



OTAY WATER DISTRICT

Adopted Operating and Capital Budget

Fiscal Year 2012-2013



Spring Valley, California



Adopted Operating and Capital Budget

Fiscal Year 2012-2013

2012 Landscape Contest Winner



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Rom Sarno, Jr.
Chief of Administrative Services



Catch Cup - Used to measure irrigation efficiency

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...Dedicated to Community Service

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

September 4, 2012

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 2013. This year's budget supports the management plan to finance all of the District's services and programs during the 2013 fiscal year.

The mission of the District is to provide high value water and wastewater services to the customers of the Otay Water District, in a professional, effective and efficient manner. As in the past few years, we continue to deal with numerous challenges resulting from the slow recovery from the largest economic downturn since the Great Depression. The District also faces large rate increases from San Diego County's wholesale water suppliers.

San Diego County has very limited natural supplies of water and therefore must rely on imported water from Northern California and the Colorado River. The wholesale and retail water agencies serving San Diego County recognized their dependence on imported water in the early 1990s and since that time have been implementing programs to create a more reliable, robust water system, one that will also increase water independence. Programs to secure more water, as well as a more reliable water supply, are expensive and represent a contributing factor to increasing costs.

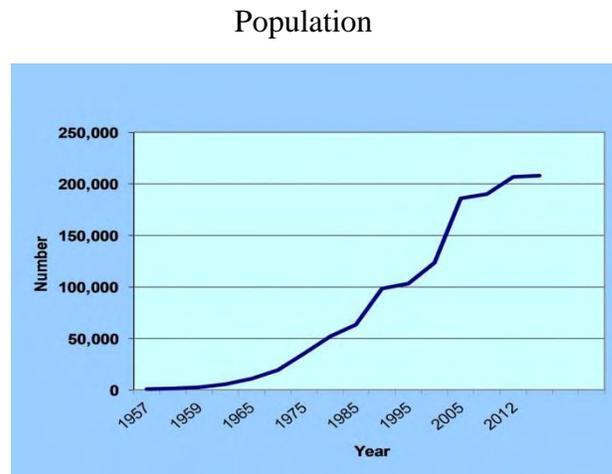
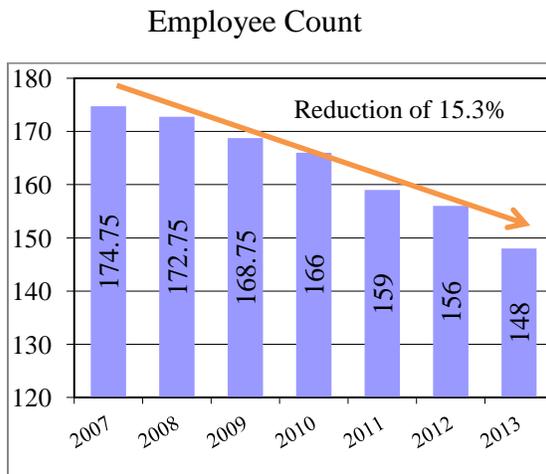
Given the continuing uncertain times, efforts to keep rate increases to a minimum, without risking safety or reliability, the District must find the best solutions that balance many imperatives. The tool the District will use to accomplish this is the 2012-2014 Strategic Business Plan.

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 second 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 the early years of the District's existence, today we have become equally focused on managing long-term maintenance and replacement of 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, over time, an organization derives income more from customer rates and less from developer fees. At this stage in its development, 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, it must place greater

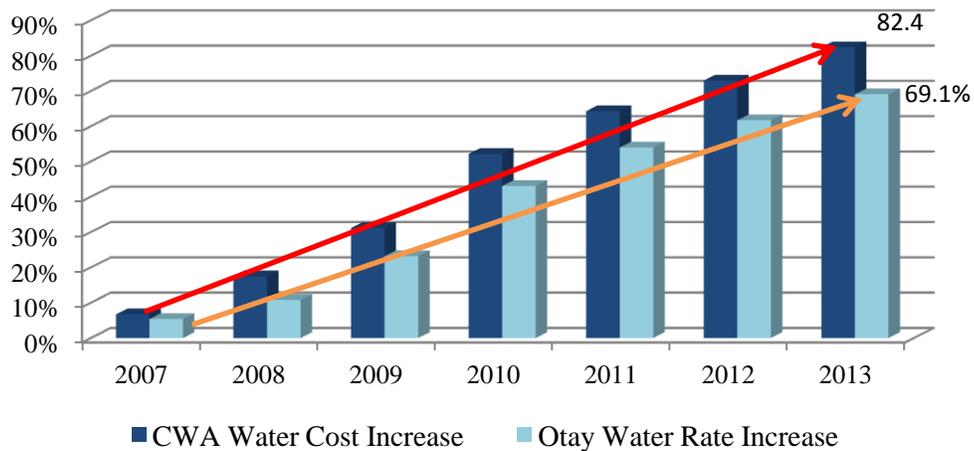
emphasis on internal efficiency and the development of technology assisted best practices. In effect, an organization must use investments in technology to do more with the same or even fewer resources.

A goal of the District's earlier strategic 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.

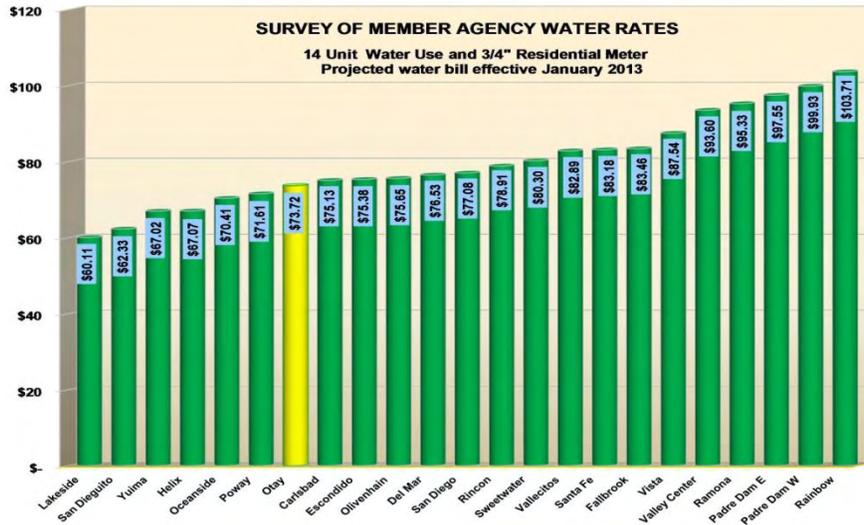


Furthermore, the District has been able to absorb some of the pass-through costs from our water suppliers by increased efficiency and improved productivity that help address customer concerns about rising water rates.

CWA vs. Otay Water District Rate Increases



In the annual survey of water rates, for a typical District customer, Otay's rates continue to be among the lowest in San Diego County.



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 48,540 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). Fifty eight percent 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.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,652 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, budgeted at \$82,318,200 for Fiscal Year 2013. Revenues from potable and recycled water are projected to be \$69,456,800, about \$4,152,500 (6.4%) more than the Fiscal Year 2012 budget. Water sales volumes are expected to increase slightly by 1% over

FY 2012 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 \$2,555,200, about \$219,200 more than Fiscal Year 2012. This increase from higher rates is primarily to cover \$4.4 million of additional capital projects over the next six years. The remaining budgeted revenues of \$10.3 million come from various special fees, 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 project growth for the region.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- Ongoing water supply rate increases of 9.1% 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 156 full-time equivalent positions to 148.
- Of San Diego County's 23 water agencies, Otay's water rates are below the county-wide average.

The Fiscal Year 2012-13 Capital Improvement Program (CIP) Budget consists of 70 projects and a budget of \$18.0 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 \$4.6 million compared to last year's projection, due to the completion of some large projects as well as the deferral of projects to match the timing of land development.

THE FUTURE

The coming years will continue to pose challenges for those in California's water community. For instance, it is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30 percent of Southern California's water supply, will be addressed and at what cost to end users. Serious challenges also jeopardize water coming from the Colorado River. Furthermore, as the cost of water has increased to the retail customer, sales have decreased. As one would expect, water sales reductions have impacted revenues and will continue to affect the District's finances. With this 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 Director's 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 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, 2011. 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.
- The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2011-2012*.
- The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2011-2012*.
- The Municipal Information Systems Association of California (MISAC) presented the *2010-2011 Award for Excellence Information Technology Practices* to Otay Water District. The award recognizes outstanding practices in Information Technology that have met or surpassed local government standards.

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.



Mark Watton, General Manager

At-A-Glance

History

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

To provide high value water and wastewater services to the customers of the Otay Water District, 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 are set by five Directors elected by voters in their respective geographic area.

Organizational Structure

The General Manager reports directly to the Board of Directors. The Assistant General Manager along with District management oversees day-to-day operations. The Assistant General Manager oversees the five departments of Administrative Services; Finance; Information Technology and Strategic Planning; Water Operations; and Engineering. These and other lines of reporting are shown on the organization chart on page 16.



General Information

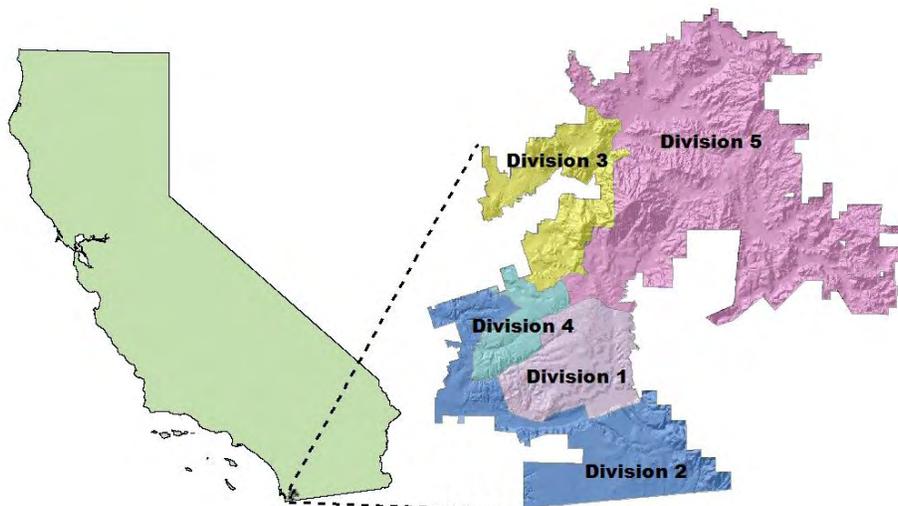
For Fiscal Year 2013, the District will have a staff of 148 full-time equivalent employees under the leadership of the General Manager. The District provides water service to approximately 53% of its expected ultimate deliveries with a population of more than 208,000 people. This percentage increases as the District's service area continues to grow to ultimate build-out. The District is projected to deliver approximately 28,925 acre-feet of potable water to 48,860 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 0.6% for Fiscal Year 2013.

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 2,900 acre-feet per year of recycled water for Fiscal Year 2013, 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 4,652 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

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.

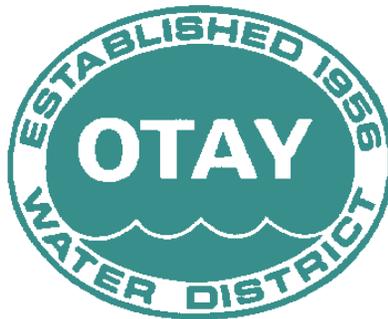
Teamwork

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

Employees

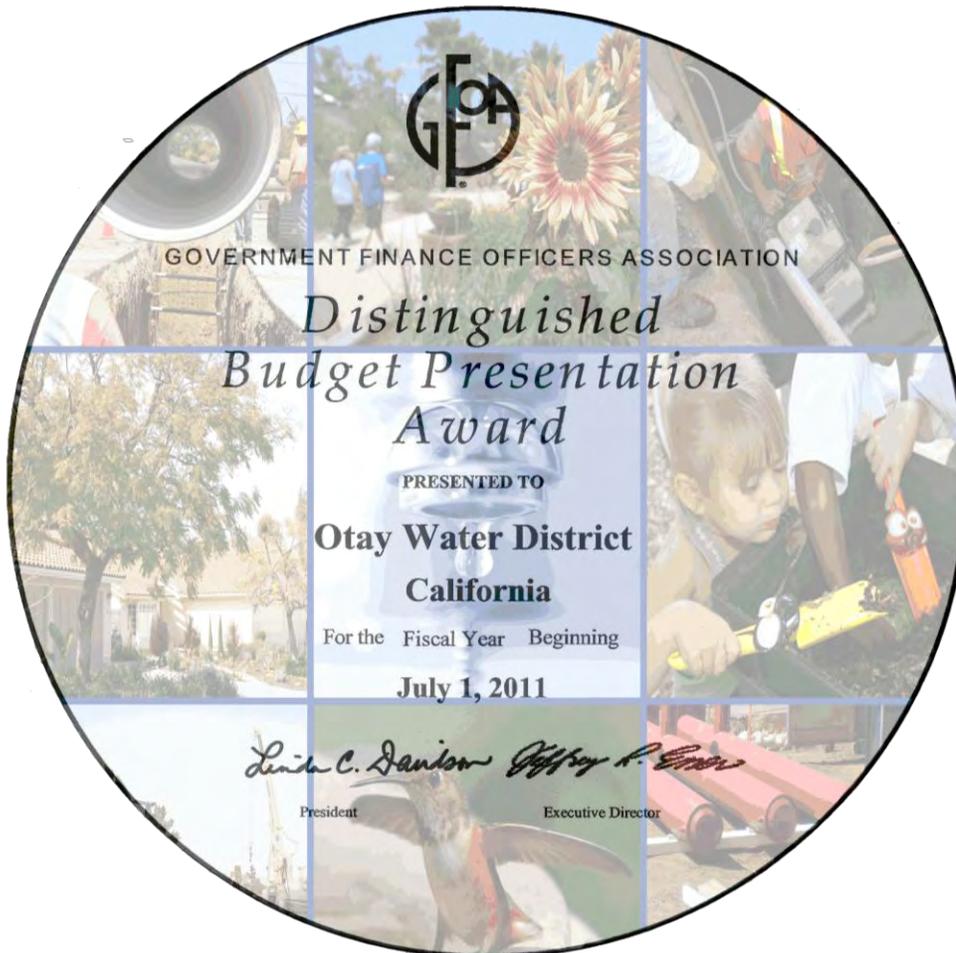
We see each individual as unique and important.
We value diversity and open communication to promote fairness, dignity and respect.

Otay Water District Employees



Dedicated to Community Service

Financial Awards



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, 2011. 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 Capital Budget for Fiscal Year 2011-2012*.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budget for Fiscal Year 2011-2012*.



Awards



The Municipal Information Systems Association of California presented the *2010/2011 Award for Excellence Information Technology Practices* to Otay Water District. The award recognizes outstanding practices in Information Technology that have met or surpassed local government standards.

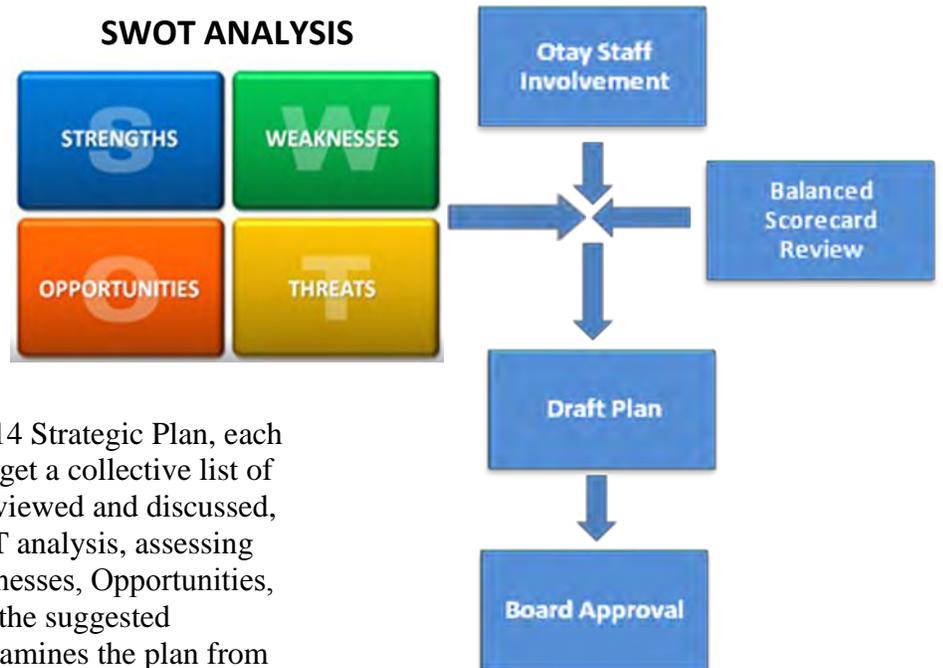
Strategic Performance Management Plan

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 input. 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

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

Customer Service

"To achieve our vision, how should we be available for 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 can we minimize the long range impact 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

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).

Strategic Performance Management Plan

11. Develop a management dashboard measuring cost, efficiency, and operational status.
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.

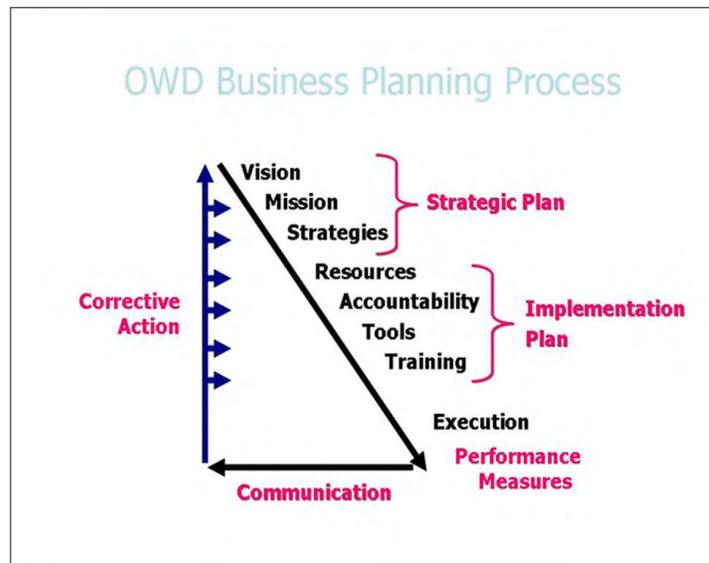
A. "Results-oriented workforce."

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 were revised on July 1, 2011, to reflect the measurement criteria for the fiscal years 2012-2014 strategic plan.



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

- **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

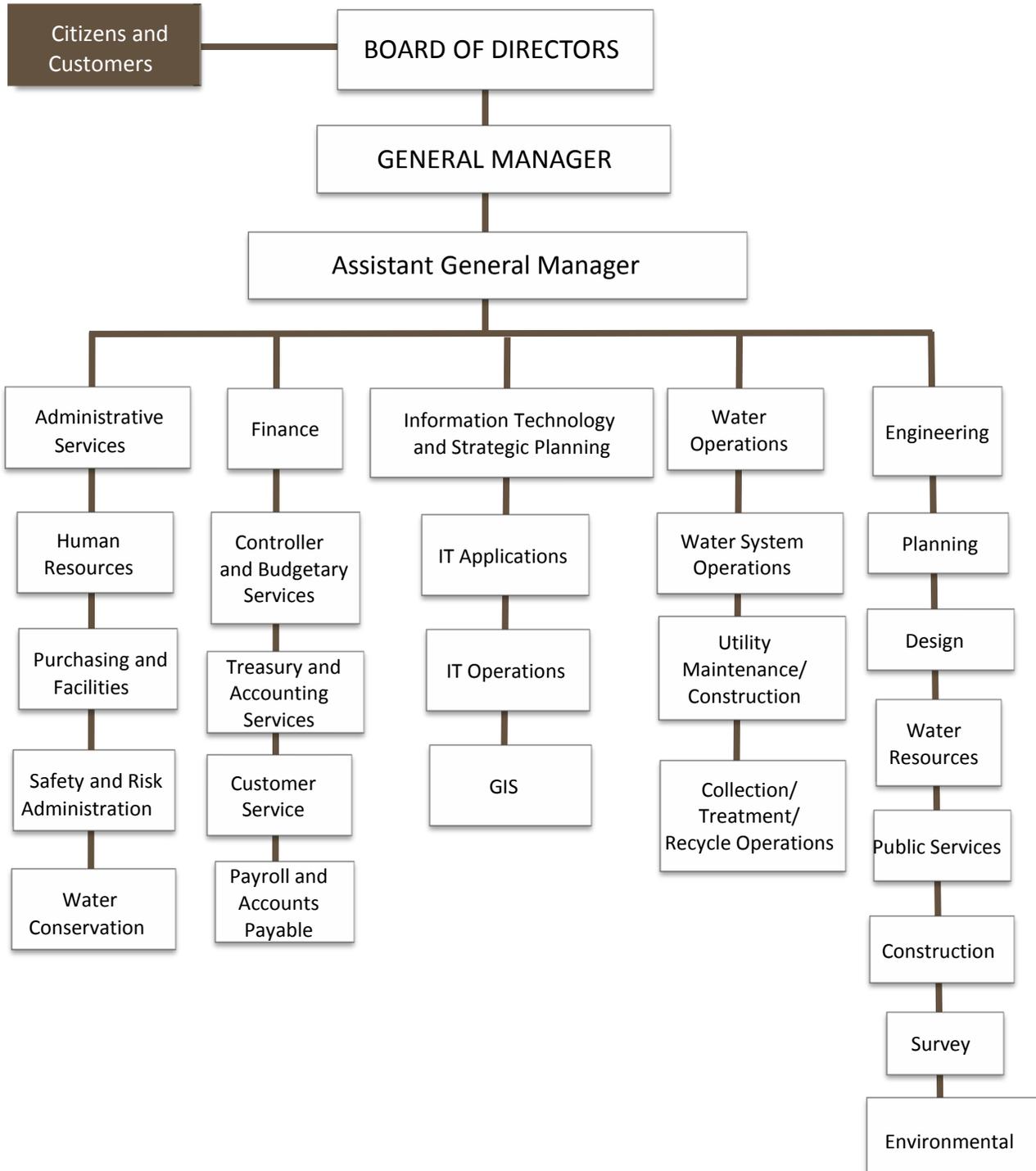
- **Unplanned Disruptions:** Quantifies the number of unplanned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts. (QualServe)
- **Technical Quality Complaint:** Measures technical quality complaints of those related to core utility services. 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

- **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

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 projected economic conditions. It also includes statistics on the District's customers, the region's tax base, and San Diego rainfall.

Financial Summaries

This section contains an overview of the District's revenues and expenditures by fund for the current budgeted fiscal year, the prior

two years' actual, the future 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 the 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

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 justifications, and the 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

Budget Process Overview

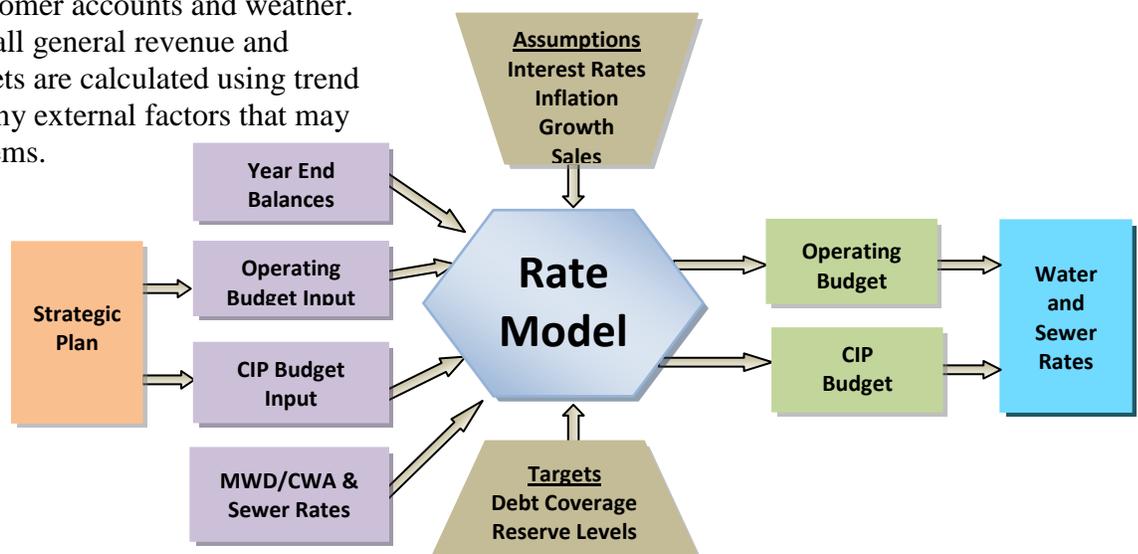
Board of Directors prior to adopting the budget.

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 Manager. These requests are reviewed by the Assistant General Manager 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. This is done using 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 Manager 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.) Inflaters 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 2013. 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

- | | |
|---------|--|
| 2/15/12 | Chiefs submit request for new Personnel/Personnel Reclassifications changes, Advancements and Long-Term Staffing to HR |
| 2/22/12 | HR to complete preliminary review of new Personnel, Personnel Reclasse, change requests and Advancements |
| 2/24/12 | Project Managers submit CIP Budgets for new projects and changes to existing projects in CIP Budget Application |
| 2/27/12 | Chiefs to submit Operating and Admin Budget; Capital Purchases and Justifications; Labor Budget Worksheet |
| 3/5/12 | HR to review new personnel, reclass and changes requests with GM |
| 3/5/12 | Finance to review Operating Budget and Reconciliation with Departments |
| 3/5/12 | Engineering Department reviews all CIP budget requests with Assistant GM |
| 3/12/12 | Finance to review Department Operating Budgets with GM and AGM |
| 3/12/12 | Finance to review preliminary CIP Budget with Chief of Engineering |
| 3/16/12 | Finance to have second review of CIP budget with AGM and Engineering |
| 3/16/12 | Finance to review personnel cost with Chiefs, AGM and GM |
| 3/23/12 | Review CIP Budget with General Manager |
| 4/2/12 | Finance to review assumptions and rates with Chiefs, AGM and GM |
| 4/5/12 | Chiefs submit Position Analysis Questionnaire to HR for GM approved Personnel Requests and Request for Reclasse (advancements do not need GM approval) |
| 4/12/12 | Preliminary Budget review with General Manager |
| 5/3/12 | Practice run of budget presentation with Finance, Chiefs, AGM and GM |
| 5/7/12 | Prepare Draft 218 30-Day Rate Increase Notices |
| 5/15/12 | Budget Workshop for approval of the FY 2012-2013 Operating and Capital Budgets and Draft 218 30-Day Rate Increase Notices |
| 11/6/12 | 218 30-Day Notice of Water and Sewer Rate Increase due for bill insertion |
| 1/1/13 | Water and Sewer Rate Increase |

Budget Process Overview

Budget Basis

The District utilizes the accrual basis for budgeting 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.



CWA's All-American Canal Lining Project will provide 67,700 acre-feet of water annually.

RESOLUTION NO. 4195

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2012-2013
OPERATING AND CAPITAL BUDGET AND
THE PROPOSED WATER AND SEWER INCREASES AS
AMENDED IN APPENDIX A OF THE
CODE OF ORDINANCES

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 2012-2013; 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 2012-2013 Operating and Capital Budget, have been reviewed and considered by the Board;

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 2013.

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 2012-2013.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 15th day of May 2012, by the following vote:

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


President

ATTEST:


District Secretary

Past and Present

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.



*La Presa County Water District
(ca. 1957)*

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 724 miles of potable and 99 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.

The mission of the District is to provide customers with the best quality water,



Present

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, 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 the 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

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 from 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 0.2% 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 water 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 208,500 residents. In just the past nine years, the District has added more than 6,484 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 40 permits per month, and sold 316 water meters in Fiscal Year 2011-2012.

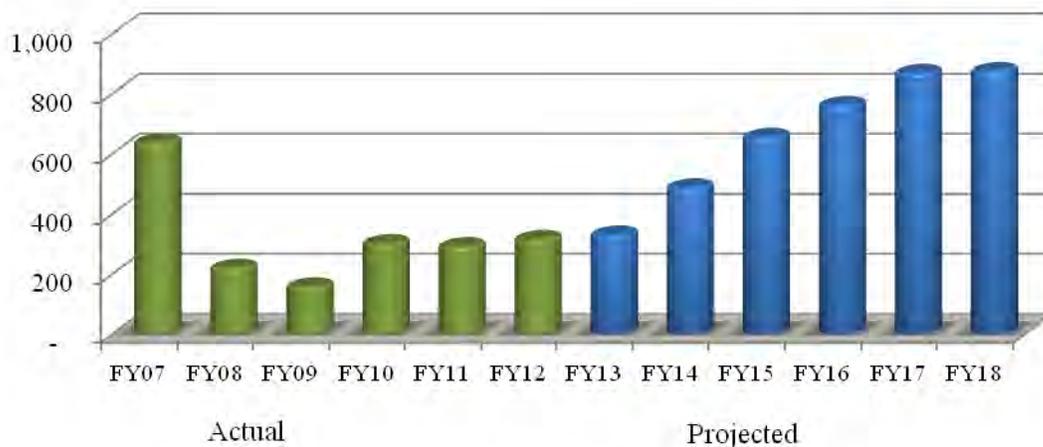


2012 Landscape Contest Winner

The Future

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 3,980 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

The District boundaries shown in the chart below encompass an area of approximately 125.5 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.

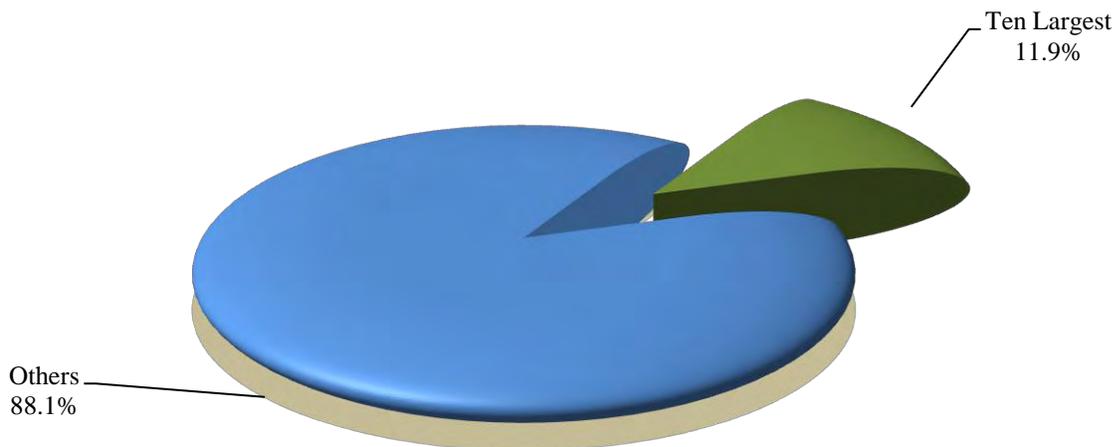
The population of Chula Vista has grown from 83,927 in 1980, to 135,136 in 1990, to 173,556 in 2000, and in 2010 the population reached 243,916. This represents an increase of 159,989 in the past 30 years or a 190.6% increase, which correlates to the District's rapid growth for the same period.

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 2012

Customer Name	Customer Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	2,534,914	4.0%
2. State of California	Publicly Owned	983,882	1.5%
3. EastLake Summit Association	Commercial (Irrigation)	741,847	1.2%
4. County of San Diego	Publicly Owned	703,141	1.1%
5. Sweetwater School District	Publicly Owned	495,750	0.8%
6. Cuyamaca College	Publicly Owned	459,615	0.7%
7. ERP Operating LP	Commercial (Irrigation)	431,952	0.7%
8. Windingwalk Master Association	Commercial (Irrigation)	429,534	0.7%
9. Belleme HOA	Commercial (Irrigation)	399,036	0.6%
10. EastLake Country Club	Commercial (Irrigation)	397,629	0.6%
Total		\$ 7,577,300	11.9%
Estimated FY12 Water Sales		\$ 63,803,148	

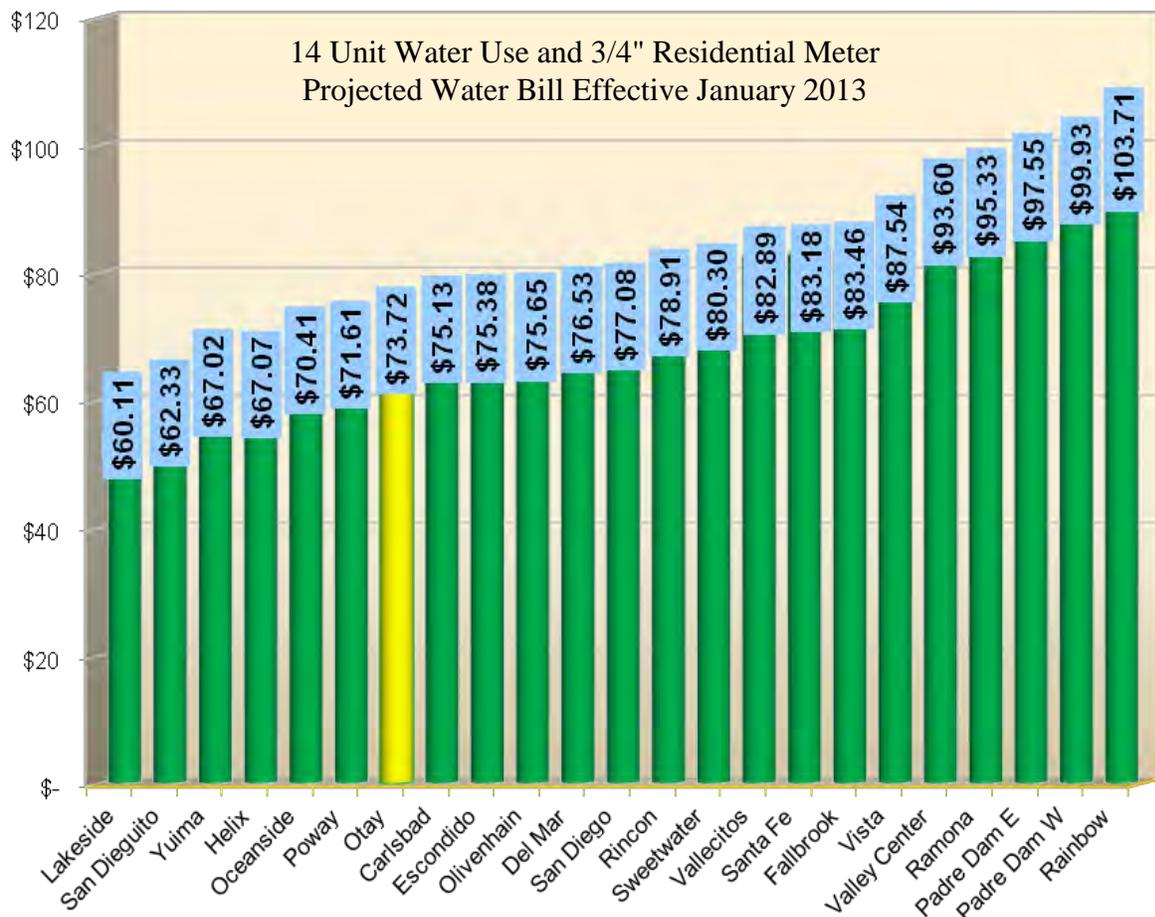
FY 2012 Customers



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.

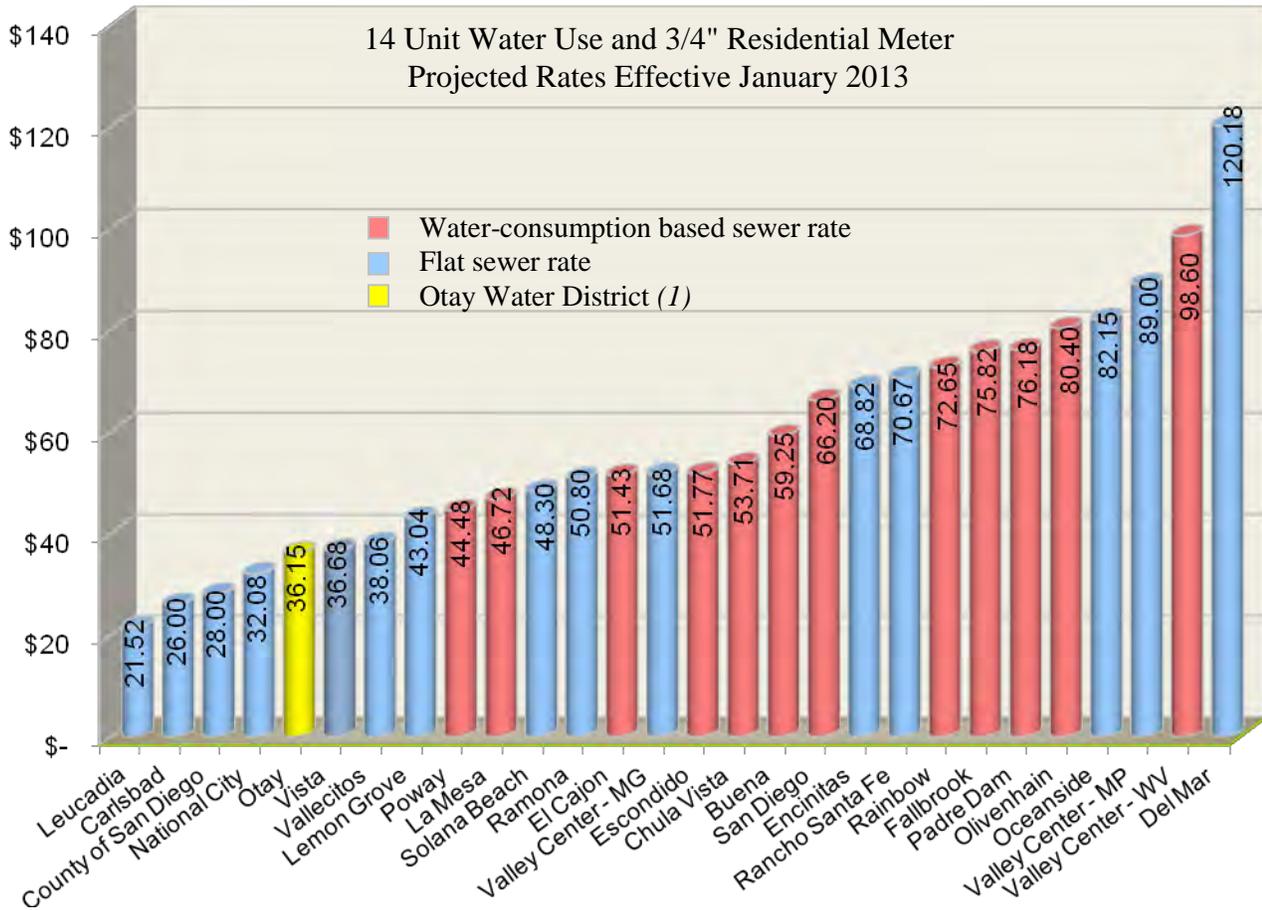
Survey of Member Agency Water Rates



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

Sewer Rate Comparison

Sewer Rate Comparison of Sewer Providers in San Diego County



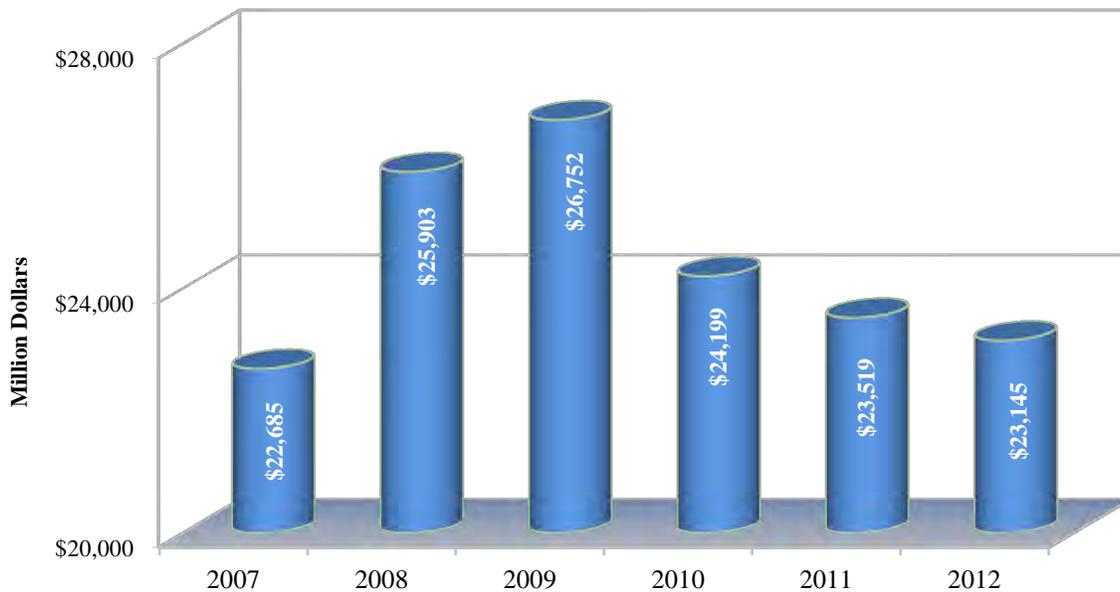
Note: These amounts reflect the charges on the sewer bills of the various agencies and cities.

(1) Otay is water-consumption based.

Service Area Assessed Valuation

Otay Water District's service area encompasses property with over \$23.1 billion of assessed valuation. Properties are assessed at 100% of their full value less 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 1.6% from FY12 to FY13.

Five-Year Service Area Assessed Valuation



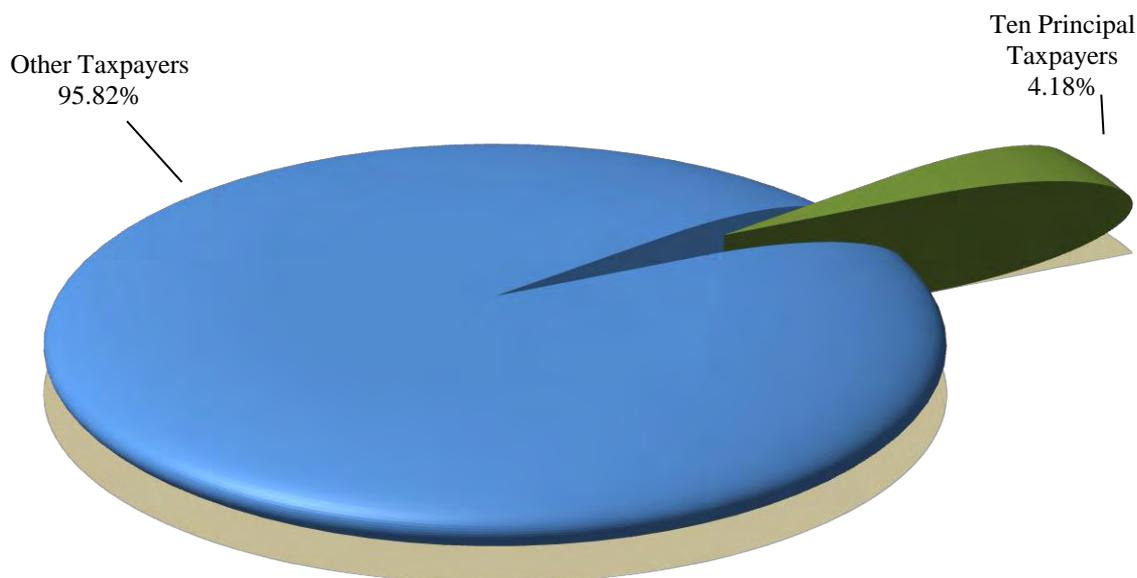
Source: County of San Diego Auditor and Controller

Ten Principal Taxpayers as of June 30, 2012

Organization	Assessed Value	Percent to Total
1. San Diego Expressway Limited Partnership (SDELP) ⁽¹⁾	\$ 260,022,112	1.13%
2. GGP-Otay Ranch LP	176,655,960	0.77%
3. Regulo Place Apartments Investors LLC	100,505,618	0.43%
4. Corrections Corp of America	76,982,862	0.33%
5. S P Lavidia Real LLC	71,000,814	0.31%
6. Camden USA Inc	62,974,684	0.27%
7. E Q R-Missions at Sunbow LLC	58,990,523	0.25%
8. Village II of Otay HB SUB	58,129,700	0.25%
9. Avalon II California Value IV LP	53,620,549	0.23%
10. BRE-FM CA LLC	49,479,995	0.21%
Total	\$ 968,362,817	4.18%
Total Service Area Assessed Valuation	\$ 23,145,467,535	

⁽¹⁾ This property was acquired on December 12, 2011 by the State of California (CALTRANS). Effective Fiscal Year 2013, this property will no longer be included in the assessed valuation.

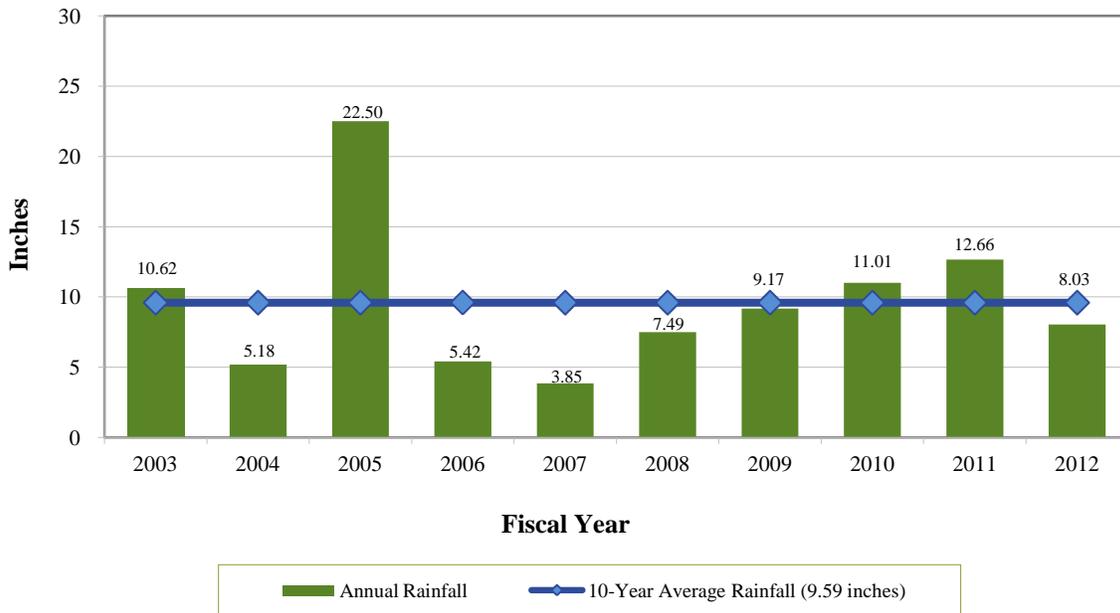
FY 2012 Service Area Taxpayers



Source: County of San Diego Auditor and Controller

San Diego Rainfall

Fiscal Years 2003-2012



Although San Diego received less than normal rainfall in Fiscal Year 2012, the District is expecting that San Diego's rainfall will return to its average pattern and volume for Fiscal Year 2013. The 10-year average of 9.59 inches for San Diego rainfall reflects the long-term drought conditions for our area. San Diego's rainfall average over 20 years is 9.76 inches; the 30-year average is 10.13 inches; and the 40-year average is 10.49 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 sales 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 Center. More information can be obtained from their website: <http://www.wrcc.dri.edu>. The Western Regional Climate Center's website data, in turn, is derived from data received from the National Climatic Data Center, the National Weather Service, the National Resource Conservation Service, the Bureau of Land Management, the U.S. Forest Service, and other federal, state, and local agencies. Although the data reflects actual rainfall at Lindbergh field, it is representative of rainfall for the area served by the Otay Water District.

Budget Summary

The Operating Budget is summarized and presented in the Operating Budget Summary on page 38. Also included in this section is the Operating Budget Summary by System on page 39, the Fund Balance Summary by Fund on page 41, and the Revenues and Expenditures by Fund on pages 42 and 43. The Revenues, Expenditures, and Sources and Uses of Funds by Type for all funds are presented on page 44. For Fiscal Year 2013, the District has approved an increase in water rates for its customers in order to pass-through cost increases from water suppliers. The sewer approved rate increase is for major repair work on the aging sewer system. 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 2013 is \$82,318,200 in comparison to the previous fiscal year budget of \$78,062,200. The \$4,256,000 increase is a result of water supply rate increases of 7.5% from MWD and 9.1% from CWA. CWA's increase is because of the high cost of supply programs, higher energy rates, and increase in 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 18-20. Water cost estimates are obtained from District water suppliers, CWA and MWD, and power cost

inflaters 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 the District's health providers. Other general inflators are derived from statistical data from consumer price indexes for the region.

Revenues

Potable Water Sales

Potable water sales revenue collected from the sale of water, including: system charges, energy charges, and penalties. It is estimated that 28,925 acre-feet of potable water will be sold during Fiscal Year 2013. Budgeted revenues from water sales are projected to be \$61,754,400, an increase of 6.6% due mainly to the past several years of increases in pass-through water cost. The volume of sales is virtually the same as prior year volume. 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 revenue collected from the sale of 3,910 acre-feet of recycled water to customers at a discount of 15% off the potable irrigation rate. The FY 2013 sales revenue budget of \$7,702,400, an increase of \$306,900 from FY 2012, 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

Budget Summary

strength of solids discharged into the sewer system.

Meter Fees

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

Capacity Fee Revenues

These fees are earned by the 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 are the expenses of purchasing 30,513 acre-feet for the District's potable water supply. A provision has been made to allow 1,588 acre-feet of water for District usage, leakage, and evaporation.

Recycled Water Purchases

Recycled water purchases are the expenses of purchasing 2,911 acre-feet for the District's recycled water supply. The District no longer budgets for a potable supplement to the recycled system due to the source of recycled water from the City of San Diego.

Budget Summary

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

Administrative Expenses

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

Materials and Maintenance

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

Budget Summary

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 is provided as information but is necessary to ensure sufficient revenue is collected from sewer customers versus water customers.

Fund Balance Summary by Fund

This schedule shows each fund's balance at June 30, 2012, and the projected balance for June 30, 2013, 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 reflects 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.

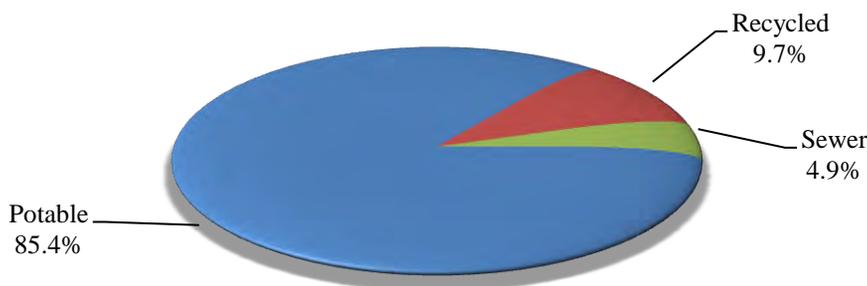
Operating Budget Summary - General Fund

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance
REVENUES					
Potable Water Sales	\$ 51,507,858	\$ 57,908,800	\$ 56,784,245	\$ 61,754,400	\$ 3,845,600
Recycled Water Sales	6,762,039	7,395,500	7,018,903	7,702,400	306,900
Sewer Revenues	2,386,600	2,336,000	2,395,365	2,555,200	219,200
Meter Fees	91,152	82,000	131,904	112,200	30,200
Capacity Fee Revenues	1,063,234	1,044,000	1,160,066	1,180,600	136,600
Betterment Fees for Maintenance	560,229	628,600	690,885	689,400	60,800
Tax Revenues	3,576,721	3,839,600	3,587,019	3,882,600	43,000
Non-operating Revenues	2,098,198	2,021,600	2,063,472	1,914,300	(107,300)
Interest	112,822	158,300	81,511	105,700	(52,600)
Transfer from OPEB	1,220,000	1,380,000	1,380,000	879,500	(500,500)
Transfer from Betterment Reserve	-	30,000	30,000	-	(30,000)
Transfer from Replacement	-	120,000	120,000	-	(120,000)
General Fund Draw Down	1,657,400	522,800	522,800	946,900	424,100
Transfer from General Fund	-	595,000	595,000	595,000	-
TOTAL REVENUES	71,036,253	78,062,200	76,561,170	82,318,200	4,256,000
EXPENDITURES					
Potable Water Purchases	25,323,291	27,793,100	27,957,531	30,552,200	2,759,100
Recycled Water Purchases	1,321,897	1,452,800	1,605,774	1,504,000	51,200
CWA - Infrastructure Access Charge	1,550,466	1,756,900	1,756,656	1,818,000	61,100
CWA - Customer Service Charge	1,315,224	1,562,600	1,553,756	1,687,800	125,200
CWA - Emergency Storage Charge	2,884,050	3,585,800	3,505,590	4,086,000	500,200
MWD - Capacity Reservation Charge	660,282	603,900	599,146	504,000	(99,900)
MWD - Net RTS and Standby Charges	1,232,240	1,488,600	1,481,211	1,610,400	121,800
Subtotal - Water Costs	34,287,450	38,243,700	38,459,664	41,762,400	3,518,700
Power	2,170,357	2,440,900	2,138,674	2,368,000	(72,900)
Labor and Benefits	17,287,427	18,119,600	17,240,618	18,856,200	736,600
Administrative Expenses	4,719,358	4,560,700	4,299,360	4,804,900	244,200
Materials & Maintenance	3,801,792	4,300,000	3,763,097	3,747,900	(552,100)
Expansion Reserve	2,775,000	555,000	555,000	3,936,000	3,381,000
Betterment Reserve	315,000	-	-	1,120,000	1,120,000
Replacement Reserve	6,965,000	3,330,000	3,330,000	743,000	(2,587,000)
Transfer to Sewer General Fund	-	786,800	786,800	595,000	(191,800)
Transfer to General Fund Reserve	390,500	2,420,500	2,420,500	2,285,800	(134,700)
Transfer to Sewer Replacement	1,750,000	1,720,000	1,720,000	2,099,000	379,000
Transfer to New Supply Reserve	-	1,585,000	1,585,000	-	(1,585,000)
TOTAL EXPENDITURES	74,461,884	78,062,200	76,298,713	82,318,200	4,256,000
EXCESS REVENUES (EXPENSE)	\$ (3,425,631)	\$ -	\$ 262,457	\$ -	\$ -

FY 2013 Operating Budget Summary by System

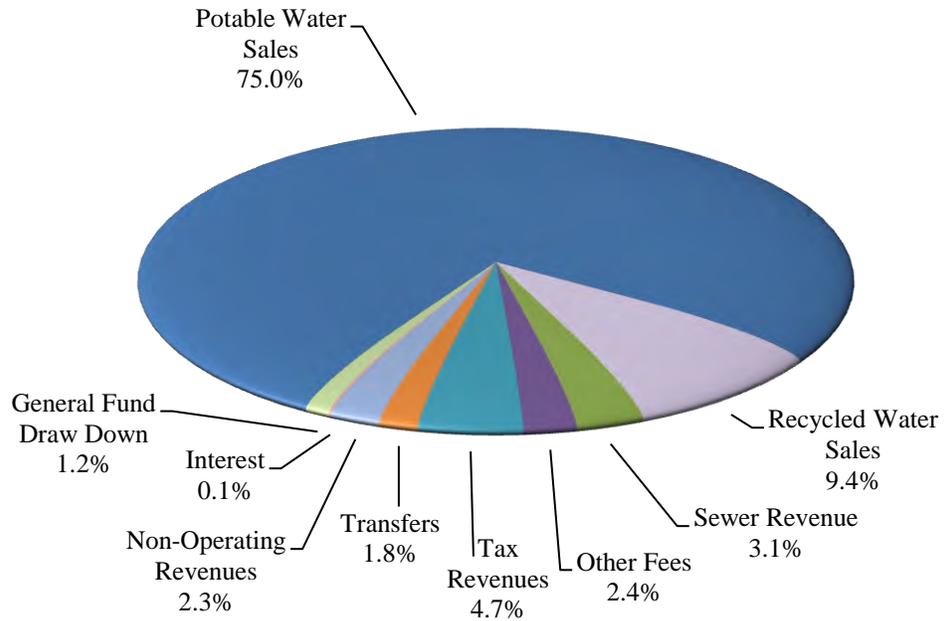
	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 61,754,400	\$ -	\$ -	\$ 61,754,400
Recycled Water Sales	-	7,702,400	-	7,702,400
Sewer Revenues	-	-	2,555,200	2,555,200
Meter Fees	108,600	3,600	-	112,200
Capacity Fee Revenues	1,015,600	-	165,000	1,180,600
Betterment Fees for Maintenance	689,400	-	-	689,400
Tax Revenues	3,831,100	-	51,500	3,882,600
Non-operating Revenues	1,883,700	-	30,600	1,914,300
Interest	92,800	6,800	6,100	105,700
Transfer from OPEB	879,500	-	-	879,500
General Fund Draw Down	-	275,800	671,100	946,900
Transfer from General Fund	-	-	595,000	595,000
TOTAL REVENUES	70,255,100	7,988,600	4,074,500	82,318,200
EXPENDITURES				
Water Purchases (CWA)	30,552,200	-	-	30,552,200
Water Purchases (CSD)	-	1,038,700	-	1,038,700
Take-or-pay	-	465,300	-	465,300
Subtotal - Water Purchases	30,552,200	1,504,000	-	32,056,200
CWA - Infrastructure Access Charge	1,818,000	-	-	1,818,000
CWA - Customer Service Charge	1,687,800	-	-	1,687,800
CWA - Emergency Storage Charge	4,086,000	-	-	4,086,000
MWD - Capacity Reservation Charge	504,000	-	-	504,000
MWD - Net RTS and Standby Charges	1,610,400	-	-	1,610,400
Subtotal - Water Costs	40,258,400	1,504,000	-	41,762,400
Power	1,785,700	498,500	83,800	2,368,000
Labor and Benefits	16,690,300	1,312,700	853,200	18,856,200
Administrative Expenses	3,990,500	405,500	408,900	4,804,900
Materials & Maintenance	2,055,400	331,900	1,360,600	3,747,900
Retiree Medical Reserve	-	-	-	-
Expansion Reserve	-	3,936,000	-	3,936,000
Betterment Reserve	495,000	-	625,000	1,120,000
Replacement Reserve	-	-	743,000	743,000
Transfer to Sewer GF	595,000	-	-	595,000
Transfer to GF Reserve	2,285,800	-	-	2,285,800
Transfer to Sewer Replacement	2,099,000	-	-	2,099,000
TOTAL EXPENDITURES	70,255,100	7,988,600	4,074,500	82,318,200
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

FY 2013 Operating Expenditures

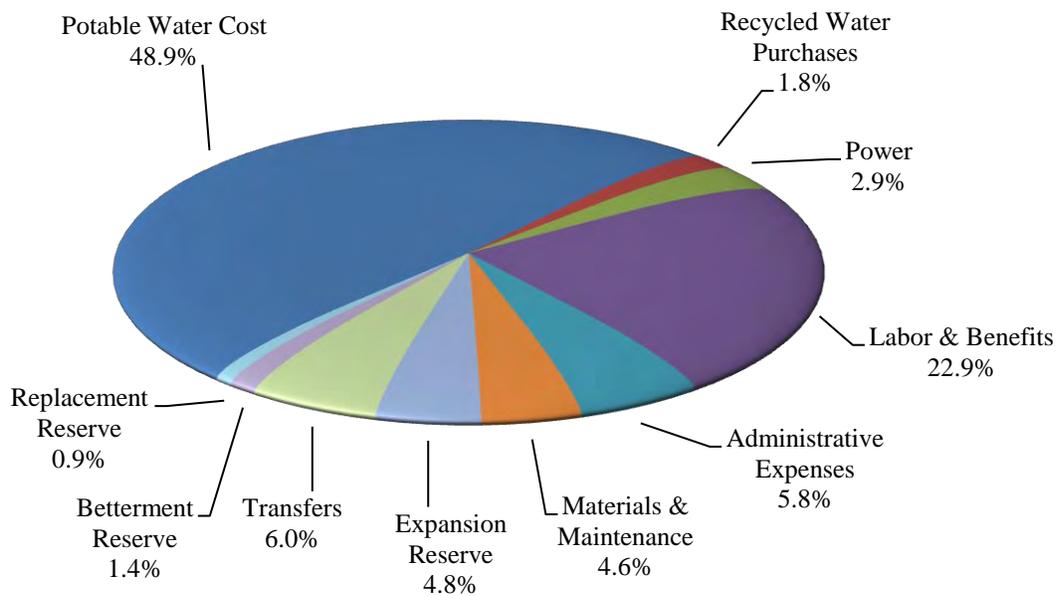


Operating Revenues and Expenditures

FY 2013 Operating Revenues



FY 2013 Operating Expenditures



Fund Balance Summary by Fund

	Estimated Balance June 30, 2012	Estimated, Fiscal Year 2013			Projected Balance June 30, 2013
		Revenues	Expenditures	Interfund Transfers ⁽¹⁾	
GENERAL FUND					
Potable	\$ 12,174,084	\$ 70,255,100	\$ 70,255,100	\$ -	\$ 12,174,084
Recycled	5,024,857	7,988,600	7,988,600	-	5,024,857
Sewer	1,264,887	4,074,500	4,074,500	-	1,264,887
Total General Fund	18,463,828	82,318,200	82,318,200	-	18,463,828
EXPANSION FUND					
Potable and Recycled ⁽²⁾	22,319,460	5,113,300	9,501,400	(16,894,000)	1,037,360
Sewer	607,118	1,900	165,000	(432,000)	12,018
Total Expansion Fund	22,926,578	5,115,200	9,666,400	(17,326,000)	1,049,378
BETTERMENT FUND					
Potable	(7,644,090)	3,615,400	5,534,400	12,395,000	2,831,910
Recycled	710,959	32,900	119,000	(688,000)	(63,141)
Sewer	570,484	43,900	1,522,800	1,057,000	148,584
Total Betterment Fund	(6,362,647)	3,692,200	7,176,200	12,764,000	2,917,353
REPLACEMENT FUND					
Potable	17,985,893	2,120,700	7,942,800	12,579,000	24,742,793
Recycled	4,070,907	160,300	408,000	(1,391,000)	2,432,207
Sewer	6,385,729	42,200	1,773,300	2,842,000	7,496,629
Total Replacement Fund	28,442,529	2,323,200	10,124,100	14,030,000	34,671,629
NEW SUPPLY FUND					
Potable	2,452,319	1,035,300	710,800	(1,500,000)	1,276,819
Recycled	585,419	23,800	77,800	(70,000)	461,419
Sewer	-	-	-	-	-
Total New Supply Fund	3,037,738	1,059,100	788,600	(1,570,000)	1,738,238
OPEB FUND	1,660,369	20,331	801,200	(879,500)	-
DEBT RESERVE FUND	20,158,681	747,900	5,418,100	-	15,488,481
TOTAL	\$ 88,327,076	\$ 95,276,131	\$ 116,292,800	\$ 7,018,500	\$ 74,328,907

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

Expansion Reserve	\$ (3,936,000)
Betterment Reserve	(1,120,000)
Replacement Reserve	(2,842,000)
New Supply Reserve	-
OPEB Reserve	879,500
Total	(7,018,500)

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

⁽³⁾ 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.

⁽⁴⁾ 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 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Projected
<u>REVENUES</u>				
GENERAL FUND				
Potable	\$ 60,691,248	\$ 66,756,200	\$ 65,590,783	\$ 70,255,100
Recycled	6,774,568	7,933,000	7,559,139	7,988,600
Sewer	3,570,437	3,373,000	3,411,248	4,074,500
Total General Fund	71,036,253	78,062,200	76,561,170	82,318,200
EXPANSION FUND				
Potable	4,669,160	3,947,600	1,873,048	3,569,600
Recycled	1,788,545	8,700	1,034,511	1,543,700
Sewer	3,527	4,100	3,896	1,900
Total Expansion Fund	6,461,232	3,960,400	2,911,455	5,115,200
BETTERMENT FUND				
Potable	1,272,350	1,278,600	1,206,612	3,615,400
Recycled	3,773	3,200	2,501	32,900
Sewer	50,862	46,200	44,366	43,900
Total Betterment Fund	1,326,985	1,328,000	1,253,479	3,692,200
REPLACEMENT FUND				
Potable	1,911,964	2,218,800	2,565,204	2,120,700
Recycled	250,883	127,900	334,671	160,300
Sewer	31,168	28,700	36,114	42,200
Total Replacement Fund	2,194,015	2,375,400	2,935,989	2,323,200
NEW SUPPLY FUND				
Potable	(416,687)	394,260	409,513	1,035,300
Recycled	(56,642)	500	61,526	23,800
Sewer	-	-	-	-
Total New Supply Fund	(473,329)	394,760	471,039	1,059,100
OPEB FUND				
	45,813	33,700	16,724	20,331
DEBT RESERVE FUND				
	1,287,490	510,500	760,136	747,900
Total Revenues	\$ 81,878,459	\$ 86,664,960	84,909,992	\$ 95,276,131

Revenues and Expenditures by Fund

	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Projected
<u>EXPENDITURES</u>				
GENERAL FUND				
Potable	\$ 64,268,939	\$ 66,756,200	\$ 65,402,134	\$ 70,255,100
Recycled	7,767,182	7,933,000	7,717,738	7,988,600
Sewer	2,425,763	3,373,000	3,178,841	4,074,500
Total General Fund	74,461,884	78,062,200	76,298,713	82,318,200
EXPANSION FUND				
Potable	9,086,619	6,946,500	5,577,429	6,808,600
Recycled	2,966,465	3,245,400	2,841,020	2,692,800
Sewer	91,731	202,800	176,209	165,000
Total Expansion Fund	12,144,815	10,394,700	8,594,658	9,666,400
BETTERMENT FUND				
Potable	5,058,463	8,140,700	6,440,493	5,534,400
Recycled	184,971	122,200	69,035	119,000
Sewer	198,350	1,498,900	1,038,885	1,522,800
Total Betterment Fund	5,441,784	9,761,800	7,548,413	7,176,200
REPLACEMENT FUND				
Potable	6,476,257	6,620,500	6,235,807	7,942,800
Recycled	645,752	2,234,000	4,519,201	408,000
Sewer	388,778	1,535,200	257,897	1,773,300
Total Replacement Fund	7,510,787	10,389,700	11,012,905	10,124,100
NEW SUPPLY FUND				
Potable	779,614	1,440,000	391,094	710,800
Recycled	118,232	80,000	44,536	77,800
Sewer	-	-	-	-
Total New Supply Fund	897,846	1,520,000	435,630	788,600
OPEB FUND	939,250	935,000	1,502,871	801,200
DEBT RESERVE FUND	7,689,691	751,600	6,396,578	5,418,100
Total Expenditures	109,086,056	111,815,000	111,789,768	\$ 116,292,800
EXCESS (DEFICIT)	\$ (27,207,597)	\$ (25,150,040)	(26,879,776)	\$ (21,016,669)

Revenues and Expenditures by Type - All Funds

	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Budget
REVENUES AND FUND SOURCES				
Potable Water Sales	\$ 51,507,858	\$ 57,908,800	\$ 56,784,245	\$ 61,754,400
Recycled Water Sales	6,762,039	7,395,500	7,018,903	7,702,400
Tax Revenues	3,576,721	3,839,600	3,587,019	3,882,600
Capacity Fee Revenues	4,199,941	4,358,800	3,890,246	4,406,700
Grants	3,590,000	574,000	935,227	400,000
Sewer Revenues	2,386,600	2,336,000	2,395,365	2,555,200
Non-Operating Revenues	2,098,198	2,021,600	2,063,472	1,914,300
General Fund Draw Down	1,657,400	522,800	522,800	946,900
Interest	981,667	825,800	568,655	517,531
Transfer from OPEB	1,220,000	1,380,000	1,380,000	879,500
Capacity Fees for Maintenance	1,063,232	1,044,000	1,160,066	1,180,600
Betterment Fee Revenues	676,680	713,700	713,570	705,400
Betterment Fees for Maintenance	560,229	628,600	690,885	689,400
GO Bond Debt Tax Revenues	606,966	501,200	597,799	618,300
Availability Fees	534,621	531,000	517,283	519,200
Sewer Debt Tax Revenues	365,155	-	14,201	7,000
New Supply Fee Revenue	-	388,960	459,032	399,100
Meter Fees	91,152	82,000	131,904	112,200
COPs Proceeds	-	867,600	734,320	5,490,400
Interfund Transfers	-	745,000	745,000	595,000
Total Revenues and Fund Sources	\$ 81,878,459	\$ 86,664,960	84,909,992	\$ 95,276,131
EXPENDITURES AND USES OF FUNDS				
Potable Water Purchases	\$ 32,965,553	\$ 36,790,900	\$ 36,853,890	\$ 40,258,400
CIP Expenses	18,320,176	22,632,000	18,717,660	17,994,100
Labor Expenses	17,287,427	18,119,600	17,240,618	18,856,200
Interfund Transfers	11,805,000	7,190,000	7,190,000	7,898,000
Debt Service	7,191,610	8,486,800	7,781,983	8,642,300
Administrative Expenses	4,719,358	4,560,700	4,299,360	4,804,900
Materials and Maintenance	3,801,792	4,300,000	3,763,098	3,747,900
Power	2,170,357	2,440,900	2,138,675	2,368,000
Recycled Water Purchases	1,321,897	1,452,800	1,605,774	1,504,000
Capacity Fees for Maintenance	1,063,234	1,044,000	1,160,066	1,180,600
Payment to PERS	285,000	192,000	753,000	-
Betterment Fees for Maintenance	560,229	655,000	690,885	689,400
General Fund Transfers	390,500	3,207,300	3,207,300	2,880,800
OPEB Health Expenses	654,250	743,000	749,871	801,200
COPs Proceeds Distribution	6,549,673	-	5,637,588	4,667,000
Total Expenditures and Uses of Funds	109,086,056	111,815,000	111,789,768	116,292,800
EXCESS (DEFICIT)	\$ (27,207,597)	\$ (25,150,040)	(26,879,776)	\$ (21,016,669)

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 2014-2018

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 724 miles of potable pipelines, 99 miles of recycled pipelines, 88 miles of sewer lines,

40 potable and 4 recycled reservoirs, 21 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.

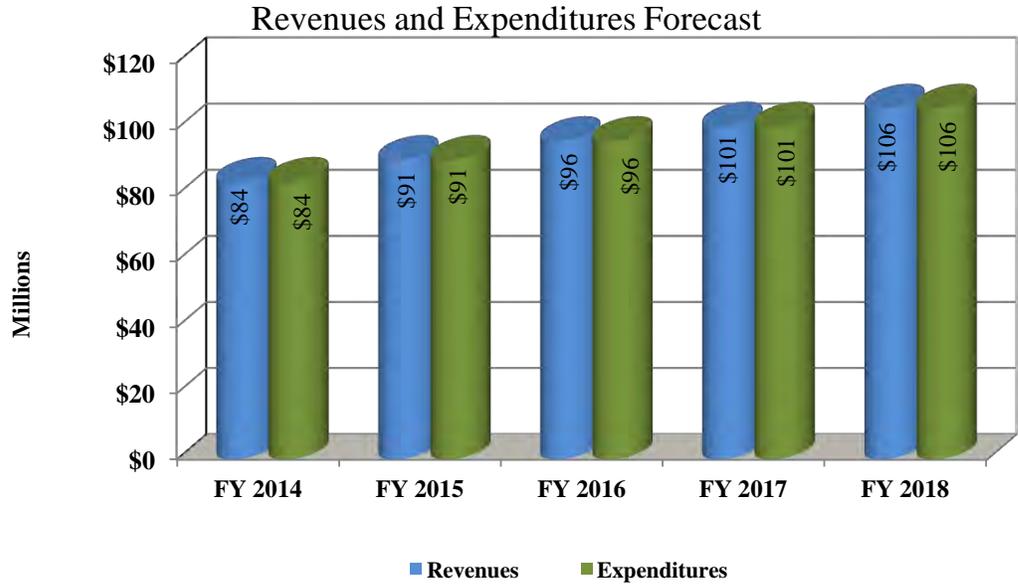
Projected Cost of Water

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 2014 Through FY 2018

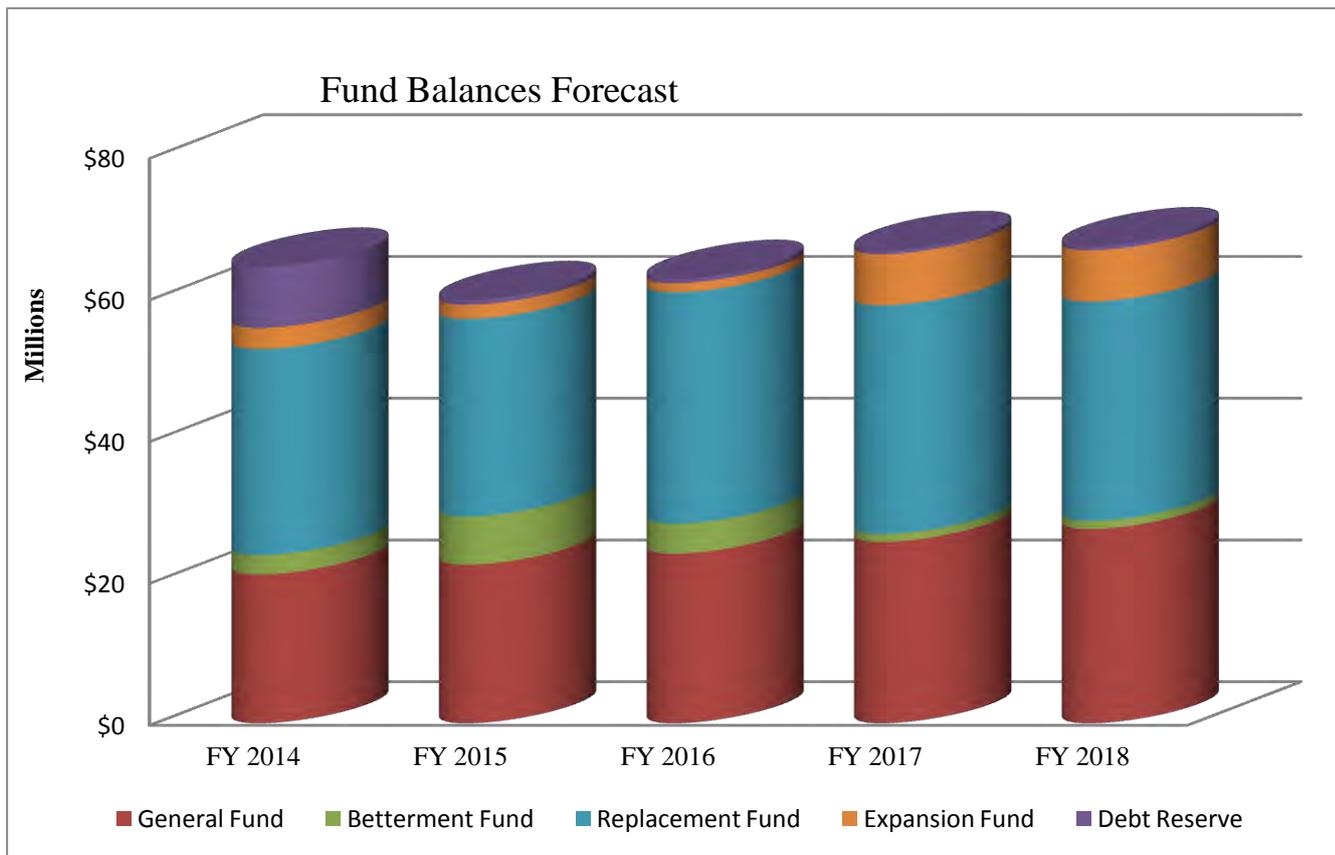
This forecast incorporates both cost increases for expenditures and rate increases for revenues, as well as growth projections.



REVENUES	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Water/Sewer Rates	\$ 76,340,300	\$ 82,891,000	\$ 88,538,700	\$ 92,634,700	\$ 96,841,700
Meter Fees	137,100	141,500	180,000	189,100	203,600
Capacity Fee Revenues	1,020,700	1,030,900	1,041,200	1,051,600	1,062,100
Betterment Fees	692,800	699,700	706,700	713,800	720,900
Annexation Fees	-	8,200	17,000	26,200	36,000
Non-operating Revenues	1,949,700	1,986,500	2,024,800	2,064,000	2,103,600
Tax Revenues	3,851,000	3,922,500	3,996,700	4,173,400	4,359,800
Interest Income	135,900	202,800	264,600	475,500	708,100
General Fund Draw Down	(244,700)	(379,900)	(531,400)	(711,300)	-
TOTAL	\$ 83,882,800	\$ 90,503,200	\$ 96,238,300	\$ 100,617,000	\$ 106,035,800
EXPENDITURES AND TRANSFERS					
Water Cost	\$ 45,318,100	\$ 48,736,700	\$ 52,561,000	\$ 56,605,700	\$ 60,964,000
Power	2,474,400	2,431,800	2,553,300	2,683,700	2,821,200
Labor and Benefits	19,168,300	19,855,600	20,415,600	20,801,200	21,309,700
Administrative Expenses	4,656,400	4,801,300	4,946,500	5,102,600	5,259,600
Materials & Maintenance	3,900,200	4,058,700	4,223,700	4,395,600	4,574,200
Fund Transfers, Net	8,365,400	10,619,100	11,538,200	11,028,200	11,107,100
TOTAL	\$ 83,882,800	\$ 90,503,200	\$ 96,238,300	\$ 100,617,000	\$ 106,035,800
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -

Fund Balances - FY 2014 Through FY 2018

FUND	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
General Fund	\$ 20,974,700	\$ 22,365,500	\$ 23,922,800	\$ 25,567,900	\$ 27,399,900
Betterment Fund	2,749,500	6,811,700	4,218,800	1,113,100	1,147,900
Replacement Fund	29,071,500	27,870,400	32,652,800	32,296,700	30,945,300
Expansion Fund	2,974,800	1,982,000	1,296,400	7,211,900	7,254,800
New Supply Fund	2,402,900	2,789,300	2,381,600	747,300	763,200
Debt Reserve	8,621,700	655,500	580,900	535,400	526,400
TOTAL	\$ 66,795,100	\$ 62,474,400	\$ 65,053,300	\$ 67,472,300	\$ 68,037,500



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. As of the end of fiscal year 2012, the State Sewer Loan has been paid off and there are six outstanding bond issues. 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 effect that reduces water rates.

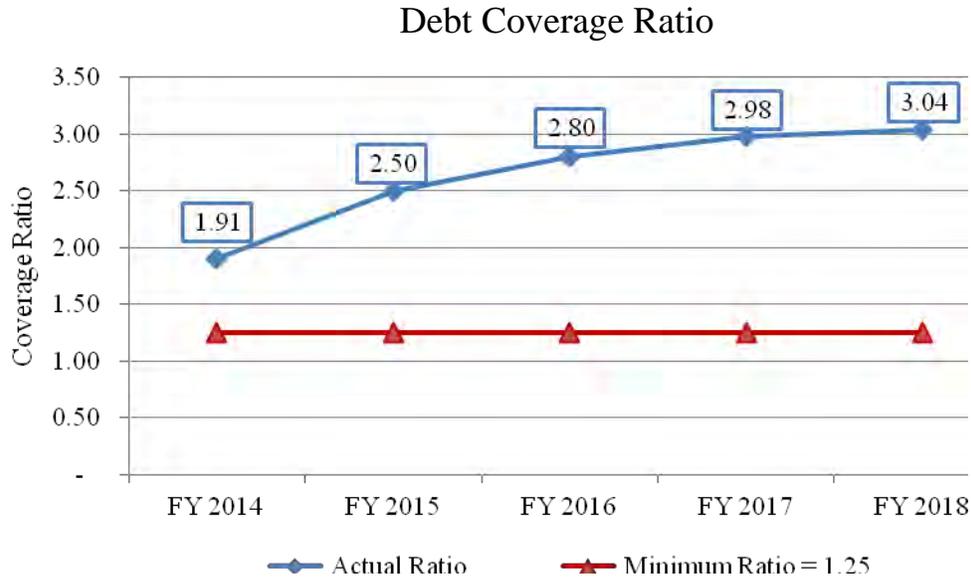
In a continuing effort to reduce debt expenses, the District was successful in raising its overall credit rating from AA- to AA, two years ago. In March 2010, the District issued \$50.2 million in debt with a combination of both tax-exempt and taxable Build America Bonds (BABs). The effective interest 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.

Since the ratings upgrade two years ago, the District has been faced with the challenge of maintaining very strong financial ratios while water sales volumes have been decreasing. During the past four years, sales volumes have been declining due to a number of factors. The factors include significant rainfall, a struggling economy, price elasticity, and the promotion of water conservation. These factors, along with the decline of developer fee revenues, have made it difficult to maintain the highest of financial ratios. So, while the District's financial ratios remain strong, Fitch Ratings lowered the District's credit rating from AA to AA-. This latest Fitch rating along with the AA rating from Standard & Poor's puts the District into a split rating of AA/AA-.

The District's goal of maintaining a very strong financial ratio has not changed. The rate planning process has maintained a high level of financial discipline and as a result, the debt coverage is expected to rebound in a short period of one to two years. The District's Board of Directors has always held that a strong debt coverage ratio will benefit the ratepayers as it reduces the cost of water infrastructure; and have been willing to support this with necessary rate increases. As a result of the District's consistency in financial direction, this rating change is not expected to be a permanent shift.

Debt Management

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 06/30/12
1	1996	Certificates of Participation (COPs)	September 1, 2026	\$ 15,400,000	\$ 10,900,000
2	2009	General Obligation (GO) Bonds	August 31, 2022	7,780,000	6,755,000
3	2004	Certificates of Participation (COPs)	September 1, 2023	12,270,000	8,680,000
4	1994	State Loan	November 30, 2011	5,000,000	-
5	2007	Certificates of Participation (COPs)	September 1, 2036	42,000,000	38,665,000
6	2010	Certificates of Participation Series A (COPs)	September 1, 2024	13,840,000	13,055,000
7	2010	Build America Bonds Series B (BABs)	September 1, 2040	36,355,000	36,355,000
Total Outstanding Debt				\$ 132,645,000	\$ 114,410,000

	All Debts	GO Bonds
Total Assessed Valuation - FY 2012	\$ 23,145,467,535	\$ 9,941,622,812
Percentage of Original Debt to Assessed Valuation	0.57%	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.

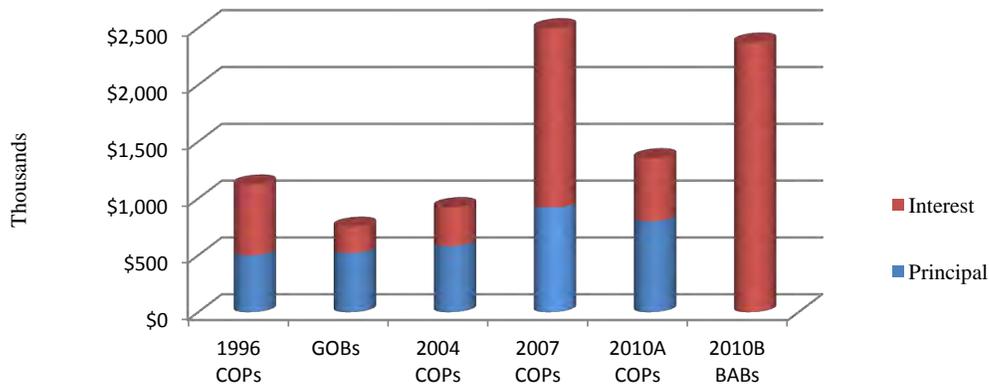


944-I R Recycled Water Pump Station

Projected Principal Payments by Debt Issuance

FY	1996 COPs	GOBs	2004 COPs	2007 COPs	2010A COPs	2010B BABs	Total
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
TOTAL	\$ 10,900,000	\$ 6,755,000	\$ 8,680,000	\$ 38,665,000	\$ 13,055,000	\$ 36,355,000	\$ 114,410,000

FY 2013 Principal and Interest



Projected Interest Payments by Debt Issuance

FY	1996 COPs ⁽¹⁾	GOBs ⁽²⁾	2004 COPs	2007 COPs	2010A COPs	2010B BABs	Total
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
TOTAL	\$ 5,478,000	\$ 1,431,877	\$ 2,312,600	\$ 23,546,300	\$ 4,394,469	\$ 53,055,641	\$ 90,218,887

⁽¹⁾ Interest on the 1996 Certificates of Participation is variable and is projected using an interest rate of 5.9%

⁽²⁾ The GO Bonds were refinanced in April of 2009.

Note: The total projected debt payment of \$8,642,300 for FY 2013 as shown on the Debt Service Expenditure on the Revenues and Expenditures by Type - All Funds Schedule on page 44 is less than the projected principal payment of \$3,320,000 shown on page 51, plus the interest payment of \$5,698,868 shown above, by \$376,568 due to the difference of the stated rate of 5.9% and the actual rate the district is currently paying. The difference in rate results in a variance of \$359,500 on the 1996 COPs. The remaining variance of \$17,068 is miscellaneous administrative fees not shown on the principal and interest schedules.

Potable Revenues and Expenses

The District will provide water service to approximately 48,860 potable customers by the end of Fiscal Year 2013. 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. With the extensive residential developments slowing down in recent years, the District expects only nominal growth of 0.6% for Fiscal Year 2013. Unit sales are anticipated to decrease 0.1% 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 30% of the potable water sales revenue. Water rates, energy fees, and penalties recover the remaining 70% of revenues necessary to fund operations. (Note: when potable and recycled revenues are combined the fixed fees do not exceed 30% of the total revenues.)

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 is adjusted 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.

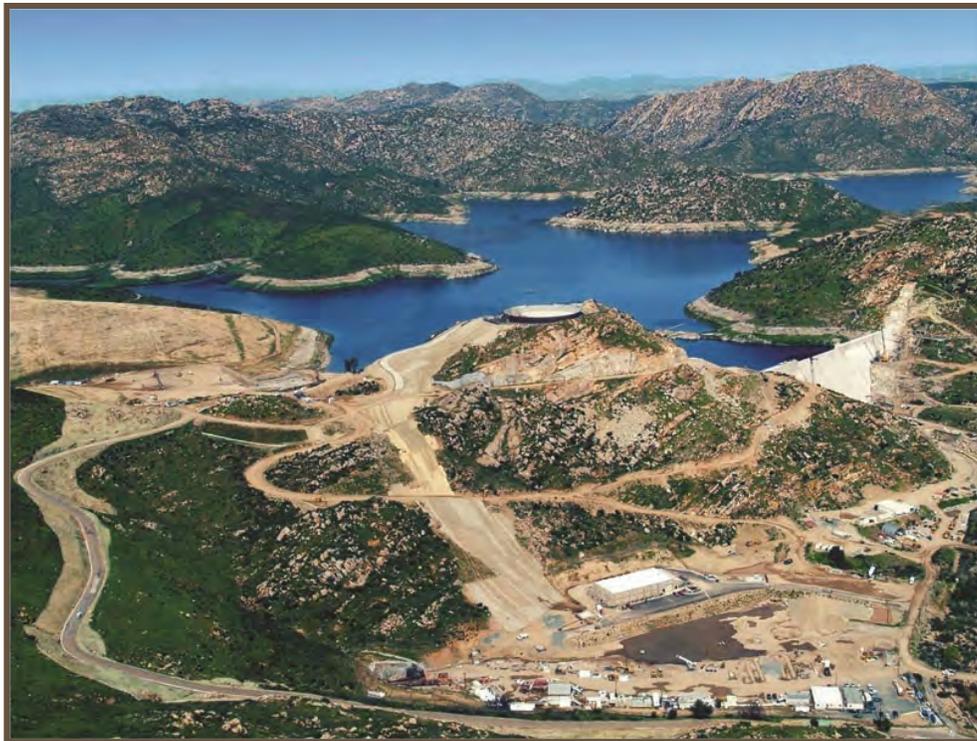
The District receives 100% of its potable water from CWA which purchases water from MWD and IID. Any increase in costs by CWA, MWD, or IID impacts the District's water purchases and directly affects the District's fees, rates, and service charges.



Potable Revenues and Expenses

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 2013, the District is estimating the purchase of 30,512.5 acre-feet of potable water, sufficient to meet the demands of its customers. Provisions have been made for District usage, leakage, and evaporation in the amount of 1,587.8 acre-feet.

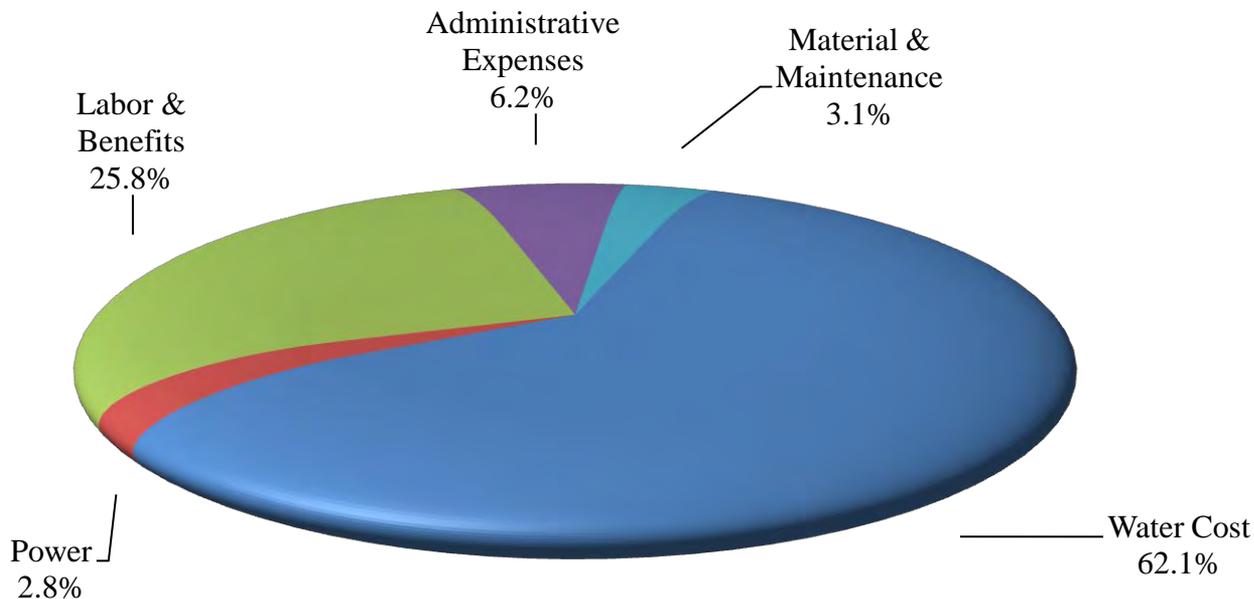


San Vicente Dam Raising is a part of CWA's Emergency Storage Projects

Operating Budget Summary - Potable

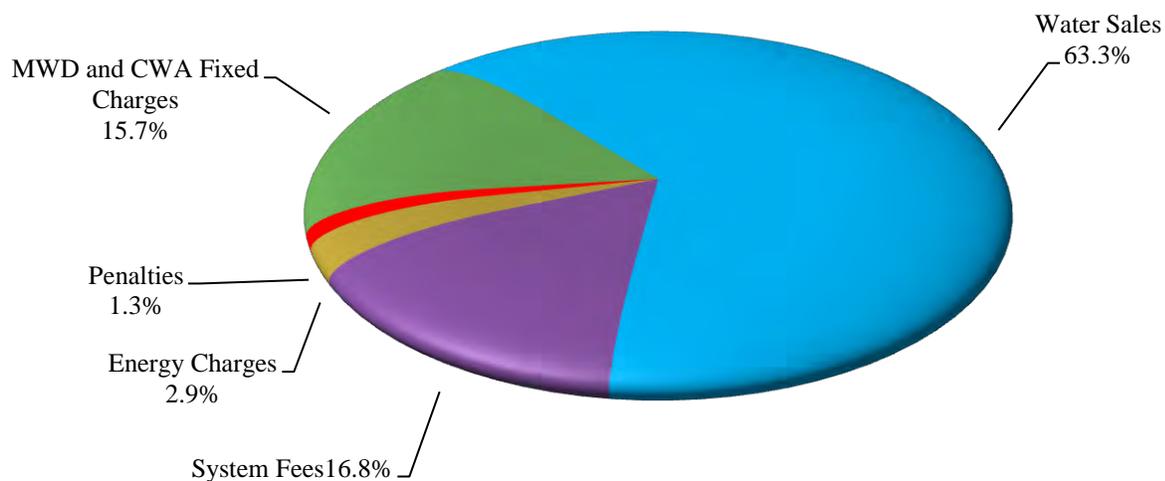
	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	Variance %
REVENUES						
Water Sales	\$ 51,507,858	\$ 57,908,800	\$ 56,784,245	\$ 61,754,400	\$ 3,845,600	6.6%
Meter Fees	84,935	79,700	120,565	108,600	28,900	36.3%
Capacity Fee Revenues	970,353	841,200	980,066	1,015,600	174,400	20.7%
Betterment Fees for Maintenance	560,229	628,600	690,885	689,400	60,800	9.7%
Tax Revenues	3,524,451	3,788,100	3,536,434	3,831,100	43,000	1.1%
Non-operating Revenues	2,065,126	1,991,000	2,031,351	1,883,700	(107,300)	(5.4%)
Interest	95,496	138,800	67,237	92,800	(46,000)	(33.1%)
Transfer from OPEB	1,220,000	1,380,000	1,380,000	879,500	(500,500)	(36.3%)
General Fund Draw Down	662,800	-	-	-	-	0.0%
TOTAL REVENUES	60,691,248	66,756,200	65,590,783	70,255,100	3,498,900	5.2%
EXPENDITURES						
Water Purchases	25,323,291	27,793,100	27,957,531	30,552,200	2,759,100	9.9%
CWA - Infrastructure Access Charge	1,550,466	1,756,900	1,756,656	1,818,000	61,100	3.5%
CWA - Customer Service Charge	1,315,224	1,562,600	1,553,756	1,687,800	125,200	8.0%
CWA - Emergency Storage Charge	2,884,050	3,585,800	3,505,590	4,086,000	500,200	13.9%
MWD - Capacity Reservation Charge	660,282	603,900	599,146	504,000	(99,900)	(16.5%)
MWD - Net RTS and Standby Charges	1,232,240	1,488,600	1,481,211	1,610,400	121,800	8.2%
Subtotal - Water Costs	32,965,553	36,790,900	36,853,890	40,258,400	3,467,500	9.4%
Power	1,626,979	1,848,300	1,628,174	1,785,700	(62,600)	(3.4%)
Labor and Benefits	15,429,186	15,946,400	15,315,251	16,690,300	743,900	4.7%
Administrative Expenses	3,893,361	3,775,600	3,615,966	3,990,500	214,900	5.7%
Materials & Maintenance	1,763,860	2,144,500	1,738,353	2,055,400	(89,100)	(4.2%)
Transfers						
Betterment Reserve	-	-	-	495,000	495,000	
Replacement Reserve	6,245,000	-	-	-	-	
Transfer to Potable General Fund	-	2,420,500	2,420,500	2,285,800	(134,700)	
Transfer to Sewer General Fund	595,000	595,000	595,000	595,000	-	
Transfer to Sewer Replacement	1,750,000	1,720,000	1,720,000	2,099,000	379,000	
Transfer to New Supply Reserve	-	1,515,000	1,515,000	-	(1,515,000)	
Subtotal - Transfers	8,590,000	6,250,500	6,250,500	5,474,800	(775,700)	(12.4%)
TOTAL EXPENDITURES	64,268,939	66,756,200	65,402,134	70,255,100	3,498,900	5.2%
EXCESS REVENUES (EXPENSES)	\$ (3,577,691)	\$ -	\$ 188,649	\$ -	\$ -	0.0%

FY 2013 Potable Operating Expenditures



Classification of Water Sales - Potable

	FY 2012 Estimated	FY 2013 Budget	Variance
Water Sales	\$ 35,615,558	\$ 39,110,200	\$ 3,494,642
System Fees	9,583,563	10,328,400	744,837
Energy Fees	1,881,776	1,809,500	(72,276)
MWD and CWA Fixed Fees	9,000,267	9,705,800	705,533
Penalties	703,081	800,500	97,419
Total Water Sales	\$ 56,784,245	\$ 61,754,400	\$ 4,970,155



Water Rates: Rates vary among classes of service and are charged per unit of water. A unit of water is equal to 100 cubic feet of water. 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 \$.042 per 100 cubic feet of water for each 100 feet of lift above the elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

MWD and CWA Fixed Fees: These pass-through charges are to pay for a portion of MWD's and CWA's fixed annual costs including the construction, operation and maintenance of aqueducts and emergency storage projects. These Fixed Charges are based on the size of the meter.

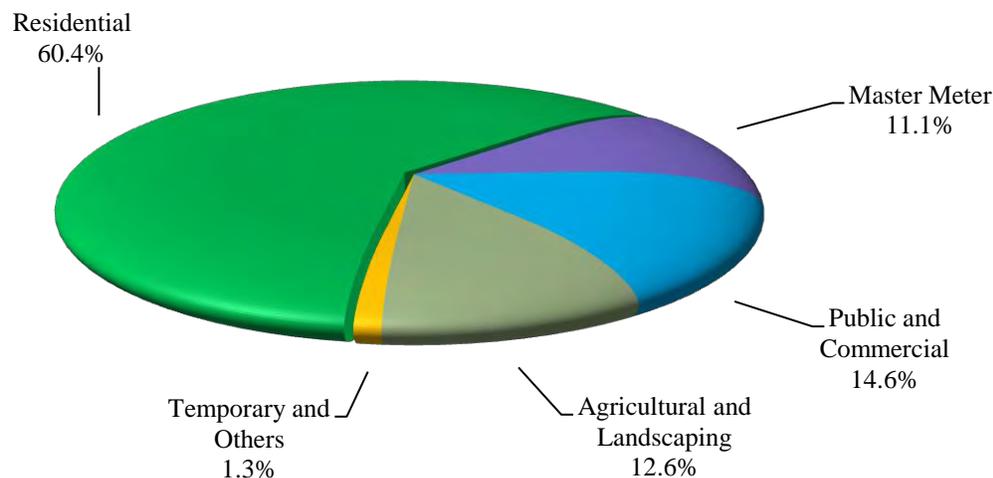
Penalties: Charges and penalties are imposed on customer accounts for late payments and returned checks.

Water Sales Summary by Service Class - Potable

	Water Rates		Fiscal Year 2013 Sales Budget		
	Current	Approved*	Accounts	Units	Amount
Residential					
Conservation Tier (< 5 hcf)	\$ 1.58	\$ 1.73			
6 - 10	2.45	2.69			
11 - 22	3.19	3.50			
over 23 hcf	4.92	5.39			
Total Residential			44,576	7,608,600	\$ 22,845,400
Master Meter					
0 - 4	2.43	2.66			
5 - 9	3.15	3.45			
over 10 hcf	4.85	5.32			
Total Master Meter			803	1,403,300	4,418,900
Public and Commercial					
Tier I	2.59	2.84			
Tier II	2.66	2.92			
Tier III	2.70	2.96			
Total Public and Commercial			1,442	1,840,900	5,043,200
Agriculture, Landscaping, and Construction					
Tier I	3.53	3.87			
Tier II	3.60	3.95			
Tier III	3.66	4.01			
Total Agriculture, Landscaping, and Construction			1,335	1,746,800	6,426,300
Total			48,156	12,599,600	\$ 38,733,800
Government Fee	0.29	0.29	-	-	376,400
Total Water Sales			48,156	12,599,600	\$ 39,110,200

*Approved rates for water billed in January 2013.

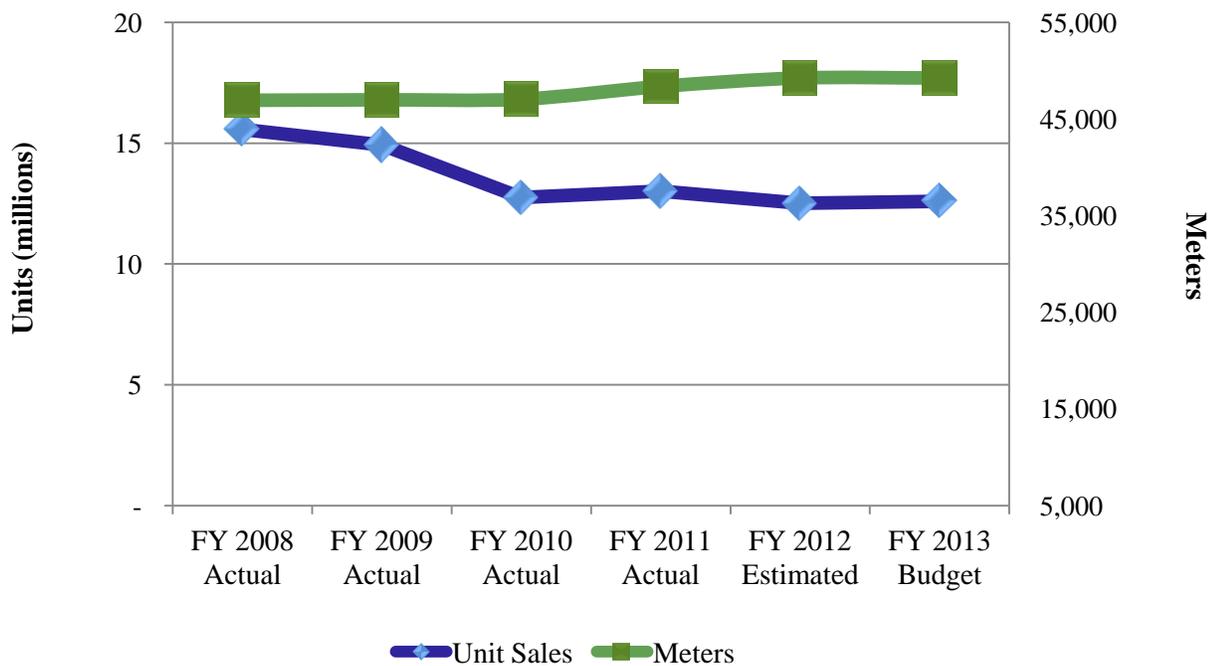
FY 2013 Unit Sales by Service Class



Unit Sales History by Customer Class - Potable

	Actual				Estimated	Budget
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
<i>Residential</i>	9,379,544	8,881,191	7,679,494	7,486,069	7,507,214	7,608,600
<i>Master Meters</i>	1,445,634	1,430,235	1,371,244	1,389,616	1,409,515	1,403,300
<i>Public and Commercial</i>	1,869,841	1,938,215	1,798,277	1,771,396	1,859,571	1,840,900
<i>Agricultural and Landscaping</i>	2,306,624	2,183,823	1,644,130	1,537,304	1,581,243	1,583,400
<i>Temporary and Others</i>	574,026	490,297	254,016	179,472	153,351	163,400
Total Unit Sales	15,575,669	14,923,761	12,747,161	12,363,857	12,510,894	12,599,600

FY 2013 Unit Sales and Meter Count Trends

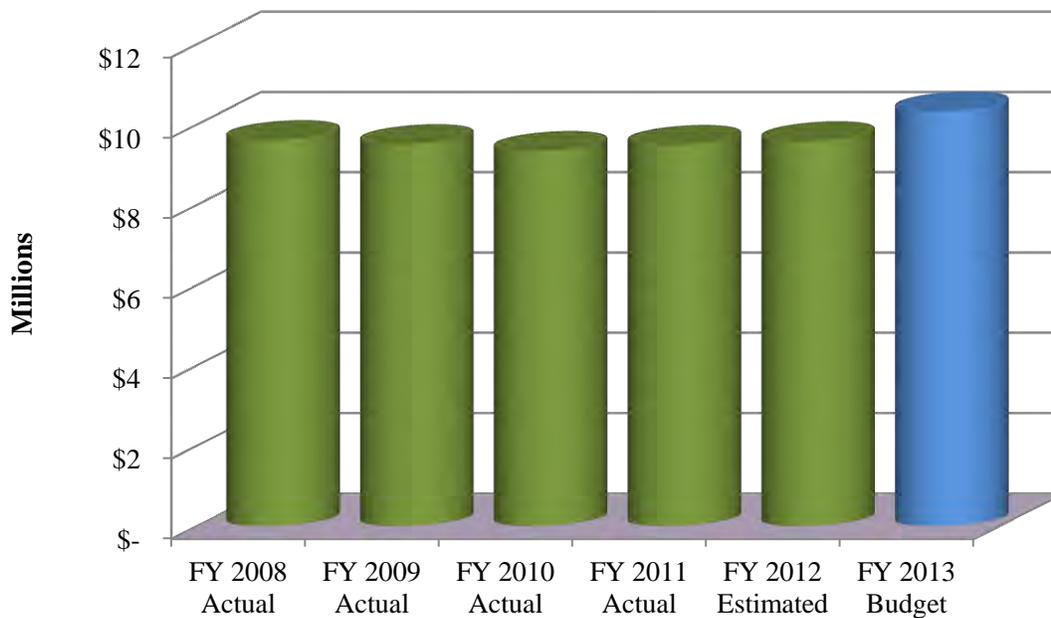


System Fees - Potable

Meter Size	Meter Count		Current Rates	Approved* Rates	Budgeted System Fees		
	Estimated 6/30/2012	FY13 Growth			Estimated 6/30/2012	FY13 Growth	FY 2013 Budget
0.75	43,664	311	\$ 14.58	\$ 16.74	\$ 8,205,300	\$ 32,700	\$ 8,238,000
1.00	1,877	6	18.52	21.26	448,000	800	448,800
1.50	939	-	28.37	32.57	343,300	-	343,300
2.00	1,082	1	40.18	46.13	560,300	300	560,600
3.00	71	-	71.68	82.29	65,600	-	65,600
4.00	176	3	107.13	122.99	243,000	2,300	245,300
6.00	17	-	205.59	236.02	45,000	-	45,000
8.00	3	-	323.73	371.64	12,500	-	12,500
10.00	5	-	461.57	529.88	29,700	-	29,700
Fire Services	705	-	30.11	34.57	273,600	-	273,600
Turn Over Fees			10.00	10.00	66,000	-	66,000
Total	48,539	321			\$ 10,292,300	\$ 36,100	\$ 10,328,400

*Approved rates for water billed in January 2013.

Historical System Fees

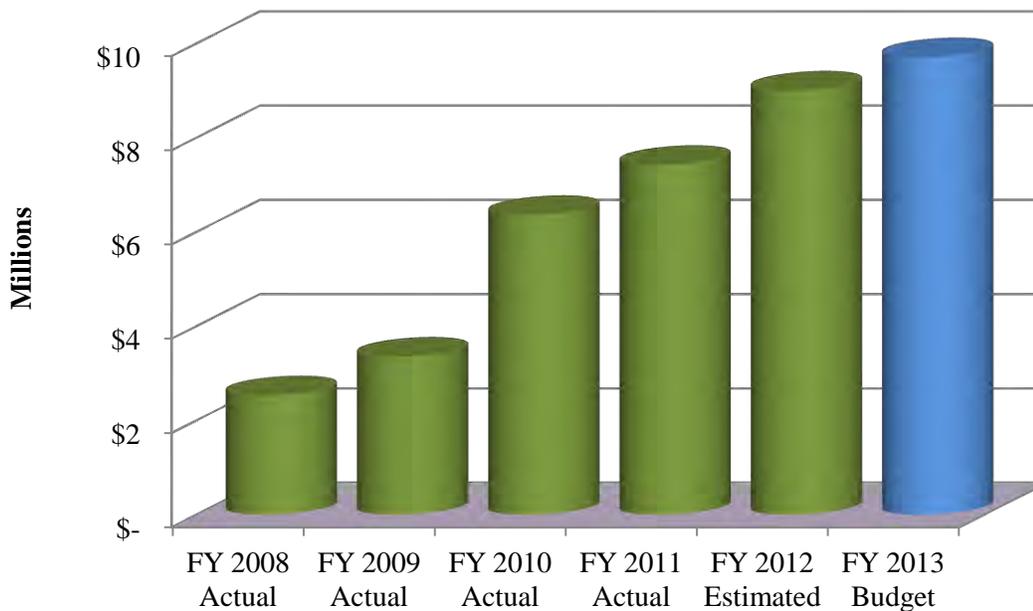


MWD and CWA Fixed Fees (Pass-Through)-Potable

Meter Size	Meter Count		Current Rates	Approved* Rates	Budgeted MWD & CWA - Fixed Charges		
	Estimated 6/30/2012	FY13 Growth			Estimated 6/30/2012	FY13 Growth	FY 2013 Budget
0.75	43,657	311	\$ 14.01	\$ 13.28	\$ 7,148,400	\$ 27,200	\$ 7,175,600
1.00	1,867	6	23.33	22.12	509,100	900	510,000
1.50	933	-	46.74	44.31	509,700	-	509,700
2.00	1,080	1	74.74	70.85	943,400	500	943,900
3.00	71	-	149.48	141.71	124,000	-	124,000
4.00	94	3	233.58	221.43	256,600	4,400	261,000
6.00	17	-	467.09	442.80	92,800	-	92,800
8.00	3	-	747.39	708.53	26,200	-	26,200
10.00	5	-	1,070.74	1,015.06	62,600	-	62,600
Total	47,727	321			\$ 9,672,800	\$ 33,000	\$ 9,705,800

*Approved rates for water billed in January 2013.

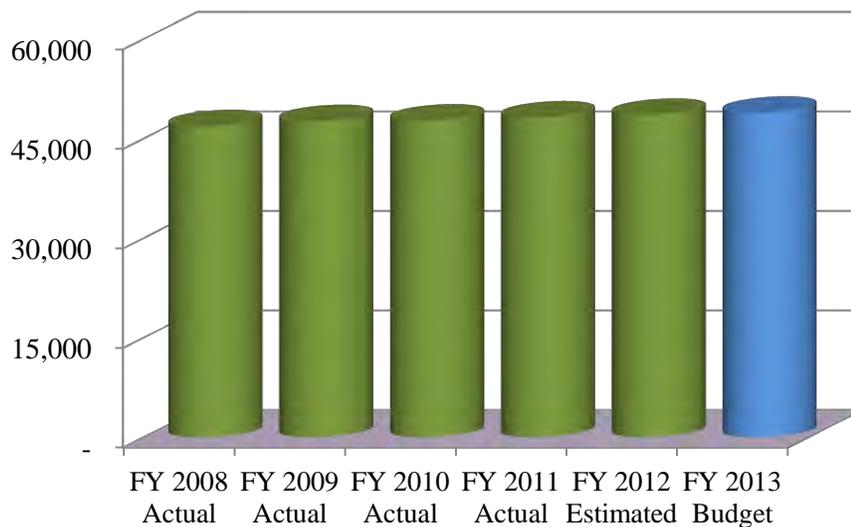
Historical MWD and CWA Fixed Fees



Meter Fees - Potable

Meter Size	Meter Sales	Installation Fee	Meter Fee	AMR Fee	Total Fees	Budgeted Amount
0.75	8	\$ 60.00	\$ 59.00	\$ 147.00	\$ 266.00	\$ 2,100
1.00	309	60.00	117.00	147.00	324.00	100,100
1.50	-	103.00	250.00	147.00	500.00	-
2.00	1	240.00	475.00	147.00	862.00	900
3.00	-	300.00	653.00	147.00	1,100.00	-
4.00	3	300.00	1,370.00	147.00	1,817.00	5,500
6.00	-	300.00	2,500.00	147.00	2,947.00	-
10.00	-	300.00	3,737.00	147.00	4,184.00	-
Total	321					\$ 108,600

Historical Meter Count



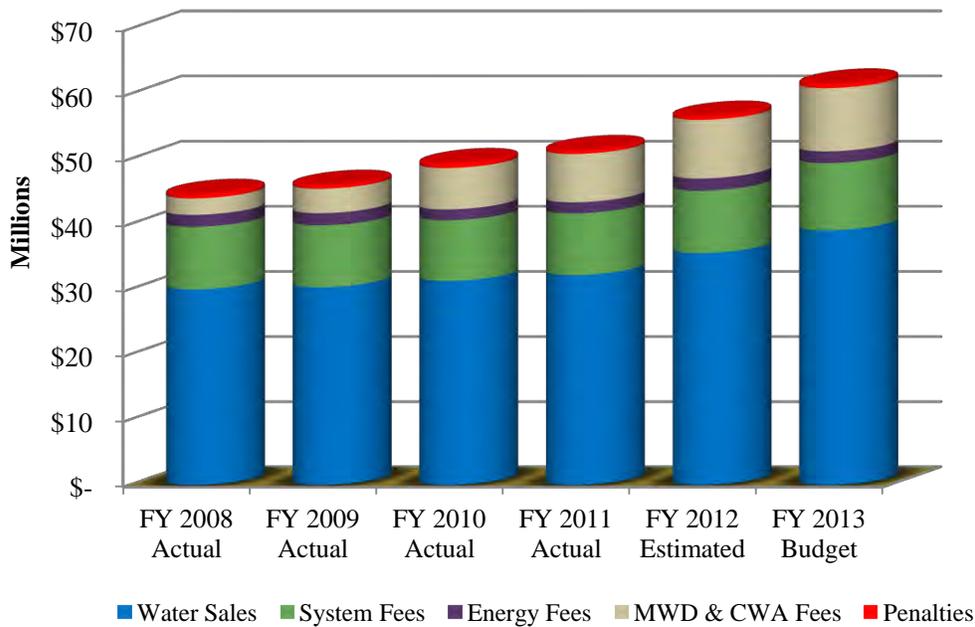
Meter Fees:

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

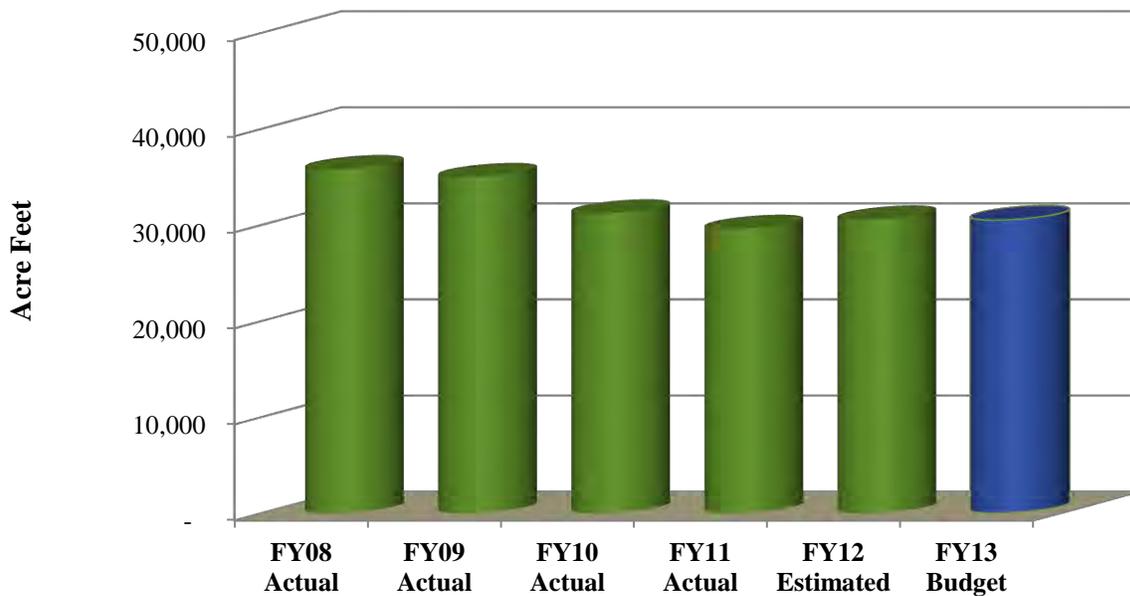
	Actual					Estimated	Budget
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2012	FY 2013
Water Sales	\$ 30,049,415	\$ 30,375,618	\$ 31,326,151	\$ 32,236,451	\$ 35,615,558		\$ 39,110,200
System Fees	9,611,046	9,510,996	9,342,732	9,490,904	9,583,563		10,328,400
Energy Fees	1,834,102	1,866,237	1,662,233	1,693,186	1,881,776		1,809,500
MWD and CWA Fixed Fees	2,530,306	3,758,403	6,359,939	7,421,386	9,000,267		9,705,800
Penalties	779,985	649,683	853,279	665,931	703,081		800,500
Total Potable Revenues	\$ 44,804,854	\$ 46,160,937	\$ 49,544,334	\$ 51,507,858	\$ 56,784,245		\$ 61,754,400

Revenue History - Potable



Water Purchases and Related Costs - Potable

Historical Potable Water Purchases



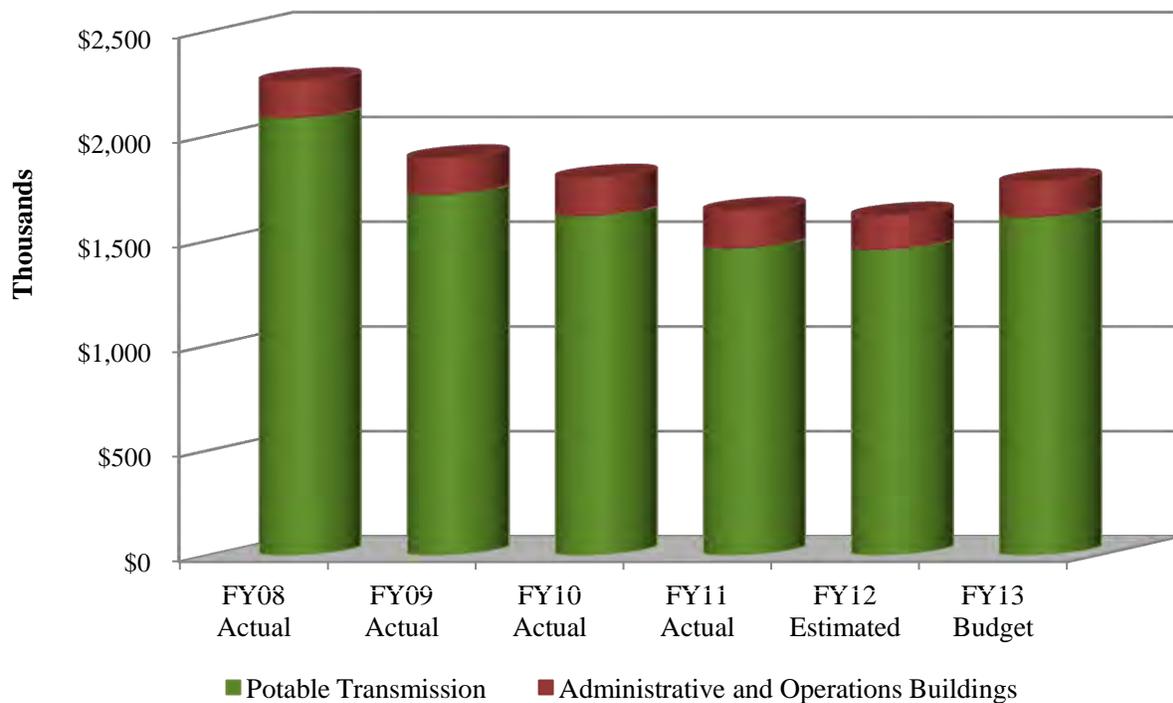
	FY 2012 Estimated Acre Feet	FY 2013 Budget Acre Feet	Rate ⁽¹⁾	FY 2012 Estimated Purchase Costs	FY 2013 Budget Purchase Costs
Potable Water Purchases (CWA):					
Budgeted Sales	28,720.9	28,924.7	\$957/\$1,063	\$ 26,345,279	\$ 28,961,300
District & Unbilled Usage	188.1	62.2	\$957/\$1,063	173,434	63,300
Water Loss	1,633.8	1,525.6	\$957/\$1,063	1,553,471	1,527,600
Total Variable Charges	30,542.8	30,512.5		\$ 28,072,184	\$ 30,552,200
MWD and CWA Fixed Charges:					
Infrastructure Access Charge (IAC)				\$ 1,756,656	\$ 1,818,000
Customer Service Charge (CSC)				1,553,756	1,687,800
Emergency Storage Charge (ESC)				3,505,590	4,086,000
Capacity Reservation Charge (CRC)				599,146	504,000
Readiness-to-Serve Charge (RTS)				1,481,211	1,610,400
Total Fixed Charges				\$ 8,896,359	\$ 9,706,200
Total Variable and Fixed Charges				\$ 36,968,543	\$ 40,258,400
Average Cost Per Acre Foot				\$ 1,210	\$ 1,319

(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

	Administrative and Operations Buildings	Potable Transmission	Total Potable Power Costs
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 Actual	158,657	1,468,322	1,626,979
FY12 Estimated	165,099	1,463,075	1,628,174
FY13 Budget	169,400	1,616,300	1,785,700

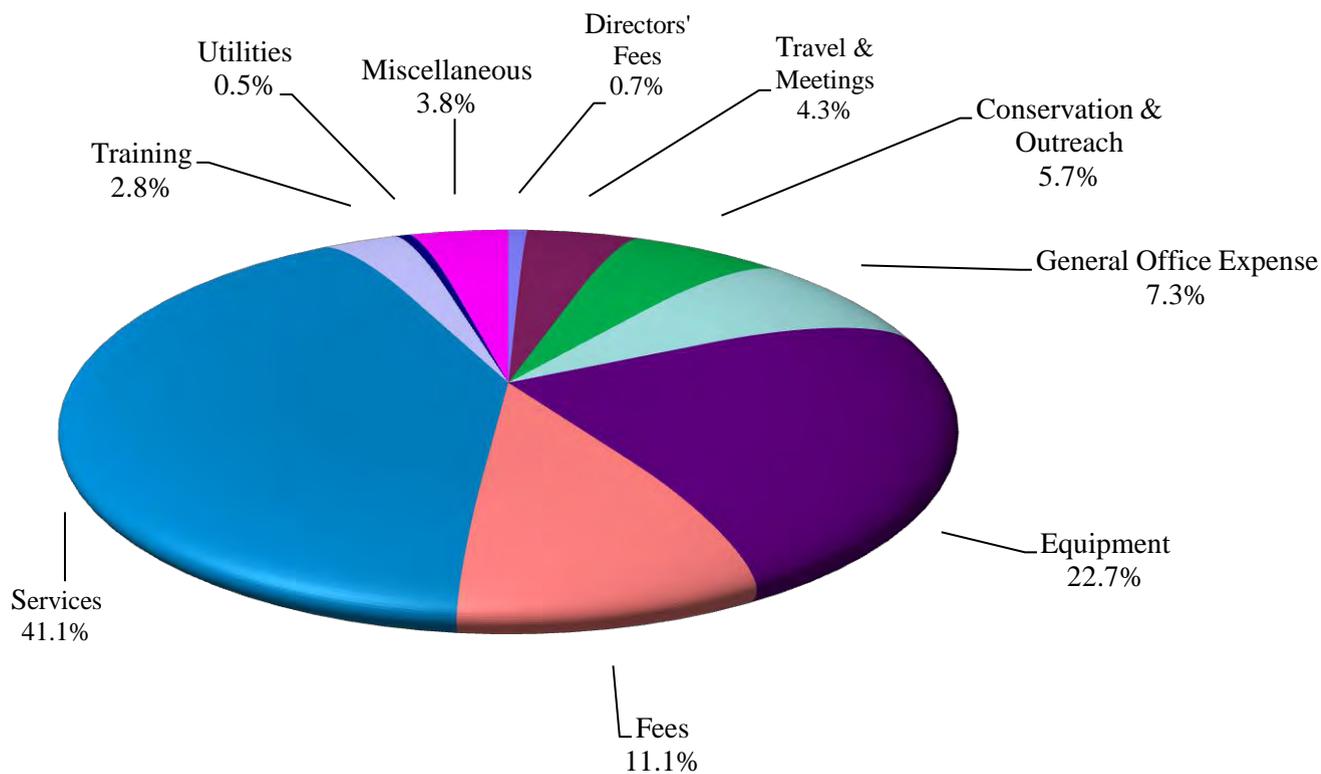
Historical Power Costs



Administrative Expenses - Potable

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Directors' Fees	\$ 13,700	\$ 30,000	\$ 13,600	\$ 30,000	\$ -	0.0%
Travel and Meetings	159,708	196,200	127,457	172,400	(23,800)	(12.1%)
Conservation and Outreach	257,007	300,800	214,556	231,500	(69,300)	(23.0%)
General Office Expense	306,470	330,100	275,518	296,600	(33,500)	(10.1%)
Equipment	1,086,052	955,500	914,749	918,500	(37,000)	(3.9%)
Fees	445,418	400,000	449,611	450,700	50,700	12.7%
Services	1,420,423	1,389,100	1,364,543	1,662,000	272,900	19.6%
Training	125,385	140,200	79,439	113,700	(26,500)	(18.9%)
Utilities	18,264	19,000	20,330	20,500	1,500	7.9%
Miscellaneous	130,663	140,000	126,263	155,000	15,000	10.7%
Total	3,963,090	3,900,900	3,586,066	4,050,900	150,000	3.8%
Less: Overhead Allocation	(913,251)	(997,300)	(882,455)	(969,400)	27,900	(2.8%)
Subtotal	3,049,839	2,903,600	2,703,611	3,081,500	177,900	6.1%
General Expenses	843,522	872,000	912,355	909,000	37,000	4.2%
Total Administrative Expenses	\$ 3,893,361	\$ 3,775,600	\$ 3,615,966	\$ 3,990,500	\$ 214,900	5.7%

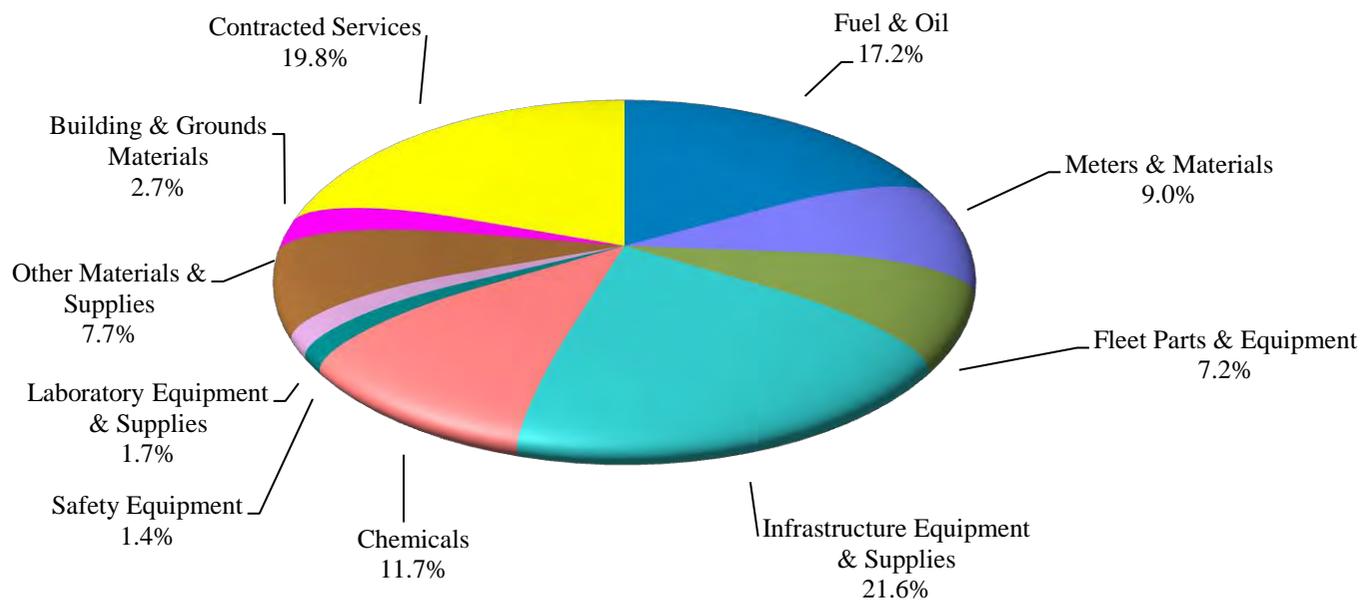
FY 2013 Administrative Expenses - Potable



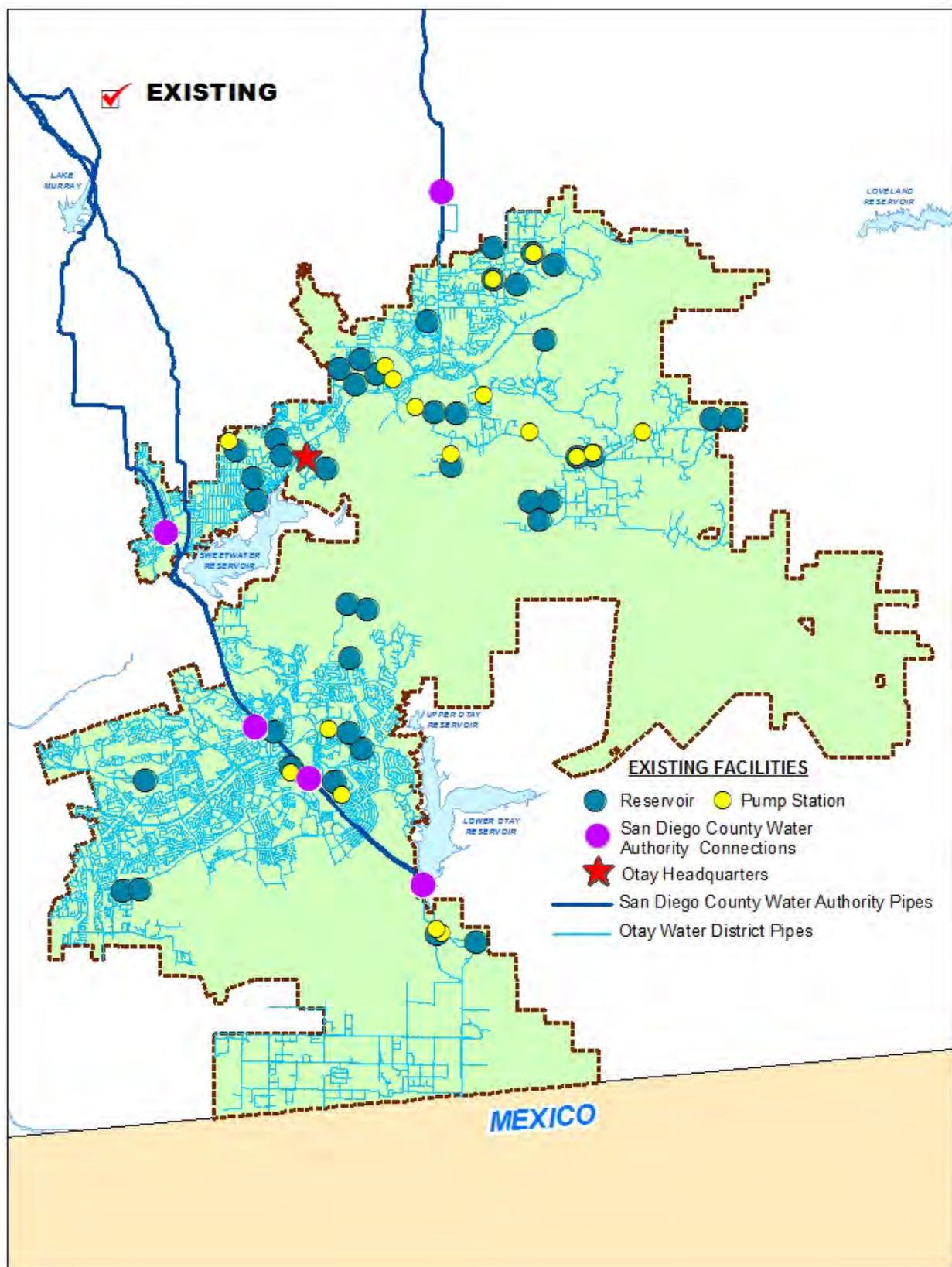
Materials and Maintenance Expenses - Potable

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Fuel and Oil	\$ 205,559	\$ 339,900	\$ 229,086	\$ 354,500	\$ 14,600	4.3%
Meters and Materials	161,546	208,200	168,923	183,000	(25,200)	(12.1%)
Fleet Parts and Equipment	138,073	165,400	124,122	148,000	(17,400)	(10.5%)
Infrastructure Equipment and Supplies	405,264	441,300	368,050	444,000	2,700	0.6%
Chemicals	224,609	241,000	212,902	241,000	-	0.0%
Safety Equipment	41,269	27,500	27,006	29,400	1,900	6.9%
Laboratory Equipment and Supplies	34,520	35,000	33,517	35,000	-	0.0%
Other Materials and Supplies	150,111	158,200	147,991	158,200	-	0.0%
Building and Grounds Materials	74,032	80,500	68,628	55,500	(25,000)	(31.1%)
Contracted Services	328,877	447,500	358,128	406,800	(40,700)	(9.1%)
Materials and Maintenance	1,763,860	2,144,500	1,738,353	2,055,400	(89,100)	(4.2%)
Total Materials and Maintenance	\$ 1,763,860	\$ 2,144,500	\$ 1,738,353	\$ 2,055,400	\$ (89,100)	(4.2%)

FY 2013 Materials and Maintenance Expenses - Potable



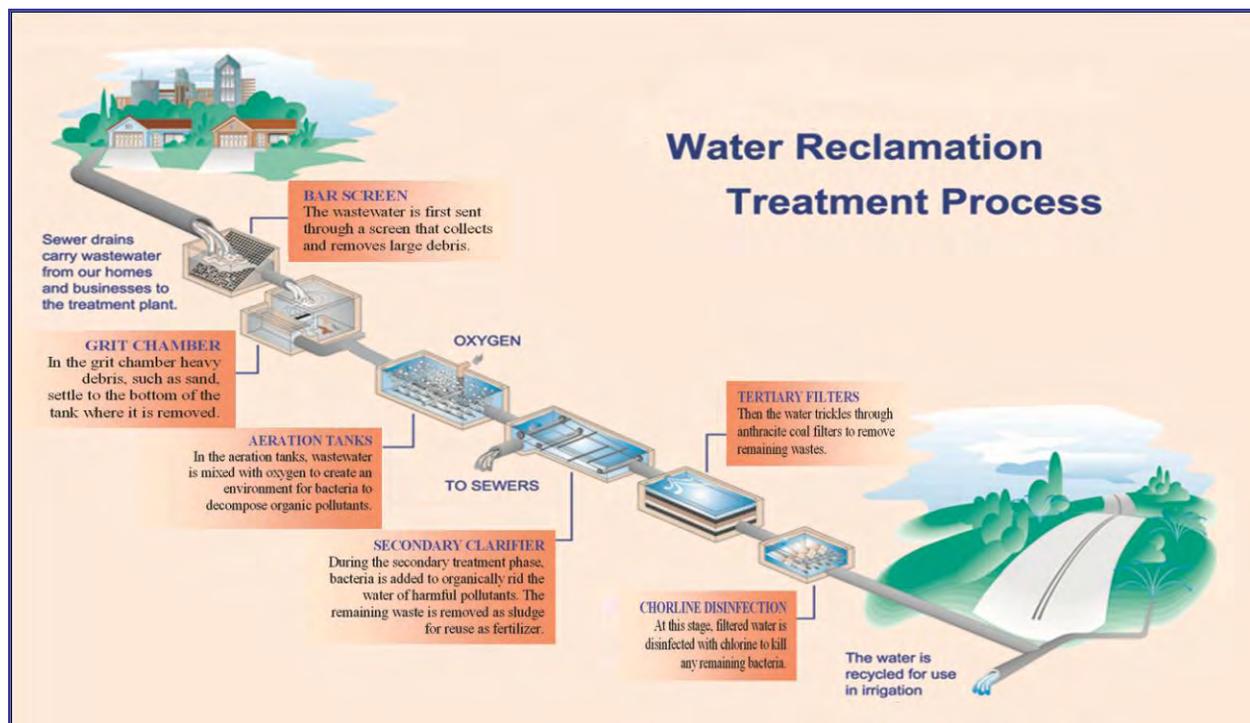
Potable Water Service Area



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 water supplies for irrigation purposes only. 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 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

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 3,910 acre-feet of recycled water to 702 landscaping and construction customers by the end of Fiscal Year 2013. 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 eliminated the 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, reducing 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 12 percent of its total water demand will be met using recycled water.

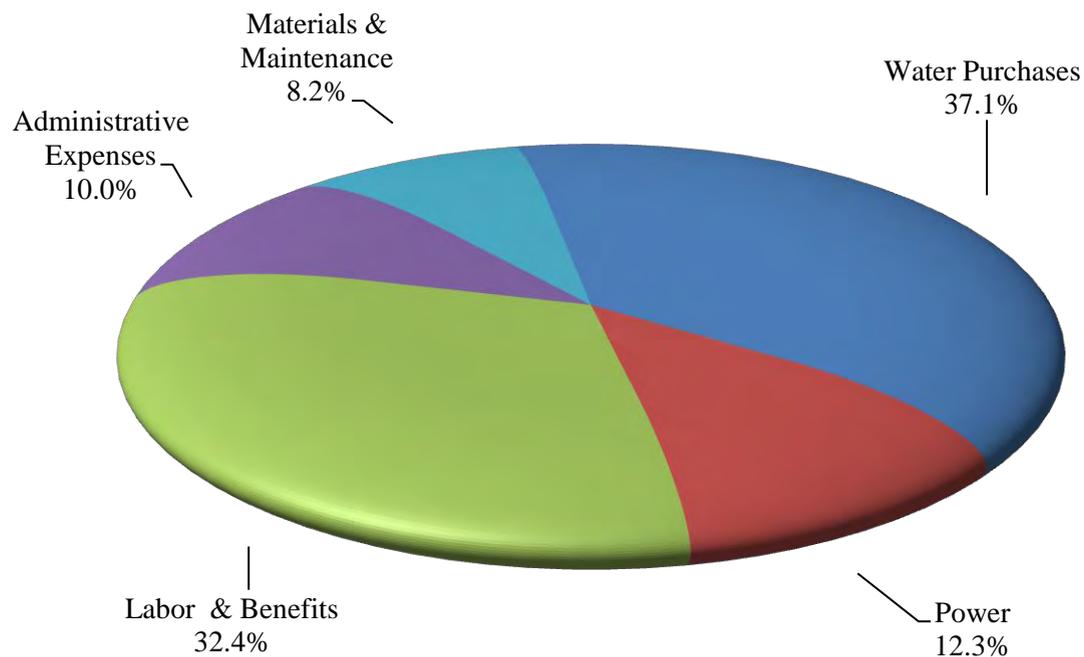
To increase demand of recycled water and reduce the demands of potable water, the District has begun a capital project to offer incentives to suitable customers to convert potable to recycled water. See page 183 of the Capital Budget to view project R2094. With this program the District hopes to convert 300 acre feet of potable water to recycled, helping the region further 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

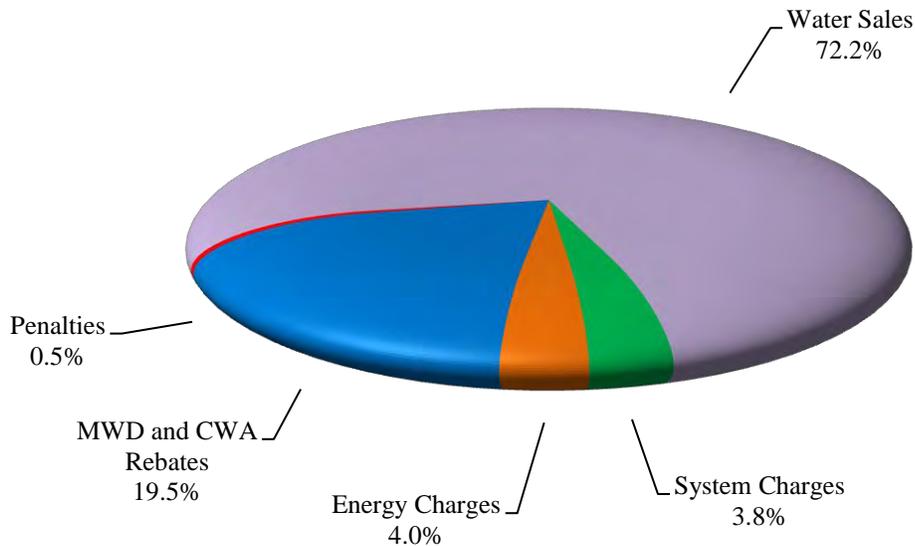
	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	Variance %
REVENUES						
Recycled Water Sales	\$ 4,645,719	\$ 5,207,300	\$ 4,999,441	\$ 5,561,600	354,300	6.8%
System Fees	266,547	239,000	268,937	292,200	53,200	22.3%
Energy Fees	274,608	302,700	303,867	305,300	2,600	0.9%
MWD/CWA Rebates	1,482,019	1,563,100	1,413,335	1,505,600	(57,500)	(3.7%)
Penalties	93,146	83,400	33,323	37,700	(45,700)	(54.8%)
Total Recycled Water Sales	6,762,039	7,395,500	7,018,903	7,702,400	306,900	4.1%
Meter Fees	6,217	2,300	11,339	3,600	1,300	56.5%
Capacity Fee Revenues	1,150	-	3,791	-	-	0.0%
Interest	5,162	12,400	2,306	6,800	(5,600)	(45.2%)
General Fund Draw Down	-	522,800	522,800	275,800	(247,000)	(47.2%)
TOTAL REVENUES	6,774,568	7,933,000	7,559,139	7,988,600	55,600	0.7%
EXPENDITURES						
Water Purchases (CSD) / Meter Fees	1,321,897	1,106,700	1,605,774	1,038,700	(68,000)	(6.1%)
Take-or-pay	-	346,100	-	465,300	119,200	34.4%
Total Water Purchases	1,321,897	1,452,800	1,605,774	1,504,000	51,200	3.5%
Power	462,031	510,800	440,069	498,500	(12,300)	(2.4%)
Labor and Benefits	1,121,159	1,263,800	1,132,573	1,312,700	48,900	3.9%
Administrative Expenses	327,224	351,000	284,936	405,500	54,500	15.5%
Materials & Maintenance	334,371	399,600	299,386	331,900	(67,700)	(16.9%)
Transfers						
Transfer to General Fund Reserve	390,500	-	-	-	-	-
Expansion Reserve	2,775,000	555,000	555,000	3,936,000	3,381,000	-
Betterment Reserve	315,000	-	-	-	-	-
Replacement Reserve	720,000	3,330,000	3,330,000	-	(3,330,000)	-
New Supply Reserve	-	70,000	70,000	-	(70,000)	-
Subtotal- Transfers	4,200,500	3,955,000	3,955,000	3,936,000	(19,000)	(0.5%)
TOTAL EXPENDITURES	7,767,182	7,933,000	7,717,738	7,988,600	55,600	0.7%
EXCESS REVENUES (EXPENSES)	\$ (992,614)	\$ -	\$ (158,599)	\$ -	\$ -	0.0%

FY 2013 Recycled Operating Expenditures



Classification of Water Sales - Recycled

	FY 2012 Estimated	FY 2013 Budget	Variance
Water Sales	\$ 4,999,441	\$ 5,561,600	\$ 562,159
System Fees	268,937	292,200	23,263
Energy Fees	303,867	305,300	1,433
MWD and CWA Rebates	1,413,335	1,505,600	92,265
Penalties	33,323	37,700	4,377
Total Recycled Water Sales	\$ 7,018,903	\$ 7,702,400	\$ 683,497



Water Rates: Rates vary among classes of service and are charged per unit of water. A unit of water is equal to 100 cubic feet of water. 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 \$.042 per 100 cubic feet of water for each 100 feet of lift above the 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.

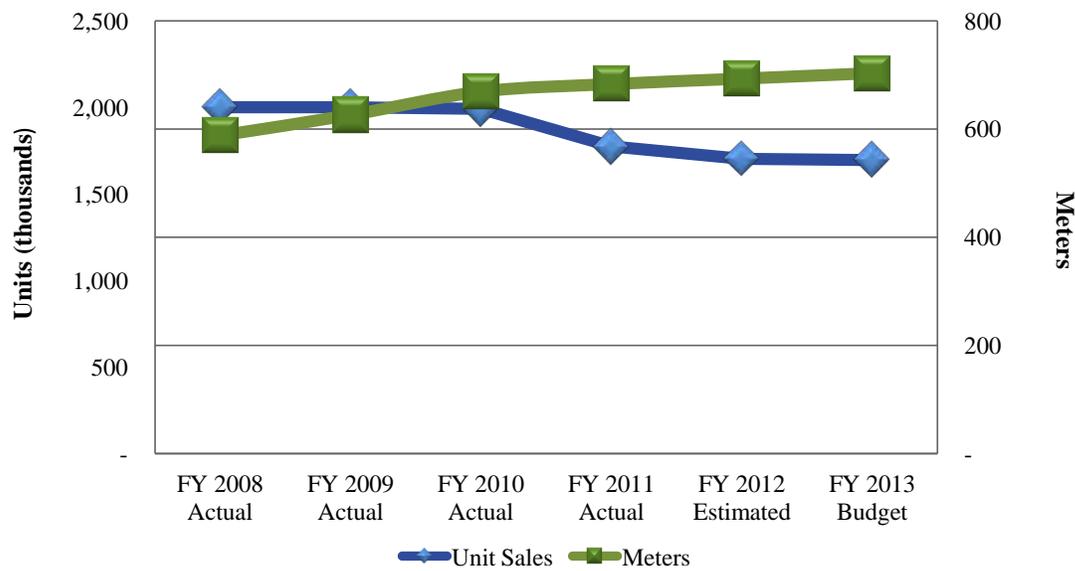
Penalties: Charges and penalties are imposed on customer accounts for late payments and returned checks.

Water Sales Summary by Service Class - Recycled

	Water Rates		Fiscal Year 2013 Sales Budget		
	Current	Approved*	Accounts	Units	Amount
Recycled .75" and 1.0" Meter					
Tier I	\$ 3.02	\$ 3.31			
Tier II	3.06	3.35			
Tier III	3.12	3.42			
Total Recycled .75" and 1.0" Meter			109	51,400	\$ 162,000
Recycled 1.5" and 2.0" Meter					
Tier I	3.02	3.31			
Tier II	3.06	3.35			
Tier III	3.12	3.42			
Total Recycled 1.5" and 2.0" Meter			580	1,236,900	3,894,600
Recycled 3.0" and 4.0" Meter					
Tier I	3.02	3.31			
Tier II	3.06	3.35			
Tier III	3.12	3.42			
Total Recycled 3.0" and 4.0" Meter			11	95,800	303,300
Recycled more than 6.0" Meter					
Tier I	3.02	3.31			
Tier II	3.06	3.35			
Tier III	3.12	3.42			
Total Recycled more than 6.0" Meter			2	319,500	1,002,400
Total			702	1,703,600	\$ 5,362,300
Government Fee	0.29	0.29	-	-	199,300
Total Water Sales			702	1,703,600	\$ 5,561,600

*Approved rates for water billed in January 2013.

Unit Sales and Meter Count Trends



System Fees - Recycled

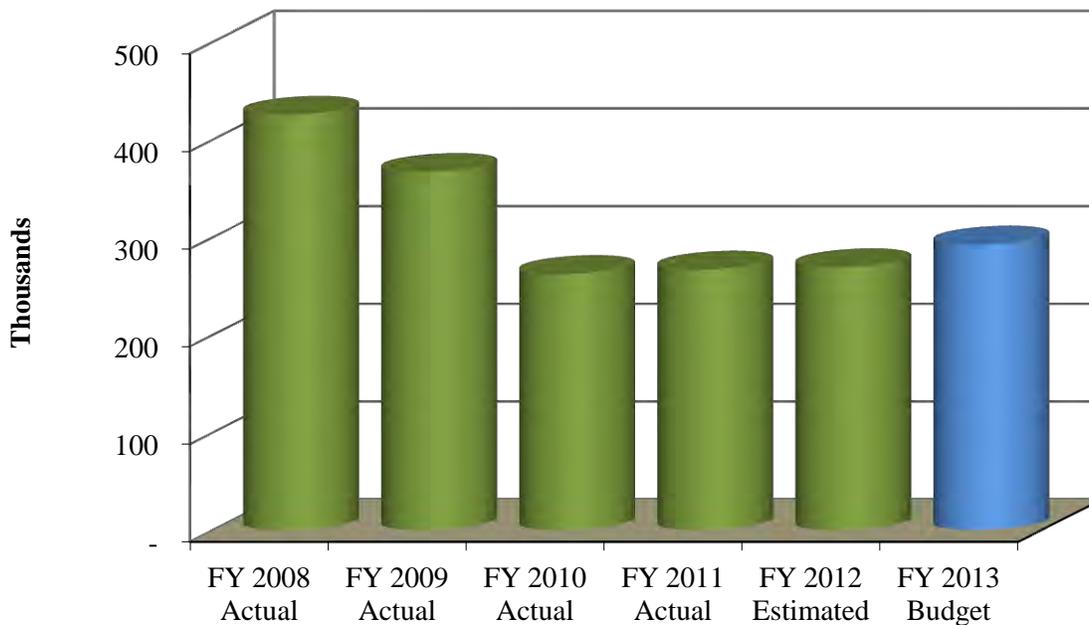
Meter Size	Meter Count		Current Rates	Approved* Rates	Budgeted System Fees		
	Estimated 6/30/2012	FY13 Growth			Estimated 6/30/2012	FY13 Growth	FY 2013 Budget
0.75	1	-	\$ 14.58	\$ 16.74	\$ 200	\$ -	\$ 200
1.00	100	8	18.52	21.26	23,900	1,900	25,800
1.50	384	2	28.37	32.57	140,400	700	141,100
2.00	194	-	40.18	46.13	100,500	-	100,500
3.00	4	-	71.68	82.29	3,700	-	3,700
4.00	7	-	107.13	122.99	9,700	-	9,700
6.00	2	-	205.59	236.02	5,300	-	5,300
8.00	-	-	323.73	371.64	-	-	-
10.00	1	-	461.57	529.88	5,900	-	5,900
Total	693	10			\$ 289,600	\$ 2,600	\$ 292,200

Budgeted Recycled System Fees

\$ 292,200

*Approved rates for water billed in January 2013.

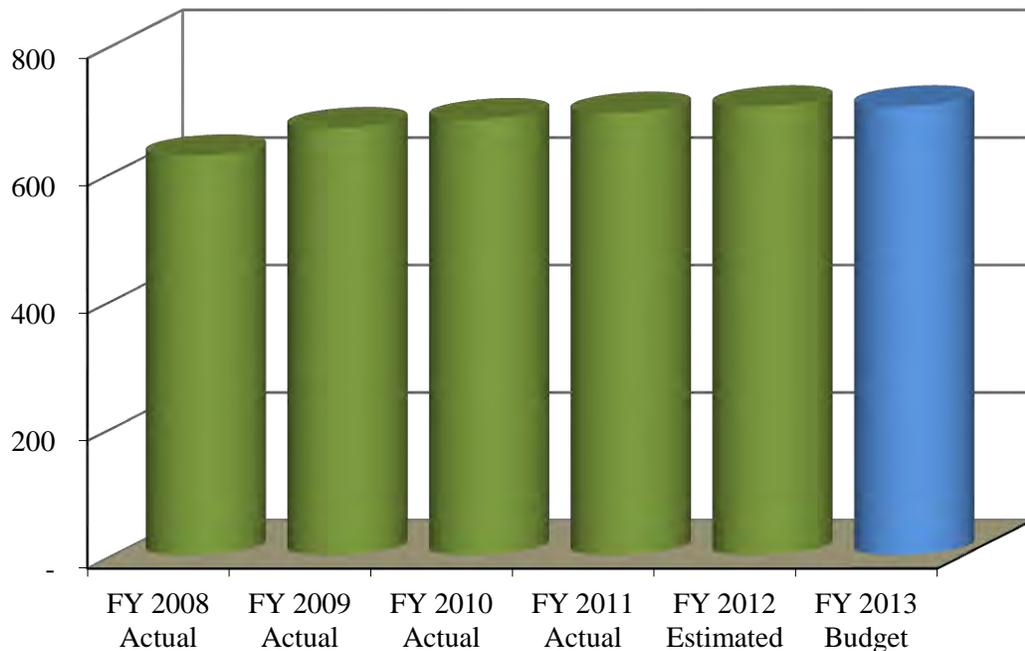
Historical System Fees



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	8	60.00	117.00	147.00	324.00	\$ 2,600
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	-
Total	10					\$ 3,600

Historical Meter Count



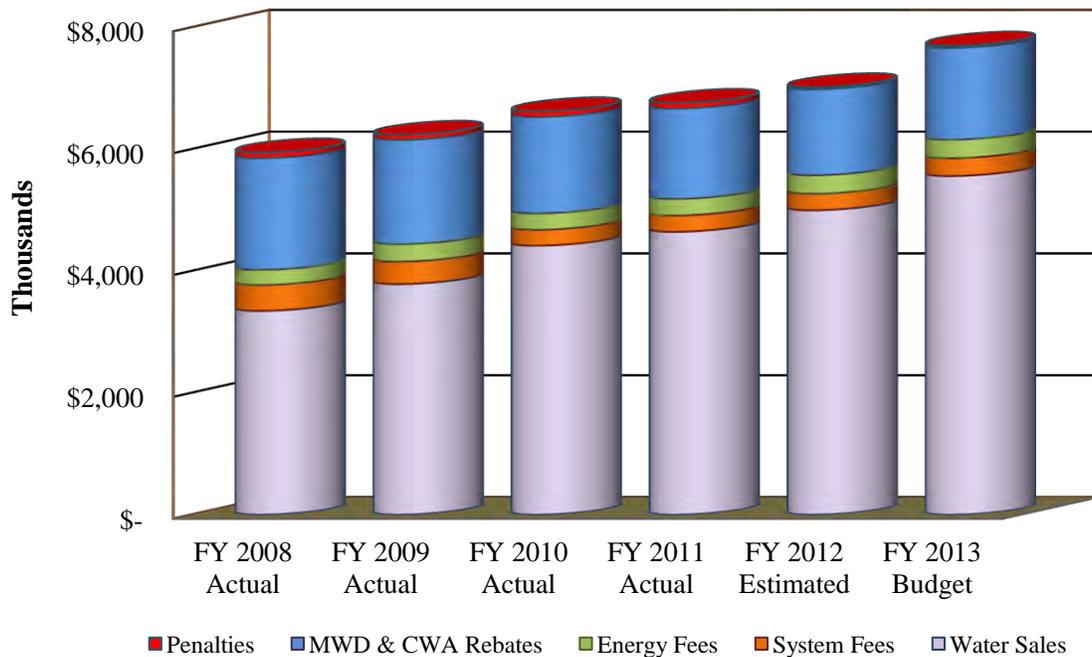
Meter Fees:

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

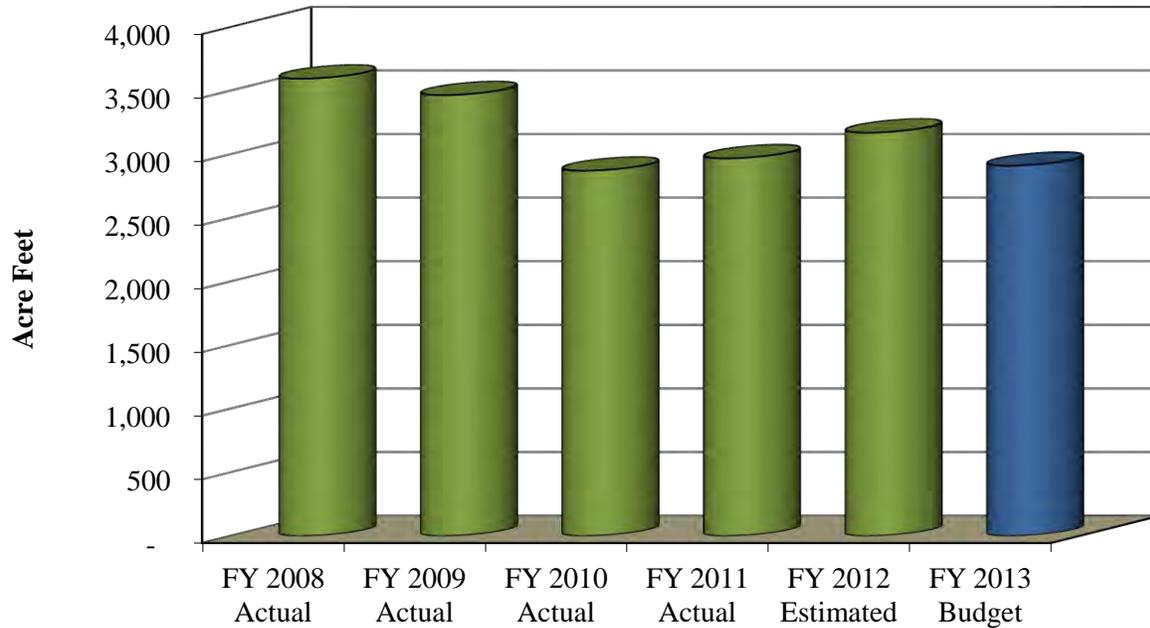
	Actual				Estimated	Budgeted
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Water Sales	\$ 3,347,964	\$ 3,787,845	\$ 4,417,995	\$ 4,645,719	\$ 4,999,441	\$ 5,561,600
System Fees	425,061	366,529	261,946	266,547	268,937	292,200
Energy Fees	248,429	288,247	266,599	274,608	303,867	305,300
MWD and CWA Rebates	1,833,949	1,711,787	1,583,801	1,482,019	1,413,335	1,505,600
Penalties	92,855	83,950	92,545	93,146	33,323	37,700
Total Recycled Revenue	\$ 5,948,258	\$ 6,238,358	\$ 6,622,886	\$ 6,762,039	\$ 7,018,903	\$ 7,702,400

Revenue History - Recycled



Water Purchases - Recycled

Historical Recycled Water Purchases



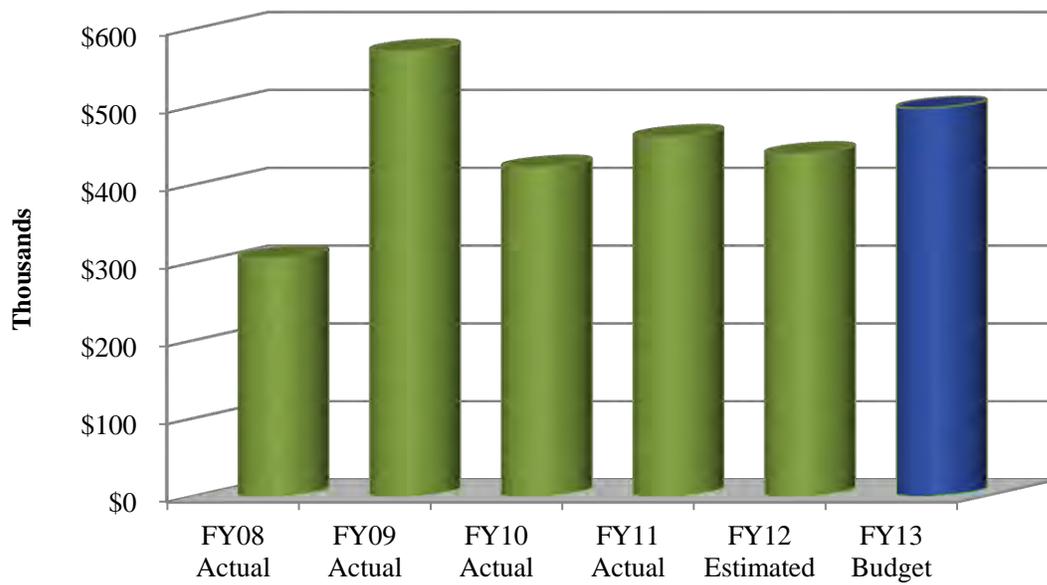
	<u>FY13 Budget</u>		<u>FY13 Budget</u>	
	<u>Acre Feet</u>	<u>Rate</u>	<u>Purchase Costs</u>	<u>% of Total</u>
SBWRP Recycled Water Purchases (CSD)				
Recycled Water Purchases	2,911.0	\$ 350.00	\$ 1,018,900	67.8%
Meter Fee	-	1,646.50	19,800	1.3%
Take-or-pay contract ⁽¹⁾	-		465,300	30.9%
Total	<u>2,911.0</u>		<u>\$ 1,504,000</u>	<u>100.00%</u>

⁽¹⁾ This is the anticipated take-or-pay amount to be paid the City of SD. The contract requires the purchase of 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

	Treatment and Recycled Transmission
FY08 Actual	\$ 306,480
FY09 Actual	572,331
FY10 Actual	422,780
FY11 Actual	462,031
FY12 Estimated	440,069
FY13 Budget	498,500

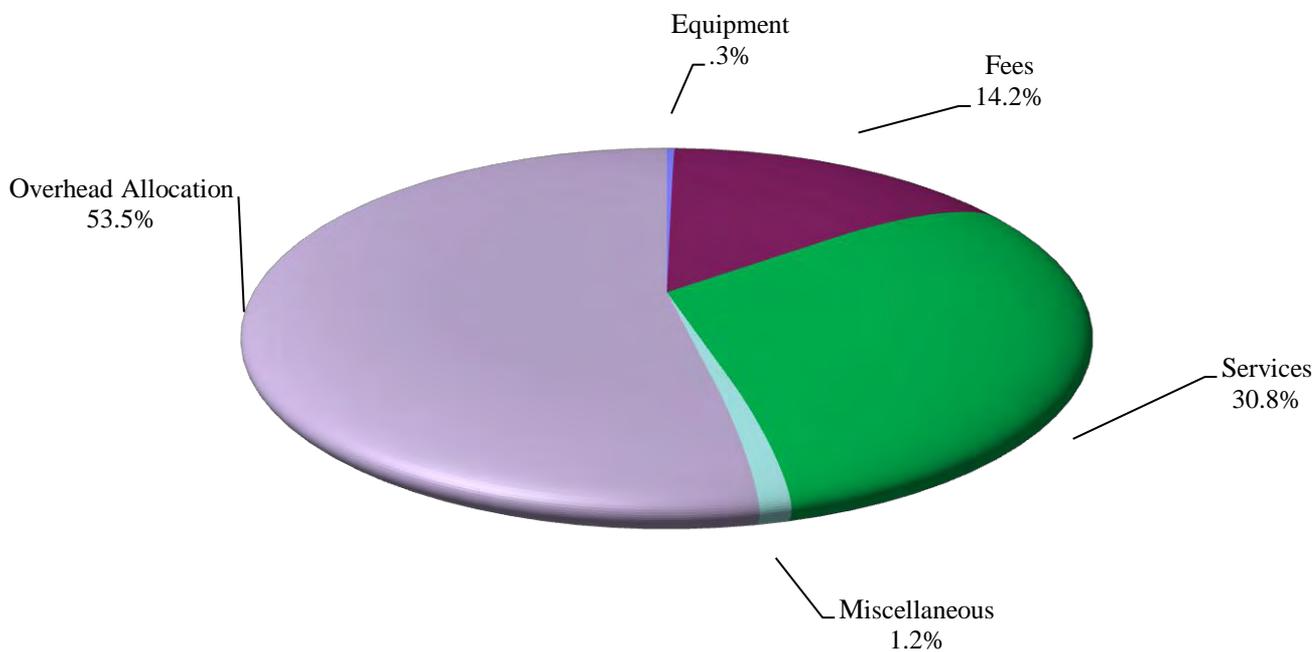
Historical Power Costs



Administrative Expenses - Recycled

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Travel and Meetings		-	\$ 365	-	-	0.0%
Equipment	\$ 2,057	\$ 4,500	3,015	\$ 1,300	\$ (3,200)	(71.1%)
Fees	50,663	57,000	46,557	57,600	600	1.1%
Services	77,165	66,800	40,059	124,700	57,900	86.7%
Miscellaneous	2,399	5,000	-	5,000	-	0.0%
Total	132,284	133,300	89,996	188,600	55,300	41.5%
Overhead Allocation	194,940	217,700	194,940	216,900	(800)	(0.4%)
Total Administrative Expenses	\$ 327,224	\$ 351,000	\$ 284,936	\$ 405,500	\$ 54,500	15.5%

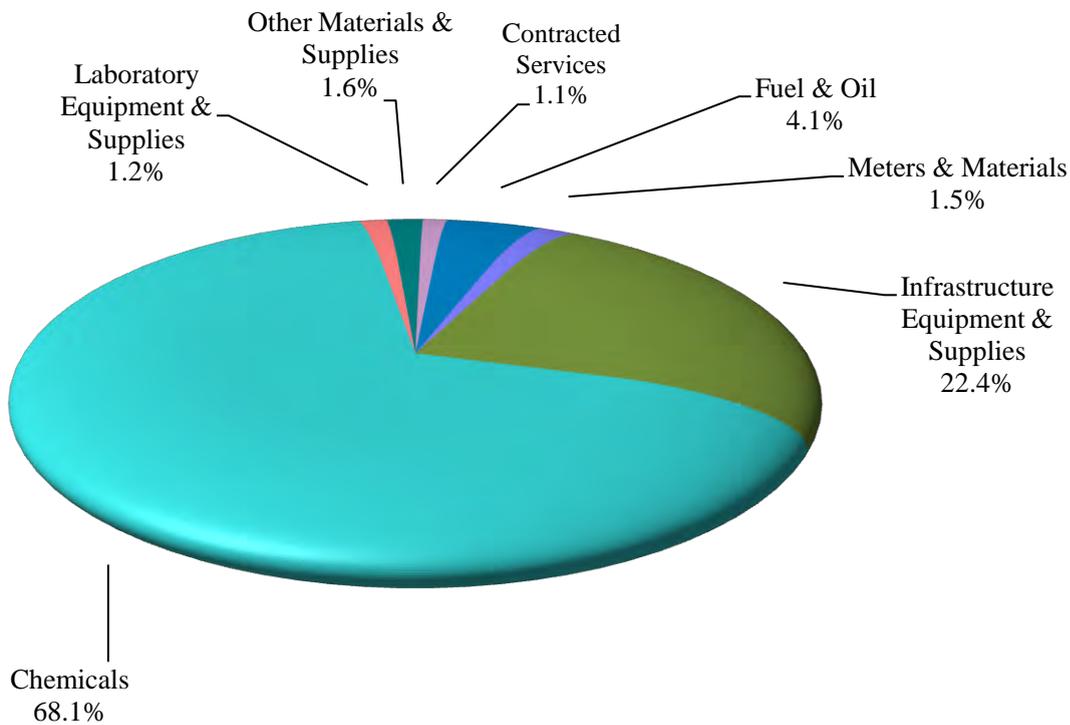
FY 2013 Administrative Expenses - Recycled



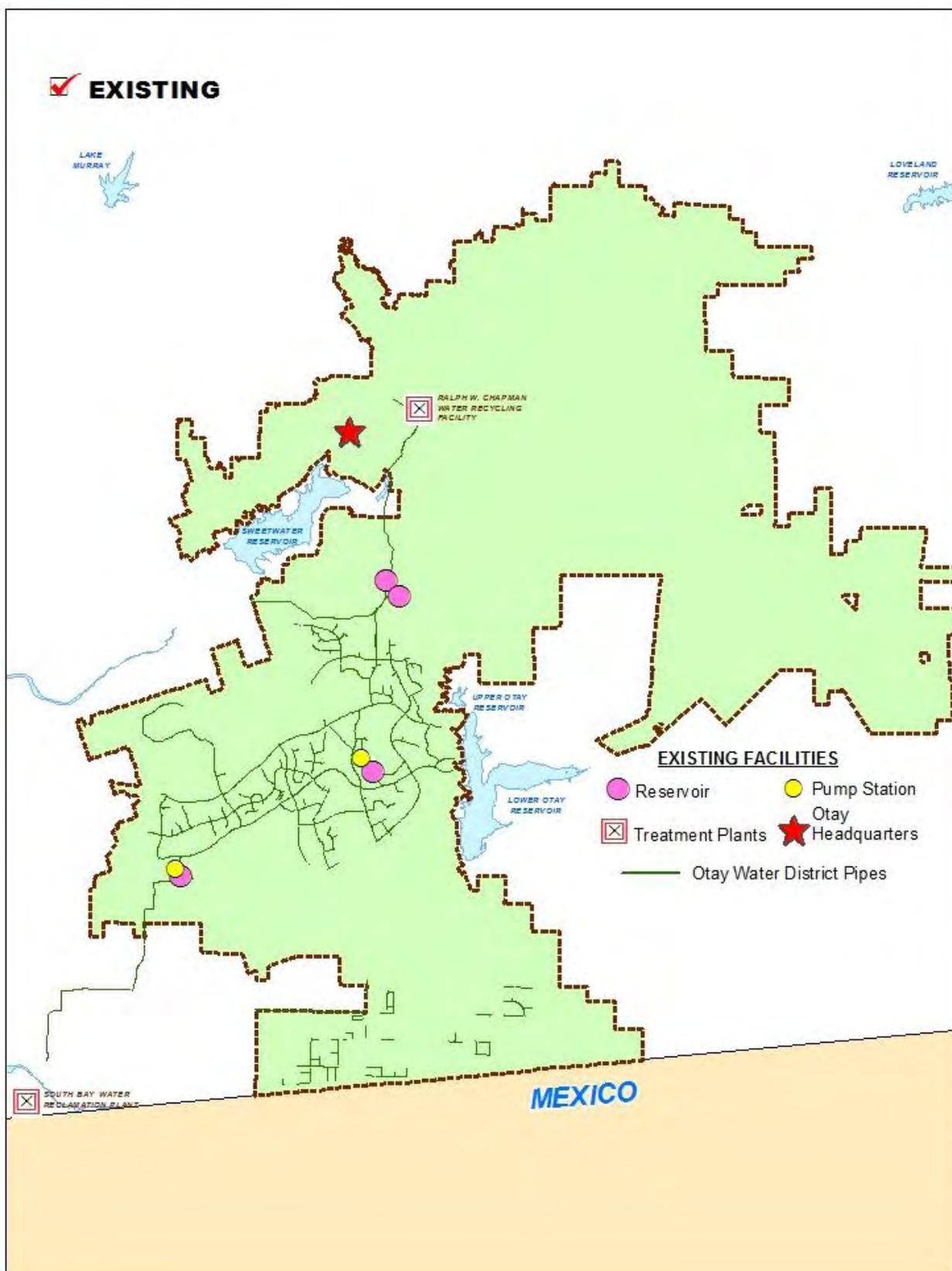
Materials and Maintenance Expenses - Recycled

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Fuel and Oil	\$ 12,949	\$ 13,300	\$ 13,931	\$ 13,600	\$ 300	2.3%
Meters and Materials	5,137	4,900	5,626	5,000	100	2.0%
Infrastructure Equipment and Supplies	82,803	104,500	99,605	74,500	(30,000)	(28.7%)
Chemicals	214,007	256,000	163,179	226,000	(30,000)	(11.7%)
Safety Equipment	6,344	2,100	2,513	-	(2,100)	(100.0%)
Laboratory Equipment and Supplies	3,863	4,000	4,398	4,000	-	0.0%
Other Materials and Supplies	4,666	6,300	3,303	5,300	(1,000)	(15.9%)
Contracted Services	4,602	8,500	6,831	3,500	(5,000)	(58.8%)
Total Materials and Maintenance	\$ 334,371	\$ 399,600	\$ 299,386	\$ 331,900	\$ (67,700)	(16.9%)

FY 2013 Materials and Maintenance Expenses - Recycled



Recycled Water Service Area



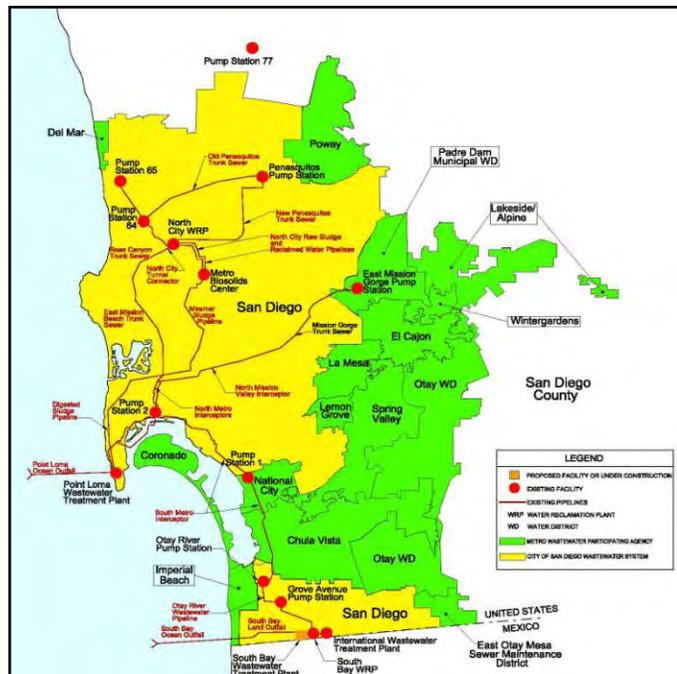
Sewer Revenues and Expenses

The District provides sewer service to approximately 15,200 customers through 4,652 accounts (or approximately 6,674 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 0.2% is anticipated in Fiscal Year 2013.

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 sewer service charges from Metro budgeted at \$1,009,700 for Fiscal Year 2013. 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 2013.

The charge for sewer service is mandated by the State Revenue Program Guidelines which require 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 tend to be higher than a single-family residential user. Due to their higher discharge and strength, non-residential customers (comprising 1.5% of the customer base) are assigned 12.3% of the total service units. The formula for the sewer rates is shown on page 88.

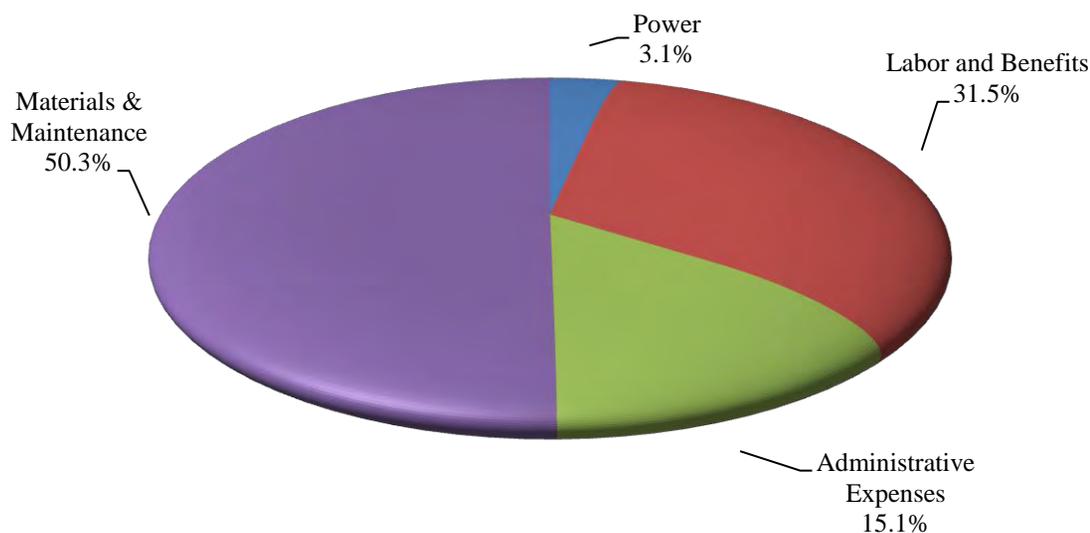


Metropolitan Wastewater System

Operating Budget Summary - Sewer

	FY 2011	FY 2012		FY 2013	Budget Variance	Variance %
	Actual	Budget	Estimated	Budget		
REVENUES						
Sewer Charges	\$ 2,386,600	\$ 2,336,000	\$ 2,395,365	\$ 2,555,200	\$ 219,200	9.4%
Capacity Fee Revenues	91,731	202,800	176,209	165,000	(37,800)	(18.6%)
Non-operating Revenues	33,072	30,600	32,121	30,600	-	0.0%
Tax Revenues	52,270	51,500	50,585	51,500	-	0.0%
Interest	12,164	7,100	11,968	6,100	(1,000)	(14.1%)
<u>Transfers</u>						
Transfer from Betterment	-	30,000	30,000	-	(30,000)	
Replacement Reserve	-	120,000	120,000	-	(120,000)	
General Fund Draw Down	994,600	-	-	671,100	671,100	
Transfer from General Fund	-	595,000	595,000	595,000	-	
Subtotal -Transfers	994,600	745,000	745,000	1,266,100	521,100	69.9%
TOTAL REVENUES	3,570,437	3,373,000	3,411,248	4,074,500	701,500	20.8%
EXPENDITURES						
Power	81,347	81,800	70,431	83,800	2,000	2.4%
Labor and Benefits	737,082	909,400	792,794	853,200	(56,200)	(6.2%)
Administrative Expenses	498,773	434,100	398,458	408,900	(25,200)	(5.8%)
Materials & Maintenance	1,703,561	1,755,900	1,725,358	1,360,600	(395,300)	(22.5%)
<u>Transfers</u>						
Betterment Reserve	-	-	-	625,000	625,000	
Replacement Reserve	-	-	-	743,000	743,000	
Transfer to Sewer General Fund	(595,000)	191,800	191,800	-	(191,800)	
Subtotal -Transfers	(595,000)	191,800	191,800	1,368,000	1,176,200	86.0%
TOTAL EXPENDITURES	2,425,763	3,373,000	3,178,841	4,074,500	701,500	20.8%
EXCESS REVENUES	\$ 1,144,674	\$ -	\$ 232,407	\$ -	\$ -	0.0%

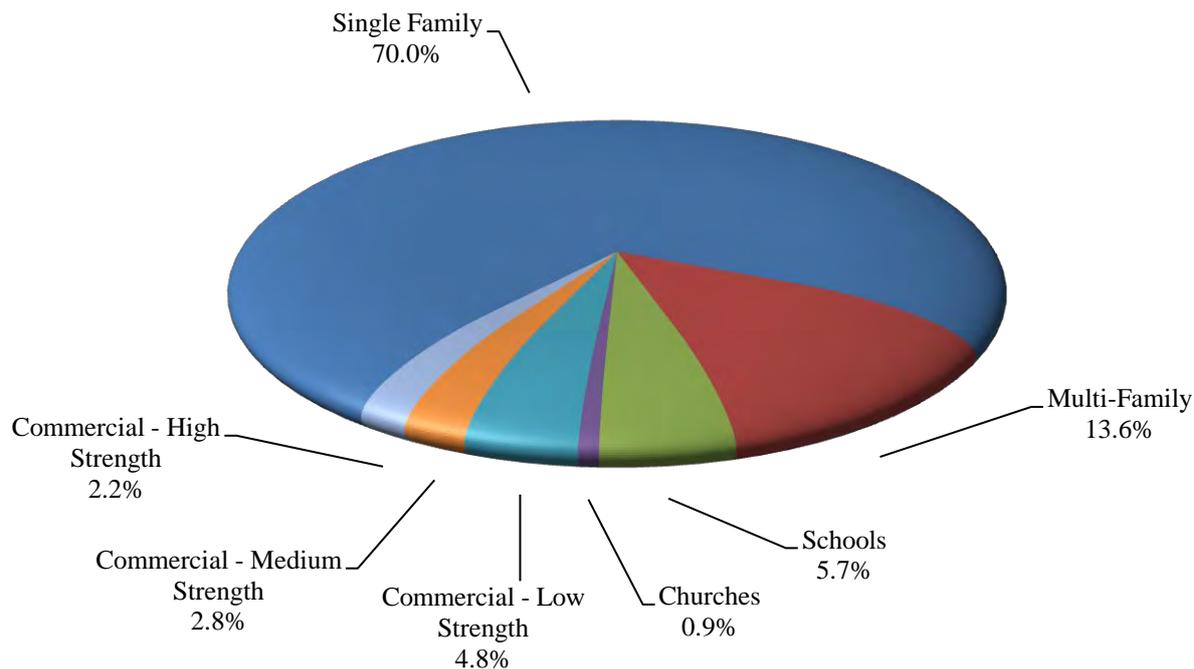
FY 2013 Sewer Operating Expenditures



Sewer Charges Summary by Service Class

	Accounts	Units/ ASU ⁽¹⁾	Base Fee for 3/4" Meter ⁽²⁾		Usage Fee / Sewer Rate		FY 2013 Budget
			Current	Approved ⁽³⁾	Current	Approved ⁽³⁾	
Single Family	4,526	4,526	\$ 12.26	\$ 13.30	\$ 1.77	\$ 1.92	\$ 1,768,000
Multi-Family	50	1,360	12.26	13.30	1.77	1.92	345,900
Schools	6	275			41.75	45.30	143,600
Churches	4	42			41.75	45.30	21,900
Commercial							
Low Strength	40	232			41.75	45.30	121,200
Medium Strength	19	134			41.75	45.30	70,000
High Strength	7	107			41.75	45.30	55,900
Penalties							28,700
TOTAL SEWER CHARGES	4,652	6,674					\$ 2,555,200

Sewer Charges by Service Class FY2013



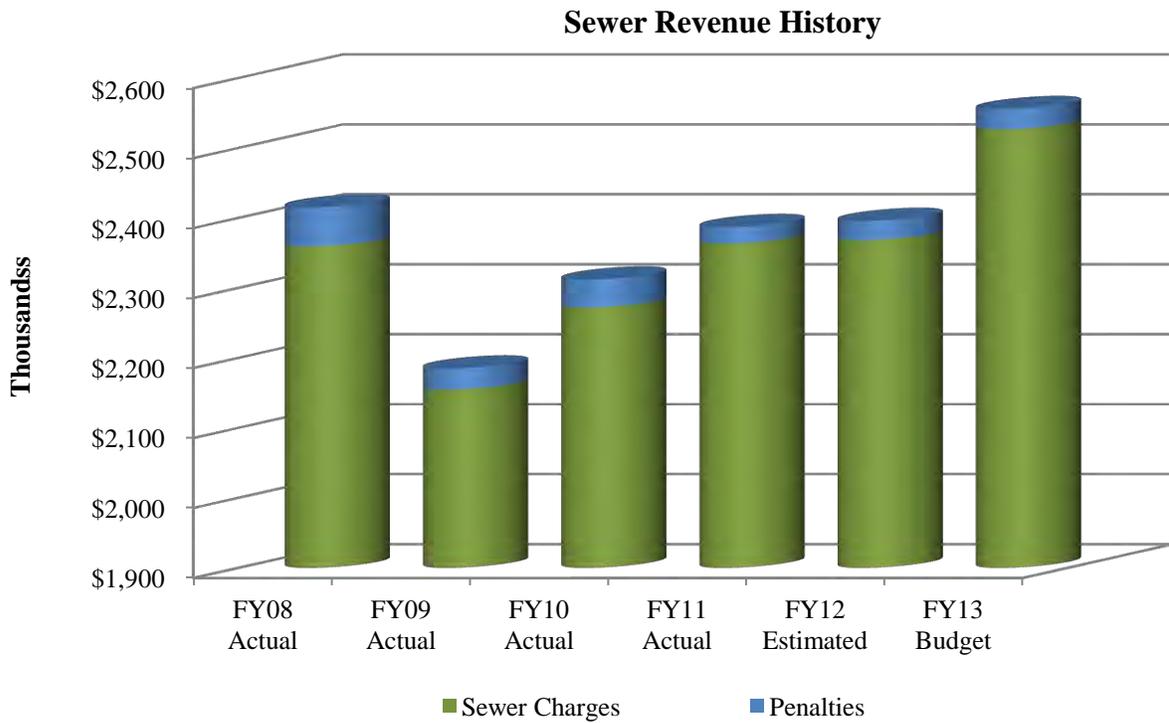
⁽¹⁾ Assigned Service Units

⁽²⁾ Current and Approved base fees for 1" meter are \$17.88 and \$19.40, respectively.

⁽³⁾ Approved rates for sewer service beginning in January 2013.

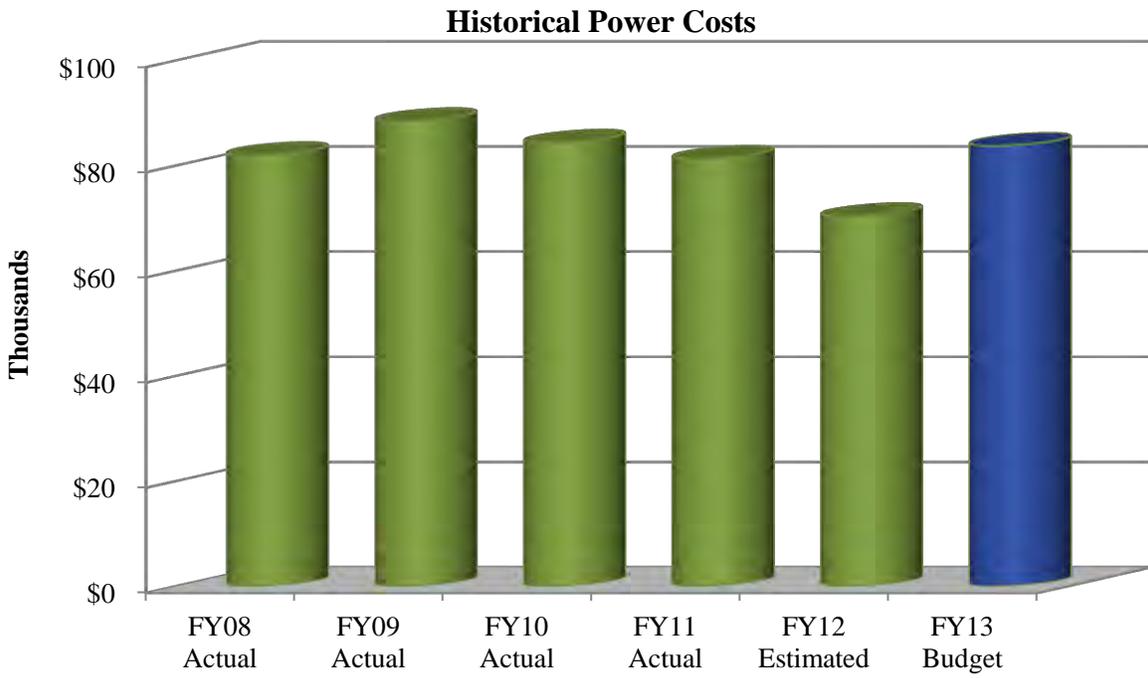
Revenue History - Sewer

	FY 2008	FY 2009	Actual FY 2010	FY 2011	FY 2012	Budget FY 2013
Sewer Charges	\$ 2,359,173	\$ 2,154,628	\$ 2,271,879	\$ 2,363,313	\$ 2,368,192	\$ 2,526,500
Penalties	55,713	29,896	39,707	23,287	27,173	28,700
Total	<u>\$ 2,414,886</u>	<u>\$ 2,184,524</u>	<u>\$ 2,311,586</u>	<u>\$ 2,386,600</u>	<u>\$ 2,395,365</u>	<u>\$ 2,555,200</u>



Power Costs - Sewer

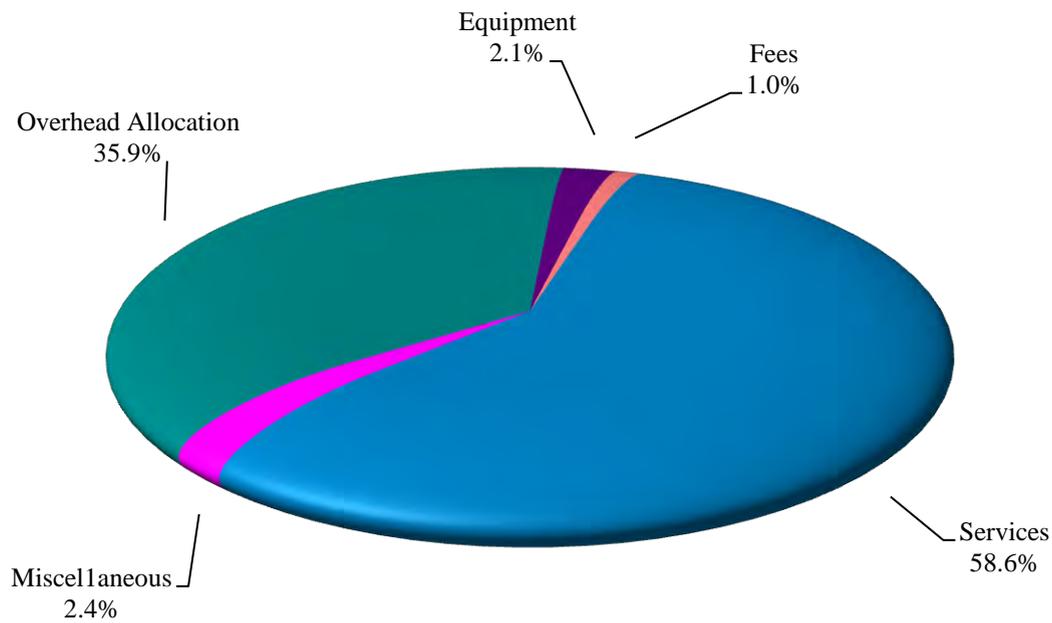
	Sewer Lift Stations
FY08 Actual	\$ 82,023
FY09 Actual	88,512
FY10 Actual	84,408
FY11 Actual	81,347
FY12 Estimated	70,431
FY13 Budget	83,800



Administrative Expenses - Sewer

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Equipment	\$ -	\$ 1,000	\$ 364	\$ 8,700	\$ 7,700	770.0%
Fees	306	4,000	1,940	4,000	-	0.0%
Services	358,387	265,500	254,397	239,500	(26,000)	(9.8%)
Miscellaneous	9,205	5,000	10,882	10,000	5,000	100.0%
Total	367,898	275,500	267,583	262,200	(13,300)	(4.8%)
Overhead Allocation	130,875	158,600	130,875	146,700	(11,900)	(7.5%)
Total Administrative Expenses	\$ 498,773	\$ 434,100	\$ 398,458	\$ 408,900	\$ (25,200)	(5.8%)

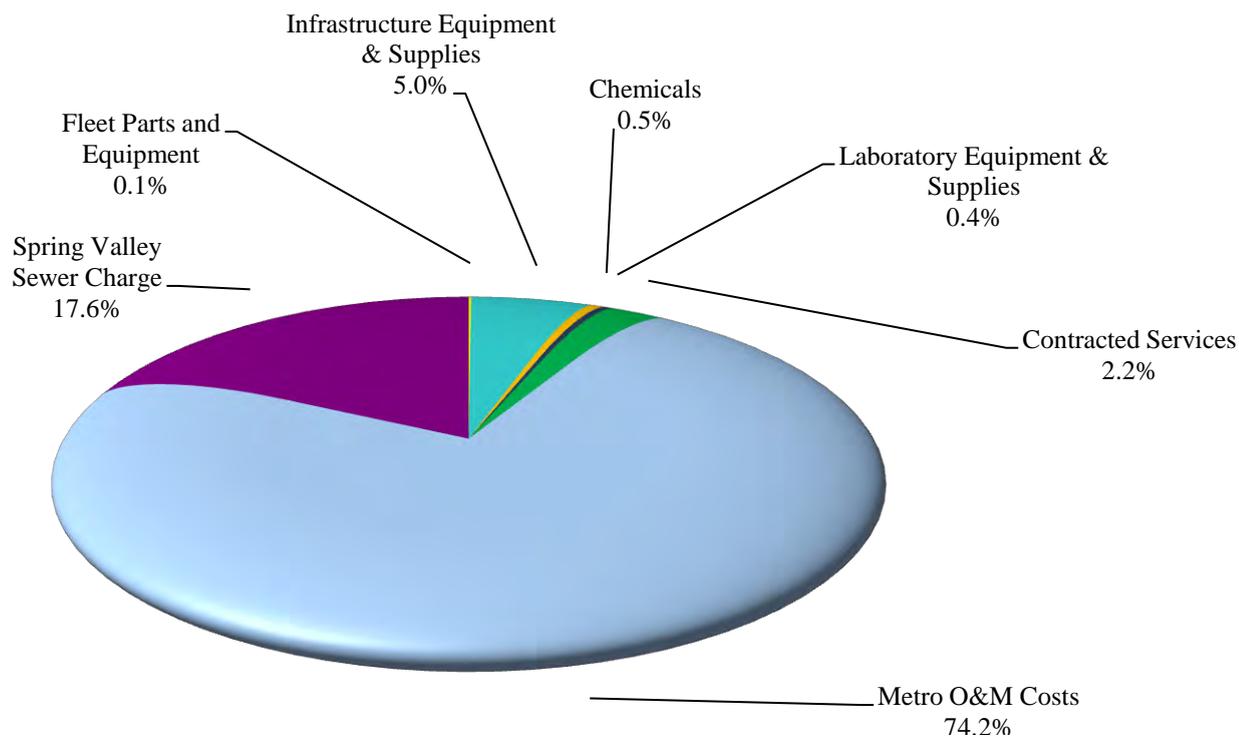
FY 2013 Administrative Expenses - Sewer



Materials and Maintenance Expenses - Sewer

	FY 2011	FY 2012		FY 2013	Budget	
	Actual	Budget	Estimated	Budget	Variance	%
Fleet Parts and Equipment	\$ 2,180	\$ 3,000	\$ 1,074	\$ 1,500	\$ (1,500)	(50.0%)
Infrastructure Equipment and Supplies	67,343	53,800	44,117	68,000	14,200	26.4%
Chemicals	3,974	7,000	5,677	7,000	-	0.0%
Safety Equipment	5,990	3,300	2,736	-	(3,300)	(100.0%)
Laboratory Equipment and Supplies	6,017	5,000	4,697	5,000	-	0.0%
Other Materials and Supplies	902	200	65	200	-	0.0%
Contracted Services	13,996	47,000	41,047	30,000	(17,000)	(36.2%)
Materials and Maintenance	100,402	119,300	99,413	111,700	(7,600)	(6.4%)
Sewer Charges						
Metro O&M Costs	1,329,921	1,397,400	1,397,400	1,009,700	(387,700)	(27.7%)
Spring Valley Sewer Charge	273,238	239,200	228,545	239,200	-	0.0%
Total Sewer Charges	1,603,159	1,636,600	1,625,945	1,248,900	(387,700)	(23.7%)
Total Materials and Maintenance	\$ 1,703,561	\$ 1,755,900	\$ 1,725,358	\$ 1,360,600	\$ (395,300)	(22.5%)

FY 2013 Materials and Maintenance Expenses - Sewer



Formula for Sewer Rates

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

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 \$1.77 and \$1.92, respectively. A base fee is also applied. Current and approved base fees are \$12.26 and \$13.30 for ¾ inch water meter, and \$17.88 and \$19.40 for 1 inch or greater. Approved fees are effective for all services billed after January 1, 2013.

To meet State of California requirements, customers must pay their fair share of sewer costs. The Otay Water District is required to determine sewer rates in accordance with the State’s Revenue Program Guidelines. The State Water Resources Control Board (SWRCB) has grouped commercial customers into various categories and has identified strength factors for each of these business categories. The standard of measure for strength factors is the typical sewer strength of a single family residence (SFR). The typical SFR has 280 milligrams per liter of Biological Oxygen Demand and 234 milligrams per liter of suspended solids. The strength factors established by the SWRCB are listed below and are used by the District in the calculation of commercial sewer rates. These factors are in terms of the strength relative to a SFR, SFR having a strength factor of 1.000.

<u>Strength Factors</u>	
1.000	Schools
1.000	Churches
1.000	Low-Strength Commercial
1.238	Medium-Strength Commercial
2.203	High-Strength Commercial

Monthly bills are calculated based on Assigned Service Units (ASUs). The formula to calculate ASUs is as follows:

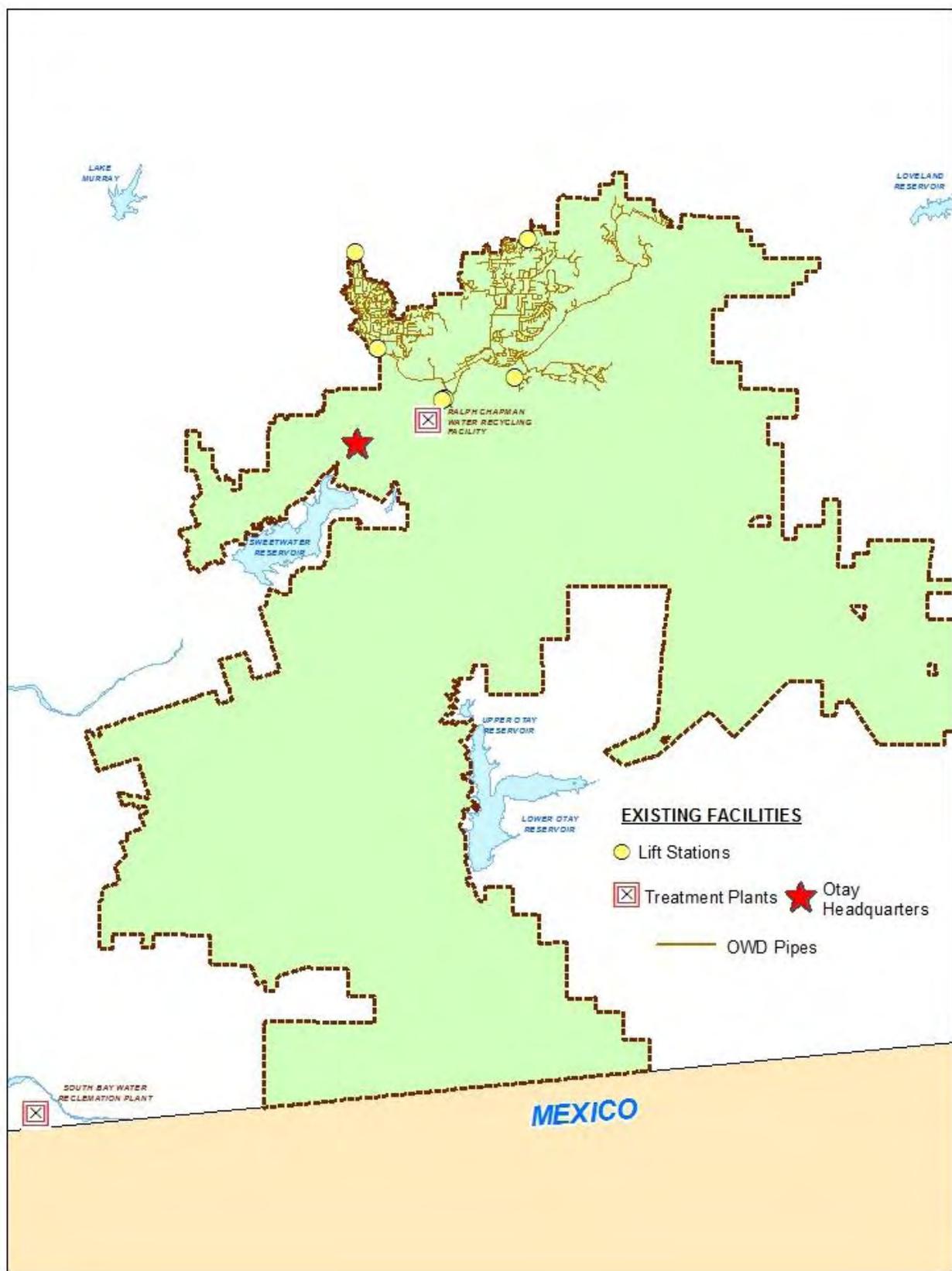
$$\text{Number of ASUs} = (((\text{Flow in gallons per day} \times 0.85) / 250) \times \text{Strength Factor})$$

The typical SFR’s estimated daily flow is 250 gallons per day (gpd). This flow level, for the typical SFR, is the baseline or standard of measure by which flows are measured. Flows for commercial entities vary and are calculated using the reads from the business’ water meters. This flow is converted to gpd then divided by 250 to put the flow in terms of a residential equivalence. The reduced flow factor 15% is used to reflect that not all water used flows into the sewer system. The number of ASU’s is multiplied by the following district-wide sewer rate to determine the monthly sewer bill. The minimum charge for commercial shall be no lower than 1 ASU at low-strength.

This charge is increasing by \$3.55 per ASU from \$41.75 to \$45.30. The approved rate is effective for all services billed beginning January 1, 2013.

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

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

Betterment fees are earned by the General Fund for facilities maintenance performed by the Water Operations Department.

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 2010, 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 miscellaneous revenues. Lease revenues make up a large portion of general revenues and are mainly from the lease of cell-sites on District property. 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

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.

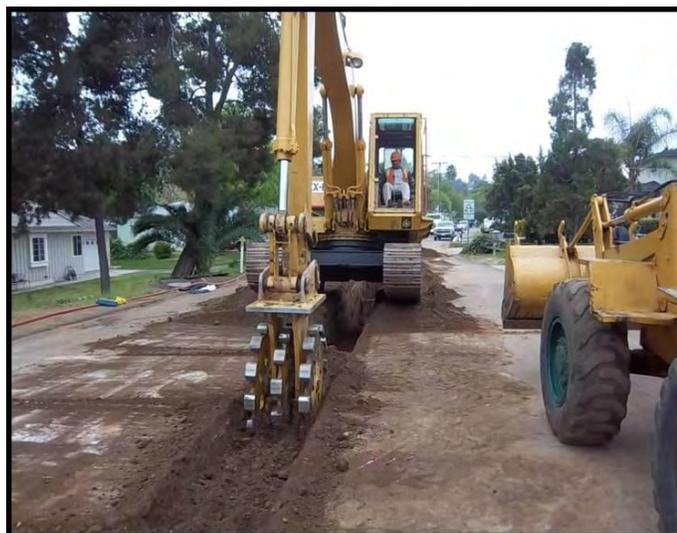
General Expenses

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 5.4% 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.



Calavo Gardens Sewer Rehabilitation

General Revenues

	FY 2011	FY 2012		FY 2013	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>Fee Revenues</u>						
Capacity Fee Revenues	\$ 1,063,234	\$ 1,044,000	\$ 1,160,066	1,180,600	\$ 136,600	13.1%
Betterment Fees for Maintenance	560,229	628,600	690,885	689,400	60,800	9.7%
Subtotal Fee Revenues	1,623,463	1,672,600	1,850,951	1,870,000	197,400	11.8%
<u>Tax Revenues</u>						
1% General Tax	2,923,709	3,141,700	2,890,156	3,185,600	43,900	1.4%
Availability Fees	653,012	697,900	696,863	697,000	(900)	(0.1%)
Subtotal Tax Revenues	3,576,721	3,839,600	3,587,019	3,882,600	43,000	1.1%
General Revenues	\$ 5,200,184	\$ 5,512,200	\$ 5,437,970	\$ 5,752,600	\$ 240,400	4.4%

Non-Operating Revenues

	FY 2011	FY 2012		FY 2013	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Property Rental	\$ 1,185,573	\$ 1,298,400	\$ 1,222,060	\$ 1,265,300	(33,100)	(2.5%)
Sewer Billing Fees	361,680	362,500	366,431	366,400	3,900	1.1%
Set-up Fee for Lease Site	5,581	8,000	3,000	1,500	(6,500)	(81.3%)
Grants	70,265	20,000	34,593	-	(20,000)	(100.0%)
Revenue from Shared Facility	31,863	30,600	32,121	30,600	-	0.0%
Miscellaneous	443,236	302,100	405,267	250,500	(51,600)	(17.1%)
Non-Operating Revenues	\$ 2,098,198	\$ 2,021,600	\$ 2,063,472	\$ 1,914,300	\$ (107,300)	(5.3%)

General and Non-Operating Revenues by Business

	FY 2013 Budget			
	Potable	Recycled	Sewer	Total
<u>Fee Revenues</u>				
Capacity Fee Revenues	\$ 1,015,600	\$ -	\$ 165,000	\$ 1,180,600
Betterment Fees for Maintenance	689,400	-	-	689,400
Total Fee Revenues	1,705,000	-	165,000	1,870,000
<u>Tax Revenues</u>				
1% General Tax	3,185,600	-	-	3,185,600
Availability Fees	645,500	-	51,500	697,000
Total Tax Revenues	3,831,100	-	51,500	3,882,600
<u>Non-Operating Revenues</u>				
Property Rental	1,265,300	-	-	1,265,300
Sewer Billing Fees	366,400	-	-	366,400
Set-up Fee for Lease Site	1,500	-	-	1,500
Revenue from Shared Facility	-	-	30,600	30,600
Miscellaneous	250,500	-	-	250,500
Total Non-Operating Revenues	1,883,700	-	30,600	1,914,300
Total General and Non-Operating Revenues	\$ 7,419,800	\$ -	\$ 247,100	\$ 7,666,900

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

General Expenses

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	Variance %
<u>Administrative Expenses</u>						
Legal Fees	\$ 350,946	\$ 380,000	364,519	\$ 380,000	\$ -	0.0%
General Insurance	492,576	492,000	547,836	529,000	37,000	7.5%
Total Administrative Expenses	843,522	872,000	912,355	909,000	37,000	4.2%
<u>Benefits</u>						
Benefits ⁽¹⁾	344,512	(79,600)	699,740	1,267,300	1,346,900	0.0%
Total General Expenses	\$ 1,188,034	\$ 792,400	\$ 1,612,095	\$ 2,176,300	\$ 1,383,900	174.6%

(1) Benefits for General Expenses include District-wide labor and benefit expenses not attributable to any one department, such as the effect of cost of living raises on accrued leave liabilities or the Other Post Employment Benefit (OPEB) Costs. These expenses are netted against the District's anticipated Vacancy Factor. The Vacancy Factor for FY 2012 and FY 2013 was \$278,800 and \$271,300 respectively.

During FY12 the Otay Water District adopted an enhanced retiree medical plan which increased the District's OPEB costs by \$792,000 for FY13. The increased costs of this OPEB plan change enhancement is offset by approximately \$950,000 in savings for pension costs after the District's employees agreed to increase their amount paid for pensions from 1% to 8% of pensionable wages. Unrelated to the enhancement, the FY13 costs also includes a shift in funding of \$350,000 of OPEB costs from reserves to the District's operating budget.

Departmental Operating Budget

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 2013 Budget includes funding for labor and benefits for 148 Full-time Equivalent (FTE) employees and a 3.5% across-the-board salary increase on July 1, 2012.

The staffing level for Fiscal Year 2013 had a decrease of eight FTE employees from Fiscal Year 2012. The District has chosen to eliminate eight vacant positions in areas that have experienced a reduction of work due to slowing of growth. Since 2007, the District has reduced FTEs by 13% due to slowed growth and by focusing on efficiencies and automation. Efficiencies have been achieved by strategic planning, goal setting, and leveraging advancements in technology.

A projected 10.25% of the labor and benefits costs will be charged to projects included in the Capital Improvement

Program (CIP) and Developer Deposits. These labor and benefit costs are not considered Operating costs and therefore reduce the Operating Budget by \$2,272,500.

Administrative Expenses

Administrative Expenses represent 5.8% of the District's total operating costs. A detailed listing of the Administrative Expenses for Fiscal Year 2013 is shown on page 101. The increase of \$244,200 is due to increased regulatory fees, property insurance, and outside services needed for consultants. This increase is offset by decreased conservation incentives and telecommunications costs. 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 less discretionary than others such as insurance or regulatory fees which are mandatory. The District is more able to control expenses such as training or business meetings. 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

Materials and Maintenance

Like all cost included by the District, 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 technology and regulations change, maintenance and services will be adjusted, as needed. This year, there is a 6.2% decrease in Materials and Maintenance Expenses totaling \$164,400. This reduction is mainly due to decreases in chemicals; fleet and meter materials, contracted services, building grounds, and materials.

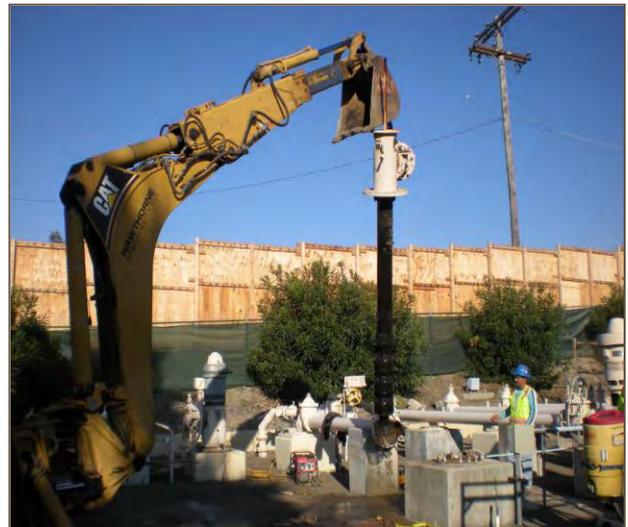
The Water Operations Department has implemented an Infrastructure Management System (IMS) which allows for better maintenance of existing assets and enhanced monitoring of all assets including new assets coming on-line. It also facilitates planning for repair and replacement as well as assessing the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

Strategic Plan Implementation

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 updates its performance measurement program each 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.

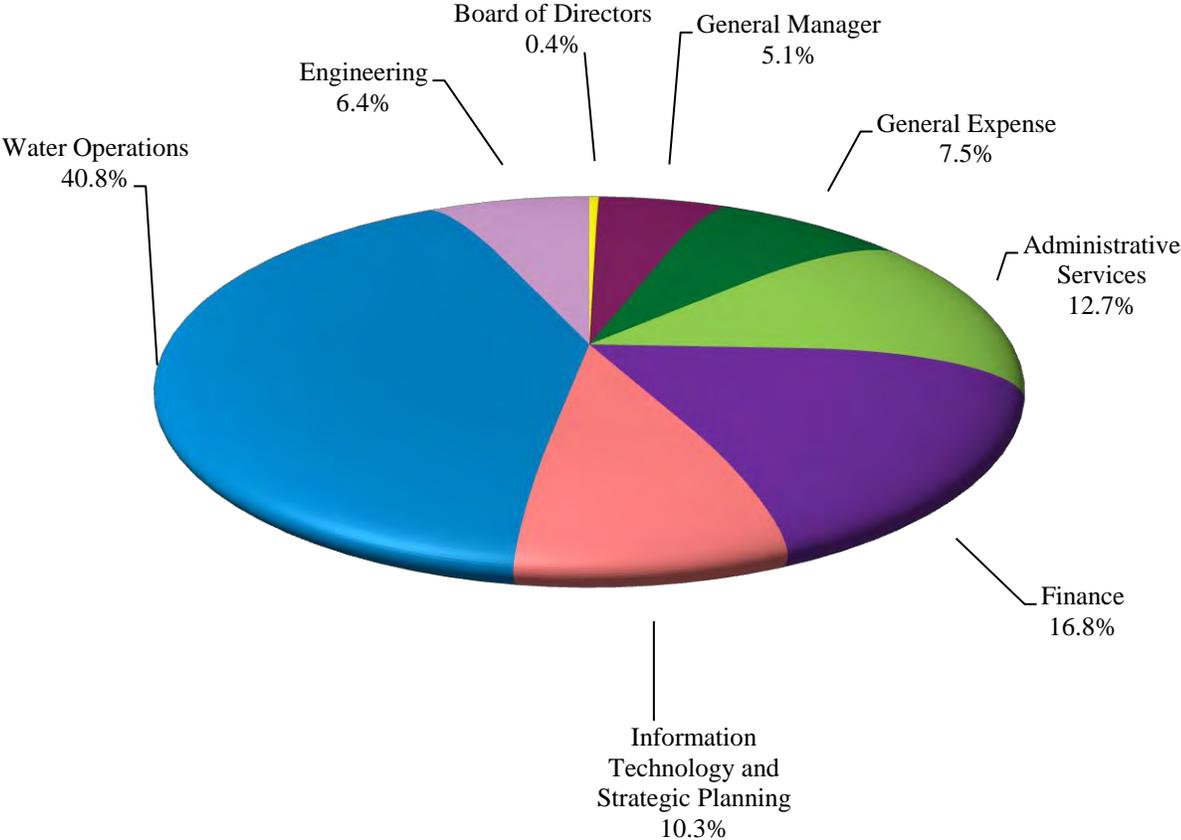
The performance measures focus on “best practice” as applied to the District. Measures are collected and reviewed quarterly by the Senior Management Team and reviewed by the Board at least twice a year. Results are used to set new targets for the following fiscal year and to hold staff accountable for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



850 Pump Station pump removal as part of the La Presa System Improvements for CIP P2370

Departmental Operating Budget FY 2013

Total Departmental Operating Budget - \$29,053,000

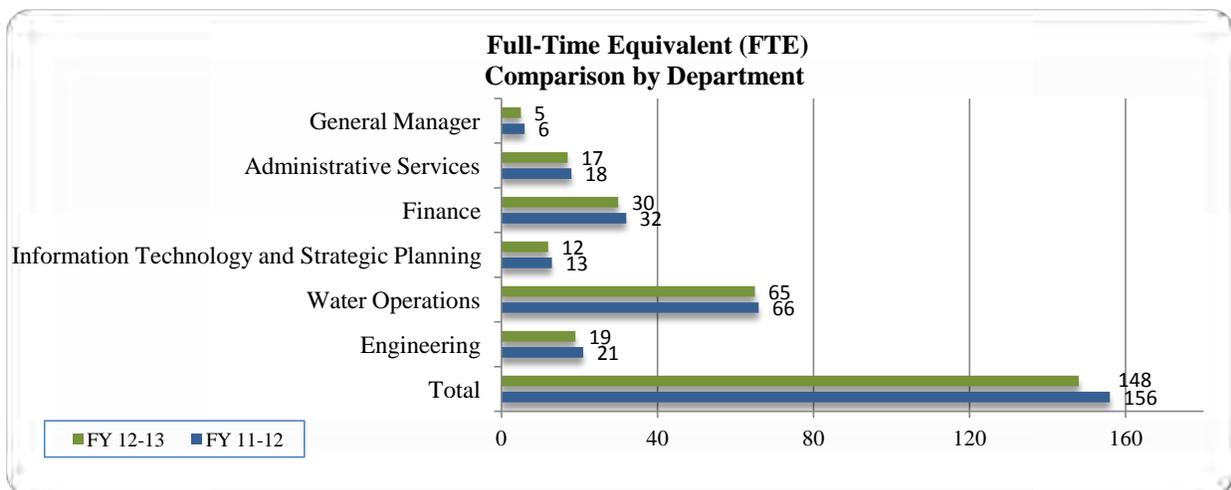


Labor and Benefits

	FY11 Actual	FY12 Budget	FY12 Estimated	FY13 Budget
Labor Costs	\$ 11,410,095	\$ 11,958,200	\$ 11,035,318	\$ 11,905,100
Benefits				
Pension (1)	3,417,185	3,883,500	3,293,694	3,083,000
Employee Assistance Program	4,391	6,000	3,784	5,000
Workers' Compensation (2)	175,824	8,700	(4,597)	245,900
Health/Dental/Life Insurance/OPEB (1)	2,155,369	2,394,900	2,743,477	3,556,400
Social Security/Medicare	939,909	967,200	905,547	975,800
Salary Continuation Insurance	76,781	79,100	68,536	65,900
State Unemployment Insurance	66,505	75,000	55,818	75,000
Vacation/Sick/Holiday/Other Leave	2,250,080	2,214,800	2,204,816	2,254,800
Total Fringe Benefits	<u>9,086,044</u>	<u>9,629,200</u>	<u>9,271,075</u>	<u>10,261,800</u>
Total Labor and Benefits	<u>20,496,139</u>	<u>21,587,400</u>	<u>20,306,393</u>	<u>22,166,900</u>
Less: Non-Operating Labor and Benefits				
Labor Costs	1,386,197	1,465,400	1,313,527	1,429,600
Fringe Benefits Allocation	815,824	938,200	798,332	842,900
Total Work Order Allocation	<u>2,202,021</u>	<u>2,403,600</u>	<u>2,111,859</u>	<u>2,272,500</u>
Operating Labor & Benefits	<u>18,294,118</u>	<u>19,183,800</u>	<u>18,194,534</u>	<u>19,894,400</u>
Total Overhead Allocation	1,594,127	1,685,200	1,510,556	1,644,000
Less: Overhead Allocation Personnel Portion	<u>1,006,691</u>	<u>1,064,200</u>	<u>953,916</u>	<u>1,038,200</u>
Admin Portion of Overhead (36.85%)	\$ 587,436	621,000	556,640	605,800
Net Operating Labor and Benefits	<u>\$ 17,287,427</u>	<u>\$ 18,119,600</u>	<u>\$ 17,240,618</u>	<u>\$ 18,856,200</u>

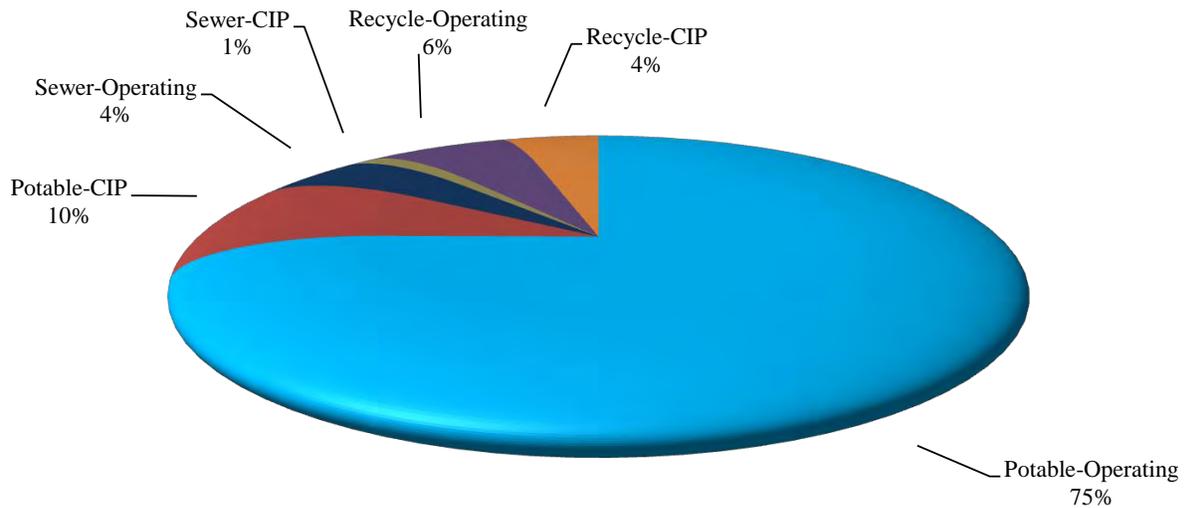
(1) During FY12 the Otay Water District adopted an enhanced retiree medical plan which increased the District's Other Post Employment Benefit (OPEB) costs by \$792,000 for FY13. The increased costs of this OPEB plan enhancement is offset by approximately \$950,000 in savings for pension costs after the District's employees agreed to increase their amount paid for pensions from 1% to 8% of pensionable wages. Unrelated to the enhancement, the FY13 costs also includes a shift in funding of \$350,000 of OPEB costs from reserves to the District's operating budget.

(2) FY12 Workers' Compensation budget and expense reflects the planned write-off of a previously accrued \$235,500 liability.



Labor and Benefits by Fund - Fiscal Year 2013

	Potable	Sewer	Recycled	Developer Reimbursed-CIP	Total
Operating Labor Costs	\$ 9,617,500	\$ 346,200	\$ 511,800	\$ -	\$ 10,475,500
Benefits	8,734,100	255,600	429,200	-	9,418,900
Overhead Allocation-Personnel	(1,661,300)	251,400	371,700	-	(1,038,200)
Total Operating Labor and Benefits	16,690,300	853,200	1,312,700	-	18,856,200
CIP Labor Costs	897,700	63,700	282,800	185,400	1,429,600
Benefits	527,900	34,200	172,700	108,100	842,900
Overhead Allocation-Personnel	651,900	46,300	205,400	134,600	1,038,200
Total CIP Labor and Benefits	2,077,500	144,200	660,900	428,100	3,310,700
Total Labor and Benefits	\$ 18,767,800	\$ 997,400	\$ 1,973,600	\$ 428,100	\$ 22,166,900



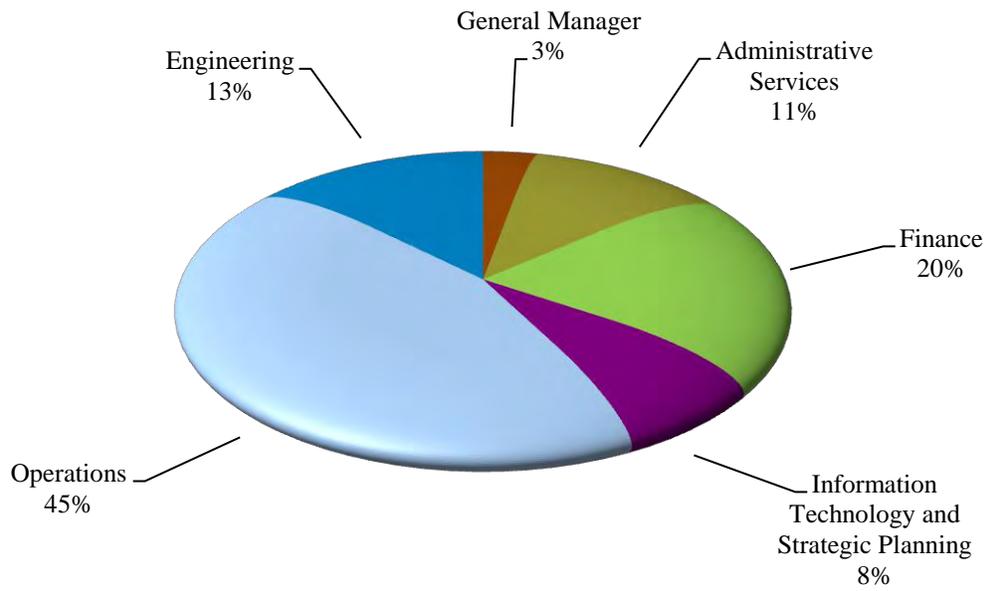
Position Count by Department

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
General Manager	6	6	5
Total FTE - General Manager Department	6	6	5
Administrative Services	3	3	3
Human Resources	4	4	4
Purchasing	8	7	7
Safety	1	1	1
Conservation	3	3	2
Total FTE - Administrative Services Department	19	18	17
Controller and Budgetary Services	7	7	7
Treasury and Accounting Services	6	5	5
Customer Service	19	17	15
Payroll and Accounts Payable	3	3	3
Total FTE - Finance Department	35	32	30
IT and Strategic Planning Applications	5	5	4
IT Operations	3	4	4
Geographic Information Systems	4	4	4
Total FTE - IT and Strategic Planning Department	12	13	12
Operations Management	2	2	2
Water System Operations	28	28	28
Utility Maintenance/Construction	30	30	29
Collection/Treatment/Reclamation Operations	6	6	6
Total FTE - Operations Department	66	66	65
Engineering Management	3	3	3
Engineering	18	18	16
Total FTE - Engineering Department	21	21	19
District Total FTE Position Count	159	156	148

Contract / Temporary Employees

	FY 2011	FY 2012	FY 2013
Customer Service Field Representative I and II	1	0	0
Water Conservation Technician	0	1	0
Strategic Planning Assistant	1	1	0
Reclamation Plant Operator	0	1	0
Utility Construction Assistant	0	1	1
Sr. Civil Engineer	0	1	1
Sr. Engineering Technician	1	0	0
Total Contract/Temporary Employees	3	5	2

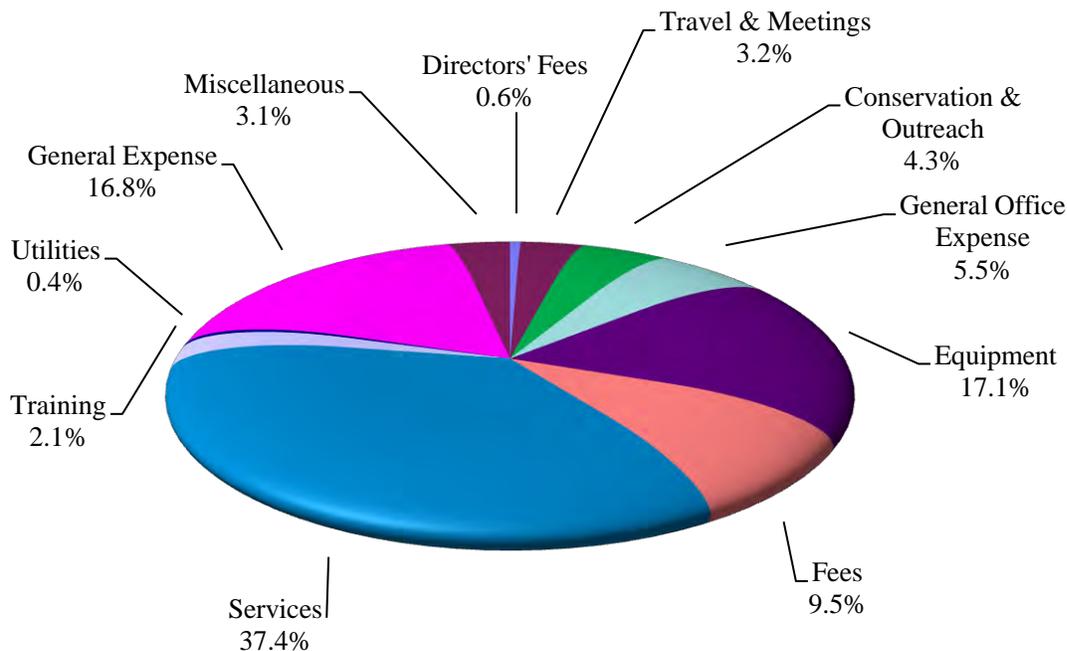
Position Count



Administrative Expenses - Total

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Directors' Fees	\$ 13,700	\$ 30,000	\$ 13,600	\$ 30,000	\$ -	0.0%
Travel and Meetings	159,708	196,200	127,822	172,400	(23,800)	(12.1%)
Conservation and Outreach	257,007	300,800	214,556	231,500	(69,300)	(23.0%)
General Office Expense	306,470	330,100	275,518	296,600	(33,500)	(10.1%)
Equipment	1,088,109	961,000	918,128	928,500	(32,500)	(3.4%)
Fees	496,387	461,000	498,108	512,300	51,300	11.1%
Services	1,855,975	1,721,400	1,658,999	2,026,200	304,800	17.7%
Training	125,385	140,200	79,439	113,700	(26,500)	(18.9%)
Utilities	18,264	19,000	20,330	20,500	1,500	7.9%
Miscellaneous	142,267	150,000	137,145	170,000	20,000	13.3%
Total	4,463,272	4,309,700	3,943,645	4,501,700	192,000	4.5%
Less: Overhead Allocation	(587,436)	(621,000)	(556,640)	(605,800)	15,200	(2.4%)
Subtotal	3,875,836	3,688,700	3,387,005	3,895,900	207,200	5.6%
General Expenses	843,522	872,000	912,355	909,000	37,000	4.2%
Total Administrative Expenses	\$ 4,719,358	\$ 4,560,700	\$ 4,299,360	\$ 4,804,900	\$ 244,200	5.4%

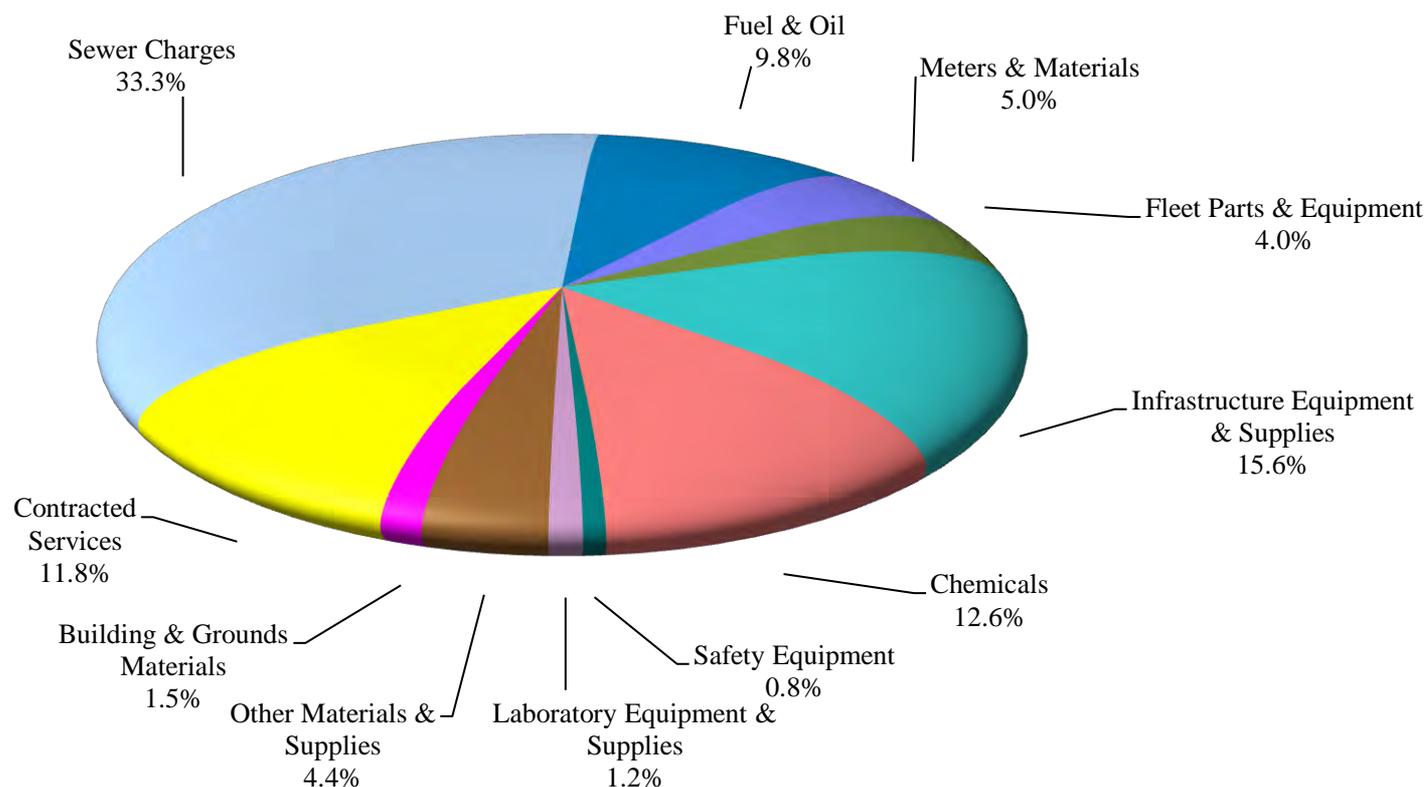
Total Administrative Expenses FY 2013



Materials and Maintenance Expenses - Total

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget	Budget Variance	%
Materials and Maintenance						
Fuel and Oil	\$ 218,508	\$ 353,200	\$ 243,017	\$ 368,100	\$ 14,900	4.2%
Meters and Materials	166,683	213,100	174,549	188,000	(25,100)	(11.8%)
Fleet Parts and Equipment	140,253	168,400	125,196	149,500	(18,900)	(11.2%)
Infrastructure Equipment and Supplies	555,410	599,600	511,772	586,500	(13,100)	(2.2%)
Chemicals	442,590	504,000	381,758	474,000	(30,000)	(6.0%)
Safety Equipment	53,603	32,900	32,255	29,400	(3,500)	(10.6%)
Laboratory Equipment and Supplies	44,399	44,000	42,612	44,000	-	0.0%
Other Materials and Supplies	155,680	164,700	151,359	163,700	(1,000)	(0.6%)
Building and Grounds Materials	74,032	80,500	68,628	55,500	(25,000)	(31.1%)
Contracted Services	347,475	503,000	406,006	440,300	(62,700)	(12.5%)
Materials and Maintenance	2,198,633	2,663,400	2,137,152	2,499,000	(164,400)	(6.2%)
Sewer Charges						
Metro O&M Costs	1,329,921	1,397,400	1,397,400	1,009,700	(387,700)	(27.7%)
Spring Valley Sewer Charge	273,238	239,200	228,545	239,200	-	0.0%
Total Sewer Charges	1,603,159	1,636,600	1,625,945	1,248,900	(387,700)	(23.7%)
Total Materials and Maintenance	\$ 3,801,792	\$ 4,300,000	\$ 3,763,097	\$ 3,747,900	\$ (552,100)	(12.8%)

FY 2013 Materials and Maintenance Expenses



Operating Expenditures by Department

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Departmental Expenditures				
Board of Directors	\$ 75,413	\$ 106,600	\$ 74,997	\$ 111,900
General Manager	1,688,703	1,721,400	1,669,025	1,488,400
General Expense	1,188,034	792,400	1,612,095	2,176,300
Administrative Services	3,415,204	3,727,400	3,345,258	3,678,800
Finance	4,559,086	4,712,000	4,413,730	4,886,800
Information Technology and Strategic Planning	2,978,151	3,080,200	2,872,363	2,995,800
Water Operations	11,514,254	12,688,600	11,061,978	11,853,000
Engineering	1,983,859	1,836,900	1,764,185	1,862,000
Total Departmental Expenditures	27,402,704	28,665,500	26,813,631	29,053,000
Less: Overhead Allocation	(1,594,127)	(1,685,200)	(1,510,556)	(1,644,000)
Net Departmental Expenditures	25,808,577	26,980,300	25,303,075	27,409,000
Non-Departmental Expenditures				
Water Purchases	34,287,450	38,243,700	38,459,664	41,762,400
Power	2,170,357	2,440,900	2,138,674	2,368,000
Expansion Reserve	2,775,000	555,000	555,000	3,936,000
Betterment Reserve	315,000	-	-	1,120,000
Replacement Reserve	6,965,000	3,330,000	3,330,000	743,000
Transfer to Sewer General Fund	-	595,000	595,000	595,000
Transfer to General Fund Reserve	390,500	2,612,300	2,612,300	2,285,800
Transfer to Sewer Replacement	1,750,000	1,720,000	1,720,000	2,099,000
Transfer to New Supply Reserve	-	1,585,000	1,585,000	-
Total Non-Departmental Expenditures	48,653,307	51,081,900	50,995,638	54,909,200
TOTAL OPERATING EXPENDITURES	\$ 74,461,884	\$ 78,062,200	\$ 76,298,713	\$ 82,318,200

Operating Expenditures by Object

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Departmental Expenditures				
Labor and Benefits	\$ 18,294,117	\$ 19,183,800	\$ 18,194,534	\$ 19,894,400
Director's Fees	13,700	30,000	13,600	30,000
Travel and Meetings	159,709	196,200	127,821	172,400
Conservation and Outreach	257,007	300,800	214,556	231,500
General Office Expense	306,470	330,100	275,518	296,600
Equipment	1,088,110	961,000	918,128	928,500
Fees	1,339,909	1,333,000	1,410,463	1,421,300
Services	1,855,975	1,721,400	1,658,999	2,026,200
Training	125,385	140,200	79,439	113,700
Materials & Maintenance	2,198,632	2,663,400	2,137,153	2,499,000
Power and Utilities	18,264	19,000	20,330	20,500
Sewer Charges	1,603,159	1,636,600	1,625,945	1,248,900
Miscellaneous	142,267	150,000	137,145	170,000
Total Departmental Expenditures	27,402,704	28,665,500	26,813,631	29,053,000
Less: Overhead Allocation	(1,594,127)	(1,685,200)	(1,510,556)	(1,644,000)
Net Departmental Expenditures	25,808,577	26,980,300	25,303,075	27,409,000
Non-Departmental Expenditures				
Water Purchases	34,287,450	38,243,700	38,459,664	41,762,400
Power	2,170,357	2,440,900	2,138,674	2,368,000
Retiree Medical Reserve	-	-	-	-
Expansion Reserve	2,775,000	555,000	555,000	3,936,000
Betterment Reserve	315,000	-	-	1,120,000
Replacement Reserve	6,965,000	3,330,000	3,330,000	743,000
Transfer to Sewer General Fund	-	595,000	595,000	595,000
Transfer to General Fund Reserve	390,500	2,612,300	2,612,300	2,285,800
Transfer to Sewer Replacement	1,750,000	1,720,000	1,720,000	2,099,000
Transfer to New Supply Fund	-	1,585,000	1,585,000	-
Total Non-Departmental Expenditures	48,653,307	51,081,900	50,995,638	54,909,200
TOTAL OPERATING EXPENDITURES	\$ 74,461,884	\$ 78,062,200	\$ 76,298,713	\$ 82,318,200

Board of Directors

Mission Statement

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

Division 1



David Gonzalez, Jr.
Vice President

Division 4



Jose Lopez
President

Division 3



Gary Croucher
Treasurer

Division 2



Mitch Thompson

Division 5



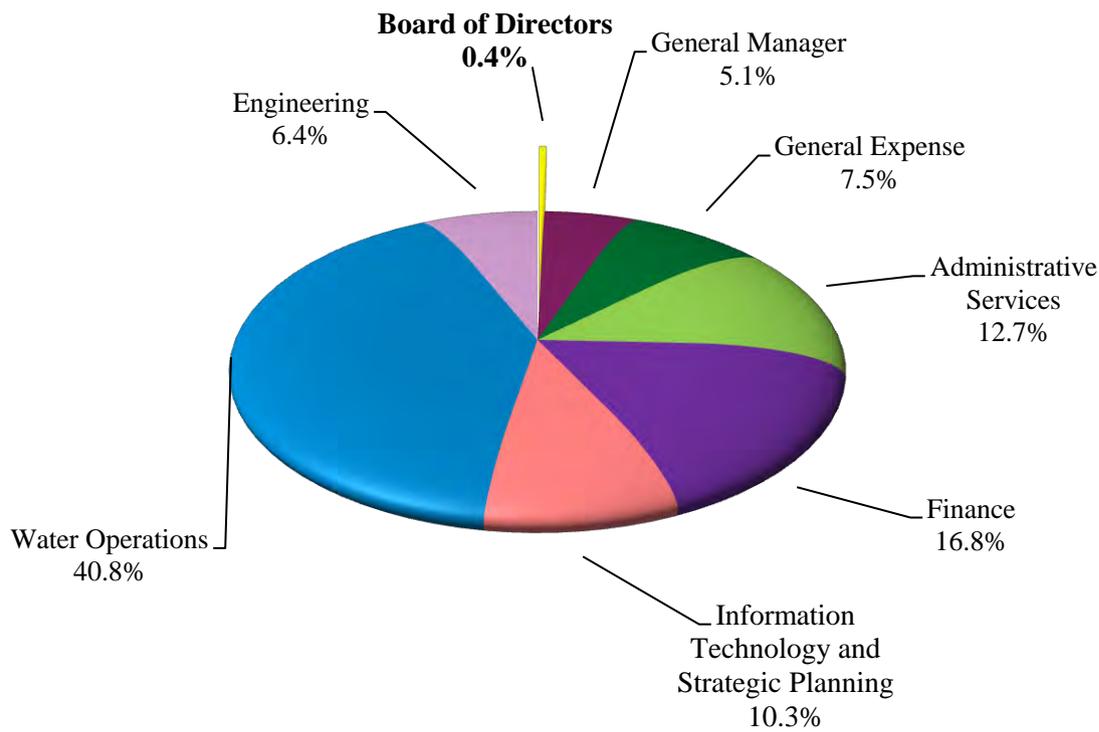
Mark Robak

Division Title _____ Division No.

Board of Directors 1111

Board of Directors

FY 2013 Total Departmental Budget - \$29.1 Million
Board of Directors - \$111,900



Board of Directors

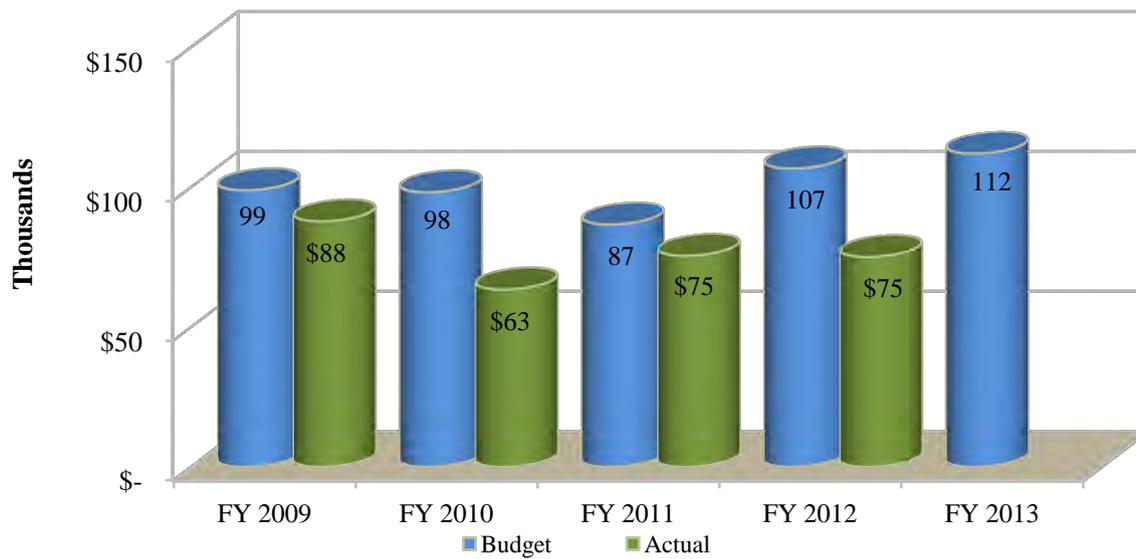
TOTAL

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Board of Directors	\$ 75,413	\$ 106,600	\$ 74,997	\$ 111,900
TOTAL	\$ 75,413	\$ 106,600	\$ 74,997	\$ 111,900

Board of Directors

Board of Directors	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Budget
Benefits	\$ 53,932	\$ 60,000	\$ 58,088	\$ 65,300
Director's Fees	13,700	30,000	13,600	30,000
Travel and Meetings	7,781	16,600	2,789	16,600
Total	\$ 75,413	\$ 106,600	\$ 74,997	\$ 111,900

Budget vs. Actual



Director's Division Boundaries



General Manager

Mission Statement

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

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.

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.”

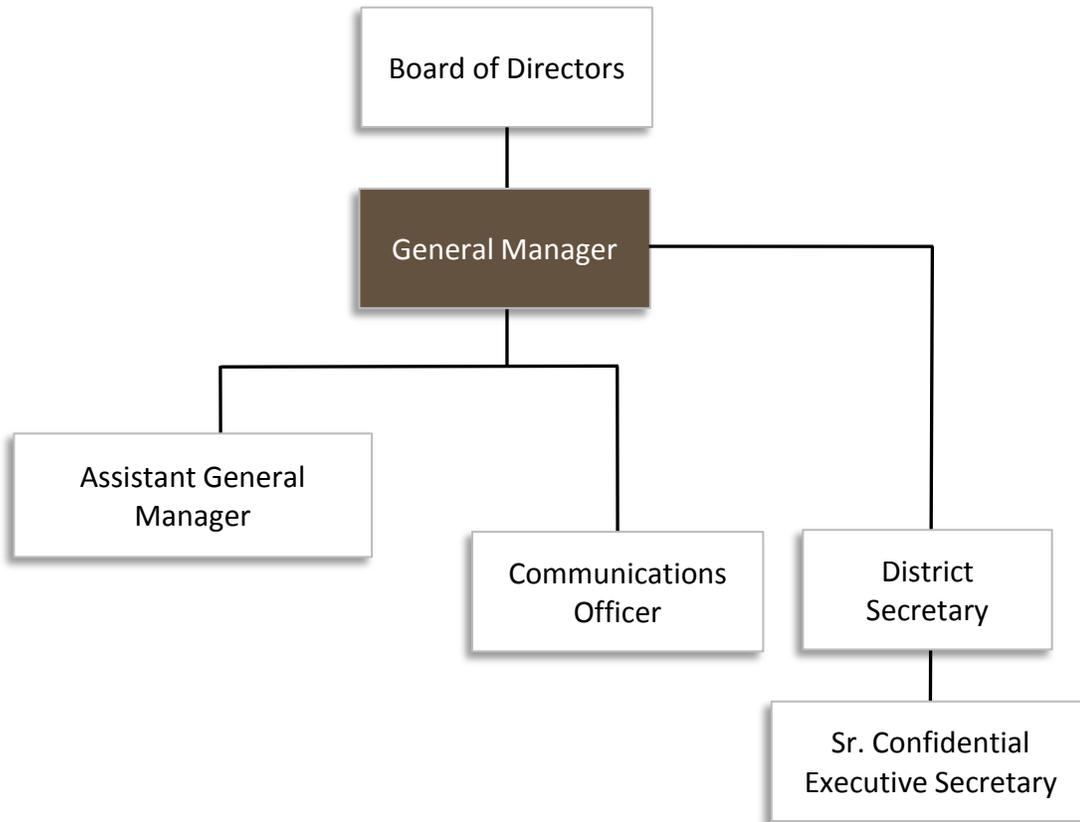
- *Mark Watton*



<u>Division Title</u>	<u>Division No.</u>
General Manager	1111
Assistant General Manager	2111

Position Count

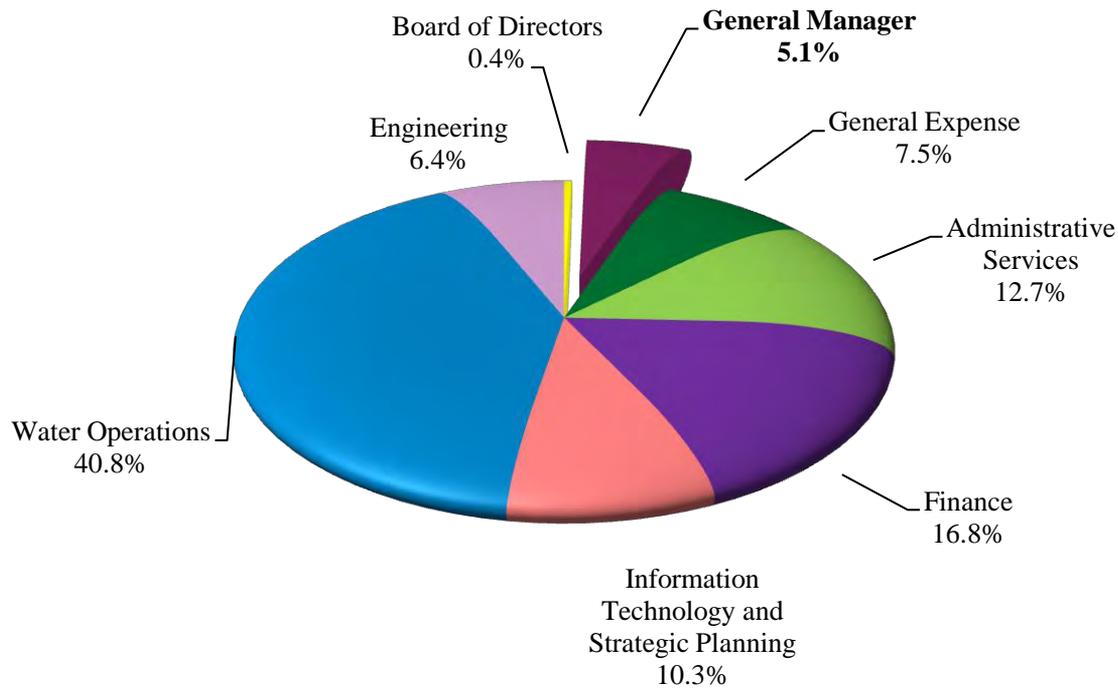
District Position Count - 148
 General Manager Department - 5



Position Count	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
General Manager	1	1	1
Assistant General Manager	2	2	1
District Secretary	1	1	1
Sr. Confidential Executive Secretary	1	1	1
Communications Officer	1	1	1
Total	6	6	5

General Manager

FY 2013 Total Departmental Budget - \$29.1 Million
General Manager - \$1,488,400

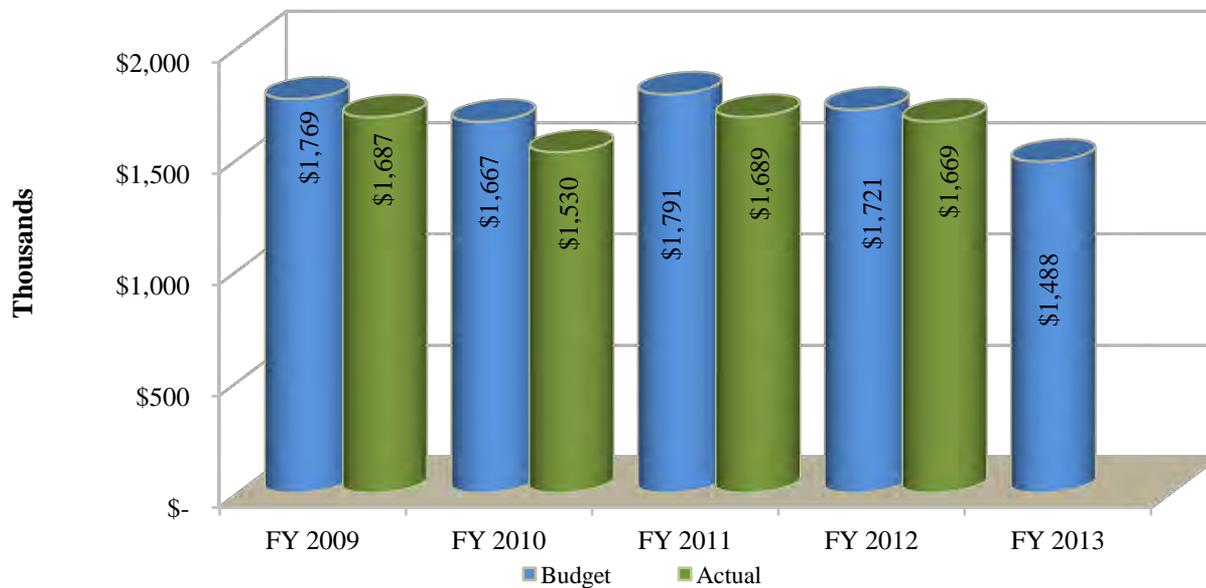


	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
General Manager	\$ 1,113,229	\$ 1,079,000	\$ 1,156,196	\$ 1,167,300
Legal	209	9,800	-	-
Assistant General Manager	575,265	632,600	512,829	321,100
TOTAL	\$ 1,688,703	\$ 1,721,400	\$ 1,669,025	\$ 1,488,400

General Manager

	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,334,420	\$ 1,429,400	\$ 1,289,474	\$ 1,106,800
Travel and Meetings	46,186	63,500	42,384	53,900
Conservation and Outreach	2,998	5,000	7,378	6,000
General Office Expense	6,444	8,000	6,754	5,100
Equipment	-	1,500	161	-
Fees	50,132	46,000	41,464	82,000
Services	248,433	168,000	281,305	234,600
Training	90	-	105	-
Miscellaneous	-	-	-	-
Total	\$ 1,688,703	\$ 1,721,400	\$ 1,669,025	\$ 1,488,400

Budget vs. Actual



General Manager

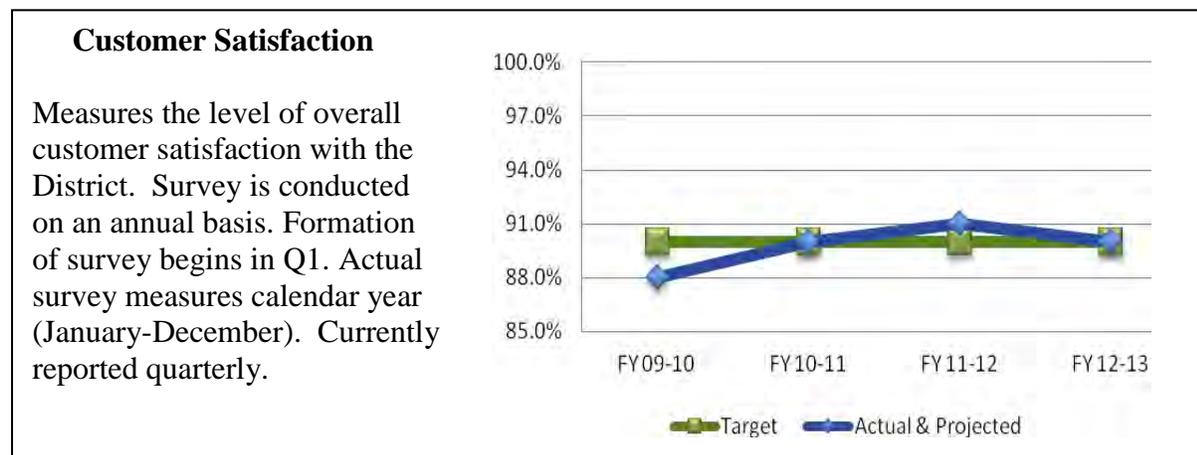
Services We Provide

The General Manager's office provides staffing, scheduling, and other support to the Board of Directors, General Manager, and Assistant General Manager. 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 2011-2012

- 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 14 units per month, as of January 1, 2012, Otay's water rates were the 7th lowest in San Diego County.
- In a Labor Cost Comparison of San Diego County's water districts, Otay's Annual Salaries and Benefits per Customers are the second lowest.

General Manager

- When comparing Customers per Employee, Otay is among the best with each employee serving 396 customers.
- Customers continue to report high levels of satisfaction with the Otay Water District as their service provider. In the most recent customer survey, 91% of customers rated the District's service as good, very good, or excellent.
- For the seventh year in a row, Otay received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada. This award reflects on Otay's longstanding commitment to transparency and public accountability.
- Otay has a AA credit rating from Standard and Poor's, and a AA- credit rating from Fitch. These ratings are excellent given Otay's size and reflect on the District's high credit worthiness. For the typical Otay customer, it means they will pay less interest on bonds issued for capital improvement projects.
- In our annual audit, the auditor did not identify any deficiencies in internal controls over financial reporting that they considered to be material weaknesses.
- The multi-year Automatic Meter Reading (AMR) program was completed in FY 2012. This well-proven and cost-effective technology helps the District improve efficiency, increase productivity, reduce costs, improve customer service and even promote water conservation.
- With completion of the installation of the AMR meters, the meter reading team was reduced in size from 9 FTEs in FY 2008 to 4 FTEs for 2013. Prior to AMR, the District projected it would need 11 meter readers to serve its customers.
- As a result of the 2010 U.S. Census, the District finalized and approved divisional boundary changes and equalized the population within the five Board of Director's divisions. The new divisional boundaries have been publicized and published on the District's external and internal websites, and delivered to the County of San Diego's Registrar of Voters.
- Otay vigorously promoted paperless billing to customers and approximately 19,000 accounts converted to paperless billing. At the end of FY 2012, this represents approximately 35 percent of customers using the paperless option; saving thousands of dollars each month in printing, postage, and check processing costs.
- 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 reduced the number of FTEs from 175 in FY 2007 to 148 in the new fiscal year, even as it delivers more services to a larger customer base.

Administrative Services

Mission Statement

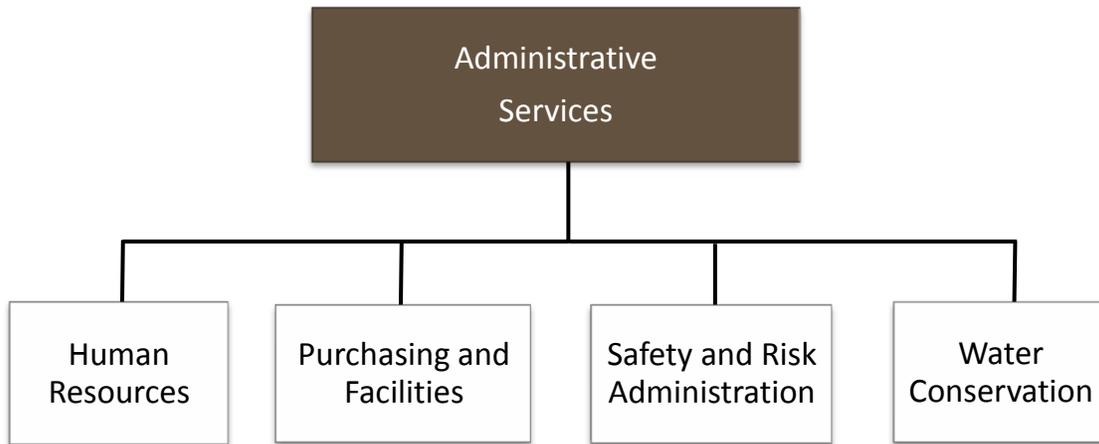
To provide support to the Board of Directors, the General Manager, and District staff by identifying and meeting objectives to satisfy the needs of our customers by providing, through best management practices, the full range of employer and employee services, administrative services, risk management, 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 - 148
 Administrative Services Department - 17



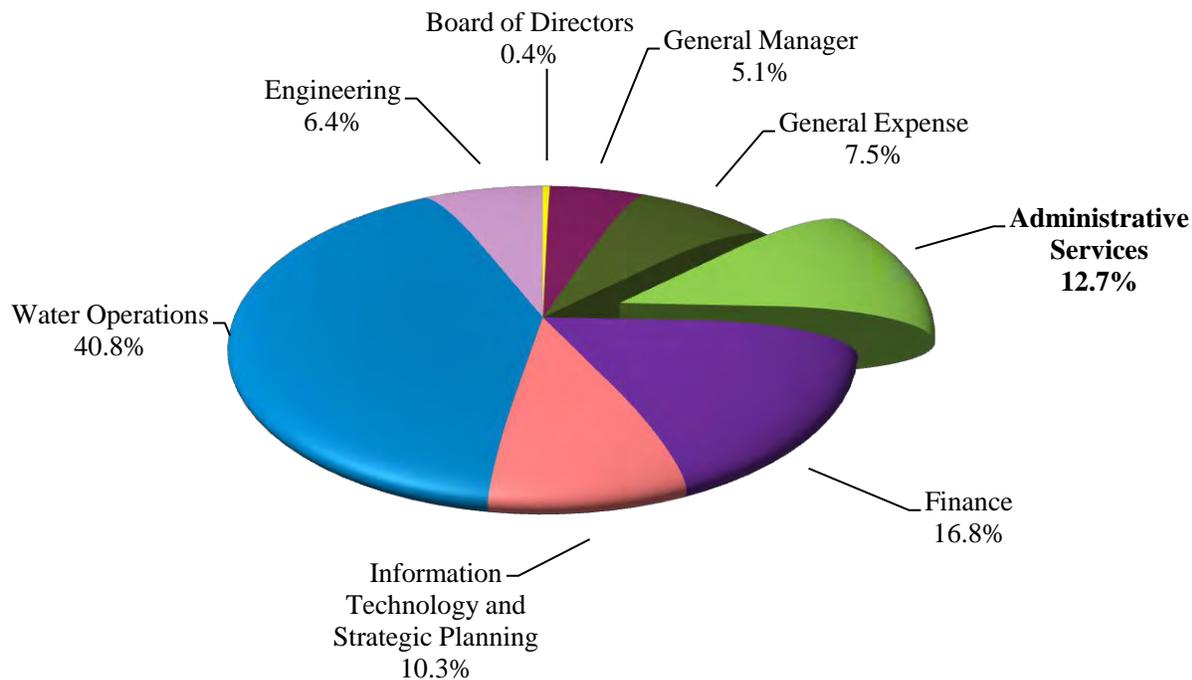
Position Count	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Chief, Administrative Services	1	1	1
Confidential Executive Secretary	1	1	1
Confidential Secretary	1	1	1
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	1	1
Human Resources Technician	1	1	1
Purchasing & Facilities Manager	1	1	1
Senior Buyer	1	1	1
Assistant Buyer	1	1	1
Lead Warehouse Worker / Facilities Worker	1	1	1
Warehouse / Delivery Worker	1	1	1
Facilities Maintenance Technician	2	2	2
Records Assistant	1	0	0
Safety & Security Administrator	1	1	1
Water Conservation Manager	1	1	1
Water Conservation Specialist	2	2	1
Total	19	18	17

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 2013 Total Departmental Budget - \$29.1 Million Administrative Services - \$3,678,800

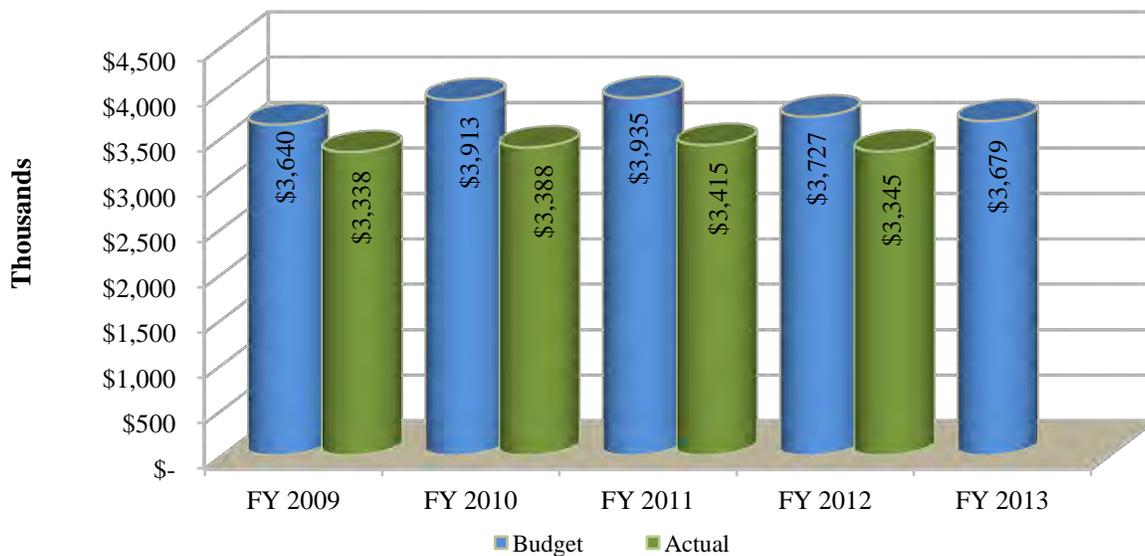


	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Administrative Chief	\$ 427,190	\$ 465,000	\$ 453,277	\$ 476,100
Human Resources	723,139	787,100	774,102	885,300
Purchasing and Facilities	1,350,344	1,451,300	1,320,226	1,461,000
Safety and Security	323,625	312,200	272,763	313,600
Water Conservation	590,906	711,800	524,890	542,800
TOTAL	\$ 3,415,204	\$ 3,727,400	\$ 3,345,258	\$ 3,678,800

Administrative Services

	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 2,324,156	\$ 2,503,100	\$ 2,331,863	\$ 2,407,800
Travel and Meetings	16,375	22,300	11,880	21,400
Conservation and Outreach	254,010	295,800	207,178	225,500
General Office Expense	98,420	123,900	89,763	124,300
Equipment	56,991	45,100	35,866	92,500
Fees	7,602	6,000	3,209	4,000
Services	246,392	286,100	267,396	393,400
Training	97,386	104,200	73,544	77,700
Materials & Maintenance	295,608	321,900	304,229	311,700
Power and Utilities	18,264	19,000	20,330	20,500
Total	\$ 3,415,204	\$ 3,727,400	\$ 3,345,258	\$ 3,678,800

Budget vs. Actual



Administrative Services

Human Resources

Services We Provide

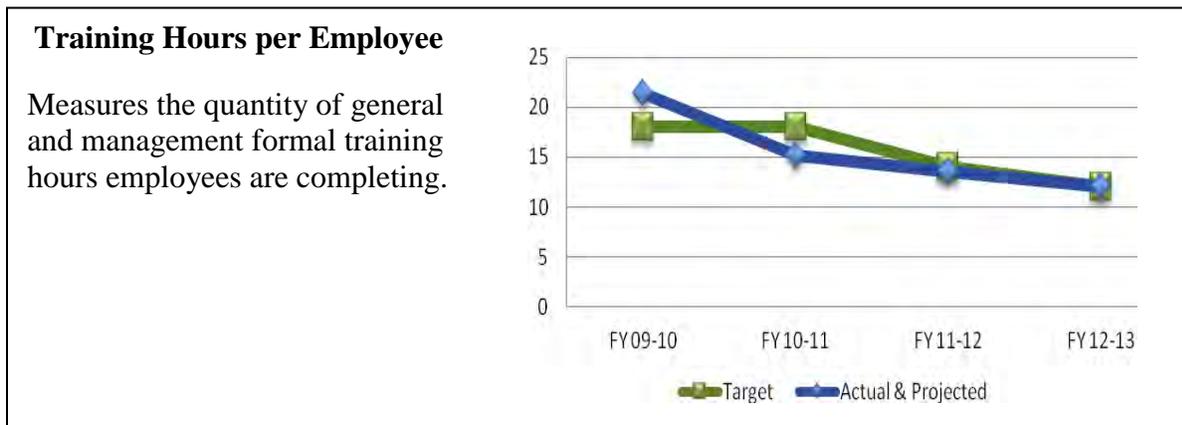
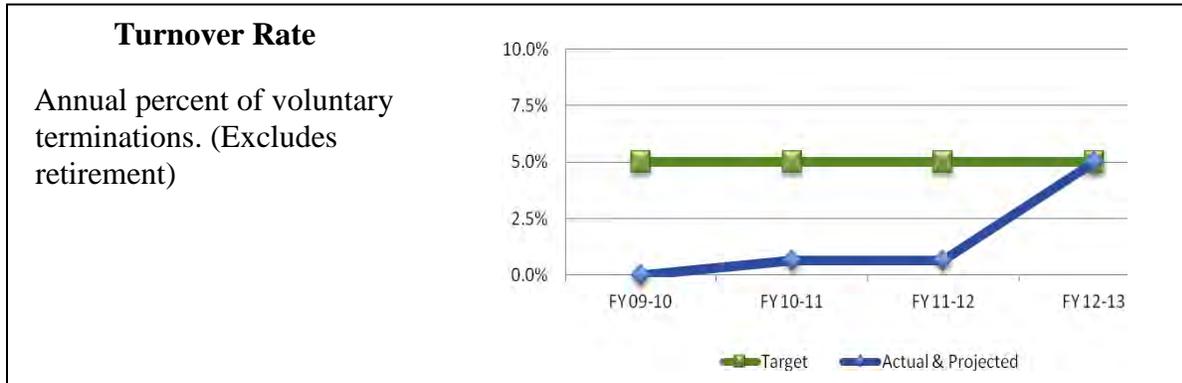
Human Resources, under the direction of the Chief of Administrative Services, provides the following support services: recruits, selects and ensures the retention of qualified employees; develops, implements and administers policies, procedures, collective bargaining contracts and employee programs; 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

- 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.
- 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.

Administrative Services

Performance Measures



Accomplishments – Fiscal Year 2011-2012

- Decreased labor costs by participating with other departments to reduce eight full-time positions by instituting efficiency programs such as automated meter reading and online bill pay services, all of which minimize the impact of higher water costs from wholesalers, resulting in District-wide annual cost-savings of \$938,000.
- Increased employees' contribution to the employees' portion of the CalPERS Pension program from 1% to 8% of CalPERS reportable wages. This increase resulted in significant annual cost-savings to the District, which allowed employees access to greater post-employment benefits at no cost to the District. In Fiscal Year 2013, the District's savings are projected to be \$158,000.
- Implemented the Company Nurse Program to provide for an efficient and cost-savings method for employees to seek treatment for work-related injuries. Over time, this nurse triage program will save the District money in workers' compensation claim fees.

Administrative Services

- In order to streamline our processes, the District thoroughly analyzed our three 457 Deferred Compensation providers' financial performance, service and products. As a result, the District reduced providers from three to two Deferred Compensation providers in order to remain competitive and provide the best service and product to our employees.
- In an effort to continue with best practices and to validate that the District is receiving the best available benefit consulting services at a competitive price, the District went out to bid for benefit brokers in February 2012 and successfully selected a broker, which will have a cost-savings to the District of \$13,600 per year.
- Coordinated and received credit for the Special District Risk Management Authority's (SDRMA) Credit Incentive Program. The credit totaled \$26,500 for Property and Liability, and \$25,100 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

- Streamline inventory procedures.
- Streamline requisition and purchasing procedures.

Administrative Services

Performance Measures



Accomplishments – Fiscal Year 2011-2012

- Decentralized the data entry for receiving services to District secretaries, minimizing the back and forth communication between Accounts Payable, the Warehouse, and the departments, thus simplifying the service receiving process.
- Enhanced inventory control by initiating a department review and sign-off of materials issued to the various departments, providing an additional check and balance by having the department supervisors verify that materials pulled by the crews are appropriate and properly used.
- Worked with Accounts Payable to install the electronic infrastructure required to initiate the electronic payment of invoices.
- Developed standard specifications related to irrigation and landscaping District facilities. Worked with Water Conservation to create a list of water-wise plants to be specified by Engineering for renovation and new construction projects emphasizing the District's focus of using water-wise plants and irrigation, increased site security, and reducing maintenance costs.

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

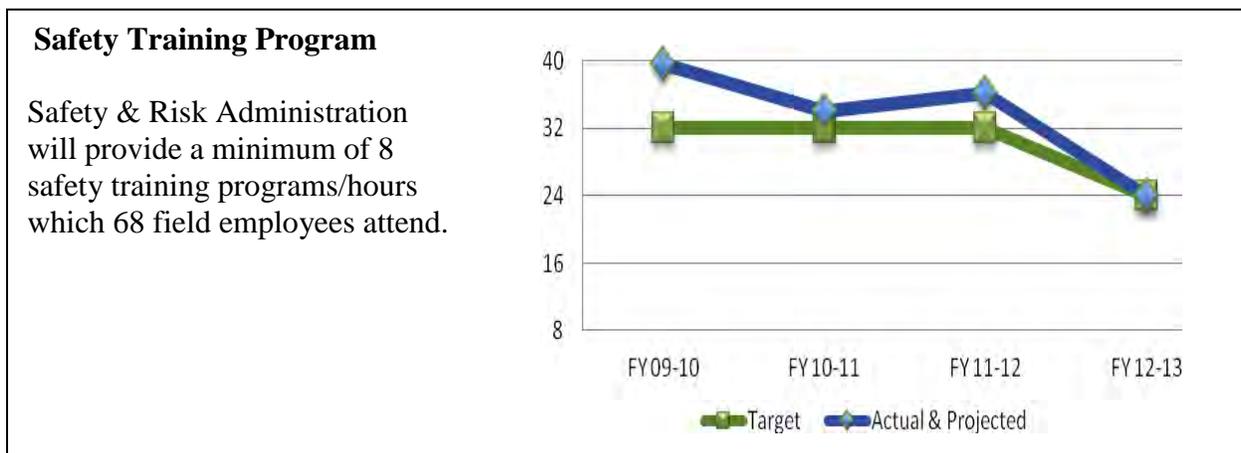
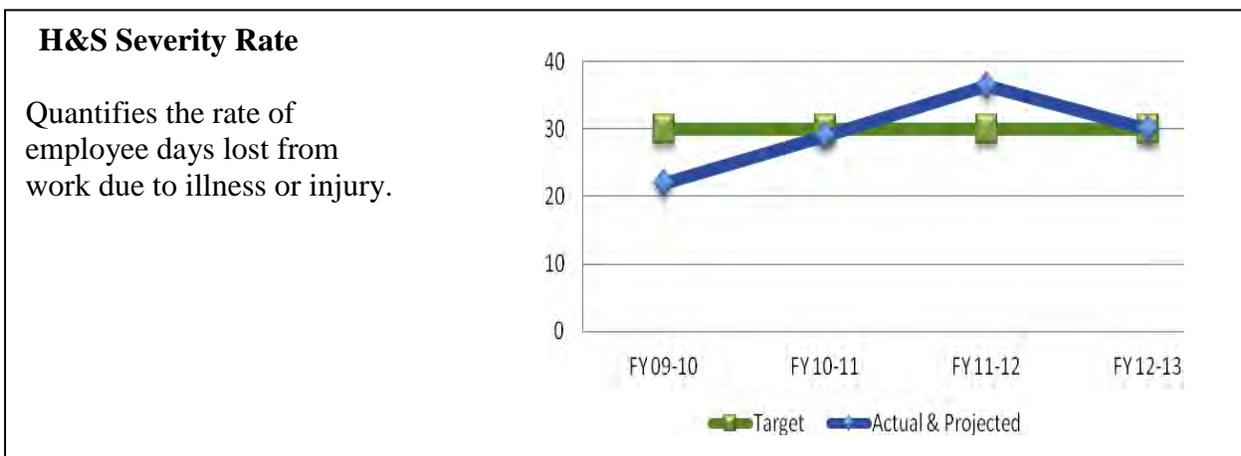
Administrative Services

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 District's National Incident Management System (NIMS) Emergency Management Plan.

Performance Measures



Administrative Services

Accomplishments – Fiscal Year 2011-2012

- In May, the District participated in the “2012 Golden Guardian County of San Diego Full Scale Exercise.” The exercise assessed the District’s plans, policies, and procedures for responding to and recovering from a catastrophic event occurring within Southern California.
- The District’s Hazardous Materials Business Plans (HMBP) and Spill Prevention Control and Countermeasure Plans (SPCC) have been updated and have been inspected by the County of San Diego. The County acknowledged the District’s efforts to reduce and dispose of hazardous waste and the positive changes to the method of recordkeeping for tracking hazardous material within the District.
- Significant upgrades have been made to the District’s security system. Critical locations within the District have been evaluated and changes recommended and implemented where appropriate. These efforts have enhanced the District’s ability to provide a safe and secure work environment for employees and to protect District assets.

Water Conservation

Services We Provide

Water Conservation, under the direction of the Chief of Administrative Services, provides the following: promotes and conducts residential and large landscape surveys; promotes the Water Conservation Garden as a resource to its customers; participates in outreach events throughout the community, including a WaterSmart Plant Fair, the Spring Garden Festival, Lemon Festival, Bonita Festival, JamulFest, South Bay Green Scene and the Fall 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, the water themed high school photo contest and video contest; 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.

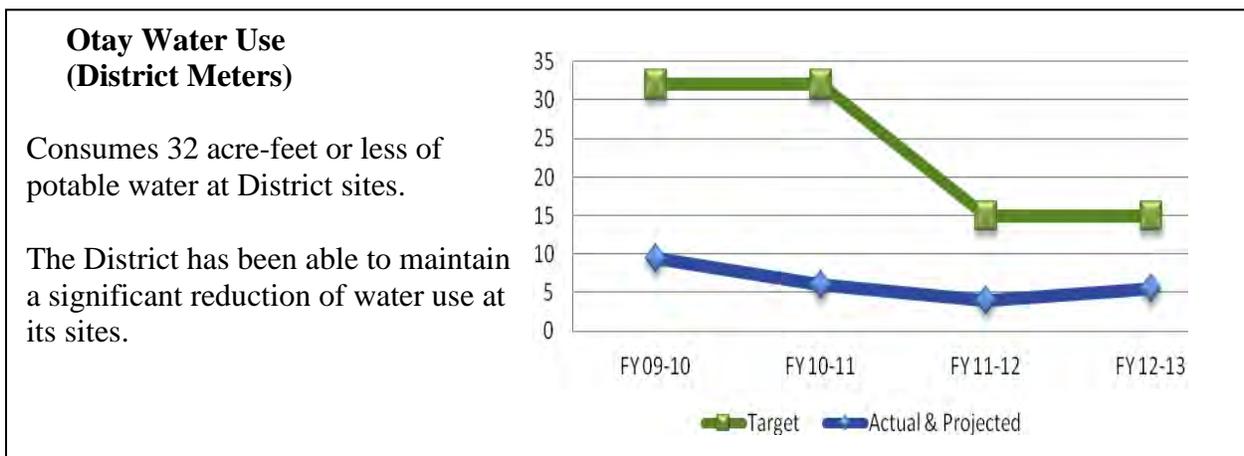
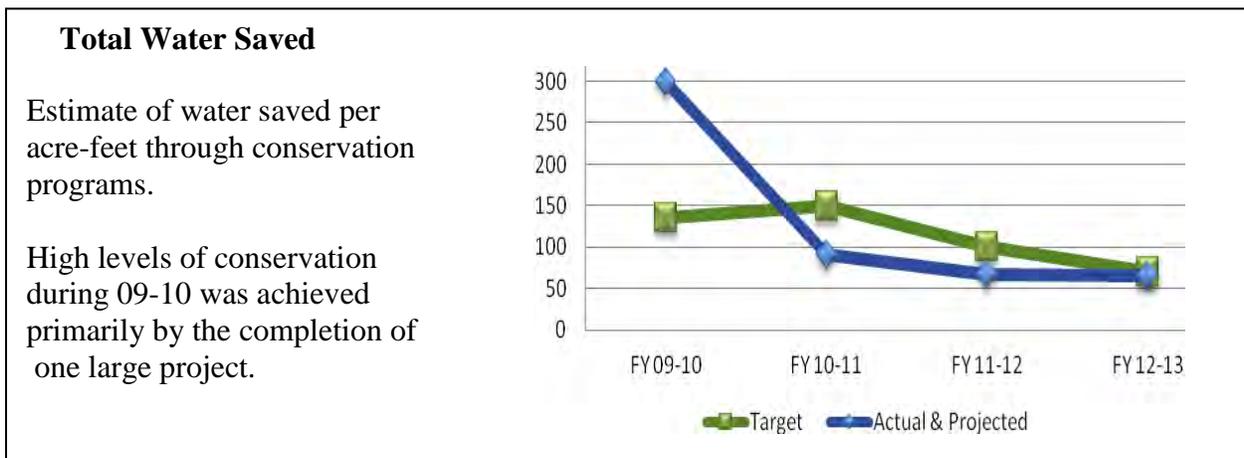
Strategic Plan Objectives

- Continue promoting the Water Conservation Garden as a venue for new homeowners, developers, businesses, and existing homeowners.

Administrative Services

- Increase conservation related communication by expanding web-based information.
- Closely monitor the District’s potable water demand to ensure the District will remain on target to achieve its 2015 gpcd (gallons per capita 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.

Performance Measures



Administrative Services

Accomplishments – Fiscal Year 2011-2012

- The District, through many innovative programs, increased its annual active water conservation savings by an additional 67 acre-feet to 2,142 acre-feet (2075 + 67) of water saved this fiscal year.
- The District's fiscal year 2012 potable consumption of 137 gallons per capita per day (gpcd) stayed well below its 2015 target of 171 gpcd and remains below the 2010 figure of 142 gpcd.

Finance

Mission Statement

To provide effective tracking of all financial impacts of the District’s activities, and to provide quality billing and customer service. Information is efficiently compiled and verified in accordance with regulatory requirements and is provided to management, customers, 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

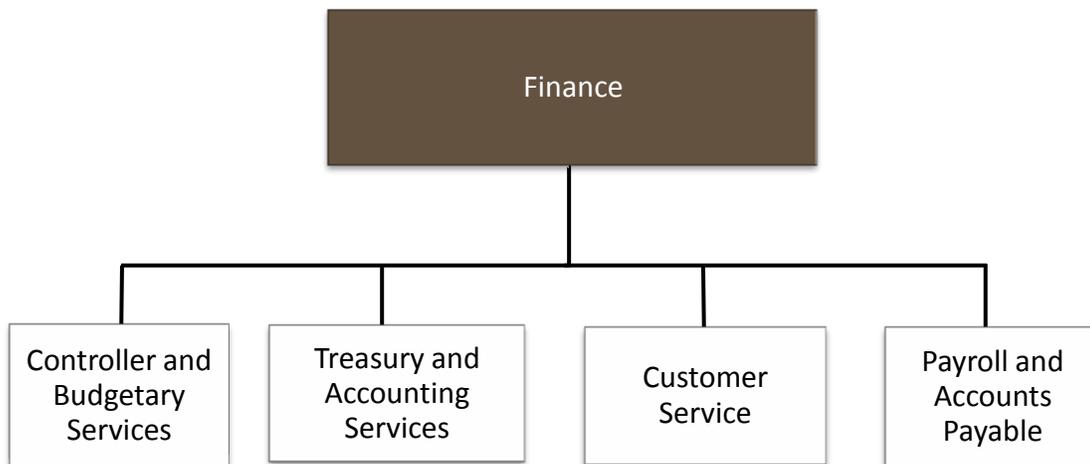
Finance Department Staff



<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	2351

Position Count

District Position Count - 148
 Finance Department - 30



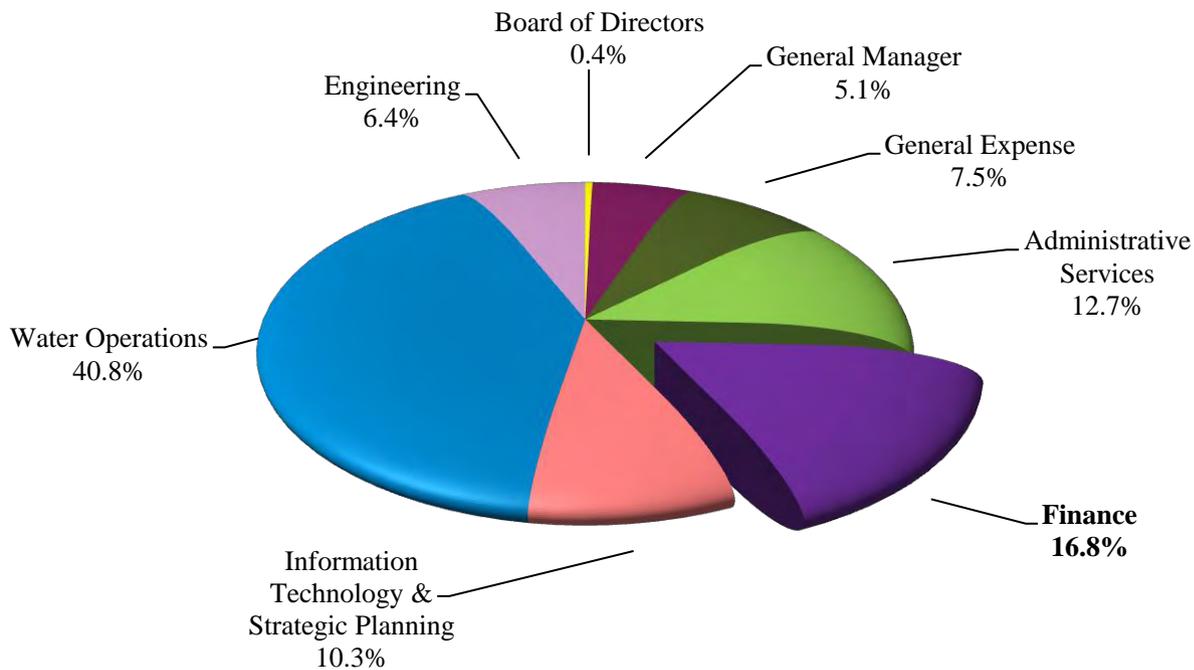
Position Count	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Finance Manager, Treasury and Accounting	1	1	1
Finance Manager, Controller and Budget	1	1	1
Finance Supervisor, Payroll and A/P	1	1	1
Customer Service Manager	1	2	2
Customer Service Supervisor	2	0	0
Senior Accountant	4	4	4
Accountant	4	3	3
Payroll Technician	0	0	0
Accounting Assistant	0	0	0
Accounting Technician	2	2	2
Senior Customer Service Representative	2	2	2
Customer Service Representative I, II and III	8	8	7
Lead Customer Service Field Representative	1	1	1
Customer Service Field Representative I and II	5	4	3
Total	35	32	30

Finance

Department Responsibilities

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

FY 2013 Total Departmental Budget - \$29.1 Million Finance - \$4,886,800

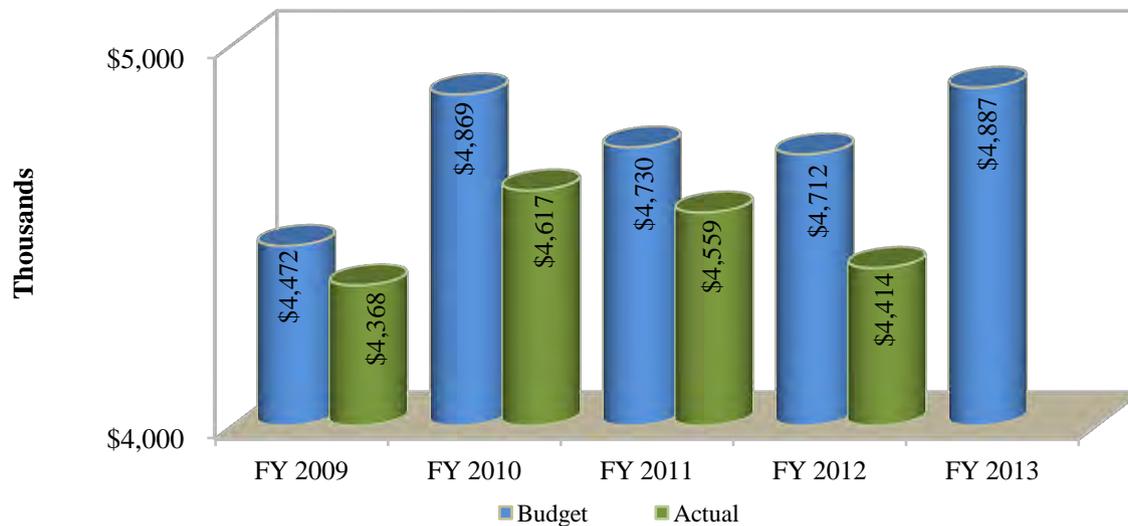


	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Finance Chief	\$ 474,171	\$ 502,400	\$ 505,191	\$ 518,100
Controller and Budgetary Services	618,096	644,300	623,942	711,900
Treasury and Accounting Services	1,085,178	1,086,300	1,091,451	1,080,900
Customer Service	2,016,934	2,068,000	1,809,156	2,166,500
Payroll and Accounts Payable	364,707	411,000	383,990	409,400
TOTAL	\$ 4,559,086	\$ 4,712,000	\$ 4,413,730	\$ 4,886,800

Finance

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Labor and Benefits	\$ 3,865,686	\$ 4,040,400	\$ 3,755,813	\$ 3,960,100
Travel and Meetings	11,139	14,600	10,266	12,700
General Office Expense	187,882	182,900	170,588	164,900
Equipment	208	200	-	-
Fees	312,086	283,000	335,742	291,200
Services	181,895	190,600	141,321	287,600
Training	190	300	-	300
Total	\$ 4,559,086	\$ 4,712,000	\$ 4,413,730	\$ 4,886,800

Budget vs. Actual



Finance

Controller and Budgetary Services

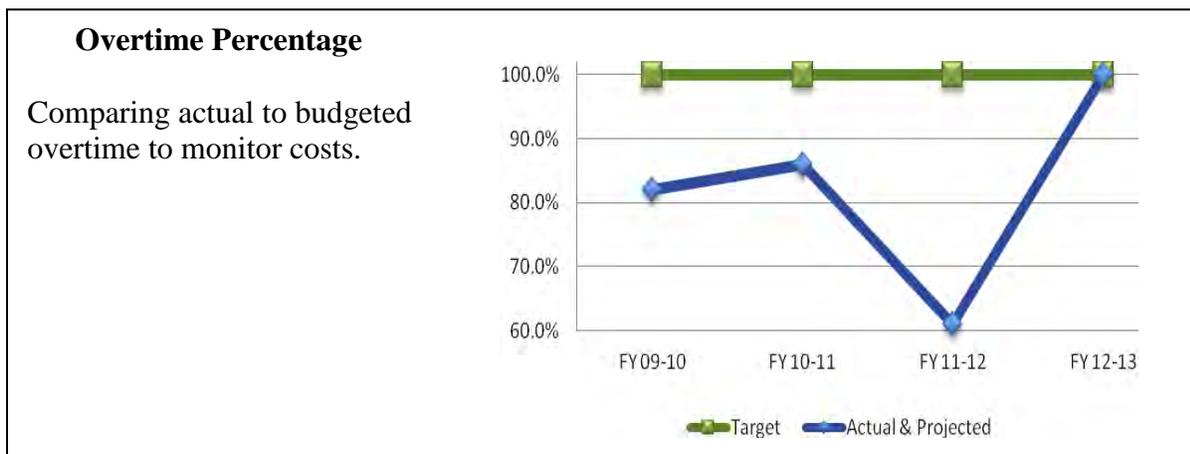
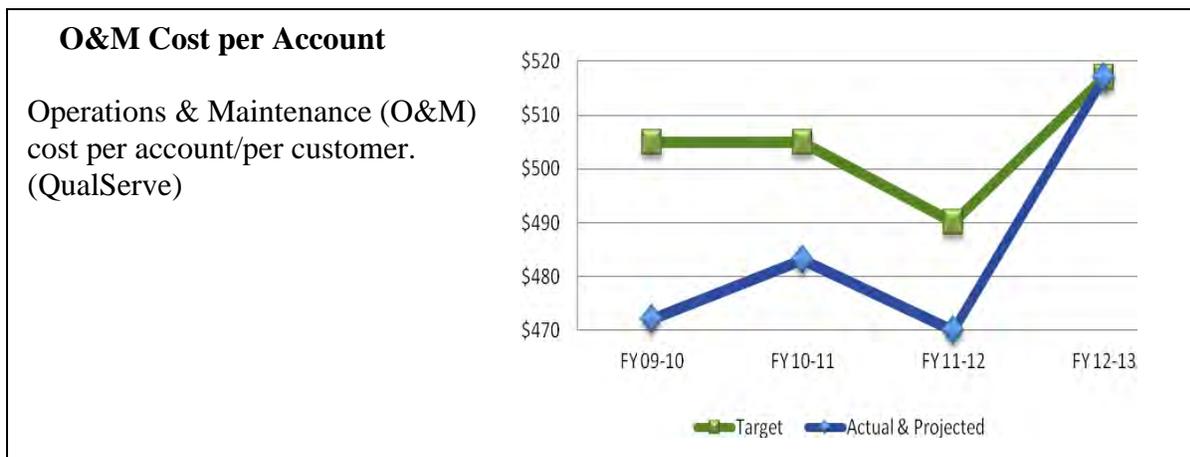
Services We Provide

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, preparation of the District's overhead, calculation of benefits rates, and other analysis.

Strategic Plan Objectives

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

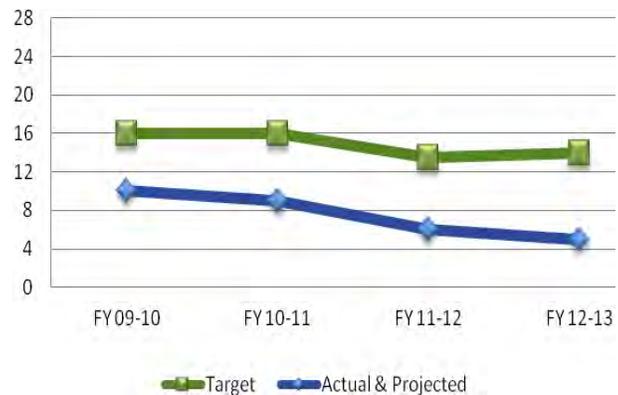
Performance Measures



Finance

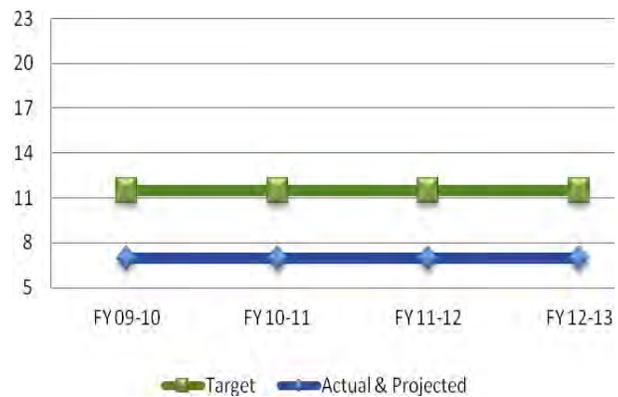
Sewer Rate Ranking

District's average customer bill as compared to other agencies in San Diego County. Otoy is ranked 5th of 28 agencies.



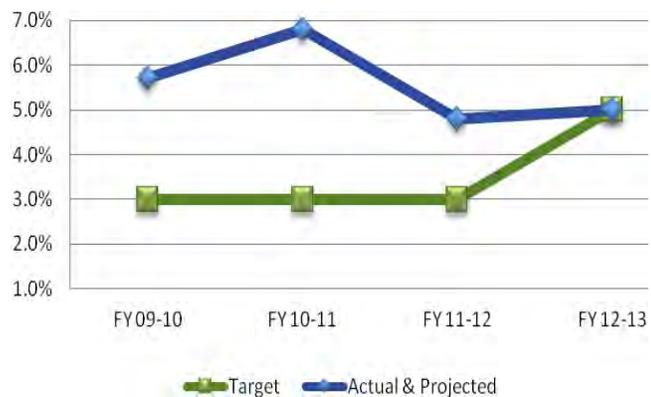
Water Rate Ranking

District's average customer bill as compared to other agencies in San Diego County. Otoy is ranked 7th of 23 agencies.



Distribution System Loss

Percentage for unaccounted water (QualServe).



Finance

Accomplishments – Fiscal Year 2011-2012

- 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 eighth 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 the highest standards.
- The Capital Improvement Program (CIP) budget received the “Excellence in Capital Budgeting Award” from the CSMFO for the seventh year in a row.
- Developed the CIP Budget application with Engineering and IT staff’s input. With this application it allows project managers to update their budgets online, review and print the CIP budget sheets, and create reports to be loaded into both the rate model and the final budget presentation. Additionally, a suite of reports are being added so that manual preparation of reports is no longer necessary.

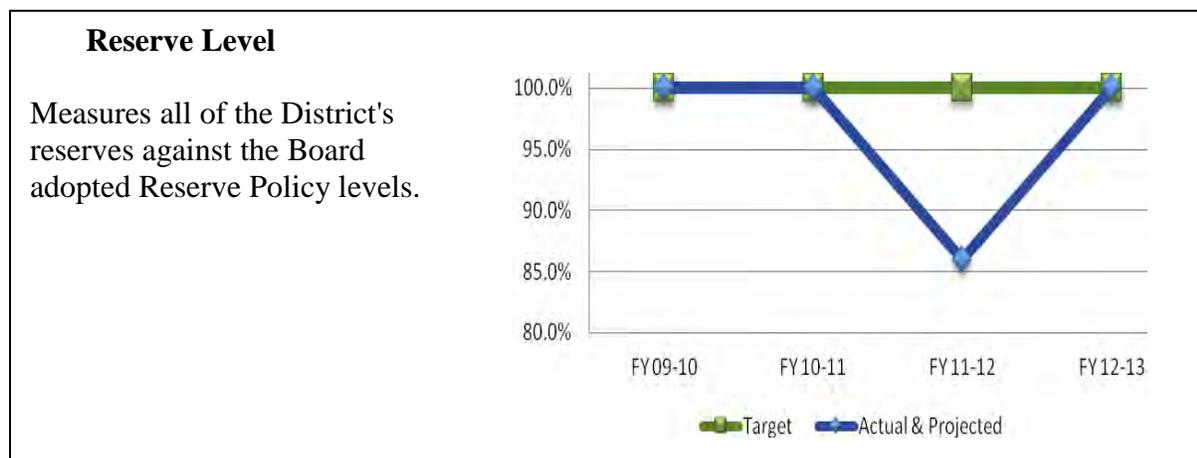
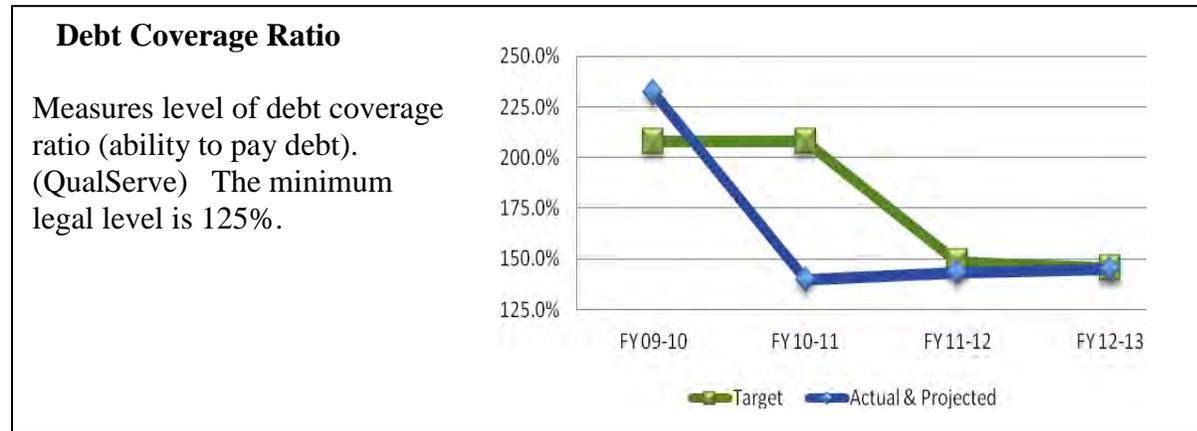
Treasury and Accounting Services

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. 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.

Finance

Performance Measures



Accomplishments Fiscal – Year 2011-2012

- Awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the eighth 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.
- Staff completed internal audits in the following areas: a) phone service; b) processing scrap materials; c) credit card reconciliation; and d) meter purchase and install procedures. The District actively promotes a program of strong internal controls to protect against losses due to unauthorized activities or financial transactions.

Finance

- 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 4-1/2 continuous years. It is the District's policy to invest any available public funds in a manner which will provide maximum security at a market interest return, and while meeting the daily cash flow demands of the entity. Conforming with the District's investment policy and following all state statutes governing the investment of public funds, is a key focus.

Customer Service

Services We Provide

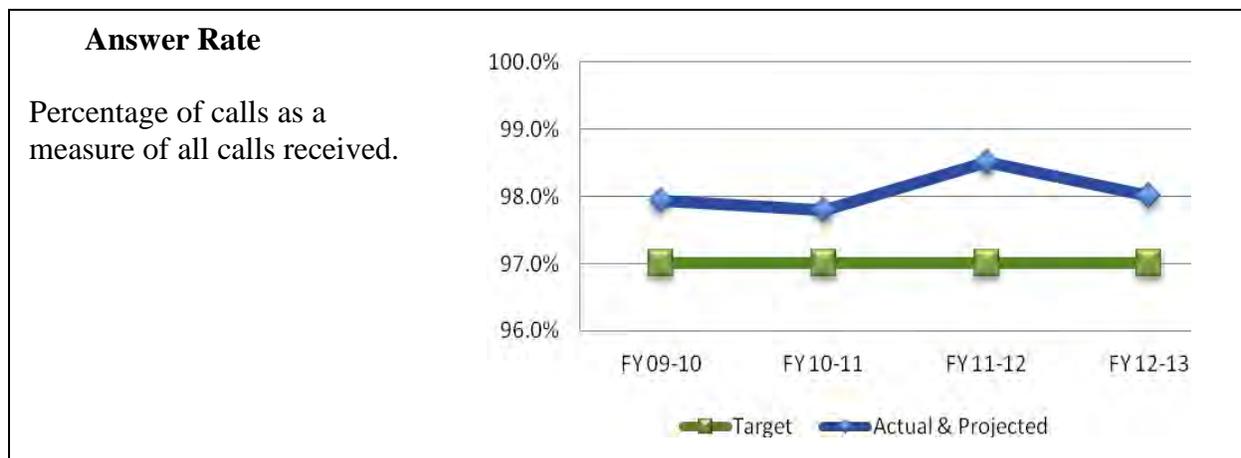
The Customer Service Division is responsible for providing meter reading, billing, receipting, collections, and customer care for water and sewer services. The meter reading team reads approximately 49,000 potable, recycled, and District meters a month using automatic meter reading technology. The District has completed the conversion to an automated meter reading system to 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.
- Streamline Customer Service business processes

Finance

Performance Measures



Accomplishments – Fiscal Year 2011-2012

- Completed a software upgrade to the Customer Information System which included an updated bill print format for all customers. The new bill print format now allows for consolidated billing of multiple accounts and shows credit balances, both of which had been a common request from customers.
- Successfully transitioned over 8,000 accounts from paper bills to paperless billing. The anticipated annual savings is expected to be \$50,000 with the potential to increase as more transitions take place.
- The AMR change-out program that was scheduled to end in FY 2014 was successfully completed this year. This allowed the meter reading team to be reduced by two full-time employees with an overall reduction of five full-time employees since FY 2008.

Finance

- Incorporated the second phase of streamlining the fire service read process. The fire service reads are now reported through the annual backflow testing process. This new process will save approximately 40 hours of staff time per month.
- Updated the cashiering station with the most recent software upgrade which provides better reporting functionality and ensures the latest compliance with financial regulations.
- Automated several routine print jobs, such as letters to locked owner accounts and welcome letters to new customers, saving staff time and improving efficiency.

Payroll and Accounts Payable

Services We Provide

The Payroll Division pays 148 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. This division also responsible for the accounts payable process which pays and approximately 750 invoices on a monthly basis.

Strategic Plan Objective

- Streamline accounts payable business processes

Accomplishments – Fiscal Year 2011-2012

- Accounts payable processes are being reviewed and streamlined to further increase efficiencies.
- 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 2011.

Information Technology and Strategic Planning

Mission Statement

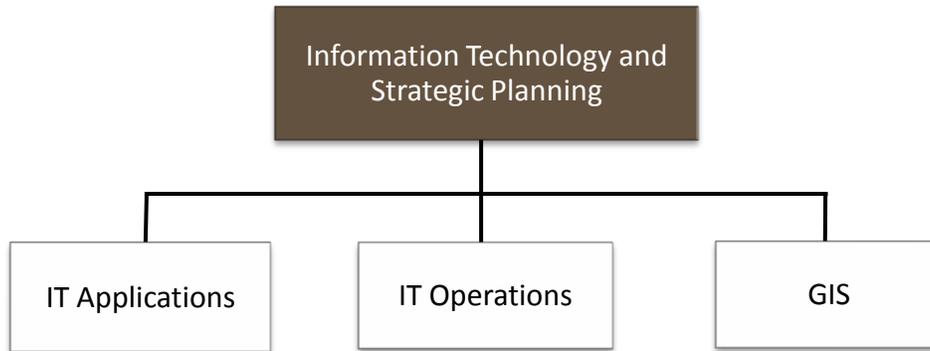
To provide the best quality technology in achieving the goals of the District in serving our customers and employees.



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

Position Count

District Position Count - 148
Information Technology & Strategic Planning Department - 12



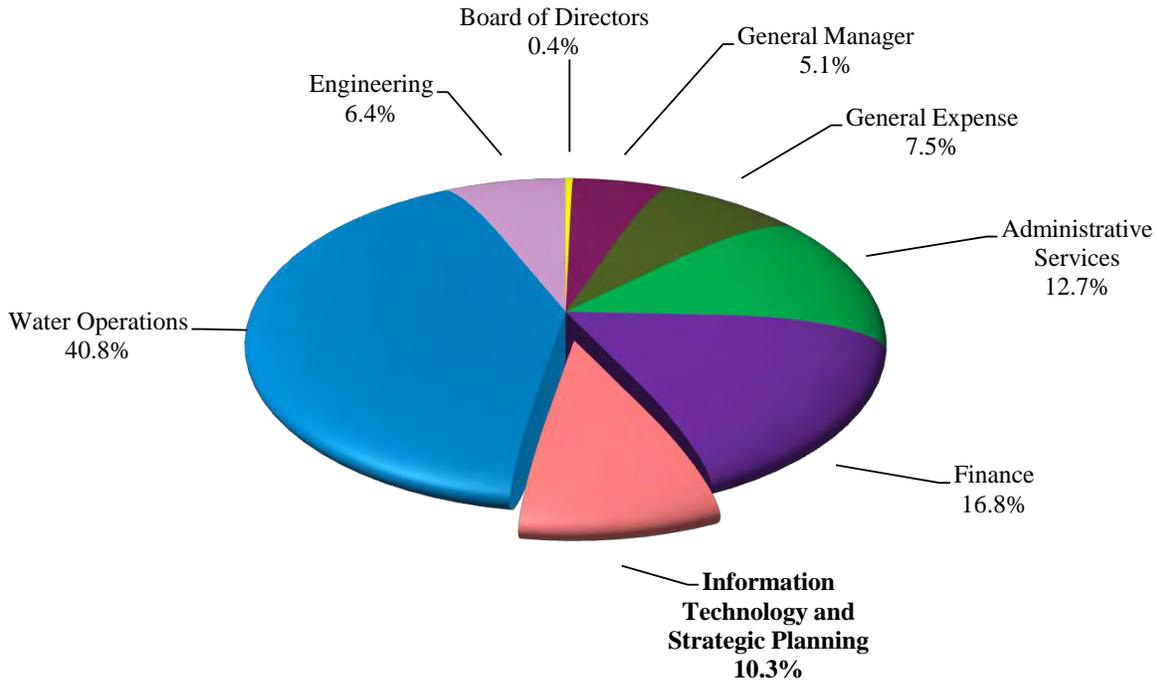
Position Count	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Chief Information Officer	1	1	1
GIS Manager	1	1	1
IT Operations Manager	1	1	1
GIS Programmer/Analyst	1	1	1
GIS Analyst	1	1	1
GIS Technician	1	1	1
Network Engineer	1	1	1
Database Administrator	1	1	1
Lead Business System Analyst	1	1	1
Business System Analyst I and II	2	2	2
Network Analyst	1	1	1
Records Assistant	0	1	0
Total	12	13	12

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 2013 Total Departmental Budget - \$29.1 Million
Information Technology and Strategic Planning - \$2,995,800

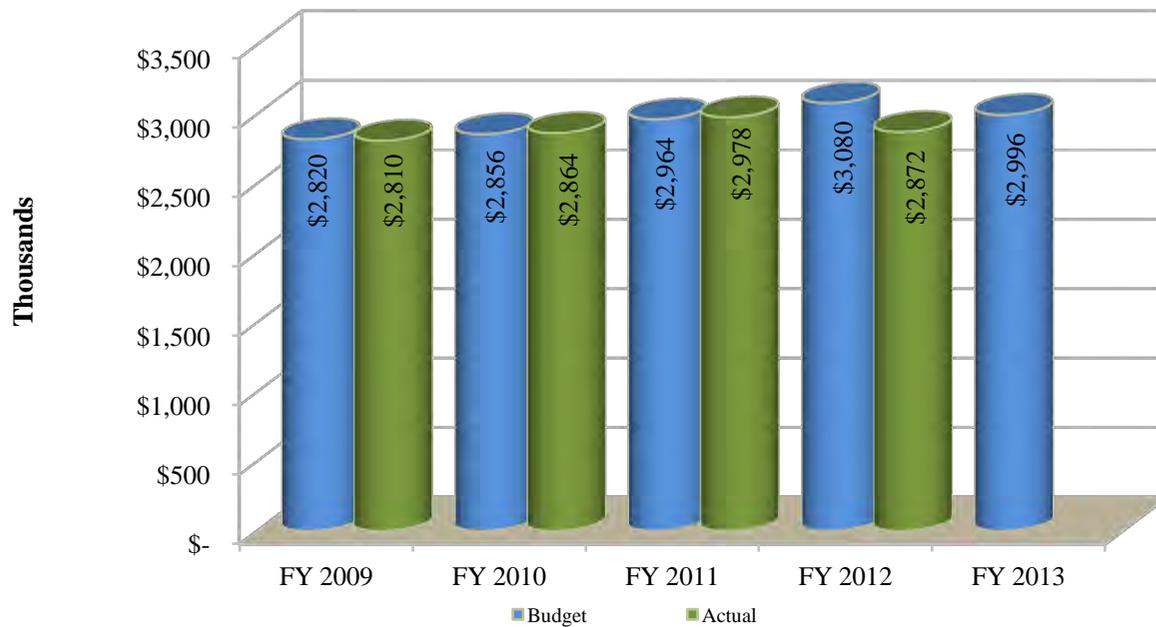


	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
IT Chief/Applications	\$ 942,747	\$ 1,026,900	\$ 984,576	\$ 971,100
IT Operations	1,370,008	1,337,000	1,183,472	1,281,600
Geographic Information System	665,396	716,300	704,315	743,100
TOTAL	\$ 2,978,151	\$ 3,080,200	\$ 2,872,363	\$ 2,995,800

Information Technology and Strategic Planning

	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,862,884	\$ 2,058,300	\$ 1,824,404	\$ 2,003,100
Travel and Meetings	10,241	12,500	8,105	9,300
General Office Expense	2,801	4,300	2,069	400
Equipment	960,607	844,600	837,742	801,000
Services	125,554	143,500	200,043	163,500
Training	16,064	17,000	-	18,500
Total	\$ 2,978,151	\$ 3,080,200	\$ 2,872,363	\$ 2,995,800

Budget vs. Actual



Information Technology and Strategic Planning

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.
- Develop District-wide Records Management program.
- Implement GIS-centric work order system.
- Streamline and improve data center processes.

Accomplishments – Fiscal Year 2011-2012

- In FY 2012, 36 of 42 (85%) strategic objectives identified in the plan were either completed or on schedule to be completed. Also, 32 of 42 (76%) Performance Measures identified as critical to District operations were either ahead of or on target.
- Delivered a significantly upgraded records management solution and converted nearly 50 years of digital Board records and project files while eliminating documents that had met the District's records retention guidelines. This upgrade reduced costs for storage and document processing, as well as much easier and faster access to records.
- Implemented a new capital budgeting system and process that makes capital tracking much easier and eliminated significant consultant expenses for related outside services.
- Automated formerly paper-intensive and manual processed forms such as Direct Deposit, Vehicle Inspection, Petty Cash, Staff Expense, Tuition Reimbursement and Check Request, which saves labor and contributes to the goal of reducing manual labor.
- Began implementation of a new "GIS Centric" work order system that will serve as the primary system to improve field work efficiency. In addition, there is continued emphasis on asset management and collection of critical facilities data on all of our pump stations, reservoirs, and other field facilities.

Information Technology and Strategic Planning

IT Operations

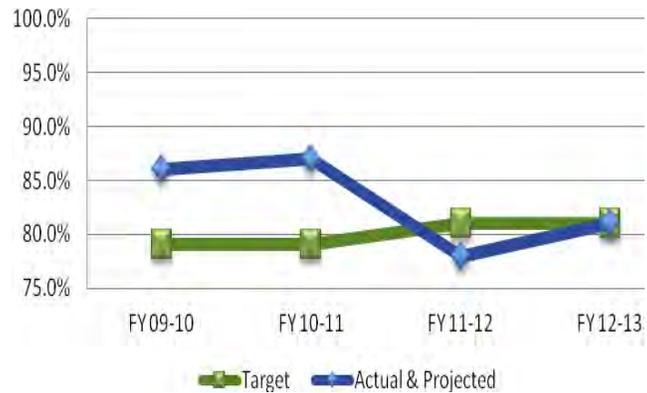
Services We Provide

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.

Performance Measures

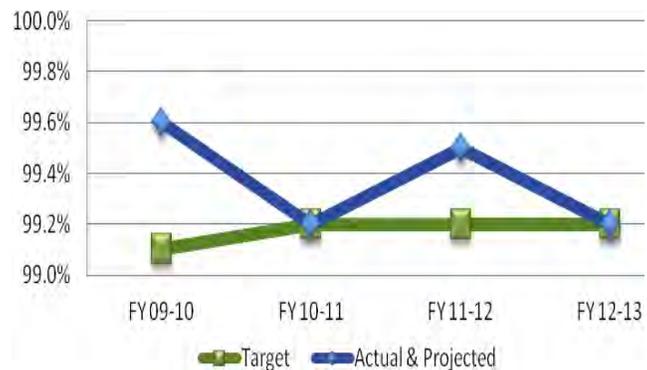
Customer Satisfaction with Website

Tracks customer satisfaction with website through survey.

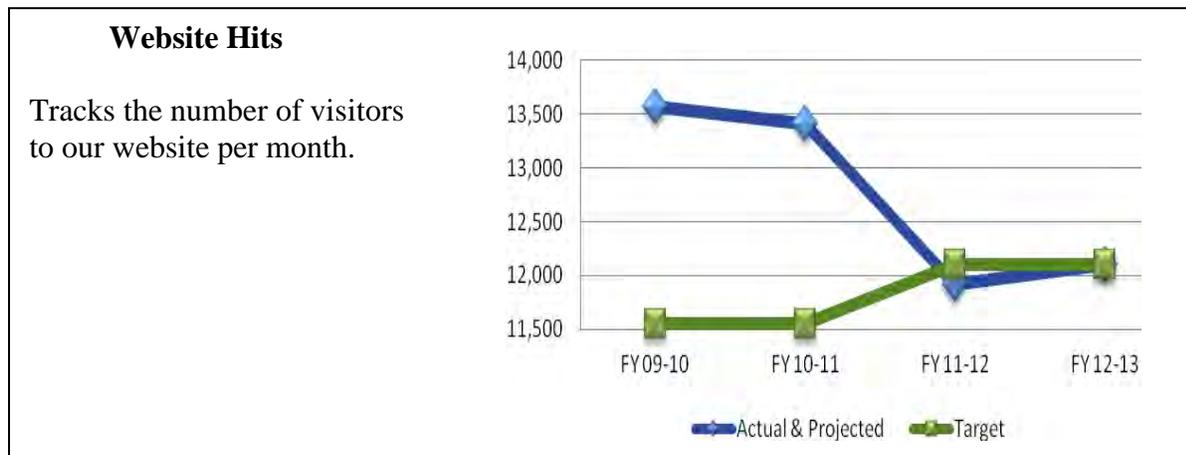


Network Availability

Percentage of uptime for network during normal business hours.



Information Technology and Strategic Planning



Accomplishments – Fiscal Year 2011-2012

- Outsourced core email and network monitoring services to a “cloud provider” ensuring lower costs, more functionality, and higher reliability. This eliminated a back-up data facility and reduced District electrical and air conditioning services that were costing over \$30,000 a year to operate.
- Reduced the cost of phone system maintenance by upgrading the District’s telephone system, which went live at the beginning of FY2012. This upgrade has provided new opportunities to improve customer service options and has eliminated a redundant wiring system that will no longer need to be maintained.
- Reduced hardware purchases by buying services where possible, and reduced capital expenditures for the data center by nearly \$200,000 while keeping operating expenses flat.
- Received the Municipal Information Systems Association of California (MISAC) “2010-2011 Award for Excellence Information Technology Practices” -- the Department was honored to be recognized by peer professionals for the second year in a row.

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.

Information Technology and Strategic Planning

Accomplishments – Fiscal Year 2011-2012

- Updated inaccurate parcels, revising naming conventions to make data simpler to use, and reviewed District and Division boundaries to ensure that both election and tax records are accurate.
- Added new layers of information to our GIS including CCTV data for sewer pipes and revised boundaries for facilities to make tracking easier.
- Modified GIS data to allow staff to identify and track work done to key pieces of infrastructure such as pump stations and reservoirs. These “vertical assets” are now much more accessible for improved maintenance planning.
- Delivered new tools, particularly a “flex viewer” which utilizes ESRI off the shelf software to provide multi-dimensional access to data from either a map or data table perspective with appropriate drill down and hyper linking activity.

Water Operations

Mission Statement

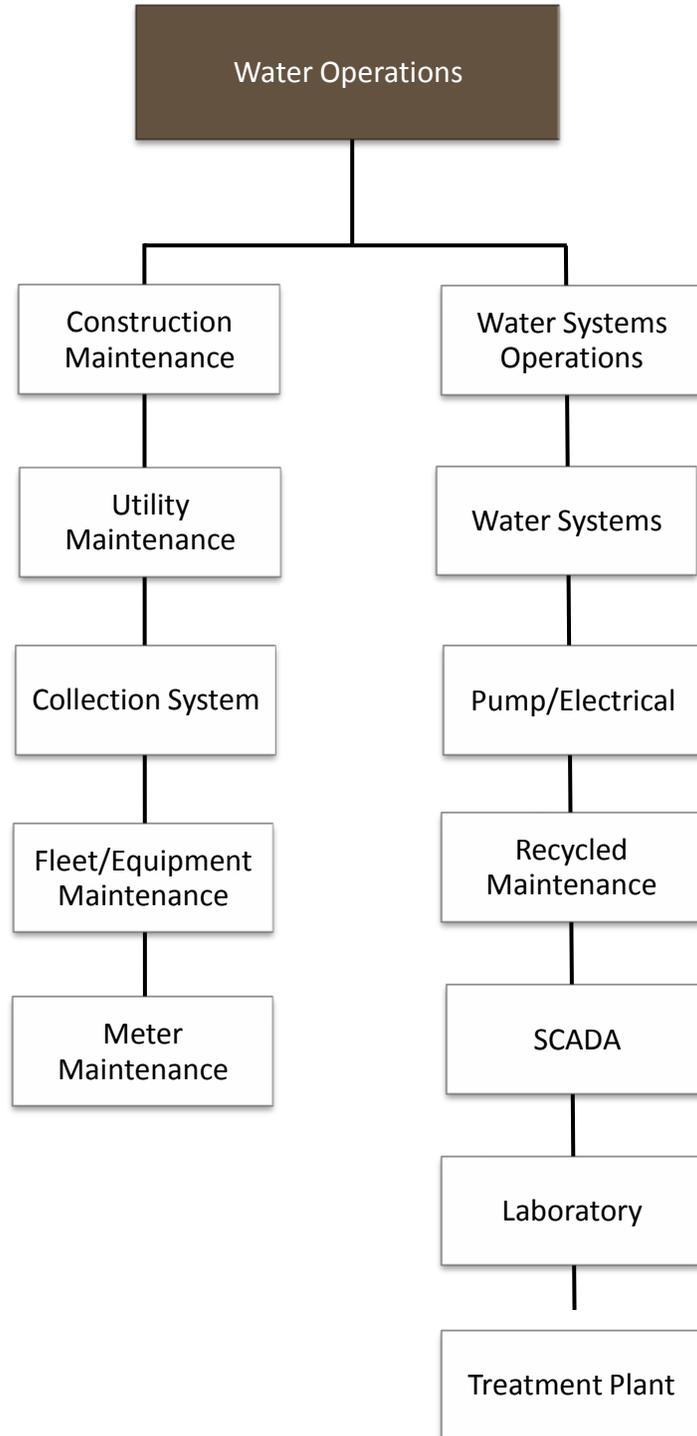
To provide all operations and maintenance service in the most efficient, safe, and cost effective manner to all internal and external customers, and to strive to continually improve the level of service.



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

Position Count

District Position Count - 148
Water Operations Department - 65



Position Count

District Position Count - 148
Water Operations Department - 65

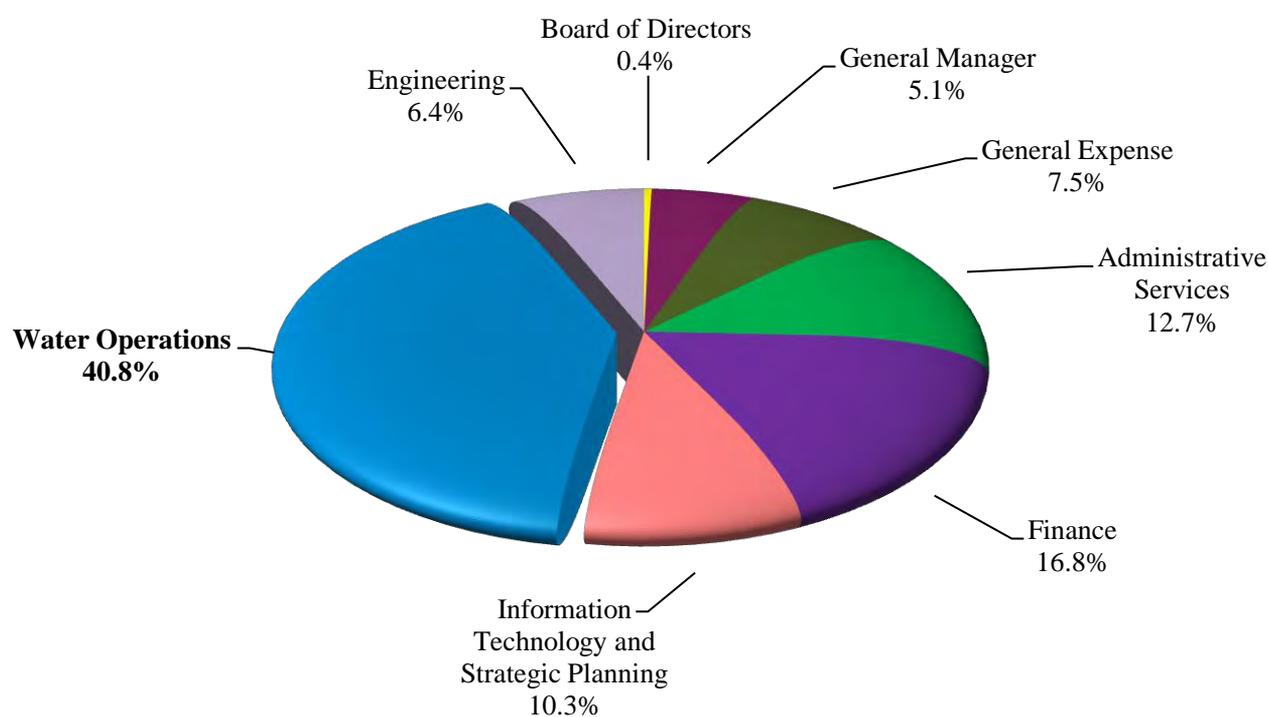
Position Count	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Chief, Water Operations	1	1	1
Executive Secretary	1	1	1
Systems Operations Manager	1	1	1
Water Systems Supervisor	1	1	1
Pump Electrical Supervisor	1	1	1
Recycled Water Systems Supervisor	1	1	1
Meter Maintenance/Cross Connect Supervisor	1	1	1
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	2	2	2
Disinfection Technician	0	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	4
Utility Services Manager	1	1	1
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	4	4	4
Utility Workers I and II	8	9	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	0	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	0
Recycled Water Distribution Operator	3	3	4
Laboratory Analysts	1	1	1
Laboratory Technicians I and II	0	0	0
Total	66	66	65

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, Sewer Collection, and Wastewater Treatment, that provides highly responsible and complex technical and administrative support to the District, General Manager, and Board of Directors.

FY 2013 Total Departmental Budget - \$29.1 Million
Water Operations - \$11,853,000

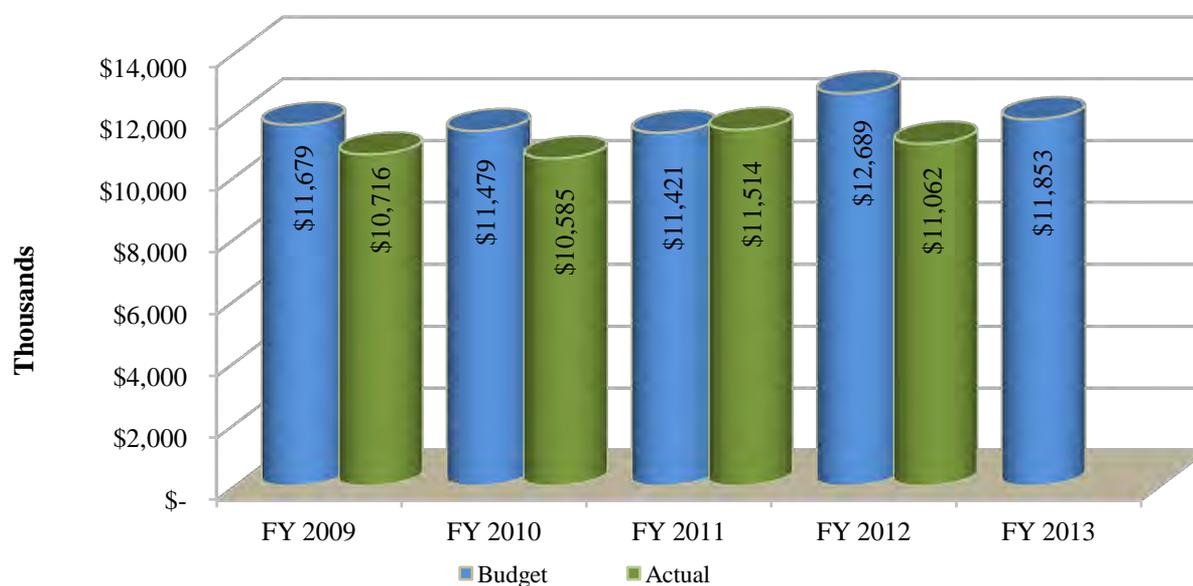


	FY 2011	FY 2012		FY 2013
	Actual	Budget	Estimated	Budget
Water Operations Chief	\$ 437,862	\$ 434,000	\$ 409,734	\$ 430,300
Water Systems	7,184,563	7,621,100	6,819,756	6,950,800
Construction Maintenance	3,891,829	4,633,500	3,832,488	4,471,900
TOTAL	\$ 11,514,254	\$ 12,688,600	\$ 11,061,978	\$ 11,853,000

Water Operations

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Labor and Benefits	\$ 7,236,955	\$ 7,981,800	\$ 7,029,157	\$ 7,821,300
Travel and Meetings	53,842	49,000	46,265	44,300
General Office Expense	4,222	4,800	3,746	300
Equipment	48,648	61,900	38,801	35,000
Fees	92,024	91,000	77,932	97,100
Services	420,402	360,000	265,663	408,300
Training	9,711	12,000	4,400	10,500
Materials & Maintenance	1,903,024	2,341,500	1,832,924	2,187,300
Sewer Charges	1,603,159	1,636,600	1,625,945	1,248,900
Miscellaneous	142,267	150,000	137,145	-
Total	\$ 11,514,254	\$ 12,688,600	\$ 11,061,978	\$ 11,853,000

Budget vs. Actual



Water Operations

Water Systems Operations

Services We Provide

The Water Systems Operations Division encompasses six sections which are responsible for operations and maintenance of the potable and recycled water distribution systems and the Ralph W. Chapman Water Recycling Facility. The water system operators maintain the water distribution system and ensure it is running properly in order to provide safe, reliable drinking water to the District's customers. 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. The treatment plant staff maintains and operates the District's sewer treatment plant in order to produce high-quality recycled water to the District's recycled water customers. The recycled system operators maintain the recycled water distribution system and ensures it is operating properly in order to provide recycled water to the District's recycled water customers. 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

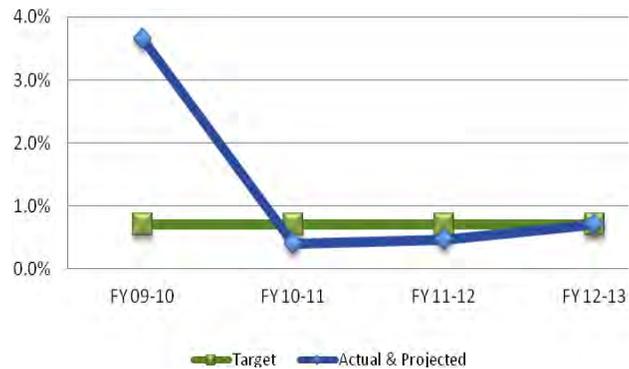
- Implement a water loss management program.
- Replace SCADA system and optimize functionality, business continuity, and bandwidth.
- Evaluate opportunities to combine or transfer similar work functions.
- Complete valve exercising program business processes.
- Develop data collection and condition assessment for potable system facilities.
- Implement the recommendation for improving response to extended power outages.

Water Operations

Performance Measures

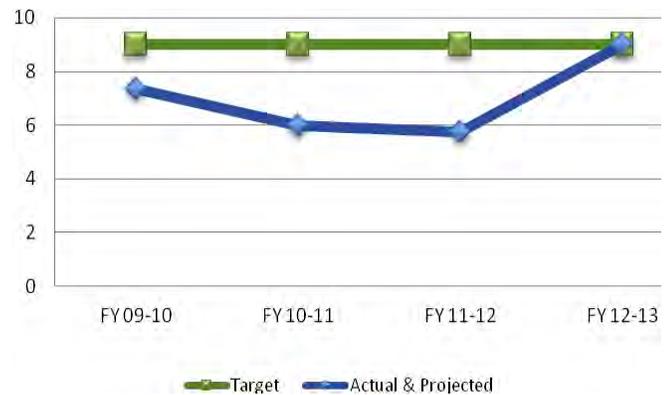
Unplanned Disruptions

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



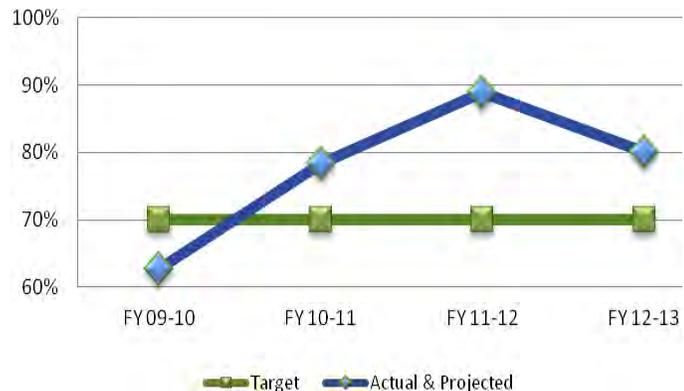
Technical Quality Complaint

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

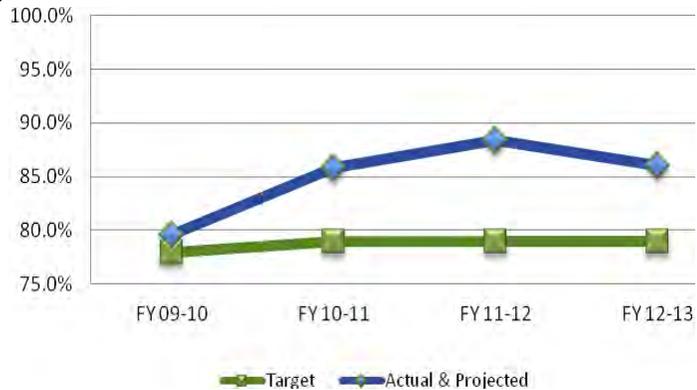
Compares how effectively the District is investing in planned maintenance.



Water Operations

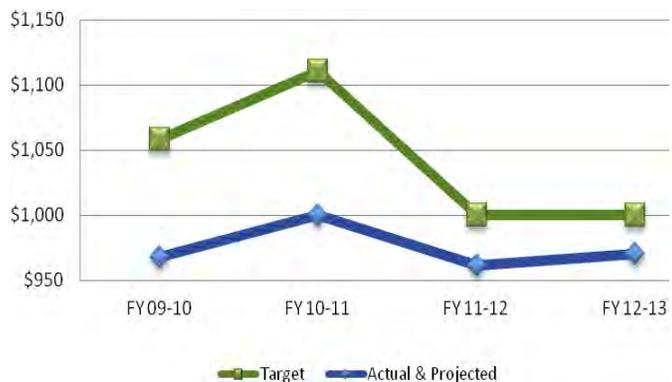
Planned Wastewater Maintenance Ratio in Dollars

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



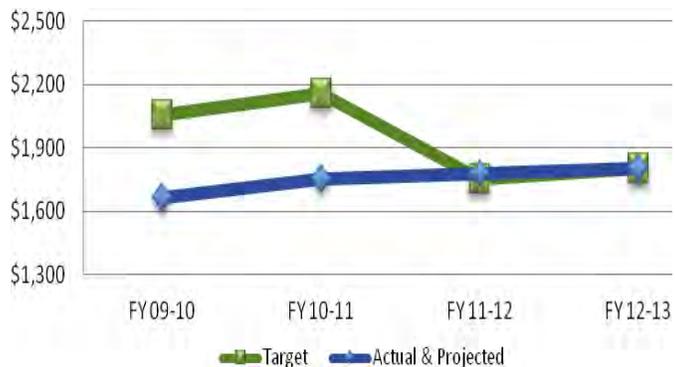
Direct Cost of Treatment per MGD

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 MG

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



Water Operations

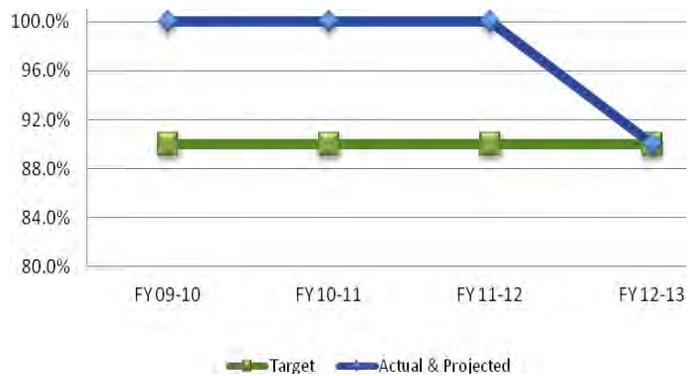
Percentage of Preventative Maintenance Completed in the Reclamation Plant

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



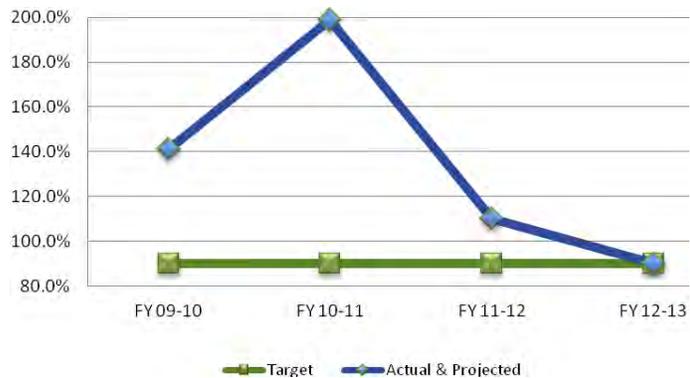
Percentage of Preventative Maintenance Completed in the Pump/Electric Section

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



Percentage of Preventative Maintenance Completed in the Valve Maintenance Program

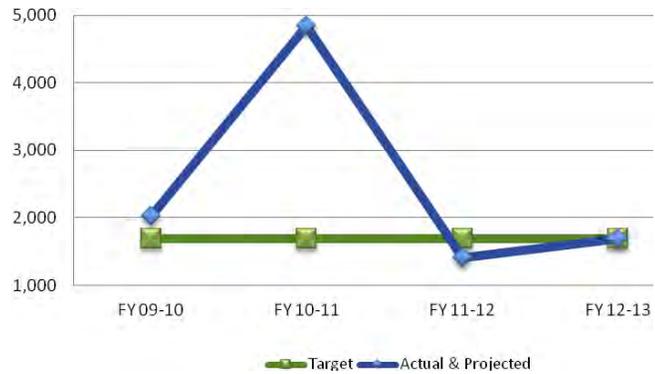
Tracks the percentage of scheduled PM's that are completed in the Valve Maintenance Program.



Water Operations

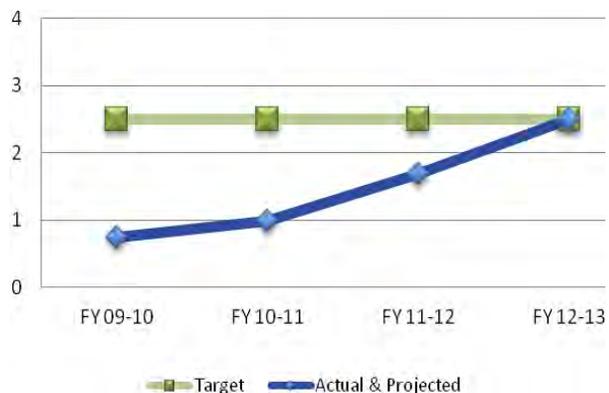
Valve Exercising Program

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



Planned Water Service Disruption Rate

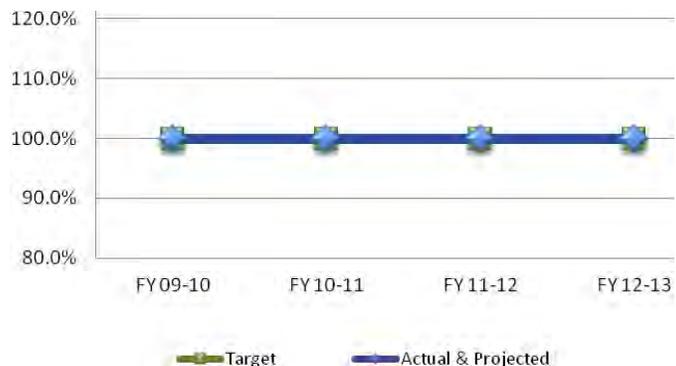
Quantifies the annual average of planned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts. (QualServe)



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)

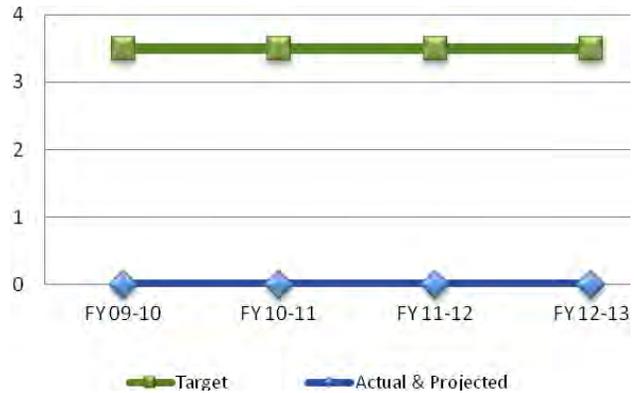
Both Actual/Projected and Targets are at 100%.



Water Operations

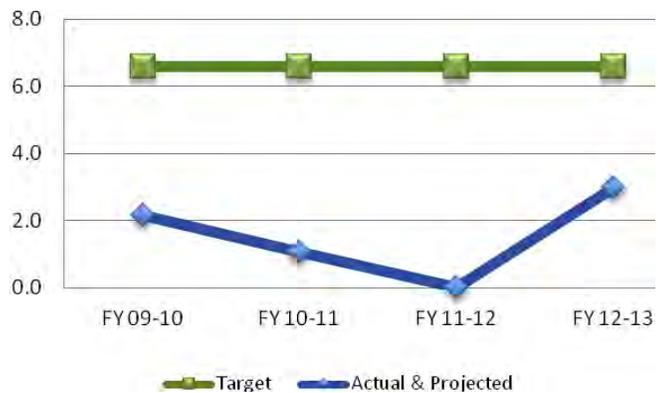
Collection System Integrity

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



Recycled Water Distribution System Integrity

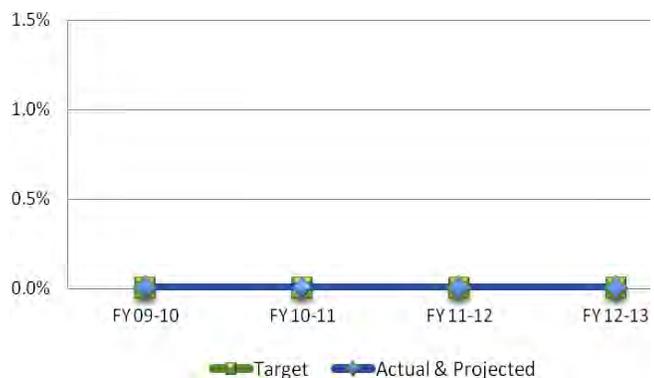
Tracks number of leaks or breaks per 100 miles of water distribution system.



Sewer Overflow Rate

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

Both Actual/Projected and Targets are at 0.0%.



Water Operations

Accomplishments – Fiscal Year 2011-2012

- Installed nine Variable Frequency Drives at the 850-2 / 803-1 pump stations and removed/replaced the nine motors to allow the contractor to rewind them with inverted rated wire. This will save the District approximately \$85,000 per year in pumping costs.
- Installed five new 125 HP pumps and motors at the 711-1 pump station which increases pump efficiency and extends the service life of the pumps.
- Continued to collect pump station, reservoir, and pressure reducing station data for the Asset Management program.
- Assisted in the La Presa Systems Improvements, the 850-3 recoating, and the 944-1 recycled pump station upgrade CIP projects, as well as developer projects throughout the year.
- Assisted in the planning and design of the Otay Interconnect Pipeline and the Rancho Del Rey Well projects.
- Exercised 1,408 valves this year. This equates to approximately 75% of all potable valves being exercised since the valve crew began in 2006.
- Worked with regional recycled water agencies and the County of San Diego Department of Environmental Health to produce a draft agreement that would reduce the cost of oversight by the County on recycled water cross-connection testing by 50% (approximately \$20,000 per year) when fully implemented.
- Participated in upgrade to the Ralph W. Chapman Water Recycling Facility. The improvements included automating the chlorination feed system and scales; increasing the physical security, lighting, and video-camera capabilities of the site; and installing a tertiary treatment bypass system to help in the recovery process.

Utility Maintenance / Construction

Services We Provide

The Utility Maintenance and Construction Division has four sections which provide vital maintenance functions that ensure the best quality of water and wastewater service to customers while adhering to all applicable regulatory compliance requirements. Utility Maintenance maintains the wastewater collection system, 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-Connection Control program, regulated by the Department of Public 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

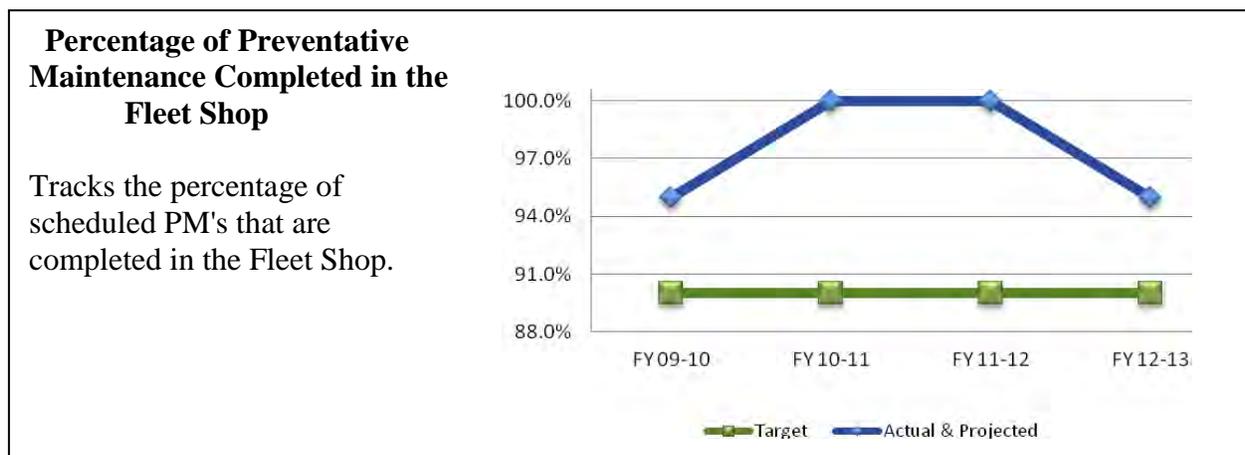
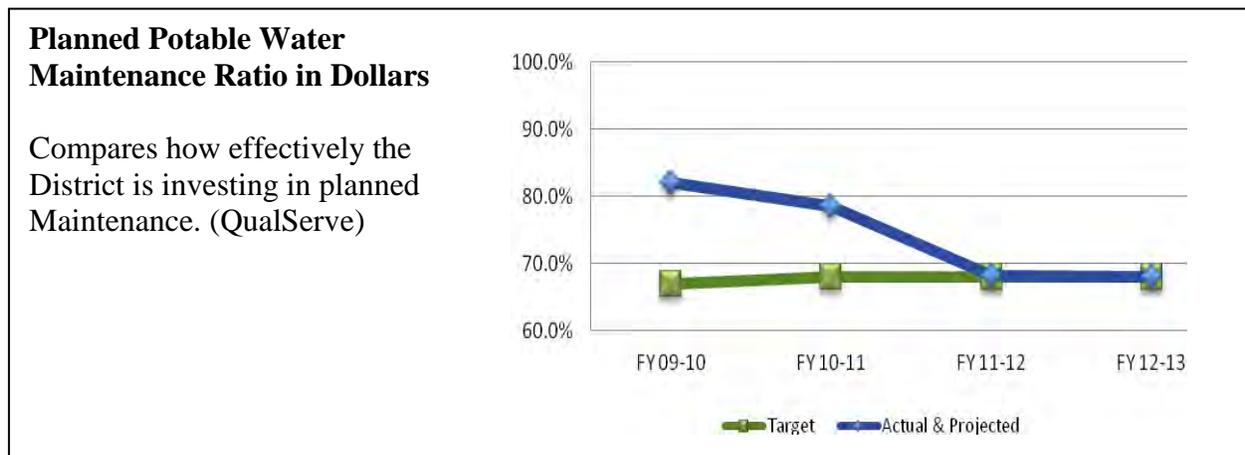
Water Operations

performance while establishing fuel efficient operational practices and emissions compliance. The wastewater collection system crews are cleaning and televising the sewer system on a daily basis to ensure smooth flow of the system and to look for any area of concern in the system.

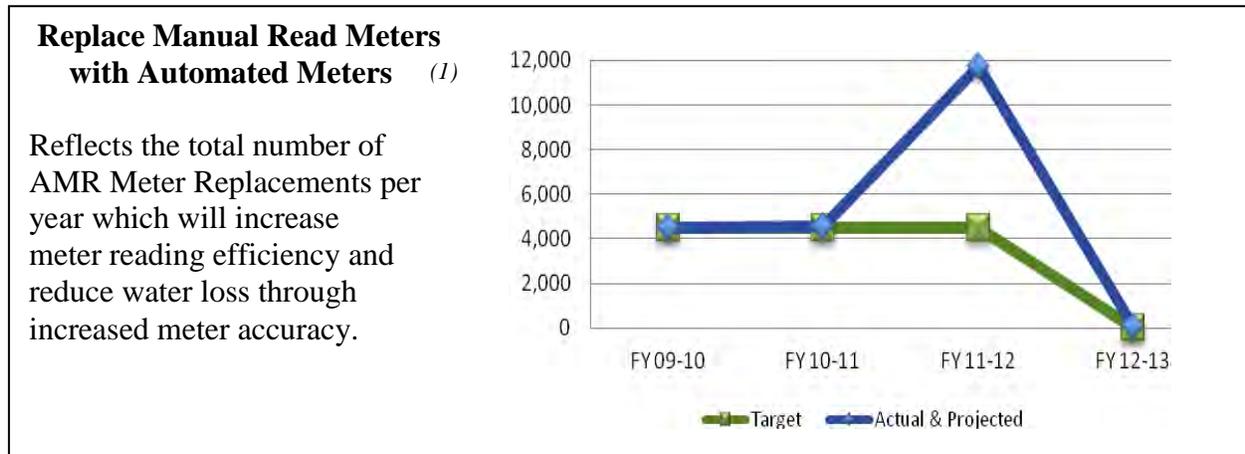
Strategic Plan Objective

- Develop and implement large meter vault retrofit programs.
- Develop large and small meter test bench strategy.
- Develop data collection and condition assessment for collection system facilities.
- Develop gen-set load bank testing.

Performance Measures



Water Operations



(1) The AMR Program was accelerated in Fiscal Year 2012 to accommodate the further reduction in meter reading staff to improve efficiency. The AMR Program will be completed in early fiscal year 2013.

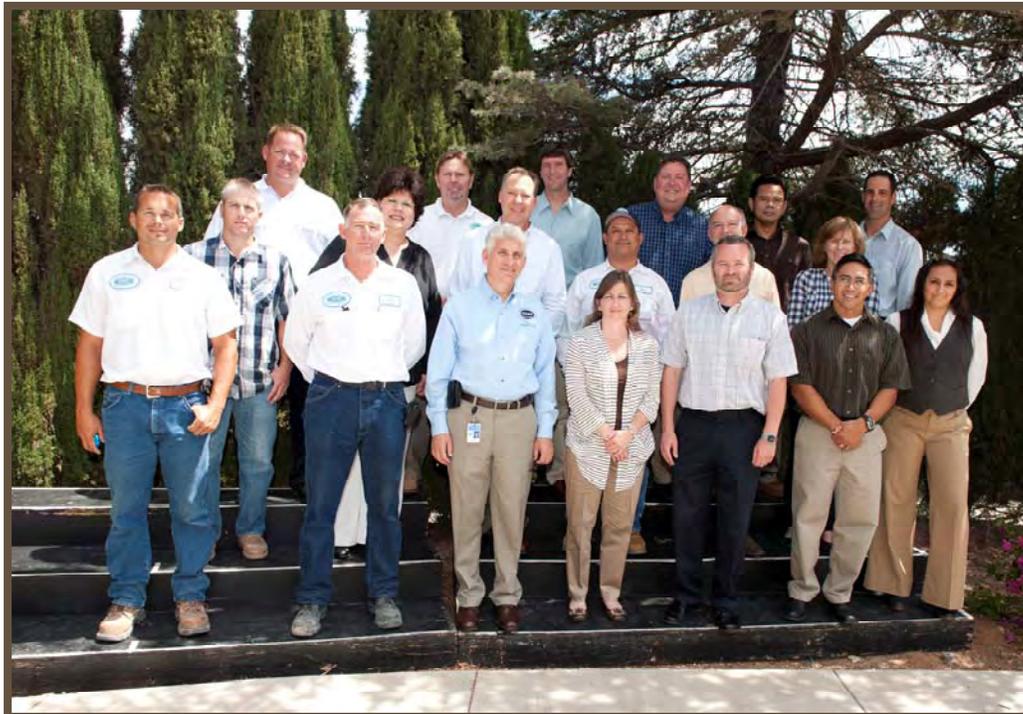
Accomplishments – Fiscal Year 2011-2012

- Installed covers for new emergency stand-by generator and chlorine injection equipment at the Treatment Plant to extend the lifespan of the equipment. The new generator will provide power rating to support equipment upgrade.
- Retro fitted 284 air-vacs to reduce impact by cars.
- By designing and constructing large meters above ground it eliminated confined space entries. One 6-inch at the Boys and Girls Aid society on Steele Canyon Drive and two 3-inch meters at Avocado Village in La Mesa.
- Staff cleaned 333,666 feet of sewer lines. No spills were reported.
- Increased the percentage of AMR meters District-wide from 73.99% to 97.99%. The total number of AMR meters went from 36,324 to 47,791. By accelerating the AMR change-out schedule (contractor's changing-out 9,723 meters and the District staff changed-out 2,039 meters) we essentially completed the change-out two years ahead of schedule.
- Worked with Customer Service and I.T. staff to import the fire service reads from the IMS backflow database which eliminated the need for the Meter Reading staff to manually collect the reads.
- 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.

Engineering

Mission Statement

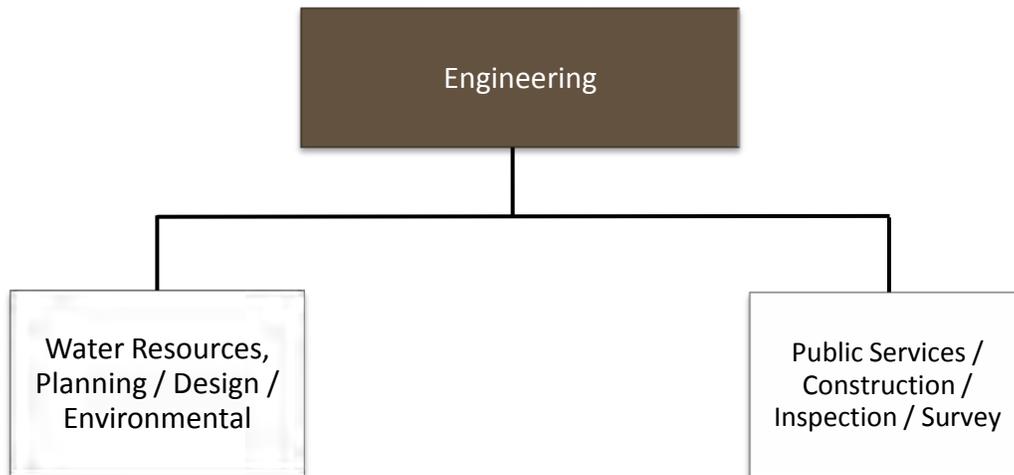
To provide effective services to the other departments and development community by constructing District assets and expediting the permitting process to attain excellent customer satisfaction with dedicated employees and innovative technology.



<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 - 148
 Engineering Department - 65



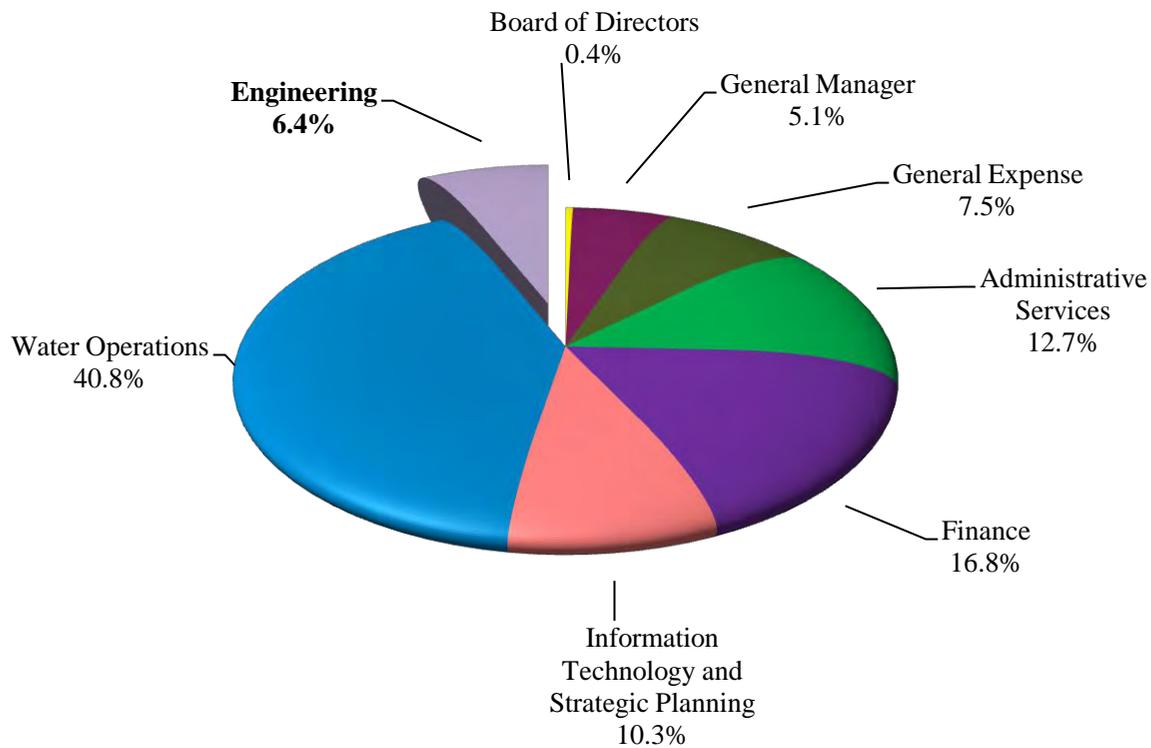
Position Count	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Chief, Engineering	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Engineering Manager	2	2	2
Public Services Manager	1	1	0
Senior Civil Engineer	1	1	2
Associate Civil Engineer	2	2	1
Assistant Civil Engineer I and II	1	1	1
Environmental Compliance Specialist	1	1	1
Permit Technicians	2	2	2
Senior Engineering Technician	2	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	0
Assistant Survey Technician	1	1	1
Total	21	21	19

Engineering

Department Responsibilities

The Engineering Department, under the general direction of the Assistant General Manager, provides the following support services: Planning, Design, Construction, Project Management, Public Services, 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 2013 Total Departmental Budget \$29.1 Million Engineering - \$1,862,000

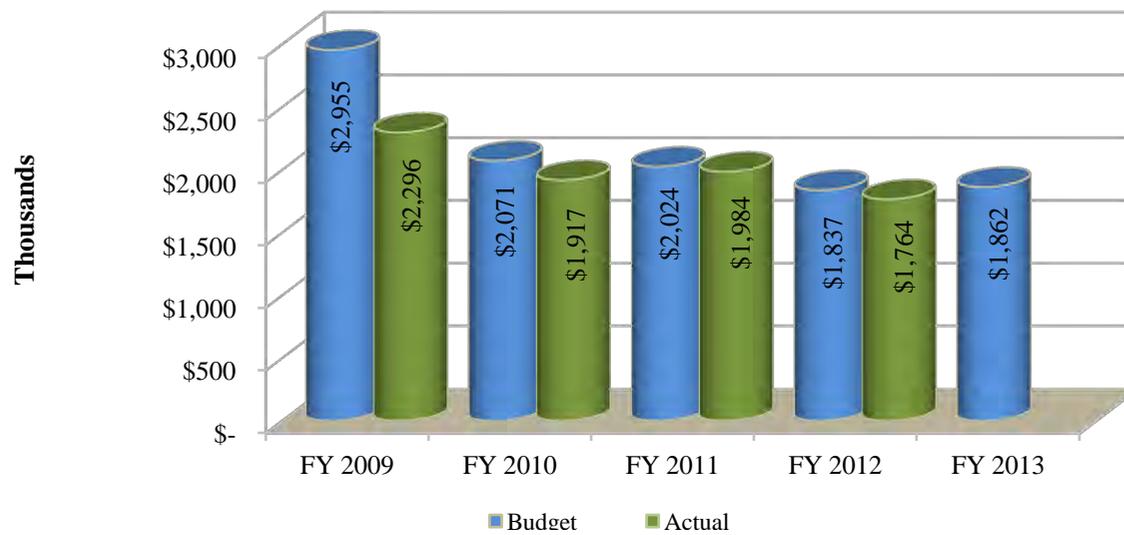


	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Engineering Chief	\$ 192,154	\$ 167,100	\$ 193,132	\$ 284,700
Planning	351,268	305,000	262,442	230,000
Design	252,384	259,700	254,284	300,400
Water Resources	183,141	162,000	144,364	152,400
Public Services	282,846	292,400	277,127	278,000
Construction Services	240,376	154,200	161,781	169,700
Survey Services	276,243	285,400	273,987	249,600
Environmental Services	205,447	211,100	197,068	197,200
TOTAL	\$ 1,983,859	\$ 1,836,900	\$ 1,764,185	\$ 1,862,000

Engineering

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Labor and Benefits	\$ 1,271,573	\$ 1,190,400	\$ 1,205,995	\$ 1,262,700
Travel and Meetings	14,145	17,700	6,130	14,200
General Office Expense	6,700	6,200	2,599	1,600
Equipment	21,655	7,700	5,558	-
Fees	34,543	35,000	39,760	38,000
Services	633,299	573,200	503,272	538,800
Training	1,944	6,700	871	6,700
Total	\$ 1,983,859	\$ 1,836,900	\$ 1,764,185	\$ 1,862,000

Budget vs. Actual



Engineering

Water Resources / Planning / Design / Construction / Environmental

Services We Provide

The Water Resources, Planning, Design, and Environmental Divisions provide a variety of services directly related to potable water, recycled water, and sewer services. Water Resources staff identifies, negotiates, and develops additional potable and recycled water supplies. Additionally Water Resources coordinates with other agencies or regional issues and is responsible for obtaining grants, loans, and cost sharing opportunities. 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. 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 design projects related to maintenance of existing facilities including the Ralph W. Chapman Water Reclamation Facility.

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.
- Prepare and implement a Wastewater Management Plan.

Accomplishments – Fiscal Year 2011-2012

- Received \$935,227 in grant funds from the United States Bureau of Reclamation for participation in the Title XVI Program in Fiscal Year 2012. Over \$12 million in Title XVI grant funds have been received to date.

Engineering

- Received \$100,000 in reimbursements from Otay River Constructors for the SR-125 Utility Relocations. The project consisted of relocating a number of District pipelines to accommodate the new SR-125 toll road by South Bay Expressway.
- Started work on the Wastewater Master Plan (WWMP). The purpose of the WWMP is to develop costs, identify risks, benefits, regulatory requirements, and opportunities the District could pursue in providing wastewater services and new recycled water supply resources.
- For the Rosarito Desalination Facility Conveyance and Disinfection System project a White Paper was prepared for the California Department of Public Health Permit Approval Road Map, as well as a Boron Study and a report on the Water Quality Thresholds for Boron.
- Completed design of the Sewer Replacement on Avocado, Hidden Mesa, Challenge, Louisa, and Calavo project. The project includes replacing 5,000 linear feet of 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.
- Completed the design of the East Palomar Bridge Utility Relocation project. This project replaces the 10-inch pipeline in the East Palomar Bridge.
- Completed design on the 30-Inch Potable Pipeline in Hunte Parkway. This project will reduce the head losses during high demands in the 980 pressure zone.
- Completed preliminary design of the Rancho del Rey Groundwater Well Development project. The project consists of a recently installed brackish groundwater production well and a future reverse-osmosis treatment facility that is anticipated to produce 600 acre-feet of potable water annually. This project will directly offset the use of imported potable water and increase reliability of the local water supply for Chula Vista residents.
- Obtained a Habitat Loss Incidental Take Permit (HLIT) from the City of Chula Vista for the biological impacts that will occur during the construction of the Wueste Road Recycled Water Pipeline, a component of the Recycled Water Supply Link Project.
- Expanded an alignment study for the Otay Interconnect Pipeline (formerly named North/South District Interconnection System Project) and studied supplemental alignments based on input from the community and the SDCWA. This project includes the design and construction of a pipeline and pump station to transfer

Engineering

water from the North District to the South District and vice versa for better water reliability.

- Coordinated the District's involvement (design review and inspection) in the successful construction of the Heartland Training Facility at the District's Regulatory site. This facility is a joint use training facility for Fire District and Otay Water District employees. Phase I of the project is 95% complete and contains a District owned confined space training prop.

Public Services / Survey / Inspection / Construction

Services We Provide

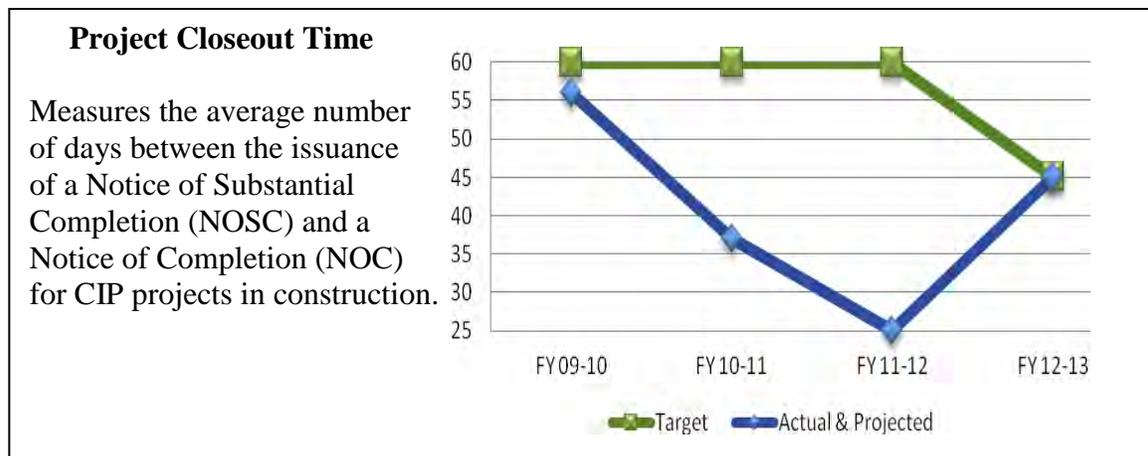
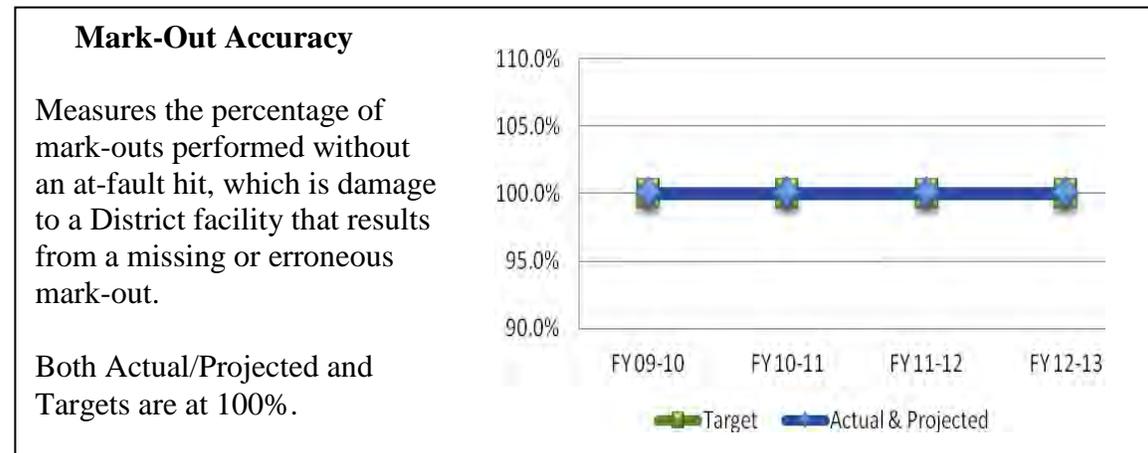
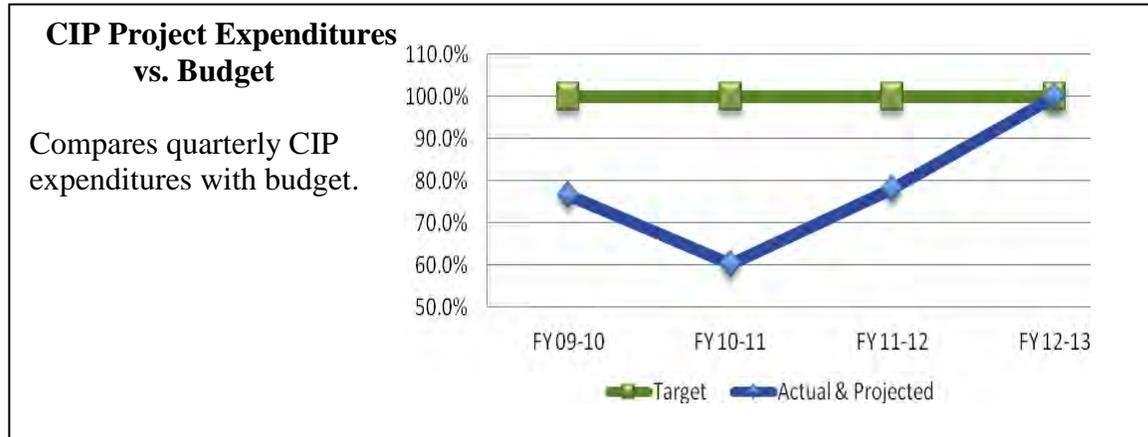
The Public Services, Survey, Inspection, and Construction Divisions assist the public by responding to customer visits, phone calls, and inquiries regarding permits, plan-checking fees, filing procedures, permit status, meter sales, meter costs, and lateral costs. Staff administers all plan-checking 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. Once bid, the Construction staff provides construction management for the projects.

Strategic Plan Objectives

- Work with the District's largest potable water use customers to convert landscape and interior water use to recycled water where fiscally feasible and safe.
- Strengthen CIP planning, budgeting, and cost tracking processes.

Engineering

Performance Measures



Engineering

Accomplishments – Fiscal Year 2011-2012

- Generated revenue in meter sales in excess of \$3.9 million and sold 316 meters equating to 436 EDU's and 316 permits.
- Generated revenue in cell sites in excess of \$1.02 million and maintained 33 cell site leases.
- The Survey Division completed 2,783 USA Mark-out tickets with an accuracy rate of 100%.
- The Inspection Division performed QA/QC on 10,911 linear feet of pipeline. District inspectors also performed 269 meter sets and 45 plan checks that consisted of fire services, backflows, and developer pipeline projects.
- Completed the construction of the Del Rio Road & Gillispie Drive Emergency Interconnection Project. This project consisted of installing two metered emergency interconnections with Helix Water District to provide or take supply in the event of an emergency.
- Completed the major construction components of the Ralph W. Chapman Water Recycling Facility Upgrade project. This project upgraded the plant to meet required effluent nitrogen levels and included energy efficient aeration panels and turbo aeration blowers that will result in significant energy savings.
- Completed construction of the La Presa System Improvements Project. This project demolished the pump station and reservoir facilities at the La Presa and Dorchester sites, installed a new pressure reducing station, and installed multiple interconnections throughout the 640 pressure zone.
- Completed the construction of the Force Main Access Road Repairs Project. This project consisted of repairing the recycled water force main access road from the treatment plant to the Use Area due to the December 2010 rain storms. Federal Emergency Management Agency (FEMA) provided funding for this work.
- Completed the HVAC Improvements to Copps Lane and Hillsdale Pump Stations at the Regulatory Site. These two pump stations received additional Variable Frequency Drives (VFD) to provide better efficiency.
- Completed the meter relocations along Jamacha Blvd. for the County's road widening project.

Engineering

- Completed the installation of five (5) new pumps and motors for the 711-1 Pump Station Upgrades project. The new 980-2 Pump Station and conservation efforts reduced the demands in the 711 pressure zone. This project replaced the larger pumps and motors with smaller more efficient equipment to accommodate the reduced demand.
- Completed the construction of the 657-1 & 657-2 Reservoir Coating and Upgrades project which included removing and replacing the interior and exterior coatings of both steel tanks. Structural modifications were also added to replace aging equipment and bring the tanks up to current safety standards.

General Expense

Mission Statement

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



657-1 Reservoir

Division Title Division No.

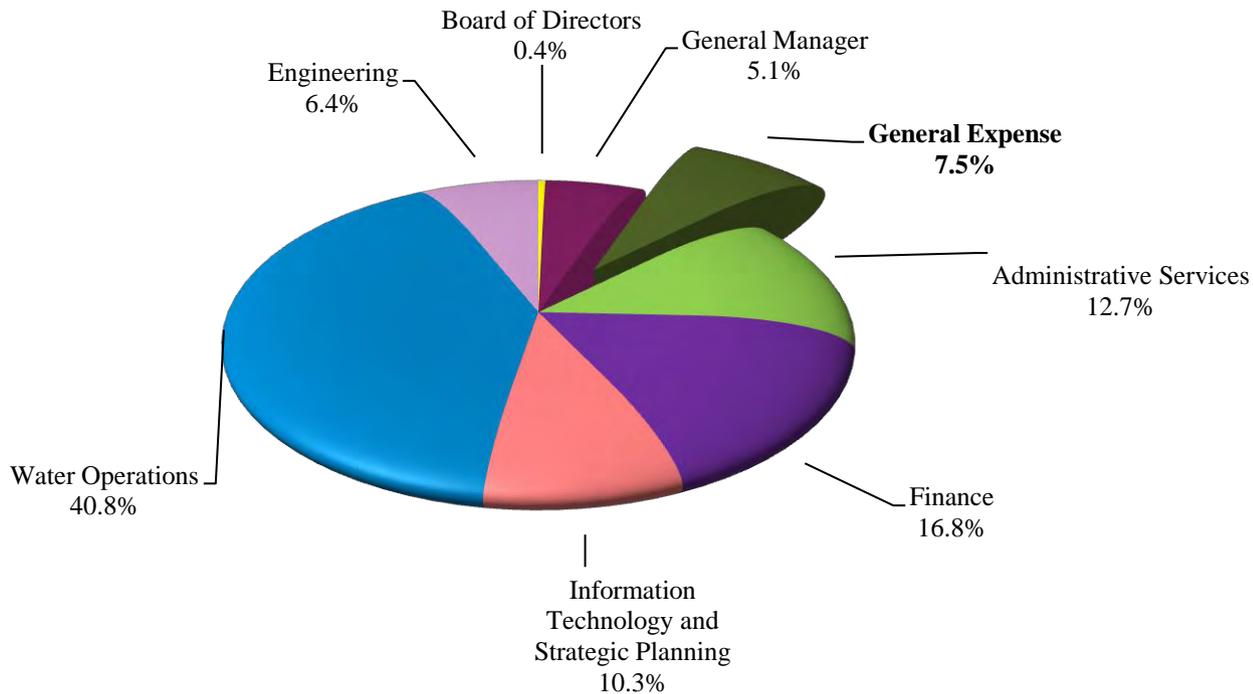
General Chief 1311

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 7.5% of the total Departmental Budget.

FY 2013 Total Departmental Budget - \$29.1 Million
General Expense - \$2,176,300

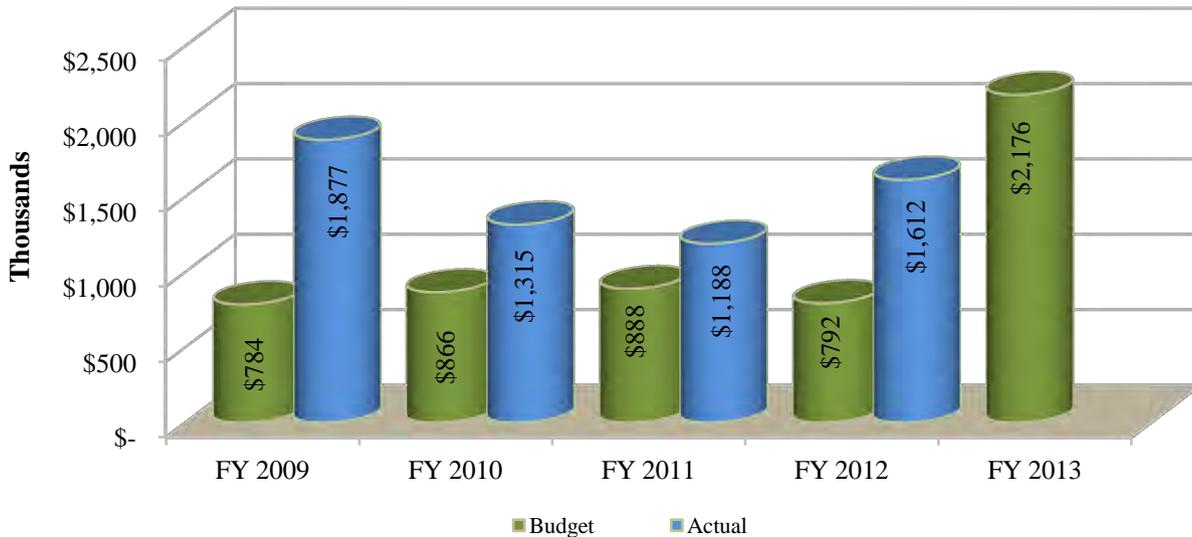


	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
General Expense	\$ 1,188,034	\$ 792,400	\$ 1,612,095	\$ 2,176,300
TOTAL	\$ 1,188,034	\$ 792,400	\$ 1,612,095	\$ 2,176,300

General Expense

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimated	FY 2013 Budget
Labor and Benefits ⁽¹⁾	\$ 344,512	\$ (79,600)	\$ 699,740	\$ 1,267,300
Fees	843,522	872,000	912,355	909,000
Total	\$ 1,188,034	\$ 792,400	\$ 1,612,095	\$ 2,176,300

Budget vs. Actual



(1) Benefits for General Expenses include District-wide labor and benefit expenses not attributable to any one department, such as the effect of cost of living raises on accrued leave liabilities or the Other Post Employment Benefit Costs (OPEB). These expenses are netted against the District's anticipated Vacancy Factor. The Vacancy Factor for FY 2012 and FY 2013 was \$278,800 and \$271,300 respectively.

During FY12 the Otay Water District adopted an enhanced retiree medical plan which increased the District's OPEB costs by \$792,000 for FY13. The increased costs of this OPEB plan enhancement is offset by approximately \$950,000 in savings for pension costs after the District's employees agreed to increase their amount paid for pensions from 1% to 8% of pensionable wages. Unrelated to the enhancement, the FY13 costs also includes a shift in funding of \$350,000 of OPEB costs from reserves to the District's operating budget.

Capital Improvement Program

The District provides water service to a population of approximately 208,000 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. As such, capital planning is part of the District's overall strategic planning. The capital planning process involves identifying current needs, 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 \$475 million in capital assets through ultimate build-out. The Fiscal Year 2013 Capital Budget is \$18 million and the six-year Capital Improvement Program (CIP) totals \$116.4 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 built using 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

Capital Purchases and Facilities

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, Furniture, and Field Equipment purchases. The details of these purchases can be found on page 185. Capital Facility Projects are items that exceed \$10,000 or \$20,000 for infrastructure related items (as defined under Capital Equipment on page 251 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 are funded from new supply fees or user rates.

Expansion

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

Betterment

Facilities required because of inadequate capacity or new requirements that benefit existing users 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 are funded from user rates.

Major CIP Projects

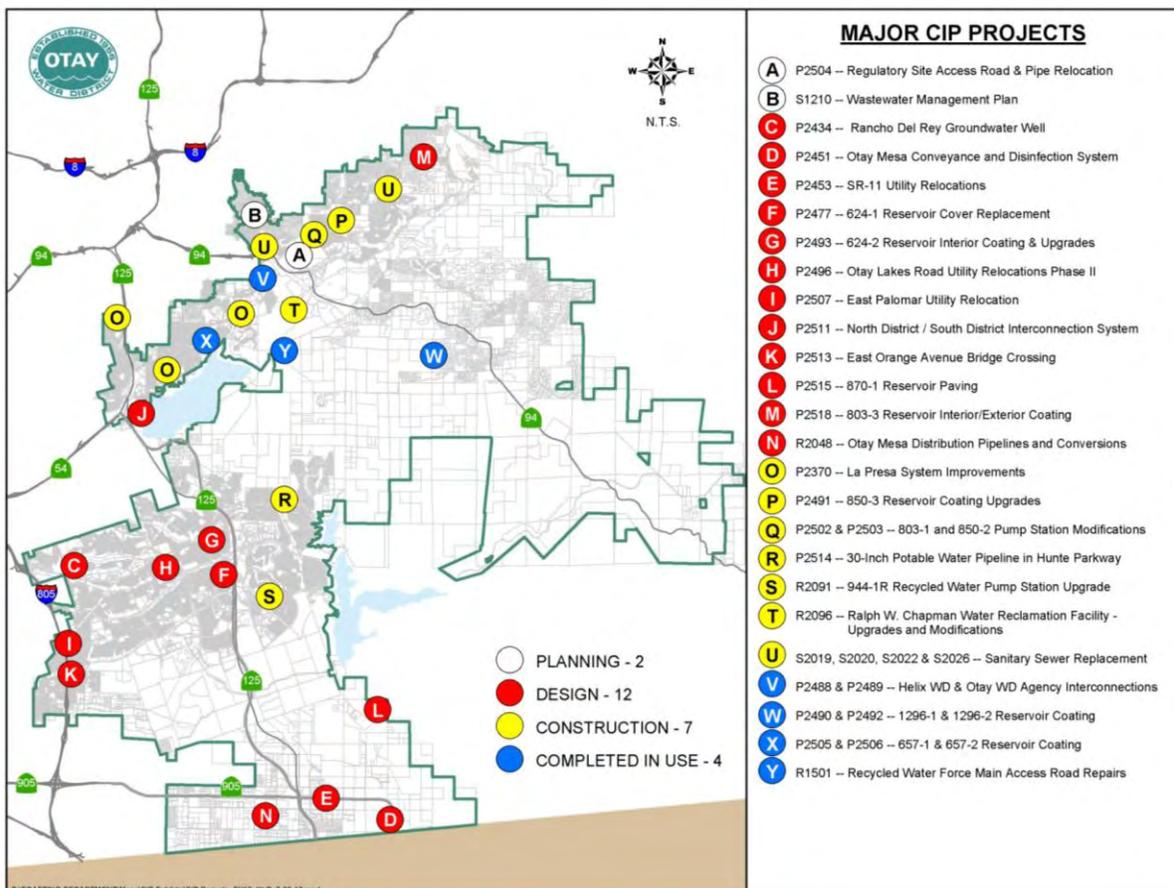
Capital Improvement Projects

The 2013 Fiscal Year CIP Budget contains 70 projects. The cost of the work planned for Fiscal Year 2013 is \$18 million. Of the 70 projects planned for Fiscal Year 2013, only three are designated as reimbursable projects with estimated costs totaling \$63,000. These projects are built by developers and reimbursed by the District.

The following shows how the \$18 million of projects are broken down into four categories:

1. Capital facilities \$ 6.9 million
2. Replacement or renewal projects \$ 9.9 million
3. Capital purchase projects \$ 1.1 million
4. Developer reimbursement projects \$.1 million

The Six-Year CIP and Fiscal Year 2013 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

**Phase I of 944-1R
Recycled Water Pump
Station Upgrades and
System Enhancements
(R2091)**



*New Suction Header and Grating
at 944-1R Pump Station*



New Pressure Reducing Station on Eastlake Parkway

- Phase I of 944-1R Recycled Water Pump Station Improvements
- Installation of New Pump
- New Instrumentation
- New Suction Header Piping
- Three new Pressure Reducing Stations
- \$1.88M Budget
- Start: June 2011
- Estimated Completion: September 2012

CIP Projects in Construction

RWCRWF Upgrades and Modifications (R2096)



New Air Scour Facility for the Filters



Refurbished Aeration Basin under Operation

- RWCRWF Upgrades
- New Aeration System, Blower System, and Electrical Instrumentation
- \$4.95M Budget
- Start: July 2011
- Estimated Completion: August 2012

CIP Projects in Construction



*Completed PRV Station
at La Presa Site*

**La Presa System
Improvements
(P2370)**

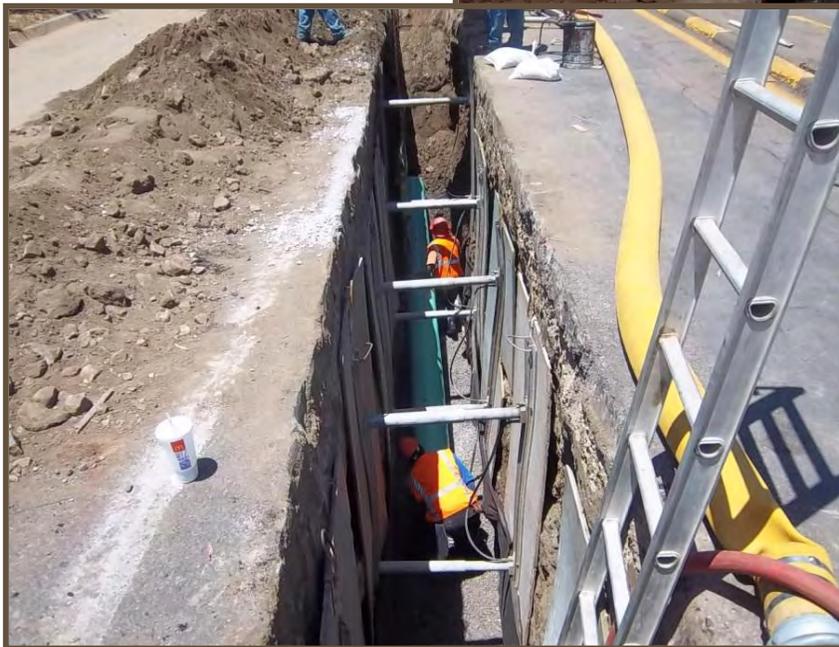


Demolition of the Dorchester Reservoir and PRV

- La Presa System Improvements
- Demolition of 850-1 and 657-1 Pump Stations and Forebay Reservoir
- Multiple Interconnections Throughout Spring Valley
- Demolition of Dorchester Reservoir and Pressure Reducing Station
- \$1.24M Budget
- Start: November 2011
- Estimated Completion: August 2012

CIP Projects in Construction

**Sewer Main
Replacement Projects
(S2019, S2020, S2022,
& S2026)**



*Excavating for Sewer
Replacement on Calavo Drive*

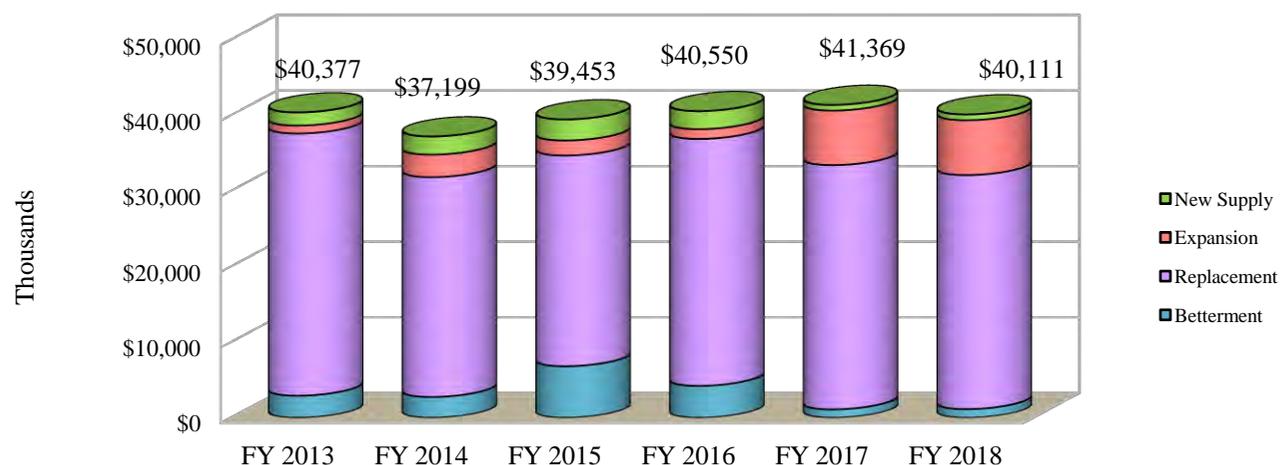
Installing New 15-Inch Sewer on Avocado Blvd.

- Calavo Garden Sewer Rehabilitation
- Replacement of 4,500 Linear Feet of Sewer
- Manhole Rehabilitation/Replacement
- Capacity Upgrades
- New Flow Control and Diversion Vault for Calavo Lift Station
- \$3.10M Budget
- Start: February 2012
- Estimated Completion: May 2013

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

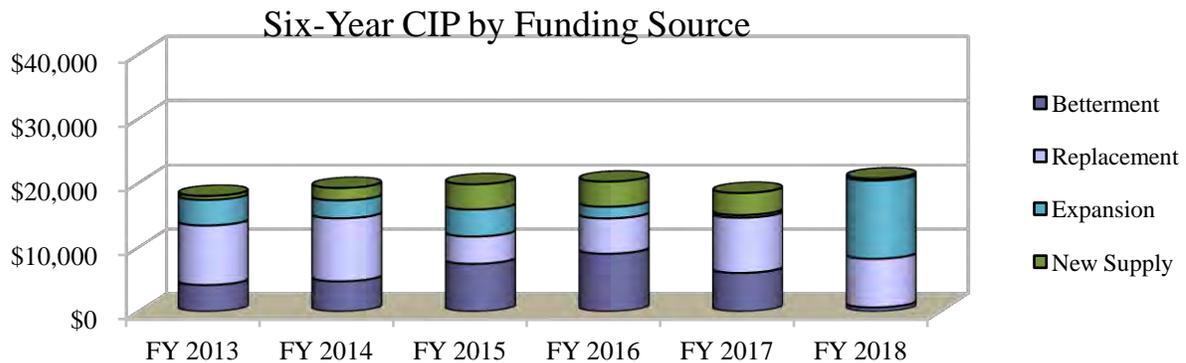


(Thousand \$000s)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Total
Beginning Balance	\$ 48,044	\$ 40,377	\$ 37,199	\$ 39,454	\$ 40,550	\$ 41,369	
Capacity Fees	\$ 3,861	\$ 6,087	\$ 8,577	\$ 10,114	\$ 11,711	\$ 12,624	\$ 52,976
Debt financing	-	-	-	4,700	800	-	5,500
Grants	400	350	100	100	100	500	1,550
Interest	269	259	359	457	787	1,089	3,220
Betterment Charges	705	721	735	750	762	774	4,448
Temporary Meters	545	545	546	549	552	553	3,291
Availability (Betterment Portion)	519	530	540	550	560	569	3,268
New Supply Fee	399	644	912	1,052	1,214	1,305	5,527
COPS 2010B Reimbursement	5,380	7,587	8,703	830	830	830	24,160
Transfer from General Fund	7,899	8,907	11,182	12,113	11,720	10,925	62,746
Interfund Transfers	111	99	86	18	30	42	385
Total Sources	20,088	25,729	31,740	31,233	29,066	29,211	167,069
CIP Projects	17,994	19,228	19,807	20,224	18,455	20,699	116,407
Betterment Fees for Maintenance	689	695	704	714	725	737	4,264
Debt Service	7,891	7,962	7,944	8,159	8,016	7,971	47,942
Developer Services	1,181	1,022	1,030	1,040	1,051	1,062	6,385
Transfer to State Loan Reserve	-	-	-	-	-	-	-
Interfund Transfers	-	-	-	-	-	-	-
Total Uses	27,755	28,907	29,485	30,137	28,247	30,469	174,998
Net Sources (Uses)	\$ (7,667)	\$ (3,178)	\$ 2,255	\$ 1,096	\$ 819	\$ (1,258)	\$ (7,929)
Ending Balance	\$ 40,377	\$ 37,199	\$ 39,454	\$ 40,550	\$ 41,369	\$ 40,111	

CIP Funding Source and Category

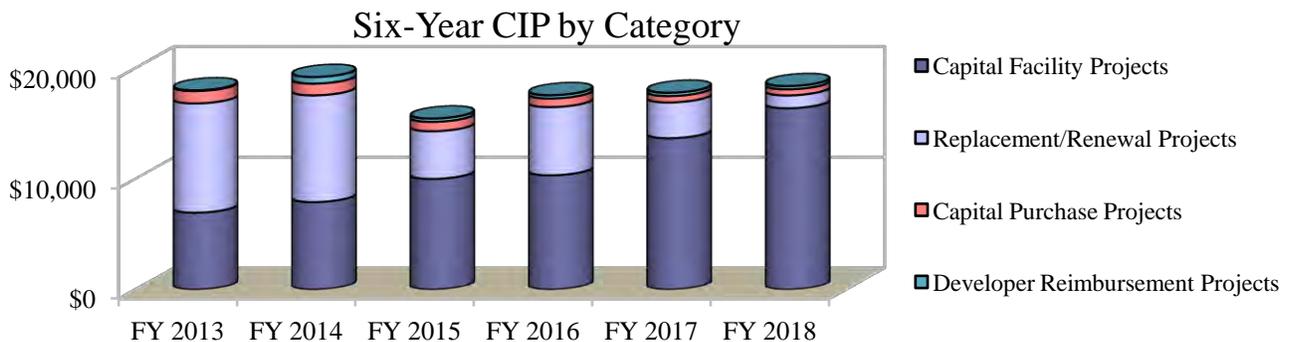
CIP Funding Source

(Thousands \$000s)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Expansion	\$ 3,988	\$ 2,794	\$ 4,205	\$ 1,805	\$ 400	\$ 12,171	\$ 25,363
Betterment	4,129	4,706	7,418	9,000	6,010	652	31,915
Replacement	9,273	9,808	4,264	5,499	8,605	7,560	45,009
New Supply	604	1,920	3,920	3,920	3,440	316	14,120
TOTAL	\$ 17,994	\$ 19,228	\$ 19,807	\$ 20,224	\$ 18,455	\$ 20,699	\$ 116,407



CIP Category

(Thousands \$000s)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Capital Facility Projects	\$ 6,938	\$ 7,902	\$ 9,992	\$ 10,317	\$ 13,666	\$ 16,375	\$ 65,190
Replacement/Renewal Projects	9,874	9,640	4,310	6,165	3,237	1,162	34,388
Capital Purchase Projects	1,119	1,062	844	774	575	551	4,925
Developer Reimbursement Projects	63	595	300	300	300	290	1,848
Subtotal	17,994	19,199	15,446	17,556	17,778	18,378	106,351
FY 2014 Through FY 2018 Projects	-	29	4,361	2,668	677	2,321	10,056
TOTAL	\$ 17,994	\$ 19,228	\$ 19,807	\$ 20,224	\$ 18,455	\$ 20,699	\$ 116,407



CIP Projects (\$1,000s)

The 2013 Fiscal Year CIP Budget contains 70 projects. The costs for the work planned for Fiscal Year 2013 is \$18 million. Of the 70 projects planned for Fiscal Year 2013, three are designated as reimbursable projects with an estimated cost of \$63 thousand. These projects are built by a developer and reimbursed by the District.

CIP No	Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Total
CAPITAL FACILITY PROJECTS								
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	\$900						\$900
P2083	PS - 870-2 Pump Station Replacement (28,000 GPM)	50	1	1	750	5,250	5,948	12,000
P2267	36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations	5	230	200				435
P2370	La Presa System Improvements	195						195
P2434	Rancho Del Rey Groundwater Well Development	500	3,100	1,500				5,100
P2451	Otay Mesa Desalination Conveyance and Disinfection System	1,000	1,500	8,000	9,500	8,300	500	28,800
P2466	Regional Training Facility	14	14					28
P2486	Asset Management Plan Condition Assessment and Data Acquisition	200	50	60	60	60	59	489
P2502	803-1 Pump Station Modifications	50						50
P2503	850-2 Pump Station Modifications	50						50
P2511	North District - South District Interconnection System	1,000	1,000					2,000
P2514	PL - 30-Inch, 980 Zone, Hunte Parkway - Proctor Valley/Use Area	1,150						1,150
P2527	1200-1 Pump Station Facility Cover	30						30
P2528	30-Inch Potable Water Pipeline Manifold at 624 Reservoirs	300	1,000					1,300
P2536	HMBP-Emergency Stand-By Generator Secondary Containment	60						60
P2537	Operations Yard Property Acquisition Improvements	250	50					300
R2048	RecPL - Otay Mesa Distribution Pipelines and Conversions	15	1	1	1	50	1,752	1,820
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	5	1	1	1	1	2,141	2,150
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	950	950	224				2,124
R2087	RecPL - 24-Inch, 927 Zone, Wueste Road - Olympic/Otay WTP	5	5	5	5	5	5,975	6,000
R2091	RecPS - 927-1 Pump Station Upgrade (10,000 GPM) and System Enhancements	65						65
R2107	RWCWRF Screening Compactor and Chlorine Injectors Enclosure	115						115
S2039	Hidden Mountain Lift Station Enclosure	29						29
23	Total Capital Facility Projects	6,938	7,902	9,992	10,317	13,666	16,375	65,190
REPLACEMENT/RENEWAL PROJECTS								
P2366	APCD Engine Replacements and Retrofits	120	265	200	175	162	162	1,084
P2382	Safety and Security Improvements	300	300	300	300	300		1,500
P2440	I-905 Utility Relocations	5	5					10
P2453	SR-11 Utility Relocations	200	125	125	1,000	700		2,150
P2458	AMR Manual Meter Replacement	1,400	500					1,900
P2477	Res - 624-1 Reservoir Cover Replacement	690						690
P2484	Large Water Meter Testing and Replacement Program	150	100					250
P2485	SCADA Communication System and Software Replacement	629	491					1,120
P2491	850-3 Reservoir Exterior Coating	150						150
P2493	624-2 Reservoir Interior/Exterior Coating	8	1,450	390				1,848
P2494	Multiple Species Conservation Plan	93	30					123
P2495	San Miguel Habitat Management/Mitigation Area	120	200	200	200	200	200	1,120
P2496	Otay Lakes Road Utility Relocations	50						50
P2504	Regulatory Site Access Road and Pipeline Relocation	50	225	175				450
P2507	East Palomar Street Utility Relocation	150	330	235				715
P2508	Pipeline Cathodic Protection Replacement Program	80	50					130
P2513	East Orange Avenue Bridge Crossing	840	150					990
P2515	870-1 Reservoir Paving	100	425					525
P2518	803-3 Reservoir Interior/Exterior Coating	700	50					750
P2519	832-2 Reservoir Interior/Exterior Coating	725	50					775
P2520	Motorola Mobile Radio Upgrade	50						50
P2521	Large Meter Vault Upgrade Program	150	150	100	60			460
P2535	458-2 Reservoir Interior Coating	5	275	20				300
R2096	RWCWRF - Upgrades and Modifications	60						60
R2099	Recycled System Air and Vacuum Value Retrofit	233	233					466
S2012	San Diego County Sanitation District Outfall and RSD Outfall Replacement	100	450	450	450	450	800	2,700
S2019	Avocado Boulevard 8-Inch Sewer Main Improvement	1,375						1,375
S2020	Calavo Drive 8-Inch Sewer Main Replacement	210						210
S2022	Hidden Mesa Drive 8-Inch Sewer Main Rehabilitation	50						50
S2023	Calavo Drive Sewer Main Utility Relocation	60						60
S2024	Campo Road Sewer Main Replacement	50	275	1,250	3,120	800		5,495
S2026	Challenge Boulevard 8-Inch Sewer Main Replacement	155						155
S2027	Rancho San Diego Pump Station Rehabilitation	300	2,490					2,790
S2028	Explorer Way 8-Inch Sewer Main Replacement	1	1	30	60	25		117

CIP Projects (\$1,000s)

CIP No	Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Total
REPLACEMENT/RENEWAL PROJECTS, continued								
S2033	Sewer System Various Locations Rehabilitation	200	420	150				770
S2040	Calavo Sewer Basin Improvements	275	525	450				1,250
S2041	Rancho San Diego Sewer Basin Improvements	40	75	235	800	600		1,750
38	Total Renewal & Replacements	9,874	9,640	4,310	6,165	3,237	1,162	34,388
CAPITAL PURCHASE PROJECTS								
P2282	Vehicle Capital Purchases	49	392	400	425	450	476	2,192
P2286	Field Equipment Capital Purchases	115	90	75	74	75	75	504
P2443	Wireless Communications System	200	130					330
P2461	Records Management System Upgrade 2	90						90
P2469	Information Technology Network and Hardware	120	250	169	75			614
P2470	Financial System Enhancements	220	200	200	200	50		870
S2042	Sewer Vehicle Capital Purchases	325						325
7	Total Capital Purchase	1,119	1,062	844	774	575	551	4,925
DEVELOPER REIMBURSEMENT PROJECTS								
P2325	PL - 10-inch to 12-inch Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy	49						49
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	4	395					399
R2094	Potable Irrigation Meters to Recycled Water Conversions	10	200	300	300	300	290	1,400
3	Total Reimbursement Projects	63	595	300	300	300	290	1,848
71	Total- FY2013 Projects	17,994	19,199	15,446	17,556	17,778	18,378	106,351
17	Total- FY2014 Through FY 2018 Projects	-	29	4,361	2,668	677	2,321	10,056
Grand Totals		\$ 17,994	\$ 19,228	\$ 19,807	\$ 20,224	\$ 18,455	\$ 20,699	\$ 116,407

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 ⁽¹⁾										
CIP #	Description	Cost Funding		FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	TOTAL ⁽⁴⁾
		Cat. ⁽²⁾	Source ⁽³⁾							
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	M	E/B	\$9,600	\$9,900	\$10,200	\$10,500	\$10,800	\$11,100	\$62,100
P2325	PL - 10-inch to 12-inch Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy	E	E	\$0	\$2,300	\$2,400	\$2,500	\$2,600	\$0	\$9,800
P2370	La Presa System Improvements	M	B	(\$1,900)	(\$2,000)	(\$2,100)	(\$2,200)	(\$2,300)	\$0	(\$10,500)
P2434	Rancho Del Rey Groundwater Well Development	M/E/C	N/B	\$0	\$604,000	\$604,000	\$604,000	\$604,000	\$604,000	\$3,020,000
P2443	Wireless Communications System	M	R/E	\$0	\$0	\$18,000	\$18,500	\$19,100	\$0	\$55,600
P2451	Otay Mesa Desalination Conveyance and Disinfection System	E/C	N/B	\$0	\$0	\$0	\$0	\$10,000	\$28,500	\$38,500
P2458	AMR Manual Meter Replacement	M	R	\$0	\$0	\$0	(\$226,400)	(\$233,200)	(\$240,000)	(\$699,600)
P2502	803-1 Pump Station Modifications	E	B	\$0	(\$40,950)	(\$81,900)	(\$84,400)	(\$86,900)	(\$89,500)	(\$383,650)
P2503	850-2 Pump Station Modifications	E	B	\$0	(\$25,200)	(\$50,400)	(\$51,900)	(\$53,500)	(\$55,100)	(\$236,100)
P2514	PL - 30-Inch, 980 Zone, Hunte Parkway - Proctor Valley/Use Area	M	E	\$0	\$700	\$700	\$700	\$700	\$0	\$2,800
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	M	E	\$0	\$0	\$0	\$1,200	\$1,200	\$0	\$2,400
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	M	E	\$0	\$0	\$700	\$700	\$700	\$0	\$2,100
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	M	E	\$0	\$0	\$0	\$0	\$1,900	\$0	\$1,900
R2085	RecPL - 20-Inch, 680 Zone, La Media - State/Olympic	M	E	\$0	\$0	\$0	\$1,300	\$1,300	\$0	\$2,600
Total Operating Budget Cost Impact				\$7,700	\$548,750	\$501,600	\$274,500	\$276,400	\$259,000	\$1,867,950

Cost Category	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	TOTAL
Maintenance (M)	\$7,700	\$338,600	\$357,500	\$134,300	\$130,200	\$101,100	\$1,069,400
Energy (E)	\$0	\$196,150	\$130,100	\$126,200	\$131,200	\$140,400	\$724,050
Chemical (C)	\$0	\$14,000	\$14,000	\$14,000	\$15,000	\$17,500	\$74,500
Total Operating Budget Cost Impact	\$7,700	\$548,750	\$501,600	\$274,500	\$276,400	\$259,000	\$1,867,950

- ⁽¹⁾ 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.
- ⁽²⁾ Cost Category - Indicates maintenance cost, energy cost, or chemical cost, based on the project type and Engineer's estimates.
- ⁽³⁾ Funding Source - Some projects have multiple funding sources as indicated by a slash (/): E - Expansion B - Betterment R - Replacement N - New Supply
- ⁽⁴⁾ Negative cost reflect savings gained from operational efficiencies or the retirement of a facility.

Note: See pages 182-183 for complete description of CIP projects.

FY 2013 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 Vehicle purchases.

<u>Item#</u>	<u>Description</u>	<u>Amount</u>	<u>Type</u>
Field Equipment			
Engineering Development Services			
2	GPS Base Station consisting of a NetR9 receiver and Zephyr Geodetic II Antenna (P2286)	20,000.00	R
Operations			
7	Crane for Unit 174 (P2286)	26,000.00	R
8	Heavy equipment trailer. (P2286)	23,000.00	R
9	Heavy equipment trailer. (P2286)	23,000.00	R
10	Portable light tower. (P2366)	15,000.00	R
11	Replacement backhoe (P2366)	105,000.00	R
1	Mueller CL-12 Tapping Machine (P2286)	22,600.00	R
Total of Field Equipment		234,600.00	
Vehicles			
Operations			
3	This vehicle (Unit 110) is a Class 8 sewer line cleaning vehicle utilized to maintain the District's sewer collection system as required by the San Diego Regional Water Quality Control Board. The funding for this replacement will come from the Vehicle Capital Replacement Purchases (S2042)	325,000.00	R
4	2012 Ford F150 (P2282)	26,000.00	R
6	2012 Toyota Matrix (P2282)	23,000.00	R
Total of Vehicles		374,000.00	
		Grand Total :	608,600.00

Summary by Project

P2366 APCD	\$ 120,000
P2282 Vehicle	\$ 49,000
P2286 Field	\$ 114,600
S2042 Sewer Vehicle	\$ 325,000
	<u>\$ 608,600</u>

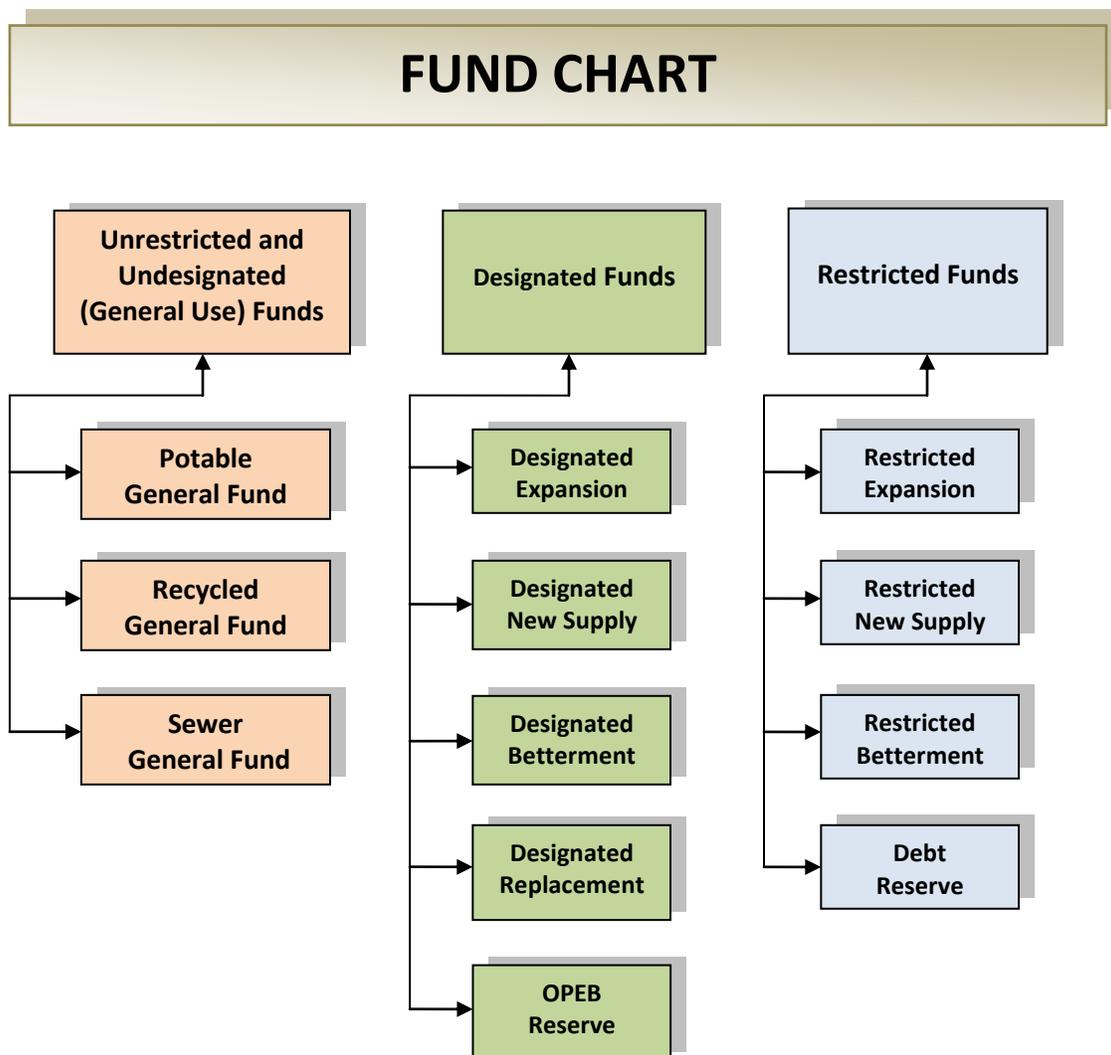
Summary of Financial Policies

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

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).

Reserve Policy

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 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.

Reserve Policy

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.

Reserve Policy

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

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).
- Designated money to protect creditors.

Reserve Policy

- 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

- 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.¹

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.”² 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.

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

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

² California Constitution, Article XIII B, Section 5.

Reserve Policy

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

- 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 fees³ 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 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

³ Code of Ordinances, Section 9.

Reserve Policy

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 fees⁴ 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 fees⁴ 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.

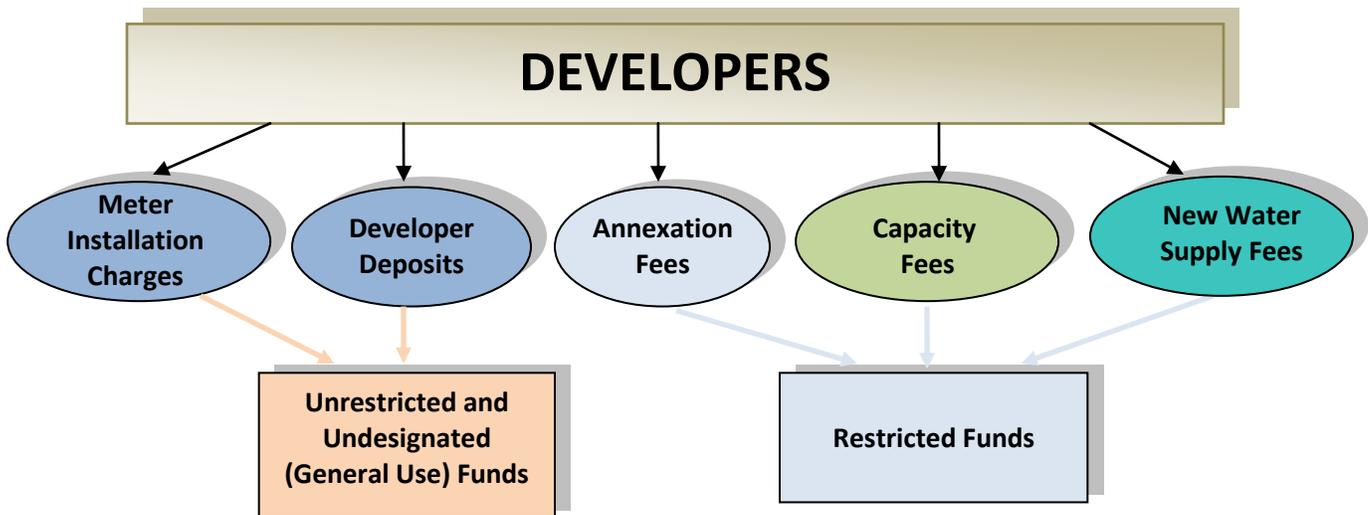
The District’s construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and two, it is more efficient to oversize many facilities at the outset rather than build for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

⁴ Code of Ordinances, Section 28

Reserve Policy

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

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)

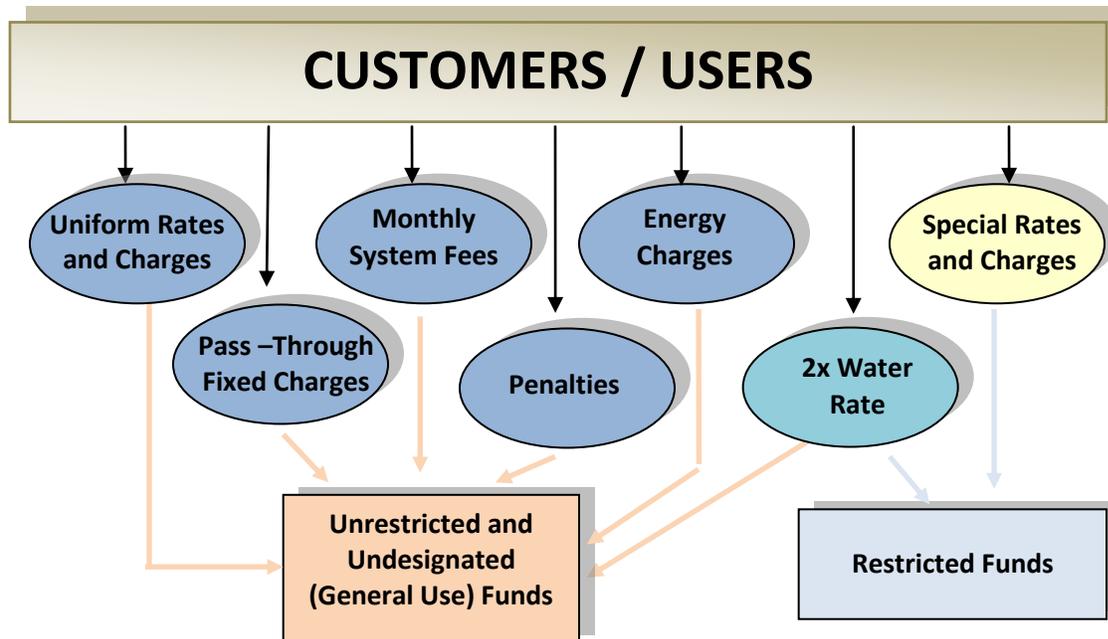
When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees were collected. Therefore, these are restricted reserves by geographic area as well as by purpose. These rates and charges can also 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.

Reserve Policy

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.

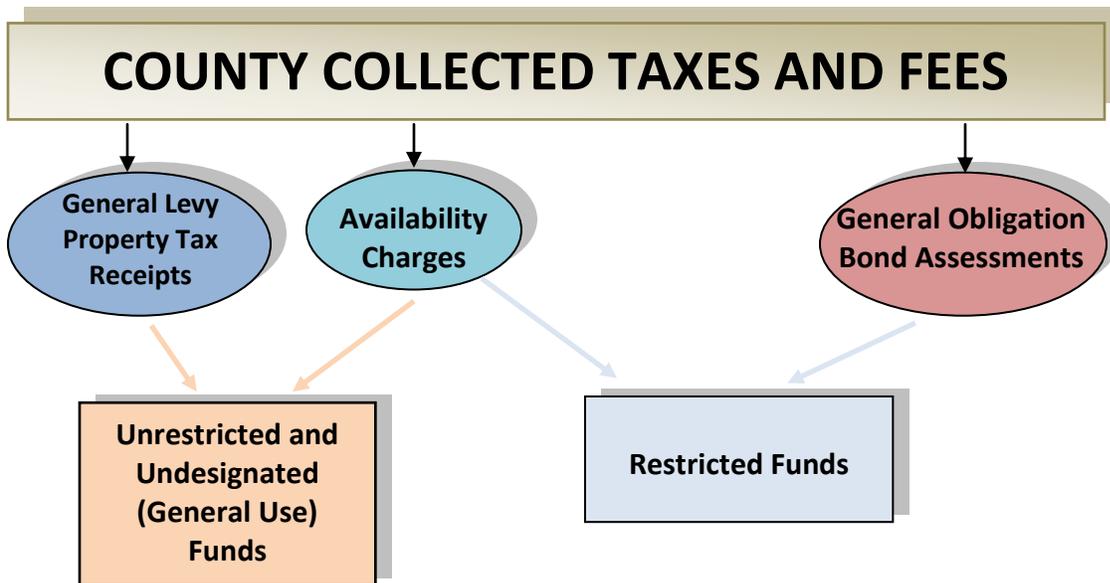
b. Availability Charges (General Use/Restricted)

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.).

Reserve Policy

- c. 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



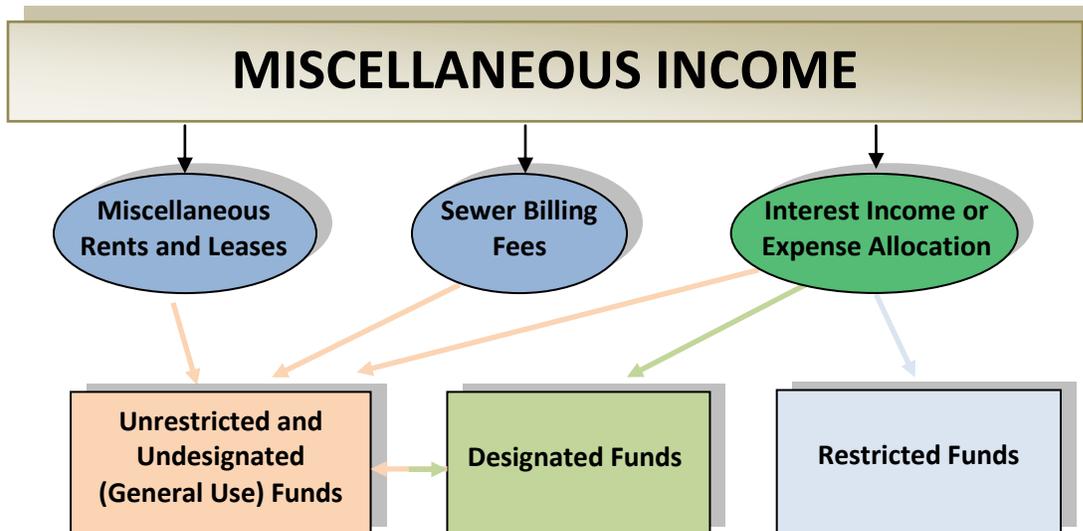
2.3 Miscellaneous Income

- 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.

Reserve Policy

- 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)

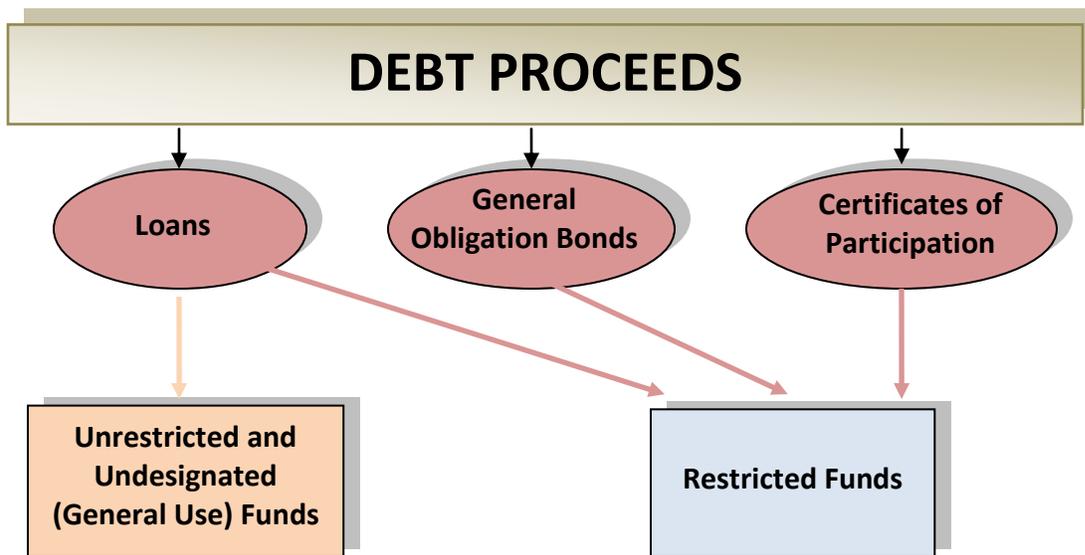
As the District becomes more developed it becomes less likely that general obligation debt will be used as it requires a vote of the public to be approved. Bond proceeds are restricted for the construction of those facilities identified in the GO bond issuance. Occasionally, specific portions of bond 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.

Reserve Policy

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 5.0 “Funding Levels” and 5.1 “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 working capital and emergency operating reserves. While the General Fund has a short-term focus to finance the

Reserve Policy

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.

Reserve Policy

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.

Reserve Policy

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

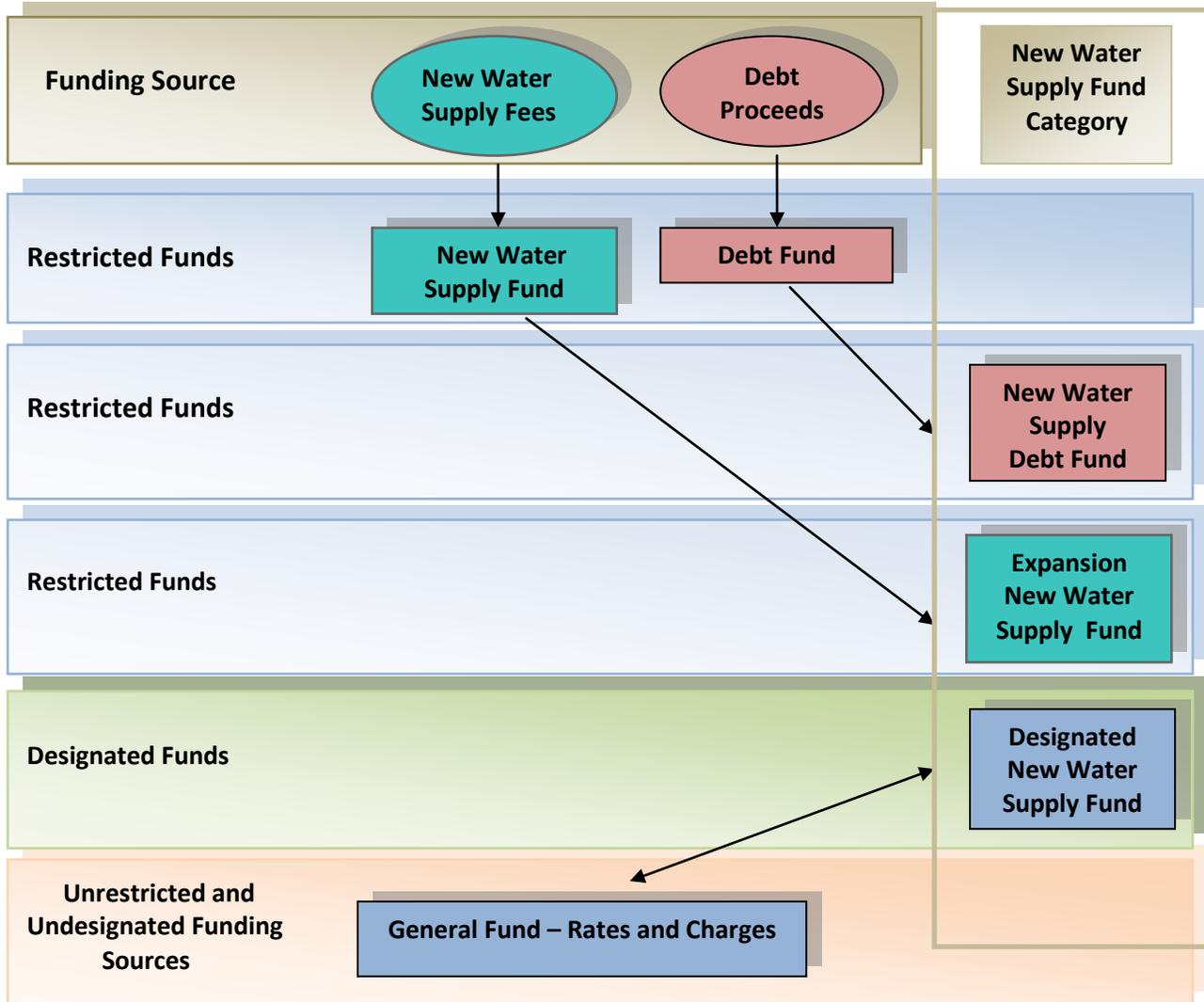
The New Water Supply Fund receives reserves only from the new water supply fee. Other funds within the new water supply category of funds receive debt proceeds and general use reserves through a designation to this category.

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.

Reserve Policy

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

b. Sources

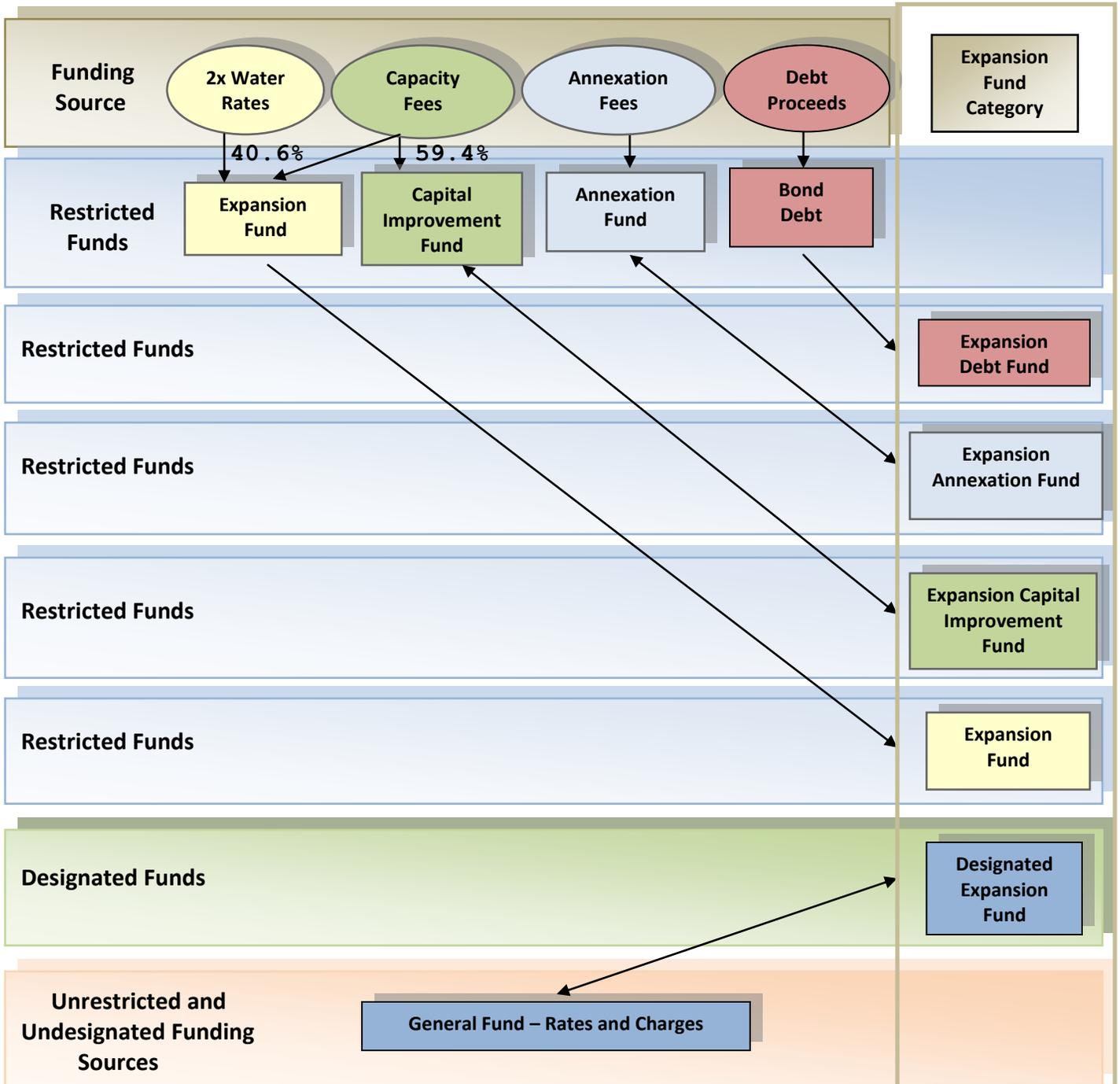
The Expansion Fund is financed by water charges in lieu of capacity fees (for temporary meters) and the “incremental” portion of the capacity fee. The other funds in this category may also be financed by debt proceeds, annexation fees, the “buy-in” portion of the capacity fee, and the general fund through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

Reserve Policy

Diagram 3.3: Expansion Fund Category



Reserve Policy

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.

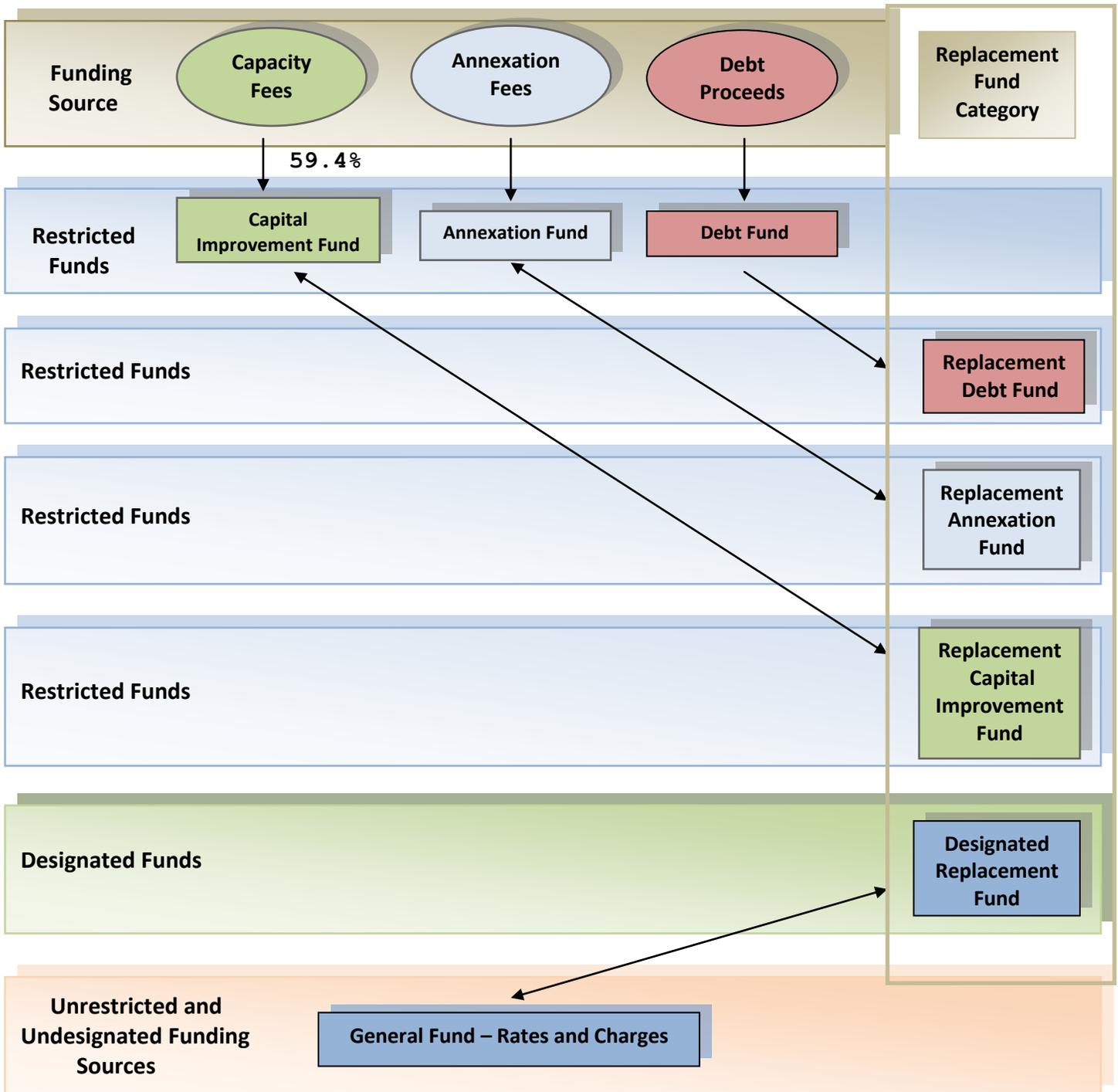
c. Funding Levels

- 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

Reserve Policy

of that planning horizon the reserves exceed the minimum level and is approaching the target level.

Diagram 3.4: Replacement Fund Category



Reserve Policy

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.

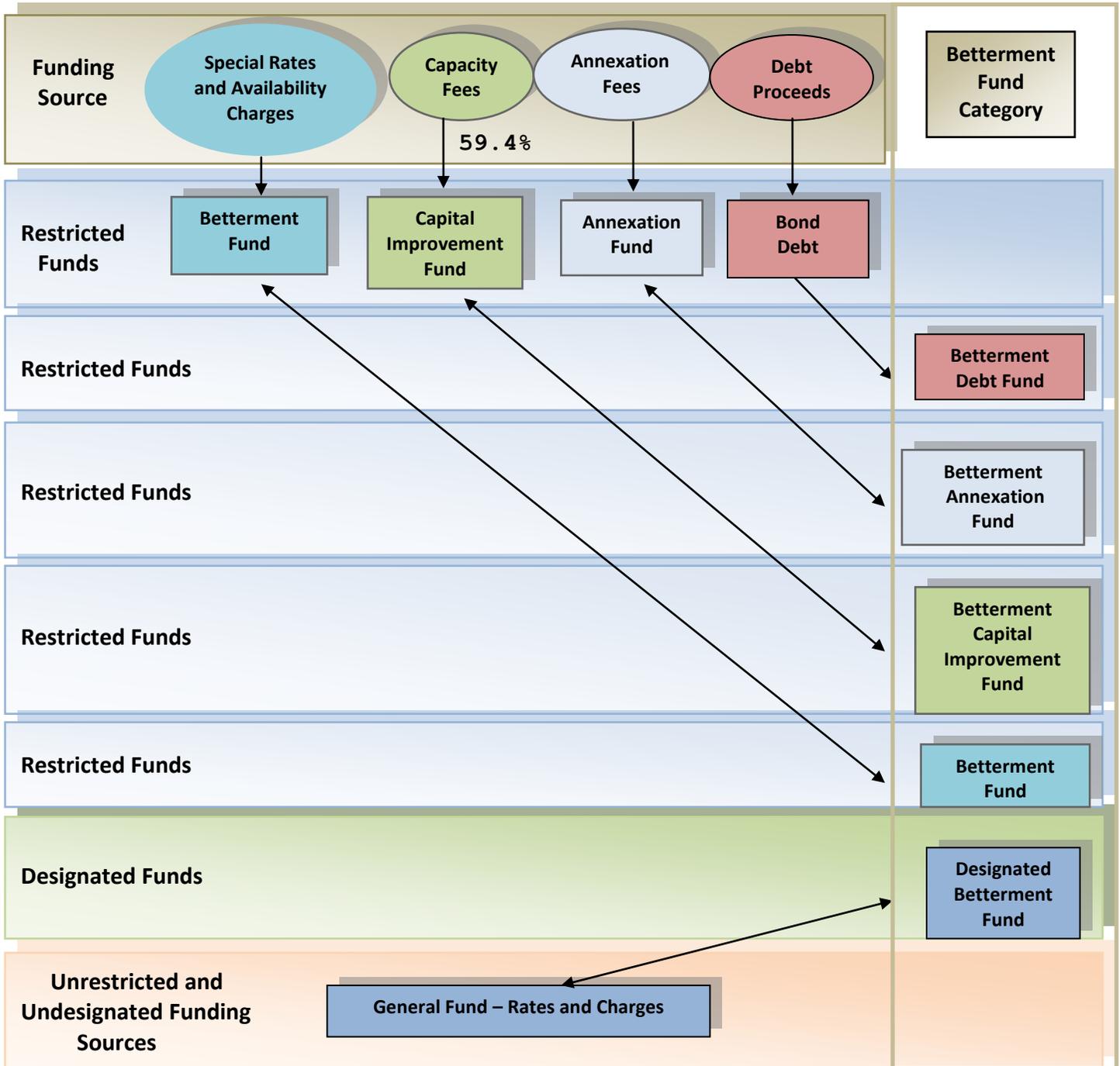
c. Funding Levels

- 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 this would trigger a transfer of general use reserves, a bond sale, or an adjustment to the

Reserve Policy

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



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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

Reserve Policy

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

Reserve Policy

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 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

Reserve Policy

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

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

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 payments, and other infringements of the District's Code of Ordinances.

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. Effective in 2009, all non-residential customers are charged for water based on a tiered rate structure in which water rates are based on meter size and amount of units consumed. A unit of water is 100 cubic feet or 748 gallons of water.

Investment Policy

1.0 Policy

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

Investment Policy

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.

Investment Policy

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)

Investment Policy

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

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

8.04 Interest-bearing demand deposit accounts and Certificates of Deposit (CD) will be made only in Federal Deposit Insurance Corporation (FDIC) insured accounts. For deposits in excess of the insured maximum of \$100,000, approved collateral shall be required in accordance with California Government Code, Section 53652. Investments in CD's are limited to 15 percent of the District's portfolio.

8.05 Commercial paper, which is short-term, unsecured promissory notes of corporate and public entities. Purchases of eligible commercial paper may not exceed 10 percent of the outstanding paper of an issuing corporation, and maximum investment maturity will be restricted to 270 days. Investment is further limited as described in California Government Code, Section 53601(g). Purchases of commercial paper may not exceed 15 percent of the District's portfolio.

8.06 Medium-term notes defined as all corporate debt securities with a maximum remaining maturity of five years or less, and that meet the further requirements of California Government Code, Section 53601(j). Investments in medium-term notes are limited to 15 percent of the District's portfolio.

8.07 Money market mutual funds that invest only in Treasury securities and repurchase agreements collateralized with Treasury securities, and that meet the further requirements of California Government Code, Section 53601(k). Investments in money market mutual funds are limited to 15 percent of the District's portfolio.

8.08 The San Diego County Treasurer's Pooled Money Fund, which is a County managed investment pool, may be used by the Otay Water District to invest excess funds. There is no percentage limitation of the portfolio which can be invested in this category.

8.09 Under the provisions of California Government Code 53601.6, the Otay Water District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment that may result in a zero interest accrual if held to maturity. Also, the borrowing of funds for investment purposes, known as leveraging, is prohibited.

Investment Policy

9.0 Investment Pools/Mutual Funds

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

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

10.0 Collateralization

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

11.0 Safekeeping and Custody

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

12.0 Diversification

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

Investment Policy

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.

Investment Policy

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures deposits in member banks and thrifts, currently up to \$100,000 per deposit.

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

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

Federal Home Loan Bank (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

Glossary

by those mortgages in secondary markets. Freddie Mac, like its competitor Fannie Mae, is regulated by the United States Department of Housing and Urban Development (HUD).

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

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

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

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

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

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

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

Local Agency Investment Fund (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

Glossary

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

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

Student Loan Marketing Association (SLMA or Sallie Mae): A federally established, publicly traded corporation which buys student loans from colleges and other lenders, pools them, and sells them to investors.

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

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

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

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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

Debt Policy

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

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.

Debt Policy

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.

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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.

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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

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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.

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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

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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

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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.

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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

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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.

Debt Policy

Lease/Purchase Agreements

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

The District may utilize lease-purchase agreements to acquire needed equipment and facilities. Criteria for such agreements should be that the asset life is three years or more, the minimum value of the agreement is \$50,000 and interest costs must not exceed the interest rate earned by the District's portfolio for the average of the past 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.

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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.

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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.

Glossary

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

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.

Glossary

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

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

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, 2012 are \$1,556 and \$5,741 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

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

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 rate is \$.045 (decreases on January 1, 2013 to \$.042) 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 \$34.57 per month for each connection for fire protection service.

Glossary

Fiscal Year: Twelve-month term designating the beginning and ending period for recording financial transactions. The District has specified July 1 to June 30 as its fiscal year.

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

General Fund: The District's general fund is an enterprise fund – 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 customer accounts for late payments, returned payments, and other infringement of 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.

Glossary

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.

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.

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.

Glossary

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.

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.

Unit: A Unit of water is 100 cubic feet or 748 gallons of water.

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. Effective in 2009, all non-residential customers are charged for water based on a tiered rate structure in which water rates are based on meter size and amount of units consumed.

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

List of Acronyms

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
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

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

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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