

OTAY WATER DISTRICT

BOARD OF DIRECTORS MEETING
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

WEDNESDAY
November 3, 2010
3:30 P.M.

AGENDA

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE
3. APPROVAL OF AGENDA
4. APPROVE THE MINUTES OF THE REGULAR MEETING OF JUNE 2, 2010
5. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

CONSENT CALENDAR

7. ITEMS TO BE ACTED UPON WITHOUT DISCUSSION, UNLESS A REQUEST IS MADE BY A MEMBER OF THE BOARD OR THE PUBLIC TO DISCUSS A PARTICULAR ITEM:
 - a) ADOPT RESOLUTION NO. 4162 OF THE DISTRICT'S CODE OF ORDINANCES AMENDING POLICY NO. 25, RESERVE POLICY, WHICH INCLUDES THE UPDATED CAPACITY, ANNEXATION AND NEW WATER SUPPLY FEES
 - b) APPROVE AGREEMENTS WITH ADVANCED CALL PROCESSING CORPORATION IN AN AMOUNT NOT-TO-EXCEED \$400,000 FOR TELECOMMUNICATIONS EQUIPMENT AND SERVICES AND FANDEL ENTERPRISES FOR AN AMOUNT NOT-TO-EXCEED \$40,000 FOR TELECOMMUNICATION CONSULTING AND IMPLEMENTATION SERVICES
 - c) AUTHORIZE THE DISTRICT TO BECOME A MEMBER OF THE CALIFORNIA WATER/WASTEWATER AGENCY RESPONSE NETWORK
 - d) APPROVE THE EXERCISE OF THE FIRST YEAR OPTION OF THE AGREEMENT WITH PACIFIC METER SERVICES, INC. FOR THE RETRO-

FIT OF MANUAL READ WATER METERS TO AUTOMATED READ METERS (AMR) AND AUTHORIZE THE GENERAL MANAGER TO APPROVE SUBSEQUENT OPTION YEARS TWO THROUGH FOUR AT HIS DISCRETION

- e) AWARD A PROFESSIONAL ENGINEERING SERVICES CONTRACT FOR RECYCLED WATER PLAN CHECKING, RETROFIT, AND INSPECTION SERVICES FOR DEVELOPER PROJECTS

ACTION ITEMS

8. FINANCE, ADMINISTRATION AND INFORMATION TECHNOLOGY

- a) APPROVE THE DISTRICT'S AUDITED FINANCIAL STATEMENTS, INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION, FOR FISCAL YEAR ENDED JUNE 30, 2010 (CUDLIP)
- b) APPROVE THE ADJUSTMENT OF THE WHEELING RATE FOR THE DELIVERY OF TREATY WATER TO THE CITY OF TIJUANA TO \$68.45 PER ACRE-FOOT FOR CALENDAR YEAR 2011 (CUDLIP)

9. ENGINEERING AND WATER OPERATIONS

- a) AWARD A PROFESSIONAL SERVICES CONTRACT TO LEE & RO, INC. FOR THE NORTH DISTRICT AND SOUTH DISTRICT INTERCONNECTION SYSTEM PROJECT IN AN AMOUNT NOT-TO-EXCEED \$2,769,119 (SILVERMAN)
- b) APPROVE AN AGREEMENT FOR PROFESSIONAL ENGINEERING SERVICES WITH AECOM TECHNICAL SERVICES, INC. IN AN AMOUNT NOT-TO-EXCEED \$3,910,297.00 FOR THE OTAY MESA CONVEYANCE AND DISINFECTION SYSTEM PROJECT (KENNEDY)

10. BOARD

- a) DISCUSSION OF 2010 AND 2011 BOARD MEETING CALENDAR

REPORTS

11. GENERAL MANAGER'S REPORT

- a) SAN DIEGO COUNTY WATER AUTHORITY UPDATE

12. DIRECTORS' REPORTS/REQUESTS

13. PRESIDENT'S REPORT

14. ADJOURNMENT

All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

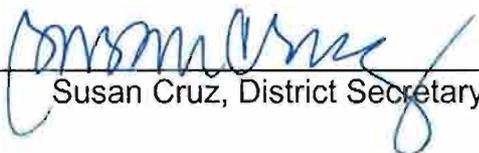
The Agenda, and any attachments containing written information, are available at the District's website at www.otaywater.gov. Written changes to any items to be considered at the open meeting, or to any attachments, will be posted on the District's website. Copies of the Agenda and all attachments are also available through the District Secretary by contacting her at (619) 670-2280.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at (619) 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on October 29, 2010, I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 72 hours in advance of the regular meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on October 29, 2010.



Susan Cruz, District Secretary

AGENDA ITEM 4

MINUTES OF THE BOARD OF DIRECTORS MEETING OF THE OTAY WATER DISTRICT June 2, 2010

1. The meeting was called to order by President Bonilla at 3:30 p.m.

2. ROLL CALL

Directors Present: Bonilla, Breitfelder, Croucher and Robak

Director Absent: Director Lopez

Staff Present: General Manager Mark Watton, Asst. General Manager of Administration and Finance German Alvarez, Asst. General Manager of Engineering and Water Operations Manny Magana, General Counsel Yuri Calderon, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Operations Pedro Porras, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

A motion was made by Director Breitfelder, seconded by Director Croucher and carried with the following vote:

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

to approve the agenda.

5. APPROVAL OF THE MINUTES OF THE REGULAR MEETING OF JANUARY 6, 2010

A motion was made by Director Croucher, seconded by Director Breitfelder and carried with the following vote:

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

to approve the agenda.

6. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

Mr. Parks Pemberton of Chula Vista indicated he felt that the District had some pressure problems in its water system. He stated that he has owned his home for 22 years and has replaced approximately five pressure regulators. He stated that he believes he has had as much as 150 pounds in his home line and requested the board's assistance with this issue.

President Bonilla asked General Manager Watton to research Mr. Pemberton's issue. General Manager Watton indicated to Mr. Pemberton that the District would be in contact with him the following day.

CONSENT CALENDAR

7. ITEMS TO BE ACTED UPON WITHOUT DISCUSSION, UNLESS A REQUEST IS MADE BY A MEMBER OF THE BOARD OR THE PUBLIC TO DISCUSS A PARTICULAR ITEM:

A motion was made by Director Croucher, seconded by Director Breitfelder and carried with the following vote:

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

to approve the agenda.

- a) ADOPT RESOLUTION NO. 4157 AND NO. 4158 IDENTIFYING THE GENERAL MANAGER AS THE AUTHORIZED OFFICIAL TO COMMIT THE OTAY WATER DISTRICT TO FINANCIAL AND LEGAL OBLIGATIONS ASSOCIATED WITH THE POTENTIAL RECEIPT OF GRANTS UNDER THE U.S. BUREAU OF RECLAMATION WATERSMART GRANT PROGRAM
- b) REPORT ON DIRECTOR'S EXPENSES FOR THE 3rd QUARTER OF FISCAL YEAR 2010
- c) APPROVE AN AGREEMENT FOR PROFESSIONAL SERVICES FOR AS-NEEDED ENGINEERING DESIGN SERVICES WITH LEE & RO, INC. FOR AN AMOUNT NOT-TO-EXCEED \$175,000 DURING FISCAL YEARS 2011 AND 2012 (ENDING JUNE 30, 2012)
- d) APPROVE AN AGREEMENT FOR PROFESSIONAL SERVICES FOR AS-NEEDED GEOTECHNICAL CONSULTING SERVICES WITH MTGL, INC.

FOR AN AMOUNT NOT-TO-EXCEED \$175,000 DURING FISCAL YEARS 2011 AND 2012 (ENDING JUNE 30, 2012)

- e) APPROVE AN AGREEMENT FOR PROFESSIONAL SERVICES FOR AS-NEEDED ENVIRONMENTAL CONSULTING SERVICES WITH ICF INTERNATIONAL FOR AN AMOUNT NOT-TO-EXCEED \$375,000 DURING FISCAL YEARS 2011, 2012, AND 2013 (ENDING JUNE 30, 2013)

ACTION ITEMS

8. FINANCE AND ADMINISTRATION

- a) AWARD A CONTRACT TO SAGE DESIGN, INC. IN THE AMOUNT OF \$161,119 PLUS APPLICABLE TAXES AND SHIPPING CHARGES FOR FIRETIDE RADIOS AND RELATED HARDWARE TO COMPLETE THE FY2010 OTAY WATER WIRELESS NETWORK PROJECT AND AWARD A CONTRACT TO PRIME ELECTRIC IN AN AMOUNT NOT-TO-EXCEED \$55,620 FOR INSTALLATION OF ELECTRICAL AND WIRELESS HARDWARE AT MULTIPLE SITES THROUGHOUT THE NORTH DISTRICT

Chief of Information Technology Geoff Stevens indicated that this project is for the District's wireless communications backbone infrastructure. The wireless system will provide services for the SCADA System which is the telemetry system that runs and monitors the District's water/sewer systems and will also provide enhanced security communications which includes video surveillance at the District's facilities.

The wireless communications network will have up to 80 MB capacity and will be designed with power back-up (gen sets, solar or battery). The system is expected to have at least a six (6) to seven (7) year lifecycle and upgrades will be handled through firmware (and will not require site visits to upgrade systems at the facilities). Staff also investigated alternative services such as satellite and cable and determined that the proposed service is the most cost effective.

He noted that the District could operate on the public safety 4.9 GHz frequency, but will most likely operate on the 5.6 to 5.8 GHz frequency which will provide more capacity. The wireless traffic will be encrypted and the infrastructure will be fenced in within the District facilities with alarms in place. The proposed wireless technology was pilot tested and reviewed, and was determined to provide high bandwidth and reliability.

The funds requested today (\$216,739) are to complete Phase II which is to complete wireless communications for the North District. Chief of Information Technology Stevens presented a map (see attached copy of presentation) indicating where facilities will be installed within the North District (red dots on map) and where facilities already exist (yellow dots on map). He noted Phase III of the wireless communications network project is to install wireless communications in the South District which is scheduled to commence in FY2012. He stated at the completion of the project, there will be approximately 60 facilities with visual video

surveillance security. He demonstrated how the video surveillance system will be integrated into the GIS System. He stated that zones can be identified at the facility sites and if something should come into the zone, it would provide an alert. Staff will then be able to view the facility from their computer. In the future, staff will be able to view the facility from their blackberries as well. The technology is proven and is advanced while being cost effective.

He introduced the District's staff who worked on the project, Mr. Bruce Trites from the Information Technology Department and Mr. Gene Palop from the Operations Department. He stated that the District is lucky to have very talented technical staff and that Mssrs. Trites and Palop worked together to develop the wireless communications project. He congratulated them on their good work. He indicated that this is a critical project and also provides a foundation for growth and efficiency.

Director Robak inquired how the SCADA System has changed from the past and today. Senior SCADA/Instrumentation Technician Palop indicated that in the current communications system, if one facility site goes down, then all sites that feed off of that site's radio signal would go down as well. The new system will provide a multi-path format and will not have this issue. It was noted that if the radio signal does go down, the system today does have programmable logic that will continue to operate the system on an automatic mode while staff researches what caused the signal to go down and/or can get to the facility.

In response to a question from Director Croucher, Information Technology Chief Stevens indicated that the proposed wireless communications system will enable staff to run the SCADA and surveillance systems from a mobile platform.

A motion was made by Director Croucher, seconded by Director Breitfelder and carried with the following vote:

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

to approve staffs' recommendation.

9. ENGINEERING AND WATER OPERATIONS

- a) CERTIFY THAT THE FINAL ENVIRONMENTAL IMPACT REPORT (FEIR) FOR THE DISTRICT'S OTAY MESA RECYCLED WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM R2087, R2077, R2058 PROJECT HAS BEEN COMPLETED IN COMPLIANCE WITH THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, THE CURRENT STATE GUIDELINES AND THE DISTRICT'S LOCAL GUIDELINES, AND THAT IT REFLECTS THE INDEPENDENT JUDGEMENT OF THE DISTRICT; FINDS THAT THE POTENTIALLY SIGNIFICANT EFFECTS OF THE PROJECT WILL BE AVOIDED THROUGH THE ADOPTION OF FEASIBLE MITIGATION

MEASURES, AS SHOWN IN THE FEIR, AND THE MITIGATION, MONITORING AND REPORTING PROGRAM FOR THE FEIR; AND APPROVE THE CALIFORNIA ENVIRONMENTAL QUALITY ACT FINDINGS OF FACT IN SUPPORT OF THE FEIR FOR THE PROJECT (COBURN-BOYD)

Environmental Compliance Specialist Lisa Coburn-Boyd indicated that in May 2009 the board awarded a professional environmental services agreement to ICF International for the preparation of the Environmental Impact Report (EIR) for the District's Otay Mesa Recycled Water System Project. She introduced Mr. Jim Harry and Ms. Erin Schorr from ICF International who are in attendance to answer any questions that the board might have.

She indicated that the project consists of three pipelines and a pressure reducing station. She presented a slide showing (see attached copy of presentation) the location of the three pipelines. The Wueste Road Pipeline would start in Chula Vista at the east end of Olympic Parkway and go south along the Otay Reservoir. The Alta Road Pipeline is in the Otay Mesa area and connects to the AirwayRoad/La Media Pipeline.

She stated that the Environmental Analysis included technical studies and identified the following environmental impacts that will need to be mitigated:

- Air Quality
- Biological Resources
- Cultural Resources
- Geology & Soils
- Hydrology and Water Quality
- Noise
- Traffic

She indicated that the full EIR process consisted of:

- Notice of Preparation (distributed on October 8, 2009)
- Public Scoping Meeting held of Oct 19, 2009
- Draft EIR was prepared and distributed for a 45-day public review period
 - Six comment letters were received from the public
- Responses were prepared to the comments and the responses were incorporated into the Final EIR.
 - The California Department of Fish and Game responded to the District's response to their comments on the Draft EIR reiterating their initial concerns and asked that the District include specific measures to protect Burrowing Owls in Otay Mesa. There are plans within the EIR and the Construction Specifications to protect their habitat.
 - Staff will be including the mitigation measures in the District's Construction Specifications which will include:
 - Biological Monitoring

- Covering and Capping of All Stored Pipes
- Flagging and Fencing of Sensitive Vegetation

This presentation is the Public Hearing to certify the EIR.

Director Robak inquired what the context of the concerns were of the comment letters. Environmental Compliance Specialists indicated that all other comments received were very minor and that letters were not received from the City of Chula Vista, County of San Diego or the City of San Diego.

A motion was made by Director Breitfelder, seconded by Director Croucher and carried with the following vote:

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

to approve staffs' recommendation.

10. PRESENTATION OF THE 2010 OTAY PHOTO CONTEST AWARDS

Water Conservation Manager William Granger presented the awards to the District's high school photo contest winners. A couple years ago the District joined forces with Helix WD and Sweetwater Authority to recognize high school students for photos taken that depict a water theme. This is the third year of the contest and the District's winner last year also won the regional contest award of \$500 and their photo was used on a bookmark. This year the District received 62 entries (a record high) in two categories: black & white and color. Water Conservation Manager Granger presented the awards to:

- 1st Place and winner of \$200 to Ms. Maureen Argo from Eastlake HS with her photo entitled, "Bring the Rain"; and
- 2nd Place and winner of \$100 to Brandon Perez from Eastlake HS with his photo entitled, "One Last Drop"

He introduced Mr. Hinkle, the students' teacher, who was also in attendance of the meeting. He noted that previous winners' photographs have been published in the District's Consumer Confidence Report (CCR) and it is planned that the winners of this year's photo contest will again be published in this year's CCR.

11. BOARD

a) DISCUSSION OF 2010 BOARD MEETING CALENDAR

There were no changes to the meeting calendar.

INFORMATIONAL ITEMS

12. THESE ITEMS ARE PROVIDED TO THE BOARD FOR INFORMATIONAL PURPOSES ONLY. NO ACTION IS REQUIRED ON THE FOLLOWING AGENDA ITEM:
 - a) PRESENTATION ON STATUS OF 3RD QUARTER OF FISCAL YEAR 2010 CAPITAL IMPROVEMENT PROGRAM [RIPPERGER]

As there were no questions with regard to this report a presentation was not provided.

REPORTS

13. GENERAL MANAGER'S REPORT

General Manager Watton indicated that the 36-inch pipeline project within Jamacha Road is moving along well and the City of El Cajon has been happy with the progress.

He indicated with regard to the *Cash-for-Appliances Rebate Program* that the State of California has extended its rebate. He also noted that the City of Chula Vista has a rebate.

He noted that staff has been reviewing the telephone system and Voice Over Internet Protocol (VoIP) system. The assessment has been completed and staff will be proposing that the District upgrade the phone system with current technology.

He announced that Chief Information Officer Stevens was recognized by the San Diego Business Journal as a finalist for the *Information Technology Executive of the Year Award* for 2010. He indicated that it was nice to have him recognized for the work he does for the District.

General Manager Watton stated that water sales are below budget by approximately 15%. It is felt that much of the reduced sales are attributable to the tiered pricing based on usage (customers will pay more if they utilize more water than average). He stated that he wished to keep the board apprised that sales are continuing to stay below budget and that the lower sales will also impact the District's wholesale suppliers; CWA and MWD. There is a concern that MWD has not fully budgeted the reduced sales and that it will impact their budget in the next year or two. The increase from MWD this fiscal year and next year is stated at 7.5%, but it is uncertain if they can hold the rate increase in the next fiscal year at 7.5% based on the water low sales.

He noted that the audit of the District's Financial Statements for FY 2010 is underway. This is the second year that the District's audit will be performed by Diehl, Evans & Company, LLP.

He stated with regard to the Otay Mesa Recycled Water Supply Link, that the board had approved the EIR for the project today. He indicated that this supply link will bring recycled water to the Otay Mesa area which has been planned for years. He noted that there are concerns with the City of San Diego's pricing and willingness to provide recycled water which may delay the construction of this project. Staff has been working with the City and other groups (Metro Commission, Environmental Groups, etc.) to work out a resolution. This will be an evolving situation.

He indicated that the Rancho del Rey Groundwater Development project is halfway through its pilot. Under the pilot program they are currently drilling and it is expected that the drilling will go for another day. The District's inspectors have been monitoring the project and he noted that the construction site is being kept clean and the noise level is being controlled by sound shields. Staff also has been in contact with the neighbors and the day care center close by the project site and no issues have been received. The project is moving along well. It is planned that the main well will be drilled in about two weeks and it is anticipated that the study of the pilot will be completed in August or September.

President Bonilla indicated that he has received concerns from his neighbors regarding the project. They are interested in how the project will look once it is completed and have asked if it will be noisy; if there will be a risk to the kids of the neighboring childcare center; etc. He indicated that it would be helpful if the District could provide informational flyers to the residents with a contact telephone number for those who live within close proximity to the project. Staff indicated that they will develop a flyer for distribution to the community.

SAN DIEGO COUNTY WATER AUTHORITY UPDATE

Director Croucher indicated that CWA is opposing AB 216 which revises the pre-litigation dispute resolution process for local government public works contracts entered into after January 1, 2010. He stated that CWA is also continuing to review desalination projects and it was determined by CWA's attorney with regard to the Poseidon Project that the agencies, other than the City of Oceanside, will not be able to vote on what parameters will or will not be included in the Poseidon contract as they all have individual contracts with Poseidon.

14. DIRECTORS' REPORTS/REQUESTS

Director Beitfelder indicated that there has been ongoing interest in the City of San Diego's recycled water rate study. He stated with regard to the Conservation Action Committee that they have been focused on research results concerning conservation from a psychological perspective. The research indicates that there seems to be a desire for individuals to conform to a community norm. He also shared that he attended the Binational Desalination Conference and it was discussed that the feasibility study of possibly developing a desalination plant in Mexico is essentially complete and it seems that the Rosarito Beach option is feasible though the concept is not yet at an advanced stage. He lastly shared that discussions at the Water Conservation Garden Board meetings have been centered

on the new governing board and ideas on how to make the garden self-sustaining. It is expected that the Water Conservation Garden staff will be presenting recommendations to the Water Conservation Garden board soon.

Director Robak indicated that he attend the Spring Garden Festival during which the new awning in the Amphitheatre of the Garden was being dedicated. He stated that the new awning will be a great benefit to the theatre, especially during summer events. He also thanked Ms. Karyn Keese of PBS&J for her successful work on a acquiring a grant of \$2500 for the Garden. He lastly shared that he toured the District's 1485 Pump Station and 1296-2 Reservoir to see the progress of the projects. He stated that the projects seem to be going along well and it was nice to see the reservoir almost completed.

15. PRESIDENT'S REPORT

President Bonilla indicated that on May 5 he met with the General Manager Watton, General Counsel Calderon and the District's attorneys who are working on the negotiations for the desalination project. He stated that on May 6 he attended the San Diego Business Journal Technology Executive of the Year Award where Chief of Information Technology Stevens received recognition as a finalist. He thanked Director Breitfelder and staff for their attendance of the event and congratulated Chief of Information Technology Stevens on being named a finalist. He also shared that he met with General Manager Watton on May 14 to discuss items for presentation at the May committee meetings. He stated on May 17 the District held a Budget Workshop where the board approved the FY 2011 Operating and Capital Improvement Budgets. He lastly shared that on May 19 he attended the District's Finance, Administration and Communications Committee where the committee reviewed and made recommendations on items for presentation at the June board meeting. President Bonilla also wished Director Breitfelder well in the upcoming primaries for his candidacy for a seat on the City of Chula Vista's Council.

RECESS TO CLOSED SESSION

16. CLOSED SESSION

The board recessed to closed session at 4:34 p.m. to discuss the following item:

- f) CONFERENCE WITH LEGAL COUNSEL – PENDING LITIGATION
[GOVERNMENT CODE §54956.9(a)]
 - (I) MULTIPLE CASES RELATED TO THE FENTON BUSINESS CENTER AND FILED WITH THE SUPERIOR COURT OF THE COUNTY OF SAN DIEGO CONSOLIDATED UNDER CASE NO. 37-2007-00077024-CU-BC-SC

RETURN TO OPEN SESSION

17. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION

The board reconvened at 5:02 p.m. and General Counsel Yuri Calderon indicated that the board took no reportable action in closed session.

18. ADJOURNMENT

With no further business to come before the Board, President Bonilla adjourned the meeting at 5:02 p.m.

President

ATTEST:

District Secretary



AGENDA ITEM 7a

STAFF REPORT

| | | | |
|-----------------------------|---|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 3, 2010 |
| SUBMITTED BY: | Rita Bell, Finance Manager | W.O./G.F.NO: | DIV.NO. A11 |
| APPROVED BY: (Chief) | Joseph R. Beachem, Chief Financial Officer | | |
| APPROVED BY: (Asst. GM): | German Alvarez, Assistant General Manager, Administration and Finance | | |
| SUBJECT: | Adopt Resolution No. 4162 of the District's Code of Ordinances Amending Policy No. 25, the Reserve Policy, Which Includes the Updated Capacity Fees and Annexation Fees, and the New Water Supply Fee | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopt Resolution No. 4162 of the District's Code of Ordinances amending Policy No. 25, the Reserve Policy, which includes the updated capacity fees and annexation fees, and the new water supply fee.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

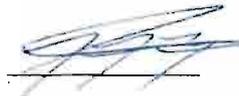
That the Board adopt Resolution No. 4162 of the District's Code of Ordinances amending Policy No. 25, the Reserve Policy, which includes the updated capacity fees and annexation fees, and the new water supply fee.

ANALYSIS:

In March 2006, the Reserve Policy was updated to reflect industry best practices, clearly defining the sources and uses of the District's funds and establishing the minimums, maximums, and targets for each of the funds. In May 2010, the Board adopted a new capacity fee and annexation fee methodology, as well as a new water supply fee. As a result of these Board approved changes, the new sources and uses of fees need to be incorporated into the Reserve Policy.

The proposed policy is in alignment with the District's financial plan and is an integral part of the annual rate model update which impacts the District's rates and fees.

FISCAL IMPACT:



None.

STRATEGIC GOAL:

The District ensures its continued financial health through long-term financial planning and debt planning.

LEGAL IMPACT:

None.



General Manager

Attachments:

- A) Committee Action Form
- B) Resolution No. 4162
Exhibit 1 Strike-through Copy of Policy No. 25
- C) Proposed Copy of Policy No. 25



ATTACHMENT A

| | |
|-------------------------|--|
| SUBJECT/PROJECT: | Adopt Resolution No. 4162 of the District's Code of Ordinances Amending Policy No. 25, the Reserve Policy, Which Includes the Updated Capacity and Annexation Fees, and the New Water Supply Fee |
|-------------------------|--|

COMMITTEE ACTION:

The Finance, Administration, and Communications Committee reviewed this item in detail at a meeting held on October 19, 2010. The following comments were made:

- Staff is proposing that the board adopt Resolution No. 4162 amending the District's Reserve Policy. Staff indicated that much of the modifications to the policy are a result of the change in methodology in calculating the District's capacity and annexation fees and the incorporation of the new water supply fee.
- The Reserve Policy also identifies which reserves the fees should be deposited into and the restrictions on the use of the fees. The District's rate model will also be modified to accommodate the changes in the Reserve Policy.
- Additionally, as a best management practice, the District is required to review its policies periodically. The Reserve Policy was last updated in 2006 and staff took this opportunity to review the overall policy and updated some terms and reorganized portions of the policy.

The committee supported staffs' recommendation and presentation to the full board on the consent calendar.

RESOLUTION NO.4162

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
OTAY WATER DISTRICT AMENDING
RESERVE POLICY NO.25 OF THE
DISTRICT'S CODE OF ORDINANCES

WHEREAS, the Otay Water District Board of Directors have been presented with an amended Reserve Policy No. 25 of the District's Code of Ordinances for the financial management of the Otay Water District; and

WHEREAS, the amended Reserve Policy has been reviewed and considered by the Board, and it is in the interest of the District to adopt the amended Reserve Policy; and

WHEREAS, the strike-through copy of the proposed policy is attached as Exhibit 1 to this resolution; and

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the amended Reserve Policy, incorporated herein as an attachment, is hereby adopted.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a board meeting held this 3rd day of November 2010, by the following vote:

Ayes:
Noes:
Abstain:
Absent:

President

ATTEST:

District Secretary

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|----------------|---------------|--------------|-------------------------------|
| RESERVE POLICY | 25 | 2/10/93 | 3/13/06 11/3/10 |

INTRODUCTION

1.0 The District

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

The District provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such,

~~the~~ District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

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

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|----------------|---------------|--------------|-------------------------------|
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1.1 The District's Use of ~~Funds~~Financial Resources

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The ~~Operating costs include costs relating to 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-funds~~ to support the operating and capital efforts. Operations and maintenance is financed only by rates and charges, also called Capital infrastructure is funded using two methods: pay-as-you-go, while capital infrastructure is financed using two financing methods: pay-as-you-go and ~~or~~ debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction, betterment, and replacement of infrastructure in all three business areas: potable, recycled, and sewer. ~~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~~ establishes different funds to accumulate and account for revenues allocated to different activities. Those funds receive funding up to the levels defined in this policy. ~~Each-Every~~ year, as a part of the annual budget process, the District's rate model is updated for each fund with the current fund balances and the estimated revenues and expenditures for the next six years. The expenditure ~~or funding~~ requirements and financial resources are then evaluated to ensure that the existing fund levels-balances and additional revenues are sufficient within the current budget cycle and for the next five years to maintain target fund levels. If a deficit is identified, then options for transfers, shifting CIP projects, debt, cost saving measures, and/or rate increases are evaluated.

1.2 The District's Capital Improvement Program (CIP)

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

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

a. a. New Water Supply

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

b. Expansion Fund

The portion of a CIP project that benefits new users is funded financed by the developing areas through capacity fees from the reserves in the Expansion Fund category. These reserves are primarily derived from the proceeds of the "incremental" portion of the capacity fees collected within developing areas. This

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~~portion of the 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 capacity fees is accounted for separately and used solely for the planning, design, and construction of expansion facilities. Additionally, expansion may be financed by annexation fees or the "buy-in" portion of the capacity fee. Both of these fees are restricted for CIP purposes, but not specifically for expansion. The majority of the funding sources are restricted in nature with the exception of the general use funds placed into the Designated Expansion Fund. Debt financing may also be a temporary financial resource for expansion projects. General use reserves may also be placed in the Designated Expansion Fund and used for expansion projects.~~

c. Replacement

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

db. Betterment Fund

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

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~~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.~~

e. 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.~~

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1.21 Relocations

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

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. If deemed reasonable by the District, in connection with the construction of backbone facilities, a developer may be required to oversize new facilities for future development. The developer is reimbursed for incremental oversizing costs as per Policy No. 26.~~

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These reimbursements are not available for the distribution system within a development which is an obligation of the developer.

1.23 Exclusion of Developed Areas from Expansion Costs

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

1.24 Improvement Districts (IDs)

Improvement Districts (IDs) are established ~~in order to~~ facilitate the funding financing of ~~a~~ particular improvements by the specific beneficiaries. The District has a number of ~~Improvement~~ IDs that were established for General Obligation (GO) debt repayment. ~~Many of these Most GO issuances debt have has~~ been paid off and, ~~as outlined in the Debt Policy,~~ it is unlikely that the District will issue additional GO debt. IDs-Improvement districts continue to be used for other funding purposes: ~~First, 1)~~ to distinguish sewer customers from water customers on the county tax roll; ~~second, 2)~~ to place parcels on the county tax roll for the collection of availability fees; or third, 3) 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 moved to a~~ district-wide perspective ~~to of funding financing~~ improvements. This philosophy is evident by the district-wide capacity ~~fee and~~ annexation fees. The District also uses district-wide water rates. As time ~~continues goes~~ on, it is expected that IDs will continue to outgrow their purpose. ~~So, while many IDs remain and~~ 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~~ continuous availability of services. Financial stability and the ~~increase in resulting improved~~ 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 ongoing~~ maintenance of property and timely

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payment of expenses ~~beyond the magnitude of the funds even when such expenses exceed money~~ available ~~in from~~ a single fiscal period. In the final analysis, the type and level of reserves are driven by the type and magnitude of uncertainty faced by the ~~District~~public entity.

A "reserve" has a number of meanings, as follows:

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

It is important to note that reserves, fund balance, and net assets are not the same. Fund balance and net assets are accounting terms and may not always be in the form of cash or liquid investments. Fund balances and net assets may not always be reserves unless a designation of all or a portion of fund balance is made. ~~It is important to note that In addition,~~ 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-finance~~ contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the management and use of these ~~funds~~financial resources. Few policies have a more significant impact on the financial health and stability of the District. This policy explains several key financial concepts used by the District and provides some background information to the overall strategies and practices utilized. The District has a fiduciary obligation to its customers, to manage and direct the use of public funds for the purpose of providing water and sewer services in an efficient and financially sound manner.

1.4 Policy Guidelines

In 2000, the Little Hoover Commission reviewed the levels of reserve funds for special districts in California and prepared a report reflecting that special districts were accumulating unreasonable levels

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of funds. As a proactive response, the California Special Districts Association (CSDA) prepared Reserve Guidelines for its members. The Reserve Guidelines were significant in noting that reserve levels need to be in context of the organization's overall business model and capital improvement plan.

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

- Economic Uncertainty - performance of the regional economy and the impact of that performance on demand for water.
- Weather - the amount of rainfall and the impact of weather on the availability and the cost of water as well as the demand for water.
- Government Mandates - the impact of federal and state regulation, particularly environmental regulation.
- Tax Changes - limitations on the District's taxing and spending powers through the passage of a voter referendum, the impound of District property taxes or the removal of the District's power to levy property taxes, further increases to Educational Revenue Augmentation Fund (ERAF) contributions or changes in calculation methodology.
- 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~~ short-term borrowing in the absence of sufficient ~~financial~~ financial resources.

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, Report No. 2003-137. ~~Each~~ All of these recommendations ~~has~~ have been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

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

Yet, the State Auditor's report acknowledges that the California Constitution (Article XIII B, Section 5) is vague in its provisions governing the accumulation and use of reserves¹. Specifically, the Constitution states that "each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund...or similar funds as it shall deem reasonable and proper."² Similarly, the State's Water Code does not impose any requirements as to specific or recommended reserve fund levels. As a result, the public finance community as a whole has yet to settle on any real objective standards for the level of reserve funds appropriate for governmental enterprises. This lack of consensus as to specific standards is indicative of the wide variance of the financial and operations contexts for different districts and different contingencies justifying reserves ~~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: that in establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors. These include~~ing~~:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of the unreserved fund balances may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).

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

² California Constitution, Article XIII B, Section 5, 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.

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- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of the unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e., governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

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

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

- Funds-Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity between-among customers.
- Each of the service types is tracked separately so that expenditures and revenues can be monitored and evaluated for each customer type. This provides the District with the necessary information to appropriately charge for each of the services.
- Separation of O&M-operations and maintenance from capital expenditures occurs within each of the service types. This is done because the funding-financing of these expenditures is often on different timelines or use different -funding sources-reserves.
- The District will hold its reserve at responsible and prudent levels. This policy sets minimum, maximum, and target levels for

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each of the various funds. This has been done so that the District can maintain ~~funds-reserves~~ to meet the purpose for which the funds were established. The levels are set by reference to line items in the District's financial statements and approved budgets. This allows reserve levels to adjust to the District's changing financial circumstances.

- Debt financing of facilities provides intergenerational equity and maintains rates at reasonable levels. This equity is accomplished with ~~the long-term financing by which~~ spreadings 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 financial resources~~ in a Replacement Reserve Fund allowing the District to cash ~~fund-finance~~ all replacements. ~~In order to obtain these funds, However, this would require~~ 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-fees~~ charged. This review also insures that ~~funds-reserves~~ will be available to continue to serve the District's customers.

~~SOURCES OF FUNDS~~

Financial Sources

2.0 Developers

- a. ~~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-financed~~ by developers.

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b. e. Developer Deposits (General Use)

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

c. ~~b.~~ Annexation Fees (General Use Restricted)

~~Annexation Fees³ are collected as a condition of annexing into are outlined in Section 9 of the Code of Ordinances. This is the buy-in to the District's potable and recycled water facilities. Since the existing facilities have been built and maintained by developers or customers within the District, the annexation fee is calculated based on the present value of all property taxes (1% property tax and availability fees) -paid by the developer and based on the excess capacity built by existing and prior customers. users. This The annexation fee insures that future users fund finance a portion of the facilities that were sized, and built, and maintained for their both existing and future users. 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. Proceeds of annexation fees are restricted and can be used for expansion, replacement, or betterment projects. These reserves may be shifted back and forth as financing needs change.~~

d. Annexation Fees (Unrestricted)

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

e. New Water Supply Fee (Restricted)

New water supply fees⁴ are based on the cost of the expansion portion of new water supply projects divided by the number of future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District's new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects.

³ Code of Ordinances, Section 9.

⁴ Code of Ordinances, Section 28

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

~~_____d. Capacity Fees (Restricted)~~
The capacity fee is outlined in Section 28 of the Code of Ordinances. Capacity fees⁴ are based on the value of existing and future facilities estimated construction cost of expansion divided by the number of existing and future Equivalent Dwelling Units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in" portion of the capacity fee is restricted to pay for including, but not limited to, planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. for the District's expansion needs. The "incremental" portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities (excluding new water supply expansion).

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

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

The capacity fee is calculated based on the expansion costs of the combined recycled and potable water systems needs. This methodology,

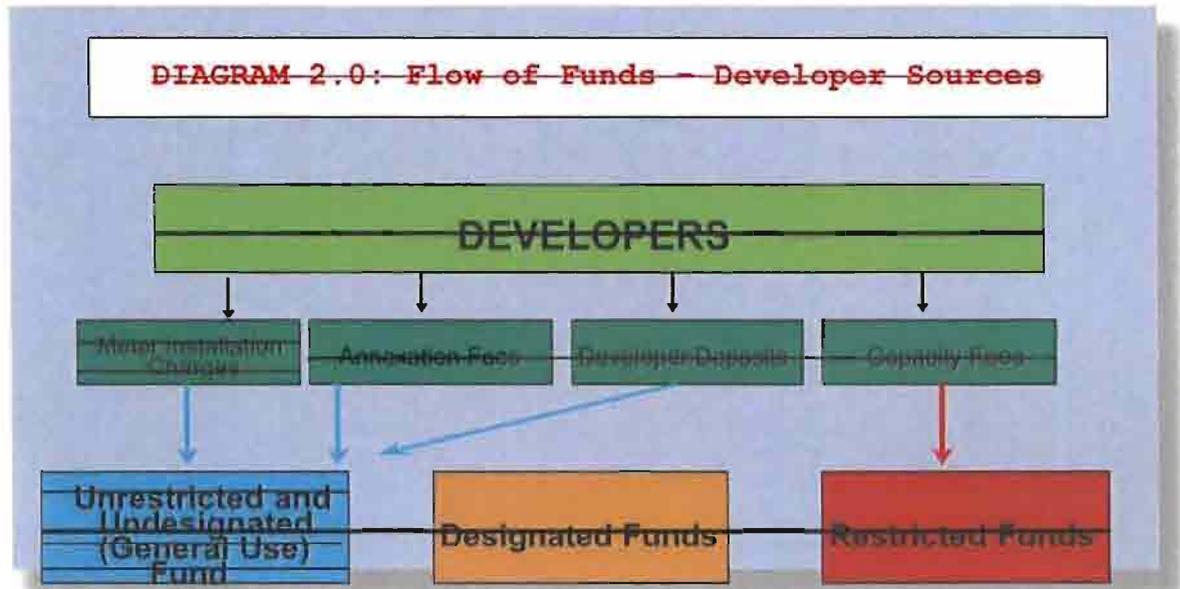
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~~just like the annexation fee methodology,~~ is used because the two water systems work hand-in-hand. All capacity fees can be used for either potable or recycled but must be tracked to distinguish between the "buy-in" and "incremental" portions as described above. only for expansion needs. So, while capacity fees are not restricted separately, ~~one portion for by~~ potable and ~~the other portion for~~ recycled, they are tracked separately.

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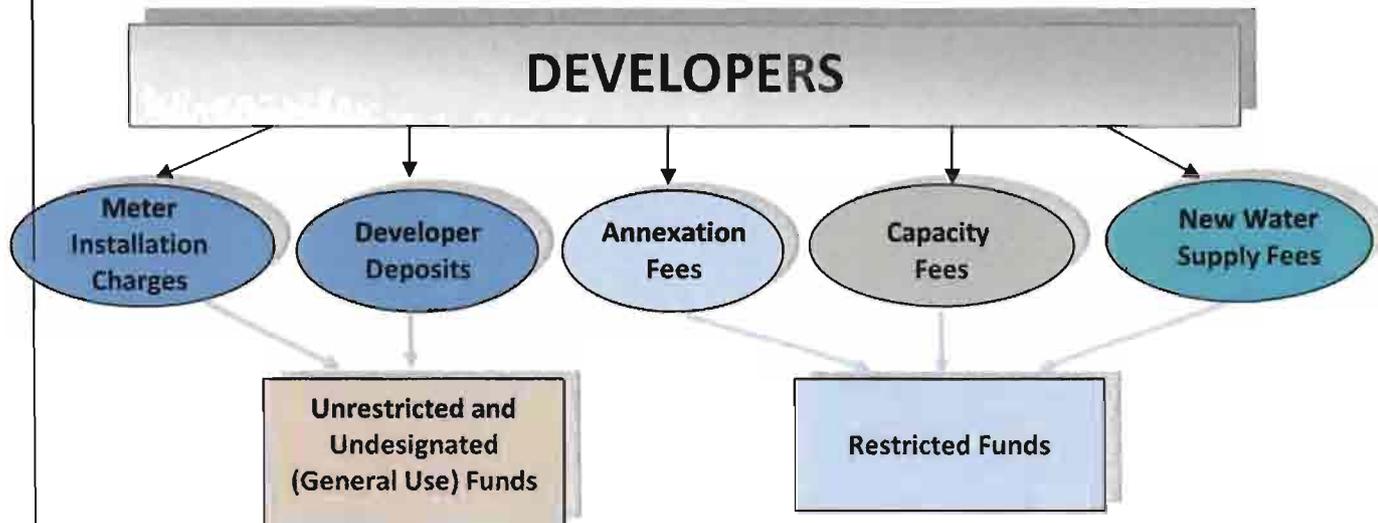
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Diagram 2.0: Flow of Funds – Developer Sources



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

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

b. Monthly System Fees (General Use)

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

c. Energy Charges (General Use)

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

d. Penalties (General Use)

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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 costs from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

f. Special Rates and Charges (Restricted)

In addition to the uniform water charges, the District currently has five special water rates and one sewer rate. The five water rates are ~~all~~ for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines ~~in the respective areas~~. Each of these rates and charges must be used within the respective areas is listed as follows from which they are collected. These special charges are listed below:

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

When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees that they were collected. Therefore, these are ~~Restricted Funds reserves~~ by geographic area as well as by purpose. These ~~fees however, rates and charges~~ can also be used for maintenance, ~~;~~ unlike the availability fees (discussed in 2.2 B.). These six special ~~fees rates and charges~~ along with availability fees are tracked separately, by geographic area, so they can be separately evaluated for to maintain the targeted funding reserve levels separately. To meet this need, each special rate and charge is accounted for in a "sub-fund" of the ~~b~~etterment ~~f~~und.

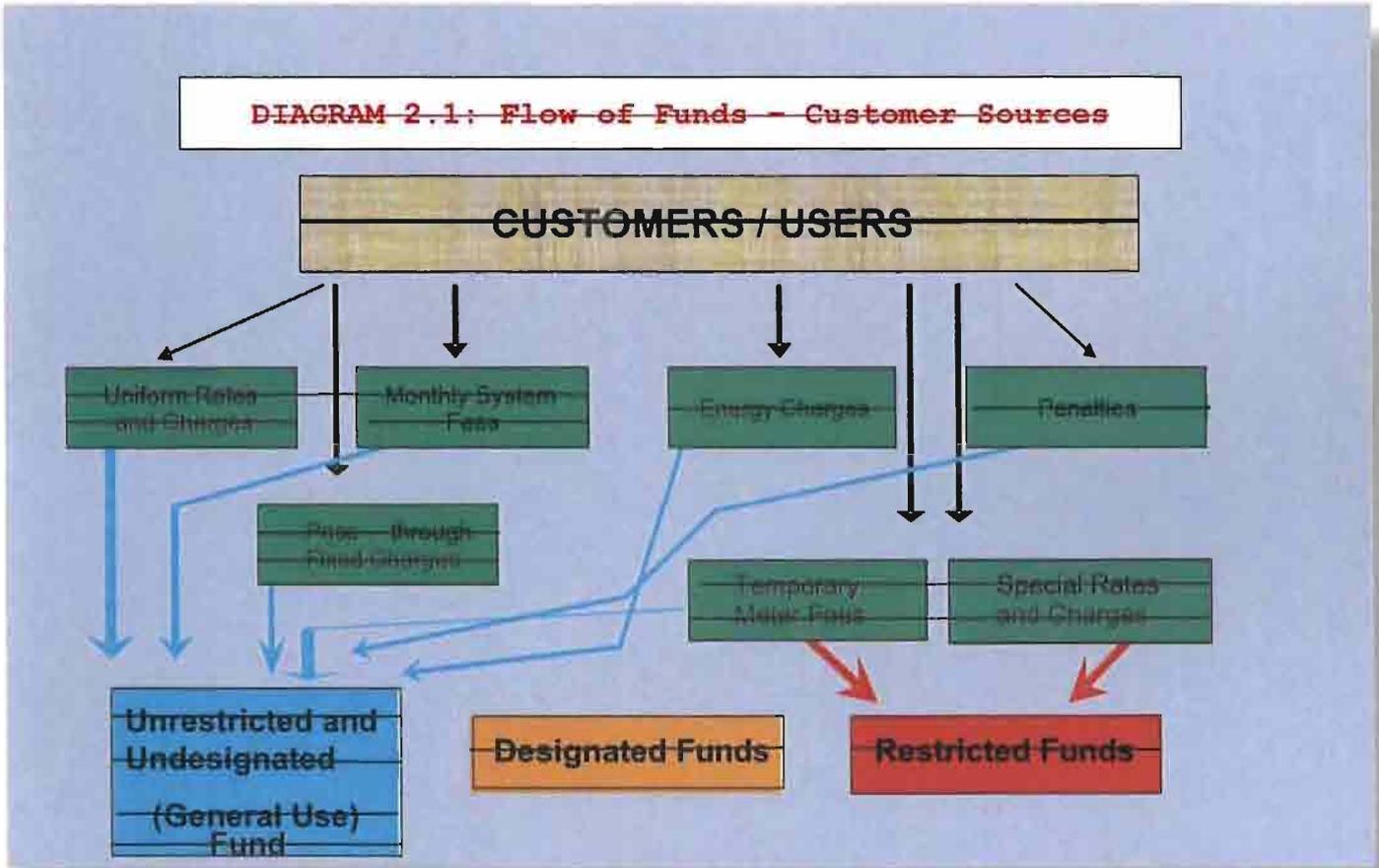
g. Temporary Meter Fees (General Use/Restricted)

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

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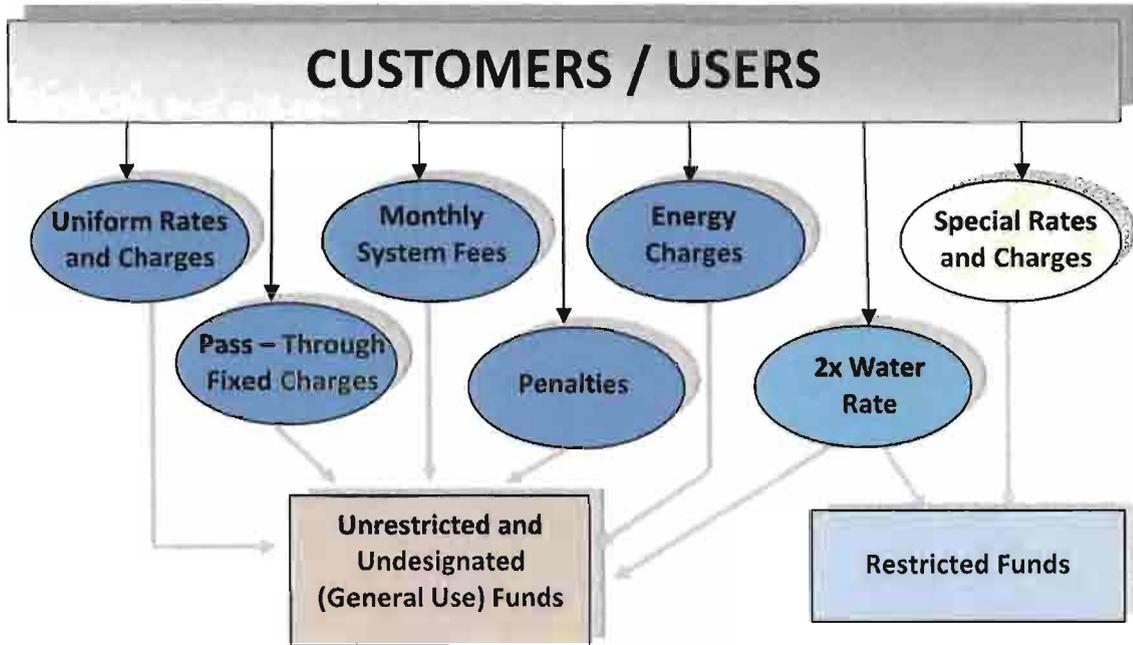
these temporary meters are developers; however, general customers also use these for various purposes.



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Diagram 2.1: Flow of Funds – Customer Sources



2.2 County-Collected Taxes and Fees

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

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

b. Availability Charges (General Use/Restricted)

The District levies availability charges each year in developed and undeveloped areas. Current legislation provides that any amount up to \$10 per parcel is general use and any amount over \$10 per parcel is restricted to be expended in and for ~~that the~~ Improvement District (ID) ~~within which it is collected. IDs were formed to provide the lowest cost funding possible for the development of water and sewer systems.~~ Accordingly, the District may use availability charges in excess of any amount over \$10 toward costs of to develop water and sewer systems facilities which are either, expansion, betterment, or replacement of

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~~facilities consistent with the purpose of the ID in which they are collected. —This portion of the proceeds of availability charges is geographically restricted and restricted by purpose. As costs are incurred on these projects the respective IDs are charged, reducing the reserves. To the extent that availability charges are not used for the purpose for which they are collected, they must be returned to the property owners that paid them. The District has historically used these reserves for betterment capital facilities thus, the Restricted Funds reserves are accounted for in "sub-funds" of the Betterment Fund (see 2.1 f.).~~

~~c. 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.~~

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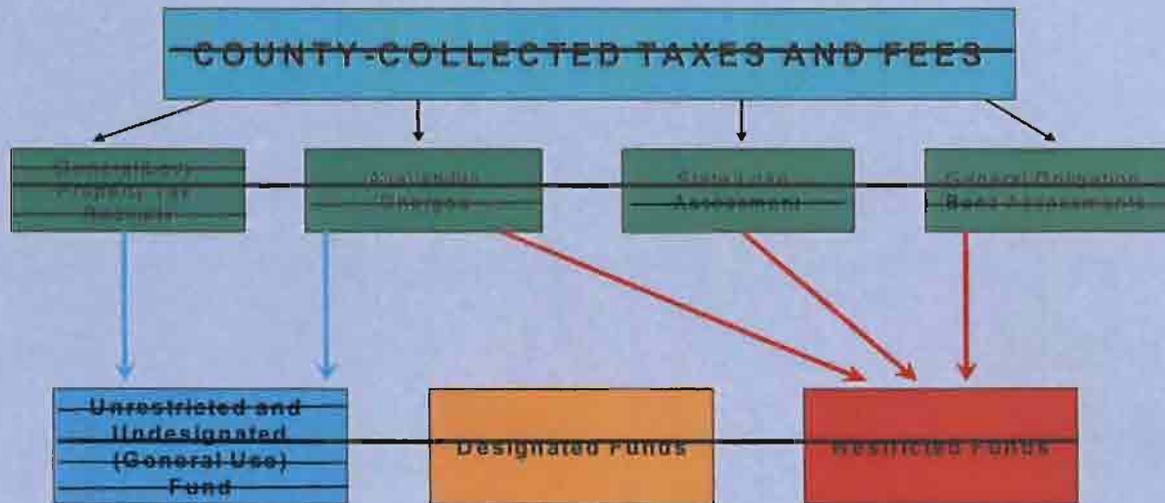
~~e.~~ State Loan Assessment (Restricted)

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. When this loan is paid off the charge will be removed.

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

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

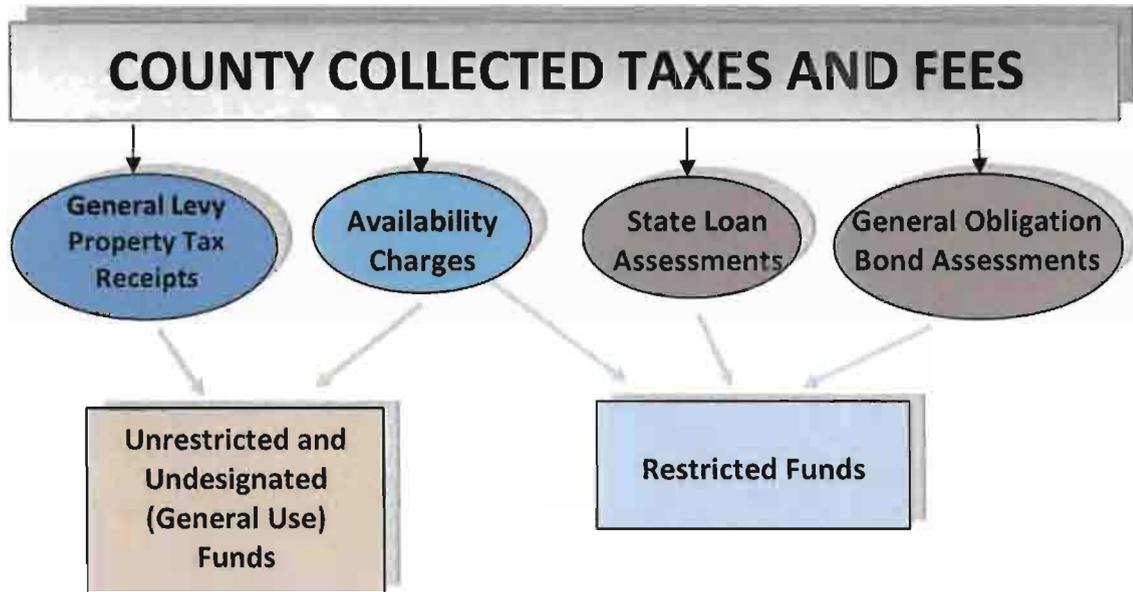
DIAGRAM 2.2: Flow of Funds -- County Collection Sources



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Diagram 2.2: Flow of Funds – County Collection Sources



2.3 Miscellaneous Income

a. Miscellaneous Rents and Leases (General Use)

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

b. Sewer Billing Fees (General Use)

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

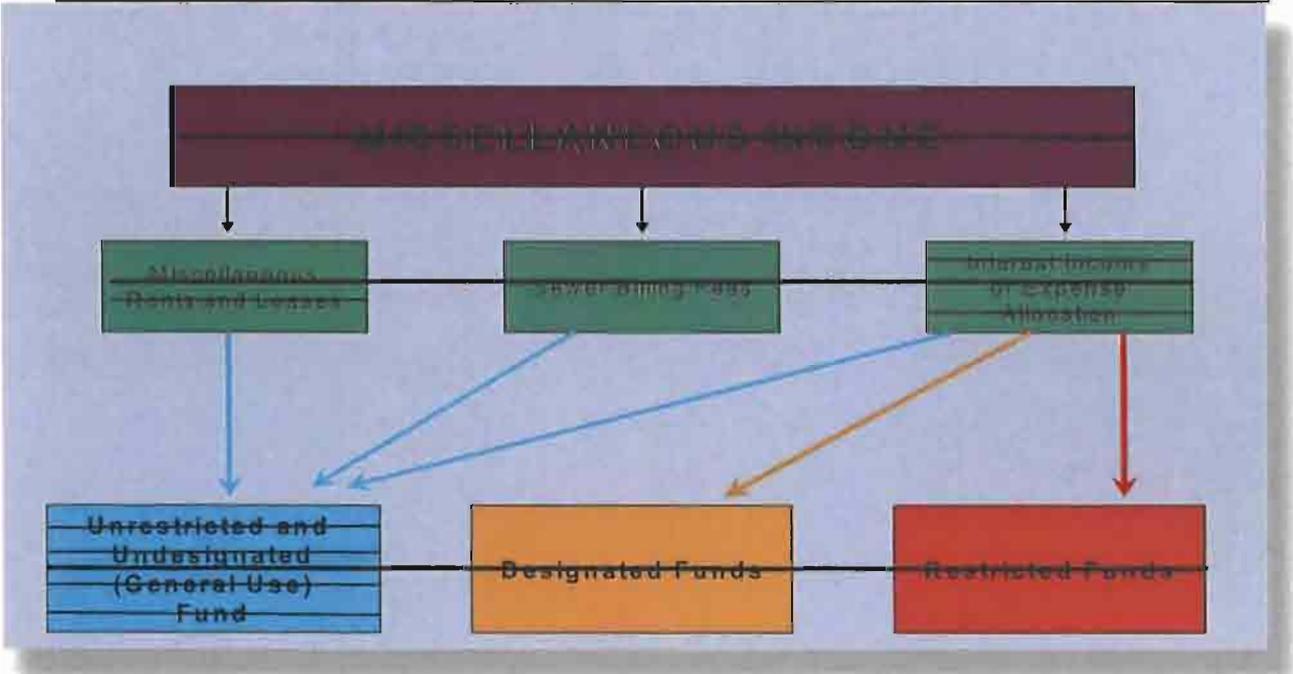
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c. Interest Income or Expense Allocation (General Use, Designated, and Restricted)

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

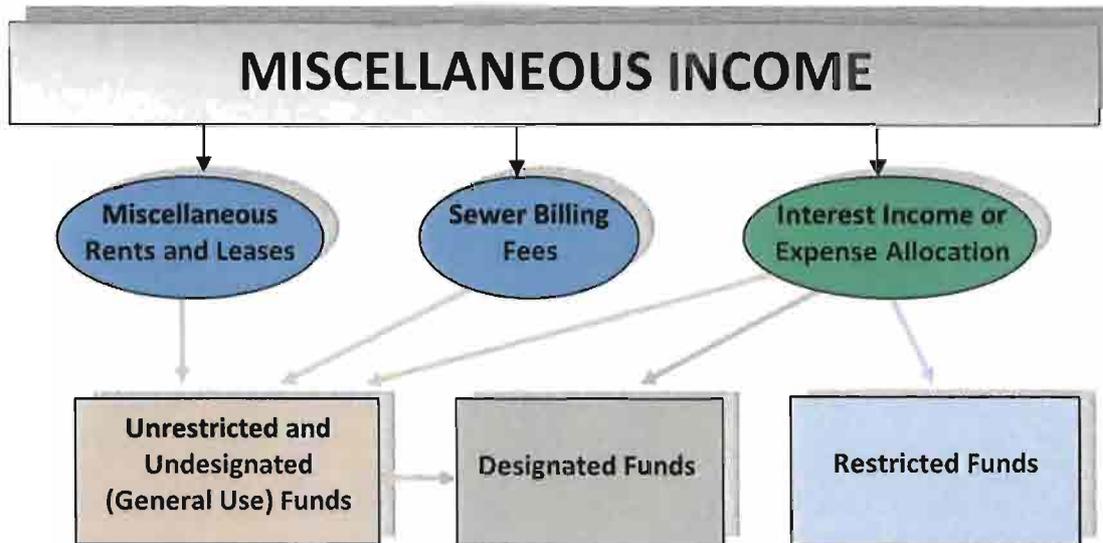
DIAGRAM 2.3: Flow of Funds — Miscellaneous Income Sources



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Diagram 2.3: Flow of Funds – Miscellaneous Income Sources



2.4 Debt Issuance

a. Loans (General/Restricted Use)

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

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determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action.

c. Certificates of Participation (COPs) (Restricted)

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

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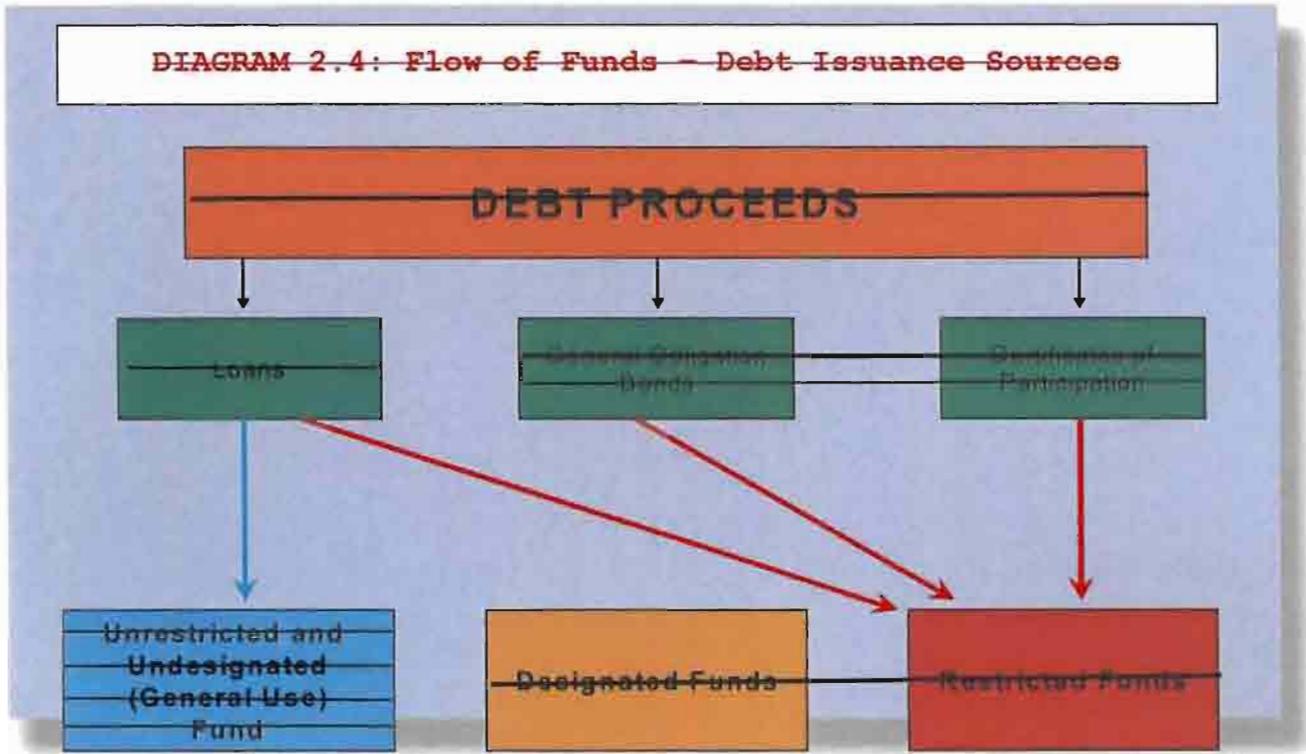
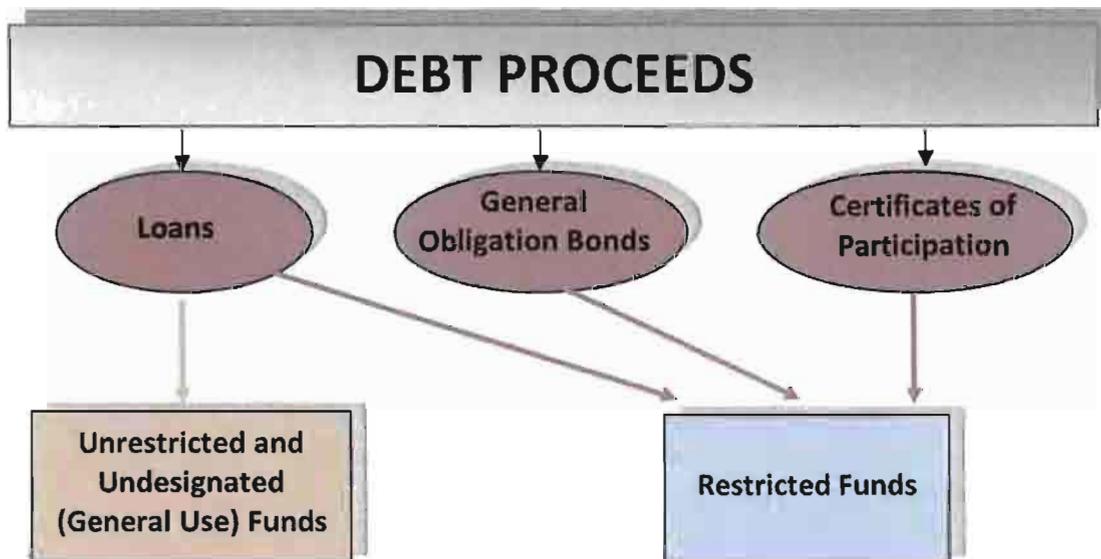


Diagram 2.4: Flow of Funds – Debt Issuance Sources



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2.5 Inter-fund Transfers

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

~~FUND TYPES~~

Fund Types and Categories

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

This fund can be used to supplement the District's rates and charges and be a temporary source of revenue to balance the Operating Budget. This fund can also be used to ~~and~~ avoid spikes in the rates or significant and abrupt increases. It is an industry practice to have a fund that can be used to stabilize rates. This would only occur ~~if~~ there was a temporary need for ~~funds reserves~~ that would smooth out a rate spike or to ramp up what would otherwise be a dramatic rate increase.

~~This The General 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 need~~ a number of debt issuances over the years and this fund will help the District not only to stabilize

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rate fluctuations but also to 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

~~The potable and recycled general funds receive Mmeter 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 water sales.~~

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

a.c. Funding Levels

~~iiI. **Minimum Level** - The minimum funding reserve level for each business segment of the General Fund is three months of operating budget expenses (evaluated separately for each segment).~~

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

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

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~~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 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:~~

3.1 Designated Other Post Employment Benefits Fund (OPEB)

~~Designated Other Post Employee Benefits The (OPEB) Fund reserves are "general use" reserves that have been set apart by Board action is used to fund finance the medical benefits of qualified retirees as outlined in the District's benefits plan. This District fund holds only a portion of the total OPEB reserves. The other portion is held in a trust at CalPERS and is restricted for the purpose of financing the OPEB liability. The two portions are considered jointly when looking at target reserve levels. It is fully funded by user rates. Every two years the fund is evaluated by an actuary to update for additional funding the annual financing requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, costs of health insurance costs, or general market conditions.~~

~~These funds-reserves held by the District are currently designated but-and may be placed into a-trust-the CalPERS trust to legally restrict the funds, effectively-removing the District's day-to-day-legal access to-the-funds-these reserves. 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.~~

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a. Sources

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

b. Funding 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. **Minimum Level** - The minimum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. When considering the reserve level of this fund, both the District held OPEB reserves and CalPERS held OPEB reserves must be considered jointly.

II. **Maximum Level** - The maximum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, exceed the OPEB liability, the District will reduce the annual funding levels as defined by the actuarial study.

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III. **Target Level** - The target reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, fall below the OPEB liability, the District will increase the annual funding levels as defined by the actuarial study.

3.2 New Water Supply Fund Category

a. Purpose

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

b. Sources

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

c. Funding Levels

I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.

II. **Maximum Level** - The maximum reserve level for the new water supply category of funds is limited to five years of the unfinanced new water supply facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total new water supply financing needs must be reduced by the projected new water supply revenues, general fund designations, and bond financing. If the combined new water supply reserves exceed the target level, the District should consider transferring designated reserves to meet other purposes, reduce the new water supply fee, or change the timing of the new water supply projects.

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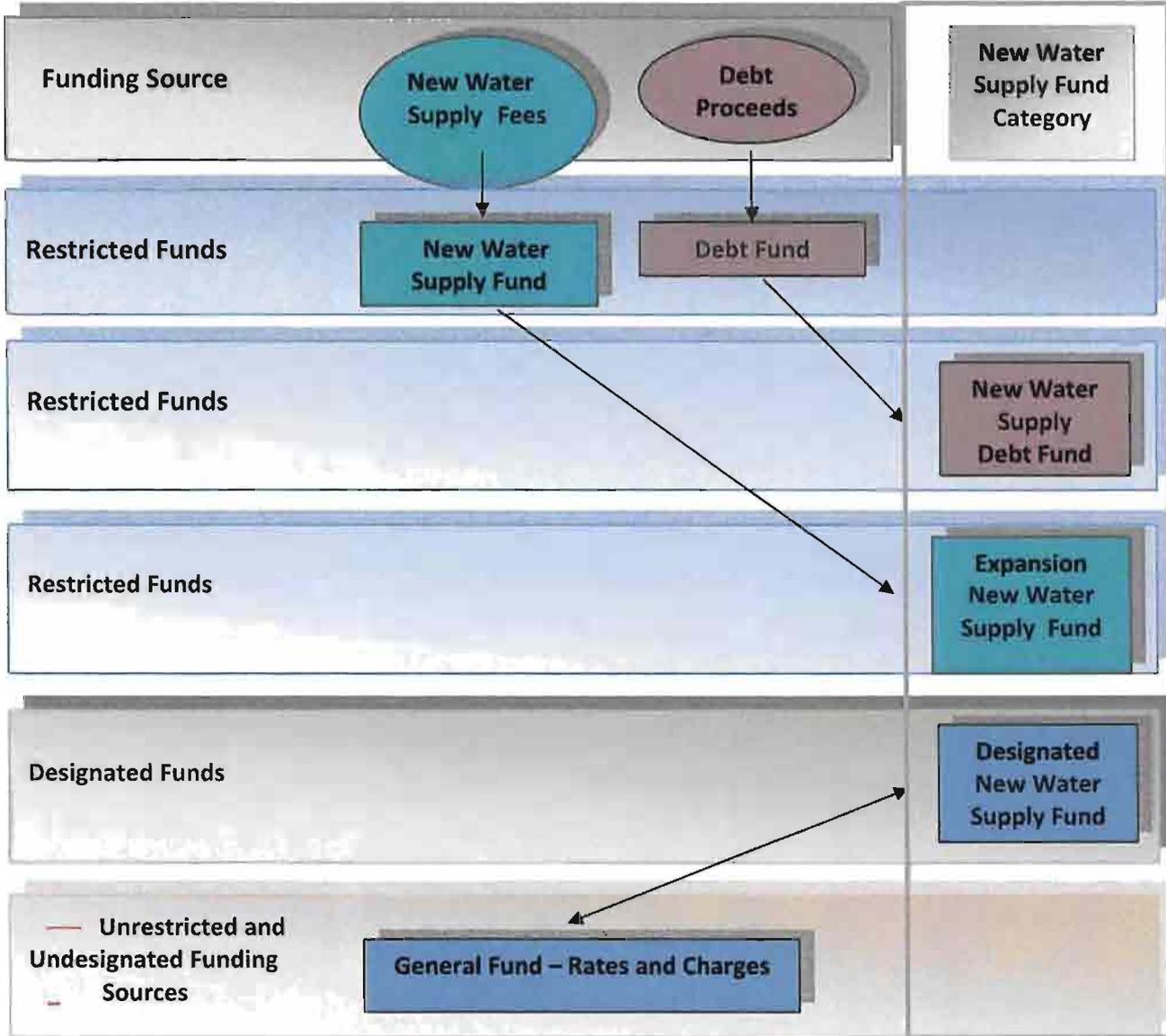
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III. Target Level - In order to facilitate debt financing of the new water supply, it is important that the various new water supply funds retain an overall reserve level of six months, prior to any attempt to obtain debt financing. This reserve level allows the District the time necessary to issue additional debt without depleting new water supply reserves. If the combined new water supply reserve levels drop below six months of expenditures, this would trigger a transfer of general use reserves, a bond sale, or a change in the timing of new water supply projects. Bond proceeds would be placed in the Restricted New Water Supply Debt Fund while transfers would be placed in the Designated New Water Supply Fund.

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Diagram 3.2: New Water Supply Fund Category



~~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~~

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~~• Debt Reserve Fund~~

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

3.3 Expansion Fund Category

~~a. Purpose~~ ~~ii. Designated Expansion Fund~~

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

~~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~~

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~~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.~~

b. Sources

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

I. Designated Expansion Fund

c. Funding Levels

~~A. I. Minimum Level - As the District matures the CIP will move to purely replacement and betterment projects. As the District moves through ~~its~~ this lifecycle the need for expansion ~~funds~~ reserves will decrease and ~~eventually may~~ 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. II. Maximum Level - The maximum reserve level ~~of for this~~ the expansion category of funds is limited to five years of ~~unfunded unfinanced~~ expansion needs facilities as described in the District's CIP~~

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Budget. To determine the ~~unfunded-unfinanced~~ amount, the total ~~expansion-financing costs-needs~~ must be reduced by the projected ~~restricted~~ expansion revenues, ~~and~~ ~~B~~ bond financing, and any ~~restricted or general fund revenues allocated to this fund category. is expected to fund a large portion of expansion.~~ If the combined expansion reserves exceed target levels, the District should consider reducing capacity fees, reallocating ~~restricted or designated funds to meet other purposes, or shifting the timing of expansion projects.~~

G. **III. Target Level** - ~~The target level is six months of expansion expenditures. In order to facilitate debt financing of expansion, it is important that the expansion funds-reserves retain a reserve remain at a minimum of six months prior to any attempt to obtain bond financing. Of expansion expenditures. This reserve level allows the District the time necessary to issue additional debt without running out of depleting expansion funds-reserves. If the combined expansion funds-reserves drop below six months of expenditures this would trigger either a transfer of general use funds-reserves or a borrowing of funds with a bond sale, an adjustment to the timing of expansion projects, or a reallocation of restricted reserves. Bond funds-proceeds would be placed in the Restricted Expansion-Bond Fund, while-transfers of general use reserves would be placed in the Designated Expansion Fund, and transfers of restricted reserves would be placed in either the Expansion Annexation Fund or the Expansion Capital Improvement Fund. If the combined expansion funds exceeded target the District should considered the need to reduce capacity fees or transferring designated funds to meet another purpose.~~

b. ~~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~~

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~~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.~~

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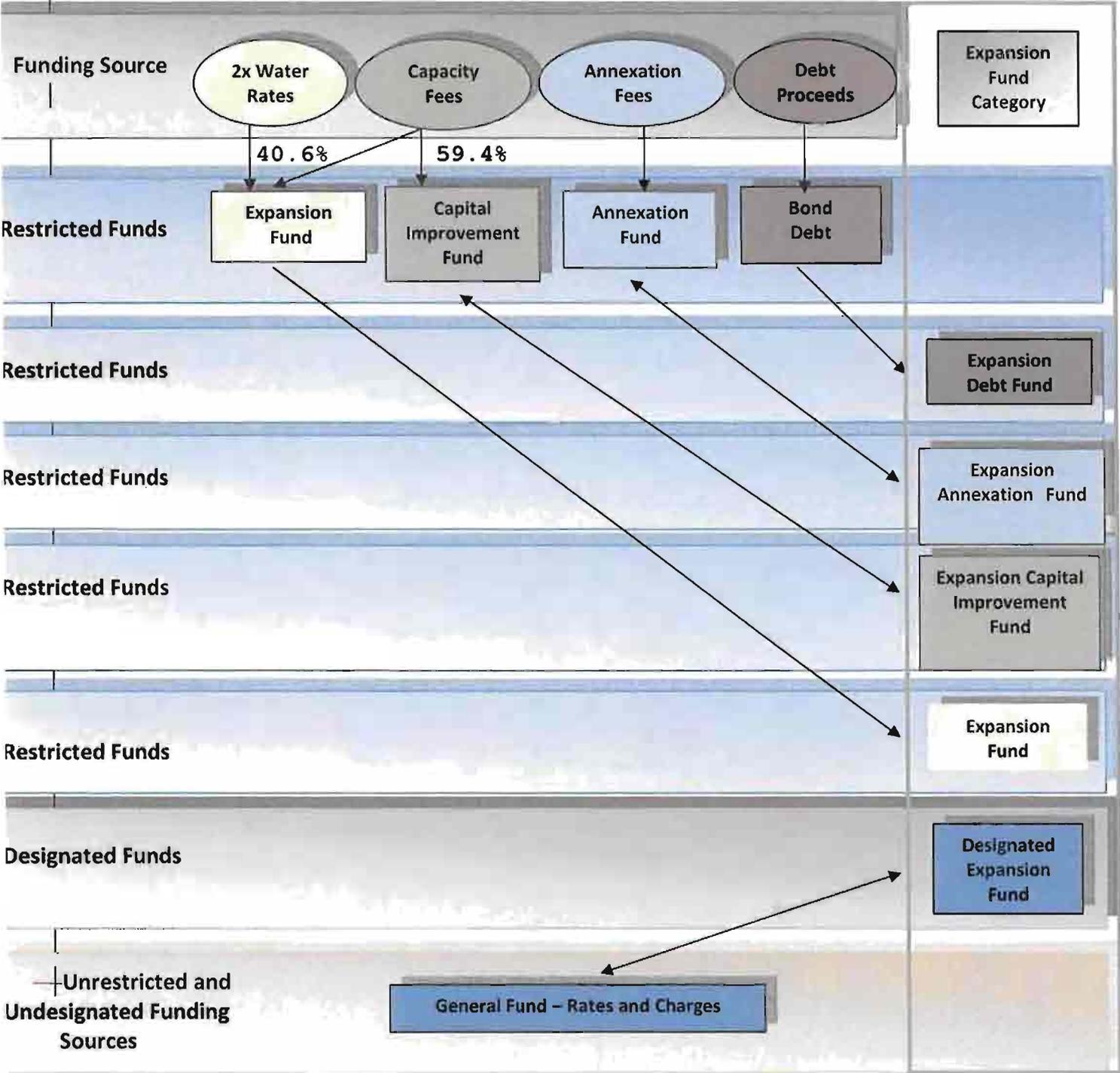
~~Also, the District provides annual Developer meetings where the existing and projected reserve levels are reviewed.~~

~~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.~~

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Diagram 3.3: Expansion Fund Category



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~~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.~~

3.4 Replacement Fund Category

~~iv.~~

a. The Purpose

~~The Replacement Fund category is to finance replacement projects. When considering the reserve levels of the replacement category of funds, th following funds work in concert and must be considered jointly: the Annexation Fund, Debt Fund, Capital Improvement Fund, and the Designated Replacement Fund. The purpose of these reseveres 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 These reserves are 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 and track reserves funds, the Rreplacement Fund reserves has have been separated into three funds: water, recycled, and sewer.~~

Projects undertaken solely for the purpose of replacing major capital equipment or facilities, i.e., where the cost exceeds \$10,000 for capital purchases or \$20,000 for infrastructure items, generally these are not considered normal maintenance Where When the cost is below \$10,000, the costs are financed annually as operational maintenance. As charges are incurred

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on ~~a~~-replacement projects the ~~funds-reserves~~ are deducted from the respective Replacement Funds on a monthly basis.

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

b. Sources

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

~~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.~~

~~II. Replacement Fund~~

~~c. Funding Levels~~

~~A-I. Minimum Level - The minimum reserve level of this category of funding funds is 3% of the historical value of existing assets as identified in the District's current financial statement. Potable, recycled, and sewer replacement are evaluated separately.~~

~~B-II. Maximum Level - The maximum reserve level of this category of funding funds is 6% of existing assets. If the combined replacement reserves exceed target levels, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee to meet other purposes. Another consideration would be to shift the timing of replacement projects. 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-III. Target Level - The target reserve level of this category of funding funds is 4% of existing assets. In the event that the fund-reserves falls below the recommended target level, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee. or operating revenues would be shifted to support the Replacement Funds. The District~~

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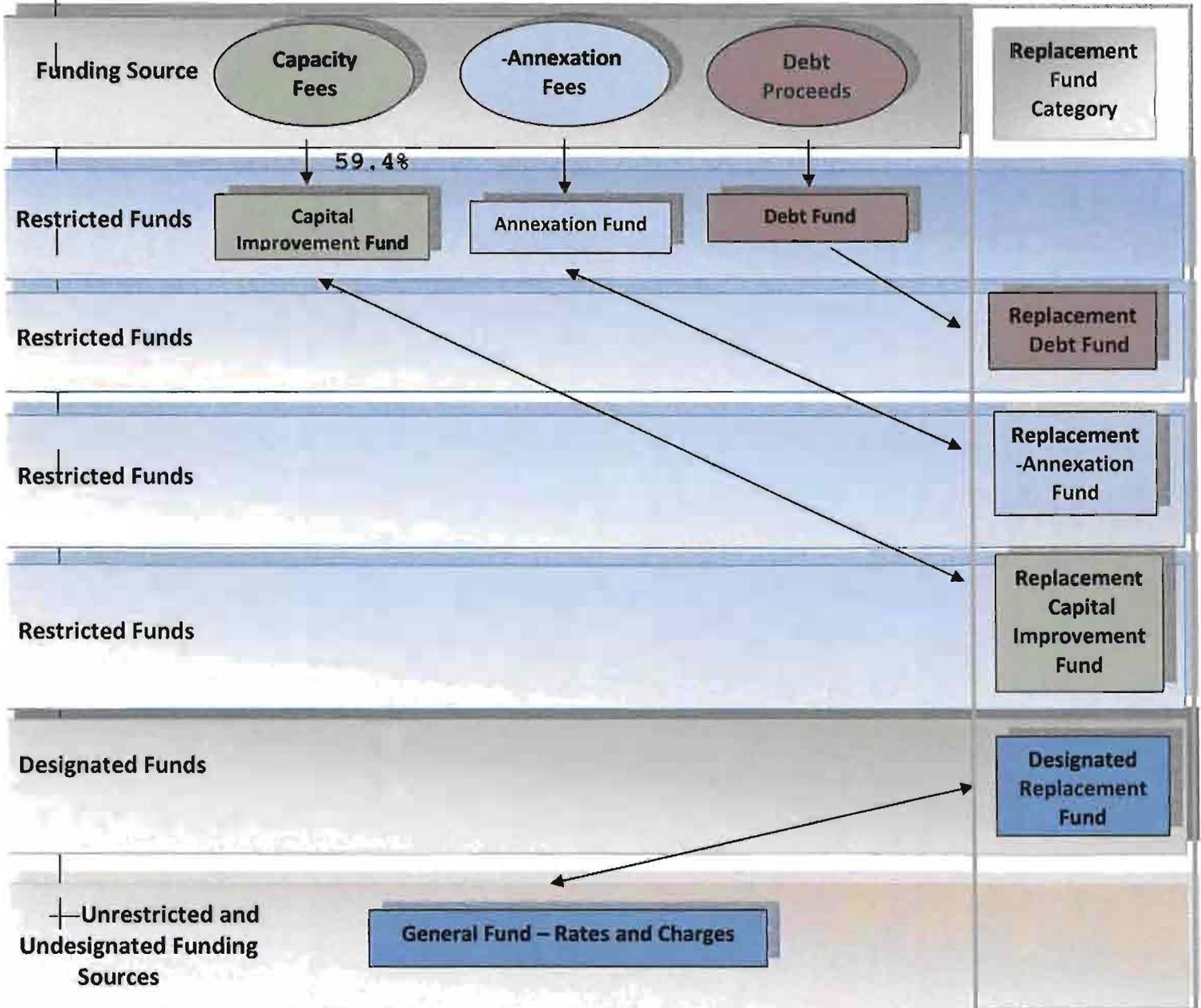
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should also consider shifting the timing of replacement projects or issuing debt to support the planned level of facility replacement. The District will act based on the annual ~~five (5) six~~-year rate ~~study model~~, to insure that at the end of that planning horizon the ~~fund reserves~~ reserves exceed the minimum level and is approaching the target level.

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Diagram 3.4: Replacement Fund Category



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3.5 Betterment Fund Category

~~a. Purpose~~ ~~ii. Restricted Betterment Fund~~

The Betterment ~~Reserve Fund~~ Category is to finance the betterment portion of capital projects with a portion going to the maintenance of ~~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~~ categories, one for each ~~business segment~~ improvement district. An improvement district is a legally defined geographic area usually established for the purpose of bond financing of facilities. The betterment reserves within ~~These~~ funds are restricted by law for use within the ~~area~~ improvement district in which the fees ~~are~~ were collected (Water Code 71631.6). However, the legal restriction of this ~~fund~~ reserve depends upon the particular revenue source. (see Section 2.1 f. for a review of the special rates and availability fees).

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

~~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.~~

b. Sources

The Betterment Fund category receives restricted revenues by improvement district via special water rates and from availability fees collected through the county tax roll. Betterment may also be financed by debt proceeds, annexation

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fees, the "buy-in" portion of the capacity fee, as well as the general fund through a designation of reserves.

Funding Levels

~~I.~~ I. Minimum Level - As the District matures the CIP will move to purely replacement projects. As the District moves through ~~its~~ this lifecycle the need for betterment ~~funds-reserves~~ will decrease and ~~eventually~~ may 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.~~ II. Maximum Level - The maximum reserve level ~~of this for the betterment category of funds~~ is limited to five years of ~~unfunded-unfinanced~~ betterment ~~needs facilities~~ as described in the District's CIP Budget. To determine the ~~unfunded-unfinanced~~ amount, the total ~~betterment-financing costs-need~~ must be reduced by the projected ~~restricted~~ betterment revenues, ~~B~~ bond financing, ~~is expected to fund a large portion of betterment-annexation, and general fund designations.~~ If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.

~~C.~~ III. Target Level - The target is six months of betterment expenditures. ~~In order to facilitate debt financing of betterment,~~ It is important that the betterment funds-reserves retain-remain at a reserve minimum of six months of betterment expenditures. prior to any attempt to obtain bond financing. This reserve level allows the District the time necessary to issue additional debt without ~~running out of depleting betterment-fundsreserves.~~ ~~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-reserves drop below six months of expenditures this would trigger either a transfer of general use funds-reserves or a borrowing of funds with a bond sale, or an adjustment to the timing of betterment projects. Bond ~~funds-proceeds~~ would be placed in the ~~Restricted~~ Betterment Bond Fund

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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.~~

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.~~

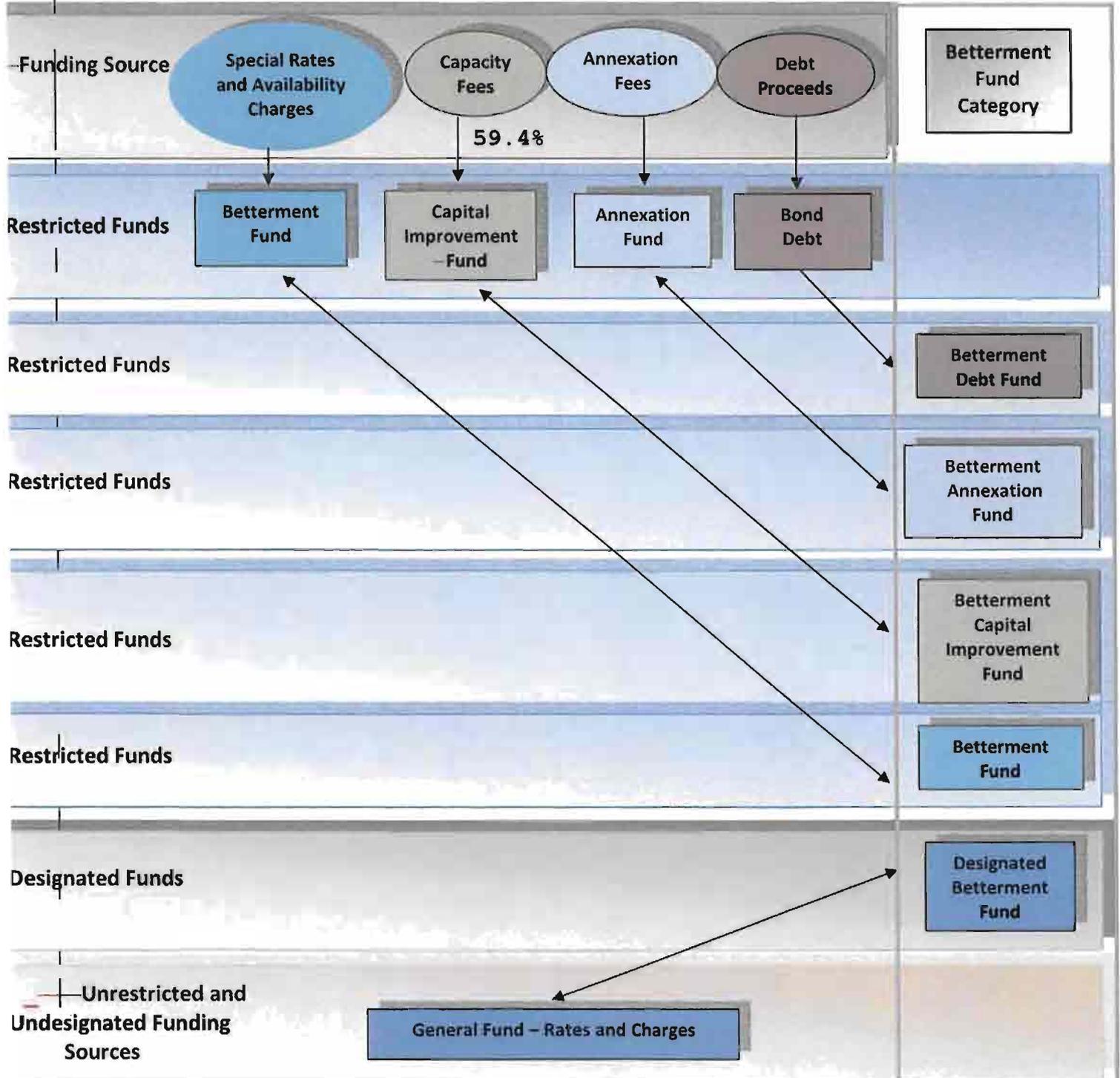
B. ~~**Maximum Level** - The maximum to be retained in this fund is five years of unfunded CIP betterment expenditures as defined in the CIP budget forecast. To determine the unfunded amount the total betterment costs must be reduced by the projected restricted betterment revenues. If this maximum is 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.).~~

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Diagram 3.5: Betterment Fund Category



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DIAGRAM 3.0: Fund Targets

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

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

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

Diagram 3.6: Fund Targets

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

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

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Additional Restricted Funds

4.0 Capital Improvement Fund

a. Purpose

The "Capital Improvement Fund's sole purpose is to track the "buy-in" portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were collected, which in this case is to pay for facilities that were in existence at the time this fee was established. These fees may be used for expansion, replacement, or betterment projects or any debt related to these categories. These fees may also be used for either the potable or the recycled systems. As capacity fees are collected, the "buy-in" portion of the fee is allocated as needed to one of three capital improvement funds, one in each of the Expansion, Replacement, and Betterment Fund categories. These reserves are used to pay debt or offset any negative balance within these three categories of funds. These fees may not be used to finance the New Water Supply category, as there were no new water supply facilities in existence at the time the new methodology for capacity fees was established.

b. Sources

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

c. Funding Levels

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

4.1 Annexation Fund

a. Purpose

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

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needed to one of three capital improvement funds, one in each of the Expansion, Replacement, and Better Fund categories.

b. Sources

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

c. Uses

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

iii-4.2 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.~~

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~~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.~~

a. Purpose

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

a. 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.~~

b. Sources

Debt proceeds.

~~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~~

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~~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.~~

c. Uses

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

Fund Transfers
~~FUND TRANSFERS~~

45.0 Funding Levels

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

The rate model is updated each year with the budget process and evaluates each fund over the next six years. The rate model will take into account the general economic environment, looking at the

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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 projected District's financial activities and the guidelines of this policy.

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45.1 Fund Transfers

~~A significant portion of the funding for Reserves within the District's various designated funds comes from interfund transfers from of the Unrestricted or General use Funds reserves. It is important to note that the District has the ability to use General use Funds reserves for any business purpose. General Funds use reserves may be transferred to and from any other unrestricted fund for any business need. Designated funds reserves are General use Funds reserves which have been set aside for a specific purpose by Board action. These funds reserves can only be used for the purpose they were designated, or with Board action, they may be used for any other business purpose. While General Funds use reserves may also be used for any restricted purpose but are they may not be transferred to Restricted Funds due to the sensitivity of the tracking of Restricted Funds reserves. If funds reserves are needed for a restricted purpose they are transferred to a Designated Fund within the fund category with that particular identified with the restricted purpose. Reserves restricted to a fund category may only be used within that category and may not be transferred to another category. For example, the new water supply fee and the "incremental" portion of the capacity fee are restricted reserves for a specific purpose, and may not be transferred to another category as no other category has the same purpose. However, the "buy-in" portion of the capacity fees and annexation fees are restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose. 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, ~~reserve fund~~ transfers are expected as some funds ~~categories~~ will exceed their maximum or drop below their minimums. Only funds that are below the stated target are eligible to receive transferred funds. ~~Only fund categories that are below the stated target are eligible to receive transferred reserves. Funds categories that exceed their maximums are first to be considered for transfers out, followed by funds that exceed their targets. Funds that exceed their minimums are also available for fund-reserve transfers out, but only when other options are not available.~~

The rationale for prioritizing ~~fund-reserve~~ transfers is based on the immediacy of the need and the availability of ~~funds-reserves~~ from other funding sources. For example, the General Fund is first to receive ~~funds-reserves~~ when it drops below its target or minimum levels. This

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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-finance~~ replacement assets for many years to come. Debt financing is available to respond to this long term, foreseeable, and planned cash flow. This fund is less likely to have immediate needs and has other ~~funding-financing~~ options.

When making the determination of when transfers are necessary, all funds ~~work within a fund category work as a group as independent funds.~~ The ~~combined balance of the restricted and designated funds is looked at when determining whether the fund category requires additional funding from the Restricted Capital Improvement Fund, Restricted Annexation Fund, Restricted Debt Fund, or the General Fund.~~ ~~exceptions to this rule are the two expansion funds (one restricted and one designated) and the two betterment funds (one restricted and one designated).~~ ~~Because the Capital Improvement Fund and Annexation Fund may finance expansion, replacement or betterment reserves may be transferred among these fund categories, but only back and forth within its own type of restricted fund. 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 ~~eExpansion fFunds~~ (designated and restricted) would drop and stay below the minimum during the six-year planning horizon, this would trigger a bond sale ~~or a transfer of unrestricted funds general use reserves, and/or a transfer of restricted reserves.~~ If in the cash planning process, it was anticipated that the General Fund would remain above target during the planning horizon ~~of six (6) years~~ and that the trend did not present a problematic underfunded status, then ~~those funds~~ General Fund reserves would be considered available for transfer prior to making funds proceeds available from ~~the sale of a bond sales.~~ Also, if during this period the Betterment Fund category another Designated Fund was anticipated to exceed its maximum, then reserves from either the Designated Betterment Fund, the Annexation Fund, or the Capital Improvement Fund ~~the excess~~ would be transferred to the corresponding Designated Expansion Fund prior to ~~any other transfers~~ a bond sale. All Ffunds are evaluated to determine which has

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the greatest need or availability of ~~funds-reserves~~ before any ~~fund~~ reserve transfer recommendation is presented to the Board.

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GLOSSARY

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

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

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

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

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

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

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

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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.

1% Property Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB 8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

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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.

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1.0 The District

The Otay Water District is a California municipal water district, authorized in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. The District is a "revenue neutral" public agency; meaning each end user pays their fair share of the District's costs of water acquisition, construction of infrastructure, and the operation and maintenance of the public water facilities.

The District provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such, the District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

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

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

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

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1.1 The District's Use of Financial Resources

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The operating costs include costs relating to the purchase and delivery of potable and recycled water, and the transportation and treatment of sewage. The capital expenditures support the construction of infrastructure necessary to deliver services. The District uses various funds to support the operating and capital efforts. Operations and maintenance is financed only by rates and charges, also called pay-as-you-go, while capital infrastructure is financed using two financing methods: pay-as-you-go and debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction, betterment, and replacement of infrastructure in all three business areas: potable, recycled, and sewer.

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

1.2 The District's Capital Improvement Program (CIP)

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

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

a. New Water Supply

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

b. Expansion

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

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c. Replacement

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

d. Betterment

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

1.21 Relocations

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

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considered; if the project has less than five years of useful life remaining, a pro-rata cost approach should be considered. Also, the likelihood the District will benefit from an asset's life extension should be evaluated prior to allocating costs.

1.22 Oversizing

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

1.23 Exclusion of Developed Areas from Expansion Costs

Developed areas are assumed to have sufficient supply and capacity to meet their current requirements as provided by the developers. In addition, they are considered to have borne capital financial costs that are at least proportionate to the benefits they have received from capital facilities. Accordingly, no regional capital financing costs are allocated to these areas so that they will not incur any costs for newly developing areas, except for capital projects that produce district-wide benefit or cost savings.

1.24 Improvement Districts (IDs)

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

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

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1.3 The Purpose of the Policy

Public entities accumulate and maintain reserves to ensure both financial stability and continuous availability of services. Financial stability and the resulting improved credit quality allow the public entity to weather times of uncertainty and the impact of negative events, both major and minor. Reserves allow for the ongoing maintenance of property and timely payment of expenses even when such expenses exceed money available from a single fiscal period. In the final analysis, the type and level of reserves are driven by the type and magnitude of uncertainty faced by the public entity.

A "reserve" has a number of meanings, as follows:

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

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

In short, reserves are the liquid assets of the District, accumulated and maintained for application to finance contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the management and use of these financial resources. Few policies

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have a more significant impact on the financial health and stability of the District. This policy explains several key financial concepts used by the District and provides some background information to the overall strategies and practices utilized. The District has a fiduciary obligation to its customers, to manage and direct the use of public funds for the purpose of providing water and sewer services in an efficient and financially sound manner.

1.4 Policy Guidelines

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

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

- Economic Uncertainty - performance of the regional economy and the impact of that performance on demand for water.
- Weather - the amount of rainfall and the impact of weather on the availability and the cost of water as well as the demand for water.
- Government Mandates - the impact of federal and state regulation, particularly environmental regulation.
- Tax Changes - limitations on the District's taxing and spending powers through the passage of a voter referendum, the impound of District property taxes or the removal of the District's power to levy property taxes, further increases to Educational Revenue Augmentation Fund (ERAF) contributions or changes in calculation methodology.
- Operating Costs - increases in operating and maintenance costs because of inflation, labor agreement or other modification.

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- Force Majeure - unanticipated expenditures resulting from natural disasters or intentional acts.
- Emergency Maintenance - unanticipated expenditures resulting from unexpected failure of assets (e.g., rupture in the primary transmission system).
- Unexpected Variation in Cash Flow - the incidence of additional costs or decreased revenues that require short-term borrowing in the absence of sufficient financial resources.

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, Report No. 2003-137. All of these recommendations have been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

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

Yet, the State Auditor's report acknowledges that the California Constitution (Article XIII B, Section 5) is vague in its provisions governing the accumulation and use of reserves.¹

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.

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Specifically, the Constitution states that "each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund...or similar funds as it shall deem reasonable and proper."² Similarly, the State's Water Code does not impose any requirements as to specific or recommended reserve fund levels. As a result, the public finance community as a whole has yet to settle on any real objective standards for the level of reserve funds appropriate for governmental enterprises. This lack of consensus as to specific standards is indicative of the wide variance of the financial and operations context for different districts and different contingencies justifying reserves.

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

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

² California Constitution, Article XIII B, Section 5.

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

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

- Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity among customers.
- Each of the service types is tracked separately so that expenditures and revenues can be monitored and evaluated for each customer type. This provides the District with the necessary information to appropriately charge for each of the services.
- Separation of operations and maintenance from capital expenditures occurs within each of the service types. This is done because the financing of these expenditures is often on different timelines or use different reserves.
- The District will hold its reserve at responsible and prudent levels. This policy sets minimum, maximum, and target levels for each of the various funds. This has been done so that the District can maintain reserves to meet the purpose for which the funds were established. The levels are set by reference to line items in the District's financial statements and approved budgets. This allows reserve levels to adjust to the District's changing financial circumstances.
- Debt financing of facilities provides intergenerational equity and maintains rates at reasonable levels. This equity is accomplished with long-term financing which spreads the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use

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them. The District could amass significant reserves by pre-collecting financial resources in a Replacement Reserve Fund allowing the District to cash finance all replacements. However, this would require significant rate increases burdening the current customers and creating reserve levels difficult to defend to the ratepayers or other oversight entities.

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

Financial Sources

2.0 Developers

a. Meter Installation Charges (General Use)

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

b. Developer Deposits (General Use)

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

c. Annexation Fees (Restricted)

Annexation fees³ are collected as a condition of annexing into the District's potable and recycled water facilities. Since the existing facilities have been built and maintained by developers or customers within the District, the

³ Code of Ordinances, Section 9.

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

d. Annexation Fees (Unrestricted)

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

e. New Water Supply Fee (Restricted)

New water supply fees⁴ are based on the cost of the expansion portion of new water supply projects divided by the number of future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District's new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects. Although the fees collected are not restricted separately, one portion for potable and the other for recycled, they are tracked separately.

f. Capacity Fees (Restricted)

Capacity fees⁴ are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in" portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. The

⁴ Code of Ordinances, Section 28

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“incremental” portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities (excluding new water supply expansion).

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

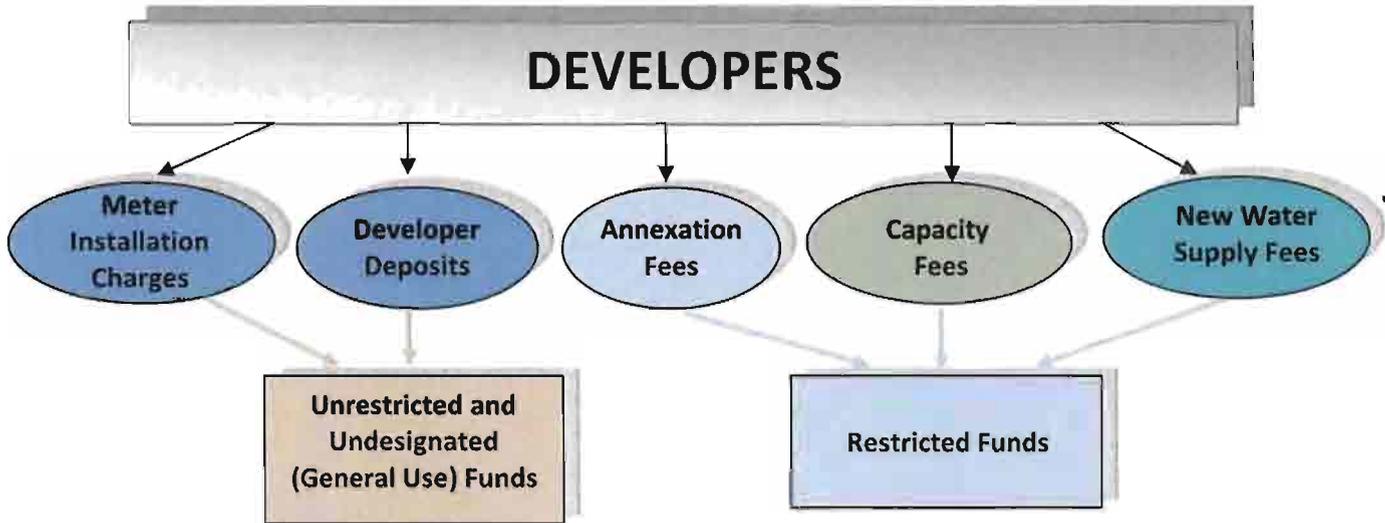
The District’s construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and two, it is more efficient to oversize many facilities at the outset rather than build for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

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

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Diagram 2.0: Flow of Funds - Developer Sources



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

Charges to users for water, sewer, and recycled water are uniform throughout the District for similar customer types.

b. Monthly System Fees (General Use)

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

c. Energy Charges (General Use)

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

d. Penalties (General Use)

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

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

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fixed costs from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

f. Special Rates and Charges (Restricted)

In addition to the uniform water charges, the District currently has five special water rates and one sewer rate. The five water rates are for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines. Each of these rates and charges must be used within the respective geographic areas from which they are collected. These special charges are listed below:

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

When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees were collected. Therefore, these are restricted reserves by geographic area as well as by purpose. These rates and charges can also be used for maintenance; unlike the availability fees (discussed in 2.2 B.). These six special rates and charges along with availability fees are tracked separately, by geographic area, so they can be individually evaluated to maintain the targeted reserve levels. To meet this need, each special rate and charge is accounted for in a "sub-fund" of the Betterment Fund.

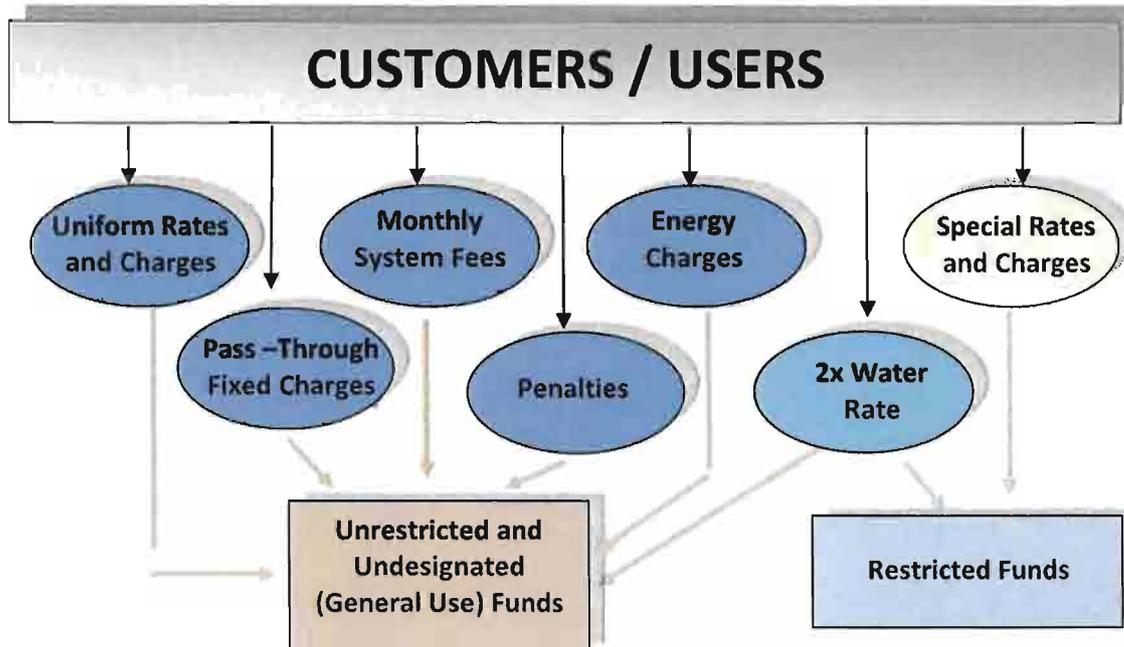
g. Temporary Meter Fees (General Use/Restricted)

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

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Diagram 2.1: Flow of Funds - Customer Sources



2.2 County-Collected Taxes and Fees

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

In 1978, Proposition 13 limited the levy of ad valorem property taxes on real property to one percent of the assessed value of such property. Subsequent legislation, AB 8, established that the receipts from the one percent levy were to be distributed to taxing agencies proportionate to each agency's general levy receipts prior to Proposition 13. Taxes received are for general use.

b. Availability Charges (General Use/Restricted)

The District levies availability charges each year in developed and undeveloped areas. Current legislation provides that any amount up to \$10 per parcel is general use and any amount over \$10 per parcel is restricted to be expended in and for the improvement district (ID) within which it is collected. Accordingly, the District may use availability charges in excess of \$10 toward costs of water

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and sewer facilities which are either, expansion, betterment, or replacement of facilities consistent with the purpose of the ID in which they are collected. This portion of the proceeds of availability charges is geographically restricted and restricted by purpose. As costs are incurred on these projects the respective IDs are charged, reducing the reserves. To the extent that availability charges are not used for the purpose for which they are collected, they must be returned to the property owners that paid them. The District has historically used these reserves for betterment capital facilities thus, the restricted reserves are accounted for in "sub-funds" of the Betterment Fund (see 2.1 f.).

c. State Loan Assessment (Restricted)

The District assesses a charge per unit of sewer service each year on the sewer customers. This is collected via the county tax roll and is specifically collected for the repayment of the state loan. When this loan is paid off the charge will be removed.

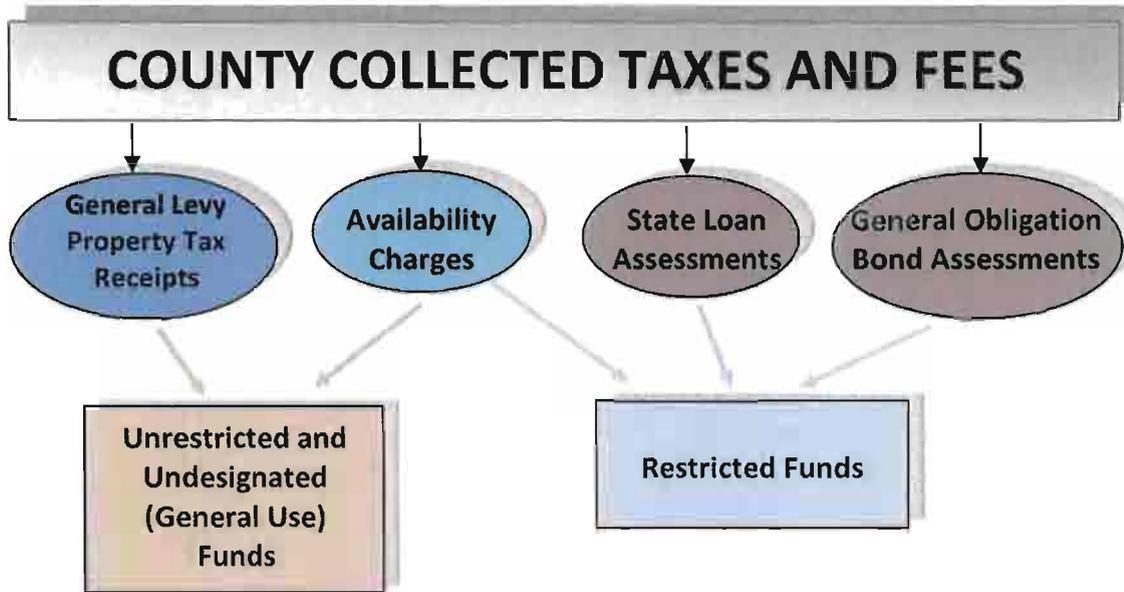
d. Improvement District General Obligation (GO) Bond Assessments (Restricted)

The District has historically issued general obligation (GO) debt and establishes an improvement district for the repayment of that debt. When this financing method is used, the county tax roll can be used to collect special taxes or assessments within the ID to pay the debt obligation. The proceeds of the debt are restricted for the purpose as defined in the bond documents.

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Diagram 2.2: Flow of Funds – County Collection Sources



2.3 Miscellaneous Income

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

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

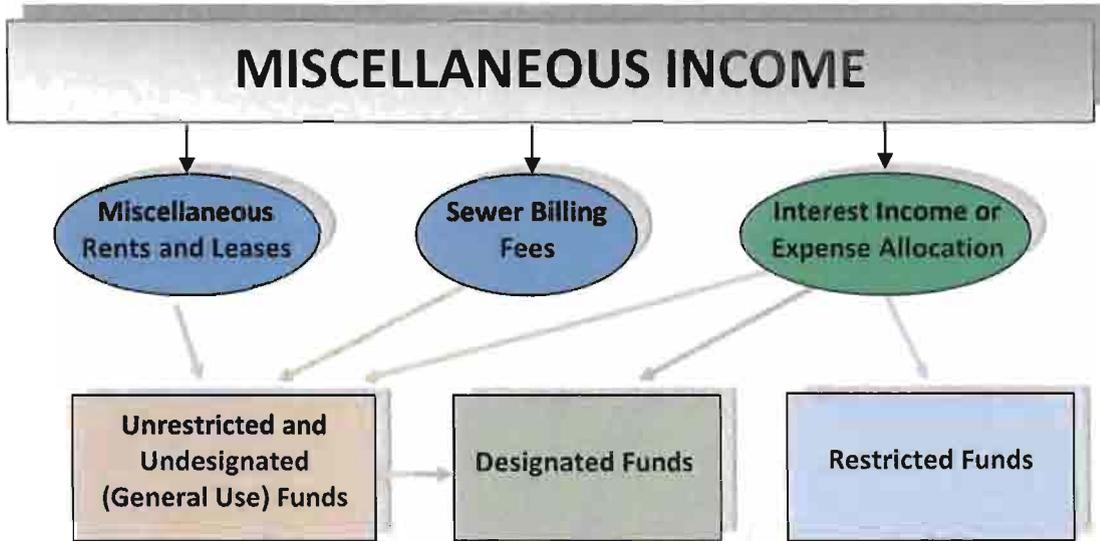
c. Interest Income or Expense Allocation (General Use, Designated, and Restricted)
 Interest income (expense) will be allocated every month based upon each fund's month-ending balance. In this way, each fund receives credit for interest earned by that fund and

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each fund with a negative balance is charged for the use of the other fund's reserves.

Diagram 2.3: Flow of Funds – Miscellaneous Income Sources



2.4 Debt Issuance

a. Loans (General/Restricted Use)

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

b. General Obligation (GO) Bonds (Restricted)

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

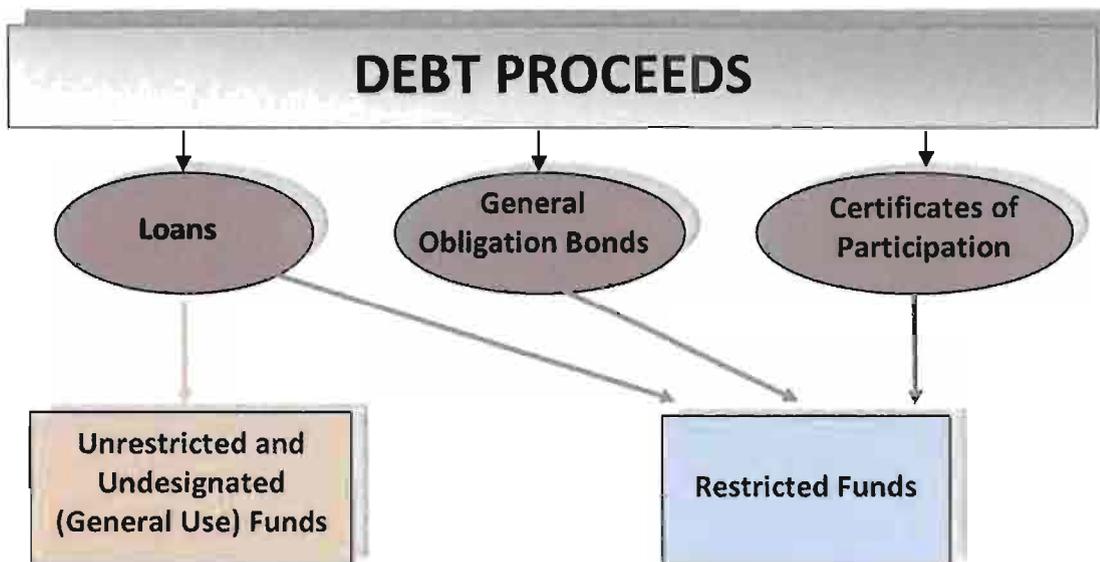
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of the principal and interest, also called debt service, on these bonds. As the District determines that additional financing is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action.

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

Diagram 2.4: Flow of Funds – Debt Issuance Sources



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2.5 Inter-fund Transfers

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

Fund Types and Categories

3.0 General Funds

a. Purpose

The General Fund is neither restricted nor designated. The District maintains one General Fund for each business segment (water, sewer, and recycled). This fund holds the working capital and emergency operating reserves. While the General Fund has a short-term focus to finance the District's annual operations, it is supported by the six-year rate model. This fund is primarily used to finance the operations of the District; however, it can be used for any District purpose.

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

The General Fund also plays a role in the debt planning of the District. This fund is viewed by the debt markets as a commitment by the District to ensure financial stability of the rates and charges of the District. The District is anticipated to need a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also to access low cost financing for future projects.

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b. Sources

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

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

c. Funding Levels

- I. **Minimum Level** - The minimum reserve level for each business segment of the General Fund is three months of operating budget expenses (evaluated separately for each segment).

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

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

3.1 Designated Other Post Employment Benefits (OPEB) Fund

a. Purpose

Designated Other Post Employment Benefits (OPEB) reserves are "general use" reserves that have been set apart by Board action to finance the medical benefits of qualified retirees as outlined in the District's benefits plan. This District fund holds only a portion of the total OPEB reserves. The other portion is held in a trust at CalPERS and is restricted for the purpose of financing the OPEB liability. The two portions are considered jointly when looking at target

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reserve levels. Every two years, the fund is evaluated by an actuary to update the annual financing requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, health insurance costs, or general market conditions. The reserves held by the District are currently designated and may be placed into the CalPERS trust to legally restrict the funds, removing the District's legal access to these reserves.

b. Sources

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

c. Funding Levels

- I. **Minimum Level** - The minimum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. When considering the reserve level of this fund, both the District held OPEB reserves and CalPERS held OPEB reserves must be considered jointly.

- II. **Maximum Level** - The maximum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, exceed the OPEB liability, the District will reduce the annual funding levels as defined by the actuarial study.

- III. **Target Level** - The target reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, fall below the OPEB liability, the District will increase the annual funding levels as defined by the actuarial study.

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3.2 New Water Supply Fund Category

a. Purpose

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

b. Sources

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

c. Funding Levels

I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.

II. **Maximum Level** - The maximum reserve level for the new water supply category of funds is limited to five years of the unfinanced new water supply facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total new water supply financing needs must be reduced by the projected new water supply revenues, general fund designations, and bond financing. If the combined new water supply reserves exceed the target level, the District should consider transferring designated reserves to meet other purposes, reduce the new water supply fee, or change the timing of the new water supply projects.

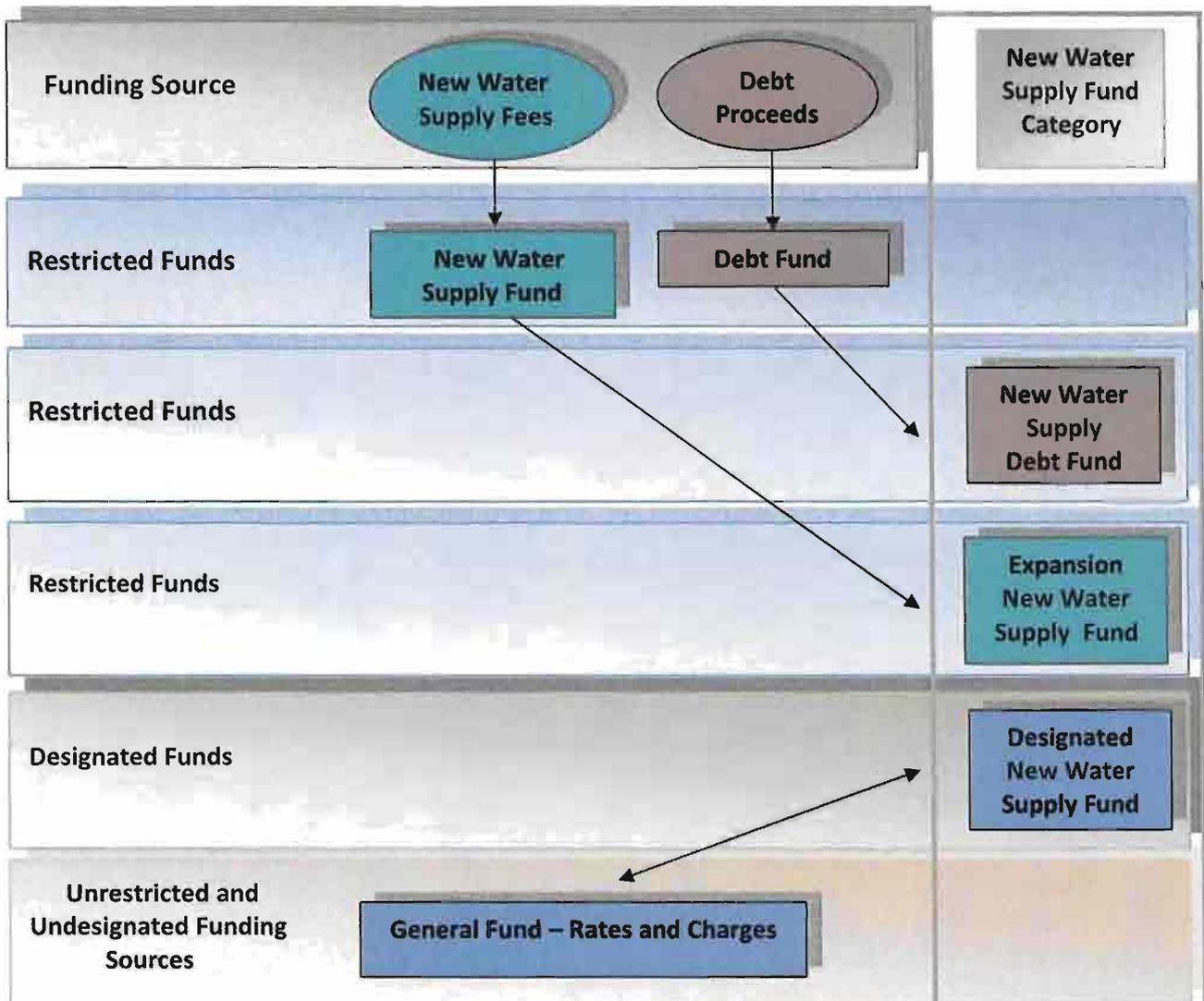
III. **Target Level** - In order to facilitate debt financing of the new water supply, it is important that the various new water supply funds retain an overall reserve level of six months, prior to any attempt to obtain debt financing. This reserve

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level allows the District the time necessary to issue additional debt without depleting new water supply reserves. If the combined new water supply reserve levels drop below six months of expenditures, this would trigger a transfer of general use reserves, a bond sale, or a change in the timing of new water supply projects. Bond proceeds would be placed in the Restricted New Water Supply Debt Fund while transfers would be placed in the Designated New Water Supply Fund.

Diagram 3.2: New Water Supply Fund Category



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3.3 Expansion Fund Category

a. Purpose

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

b. Sources

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

c. Funding Levels

I. Minimum Level - As the District matures the CIP will move to purely replacement and betterment projects. As the District moves through this lifecycle the need for expansion reserves will decrease and may be reduced to zero.

II. Maximum Level - The maximum reserve level for the expansion category of funds is limited to five years of unfinanced expansion facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total financing needs must be reduced by the projected expansion revenues, bond financing, and any restricted or general fund revenues allocated to this fund category. If the combined expansion reserves exceed target levels, the District should consider reducing capacity fees, reallocating restricted or designated funds to meet other purposes, or shifting the timing of expansion projects.

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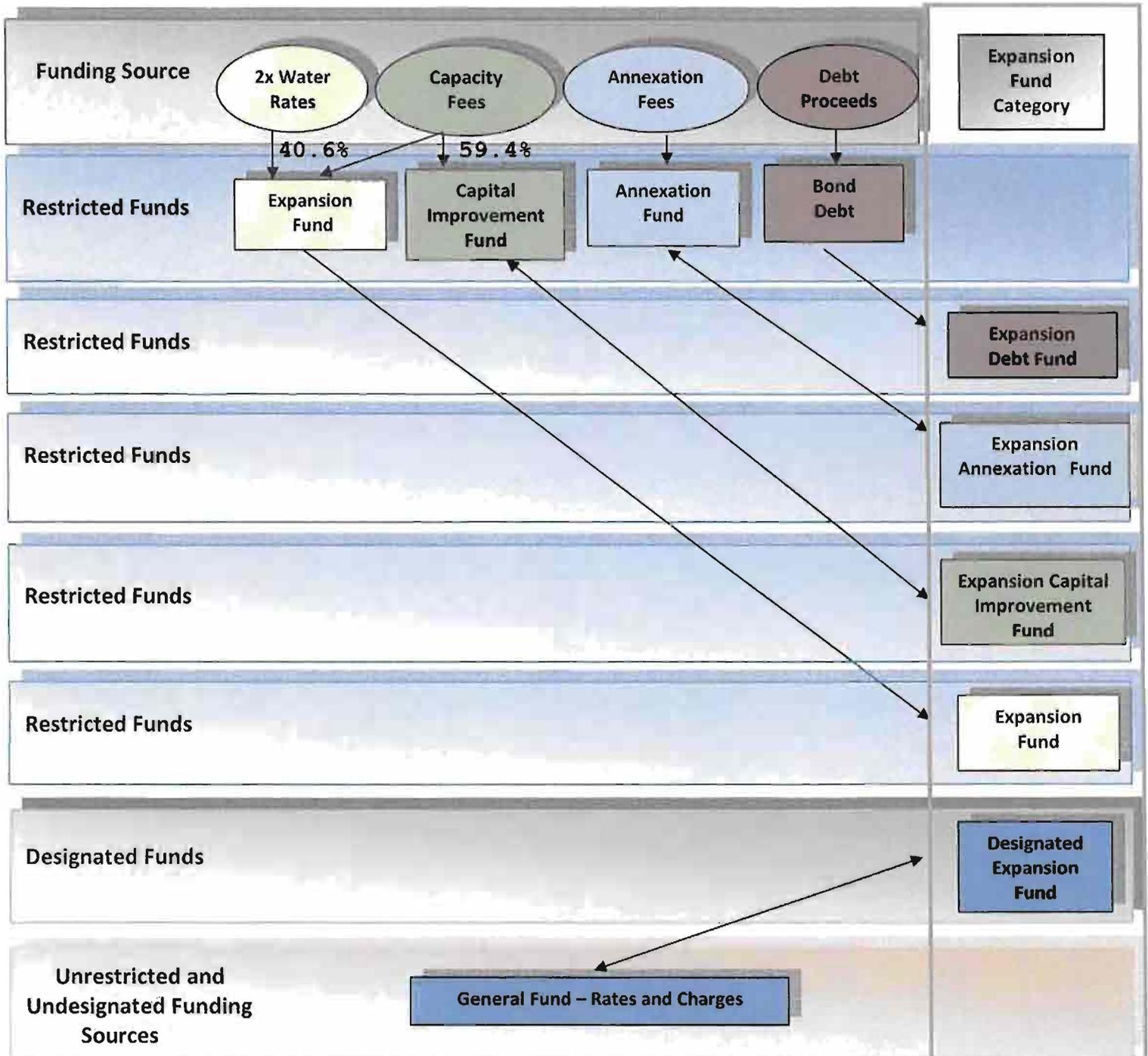
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III. Target Level - The target level is six months of expansion expenditures. It is important that the expansion reserves remain at a minimum of six months of expansion expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting expansion reserves. If the combined expansion reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, an adjustment to the timing of expansion projects, or a reallocation of restricted reserves. Bond proceeds would be placed in the Restricted Bond Fund, transfers of general use reserves would be placed in the Designated Expansion Fund, and transfers of restricted reserves would be placed in either the Expansion Annexation Fund or the Expansion Capital Improvement Fund.

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Diagram 3.3: Expansion Fund Category



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3.4 Replacement Fund Category

a. Purpose

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

With the District's development of its financial systems and the greater need and ability to separate and track reserves, the replacement reserves have been separated into three funds: water, recycled, and sewer.

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

b. Sources

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

c. Funding Levels

- I. **Minimum Level** - The minimum reserve level of this category of funds is 3% of the historical value of existing assets as identified in the District's current financial statements. Potable, recycled, and sewer replacement are evaluated separately.
- II. **Maximum Level** - The maximum reserve level of this category of funds is 6% of existing assets. If the

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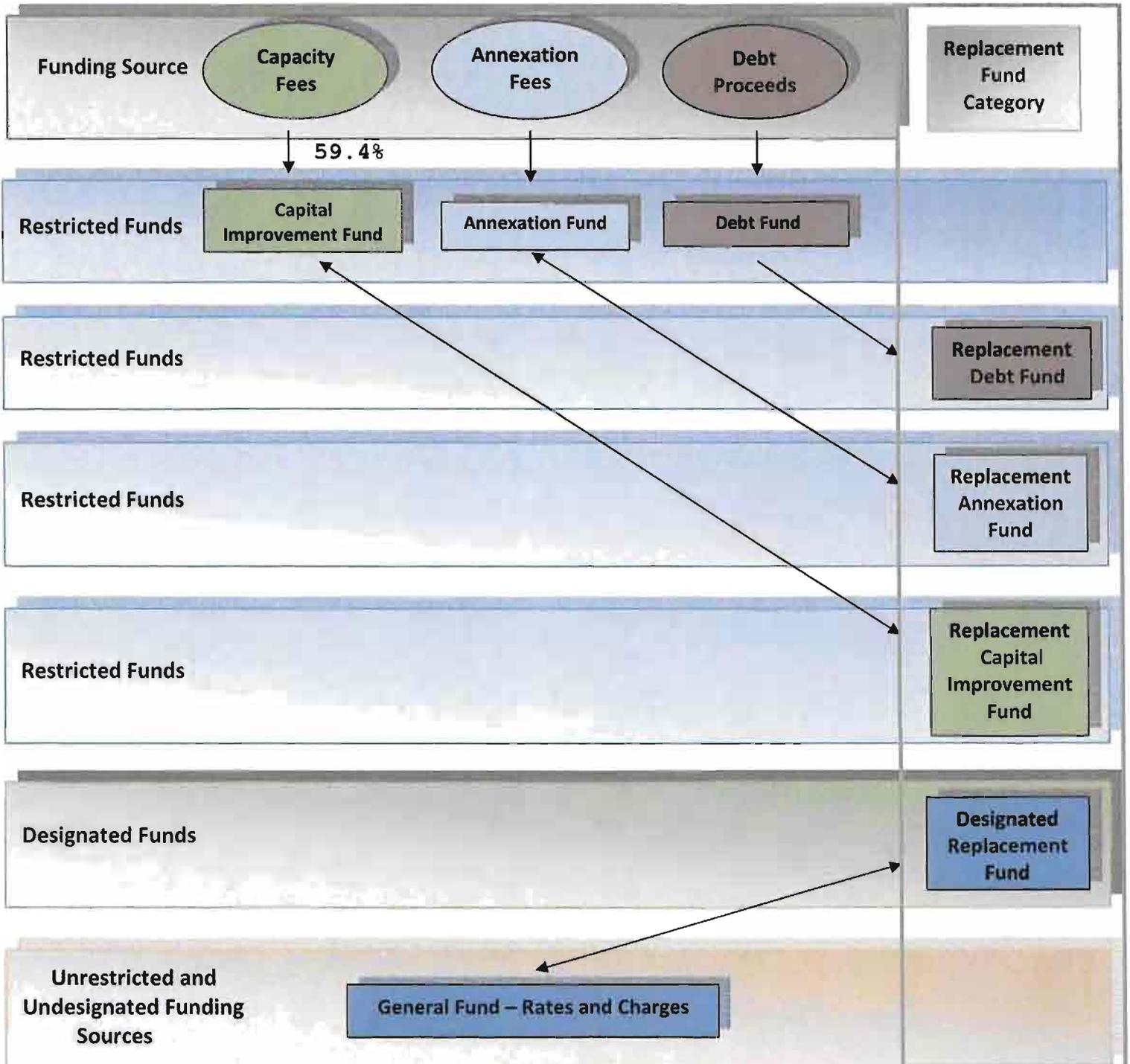
combined replacement reserves exceed target levels, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee to meet other purposes. Another consideration would be to shift the timing of replacement projects.

- III. **Target Level** - The target reserve level of this category of funds is 4% of existing assets. In the event that the reserves fall below the recommended target level, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee. The District should also consider shifting the timing of replacement projects or issuing debt to support the planned level of facility replacement. The District will act based on the annual six-year rate model, to insure that at the end of that planning horizon the reserves exceed the minimum level and is approaching the target level.

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Diagram 3.4: Replacement Fund Category



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3.5 Betterment Fund Category

a. Purpose

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

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

b. Sources

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

c. Funding Levels

I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through this lifecycle the need for betterment reserves will decrease and may be reduced to zero.

II. **Maximum Level** - The maximum reserve level for the betterment category of funds is limited to five years of unfinanced betterment facilities as

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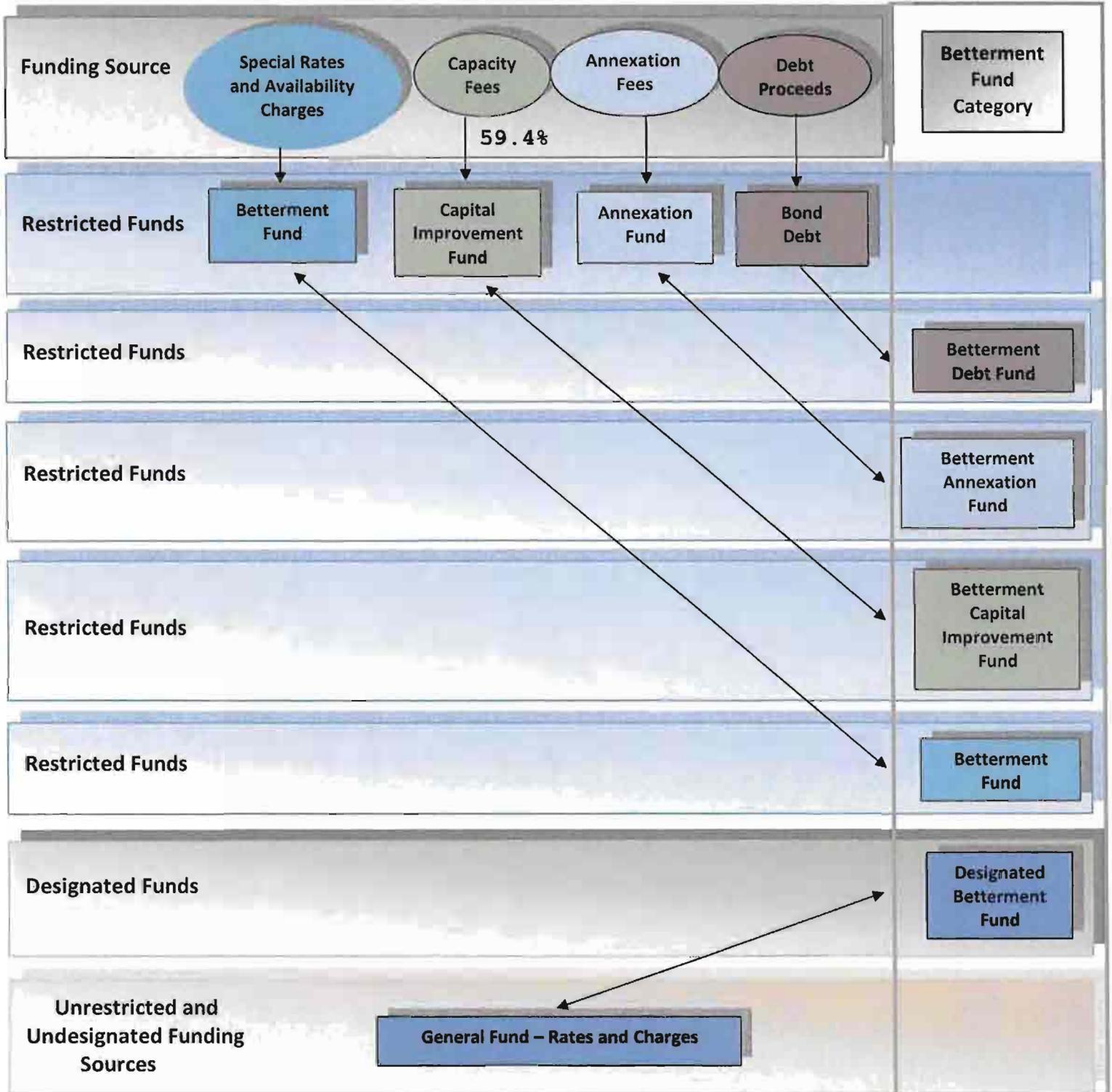
described in the District's CIP Budget. To determine the unfinanced amount, the total financing need must be reduced by the projected betterment revenues, bond financing, annexation, and general fund designations. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.

- III. **Target Level** - The target is six months of betterment expenditures. It is important that the betterment reserves remain at a minimum of six months of betterment expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting betterment reserves. If the combined betterment reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, or an adjustment to the timing of betterment projects. Bond proceeds would be placed in the Betterment Bond Fund while transfers would be placed in the Designated Betterment Fund.

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Diagram 3.5: Betterment Fund Category



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Diagram 3.6: Fund Targets

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

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

Additional Restricted Funds

4.0 Capital Improvement Fund

a. Purpose

The "Capital Improvement Fund's sole purpose is to track the "buy-in" portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were

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

b. Sources

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

c. Funding Levels

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

4.1 Annexation Fund

a. Purpose

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

b. Sources

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

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c. Uses

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

4.2 Debt Reserve Fund

a. Purpose

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

b. Sources

Debt proceeds.

c. Uses

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

Fund Transfers

5.0 Funding Levels

As described in the preceding sections, the District maintains reserves for its operating and capital activities. These reserves can be of three types: 1) undesignated or general use reserves, 2) designated, and 3) restricted for a specific purpose. The restricted reserves can be restricted geographically and/or by purpose. The District maintains various funds to track the various designations and restrictions. The source of the money for each fund was discussed along with the purpose, source of

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funds, and levels. Key characteristics of these funds are the target levels, minimums, and maximums. The funding levels must be viewed in the context of the economic environment, political environment, and in light of the District's rate model. The District's six-year rate model not only shows the current balance but also shows the trend of the fund balances. Often the trend of the fund is a greater indicator of financial stability than is the current balance.

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

5.1 Fund Transfers

Reserves within the District's various designated funds come from interfund transfers of unrestricted general use reserves. It is important to note that the District has the ability to use general use reserves for any business purpose. General use reserves may be transferred to and from any unrestricted fund for any business need. Designated reserves are general use reserves which have been set aside for a specific purpose by Board action. These reserves can only be used for the purpose they were designated, or with Board action they may be used for any other business purpose. While general use reserves may be used for any restricted purpose they may not be transferred to Restricted Funds due to the sensitivity of the tracking of restricted reserves. If reserves are needed for a restricted purpose they are transferred to a Designated Fund within the fund category with that particular purpose. Reserves restricted to a fund category may only be used within that category and may not be transferred to another category. For example, the new water supply fee and the "incremental" portion of the capacity fee are restricted reserves for a specific purpose, and may not be transferred to another category as no other category has the same purpose. However, the "buy-in" portion of the capacity fees and annexation fees are

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

| Subject | Policy Number | Date Adopted | Date Revised |
|----------------|---------------|--------------|--------------|
| RESERVE POLICY | 25 | 2/10/93 | 11/3/10 |

restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose.

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

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

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

As an example, if during the rate model update process it was determined that the Expansion Funds (designated and restricted) would drop and stay below the minimum during the six-year planning horizon, this would trigger a bond sale, a transfer of general use

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|----------------|---------------|--------------|--------------|
| RESERVE POLICY | 25 | 2/10/93 | 11/3/10 |

GLOSSARY

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

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

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

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

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

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

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

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| RESERVE POLICY | 25 | 2/10/93 | 11/3/10 |

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.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

| Subject | Policy Number | Date Adopted | Date Revised |
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| RESERVE POLICY | 25 | 2/10/93 | 11/3/10 |

1% Property Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB 8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

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

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

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

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

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



AGENDA ITEM 7b

STAFF REPORT

| | | | |
|---------------|--|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 3, 2010 |
| SUBMITTED BY: | Geoff Stevens, <i>GS</i> Chief Information Officer | W.O./G.F. NO: | DIV. NO. |
| APPROVED BY: | German Alvarez, <i>German Alvarez for G. Alvarez</i> (Asst. GM): Assistant General Manager, Finance and Administration | | |
| SUBJECT: | REPLACEMENT OF PBX | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board authorize the General Manager to negotiate and enter into an agreement with:

1. Advanced Call Processing Corporation in an amount not to exceed \$400,000 for telecommunications equipment and services.
2. Fandel Enterprises for an amount not to exceed \$40,000 for telecommunication consulting and implementation services.

COMMITTEE ACTION:

See Attachment "A".

PURPOSE:

To authorize the purchase of telecommunications equipment and implementation of services to replace the District's PBX and related systems.

ANALYSIS:

IT Staff has been analyzing the future requirements for District telecommunications needs. To assist in that effort, the District contracted a telecommunications consultant, Fandel Enterprises, to assess the condition of the District's telecommunications systems and to make recommendations to improve these services.

This effort consisted of:

- Condition and risk assessment of our current environment.
- Review of industry technology trends and best practices to assess current and future requirements.
- Development of a "requirements" document.
- Issuing a Request for Proposal (RFP) for communication system upgrades and receiving quotes for services.
- Alternative analysis, including the potential to outsource certain services and an assessment of the viability of moving to the latest voice over internet protocol (VoIP) technology.

As a result of these efforts, the following major conclusions have been reached:

- The District's PBX systems are near maximum capacity and at the end of their product life.
- The Voice Over IP technology is mature and is now an industry standard that is appropriate for Otay.
- Innovative phone software offers significant opportunities to enhance customer service and reduce costs for customer interaction.

The District last purchased an enterprise PBX system in January 2006 and chose to upgrade the NEC PBX originally purchased in 1993. While we were exploring with moving to VOIP technology at that time, the technology was not considered mature. Today VOIP is the standard, and the choice is clear. With the conversion to VOIP technology, the systems that meet the District's requirements are all complete replacements and consequently, upgrading is not an option.

Outsourcing

The outsourcing option was investigated. The District requested a bid from AT&T, (Cox does not provide an enterprise outsource solution) but the initial cost was more than purchasing a new system and the annual costs in the following year were much higher than annual license fees. In addition, outsourcing would mean an unacceptable loss of control over a critical District service with no financial benefit.

Value Added Services

What is significant (in our extensive two year analysis) is that current telecommunications technology is now digitally based; therefore the District can now move to voice over our data network and eliminate the need to replace the separate telecommunications wiring infrastructure. In addition, the processing of voice - be it in-bound, out-bound, interactive voice response (IVR), or automated call direction (ACD) - is now a software-based process as opposed to

a hardware-based switching technology. This change means that the tools for managing these interactions can now be used to enhance the value or efficiency of this type of communications. The District can now use this infrastructure to reach and respond to customers in new and more efficient ways. It is expected that ratepayers will receive excellent communication and customer service.

Consequently, this upgrade - while completely necessary from a lifecycle perspective of the existing equipment (no longer vendor supported) - is also a good opportunity to upgrade our technologies' ability to assist in providing better and more dynamic customer service.

For example, staff interviewed several companies to understand how they are using these new products. One manager described how he now reacts to web traffic, establishes chat sessions, redirects calls, and sends an outbound reminder on a routine basis to his customers. Another stated that the advanced features have the capability to alert all customer service representatives when a particular call or wait time is exceeding specified limits. We anticipate the need to simplify and enhance our customer service business processes using this type of technology.

Purchasing Process

Staff issued a "Request For Information" (RFI), and based on the information received, an RFP was developed and issued in accordance with the District's purchasing process. The District received the following responses meeting the RFP requirements:

| Respondent | Price |
|---|-----------|
| NEC Corp. of America (NEC) | \$309,345 |
| Logicalis | \$336,035 |
| Advanced Call Processing Inc. /I3 (ACP) | \$385,000 |
| American TeleSource Inc. (ATI) | \$329,439 |

All four respondents were invited to an interview process which resulted in NEC, Logicalis, and ACP being invited to a final round of interviews. The interview panel members were Andrea Carey, Customer Service Supervisor; Alice Mendez-Schomer, Customer Service Supervisor; Bruce Trites, Network Engineer; Cynthia Alcantara, Business Analyst; and Bill Jenkins, Manager IT Operations. Geoff Stevens, CIO; and Steve Dobrawa, Purchasing and Facilities Manager observed and provided advice during the evaluation process.

The team determined that the ACP / Interactive Intelligence product was the best fit. While the cost (\$385,000) was 20% higher than the second place candidate (NEC), the team was in agreement that the ACP product was superior in its ability to provide enhanced and flexible customer service and was a large step above the second place product

in meeting the District's needs, particularly with regard to maintenance and software controlled flexibility.

These findings were validated by panel members Geoff Stevens and Andrea Carey who conducted detailed interviews with ACP clients. ACP is the leading provider of software-based telecommunications solutions and provides an unparalleled and flexible approach to call processing. It is simply a much better product than the other four we evaluated. The trend to software based control of telecommunications processes is expected to increase and moving to this approach supports the District's Strategic Plan to "Optimize use of Voice Over Internet Protocol and unified messaging."

Project Timeline

The PBX and related services will be replaced prior to June 2011.

Consulting Assistance Required

The cost of implementation services are \$40,000. These services were competitively bid and Fandel Enterprises was the lowest bidder, by over 25% as presented in the following table.

| Consultant | Price |
|-----------------------------|-------------|
| Fandel Enterprises | \$40,000.00 |
| Wallis Victory & Associates | \$70,000.00 |
| Telytics, Inc. | \$80,000.00 |

The District has established an ongoing consulting relationship with Fandel Enterprises and based on the positive past experience, staff is confident that Fandel Enterprises is more than capable of providing the needed services.

FISCAL IMPACT:

RUC B

This project will utilize funds from two CIPs. The hardware will use CIP P2501 and will be purchased in FY2011. The services will utilize CPI P2469 and will be purchased in FY2011. The total expenditures requested are for a not-to-exceed amount of \$440,000 with funds budgeted from Capital Improvement Programs (CIP P2501 and CIP P2469). These items are also specifically included in the existing FY2011 Capital Budget and recommended FY2011 Capital Budgets.

The approved FY2011 budget is \$400,000 for CIP P2501 (Telecommunications Equipment Upgrade). Expenditures to date are \$0. The total FY2011 budget for CIP P2469 is \$300,000 with current expenditures of \$55,724 leaving a balance of \$344,276. The Project Manager anticipates, based on financial analysis, that the budgets will be sufficient to support both projects.

Finance has determined that 100% of the funding for the hardware component of this project (P2501) is available from the "Replacement Fund" and the services component of this project (P2469), which is 60% of the funding, is available from the "Replacement Fund" and 40% from the "Expansion Fund."

STRATEGIC GOAL:

This project will achieve in total or part the following goals and objectives in the 2011 Strategic Plan.

3.2.3.2 Optimize use of Voice Over Internet Protocol and unified messaging.

1.1.2.1 Enhance communication with our customers by evaluating and upgrading all aspects of the District's phone system.

LEGAL IMPACT:

None.



General Manager

Attachment A - Replacement of PBX

Attachment B - PBX Replacement PowerPoint



ATTACHMENT A

| | |
|-------------------------|--------------------|
| SUBJECT/PROJECT: | REPLACEMENT OF PBX |
|-------------------------|--------------------|

COMMITTEE ACTION:

The Finance, Administration, and Communications Committee reviewed this item in detail at a meeting held on October 19, 2010. The following comments were made:

- It was indicated that the District had installed its current NEC PBX in 1993 and the switch has been upgraded twice since that time; once in 2000 and again in 2006. The PBX will no longer be supported by NEC which is necessitating a change.
- Staff engaged Renee Fandal, Fandel Enterprises, to assist in assessing the District's telecommunications needs and handle the complex implementation process of the new system. Ms. Fandal has assisted over 20 school districts, agencies and many more in the private sector in replacing their phone systems. She also handled the District's last two PBX upgrades.
- Staff issued an RFI (Request for Information) to gather industry information and review the technology currently available. Once specific requirements were developed, staff issued a RFP and followed the District's standard process for purchasing items through the competitive bid process.
- Today, the technology for PBX's has changed significantly. The new industry standard is VoIP (Voice Over Internet Protocol) wherein calls are handled digitally internally and sent out over traditional phone lines [the *switching* of calls are handled through software rather than through hardware (electro magnetic switch technology)].
- The District selected Advanced Call Processing, Inc. (APC) whose product, Interactive Intelligence, best fits the District's needs. APC developed the software based

switching protocol. They are a solid company whose product has been proven and will provide significantly better functionality with ease of use.

- APC's Interactive Intelligence product also received the Innovative Product of the Year Award and the Small Business Company of the Year Award in 2010 from Frost and Sullivan.
- The overall cost of the product is \$400,000 and \$40,000 for implementation services.
- Ms. Fandel reviewed the implementation phase. She stated that the technology is very different from the previous phone systems and that implementation will be different than in the past. Following the contract award:
 - A timeline will be developed identifying each step of the deployment of the new phone system. The timeline will include a backout plan should, during implementation, it be felt that total success will not be achieved in the implementation of the new system.
 - Data will be collected for each user within the organization identifying features and capabilities that is needed/wanted for each phone station.
 - Training will be provided to two key individuals who will train staff to maximize the utilization of the new phone system technology.
 - Each work station will have two phones as the new system is deployed. The two systems will run parallel to one another until the new system is running successfully.
- It is expected that full implementation will take approximately 90 days. Once the system is fully implemented and the District has signed off acknowledging completion of the implementation process, final payment will due to Fandel Enterprises.
- Major benefits for the new system includes the following which will enhance efficiency:
 - Flexibility of the system and staffs' ability to manage the system on its own.
 - Customer Service/Operations will be able to customize their own recordings for outbound calling to customers. This, currently, requires the assistance of the Information Technology staff.

- o Customer calls can also be routed to different queues wherein high profile or more complex customers would be routed to more experienced customer service representatives. Currently, customer calls are routed through one queue for all service representatives.
 - o The supervisor of the service center can monitor calls if needed to identify training needs, etc.
 - o Customer Service representatives can record calls and signal if they have a caller that is potentially threatening or represents a safety issue. A supervisor can queue in on the call and listen if needed.
 - o If an explanation is required for a service that the District will be providing, customers can be sent to a queue where an identified representative will explain the new service. This will assure consistency in the information provided and would eliminate scripts for such situations.
 - o Customer information screens can be transferred with the caller to a supervisor or other employee. If needed, both the customer service representative and supervisor can speak with the caller while both are viewing the customer's information screen.
 - o Customer's can also have the option of leaving their call-back number if they do not want to wait in the queue.
 - o Payment reminders can be set up to be auto-emailed or auto-called to customers.
 - o The new system is very flexible and can be customized to meet future needs.
- It was noted that when staff was first researching systems, the above functionality was 100% to 200% more expensive. Today, the premium is approximately 22% more expensive than a product that can meet the District's basic needs. It was discussed that staff is proposing a system with higher functionality as it would meet the District's future strategic needs. It was indicated that other systems are still utilizing the same technology as the District's existing PBX and adding functionality through purchases from different vendors. This leads to complexity and the inability to provide simplified systems support. The proposed system includes the enhanced functionality (interactive intelligence) all built within the same product from one vendor. This product is superior and different from other vendors.

- It was indicated that this technology is not bleeding edge technology and has been around for 15 years and the core technology is proven.
- Maintenance cost for the proposed new system will be about the same as the old system.
- Advanced Call Processing, Inc., the manufacturer of the proposed system, is not a local company, but they do have an office in Irvine and the installation company is located in Carlsbad.
- It was discussed that the old PBX system can be kept as back-up, can be pieced out to the used market for parts or sold back to NEC.

The committee supported staffs' recommendation and presentation to the full board on the consent calendar.



PBX Replacement

Finance and Administration Committee

November 3, 2010

Geoff Stevens CIO
Otay Water District

Background – PBX

- ▶ PBX (Private Branch Exchange) – the “Switch”
- ▶ NEC PBX first installed in 1993.
- ▶ Upgraded twice in 2000 and 2006
- ▶ Current PBX at end of life because of lack of vendor support



Technology

- ▶ PBX replacement identified in FY2011 Strategic Plan
- ▶ The new industry standard is VoIP
- ▶ Transition from hardware “switch” to software solution for management of calls.



Selection Process

- ▶ Industry and Technology Review
- ▶ RFI issued to gather perspective
- ▶ RFP for specific requirements
- ▶ Panel interviewed all bidders
- ▶ Shortlisted to 3 Finalists
- ▶ Top respondent selected and references checked
- ▶ Develop recommendations for Board



Implementation Services

- ▶ Complex project requires Implementation services
 - Highly detailed requirements
 - Shift in technology
 - Critical District system
- ▶ Solicited bids / received 3 responses
- ▶ Selected low bidder
 - Excellent history with the District
 - Performed similar projects / Broad knowledge base



Summary

- ▶ Selected “Interactive Intelligence”
- ▶ Proven software based solution
- ▶ Leverages VoIP Technology
- ▶ Significantly better functionality and ease of use /Faster ROI
- ▶ Positions Otay for any future changes
- ▶ Customer Service runs the system and process and IT provides support
- ▶ \$400,000 hardware software / \$40,000 Implementation



Schedule

- ▶ Installed by June 2011
- ▶ Extensive training
- ▶ But – its new, different and may take some time getting comfortable with it.
- ▶ “It was everything we hoped for and more”
(reference check interview)



Customer Service Advantages

- ▶ Integrated communication services (Inbound calls, Outbound dialing, email and chat)
 - ▶ Robust ACD with customizable queues that can be easily programmed and changed.
 - ▶ Software based so agents have call details and queue information right on their computer screen.
 - ▶ Agents can communicate easily with Supervisors/Colleagues through instant messaging to speed service to the customer.
 - ▶ Rules based recording to ensure quality service.
- 

Interactive Intelligence

Winner 2010 Frost and Sullivan

North American Technology Company of the Year

- ▶ "There are fundamental differences between communications-enabled business process solutions and IPA," Outlaw said. "Instead of merely embedding communications functions into applications, Interactive Intelligence has opted to use its core communications platform as the basis for automation. In this way, IPA gives customers the ability to automate and track entire multi-step processes – including those that fall outside of communications – thus providing significant and measurable ROI."
- 

AGENDA ITEM 7c



STAFF REPORT

| | | | |
|-----------------------------|--|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 3, 2010 |
| SUBMITTED BY: | Frank Anderson, Utility Services Manager <i>F.A.</i> | W.O./G.F. NO: | DIV. NO. All |
| APPROVED BY: (Chief) | Pedro Porras, Chief, Water Operations  | | |
| APPROVED BY: (Asst. GM): | Manny Magaña,  Assistant General Manager, Engineering & Operations | | |
| SUBJECT: | Board Approval for the District to Join the California Water/Wastewater Agency Reponse Network (CalWARN). | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Otay Water District (District) Board of Directors (Board) authorizes the General Manager to enter into an agreement with California Water/Wastewater Agency Response Network.

COMMITTEE ACTION: _____

Please see Attachment "A".

PURPOSE:

To obtain Board authorization for the General Manager to enter into an agreement with the California Water/Wastewater Agency Response Network.

ANALYSIS:

The California Water/Wastewater Agency Response Network is the establishment of water agency mutual assistance agreement between water agencies that is supported by the California Office of Emergency Services (OES), the Department of Public Health (DPH) and the California Utilities Emergency Association (CUEA).

The CalWARN agreement is also consistent with the State OES Standardized Emergency Management System (SEMS) program in that it provides mutual assistance as required by Federal Emergency Management Agency (FEMA) for using assistance in times of emergency. This agreement also is in accord with the California Emergency Services Act set forth in Title 2, Division 1, Chapter 7 (Section 8550 et seq) of the Government Code and specifically with Articles 14 and 17 (Section 8630 et seq) of the Act and the California Disaster and Civil Defense Master Mutual Aid Agreement.

Assistance under this agreement is organized and functions under the Standard Emergency Management System (SEMS) and National Incident Management System (NIMS) protocols and procedures. It also provides a means of reimbursement for equipment, supplies and personnel made available on an emergency basis.

The benefits of membership in CalWARN-Region 6 include the following potential mutual aid support from the 37 agency CalWARN group;

1. Labor, equipment and supplies assistance and support for operational repair and recovery of utility infrastructure.
2. Due to the larger group of participants, these resources could increase response capabilities and reduce completion time of any emergency repair of infrastructure.
3. Adherence to FEMA protocol for using assistance in times of emergency. This would enhance any opportunity for cost recovery from FEMA.

This agreement is similar to Otay's membership in the Interagency Shared Services Program that includes Helix Water District, Lakeside Water District, Padre Dam Municipal Water District and Sweetwater Authority Water District, but allows the added benefit of more interagency resources due to the increased amount of participating Water Districts. A list of the 37 participants from Region 6 is attached (Attachment B).

An example of the benefit of the CalWARN mutual aid was Sunday, April 4th, 2010 when a 7.2 magnitude earthquake hit Baja, California which in turn caused substantial damage to adjacent towns that included Calexico. Damage in Calexico included water treatment and storage facilities which limited their ability to supply drinking water to their citizens. Numerous member agencies of CalWARN responded and offered assistance to support the repair of their utility infrastructures. Although not a member of CalWARN, Otay Water District was notified to participate and in return responded to offer labor, equipment and supplies if needed.

Joining CalWARN consists of reviewing the Articles of Agreement (Attachment C), filling out and signing the signature page (Attachment D), and filling out the Emergency Contact Form (Attachment E).

CalWARN member regional meetings are held annually and typically convene at a local Water Agency or at a regional conference.

FISCAL IMPACT: 

Membership to CalWARN does not require annual fees.

STRATEGIC GOAL:

Strategy: Improve Efficiency of Business Process.
Goal: Optimize Disaster Preparedness.

LEGAL IMPACT:

None.



General Manager

- Attachment "A", Committee Action
- Attachment "B" CalWARN Region 6 Participants
- Attachment "C" CalWARN Articles of Agreement
- Attachment "D" CalWARN Signature Page
- Attachment "E" CalWARN Emergency Contact Form



ATTACHMENT A

| | |
|-------------------------|--|
| SUBJECT/PROJECT: | Board Approval for the District to Join CalWARN Water/Wastewater Agency Mutual Aid Response Network |
|-------------------------|--|

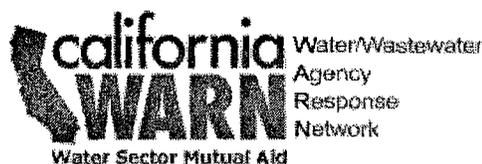
COMMITTEE ACTION:

The Engineering, Operations, and Water Resources Committee reviewed this item at a meeting held on October 18, 2010 and the following comments were made:

- Staff is requesting that the Board authorize the General Manager to enter into a water agency mutual assistance agreement with the California Water/Wastewater Agency Response Network (CalWARN) for Region 6.
- CalWARN is managed under the State Office of Emergency Services (OES) Standardized Emergency Management System (SEMS) and the National Incident Management System (NIMS) and provides mutual assistance as required by FEMA. In addition, CalWARN is supported by the Department of Public Health (DPH) and the California Utilities Emergency Association (CUEA).
- Staff indicated that becoming a member of CalWARN-Region 6 will provide a larger mutual aid support umbrella in times of emergencies for the District by increasing its interagency resources with 37 other CalWARN participants in Region 6. It was indicated that the San Diego County Water Authority is also a member of CalWARN. A complete list of participants was provided to the Committee (Attachment B).
- Benefits of becoming a member of CalWARN include:
 - Support with labor, equipment, supplies and assistance with operational repair and recovery of utility infrastructure;
 - Increase response capabilities and reduce completion time of any emergency repair of infrastructure;
 - Adherence to FEMA protocol for using assistance in times of emergency which would also enhance any opportunity for cost recovery from FEMA; and
 - Provides a means of reimbursement for equipment, supplies and personnel made available on an emergency basis.

- Staff stated that there are no negative impacts to the District for becoming a member of CalWARN-Region 6 and it will not affect the District's current mutual aid agreements with other local agencies. In addition, becoming a member does not obligate the District to provide assistance unless it has the resources and chooses to offer mutual aid.

Following the discussion, the Committee supported staffs' recommendation and presentation to the full board as a consent item.



Home
About CalWARN
About Water Safety
News & Events
Resource Center
CalWARN Newsletter

CalWARN Members
How To Join WARN
Members' Gateway

Southern OES Region VI

Bighorn Desert View Water Agency

622 South Jemez Trail
Yucca Valley, CA 92284

Marina West
Telephone No. 760-364-2315
Email - bdvwa2@mindspring.com

Borrego Water District

806 Palm Canyon Drive, P.O. Box 1870
Borrego Springs, CA 92004-1870

Jerry Rolwing
Telephone No. 760-767-5806
Email - jerry@borregowd.org

Cabazon County Water District

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Cabazon, CA 92230

Rick Hall
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Calexico, City of

California American Water Co. Coronado District

1019 Cherry Ave.
Imperial Beach, CA 91933

Todd Brown
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Coachella Valley Water District

85-995 Ave. 52, mail to P.O Box 1058
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Steve Robbins
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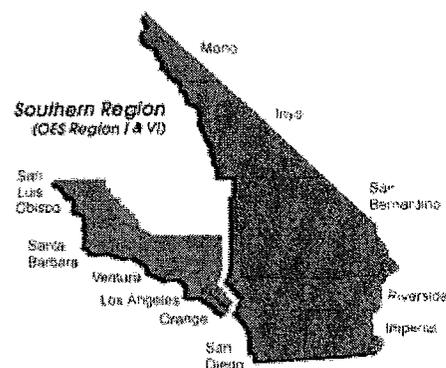
Corona, City of Dept of Water and Power

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Corona, CA 92880

Tom Moody
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Cucamonga County Water District

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Gary Sturdivan
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Havasu Lake, CA 92363

Mary Hodges
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La Mesa, CA 91942

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Inland Empire Utilities Agency
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Joshua Tree, CA 92252

Joe Guzzetta
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Hemet, Ca 92544

Thomas Wagoner
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Otay Water District

Padre Dam Municipal Water District

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Diana Levin
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Phelan Pinon Hills Community Services District

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Ramona Water District

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Rancho California Water District

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Mike Taylor
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**San Bernardino Municipal Water
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On Call Technician
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Lisa Prus
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San Dieguito

Santa Ana Watershed Project Authority

Sweetwater Water District

Vallecitos Water District
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**Victor Valley Wastewater Reclamation
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Western MWD of Riverside County

Yucaipa Valley Water District
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Yuima Municipal Water District
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Pauma Valley, CA 92061

Todd Engstrand
Telephone No. 760-742-3704

Articles of Agreement
California Water/Wastewater Agency Response Network
WARN 2007 Omnibus Mutual Assistance Agreement

This AGREEMENT is made and entered into by those water and wastewater utilities which have adopted and signed this agreement to provide mutual assistance in times of emergency in accordance with the California Emergency Services Act and the California Disaster and Civil Defense Master Mutual Aid Agreement; and to provide reimbursement for equipment, supplies and personnel made available on an emergency basis.

All of said water and wastewater utilities being herein referred to collectively as "the parties."

In consideration of the mutual covenants and agreements hereinafter set forth, the parties agree to provide mutual assistance to one another in times of emergency as follows:

ARTICLE I.
PURPOSE

Recognizing that emergencies may require assistance in the form of personnel, equipment, and supplies from outside the area of impact, the signatory utilities hereby establish an Intrastate Program for Mutual Aid and Assistance. Through the Mutual Aid and Assistance Program, Members coordinate response activities and share resources during emergencies. This Agreement sets forth the procedures and standards for the administration of the Intrastate Mutual Aid and Assistance Program and is available to all water and wastewater utilities, public and private, in the State of California.

ARTICLE II.
DEFINITIONS

- A. **Authorized Official** – An employee or officer of a Member who is authorized to: (1) request assistance; (2) offer assistance; (3) refuse to offer assistance or (4) withdraw assistance under this.
- B. **Emergency** – A natural or human caused event or circumstance causing, or imminently threatening to cause impact to the operations of a member utility's system, loss of life, injury to person or property, human suffering or financial loss, and includes, but is not limited to, fire, flood, severe weather, earthquake, civil disturbance, riot, explosion, drought, volcanic activity, spills or releases of oil or hazardous material, contamination, utility or transportation emergencies, disease, blight, infestation, intentional acts, sabotage, declaration of war, or other conditions which is, or is likely to be beyond the control of the services, personnel, equipment, and facilities of a Member and requires mutual assistance.
- C. **Member** – Any public or private water or wastewater utility that manifests intent to participate in the Mutual Aid and Assistance Program by executing this, the California Water/Wastewater Agency Response Network (CalWARN) Agreement.
- D. **Associate Member** – Any non utility participant, approved by the State Steering Committee, that provides a support role for the WARN program, for example State Department of Public

1 Health, or associations, who are members of the Regional or State Steering Committees
2 and do not officially sign the WARN agreement.

- 3
- 4 E. **Confidential Information** - Any document shared with any signatory to this Agreement that
5 is marked confidential, including but not limited to any map, report, notes, papers, opinion,
6 or e-mail which relates to the system vulnerabilities of a Member or Associate Member.
7
- 8 F. **Non-Responding Member** - A Member that does not provide assistance during a Period of
9 Assistance under the Mutual Aid and Assistance Program.
10
- 11 G. **Requesting Member** – A Member who requests assistance under the Mutual Aid and
12 Assistance Program.
13
- 14 H. **Responding Member** – A Member that responds to a request for assistance under the
15 Mutual Aid and Assistance Program.
16
- 17 I. **Period of Assistance** – A specified period of time when a Responding Member assists a
18 Requesting Member. The period commences when personnel, equipment, or supplies
19 depart from Responding Member's facility and ends when the resources return to their
20 facility (portal to portal). All protections identified in the Agreement apply during this period.
21 The specified Period of Assistance may occur during response to or recovery from an
22 Emergency.
23
- 24 J. **National Incident Management System (NIMS)** - A national, standardized approach to
25 incident management and response that sets uniform processes and procedures for
26 emergency response operations.
27
- 28 K. **Standardized Emergency Management System (SEMS)** - A standardized approach to
29 field command and jurisdictional management and response set forth by State of California
30 Code of Regulations for multi-agency or multi-jurisdictional response to an emergency.
31

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34 **ARTICLE III.**
35 **ADMINISTRATION**

36 The administration of the Water/Wastewater Agency Response Network (WARN) will be
37 through WARN Regional Steering Committees (RSC) and the WARN State Steering Committee
38 (SSC).
39

40 The WARN RSCs will be established by representatives from the Members in that region. A
41 chair and co-chair will be elected and act as administrators for that region. The chair will
42 represent the region on the WARN SSC. Each WARN RSC will sponsor an annual meeting for
43 Members, maintain a data base of all water and wastewater utilities who have signed this
44 Agreement, and meet as a committee to address concerns and procedures for requesting
45 mutual assistance in that region. The regions will be comprised of one or more of the six Office
46 of Emergency Services (OES) mutual aid regions.
47

48 The WARN SSC will include the chairs of the regional steering committees, and a
49 representative from the California Department of Public Health (CDPH), California Utilities
50 Emergency Association (CUEA), Department of Water Resources (DWR), the American Water
51 Works Association (AWWA) Emergency Planning Committee, California Rural Water

1 Association (CRWA) and California Sanitation Risk Management Authority (CSRMA). The SSC
2 will identify a Chair for the purpose of leading the SSC and act as a point of contact for the
3 WARN SSC. At a minimum, the WARN SSC will meet annually and issue a list of participating
4 utilities. The database will be maintained on the WARN website, managed by a volunteer
5 Member, as appointed by the SSC.
6
7

8 **ARTICLE IV.**
9 **PROCEDURES**

- 10
11 A. In coordination with the Regional Steering Committees, emergency management and public
12 health system of the state, the State Steering Committee shall develop operational and
13 planning procedures for the Mutual Aid and Assistance Program. These procedures shall
14 be consistent with the Standardized Emergency Management System (SEMS) and the
15 National Incident Management System (NIMS), reviewed at least annually and updated as
16 needed by the State Steering Committee.
17
18 B. Requests for emergency assistance under this Agreement shall be directed to the
19 appropriate Authorized Official(s) from the list of Members.
20
21 C. Consistent with SEMS, when more than one County is impacted by a disaster, requests for
22 mutual assistance under this Agreement may be channeled through the CUEA Utility
23 Operation Center to ensure maximum effectiveness in allocating resources to the highest
24 priority needs.
25
26

27 **ARTICLE V.**
28 **REQUESTS FOR ASSISTANCE**

29
30 In general, assistance will be in the form of resources, such as equipment, supplies, and
31 personnel. Assistance shall be given only when Responding Member determines that its own
32 needs can be met while rendering assistance. The execution of this Agreement shall not create
33 any duty to respond on the part of any party hereto. A potential Responding Member shall not
34 be held liable for failing to provide assistance. A potential Responding Member has the
35 absolute discretion to decline to provide any requested assistance.
36

- 37 A. **Member Responsibility** - Members shall identify an Authorized Official and alternates;
38 provide contact information including 24-hour access; and maintain resource information
39 made available by the utility for mutual aid and assistance response, as allowed by utility
40 policy. Such information shall be updated annually or as changes occur (whichever is
41 sooner), provided to the State Steering Committee, and uploaded into the statewide
42 database.
43
44 B. **Member Request** - In the event of an Emergency, a Member's Authorized Official may
45 request mutual aid and assistance from a participating Member. Requests for assistance
46 can be made orally or in writing. When made orally, the request for personnel, equipment,
47 and supplies shall also be prepared in writing and submitted to the participating Member as
48 soon as practicable. Requests for assistance shall be directed to the Authorized Official of
49 the participating Member. Specific protocols for requesting aid shall be provided in the
50 procedures developed under Article IV.
51

1 C. **Response to a Request for Assistance** – Members are not obligated to respond to a
2 request. After a Member receives a request for assistance, the Authorized Official evaluates
3 whether or not to respond, whether resources are available to respond, or if other
4 circumstances would hinder response. Following the evaluation, the Authorized
5 Representative shall inform, as soon as possible, the Requesting Member whether it will
6 respond. If the Member is willing and able to provide assistance, the Member shall inform
7 the Requesting Member about the type of available resources and the approximate arrival
8 time of such assistance.
9

10 D. **Discretion of Responding Member's Authorized Official** – Execution of this Agreement
11 does not create any duty to respond to a request for assistance. When a Member receives
12 a request for assistance, the Authorized Official shall have sole and absolute discretion as to
13 whether or not to respond, or the availability of resources to be used in such response. An
14 Authorized Member's decisions on the availability of resources shall be final.
15

16
17 **ARTICLE VI.**
18 **RESPONSE COORDINATION**
19

20 When providing assistance under this Agreement, the Requesting Member and Responding
21 Member shall be organized and shall function under the Standard Emergency Management
22 System and National Incident Management System protocols and procedures.
23

24 A. **Personnel** – Responding Member retains right to identify the employees who are willing
25 to participate and the resources that are available.
26

27 B. **Control** – While employees so provided may be under the supervision of the
28 Responding Member, the Responding Member's employees come under the direction
29 and control of the Requesting Member, consistent with the NIMS Incident Command
30 System to address the needs identified by the Requesting Member. The Requesting
31 Member's Authorized Official shall coordinate response activities with the designated
32 supervisor(s) of the Responding Member(s). Whenever practical, Responding
33 Member personnel must be self sufficient for up to 72 hours. The Responding Member's
34 designated supervisor(s) must keep accurate records of work performed by personnel
35 during the specified Period of Assistance.
36

37 C. **Food and Shelter** – When possible, the Requesting Member shall supply reasonable food
38 and shelter for Responding Member personnel. If the Requesting Member is unable to
39 provide food and shelter for Responding Member personnel, the Responding Member's
40 designated supervisor is authorized to secure the resources necessary to meet the needs of
41 its personnel. Except as provided below, the cost for such resources must not exceed the
42 State per diem rates for that area. To the extent Food and Shelter costs exceed the State
43 per diem rates for the area, the Responding Member must demonstrate that the additional
44 costs were reasonable and necessary under the circumstances. Unless otherwise agreed
45 to in writing, the Requesting Member remains responsible for reimbursing the Responding
46 Member for all reasonable and necessary costs associated with providing food and shelter,
47 if such resources are not provided.
48

49 D. **Communication** – The Requesting Member shall provide Responding Member personnel
50 with radio equipment as available, or radio frequency information to program existing radio,
51 in order to facilitate communications with local responders and utility personnel.

- 1
2 E. **Status** - Unless otherwise provided by law, the Responding Member's officers and
3 employees retain the same privileges, immunities, rights, duties and benefits as provided in
4 their respective jurisdictions.
5
6 F. **Licenses and Permits** – To the extent permitted by law, Responding Member personnel
7 who hold licenses, certificates, or permits evidencing professional, mechanical, or other
8 skills shall be allowed to carry out activities and tasks relevant and related to their respective
9 credentials during the specified Period of Assistance.
10
11 G. **Right to Withdraw Resources** - The Responding Member's Authorized Official retains the
12 right to withdraw some or all of its resources at any time for any reason in the Responding
13 Member's sole and absolute discretion. Notice of intention to withdraw must be
14 communicated to the Requesting Member's Authorized Official as soon as soon as is
15 practicable under the circumstances.
16
17

18 **ARTICLE VII.**
19 **COST REIMBURSEMENT**
20

21 Unless otherwise mutually agreed in whole or in part by both parties, the Requesting Member
22 shall reimburse the Responding Member for each of the following categories of costs incurred
23 while providing aid and assistance during the specified Period of Assistance.
24

- 25 A. **Personnel** – Responding Member will make such employees as are willing to
26 participate available to Requesting Member at Requesting Member's expense equal to
27 Responding Member's full cost, i.e., equal to the employee's applicable salary or hourly
28 wage plus fringe benefits and overhead, and consistent with Responding Member's
29 collective bargaining agreements or other conditions of employment. All costs incurred
30 for work performed during the specified Period of Assistance will be included. The
31 Requesting Member shall be responsible for all direct and indirect labor costs.
32
33 B. **Equipment** – Use of equipment, such as construction equipment, vehicles, tools, pumps
34 and generators, shall be at Responding Member's current equipment rate and subject to the
35 following conditions: The Requesting Member shall reimburse the Responding Member for
36 the use of equipment during the specified Period of Assistance, including, but not limited to,
37 reasonable rental rates, all fuel, lubrication, maintenance, transportation, and
38 loading/unloading of loaned equipment. All equipment shall be returned to the Responding
39 Member as soon as is practicable and reasonable under the circumstances.
40 (a) At the option of Responding Member, equipment may be provided with an
41 operator.
42 (b) Equipment shall be returned to Responding Member within 24 hours after receipt
43 of an oral or written request for return.
44 (c) Requesting Member shall, at its own expense, supply all fuel, lubrication and
45 maintenance for furnished equipment.
46 (d) Responding Member's cost related to the transportation, handling and
47 loading/unloading of equipment shall be chargeable to Requesting Member.
48 (e) In the event equipment is damaged while being dispatched to Requesting Member,
49 or while in the custody and use of Requesting Member, Requesting Member shall
50 reimburse Responding Member for the reasonable cost of repairing said damaged
51 equipment. If the equipment cannot be repaired, then Requesting Member shall

1 reimburse Responding Member for the cost of replacing such equipment with
2 equipment that is of at least equal capability as determined by the Responding
3 Member. If Responding Member must lease a piece of equipment while Requesting
4 Member equipment is being repaired or replaced, Requesting Member shall
5 reimburse Responding Member for such lease costs.
6

7 C. **Materials and Supplies** – Requesting Member shall reimburse Responding Member in
8 kind or at actual replacement cost, plus handling charges, for use of expendable or non-
9 returnable supplies. Other supplies and reusable items that are returned to Responding
10 Member in a clean, damage-free condition shall not be charged to the Requesting
11 Member and no rental fee will be charged; otherwise, they shall be treated as
12 expendable supplies. Supplies that are returned to the Responding Member with
13 damage must be treated as expendable supplies for purposes of cost reimbursement.
14

15 D. **Payment Period** – The Responding Member shall provide an itemized bill to the Requesting
16 Member for all expenses incurred by the Responding Member while providing assistance
17 under this Agreement. The Requesting Member shall send the itemized bill not later than
18 (90) ninety days following the end of the Period of Assistance. The Responding Member
19 may request additional periods of time within which to submit the itemized bill, and
20 Requesting Member shall not unreasonably withhold consent to such request. The
21 Requesting Member agrees to reimburse the Responding Member within 60 days from
22 receipt of an invoice for assistance provided under this Agreement. The Requesting
23 Member may request additional periods of time within which to pay the itemized bill, and
24 Responding Member shall not unreasonably withhold consent to such request, provided,
25 however, that all payment shall occur not later than one-year after the date a final itemized
26 bill is submitted to the Requesting Member.
27

28 E. **Records** - Each Responding Member and its duly authorized representatives shall have
29 access to a Requesting Member's books, documents, notes, reports, papers and records
30 which are directly pertinent to this Agreement for the purposes of reviewing the accuracy of
31 a cost bill or making a financial, maintenance or regulatory audit. Each Requesting Member
32 and its duly authorized representatives shall have access to a Responding Member's books,
33 documents, notes, reports, papers and records which are directly pertinent to this
34 Agreement for the purposes of reviewing the accuracy of a cost bill or making a financial,
35 maintenance or regulatory audit. Such records shall be maintained for at least three (3)
36 years or longer where required by law and as needed for federal reimbursement practices.
37
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39 **ARTICLE VIII.**
40 **ARBITRATION**
41

42 If any controversy or claim arises out of, or relates to, the Agreement, including, but not limited
43 to an alleged breach of the Agreement, the disputing Members shall first attempt to resolve the
44 dispute by negotiation, followed by mediation and finally shall be settled by arbitration in
45 accordance with the Rules of the American Arbitration Association. Judgment on the award
46 rendered by the arbitrator(s) may be entered in any court having jurisdiction.
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ARTICLE IX.
REQUESTING MEMBER'S DUTY TO INDEMNIFY

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Pursuant to Government Code Section 895.4, and subject to Article X, Requesting Member shall assume the defense of, fully indemnify and hold harmless Responding Member, its Directors, Council Members, Supervisors, officers and employees, from all claims, loss, damage, injury and liability of every kind, nature and description, directly or indirectly arising from the Requesting Member's work hereunder, including, but not limited to, negligent or wrongful use of equipment, supplies or personnel provided to Requesting Member or faulty workmanship or other negligent acts, errors or omissions by Responding Member, or by personnel provided to Requesting Member from the time assistance is requested and rendered until the assistance is returned to Responding Member's control, portal to portal.

ARTICLE X.
SIGNATORY INDEMNIFICATION

In the event of a liability, claim, demand, action or proceeding, of whatever kind or nature arising out of the rendering of assistance through this Agreement, the parties involved in rendering or receiving assistance agree to indemnify and hold harmless all Members whose only involvement is the execution and approval of this Agreement, in the transaction or occurrence which is the subject of such claim, action, demand or other proceeding. Such indemnification shall include indemnity for all claims, demands, liability, damages and costs, including reasonable attorneys' fees and other costs of defense, for injury, property damage and workers compensation.

ARTICLE XI.
WORKER'S COMPENSATION CLAIMS

The Responding Member is responsible for providing worker's compensation benefits and administering worker's compensation for its employees. The Requesting Member is responsible for providing worker's compensation benefits and administering worker's compensation for its employees.

ARTICLE XII.
NOTICE

Each party hereto shall give to the others prompt and timely written notice of any claim made or any suit instituted coming to its knowledge, which in any way, directly or indirectly, contingently or otherwise, affects or might affect them, and each Member shall have the right to participate in the defense of the same, as it considers necessary to protect its own interests.

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**ARTICLE XIII.
INSURANCE**

Members shall maintain an insurance policy or maintain a self insurance program that covers activities that it may undertake by virtue of membership in the Mutual Aid and Assistance Program.

**ARTICLE XIV.
CONFIDENTIAL INFORMATION**

To the extent allowed by law, any Member or Associate Member shall maintain in the strictest confidence and shall take all reasonable steps necessary to prevent the disclosure of any Confidential Information provided to it by another Member pursuant to this Agreement. If any Member, Associate Member, or third party requests or demands, by subpoena or otherwise, that a Member or Associate Member disclose any Confidential Information provided to it under this Agreement, the Member or Associate Member shall immediately notify the owner of the Confidential Information and shall take all reasonable steps necessary to prevent the disclosure of any Confidential Information by asserting all applicable rights and privileges with respect to such information and shall cooperate fully in any judicial or administrative proceeding relating thereto.

**ARTICLE XV.
EFFECTIVE DATE**

This Agreement shall take effect for a new party immediately upon its execution by said party.

**ARTICLE XVI.
WITHDRAWAL**

Any party may terminate its participation in this Agreement by written notice to the Chair of the appropriate RSC and to the SSC Chair. Withdrawal takes effect 60 days after the appropriate officials receive notice. Withdrawal from this Agreement shall in no way affect a Requesting Member's duty to reimburse a Responding Member for cost incurred during a Period of Assistance, which duty shall survive such withdrawal.

**ARTICLE XVII.
MODIFICATION**

No provision of this Agreement may be modified, altered or rescinded by individual parties to the Agreement. Modifications to this Agreement require a simple majority vote of Members within each region and unanimous agreement among the regions. The State Steering Committee will notify all parties of modifications to this Agreement in writing and those modifications shall be effective upon 60 days written notice to the parties.

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3 **ARTICLE XVIII.**
4 **SEVERABILITY**

5 If any term or provision of this Agreement is declared by a court of competent jurisdiction to be
6 illegal or in conflict with any law, the validity of the remaining terms and provisions shall not be
7 affected, and the rights and obligations of the parties shall be construed and enforced as if the
8 Agreement did not contain the particular term or provision held to be invalid.
9

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11 **ARTICLE XIX.**
12 **PRIOR AGREEMENTS**

13
14 To the extent that prior agreements among signatories to this Agreement for mutual assistance
15 are inconsistent with this Agreement, such agreements are hereby superseded. This
16 Agreement supersedes the 1996 Omnibus Mutual Aid Agreement, the WARN 1997 Omnibus
17 Mutual Aid Agreement, and the WARN 2001 Omnibus Mutual Aid and Assistance Agreement.
18

19
20 **ARTICLE XX.**
21 **PROHIBITION ON THIRD PARTIES AND ASSIGNMENT OF RIGHTS/DUTIES**

22
23 This Agreement is for the sole benefit of the Members and no other person or entity has rights
24 under this Agreement as a third party beneficiary. Assignment of benefits or delegation of
25 duties created by this Agreement to third parties that are not Members is prohibited and without
26 effect.
27

28
29 **ARTICLE XXI.**
30 **TORT CLAIMS**

31
32 This Agreement in no way abrogates or waives any immunity or defense available under
33 California law.
34

35
36 **ARTICLE XXII.**
37 **INTRASTATE AND INTERSTATE MUTUAL AID AND ASSISTANCE PROGRAMS**

38
39 To the extent practicable, Members retain the right to participate in mutual aid and assistance
40 activities conducted under the State of California Intrastate WARN Mutual Aid and Assistance
41 Program and the Interstate Emergency Management Assistance Compact (EMAC) and similar
42 programs.
43
44
45

**California Water/Wastewater Agency Response Network (CalWARN)
2007 Omnibus Mutual Assistance Agreement**

WHEREAS, the California Office of Emergency Services (OES), the Department of Water Resources (DWR), the Department of Public Health (DPH) and the California Utilities Emergency Association (CUEA) have expressed a mutual interest in the establishment of a plan to facilitate and encourage water agency mutual assistance agreements between water agencies; and

WHEREAS, the California Water Agency Response Network (CalWARN) was originally created to provide a forum for the development of mutual assistance agreements between water agencies in the OES Coastal Region of California; and later expanded to all water and wastewater agencies in the State of California, and

WHEREAS, the CALIFORNIA WATER/WASTEWATER AGENCY RESPONSE NETWORK (CalWARN) 2007 OMNIBUS MUTUAL ASSISTANCE AGREEMENT is a continuation of the WARN 1996 OMNIBUS MUTUAL AID and 2001 OMNIBUS MUTUAL AID AGREEMENT and sets forth the mutual covenants and agreements for water and wastewater agencies to provide mutual assistance to one another in times of emergency; and

WHEREAS, State OES regulates the SEMS program, and this agreement is consistent with SEMS, and that it is necessary to have a mutual assistance agreement in place to support requests to FEMA for costs of using assistance during an emergency, and

WHEREAS, the water or wastewater agency hereto has determined that it would be in its best interests to enter into an agreement that implements that plan and sets forth procedures and the responsibilities of the agency whenever emergency personnel, equipment and facility assistance are provided from one agency to the other; and

WHEREAS, no water or wastewater agency should be in a position of unreasonably using its own resources, facilities, or services providing such mutual assistance; and

WHEREAS, it is the intent of WARN to revise this agreement as necessary and to annually publish a list of all water and wastewater agencies participating in this agreement, as posted on www.calwarn.org; and

WHEREAS, such an agreement is in accord with the California Emergency Services Act set forth in Title 2, Division 1, Chapter 7 (Section 8550 et seq.) of the Government Code and specifically with Articles 14 and 17 (Section 8630 et seq.) of the Act.

NOW, THEREFORE, in consideration of the conditions and covenants contained therein, the

(Utility)
agrees to become a party to the CalWARN 2007 Omnibus Mutual Assistance Agreement.

Date: _____

By: _____

Title: _____

Please return a signed copy of this page, plus the information requested on Emergency

Contacts List to:

Raymond Riordan
CalWARN, State Steering Committee
2662 Marsh Drive
San Ramon, California 94583.

**CalWater/Wastewater Agency Response Network (WARN)
2007 Omnibus Mutual Assistance Agreement
Emergency Contact List**

WARN Region:

| | |
|---|-------------------------------------|
| <input type="checkbox"/> Region 1, Southern | Type of Utility Member |
| <input type="checkbox"/> Region 2, Coastal | |
| <input type="checkbox"/> Region 3, Northern | <input type="checkbox"/> Water |
| <input type="checkbox"/> Region 4, Inland | <input type="checkbox"/> Wastewater |
| <input type="checkbox"/> Region 5, Valley | Other Membership |
| <input type="checkbox"/> Region 6, Southern | |

Date of Joining: _____ Date of Update: _____

Agency Name: _____

Address: _____

City: _____ **Zip Code:** _____

County: _____ **Website:** _____

24-Hr. Telephone No.: _____

Authorized Representative Emergency Contact Info:

Name: _____ **Telephone:** () _____

Cell Phone: () _____

E-Mail: _____

Alternate Representative Emergency Contact:

Name: _____ **Telephone:** () _____

Cell Phone: () _____

E-Mail: _____

Emergency Operations Center:

Location: _____ Telephone: () _____

Cell Phone: () _____

E-Mail: _____

**Radio
Frequency:**

Call Signs:

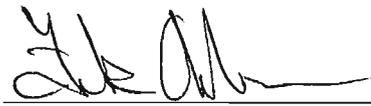
No. of Services: _____

**The information provided on this page will be included in the WARN
web site (www.calwarn.org). ([Back to signature page](#))**

Quality Assurance Approval Sheet

Subject: REQUEST APPROVAL TO JOIN CALWARN Project No.: _____

Document Description: STAFF REPORT REQUESTING APPROVAL TO JOIN CALWARN WATER/WASTEWATER AGENCY RESPONSE NETWORK.

Author: 
Signature

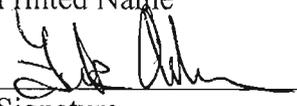
Date: 10-14-10

FRANK ANDERSON
Printed Name

QA Reviewer: 
Signature

10-14-2010

TIM KEERAN
Printed Name

Manager: 
Signature

Date: 10-14-10

FRANK ANDERSON
Printed Name

The above signatures attest that the attached document has been reviewed and to the best of their ability, the signers verify that it meets the District quality standard by clearly and concisely conveying the intended information; being grammatically correct and free of formatting and typographical errors; accurately presenting calculated values and numerical references; and being internally consistent, legible and uniform in its presentation style.