



# *Adopted Operating and Capital Budget*

Otay Water District ■ Spring Valley, California



*Fiscal Year 2011-2012*



*Adopted*  
*Operating and Capital Budget*  
*Fiscal Year 2011-2012*



**GENERAL MANAGER**

Mark Watton

**SENIOR MANAGEMENT TEAM**

German Alvarez  
Assistant General Manager  
Finance and Administration

Manny Magana  
Assistant General Manager  
Engineering and Operations

Joseph R. Beachem  
Chief Financial Officer

Pedro Porras  
Chief of Water Operations

Geoff Stevens  
Chief Information Officer

Rod Posada  
Chief of Engineering

Rom Sarno, Jr.  
Chief of Administrative Services

**BOARD OF DIRECTORS**

<b>President</b>	Jaime Bonilla Division 2
<b>Vice President</b>	Gary Croucher Division 3
<b>Treasurer</b>	David Gonzalez, Jr. Division 1
	Jose Lopez Division 4
	Mark Robak Division 5



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...Dedicated to Community Service

2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004  
TELEPHONE: 670-2222, AREA CODE 619

September 1, 2011

Honorable Board of Directors  
Otay Water District

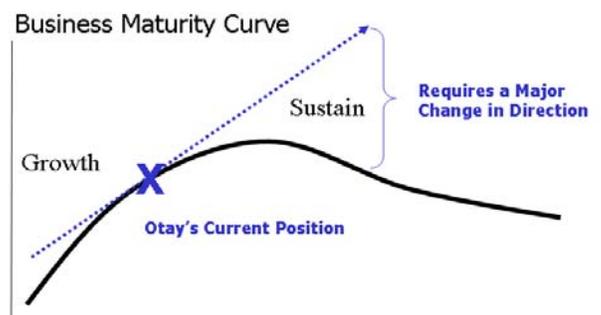
I am pleased to present the Otay Water District's Adopted Operating and Capital Budget for Fiscal Year 2012. This year's budget supports the management plan to finance all of the District's services and programs during the 2012 fiscal year.

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As with the past few years, we continue to face numerous challenges with the slow recovery from the largest economic downturn since the Great Depression and ongoing home foreclosures. The District also faces large water supply cost increases because of inaction in California's State Capitol to address the crisis in the Sacramento – San Joaquin Bay Delta. This is further complicated by the uncertainty of the rights to the Colorado River water, both of which represent 100 percent of our imported water supply.

Given the continuing uncertain times and the demand by customers to keep rate increases to a minimum, the District must find the best solutions that balance the many expectations placed on it by a slowly recovering economy and by its customers. The District is looking to do this while also meeting the expectation for continuous improvement. The way we will continue to achieve these goals in this challenging environment is to continually improve all aspects of our core business processes. The tool we will use to accomplish this is the Strategic Plan.

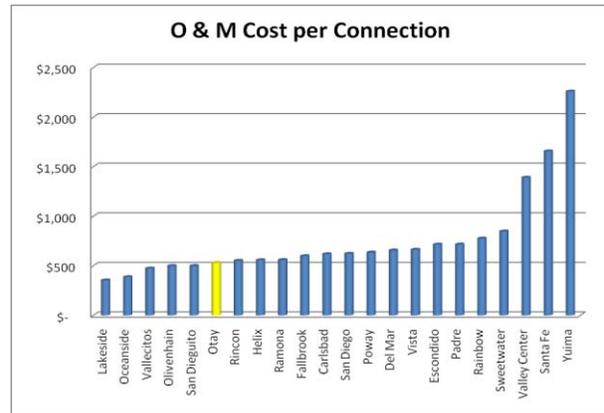
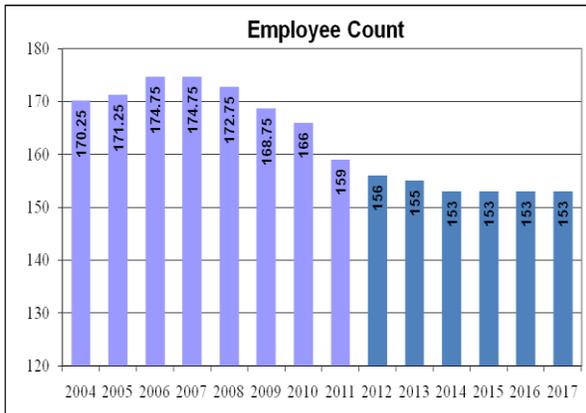
The District's first Strategic Plan was developed in 2003 and it has been updated every three years since then. We are now entering the first year of the 2012-2014 Strategic Plan. As with previous plans, the focus has been on the District's transformation from a growth-centric to a maintenance-based organization. Where growth had been a significant focus in prior years, today we have become equally focused on managing long-term maintenance and replacement of infrastructure.

The change is illustrated by the Business Maturity Curve (see illustration). During high growth periods, efforts are focused on achieving the macro targets of building and installing new infrastructure. As an organization matures, fewer resources are needed to support growth, but the effort to maintain and improve infrastructure and assets increases. In addition, as an organization matures it derives income more from customer rates and less from developer fees. At this stage, increased maintenance and

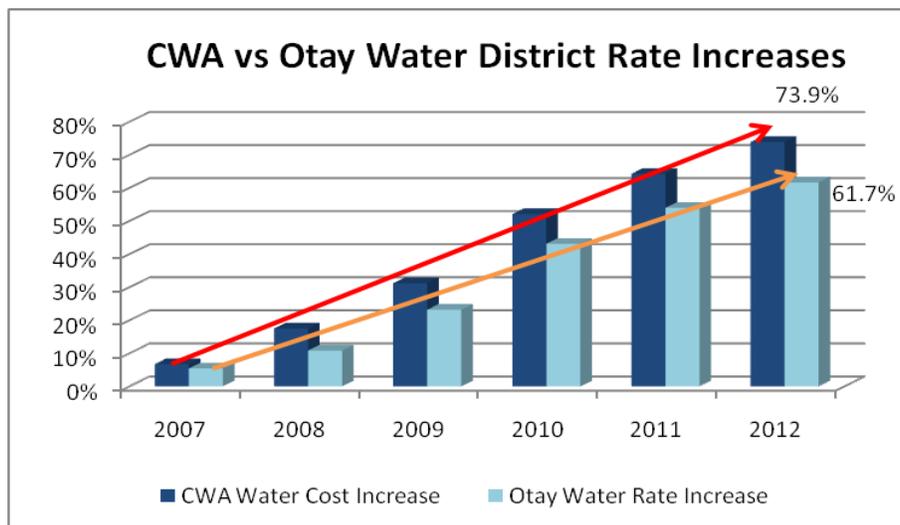


replacement costs place pressure on customer rates. To balance the customer's interest in minimizing rate increases while also maintaining an organization's infrastructure investments and a strong financial position, we must place greater emphasis on internal efficiency and the development of technology assisted best practices. In effect, an organization must use investments in technology to do more with the same or even fewer resources.

A goal of earlier plans included capitalizing on the technology investments and utilizing those technologies to continually improve efficiency and productivity. The success of this approach is evidenced by the gains in efficiency and by the reduction in staffing, even while the customer base has grown in recent years.



Furthermore, the District has been able to absorb some of the pass-through costs from our water providers by increased efficiency and improved productivity, helping to address customer concerns about rising water rates.



In this and coming years, the District will continue its efforts to improve business processes to further increase efficiency and productivity through adherence to the 2012-2014 Strategic Plan.

Today, the District provides water service to nearly 48,101 potable and 695 recycled water customers within approximately 125.5 square miles of southeastern San Diego County. All of the potable water sold to customers is purchased from the San Diego County Water Authority (CWA). Much of this water is in turn purchased from the region's primary water importer, the Metropolitan Water District of Southern California (MWD). The District also has entered into an agreement with the CWA to have the neighboring Helix Water District treat imported water on behalf of the Otay Water District at their Levy Water Treatment Plant. This action brought regional water treatment closer to customers, which helps reduce dependence on water treatment facilities located outside of San Diego County.

To deliver this locally treated water to customers, the District has completed a 5.1 mile, 36-inch diameter pipeline. Drinking water delivered by this new pipeline is being stored in two recently constructed 10 million gallon reservoirs. In addition to bringing water treatment closer to customers, this new source of water diversifies the District's supply and improves reliability.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,646 homes and businesses. Wastewater collected is delivered to the Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. In addition to the Chapman facility, the District purchases up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Water Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and other approved uses in the City of Chula Vista, California. The use of recycled water reduces dependence on imported supplies and provides a local supply that diversifies District resources.

## BUDGET SUMMARY

The Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer, totaling \$78,062,200 for Fiscal Year 2012. Revenues from potable and recycled water are projected to be \$65,304,300, about \$1,349,800 (2.1%) more than the Fiscal Year 2011 budget. Water sales volumes are expected to increase by 2% over FY 2011 actual sales as the economy is slowly improving, while efforts to promote water conservation continue. Rate increases are therefore essential to offset the higher wholesale cost of water. Sewer revenues are projected to be \$2,336,000, about \$65,500 more than Fiscal Year 2011 because of necessary rate increases due to pass-through cost increases by outside sewer service providers. The remaining revenue of \$10.4 million comes from special fees and assessments and miscellaneous income.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- The use of an economist to determine growth for the region.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- Ongoing water supply rate increases of 7.7% from MWD and CWA because of the high cost of supply programs, higher energy costs, and operating costs.
- Implemented rate increases in potable, recycled water, and sewer. This included pass-through rate increases from CWA and the County of San Diego.

- In response to the economic slowdown, the District has again reduced staffing levels from 159 full-time equivalent positions to 156. It has also cut operating expenditures by \$490,400 due to program funding changes and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rates are below the county-wide average.

The 2011-12 Capital Improvement Program (CIP) Budget consists of 74 projects and a budget of \$22.6 million. The budget emphasizes long-term planning for ongoing programs while functioning within fiscal constraints and population growth. This year's CIP budget decreased by \$5.8 million compared to last year's projection, which is due to the deferral of projects to match the timing of the increased demand due to land development.

## THE FUTURE

The coming years will continue to pose challenges for those in California's water community and customers. While the State of California received a greater than normal amount of rainfall this year, federal court orders continue to curtail water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta and the uncertainty of Colorado River water deliveries continue. In addition, the political situation in the State Capitol has made it difficult to find the compromises necessary to address the environmental challenges in the Delta. These factors contribute to the higher cost of water statewide.

Through foresight, investments in drought-proof recycled water, conservation, and a water rate structure that rewards conservation, the Otay Water District has thus far avoided having to require mandatory water conservation. The District has instead achieved its water conservation goals using voluntary measures.

As you would expect, the planned water sales reductions have impacted revenues and will continue to affect the District's finances. With that in mind, our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District even as we move forward through uncertain times. We are fully confident that with these policies and practices, supported by dedicated and talented staff, we will achieve continued success as an organization and thus assure the well-being of the people we serve.

In adopting this budget, the challenges presented this year were met by the Otay Water District Board of Directors resolve to keep the stability and financial strength of the District as one of its highest priorities.

## AWARDS AND ACKNOWLEDGMENTS

- 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, 2010. In order to be awarded a Certificate of Achievement, a government agency must publish an easy to understand and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

- The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for the Fiscal Year beginning July 1, 2010, as well as two awards from the California Society of Municipal Finance Officers (CSMFO) for *Excellence in Operating Budget* and *Excellence in Capital Budget*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.
- The Irrigation Association presented Otay Water District with the *2010 National Water & Energy Award*. This award is in recognition of significant achievement in the conservation of water and energy relating to irrigation procedures, equipment, methods and techniques.
- The Otay Water District was presented the *2011 Project of the Year Award for the Jamacha Road Pipeline Project* from the Public Works Association (APWA) in addition to the *2011 Honor Award for the 1296-3 Reservoir (2MG)*.

In conclusion, this budget reflects the vision of the Board of Directors of the Otay Water District, its management, and its employees. We will continue to strive to make improvements in our budget processes, including an extensive review and analysis of projections for revenues, expenditures, capital projects, and reserves.

I would like to thank all 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.



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Mark Watton, General Manager

## **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. In 1980, the District started operation of the Ralph W. Chapman Water Recycling Facility (RWCWRF), and in June, 2007 a new source of recycled water from the City of San Diego was obtained, allowing the Otay Water District to supply 12 percent of total water demand with recycled water.

## **Mission Statement**

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient 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 was formed in 1956 to serve as a public 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 is set by five Directors elected by voters in their respective geographic

## **Organizational Structure**

The General Manager reports directly to the Board of Directors, and through two Assistant General Managers and the District management, oversees day-to-day operations. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning while the other oversees the Water Operations and Engineering departments. These and other lines of reporting are shown on the organization chart on page 17.



# General Information

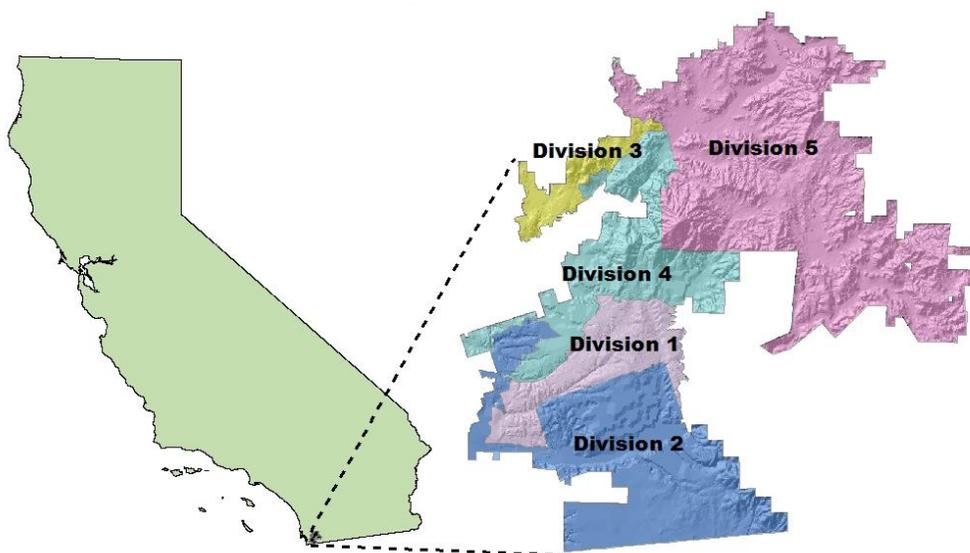
For Fiscal Year 2012, the District will have a staff of 156 full-time equivalent employees under the leadership of the General Manager. The District provides water service to approximately 53% of its expected ultimate deliveries with a population of more than 206,500 people. This percentage increases as the District's service area continues to grow to ultimate build-out. The District is projected to deliver approximately 28,950 acre-feet of potable water to 48,370 potable customer accounts and to ultimately deliver by 2035 56,600 acre-feet of potable water to serve 285,000 people or 69,000 accounts. The rate of growth, as projected by the San Diego Association of Governments (SANDAG) for the Chula Vista area of San Diego County, is approximately 1.7% per year over the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 0.5% for Fiscal Year 2012.

Since 1956, the District has provided high quality water to a semi-arid region of the southeastern San Diego County. In 1971, the District constructed a small collection and treatment plant for sewer in the northern section of the District, and in 1980 the District opened the Ralph W. Chapman

Water Recycling Facility (RWCWRF). For over 50 years, the available supply of water has helped transform the District service area from a mostly scrub and cactus-covered backcountry into a balance of diverse environments.

Recycled water from the RWCWRF is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF is capable of recycling wastewater at a rate of 1.3 million gallons per day (1,200 acre-feet per year). The District is also in a partnership with the City of San Diego to beneficially reuse an additional 3,105 acre-feet per year of recycled water for Fiscal Year 2012, and ultimately up to 6,720 acre-feet per year. This makes Otay Water District the largest retail provider of recycled water in the county.

The District also owns and operates a wastewater collection system providing public sewer service to approximately 4,646 customer accounts 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 97% of the sewer customer base.



# *Statement of Values*

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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*



The Government Finance Officers Association of the United States and Canada (GFOA) presented a *Distinguished Budget Presentation Award* to Otay Water District, California for its annual budget for the fiscal year beginning July 1, 2010. 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



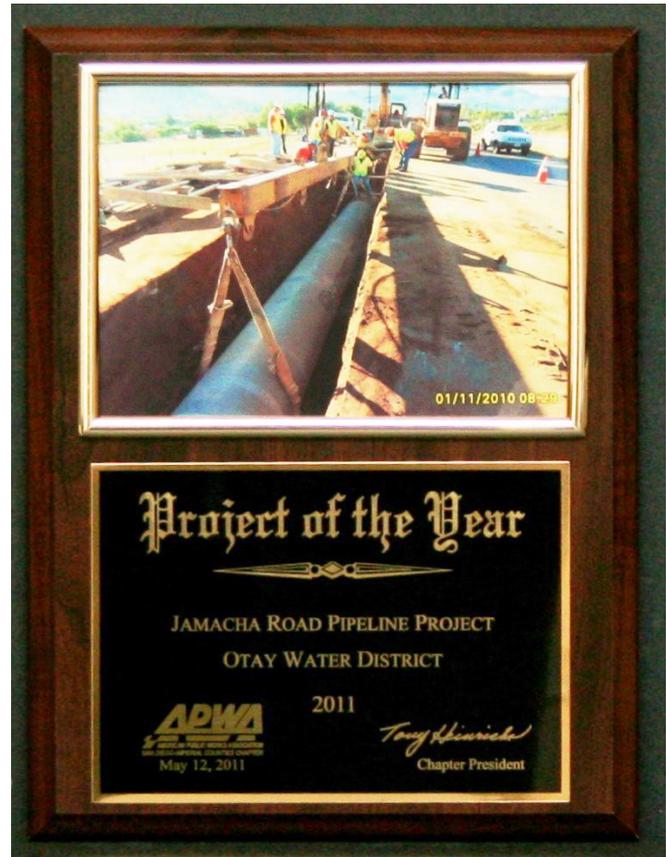
The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budget for Fiscal Year 2010-2011*.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budget for Fiscal Year 2010-2011*.



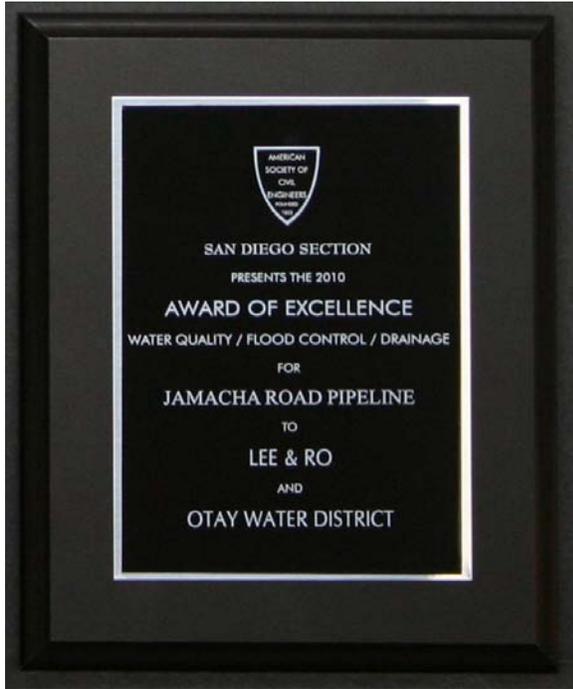
# Awards

The Public Works Association (APWA) presented Otay Water District the 2011 *Project of the Year Award for the Jamacha Road Pipeline Project*.

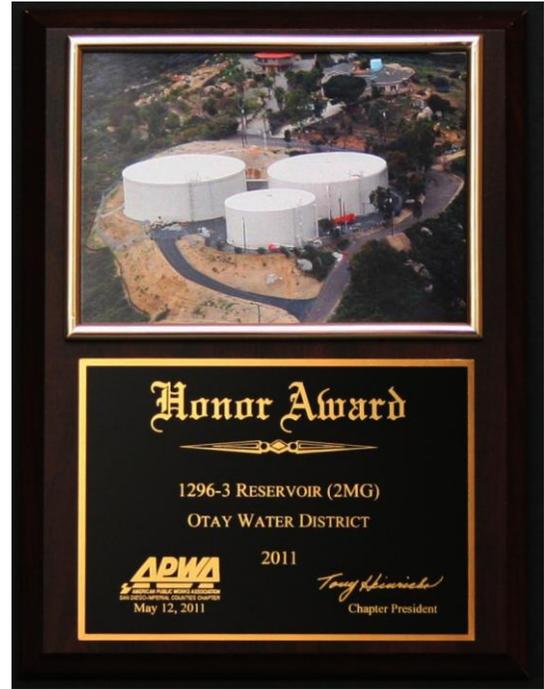


The American Society of Civil Engineers presented Otay Water District the 2010 *Award of Excellence - Water Treatment for the 1296-3 Reservoir Project*.

# Awards

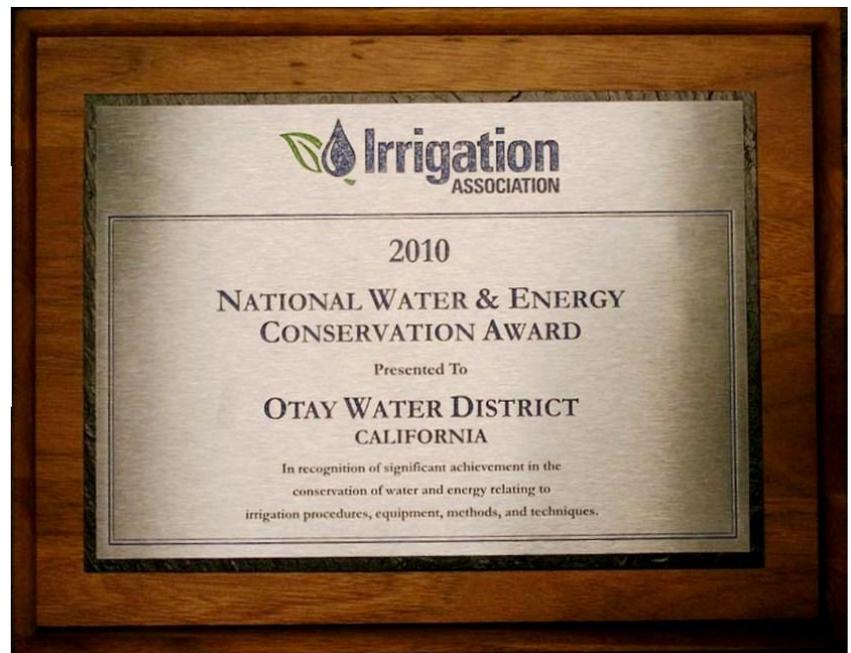


The American Society of Civil Engineers presented Lee & Ro and Otay Water District the *2010 Award of Excellence - Water Quality / Flood Control / Drainage for the Jamacha Road Pipeline.*



The Public Works Association (APWA) presented Otay Water District the *2011 Honor Award for the 1296-3 Reservoir (2MG).*

The Irrigation Association presented Otay Water District the *2010 National Water & Energy Conservation Award.*



# Strategic Performance Management Plan

## Introduction

The Strategic Plan is the core document which guides the agency's efforts to meet and positively adapt to change. Every three years the District engages in a major revision of its Strategic Plan. This current plan (covering fiscal years 2012-2014) is the fourth in a series of three-year plans that began in 2003.



In order to develop the FY12-14 Strategic Plan, each Chief meets with their staff to get a collective list of ideas. Once these ideas are reviewed and discussed, they are filtered using a SWOT analysis, assessing the District's Strengths, Weaknesses, Opportunities, and Threats. To further focus the suggested objectives, another analysis examines the plan from the Balanced Scorecard perspective (Customer, Financial, Business Process, and Learning & Growth).

The Senior Management Team reviews every strategy, goal, objective, project plan, performance measure, and target contained in the plan. Through this team discussion process the General Manager gains consensus with his staff on the exact priorities for the District, including detailed financial and resource considerations required to execute the plan. Thus, the plan serves as an informal contract between the agency staff and the Board of Directors on the strategic work that will be done and what the agency hopes to achieve over the next three years. In turn, the General Manager presents the plan to the Board for approval. Through the Strategic Plan and budget approval processes, the Board is then able to make well informed oversight decisions about the utility's direction.



# Strategic Performance Management Plan

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## Mission

To provide high value water and wastewater services to the customers of the Otay Water District, in a professional, effective, and efficient manner.



## Vision

A District that is innovative in providing water services at affordable rates, with a reputation for outstanding customer service.

## Key Challenge

Our key District challenge is to add increased *value* by improving our core business processes. From a water supply perspective, this means determining the optimum mix of water supply, treatment, and delivery solutions for our customers. From a daily operating perspective, efficiency improvements have become the primary source of competitive advantage and cost optimization for utilities. Adding value from this perspective means the entire team focusing on not only the highest priority goals but also examining the details of what we do every day and be willing to alter how we do it if it makes a positive difference. Our employees voice a high degree of personal and professional satisfaction with our direction and the entire team is committed to meeting this key challenge with distinction.

## Strategic Plan

Performance metrics and targets are a critical element of the Strategic Plan but differ from Strategic Plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance measures are designed to ensure the day-to-day operations of the utility are meeting agreed-upon expectations. Performance measures were revised from the prior year and are updated quarterly, and reviewed by the Board on a semi-annual basis.

# Strategic Performance Management Plan

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## Customer Service

"To achieve our vision, how should we appear to our customers?"

**I. Customer Service - Deliver high quality services to meet customer needs and increase confidence of the customer in the value the District provides.**

**A. "Maximize our customer satisfaction by expanding and improving communications."**

1. Enhance communications with customers using our new phone system.
2. Regularly evaluate communications tools and explore the effective use of new media options including: electronic newsletters, auto-dialer services, video streaming, social networks, and web media to ensure the District's outreach efforts are cost-effectively reaching all stakeholders.
3. Continue promoting the Water Conservation Garden as a venue for new and existing homeowners, developers, and businesses.
4. Increase customers employing on-line bill payment.
5. Increase conservation related communications, such as surveys and comparative information, by expanding web-based information.

## Financial

"To succeed financially, how should we appear to our customers?"

**II. Financial - Provide enhanced value by directing and managing the financial issues that are critical to the District.**

**A. "Improve financial information and systems."**

1. Strengthen the long-term financial plan.
2. Develop sewer capacity fees for expansion.
3. Renegotiate the South Bay Water Reclamation Plant (SBWRP) recycled water supply agreement with the City of San Diego.
4. Evaluate the water loss management program and make recommendations.
5. Evaluate the feasibility of replacing the existing customer information system or migrating to the new version of the Eden software.

# Strategic Performance Management Plan

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## Business Processes

"To satisfy our customers, what business processes must we excel at?"

**III. Business Process - Improve business functionality by constantly improving the efficiency and effectiveness of important business processes.**

### **A. "Actively manage water supply and demand."**

1. Prepare and implement a Waste Water Management Plan.
2. Implement the recommendations within the Integrated Water Resources Plan (IRP) to acquire alternative and/or additional potable and recycled water supplies and reliability.
3. Closely monitor the District's potable water demand to ensure the District will remain on target to achieve its 2015 gallons per capita per day (GPCD) target as identified in the 2010 Urban Water Management Plan (UWMP).
4. Work with the District's largest potable water customers to convert landscape and interior water use to recycled water where fiscally feasible and safe.
5. Ensure best practices are followed in meeting the 20 by 2020 conservation targets including reclassification of industrial and commercial customers.
6. Educate and work with local agencies and others to influence developers and builders to incorporate practical water efficient practices in new construction.
7. Continue working with the City of Chula Vista for the possible development of an MBR Plant and for a potential agreement with the City for recycled water supplies from the MBR Plant.

### **B. "Identify and implement improvements to the following business processes."**

1. Streamline Accounts Payable business process.
2. Continue development of the Asset Management program.
3. Strengthen CIP planning, budgeting, and cost tracking processes.
4. Develop systems and networks that support the disaster recovery plan.
5. Enhance security processes and planning.
6. Update the disaster recovery plan.
7. Update District-wide Records Management program.
8. Improve and streamline meter related processes.
9. Explore opportunities for improving and streamlining survey and inspection business processes.
10. Improve the District's computerized maintenance management system (CMMS).
11. Develop a management dashboard measuring cost, efficiency, and operational status.

# Strategic Performance Management Plan

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12. Review and consider implementing online employee self services.
13. Conduct a process review to enhance efficiency and operations in the following areas: Water Distribution System, Recycled Distribution System, Collection System, and the Ralph W. Chapman Water Recycling Facility.
14. Develop and implement large meter vault retrofit programs.

## Learning & Growth

"To achieve our vision, how will we sustain our ability to change and improve?"

### **IV. Learning & Growth - Provide the leadership, tools, and management commitment to become a more results-oriented culture.**

#### **A. "Results-oriented workforce."**

1. Identify management initiatives for represented/unrepresented employees in preparation for negotiations that will provide more efficiencies and more flexibility.
2. Evaluate policies and procedures as appropriate to streamline processes and ensure the District remains competitive.
3. Review classification plan with the goal of providing greater flexibility.
4. Negotiate a successor "Memorandum of Understanding" for represented employees for 2014 and beyond, and related compensation and benefits for unrepresented employees.
5. Senior Management Team to develop summary of expectations for management team to manage change in the future.
6. Update performance evaluation categories/program to ensure a results-oriented workforce and update and provide training, if needed.
7. Evaluate pay-for-performance program to ensure the District is rewarding employees for innovations and business processes.
8. Establish a forum for continuous discussion regarding sections/units identifying business process review in support of the District's mission.

# Strategic Performance Management Plan

## Performance Management

Performance metrics and targets are a critical element of the strategic plan but differ from strategic plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance measures are designed to ensure the day-to-day operations of the utility are meeting agreed upon expectations. Performance measures are in the process of being revised and will be finalized prior to plan initiation on July 1, 2011.



## Performance Measures

- **Customer Satisfaction:** Measure the level of overall customer satisfaction with the District. Survey is conducted on an annual basis. Formation of survey begins in the first quarter. Actual survey measures calendar year (January-December). Currently reported quarterly.
- **Blanket Order Activity:** Percentage of material purchases acquired via blanket POs.
- **Total Customer Water Saved:** Estimate of water saved per acre-feet through conservation programs.
- **Health & Safety Severity Rate:** Quantifies the rate of employee days lost from work due to illness or injury.
- **Employee Turnover Rate:** Annual percent of voluntary terminations (excludes retirement).
- **Training Hours per Employee:** Measures the quantity of general and management formal training employees are completing.
- **Safety Training Program:** Safety and Risk Administration will provide a minimum of 8 safety training programs/hours per quarter which all field employees shall attend.

# Strategic Performance Management Plan

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- **CIP Project Expenditures vs. Budget:** Compares quarterly CIP expenditures with budget.
- **Construction Change Order Incidence:** Measures the rate of change order for CIP projects under construction.
- **Mark-Out Accuracy:** Measures the percentage of mark outs performed without an at-fault hit, which is damage to a District facility that results from a missing or erroneous mark out.
- **Project Closeout Time:** Measures the average number of days between the issuance of a Notice of Substantial Completion (NOSC) and a Notice of Completion (NOC) for all construction projects in construction.
- **Answer Rate:** Percentage of calls as a measure of all calls received.
- **O&M Cost per Account:** Operations & Maintenance (O&M) cost per account/per customer. (QualServe)
- **Billing Accuracy:** Percentage of correct bills issued. (QualServe)
- **Overtime Percentage:** Comparing actual to budgeted overtime (including comp time) to monitor costs.
- **Sewer Rate Ranking:** Otay ranking for the average sewer bill compared to other agencies in San Diego County.
- **Water Rate Ranking:** Otay ranking for the average water bill compared to other agencies in San Diego County.
- **Debt Coverage Ratio:** Measures level of debt coverage ratio (ability to pay debt). (QualServe) The minimum level is 125%.
- **Reserve Level:** Measures all of the District's reserves against the Board adopted Reserve Policy levels.
- **Distribution System Loss:** Percentage for unaccounted water. (QualServe)
- **Customer Satisfaction with Website:** Tracks customer satisfaction with website through surveys.
- **Network Availability:** Percentage of uptime for network during normal business hours.
- **Website Hits:** Tracks the number of visitors to our website per month.

# Strategic Performance Management Plan

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- **Unplanned Disruptions:** Quantifies the number of unplanned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts. (QualServe)
- **Technical Quality Complaint:** Measures technical quality complaints of those related to core utility services. It is expressed as complaints per 1,000 customer accounts.
- **Planned Potable Water Maintenance Ratio in Dollars:** Compares how effectively the District is investing in planned maintenance. (QualServe)
- **Planned Recycled Water Maintenance Ratio in Dollars:** Compares how effectively the District is investing in planned maintenance.
- **Planned Wastewater Maintenance Ratio in Dollars:** Percentage of planned maintenance costs compared to combined planned and corrective maintenance costs.
- **Direct Cost of Treatment per MGD:** Measures the direct cost to treat one million gallons of wastewater and does not include staff overhead or fringe benefits, but it does include their salaries (QualServe).
- **O&M Cost per MGP – Wastewater:** Total O&M cost (less depreciation) /Volume in MG processed during the reporting period.
- **Percentage of Preventative Maintenance Completed in the Fleet Shop:** To track the percentage of scheduled PM's that are completed in the Fleet Shop.
- **Percentage of Preventative Maintenance Completed at the Reclamation Plant:** To track the percentage of scheduled PM's that are completed at the Reclamation Plant.
- **Percentage of Preventative Maintenance Completed in the Pump/Electric Section:** To track the percentage of scheduled PM's that are completed in the Pump/Electric Section.
- **Percentage of Preventative Maintenance Completed in the Valve Maintenance Program:** To track the percentage of scheduled PM's that are completed in the Valve Maintenance Program.
- **Valve Exercising Program:** Maintenance of distribution systems' infrastructure to ensure minimal interruption of potable water delivery to customers.
- **Potable Water Distribution System Integrity:** Measures the condition of the water distribution system expressed as the total annual number of leaks and breaks per 100 miles of distribution piping. (QualServe)

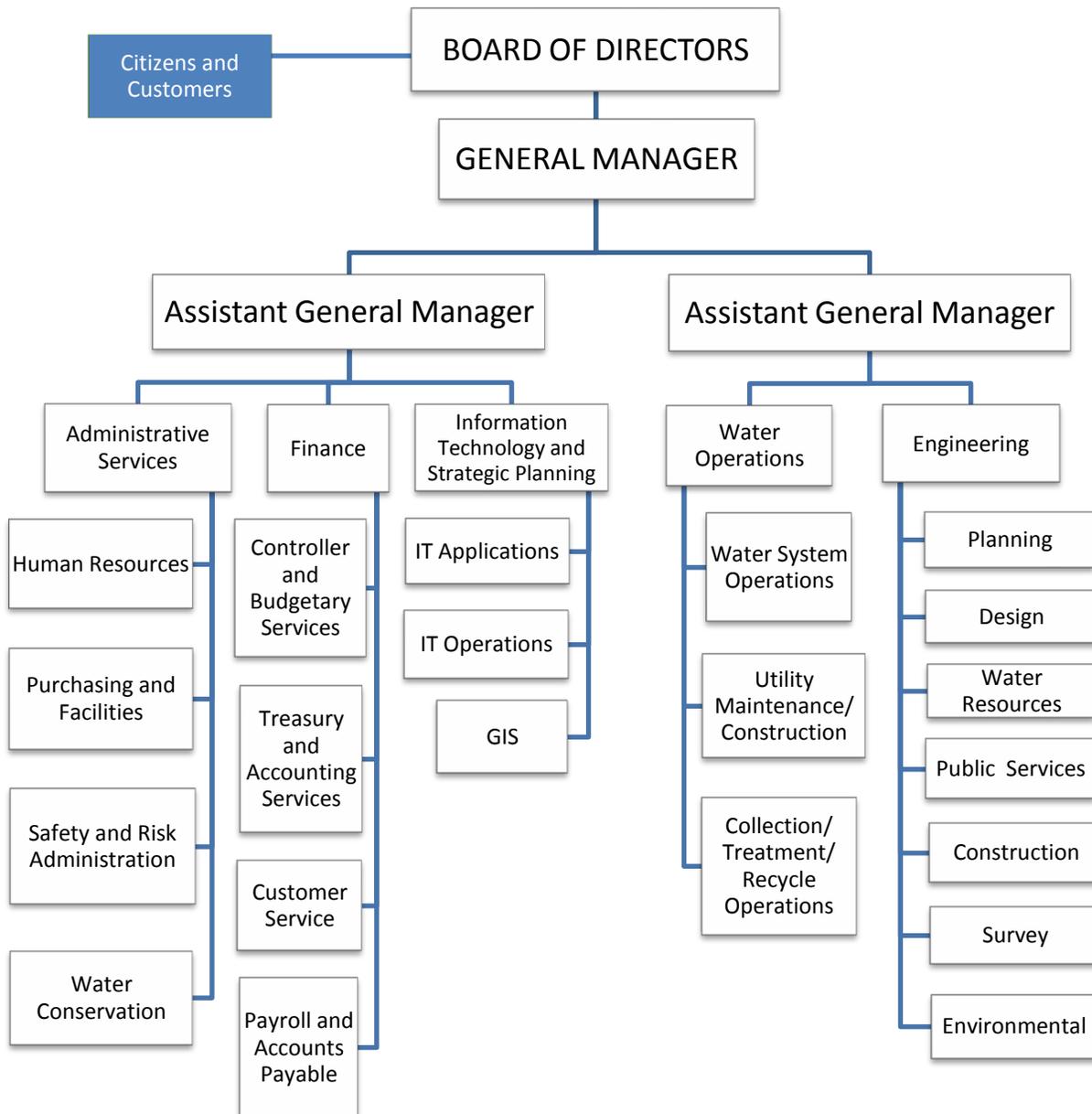
# *Strategic Performance Management Plan*

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- **Planned Water Service Disruption Rate:** Quantifies the number of planned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts. (QualServe)
- **Potable Water Compliance Rate:** Quantifies the percentage of time each year that the District meets all of the health related drinking water standards in U.S. National Primary Drinking Water Regulations. (QualServe)
- **Collection System Integrity:** Number of wastewater collection system failures per 100 miles of collection system pipeline. (QualServe)
- **Replace Manual Read Meters with Automated Meter Readers:** The measure reflects the total number of AMR meter replacements per year which will increase meter reading efficiency and reduce water loss through increased meter accuracy.
- **Recycled Water System Integrity:** Tracks number of leaks or breaks per 100 miles of water distribution system.
- **Sewer Overflow Rate:** Measures the wastewater collection system pipeline condition and the effectiveness of planned maintenance. (QualServe)



## Organization Chart



# Budget Process Overview

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## **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. The budget 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. To help readers navigate this document, the following is a general description of each of the tabulated sections of the budget.

### **Budget Foreword**

This introductory section contains descriptions and general information about the District, strategic focus areas highlighting major initiatives and accomplishments, and the Budget Calendar and Process.

### **History and Community Profile**

Included in this section is the history of the District, along with the current and future economic conditions and projections. 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 are made of cost increases, rate increases, targeted fund balances, capital needs, and debt requirements. Analysis for the current budget year plus five subsequent years is conducted and a five-year forecast is prepared based on the Rate Model results.

### **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 General Revenues and Expenses section. An allocation of overhead type costs is made to equitably spread the cost of running the District among the various business segments.

### **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.

# Budget Process Overview

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## 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 and the justification and impact on the Operating Budget and capital purchases budget for the fiscal year are located in this section.

## Policies

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

## Appendix

The last section consists of a Glossary of budget and financial terms, List of Acronyms, and an Index.

## **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. New initiatives and programs are 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 1.7%
- pass-through rate increases for costs imposed on the District by the wholesale water providers
- accurate projections of capital budget needs (including replacement needs)
- reserve funding in accordance with the Reserve Policy to meet future growth demands and maintain financial stability
- funding of the Strategic Plan initiatives as categorized into the Balanced Scorecard perspectives
- avoid rate spikes by leveling rate increases over a six-year period

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 expenses to determine reasonableness by the Finance Department. All costs are justified and supported by explanations. These budgets are then presented to the General Manager and the Board of Directors prior to adopting the budget.

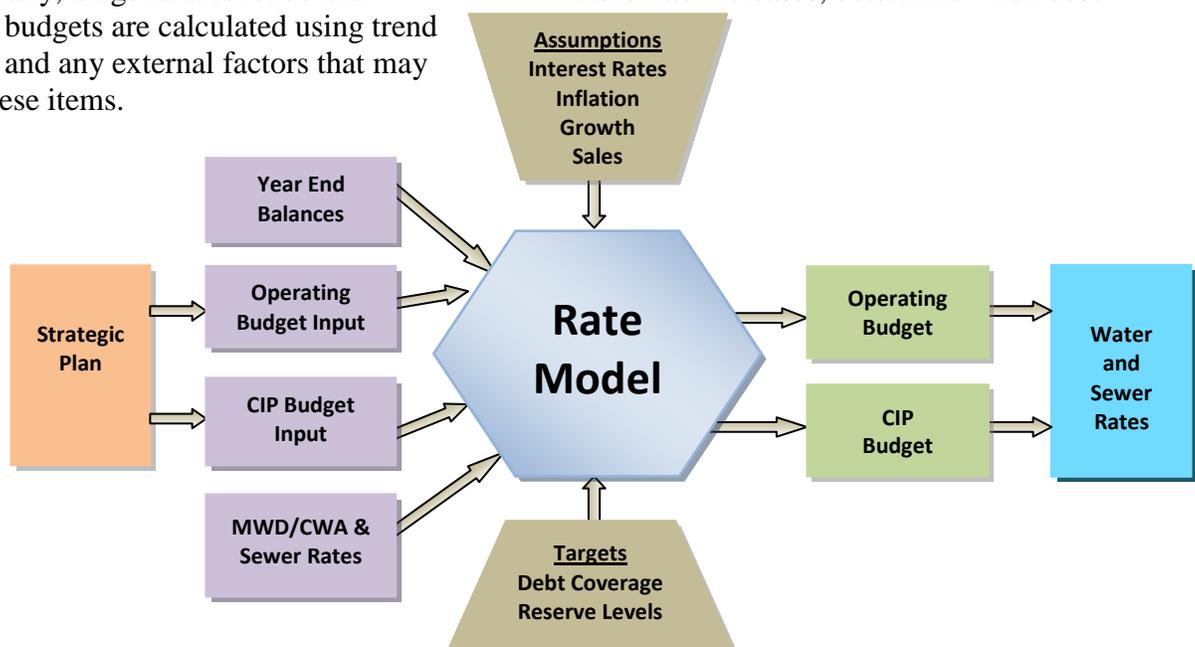
# Budget Process Overview

The budgeting of salaries and benefits is performed in the position budgeting module of the budget system. This tool allows the District to budget for each authorized position and the associated benefits in an automated fashion. 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.

The Finance Department prepares the budget for the Potable, Recycled, and Sewer Systems based on estimated cost increases from the District's wholesale water providers as well as estimated sewer charge increases provided by the City of San Diego. Other significant factors in the budget development include projected growth in customer accounts and weather. Additionally, all general revenue and expense budgets are calculated using trend analysis and any external factors that may affect these items.

The Engineering 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. They also project future costs to complete the project. Costs are adjusted for scope changes as well as construction cost increases. Engineering 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 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. (See diagram below.) Inflation factors for cost and volume are input into the Rate Model to project the next five years of revenue and expenses. This debt coverage ratio is also evaluated to ensure adequate levels. Rates are then set for the current fiscal year, plus five subsequent years, such that all financial targets are met. Using this comprehensive modeling tool, the District is able to smooth future rate increases, determine when debt



# Budget Process Overview

should be issued, and maintain all of the reserve levels in accordance with the Reserve Policy.

The District has a three year Strategic Plan, and each year in the spring, the portion of the plan that pertains to the upcoming fiscal year is presented to the Board of Directors for review and direction. This is followed by a coordinated presentation of the budget by all departments, to the Board of Directors for their approval at a special budget workshop in May. The review of the Strategic Plan and the adoption of the budget on an annual basis give 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 within the CIP Budget.

The Budget Report is intended as a financial guide and may be modified by the Board of Directors during Fiscal Year 2012. All approved modifications to the budget will be documented in the form of a staff report and noted in the board meeting minutes.

## **Budget Calendar**

2/11/11	Chiefs submit CIP Budgets for New Projects and changes to existing Projects
2/16/11	Chiefs submit request for new Personnel/Personnel Reclassifications changes, Advancements and Long-Term Staffing to HR
2/23/11	HR to complete preliminary review of new Personnel, Personnel Reclass, change requests and Advancements
2/28/11	Chiefs to submit Operating and Admin Budget; Capital Purchases and Justifications; Labor Budget Worksheet
3/7/11	HR to review new personnel, reclass and changes requests with GM
3/7/11	Finance to review Operating Budget and Reconciliation with Departments
3/14/11	Finance to review Department Operating Budgets with GM and AGMs
3/14/11	Finance to review preliminary CIP Budget with Chief of Engineering
3/18/11	Finance to have second review of CIP budget with AGMs and Engineering
3/18/11	Finance to review personnel cost with Chiefs, AGMs and GM
3/25/11	Review CIP Budget with General Manager
4/4/11	Finance to review assumptions and rates with Chiefs, AGMs and GM
4/7/11	Chiefs submit Position Analysis Questionnaire to HR for GM approved Personnel Requests and Request for Reclass (Advancements Don't need GM approval)
4/14/11	Preliminary Budget for General Manager
5/5/11	Practice run of budget presentation with Finance, Chiefs, AGMs and GM
5/9/11	Economic Outlook Study presented to the Board
5/16/11	FY 2012-2014 Strategic Plan presented to the Board
5/16/11	Budget Workshop for approval of the FY 2011-2012 Operating and Capital Budgets and 218 30-Day Rate Increase Notices
11/1/11	218 30-Day Notice of Water and Sewer Rate Increase due for bill insertion
1/1/12	Water and Sewer Rate Increase

# Budget Process Overview

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## **Budget Basis**

The District utilizes the accrual basis for budget which is the same as the basis of accounting used in the audited financial statements, 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. The intent of the District is that the costs (including replacement cost of existing assets) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.



Bay-Delta

RESOLUTION NO. 4173

A RESOLUTION OF THE BOARD OF DIRECTORS OF  
OTAY WATER DISTRICT ADOPTING THE  
FISCAL YEAR 2011-2012  
OPERATING AND CAPITAL BUDGET AND  
THE PROPOSED WATER AND SEWER INCREASES AS  
AMENDED IN APPENDIX A, SCHEDULE OF FEES AND  
CHARGES AND AMENDMENTS TO SECTION 53, FEES,  
RATES, CHARGES AND CONDITIONS FOR SEWER  
SERVICE

WHEREAS, the Otay Water District Board of Directors have been presented with a budget for the operation of the Otay Water District for Fiscal Year 2011-2012; and

WHEREAS, the Operating and Capital Budget has been reviewed and considered by the Board,

WHEREAS, the amended Appendix A with the proposed water and sewer rate increases, as presented in the Fiscal Year 2011-2012 Operating and Capital Budget, have been reviewed and considered by the Board,

WHEREAS, Section 53 of the Code of Ordinances with the proposed changes have been reviewed and considered by the Board and it is in the interest of the District to adopt these changes effective July 1, 2011,

WHEREAS, it is in the interest of the District to adopt a budget for said year; and to adopt the water and sewer rate

increases on all billing cycles that begin in calendar year 2012.

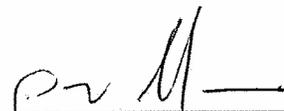
NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Operating and Capital Budget for the operation of the District, incorporated herein by reference, is hereby adopted as the District's budget for Fiscal Year 2011-2012.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 16th day of May 2011, by the following vote:

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

ATTEST:

  
District Secretary

  
President

## *Past and Present*

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On January 27, 2006, the Otay Water District celebrated its golden anniversary. Over 50 years ago, the California State Legislature officially authorized the District 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 water network with more than 709 miles of potable and 96 miles of recycled pipelines, 44 reservoirs, a water reclamation plant, and one of the largest recycled water distribution systems in the State of California. 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 District's boundaries currently stretch from Otay Mesa and eastern Chula Vista to Spring Valley, southern El Cajon, and Jamul.



La Presa County Water District  
(ca. 1957)

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As with the past few years, we continue to face numerous challenges with the slow recovery from the largest economic downturn since the Great Depression and ongoing home foreclosures. The District also faces large water supply cost increases and inaction in the State Capitol to address the crisis in the Sacramento – San Joaquin Bay Delta, and the uncertainty of Colorado River water, the source of 100% of our imported water.

These current problems make the work the District is doing all the more critical. On June 1, 2007, the District dedicated the Supply Link Project connecting recycled water system to the City of San Diego's City South Bay Water Reclamation Plant. Today, the District purchases about 3 million gallons per day (mgd) of recycled water from the city, increasing to 6 mgd ultimately, and in addition 1 mgd is produced at RWCWRF. With recycled water meeting a large portion of the landscape irrigation needs, this means in the future approximately 7 mgd of potable water does not have to be pumped hundreds of miles from northern California or the Colorado River. Instead, enough drinking water to serve more than 15,000 homes is being conserved and can be used to address shortages in the years to come.

## Current Economic Conditions

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Currently, the District services the needs of a growing population by purchasing water from the San Diego County Water Authority (CWA). CWA purchases its water from the Metropolitan Water District of Southern California (MWD) and the Imperial Irrigation District (IID). Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA and the Helix Water District (HWD) by contract with CWA. In the Southern region, in addition to the treated water deliveries from CWA, the District has an emergency agreement with the City of San Diego in the case of a shutdown of the main treated water source. Through innovative agreements like this, benefits can be achieved by both parties by using excess capacity of another agency and diversifying local supply, thereby increasing reliability.

For several decades, the District has collected and recycled 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. However, the demand for recycled water out-paced the supply, requiring the District to supplement the limited supply of recycled water with potable water. Through the agreement with the City of San Diego, the District has discontinued supplementing its recycled demand with potable water. Once again, this decreases the demand on potable water and increases reliability of the District's supply.

The District's sewer service area is growing at a slow but steady rate of approximately 0.6% each year. Most of this growth is from small development projects or homeowners

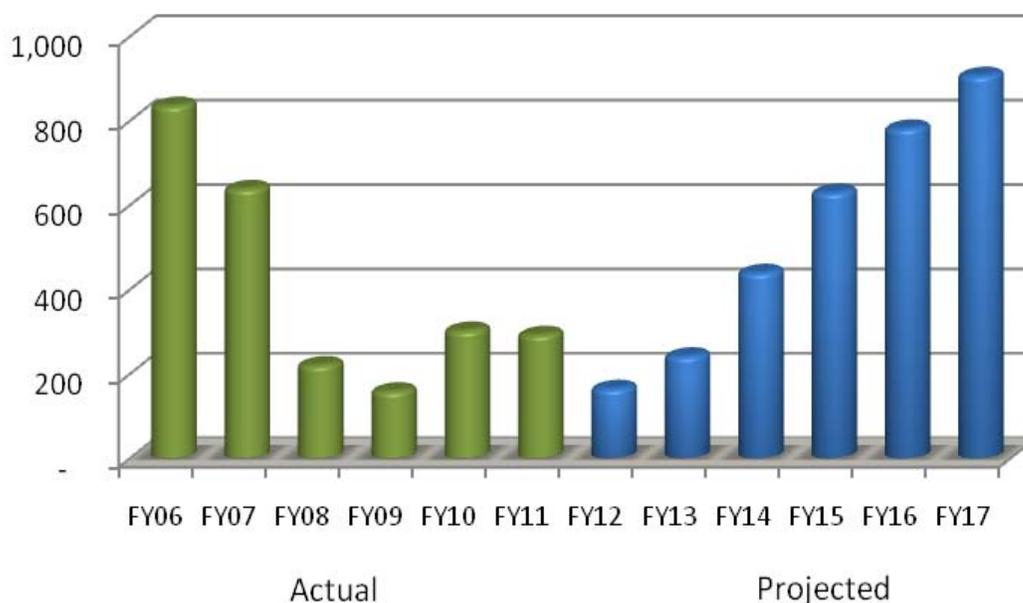
converting their septic system to sewer because of environmental issues.

The District's service area was one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. It is estimated that the District is currently serving approximately 206,500 residents. In just the past eight years, the District has added more than 6,168 new customer connections, with 2,326 occurring in Fiscal Year 2004. The phenomenal growth has slowed, as our local and national economy is experiencing a downturn. This slowdown appears to have leveled off as the District's Public Services Division approved on average 12 permits per month, and sold 292 water meters in Fiscal Year 2010-2011.



The 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 District is not only poised to continue successfully providing an affordable, safe, and reliable water supply for the people of its service area, but is set to reap the rewards of greater efficiencies and economies of scale.

## Meter Sales



This year because of the economic uncertainty of the region, the District employed an Economist to verify the growth in the region. Using the economist's report, the Engineering Department projected that over the next six years the District will sell another 3,160 meters. SANDAG, the regional planning agency, shows a slowing of the historic annual growth rate of 6.3% since 1980, to a projected future annual growth rate of 1.7% through 2030, for the City of Chula Vista. For the unincorporated areas of the region the historic annual growth rate has been only 1.3% since 1980, but is expected to increase to 1.7% through 2030.

# Demographics

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



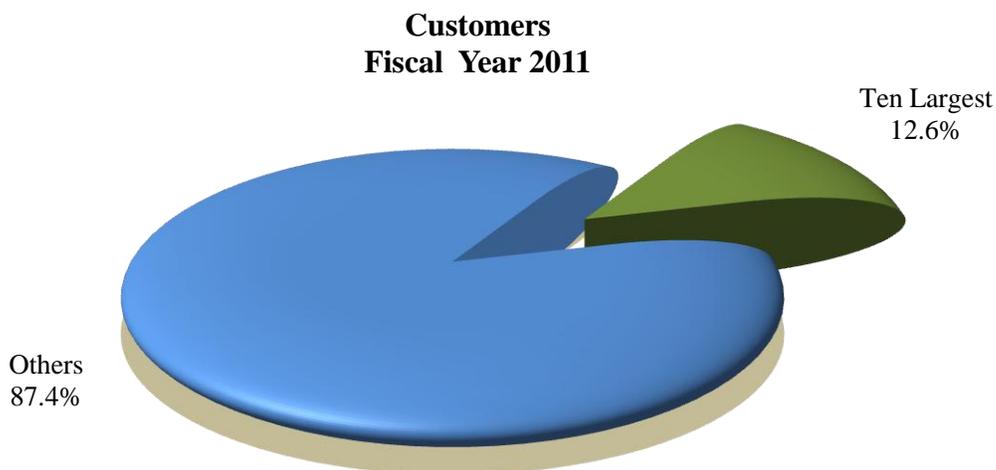
SANDAG creates and maintains a tremendous quantity of demographic, economic, land use, transportation and criminal justice information about the San Diego region. The demographic data include population characteristics like age, education, and employment. Because of the overlapping of the District's service area with the cities of Chula Vista, La Mesa, El Cajon, and the unincorporated areas of Spring Valley and Jamul, the following demographic data is from the City of Chula Vista as it most closely represents the District.

The population of Chula Vista has grown from 83,927 in 1980, to 135,136 in 1990, to 173,556 in 2000, and in 2009 the population reached 243,916. This represents an increase of 159,989 in the past 30 years or a 190.6% increase, which correlates to the District's rapid growth for the same period.

The racial make up of Chula Vista is 58% Hispanic, 20% White, 14% Asian, 4% Black, and the remaining 7% is all other groups. The median household income for Chula Vista was \$66,955 in 2009, and 92% of Chula Vista's housing units were occupied.

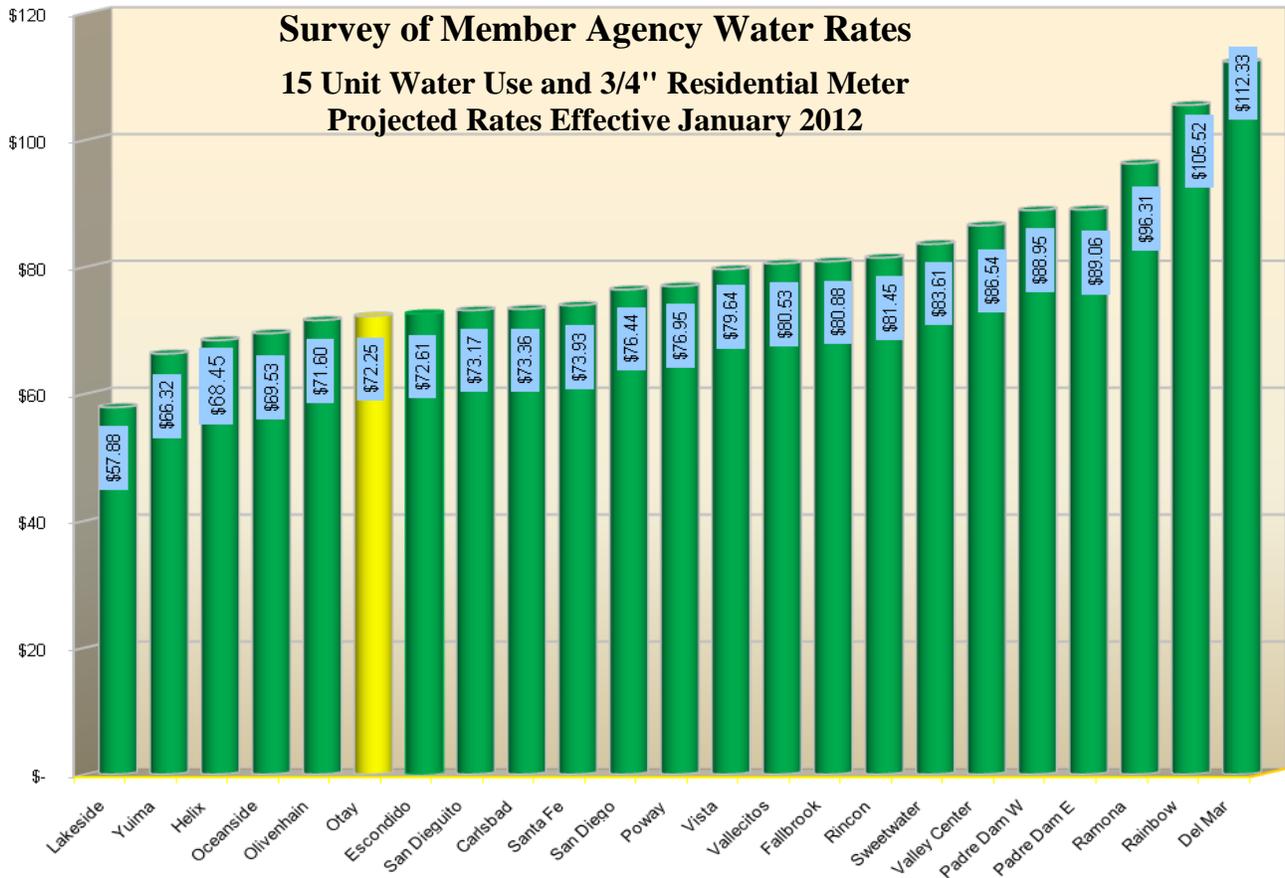
# Ten Largest Customers - Fiscal Year 2011

Customer Name	Customer Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$2,298,355.60	3.9%
2. State of California	Publicly Owned	1,003,099.17	1.7%
3. Sweetwater School District	Publicly Owned	668,587.80	1.1%
4. County of San Diego	Publicly Owned	636,773.46	1.1%
5. EastLake Summit Assoc	Commercial (Irrigation)	628,860.08	1.1%
6. EastLake III Community Assoc	Commercial (Irrigation)	578,224.27	1.0%
7. EastLake Country Club	Commercial (Irrigation)	412,035.34	0.7%
8. Cuyamaca College	Publicly Owned	399,883.90	0.7%
9. Chula Vista School District	Publicly Owned	391,737.28	0.7%
10. Windingwalk Master Association	Commercial (Irrigation)	341,281.42	0.6%
<b>Total</b>		<b>\$ 7,358,838</b>	<b>12.6%</b>
Estimated FY11 Water Sales		<b>\$ 58,194,221</b>	



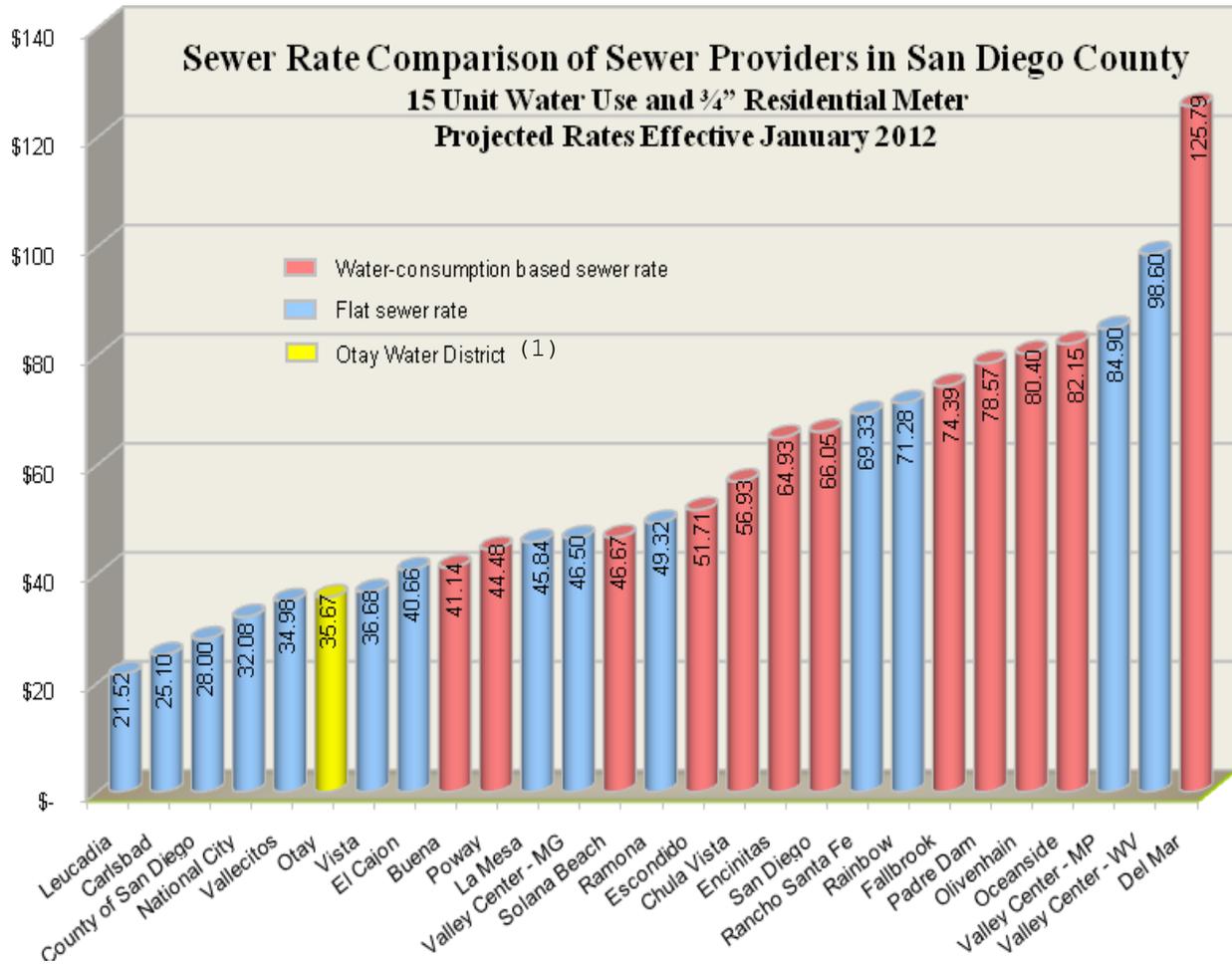
# Water Rate Comparison

The District strives to remain cost effective in its rate setting, by controlling operating cost, yet passing through the full cost of supply. The following two charts show how the District compares in rates with its neighboring water and sewer providers.



Note: These amounts reflect the charges on the water bills of the various agencies and cities.

# Sewer Rate Comparison



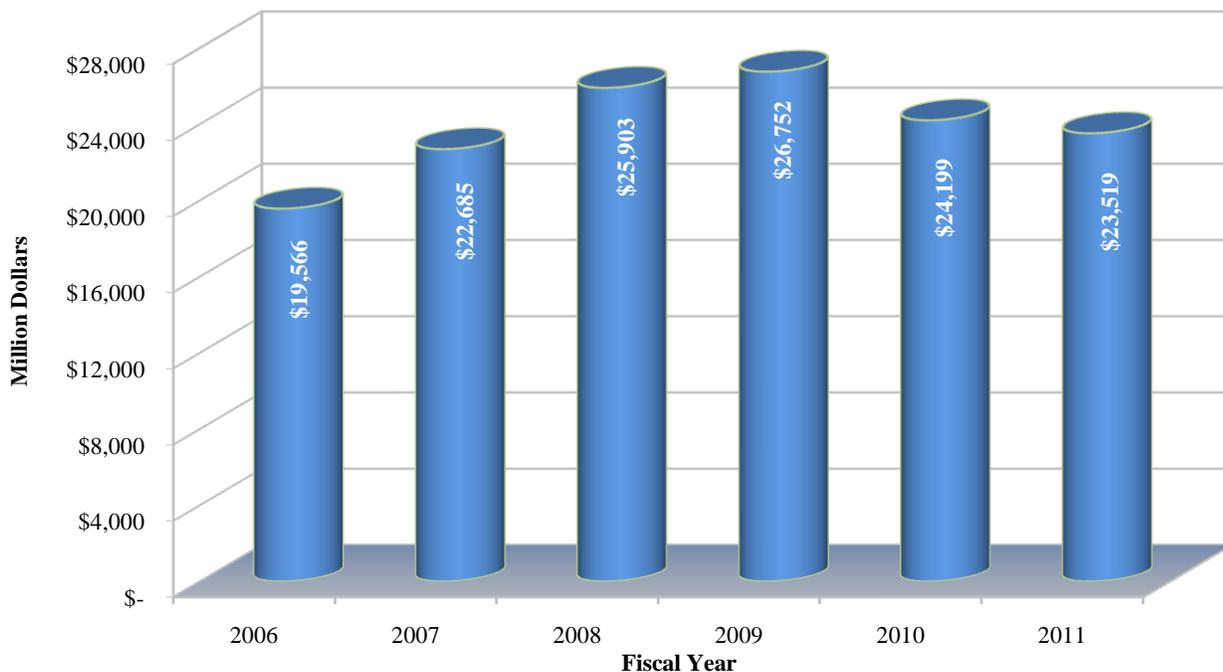
(1) Otay Water District uses a water-consumption based rate setting method.

## Service Area Assessed Valuation

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Otay Water District's service area encompasses property with over \$23.5 billion of assessed valuation. Properties are assessed at 100% of their full value less any exemptions such as, exemption from taxation under the law and homeowner's exemptions. As shown in the chart below, there has been a significant increase in the assessed value of properties in the District service area. The historic increases were due to both growth in the number of new homes, as well as increases in home prices. Despite the slow down in the current housing market, the long-term growth in new homes is expected to continue at approximately 1.7% until ultimate build-out. The assessed valuation is the basis for the property tax change. The District receives its portion of the 1% property tax, according to Proposition 13 and AB8, and with the increases in the assessed valuation the District will benefit by receiving its proportionate share of this increase. With the down turn in the property values the District is anticipating a moderate decrease of 2.8% from FY11 to FY12.

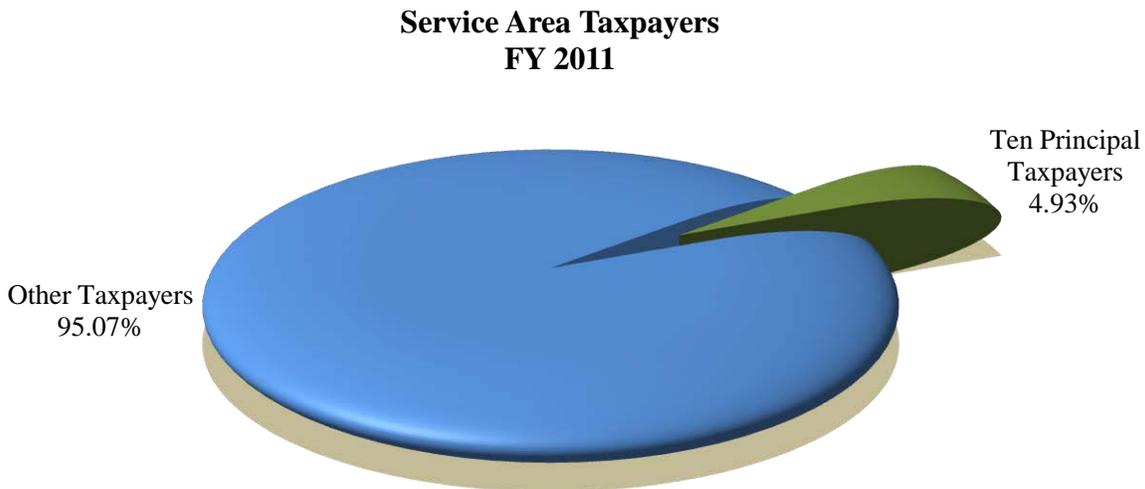
**Five-Year Service Area Assessed Valuation**



Source: County of San Diego Auditor and Controller

# Ten Principal Taxpayers as of June 30, 2011

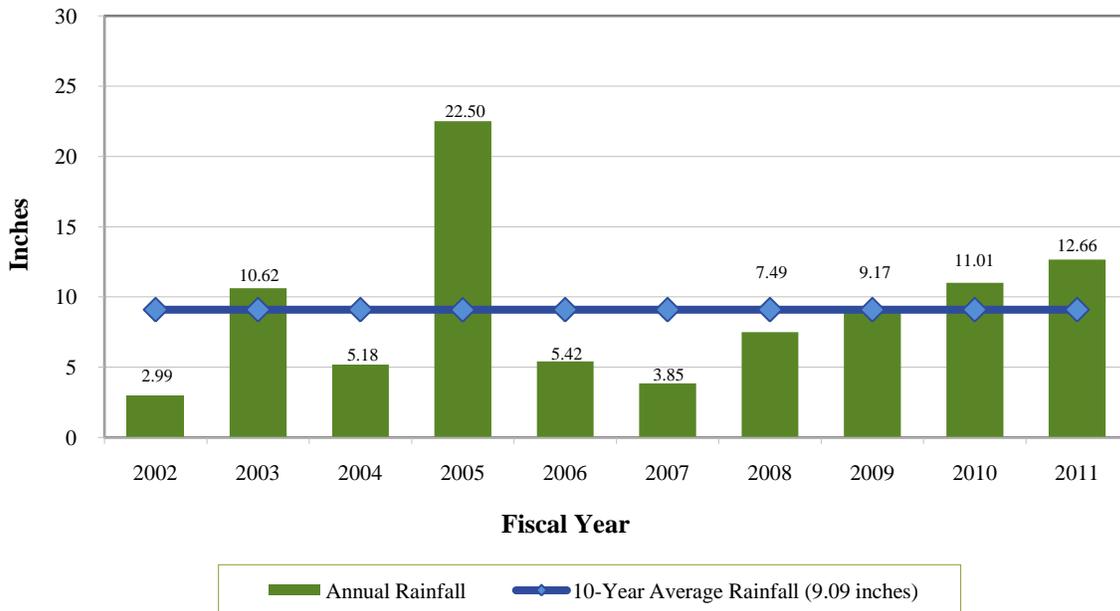
Organization	Assessed Value	Percent to Total
1. San Diego Expressway Limited Partnership (SDELP)	\$ 260,000,000	1.11%
2. GGP-Otay Ranch LP	175,335,688	0.75%
3. Village II of Otay HB SUB	124,887,319	0.53%
4. Regulo Place Apartments Investors LLC	115,836,938	0.49%
5. O V Three Two LLC	92,539,199	0.39%
6. E Q R-Missions at Sunbow LLC	90,540,118	0.38%
7. S P Lavidia Real LLC	80,970,425	0.34%
8. S V Portfolio LP	79,915,028	0.34%
9. Corrections Corp of America	76,437,168	0.32%
10. Village II of Otay LP	63,472,239	0.27%
Total	\$ 1,159,934,122	4.93%
<b>Total Service Area Assessed Valuation</b>	<b>\$ 23,519,177,848</b>	



Source: County of San Diego Auditor and Controller

# San Diego Rainfall

Fiscal Years 2002-2011



Although San Diego's Fiscal Year 2011 rainfall was greater in volume and more broadly distributed across the year than normal, the District is expecting that San Diego's rainfall will return to its average pattern and volume for Fiscal Year 2012. The 10-year average of 9.09 inches for San Diego rainfall reflects the long-term drought conditions for our area. San Diego's rainfall average over 20 years is 10.25 inches; the 30-year average is 10.10 inches.

San Diego rainfall, while a contributing factor, is not the controlling factor for our potable water supply shortage. The San Diego region imports 90% of its potable supply, so conditions elsewhere affect the actual amount of water available to the District. In the event the amount of water supplied to the District is reduced, water-sale revenues would decrease. Related water purchase expenses would also be reduced mitigating the impact of the decrease in revenues. The amount of any supply reduction would dictate the magnitude of the District's response and type of reaction.

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. 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.

# Budget Summary

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The Operating Budget is summarized and presented in the Operating Budget Summary on page 39. Also included in this section is the Operating Budget Summary by System on page 40, the Fund Balance Summary by Fund on page 42, and the Revenues and Expenditures by Fund on pages 43 and 44. The Revenues, Expenditures, and Sources and Uses of Funds by Type for all funds are presented on page 45. For Fiscal Year 2012, the District increased both water and sewer rates for its customers in order to pass-through cost increases from water suppliers and sewer treatment agencies. These cost increases are being experienced by our neighboring water agencies and most are encountering similar rate increases.

## **Operating Budget Summary**

The Operating Budget for Fiscal Year 2012 is \$78,062,200 in comparison to the previous fiscal year budget of \$76,993,900. The \$1,068,300 increase is water supply rate increases of 7.5% from MWD and 7.7% from CWA because of the high cost of supply programs, higher energy and operating costs.

The District uses a rate model to build the budget for the current fiscal year and five subsequent years. To do this, estimates for growth, water costs, and others such as rainfall, and average water consumption per customer, are used throughout the model to calculate various revenue and expense amounts in each year. The Engineering Department is primarily responsible for the growth estimates as described in the budget process on pages 19-21. Water cost estimates are obtained from District water suppliers, CWA and MWD, and power cost inflators from San Diego Gas and Electric, the District power supplier. Labor and benefit cost inflators are based on the

Memorandum of Understanding with the District's labor union, as well as estimates from District health providers. Other general inflators are derived from statistical data from consumer price indexes for the region.

## **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 28,952 acre-feet of potable water will be sold during Fiscal Year 2012. Budgeted revenues from water sales are projected to be \$57,908,800, an increase of 2.8% from the previous year's budget despite the decreased water sales, and the past several years of increases in pass-through water cost. 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 3,962 acre-feet of recycled water to customers at a discount of 15% off the potable irrigation rate. The FY 2012 sales revenue budget of \$7,395,500, a decrease of \$225,100 from FY 2011, includes the incentive credits provided by MWD and the 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.

# Budget Summary

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## 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 General Fund for Engineering Department's support for expansion functions.

## Betterment Fees for Maintenance

These fees are earned by the General Fund for Water Operations Department's maintenance of certain District assets.

## Annexation Fees

The District collects annexation fees when new customers annex into the District. The fee is based on the prior property tax and availability fees paid by existing users and ensures 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 Roll 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 or 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.

## Transfer from OPEB

This money is available to fund operations from the OPEB trust fund. In Fiscal Year 2008, the District established a reserve through PERS, lowering the amount necessary to reserve for OPEB expenses allowing the excess to be available to the general fund.

## Expenditures

### Potable Water Purchases

Water purchases indicate the expense of purchasing 30,438 acre-feet for the District's potable water supply. A provision has been made to allow 1,486 acre-feet of water for District usage, leakage, and evaporation.

### Recycled Water Purchases

Recycled water purchases indicate the expense of purchasing 3,106 acre-feet for the District's recycled water supply. The District no longer budgets for a potable

# Budget Summary

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supplement to the recycled system due to the source of recycled water from the City of San Diego.

## 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 156 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.

# Budget Summary

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Additional details are supplied in the Departmental Operating Budget section.

## New Supply Reserves

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

## Expansion Reserves

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

## Betterment Reserves

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

## 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.

## Transfers

These transfers are necessary to ensure that each fund pays its fair share of costs, or to achieve required fund balances per the District's policy. The Transfer Out for Prop 1A occurred in FY 2010 and was a loan to the state of the District's 1% property tax revenue.

## **Operating Budget Summary by Business**

The Budget Summary by System schedule reflects the separation of operating revenues and expenses among potable water, recycled 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, 2011, and the projected balance for June 30, 2012, 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 schedule reflect each fund's revenues and expenditures by business line, where appropriate. This schedule is reconciled to the Fund Balance Summary and excludes transfers between funds.

## **Revenues and Expenditures by Type – All Funds**

This is a consolidated schedule of revenues and expenditures, including sources and uses of funds but excluding fund transfers.

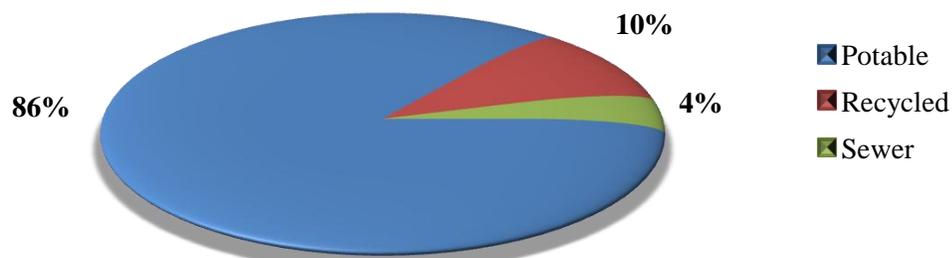
# Operating Budget Summary - General Fund

	FY 2010	FY 2011		FY 2012	Budget
	Actual	Budget	Estimated	Budget	Variance
<b>REVENUES</b>					
Potable Water Sales	\$ 49,587,223	\$ 56,333,900	\$ 51,507,858	\$ 57,908,800	\$ 1,574,900
Recycled Water Sales	6,622,886	7,620,600	6,762,039	7,395,500	(225,100)
Sewer Revenues	2,311,586	2,270,500	2,386,600	2,336,000	65,500
Meter Fees	92,246	50,300	91,152	82,000	31,700
Capacity Fee Revenues	1,030,688	1,095,300	1,063,234	1,044,000	(51,300)
Betterment Fees for Maintenance	575,721	657,400	560,229	628,600	(28,800)
Annexation Fees	555,751	-	-	-	-
Tax Revenues	3,679,280	3,843,900	3,576,721	3,839,600	(4,300)
Non-operating Revenues	2,544,875	1,948,300	2,095,498	2,021,600	73,300
Interest	214,280	296,300	112,821	158,300	(138,000)
Transfer from OPEB	1,030,000	1,220,000	1,220,000	1,380,000	160,000
Transfer from Betterment Reserve	-	-	-	30,000	30,000
Transfer from Replacement	-	-	-	120,000	120,000
General Fund Draw Down	-	1,657,400	1,657,400	522,800	(1,134,600)
Transfer from General Fund	-	-	-	595,000	595,000
<b>TOTAL REVENUES</b>	<b>68,244,536</b>	<b>76,993,900</b>	<b>71,033,552</b>	<b>78,062,200</b>	<b>1,068,300</b>
<b>EXPENDITURES</b>					
Potable Water Purchases	24,530,567	26,238,700	25,323,291	27,793,100	1,554,400
Recycled Water Purchases	1,024,162	1,179,900	1,264,573	1,452,800	272,900
CWA - Infrastructure Access Charge	1,344,828	1,550,700	1,550,466	1,756,900	206,200
CWA - Customer Service Charge	1,128,306	1,315,200	1,315,224	1,562,600	247,400
CWA - Emergency Storage Charge	2,196,876	2,875,200	2,884,050	3,585,800	710,600
MWD - Capacity Reservation Charge	637,884	665,100	660,282	603,900	(61,200)
MWD - Net RTS and Standby Charges	952,226	1,232,400	1,232,240	1,488,600	256,200
Subtotal - Water Costs	31,814,849	35,057,200	34,230,126	38,243,700	3,186,500
Power	2,307,611	2,520,700	2,170,357	2,440,900	(79,800)
Labor and Benefits	16,659,222	16,749,400	17,287,426	18,119,600	1,370,200
Administrative Expenses	4,646,029	5,581,600	4,764,968	4,560,700	(1,020,900)
Materials & Maintenance	3,491,494	3,769,500	3,794,620	4,300,000	530,500
Expansion Reserve	1,610,000	2,775,000	2,775,000	555,000	(2,220,000)
Betterment Reserve	3,810,000	1,435,000	315,000	-	(1,435,000)
Replacement Reserve	3,660,000	6,965,000	6,965,000	3,330,000	(3,635,000)
Transfer to Sewer General Fund	200,000	-	-	786,800	786,800
Transfer Out - Prop 1A	270,300	-	-	-	-
Transfer to General Fund Reserve	1,330,000	390,500	390,500	2,420,500	2,030,000
Transfer to Sewer Replacement	-	1,750,000	1,750,000	1,720,000	(30,000)
Transfer to New Supply Reserve	-	-	-	1,585,000	1,585,000
<b>TOTAL EXPENDITURES</b>	<b>69,799,505</b>	<b>76,993,900</b>	<b>74,442,999</b>	<b>78,062,200</b>	<b>1,068,300</b>
<b>EXCESS REVENUES (EXPENSE)</b>	<b>\$ (1,554,969)</b>	<b>\$ -</b>	<b>\$ (3,409,446)</b>	<b>\$ -</b>	<b>\$ -</b>

# *FY 2012 Operating Budget Summary by System*

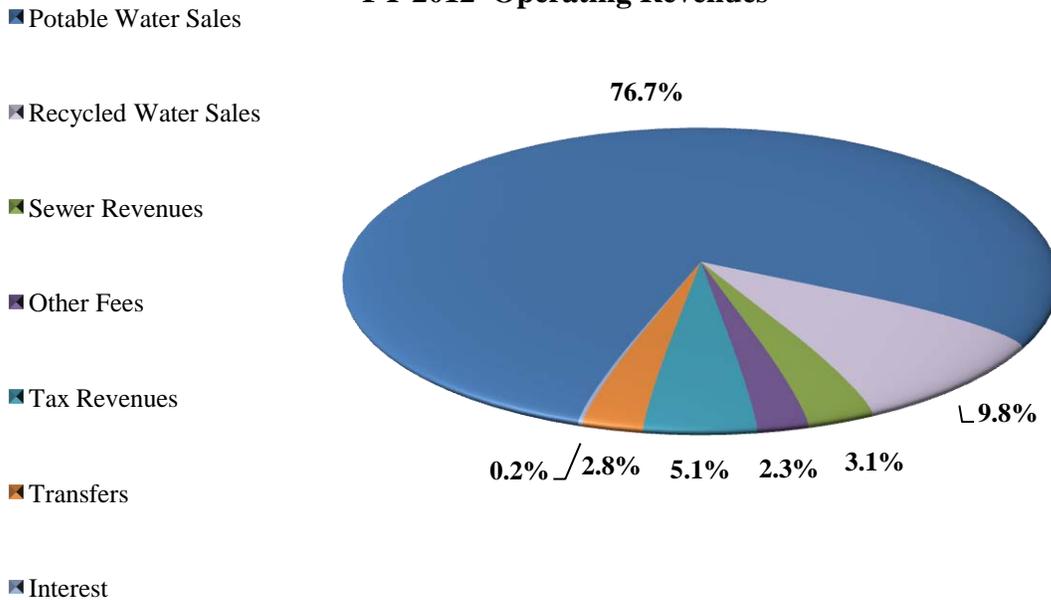
	<b>Potable</b>	<b>Recycled</b>	<b>Sewer</b>	<b>Total</b>
<b>REVENUES</b>				
Water Sales	\$ 57,908,800	\$ -	\$ -	\$ 57,908,800
Recycled Water Sales	-	7,395,500	-	7,395,500
Sewer Revenues	-	-	2,336,000	2,336,000
Meter Fees	79,700	2,300	-	82,000
Capacity Fee Revenues	841,200	-	202,800	1,044,000
Betterment Fees for Maintenance	628,600	-	-	628,600
Tax Revenues	3,788,100	-	51,500	3,839,600
Non-operating Revenues	1,991,000	-	30,600	2,021,600
Interest	138,800	12,400	7,100	158,300
Transfer from OPEB	1,380,000	-	-	1,380,000
Transfer from Betterment	-	-	30,000	30,000
Transfer from Replacement	-	-	120,000	120,000
General Fund Draw Down	-	522,800	-	522,800
Transfer from General Fund	-	-	595,000	595,000
<b>TOTAL REVENUES</b>	<b>66,756,200</b>	<b>7,933,000</b>	<b>3,373,000</b>	<b>78,062,200</b>
<b>EXPENDITURES</b>				
Water Purchases (CWA)	27,793,100	-	-	27,793,100
Water Purchases (CSD)	-	1,106,700	-	1,106,700
Take-or-pay	-	346,100	-	346,100
Subtotal - Water Purchases	27,793,100	1,452,800	-	29,245,900
CWA - Infrastructure Access Charge	1,756,900	-	-	1,756,900
CWA - Customer Service Charge	1,562,600	-	-	1,562,600
CWA - Emergency Storage Charge	3,585,800	-	-	3,585,800
MWD - Capacity Reservation Charge	603,900	-	-	603,900
MWD - Net RTS and Standby Charges	1,488,600	-	-	1,488,600
Subtotal - Water Costs	36,790,900	1,452,800	-	38,243,700
Power	1,848,300	510,800	81,800	2,440,900
Labor and Benefits	15,946,400	1,263,800	909,400	18,119,600
Administrative Expenses	3,775,600	351,000	434,100	4,560,700
Materials & Maintenance	2,144,500	399,600	1,755,900	4,300,000
Expansion Reserve	-	555,000	-	555,000
Replacement Reserve	-	3,330,000	-	3,330,000
Transfer to Sewer GF	595,000	-	191,800	786,800
Transfer to GF Reserve	2,420,500	-	-	2,420,500
Transfer to Sewer Replacement	1,720,000	-	-	1,720,000
Transfer to New Supply Reserve	1,515,000	70,000	-	1,585,000
<b>TOTAL EXPENDITURES</b>	<b>66,756,200</b>	<b>7,933,000</b>	<b>3,373,000</b>	<b>78,062,200</b>
<b>EXCESS REVENUES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**FY 2012 Operating Expenditures**

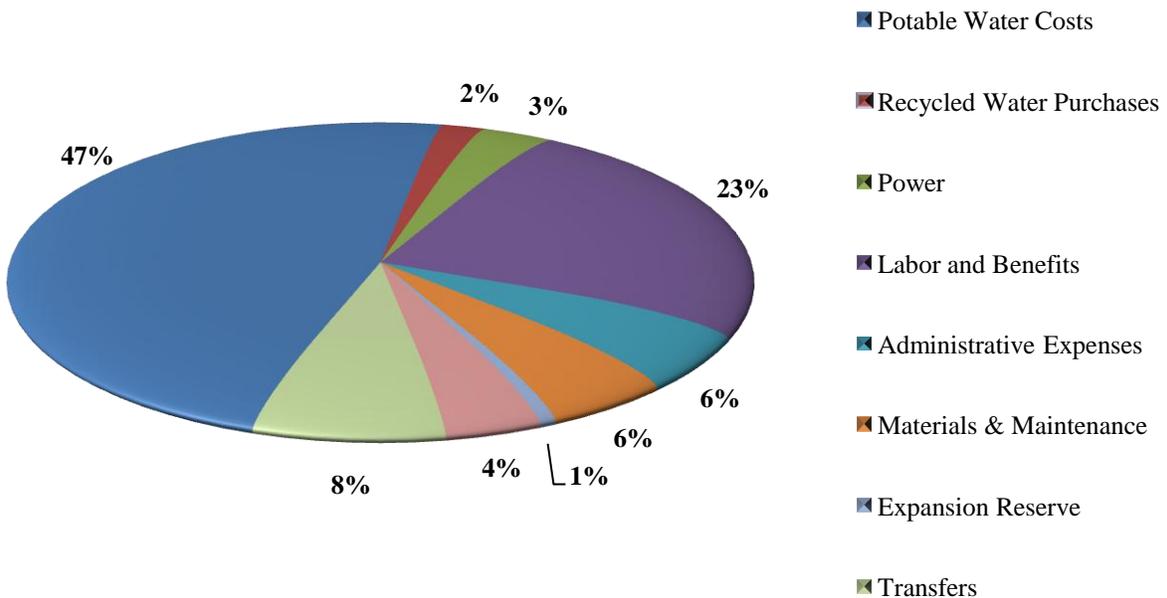


# Operating Revenues and Expenditures

**FY 2012 Operating Revenues**



**FY 2012 Operating Expenditures**



# Fund Balance Summary by Fund

	Estimated Balance June 30, 2011	Estimated, Fiscal Year 2012			Projected Balance June 30, 2012
		Revenues	Expenditures	Interfund Transfers <sup>(1)</sup>	
<b>GENERAL FUND</b>					
Potable	\$ 9,778,510	\$ 66,756,200	\$ 66,756,200	\$ -	\$ 9,778,510
Recycled	5,494,146	7,933,000	7,933,000	-	5,494,146
Sewer	1,431,657	3,373,000	3,373,000	-	1,431,657
<b>Total General Fund</b>	<b>16,704,313</b>	<b>78,062,200</b>	<b>78,062,200</b>	<b>-</b>	<b>16,704,313</b>
<b>EXPANSION FUND</b>					
Potable and Recycled <sup>(2)</sup>	12,866,792	3,956,300	10,191,900	(870,000)	5,761,192
Sewer	349,431	4,100	202,800	430,000	580,731
<b>Total Expansion Fund</b>	<b>13,216,223</b>	<b>3,960,400</b>	<b>10,394,700</b>	<b>(440,000)</b>	<b>6,341,923</b> <sup>(3)</sup>
<b>BETTERMENT FUND</b>					
Potable	11,197,085	1,278,600	8,140,700	-	4,334,985
Recycled	429,507	3,200	122,200	(405,000)	(94,493)
Sewer	1,595,002	46,200	1,498,900	(30,000)	112,302
<b>Total Betterment Fund</b>	<b>13,221,595</b>	<b>1,328,000</b>	<b>9,761,800</b>	<b>(435,000)</b>	<b>4,352,795</b> <sup>(3)</sup>
<b>REPLACEMENT FUND</b>					
Potable	21,623,289	2,218,800	6,620,500	-	17,221,589
Recycled	4,925,437	127,900	2,234,000	3,330,000	6,149,337
Sewer	3,607,511	28,700	1,535,200	3,000,000	5,101,011
<b>Total Replacement Fund</b>	<b>30,156,238</b>	<b>2,375,400</b>	<b>10,389,700</b>	<b>6,330,000</b>	<b>28,471,938</b>
<b>NEW SUPPLY FUND</b>					
Potable	(416,687)	394,260	1,440,000	1,515,000	52,573
Recycled	(56,642)	500	80,000	70,000	(66,142)
Sewer	-	-	-	-	-
<b>Total New Supply Fund</b>	<b>(473,329)</b>	<b>394,760</b>	<b>1,520,000</b>	<b>1,585,000</b>	<b>(13,569)</b> <sup>(3)</sup>
<b>OPEB FUND</b>					
	4,526,516	33,700	935,000	(1,380,000)	2,245,216 <sup>(4)</sup>
<b>DEBT RESERVE FUND</b>					
	25,795,122	510,500	751,600	-	25,554,022
<b>TOTAL</b>	<b>\$ 103,146,677</b>	<b>\$ 86,664,960</b>	<b>\$ 111,815,000</b>	<b>\$ 5,660,000</b>	<b>\$ 83,656,637</b>

<sup>(1)</sup> 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:

Expansion Reserve	\$ (555,000)
Betterment Reserve	30,000
Expansion Reserve	-
Betterment Reserve	30,000
Replacement Reserve	(4,930,000)
New Supply Reserve	(1,585,000)
OPEB Reserve	1,380,000
<b>Total</b>	<b>(5,630,000)</b>

<sup>(2)</sup> Potable and Recycled funds are combined for expansion purposes.

<sup>(3)</sup> The fund balance is anticipated to change more than 10% due to the Districts ongoing current year CIP expenditures fund by current years revenues and prior years debt issuance proceeds, as well as transfers made in accordance with the Reserve Policy found on pages 188-218.

<sup>(4)</sup> This is a planned reduction of this reserve to fund the PERs OPEB trust in accordance with the actuarial analysis, as well as fund salary and benefit cost in accordance with the Memorandum of Understanding with the labor union.

# Revenues and Expenditures by Fund

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Projected
<b>REVENUES</b>				
<b>GENERAL FUND</b>				
Potable	\$ 59,201,390	\$ 65,978,000	\$ 60,028,448	\$ 66,756,200
Recycled	6,629,817	7,643,100	6,774,567	7,933,000
Sewer	2,413,329	3,372,800	2,573,137	3,373,000
<b>Total General Fund</b>	<b>68,244,536</b>	<b>76,993,900</b>	<b>69,376,153</b>	<b>78,062,200</b>
<b>EXPANSION FUND</b>				
Potable	5,160,255	4,514,400	4,669,160	3,947,600
Recycled	2,825,962	570,300	1,788,545	8,700
Sewer	6,113	7,700	3,527	4,100
<b>Total Expansion Fund</b>	<b>7,992,331</b>	<b>5,092,400</b>	<b>6,461,232</b>	<b>3,960,400</b>
<b>BETTERMENT FUND</b>				
Potable	1,262,227	1,428,200	1,272,350	1,278,600
Recycled	2,800	3,100	3,773	3,200
Sewer	44,897	47,100	50,862	46,200
<b>Total Betterment Fund</b>	<b>1,309,924</b>	<b>1,478,400</b>	<b>1,326,985</b>	<b>1,328,000</b>
<b>REPLACEMENT FUND</b>				
Potable	278,880	1,317,900	1,911,964	2,218,800
Recycled	64,857	472,100	250,883	127,900
Sewer	33,323	12,600	31,168	28,700
<b>Total Replacement Fund</b>	<b>377,060</b>	<b>1,802,600</b>	<b>2,194,016</b>	<b>2,375,400</b>
<b>NEW SUPPLY FUND</b>				
Potable	-	-	(416,686)	394,260
Recycled	-	-	(56,642)	500
Sewer	-	-	-	-
<b>Total New Supply Fund</b>	<b>-</b>	<b>-</b>	<b>(473,329)</b>	<b>394,760</b>
<b>OPEB FUND</b>	<b>104,862</b>	<b>96,300</b>	<b>45,813</b>	<b>33,700</b>
<b>DEBT RESERVE FUND</b>	<b>51,775,186</b>	<b>962,200</b>	<b>1,287,490</b>	<b>510,500</b>
<b>Total Revenues</b>	<b>\$ 129,803,900</b>	<b>\$ 86,425,800</b>	<b>80,218,360</b>	<b>\$ 86,664,960</b>

# Revenues and Expenditures by Fund

	FY 2010 Actual	FY 2011		FY 2012 Projected
		Budget	Estimated	
<b>EXPENDITURES</b>				
<b>GENERAL FUND</b>				
Potable	\$ 60,343,525	\$ 65,978,000	\$ 64,251,135	\$ 66,756,200
Recycled	6,939,833	7,643,100	7,766,101	7,933,000
Sewer	2,516,147	3,372,800	3,020,763	3,373,000
<b>Total General Fund</b>	<b>69,799,505</b>	<b>76,993,900</b>	<b>75,037,999</b>	<b>78,062,200</b>
<b>EXPANSION FUND</b>				
Potable	6,861,420	8,469,700	9,086,619	6,946,500
Recycled	213,074	9,078,500	2,966,465	3,245,400
Sewer	698	-	91,731	202,800
<b>Total Expansion Fund</b>	<b>7,075,192</b>	<b>17,548,200</b>	<b>12,144,815</b>	<b>10,394,700</b>
<b>BETTERMENT FUND</b>				
Potable	2,010,569	6,691,900	5,058,463	8,140,700
Recycled	2,762	374,200	184,971	122,200
Sewer	175,406	1,653,800	198,350	1,498,900
<b>Total Betterment Fund</b>	<b>2,188,737</b>	<b>8,719,900</b>	<b>5,441,784</b>	<b>9,761,800</b>
<b>REPLACEMENT FUND</b>				
Potable	5,429,102	7,918,800	6,476,257	6,620,500
Recycled	244,747	1,200,000	645,752	2,234,000
Sewer	268,146	1,267,900	388,778	1,535,200
<b>Total Replacement Fund</b>	<b>5,941,995</b>	<b>10,386,700</b>	<b>7,510,787</b>	<b>10,389,700</b>
<b>NEW SUPPLY FUND</b>				
Potable	-	-	779,614	1,440,000
Recycled	-	-	118,232	80,000
Sewer	-	-	-	-
<b>Total New Supply Fund</b>	<b>-</b>	<b>-</b>	<b>897,846</b>	<b>1,520,000</b>
<b>OPEB FUND</b>				
	871,631	905,000	939,250	935,000
<b>DEBT RESERVE FUND</b>				
	21,285,578	1,195,200	7,689,691	751,600
<b>Total Expenditures</b>	<b>107,162,638</b>	<b>115,748,900</b>	<b>109,662,172</b>	<b>\$ 111,815,000</b>
<b>EXCESS (DEFICIT)</b>	<b>\$ 22,641,261</b>	<b>\$ (29,323,100)</b>	<b>(29,443,812)</b>	<b>\$ (25,150,040)</b>

# Revenues and Expenditures by Type - All Funds

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
<b>REVENUES AND FUND SOURCES</b>				
Potable Water Sales	\$ 49,587,223	\$ 56,333,900	\$ 51,507,858	\$ 57,908,800
Recycled Water Sales	6,622,886	7,620,600	6,762,039	7,395,500
Tax Revenues	3,679,280	3,843,900	3,576,721	3,839,600
Capacity Fee Revenues	2,978,943	3,464,800	4,199,941	4,358,800
Grants	4,765,000	2,540,000	3,590,000	574,000
Sewer Revenues	2,311,586	2,270,500	2,386,600	2,336,000
Non-Operating Revenues	2,544,875	1,948,300	2,095,498	2,021,600
General Fund Draw Down	-	1,657,400	-	522,800
Interest	1,057,832	1,522,600	981,667	825,800
Transfer from OPEB	1,030,000	1,220,000	1,220,000	1,380,000
Capacity Fees for Maintenance	1,030,688	1,095,300	1,063,234	1,044,000
Betterment Fee Revenues	705,655	739,300	676,680	713,700
Betterment Fees for Maintenance	575,721	657,400	560,229	628,600
GO Bond Debt Tax Revenues	605,405	578,400	606,966	501,200
Availability Fees	543,654	521,000	534,621	531,000
Sewer Debt Tax Revenues	385,997	362,100	365,155	-
New Supply Fee Revenue	-	-	-	388,960
Meter Fees	92,246	50,300	91,152	82,000
COPs Proceeds	50,731,158	-	-	867,600
Annexation Fees	555,751	-	-	-
Interfund Transfers	-	-	-	745,000
<b>Total Revenues and Fund Sources</b>	<b>\$ 129,803,900</b>	<b>\$ 86,425,800</b>	<b>80,218,360</b>	<b>\$ 86,664,960</b>
<b>EXPENDITURES AND USES OF FUNDS</b>				
Potable Water Purchases	\$ 30,790,687	\$ 33,877,300	\$ 32,965,553	\$ 36,790,900
CIP Expenses	9,134,348	28,383,100	18,320,176	22,632,000
Labor Expenses	16,659,222	16,749,400	17,287,427	18,119,600
Interfund Transfers	9,080,000	12,925,000	11,805,000	7,190,000
Debt Service	5,898,401	7,714,200	7,191,610	8,486,800
Administrative Expenses	4,646,029	5,581,600	4,764,969	4,560,700
Materials and Maintenance	3,491,494	3,769,500	3,794,621	4,300,000
Power	2,307,611	2,520,700	2,170,357	2,440,900
Recycled Water Purchases	1,024,162	1,179,900	1,264,574	1,452,800
Capacity Fees for Maintenance	1,030,688	1,095,300	1,063,234	1,044,000
Payment to PERS	274,000	905,000	285,000	192,000
Betterment Fees for Maintenance	575,721	657,400	560,229	655,000
General Fund Transfers	1,800,300	390,500	985,500	3,207,300
OPEB Health Expenses	597,631	-	654,250	743,000
COPs Proceeds Distribution	19,852,345	-	6,549,674	-
<b>Total Expenditures and Uses of Funds</b>	<b>107,162,638</b>	<b>115,748,900</b>	<b>109,662,172</b>	<b>111,815,000</b>
<b>EXCESS (DEFICIT)</b>	<b>\$ 22,641,261</b>	<b>\$ (29,323,100)</b>	<b>(29,443,812)</b>	<b>\$ (25,150,040)</b>

Note: Consistent with the District's financing plan, the 2010 debt proceeds along with District reserves have been used to fund capital projects, resulting in the expected deficits in Fiscal Years 2011 and 2012 shown above.

# Five-Year Forecast

## **Financial Forecast for Fiscal Years 2013-2017**

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.

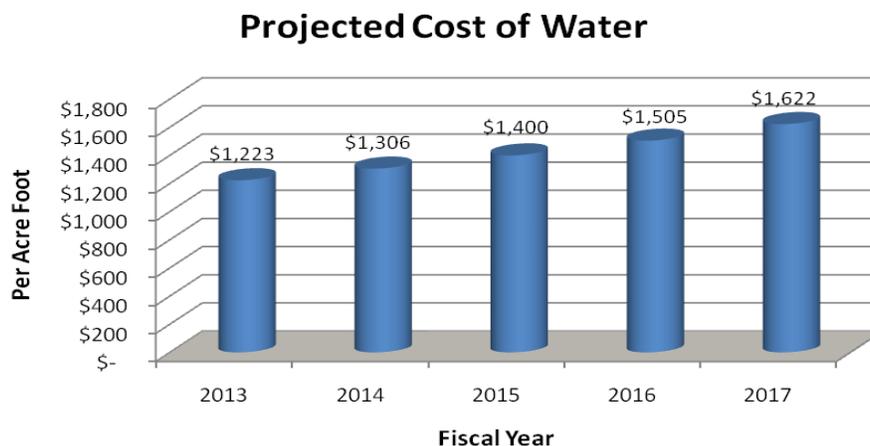
Revenue and expenditure projections are reviewed in relation to their effect on funding capital projects, reserve levels, and operating fund balances. The District updates its Rate Model on an annual basis in order to make these projections and determine recommended rates. The model looks at debt ratios, 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 Department. As new capital assets are brought into service, they are managed by an Infrastructure Management System (IMS) which is crucial to tracking and maintaining the history of 709 miles of potable pipelines, 96 miles of recycled pipelines, 88 miles of sewer lines,

40 potable and 4 recycled reservoirs, 24 potable and 3 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 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.

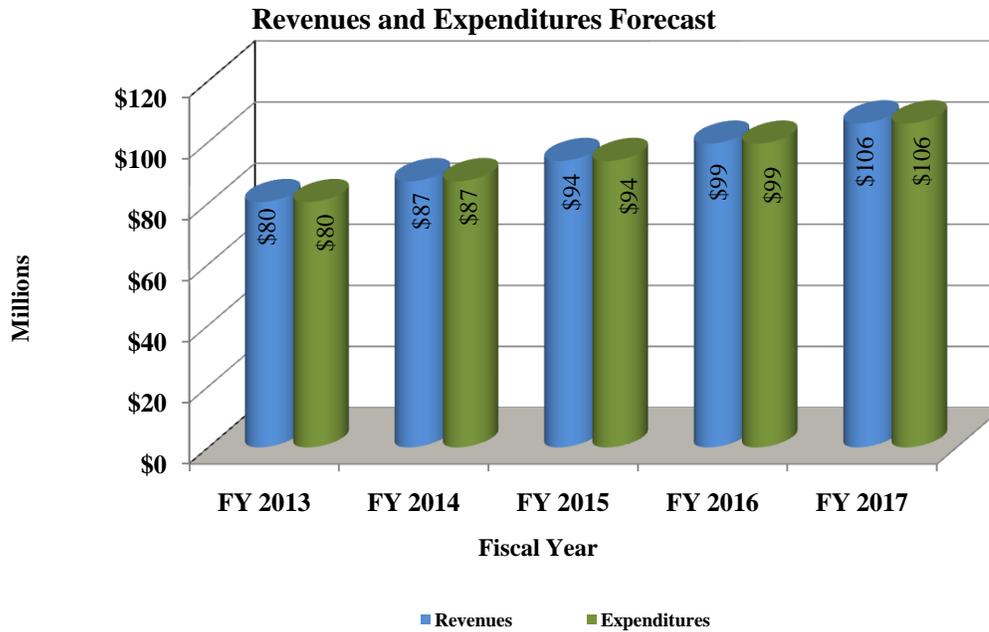
## **Projected Cost of Water**

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 2013 Through FY 2017

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

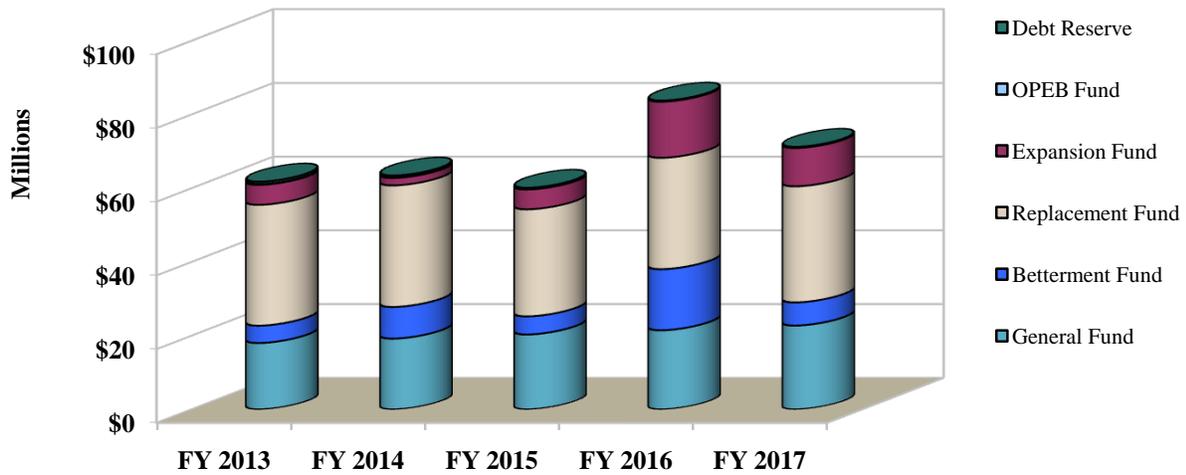


<b>REVENUES</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Water/Sewer Rates	\$ 72,260,400	\$ 79,049,800	\$ 85,431,500	\$ 90,795,800	\$ 96,624,100
Meter Fees	137,100	141,500	180,000	189,100	203,600
Capacity Fee Revenues	845,400	853,900	862,400	871,000	879,700
Betterment Fees	631,700	638,000	644,400	650,800	657,300
Annexation Fees	-	20,800	104,000	195,600	206,700
Non-operating Revenues	2,061,300	2,102,000	2,144,600	2,188,600	2,233,800
Tax Revenues	3,846,500	3,916,500	3,990,400	4,165,300	4,351,100
Interest Income	260,100	368,400	487,900	617,400	866,600
General Fund Draw Down	220,900	23,200	(119,300)	(280,000)	-
<b>TOTAL</b>	<b>\$ 80,263,400</b>	<b>\$ 87,114,100</b>	<b>\$ 93,725,900</b>	<b>\$ 99,393,600</b>	<b>\$ 106,022,900</b>
<b>EXPENDITURES AND TRANSFERS</b>					
Water Cost	\$ 41,760,900	\$ 45,740,900	\$ 49,402,300	\$ 53,231,600	\$ 57,545,000
Power	2,573,500	2,551,900	2,670,800	2,798,200	2,936,700
Labor and Benefits	18,711,700	19,160,900	19,487,100	19,768,400	20,035,000
Administrative Expenses	4,795,400	4,723,900	4,875,300	5,033,400	5,196,800
Materials & Maintenance	4,164,200	4,340,400	4,516,800	4,700,300	4,891,100
Fund Transfers, Net	8,257,700	10,596,100	12,773,600	13,861,700	15,418,300
<b>TOTAL</b>	<b>\$ 80,263,400</b>	<b>\$ 87,114,100</b>	<b>\$ 93,725,900</b>	<b>\$ 99,393,600</b>	<b>\$ 106,022,900</b>
<b>EXCESS REVENUES</b>	<b>\$ -</b>				

# Fund Balances - FY 2013 Through FY 2017

<b>FUND</b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016*</u></b>	<b><u>FY 2017</u></b>
General Fund	\$ 18,009,400	\$ 19,198,800	\$ 20,316,700	\$ 21,461,700	\$ 22,734,500
Betterment Fund	4,700,400	8,580,300	4,913,300	16,580,600	6,288,500
Replacement Fund	32,800,000	32,993,100	29,060,600	30,216,300	31,495,000
Expansion Fund	5,417,500	2,020,900	5,364,100	15,216,000	10,395,300
New Supply Fund	1,044,900	3,064,600	1,999,200	62,800	63,400
OPEB Fund	246,500	251,400	257,700	265,400	276,000
Debt Reserve	585,600	371,400	177,100	3,000	3,800
<b>TOTAL</b>	<b>\$ 62,804,300</b>	<b>\$ 66,480,500</b>	<b>\$ 62,088,700</b>	<b>\$ 83,805,800</b>	<b>\$ 71,256,500</b>

**Fund Balances Forecast**



\* Increase in fund total due to bond issuances in FY 2016

# Debt Management

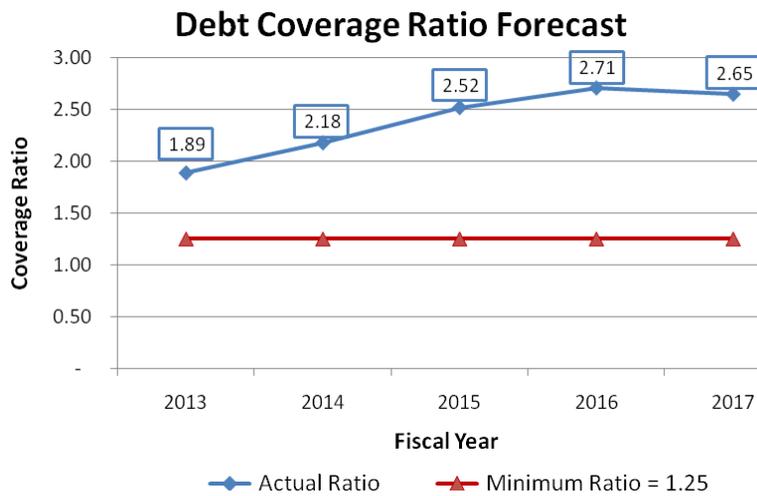
Financing the capital improvements needed to keep up with the growing demand for water in the District's service area has been accomplished through a combination of long-term and short-term financing sources. These include General Obligation Bonds, Certificates of Participation (COPs), Build America Bonds (BABs), 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 six 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. All efforts that minimize the cost of debt have a corresponding affect that reduces water rates.

In a continuing effort to reduce debt expenses, the District was successful in raising its overall credit rating from AA- to AA, two years ago. In March 2010, the District issued \$50.2 million in debt with a combination of both tax-exempt and taxable Build America Bonds (BABs). The effective interest rate on the combined series of bonds is 4.176%, after taking the BABs interest payment subsidy into account. This bond sale takes advantage of the 35% reimbursement by the Federal Government of the interest cost of the BABs as part of the economic stimulus program. As a result of this reimbursement, the District will save \$275,000 a year in interest costs.

To meet the bond indebtedness obligation and maintain stable rates, the rate model is used to forecast revenues and operating requirements. The District has projected a schedule of rate increases designed to generate sufficient revenue to pay off existing and planned future debt issues. See the Policies section of the budget for the District's complete Debt Policy.



The minimum debt coverage ratio is 1.25 in accordance with District bond covenants.

# Schedule of Outstanding Debt

#	Year Incurred	Description	Maturity Date	Original Amount	Outstanding Balance 06/30/11
1	1996	Certificates of Participation (COPs)	September 1, 2026	\$ 15,400,000	\$ 11,300,000
2	2009	General Obligation (GO) Bonds	August 31, 2022	7,780,000	7,260,000
3	2004	Certificates of Participation (COPs)	September 1, 2023	12,270,000	9,245,000
4	1994	State Loan	November 30, 2011	5,000,000	6,000
5	2007	Certificates of Participation (COPs)	September 1, 2036	42,000,000	39,550,000
6	2010	Certificates of Participation Series A (COPs)	September 1, 2024	13,840,000	13,840,000
7	2010	Build America Bonds Series B (BABs)	September 1, 2040	36,355,000	36,355,000
<b>Total Outstanding Debt</b>				<b>\$ 132,645,000</b>	<b>\$ 117,556,000</b>

	All Debts	GO Bonds
Total Assessed Valuation - FY 2012	\$ 23,519,177,848	\$ 10,161,791,890
Percentage of Original Debt to Assessed Valuation	0.56%	0.08%
Debt Limit per District Debt Policy (% of Assessed Valuation)	15.00%	15.00%

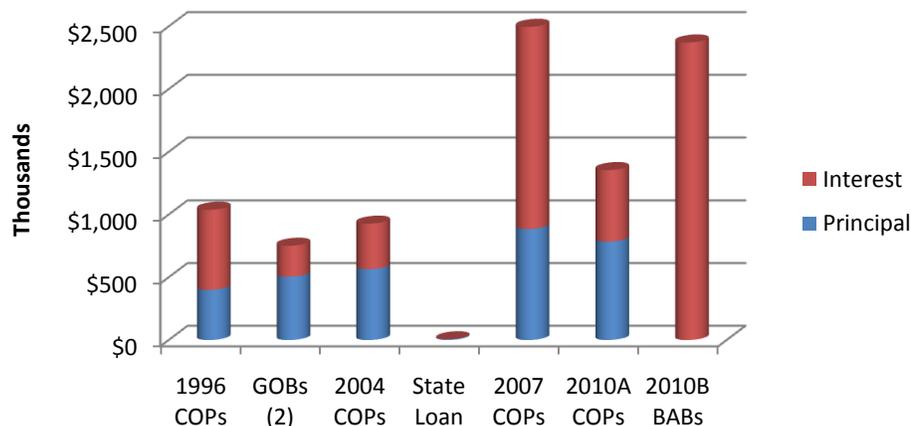
Note: The accounting for debt proceeds and payments is described in the District's Reserve Policy found on pages 188-218.



## *Projected Principal Payments by Debt Issuance*

FY	1996 COPs	GOBs <sup>(2)</sup>	2004 COPs	State Loan	2007 COPs	2010A COPs	2010B BABs	Total
2012	400,000	505,000	565,000	6,000	885,000	785,000	-	3,146,000
2013	500,000	520,000	580,000	-	920,000	800,000	-	3,320,000
2014	500,000	535,000	600,000	-	955,000	820,000	-	3,410,000
2015	500,000	550,000	625,000	-	995,000	845,000	-	3,515,000
2016	600,000	570,000	650,000	-	1,035,000	870,000	-	3,725,000
2017	600,000	585,000	675,000	-	1,075,000	900,000	-	3,835,000
2018	600,000	605,000	700,000	-	1,115,000	940,000	-	3,960,000
2019	700,000	635,000	725,000	-	1,155,000	975,000	-	4,190,000
2020	700,000	650,000	755,000	-	1,200,000	1,015,000	-	4,320,000
2021	700,000	680,000	790,000	-	1,250,000	1,065,000	-	4,485,000
2022	800,000	705,000	825,000	-	1,300,000	1,120,000	-	4,750,000
2023	800,000	720,000	860,000	-	1,355,000	1,175,000	-	4,910,000
2024	900,000	-	895,000	-	1,410,000	1,235,000	-	4,440,000
2025	900,000	-	-	-	1,470,000	1,295,000	-	3,665,000
2026	1,000,000	-	-	-	1,530,000	-	1,365,000	3,895,000
2027	1,100,000	-	-	-	1,595,000	-	1,450,000	4,145,000
2028	-	-	-	-	1,665,000	-	1,545,000	3,210,000
2029	-	-	-	-	1,735,000	-	1,640,000	3,375,000
2030	-	-	-	-	1,810,000	-	1,745,000	3,555,000
2031	-	-	-	-	1,890,000	-	1,855,000	3,745,000
2032	-	-	-	-	1,970,000	-	1,975,000	3,945,000
2033	-	-	-	-	2,055,000	-	2,105,000	4,160,000
2034	-	-	-	-	2,150,000	-	2,245,000	4,395,000
2035	-	-	-	-	2,245,000	-	2,390,000	4,635,000
2036	-	-	-	-	2,340,000	-	2,550,000	4,890,000
2037	-	-	-	-	2,445,000	-	2,715,000	5,160,000
2038	-	-	-	-	-	-	2,895,000	2,895,000
2039	-	-	-	-	-	-	3,085,000	3,085,000
2040	-	-	-	-	-	-	3,290,000	3,290,000
2041	-	-	-	-	-	-	3,505,000	3,505,000
<b>TOTAL</b>	<b>\$ 11,300,000</b>	<b>\$ 7,260,000</b>	<b>\$ 9,245,000</b>	<b>\$ 6,000</b>	<b>\$ 39,550,000</b>	<b>\$ 13,840,000</b>	<b>\$ 36,355,000</b>	<b>\$ 117,556,000</b>

**FY 2012 Principal and Interest**



## *Projected Interest Payments by Debt Issuance*

<b>FY</b>	<b>1996 COPs <sup>(1)</sup></b>	<b>GOBs <sup>(2)</sup></b>	<b>2004 COPs</b>	<b>State Loan</b>	<b>2007 COPs</b>	<b>2010A COPs</b>	<b>2010B BABs</b>	<b>Total</b>
2012	638,200	246,588	362,500	-	1,611,800	569,688	2,371,868	5,800,643
2013	621,600	231,063	343,000	-	1,577,500	553,838	2,371,868	5,698,868
2014	602,900	215,088	321,700	-	1,541,900	533,538	2,371,868	5,586,993
2015	572,700	198,663	298,600	-	1,504,900	508,563	2,371,868	5,455,293
2016	537,500	181,663	273,500	-	1,466,300	478,488	2,371,868	5,309,318
2017	501,200	162,969	246,800	-	1,425,800	443,088	2,371,868	5,151,725
2018	465,000	139,633	219,000	-	1,383,700	406,288	2,371,868	4,985,489
2019	465,000	114,433	188,900	-	1,339,300	367,988	2,371,868	4,847,489
2020	423,700	88,533	157,100	-	1,292,900	323,113	2,371,868	4,657,214
2021	339,200	61,533	123,000	-	1,243,400	271,113	2,371,868	4,410,114
2022	291,900	33,500	86,300	-	1,191,700	216,488	2,371,868	4,191,756
2023	243,600	4,800	47,800	-	1,136,800	159,113	2,371,868	3,963,981
2024	190,200	-	6,900	-	1,079,300	98,863	2,371,868	3,747,131
2025	135,900	-	-	-	1,019,200	33,994	2,371,868	3,560,962
2026	76,500	-	-	-	955,500	-	2,328,345	3,360,345
2027	11,100	-	-	-	955,500	-	2,238,589	3,205,189
2028	-	-	-	-	818,000	-	2,143,093	2,961,093
2029	-	-	-	-	744,800	-	2,041,540	2,786,340
2030	-	-	-	-	668,400	-	1,933,609	2,602,009
2031	-	-	-	-	588,600	-	1,818,823	2,407,423
2032	-	-	-	-	505,500	-	1,694,728	2,200,228
2033	-	-	-	-	416,600	-	1,560,558	1,977,158
2034	-	-	-	-	323,200	-	1,417,508	1,740,708
2035	-	-	-	-	225,700	-	1,265,086	1,490,786
2036	-	-	-	-	124,000	-	1,102,634	1,226,634
2037	-	-	-	-	17,800	-	929,495	947,295
2038	-	-	-	-	-	-	745,010	745,010
2039	-	-	-	-	-	-	548,357	548,357
2040	-	-	-	-	-	-	338,716	338,716
2041	-	-	-	-	-	-	115,262	115,262
<b>TOTAL</b>	<b>\$ 6,116,200</b>	<b>\$ 1,678,465</b>	<b>\$ 2,675,100</b>	<b>\$ -</b>	<b>\$ 25,158,100</b>	<b>\$ 4,964,156</b>	<b>\$ 55,427,510</b>	<b>\$ 96,019,531</b>

<sup>(1)</sup> Interest on the 1996 Certificates of Participation is variable and is projected using an interest rate of 5.8%

<sup>(2)</sup> The GO Bonds were refinanced in April of 2009.

*Note: The total projected debt payment of \$8,486,800 for FY 2012 as shown on the Debt Service Expenditure on the Revenues and Expenditures by Type - All Funds Schedule on page 45 is less than the projected principal payment of \$3,146,000 shown on page 51, plus the interest payment of \$5,800,643 shown above, by \$459,843 due to the difference of the stated rate of 5.8% and the actual rate the district is currently paying. The difference in rate results in a variance of \$418,900 on the 1996 COPs. The remaining variance of \$40,943 is miscellaneous administrative fees not shown on the principal and interest schedules.*

## Potable Revenues and Expenses

The District will provide water service to approximately 48,371 potable customers by the end of Fiscal Year 2012. Ninety-two percent of the potable customers are residential and the remaining eight percent are comprised of: master-metered, publicly owned, commercial, agricultural, landscaping, and construction. Although the extensive residential developments have slowed down in recent years, the District still expects nominal growth of 0.5% for Fiscal Year 2012. Unit sales are anticipated to decrease 0.3% from the previous year's budget due to the mild weather patterns and the overall economic slowdown.

Water rates vary among the customer classifications. The water rates for all customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged on the higher units.

Unit sales represent approximately 63% of the water sales budget. Other revenue sources include: system charges, energy charges, penalties, and other pass-through charges from the San Diego County Water Authority (CWA) and the Metropolitan Water District (MWD).

All customers are required to pay fixed monthly fees of the MWD and CWA fixed charge and the District system fee, based on meter size. These fees recover 32% of the potable water sales revenue. Water rates, energy fees, and penalties recover the remaining 68% of remaining revenues necessary to fund operations. (Note: when potable and recycled revenues are combined the fixed fees do not exceed 30% of the total revenues.) The District adjusts the system fee, as needed, to balance fixed costs with fixed revenues following industry best practice.

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 associated with pumping. This charge increases based on a review of these costs to ensure that sufficient revenue is collected to offset 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 CWA which purchases water from MWD and IID. Any increase in costs by CWA, MWD, or IID impacts the District's water purchases and directly affects the District's fees, rates, and service charges.



## *Potable Revenues and Expenses*

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The District entered into an agreement with CWA to have the Helix Water District, at their Levy Water Treatment Plant, treat imported untreated water on behalf of the Otay Water District. This action brought regional water treatment closer to customers and reduced dependence on water treatment facilities located outside of San Diego County.

In Fiscal Year 2012, the District is estimating the purchase of 30,438 acre-feet of potable water, well below the allocation set by CWA and sufficient to meet the demands of its customers. Provisions have been made for District usage, leakage, and evaporation in the amount of 1,486 acre-feet.

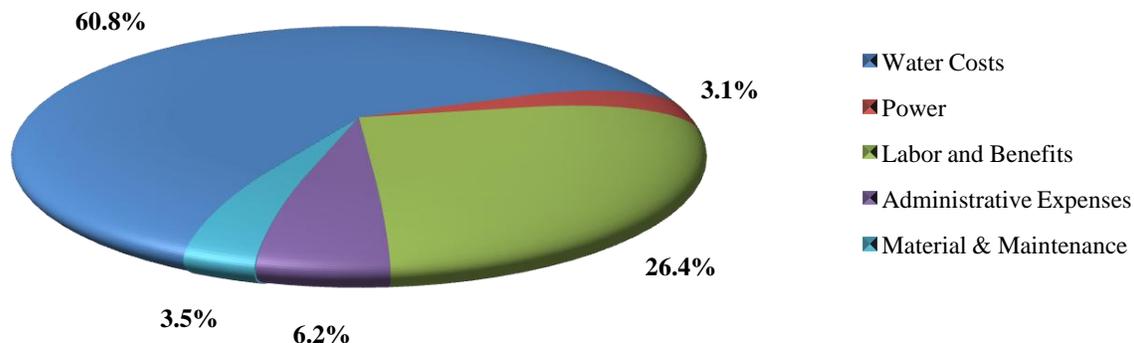


Colorado River

# Operating Budget Summary - Potable

	FY 2010	FY 2011		FY 2012	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<b>REVENUES</b>						
Water Sales	\$49,587,223	\$56,333,900	\$ 51,507,858	\$57,908,800	\$ 1,574,900	2.8%
Meter Fees	86,278	40,200	84,935	79,700	39,500	98.3%
Capacity Fee Revenues	1,030,467	1,095,300	970,353	841,200	(254,100)	(23.2%)
Betterment Fees for Maintenance	575,721	657,400	560,229	628,600	(28,800)	(4.4%)
Annexation Fees	555,751	-	-	-	-	0.0%
Tax Revenues	3,627,302	3,792,500	3,524,451	3,788,100	(4,400)	(0.1%)
Non-operating Revenues	2,517,169	1,919,200	2,065,126	1,991,000	71,800	3.7%
Interest	191,479	256,700	95,496	138,800	(117,900)	(45.9%)
Transfer from OPEB	1,030,000	1,220,000	1,220,000	1,380,000	160,000	13.1%
General Fund Draw Down	-	662,800	662,800	-	(662,800)	(100.0%)
<b>TOTAL REVENUES</b>	<b>59,201,390</b>	<b>65,978,000</b>	<b>60,691,248</b>	<b>66,756,200</b>	<b>778,200</b>	<b>1.2%</b>
<b>EXPENDITURES</b>						
Water Purchases	24,530,567	26,238,700	25,323,291	27,793,100	1,554,400	5.9%
CWA - Infrastructure Access Charge	1,344,828	1,550,700	1,550,466	1,756,900	206,200	13.3%
CWA - Customer Service Charge	1,128,306	1,315,200	1,315,224	1,562,600	247,400	18.8%
CWA - Emergency Storage Charge	2,196,876	2,875,200	2,884,050	3,585,800	710,600	24.7%
MWD - Capacity Reservation Charge	637,884	665,100	660,282	603,900	(61,200)	(9.2%)
MWD - Net RTS and Standby Charges	952,226	1,232,400	1,232,240	1,488,600	256,200	20.8%
Subtotal - Water Costs	30,790,687	33,877,300	32,965,553	36,790,900	2,913,600	8.6%
Power	1,800,424	1,915,900	1,626,979	1,848,300	(67,600)	(3.5%)
Labor and Benefits	14,967,014	14,951,000	15,429,185	15,946,400	995,400	6.7%
Administrative Expenses	3,927,558	4,597,200	3,881,648	3,775,600	(821,600)	(17.9%)
Material & Maintenance	1,964,043	2,046,600	1,757,770	2,144,500	97,900	4.8%
Betterment Reserve	3,700,000	-	-	-	-	0.0%
Replacement Reserve	2,710,000	6,245,000	6,245,000	-	(6,245,000)	(100.0%)
Transfer to Potable General Fund	13,500	-	-	2,420,500	2,420,500	100.0%
Transfer to Sewer General Fund	200,000	595,000	595,000	595,000	-	0.0%
Transfer Out/In Prop 1A	270,300	-	-	-	-	0.0%
Transfer to Sewer Replacement	-	1,750,000	1,750,000	1,720,000	(30,000)	(1.7%)
Transfer to New Supply Reserve	-	-	-	1,515,000	1,515,000	100.0%
<b>TOTAL EXPENDITURES</b>	<b>60,343,526</b>	<b>65,978,000</b>	<b>64,251,135</b>	<b>66,756,200</b>	<b>778,200</b>	<b>1.2%</b>
<b>EXCESS REVENUES (EXPENSES)</b>	<b>\$ (1,142,136)</b>	<b>\$ -</b>	<b>\$ (3,559,887)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>

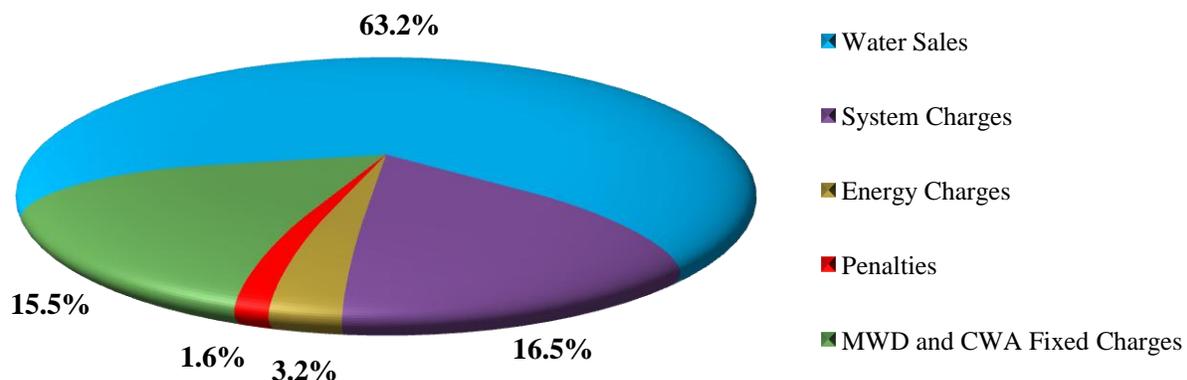
**Potable Operating Expenditures  
FY 2012**



## *Classification of Water Sales - Potable*

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	<b>FY 2011 Estimated</b>	<b>FY 2012 Budget</b>	<b>Variance</b>
Water Sales	\$ 32,236,451	\$ 36,598,100	\$ 4,361,649
System Fees	9,415,229	9,542,100	126,871
Energy Fees	1,693,186	1,874,000	180,814
MWD and CWA Fixed Fees	7,421,386	8,981,500	1,560,114
Penalties	665,931	913,100	247,169
<b>Total Water Sales</b>	<b>\$ 51,432,183</b>	<b>\$ 57,908,800</b>	<b>\$ 6,476,617</b>



**Water Rates:** Rates vary among classes of service and are measured in units. On January 1, 2009, the District implemented a tiered rate structure for all customer types to encourage conservation and bring equity among the classes.

**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.

**Energy Fees:** The energy pumping fee is \$ .045 per 100 cubic feet of water for each 100 feet of lift above elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

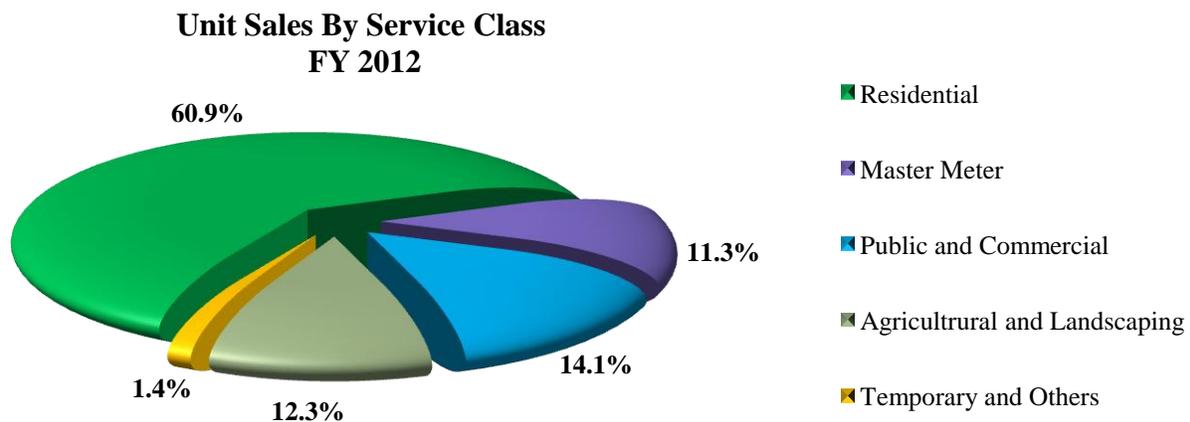
**MWD and CWA Fixed Fees:** These Fixed Charges are based on Meter size. A pass-through charge from CWA to each member agency. The charge is to finance a portion of MWD's and CWA's fixed annual costs including the construction, operation and maintenance of aqueducts and emergency storage projects.

**Penalties:** Charges and penalties are imposed on customer accounts for late payment and returned checks.

## *Water Sales Summary by Service Class - Potable*

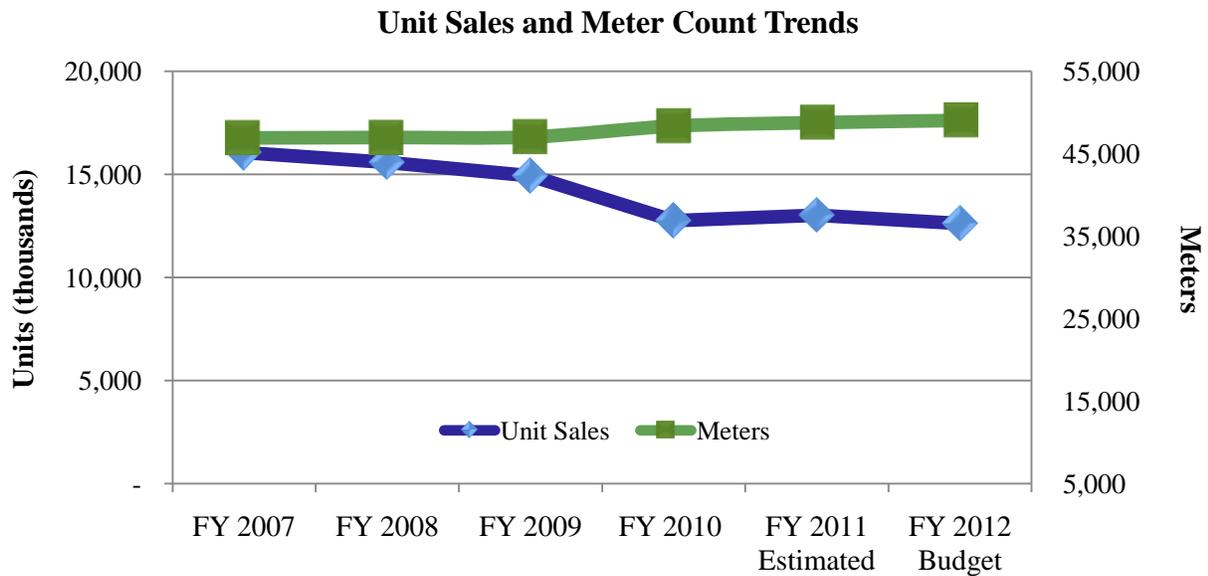
	Water Rates		Fiscal Year 2012 Sales Budget		
	Current	Approved*	Accounts	Units	Amount
<b>Residential</b>					
Lifeline (< 5 hcf)	\$ 1.49	\$ 1.58			
6 - 10	2.31	2.45			
11 - 22	3.00	3.19			
over 23 hcf	4.63	4.92			
Total Residential			44,101	7,684,500	\$ 21,757,000
<b>Master Meter</b>					
0 - 4	2.29	2.43			
5 - 8	2.97	3.15			
over 10 hcf	4.57	4.85			
Total Master Meter			808	1,423,400	4,134,500
<b>Public and Commercial</b>					
Tier I	2.44	2.59			
Tier II	2.50	2.66			
Tier III	2.54	2.70			
Total Public and Commercial			1,441	1,777,400	4,490,800
<b>Agriculture, Landscaping and Constructions</b>					
Tier I	3.32	3.53			
Tier II	3.39	3.60			
Tier III	3.45	3.66			
Total Agriculture, Landscaping and Constructions			1,344	1,726,400	5,895,800
<b>Total</b>			<b>47,694</b>	<b>12,611,700</b>	<b>\$ 36,278,100</b>
<b>Government Fee</b>	0.29	0.293	-	-	320,000
<b>Total Water Sales</b>			<b>47,694</b>	<b>12,611,700</b>	<b>\$ 36,598,100</b>

\*Approved rates for water usage beginning in January 2012



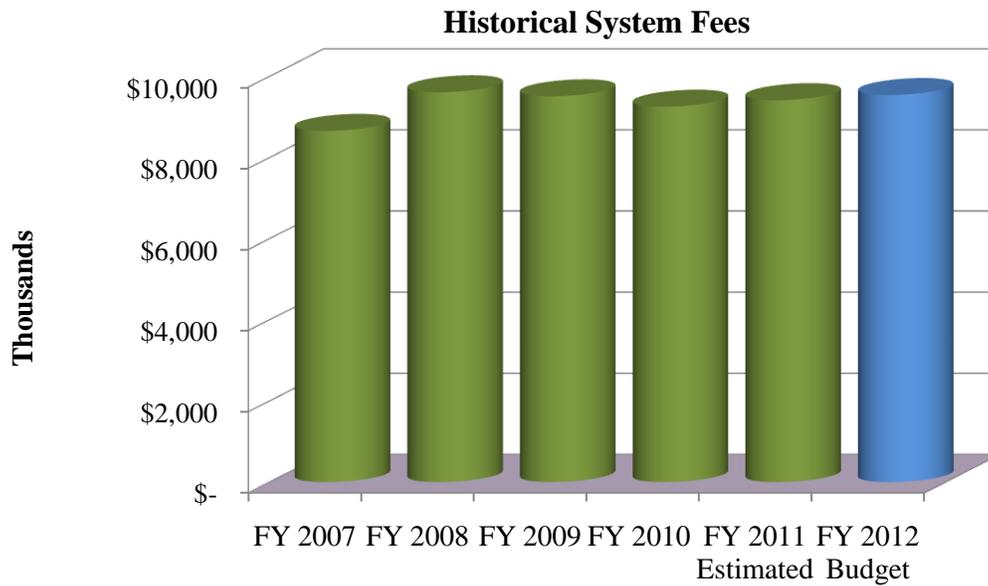
# *Unit Sales History by Customer Class - Potable*

	Actual				Estimated	Budget
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<i>Residential</i>	9,713,112	9,379,544	8,881,191	7,679,494	7,486,069	7,684,500
<i>Master Meters</i>	1,434,040	1,445,634	1,430,235	1,371,244	1,389,616	1,423,400
<i>Public and Commercial</i>	1,886,006	1,869,841	1,938,215	1,798,277	1,771,396	1,777,400
<i>Agricultural and Landscaping</i>	2,329,790	2,306,624	2,183,823	1,644,130	1,537,304	1,548,900
<i>Temporary and Others</i>	696,516	574,026	490,297	254,016	179,472	177,500
<b>Total Unit Sales</b>	<b>16,059,464</b>	<b>15,575,669</b>	<b>14,923,761</b>	<b>12,747,161</b>	<b>12,363,857</b>	<b>12,611,700</b>



# System Fees - Potable

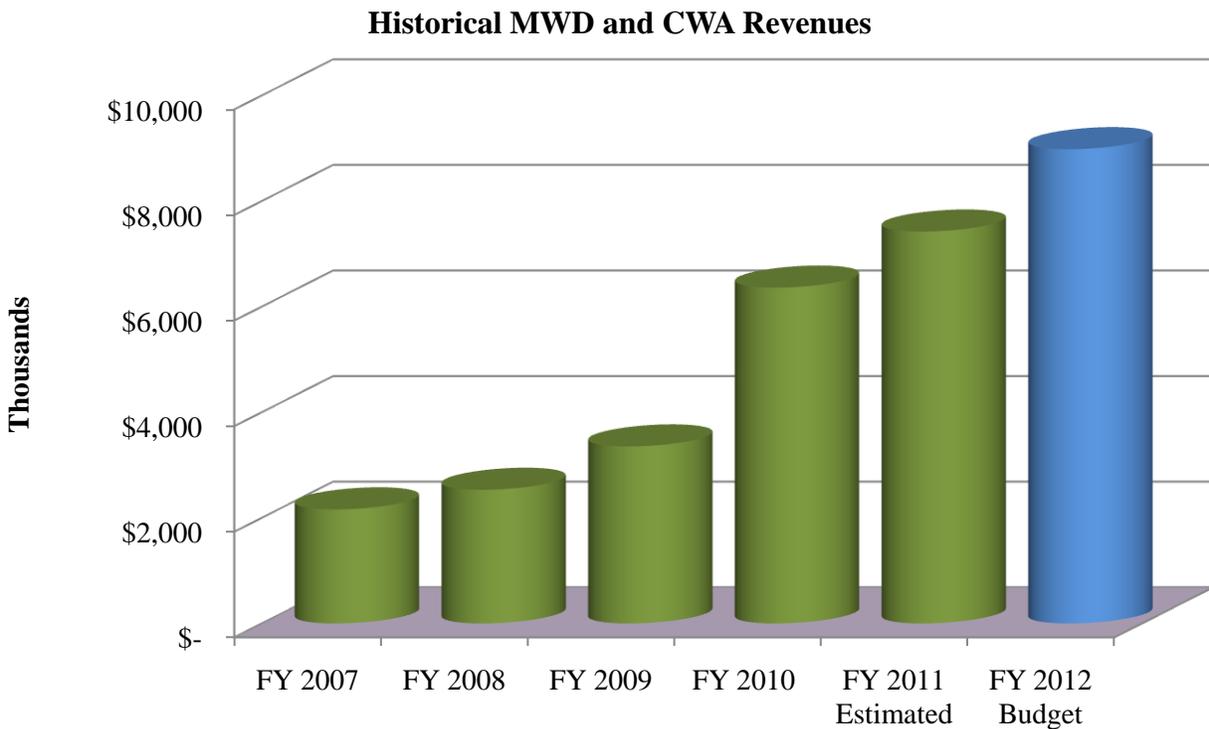
Meter Size	Meter Count		Current Rates	Approved Rates	Budgeted System Fees		
	6/30/2011	FY12 Growth			Existing	Growth	Total
0.75	43,345	250	\$ 14.58	\$ 14.58	\$ 7,583,600	\$ 23,700	\$ 7,607,300
1.00	1,773	10	18.52	18.52	394,000	1,200	395,200
1.50	936	-	28.37	28.37	318,700	-	318,700
2.00	1,085	4	40.18	40.18	523,100	1,000	524,100
3.00	71	6	71.68	71.68	61,100	2,800	63,900
4.00	187	-	107.13	107.13	240,400	-	240,400
6.00	19	-	205.59	205.59	46,900	-	46,900
8.00	2	-	323.73	323.73	7,800	-	7,800
10.00	6	-	461.57	461.57	33,200	-	33,200
Fire Services	677	-	30.11	30.11	244,600	-	244,600
Turn Over Fees			10.00	10.00	60,000	-	60,000
<b>Total</b>	<b>48,101</b>	<b>270</b>			<b>\$ 9,513,400</b>	<b>\$ 28,700</b>	<b>\$ 9,542,100</b>



# *MWD and CWA Fixed Fees (Pass-Through) - Potable*

Meter Size	Meter Count		Current Rates	Approved* Rates	Budgeted MWD & CWA - Fixed Charges		
	6/30/2011	FY12 Growth			Existing	Growth	Total
0.75	43,338	250	\$ 11.82	\$ 14.01	\$ 6,621,600	21,800	\$ 6,643,400
1.00	1,764	10	19.69	23.33	448,900	1,500	450,400
1.50	930	-	39.44	46.74	474,100	-	474,100
2.00	1,083	4	63.07	74.74	882,900	1,900	884,800
3.00	71	6	126.14	149.48	115,800	5,600	121,400
4.00	92	-	197.11	233.58	234,400	-	234,400
6.00	17	-	394.17	467.09	86,600	-	86,600
8.00	2	-	630.71	747.39	16,300	-	16,300
10.00	6	-	903.58	1,070.74	70,100	-	70,100
<b>Total</b>	<b>47,303</b>	<b>270</b>			<b>\$ 8,950,700</b>	<b>\$ 30,800</b>	<b>\$ 8,981,500</b>

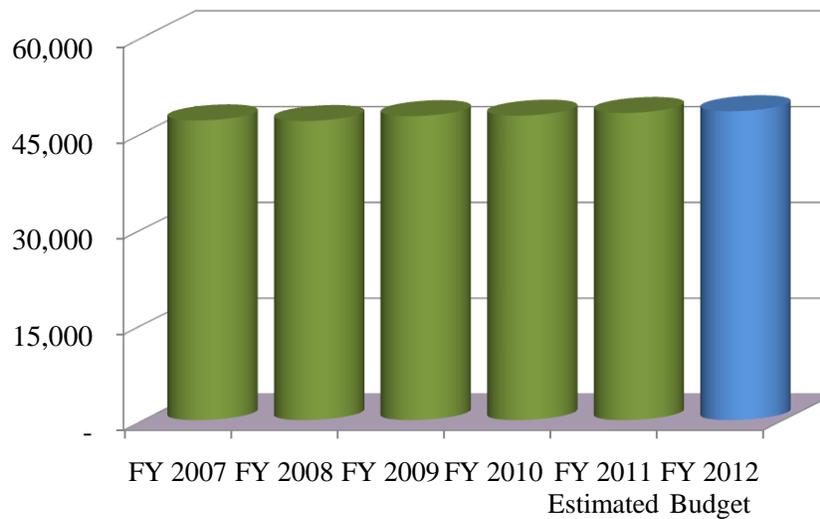
\*Approved rates for water usage beginning in January 2012



# Meter Fees - Potable

Meter Size	Meter Sales	Installation Fee	Meter Fee	AMR Fee	Total Fees	Budgeted Amount
0.75	250	\$ 60.00	\$ 59.00	\$ 147.00	\$ 266.00	\$ 66,500
1.00	10	60.00	117.00	147.00	324.00	3,200
1.50	-	103.00	250.00	147.00	500.00	-
2.00	4	240.00	475.00	147.00	862.00	3,400
3.00	6	300.00	653.00	147.00	1,100.00	6,600
4.00	-	300.00	1,370.00	147.00	1,817.00	-
6.00	-	300.00	2,500.00	147.00	2,947.00	-
10.00	-	300.00	3,737.00	147.00	4,184.00	-
<b>Total</b>	<b>270</b>					<b>\$ 79,700</b>

## Historical Meter Count



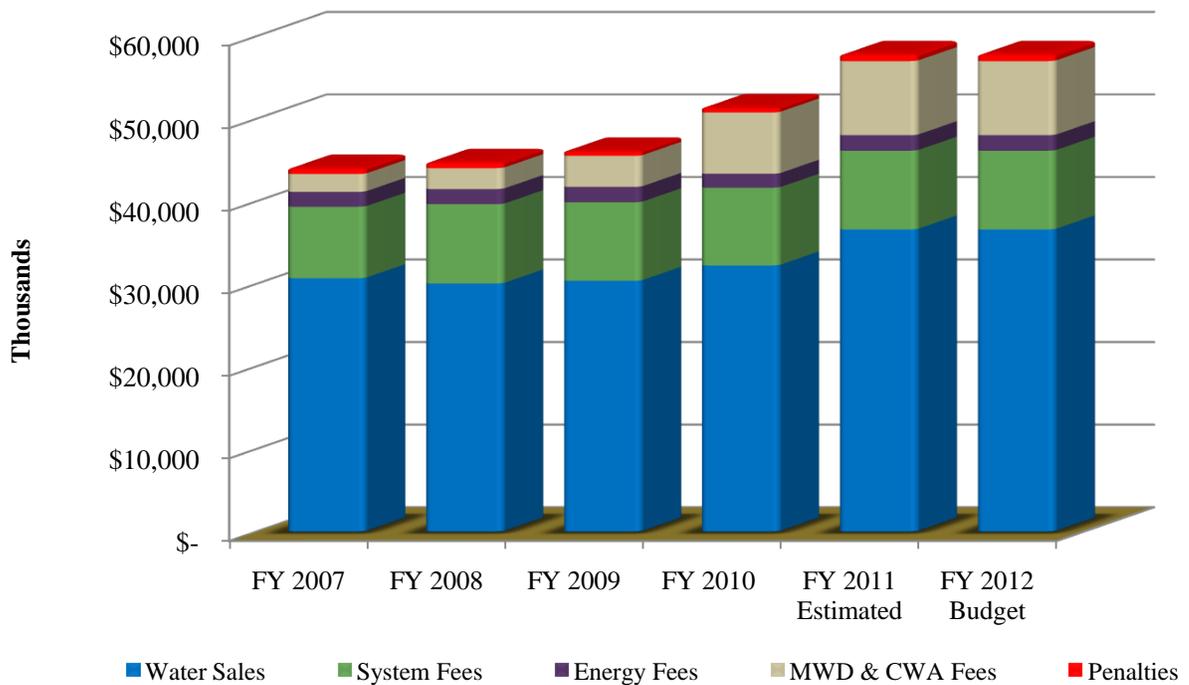
### Meter Fees:

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.

## Revenue History - Potable

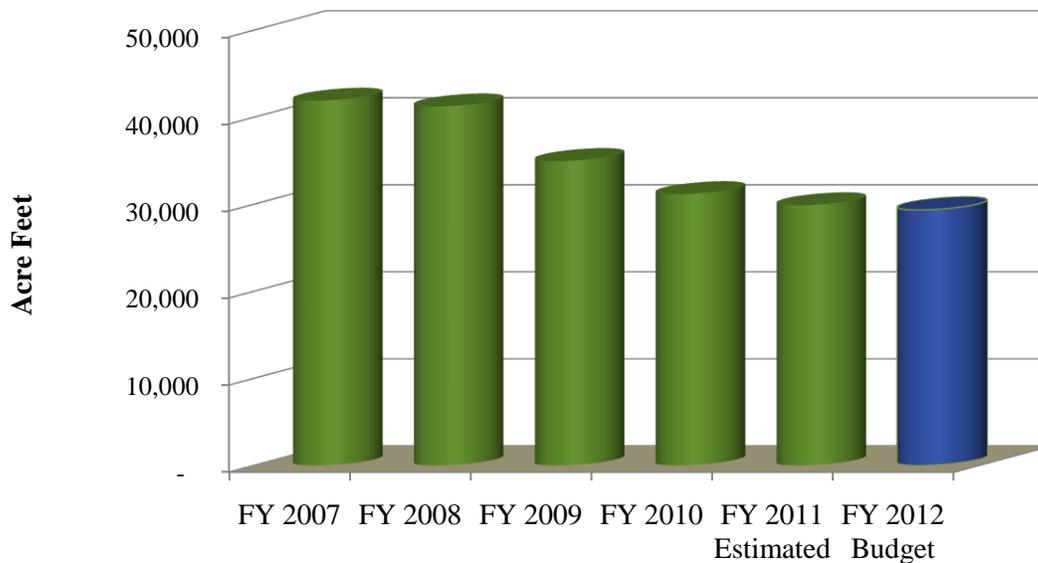
	FY 2007	Actual FY 2008	FY 2009	FY 2010	Estimated FY 2011	Budget FY 2012
Water Sales	\$ 30,696,070	\$ 30,049,415	\$ 30,375,618	\$ 31,326,151	\$ 32,236,451	\$ 36,598,100
System Fees	8,658,339	9,611,046	9,510,996	9,342,732	9,415,229	9,542,100
Energy Fees	1,801,455	1,834,102	1,866,237	1,662,233	1,693,186	1,874,000
MWD and CWA Fixed Fees	2,159,269	2,530,306	3,758,403	6,359,939	7,421,386	8,981,500
Penalties	797,615	779,985	649,683	853,279	665,931	913,100
<b>Total Potable Revenues</b>	<b>\$ 44,112,748</b>	<b>\$ 44,804,854</b>	<b>\$ 46,160,938</b>	<b>\$ 49,544,333</b>	<b>\$ 51,432,183</b>	<b>\$ 57,908,800</b>

Revenue History - Potable



# Water Purchases and Related Costs - Potable

## Historical Potable Water Purchases

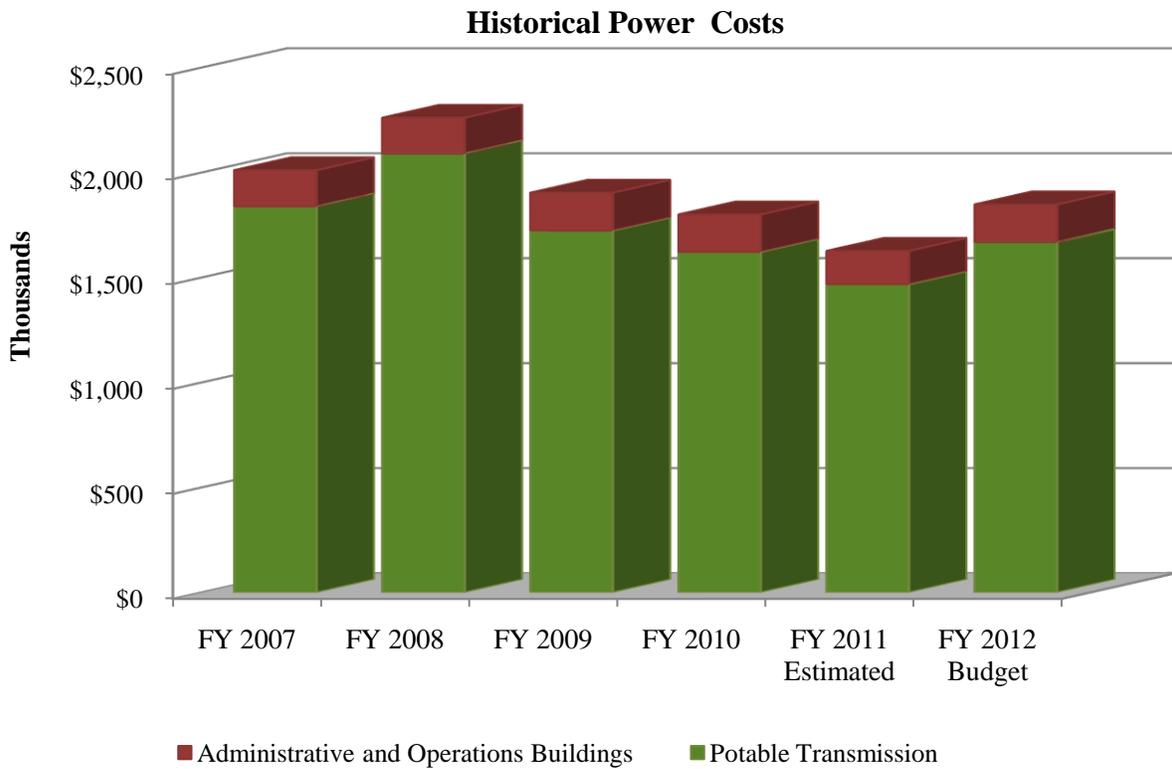


	FY 2011 Estimated Acre Feet	FY 2012 Budget Acre Feet	Rate <sup>(1)</sup>	FY 2011 Estimated Purchase Costs	FY 2012 Budget Purchase Costs
<b>Potable Water Purchases (CWA):</b>					
Budgeted Sales	28,408.0	28,952.2	\$887/\$957	\$ 23,784,133	\$ 26,435,700
District & Unbilled Usage	121.5	116.2	\$887/\$957	101,832	106,700
Water Loss	1,331.3	1,369.7	\$887/\$957	1,183,158	1,250,700
<b>Total Variable Charges</b>	<b>29,860.8</b>	<b>30,438.1</b>		<b>\$ 25,069,123</b>	<b>\$ 27,793,100</b>
<b>MWD and CWA Fixed Charges:</b>					
Infrastructure Access Charge (IAC)				\$ 1,550,466	\$ 1,756,900
Customer Service Charge (CSC)				1,315,224	1,562,600
Emergency Storage Charge (ESC)				2,884,050	3,585,800
Capacity Reservation Charge (CRC)				660,282	603,900
Readiness-to-Serve Charge (RTS)				1,232,240	1,488,600
<b>Total Fixed Charges</b>				<b>\$ 7,642,262</b>	<b>\$ 8,997,800</b>
<b>Total Variable and Fixed Charges</b>				<b>\$ 32,711,385</b>	<b>\$ 36,790,900</b>
<b>Average Cost Per Acre Foot</b>				<b>\$ 1,095</b>	<b>\$ 1,209</b>

(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

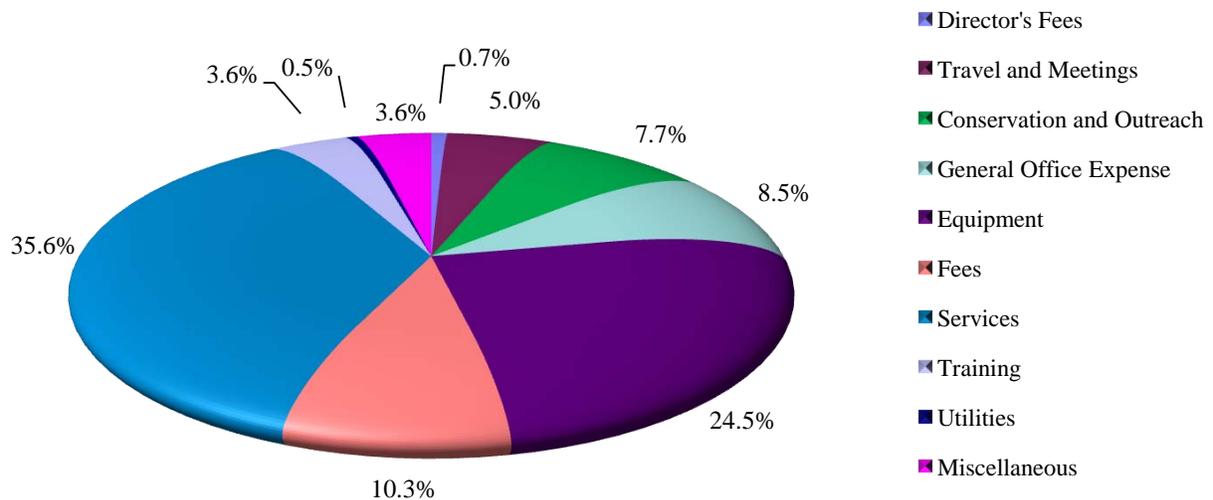
	<b>Administrative and Operations Buildings</b>	<b>Potable Transmission</b>	<b>Total Potable Power Costs</b>
FY07 Actual	\$ 172,646	\$ 1,838,636	\$ 2,011,282
FY08 Actual	170,564	2,090,701	2,261,265
FY09 Actual	179,631	1,724,366	1,903,997
FY10 Actual	177,651	1,622,773	1,800,424
FY11 Estimated	158,657	1,468,322	1,626,979
FY12 Budget	179,100	1,669,200	1,848,300



## *Administrative Expenses - Potable*

	FY 2010 Actual	FY 2011 Budget      Estimated		FY 2012 Budget	Budget Variance	%
Directors' Fees	\$ 15,100	\$ 30,000	\$ 13,700	\$ 30,000	\$ -	0.0%
Travel and Meetings	162,652	221,400	159,708	196,200	(25,200)	(11.4%)
Conservation and Outreach	240,734	479,700	257,007	300,800	(178,900)	(37.3%)
General Office Expense	343,859	368,700	306,469	330,100	(38,600)	(10.5%)
Equipment	1,009,501	1,030,200	1,084,928	955,500	(74,700)	(7.3%)
Fees	439,105	434,100	445,418	400,000	(34,100)	(7.9%)
Services	1,343,641	1,738,300	1,409,581	1,389,100	(349,200)	(20.1%)
Training	126,746	151,800	125,385	140,200	(11,600)	(7.6%)
Utilities	16,514	15,300	18,264	19,000	3,700	24.2%
Miscellaneous	145,110	171,100	130,916	140,000	(31,100)	(18.2%)
<b>Total</b>	<b>3,842,962</b>	<b>4,640,600</b>	<b>3,951,376</b>	<b>3,900,900</b>	<b>(739,700)</b>	<b>(15.9%)</b>
Less: Overhead Allocation	(845,113)	(959,400)	(913,250)	(997,300)	(37,900)	4.0%
<b>Subtotal</b>	<b>2,997,849</b>	<b>3,681,200</b>	<b>3,038,126</b>	<b>2,903,600</b>	<b>(777,600)</b>	<b>(21.1%)</b>
General Expenses	929,708	916,000	843,522	872,000	(44,000)	(4.8%)
<b>Total Administrative Expenses</b>	<b>\$ 3,927,557</b>	<b>\$ 4,597,200</b>	<b>\$ 3,881,648</b>	<b>\$ 3,775,600</b>	<b>\$ (821,600)</b>	<b>(17.9%)</b>

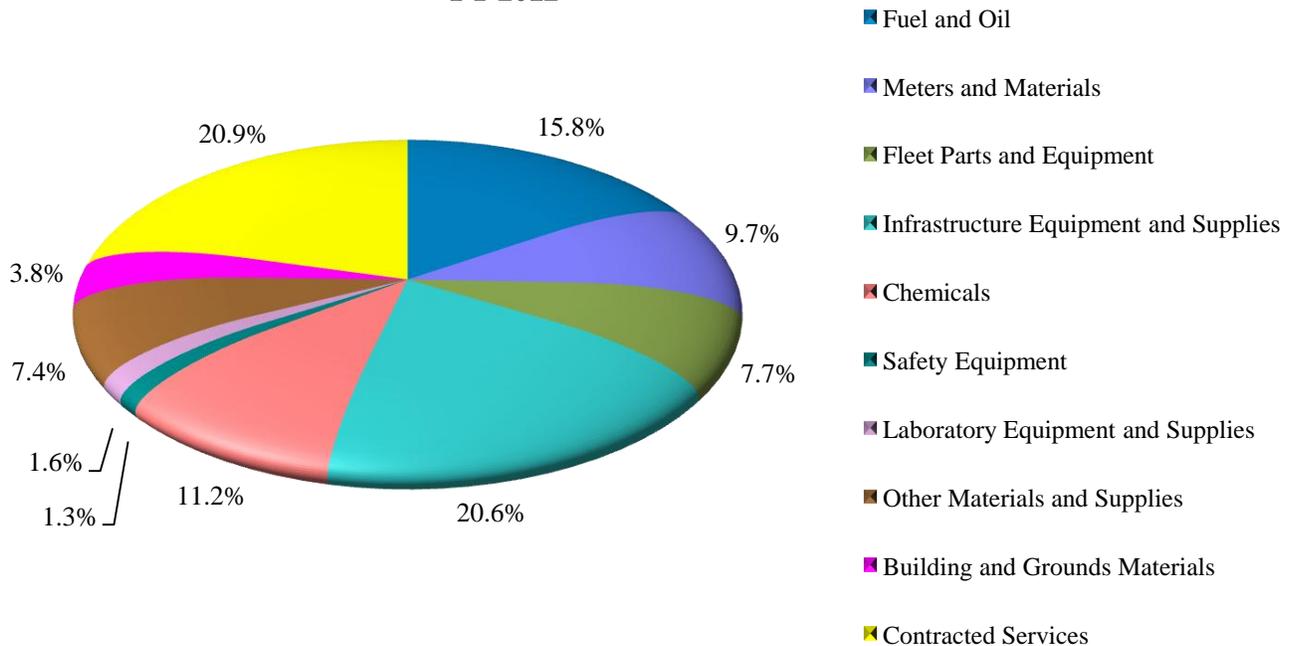
**Administrative Expenses - Potable  
FY 2012**



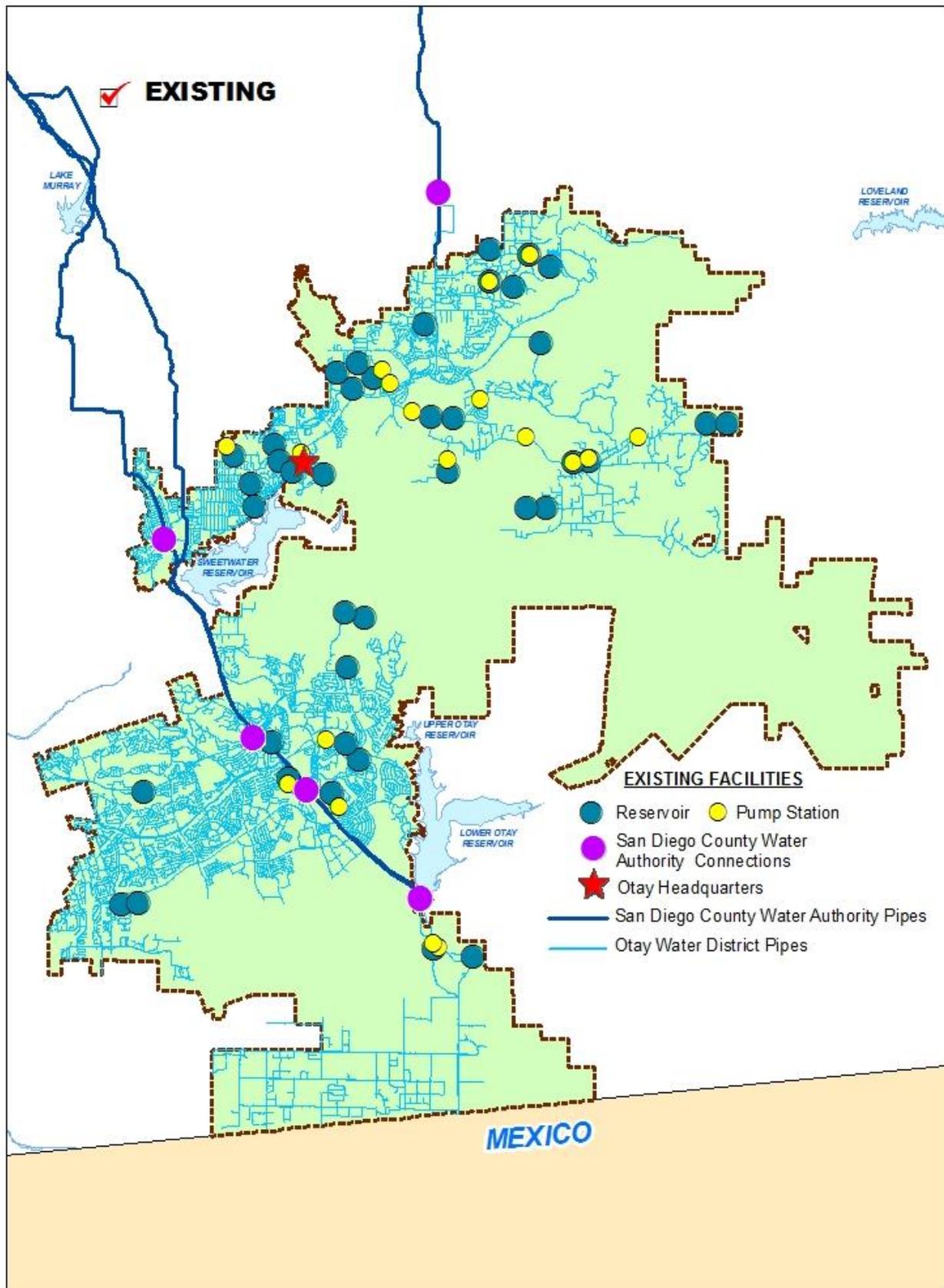
# Materials and Maintenance Expenses - Potable

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	%
Fuel and Oil	\$ 196,421	\$ 231,400	\$ 205,558	\$ 339,900	\$ 108,500	46.9%
Meters and Materials	137,678	213,300	161,546	208,200	(5,100)	(2.4%)
Fleet Parts and Equipment	157,161	165,400	138,074	165,400	-	0.0%
Landscaping Materials	45	-	-	-	-	0.0%
Infrastructure Equipment and Supplies	461,417	452,900	405,264	441,300	(11,600)	(2.6%)
Chemicals	227,708	219,000	224,609	241,000	22,000	10.0%
Safety Equipment	47,001	50,900	41,269	27,500	(23,400)	(46.0%)
Laboratory Equipment and Supplies	35,137	35,000	34,520	35,000	-	0.0%
Other Materials and Supplies	132,885	163,800	150,111	158,200	(5,600)	(3.4%)
Building and Grounds Materials	95,116	76,000	74,032	80,500	4,500	5.9%
Contracted Services	473,474	438,900	322,787	447,500	8,600	2.0%
Materials and Maintenance	1,964,043	2,046,600	1,757,770	2,144,500	97,900	4.8%
<b>Total Materials and Maintenance</b>	<b>\$ 1,964,043</b>	<b>\$ 2,046,600</b>	<b>\$ 1,757,770</b>	<b>\$ 2,144,500</b>	<b>\$ 97,900</b>	<b>4.8%</b>

**Materials and Maintenance Expenses - Potable  
FY 2012**



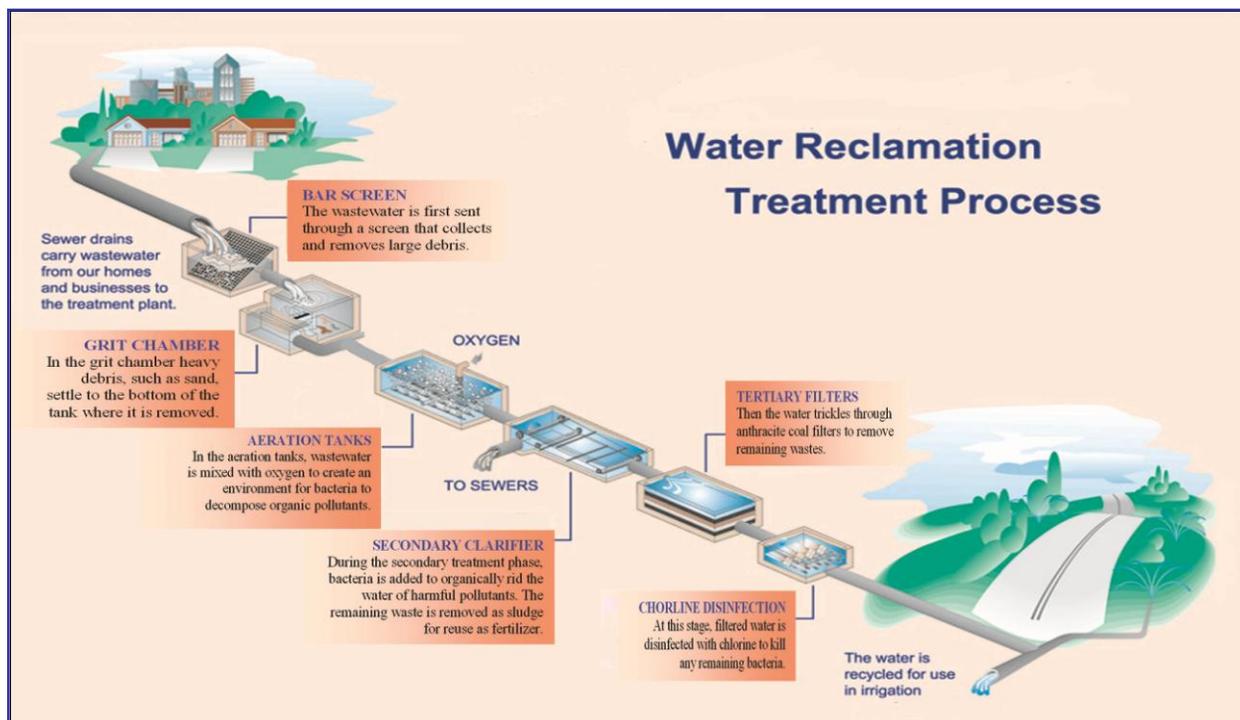
# Potable Water Service Area



# 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 treatment process consists of primary, secondary, and tertiary treatment. The facility'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 bottom and the clear liquid, or secondary

## *Recycled Revenues and Expenses*

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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. Solids, screenings, and sludge are discharged to the City of San Diego Metropolitan Wastewater (Metro) system.

### **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.

The District operates the largest recycled water distribution system in San Diego County and will supply approximately 3,962 acre-feet of recycled water to 695 landscaping and construction customers by the end of Fiscal Year 2012. The recycled water customer base consists primarily of irrigation at golf courses, schools, parks and open space in the Eastlake, Otay Ranch, Rancho Del Rey and other areas of eastern Chula Vista.

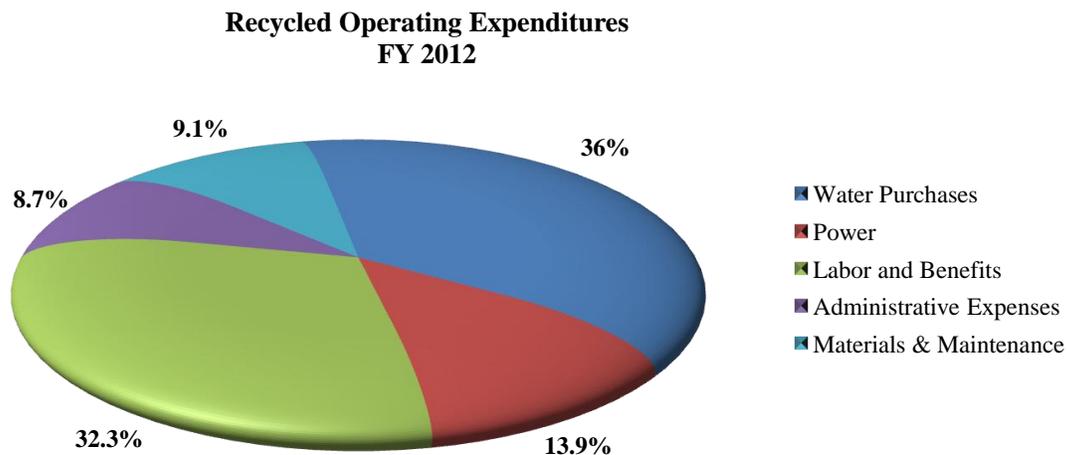
The District entered an agreement with the City of San Diego in October 2003, to purchase up to six million gallons a day of recycled water from their South Bay Water Reclamation Plant. To bring this plan to fruition, the District constructed a 30-inch, six mile pipeline, a 12 million gallon reservoir and a pump station to bring this new source of recycled water into the District’s system. These projects were completed in spring 2007, which eliminates the immediate need for a potable supplement of the recycled system. 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 \$42 million investment in capital outlay results 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.

To increase demand of recycled water and reduce the demands of potable water, the District has begun a capital project to offer incentives to suitable customers to convert potable to recycled water. See page 181 of the Capital Budget to view project R2094. With this program the District hopes to convert 300 acre feet of potable water to recycled, helping the region reduce demands on the potable water system.

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 \$200 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

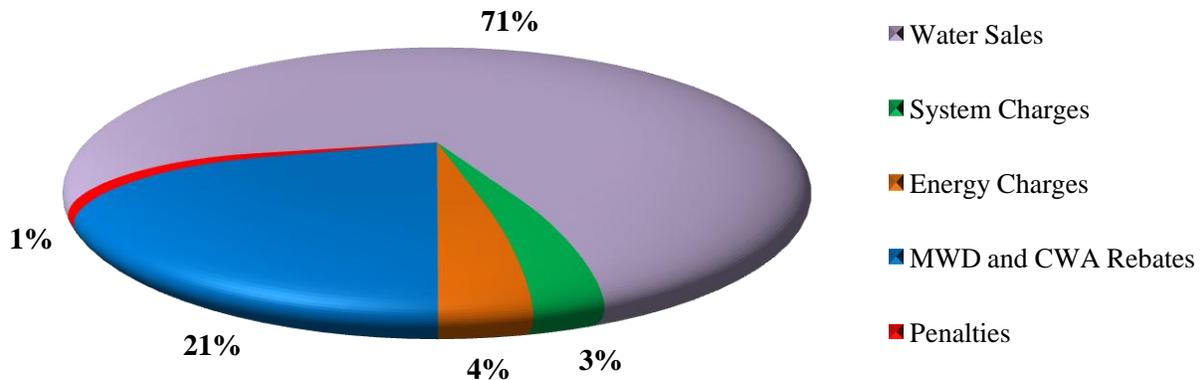
# Operating Budget Summary - Recycled

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	Variance %
<b>REVENUES</b>						
Recycled Water Sales	\$ 4,417,995	\$ 5,257,000	\$ 4,645,719	\$ 5,207,300	(49,700)	(0.9%)
System Fees	261,946	264,500	266,547	239,000	(25,500)	(9.6%)
Energy Fees	266,599	372,900	274,608	302,700	(70,200)	(18.8%)
MWD/CWA Rebates	1,583,801	1,655,500	1,482,019	1,563,100	(92,400)	(5.6%)
Penalties	92,545	70,700	93,146	83,400	12,700	18.0%
Total Recycled Water Sales	<u>6,622,886</u>	<u>7,620,600</u>	<u>6,762,039</u>	<u>7,395,500</u>	<u>(225,100)</u>	<u>(3.0%)</u>
Meter Fees	5,968	10,100	6,217	2,300	(7,800)	(77.2%)
Capacity Fee Revenues	221	-	1,149	-	-	0.0%
Interest	742	12,400	5,162	12,400	-	0.0%
General Fund Draw Down	-	-	-	522,800	522,800	100.0%
<b>TOTAL REVENUES</b>	<b><u>6,629,817</u></b>	<b><u>7,643,100</u></b>	<b><u>6,774,567</u></b>	<b><u>7,933,000</u></b>	<b><u>289,900</u></b>	<b>3.8%</b>
<b>EXPENDITURES</b>						
Water Purchases (CSD) / Meter Fees	1,024,162	1,179,900	1,264,574	1,106,700	(73,200)	(6.2%)
Take-or-pay	-	-	-	346,100	346,100	100.0%
Total Water Purchases	<u>1,024,162</u>	<u>1,179,900</u>	<u>1,264,574</u>	<u>1,452,800</u>	<u>272,900</u>	<u>23.1%</u>
Power	422,780	529,800	462,031	510,800	(19,000)	(3.6%)
Labor and Benefits	1,042,791	1,086,800	1,121,159	1,263,800	177,000	16.3%
Administrative Expenses	282,800	343,100	384,547	351,000	7,900	2.3%
Materials & Maintenance	180,800	303,000	333,289	399,600	96,600	31.9%
Transfer to General Fund Reserve	1,316,500	390,500	390,500	-	(390,500)	(100.0%)
Expansion Reserve	1,610,000	2,775,000	2,775,000	555,000	(2,220,000)	(80.0%)
Betterment Reserve	110,000	315,000	315,000	-	(315,000)	(100.0%)
Replacement Reserve	950,000	720,000	720,000	3,330,000	2,610,000	362.5%
New Supply Reserve	-	-	-	70,000	70,000	-
<b>TOTAL EXPENDITURES</b>	<b><u>6,939,833</u></b>	<b><u>7,643,100</u></b>	<b><u>7,766,100</u></b>	<b><u>7,933,000</u></b>	<b><u>289,900</u></b>	<b>3.8%</b>
<b>EXCESS REVENUES (EXPENSES)</b>	<b><u>\$ (310,016)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (991,533)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b>0.0%</b>



# Classification of Water Sales - Recycled

	FY 2011 Estimated	FY 2012 Budget	Variance
Water Sales	\$ 4,645,719	\$ 5,207,300	\$ 561,581
System Fees	266,547	239,000	(27,547)
Energy Fees	274,608	302,700	28,092
MWD and CWA Rebates	1,482,019	1,563,100	81,081
Penalties	93,146	83,400	(9,746)
<b>Total Recycled Water Sales</b>	<b>\$ 6,762,039</b>	<b>\$ 7,395,500</b>	<b>\$ 633,461</b>



**Water Rates:** Rates vary among classes of service and are measured in units. On January 1, 2009, the District implemented a tiered rate structure for all customer types to encourage conservation and bring equity among the classes.

**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.

**Energy Fees:** The energy pumping fee is \$ .045 per 100 cubic feet of water for each 100 feet of lift above elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

**MWD and CWA Rebates:** Incentive from MWD and CWA for providing recycled water. The District receives \$200 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

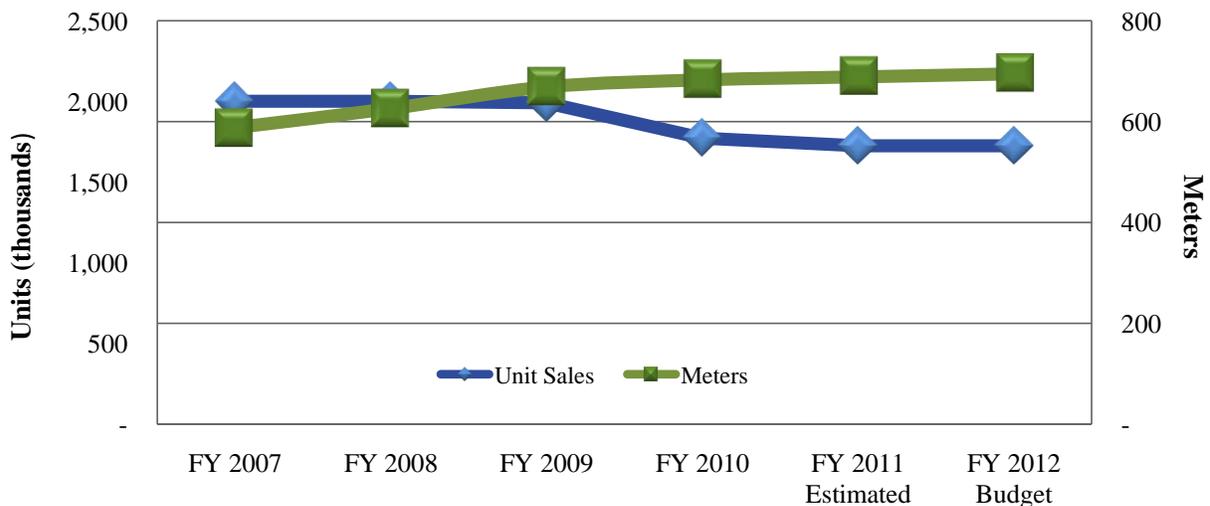
**Penalties:** Charges and penalties are imposed on customer accounts for late payment and returned checks.

# *Water Sales Summary by Service Class - Recycled*

	Water Rates		Fiscal Year 2012 Sales Budget		
	Current	Approved*	Accounts	Units	Amount
<b>Recycled .75" and 1.0" Meter</b>					
Tier I	\$ 2.84	\$ 3.02			
Tier II	2.88	3.06			
Tier III	2.94	3.12			
Total Recycled .75" and 1.0" Meter			99	47,100	\$ 137,200
<b>Recycled 1.5" and 2.0" Meter</b>					
Tier I	2.84	3.02			
Tier II	2.88	3.06			
Tier III	2.94	3.12			
Total Recycled 1.5" and 2.0" Meter			583	1,253,900	3,666,100
<b>Recycled 3.0" and 4.0" Meter</b>					
Tier I	2.84	3.02			
Tier II	2.88	3.06			
Tier III	2.94	3.12			
Total Recycled 3.0" and 4.0" Meter			10	72,700	213,300
<b>Recycled more than 6.0" Meter</b>					
Tier I	2.84	3.02			
Tier II	2.88	3.06			
Tier III	2.94	3.12			
Total Recycled more than 6.0" Meter			3	352,700	1,028,900
<b>Total</b>			695	1,726,400	\$ 5,045,500
<b>Government Fee</b>	0.29	0.293	-	-	161,800
<b>Total Water Sales</b>			695	1,726,400	\$ 5,207,300

\*Approved rates for water usage beginning in January 2012

**Unit Sales and Meter Count Trends**



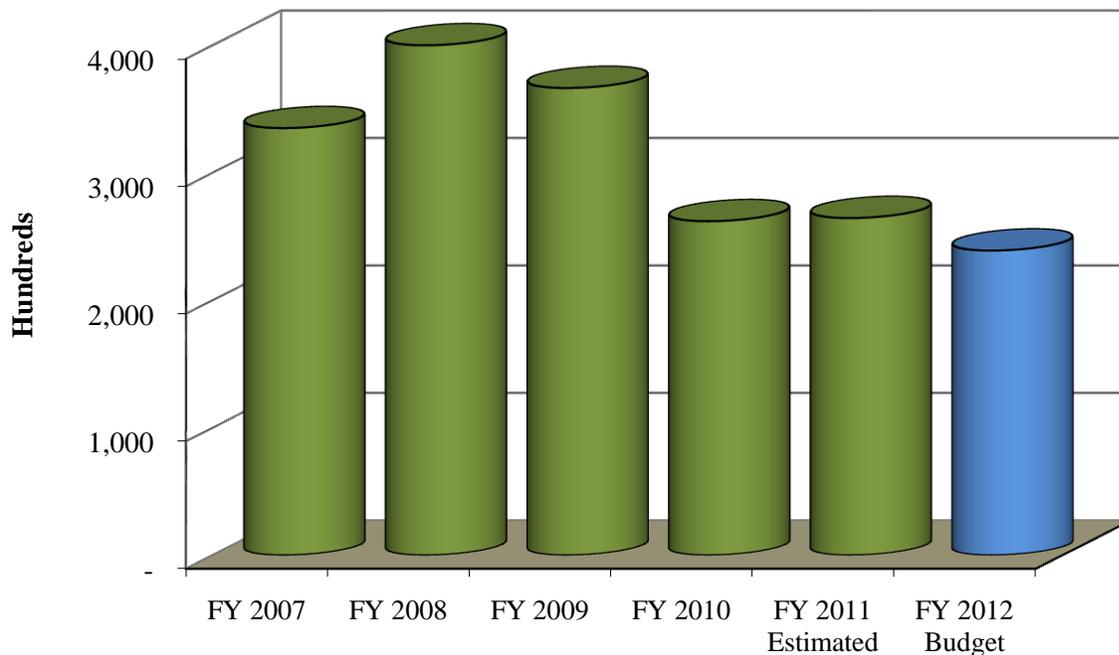
# System Fees - Recycled

Meter Size	Meter Count		Current Rates	Approved Rates	Budgeted System Fees		
	6/30/11	FY12 Growth			Existing	Growth	Total
0.75	-	-	\$ 14.58	\$ 14.58	\$ -	\$ -	\$ -
1.00	95	4	18.52	18.52	21,100	900	22,000
1.50	581	2	28.37	28.37	197,800	700	198,500
2.00	-	-	40.18	40.18	-	-	-
3.00	4	-	71.68	71.68	3,400	-	3,400
4.00	6	-	107.13	107.13	7,700	-	7,700
6.00	3	-	205.59	205.59	7,400	-	7,400
8.00	-	-	323.73	323.73	-	-	-
10.00	-	-	461.57	461.57	-	-	-
<b>Total</b>	<b>689</b>	<b>6</b>			<b>\$ 237,400</b>	<b>\$ 1,600</b>	<b>\$ 239,000</b>

**Budgeted Recycled System Fees**

**\$ 239,000**

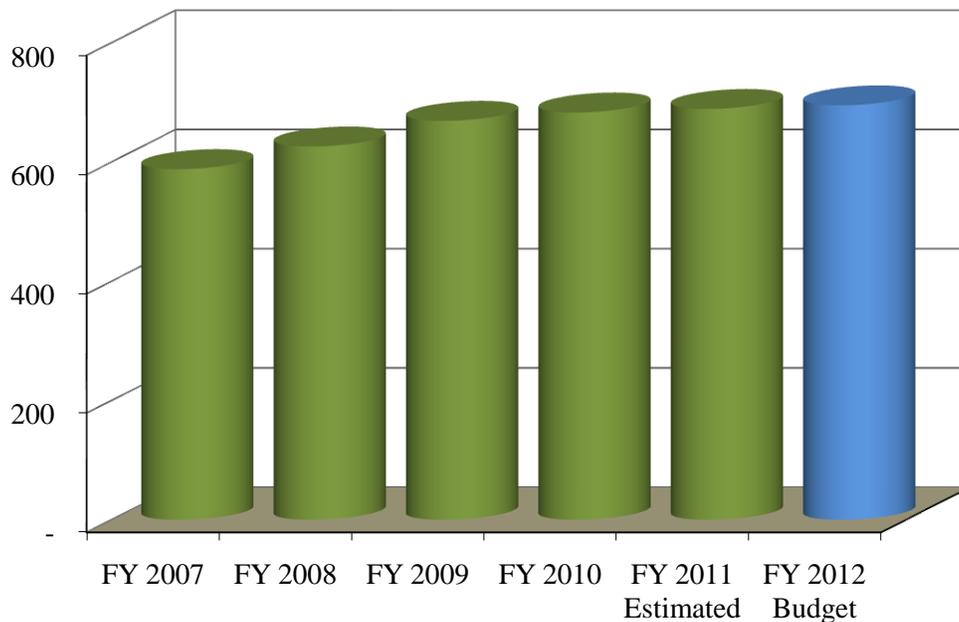
**Historical System Fees**



# Meter Fees - Recycled

Meter Size	Meter Sales	Installation Fee	Meter Fee	AMR Fee	Total Fees	Budgeted Amount
0.75	-	\$ 60.00	\$ 59.00	\$ 147.00	\$ 266.00	-
1.00	4	60.00	117.00	147.00	324.00	\$ 1,300
1.50	2	103.00	250.00	147.00	500.00	1,000
2.00	-	240.00	475.00	147.00	862.00	-
3.00	-	300.00	653.00	147.00	1,100.00	-
4.00	-	300.00	1,370.00	147.00	1,817.00	-
6.00	-	300.00	2,500.00	147.00	2,947.00	-
10.00	-	300.00	3,737.00	147.00	4,184.00	-
<b>Total</b>	<b>6</b>					<b>\$ 2,300</b>

**Historical Meter Count**



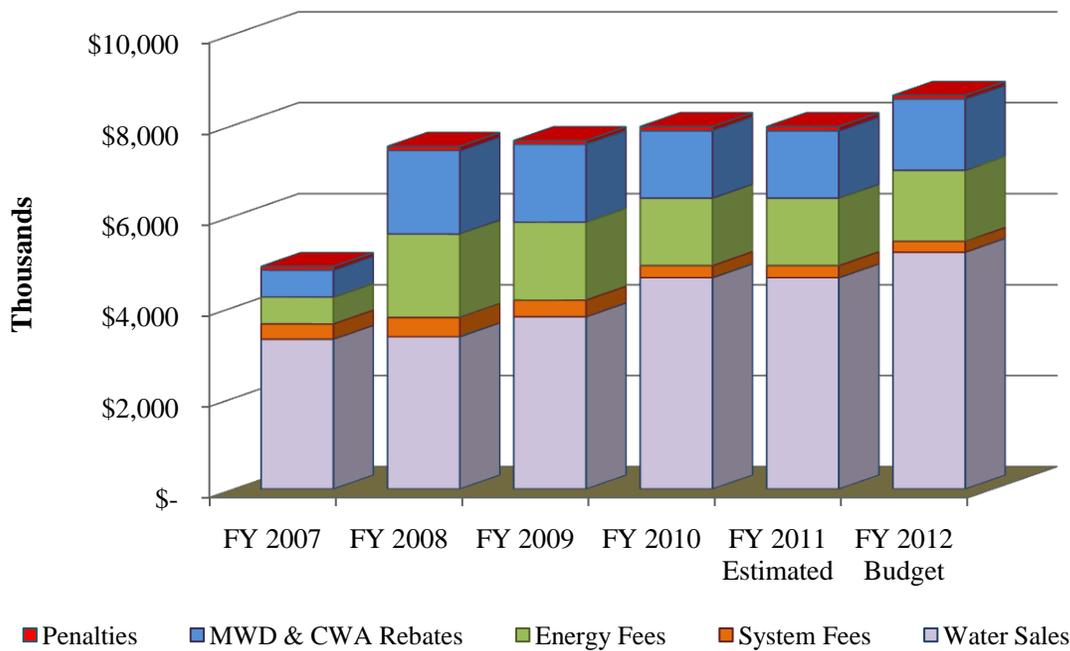
## Meter Fees:

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.

# Revenue History - Recycled

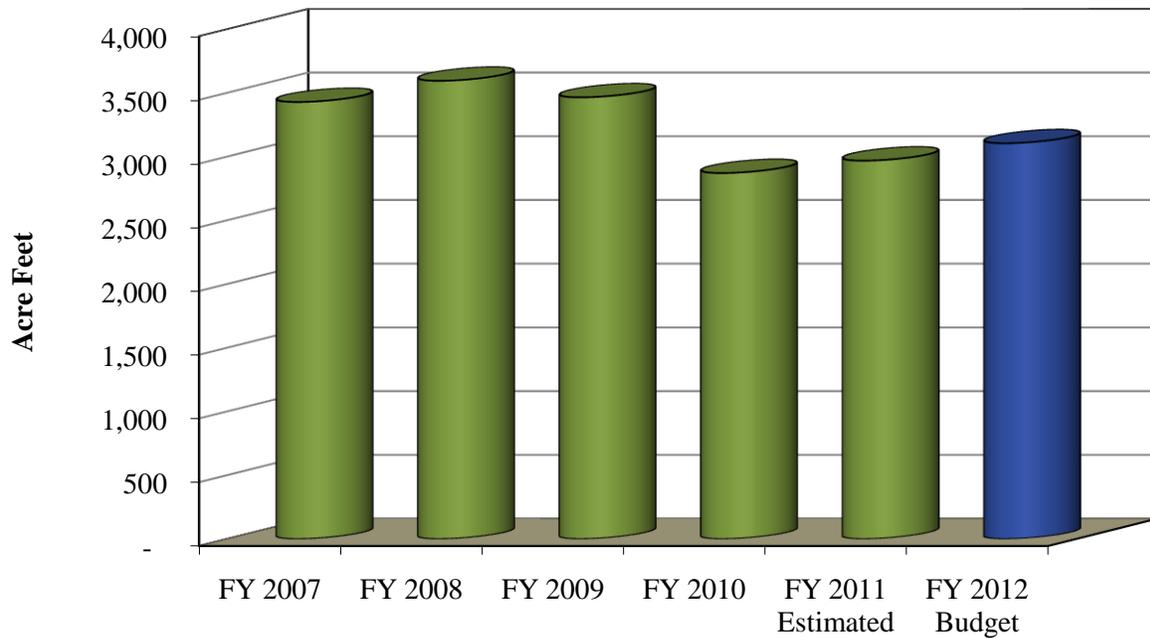
	Actual				Estimated	Budgeted
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Water Sales	\$ 3,294,170	\$ 3,347,964	\$ 3,787,845	\$ 4,417,995	\$ 4,645,719	\$5,207,300
System Fees	335,063	425,061	366,529	261,946	266,547	239,000
Energy Fees	190,570	248,429	288,247	266,599	274,608	302,700
MWD and CWA Rebates	592,056	1,833,949	1,711,787	1,583,801	1,482,019	1,563,100
Penalties	80,998	92,855	83,950	92,545	93,146	83,400
<b>Total Recycled Revenue</b>	<b>\$ 4,492,857</b>	<b>\$ 5,948,258</b>	<b>\$ 6,238,358</b>	<b>\$ 6,622,886</b>	<b>\$ 6,762,039</b>	<b>\$ 7,395,500</b>

Revenue History - Recycled



# Water Purchases - Recycled

## Historical Recycled Water Purchases



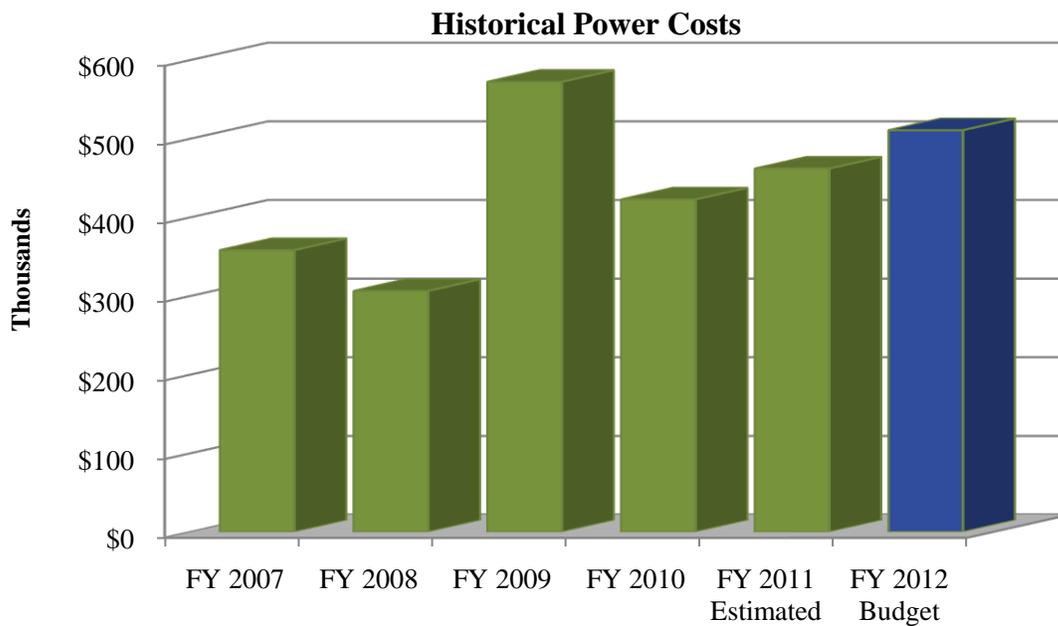
	<u>FY12 Budget</u> <u>Acre Feet</u>	<u>Rate</u>	<u>FY12 Budget</u> <u>Purchase Costs</u>	<u>% of Total</u>
<b>SBWRP Recycled Water Purchases (CSD)</b>				
Recycled Water Purchases	3,105.5	\$ 350.00	\$ 1,086,900	74.8%
Meter Fee	-	1,646.50	19,800	1.4%
Take-or-pay contract <sup>(1)</sup>	-		346,100	23.8%
<b>Total</b>	<u>3,105.5</u>		<u>\$ 1,452,800</u>	<u>100.0%</u>

<sup>(1)</sup> This reflects the contractual requirement to purchase a minimum volume of water. The District does not anticipate meeting the minimum, therefore a payment would be due to the City of San Diego.

# Power Costs - Recycled

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	<b>Treatment and Recycled Transmission</b>
FY07 Actual	\$ 358,359
FY08 Actual	306,480
FY09 Actual	572,331
FY10 Actual	422,780
FY11 Estimated	462,031
FY12 Budget	510,800

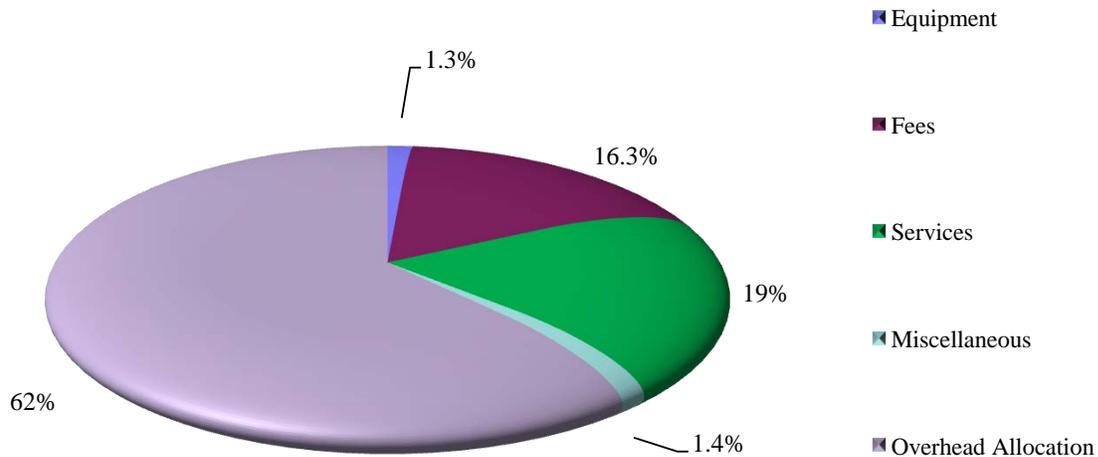


## *Administrative Expenses - Recycled*

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	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	%
Equipment	\$ 3,801	\$ 4,500	\$ 2,057	\$ 4,500	\$ -	0.0%
Fees	36,265	40,400	50,663	57,000	16,600	41.1%
Services	59,353	108,100	77,165	66,800	(41,300)	(38.2%)
Miscellaneous	491	-	59,722	5,000	5,000	100.0%
<b>Total</b>	<b>99,910</b>	<b>153,000</b>	<b>189,607</b>	<b>133,300</b>	<b>(19,700)</b>	<b>(12.9%)</b>
Overhead Allocation	182,890	190,100	194,940	217,700	27,600	14.5%
<b>Total Administrative Expenses</b>	<b>\$ 282,800</b>	<b>\$ 343,100</b>	<b>\$ 384,547</b>	<b>\$ 351,000</b>	<b>\$ 7,900</b>	<b>2.3%</b>

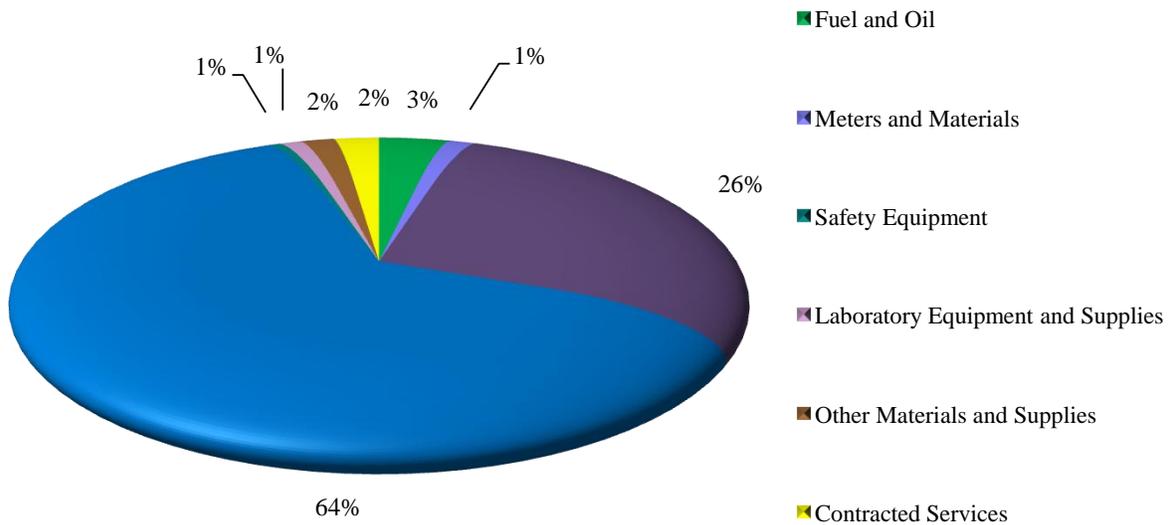
**Administrative Expenses - Recycled  
FY 2012**



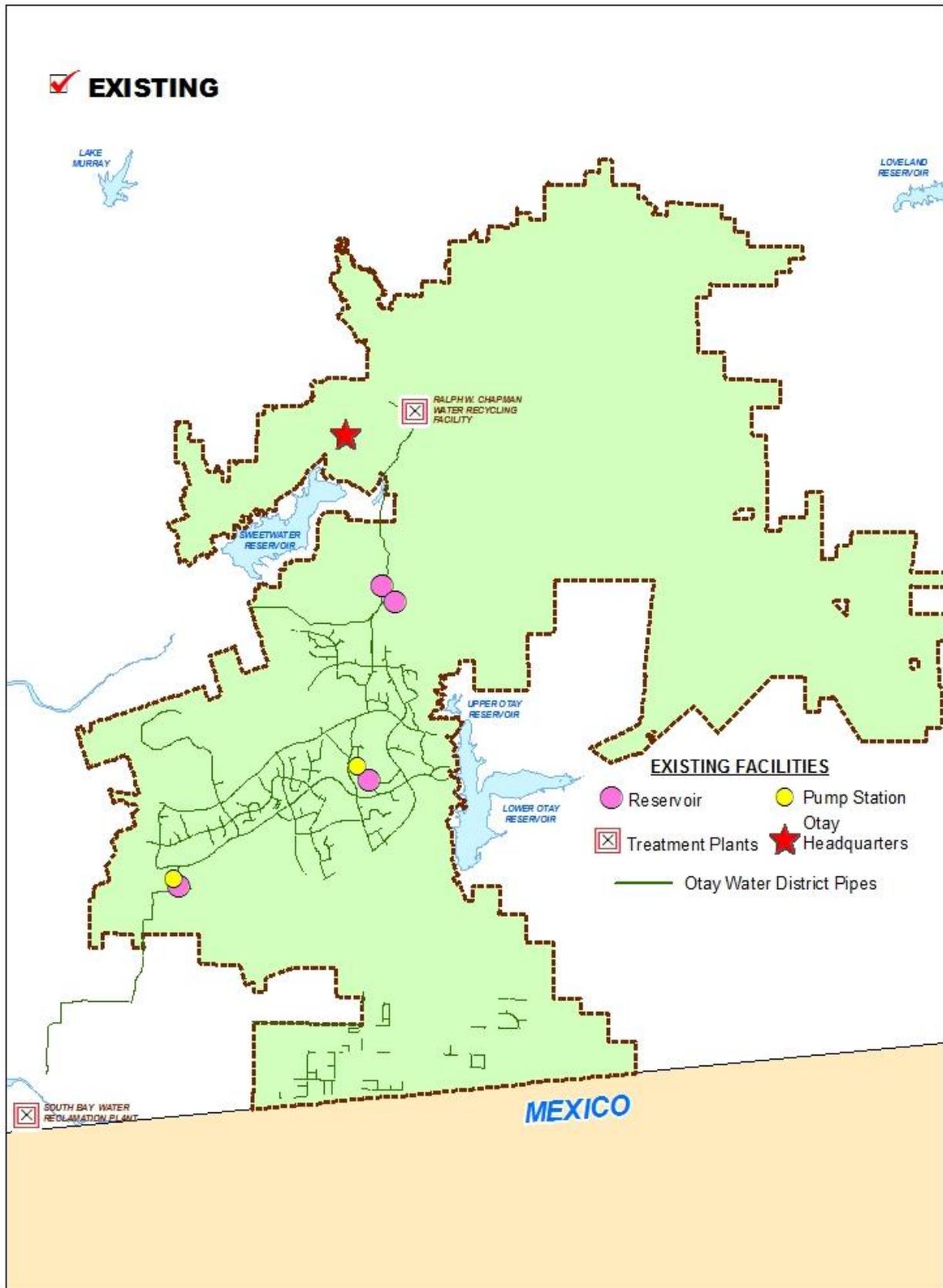
## *Materials and Maintenance Expenses - Recycled*

	FY 2010	FY 2011		FY 2012	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Fuel and Oil	\$ 10,788	\$ 13,300	\$ 12,948	\$ 13,300	\$ -	0.0%
Meters and Materials	10,708	8,800	5,137	4,900	(3,900)	(44.3%)
Infrastructure Equipment and Supplies	72,469	86,500	82,803	104,500	18,000	20.8%
Chemicals	73,786	172,000	214,007	256,000	84,000	48.8%
Safety Equipment	1,358	3,900	6,344	2,100	(1,800)	(46.2%)
Laboratory Equipment and Supplies	6,266	4,000	3,863	4,000	-	0.0%
Other Materials and Supplies	4,474	9,600	4,666	6,300	(3,300)	(34.4%)
Contracted Services	951	4,900	3,522	8,500	3,600	73.5%
<b>Total Materials and Maintenance</b>	<b>\$ 180,800</b>	<b>\$ 303,000</b>	<b>\$ 333,290</b>	<b>\$ 399,600</b>	<b>\$ 96,600</b>	<b>31.9%</b>

**Materials and Maintenance Expenses - Recycled  
FY 2012**



# Recycled Water Service Area



# Sewer Revenues and Expenses

The District provides sewer service to approximately 15,200 customers through 4,646 accounts (or approximately 6,713 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 98.5% of the customer base. Modest growth of 0.6% is anticipated in Fiscal Year 2012.

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 Water Recycling Facility (RWCWRF) treatment plant where the District produces recycled water, see page 68 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 \$1,397,400 for Fiscal Year 2012. Additionally, the District will pay \$239,200 for its share of the operation and maintenance cost of the Rancho San Diego Outfall and the Spring Valley Outfall to transport sewage to Metro for Fiscal Year 2012.

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 unit (EDU). 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: 12.3% of the total service units, while only comprising 1.5% of the customer base. The formula for the sewer rates is shown on page 88.

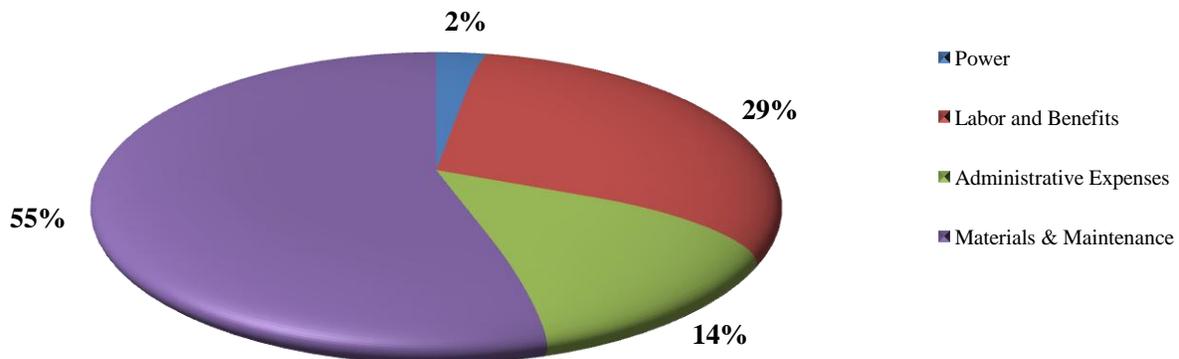
In addition to the monthly sewer fee, sewer customers had been annually assessed \$54 per assigned service unit on their property tax bill. The revenue generated was necessary for the payment of principal and interest on the \$5 million State Loan to modify the RWCWRF. The outstanding balance on the loan is \$6,000 and in Fiscal Year 2012, the debt service will be fully satisfied. After Fiscal Year 2011 the tax assessment will not be collected as the proceeds are no longer necessary to extinguish the debt.



# Operating Budget Summary - Sewer

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	Variance %
<b>REVENUES</b>						
Sewer Charges	\$ 2,311,586	\$ 2,270,500	\$ 2,386,600	\$ 2,336,000	\$ 65,500	2.9%
Capacity Fee Revenues	-	-	91,731	202,800	202,800	100.0%
Non-operating Revenues	27,706	29,100	30,372	30,600	1,500	5.2%
Tax Revenues	51,978	51,400	52,270	51,500	100	0.2%
Interest	22,059	27,200	12,164	7,100	(20,100)	(73.9%)
Transfer from Betterment	-	-	-	30,000	30,000	100.0%
Transfer from Replacement Reserve	-	-	-	120,000	120,000	100.0%
General Fund Draw Down	-	994,600	994,600	-	(994,600)	(100.0%)
Transfer from General Fund	-	-	-	595,000	595,000	100.0%
<b>TOTAL REVENUES</b>	<b>2,413,329</b>	<b>3,372,800</b>	<b>3,567,737</b>	<b>3,373,000</b>	<b>200</b>	<b>0.0%</b>
<b>EXPENDITURES</b>						
Power	84,408	75,000	81,347	81,800	6,800	9.1%
Labor and Benefits	649,417	711,600	737,082	909,400	197,800	27.8%
Administrative Expenses	435,670	641,300	498,773	434,100	(207,200)	(32.3%)
Materials & Maintenance	1,346,652	1,419,900	1,703,561	1,755,900	336,000	23.7%
Betterment Reserve	-	1,120,000	-	-	(1,120,000)	(100.0%)
Transfer to Sewer General Fund	-	(595,000)	(595,000)	191,800	786,800	0.0%
<b>TOTAL EXPENDITURES</b>	<b>2,516,147</b>	<b>3,372,800</b>	<b>2,425,763</b>	<b>3,373,000</b>	<b>200</b>	<b>0.0%</b>
<b>EXCESS REVENUES</b>	<b>\$ (102,818)</b>	<b>\$ -</b>	<b>\$ 1,141,974</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>

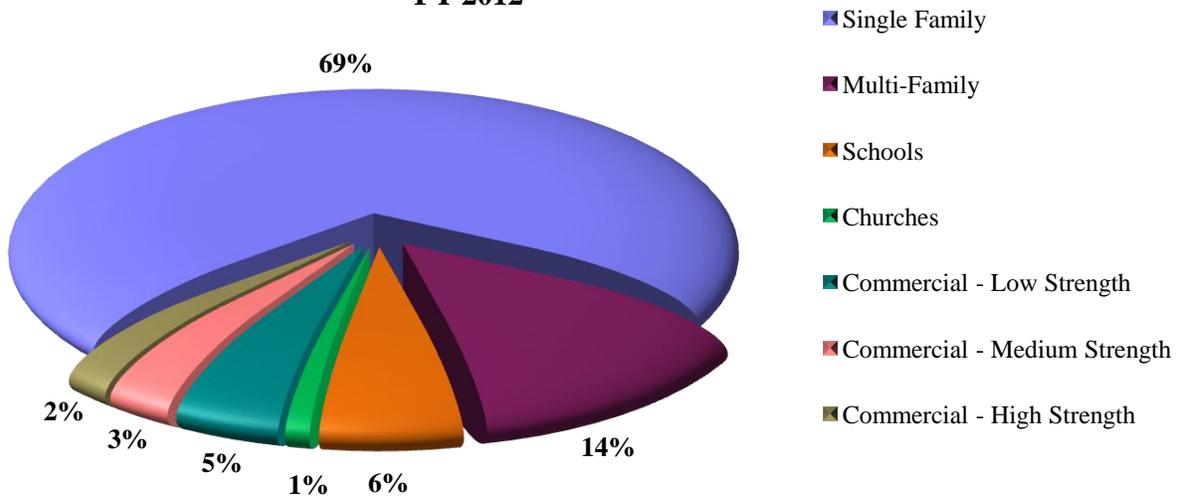
Sewer Operating Expenditures  
FY 2012



# *Sewer Charges Summary by Service Class*

	Accounts	Units/ ASU <sup>(1)</sup>	Base Fee for 3/4" Meter <sup>(2)</sup>		Usage Fee / Sewer Rate		FY 2012 Budget
			Current	Approved <sup>(3)</sup>	Current	Approved <sup>(3)</sup>	
Single Family	4,522	4,522	\$ 11.57	\$ 12.26	\$ 1.67	\$ 1.77	\$ 1,579,600
Multi-Family	50	1,360	11.57	12.26	1.67	1.77	314,900
Schools	6	300			39.39	41.75	146,200
Churches	4	51			39.39	41.75	25,100
Commercial							
Low Strength	38	226			39.39	41.75	110,100
Medium Strength	19	146			39.39	41.75	71,000
High Strength	7	108			39.39	41.75	52,300
Penalties							36,800
<b>TOTAL SEWER CHARGES</b>	<b><u>4,646</u></b>	<b><u>6,713</u></b>					<b><u>\$ 2,336,000</u></b>

**Sewer Charges by Service Class  
FY 2012**



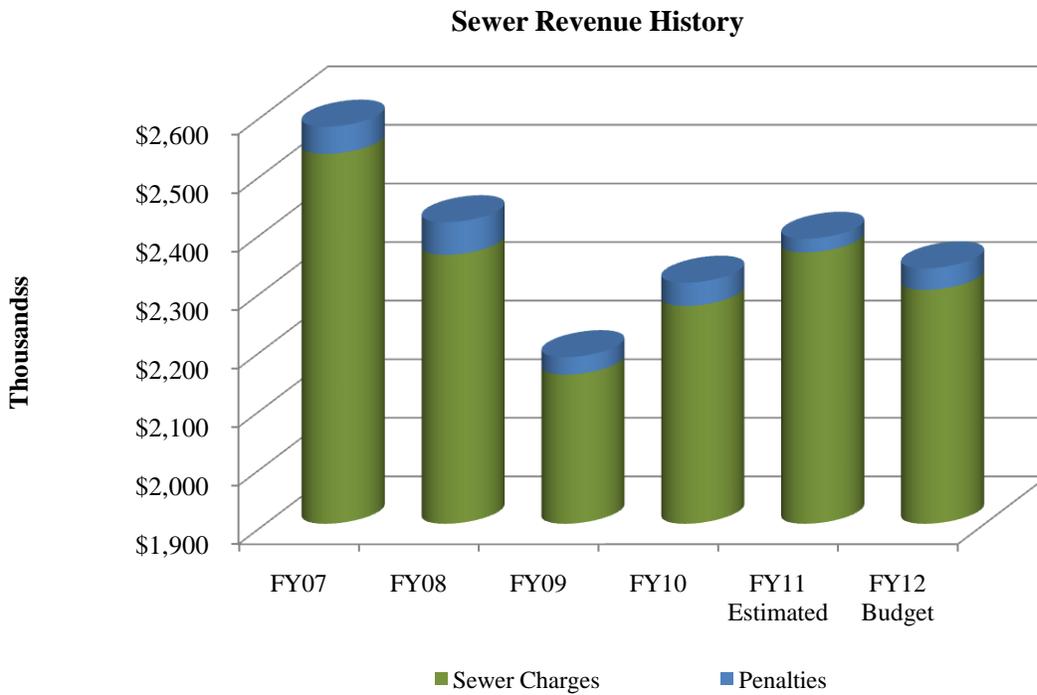
<sup>(1)</sup> Assigned Service Units

<sup>(2)</sup> Current and approved base fees for 1" meter are \$16.87 and \$17.88, respectively.

<sup>(3)</sup> Approved rates for sewer service beginning in January 2012.

# Revenue History - Sewer

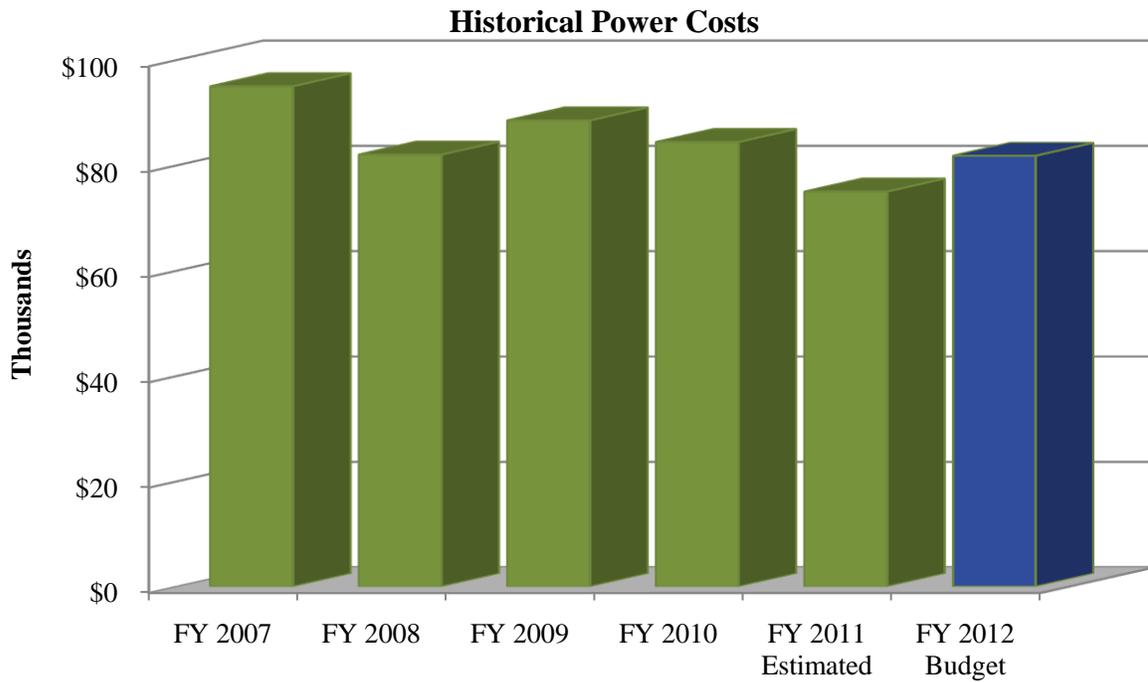
	Actual				Estimated	Budget
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Sewer Charges	\$ 2,531,513	\$ 2,359,173	\$ 2,154,628	\$ 2,271,879	\$ 2,363,313	\$ 2,299,200
Penalties	46,480	55,713	29,896	39,707	23,287	36,800
<b>Total</b>	<b>\$ 2,577,993</b>	<b>\$ 2,414,886</b>	<b>\$ 2,184,524</b>	<b>\$ 2,311,586</b>	<b>\$ 2,386,600</b>	<b>\$ 2,336,000</b>



# Power Costs - Sewer

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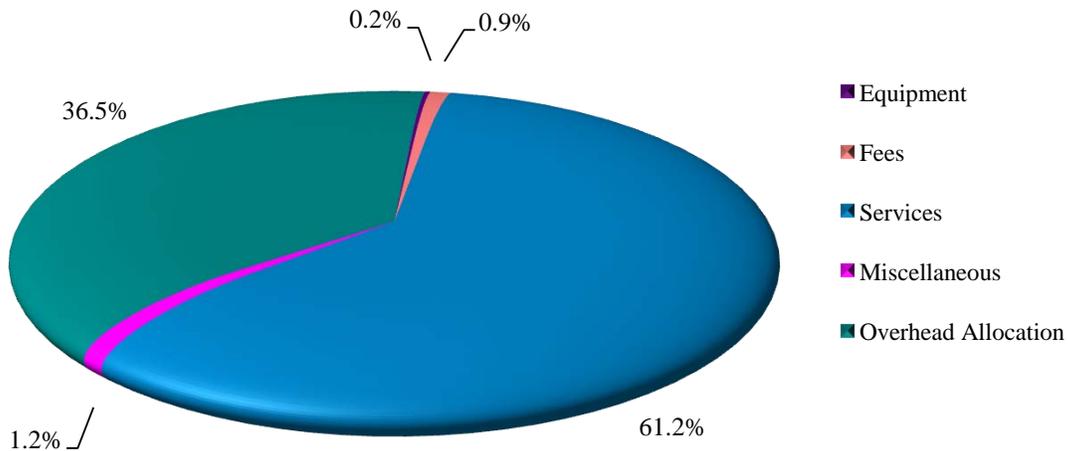
	<b>Sewer Lift Stations</b>
FY07 Actual	\$ 94,989
FY08 Actual	82,023
FY09 Actual	88,512
FY10 Actual	84,408
FY11 Estimated	81,347
FY12 Budget	81,800



# Administrative Expenses - Sewer

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	%
Equipment	\$ 1,099	\$ 1,000	\$ -	\$ 1,000	\$ -	0.0%
Fees	4,444	2,000	306	4,000	2,000	100.0%
Services	311,308	503,600	358,387	265,500	(238,100)	(47.3%)
Miscellaneous	3,084	6,200	9,205	5,000	(1,200)	(19.4%)
Total	319,935	512,800	367,898	275,500	(237,300)	(46.3%)
Overhead Allocation	115,737	128,500	130,875	158,600	30,100	23.4%
<b>Total Administrative Expenses</b>	<b>\$ 435,672</b>	<b>\$ 641,300</b>	<b>\$ 498,773</b>	<b>\$ 434,100</b>	<b>\$ (207,200)</b>	<b>(32.3%)</b>

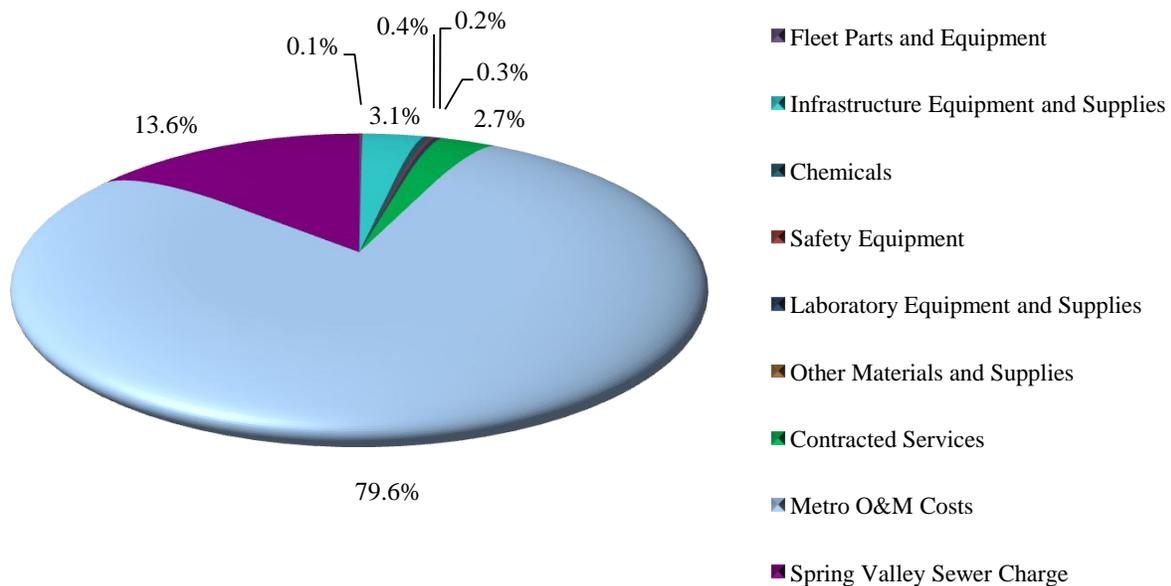
Administrative Expenses - Sewer  
FY 2012



## *Materials and Maintenance Expenses - Sewer*

	FY 2010	FY 2011		FY 2012	Budget	
	Actual	Budget	Estimated	Budget	Variance	%
Fleet Parts and Equipment	\$ 1,634	\$ 3,000	\$ 2,180	\$ 3,000	\$ -	0.0%
Infrastructure Equipment and Supplies	76,169	52,500	67,343	53,800	1,300	2.5%
Chemicals	4,831	7,000	3,974	7,000	-	0.0%
Safety Equipment	1,639	5,500	5,990	3,300	(2,200)	(40.0%)
Laboratory Equipment and Supplies	5,904	6,000	6,017	5,000	(1,000)	(16.7%)
Other Materials and Supplies	118	300	902	200	(100)	(33.3%)
Contracted Services	24,140	43,000	13,996	47,000	4,000	9.3%
Materials and Maintenance	<u>114,435</u>	<u>117,300</u>	<u>100,402</u>	<u>119,300</u>	<u>2,000</u>	<u>1.7%</u>
Sewer Charges						
Metro O&M Costs	986,027	1,038,600	1,329,921	1,397,400	358,800	34.5%
Spring Valley Sewer Charge	246,190	264,000	273,238	239,200	(24,800)	(9.4%)
Total Sewer Charges	<u>1,232,217</u>	<u>1,302,600</u>	<u>1,603,159</u>	<u>1,636,600</u>	<u>334,000</u>	<u>25.6%</u>
<b>Total Materials and Maintenance</b>	<b><u>\$ 1,346,652</u></b>	<b><u>\$ 1,419,900</u></b>	<b><u>\$ 1,703,561</u></b>	<b><u>\$ 1,755,900</u></b>	<b><u>\$ 336,000</u></b>	<b><u>23.7%</u></b>

**Materials and Maintenance Expenses - Sewer  
FY 2012**



# Formula for Sewer Rates

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Each year the District is required to revise its formula for determining sewer rates in accordance with the State Revenue Program Guidelines.

For residential sewer customers, effective January 1, 2008, a “Winter Average” fee structure was implemented for calculating the monthly sewer charge. A usage fee is charged based on the customer’s prior year’s “Winter Average” water consumption, reduced by a 15% usage discount. The current and approved usage fees are \$1.67 and \$1.77, respectively. A base fee is also applied. Current and approved base fees are \$11.57 and \$12.26 for ¾ inch water meter, and \$16.87 and \$17.88 for 1 inch or greater. Approved fees are effective for all services billed after January 1, 2012.

For commercial customers, the sewer charge 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	Schools
1.000	Churches
1.000	Low Strength Commercial
1.238	Medium Strength Commercial
2.203	High Strength Commercial

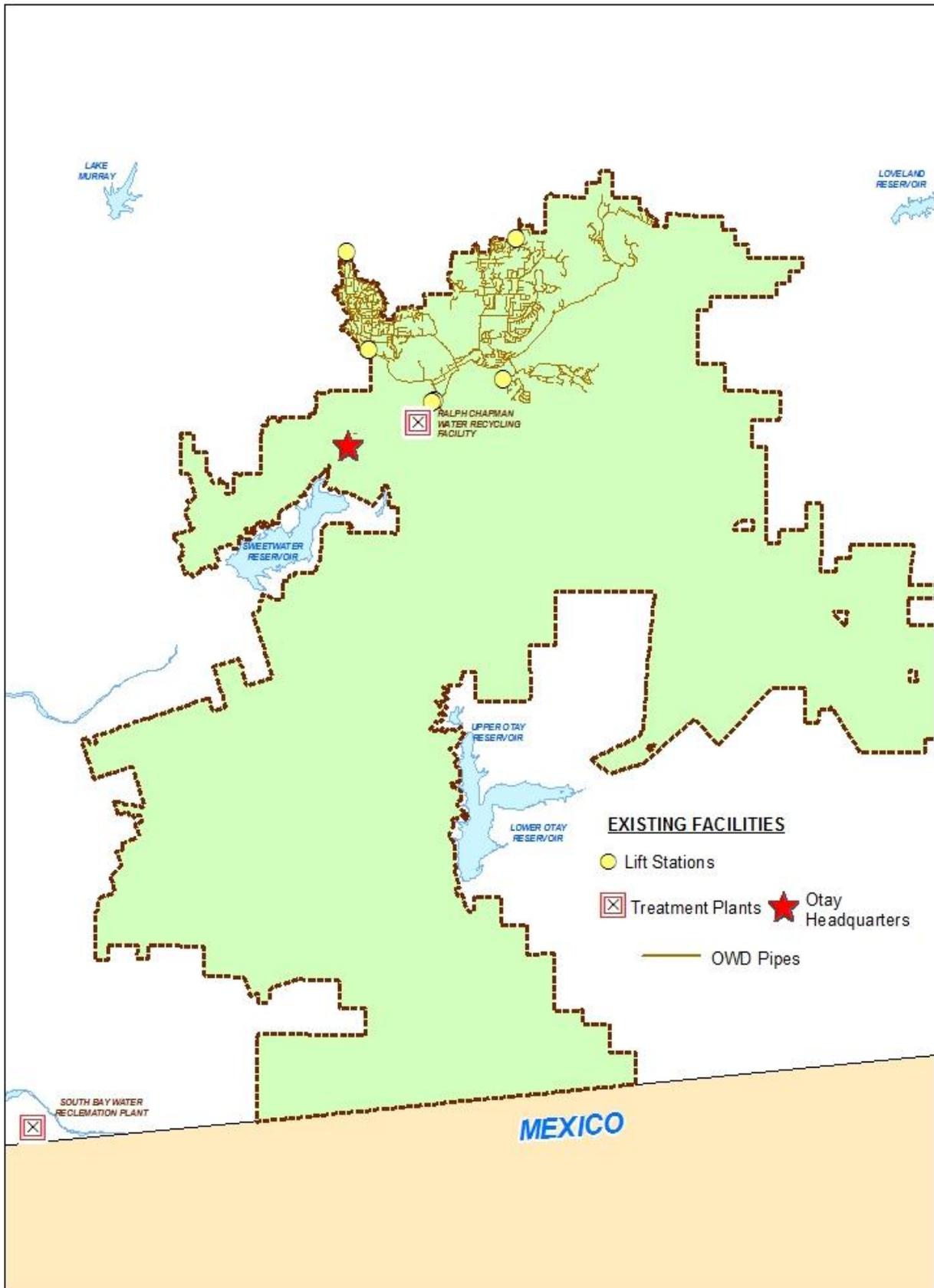
The following formula is based on an estimated daily flow of 250 gallons per day plus 280 milligrams per liter of Biological Oxygen Demand (BOD) and 234 milligrams per liter of SS for a residential equivalent dwelling unit or an assigned service unit (ASU). The new method of calculating the sewer rate 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. The current and proposed sewer rates per ASU are \$39.39 and \$41.75, respectively. The approved rate is effective for all services billed after January 1, 2012.

The minimum charge for commercial shall be no lower than one ASU at low strength. 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. For colleges, flow is based on the number of Certificated and Classified Staff, and students enrolled in each school session.

# Sewer Service Area



# *General Revenues and Expenses*

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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 expenses or revenues.

## **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 the cost of providing these services.

Betterment fees for maintenance are earned by the General Fund for the Water Operations Department's maintenance of certain District assets.

Annexation fees are collected when developers buy into the District's potable and recycled water facilities. The fee ensures that future users fund the portion of the facilities that were sized and built for their future use by prior customers. Prior to FY 2012, annexation fees were unrestricted and therefore included in the General Fund revenues. With the new fee methodology, these fees are now restricted for the purpose of capital improvements.

The 1% Property Tax is a result of Proposition 13 that was approved in 1978, which limited the 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.

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 parcel or 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 from the lease 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 the 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. This lease has a 40-year term with two additional five-year options.

# General Revenues and Expenses

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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 shared customer base, the CCV contracts with the District for the billing of their sewer customers who live within the District.

## 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 2.8% of the total Departmental Budget.

Legal expenses are viewed as a District-wide general expense because they benefit all departments and usually are not attributed to any one department. The District retains outside legal services instead of in-house counsel.

Insurance expense is also viewed as District-wide general expense because it benefits all departments 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 a specific department or fiscal year in which they are incurred. For example, when a pay rate increase occurs for an employee, his/her leave balances increase in value due to this change. In this case, the expense is charged to the General Expense Department.



## General Revenues

	FY 2010	FY 2011		FY 2012	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>Fee Revenues</u>						
Capacity Fee Revenues	\$ 1,030,688	\$ 1,095,300	\$ 1,063,234	1,044,000	\$ (51,300)	(4.7%)
Betterment Fees for Maintenance	575,721	657,400	560,229	628,600	(28,800)	(4.4%)
Annexation Fees	555,751	-	-	-	-	0.0%
Subtotal Fee Revenues	2,162,160	1,752,700	1,623,463	1,672,600	(80,100)	(4.6%)
<u>Tax Revenues</u>						
1% General Tax	3,008,496	3,143,400	2,923,709	3,141,700	(1,700)	(0.1%)
Availability Fees	670,784	700,500	653,012	697,900	(2,600)	(0.4%)
Subtotal Tax Revenues	3,679,280	3,843,900	3,576,721	3,839,600	(4,300)	(0.1%)
<b>General Revenues</b>	<b>\$ 5,841,440</b>	<b>\$ 5,596,600</b>	<b>\$ 5,200,185</b>	<b>\$ 5,512,200</b>	<b>\$ (84,400)</b>	<b>(1.5%)</b>

## Non-Operating Revenues

	FY 2010	FY 2011		FY 2012	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Property Rental	\$ 1,083,988	\$ 1,163,900	\$ 1,185,574	\$ 1,298,400	134,500	11.6%
Sewer Billing Fees	360,651	361,500	361,680	362,500	1,000	0.3%
Set-up Fee for Lease Site	26,500	8,000	5,581	8,000	-	0.0%
Grants	-	120,000	70,265	20,000	(100,000)	(83.3%)
Revenue from Shared Facility	27,706	29,100	29,163	30,600	1,500	5.2%
Miscellaneous <sup>(1)</sup>	1,046,030	265,800	443,235	302,100	36,300	13.7%
<b>Non-Operating Revenues</b>	<b>\$ 2,544,875</b>	<b>\$ 1,948,300</b>	<b>\$ 2,095,498</b>	<b>\$ 2,021,600</b>	<b>\$ 73,300</b>	<b>3.8%</b>

## General and Non-Operating Revenues by Business

	FY 2012 Budget			
	Potable	Recycled	Sewer	Total
Capacity Fee Revenues	\$ 841,200	\$ -	\$ 202,800	\$ 1,044,000
Betterment Fees for Maintenance	628,600	-	-	628,600
<u>Tax Revenues</u>				-
1% General Tax	3,141,700	-	-	3,141,700
Availability Fees	646,400	-	51,500	697,900
Total Tax Revenues	3,788,100	-	51,500	3,839,600
<u>Non-Operating Revenues</u>				
Property Rental	1,298,400	-	-	1,298,400
Sewer Billing Fees	362,500	-	-	362,500
Set-up Fee for Lease Site	8,000	-	-	8,000
Grants	20,000	-	-	20,000
Revenue from Shared Facility	-	-	30,600	30,600
Miscellaneous	302,100	-	-	302,100
Total Non-Operating Revenues	1,991,000	-	30,600	2,021,600
<b>Total General and Non-Operating Revenues</b>	<b>\$ 7,248,900</b>	<b>\$ -</b>	<b>\$ 284,900</b>	<b>\$ 7,533,800</b>

*Note: For General and Non-Operating Revenues, the Potable Fund serves as the District's General Fund for accounting purposes.*

# General Expenses

	FY 2010	FY 2011		FY 2012	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>Administrative Expenses</u>						
Legal Fees	\$ 472,924	\$ 451,200	350,946	\$ 380,000	\$ (71,200)	(15.8%)
General Insurance	456,784	464,800	492,577	492,000	27,200	5.9%
Total Administrative Expenses	929,708	916,000	843,522	872,000	(44,000)	(4.8%)
<u>Benefits</u>						
Benefits <sup>(1)</sup>	427,547	(28,000)	344,512	(79,600)	(51,600)	0.0%
<b>Total General Expenses</b>	<b>\$ 1,357,255</b>	<b>\$ 888,000</b>	<b>\$ 1,188,034</b>	<b>\$ 792,400</b>	<b>\$ (95,600)</b>	<b>(10.8%)</b>

<sup>(1)</sup> FY 2012 and FY 2011 Benefits budget amounts are negative because of Vacancy Factor (salary savings) of \$159,800 and \$204,200 respectively. This is netted against other District-wide Labor and Benefit Expenses. In prior years Vacancy Factor was budgeted in the individual departments.

# Departmental Operating Budget

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## **Labor and Benefits**

Labor and Benefits represent 23.2% of the total Operating Budget. In Fiscal Year 2008, the Employees' Association signed a six-year Memorandum of Understanding (MOU) with the District. The highlights of this agreement included: changes to salaries based on a salary survey, changes to the medical and dental plans, enhancements of the retirement package to include post retirement health benefits for active employees, and rewriting the MOU to streamline the District practices.

District personnel are assigned to work in six departments: General Manager, Administrative Services, Finance, Information Technology & Strategic Planning, Water Operations, and Engineering. The departments are further categorized by functions into divisions. The Fiscal Year 2012 Budget includes funding for labor and benefits for 156 Full-time Equivalent (FTE) employees and a 3.5% across-the-board salary increase on July 1, 2011.

The staffing level for Fiscal Year 2012 had a decrease of three FTE employees from Fiscal Year 2011. The District has chosen to eliminate three vacant positions in areas that have experienced a reduction of work due to slowing of growth. Since 2007, the District has reduced FTEs by 11% by focusing on efficiencies and automation. This has been achieved by strategic planning, goal setting, and leveraging advancements in technology.

A projected 16.1% 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 \$3,467,800. The Water Operations Department, with its staff of 66 employees, is responsible for maintaining and operating the District's facilities.

## **Administrative Expenses**

Administrative Expenses represent 5.8% of the District's total operating costs. A detailed listing of the Administrative Expenses for Fiscal Year 2012 is shown on page 101. The decrease of \$1,020,900 is due several events including a shift in work between the Operating and CIP budgets, a decrease in temporary help and outside services due to the completion of major projects, along with a decrease in conservation incentives. In addition, the District eliminated non-essential items such as travel, conferences, and services that are not vital to perform this year.

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, where the District may be better able to control expenses such as training or business meetings to some extent. The safety needs of the District's customers and employees and compliance with regulatory agencies are of utmost importance, so related expenses are considered necessary.

# Departmental Operating Budget

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## **Materials and Maintenance**

The Materials and Maintenance Expenses allow the District to provide reliable, high-quality products, services, and support to its customers.

As the District continues to grow and new facilities are added, additional maintenance and services will be required. This year, there is a 14.1% increase in Materials and Maintenance Expenses totaling \$530,500. These costs are due mainly to higher Metro O&M costs of \$358,800 as well as increased chemical and fuel costs.

The Water Operations Department has implemented an Infrastructure Management System (IMS) which allows for better maintenance of existing assets and enhanced monitoring of new assets coming on-line. It also facilitates planning for repair and replacement of assets as well as assessing the condition of infrastructures. IMS helps the District to better track and manage the Materials and Maintenance Expenses.

## **Performance Measurement Program**

Strategic goals and objectives approved by the Board of Directors are incorporated into departmental operating budgets to ensure adequate funds are available to implement the Strategic Plan. The District has updated its performance measurement program this fiscal year to provide measurable results of progress on both strategic and key operational goals and objectives. (See the plan objectives and measures in the department sections that

follow.) Performance 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 outside consultants, 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 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.

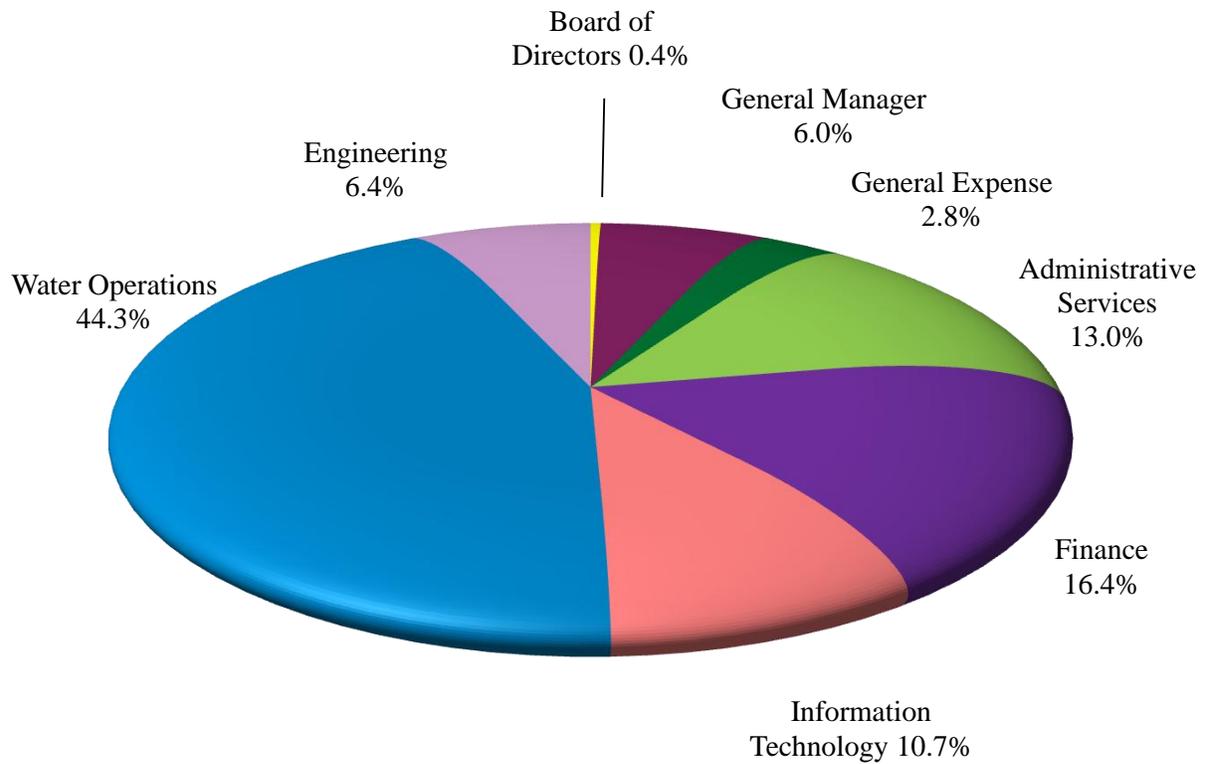


# Departmental Operating Budget

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## Total Departmental Operating Budget FY 2012

\$28,665,500

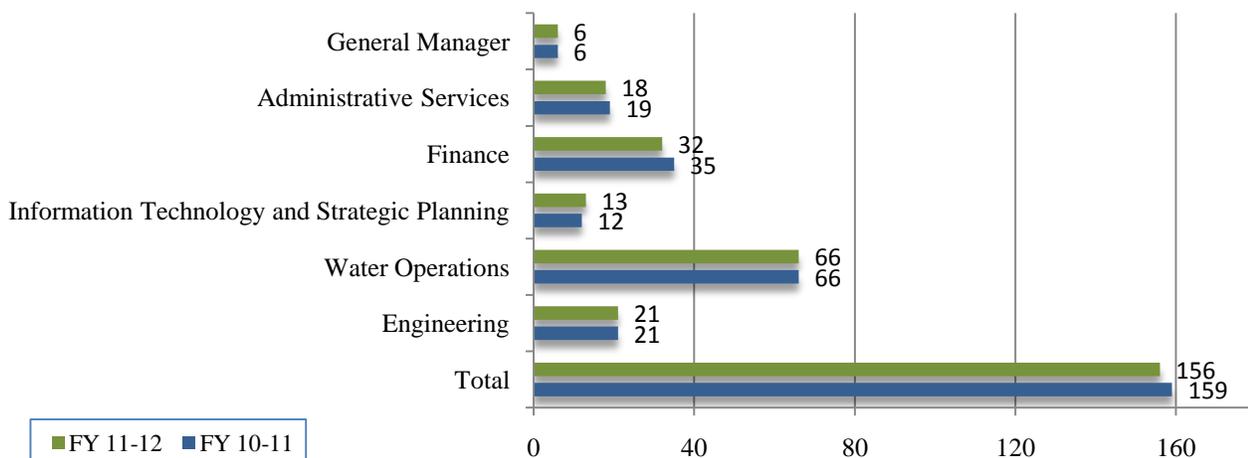


# Labor and Benefits

	FY10	FY11		FY12
	Actual	Budget	Estimated	Budget
<b>Total Labor Costs</b>	\$ 11,115,520	\$11,514,300	\$ 11,410,095	\$ 11,958,200
<b>Benefits</b>				
Pension	3,212,514	3,320,800	3,417,185	3,883,500
Employee Assistance Program	4,485	7,500	4,391	6,000
Worker's Compensation (1)	264,927	267,800	175,824	8,700
Health/Dental/Life Insurance	1,940,034	2,014,900	2,155,369	2,394,900
Social Security/Medicare	909,265	936,400	939,909	967,200
Salary Continuation Insurance	82,544	75,600	76,781	79,100
State Unemployment Insurance	33,931	20,000	66,505	75,000
Vacation/Sick/Holiday/Other Leave	2,073,645	2,104,100	2,250,079	2,214,800
Total Fringe Benefits	8,521,345	8,747,100	9,086,043	9,629,200
<b>Total Labor and Benefits</b>	19,636,865	20,261,400	20,496,138	21,587,400
<b>Less: Non-Operating Labor and Benefits</b>				
Labor Costs	1,289,566	1,512,100	1,386,197	1,465,400
Fringe Benefits Allocation	751,562	901,800	815,824	938,200
Total Work Order Allocation	2,041,128	2,413,900	2,202,021	2,403,600
<b>Operating Labor &amp; Benefits</b>	17,595,737	17,847,500	18,294,117	19,183,800
Total Overhead Allocation	1,483,001	1,738,900	1,594,127	1,685,200
<b>Less: Overhead Allocation Personnel Portion</b>	936,515	1,098,100	1,006,691	1,064,200
Admin Portion of Overhead (36.85%)	\$ 546,486	640,800	587,436	621,000
<b>Operating Labor and Benefits</b>	\$ 16,659,222	\$16,749,400	\$ 17,287,426	\$ 18,119,600

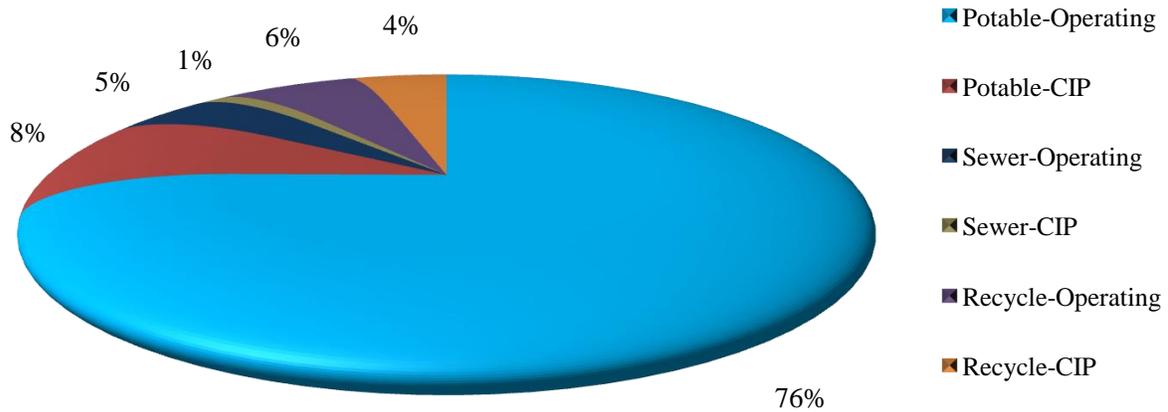
(1) The FY12 budget for Worker's Compensation reflects the planned write-off of a previously accrued \$235,500 liability.

## Full-Time Equivalent (FTE) Comparison by Department



# *Labor and Benefits by Fund - Fiscal Year 2012*

	<u>Potable</u>	<u>Sewer</u>	<u>Recycled</u>	<u>Developer Reimbursed-CIP</u>	<u>Total</u>
Total Operating Labor Costs	\$ 9,604,900	\$ 374,300	\$ 513,600	\$ -	\$ 10,492,800
Benefits	8,050,500	263,300	377,200	-	8,691,000
Overhead Allocation-Personnel	(1,709,000)	271,800	373,000	-	(1,064,200)
<b>Total Operating Labor and Benefits</b>	<b>15,946,400</b>	<b>909,400</b>	<b>1,263,800</b>	<b>-</b>	<b>18,119,600</b>
Total CIP Labor Costs	815,000	103,500	386,000	160,900	1,465,400
Benefits	515,700	67,200	249,800	105,500	938,200
Overhead Allocation-Personnel	592,000	75,100	280,300	116,800	1,064,200
<b>Total CIP Labor and Benefits</b>	<b>1,922,700</b>	<b>245,800</b>	<b>916,100</b>	<b>383,200</b>	<b>3,467,800</b>
<b>Total Labor and Benefits</b>	<b>\$ 17,869,100</b>	<b>\$ 1,155,200</b>	<b>\$ 2,179,900</b>	<b>\$ 383,200</b>	<b>\$ 21,587,400</b>

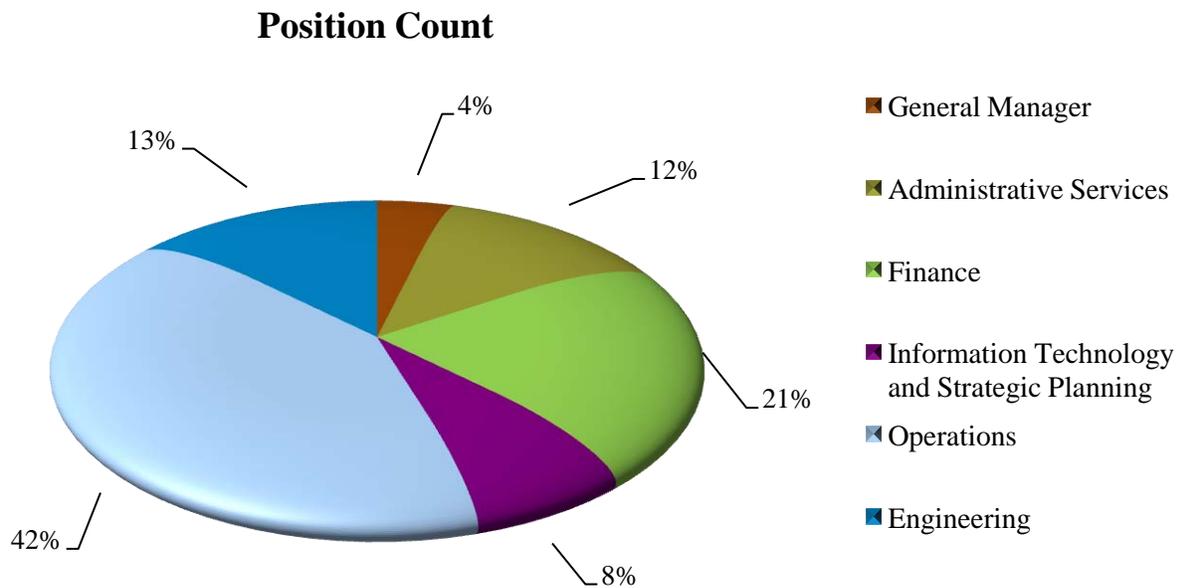


# Position Count by Department

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
<b><u>General Manager:</u></b>			
General Manager	6	6	6
<b>Total - General Manager Department</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>FTE</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>
Administrative Services	3	3	3
Human Resources	4	4	4
Purchasing	9	8	7
Safety	1	1	1
Conservation	3	3	3
<b>Total Administrative Services Department</b>	<b>20</b>	<b>19</b>	<b>18</b>
<b>FTE</b>	<b>20.00</b>	<b>19.00</b>	<b>18.00</b>
Controller and Budgetary Services	7	7	7
Treasury and Accounting Services	6	6	5
Customer Service	22	19	17
Payroll and Accounts Payable	3	3	3
<b>Total Finance Department</b>	<b>38</b>	<b>35</b>	<b>32</b>
<b>FTE</b>	<b>38.00</b>	<b>35.00</b>	<b>32.00</b>
<b><u>Information Technology and Strategic Planning:</u></b>			
Information Technology and Strategic Planning Applications	5	5	5
Information Technology Operations	4	3	4
Geographic Information Systems	4	4	4
<b>Total IT and Strategic Planning Department</b>	<b>13</b>	<b>12</b>	<b>13</b>
<b>FTE</b>	<b>13.00</b>	<b>12.00</b>	<b>13.00</b>
Operations Management	2	2	2
Water System Operations	28	28	28
Utility Maintenance/Construction	31	30	30
Collection/Treatment/Reclamation Operations	7	6	6
<b>Total Operations Department</b>	<b>68</b>	<b>66</b>	<b>66</b>
<b>FTE</b>	<b>68.00</b>	<b>66.00</b>	<b>66.00</b>
Engineering Management	3	3	3
Engineering	18	18	18
<b>Total Engineering Department</b>	<b>21</b>	<b>21</b>	<b>21</b>
<b>FTE</b>	<b>21.00</b>	<b>21.00</b>	<b>21.00</b>
<b>District Total Position Count</b>	<b>166</b>	<b>159</b>	<b>156</b>
<b>FTE</b>	<b>166.00</b>	<b>159.00</b>	<b>156.00</b>

# Contract / Temporary Employees

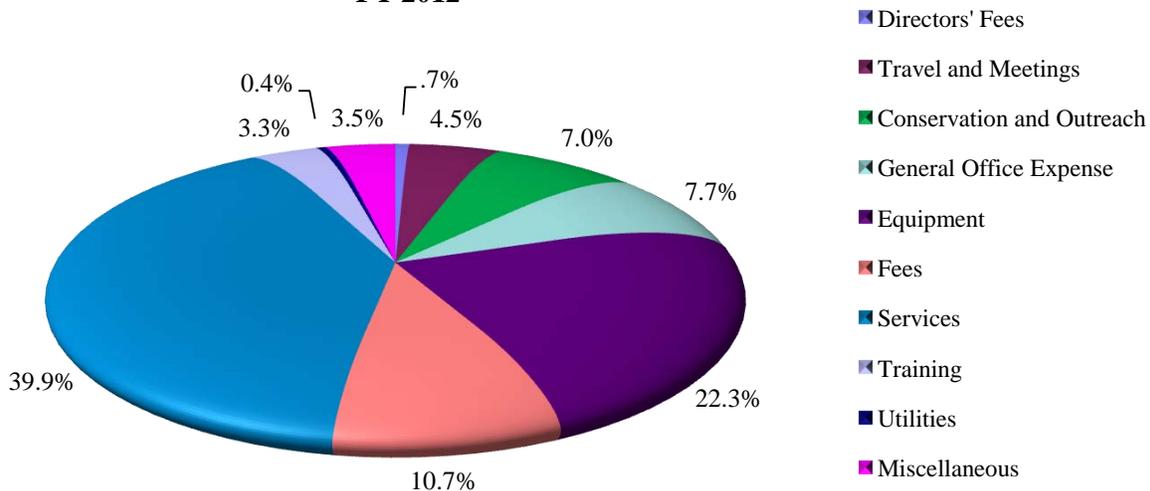
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Customer Service Field Representative I and II	1	1	0
Customer Service Representative I and II	1	0	0
Water Conservation Technician	0	0	1
Strategic Planning Assistant	1	1	1
Reclamation Plant Operator	0	0	1
Utility Construction Assistant	0	0	1
Sr. Civil Engineer	0	0	1
Sr. Engineering Technician	1	1	0
<b>Total Contract/Temporary Employees</b>	<b>4</b>	<b>3</b>	<b>5</b>



## *Administrative Expenses - Total*

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	%
Directors' Fees	\$ 15,100	\$ 30,000	\$ 13,700	\$ 30,000	\$ -	0.0%
Travel and Meetings	162,652	221,400	159,708	196,200	(25,200)	(11.4%)
Conservation and Outreach	240,734	479,700	257,007	300,800	(178,900)	(37.3%)
General Office Expense	343,859	368,700	306,469	330,100	(38,600)	(10.5%)
Equipment	1,014,401	1,035,700	1,086,986	961,000	(74,700)	(7.2%)
Fees	479,814	476,500	496,387	461,000	(15,500)	(3.3%)
Services	1,714,302	2,350,000	1,845,133	1,721,400	(628,600)	(26.7%)
Training	126,746	151,800	125,385	140,200	(11,600)	(7.6%)
Utilities	16,514	15,300	18,264	19,000	3,700	24.2%
Miscellaneous	148,685	177,300	199,843	150,000	(27,300)	(15.4%)
<b>Total</b>	<b>4,262,807</b>	<b>5,306,400</b>	<b>4,508,881</b>	<b>4,309,700</b>	<b>(996,700)</b>	<b>(18.8%)</b>
Less: Overhead Allocation	(546,486)	(640,800)	(587,436)	(621,000)	19,800	(3.1%)
Subtotal	3,716,321	4,665,600	3,921,445	3,688,700	(976,900)	(20.9%)
General Expenses	929,708	916,000	843,522	872,000	(44,000)	(4.8%)
<b>Total Administrative Expenses</b>	<b>\$ 4,646,029</b>	<b>\$ 5,581,600</b>	<b>\$ 4,764,967</b>	<b>\$ 4,560,700</b>	<b>\$ (1,020,900)</b>	<b>(18.3%)</b>

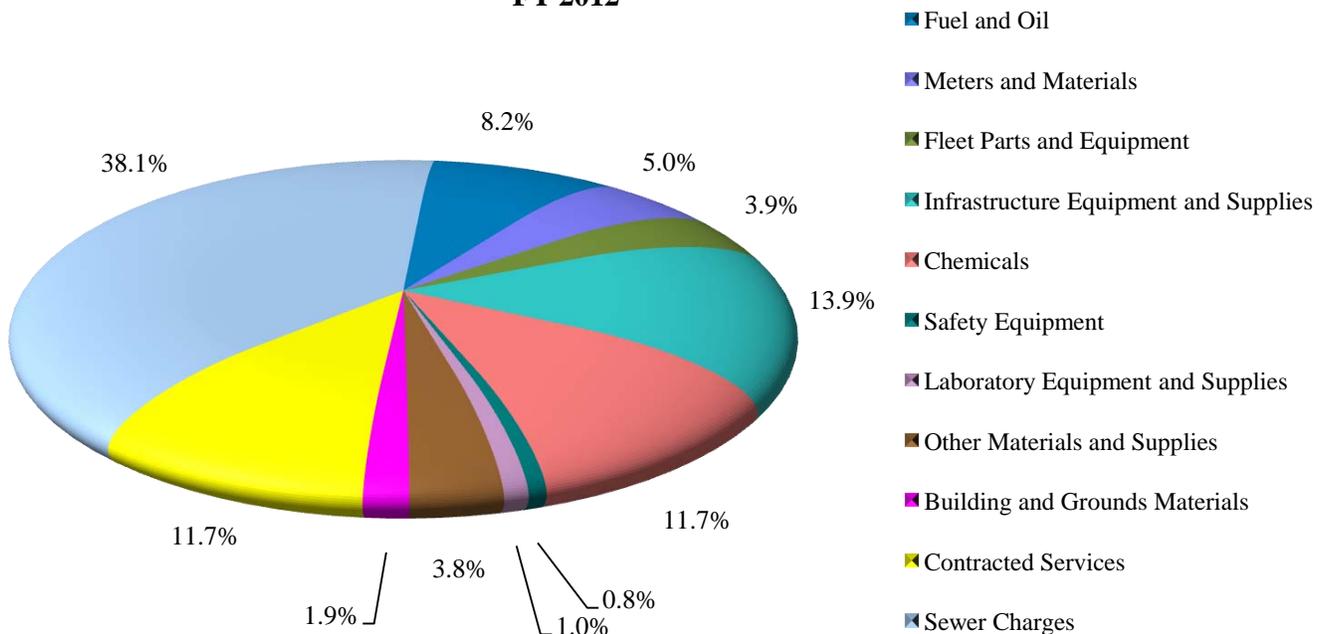
**Administrative Expenses - Total  
FY 2012**



# *Materials and Maintenance Expenses - Total*

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget	Budget Variance	%
Materials and Maintenance						
Fuel and Oil	\$ 207,208	\$ 244,700	\$ 218,506	\$ 353,200	\$ 108,500	44.3%
Meters and Materials	148,386	222,100	166,683	213,100	(9,000)	(4.1%)
Fleet Parts and Equipment	158,795	168,400	140,253	168,400	-	0.0%
Landscaping Materials	45	-	-	-	-	0.0%
Infrastructure Equipment and Supplies	610,055	591,900	555,410	599,600	7,700	1.3%
Chemicals	306,325	398,000	442,590	504,000	106,000	26.6%
Safety Equipment	49,998	60,300	53,603	32,900	(27,400)	(45.4%)
Laboratory Equipment and Supplies	47,306	45,000	44,399	44,000	(1,000)	(2.2%)
Other Materials and Supplies	137,478	173,700	155,680	164,700	(9,000)	(5.2%)
Building and Grounds Materials	95,116	76,000	74,032	80,500	4,500	5.9%
Contracted Services	498,565	486,800	340,305	503,000	16,200	3.3%
Materials and Maintenance	<u>2,259,278</u>	<u>2,466,900</u>	<u>2,191,461</u>	<u>2,663,400</u>	<u>196,500</u>	<u>8.0%</u>
Sewer Charges						
Metro O&M Costs	986,027	1,038,600	1,329,921	1,397,400	358,800	34.5%
Spring Valley Sewer Charge	246,190	264,000	273,238	239,200	(24,800)	(9.4%)
Total Sewer Charges	<u>1,232,217</u>	<u>1,302,600</u>	<u>1,603,159</u>	<u>1,636,600</u>	<u>334,000</u>	<u>25.6%</u>
<b>Total Materials and Maintenance</b>	<b><u>\$ 3,491,495</u></b>	<b><u>\$ 3,769,500</u></b>	<b><u>\$ 3,794,620</u></b>	<b><u>\$ 4,300,000</u></b>	<b><u>\$ 530,500</u></b>	<b><u>14.1%</u></b>

**Materials and Maintenance Expenses - Total  
FY 2012**



## *Operating Expenditures by Department*

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	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
<b>Departmental Expenditures</b>				
Board of Directors	\$ 63,353	\$ 86,600	\$ 75,413	\$ 106,600
General Manager	1,530,407	1,790,600	1,682,449	1,721,400
General Expense	1,314,537	888,000	1,188,034	792,400
Administrative Services	3,387,950	3,935,200	3,409,113	3,727,400
Finance	4,617,243	4,730,300	4,559,086	4,712,000
Information Technology and Strategic Planning	2,864,200	2,964,100	2,977,027	3,080,200
Water Operations	10,585,316	11,420,500	11,566,162	12,688,600
Engineering	1,916,741	2,024,100	1,983,859	1,836,900
<b>Total Departmental Expenditures</b>	<b>26,279,746</b>	<b>27,839,400</b>	<b>27,441,143</b>	<b>28,665,500</b>
Less: Overhead Allocation	(1,483,001)	(1,738,900)	(1,594,127)	(1,685,200)
<b>Net Departmental Expenditures</b>	<b>24,796,745</b>	<b>26,100,500</b>	<b>25,847,016</b>	<b>26,980,300</b>
<b>Non-Departmental Expenditures</b>				
Water Purchases	31,814,849	35,057,200	34,230,126	38,243,700
Power	2,307,611	2,520,700	2,170,357	2,440,900
Expansion Reserve	1,610,000	2,775,000	2,775,000	555,000
Betterment Reserve	3,810,000	1,435,000	315,000	-
Replacement Reserve	3,660,000	6,965,000	6,965,000	3,330,000
Transfer to Sewer General Fund	200,000	-	-	786,800
Transfer Out/In Prop 1A	270,300	-	-	-
Transfer to General Fund Reserve	1,330,000	390,500	390,500	2,420,500
Transfer to Sewer Replacement	-	1,750,000	1,750,000	1,720,000
Transfer to New Supply Reserve	-	-	-	1,585,000
<b>Total Non-Departmental Expenditures</b>	<b>45,002,760</b>	<b>50,893,400</b>	<b>48,595,983</b>	<b>51,081,900</b>
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ 69,799,505</b>	<b>\$ 76,993,900</b>	<b>\$ 74,442,999</b>	<b>\$ 78,062,200</b>

## *Operating Expenditures by Object*

	<b>FY 2010</b>	<b>FY 2011</b>		<b>FY 2012</b>
	<b>Actual</b>	<b>Budget</b>	<b>Estimated</b>	<b>Budget</b>
<b>Departmental Expenditures</b>				
Labor and Benefits	\$ 17,595,737	\$ 17,847,500	\$ 18,294,117	\$ 19,183,800
Director's Fees	15,100	30,000	13,700	30,000
Travel and Meetings	162,652	221,400	159,708	196,200
Conservation and Outreach	240,734	479,700	257,007	300,800
General Office Expense	343,859	368,700	306,470	330,100
Equipment	1,014,400	1,035,700	1,086,986	961,000
Fees	1,409,522	1,392,500	1,339,909	1,333,000
Services	1,714,302	2,350,000	1,845,133	1,721,400
Training	126,746	151,800	125,385	140,200
Materials & Maintenance	2,259,278	2,466,900	2,191,462	2,663,400
Power and Utilities	16,514	15,300	18,264	19,000
Sewer Charges	1,232,217	1,302,600	1,603,159	1,636,600
Miscellaneous	148,685	177,300	199,843	150,000
<b>Total Departmental Expenditures</b>	<b>26,279,745</b>	<b>27,839,400</b>	<b>27,441,143</b>	<b>28,665,500</b>
Less: Overhead Allocation	(1,483,001)	(1,738,900)	(1,594,127)	(1,685,200)
<b>Net Departmental Expenditures</b>	<b>24,796,744</b>	<b>26,100,500</b>	<b>25,847,016</b>	<b>26,980,300</b>
<b>Non-Departmental Expenditures</b>				
Water Purchases	31,814,849	35,057,200	34,230,126	38,243,700
Power	2,307,611	2,520,700	2,170,357	2,440,900
Expansion Reserve	1,610,000	2,775,000	2,775,000	555,000
Betterment Reserve	3,810,000	1,435,000	315,000	-
Replacement Reserve	3,660,000	6,965,000	6,965,000	3,330,000
Transfer to Sewer General Fund	200,000	-	-	786,800
Transfer Out/In Prop 1A	270,300	-	-	-
Transfer to General Fund Reserve	1,330,000	390,500	390,500	2,420,500
Transfer to Sewer Replacement	-	1,750,000	1,750,000	1,720,000
Transfer to New Supply Fund	-	-	-	1,585,000
<b>Total Non-Departmental Expenditures</b>	<b>45,002,760</b>	<b>50,893,400</b>	<b>48,595,983</b>	<b>51,081,900</b>
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ 69,799,505</b>	<b>\$ 76,993,900</b>	<b>\$ 74,442,999</b>	<b>\$ 78,062,200</b>

# Board of Directors

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## Mission Statement

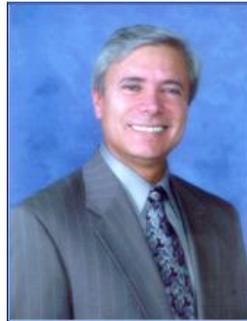
To provide safe, reliable water, recycled water and wastewater services to our community in an innovative, cost efficient, water-wise and environmentally responsible manner.

Division 3



Gary Croucher  
Vice President

Division 2



Jaime Bonilla  
President

Division 1



David Gonzalez, Jr.  
Treasurer

Division 4



Jose Lopez

Division 5

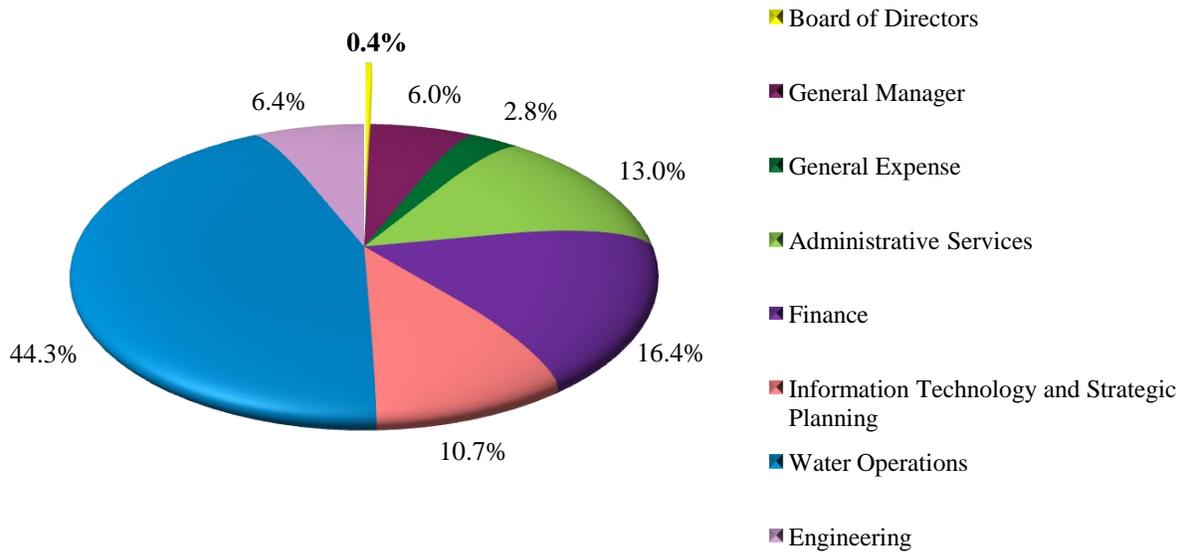


Mark Robak

<u>Division Title</u>	<u>Division No.</u>
Board of Directors .....	1111

# Board of Directors

## FY 2012 Total Departmental Budget - \$28.7 Million Board of Directors - \$106,600



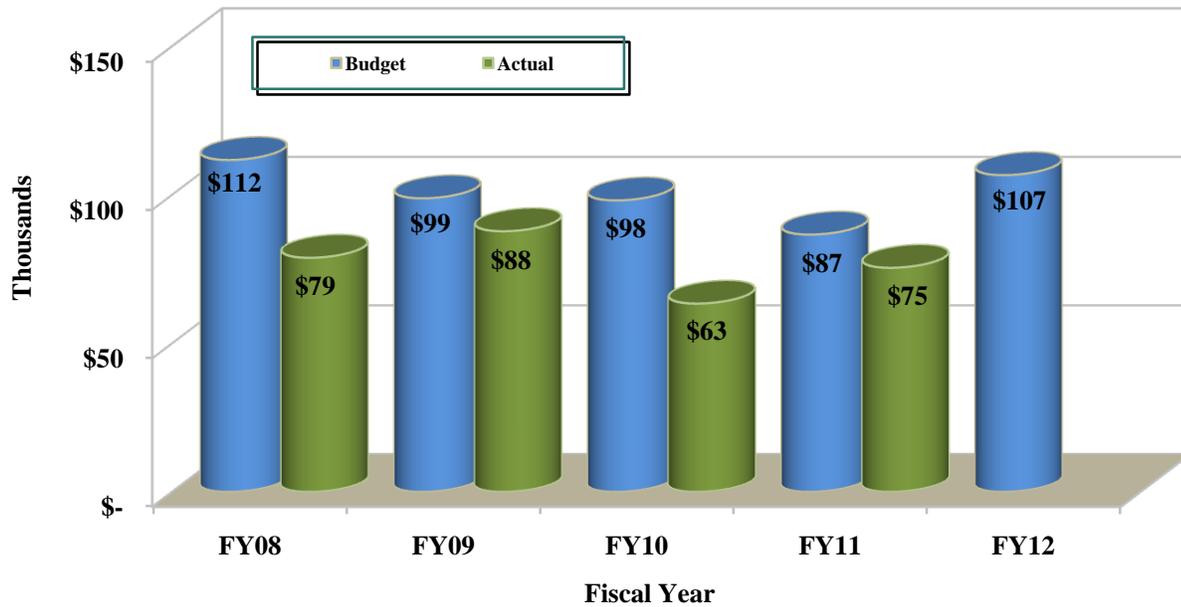
Board of Directors  
**TOTAL**

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
Board of Directors	\$ 63,353	\$ 86,600	\$ 75,413	\$ 106,600
<b>TOTAL</b>	<b>\$ 63,353</b>	<b>\$ 86,600</b>	<b>\$ 75,413</b>	<b>\$ 106,600</b>

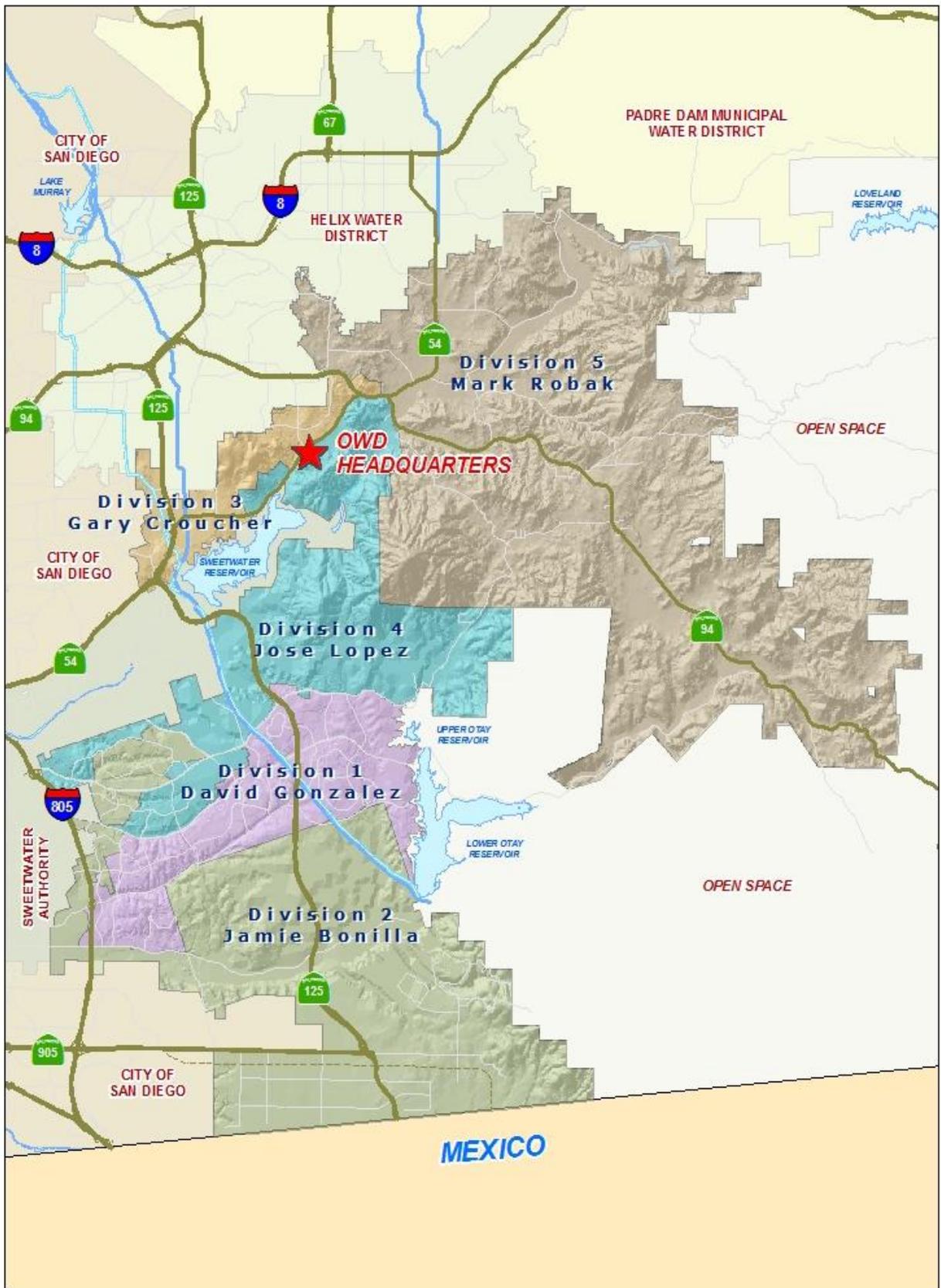
# Board of Directors

Board of Directors	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Benefits	\$ 44,017	\$ 40,000	\$ 53,932	\$ 60,000
Director's Fees	15,100	30,000	13,700	30,000
Travel and Meetings	4,236	16,600	7,781	16,600
<b>Total</b>	<b>\$ 63,353</b>	<b>\$ 86,600</b>	<b>\$ 75,413</b>	<b>\$ 106,600</b>

**Budget vs. Actual**



# Director's Division Boundaries



# General Manager

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## Mission Statement

To provide the best quality of water and wastewater service to the customers of the Otay Water District, in a professional, effective, efficient manner.

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## Key Challenges

“The key challenge for Otay is to find the best solutions that balance our requirements with the significant constraints we face. Some of these constraints are escalating cost, drought, increasing regulatory compliance and uncertainty, customer demands for improved services, and competition for supply and resources. Meeting these challenges required dedication and a commitment to continuous improvement, and the innovative use of technologies and resources.”

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## General Manager’s Vision

“A District that is at the forefront in innovations to provide water services at affordable rates, with a reputation for outstanding customer service.”

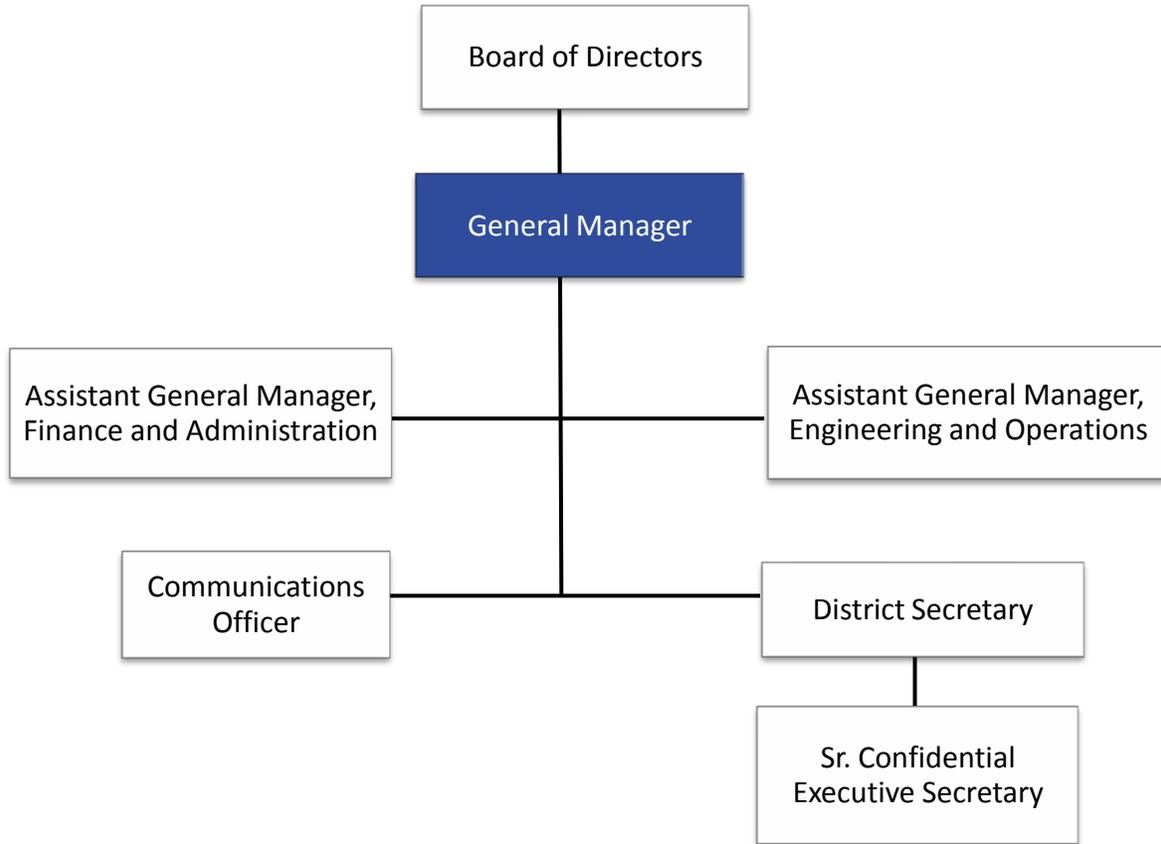
- *Mark Watton*



<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

# Position Count

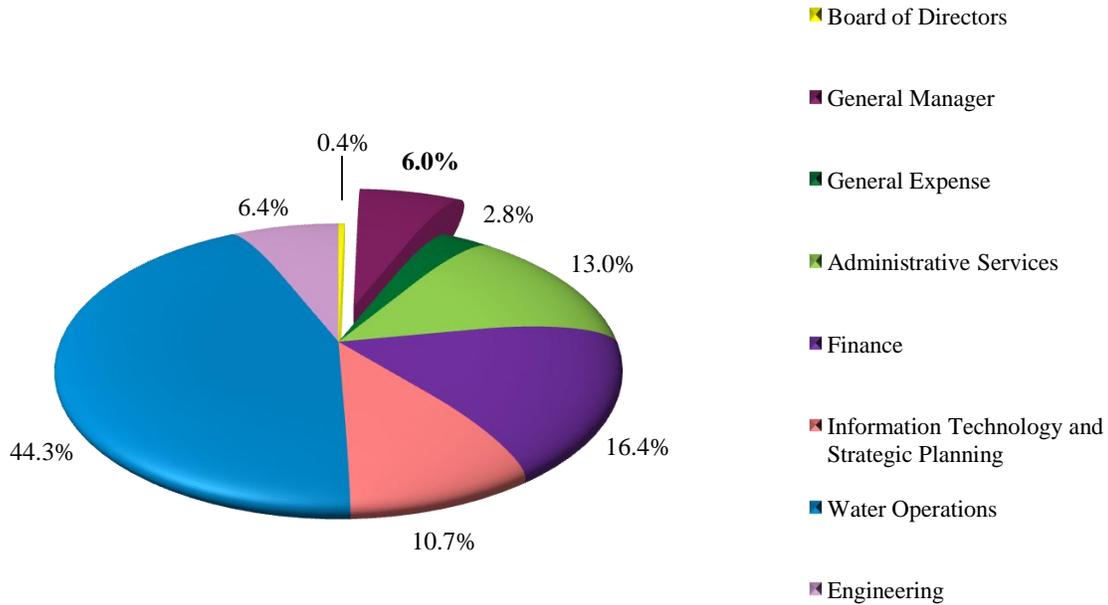
District Position Count - 156  
 General Manager Department - 6



<b>Position Count</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>
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
Sr. Confidential Executive Secretary	1	1	1
Communications Officer	1	1	1
<b>Total</b>	<b>6</b>	<b>6</b>	<b>6</b>

# General Manager

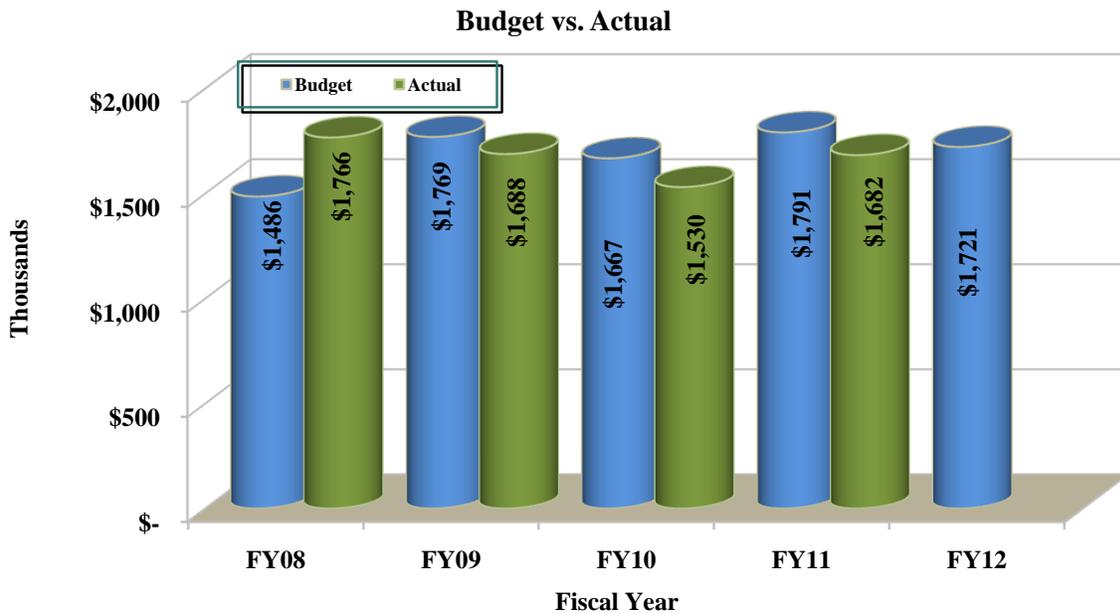
## FY 2012 Total Departmental Budget - \$28.7 Million General Manager - \$1,721,400



	<b>FY 2010 Actual</b>	<b>FY 2011 Budget</b>	<b>FY 2011 Estimated</b>	<b>FY 2012 Budget</b>
General Manager	\$ 975,124	\$ 1,194,600	\$ 1,106,975	\$ 1,079,000
Legal	3,777	-	209	9,800
Assistant General Manager, Finance and Administration	285,261	306,500	298,787	321,700
Assistant General Manager, Engineering and Operations	266,244	289,500	276,477	310,900
<b>TOTAL</b>	<b>\$ 1,530,407</b>	<b>\$ 1,790,600</b>	<b>\$ 1,682,448</b>	<b>\$ 1,721,400</b>

# General Manager

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,275,172	\$ 1,327,900	\$ 1,334,420	\$ 1,429,400
Travel and Meetings	46,816	73,800	46,186	63,500
Conservation and Outreach	5,562	7,000	2,997	5,000
General Office Expense	14,505	24,000	6,444	8,000
Equipment	-	1,500	-	1,500
Fees	39,159	46,000	50,132	46,000
Services	148,780	310,400	241,926	168,000
Training	99	-	90	-
Miscellaneous	313	-	253	-
<b>Total</b>	<b>\$ 1,530,406</b>	<b>\$ 1,790,600</b>	<b>\$ 1,682,448</b>	<b>\$ 1,721,400</b>



# General Manager

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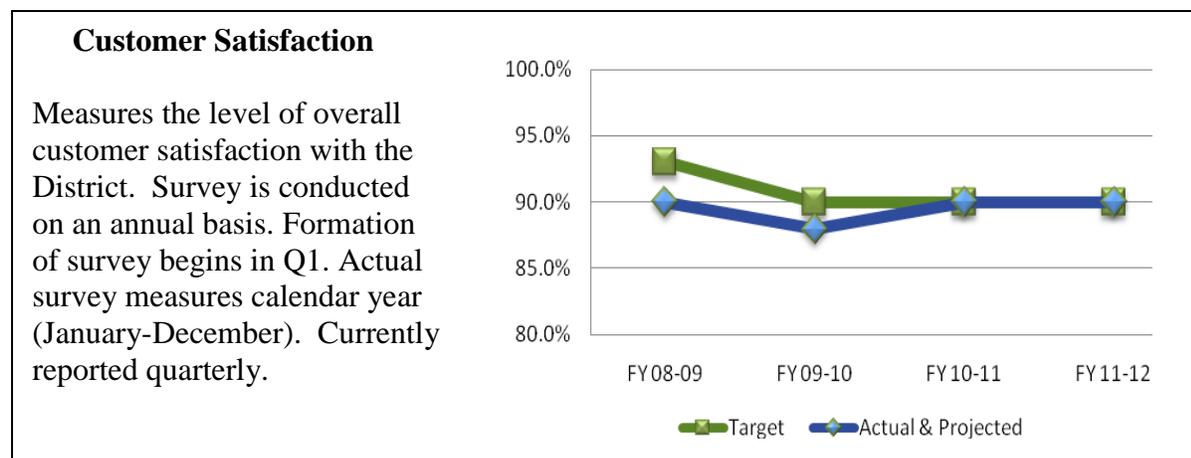
## Services We Provide

The General Manager's office provides staffing, scheduling, and other support to the Board of Directors, General Manager, and Assistant General Managers. The office posts and disseminates meeting notices, agendas, minutes, sets board meeting dates, and assists in conducting board and committee meetings. It also manages public and media relations, bi-national and legislative affairs, and provides liaison with local elected officials and community groups. The General Manager's office oversees the production and distribution of publications and notices to inform the public of District functions, policies, and services. The office also coordinates special events and provides staffing and support to local water associations.

## Strategic Plan Objectives

- Regularly evaluate communications tools and explore the effective use of new media options including: electronic newsletters, auto-dialer services, video streaming, social networks, or web media to ensure the District's outreach efforts are cost-effectively reaching all stakeholders.

## Performance Measures



## Accomplishments – Fiscal Year 2010-2011

- The Otay Water District prides itself on having water rates that are among the lowest of San Diego County's 24 water agencies. For a typical customer using 15 units per month, Otay's water rates are the 7th lowest in San Diego County.
- Customers continually report high levels of satisfaction and trust in the Otay Water District as their service provider. In the most recent customer survey, 93% of customers rated the District as good, very good, or excellent. These numbers are higher than in 2009 and 2010.

# General Manager

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- Customers also report a substantial amount of trust in the ability of the District to provide them with clean, safe water, and they view water service as one of the best values for their dollar: above gas & electricity, telephone service, cable TV, and Internet access.
- Employee morale is also very high. Nearly three-fourths (73%) of all employees rate their satisfaction as a 6 or 7 on a scale of 1 to 7. Nine out of ten (87%) rate their level of satisfaction as a 5, 6, or 7. While outstanding, an even higher percent (96%) state they would recommend Otay as a place of employment.
- Otay is continually recognized by outside organizations as a leader in the water industry. The recognition comes from prominent national and internationally known organizations. When evaluated against comparably-sized public agencies, Otay consistently ranks among the very best. This year, Otay received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada for the seventh year in a row. Getting the award just once is an accomplishment for any public agency. Receiving it for the seventh consecutive year reflects on Otay's longstanding commitment to transparency and public accountability.
- Each year Otay retains an auditing firm to review its finances and accounting practices. As in previous years, no material errors or weaknesses were identified and there were no findings to present in the management letter. Retaining an outside auditing company is also an example of Otay's commitment to accountability and transparency.
- The Otay Water District has a AA (Double A) credit rating from the rating agencies Standard and Poor's, and Fitch. This is an excellent credit rating for a public agency of its size and reflects on Otay's high credit worthiness. For the average customer, it means they pay less interest on bonds issued for future capital improvement projects, which helps to keep water rates down.
- Otay's capital improvement projects are completed on schedule, on budget, and with a minimum of change orders. For instance, the 5-mile Jamacha Road Pipeline Project was not only the largest capital improvement project in the District's 55-year history, but also one of the most challenging. Despite the challenges, the project was completed on-time and more than \$1 million under budget.
- The District has been committed to using technology to enhance customer service and utilize staff more efficiently. Through the innovative and practical use of technology, Otay has reduced the number of full-time employees even as it delivers more services to a larger customer base.
- Otay maintains excellent relationships with local elected officials, neighboring water agencies, community planning groups, chambers of commerce, civic organizations, and has even established close working partnerships south of the border with the cities of Tijuana and Rosarito Beach, Mexico, with the Governor of Baja California Norte, and the public agencies serving the region.

# Administrative Services

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## Mission Statement

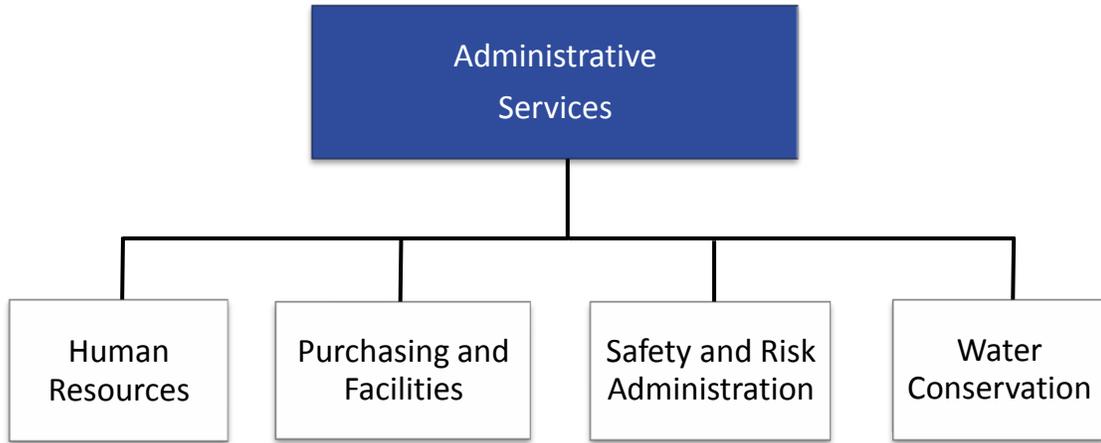
To provide support to the Board of Directors, the General Manager, and District staff by identifying and meeting objectives to satisfy the needs of our customers by providing, through best management practices, the full range of employer and employee services, administrative services, risk management,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



<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

# Position Count

District Position Count - 156  
Administrative Services Department - 18



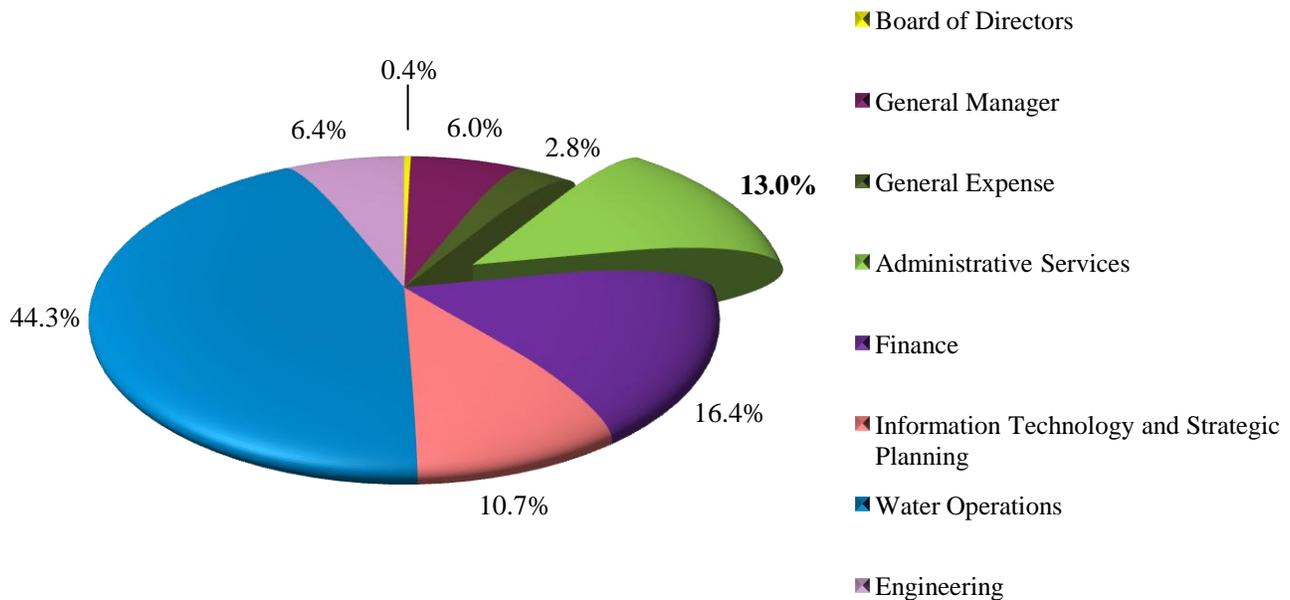
<b>Position Count</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>
Chief, Administrative Services	1	1	1
Confidential Executive Secretary	1	1	1
Confidential Secretary	1	1	1
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	1	1
Human Resources Technician	1	1	1
Purchasing & Facilities Manager	1	1	1
Buyer I and II	2	0	0
Senior Buyer	0	1	1
Assistant Buyer	0	1	1
Lead Warehouse Worker / Facilities Worker	1	1	1
Warehouse / Delivery Worker	2	1	1
Facilities Maintenance Technician	2	2	2
Facilities Maintenance Assistant	1	0	0
Records Assistant	0	1	0
Safety & Security Administrator	1	1	1
Water Conservation Manager	1	1	1
Water Conservation Specialist	2	2	2
<b>Total</b>	<b>20</b>	<b>19</b>	<b>18</b>

# 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 2012 Total Departmental Budget - \$28.7 Million Administrative Services - \$3,727,400

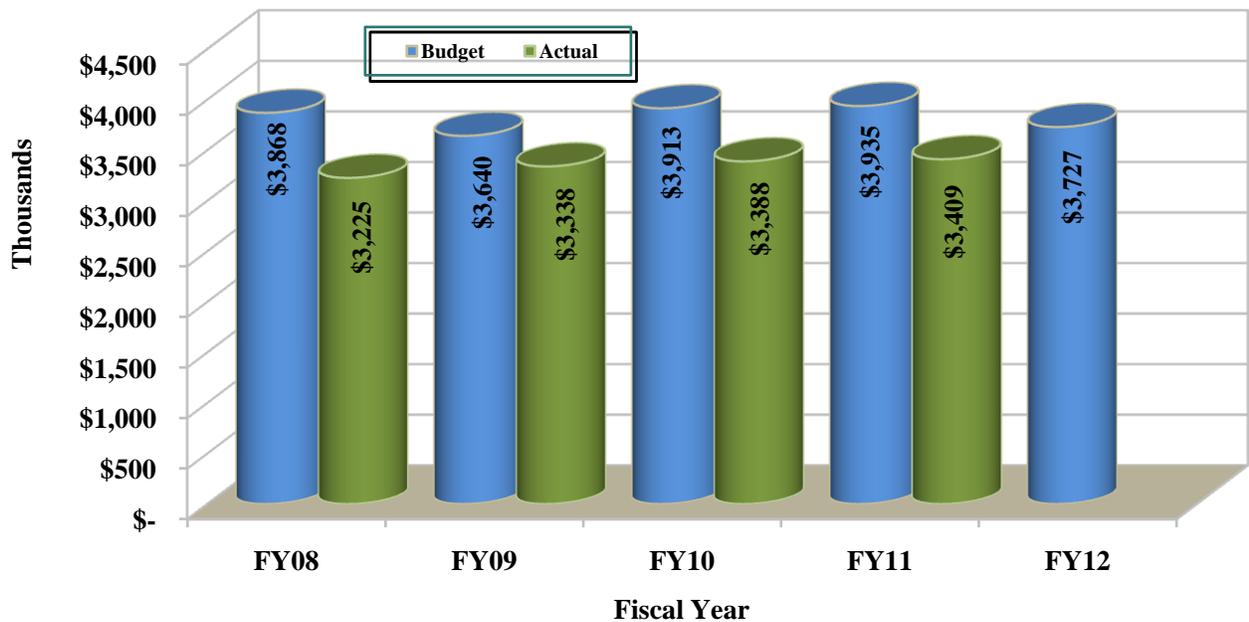


	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
Administrative Chief	\$ 392,147	\$ 430,500	\$ 427,190	\$ 465,000
Human Resources	705,450	852,200	723,138	787,100
Purchasing and Facilities	1,448,780	1,458,900	1,344,254	1,451,300
Safety and Security	264,678	338,500	323,625	312,200
Water Conservation	576,895	855,100	590,906	711,800
<b>TOTAL</b>	<b>\$ 3,387,950</b>	<b>\$ 3,935,200</b>	<b>\$ 3,409,113</b>	<b>\$ 3,727,400</b>

# Administrative Services

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
Labor and Benefits	\$ 2,250,322	\$ 2,382,200	\$ 2,324,156	\$ 2,503,100
Travel and Meetings	11,179	25,200	16,375	22,300
Conservation and Outreach	235,173	472,700	254,009	295,800
General Office Expense	102,471	126,000	98,420	123,900
Equipment	79,548	76,200	56,991	45,100
Fees	7,220	8,000	7,602	6,000
Services	211,288	390,200	246,392	286,100
Training	90,744	112,500	97,386	104,200
Materials & Maintenance	383,491	326,900	289,518	321,900
Power and Utilities	16,514	15,300	18,264	19,000
<b>Total</b>	<b>\$ 3,387,950</b>	<b>\$ 3,935,200</b>	<b>\$ 3,409,113</b>	<b>\$ 3,727,400</b>

**Budget vs. Actual**



# *Administrative Services*

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## **Human Resources**

### **Services We Provide**

Human Resources, under the direction of the Chief of Administrative Services, provides the following support services: recruits, selects and ensures the retention of qualified employees; develops, implements and administers policies, procedures, collective bargaining contracts and employee programs; ensures up-to-date classification plans and a competitive compensation program; manages benefits programs for employees and retirees; manages the Workers' Compensation program; oversees employee performance through management staff to include employee training and development, recognition and incentives, performance evaluation process and employee discipline; ensures legal compliance and implements work/life balance initiatives to include a comprehensive wellness program.

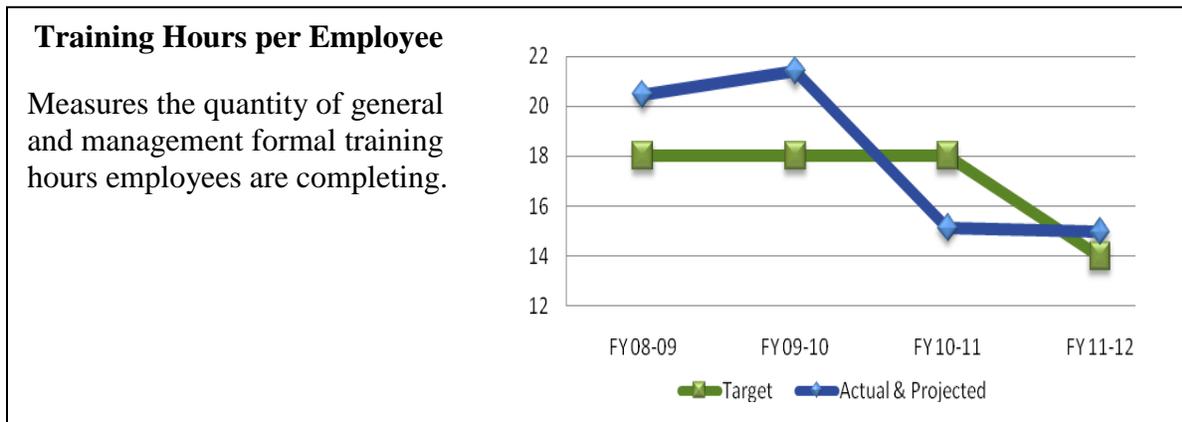
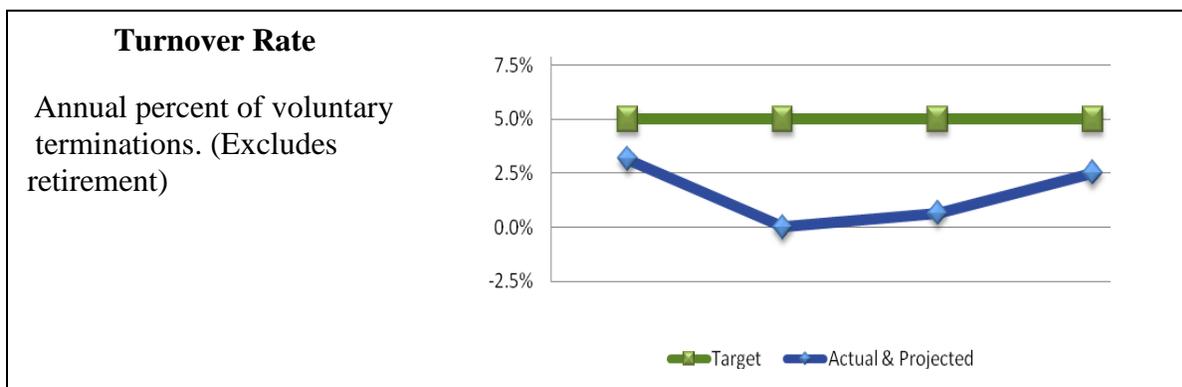
### **Strategic Plan Objectives**

- Continue promoting the Water Conservation Garden as a venue for new homeowners, developers, businesses and existing homeowners.
- Increase and best target conservation related communications, such as surveys and comparative information, by expanding the use of electronically based information.
- Closely monitor the District's potable water demand to ensure the District will remain on target to achieve its 2015 good target as identified in the 2010 Urban Water Management Plan.
- Ensure best practices are followed in meeting the 20 by 2020 conservation targets including reclassification of industrial and commercial customers.
- Educate and work with local agencies and others to influence developers, builders, and to incorporate practical water efficient practices in new construction.
- Review and consider implementing online employee self-services.
- Enhance security processes and planning.
- Update the disaster recovery plan.
- Identify management initiatives for represented/unrepresented employees in preparation for negotiations that will provide greater efficiency and more flexibility.
- Evaluate policies and procedures as appropriate to streamline processes and ensure the District remains competitive.
- Review classification plan with the goal of providing greater flexibility.
- Negotiate a successor Memorandum of Understanding for represented employees for 2014 and beyond, and related compensation and benefits for unrepresented employees.

# Administrative Services

- Senior Management Team to develop summary of expectations for management team to manage change in the future.
- Update performance evaluation categories/program to ensure a results-oriented workforce and update and provide training, if needed.
- Evaluate pay-for-performance program to ensure the District is rewarding employees for innovations and business processes.
- Establish a forum for continuous discussion regarding sections/units identifying business process review in support of the District's mission.

## Performance Measures



## Accomplishments – Fiscal Year 2010-2011

- Reviewed and revised the District's Employee Recognition Program to ensure employees are being rewarded for streamlining business processes and promoting cost-effective measures.

# *Administrative Services*

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- Successfully increased Unrepresented Employees contribution to the employees' portion of the CalPERS Pension program by 7% in exchange for the District allowing employees access to self-funded, post-employment health care benefits.
- Implemented loan provisions for the 457 Deferred Compensation plans to provide a positive enhancement to the District's overall benefits program. This program provides employees with the opportunity to take out one loan at a time against their 457 deferred compensation plan.
- Enhanced the Wellness Program by implementing a Weight Management Program to help employees learn skills and habits necessary to maintain a healthy weight.
- Developed, along with IT and the Safety and Security Administrator, the Training Tracking System to more efficiently track all required District training. This system has provided the District with the ability to track training usage and results in order to manage and provide the most efficient opportunities for employees.
- Enhanced and streamlined the benefits open enrollment and workers' compensation program by providing online resources and processing. This provided employees with instant access to necessary documents and also provided automated reports that facilitated the administrative tasks related to processing changes.
- Coordinated and received credit for the Special District Risk Management Authority Credit Incentive Program. The credit totaled \$44,975 for Property and Liability, and \$26,322 for Workers' Compensation premiums.

## **Purchasing**

### **Services We Provide**

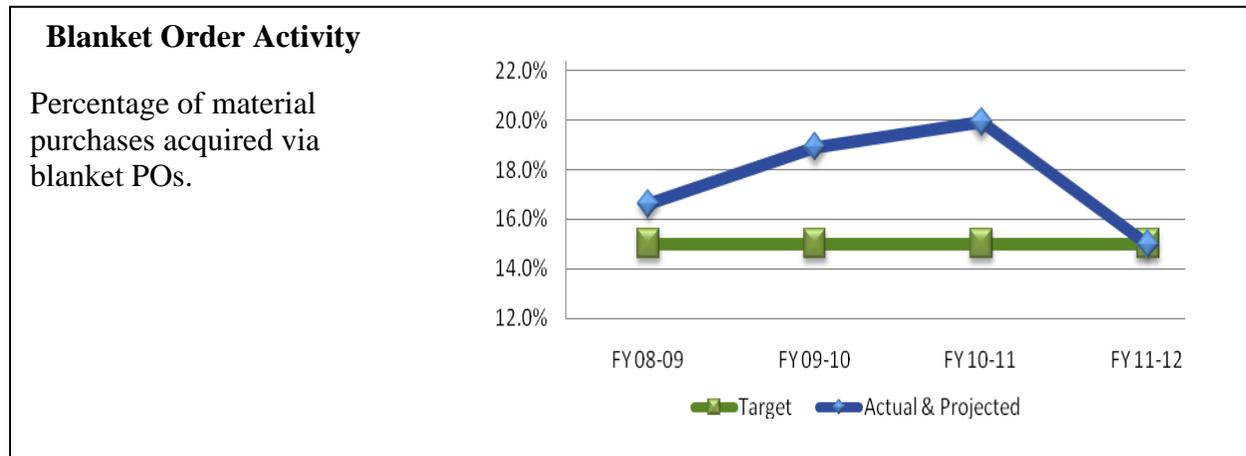
The Purchasing Division, under general direction of the Chief of Administrative Services, oversees the general purchasing standards used within the District; purchases and oversees the procurement of supplies, equipment, and services; controls and administers the District's standard materials inventory; disposes of surplus materials, equipment, and supplies; assists in the acquisition and disposal of non-infrastructure related real estate; performs non-structural facility maintenance work; and administers and manages outsourced facility maintenance service contracts. It also provides, as needed, complex purchasing related analysis and consultation to the District and General Manager.

### **Strategic Plan Objective**

- Enhance the inventory management system.

# Administrative Services

## Performance Measures



## Accomplishments – Fiscal Year 2010-2011

- To stabilize pricing and reduce bidding costs, Purchasing staff solicited bids and obtained authorization to award a long-term, five-year agreement for both janitorial and landscaping services.
- Worked with Accounts Payable staff to evaluate and improve on the accounts payable process, streamlining the progression and input of receiving documents and invoices into the EDEN financial system. These changes distributed the workload and streamlined the process.
- Worked with the Accounting staff to initiate and conduct internal accounting and purchasing procedure reviews and audits resulting in modification to the fixed asset disposal process, streamlining the process and reducing the length of time surplus goods are held prior to disposal.
- Upgraded to a new version of software and system used to track non-capitalized assets and reviewed the type of assets and data maintained by the system, providing additional reporting and the addition of new asset types.
- Cut expenses by switching the District's non-networked copy machines to networked machines, providing fax, scanning, publishing, email, and color capability to all departments.

# Administrative Services

## Safety and Security

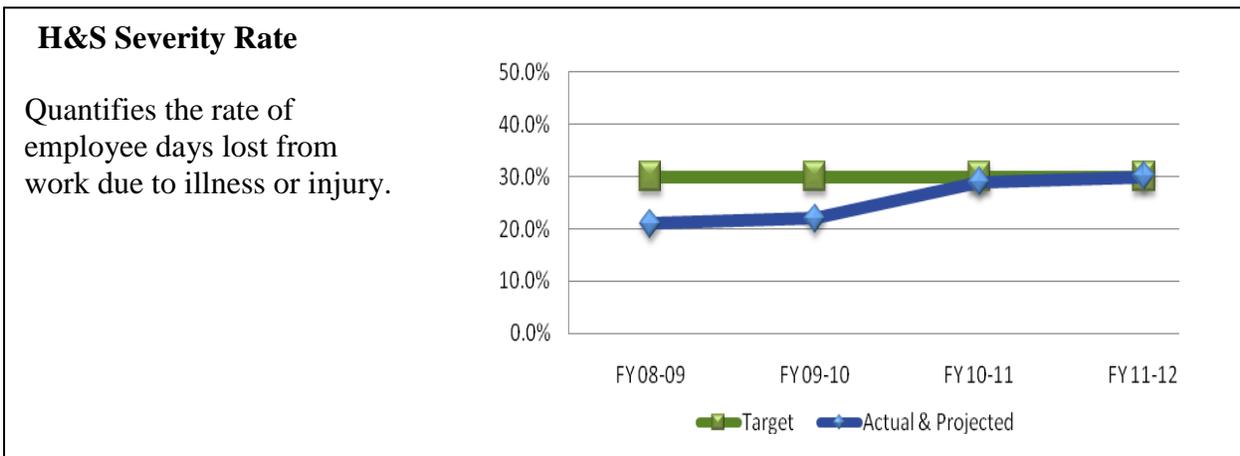
### Services We Provide

Safety and Security, under the direction of the Chief of Administrative Services, provides the following: assesses the occupational exposure to risk; evaluates hazards and mitigation of safety hazards and risk to injury; directs and supervises accident investigations relating to occupational injuries, fleet incidents and/or damage to, or theft of District property; develops hazardous materials business plans, community right-to-know, Risk Management Prevention and Process Safety Management plans; develops and implements procedures to ensure compliance with safe work practices and determines training needs to address issues; develops, implements and manages safety programs; manages the District's security program; implements, schedules and coordinates recurring safety training; coordinates the Department of Transportation (DOT), the District's Drug Free Workplace, and DMV Pull-Notice Programs; and plans and coordinates the District's emergency preparedness program.

### Strategic Plan Objectives

- Enhance security processes and planning.
- Update the disaster recovery plan.

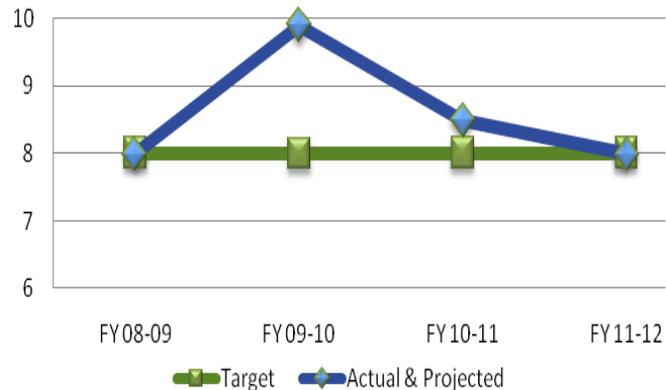
### Performance Measures



# Administrative Services

## Safety Training Program

Safety & Risk Administration will provide a minimum of 8 safety training programs/hours per quarter, which 68 field employees attend.



## Accomplishments – Fiscal Year 2010-2011

- Worked closely with HR, IT and Otay staff on the new Training Tracking System. This system will assist the District in ensuring that the staff is provided with the proper OSHA regulated required training for their section and allows HR and managers track each employee's training. This also helps if any safety regulators request our safety training records as now these records are readily available.
- Upgraded the District's NIMS manual to follow new guidelines and procedures to activate the EOC center in case of an emergency.
- Submitted \$60,000 in claims to FEMA for reimbursement for damages caused by the recent storms.
- Participated in the "2011 ARkStorm Tabletop Exercise – Water Utilities and Stakeholders" meeting hosted by the San Diego County Water Authority, the Water Agencies Emergency Collaborative, and the Office of Emergency Services, to prepare regional water agencies for coping with catastrophic flooding and ensure the uninterrupted supply of safe drinking water to residents.

## Water Conservation

### Services We Provide

Water Conservation, under the direction of the Chief of Administrative Services, provides the following services:

- Promotes and conducts residential surveys and also promotes large landscape surveys as well as the Water Conservation Garden.

## *Administrative Services*

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- Participates in outreach events throughout the community, including the WaterSmart plant sale, the Spring Garden Festival, Cinco de Mayo, Lemon Festival, Bonita Festival, JamulFest, and the Fall WaterSmart Gardening Festival.
- Funds and promotes a variety of incentive and other programs available to its customers including rebates for high efficiency clothes washers, high efficiency toilets, turfgrass replacement with WaterSmart plants, rotating sprinkler nozzles and weather based irrigation controllers, and the WaterSmart Landscape contest.
- Promotes the school education program, which includes funding tours at the Water Conservation Garden, the “Water is Life” poster contest, and the water themed high school photo contest.
- Develops water efficiency requirements for new construction.
- Submits regular reports on the District’s status with regard to the Water Conservation Best Management Practices as developed by the California Urban Water Conservation Council.
- Manages the District’s Water Shortage Response Plan as well as its water waste reporting program.

### Strategic Plan Objectives

- Continue promoting the Water Conservation Garden as a venue for new homeowners, developers, businesses, and existing homeowners.
- Closely monitor the District’s potable water demand to ensure the District will remain on target to achieve its 2015 gpcd (gallons per capital per day) target as identified in the 2010 Urban Water Management Plan.
- Ensure best practices are followed in meeting the 20 by 2020 conservation targets including reclassification of industrial and commercial customers.
- Educate and work with local agencies and others to influence developers, builders, and to incorporate practical water efficient practices in new construction.

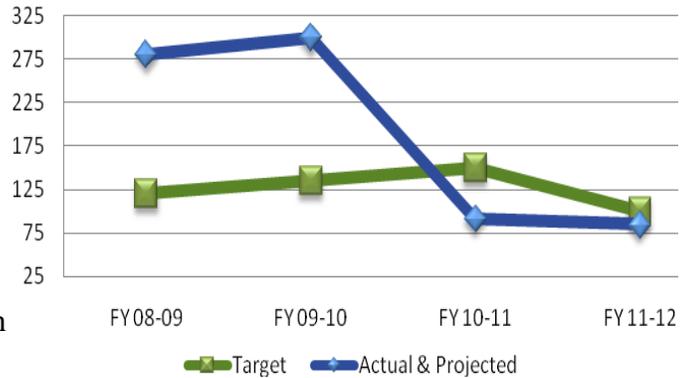
# Administrative Services

## Performance Measures

### Total Water Saved

Estimate of water saved per acre-foot through conservation programs.

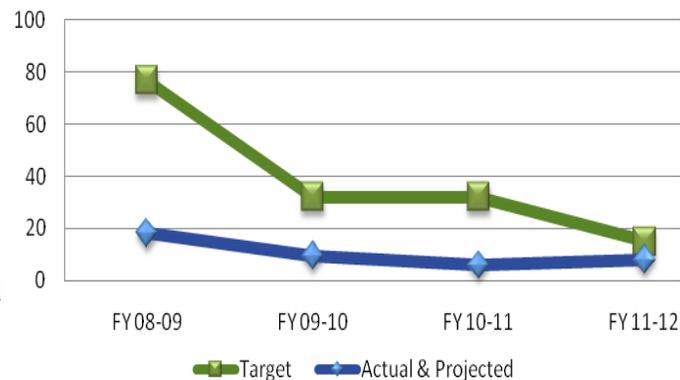
High levels of conservation during FY 08-09 and 09-10 was achieved via several large projects and rebates. Some of the conservation programs have been eliminated by MWD.



### Otay Water Use (District Meters)

Consumes 32 acre-feet or less of potable water at District sites.

The District has been able to maintain a significant reduction of water use at its sites since 2008. The 2012 targeted water usage was reduced to 15AF.



## Accomplishments – Fiscal Year 2010-2011

- Recipient of the “2010 National Water and Energy Conservation Award” from the Irrigation Association for the District’s successful implementation of a number of conservation programs.
- The District, through many innovative programs, increased its annual water conservation savings from 92 acre-feet to 2,075 acre-feet (1,983 + 92) of water saved this fiscal year.
- The District’s Water Conservation Manager was selected to serve as the Chair of the Water Use Efficiency Practitioner Certification Committee for the CA/NV Section of AWWA.

## 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.



*Meter Readers*

*Finance Department Staff*

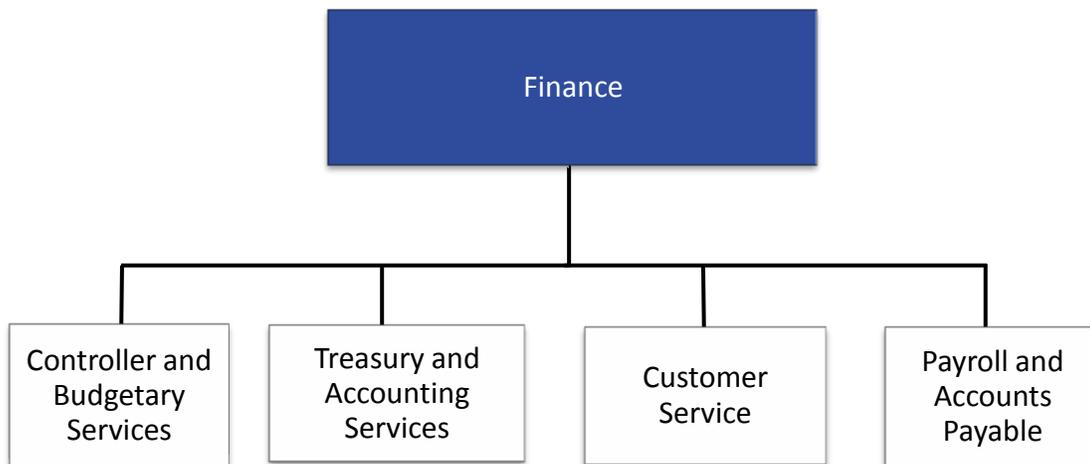


<u>Division Title</u>	<u>Division No.</u>
Finance Chief .....	2311
Controller and Budgetary Services .....	2321
Treasury and Accounting Services .....	2331
Customer Service .....	2341
Payroll and Accounts Payable .....	2251

# Position Count

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District Position Count - 156  
 Finance Department - 32

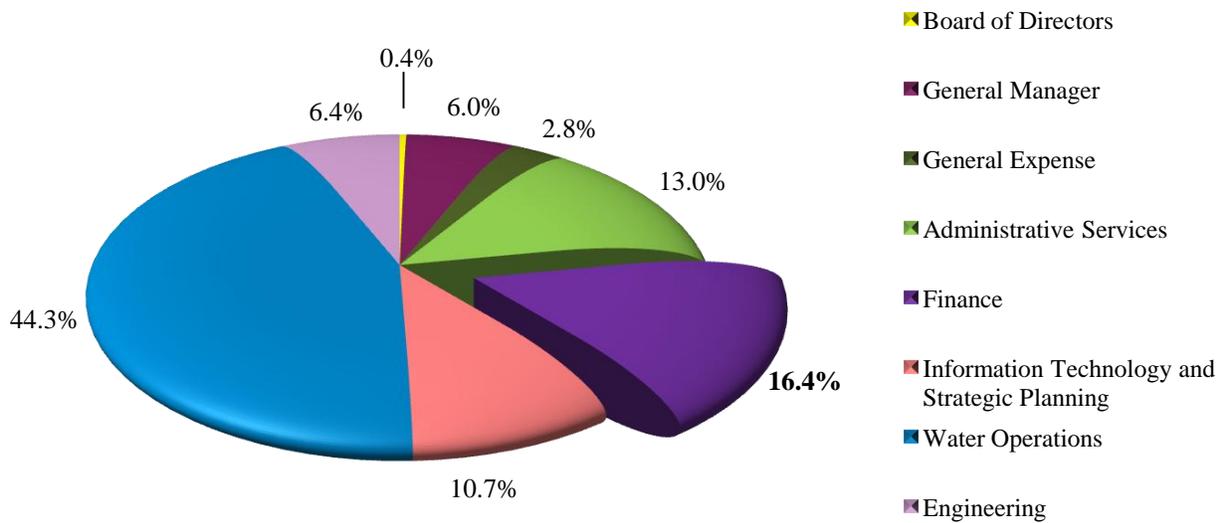


<b>Position Count</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Finance Manager, Treasury and Accounting	1	1	1
Finance Manager, Controller and Budget	1	1	1
Finance Supervisor, Payroll and A/P	1	1	1
Customer Service Manager	1	1	2
Customer Service Supervisor	2	2	0
Senior Accountant	4	4	4
Accountant	4	4	3
Payroll Technician	1	0	0
Accounting Assistant	1	0	0
Accounting Technician	0	2	2
Senior Customer Service Representative	2	2	2
Customer Service Representative I, II and III	9	8	8
Lead Customer Service Field Representative	1	1	1
Customer Service Field Representative I and II	7	5	4
<b>Total</b>	<b>38</b>	<b>35</b>	<b>32</b>

## Department Responsibilities

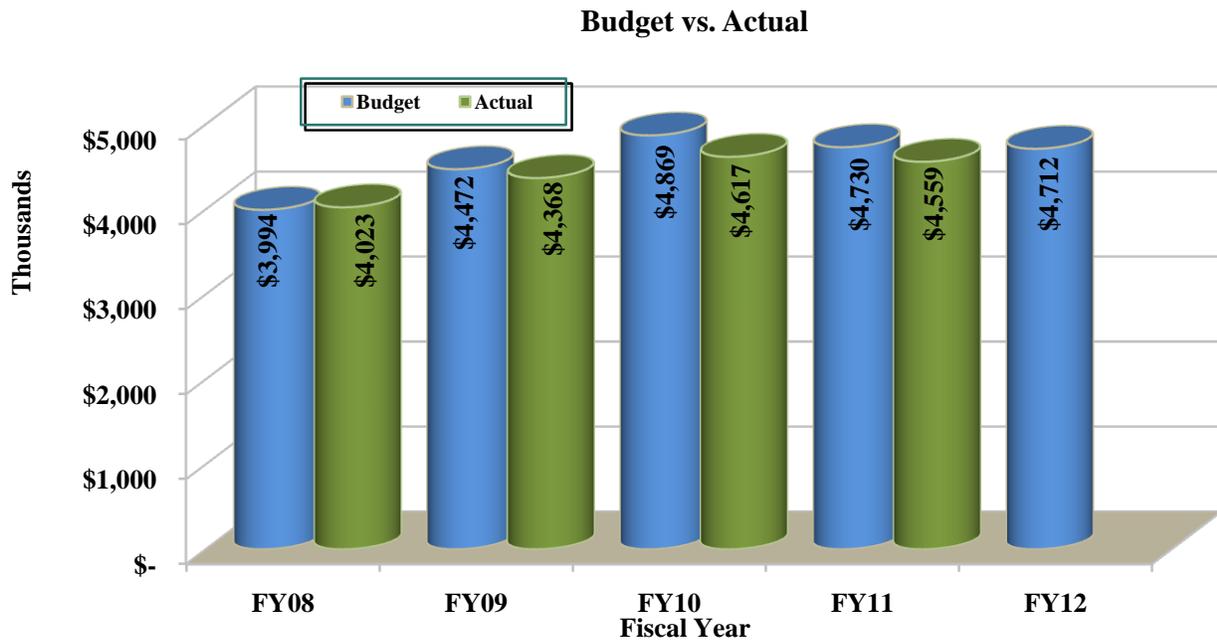
The Finance and Accounting Department, under the general direction of the Assistant General Manager, provides the following support services: Controller and Budgetary Services, Treasury and Accounting Services, Customer Service, and Payroll and Accounts Payable; ensures District’s conformance with modern 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 2012 Total Departmental Budget - \$28.7 Million Finance - \$4,712,000



	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
Finance Chief	\$ 416,044	\$ 448,300	\$ 474,171	\$ 502,400
Controller and Budgetary Services	607,304	619,500	618,096	644,300
Treasury and Accounting Services	1,094,767	1,148,000	1,085,178	1,086,300
Customer Service	2,160,885	2,142,200	2,016,934	2,068,000
Payroll and Accounts Payable	338,243	372,300	364,707	411,000
<b>TOTAL</b>	<b>\$ 4,617,243</b>	<b>\$ 4,730,300</b>	<b>\$ 4,559,086</b>	<b>\$ 4,712,000</b>

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 3,858,267	\$ 4,027,500	\$ 3,865,686	\$ 4,040,400
Travel and Meetings	17,997	19,100	11,139	14,600
General Office Expense	213,045	197,400	187,882	182,900
Equipment	143	3,200	208	200
Fees	316,324	308,000	312,086	283,000
Services	211,167	174,500	181,895	190,600
Training	300	600	190	300
<b>Total</b>	<b>\$ 4,617,243</b>	<b>\$ 4,730,300</b>	<b>\$ 4,559,086</b>	<b>\$ 4,712,000</b>



## Controller and Budgetary Services

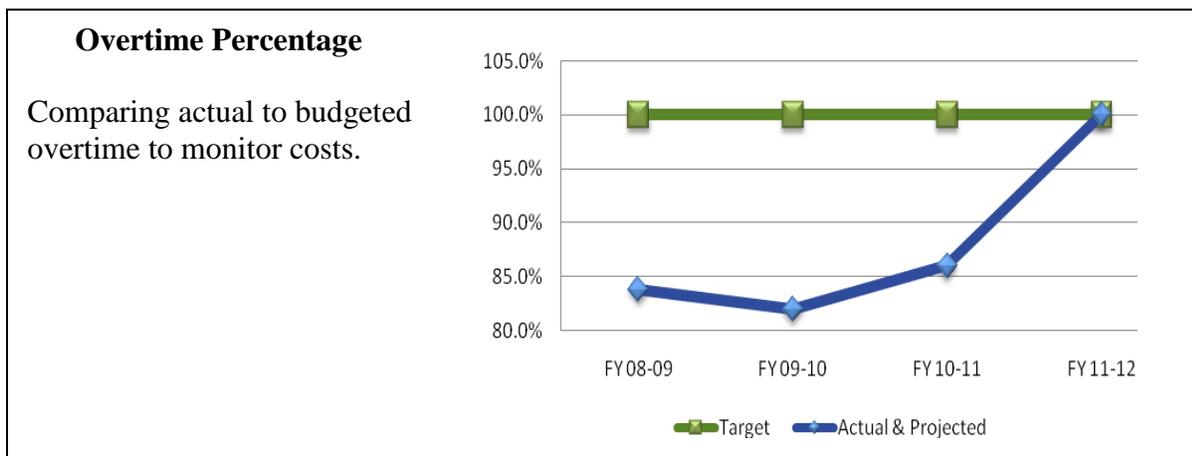
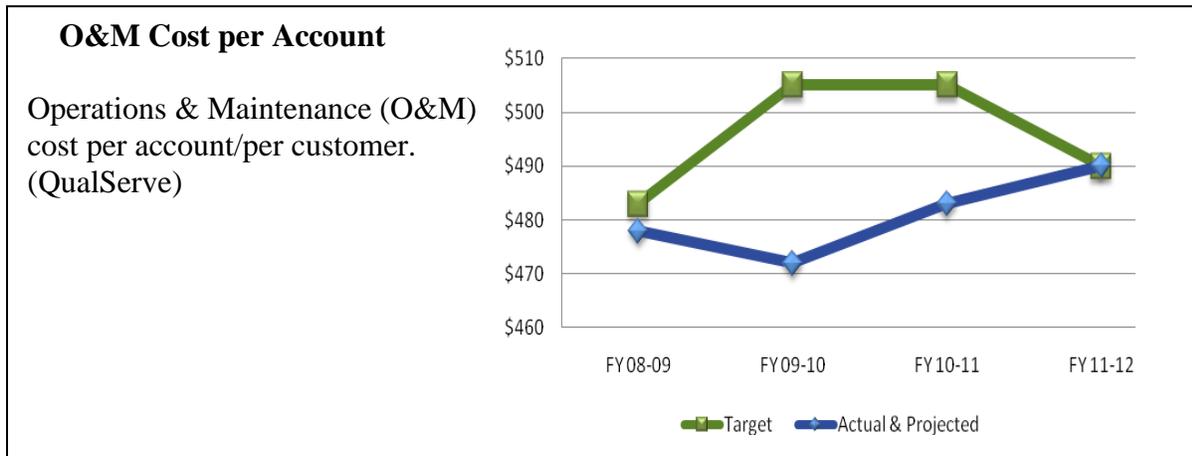
### Services We Provide

The Controller and Budgetary Services Division is responsible for developing and publishing the annual operating and capital budgets as well as preparing the six-year financial plan and setting rates. Prepares monthly and annual reports, monitors budget variances and coordinates interactions with outside agencies. Assists other departments with special projects such as; the preparation of cost studies, validation of financial data, and preparation of the District's overhead and benefits rates and calculations.

### Strategic Plan Objectives

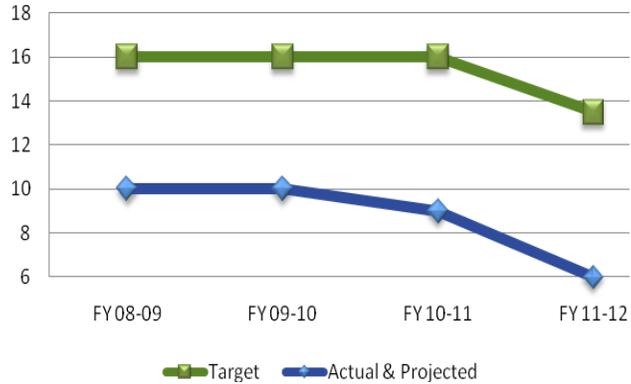
- Strengthen the long-term financial plan.
- Develop sewer capacity fees for expansion.

### Performance Measures



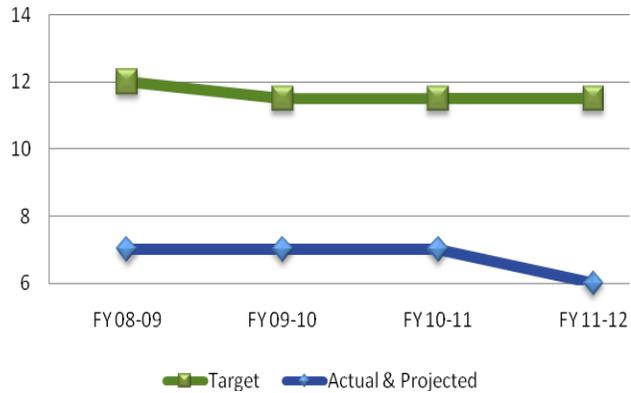
**Sewer Rate Ranking**

District's average customer bill as compared to other agencies in San Diego County. Otay is ranked 6th of 27 agencies.



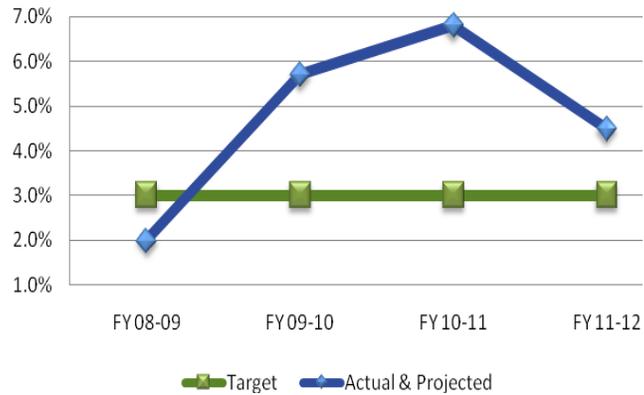
**Water Rate Ranking**

District's average customer bill as compared to other agencies in San Diego County. Otay is ranked 6th of 23 agencies.



**Distribution System Loss**

Percentage for unaccounted water (QualServe).



## Accomplishments – Fiscal Year 2010-2011

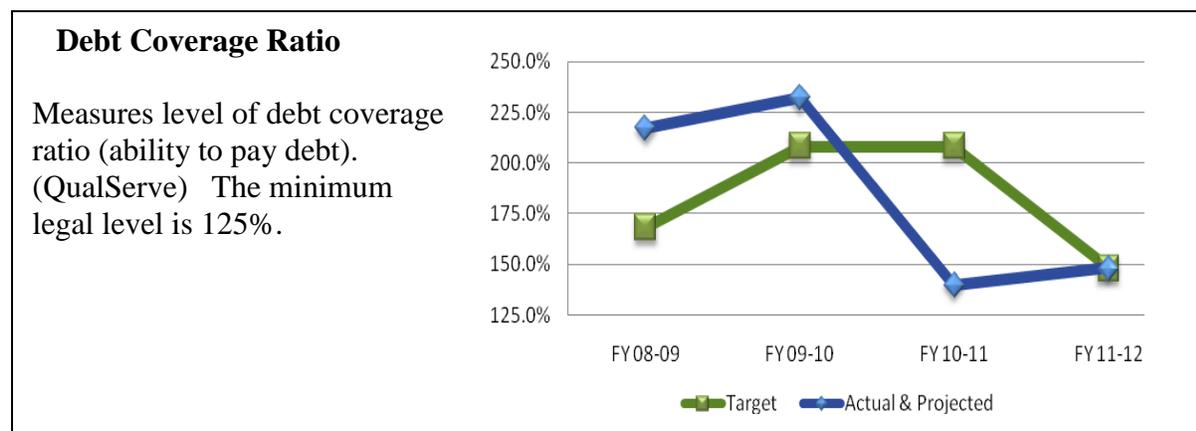
- Prepared a balanced budget that is coordinated with the Strategic Plan and received the Government Finance Officers Association (GFOA) “Distinguished Budget Presentation Award” for the seventh consecutive year by meeting nationally recognized guidelines. This award is a significant achievement and is the highest form of recognition in governmental budgeting.
- The budget received the “Excellence in Operating Budgeting” award from the California Society of Municipal Finance Officers (CSMFO) which recognizes agencies that have prepared a budget document that meets certain standards.
- The Capital Improvement Program (CIP) budget received the “Excellence in Capital Budgeting Award” from the CSMFO for the sixth year in a row.
- Updated the Reserve Policy to reflect the new methodology based on the Capacity and Annexation Fee Study conducted in the prior year. Included in the policy is the New Water Supply Fee and accounting for debt proceeds.

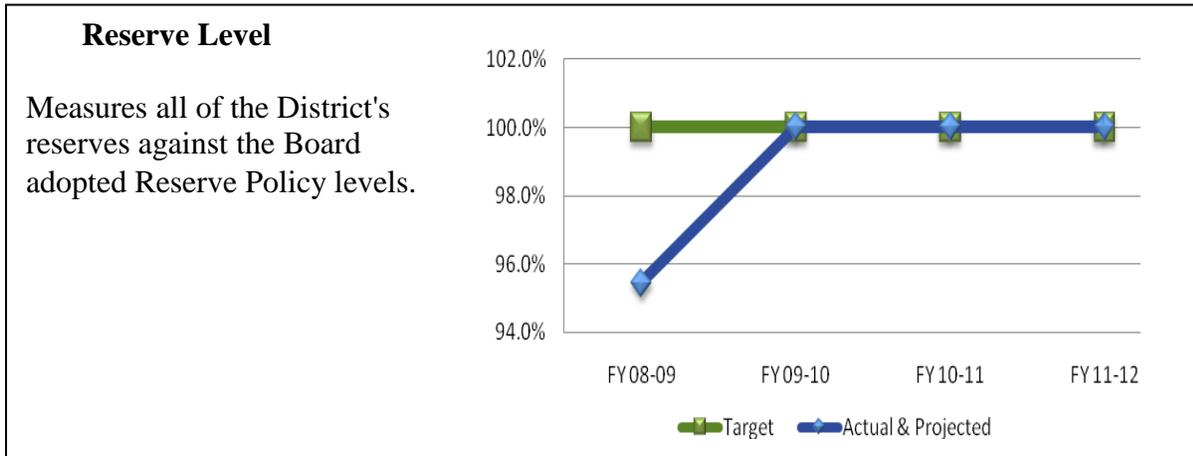
## Treasury and Accounting Services

### Services We Provide

The Treasury and Accounting Services Division coordinates and directs the activities of the general ledger accounting; audit; banking and cash management; investments and treasury functions; debt financing; job costing; cost accounting; accounts receivable and debt collections; fixed assets; and contract review. Also responsible for completing the District’s annual financial audit and publishing of the Comprehensive Annual Financial Report (CAFR). Conducts an annual review of the District’s Investment Policy, as required by law, with approval by the Board of Directors. Provides financial analysis and review of staff projects and operational business proposals. Assists in the preparation of the District’s annual operating and capital budgets, along with updating the Rate Model and the six-year financial plan.

### Performance Measures





## Accomplishments Fiscal – Year 2010-2011

- Awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 7th consecutive year. GFOA is a professional association of approximately 17,500 state, provincial, and local government finance officers in the United States and Canada that sponsors award programs designed to encourage good financial reporting, for financial documents including the Comprehensive Annual Financial Report (CAFR) and the annual budget.
- Updated the District's GASB 45 Actuarial Valuation for 2011–2013. This included changes to the District's retirement benefits package and reconciliation of the District's accounting for OPEB reserve funds. Government Accounting Standards Board Statement 45 (GASB 45) is an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with Other Post-Employment Benefits (OPEB). Reported OPEBs may include post-retirement medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits that are not associated with a pension plan.
- Staff completed internal audits in the following areas: a) Check requests/payments without a purchase order; b) Obsolete inventory; c) Parcel deferral agreements; and d) Vehicle fast passes. Additionally, the District's independent outside auditors completed reviews of internal controls in the following areas: a) Cash & Investments; b) Payroll; and c) Purchasing & Accounts Payable. The auditors are in the process of finalizing their written reports. The District actively promotes a program of strong internal controls to protect against losses due to unauthorized activities or financial transactions.

- Staff achieved an overall rate of return on the District's portfolio in excess of the California State Local Agency Investment Fund (LAIF) rate of return, despite the falling economy and available investment rates. This goal has now been met for more than 3-1/2 continuous years. It is the District's policy to invest any available 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 statutes governing the investment of public funds.

## **Customer Service**

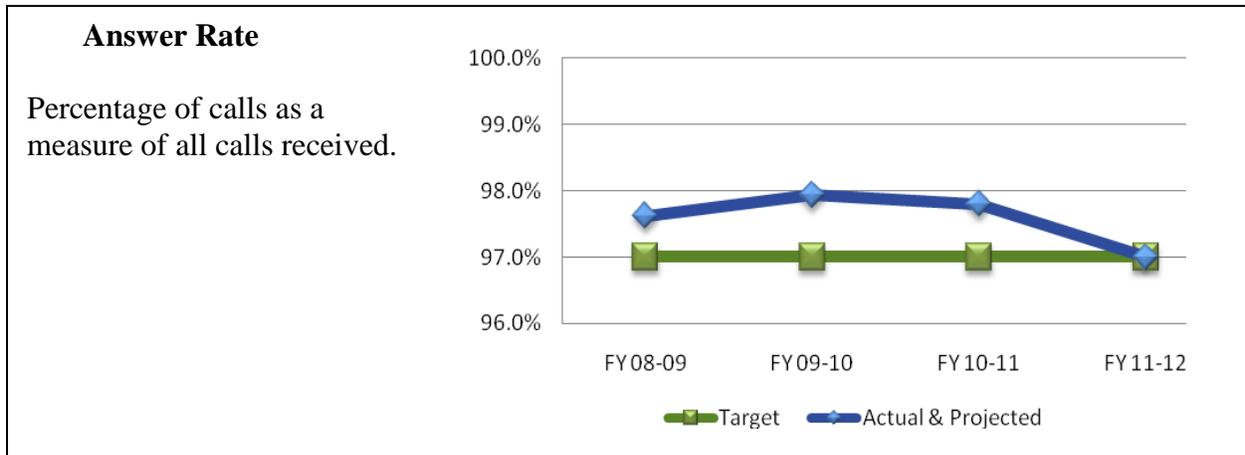
### **Services We Provide**

The Customer Service Division is responsible for providing meter reading, billing, receipting, and customer care for water and sewer services. The meter reading team reads approximately 49,000 meters a month using manual and automatic meter reading technology. The District is almost three quarters of the way through the conversion to an automated meter reading system that will enhance the District's efficiency, accuracy and customer service. The billing and customer care teams handle the coordination of billing and receipting of approximately 50,000 accounts per month. Customers are offered various payment options including ACH, web, IVR (telephone) and the convenience of multiple locations for walk-in payments. The District has an automated phone system and web portal which gives customer's access to their account information 24/7. If they desire more personal service, the customer care team handles an average of 6,500 customer calls per month.

### **Strategic Plan Objectives**

- Enhance communications with customers using our new phone system.
- Increase customers employing on-line bill payment.
- Evaluate the feasibility of replacing the existing customer information system or migrating to the new version of the Eden software.
- Improve and streamline meter related processes.

## Performance Measures



## Accomplishments – Fiscal Year 2010-2011

- Successfully transitioned 3,500 accounts from in-house automated payment processing to our new online bill pay vendor which resulted in a reduction of staff time by more than 10 hours per month. The new automated service allows customers increased payment flexibility with the ability to pay using bank accounts and credit/debit cards.
- The ongoing Automated Meter Reader (AMR) change-out program, which included 4,559 meters this year, has reduced time spent on manual meter reading allowing for the reduction of one FTE position. Currently, 73.25% of the District's 49,057 meters are AMR.
- Implemented a new phone system with additional IVR and auto-dialer capabilities. Customers are now greeted with an automated attendant and have the ability to select from a variety of options including a dial by name directory.

- Further refined the collection process by transferring delinquent accounts to outside agencies bi-monthly rather than monthly. By increasing the frequency of the account transfers, Otay has reduced the number of days prior to the start of collection actions.
- Changed the process for reading Fire Service meters to coincide with domestic and irrigation service meter reads. This change has increased efficiency by decreasing field trips and is expected to save the District approximately 120 hours annually.
- Modified existing payment processing contracts to take advantage of Utility Discounts thus reducing the District's cost for processing credit and debit card payments by approximately .8%.
- The lock process for non-compliance of backflow meters was duplicated in two departments resulting in more field trips. Combining this process under one department has resulted in greater efficiency and a reduction in staff time.

## **Payroll and Accounts Payable**

### **Services We Provide**

The Payroll Division pays 159 full-time and temporary employees on a bi-weekly basis using the District's Integrated Financial Eden System. Timesheets and pay stubs are collected and distributed electronically. Tax returns are filed on a quarterly basis and W2's are filed annually. Benefits and deductions are processed bi-weekly through Accounts Payable. Approximately 750 invoices are processed on a monthly basis.

### **Strategic Plan Objective**

- Streamline accounts payable business processes

### **Accomplishments – Fiscal Year 2010-2011**

- Accounts payable processes are being reviewed and streamlined to further increase efficiencies after the reduction of 1 FTE.
- Completed bi-weekly payroll and weekly account 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 W2s and 1099s for 2010.

# Information Technology and Strategic Planning

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## Mission Statement

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

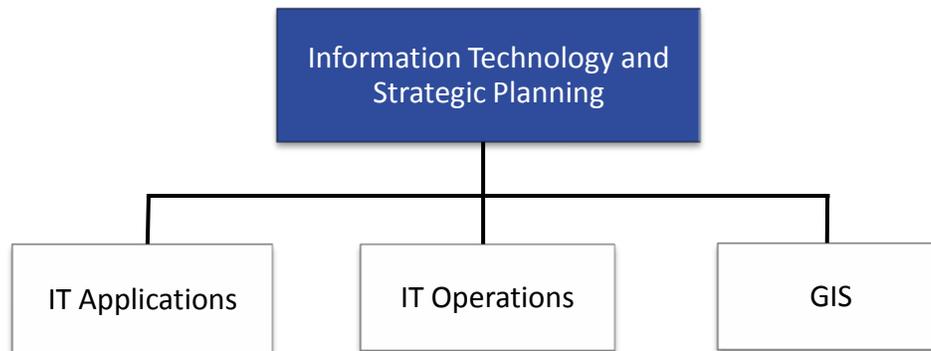


<u>Division Title</u>	<u>Division No.</u>
IT Chief/Applications .....	2411
IT Operations .....	2421
Geographic Information System (GIS) .....	2431

# Position Count

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District Position Count - 156  
 Information Technology & Strategic Planning Department - 13



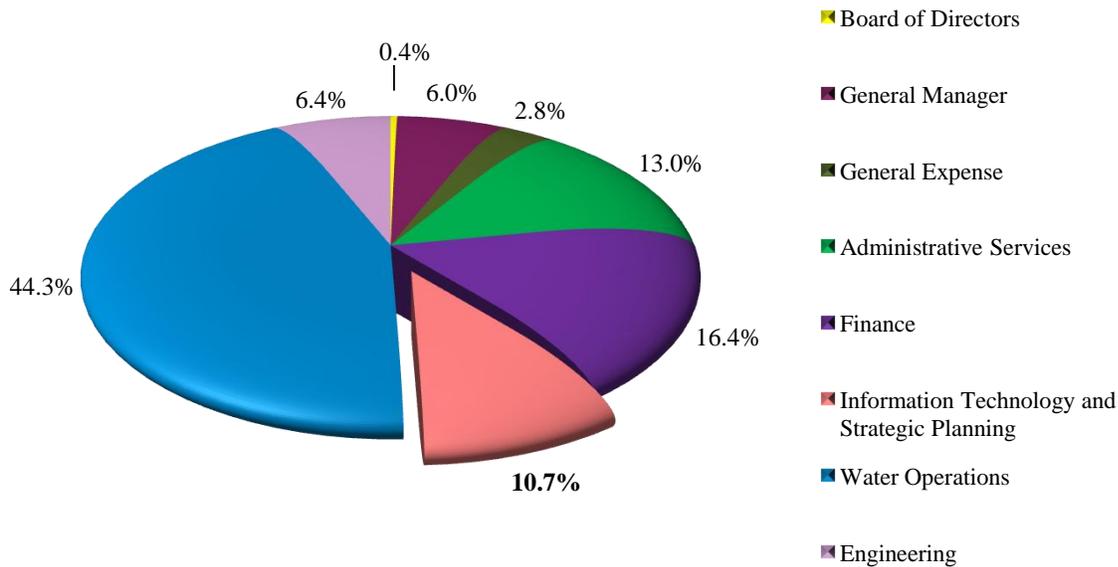
<b>Position Count</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>
Chief Information Officer	1	1	1
GIS Manager	1	1	1
IT Operations Manager	1	1	1
GIS Programmer/Analyst	1	1	1
GIS Analyst	0	1	1
GIS Technician	2	1	1
Network Engineer	1	1	1
Database Administrator	1	1	1
Lead Business System Analyst	0	1	1
Business System Analyst I and II	3	2	2
Network Analyst	1	1	1
Records Assistant	1	0	1
<b>Total</b>	<b>13</b>	<b>12</b>	<b>13</b>

# 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 2012 Total Departmental Budget - \$28.7 Million Information Technology and Strategic Planning - \$3,080,200

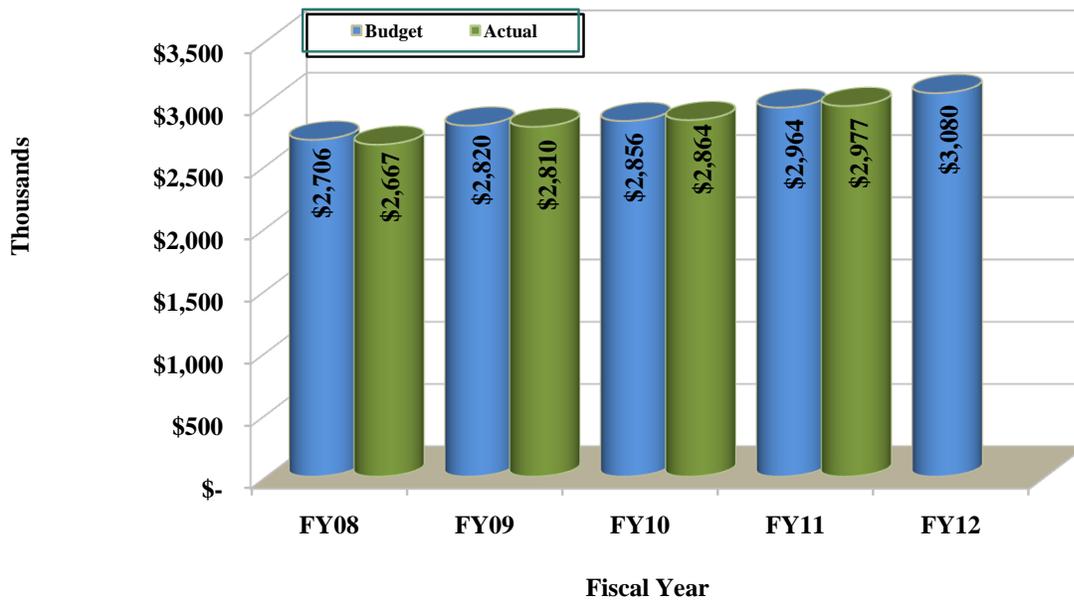


	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
IT Chief/Applications	\$ 899,603	\$ 965,600	\$ 942,746	\$ 1,026,900
IT Operations	1,361,574	1,349,400	1,368,885	1,337,000
Geographic Information System	603,023	649,100	665,396	716,300
<b>TOTAL</b>	<b>\$ 2,864,200</b>	<b>\$ 2,964,100</b>	<b>\$ 2,977,027</b>	<b>\$ 3,080,200</b>

# Information Technology and Strategic Planning

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,769,028	\$ 1,863,800	\$ 1,862,884	\$ 2,058,300
Travel and Meetings	11,669	13,000	10,241	12,500
General Office Expense	3,358	6,200	2,801	4,300
Equipment	880,561	870,800	959,483	844,600
Services	185,937	192,300	125,554	143,500
Training	13,647	18,000	16,064	17,000
<b>Total</b>	<b>\$ 2,864,200</b>	<b>\$ 2,964,100</b>	<b>\$ 2,977,027</b>	<b>\$ 3,080,200</b>

**Budget vs. Actual**



# *Information Technology and Strategic Planning*

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## **IT Applications**

### **Services We Provide**

The Information Technology and Strategic Planning Department provides the following support services: development and implementation of information technology; the 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 also provides highly responsible and complex administrative support to the District, General Manager, and Board of Directors.

### **Strategic Plan Objectives**

- Continue development of the Asset Management program.
- Update the Records Management program.
- Improve the District's computerized maintenance management system (CMMS).
- Develop a management dashboard measuring cost, efficiency, and operational status.
- Develop systems and networks that support the disaster recovery plan.

### **Accomplishments – Fiscal Year 2010-2011**

- Enhanced the Online Bill Pay feature. This feature allows customers to pay bills online which significantly reduce the District's costs while improving access to our customers.
- Implemented online forms for personnel providing greater access to our employees while reducing costs.
- Completed requirements gathering and prototype for the new records system.
- Developed the District's FY12-14 Strategic Plan, which touches all departments and lays the foundation for the future.

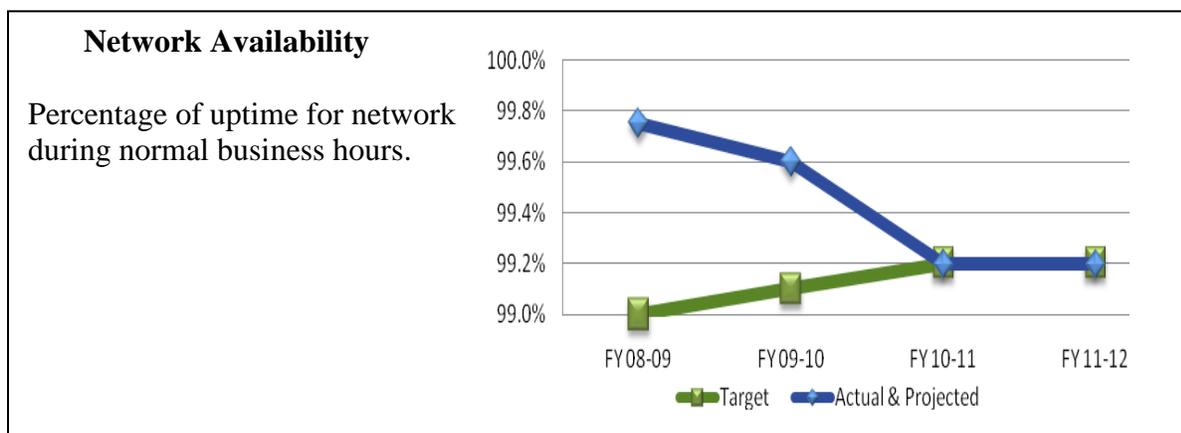
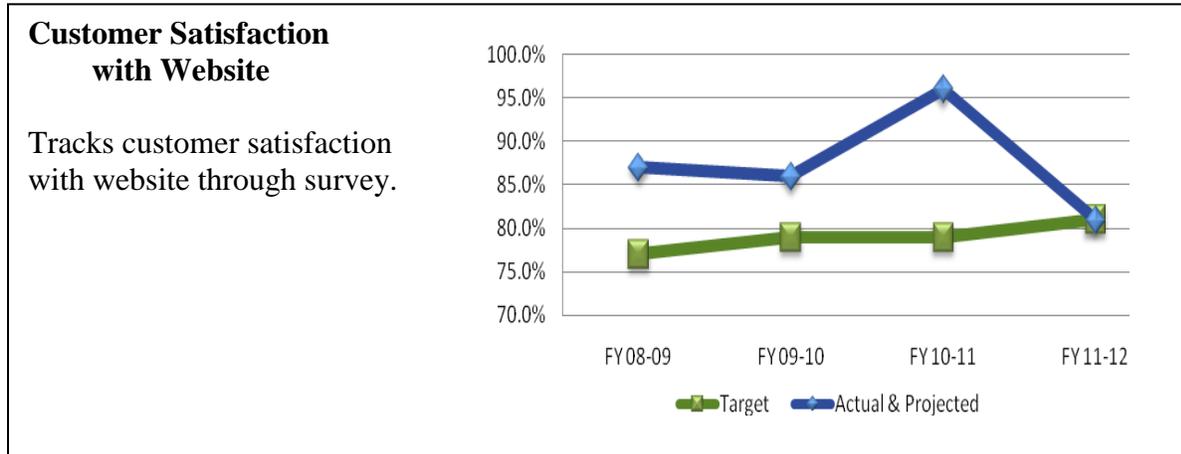
## **IT Operations**

### **Services We Provide**

IT Operations is responsible for day-to-day functions of the District's data center, network and desktop hardware/software, disaster recovery center, telecommunications, mobile and wireless networks, website, and help desk. IT Operations has collateral responsibilities for access security control and video surveillance.

# Information Technology and Strategic Planning

## Performance Measures



# *Information Technology and Strategic Planning*

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## Accomplishments – Fiscal Year 2010-2011

- Implemented the District's new telephone system which replaced one that was obsolete. It not only provides more efficient ways to reach customers, but makes it easier for staff to assist customers when they call. The new system saves staff time and allows for handling a greater number of incoming calls more economically and efficiently. In addition, it enhances our ability to contact customers quickly and efficiently in case of an emergency.
- IT Operations underwent a huge effort in completing the wireless project in the North District, expanding into the South District as well. This project alone will allow staff to utilize mobile technology when in the field, opening the door for more efficient work processes.
- Upgraded the Otay website. As the face of Otay, the website allows the District to communicate important information to customers as well as staff.

## **Geographic Information System (GIS)**

### Services We Provide

The GIS division is responsible for the technical and administrative support to the Engineering and Operations Departments on GIS/AM/FM and CAD systems. It is also responsible for the data collection and data QA/QC of the District's facility data and land based data. In addition, it provides technical support in designing, developing, documenting and maintaining the District's database systems and creates database structures that consolidate the conceptual, logical and physical models of data.

## Accomplishments – Fiscal Year 2010-2011

- Completed a comprehensive GIS related Strategic Plan, preparing for the years to come.
- Developed an advanced data platform to support future asset management efforts.

# Water Operations

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## Mission Statement

To provide all operations and maintenance service in the most efficient, safe, and cost effective manner to all internal and external customers, and to strive to continually improve the level of service.

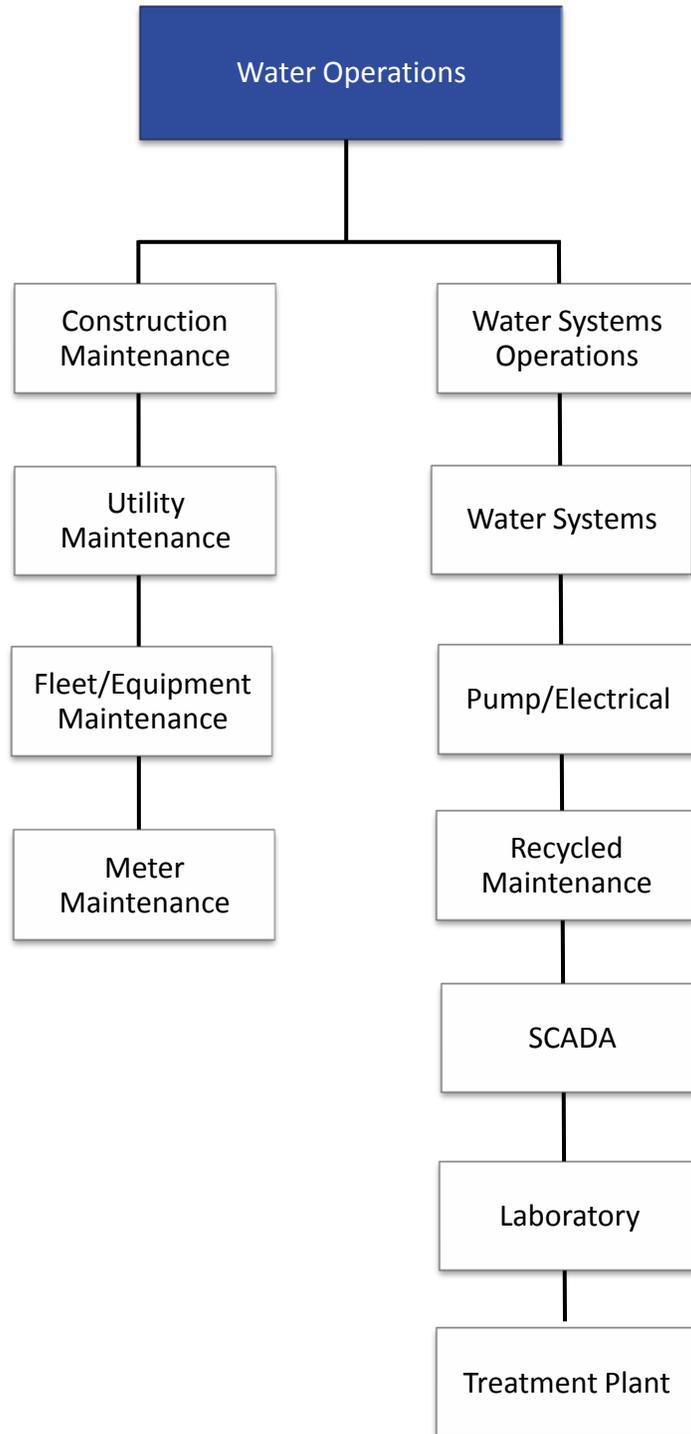


<u>Division Title</u>	<u>Division No.</u>
Water Operations Chief .....	3211
Water Systems Operations .....	3220
Construction Maintenance .....	3230

# Position Count

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District Position Count - 156  
Water Operations Department - 66



# Position Count

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District Position Count - 156  
Water Operations Department - 66

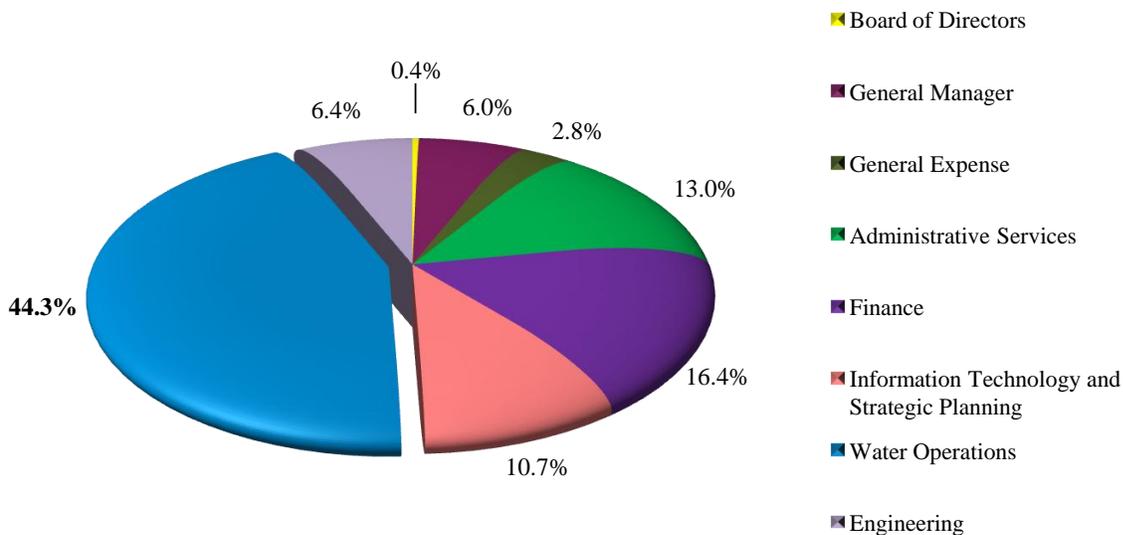
<b>Position Count</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>
Chief, Water Operations	1	1	1
Executive Secretary	1	1	1
Systems Operations Manager	1	1	1
Water Systems Supervisor	1	1	1
Pump Electrical Supervisor	1	1	1
Recycled Water Systems Supervisor	1	1	1
Meter Maintenance/Cross Connect Supervisor	1	1	1
Lead Water Systems Operator	2	2	2
Water Systems Operator I, II, and III	9	9	9
Valve Maintenance Worker	1	1	1
Senior Disinfection Technician	1	2	2
Disinfection Technician	1	0	0
Senior SCADA Instrumentation Technician	1	1	1
SCADA Instrumentation Technician	1	1	1
Electrician I and II	2	2	2
Pump Mechanic I and II	2	2	2
Lead Cross Connection/ Meter Maintenance Worker	1	1	1
Meter Maintenance/Cross Connect Worker I and II	5	5	5
Utility Services Manager	1	1	1
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	5	4	4
Utility Workers I and II	8	8	9
Senior Utility/Equipment. Operator	3	3	3
Fleet Maintenance Supervisor	1	1	1
Equipment Shop Mechanic I and II	3	3	3
Welder	1	1	0
Reclamation Plant Supervisor	1	1	1
Lead Reclamation Plant Operator	1	1	1
Reclamation Plant Operator I, II, III	3	3	3
Lead Recycled Water Distribution Operator	1	1	1
Recycled Water Distribution Operator	3	3	3
Laboratory Analysts	0	1	1
Laboratory Technicians I and II	2	0	0
<b>Total</b>	<b>68</b>	<b>66</b>	<b>66</b>

# 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 2012 Total Departmental Budget - \$28.7 Million**  
**Water Operations - \$12,688,600**

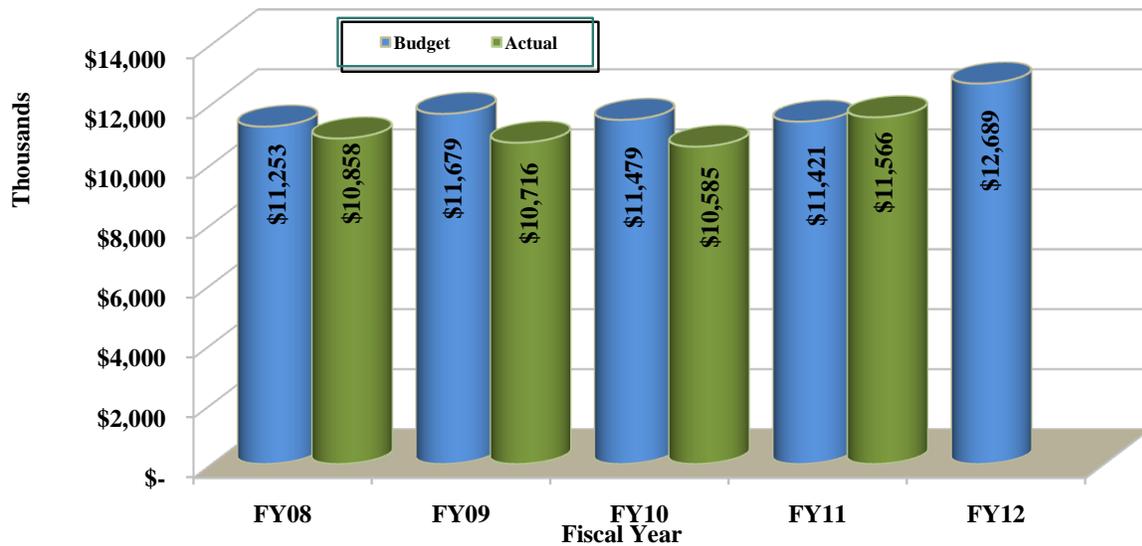


	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
Water Operations Chief	\$ 435,031	\$ 447,300	\$ 437,862	\$ 434,000
Water Systems	6,502,135	6,900,200	7,240,806	7,621,100
Construction Maintenance	3,648,150	4,073,000	3,887,494	4,633,500
<b>TOTAL</b>	<b>\$ 10,585,316</b>	<b>\$ 11,420,500</b>	<b>\$ 11,566,162</b>	<b>\$ 12,688,600</b>

# Water Operations

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 6,776,267	\$ 7,144,300	\$ 7,236,955	\$ 7,981,800
Travel and Meetings	52,591	51,000	53,841	49,000
General Office Expense	4,389	6,000	4,223	4,800
Equipment	50,197	68,900	48,648	61,900
Fees	78,913	74,500	92,024	91,000
Services	349,348	441,900	416,067	360,000
Training	17,237	14,000	9,711	12,000
Materials & Maintenance	1,875,786	2,140,000	1,901,944	2,341,500
Sewer Charges	1,232,217	1,302,600	1,603,159	1,636,600
Miscellaneous	148,371	177,300	199,591	150,000
<b>Total</b>	<b>\$ 10,585,316</b>	<b>\$ 11,420,500</b>	<b>\$ 11,566,163</b>	<b>\$ 12,688,600</b>

**Budget vs. Actual**



## Water Systems Operations

### Services We Provide

Water Operations staff is responsible for operations and maintenance of the wastewater collection system, potable and recycled water distribution systems, and the Ralph W. Chapman Water Recycling Facility. Pump and electrical staff perform preventative, predictive and corrective maintenance on all pumps, motors, switchgear, and control valves in the District and assists with electrical maintenance and installation throughout the District. The SCADA staff performs installations, maintenance, updates, and modifications to the SCADA control system and related communications equipment, both for existing facilities as well as CIP projects. Laboratory staff ensures all regulatory-required sampling, analyses, and reporting is done to meet the requirements from the California Department of Public Health for potable water and the Regional Water Quality Control Board for recycled water and the reclamation plant treatment process. Laboratory staff works closely with the water system operators and disinfection staff to monitor and optimize the water quality in the distribution system. They also perform bacteriological sampling and analyses for Utility Maintenance and Engineering to ensure proper disinfection was performed after maintenance or new construction.

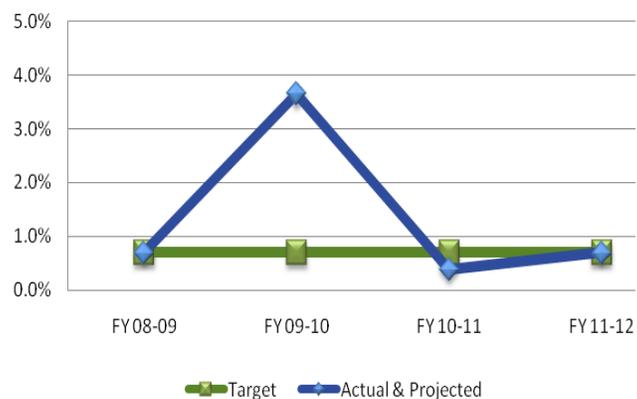
### Strategic Plan Objectives

- Evaluate water loss management program and make recommendations.
- Conduct a process review to enhance efficiency and operations in the following areas: Water Distribution System, Recycled Distribution System, Collection System, and the Ralph W. Chapman Water Recycling Facility.

### Performance Measures

#### **Unplanned Disruptions**

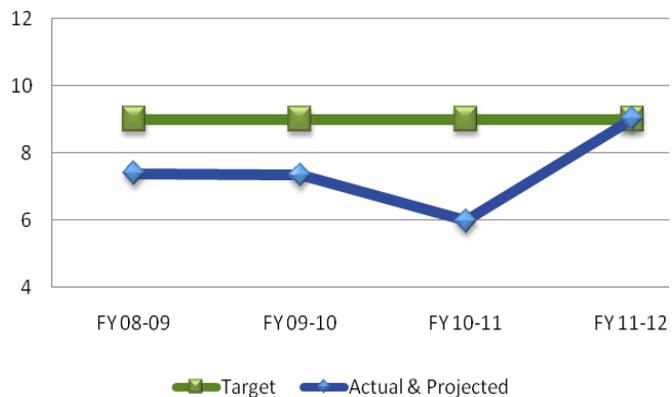
Quantifies the number of unplanned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts. (QualServe)



# Water Operations

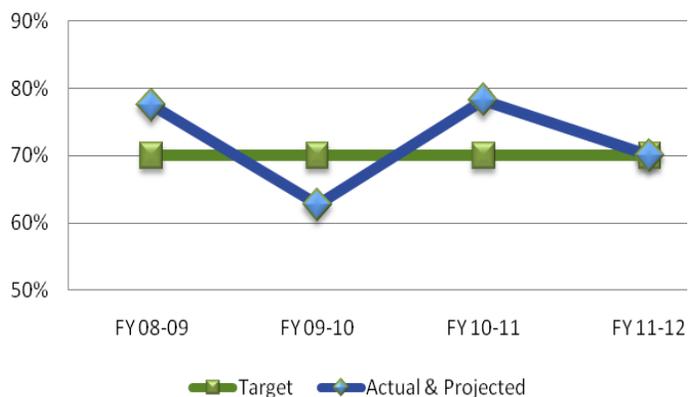
## Technical Quality Complaint

The number of complaints is a good measure of customer service. Technical quality complaints allow us to measure the complaint rates we are experiencing with individual quantification of those related to core utility services. It is expressed as complaints per 1,000 customer accounts.



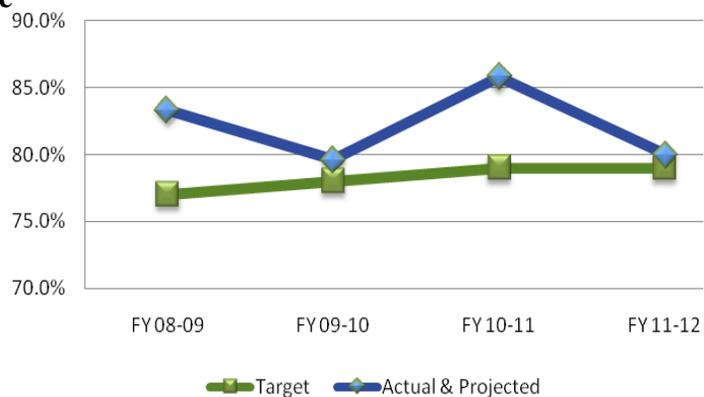
## Planned Recycled Water Maintenance Ratio in Dollars

Compares how effectively the District is investing in planned maintenance.



## Planned Wastewater Maintenance Ratio in Dollars

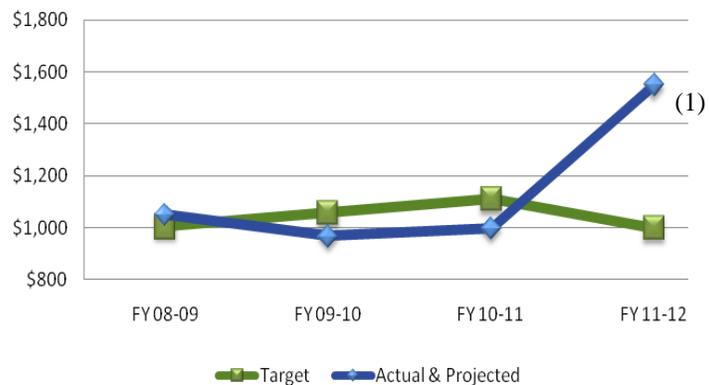
Percentage of planned maintenance costs compared to combined planned and corrective maintenance costs.



# Water Operations

## Direct Cost of Treatment per MGD

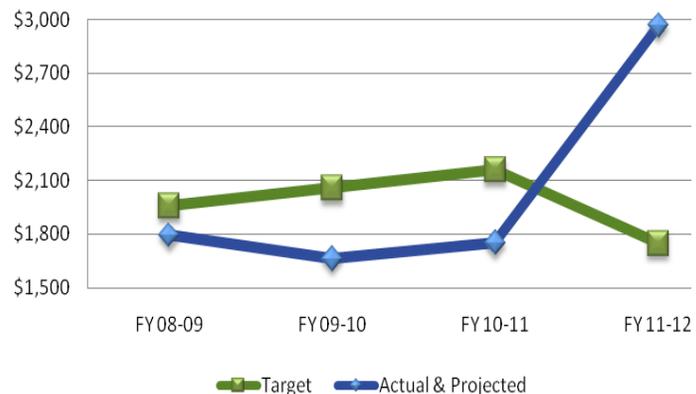
Measures the direct cost to treat one million gallons of wastewater and does not include staff overhead or fringe benefits, but it does include their salaries. (QualServe)



- (1) The District anticipates a higher billing for FY 2012 from Metropolitan Water District due to a planned treatment plant shutdown for major maintenance.

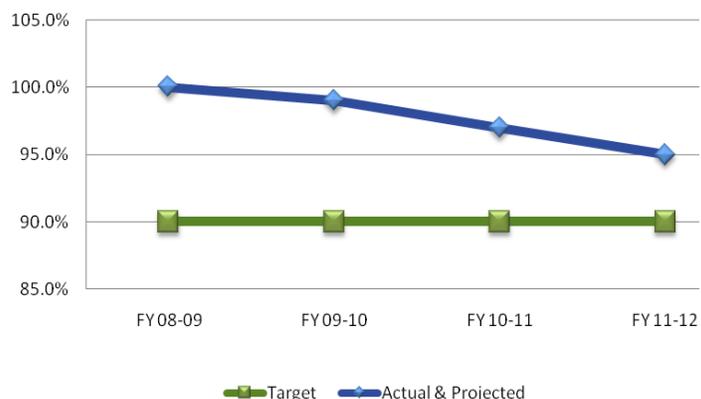
## O&M Cost per MG

Measure for the full operation and maintenance cost to treat one million gallons of wastewater. (QualServe)



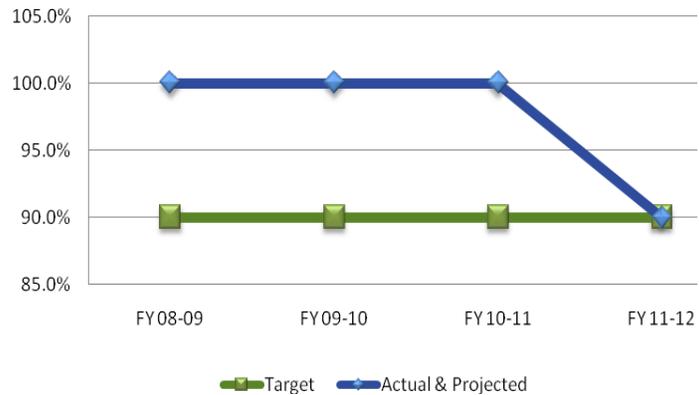
## Percentage of Preventative Maintenance Completed in the Reclamation Plant

To track the percentage of scheduled PM's that are completed in the Reclamation Plant.



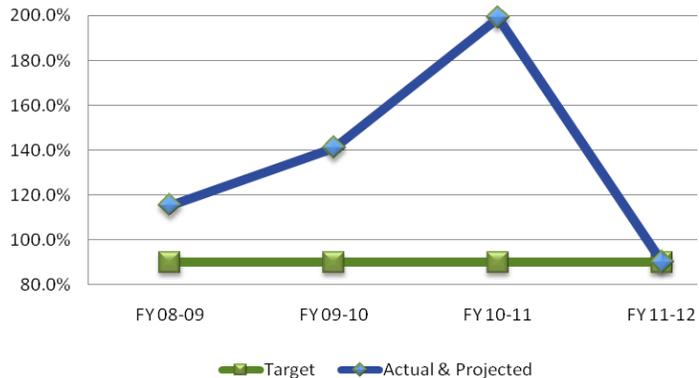
## Percentage of Preventative Maintenance Completed in the Pump/Electric Section

To track the percentage of scheduled PM's that are completed in the Pump/Electric Section.



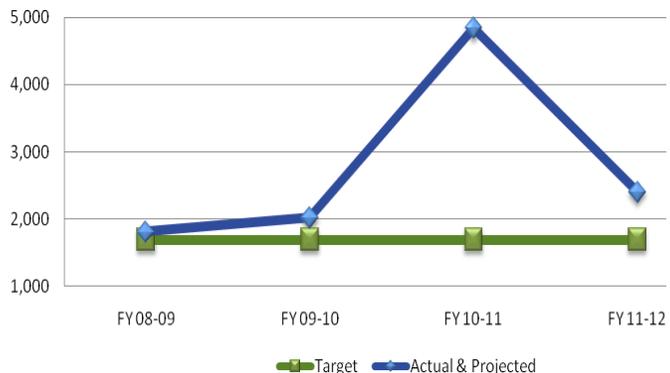
## Percentage of Preventative Maintenance Completed in the Valve Maintenance Program

To track the percentage of scheduled PM's that are completed in the Valve Maintenance Program.



## Valve Exercising Program

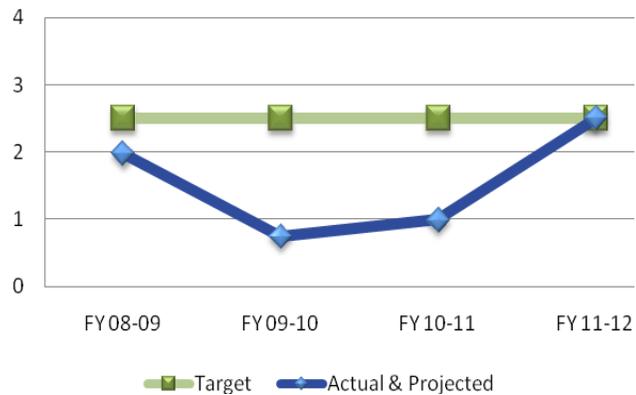
Actual number of valves exercised per year for maintenance of distribution systems' infrastructure to ensure minimal interruption of potable water delivery to customers.



# Water Operations

## Planned Water Service Disruption Rate

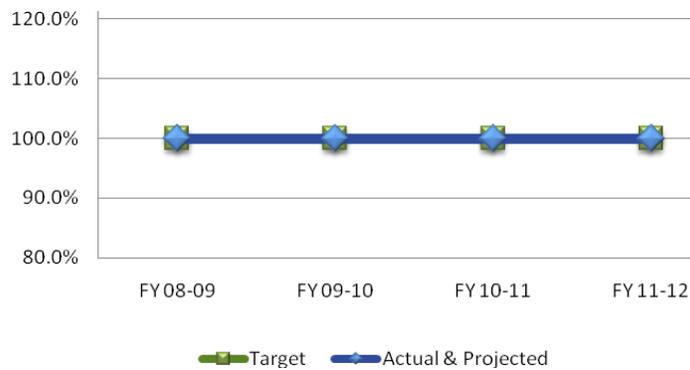
Quantifies the annual average of planned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts. (QualServe)



## Drinking Water Compliance Rate

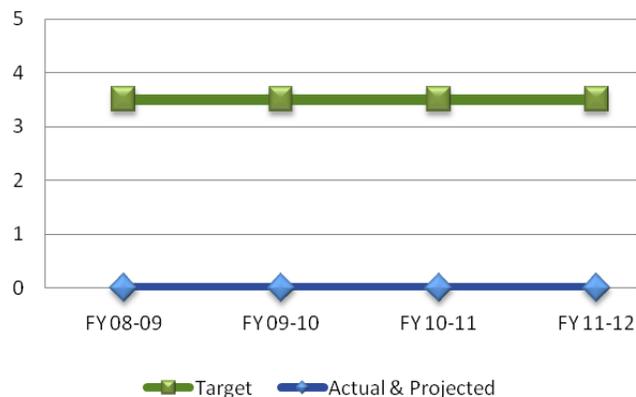
Quantifies the percentage of time each year that the District meets all of the health related drinking water standards in U.S. National Primary Drinking Water Regulations. (QualServe)

Both Actual/Projected and Targets are at 100%.



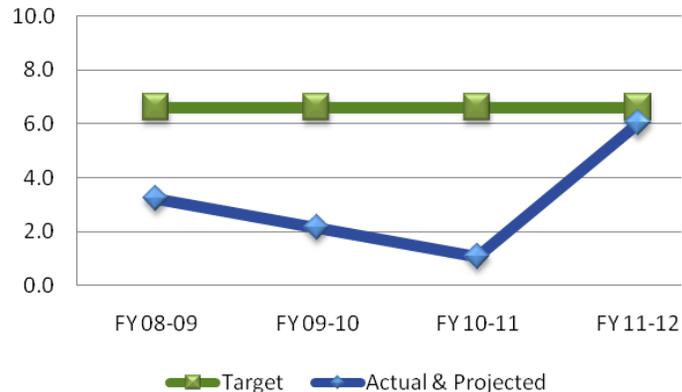
## Collection System Integrity

Number of wastewater collection system failures per 100 miles of collection system pipeline. (QualServe)



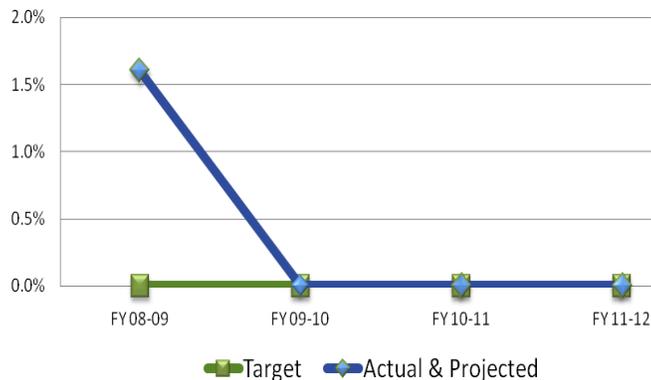
## Recycled Water Distribution System Integrity

Tracks number of leaks or breaks per 100 miles of water distribution system.



## Sewer Overflow Rate

Measures the wastewater collection system pipeline condition and the effectiveness of planned maintenance. (QualServe)



## Accomplishments – Fiscal Year 2010-2011

- Assisted in four CIP projects: the 12-inch Jamacha Road Pipeline, 1296-1&2 Recoating Project, 657-1&2 Recoating Project, Del Rio and Gillespie Interconnect Project. Assisted in the planning and design of six major CIP projects: the 711-1 pump and motor replacement, 803-1 and 850-2 VFD installation, 944-1R recycled pump upgrades, demolition of the Dorchester and La Presa pump facilities including installation of a new PRV, the North-South Interconnect Project, and the Rancho Del Rey Well Project.
- Assisted CWA with the detection and mitigation of the nitrification event of their Pipeline 4. Nitrification is the reduction of the chloramine residual in a pipeline or reservoir due to bacteria using the ammonia as a food source. Nitrification in CWA's pipeline was causing nitrification in the District and in other agencies systems. Also served on a regional workgroup to draft and implement San Diego County Water Authority's Regional Nitrification Control Plan.

# Water Operations

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- Exercised 4,836 valves this year in the proactive Valve Exercising Program, primarily in the area of ID 22. Since this program began in 2006, 13,788 valves (66%) of valves in the District have been exercised. The valve exercising business process was streamlined this year to increase production while primarily using one 2-person crew instead of two 2-person crews.
- Several improvements were made at the reclamation plant including automation of the chlorination system, replacement of the filter media, and increasing the physical security, lighting, and video-camera capabilities of the site.
- Continued replacing the SCADA radios to Ethernet radios in the north district to strengthen the communication backbone between the north and central facilities. The Ethernet radios provide more reliable communications and increased capacity to allow video surveillance at facilities.
- Saved over \$9,000 annually in labor costs by converting mechanical altitude valve controls to SCADA control at six reservoirs. This allows for remote valve adjustment instead of manual adjustment and also reduces the need for confined-space entries into these vaults.
- Added vibration monitoring equipment to the final 16 large pumps and motors, and now they can all be monitored with this valuable predictive maintenance tool. Vibration monitoring detects mechanical problems in pumps and motors so repairs can be made prior to failure, at a lower cost, and can be scheduled more efficiently.
- Worked with other regional recycled water agencies to reduce the oversight and costs from the County of San Diego Department of Environmental Health to oversee required testing of recycled water sites. As a result, the District will save \$6,000 annually in regulatory agency fees. There should be increased savings in the future from this ongoing effort.
- Developed and began implementation of a Proactive Leak Detection Plan to reduce water loss. This process uses leak noise data loggers to detect and locate leaks that are not visible on the surface of the ground or pavement.

## **Utility Maintenance / Construction**

### **Services We Provide**

The Utility Maintenance and Construction staff provides vital maintenance functions that ensure the best quality of water and wastewater service to customers while adhering to all applicable regulatory compliance requirements. Tasks include valve exercising, large meter installation, main line and service line repairs as well as proactive regulatory system upgrades, and constant evaluation of the system integrity to allow for system planning upgrades. The Meter Maintenance staff provides meter maintenance and repairs and/or replacement of meters to ensure accurate accounting of water usage. By proactively administering the Backflow/Cross-

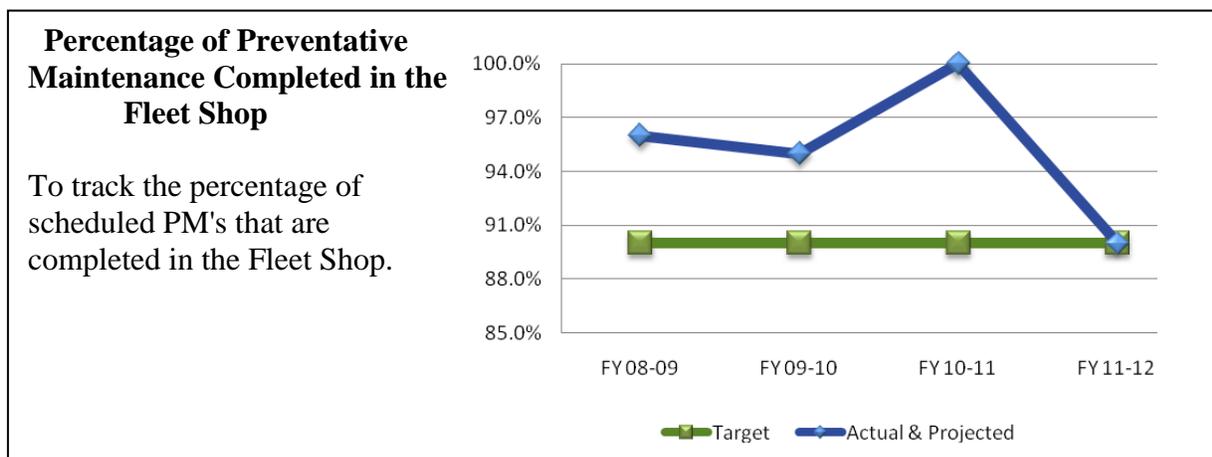
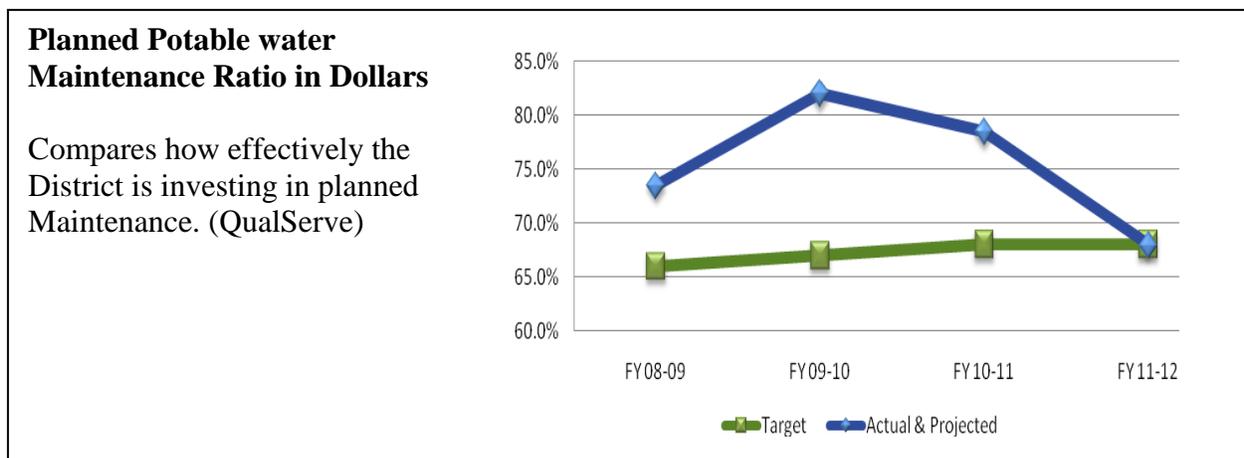
# Water Operations

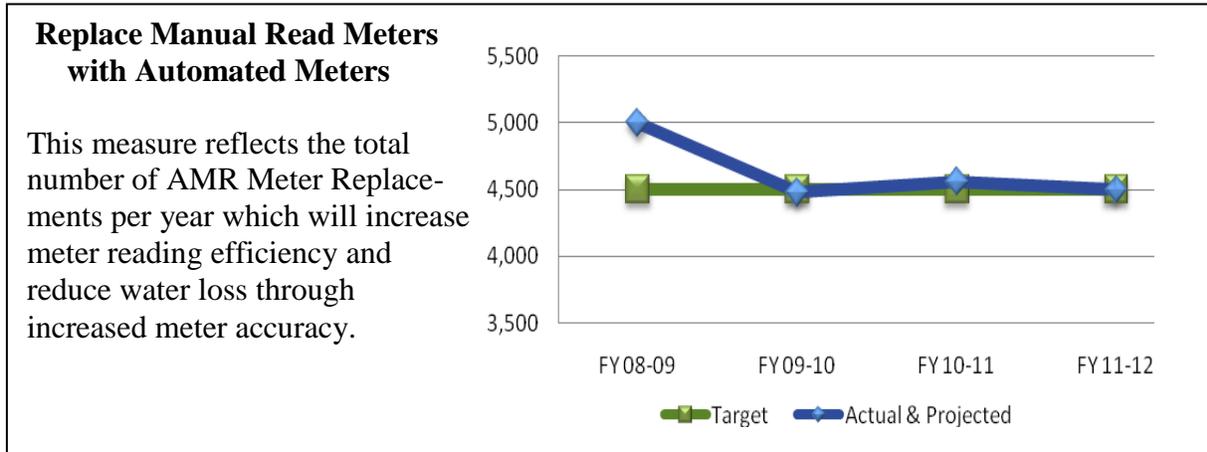
Connection program regulated by the Department of Health, staff provides comprehensive protection of water quality. The Fleet Maintenance staff implements active preventative maintenance practices and repairs the District's vehicles and equipment to ensure optimum performance while establishing fuel efficient operational practices and emissions compliance.

## Strategic Plan Objective

- Develop and implement large meter vault retrofit programs.

## Performance Measures





## Accomplishments – Fiscal Year 2010-2011

- Utility Maintenance staff upgraded 124 air-vacs which completed the P2456 Air and Vacuum Valve Upgrades CIP project. This multi-year CIP project entailed retrofitting 750 existing potable system air and vacuum valves from a below ground position to an above ground position. This retrofit fulfilled the Department of Health regulations requiring these air-vacs to be located above ground to ensure water quality in the event of a pressure loss within the water system.
- Designed and constructed a new above ground 10-inch meter and by-pass at the Donovan State Prison site in Otay Mesa. This task eliminated costly and highly regulated confined space entries into the meter vault as well as provided a by-pass of water for the prison while maintenance or testing occurs on the 10-inch meter.
- Construction staff installed a 24-inch butterfly isolation valve that eliminated potential failure of a 27-inch water line (adjacent to the George Bailey Detention Facility in Otay Mesa). This will increase the reliability of two nearby existing 30-inch water lines creating a mainline by-pass between them for any emergency maintenance and/or repairs.
- Since November 23, 2010, wastewater collection crews cleaned 137,000 feet of sewer pipe which is 29% of the collection system. Sewer cleaning activities are the primary source of deterrent for sewer overflows.
- Construction staff replaced 5 valves throughout the District. Replacement of these valves ensures timely and leak-free water line shut-offs that improves system reliability during maintenance and repair activities.
- Meter maintenance crew and the contractor completed 6,450 retrofits to Automated Meter Readers (AMR). Since the inception of this AMR retrofit CIP project, 35,933 meters out of the District's total of 49,057 meters have been retrofitted to AMR which equates to 73.25% AMR's in the ground.

## *Water Operations*

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- The meter maintenance crew tested 132 District backflows for operability and backflow protection. In addition, the Meter Maintenance crew tracked and recorded the testing of 4,591 private backflow prevention devices. This program protects the District's potable water supply from outside source pollution.
- Fleet Maintenance Section received a Certificate of Achievement from the California Highway Patrol for 8 consecutive satisfactory ratings for the Biannual Motor Carrier Safety Compliance Inspection Program as conducted by the California Highway Patrol.

## Mission Statement

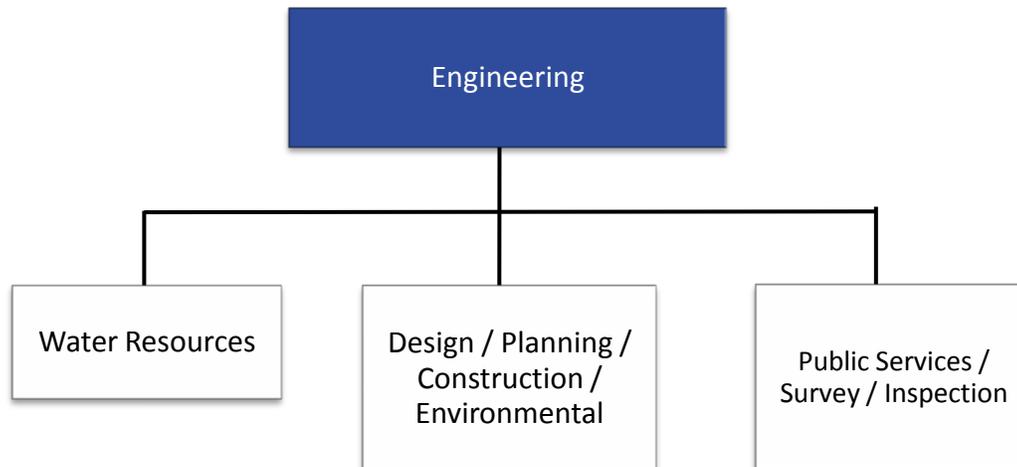
To provide effective services to the other departments and development community by constructing District assets and expediting the permitting process to attain excellent customer satisfaction with dedicated employees and innovative technology.



<u>Division Title</u>	<u>Division No.</u>
Engineering Chief .....	3311
Planning .....	3321
Design .....	3331
Water Resources .....	3341
Public Services .....	3421
Construction Services .....	3431
Survey Services .....	3441
Environmental Services .....	3451

# Position Count

District Position Count - 156  
Engineering Department - 66

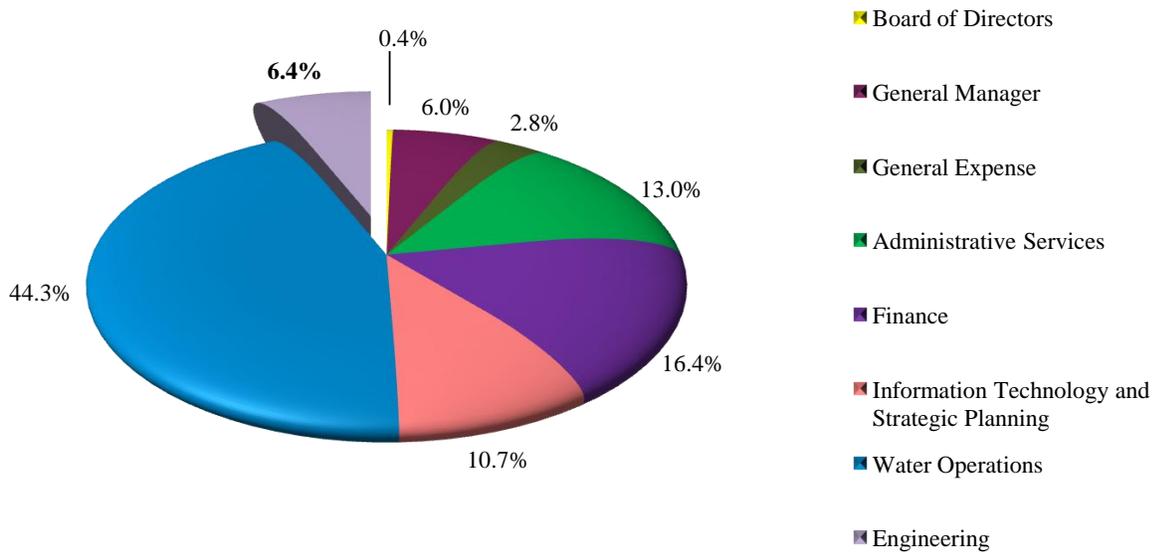


<b>Position Count</b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>
Chief, Engineering	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Engineering Manager	2	2	2
Public Services Manager	1	1	1
Senior Civil Engineer	1	1	1
Associate Civil Engineer	2	2	2
Assistant Civil Engineer I and II	0	1	1
Environmental Compliance Specialist	1	1	1
Permit Technicians	2	2	2
Senior Engineering Technician	3	2	2
Inspection Supervisor	1	1	1
Construction Inspectors I and II	2	2	2
Supervising Land Surveyor	1	1	1
Land Surveyor	1	1	1
Assistant Survey Technician	1	1	1
<b>Total</b>	<b>21</b>	<b>21</b>	<b>21</b>

## Department Responsibilities

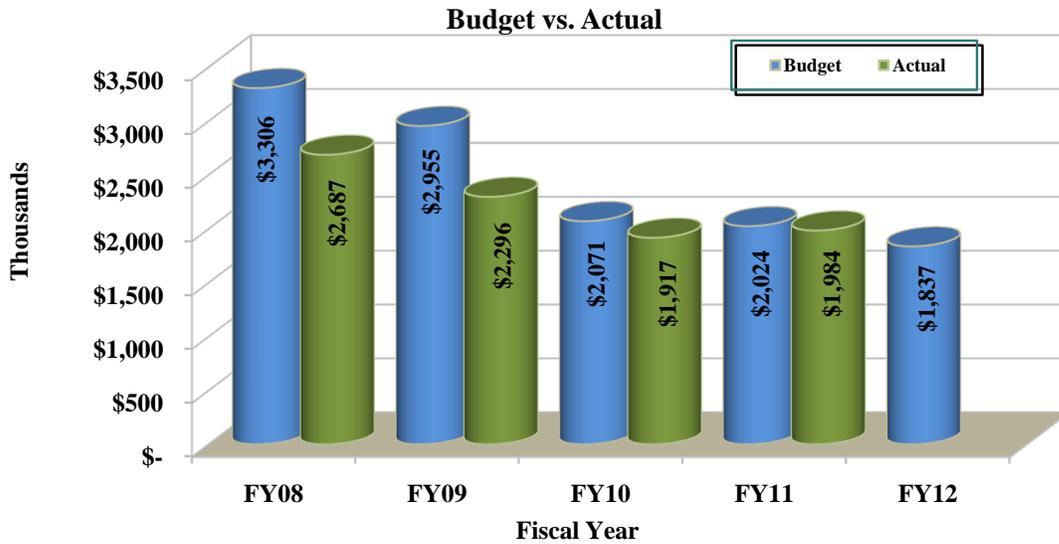
The Engineering Department, under the general direction of the Assistant General Manager, provides the following support services: Planning, Design, Construction, Project Management and surveying of all District facilities; responsible for strategic planning, capital budget, water resources planning, 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 2012 Total Departmental Budget \$28.7 Million Engineering - \$1,836,900



	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
Engineering Chief	\$ 238,363	\$ 228,300	\$ 192,154	\$ 167,100
Planning	340,598	550,000	351,268	305,000
Design	194,459	317,700	252,384	259,700
Water Resources	146,762	154,400	183,141	162,000
Public Services	289,508	183,300	282,846	292,400
Construction Services	266,839	133,200	240,376	154,200
Survey Services	256,274	224,300	276,243	285,400
Environmental Services	183,938	232,900	205,447	211,100
<b>TOTAL</b>	<b>\$ 1,916,741</b>	<b>\$ 2,024,100</b>	<b>\$ 1,983,859</b>	<b>\$ 1,836,900</b>

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,237,834	\$ 1,089,800	\$ 1,271,573	\$ 1,190,400
Travel and Meetings	18,164	22,700	14,145	17,700
General Office Expense	6,091	9,100	6,700	6,200
Equipment	3,952	15,100	21,655	7,700
Fees	38,198	40,000	34,543	35,000
Services	607,782	840,700	633,299	573,200
Training	4,720	6,700	1,944	6,700
<b>Total</b>	<b>\$ 1,916,741</b>	<b>\$ 2,024,100</b>	<b>\$ 1,983,859</b>	<b>\$ 1,836,900</b>



## **Water Resources**

### **Services We Provide**

The Water Resources Division is responsible for a variety of water resources planning functions directly related to potable, recycled water, and sewer services. This includes identification, negotiation, acquisition, and development of additional potable and recycled water supplies of various interagency cooperative agreements and coordination of water resources functions with other entities such as the Metropolitan Water District of Southern California, San Diego County Water Authority, City of San Diego, County of San Diego, and the City of Chula Vista. Staff prepares a capital improvement program facility plan and budget, and land development projects to ensure adequate and reliable water service to customers and compliance with local and state laws for land development projects. Staff also provides guidance and technical assistance for the development of the water and sewer capacity and annexation fees methodology and rates. Coordinates funding resources such as grants, loans, and cost sharing opportunities.

### **Strategic Plan Objectives**

- Re-negotiate the South Bay Water Reclamation Plant (SBWRP) recycled water supply agreement with the City of San Diego.
- Implement the recommendations within the Integrated Water Resources Plan (IRP) to acquire alternative and/or additional potable and recycled water supplies and enhanced resource reliability.
- Continue working with the City of Chula Vista for the possible development of a Membrane Bioreactor Plant (MBR) and for a potential agreement with the City for recycled water supplies from the MBR Plant.

### **Accomplishments – Fiscal Year 2010-2011**

- Received \$1,700,000 in grant funds from the United States Bureau of Reclamation for participation in their Title XIV Program in FY 2011. Total Title XIV grant funds received to date is \$11,110,000.
- Completed the District's 2010 Urban Water Management Plan (UWMP), as required by California's Urban Water Management Planning Act. Agencies must update their UWMP at least every five years. A new component of this update is Senate Bill 7-7 passed in November 2009 with the goal of reducing California's urban per capita water use by 20% by December 31, 2020.

- Completed an update to the District’s Water Resources Master Plan. Updated the Water Resources Master Plan to include the demands from the City of Chula Vista and City of San Diego Community Plan Updates. The District coordinated this update with the planning departments from both agencies to get the latest information on future demands into San Diego Association of Governments’ (SANDAG) growth forecast and the District’s planning documents in preparation of the 2010 Urban Water Management Plan.

## **Planning / Design / Construction / Environmental**

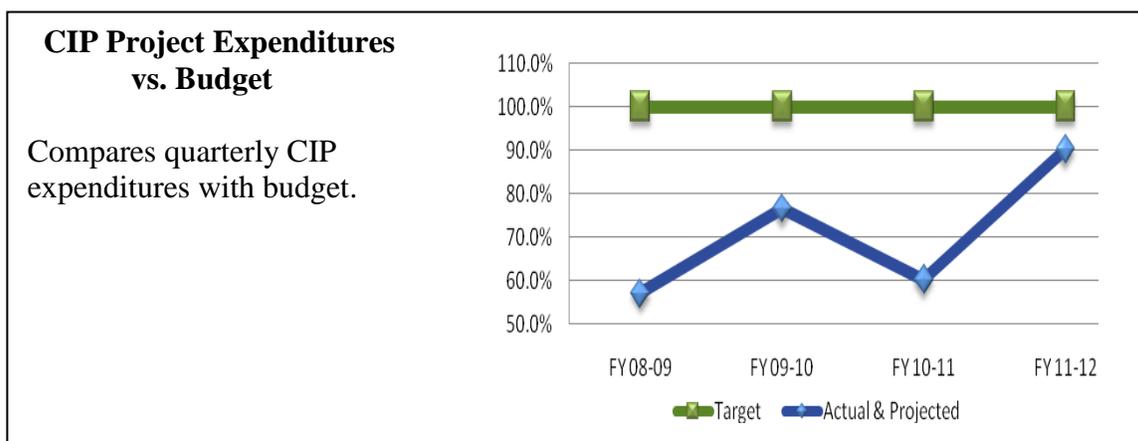
### **Services We Provide**

The Planning, Design, Construction, and Environmental Divisions provide a variety of services directly related to potable water, recycled water, and sewer facilities. This includes taking a project literally from “cradle to grave.” Planning staff develops the preliminary design of a project in order to facilitate final design and ultimately construction of the facility. Planning staff also coordinates the review of planning documents related to potential new development. Design staff prepares the design of facilities and advertises projects for bid. Once bid, the Construction staff provides construction management for the projects. Environmental staff coordinates and tracks the project through the construction stage and for a period after construction if long-term mitigation is required. In addition, we assist the Operations Department on special projects related to maintenance of existing facilities including the Ralph W. Chapman Water Reclamation Facility.

### **Strategic Plan Objectives**

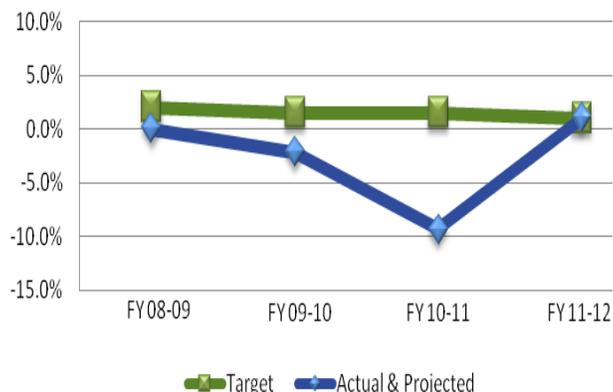
- Prepare and implement a Waste Water Management Plan.
- Strengthen CIP planning, budgeting, and cost tracking processes.

### **Performance Measures**



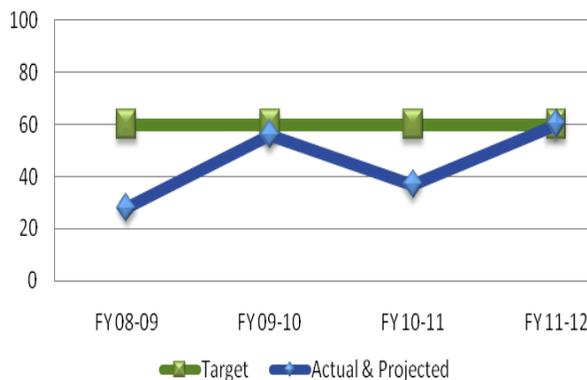
## Construction Change Order Incidences

Measures the rate of change orders for CIP projects under construction.



## Project Closeout Time

Measures the average number of days between the issuance of a Notice of Substantial Completion (NOSC) and a Notice of Completion (NOC) for CIP projects in construction.



## Accomplishments – Fiscal Year 2010-2011 with Corresponding Project Numbers in Parenthesis

- The completion of the 36-Inch Jamacha Road Pipeline project was the last component of the project which provides 10,000 AF per year of locally treated water from Helix Water District's Levy Treatment Plant. A 5-mile, 36-inch diameter pipeline from the District's regulatory site in Rancho San Diego to the San Diego County Water Authority's Flow Control Facility No. 14 in El Cajon was completed to improve the District's diversification of its water supply. Received final \$3.78 million (\$4.2 million total) reimbursement from San Diego County Water Authority (SDCWA). (P2009)
- Completed the televising, inspection, and engineering assessment of the District's sewer system in support of the Sewer System Management Plan (SSMP), approved by the Board on July 1, 2009. The SSMP requires the District to prepare a rehabilitation and replacement plan, to identify and prioritize system deficiencies,

and implement short-term and long-term rehabilitation actions to address each deficiency. (S1210)

- Completed a siting study of the various pipeline and pump station alternatives for a North District and South District Interconnection System. This project includes the design and construction of a pipeline and pump station to transfer water from the North District to the South District and vice versa for better water reliability. (P2511)
- Awarded contract to design the Otay Mesa Conveyance and Disinfection project (Rosarito Desalination). This project will provide a potable water transmission pipeline and pump station to convey the desalinated water from the border of Mexico to Roll Reservoir in Otay Mesa. (P2451)
- Completed 90% design of the Sewer Replacement on Avocado, Hidden Mesa, Challenge, Louisa, and Calavo project. The project includes replacing 5,000 linear feet of over 40 year old sewer pipelines, acquiring six easements from four different property owners, multiple outreach meetings with residents and the local planning group, and coordination with the county's paving program. The project is currently in review with the County of San Diego. (S2020/S2022/S2023)
- Completed the design of the Ralph W. Chapman Water Recycling Facility Upgrade project. This project upgrades the plant to meet more stringent effluent nitrogen levels and includes energy efficient aeration panels and turbo aeration blowers that will result in significant energy savings. (R2096)
- Completed hydraulic modeling and design for modifications and upgrades on the 944-1R Recycled Water Pump Station Upgrades project. This project consists of installing a new pump due to increased demand in the 927 and 944 pressure zones as well as installing three new pressure reducing stations to improve localized high pressures. This project is currently in construction. (R2091)
- Completed Phase I of the Rancho del Rey Well project. The objective was to develop a groundwater well production and treatment system at the Rancho del Rey site capable of producing a sustainable yield as a local potable water supply. (P2434)
- Received nearly \$600,000 in reimbursements from Caltrans for the SR-905 Utility Relocations. This project consisted of relocating a number of District pipelines to accommodate the new SR-905 alignment by Caltrans. (P2440)
- Completed the Mitigated Negative Declaration for the San Miguel Regional Training Facility and the Major Use Permit was approved by the County on October 22, 2010. The training facility will be a joint-use facility that the District can use for hands-on staff training and for use as an alternate EOC during disasters. (P2466)

- Completed the District’s Sub Area Plan for the Joint Water Agencies Natural Community Conservation Plan-Habitat Conservation Plan which was submitted to the United States Fish and Wildlife Service and California Department of Fish and Game for review and approval on March 4, 2011. Once approved, this plan will allow the District to self permit for biological impacts of future CIPs, saving time and money. (P2494)

## **Public Services / Survey / Inspection**

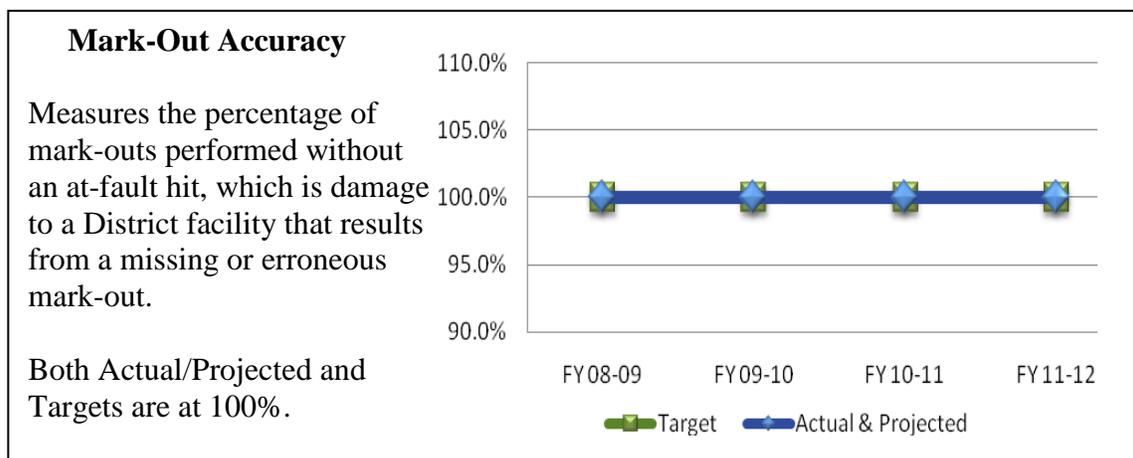
### **Services We Provide**

The Public Services, Survey, and Inspection Divisions assist the public by responding to customer visits, phone calls, and inquiries regarding permits, plan-checking fees, filing procedures, permit status, meter sales, meter costs, and lateral costs. Staff administers all plan-checking submittals for potable water, recycled water and sewer applications for approval, cellular lease agreements, fire service, and backflow inspections, project deposits, and invoicing. Staff also provides inspections to private developer funded projects and the District's Capital Improvement Projects, easement and encroachment enforcements, and survey and utility mark-outs of District facilities and GPS plots.

### **Strategic Plan Objectives**

- Work with the District’s largest potable water customers to convert landscape and interior water use to recycled water where fiscally feasible and safe.
- Explore opportunities for improving and streamlining Public Services Division, including front counter, survey, and inspection business processes.

### **Performance Measures**



## Accomplishments – Fiscal Year 2010-2011

- Public Services generated revenue in meter sales in excess of \$3.8 million and sold 292 meters equating to 592.5 EDU's and 470 permits.
- Public Services generated revenue in cell sites in excess of \$1.02 million, maintained 33 cell site leases, and added one cell site lease to the existing portfolio.
- The Survey Division completed 2,541 USA Mark-out tickets with an accuracy rate of 100%. The District is required to provide this service as mandated by California State Law. This service helps protect the public by safeguarding facilities from damage. (P1438)
- District inspectors performed five fire service plan checks and four potable water plan checks during the course of the year. Additionally, District inspectors inspected 166 easements within the north part of the District.

# General Expense

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## Mission Statement

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



Division Title

Division No.

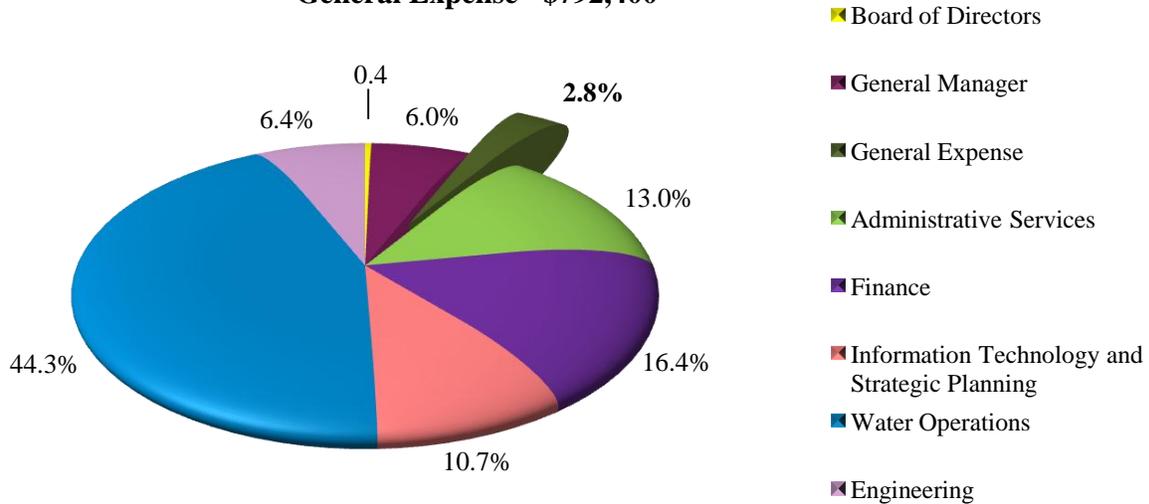
General Chief ..... 1311

# 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 2.8% of the total Departmental Budget.

**FY 2012 Total Departmental Budget - \$28.7 Million**  
**General Expense - \$792,400**



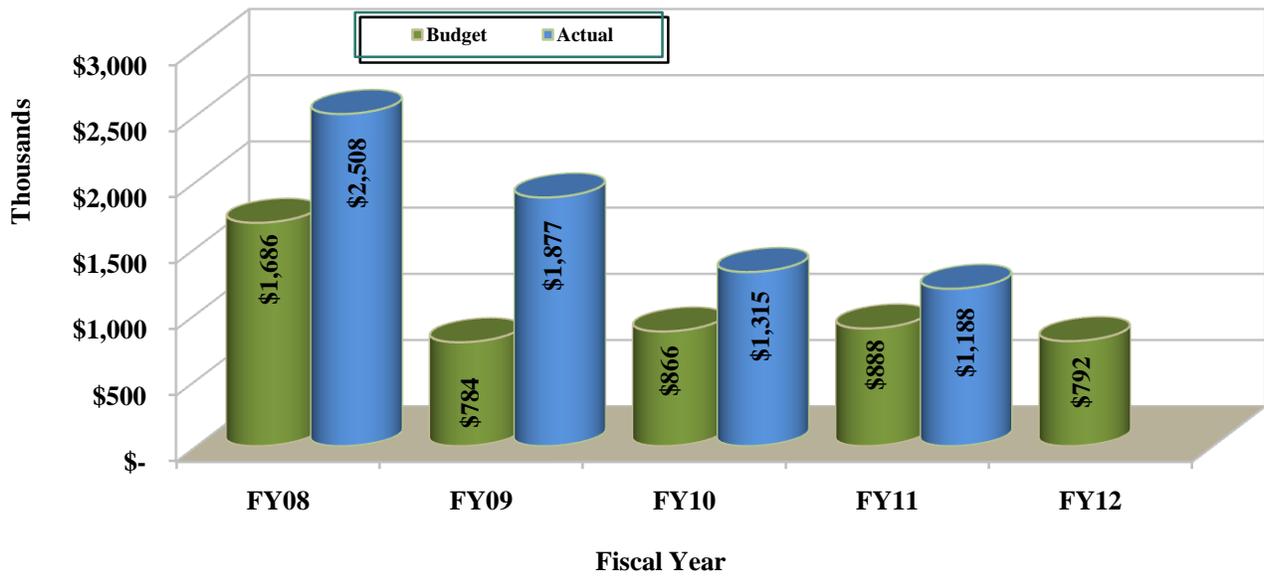
General Expense  
**TOTAL**

	FY 2010 Actual	FY 2011 Budget	FY 2011 Estimated	FY 2012 Budget
General Expense	\$ 1,314,537	\$ 888,000	\$ 1,188,034	\$ 792,400
<b>TOTAL</b>	<b>\$ 1,314,537</b>	<b>\$ 888,000</b>	<b>\$ 1,188,034</b>	<b>\$ 792,400</b>

# General Expense

	FY 2010	FY 2011		FY 2012
	Actual	Budget	Estimated	Budget
Labor and Benefits <sup>(1)</sup>	\$ 384,829	\$ (28,000)	\$ 344,512	\$ (79,600)
Fees	929,708	916,000	843,522	872,000
<b>Total</b>	<b>\$ 1,314,537</b>	<b>\$ 888,000</b>	<b>\$ 1,188,034</b>	<b>\$ 792,400</b>

**Budget vs. Actual**



<sup>(1)</sup> FY 2012 and FY 2011 budget amounts are negative because of Vacancy Factor (salary savings) of \$159,800 and \$204,200, respectively. This is netted against other District-wide Labor and Benefit Expenses. In prior years, Vacancy Factor was budgeted in the individual departments.

# Capital Improvement Program

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The District provides water service to a population of approximately 206,500 which is expected to ultimately increase to 285,000 by the year 2035. This growth as well as the maintenance of existing assets requires long term capital planning. The process is dynamic, due to the evolving needs of the community, the water supply issues, and changing regulations, and therefore is part of the District's overall strategic planning. The capital planning process involves identifying current and future needs, and prioritizing them based on certain operating assumptions. The primary objective of this planning effort is to support an orderly and efficient program of expansion, new water supply, replacement and betterment, while maintaining a stable long-range financial plan.

To accommodate this growth requires that the District invest \$500 million in capital assets through ultimate build-out. The Fiscal Year 2012 Capital Budget is \$22.6 million and the six-year Capital Improvement Program (CIP) totals \$154.6 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 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.

The Water Resources Master Plan was based on several major assumptions and design criteria 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.

## **CIP Justification and Impact on Operating Budget**

The justification for each project is determined by whether it is required due to growth (Expansion), new water sources (New Supply), 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 costs in the areas of maintenance, energy, or chemicals as shown on the justification and impact pages in this section.

# *Capital Improvement Program*

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## **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 expenditures for assets 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 pages 184-185. Capital Facility Projects are items that exceed \$10,000 or \$20,000 for infrastructure related items (as defined under Capital Equipment on page 250 of the Glossary) and have a useful life of at least two years.

The CIP projects are identified and 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 following are the four categories of CIP projects:

### **New Water Supply**

Facilities required to support new sources of water which are funded from new supply fees, or user rates.

### **Expansion**

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

### **Betterment**

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

### **Replacement**

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

# Major CIP Projects

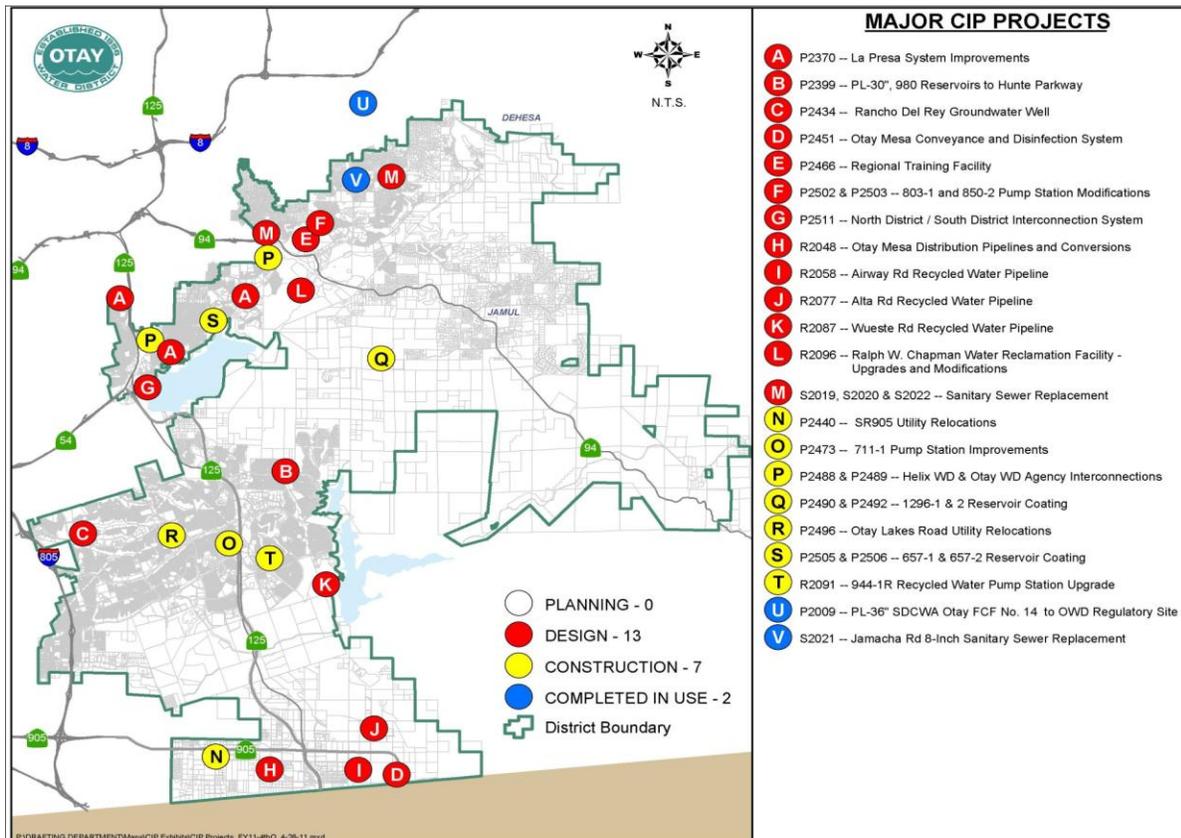
## Capital Improvement Projects

The 2012 Fiscal Year CIP Budget contains 74 projects. The cost of the work planned for Fiscal Year 2012 is \$22.6 million. Of the 74 projects planned for Fiscal Year 2012, only five are designated as reimbursable projects with estimated costs totaling \$5,000. These projects are built by developers and reimbursed by the District.

The following shows how the \$22.6 million of projects are broken down into four categories:

1. Capital facilities \$ 10.6 million
2. Replacement or renewal projects \$ 10.1 million
3. Capital purchase projects \$ 1.9 million
4. Developer reimbursement projects \$ 5 thousand

The Six-Year CIP and Fiscal Year 2012 Capital Budgets are consistent with the District's Water Resources Master Plan, current capacity fees, and the District's strategic financial objectives.



## *CIP Projects in Construction*

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### **1296-1 & 2 Reservoirs Coating (P2490 & P2492)**

This project was awarded to West Coast Industrial Coating, Inc. in February 2010. This project includes an assessment of the facilities to assure compliance to all applicable codes and OSHA standards as well as for the interior and exterior coatings of the 1296-1 & 2 Reservoirs.

**Key Component:** Interior and exterior coatings on the 1296-1 & 2 Reservoirs.

**Schedule:** A construction contract was awarded to West Coast Industrial Coating, Inc., on February 3, 2010. Project is approximately 98% complete. Project completion is anticipated for June 2011.

**Cost:** The combined FY 2011 project budgets for CIPs P2490 and P2492 are \$805,000, of which \$787,000 or 98% was spent. The life-to-date project budgets are \$1,025,000, of which \$999,000, or 97%.

**Significant Issues:** The contractor has failed two violable organic compound (VOC) tests, and as a result the completion of the project will not occur until July 2011. The contractor is recoating the interior with a 100% solids epoxy to ensure the VOC test passes.

**Highlights:** None.

## *CIP Projects in Construction*

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### **657-1 & 657-2 Reservoir Coating & Upgrades (P2505 & P2506)**

This project was awarded to Blastco, Inc. in January 2011. This project includes an assessment of the facilities to assure compliance to all applicable codes and OSHA standards as well as the for interior and exterior coatings of the 657-1 & 2 Reservoirs.

**Key Component:** Interior and exterior coatings on the 657-1 & 2 Reservoirs.

**Schedule:** A construction contract was awarded to Blastco, Inc., on January 5, 2011. Construction is approximately 75% complete. Project completion is anticipated for September 2011.

**Cost:** The combined FY 2011 project budgets for CIPs P2505 and P2506 are \$650,000, of which \$650,000, of which \$547,000 or 84% was spent. The life-to-date project budgets are \$750,000, of which \$547,000, or 73%, has been spent.

**Significant**

**Issues:** None.

**Highlights:** None.

## *CIP Projects in Construction*



### **Del Rio Road & Gillespie Drive Emergency Interconnections (P2488 & P2489)**

This project was awarded to LH Woods & Sons in February 2011. This project includes two emergency interconnection vaults with Helix Water District. The work includes a 6-inch meter, vault, and SCADA equipment.

**Key Component:** Installation of two 6-inch meters, vaults, SCADA, and telemetry equipment for an interconnection with Helix Water District.

**Schedule:** A construction contract was awarded to LH Woods & Sons on February 2, 2011. Construction is approximately 9% complete. Project completion is anticipated for August 2011.

**Cost:** The combined FY 2011 project budgets for CIPs P2488 and P2489 are \$600,000. Project to be completed in September 2011.

**Significant Issues:**

None.

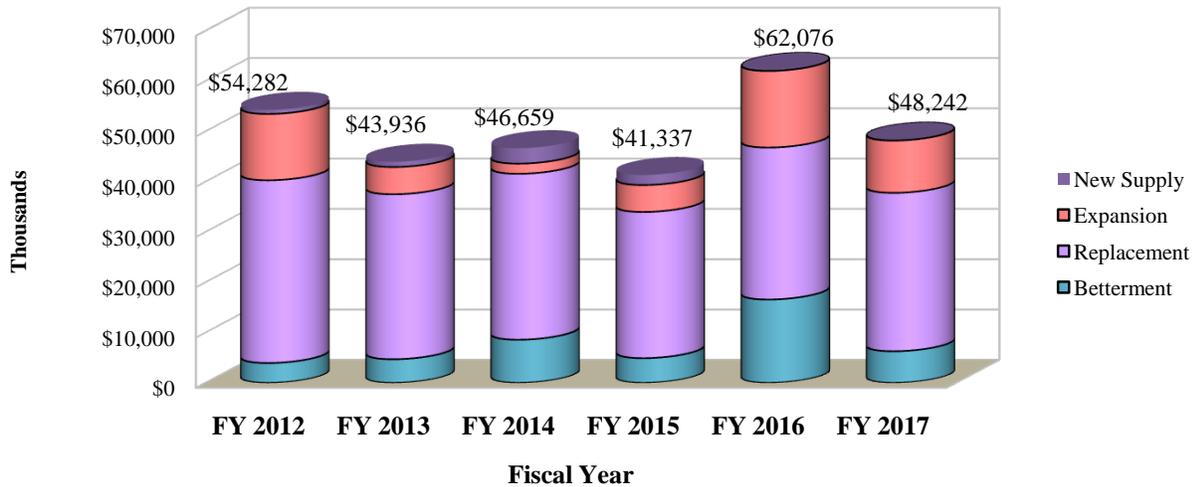
**Highlights:**

Otay and Helix Water District have an agreement in place to split 50% of the cost for design, construction, and maintenance of the facilities. Otay will receive the reimbursement after construction is complete.

# CIP Reserve Funds

The CIP Reserve Funds presentation, shown on the following pages, is designed to provide an understanding of how the funding of CIPs is expected to financially influence the District over the next six years. The financial impacts are based on CIP and its funding sources, including fund transfers in accordance with the District’s Reserve Policy, and planned debt issuances. This data is captured in the District’s Rate Model on an annual basis in order to make these projections.

**Reserve Fund Balances**

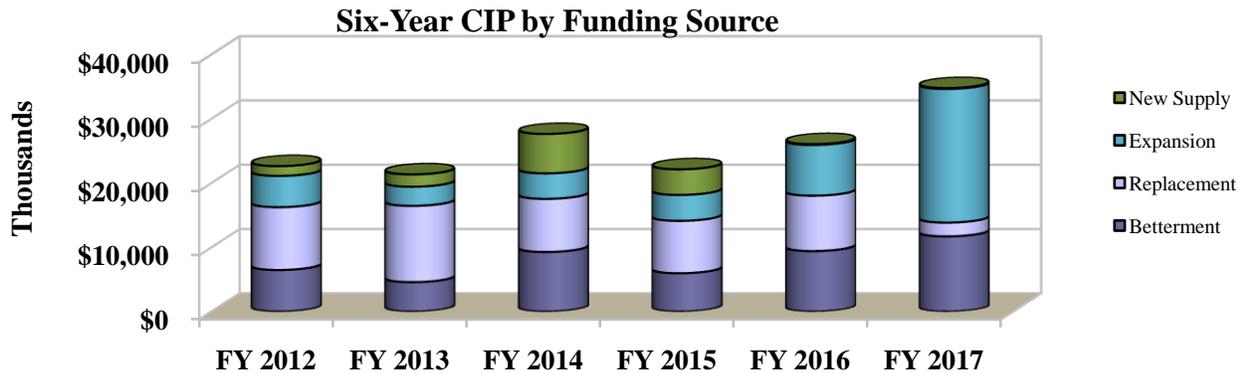


(Thousand \$000s)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total
<b>Beginning Balance</b>	\$ 71,250	\$ 54,282	\$ 43,963	\$ 46,659	\$ 41,337	\$ 62,076	
Capacity Fees	\$ 3,765	\$ 5,578	\$ 5,893	\$ 8,184	\$ 9,091	\$ 10,485	\$ 42,998
Debt financing	-	-	17,985	-	28,365	-	46,350
Grants	574	618	700	500	500	500	3,392
Interest	625	731	897	1,087	1,528	2,163	7,031
Betterment Charges	714	735	757	780	803	827	4,616
Temporary Meters	594	594	595	597	601	602	3,582
Availability (Betterment Portion)	531	547	563	579	597	615	3,431
New Supply Fee	389	591	634	852	943	1,083	4,492
COPS 2010B Reimbursement	830	830	830	830	830	830	4,981
Transfer from General Fund	7,040	9,669	10,666	12,997	14,162	15,260	69,794
Interfund Transfers	37	56	75	94	112	150	523
<b>Total Sources</b>	<b>15,098</b>	<b>19,948</b>	<b>39,595</b>	<b>26,500</b>	<b>57,533</b>	<b>32,516</b>	<b>191,190</b>
CIP Projects	22,632	21,346	27,630	22,138	26,049	34,764	154,559
Betterment Fees for Maintenance	655	65	66	67	68	70	991
Debt Service	7,735	7,891	8,349	8,754	9,806	10,636	53,171
Developer Services	1,044	966	854	862	871	880	5,477
<b>Total Uses</b>	<b>32,066</b>	<b>30,268</b>	<b>36,899</b>	<b>31,822</b>	<b>36,794</b>	<b>46,349</b>	<b>214,198</b>
<b>Net Sources (Uses)</b>	<b>\$ (16,968)</b>	<b>\$ (10,319)</b>	<b>\$ 2,696</b>	<b>\$ (5,322)</b>	<b>\$ 20,739</b>	<b>\$ (13,834)</b>	<b>\$ (23,008)</b>

# CIP Funding Source and Category

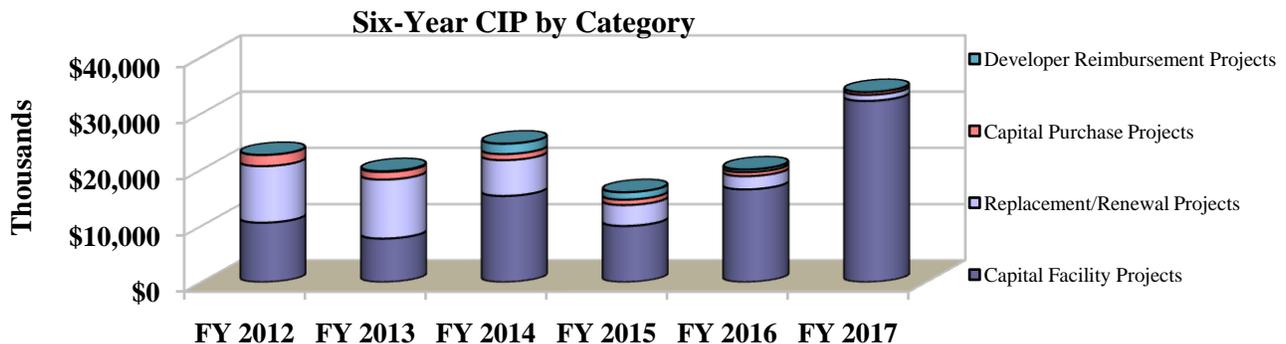
## CIP Funding Source

(Thousands \$000s)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Expansion	\$ 4,866	\$ 2,972	\$ 3,965	\$ 4,033	\$ 7,890	\$ 20,789	\$ 44,515
Betterment	6,472	4,585	9,279	5,970	9,420	11,700	47,426
Replacement	9,774	11,869	8,266	8,155	8,619	2,155	48,838
New Supply	1,520	1,920	6,120	3,980	120	120	13,780
<b>TOTAL</b>	<b>\$ 22,632</b>	<b>\$ 21,346</b>	<b>\$ 27,630</b>	<b>\$ 22,138</b>	<b>\$ 26,049</b>	<b>\$ 34,764</b>	<b>\$ 154,559</b>



## CIP Category

(Thousands \$000s)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Capital Facility Projects	\$ 10,595	\$ 7,760	\$ 15,350	\$ 10,010	\$ 16,510	\$ 32,239	\$ 92,464
Replacement/Renewal Projects	10,059	10,499	6,365	3,720	2,355	1,080	34,078
Capital Purchase Projects	1,973	1,360	1,080	965	714	495	6,587
Developer Reimbursement Projects	5	132	1,845	1,314	470	-	3,766
Subtotal	22,632	19,751	24,640	16,009	20,049	33,814	136,895
FY 2013 Through FY 2017 Projects	-	1,595	2,990	6,129	6,000	950	17,664
<b>TOTAL</b>	<b>\$ 22,632</b>	<b>\$ 21,346</b>	<b>\$ 27,630</b>	<b>\$ 22,138</b>	<b>\$ 26,049</b>	<b>\$ 34,764</b>	<b>\$ 154,559</b>



# CIP Projects (\$1,000s)

The 2012 Fiscal Year CIP Budget contains 74 projects. The costs for the work planned for Fiscal Year 2012 is \$22.6 million. Of the 74 projects planned for Fiscal Year 2012, five are designated as reimbursable projects with an estimated cost of \$5,000. This project is built by a developer and reimbursed by the District.

CIP No.	Description	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	Total
<b>CAPITAL FACILITY PROJECTS</b>								
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	\$ 300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300
P2370	La Presa System Improvements	600	135	-	-	-	-	735
P2434	Rancho Del Rey Groundwater Well Development	850	2,600	-	-	-	-	3,450
P2451	Otay Mesa Desalination Facility Conveyance and Disinfection System	2,350	2,000	15,000	9,650	-	-	29,000
P2466	Regional Training Facility	20	-	-	-	-	-	20
P2467	San Diego Formation Groundwater Feasibility Study	400	-	-	-	-	-	400
P2473	PS - 711-1 Pump Station Improvement	300	100	-	-	-	-	400
P2488	Del Rio Road Helix and Otay Agency Interconnection	150	-	-	-	-	-	150
P2489	Gillespie Drive Helix and Otay Agency Interconnection	150	-	-	-	-	-	150
P2497	Solar Power Feasibility Study	25	75	50	60	-	-	210
P2502	803-1 Pump Station Modifications	425	100	-	-	-	-	525
P2503	850-2 Pump Station Modifications	325	100	-	-	-	-	425
P2511	North District - South District Interconnection System	1,400	800	-	-	15,400	19,200	36,800
P2514	PL - 30-Inch, 980 Zone, Hunte Parkway - Proctor Valley/Use Area	750	750	-	-	-	-	1,500
P2517	Chase Avenue Helix and Otay Interconnection	100	300	-	-	-	-	400
R2048	RecPL - Otay Mesa Distribution Pipelines and Conversions	100	-	-	-	810	1,040	1,950
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	150	150	-	-	-	2,100	2,400
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	350	350	-	-	-	1,774	2,474
R2087	RecPL - 24-Inch, 927 Zone, Wueste Road - Olympic/Otay WTP	150	-	-	-	-	5,975	6,125
R2091	RecPS - 927-1 Pump Station Upgrade (10,000 GPM) and Sys Enhancements	1,500	100	-	-	-	1,850	3,450
R2094	Potable Irrigation Meters to Recycled Water Conversions	200	200	300	300	300	300	1,600
<b>21</b>	<b>Total Capital Facility Projects</b>	<b>10,595</b>	<b>7,760</b>	<b>15,350</b>	<b>10,010</b>	<b>16,510</b>	<b>32,239</b>	<b>92,464</b>
<b>REPLACEMENT/RENEWAL PROJECTS</b>								
P2366	APCD Engine Replacements and Retrofits	295	232	234	200	200	200	1,361
P2382	Safety and Security Improvements	480	300	300	300	300	300	1,980
P2416	SR-125 Utility Relocations	48	-	-	-	-	-	48
P2440	I-905 Utility Relocations	25	9	-	-	-	-	34
P2453	SR-11 Utility Relocations	50	50	50	-	-	-	150
P2458	AMR Manual Meter Replacement	1,400	1,400	1,400	650	-	-	4,850
P2477	Res - 624-1 Reservoir Cover Replacement	200	200	-	-	-	-	400
P2484	Large Water Meter Replacement Program	220	150	100	-	-	-	470
P2485	SCADA Communication System and Software Replacement	350	475	155	-	-	-	980
P2486	Asset Management Plan Condition Assessment and Data Acquisition	400	100	-	-	-	-	500
P2491	850-3 Reservoir Exterior Coating	200	80	-	-	-	-	280
P2493	624-2 Reservoir Interior Coating	30	70	700	120	-	-	920
P2494	Multiple Species Conservation Plan	90	20	-	-	-	-	110
P2495	San Miguel Habitat Management/Mitigation Area	250	250	250	250	250	250	1,500
P2496	Otay Lakes Road Utility Relocations	25	75	-	-	-	-	100
P2504	Regulatory Site Access Road and Pipeline Relocation	100	300	198	-	-	-	598
P2505	657-1 Reservoir Interior/Exterior Coating	25	-	-	-	-	-	25
P2506	657-2 Reservoir Interior/Exterior Coating	25	-	-	-	-	-	25
P2507	East Palomar Street Utility Relocation	350	285	150	-	-	-	785
P2508	Pipeline Cathodic Protection Replacement Program	50	80	-	-	-	-	130
P2513	East Orange Avenue Bridge Crossing	5	40	300	400	5	-	750
P2515	870-1 Reservoir Paving	25	275	-	-	-	-	300
P2520	Motorola Mobile Radio Upgrade	50	50	-	-	-	-	100
P2521	Large Meter Vault Upgrade Program	200	200	200	-	-	-	600
R2096	RWCWRF - Upgrades and Modifications	2,000	1,750	-	-	-	-	3,750
R2099	Recycled System Air and Vacuum Value Retrofit	234	233	233	-	-	-	700
S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	642	350	300	300	300	300	2,192
S2019	Avocado Boulevard 8-Inch Sewer Main Improvement	1,400	200	-	-	-	-	1,600
S2020	Calavo Drive 8-Inch Sewer Main Replacement	370	110	-	-	-	-	480
S2022	Hidden Mesa Drive 8-Inch Sewer Main Rehabilitation	80	40	-	-	-	-	120
S2023	Calavo Drive Sewer Main Utility Relocation	50	-	-	-	-	-	50
S2024	Campo Road Sewer Main Replacement	10	150	250	1,500	1,300	30	3,240
S2026	Challenge Boulevard 8-Inch Sewer Main Replacement	25	200	25	-	-	-	250
S2027	Rancho San Diego Pump Station Rehabilitation	100	1,300	1,400	-	-	-	2,800
S2028	Explorer Way 8-Inch Sewer Main Replacement	20	100	5	-	-	-	125
S2029	Chase Avenue 8-Inch Sewer Main Replacement	20	100	5	-	-	-	125
S2030	Avocado Boulevard 8-Inch Sewer Main Replacement	50	250	25	-	-	-	325
S2031	Julianna Street 8-Inch Sewer Main Replacement	20	125	5	-	-	-	150
S2032	Puebla Drive 8-Inch Sewer Main Replacement	20	100	5	-	-	-	125
S2033	Sewer System Various Locations Rehabilitation	100	650	50	-	-	-	800
S2034	Vista Grande and Paseo Grande 8-Inch Sewer Main Replacement	25	200	25	-	-	-	250
<b>41</b>	<b>Total Replacement/Renewal Projects</b>	<b>10,059</b>	<b>10,499</b>	<b>6,365</b>	<b>3,720</b>	<b>2,355</b>	<b>1,080</b>	<b>34,078</b>

# CIP Projects (\$1,000s)

CIP No.	Description	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	Total
<b>CAPITAL PURCHASE PROJECTS</b>								
P2282	Vehicle Capital Purchases	395	640	520	470	420	400	2,845
P2285	Office Equipment and Furniture Capital Purchases	60	20	20	20	20	20	160
P2286	Field Equipment Capital Purchases	278	100	90	75	74	75	692
P2443	Information Technology Mobile Services	250	100	-	-	-	-	350
P2461	Records Management System Upgrade	100	-	-	-	-	-	100
P2469	Information Technology Network and Hardware	460	300	250	200	-	-	1,210
P2470	Application Systems Development and Integration	430	200	200	200	200	-	1,230
7	<b>Total Capital Purchase Projects</b>	<b>1,973</b>	<b>1,360</b>	<b>1,080</b>	<b>965</b>	<b>714</b>	<b>495</b>	<b>6,587</b>
<b>DEVELOPER REIMBURSEMENT PROJECTS</b>								
P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road-Rolling H Hydro PS/PB Bndy	1	49	-	-	-	-	50
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	1	4	795	946	-	-	1,746
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	1	4	395	-	-	-	400
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	1	74	75	350	470	-	970
R2085	RecPL - 20-Inch, 680 Zone, La Media - State/Olympic	1	1	580	18	-	-	600
5	<b>Total Developer Reimbursement Projects</b>	<b>5</b>	<b>132</b>	<b>1,845</b>	<b>1,314</b>	<b>470</b>	<b>-</b>	<b>3,766</b>
74	<b>Total - FY 2012 Projects</b>	<b>22,632</b>	<b>19,751</b>	<b>24,640</b>	<b>16,009</b>	<b>20,049</b>	<b>33,814</b>	<b>136,895</b>
11	<b>FY 2013 Through FY 2017 Projects</b>	<b>-</b>	<b>1,595</b>	<b>2,990</b>	<b>6,129</b>	<b>6,000</b>	<b>950</b>	<b>17,664</b>
85	<b>Grand Totals</b>	<b>\$ 22,632</b>	<b>\$ 21,346</b>	<b>\$ 27,630</b>	<b>\$ 22,138</b>	<b>\$ 26,049</b>	<b>\$ 34,764</b>	<b>\$ 154,559</b>

# CIP Justification and Impact on Operating Budget

The following schedule shows anticipated operating costs associated with each project in the CIP. 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.

Projected Incremental Operating Expenditures <sup>(1)</sup>									
CIP No.	Description	J/FS (2)	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	Total (3)
<b>CAPITAL FACILITY PROJECTS</b>									
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	E/B	\$ 9,300	\$ 9,600	\$ 9,900	\$ 10,200	\$ 10,500	\$ 10,800	\$ 60,300
P2370	La Presa System Improvements	B	-	(1,900)	(2,000)	(2,100)	(2,200)	(2,300)	(10,500)
P2434	Rancho Del Rey Groundwater Well Development	N/B	-	-	-	8,900	9,200	9,500	27,600
P2451	Otay Mesa Desalination Facility Conveyance and Disinfection System	N/B	-	-	-	-	3,400	3,500	6,900
P2502	803-1 Pump Station Modifications	B	-	(40,950)	(81,900)	(84,400)	(86,900)	(89,500)	(383,650)
P2503	850-2 Pump Station Modifications	B	-	(25,200)	(50,400)	(51,900)	(53,500)	(55,100)	(236,100)
P2514	PL - 30-Inch, 980 Zone, Hunte Parkway - Proctor Valley/Use Area	E	-	-	700	700	700	700	2,800
<b>Total Capital Facility Projects</b>			<b>\$ 9,300</b>	<b>\$ (58,450)</b>	<b>\$ (123,700)</b>	<b>\$ (118,600)</b>	<b>\$ (118,800)</b>	<b>\$ (122,400)</b>	<b>\$ (532,650)</b>
<b>REPLACEMENT/RENEWAL PROJECTS</b>									
P2458	AMR Manual Meter Replacement	R	-	-	-	-	(226,400)	(233,200)	(459,600)
<b>Total Replacement/Renewal Projects</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(226,400)</b>	<b>(233,200)</b>	<b>(459,600)</b>
<b>CAPITAL PURCHASE PROJECTS</b>									
P2443	Information Technology Mobile Services	E/R	-	-	-	18,000	18,500	19,100	55,600
<b>Total Capital Purchase Projects</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>18,000</b>	<b>18,500</b>	<b>19,100</b>	<b>55,600</b>
<b>DEVELOPER REIMBURSEMENT PROJECTS</b>									
P2104	PL - 12-Inch, 711 Zone, La Media Road - Birch/Rock Mountain	E	-	-	-	-	2,000	2,100	4,100
P2107	PL - 12-Inch, 711 Zone, Rock Mountain Road - La Media/SR 125	E	-	-	-	-	1,700	1,800	3,500
P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road-Rolling H Hydro PS/PB Bndy	E	-	-	2,300	2,400	2,500	2,600	9,800
P2402	PL - 12-Inch, 624 Zone, La Media Road - Village 7/Otay Valley	E	-	-	-	-	1,000	1,000	2,000
P2403	PL - 12-Inch, 624 Zone, Heritage Road - Olympic/Otay Valley	E	-	-	-	-	3,100	3,200	6,300
R2028	RecPL - 8-Inch, 680 Zone, Heritage Road - Santa Victoria/Otay Valley	E	-	-	-	-	2,400	2,500	4,900
R2042	RecPL - 8-Inch, 927 Zone, Rock Mountain Road - SR-125/EastLake	E	-	-	-	900	900	900	2,700
R2047	RecPL - 12-Inch, 680 Zone, La Media Road - Birch/Rock Mountain	E	-	-	-	1,400	1,400	1,400	4,200
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	E	-	-	-	-	1,200	1,200	2,400
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	E	-	-	-	700	700	700	2,100
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	E	-	-	-	-	-	1,900	1,900
R2085	RecPL - 20-Inch, 680 Zone, La Media - State/Olympic	E	-	-	-	-	1,300	1,300	2,600
<b>Total Developer Reimbursement Projects</b>			<b>-</b>	<b>-</b>	<b>2,300</b>	<b>5,400</b>	<b>18,200</b>	<b>20,600</b>	<b>46,500</b>
<b>Total Operating Budget Cost Impact</b>			<b>\$ 9,300</b>	<b>\$ (58,450)</b>	<b>\$ (121,400)</b>	<b>\$ (95,200)</b>	<b>\$ (308,500)</b>	<b>\$ (315,900)</b>	<b>\$ (890,150)</b>

Cost Category	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	Total
Operations and Maintenance	\$ 9,300	\$ 8,600	\$ 11,800	\$ 34,500	\$ (175,000)	\$ (178,300)	\$ (289,100)
Energy	-	(66,150)	(132,300)	(128,700)	(132,500)	(136,500)	(596,150)
Chemical	-	(900)	(900)	(1,000)	(1,000)	(1,100)	(4,900)
<b>Total Operating Budget Cost Impact</b>	<b>\$ 9,300</b>	<b>\$ (58,450)</b>	<b>\$ (121,400)</b>	<b>\$ (95,200)</b>	<b>\$ (308,500)</b>	<b>\$ (315,900)</b>	<b>\$ (890,150)</b>

- <sup>(1)</sup> Projected Incremental Operating Expenditures (operating cost) or O&M includes labor, benefits, materials and overhead.  
O&M cost for pipes: Total annual operating cost divided by the number of feet of pipe in the system = O&M cost to maintain a foot of pipe. This rate is then multiplied by the number of feet in new pipeline, and is increased annually for inflation.  
O&M cost for a pump station: Total annual operating cost divided by the number of million of gallons a day (MGD) capacity in the system = O&M cost per MGD. This rate is then multiplied by the MGD capacity of the new pump station. Similarly, power cost per MGD for transmission is calculated and applied to the MGD of the new pump station. Chemical expenses are incurred for pumping at the well sites. All estimated costs are increased annually for inflation.  
O&M cost for a reservoir: Total annual operating cost divided by the number of million gallons (MG) of storage capacity in the system. This rate per MG is then multiplied by the MG capacity of the new reservoir. Reservoirs require chemical treatment; therefore, the chemical cost per MG is estimated and applied to the future operating cost. Both O&M and chemical costs are increased annually for inflation.  
Each of the capital purchases and other types of assets has its own unique O&M cost.
- <sup>(2)</sup> J/FS - Justification and Funding Source - Some projects have multiple funding sources as indicated by a slash (/):  
E - Expansion B - Betterment R - Replacement N - New Supply
- <sup>(3)</sup> Negative cost reflect savings gained from operational efficiencies or the retirement of a facility.

**Note:** See pages 181-182 for complete description of CIP projects.

# FY 2012 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 Field Equipment, Office Equipment and Furniture, and Vehicles purchases.

<u>Item#</u>	<u>Description</u>	<u>Amount</u>	<u>Type</u>
<b>Field Equipment</b>			
<b>Operations</b>			
2	944-1 Pump Station Gen Set. To be purchased from APCD Engine Replacement and Retrofits CIP P2366.	45,000.00	R
3	1004-2 Pump Station Gen Set. To be purchased from APCD Engine Replacement and Retrofits CIP P2366	35,000.00	R
4	Operations Yard Gen Set. To be purchased from APCD Engine Replacement and Retrofits CIP P2366.	40,000.00	R
12	MARS Series 6-1200 Test Bench System. Includes gravimetric weight scale system W/M3 meter management software, computer and printer, 500 gallon calibrated stainless steel tank, and on-site installation assistance and training with MARS personnel. To be purchased from Field Equipment CIP P2286	93,000.00	R
13	Sewage by-pass trash pump. To be purchased from Field Equipment CIP P2286.	50,000.00	N
14	Sanitary Sewer Spill Response Trailer. To be purchased from Field Equipment CIP P2286.	20,000.00	N
15	Traffic Control Arrow Board. To be purchased from Field Equipment CIP P2286.	17,000.00	N
16	Gen Set Load Bank Tester. To be purchased from Field Equipment CIP P2286.	30,000.00	N
17	Variable frequency drives for two Reclamation Plant effluent pump motors. 480V, 200 HP, 18 Pulse, \$26500 each.	53,000.00	N
18	Pump engine 1 replacement at Treatment Plant. To be purchased from APCD engine replacement and retrofits CIP P2366.	75,000.00	R
21	Vactor rescue-vac device allows for the safe and efficient excavation of soil during emergencies. This unit works in conjunction with the District's current Vactor units.	15,000.00	N
<b>Total of Field Equipment</b>		<b>473,000.00</b>	
<b>Office Equipment</b>			
<b>Information Technology</b>			
19	Board Video Equipment	60,000.00	N
<b>Total of Office Equipment</b>		<b>60,000.00</b>	

N - New

R - Replacement

# FY 2012 Capital Purchases

Item#	Description	Amount	
<b>Vehicles</b>			
<b>Operations</b>			
5	Multi passenger SUV to replace Unit No. 102. To be purchased from Vehicle Capital Purchase CIP P2282.	30,000.00	R
6	Multi-passenger van to replace Unit 100. To be purchased from vehicle capital purchase CIP P2282.	40,000.00	R
7	Class 3 utility truck to replace unit No. 126. To be purchased from vehicle capital purchase CIP P2282.	35,000.00	R
8	Class 4 Utility Truck to replace Unit No. 94. To be purchased from vehicle capital purchase CIP P2282.	100,000.00	R
9	Class 3 vehicle with a 2-3 yard dump bed to replace Unit 103. To be purchased from vehicle capital purchase CIP P2282.	60,000.00	R
10	Sewer televising vehicle to be utilized by the wastewater collection crew to televise the sanitary sewer system. To be purchased from vehicle capital purchase CIP P2282.	130,000.00	N
11	Class Seven, 5-7 yard dump body dump truck to replace Unit No. 92. To be purchased from APCD engine replacements and retrofits CIP	100,000.00	R
<b>Total of Vehicles</b>		<b>495,000.00</b>	
<b>Capital Purchases Grand Total :</b>		<b>1,028,000.00</b>	

### Summary by Project

P2366	APCD	\$ 295,000.00
P2282	Vehicle	\$ 395,000.00
P2285	Office	\$ 60,000.00
P2286	Field	\$ 278,000.00
		<u>\$ 1,028,000.00</u>

N - New

R - Replacement

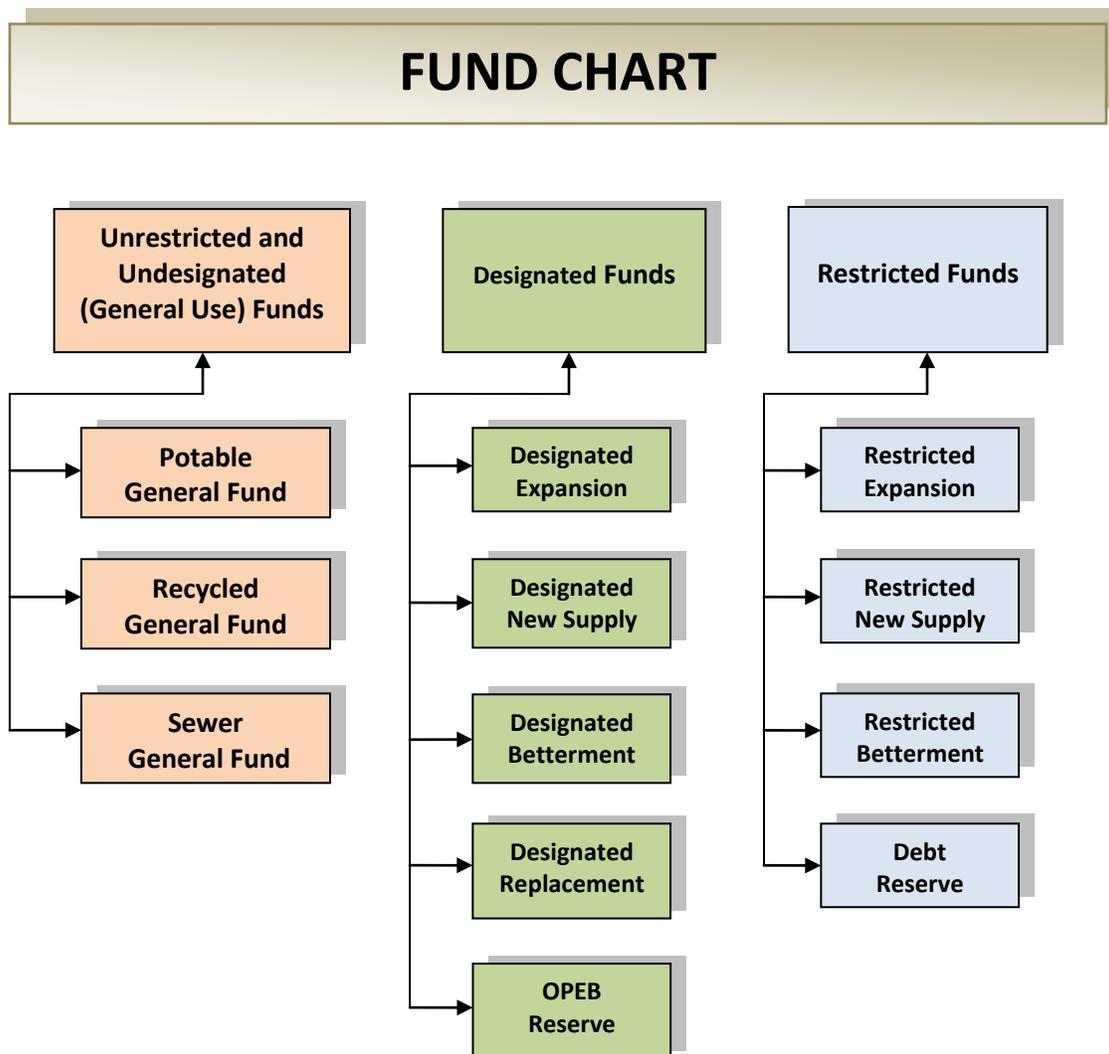
# Summary of Financial Policies

## Introduction

This section includes a brief synopsis of 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. It also explains the difference between funds, as well as how transfers shall be made, and defines each reserve target funding level. The District adopted this new policy in November 2010.

The following chart depicts the detailed flow of funds that may be useful in understanding the Reserve Policy.



## *Summary of Financial Policies*

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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, in order of significance, are to invest safely, with adequate liquidity, and to achieve sufficient return on investments. This policy was revised and adopted by the Board in September 2006 and received a Certification of Excellence Award from the Association of Public Treasurers of the United States and Canada (APT US&C).

The Debt Policy establishes that debt financing will only be used for Capital Improvement Projects (CIP), which have an extended useful life on ten years or longer, and that exceed the District's ability to be funded with current resources such as annual cash flow, fund balances, or reserves. Additionally, the life of a project is expected to exceed the term of the financing. The District strives 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 the achievement of district policy objectives. This policy was revised and adopted by the Board in January 2007 and receive a Certification of Excellence award from the Association of Public Treasurers of the United States and Canada (APT US&C).

## 1.0 The District

The Otay Water District is a California municipal water 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 their 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 provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such, the District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has an identifiable 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 the service costs relating to each of its four customer service types. 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 Financial Resources

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The operating costs include costs relating to 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 services. The District uses various funds to support the operating and capital efforts. Operations and maintenance is financed only by rates and charges, also called pay-as-you-go, while capital infrastructure is financed using two financing methods: pay-as-you-go and debt issuance (requiring annual debt service). The Capital

# Reserve Policy

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Improvement Program (CIP) and the two funding methods support the construction, betterment, and replacement of infrastructure in all three business areas: potable, recycled, and sewer.

The District establishes different funds to track revenues allocated to different activities. Once established, each fund receives financial resources up to the levels defined in this policy. Every 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 requirements and financial resources are then evaluated to ensure that the existing fund balances and additional revenues are sufficient within the current budget cycle and for the next five years to maintain target fund levels. If a deficit is identified, then options for transfers, shifting CIP projects, debt, cost saving measures, and/or rate increases are evaluated.

## 1.2 The District's Capital Improvement Program (CIP)

The planning, design, and construction costs of all capital facilities within the three business segments are allocated to four cost types and corresponding fund categories: New Water Supply, Expansion, Replacement, and/or Betterment. The allocation to these four cost types is defined in the District's Capital Improvement Program (CIP) and is determined by an engineering analysis that identifies which type of customer will benefit from each facility, planned or existing. The costs of the capital improvements are borne by either existing users or by the developing areas, or by a combination of the two, as applicable.

This Reserve Policy protects both the existing users and the developing areas from incurring unwarranted costs. Developing areas are not required to finance facilities that are replacement or betterment and established areas are not required to replace facilities before they are worn out because of new development. However, to ensure a fair allocation of costs, each facility has the potential to be classified into any or all of the four cost types. In addition to these cost types there are occasional CIPs that may be billable to a third party, if for example a third party requires a District facility be relocated. Paragraphs a through d below, describe how the costs of capital facilities are financed through various fees.

### a. New Water Supply

The portion of a new supply project that benefits new users is financed from the reserves in the New Water Supply Fund category. These reserves are primarily derived from proceeds of the new water supply fee. The New Water Supply Fund is restricted, meaning the amounts credited to this fund are accounted for separately and are used solely for the planning, design, and construction of the new water supply expansion facilities. Debt financing may also be a temporary financial resource to finance new water supply projects. The District has a Debt Policy (Policy No. 45) that guides the debt issuance process. Any debt proceeds used for this purpose would be restricted in nature and tracked separately. General use reserves may also be placed in the Designated New Water Supply Fund and used for water supply projects.

b. Expansion

The portion of a CIP project that benefits new users is financed from the reserves in the Expansion Fund category. These reserves are primarily derived from proceeds of the “incremental” portion of the capacity fees collected within developing areas. Capacity fees are accounted for separately and used for the planning, design, and construction of expansion facilities. Additionally, expansion may be financed by annexation fees or the “buy-in” portion of the capacity fee. Both of these fees are restricted for CIP purposes, but not specifically for expansion. Debt financing may also be a temporary financial resource for expansion projects. General use reserves may also be placed in the Designated Expansion Fund and used for expansion projects.

c. Replacement

The portion of a CIP project that benefits existing users by replacing an existing facility is financed from the reserves in the Replacement Fund category. Replacement of facilities may be financed with proceeds of annexation fees, the “buy-in” portion of the capacity fees, general use reserves held in the Designated Replacement Fund and debt proceeds. The various funding sources available for replacement projects is anticipated to provide the necessary flexibility to begin projects while any necessary debt financing is being obtained.

d. Betterment

Facilities that improve reliability, meet new regulations, or create increased levels of service are considered betterment facilities that benefit existing users. The reserves in the Better Fund category are used to finance these projects or portions of projects. Certain user rates, charges, and betterment fees are restricted geographically for betterment of facilities, but may also be used for general maintenance of facilities in that area. Proceeds of the annexation fee and the “buy-in” portion of the capacity fees may also be used to finance betterment projects. General use reserves may be placed in the Designated Betterment Fund and used for betterment projects.

## 1.21 Relocations

Occasionally, relocation of a District facility is required by a third party. If the District has a superior easement the relocation cost will be paid by the third party, but only to the extent that the District does not benefit from the relocation. When relocation is required, a CIP project may be created which is wholly or partially financed by a third party. On occasion, the District will require that its own facilities be relocated. Depending on the nature of the facilities, the financial resources for these projects could be from new water supply, expansion, replacement, betterment or third party financing. Each project is individually negotiated with the third party based on the facts and circumstances of the relocation. Occasionally, the District will improve the facilities that are being relocated. When determining how to allocate costs to various funds the following guideline is suggested: if a project has more than five years of useful life remaining, an incremental cost view should be considered; if the project has less than five years of useful life remaining, a pro-rata cost approach should be considered. Also, the likelihood the District will benefit from an asset’s life extension should be evaluated prior to allocating costs.

# Reserve Policy

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## 1.22 Oversizing

If deemed reasonable by the District, in connection with the construction of backbone facilities, a developer may be required to oversize new facilities for future development. The developer is reimbursed for incremental oversizing costs as per Policy No. 26. These reimbursements are not available for the distribution system within a development which is an obligation of the developer.

## 1.23 Exclusion of Developed Areas from Expansion Costs

Developed areas are assumed 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 financing costs are allocated to these areas so that they will not incur any costs for newly developing areas, except for capital projects that produce district-wide benefit or cost savings.

## 1.24 Improvement Districts (IDs)

Improvement Districts (IDs) are established to facilitate the financing of particular improvements by the specific beneficiaries. The District has a number of improvement districts that were established for General Obligation (GO) debt repayment. Most GO debt has been paid off and it is unlikely that the District will issue additional GO debt. Improvement districts continue to be used for other purposes: 1) to distinguish sewer customers from water customers on the county tax roll; 2) to place parcels on the county tax roll for the collection of availability fees; or 3) for charging special water rates.

Over the years, the District moved to a district-wide perspective of financing improvements. This philosophy is evident by the district-wide capacity and annexation fees. The District also uses district-wide water rates. As time goes on, it is expected that IDs will continue to outgrow their purpose and their use will diminish.

## 1.3 The Purpose of the Policy

Public entities accumulate and maintain reserves to ensure both financial stability and continuous availability of services. Financial stability and the resulting improved credit quality allow the public entity to weather times of uncertainty and the impact of negative events, both major and minor. Reserves allow for the ongoing maintenance of property and timely payment of expenses even when such expenses exceed money available from 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 public entity.

A “reserve” has a number of meanings, as follows:

- Working capital is required to insure timely payment of obligations.
- A buffer against volatility in revenues.
- Liquidity is required to obtain other goods and services (e.g., bank services).

# Reserve Policy

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- Designated money to protect creditors.
- Money set aside to replace assets at the end of their useful lives.
- Money set aside to repair or replace assets damaged or destroyed at unanticipated times.

It is important to note that reserves, 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. In addition, the term fund balance was 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 finance contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the management and use of these financial resources. 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 as well as the demand for 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 Educational Revenue Augmentation Fund (ERAF) contributions or changes in calculation methodology.

# Reserve Policy

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- 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 require short-term borrowing in the absence of sufficient financial resources.

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, Report No. 2003-137. All of these recommendations have 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, including minimums and maximums, for the accumulation of reserves.
- Identify the events or conditions that prompt the use of reserves.
- Conform to plans to acquire or build capital assets.
- Receive Board approval and that it is 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 reserves.<sup>1</sup> Specifically, the Constitution states that “each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund or similar funds as it shall deem reasonable and proper.”<sup>2</sup> 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 context for different districts and different contingencies justifying reserves.

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<sup>1</sup> 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.

<sup>2</sup> California Constitution, Article XIII B, Section 5.

# Reserve Policy

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The Government Finance Officers Association (GFOA) in its “Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund” (2002) states that in establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors. These include:

- The predictability of its revenues and the volatility of its expenditures (*i.e.*, higher levels of the unreserved fund balances 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 the 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).
- Designations (*i.e.*, governments may wish to maintain higher levels of the 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’s general guidelines as provided above. In addition, the District has adopted the following principles in the management of its financial resources:

- Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity among 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 operations and maintenance from capital expenditures occurs within each of the service types. This is done because the financing of these expenditures is often on different timelines or use different reserves.

# Reserve Policy

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- 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 reserves 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 long-term financing which spreads the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use them. The District could amass significant reserves by pre-collecting financial resources in a Replacement Reserve Fund allowing the District to cash finance all replacements. However, this would require significant rate increases 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 model on 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 fees charged. This review also insures that reserves will be available to continue to serve the District's customers.

## **Financial Sources**

### **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 financed by developers.

b. 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.

c. Annexation Fees (Restricted)

Annexation fees<sup>3</sup> are collected as a condition of annexing into the District's potable and recycled water facilities. Since the existing facilities have been built and maintained by developers or customers within the District, the annexation fee is calculated based on the

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<sup>3</sup> Code of Ordinances, Section 9.

# Reserve Policy

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present value of all property taxes (1% property tax and availability fees) paid by existing and prior customers. The annexation fee insures that future users finance a portion of facilities that were sized, built, and maintained for both existing and future users. Proceeds of annexation fees are restricted and can be used for expansion, replacement, or betterment projects. These reserves may be shifted back and forth as financing needs change.

d. Annexation Fees (Unrestricted)

A sewer annexation fee is collected when property is annexed into an improvement district. This fee is calculated using the “buy-in” basis and therefore is unrestricted.

e. New Water Supply Fee (Restricted)

New water supply fees<sup>4</sup> are based on the cost of the expansion portion of new water supply projects divided by the number of future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District’s new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects. Although the fees collected are not restricted separately, one portion for potable and the other for recycled, they are tracked separately.

f. Capacity Fees (Restricted)

Capacity fees<sup>4</sup> are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the “buy-in” portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the “incremental” portion of the capacity fee covers the cost of future expansion facilities. The “buy-in” portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The “buy-in” portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. The “incremental” portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities (excluding new water supply expansion).

Facility needs are based on projected land use planning. Changes in anticipated future land use occur and can alter projected facility requirements. Thus, both the anticipated facilities needs and their projected costs change over time as regulatory agencies make changes to land use. The District periodically reviews the capacity fee calculation to accommodate such variations. These fees are paid by developers.

The District’s construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and 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

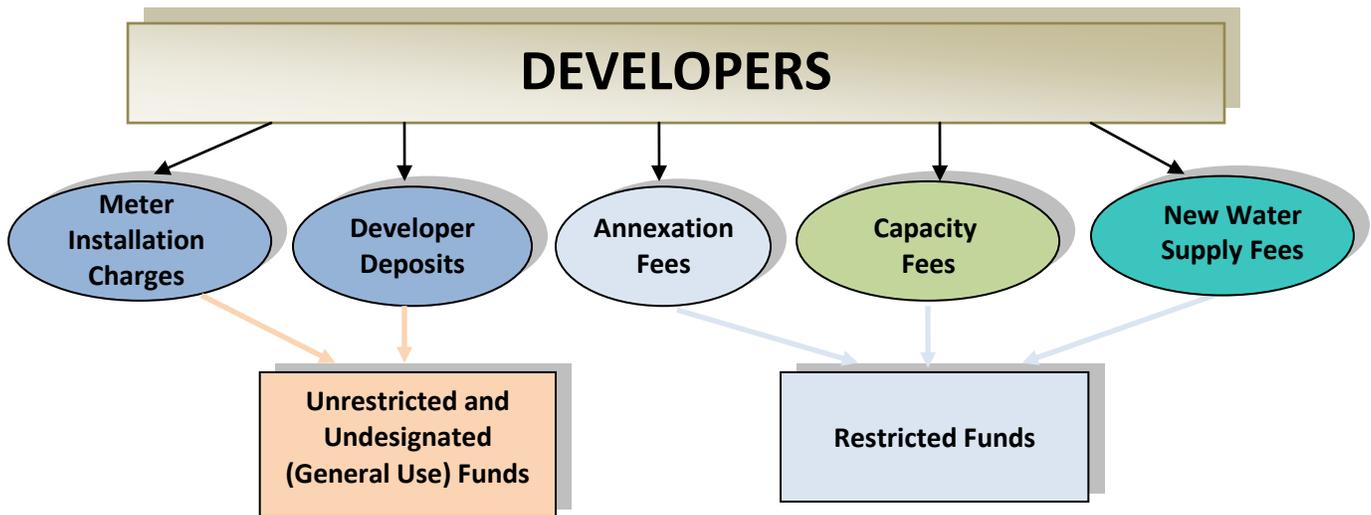
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<sup>4</sup> Code of Ordinances, Section 28

strategy, the District has financed construction with bond financing as the existing expansion reserves are depleted.

The capacity fee is calculated based on the combined recycled and potable water systems needs. This methodology is used because the two water systems work hand-in-hand. All capacity fees can be used for either potable or recycled but must be tracked to distinguish between the “buy-in” and “incremental” portions as described above. So, while capacity fees are not restricted separately by potable and recycled, they are tracked separately.

**Diagram 2.0: Flow of Funds - Developer Sources**



## 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.

### 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 a charge 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.

# Reserve Policy

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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 costs from the County Water Authority (CWA) and the Metropolitan Water District (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 for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines. Each of these rates and charges must be used within the respective geographic areas from which they are collected. These special charges are listed below:

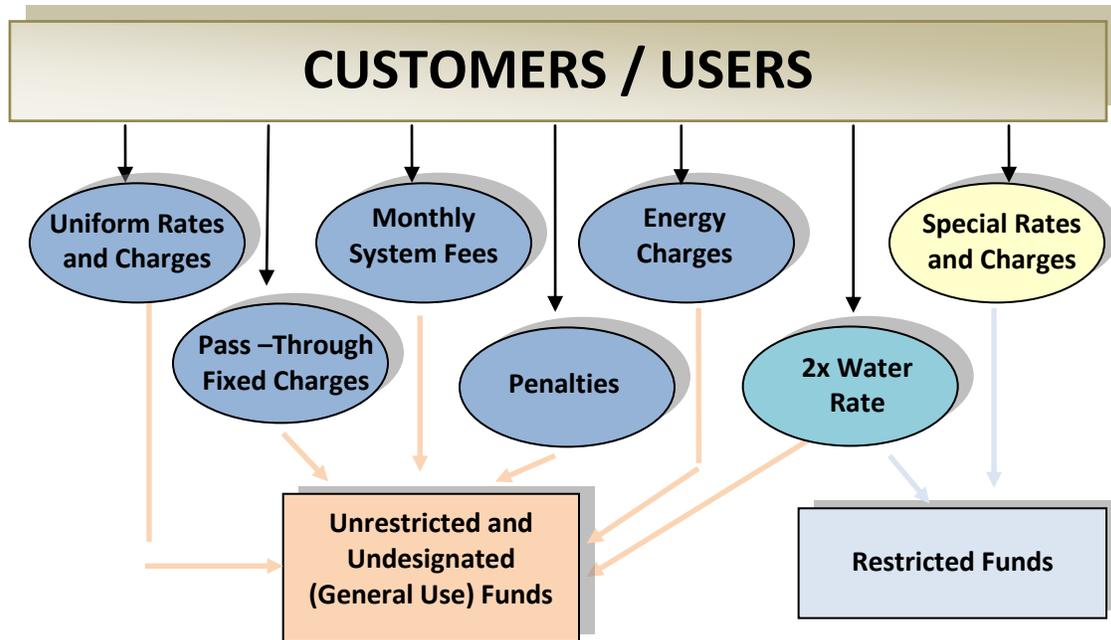
- North District water charge (Code section 25.03G)
- ID 9 water charge (Code section 25.03H)
- ID 3 water charge (Code section 25.03I)
- ID 10 water charge (Code section 25.03I)
- La Presa water charge (Code section 25.03I)
- Russell Square sewer charge (Code section 53.04C)

When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees were collected. Therefore, these are restricted reserves by geographic area as well as by purpose. These rates and charges can also be used for maintenance; unlike the availability fees (discussed in 2.2 B.). These six special rates and charges along with availability fees are tracked separately, by geographic area, so they can be individually evaluated to maintain the targeted reserve levels. 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 temporary meters use system capacity but 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.

Diagram 2.1: Flow of Funds - Customer Sources



## 2.2 County-Collected Taxes and Fees

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

In 1978, Proposition 13 limited the levy of ad valorem property taxes on real property to one percent of the assessed value of such property. 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. Taxes 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 the improvement district (ID) within which it is collected. Accordingly, the District may use availability charges in excess of \$10 toward costs of water and sewer facilities which are either, expansion, betterment, or replacement of facilities consistent with the purpose of the ID in which they are collected. This portion of the proceeds of availability charges is geographically restricted and restricted by purpose. As costs are incurred on these projects the respective IDs are charged, reducing the reserves. To the extent that availability charges are not used for the purpose for which they are collected, they must be returned to the property owners that paid them. The District has historically used these reserves for betterment capital facilities thus, the restricted reserves are accounted for in "sub-funds" of the Betterment Fund (see 2.1 f.).

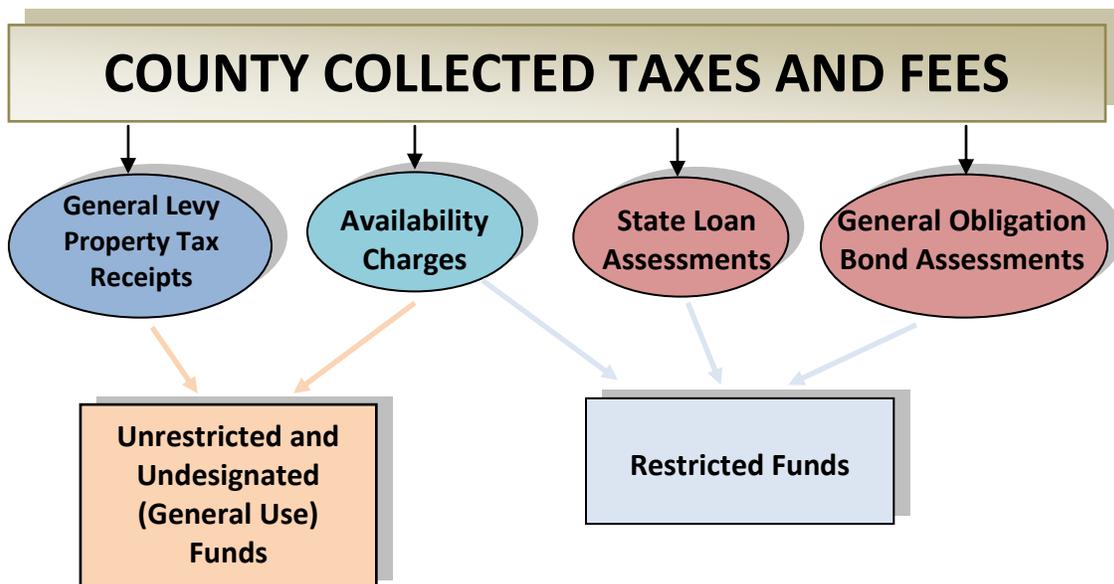
c. State Loan Assessment (Restricted)

The District assesses a 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. When this loan is paid off the charge will be removed.

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

The District has historically issued general obligation (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 special taxes or assessments within the ID to pay the debt obligation. The proceeds of the debt are restricted for the purpose as defined in the bond documents.

**Diagram 2.2: Flow of Funds – County Collection Sources**



## 2.3 Miscellaneous Income

a. Miscellaneous Rents and Leases (General Use)

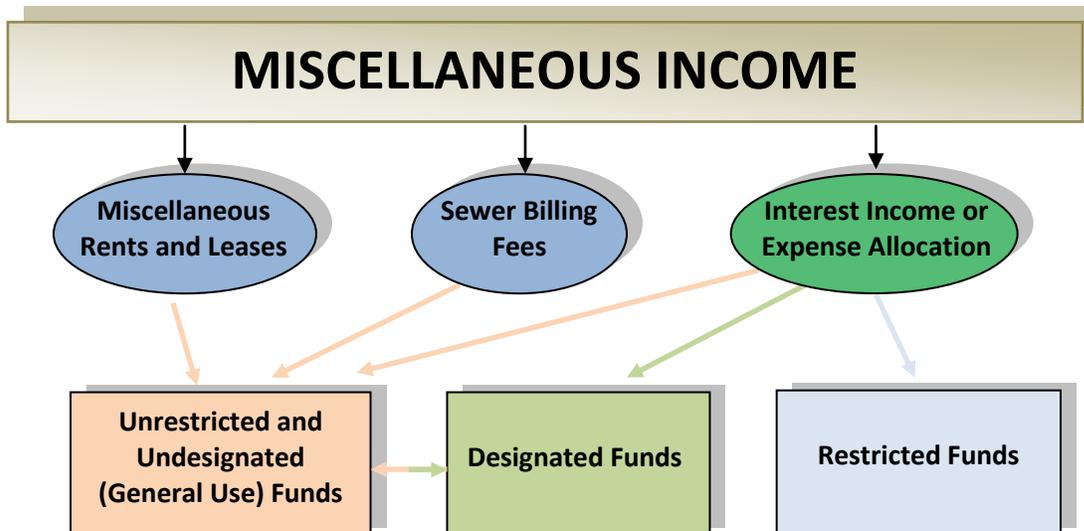
Revenues received from the rental and lease of District property are general use revenues. Not only are they periodic revenues, but there is also a one-time fee charged with the setup of each new lease. The District incurs expenses related to these rents and leases. The one-time fees are calculated to recover the costs to setup the leases.

b. Sewer Billing Fees (General Use)

Sewer billing fees are general use revenues. The District provides processing and billing services to the City of Chula Vista to bill and collect from their customers for sewer service. These fees are to recover the cost the District incurs to provide this service.

- c. Interest Income or Expense Allocation (General Use, Designated, and Restricted)  
Interest income (expense) will be allocated every month based upon each fund's month-ending balance. In this way, each fund receives credit for interest earned by that fund and each fund with a negative balance is charged for the use of the other fund's reserves.

**Diagram 2.3: Flow of Funds – Miscellaneous Income Sources**



## 2.4 Debt Issuance

- a. Loans (General/Restricted Use)

As the District determines that additional financing 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 to satisfy short-term financing needs. These loans may or may not be contractually restricted for a particular purpose.

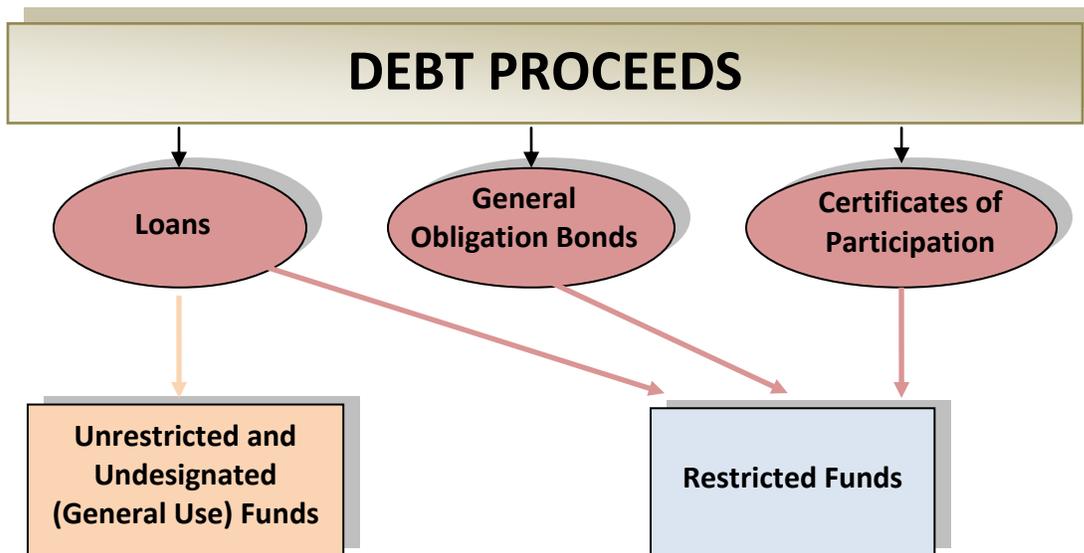
- b. General Obligation (GO) Bonds (Restricted)

As the District becomes more developed it becomes less likely that general obligation 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 financing 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 (COPs) (Restricted)

General revenues of the District are pledged as security for Certificates of Participation (COPs) indebtedness. If the District determines that additional financing 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. This form of financing has become the industry’s preferred form of financing as it does not require a vote of the general public.

**Diagram 2.4: Flow of Funds – Debt Issuance Sources**



## 2.5 Inter-fund Transfers

Each year in the budgeting process, future fund levels are projected for the next six years. Based on these projections transfers are recommended. Reserves may be transferred between Unrestricted or Designated Funds and the General Fund (see 4.0 “Funding Levels” and 4.1 “Fund Transfers”). Reserves may not be transferred to or from any of the restricted funds unless it is between two restricted funds with a shared purpose.

### Fund Types and Categories

## 3.0 General Funds

a. Purpose

The General Fund is neither restricted nor designated. The District maintains one General Fund for each business segment (water, sewer, and recycled). This fund holds the

# Reserve Policy

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

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. This fund can also be used to avoid spikes in the rates or significant and abrupt increases. It is an industry practice to have a fund that can be used to stabilize rates. This would only occur if there was a temporary need for reserves that would smooth out a rate spike or to ramp up what would otherwise be a dramatic rate increase.

The General Fund also plays a role in the debt planning of the District. 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 need a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also to access low cost financing for future projects.

b. Sources

Meter installation charges, 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 income or expense allocation, loans, and a portion of the temporary water sales.

The sewer general fund receives sewer charges, penalties, availability charges, sewer annexation fees (calculated on the "buy-in" basis), and interest income or expense allocation.

c. Funding Levels

- I. **Minimum Level** – The minimum reserve level for each business segment of the General Fund is three months of operating budget expenses (evaluated separately for each segment).
- II. **Maximum Level** – The maximum reserve 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 reserves 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 Other Post Employment Benefits (OPEB) Fund

### a. Purpose

Designated Other Post Employment Benefits (OPEB) reserves are “general use” reserves that have been set apart by Board action to finance the medical benefits of qualified retirees as outlined in the District’s benefits plan. This District fund holds only a portion of the total OPEB reserves. The other portion is held in a trust at CalPERS and is restricted for the purpose of financing the OPEB liability. The two portions are considered jointly when looking at target reserve levels. Every two years, the fund is evaluated by an actuary to update the annual financing requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, health insurance costs, or general market conditions. The reserves held by the District are currently designated and may be placed into the CalPERS trust to legally restrict the funds, removing the District’s legal access to these reserves.

### b. Sources

The OPEB liability may be financed by general use reserves coming from user rates and charges, either from an operating budget expenditure or from interfund transfers. Transfers of unrestricted reserves may come from the various designated funds or from the General Fund. As a part of the normal budget process, annual operating revenues have been sufficient to finance the ongoing needs of this designated fund. While debt financing is also an option, the District has only used user rates and charges to finance this fund.

### c. Funding Levels

- I. **Minimum Level** – The minimum reserve level for this fund is equal to the District’s OPEB liability as determined by the actuarial study. When considering the reserve level of this fund, both the District held OPEB reserves and CalPERS held OPEB reserves must be considered jointly.
- II. **Maximum Level** – The maximum reserve level for this fund is equal to the District’s OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, exceed the OPEB liability, the District will reduce the annual funding levels as defined by the actuarial study.
- III. **Target Level** – The target reserve level for this fund is equal to the District’s OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, fall below the OPEB liability, the District will increase the annual funding levels as defined by the actuarial study.

## 3.2 New Water Supply Fund Category

a. Purpose

The New Water Supply Fund category is to finance the expansion portion of new water supply projects and is therefore to be paid by developers. When considering the reserve level of the New Water Supply category; the New Water Supply Fund, the New Water Supply Debt Fund, and the Designated New Water Supply Fund all work in concert and must be considered jointly.

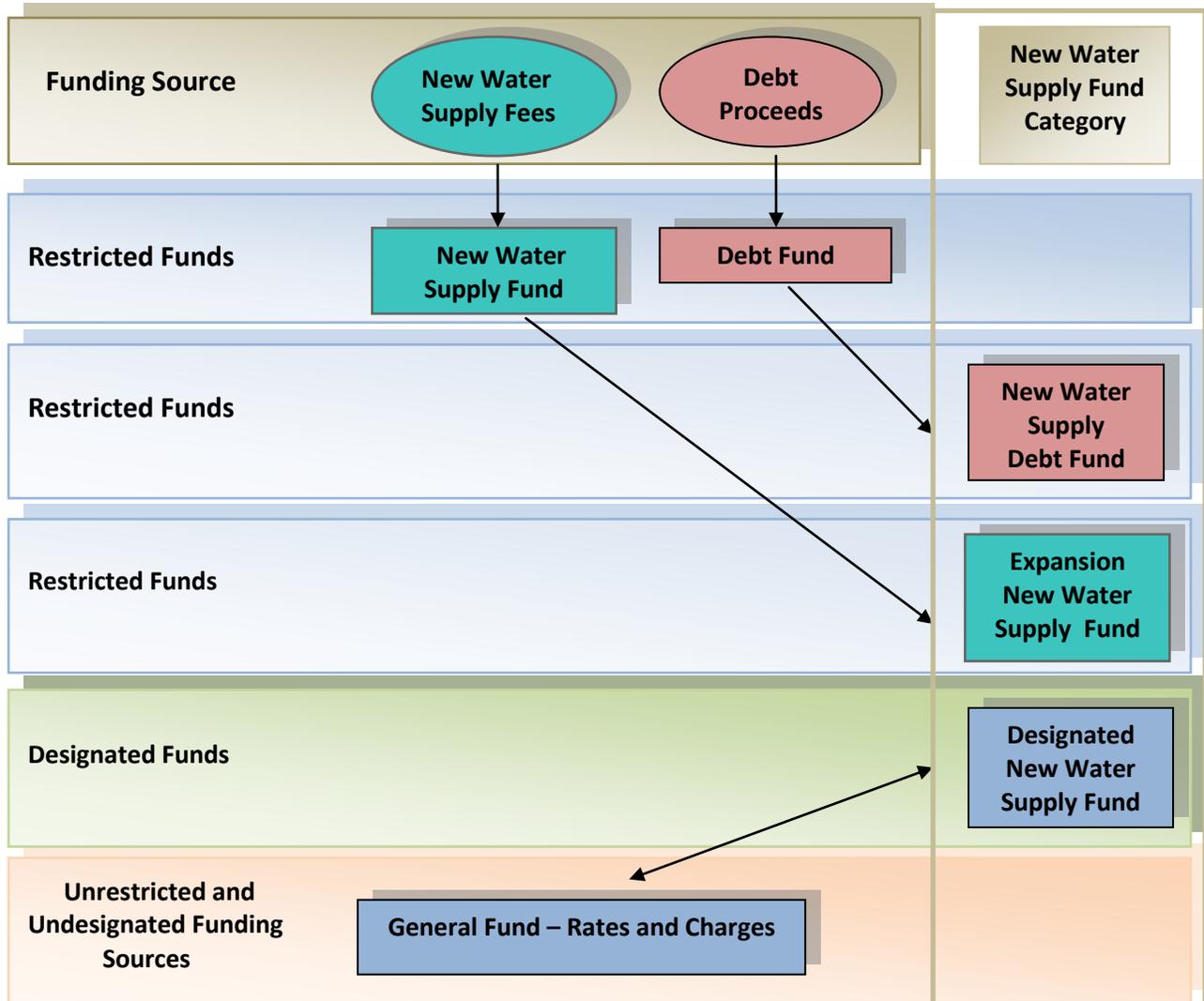
b. Sources

The New Water Supply Fund receives reserves only from the new water supply fee. Other funds within the new water supply category of funds receive debt proceeds and general use reserves through a designation to this category.

c. Funding Levels

- I. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.
- II. **Maximum Level** – The maximum reserve level for the new water supply category of funds is limited to five years of the unfinanced new water supply facilities as described in the District’s CIP Budget. To determine the unfinanced amount, the total new water supply financing needs must be reduced by the projected new water supply revenues, general fund designations, and bond financing. If the combined new water supply reserves exceed the target level, the District should consider transferring designated reserves to meet other purposes, reduce the new water supply fee, or change the timing of the new water supply projects.
- III. **Target Level** – In order to facilitate debt financing of the new water supply, it is important that the various new water supply funds retain an overall reserve level of six months, prior to any attempt to obtain debt financing. This reserve level allows the District the time necessary to issue additional debt without depleting new water supply reserves. If the combined new water supply reserve levels drop below six months of expenditures, this would trigger a transfer of general use reserves, a bond sale, or a change in the timing of new water supply projects. Bond proceeds would be placed in the Restricted New Water Supply Debt Fund while transfers would be placed in the Designated New Water Supply Fund.

**Diagram 3.2: New Water Supply Fund Category**



### 3.3 Expansion Fund Category

a. Purpose

The Expansion Fund category is to finance the expansion portion of capital projects and therefore is to be paid for by developers. When considering the reserve levels of the expansion category, the following funds work in concert and must be considered jointly: the Expansion Fund, Expansion Debt Fund, Annexation Fund (potable and recycled only), Capital Improvement Fund, and the Designated Expansion Fund. Potable and recycled reserves are considered jointly while sewer is evaluated separately.

# Reserve Policy

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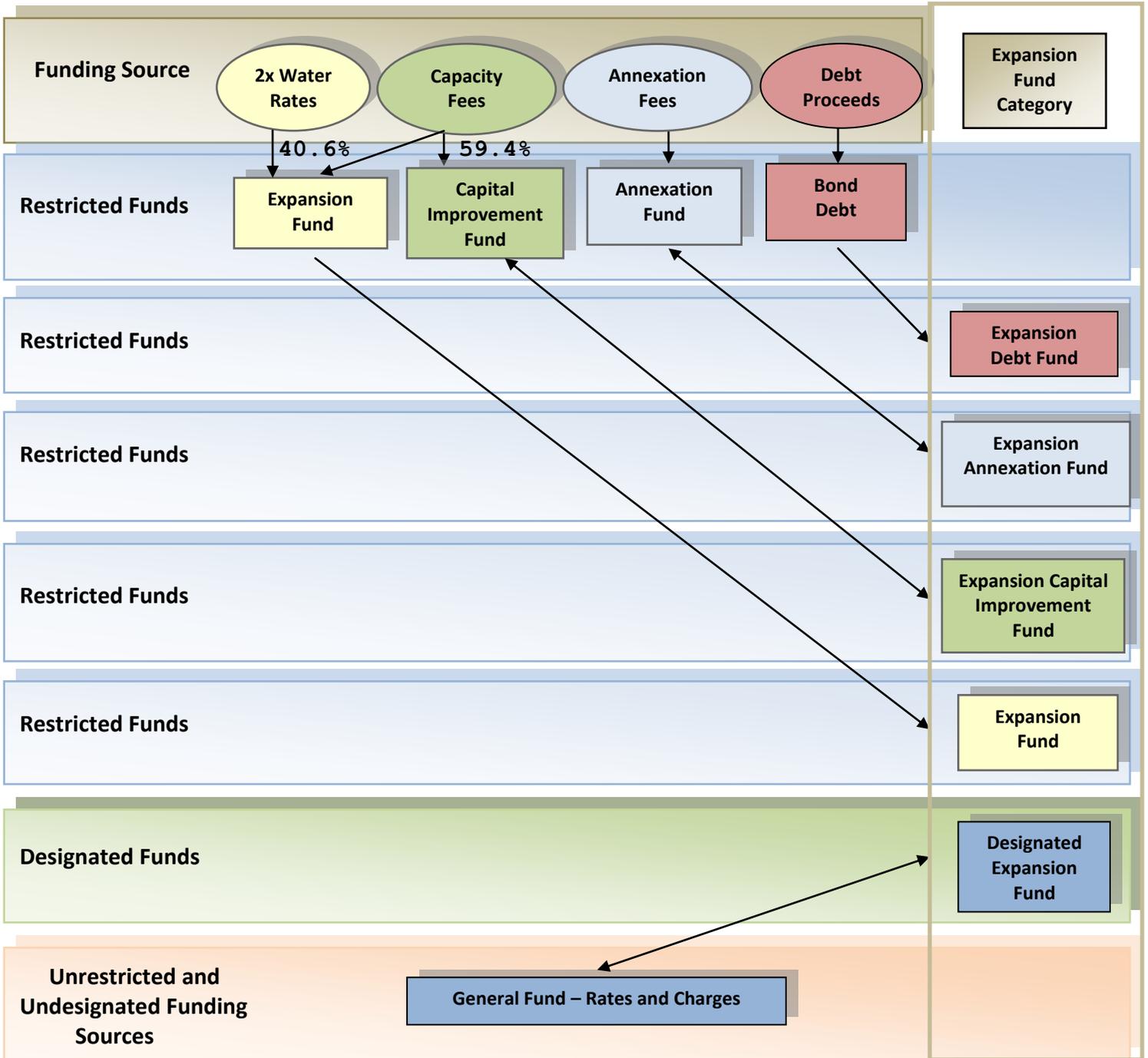
b. Sources

The Expansion Fund is financed by water charges in lieu of capacity fees (for temporary meters) and the “incremental” portion of the capacity fee. The other funds in this category may also be financed by debt proceeds, annexation fees, the “buy-in” portion of the capacity fee, and the general fund through a designation of reserves.

c. Funding Levels

- I. **Minimum Level** – As the District matures the CIP will move to purely replacement and betterment projects. As the District moves through this lifecycle the need for expansion reserves will decrease and may be reduced to zero.
- II. **Maximum Level** – The maximum reserve level for the expansion category of funds is limited to five years of unfinanced expansion facilities as described in the District’s CIP Budget. To determine the unfinanced amount, the total financing needs must be reduced by the projected expansion revenues, bond financing, and any restricted or general fund revenues allocated to this fund category. If the combined expansion reserves exceed target levels, the District should consider reducing capacity fees, reallocating restricted or designated funds to meet other purposes, or shifting the timing of expansion projects.
- III. **Target Level** – The target level is six months of expansion expenditures. It is important that the expansion reserves remain at a minimum of six months of expansion expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting expansion reserves. If the combined expansion reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, an adjustment to the timing of expansion projects, or a reallocation of restricted reserves. Bond proceeds would be placed in the Restricted Bond Fund, transfers of general use reserves would be placed in the Designated Expansion Fund, and transfers of restricted reserves would be placed in either the Expansion Annexation Fund or the Expansion Capital Improvement Fund.

Diagram 3.3: Expansion Fund Category



## 3.4 Replacement Fund Category

a. Purpose

The Replacement Fund category is to finance replacement projects. When considering the reserve levels of the replacement category of funds, the following funds work in concert and must be considered jointly: the Annexation Fund, Debt Fund, Capital Improvement Fund, and the Designated Replacement Fund. The purpose of these reserves is to pay for the replacement of capital infrastructure and capital purchases. These reserves are not to be used for the replacement of non-capital items.

With the District's development of its financial systems and the greater need and ability to separate and track reserves, the replacement reserves have 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 these are not considered normal maintenance. When the cost is below \$10,000, the costs are financed annually as operational maintenance. As charges are incurred on replacement projects the reserves are deducted from the respective Replacement Funds on a monthly basis.

b. Sources

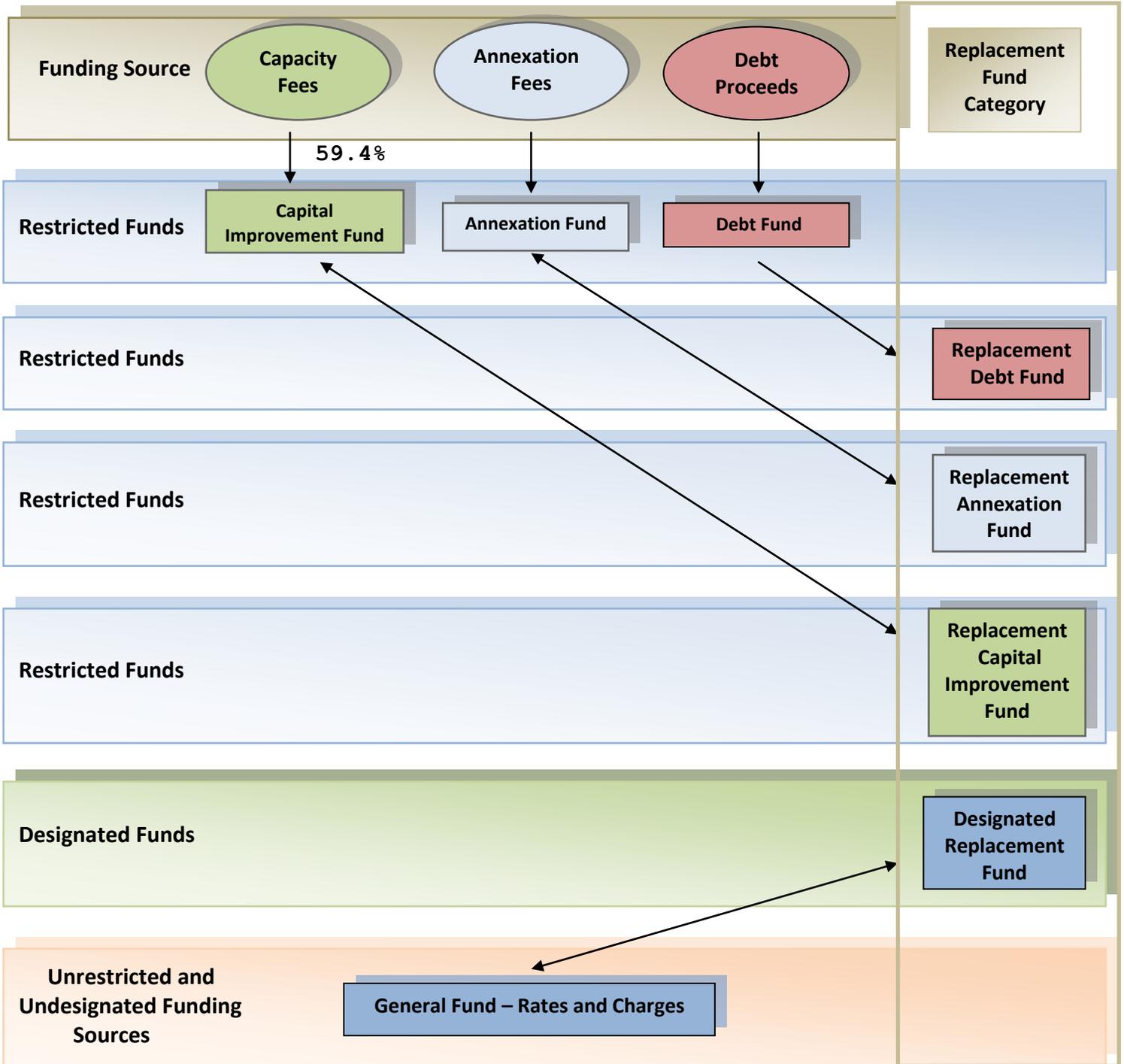
The various funds in this category are financed by debt proceeds, annexation fees, the "buy-in" portion of the capacity fee, and general fund designations.

c. Funding Levels

- I. **Minimum Level** – The minimum reserve level of this category of funds is 3% of the historical value of existing assets as identified in the District's current financial statements. Potable, recycled, and sewer replacement are evaluated separately.
- II. **Maximum Level** – The maximum reserve level of this category of funds is 6% of existing assets. If the combined replacement reserves exceed target levels, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee to meet other purposes. Another consideration would be to shift the timing of replacement projects.
- III. **Target Level** – The target reserve level of this category of funds is 4% of existing assets. In the event that the reserves fall below the recommended target level, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee. The District should also consider shifting the timing of replacement projects or issuing debt to support the planned level of facility replacement. The District will act based on the annual six-year rate model, to insure that at the end of that planning horizon the reserves exceed the minimum level and is approaching the target level.

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Diagram 3.4: Replacement Fund Category



## 3.5 Betterment Fund Category

a. Purpose

The Betterment Fund category is to finance the betterment portion of capital projects with a portion going to maintenance of the potable, recycled, and sewer systems. The District maintains separate Better Fund categories, one for each improvement district. An improvement district is a legally defined geographic area usually established for the purpose of bond financing of facilities. The betterment reserves within these funds are restricted by law for use within the improvement district in which the fees were collected (Water Code 71631.6). However, the legal restriction of this reserve depends upon the particular revenue source. (See Section 2.1 f. for a review of the special rates and availability fees).

When considering the reserve levels of the betterment category of funds, the following funds work in concert and must be considered jointly: the Betterment Fund, Annexation Fund, Debt Fund, Capital Improvement Fund, and Designated Betterment Fund.

b. Sources

The Betterment Fund category receives restricted revenues by improvement district via special water rates and from availability fees collected through the county tax roll. Betterment may also be financed by debt proceeds, annexation fees, the “buy-in” portion of the capacity fee, as well as the general fund through a designation of reserves.

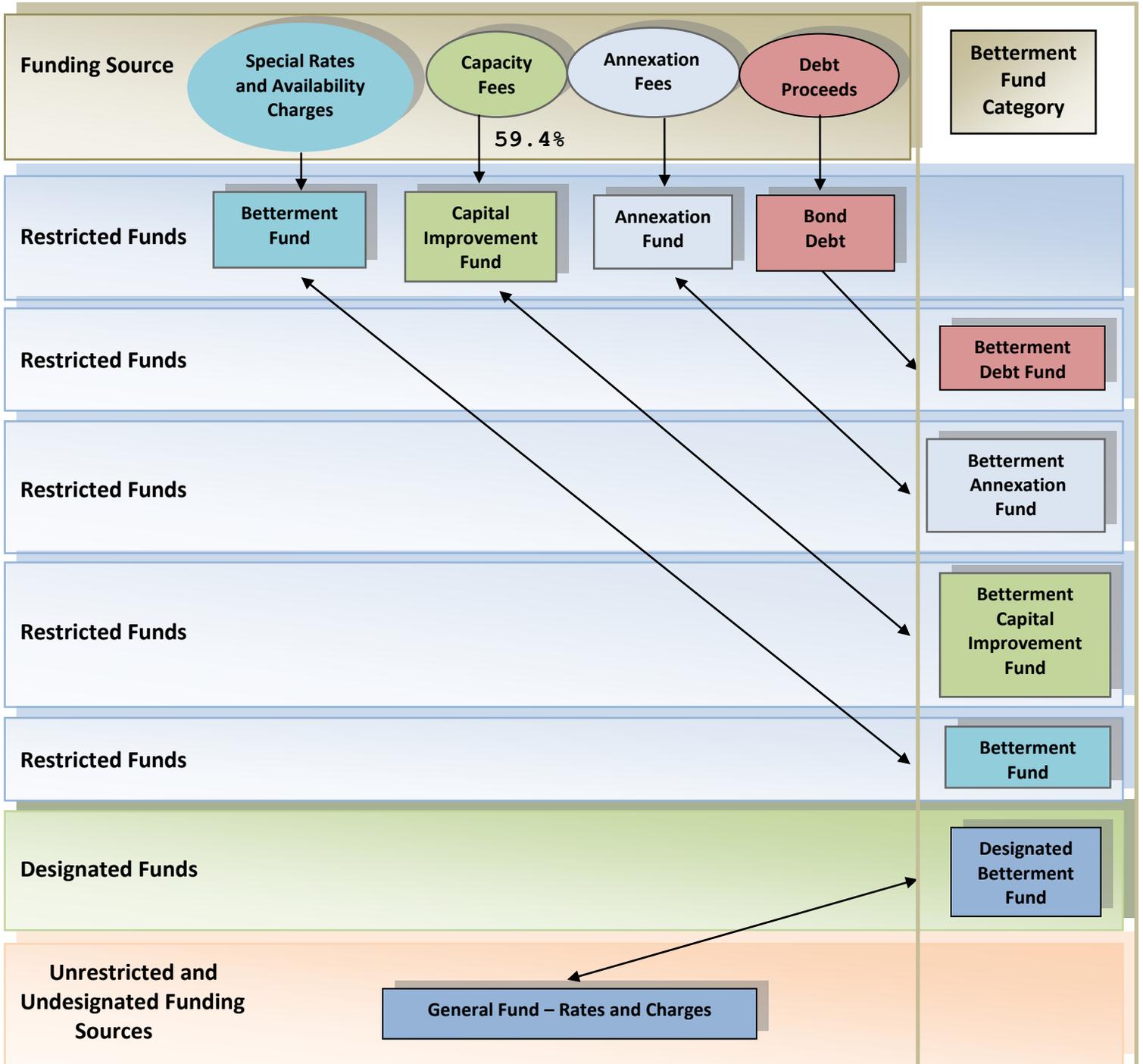
c. Funding Levels

- I. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through this lifecycle the need for betterment reserves will decrease and may be reduced to zero.
- II. **Maximum Level** – The maximum reserve level for the betterment category of funds is limited to five years of unfinanced betterment facilities as described in the District’s CIP Budget. To determine the unfinanced amount, the total financing need must be reduced by the projected betterment revenues, bond financing, annexation, and general fund designations. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.
- III. **Target Level** – The target is six months of betterment expenditures. It is important that the betterment reserves remain at a minimum of six months of betterment expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting betterment reserves. If the combined betterment reserves drop below six months of expenditures

# Reserve Policy

this would trigger a transfer of general use reserves, a bond sale, or an adjustment to the timing of betterment projects. Bond proceeds would be placed in the Betterment Bond Fund while transfers would be placed in the Designated Betterment Fund.

**Diagram 3.5: Betterment Fund Category**



**Diagram 3.6: Fund Targets**

Fund or Fund Category	Actions to Consider if below Target	Target	Maximum
New Supply Fund Category	New supply fee increase, bond financing, or transfer to designation or to CIF or Annexation Fund	Total of all funds in fund category = six months of capital expenditures	Nexus of cost to fee
Expansion Fund Category	Capacity fee increase, bond financing, or transfer to designation or to CIF or Annexation Fund	Total of all funds in fund category = six months of capital expenditures	Nexus of cost to fee
Replacement Fund Category	Bond financing, or transfer to designation or to CIF or Annexation Fund	Total of all funds in fund category = 4% of infrastructure	Nexus of cost to fee
Betterment Fund Category	Bond financing, or transfer to designation or to CIF or Annexation Fund	Total of all funds in fund category = six months of capital expenditures	5 years unfunded needs
Debt Reserve Fund	Increase tax collection or rates	One semi-annual payment	Two semi-annual payments
OPEB Fund	Fund transfers	Full funding	Full funding
General Fund	Rate increase or fund transfers	Three months of operating budget expenses	Nine months of operating budget expenses

Note: The annexation fee for sewer is a general fund revenue.

## Additional Restricted Funds

### 4.0 Capital Improvement Fund

a. Purpose

The “Capital Improvement Fund’s sole purpose is to track the “buy-in” portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were collected. In this case it is to pay for facilities that were in existence at the time this fee was established. These fees may be used for expansion, replacement, or betterment

projects or any debt related to these categories. These fees may also be used for either the potable or the recycled systems. As capacity fees are collected, the “buy-in” portion of the fee is allocated as needed to one of three capital improvement funds, one in each of the Expansion, Replacement, and Betterment Fund categories. These reserves are used to pay debt or offset any negative balance within these three categories of funds. These fees may not be used to finance the New Water Supply category, as there were no new water supply facilities in existence at the time the new methodology for capacity fees was established.

b. Sources

The “buy-in” portion of the capacity fee collected after June 30, 2010.

c. Funding Levels

There are no minimums, maximums, or target levels for these reserves on an individual basis. The allocation of this fee to the various capital improvement funds is dependent on the overall reserve levels within each fund category.

## 4.1 Annexation Fund

a. Purpose

The Annexation Fund’s sole purpose is to track the potable and recycled annexation fees collected and to ensure these fees are expended solely for the purpose for which they were collected. The annexation fees may be used for expansion, replacement, or betterment projects or any debt related to these categories. These fees may be used for either the potable or recycled systems. These reserves may not be used to finance the New Water Supply category, as it was not in existence at the time the fee was established. As these fees are collected they are allocated as needed to one of three capital improvement funds, one in each of the Expansion, Replacement, and Better Fund categories.

b. Sources

Potable and recycled annexation fees collected after June 30, 2010.

c. Uses

There are no minimums, maximums, or target levels for these reserves on an individual basis. The allocation of this fee to the various Annexation Funds is dependent on the overall reserve levels within each fund category.

## 4.2 Debt Reserve Fund

a. Purpose

The Debt Reserve Fund is established to hold the proceeds from the various debt issuances. There are two types of debt, General Obligation bonds and Certificates of Participation bonds. The proceeds are transferred to the New Water Supply, Expansion, Replacement, or Betterment Debt Funds as they are expended for various facilities within those fund categories. As repayment of the debt occurs, the balances within these individual funds are

# Reserve Policy

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reduced so that the financial impact of issuing debt is tracked within the category for which the debt was issued.

b. Sources

Debt proceeds.

c. Uses

There are no minimums, maximums, or target levels for this fund on an individual basis. This fund is available on an as needed basis to fund CIP projects for new water supply, expansion, replacement, or betterment. From a funding level perspective, these reserves are evaluated in the context of all the various funds within each fund category.

## **Fund Transfers**

### **5.0 Funding Levels**

As described in the preceding sections, the District maintains reserves for its operating and capital activities. These reserves can be of three types: 1) undesignated or general use reserves, 2) designated, and 3) restricted for a specific purpose. The restricted reserves can be restricted geographically and/or by purpose. The District maintains various funds to track the various designations and restrictions. The source of the money for each fund was discussed along with the purpose, source of funds, and levels. Key characteristics 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 in light of the 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 or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the projected District's financial activities and the guidelines of this policy.

### **5.1 Fund Transfers**

Reserves within the District's various designated funds come from interfund transfers of unrestricted general use reserves. It is important to note that the District has the ability to use general use reserves for any business purpose. General use reserves may be transferred to and from any unrestricted fund for any business need. Designated reserves are general use reserves which have been set aside for a specific purpose by Board action. These reserves can only be used for the purpose they were designated, or with Board action they may be used for any other business purpose. While general use reserves may be used for any restricted purpose they may not be transferred to Restricted Funds due to the sensitivity of the tracking of restricted reserves. If

# *Reserve Policy*

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reserves are needed for a restricted purpose they are transferred to a Designated Fund within the fund category with that particular purpose. Reserves restricted to a fund category may only be used within that category and may not be transferred to another category. For example, the new water supply fee and the “incremental” portion of the capacity fee are restricted reserves for a specific purpose, and may not be transferred to another category as no other category has the same purpose. However, the “buy-in” portion of the capacity fees and annexation fees are restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose.

In many situations reserve transfers are expected as some fund categories will exceed their maximums or drop below their minimums. Only fund categories that are below the stated target are eligible to receive transferred reserves. Fund categories 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 reserve transfers out, but only when other options are not available.

The rationale for prioritizing reserve transfers is based on the immediacy of the need and the availability of reserves from other funding sources. For example, the General Fund is first to receive reserves 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 finance 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 financing options.

When making the determination of when transfers are necessary, all funds within a fund category work as a group. The combined balance of the restricted and designated funds is looked at when determining whether the fund category requires additional funding from the Restricted Capital Improvement Fund, Restricted Annexation Fund, Restricted Debt Fund, or the General Fund. Because the Capital Improvement Fund and Annexation Fund may finance expansion, replacement or betterment reserves may be transferred between these fund categories, but only back and forth within its own type of restricted fund.

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 six-year planning horizon, this would trigger a bond sale, a transfer of general use reserves, and/or a transfer of restricted reserves. If in the cash planning process, it was anticipated that the General Fund would remain above target during the planning horizon and that the trend did not present a problematic underfunded status, then General Fund reserves would be considered available for transfer prior to making proceeds available from a bond sale. Also, if during this period the Betterment Fund category was anticipated to exceed its maximum, then reserves from either the Designated Betterment Fund, the Annexation Fund, or the Capital Improvement Fund would be transferred to the corresponding Expansion Fund prior to a bond sale. All funds are evaluated to determine which has the greatest need or availability of reserves before any reserve transfer recommendation is presented to the Board.

# Glossary

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

Annexation Fees: When water service is requested for land outside the boundaries of the District, the land to be serviced must first be annexed. For sewer service the land must be annexed into an improvement district within the District.

Assets: Resources owned or held by Otay Water District that has 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.

# Glossary

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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.

1% Property 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, AB 8, 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. 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*

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## **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 statutes 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")

# Investment Policy

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- 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:

# *Investment Policy*

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- 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.

# Glossary

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**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 or 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.

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

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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 (FHIB): 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).

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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.

# Glossary

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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.

# Glossary

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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.

# Glossary

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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.

## 1.0 Policy

It is the policy of the Otay Water District to finance the acquisition of high value assets that have an extended useful life through a combination of current revenues and debt financing. 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.

## 2.0 Scope

This policy is 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. This policy applies to all debt issued by the District including general obligation bonds, revenue bonds, capital leases and special assessment debt.

## 3.0 Legal and Regulatory Requirements

The Chief Financial Officer (CFO) and the District's Legal Counsel will coordinate their activities to ensure that all securities are issued in full compliance with Federal and State law.

## 4.0 Capital Facilities Funding

### Financial Planning

The District maintains a six-year financial projection that identifies operating requirements and public facility and equipment requirements, and has developed a Rate Model for funding the District's Six-Year Capital Improvement Program (CIP). The District's CIP Budget 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 program identifies project funding through the use of debt financing, the budget should provide information needed to determine debt capacity. The Rate Model and the CIP Budget give the Board part of the data needed to make informed judgments concerning the possibility of issuing debt.

### Funding Criteria

The Chief Financial Officer (CFO) 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 CFO may recommend that they be funded with

# Debt Policy

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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 Committee meeting 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. Accordingly, these fees are reviewed at least annually or more frequently as required and set at levels sufficient to ensure that new development pays its fair share of the costs of constructing necessary infrastructure. Additionally, the District will seek State and Federal grants and other forms of intergovernmental aid wherever possible.

## **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 10 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.

## 5.0 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 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 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.

## **6.0 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.
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.

## **7.0 Competitive and Negotiated Sale Criteria**

### **Competitive Sale**

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. The CFO will determine the best bid in a competitive sale by calculating the true interest cost (TIC) of each bid.

## **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. In the event the District decides to use a negotiated sale, it will pay management fees only to those firms that place orders for bonds.

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.

## **8.0 Refunding Debt**

### **Purpose**

Periodic reviews of all outstanding debt will be undertaken by the Chief Financial Officer to determine refunding (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.

## **9.0 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.

## **10.0 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.*

## 11.0 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

# Debt Policy

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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. or 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. Letter of credits 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.

## **12.0 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.

## **13.0 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 post copies of its comprehensive financial reports on the Internet and provide hard copies of these documents to interested parties 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 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.

## **14.0 Investment and 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 shall invest the bond proceeds subject to the District’s Investment Policy in a timely manner, to ensure the availability of funds to meet operational requirements. In doing so, the CFO will maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code.

## **15.0 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 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 (a Rate Covenant).

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 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.

# Debt Policy

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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 6 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 to 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.

## **16.0 Rating Agency Applications**

The District may seek a rating on all new issues that are being sold in the public market. To ensure a fair rating, more than one rating agency shall be considered to rate the District's issues. These rating agencies include, but are not limited to, Fitch Investors Service, Moody's Investors Service, and Standard and Poor's. When applying for a rating on an issue over \$1 million or more, the District shall make a formal presentation of the finances and positive developments within the District to the rating agencies. The District will report all financial information to the rating agencies as they are published and upon request. This information shall include, but shall not be limited to, the District's Comprehensive Annual Financial Report (CAFR), and the Adopted Operating and Capital Budget.

## **17.0 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 7-day investment rate. Any investor can tender their bonds back to the District to be repurchased on 7 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.

**Ad Valorem Tax:** A tax calculated “according to the value” of property. Such a tax is based on the assessed valuation of tangible personal property. In most jurisdictions, the tax is a lien on the property enforceable by seizure and sale of the property. General restrictions, such as overall restrictions on rates, or the percent of charge allowed, sometimes apply. As a result, ad valorem taxes often function as the balancing element in local budgets.

**Advance Refunding:** A procedure whereby outstanding bonds are refinanced by the proceeds of a new bond issue prior to the date on which outstanding bonds become due or are callable. Typically an advance refunding is performed to take advantage of interest rates that are significantly lower than those associated with the original bond issue. At times, however, an advance refunding is performed to remove restrictive language or debt service reserve requirements required by the original issue.

**Amortization:** The planned reduction of a debt obligation according to a stated maturity or redemption schedule.

**Arbitrage:** The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

**Assessed Valuation:** The appraised worth of property as set by a taxing authority through assessments for purposes of ad valorem taxation.

**Basis Point:** One one-hundredth of one percent.

**Bond:** A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

**Bond Counsel:** An attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. The bond counsel’s opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

**Bond Insurance:** A type of credit enhancement whereby a monoline insurance company indemnifies an investor against a default by the issuer. In the event of a failure by the issuer to pay principal and interest in-full and on-time, investors may call upon the insurance company to do so. Once assigned, the municipal bond insurance policy generally is irrevocable. The insurance company receives an up-front fee, or premium, when the policy is issued.

**Call Option:** A contract through which the owner is given the right but is not obligated to purchase the underlying security or commodity at a fixed price within a limited time frame.

**Cap:** A ceiling on the interest rate that would be paid.

# Glossary

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**Capital Lease:** The acquisition of a capital asset over time rather than merely paying rent for temporary use. A lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the lease, is referred to as a capital lease.

**Certificates of Participation:** A financial instrument representing a proportionate interest in payments such as lease payments by one party (such as the District acting as a lessee) to another party (often a trustee).

**CIP:** Capital Improvement Program.

**Competitive Sale:** The sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

**Continuing Disclosure:** The requirement by the Securities and Exchange Commission for most issuers of municipal debt to provide current financial information to the informational repositories for access by the general marketplace.

**Debt Service:** The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

**Defeasance:** Providing for payment of principal of premium, if any, and interest on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal defeasance usually involves establishing an irrevocable escrow funded with only cash and U.S. Government obligations.

**Derivative:** A financial product that is based upon another product. Generally, derivatives are risk mitigation tools.

**Discount:** The difference between a bond's par value and the price for which it is sold when the latter is less than par.

**Financial Advisor:** A consultant who advises an issuer on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms and bond ratings.

**General Obligation Bonds:** Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

**Municipal Securities Rulemaking Board (MSRB):** The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market.

**Negotiated Sale:** A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding.

**Official Statement:** A document published by the issuer that discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities.

**Option:** A derivative contract. There are two primary types of options (see Put Option and Call Option). An option is considered a wasting asset because it has a stipulated life to expiration and may expire worthless. Hence, the premium could be wasted.

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

**Overlapping Debt:** The legal boundaries of local governments often overlap. In some cases, one unit of government is located entirely within the boundaries of another. Overlapping debt represents the proportionate share of debt that must be borne by one unit of government because another government with overlapping or underlying taxing authority issued its own bonds.

**Par Value:** The face value or principal amount of a security.

**Pay-as-you-go:** To pay for capital improvements from current resources and fund balances rather than from debt proceeds.

**Put Option:** A contract that grants to the purchaser the right but not the obligation to exercise.

**Rate Covenant:** 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.

**Refunding:** A procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds.

**Revenue Bonds:** A bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer with taxing power is not pledged. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise. Generally, no voter approval is required prior to issuance.

**Special Assessments:** A charge imposed against property or parcel of land that receives a special benefit by virtue of some public improvement that is not, or cannot be enjoyed by the public at large. Special assessment debt issues are those that finance such improvements and are repaid by the assessments charged to the benefiting property owners.

## *Glossary*

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**Swap:** A customized financial transaction between two or more counterparties who agree to make periodic payments to one another. Swaps cover interest rate, equity, commodity and currency products. They can be simple floating for fixed exchanges or complex hybrid products with multiple option features.

**True Interest Cost (TIC):** A method of calculating the overall cost of a financing that takes into account the time value of money. The TIC is the rate of interest that will discount all future payments so that the sum of their present value equals the issue proceeds.

**Underwriter:** The term used broadly in the municipal market, to refer to the firm that purchases a securities offering from a governmental issuer.

**Yield Curve:** Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and financial activity, and other market forces.

# Glossary

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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 water service is requested for land outside the boundaries of the District it must first be annexed into the District. The annexation fee for water service was set at \$1,477 per EDU on July 1, 2009. Whenever sewer service is requested for land outside the boundaries of an improvement district (ID) it must first be annexed into the ID. 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. The rates as of July 1, 2011 are \$1,516 and \$5,593 for water and sewer, respectively.

Appropriation: The annual budget adopted by the District's Board for monitoring and control purposes, serving as a financial plan.

Assets: Resources owned or held by the 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 July 1 and ending 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.

## *Glossary*

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Betterment Fees for Maintenance: The Operating Budget earns betterment fees for maintenance work performed on infrastructure within special betterment zones, where fees are collected for the construction and maintenance of these specific assets.

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.

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 Fee: A connection fee is charged when a new water meter is placed into service. This fee is based on the estimated construction cost of expansion of the system to meet the needs of all future customers. This fee covers the cost including, but is not limited to, planning, design, construction, and financing of expansion of the system.

Capacity Fee Revenues: These fees are earned by the Operating Budget as the Engineering Department supports expansion functions.

Capacity Reservation Charge: An MWD charge passed on by CWA 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 (as explained in the note below), 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 (this cost may not extend useful life of the water or sewer infrastructure, but without the purchase of the item, the whole asset is rendered useless and the dollar value to replace the item is \$20,000 or more, as described in the District's Capitalization Policy).

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

# Glossary

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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 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 Coverage Ratio: The ratio of net revenue to annual interest and principal payments on debt.

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

Depreciation: An expense recorded to allocate a tangible asset's cost over its useful life.

Desalination: The removal of dissolved minerals (including salts) from seawater or brackish water. Engineered water desalination processes, which produce potable water from seawater or brackish water, have become important because many regions throughout the world suffer from water shortages.

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 \$.044 (to increase January 1, 2012 to \$.045) 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.

Enterprise Fund: Fund that provides goods or services to the public for a fee that makes the entity self-supporting.

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 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 \$30.11 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.

# Glossary

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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 – one for each 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.

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.

Late Charges/Penalties: Charges and penalties are imposed on delinquent accounts. A late payment charge of 5% of the most recent 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.

Net Assets: The difference between total assets and total liabilities. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is strengthening or weakening.

# Glossary

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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.

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.

QualServe: a voluntary quality improvement program designed exclusively for water and wastewater utilities.

Recycled Water Rates: Non-potable water service provided from water produced by the District's reclamation plant and other non-potable sources. Recycled 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 recycled 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.

Readiness-to-Serve Charge (RTS): was adopted by MWD in Fiscal 1996. The charge serves as a foundation of fixed revenue for MWD. It covers 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.

## *Glossary*

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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.

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: An MWD charge passed on by CWA to individual agencies. This is an added charge on all water sales by CWA in excess of the District's 90% baseline water usage.

Water Capacity Fees: Charges paid by customers to connect to a District water system for potable or recycled 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. On January 1, 2009, the District implemented a tiered rate structure for all customer types to encourage conservation and bring equity among the classes.

Working Capital: A financial measure which represents available operating liquidity. It is calculated as current assets minus current liabilities.

## *List of Acronyms*

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AF	Acre-Foot/Feet
AMR	Automated Meter Reader/Reading
APCD	Air Pollution Control District
APWA	American Public Works Association
ASCE	American Society of Civil Engineers
ASU	Assigned Service Unit
AWWA	American Water Works Association
BABS	Build America Bonds
BMP	Best Management Practices
BOD	Biological Oxygen Demand
CAD	Computer Aided Design & Drafting
CAFR	Comprehensive Annual Financial Report
CCV	City of Chula Vista
CDFG	California Department of Fish and Game
CEQA	California Environmental Quality Act
CIP	Capital Improvement Program
COD	Chemical Oxygen Demand
COPS	Certificates of Participation
CRC	Capacity Reservation Charge
CSC	Customer Service Charge
CSD	City of San Diego
CSDA	California Special Districts Association
CSMFO	California Society of Municipal Finance Officers
CMMS	Computerized Maintenance Management System
CWA	County Water Authority (San Diego)
DOT	Department of Transportation
DVP	Delivery-versus-Payment
EBPP	Electronic Bill Pay and Presentment
EDU	Equivalent Dwelling Unit
ESC	Emergency Storage Charge
FCF	Flow Control Facility
FEMA	Federal Emergency Management Association
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Government Accounting Standards Board
GF	General Funds
GFOA	Government Finance Officers Association
GIS	Geographic Information System
GO	General Obligation (bonds)
GPCD	Gallons per Capita per Day
GPM	Gallons per Minute

## *List of Acronyms*

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GPS	Global Positioning System
HCF	Hundred Cubic Foot
HCP	Habitat Conservation Plan
HR	Human Resources
HVAC	Heating Ventilation and Air Conditioning
HWD	Helix Water District
IAC	Infrastructure Access Charge
ID	Improvement District
IID	Imperial Irrigation District
IMS	Infrastructure Management System
IRP	Integrated Water Resources Plan
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response
LAIF	Local Agency Investment Fund
MBR	Membrane Bioreactor
MG	Million Gallons
MGD	Million Gallons per Day
MND	Mitigated Negative Declaration
MOU	Memorandum of Understanding
MWD	Metropolitan Water District
NCCP	Natural Community Conservation Plan
NIMS	National Incident Management System
NOC	Notice of Completion
NOSC	Notice of Substantial Completion
O&M or O/M	Operations and Maintenance
OPEB	Other Post Employee Benefits
OWD	Otay Water District
PB	Pacific Bay
PERS	Public Employees' Retirement System
PL	Pipeline
PRS	Pressure Reducing Station
PRV	Pressure Reducing Valve
PS	Pump Station
RFP	Request for Proposal
RSD	Rancho San Diego
RTS	Readiness-to-Serve
RWCWRF	Ralph W. Chapman Water Recycling Facility
SAMP	Sub-Area Master Plan
SANDAG	San Diego Association of Governments
SBWRP	South Bay Water Reclamation Plant
SCADA	Supervisory Control and Data Acquisition

## *List of Acronyms*

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SDG&E	San Diego Gas & Electric
SS	Suspended Solids
SVSD	Spring Valley Sanitation District
SWRCB	State Water Resources Control Board
UML	Unified Modeling Language
USFWS	United States Fish and Wildlife Service
UWMP	Urban Water Management Plan
VFD	Variable Frequency Drive
WRMP	Water Resources Master Plan
WTP	Water Treatment Plant

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