	44,609,150	0.23%
10. FW CA Rancho San Diego Village LLC	41,848,000	0.21%
Total	\$ 610,685,154	3.12%
Total Service Area Assessed Valuation	\$ 19,565,665,464	



Source: County of San Diego Auditor and Controller



SAN DIEGO COUNTY RAINFALL



The San Diego rainfall level dropped sharply in FY2006, receiving just over six inches of rain. The District expects Fiscal Year 2007 rainfall to remain within its normal average of 9-10 inches a year.

The San Diego rainfall information shown in the chart above uses data from the San Diego Airport at Lindbergh Field and is provided by the Western Regional Climate Center. More information can be obtained from their website: <http://www.wrcc.dri.edu>. The Western Regional Climate Center's website data, in turn, is derived from data received from the National Climatic Data Center, the National Weather Service, the National Resource Conservation Service, the Bureau of Land Management, the U.S. Forest Service, and other federal, state, and local agencies. Although the data reflects actual rainfall at Lindbergh field, it is representative of rainfall for the area served by the Otay Water District.

This page intentionally left blank





Financial Summaries

BUDGET SUMMARY

The Operating Budget is summarized and presented in the Operating Budget Summary on page 83. Also included in this section are the Operating Budget Summary by Business on page 84, the Fund Balance Summary by Fund on page 86, and the Revenues and Expenditures by Fund schedule on pages 87 and 88. For Fiscal Year 2007, the District increased both water and sewer rates for its customers in order to pass-through cost increases from water and sewer agencies, as well as pay for newly mandated maintenance programs. These cost increases are being experienced by our neighboring water agencies and most are encountering similar, if not greater, rate increases.

Operating Budget Summary

The Operating Budget for Fiscal Year 2007 is \$59,070,600 in comparison to the previous adjusted fiscal year budget of \$52,285,300. The \$6,785,300 increase is primarily due to additional projected water sales, newly mandated programs, and increases in salary and benefit costs.

Revenues

Potable Water Sales

Potable water sales represent revenue collected from the sale of water, including: system charges, energy charges, and penalties. It is estimated that 36,900 acre-feet of potable water will be sold during Fiscal Year 2007. Budgeted water sales are projected to be \$43,130,800, an increase of 8.3% over the previous year's budget. Additional schedules relating to potable water sales are included in the Potable Revenues and Expenditures section of this Budget.

Recycled Water Sales

Recycled water sales represent revenue collected from the sale of 4,500 acre-feet of recycled water to customers at a discount of 12% of the potable rate. The FY 2007 sales revenue budget of \$4,485,400, an increase of \$1,325,400 from FY 2006, includes the incentive credits provided by the Metropolitan Water District (MWD) and the County Water Authority (CWA).

Sewer Revenues

Sewer charges are the monthly fees collected from the sewer service connections. The fees are determined by volume of flow and the strength of solids discharged into the sewer system.

Meter Fees

Meter fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section.

Capacity Fee Revenues

These fees are earned by the Operating Budget as our Engineering and Planning Department supports expansion functions.

Annexation Fees

The District collects Annexation Fees when new customers annex into the District. This fee is based on the excess capacity built by existing users and insures that future users fund a portion of the facilities that were sized and built for their future use.

Tax Revenues

The District receives 1% property tax revenues, debt-related assessments, and availability fees on properties within the District's boundaries. These revenues are collected by the County of San Diego via the Property Tax Role and remitted to the District annually.

Non-Operating Revenues

Non-Operating Revenues are revenues that are not directly related to the operation of a water/sewer utility, and include such items as District property rentals and leases, and billing services for the City of Chula Vista.

Interest

Interest is earned by each fund that has a positive balance, and is paid by each fund with a negative balance. Interest income on General Fund balances is considered general use revenue.

General Fund Draw Down

This draw down of the General Fund is made when the balance is sufficient (in accordance to the Reserve Policy) to fund operating expenditures of the District. If the balance was not sufficient, either rates would be increased or expenditures cut to balance the budget. The Rate Model does not show this as an ongoing funding source as revenues are sufficient to cover expenditures. This draw down is being used as a means to smooth out the rate increases necessary to fund new programs.

Expenditures**Potable Water Purchases**

Water purchases indicate the expense of purchasing 38,900 acre-feet for the District's potable water supplies. A provision has been made to allow 1,962 acre-feet of water for District usage, leakage, and evaporation.

Recycled Water Purchases

Water purchases indicate the expense of purchasing 3,429 acre-feet for the District's recycled water supplies. The District supplements the recycled water sales with 2,587 acre-feet of potable water purchased from CWA. Beginning in the spring of 2007, the District will purchase 842 acre-feet of recycled water from the City of San Diego. This amount will increase in Fiscal Year 2008 as the potable supplement will diminish.

Infrastructure Access Charge

This charge was established in Fiscal Year 1999 by CWA to finance a portion of its fixed annual costs including construction, operation, and maintenance of its aqueducts. This fixed charge is based on the number of "household meter equivalents."

Customer Service Charge

This charge was established in Fiscal Year 2004 by CWA as a fixed charge. The Customer Service Charge is set to recover costs necessary to support CWA's development of policies, and implementation of programs that benefit the region as a whole.

Emergency Storage Charge

The Emergency Storage Charge was established by CWA in Calendar Year 2003, to recover costs associated with non-agricultural water deliveries and is allocated based on each member agency's share of deliveries.

Capacity Reservation Charge

This charge was established in Fiscal Year 2002 by the MWD, as a fixed charge on a member agency's requested maximum day capacity. The Capacity Reservation Charge is a charge per cubic-foot-second (cfs) and is applied to the amount of capacity (daily flow) a member agency expects to use during the peak period from May through September.

Readiness-to-Serve Charge

This charge was established in Fiscal Year 1996 by MWD, to recover the principal and interest payments on non-tax supported debt service used to fund the capital improvements necessary to meet the continuing reliability and quality needs associated with current demands. These costs are offset by standby charges collected by the MWD on the tax bills of District customers.

Power Costs

Power is the cost associated with the transmission and distribution of water to customers. The pumping costs to distribute water vary with elevation and will increase as water sales increase.

Labor and Benefits

Labor and benefits are the wages and fringe benefits for 174.75 Full-time Equivalent (FTE) employees. Labor costs are reduced by the number of hours that are charged to non-operating Capital Improvement Program (CIP) and developer deposit projects. The detail of actual personnel and payroll related expenses is included in the Departmental Operating Budget section.

Administrative Expenses

Administrative expenses are costs incurred by various departments that are directly related to District operations. Additional details are supplied in the Departmental Operating Budget section.

Materials and Maintenance

Materials and maintenance expense is the cost associated with the operation and maintenance of District facilities. Additional details are supplied in the Departmental Operating Budget section.

Replacement Reserves

These reserves are established to fund the replacement needs including project costs, existing debt payments, and new debt that will be issued in the future to fund replacement.

Debt Service

Debt Service is the principal and interest expense associated with the existing debt. Debt payments will be shown in the reserve funded by the debt beginning in Fiscal Year 2007. Schedules showing outstanding debt and principal and interest payments are shown in the Five-Year Forecast section of this budget.

Operating Budget Summary by Business

The Budget Summary by System schedule reflects the separation of operating revenues and expenses among potable water, reclaimed water, and sewer. This information is provided, due to the necessity to collect sufficient revenue from each type of operation to recover the full cost of operating expenses and to ensure that the customers are charged for services received.

Fund Balance Summary by Fund

This schedule shows each fund's balance at June 30, 2006, and the projected balance for June 30, 2007, based on the results of the budget and Rate Model. This includes transfers between funds made to meet target levels as outlined in the Reserve Policy.

Revenues and Expenditures by Fund

The Revenues and Expenditures by Fund schedules reflect each fund's revenues and expenditures by business line, where appropriate. This schedule is reconciled to the Fund Balance Summary and includes transfers between funds.



OPERATING BUDGET SUMMARY - GENERAL FUND

	FY 2005	FY 2006		FY 2007	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Potable Water Sales	\$36,383,476	\$39,821,600	\$40,192,169	\$43,130,800	\$3,309,200	8.3%
Recycled Water Sales	2,964,580	3,559,900	3,563,441	4,485,400	925,500	26.0%
Sewer Revenues	1,995,548	2,296,400	2,296,856	2,568,100	271,700	11.8%
Meter Fees	460,167	416,800	270,167	278,500	(138,300)	(33.2%)
Capacity Fee Revenues	-	1,222,200	1,356,611	1,000,200	(222,000)	(18.2%)
Annexation Fees	-	-	-	1,216,900	1,216,900	100.0%
Tax Revenues ⁽¹⁾	2,883,115	2,814,600	3,388,734	3,427,400	612,800	21.8%
Non-operating Revenues	1,161,117	1,163,400	1,978,542	1,674,100	510,700	43.9%
Interest	-	-	-	1,005,600	1,005,600	100.0%
General Fund Draw Down	1,210,400	1,210,400	1,210,400	283,600	(926,800)	(76.6%)
TOTAL REVENUES	47,058,403	52,505,300	54,256,920	59,070,600	6,565,300	12.5%
EXPENDITURES						
Potable Water Purchases	18,087,244	19,178,000	20,350,772	21,218,200	2,040,200	10.6%
Recycled Water Purchases	1,135,900	1,535,400	1,464,082	1,736,700	201,300	13.1%
CWA - Infrastructure Access Charge	696,565	772,700	844,855	1,003,900	231,200	29.9%
CWA - Customer Service Charge	718,816	745,400	771,760	846,800	101,400	13.6%
CWA - Emergency Storage Charge	900,159	958,500	1,047,601	1,230,600	272,100	28.4%
MWD - Capacity Reservation Charge	472,522	502,300	508,756	514,800	12,500	2.5%
MWD - Net RTS and Standby Charges	414,360	414,400	460,717	512,200	97,800	23.6%
Subtotal - Water Costs	22,425,566	24,106,700	25,448,543	27,063,200	2,956,500	12.3%
Power	2,010,748	2,327,100	2,113,787	2,677,800	350,700	15.1%
Labor and Benefits	11,237,495	13,457,300	14,431,295	14,606,300	1,149,000	8.5%
Administrative Expenses	2,786,516	4,444,300	3,971,886	5,559,600	1,115,300	25.1%
Materials & Maintenance	3,160,435	4,239,300	3,885,976	4,623,700	384,400	9.1%
Replacement Reserve	2,462,600	1,001,300	1,001,300	4,540,000	3,538,700	353.4%
Debt Service ⁽²⁾	2,692,543	2,709,300	2,820,714	-	(2,709,300)	(100.0%)
TOTAL EXPENDITURES	46,775,903	52,285,300	53,673,501	59,070,600	6,785,300	13.0%
EXCESS REVENUES (EXPENSE)	\$ 282,500	\$ 220,000	\$ 583,419	\$ -	\$ (220,000)	(100.0%)

⁽¹⁾ It is assumed that \$1.2 M of Education Revenue Augmentation Fund (ERAF) will return to the District.

⁽²⁾ Effective in FY07, debt service (\$357,000 for Sewer State loan and \$840,000 for ID 27 GO Bond) and corresponding tax revenues are accounted for separately under restricted reserves.



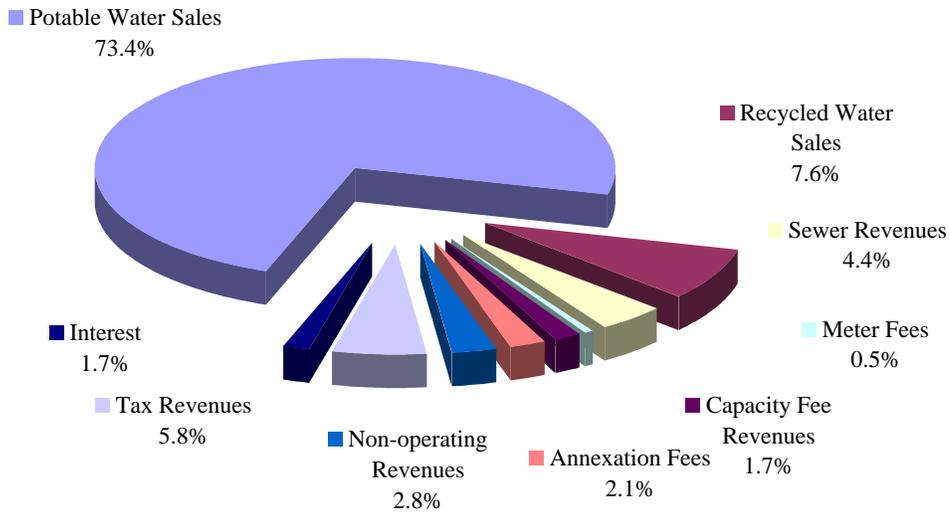
FY 2007 OPERATING BUDGET SUMMARY BY BUSINESS

	<u>Potable</u>	<u>Recycled</u>	<u>Sewer</u>	<u>Total</u>
REVENUES				
Water Sales	\$ 43,130,800	\$ -	\$ -	\$ 43,130,800
Recycled Water Sales	-	4,485,400	-	4,485,400
Sewer Revenues	-	-	2,568,100	2,568,100
Meter Fees	253,500	25,000	-	278,500
Capacity Fee Revenues	1,000,200	-	-	1,000,200
Annexation Fees	1,216,900	-	-	1,216,900
Tax Revenues	3,377,500	-	49,900	3,427,400
Non-operating Revenues	1,668,100	3,000	3,000	1,674,100
Interest	892,800	56,100	56,700	1,005,600
General Fund Draw Down	-	-	283,600	283,600
TOTAL REVENUES	51,539,800	4,569,500	2,961,300	59,070,600
EXPENDITURES				
Water Purchases (CWA)	16,653,700	1,421,300	-	18,075,000
Water Purchases (CSD)	4,564,500	315,400	-	4,879,900
CWA - Infrastructure Access Charge	1,003,900	-	-	1,003,900
CWA - Customer Service Charge	846,800	-	-	846,800
CWA - Emergency Storage Charge	1,230,600	-	-	1,230,600
MWD - Capacity Reservation Charge	514,800	-	-	514,800
MWD - Net RTS and Standby Charges	512,200	-	-	512,200
Subtotal - Water Costs	25,326,500	1,736,700	-	27,063,200
Power	2,310,900	202,600	164,300	2,677,800
Labor and Benefits	12,774,300	822,700	1,009,300	14,606,300
Administrative Expenses	5,057,000	314,200	188,400	5,559,600
Materials & Maintenance	2,795,600	228,800	1,599,300	4,623,700
Replacement Reserve	3,275,500	1,264,500	-	4,540,000
TOTAL EXPENDITURES	51,539,800	4,569,500	2,961,300	59,070,600
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

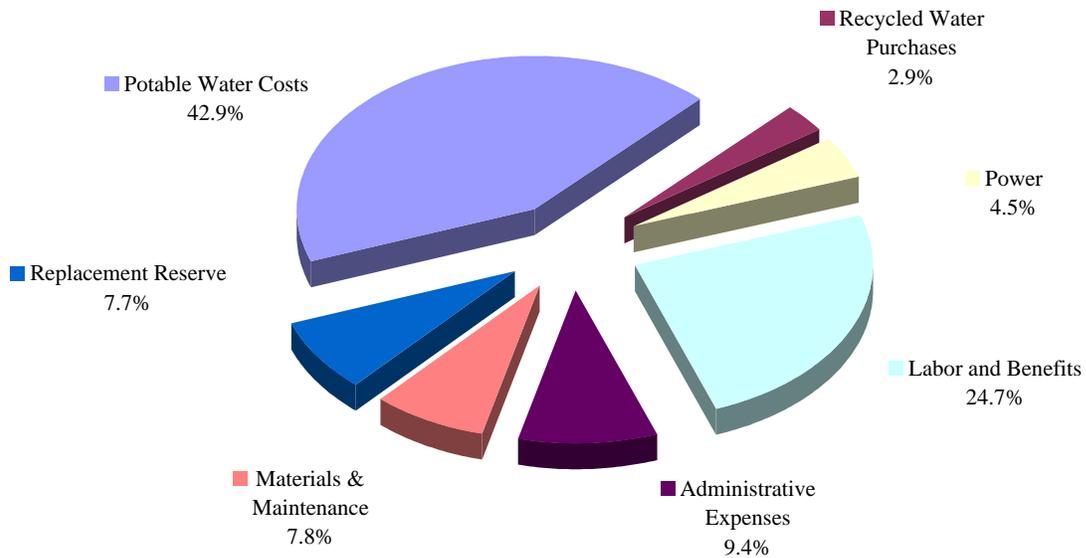


OPERATING REVENUES & EXPENDITURES

FY 2006-2007 OPERATING REVENUES



FY 2006-2007 OPERATING EXPENDITURES





FUND BALANCE SUMMARY BY FUND

	Estimated	Estimated, Fiscal Year 2007			Projected
	Balance	Revenues	Expenditures	Interfund Transfers ⁽¹⁾	Balance
	June 30, 2006				June 30, 2007
GENERAL FUND					
Potable	\$ 32,284,767	\$ 51,539,800	\$ 51,539,800	\$ (6,651,500)	\$ 25,633,267
Recycled	1,481,734	4,569,500	4,569,500	(1,170,500)	311,234
Sewer	1,881,608	2,961,300	2,961,300	(421,600)	1,460,008
Total General Fund	35,648,109	59,070,600	59,070,600	(8,243,600)	27,404,509
EXPANSION FUND					
Potable and Recycled ⁽²⁾	2,317,333	33,878,500	21,508,400	(679,300)	14,008,133
Sewer	405,871	13,400	-	(146,000)	273,271
Total Expansion Fund	2,723,204	33,891,900	21,508,400	(825,300)	14,281,404
BETTERMENT FUND					
Potable	(2,896,664)	7,760,200	2,428,000	1,770,700	4,206,236
Recycled	(34,650)	-	233,400	285,000	16,950
Sewer	163,684	45,000	99,000	238,000	347,684
Total Betterment Fund	(2,767,630)	7,805,200	2,760,400	2,293,700	4,570,870
REPLACEMENT FUND					
Potable	12,470,038	543,000	4,814,600	7,735,400	15,933,838
Recycled	682,818	57,900	634,400	2,150,000	2,256,318
Sewer	9,723,262	359,100	937,400	-	9,144,962
Total Replacement Fund	22,876,118	960,000	6,386,400	9,885,400	27,335,118
OPEB FUND	16,428,945	671,600	580,000	-	16,520,545
DEBT RESERVE FUND	1,443,839	1,065,400	1,193,100	146,000	1,462,139
TOTAL	\$ 76,352,585	\$ 103,464,700	\$ 91,498,900	\$ 3,256,200	\$ 91,574,585

⁽¹⁾ The total for interfund transfers does not net to \$0 because some transfers are already reflected in the Operating Revenues and Expenditures for General Fund as follows:

Capacity Fee Revenues	\$ 1,000,200
General Fund Draw Down	283,600
Replacement Reserve	(4,540,000)
Total	(3,256,200)

⁽²⁾ Potable and Recycled funds are combined for expansion purposes.

Note: Significant changes in fund balances are due to debt proceeds from proposed debt issuances in the budget year, as well as interfund transfers effected by the implementation of the newly-adopted reserve policy.



REVENUES AND EXPENDITURES BY FUND

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Projected
REVENUES				
GENERAL FUND				
Potable	\$ 41,443,697	\$ 46,291,800	\$ 47,962,582	\$ 51,539,800
Recycled	3,015,637	3,160,000	3,586,870	4,569,500
Sewer	2,599,070	3,053,500	2,707,468	2,961,300
Total General Fund	47,058,404	52,505,300	54,256,920	59,070,600
EXPANSION FUND				
Potable ⁽¹⁾	8,153,707	9,177,400	8,823,888	26,416,100
Recycled ⁽¹⁾	1,398,920	-	66,058	7,462,400
Sewer	1,086	-	-	13,400
Total Expansion Fund	9,553,713	9,177,400	8,889,946	33,891,900
BETTERMENT FUND				
Potable ⁽¹⁾	1,663,234	1,610,500	1,488,640	7,760,200
Recycled	17,368	-	-	-
Sewer	(16,233)	-	-	45,000
Total Betterment Fund	1,664,369	1,610,500	1,488,640	7,805,200
REPLACEMENT FUND				
Potable	507,469	532,700	796,699	543,000
Recycled	17,368	-	-	57,900
Sewer	206,013	121,900	-	359,100
Total Replacement Fund	730,850	654,600	796,699	960,000
OPEB FUND	389,768	535,300	538,372	671,600
DEBT RESERVE FUND ⁽²⁾	-	-	-	1,065,400
Total Revenues	\$ 59,397,104	\$ 64,483,100	\$ 65,970,578	\$ 103,464,700

⁽¹⁾ Projected revenues include proposed debt issuances as follows:

Expansion Fund - Potable	\$ 16,600,000
Expansion Fund - Recycled	4,600,000
Betterment Fund - Potable	6,300,000

⁽²⁾ Effective FY 2007, Debt Reserve Fund is budgeted separately from General Fund.



REVENUES AND EXPENDITURES BY FUND

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Projected
<u>EXPENDITURES</u>				
GENERAL FUND				
Potable	\$ 42,667,911	\$ 45,969,100	\$ 48,502,163	\$ 51,539,800
Recycled	2,090,340	3,262,700	2,473,624	4,569,500
Sewer	2,017,653	3,053,500	2,697,714	2,961,300
Total General Fund	46,775,904	52,285,300	53,673,501	59,070,600
EXPANSION FUND				
Potable	9,577,784	14,600,500	33,217,943	7,076,600
Recycled	3,314,411	17,122,000	-	14,431,800
Sewer	-	-	-	-
Total Expansion Fund	12,892,196	31,722,500	33,217,943	21,508,400
BETTERMENT FUND				
Potable	1,823,469	4,006,800	2,446,912	2,428,000
Recycled	1,622	61,000	-	233,400
Sewer	316,320	51,000	-	99,000
Total Betterment Fund	2,141,411	4,118,800	2,446,912	2,760,400
REPLACEMENT FUND				
Potable	3,698,938	4,438,900	5,128,374	4,814,600
Recycled	68,475	50,000	-	634,400
Sewer	213,392	478,400	-	937,400
Total Replacement Fund	3,980,805	4,967,300	5,128,374	6,386,400
OPEB FUND	551,062	317,400	641,464	580,000
DEBT RESERVE FUND⁽²⁾	-	-	-	1,193,100
Total Expenditures	66,341,377	93,411,300	95,108,194	91,498,900
EXCESS (DEFICIT)	\$ (6,944,273)	\$ (28,928,200)	\$ (29,137,616)	\$ 11,965,800



Five - Year Forecast

FIVE-YEAR FORECAST

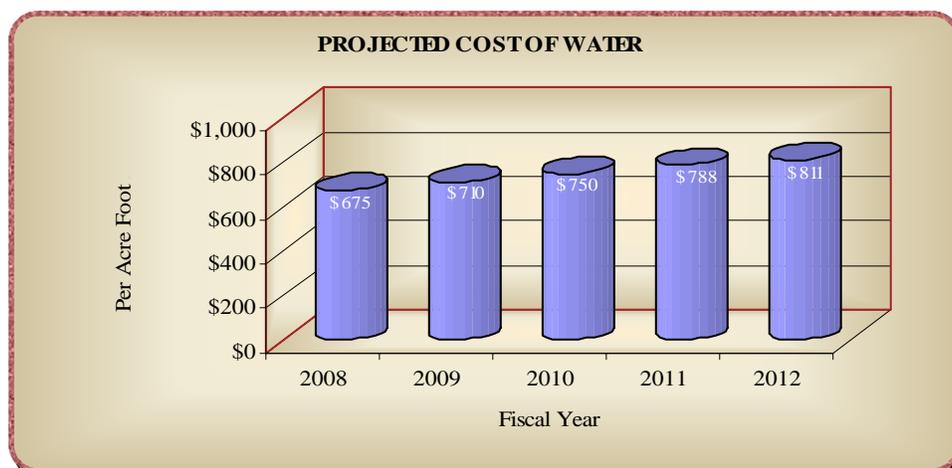
Financial Forecast for Fiscal Years 2008-2012

This financial forecast is designed to provide a general understanding of how revenues and expenditures are expected to influence the District over the next five years. Revenue and expenditure projections are reviewed in relation to their effect on funding capital projects, reserve levels, and Operating Fund balances. The District updates its Rate Model on an annual basis in order to make these projections and determine recommended rates. The model looks at debt ratios, projected rate increases, cost increases, and growth projections.

The District must look at building new infrastructure to service the needs of its customers. The CIP Master Plan looks at the service needs of all customers over the next six years and at the betterment and expansion needs from now until ultimate build-out. These capital projects and the funding for them are reviewed annually by the Engineering and Planning Department. As new capital assets are brought into service, they are managed by an Infrastructure Management System which is crucial to tracking and maintaining the history of 663 miles of potable pipelines, 77 miles of recycled pipelines, 86 miles of sewer lines, 34 potable, and 3 recycled reservoirs, 27 potable and 1 recycled pump stations, and a 1.3 million gallons per day reclamation plant. Utilizing an integrated database from the Geographic Information System (GIS) provides real-time work order planning, execution, and consolidation of all maintenance history. These systems are also integrated with financial software to allow asset tracking and asset management information. As these systems are further developed, the District will be able to better anticipate operating costs associated with these capital projects. The impact of the CIPs on the Operating Budget is addressed in the CIP section of this budget.

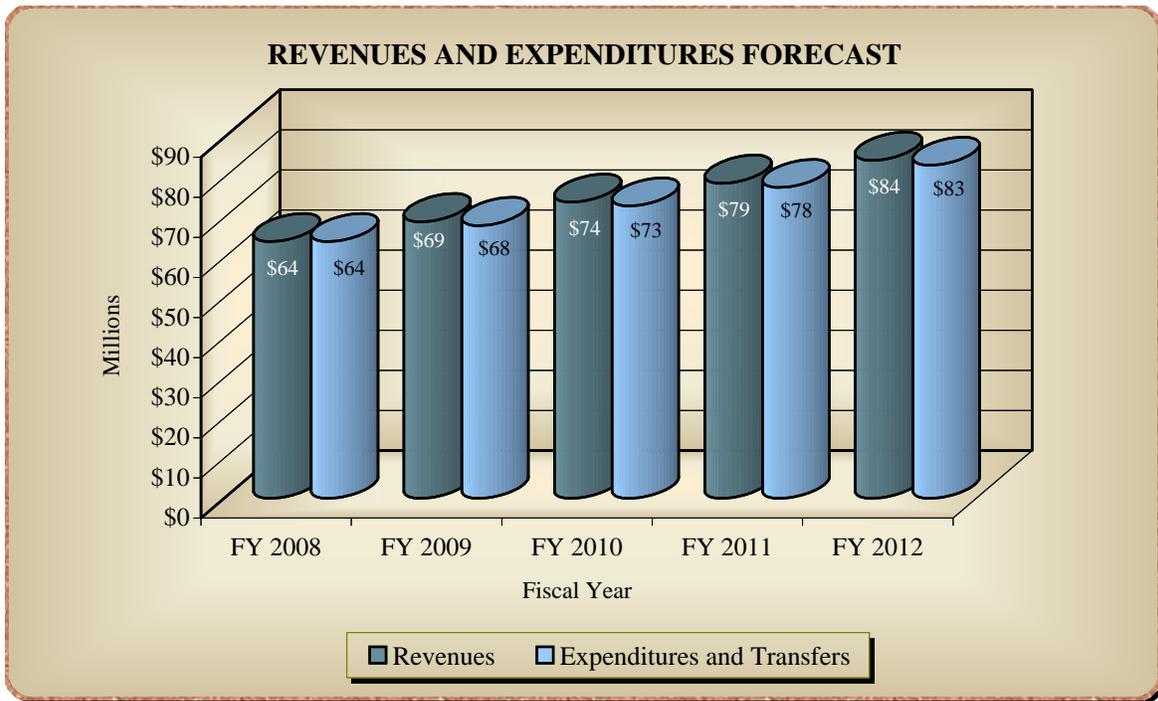
Projected Cost of Water

The projected water cost is based on CWA's Rate Modeling Program. This process evaluates many options of the Regional Water Facilities Master Plan, which determines the most feasible projects for water resources and incorporates these decisions into CWA's Capital Improvement Program. This cost is also based on CWA's estimated water cost for purchases from MWD and the Imperial Irrigation District (IID).



GENERAL FUND FORECAST - FY 2008 THROUGH FY 2012

This forecast incorporates both cost increases for expenditures and rate increases for revenues, as well as growth projections.



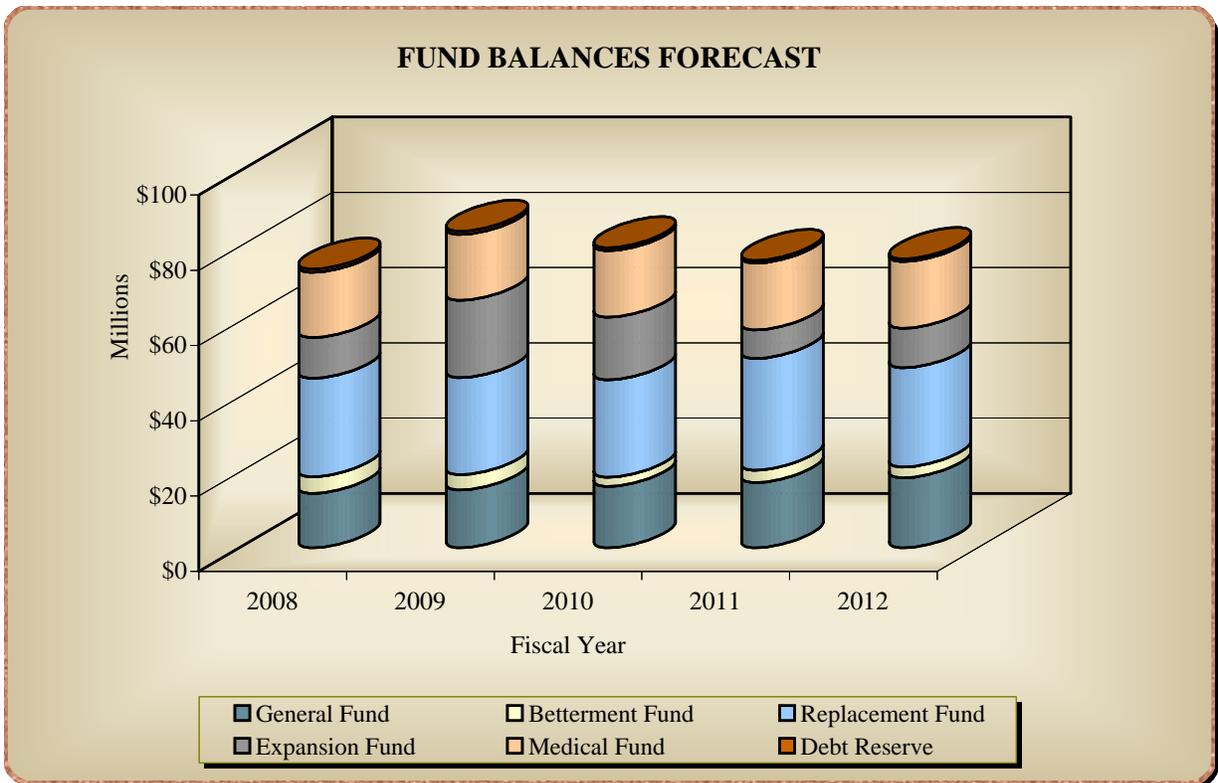
Revenues	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Water/Sewer Rates	\$ 55,352,000	\$ 60,161,800	\$ 64,709,000	\$ 69,043,600	\$ 74,370,300
Meter Fees	286,200	293,300	293,500	306,400	328,000
Capacity Fee Revenues	1,005,200	1,015,300	1,025,500	1,035,800	1,046,200
Annexation Fees	1,305,900	1,416,500	1,530,400	1,650,400	1,795,300
Non-operating Revenues	1,727,700	1,786,100	1,843,900	1,901,900	1,964,400
Tax Revenues	3,494,800	3,571,000	3,644,800	3,717,800	3,799,000
Interest Income	878,000	770,800	849,400	950,400	1,049,300
TOTAL	\$ 64,049,800	\$ 69,014,800	\$ 73,896,500	\$ 78,606,300	\$ 84,352,500

Expenditures and Transfers	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Water Cost	\$ 28,496,600	\$ 30,711,700	\$ 33,090,900	\$ 35,574,800	\$ 38,561,400
Power	3,083,500	3,276,900	3,464,500	3,655,800	3,899,300
Labor and Benefits	15,448,300	16,357,000	17,333,900	18,386,400	19,521,600
Administrative Expenses	5,708,500	5,861,900	6,018,800	6,179,200	6,343,400
Material & Maintenance	4,808,700	5,001,000	5,201,100	5,409,200	5,625,500
Fund Transfers, Net	6,504,200	6,874,800	7,837,000	8,363,000	9,137,000
TOTAL	\$ 64,049,800	\$ 68,083,300	\$ 72,946,200	\$ 77,568,400	\$ 83,088,200

Excess Revenues	\$ -	\$ 931,500	\$ 950,300	\$ 1,037,900	\$ 1,264,300
------------------------	-------------	-------------------	-------------------	---------------------	---------------------

FUND BALANCES - FY 2008 THROUGH FY 2012

<u>Fund</u>	<u>Fiscal Year-End Forecast Balances</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund	\$ 14,461,700	\$ 15,393,200	\$ 16,343,500	\$ 17,381,400	\$ 18,645,700
Betterment Fund	4,468,500	4,105,300	2,447,800	3,324,500	2,896,200
Replacement Fund	26,196,200	25,759,300	25,853,300	29,638,800	26,309,600
Expansion Fund	10,752,600	20,516,900	16,679,400	7,573,400	10,491,900
Medical Fund	17,364,900	17,538,400	17,665,700	17,751,100	17,763,300
Debt Reserve	872,400	811,900	777,900	736,800	732,200
TOTAL	\$ 74,116,300	\$ 84,125,000	\$ 79,767,600	\$ 76,406,000	\$ 76,838,900

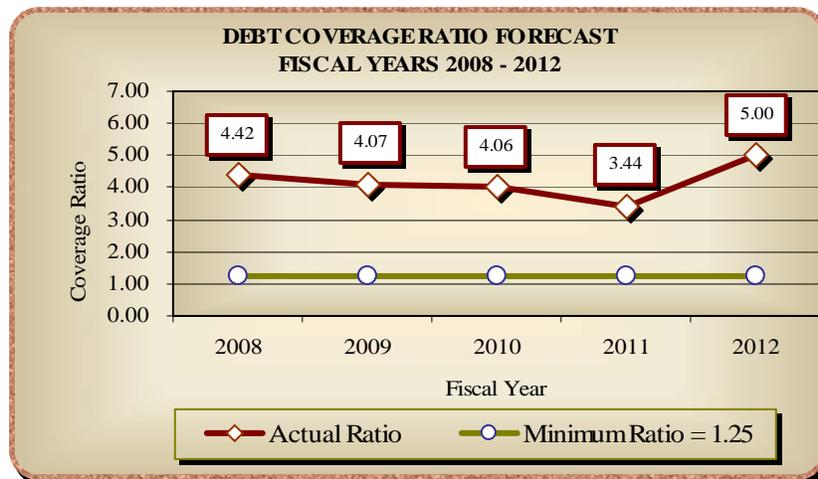


DEBT MANAGEMENT

Financing the capital improvements needed to keep up with the growing demand for water in the District's service area has been accomplished through a combination of long-term and short-term financing sources. These include General Obligation Bonds, Certificates of Participation, developer fees, and pay-as-you-go funding.

Debt Management

The District's primary debt management objective is to keep the level of indebtedness within available resources and within limits that will allow the District to meet the debt service coverage ratios required by the bond covenant. Currently, there are three outstanding bond issues and a State Sewer Loan, which the District will gradually retire per scheduled principal and interest payments. Bonds have been and will be used to improve existing facilities and to build the projects in the Capital Improvement Program (CIP). The District's debt service obligations have a significant effect upon the District's current and future water rates. The need to increase water rates is partially required in order to pay for the District's increased debt obligations. The District has issued Certificates of Participation (COPs) with amortization terms of 20 and 30 years. With the passage of Senate Bill 290 on January 1, 2000, the District now has the ability to finance capital facilities at terms up to 40 years. This new flexibility may result in a decrease in annual debt service expenditures and better match the payment for facilities to the use of facilities. To meet the bond indebtedness obligation and maintain stable rates, a Long Range Financing Plan has been developed to forecast revenues and operating requirements. The District has instituted a schedule of gradual rate increases designed to generate sufficient revenue to pay off existing and planned future debt issues without large and/or rapid rate increases. See the Policies Section of the budget for the District's complete Debt Policy.



The Actual Ratio includes growth-related revenues, such as Capacity and Annexation Fees. The Minimum Ratio excludes these revenues in accordance with existing District Bond Covenants.

SCHEDULE OF OUTSTANDING DEBT

#	Year Incurred	Description	Maturity Date	Original Amount	Outstanding Balance 06/30/06
1	1996	Certificates of Participation (COPs)	September 1, 2026	\$ 15,400,000	\$ 13,100,000
2	1998	General Obligation (GO) Bonds	August 31, 2022	11,835,000	9,590,000
3	2004	Certificates of Participation (COPs)	September 1, 2023	12,270,000	11,825,000
4	1994	State Loan	November 30, 2010	5,000,000	1,659,037
Total Outstanding Debt				\$ 44,505,000	\$ 36,174,037

	All Debts	GO Bonds
Total Assessed Valuation - FY 2006	\$19,565,665,464	\$ 8,579,576,581
Percentage of Original Debt to Assessed Valuation	0.23%	0.14%
Debt Limit per District Debt Policy (% of Assessed Valuation)	15.00%	15.00%

PROJECTED PRINCIPAL AND INTEREST PAYMENTS BY DEBT

FY	1996 COPs ⁽¹⁾	GOBs	2004 COPs	State Loan	Total
2007	\$ 621,250	\$ 832,235	\$ 933,484	\$ 360,031	\$ 2,747,000
2008	613,750	834,385	928,534	359,811	2,736,480
2009	704,167	830,823	928,159	359,583	2,822,731
2010	694,167	831,035	927,334	359,347	2,811,883
2011	684,167	830,258	925,605	358,981	2,799,010
2012	674,167	828,166	927,487	6,010	2,435,829
2013	762,083	824,645	922,993	-	2,509,721
2014	749,583	824,452	921,706	-	2,495,741
2015	737,083	822,951	923,575	-	2,483,609
2016	822,500	824,542	923,544	-	2,570,585
2017	807,500	819,750	921,819	-	2,549,069
2018	792,500	818,500	918,985	-	2,529,985
2019	875,417	820,542	913,944	-	2,609,902
2020	857,917	816,042	912,129	-	2,586,088
2021	840,417	814,833	912,979	-	2,568,229
2022	920,833	816,667	911,281	-	2,648,781
2023	900,833	811,708	907,844	-	2,620,385
2024	978,750	-	901,899	-	1,880,649
2025	956,250	-	-	-	956,250
2026	1,031,667	-	-	-	1,031,667
2027	1,104,583	-	-	-	1,104,583
TOTAL	\$ 17,129,583	\$ 14,001,533	\$ 16,563,300	\$ 1,803,763	\$ 49,498,179

⁽¹⁾ Interest on the 1996 Certificates of Participation is variable and is projected using an interest rate of 2.5%

This page intentionally left blank





Revenues and Expenditures



Potable Revenues and Expenditures

POTABLE REVENUES AND EXPENSES

The District will provide water service to approximately 47,670 potable customers by the end of Fiscal Year 2007. Ninety-three percent of the potable customers are residential and the remaining 7% are comprised of: publicly owned, commercial, agricultural, landscaping, and construction. Although the extensive residential developments have slowed down in recent years, the District still expects moderate growth of 1.8% for Fiscal Year 2007. Unit sales are anticipated to increase 2.4% from the previous year's budget due to the expanded customer base and change in weather. The rainfall in Fiscal Year 2006 was six inches which is four inches less than a normal rainfall year. The Fiscal Year 2007 Budget anticipates a normal rainfall year.



POTABLE WATER SYSTEM HISTORY

By the mid 1950s, the region suffered from overdrafts of the limited underground water supply which resulted in the intrusion of brackish water into existing wells threatening their use. Efforts by interested citizens to form a water district culminated with the formation of the Otay Municipal Water District in 1956. In 1957, developers in the Spring Valley area planned to build 2,000 homes, this demand created the La Presa County Water District to provide both water and sewer services. These two districts operated under a joint agreement until they merged in the fall of 1969. When the Otay Water District was formed, this area was mostly rural and agricultural, and in 1960 the District had 700 water connections and delivered 500 acre-feet of water annually.

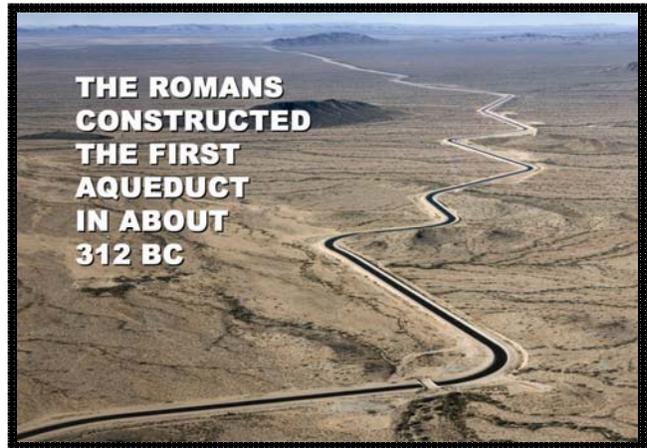
Water rates vary among the customer classifications. The water rates for residential customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged. Effective January 1, 2005, an updated block rate structure for residential customers was implemented to encourage conservation and to bring equity among all customer classes. All non-residential customers are charged a flat rate per unit. The rates for the various classes are shown on page 98.

Unit sales represent approximately 69% of the water sales budget. Other revenue sources include: system charges, energy charges, penalties, and other pass-through charges from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

All customers are required to pay a fixed monthly system fee based on meter size. The fee recovers 31% of the fixed costs associated with delivering water. Water rates, energy fees, and penalties recover the remaining 69% of fixed costs and all variable costs. Effective January 1, 2007, the District will raise the system fee for the first time in 14 years to recover more of its fixed costs with a fixed revenue source.

Energy charges are based on the quantity of water used and the elevation to which the water has been lifted to provide service. Revenue from energy charges is used to recover the power costs and the maintenance of the pump stations. This charge is reviewed periodically to ensure that sufficient revenue is collected to offset total pumping costs.

Penalties are charged to District customers when late payments are made on accounts. These penalty revenues are budgeted based on historical trends.



The District receives 100% of its potable water from the County Water Authority. The CWA purchases water from the MWD. Any increase in costs by CWA or MWD impacts the District's water purchases, and directly affects the District's fees, rates, and service charges.

Prior to Fiscal Year 2007, all water purchases from CWA were treated water. The District has entered an agreement with the City of San Diego to purchase raw water from CWA and have the City of San Diego treat this water. This takes the pressure off the CWA treated demands as a region, and gives the District an additional source of water which increases the reliability of deliveries. This water is taken through the Lower Otay Pump Station (LOPS) which is a temporary pump station. The District has included in its capital budget the building of a permanent pump station once final negotiations with the City of San Diego are completed.

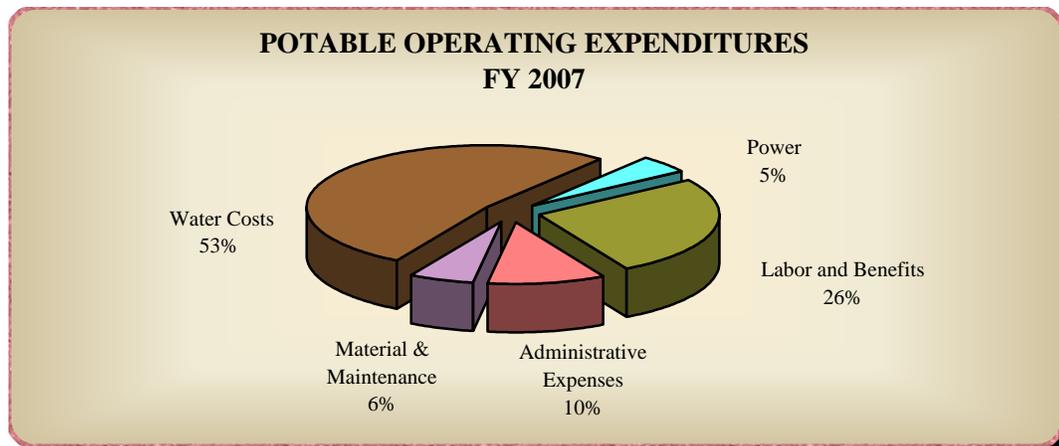
For Fiscal Year 2007, Tier II water is no longer budgeted by the District because of an agreement to receive Colorado River water through the Imperial Irrigation District (IID) agreement. This program calls for the ramping up of water deliveries commencing in 2004 until the maximum deliveries are received in 2012. Because of this new source of water, CWA no longer anticipates Tier II charges from MWD. Previously, if CWA, as a whole, exceeded its allotted water supplies from MWD, Tier II charges in the amount of \$81 per acre-foot were charged. These costs were recovered from individual agencies in proportion to the participating agency's contribution to total Tier II water deliveries.

In Fiscal Year 2007, the District is estimating the purchase of 41,450 acre-feet of potable water to meet the demands of its customers. Provisions have been made for District usage, leakage, evaporation, and supplement to the reclamation system in the amount of 2,600 acre-feet.



OPERATING BUDGET SUMMARY - POTABLE

	FY 2005	FY 2006		FY 2007	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Water Sales	\$ 36,383,476	\$39,821,600	\$40,192,169	\$43,130,800	\$3,309,200	8.3%
Meter Fees	418,045	416,800	249,288	253,500	(163,300)	(39.2%)
Capacity Fee Revenues	-	1,222,200	1,356,611	1,000,200	(222,000)	(18.2%)
Annexation Fees	-	-	-	1,216,900	1,216,900	100.0%
Non-operating Revenues	1,154,617	1,163,400	1,975,992	1,668,100	504,700	43.4%
Tax Revenues	2,277,159	2,457,400	2,978,122	3,377,500	920,100	37.4%
Interest	-	-	-	892,800	892,800	100.0%
General Fund Draw Down	1,210,400	1,210,400	1,210,400	-	(1,210,400)	(100.0%)
TOTAL REVENUES	41,443,697	46,291,800	47,962,582	51,539,800	5,248,000	11.3%
EXPENDITURES						
Water Purchases (CWA)	17,696,882	19,178,000	20,212,012	16,653,700	(2,524,300)	(13.2%)
Water Purchases (CSD)	-	-	138,760	4,564,500	4,564,500	100.0%
Tier II Purchases	390,362	-	-	-	-	(100.0%)
CWA - Infrastructure Access Charge	696,565	772,700	844,855	1,003,900	231,200	29.9%
CWA - Customer Service Charge	718,816	745,400	771,760	846,800	101,400	13.6%
CWA - Emergency Storage Charge	900,159	958,500	1,047,601	1,230,600	272,100	28.4%
MWD - Capacity Reservation Charge	472,522	502,300	508,756	514,800	12,500	2.5%
MWD - Net RTS and Standby Charges	414,360	414,400	460,717	512,200	97,800	23.6%
Subtotal - Water Costs	21,289,666	22,571,300	23,984,461	25,326,500	2,755,200	12.2%
Power	1,693,659	2,032,100	1,702,448	2,310,900	278,800	13.7%
Labor and Benefits	10,388,648	11,519,200	13,192,558	12,774,300	1,255,100	10.9%
Administrative Expenses	2,554,379	3,797,900	3,739,631	5,057,000	1,259,100	33.2%
Material & Maintenance	1,946,866	2,704,300	2,421,295	2,795,600	91,300	3.4%
Replacement Reserve	2,462,600	1,001,300	1,001,300	3,275,500	2,274,200	227.1%
Debt Service	2,332,093	2,343,000	2,460,470	-	(2,343,000)	(100.0%)
TOTAL EXPENDITURES	42,667,911	45,969,100	48,502,163	51,539,800	5,570,700	12.1%
EXCESS REVENUES (EXPENSES)	\$ (1,224,214)	\$ 322,700	\$ (539,580)	\$ -	\$ (322,700)	(100.0%)





CLASSIFICATION OF WATER SALES - POTABLE

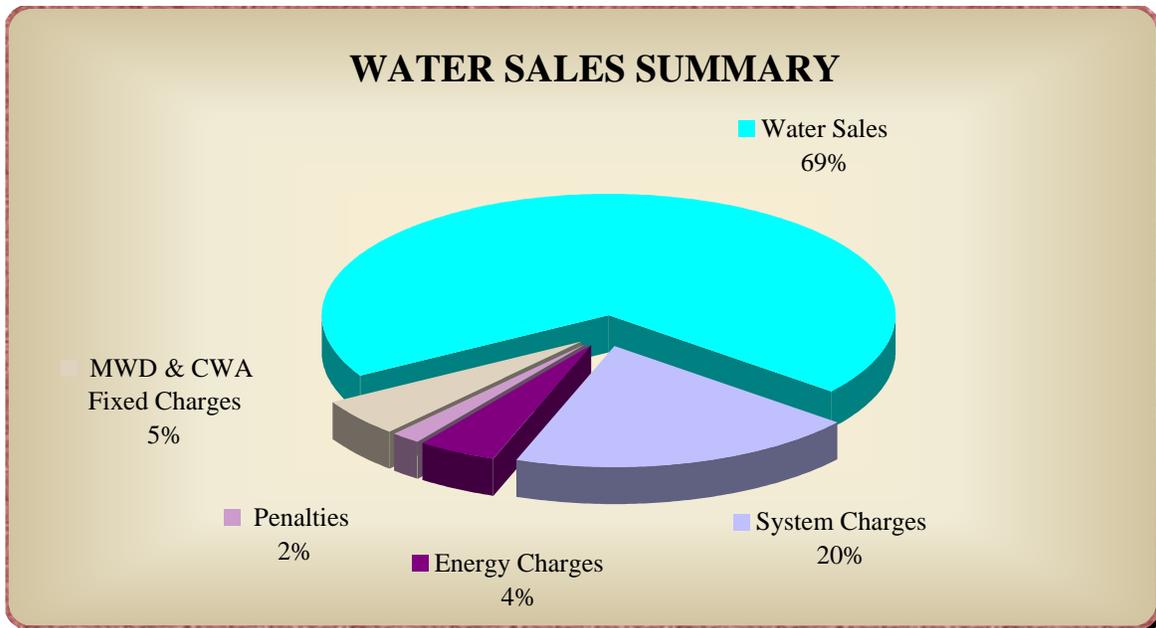
	FY 2006 Estimated	FY 2007 Budget	Variance
<u>Water Sales:</u>			
Water Sales	\$ 27,975,777	\$ 29,866,000	\$ 1,890,223
System Fees	8,056,340	8,529,300	472,960
Energy Fees	1,696,492	1,853,000	156,508
MWD & CWA Fixed Fees	1,775,186	2,178,000	402,814
Penalties	688,374	704,500	16,126
Total	\$ 40,192,169	\$ 43,130,800	\$ 2,938,631

Water Sales : Unit Sales x Rate

System Charges : Fixed monthly fee based on meter size

Energy Charges : Energy pumping fee of \$0.032 per unit of water for each 100 feet of lift or fraction thereof above the base elevation of 450 feet

Penalties : Late charges, locks , etc.



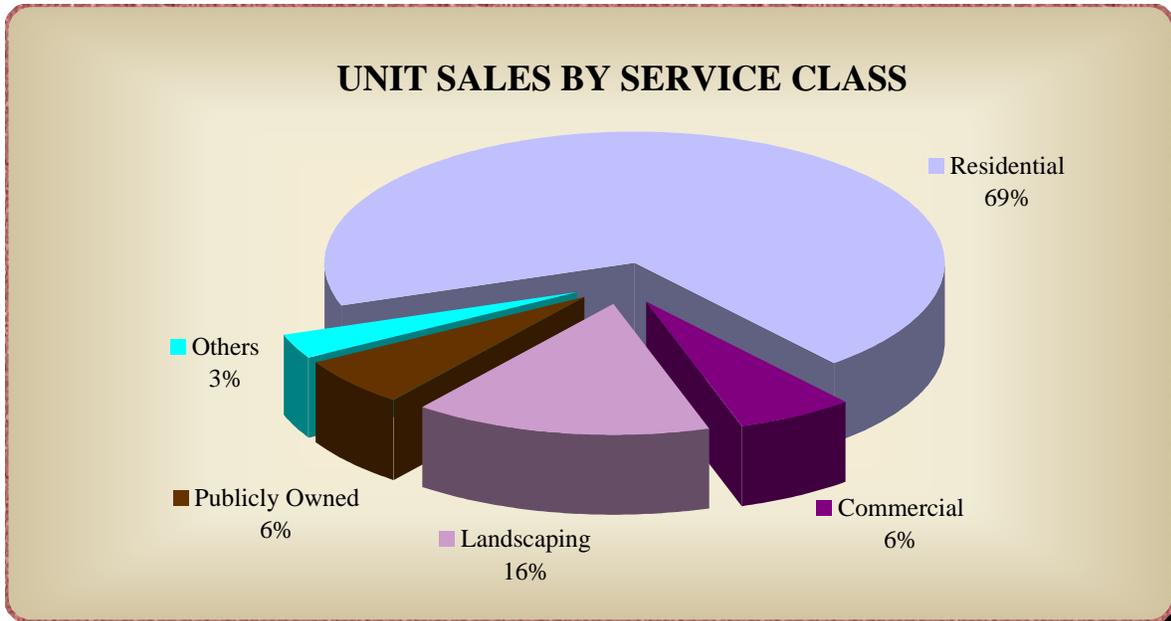


WATER SALES SUMMARY BY SERVICE CLASS - POTABLE

	Accounts	Fiscal Year 2007 Sales Budget		Current Rate	Approved* Rate
		Units	Amount		
Residential	44,245	11,094,300	\$ 20,471,700	\$ 1.83	\$ 1.85 **
Publicly-Owned	230	975,700	1,903,100	1.93	1.95
Commercial	1,204	997,700	1,866,300	1.85	1.87
Landscaping	1,162	2,509,700	4,692,200	1.85	1.87
Agricultural	33	66,600	124,500	1.85	1.87
Temporary and Others	797	432,300	808,200	1.85	1.87
Total Potable Water Sales	47,671	16,076,300	\$ 29,866,000	1.84	1.86

*Approved rate effective January 1, 2007.

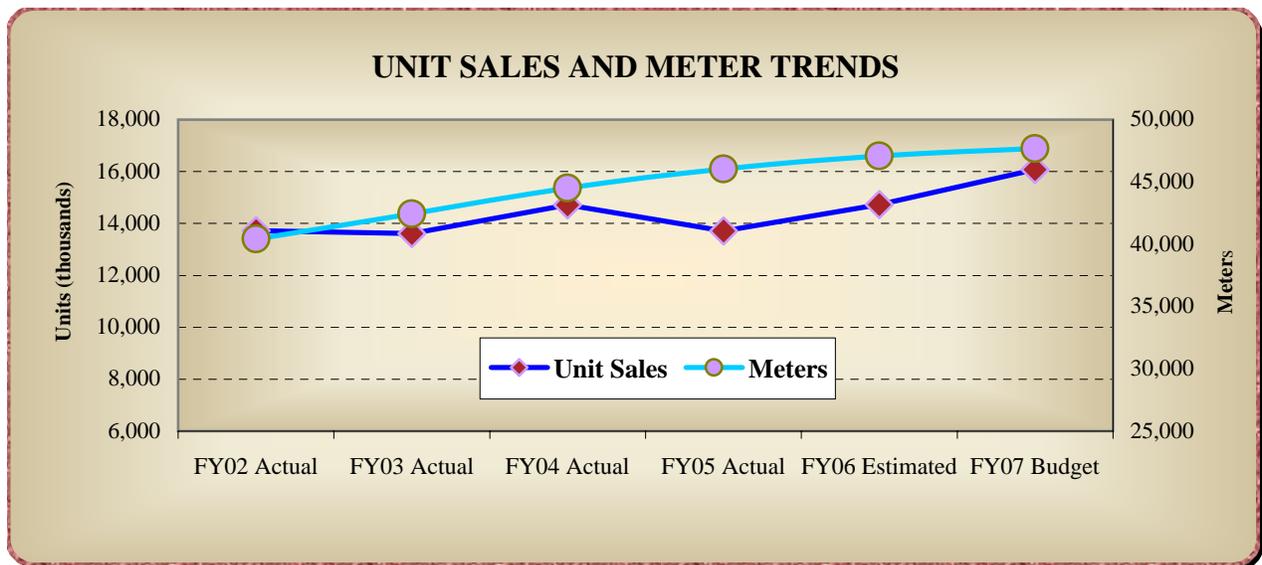
**Based on average rate.





UNIT SALES HISTORY BY CUSTOMER CLASS - POTABLE

	Actual				Estimated	Budget
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Residential	8,733,367	8,983,504	8,761,351	8,678,154	10,346,292	11,094,300
Publicly-Owned	896,024	929,850	933,517	928,371	878,934	975,700
Commercial	735,265	740,622	1,960,710	895,338	901,576	997,700
Landscaping	2,476,146	2,136,847	2,264,841	2,103,862	2,144,366	2,509,700
Agricultural	79,989	81,513	78,946	59,747	52,053	66,600
Temporary	799,146	735,185	697,664	1,042,526	400,715	432,300
Others	3,304	6,364	14,148	3	52	-
Total	13,723,241	13,613,885	14,711,176	13,708,001	14,723,988	16,076,300

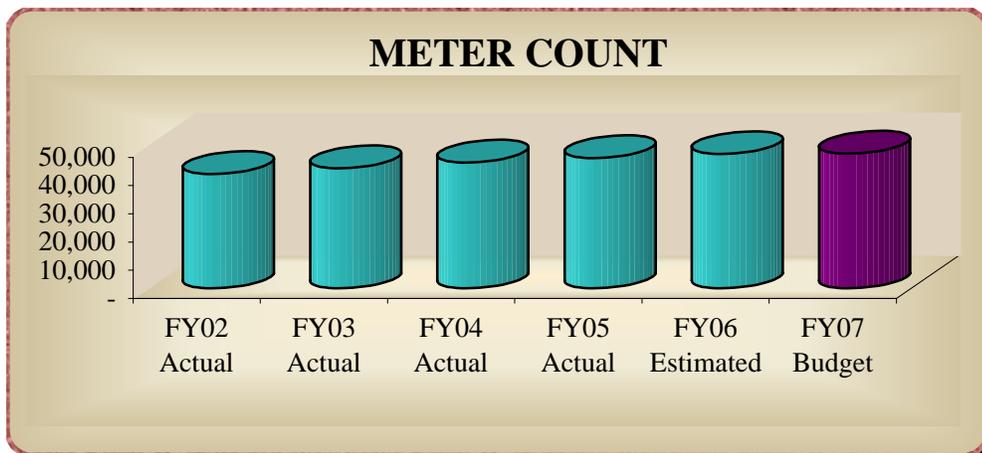




SYSTEM FEES - POTABLE

Service Class	Meter Size	Current Rates	Approved* Rates	Budgeted System Fees		
				Existing Meters	Additional Meters	Total Meters
Residential	0.75	\$ 10.25	\$ 11.30	\$ 5,433,600	\$ 46,500	\$ 5,480,100
	1.00	16.50	18.15	131,800	2,500	134,300
	1.50	32.50	35.75	7,800	2,000	9,800
	2.00	54.20	59.60	4,800	-	4,800
	4.00	99.80	109.80	6,300	-	6,300
	6.00	199.50	219.45	5,000	-	5,000
Non-Residential	0.75	20.00	22.00	117,200	7,000	124,200
	1.00	30.80	33.90	300,100	10,100	310,200
	1.50	43.30	47.65	478,600	12,100	490,700
	2.00	54.20	59.60	722,400	7,200	729,600
	3.00	87.20	95.90	72,500	2,400	74,900
	4.00	99.80	109.80	103,100	-	103,100
	6.00	199.50	219.45	40,200	-	40,200
	10.00	380.80	418.90	33,600	-	33,600
Temporary	0.75	20.00	22.00	2,500	-	2,500
	1.00	30.80	33.90	2,300	-	2,300
	1.50	43.30	47.65	2,700	-	2,700
	2.00	54.20	59.60	9,600	-	9,600
	4.00	99.80	109.80	225,100	-	225,100
	6.00	199.50	219.45	15,100	-	15,100
Fire Services	Various	21.20	23.30	154,100	-	154,100
		-	-	-	-	-
Special System Fees						571,100
Budgeted Potable System Fees				\$ 7,868,400	\$ 89,800	\$ 8,529,300

*Approved rates effective January 1, 2007.





MWD & CWA FIXED FEES (PASS-THROUGH) - POTABLE

MWD & CWA FIXED FEES (PASS-THROUGH):

Each water service customer shall pay a monthly MWD & CWA fixed charge, to pass-through fixed charges from these agencies to pay the following:

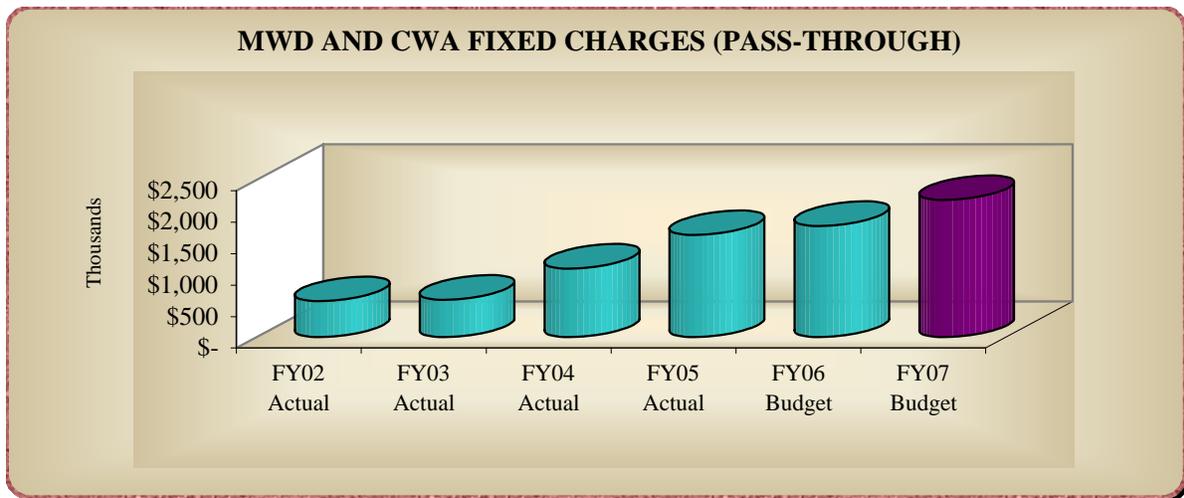
MWD Readiness to Serve Charge and Capacity Reservation Charge; SDCWA Infrastructure Access Charge; Customer Service Charge and Emergency

Storage Charge.

Meter Size	Current Rates	Approved* Rates
0.75	\$ 2.85	\$ 3.55
1.00	4.55	5.65
1.50	8.55	10.65
2.00	14.80	18.45
3.00	27.35	34.05
4.00	46.75	58.20
6.00	85.50	106.45
10.00	222.30	276.75

MWD & CWA Fixed Fees by Meter Size									
Service Class	0.75	1.00	1.50	2.00	3.00	4.00	6.00	10.00	Total
Residential	\$ 1,613,700	\$ 38,800	\$ 2,200	\$ 1,300	\$ -	\$ 3,100	\$ 2,300	\$ -	\$ 1,661,400
Master Meter	1,200	11,900	28,200	43,900	11,100	28,300	8,100	6,000	138,700
Commercial	11,300	17,600	27,500	57,100	7,400	10,100	1,200	-	132,200
Landscaping	3,900	13,900	41,100	92,800	1,800	2,500	2,300	-	158,300
Agriculture	300	200	600	2,400	400	2,500	-	-	6,400
Publicly-Owned	1,000	3,700	3,600	15,000	3,700	8,200	6,900	15,000	57,100
Existing Fees	1,631,400	86,100	103,200	212,500	24,400	54,700	20,800	21,000	2,154,100
FY 07 Growth	15,100	2,500	3,300	2,200	800	-	-	-	23,900
Total	\$ 1,646,500	\$ 88,600	\$ 106,500	\$ 214,700	\$ 25,200	\$ 54,700	\$ 20,800	\$ 21,000	\$ 2,178,000

*Approved rates effective January 1, 2007.





METER FEES - POTABLE

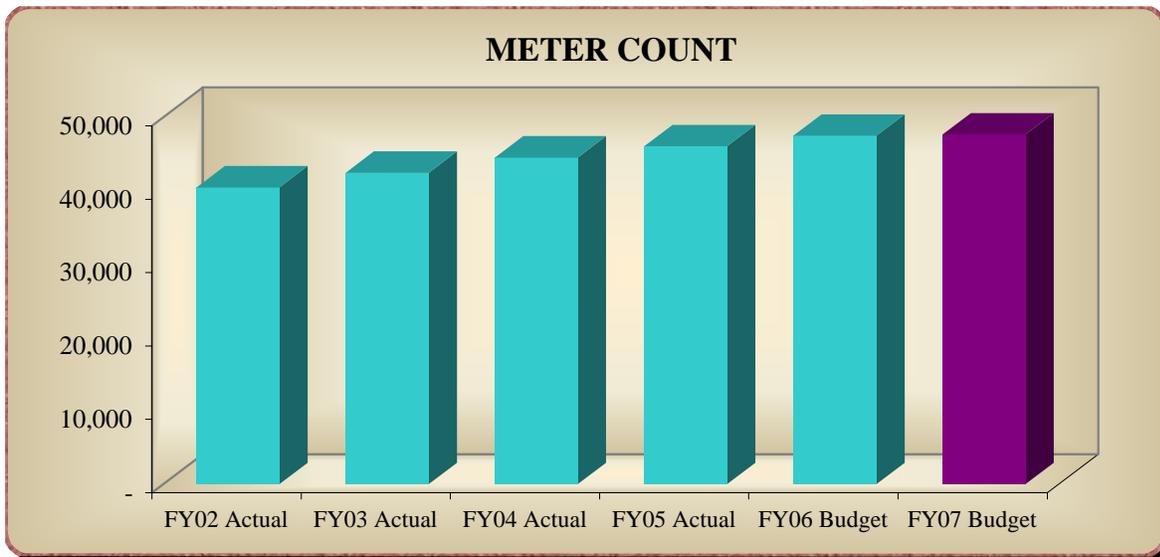
Meter Fees:

Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Meter Size	Installation Fee	Meter Fee	AMR Fee
0.75	\$ 60.00	\$ 59.00	\$ 147.00
1.00	60.00	117.00	147.00
1.50	103.00	250.00	147.00
2.00	240.00	475.00	147.00
3.00	300.00	653.00	147.00
4.00	300.00	1,370.00	147.00
6.00	300.00	2,500.00	147.00
10.00	300.00	3,737.00	147.00

Fiscal Year 2007 Growth by Meter Size						
Service Class	0.75	1.00	1.50	2.00	3.00	Total
Residential	649	22	9	-	-	680
Non-Residential	50	47	40	19	4	160
Total Number of Meters	699	69	49	19	4	840

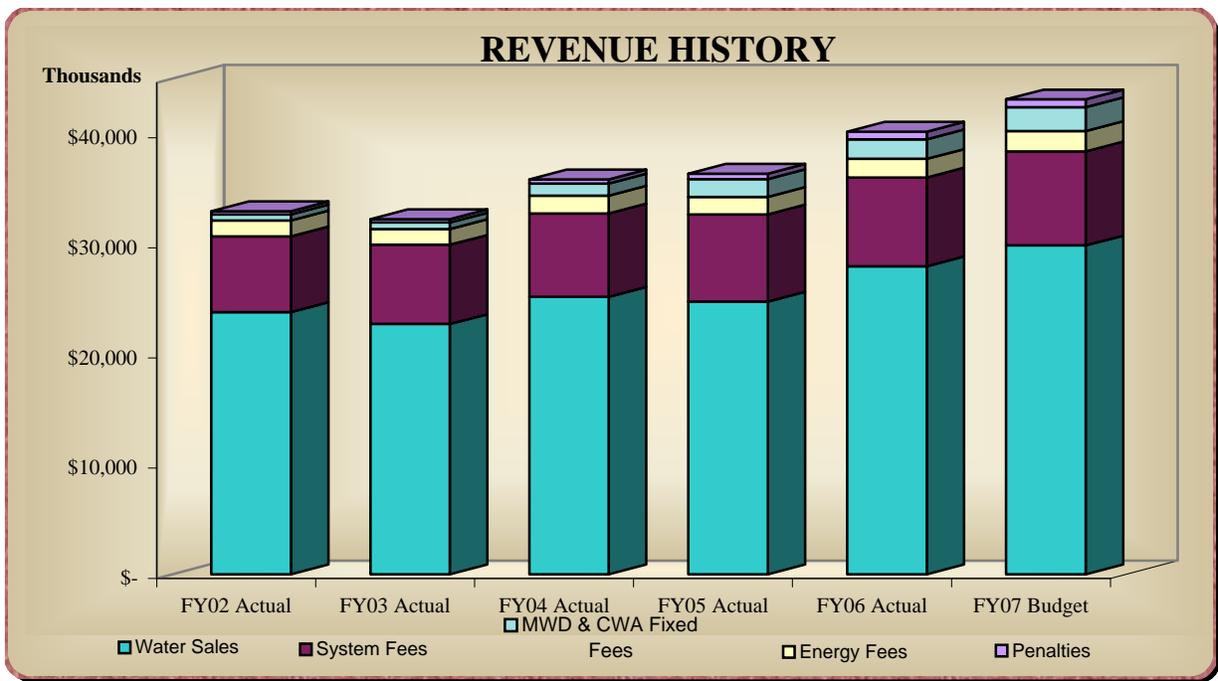
Total Meter Fees	\$ 185,900	\$ 22,400	\$ 24,500	\$ 16,400	\$ 4,300	\$ 253,500
-------------------------	------------	-----------	-----------	-----------	----------	------------





REVENUE HISTORY - POTABLE

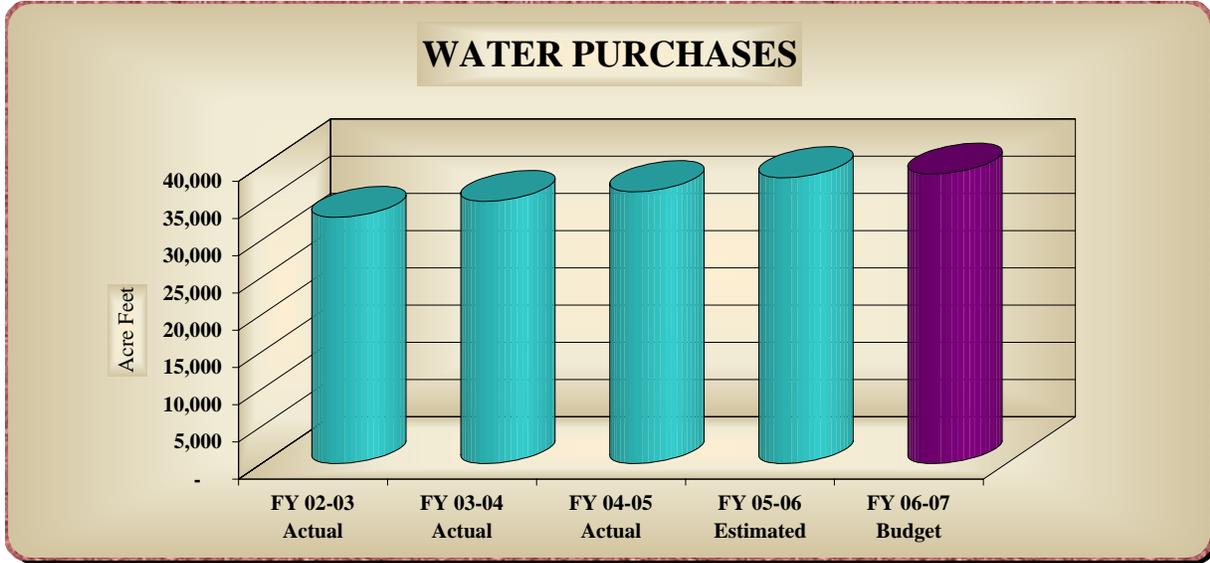
	Actual				Estimated	Budget
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Water Sales	\$ 23,817,567	\$22,732,862	\$25,204,669	\$ 24,760,101	\$27,975,777	\$29,866,000
System Fees	6,885,015	7,191,403	7,576,328	7,933,913	8,056,340	8,529,300
Energy Fees	1,423,634	1,433,269	1,618,000	1,573,999	1,696,492	1,853,000
MWD & CWA Fixed Fees	569,934	591,667	1,088,156	1,620,548	1,775,186	2,178,000
Penalties	277,363	312,774	374,283	494,915	688,374	704,500
Total	<u>\$ 32,973,513</u>	<u>\$32,261,975</u>	<u>\$35,861,436</u>	<u>\$ 36,383,476</u>	<u>\$40,192,169</u>	<u>\$43,130,800</u>



Note:
 Fiscal Year 2005 Water Sales and Energy Fees drop due to 22.51 inches of rainfall.



WATER PURCHASES AND RELATED COSTS - POTABLE



	FY07 Budget Acre Feet	Rate ⁽¹⁾	FY07 Budget Purchase Costs	% to Total
Potable Water Purchases				
Budgeted Sales (CWA)	27,942.1	\$545/\$572	\$ 15,555,500	73.3%
District & Unbilled Usage	500.0	\$545/\$572	278,400	1.3%
Water Loss	1,462.1	\$545/\$572	819,800	3.9%
Budgeted Sales (CSD)	8,964.0	\$507/\$512	4,564,500	21.5%
TOTAL VARIABLE CHARGES	38,868.2		\$ 21,218,200	100.0%

MWD & CWA FIXED CHARGES:

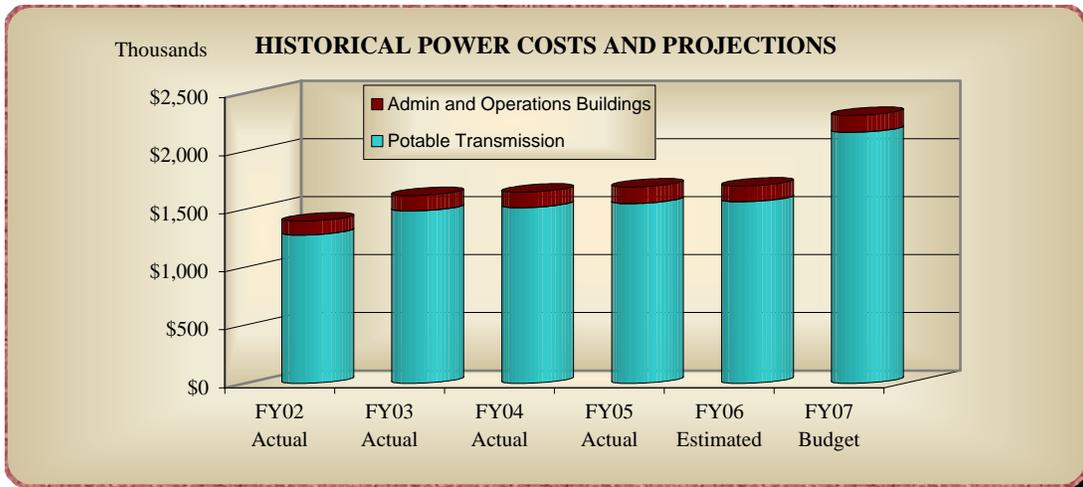
	FY 06 Actual	FY07 Budget
Infrastructure Access Charge (IAC)	\$ 844,855	\$ 1,003,900
Customer Service Charge (CSC)	771,760	846,800
Emergency Storage Charge (ESC)	1,047,601	1,230,600
Capacity Reservation Charge (CRC)	508,756	514,800
Readiness-to-Serve Charge (RTS)	460,716	512,200
TOTAL FIXED CHARGES	\$ 3,633,688	\$ 4,108,300

(1) The first rate applies to purchases from July to December of the budget fiscal year; the second from January to June.



POWER COSTS - POTABLE

	Admin and Operations Buildings	Potable Transmission	Total Potable Power Costs
FY02 Actual	\$ 118,783	\$ 1,279,992	\$ 1,398,775
FY03 Actual	133,691	1,486,080	1,619,771
FY04 Actual	132,391	1,515,642	1,648,033
FY05 Actual	142,630	1,551,029	1,693,659
FY06 Estimated	136,196	1,566,252	1,702,448
FY07 Budget	146,800	2,164,100	2,310,900

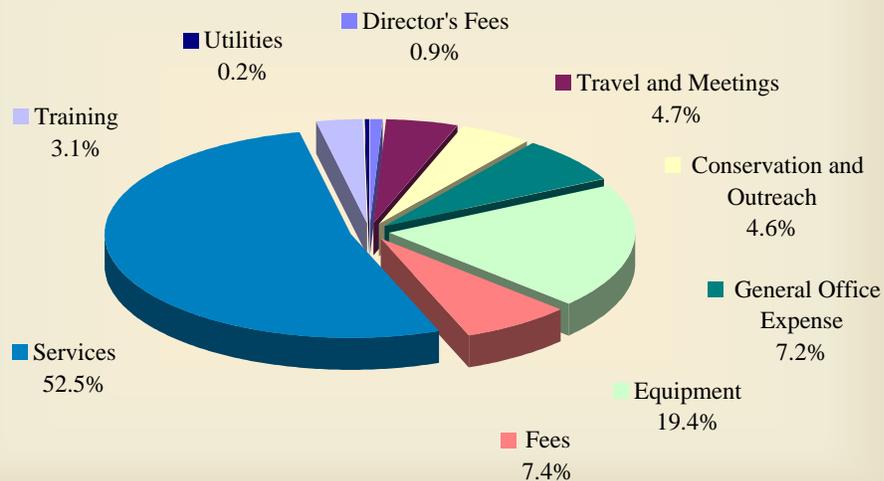




ADMINISTRATIVE EXPENSES - POTABLE

	FY 2005	FY2006		FY 2007	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Director's Fees	\$ 26,499	\$ 48,000	\$ 19,800	\$ 48,000	-	0.0%
Travel and Meetings	105,064	217,600	175,433	236,200	18,600	8.5%
Conservation and Outreach	130,510	211,900	148,439	229,500	17,600	8.3%
General Office Expense	304,985	352,400	375,730	364,700	12,300	3.5%
Equipment	485,753	930,500	711,679	973,600	43,100	4.6%
Fees	64,670	156,200	179,180	371,700	215,500	138.0%
Services	1,289,545	2,086,000	1,858,733	2,639,300	553,300	26.5%
Training	72,421	152,800	113,700	153,700	900	0.6%
Utilities	4,616	11,600	11,530	11,700	100	0.9%
Miscellaneous	10,088	-	-	-	-	(100.0%)
Total	2,494,151	4,167,000	3,594,224	5,028,400	861,400	20.7%
Less: Overhead Allocation	(1,109,399)	(1,231,600)	(796,191)	(978,600)	253,000	(20.5%)
Subtotal	1,384,752	2,935,400	2,798,033	4,049,800	1,114,400	38.0%
General Expenses	1,169,627	862,500	941,598	1,007,200	144,700	16.8%
Net Administrative Expenses	\$ 2,554,379	\$ 2,935,400	\$ 2,798,033	\$ 4,049,800	\$ 1,114,400	38.0%

ADMINISTRATIVE EXPENSES - POTABLE

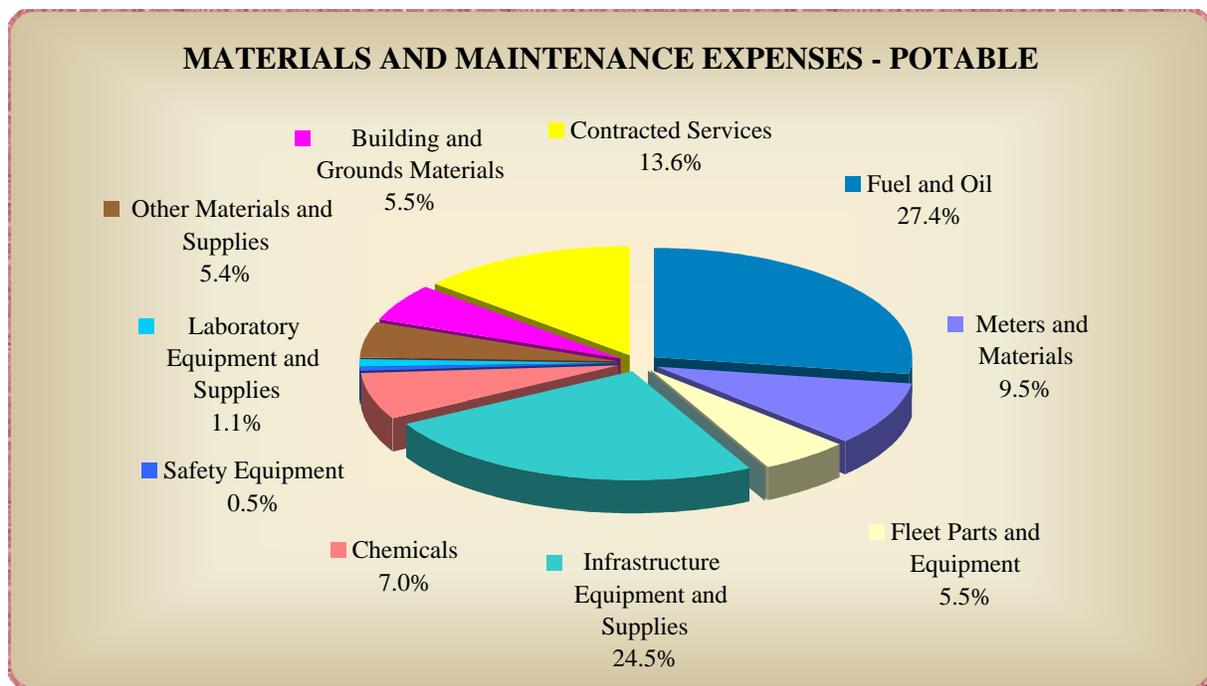




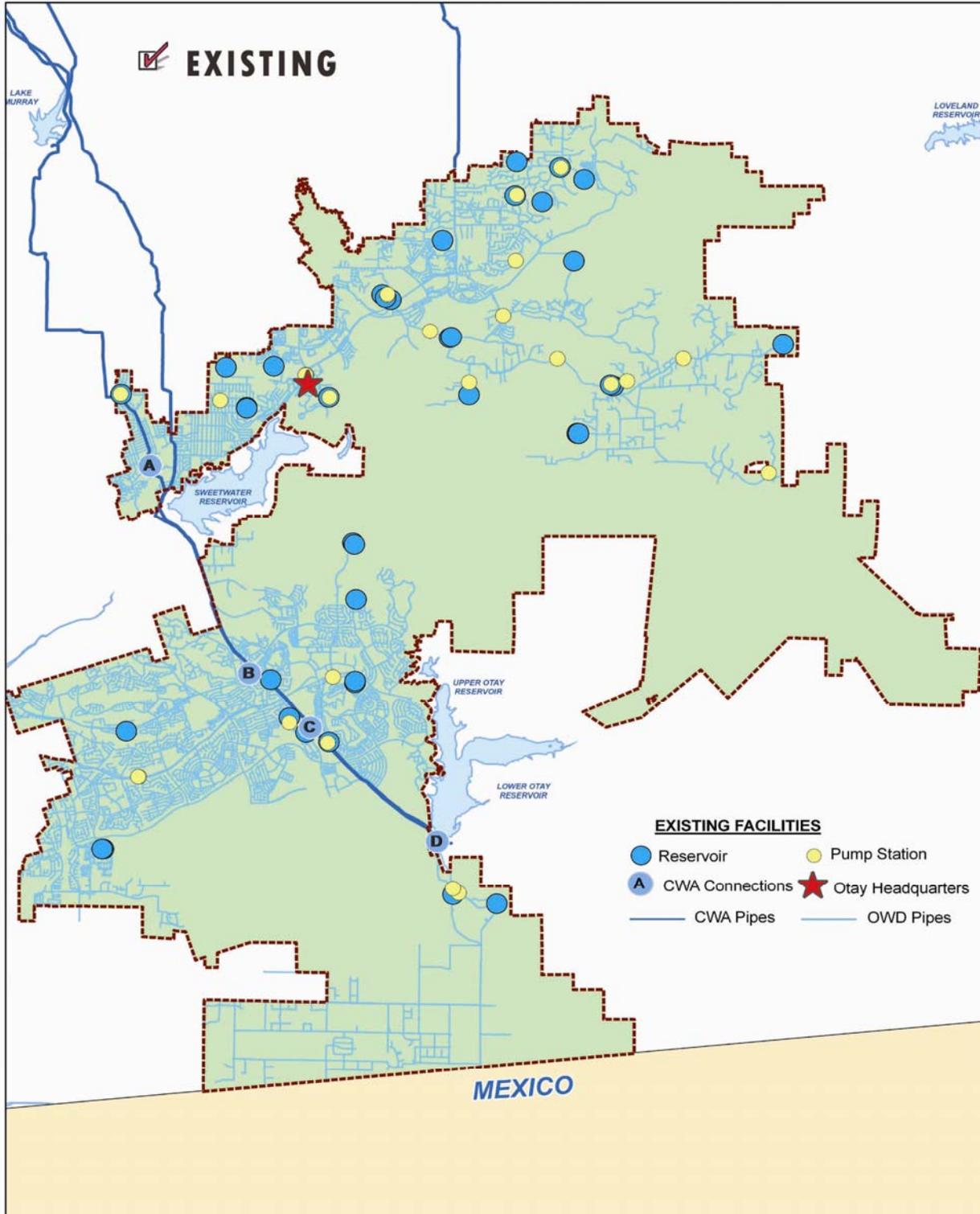
MATERIALS AND MAINTENANCE EXPENSES - POTABLE

	FY 2005	FY 2006		FY 2007	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 235,063	\$ 205,000	\$ 280,051	\$ 766,000	561,000	273.7%
Meters and Materials	795,116	652,200	499,051	265,100	(387,100)	(59.4%)
Fleet Parts and Equipment	132,892	155,000	151,407	155,000	-	0.0%
Landscaping Materials ⁽¹⁾	93,544	15,000	6,300	-	(15,000)	(100.0%)
Infrastructure Equipment and Supplies	216,434	593,500	633,035	685,200	91,700	15.5%
Chemicals	145,706	210,000	174,798	195,000	(15,000)	(7.1%)
Safety Equipment	15,684	46,600	28,026	14,000	(32,600)	(70.0%)
Laboratory Equipment and Supplies	28,185	50,000	26,511	30,000	(20,000)	(40.0%)
Other Materials and Supplies	83,969	65,000	206,769	150,500	85,500	131.5%
Building and Grounds Materials	63,137	90,000	87,827	154,400	64,400	71.6%
Contracted Services	137,136	622,000	327,520	380,400	(241,600)	(38.8%)
Materials and Maintenance	1,946,866	2,704,300	2,421,295	2,795,600	91,300	3.4%
Total Materials and Maintenance	\$ 1,946,866	\$ 2,704,300	\$ 2,421,295	\$ 2,795,600	\$ 91,300	3.4%

⁽¹⁾ Landscaping outsourced in FY 2006

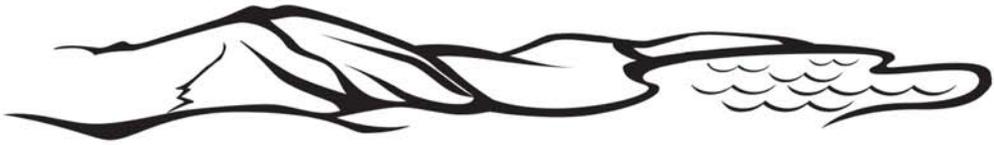


POTABLE WATER SERVICE AREA



This page intentionally left blank



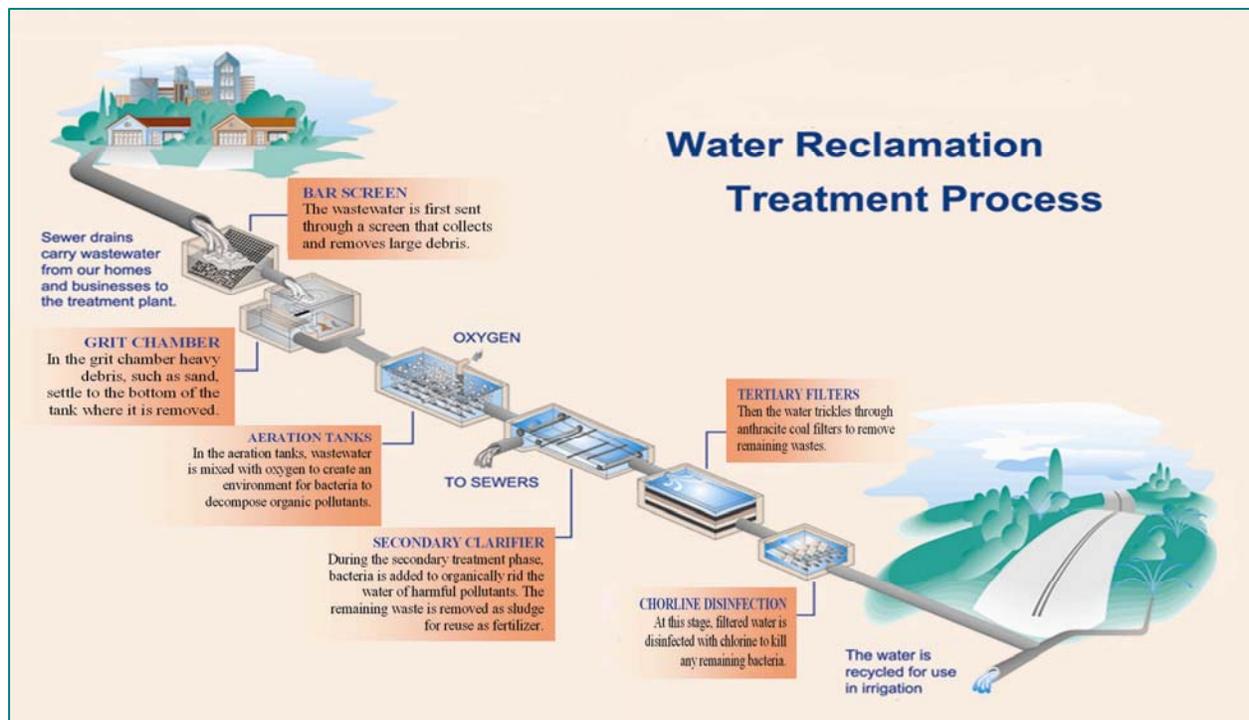


Recycled **R**evenues and **E**xpenditures

RECYCLED REVENUES AND EXPENSES

In 1980, the District started operation of the Ralph W. Chapman Water Recycling Facility (RWCWRF). The RWCWRF project is capable of recycling wastewater at the rate of 1.3 million gallons per day (MGD) to augment potable water supplies for irrigation purposes. The RWCWRF treatment process consists of primary, secondary, and tertiary treatment. The RWCWRF's conversion time from raw sewage to full Title 22 recycled water is approximately 20 hours.

The steps of the water recycling process are as follows:



PRIMARY TREATMENT: The raw sewage flows in at the drum screen, also known as the “headworks” which removes a large amount of coarse organic and inorganic material that is either floating or in suspension. This is followed by a grit chamber, which removes the heavy settled material.

SECONDARY TREATMENT: This is where the biological treatment begins. The first step takes place in the aeration tanks, also known as reactors or sedimentation basins, which contain a huge mass of bacteria that feed on the organic material in sewage. These bacteria are aerobic, and therefore require a great quantity of pumped-in air to help them thrive. The second step in the process is clarification where the sludge from the aeration tanks is allowed to settle to the

RECYCLED WATER HISTORY

The Otay Water District has a history in water recycling that goes back nearly 40 years.

In the 1960s, Director Ralph W. Chapman recognized the value of using this resource and became a vocal advocate for water recycling. Today, not only is it fitting that OWD's water recycling facility bear his name, the Ralph W. Chapman Water Recycling Facility, but the District has continued working to achieve his dream of widespread recycled water use.

In the late 1960s, OWD began water recycling with a small packaged treatment plant affectionately named "Miss Stinky." At this time, however, there were few customers for recycled water. It took until the early-1980s for Chapman's vision to take shape. As the EastLake I community began construction in 1986, millions of gallons of water were needed for soil compaction and dust suppression. An inexpensive source of this water was the Chapman facility.

By the early 1990s, Chula Vista and OWD began requiring dual piping in new developments such as EastLake Greens. One set of pipes would supply drinking water for human consumption, while the other would deliver recycled water to irrigate common areas.

OWD has the largest recycled water network in San Diego County today, and it continues to expand. When the new supply link to the South Bay Water Reclamation Plant comes online in early 2007, recycled water used for irrigation will equal approximately 15 to 20 percent of OWD's total water usage.

Ralph Chapman knew that one day recycled water would be a low-cost, long-term supply of new water that would help the region offset its demand for imported water. Today, his dream is being realized. As OWD celebrates its 50th Anniversary, it is fitting to acknowledge the contribution of one of OWD's founding fathers and honor his place in history.

bottom and the clear liquid, or secondary effluent, flows out over weirs at the surface. Some of the settled sludge is disposed of and some is returned to the aeration tanks to keep the process in balance. The secondary effluent flowing over the weirs is now ready for the next step.

TERTIARY TREATMENT: Just before filtration, a small amount of coagulant is added as a filter aid which helps suspended material in the secondary effluent "clump" on the surface of the filters. The filters consist of a layer of sand with a layer of anthracite coal on top. As the fluid moves through the filters, the flow goes through a chlorine contact chamber where disinfection takes place. Solids, screenings, and sludge are discharged to the City of San Diego Metropolitan Wastewater (Metro) system.

The District operates the largest recycled water distribution system in San Diego County and will supply approximately 4,480 acre-feet of recycled water to 566 landscaping and construction customers by the end of Fiscal Year 2007. The recycled water customer base consists primarily of irrigation at golf courses, schools, parks and open space in the EastLake, Otay Ranch, and Rancho Del Rey and other areas of eastern Chula Vista. Due to the plant's limited treatment capacity, 2,587 acre-feet of potable water will be used to supplement the reclamation system to meet customers' demands.

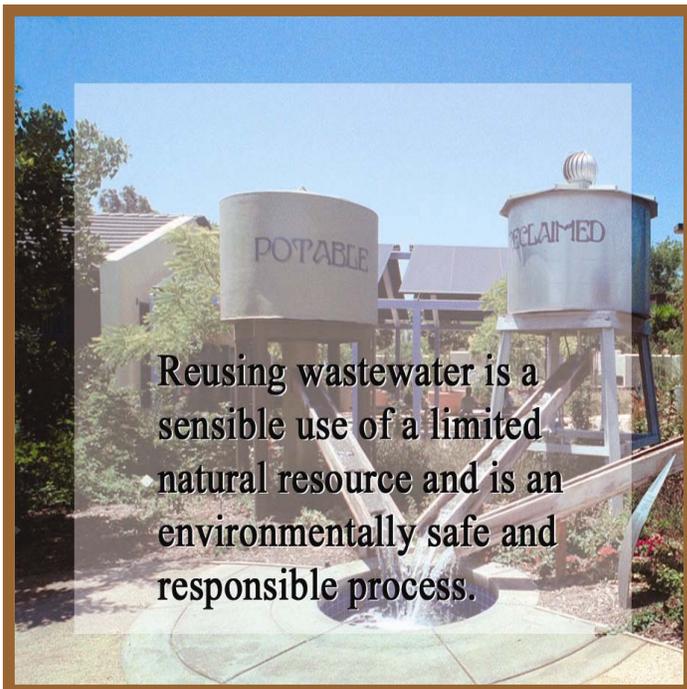
This District entered a landmark agreement with the City of San Diego in October 2003, to purchase up to six million gallons a day of recycled water from their South Bay Water Reclamation Plant. To bring this plan to fruition, the District is in the process of completing construction of a 30-inch, six mile pipeline, a 12 million gallon reservoir and a pump station to bring this new source of recycled water into the District's system. These projects are expected to be completed in Spring 2007, which will greatly reduce the potable supplement. The benefits of this to the region as a whole are great as less

demand on the potable system will be made, which reduces future capacity and storage requirements. The estimated \$42 million investment in capital outlay is anticipated to result in a significant reduction of water purchase costs and an increase in system reliability. The District expects that 15 to 20 percent of its total water demand will be met using recycled water.



Producing and distributing recycled water is costly. To help offset the costs of supplying alternative water sources, both CWA and MWD

offer incentive programs. In Fiscal Year 1991, the District signed agreements with CWA and MWD to take advantage of the programs they offered. A second agreement was signed in 2000. In 2005, the District agreed to terminate both agreements and to enter into a new agreement which will allow the District to maximize its ability to earn incentives and to simplify the grant requirements. Currently, the District receives \$147 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

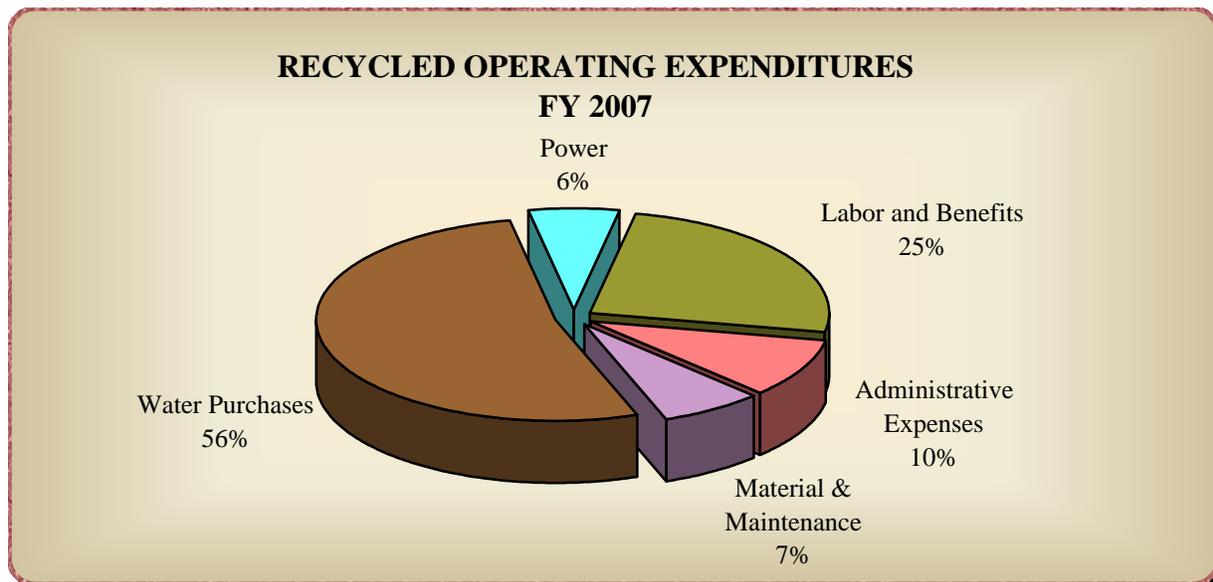


Reusing wastewater is a sensible use of a limited natural resource and is an environmentally safe and responsible process.



OPERATING BUDGET SUMMARY - RECYCLED

	FY 2005	FY 2006		FY 2007	Budget Variance	Variance %
	Actual	Budget	Estimated	Budget		
REVENUES						
Recycled Water Sales	\$ 2,392,952	\$ 2,332,700	\$ 2,694,517	\$3,216,000	883,300	37.9%
System Fees	256,659	274,800	298,153	340,000	65,200	23.7%
Energy Fees	52,119	180,000	198,599	215,400	35,400	19.7%
MWD/CWA Rebates	262,850	372,500	372,172	633,000	260,500	69.9%
Penalties	-	-	-	81,000	81,000	100.0%
Total Reclaimed Water Sales	2,964,580	3,160,000	3,563,441	4,485,400	1,325,400	41.9%
Meter Fees	42,122	-	20,879	25,000	25,000	0.0%
Tax Revenues	2,435	-	-	-	-	0.0%
Non-operating Revenues	6,500	-	2,550	3,000	3,000	0.0%
Interest	-	-	-	56,100	56,100	0.0%
TOTAL REVENUES	3,015,637	3,160,000	3,586,870	4,569,500	1,409,500	44.6%
EXPENDITURES						
Water Purchases (CWA)	1,135,900	1,535,400	1,464,082	1,421,300	(114,100)	(7.4%)
Water Purchases (CSD)	-	-	-	315,400	315,400	0.0%
Total Water Purchases	1,135,900	1,535,400	1,464,082	1,736,700	201,300	13.1%
Power	142,690	132,800	185,103	202,600	69,800	52.6%
Labor and Benefits	556,456	1,101,600	591,299	822,700	(278,900)	(25.3%)
Administrative Expenses	146,575	367,400	106,446	314,200	(53,200)	(14.5%)
Material & Maintenance	108,718	125,500	126,695	228,800	103,300	82.3%
Replacement Reserve	-	-	-	1,264,500	1,264,500	0.0%
TOTAL EXPENDITURES	2,090,340	3,262,700	2,473,624	4,569,500	1,306,800	40.1%
EXCESS REVENUES (EXPENSES)	\$ 925,297	\$ (102,700)	\$ 1,113,246	\$ -	\$ 102,700	0.0%





CLASSIFICATION OF WATER SALES - RECYCLED

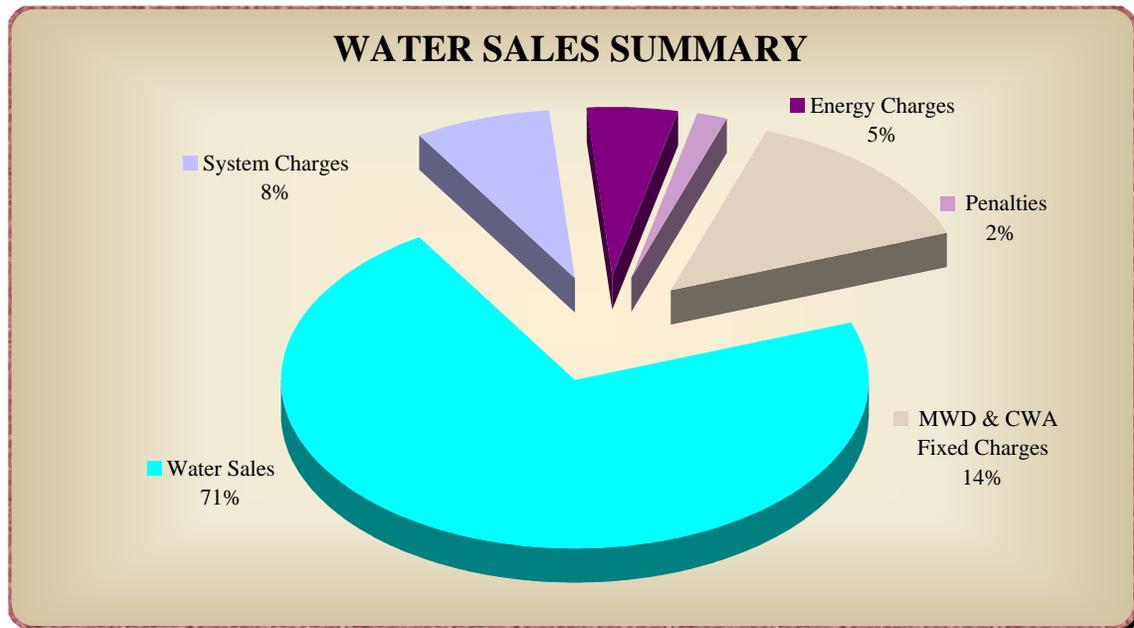
	FY 2006 Estimated	FY 2007 Budget	Variance
<u>Recycled Water Sales:</u>			
Water Sales	\$ 2,694,517	\$ 3,216,000	\$ 521,483
System Fees	298,153	340,000	41,847
Energy Fees	198,599	215,400	16,801
MWD & CWA Rebates	372,172	633,000	260,828
Penalties	-	81,000	81,000
Total	\$ 3,563,441	\$ 4,485,400	\$ 840,959

Water Sales : *Unit Sales x Rate*

System Charges : *Fixed monthly fee based on meter size*

Energy Charges : *Energy pumping fee of \$0.032 per unit of water for each 100 feet of lift or fraction thereof above the base elevation of 450 feet*

Penalties : *Late charges, locks , etc.*





WATER SALES SUMMARY BY SERVICE CLASS - RECYCLED

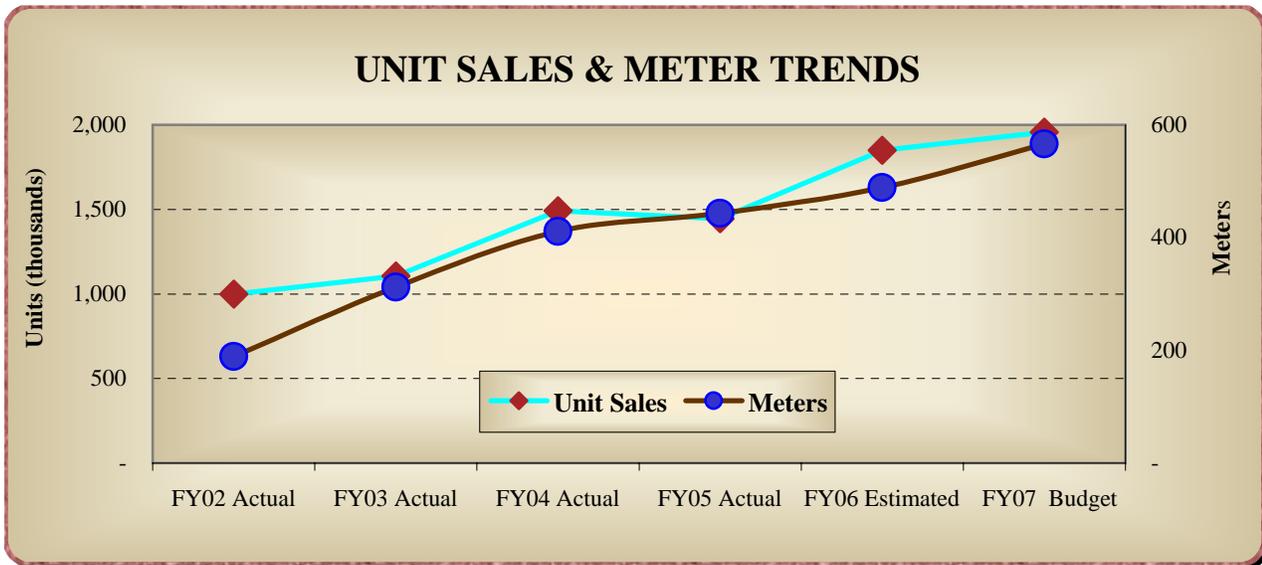
	Fiscal Year 2007 Sales Budget			Current Rate	Approved* Rate	
	Accounts	Units	Amount			
Water Sales:						
Recycled	566	1,957,600	\$ 3,216,000	\$ 1.61	\$ 1.64	**

*Approved rate effective January 1, 2007.

**Based on average rate.

UNIT SALES HISTORY - RECYCLED

	ACTUAL				Estimated	Budget
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Recycled	999,958	1,106,302	1,492,131	1,445,634	1,755,644	1,957,600



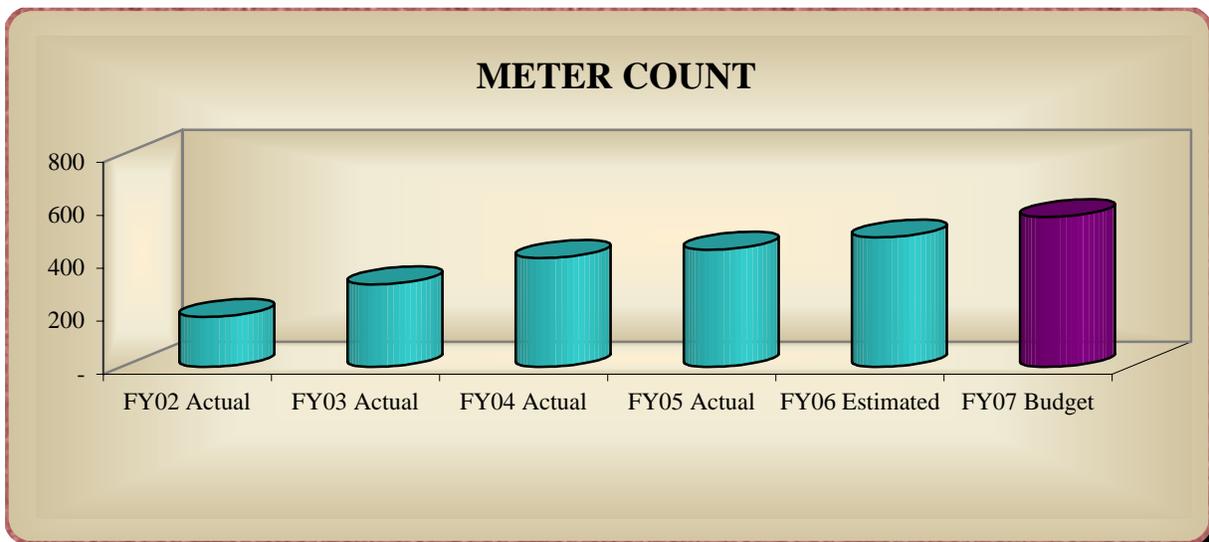


SYSTEM FEES - RECYCLED

Service Class	Meter Size	Current Rates	Approved* Rates	Budgeted System Fees		
				Existing Meters	Additional Meters	Total Meters
Recycled	0.75	\$ 20.00	\$ 22.00	\$ 1,000	\$ -	\$ 1,000
	1.00	30.80	33.90	25,200	-	25,200
	1.50	43.30	47.65	157,200	-	157,200
	2.00	54.20	59.60	114,000	19,800	133,800
	3.00	87.20	95.90	5,500	-	5,500
	4.00	99.80	109.80	5,000	-	5,000
	6.00	199.50	219.45	7,500	-	7,500
	10.00	380.80	418.90	4,800	-	4,800
Total				\$ 320,200	\$ 19,800	\$ 340,000

Budgeted Recycled System Fees \$ 340,000

*Approved rates effective January 1, 2007.





METER FEES - RECYCLED

Meter Fees:

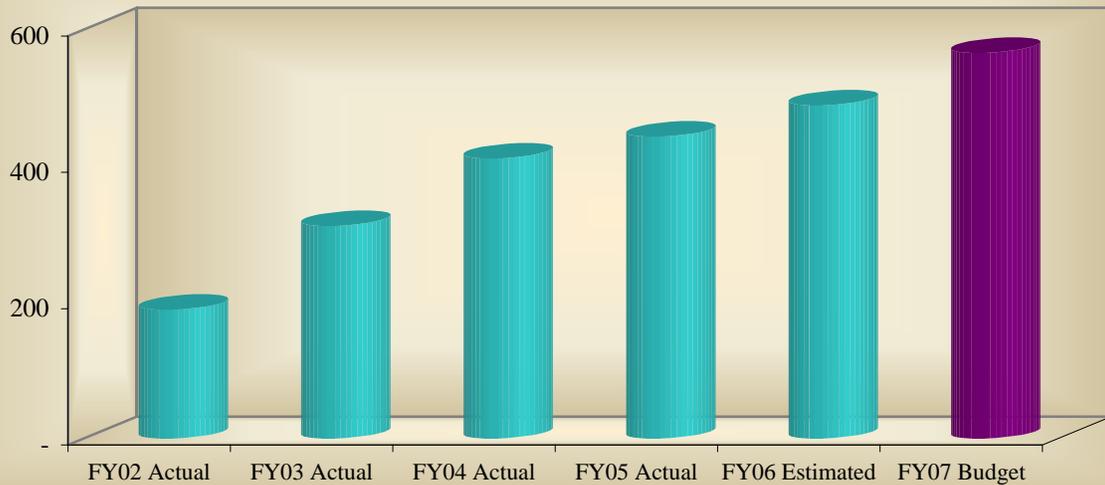
Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Meter Size	Installation Fee	Meter Fee	AMR Fee
0.75	\$ 60.00	\$ 59.00	\$ 147.00
1.00	60.00	117.00	147.00
1.50	103.00	250.00	147.00
2.00	240.00	475.00	147.00
3.00	300.00	653.00	147.00
4.00	300.00	1,370.00	147.00
6.00	300.00	2,500.00	147.00
10.00	300.00	3,737.00	147.00

Fiscal Year 2007 Growth by Meter Size

Service Class	0.75	1.00	1.50	2.00	3.00	Total
Residential		-	-	29	-	29
Total Number of Meters	-	-	-	29	-	29
Total Meter Fees	\$ -	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000

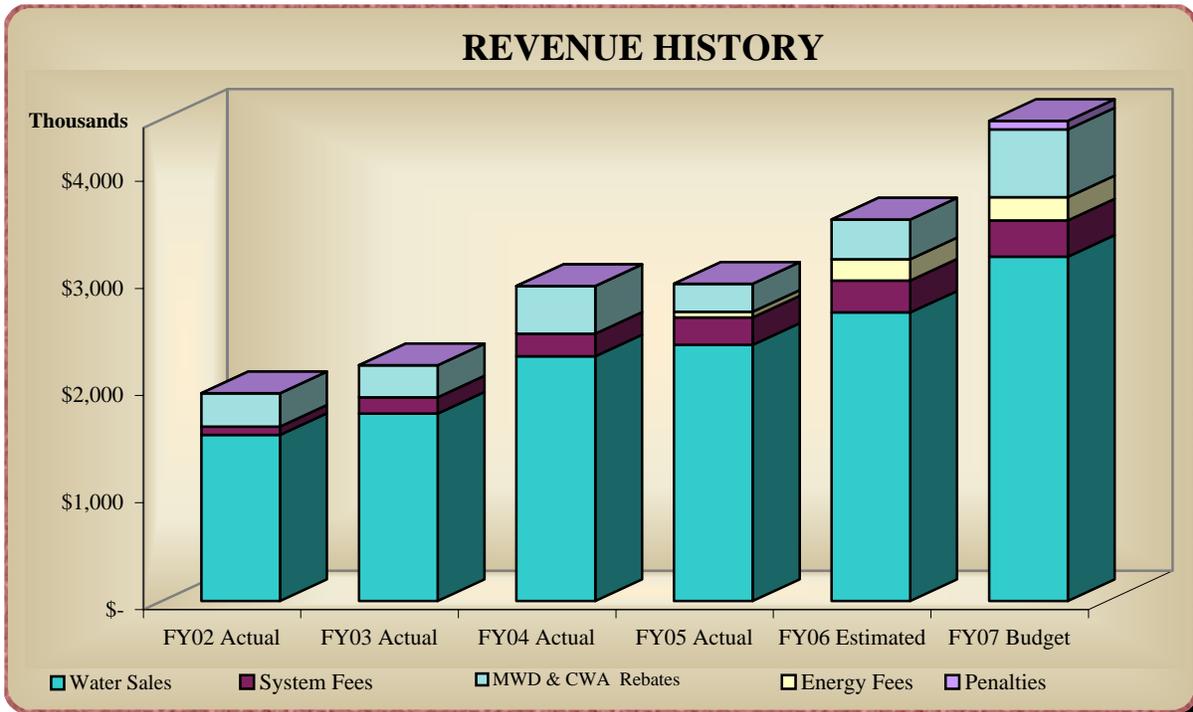
METER COUNT





REVENUE HISTORY - RECYCLED

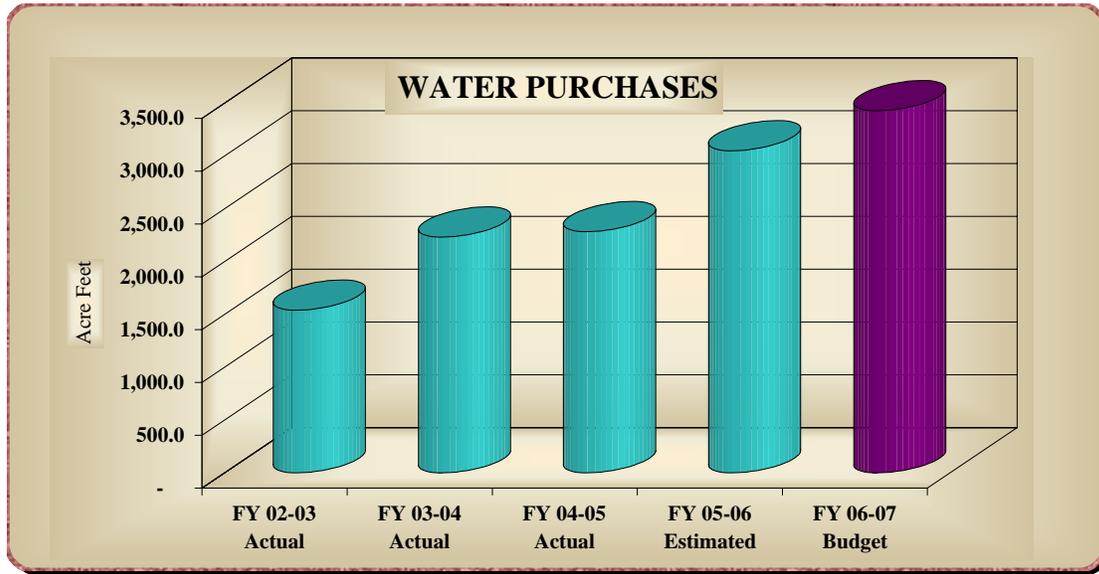
	<u>ACTUAL</u>				<u>Estimated</u>	<u>Budget</u>
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Water Sales	\$ 1,552,486	\$ 1,749,369	\$ 2,285,666	\$ 2,392,952	\$ 2,694,517	\$ 3,216,000
System Fees	75,729	153,859	210,208	256,659	298,153	340,000
Energy Fees	-	-	-	52,119	198,599	215,400
MWD & CWA Rebates	312,640	298,445	447,020	262,850	372,172	633,000
Penalties	-	-	-	-	-	81,000
Total	<u>\$ 1,940,855</u>	<u>\$ 2,201,673</u>	<u>\$ 2,942,894</u>	<u>\$ 2,964,580</u>	<u>\$ 3,563,441</u>	<u>\$ 4,485,400</u>



Note:
 Fiscal Year 2005 Water Sales and Rebates drop due to 22.51 inches of rainfall.



WATER PURCHASES - RECYCLED



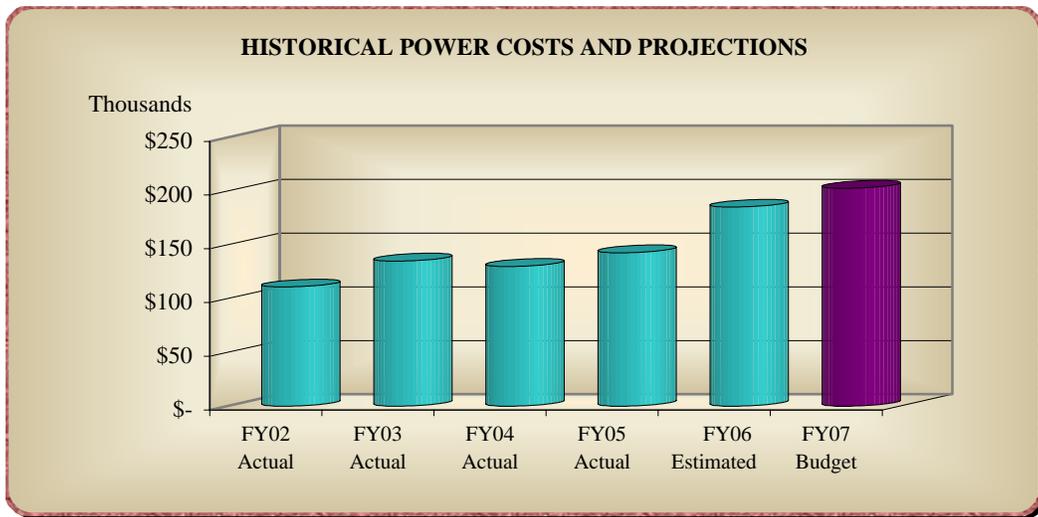
	FY07 Budget Acre Feet	Rate ⁽¹⁾	FY07 Budget Purchase Costs	% to Total
Potable Water Purchases				
Potable Supplement	2,587.0	\$545/\$572	\$ 1,421,300	81.8%
SBWRP Recycled Water Purchases (CSD)				
Recycled Water Purchases	842.0	\$375	315,400	18.2%
TOTAL VARIABLE CHARGES	<u>3,429.0</u>		<u>\$ 1,736,700</u>	<u>100.0%</u>

(1) The first rate applies to purchases from July to December of the budget fiscal year; the second from January to June.



POWER COSTS - RECYCLED

	<u>Treatment and Recycled Transmission</u>
FY02 Actual	\$ 110,800
FY03 Actual	134,900
FY04 Actual	130,000
FY05 Actual	142,700
FY06 Estimated	185,103
FY07 Budget	202,600

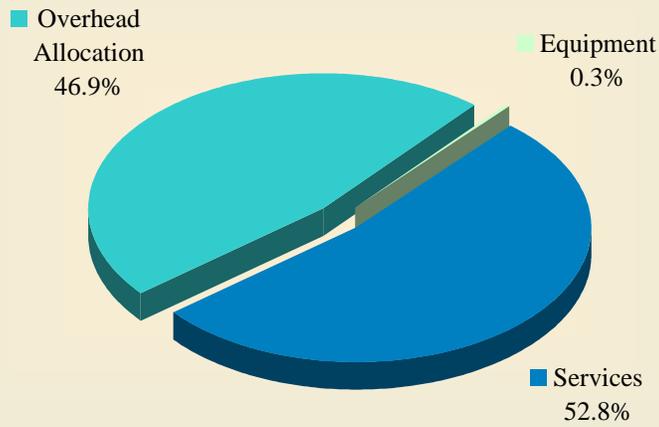




ADMINISTRATIVE EXPENSES - RECYCLED

	FY 2005	FY2006		FY 2007	Budget Variance	%
	Actual	Budget	Estimated	Budget		
General Office Expense	\$ 22	\$ -	\$ -	\$ -	\$ -	(100.0%)
Equipment	783	8,000	168	1,000	(7,000)	(87.5%)
Fees	2,420	500	-	-	(500)	(100.0%)
Services	(3,497)	25,000	3,522	166,000	141,000	564.0%
Total	(272)	33,500	3,690	167,000	133,500	398.5%
Overhead Allocation	146,847	333,900	102,756	147,200	(186,700)	(55.9%)
Administrative Expenses	\$ 146,575	\$ 367,400	\$ 106,446	\$ 314,200	\$ (53,200)	(14.5%)

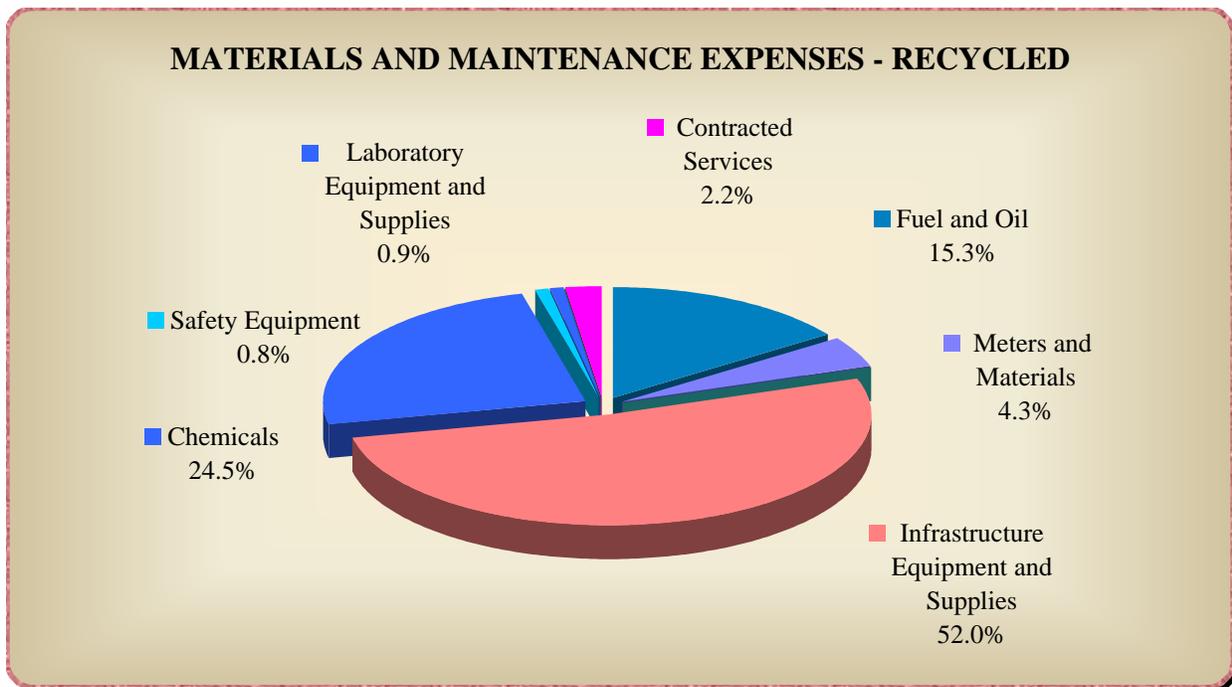
ADMINISTRATIVE EXPENSES - RECYCLED





MATERIALS AND MAINTENANCE EXPENSES - RECYCLED

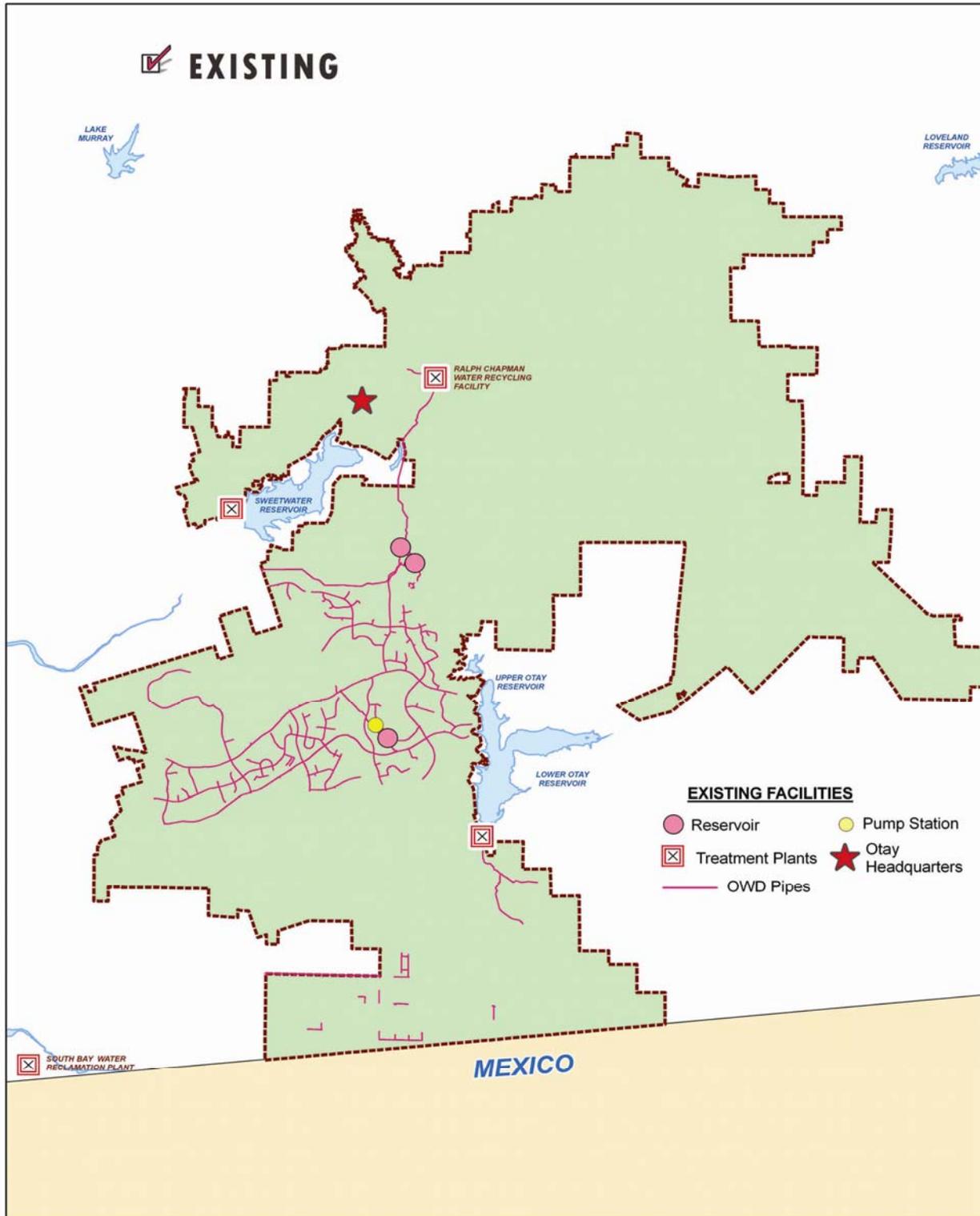
	FY 2005	FY 2006		FY 2007	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 18,122	\$ 27,000	\$ 22,213	\$ 35,000	8,000	29.6%
Meters and Materials	2,557	-	525	10,000	10,000	100.0%
Fleet Parts and Equipment	-	-	96	-	-	(100.0%)
Infrastructure Equipment and Supplies	25,826	36,500	38,440	119,000	82,500	226.0%
Chemicals	34,765	60,000	56,746	56,000	(4,000)	(6.7%)
Safety Equipment	-	-	-	1,800	1,800	100.0%
Laboratory Equipment and Supplies	18,240	2,000	76	2,000	-	0.0%
Other Materials and Supplies	9,208	-	8,440	-	-	0.0%
Building and Grounds Materials	-	-	159	-	-	0.0%
Contracted Services	-	-	-	5,000	5,000	100.0%
Materials and Maintenance	108,718	125,500	126,695	228,800	103,300	82.3%
Total Materials and Maintenance	\$ 108,718	\$ 125,500	\$ 126,695	\$ 228,800	\$ 103,300	82.3%



This page intentionally left blank

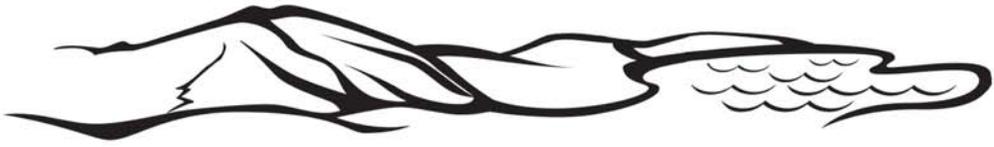


RECYCLED WATER SERVICE AREA



This page intentionally left blank





Sewer Revenues and Expenditures

SEWER REVENUES AND EXPENSES

The District provides sewer service to approximately 15,200 customers through 4,570 accounts (or 6,600 Assigned Service Units) located in the northern section of the District. The District operates and maintains the sewage collection system serving Rancho San Diego, Singing Hills and portions of Mount Helix within the Upper Sweetwater River Basin, also known as the Jamacha Basin. Residential customers comprise 98% of the customer base. Modest growth of 1.6% is anticipated in Fiscal Year 2007.

Wastewater collection within the Jamacha Basin is provided by two agencies: the Otay Water District and the Spring Valley Sanitation District. Customers in the basin, not served by either agency, dispose of their sewage through septic tanks. After the sewer has been collected, it is sent to the District's Ralph W. Chapman Recycling Facility (RWCRF) treatment plant where the District produces recycled water, see page 109 outlining the sewer process. The byproduct of the treatment process is called sludge and it is discharged through the City of San Diego Metropolitan Wastewater (Metro) and the Spring Valley Sanitation District systems.

The Otay Water District is a member of Metro Wastewater System and a significant amount of the sewer operation costs is for estimated sewer service charges from Metro totaling \$1,130,000 for Fiscal Year 2007.

Additionally, the District will pay \$231,500 for its share of the operation and maintenance cost of the Rancho San Diego Outfall and the Spring Valley Outfall to dispose of sewage to Metro for Fiscal Year 2007.

The charge for sewer service is mandated by the State Revenue Program Guidelines which requires the use of a "Service Unit Assignment Formula" that converts higher strength uses into a service unit value comparable to the use impact of a single-family residential user or equivalent dwelling

SEWER HISTORY

As the 1950s gave way to the 1960s, large parcels of undeveloped land and avocado groves in the unincorporated areas east of Spring Valley quickly gave way to housing tracts and commercial development. At the time, homes were built using septic systems. As more homes were built, however, the land became increasingly unable to absorb the increased sewage flow and septic systems began to fail. As the situation became critical, the District stepped in to address this community concern with the development a public sewer system.

The District constructed a small collection and treatment system, with a treatment plant capable of treating 60,000 gallons per day.

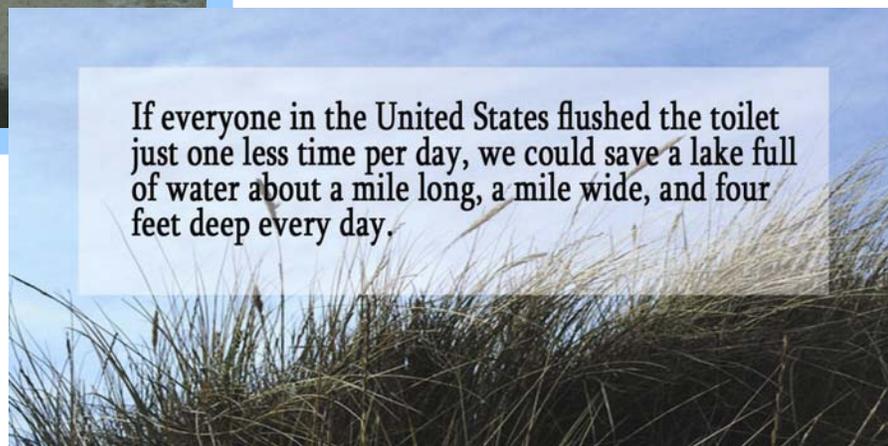
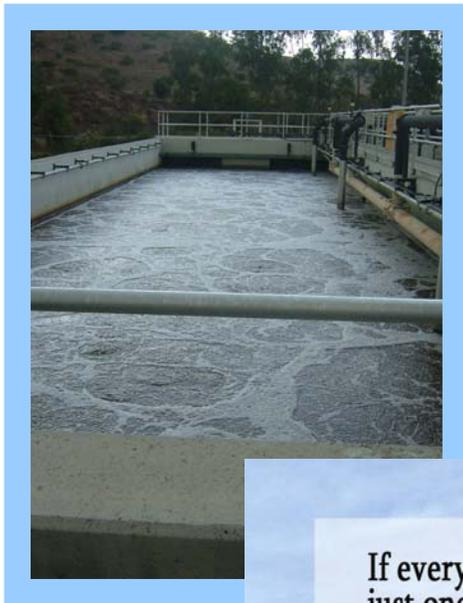
In December of 1980, a new larger treatment plant was construction called Jamacha Basin Waste Water Reclamation Facility. This facility was a major step forward from the original treatment plant. The facility was later renamed the Ralph W. Chapman Water Recycling Facility in honor of the former board member.

Today, the District provides sewer service to approximately 4,600 customer accounts. The sewer service area is located in the northwesterly portion of the District. It covers approximately 8,797 acres, which is about 11 percent of the District's total service area. This sewage collection system serves Rancho San Diego, Singing Hills and portions of Mount Helix within the Upper Sweetwater River Basin, also known as the Jamacha Basin.

The Otay Water District has entered into an agreement with the City of Chula Vista to bill city residents residing within the District's service area for both sewer and water through the District's billing system.

unit. The rate of discharge and strength of sewage for non-residential customers tends to be higher than a single-family residential user. Due to their higher discharge and strength, non-residential customers are assigned more units: 12% of the total service units, while only comprising 2% of the customer base. The formula for the sewer rates is shown on page 131.

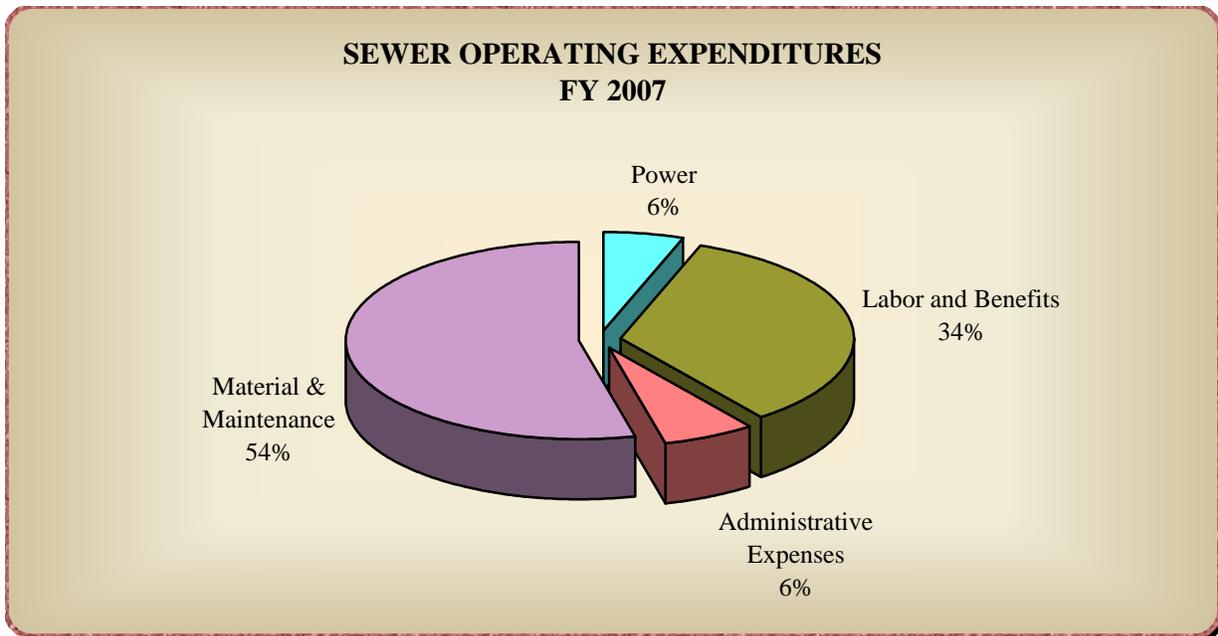
In addition to the monthly sewer fee, sewer customers are annually assessed \$54 per assigned service unit on their property tax statements. This revenue of \$354,900 is necessary for the payment of principal and interest on the \$5 million State loan to modify the RWCWRF. The outstanding balance on the loan is \$1,659,037 with an interest rate of 3.5%. The debt service payment for Fiscal Year 2007 is \$360,100.





OPERATING BUDGET SUMMARY - SEWER

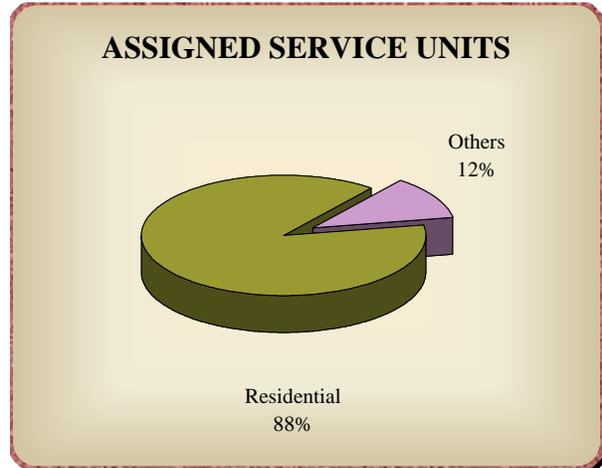
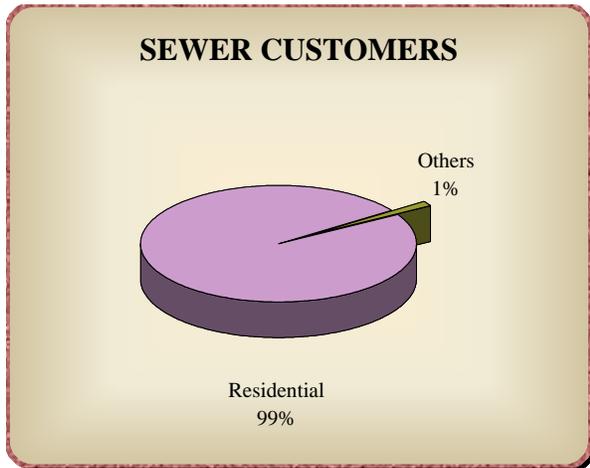
	FY 2005	FY 2006		FY 2007	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Recycled Water Sales	\$ -	\$ 399,900	\$ -	\$ -	\$ (399,900)	(100.0%)
Sewer Charges	1,995,548	2,296,400	2,296,856	2,568,100	271,700	11.8%
Non-operating Revenues	-	-	-	3,000	3,000	100.0%
Tax Revenues	603,522	357,200	410,612	49,900	(307,300)	(86.0%)
Interest	-	-	-	56,700	56,700	100.0%
General Fund Draw Down	-	-	-	283,600	283,600	100.0%
TOTAL REVENUES	2,599,070	3,053,500	2,707,468	2,961,300	(92,200)	(3.0%)
EXPENDITURES						
Power	174,399	162,200	226,237	164,300	2,100	1.3%
Labor and Benefits	292,391	836,500	647,438	1,009,300	172,800	20.7%
Administrative Expenses	85,562	279,000	125,809	188,400	(90,600)	(32.5%)
Material & Maintenance	1,104,851	1,409,500	1,337,986	1,599,300	189,800	13.5%
Debt Service	360,450	366,300	360,244	-	(366,300)	(100.0%)
TOTAL EXPENDITURES	2,017,653	3,053,500	2,697,714	2,961,300	(92,200)	(3.0%)
EXCESS REVENUES	\$ 581,417	\$ -	\$ 9,754	\$ -	\$ -	(100.0%)



CUSTOMERS AND ASSIGNED SERVICE UNITS - SEWER

FY 2007

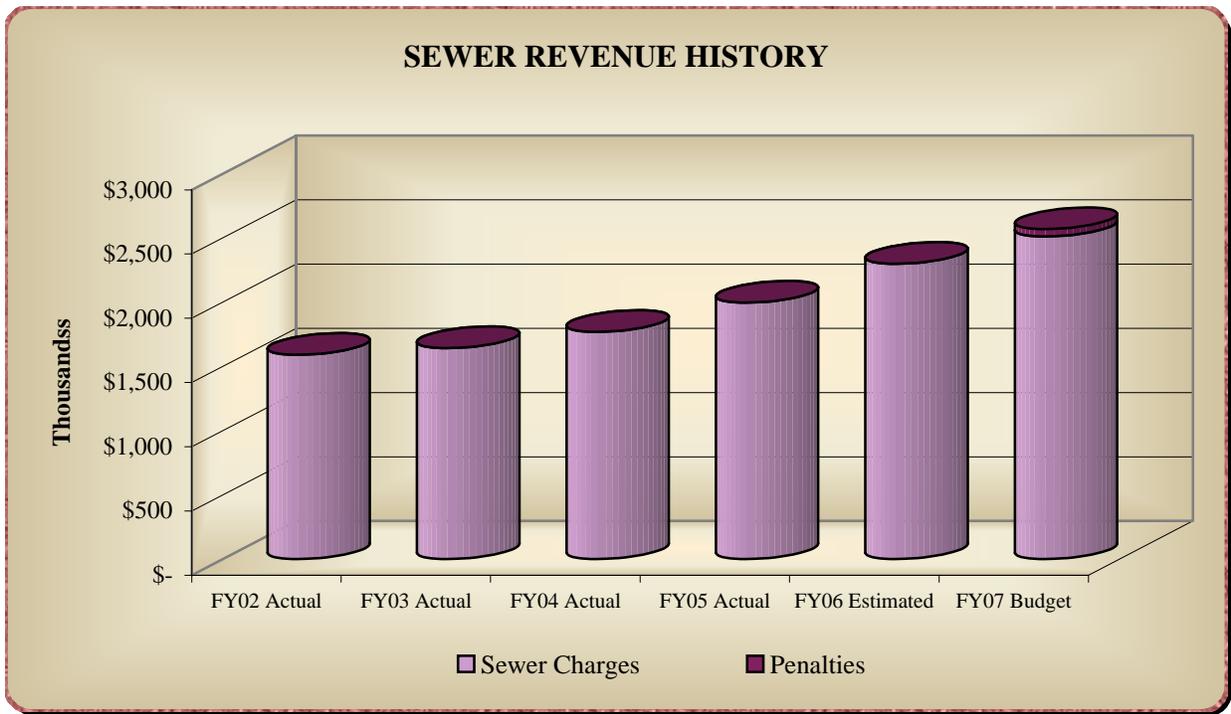
User Category	Total Accounts	Assigned Service Units
Residential:		
Single-Family	4,449	4,449.00
Multi-Family	50	1,360.00
Institutional:		
Schools	6	270.63
Churches	4	97.52
Commercial:		
Low Strength	34	192.39
Medium Strength	18	137.90
High Strength	6	64.87
Total	<u>4,567</u>	<u>6,572.31</u>





REVENUE HISTORY - SEWER

	Actual				Estimated	Budget
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Sewer Charges	\$ 1,588,901	\$ 1,640,943	\$ 1,767,118	\$ 1,995,548	\$ 2,296,856	\$ 2,509,900
Penalties ⁽¹⁾	-	-	-	-	-	58,200
Total	\$ 1,588,901	\$ 1,640,943	\$ 1,767,118	\$ 1,995,548	\$ 2,296,856	\$ 2,568,100

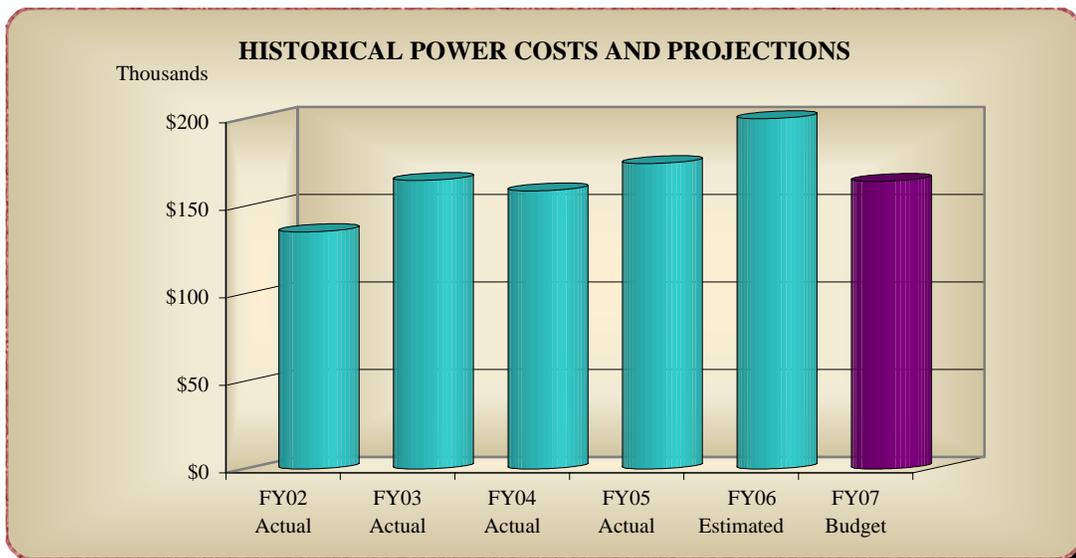


⁽¹⁾ Prior to Fiscal Year 2007, penalties were Potable revenues only.



POWER COSTS - SEWER

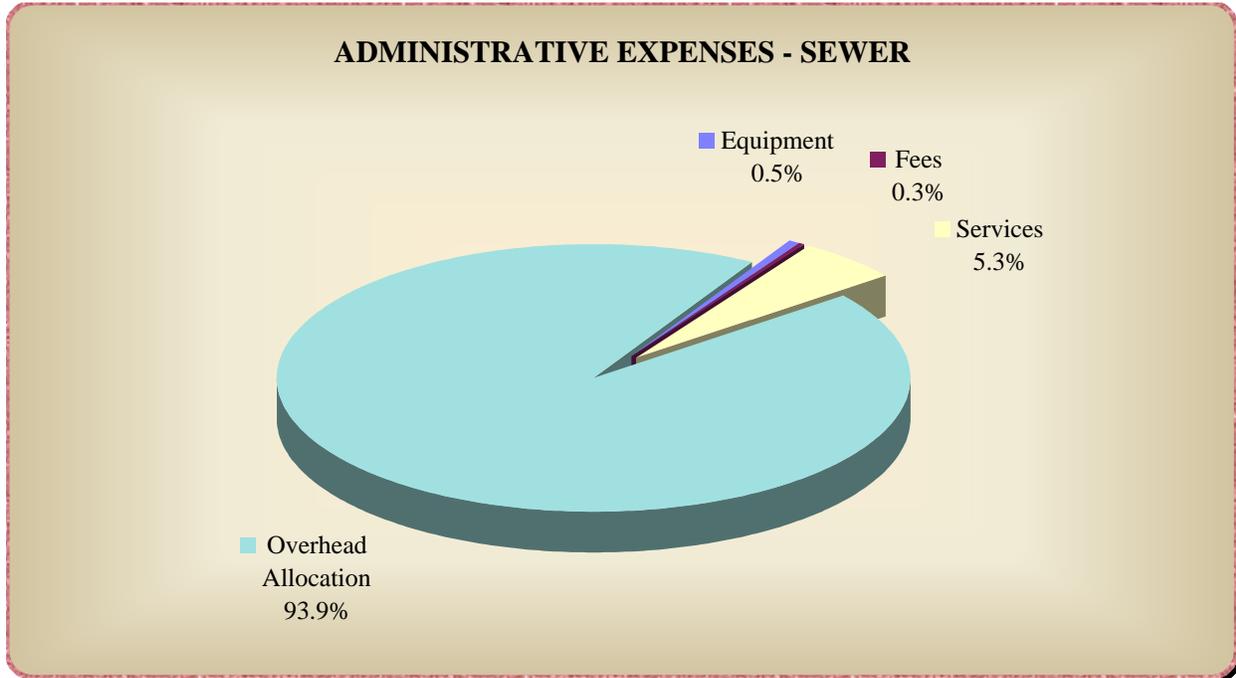
	<u>Sewer Lift Station</u>
FY02 Actual	\$ 135,416
FY03 Actual	164,846
FY04 Actual	158,836
FY05 Actual	174,399
FY06 Estimated	226,237
FY07 Budget	164,300





ADMINISTRATIVE EXPENSES - SEWER

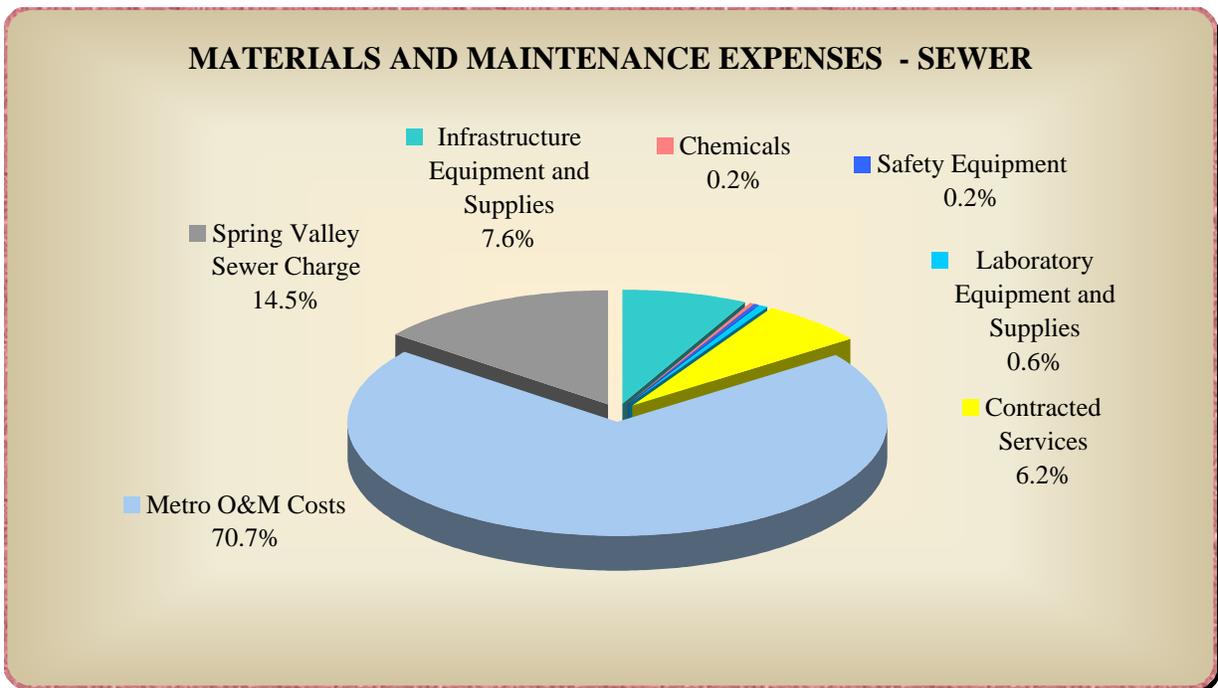
	FY 2005	FY2006		FY 2007	Budget Variance	%
	Actual	Budget	Estimated	Budget		
General Office Expense	\$ 54	\$ -	\$ 141	\$ -	-	(100.0%)
Equipment	-	37,000	8,898	1,000	(36,000)	(97.3%)
Fees	308	500	232	500	-	0.0%
Services	503	25,000	3,206	10,000	(15,000)	(60.0%)
Total	865	62,500	12,477	11,500	(51,000)	(81.6%)
Overhead Allocation	84,697	216,500	113,332	176,900	(39,600)	(18.3%)
Administrative Expenses	\$ 85,562	\$ 279,000	\$ 125,809	\$ 188,400	\$ (90,600)	(32.5%)





MATERIALS AND MAINTENANCE EXPENSES - SEWER

	FY 2005	FY 2006		FY 2007	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Materials and Maintenance						
Fuel and Oil	\$ 541	\$ -	\$ -	\$ -	-	(100.0%)
Meters and Materials	-	-	5	-	-	(100.0%)
Fleet Parts and Equipment	50	-	288	-	-	(100.0%)
Infrastructure Equipment and Supplies	12,544	143,500	150,904	122,000	(21,500)	(15.0%)
Chemicals	2,566	5,500	4,699	3,000	(2,500)	(45.5%)
Safety Equipment	4,368	4,500	1,687	2,800	(1,700)	(37.8%)
Laboratory Equipment and Supplies	1,878	30,000	34,263	10,000	(20,000)	(66.7%)
Other Materials and Supplies	576	-	167	-	-	(100.0%)
Contracted Services	-	50,000	5,006	100,000	50,000	100.0%
Materials and Maintenance	22,523	233,500	197,019	237,800	4,300	1.8%
Sewer Charges						
Metro O&M Costs	870,504	955,000	916,774	1,130,000	175,000	18.3%
Spring Valley Sewer Charge	211,824	221,000	224,193	231,500	10,500	4.8%
Total Sewer Charges	1,082,328	1,176,000	1,140,967	1,361,500	185,500	15.8%
Total Materials and Maintenance	\$ 1,104,851	\$ 1,409,500	\$ 1,337,986	\$ 1,599,300	\$ 189,800	13.5%



FORMULA FOR SEWER RATES

Each year the District is required to revise its formula for determining sewer rates in accordance with the State Revenue Program Guidelines. The formula takes into consideration the cost associated with daily flow, chemical oxygen demand (COD) and the removal of suspended solids (SS). The COD and SS determine the strength factor for the groups of high, medium and low, and the State Water Resources Control Board (SWRCB) determines these factors. The factors beginning January 1, 2004 are shown below:

1.000	Single Family Residential
1.000	Multi-Family Residential
1.000	Schools
1.000	Churches
1.000	Low Strength Commercial
1.238	Medium Strength Commercial
2.203	High Strength Commercial

The following formula is based on an estimated daily flow of 250 gallons per day plus 280 milligrams per liter of Biological Oxygen Demand (BOD) and 234 milligrams per liter of SS for a residential equivalent dwelling unit or an assigned service unit (ASU). The new method of calculating the sewer rate is to multiply the flow by the strength factor to determine the Assigned Service Unit (ASU) as follows:

$$\begin{aligned} \text{Daily Flow} & \quad \times \quad \text{Strength Factor} & = & \text{Assigned Service Unit} \\ (\text{gpd} \times .85)/250\text{gpd} & \quad \times \quad \text{as shown above} & = & \text{ASU} \end{aligned}$$

The ASU is then multiplied by the district-wide sewer rate to determine the monthly sewer charge. As approved by the Board of Directors, the sewer rates per ASU effective on January 1st of Calendar Years 2006 and 2007 are \$30.90 and \$32.70, respectively.

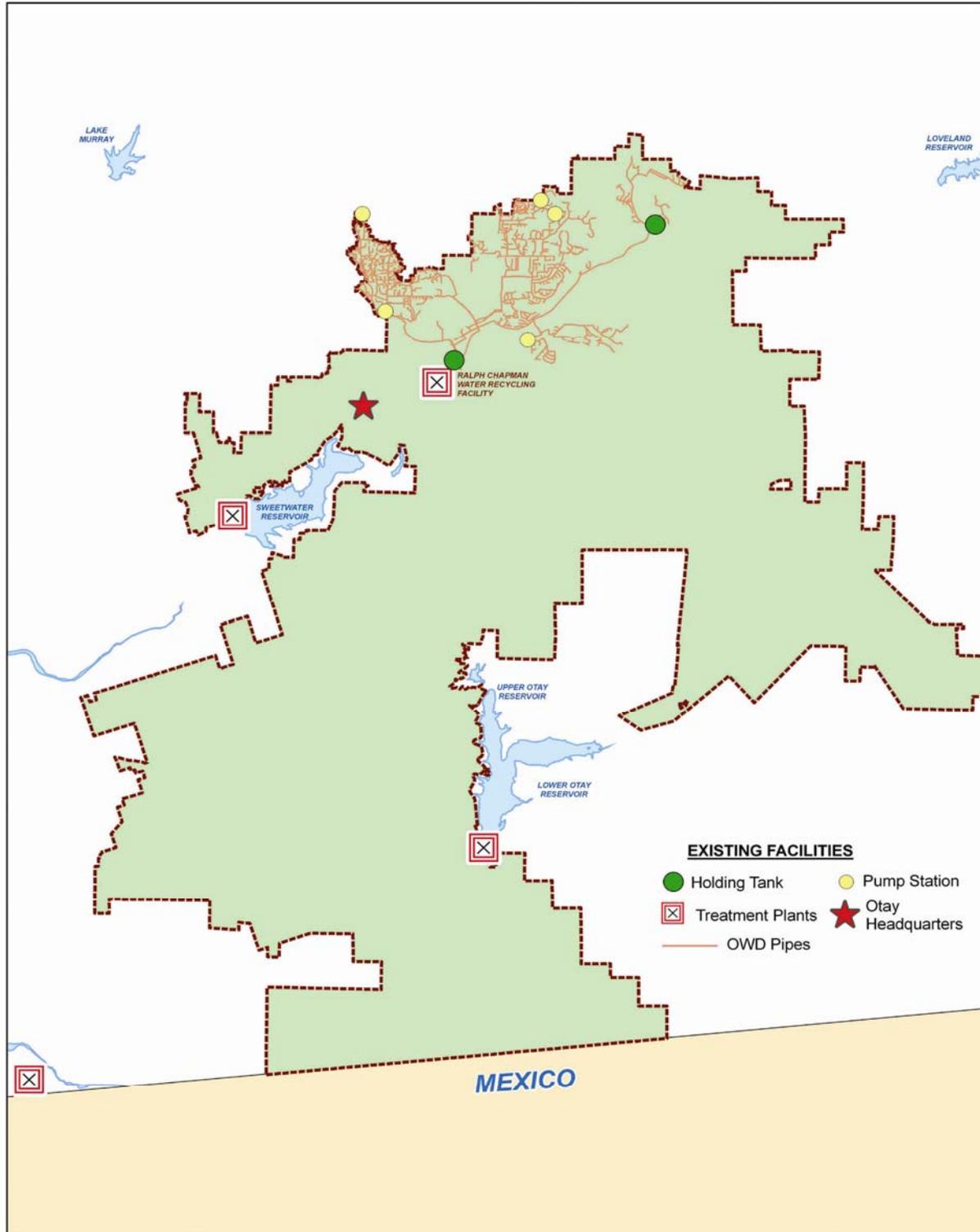
The minimum charge for commercial shall be no lower than one ASU at low strength. Churches are considered the same as low-strength commercial.

For public schools, flow is based on average daily attendance for the prior school year, including summer school, as reported by schools to meet state requirements. For elementary schools, 50 students equal one ASU; for junior high schools, 40 students equal one ASU; for high schools, 24 students equal one ASU. The formula for schools is the same as the single-family residence.

This page intentionally left blank

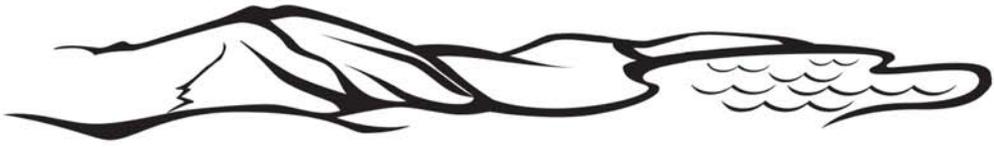


SEWER SERVICE AREA



This page intentionally left blank





General Revenues and Expenses

GENERAL REVENUES AND EXPENSES

The District's revenues and expenses in this section are not directly related to the services delivered to potable, recycled, or sewer customers, yet they are operating.

General Revenues

Capacity fees have a restricted purpose when collected to cover costs including, but not limited to, planning, design, construction, and financing associated with facilities for the District's expansion needs. The District uses a portion of capacity fee revenues to provide general planning and developer support. These fees reimburse the General Fund for cost of providing these services.

Annexation fees are collected when developers buy into the District's potable and recycled water facilities. The fee insures that future users fund a portion of the facilities that were sized and built for their future use by prior customers. Annexation fees are unrestricted and therefore included in the General Fund revenues.

The 1% Property Tax is a result of Proposition 13 which occurred in 1978. This limited general levy property tax rate for all taxing authorities to a total rate of 1% of the assessed value. Subsequent legislation AB8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. These general use funds are currently being used as a source of operating revenue.

For Fiscal Years 2005 and 2006, the State of California has imposed an Educational Revenue Augmentation Fund Shift of property tax revenue away from special districts such as the Otay Water District. This shift equated to a \$1,210,400 loss in 1% tax revenue. Beginning Fiscal Year 2007, the District will again receive its full amount of this tax revenue.



The District levies availability charges each year in developed areas to be used for upgrades and betterment and in undeveloped areas to provide a funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be used only for the benefit of the improvement district in which it is assessed.

Included in the General Revenues are a variety of Non-Operating Revenues. These revenues include lease revenue, set-up fees, sewer billing fees, grants, and any miscellaneous revenues.

Revenues are received from the lease of District property, mainly for the purpose of cell-sites. When the District enters a new lease there is a one-time fee charged with the set-up of each cell-site. The District incurs expenses related to these leases and this purpose of the fee is to recover the cost to set up the lease.

In addition to the cell-site leases, the District leases land to the Salt Creek Golf Club. The lease terms include a minimum annual rent guarantee plus a percentage of sales over 3%. This lease is a 40 year term with two additional 5 year options.

For most of the District's water customers in the City of Chula Vista, the City of Chula Vista (CCV) provides the sewer services. The CCV sewer fees are based on water consumption. Because of the interrelated functions, the CCV contracts with the District for processing and billing of their sewer customers within the District for a fee.

General Expenses

The expenses in this section are general operating expenses not associated with an individual department. These include legal costs, insurance premiums, changes in accrued employee leave balances, and miscellaneous interest. These expenses represent 4% of the total Departmental Budget.

Legal expenses are viewed as a District-wide general expense because it benefits each department and usually is not attributed to any one department. The District retains outside legal services rather than having in-house counsel.

Insurance expense is viewed as District-wide general expense because it benefits each department and cannot be attributed to any one department. The District participates in a program where it can reduce its premium by implementing training sessions to reduce on-the-job accidents and injuries.

Some employee benefits are charged to the general expense department because they are not entirely attributable to the specific department or year in which they are earned. For example, when a pay rate increase occurs for an employee and leave balances increase in value due to this change. In this case, the expense is charged to the General Expense Department.

Miscellaneous interest expense is recorded in this section. This is related to a five-year lease of a Vactor truck that the District acquired four years ago. The truck was capitalized, but the interest expense for the lease purchase is considered an operating expense.



GENERAL REVENUES

	FY 2005	FY 2006		FY 2007	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Capacity Fee Revenues	\$ -	\$ 1,222,200	\$ 1,356,611	1,000,200	\$ (222,000)	(18.2%)
Annexation Fees	-	-	-	1,216,900	1,216,900	100.0%
<u>Tax Revenues</u>						
Sewer Fees Tax Revenue	354,490	357,200	359,364	-	(357,200)	(100.0%)
Debt Tax Revenue	994,484	839,700	1,081,991	-	(839,700)	(100.0%)
1% General Tax	977,552	1,006,500	1,338,279	2,802,700	1,796,200	178.5%
Availability Fees	556,590	611,200	609,099	624,700	13,500	2.2%
Total Tax Revenues	2,883,115	2,814,600	3,388,734	3,427,400	612,800	21.8%
General Revenues	\$ 2,883,115	\$ 4,036,800	\$ 4,745,345	\$ 5,644,500	\$ 1,607,700	39.8%

NON-OPERATING REVENUES

	FY 2005	FY 2006		FY 2007	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Property Rental	\$ 766,733	\$ 803,200	\$ 806,014	\$ 1,124,200	321,000	40.0%
Sewer Billing Fees	247,961	342,200	347,205	350,900	8,700	2.5%
Set-up Fee for Lease Site	-	18,000	33,000	52,000	34,000	188.9%
Grants	-	-	-	25,000	25,000	100.0%
Miscellaneous	146,423	-	792,324	122,000	122,000	100.0%
Non-Operating Revenues	\$ 1,161,117	\$ 1,163,400	\$ 1,978,542	\$ 1,674,100	\$ 510,700	43.9%

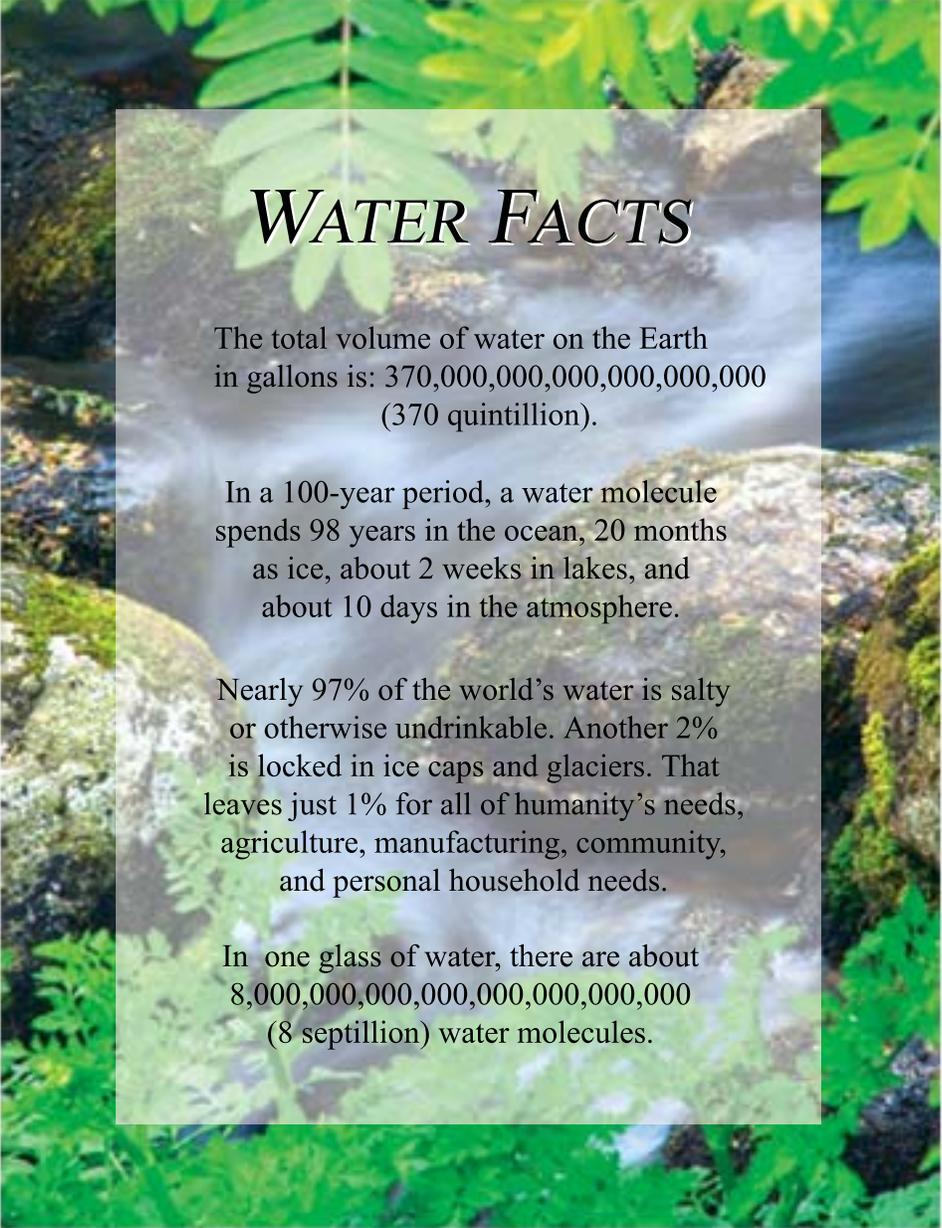
GENERAL AND NON-OPERATING REVENUES BY BUSINESS

	FY 2007 Budget			
	Potable	Recycled	Sewer	Total
Capacity Fee Revenues	\$ 1,000,200	\$ -	\$ -	\$ 1,000,200
Annexation Fees	1,216,900	-	-	1,216,900
<u>Tax Revenues</u>				
1% Property Tax	2,802,700	-	-	2,802,700
Availability Fees	574,800	-	49,900	624,700
Total Tax Revenues	3,377,500	-	49,900	3,427,400
<u>Non-Operating Revenues</u>				
Property Rental	1,124,200	-	-	1,124,200
Sewer Billing Fees	350,900	-	-	350,900
Set-up Fee for Lease Site	52,000	-	-	52,000
Grants	25,000	-	-	25,000
Miscellaneous	116,000	3,000	3,000	122,000
Total Non-Operating Revenues	1,668,100	3,000	3,000	1,674,100
Total General and Non-Operating Revenues	\$ 7,262,700	\$ 3,000	\$ 52,900	\$ 7,318,600



GENERAL EXPENSES

	FY 2005	FY 2006		FY 2007	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>General Administrative Expenses</u>						
Legal Fees	\$ 852,285	\$ 525,000	\$ 578,116	\$ 671,000	\$ 146,000	17.1%
Benefits	-	-	-	47,000	47,000	100.0%
General Insurance	317,342	337,500	363,483	336,200	(1,300)	(0.4%)
Interest	-	-	-	700	700	100.0%
Total	\$ 1,169,627	\$ 862,500	\$ 941,598	\$ 1,054,900	\$ 192,400	16.4%



WATER FACTS

The total volume of water on the Earth in gallons is: 370,000,000,000,000,000,000 (370 quintillion).

In a 100-year period, a water molecule spends 98 years in the ocean, 20 months as ice, about 2 weeks in lakes, and about 10 days in the atmosphere.

Nearly 97% of the world's water is salty or otherwise undrinkable. Another 2% is locked in ice caps and glaciers. That leaves just 1% for all of humanity's needs, agriculture, manufacturing, community, and personal household needs.

In one glass of water, there are about 8,000,000,000,000,000,000,000 (8 septillion) water molecules.

This page intentionally left blank





Departmental Operating Budget

DEPARTMENTAL OPERATING BUDGET

Labor and Benefits

Labor and Benefits represent 24.7% of the total Operating Budget. In Fiscal Year 2004, the Employees' Association signed a five-year Memorandum of Understanding (MOU) with the District. The highlights of this agreement included: changes to the medical and dental plans with employees paying a portion of their dependent's premiums, enhancements of the retirement package with the Public Employees' Retirement System (PERS) to include a "2.7% at 55" benefit, and the rewriting of the entire MOU to streamline the grievance procedure and other District practices.

District personnel are assigned to work in seven departments: General Manager, Administrative Services, Finance, Information Technology & Strategic Planning, Water Operations, Engineering & Planning, and Development Services. The departments are further categorized by functions into divisions. The Fiscal Year 2007 Budget includes funding for labor and benefits for 174.75 Full-time Equivalent (FTE) employees and a 3% across-the-board salary increase on July 1, 2006.

The staffing level for Fiscal Year 2007 has a net increase of one-half FTE employee from Fiscal Year 2006. This is a result of increasing a part-time warehouse position to a full-time position.

A projected 13.6% of the labor and benefits costs will be charged to projects included in the Capital Improvement Program (CIP) and Developer Deposits. These are not considered Operating Projects and therefore reduce the Operating Budget by \$2,469,500. The Water Operations Department, with its staff of 72 employees, is responsible for maintaining and operating the District's facilities.

Administrative Expenses

Administrative Expenses represent 9.4% of the District's total operating costs. A detailed listing of the Administrative Expenses for Fiscal Year 2007 is shown on page 148.

Administrative Expenses include such items as memberships, office supplies, staff training, directors' fees, water conservation programs, safety expenses, and regulatory agencies' fees. Some of the administrative expenses are more discretionary than others such as insurance or regulatory fees which are mandatory; whereas the District may be better able to control other expenses such as training or business meetings to some extent. The safety needs of the District's customers and employees and the compliance with regulatory agencies are of utmost importance to the District and these costs are considered necessary expenses.

DEPARTMENTAL OPERATING BUDGET

Materials and Maintenance

The Materials and Maintenance budget allows the District to provide and improve reliable, high-quality products, services, and support to its customers.

New mandates by the California Department of Health for both the flexible line and cover reservoir and valve-exercising programs are responsible for increases of \$148,000 and \$288,000, respectively.

As the District continues to grow and new facilities are added, additional maintenance and services will be required. There is an 9.1% increase, due to growth and cost increases, which mainly consist of the following: Metro O&M Costs \$175,000, Fuel and Oil \$569,000 (\$42,000 due to price and \$527,000 due to a new source of water at the Lower Otay Pump Station), Pressure Reducing Stations \$53,000, and Spring Valley Sewer Charge of \$10,500.

The Water Operations Department implemented an Infrastructure Management System (IMS) which allows for better maintenance of assets as well as tracking new assets coming on-line, planning for repair or replacement of assets as well as assessing the condition of the infrastructure. IMS is helping the District to better track and manage the Materials and Maintenance costs.

Performance Measurement Program

The Board of Directors approves the strategic goals and objectives. Departments then incorporate these into their budgets to ensure adequate funds are available to implement these plans. The District updated its performance measurement program in Fiscal Year 2006 to provide measurable results of progress on both strategic and key operational goals and objectives. The measures have been developed by comparing key District activities with functional and available operational data that provide reliable feedback on progress. Developed cooperatively with staff and the help of measurement experts, the measures are designed to be comparable to measures commonly found in similar industries.

The performance measures focus on “best practice” as applied to the District. Measures are collected and reviewed quarterly by the Senior Management Team and also reviewed by the Board at least twice a year. Results are used to set new targets for the following fiscal year and to hold staff accountable for the current fiscal year.

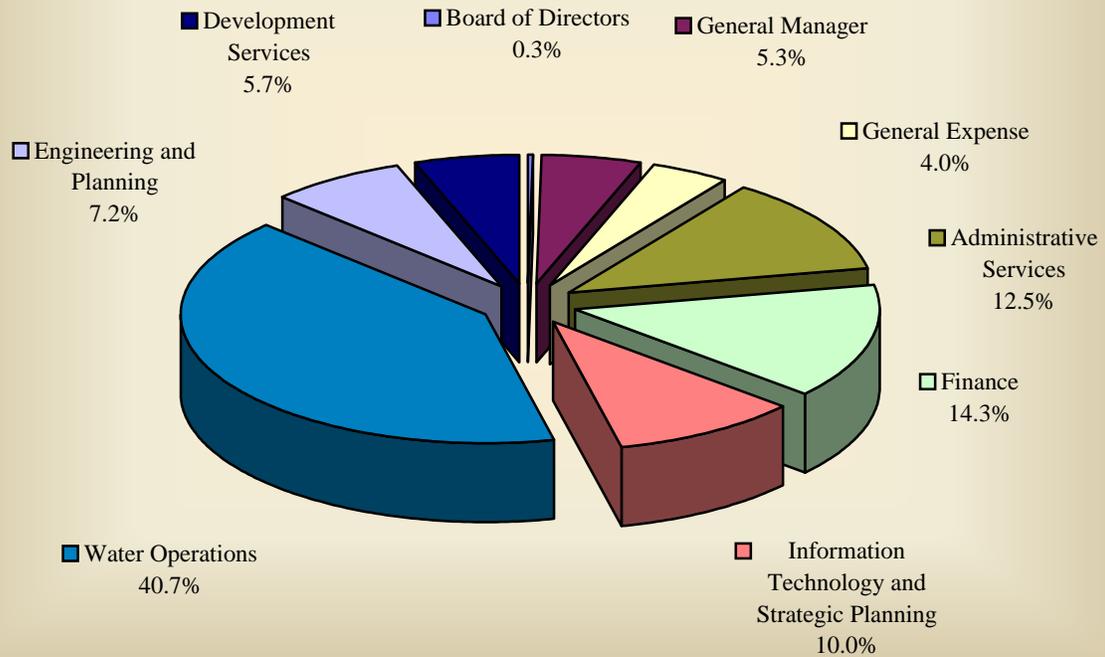


DEPARTMENTAL OPERATING BUDGET

TOTAL DEPARTMENTAL OPERATING BUDGET

Fiscal Year 2006-2007

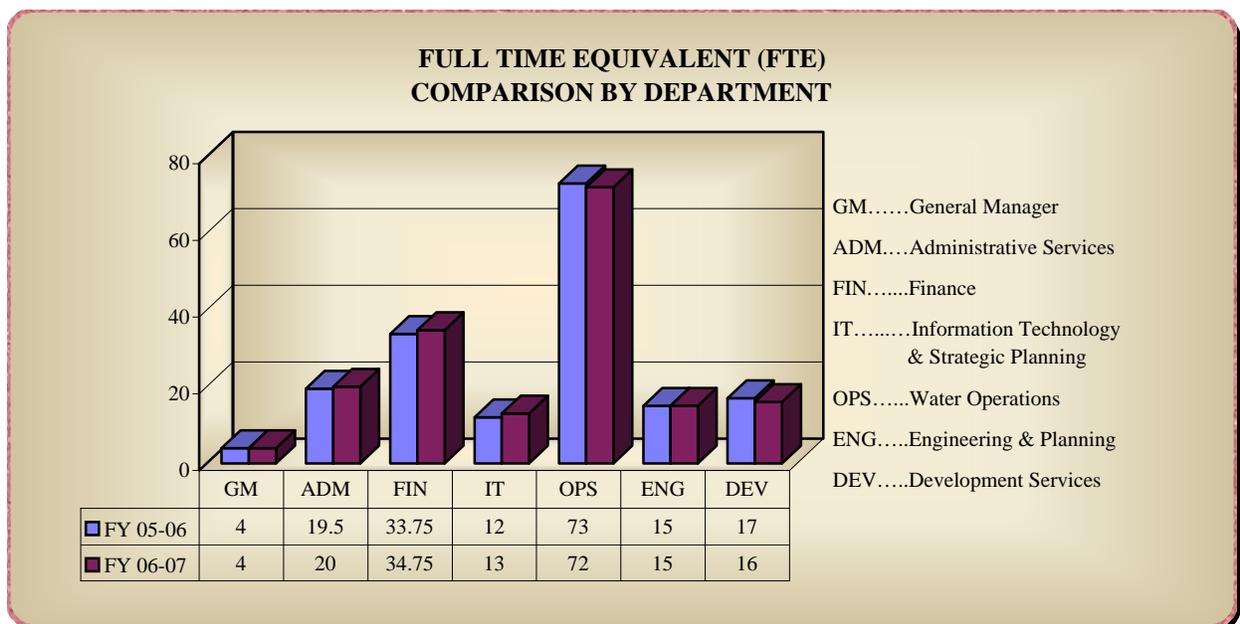
\$26,565,800





LABOR & BENEFITS

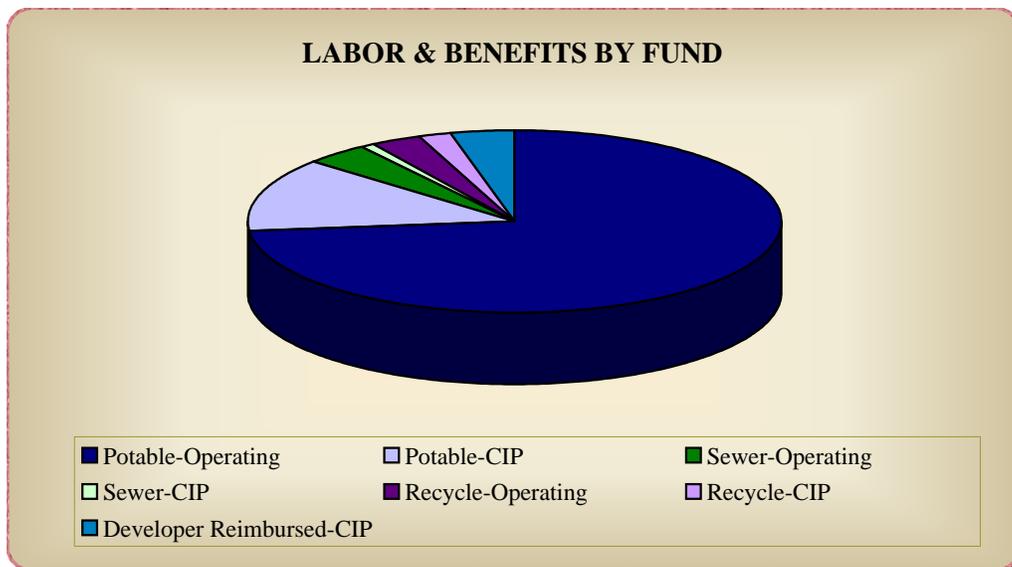
	FY05	FY06		FY07
	Actual	Budget	Estimated	Budget
Total Labor Costs	\$ 9,530,742	\$ 9,506,400	\$ 9,353,829	\$ 10,427,200
<u>Benefits</u>				
Pension	2,508,438	3,013,100	2,831,808	2,996,000
Employee Assistance Program	7,257	7,500	7,444	7,500
Worker's Compensation	505,697	482,800	593,756	295,700
Health/Dental/Life Insurance	1,642,924	1,875,900	2,208,498	1,577,900
Social Security / Medicare	771,181	830,700	780,852	871,700
Salary Continuation Insurance	71,237	73,000	73,636	79,300
Employee Awards	4,660	-	3,115	-
State Unemployment Insurance	14,370	20,000	17,691	20,000
Vacation / Sick	1,414,095	1,747,100	1,738,682	1,922,200
Total Fringe Benefits	<u>6,939,859</u>	<u>8,050,100</u>	<u>8,255,482</u>	<u>7,770,300</u>
Total Labor & Benefits	<u>16,470,601</u>	<u>17,556,500</u>	<u>17,609,311</u>	<u>18,197,500</u>
<u>Less: Non-Operating Labor & Benefits</u>				
Labor Costs	2,071,512	1,607,400	1,368,893	1,544,500
Fringe Benefits Allocation	<u>1,657,210</u>	<u>1,324,500</u>	<u>814,999</u>	<u>925,000</u>
Total WO Allocation	<u>3,728,722</u>	<u>2,931,900</u>	<u>2,183,892</u>	<u>2,469,500</u>
Operating Labor & Benefits	12,741,879	14,624,600	15,425,419	15,728,000
Less: Overhead Allocation Personnel Portion	<u>1,504,384</u>	<u>1,167,300</u>	<u>994,124</u>	<u>1,121,700</u>
Operating Labor & Benefits	<u>\$ 11,237,495</u>	<u>\$ 13,457,300</u>	<u>\$ 14,431,295</u>	<u>\$ 14,606,300</u>





LABOR & BENEFITS BY FUND - FISCAL YEAR 2007

	<u>Potable</u>	<u>Sewer</u>	<u>Recycle</u>	<u>Developer Reimbursed-CIP</u>	<u>Total</u>
Total Operating Labor Costs	\$ 8,118,000	\$ 417,400	\$ 347,300	\$ -	\$ 8,882,700
Benefits	6,333,300	288,800	223,200	-	6,845,300
Overhead Allocation-Personnel Portion	(1,121,700)	-	-	-	(1,121,700)
Total Operating Labor & Benefits	13,329,600	706,200	570,500	-	14,606,300
Total CIP Labor Costs	\$ 1,021,500	\$ 65,500	\$ 157,300	\$ 300,200	\$ 1,544,500
Benefits	610,400	37,000	90,400	187,200	925,000
Overhead Allocation-Personnel Portion	741,900	47,600	114,200	218,000	1,121,700
Total CIP Labor & Benefits	2,373,800	150,100	361,900	705,400	3,591,200
Total Labor & Benefits	15,703,400	856,300	932,400	705,400	18,197,500





POSITION COUNT BY DEPARTMENT

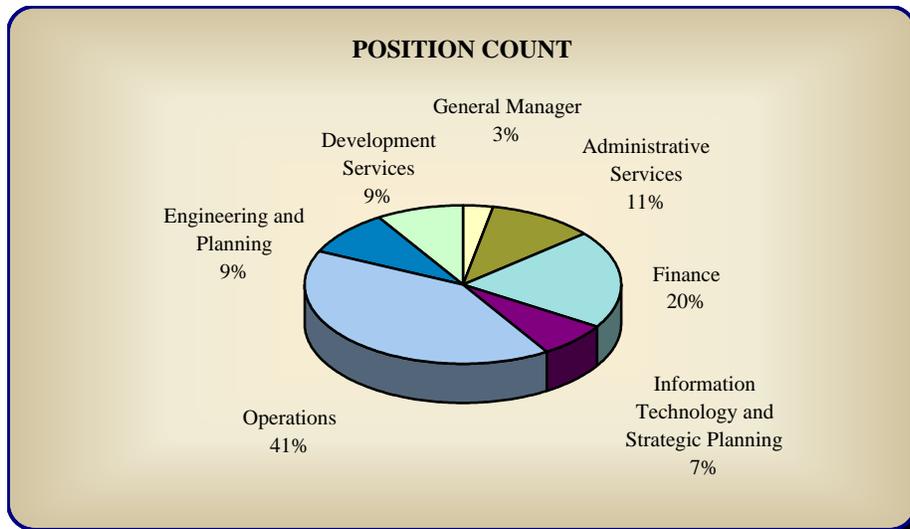
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>General Manager:</u>			
General Manager	1	1	1
Assistant General Manager, Finance and Admin	1	1	1
Assistant General Manager, Eng. and Ops.	1	1	1
District Secretary	1	1	1
Assistant District Secretary	1	1	1
Communications Officer	1	1	1
Total	6	6	6
Total - General Manager Department			
	6	6	6
FTE	6.00	6.00	6.00
<u>Administrative Services:</u>			
Chief, Administrative Services	1	1	1
Executive Secretary	1	1	0
Confidential Secretary	0	0	1
Office Assistant	1	1	1
Total	3	3	3
<u>Human Resources:</u>			
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	1	1
Human Resources Technician	2	1	1
Total	5	4	4
<u>Purchasing:</u>			
Purchasing and Facilities Manager	1	1	1
Buyer	1	1	1
Purchasing Assistant	1	0	0
Assistant Buyer	0	1	1
Lead Warehouse Worker	1	1	1
Warehouse/Delivery Worker I and II	1	1	2
Warehouse Assistant (PT)	1	1	0
Facilities Maintenance Technician	2	2	2
Building Maintenance Assistant	1	1	1
Total	9	9	9
<u>Safety:</u>			
Safety and Risk Administrator	1	1	1
Total	1	1	1

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>Conservation:</u>			
Water Conservation Manager	1	1	1
Water Conservation Specialist	1	1	1
Total	<u>2</u>	<u>2</u>	<u>2</u>
Total Administrative Services Department			
	20	19	19
FTE	19.50	18.50	19.00
<u>Controller and Budgetary Services:</u>			
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Finance Manager, Controller and Budget	1	1	1
Senior Accountant	2	2	2
Accountant	1	1	1
Office Assistant (PT)	1	1	1
Total	<u>7</u>	<u>7</u>	<u>7</u>
<u>Treasury and Accounting Services:</u>			
Finance Manager, Treasury and Accounting	1	1	1
Senior Accountant	2	2	2
Accountant	3	3	3
Total	<u>6</u>	<u>6</u>	<u>6</u>
<u>Customer Service:</u>			
Customer Service Manager	1	1	1
Customer Service Supervisor	1	1	1
Customer Service Representative I, II and III	7	7	9
Lead Customer Service Field Representative	1	1	1
Customer Service Field Representative I and II	6	6	6
Office Assistant	1	1	0
Total	<u>17</u>	<u>17</u>	<u>18</u>
<u>Payroll and Accounts Payable:</u>			
Finance Supervisor, Payroll and Accounts Payable	1	1	1
Payroll Technician	1	1	1
Accounting Assistant	2	2	2
Total	<u>4</u>	<u>4</u>	<u>4</u>
Total Finance Department			
	34	34	35
FTE	33.75	33.75	34.75

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>Information Technology and Strategic Planning:</u>			
Chief Information Officer	1	1	1
GIS Supervisor	1	1	1
IT Operations Supervisor	1	1	1
GIS Technician	2	2	2
Computer Systems Administrator	1	1	1
Database Administrator	0	0	1
Business System Analyst I and II	2	3	3
Network Support Analyst	1	1	1
Records Services Assistant	1	1	1
Program and Systems Support Analyst	1	1	1
Total	11	12	13
Total IT and Strategic Planning Department			
FTE	11.00	12.00	13.00
<u>Operations Management:</u>			
Chief, Water Operations	1	1	1
Executive Secretary	1	1	1
Planner/Scheduler	0	1	0
Total	2	3	2
<u>Water System Operations:</u>			
Water Systems Manager	1	0	0
System Operations Manager	0	1	1
Water Systems Supervisor	1	1	2
Pump Electrical Supervisor	1	1	1
Water Systems Crew Leader	2	2	2
Water Systems Operator I, II, and III	9	9	9
Valve Maintenance Worker	0	0	1
Disinfection Technician	1	1	1
Assistant Disinfection Technician	1	1	1
Recycled Water Distribution Operator	3	3	3
Senior SCADA Instrumentation Technician	1	1	2
Electrician/Instrumentation Technician	1	1	0
Electrician I and II	2	2	2
Pump Mechanic I and II	2	2	2
Total	25	25	27

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>Utility Maintenance/Construction:</u>			
Construction Maintenance Manager	1	1	1
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	5	5	5
Utility Workers I and II	10	10	10
Senior Utility/Equipment. Operator	4	4	4
Equipment Shop Supervisor	1	1	1
Equipment Shop Mechanic I and II	4	4	4
Welder II	1	1	1
Meter Maintenance/Cross Connect Supervisor	1	1	1
Lead Meter Maintenance Worker	1	1	1
Meter Maintenance/Cross Connect Worker I and II	5	5	5
Custodian/Automotive Attendant	1	1	0
Total	36	36	35
<u>Collection/Treatment/Reclamation Operations:</u>			
Collection/Reclamation Manager	1	0	0
Recycled/Lab Supervisor	0	1	0
Reclamation Plant Supervisor	1	1	1
Water Reclamation Plant Operator	3	3	3
Water System Technician	1	1	1
Laboratory Analysts I and II	2	2	2
Total	8	8	7
<u>Total Operations Department</u>			
	71	72	71
FTE	71.00	72.00	71.00
<u>Engineering Management:</u>			
Chief, Engineering and Planning	1	1	1
Executive Secretary	1	1	1
Total	2	2	2
<u>Engineering and Planning:</u>			
Engineering Manager	2	2	2
Senior Civil Engineer	2	2	2
Associate Civil Engineer	2	2	2
Assistant Civil Engineer	1	2	2
Engineering Technicians I, II and III	4	5	5
Total	11	13	13
<u>Total Engineering and Planning Department</u>			
	13	15	15
FTE	13.00	15.00	15.00

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Development Services:			
Chief, Development Services	1	1	1
Public Services Manager	1	1	1
Secretary	1	1	1
Senior Civil Engineer	1	1	1
Associate Civil Engineer	1	1	1
Engineering Technicians I, II and III	3	3	2
Inspection Supervisor	1	1	1
Construction Inspectors I and II	4	4	4
Surveying Supervisor	1	1	1
Survey Technician	1	1	1
Assistant Survey Technician	1	1	1
Office Assistant	1	1	1
Total	17	17	16
Total Development Services Department			
	17	17	16
FTE	17.00	17.00	16.00
District Total Position Count			
	172	175	175
FTE	171.25	174.25	174.75
Contract Employees			
Senior Systems Analyst	1	0	0
Database Analyst	0	1	0
Customer Service Field Representative I and II	0	0	2
Customer Service Representative I and II	0	0	1
Total Contract Employees	1	1	3

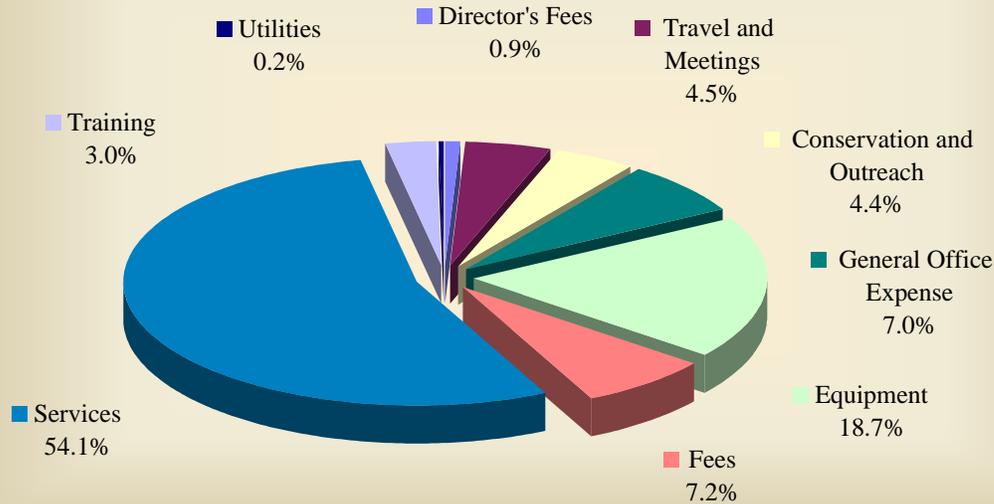




ADMINISTRATIVE EXPENSES - TOTAL

	FY 2005	FY2006		FY 2007	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Director's Fees	\$ 26,499	\$ 48,000	\$ 19,800	\$ 48,000	-	0.0%
Travel and Meetings	105,064	217,600	175,433	236,200	18,600	8.5%
Conservation and Outreach	130,510	211,900	148,439	229,500	17,600	8.3%
General Office Expense	305,061	352,400	375,871	364,700	12,300	3.5%
Equipment	486,536	975,500	720,745	975,600	100	0.0%
Fees	67,398	157,200	179,412	372,200	215,000	136.8%
Services	1,286,552	2,136,000	1,865,461	2,815,300	679,300	31.8%
Training	72,421	152,800	113,700	153,700	900	0.6%
Utilities	4,616	11,600	11,530	11,700	100	0.9%
Miscellaneous	10,088	-	-	-	-	0.0%
Total	2,494,744	4,263,000	3,610,391	5,206,900	943,900	22.1%
Less: Overhead Allocation	(877,855)	(681,200)	(580,103)	(654,500)	26,700	(3.9%)
Subtotal	1,616,889	3,581,800	3,030,288	4,552,400	970,600	27.1%
General Expenses	1,169,627	862,500	941,598	1,007,200	144,700	16.8%
Administrative Expenses - Total	\$ 2,786,516	\$ 4,444,300	\$ 3,971,886	\$ 5,559,600	\$ 1,115,300	25.1%

ADMINISTRATIVE EXPENSES - TOTAL

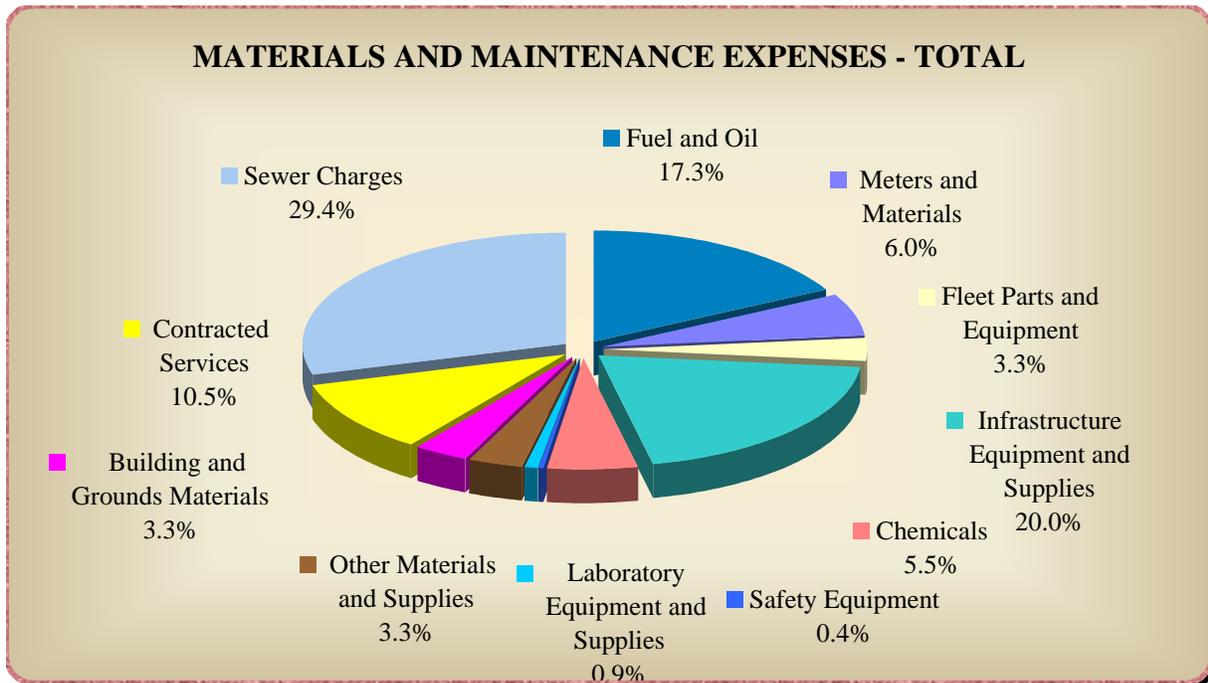




MATERIALS AND MAINTENANCE EXPENSES - TOTAL

	FY 2005	FY 2006		FY 2007	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 253,726	\$ 232,000	\$ 302,264	\$ 801,000	569,000	245.3%
Meters and Materials	797,673	652,200	499,581	275,100	(377,100)	(57.8%)
Fleet Parts and Equipment	132,942	155,000	151,791	155,000	-	0.0%
Landscaping Materials ⁽¹⁾	93,544	15,000	6,300	-	(15,000)	(100.0%)
Infrastructure Equipment and Supplies	254,804	773,500	822,379	926,200	152,700	19.7%
Chemicals	183,037	275,500	236,243	254,000	(21,500)	(7.8%)
Safety Equipment	20,052	51,100	29,713	18,600	(32,500)	(63.6%)
Laboratory Equipment and Supplies	48,303	82,000	60,850	42,000	(40,000)	(48.8%)
Other Materials and Supplies	93,753	65,000	215,376	150,500	85,500	131.5%
Building and Grounds Materials	63,137	90,000	87,986	154,400	64,400	71.6%
Contracted Services	137,136	672,000	332,526	485,400	(186,600)	(27.8%)
Materials and Maintenance	2,078,107	3,063,300	2,745,009	3,262,200	198,900	6.5%
Sewer Charges						
Metro O&M Costs	870,504	955,000	916,774	1,130,000	175,000	18.3%
Spring Valley Sewer Charge	211,824	221,000	224,193	231,500	10,500	4.8%
Total Sewer Charges	1,082,328	1,176,000	1,140,967	1,361,500	185,500	15.8%
Total Materials and Maintenance	\$ 3,160,435	\$ 4,239,300	\$ 3,885,976	\$ 4,623,700	\$ 384,400	9.1%

⁽¹⁾ Landscaping outsourced in FY 2006





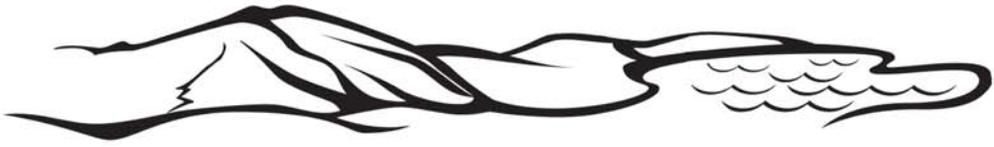
OPERATING EXPENDITURES BY DEPARTMENT

	FY 2005	FY2006		FY 2007
	Actual	Budget	Estimated	Budget
Departmental Expenditures				
Board of Directors	\$ 58,008	\$ 88,000	\$ 33,206	\$ 91,700
General Manager	1,549,641	1,327,300	1,365,468	1,403,500
General Expense	1,169,627	862,500	941,598	1,054,200
Administrative Services	2,627,195	2,789,400	2,849,587	3,316,300
Finance	3,453,094	3,474,900	3,566,714	3,813,000
Information Technology and Strategic Planning	1,796,952	2,328,100	2,297,117	2,655,400
Water Operations	8,149,653	10,260,800	10,008,312	10,803,800
Engineering and Planning	456,516	1,395,600	1,499,157	1,925,600
Development Services	305,999	1,462,800	1,302,225	1,502,300
Total Departmental Expenditures	19,566,685	23,989,400	23,863,384	26,565,800
Less: Overhead Allocation	(2,382,239)	(1,848,500)	(1,574,227)	(1,776,200)
Net Departmental Expenditures	17,184,446	22,140,900	22,289,157	24,789,600
Non-Departmental Expenditures				
Water Purchases	22,425,566	\$ 24,106,700	\$ 25,448,543	\$ 27,063,200
Power	2,010,748	2,327,100	2,113,787	2,677,800
Debt Service	2,692,543	2,709,300	2,820,714	-
Replacement Reserve	2,462,600	1,001,300	1,001,300	4,540,000
Total Non-Departmental Expenditures	29,591,457	30,144,400	31,384,344	34,281,000
TOTAL OPERATING EXPENDITURES	\$ 46,775,903	\$ 52,285,300	\$ 53,673,501	\$ 59,070,600



OPERATING EXPENDITURES BY OBJECT

	FY 2005	FY2006		FY 2007
	Actual	Budget	Estimated	Budget
Departmental Expenditures				
Benefits	\$ 12,741,879	\$ 14,624,600	\$ 15,425,420	\$ 15,728,000
Director's Fees	26,499	48,000	19,800	48,000
Travel and Meetings	105,064	217,600	175,432	236,200
Conservation and Outreach	130,510	211,900	148,439	229,500
General Office Expense	305,061	352,400	375,871	364,700
Equipment	486,536	975,500	720,745	975,600
Fees	1,237,025	1,019,700	1,121,011	1,378,700
Services	1,286,552	2,136,000	1,865,460	2,815,300
Training	72,421	152,800	113,700	153,700
Materials & Maintenance	2,078,107	3,063,300	2,745,009	3,262,200
Power and Utilities	4,615	11,600	11,530	11,700
Sewer Charges	1,082,328	1,176,000	1,140,967	1,361,500
Miscellaneous	10,088	-	-	-
Interest	-	-	-	700
Total Departmental Expenditures	19,566,685	23,989,400	23,863,384	26,565,800
Less: Overhead Allocation	(2,382,239)	(1,848,500)	(1,574,227)	(1,776,200)
Net Departmental Expenditures	17,184,446	22,140,900	22,289,157	24,789,600
Non-Departmental Expenditures				
Water Purchases	22,425,566	\$ 24,106,700	\$ 25,448,543	\$ 27,063,200
Power	2,010,748	2,327,100	2,113,787	2,677,800
Debt Service	2,692,543	2,709,300	2,820,714	-
Replacement Reserve	2,462,600	1,001,300	1,001,300	4,540,000
Total Non-Departmental Expenditures	29,591,457	30,144,400	31,384,344	34,281,000
TOTAL OPERATING EXPENDITURES	\$ 46,775,903	\$ 52,285,300	\$ 53,673,501	\$ 59,070,600



Board of Directors

BOARD OF DIRECTORS

Mission Statement

To provide safe, reliable water, recycled water and wastewater services to our community in an innovative, cost efficient, water-wise and environmentally responsible manner.

Division 4



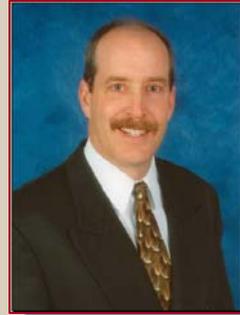
Jose Lopez
Vice President

Division 2



Jaime Bonilla
President

Division 5



Mark Robak
Treasurer

Division 3



Gary Croucher

Division 1



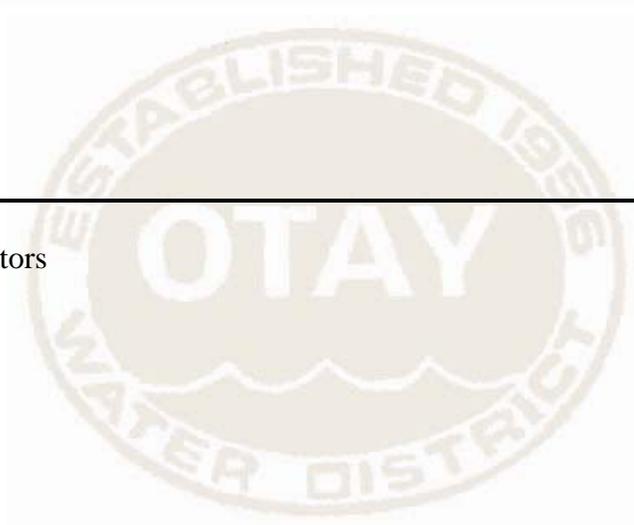
Larry Breitfelder

Division Title

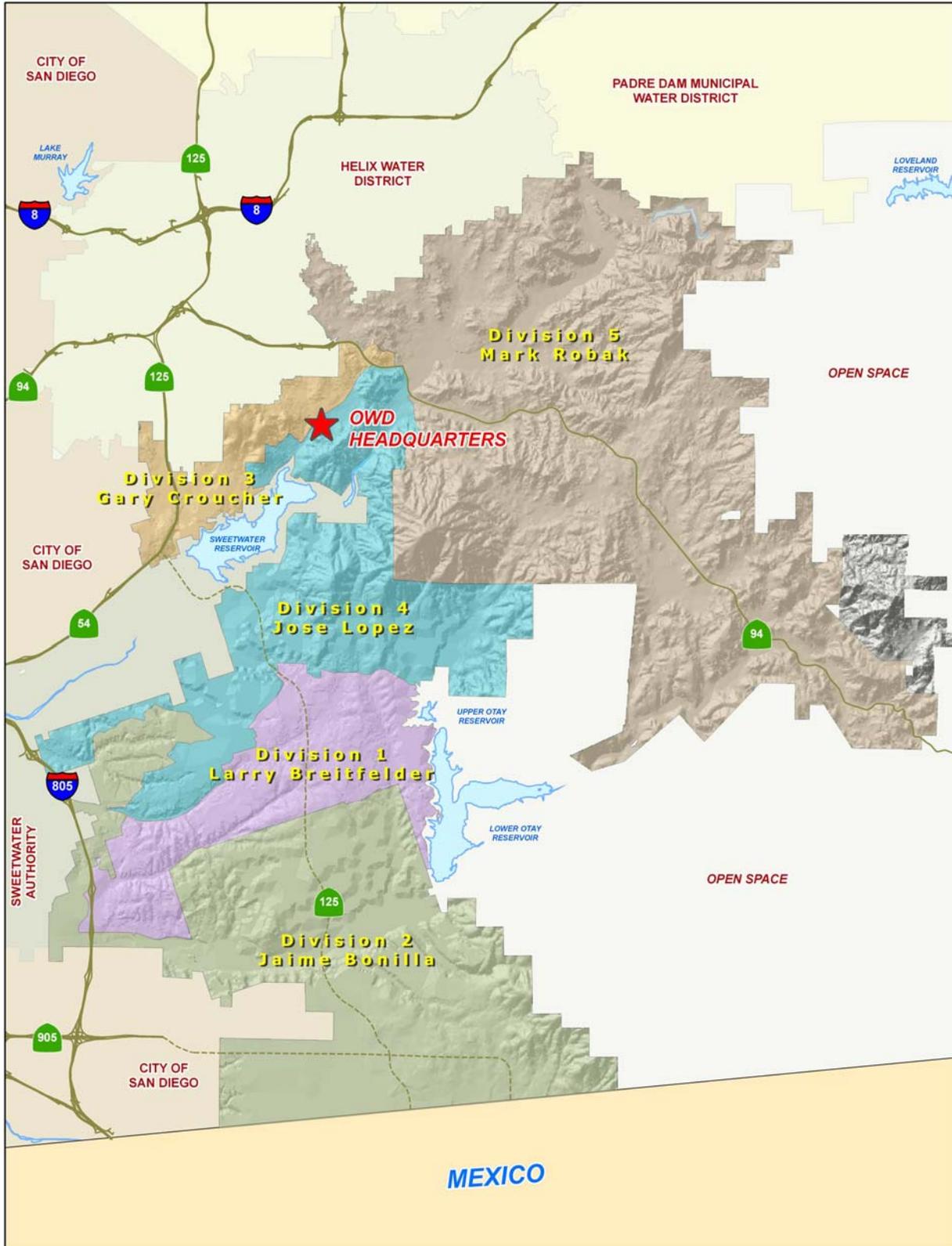
Board of Directors

Division No.

1111

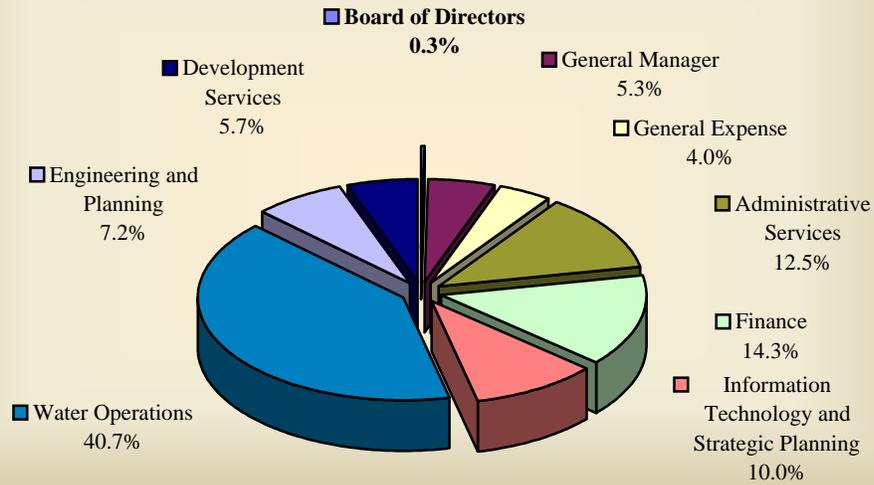


DISTRICT BOUNDARY



BOARD OF DIRECTORS

FY 2007 Total Departmental Budget - \$26.6 Million Board of Directors - \$91,700



Board of Directors

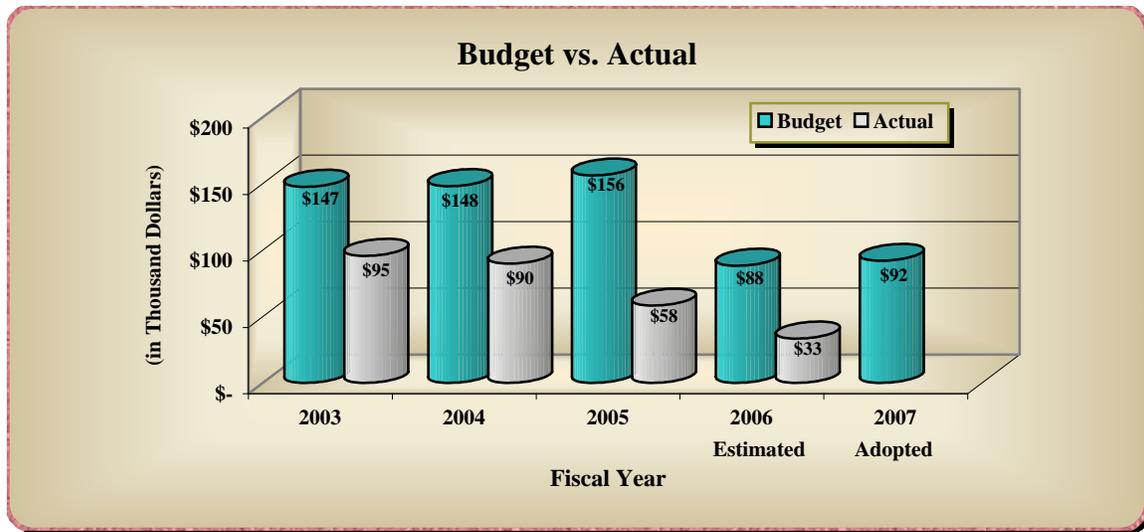
Board of Directors

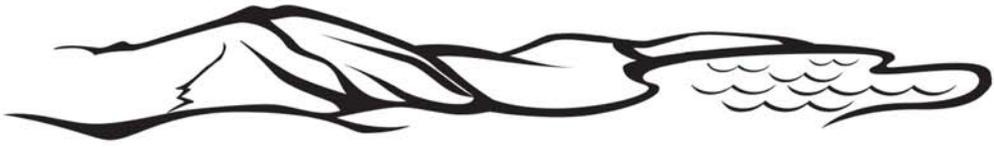
TOTAL

	FY 2005 Actual	FY 2006		FY 2007 Budget
		Budget	Estimated	
Board of Directors	\$ 58,008	\$ 88,000	\$ 33,206	\$ 91,700
TOTAL	\$ 58,008	\$ 88,000	\$ 33,206	\$ 91,700

BOARD OF DIRECTORS

Board of Directors	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Benefits	\$ 25,716	\$ 14,400	\$ 1,890	\$ 20,000
Director's Fees	26,499	48,000	19,800	48,000
Travel and Meetings	5,414	25,600	11,516	23,700
Conservation and Outreach	124	-	-	-
General Office Expense	165	-	-	-
Equipment	90	-	-	-
Total	\$ 58,008	\$ 88,000	\$ 33,206	\$ 91,700





General Manager

GENERAL MANAGER

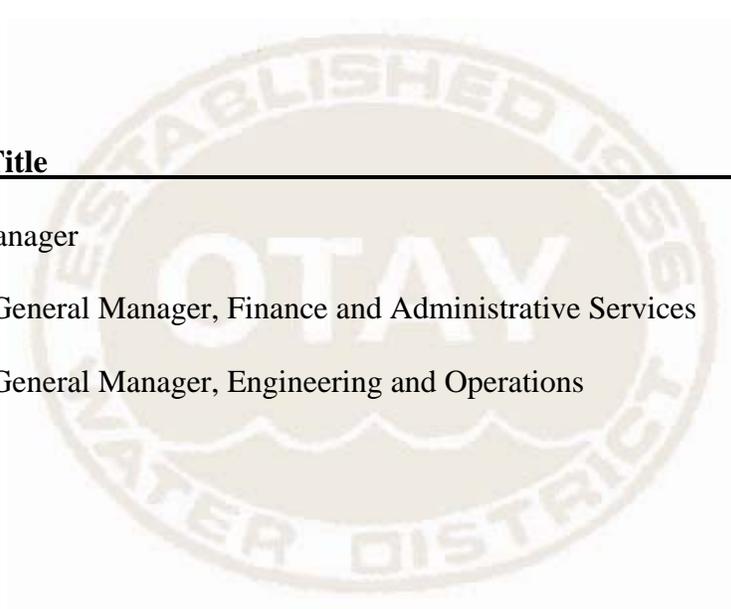
General Manager's Vision

“A district that is a respected leader in the water industry, at the forefront of innovation, prepared for the future, that engages the talents of its employees and provides a workplace that promotes employee development and growth, and that earns the trust of its customers through outstanding service.”

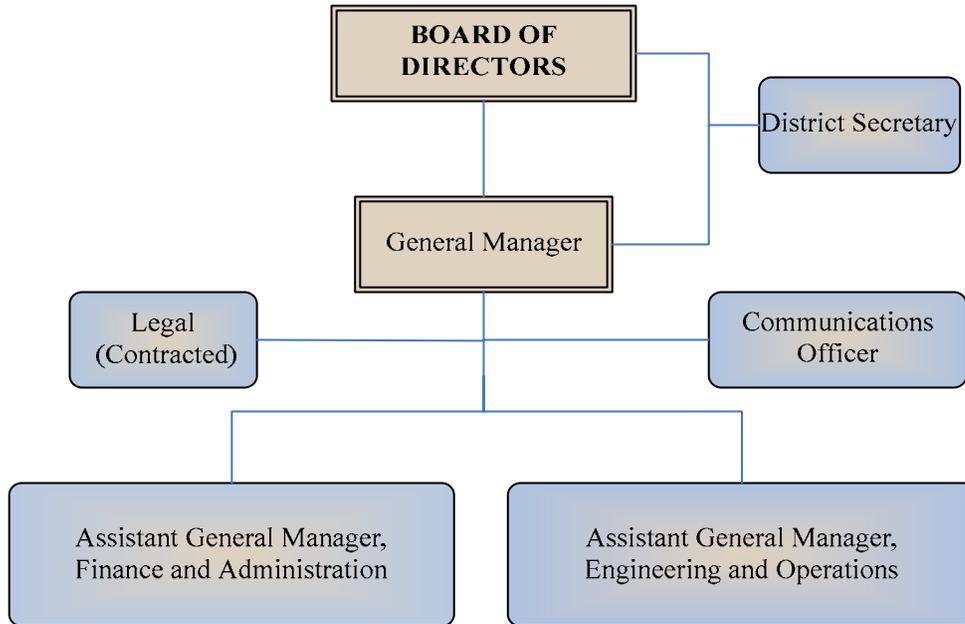
- Mark Watton



<u>Division Title</u>	<u>Division No.</u>
General Manager	1111
Assistant General Manager, Finance and Administrative Services	2111
Assistant General Manager, Engineering and Operations	3111



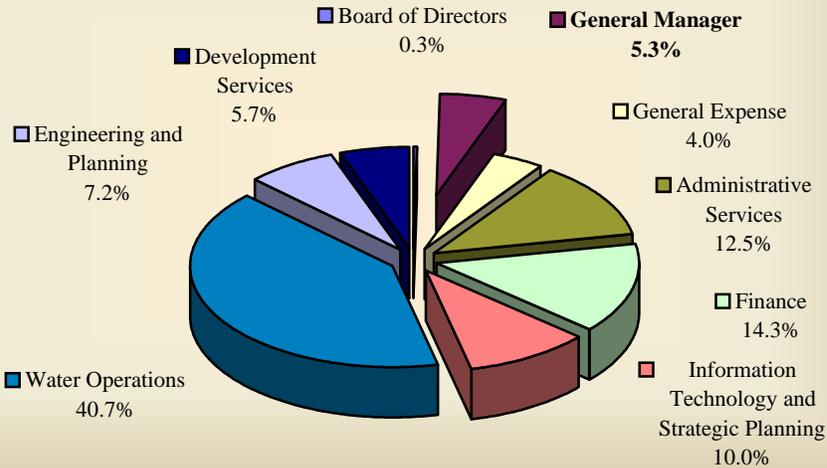
DISTRICT POSITION COUNT - 175
GENERAL MANAGER DEPARTMENT - 6



Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
General Manager	1	1	1
Assistant General Manager, Finance and Administration	1	1	1
Assistant General Manager, Engineering and Operations	1	1	1
District Secretary	1	1	1
Assistant District Secretary	1	1	1
Communications Officer	1	1	1
Total	6	6	6

GENERAL MANAGER

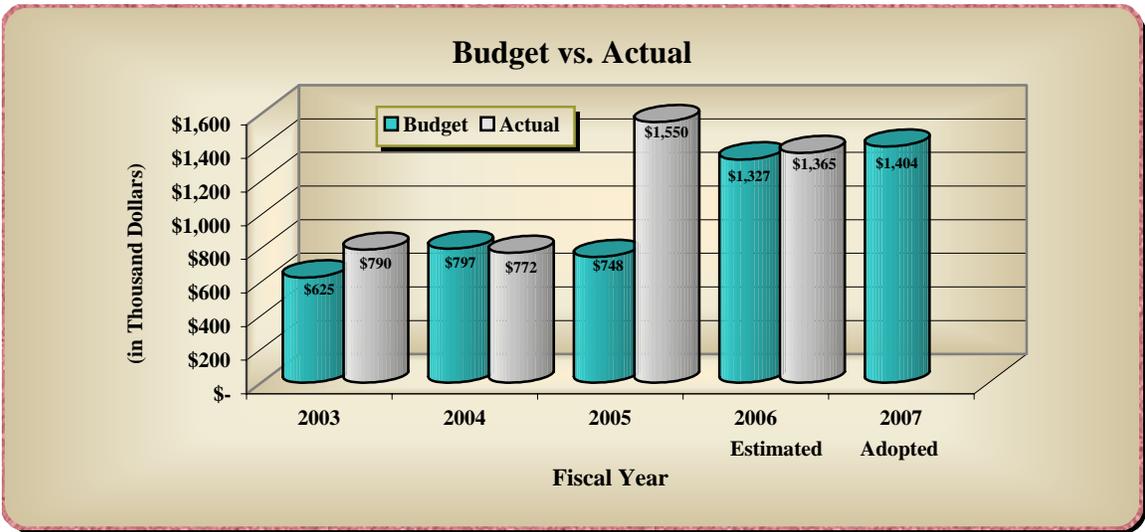
FY 2007 Total Departmental Budget - \$26.6 Million
General Manager - \$1,403,500



	FY 2005 Actual	FY 2006		FY 2007 Budget
		Budget	Estimated	
General Manager	\$ 1,544,685	\$ 895,100	\$ 883,407	\$ 932,200
Legal	-	1,500	5,046	3,500
Assistant General Manager, Finance and Administration	16	223,500	241,478	237,100
Assistant General Manager, Engineering and Operations	4,940	207,200	235,537	230,700
TOTAL	\$ 1,549,641	\$ 1,327,300	\$ 1,365,468	\$ 1,403,500

GENERAL MANAGER

	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimated	FY 2007 Budget
Labor and Benefits	\$ 1,331,011	\$ 995,300	\$ 1,104,648	\$ 1,060,500
Travel and Meetings	43,717	81,800	80,644	91,600
Conservation and Outreach	7,123	6,000	9,803	7,600
General Office Expense	27,332	8,700	12,275	18,800
Equipment	7,563	3,000	3,259	1,500
Fees	670	25,000	27,387	30,500
Services	120,310	202,500	127,436	188,000
Training	3,125	5,000	15	5,000
Miscellaneous	8,790	-	-	-
Total	\$ 1,549,641	\$ 1,327,300	\$ 1,365,468	\$ 1,403,500



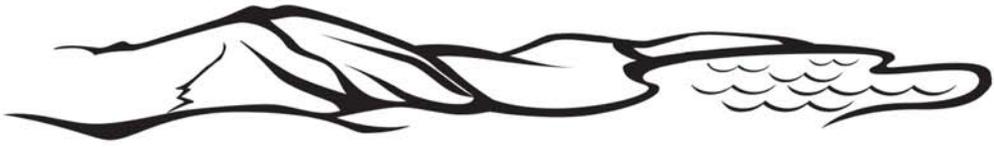
GENERAL MANAGER

Accomplishments – Fiscal Year 2005-2006

- Secured \$4.2 million through the East County Treated Water Agreement which succeeded in substantially reducing anticipated capital improvement expenditures while greatly increasing treated water reliability.
- Established and maintained excellent working relationships with key government, business, and community organizations to promote water resource issues and projects.
- Secured \$4 million in grant funding for recycled water projects, generating both capital improvement project savings and reducing future anticipated potable water purchases.
- Initiated negotiations with regional partners on treated water service to enhance reliability and yield substantial long-term cost savings.
- Established excellent working relationships with Mexican officials in an effort to develop water related opportunities with Mexico.
- Updated District policies to enhance the delivery of employee benefits and to more appropriately recognize and reward performance.
- Maintained and provided potable water, sewer and recycled water infrastructure that are appropriate to meet current and future needs.

This page intentionally left blank





Aministrative **S**ervices

ADMINISTRATIVE SERVICES

Mission Statement

To provide support to the Board of Directors, the General Manager, and District staff to meet objectives in satisfying the needs of our customers by providing, through best management practices, the full range of employer and employee services, administrative services, risk management, and water conservation.



<u>Division Title</u>	<u>Division No.</u>
Administrative Services Chief	2211
Human Resources	2221
Purchasing and Facilities	2231
Safety and Risk Administration	2241
Water Conservation	2251

DISTRICT POSITION COUNT - 175
ADMINISTRATIVE SERVICES DEPARTMENT - 19

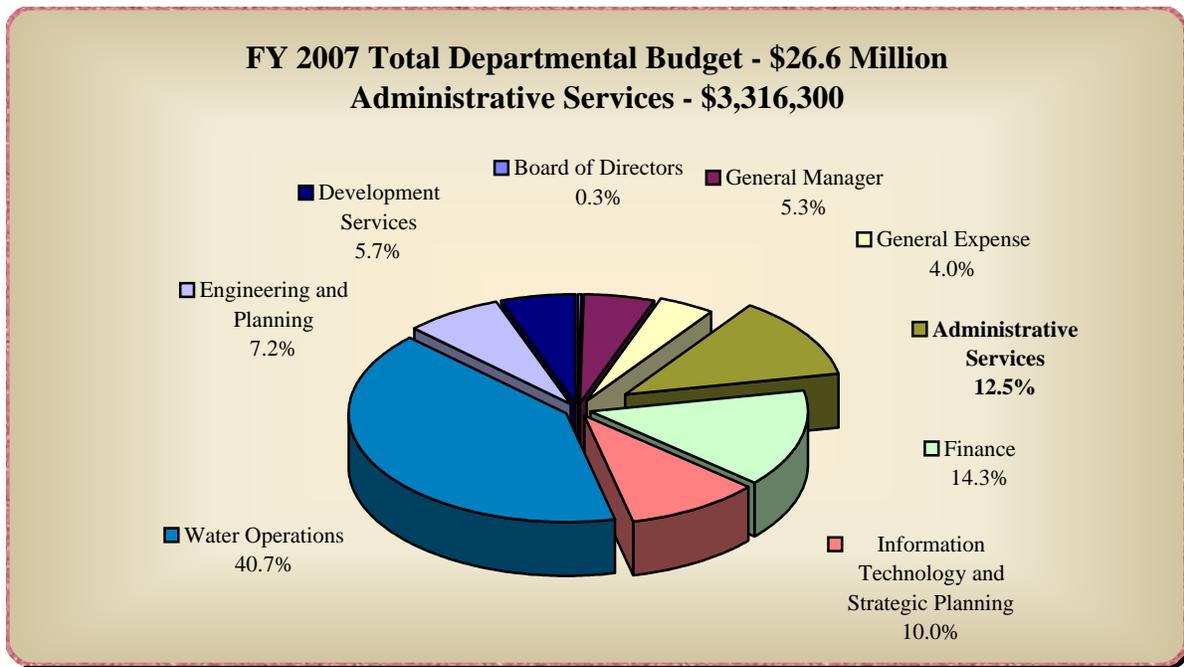


Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Chief, Administrative Services	1	1	1
Executive Secretary	1	1	0
Confidential Secretary	0	0	1
Office Assistant	1	1	1
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	1	1
Human Resources Technician	2	1	1
Purchasing & Facilities Manager	1	1	1
Buyer	1	1	1
Assistant Buyer	0	1	1
Purchasing Assistant	1	0	0
Lead Warehouse Worker	1	1	1
Warehouse/Delivery Worker I and II	1	1	2
Warehouse Assistant (PT)	1	1	0
Facilities Maintenance Technician	2	2	2
Facilities Maintenance Assistant	1	1	1
Safety & Risk Administrator	1	1	1
Water Conservation Manager	1	1	1
Water Conservation Specialist	1	1	1
Total	20	19	19

ADMINISTRATIVE SERVICES

Department Responsibilities

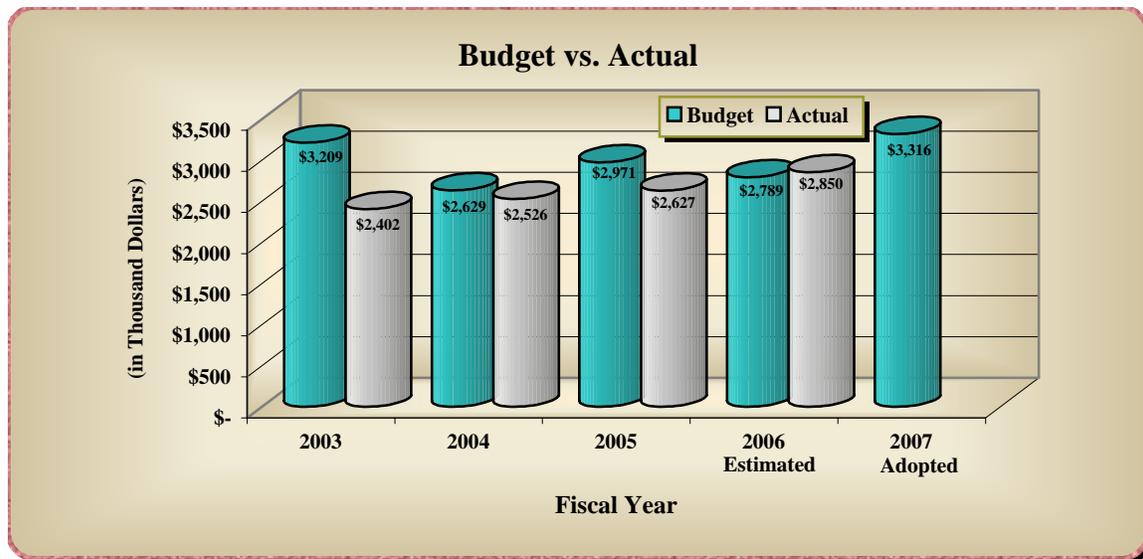
The Administrative Services Department, under the general direction of the Assistant General Manager, provides the following support services: Human Resources, Purchasing and Facilities, Safety and Risk Administration, and Water Conservation. It also coordinates assigned activities with other District departments and outside agencies, and provides highly responsible and complex administrative support for the District, General Manager and Board of Directors.



	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Administrative Chief	\$ 346,471	\$ 367,500	\$ 328,550	\$ 318,000
Human Resources	608,537	626,100	622,375	752,000
Purchasing and Facilities	1,077,935	1,120,200	1,245,250	1,498,900
Safety and Security	236,311	237,200	245,127	254,000
Water Conservation	357,941	438,400	408,285	493,400
TOTAL	\$ 2,627,195	\$ 2,789,400	\$ 2,849,588	\$ 3,316,300

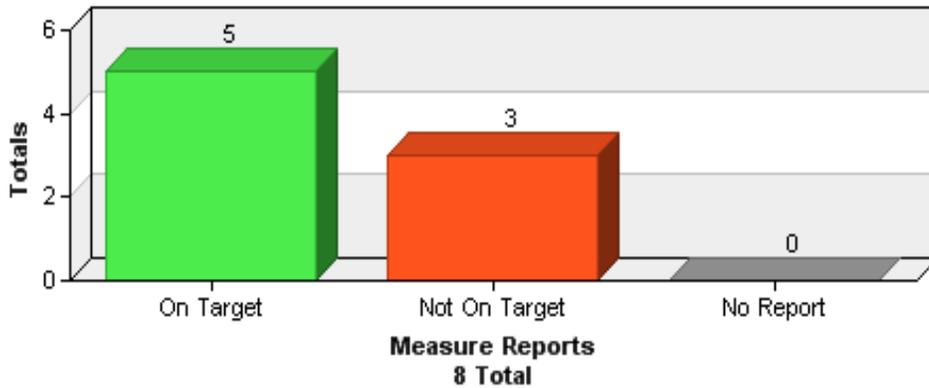
ADMINISTRATIVE SERVICES

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,757,931	\$ 1,813,000	\$ 1,835,213	\$ 1,858,600
Travel and Meetings	13,620	20,600	15,755	22,700
Conservation and Outreach	123,263	205,900	138,430	221,900
General Office Expense	75,502	104,300	117,592	115,000
Equipment	76,622	81,100	105,622	149,600
Fees	26,628	7,700	9,111	12,700
Services	277,446	223,300	305,231	398,600
Training	58,694	113,800	66,094	104,700
Materials & Maintenance	212,872	208,100	245,010	420,800
Power and Utilities	4,615	11,600	11,530	11,700
Total	\$ 2,627,195	\$ 2,789,400	\$ 2,849,588	\$ 3,316,300



ADMINISTRATIVE SERVICES PERFORMANCE INDICATORS

Fiscal Year 2005-2006



Activity/Criterion	Fiscal Year 2004-2005 Actual	Fiscal Year 2005-2006		Fiscal Year 2006-2007 Target
		Target	Actual	
Time to Fill - number of recruitments on time/total number of recruitments	90.80%	90.0%	100.0%	90.0%
Customer per FTE - number of customers/number of FTE budgeted positions	270	Greater than 217	274	Greater than 217
Turnover Rate - number of voluntary terminations/average number of employees during measurement period	5.0%	Less than 10%	9.9%	Less than 10%
Blanket Order Activity - percentage of material purchases purchased via blanket PO	15.9%	15% or Greater	16.9%	15% or Greater
Inventory Accuracy - actual/recorded inventory	99.0%	97.0%	99.8%	97.0%
Fleet Incidents - Track number of Fleet incidents annually	14	Less than 4	6	Less than 4
Lost Work Day Injuries - Actual lost time injuries	7	4 or less per year	6	4 or less per year
Total Water Saved Estimate of water saved per year through conservation programs (voucher programs and landscape surveys)	96.0%	90.0%	94.0%	90.0%

ADMINISTRATIVE SERVICES

Accomplishments – Fiscal Year 2005-2006

Human Resources

- Applied for the Credit Incentive Program on the Workers' Compensation insurance through San Diego Risk Management Association (SDRMA) which saved the District over \$90,000 in Property Liability and the Worker's Compensation Program.
- Implemented the Blue Cross network of doctors that will save the District over \$130,000 annually.
- Developed and conducted a comprehensive Advanced Management Training Program for management staff.
- Reviewed, revised and updated 17 Human Resources policies, procedures, and programs.
- Developed and implemented a Pay-for-Performance Program.

Purchasing and Facilities

- Negotiated the AMR meter supply contract with Master Meter with a projected savings of \$338,094 over the next three years.
- T-Mobile was selected as the District's new cell phone service provider. The District is receiving more than double the air time at a reduced cost and projected savings of \$26,000 annually.
- The District's service and maintenance contracts have been negotiated to begin and terminate on the fiscal year providing better tracking and budgeting.
- Purchasing worked with the user departments to develop a card holder/approving official matrix and Cal-Card has been implemented in all departments.

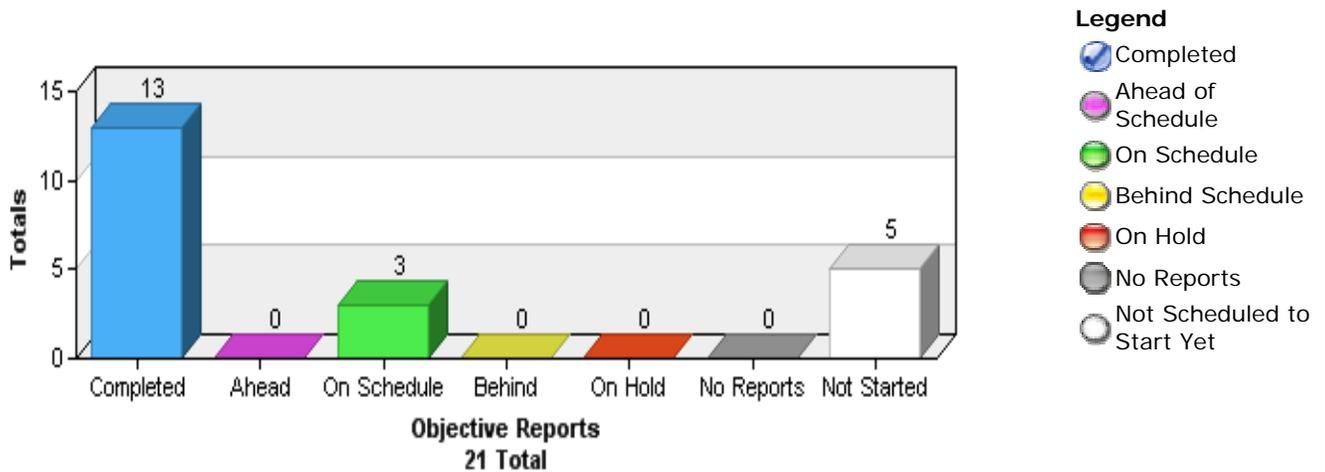
Safety and Risk Management

- Instrumental in getting on-line training covered by SDRMA which resulted in annual savings of \$10K.
- Acquired E&O coverage via SDRMA with major savings and better coverage.
- Completed all Credit Incentive Program points for SDRMA which resulted in a \$90,000 discount on our premium renewal.
- Recovered more than \$5,000 in stolen District property.
- Highly successful Risk Management/Safety audit by SDRMA of the District's programs including Property and Liability Loss Prevention, Safety, and Worker's Compensation.
- Several County Haz Mat audits were conducted with no corrections or citations.
- Developed both on-line disinfection chemical training and low and high voltage safety programs.
- Developed procedures and training on both the new CAL/OSHA Heat Stress requirements and Fall Prevention Program.
- Attained Homeland Security Certification CHS III.
- Held a successful joint emergency exercise with City of Chula Vista and participated in a joint CWA and multi-district exercise in Escondido.

Water Conservation

- Identified a leak during the Commercial Water Use Survey conducted at the Bailey Correctional Facility, the District's second largest commercial customer. The leak was repaired immediately, saving 2.6 million gallons or 8 acre-feet of water a year.
- Received a \$50,000 grant from the Bureau of Reclamation to co-fund the installation of water-wise landscapes within the District.
- Funded 18 Splash Labs this fiscal year, a dramatic increase from prior years when we funded an average of three per year.
- Coordinated the participation of 12 water-wise vendors at the "Conservation Courtyard" in the Water Conservation Garden during this year's Spring Garden Festival. The Garden set a new attendance record of 5,535 people thanks in part to our successful efforts to promote this event.

Goals and Objectives – Fiscal Year 2006-2007



Human Resources

- Develop and implement a training needs assessment and implement appropriate recommendations
- Review and revise the Certification Incentive Program
- Develop Long-Term Staffing Plan
- Promote the value of the District's compensation and benefits plan
- Perform a comprehensive Compensation Study
- Negotiate successor Memorandum of Understanding
- Evaluate and improve recruiting programs and incentives for difficult to recruit positions
- Develop and implement guidelines for collaborative improvement teams
- Finalize and Implement the District's Recognition and Reward Program
- Establish a repeatable Employee Survey Program and benchmark against others

Purchasing and Facilities

- Develop a Long-Term Facility and Space Plan

Safety and Risk Administration

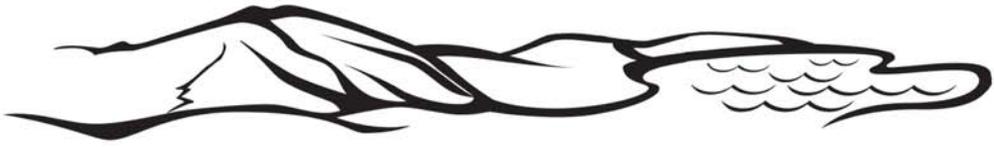
- Complete 5-year physical security improvements
- Identify additional funding sources for security enhancements

Water Conservation

- ④ Continue to promote the Water Conservation Garden for increased community impact
- ④ Increase the distribution of water conservation brochures in key public locations
- ④ Increase the use of educational materials on the District's Web site
- ④ Explore the positive and negative impact of "mandatory" conservation programs
- ④ Develop additional educational materials on beneficial uses of recycled water and best proactive case studies
- ④ Evaluate effectiveness of the school education program
- ④ Evaluate expansion of Metropolitan Water District's Learning Unit Program
- ④ Promote CWA's Splash Lab use by schools in District

This page intentionally left blank





Finance

FINANCE

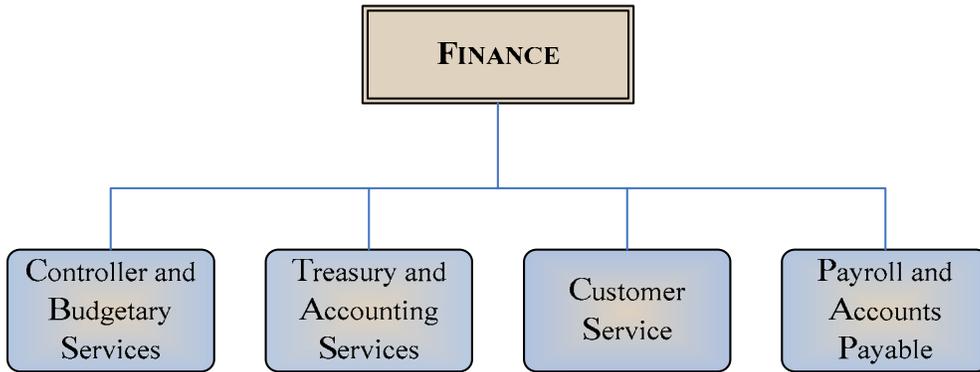
Mission Statement

To provide effective tracking of all financial impacts of the District's activities. Information is efficiently compiled and verified in accordance with regulatory requirements and is provided to management, the public, the Board, and other governing bodies in order to support quality decision making. The Department's mission is also to safeguard District funds, pay all District financial obligations, and provide internal and external customers with prompt, reliable service and information



<u>Division Title</u>	<u>Division No.</u>
Finance Chief	2311
Controller and Budgetary Services	2321
Treasury and Accounting Services	2331
Customer Service	2341
Payroll and Accounts Payable	2351

DISTRICT POSITION COUNT - 175
FINANCE DEPARTMENT - 35

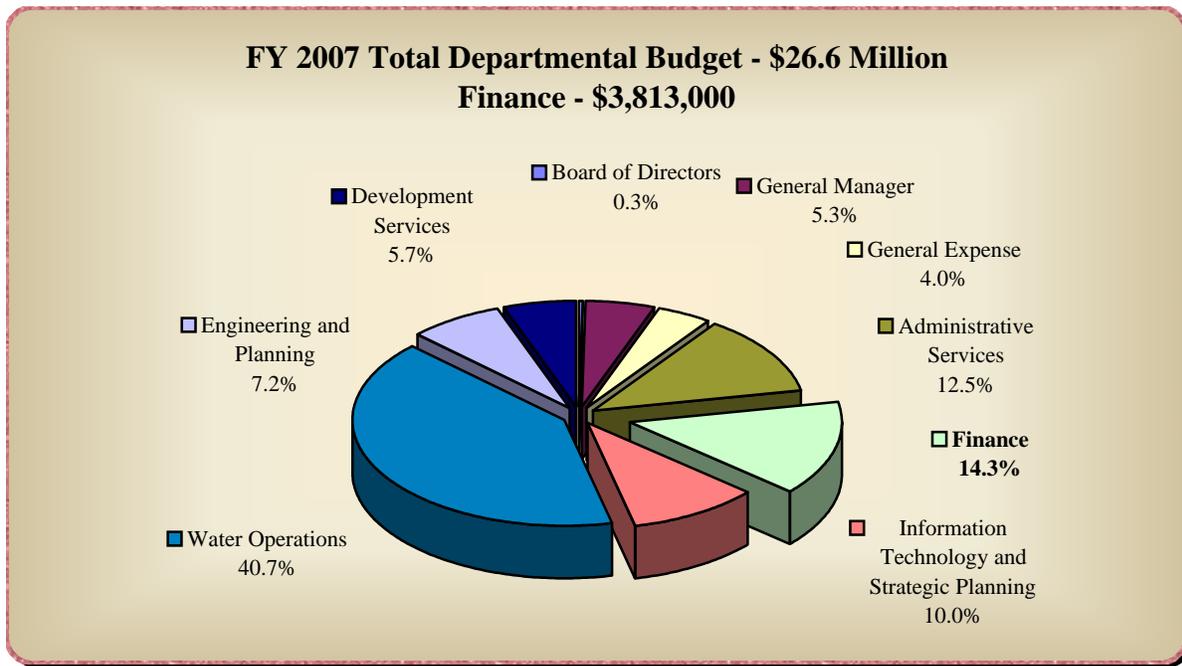


Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Finance Manager, Treasury and Accounting	1	1	1
Finance Manager, Controller and Budget	1	1	1
Finance Supervisor, Payroll and A/P	1	1	1
Customer Service Manager	1	1	1
Customer Service Supervisor	1	1	1
Senior Accountant	4	4	4
Accountant	4	4	4
Payroll Technician	1	1	1
Accounting Assistant	2	2	2
Lead Customer Service Field Representative	1	1	1
Customer Service Representative I, II and III	7	7	9
Customer Service Field Representative I and II	6	6	6
Office Assistant	1	1	0
Office Assistant (Part-Time)	1	1	1
Total	34	34	35

FINANCE

Department Responsibilities

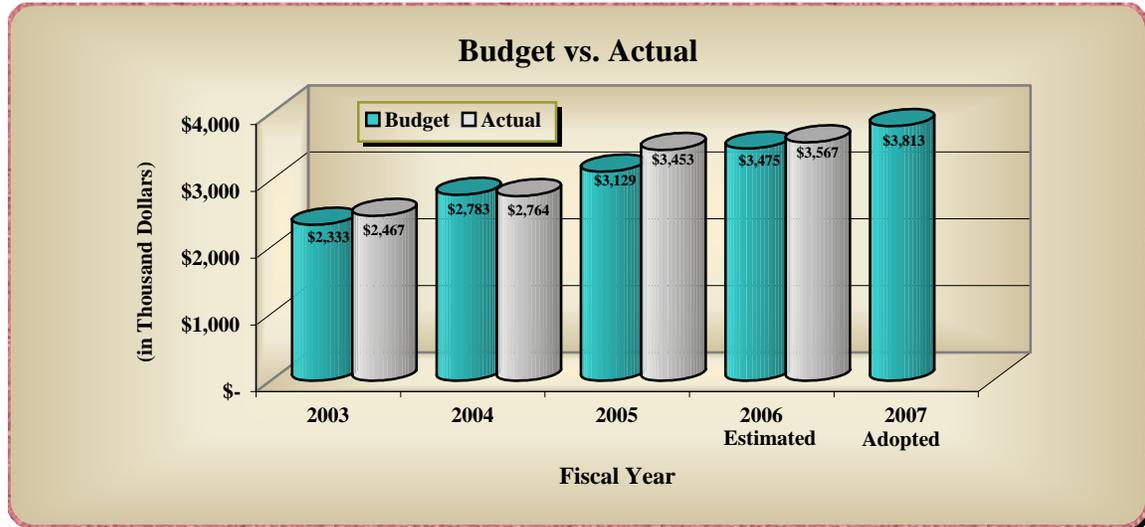
The Finance and Accounting Department, under the general direction of the Assistant General Manager, provides the following support services: Controller and Budgetary Services, Treasury and Accounting Services, Customer Service, and Payroll and Accounts Payable; ensures District's conformance with modern finance and accounting theory, practices, and compliance with applicable state and federal laws; implements financial accounting and reporting programs and practices to meet the District's fiduciary responsibilities; and provides highly responsible and complex administrative support to the District, General Manager, and Board of Directors.



	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Finance Chief	\$ 370,557	\$ 348,600	\$ 358,872	\$ 350,800
Controller and Budgetary Services	478,019	449,200	478,638	458,100
Treasury and Accounting Services	734,376	699,500	711,084	787,100
Customer Service	1,497,168	1,625,400	1,648,384	1,871,600
Payroll and Accounts Payable	372,974	352,200	369,736	345,400
TOTAL	\$ 3,453,094	\$ 3,474,900	\$ 3,566,714	\$ 3,813,000

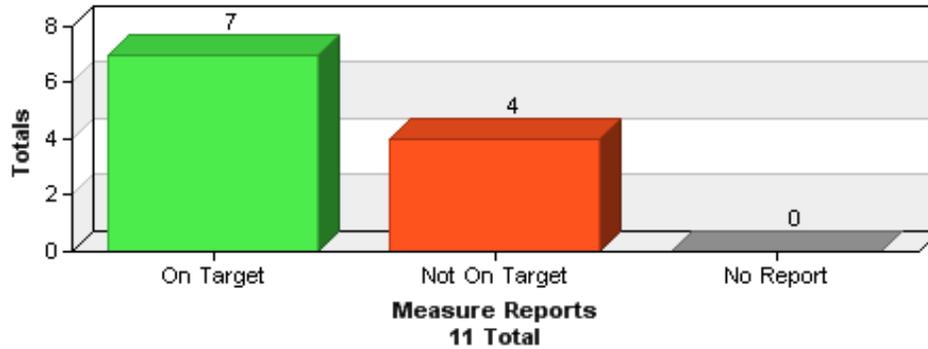
FINANCE

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 2,736,098	\$ 2,910,000	\$ 2,947,633	\$ 3,163,500
Travel and Meetings	10,456	19,500	19,807	22,600
General Office Expense	173,720	190,800	220,966	191,400
Equipment	961	700	5,031	200
Fees	28,832	32,000	64,577	233,500
Services	502,277	321,900	308,701	201,800
Training	214	-	-	-
Miscellaneous	536	-	-	-
Total	\$ 3,453,094	\$ 3,474,900	\$ 3,566,714	\$ 3,813,000



FINANCE PERFORMANCE INDICATORS

Fiscal Year 2005-2006



Activity/Criterion	Fiscal Year 2004-2005 Actual	Fiscal Year 2005-2006		Fiscal Year 2006-2007 Target
		Target	Actual	
Water Rate Ranking - average water bill/other agencies' bill	26.0%	Lower than 50%	30.5%	Lower than 50%
Sewer Rate Ranking - average sewer bill/other agencies' bill	63.0%	Lower than 50%	63.0%	Lower than 50%
Meter Reading Accuracy - number of misreads/total number of meter reads	99.90%	99.90%	99.99%	99.90%
Answer Rate - percentage of calls answered as a measure of all calls received	7.20%	97% or Greater	94.34%	97% or Greater
Alternative Payments - number of non-cash payments/total payments	14.50%	20% of total number of payments	17.8%	20% of total number of payments
Total Operating Budget & Variance - actual expenditures/budget	100.6%	100% or Less	99.5%	100% or Less
Write Offs - write-offs over water sales per month	0.3%	Less than 0.5%	0.03%	Less than 0.5%
Return on Investments - total interest/total investment	131.0%	Meet or exceed 100% of LAIF	83.0%	Meet or exceed 100% of LAIF
Overtime Percentage - actual over budgeted overtime costs	85.0%	Less than 100%	70.7%	Less than 100%
O & M Cost per Account - operations cost for O & M per account	N/A	\$387 O&M cost per customer	\$369.74 per customer	\$387 O&M cost per customer
Unaccounted for Water Lost - percentage of unaccounted water	N/A	5% or Less	6.0%	5% or Less

FINANCE

Accomplishments – Fiscal Year 2005-2006

Controller and Budgetary Services

- Prepared a balanced budget that met the Strategic Business Plan and received the Government Finance Officers Association (GFOA) “Distinguished Budget Presentation Award” in addition to two awards from the California Society of Municipal Finance Officers (CSMFO) for: “Excellence in Public Communications” and “Meritorious in Innovation in Budgeting.”
- The Capital Improvement Program (CIP) Budget received the “Excellence in Capital Budgeting Award” from the CSMFO.
- Improved the readability of the budget document including; description of line items and terminology.
- Created a Six-Year Rate Model in the new financial format to ensure sound financial planning, including; smooth rate modification, efficient debt issuance strategy, and meeting reserve target levels.
- Developed financial information reporting for the management team.
- Improved the training program to ensure smooth transfer of institutional knowledge.

Treasury and Accounting Services

- Established a “best practice” policy for reserve fund governance that provides direction and transparency to the sources and uses of funds including targets, minimums, and maximums for each fund.
- Received awards from GFOA and CSMFO for our Comprehensive Annual Financial Report (CAFR).
- Obtained an unqualified opinion on the District’s Audited Financial Statements for the fiscal year ending June 30, 2005.
- Negotiated a new banking contract with Union Bank of California which is projected to save approximately \$30,000 annually in banking fees.
- Re-negotiated the Brinks Armored Car Service contract which resulted in an annual savings of \$4,000.
- Re-engineered the process for monthly closing of the General Ledger, reducing the average close from eight weeks to four weeks.
- Completed a total review of the District’s capital project funds (expansion, betterment & replacement), as a part of the new policy for reserve fund governance.
- Implemented new audit procedures for petty cash to improve internal controls.

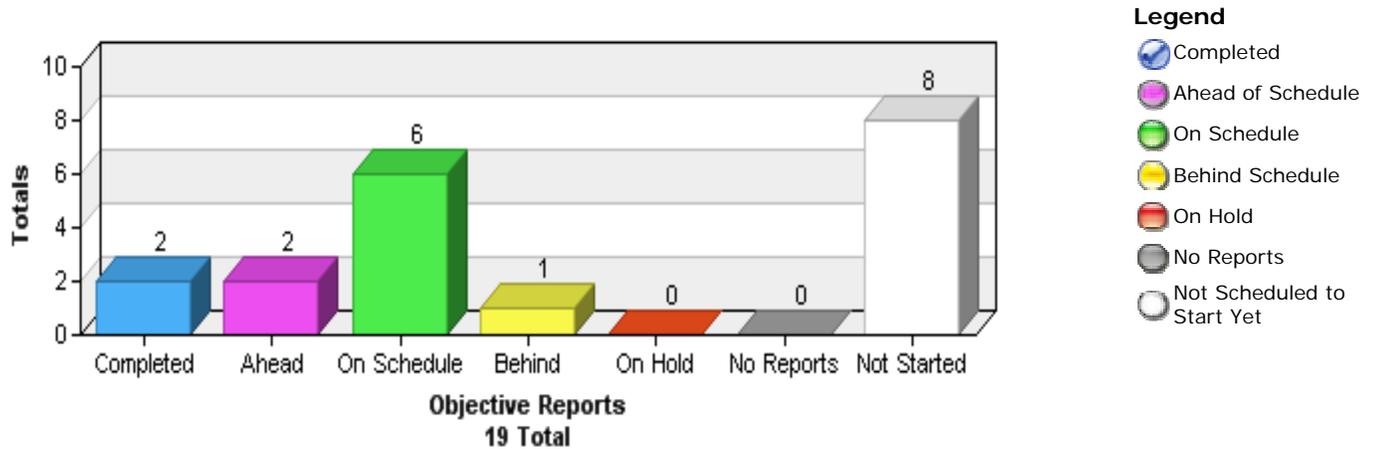
Customer Service

- Planned, designed, and established a timeline for Interactive Voice Response (IVR) system implementation. When complete, the project will allow customers 24/7 access to their account information.
- Brought approximately 2,000 AMR meters onto the automated system which resulted in a savings of many hours of meter reading time per month.
- Evaluated and selected new meter reading software and hardware. The purchase and implementation of the new handheld devices will increase reliability and are smaller and lighter to carry in the field.
- Completed specifications and pricing for modifications and enhancements to the CIS billing system which, when implemented, will result in time savings and process improvements.
- Enhanced business processes including work flow permits for new meters and automated meter changes resulting in time savings, reduced errors, improved tracking, and reporting functionality.
- Improved reporting capabilities resulting in the ability to identify potential account errors prior to billing and data clean-up as well.

Payroll and Accounts Payable

- Cross-trained accounts payable and payroll personnel providing enhanced department coverage. This is important because these duties have a defined schedule with very little flexibility.
- Implemented the changeover to Union Bank with a seamless transition for the payroll and accounts payable check processing and the direct deposit files.
- Completed bi-weekly payroll and weekly accounts payable check runs in a timely manner. While these processes are routine, they are highly visible and sensitive to employees and vendors.
- Completed quarterly tax returns for the District which culminated with the processing, printing, and distributing of W2's and 1099's for 2005.

Goals and Objectives – Fiscal Year 2006-2007



Finance

- Implement a long-term financing plan to support the District's Master Plan
- Explore adopting a Conservation-based Rate Plan gradually increasing the fixed rate percentage
- Document the District's Reserve Fund Governance Policy

Controller and Budgetary Services

- Develop comprehensive budget policies and guidelines
- Improve the readability of the budget document including description of line items and terminology
- Implement program budgeting
- Refine the overhead and direct charging policies
- Develop comprehensive management reporting
- Improve the District's financial reporting

Treasury and Accounting Services

- Evaluate key business processes to ensure adequate financial controls
- Perform routine financial audits
- Update the District's Investment Policy
- Develop standard and flat fee methodology for key district services
- Assess and develop guidelines for life-cycle and activity-based costing in conjunction with IMS

Customer Service

- Implement a Customer Comment Tracking Program
- Expand a Quality Control/Audit program to ensure quality customer service
- Implement an independent Customer Follow-up Program
- Improve customer access to their account information via the Web
- Evaluate expanded use of multilingual communication program

This page intentionally left blank





Information **T**echnology
and **S**trategic **P**lanning

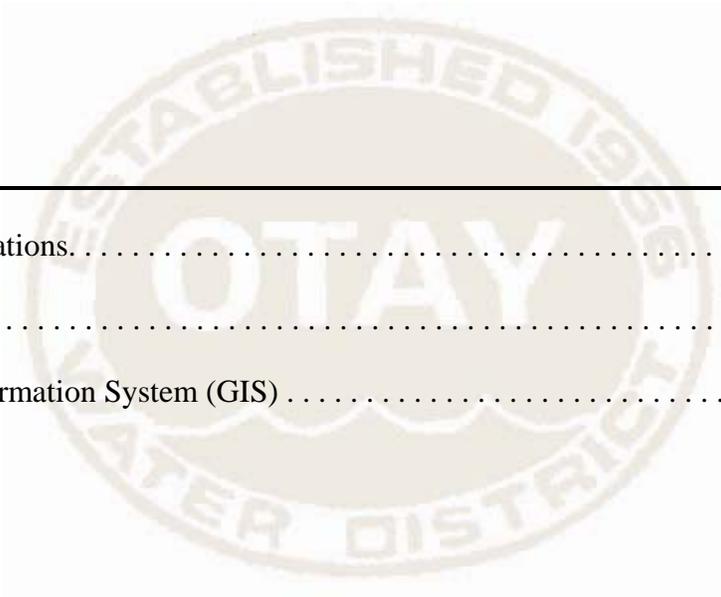
INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Mission Statement

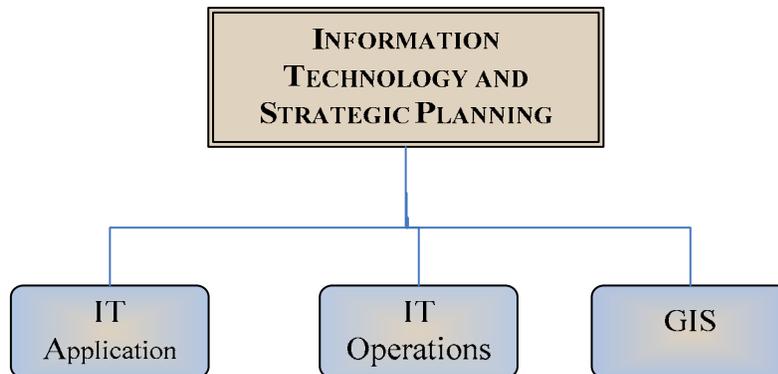
To provide the best quality technology in achieving the goals of the District in serving our customers and employees.



<u>Division Title</u>	<u>Division No.</u>
IT Chief/Applications	2411
IT Operations	2421
Geographic Information System (GIS)	2431



DISTRICT POSITION COUNT - 175
INFORMATION TECHNOLOGY &
STRATEGIC PLANNING DEPARTMENT - 13

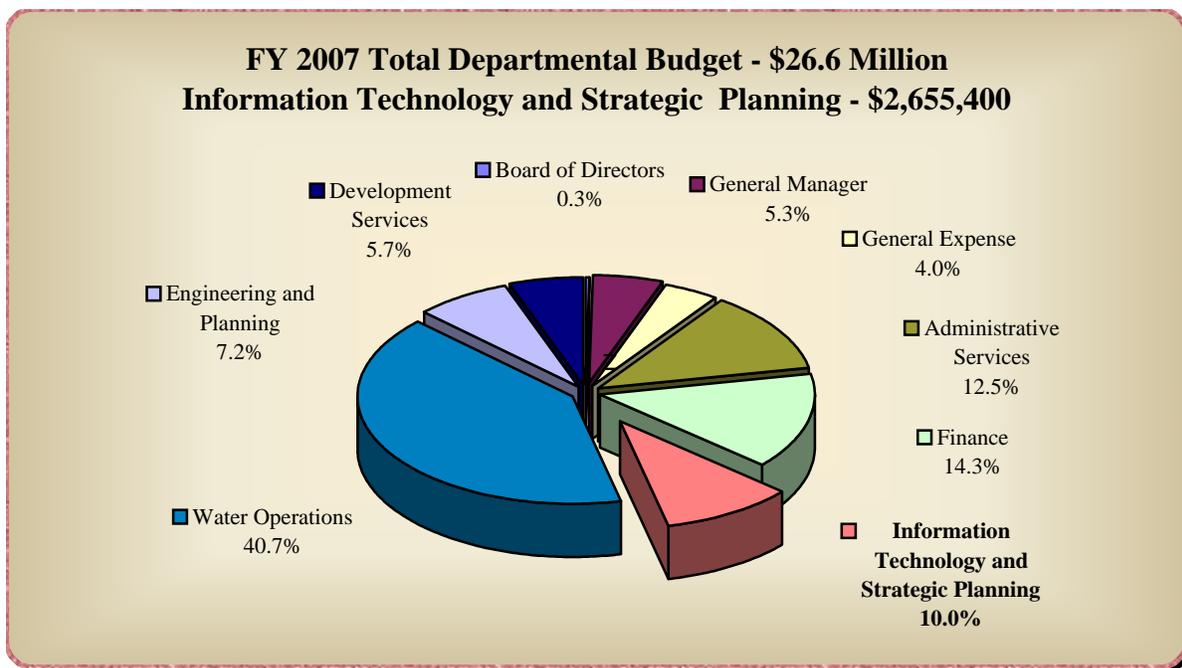


Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Chief Information Officer	1	1	1
GIS Supervisor	1	1	1
IT Operations Supervisor	1	1	1
GIS Technician	2	2	2
Computer Systems Administrator	1	1	1
Database Administrator	0	0	1
Business System Analyst I and II	2	3	3
Network Support Analyst	1	1	1
Records Services Assistant	1	1	1
Program and Systems Support Analyst	1	1	1
Total	11	12	13

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Department Responsibilities

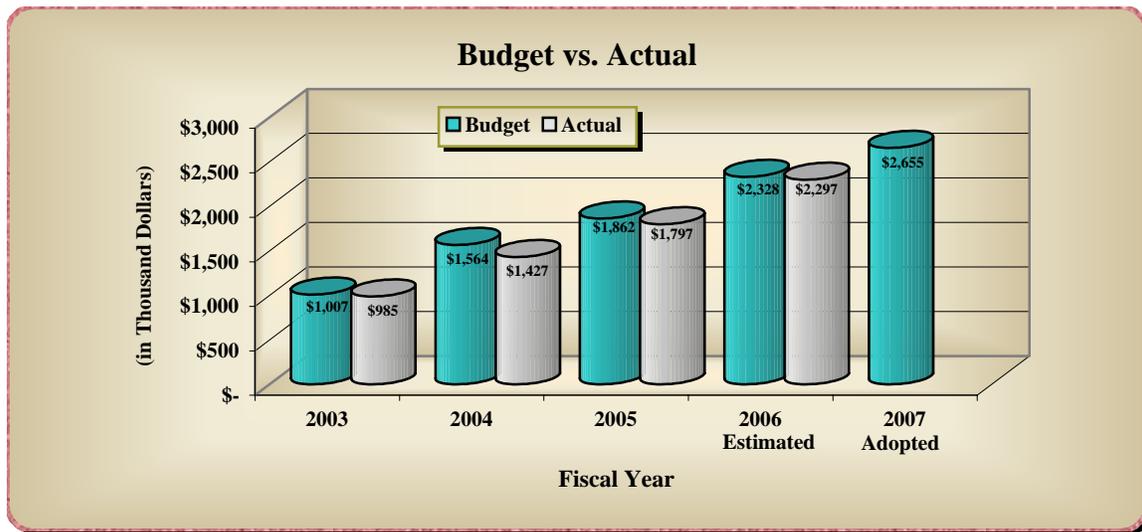
The Information Technology and Strategic Planning Department, under the general direction of the Assistant General Manager, provides the following support services: development and implementation of information technology; District's Strategic Planning Process, including the development of long-term strategic initiatives, and defining performance measurement metrics; information system support to the District and provides highly responsible and complex administrative support to the District, General Manager, and Board of Directors.



	FY 2005 Actual	FY 2006		FY 2007 Budget
		Budget	Estimated	
IT Chief/Applications	\$ 138,565	\$ 688,300	\$ 649,297	\$ 648,500
IT Operations	1,600,556	1,178,200	1,277,868	1,613,000
Geographic Information System	57,831	461,600	369,952	393,900
TOTAL	\$ 1,796,952	\$ 2,328,100	\$ 2,297,117	\$ 2,655,400

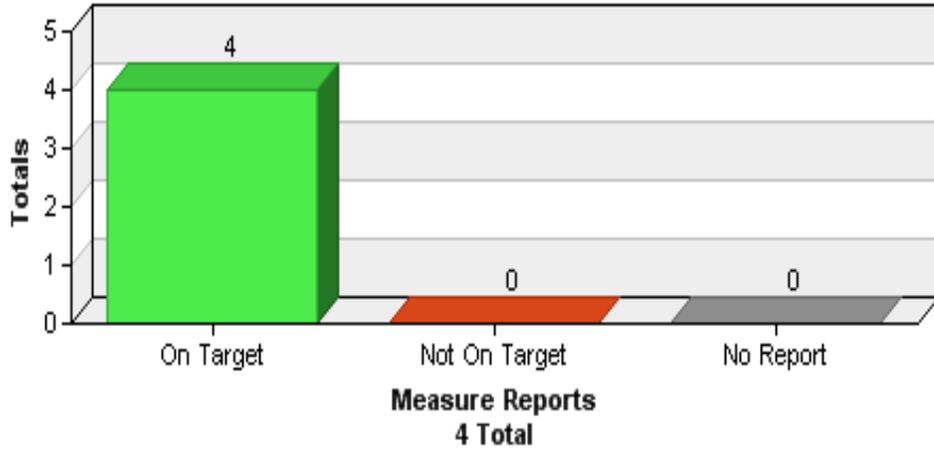
INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,340,587	\$ 1,293,500	\$ 1,528,314	\$ 1,583,100
Travel and Meetings	7,098	17,600	8,070	20,100
General Office Expense	7,043	12,900	4,804	13,900
Equipment	351,886	812,800	560,806	731,900
Fees	-	-	125	-
Services	89,589	170,300	160,411	275,400
Training	-	21,000	34,587	31,000
Miscellaneous	750	-	-	-
Total	\$ 1,796,952	\$ 2,328,100	\$ 2,297,117	\$ 2,655,400



INFORMATION TECHNOLOGY AND STRATEGIC PLANNING PERFORMANCE INDICATORS

Fiscal Year 2005-2006



Activity/Criterion	Fiscal Year 2004-2005 Actual	Fiscal Year 2005-2006		Fiscal Year 2006-2007 Target
		Target	Actual	
Strategic Plan Goals Completion - goals meeting performance expectations/total number of strategic plan goals	96.0%	90% or Greater	97.0%	90% or Greater
IT Help Request - percent of help requests resolved with one week time frame	87.2%	85% by due date	87.7%	85% by due date
Network - total operational network time per year	99.6%	99% during business hours	99.4%	99% during business hours
GIS Accuracy - number of drawings computerized/number of drawings filed	76.3%	90% or Greater	95.0%	90% or Greater

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Accomplishments – Fiscal Year 2005-2006

IT Chief/Applications

- Implemented a new work order management system for the Operations Staff.
- Expanded the accessibility and timeliness of management reporting.
- Implemented broad-based performance measures for all areas of the District.

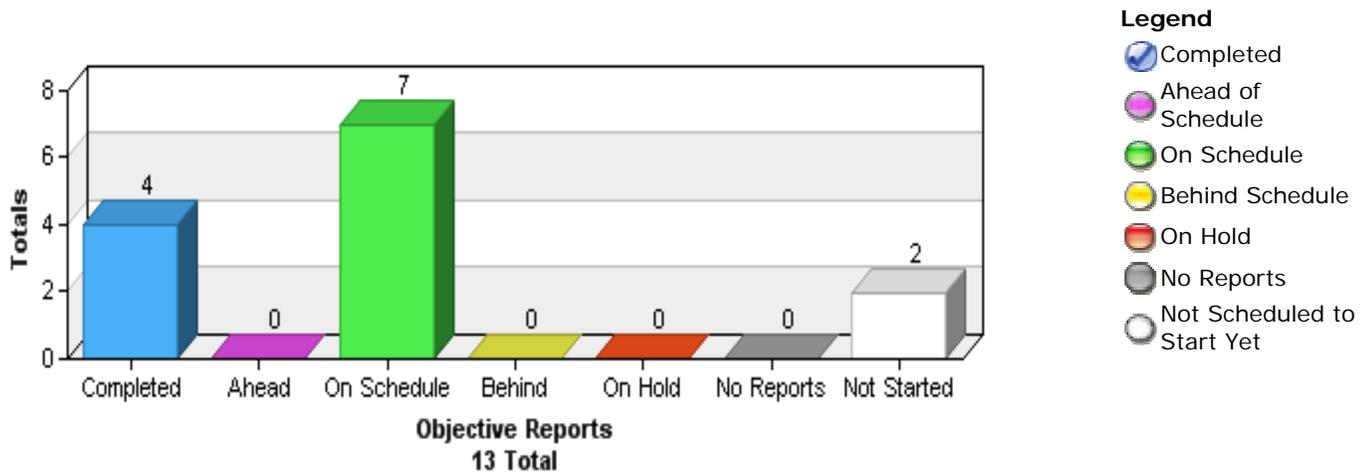
IT Operations

- Replaced the District's telecommunications infrastructure.
- Initiated the effort to upgrade and improve Data Center Infrastructure.
- Completed installation of a new Records Management System.

Geographic Information System (GIS)

- Improved accuracy and timeliness of facilities and land data for Engineering and Operations.

Goals and Objectives – Fiscal Year 2006-2007



IT Chief/Applications

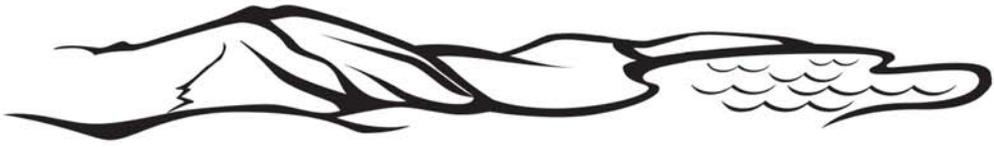
- Evaluate and Implement the Interactive Voice Response (IVR) System
- Implement summary billing
- Complete definition of "to be" processes
- Maximize the districts use of mobile, GIS and GPS technologies including route planning for maintenance crews and meter readers and locations based services
- Develop a user friendly process for requesting legal services that encourage proactive use of services
- Fully integrate the Otay Information Systems (OIS)

IT Operations

- Enhance the District's Web Page and its links
- Provide secure and protected use of OIS information to employees on a 24 hour and mobile basis
- Perform cyber-security tests
- Implement a Business Resumption Plan (BRP)
- Document and manage knowledge transfer for core business processes
- Update the District's records management program
- Update the telecommunications infrastructure

This page intentionally left blank





Water Operations

WATER OPERATIONS

Mission Statement

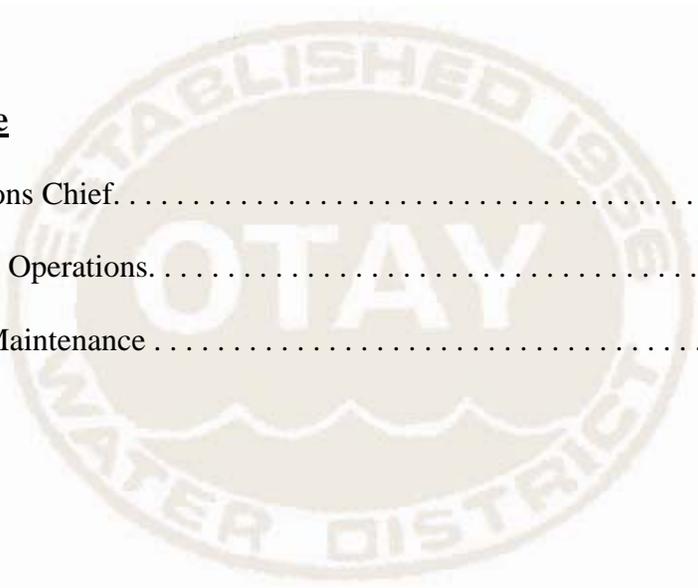
To provide all operations and maintenance services in the highest possible professional, efficient, safe, and cost effective manner to all internal and external customers, and to strive to continually improve the level of service this department provides.



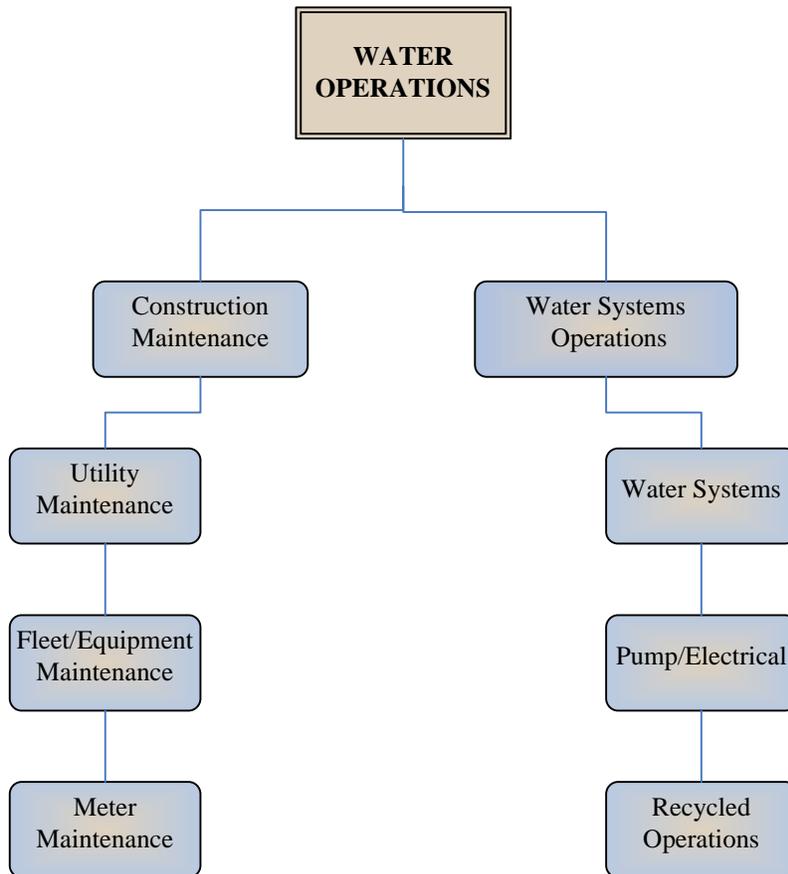
Division Title

Division No.

Water Operations Chief.	3211
Water Systems Operations.	3220
Construction Maintenance	3230



DISTRICT POSITION COUNT - 175
OPERATIONS DEPARTMENT - 71



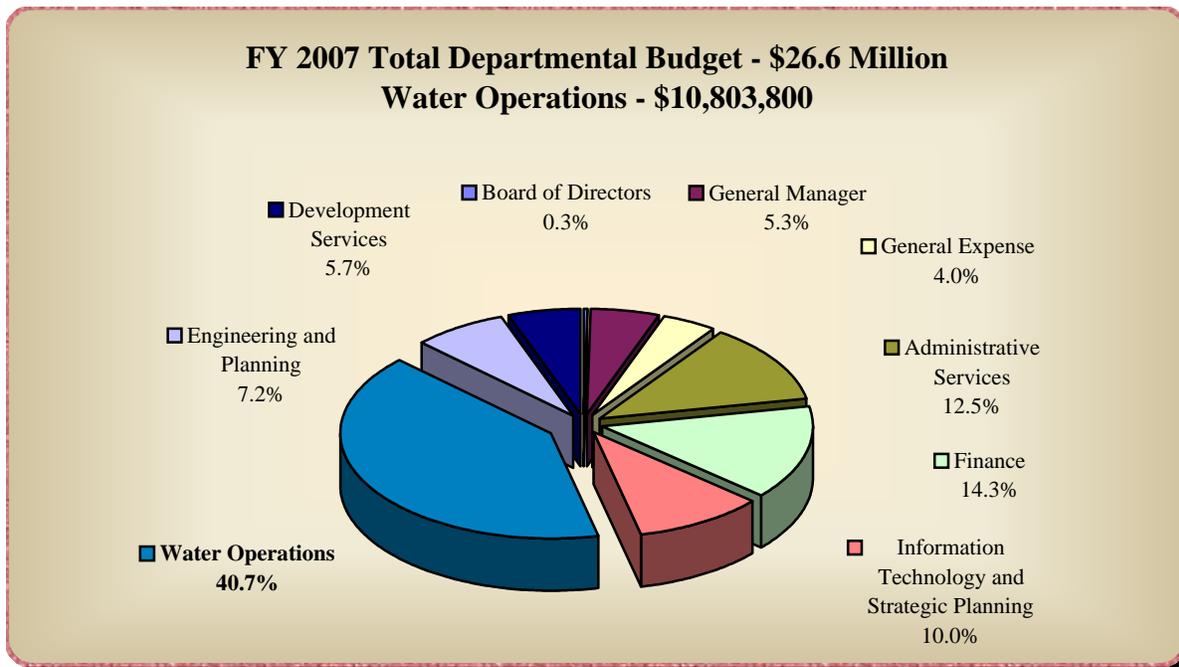
DISTRICT POSITION COUNT - 175
OPERATIONS DEPARTMENT - 71

Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Chief, Water Operations	1	1	1
Planner Scheduler	0	1	0
Executive Secretary	1	1	1
Systems Operations Manager	0	1	1
Water Systems Manager	1	0	0
Water Systems Supervisor	1	1	2
Pump Electrical Supervisor	1	1	1
Meter Maintenance/Cross Connect Supervisor	1	1	1
Water Systems Crew Leader	2	2	2
Water Systems Operator I, II, and III	9	9	9
Valve Maintenance Worker	0	0	1
Disinfection Technician	1	1	1
Assistant Disinfection Technician	1	1	1
Senior SCADA Instrumentation Technician	1	1	2
Electrician/Instrumentation Technician	1	1	0
Electrician I and II	2	2	2
Pump Mechanic I and II	2	2	2
Lead Meter Maintenance Worker	1	1	1
Meter Maintenance/Cross Connect Worker I and II	5	5	5
Construction Maintenance Manager	1	1	1
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	5	5	5
Utility Workers I and II	10	10	10
Senior Utility/Equipment. Operator	4	4	4
Equipment Shop Supervisor	1	1	1
Equipment Shop Mechanic I and II	4	4	4
Welder II	1	1	1
Custodian/Automotive Attendant	1	1	0
Collection/Reclamation Manager	1	0	0
Reclamation Plant Supervisor	1	1	1
Recycled Lab Supervisor	0	1	0
Water Reclamation Plant Operator	3	3	3
Water System Technician	1	1	1
Recycled Water Distribution Operator	3	3	3
Laboratory Analysts I and II	2	2	2
Total	<u>71</u>	<u>72</u>	<u>71</u>

WATER OPERATIONS

Department Responsibilities

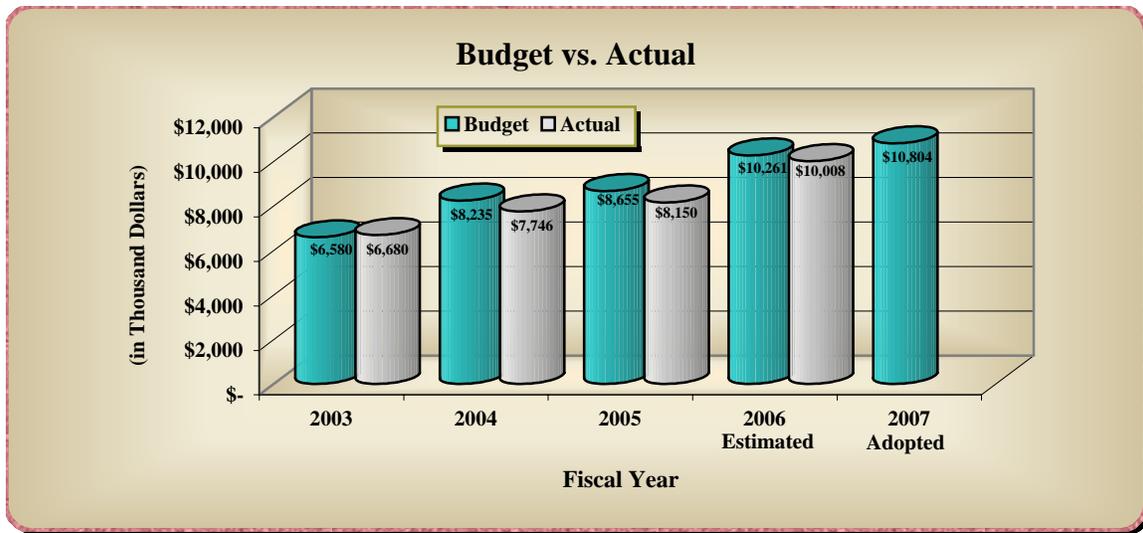
The Water Operations Department, under the general direction of the Assistant General Manager, provides the following support services: Potable and Recycled Water System Operations, Construction Maintenance, and Sewer Collection and Treatment Operations; and provides highly responsible and complex technical and administrative support to the District, General Manager, and Board of Directors.



	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Water Operations Chief	\$ 322,829	\$ 601,300	\$ 566,450	\$ 368,800
Water Systems	4,407,259	5,387,300	4,976,728	5,697,800
Construction Maintenance	3,419,565	4,272,200	4,465,134	4,737,200
TOTAL	\$ 8,149,653	\$ 10,260,800	\$10,008,312	\$10,803,800

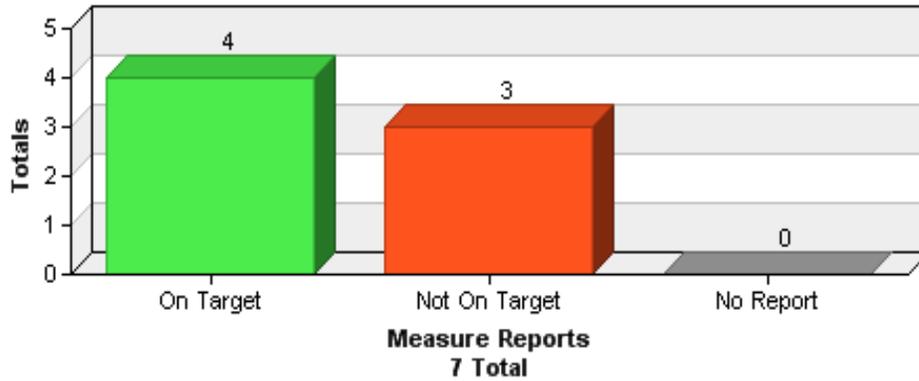
WATER OPERATIONS

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 5,120,276	\$ 6,259,200	\$ 6,203,555	\$ 6,130,200
Travel and Meetings	15,878	27,500	22,651	22,300
Conservation and Outreach	-	-	206	-
General Office Expense	8,074	7,500	6,520	5,500
Equipment	47,773	76,400	44,589	90,900
Fees	5,667	31,000	47,553	45,500
Services	10,206	142,000	68,062	295,500
Training	8,601	11,000	11,681	11,000
Materials & Maintenance	1,850,839	2,530,200	2,462,528	2,841,400
Sewer Charges	1,082,328	1,176,000	1,140,967	1,361,500
Miscellaneous	12	-	-	-
Total	\$ 8,149,653	\$ 10,260,800	\$10,008,312	\$10,803,800



WATER OPERATIONS PERFORMANCE INDICATORS

Fiscal Year 2005-2006



Activity/Criterion	Fiscal Year 2004-2005 Actual	Fiscal Year 2005-2006		Fiscal Year 2006-2007 Target
		Target	Actual	
Preventive Maintenance Cost - total operations preventive maintenance cost	4%	N/A	0.0%	N/A
AMR Program - actual over planned number of meters (1,200) changed out per year	100.0%	100% of 1200	61%	100% of 1200
Valve Exercising and Hydrant Maintenance Program - actual over planned number of valves (1,692) exercised per year	24.0%	90.0%	89.0%	90.0%
Dead-End Main Flushing Program - actual over planned pipelines (520) to be flushed per quarter	27.0%	90.0%	0%	90.0%
Percent of Wastewater Collection System Cleaned per Year - actual over planned sewer pipe miles (17.2) to be cleaned	320.0%	17.2 miles per year	223%	17.2 miles per year
Disinfection Residuals - number of samples with chlorine residual between 0.7 ppm to 3.4 ppm/910 samples per quarter	96.0%	Stay within desired range 95% of the time	100%	Stay within desired range 95% of the time
Treatment Plant - number of days meets or exceeds 950,000 gallons per day of production	71.0%	90.0%	93%	90.0%

WATER OPERATIONS

Accomplishments – Fiscal Year 2005-2006

Water Operation Chief

- Responded effectively to several San Diego County Water Authority's (CWA) planned and unplanned shutdowns. Water was delivered without incident or interruption and customers were not affected or notified.
- The District received an award from San Diego Gas & Electric for innovative and cost-effective ways of reducing energy consumption.
- The District received the State of California 2005 "Flex Your Power – Demand Response Award." By participating in the State of California's Flex Your Power campaign to promote energy efficiency and conservation, the District has cut energy use and produced approximately \$93,000 in annual energy savings.

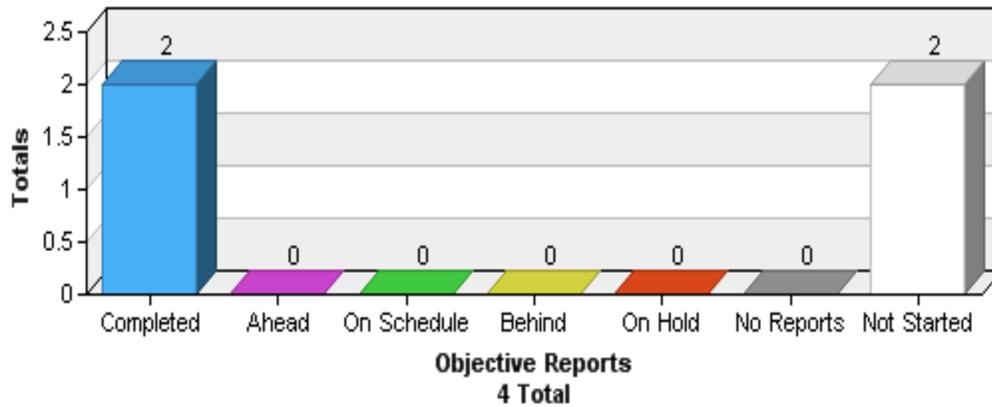
Water Systems

- Installed piping, electrical power, and a pump for back-up redundancy in the preliminary treatment process area at the Ralph W. Chapman Water Recycling Facility (RWCWRF).
- Designed, built, installed, programmed, and commissioned the new 980-2 Pump Station System Control and Data Acquisition (SCADA) system.
- Created over twenty-two safety, process control, and workflow procedures for use in training and regulatory compliance.

Construction Maintenance

- Successfully transferred all of the District's Cross-Connection Control Program data from an antiquated computer program into the District's IMS.
- Began full implementation of the Automated Meter Reading (AMR) change-out program.
- Implemented a comprehensive valve actuation program in coordination with the both the Utility Maintenance and Water Operations Sections.

Goals and Objectives – Fiscal Year 2006-2007



Legend

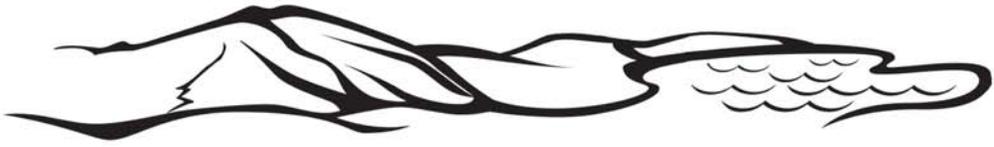
- Completed
- Ahead of Schedule
- On Schedule
- Behind Schedule
- On Hold
- No Reports
- Not Scheduled to Start Yet

Water Systems

- Implement automated notification procedure for planned or emergency maintenance, outages or boil-water notices
- Implement a comprehensive valve actuation program
- Implement a comprehensive hydrant flushing and unidirectional flushing program

Construction Maintenance

- Update the District's radio system and base stations



Engineering and Planning

ENGINEERING AND PLANNING

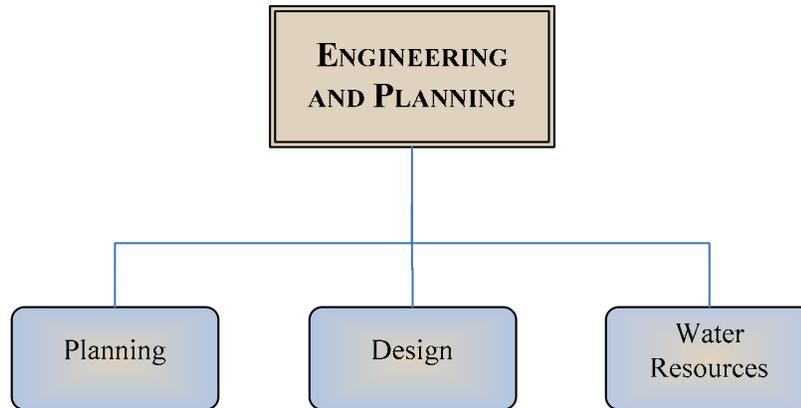
Mission Statement

To provide customer satisfaction by delivering quality engineering and planning services to our customers. Quality design and planning services that meets or exceeds the appropriate codes and regulations, while being creative and technically sound.



<u>Division Title</u>	<u>Division No.</u>
Planning/Design Chief	3311
Planning	3321
Design	3331
Water Resources	3341

DISTRICT POSITION COUNT - 175
ENGINEERING & PLANNING DEPARTMENT - 15

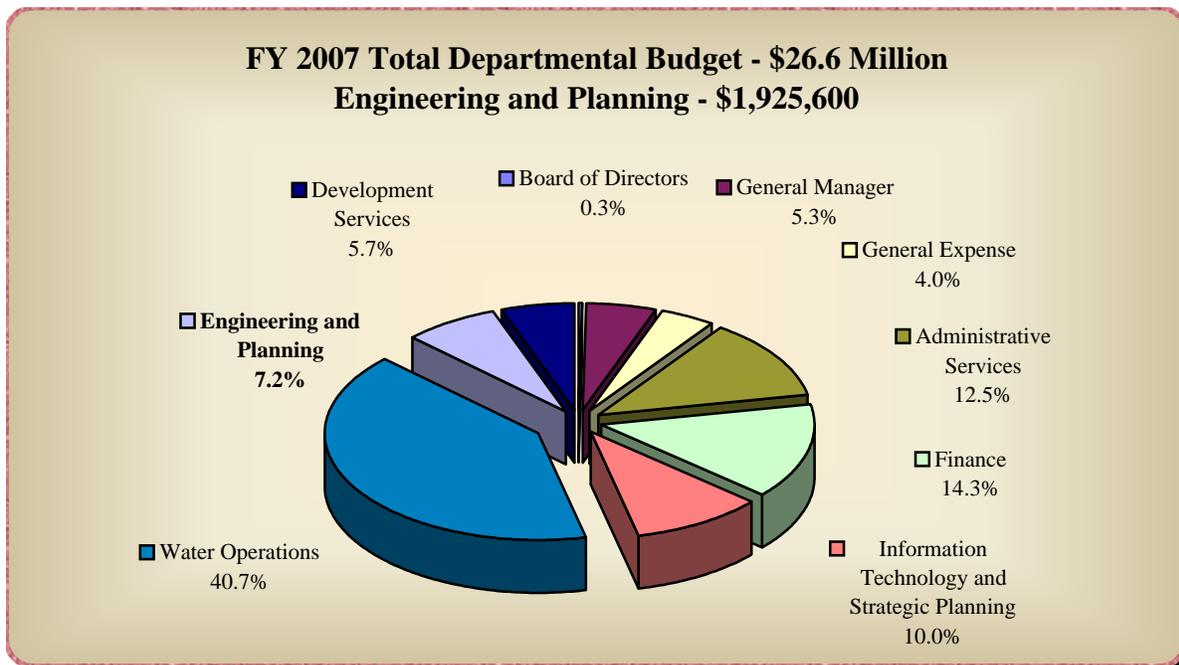


Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Chief, Engineering & Planning	1	1	1
Executive Secretary	1	1	1
Engineering Manager	2	2	2
Senior Civil Engineer	2	2	2
Associate Civil Engineer	2	2	2
Assistant Civil Engineer	1	2	2
Engineering Technicians I, II and III	4	5	5
Total	13	15	15

ENGINEERING AND PLANNING

Department Responsibilities

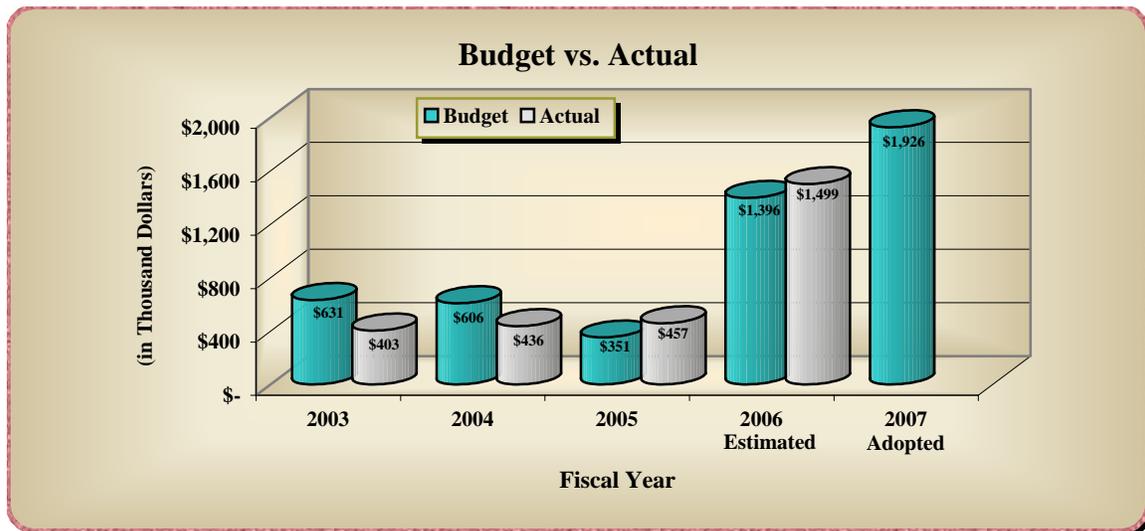
The Engineering and Planning Department, under the general direction of the Assistant General Manager, provides the following support services: Engineering and Planning, Engineering Construction, Project Management and Design planning; responsible for strategic planning, capital budget, water resources planning, support facilities planning, environmental services, quality control, construction, developer designed and constructed facilities; coordinates assigned activities with other district departments and outside agencies; provides highly responsible and complex administrative and technical support to the District, General Manager, and Board of Directors.



	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Planning/Design Chief	\$ 86,129	\$ 239,700	\$ 269,391	\$ 297,500
Planning	230,918	574,500	749,768	448,400
Design	139,470	581,400	417,749	776,200
Water Resources	-	-	62,250	403,500
TOTAL	\$ 456,516	\$ 1,395,600	\$ 1,499,157	\$ 1,925,600

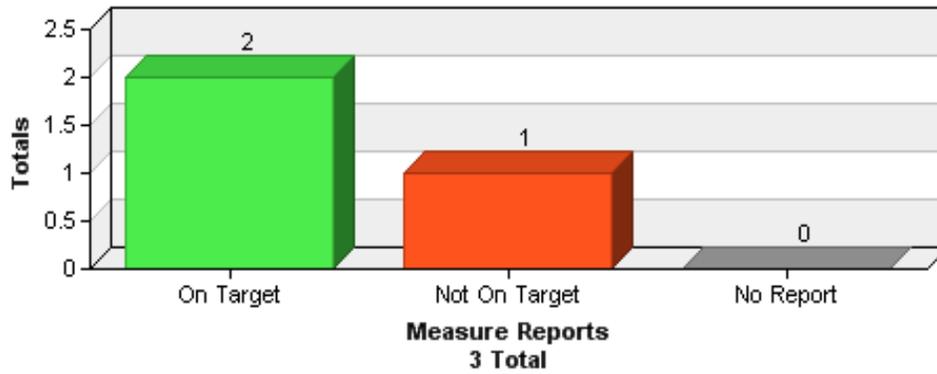
ENGINEERING AND PLANNING

	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 409,237	\$ 598,700	\$ 876,782	\$ 993,100
Travel and Meetings	5,127	13,400	7,980	19,300
General Office Expense	8,435	15,500	5,191	12,700
Equipment	1,378	1,500	-	-
Fees	-	1,500	680	-
Services	17,759	470,000	576,952	900,500
Training	184	-	-	-
Materials & Maintenance	14,397	295,000	31,572	-
Total	\$ 456,516	\$ 1,395,600	\$ 1,499,157	\$ 1,925,600



ENGINEERING AND PLANNING PERFORMANCE INDICATORS

Fiscal Year 2005-2006



Activity/Criterion	Fiscal Year 2004-2005 Actual	Fiscal Year 2005-2006		Fiscal Year 2006-2007 Target
		Target	Actual	
CIP Project Completion - complete design within their scheduled time	N/A	Within 120% of planned duration	101.0%	Within 120% of planned duration
CIP Backbone Projects Expenditures - Compare current year CIP backbone projects actual expenditures with the quarterly projected expenditures	74.0%	75% or Greater	92.0%	75% or Greater
Alternative or Emergency Water Supply - 10 days or greater minimum target for total alternative or emergency water supply available	N/A	100% or Greater	75.0%	100% or Greater

ENGINEERING AND PLANNING

Accomplishments – Fiscal Year 2005-2006

Planning

- Obtained an agreement with CWA for an additional 8 MGD supply from the Helix water system.
- Improved existing and constructed additional inter-agency minor connections.
- Explored the opportunity to wheel CWA and transfer water through the proposed private Mexican aqueduct.
- Evaluated potential joint ventures, groundwater sources, and RWCWRF alternatives.
- Completed the sewer flow calibration in anticipation of the Sewer System Management Plan (SSMP) requirements (formerly known as CMOM).
- Oversaw consultant efforts for completion of 2-10 MG 640 Pre-stressed Concrete Reservoirs.
- Completed the Otay Mesa Valve Engineering Study for Recycled Water.
- Managed and awarded a \$15 million construction contract for 680/450 Recycle PS/RES.
- Completed SAMP (sub-area master plan) for Otay Village 2 and City of Chula Vista General Plan Amendment.
- Designed procurement and managed the installation, start-up, and testing of the trailer-mounted engine driven pump at the Lower Otay Pump Station site.
- Commenced feasibility study with Sweetwater Authority (SWA), City of Chula Vista, and Otay Water District for a recycled water production facility, sewer capacity for the City of Chula Vista, and seasonal conjunctive use concepts in the Sweetwater and Otay Rivers.

Design

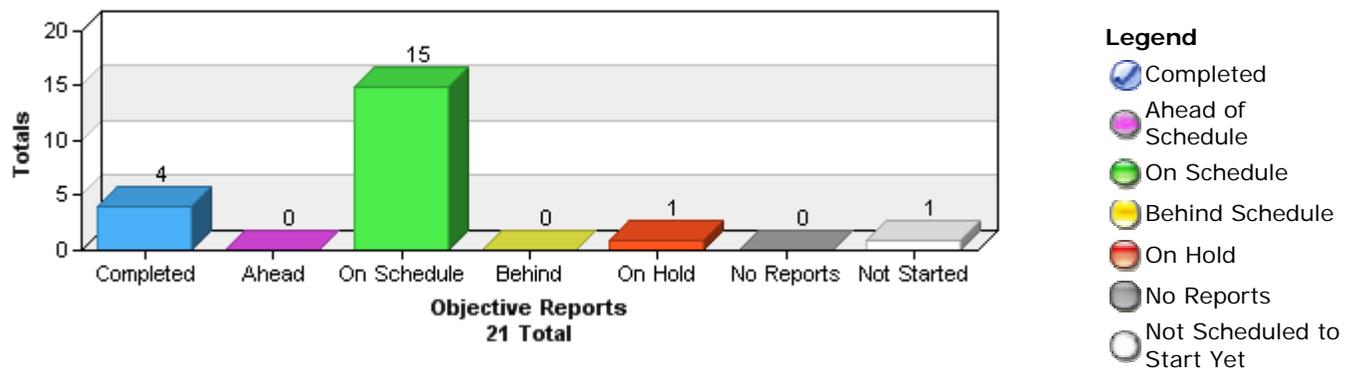
- Completed the preliminary design report (PDR) for Hidden Mountain Sewer Lift Station (S2002) and Russell Square Sewer Lift Station (S2001). The reports recommended keeping the stations in lieu of constructing two gravity sewer mains to the City of El Cajon for a cost savings of approximately \$850,000.
- Completed the design of the 15 MG 980-3 Reservoir (CIP P2037) and the SR-905 Utility Relocation project (P2440).
- Completed the PDR for the 1485-1 Pump Station (CIP P2172). The pump station will provide additional pumping capacity and flexibility for the 1485 pressure zone in the North District.

- Completed the PDR report and 60% design for the Ralph W. Chapman Water Recycling Facility Force Main Air/Vac Replacement and Access Road Rehabilitation Project (CIP R2086).
- Completed the PDR report for the Calavo Sewer Lift Station Replacement Project (CIP S2015).
- Executed two utility agreements with Caltrans for SR-905 Utility Relocation.
- Leading the efforts for developing WADG (Water Agency Design Guideline) for all East County sister agencies.

Water Resources

- Developed the concept to participate in the SD17 Alvarado Water Treatment Plant (WTP) capacity idea of roving situational capacity and developed a draft Principles of Understanding (POU) for cost sharing, etc.
- Completed the negotiations agreement for the East County Regional Treated Water Implementation Plan (ECRTWIP) with CWA to receive \$4,200,000 toward the construction of the new 36" pipeline from FCF #14 to Regulatory Site.
- Developed the North District Recycled Water Concept plans and cost estimates to promote the use of recycled water.
- Continued with compliance with the requirements of the State Water Resource Control Board (SWRCB) \$4,000,000 Proposition 50 grant award. Expect to receive lump sum payment in FY 2007.
- Completed the agreements with the Bureau of Reclamation and the City of San Diego for the Title XVI water reuse and recycling program. The District will receive up to 25% grant funds for the recycled water system.
- Completed the North Tijuana River groundwater study.
- Developed the Integrated Resources Plan (IRP) scope of work, acquired a CDM consultant contract, and proceeded with project development.
- Provided engineering support for the FY 2007 capacity fee rate model and water rate financial model and completed the engineering analysis for the annexation fee excess capacity and related asset values for the annexation fee analyses.
- Participated in the joint SWA and Otay grant development of the Otay River Demineralization Feasibility Proposition 50 Chapter 6a grant application and grant award.
- Prepared a Proposition 50 Chapter 6a grant application for the Rosarito Regional Seawater Demineralization Water Acquisition feasibility study.
- Participated in the joint CWA, City of San Diego, SWA, and Otay grant development of the Regional Concentrate Conveyance Feasibility Study for South San Diego County Proposition 50 Chapter 6a grant application and grant award.

Goals and Objectives – Fiscal Year 2006-2007



Planning

- Implement a long term facilities plan (Master Plan)
- In coordination with operations prepare a long-term replacement and rehabilitation plan.
- Improve existing and obtain additional inter-agency minor connections
- Build a permanent connection with the City of San Diego
- Evaluate additional sewer customers in or near our District
- Evaluate alternatives for Chapman – close, expand, move
- Obtain South Bay's excess capacity

Design

- Promote the District's infrastructure planning activities and high profile projects
- Evaluate potential real property trades, leases or sales to increase revenues
- Evaluate CIP budget development, monitoring, and reporting process
- Implement a comprehensive cathodic protection program

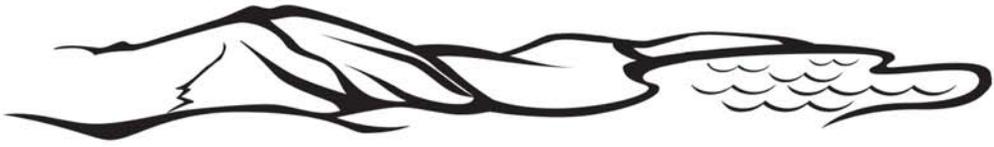
Water Resources

- Evaluate expanding the use of recycled water for single family residential in new developments
- Promote acceptance of recycled water use in other geographic areas within the District's sphere of influence
- Replace the water that is currently pumped to Chula Vista with the new 6 MGD recycled water from the city of San Diego
- Aggressively pursue all relevant grants

- Conduct value engineering studies during the CIP planning process to ensure Master plan is optimized and identify local and regional solutions
- Implement “constructability” review during the design process to minimize construction change orders
- Obtain the Lower Otay Treatment Water Supply Agreement from the City of San Diego for a total of 26 million gallons per day (MGD)
- Obtain an agreement with CWA/Helix for an additional 8 MGD
- Explore opportunity to wheel CWA/Transfer water through proposed private Mexican aqueduct
- Evaluate potential groundwater sources

This page intentionally left blank





Development Services

DEVELOPMENT SERVICES

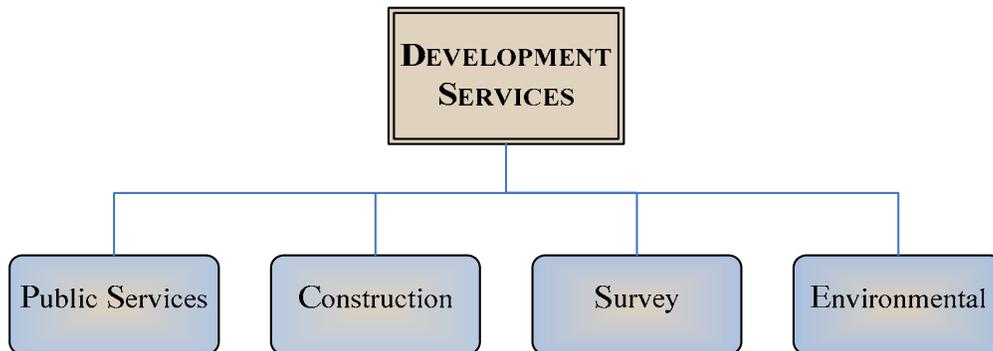
Mission Statement

To provide the highest quality services to the development community and other departments by; constructing District assets, expediting the permitting and environmental processes, meeting or exceeding all regulations, and to attain excellent customer satisfaction with dedicated employees and innovative technology.



<u>Division Title</u>	<u>Division No.</u>
Development Services Chief	3411
Public Services	3421
Construction Services	3431
Survey Services	3441
Environmental Services	3451

DISTRICT POSITION COUNT - 175
DEVELOPMENT SERVICES DEPARTMENT - 16

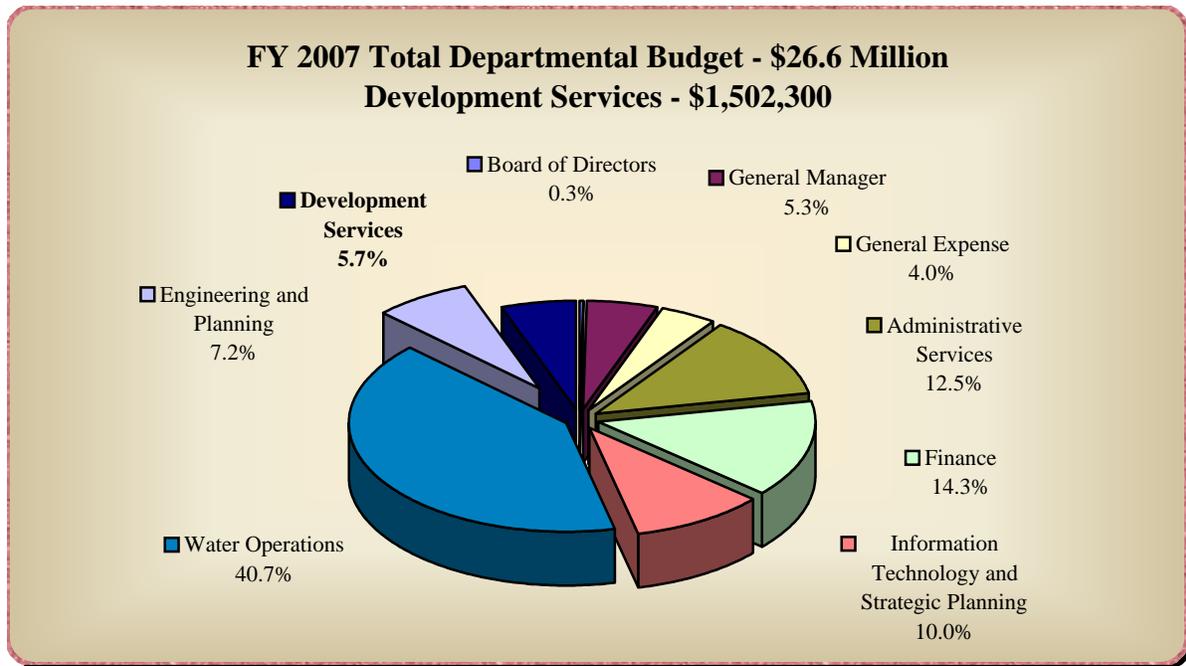


Personnel Count	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Chief, Development Services	1	1	1
Public Services Manager	1	1	1
Secretary	1	1	1
Senior Civil Engineer	1	1	1
Associate Civil Engineer	1	1	1
Engineering Technicians I, II and III	3	3	2
Inspection Supervisor	1	1	1
Construction Inspectors	4	4	4
Surveying Supervisor	1	1	1
Survey Technician	1	1	1
Assistant Survey Technician	1	1	1
Office Assistant	1	1	1
Total	17	17	16

DEVELOPMENT SERVICES

Department Responsibilities

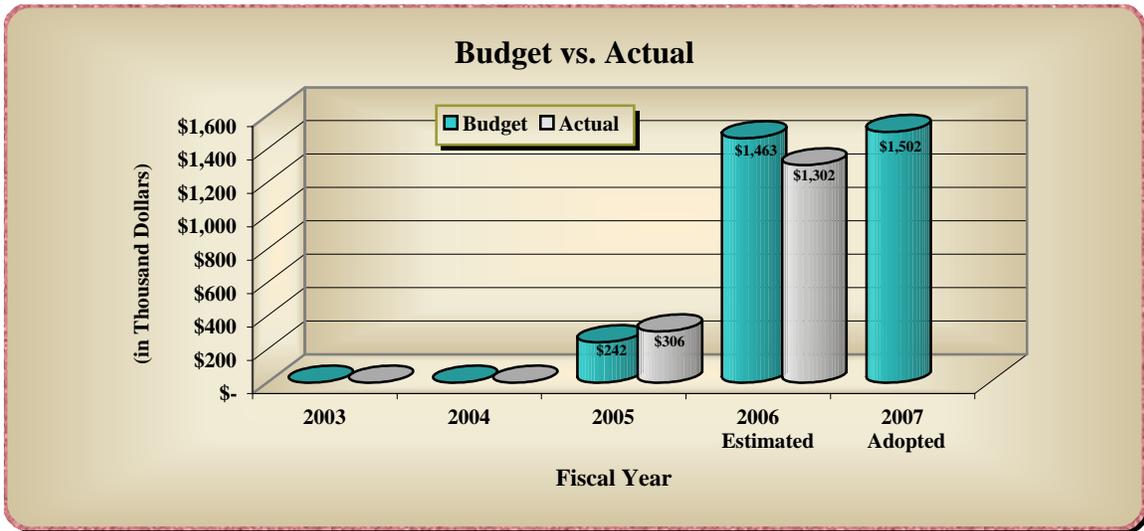
The Development Services Department, under the general direction of the Assistant General Manager, provides the following support services: Construction, Surveying, Public Services, Capital Improvement Programs; serves as liaison with developers, and is responsible for the District's environmental compliance program; provides highly responsible and complex administrative and technical support to the District, General Manager, and Board of Directors.



	FY 2005	FY 2006		FY 2007
	Actual	Budget	Estimated	Budget
Development Services Chief	\$ 174,345	\$ 900,100	\$ 559,518	\$ 277,100
Public Services	16,880	155,700	254,576	130,800
Construction Services	106,117	168,000	244,636	205,200
Survey Services	8,656	239,000	243,495	245,500
Environmental Services	-	-	-	643,700
TOTAL	\$ 305,999	\$ 1,462,800	\$ 1,302,225	\$ 1,502,300

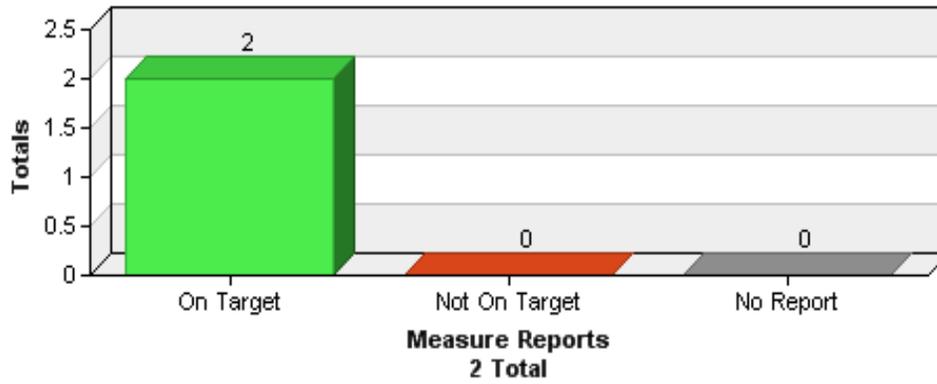
DEVELOPMENT SERVICES

	FY 2005		FY 2006		FY 2007
	Actual	Budget	Estimated	Budget	Budget
Labor and Benefits	\$ 21,022	\$ 740,500	\$ 927,385	\$ 872,000	
Travel and Meetings	3,754	11,600	9,011	13,900	
General Office Expense	4,791	12,700	8,524	7,400	
Equipment	264	-	1,438	1,500	
Fees	5,600	60,000	29,979	50,000	
Services	268,965	606,000	318,667	555,500	
Training	1,603	2,000	1,322	2,000	
Materials & Maintenance	-	30,000	5,900	-	
Total	\$ 305,999	\$ 1,462,800	\$ 1,302,225	\$ 1,502,300	



DEVELOPMENT SERVICES PERFORMANCE INDICATORS

Fiscal Year 2005-2006



Activity/Criterion	Fiscal Year 2004-2005 Actual	Fiscal Year 2005-2006		Fiscal Year 2006-2007 Target
		Target	Actual	
Construction Change Orders - total cost of construction change orders	-0.19%	Less than 5%	-1.5%	Less than 5%
Construction Claims - reduce construction claims	-0.19%	Less than 5% of contract amount	0.0%	Less than 5% of contract amount

DEVELOPMENT SERVICES

Accomplishments – Fiscal Year 2005-2006

Public Services

- Processed a total of 1,134 permits.
- Generated revenue totaling \$8.7 million.
- Processed \$2,907,087 in Reimbursement Agreements, saving the District \$538,295. The original request was for \$3,445,382.
- Made changes to the District's Policy 26 – Developer Reimbursement Sunset Clause and the District's Construction Agreements.
- Closed 100 projects and refunded developers their deposits in excess of \$414,000.
- Completed ten division business processes.

Construction

- A total of 12 CIP projects were constructed or in progress, with a value of \$45 million. This is up from last year's total of \$15 million.
- A total of 37 Change Orders were issued valued at -\$557,748; this represents -3.4% of the total construction cost.
- Quality assurance and control was exercised for over 135,000 linear feet of pipe on approximately 250 projects constructed by developers. All projects were accomplished with no loss of time due to injuries or accidents.
- The Department managed 28 cell site leases that brought in over \$723,000 in revenue for the District.
- The following projects were completed this fiscal year: the Dehesa Road Pipeline, the 980-2 Pump Station, the 803-4 Reservoir, the 1485 Reservoir, the 980 30-Inch Pipeline, the 458-1 and 458-2 Reservoirs Coating, the 485-1 Reservoir recoating, RWCWRF Paving, and the Rolling Hills Ranch Hydropneumatic Pump Station.
- Conducted overall quality control management for facilities installed by developers.
- Conducted program/construction management for the following projects:
 - 1485-2 Reservoir
 - 980-2 Pump Station
 - 803-4 Reservoir
 - 980 Steel Pipeline
 - 30" Recycled Water Pipeline - 50% complete
 - 450 Recycled Water Reservoir/680 Recycled Water Pump Station - 30% complete

- Conducted constructability reviews for CIP projects.
- Managed Change Order incidence to less than 3% of a project's construction cost.
- Managed project closeout to less than 100 days between Notice of Substantial Completion (NOSC) and Notice of Completion (NOC).

Survey

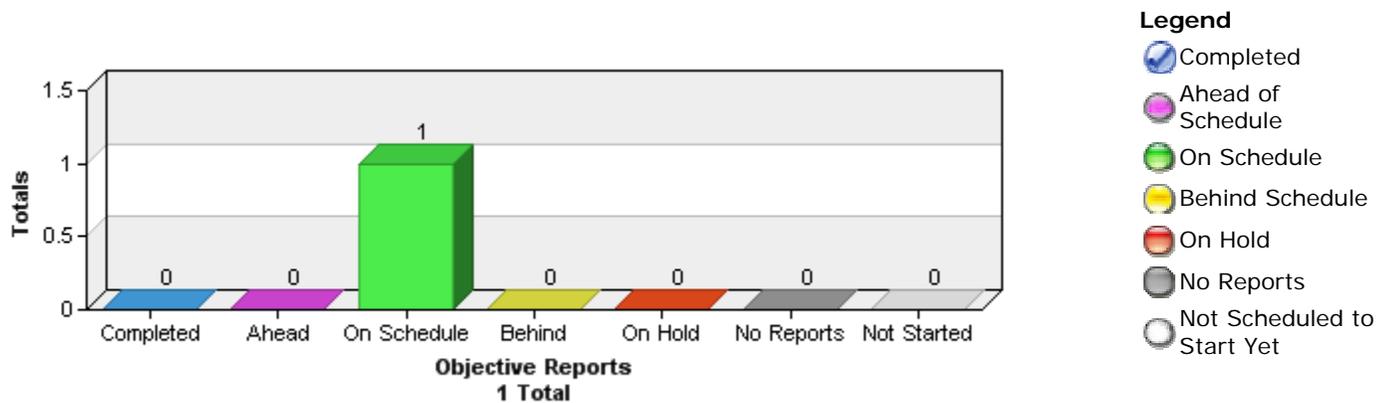
- 10 parcel maps and 28 subdivision maps with a total of 1,569 lots were added to the cadastral base map this year. In addition, 270 assessor's parcel map pages were researched and all new parcels updated.
- In cooperation with the Engineering and Planning Department, the Survey Division worked on 27 CIP projects this year. The work included boundary and topographical surveys, construction staking and construction checks, facility location (pothole) surveys and composition of easement legal descriptions.
- The Survey Division received weekly requests from the Valve Crew, Meter Shop, Sewer Maintenance Crew, and Engineering front counter to find and/or verify locations of sewer laterals, water meters, valves, manholes and blow offs.
- In January, the Blackberry was put into service for USA Mark outs. This enabled the locator in the field to access the incoming tickets via e-mail.
- The Survey Division drafted 477 easements and exported them to the GIS.
- The Survey Division completed 2,476 mark outs by mid-June with an accuracy rate of 99.96%. Three hits would give a rate of 99.88%, so District facilities have been very well protected.
- All assigned facility data collection on accepted projects was completed within four weeks of receiving "as-built" records.

Environmental

- Brought the U.S. Bureau of Reclamation grant application to substantial completion in March 2006, when the Board approved the signing of the sub-agreement with the City of San Diego.
- Completed the 980-3 Reservoir Mitigated Negative Declaration which was adopted by the Board of Directors on April 5, 2006.
- Provided construction phase support to the Recycled Water Projects, including attendance of progress meetings, completion of the project's Biological Opinion in September 2005, and completion of the draft Mitigation and Monitoring Plan.
- Obtained authority to construct for retrofits on Engine #1, Engine #25, and the Lower Otay Pump Station temporary engine to bring them into compliance with the Air Toxic Control Measure.

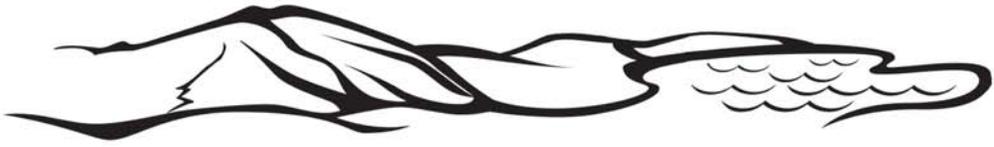
- Completed the three-year re-vegetation project for the 803-2 Reservoir Pipeline and access road easement.
- Assisted in the completion of the 640-1 Reservoir Mitigated Negative Declaration and its adoption by the Board of Directors on February 1, 2006.
- Continued management of the San Miguel Habitat Management Area and the 1004-2 Reservoir access road five-year re-vegetation project.
- Managed the collection and removal of approximately 1,380 feet of asbestos cement pipeline from the C.W. McGrath granite pit.

Goals and Objectives – Fiscal Year 2006-2007



Public Services

- Develop enhanced outreach and communication programs to strengthen relationships with developers



General Expense

GENERAL EXPENSE

Mission Statement

To record and track the general expenses of the District which are not applicable to a specific department.

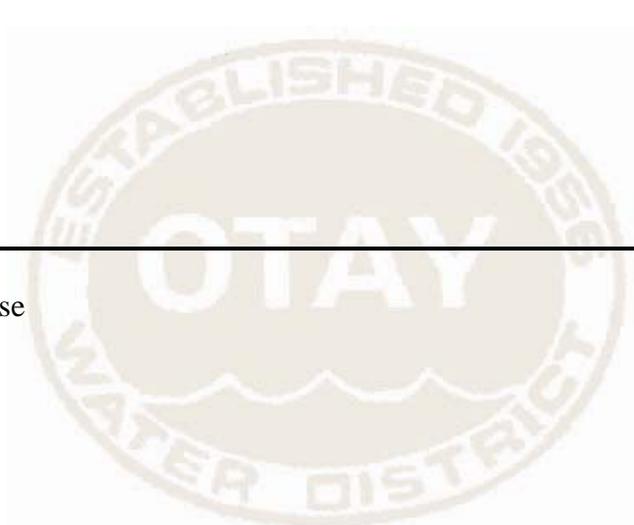


Division Title

General Expense

Division No.

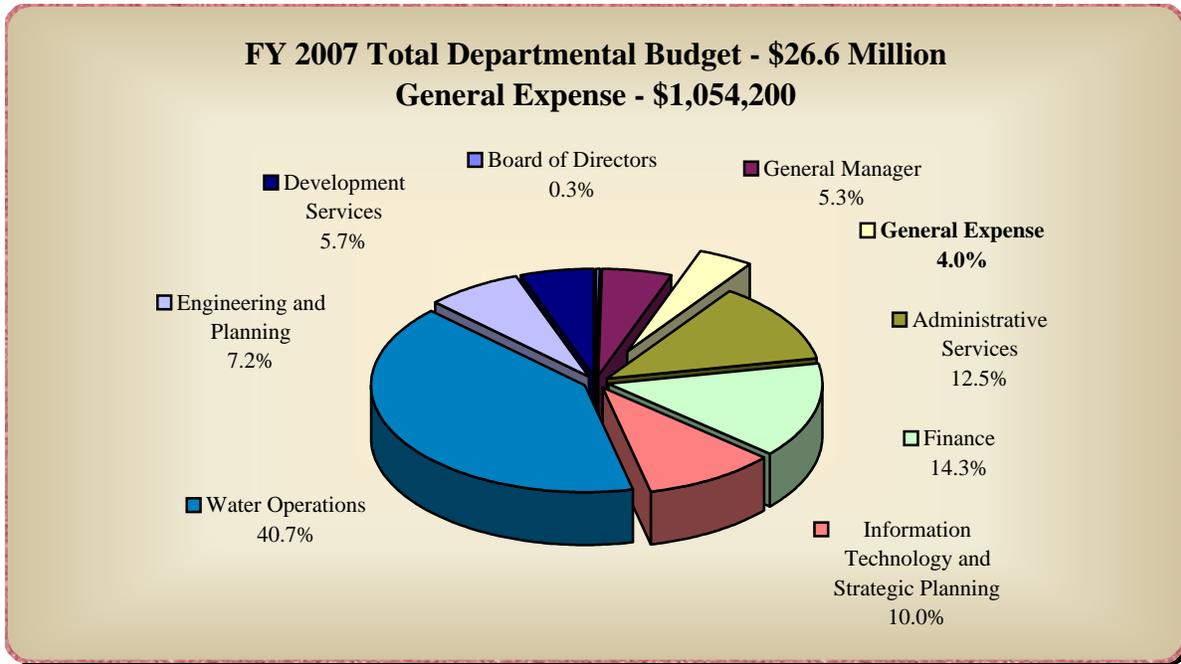
1311



GENERAL EXPENSE

Description

The expenses in this section are general operating expenses not associated with an individual department. The expenses include: legal costs, insurance premiums, changes in accrued employee leave balances and miscellaneous interest. These expenses represent 4% of the total Departmental Budget.



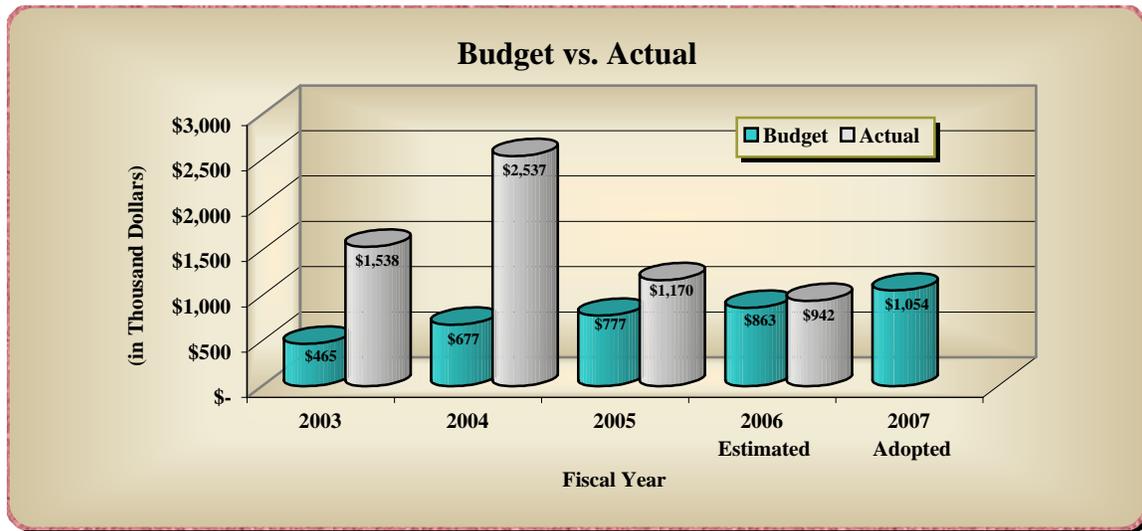
General Expense

TOTAL

	FY 2005 Actual	FY 2006 Budget Estimated		FY 2007 Budget
General Expense	\$ 1,169,627	\$ 862,500	\$ 941,598	\$ 1,054,200
TOTAL	\$ 1,169,627	\$ 862,500	\$ 941,598	\$ 1,054,200

GENERAL EXPENSE

	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimated	FY 2007 Budget
Labor and Benefits	\$ -	\$ -	\$ -	\$ 47,000
Fees	1,169,627	862,500	941,598	1,006,500
Interest	-	-	-	700
Total	\$ 1,169,627	\$ 862,500	\$ 941,598	\$ 1,054,200



This page intentionally left blank





Capital Budget

CAPITAL IMPROVEMENT PROGRAM

The District provides water service to a population of approximately 189,000 which is expected to ultimately increase to 277,000. The growth rate projected by the San Diego Association of Governments (SANDAG) and incorporated in the Water Resources Master Plan is nearly 6% per annum for the next 10-15 years. However, based on current economic conditions, staff is projecting a 1.8% growth rate in population and equivalent dwelling units (EDUs) for Fiscal Year 2007. The EDU is the demand created by a typical single-family dwelling requiring a 3/4" water meter. A business creates a demand equivalent to several single-family dwellings, thus the term equivalent dwelling unit. Presently, our projected 48,200 customer accounts equate to a projected 74,600 EDUs. The ultimate population of 277,000 will result in an estimated 114,000 EDUs and an average annual water demand of approximately 56 million gallons per day (MGD).

To accommodate this growth requires that the District invest \$530 million in capital assets through ultimate build-out. The Fiscal Year 2007 Capital Budget is \$34.5 million and the five-year Capital Improvement Program (CIP) totals \$137 million. A separate CIP Budget Notebook contains the descriptions, justifications, expenditures, and funding for all the identified projects to ultimate build-out.

Assumptions and Criteria

The Water Resources Master Plan was based on several major assumptions and design criteria which are as follows:

1. Utilizing historical water demands for each land use type in the District to calculate future demands;
2. Using maximum day peaking factors that vary with demand level;
3. Utilizing land use as planned by the City of Chula Vista;
4. Providing ten days of emergency water supply through a maximum of five days in covered reservoirs and a minimum of five days from interconnections with adjacent agencies;
5. Inclusion of emergency operational storage to meet the five-day covered storage requirement into the ten-day outage supply requirement.

In summary, the CIP is developed based on the District's Water Resources Master Plan, incorporating historical data, growth, developers' input, SANDAG projections, and long-term economic outlook.

Justification for Project and Impact on Operating Budget

The justification for each project is determined by whether it is required due to growth (Expansion), improvements or upgrades (Betterment), or to replace an existing asset (Replacement). As these projects are completed and placed into service, there may be an impact on the Operating Budget by increasing cost in the areas of maintenance, energy or chemicals as shown on the justification and impact pages in this section.

CAPITAL IMPROVEMENT PROGRAM

Capital Purchases and Facilities

This year, all capital expenditures are in the CIP. This includes capital facilities and capital purchases. Capital purchases are non-recurring operating expense items for District-wide use that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Vehicle, Office Equipment and Furniture, and Field Equipment purchases, the details of which can be found on page 223. Capital facility projects are items that exceed \$10,000 or \$20,000 for infrastructure related items and have a useful life of at least two years.

The Capital Improvement Program (CIP) projects identified are prioritized based on the following criteria:

1. Safety, restoration of service, immediate obligation, Board directed or critical system need.
2. System upgrades or requirements to maintain system reliability in the next few fiscal years.
3. Need to meet the future growth of the system.
4. Project requirement may be reduced in capacity or may have low probability of need in the future.

The Capital Improvement Program includes the following three categories of improvement projects:

Expansion

Facilities required to support new or future users which are funded from capacity fees.

Betterment

Facilities required because of inadequate capacity or new requirements that benefit existing users and funded from availability and betterment fees.

Replacement

Facilities required to renew or replace existing facilities that have deteriorated or have exceeded their useful life and are funded from user rates.

Capital Improvement Projects

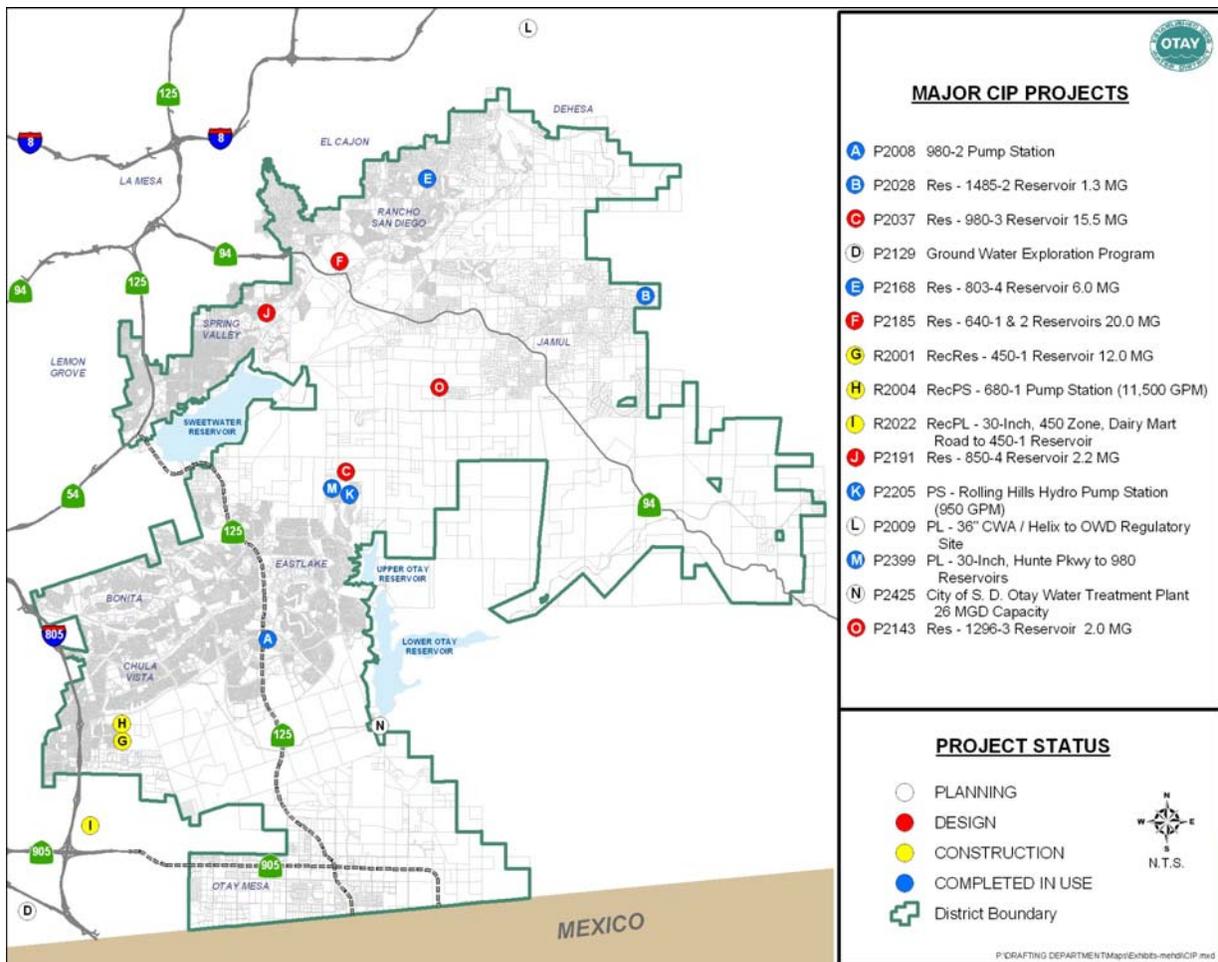
The 2007 Fiscal Year CIP Budget contains 90 projects. The cost of the work planned for Fiscal Year 2007 is \$34.5 million. Of the 90 projects planned for Fiscal Year 2007, 27 are designated as reimbursable projects, totaling \$3.4 million. These projects are built by developers and reimbursed by the District.

MAJOR CIP PROJECTS

The following shows how the \$34.5 million of projects are broken down into four categories:

- | | |
|----------------------------|-----------------|
| 1. Capital facilities | \$ 25.5 million |
| 2. Developer reimbursement | \$ 3.4 million |
| 3. Replacement or renewal | \$ 3.9 million |
| 4. Capital purchases | \$ 1.7 million |

The Five-Year CIP and Fiscal Year 2007 Capital Budgets are consistent with the District's Water Resources Master Plan, current capacity fees, and the District's strategic financial objectives.



FLAGSHIP CIP PROJECTS COMPLETED



980-2 Pump Station
 This project is complete and was accepted into the District's system in June 2006.

San Diego & Imperial Counties Chapter
AMERICAN PUBLIC WORKS ASSOCIATION

August 22, 2006

Ms. Barbara Bartholomae
 Boyle Engineering Corporation
 7807 Convo Court, Suite 200
 San Diego, CA 92111

Reference: APWA AWARD

Dear Ms. Bartholomae:

It is my pleasure to inform you that the 980-2 Pump Station Project was selected for an Honor Award.

The awards program is on Thursday, September 14, 2006 at the Association's monthly meeting at the Four Points Hotel, 8110 Aero Drive, San Diego. Registration will begin at 11:30 a.m. with lunch and awards program starting at 12:00 p.m. We request that you designate a representative from your organization to attend the meeting, receive the award, and have a complimentary lunch with our members. You may invite others to attend the awards presentation however; they will be responsible for the cost of their lunch. Lunch reservations can be made by emailing Mari Mclean at maclean@mms-inc.net by close of business on Monday, September 11, 2006.

A picture of your project will be included in the award plaque. Please send a high quality horizontally orientated 4" x 6" hardcopy picture to my attention at:

Tom Frank, PE
 APWA Awards Chair
 C/O
 Infrastructure Engineering Corporation
 717 Pier View Way
 Oceanside, CA 92024

A slide presentation highlighting all winning projects is included in the afternoon's program. Please email me two or three electronic copy project photos no later than August 30, 2006. My e-mail address is tf Frank@iicorporation.

Congratulations on your award. If you have any questions or need additional information, please contact me at (760) 529-0795 ext. 203.

Sincerely,

Tom Frank, PE
 APWA Chapter Awards Committee Chairman

cc: File

2006 OFFICERS

PRESIDENT
 Homer Bahr (619) 627-2091
 City of San Diego

PRESIDENT-ELECT
 Howard Arnold (619) 675-5505
 Terra Tech, Inc.

VICE PRESIDENT
 Pam Beckamp (619) 236-6274
 City of San Diego

SECRETARY
 Ed Watson (619) 525-7385
 City of Colorado

TREASURER
 Sammie Hume (619) 243-2891
 IRES Corporation

DIRECTORS

Tom Adler (619) 409-5483
 City of Chula Vista

Tom Frank (760) 529-0795
 Infrastructure Engineering

Tim Gabrielson (619) 291-4707
 R&K Engineering Company

Tom Hienrichs (619) 486-6200
 Port of San Diego

Jonathan Smith (619) 668-4621
 City of Torrey

Chandra Waller (619) 494-2125
 County of San Diego

Angela Morrow (760) 839-4018
 City of Escondido

PAST PRESIDENT
 Charles R. Sparks (619) 234-9411
 Kinley-Horn & Associates

HOUSE OF DELEGATES AND CALIFORNIA PUBLIC WORKS COUNCIL REPRESENTATIVE
 Angie Chang (619) 576-9200
 Peconic

Julie Fuentes (619) 533-3092
 City of San Diego
 Alternate

REGION VII DIRECTOR
 Ann Harrell
 (619) 640-4444

Key Component:

25,000 GPM (36 MGD) pump station delivering water to the 980 potable water pressure zone.

Schedule:

Board approved award of construction contract in September 2004. Construction began in October 2004. Completed in June 2006.

Cost:

Budget was 100% spent.

Significant Issues:

APWA Honor Award will be given on September 14, 2006.

Warranty items being worked on at no cost to the District.

- One pump has been pulled for warranty repair.
- ATS in process of installation.



**30-Inch Pipeline,
980 Pressure Zone**

This is an important project due to increasing demand in Eastern Chula Vista, 980 Zone. Project was designed in-house and accepted by the District in May 2006.

- Key Component:** 7,900 linear feet of 30-inch CML&C steel pipeline, from Hunte Parkway to the 980 Reservoirs and 5,000 feet of access road.
- Schedule:** Notice to proceed dated April 20, 2005. Completed May 2006.
- Cost:** Budget was 100% spent.



**803-4, 6 MG
Reservoir**
This project is complete and was accepted into the District's system in June 2006.

- Key Component:** Remove an existing 1 MG reservoir and construct a new 6 MG above-ground steel reservoir.
- Schedule:** Board approved the construction contract in October 2004. Completed June 2006.
- Cost:** This project came in \$390,000 under budget.

1485-2, 1.6 MG Reservoir

This project is complete and was accepted into the District's system in May 2006.



Key Component:

Construction of a new 1.6 MG steel reservoir.
Rehabilitation of the existing 0.3 MG steel reservoir.

Schedule:

Board approved the construction contract in May 2004. Construction began in June 2004. The new 1485-2 Reservoir was completed in November 2005, and the rehabilitation of the existing 1485-1 Reservoir was completed in May 2006.

Cost:

This project came in \$80,000 under budget.

CIP PROJECTS IN CONSTRUCTION AND AHEAD OF SCHEDULE



30" Recycled Water Pipeline Project
Project was awarded for construction in May 2005. This pipeline will deliver recycled water from South Bay to the 450 / 680 Reservoir and Pump Station. Project is expected to be completed in the fall of 2006.

- Key Component:** Approximately 6 miles of 30" pipeline for recycled water from City of San Diego's South Bay Water Reclamation Plant (SBWRP) to Otay's 450-1 Reservoir and 680-1 Pump Station.
- Schedule:** Full notice to proceed given on September 28, 2005. Contract completion date is November 21, 2006.
- Cost:** The overall project budget is 69% spent - \$15.53 million out of a total budget of \$22.6 million.
- Significant Issues:** Project is progressing well. Construction contract is on schedule and 75% complete as of June 30, 2006.



**450-1 Reservoir /
680-1 Pump Station**
Reservoir and the Pump Station are under construction. Project is expected to be completed in the spring of 2007.

Key Component: 12,000 GPM (17.3 MGD) pump station delivering recycled water from 450-1 Reservoir to the 680 and 944 recycled water pressure zones.

Schedule: Construction started in late November 2005. Contract completion date is March 14, 2007.

Cost: The overall project budget is 51% spent - \$9.36 million out of a total budget of \$18.2 million.

Significant Issues: Construction contract is on schedule and 57% complete as of June 30, 2006.

980-3 15 MG Reservoir

Key Component: Otay Engineering staff is designing a 15 million gallon pre-stressed, circular, concrete reservoir adjacent to our two existing reservoirs in the use area.

Schedule: 90% design completed. Construction to begin in FY10.

Cost: The overall project budget is 7% spent.

Significant Issues: Project has been rescheduled in order to complete other higher priority projects. Additionally, other system improvements have allowed this project completion date to be extended. Remaining design work will be completed toward the end of FY09 with construction starting in early FY10.



East County Regional Treated Water Improvement Program (ECRTWIP):

Key Component: Acquire an additional 4 MGD of local treatment capacity for a total of 12 MGD on-peak capacity and 16 MGD off-peak capacity from Helix Water District through the San Diego County Water Authority (CWA).

Otay's portion is the construction of a 36" pipeline.

Schedule: ECRTWIP agreement fully executed on April 27, 2006.

FCF #14 to be completed by December 2007 (CWA).

The 36" pipeline is expected to be completed by January 2010 (OWD).

Cost: FY06 budget was expended.

Significant Issues: Four water districts involved (Otay, Padre, Lakeside and Helix) with CWA.

Each agency to pay for infrastructure.

CWA to contribute \$4.2 million toward construction the new 36" pipeline by Otay from FCF #14 to regulatory site.

OWD in process of hiring design consultant for the pipeline.

Total budget: \$12.68 million OWD's share: \$8.28 million

City of San Diego's WTP Capacity:

Key Component: Acquire at least 30 MGD of local treatment capacity from City of San Diego (City).

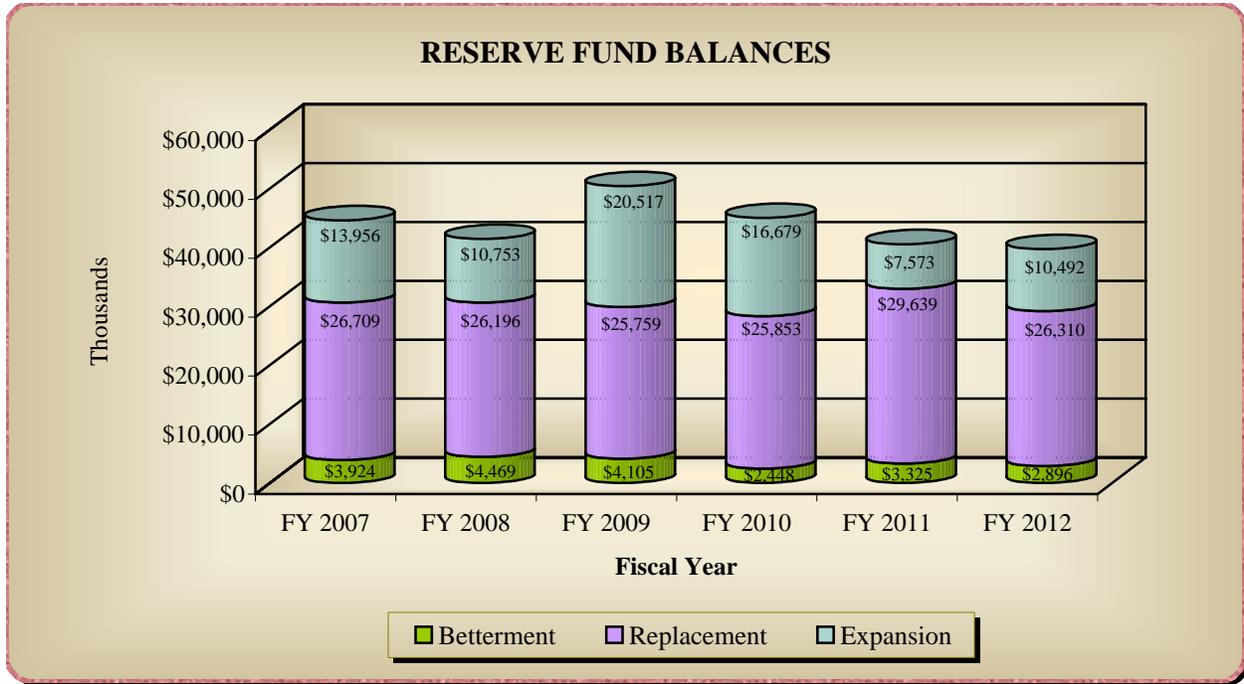
Schedule: Staff continues discussions with City and SDCWA staffs.

Cost: Only staff time has been budgeted; project cost is dependent upon negotiations outcome.

- The City will supply "Surplus Water" from Otay WTP to Otay per the current 1999 agreement.
- Re-established negotiations with the City with the new staff appointed recently by the Mayor.
- The City has an opportunity of a \$10,000,000 grant for a pump station at the Alvarado WTP to pump into CWA Pipeline No. 4.
- Draft Principles of Understanding (POU) with the City have been prepared related to



CIP RESERVE FUNDS



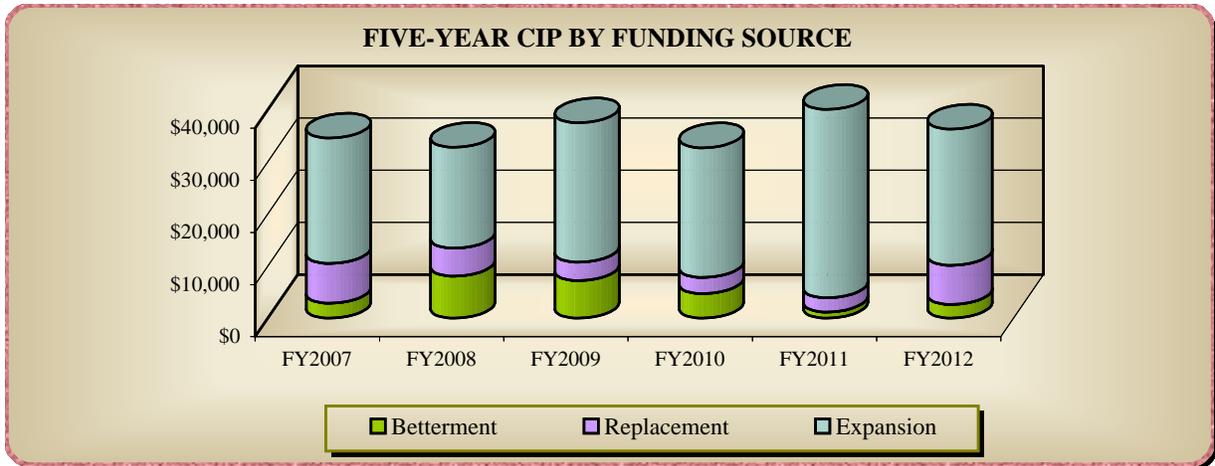
(Thousand \$000s)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Capacity Fees	\$ 7,331	\$ 8,174	\$ 11,922	\$ 10,695	\$ 10,874	\$ 20,084	\$ 69,079
Debt financing	27,500	-	18,350	-	13,150	-	59,000
Grants	4,240	1,616	3,592	3,592	2,080	1,520	16,640
Interest	1,291	2,098	2,370	2,552	2,410	2,337	13,058
Betterment Charges	949	1,017	1,054	1,093	1,133	1,174	6,420
Temporary Meters	800	804	812	820	828	836	4,900
Availability (Betterment Portion)	546	561	584	605	625	653	3,575
Transfer from General Fund	12,500	13,579	6,875	7,837	8,363	9,137	58,291
Interfund Transfers	356	705	537	674	423	334	3,030
Total Sources	55,513	28,554	46,096	27,868	39,886	36,075	233,992
Total CIP Projects	34,542	32,720	37,422	32,657	45,596	36,201	219,138
Less: 20% Experienced Adjustment	(6,908)	(6,544)	(7,484)	(6,531)	(9,119)	(7,240)	(43,828)
CIP Projects, adjusted ⁽¹⁾	27,634	26,176	29,938	26,126	36,477	28,961	175,311
Debt Service	3,167	3,840	5,642	5,444	6,394	6,573	31,060
Developer Services	1,000	1,005	1,015	1,026	1,036	1,046	6,128
Interfund Transfers	356	705	537	674	423	334	3,030
Total Uses	32,158	31,726	37,132	33,269	44,330	36,914	215,528
Net Sources (Uses)	\$ 23,356	\$ (3,172)	\$ 8,964	\$ (5,401)	\$ (4,444)	\$ (839)	\$ 18,464

⁽¹⁾ The District expects that 80% of the projected CIP costs will be expended in the fiscal year budgeted.

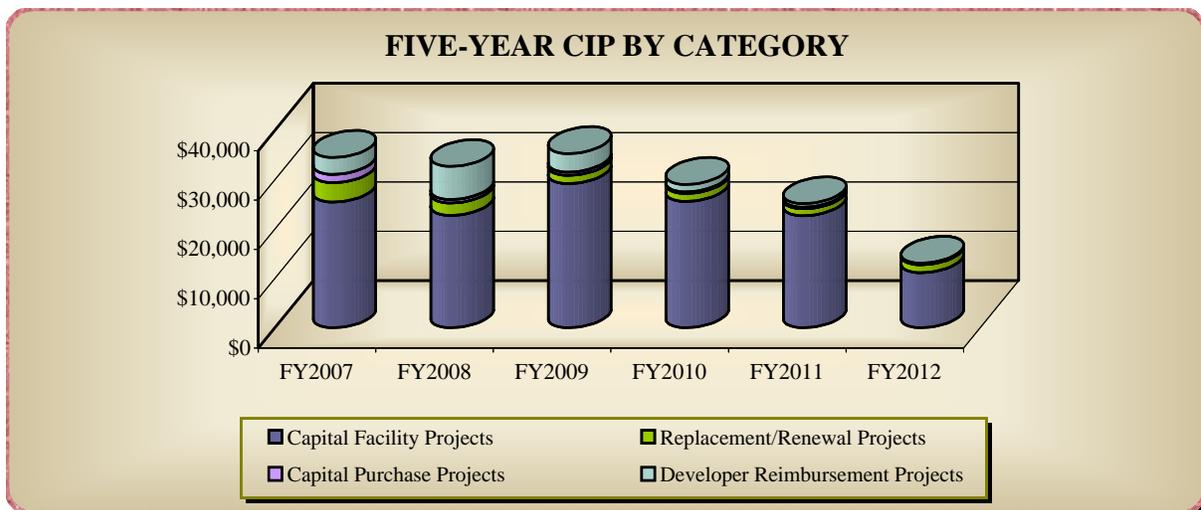


CIP FUNDING SOURCE AND CATEGORY

(Thousands \$000)	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	TOTAL
Expansion	\$ 24,083	\$ 19,301	\$ 26,668	\$ 24,857	\$ 41,679	\$ 26,087	\$162,674
Betterment	2,882	8,037	7,212	4,697	1,186	2,592	26,605
Replacement	7,577	5,382	3,542	3,104	2,732	7,523	29,859
TOTAL	\$ 34,542	\$ 32,720	\$ 37,422	\$ 32,657	\$ 45,596	\$ 36,201	\$219,138



(Thousands \$000s)	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	TOTAL
Capital Facility Projects	\$ 25,478	\$ 22,810	\$ 29,220	\$ 25,604	\$ 22,753	\$ 11,187	\$137,052
Replacement/Renewal Projects	3,930	2,531	1,708	1,664	1,399	1,600	12,832
Capital Purchase Projects	1,725	693	670	320	320	310	4,038
Developer Reimbursement Projects	3,409	6,681	3,739	1,481	681	-	15,991
Subtotal	34,542	32,715	35,337	29,069	25,153	13,097	169,913
FY 2008 Through FY 2012 Projects	-	5	2,085	3,588	20,443	23,104	49,225
TOTAL	\$ 34,542	\$ 32,720	\$ 37,422	\$ 32,657	\$ 45,596	\$ 36,201	\$219,138





CAPITAL IMPROVEMENT PROGRAM (\$1,000s)

CIP No.	Description	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Total
CAPITAL FACILITY PROJECTS								
P2008	PS - 980-2 Pump Station (25,000 GPM)	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	675	2,550	\$ 4,900	\$ 6,682	3,601	-	18,408
P2028	Res - 1485-2 Reservoir 1.6 MG	50	-	-	-	-	-	50
P2033	PL - 16-Inch, 1296 Zone, Melody Rd. - Campo/Presilla	6	186	1,157	472	-	-	1,821
P2037	Res - 980-3 Reservoir 15.0 MG	50	-	-	2,500	6,500	3,644	12,694
P2038	PL - 12-Inch, 978 Zone, Jamacha and Hidden Mesa Road Upsize and Replace.	80	480	690	285	-	-	1,535
P2040	Res - 1655-1 Reservoir 0.5 MG	45	85	1,115	339	-	-	1,584
P2129	Groundwater Exploration Program	25	10	10	25	630	1,280	1,980
P2143	Res - 1296-3 Reservoir 2.0 MG	345	1,175	1,776	-	-	-	3,296
P2168	Res - 803-4 Reservoir 6.0 MG	265	-	-	-	-	-	265
P2172	PS - 1485-1 Pump Station Replacement	237	1,356	289	-	-	-	1,882
P2185	Res - 640-1 Reservoir 20.0 MG	1,000	9,000	8,500	6,800	-	-	25,300
P2190	PL - 10-Inch, 1485 Zone, Jamul Highlands Road to Presilla Drive	2	40	75	-	-	-	117
P2191	Res - 850-4 Reservoir 2.2 MG	1,258	1,279	-	-	-	-	2,537
P2258	PS - Lower Otay Pump Station	105	-	-	-	2,950	2,900	5,955
P2295	624-1 Reservoir Disinfection Facility, Inlet/Outlet/Bypass and 613-1 Reservoir Demo.	500	-	-	-	-	-	500
P2318	PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections	75	500	-	-	-	-	575
P2356	PL - 12-Inch, 803 Zone, Jamul Drive Permastran Pipeline Replacement	55	315	240	-	-	-	610
P2357	PS - 657-1/850-1 Pump Station Demolition	5	49	246	-	-	-	300
P2370	Res - Dorchester Reservoir and Pump Station Demolition	23	67	-	-	-	-	90
P2387	PL - 12-Inch, 832 Zone, Steele Canyon Road - Via Caliente/Campo	25	185	160	-	-	-	370
P2399	PL - 30-Inch, 980 Zone, 980 Reservoirs to Hunte Parkway	1	-	-	-	-	-	1
P2422	Agency Interconnections	160	54	-	-	-	-	214
P2425	Otay WTP Capacity Purchase Agreement Negotiations	20	20	20	-	-	-	60
P2441	NG/RAMAR Replacements	1,250	-	-	-	-	-	1,250
P2447	Information Technology Meter Routing	80	-	-	-	-	-	80
P2449	Information Technology Business Continuity	225	-	-	-	-	-	225
P2450	Otay River Groundwater Well Demineralization/Development	5	10	100	885	3,600	400	5,000
P2451	Rosarito Desalination Facility Conveyance System	2	3	10	100	85	800	1,000
P2453	SR-11 Utility Relocations	5	170	120	680	655	670	2,300
P2454	Vaults and Meter, Alta Road and Use Area	253	212	-	-	-	-	465
P2457	East Otay Mesa Groundwater Well Development	50	250	6,000	200	-	-	6,500
P2458	AMR Retrofit	361	1,477	1,362	1,338	1,482	1,493	7,513
R2001	RecRes - 450-1 Reservoir 12.0 MG	4,300	667	-	-	-	-	4,967
R2003	RecRes - 680-1 Reservoir 3.4 MG	250	-	-	-	-	-	250
R2004	RecPS - 680-1 Pump Station (11,500 GPM)	4,300	433	100	-	-	-	4,833
R2022	RecPL - 30-Inch, 450 Zone, Otay Valley - Dairy Mart/450-1 Reservoir	7,500	100	-	-	-	-	7,600
R2034	RecRes - 860-1 Reservoir 4.0 MG	120	180	200	1,800	1,500	-	3,800
R2053	RWCWRF - R.O. Building Remodel and Office Furniture	289	65	-	-	-	-	354
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	50	200	250	1,000	1,500	-	3,000
R2081	RecPL - 16-Inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1	150	200	-	-	-	-	350
R2086	RWCWRF Force Main AirVac Replacements and Road Improvements	793	-	-	-	-	-	793
R2087	RecPL - 16-Inch, 944 Zone, Wueste Road - Olympic Parkway/Otay Treatment Plant	100	500	1,500	1,498	-	-	3,598
R2088	RecPL - 24-Inch, 860 Zone, County Property - Roll Reservoir/860-1 Recycled Reservo	50	100	100	1,000	250	-	1,500
R2089	North District Recycled Water (Regulatory Compliance)	100	315	-	-	-	-	415
S2015	Calavo Lift Station Replacement	133	502	-	-	-	-	635
S2016	Pilot Study / Solar Panel Installation	100	75	300	-	-	-	475
47	Total Capital Facility Projects	25,478	22,810	29,220	25,604	22,753	11,187	137,052



CAPITAL IMPROVEMENT PROGRAM (\$1,000s)

CIP No.	Description	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Total
REPLACEMENT/RENEWAL PROJECTS								
P2267	36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations	150	-	-	-	-	-	150
P2359	Operations EOC and Meter Shop Remodels and EOC Maps	71	47	-	-	-	-	118
P2366	APCD Engine Replacements and Retrofits	150	150	150	150	150	300	1,050
P2382	Safety and Security Improvements	392	200	200	214	-	-	1,006
P2416	SR-125 Utility Relocations	210	-	-	-	-	-	210
P2440	I-905 Utility Relocations	1,191	660	-	-	-	-	1,851
P2456	District-Wide Air Vac Upgrades	500	580	580	600	600	650	3,510
P2459	Olive Vista Drive Utility Relocations	350	70	-	-	-	-	420
S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	916	824	778	700	649	650	4,517
9	Total Replacement/Renewal Projects	3,930	2,531	1,708	1,664	1,399	1,600	12,832
CAPITAL PURCHASE PROJECTS								
P2282	Vehicle Capital Purchases	266	127	220	220	220	210	1,263
P2286	Field Equipment Capital Purchases	59	100	100	100	100	100	559
P2353	Information Technology System Enhancements and Replacements	385	366	350	-	-	-	1,101
P2361	Information Technology GIS Enhancements	315	100	-	-	-	-	415
P2363	Information Technology Utility Billing, Data Management, and Financial System	300	-	-	-	-	-	300
P2443	Information Technology Mobile Services	100	-	-	-	-	-	100
P2455	Data Cleansing Project	300	-	-	-	-	-	300
7	Total Capital Purchase Projects	1,725	693	670	320	320	310	4,038
DEVELOPER REIMBURSEMENT PROJECTS								
P2026	PL - 20-Inch, 850 Zone, Jamacha Boulevard - Regulatory Site/Trace Road	50	-	-	-	-	-	50
P2070	PL - 16-Inch, 980 Zone, Pacific Bay Homes Road- Proctor Valley/1296 Hydro PS	500	-	-	-	-	-	500
P2081	PL - 36-Inch, 980 Zone, Proctor Valley Road - PB Road/PB Bndy	1	-	-	-	-	-	1
P2104	PL - 12-Inch, 711 Zone, La Media Road - Birch/Rock Mountain	110	608	115	-	-	-	833
P2107	PL - 12-Inch, 711 Zone, Rock Mountain Road - La Media/SR 125	195	422	105	-	-	-	722
P2121	PL - 16-Inch, 711 Zone, Hunte Parkway - Olympic/EastLake	600	287	287	-	-	-	1,174
P2133	PL - 16-Inch, 711 Zone, EastLake Parkway - Olympic/Birch	190	460	100	-	-	-	750
P2134	PL - 16-Inch, 711 Zone, Birch Road - SR 125/EastLake	65	297	50	-	-	-	412
P2164	PL - 20-Inch, 980 Zone, EastLake Parkway - Olympic/Birch	200	250	50	-	-	-	500
P2205	PS - Rolling Hills Hydro Pump Station (1,400 GPM)	300	-	-	-	-	-	300
P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy	45	1	-	-	-	-	46
P2367	PL - 16-Inch, 980 Zone, Olympic Parkway - East Palomar/EastLake	1	464	800	-	-	-	1,265
P2402	PL - 12-Inch, 624 Zone, La Media Road - Village 7/Otay Valley	50	350	44	-	-	-	444
P2414	PL - 12" to 16" Oversize, 803 Zone, Dehesa Road - Dehesa Meadow/OWD Bndy	25	110	-	-	-	-	135
P2435	PL - 16-Inch, 711 Zone, Birch Road - La Media/SR 125	250	280	1	-	-	-	531
R2031	RecPL - 12-Inch, 944 Zone, EastLake Parkway - Olympic/Birch	160	69	-	-	-	-	229
R2033	RecPL - 12-Inch, 944 Zone, Birch Road - La Media/EastLake	230	558	-	-	-	-	788
R2040	RecPL - 12-Inch, 680 Zone, Hunte Parkway - Olympic/EastLake	200	459	400	-	-	-	1,059
R2041	RecPL - 8-Inch, 944 Zone, EastLake Parkway - Birch/Rock Mountain	130	152	-	-	-	-	282
R2042	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - SR 125/EastLake	1	139	1	-	-	-	141
R2043	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - La Media/SR 125	1	230	4	-	-	-	235
R2047	RecPL - 12-Inch, 680 Zone, La Media Road - Birch/Rock Mountain	100	334	1	-	-	-	435
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	1	400	499	400	380	-	1,680
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	1	239	421	936	150	-	1,747
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	1	103	175	30	31	-	340
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	1	234	571	80	84	-	970
R2085	RecPL - 20-Inch, 680 Zone, Village 2 - High School/Olympic	1	235	115	35	36	-	422
27	Total Developer Reimbursement Projects	3,409	6,681	3,739	1,481	681	-	15,991
90	Total - FY 2007 Projects	34,542	32,715	35,337	29,069	25,153	13,097	169,913
	FY 2008 Through FY 2012 Projects	-	5	2,085	3,588	20,443	23,104	49,225
	Grand Totals	\$ 34,542	\$ 32,720	\$ 37,422	\$ 32,657	\$ 45,596	\$ 36,201	219,138



CIP JUSTIFICATION AND IMPACT ON OPERATING BUDGET

As the District grows and constructs new capital assets, the cost to maintain these new assets will be added to the operating budget as they are brought into service. To determine the cost to maintain these new assets, the District looks at the cost of maintaining similar assets through the Infrastructure Management System and financial system. Costs are tracked by three main infrastructure asset groups of pipes, pump stations and reservoirs, as well as capital purchases and other types. Pipes typically have only operation and maintenance (O&M) costs associated with them, pump stations have O&M as well as power cost, and reservoirs have O&M and chemical cost. Each of the capital purchases and other types has its own unique O&M cost ⁽¹⁾.

When the new assets are built or acquired for expansion or betterment, it is assumed that there will be new operating costs associated with them. Some projects such as the Automated Meter Reading program actually reduce operating costs through the automation process.

Projected Incremental Operating Expenditures										
CIP No.	Description	J/FS ⁽²⁾	Total	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Total
CAPITAL FACILITY PROJECTS										
P2008	PS - 980-2 Pump Station	E	\$ 369,800		\$ 369,800	\$ 380,900	\$ 392,300	\$ 404,100	\$ 416,200	\$ 1,963,300
P2009	PL - 36-Inch, SDCWA Otay	E	8,700						8,700	8,700
P2028	Res - 1485-2 Reservoir	E/B	3,000		3,000	3,100	3,200	3,300	3,400	16,000
P2033	PL - 16-Inch, 1296 Zone	E	2,200					2,200	2,300	4,500
P2038	PL - 12-Inch, 978 Zone	B/R	1,500					1,500	1,500	3,000
P2040	Res - 1655-1 Reservoir	B	900					900	900	1,800
P2143	Res - 1296-3 Reservoir	E	3,800				3,800	3,900	4,000	11,700
P2168	Res - 803-4 Reservoir	E/B/R	9,500		9,500	9,800	10,100	10,400	10,700	50,500
P2172	PS - 1485-1 Pump Station	B/R	7,000				7,000	7,200	7,400	21,600
P2185	Res - 640-1 Reservoir	E/B	37,600					37,600	38,700	76,300
P2190	PL - 10-Inch, 1485 Zone	B	400				400	400	400	1,200
P2191	Res - 850-4 Reservoir	E/B	4,200			4,200	4,300	4,400	4,500	17,400
P2318	PL - 20-Inch, 657 Zone	B	100			100	100	100	100	400
P2387	PL - 12-Inch, 832 Zone	B	600				600	600	600	1,800
P2399	PL - 30-Inch, 980 Zone	E	1,000		1,000	1,000	1,000	1,000	1,000	5,000
P2447	IT Meter Routing	E/R	200	200	200	200	200	200	200	1,200
P2457	East Otay Mesa Groundwater	E	700					700	700	1,400
P2458	AMR Retrofit	B/R	(194,100)	(8,700)	(36,500)	(34,500)	(34,700)	(39,300)	(40,400)	(194,100)
R2001	RecRes - 450-1 Reservoir	E	22,500			22,500	23,200	23,900	24,600	94,200
R2003	RecRes - 680-1 Reservoir	E	6,300		6,300	6,500	6,700	6,900	7,100	33,500
R2004	RecPS - 680-1 Pump Station	E	170,100				170,100	175,200	180,500	525,800
R2022	RecPL - 30-Inch, 450 Zone	E	9,500			9,500	9,800	10,100	10,400	39,800
R2034	RecRes - 860-1 Reservoir	E	7,500						7,500	7,500
R2077	RecPL - 24-Inch, 860 Zone	E	2,700						2,700	2,700
R2081	RecPL - 16-Inch, 944 Zone	E	2,700			2,700	2,700	2,700	2,700	10,800
R2087	RecPL - 16-Inch, 944 Zone	E	1,500					1,500		1,500
R2088	RecPL - 24-Inch, 860 Zone	E	2,400						2,400	2,400
Total Capital Facility Projects			811,700	(8,500)	353,300	406,000	600,800	659,500	698,800	2,709,900

⁽¹⁾ O&M costs include labor and benefits, materials, and overhead.

⁽²⁾ J/FS - Justification and Funding Source - Some projects have multiple funding sources as indicated by a slash (/):

E - Expansion

B - Betterment

R - Replacement

Note: See pages 225-226 for complete description of CIP projects.



CIP JUSTIFICATION AND IMPACT ON OPERATING BUDGET

Projected Incremental Operating Expenditures										
CIP No.	Description	J/FS ⁽²⁾	Total	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Total
CAPITAL PURCHASE PROJECTS										
P2282	Vehicle Capital Purchases	R	29,500	14,800	22,500	63,300	130,400	268,600	553,300	1,052,900
P2286	Field Equipment Capital Purch	R	1,000	500	1,400	2,800	5,800	11,900	24,500	46,900
P2443	IT Mobile Services	E/R	18,000		18,000	18,500	19,100	19,700	20,300	95,600
Total Capital Purchase Projects			48,500	15,300	41,900	84,600	155,300	300,200	598,100	1,195,400
DEVELOPER REIMBURSEMENT PROJECTS										
P2026	PL - 20-Inch, 850 Zone	E/B	1,200		1,200	1,200	1,200	1,200	1,200	6,000
P2070	PL - 16-Inch, 980 Zone	E	1,000		1,000	1,000	1,000	1,000	1,000	5,000
P2081	PL - 36-Inch, 980 Zone	E	500		500	500	500	500	500	2,500
P2104	PL - 12-Inch, 711 Zone	E	2,000				2,000	2,100	2,200	6,300
P2107	PL - 12-Inch, 711 Zone	E	1,700				1,700	1,800	1,900	5,400
P2121	PL - 16-Inch, 711 Zone	E	2,900				2,900	3,000	3,100	9,000
P2133	PL - 16-Inch, 711 Zone	E	1,900				1,900	2,000	2,100	6,000
P2134	PL - 16-Inch, 711 Zone	E	1,000				1,000	1,000	1,000	3,000
P2164	PL - 20-Inch, 980 Zone	E	900				900	900	900	2,700
P2205	PS - Rolling Hills Hydro	E	20,700		20,700	21,300	21,900	22,600	23,300	109,800
P2325	PL - 10" to 12" Oversize	E	2,300			2,300	2,400	2,500	2,600	9,800
P2367	PL - 16-Inch, 980 Zone	E	3,300				3,300	3,400	3,500	10,200
P2402	PL - 12-Inch, 624 Zone	E	1,000				1,000	1,000	1,000	3,000
P2414	PL - 12" to 16" Oversize	E	2,400			2,400	2,500	2,600	2,700	10,200
P2435	PL - 16-Inch, 711 Zone	E	1,400				1,400	1,400	1,400	4,200
R2031	RecPL - 12-Inch, 944 Zone	E	900			900	900	900	900	3,600
R2033	RecPL - 12-Inch, 944 Zone	E	2,100			2,100	2,200	2,300	2,400	9,000
R2040	RecPL - 12-Inch, 680 Zone	E	2,900				2,900	3,000	3,100	9,000
R2041	RecPL - 8-Inch, 944 Zone	E	1,400			1,400	1,400	1,400	1,400	5,600
R2042	RecPL - 8-Inch, 944 Zone	E	900				900	900	900	2,700
R2043	RecPL - 8-Inch, 944 Zone	E	1,200				1,200	1,200	1,200	3,600
R2047	RecPL - 12-Inch, 680 Zone	E	1,400				1,400	1,400	1,400	4,200
R2058	RecPL - 16-Inch, 860 Zone	E	5,400						5,400	5,400
R2082	RecPL - 24-Inch, 680 Zone	E	3,100						3,100	3,100
R2083	RecPL - 20-Inch, 680 Zone	E	700						700	700
R2084	RecPL - 20-Inch, 680 Zone	E	2,000						2,000	2,000
R2085	RecPL - 20-Inch, 680 Zone	E	900						900	900
Total Developer Reimbursement Projects			67,100	-	23,400	33,100	56,500	58,100	71,800	242,900
Total Operating Budget Cost Impact			\$ 927,300	\$ 6,800	\$ 418,600	\$ 523,700	\$ 812,600	\$ 1,017,800	\$ 1,368,700	\$ 4,148,200

The preceding schedule shows anticipated operating costs associated with each project in the CIP, and below is a summary of each category of new costs that will be impacted. No additional revenues are associated with the individual projects, as revenues are linked more directly to growth in water sales and capacity fee revenues.

Cost Category	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Total
Operations and Maintenance	\$ 6,800	\$ 77,200	\$ 159,300	\$ 284,900	\$ 456,200	\$ 786,900	\$ 1,771,300
Energy	-	332,500	342,400	503,400	518,500	534,100	2,230,900
Chemical	-	8,900	21,800	24,200	43,100	48,000	146,000
Total Operating Budget Cost Impact	\$ 6,800	\$ 418,600	\$ 523,500	\$ 812,500	\$ 1,017,800	\$ 1,369,000	\$ 4,148,200



FY 2007 CAPITAL PURCHASES BUDGET

Item#	Description	Amount	Type
Field Equipment			
Operations			
116	Miller Dynasty 700 Tigrunner w/400A Water Cooled Torch Kit. P.N. MIL 907310011	\$ 11,050	R
118	Concrete Trailer Double Axel Drum Mixer	17,600	N
120	2000-gallon stainless steel water tank to be mounted on a truck chassis (not included) and equipped with a pump and dispenser.	<u>30,000</u>	N
Total Field Equipment		<u>58,650</u>	
Vehicles			
Finance			
107	Hybrid	22,000	N
108	Hybrid	22,000	N
109	Hybrid	22,000	N
114	2007 Ford Ranger Super Cab 4 Door, w/4.0 V6 and automatic transmission.	18,500	R
115	2006 or 2007 For Ranger Supercab 4 door w/4.0 engine and automatic transmission.	<u>18,500</u>	R
Total Vehicles - Operations		<u>103,000</u>	
Operations			
111	2006 Ford F-150 Super Cab, Short Bed w/4.6 V8 engine and automatic transmission.	22,500	N
121	2006 Ford F-250 Super Cab Shortbed w/5.4 V8 engine and automatic Transmission.	25,500	R
122	2007 Sterling L8500 Cab & Chassis as specified for use in the Utility Maintenance Section.	52,500	N
124	Ford Escape	20,000	R
125	Ford Escape	20,000	R
126	2006 Ford F-150 Super Cab Shortbed w/4.6 V8 Engine and Automatic Transmission.	<u>22,500</u>	R
Total Vehicles - Operations		<u>163,000</u>	
Total of Vehicles		<u>266,000</u>	
Total Capital Purchases Budget		<u><u>\$ 324,650</u></u>	

N - New

R - Replacement



Appendix

GLOSSARY

The Fiscal Budget contains terminology that is unique to public finance and budgeting. The following budget glossary provides assistance in understanding these terms.

Accrual Basis of Accounting: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of cash receipts and disbursements.

Acre-Foot: The volume of water that will cover one acre to a depth of one foot. One acre-foot equals 435.6 units or 325,850 gallons.

Additional Systems Fees: Effective May 1, 1986, each customer receiving water service in the Improvement District 9 water service zone pays an additional monthly meter system charge of \$2.00 for each meter in service.

Annexation Fees: Whenever utility service is requested for land outside the boundaries of an improvement district, the land to be serviced must first be annexed. The annexation fee for water was set on May 30, 2006 at \$1,411 per EDU. The fee for sewer annexation was set at \$3,819 on December 16, 1998. These base rates are adjusted quarterly according to a cost of living index. Assets: Resources owned or held by Otay Water District that have monetary value.

Availability Fees: The District levies charges each year in developed areas to be used for general purposes for construction of facilities, and in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be restricted only for the purpose of constructing facilities in the improvement district for which it was assessed.

Balanced Budget: A balanced financial plan, for a specified period of time that matches all planned revenues and expenditures with various services. The District uses a fiscal year beginning each July 1 and ending each June 30 for budgetary and financial reporting purposes.

Betterment Fees: In addition to other applicable water rates and charges, certain water customers pay a fee based on water service zone or improvement district. These are restricted for the use in the area where they are collected and may be used for the construction and maintenance of facilities.

Bond: A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are authorized in a District bond resolution. The most common types of bonds are general obligation (GO) bonds and Certificates of Participation (COPs). These are frequently used for construction of large capital projects such as buildings, reservoirs, pipelines and pump stations.

GLOSSARY

Budget Basis: The budget and accounting basis for the District is recognized on an accrual basis. Accrual basis means that revenues are recognized when earned and expenses are recognized when incurred.

Capacity Reservation Charge: A Metropolitan Water District charge passed on by the San Diego County Water Authority to individual agencies. This fee is paid based on the District's peak water demand.

Capital Budget: The portion of the annual budget that appropriates funds for the purchase of capital equipment items and capital improvements. These expenditures are separated from regular operating items, such as salaries, utilities and office supplies. The Capital Budget includes funds for capital equipment purchases over \$10,000, such as vehicles, furniture, machinery, microcomputers and special tools or \$20,000 for infrastructure related items, which are distinguished from operating items according to their value and projected useful life.

Capital Equipment: Fixed assets such as vehicles, marine equipment, computers, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000 or \$20,000 for infrastructure related items.

Capital Improvement Program: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

Class of Service: All customers are classified based on the type of service used. For example, the water rate per unit is determined by a classification such as residential versus business.

CWA: The County Water Authority was organized in 1944 under the State County Water Authority Act for the primary purpose of importing Colorado River water to augment the local water supplies of the Authority's member agencies. The Authority purchases water from the Metropolitan Water District of Southern California (MWD) which imports water from the Colorado River and the State Water Project.

Deannexation Fees: Each request for detachment of land from an improvement district is reviewed on a case-by-case basis. The fees are determined based on the present value of future debt service requirements.

Debt Service: The District's obligation to pay the principal and interest of bonds and other debt instruments according to a predetermined payment schedule.

GLOSSARY

Energy Fees: Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge is the rate of \$.032 per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

Expenditures/Expenses: These terms refer to the outflow of funds paid or to be paid for an asset, goods or services obtained regardless of when actually paid for. (Note: An encumbrance is not an expenditure). An encumbrance reserves funds to be expended in a future period.

Fire Service: Water service is provided by the District solely for use in fire hydrants or fire sprinkler systems from lines or laterals connected to the District's water mains. The monthly system charge is \$23.30 per month for each connection for fire protection service.

Fiscal Year: Twelve-month term designating the beginning and ending period for recording financial transactions. The District has specified July 1 to June 30 as its fiscal year.

Fund Balance: The current funds on hand resulting from the historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the result of operations.

General Fund: The District's general fund is an enterprise fund comprised of the District's three business lines Potable, Recycled and Sewer services. Each is an accounting entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

Grants: Contributions or gifts of cash or other assets from another governmental agency to be used or expended for a specified purpose, activity, or facility. Capital grants are restricted by the grantor for the acquisition and/or construction of fixed assets. Operating grants are restricted by the grantor for operating purposes or may be used for either capital or operating purposes at the discretion of the grantee.

Infrastructure Access Charge (IAC): A pass-through charge from CWA to each member agency. The charge is to finance a portion of CWA's fixed annual costs including the construction, operation and maintenance of aqueducts and emergency storage projects. The fee was adopted in January of 1999.

GLOSSARY

Interest Income: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to improvement districts each month based upon each fund's prior month-ending balance.

Irrigation Penalties: Potable water service provided solely for irrigation of landscaping will receive a seasonably-adjusted allotment of water equal to 48" per year for the actual area to be irrigated. Use of water in excess of the allotment shall be subject to penalty pricing. The first violation is no surcharge. The second violation is 100% surcharge on excess water used. The third violation is 400% surcharge. The fourth and subsequent violations are 800% surcharge.

Late Charges/Penalties: Charges and penalties are imposed on delinquent accounts. A late payment charge of 5% of the total delinquent amount is added to the account. Other miscellaneous late fees and penalties are detailed in the District's Code of Ordinances.

Meter and Lateral Fees: Charge includes the material costs for the meter, meter box, and the labor cost for installation to connect a new service to the distribution system.

Metropolitan Water District (MWD) Standby Charges: Revenue generated from property taxes by MWD to cover the Readiness-to-Serve (RTS) Charge for the new debt service for construction projects necessary to meet reliability and quality needs. The RTS Charge was adopted in 1996.

Multiple Unit Charges: In addition to the system fee, a monthly charge is made for service provided through one meter to more than one occupant in a building. The rate is \$3.21 (\$3.53 effective 1/1/07) per month for each unit in a multiple unit residential, commercial or industrial building.

1% General Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

Operating Budget: The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel, and does not include purchases of major capital plant or equipment which is budgeted for separately in the Capital Budget.

GLOSSARY

Other Income: Revenues that are not directly related to the business of providing water and sewer services. For example, contract billing service for the City of Chula Vista and the City of San Diego to bill their sewer customers based on water consumption.

Property Rental Income: Rent or lease agreements for the use of District property.

Reclaimed Water Rates: Non-potable water service provided from water produced by the District's reclamation plant and other non-potable sources. Reclaimed water is not used for domestic purposes and all other uses must comply with federal, state and local laws and regulations regarding the use of reclaimed water.

Reserve Fund: The District maintains Reserve Funds per the District's policy for both designated and restricted balances. Designated Reserve Funds are "general use" funds designated by the Board. Restricted reserves are those that are legally set aside for a particular purpose and cannot be used for any other purpose.

Residential Conservation: The water rates for residential customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged. The District has established a water conservation program to promote water conservation and planning.

Revenue: Monies that the District receives as income. It includes such items as water sales and sewer fees. Estimated revenues are those expected to be collected during the fiscal year.

RTS: Readiness-to-Serve Charge was adopted by the Metropolitan Water District (MWD) in Fiscal 1996. The charge will serve as a foundation of fixed revenue for MWD. It will cover the new debt service for construction projects necessary to meet reliability and quality needs of current water-users as opposed to new customers.

Sale of Fixed Assets: District equipment, which has been determined by the Board to be of no use, obsolete and/or beyond the useful life and therefore, may be sold.

Set-up Fees for Accounts: A charge of \$10 is added for each account transferred to another customer.

System Fees: Each water service customer pays a monthly system charge for water system replacement, maintenance and operation expenses. The charge is based on the size of the meter and class of service.

Taxes: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on general obligation bonds approved by the voters prior to July 1, 1978.

GLOSSARY

Temporary Water Charge: The rate for temporary water service is two times the rate for permanent service. The additional charge is to offset the cost of construction of facilities for larger capacity.

Tier 2 Charge: A Metropolitan Water District charge passed on by the San Diego County Water Authority to individual agencies. This is an added charge on all water sales by CWA in excess of the District's 90% baseline water usage.

Usage Surcharge: In addition to the water rates, a surcharge is paid by each customer when the number of units of water furnished in any month exceeds the monthly usage allowance for the size of meter being used.

Water Capacity Fees: Charges paid by customers to connect to a District water system for potable or reclaimed water service. Fees are determined by multiplying the demand factor for the meter size by the total of the District-wide capacity fee and applicable zone charge.

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. All non-residential customers are charged a flat rate per unit. A unit of water is 100 cubic feet or 748 gallons of water.

LIST OF ACRONYMS

AF	Acre-Foot/Feet
AMR	Automated Meter Reader/Reading
APCD	Air Pollution Control District
ASCE	American Society of Civil Engineers
ASU	Assigned Service Unit
AWWA	American Water Works Association
BOD	Biological Oxygen Demand
BRP	Business Resumption Plan
CAFR	Comprehensive Annual Financial Report
CCV	City of Chula Vista
CEQA	California Environmental Quality Act
CFS	Cubic Foot per Second
CIP	Capital Improvement Program
CIS	Customer Information System
CIT	Collaborative Improvement Teams
CMOM	Capacity, Management, Operations & Maintenance
CMTA	California Municipal Treasurers Association
COD	Chemical Oxygen Demand
COPs	Certificates of Participation
CRC	Capacity Reservation Charge
CSC	Customer Service Charge
CSD	City of San Diego
CSMFO	California Society of Municipal Finance Officers
CWA	County Water Authority (San Diego)
DBMS	Database Management System
DEH	Department of Environmental Health
DVP	Delivery-versus-Payment
EDU	Equivalent Dwelling Unit
EIR	Environmental Impact Review
EOC	Equal Opportunity Commission
ESC	Emergency Storage Charge
FCF	Flow Control Facility
FHLMC	Freddie Mac or Federal Home Loan Mortgage Corporation
FNMA	Fannie Mae or Federal National Mortgage Association
FTE	Full-time Equivalent
FY	Fiscal Year
GASB	Government Accounting Standards Board
GFOA	Government Financial Officers Association
GIS	Geographic Information System

LIST OF ACRONYMS

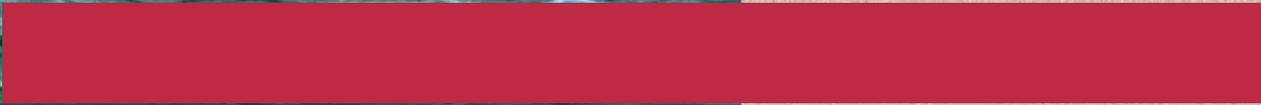
GO	General Obligation (bonds)
GPM	Gallons per Minute
GPS	Global Positioning System
HCF	Hundred Cubic Foot
HMA	Habitat Management Area
HR	Human Resources
HRIS	Human Resources Information System
IAC	Infrastructure Access Charge
ID	Improvement District
IID	Imperial Irrigation District
IIPP	Injury and Illness Prevention Program
IMS	Infrastructure Management System
IRP	Integrated Water Resources Plan
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response
LAFCO	Local Area Formation Commission
LAIF	Local Agency Investment Fund
LMSE	La Mesa Sweetwater Extension
LOPS	Lower Otay Pump Station
MG	Million Gallons
MGD	Million Gallons per Day
MH	Man-hours
MOU	Memorandum of Understanding
MSCP	Multiple Species Conservation Program
MSRB	Municipal Securities Rulemaking Board
MWD	Metropolitan Water District
MWWD	Metropolitan Waste Water Department (City of San Diego)
NCCP	Natural Community Conservation Plan
NEPA	National Environmental Protection Act
NOC	Notice of Completion
NOSC	Notice of Substantial Completion
NPDES	National Pollution Discharge Elimination System
O&M or O/M	Operations and Maintenance
OIS	Otay Information System
OWD	Otay Water District
PB	Pacific Bay
PDR	Preliminary Design Report
PEIR	Program Environmental Impact Report

LIST OF ACRONYMS

PERS	Public Employees' Retirement System
PL	Pipeline
POU	Principles of Understanding
PRS	Pressure Reducing Station
PS	Pump Station
PT	Part-time
RFP	Request for Proposal
RSD	Rancho San Diego
RTS	Readiness-to-Serve
R/W	Right-of-Way
RWCWRF	Ralph W. Chapman Water Recycling Facility
SAMP	Sub-Area Master Plan
SANDAG	San Diego Association of Governments
SCADA	Supervisory Control and Data Acquisition
SBWRP	South Bay Water Reclamation Plant
SDRMA	San Diego Risk Management Association
SEC	Securities and Exchange Commission
SHRM	Society of Human Resources Management
SLMA	Sallie Mae or Student Loan Marketing Association
SPSD	Spring Valley Sanitation District
SS	Suspended Solids
SSMP	Sewer System Management Plan
SWA	Sweetwater Authority
SWRCB	State Water Resource Control Board
USBR	U.S. Bureau of Reclamation
UWMP	Urban Water Management Plan
WADG	Water Agency Design Guideline
WD	Water District
WER	Work Environment Review
WRMP	Water Resources Master Plan
WTP	Water Treatment Plant

This page intentionally left blank





Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2096
www.otaywater.gov

