

OTAY WATER DISTRICT

SPECIAL MEETING BOARD OF DIRECTORS
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

TUESDAY
May 29, 2007
3:30 P.M.

AGENDA

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE
3. APPROVAL OF AGENDA
4. 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

WORKSHOP

5. ADOPT RESOLUTION NO. 4097, APPROVING THE FISCAL YEAR 2007-2008 OPERATING AND CAPITAL BUDGET; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; AND DIRECT STAFF TO PROCEED WITH THE PROPOSITION 218 HEARING AND NOTICES
6. ADJOURNMENT

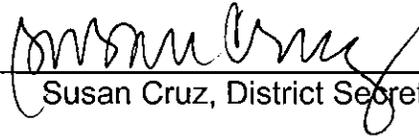
All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

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 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on May 23, 2007, 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 24 hours in advance of the special meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on May 23, 2007.



Susan Cruz, District Secretary

AGENDA ITEM 5



STAFF REPORT

TYPE MEETING:	Special Board Meeting	MEETING DATE:	May 29, 2007
SUBMITTED BY:	Rita Bell, Finance Manager	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)	Joseph R. Beachem, Chief Financial Officer		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager		
SUBJECT:	Adopt Resolution No. 4097, Approving the FY 2007-2008 Operating and Capital Budget; Approve Fund Transfers for Potable, Recycled, and Sewer; and Direct Staff to Proceed with the Proposition 218 Hearing and Notices		

GENERAL MANAGER'S RECOMMENDATION:

That the Board:

a) Adopt Resolution No. 4097 of the Board of Directors of Otay Water District, approving the Fiscal Year 2007-2008 Operating and Capital Budget.

b) Approve the following Fund Transfers:

Potable:

General Fund to Replacement	\$2,245,000
General Fund to Designated Betterment	\$7,100,000
Designated Expansion to Designated Betterment	\$1,305,000

Recycled:

General Fund to Replacement	\$1,380,000
General Fund to Designated Betterment	\$1,100,000
General Fund to Designated Expansion	\$2,575,000

Sewer:

Designated Betterment to General Fund	\$255,000
General Fund to State Loan	\$25,000

c) Direct staff to proceed with the Proposition 218 hearing and notices for the recommended rate increases.

COMMITTEE ACTION: _____

N/A

PURPOSE:

To obtain approval of the Fiscal Year 2007-2008 Operating and Capital Budget; various fund transfers; Adopt Resolution No. 4097; and direction to move forward with the Proposition 218 hearing and notices.

ANALYSIS:

HIGHLIGHTS

The District has concluded the development of the proposed budget as well as the update of the six-year Rate Model. These two efforts complement one another resulting in a sound financial plan and a proposed balanced budget. Our annual budget process evaluates revenues, expenditures, growth, strategic initiatives, and construction costs, while the Rate Model projects their fiscal impact over the next six years. The proposed FY 2007-2008 Operating Budget is \$66.2 million and the proposed Capital Budget is \$34.5 million. (See Attachment C FY 2007-2008 Proposed Operating and Capital Budget).

This year, the proposed budget includes a number of issues worth highlighting. The most significant highlight is that the proposed budget is balanced. Also significant, is the continued diversification of the water supply. This diversification will lead to stronger financial stability by keeping fixed and variable costs lower than they would have been and by increasing our earned incentives on recycled water from the Metropolitan Water District (MWD) and the County Water Authority (CWA). This and other significant issues are highlighted below.

Recommended Water Rate Increase (5.4%)

This year, the Rate Model resulted in a recommended 5.4% rate increase for potable and recycled customers. This is in-line with the projections provided to the Board last year. This rate increase includes a pass-through of rate increases by the San Diego County Water Authority (CWA) and the Metropolitan Water District (MWD) as well as increases in costs for new programs due to several long-term planning projects, new grant programs, and some one-time expenses.

In addition to a balanced budget, the Rate Model shows that with steady small rate increases of 5.4% for the next two years followed by 5.1% increases in years three, four, five, and six, the District will maintain financial security and stability, with all potable and recycled reserves on target. Sewer reserves are all strong with two reserves over target but with expectations that they will be spent down to within target levels.

Recommended Sewer Rate Increase (1.7%)

For sewer, the Rate Model resulted in a 1.7% increase for each of the next six years. This is less than the 5.8% projected last year due to cost increases from the Metropolitan Waste Water Department (City of San Diego), which have since been reversed, as well as cost shifting for labor and power based on more accurate information collected by Otay's new information systems and with a re-analysis of cost allocations.

Reserve Policy

With the few exceptions mentioned below, the District is meeting its Reserve Policy, but in all cases the District can demonstrate a high level of financial health. The debt coverage ratio, an overall measure of financial health, will exceed the target level of 150% by the end of the six-year Rate Model term. The Board of Directors, the District staff, and the District's customers can have confidence in the strong financial position and direction of the District.

Diversified Water Supply

In Fiscal Year 2007, the District budgeted to buy both potable and recycled water from the City of San Diego. In the Lower Otay Pump Station (LOPS), we purchase untreated water from CWA and then pay the City of San Diego for treatment, and finally incur pumping costs from the Lower Otay Pump Station to our distribution system. In total, this is a cost neutral source of water but it greatly diversifies our source. Due to the City's inability to deliver consistently from LOPS this year, we've revised our water purchases from LOPS reducing our estimated purchases from 8,964 acre-feet to 5,468. Additionally, we have budgeted to begin taking recycled water from the City of San Diego in May 2007. This water will cost \$239 less per acre-foot than our current potable supplement and will allow the District to receive both MWD and CWA credits totaling an additional \$385 an acre-foot. These credits work to amortize the capital investment required to access the recycled supply at the City of San Diego. In the long term, increases in MWD and CWA fixed charges will be reduced due to these purchases.

Fund Transfers

Staff is recommending fund transfers of \$16 million. With the adoption of the District's Reserve Policy, staff has clearly defined target levels for each reserve. This policy also outlines the guidelines for making fund transfers. It is expected that staff will bring forward fund transfers with each budget cycle, and as was mentioned in last year's budget presentation, the first few years will include larger adjustments to set the reserves to target. Thereafter, the adjustments made to the reserves are expected to be smaller and consistent year to year.

Debt

The District currently makes \$4 million debt payments on the \$76 million of outstanding bonds. In addition to the current bonds, the District's Rate Model identifies the need to issue an additional \$56.5 million over the next four years including \$30 million in Fiscal Year 2009. This debt is necessary to fund the Capital Improvement Program (CIP) while maintaining the various reserves at target levels, complying with the Reserve Policy.

Debt payments are made from each of the reserves that received debt funding. In this way, the financing cost of the debt is reflected in the appropriate reserve. This allows the District to accurately see the full cost of expansion, betterment, and replacement. The debt owed by the District is ultimately an obligation of the General Fund and is in part funded by transfers from the General Fund.

RESERVES

The District manages its reserves based on Board direction and policy. The Reserve Policy has defined funding levels for each of the reserves. These targets are set to manage risk, fund operations, and fund construction projects. The District manages the reserve levels with funding from rates, fund transfers, and debt issuances. During the six years of the Rate Model each of the reserve levels is maintained at target, allowing for some fluctuations where financially reasonable.

Reserves can be restricted, designated, or general. The District is legally obligated to spend Restricted Reserves for the purpose for which they are collected. Expansion, betterment, and bond reserves are restricted. Designated reserves are general funds that the Board has set aside for a specific purpose. These can only be used for that purpose

unless otherwise directed by the Board. There are designated reserves for replacement, post retirement medical benefits, expansion, and betterment. Some highlights of each of these reserves are as follows:

- **Restricted and Designated Expansion Reserves**

The Restricted and Designated Expansion Reserves work in concert. The combined balance of these reserves is compared to the target level to insure that the District is properly funded to address the construction of both potable and recycled expansion facilities. Expansion facilities support new or future customers.

The Expansion Reserves are projected at year-end 2007 to be \$23.8 million with a target of \$7.7 million. This level of funding is a result of the 2007 bond issuance which is intended to fund two years of financial need. The reserve level is projected to drop to \$16.9 million by the end of 2008 when the target level is expected to be \$13.5 million. This will be moderately over target; however, the Expansion Reserve will again require debt financing in 2009 of \$22 million in order to meet the target level and fund the expansion projects from 2009 to 2011. With debt issuances and ongoing fund transfers from recycled and potable general funds, this reserve will be set at, or just above, the target level.

- **Betterment Reserve**

The Restricted and Designated Betterment Funds also work in concert just as the Expansion Funds. Betterment Funds are used for facilities that address inadequate capacity or new requirements for existing customers. The Betterment Reserve is comprised of 15 separate restricted reserves that can only be spent within the improvement district in which they are collected.

The Betterment Reserves are projected at year-end 2007 to be \$3.6 million with a target level of \$3.2 million. This slight surplus is a result of the 2007 bond financing. With the significant betterment projects, this surplus is not able to support the construction without the sizable General Fund transfers which are included in the 2008 and 2009 fiscal years. In addition, \$3.4 million of bond financing in 2009 is planned for betterment purposes.

With the ongoing General Fund transfers and the pending 2009 financing, each of the Betterment Funds will be able

to fund projects and retain the funds necessary to meet or exceed the target levels.

- **Bond Reserve**

The District collects restricted funds through the tax roll solely for the repayment of debt. Staff monitors these fund balances and modifies the tax rate each year to ensure that only enough funds will be collected to pay the District bond payment obligations and to meet target reserve levels.

The projected 2007 year-end reserve levels total \$1.3 million with a target level of \$0.6 million. While the actual balances seem well above target levels, this reserve is monitored and adjusted annually to ensure that the tax rate is just sufficient to meet the debt payments. All fluctuations from target are only timing differences resulting from monies received and paid for these bonds.

- **Replacement Reserve**

Replacement Funds are used for facilities that require replacement due to deterioration or have exceeded their useful life. The combined Replacement Reserves are projected to have a 2007 year-end balance of \$32.1 million with a target level of \$19.5 million. This surplus has primarily resulted from the 2007 bond financing and by the end of 2008 more than half the surplus will be used on construction of facilities. These funds are designated and can be used by the Board for other needs as they arise. The current and future target levels for the Potable and Recycled Replacement Funds can be met with the recommended fund transfers and with the anticipated 2009 and 2011 bond funds.

The sewer portion of the Replacement Reserve is expected to have a surplus throughout the Rate Model. However, this surplus can be used up by even a small change in the way the District anticipates serving sewer customers due to the significant cost of providing sewer service. There are several sewer issues on the horizon that support holding this reserve as is, and they include: the City of San Diego's future decision on seeking a waiver or going to a secondary level of treatment; potential sewer annexations; and, the District looking to perform a major study on renewal and replacement. In light of these, holding this reserve at status quo is recommended.

- **Post Retirement Medical Reserve**

The projected 2007 year-end balance of this reserve is \$17.3 million dropping to \$17.1 million over the 2008 fiscal year. This reserve is on target.

At the direction of the Board, this reserve was fully funded in 2004 by transferring money from the General Fund into a designated fund called the Post Retirement Medical Reserve. Even though the Board has funded the Reserve and Designated Funds for that purpose, from an accounting perspective, the obligation is still technically unfunded until the funds are placed in trust. Three years ago, the Board directed staff to look at the creation of a trust. Staff has been waiting for this market to develop and is now ready to implement a trust. The trust selection is a significant decision as it can affect the required funding level significantly. Staff is awaiting the results of this year's employee negotiations to evaluate available options.

The accounting rules that will make the existence of a trust significant, GASB 45, will not be effective for the District until 2009. Staff is monitoring how GASB 45 is being implemented and will bring this item to the Board in a timely manner.

- **General Fund**

The three General Funds have a target level equal to three months of District operating costs. This level of funding is considered somewhat low or conservative. The District's objective is to minimize the burden to the rate payers by avoiding the funding of significant reserves. With this in mind, the reserve level was set at three months.

The District's projected 2007 year-end General Fund reserve balances total \$24.7 million with a target level of \$13.6 million. Over the next year, the balance of the potable and reclaimed General Funds will be drawn down to the target levels while the sewer General Fund will remain above target and in the first year only, it will slightly exceed the maximum level. The sewer General Fund will be drawn down gradually over a number of years.

Debt Coverage Ratio

Another item in the Rate Model which is significant to the District's ability to issue bonds is the debt coverage ratio. The District targets a ratio of 150%, the same target level used

by CWA. The minimum required level is 125%, as defined by the District's bond covenants.

This ratio measures the District's ability to meet its debt payments and is a critical measure when rating agencies evaluate the bond rating of the District. The rating agencies mentioned that the District's current ratio was low; however, the District was able to effectively show that by the end of the six-year Rate Model the District would achieve the targeted 150%.

Operating Budget

The Fiscal Year 2007-2008 balanced budget supports the pass-through of CWA's increases in water costs, an increased Capital Budget, and new programs to meet regulatory requirements. The budget includes a 5.4% rate increase for potable and recycled, and a 1.7% rate increase for sewer. The Rate Model projects a 5.4% increase for the next two years and a 5.1% increase for the following four years.

Our neighboring districts will be faced with the same rate pressure due to MWD and CWA's cost increases. Based on an unofficial survey of other districts, they face the same or higher rate increases as the District. Without the MWD and CWA increases, the District would experience no rate increase for potable and recycled customers. This fortunate position is due to the way the District has strategically positioned itself, by implementing new technologies, strengthening policies, and implementing cost saving measures, always with a focus on efficiency.

Rate Implementation - Water

The 5.4% rate increase is being implemented for both potable and recycled customers. Staff is recommending an increase in the variable water rate to all classes of potable customers of 3.8%, as well as an increase in the system fee for potable of 9% from \$11.30 to \$12.30 for a single-family residence. This mix of increases brings the fixed revenue sources closer to the 30% maximum recommended by the Best Management Practices (BMP) 11. The fixed fee components of the District's revenues are important to maintain revenue stability. However, maintaining a balance with variable revenue promotes conservation.

For the reclaimed customers, staff is also recommending an increase of 1% in the variable water rates to all classes. In addition, staff is recommending that the system fee be adjusted from \$59.60 to \$75.40 for a 2-inch meter, an increase of 26.5%

to bring reclaimed fixed charges in alignment with the potable system's fixed charges.

In addition to the fixed system fees, the District also has a fixed fee for potable customers that cover the CWA & MWD Fixed Charges. CWA & MWD have increased these charges by \$562,100 for Fiscal Year 2008. The individual increases are identified below:

Customer Service Charge	\$103,600
Emergency Storage Charge	\$277,200
Infrastructure Access Charge	\$86,300
Capacity Reservation Charge	\$54,600
Readiness-to-Serve Charge	\$40,400

This change in costs is passed-through directly to the potable customers via a fixed fee called CWA & MWD Fixed Charges. The fee change needed to cover this increase is 8.5%, from \$3.55 to \$3.85 for a single-family residence.

Rate Implementation - Sewer

In Fiscal Year 2006, a 5.8% rate increase was projected based on the cost estimates at the time. Now, due to changes in cost estimates from the Metropolitan Waste Water Department in labor and in power, the estimated rate increase is reduced to 1.7%. Since sewer costs only represent 4% of the total Operating Budget, even relatively small changes in the budget can cause significant fluctuations in the sewer rate.

Property Tax

For Fiscal Year 2008, the District assumes the full amount of property tax totaling \$4 million which is based on growth in assessed values of parcels within the District's boundaries. This assessment was originally for the purpose of offsetting the operating cost of the District, and therefore is general use revenue.

Budgeted Revenues

The budgeted revenues include an increase in potable water sales of 10.1% and in recycled water sales of 33.8%. These increases are caused by three main factors: first, the District's growth rate in new meters is estimated to be 2.1% for potable and 4.8% for recycled customers; second, the proposed 5.4% rate increase on January 1, 2008; and third, the prior year's rate increase of 5.4% effecting a full year of revenues.

Reclaimed credits play a large part in increased revenues. Recycled will be receiving \$1,614,900 in MWD and CWA credits; \$1,261,500 of this is because of the recycled purchases from the City of San Diego rather than supplementing from potable. An additional \$201,400 is due to an increase in credits from CWA, moving from \$147 to \$200 per acre-foot. The balance of \$152,000 is credits received on water produced in the District's treatment plant.

Sewer budgeted revenues increased 4.3% due to half a year's increase from last fiscal year of 5.8% (one-half of this is 2.9%), a small amount of growth in this area of 0.7%, and a small increase in interest revenues. Perhaps the most significant change to sewer will be the implementation of the winter-consumption based rate structure. This change is revenue neutral to the District, but it will bring the District into compliance with Best Management Practices (BMP) 11 which encourages conservation and ensures users pay their fair share for services

Other changes in the Operating Revenues include the following:

- Due to an increase in growth projections, Meter Fee Revenues are expected to increase by 14.4%.
- Capacity Fee Revenues are expected to increase by 41.4% due to more than expected work in the planning area.
- Non-Operating Revenues are expected to slightly increase by 0.4%.
- Tax Revenues are expected to increase by 16.8% due to an increase in the property tax roll.

Expenses

The most significant item in expenses is the 11.1% increase in water purchases which is due to the same growth and CWA price increases mentioned above. This increase has both a variable and fixed component. The total increase in variable potable water costs is \$2,765,900. The price component of this increase is expected to be \$42 per acre-foot for purchases from CWA and \$25 per acre-foot for treated water purchases from the City of San Diego. The remaining variable cost increase is a result of additional sales. The fixed costs paid to CWA and MWD are projected to increase the District's expenses by \$562,100 which is highlighted in the section above. Already incorporated into the above variable net increase and identified in the highlights above is the diversification of water purchases.

Power costs are budgeted to increase 4.7% due to the quantity of water sales increases, new facilities, on-peak pumping during the high demand season, and SDG&E's expected 2.5% rate increase by January 1, 2008.

Labor and benefits costs are estimated to increase overall by 6.8%. Salaries will decrease a total of 0.2% due to the following:

- Reduction in FTE by two positions
- Increase in vacancy factor
- In-range adjustments
- Cost of living increases of 3% pursuant to current MOU

In addition, more of the District's labor force is being charged to expense due to the slow down in growth. This slow down results in an increase of 3.4% in labor expenses as the labor force shifts to projects that are not billable. The increase in pension costs of 4.5% is due to the increases in salary mix between Operating and CIP Budgets and a small PERS rate increase of 2.45%. Offsetting the cost increase is a reduction in Workers' Compensation costs of 2.7%. The District will pursue available discounts with its carrier to achieve these savings. In addition, there is a 5.8% increase in medical and dental costs due to an increase in claims history experience.

The Administrative Expenses increased by 25.6%. This is due largely to three main factors:

1. Significant long-term planning projects (\$400,000) for the Water Resources Master Plan and the Rehabilitation and Replacement Study. Both of these projects are two-year projects that will be completed in Fiscal Year 2009.
2. Conservation grants including the Valhalla and Monte Vista artificial turf projects, Cash for Plants, and Large Landscape Programs (\$250,900). These increases in expenses are offset by \$172,000 in grant revenue to the District, with an overall net impact of \$78,900.
3. The District anticipates one-time legal expenses of \$538,000 for Fiscal Year 2008.

The Materials and Maintenance budget experienced a decrease of 9.1%. Two large decreases are due to the Metropolitan Waste Water Department Operations & Maintenance cost for sewer processing (\$141,200) and fuel cost decreases (\$196,000) due to

less fuel being used for the Lower Otay Pump Station (\$196,000). Some offsetting increases include increases in contracted services (\$107,500) for services such as janitorial, painting, air conditioning, landscaping, fencing, and parking lot maintenance. There is also a small increase in materials (\$58,900) due to both price and volume such as chemicals, meters, parts, and supplies.

Funding to reserves is increasing by \$1.7 million as compared to last year. This year, the funding is needed to keep the Expansion and Betterment Reserves on target and to fund these projects. This funding will keep reserve levels in compliance with the Reserve Policy.

Capital Improvement Program (CIP) Budget

Each year with the budget process, the Engineering Department updates the CIP Budget. This year, the six-year CIP budget has decreased by \$27.6 million from last year's CIP. This decrease is a result of some new projects that are less costly than those they replaced. Also, some projects have been moved out to future years. Additionally, construction costs have leveled off since last year, increasing only 10% over two years instead of last year's estimate of 33%. The new projects and cost changes to existing projects are reviewed and approved along with the Operating Budget. The following process is used to prepare the CIP Budget:

- o CIP projects selected are based on CIP criteria, the Water Resources Master Plan (WRMP), the Urban Water Management Plan (UWMP), and Integrated Water Resources Plan (IRP).
- o The CIP goes through an iterative process to meet the criteria of financial, growth, and service levels.
- o The CIP targets expenditures for the next six years.

The Engineering staff uses the following general criteria to determine the reasonableness of a project before it is included in the CIP Budget:

- o Existing Facility Conditions
- o Operating System Conditions
- o Water and Sewer System Deficiencies
- o Regulatory and Permitting Requirements
- o Developer Driven Schedules
- o Economic Outlook and Growth Projections
- o Board and Management Directives

This year, the CIP Budget includes the following amounts by project category. Project details within each of the categories are located in Attachment C under the Capital Budget tab.

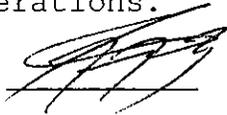
Capital Backbone	\$24.9
Developer Reimbursement	1.5
Replacement and Renewal	6.6
Capital Purchases	<u>1.5</u>
Total (millions)	\$34.5

There are a total of 82 projects in the current six-year CIP plan. Each project is listed in the FY 2007-08 Proposed Operating and Capital Budget (Attachment C). In addition, each project has an individual project sheet detailing project information including the project description, justification, and funding. These sheets can be found under the Capital Budget tab in Attachment C. The total cost of the 82 projects is \$232.1 million.

CONCLUSION

Staff has completed the preparation of a proposed balanced budget. This budget was then incorporated into the District's Rate Model which projects revenues and expenditures for all reserves for the next six years. With the proposed debt issuances, fund transfers, and proposed customer rate increases, the District will maintain all reserve levels at or above target levels, as set by the Reserve Policy. This proposed budget is the foundation of the six-year Rate Model which supports the Strategic Plan initiatives, mandated programs, and the ongoing high level of water and sewer service to District customers. With the approval of this budget, the District will build upon its strong financial standing, evidenced by the bond rating upgrade the District received with its last debt issuance as well as the awards received from both Government Finance Officers Association (GFOA) and California Society of Municipal Finance Officers (CSMFO) for its budget. This budget also ensures the District's ability to finance the ongoing improvements in operations.

FISCAL IMPACT:



The recommended balanced budget totals \$66.2 million for Operations and \$34.5 for the CIP. With budget approval, the District will move forward into the 2008 Fiscal Year with clear financial direction. Staff will also make preparations for the Proposition 218 hearing necessary to implement the rate changes

which support this budget. This budget provides continued funding for the District's administration, maintenance, and operations, and is consistent with the recently adopted Strategic Plan and Reserve Policy.

STRATEGIC GOAL:

Ensure financial health through formalized policies, prudent investing, and efficient operations.

LEGAL IMPACT: _____

None.



General Manager

Attachments:

- A) Resolution No. 4097
- B) FY 2007-2008 Operating and Capital Budget Presentation
- C) FY 2007-2008 Proposed Operating and Capital Budget

RESOLUTION NO. 4097

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2007-2008
OPERATING AND CAPITAL BUDGET

WHEREAS, the Otay Water District Board of Directors have been presented with a budget for the operation of the Otay Water District for Fiscal Year 2007-2008; and

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

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Operating and Capital Budget for the operation of the District, incorporated herein by reference, is hereby adopted as the District's budget for Fiscal Year 2007-2008.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 29th day of May 2007, by the following vote:

Ayes:
Noes:
Abstain:
Absent:

President

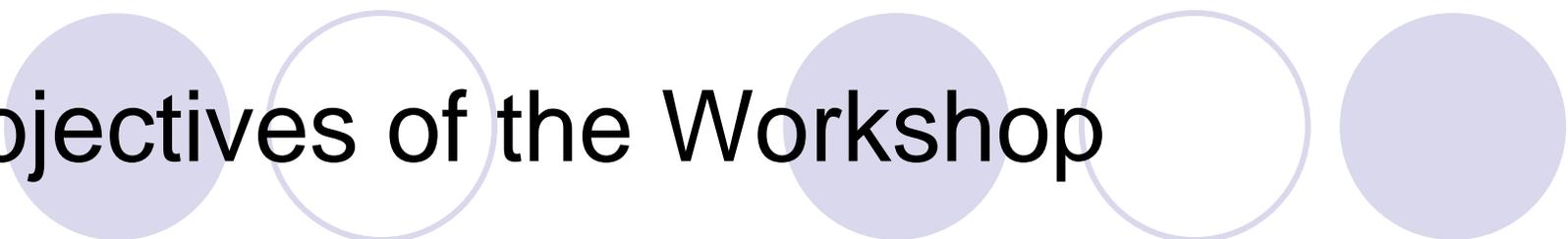
ATTEST:

District Secretary



Otay Water District 2008 Budget Workshop

May 29, 2007



Objectives of the Workshop

Present for approval a \$66.2M Operating Budget

Present for approval a \$34.5M CIP Budget

These budgets support:

- Strategic plan objectives
- The projected growth of the District
- A high level of service to our customers
- Maintaining reserves at target levels per the approved reserve policy
- Maintaining the Debt Coverage Ratio

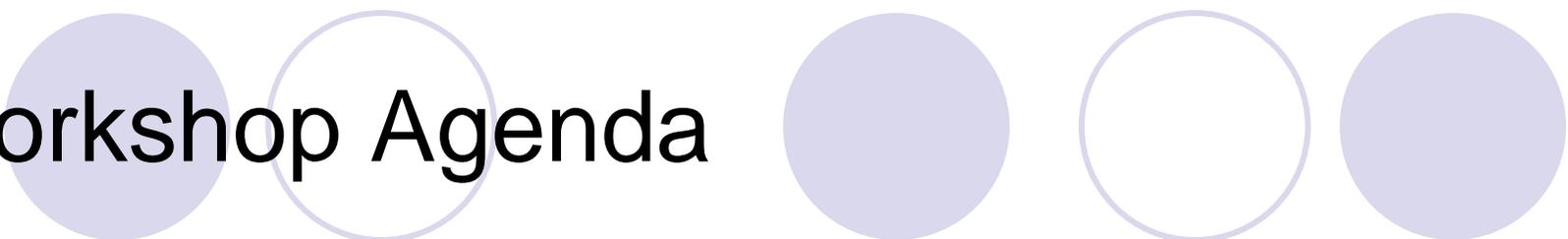
Objectives of the Workshop (Continued)

Budget Supported by:

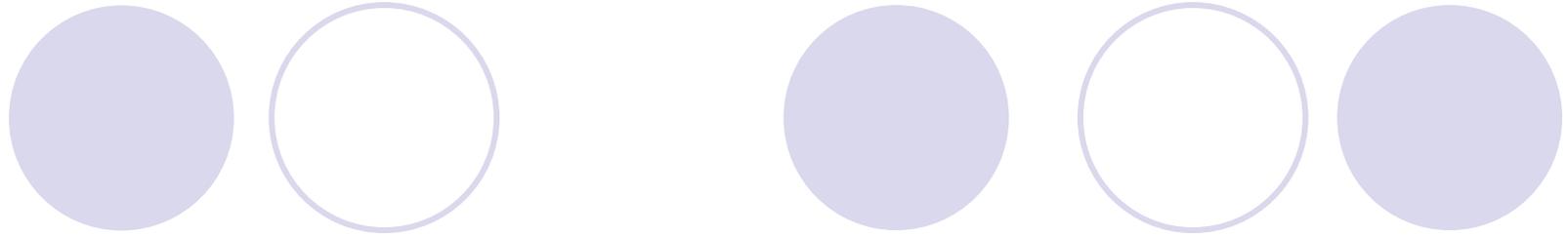
- A 5.4% rate increase for potable and recycled customers
- A 1.7% rate increase for sewer customers
- Continued use of reserves in compliance with the Reserve Policy.
 - Spending down some reserves to target levels
 - Building up other reserves to target levels through fund transfers totaling \$16M

Budget approval is targeted for before the beginning of the new fiscal year, while the rate increases can only be approved after a hearing.

Workshop Agenda



- **Rate Model Review (Joe Beachem)**
 - A Financing Plan / Rate Model
 - Significant Sewer Changes (Pedro Porras)
- **Implementation of Rate Changes (Rita Bell)**
 - Potable, Recycled, and Sewer Rates
- **Capital Improvement Budget (Rod Posada)**
 - IT Projects (Geoff Stevens)
- **Balanced Operating Budget (Rita Bell)**
 - Growth projections
 - Management of Staffing Levels (Rom Sarno)
- **Summary of Recommendations (Joe Beachem)**



RATE MODEL REVIEW

Rate Model Review

- Objectives
- Benefits
- Board Direction
- Changes in the Model
- Financing Plan
 - Reserves, Transfers, Debt, & Rates
- Comparisons

- **The model is the financing plan to fund District objectives**
- **The Budget process has partnered with the Rate Study to present a comprehensive and mid-range Financial Model for the District.**
- **This model sets the stage for the ongoing fiscal health and accountability for the ratepayers.**

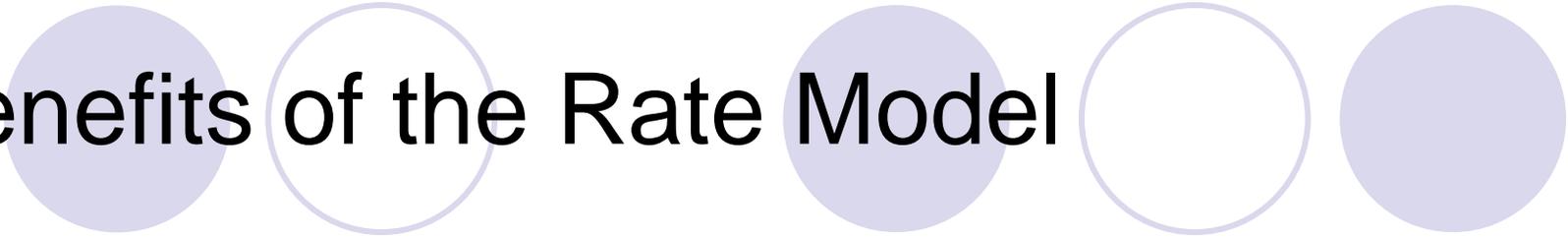


Objective of the Rate Model

To continue with a financing plan that supports the District's budget and maintains financial strength by using a mix of debt, rates, and reserves

Underpinning assumptions in the Rate Model

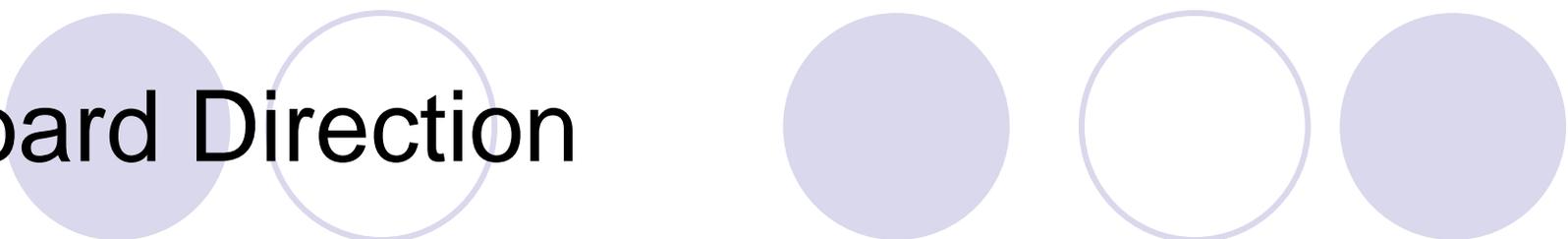
- Meet reserve target levels in every reserve in every year
- Increase the debt coverage ratio to above 150%
- Minimize rate increases



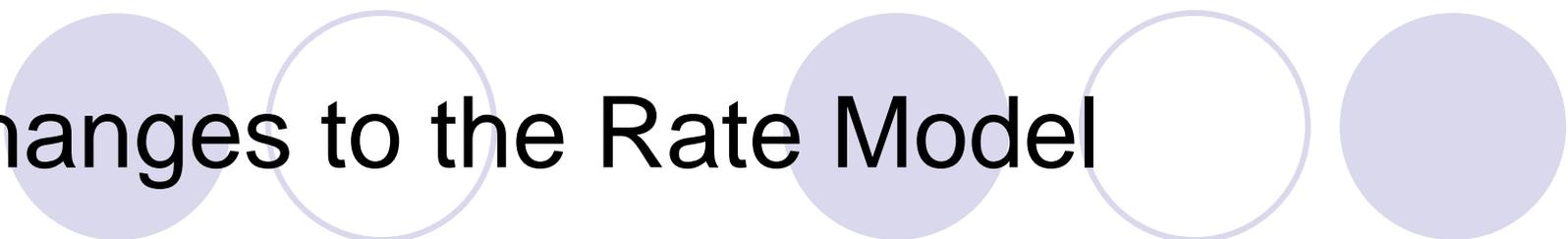
Benefits of the Rate Model

- A planning tool providing a financial framework
- Promotes confidence in the District's financial direction
 - Bond rating agencies
 - Bond insurers
 - Customers Opinion
 - Opinion leaders

Board Direction

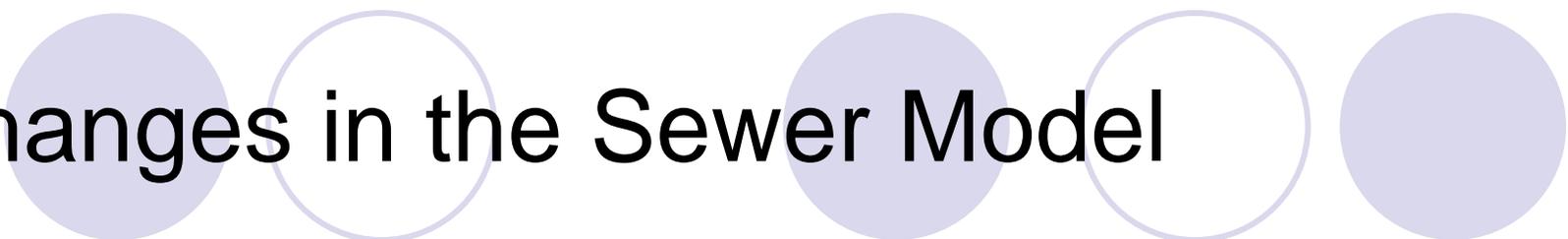
A decorative graphic consisting of two groups of three circles. The first group on the left has a solid light purple circle on the left, a white circle with a light purple outline in the middle, and a solid light purple circle on the right. The second group on the right has a solid light purple circle on the left, a white circle with a light purple outline in the middle, and a solid light purple circle on the right.

- Pass-through CWA/MWD increases
- Steady small increases
- Meet the adopted target levels for each reserve (defined in the Reserve Policy)



Changes to the Rate Model

- Water is On Target at 5.4% increases – Changes present no significant net effect on the anticipated rates
- Sewer rate increases are Down to 1.7% increases - Sewer Costs have been reduced or reallocated generating lower rate increases for the next 6 years.
- Future Uncertainties
 - SD 17
 - SD reclaimed water rate
 - IRP Projects
 - Growth Projections
 - CWA & MWD meeting projections



Changes in the Sewer Model

Shifted Costs

- Power costs (\$61,200) More accurate split between sewer and recycled
- Labor Costs (\$176,700) More accurate information provided by the IMS system

Lowered Costs

- Metro Costs (\$141,200)

Financing Plan

Tools for meeting the Objectives

- Manage the CIP and Operating budgets
- Set appropriate developer fees (last year we reset the annexation fees, quarterly adjustments)
- Draw down reserves
- Transfer available reserves (reserve policy in action)
- Issue Debt
- Adjust customer rates – last resort

Cash Reserves

Beginning 2008 - Ending 2013

Restricted and Designated Funds

Expansion Funds	\$23.8M	to	\$10.8M
Betterment Funds(15 Funds)	\$3.6M	to	\$2.0M
Bond Funds	\$1.4M	to	\$0.1M

Designated Funds

Replacement Funds	\$32.1M	to	\$36.0M
Retirement Medical Fund	\$17.3M	to	\$18.8M Trust

General Funds

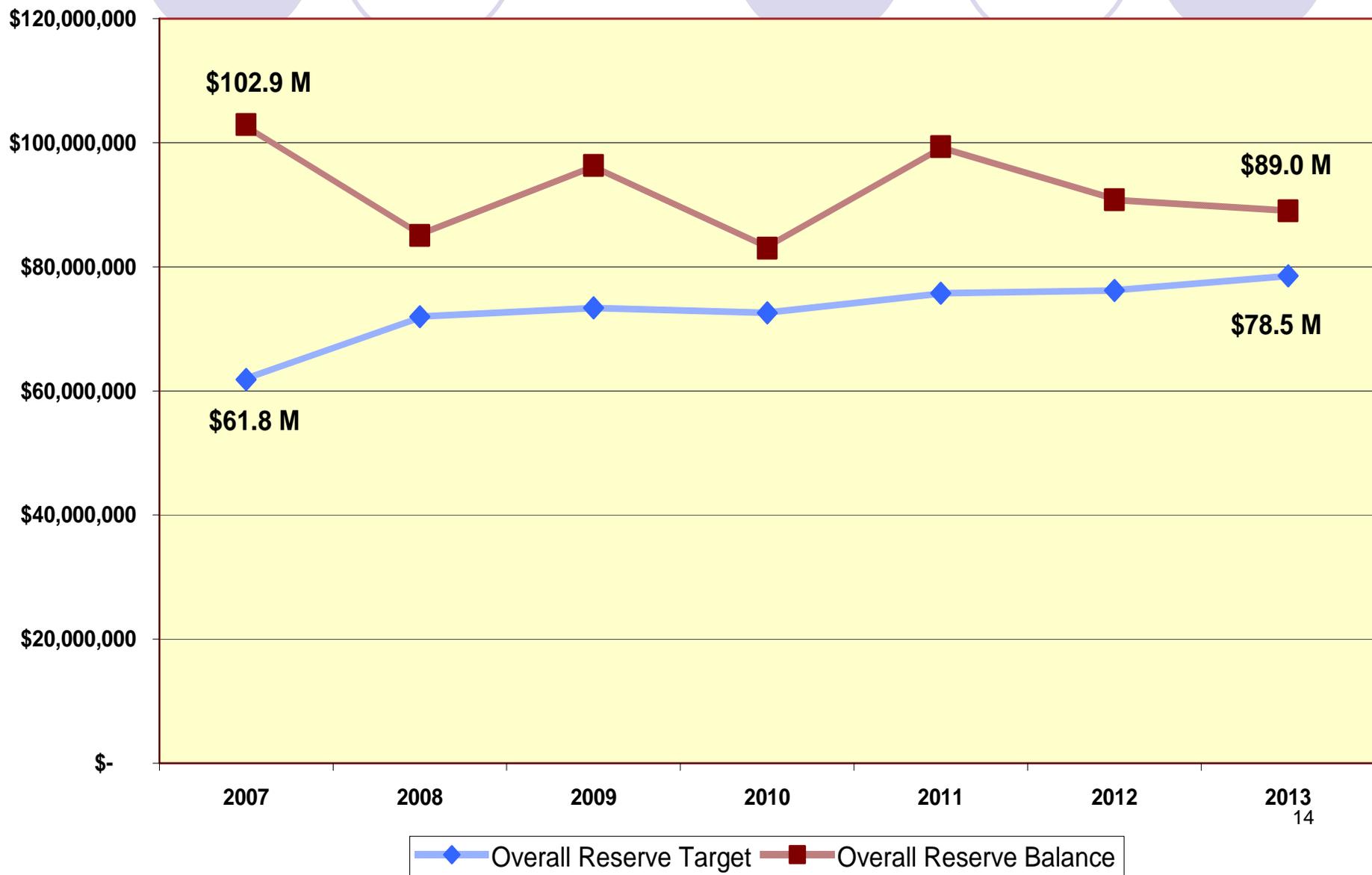
○ Potable	\$20.1M	to	\$18.0M
○ Recycled	\$3.1M	to	\$1.2M
○ Sewer	\$1.5M	to	\$2.1M

Total Reserves **\$102.9M** to **\$89.0M**

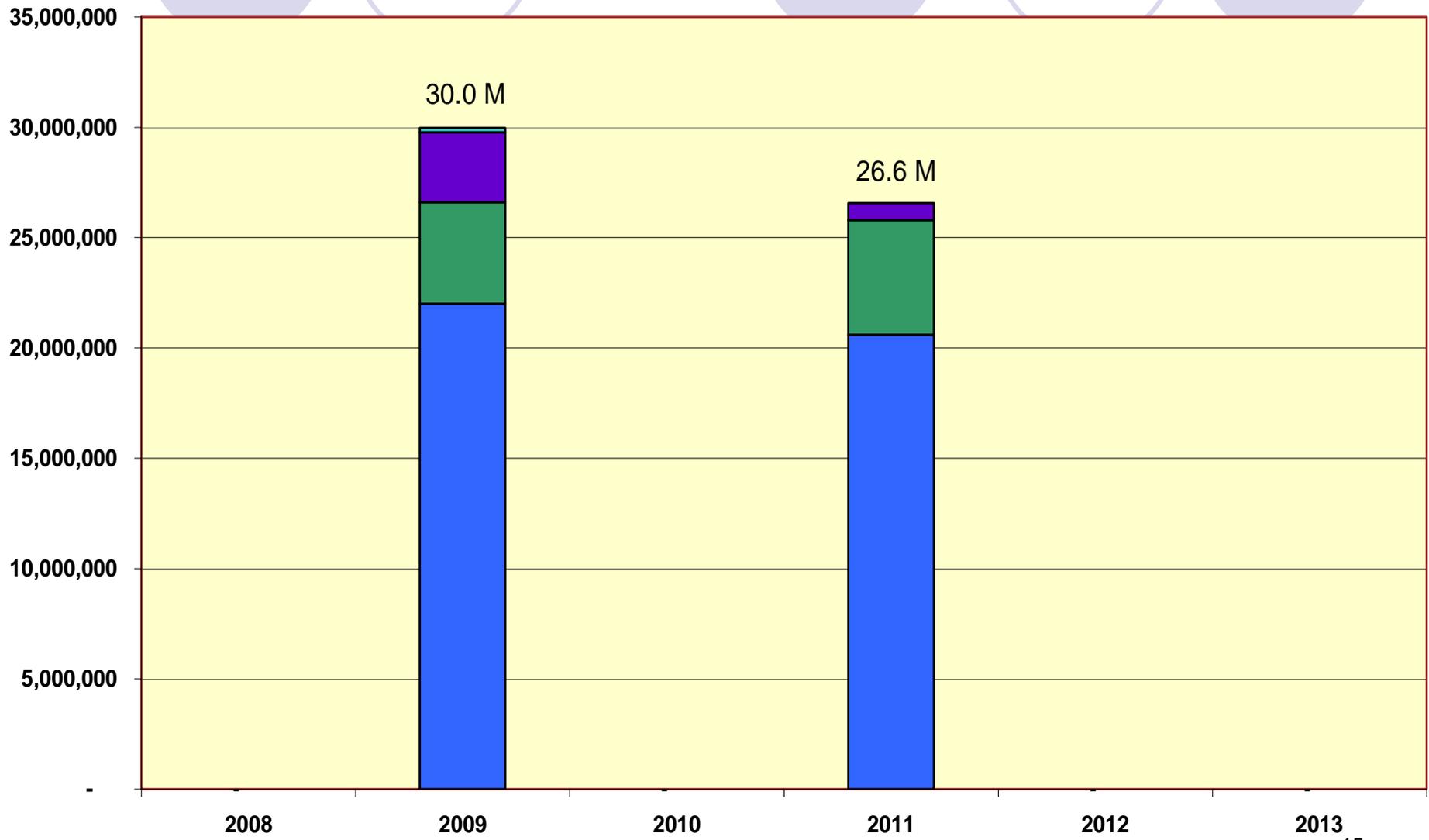
Reserve Targets **\$61.8M** to **\$78.5M**

Otay Water District

Overall Projected Reserve Balance to Target Comparison



Otay Water District Debt Issuance



■ Expansion ■ Potable Replacement ■ Potable Betterment ■ Recycled Betterment

\$16 Million in Fund Transfers

- Adheres to the Reserve Policy Guidelines
- To maintain target reserve levels

Proposed 2007 Fund Transfers

Potable

General Fund to Replacement	2,245,000
General Fund to Designated Betterment	7,100,000
Designated Expansion to Designated Betterment	1,305,000

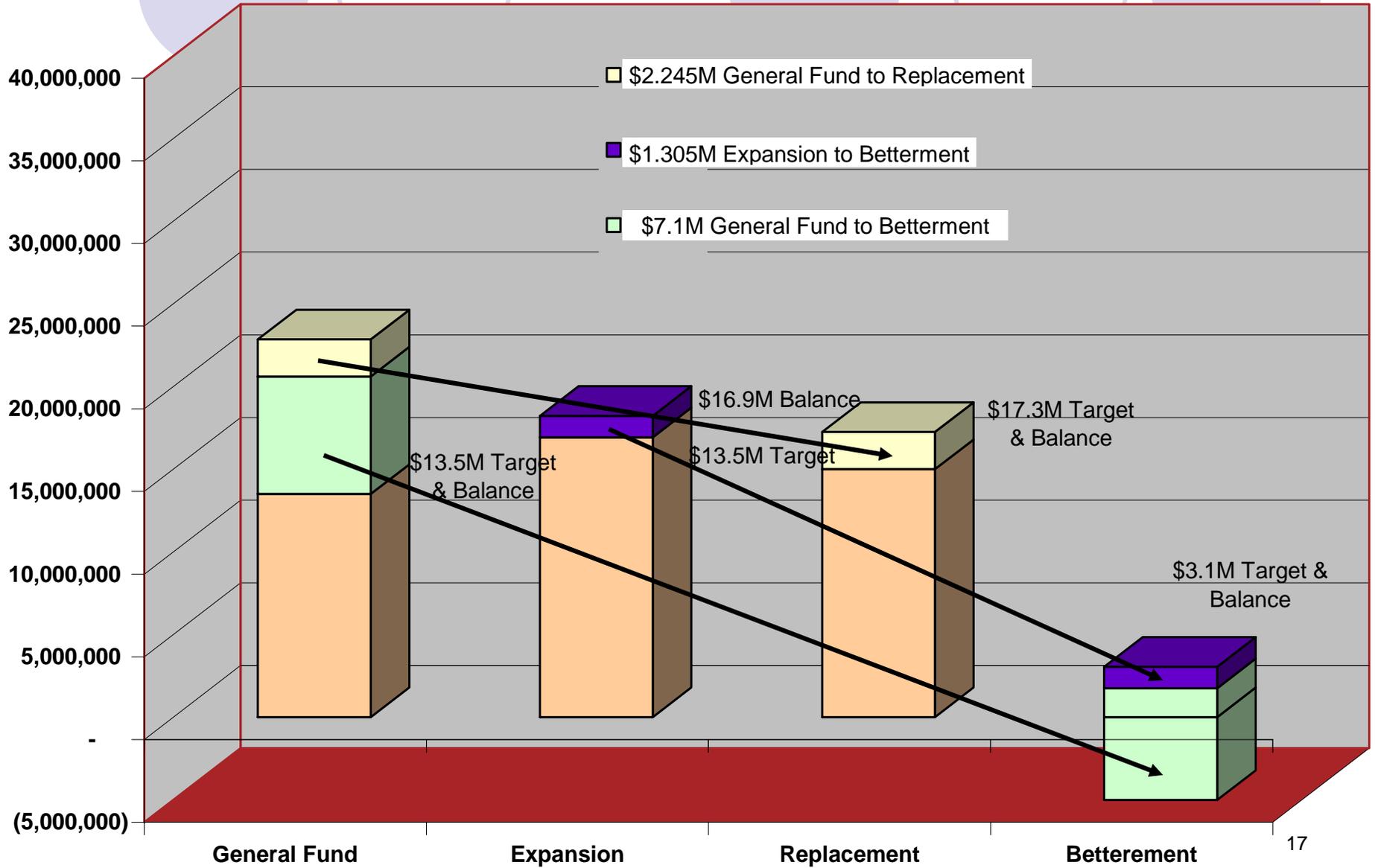
Recycled

General Fund to Replacement	1,380,000
General Fund to Designated Betterment	1,100,000
General Fund to Designated Expansion	2,575,000

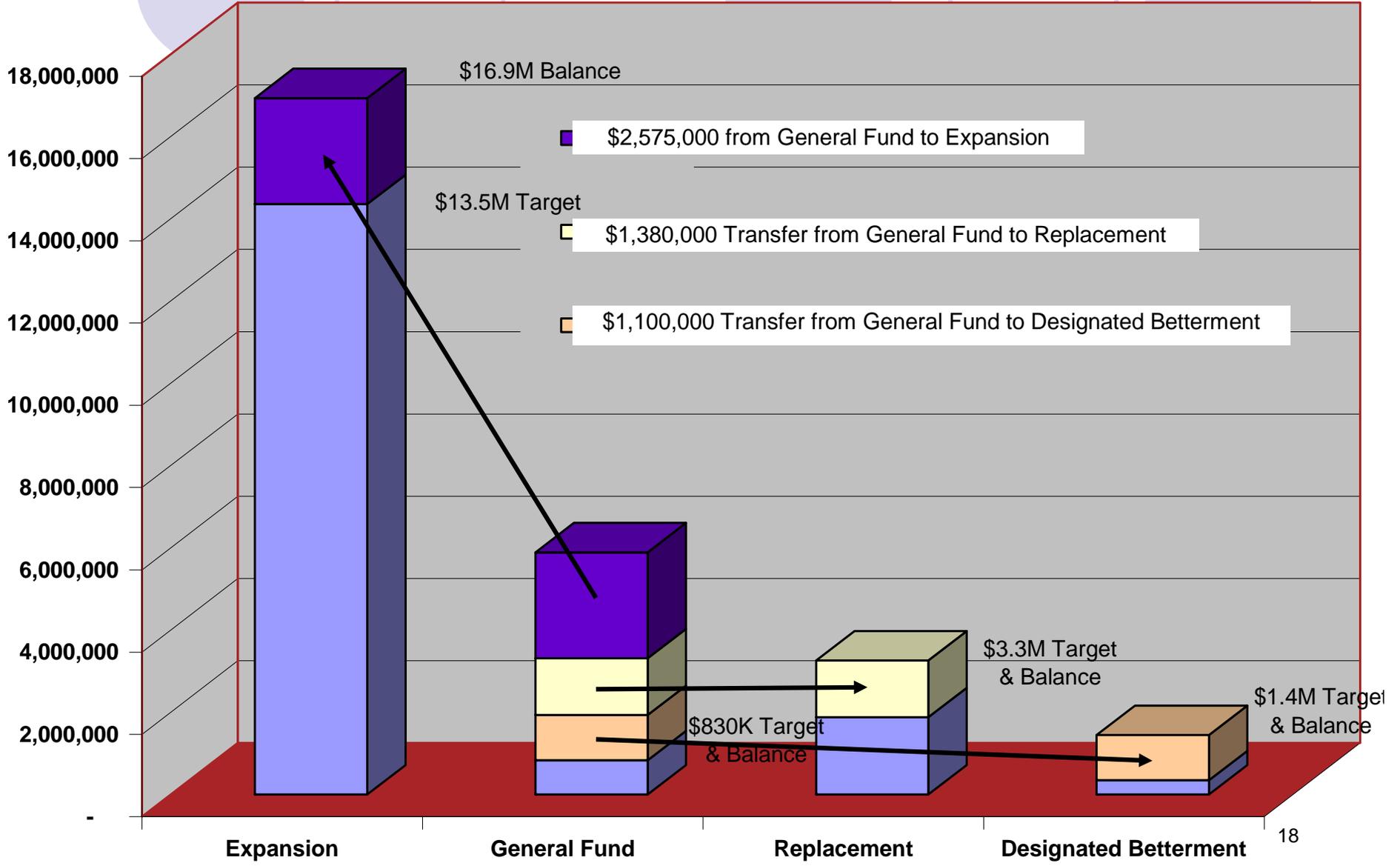
Sewer

Designated Betterment to General Fund	255,000
General Fund to State Loan	25,000

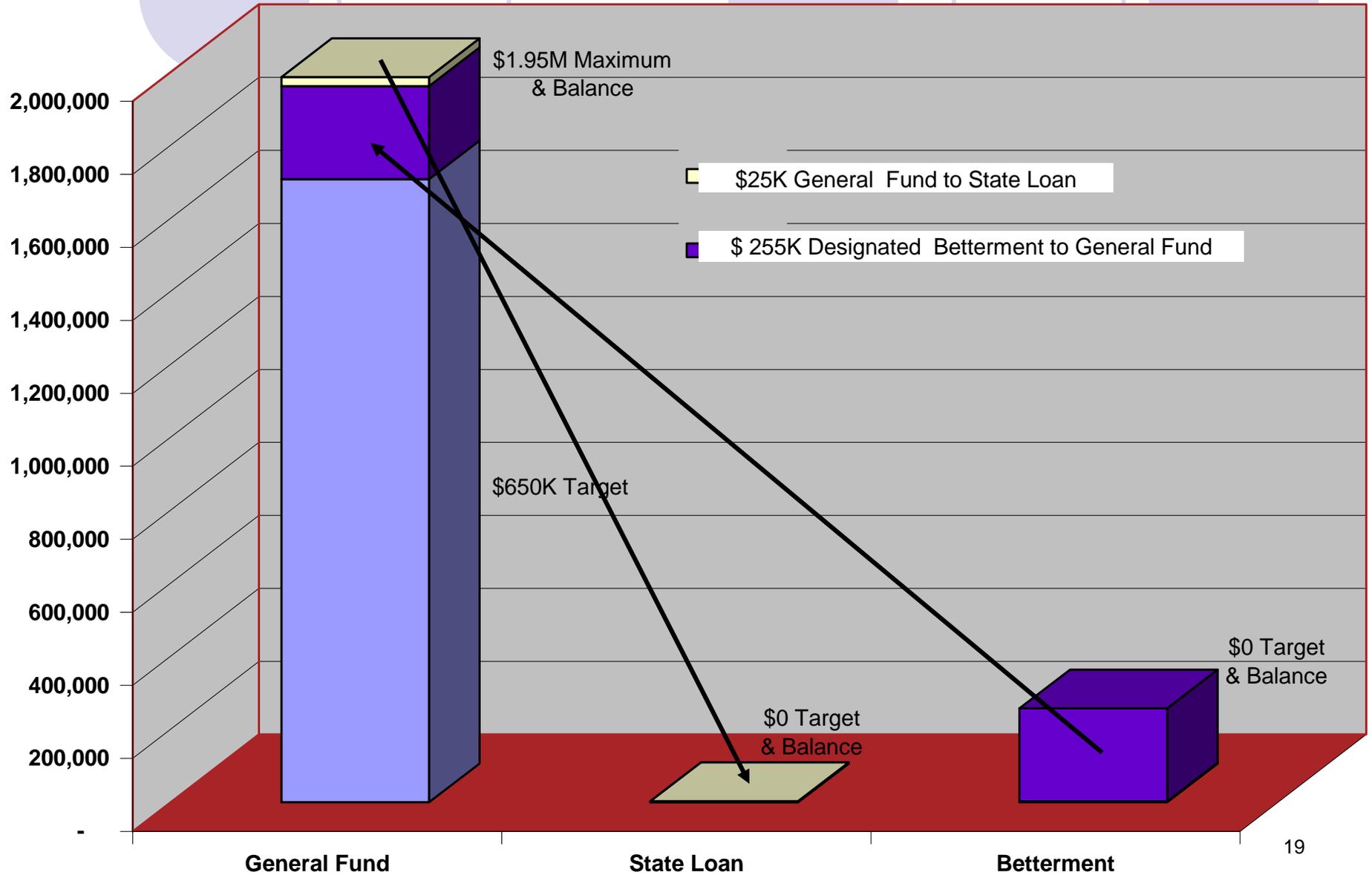
Potable Transfers



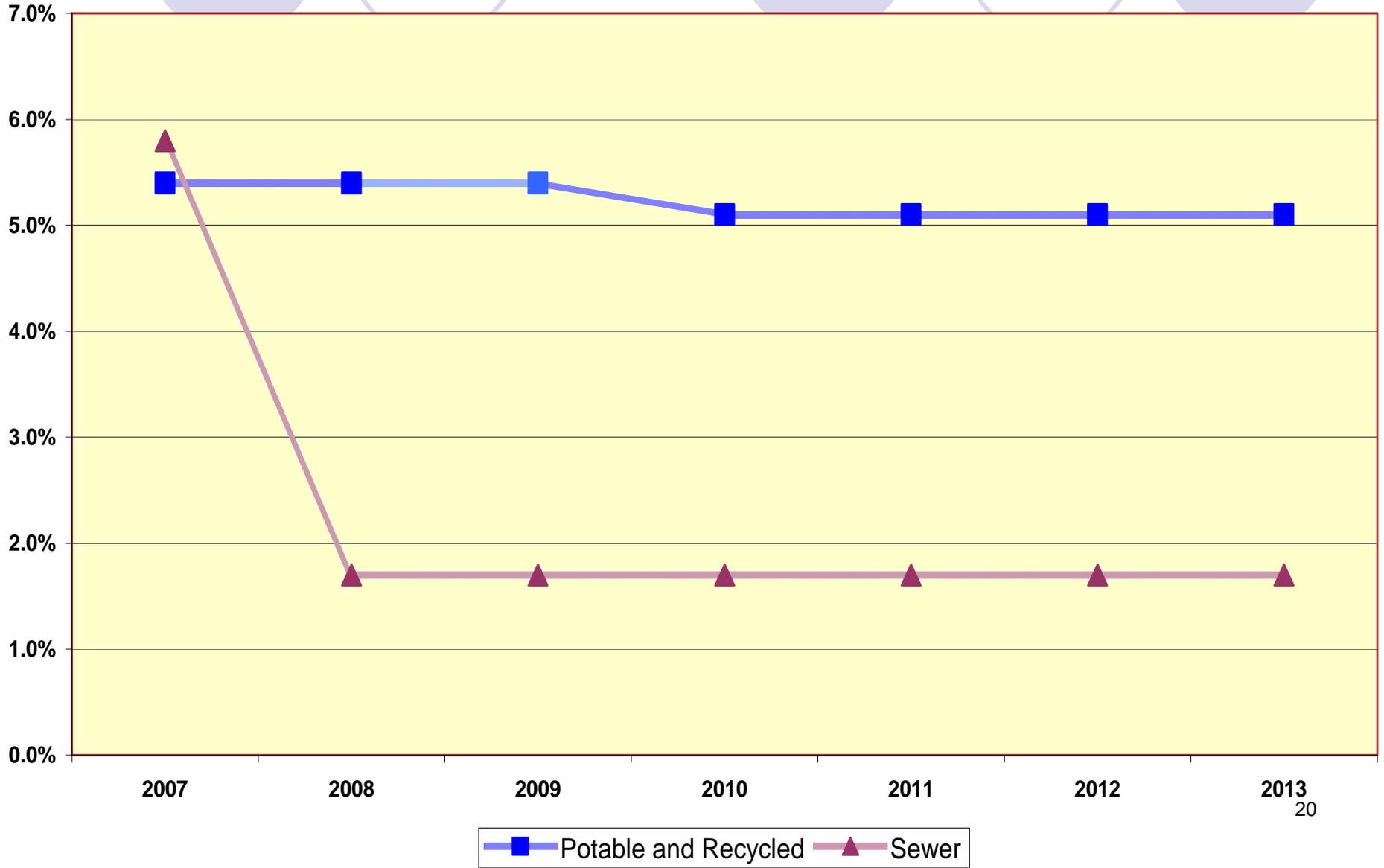
Reclaimed Transfers



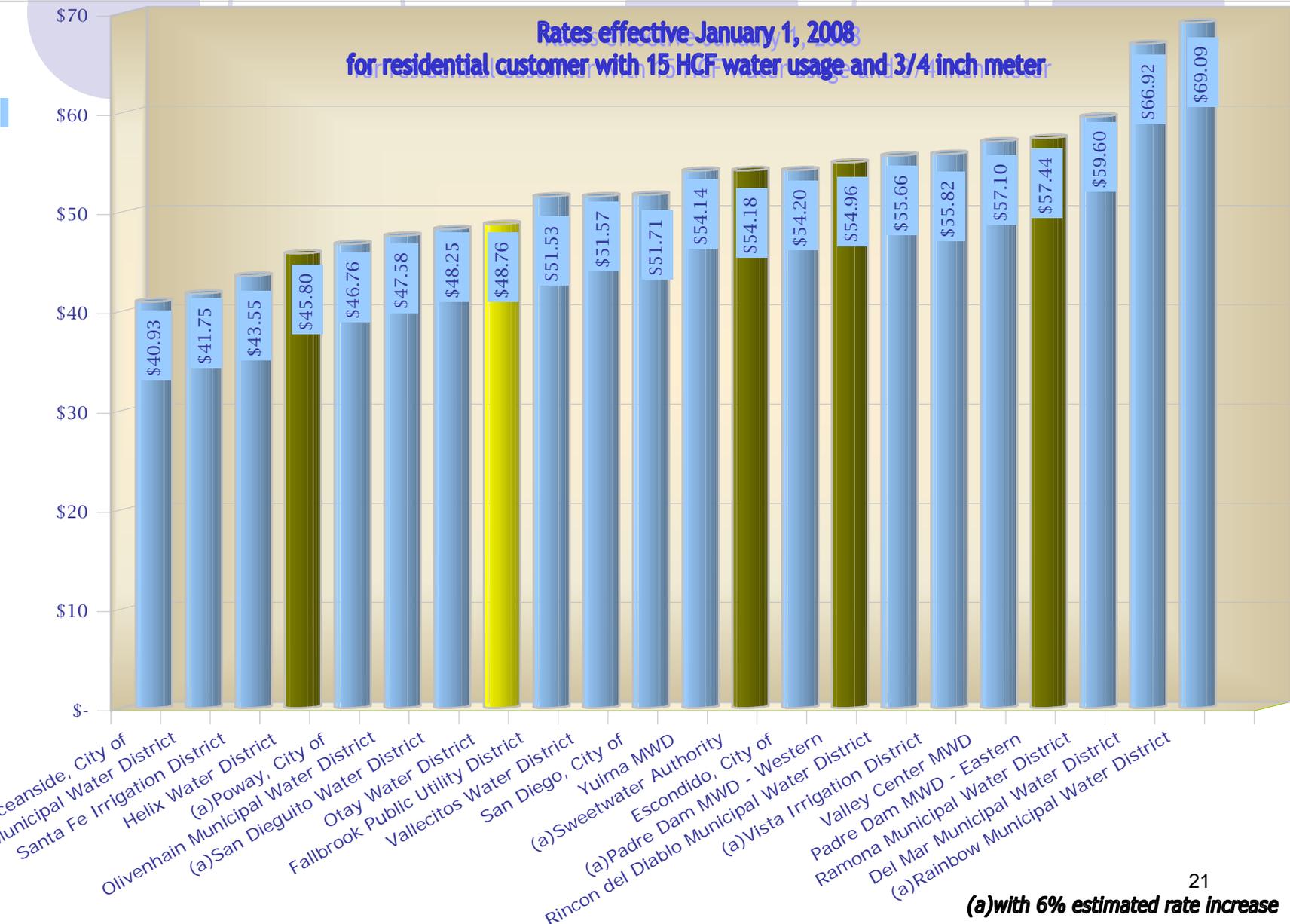
Sewer Transfers



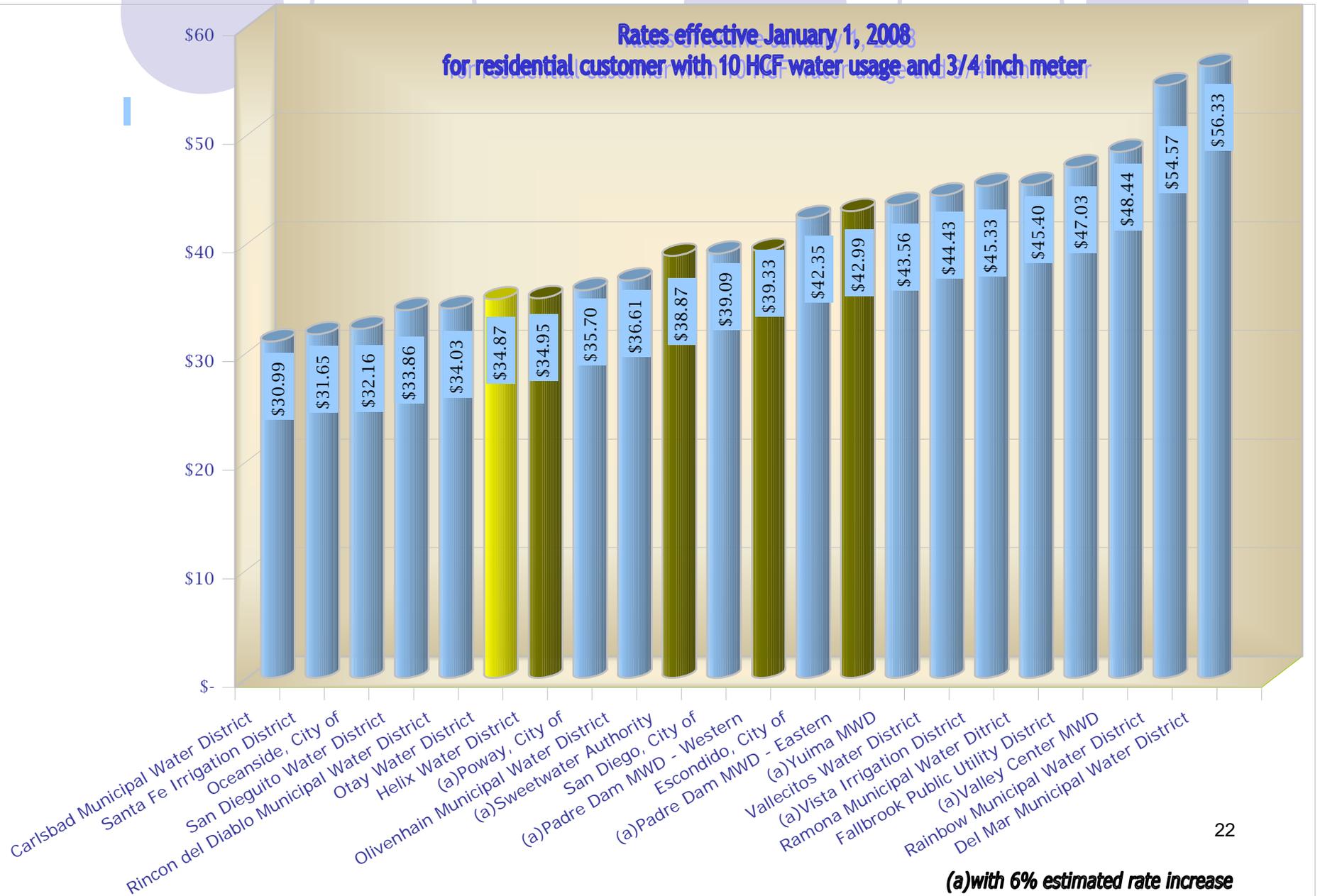
Otay Water District Rate Increases



Survey of Member Agency Water Rates

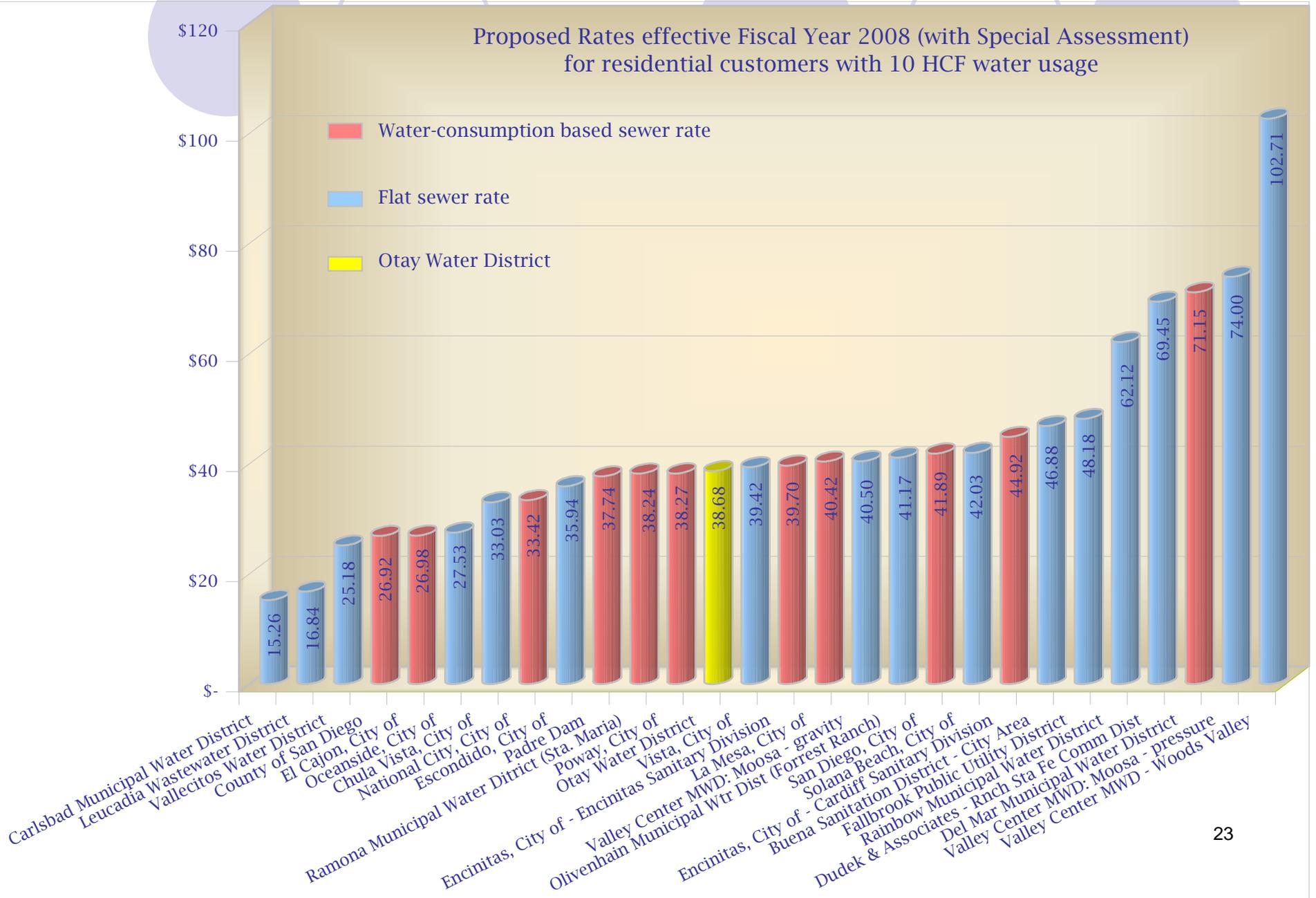


Survey of Member Agency Water Rates

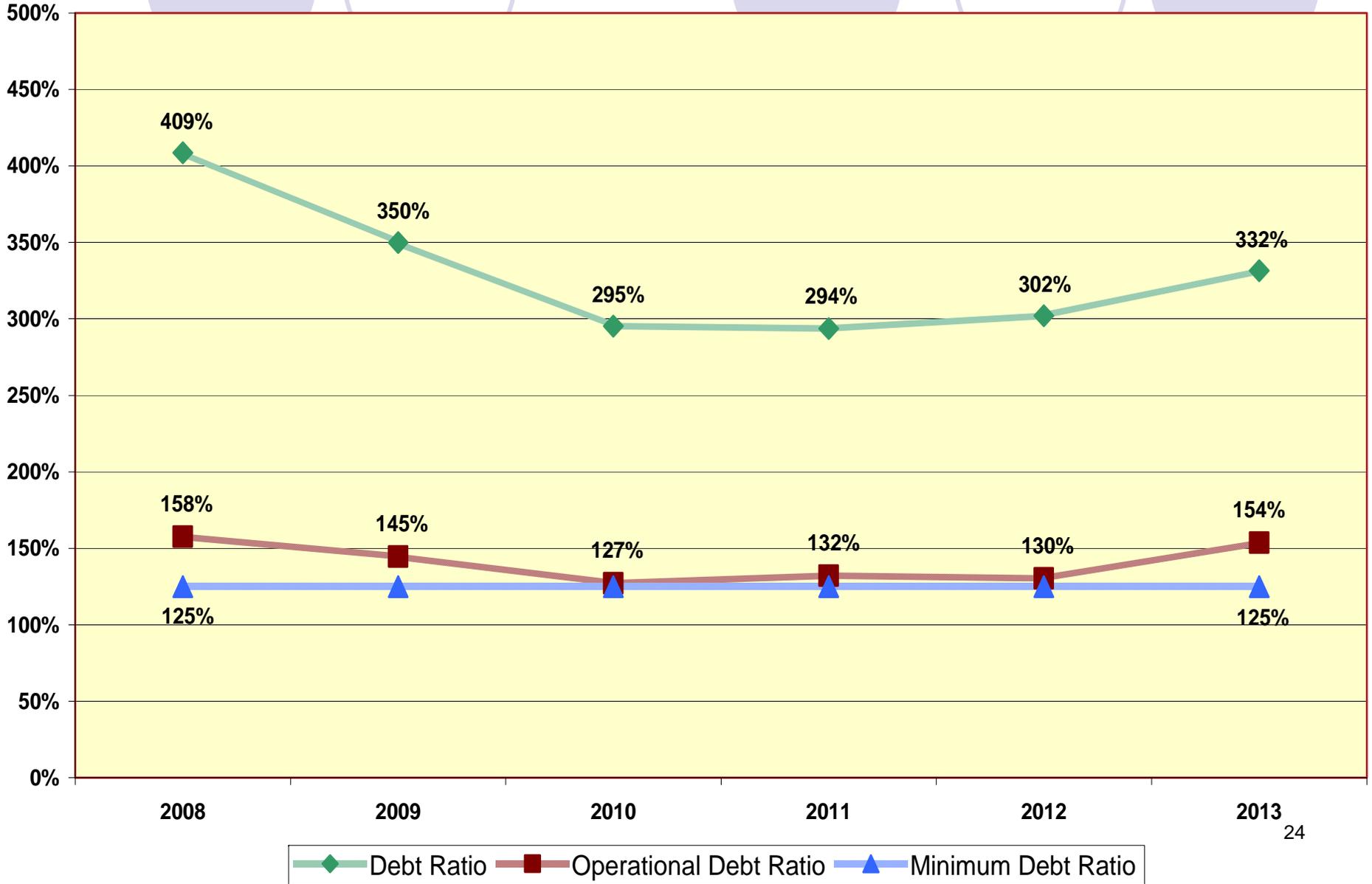


(a)with 6% estimated rate increase

Sewer Rate Comparison in San Diego County



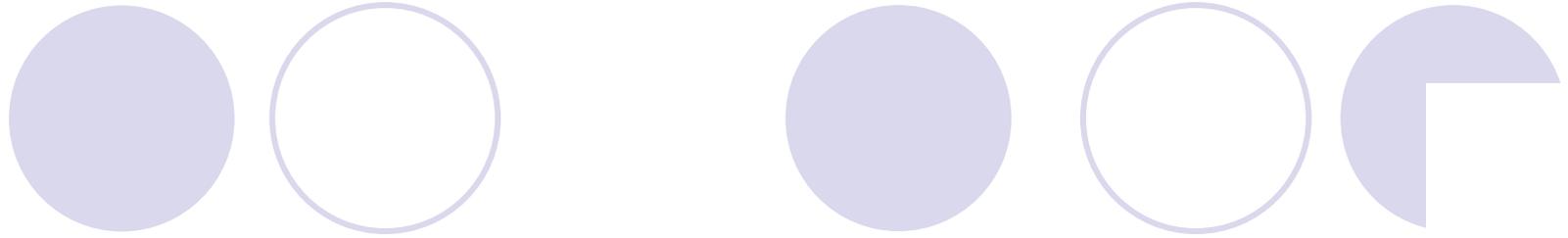
Otay Water District Debt Ratios





2008 Financing Plan

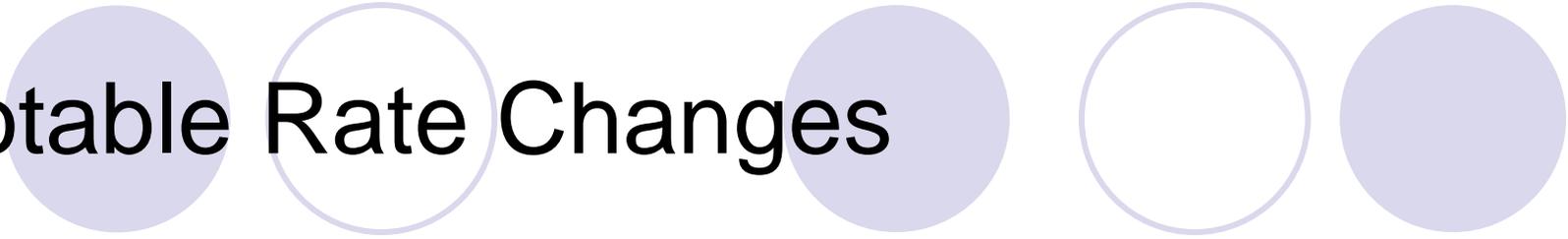
- \$16 Million in Fund Transfers
- Rate increases
 - Potable 5.4%
 - Recycled 5.4%
 - Sewer 1.7%



IMPLEMENTATION OF RATE CHANGES

Implementation of Rate Changes

- Potable & – 5.4%
- Recycled – 5.4%
- Sewer – 1.7%



Potable Rate Changes

- Recommend a 5.4% rate increase which is primarily a pass-through of supply cost increases and also to cover increases in District programs
 - Variable
 - Water Rate Increase of 3.8%
 - Energy Increase of 5.25%
 - Fixed Cost
 - System Fee Increase of 9.0%
 - Pass-through 30 Cent Increase in CWA/MWD Fixed Charge (8.5% Increase in Monthly Amount)

Potable Variable Rate Increase

Units Used	Existing Rate	Proposed Rate
Lifeline *	\$1.08	\$1.12
0 - 10	\$1.78	\$1.85
11 - 35	\$1.94	\$2.01

* The lifeline rate is given on the first 5 units of consumption if the monthly consumption is less than 10 units. Otherwise the 0-10 rate is used.



Potable Energy Charge

- Energy charge is recommended to increase 5.25%
- This charge has not been changed since 2000
- This increase will ensure energy charge collected matches potable pumping cost to deliver the water

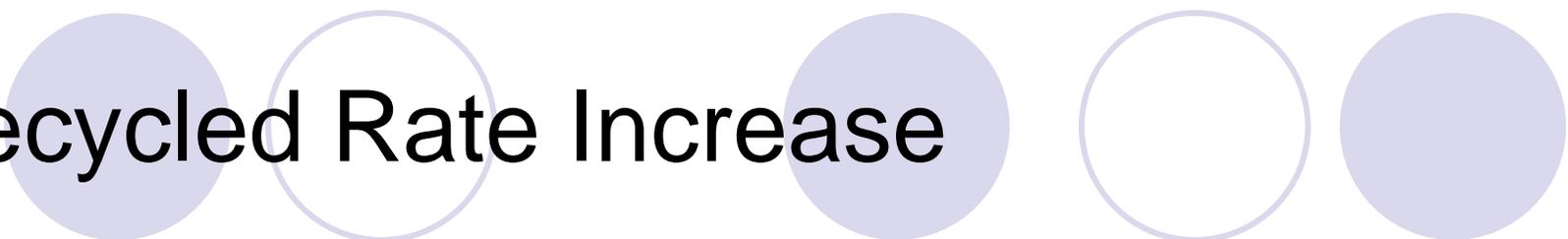


Fixed System Fee Increase

- The fee will increase 9.0% from \$11.30 per residential customer to \$12.30
- The system fee was increased last year to slowly bring the District closer to the norm
- The advantage of increasing the system fee is that it gives the District more stability in revenue stream and reduces financial risks of demand fluctuations

CWA/MWD Fixed Charge

Meter Size	Current MWD & CWA Fixed Charge	Proposed MWD & CWA Fixed Charge
3/4"	\$3.55	\$3.85
1"	\$5.65	\$6.15
1-1/2"	\$10.65	\$11.60
2"	\$18.45	\$20.05
3"	\$34.05	\$36.95
4"	\$58.20	\$63.15
6"	\$106.45	\$115.50
10"	\$276.75	\$300.30

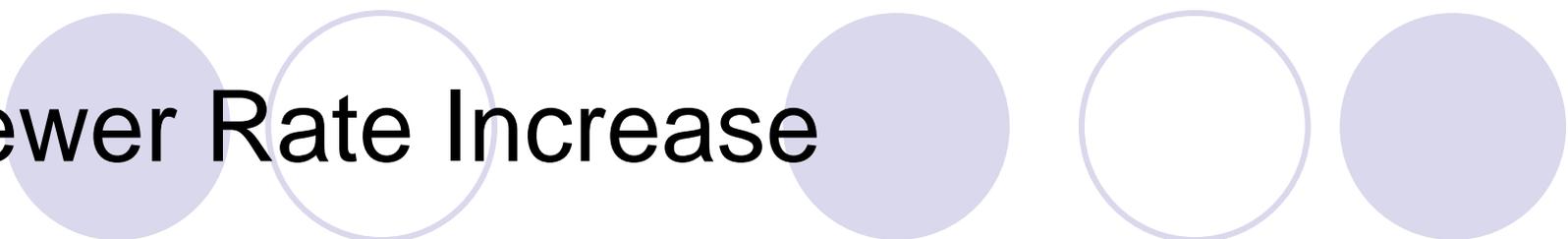


Recycled Rate Increase

- Recommend a 5.4% rate increase which is primarily a pass-through of supply cost increases and also to cover increases in District programs
- 1% Variable Water Rate Increase
(to maintain variable rate to 85% of Potable)
- Energy charge increase of 5.25% to match Potable
- Fixed System Fee Increase of 26.5% (To bring the Recycled System fee to the same level as Potable system fee plus CWA/MWD Fixed Charge)

Recycled System Fee

Meter Size	Current Rate	Proposed Rate
0.75	\$ 22.00	\$ 27.85
1.00	33.90	42.90
1.50	47.65	60.30
2.00	59.60	75.40
3.00	95.90	121.30
4.00	109.80	138.90
6.00	219.45	277.60
10.00	418.90	529.90

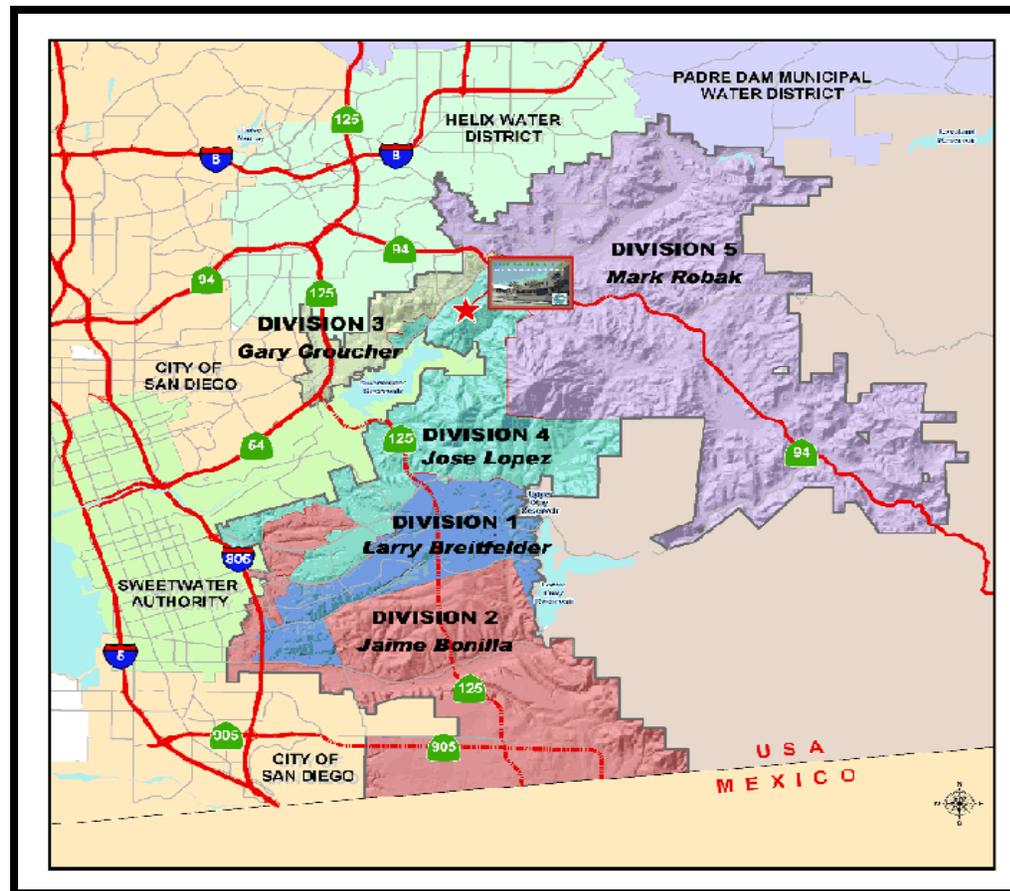


Sewer Rate Increase

- Recommended a 1.7% Increase in Monthly Sewer Rate based on cost increases
- The Average Sewer bill will increase from \$32.70 to \$33.25
- With the new winter-consumption based methodology, this increase will be spread evenly to fixed and variable charges
- Meets the legal requirement to have a nexus between cost and rates

CAPITAL IMPROVEMENT PROGRAM BUDGET

FY 2007 – 2008



Rod Posada, P.E.
Chief of Engineering

Growth Projections



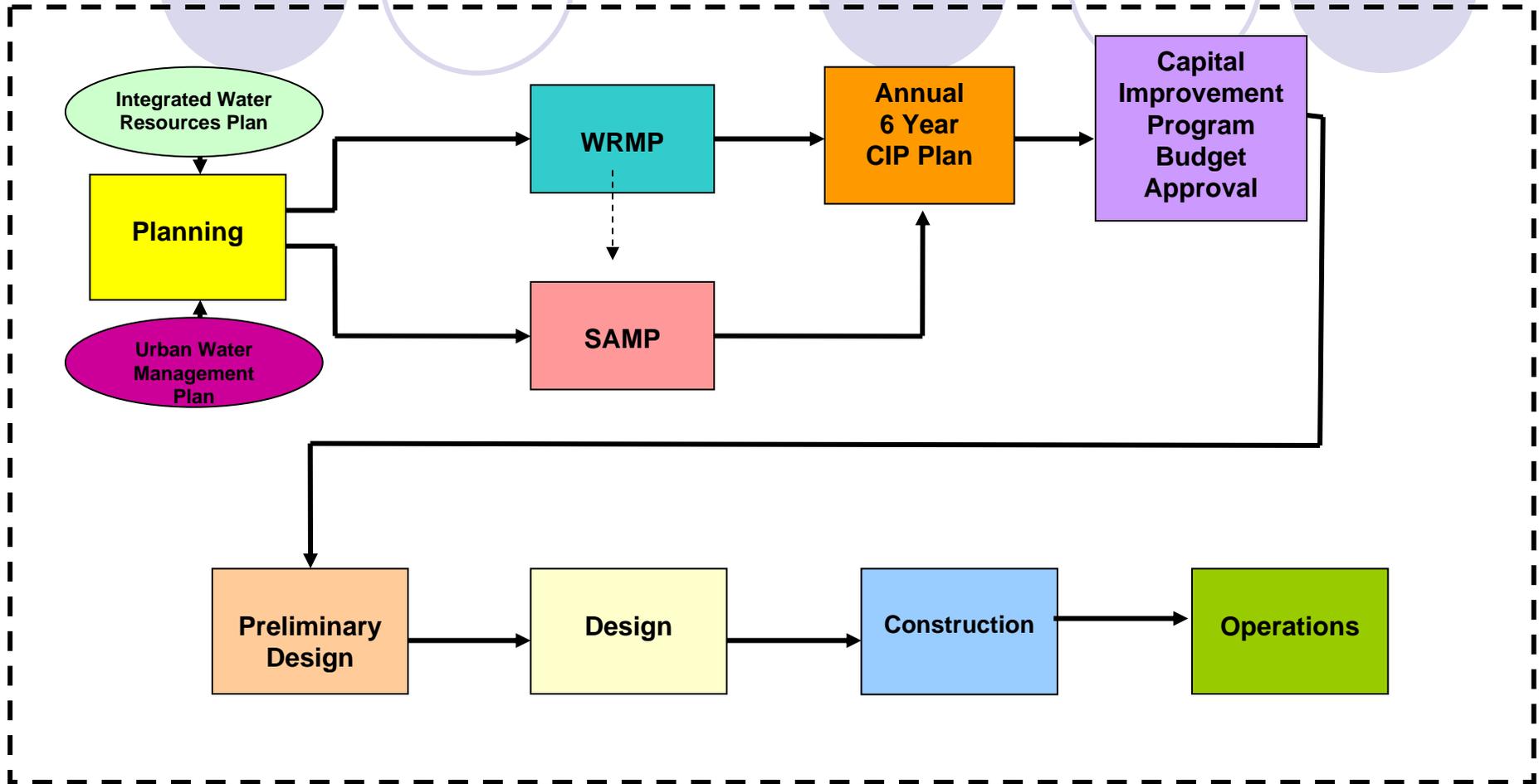
- ◆ Otay has experienced unprecedented growth since 1998
- ◆ The City of Chula Vista remains one of the fastest growing cities in the US; however, the housing market in the region is slowing down to a normal pace
- ◆ Expected meter sales for FY07 will be around 870 and projecting 1030 for FY08

CIP Budget Development Process

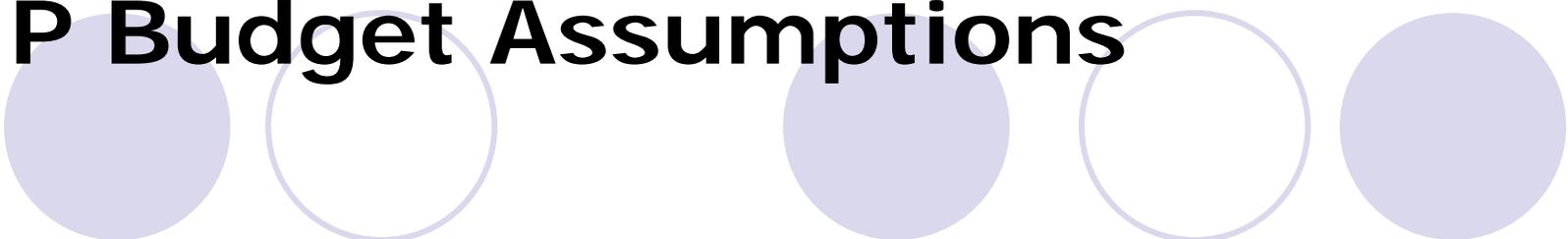


- ◆ CIP projects selected are based on CIP criteria, WRMP, UWMP, and IRP
- ◆ The CIP goes through an iterative process to meet the criteria of financial, growth, and service levels
- ◆ The CIP targets expenditures for the next six years

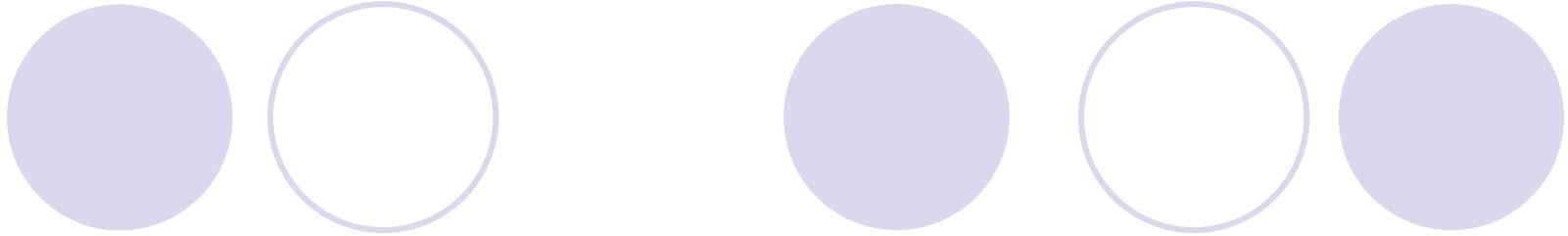
Project Development Process



CIP Budget Assumptions



- ◆ Growth has increased to **2.1%**
- ◆ Material and labor costs, as reported by SDCWA, will increase by **5%** for FY07 and by **5%** for FY08
- ◆ Facilities ***Expansion, Betterment, and Replacement*** are included within the CIP
- ◆ Six-year CIP expenditure plan to be as level as possible



SAN DIEGO COUNTY WATER AUTHORITY
ECONOMIC STUDY
FINAL REPORT

JUNE 9, 2006



Escalation Model for Labor and Materials



- ◆ The SDCWA commissioned an economic study; statistical sampling prepared by an economist estimates that costs will escalate by approximately **10%** over a two-year period, for the type of construction work similar to Otay's (pipelines, pump stations, flow control facilities, etc.).
- ◆ According to ENR: Cement, aggregate, and concrete prices have increased considerably. The price of steel decreased last year and the first four months of this year and started increasing in the middle of the year.

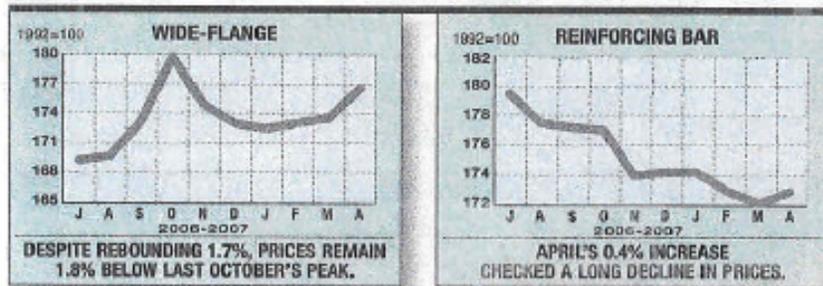
ENR News Articles - FY08

Structural Steel Prices Post Modest Rebound

Prices for structural steel tracked by ENR have started to bounce back after sharp declines at the end of last year (see chart below). The 20-city average prices for channel, wide-flange and I-beams rebounded 2% during the last three months, with April's 1.4%

increase accounting for most of the gain. The boost helped to keep average prices about 8% above a year ago. Stainless steel sheet prices posted the largest increase this month, with an average increase of 2.3%. The hike left prices between 26% and 34% above 2006.

ENR's Materials Price Indexes



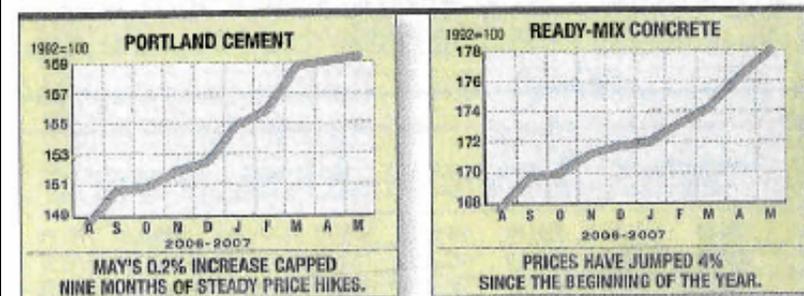
enr.com April 30, 2007 ■ ENR ■

Concrete Prices Post Spring Gains

Prices for ready-mix concrete increased this month as portland cement and aggregate prices made gains. ENR's 20-city average price for 3,000-psi concrete increased 1% this month, pushing prices 6.6% above a year ago. Prices for 4,000 and 5,000 psi con-

crete posted smaller monthly increases but still averaged year-to-year gains of 7%. Portland cement prices rose 0.2% this month to climb 6.5% above a year ago. Prices for crushed stone used for concrete increased 0.4% and are 11% above 2006.

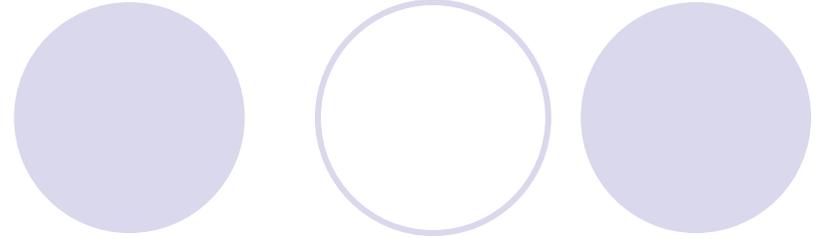
ENR's Materials Price Indexes



■ ENR ■ May 7, 2007 enr.com

CIP Criteria

- ◆ Existing Facility Conditions
- ◆ Operating System Conditions
- ◆ Water and Sewer System Deficiencies
- ◆ Regulatory and Permitting Requirements
- ◆ Developer Driven Schedules
- ◆ Economic Outlook and Growth Projection
- ◆ Board and Management Directives



Budget Estimates

FY 07 CIP 6-Year Budget Estimates (\$ Millions)

Projects	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12
Total	\$37.1	\$32.7	\$37.4	\$32.7	\$45.6	\$36.2
6-Year Rate Model						\$221.7

FY 08 CIP 6-Year Budget Estimates (\$ Millions)

Projects	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Total	\$34.5	\$38.4	\$34.8	\$28.3	\$29.8	\$25.7
6-Year Rate Model						\$191.5

CIP Budget Breakdown

	(\$ Millions)			
	Actual <u>FY05</u>	Actual <u>FY06</u>	Budgeted <u>FY07</u>	Budgeted <u>FY08</u>
◆ Capital Backbone	\$14.6	\$30.9	\$28.1	\$24.9
◆ Developer Reimbursement	\$ 7.9	\$ 2.8	\$ 3.4	\$ 1.5
◆ Replacement/Renewal.....	\$ 5.2	\$ 1.1	\$ 3.9	\$ 6.6
◆ Capital Purchases	\$ 3.3	\$ 1.5	\$ 1.7	\$ 1.5
Totals.....	\$31.0	\$36.3	\$37.1	\$34.5

Capital Backbone Major Projects

POTABLE WATER

(\$ Millions)

◆ PL – 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	\$18.5
◆ Res – 980-3 Reservoir 15 MG	\$14.2
◆ Res – 640-1 Reservoir 20.0 MG	\$29.5
◆ Res – 850-4 Reservoir 2.2 MG	\$ 3.3
◆ SD17 Pump Station and Flow Control Facility	\$16.3
◆ Otay River Groundwater Well Demineralization/Development	\$ 5.0
◆ Otay Mountain Groundwater Well Development	\$ 6.5
Total:	\$93.3

RECYCLED WATER

◆ RecPI – 20-Inch, 944 Zone, Lane Avenue – Proctor Valley/Pond No.1	\$ 1.3
◆ RecRes – 860-1 Reservoir 4 MG	\$ 3.8
◆ RecPI – 24-Inch 860 Zone, Alta Road – Alta Gate/Airway	\$ 3.0
◆ RecPL – 20-Inch, 944 Zone, Wueste Road, Olympic/Otay WTP	\$ 3.6
◆ North District Recycled Water Regulatory Compliance	\$ 0.2
Total:	\$11.9

Contingency, New, and Complete CIP Projects for FY08

CIP Project No.	Brief Project Title and Description	(\$000) FY 2008 Total Projected Project Cost
Contingency CIP Projects for FY 2008 CIP Budget		
P2235	Res - 624-4 Emergency Reservoir 40.0 MG	\$27,750
P2258	PS - Lower Otay Pump Station Phase 1 (9,000 GPM)	\$7,805
Total:		\$35,555
New CIP Projects for FY 2008 CIP Budget		
P2460	I.D. 7 Trestle and Pipeline Demolition	\$375
P2461	Records Management System Upgrade	\$150
P2462	Otay River Demineralization Feasibility Study	\$200
P2463	South Bay Regional Concentrate Conveyance Feasibility Study	\$125
P2464	San Diego 17 Pump Station and Flow Control Facility	\$16,250
P2465	Regulatory Site Material Storage Bins	\$250
P2466	Regional Training Facility	\$200
P2467	San Diego Formation Groundwater Feasibility Study	\$1,600
P2468	Finance Department Office Remodel	\$50
R2091	RecPS - 944-1 Pump Station Upgrade	\$325
R2092	Dis - 450-1 Reservoir Disinfection Facility	\$1,100
Total:		\$20,625
Complete in FY 2007 for FY 2008 Budget		
P2008	PS - 980-2 Pump Station (25,000 GPM)	\$8,055
P2026	PL - 20-Inch, 850 Zone, Jamacha Boulevard - Regulatory Site/Trace Road	\$1,100
P2028	Res - 1485-2 Reservoir 1.6 MG	\$3,250
P2081	PL - 36-Inch, 980 Zone, Proctor Valley Road - PB Road/PB Bndy	\$546
P2168	Res - 803-4 Reservoir 6 MG	\$4,465
P2205	PS - Rolling Hills Hydro Pump Station (1,400 GPM)	\$1,900
P2359	Operations EROC and Meter Shop Remodels and EROC Maps	\$190
P2399	PL - 30-Inch, 980 Zone, 980 Reservoirs to Hunte Parkway	\$2,740
P2449	Information Technology Business Continuity	\$300
P2454	Alta Road Vaults and Use Area Meter Bypass	\$465
R2003	RecRes - 680-1 Reservoir 3.4 MG	\$4,349
R2022	RecPL - 30-Inch, 450 Zone, Otay Valley - Dairy Mart/450-1 Reservoir	\$23,600
Total:		\$50,960

FY 07/FY 08 CIP Budget Comparison Summary

26 CIP Projects Increased	\$ 5,722,000	3.0%
15 CIP Projects Decreased	(\$ 5,610,000)	(3.0%)
24 CIP Projects Unchanged	<u>\$ 0</u>	0.0%
Net Change:	<u>\$ 112,000</u>	0.06%
Proposed 2008 CIP Budget	\$191,500,000	

5 CIP Projects \$ 4,142,000 2.0%
Three projects with an additional year of cost now showing in the 6-year view.
Two projects changed due to change in budget approach and scope.

CIP's With Increased Budgets

CIP	Brief Project Title and Description	Total Existing Project Budget	Total Proposed Project Budget	Dollar Change
P2037	Res - 980-3 Reservoir 15 MG	\$13,204	\$14,205	\$1,001
R2081	RecPL - 20-Inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1	\$350	\$1,290	\$940
P2459	Olive Vista Drive Utility Relocations	\$420	\$1,242	\$822
P2441	NG/RAMAR Meter Replacements	\$1,519	\$1,932	\$413
P2363	Information Technology Utility Billing, Data Management, and Financia	\$6,300	\$6,600	\$300
P2191	Res - 850-4 Reservoir 2.2 MG	\$2,988	\$3,285	\$297
P2443	Information Technology Mobile Services	\$412	\$652	\$240
P2172	PS - 1485-1 Pump Station Replacement	\$1,997	\$2,225	\$228
S2016	Solar Panel Installation Phase I	\$475	\$645	\$170
P2267	36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations	\$195	\$345	\$150
P2361	Information Technology GIS Enhancements	\$1,795	\$1,945	\$150
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	\$971	\$1,100	\$129
P2387	PL - 12-Inch, 832 Zone, Steele Canyon Road - Via Caliente/Campo	\$400	\$525	\$125
P2416	SR-125 Utility Relocations	\$700	\$809	\$109
P2190	PL - 10-Inch, 1485 Zone, Jamul Highlands Road to Presilla Drive	\$120	\$228	\$108
P2356	PL - 12-Inch, 803 Zone, Jamul Drive Permastran Pipeline Replacement	\$660	\$765	\$105
P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS	\$46	\$130	\$84
R2053	RWCWRF - R.O. Building Remodel and Office Furniture	\$422	\$495	\$73
S2015	Calavo Lift Station Replacement	\$675	\$726	\$51
P2070	PL - 16-Inch, 980 Zone, Pacific Bay Homes Road- Proctor Valley/Rollin	\$500	\$550	\$50
P2370	Res - Dorchester Reservoir and Pump Station Demolition	\$100	\$150	\$50
P2447	Information Technology Meter Routing	\$80	\$130	\$50
P2455	Data Cleansing Project	\$300	\$350	\$50
P2038	PL - 12-Inch, 978 Zone, Jamacha, Hidden Mesa, and Chase Upsize and Re	\$1,575	\$1,600	\$25
P2318	PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections	\$600	\$601	\$1
R2086	RWCWRF Force Main AirVac Replacements and Road Improvements	\$874	\$875	\$1

Total: \$5,722

CIP's With Decreased Budgets

CIP	Brief Project Title and Description	Total Existing Project Budget	Total Proposed Project Budget	Dollar Change
P2143	Res - 1296-3 Reservoir 2 MG	\$3,379	\$3,340	(\$39)
P2397	PL - 12-Inch, 711 Zone, EastLake Parkway - Birch/Rock Mountain	\$265	\$175	(\$90)
R2031	RecPL - 12-Inch, 944 Zone, EastLake Parkway - Olympic/Birch	\$229	\$125	(\$104)
P2169	PL - 20-Inch, 980 Zone, EastLake Parkway - Birch/Rock Mountain	\$438	\$325	(\$113)
P2414	PL - 12" to 16" Oversize, 803 Zone, Dehesa Road - Dehesa Meadow/OWD B	\$275	\$152	(\$123)
R2041	RecPL - 8-Inch, 944 Zone, EastLake Parkway - Birch/Rock Mountain	\$282	\$125	(\$157)
R2089	North District Recycled Water Regulatory Compliance	\$415	\$200	(\$215)
P2435	PL - 16-Inch, 711 Zone, Birch Road - La Media/SR-125	\$531	\$280	(\$251)
P2164	PL - 20-Inch, 980 Zone, EastLake Parkway - Olympic/Birch	\$500	\$211	(\$289)
R2033	RecPL - 12-Inch, 944 Zone, Birch Road - La Media/EastLake	\$788	\$300	(\$488)
P2133	PL - 16-Inch, 711 Zone, EastLake Parkway - Olympic/Birch	\$750	\$151	(\$599)
P2440	I-905 Utility Relocations	\$2,260	\$1,660	(\$600)
R2040	RecPL - 12-Inch, 680 Zone, Hunte Parkway - Olympic/EastLake	\$1,059	\$450	(\$609)
P2121	PL - 16-Inch, 711 Zone, Hunte Parkway - Olympic/EastLake	\$1,174	\$551	(\$623)
S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	\$4,881	\$3,571	(\$1,310)

Total: (\$5,610)

CIP's With Unchanged Budgets

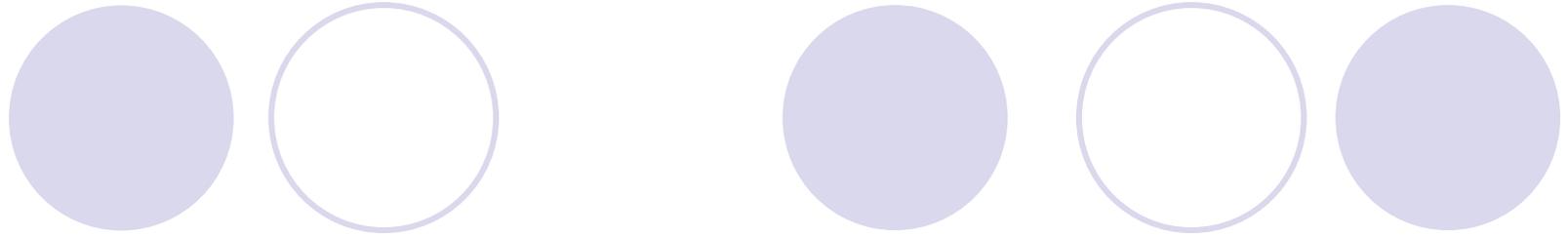
CIP	Brief Project Title and Description	Total Existing Project Budget	Total Proposed Project Budget	Dollar Change
P2185	Res - 640-1 Reservoir 20.0 MG	\$29,500	\$29,500	\$0
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	\$18,490	\$18,490	\$0
P2033	PL - 16-Inch, 1296 Zone, Melody Road - Campo/Presilla	\$1,826	\$1,826	\$0
P2040	Res - 1655-1 Reservoir 0.5 MG	\$2,055	\$2,055	\$0
P2129	Groundwater Exploration Program	\$2,530	\$2,530	\$0
P2258	PS - Lower Otay Pump Station Phase 1 (9,000 GPM)	\$7,805	\$7,805	\$0
P2295	624-1 Reservoir Disinfection Facility, Inlet/Outlet/Bypass and 613-1	\$4,500	\$4,500	\$0
P2353	Information Technology System Enhancements and Replacements	\$3,762	\$3,762	\$0
P2366	APCD Engine Replacements and Retrofits	\$2,438	\$2,438	\$0
P2367	PL - 16-Inch, 980 Zone, Olympic Parkway - East Palomar/EastLake	\$1,500	\$1,500	\$0
P2382	Safety and Security Improvements	\$1,317	\$1,317	\$0
P2450	Otay River Groundwater Well Demineralization/Development	\$5,000	\$5,000	\$0
P2451	Rosarito Desalination Facility Conveyance System	\$1,000	\$1,000	\$0
P2453	SR-11 Utility Relocations	\$2,300	\$2,300	\$0
P2457	Otay Mountain Groundwater Well Development	\$6,500	\$6,500	\$0
R2001	RecRes - 450-1 Reservoir 12 MG	\$9,967	\$9,967	\$0
R2004	RecPS - 680-1 Pump Station (11,500 GPM)	\$8,333	\$8,333	\$0
R2034	RecRes - 860-1 Reservoir 4 MG	\$3,800	\$3,800	\$0
R2043	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - La Media/SR-125	\$235	\$235	\$0
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	\$2,000	\$2,000	\$0
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	\$3,000	\$3,000	\$0
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	\$1,747	\$1,747	\$0
R2087	RecPL - 20-Inch, 944 Zone, Wueste Road - Olympic/Otay WTP	\$3,598	\$3,598	\$0
R2088	RecPL - 20-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservo	\$1,500	\$1,500	\$0

Total: \$0

CIP's – Additional Year, Approach Change, Scope Change

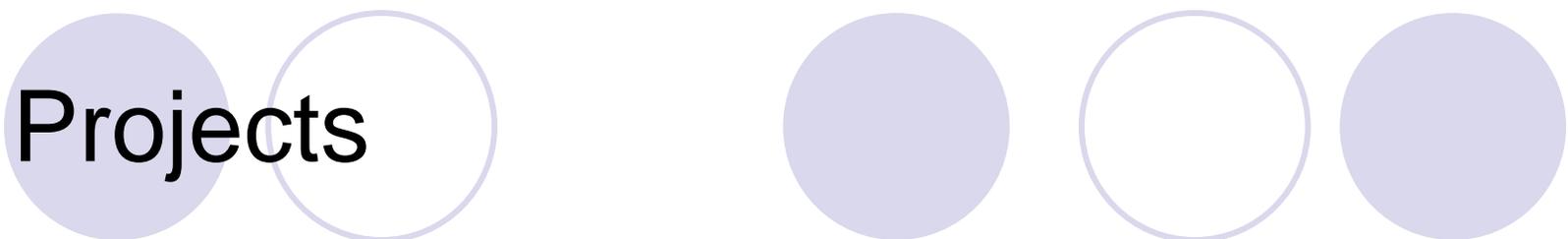
CIP	Brief Project Title and Description	Total Existing Project Budget	Total Proposed Project Budget	Dollar Change
P2458	AMR Manual Meter Replacement	\$7,513	\$9,368	\$1,855
P2456	Air and Vacuum Valve Upgrades	\$3,510	\$3,744	\$234
P2282	Vehicle Capital Purchases	\$2,172	\$2,451	\$279
P2286	Field Equipment Capital Purchases	\$1,170	\$1,202	\$32
P2422	Agency Interconnections	\$308	\$2,050	\$1,742

Total: \$4,142

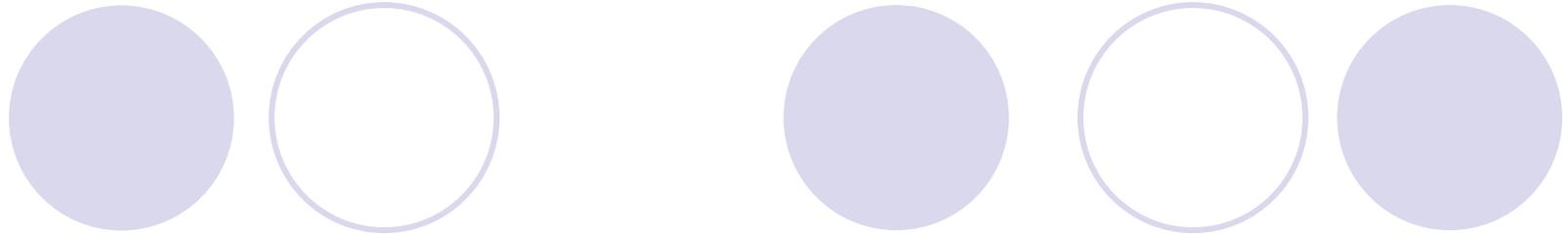


QUESTIONS?

IT Projects



- Improving Integration of OIS
- Improve Performance and Reliability of Data Center
- Improving Quality and Accuracy of Data
- Adding GIS/GPS Based Applications
- Expand Field Mobile Computers
- Focus on support of business process change / cost reduction



BALANCED OPERATING BUDGET

2008 Operating Budget

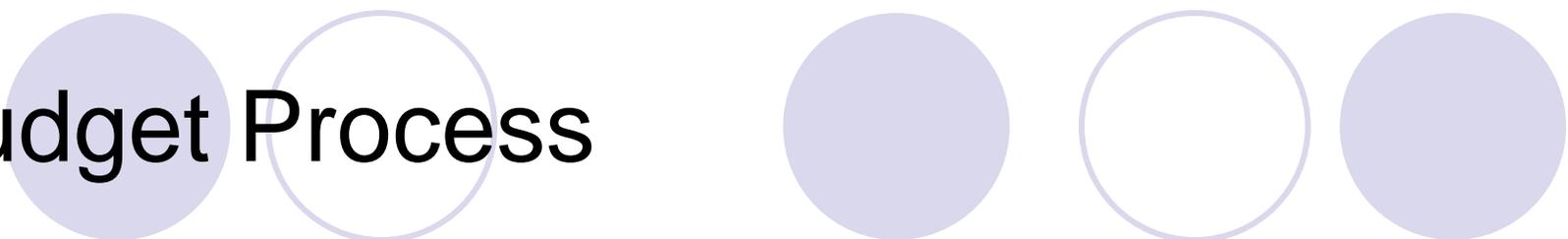


The Otay Water District is facing water rate increases due to rising cost of water from CWA, mandated programs and aging of infrastructure, these cost increases are not unique to Otay.

This presentation provides an overview of our financial outlook.

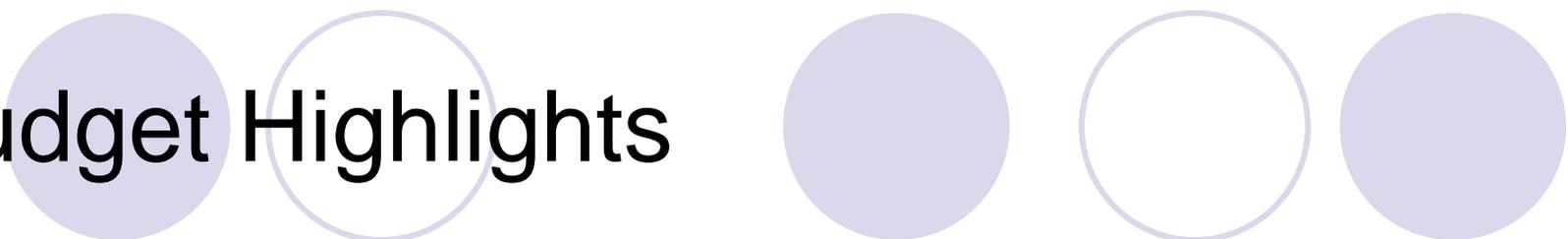
- ❖ Budget Process
- ❖ Budget Highlights
- ❖ Growth Projections
- ❖ Budget Details
- ❖ Conclusion

Budget Process



- Challenge of aligning the Rate Model, Operating and CIP Budgets
- Examined growth and cost increases
- Analyzed budget methodology and past projections
- Review of all Operating and CIP budget requests
- Finance, General Manager, and Assistant GMs met with departments to determine reasonableness of budget requests and made adjustments where necessary

Budget Highlights



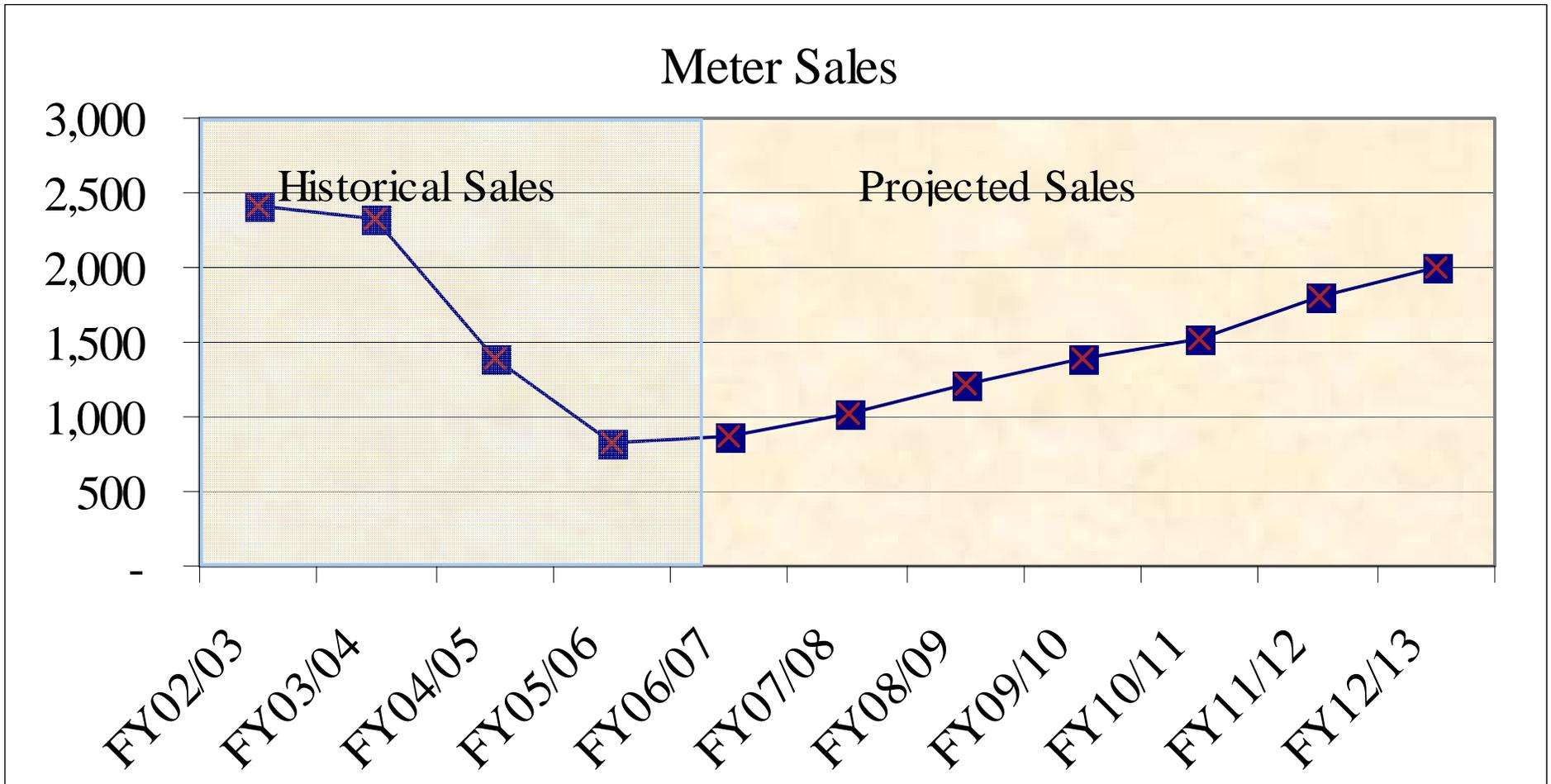
- Balanced budget
- Diversify Water Supply
 - Budget includes purchases from CWA and City of San Diego for potable and recycled
- Debt no longer shown in the General Fund, but is shown in the funds that receive the debt funding
- Change property tax revenue assumptions based on a better methodology

Growth Projections

The District is projected to serve approximately 48,640 individual water customer accounts. We anticipate continued increases in the number of water customers but at a slower rate of increase as the District increases in size.

Customer Category	Annual Growth Rate FY 05/06	Annual Growth Rate FY 06/07	Annual Growth Rate FY 07/08
Single Family Residential	3.0%	1.8%	2.1%
Multi-family Residential	2.0%	1.8%	2.1%
Commercial	2.0%	1.8%	2.1%
Landscaping	2.0%	1.8%	2.1%
Agricultural	0.0%	0.0%	0.0%
Publicly Owned	2.0%	1.8%	2.1%
Construction (Temporary)	-8.5%	0.0%	0.0%
Reclaimed	2.0%	5.0%	4.8%

Historic Meter Sales

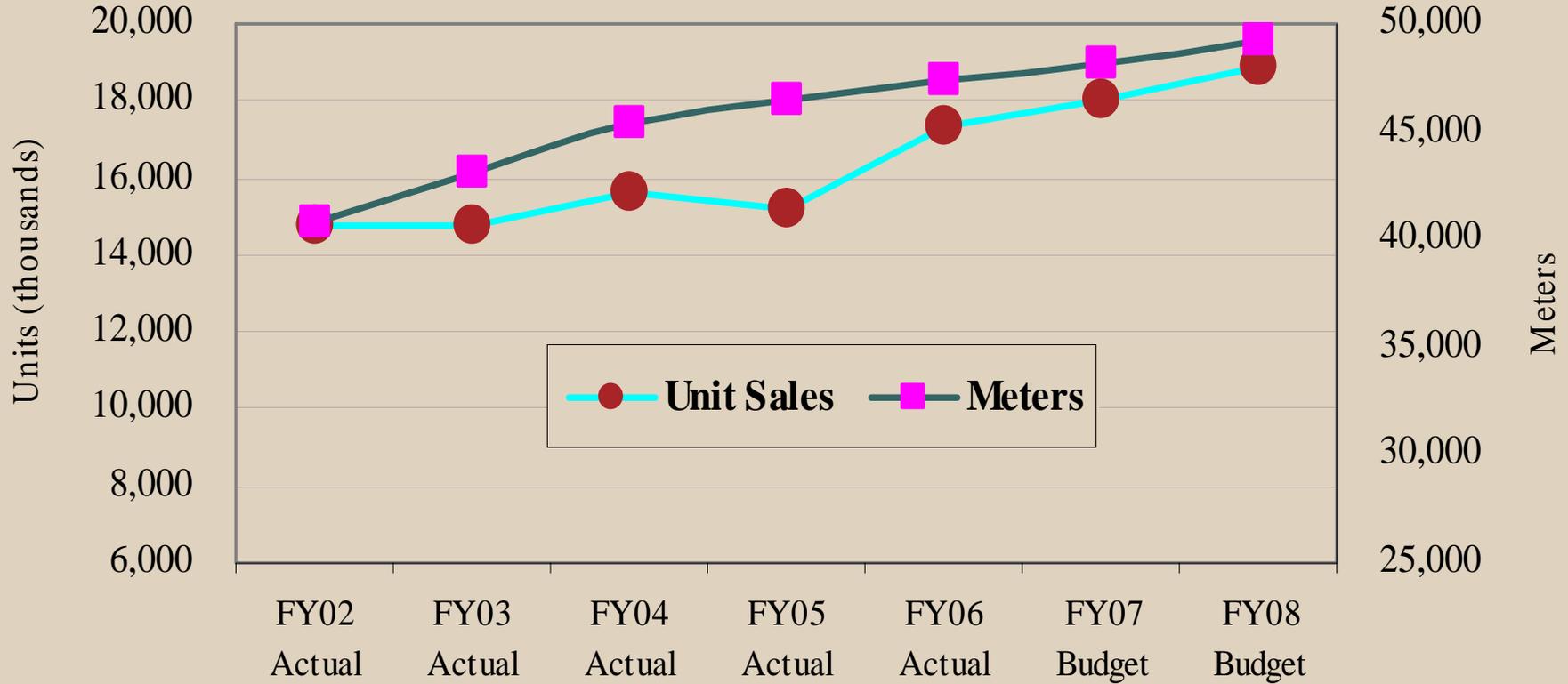


Budget Details - Revenues

	FY 2007 Budget	FY 2008 Budget	Budget Variance	Variance %
REVENUES				
Potable Water Sales	\$ 43,130,800	\$ 47,506,500	\$ 4,375,700	10.1%
Recycled Water Sales	4,485,400	6,001,400	1,516,000	33.8%
Sewer Revenues	2,568,100	2,679,100	111,000	4.3%
Meter Fees	278,500	318,500	40,000	14.4%
Capacity Fee Revenues	1,000,200	1,414,500	414,300	41.4%
Betterment Fees for Maintenance	-	73,300	73,300	100.0%
Annexation Fees	1,216,900	1,464,500	247,600	20.3%
Tax Revenues	3,427,400	4,003,800	576,400	16.8%
Non-operating Revenues	1,674,100	1,680,200	6,100	0.4%
Interest	1,005,600	1,027,400	21,800	2.2%
General Fund Draw Down	283,600	-	(283,600)	(100.0%)
TOTAL REVENUES	59,070,600	66,169,200	7,098,600	12.0%

Water Sales

UNIT SALES & METER TRENDS



Budget Details – Potable Revenues

- Potable Water Sales increase of 10.1% (\$4,375,700)

○ Water Sales (Variable)	\$2,465,300
○ System Fees	\$1,067,000
○ Energy Fees	\$165,000
○ MWD & CWA Fixed Fees	\$530,800
○ Penalties	\$147,900

Budget Details – Recycled Revenues

- Recycled Water Sales increase 33.3% (\$1,491,900)

○ MWD and CWA Credits	\$981,900
○ Water Sales (Variable)	\$367,800
○ System Fees	\$ 92,800
○ Energy Fees	\$ 49,400
○ Penalties	\$ 13,000

Budget Details – Sewer Revenues

- Sewer Charges increase 4.3% (\$111,000)

○ Sewer Charges	\$102,200
○ Penalties	\$ 8,800

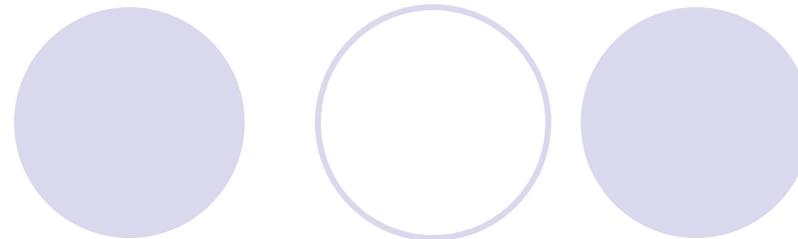
Budget Details – Revenues (cont.)

- Meter Fees: Increase 14.4% (\$40,000)
due to higher meter sales estimates based on growth
- Capacity Fee Revenues: Increase 41.4% (414,300)
due to under-budgeting of operating projects funded by cap fees
in the prior year
- Non-Operating Income: Increase 0.4% (\$6,100)
 - Grant revenue increase of \$172,000
 - Property rentals decrease of \$230,000
- Tax Revenues: Increase 16.8% (\$576,400)
 - 5% growth in FY 08
 - 11.8% adjustment to FY 07 projection

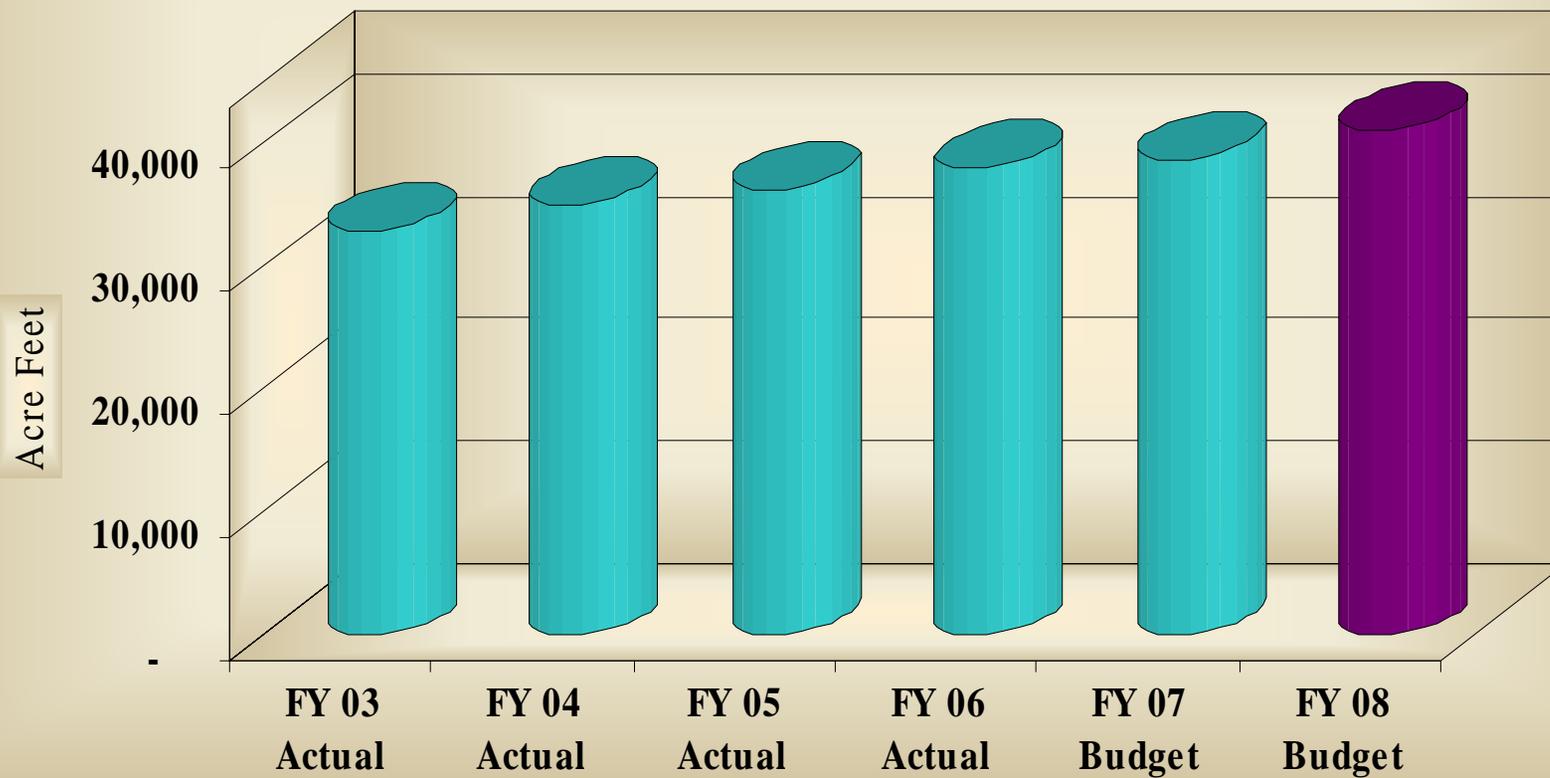
Budget Details - Expenditures

	FY 2007 Budget	FY 2008 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	21,218,200	23,984,100	2,765,900	13.0%
Recycled Water Purchases	1,736,700	1,423,000	(313,700)	(18.1%)
CWA - Infrastructure Access Charge	1,003,900	1,090,200	86,300	8.6%
CWA - Customer Service Charge	846,800	950,400	103,600	12.2%
CWA - Emergency Storage Charge	1,230,600	1,507,800	277,200	22.5%
MWD - Capacity Reservation Charge	514,800	569,400	54,600	10.6%
MWD - Net RTS and Standby Charges	512,200	552,600	40,400	7.9%
Subtotal - Water Costs	27,063,200	30,077,500	3,014,300	11.1%
Power	2,677,800	2,804,800	127,000	4.7%
Labor and Benefits	14,606,300	15,604,500	998,200	6.8%
Administrative Expenses	5,559,600	6,982,300	1,422,700	25.6%
Materials & Maintenance	4,623,700	4,452,900	(170,800)	(3.7%)
Expansion Reserve	-	2,571,700	2,571,700	100.0%
Betterment Reserve	-	3,468,800	3,468,800	100.0%
Replacement Reserve	4,540,000	206,700	(4,333,300)	(95.4%)
TOTAL EXPENDITURES	59,070,600	66,169,200	7,098,600	12.0%

Water Purchases

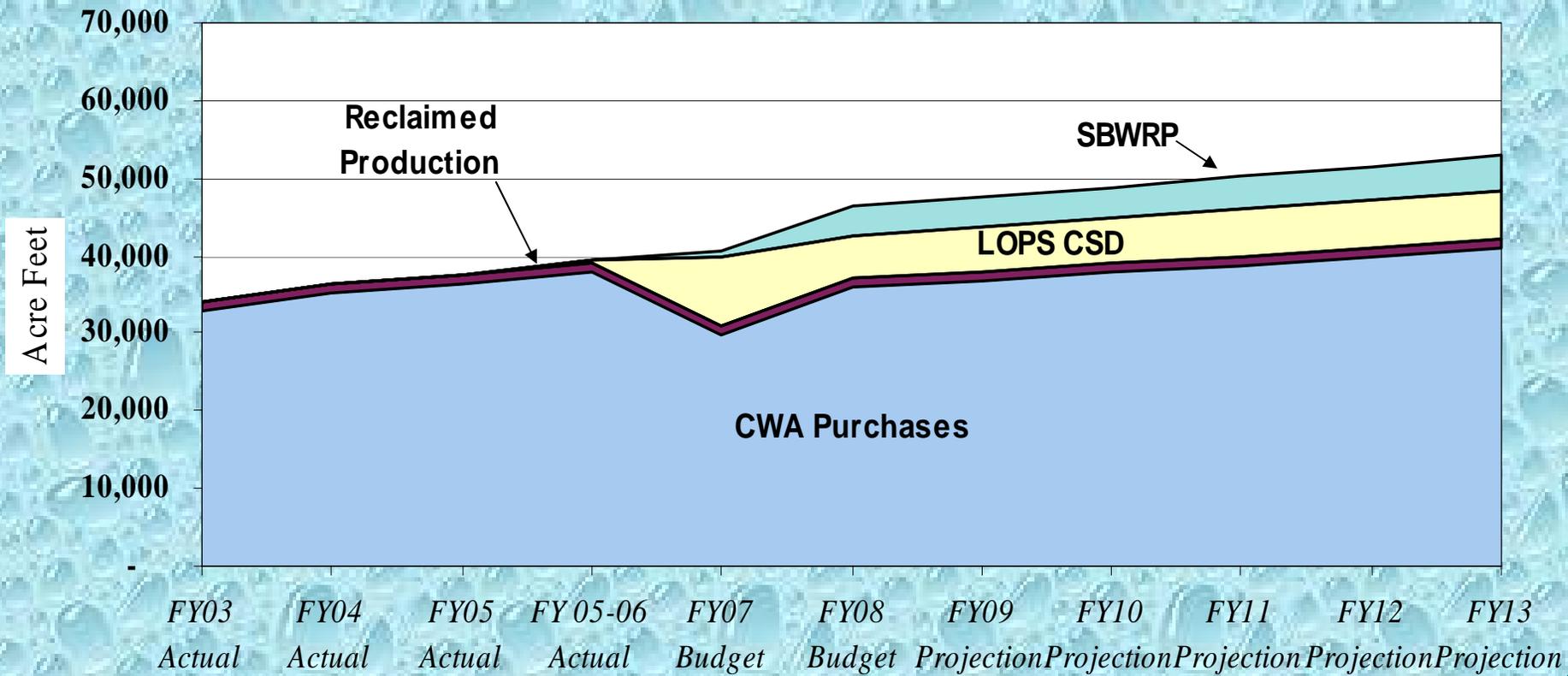


POTABLE WATER PURCHASES



New Sources of Water

WATER PURCHASES





Water Costs Increase 11.1% (\$3,014,300)

○ Variable Cost Increase

- Potable \$2,765,900
- Recycled (\$ 313,700)

○ Fixed Cost Increase \$562,100

Potable Variable Cost of Water

- Variable Costs increase 13.0% (\$2,765,900)
 - This is Net CWA and City San Diego (CSD) purchases
 - Growth Increase 2.1%
 - City of San Diego (LOPS) cannot provide as much water as assumed in last year's rate model, an additional 3,496 AF will have to be purchase from CWA at a higher rate

	Current 2007	Proposed 2008	2008 Increase	2008 % Inc
CWA \$Price/AF	\$572	\$614	\$42	7.3%
CSD \$Price/AF	\$512	\$537	\$25	4.8%

Fixed Cost of Water

Fixed Cost increase 13.7% (\$562,100)

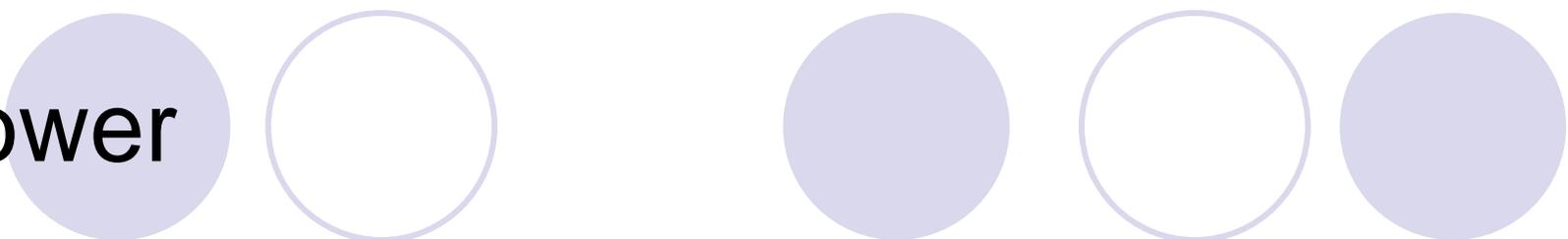
MWD	Capacity Reservation Charge	\$54,600	10.6%
MWD	Readiness-to-Serve Charge	\$40,400	7.9%
CWA	Customer Service Charge	\$103,600	12.2%
CWA	Emergency Storage Charge	\$277,200	22.5%
CWA	Infrastructure Assess Charge	<u>\$86,300</u>	8.6%
	Total Fixed Cost	\$562,100	

Expenditures

EXPENDITURES

	FY 2007 Budget	FY 2008 Budget	Budget Variance	Variance %
Potable Water Purchases	21,218,200	23,984,100	2,765,900	13.0%
Recycled Water Purchases	1,736,700	1,423,000	(313,700)	(18.1%)
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Betterment Reserve	-	3,468,800	3,468,800	100.0%
Replacement Reserve	4,540,000	206,700	(4,333,300)	(95.4%)
TOTAL EXPENDITURES	59,070,600	66,169,200	7,098,600	12.0%

Power



- Power Cost increase 4.7% (\$127,000)

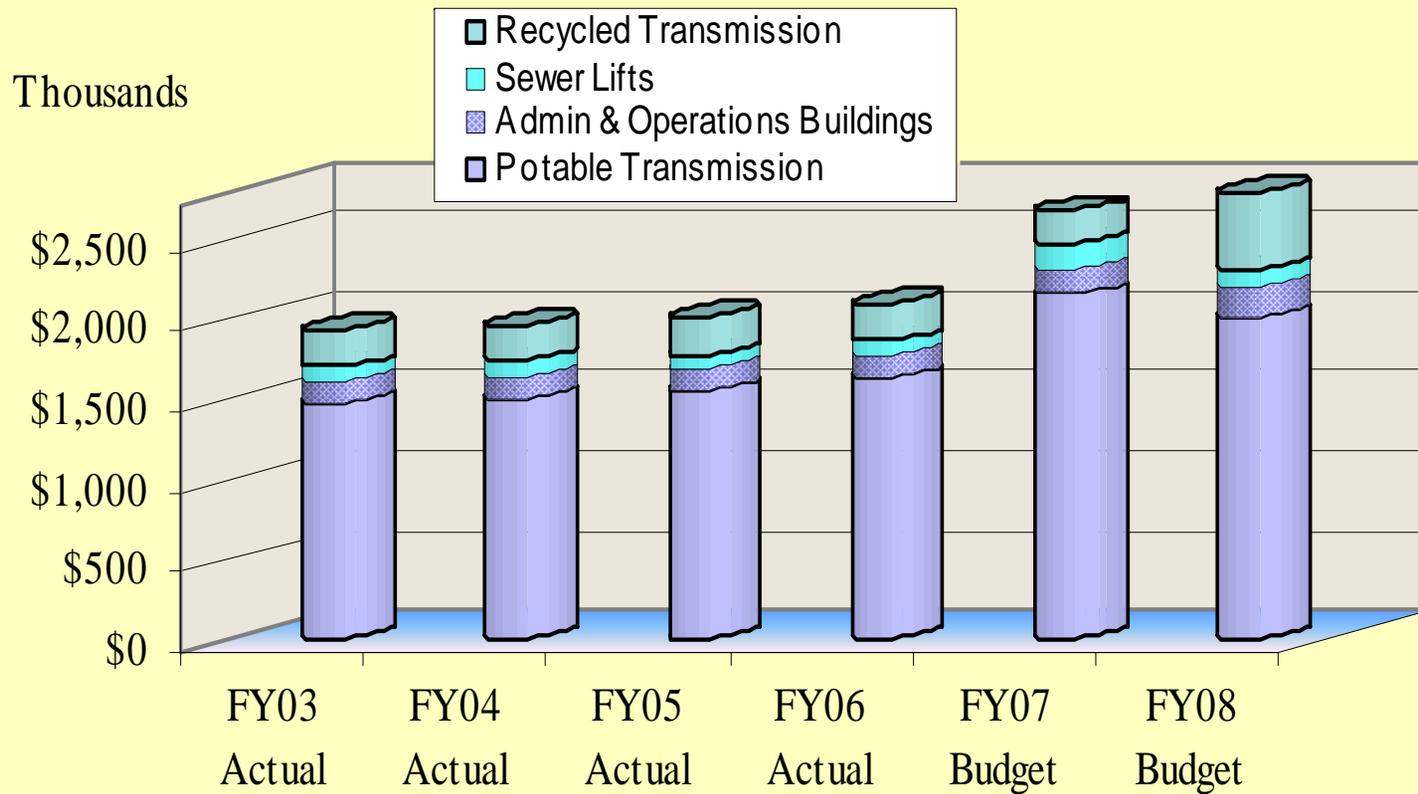
- Water demand increase 2.1%

- SDG&E rates increase 2.5% on 1/1/2008

- New SBWRP Pump Station for Recycled

Power

HISTORICAL POWER COSTS & PROJECTIONS



Expenditures

EXPENDITURES

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TOTAL EXPENDITURES	59,070,600	66,169,200	7,098,600	12.0%

Staffing Highlights



- Process

- Departments identified specific personnel actions for HR review
- Senior Team conducted an analysis of:
 - Work load requirements
 - Existing vacancies

- Results

- Two vacant positions were deleted, reducing FTE count from 174.75 to 172.75

Labor and Benefits

Salary and Fringe: Increase 6.8% (\$998,100)

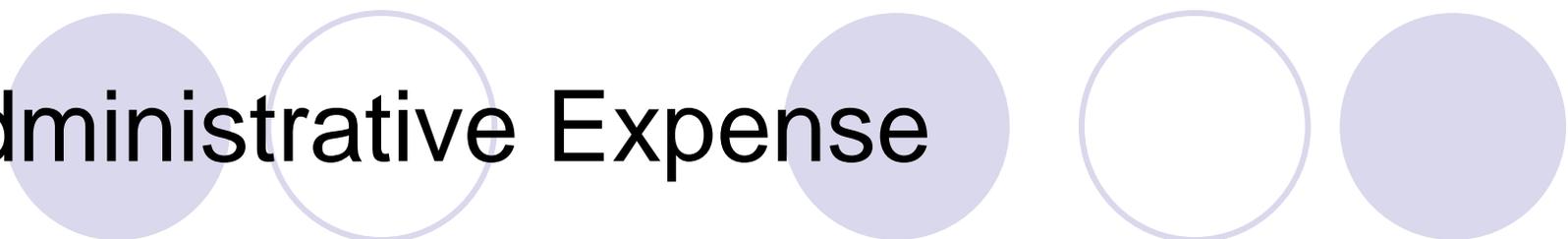
- Labor Cost: Decrease 0.2% (\$24,500)
 - Reduction in FTE by 2 positions (\$152,700)
 - Increase in vacancy factor (\$341,000)
 - In-Range Adjustments \$156,400
 - Cost of Living Increases of 3% pursuant to current MOU \$312,800
- Shift of Labor from CIP to Operating: \$797,800
- Benefit Changes:
 - Pension: Increase 4.5% \$133,500
 - Health and Dental: Increase 5.8% \$91,900
 - Workers Compensation: Decrease 2.7% \$7,900

Expenditures

EXPENDITURES

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TOTAL EXPENDITURES	59,070,600	66,169,200	7,098,600	12.0%

Administrative Expense



25.6% Increases due to 3 main categories:

- Significant long-term planning projects
- Conservation grants
- One-time legal expenses

Costs of Significant Long-Term Planning Projects

- Water Resources Master Plan \$250,000
 - Program EIR
 - Water Modeling
 - Integration with GIS
- Rehabilitation and Replacement \$150,000
 - Integrated with GIS & Fixed Assets
 - Integrated with Master Plan

Conservation Grants

- Incentive budget increases

\$250,900

- \$90,000 for Valhalla High School artificial turf
- \$120,000 for Monte Vista High School artificial turf
- \$20,000 for Cash for Plants
- \$18,500 for Large Landscape Program

- Grant revenue offset

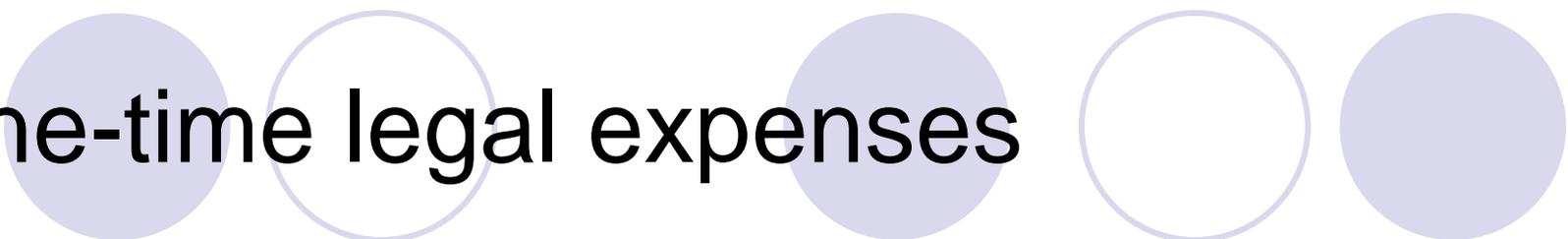
\$172,000

- \$50,000 for Valhalla High School artificial turf
- \$100,000 for Monte Vista High School artificial turf
- \$14,000 for Cash for Plants
- \$8,000 for Large Landscape Program

- Net budget impact

\$78,900

One-time legal expenses



- Legal Services \$538,000
 - Pending litigation
 - Potential insurance settlement

Expenditures

EXPENDITURES

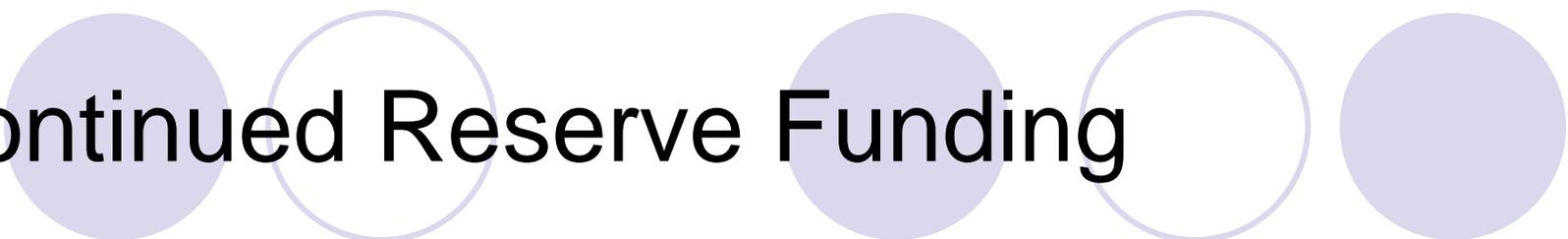
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TOTAL EXPENDITURES	59,070,600	66,169,200	7,098,600	12.0%

Material & Maintenance

- Overall Decrease 3.7% (\$170,800)
- Fuel & Oil Decrease (\$196,000)
 - Increase \$13,400 LOPS decrease \$209,400
- Metro O&M Decrease (\$141,200)
- Increases in contracted \$107,500
 - janitorial painting
 - air conditioning gates & fencing
 - landscaping parking lot maintenance
- Increases in price and volume \$58,900
 - chemicals meters
 - parts supplies

Expenditures

	FY 2007 Budget	FY 2008 Budget	Budget Variance	Variance %
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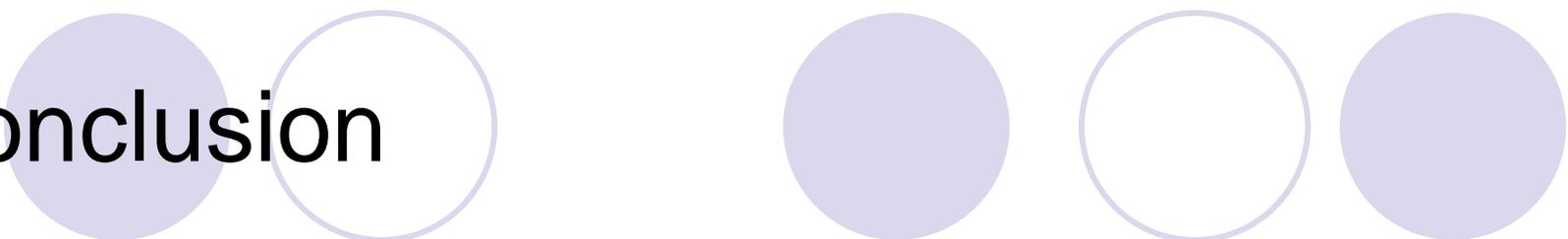


Continued Reserve Funding

- Prior year – Replacement Reserve
- Current year – Replacement, Expansion, & Betterment Reserves
- In accordance with the Reserve Policy

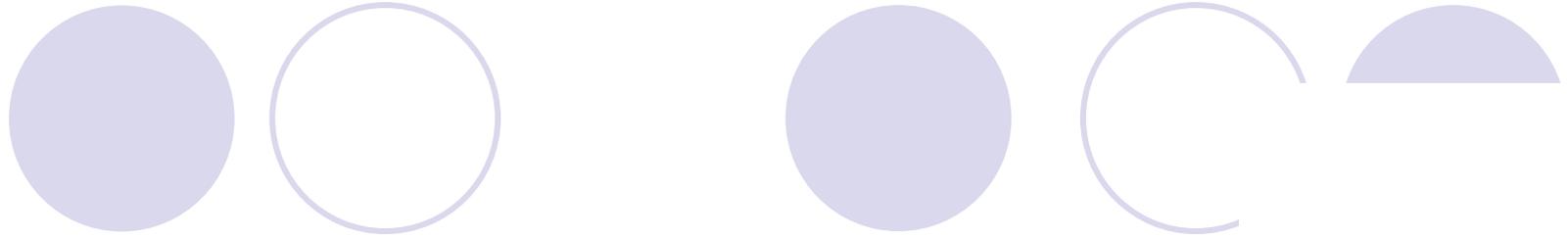
Operating Budget Summary

	Potable	Recycled	Sewer	Total
TOTAL REVENUES	57,235,500	6,125,200	2,819,400	66,180,100
EXPENDITURES				
Water Costs	28,654,500	1,423,000	-	30,077,500
Power	2,208,100	493,600	103,100	2,804,800
Labor and Benefits	13,876,500	895,400	832,600	15,604,500
Administrative Expenses	6,521,500	271,300	189,500	6,982,300
Materials & Maintenance	2,768,100	226,000	1,458,800	4,452,900
Expansion Reserve	-	2,590,900	-	2,590,900
Replacement Reserve	-	-	235,400	235,400
TOTAL EXPENDITURES	57,235,500	6,125,200	2,819,400	66,180,100



Conclusion

- **Balanced budget which meets the needs of our customers** (Available for immediate approval)
- **Supported by a 5.4% potable and recycled water rate increases** (Approval after the hearing)
- **Supported by a 1.7% rate increase in Sewer Charges** (Approval after the hearing)

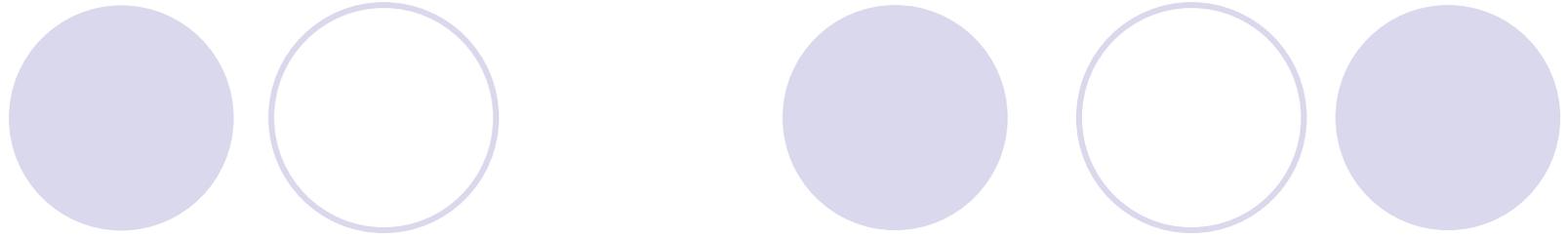


SUMMARY OF RECOMMENDATIONS



Summary of Recommendations

1. Adopt Resolution # 4097 to approve the 2008 Operating and CIP Budget
2. Approve the fund transfers
3. Direct staff to proceed with the Proposition 218 hearing and notices for the recommended rate increases



QUESTIONS?