



OTAY WATER DISTRICT

Adopted Operating and
Capital Budget

Spring Valley, CA

Fiscal Year 2010-2011



Adopted Operating and Capital Budget

Fiscal Year 2010-2011

Board of Directors

President Jaime Bonilla
Division 2

Vice President Jose Lopez
Division 4

Treasurer Gary Croucher
Division 3

David Gonzalez Jr.
Division 1

Larry Breitfelder
Division 1
January 2003-July 2010

Mark Robak
Division 5



Native California Poppy - WaterSmart Flowers



Palo Verde Desert Museum - WaterSmart Tree

General Manager

Mark Watton

Management

German Alvarez
Assistant General Manager,
Finance and Administration

Manny Magana
Assistant General Manager,
Engineering and Operations

Joseph R. Beachem
Chief Financial Officer

ADOPTED OPERATING AND CAPITAL BUDGET FISCAL YEAR 2010-2011

TABLE OF CONTENTS

	Page
Letter of Transmittal	iv
BUDGET FOREWORD	
Otay Water District At-A-Glance	1
General Information	2
Statement of Values	3
Awards	4
Balanced Scorecard	7
Organization Chart	14
Budget Guide	15
Budget Calendar	17
Budget Process and Basis	19
Resolution No. 4159	22
HISTORY AND COMMUNITY PROFILE	
Past and Present	24
Current Economic Conditions	25
The Future	26
Demographics	27
Ten Largest Customers	28
Water Rate Comparison	29
Sewer Rate Comparison	30
Service Area Assessed Valuation	31
Ten Principal Taxpayers	32
San Diego Rainfall	33
FINANCIAL SUMMARIES	
Budget Summary	34
Operating Budget Summary – General Fund	38
Operating Budget Summary by System	39
Operating Revenues and Expenditures	40
Fund Balance Summary by Fund	41
Revenues and Expenditures by Fund	42
Revenues and Expenditures by Type	44
FIVE-YEAR FORECAST	
Five-Year Forecast	45
General Fund Forecast	46
Fund Balances	47
Debt Management	48
Schedule of Outstanding Debt	49
Projected Principal Payments by Debt Issuance	50
Projected Interest Payments by Debt Issuance	51

REVENUES AND EXPENDITURES

Potable Revenues and Expenditures

Potable Narrative	52
Operating Budget Summary	54
Classification of Water Sales	55
Water Sales Summary by Service Class	56
Unit Sales History by Customer Class	57
System Fees	58
MWD and CWA Fixed Fees (Pass-Through)	59
Meter Fees	60
Revenue History	61
Water Purchases and Related Costs	62
Power Costs	63
Administrative Expenses	64
Materials and Maintenance Expenses	65
Potable Water Service Area Maps	66

Recycled Revenues and Expenditures

Recycled Narrative	67
Operating Budget Summary	69
Classification of Water Sales	70
Water Sales Summary by Service Class	71
System Fees	72
Meter Fees	73
Revenue History	74
Water Purchases	75
Power Costs	76
Administrative Expenses	77
Materials and Maintenance Expenses	78
Recycled Water Service Area Maps	79

Sewer Revenues and Expenditures

Sewer Narrative	80
Operating Budget Summary	81
Sewer Charges Summary by Service Class	82
Revenue History	83
Power Costs	84
Administrative Expenses	85
Materials and Maintenance Expenses	86
Formula for Sewer Rates	87
Sewer Service Area Map	88

General Revenues and Expenditures

General Revenues and Expenses Narrative	89
General Revenues	91
General Expenses	92

DEPARTMENTAL OPERATING BUDGET

Departmental Operating Budget Narrative	93
Labor and Benefits	96
Labor and Benefits by Fund	97
Position Count by Department	98
Contract/Temporary Employees	99
Administrative Expenses	100
Materials and Maintenance Expenses	101
Operating Expenditures by Department	102
Operating Expenditures by Object	103
Departmental Budgets:	
Board of Directors	104
General Manager	108
Administrative Services	114
Finance	125
Information Technology and Strategic Planning	136
Water Operations	144
Engineering	157
General Expense	166

CAPITAL BUDGET

Capital Improvement Program Narrative	169
Major CIP Projects	171
Flagship CIP Projects in Construction	172
CIP Reserve Funds	175
CIP Funding Source and Category	176
CIP Projects	177
CIP Justification and Impact on Operating Budget	179
Capital Purchases Budget	181

POLICIES

Summary of Financial Policies	182
Reserve Policy	184
Reserve Policy Glossary	209
Investment Policy	211
Investment Policy Glossary	217
Debt Policy	223
Debt Policy Glossary	236

APPENDIX

Glossary	240
List of Acronyms	246
Index	250



...Dedicated to Community Service

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

September 1, 2010

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 2011. This year's budget supports the management plan to finance all of the District's services and programs during the 2011 fiscal year.

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As with the past few years, we continue to face numerous challenges with the slow recovery from the largest

economic downturn since the Great Depression and ongoing home foreclosures. The District also faces large water supply cost increases and inaction in the State Capitol to address the crisis in the Sacramento – San Joaquin Bay Delta, the source of 30% of our imported water.



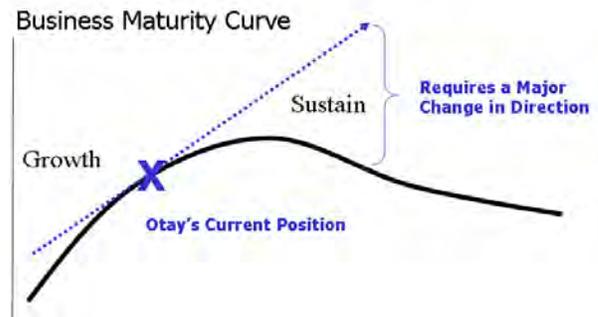
Given the continuing uncertain times and the demand by customers to keep rates low, the District must find the best solutions that balance the many expectations placed on it by its customers. The District is looking to do this while also meeting the expectation for continuous improvement.

The way we will achieve our mission in this challenging environment is to continue to improve all aspects of our core business processes. The tool we use to accomplish this goal is our Strategic Plan.

Our first Strategic Plan was created in 2003 and it has been updated every three years since that time. The District is now entering the third year of the 2009-2011 Strategic Plan. The goal of the plan is to capitalize on the technology investments we have made and to utilize those technologies as we continue to improve productivity and efficiency.

The Strategic Plan is focused on the District's transformation from a growth-centric to a maintenance-based organization. Where growth has been a significant focus in prior years, today we have become equally focused on managing long-term maintenance and replacement of infrastructure.

This change is illustrated by the Business Maturity Curve (see illustration). During high growth periods, efforts are focused on achieving the macro targets of building and installing new infrastructure. As an organization matures, fewer resources are needed to support growth, but the effort to maintain and improve infrastructure and assets increases. In addition, as an organization matures it derives income more from customer rates and less from developer fees. At this stage, increased maintenance and replacement costs place pressure on customer rates. To balance the customer's interest in minimizing rate increases while also maintaining an organization's infrastructure investments and a strong financial position, it must place greater emphasis on internal efficiency and the development of technology assisted best practices. In effect, we must use our investments in technology to do more with the same or fewer resources.



Today, the District provides water service to nearly 47,932 potable and 683 recycled water customers within approximately 125.5 square miles of southeastern San Diego County. All of the potable water sold to customers is purchased from the San Diego County Water Authority (CWA). Much of this water is purchased from the region's primary water importer, the Metropolitan Water District of Southern California (MWD).

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

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

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,646 homes and businesses. Wastewater collected is delivered to the Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. In addition to the Chapman facility, the District purchases up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Water Reclamation Plant.

Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and other approved uses in the City of Chula Vista, California. The use of recycled water reduces dependence on imported supplies and provides a local supply that diversifies District resources.

BUDGET SUMMARY

The Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer, totaling \$76,993,900 for Fiscal Year 2011. Revenues from potable and recycled water are projected to be \$63,954,500, about \$122,500 (0.2%) less than the Fiscal Year 2010 budget. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation. Rate increases are therefore essential to offset the higher wholesale cost of water. Sewer revenues are projected to be \$2,270,500, about \$25,700 more than Fiscal Year 2010 because of necessary rate increases. The remaining revenue of \$10.8 million comes from special fees and assessments and miscellaneous income.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- Ongoing water supply rate increases of 12.2% from MWD and 11.3% from 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 166 full-time equivalent positions to 159. It has also cut operating expenditures by \$233,100 due to program funding changes and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rate is the seventh-lowest and below the county-wide average.
- Expanded residential, landscape, and commercial water conservation programs.

The 2010-11 Capital Improvement Program (CIP) Budget consists of 82 projects and a budget of \$28.4 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 \$8.7 million compared to last year's projection, which is due to the completion of the Jamacha Pipeline Project.

The Future

The coming years will continue to pose challenges for those in California's water community. While the State of California received a normal amount of rainfall this year, federal court orders continue to curtail water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta, the source of 30% of our imported water. The political stalemate in the State Capitol has also made finding compromise or addressing the environmental issues in the Bay Delta difficult. These factors combined are driving the higher cost of water statewide.

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

As you would expect, the planned water sales reductions have impacted revenues and will continue to affect the District's finances. With that in mind, our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District, even as we move forward into uncertain times.

We are fully confident that with these policies and practices supported by dedicated and talented staff we will achieve continued success as an organization and thus assure the well-being of the people we serve.

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

AWARDS AND ACKNOWLEDGMENTS

- The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. In order to be awarded a Certificate of Achievement, a government agency must publish an easy to understand and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.
- The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for the Fiscal Year beginning July 1, 2009, as well as two awards from the California Society of Municipal Finance Officers (CSMFO) for *Excellence in Operating Budgeting* and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.
- The Construction Management Association of America (CMAA) presented Otay Water District the *2010 Project Achievement Award for the 1296-3 Reservoir Project* (public works projects less than \$2.5 million). In addition, the Otay Water District and Infrastructure Engineering Corporation received the American Public Works Association (APWA) *2010 Project of the Year Award for the 640-1 and 640-2 Reservoirs*.
- The Otay Water District was presented with the *2010 Public Agency Partnership Award* from the Engineering and General Contractors Association, San Diego.

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



Budget Foreword

Otay Water District At-A-Glance

HISTORY

The Otay Water District was formed in January 1956 and joined the San Diego County Water Authority (CWA) in September 1956 to acquire the right to purchase and distribute imported water throughout its service area. The District is also responsible for the collection, treatment, and disposal of wastewater from a portion of the northern region of the District. 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 Otay Water District to supply 15 to 20 percent of total water demand with recycled water.

MISSION STATEMENT

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner.

SERVICE AREA

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

GOVERNMENT

The Otay Water District was formed in 1956 to serve as a public water and sewer agency, authorized as a California special district under the provisions of the Municipal Water District Act of 1911. The District's ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective geographic division, to serve staggered four-year terms on its governing board. The District is a "revenue neutral" public agency, meaning that each end-user pays only their fair share of the District's costs of water acquisitions and the operation and maintenance of the public facilities.

ORGANIZATIONAL STRUCTURE

The General Manager reports directly to the Board of Directors, and through two Assistant General Managers and the District management, oversees day-to-day operations. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning while the other oversees the Water Operations and Engineering departments. These and other lines of reporting are shown on the organization chart on page 14.

General Information

For Fiscal Year 2011, the District will have a staff of 159 full-time equivalent employees under the leadership of the General Manager. The District provides water service to approximately 39% of its land area with a population of more than 206,000 people. This percentage increases as the District's service area continues to grow to ultimate build-out. The District is projected to deliver approximately 29,900 acre-feet of potable water to 48,060 potable customer accounts and to ultimately deliver 61,000 acre-feet of potable water to serve 295,000 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 0.3% for Fiscal Year 2011.

Since 1956, the District has provided high quality water to a semi-arid region of the southeastern San Diego County. In 1971, the District constructed a small collection and treatment plant for sewer in the northern section of the District, and in 1980 the District opened the Ralph W. Chapman Water Recycling Facility (RWCWRF). For over 50 years, the available supply of water has helped transform the District service area from a mostly scrub and cactus-covered backcountry into a balance of diverse environments.

Recycled water from the RWCWRF is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF is capable of recycling wastewater at a rate of 1.3 million gallons per day (1,200 acre-feet per year). The District is also in a partnership with the City of San Diego to beneficially reuse an additional 3,098 acre-feet per year of recycled water for Fiscal Year 2011, and ultimately up to 6,720 acre-feet per year. This makes Otay Water District the largest retail provider of recycled water in the county.

The District also owns and operates a wastewater collection system providing public sewer service to approximately 4,646 customer accounts within the Jamacha drainage basin. The sewer service area covers approximately 8,797 acres, which is about 11% of the District's total service area. Residential customers comprise 97% of the sewer customer base.

Statement of Values

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, 2009. 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.

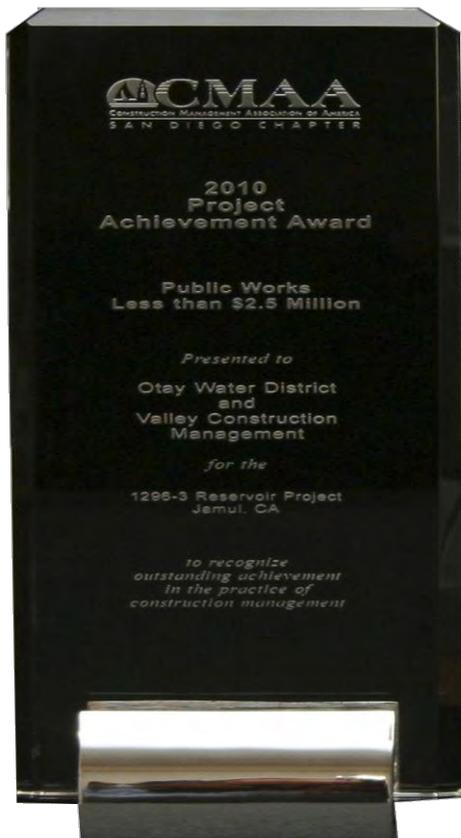
This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2009-2010*.



Awards

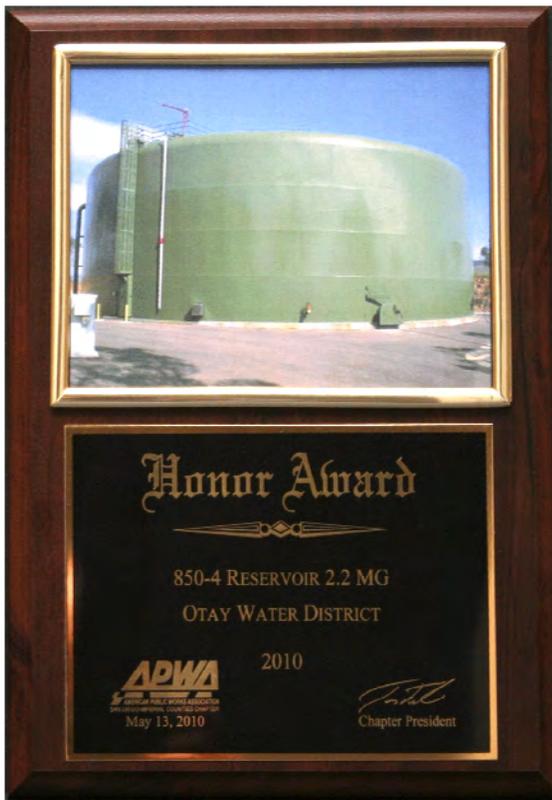
The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2009-2010*.



The Construction Management Association of America (CMAA) presented Otay Water District and Valley Construction Management the 2010 *Project Achievement Award for the 1296-3 Reservoir Project*.

Awards

The Public Works Association (APWA) presented Otay Water District and Infrastructure Engineering Corporation the *2010 Project of the Year Award for the 640-1 and 640-2 (10 MG) Reservoirs*.



The Public Works Association (APWA) presented Otay Water District the *2010 the Honor Award for the 850-4 (2.2 MG) Reservoir*.

Balanced Scorecard

Introduction

The Strategic Plan is the core document which guides the agency’s efforts to meet and positively adapt to change. The plan examines a three year timeframe and explicitly defines the strategies, goals, objectives and performance measures needed to meet these challenges. It is based upon the District’s mission, vision and values, and focused around a key challenge – which is the theme for the FY 2009-2011 plan.



Key Challenge

The theme of the FY 2009-2011 plan is to capitalize on the infrastructure investments made in the last few years. The District has begun to address the transformation from a growth-centric to a maintenance-based organization. Capital and developer fees support growth but replacement and maintenance are supported by rates and operating expenses. The District has been very

successful in managing growth but now needs to become more focused in managing long-term maintenance and replacement of its infrastructure. As the current economic environment cools, there is opportunity to realign energies and optimize the management and maintenance of the nearly half billion dollars of District “in-ground” assets. In addition, with water supplies being challenged due to drought conditions, the District needs to be flexible in managing a limited supply while maintaining a positive relationship with customers.

Efficiency improvements have become the new competitive advantage for utilities. Staff will need to do more with the same or fewer resources. The primary way to achieve this target is to improve all aspects of core business processes.

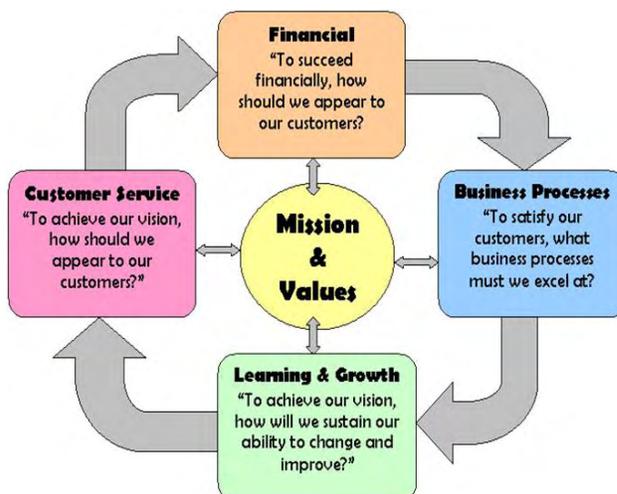
Key Challenge

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

This necessary change is illustrated by the business maturity curve. During high growth, we focused on achieving the macro targets of building and installing new infrastructure. In the future, the resources required to support slower growth are reduced but the effort to maintain and improve assets is increasing. Income, however, will be derived more from rates and less from developer fees. Consequently, increased costs place pressure more directly on rates. Therefore, to meet customer and financial goals, the District will need to emphasize internal efficiency and development of technology-assisted best practices.

Methodology

The Balanced Scorecard focuses on four perspectives as a mechanism for setting strategic direction and balancing competing priorities. This industry best practice has been adopted by the District because it allows for examination of our plans from different perspectives.



Every three years the District engages in a major revision of its Strategic Plan. This current plan (covering Fiscal Years 2009-2011) is the third in a series of three-year plans beginning in 2003. The process is inclusive, starting with a thorough review of the last effort, the District's Vision, Mission, and Key Challenge statements are examined and revised. Individual interviews are conducted with the Board of Directors, approximately 30 staff members, union representatives, as well as team meetings involving all Otay staff. Assistance from professional consultants and industry best practice advice are taken into account to provide third party input.

The primary tool, however, is a very thorough review process by the Senior Management Team of 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 District staff and the General Manager on the strategic work that will be done and what the District hopes to achieve over the next three years. In turn, the General Manager presents the plan to the Board for approval. Through the Strategic Plan and budget approval processes, the Board is then able to make well-informed decisions about the District's direction.

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 from the prior year and are updated quarterly, and reviewed by the Board on a semi-annual basis.

I. CUSTOMER

1. Maximize Our Customers' Satisfaction

A. Listen to Our Customers

1. Capture customers' attitudes and awareness through a repeatable customer survey program.
2. Expand a more detailed customer complaint tracking and reporting system.

B. Effective Use Multi-Channel Communications

1. Enhance our communication with our customers by evaluating and upgrading all aspects of the district's phone system.
2. ***Web Page*** - Evaluate and enhance the District's website design to allow easier use and navigation.
3. ***E-Customer Account*** - Enhance the customer's ease of access to personalized account information including water use, payment status, and historical trending.
4. Evaluate the most cost effective and efficient processes and tools to communicate service related issues to customers. For example: E-Mail, Target mail, door hanger, etc.

5. **Written Publications** – Develop an effective program for producing new customer communication including drought related communication. Evaluate bi-lingual options.
6. Develop a comprehensive community outreach plan and materials to target specific community stakeholders with additional information or presentations on drought, recycled water, and water conservation.

2. Educate our Customers on Important Water Related Matters

A. Expand the District’s water conservation programs to maximize District-wide water conservation

1. Promote and encourage adoption of conservation practices for new construction within District service territory.
2. Participate in the revision of the 14 water conservation Best Management Practices and prepare to implement those that are locally cost-effective.

B. Maximize recycled water use and public knowledge

1. Continue a regional approach and expand District’s recycled water outreach program to landscape architects, maintenance companies, developers, contractors, and home owner associations.

3. Help Shape the Water Industry’s Direction

A. Legislative and political influence for District programs

1. Continue to actively participate in County Water Authority, Metropolitan Water District of Southern California, state policy making and pending legislative review and comment.
2. Promote enhancements to city, county and state water conservation requirements and implement appropriate BMPs.

B. Optimize the District’s water industry participation

1. Promote and encourage leadership opportunities for District staff in water industry committees.
2. Evaluate and implement American Water Works Association Peer Review for the District.

II. FINANCIAL

1. Develop a Long Term Financial Planning Program

A. Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy, and drought uncertainties including:

1. Facilities and staffing plan needs.
2. Developing the long term financial plan.

B. Conduct financial threat assessment for growth, water availability, inflation and other revenue sources

C. Re-calculate all Capacity and Annexation Fees with New Rehabilitation and Repair Plan

2. Optimize All Revenue Streams

A. Modify existing rate structures

1. Simplify residential fee structures and the billing system.
2. Reduce complexity of and simplify rate structure.
3. Evaluate drought stage rates and propose changes.
4. Evaluate and improve effectiveness of bill (including fees for Chula Vista sewer billing).

III. BUSINESS PROCESSES

1. Implement Industry Best Practices for Utility Development

A. Potable Water

1. Prioritize and implement recommendations contained in the Integrated Resources Plan and Water Resources Master Plan to obtain an additional 15% of potable water.
2. Update the District's Drought Management Plan including actions for enforcement.
3. Create a comprehensive environmental program that is cost-effective and proactive in response to environmental compliance.
4. Develop and implement a proactive leak detection program to reduce distribution system water loss.

B. Sewer

1. Evaluate the long-term requirement for costs and benefits of seeking additional sewer collection flow treatment, and/or disposal capacity.
2. Develop and implement Treatment Plant enhancements including automation for remote operation and shutdown, technology improvements, and upgrade of facilities.

C. Recycled Water

1. Obtain 10% in new recycled water supplies by prioritizing and implementing the recommendations in the IRP & WRMP.
2. Finalize evaluation of North District service area expansion for recycled water and seek approvals and funding.

2. Optimize the District's Operating Efficiency

A. Minimize the District's total life cycle asset costs

1. Develop and implement an Asset Management Program Plan to extend useful life of capital assets.
2. Expand meter testing for 3" and larger calibration and replacement program.
3. Evaluate increasing the completion schedule of District's valve actuation, valve replacement, and air vac programs.
4. Enhance construction inspection on construction projects by implementing IMS.

B. Update the District's IT Strategic Plan

1. Evaluate the long-term viability of Eden financials and billing system.
2. Enhance existing Capital Project Tracking System.
3. Enhance the District's data management, data update process, and data architecture including enterprise standard data. Update process for ensuring GIS data is accurate.
4. Develop and deploy the field wireless network for key facilities.

C. Optimize the use of existing technologies

1. Optimize functionality, business continuity, bandwidth, and use of SCADA.
2. Optimize use of Voiceover Internet Protocol and unified messaging.
3. Evaluate implementing a fixed network Automated Meter Reading.
4. Optimize the use of SharePoint.
5. Develop optimized field work processing using integrated technology.
6. Assess and implement security best practices for all Otay networks.

D. Increase field productivity through improved efficiency

1. To obtain access to shared electricity, gas, telephone, and other utilities from cell site vendors, San Diego County and, other agencies.

E. Improve the efficiency of business processes

1. Investigate using electronic signatures on staff reports, shutdown plans, contracts, magazines, newsletters, reimbursements, project closeouts, etc.
2. Evaluate web-based employee performance reviews.
3. Enhance accounts payable to electronically pay bills for frequent vendors and routine bills and maximize the use of e-bills.
4. Enhance fuel tracking and reporting system.
5. Automate application process.
6. Develop a Heavy Equipment Capital Replacement Plan.
7. Identify existing facilities that are good candidates for conversion to separated irrigation meters (recycled and/or potable water), specifically for multi-family/industrial/commercial projects.
8. Enforce use of separate meters for irrigation during the Sub-Area Master Plan (SAMP) Review Process to maximize the use of recycled water. Irrigation of landscaped areas shall have a separate meter regardless if potable or recycled water is available, while maximizing the use of recycled water.

F. Optimize Disaster Preparedness

1. Review/consolidate the District's Disaster Preparedness Plan
2. Update Security Assessment and implement Technology Recommendations.
3. Evaluate and make recommendations regarding Environmental Health, and the Emergency Preparedness and Safety Management System.

3. Improve Financial Analysis and Reporting

A. Improve per cost unit reporting

1. Develop and measure cost per unit expenditures and forecasts.

B. Improve the efficiency and effectiveness of District-wide reporting

1. Utilize SCADA to calibrate water model.

IV. LEARNING AND GROWTH

1. Results-oriented Workforce

A. Retain Dedicated Workforce

1. Evaluate effective communication tools throughout the organization.
2. Evaluate the Pay-for-Performance Program.
3. Evaluate the Employee Recognition Program.
4. Assess findings of 2008 Employee Survey.
5. Conduct Employee Survey in preparation for 2012 Strategic Plan development.

B. Hire the “Best”

1. Review and update classification plan and revise critical areas.
2. Review and revise marketing strategy and recruiting tools.

C. Staff Development

1. Develop and identify required and desired District-wide training for all classifications.
2. Develop and maintain a formal program to track employee training.

D. Workforce Management

1. Identify core elements of Succession Planning that can be tailored to the District’s needs.

E. Performance Management

1. Update and expand annual review process to include greater emphasis of Strategic Plan objectives and performance measures and understanding of career goals and how they may relate to the District’s Succession Plan.

F. Knowledge Management

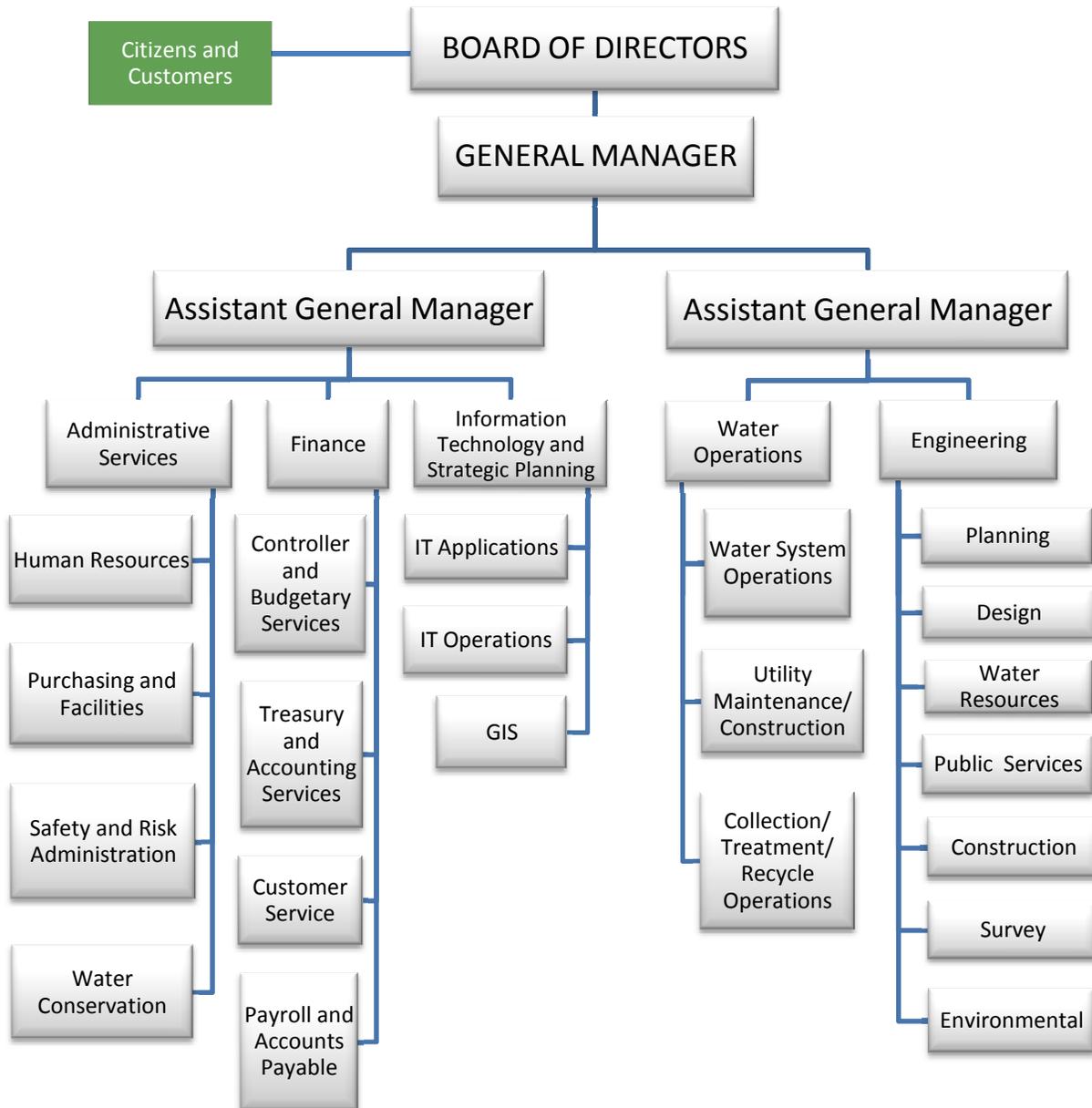
1. Update District-wide Records Management Program.
2. Develop information systems support for asset management program.

G. Community Involvement/District Outreach

1. Optimize community involvement throughout the District.



Organization Chart



Budget Guide

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

Budget Foreword

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

History and Community Profile

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

Financial Summaries

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

Five-Year Forecast

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

Revenues and Expenditures

The District budgets revenues and expenditures by Potable, Recycled, and Sewer Systems. General revenues and expenditures that are not specific to one system or department are budgeted in General Revenues and Expenses section. An allocation of overhead type costs is made to equitably spread the cost of running the District among the various business segments.

Budget Guide

Departmental Operating Budget

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

Capital Budget

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

Policies

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

Appendix

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



Budget Calendar

Each year, the Finance Department prepares a Budget Workbook for distribution to the departments. This workbook gives instructions and deadlines for each phase of the budget. The budget process is explained on pages 19 and 20.

February 12, 2010	Chiefs submit CIP budget for New Projects and changes to existing projects.
February 17, 2010	Chiefs submit request for new Personnel/Personnel Reclassifications and long-term staffing to Human Resources.
February 24, 2010	Human Resources Division (HR) to complete preliminary review of new Personnel and Personnel Reclassification request.
March 1, 2010	Each department submits the following items: <ul style="list-style-type: none"> • Operating and administrative budget • Capital purchases and justification • Labor Budget Worksheet
March 3, 2010	Human Resources to review new personnel and reclassification requests with General Manager.
March 8, 2010	Finance Department reviews Operating Budget and performs Reconciliation with departments.
March 10, 2010	Chiefs submit GM approved Personnel Requests and Request for Reclassification; and Position Analysis Questionnaire forms to HR.
April 5, 2010	Finance reviews assumptions and rates with Chiefs, AGMs and GM.
April 15, 2010	General Manager reviews Preliminary Budget.
May 6, 2010	Practice run of budget presentation with Finance, Chiefs, AGMs and GM.

May 17, 2010	Public Workshop – Adopt FY 2010-11 Operating and Capital Budgets.
October 1, 2010	Mail Proposition Rate Increase Notices.
January 1, 2011	Increase Water and Sewer Rates for amounts billed after January 1, 2011.

Budget Process

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

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

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

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

Administrative and Materials Expenses are entered into the budget system by individual requests. These requests are compared to last year's budget and expenses to determine reasonableness by the Finance Department. All costs are justified and supported by explanations. These budgets are then presented to the General Manager and the Board of Directors prior to adopting the budget.

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

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

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

Once all of these budgets have been calculated, the Finance Department inputs all of the operating revenues and expenses, CIP expenses, reserve funding, and reserve levels into the District's Rate Model. Inflation factors for cost and volume are input into the Rate Model to project the next five years of revenue and expenses. 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 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 gives the District its direction for the following fiscal year.

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

Due to the size of the District's CIP, a separate budget book has been prepared outlining in detail the projects and expenditures required to ultimate build-out. A synopsis of the CIP may be found under the Capital Budget section of this report. As part of the integrated budget, capital purchases have been included 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 2011.

Budget Basis

The District utilizes the accrual basis for budget and accounting, recognizing revenues and expenses in the period in which they are earned and incurred, respectively. The District reports its activities on an enterprise basis, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise. 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.



Jamacha Road 36" Potable Water Pipeline

RESOLUTION NO. 4159

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2010-2011
OPERATING AND CAPITAL BUDGET AND THE
PROPOSED WATER AND SEWER INCREASES AS
AMENDED IN APPENDIX A

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 2010-2011; 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 2010-2011 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 effective January 1, 2011.

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 2010-2011.

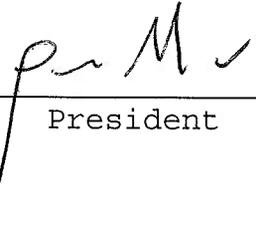
PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 17th day of May 2010, by the following vote:

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

ATTEST:

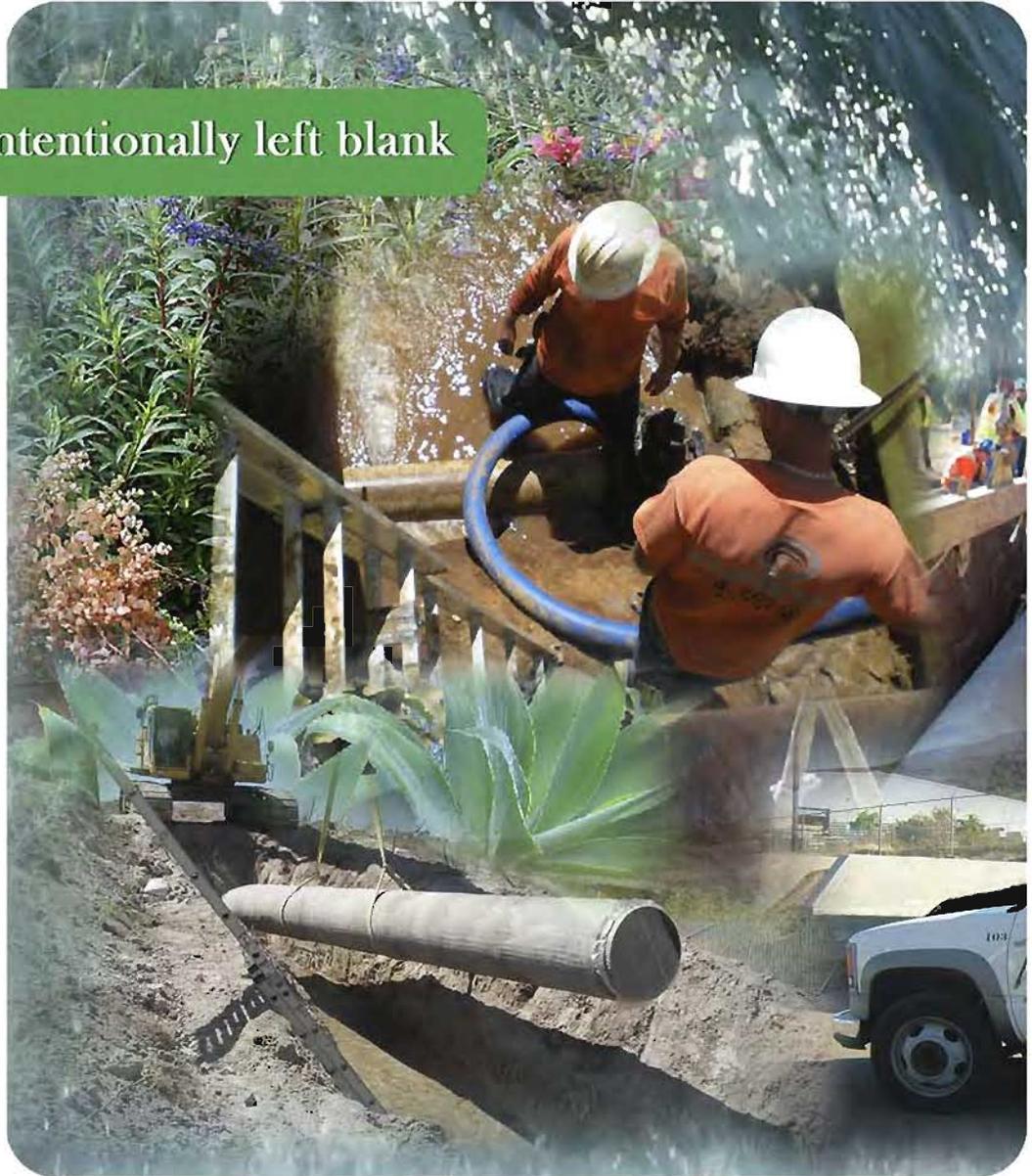


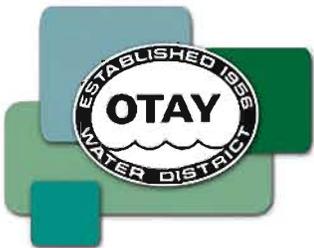
District Secretary



President

This page intentionally left blank





History and Community Profile

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.

Since then, the District has grown from a handful of customers and two employees to become an organization operating a water network with more than 709 miles of potable and 96 miles of recycled pipelines, 44 reservoirs, a water reclamation plant, and one of the largest recycled water distribution systems in the State of California. The character of the service area has also changed from predominantly dry-land farming and cattle ranching to businesses, high-tech industries, and large master-planned communities. The District's boundaries currently stretch from Otay Mesa and eastern Chula Vista to Spring Valley, southern El Cajon, and Jamul.

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As with the past few years, we continue to face numerous challenges with the slow recovery from the largest economic downturn since the Great Depression and ongoing home foreclosures. The District also faces large water supply cost increases and inaction in the State Capitol to address the crisis in the Sacramento – San Joaquin Bay Delta, the source of 30% of our imported water.

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

Current Economic Conditions

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

For several decades, the District has collected and recycled wastewater generated within the Jamacha drainage basin and pumped the recycled water south to the Salt Creek basin where it is used for irrigation and other non-potable uses. However, the demand for recycled water out-paced the supply, requiring the District to supplement the limited supply of recycled water with potable water. Through the agreement with the City of San Diego, the District has discontinued supplementing its recycled demand with potable water. Once again, this decreases the demand on potable water and increases reliability of the District's supply.

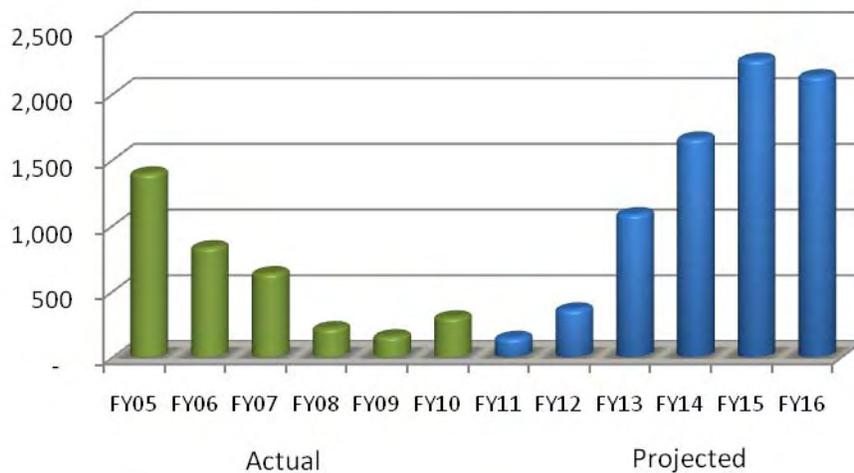
The District's sewer service area is growing at a slow but steady rate of approximately 0.6% each year. Most of this growth is from small development projects or homeowners converting their septic system to sewer because of environmental issues.

The District's service area was one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. It is estimated that the District is currently serving approximately 206,000 residents. In just the past seven years, the District has added more than 5,876 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 25 permits per month, and sold 302 water meters in Fiscal Year 2009-2010 compared to 158 last year.

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



The Engineering Department projects that over the next six years the District will sell another 7,656 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 square miles in San Diego County, located immediately east of the City of San Diego metropolitan area and running from the City of El Cajon south to the international border.



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

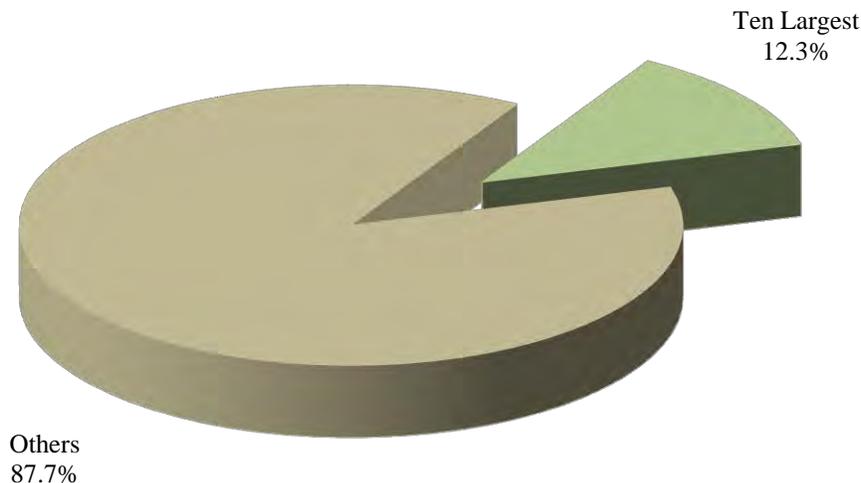
The population of Chula Vista has grown from 83,927 in 1980, to 135,136 in 1990, to 173,556 in 2000, and in 2009 the population reached 233,108. This represents an increase of 149,181 in the past 29 years or a 177.7% increase, which correlates to the District's rapid growth for the same period.

The racial make up of Chula Vista is 51% Hispanic, 27% White, 14% Asian, 4% Black, and the remaining 7% is all other groups. The median household income for Chula Vista was \$74,881 in 2009, and 95% of Chula Vista's housing units were occupied.

Ten Largest Customers - Fiscal Year 2010

Customer Name	Customer Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$2,218,583.82	3.9%
2. County of San Diego	Publicly Owned	943,132	1.7%
3. State of California	Publicly Owned	803,450	1.4%
4. EastLake III Community Assoc	Construction (Potable, Temporary)	531,489	0.9%
5. EastLake Summit Assoc	Construction (Potable, Temporary)	523,703	0.9%
6. EastLake Country Club	Irrigation (Reclaimed)	406,813	0.7%
7. Belleme HOA	Irrigation (Reclaimed)	397,621	0.7%
8. Chula Vista School District	Publicly Owned	377,411	0.7%
9. Cuyamaca College	Publicly Owned	354,666	0.6%
10. Sweetwater School District	Publicly Owned	348,083	0.6%
Total		<u>\$ 6,904,952</u>	<u>12.3%</u>
Estimated FY10 Water Sales		<u>\$ 56,186,972</u>	

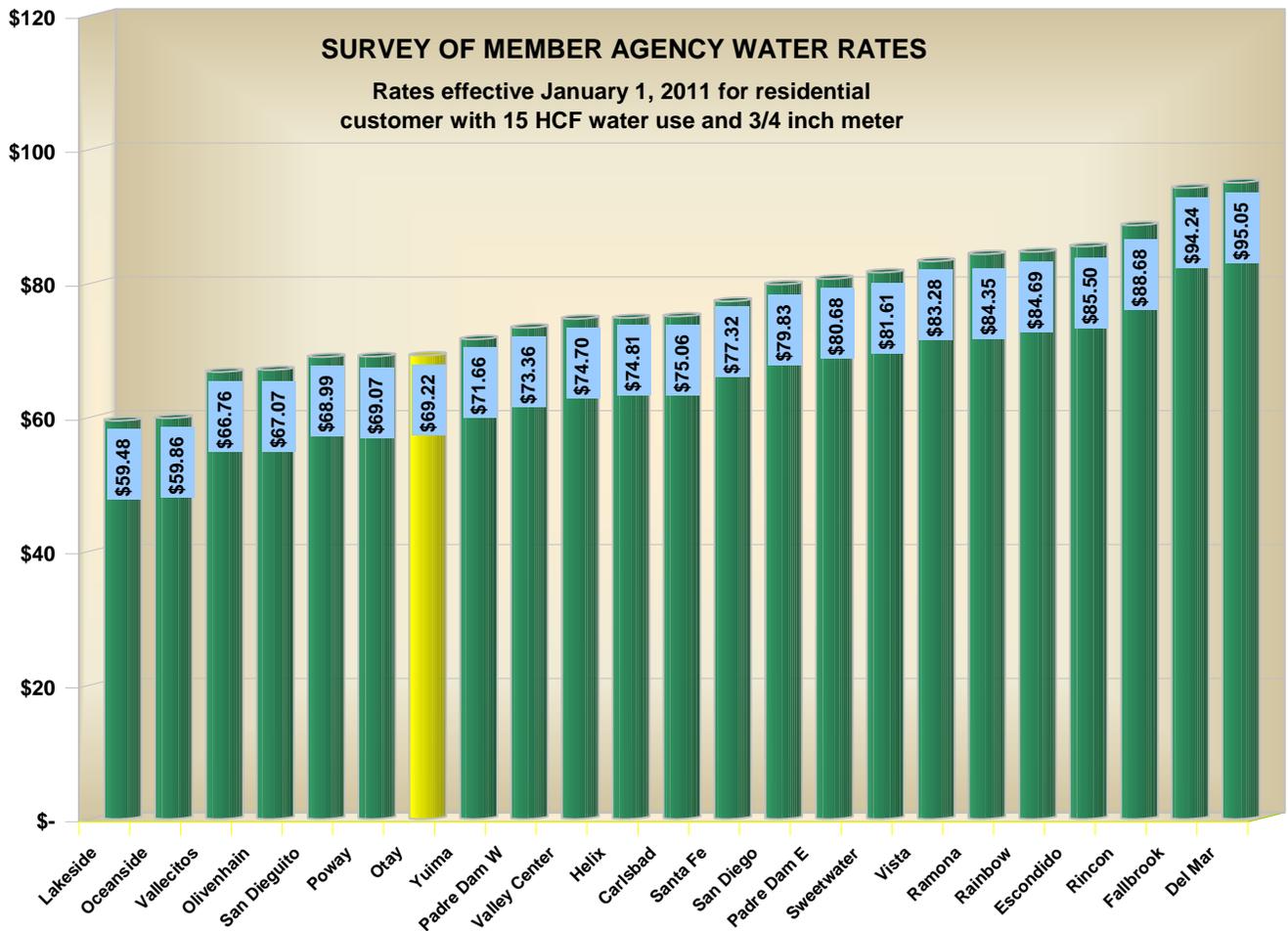
CUSTOMERS FISCAL YEAR 2010



Water Rate Comparison

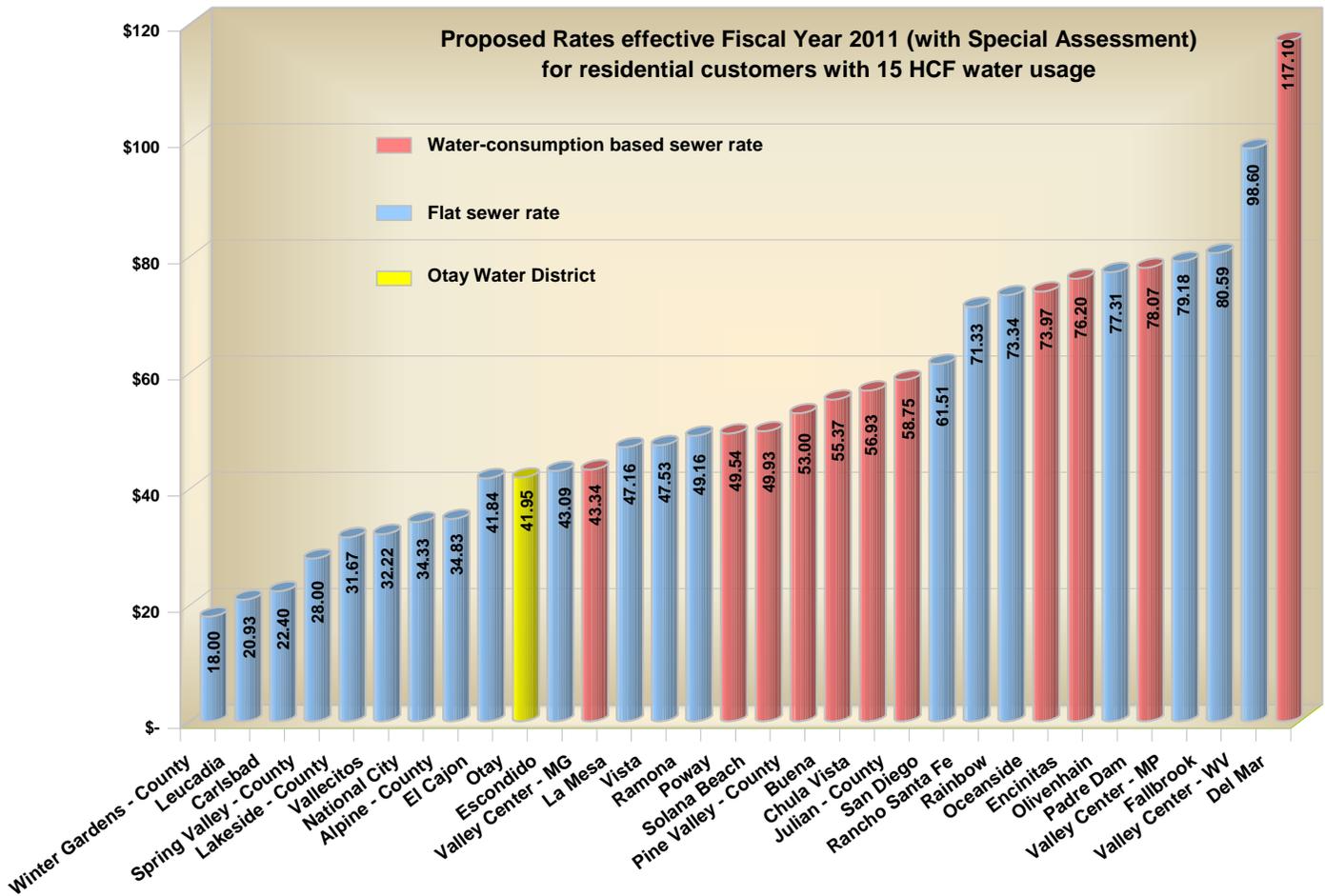
The District strives to remain cost effective in its rate setting, by controlling operating cost, yet passing through the full cost of supply. The following two charts show how the District compares in rates with its neighboring water and sewer providers.

Water Rate Comparison of Water Providers in San Diego County



Sewer Rate Comparison

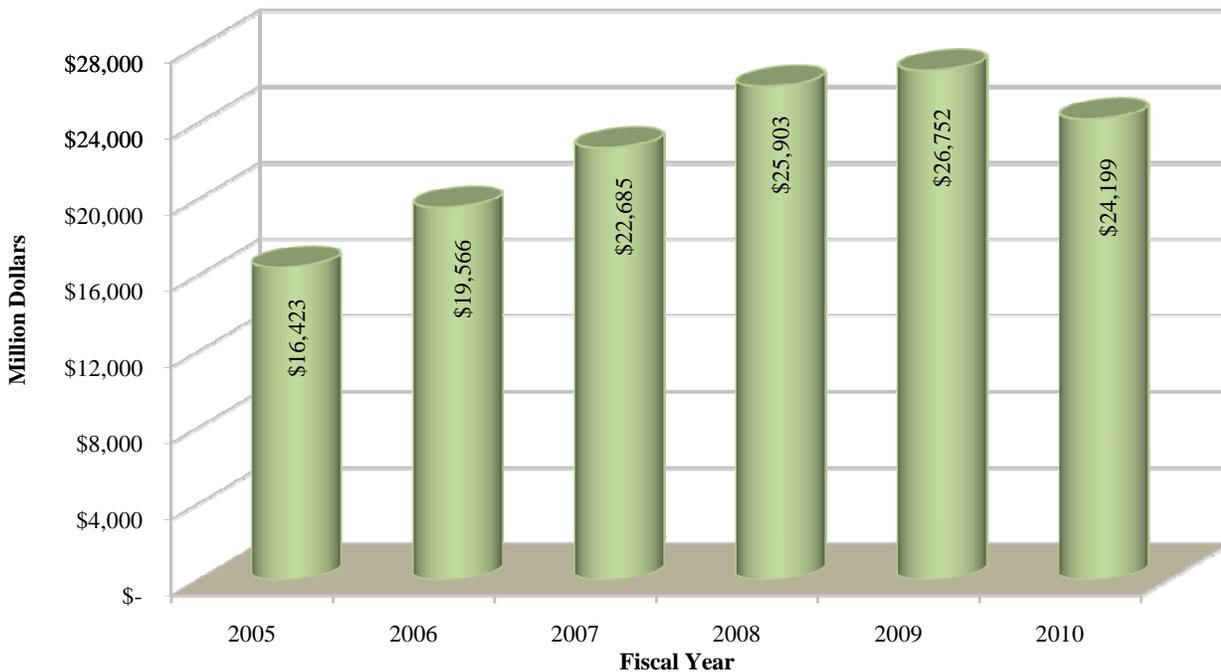
Sewer Rate Comparison of Sewer Providers in San Diego County



Service Area Assessed Valuation

Otay Water District's service area encompasses property with over \$24 billion of assessed valuation. Properties are assessed at 100% of their full value less any exemptions such as, exemption from taxation under the law and homeowner's exemptions. As shown in the chart below, there has been a significant increase in the assessed value of properties in the District service area. The historic increases was 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 2% 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 6%.

FIVE-YEAR SERVICE AREA ASSESSED VALUATION

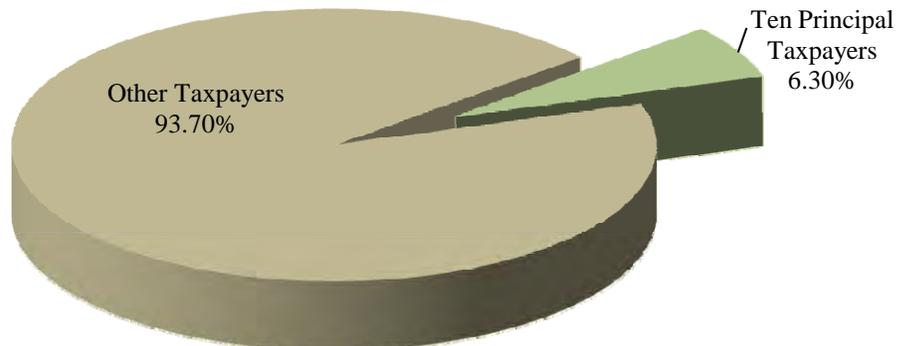


Source: County of San Diego Auditor and Controller

Ten Principal Taxpayers as of June 30, 2010

Organization	Assessed Value	Percent to Total
1. San Diego Expressway Limited Partnership (SDELP)	\$ 612,000,000	2.53%
2. GGP-Otay Ranch LP	175,700,015	0.73%
3. Village II Of Otay HB SUB	135,600,000	0.56%
4. Regulo Place Apartments Investors LLC	116,184,212	0.48%
5. O V Three Two LLC	92,571,468	0.38%
6. E Q R-Missions At Sunbow LLC	90,550,330	0.37%
7. S P Lavidia Real LLC	81,334,891	0.34%
8. S V Portfolio LP	80,104,884	0.33%
9. Corrections Corp Of America	76,621,912	0.32%
10. Rancho Mesa LP	64,100,000	0.26%
Total	<u>\$ 1,524,767,712</u>	<u>6.30%</u>
Total Service Area Assessed Valuation	<u>\$ 24,198,816,700</u>	

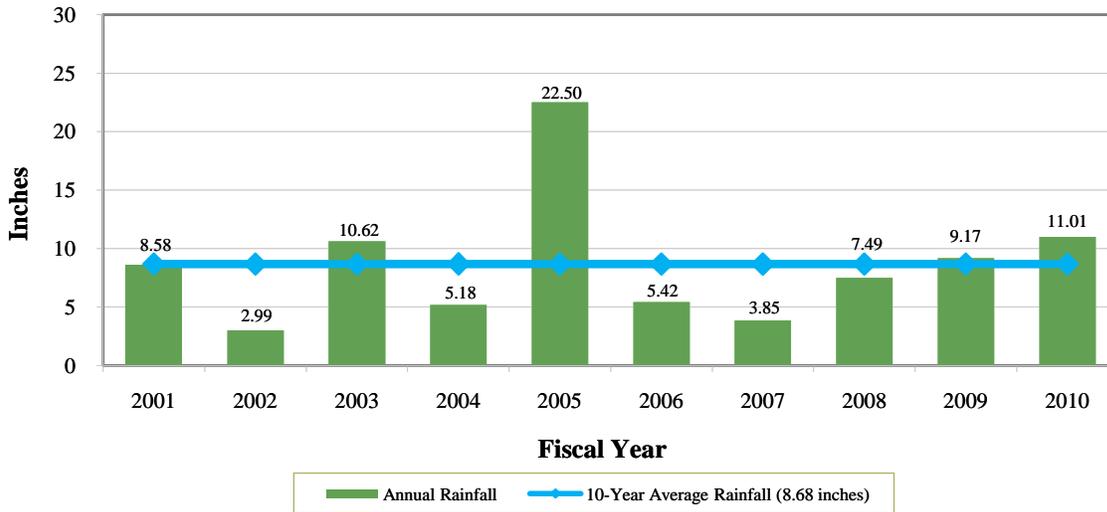
SERVICE AREA TAXPAYERS FISCAL YEAR 2010



Source: County of San Diego Auditor and Controller

San Diego Rainfall

FISCAL YEARS 2001-2010



Although San Diego's Fiscal Year 2010 rainfall was greater in volume and more broadly distributed across the year than normal, the District is expecting that San Diego's rainfall will return to its average pattern and volume for Fiscal Year 2011. The 10-year average of 8.68 inches for San Diego rainfall reflects the long-term drought conditions for our area. San Diego's rainfall average over 20 years is 9.96 inches; the 30-year average is 10.10 inches.

San Diego rainfall, while a contributing factor, is not the controlling factor for a potable water supply shortage. The San Diego region imports 90% of its potable supply, so conditions elsewhere affect the actual amount of water available to the District. In the event the amount of water supplied to the District is reduced, water-sale revenues would decrease. Related water purchase expenses would also be reduced dampening 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.



Financial Summaries

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 2011, the District increased both water and sewer rates for its customers in order to pass-through cost increases from water suppliers and sewer treatment agencies. These cost increases are being experienced by our neighboring water agencies and most are encountering similar rate increases.

Operating Budget Summary

The Operating Budget for Fiscal Year 2011 is \$76,993,900 in comparison to the previous fiscal year budget of \$75,716,500. The \$1,277,400 increase is primarily due to water supply rate increases of 12.2% from MWD and 11.3% from CWA because of the high cost of supply programs, higher energy and operating costs.

The District uses a rate model to build the budget for the current fiscal year and five subsequent years. To do this, estimates for growth, water costs, and others such as rainfall, and average water consumption per customer, are used throughout the model to calculate various revenue and expense amounts in each year. The Engineering Department is primarily responsible for the growth estimates as described in the budget process on pages 19 and 20. Water cost estimates are obtained from District water suppliers, CWA and MWD, and power cost inflators from San Diego Gas and Electric, the District power supplier. Labor and benefit cost inflators are based on the Memorandum of Understanding with the District's labor union, as well as estimates from District health providers. Other general inflators are derived from statistical data from consumer price indexes for the region.

Revenues

Potable Water Sales

Potable water sales represent revenue collected from the sale of water, including: system charges, energy charges, and penalties. It is estimated that 29,900 acre-feet of potable water will be sold during Fiscal Year 2011. Budgeted revenues from water sales are projected to be \$56,333,900, a decrease of 0.2% from the previous year's budget due to decreased water sales, despite two years of unprecedented increases in water cost. Additional schedules relating to potable water sales are included in the Potable Revenues and Expenditures section of this budget.

Recycled Water Sales

Recycled water sales represent revenue collected from the sale of 4,295 acre-feet of recycled water to customers at a discount of 15% off the potable irrigation rate. The FY 2011 sales revenue budget of \$7,620,600, an increase of \$18,100 from FY 2010, includes the incentive credits provided by MWD and the CWA.

Sewer Revenues

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

Meter Fees

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

Capacity Fee Revenues

These fees are earned by the General Fund for Engineering Department's support for expansion functions.

Betterment Fees for Maintenance

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

Annexation Fees

The District collects annexation fees when new customers annex into the District. The fee is based on the prior property tax and availability fees paid by existing users and ensures that future users fund a portion of the facilities that were sized and built for their future use.

Tax Revenues

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

Non-Operating Revenues

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

Interest

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

Transfer from OPEB

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

Expenditures

Potable Water Purchases

Water purchases indicate the expense of purchasing 31,088 acre-feet for the District's potable water supply. A provision has been made to allow 1,215 acre-feet of water for District usage, leakage, and evaporation.

Recycled Water Purchases

Recycled water purchases indicate the expense of purchasing 3,098 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.

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 159 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.

Expansion Reserves

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

Betterment Reserves

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

Replacement Reserves

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

Transfers

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

Operating Budget Summary by Business

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

Fund Balance Summary by Fund

This schedule shows each fund's balance at June 30, 2010, and the projected balance for June 30, 2011, based on the results of the budget and Rate Model. This includes transfers between funds made to meet target levels as outlined in the Reserve Policy.

Revenues and Expenditures by Fund

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

Revenues and Expenditures by Type – All Funds

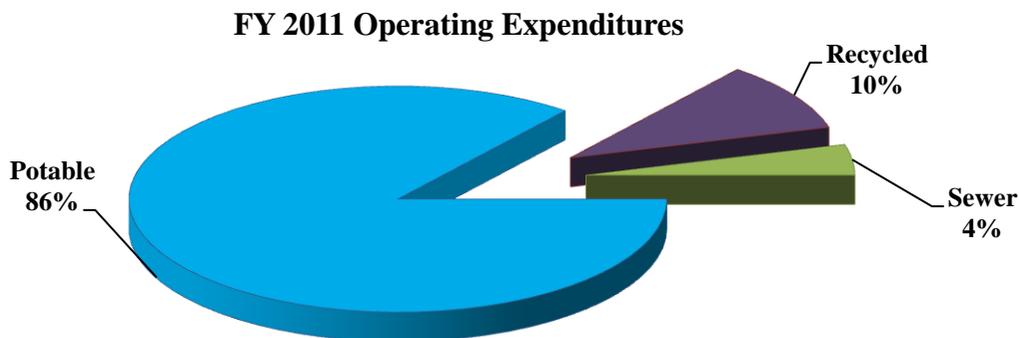
This is a consolidated schedule of revenues and expenditures, including sources and uses of funds but excluding fund transfers.

Operating Budget Summary - General Fund

	FY 2009	FY 2010		FY 2011	Budget
	Actual	Budget	Estimated	Budget	Variance
REVENUES					
Potable Water Sales	\$ 46,160,394	\$ 56,474,500	\$ 49,544,333	\$ 56,333,900	\$ (140,600)
Recycled Water Sales	6,238,358	7,602,500	6,622,886	7,620,600	18,100
Sewer Revenues	2,184,523	2,244,800	2,311,586	2,270,500	25,700
Meter Fees	71,448	45,600	92,246	50,300	4,700
Capacity Fee Revenues	1,521,707	1,397,000	1,030,688	1,095,300	(301,700)
Betterment Fees for Maintenance	661,998	571,400	575,721	657,400	86,000
Annexation Fees	392,349	120,500	555,751	-	(120,500)
Tax Revenues	4,054,895	3,852,600	3,679,280	3,843,900	(8,700)
Non-operating Revenues	4,881,548	1,585,600	2,544,875	1,948,300	362,700
Interest	377,829	322,900	214,280	296,300	(26,600)
Transfer from OPEB	-	1,030,000	1,030,000	1,220,000	190,000
General Fund Draw Down	-	469,100	469,100	1,657,400	1,188,300
TOTAL REVENUES	66,545,049	75,716,500	68,670,746	76,993,900	1,277,400
EXPENDITURES					
Potable Water Purchases	22,778,545	28,033,700	24,530,567	26,238,700	(1,795,000)
Recycled Water Purchases	1,299,976	1,312,000	1,024,162	1,179,900	(132,100)
CWA - Infrastructure Access Charge	1,227,408	1,344,900	1,344,828	1,550,700	205,800
CWA - Customer Service Charge	1,049,470	1,148,800	1,128,306	1,315,200	166,400
CWA - Emergency Storage Charge	1,774,776	2,246,600	2,196,876	2,875,200	628,600
MWD - Capacity Reservation Charge	603,072	628,800	637,884	665,100	36,300
MWD - Net RTS and Standby Charges	665,087	1,140,700	952,226	1,232,400	91,700
Subtotal - Water Costs	29,398,334	35,855,500	31,814,849	35,057,200	(798,300)
Power	2,905,101	2,637,100	2,307,611	2,520,700	(116,400)
Labor and Benefits	16,440,651	17,212,800	16,659,222	16,749,400	(463,400)
Administrative Expenses	5,941,924	5,329,200	4,646,029	5,581,600	252,400
Materials & Maintenance	3,482,653	3,801,600	3,491,494	3,769,500	(32,100)
Expansion Reserve	5,016,700	1,610,000	1,610,000	2,775,000	1,165,000
Betterment Reserve	-	3,810,000	3,810,000	1,435,000	(2,375,000)
Replacement Reserve	277,900	3,660,000	3,660,000	6,965,000	3,305,000
Transfer to Sewer General Fund	-	200,000	200,000	-	(200,000)
Transfer Out - Prop 1A	-	270,300	270,300	-	(270,300)
Transfer to General Fund Reserve	-	1,330,000	1,330,000	390,500	(939,500)
Transfer to Sewer Replacement	-	-	-	1,750,000	1,750,000
TOTAL EXPENDITURES	63,463,263	75,716,500	69,799,505	76,993,900	1,277,400
EXCESS REVENUES (EXPENSE)	\$ 3,081,786	\$ -	\$ (1,128,759)	\$ -	\$ -

FY 2011 Operating Budget Summary by System

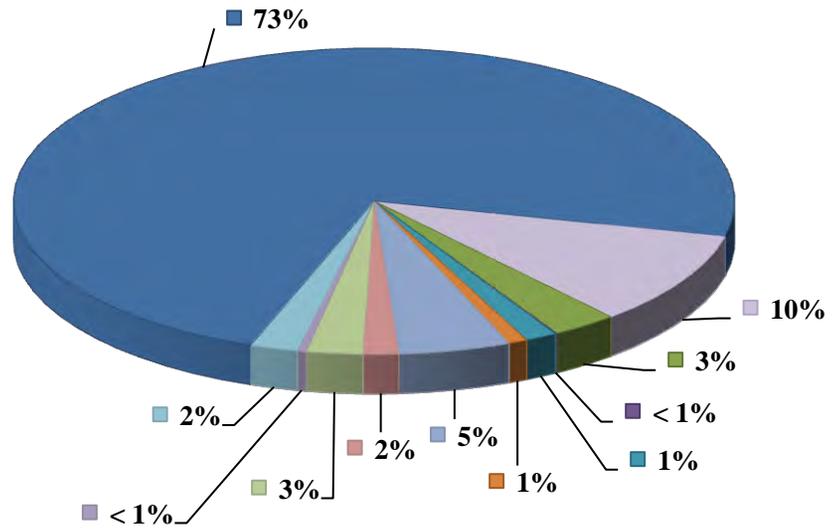
	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 56,333,900	\$ -	\$ -	\$ 56,333,900
Recycled Water Sales	-	7,620,600	-	7,620,600
Sewer Revenues	-	-	2,270,500	2,270,500
Meter Fees	40,200	10,100	-	50,300
Capacity Fee Revenues	1,095,300	-	-	1,095,300
Betterment Fees for Maintenance	657,400	-	-	657,400
Tax Revenues	3,792,500	-	51,400	3,843,900
Non-operating Revenues	1,919,200	-	29,100	1,948,300
Interest	256,700	12,400	27,200	296,300
Transfer from OPEB	1,220,000	-	-	1,220,000
General Fund Draw Down	662,800	-	994,600	1,657,400
TOTAL REVENUES	65,978,000	7,643,100	3,372,800	76,993,900
EXPENDITURES				
Water Purchases (CWA)	26,238,700	-	-	26,238,700
Water Purchases (CSD)	-	1,179,900	-	1,179,900
CWA - Infrastructure Access Charge	1,550,700	-	-	1,550,700
CWA - Customer Service Charge	1,315,200	-	-	1,315,200
CWA - Emergency Storage Charge	2,875,200	-	-	2,875,200
MWD - Capacity Reservation Charge	665,100	-	-	665,100
MWD - Net RTS and Standby Charges	1,232,400	-	-	1,232,400
Subtotal - Water Costs	33,877,300	1,179,900	-	35,057,200
Power	1,915,900	529,800	75,000	2,520,700
Labor and Benefits	14,951,000	1,086,800	711,600	16,749,400
Administrative Expenses	4,597,200	343,100	641,300	5,581,600
Materials & Maintenance	2,046,600	303,000	1,419,900	3,769,500
Expansion Reserve	-	2,775,000	-	2,775,000
Betterment Reserve	-	315,000	1,120,000	1,435,000
Replacement Reserve	6,245,000	720,000	-	6,965,000
Transfer to Sewer GF	595,000	-	(595,000)	-
Transfer to GF Reserve	-	390,500	-	390,500
Transfer to Sewer Replacement	1,750,000	-	-	1,750,000
TOTAL EXPENDITURES	65,978,000	7,643,100	3,372,800	76,993,900
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -



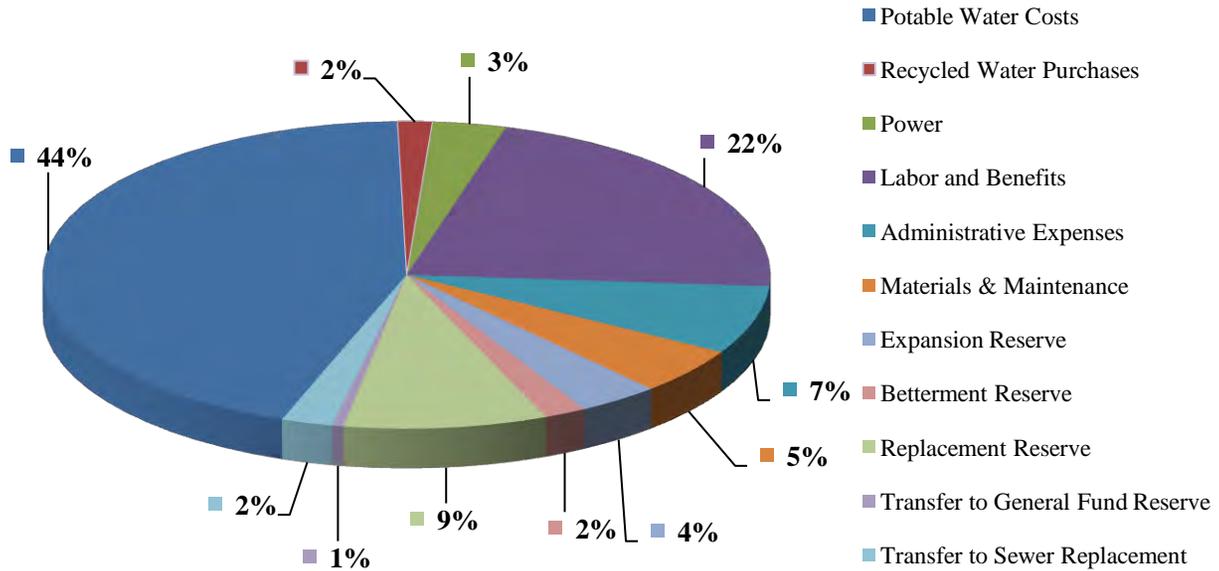
Operating Revenues and Expenditures

- Potable Water Sales
- Recycled Water Sales
- Sewer Revenues
- Meter Fees
- Capacity Fee Revenues
- Betterment Fees for Maintenance
- Tax Revenues
- Transfer from OPEB
- Non-Operating Revenues
- Interest
- General Fund Draw Down

FY 2011 Operating Revenues



FY 2011 Operating Expenditures



Fund Balance Summary by Fund

	Estimated	Estimated, Fiscal Year 2011			Projected
	Balance	Revenues	Expenditures	Interfund Transfers ⁽¹⁾	Balance
	June 30, 2010				June 30, 2011
GENERAL FUND					
Potable	\$ 21,107,588	\$ 65,978,000	\$ 65,978,000	\$ -	\$ 21,107,588
Recycled	1,751,257	7,643,100	7,643,100	-	1,751,257
Sewer	1,617,801	3,372,800	3,372,800	-	1,617,801
Total General Fund	24,476,646	76,993,900	76,993,900	-	24,476,646
EXPANSION FUND					
Potable and Recycled ⁽²⁾	20,659,114	5,084,700	17,548,200	1,365,000	9,560,614
Sewer	437,635	7,700	-	-	445,335
Total Expansion Fund	21,096,749	5,092,400	17,548,200	1,365,000	10,005,949
BETTERMENT FUND					
Potable	5,815,334	1,428,200	6,691,900	-	551,634
Recycled	216,085	3,100	374,200	315,000	159,985
Sewer	622,491	47,100	1,653,800	1,120,000	135,791
Total Betterment Fund	6,653,909	1,478,400	8,719,900	1,435,000	847,409
REPLACEMENT FUND					
Potable	17,668,450	1,317,900	7,918,800	7,655,000	18,722,550
Recycled	4,600,306	472,100	1,200,000	720,000	4,592,406
Sewer	2,215,121	12,600	1,267,900	1,750,000	2,709,821
Total Replacement Fund	24,483,877	1,802,600	10,386,700	10,125,000	26,024,777
OPEB FUND	6,639,952	96,300	905,000	(1,220,000)	4,611,252
DEBT RESERVE FUND	32,197,323	962,200	1,195,200	-	31,964,323
TOTAL	\$ 115,548,457	\$ 86,425,800	\$ 115,748,900	\$ 11,705,000	\$ 97,930,357

Note: See page 198 - 206 for a description of fund types.

⁽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	\$ (2,775,000)	
Betterment Reserve	(1,435,000)	
Replacement Reserve	(8,715,000)	
OPEB Reserve	1,220,000	
Total	(11,705,000)	-

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

Revenues and Expenditures by Fund

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Projected
<u>REVENUES</u>				
GENERAL FUND				
Potable	\$ 57,968,090	\$ 65,264,200	\$ 58,128,501	\$ 65,978,000
Recycled	6,259,578	7,630,500	6,629,817	7,643,100
Sewer	2,317,381	2,821,800	2,413,330	3,372,800
Total General Fund	66,545,049	75,716,500	67,171,647	76,993,900
EXPANSION FUND				
Potable	4,445,557	14,343,600	5,160,255	4,514,400
Recycled	1,711,182	1,123,800	2,825,962	570,300
Sewer	12,512	4,100	6,113	7,700
Total Expansion Fund	6,169,251	15,471,500	7,992,331	5,092,400
BETTERMENT FUND				
Potable	1,487,503	23,596,800	1,262,227	1,428,200
Recycled	16,876	(700)	2,800	3,100
Sewer	36,661	47,000	44,897	47,100
Total Betterment Fund	1,541,040	23,643,100	1,309,925	1,478,400
REPLACEMENT FUND				
Potable	643,213	12,350,700	278,880	1,317,900
Recycled	123,069	77,000	64,857	472,100
Sewer	92,569	39,200	33,323	12,600
Total Replacement Fund	858,852	12,466,900	377,060	1,802,600
OPEB FUND	269,600	883,300	104,862	96,300
DEBT RESERVE FUND	1,238,139	1,058,000	51,775,186	962,200
Total Revenues	\$ 76,621,932	\$ 129,239,300	128,731,010	\$ 86,425,800

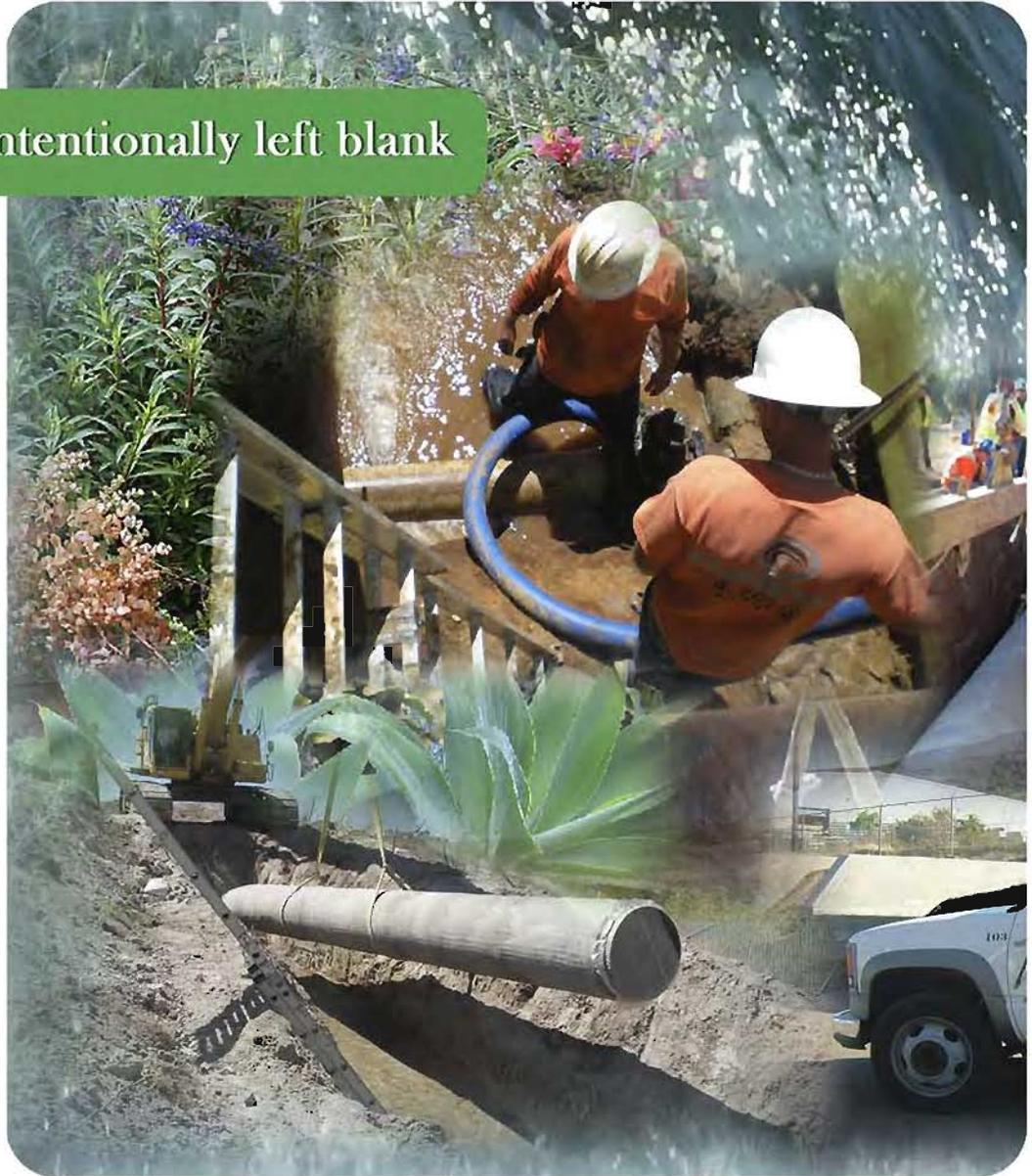
Revenues and Expenditures by Fund

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Projected
<u>EXPENDITURES</u>				
GENERAL FUND				
Potable	\$ 55,119,417	\$ 65,264,200	\$ 60,343,525	\$ 65,978,000
Recycled	6,103,430	7,630,500	6,939,833	7,643,100
Sewer	2,240,416	2,821,800	2,516,147	3,372,800
Total General Fund	63,463,263	75,716,500	69,799,505	76,993,900
EXPANSION FUND				
Potable	7,602,270	15,902,200	6,861,420	8,469,700
Recycled	991,176	2,680,900	213,074	9,078,500
Sewer	21,282	-	698	-
Total Expansion Fund	8,614,728	18,583,100	7,075,192	17,548,200
BETTERMENT FUND				
Potable	11,086,808	15,653,700	2,010,569	6,691,900
Recycled	770,690	24,700	2,762	374,200
Sewer	18,893	673,900	175,406	1,653,800
Total Betterment Fund	11,876,390	16,352,300	2,188,737	8,719,900
REPLACEMENT FUND				
Potable	2,975,778	8,136,600	5,429,102	7,918,800
Recycled	960,581	915,000	244,747	1,200,000
Sewer	521,002	514,300	268,146	1,267,900
Total Replacement Fund	4,457,361	9,565,900	5,941,995	10,386,700
OPEB FUND	1,481,070	1,150,600	871,631	905,000
DEBT RESERVE FUND	7,583,759	1,190,400	21,285,578	1,195,200
Total Expenditures	97,476,571	122,558,800	107,162,638	115,748,900
EXCESS (DEFICIT)	\$ (20,854,639)	\$ 6,680,500	21,568,372	\$ (29,323,100)

Revenues and Expenditures by Type - All Funds

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
REVENUES AND FUND SOURCES				
Potable Water Sales	\$ 46,160,394	\$ 56,474,500	\$ 49,544,333	\$ 56,333,900
Recycled Water Sales	6,238,358	7,602,500	6,622,886	7,620,600
Tax Revenues	4,054,895	3,852,600	3,679,280	3,843,900
Capacity Fee Revenues	3,331,640	2,790,000	2,978,943	3,464,800
Grants	2,315,000	5,221,000	4,765,000	2,540,000
Sewer Revenues	2,184,523	2,244,800	2,311,586	2,270,500
Non-Operating Revenues	4,881,548	1,585,600	2,544,875	1,948,300
General Fund Draw Down	-	469,100	-	1,657,400
Interest	2,251,329	1,623,700	1,057,832	1,522,600
Transfer from OPEB	-	1,030,000	-	1,220,000
Capacity Fees for Maintenance	1,521,707	1,397,000	1,030,688	1,095,300
Betterment Fee Revenues	875,582	948,000	705,655	739,300
Betterment Fees for Maintenance	661,998	571,400	575,721	657,400
GO Bond Debt Tax Revenues	747,175	665,900	605,405	578,400
Availability Fees	527,018	518,600	543,654	521,000
Sewer Debt Tax Revenues	406,968	362,600	385,997	362,100
Meter Fees	71,448	45,600	92,246	50,300
Proposed COPs	-	41,000,000	-	-
COPs Proceeds	-	-	50,731,158	-
Annexation Fees	392,349	120,500	555,751	-
Reimbursement from PERS Trust	-	715,900	-	-
Total Revenues and Fund Sources	\$ 76,621,932	\$ 129,239,300	128,731,010	\$ 86,425,800
EXPENDITURES AND USES OF FUNDS				
Potable Water Purchases	\$ 28,098,358	\$ 34,543,500	\$ 30,790,687	\$ 33,877,300
CIP Expenses	11,658,138	37,272,100	9,134,348	28,383,100
Labor Expenses	16,440,651	17,212,800	16,659,222	16,749,400
Interfund Transfers	5,294,600	9,080,000	9,080,000	12,925,000
Debt Service	5,232,079	5,221,200	5,898,401	7,714,200
Administrative Expenses	5,941,924	5,329,200	4,646,029	5,581,600
Materials and Maintenance	3,482,653	3,801,600	3,491,494	3,769,500
Power	2,905,101	2,637,100	2,307,611	2,520,700
Recycled Water Purchases	1,299,976	1,312,000	1,024,162	1,179,900
Capacity Fees for Maintenance	1,521,707	1,397,000	1,030,688	1,095,300
Payment to PERS	873,000	434,700	274,000	905,000
Betterment Fees for Maintenance	7,724,112	571,400	575,721	657,400
General Fund Transfers	-	1,800,300	1,800,300	390,500
Bond/Loan Issuance Expense	-	1,230,000	-	-
OPEB Health Expenses	608,070	715,900	597,631	-
COPs Proceeds Distribution	6,396,203	-	19,852,345	-
Total Expenditures and Uses of Funds	97,476,571	122,558,800	107,162,638	115,748,900
EXCESS (DEFICIT)	\$ (20,854,639)	\$ 6,680,500	21,568,372	\$ (29,323,100)

This page intentionally left blank





Five-Year Forecast

Five-Year Forecast

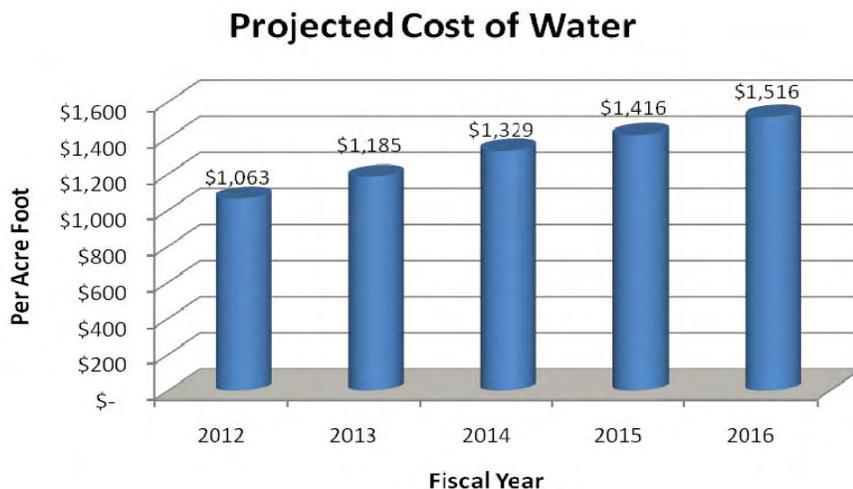
Financial Forecast for Fiscal Years 2011-2015

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

The District must look at building new infrastructure to service the needs of its customers. The CIP Master Plan looks at the service needs of all customers over the next six years and at the betterment and expansion needs from now until ultimate build-out. These capital projects and the funding for them are reviewed annually by the Engineering Department. As new capital assets are brought into service, they are managed by an Infrastructure Management System (IMS) which is crucial to tracking and maintaining the history of 709 miles of potable pipelines, 96 miles of recycled pipelines, 88 miles of sewer lines, 40 potable and 4 recycled reservoirs, 23 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.

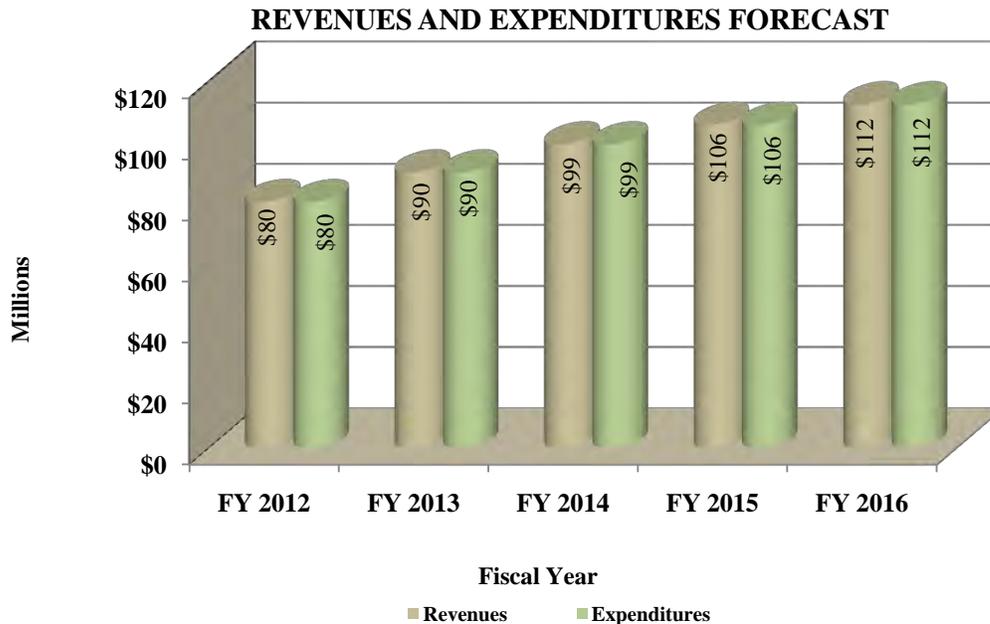
Projected Cost of Water

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 2012 Through FY 2016

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

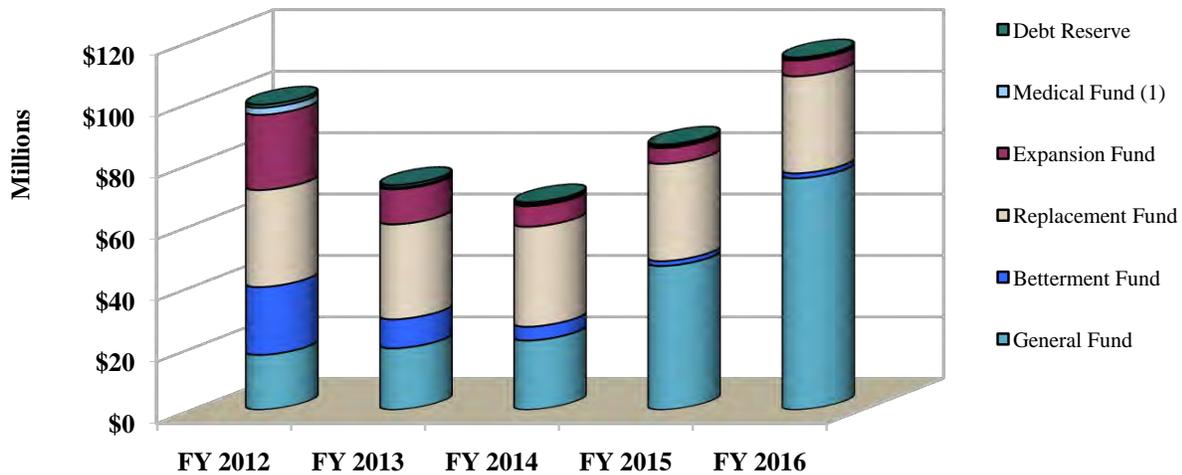


Revenues	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Water/Sewer Rates	\$ 72,096,400	\$ 81,347,700	\$ 89,798,300	\$ 95,301,000	\$ 100,669,900
Meter Fees	39,600	75,900	391,500	535,800	620,700
Capacity Fee Revenues	1,100,800	1,111,800	1,122,900	1,134,100	1,145,400
Betterment Fees	660,700	667,300	674,000	680,700	687,500
Annexation Fees	76,100	274,200	403,500	436,400	342,400
Non-operating Revenues	1,983,700	2,024,100	2,069,100	2,117,900	2,166,300
Tax Revenues	3,850,600	3,929,400	4,017,000	4,211,500	4,412,900
Interest Income	381,700	560,600	835,700	1,361,100	2,396,800
General Fund Draw Down	279,800	149,500	37,500	(58,900)	-
TOTAL	\$ 80,469,400	\$ 90,140,500	\$ 99,349,500	\$ 105,719,600	\$ 112,441,900
Expenditures and Transfers					
Water Cost	\$ 39,427,100	\$ 44,868,700	\$ 51,070,200	\$ 56,122,300	\$ 61,077,300
Power	2,640,200	2,632,900	2,821,100	3,045,900	3,268,900
Labor and Benefits	17,763,800	18,373,200	19,076,000	19,909,600	20,746,200
Administrative Expenses	5,622,700	5,785,500	5,950,200	6,115,200	6,285,800
Materials & Maintenance	3,881,400	3,997,900	4,160,600	4,330,200	4,506,600
Fund Transfers, Net	11,123,600	14,470,900	16,259,000	16,183,100	16,543,000
TOTAL	\$ 80,458,800	\$ 90,129,100	\$ 99,337,100	\$ 105,706,300	\$ 112,427,800
Excess Revenues	\$ 10,600	\$ 11,400	\$ 12,400	\$ 13,300	\$ 14,100

Fund Balances - FY 2012 Through FY 2016

<u>Fund</u>	<u>FY 2012*</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
General Fund	\$ 17,887,700	\$ 20,046,500	\$ 22,576,400	\$ 46,838,300	\$ 75,399,800
Betterment Fund	22,087,500	9,439,200	4,489,900	1,579,600	1,597,100
Replacement Fund	31,600,600	30,915,200	32,533,300	31,676,600	31,589,900
Expansion Fund	24,452,700	11,409,200	6,735,200	5,144,800	5,142,600
Medical Fund ⁽¹⁾	2,300,500	518,500	539,200	560,800	583,200
Debt Reserve	1,024,300	834,800	671,800	536,000	393,300
TOTAL	\$ 99,353,300	\$ 73,163,400	\$ 67,545,800	\$ 86,336,100	\$ 114,705,900

Fund Balances Forecast



* Increase in Fund Total due to bond issuances in FY 2012

⁽¹⁾ Medical Fund decreases as the OPEB Trust is funded.

Debt Management

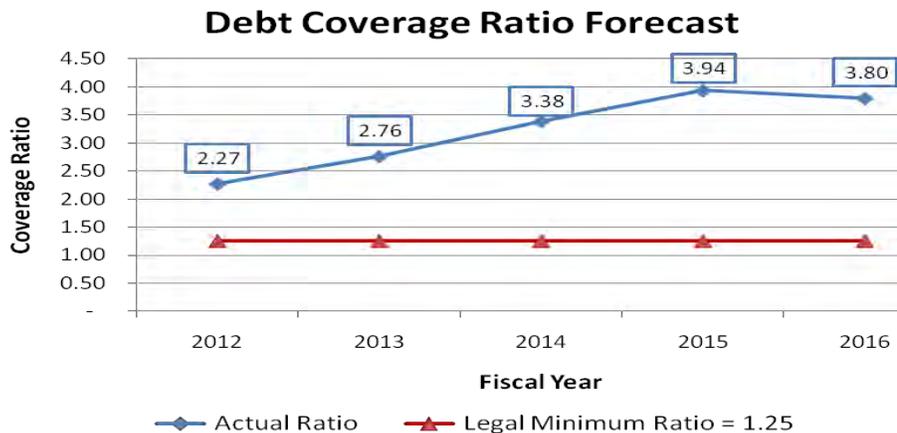
Financing the capital improvements needed to keep up with the growing demand for water in the District's service area has been accomplished through a combination of long-term and short-term financing sources. These include General Obligation Bonds, Certificates of Participation (COPs), developer fees,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

Debt Management

The District's primary debt management objective is to keep the level of indebtedness within available resources and within limits that will allow the District to meet the debt service coverage ratios required by the bond covenant. Currently, there are six outstanding bond issues and a State Sewer Loan, which the District will gradually retire per scheduled principal and interest payments. Bonds have been and will be used to improve existing facilities and to build the projects in the Capital Improvement Program (CIP). The District's debt service obligations have a significant effect upon the District's current and future water rates. All efforts that minimize the cost of debt have a corresponding affect that reduces water rates.

In a continuing effort to reduce debt expenses, the District was successful in raising its overall credit rating from AA- to AA, this past fiscal year. 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, the District will save \$275,000 a year in interest costs.

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



The legal 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 06/30/10
1	1996	Certificates of Participation (COPs)	September 1, 2026	\$ 15,400,000	\$ 11,700,000
2	2009	General Obligation (GO) Bonds	August 31, 2022	11,835,000	7,780,000
3	2004	Certificates of Participation (COPs)	September 1, 2023	12,270,000	9,790,000
4	1994	State Loan	November 30, 2010	5,000,000	359,744
5	2007	Certificates of Participation (COPs)	September 1, 2036	42,000,000	40,400,000
6	2010	Certificates of Participation Series A (COPs)	September 1, 2024	13,840,000	13,840,000
7	2010	Certificates of Participation Series B (COPs)	September 1, 2040	36,355,000	36,355,000
Total Outstanding Debt				\$ 136,700,000	\$ 120,224,744

	All Debts	GO Bonds
Total Assessed Valuation - FY 2010	\$24,198,816,700	\$10,476,542,393
Percentage of Original Debt to Assessed Valuation	0.56%	0.11%
Debt Limit per District Debt Policy (% of Assessed Valuation)	15.00%	15.00%



Projected Principal Payments by Debt Issuance

FY	1996 COPs	GOBs (2)	2004 COPs	State Loan	2007 COPs	2010A COPs	2010B COPs	Total
2011	400,000	520,000	545,000	353,700	850,000	-	-	2,668,700
2012	400,000	505,000	565,000	6,000	885,000	785,000	-	3,146,000
2013	500,000	520,000	580,000	-	920,000	800,000	-	3,320,000
2014	500,000	535,000	600,000	-	955,000	820,000	-	3,410,000
2015	500,000	550,000	625,000	-	995,000	845,000	-	3,515,000
2016	600,000	570,000	650,000	-	1,035,000	870,000	-	3,725,000
2017	600,000	585,000	675,000	-	1,075,000	900,000	-	3,835,000
2018	600,000	605,000	700,000	-	1,115,000	940,000	-	3,960,000
2019	700,000	635,000	725,000	-	1,155,000	975,000	-	4,190,000
2020	700,000	650,000	755,000	-	1,200,000	1,015,000	-	4,320,000
2021	700,000	680,000	790,000	-	1,250,000	1,065,000	-	4,485,000
2022	800,000	705,000	825,000	-	1,300,000	1,120,000	-	4,750,000
2023	800,000	720,000	860,000	-	1,355,000	1,175,000	-	4,910,000
2024	900,000	-	895,000	-	1,410,000	1,235,000	-	4,440,000
2025	900,000	-	-	-	1,470,000	1,295,000	-	3,665,000
2026	1,000,000	-	-	-	1,530,000	-	1,365,000	3,895,000
2027	1,100,000	-	-	-	1,595,000	-	1,450,000	4,145,000
2028	-	-	-	-	1,665,000	-	1,545,000	3,210,000
2029	-	-	-	-	1,735,000	-	1,640,000	3,375,000
2030	-	-	-	-	1,810,000	-	1,745,000	3,555,000
2031	-	-	-	-	1,890,000	-	1,855,000	3,745,000
2032	-	-	-	-	1,970,000	-	1,975,000	3,945,000
2033	-	-	-	-	2,055,000	-	2,105,000	4,160,000
2034	-	-	-	-	2,150,000	-	2,245,000	4,395,000
2035	-	-	-	-	2,245,000	-	2,390,000	4,635,000
2036	-	-	-	-	2,340,000	-	2,550,000	4,890,000
2037	-	-	-	-	2,445,000	-	2,715,000	5,160,000
2038	-	-	-	-	-	-	2,895,000	2,895,000
2039	-	-	-	-	-	-	3,085,000	3,085,000
2040	-	-	-	-	-	-	3,290,000	3,290,000
2041	-	-	-	-	-	-	3,505,000	3,505,000
TOTAL	\$ 11,700,000	\$ 7,780,000	\$ 9,790,000	\$ 359,700	\$ 40,400,000	\$ 13,840,000	\$ 36,355,000	\$ 120,224,700

Projected Interest Payments by Debt Issuance

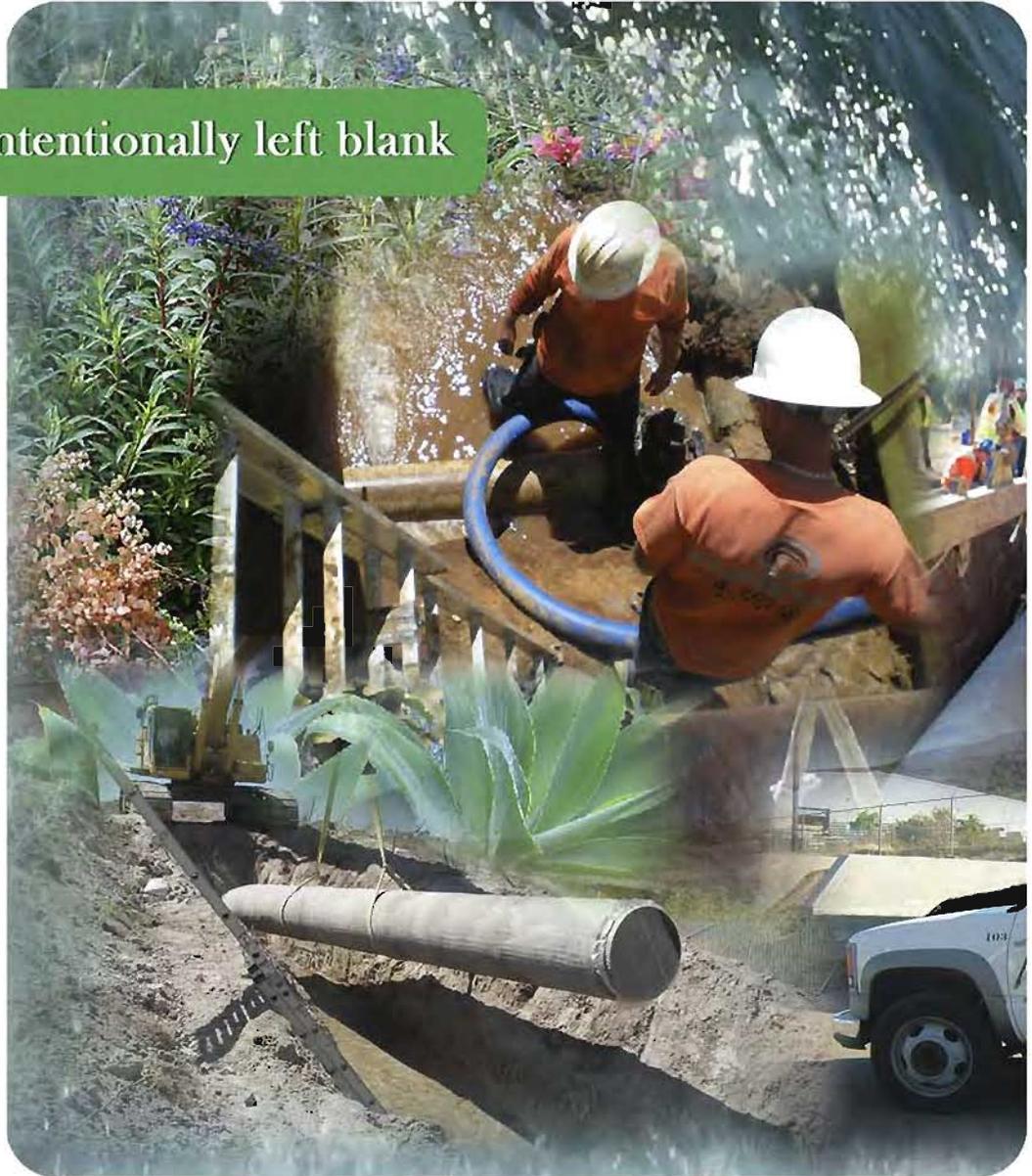
FY	1996 COPs (1)	GOBs (2)	2004 COPs	State Loan	2007 COPs	2010A COPs	2010B COPs	Total
2011	655,200	261,813	380,600	5,200	1,644,800	498,928	2,049,031	5,495,571
2012	638,200	246,588	362,500	-	1,611,800	569,688	2,371,868	5,800,643
2013	621,600	231,063	343,000	-	1,577,500	553,838	2,371,868	5,698,868
2014	602,900	215,088	321,700	-	1,541,900	533,538	2,371,868	5,586,993
2015	572,700	198,663	298,600	-	1,504,900	508,563	2,371,868	5,455,293
2016	537,500	181,663	273,500	-	1,466,300	478,488	2,371,868	5,309,318
2017	501,200	162,969	246,800	-	1,425,800	443,088	2,371,868	5,151,725
2018	465,000	139,633	219,000	-	1,383,700	406,288	2,371,868	4,985,489
2019	465,000	114,433	188,900	-	1,339,300	367,988	2,371,868	4,847,489
2020	423,700	88,533	157,100	-	1,292,900	323,113	2,371,868	4,657,214
2021	339,200	61,533	123,000	-	1,243,400	271,113	2,371,868	4,410,114
2022	291,900	33,500	86,300	-	1,191,700	216,488	2,371,868	4,191,756
2023	243,600	4,800	47,800	-	1,136,800	159,113	2,371,868	3,963,981
2024	190,200	-	6,900	-	1,079,300	98,863	2,371,868	3,747,131
2025	135,900	-	-	-	1,019,200	33,994	2,371,868	3,560,962
2026	76,500	-	-	-	955,500	-	2,328,345	3,360,345
2027	11,100	-	-	-	955,500	-	2,238,589	3,205,189
2028	-	-	-	-	818,000	-	2,143,093	2,961,093
2029	-	-	-	-	744,800	-	2,041,540	2,786,340
2030	-	-	-	-	668,400	-	1,933,609	2,602,009
2031	-	-	-	-	588,600	-	1,818,823	2,407,423
2032	-	-	-	-	505,500	-	1,694,728	2,200,228
2033	-	-	-	-	416,600	-	1,560,558	1,977,158
2034	-	-	-	-	323,200	-	1,417,508	1,740,708
2035	-	-	-	-	225,700	-	1,265,086	1,490,786
2036	-	-	-	-	124,000	-	1,102,634	1,226,634
2037	-	-	-	-	17,800	-	929,495	947,295
2038	-	-	-	-	-	-	745,010	745,010
2039	-	-	-	-	-	-	548,357	548,357
2040	-	-	-	-	-	-	338,716	338,716
2041	-	-	-	-	-	-	115,262	115,262
TOTAL	\$ 6,771,400	\$ 1,940,277	\$ 3,055,700	\$ 5,200	\$ 26,802,900	\$ 5,463,084	\$ 57,476,540	\$ 101,515,102

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

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

Note: The total projected debt payment of \$7,714,200 for FY 2011 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 \$2,668,700 shown on page 50, plus the interest payment of \$5,495,571 shown above, by \$450,071 due to the difference of the stated rate of 5.8% and the actual rate the district is currently paying, causing a variance of \$484,700 on the 1996 COPs, and the miscellaneous administrative fees of (\$83,074) is not shown on the principal and interest schedules. The remaining variance of \$48,446 resulted from a reduction in payment when the District refinanced the GO Bonds in 2009.

This page intentionally left blank





Revenues and Expenditures



Potable Revenues and Expenditures



Potable Revenues and Expenses

The District will provide water service to approximately 48,060 potable customers by the end of Fiscal Year 2011. Ninety-two percent of the potable customers are residential and the remaining eight percent are comprised of: master-metered, publicly owned, commercial, agricultural, landscaping, and construction. Although the extensive residential developments have slowed down in recent years, the District still expects nominal growth of 0.3% for Fiscal Year 2011. Unit sales are anticipated to decrease 10.3% from the previous year's budget due to the water shortage message being received by our customers 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 65% of the water sales budget. Other revenue sources include: system charges, energy charges, penalties, and other pass-through charges from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

All customers are required to pay 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 remaining revenues necessary to fund operations. The District adjusts the system fee, as needed, to balance fixed costs with fixed revenues following industry best practice.

Energy charges are based on the quantity of water used and the elevation to which the water has been lifted to provide service. Revenue from energy charges is used to recover the power costs associated with pumping. This charge increases based on a review of these costs to ensure that sufficient revenue is collected to offset pumping costs.

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

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

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.

The District was assigned a water allocation budget from CWA to ensure the region as a whole remains within its allocation from MWD. For the District this allocation is 40,247 acre feet. In Fiscal Year 2011, the District is estimating the purchase of 31,088 acre-feet of potable water,

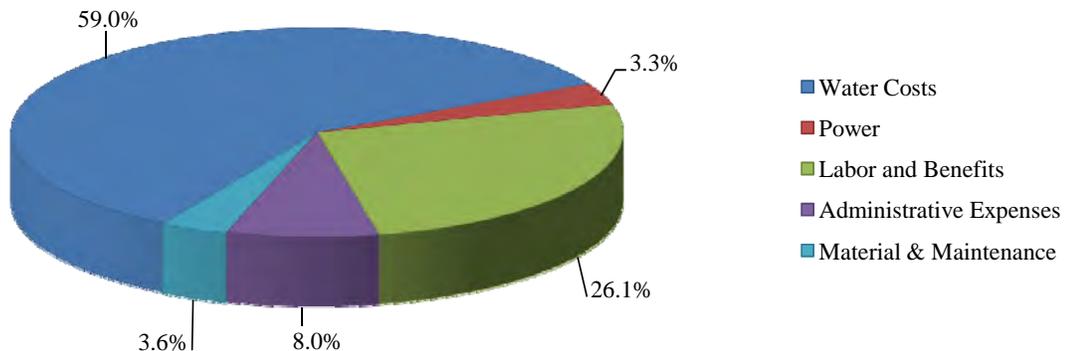
well below the allocation set by CWA and sufficient to meet the demands of its customers. Provisions have been made for District usage, leakage, and evaporation in the amount of 1,215 acre-feet.



Operating Budget Summary - Potable

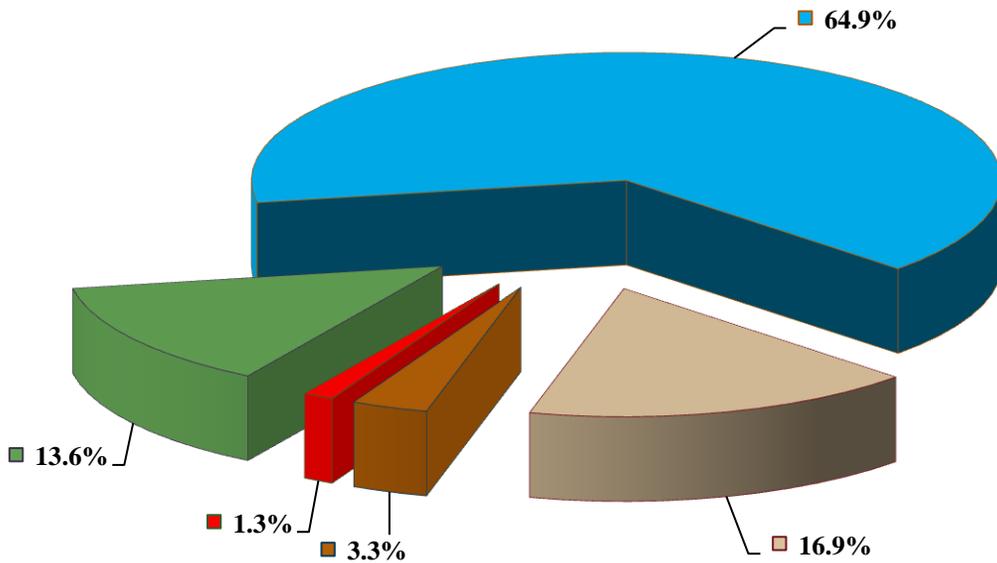
	FY 2009	FY 2010		FY 2011	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Water Sales	\$ 46,160,394	\$ 56,474,500	\$ 49,544,333	\$ 56,333,900	\$ (140,600)	(0.2%)
Meter Fees	53,112	25,600	86,278	40,200	14,600	57.0%
Capacity Fee Revenues	1,516,260	1,397,000	1,030,467	1,095,300	(301,700)	(21.6%)
Betterment Fees for Maintenance	661,998	571,400	575,721	657,400	86,000	15.1%
Annexation Fees	392,349	120,500	555,751	-	(120,500)	(100.0%)
Tax Revenues	4,004,135	3,802,300	3,627,302	3,792,500	(9,800)	(0.3%)
Non-operating Revenues	4,847,207	1,556,500	2,517,169	1,919,200	362,700	23.3%
Interest	332,633	286,400	191,479	256,700	(29,700)	(10.4%)
Transfer from OPEB	-	1,030,000	1,030,000	1,220,000	190,000	18.4%
TOTAL REVENUES	57,968,090	65,264,200	59,158,500	65,978,000	713,800	1.1%
EXPENDITURES						
Water Purchases	22,778,545	28,033,700	24,530,567	26,238,700	(1,795,000)	(6.4%)
CWA - Infrastructure Access Charge	1,227,408	1,344,900	1,344,828	1,550,700	205,800	15.3%
CWA - Customer Service Charge	1,049,470	1,148,800	1,128,306	1,315,200	166,400	14.5%
CWA - Emergency Storage Charge	1,774,776	2,246,600	2,196,876	2,875,200	628,600	28.0%
MWD - Capacity Reservation Charge	603,072	628,800	637,884	665,100	36,300	5.8%
MWD - Net RTS and Standby Charges	665,087	1,140,700	952,226	1,232,400	91,700	8.0%
Subtotal - Water Costs	28,098,358	34,543,500	30,790,687	33,877,300	(666,200)	(1.9%)
Power	2,343,830	2,033,400	1,800,424	1,915,900	(117,500)	(5.8%)
Labor and Benefits	14,701,967	15,111,000	14,967,014	14,951,000	(160,000)	(1.1%)
Administrative Expenses	5,465,351	4,555,000	3,927,558	4,597,200	42,200	0.9%
Material & Maintenance	1,923,210	2,127,500	1,964,042	2,046,600	(80,900)	(3.8%)
Expansion Reserve	2,586,700	-	-	-	-	0.0%
Betterment Reserve	-	3,700,000	3,700,000	-	(3,700,000)	(100.0%)
Replacement Reserve	-	2,710,000	2,710,000	6,245,000	3,535,000	130.4%
Transfer to Potable General Fund	-	13,500	13,500	-	(13,500)	(100.0%)
Transfer to Sewer General Fund	-	200,000	200,000	595,000	395,000	197.5%
Transfer Out/In Prop 1A	-	270,300	270,300	-	(270,300)	(100.0%)
Transfer to Sewer Replacement	-	-	-	1,750,000	1,750,000	100.0%
TOTAL EXPENDITURES	55,119,417	65,264,200	60,343,525	65,978,000	713,800	1.1%
EXCESS REVENUES (EXPENSES)	\$ 2,848,673	\$ -	\$ (1,185,025)	\$ -	\$ -	0.0%

**Potable Operating Expenditures
FY 2011**



Classification of Water Sales - Potable

	<u>FY 2010 Estimated</u>	<u>FY 2011 Budget</u>	<u>Variance</u>
<u>Water Sales:</u>			
Water Sales	\$ 31,326,151	\$ 36,560,100	\$ 5,233,949
System Fees	9,342,732	9,532,200	189,468
Energy Fees	1,662,233	1,854,600	192,367
MWD and CWA Fixed Fees	6,359,939	7,639,400	1,279,461
Penalties	853,279	747,600	(105,679)
Total	<u>\$ 49,544,334</u>	<u>\$ 56,333,900</u>	<u>\$ 6,789,566</u>



■ Water Sales: Unit Sales x Water Rate

■ System Charges: System Fee x Meter Size

■ Energy Charges: Energy Fee of \$0.044 per unit of water for each 100 feet of lift or fraction thereof above the base elevation of 450 feet

■ Penalties: Late charges, locks, etc.

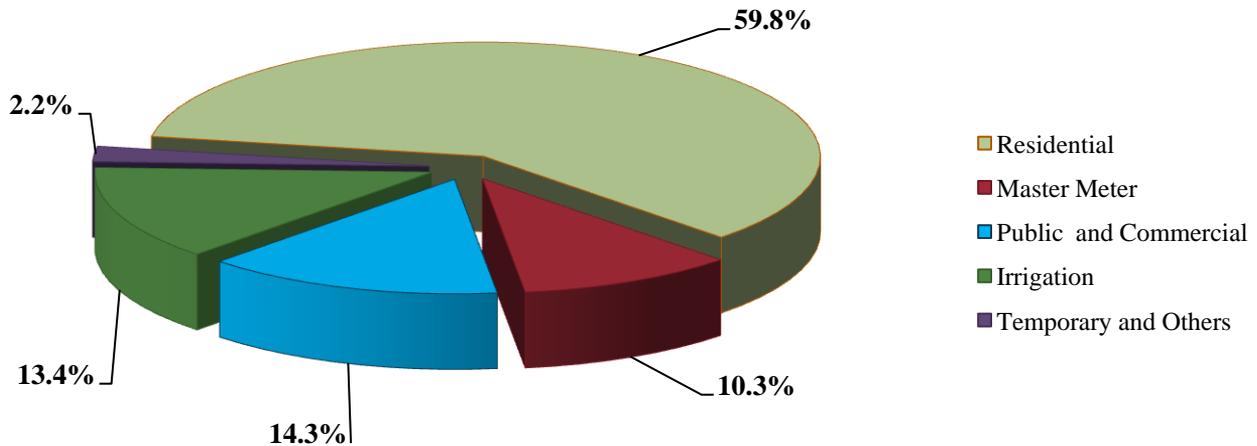
Water Sales Summary by Service Class - Potable

	Accounts	Fiscal Year 2011 Sales Budget		Current Rates	Approved* Rates	
		Units	Amount			
Residential	43,694	7,776,400	\$ 21,545,700	\$ 2.66	\$ 2.77	**
Master Meter	805	1,358,800	3,836,100	2.69	2.82	**
Public and Commercial	1,515	1,857,100	4,378,600	2.25	2.36	**
Irrigation	1,212	1,739,700	5,510,400	3.06	3.17	**
Temporary and Others	115	280,500	895,800	3.06	3.19	**
Total Potable Water Sales	47,341	13,012,500	\$ 36,166,600	\$ 2.67	\$ 2.78	
Government Fee	-	-	393,500	0.29	0.29	
	47,341	13,012,500	\$ 36,560,100	\$ 2.96	\$ 3.07	**

*Approved rates for water billed after January 1, 2011.

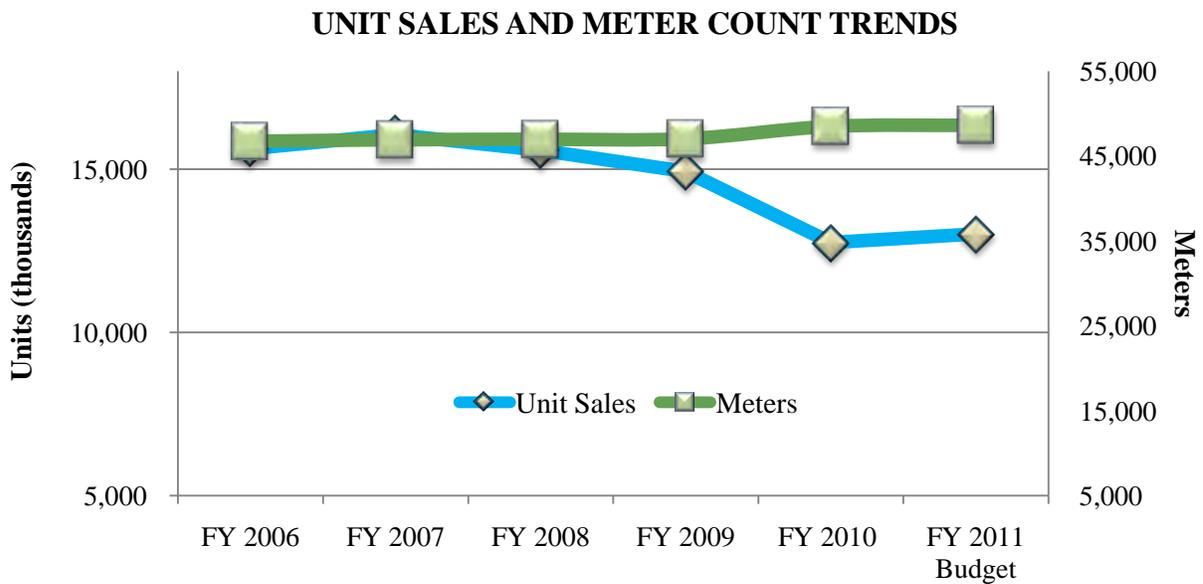
**Based on average rate.

UNIT SALES BY SERVICE CLASS FY 2011



Unit Sales History by Customer Class - Potable

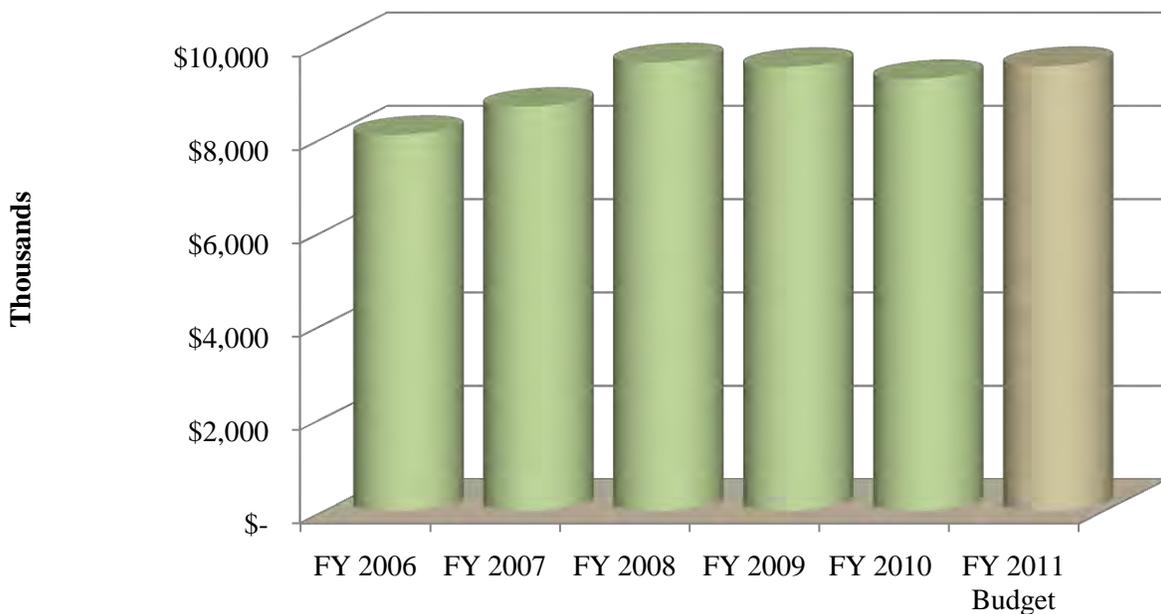
	Actual				Estimated	Budget
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Residential	9,668,100	9,713,112	9,402,189	8,881,191	7,679,574	7,776,400
Master Meters	1,198,200	1,434,040	1,445,634	1,430,235	1,369,784	1,358,800
Public & Commercial	1,902,500	1,886,006	1,859,226	1,938,215	1,800,055	1,857,100
Irrigation	2,174,336	2,329,790	2,301,699	2,183,823	1,646,164	1,739,700
Temporary and Others	689,000	696,516	566,920	490,297	254,197	280,500
Total	<u>15,632,136</u>	<u>16,059,464</u>	<u>15,575,668</u>	<u>14,923,761</u>	<u>12,749,774</u>	<u>13,012,500</u>



System Fees - Potable

Service Class	Meter Size	Meter Count		Current Rates	Approved* Rates	Budgeted System Fees		
		6/30/2010	FY11 Growth			Existing Meters	Additional Meters	Total Meters
All Service Types	0.75	43,300	104	\$ 14.58	\$ 14.58	\$ 7,575,800	\$ 18,200	\$ 7,594,000
	1.00	1,740	19	18.52	18.52	386,700	4,200	390,900
	1.50	922	-	28.37	28.37	313,900	-	313,900
	2.00	1,100	4	40.18	40.18	530,400	1,900	532,300
	3.00	71	-	71.68	71.68	61,100	-	61,100
	4.00	180	-	107.13	107.13	231,400	-	231,400
	6.00	21	1	205.59	205.59	51,800	2,500	54,300
	8.00	-	-	323.73	323.73	-	-	-
	10.00	7	-	461.57	461.57	38,800	-	38,800
Fire Services	Various	591	-	30.11	30.11	213,500	-	213,500
Turn Over Fees				10.00	10.00	102,000	-	102,000
Budgeted Potable System Fees		47,932	128			\$ 9,505,400	\$ 26,800	\$ 9,532,200

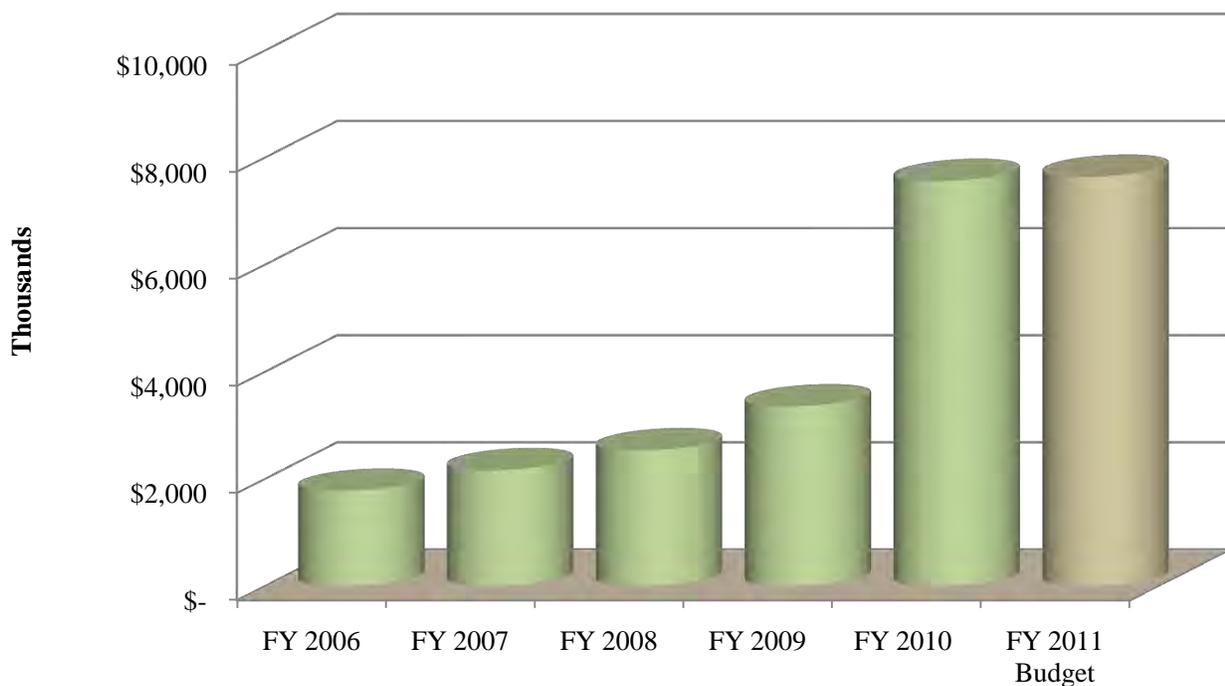
*Approved rates for water billed after January 1, 2011.



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

Classification	Meter Size	Meter Count		Current Rates	Approved* Rates	Budgeted MWD & CWA - Fixed Charges		
		6/30/2010	FY11 Growth			Existing	Growth	Total
All Service Types	0.75	43,189	104	\$ 9.77	\$ 11.82	\$ 5,594,700	\$ 72,300	\$ 5,667,000
	1.00	1,712	19	16.28	19.69	369,500	4,400	373,900
	1.50	916	-	32.61	39.44	396,000	-	396,000
	2.00	1,094	4	52.15	63.07	756,300	1,600	757,900
	3.00	71	-	104.30	126.14	98,200	-	98,200
	4.00	91	-	162.98	197.11	196,600	-	196,600
	6.00	18	1	325.92	394.17	77,800	2,400	80,200
	8.00	-	-	521.51	630.71	-	-	-
	10.00	7	-	749.61	906.58	69,600	-	69,600
	Total		47,098	128			\$ 7,558,700	\$ 80,700

*Approved rates for water billed after January 1, 2011.

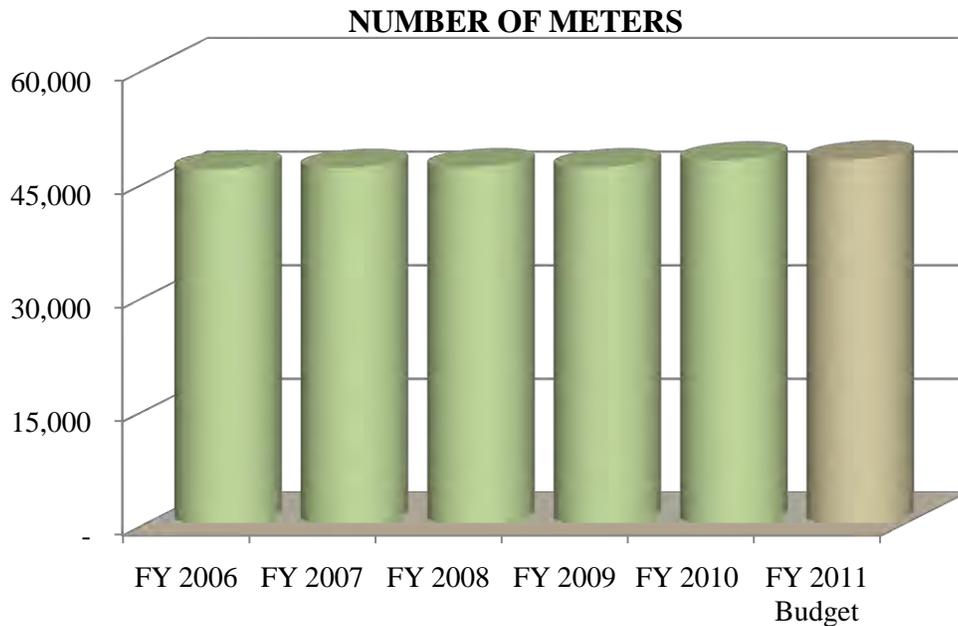


Meter Fees - Potable

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

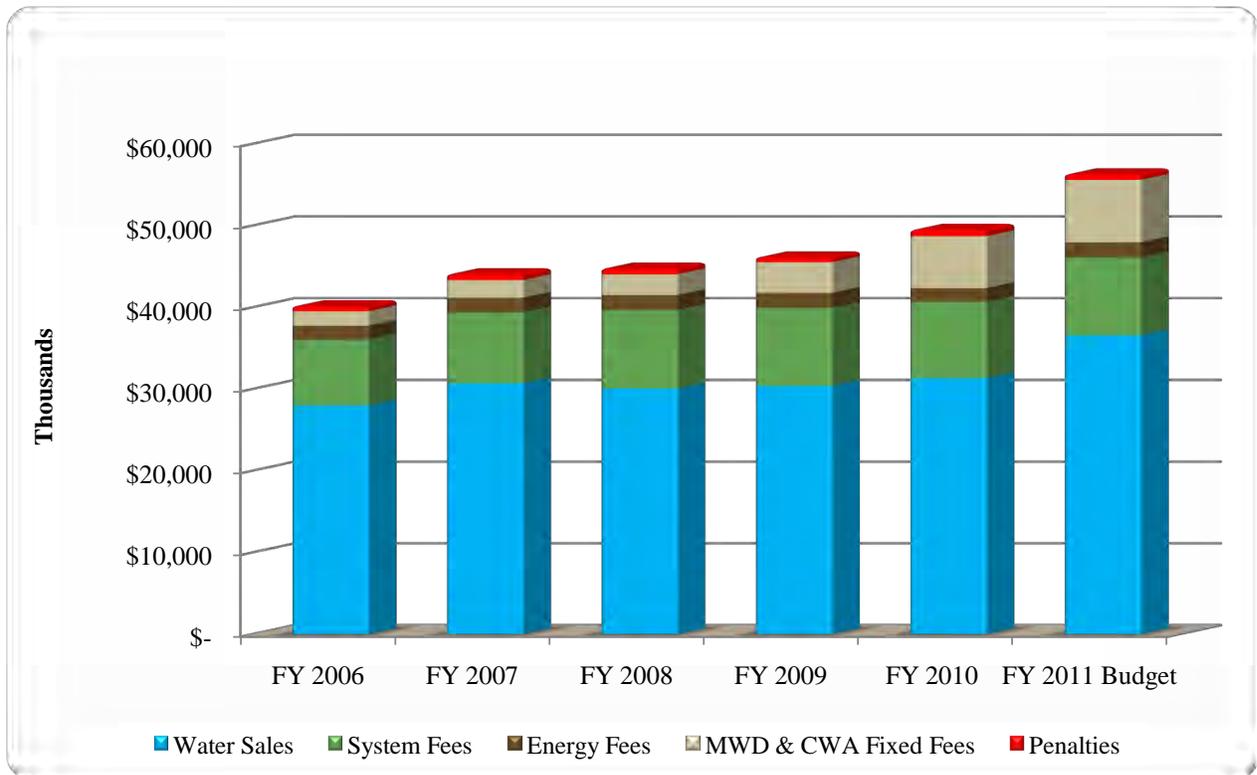
Fiscal Year 2011 Growth by Meter Size

Service Class	0.75	1.00	1.50	2.00	6.00	Total
Residential	104	19	-	4	1	128
Non-Residential	-	-	-	-	-	-
Total Meter Fees	\$27,700	\$6,200	-	\$3,400	\$2,900	\$40,200



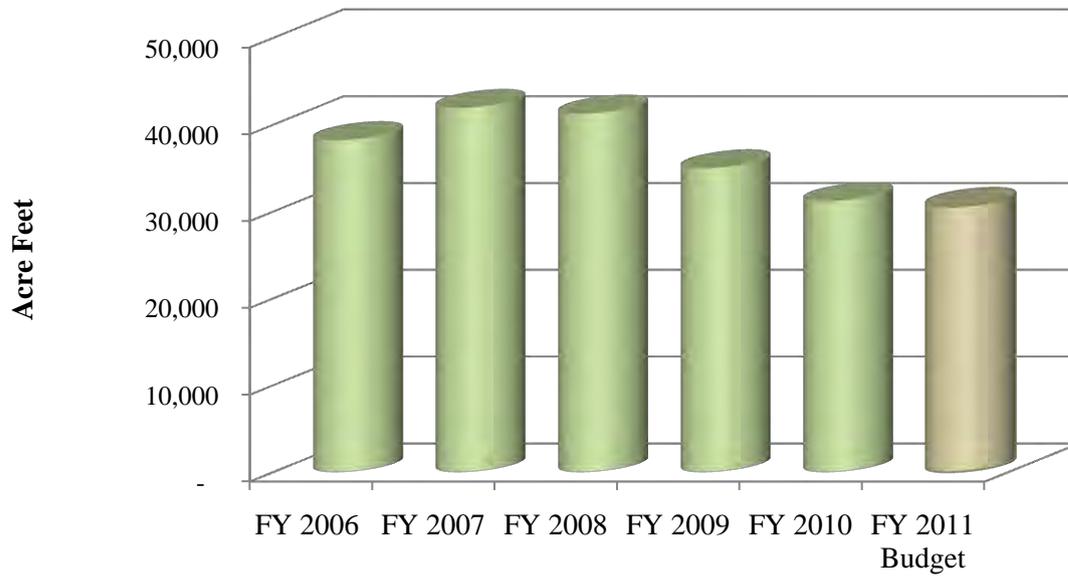
Revenue History - Potable

	Actual				Estimated FY 2010	Budget FY 2011
	FY 2006	FY 2007	FY 2008	FY 2009		
Water Sales	\$ 27,975,777	\$ 30,696,070	\$ 30,049,415	\$ 30,375,618	\$ 31,326,151	\$ 36,560,100
System Fees	8,056,340	8,658,339	9,611,046	9,510,996	9,342,732	9,532,200
Energy Fees	1,696,492	1,801,455	1,834,102	1,866,237	1,662,233	1,854,600
MWD and CWA Fixed Fees	1,775,186	2,159,269	2,530,306	3,758,403	6,359,939	7,639,400
Penalties	688,374	797,615	779,985	649,683	853,279	747,600
Total	<u>\$ 40,192,169</u>	<u>\$ 44,112,748</u>	<u>\$ 44,804,854</u>	<u>\$ 46,160,938</u>	<u>\$ 49,544,334</u>	<u>\$ 56,333,900</u>



Water Purchases and Related Costs - Potable

HISTORICAL POTABLE WATER PURCHASES



	FY11 Budget		FY11 Budget	
	Acre Feet	Rate ⁽¹⁾	Purchase Costs	% to Total
Potable Water Purchases				
Budgeted Sales (CWA)	29,872.6	\$814/\$887	\$ 25,212,300	96.1%
District & Unbilled Usage	127.2	\$814/\$887	108,000	0.4%
Water Loss	1,088.1	\$814/\$887	918,400	3.5%
TOTAL VARIABLE CHARGES	<u>31,087.9</u>		<u>\$ 26,238,700</u>	<u>100.0%</u>

MWD & CWA FIXED CHARGES:

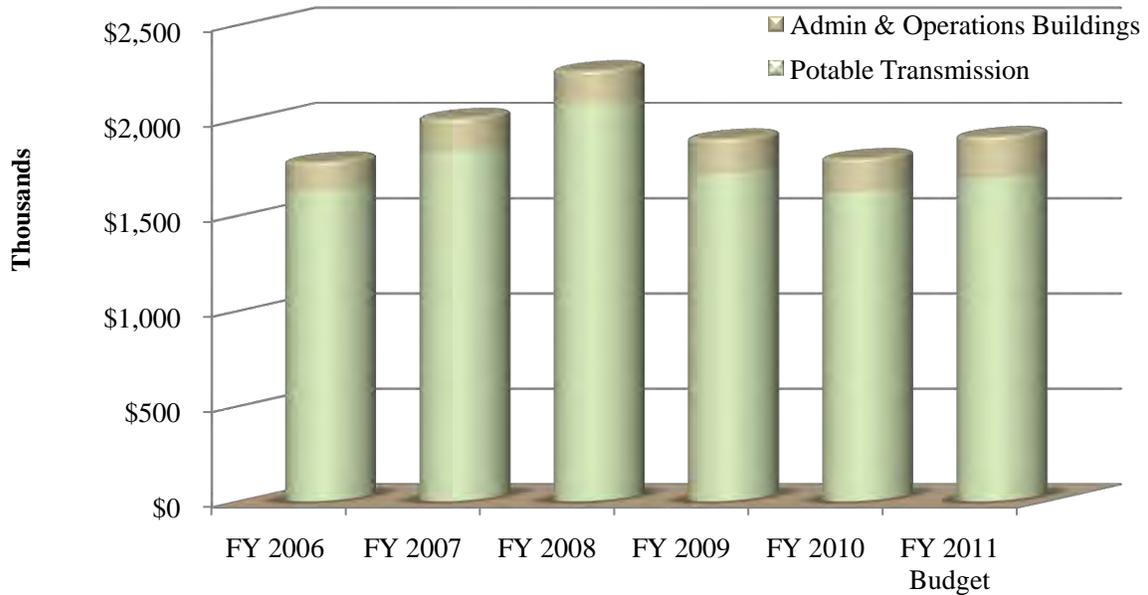
	FY10 Estimated	FY11 Budget
Infrastructure Access Charge (IAC)	\$ 1,344,828	\$ 1,550,700
Customer Service Charge (CSC)	1,128,306	1,315,200
Emergency Storage Charge (ESC)	2,196,876	2,875,200
Capacity Reservation Charge (CRC)	637,884	665,100
Readiness-to-Serve Charge (RTS)	952,226	1,232,400
TOTAL FIXED CHARGES	<u>\$ 6,260,120</u>	<u>\$ 7,638,600</u>

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

Power Costs - Potable

	Admin and Operations Buildings	Potable Transmission	Total Potable Power Costs
FY06 Actual	154,567	1,628,153	1,782,721
FY07 Actual	172,646	1,838,636	2,011,282
FY08 Actual	170,564	2,090,701	2,261,265
FY09 Actual	185,059	1,718,938	1,903,997
FY10 Estimated	177,651	1,622,773	1,800,424
FY11 Budget	217,300	1,698,600	1,915,900

HISTORICAL POWER COSTS

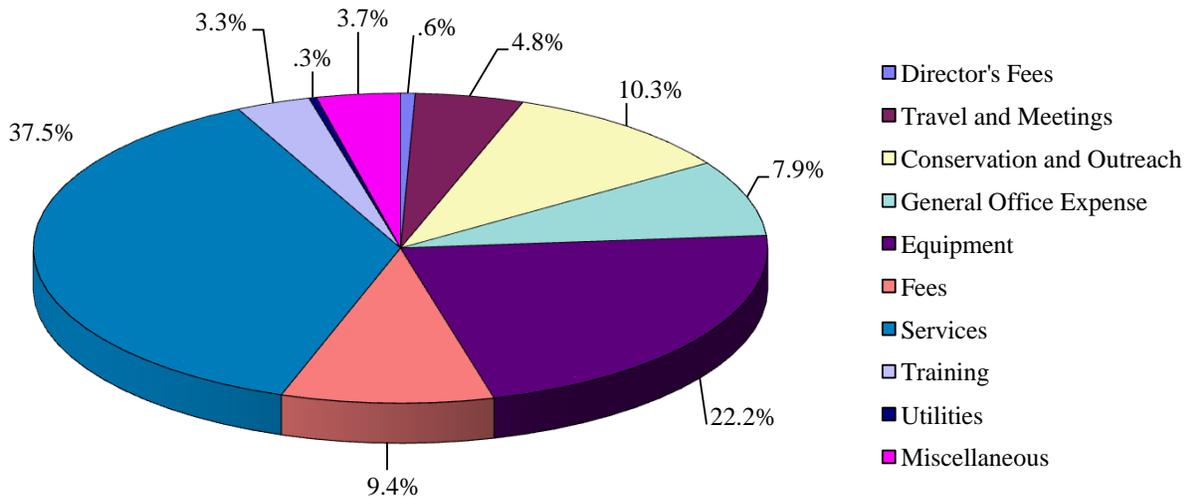


Note: FY 2010 Otay received credits from SDG&E.

Administrative Expenses - Potable

	FY 2009	FY 2010		FY 2011	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Director's Fees	\$ 20,200	\$ 40,000	\$ 15,100	\$ 30,000	(10,000)	(25.0%)
Travel and Meetings	213,488	222,200	162,652	221,400	(800)	(0.4%)
Conservation and Outreach	254,209	352,800	240,734	479,700	126,900	36.0%
General Office Expense	397,104	434,500	343,859	368,700	(65,800)	(15.1%)
Equipment	1,098,693	1,020,900	1,009,501	1,030,200	9,300	0.9%
Fees	402,572	442,100	439,105	434,100	(8,000)	(1.8%)
Services	1,907,949	1,709,100	1,343,641	1,738,300	29,200	1.7%
Training	146,746	156,500	126,746	151,800	(4,700)	(3.0%)
Utilities	15,874	17,500	16,514	15,300	(2,200)	(12.6%)
Miscellaneous	258,933	212,400	145,110	171,100	(41,300)	(19.4%)
Total	4,715,767	4,608,000	3,842,962	4,640,600	32,600	0.7%
Less: Overhead Allocation	(789,788)	(918,800)	(845,113)	(959,400)	(40,600)	4.4%
Subtotal	3,925,979	3,689,200	2,997,849	3,681,200	(8,000)	(0.2%)
General Expenses	1,539,372	865,800	929,708	916,000	50,200	5.8%
Total Administrative Expenses	\$ 5,465,351	\$ 4,555,000	\$ 3,927,557	\$ 4,597,200	\$ 42,200	0.9%

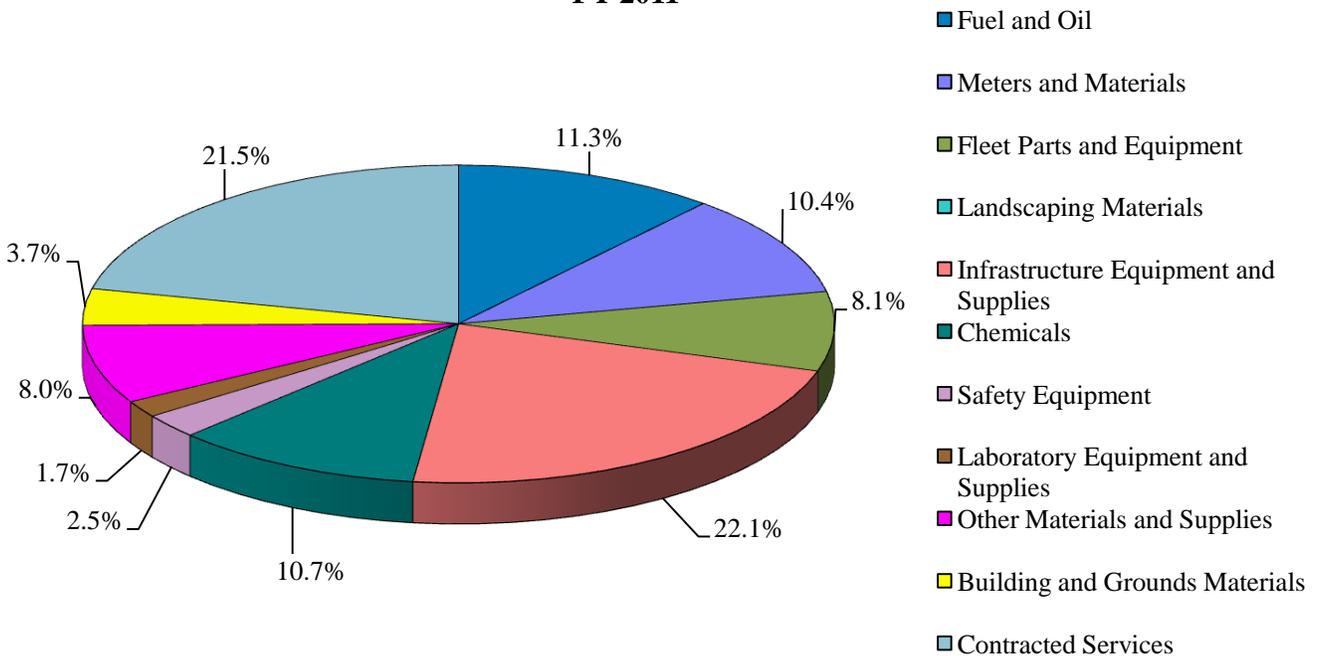
**ADMINISTRATIVE EXPENSES - POTABLE
FY 2011**



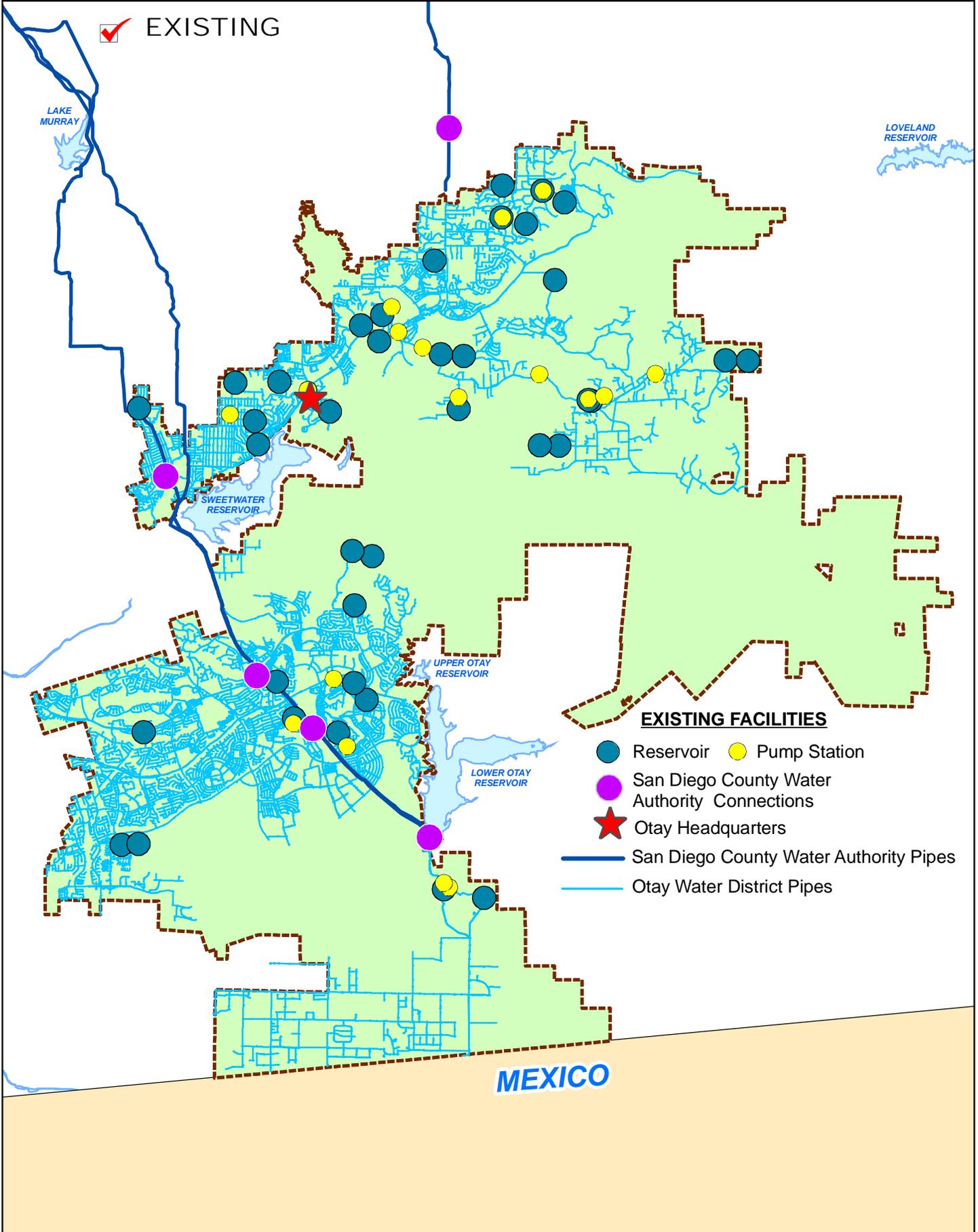
Materials And Maintenance Expenses - Potable

	FY 2009	FY 2010		FY 2011	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 193,792	\$ 231,400	\$ 196,420	\$ 231,400	-	0.0%
Meters and Materials	133,581	157,600	137,678	213,300	55,700	35.3%
Fleet Parts and Equipment	170,271	161,000	157,161	165,400	4,400	2.7%
Landscaping Materials	-	-	45	-	-	0.0%
Infrastructure Equipment and Supplies	493,478	469,600	461,417	452,900	(16,700)	(3.6%)
Chemicals	247,071	225,000	227,708	219,000	(6,000)	(2.7%)
Safety Equipment	34,666	158,500	47,001	50,900	(107,600)	(67.9%)
Laboratory Equipment and Supplies	32,453	35,000	35,137	35,000	-	0.0%
Other Materials and Supplies	107,846	148,800	132,885	163,800	15,000	10.1%
Building and Grounds Materials	90,679	86,600	95,116	76,000	(10,600)	(12.2%)
Contracted Services	419,374	454,000	473,474	438,900	(15,100)	(3.3%)
Total Materials and Maintenance	\$ 1,923,210	\$ 2,127,500	\$ 1,964,042	\$ 2,046,600	\$ (80,900)	(3.8%)

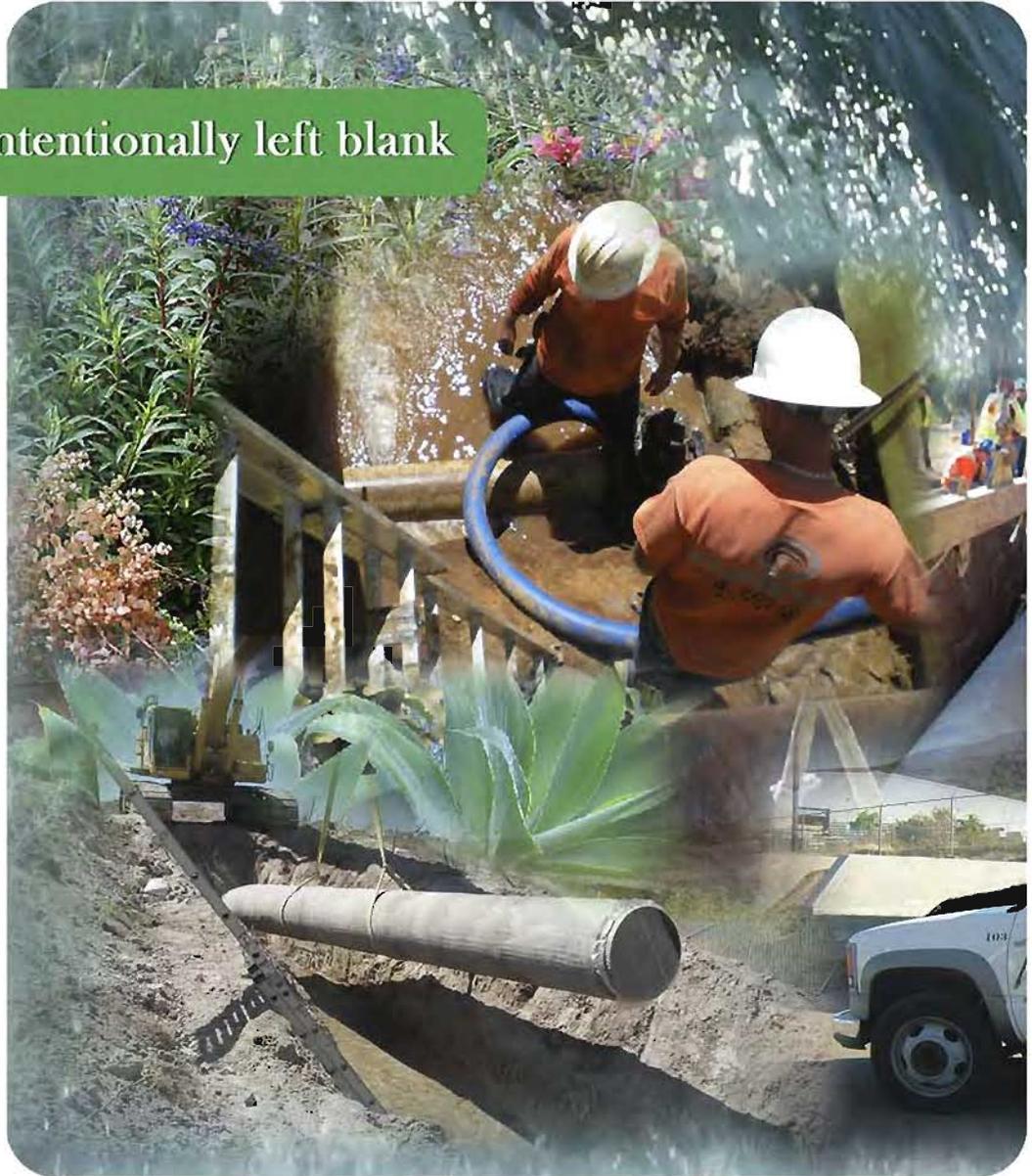
**MATERIALS AND MAINTENANCE EXPENSES - POTABLE
FY 2011**



Potable Water Service Area



This page intentionally left blank





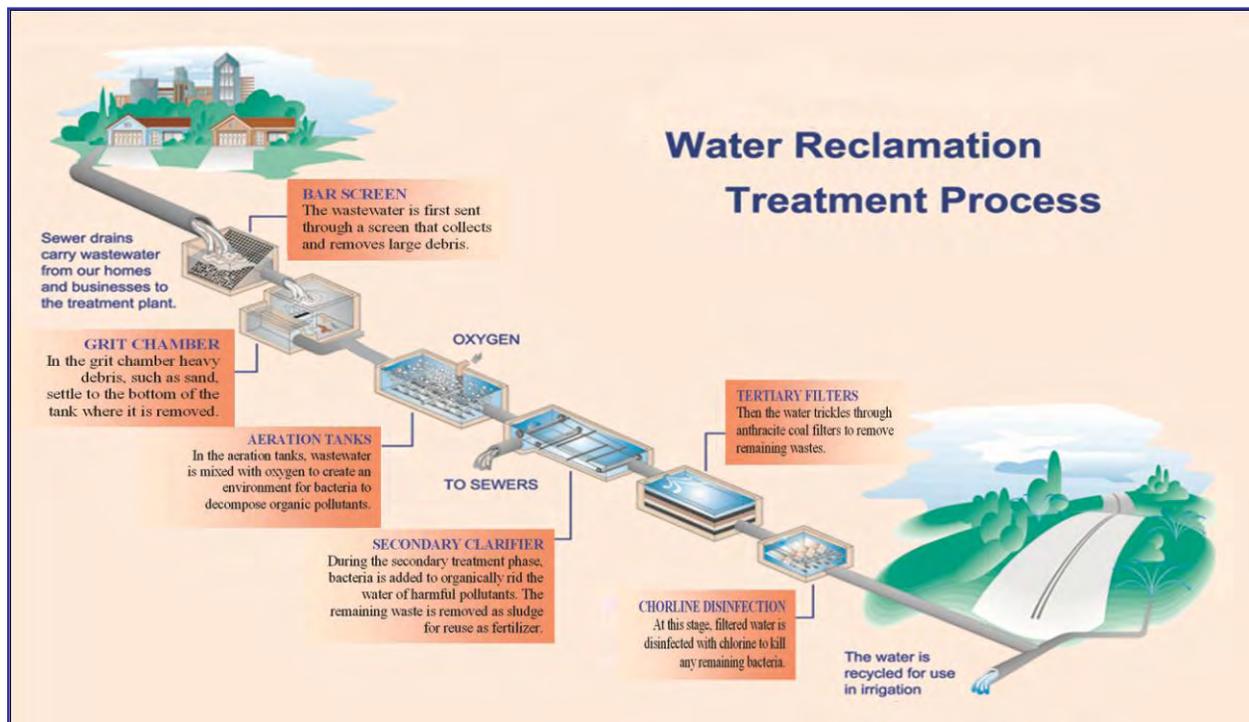
Recycled Revenues and Expenditures



Recycled Revenues and Expenses

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

The steps of the water recycling process are as follows:



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

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

clear liquid, or secondary effluent, flows out over weirs at the surface. Some of the settled sludge is disposed of and some is returned to the aeration tanks to keep the process in balance. The secondary effluent flowing over the weirs is now ready for the next step. 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 4,295 acre-feet of recycled water to 701 landscaping and construction customers by the end of Fiscal Year 2011. The recycled water customer base consists primarily of irrigation at golf courses, schools, parks and open space in the Eastlake, Otay Ranch, and Rancho Del Rey and other areas of eastern Chula Vista.

The District entered an agreement with the City of San Diego in October 2003, to purchase up to six million gallons a day of recycled water from their South Bay Water Reclamation Plant. To bring this plan to fruition, the District constructed a 30-inch, six mile pipeline, a 12 million gallon reservoir and a pump station to bring this new source of recycled water into the District’s system. These projects were completed in spring 2007, which eliminates the immediate need for a potable supplement of the recycled system. The benefits of this to the region as a whole are great as less demand on the potable system will be made, which reduces future capacity and storage requirements. The \$42 million investment in capital outlay results in a significant reduction of water purchase costs and an increase in system reliability. The District expects that 15 to 20 percent of its total water demand will be met using recycled water.

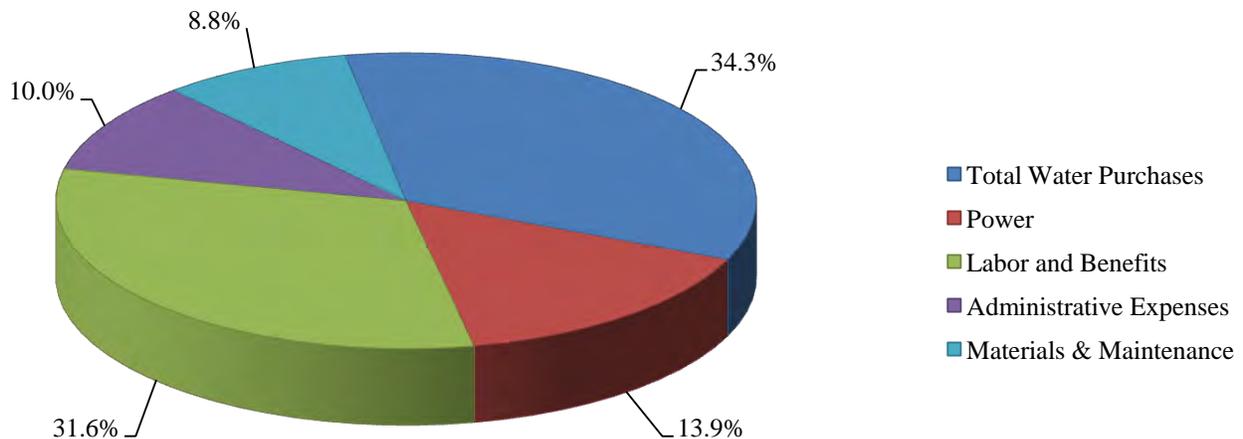
To increase demand of recycled water and reduce the demands of potable water, the District has begun a capital project to offer incentives to suitable customers to convert potable to recycled water. See page 177 of the Capital Budget to view project R2094. With this program the District hopes to convert 300 acre feet of potable water to recycled, helping the region reduce demands on the potable water system.

Producing and distributing recycled water is costly. To help offset the costs of supplying alternative water sources, both CWA and MWD offer incentive programs. In Fiscal Year 1991, the District signed agreements with CWA and MWD to take advantage of the programs they offered. A second agreement was signed in 2000. In 2005, the District agreed to terminate both agreements and to enter into a new agreement which will allow the District to maximize its ability to earn incentives and to simplify the grant requirements. Currently, the District receives \$200 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

Operating Budget Summary - Recycled

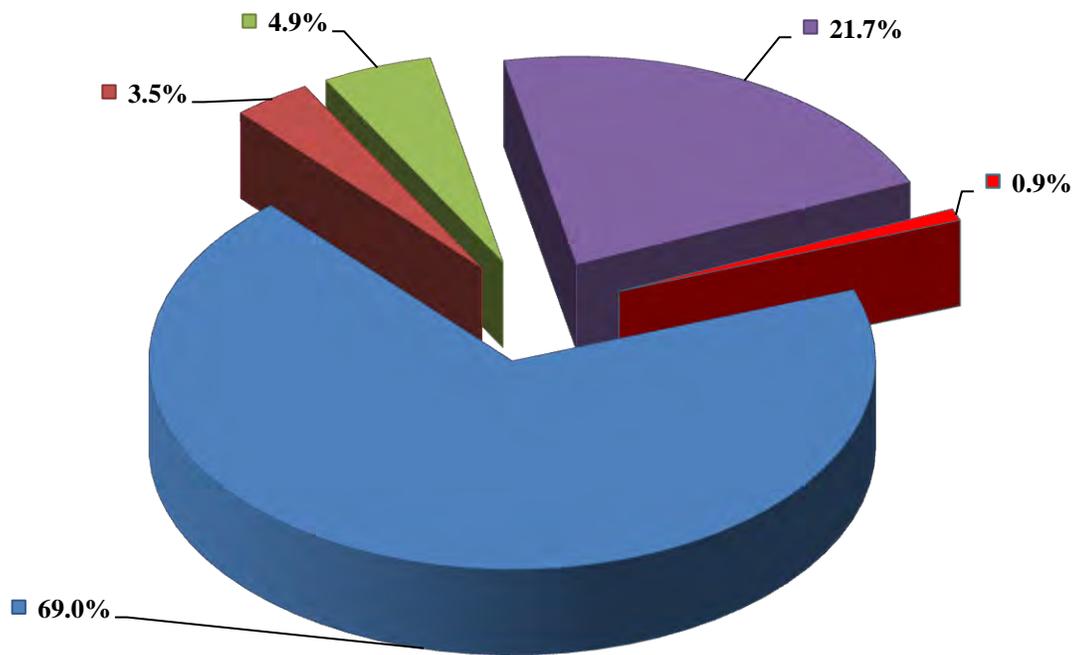
	FY 2009	FY 2010		FY 2011	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Recycled Water Sales	\$ 4,015,184	\$ 5,154,100	\$ 4,417,995	\$ 5,257,000	102,900	2.0%
System Fees	246,218	253,600	261,946	264,500	10,900	4.3%
Energy Fees	181,219	374,800	266,599	372,900	(1,900)	(0.5%)
MWD/CWA Rebates	1,711,787	1,754,900	1,583,801	1,655,500	(99,400)	(5.7%)
Penalties	83,950	65,100	92,545	70,700	5,600	8.6%
Total Reclaimed Water Sales	<u>6,238,358</u>	<u>7,602,500</u>	<u>6,622,886</u>	<u>7,620,600</u>	<u>18,100</u>	<u>0.2%</u>
Meter Fees	18,336	20,000	5,968	10,100	(9,900)	(49.5%)
Capacity Fee Revenues	5,447	-	221	-	-	0.0%
Interest	(9,102)	8,000	742	12,400	4,400	55.0%
TOTAL REVENUES	<u>6,259,578</u>	<u>7,630,500</u>	<u>6,629,817</u>	<u>7,643,100</u>	<u>12,600</u>	<u>0.2%</u>
EXPENDITURES						
Water Purchases (CSD) / Meter Fees	1,299,976	1,312,000	1,024,162	1,179,900	(132,100)	(10.1%)
Total Water Purchases	<u>1,299,976</u>	<u>1,312,000</u>	<u>1,024,162</u>	<u>1,179,900</u>	<u>(132,100)</u>	<u>(10.1%)</u>
Power	498,074	504,500	422,780	529,800	25,300	5.0%
Labor and Benefits	1,071,137	1,177,200	1,042,791	1,086,800	(90,400)	(7.7%)
Administrative Expenses	301,933	318,100	282,800	343,100	25,000	7.9%
Materials & Maintenance	224,410	332,200	180,800	303,000	(29,200)	(8.8%)
Transfer to General Fund Reserve	-	1,316,500	1,316,500	390,500	(926,000)	(70.3%)
Expansion Reserve	2,430,000	1,610,000	1,610,000	2,775,000	1,165,000	72.4%
Betterment Reserve	-	110,000	110,000	315,000	205,000	186.4%
Replacement Reserve	277,900	950,000	950,000	720,000	(230,000)	(24.2%)
TOTAL EXPENDITURES	<u>6,103,430</u>	<u>7,630,500</u>	<u>6,939,833</u>	<u>7,643,100</u>	<u>(119,500)</u>	<u>(1.6%)</u>
EXCESS REVENUES (EXPENSES)	<u>\$ 156,148</u>	<u>\$ -</u>	<u>\$ (310,016)</u>	<u>\$ -</u>	<u>\$ 132,100</u>	<u>0.0%</u>

**RECYCLED OPERATING EXPENDITURES
FY 2011**



Classification of Water Sales - Recycled

	FY 2010 Estimated	FY 2011 Budget	Variance
<u>Recycled Water Sales:</u>			
Water Sales	\$ 4,417,995	\$ 5,257,000	\$ 839,005
System Fees	261,946	264,500	2,554
Energy Fees	266,599	372,900	106,301
MWD & CWA Rebates	1,583,801	1,655,500	71,699
Penalties	92,545	70,700	(21,845)
Total	\$ 6,622,886	\$ 7,620,600	\$ 997,714



- Water Sales: Unit Sales x Water Rate
- System Charges: System Fee x Meter Size
- Energy Charges: Energy Fee of \$0.044 per unit of water for each 100 feet of lift or fraction thereof above the base elevation of 450 feet.
- MWD & CWA Rebates: Incentive from MWD & CWA for providing recycled water.
- Penalties: Late charges, locks, etc.

Water Sales Summary by Service Class - Recycled

	Fiscal Year 2011 Sales Budget			Current Rates	Approved* Rates
	Accounts	Units	Amount		
Recycled Water Sales:					
Recycled .75" & 1.0" Meter	106	54,000	\$ 146,800	\$ 2.61	\$ 2.72 **
Recycled 1.5" & 2.0" Meter	584	1,384,300	3,746,700	2.61	2.71 **
Recycled 3.0" & 4.0" Meter	10	70,700	191,000	2.61	2.70 **
Recycled > 6.0" Meter	1	362,200	978,300	2.61	2.70 **
	701	1,871,200	\$ 5,062,800	\$ 2.72	\$ 2.71
Government Fee			194,200	0.29	0.29
	701	1,871,200	\$ 5,257,000	\$ 3.01	\$ 2.81 **

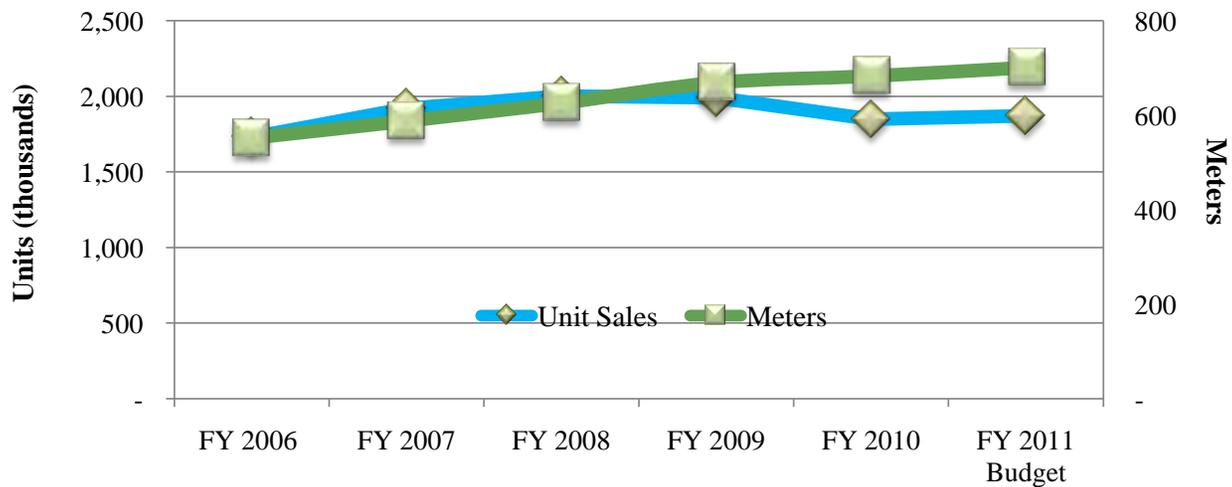
*Approved rates for water billed after January 1, 2011.

**Based on average rate.

Unit Sales History - Recycled

	ACTUAL			Estimated	Budget
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Unit Sales	1,920,084	2,001,137	1,991,389	1,847,370	1,871,200

UNIT SALES AND METER COUNT TRENDS



System Fees - Recycled

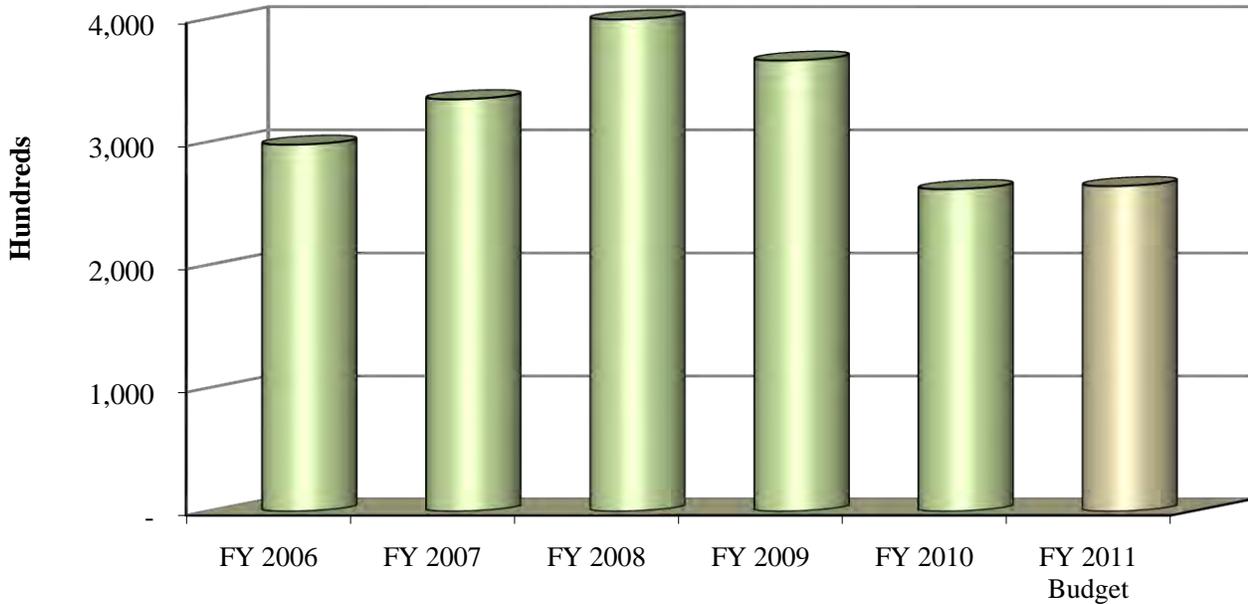
Service Class	Meter Size	Meter Count		Current Approved*		Budgeted System Fees		
		6/30/10	FY11 Growth	Rates	Rates	Existing Meters	Additional Meters	Total Meters
Recycled	0.75	-	-	\$ 14.58	\$ 14.58	\$ -	\$ -	\$ -
	1.00	96	10	18.52	18.52	21,300	2,200	23,500
	1.50	382	-	28.37	28.37	130,000	-	130,000
	2.00	194	8	40.18	40.18	93,500	3,900	97,400
	3.00	4	-	71.68	71.68	3,400	-	3,400
	4.00	6	-	107.13	107.13	7,700	-	7,700
	6.00	1	-	205.59	205.59	2,500	-	2,500
	8.00	-	-	323.73	323.73	-	-	-
	10.00	-	-	461.57	461.57	-	-	-
Total		683	18			\$ 258,400	\$ 6,100	\$ 264,500

Budgeted Recycled System Fees

\$ 264,500

*Approved rates for water billed after January 1, 2011.

HISTORICAL SYSTEM FEES



Meter Fees - Recycled

Meter Fees:

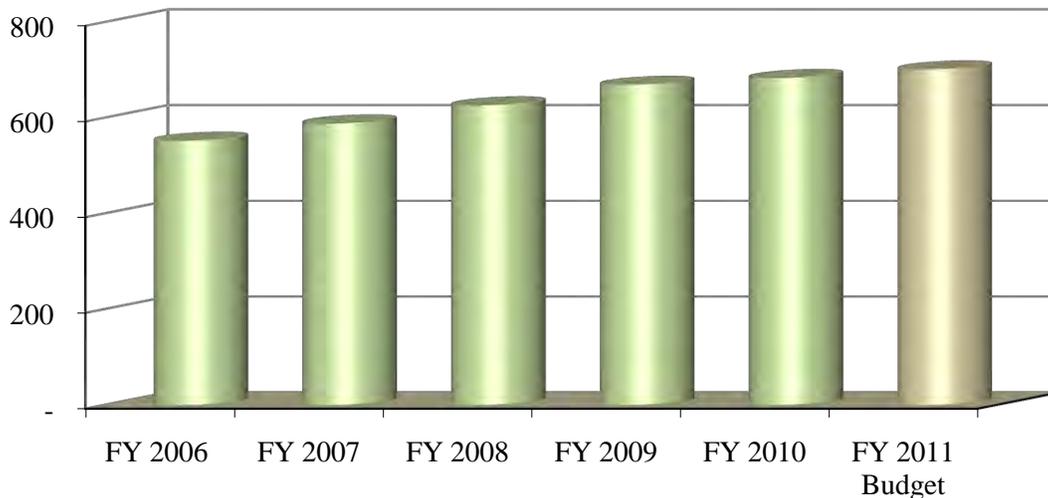
Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

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

Fiscal Year 2011 Growth by Meter Size

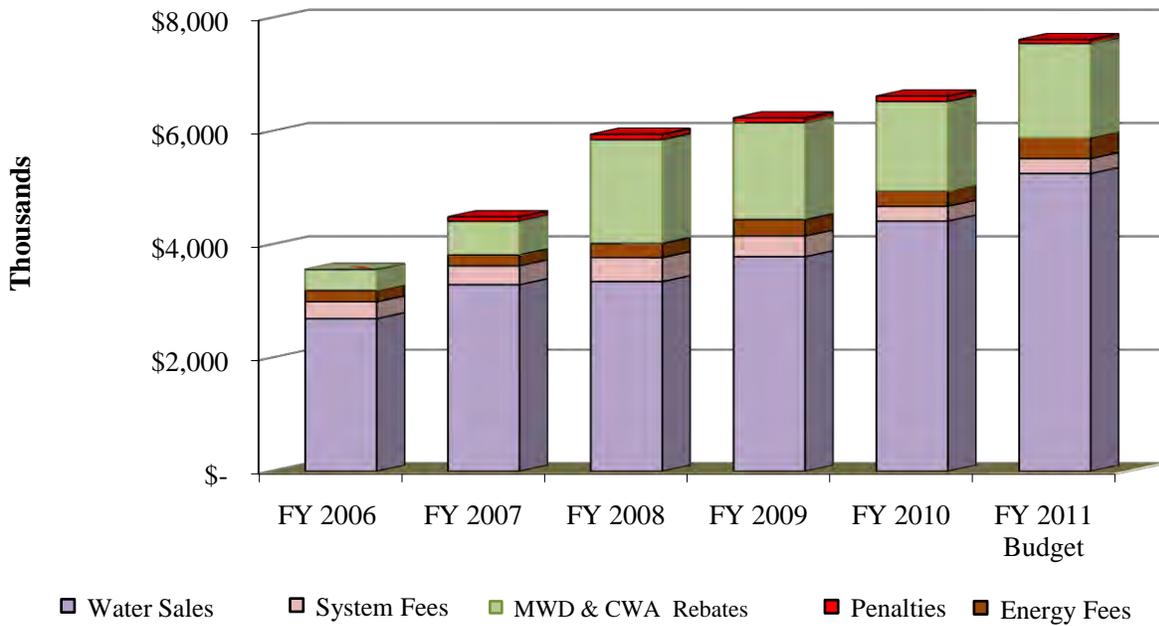
	0.75	1.00	1.50	2.00	3.00	Total
Recycled	-	10	-	8	-	18
Total Meter Fees	-	\$3,200	-	\$6,900	-	\$10,100

HISTORICAL NUMBER OF METERS

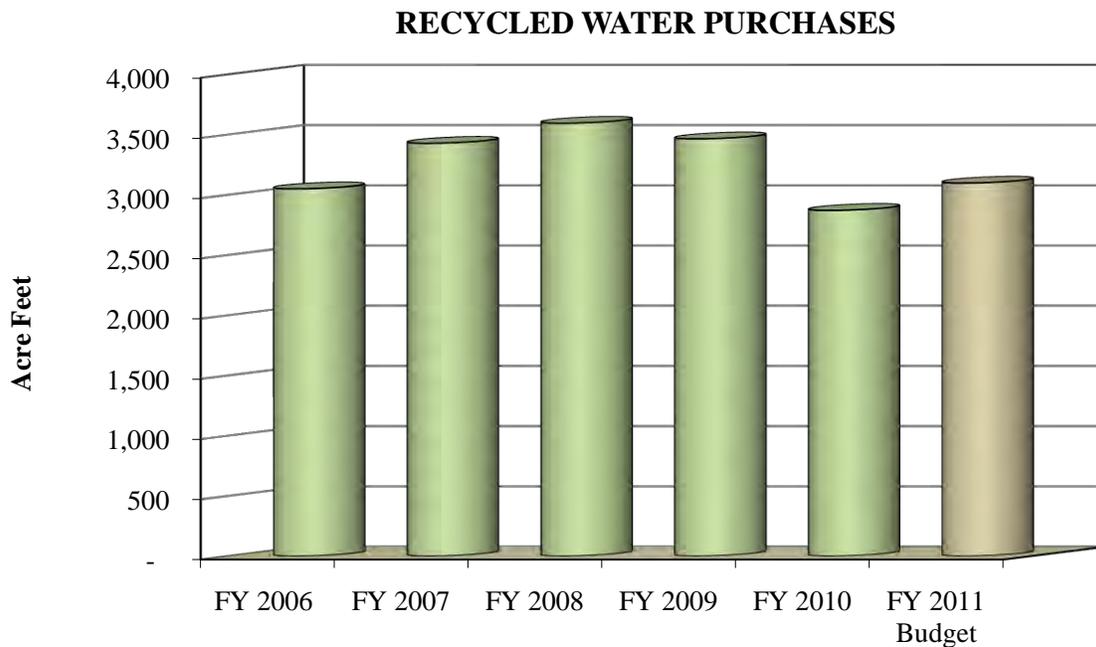


Revenue History - Recycled

	Actual				Estimated	Budgeted
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Water Sales	\$ 2,694,517	\$ 3,294,170	\$ 3,347,964	\$ 3,787,845	\$ 4,417,995	\$5,257,000
System Fees	298,153	335,063	425,061	366,529	261,946	264,500
Energy Fees	198,599	190,570	248,429	288,247	266,599	372,900
MWD & CWA Rebates	372,172	592,056	1,833,949	1,711,787	1,583,801	1,655,500
Penalties	-	80,998	92,855	83,950	92,545	70,700
Total	\$ 3,563,441	\$ 4,492,857	\$ 5,948,258	\$ 6,238,358	\$ 6,622,886	\$ 7,620,600



Water Purchases - Recycled



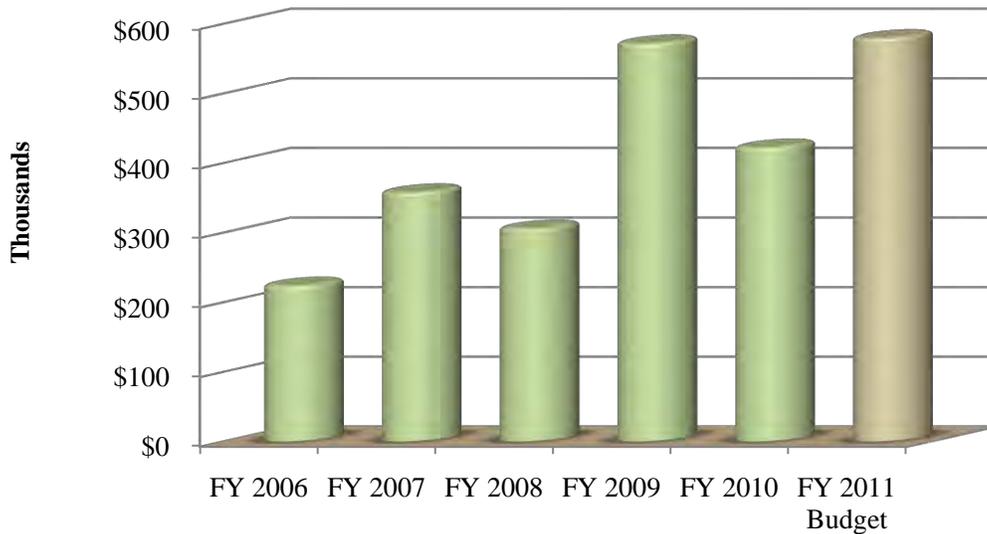
	FY11 Budget Acre Feet	Rate⁽¹⁾	FY11 Budget Purchase Costs	% to Total
SBWRP Recycled Water Purchases (CSD)				
Recycled Water Purchases	3,097.9	\$350/\$417	\$ 1,160,100	98.3%
Meter Fee	-	1,646.50	19,800	1.7%
Total	3,097.9		\$ 1,179,900	100.0%

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

Power Costs - Recycled

	Treatment and Recycled Transmission
FY06 Actual	\$ 224,200
FY07 Actual	358,359
FY08 Actual	306,480
FY09 Actual	572,331
FY10 Estimated	422,780
FY11 Budget	529,800

HISTORICAL POWER COSTS



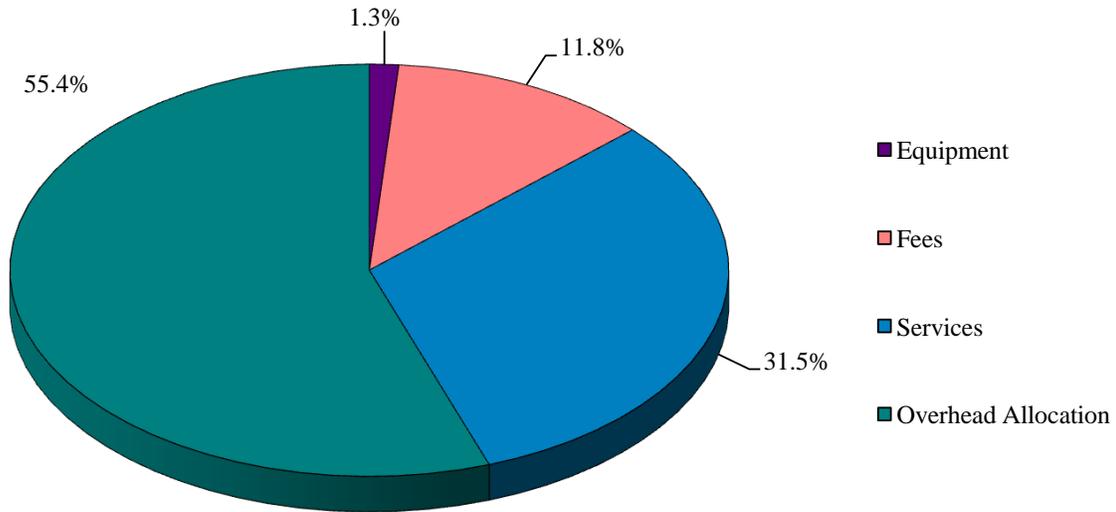
Note:

- (1) The fluctuation in the power cost is caused by increases and decreases in annual rainfall.
- (2) Subsequent to Budget approval, staff identified a misclassification of a power meter among potable, recycled, and sewer which also caused the fluctuation in power costs.
- (3) FY 2010 Otay received credits from SDG&E.

Administrative Expenses - Recycled

	FY 2009	FY 2010		FY 2011	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Equipment	\$ 4,277	\$ 6,300	\$ 3,801	\$ 4,500	\$ (1,800)	(28.6%)
Fees	25,396	54,400	36,265	40,400	(14,000)	(25.7%)
Services	85,542	48,500	59,353	108,100	59,600	122.9%
Miscellaneous	-	-	491	-	-	0.0%
Total	115,215	109,200	99,910	153,000	43,800	40.1%
Overhead Allocation	186,718	208,900	182,890	190,100	(18,800)	(9.0%)
Total Administrative Expenses	\$ 301,933	\$ 318,100	\$ 282,800	\$ 343,100	\$ 25,000	7.9%

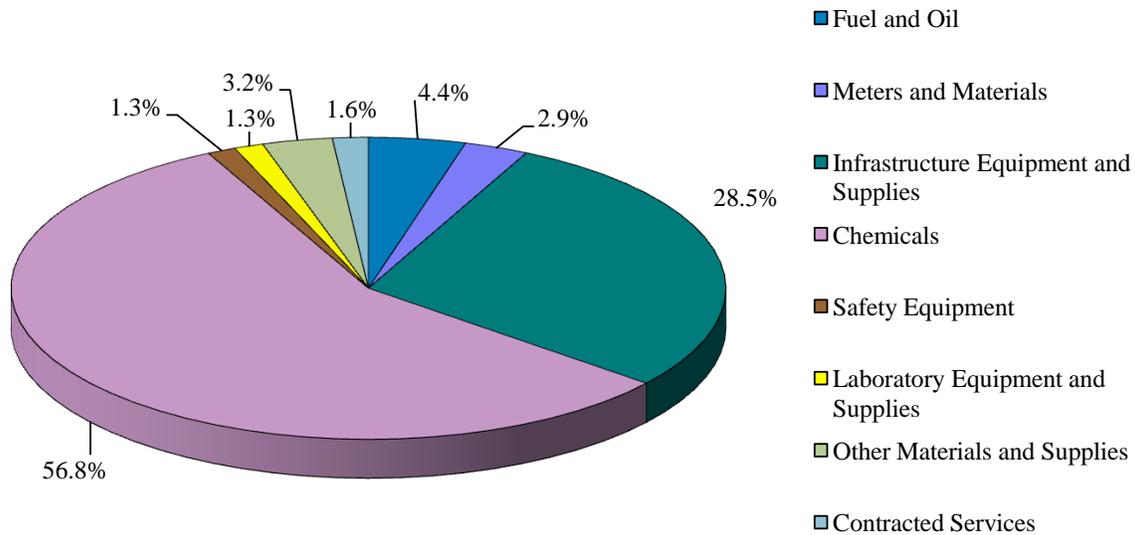
**ADMINISTRATIVE EXPENSES - RECYCLED
FY 2011**



Materials and Maintenance Expenses - Recycled

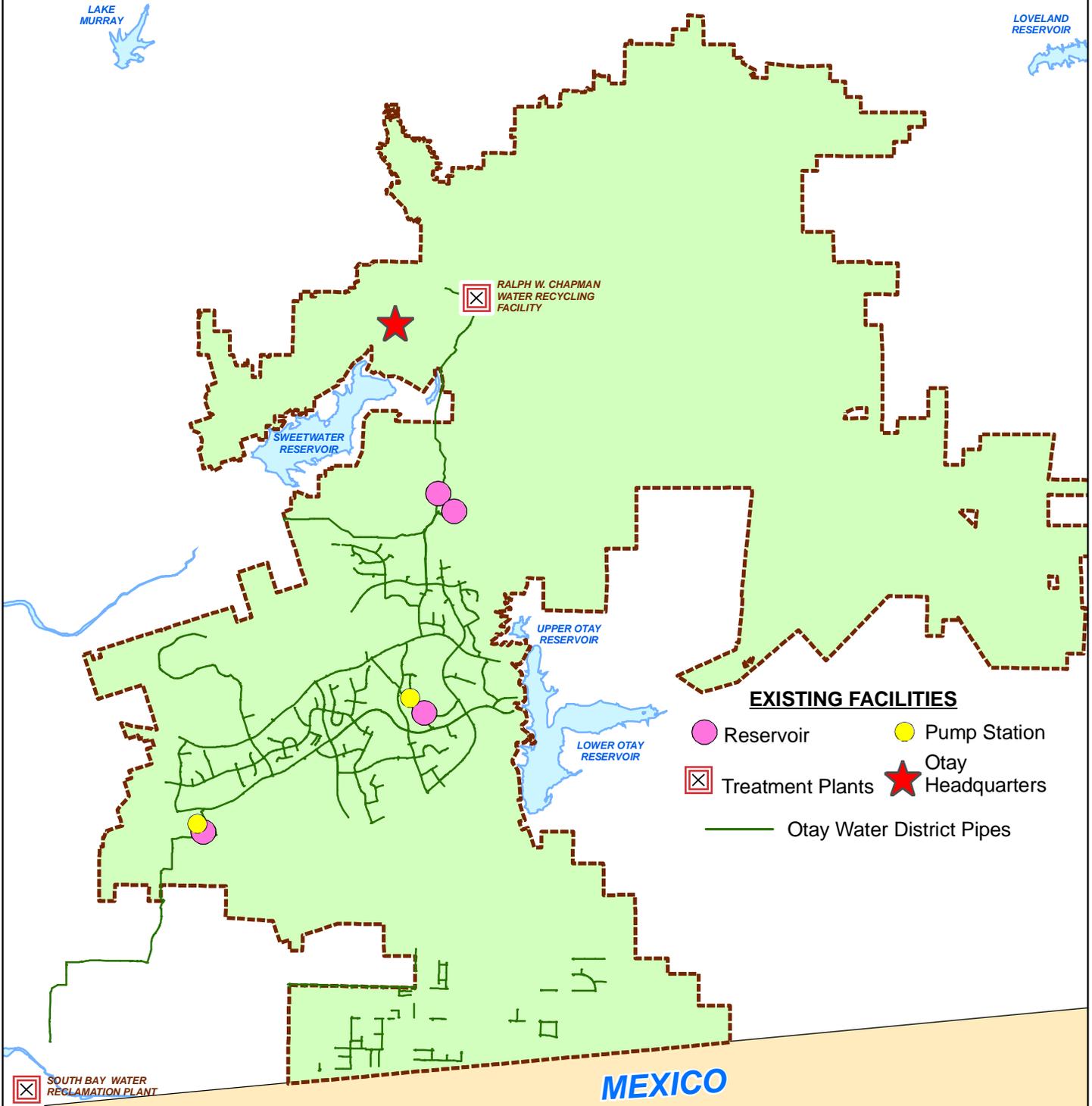
	FY 2009	FY 2010		FY 2011	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 6,776	\$ 13,300	\$ 10,788	\$ 13,300	-	0.0%
Meters and Materials	22,803	13,000	10,708	8,800	(4,200)	(32.3%)
Fleet Parts and Equipment	-	-	-	-	-	0.0%
Landscaping Materials	-	-	-	-	-	0.0%
Infrastructure Equipment and Supplies	92,185	64,000	72,469	86,500	22,500	35.2%
Chemicals	46,326	225,000	73,786	172,000	(53,000)	(23.6%)
Safety Equipment	2,543	1,600	1,358	3,900	2,300	143.8%
Laboratory Equipment and Supplies	5,109	6,000	6,266	4,000	(2,000)	(33.3%)
Other Materials and Supplies	12,048	8,800	4,475	9,600	800	9.1%
Building and Grounds Materials	-	-	-	-	-	0.0%
Contracted Services	36,621	500	951	4,900	4,400	880.0%
Total Materials and Maintenance	\$ 224,410	\$ 332,200	\$ 180,800	\$ 303,000	\$ (29,200)	(8.8%)

**MATERIALS AND MAINTENANCE EXPENSES - RECYCLED
FY 2011**

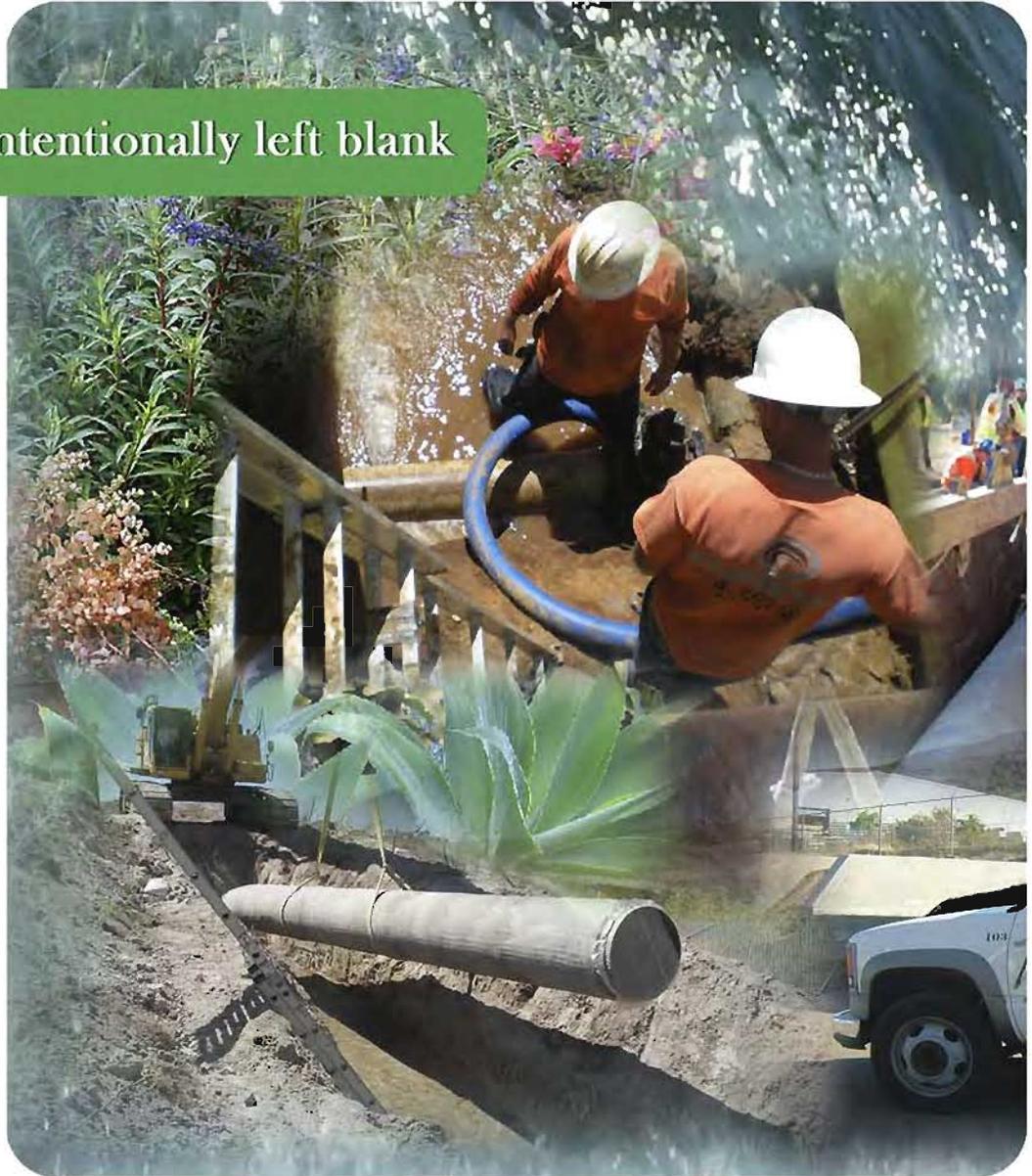


Recycled Water Service Area

 EXISTING

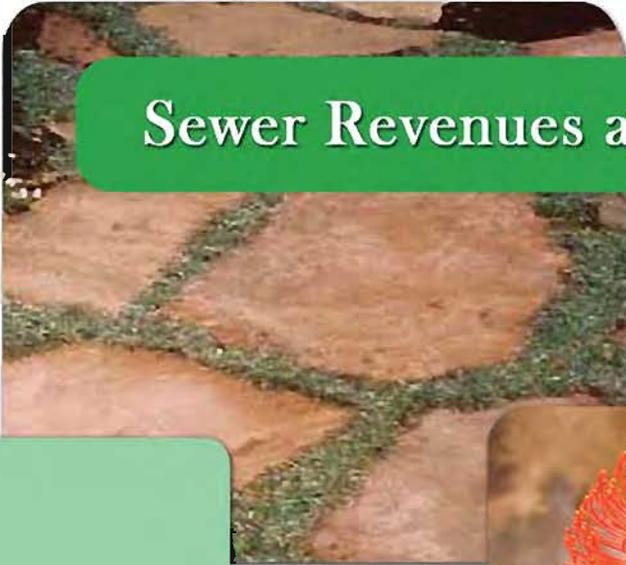


This page intentionally left blank





Sewer Revenues and Expenditures



Sewer Revenues and Expenses

The District provides sewer service to approximately 15,200 customers through 4,646 accounts (or approximately 6,706 Assigned Service Units) located in the northern section of the District. The District operates and maintains the sewage collection system serving Rancho San Diego, Singing Hills and portions of Mount Helix within the Upper Sweetwater River Basin, also known as the Jamacha Basin. Residential customers comprise 98.5% of the customer base. Modest growth of 0.6% is anticipated in Fiscal Year 2011.

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 67 outlining the sewer process. The byproduct of the treatment process is called sludge and it is discharged through the City of San Diego Metropolitan Wastewater (Metro) and the Spring Valley Sanitation District systems.

The Otay Water District is a member of Metro Wastewater System and a significant amount of the sewer operation costs is for estimated sewer service charges from Metro totaling \$1,038,600 for Fiscal Year 2011. Additionally, the District will pay \$264,000 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 2011.

The charge for sewer service is mandated by the State Revenue Program Guidelines which requires the use of a "Service Unit Assignment Formula" that converts higher strength uses into a service unit value comparable to the use impact of a single-family residential user or equivalent dwelling unit (EDU). The rate of discharge and strength of sewage for non-residential customers tends to be higher than a single-family residential user. Due to their higher discharge and strength, non-residential customers are assigned more units: 12.3% of the total service units, while only comprising 1.5% of the customer base. The formula for the sewer rates is shown on page 87.

In addition to the monthly sewer fee, sewer customers are annually assessed \$54 per assigned service unit on their property tax statements. This revenue of \$362,100 is necessary for the payment of principal and interest on the \$5 million State Loan to modify the RWCWRF. The outstanding balance on the loan is \$ 359,744 with an interest rate of 3.5%. The debt service payment for Fiscal Year 2011 is \$358,900.

Operating Budget Summary - Sewer

	FY 2009	FY 2010		FY 2011	Budget Variance	Variance %
	Actual	Budget	Estimated	Budget		
REVENUES						
Sewer Charges	2,184,523	2,244,800	2,311,586	2,270,500	25,700	1.1%
Non-operating Revenues	27,801	29,100	27,706	29,100	-	0.0%
Tax Revenues	50,759	50,300	51,978	51,400	1,100	2.2%
Interest	54,298	28,500	22,059	27,200	(1,300)	(4.6%)
General Fund Draw Down	-	469,100	469,100	994,600	525,500	112.0%
TOTAL REVENUES	2,317,381	2,821,800	2,882,429	3,372,800	551,000	19.5%
EXPENDITURES						
Power	63,197	99,200	84,408	75,000	(24,200)	(24.4%)
Labor and Benefits	667,547	924,600	649,417	711,600	(213,000)	(23.0%)
Administrative Expenses	174,639	456,100	435,670	641,300	185,200	40.6%
Material & Maintenance	1,335,033	1,341,900	1,346,652	1,419,900	78,000	5.8%
Betterment Reserve	-	-	-	1,120,000	1,120,000	100.0%
Transfer to Sewer General Fund	-	-	-	(595,000)	(595,000)	100.0%
TOTAL EXPENDITURES	2,240,416	2,821,800	2,516,147	3,372,800	551,000	19.5%
EXCESS REVENUES	\$ 76,965	\$ -	\$ 366,282	\$ -	\$ -	0.0%

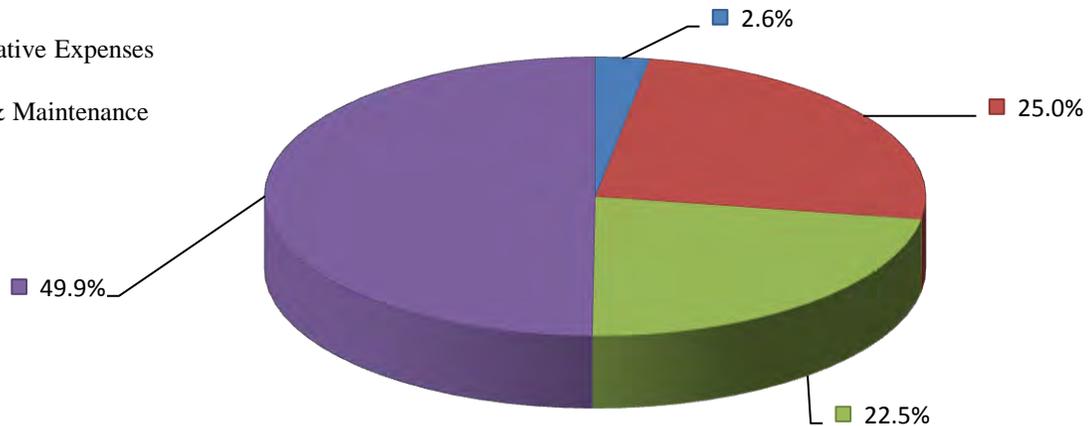
■ Power

■ Labor and Benefits

■ Administrative Expenses

■ Material & Maintenance

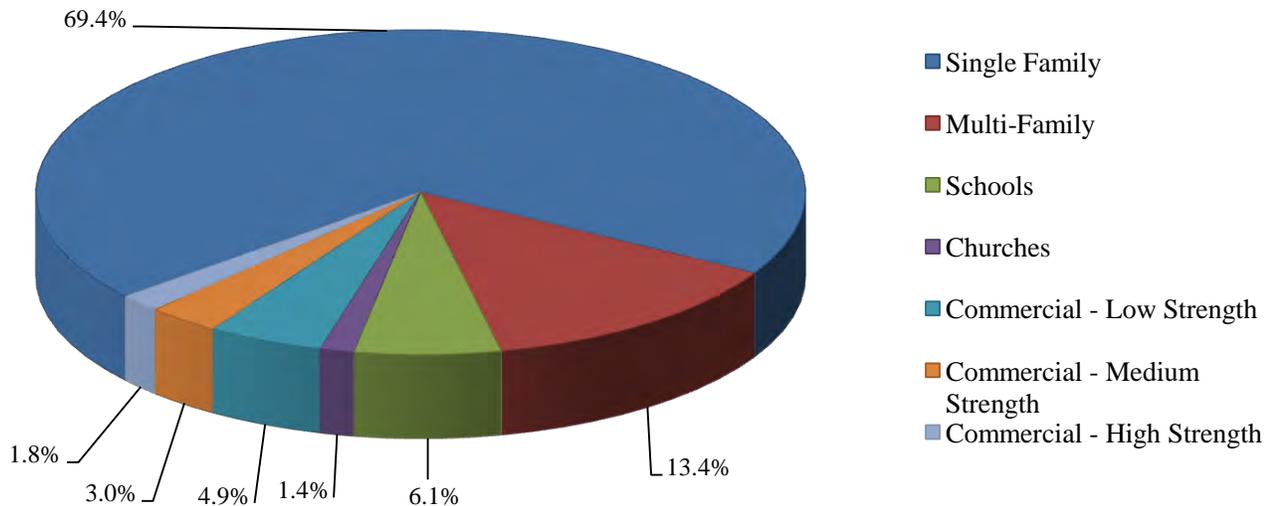
**SEWER OPERATING EXPENDITURES
FY 2011**



Sewer Charges Summary by Service Class

	Accounts	Units/ ASU ⁽¹⁾	Base Fee for 3/4" Meter ⁽²⁾		Usage Fee / Sewer Rate		FY 2011 Budget
			Current	Approved ⁽³⁾	Current	Approved ⁽³⁾	
Single Family	4,524	4,524	10.80	11.57	1.56	1.67	\$ 1,555,000
Multi-Family	50	1,360	10.80	11.57	1.56	1.67	299,000
Schools	6	303			36.88	39.39	137,500
Churches	4	50			36.88	39.39	32,000
Commercial							
Low Strength	37	236			36.88	39.39	108,800
Medium Strength	19	148			36.88	39.39	68,200
High Strength	6	86			36.88	39.39	39,900
Penalties							30,100
TOTAL SEWER CHARGES	<u>4,646</u>	<u>6,706</u>					<u>\$ 2,270,500</u>

SEWER CHARGES BY SERVICE CLASS FY 2011



⁽¹⁾ Assigned Service Units

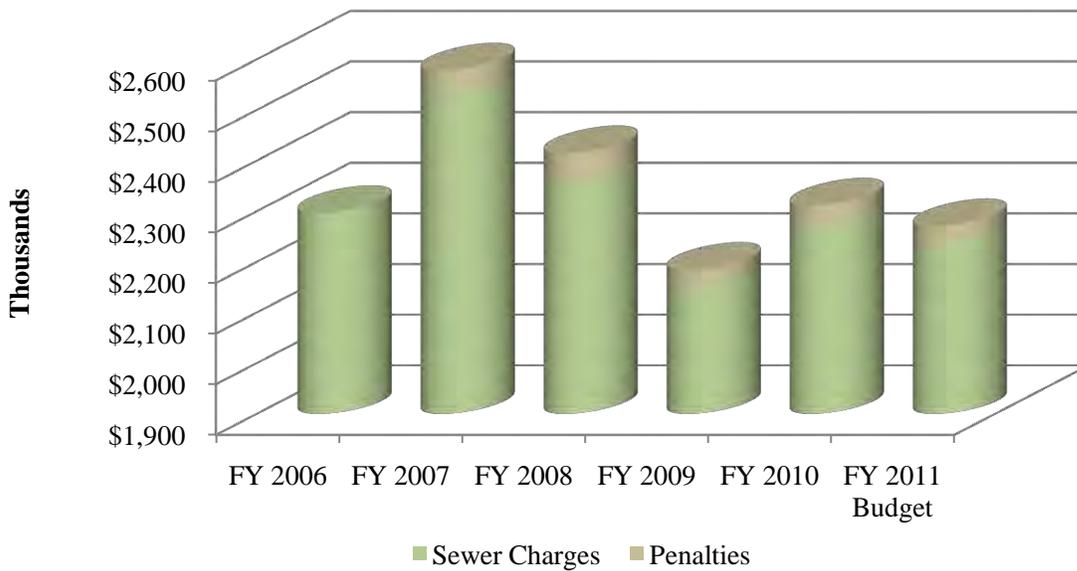
⁽²⁾ Current and Approved base fees for 1" meter are 15.75 and 16.87 respectively.

⁽³⁾ Approved rates for sewer billed after January 1, 2011.

Revenue History - Sewer

	Actual				Estimated	Budget
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Sewer Charges	\$ 2,296,856	\$ 2,531,513	\$ 2,359,173	\$ 2,154,628	\$ 2,271,879	\$ 2,240,400
Penalties ⁽¹⁾	-	46,480	55,713	29,896	39,707	30,100
Total	<u>\$ 2,296,856</u>	<u>\$ 2,577,993</u>	<u>\$ 2,414,886</u>	<u>\$ 2,184,523</u>	<u>\$ 2,311,586</u>	<u>\$ 2,270,500</u>

SEWER REVENUE HISTORY

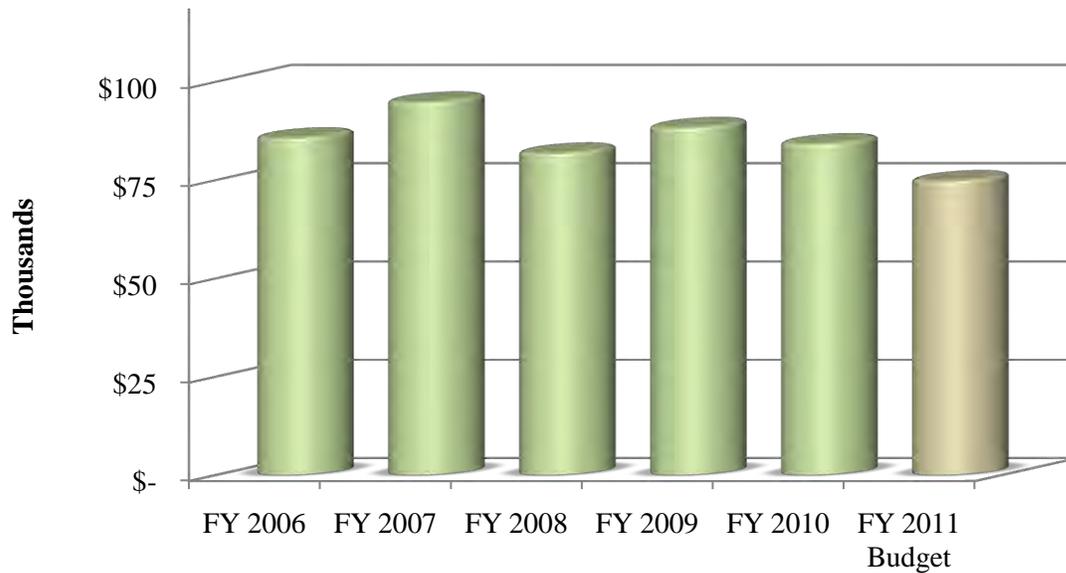


⁽¹⁾ Prior to Fiscal Year 2007, penalties were Potable revenues only.

Power Costs - Sewer

	<u>Sewer Lift Stations</u>
FY06 Actual	85,894
FY07 Actual	94,989
FY08 Actual	82,023
FY09 Actual	88,512
FY10 Estimated	84,408
FY11 Budget	75,000

HISTORICAL POWER COSTS



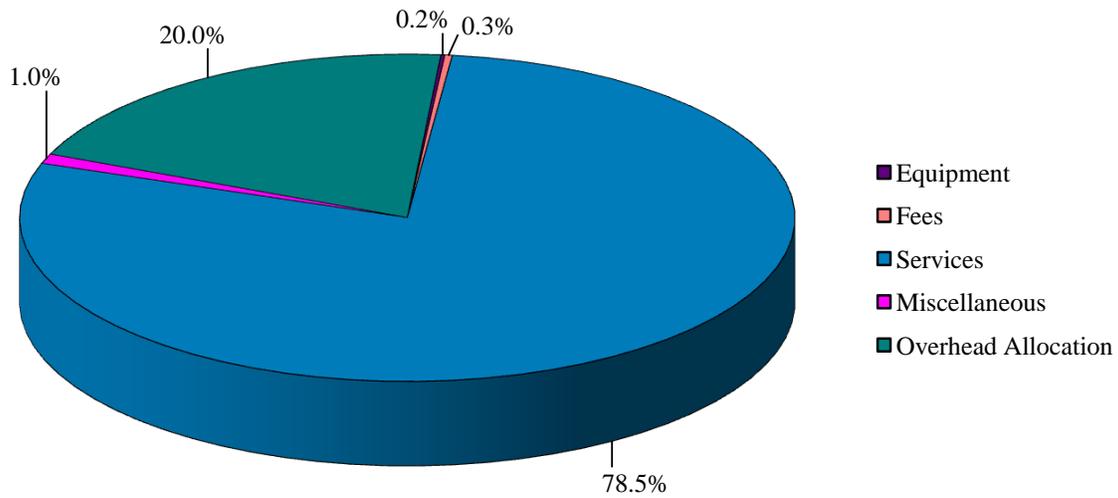
Note:

- (1) The fluctuation in the power cost is caused by increases and decreases in annual rainfall.
- (2) Subsequent to FY 2009 Budget approval, staff identified a misclassification of a power meter among potable, recycled, and sewer which also caused the fluctuation in power costs.
- (3) FY 2010 Otay received credits from SDG&E.

Administrative Expenses - Sewer

	FY 2009	FY 2010		FY 2011	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Equipment	\$ 685	\$ 1,500	\$ 1,099	\$ 1,000	(500)	(33.3%)
Fees	10,053	11,500	4,444	2,000	(9,500)	(82.6%)
Services	38,783	269,000	311,308	503,600	234,600	87.2%
Miscellaneous	6,808	7,600	3,084	6,200	(1,400)	(18.4%)
Total	56,328	289,600	319,935	512,800	223,200	77.1%
Overhead Allocation	118,311	166,500	115,737	128,500	(38,000)	(22.8%)
Total Administrative Expenses	\$ 174,639	\$ 456,100	\$ 435,672	\$ 641,300	\$ 185,200	40.6%

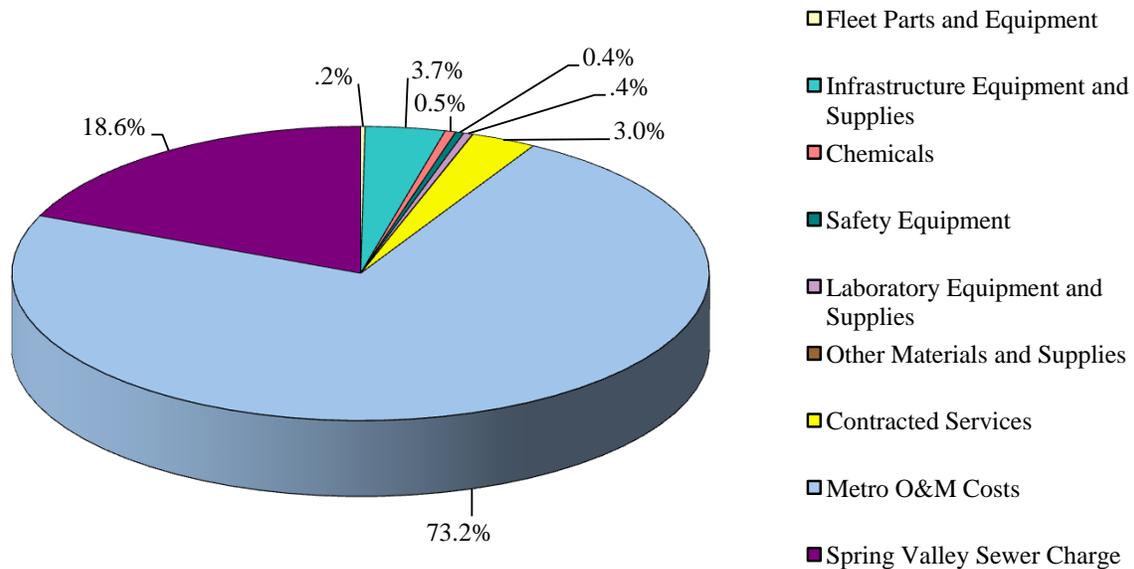
**ADMINISTRATIVE EXPENSES - SEWER
FY 2011**



Materials and Maintenance Expenses - Sewer

	FY 2009	FY 2010		FY 2011	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fleet Parts and Equipment	-	3,000	1,634	3,000	-	0.0%
Landscaping Materials ⁽¹⁾	158	-	-	-	-	0.0%
Infrastructure Equipment and Supplies	68,953	67,000	76,169	52,500	(14,500)	(21.6%)
Chemicals	5,810	4,500	4,831	7,000	2,500	55.6%
Safety Equipment	1,694	1,000	1,639	5,500	4,500	450.0%
Laboratory Equipment and Supplies	5,330	6,000	5,904	6,000	-	0.0%
Other Materials and Supplies	970	300	118	300	-	0.0%
Contracted Services	92,436	49,000	24,140	43,000	(6,000)	(12.2%)
Materials and Maintenance	175,353	130,800	114,435	117,300	(13,500)	(10.3%)
Sewer Charges						
Metro O&M Costs	913,033	981,000	986,027	1,038,600	57,600	5.9%
Spring Valley Sewer Charge	246,647	230,100	246,190	264,000	33,900	14.7%
Total Sewer Charges	1,159,680	1,211,100	1,232,217	1,302,600	91,500	7.6%
Total Materials and Maintenance	\$ 1,335,033	\$ 1,341,900	\$ 1,346,652	\$ 1,419,900	\$ 78,000	5.8%

**MATERIALS AND MAINTENANCE EXPENSES - SEWER
FY 2011**



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 \$1.56 and \$1.67, respectively. A base fee is also applied. Current and approved base fees are \$10.80 and \$11.57 for ¾ inch water meter, and \$15.75 and \$16.87 for 1 inch or greater. Approved fees are effective for all services billed after January 1, 2011.

For commercial customers, the sewer charge takes into consideration the cost associated with daily flow, chemical oxygen demand (COD) and the removal of suspended solids (SS). The COD and SS determine the strength factor for the groups of high, medium and low, and the State Water Resources Control Board (SWRCB) determines these factors. The factors beginning January 1, 2004 are shown below:

1.000	Schools
1.000	Churches
1.000	Low Strength Commercial
1.238	Medium Strength Commercial
2.203	High Strength Commercial

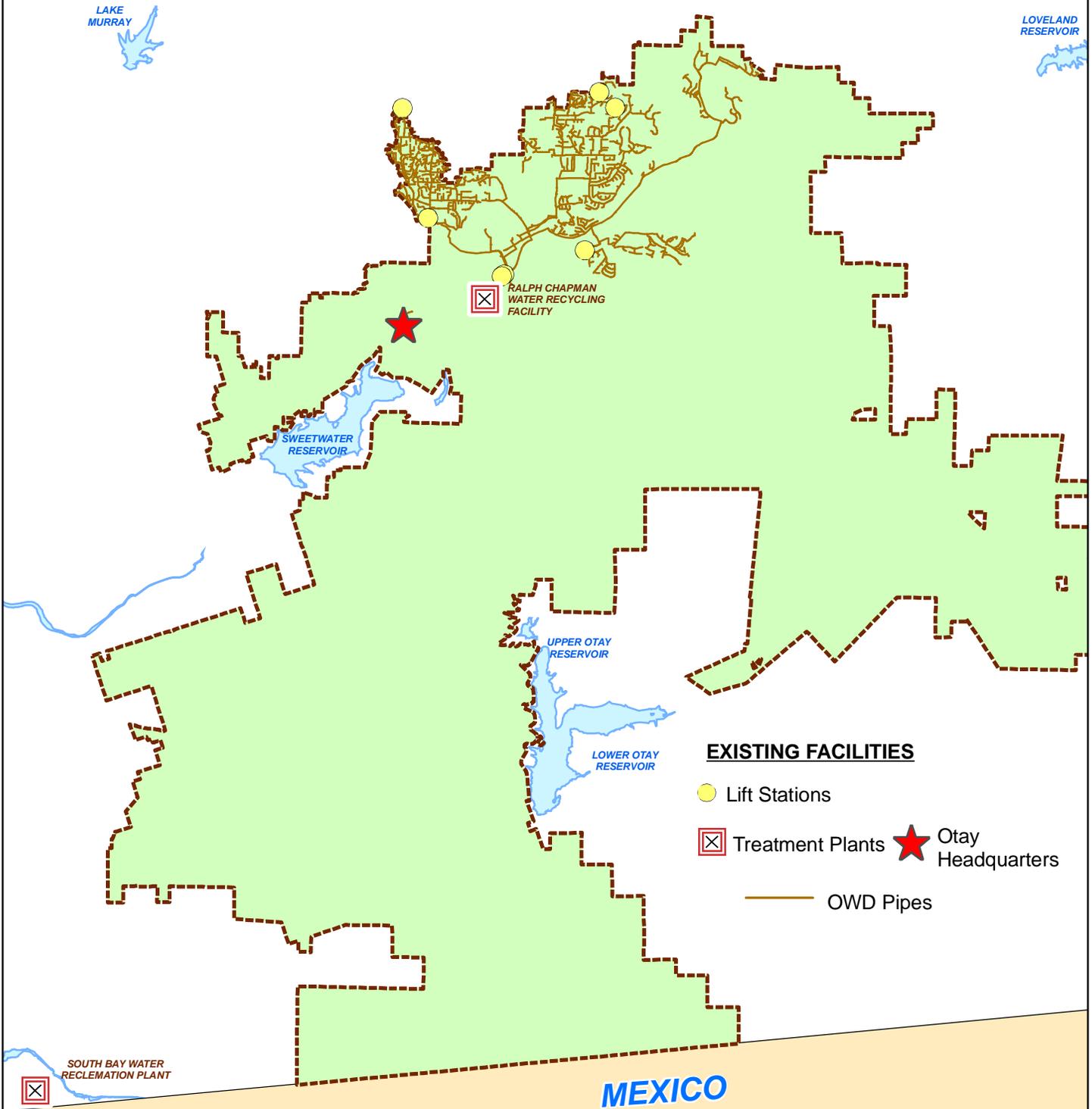
The following formula is based on an estimated daily flow of 250 gallons per day plus 280 milligrams per liter of Biological Oxygen Demand (BOD) and 234 milligrams per liter of SS for a residential equivalent dwelling unit or an assigned service unit (ASU). The new method of calculating the sewer rate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

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

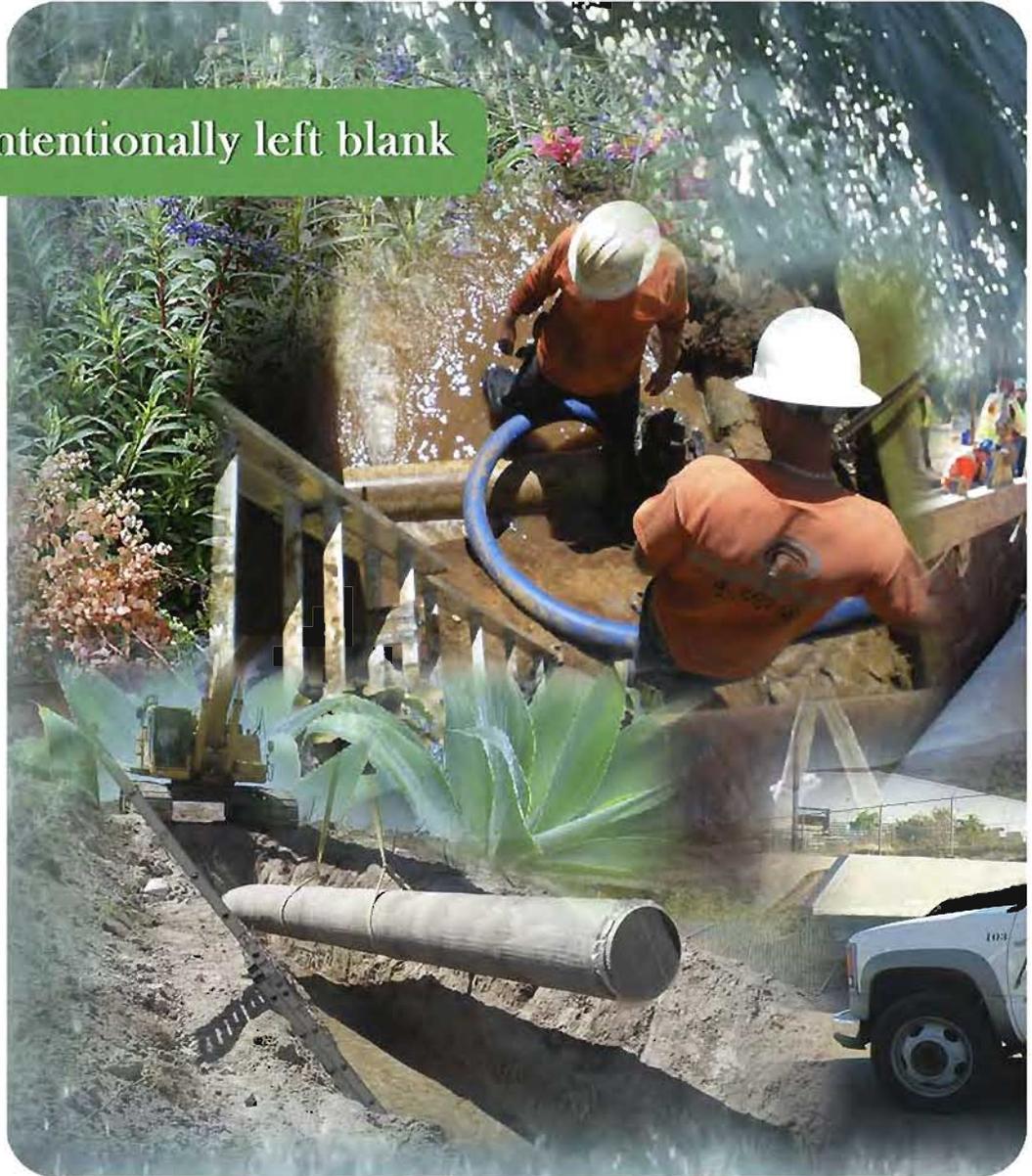
The ASU is then multiplied by the district-wide sewer rate to determine the monthly sewer charge. The current and proposed sewer rates per ASU are \$36.88 and \$39.39, respectively. The approved rate is effective for all services billed after January 1, 2011.

The minimum charge for commercial shall be no lower than one ASU at low strength. For public schools, flow is based on average daily attendance for the prior school year, including summer school, as reported by schools to meet state requirements. For elementary schools, 50 students equal one ASU; for junior high schools, 40 students equal one ASU; for high schools, 24 students equal one ASU. For colleges, flow is based on the number of Certificated and Classified Staff, and students enrolled in each school session.

Sewer Service Area

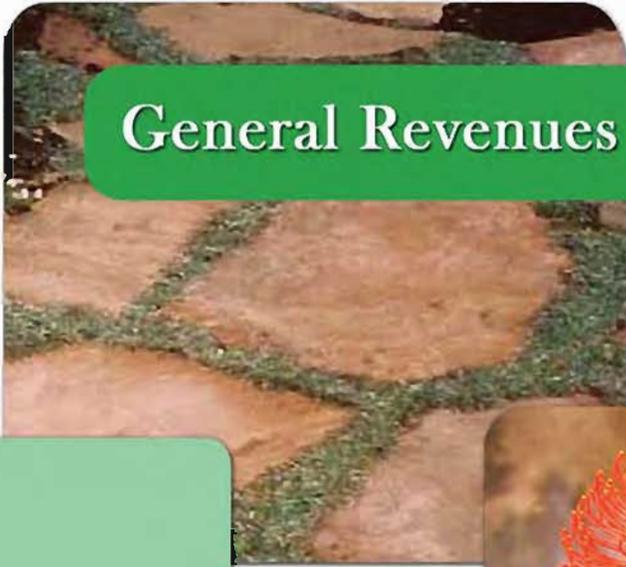


This page intentionally left blank





General Revenues and Expenditures



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

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

Annexation fees are collected when developers buy into the District's potable and recycled water facilities. The fee ensures that future users fund the portion of the facilities that were sized and built for their future use by prior customers. Prior to FY 2011, annexation fees were unrestricted and therefore included in the General Fund revenues. With the new fee methodology, these fees are now restricted for the purpose of capital improvements.

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

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

Included in the General Revenues are a variety of Non-Operating Revenues. These revenues include lease revenue, set-up fees, sewer billing fees, grants, and any miscellaneous revenues. Revenues are received from the lease of District property, mainly from the lease of cell-sites. When the District enters a new lease there is a one-time fee charged with the set-up of each cell-site. The District incurs expenses related to these leases and the purpose of the fee is to recover the cost to set up the lease.

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

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 3.4% 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.



General Revenues

	FY 2009	FY 2010		FY 2011	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>Fee Revenues</u>						
Capacity Fee Revenues	\$ 1,521,707	\$ 1,397,000	\$ 1,030,688	1,095,300	\$ (301,700)	(21.6%)
Betterment Fees for Maintenance	661,998	571,400	575,721	657,400	86,000	15.1%
Annexation Fees	392,349	120,500	555,751	-	(120,500)	(100.0%)
Subtotal Fee Revenues	2,576,054	2,088,900	2,162,160	1,752,700	(336,200)	(16.1%)
<u>Tax Revenues</u>						
1% General Tax	3,429,830	3,175,600	3,008,496	3,143,400	(32,200)	(1.0%)
Availability Fees	625,065	677,000	670,784	700,500	23,500	3.5%
Subtotal Tax Revenues	4,054,895	3,852,600	3,679,280	3,843,900	(8,700)	(0.2%)
General Revenues	\$ 6,630,949	\$ 5,941,500	\$ 5,841,440	\$ 5,596,600	\$ (344,900)	(5.8%)

Non-Operating Revenues

	FY 2009	FY 2010		FY 2011	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Property Rental	\$ 1,029,506	\$ 1,043,400	\$ 1,083,988	\$ 1,163,900	120,500	11.5%
Sewer Billing Fees	359,180	359,800	360,651	361,500	1,700	0.5%
Set-up Fee for Lease Site	48,301	-	26,500	8,000	8,000	100.0%
Grants	85,742	-	-	120,000	120,000	100.0%
Revenue from Shared Facility	26,387	29,100	27,706	29,100	-	0.0%
Miscellaneous ⁽¹⁾	3,325,892	153,300	1,046,030	265,800	112,500	73.4%
Non-Operating Revenues	\$ 4,875,008	\$ 1,585,600	\$ 2,544,875	\$ 1,948,300	\$ 362,700	22.9%

General and Non-Operating Revenues by Business

	FY 2011 Budget			
	Potable	Recycled	Sewer	Total
Capacity Fee Revenues	\$ 1,095,300	\$ -	\$ -	\$ 1,095,300
Betterment Fees for Maintenance	657,400	-	-	657,400
Annexation Fees	-	-	-	-
<u>Tax Revenues</u>				
1% Property Tax	3,143,400	-	-	3,143,400
Availability Fees	649,100	-	51,400	700,500
Total Tax Revenues	3,792,500	-	51,400	3,843,900
<u>Non-Operating Revenues</u>				
Property Rental	1,163,900	-	-	1,163,900
Sewer Billing Fees	361,500	-	-	361,500
Set-up Fee for Lease Site	8,000	-	-	8,000
Grants	120,000	-	-	120,000
Revenue from Shared Facility	-	-	29,100	29,100
Miscellaneous	265,800	-	-	265,800
Total Non-Operating Revenues	1,919,200	-	29,100	1,948,300
Total General and Non-Operating Revenues	\$ 7,464,400	\$ -	\$ 80,500	\$ 7,544,900

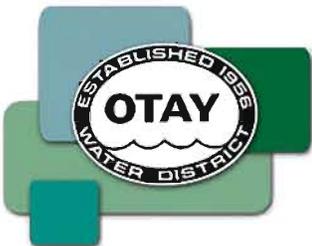
Note: For General and Non-Operating Revenues, the Potable Fund serves as the District's General Fund for accounting purposes.

⁽¹⁾ In FY 2010 the District received an unbudgeted settlement from a lawsuit from a class action lawsuit for \$767,254.

General Expenses

	FY 2009	FY 2010		FY 2011	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>Administrative Expenses</u>						
Legal Fees	\$ 1,053,575	\$ 454,300	472,924	\$ 451,200	\$ (3,100)	(0.7%)
General Insurance	485,796	411,500	456,784	464,800	53,300	13.0%
Interest	-	-	-	-	-	0.0%
Total Administrative Expenses	1,539,372	865,800	929,708	916,000	50,200	5.8%
<u>Benefits</u>						
Benefits ⁽¹⁾	383,300	(300)	427,547	(28,000)	(27,700)	0.0%
Total General Expenses	\$ 1,922,672	\$ 865,500	\$ 1,357,255	\$ 888,000	\$ 22,500	2.6%

⁽¹⁾ FY 2011 and FY 2010 Benefits budget amounts are negative because of Vacancy Factor (salary savings) of \$204,200 and \$207,700 respectively. This is netted against other District-wide Labor and Benefit Expenses. In prior years Vacancy Factor was budgeted in the individual departments.



Departmental Operating Budget

Departmental Operating Budget

Labor and Benefits

Labor and Benefits represent 21.8% 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 2011 Budget includes funding for labor and benefits for 159 Full-time Equivalent (FTE) employees and a 3% across-the-board salary increase on July 1, 2010.

The staffing level for Fiscal Year 2011 has a decrease of seven FTE employees from Fiscal Year 2010. The District has chosen to eliminate seven vacant positions in areas that have experienced a reduction of work due to slowing of growth.

A projected 11.9% of the labor and benefits costs will be charged to projects included in the Capital Improvement Program (CIP) and Developer Deposits. These are not considered Operating Projects and therefore reduce the Operating Budget by \$2,413,900. The Water Operations Department, with its staff of 66 employees, is responsible for maintaining and operating the District's facilities.

Administrative Expenses

Administrative Expenses represent 7.3% of the District's total operating costs. A detailed listing of the Administrative Expenses for Fiscal Year 2011 is shown on page 100. The increase of \$252,400 is due to an increase in temporary help for work that is temporary in nature, in outside services for studies and the outsourcing of laboratory work, and in conservation incentive programs some of which is offset by grant revenue.

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

Departmental Operating Budget

Materials and Maintenance

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

As the District continues to grow and new facilities are added, additional maintenance and services will be required. This year, there is a 0.8% decrease in Materials and Maintenance Expenses totaling \$32,100. These reductions include lower in chemical costs due to price reductions and efficiencies through automation, as well as reductions in safety equipment costs and contracted services. These lower costs are offset somewhat by higher costs for meters, and increases in Metro O&M and Spring Valley Sanitation Sewer Charges.

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

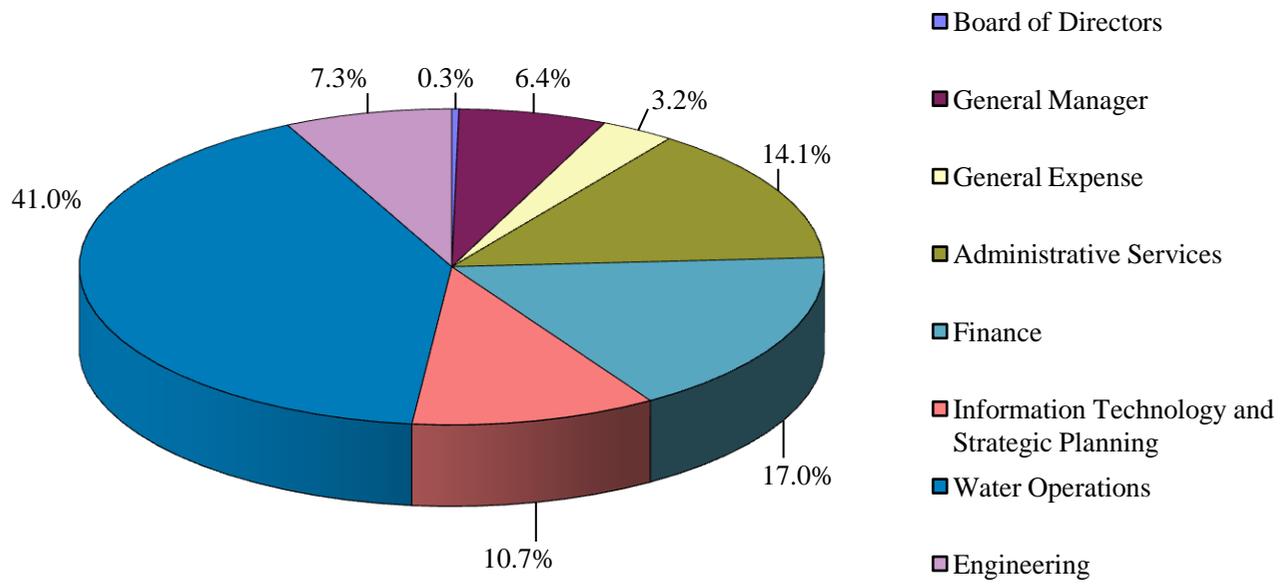
Performance Measurement Program

Strategic goals and objectives approved by the Board of Directors are incorporated into departmental operating budgets to ensure adequate funds are available to implement the Strategic Plan. The District has updated its performance measurement program this fiscal year to provide measurable results of progress on both strategic and key operational goals and objectives. (See the plan objectives and measures in the department sections that follow.) Performance measures have been developed by comparing key District activities with functional and available operational data that provide reliable feedback on progress. Developed cooperatively with staff and the help of measurement experts, the measures are designed to be comparable to measures commonly found in similar industries.

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

Departmental Operating Budget

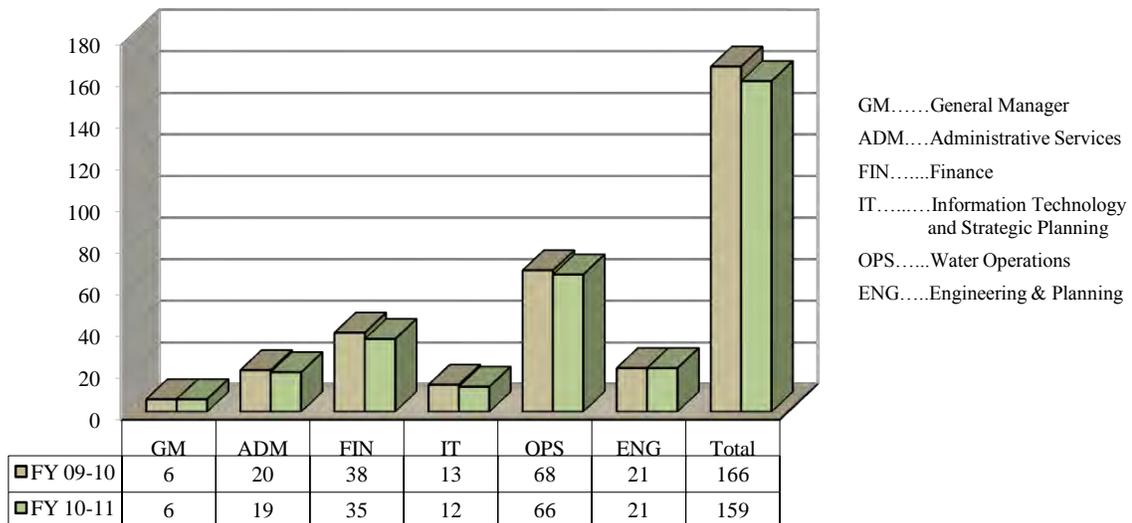
TOTAL DEPARTMENTAL OPERATING BUDGET
Fiscal Year 2011
\$27,839,400



Labor and Benefits

	FY09 Actual	FY10		FY11 Budget
		Budget	Estimated	
Total Labor Costs	\$ 10,951,244	\$ 11,456,800	\$ 11,115,520	\$ 11,514,300
<u>Benefits</u>				
Pension	3,111,655	3,227,500	3,212,514	3,320,800
Employee Assistance Program	5,138	7,500	4,485	7,500
Worker's Compensation	156,822	262,300	264,927	267,800
Health/Dental/Life Insurance	1,810,350	2,076,700	1,940,034	2,014,900
Social Security / Medicare	889,137	937,000	909,265	936,400
Salary Continuation Insurance	86,342	87,800	82,544	75,600
State Unemployment Insurance	6,227	20,000	33,931	20,000
Vacation / Sick / Holiday / Other Leave	2,066,505	2,091,300	2,073,645	2,104,100
Total Fringe Benefits	<u>8,132,176</u>	<u>8,710,100</u>	<u>8,521,345</u>	<u>8,747,100</u>
Total Labor and Benefits	<u>19,083,420</u>	<u>20,166,900</u>	<u>19,636,865</u>	<u>20,261,400</u>
<u>Less: Non-Operating Labor and Benefits</u>				
Labor Costs	1,143,905	1,282,300	1,289,566	1,512,100
Fringe Benefits Allocation	668,132	740,600	751,562	901,800
Total WO Allocation	<u>1,812,037</u>	<u>2,022,900</u>	<u>2,041,128</u>	<u>2,413,900</u>
Operating Labor & Benefits	17,271,383	18,144,000	17,595,737	17,847,500
Total Overhead Allocation	1,315,491	1,474,600	1,483,001	1,738,900
Less: Overhead Allocation Personnel Portion	<u>830,733</u>	<u>931,200</u>	<u>936,515</u>	<u>1,098,100</u>
<i>Admin Portion of OH (36.85%)</i>	<u>\$ 484,758</u>	<u>\$ 543,400</u>	<u>\$ 546,486</u>	<u>\$ 640,800</u>
Operating Labor and Benefits	<u><u>\$ 16,440,650</u></u>	<u><u>\$ 17,212,800</u></u>	<u><u>\$ 16,659,222</u></u>	<u><u>\$ 16,749,400</u></u>

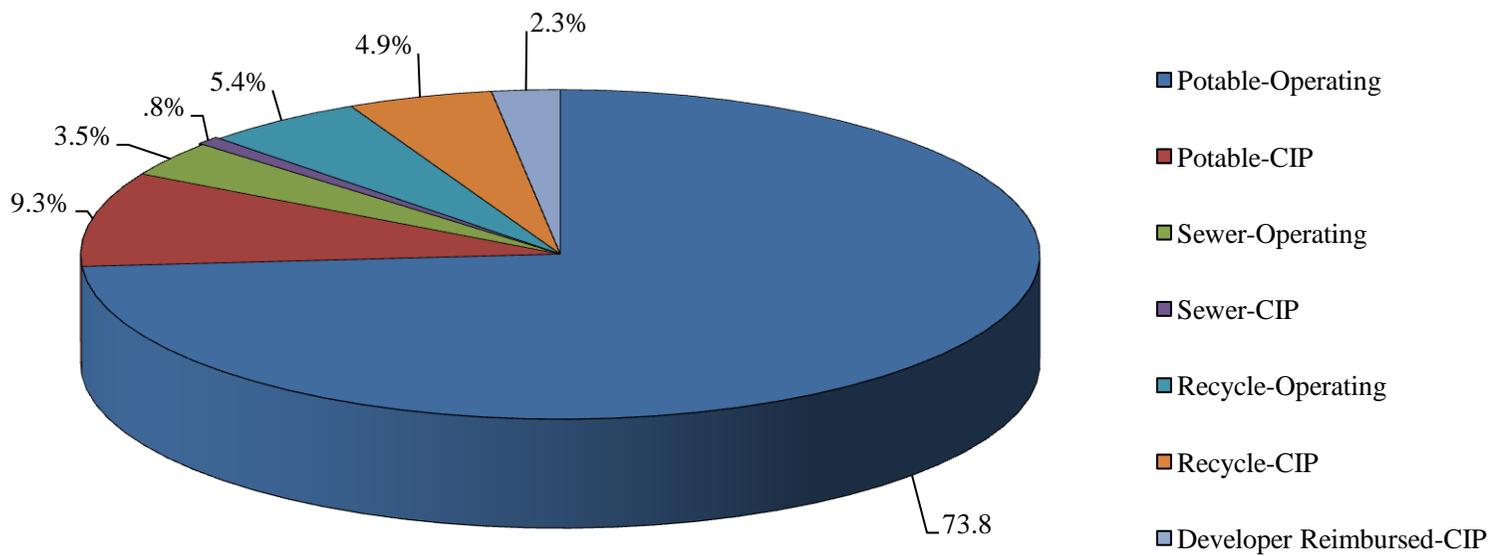
FULL-TIME EQUIVALENT (FTE) COMPARISON BY DEPARTMENT



Labor and Benefits by Fund - Fiscal Year 2011

	<u>Potable</u>	<u>Sewer</u>	<u>Recycled</u>	<u>Developer Reimbursed-CIP</u>	<u>Total</u>
Total Operating Labor Costs	\$ 9,250,200	\$ 303,300	\$ 448,700	-	\$ 10,002,200
Benefits	7,345,100	188,000	312,200	-	7,845,300
Overhead Allocation-Personnel Portion	(1,644,300)	220,300	325,900	-	(1,098,100)
Total Operating Labor and Benefits	14,951,000	711,600	1,086,800	-	16,749,400
Total CIP Labor Costs	806,400	69,000	432,700	204,000	1,512,100
Benefits	487,900	40,300	247,800	125,800	901,800
Overhead Allocation-Personnel Portion	585,700	50,100	314,200	148,100	1,098,100
Total CIP Labor and Benefits	1,880,000	159,400	994,700	477,900	3,512,000
Total Labor and Benefits	\$ 16,831,000	\$ 871,000	\$ 2,081,500	\$ 477,900	\$ 20,261,400

LABOR and BENEFITS BY FUND



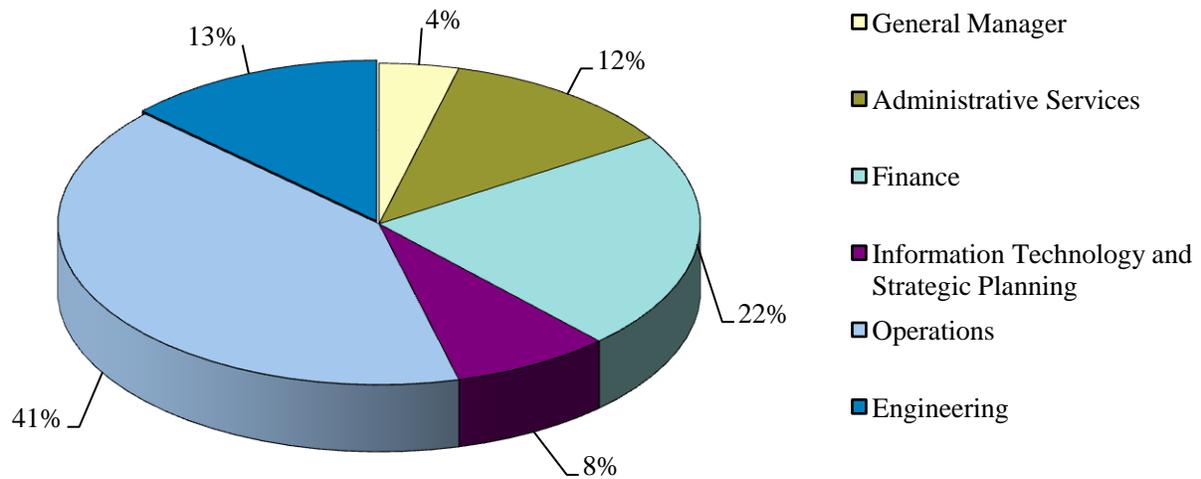
Position Count by Department

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
General Manager	6	6	6
Total - General Manager Department	6	6	6
FTE	6.00	6.00	6.00
Administrative Services	3	3	3
Human Resources	4	4	4
Purchasing	9	9	8
Safety	1	1	1
Conservation	3	3	3
Total Administrative Services Department	20	20	19
FTE	20.00	20.00	19.00
Controller and Budgetary Services	7	7	7
Treasury and Accounting Services	6	6	6
Customer Service	20	22	19
Payroll and Accounts Payable	4	3	3
Total Finance Department	37	38	35
FTE	36.75	38.00	35.00
Information Technology and Strategic Planning Applications	5	5	5
Information Technology Operations	4	4	3
Geographic Information Systems	4	4	4
Total IT and Strategic Planning Department	13	13	12
FTE	13.00	13.00	12.00
Operations Management	2	2	2
Water System Operations	28	28	28
Utility Maintenance/Construction	33	31	30
Collection/Treatment/Reclamation Operations	7	7	6
Total Operations Department	70	68	66
FTE	70.00	68.00	66.00
Engineering Management	3	3	3
Engineering	20	18	18
Total Engineering Department	23	21	21
FTE	23.00	21.00	21.00
District Total Position Count	169	166	159
FTE	168.75	166.00	159.00

Contract / Temporary Employees

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Consultant	1	0	0
Customer Service Field Representative I and II	2	1	1
Customer Service Representative I and II	0	1	0
Administrative Analyst	1	0	0
County Water Authority Interns	1	0	0
Reclamation Plant Operator	0	0	0
Sr. Civil Engineers (P/T)	0	0	0
Sr. Engineering Technician	0	1	1
Engineering Intern	1	0	0
Strategic Planning Assistant	0	1	1
Total Contract/Temporary Employees	6	4	3

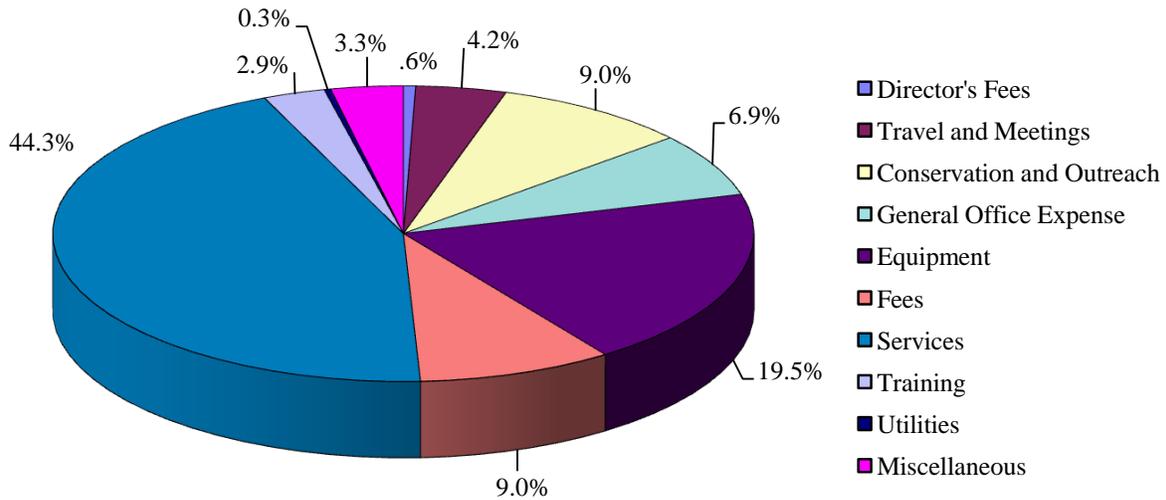
POSITION COUNT



Administrative Expenses - Total

	FY 2009	FY 2010		FY 2011	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Director's Fees	\$ 20,200	\$ 40,000	\$ 15,100	\$ 30,000	(10,000)	(25.0%)
Travel and Meetings	213,488	222,200	162,652	221,400	(800)	(0.4%)
Conservation and Outreach	254,209	352,800	240,734	479,700	126,900	36.0%
General Office Expense	397,104	434,500	343,859	368,700	(65,800)	(15.1%)
Equipment	1,103,654	1,028,700	1,014,401	1,035,700	7,000	0.7%
Fees	438,020	508,000	479,814	476,500	(31,500)	(6.2%)
Services	2,032,274	2,026,600	1,714,302	2,350,000	323,400	16.0%
Training	146,746	156,500	126,746	151,800	(4,700)	(3.0%)
Utilities	15,874	17,500	16,514	15,300	(2,200)	(12.6%)
Miscellaneous	265,741	220,000	148,685	177,300	(42,700)	(19.4%)
Total	4,887,310	5,006,800	4,262,807	5,306,400	299,600	6.0%
Less: Overhead Allocation	(484,758)	(543,400)	(546,486)	(640,800)	(97,400)	17.9%
Subtotal	4,402,552	4,463,400	3,716,321	4,665,600	202,200	4.5%
General Expenses	1,539,372	865,800	929,708	916,000	50,200	5.8%
Total Administrative Expenses	\$ 5,941,924	\$ 5,329,200	\$ 4,646,029	\$ 5,581,600	\$ 252,400	4.7%

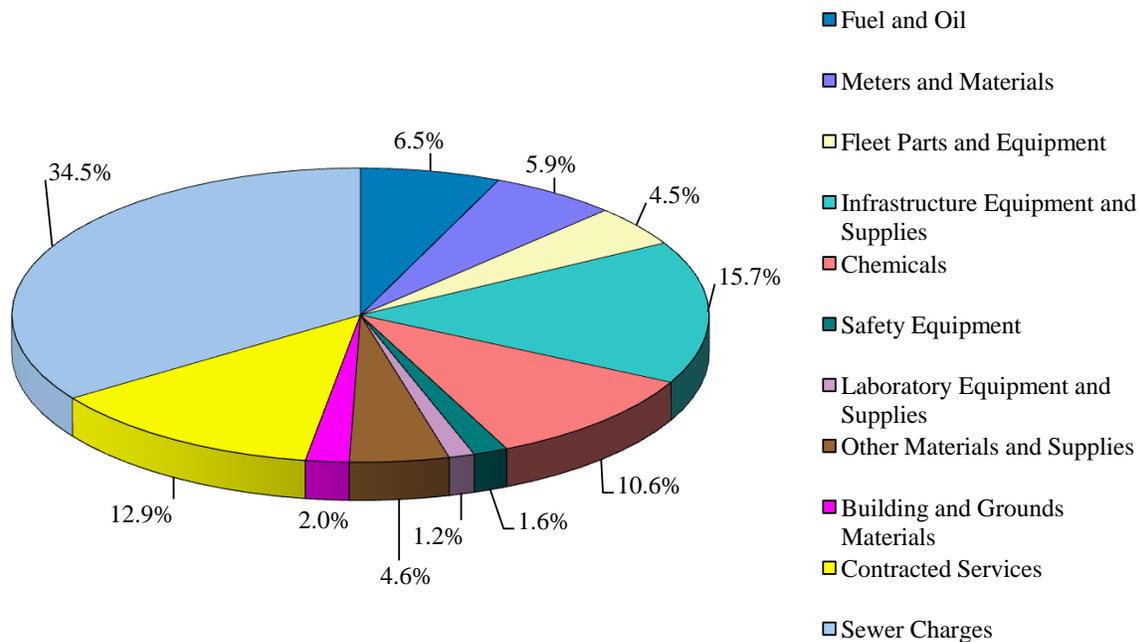
ADMINISTRATIVE EXPENSES - TOTAL FY 2011



Materials and Maintenance Expenses - Total

	FY 2009	FY 2010		FY 2011	Budget	
	Actual	Budget	Estimated	Budget	Variance	%
Materials and Maintenance						
Fuel and Oil	\$ 200,568	\$ 244,700	\$ 207,208	\$ 244,700	-	0.0%
Meters and Materials	156,384	170,600	148,386	222,100	51,500	30.2%
Fleet Parts and Equipment	170,271	164,000	158,795	168,400	4,400	2.7%
Landscaping Materials ⁽¹⁾	158	-	45	-	-	0.0%
Infrastructure Equipment and Supplies	654,616	600,600	610,055	591,900	(8,700)	(1.4%)
Chemicals	299,207	454,500	306,325	398,000	(56,500)	(12.4%)
Safety Equipment	38,903	161,100	49,998	60,300	(100,800)	(62.6%)
Laboratory Equipment and Supplies	42,891	47,000	47,306	45,000	(2,000)	(4.3%)
Other Materials and Supplies	120,864	157,900	137,478	173,700	15,800	10.0%
Building and Grounds Materials	90,679	86,600	95,116	76,000	(10,600)	(12.2%)
Contracted Services	548,431	503,500	498,565	486,800	(16,700)	(3.3%)
Materials and Maintenance	<u>2,322,973</u>	<u>2,590,500</u>	<u>2,259,277</u>	<u>2,466,900</u>	<u>(123,600)</u>	<u>(4.8%)</u>
Sewer Charges						
Metro O&M Costs	913,033	981,000	986,027	1,038,600	57,600	5.9%
Spring Valley Sewer Charge	246,647	230,100	246,190	264,000	33,900	14.7%
Total Sewer Charges	<u>1,159,680</u>	<u>1,211,100</u>	<u>1,232,217</u>	<u>1,302,600</u>	<u>91,500</u>	<u>7.6%</u>
Total Materials and Maintenance	<u>\$3,482,653</u>	<u>\$3,801,600</u>	<u>\$3,491,494</u>	<u>\$3,769,500</u>	<u>\$ (32,100)</u>	<u>(0.8%)</u>

**MATERIALS AND MAINTENANCE EXPENSES - TOTAL
FY 2011**



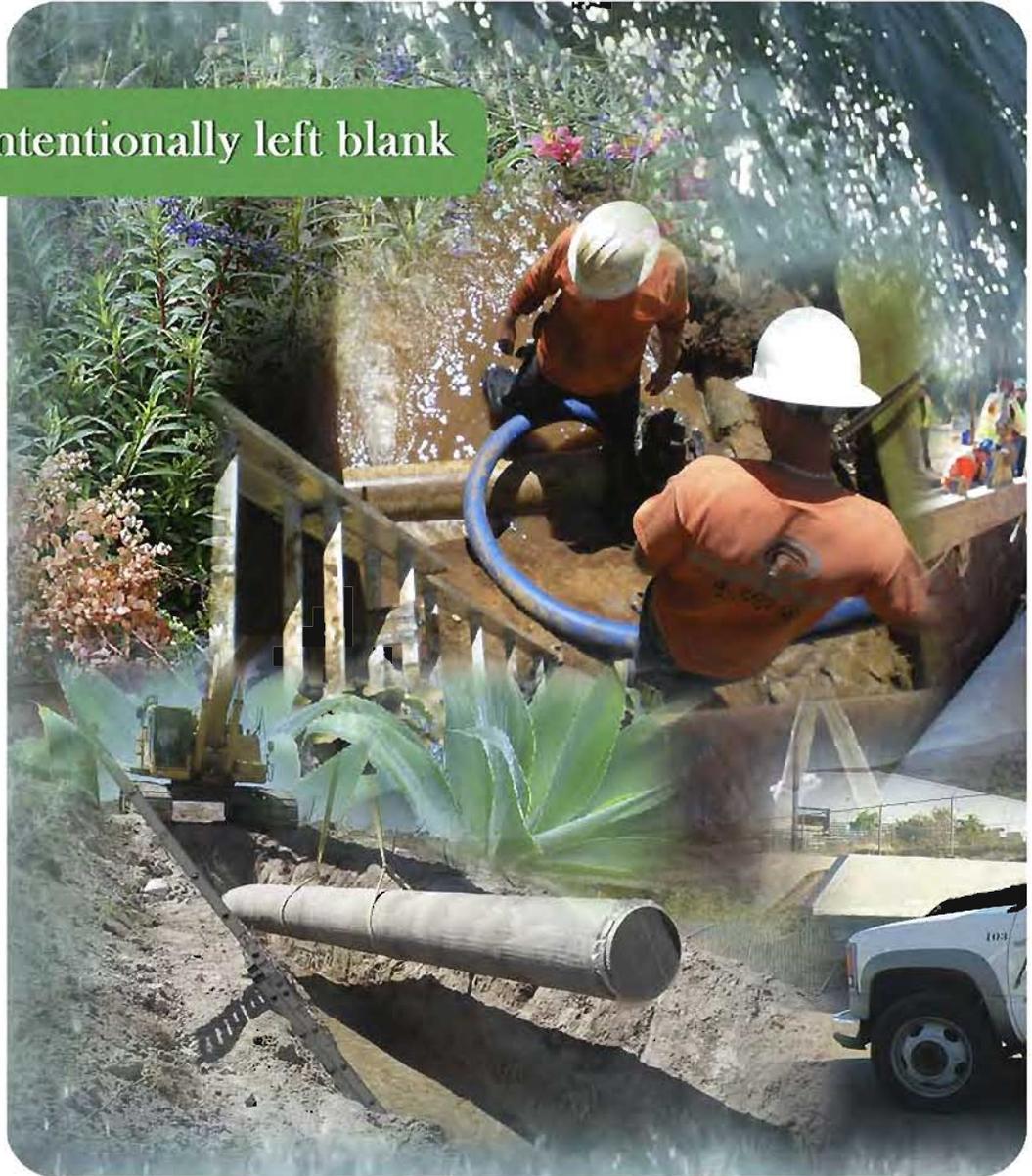
Operating Expenditures by Department

	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Departmental Expenditures				
Board of Directors	\$ 87,712	\$ 98,100	\$ 63,353	\$ 86,600
General Manager	1,687,607	1,667,100	1,530,406	1,790,600
General Expense	1,877,365	865,500	1,314,537	888,000
Administrative Services	3,337,536	3,912,500	3,387,950	3,935,200
Finance	4,368,063	4,869,100	4,617,243	4,730,300
Information Technology and Strategic Planning	2,809,666	2,856,400	2,864,200	2,964,100
Water Operations	10,716,485	11,478,800	10,585,316	11,420,500
Engineering	2,296,284	2,070,700	1,916,741	2,024,100
Total Departmental Expenditures	27,180,718	27,818,200	26,279,746	27,839,400
Less: Overhead Allocation	(1,315,491)	(1,474,600)	(1,483,001)	(1,738,900)
Net Departmental Expenditures	25,865,227	26,343,600	24,796,745	26,100,500
Non-Departmental Expenditures				
Water Purchases	29,398,334	35,855,500	31,814,849	35,057,200
Power	2,905,101	2,637,100	2,307,611	2,520,700
Expansion Reserve	5,016,700	1,610,000	1,610,000	2,775,000
Betterment Reserve	-	3,810,000	3,810,000	1,435,000
Replacement Reserve	277,900	3,660,000	3,660,000	6,965,000
Transfer to Sewer General Fund	-	200,000	200,000	-
Transfer Out/In Prop 1A	-	270,300	270,300	-
Transfer to General Fund Reserve	-	1,330,000	1,330,000	390,500
Transfer to Sewer Replacement	-	-	-	1,750,000
Total Non-Departmental Expenditures	37,598,035	49,372,900	45,002,760	50,893,400
TOTAL OPERATING EXPENDITURES	\$ 63,463,262	\$ 75,716,500	\$ 69,799,505	\$ 76,993,900

Operating Expenditures by Object

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Departmental Expenditures				
Labor and Benefits	\$ 17,271,383	\$ 18,144,000	\$ 17,595,737	\$ 17,847,500
Director's Fees	20,200	40,000	15,100	30,000
Travel and Meetings	213,488	222,200	162,652	221,400
Conservation and Outreach	254,209	352,800	240,734	479,700
General Office Expense	397,104	434,500	343,859	368,700
Equipment	1,103,654	1,028,700	1,014,401	1,035,700
Fees	1,977,392	1,373,800	1,409,522	1,392,500
Services	2,032,274	2,026,600	1,714,302	2,350,000
Training	146,746	156,500	126,746	151,800
Materials & Maintenance	2,322,973	2,590,500	2,259,277	2,466,900
Power and Utilities	15,874	17,500	16,514	15,300
Sewer Charges	1,159,680	1,211,100	1,232,217	1,302,600
Miscellaneous	265,741	220,000	148,685	177,300
Total Departmental Expenditures	27,180,718	27,818,200	26,279,746	27,839,400
Less: Overhead Allocation	(1,315,491)	(1,474,600)	(1,483,001)	(1,738,900)
Net Departmental Expenditures	25,865,227	26,343,600	24,796,745	26,100,500
Non-Departmental Expenditures				
Water Purchases	29,398,334	35,855,500	31,814,849	35,057,200
Power	2,905,101	2,637,100	2,307,611	2,520,700
Expansion Reserve	5,016,700	1,610,000	1,610,000	2,775,000
Betterment Reserve	-	3,810,000	3,810,000	1,435,000
Replacement Reserve	277,900	3,660,000	3,660,000	6,965,000
Transfer to Sewer General Fund	-	200,000	200,000	-
Transfer Out/In Prop 1A	-	270,300	270,300	-
Transfer to General Fund Reserve	-	1,330,000	1,330,000	390,500
Transfer to Sewer Replacement	-	-	-	1,750,000
Total Non-Departmental Expenditures	37,598,035	49,372,900	45,002,760	50,893,400
TOTAL OPERATING EXPENDITURES	\$ 63,463,262	\$ 75,716,500	\$ 69,799,505	\$ 76,993,900

This page intentionally left blank





Board of Directors



Board of Directors

Mission Statement

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

Division 4



Jose Jopez
Vice President

Division 3



Gary Croucher
President

Division 2



Jaime Bonilla
Treasurer

Division 1



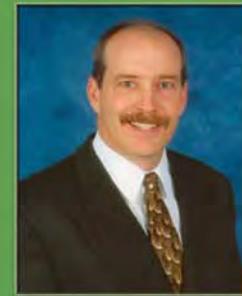
Larry Breitfelder
2003-2010

Division 1



David Gonzalez Jr.

Division 5



Mark Robak

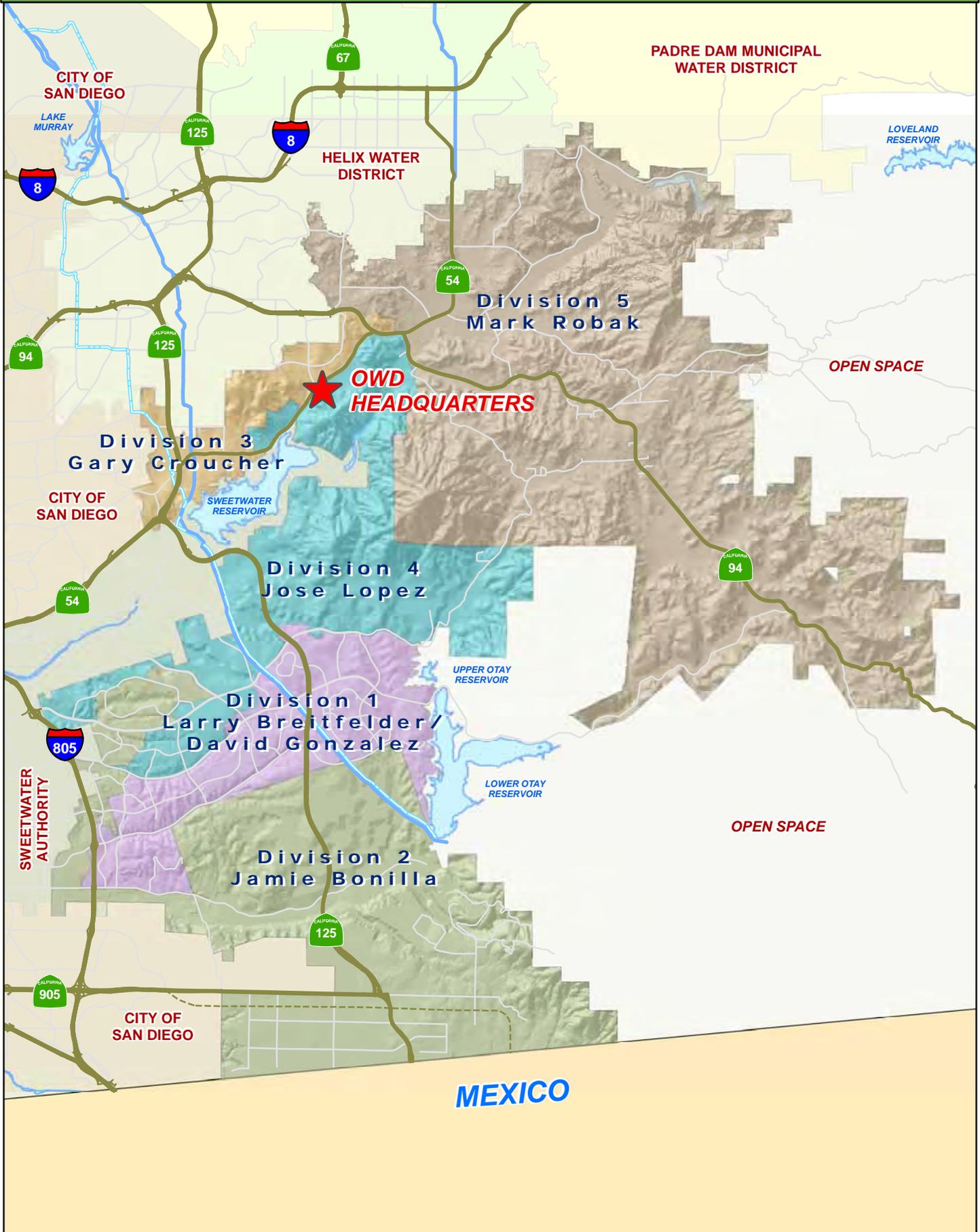
Division Title

Division No.

Board of Directors

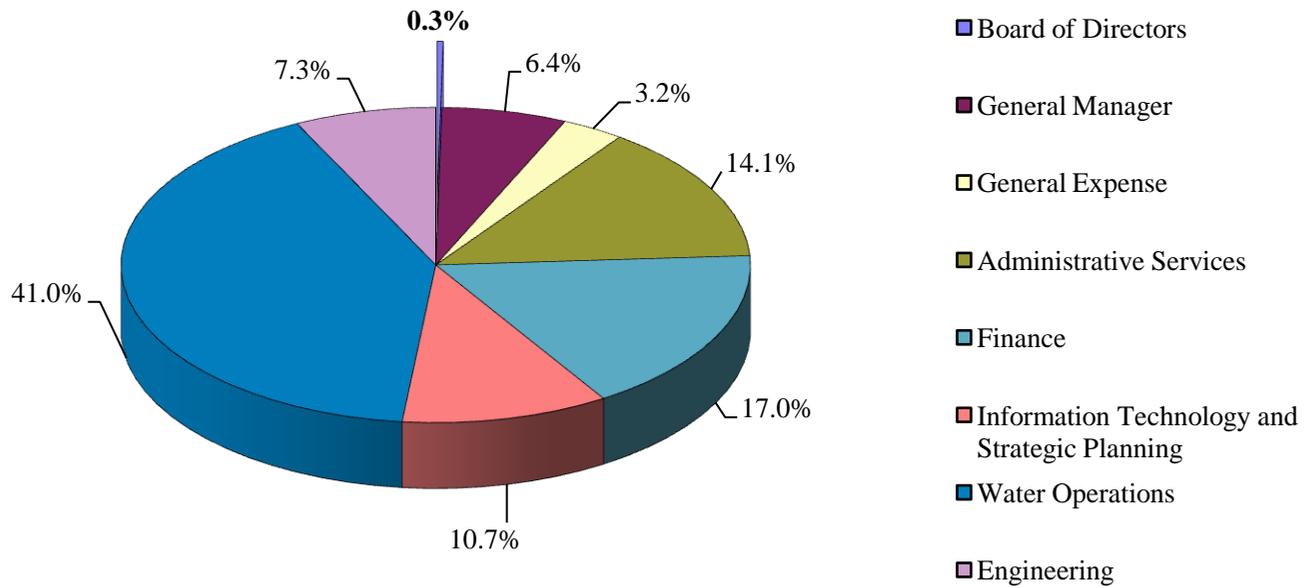
1111

Director's Division Boundaries



Board of Directors

FY 2011 Total Departmental Budget - \$27.8 Million Board of Directors - \$86,600

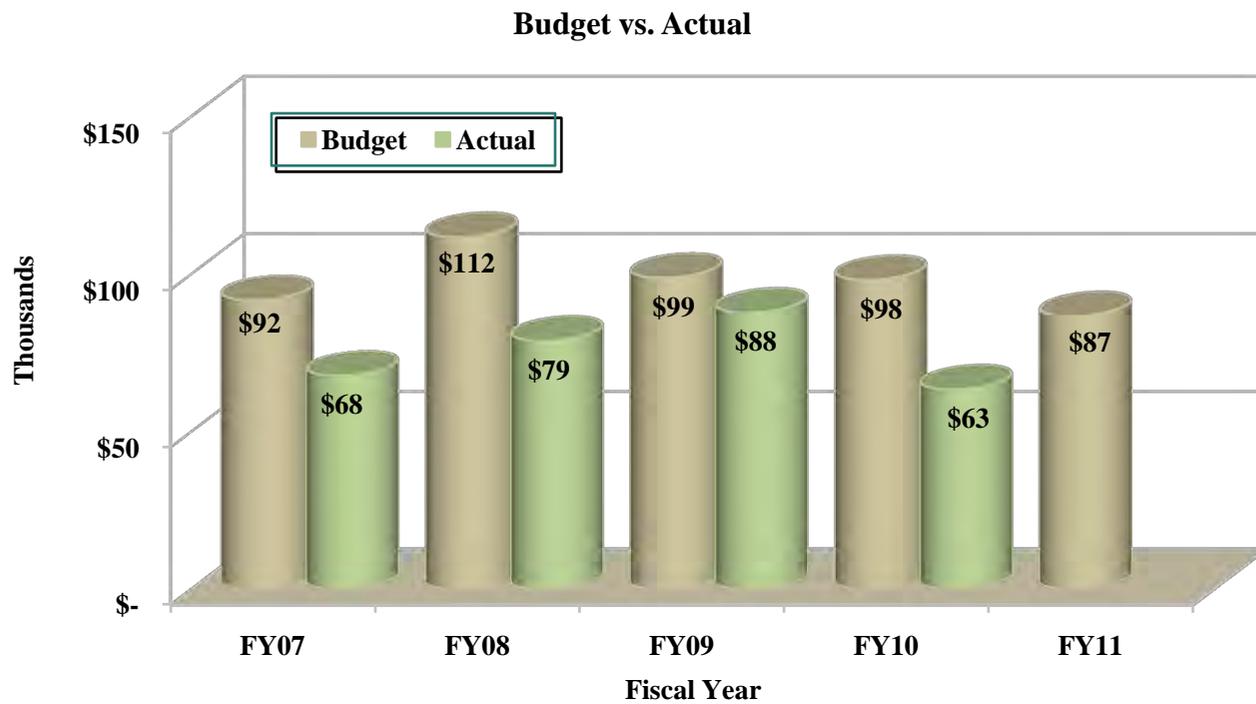


Board of Directors
TOTAL

	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Board of Directors	\$ 87,712	\$ 98,100	\$ 63,353	\$ 86,600
TOTAL	\$ 87,712	\$ 98,100	\$ 63,353	\$ 86,600

Board of Directors

Board of Directors	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Benefits	\$ 47,052	\$ 40,000	\$ 44,018	\$ 40,000
Director's Fees	20,200	40,000	15,100	30,000
Travel and Meetings	20,440	18,100	4,236	16,600
General Office Expense	20	-	-	-
Total	\$ 87,712	\$ 98,100	\$ 63,353	\$ 86,600





General Manager



General Manager

Mission Statement

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

Key Challenges

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

General Manager’s Vision

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

- Mark Watton



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

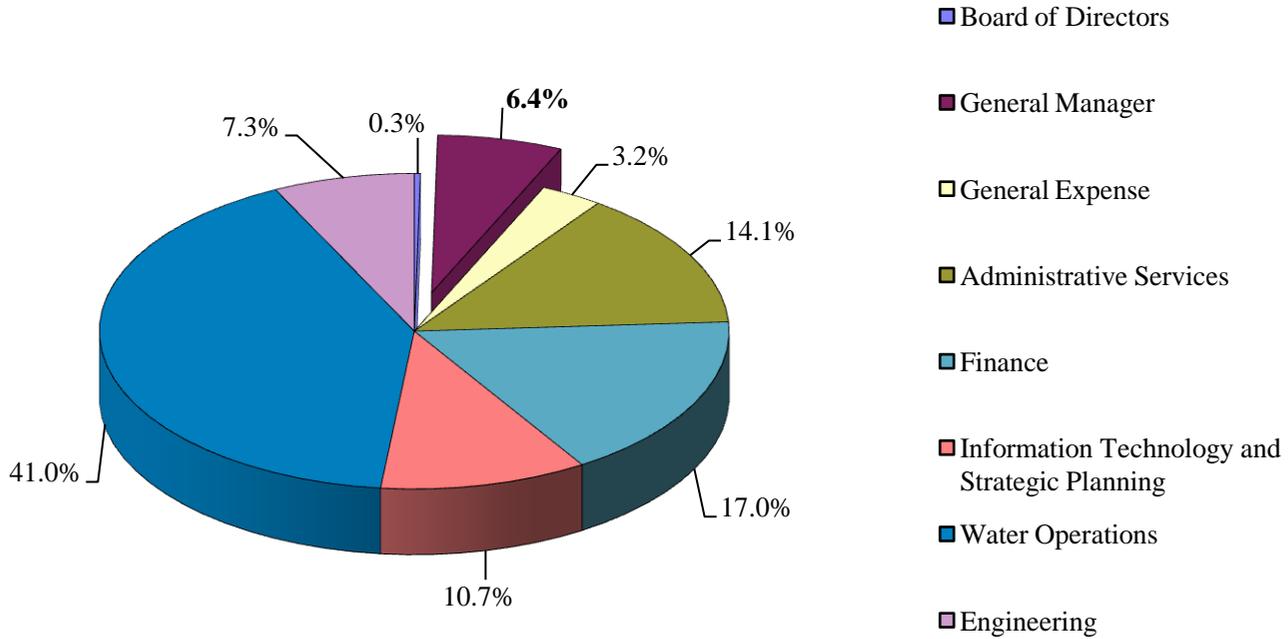
District Position Count - 159 General Manager Department - 6



Personnel Count	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
General Manager	1	1	1
Assistant General Manager, Finance and Administration	1	1	1
Assistant General Manager, Engineering and Operations	1	1	1
District Secretary	1	1	1
Sr. Confidential Executive Secretary	1	1	1
Communications Officer	1	1	1
Total	6	6	6

General Manager

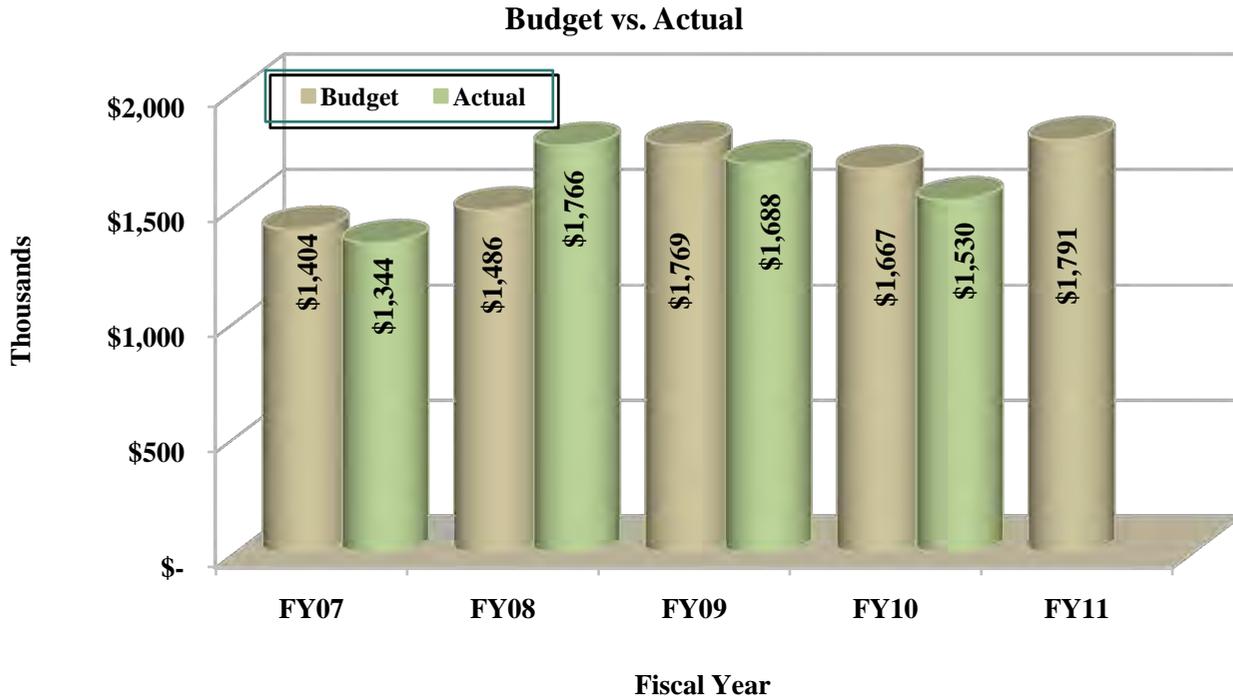
FY 2011 Total Departmental Budget - \$27.8 Million
General Manager - \$1,790,600



	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
General Manager	\$ 962,779	\$ 1,043,200	\$ 975,124	\$ 1,194,600
Legal	190,460	6,000	3,777	-
Assistant General Manager, Finance and Administration	273,116	297,100	285,261	306,500
Assistant General Manager, Engineering and Operations	261,252	320,800	266,244	289,500
TOTAL	\$ 1,687,607	\$ 1,667,100	\$ 1,530,406	\$ 1,790,600

General Manager

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,363,974	\$ 1,309,400	\$ 1,275,172	\$ 1,327,900
Travel and Meetings	88,985	74,900	46,816	73,800
Conservation and Outreach	5,705	6,000	5,562	7,000
General Office Expense	18,061	15,500	14,505	24,000
Equipment	2,031	-	-	1,500
Fees	45,482	39,000	39,159	46,000
Services	163,092	222,000	148,780	310,400
Training	25	300	99	-
Miscellaneous	251	-	313	-
Total	\$ 1,687,607	\$ 1,667,100	\$ 1,530,406	\$ 1,790,600



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

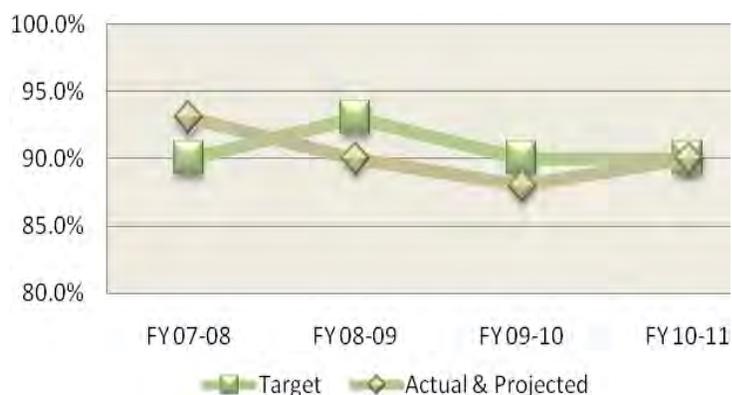
Strategic Plan Objectives

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

Performance Measures

Customer Satisfaction

Measures the level of overall customer satisfaction with the District. Survey is conducted on an annual basis. Formation of survey begins in Q1. Actual survey measures calendar year (January-December). Currently reported quarterly.



Accomplishments Fiscal Year 2009-2010

- The District adopted a balanced budget for FY 2011 despite ongoing economic concerns and challenging water supply conditions.
- The District successfully implemented its Strategic Business Plan, which included meeting performance measures and metrics. The plan and its reporting mechanisms foster transparency to staff, the Board of Directors, and interested community stakeholders for an up-to-date status on a wide range of District activities.
- For another year, the District avoided declaring a Level 2 - Drought Alert or requiring customers to face mandatory water use restrictions through the expanded use of recycled water and by supporting conservation.
- Utilized technology to improve productivity and customer service, while reducing FTE positions without any layoffs.
- Continued efforts to support the development of a sea water desalination facility in the City of Rosarito Beach, Mexico.
- Launched the Rancho Del Rey Groundwater Project to validate the ability of a local aquifer to produce drinking water. This project is an element of the District's Integrated Resources Plan.
- Continued support for integrated business systems and practices, and leveraged those systems to improve asset management, customer billing accuracy, and field services to staff.
- Awarded the construction contract for the 5.1-mile long, 36-inch Jamacha Pipeline Project. The \$16.1 million pipeline project will connect the 640-1 and 640-2 reservoirs to the County Water Authority's Flow Control Facility No. 14 and improve water reliability in San Diego's East County.
- Completed construction of the 850 and 1296 water storage reservoirs on time and on budget. This is the first Type III concrete water storage tank in San Diego County. It meets American Water Works Association and District standards, performs well during earthquakes, lasts longer and is more cost-effective than a comparable Type I steel tank. In addition, the 1296 Reservoir includes a 75 square-foot photovoltaic panel to generate electricity.



Administrative Services



Administrative Services

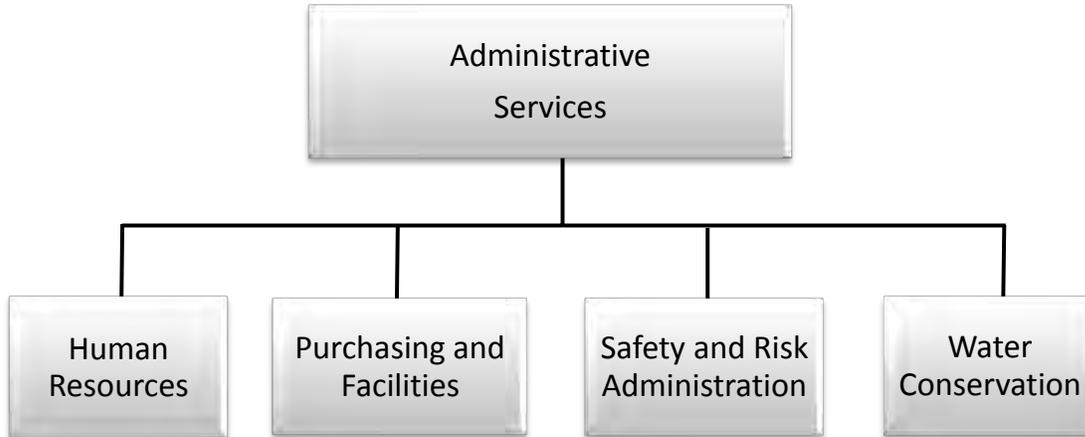
Mission Statement

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

District Position Count - 159 Administrative Services Department - 19



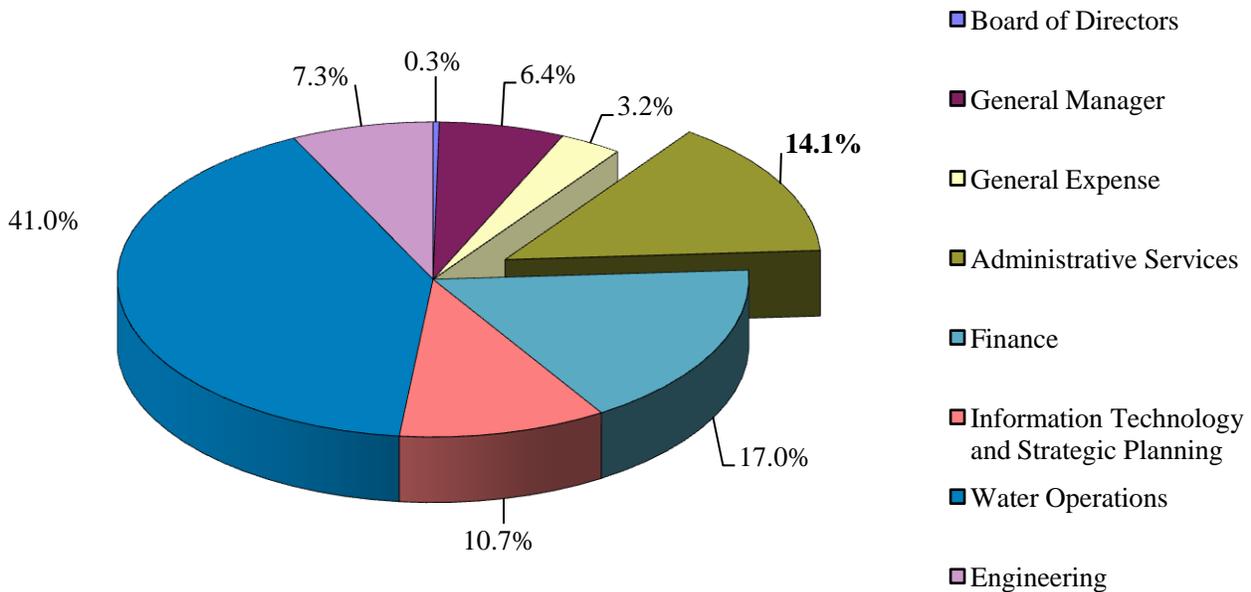
Personnel Count	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Chief, Administrative Services	1	1	1
Confidential Executive Secretary	0	1	1
Confidential Secretary	2	1	1
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	1	1
Human Resources Technician	1	1	1
Purchasing & Facilities Manager	1	1	1
Buyer I and II	2	2	0
Senior Buyer	0	0	1
Assistant Buyer	0	0	1
Lead Warehouse Worker / Facilities Worker	1	1	1
Warehouse / Delivery Worker	2	2	1
Facilities Maintenance Technician	2	2	2
Facilities Maintenance Assistant	1	1	0
Records Assistant	0	0	1
Safety & Security Administrator	1	1	1
Water Conservation Manager	1	1	1
Water Conservation Specialist	2	2	2
Total	<u>20</u>	<u>20</u>	<u>19</u>

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 2011 Total Departmental Budget - \$27.8Million
Administrative Services - \$3,935,200

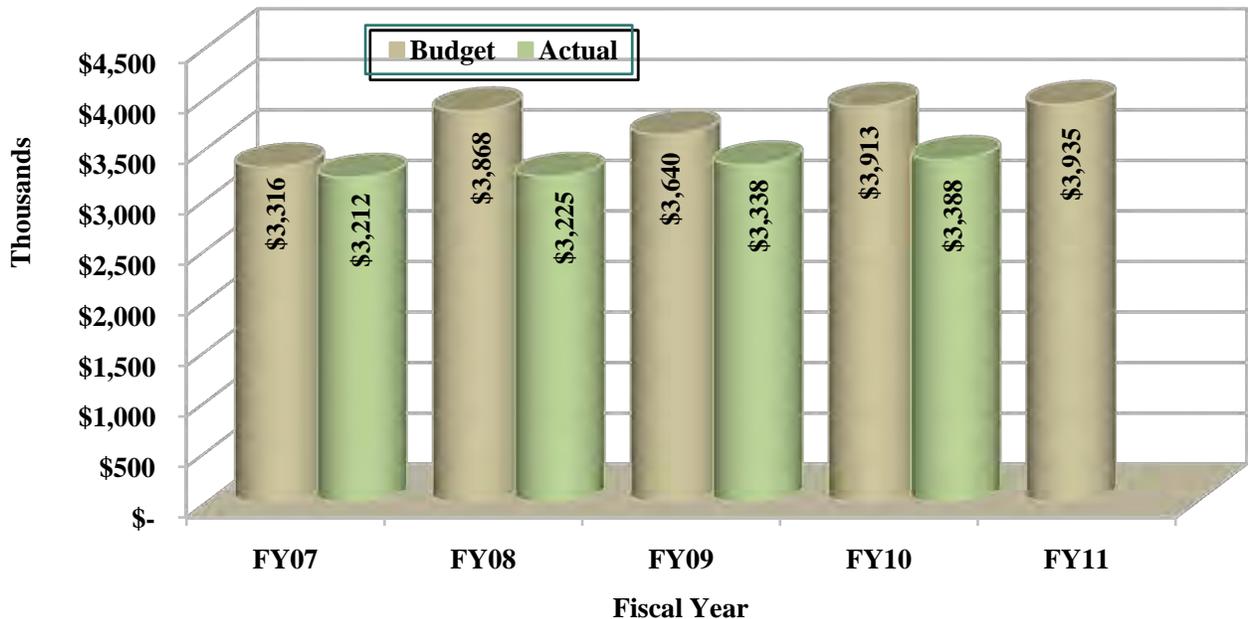


	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Administrative Chief	\$ 341,197	\$ 403,600	\$ 392,147	\$ 430,500
Human Resources	769,060	790,900	705,449	852,200
Purchasing and Facilities	1,460,747	1,601,400	1,448,780	1,458,900
Safety and Security	241,591	371,300	264,678	338,500
Water Conservation	524,940	745,300	576,895	855,100
TOTAL	\$ 3,337,536	\$ 3,912,500	\$ 3,387,950	\$ 3,935,200

Administrative Services

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 2,094,097	\$ 2,328,700	\$ 2,250,322	\$ 2,382,200
Travel and Meetings	14,047	25,700	11,179	25,200
Conservation and Outreach	248,504	346,800	235,172	472,700
General Office Expense	123,882	180,400	102,471	126,000
Equipment	84,655	100,100	79,548	76,200
Fees	7,411	8,000	7,220	8,000
Services	286,680	325,900	211,288	390,200
Training	113,058	119,800	90,744	112,500
Materials & Maintenance	349,329	459,600	383,491	326,900
Power and Utilities	15,874	17,500	16,514	15,300
Total	\$ 3,337,536	\$ 3,912,500	\$ 3,387,950	\$ 3,935,200

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

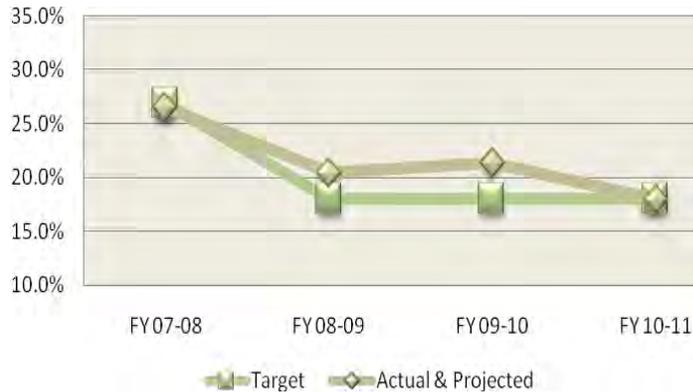
- Evaluate the Employee Recognition Program.
- Conduct Employee Survey.
- Develop and maintain a formal program to track employee required training.

Performance Measures



Training Hours per Employee

Measures the quantity of general and management formal training employees are completing.



Accomplishments Fiscal Year 2009-2010

- Conducted a review of the District's Employee Pay-for-Performance Program.
- Reviewed, revised, and conducted a District-wide Employee Satisfaction Survey.
- Successfully enhanced our employee health benefits plan by providing additional choice of health plans.
- Researched, developed, and implemented a Training and Development website to provide employees and managers easy access to information and resources.
- Coordinated and received all credit for the Special District Risk Management Authority Credit Incentive Program. The credit totaled \$51,619 each for Property and Liability and 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.

Performance Measures



Accomplishments Fiscal Year 2009-2010

- Modified the Operations building heating ventilation and air conditioning (HVAC) to provide thermostats in “private” office areas and added the system to the District’s centralized HVAC computer control system. This work completes the upgrade of HVAC systems to provide limited individual control of temperatures within closed offices while providing centralized control of the system’s general operating parameters which would result in energy savings and a reduction of system conflicts.
- Negotiated and awarded a five-year agreement for auction services for the disposal of surplus materials, supplies, and equipment. The agreement provides for the disposal of e-waste and online bidding, and includes a public utilization clause to allow other public agencies the opportunity to use the agreement.
- Worked with the Safety and Security and IT divisions to add Radio Frequency Identification gate controllers to the District’s water recycling plant to provide automatic gate operating and logging, eliminating the need to use “garage door clickers.”
- Evaluated vacant positions within Purchasing and Facilities Maintenance Divisions, resulting in the reduction of two FTE’s without a reduction in service. Changes provided for the consolidation of duties, the opportunity for movement between the Purchasing, Warehouse, and Facilities Maintenance Divisions, and the consolidation of Warehouse and Facilities Maintenance staff into one office.

Safety and Security

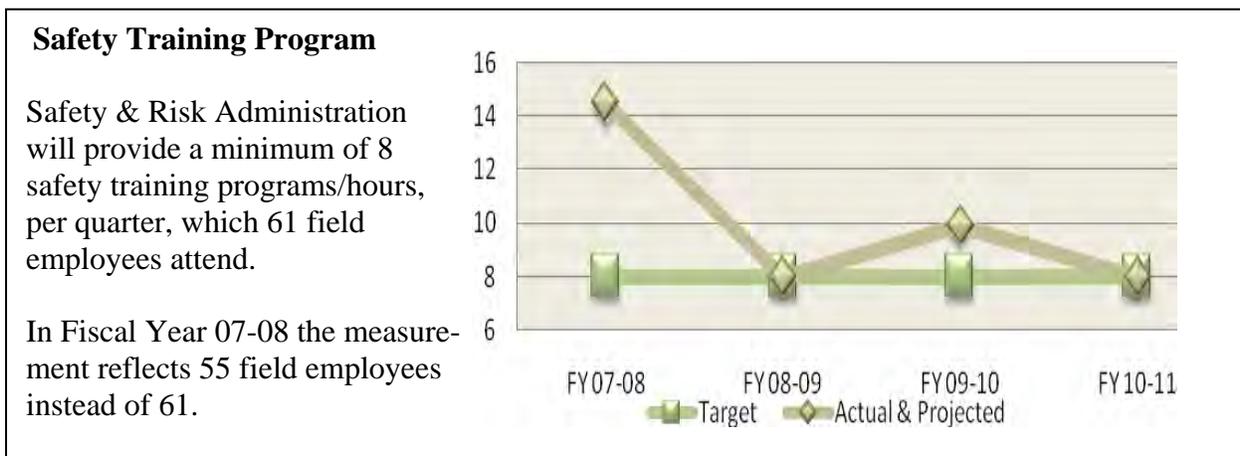
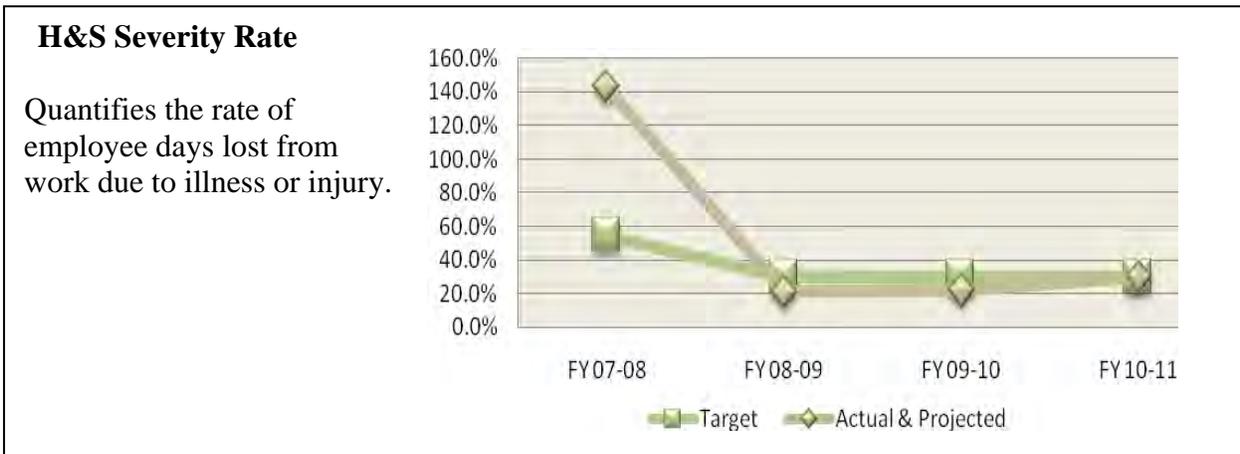
Services We Provide

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

Strategic Plan Objectives

- Review/consolidate the District's Disaster Preparedness Plan.

Performance Measures



Accomplishments Fiscal Year 2009-2010

- Worked with HR and IT to develop and capture Safety training information.
- Successfully completed the CPR/First Aid/AED classes for 66 students -- reduced cost by over \$900.
- Updated all Hazardous Materials Business Plans for submission to the county.
- Addressed safety concern and worked with the County of San Diego to re-pave Sweetwater Springs Boulevard, between Administration and Operations.
- Successfully completed the 2009 Annual Fire Inspection from San Miguel Fire District. Included annual checks on fire-fighting systems (all fire systems, fire extinguishers, and alarm system checks).

Water Conservation

Services We Provide

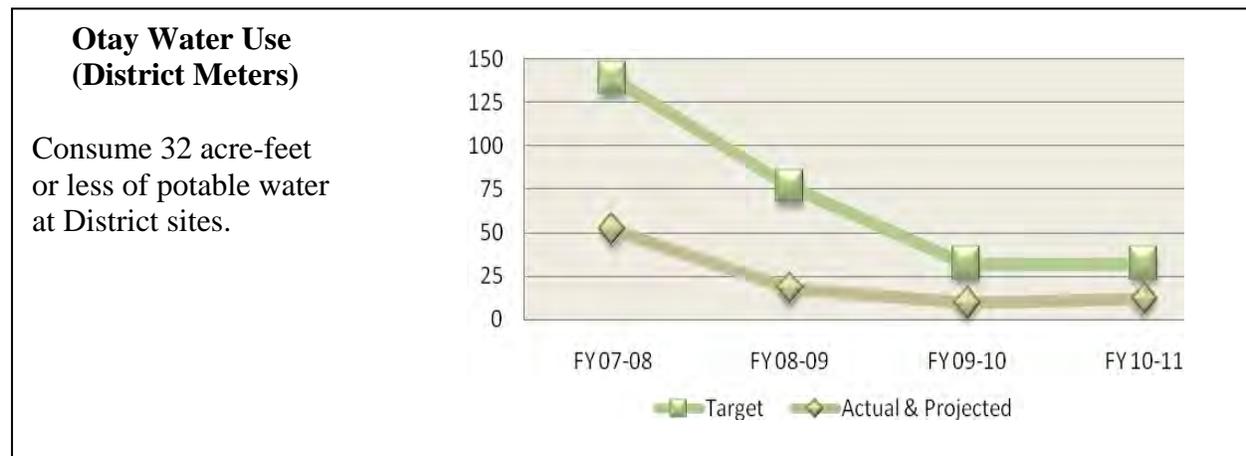
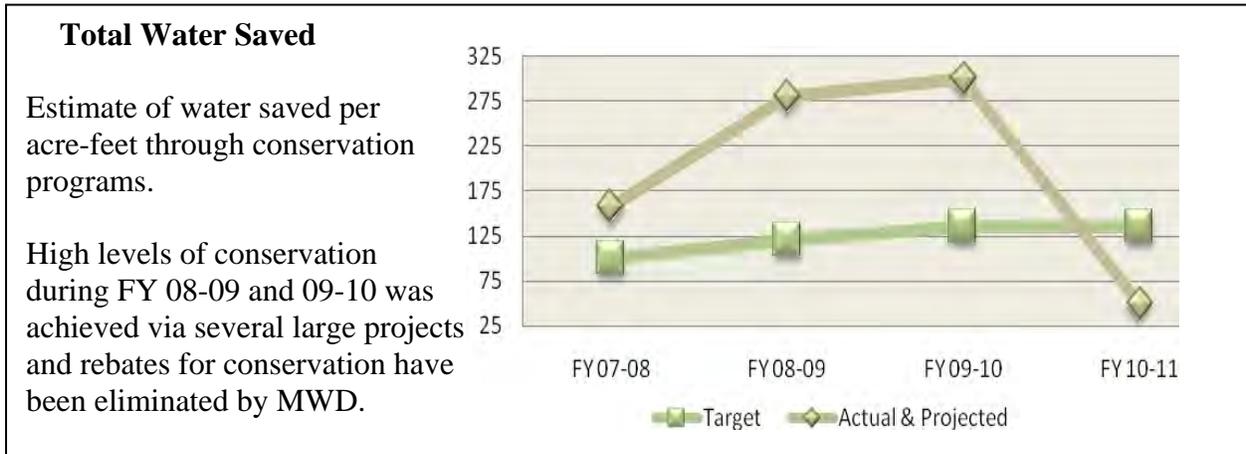
Water Conservation, under the direction of the Chief of Administrative Services, provides the following services:

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

Strategic Plan Objectives

- Promote enhancements to city, county and state water conservation requirements and implement appropriate BMPs.

Performance Measures

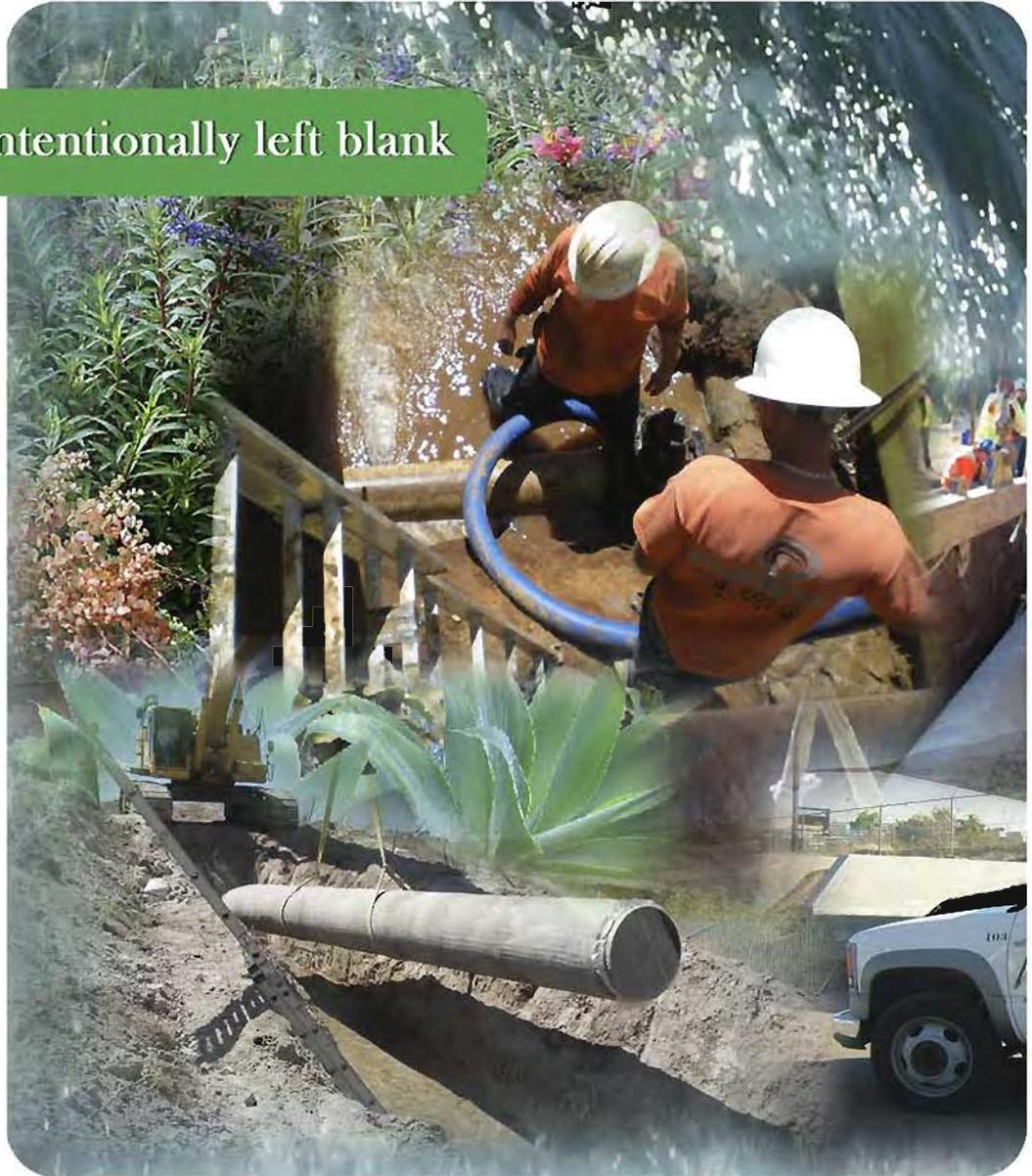


Accomplishments Fiscal Year 2009-2010

- Increased the District’s annual active water conservation savings figure another 299.5 acre-feet to 1983.5 acre-feet (1,684 + 299.5) of water saved this fiscal year, primarily due to the implantation of water savings recommendations at the County of San Diego’s Bailey Correctional Facility suggested by a District-funded water use survey, but also due to the activities outlined below.
- Funded the replacement of 94,000 acre-feet of turfgrass with water-wise plants in landscapes both in front of single-family homes and in common areas maintained by homeowners’ associations.

- Conducted 118 residential water use surveys, targeted all the District's top single-family customers and one large landscape audit for the Fuller Ford/Honda/Kia auto complex.
- Funded rebates for 1,406 rotating sprinkler nozzles, 378 high-efficiency clothes washers, 153 high-efficiency toilets, 96 zero water consumption urinals and 14 residential smart controllers. In addition, staff distributed 133 showerhead therm kits, provided funding toward one process improvement involving Fuller Ford's car wash, as well as one irrigation efficiency upgrade at Mt. Miguel Covenant Village.

This page intentionally left blank





Finance



Finance

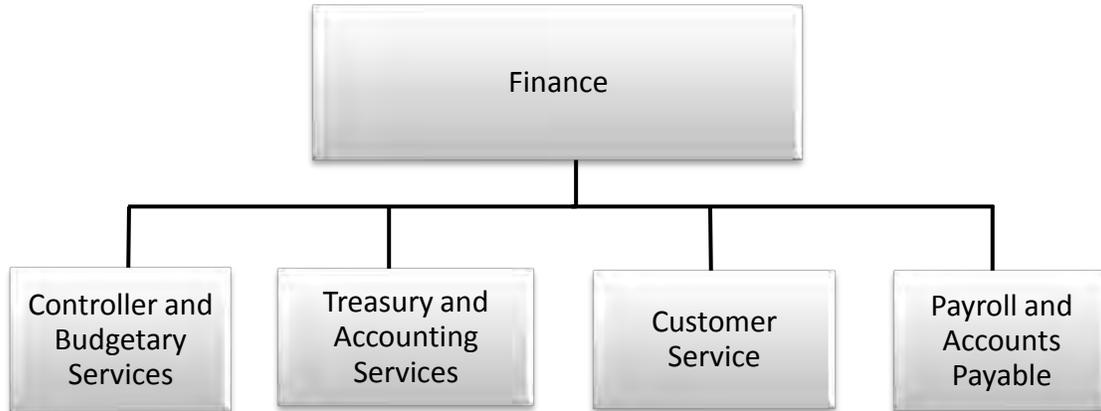
Mission Statement

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



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

District Position Count - 159 Finance Department - 35



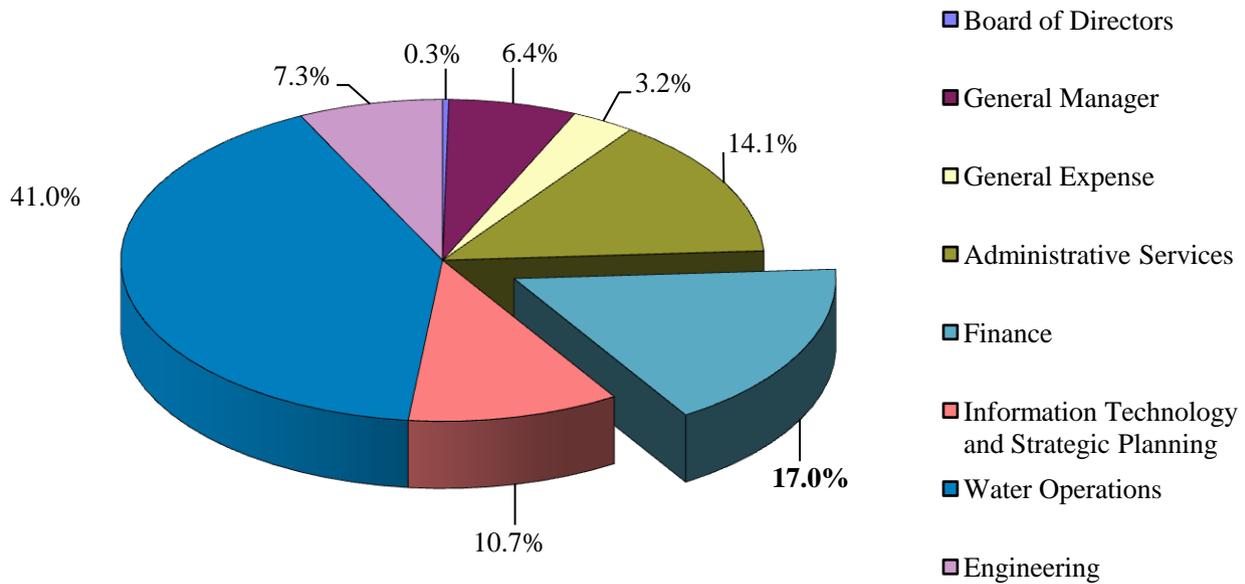
Personnel Count	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Finance Manager, Treasury and Accounting	1	1	1
Finance Manager, Controller and Budget	1	1	1
Finance Supervisor, Payroll and A/P	1	1	1
Customer Service Manager	1	1	1
Customer Service Supervisor	2	2	2
Senior Accountant	4	4	4
Accountant	4	4	4
Payroll Technician	1	1	0
Accounting Assistant	2	1	0
Accounting Assistant/Payroll Technician	0	0	2
Senior Customer Service Representative	2	2	2
Customer Service Representative I, II and III	8	9	8
Lead Customer Service Field Representative	1	1	1
Customer Service Field Representative I and II	6	7	5
Total	<u>37</u>	<u>38</u>	<u>35</u>

Finance

Department Responsibilities

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

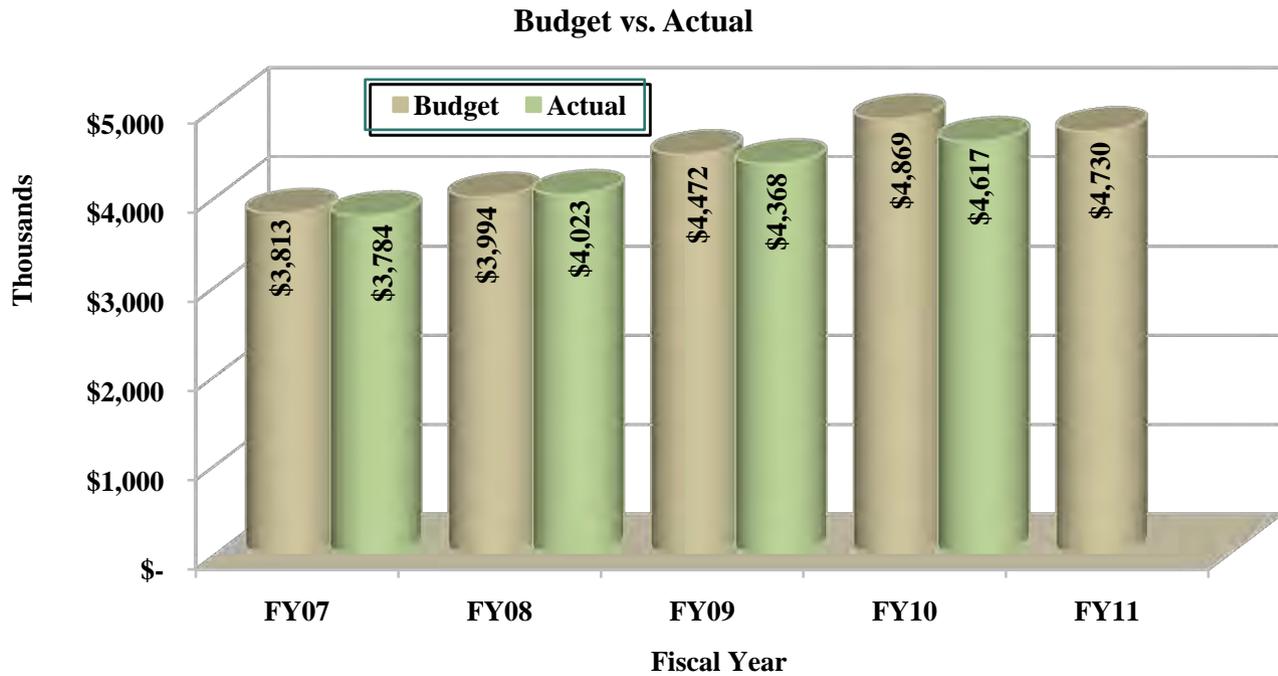
FY 2011 Total Departmental Budget - \$27.8 Million
Finance - \$4,730,300



	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Finance Chief	\$ 392,267	\$ 432,100	\$ 416,044	\$ 448,300
Controller and Budgetary Services	571,191	572,900	607,303	619,500
Treasury and Accounting Services	979,607	1,104,100	1,094,767	1,148,000
Customer Service	2,058,263	2,410,700	2,160,885	2,142,200
Payroll and Accounts Payable	366,736	349,300	338,243	372,300
TOTAL	\$ 4,368,063	\$ 4,869,100	\$ 4,617,243	\$ 4,730,300

Finance

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 3,636,729	\$ 4,089,700	\$ 3,858,267	\$ 4,027,500
Travel and Meetings	19,198	20,100	17,998	19,100
General Office Expense	239,183	217,500	213,045	197,400
Equipment	4,731	200	143	3,200
Fees	294,019	308,000	316,324	308,000
Services	173,926	233,000	211,167	174,500
Training	278	600	300	600
Total	\$ 4,368,063	\$ 4,869,100	\$ 4,617,243	\$ 4,730,300



Finance

Controller and Budgetary Services

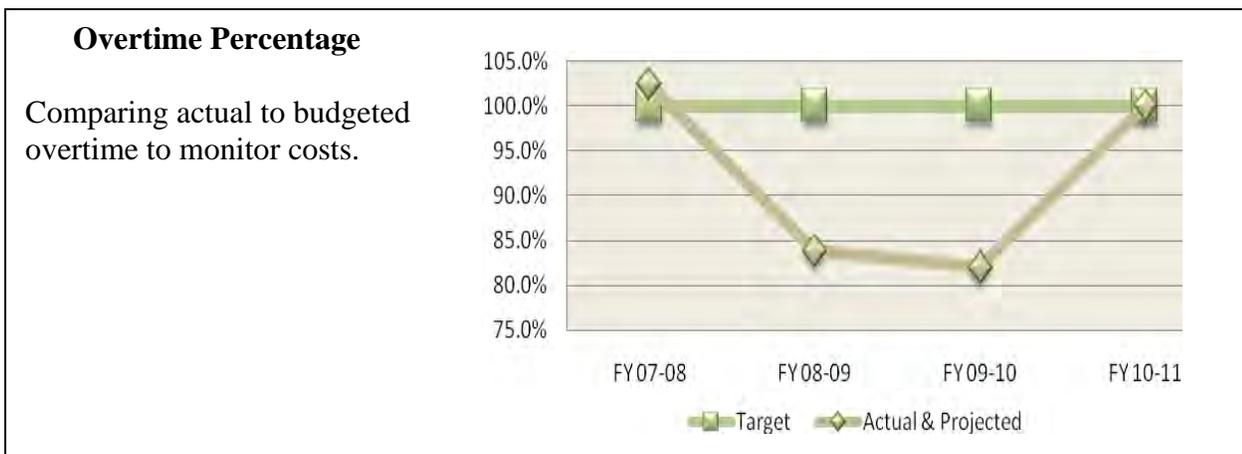
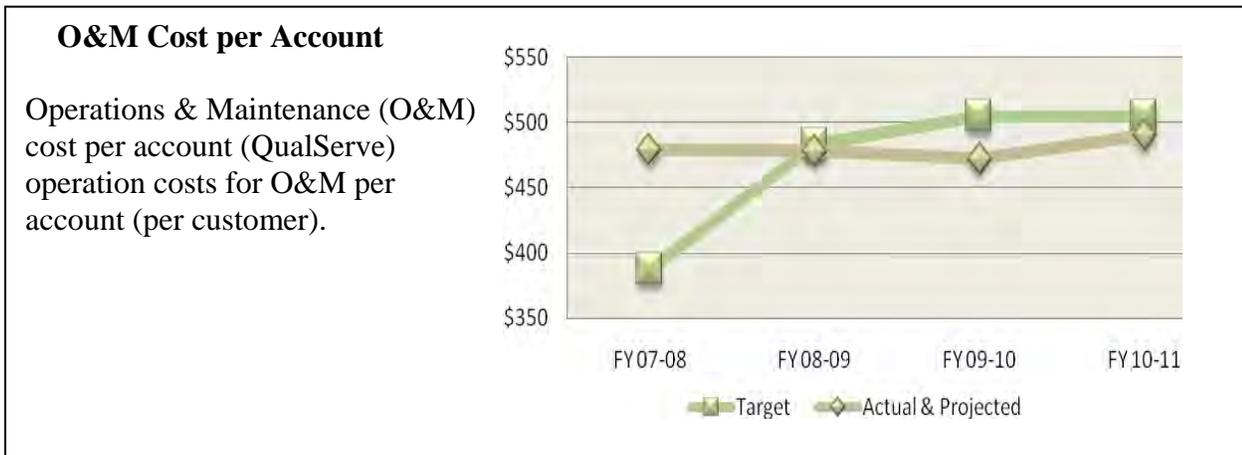
Services We Provide

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, and preparation of the District's overhead and benefits rates and calculations.

Strategic Plan Objectives

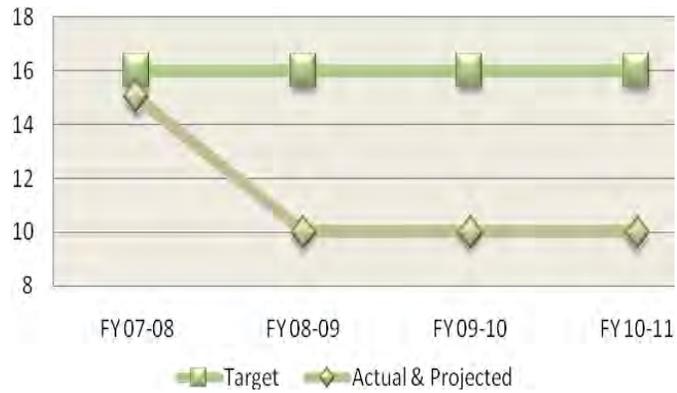
- Develop and measure cost per unit expenditures and forecasts.

Performance Measures



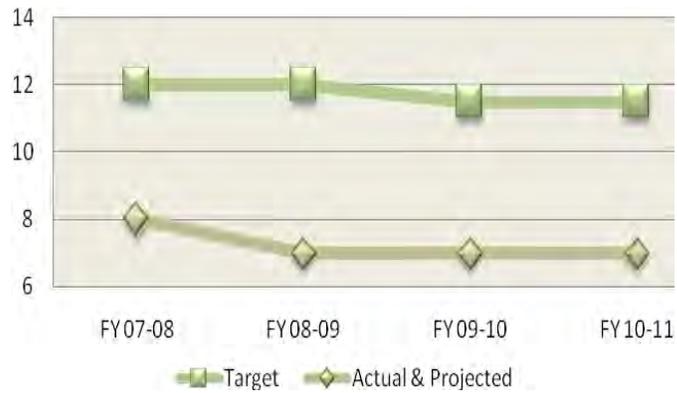
Sewer Rate Ranking

District's average customer bill as compared to other agencies in San Diego County. Otay is ranked 10th of 32 agencies.



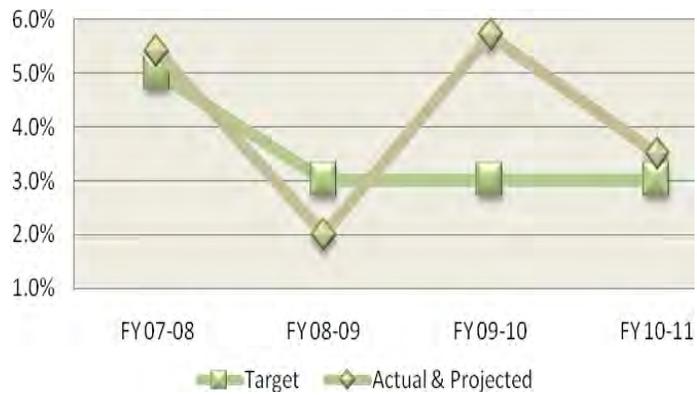
Water Rate Ranking

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



Distribution System Loss

Percentage for unaccounted water (QualServe).



Accomplishments Fiscal Year 2009-2010

- 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 sixth consecutive year. In addition, the budget received the “Excellence in Operating Budgeting” award from the California Society of Municipal Finance Officers (CSMFO).
- The Capital Improvement Program (CIP) Budget received the “Excellence in Capital Budgeting Award” from the CSMFO for the fifth year in a row.
- Prepared the Budget-at-a-Glance document to be used by board members and management staff at public outreach events.
- Completed a Capacity and Annexation Fee Study that resulted in a change in methodology of the calculation of these fees and an update of facilities cost. In addition, a New Water Supply Fee was developed to offset the cost of obtaining new water supplies.
- Prepared the debt coverage ratio calculations for the 2010 debt issuance of \$50.2 million.

Treasury and Accounting Services

Services We Provide

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

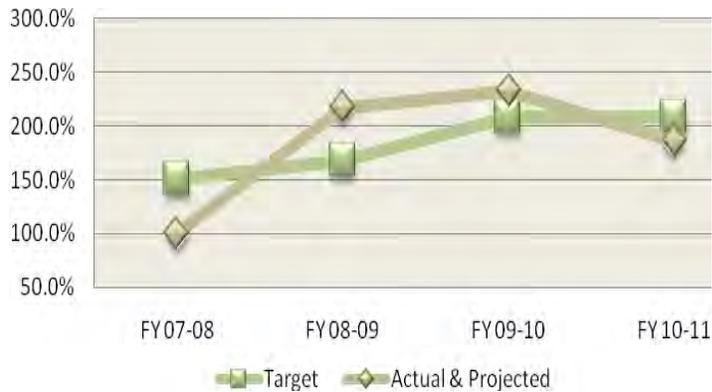
Strategic Plan Objective

- Develop the long-term financial plan.

Performance Measures

Debt Coverage Ratio

Measures level of debt coverage ratio (ability to pay debt). (QualServe) The minimum legal level is 125%.



Reserve Level

Measures all of the District's reserves against the Board adopted Reserve Policy levels.



Accomplishments Fiscal Year 2009-2010

- Fitch Ratings upgraded the District's credit rating to AA from AA-. This is an acknowledgment of the District's excellent planning, management, and financial strength.
- Completed the District's FY 2009 audit and CAFR, and received the GFOA award for Excellence in Financial Reporting for the sixth consecutive year.
- Achieved an overall rate of return on the District's portfolio in excess of the LAIF rate of return for the third consecutive year, despite the economic downturn and available investment rates.
- Issued \$50.2 million in new debt via Series A Bonds (tax-exempt) and Series B Bonds (taxable Build America Bonds) in March 2010.
- Refinanced \$7.78 million in General Obligation (GO) bonds in November 2009 to fully refund the outstanding 1998 GO Bonds, saving the District's customers over \$65,000 per year.

- Completed the District’s successful participation in the Proposition 1A Securitization Program, to receive the District’s share of property tax revenues withheld pursuant to the 2009-2010 California State Budget. Total funds received: \$267,197.
- Completed the refunding of California State Warrants, issued to the District for payment of state obligations between 7/1/09 – 9/3/09. Total funds received: \$163,194.
- Conducted internal audits of the following: computers, vehicles, and disposal of District property. By performing the work in-house, it is estimated the District saved \$21,000 - \$30,000.

Customer Service

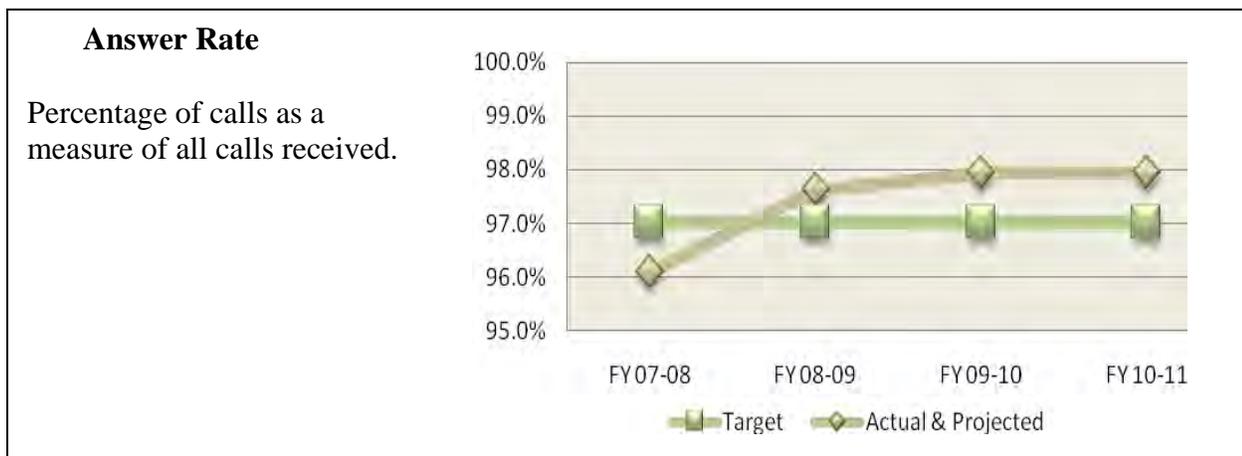
Services We Provide

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

Strategic Plan Objectives

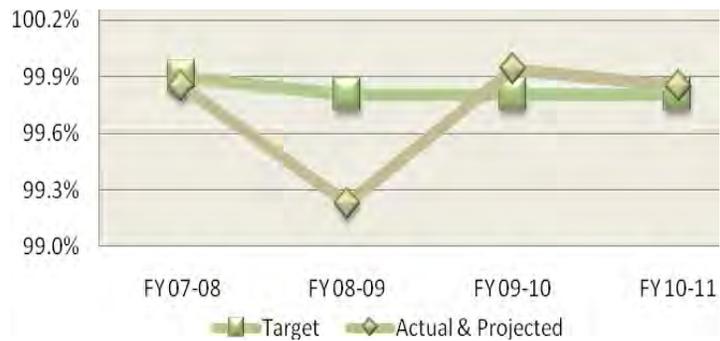
- Enhance communication with our customers by evaluating and upgrading all aspects of the District’s phone system.
- Evaluate and improve effectiveness of the bill format (including fees for Chula Vista sewer billing).

Performance Measures



Billing Accuracy

Percentage of correct bills issued. (QualServe)



Accomplishments Fiscal Year 2009-2010

- Successfully implemented credits to customer accounts due to a rate implementation change.
- The ongoing AMR meter change out program, which included 4,481 meters this year, reduced manual metering reading by 32 hours or one day per month, which in turn reduced staff by three positions (14%) and made improvements to the collection and locking processes.
- Implemented Check-Free Pay which added significant convenience for customers and reduced staff's manual entry and processing time by 30 hours per month.
- Implemented Electronic Bill Pay and Presentation (EBPP) payment options for enhanced web payment services with an expected savings of more than \$120,000 annually.
- Analyzed and implemented changes to the collections process that resulted in a 20% reduction of write-offs.
- Continued the simplification of the billing rate structure by eliminating 47 fees.
- Instituted an additional level of contact to customers by mailing postcards to delinquent accounts subject to being locked.

Payroll and Accounts Payable

Services We Provide

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

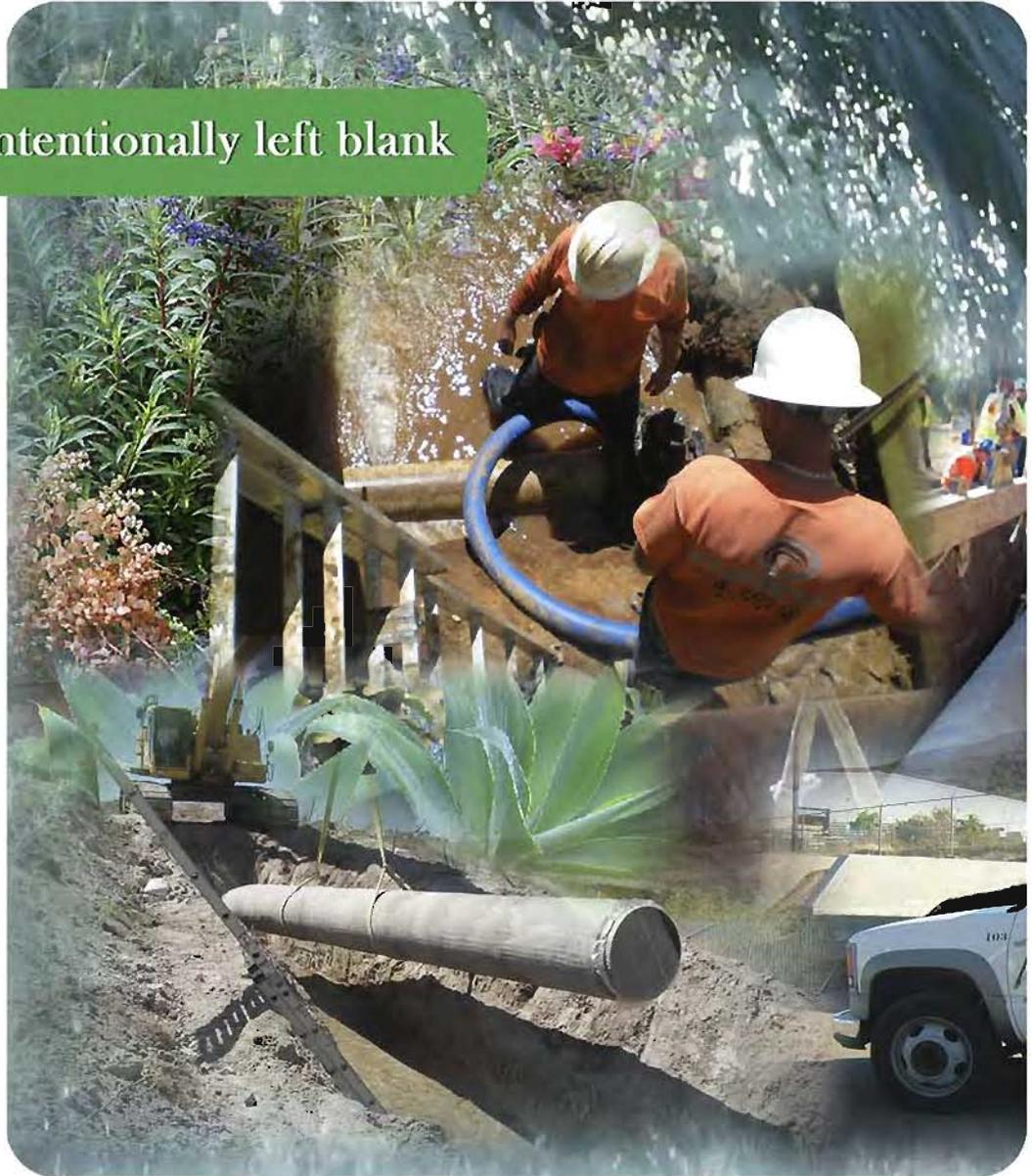
Strategic Plan Objective

- Enhance Accounts Payable to electronically pay invoices for frequent vendors and routine bills and maximize the use of e-bills.

Accomplishments Fiscal Year 2009-2010

- 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.
- W-9 forms are now scanned and attached to vendors electronically therefore eliminating the paper file and making it a more efficient process.
- Completed quarterly tax returns that culminated with the processing, printing, and distributing of W2s and 1099s for 2009.

This page intentionally left blank





Information Technology and Strategic Planning



Information Technology and Strategic Planning

Mission Statement

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



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

District Position Count - 159
Information Technology & Strategic Planning Department - 12



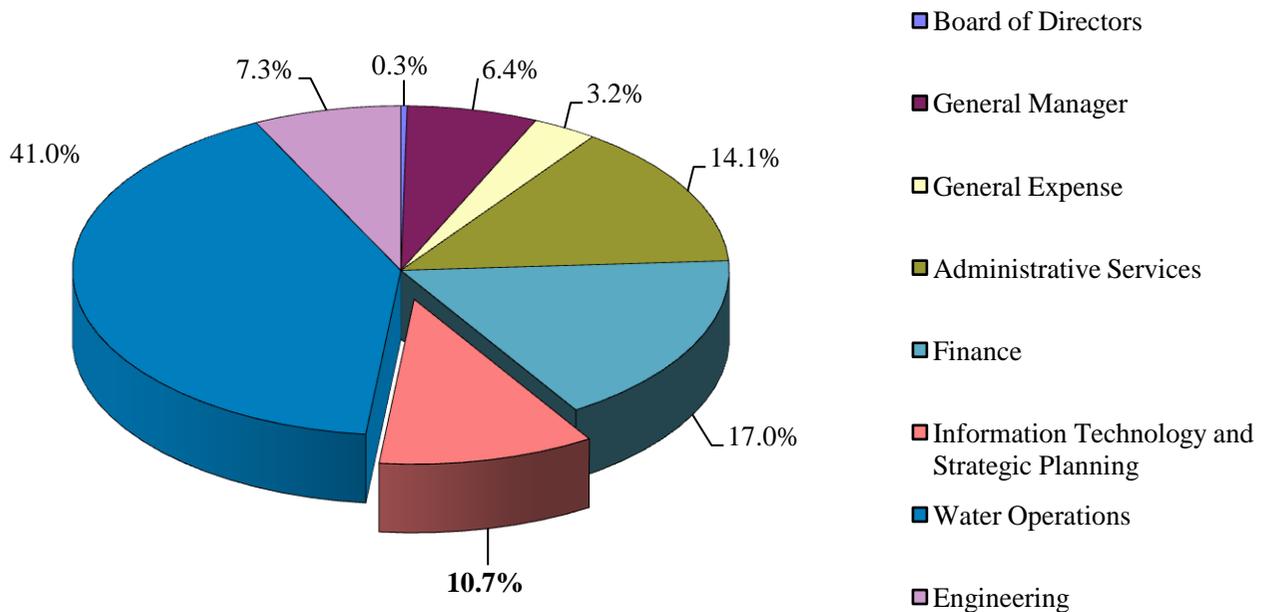
Personnel Count	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Chief Information Officer	1	1	1
GIS Manager	1	1	1
IT Operations Manager	1	1	1
GIS Programmer/Analyst	1	1	1
GIS Technician	2	2	2
Network Engineer	1	1	1
Database Administrator	1	1	1
Business System Analyst I and II	3	3	3
Network Analyst	1	1	1
Records Assistant	1	1	0
Total	13	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 2011 Total Departmental Budget - \$27.8 Million Information Technology and Strategic Planning - \$2,964,100

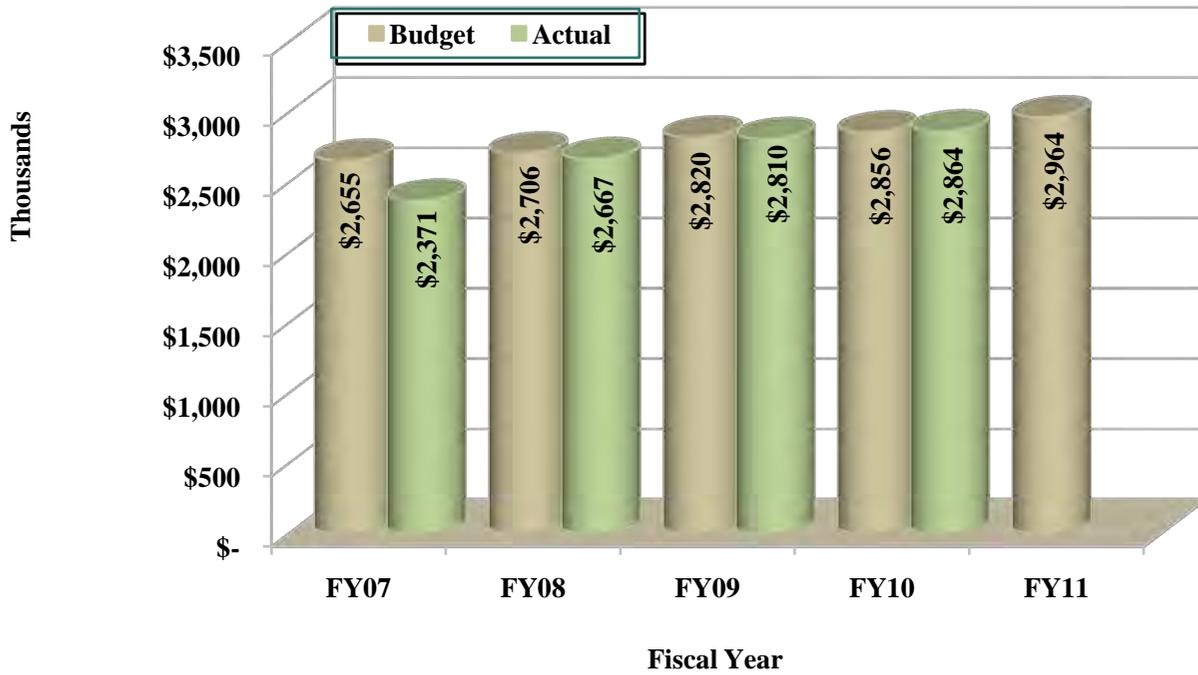


	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
IT Chief/Applications	\$ 843,069	\$ 919,100	\$ 899,603	\$ 965,600
IT Operations	1,403,973	1,344,400	1,361,574	1,349,400
Geographic Information System	562,625	592,900	603,023	649,100
TOTAL	\$ 2,809,666	\$ 2,856,400	\$ 2,864,200	\$ 2,964,100

Information Technology and Strategic Planning

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,666,372	\$ 1,757,600	\$ 1,769,028	\$ 1,863,800
Travel and Meetings	11,083	13,900	11,669	13,000
General Office Expense	3,975	5,200	3,358	6,200
Equipment	947,674	858,000	880,561	870,800
Services	154,862	204,800	185,937	192,300
Training	25,700	16,900	13,647	18,000
Total	\$ 2,809,666	\$ 2,856,400	\$ 2,864,200	\$ 2,964,100

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

- Evaluate and implement American Water Works Association Peer Review for District.
- Evaluate the long-term viability of Eden financials and billing system.
- Enhance existing Capital Project Tracking System.
- Evaluate implementing a fixed network Automated Meter Reading (completed 2010).
- Update District-wide Records Management Program.

Accomplishments – Fiscal Year 2009-2010

- Developed three-year asset management plan and completed first year objectives including classification scheme and business process redesign of high cost processes.
- Successfully implemented new control and lab reporting system for the District's treatment plan (Hach WIMS OPS32).
- Implemented new work order processes for engineering staff. This saves the inspection team a total of 12 hours a month.
- Staff successfully met annual targets for objectives and performance measures in the Strategic Plan.
- Developed District's SharePoint website and added new applications for employee information.

IT Operations

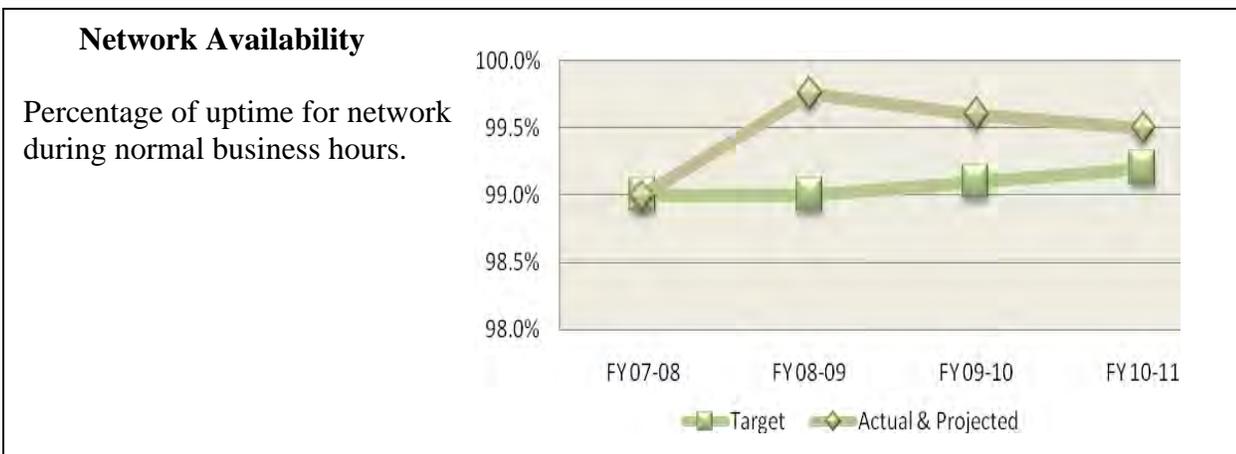
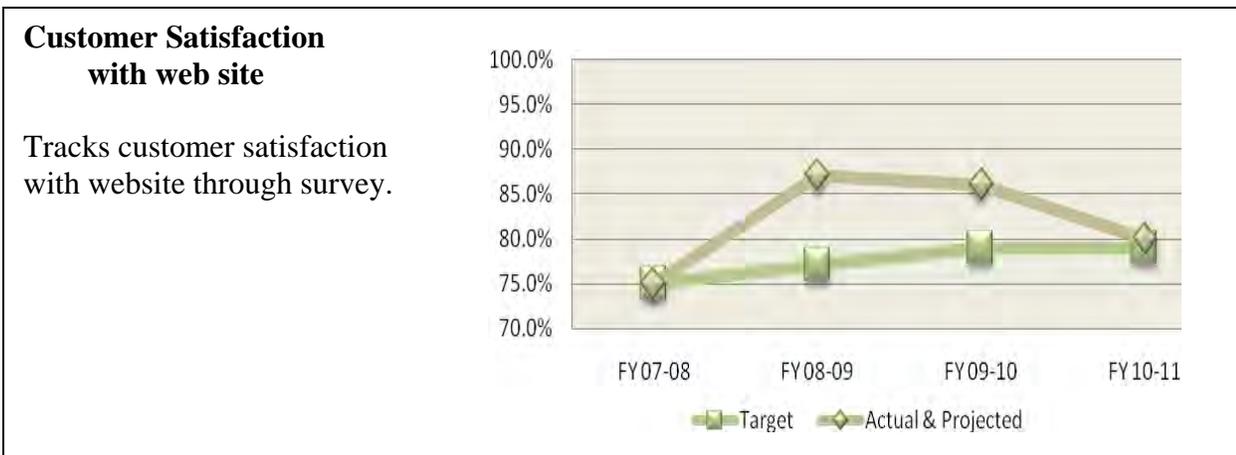
Services We Provide

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.

Strategic Plan Objectives

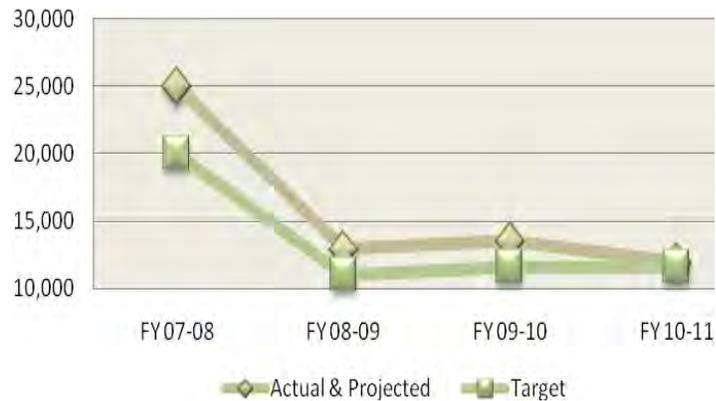
- Web Page - Evaluate and enhance the District's website design to allow easier use and navigation.
- Develop and deploy the field wireless network for key facilities.
- Optimize use of Voice Over Internet Protocol and unified messaging.

Performance Measures



Website Hits

Fiscal Year 07-08 tracked the number of website hits per month. Fiscal Year 08-09 and projected Fiscal Years 09-10 and 10-11 track the number of visitors to our website per month.



Accomplishments – Fiscal Year 2009-2010

- Developed a test implementation for high speed wireless network and will expand this equipment throughout major District facilities over the next two years.
- Issued an RFP to replace the District’s telephone system.
- Upgraded the financial system to the latest release and improved overall network performance.
- Revised and streamlined process for installing new computers and ensuring accurate procedures to surplus used equipment.
- Consolidated door/gate access control and video surveillance to a single platform (Lenel).
- Developed new Otay website and committee approved the final design and requirements.
- Deployed 40 desktop workstations with Windows 7.
- Installed software (TriActive) to assist in IT Asset Management.

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.

Strategic Plan Objectives

- Enhance the District's data management, data update process, and data architecture including enterprise standard data. Update process for ensuring GIS data is accurate.
- Develop optimized field work processing using integrated technology.
- Develop and implement an Asset Management Program Plan to extend useful life of capital assets.
- Develop information systems support for the Asset Management Program.

Accomplishments – Fiscal Year 2009-2010

- Deployed 50 Field Mobile units (laptops) with the Field Mapplet 2.0 application and hosted over 20 sessions of training. The Field Mobile deployment was a great success.
- Completed the potable water Unified Modeling Language (UML) design which accommodates both vertical and horizontal assets in the District. This design is the foundation for future data collection, decision making and improving business processes.
- Completed the programming for Asset Management data entry data interfaces for the pilot area. This in-house development saved the District money by utilizing staff's technical skills.
- Completed the data update based on the InfoWater modeling. This will further improve the accuracy of the GIS data and the Water Resources Master Plan (WRMP) data model.
- Worked with the engineering staff and implemented the new Water Agency CAD standards. This implementation will improve efficiency for both GIS and engineering staff for data collection and updates.
- Staff received free aerial imaging to update the maps which saved the District approximately \$30,000.



Water Operations



Water Operations

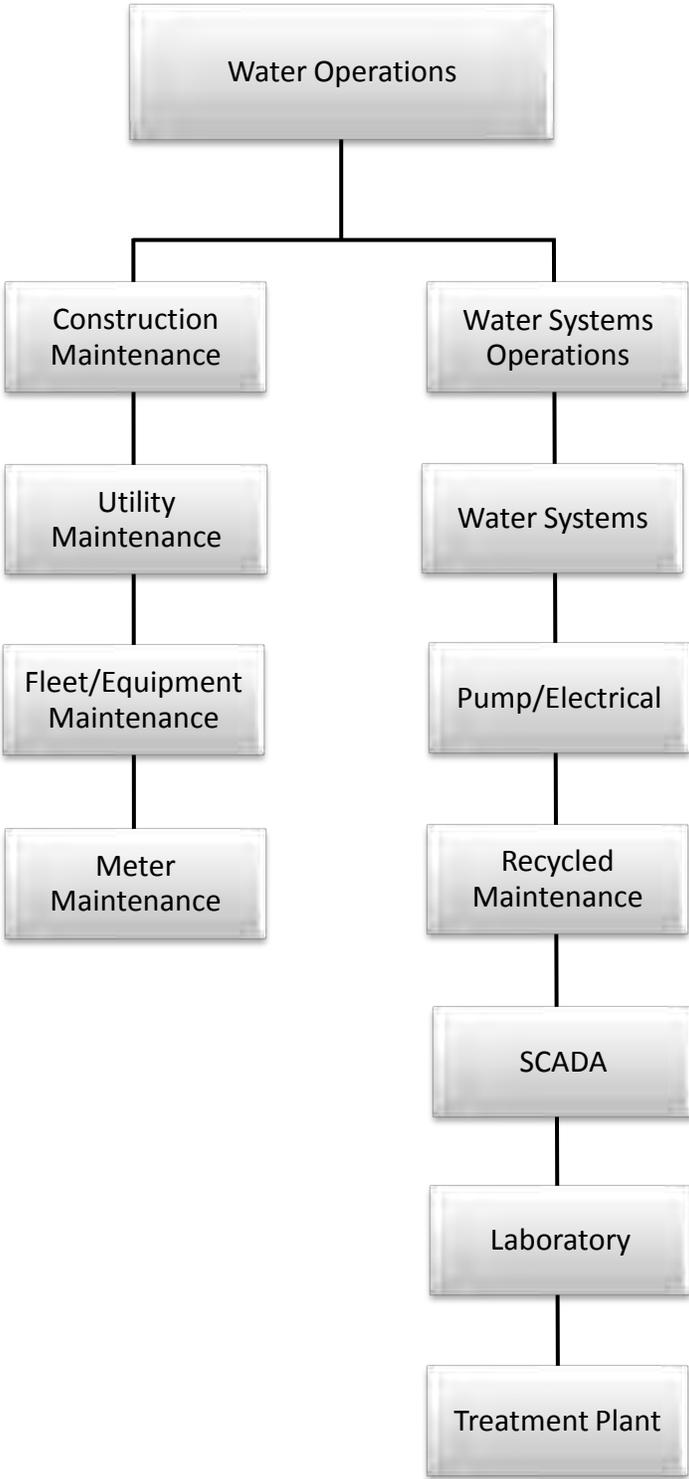
Mission Statement

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

District Position Count - 159
Operations Department - 66



District Position Count - 159 Operations Department - 66

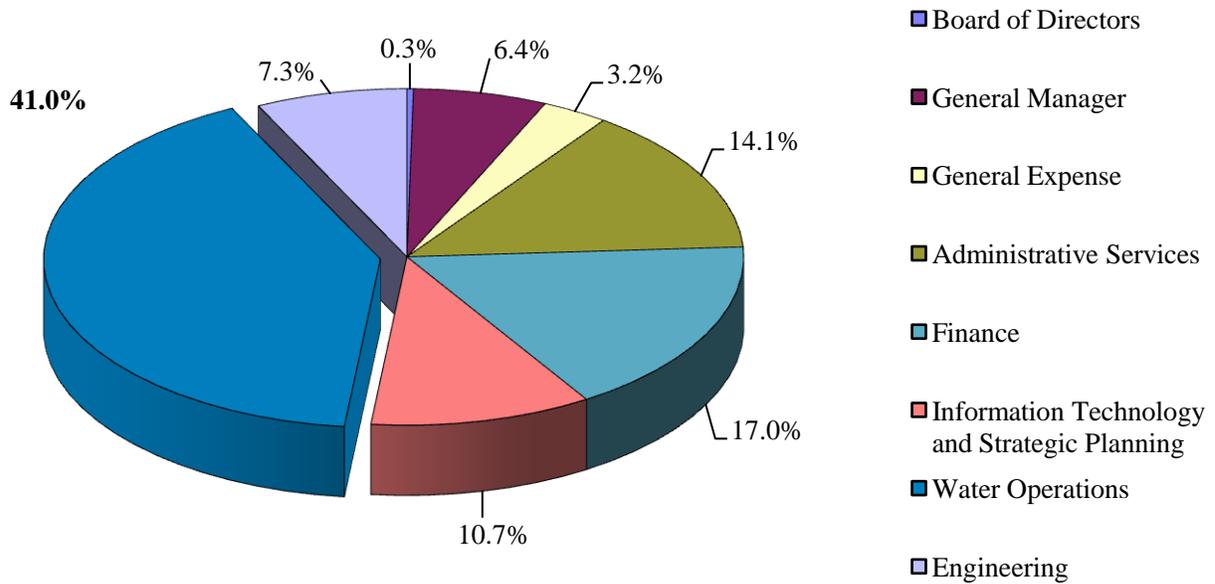
Personnel Count	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Chief, Water Operations	1	1	1
Executive Secretary	1	1	1
Systems Operations Manager	1	1	1
Water Systems Supervisor	1	1	1
Pump Electrical Supervisor	1	1	1
Recycled Water Systems Supervisor	1	1	1
Meter Maintenance/Cross Connect Supervisor	1	1	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
Senior SCADA Instrumentation Technician	1	1	1
SCADA Instrumentation Technician	1	1	1
Electrician I and II	2	2	2
Pump Mechanic I and II	2	2	2
Lead Cross Connection/ Meter Maintenance Worker	1	1	1
Meter Maintenance/Cross Connect Worker I and II	5	5	5
Construction Maintenance Manager	1	1	1
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	5	5	4
Utility Workers I and II	10	8	8
Senior Utility/Equipment. Operator	3	3	3
Fleet Maintenance Supervisor	1	1	1
Equipment Shop Mechanic I and II	3	3	3
Welder II	1	1	1
Reclamation Plant Supervisor	1	1	1
Lead Reclamation Plant Operator	1	1	1
Reclamation Plant Operator	3	3	3
Lead Recycled Water Distribution Operator	1	1	1
Recycled Water Distribution Operator	3	3	3
Laboratory Analysts I and II	2	2	1
Total	70	68	66

Water Operations

Department Responsibilities

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

FY 2011 Total Departmental Budget - \$27.8 Million
Water Operations - \$11,420,500

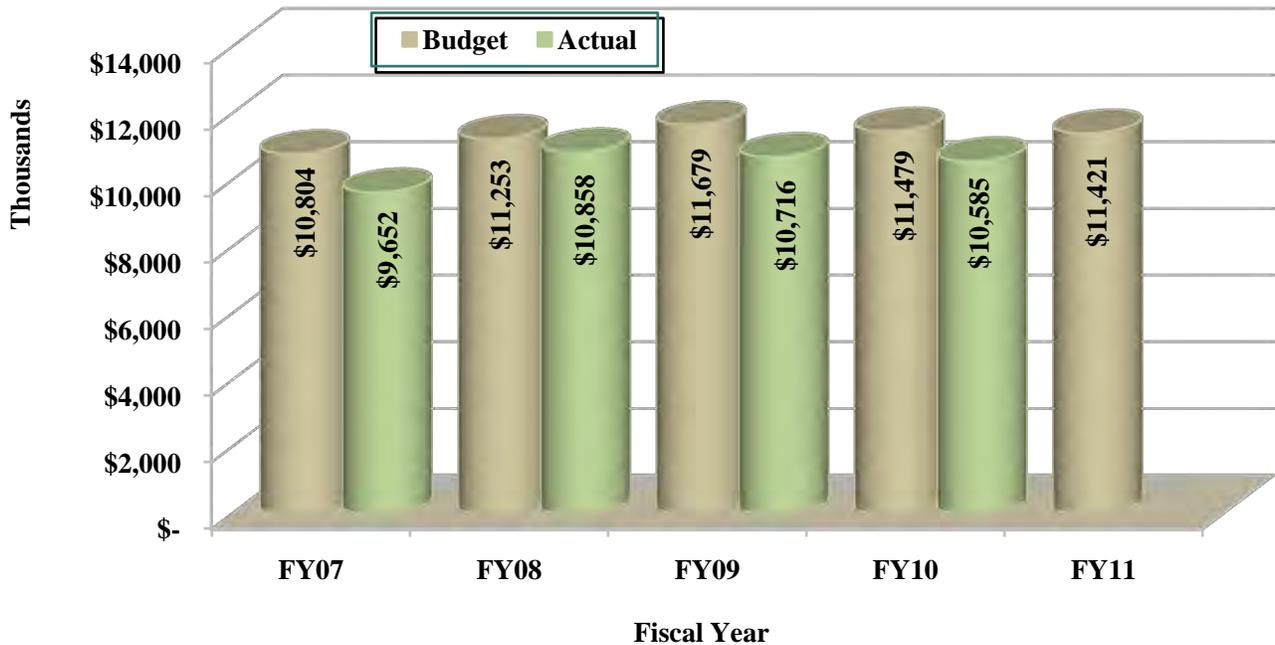


	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Water Operations Chief	\$ 391,986	\$ 398,300	\$ 435,031	\$ 447,300
Water Systems	6,410,453	6,884,000	6,502,135	6,900,200
Construction Maintenance	3,914,046	4,196,500	3,648,150	4,073,000
TOTAL	\$ 10,716,485	\$ 11,478,800	\$ 10,585,316	\$ 11,420,500

Water Operations

	FY 2009	FY 2010		FY 2011
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 6,717,225	\$ 7,403,600	\$ 6,776,267	\$ 7,144,300
Travel and Meetings	46,628	46,200	52,591	51,000
General Office Expense	4,931	6,600	4,389	6,000
Equipment	58,810	66,900	50,197	68,900
Fees	53,394	88,000	78,913	74,500
Services	431,260	291,300	349,348	441,900
Training	5,424	14,200	17,237	14,000
Materials & Maintenance	1,973,644	2,130,900	1,875,786	2,140,000
Sewer Charges	1,159,680	1,211,100	1,232,217	1,302,600
Miscellaneous	265,490	220,000	148,371	177,300
Total	\$ 10,716,485	\$ 11,478,800	\$ 10,585,316	\$ 11,420,500

Budget vs. Actual



Water Operations

Water Systems Operations

Services We Provide

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

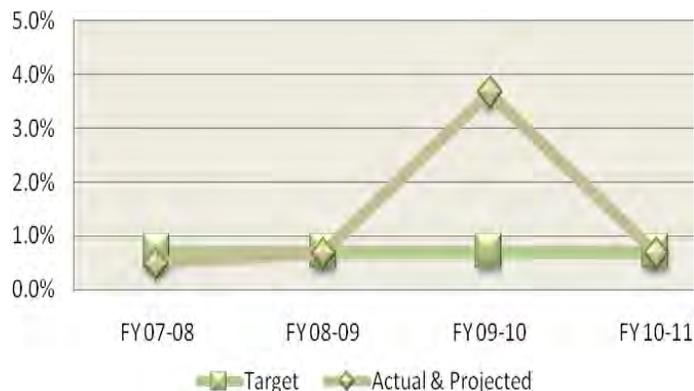
Strategic Plan Objectives

- Develop and implement a proactive leak detection program to reduce distribution system water loss.
- Develop and implement Treatment Plant Enhancements including automation for remote operation and shutdown, technology improvements, and upgrade of facilities.
- Optimize functionality, business continuity, bandwidth, and use of SCADA.

Performance Measures

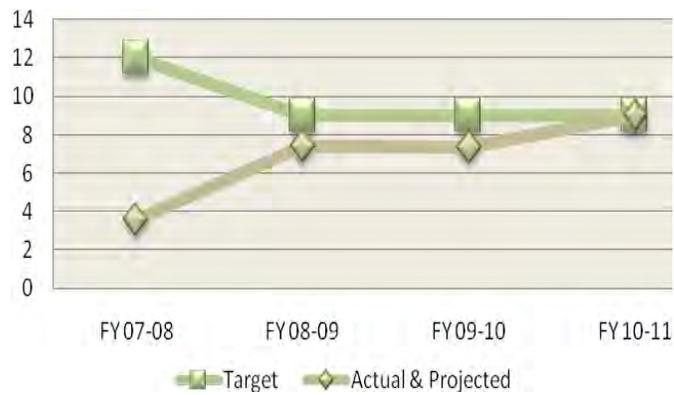
Unplanned Disruptions

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

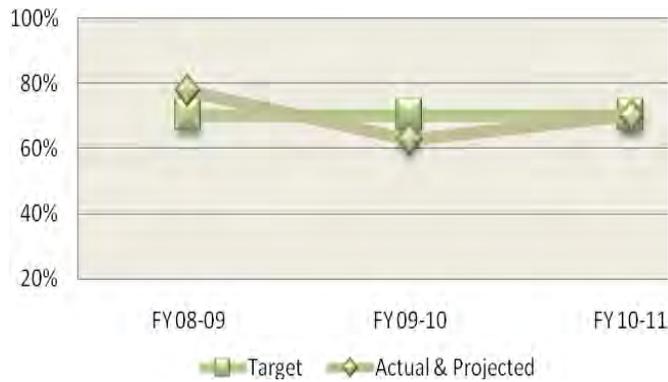
The number of complaints is a good measure of customer service. Technical quality complaints allow us to measure the complaint rates we are experiencing with individual quantification of those related to core utility services. It is expressed as complaints per 1,000 customer accounts.



Planned Recycled Water Maintenance Ratio in Dollars

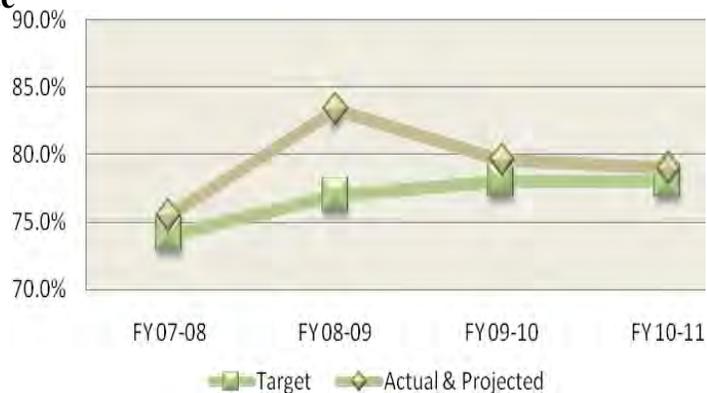
Compares how effectively the District is investing in planned maintenance.

This measure was not tracked until FY 2008-2009.



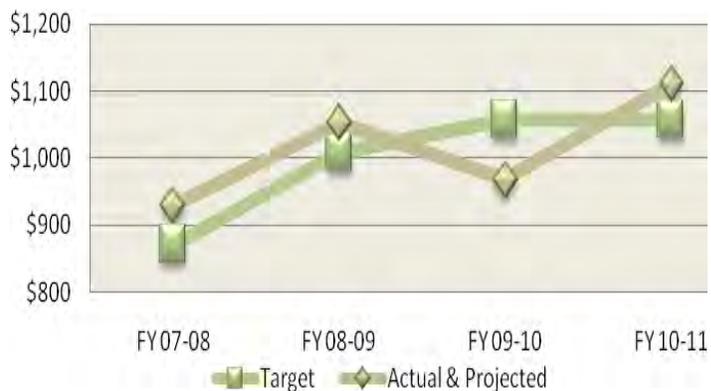
Planned Wastewater Maintenance Ratio in Dollars

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



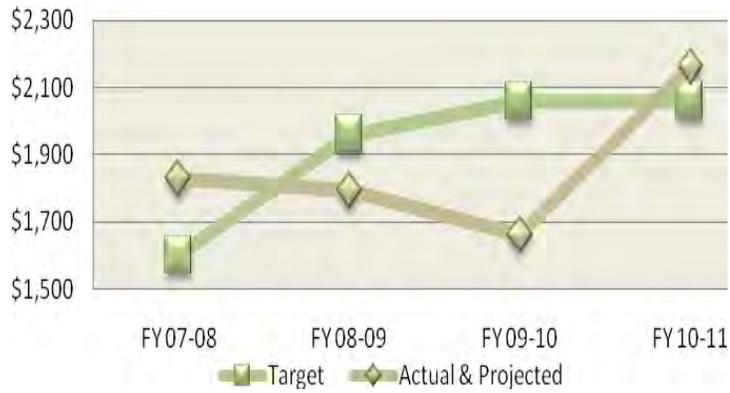
Direct Cost of Treatment per MG

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

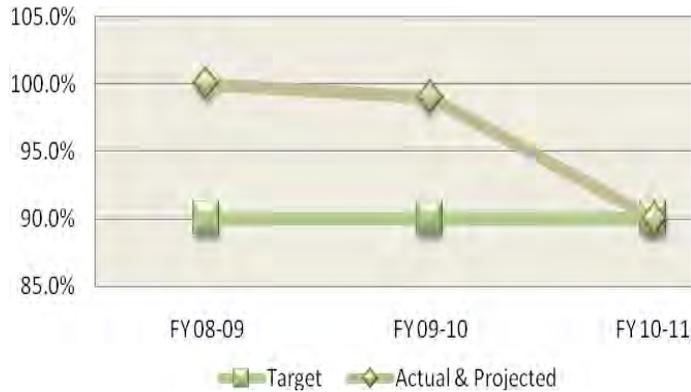
Measure for the full operation and maintenance cost to treat one million gallons of wastewater (QualServe).



Percentage of Preventative Maintenance Completed in the Reclamation Plant

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

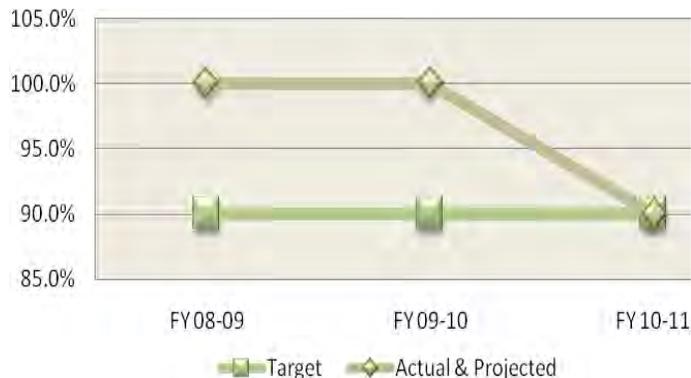
This measure was not tracked until FY 2008-2009.



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.

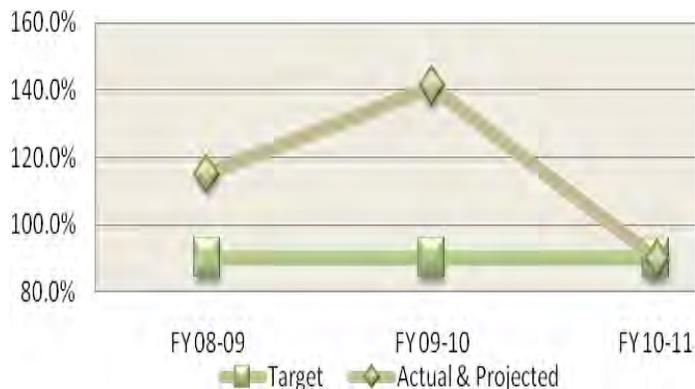
This measure was not tracked until FY 2008-2009.



Percentage of Preventative Maintenance Completed in the Valve Maintenance Program

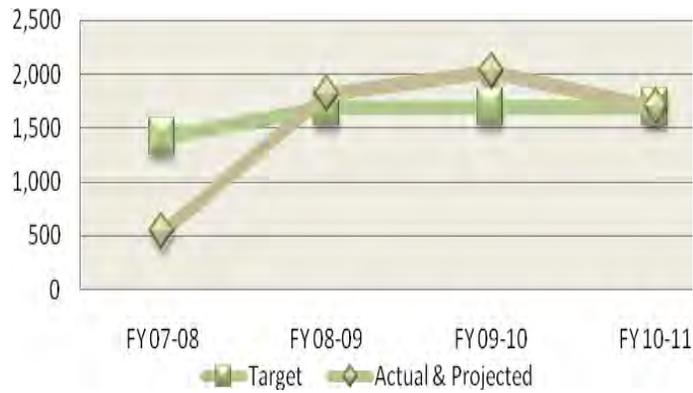
To track the percentage of scheduled PM's that are completed in the Valve Maintenance Program.

This measure was not tracked until FY 2008-2009.



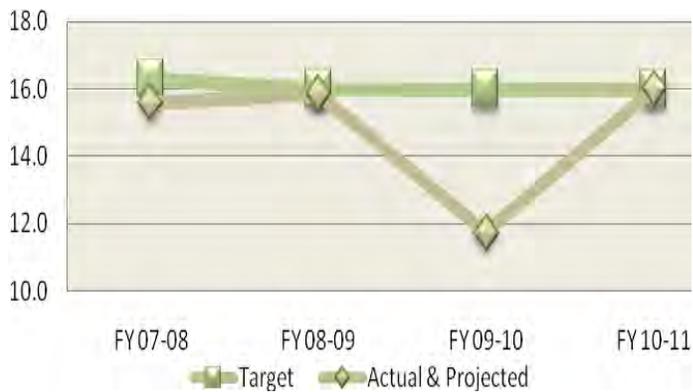
Valve Exercising Program

Maintenance of distribution systems' infrastructure to ensure minimal interruption of potable water delivery to customers.



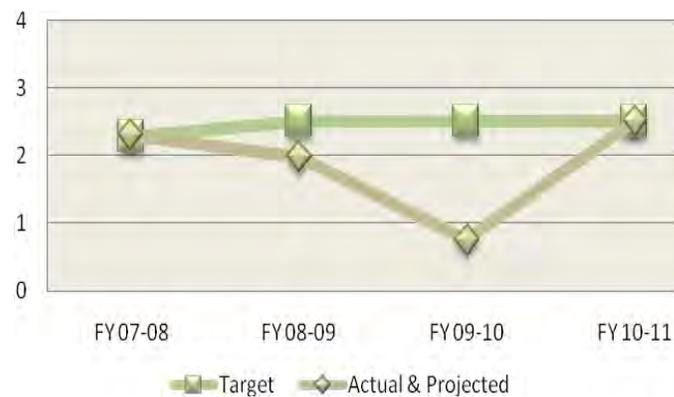
Potable Water Distribution System Integrity

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).



Planned Water Service Disruption Rate

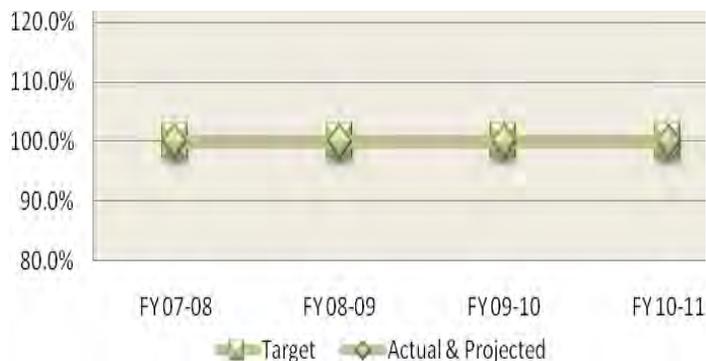
Quantifies the number of planned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts (QualServe).



Drinking Water Compliance Rate

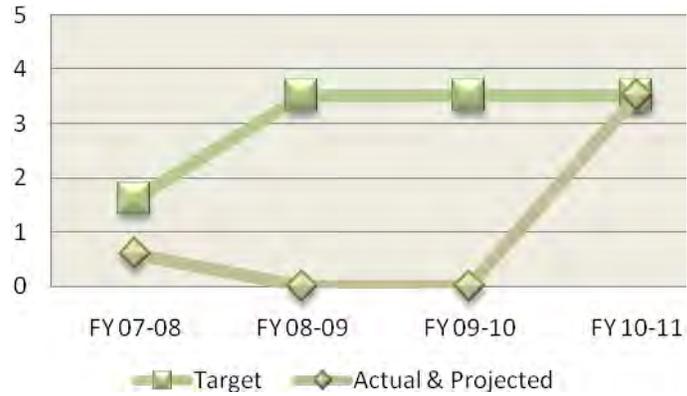
Quantifies the percentage of time each year that the District meets all of the health related drinking water standards in U.S. National Primary Drinking Water Regulations (QualServe).

Both Actual/Projected and Targets are at 100%.



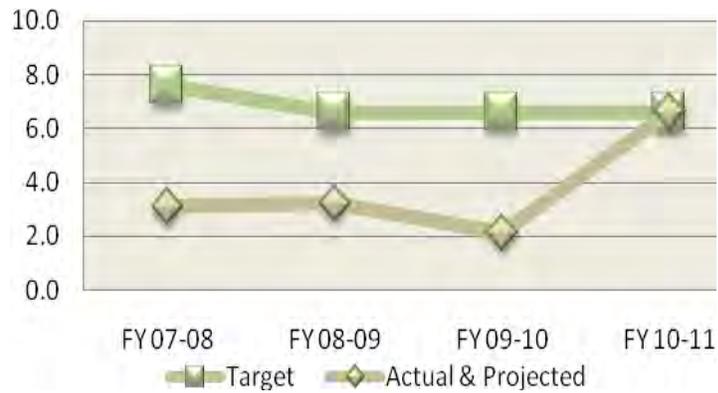
Collection System Integrity

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



Recycled Water Distribution System Integrity

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



Sewer Overflow Rate

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



Accomplishments – Fiscal Year 2009-2010

- Assisted in five major CIP projects including the 850-4 Reservoir, 1485-2 Pump Station, 1296-3 Reservoir, 450-1 Recycled Disinfection Facility, and the 36-inch Jamacha Pipeline Project. All except the Jamacha Road Pipeline were put into service this year.
- Began replacing SCADA radios with Ethernet radios in the North District, allowing for increased reliability and bandwidth capacity for planned video surveillance security enhancements.

- Provided Mexico with 1,169.55 AF or 381.1 MG of potable water.
Exercised 2,023 valves this year, primarily in areas of ID10 and 22. Since this began in 2006, 8,952 valves or 43% of the total number of valves in the District have been exercised.
- Installed a new generator at the Administration Building to handle all building power requirements. The existing generator was moved to the Operations Center to increase the reliability of back-up power for the Emergency Operations Center and the Operations Building.
- Installed a new 480 volt system at the 870-1 Pump Station to replace the old 2300 volt system. This entailed installing new 480 volt switch gear, motor control centers, and two new 200 HP pump motors.
- Staff converted mechanical altitude valve controls to SCADA control at nine reservoirs. This allows for remote valve adjustment instead of manual adjustment, saving man-hours, money, and reduces the need for confined space entries into these vaults.
- Implemented a dye-injection system for cross-connection testing and received regulatory approval for its use. This new system allows daytime testing without customer interruption of service, reducing overtime costs and regulatory fees.
- Installed, tested, and put into full operation the new chlorination system on the 450 Reservoir/680 Recycled Pump Station.
- Installed a new three-inch recycled meter at the Otay Landfill for dust control. This is the District's first permanent recycled meter that is not for irrigation purposes.
- Installed a Fiber-Optic communications system at the Reclamation Plant for use in the automation of the SCADA controls in the plant, increasing reliability and information capacity. This system also allows for SCADA monitoring and control to the headworks and secondary treatment processes that were previously manual.
- Upgraded the chlorination equipment at the reclamation plant to provide the capability to remotely adjust chlorine dosages which will save overtime costs. This equipment also allows for a different method of automatically controlling chlorine dosing which will lead to a significant savings in chlorine chemical costs.
- Implemented a Water Information Management System (with IT) at the reclamation plant, which will streamline documentation and reporting of plant and laboratory data.
- Expanded the use of outside laboratory services, allowing the District to cut one Laboratory Technician position from the budget. This will save the District approximately \$73,300 per year, plus the cost of a car.
- Completed updating the Bacteriological Sample Site Plan which was approved by the California Department of Public Health. The plan shows where and when weekly samples are collected in the distribution system. Several new locations were added to reflect pressure zones not previously covered and areas developed since 1992 when the last update was made.

Utility Maintenance / Construction

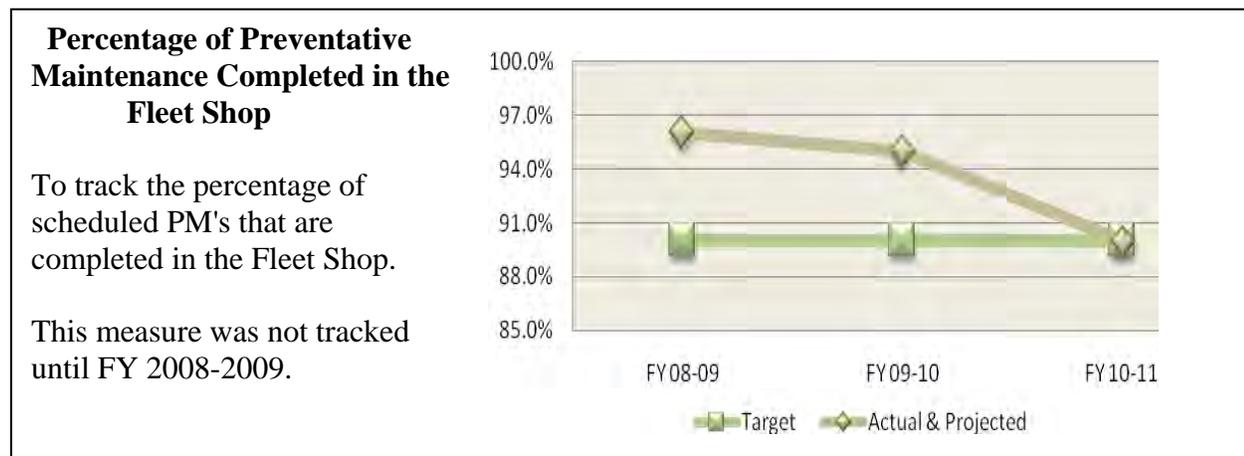
Services We Provide

The Utility Maintenance and Construction staff provides vital maintenance functions that ensure the best quality of water and wastewater service to customers while adhering to all applicable regulatory compliance requirements. Tasks include valve exercising, large meter installation, main line and service line repairs as well as proactive regulatory system upgrades, and constant evaluation of the system integrity to allow for system planning upgrades. The Meter Maintenance staff provides meter maintenance and repairs and/or replacement of meters to ensure accurate accounting of water usage. Provides comprehensive protection of water quality by proactively administering the Backflow/Cross- Connection program, regulated by the Department of Health. The Fleet Maintenance staff implements active preventative maintenance practices and repairs the District’s vehicles and equipment to ensure optimum performance while establishing fuel efficient operational practices and emissions compliance.

Strategic Plan Objectives

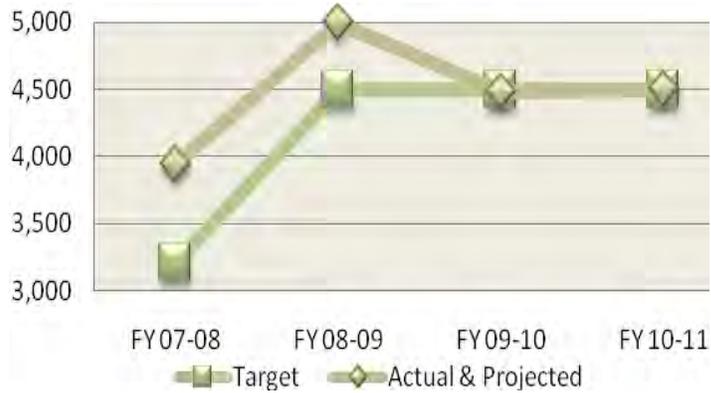
- Expand meter testing for 3" and larger calibration and replacement program.

Performance Measures



Replace Manual Read Meters with Automated Meters

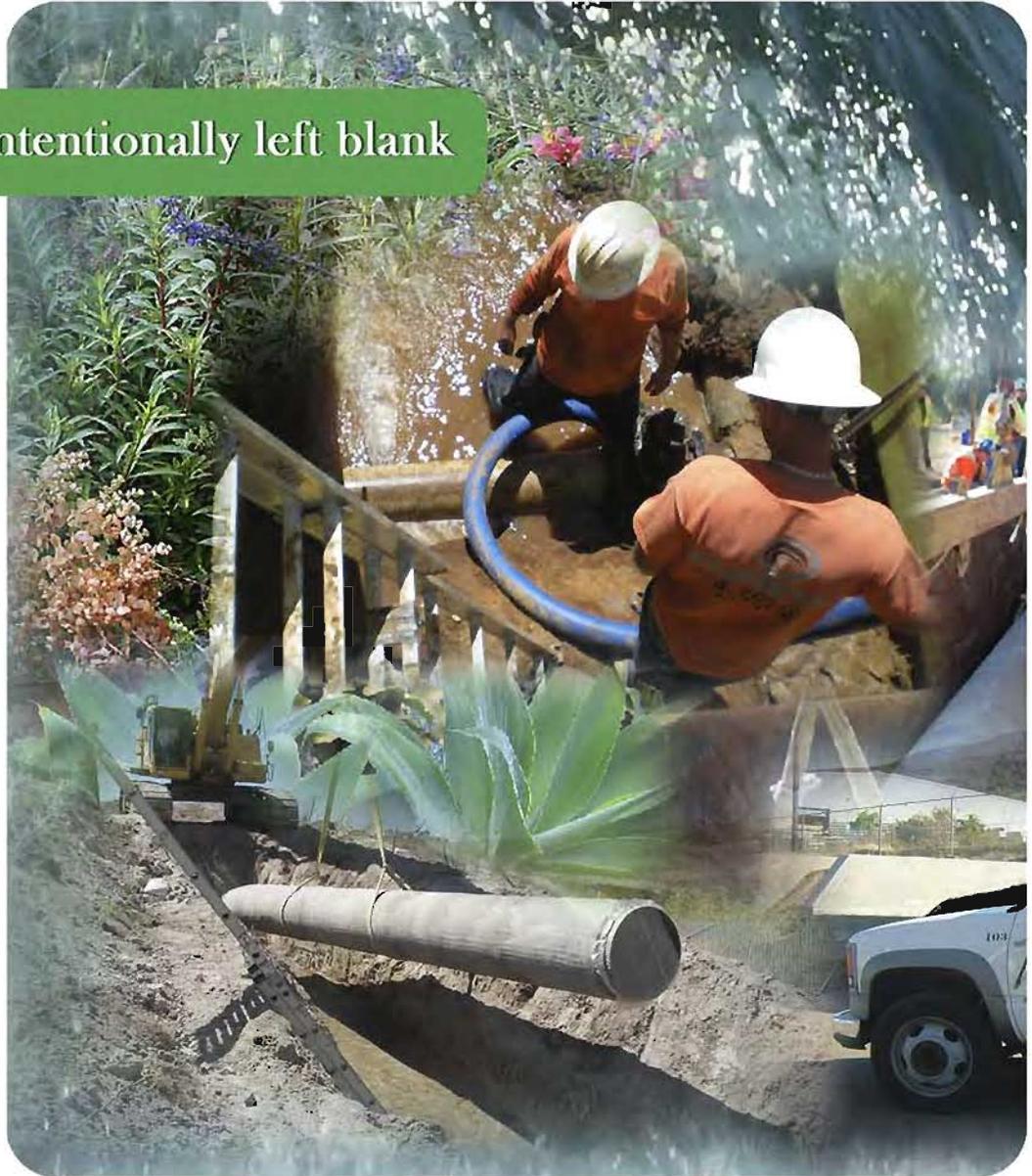
This measure reflects the total number of AMR Meter Replacements per year which will increase meter reading efficiency and reduce water loss through increased meter accuracy.



Accomplishments – Fiscal Year 2009-2010

- The Meter Maintenance crew, in tandem with the Utility Maintenance crew replaced 52 large meters.
- Utility Maintenance crew upgraded 120 Air Vacs.
- Contractually tested 120 large meters through the Meter Maintenance Section.
- Utility Maintenance and Water Operations staff completed a 24-inch bypass on Alta Road to provide a looped system that assists with water reliability in the event of a water main break in the Otay Mesa area.
- The Meter Maintenance crew tested 94 Backflows for operability.

This page intentionally left blank





Engineering



Engineering

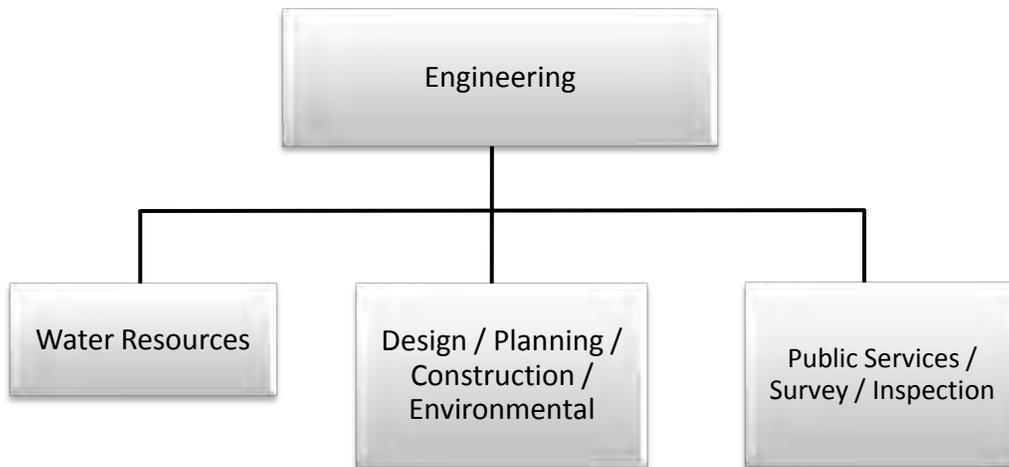
Mission Statement

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

District Position Count - 159 Engineering Department - 21



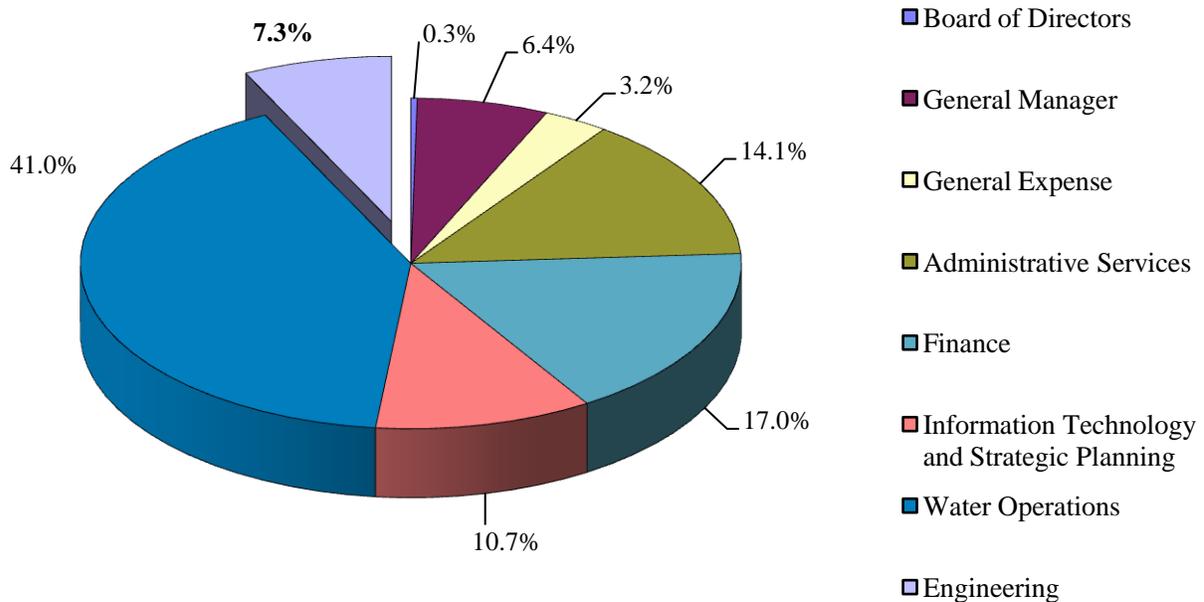
Personnel Count	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Chief, Engineering	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Engineering Manager	2	2	2
Public Services Manager	1	1	1
Senior Civil Engineer	2	1	1
Associate Civil Engineer	2	2	2
Assistant Civil Engineer	0	0	1
Environmental Compliance Specialist	1	1	1
Permit Technicians I and II	2	2	2
Senior Engineering Technician	3	3	2
Inspection Supervisor	1	1	1
Construction Inspectors I and II	3	2	2
Supervising Land Surveyor	1	1	1
Survey Technician	1	1	1
Assistant Survey Technician	1	1	1
Total	23	21	21

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 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.

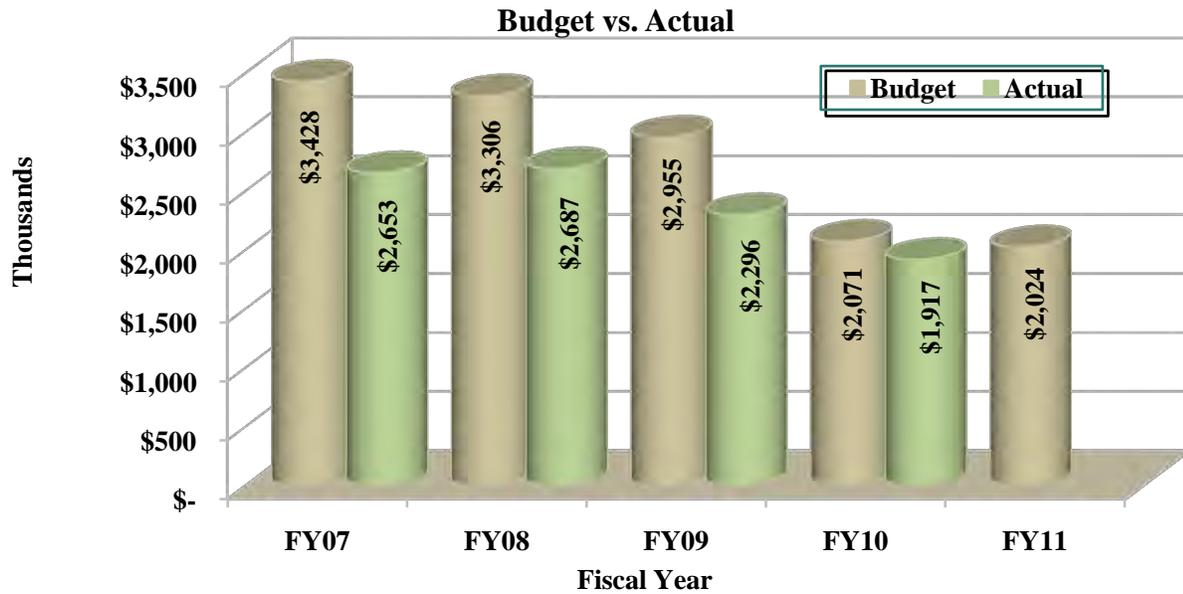
**FY 2011 Total Departmental Budget 27.8 Million
Engineering - \$2,024,100**



	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Engineering Chief	\$ 338,055	\$ 319,200	\$ 238,363	\$ 228,300
Planning	403,119	366,000	340,598	550,000
Design	267,342	211,300	194,459	317,700
Water Resources	130,254	157,700	146,762	154,400
Public Services	247,257	265,800	289,508	183,300
Construction Services	281,888	216,100	266,839	133,200
Survey Services	231,250	272,400	256,274	224,300
Environmental Services	397,119	262,200	183,938	232,900
TOTAL	\$ 2,296,284	\$ 2,070,700	\$ 1,916,741	\$ 2,024,100

Engineering

	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Labor and Benefits	\$ 1,407,942	\$ 1,215,300	\$ 1,237,834	\$ 1,089,800
Travel and Meetings	13,107	23,300	18,163	22,700
General Office Expense	7,052	9,300	6,091	9,100
Equipment	5,754	3,500	3,952	15,100
Fees	37,714	65,000	38,198	40,000
Services	822,454	749,600	607,782	840,700
Training	2,261	4,700	4,720	6,700
Materials & Maintenance	-	-	-	-
Total	\$ 2,296,284	\$ 2,070,700	\$ 1,916,741	\$ 2,024,100



Engineering

Water Resources

Services We Provide

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

Strategic Plan Objectives

- Prioritize and implement recommendations contained in the Integrated Resources Plan and Water Resources Master plan to obtain additional potable water supply by 15%.
- Obtain 10% in new recycled water supplies by prioritizing and implementing the recommendations in the IRP & WRMP.
- Identify existing facilities that are good candidates for conversion to separate irrigation meters (recycled and/or potable water), specifically for multi-family/industrial/commercial projects.
- Complete the RFP and retain a consultant for the Waste Water Master Plan.

Accomplishments – Fiscal Year 2009-2010

- Received \$2,875,000 in grant funds from the U.S. Bureau of Reclamation for participation in their Title XIV Program. Total Title XVI grant funds received to date is \$9,410,000.
- Prepared the six-year Fiscal Year (FY) 2011 Capital Improvement Program (CIP) and received the Board's approval on May 17, 2010.

Planning / Design / Construction / Environmental

Services We Provide

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

Strategic Plan Objectives

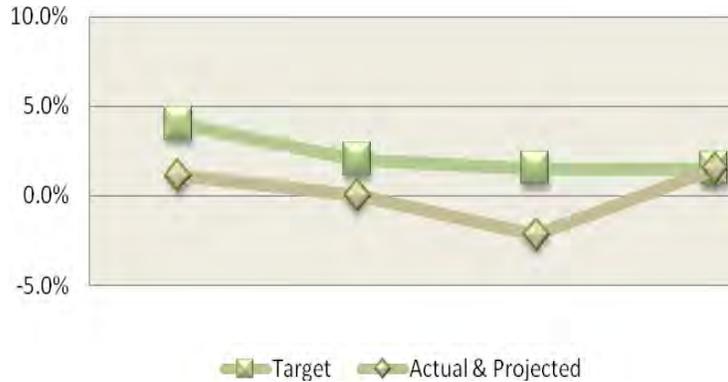
- Create a comprehensive environmental program that is cost-effective and proactive in response to environmental compliance.
- Identify, prioritize, and implement gravity sewer main improvements as recommended in the Sewer System Management Plan.

Performance Measures



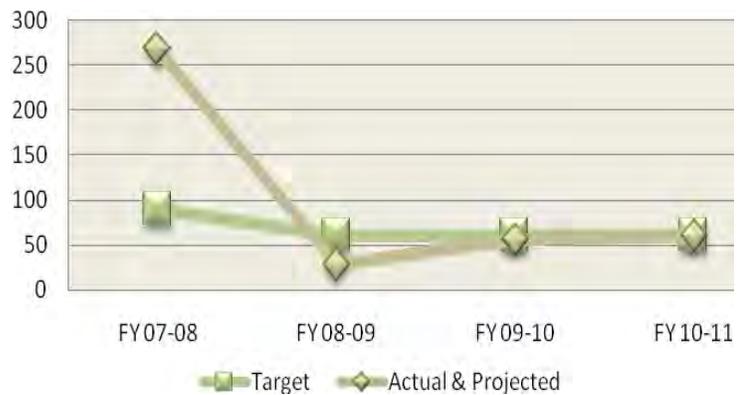
Construction Change Order Incidences

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



Project Closeout Time

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



Accomplishments – Fiscal Year 2009-2010 with Corresponding Project Numbers in Parenthesis

- Received a \$2.31 million reimbursement from the San Diego County Water Authority for the East County Treated Water Improvement Program. (P2009)
- Certified the Sewer System Management Plan.
- Completed the Water Resources Master Plan.
- Completed the following projects:
 - 850-4 Reservoir (P2191)
 - Sir Francis Drake and Otay Valley Road Interconnection (P2487)
 - 450-1 Disinfection Facility (R2092)
 - 1296-3 Reservoir (P2143)
 - 1485-1 Pump Station (P2172)
 - Otay FCF 14 Temporary Reconnection (P2009)
 - Regulatory Site Material Storage Bins (P2465)

- The Program Environmental Impact Report for the Water Resources Master Plan was certified by the Board on February 3, 2010. (P1210)
- Mitigated Negative Declaration (MND) for the Rancho del Rey Groundwater Well Project was adopted by the Board on March 3, 2010. (P2434)
- The Environmental Impact Report for the Otay Mesa Recycled Water Supply Link was certified by the Board on June 2, 2010. (R2058/R2077/R2087)
- Received final approval from California Dept. of Fish and Game that the Rickey Pond mitigation area in the District's Habitat Management Area has met its five-year success criteria.
- Received the 2010 Project Achievement Award for Public Works, in the less than \$2.5 million category, from the Construction Management Association of America (CMAA) for the 1296-3 Reservoir Project. This award recognizes outstanding achievement in the practice of construction management.
- Received two awards from the American Public Works Association (APWA), the 2010 Project of the Year Award for the 640-1 and 640-2 (10 MG) Reservoirs and the Honor Award for the 850-4 (2.2 MG) Reservoir.

Public Services / Survey / Inspection

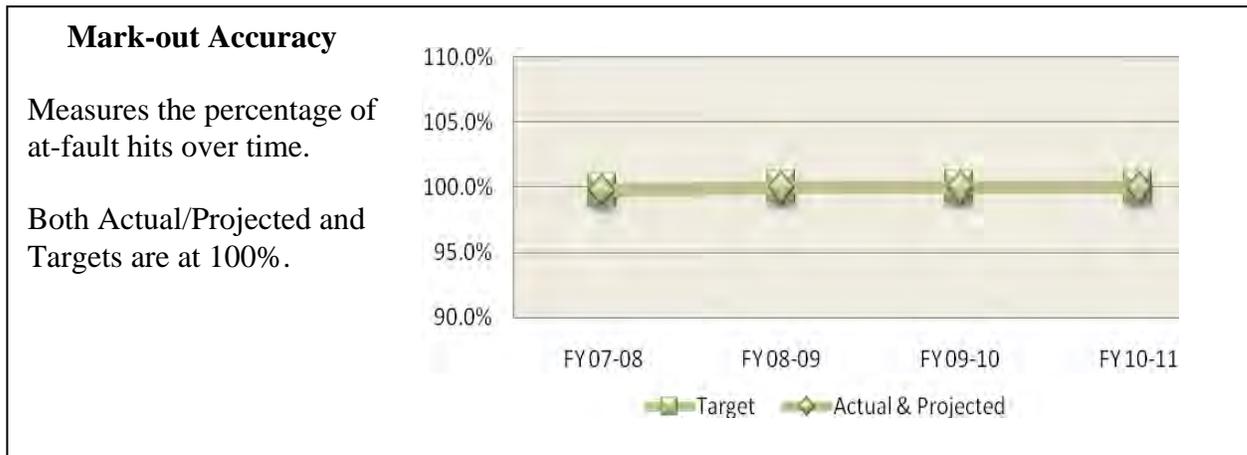
Services We Provide

The Public Services, Survey, and Inspection Divisions assist the public by responding to customer visits, phone calls, and inquiries regarding permits, plan-checking fees, filing procedures, permit status, meter sales, meter costs, and lateral costs. We administer 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. We provide inspections to private developer funded projects and the District's Capital Improvement Projects, easement and encroachment enforcements, and survey and utility mark outs of District facilities and GPS plots.

Strategic Plan Objectives

- Continue a regional approach and expand the District's recycled water outreach program to landscape architects, maintenance companies, developers, contractors, and homeowner associations.
- Obtain access to shared electricity, gas, telephone, and other utilities from cell site vendors, San Diego County, and other agencies.

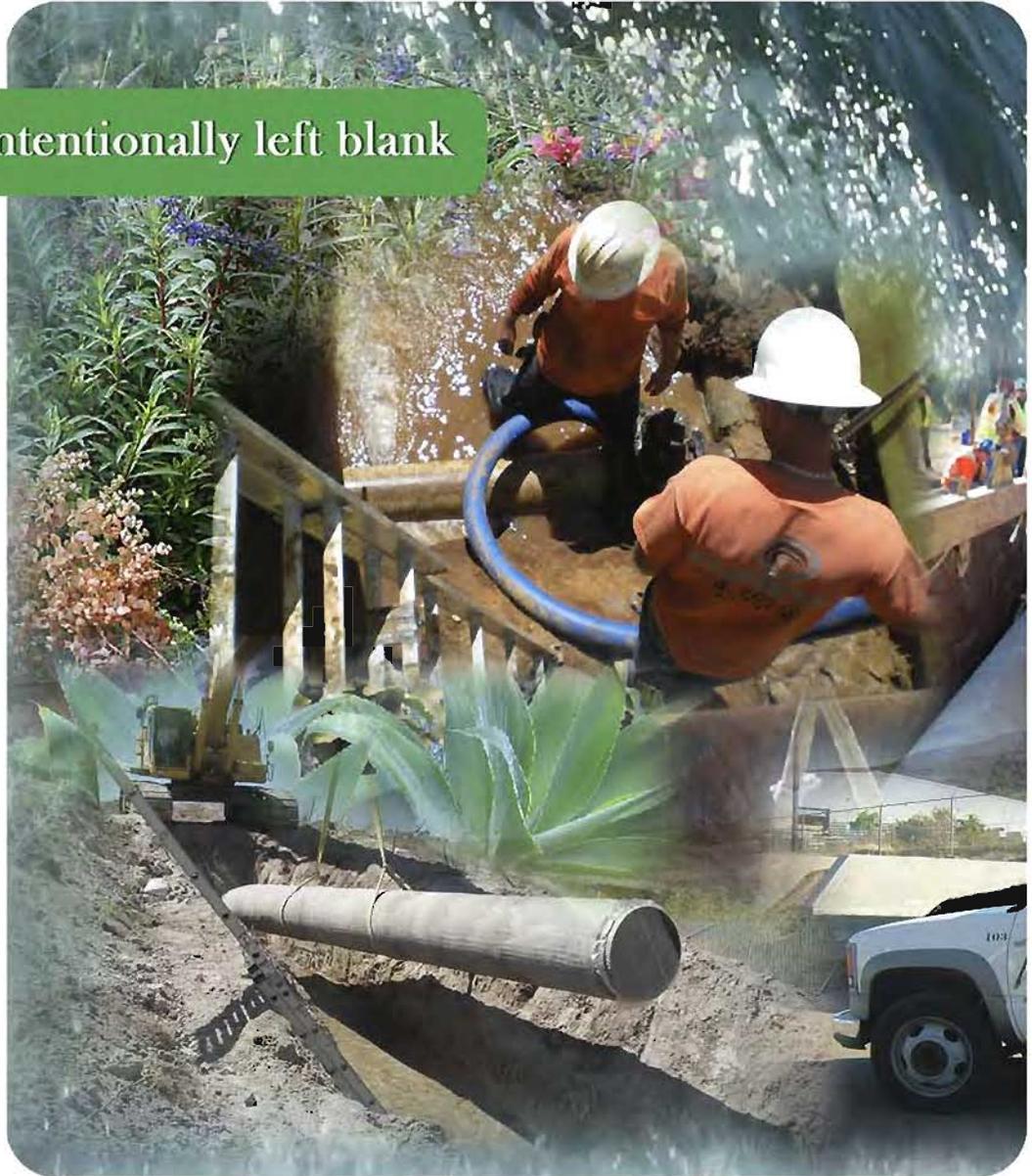
Performance Measures



Accomplishments – Fiscal Year 2009-2010

- Collected capacity fee and annexation fee revenues in excess of \$1.9 million based on the 212 meters sold.
- Maintained 33 cell site leases which brought in more than \$950,000 in revenue.
- Added 3 cell site leases to the existing lease portfolio.
- Processed over 350 permits.
- Maintained the Easement Inspection and Encroachment Program which resulted in inspections of 202 easements, 38 encroachment surveys, and 19 work requests.
- Implemented and maintained the Retrofit Recycled Optimization Program saving 95 acre-feet of potable water.
- Completed 2,238 mark-outs with an accuracy rate of 100%.
- Provided new information on 2,453 facilities including: transmission pipelines, appurtenances, valves, fire hydrants, blow-offs, fire services, sewer manholes, laterals and clean outs and transferred them into the information system.
- Completed the review and drafting of 41 legal descriptions and plats for right-of-way acquisitions.
- Performed 13 fire service plan checks and 3 potable water plan checks.

This page intentionally left blank





General Expense



General Expense

Mission Statement

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



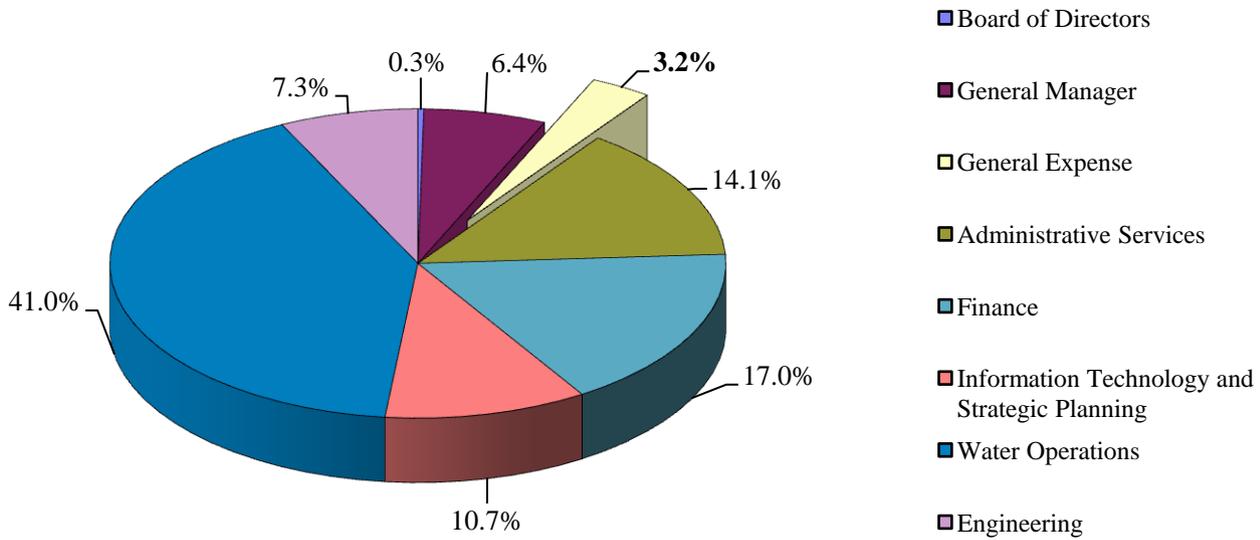
<u>Division Title</u>	<u>Division No.</u>
General Expense	1311

General Expense

Description

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

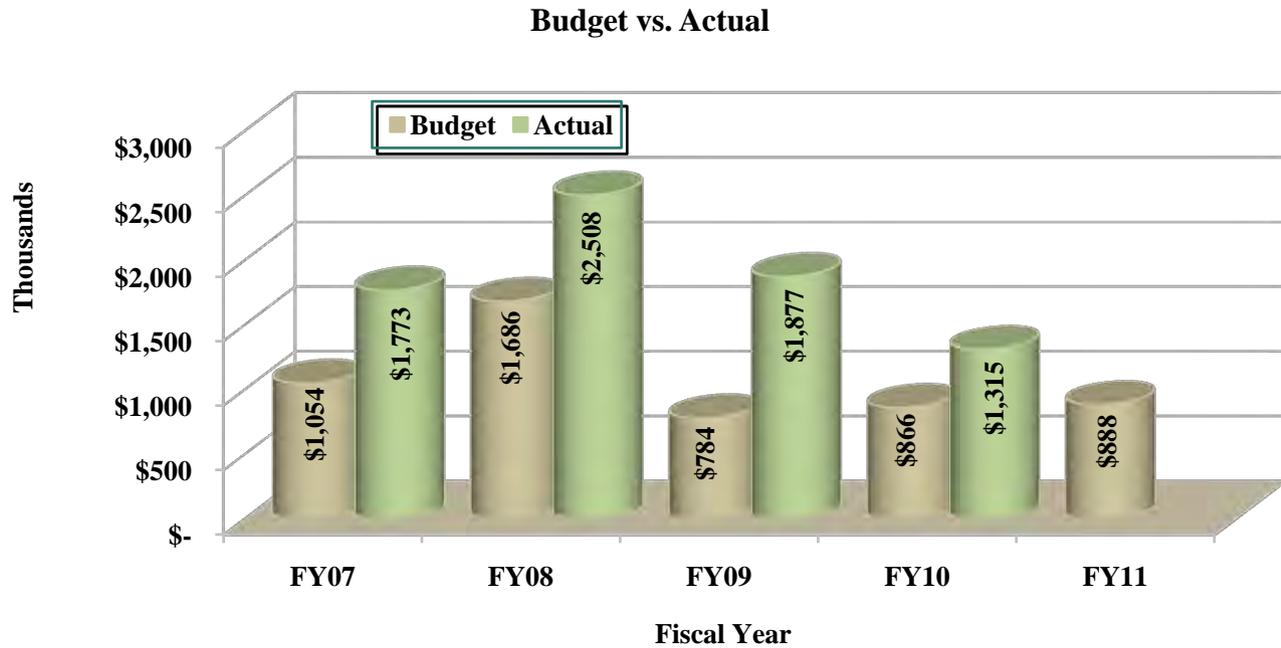
FY 2011 Total Departmental Budget - \$27.8 Million
General Expense - \$888,000



	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
General Expense	\$ 1,877,365	\$ 865,500	\$ 1,314,537	\$ 888,000
TOTAL	\$ 1,877,365	\$ 865,500	\$ 1,314,537	\$ 888,000

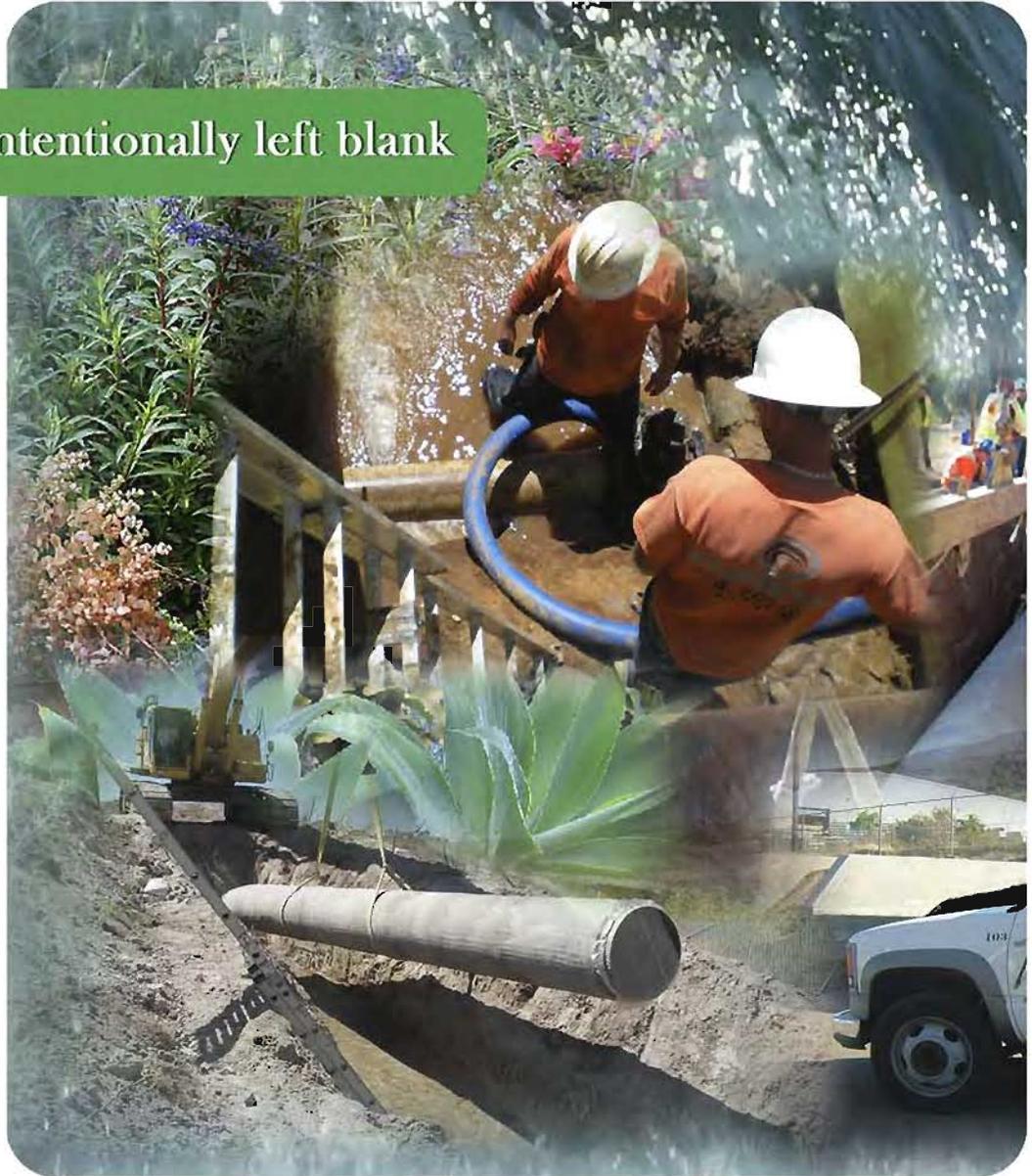
General Expense

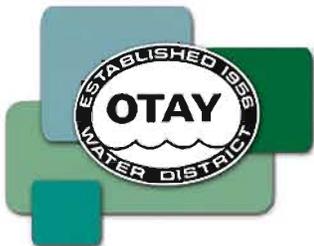
	FY 2009 Actual	FY 2010 Budget	FY 2010 Estimated	FY 2011 Budget
Labor and Benefits ⁽¹⁾	\$ 337,993	\$ (300)	\$ 384,829	\$ (28,000)
Fees	1,539,372	865,800	929,708	916,000
Total	\$ 1,877,365	\$ 865,500	\$ 1,314,537	\$ 888,000



⁽¹⁾ FY 2011 and FY 2010 budget amounts are negative because of Vacancy Factor (salary savings) of \$204,200 and \$207,200 respectively. This is netted against other District-wide Labor and Benefit Expenses. In prior years Vacancy Factor was budgeted in the individual departments.

This page intentionally left blank





Capital Budget

Capital Improvement Program

The District provides water service to a population of approximately 206,000 which is expected to ultimately increase to 295,000. This growth as well as the maintenance of existing assets requires long term capital planning. The process is dynamic, due to the evolving needs of the community, the water supply issues, and changing regulations, and therefore is part of the District's overall strategic planning. The capital planning process involves identifying current and future needs, and prioritizing them based on certain operating assumptions. The primary objective of this planning effort is to support an orderly and efficient program of expansion, replacement and betterment, while maintaining a stable long-range financial plan.

To accommodate this growth requires that the District invest \$500 million in capital assets through ultimate build-out. The Fiscal Year 2011 Capital Budget is \$28.4 million and the six-year Capital Improvement Program (CIP) totals \$181.4 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 based on several major assumptions and design criteria as follows:

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

CIP Justification and Impact on Operating Budget

The justification for each project is determined by whether it is required due to growth (Expansion), 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

This year, all capital expenditures are in the CIP. This includes capital facilities and capital purchases. Capital purchases are non-recurring operating expenditures for assets that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Vehicle, Office Equipment and Furniture, and Field Equipment purchases, the details of which can be found on page 181. Capital Facility Projects are items that exceed \$10,000 or \$20,000 for infrastructure related items (as defined under Capital Equipment on page 241 of the Glossary) and have a useful life of at least two years.

The CIP projects 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 three categories of CIP projects:

Expansion

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

Betterment

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

Capital Improvement Projects

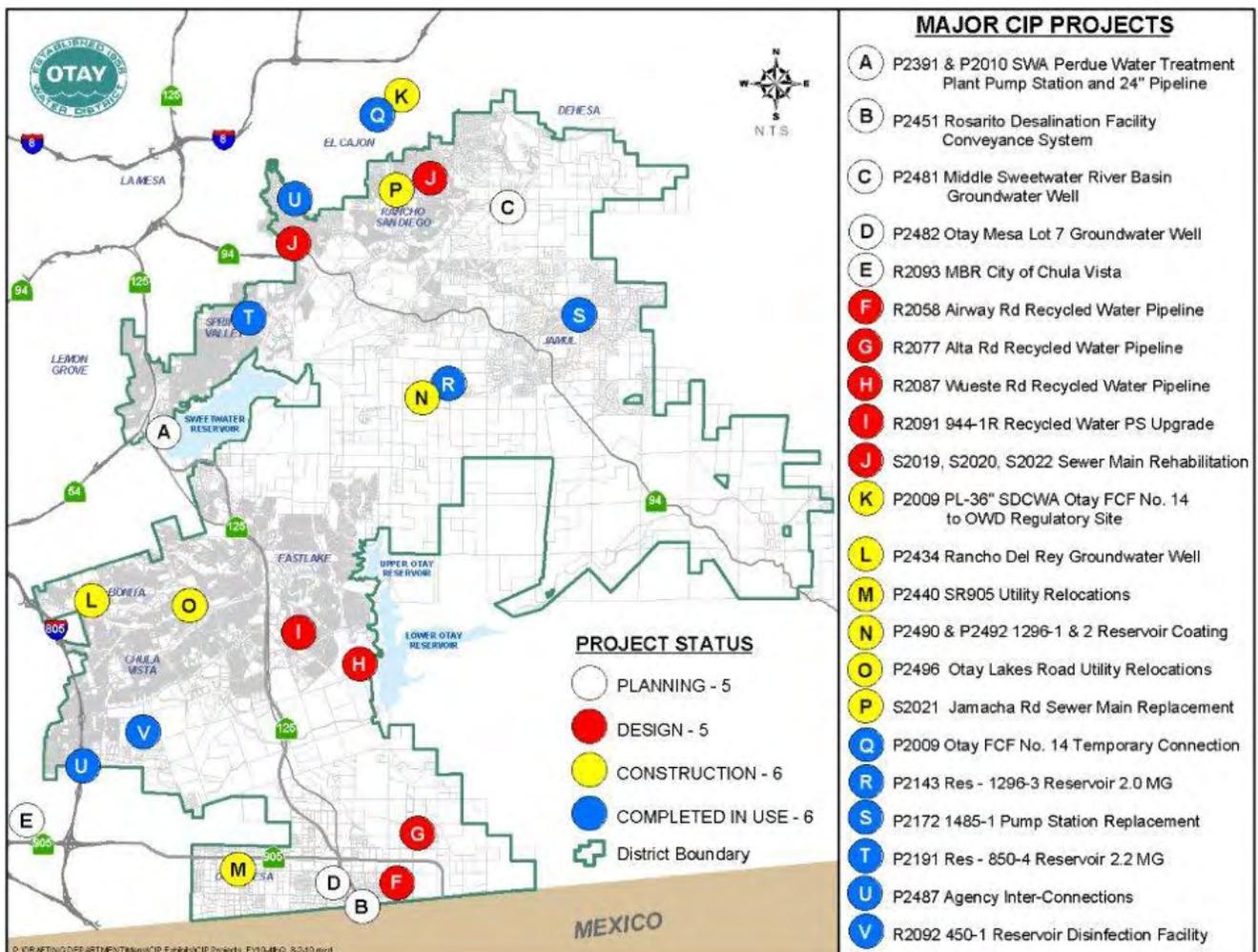
The 2011 Fiscal Year CIP Budget contains 82 projects. The cost of the work planned for Fiscal Year 2011 is \$28.4 million. Of the 82 projects planned for Fiscal Year 2011, only four are designated as reimbursable projects with estimated costs totaling \$12,000. These projects are built by developers and reimbursed by the District.

Major CIP Projects

The following shows how the \$28.4 million of projects are broken down into four categories:

1. Capital facilities \$ 16.2 million
2. Replacement or renewal projects \$ 10.0 million
3. Capital purchase projects \$ 2.2 million
4. Developer reimbursement projects \$ 12.0 thousand

The Six-Year CIP and Fiscal Year 2011 Capital Budgets are consistent with the District's Water Resources Master Plan, current capacity fees, and the District's strategic financial objectives.



Flagship CIP Project in Construction



36-Inch Pipeline from FCF No. 14 to Regulatory Site (P2009)

This project was awarded to CCL Contracting in June 2009. This project consists of construction of approximately 27,300 feet of 36-Inch pipeline to upgrade FCF No. 14 to a capacity of 16 million gallons per day.

Key Component: Approximately 5 miles of 36-inch pipeline for potable water from Otay's FCF No. 14 to the Regulatory Site.

Schedule: A construction contract was awarded to CCL Contracting (CCL) on June 3, 2009. Project is approximately 90% complete. Project completion is anticipated for September 2010.

Cost: The FY 2010 project budget is \$15.0 million, of which \$13.2 million, or 88% has been spent. The life-to-date project budget is \$22.2 million, of which \$16.9 million, or 76%, has been spent.

Significant Issues:

None.

Highlights:

CCL completed the installation of the 36-Inch Pipeline. The tie-ins for the 12-inch pipeline are complete. Testing, paving, tie-ins, and appurtenances on the 36-Inch remain.

Final road paving is scheduled to start in early August.

Flagship CIP Project in Construction



1296-3 Reservoir 2.0 MG (P2143)

This project was awarded to Natgun Corporation in February 2009. This project will provide additional storage in the 1296 Pressure Zone.

Key Component: A new 2.2 MG concrete Reservoir will provide additional storage in the 1296 Pressure Zone.

Schedule: Project is complete.

Cost: The FY 2010 project budget was \$2.0 million, of which \$1.7 million, or 84% was spent. The life-to-date project budget is \$3.6 million, of which \$3.4 million, or 93%, has been spent.

Significant Issues: None.

Highlights: The design of this reservoir is a Type III concrete reservoir. The lifecycle cost of building a concrete reservoir is lower than a welded steel reservoir.

A solar power generating system was added to this project which includes a 75 square-foot photovoltaic panel for generating power, which is tied to the SDG&E power grid.

Flagship CIP Project in Construction



1485-1 Pump Station Replacement (P2172)

This project was awarded to SCW Contracting and was started in January 2009. This project consists of construction of a new pump station to replace the existing pump station and to expand capacity as projected within the Water Resources Master Plan.

Key Component: The existing pump station was near capacity and had reached the end of its useful life. The improved pump station systems and additional capacity are required to meet projected demands of the 1485 and higher pressure zones as projected within the Water Resources Master Plan.

Schedule: Project is complete.

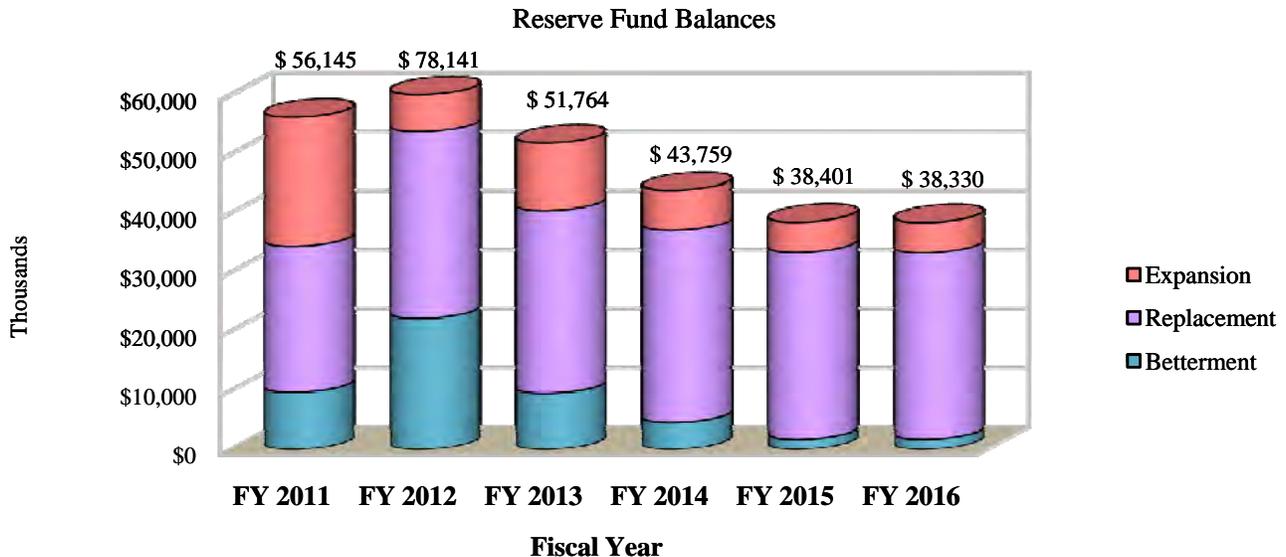
Cost: The FY 2010 project budget was \$1.6 million, of which \$1.3 million, or 81% was spent. The life-to-date project budget is \$2.48 million, of which \$2.46 million, or 99%, has been spent.

Significant Issues: None.

Highlights: The new pump station will include SCADA equipment and will protect the existing equipment from the elements.

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.

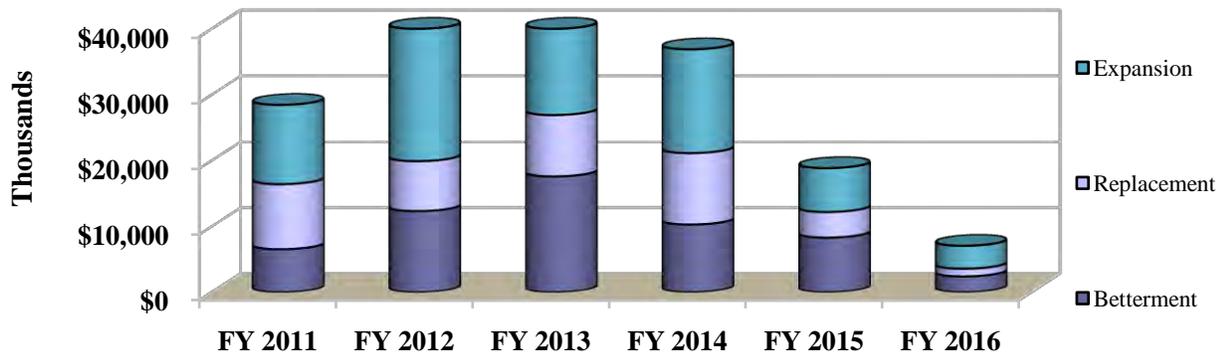


(Thousand \$000s)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total
Beginning Balance	\$ 71,567	\$ 56,145	\$ 78,141	\$ 51,764	\$ 43,759	\$ 38,401	
Capacity Fees	1,218	2,768	6,424	10,057	13,110	12,207	\$ 45,783
Debt financing	-	51,770	-	-	-	-	51,770
Grants	2,540	1,050	1,050	1,000	1,000	500	7,140
Interest	1,108	1,495	1,922	1,875	1,614	1,507	9,522
Betterment Charges	739	761	784	808	832	857	4,782
Temporary Meters	860	860	861	865	870	872	5,187
Availability (Betterment Portion)	521	536	553	570	587	605	3,372
Capacity Fees	1,388	3,136	7,290	11,453	14,935	13,911	-
Transfer from General Fund	12,925	12,465	14,945	15,455	(6,235)	(10,255)	39,300
Total Sources	21,298	74,842	33,829	42,083	26,713	20,204	166,855
CIP Projects	28,448	42,285	47,898	36,887	18,853	7,053	181,424
Betterment Fees for Maintenance	657	671	684	698	712	726	4,147
Debt Service	6,519	8,790	10,512	11,380	11,372	11,352	59,925
Developer Services	1,095	1,101	1,112	1,123	1,134	1,145	6,710
Total Uses	36,720	52,846	60,206	50,088	32,070	20,276	252,206
Net Sources (Uses)	\$ (15,421)	\$ 21,995	\$ (26,377)	\$ (8,005)	\$ (5,357)	\$ (71)	\$ (85,351)
Ending Balance	\$ 56,145	\$ 78,141	\$ 51,764	\$ 43,759	\$ 38,401	\$ 38,330	

CIP Funding Source and Category

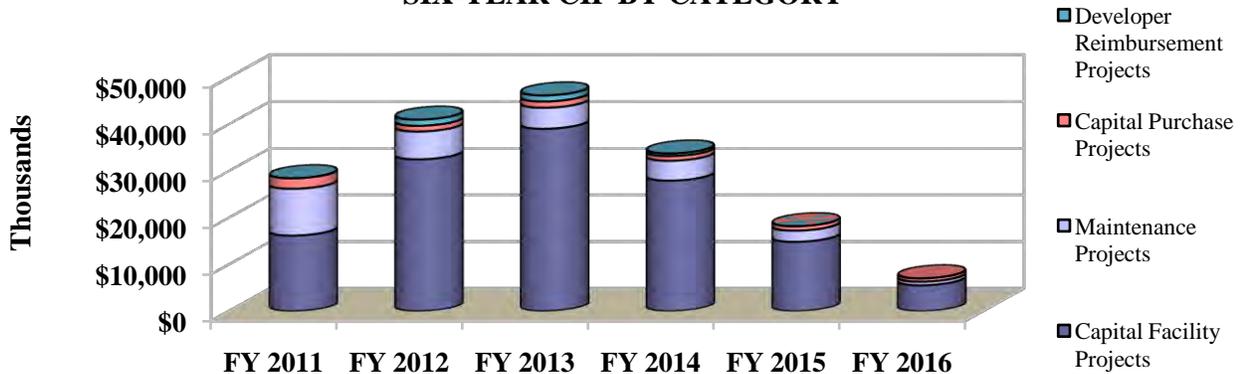
(Thousands \$000s)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	TOTAL
Expansion	\$ 12,026	\$ 22,375	\$ 20,984	\$ 15,757	\$ 6,662	\$ 3,482	\$ 81,285
Betterment	6,531	12,322	17,588	10,278	8,298	2,400	57,417
Replacement	9,892	7,588	9,326	10,852	3,893	1,171	42,722
TOTAL	\$ 28,448	\$ 42,285	\$ 47,898	\$ 36,887	\$ 18,853	\$ 7,053	\$ 181,424

SIX-YEAR CIP BY FUNDING SOURCE



(Thousands \$000s)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	TOTAL
Capital Facility Projects	\$ 16,181	\$ 32,488	\$ 39,025	\$ 27,930	\$ 14,830	\$ 5,550	\$ 136,004
Maintenance Projects	10,006	5,966	4,512	4,264	2,405	783	27,936
Capital Purchase Projects	2,249	1,220	1,340	1,000	945	700	7,454
Developer Reimbursement Projects	12	1,314	1,296	544	-	-	3,166
Subtotal	28,448	40,988	46,173	33,738	18,180	7,033	174,560
FY 2012 Through FY 2016 Projects	-	1,297	1,725	3,149	673	20	6,864
TOTAL	\$ 28,448	\$ 42,285	\$ 47,898	\$ 36,887	\$ 18,853	\$ 7,053	\$ 181,424

SIX-YEAR CIP BY CATEGORY



CIP Projects (\$1,000s)

The 2011 Fiscal Year CIP Budget contains 82 projects. The costs for the work planned for Fiscal Year 2011 is \$28.4 million. Of the 82 projects planned for Fiscal Year 2011, one is designated as reimbursable project with an estimated cost of \$12,000. This project is built by a developer and reimbursed by the District.

CIP No.	Description	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	Total
CAPITAL FACILITY PROJECTS								
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	\$ 2,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,200
P2038	PL - 12-Inch, 978 Zone, Jamacha, Hidden Mesa, and Chase Upsize and Replacements	130	-	-	-	-	-	130
P2083	PS - 870-2 Pump Station Replacement (28,000 GPM)	50	1,000	4,000	6,000	950	-	12,000
P2143	Res - 1296-3 Reservoir 2 MG	5	-	-	-	-	-	5
P2172	PS - 1485-1 Pump Station Replacement	5	-	-	-	-	-	5
P2191	Res - 850-4 Reservoir 2.2 MG	5	-	-	-	-	-	5
P2318	PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections	100	230	200	-	-	-	530
P2357	PS - 657-1/850-1 Pump Station Demolition	50	250	-	-	-	-	300
P2370	Res - Dorchester Reservoir and Pump Station Demolition	67	70	-	-	-	-	137
P2391	PS - Perdue WTP Pump Station (10,000 GPM)	5	182	300	2,700	4,700	4,000	11,887
P2399	PL - 30-Inch, 980 Zone, 980 Reservoirs to Hunte Parkway	200	650	10	-	-	-	860
P2431	Res - 980-4 Reservoir 5 MG	5	45	1,000	4,800	50	-	5,900
P2434	Rancho Del Rey Groundwater Well Development	1,000	1,500	250	-	-	-	2,750
P2451	Rosarito Desalination Facility Conveyance and Disinfection System	1,000	12,000	12,500	4,200	-	-	29,700
P2466	Regional Training Facility	24	-	-	-	-	-	24
P2467	San Diego Formation Groundwater Feasibility Study	600	400	-	-	-	-	1,000
P2471	850/657 PRS at La Presa Pump Station	240	-	-	-	-	-	240
P2472	Water Supply Feasibility Studies	30	30	30	30	30	-	150
P2473	PS - 711-1 Pump Station Improvement	200	250	-	-	-	-	450
P2474	Fuel Storage Covers and Containment	50	50	-	-	-	-	100
P2475	Pump Station Fire Hydrant Installations	45	-	-	-	-	-	45
P2481	Middle Sweetwater River Basin Groundwater Well Feasibility	50	770	-	-	-	-	820
P2488	Del Rio Road Helix and Otay Agency Interconnection	120	5	-	-	-	-	125
P2489	Gillispie Drive Helix and Otay Agency Interconnection	135	5	-	-	-	-	140
P2497	Solar Power Feasibility Study	150	-	-	-	-	-	150
P2502	803-1 Pump Station Modifications	50	150	-	-	-	-	200
P2503	850-2 Pump Station Modifications	150	500	-	-	-	-	650
P2510	Operations Yard Improvements	25	335	10	-	-	-	370
P2511	North District - South District Interconnection System	800	2,200	15,000	10,200	9,100	-	37,300
R2034	RecRes - 860-1 Reservoir 4 MG	200	2,200	1,370	-	-	-	3,770
R2048	RecPL - Otay Mesa Distribution Pipelines and Conversions	250	850	1,040	-	-	-	2,140
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	1,000	1,495	5	-	-	-	2,500
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	1,750	2,121	5	-	-	-	3,876
R2087	RecPL - 24-Inch, 927 Zone, Wueste Road - Olympic/Otay WTP	3,378	3,000	5	-	-	-	6,383
R2088	RecPL - 30-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservoir	240	1,200	2,000	-	-	-	3,440
R2091	RecPS - 927-1 Pump Station Upgrade (10,000 GPM) and System Enhancements	1,250	500	450	-	-	1,550	3,750
R2092	Dis - 450-1 Reservoir Disinfection Facility	2	-	-	-	-	-	2
R2093	MBR City of Chula Vista Feasibility Study	120	-	-	-	-	-	120
R2094	Potable Irrigation Meters to Recycled Water Conversions	500	500	850	-	-	-	1,850
39	Total Capital Facility Projects	16,181	32,488	39,025	27,930	14,830	5,550	136,004
REPLACEMENT/RENEWAL PROJECTS								
P2366	APCD Engine Replacements and Retrofits	442	220	200	200	200	200	1,462
P2382	Safety and Security Improvements	102	102	102	5	5	5	321
P2416	SR-125 Utility Relocations	50	-	-	-	-	-	50
P2440	I-905 Utility Relocations	100	-	-	-	-	-	100
P2453	SR-11 Utility Relocations	50	50	50	-	-	-	150
P2456	Air and Vacuum Valve Upgrades	450	450	-	-	-	-	900
P2458	AMR Manual Meter Replacement	1,500	1,650	1,700	1,650	-	-	6,500
P2477	Res - 624-1 Reservoir Cover Replacement	5	5	5	5	400	3	423
P2484	Large Water Meter Replacement Program	100	100	100	100	-	-	400
P2485	SCADA Communication System and Software Replacement	350	475	235	-	-	-	1,060
P2486	Asset Management Plan Condition Assessment and Data Acquisition	600	200	100	-	-	-	900
P2490	1296-1 Reservoir Interior/Exterior Coating	240	10	-	-	-	-	250

CIP Projects (\$1,000s)

P2491	850-3 Reservoir Exterior Coating	10	284	5	-	-	-	299
P2492	1296-2 Reservoir Interior/Exterior Coating	440	10	-	-	-	-	450
P2493	624-2 Reservoir Interior Coating	5	5	935	4	-	-	949
P2494	Multiple Species Conservation Plan	170	10	-	-	-	-	180
P2495	San Miguel Habitat Management/Mitigation Area	250	250	250	250	250	250	1,500
P2496	Otay Lakes Road Utility Relocations	195	10	-	-	-	-	205
P2504	Regulatory Site Access Road and Pipeline Relocation	200	400	-	-	-	-	600
CIP No.	Description	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	Total
REPLACEMENT/RENEWAL PROJECTS (continued)								
P2505	657-1 Reservoir Interior/Exterior Coating	325	50	-	-	-	-	375
P2506	657-2 Reservoir Interior/Exterior Coating	325	50	-	-	-	-	375
P2507	East Palomar Street Utility Relocation	20	75	155	250	-	-	500
P2508	Pipeline Cathodic Protection Replacement Program	50	100	-	-	-	-	150
R2096	RWCWRF - Upgrades and Modifications	1,200	900	-	-	-	-	2,100
S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	642	350	300	300	300	300	2,192
S2019	Avocado Boulevard 8-Inch Sewer Main Improvement	1,515	15	-	-	-	-	1,530
S2020	Calavo Drive 8-Inch Sewer Main Replacement	360	10	-	-	-	-	370
S2021	Jamacha Road 8-Inch Sewer Main Replacement	40	5	-	-	-	-	45
S2022	Hidden Mesa Drive 8-Inch Sewer Main Rehabilitation	120	5	-	-	-	-	125
S2023	Calavo Drive Sewer Main Utility Relocation	50	-	-	-	-	-	50
S2024	Campo Road Sewer Main Replacement	75	150	250	1,500	1,250	25	3,250
S2025	Wieghorst Way Sewer Main Replacement	25	25	125	-	-	-	175
32	Total Replacement/Renewal Projects	10,006	5,966	4,512	4,264	2,405	783	27,936
CAPITAL PURCHASE PROJECTS								
P2282	Vehicle Capital Purchases	540	470	640	450	445	400	2,945
P2286	Field Equipment Capital Purchases	201	100	100	100	100	100	701
P2443	Information Technology Mobile Services	250	150	100	-	-	-	500
P2461	Records Management System Upgrade	150	-	-	-	-	-	150
P2469	Information Technology Network and Hardware	300	300	300	250	200	-	1,350
P2470	Application Systems Development and Integration	408	200	200	200	200	200	1,408
P2501	Telecommunications Equipment Upgrade	400	-	-	-	-	-	400
7	Total Capital Purchase Projects	2,249	1,220	1,340	1,000	945	700	7,454
CIP No.	Description	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	Total
DEVELOPER REIMBURSEMENT PROJECTS								
P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy	1	49	-	-	-	-	50
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	5	795	946	-	-	-	1,746
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	5	395	-	-	-	-	400
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	1	75	350	544	-	-	970
4	Total Developer Reimbursement Projects	12	1,314	1,296	544	-	-	3,166
82	Total - FY 2011 Projects	28,448	40,988	46,173	33,738	18,180	7,033	174,560
12	FY 2012 Through FY 2016 Projects	-	1,297	1,725	3,149	673	20	6,864
Grand Totals		\$ 28,448	\$ 42,285	\$ 47,898	\$ 36,887	\$ 18,853	\$ 7,053	181,424

CIP Justification and Impact on Operating Budget

Projected Incremental Operating Expenditures (1)									
CIP No.	Description	J/FS (2)	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	Total (3)
CAPITAL FACILITY PROJECTS									
P2009	PL - 36-Inch, SDCWA Otay	E/B	4,650	9,300	9,600	9,900	10,200	10,500	\$ 54,150
P2033	PL - 16-Inch, 1296 Zone	E	-	-	-	-	-	2,200	\$ 2,200
P2038	PL - 12-Inch, 978 Zone	B/R	750	1,500	1,500	1,500	1,500	1,500	8,250
P2143	Res - 1296-3 Reservoir 2 MG	E	-	3,800	3,900	4,000	4,100	4,200	20,000
P2172	PS - 1485-1 Pump Station Replacement	B/R	-	7,400	7,600	7,800	8,000	8,200	39,000
P2191	Res - 850-4 Reservoir 2.2 MG	E/B	-	4,200	4,300	4,400	4,500	4,600	22,000
P2318	PL - 20-Inch, 657 Zone	B	-	-	-	100	100	100	300
P2357	PS - 657-1/850-1 Pump Station	B	-	-	(44,400)	(45,700)	(47,100)	(48,500)	(185,700)
P2370	Res - Dorchester Reservoir	B	-	-	(4,800)	(4,900)	(5,000)	(5,200)	(19,900)
P2391	PS - Perdue WTP Pump Station	E/B	-	-	-	-	-	-	-
P2399	PL - 30-Inch, 980 Zone	E	-	-	-	700	700	700	2,100
P2431	Res - 980-4 Reservoir 5 MG	E	-	-	-	-	-	9,400	9,400
P2434	Rancho Del Rey Groundwater	E/B	-	-	-	5,900	6,100	6,300	18,300
P2451	Rosarito Desalination Facility	E/B	-	-	-	-	3,400	3,500	6,900
P2481	Middle Sweetwater River Basin	E/B	-	-	8,900	9,200	9,500	9,800	37,400
P2502	803-1 Pump Station Modifications	B	-	-	(81,900)	(84,400)	(86,900)	(89,500)	(342,700)
P2503	850-2 Pump Station Modifications	B	-	-	(50,400)	(51,900)	(53,500)	(55,100)	(210,900)
P2511	North District-South District Interconnect	E/B	-	-	-	-	-	10,900	10,900
R2034	RecRes - 860-1 Reservoir 4 MG	E	-	-	-	7,500	7,700	7,900	23,100
R2048	RecPL - Otay Mesa Distribution Pipelines	E	-	-	-	10,200	10,500	10,800	31,500
R2058	RecPL - 16-Inch, 860 Zone	E	-	-	-	3,600	3,700	3,800	11,100
R2077	RecPL - 24-Inch, 860 Zone	E	-	-	-	3,200	3,300	3,400	9,900
R2087	RecPL - 24-Inch, 927 Zone	E	-	-	-	5,100	5,300	5,500	15,900
R2088	RecPL - 30-Inch, 860 Zone	E	-	-	-	2,400	2,500	2,600	7,500
R2091	RecPS - 927-1 Pump Station Upgrade	E	-	-	-	-	-	-	-
R2092	Dis - 450-1 Reservoir Disinfection Facility	E	11,250	22,500	23,200	23,900	24,600	25,300	130,750
Total Capital Facility Projects			\$ 16,650	\$ 48,700	\$ (122,500)	\$ (87,500)	\$ (86,800)	\$ (67,100)	\$ (298,550)
REPLACEMENT/RENEWAL PROJECTS									
P2458	AMR Manual Meter Replacement	R	-	-	-	-	(226,400)	(233,200)	(459,600)
Total Replacement/Renewal Projects			-	-	-	-	(226,400)	(233,200)	(459,600)

- (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) *J/FS - Justification and Funding Source - Some projects have multiple funding sources as indicated by a slash (/):*
E - Expansion B - Betterment R - Replacement
- (3) *Negative cost reflect savings gained from operational efficiencies or the retirement of a facility.*
- Note:** See pages 177-178 for complete description of CIP projects.

CIP Justification and Impact on Operating Budget

Projected Incremental Operating Expenditures									
CIP No.	Description	J/FS ⁽²⁾	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	Total ⁽³⁾
CAPITAL PURCHASE PROJECTS									
P2443	Information Technology Mobile Services	E/R	-	-	-	18,000	18,500	19,100	55,600
Total Capital Purchase Projects			-	-	-	18,000	18,500	19,100	55,600
DEVELOPER REIMBURSEMENT PROJECTS									
P2104	PL - 12-Inch, 711 Zone	E	-	-	-	-	2,000	2,100	4,100
P2107	PL - 12-Inch, 711 Zone	E	-	-	-	-	1,700	1,800	3,500
P2325	PL - 10" to 12" Oversize, 1296 Zone,	E	-	-	2,300	2,400	2,500	2,600	9,800
P2402	PL - 12-Inch, 624 Zone	E	-	-	-	-	1,000	1,000	2,000
P2403	PL - 12-Inch, 624 Zone, Heritage Road	E	-	-	-	-	3,100	3,200	6,300
R2028	RecPL - 8-Inch, 680 Zone, Heritage Road	E	-	-	-	-	2,400	2,500	4,900
R2042	RecPL - 8-Inch, 927 Zone	E	-	-	-	900	900	900	2,700
R2047	RecPL - 12-Inch, 680 Zone	E	-	-	-	1,400	1,400	1,400	4,200
R2082	RecPL - 24-Inch, 680 Zone	E	-	-	-	1,200	1,200	1,200	3,600
R2083	RecPL - 20-Inch, 680 Zone	E	-	-	700	700	700	700	2,800
R2084	RecPL - 20-Inch, 680 Zone	E	-	-	-	-	1,900	2,000	3,900
R2085	RecPL - 20-Inch, 680 Zone	E	-	-	-	1,300	1,300	1,300	3,900
Total Developer Reimbursement Projects			-	-	3,000	7,900	20,100	20,700	51,700
Total Operating Budget Cost Impact			\$ 16,650	\$ 48,700	\$ (119,500)	\$ (61,600)	\$ (274,600)	\$ (260,500)	\$ (650,850)

The preceding schedule shows anticipated operating costs associated with each project in the CIP, and below is a summary of each category of new costs that will be impacted. No additional revenues are associated with the individual projects, as revenues are linked more directly to growth in water sales and capacity fee revenues.

Cost Category	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	Total
Operations and Maintenance	\$ 11,300	\$ 27,900	\$ 24,900	\$ 78,400	\$ (130,500)	\$ (116,700)	\$ (104,700)
Energy	-	6,300	(158,500)	(158,200)	(162,900)	(167,700)	(641,000)
Chemical	5,350	14,500	14,100	18,200	18,800	23,900	94,850
Total Operating Budget Cost Impact	\$ 16,650	\$ 48,700	\$ (119,500)	\$ (61,600)	\$ (274,600)	\$ (260,500)	\$ (650,850)

⁽¹⁾⁽²⁾⁽³⁾ see page 179

Note: See pages 177-178 for complete description of CIP projects.

FY 2011 Capital Purchases

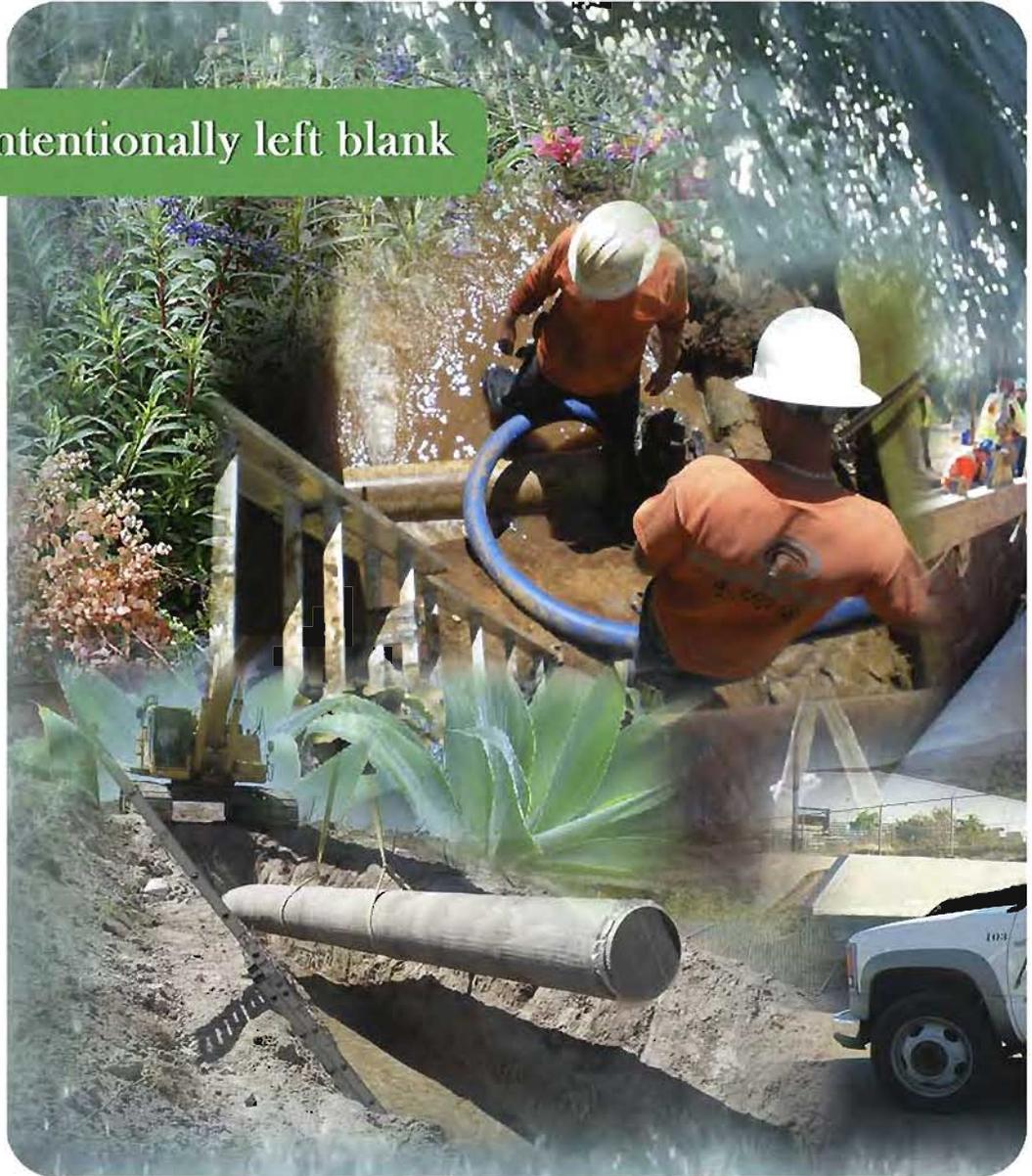
Capital purchases are non-recurring operating expenditures for assets that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Field Equipment, Office Equipment and Furniture, and Vehicles purchases.

Item#	Description	Amount	Type
Field Equipment			
Operations			
14	RWCWRF Emergency stand by gen set.	69,000.00	R
15	Towable Boom Lift: Allows an employee to work up to 61 feet above the ground, with an articulating arm to work above water tanks or buildings. The primary use will be for the SCADA technicians to install, aim, and maintain the thernet radio antennas to meet Strategic Plan goals for SCADA, IT and security.	43,900.00	N
16	Filter media removal and replacement at the reclamation plant.	40,000.00	R
17	Replacement heavy equipment trailer.	20,000.00	R
18	Replacement engine for pump engine number one at the Treatment Plant.	48,500.00	R
19	Replacement compressor for Unit 136.	15,000.00	R
20	Replacement crane for Unit No. 136.	<u>13,000.00</u>	R
Total of Field Equipment		<u>249,400.00</u>	
Vehicles			
Operations			
5	Class 7, 7/8 yard dump body dump truck.	70,000.00	R
6	Class 7, 7/8 yard dump body dump truck.	70,000.00	R
7	Class 7 line truck with utility body.	130,000.00	R
8	Small multi-passenger mini van or SUV.	25,000.00	R
9	Ford F150 1/2 ton pick up truck	25,000.00	R
10	Small multi-passenger sedan or compact car.	20,000.00	R
11	Ford F150 Supercab four-door or equivalent.	25,000.00	R
12	Ford F150 Supercab four-door or equivalent.	25,000.00	R
13	Class 8 Vactor Hydro Excavator.	<u>280,000.00</u>	N
Total of Vehicles		<u>670,000.00</u>	
		<u>Grand Total :</u>	
		<u>919,400.00</u>	

N - New

R - Replacment

This page intentionally left blank





Policies

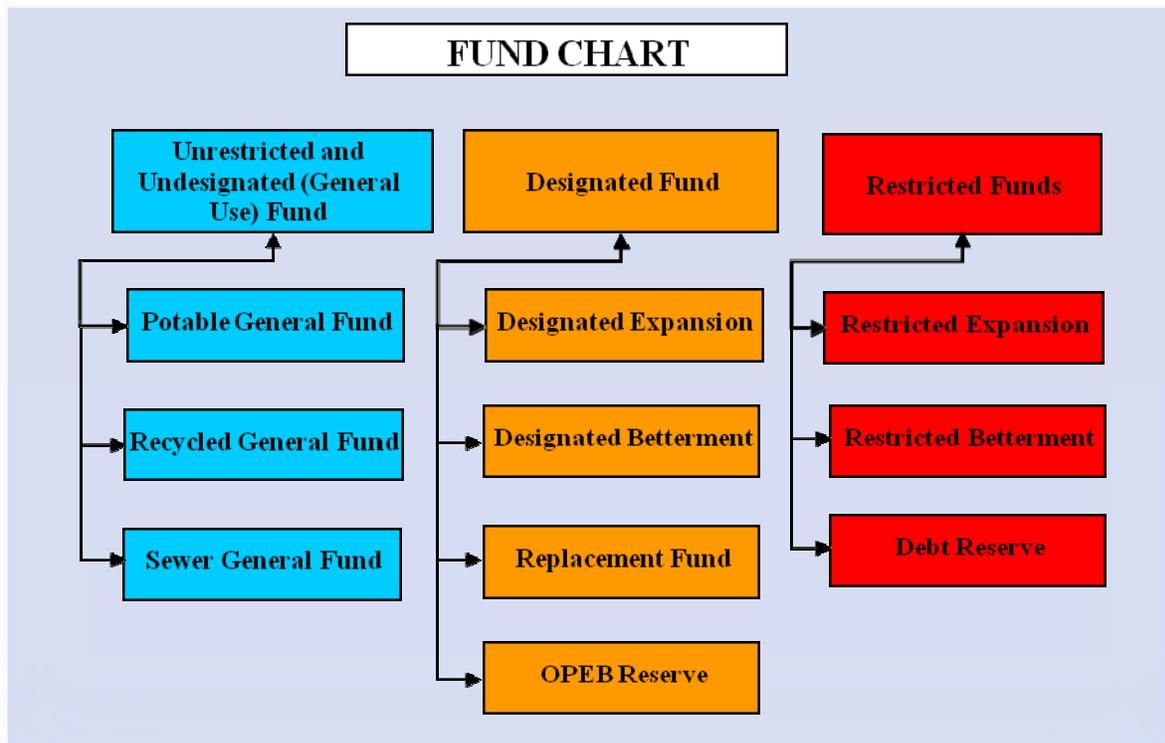
Summary of Financial Policies

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 March 2006.

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



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

The District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

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

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

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

1.1 The District's Use of Funds

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The Operating and Maintenance (O&M) expenditures generally support the purchase and delivery of potable and recycled water, and the transportation and treatment of sewage. The capital expenditures support the construction of infrastructure necessary to deliver service. The District uses various reserves to support the operating and capital efforts. Capital infrastructure is funded using two methods: pay-as-you-go or debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction of infrastructure in all three business areas: potable, recycled, and sewer. Both the capital and operating efforts within the District are different for each of the four distinct customer types.

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

1.2 The District's Capital Improvement Program (CIP)

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



a. Expansion Fund

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

b. Betterment Fund

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

funding sources are restricted in nature of their use and the geographic area of use, with the exception of the general use funds placed in the Designated Betterment Fund.

c. Replacement Fund

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



1.21 Relocations

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

1.22 Oversizing

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

1.23 Exclusion of Developed Areas from Expansion Costs

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

1.24 *Improvement Districts (IDs)*

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

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

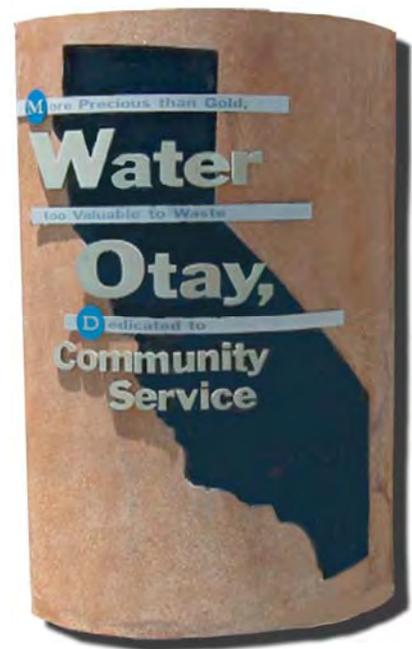
1.3 **The Purpose of the Policy**

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

A “reserve” has a number of meanings:

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

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



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

1.4 Policy Guidelines

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

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

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

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, 2003-137. Each of these recommendations has been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

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

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

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

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

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

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

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.

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

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

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

Sources of Funds

2.0 Developers

a. Meter Installation Charges (General Use)

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

b. Annexation Fees (General Use)

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

c. Developer Deposits (General Use)

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

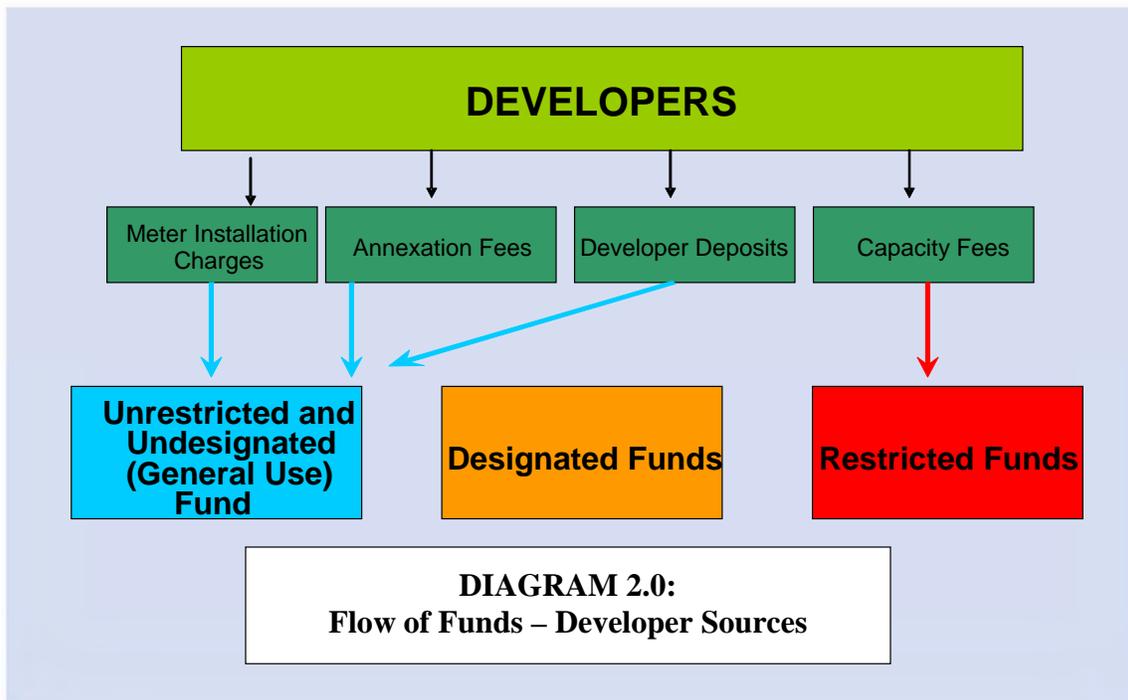
d. Capacity Fees (Restricted)

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

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

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

potable or recycled but only for expansion needs. So, while capacity fees are not restricted separately, one portion for potable and the other portion for recycled, they are tracked separately.



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

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

b. Monthly System Fees (General Use)

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

c. Energy Charges (General Use)

The energy pumping fee is \$0.034 per unit of water for each 100 feet of lift, or fraction thereof, above the base elevation of 450 feet. This charge is placed on the monthly water bills of all water customers.

d. Penalties (General Use)

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

e. Pass-through Fixed Charges (General Use)

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

f. Special Rates and Charges (Restricted)

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

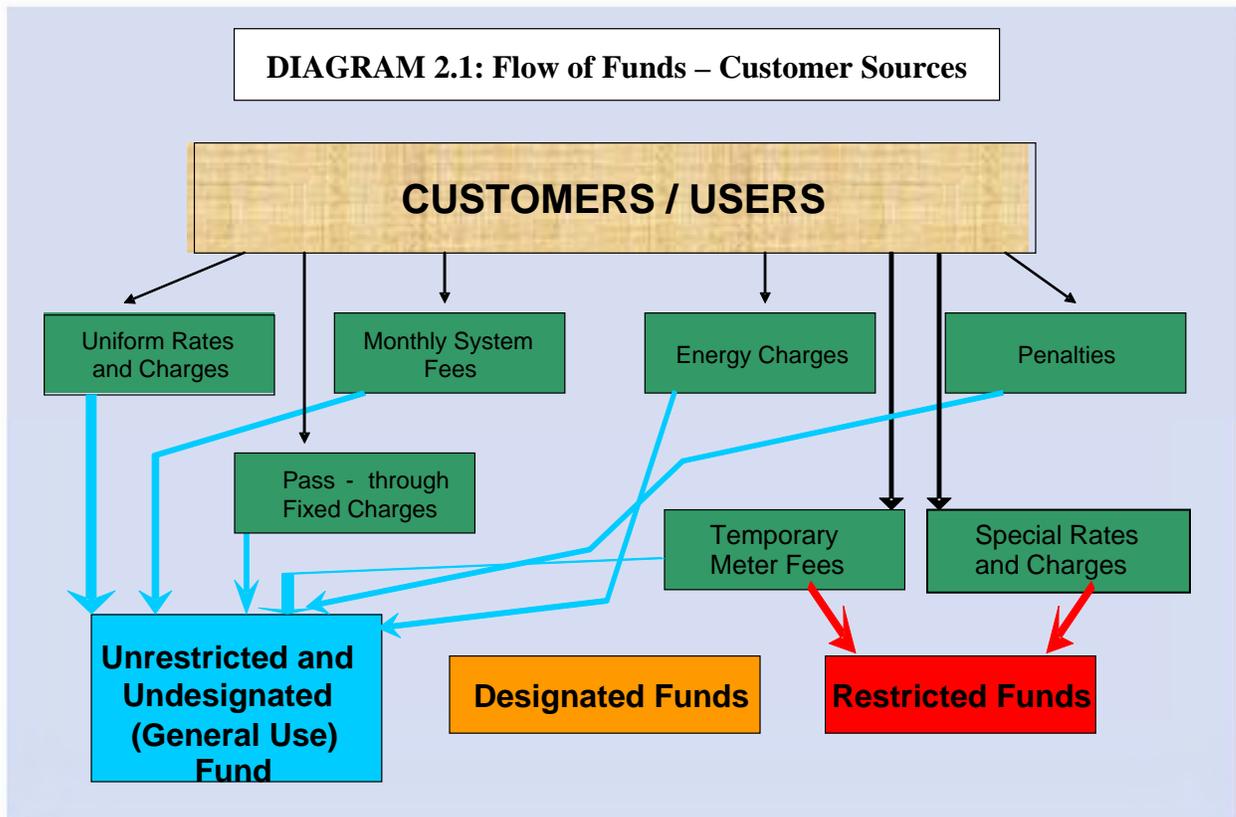
- North District water charge (code section 25.03H)
- ID 9 water charge (code section 25.03I)
- ID 3 water charge (code section 25.03J)
- ID 10 water charge (code section 25.03J)
- La Presa water charge (code section 25.03J)
- Russell Square sewer charge (code section 53.04C)

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



g. Temporary Meter Fees (General Use/Restricted)

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



2.2 County-Collected Taxes and Fees

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

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

b. Availability Charges (General Use/Restricted)

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

Availability fees can be used for the development of facilities consistent with the purpose of the ID which they are collected in, while special rates and fees can also cover the maintenance of those facilities. As charges are incurred on these projects the respective IDs are charged reducing the betterment fund. In the event that funds are not used, the Restricted Funds must be returned to the property owners that paid them. Therefore, the monies in this fund may only be used to finance the construction, installation, and maintenance of the systems within the geographic area of the specific IDs. The District has historically used these funds for

betterment capital facilities however, they are available for any facility construction purpose benefiting the ID whether replacement, betterment, or expansion.

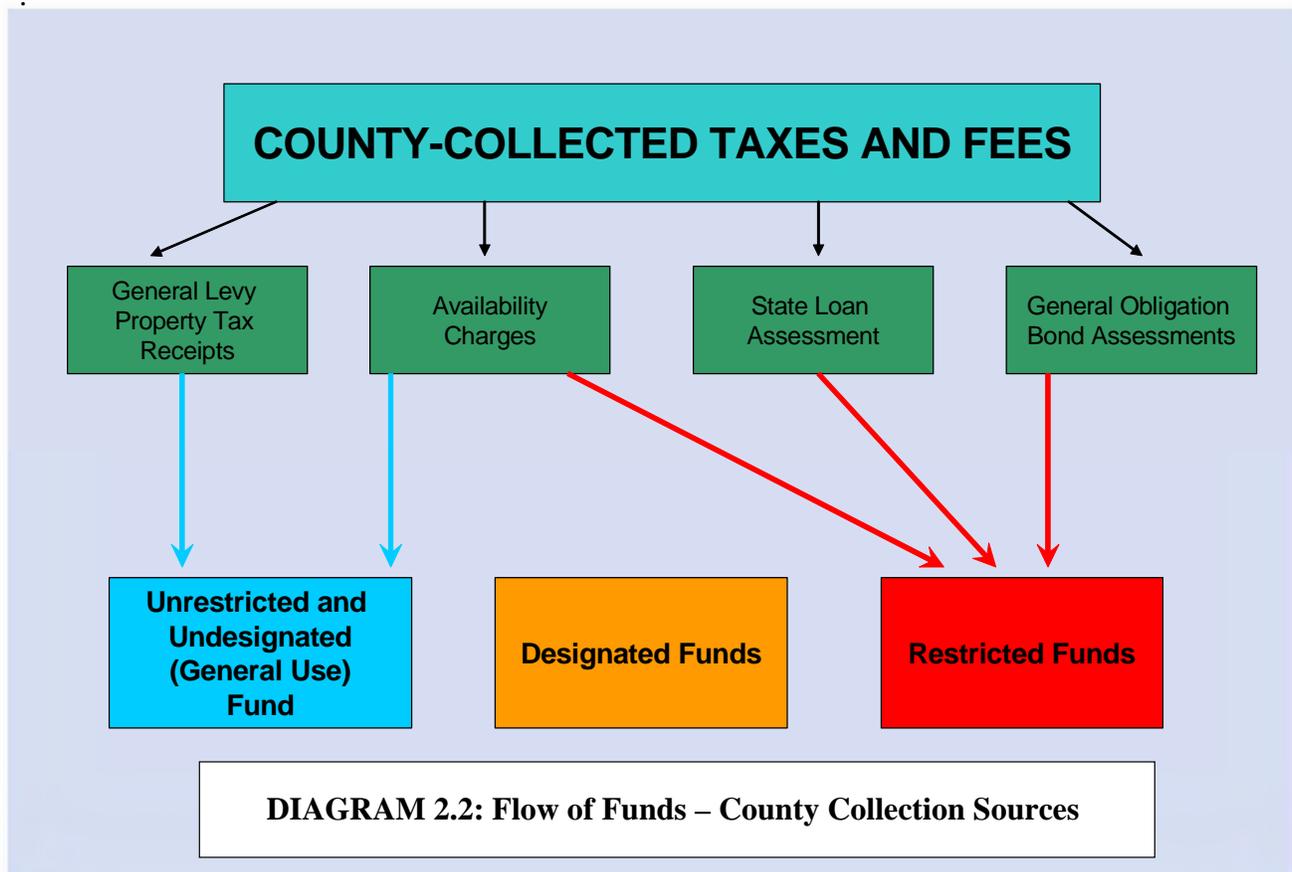
Each year the District sends notices to all new customers informing them of the availability fees and their purpose. This notice also informs the customers of the date and time of the public hearing to receive public comment on this fee. The availability fees are split between the Betterment Fund and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

c. State Loan Assessment (Restricted)

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

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

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



2.3 Miscellaneous Income

a. Miscellaneous Rents and Leases (General Use)

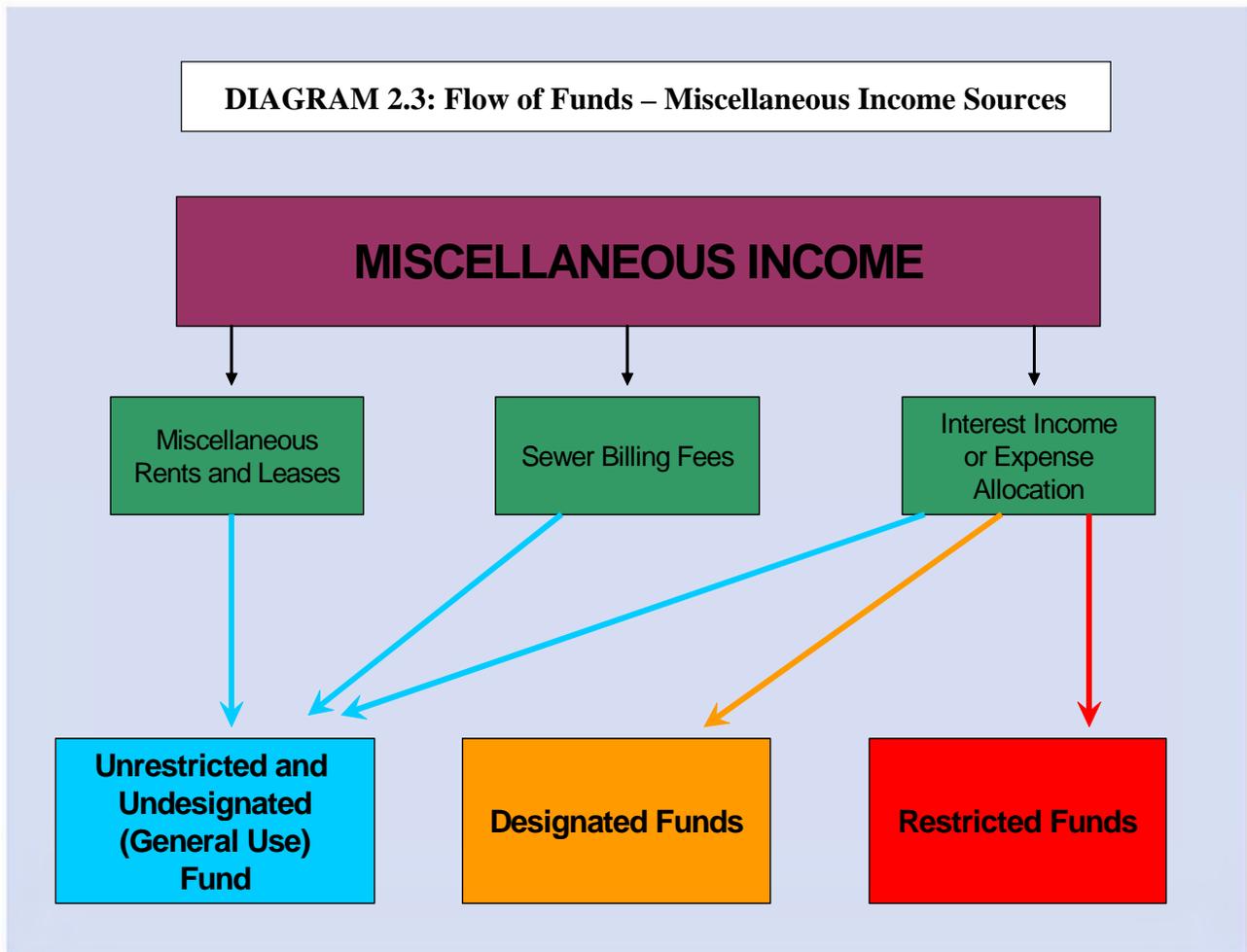
Revenues received from the rental and lease of District property. There is also a one-time fee charged with the set-up of each new lease. The District incurs expenses related to these rents and leases and this fee's purpose is to recover the cost to set up the lease.

b. Sewer Billing Fees (General Use)

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

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

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



2.4 Debt Issuance

a. Loans (General/Restricted Use)

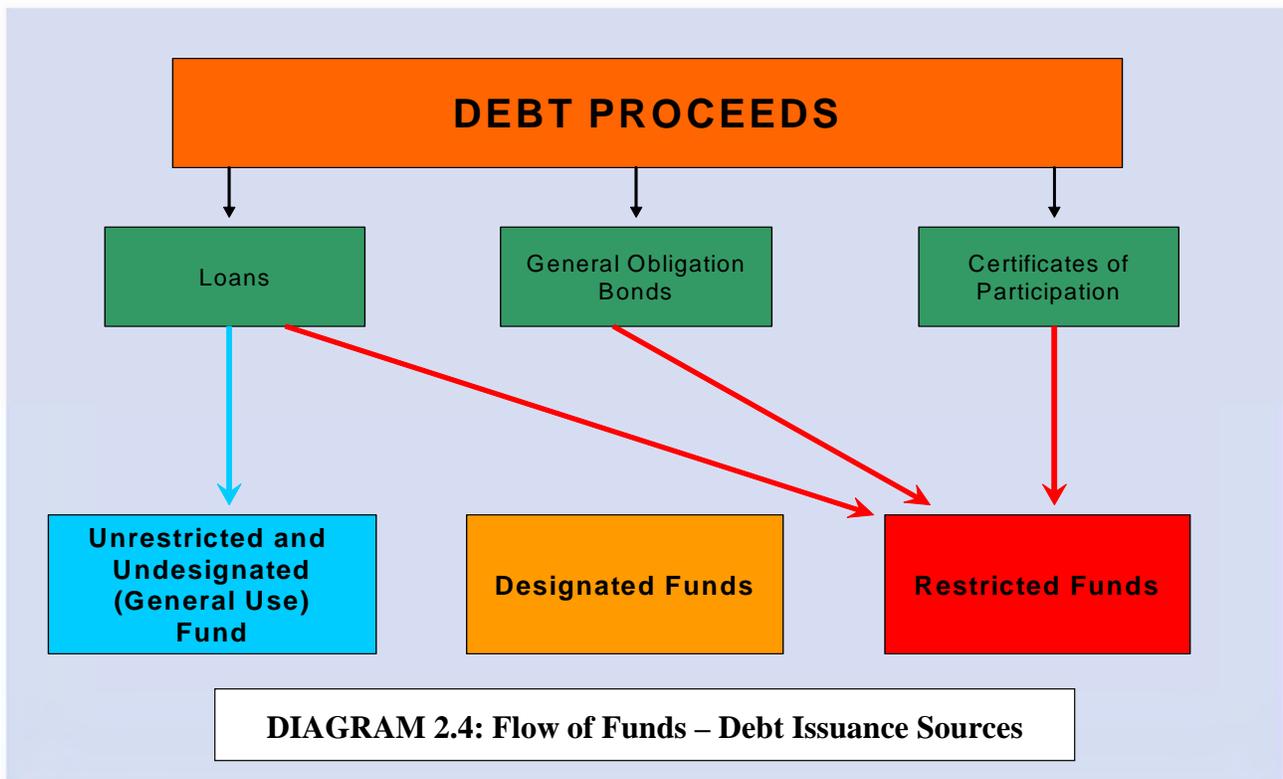
As the District determines that additional funding is required for a particular purpose the option of borrowing is considered. The determination to borrow is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. As an option to bond indebtedness, loans are available especially to satisfy short term financing needs. These loans may or may not be contractually restricted for a particular purpose.

b. General Obligation (GO) Bonds (Restricted)

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

c. Certificates of Participation (Restricted)

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



2.5 Inter-fund Transfers

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

Fund Types

3.0 General Funds

a. Purpose

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

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

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

b. Sources

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

c. Levels

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

3.1 Designated Funds

a. Purpose

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

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

Detailed descriptions of the funds are as follows:

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

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

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

ii. **Designated Expansion Fund**

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

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

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

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

iii. **Designated Betterment Fund**

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



iv. **Replacement Fund**

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



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



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

b. Sources

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

c. Levels Other Post Employment Benefits Fund

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

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

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



i. Designated Expansion Fund

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

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

C. **Target Level** – In order to facilitate debt financing of expansion, it is important that the expansion funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of expansion funds. If the combined expansion funds drop below six months of expenditures this would trigger either a transfer of general use funds or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Expansion Fund while transfers would be placed in the Designated Expansion Fund. If the combined expansion funds exceeded target the District should consider the need to reduce capacity fees or transferring designated funds to meet another purpose.

- ii. Designated Betterment Fund
- A. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for betterment funds will decrease and eventually be reduced to zero. When considering the funding of expansion the Restricted Betterment Fund and the Designated Betterment fund work in concert and must be considered jointly.
- B. **Maximum Level** – The maximum level of this fund is limited to five years of unfunded betterment needs as described in the District’s CIP Budget. To determine the unfunded amount the total betterment costs must be reduced by the projected restricted betterment revenues. Bond financing is expected to fund a large portion of betterment.
- C. **Target Level** – In order to facilitate debt financing of betterment, it is important that the betterment funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of betterment funds. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.). If the combined betterment funds drop below six months of expenditures this would trigger either a transfer of general use funds or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Betterment Fund while transfers would be placed in the Designated Betterment Fund. If this target is exceeded, then the District should evaluate reductions in the special water rates and availability fees and also consider transfers to other funds.
- iii. Replacement Fund
- A. **Minimum Level** – The minimum level of funding is 3% of the historical value of existing assets as identified in the District’s current financial statement.
- B. **Maximum Level** – The maximum level of funding is 6% of existing assets. In the event the maximum level is exceeded in any year, then the excess will be transferred as per the general transfer guidelines found in Section IV.
- C. **Target Level** – The target level of funding is 4% of existing assets. In the event that the fund falls below the recommended target level, transfers or operating revenues would be shifted to support the Replacement Funds. The District will act based on the annual five (5) year rate study to insure that at the end of that planning horizon the fund exceeds the minimum level and is approaching the target level.

3.2 Restricted Funds

a. Purpose

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

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

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

i. Restricted Expansion Fund

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

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



As charges are incurred on a project, and the project has been identified as an expansion project, the costs are deducted from the Expansion Fund. This allocation of funds is done on a monthly basis. In the event that funds are not used for the expansion of District facilities the funds must be returned to the developers who paid them. In the case where a policy change requires a betterment project that would have been an expansion project at the time the capacity fee was collected, reserves may be used for that betterment project. The expansion reserves may also be used for bond repayment, to the extent the debt was incurred to fund expansion.

ii. Restricted Betterment Fund

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

iii. Debt Reserve Fund

The purpose of the Debt Reserve Fund is to pay periodic principal and interest debt payments on the outstanding debt. As these payments are made the funds are reduced. As additional debt is incurred, new property tax assessments may be authorized funded

from assessments on the Property Tax Roll. Annually, the District sets the tax rate at a level necessary to fund that year's debt payments. These rates are applied to the assessed valuation of the property. Changes in property values in assessment areas result in inverse fluctuations in the tax rate necessary to generate the required debt payments.

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

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

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

b. Sources

Temporary meter fees and capacity fees fund expansion while special rates and charges and availability charges fund the betterment fund. The debt reserves are funded by the State Loan Assessment, and GO bond assessments. Each debt fund can also be funded with the proceeds of the debt. Lastly, each fund is allotted its share of the interest income or expense.

c. Levels

i. Restricted Expansion Fund

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

B. **Maximum Level** – The maximum of this fund is limited not by a particular dollar amount but by the limited ability to collect funds for this purpose. This limitation is mandated by Government Code section 66001. Under the Code, the District must identify the purpose of the fee and the use to which it will be put, effectively establishing a nexus between the development project or class of project and the improvement being financed. The District must further establish that the amount of the funds being collected will not exceed that needed to pay for the improvement (Government Code section 66005). Under this mandate, also referred to as AB 1600, the Mitigation Fee Act and Government Code

sections 66000 et seq., the District can only collect capacity fees for expansion projects. To insure compliance with this, the District performs periodic rate studies, a part of which is the calculation of the legally defensible capacity fee. Therefore, the District is limited in this fund by the nexus between the need for expansion expenditures and the fee that is approved for its collection.

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

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



ii. Restricted Betterment Fund

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

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

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

iii. Debt Reserve Fund

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

- B. **Maximum Level** – Sufficient to pay the periodic annual debt service payments. As levels approach this maximum, the District must evaluate the rate at which funds are being collected so as to not over collect. Reductions in the tax rates have been common as property values have risen. Even if the maximum is exceeded, no refunds would occur if future debt payments are necessary. The action required if funds exceed the maximum is a reduction of the rate of collection which will bring the balance down over time.
- C. **Target Level** – The target level of funds for the various debt issuances is six months of debt service. This target level will be reduced as the term of the debt comes to a close.

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

DIAGRAM 3.0: Fund Targets

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

Fund Transfers

4.0 Funding Levels

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

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

4.1 Fund Transfers

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

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

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

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

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

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



Reserve Policy Glossary

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

Annexation Fees: Whenever 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, 2010 are \$1,505 and \$5,553 for water and sewer, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Policy

1.0 Policy

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

2.0 Scope

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

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

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

3.0 Prudence

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

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

from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective

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

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

5.0 Delegation of Authority

Authority to manage the Otay Water District's investment program is derived from the California Government Code, Sections 53600 through 53692. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer (CFO), who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the CFO.

The CFO shall establish written investment policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

6.0 Ethics and Conflicts of Interest

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

portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

7.0 Authorized Financial Dealers and Institutions

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

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

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

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

8.0 Authorized and Suitable Investments

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

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

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

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

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

9.0 Investment Pools/Mutual Funds

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

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

10.0 Collateralization

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

11.0 Safekeeping and Custody

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

12.0 Diversification

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

13.0 Maximum Maturities

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

14.0 Internal Control

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

15.0 Performance Standards

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

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

16.0 Reporting

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

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

17.0 Investment Policy Adoption

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Home Loan Bank (FHIB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

Federal Home Loan Mortgage Corporation (FHLMC Or Freddie Mac): A stockholder owned, publicly traded company chartered by the United States federal government in 1970 to purchase mortgages and related securities, and then issue securities and bonds in financial markets backed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

National Association Of Securities Dealers (NASD): A self-regulatory organization of the securities industry responsible for the operation and regulation of the NASDAQ stock market and over-the-counter markets. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

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

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

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

Public Securities Association (PSA): A trade organization of dealers, brokers, and bankers who underwrite and trade securities offerings.

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

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

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

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

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

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

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

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Sec Rule 15C3-1: See Uniform Net Capital Rule.

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

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

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

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

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

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

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

Debt Policy

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 & 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 6-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 financing. However, debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term cash-flow instruments is excluded from this limitation.

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

Funding Sources

The District's capital improvements can be classified in three categories: those related to an expansion of the system ("expansion"), those related to upgrading the existing system ("betterment") and those related to repairing or replacing existing infrastructure ("replacement"). In general, capital improvements for betterment or replacement are financed primarily through user charges, availability charges, and betterment charges. Capital improvements for expansion are financed through capacity fees. Accordingly, these fees are reviewed at least annually or more frequently as required and set at levels sufficient to ensure that new development pays its fair share of the costs of constructing necessary infrastructure. Additionally, the District will seek State and Federal grants and other forms of intergovernmental aid wherever possible.

Pay-As-You-Go Projects

The District's capacity fees are the major funding source in financing additions to the water system and the recycled water system. Over time, the fees collected and the cost to construct the capital projects should balance. However, collection of these fees is subject to significant fluctuation based on the rate of new development. Accordingly, the Chief Financial Officer, in developing the funding plan for the CIP, will determine that current revenues and adequate fund balances are available so project phasing can be accomplished. If this is not the case, the Chief Financial Officer may recommend that:

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

Debt Financed Projects

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

1. The life of the project or asset to be financed is 10 years or longer and its useful life is expected to exceed the term of the financing.
2. Revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed without jeopardizing the credit rating of the District.
3. Market conditions present favorable interest rates and demand for District financing.
4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.
5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.

5.0 Debt Structure

General

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

Limitations on the Issuance of Variable Rate Debt

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

The comparison will be based on the following criteria:

1. The interest rate used to estimate interest costs will be the 10 year average for weekly variable rates.
2. The variable rate debt costs will include an estimate for annual costs such as letter of credit fees, liquidity fees, remarketing fees, monthly draw fees and annual rating fees applicable to the letter of credit.
3. Any potential reserve fund earnings will reduce the fixed rate debt service or variable rate debt service as applicable.

Periodically, using the criteria described above, the Chief Financial Officer will compare the estimated annual debt service costs to maturity of any variable rate debt with estimated debt service if the debt was converted to fixed rates. If this analysis produces a break even in total payments over the life of the issue, the Chief Financial Officer will recommend converting such variable rate debt to fixed rate.

Variable rate debt should not represent more than 25% of the District's total debt portfolio. This level of exposure to interest rate fluctuations is considered to be manageable in an environment of increasing interest rates. At a higher ratio than this, the District might be faced with an

unplanned water rate increase to meet its Rate Covenants. Rating agencies use this ratio in their analysis of the District's overall credit rating.

Further, Rate Covenants applicable to variable rate debt shall not compromise the issuance of additional debt planned by the District and variable rate debt should always contain a provision to allow conversion to a fixed rate at the District's option.

6.0 Credit Objectives

The Otay Water District seeks to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic services and achievement of District policy objectives.

Factors taken into account in determining the credit rating for a financing include:

1. Diversity of the District's customer base.
2. Proven track record of completing capital projects on time and within budget.
3. Strong, professional management.
4. Adequate levels of staffing for services provided.
5. Reserves.
6. Ability to consistently meet or exceed Rate Covenants.

The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the District is committed to ensuring that actions within its control are prudent and well planned.

7.0 Competitive and Negotiated Sale Criteria

Competitive Sale

The District will use a competitive bidding process in the sale of debt unless the nature of the issue or specific circumstances warrants a negotiated sale. The CFO will determine the best bid in a competitive sale by calculating the true interest cost (TIC) of each bid.

Negotiated Sale

Types of debt that would typically lend themselves to the negotiated sale format are variable rate debt and unrated debt. Circumstances that might warrant a negotiated sale may occur when the issue is of a limited size that would not attract wide-spread investor interest, during periods of high levels of issuance by other entities in the State, or during periods of market volatility. In the event the District decides to use a negotiated sale, it will pay management fees only to those firms that place orders for bonds.

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

8.0 Refunding Debt

Purpose

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

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

Restrictions on Refunding

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

Savings Criteria

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

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

9.0 Subordinate Lien Debt

The District will issue subordinate lien debt only if it is financially beneficial to the District or consistent with creditworthiness objectives. Subordinate lien debt is structured to be payable second in priority to the District's other outstanding debt. Typically, subordinate lien debt might

be issued if the District desired a more flexible Rate Covenant with respect to its new obligations and did not want to refinance all of its existing debt to obtain that less restrictive Rate Covenant.

10.0 Derivatives

The District may consider the use of derivative products on a case-by-case basis, consistent with State statute and financial prudence. The most common derivatives include transactions known as “swaps,” in which the District, by contract with an investment bank (known as a “provider”), swaps its fixed rate debt payments for variable rate debt payments or vice versa, and “forwards,” in which the District enters into a purchase contract with an underwriter to purchase refunding bonds at a future date at interest rates locked in today (not at today’s rates, but at rates locked in today). Derivative products introduce an additional risk factor into a financing, called “third-party risk.” Once a derivative product is entered into, the District must rely upon the financial stability of the provider to perform under the contract. Because the nature of derivatives is speculative, that is, the District is assuming that rates will either go up or down over the period of the contract and therefore expects to lock in a financial benefit today based on that assumption, the financial benefits actually obtained from any derivative contract need to be monitored periodically to determine if it is in the District’s interest to terminate the contract and what the penalty might be for early termination. This requires a certain level of vigilance, and impartial advice in this area is actually difficult to obtain since the derivative market is not particularly liquid or price-transparent and is currently made up of a small handful of reputable providers.

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

11.0 Financing Participants

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

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

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

The Underwriter will work in connection with the District's Financial Advisor on structuring the issue and offering different pricing ideas.

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

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

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

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

Municipal Bond Insurer: The Municipal Bond Insurer can be one of several insurance companies that provide municipal bond insurance policies securing payment of the District's debt. These policies provide that the Municipal Bond Insurer will pay the District's debt in the event that the District defaults on its payments. Debt which is insured carries the Municipal Bond Insurer's credit rating, in most cases, AAA. The insurance premium for the bond insurance policy is paid one time at the issuance of the debt and is non-cancelable for the term of

the debt. Unlike a letter of credit, bond insurance policies do not provide liquidity and are most typically purchased for fixed rate debt.

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

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

Verification Agent: In a refunding, the District will deposit funds with an escrow agent (usually the trustee) in an amount sufficient, together with earnings thereon, to pay the debt service and redemption price of the debt being refunded through and including the call date. The Verification Agent verifies the mathematical accuracy of calculation of the amount to be deposited in escrow and the bond counsel relies on this verification in giving their opinion that the debt is defeased within the meaning of the indenture and that the lien of the debt on the revenues pledged to the debt being refunded is released.

12.0 Conflict Of Interest And Standards Of Conduct

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

13.0 Continuing Disclosure

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

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

14.0 Investment & Arbitrage Compliance

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

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

15.0 Types of Debt Financing

General Obligation Bonds

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

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

Voters within Improvement District No. 27 of the District authorized \$100 million general obligation bonds in 1989. The District issued \$11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately \$29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts

throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

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

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

Revenue Bonds

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

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

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

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

Lease/Purchase Agreements

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

The District may utilize lease-purchase agreements to acquire needed equipment and facilities. Criteria for such agreements should be that the asset life is three years or more, the minimum value of the agreement is \$50,000 and interest costs must not exceed the interest rate earned by the District’s portfolio for the average of the past 6 months. Lease payments of this type are considered operating expenses and would reduce net operating income available to pay any District revenue bonds. There are no coverage requirements or rate covenants associated with lease/purchase agreements.

State Water Loans

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

Land Based Financing

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

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

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

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

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

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

16.0 Rating Agency Applications

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

17.0 Use of Credit Enhancement

Credit enhancement is a generic term that means any third-party guarantee of debt service. Credit enhancement providers include municipal bond insurance companies or financial institutions. The purchase of credit enhancement allows the District's bond issue to carry the same credit rating as the credit provider. The District will seek to use credit enhancement when

such credit enhancement proves cost-effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines.

Fixed Rate Bonds

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

Variable Rate Bonds

Credit enhancement for variable rate bonds is comprised of two components: credit support and liquidity. The interest on variable rate bonds is based on a 7-day investment rate. Any investor can tender their bonds back to the District to be repurchased on 7 days' notice. Because of the short-term nature of the investment, the securities that the District is "competing" with for investors are AAA-rated or AA-rated mutual funds. Therefore, variable debt needs to have credit enhancement to achieve a comparable AAA or AA rating, as well as liquidity support to provide the District with a mechanism to purchase any bonds that are tendered before they can be remarketed to new investors. A limited number of financial institutions offer letters of credit that combine both credit support and liquidity for one fee. An alternative is to purchase bond insurance to provide credit support and enter into a separate purchase agreement with a financial institution to provide liquidity. The difference in cost between the two structures will be analyzed before either alternative is selected for variable rate debt.

Debt Policy 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.

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

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

CIP: Capital Improvement Program.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

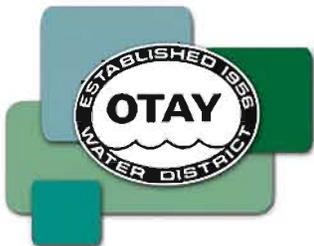
Special Assessments: A charge imposed against property or parcel of land that receives a special benefit by virtue of some public improvement that is not, or cannot be enjoyed by the public at large. Special assessment debt issues are those that finance such improvements and are repaid by the assessments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

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.



Appendix

Glossary

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

Accrual Basis of Accounting: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of cash receipts and disbursements.

Acre-Foot: The volume of water that will cover one acre to a depth of one foot. One acre-foot equals 435.6 units or 325,850 gallons.

Additional Systems Fees: Effective May 1, 1986, each customer receiving water service in the Improvement District 9 water service zone pays an additional monthly meter system charge of \$2.00 for each meter in service.

Annexation Fees: Whenever 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, 2010 are \$1,505 and \$5,553 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, 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 may not extend useful life of the infrastructure, but without it, the whole asset is rendered useless).

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

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

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

Energy Fees: Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge is the rate of \$.038 (to increase on January 1, 2011 to \$.044) per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

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

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

Fire Service: Water service is provided by the District solely for use in fire hydrants or fire sprinkler systems from lines or laterals connected to the District's water mains. The monthly system charge is \$30.11 per month for each connection for fire protection service.

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 delinquent accounts. A late payment charge of 5% of the most recent delinquent amount is added to the account. Other miscellaneous late fees and penalties are detailed in the District's Code of Ordinances.

Meter and Lateral Fees: Charge includes the material costs for the meter, meter box, and the labor cost for installation to connect a new service to the distribution system.

Metropolitan Water District (MWD) Standby Charges: Revenue generated from property taxes by MWD to cover the Readiness-to-Serve (RTS) Charge for the new debt service for construction projects necessary to meet reliability and quality needs. The RTS Charge was adopted in 1996.

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% General Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

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

Other Income: Revenues that are not directly related to the business of providing water and sewer services. For example, contract billing service for the City of Chula Vista and the City of San Diego to bill their sewer customers based on water consumption.

Property Rental Income: Rent or lease agreements for the use of District property.

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

Recycled Water Rates: Non-potable water service provided from water produced by the District's reclamation plant and other non-potable sources. Recycled water is not used for domestic purposes and all other uses must comply with federal, state and local laws and regulations regarding the use of recycled water.

Reserve Fund: The District maintains Reserve Funds per the District's policy for both designated and restricted balances. Designated Reserve Funds are "general use" funds designated by the Board. Restricted reserves are those that are legally set aside for a particular purpose and cannot be used for any other purpose.

Residential Conservation: The water rates for residential customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged. The District has established a water conservation program to promote water conservation and planning.

Glossary

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

Readiness-to-Serve Charge (RTS): was adopted by MWD in Fiscal 1996. The charge serves as a foundation of fixed revenue for MWD. It covers the new debt service for construction projects necessary to meet reliability and quality needs of current water-users as opposed to new customers.

Sale of Fixed Assets: District equipment, which has been determined by the Board to be of no use, obsolete and/or beyond the useful life and therefore, may be sold.

Set-up Fees for Accounts: A charge of \$10 is added for each account transferred to another customer.

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

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

Temporary Water Charge: The rate for temporary water service is two times the rate for permanent service. The additional charge is to offset the cost of construction of facilities for larger capacity.

Tier 2 Charge: An MWD charge passed on by CWA to individual agencies. This is an added charge on all water sales by CWA in excess of the District's 90% baseline water usage.

Water Capacity Fees: Charges paid by customers to connect to a District water system for potable or recycled water service. Fees are determined by multiplying the demand factor for the meter size by the total of the District-wide capacity fee and applicable zone charge

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. On January 1, 2009 the District implemented a tiered rate structure for all customer types to encourage conservation and bring equity among the classes.

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

List of Acronyms

AF	Acre-Foot/Feet
AMR	Automated Meter Reader/Reading
APCD	Air Pollution Control District
ASCE	American Society of Civil Engineers
ASU	Assigned Service Unit
AWWA	American Water Works Association
BIT	Bi-annual Inspection Terminals
BMP	Best Management Practices
BOD	Biological Oxygen Demand
BRP	Business Resumption Plan
CADD	Computer Aided Design & Drafting
CARB	California Air Resources Board
CDPH	California Department of Public Health
CAFR	Comprehensive Annual Financial Report
CCV	City of Chula Vista
CEQA	California Environmental Quality Act
CFS	Cubic Foot per Second
CHP	California Highway Patrol
CIP	Capital Improvement Program
CIS	Customer Information System
CIT	Collaborative Improvement Teams
CMOM	Capacity, Management, Operations & Maintenance
CMTA	California Municipal Treasurers Association
COD	Chemical Oxygen Demand
COPS	Certificates of Participation
CRC	Capacity Reservation Charge
CSC	Customer Service Charge
CSD	City of San Diego
CSDA	California Special Districts Association
CSMFO	California Society of Municipal Finance Officers
CWA	County Water Authority (San Diego)
DBMS	Database Management System
DBP	Disinfectant By-Products
DEH	Department of Environmental Health
DHS	Department of Health Services
DVP	Delivery-versus-Payment
EDU	Equivalent Dwelling Unit
EIR	Environmental Impact Review
EOC	Equal Opportunity Commission

List of Acronyms

ERP	Enterprise Resource Planning
ESC	Emergency Storage Charge
FCF	Flow Control Facility
FHLMC	Freddie Mac or Federal Home Loan Mortgage Corporation
FNMA	Fannie Mae or Federal National Mortgage Association
FTE	Full-time Equivalent
FY	Fiscal Year
GASB	Government Accounting Standards Board
GFOA	Government Finance Officers Association
GIS	Geographic Information System
GO	General Obligation (bonds)
GPM	Gallons per Minute
GPS	Global Positioning System
HCF	Hundred Cubic Foot
HMA	Habitat Management Area
HR	Human Resources
HRIS	Human Resources Information System
HWD	Helix Water District
IAC	Infrastructure Access Charge
ID	Improvement District
IID	Imperial Irrigation District
IIPP	Injury and Illness Prevention Program
IMS	Infrastructure Management System
IRP	Integrated Water Resources Plan
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
LMSE	La Mesa Sweetwater Extension
LOPS	Lower Otay Pump Station
MBR	Membrane Bioreactor
MG	Million Gallons
MGD	Million Gallons per Day
MISAC	Municipal Information Systems Association of California
MH	Man-hours
MOU	Memorandum of Understanding
MSCP	Multiple Species Conservation Program
MSRB	Municipal Securities Rulemaking Board

List of Acronyms

MWD	Metropolitan Water District
MWWD	Metropolitan Waste Water Department (City of San Diego)
NCCP	Natural Community Conservation Plan
NEPA	National Environmental Policy Act
NIMS	National Incident Management System
NOC	Notice of Completion
NOSC	Notice of Substantial Completion
NPDES	National Pollution Discharge Elimination System
O&M or O/M	Operations and Maintenance
OES	Office of Emergency Services (State)
OIS	Otay Information System
OPEB	Other Post Employee Benefits
OWD	Otay Water District
PB	Pacific Bay
PDR	Preliminary Design Report
PEIR	Program Environmental Impact Report
PERS	Public Employees' Retirement System
PL	Pipeline
POU	Principles of Understanding
PRS	Pressure Reducing Station
PS	Pump Station
PT	Part-time
RFID	Radio Frequency Identification
RFP	Request for Proposal
RSD	Rancho San Diego
RTS	Readiness-to-Serve
R/W	Right-of-Way
RWCWRF	Ralph W. Chapman Water Recycling Facility
SAMP	Sub-Area Master Plan
SANDAG	San Diego Association of Governments
SCADA	Supervisory Control and Data Acquisition
SBWRP	South Bay Water Reclamation Plant
SDRMA	San Diego Risk Management Association
SEC	Securities and Exchange Commission
SHRM	Society of Human Resources Management
SLMA	Sallie Mae or Student Loan Marketing Association
SS	Suspended Solids
SSMP	Sewer System Management Plan
SVSD	Spring Valley Sanitation District

List of Acronyms

SWA	Sweetwater Authority
SWRCB	State Water Resources Control Board
UML	Unified Modeling Language
USBR	U.S. Bureau of Reclamation
UWMP	Urban Water Management Plan
WADG	Water Agency Design Guideline
WD	Water District
WER	Work Environment Review
WRMP	Water Resources Master Plan
WTP	Water Treatment Plant

Index

Administrative Expenses	64,77,85,100
Awards	4-6
Balanced Scorecard	7-13
Budget Calendar	17-18
Budget Guide	15-16
Budget Process and Basis	19-21
Budget Summary	34-37
Capital Improvement Program Narrative	169-170
Capital Purchases Budget	181
CIP Flagship Projects in Construction	172-174
CIP Funding Source and Category	176
CIP Justification and Impact on Operating Budget	179-180
CIP Major Projects	171
CIP Projects	177-178
CIP Reserve Funds	175
Classification of Water Sales	55,70
Current Economic Conditions	25
Debt Management	48
Debt Policy	223-235
Debt Policy Glossary	236-239
Demographics	27
Department Budgets:	
Administrative Services	114-124
Board of Directors	104-107
Engineering	157-165
Finance	125-135
General Expense	166-168
General Manager	108-113
Information Technology and Strategic Planning	136-143
Water Operations	144-156
Departmental Operating Budget Narrative	93-95
Five-Year Forecast	45
Formula for Sewer Rates	87
Fund Balance Summary by Fund	41
Fund Balances	47

Index

Future, The	26
General Fund Forecast	46
General Information	2
General Expenses	92
General Revenues	91
General Revenues and Expenses Narrative	89-90
Glossary	240-245
Investment Policy	211-216
Investment Policy Glossary	217-222
Labor and Benefits	96-97
Letter of Transmittal	iv-viii
List of Acronyms	246-249
Materials and Maintenance Expenses	65,78,86,101
Meter Fees	60,73
MWD and CWA Fixed Fees (Pass-Through)	59
Operating Budget Summary	54,69,81
Operating Budget Summary by System	39
Operating Budget Summary – General Fund	38
Operating Expenditures by Department	102
Operating Expenditures by Object	103
Operating Revenues and Expenditures	40
Organization Chart	14
Otay Water District At-A-Glance	1
Past and Present	24
Position Count by Department	98-99
Potable Narrative	52-53
Power Costs	63,76,84
Projected Interest Payments by Debt Issuance	50
Projected Principal Payments by Debt Issuance	51
Recycled Narrative	67-68
Reserve Policy	184-208
Reserve Policy Glossary	209-210
Resolution 4159	22-23
Revenue History	61,74,83

Index

Revenues and Expenditures by Fund	42-43
Revenues and Expenditures by Type	44
San Diego Rainfall	33
Schedule of Outstanding Debt	49
Service Area Assessed Valuation	31
Service Area Maps	66,79,88,105
Sewer Charges Summary by Service Class	82
Sewer Narrative	80
Sewer Rate Comparison	30
Statement of Values	3
Summary of Financial Policies	182-183
System Fees	58,72
Ten Largest Customers	28
Ten Principal Taxpayers	32
Unit Sales History by Customer Class	57
Recycled Water Purchases	75
Potable Water Purchases and Related Costs	62
Water Rate Comparison	29
Water Sales Summary by Service Class	56,71

This page intentionally left blank

