OTAY WATER DISTRICT
FINANCE AND ADMINISTRATION
COMMITTEE MEETING
and
SPECIAL MEETING OF THE BOARD OF DIRECTORS

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM
THURSDAY
December 21, 2006
12:00 P.M.

This is a District Committee meeting. This meeting is being posted as a special meeting in order to comply with the Brown Act (Government Code Section §54954.2) in the event that a quorum of the Board is present. Items will be deliberated, however, no formal board actions will be taken at this meeting. The committee makes recommendations to the full board for its consideration and formal action.

AGENDA

1. ROLL CALL

2. 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

DISCUSSION ITEMS

3. ADOPT RESOLUTION NO. 4092 AMENDING THE DEBT POLICY, BOARD OF DIRECTORS POLICY NO. 45 (BEACHEM) [10 minutes]

4. RECEIVE THE FINANCING PLAN FISCAL YEAR 2006 UPDATE (BEACHEM) [20 minutes]

5. APPROVE THE IMPLEMENTATION OF THE RATE INCREASE AS PROPOSED BY THE FISCAL YEAR 2006-2007 OPERATING AND CAPITAL BUDGET (BEACHEM) [10 minutes]

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 December 18, 2006 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 meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on December 18, 2006.

Susan Cruz, District Secretary

AGENDA ITEM 3

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	January 3, 2007
SUBMITTED BY:	James Cudlip, 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. 4092 Amending the Debt Policy (Policy No. 45)		

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopts Resolution No. 4092 amending the Debt Policy (Policy No.45).

COMMITTEE ACTION:

See Attachment A.

PURPOSE:

The Debt Policy is being updated in an effort to strengthen our upcoming presentation to the national bond rating agencies, prior to the issuance of new debt by the District, so as to obtain the highest practical credit rating and reduce the cost of debt issuance.

ANALYSIS:

The proposed Debt Policy (Attachment C) revises and expands upon the existing Policy (Attachment D) that was previously approved by the Board on April 13, 2004.

As a part of the review of the existing Debt Policy, we compared our policy to a recommended format that is considered "best practice" by several national accounting and finance organizations. While our current policy already went beyond the minimum requirements mandated by Generally Accepted Accounting Principles (GAAP), the proposed changes have been added to further clarify guidance in the following areas:

- Legal and Regulatory Requirements: Specifies that the CFO will coordinate activities with legal counsel.

- Alternative Funding Sources: Adds State and Federal grants.

- Competitive and Negotiated Sale Criteria: Calculating true interest costs (TIC), and the payment of management fees.

- Continuing Disclosure: Posting copies of financial reports on the internet.

- Investment & Arbitrage Compliance: Investing bond proceeds in accordance with the District's Investment Policy.

- Rating Agency Applications: Obtaining a bond credit rating from more than one rating agency.

- Glossary: Provides additional financial definitions.

To assure the Board that that the currently proposed policy meets best practice standards, it was submitted to the Association of Public Treasurers of the United States & Canada (APT US&C) for review and certification. We recently received notification that this policy was approved in all of the areas addressed, and a copy of APT US&C's congratulatory letter on obtaining the Debt Policy Certificate of Excellence Award is included (Attachment E) to this staff report.

The policy is consistent with the current law and the overall objectives of the policy are being met.

FISCAL IMPACT: TB

Adoption of this policy will strengthen the District's application to Standard & Poor's for a credit rating higher than that currently issued (A+). Any higher rating (AA- or above) would substantially reduce the costs of issuing new debt.

STRATEGIC GOAL:

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

LEGAL IMPACT:

None.

Mark Watton

General Manager

Attachments:

A) Committee Action Form
B) Resolution No. 4092
C) Proposed Debt Policy #45
D) Strike-thru Debt Policy
E) APT US&C Debt Policy Certification
F) Copy of Debt Policy Presentation

ATTACHMENT A

SUBJECT/PROJECT:	Adopt Resolution No. 4092 Amending the Debt Policy (Policy No. 45)

COMMITTEE ACTION:

The Finance and Administration Committee recommends that the Board adopt Resolution No. 4092 amending the Debt Policy (Policy No. 45).

NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

ATTACHMENT B

RESOLUTION NO. 4092

A RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT AMENDING THE DEBT POLICY (BOARD OF DIRECTORS POLICY NO. 45)

WHEREAS, the Otay Water District Board of Directors have been presented with an amended Debt Policy (Board of Directors Policy No. 45); and

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

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Debt Policy, incorporated herein by reference, 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 January 2007, by the following vote:

Ayes:
Noes:
Abstain:
Absent:

President

ATTEST:

District Secretary

ATTACHMENT C

OTAY WATER DISTRICT **BOARD OF DIRECTORS POLICY**			
Subject DEBT POLICY	Policy Number 45	Date Adopted 4/13/04	Date Revised 1/3/07

1.0: POLICY

It is the policy of the Otay Water District to finance the acquisition of high value assets that have an extended useful life through a combination of current revenues and debt financing. Regularly updated debt policies and procedures are an important tool to insure the use of the District's resources to meet its commitments, to provide the highest quality of service to the District's customers, and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions as circumstances dictate.

2.0: SCOPE

This policy is enacted in an effort to standardize the issuance and management of debt by the Otay Water District. The primary objective is to establish conditions for the use of debt, to minimize the District's debt service requirements and cost of issuance, to retain the highest practical credit rating, maintain full and complete financial disclosure and reporting, and to maintain financial flexibility for the District. This policy applies to all debt issued by the District including general obligation bonds, revenue bonds, capital leases and special assessment debt.

3.0: LEGAL & REGULATORY REQUIREMENTS

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

4.0: CAPITAL FACILITIES FUNDING

Financial Planning

The District maintains a six-year financial projection that identifies operating requirements and public facility and equipment requirements, and has developed a Rate Model for funding the District's 6-Year Capital Improvement Program (CIP). The District's CIP Budget places the capital requirements in order of priority and schedules them for funding and implementation. It identifies a full range of capital needs, provides for the ranking of the importance of such needs, and identifies all the funding sources that are available to cover the costs of the projects. In cases where the program identifies project funding through the use of debt financing, the budget should provide information needed to determine debt capacity. The Rate Model and the

CIP Budget give the Board part of the data needed to make informed judgments concerning the possibility of issuing debt.

Funding Criteria

The Chief Financial Officer (CFO) will evaluate all capital project requests and develop a proposed funding plan. Priority may be given to those projects that can be funded with current resources (annual cash flow, fund balances or reserves). Those projects that cannot be funded with current resources may be deferred or the CFO may recommend that they be funded with debt financing. However, debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term cash-flow instruments is excluded from this limitation.

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

Funding Sources

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

Pay-As-You-Go Projects

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

1. The project be deferred until funds are available, or

2. Based on the priority of the project, long-term debt is issued to finance the project.

Debt Financed Projects

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

1. The life of the project or asset to be financed is 10 years or longer and its useful life is expected to exceed the term of the financing.

2. Revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed without jeopardizing the credit rating of the District.

3. Market conditions present favorable interest rates and demand for District financing.

4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.

5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.

5.0: DEBT STRUCTURE

General

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

Limitations on the Issuance of Variable Rate Debt

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

The comparison will be based on the following criteria:

1. The interest rate used to estimate interest costs will be the 10 year average for weekly variable rates.

2. The variable rate debt costs will include an estimate for annual costs such as letter of credit fees, liquidity fees, remarketing fees, monthly draw fees and annual rating fees applicable to the letter of credit.

3. Any potential reserve fund earnings will reduce the fixed rate debt service or variable rate debt service as applicable.

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

Variable rate debt should not represent more than 25% of the District's total debt portfolio. This level of exposure to interest rate fluctuations is considered to be manageable in an environment of increasing interest rates. At a higher ratio than this, the District might be faced with an unplanned water rate increase to meet its Rate Covenants. Rating agencies use this ratio in their analysis of the District's overall credit rating.

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

6.0: CREDIT OBJECTIVES

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

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

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

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

7.0: COMPETITIVE AND NEGOTIATED SALE CRITERIA

Competitive Sale

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

Negotiated Sale

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

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

8.0: REFUNDING DEBT

Purpose

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

1. Lower annual debt service by taking advantage of lower current interest rates.

2. Update or revise covenants on outstanding debt issue if a Rate Covenant appears to be too high, has precluded the District from implementing its financing plan, or has caused the District to increase rates to customers.

3. Restructure debt service associated with an issue to facilitate the issuance of additional debt, usually in order to smooth out peaks in total debt service which can occur frequently as one debt issue is layered on top of existing debt issues.

4. Alter bond characteristics such as call provisions or payment dates.

5. Pay for conversion costs such as funding a reserve fund or paying for credit enhancement when converting variable rate debt to fixed rate debt.

Restrictions on Refunding

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

Savings Criteria

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

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

9.0: SUBORDINATE LIEN DEBT

The District will issue subordinate lien debt only if it is financially beneficial to the District or consistent with creditworthiness objectives. Subordinate lien debt is structured to be payable second in priority to the District's other outstanding debt. Typically, subordinate lien debt might be issued if the District desired a more flexible Rate Covenant with respect to its new obligations and did not want to refinance all of its existing debt to obtain that less restrictive Rate Covenant.

10.0: DERIVATIVES

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

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

11.0: FINANCING PARTICIPANTS

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

Financial Advisor: The use of a Financial Advisor is necessary for the sale of debt by a competitive bid process and is desirable when issuing debt through a negotiated sale. The Financial Advisor has a fiduciary duty to the District and will seek to structure the District's debt in the manner that is saleable, yet meets the District's objectives for the financing. The Financial Advisor will advise the District on alternative structures for its debt, the cost of different debt structures and potential pricing mechanisms that can be expected from underwriters (such as call features, term bonds and premium and discount bond pricing) and, at the District's direction, will write the offering document (preliminary official statement).

With respect to competitive sales, the Financial Advisor will arrange for distributing the preliminary official statement, accepting bids via the internet, verifying the lowest bid and provide detailed instructions for the flow of funds at closing to the winning Underwriter, the Trustee and the District. In a negotiated sale, the Financial Advisor will provide independent confirmation on the Underwriter's proposed pricing to ensure that interest rates and Underwriter's compensation are appropriate for the credit quality of the issue and competitive in the overall public finance market in California.

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

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

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

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

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

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

Municipal Bond Insurer: The Municipal Bond Insurer can be one of several insurance companies that provide municipal bond insurance policies securing payment of the District's debt. These policies provide that the Municipal Bond Insurer will pay the District's debt in the event that the District defaults on its payments. Debt which is insured carries the Municipal Bond Insurer's credit rating, in most cases, AAA. The insurance premium for the bond insurance policy is paid one time at the issuance of the debt and is non-cancelable for the term of the debt. Unlike a letter of credit, bond insurance policies do not provide liquidity and are most typically purchased for fixed rate debt.

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

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

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

12.0: CONFLICT OF INTEREST AND STANDARDS OF CONDUCT

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

13.0: CONTINUING DISCLOSURE

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

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

14:0 INVESTMENT & ARBITRAGE COMPLIANCE

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

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

15.0: TYPES OF DEBT FINANCING

General Obligation Bonds

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

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

Voters within Improvement District No. 27 of the District authorized $100 million general obligation bonds in 1989. The District issued $11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately $29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

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

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

Revenue Bonds

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

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

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

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

Lease/Purchase Agreements

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

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

State Water Loans

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

Land Based Financing

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

1913 and the Improvement Bond Act of 1915, or the Mello-Roos Community Facilities Act of 1982.

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

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

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

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

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

16.0: RATING AGENCY APPLICATIONS

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

17.0: USE OF CREDIT ENHANCEMENT

Credit enhancement is a generic term that means any third-party guarantee of debt service. Credit enhancement providers include municipal bond insurance companies or financial institutions. The purchase of credit enhancement allows the District's bond issue to carry the same credit rating as the credit provider. The District will seek to use credit enhancement when such credit enhancement proves cost-effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines.

Fixed Rate Bonds

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

Variable Rate Bonds

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

18.0: GLOSSARY

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

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

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

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

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

Basis Point: One one-hundredth of one percent.

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

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

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

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

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

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

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

CIP: Capital Improvement Program.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ATTACHMENT D

OTAY WATER DISTRICT **BOARD OF DIRECTORS POLICY**			
Subject DEBT POLICY	Policy Number 45	Date Adopted 4/13/04	Date Revised 1/3/07

~~Introduction~~

~~The following policies and procedures are enacted in an effort to standardize the issuance and management of debt by the Otay Water District. Their primary objective is to establish conditions for the use of debt, to minimize the District's debt service requirements and cost of issuance, to retain the highest practical credit rating, maintain full and complete financial disclosure and reporting and to maintain financial flexibility for the District. The policies apply to all debt issued by the District including general obligation bonds, revenue bonds, capital leases and special assessment debt.~~

~~Regularly updated debt policies and procedures are an important tool to insure the use of the District's resources to meet its commitments, to provide the highest quality of service to the District's customers and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions as circumstances dictate.~~

1.0: POLICY

It is the policy of the Otay Water District to finance the acquisition of high value assets that have an extended useful life through a combination of current revenues and debt financing. Regularly updated debt policies and procedures are an important tool to insure the use of the District's resources to meet its commitments, to provide the highest quality of service to the District's customers, and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions as circumstances dictate.

2.0: SCOPE

This policy is enacted in an effort to standardize the issuance and management of debt by the Otay Water District. The primary objective is to establish conditions for the use of debt, to minimize the District's debt service requirements and cost of issuance, to retain the highest practical credit rating, maintain full and complete financial disclosure and reporting, and to maintain financial flexibility for the District. This policy applies to all debt issued by the District including general obligation bonds, revenue bonds, capital leases and special assessment debt.

3.0: LEGAL & REGULATORY REQUIREMENTS

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

~~**Definitions**~~

~~The following terms are used in this document:~~

~~"Advance Refunding" means to provide for the refinancing of debt prior to its Optional Redemption date by setting aside funds in trust to pay debt service on the debt until the Optional Redemption date is reached and the debt can be paid if full.~~

~~"CIP" means Capital Improvement Program.~~

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

~~"Pay-as-you-go" means to pay for capital improvements from current resources and fund balances rather than from debt proceeds.~~

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

4.0: CAPITAL FACILITIES FUNDING

Financial Planning

The District maintains a ~~multi~~six-year financial projection that identifies operating requirements and public facility and equipment requirements, and ~~i~~has develope~~ding~~d a ~~Financial Plan~~ Rate Model for funding the District's ~~5~~6-Year Capital Improvement Program (CIP). ~~(the "Financial Plan").~~ The ~~Financial Plan~~ District's CIP Budget places the capital requirements in order of priority and schedules them for funding and implementation. It identifies a full range of capital needs, provides for the ranking of the importance of such needs, and identifies all the funding sources that are available to cover the costs of the projects. In cases where the ~~Financial Plan~~ program identifies project funding through the use of debt financing, the ~~Financial Plan~~ budget should provide information needed to determine debt capacity. The ~~Financial Plan~~ Rate Model and the CIP Budget give~~s~~

the Board part of the data needed to make informed judgments concerning the possibility of issuing debt.

Funding Criteria

The Chief Financial Officer (CFO) will evaluate all capital project requests and develop a proposed funding plan. Priority may be given to those projects that can be funded with current resources (annual cash flow, fund balances or reserves). Those projects that cannot be funded with current resources may be deferred or the ~~Chief Financial Officer~~ CFO may recommend that they be funded with debt financing. However, debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term cash-flow instruments is excluded from this limitation.

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

Funding Sources

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

Pay-As-You-Go Projects

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

1. The project be deferred until funds are available, or

2. Based on the priority of the project, long-term debt ~~be~~ is issued to finance the project.

Debt Financed Projects

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

1. The life of the project or asset to be financed is 10 years or longer and its useful life is expected to exceed the term of the financing.

2. Revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed without jeopardizing the credit rating of the District.

3. Market conditions present favorable interest rates and demand for District financing.

4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.

5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.

5.0: DEBT STRUCTURE

General

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

Limitations on the Issuance of Variable Rate Debt

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

The comparison will be based on the following criteria:

1. The interest rate used to estimate interest costs will be the 10 year average for weekly variable rates.

2. The variable rate debt costs will include an estimate for annual costs such as letter of credit fees, liquidity fees, remarketing fees, monthly draw fees and annual rating fees applicable to the letter of credit.

3. Any potential reserve fund earnings will reduce the fixed rate debt service or variable rate debt service as applicable.

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

Variable rate debt should not represent more than 25% of the District's total debt portfolio. This level of exposure to interest rate fluctuations is considered to be manageable in an environment of increasing interest rates. At a higher ratio than this, the District might be faced with an unplanned water rate increase to meet its Rate Covenants. Rating agencies use this ratio in their analysis of the District's overall credit rating.

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

6.0: CREDIT OBJECTIVES

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

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

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

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

7.0: COMPETITIVE AND NEGOTIATED SALE CRITERIA

Competitive Sale

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

Negotiated Sale

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

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

8.0: REFUNDING DEBT

Purpose

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

1. Lower annual debt service by taking advantage of lower current interest rates.

2. Update or revise covenants on outstanding debt issue if a Rate Covenant appears to be too high, has precluded the District from implementing its financing plan, or has caused the District to increase rates to customers.

3. Restructure debt service associated with an issue to facilitate the issuance of additional debt, usually in order to smooth out peaks in total debt service~~,~~ which can occur frequently as one debt issue is layered on top of existing debt issues.

4. Alter bond characteristics such as call provisions or payment dates.

5. Pay for conversion costs such as funding a reserve fund or paying for credit enhancement when converting variable rate debt to fixed rate debt.

Restrictions on Refundings

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

Savings Criteria

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

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

9.0: SUBORDINATE LIEN DEBT

The District will issue subordinate lien debt only if it is financially beneficial to the District or consistent with creditworthiness objectives. Subordinate lien debt is structured to be payable second in priority to the District's other outstanding debt. Typically, subordinate lien debt might be issued if the District desired a more flexible Rate Covenant with respect to its new obligations and did not want to refinance all of its existing debt to obtain that less restrictive Rate Covenant.

10.0: DERIVATIVES

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

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

11.0: FINANCING PARTICIPANTS

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

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

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

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

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

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

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

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

Municipal Bond Insurer~~.~~: The Municipal Bond Insurer can be one of several insurance companies that provide municipal bond insurance policies securing payment of the District's debt. These policies provide that the Municipal Bond Insurer will pay the District's debt in the event that the District defaults on its payments. Debt which is insured carries the Municipal Bond Insurer's credit rating, in most cases, AAA. The insurance premium for the bond insurance policy is paid one time at the issuance of the debt and is non-cancelable for the term of the debt. Unlike a letter of credit, bond insurance policies do not provide liquidity and are most typically purchased for fixed rate debt.

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

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

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

12.0: CONFLICT OF INTEREST AND STANDARDS OF CONDUCT

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

13.0: CONTINUING DISCLOSURE

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

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

14:0 INVESTMENT & ARBITRAGE COMPLIANCE

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

The Chief Financial Officer shall invest the bond proceeds subject to the District's Investment Policy in a timely manner, to ensure the availability of funds to meet operational requirements. In doing so, ~~T~~the ~~Chief Financial Officer~~ CFO will maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code.

15.0: TYPES OF DEBT FINANCING

General Obligation Bonds

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

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

Voters within Improvement District No. 27 of the District authorized $100 million general obligation bonds in 1989. The District issued $11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately $29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

General obligation bonds generally are regarded as the broadest and soundest security among tax-secured debt instruments. An unlimited-tax pledge would enable a trustee to invoke mandamus to force the District to raise the tax rate as much as necessary to pay off the bonds. General obligation bonds have other credit strengths as well:

the property tax tends to be a steady and predictable revenue source, and when a vote is required to issue them, bondholders have some indication of taxpayers' willingness to pay. General obligation bonds carry the highest credit rating that a public agency can achieve and therefore, the lowest interest cost. General obligation bonds typically are issued to finance capital facilities and not for ongoing operational or maintenance costs.

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

Revenue Bonds

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

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

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

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

Lease/Purchase Agreements

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

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

State Water Loans

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

Land Based Financing

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

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

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

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

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

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

16.0: RATING AGENCY APPLICATIONS

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

17.0: USE OF CREDIT ENHANCEMENT

Credit enhancement is a generic term that means any third-party guarantee of debt service. Credit enhancement providers include municipal bond insurance companies or financial institutions. The purchase of credit enhancement allows the District's bond issue to carry the same credit rating as the credit provider. The District will seek to use credit enhancement when such credit enhancement proves cost-effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines.

Fixed Rate Bonds

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

Variable Rate Bonds

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

18.0: GLOSSARY

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

Subject	Policy Number	Date Adopted	Date Revised
DEBT POLICY	45	4/13/04	1/3/07

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

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

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

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

Basis Point: One one-hundredth of one percent.

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

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

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

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

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

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

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

CIP: Capital Improvement Program.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ATTACHMENT E

ASSOCIATION OF PUBLIC TREASURERS
UNITED STATES & CANADA
962 Wayne Avenue • Suite 910 • Silver Spring, MD 20910
Telephone: 301-495-5560 • Fax: 301-495-5561
www.aptusc.org

December 11, 2006

Joseph R. Beachem
Chief Financial Officer
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

Dear Mr. Beachem:

The Association of Public Treasurers of the United States and Canada is pleased to present the Otay Water District of California with the Association's Debt Policy Certification. Members of the Association's Debt Management Committee congratulate your government for its success in developing a comprehensive written debt policy that meets the criteria set forth by the Association's Debt Management Committee.

Our review of your debt policy is limited to the documentation submitted. This Certification recognizes that the recipient currently has policies in place that are consistent with sound debt issuance and management practices. However, the existence of such policies does not fully insulate the recipient from changing economic circumstances, volatile market conditions, or human behavior. The Certification is not a guarantee that investors in the recipient's debt instruments will receive full and timely payment. Governments are welcome to submit their debt policies for review on an annual basis. However, the Debt Management Committee recommends that a certified government submit its debt policy once every three years or sooner if major revisions are made to the existing policy.

As the Association's Debt Management Committee Chairman, I will be presenting the Debt Policy Certification Award to all recipients at the Association's 2007 Annual Conference, August 11-15, in San Diego, California. Your District will be recognized during the Awards Luncheon at this conference.

As a treasury/financial officer from a government whose debt policy has been certified by the Association, you are eligible to apply to become a reviewer for the Debt Management Committee. Please contact the Association's headquarters at (301) 495-5560 if you are interested.

The Otay Water District is to be commended for this meaningful enhancement of its financial management program.

Sincerely,

Kent Rock

Kent Rock, CPFA
Chairman, Debt Management Committee

Attachment F

DISTRICT DEBT POLICY

Policy No. 45

January 3, 2007

POLICY REVIEW GOALS

- To Improve Financial Policies, Procedures, and Reports
- To Obtain the Highest Practical Debt Credit Rating
- To Reduce the Cost of Debt Issuance

INVESTMENT POLICY GUIDELINES

Professional Finance Organizations:

- Government Finance Officers Association (GFOA)
- Association of Public Treasurers of the United States & Canada (APT US&C)
- California Municipal Treasurers Association (CMTA)
- California Society of Municipal Finance Officers (CSMFO)

INVESTMENT CODE CHANGES

- 3.0: Legal and Regulatory Requirements
- 4.0: Alternative Funding Sources
- 7.0: Competitive & Negotiated Sale Criteria
- 13.0: Continuing Disclosure
- 14.0: Investment & Arbitrage Compliance
- 16.0: Rating Agency Applications
- 18.0: Glossary

DEBT POLICY CERTIFICATION

Association of Public Treasurers of the United States & Canada

- Certificate of Excellence

REQUESTED BOARD ACTION

The Finance and Administration Committee reviewed the updated Debt Policy (Board of Directors Policy No. 45) and recommends adoption of Resolution 4092 amending the policy as presented.

AGENDA ITEM 4

STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	January 3, 2007
SUBMITTED BY:	Joseph R. Beachem Chief Financial Officer	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)			
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager		
SUBJECT:	Presentation of the Financing Plan (2006 Update)		

GENERAL MANAGER'S RECOMMENDATION:

That the Board receive the Financing Plan (2006 Update), an independent review of the District's plan to finance the pending infrastructure.

COMMITTEE ACTION: ___________

PURPOSE:

The Financing Plan is a third party review of the District's financial direction and status. Its primary purpose is to:

1. Update the Board on the preferred means of financing the District's Capital Improvement Program (CIP).
2. Evaluate the appropriateness of the pending and future debt issuances.
3. Evaluate increased debt financing due to the higher level of CIP accomplishment.
4. Insure that the plan maintains the District's financial strength.

ANALYSIS:

At the December Board meeting, the Board was presented with an overview of the Bond Sale Process that included the following:

- Financing participants and the roles of each party
- Estimated costs and selection process of each party
- The tentative timeline of the bond sale

At that same Board meeting, the Board approved the selection of the Bond Co-Counsels, Bond Disclosure Counsel, and the Trustee. This completed the financing team needed to prepare for the bond sale.

The Financial Advisor (FA) plays a key role in the financing team. In the October Board meeting the Board approved Harrell & Company as the FA for the pending debt issuance. A part of this engagement is to prepare an update to the District's Financing Plan. This plan reviews a number of issues surrounding the pending and future debt. The "Financing Plan Update" (Attachment B) details the Financial Advisor's findings. The findings are largely consistent with prior staff recommendations. The presentation of this plan is also attached (Attachment C) for the Board's review.

The following summary points provide the highlights of the Financing Plan.

ABILITY TO FUND THE CIP - That the District is financially capable of funding the CIP through a combination of debt issuances, funding from reserves, grants, and water revenues.

MAINTAINING FINANCIAL STRENGTH - The District can maintain adequate debt coverage ratios and reserve balances by continued implementation of rate increases projected in the Rate Model.

FUNDING PREFERENCE - The issuance of $42 million in debt is financially preferable over the drawing down of reserves. Drawing down of reserves would put significant pressure on rate increases limiting the District's short-term financial flexibility.

CHANGE IN BOND TERM - For the 2007 debt issuance a 30-year term is recommended instead of 20 years. This reduces the annual debt payments in the short-term reducing pressure to raise rates. While this is a change from staff's prior recommendations, staff supports this change as the debt coverage ratio rebounds more quickly without a significant decrease in future flexibility.

MONITOR EXISTING DEBT - In the past, the conversion of the variable rate COPs to a fixed rate has not been recommended. Currently, this position has softened somewhat as the two options are becoming more financially comparable when considering the risk avoidance provided by a fixed rate.

This third-party review of the plan to finance the District's CIP validates the planned direction of the District's Rate Model. The financing team is scheduled to present the financing document to the Board on February 7, 2007, authorizing the bond sale.

FISCAL IMPACT:

There is no direct financial impact resulting from this document as it is a planning tool.

STRATEGIC GOAL:

The strategic goal is to accomplish sound financing of infrastructure. This will help the District meet the overall strategy to ensure financial health through formalized policies, prudent investing, and efficient operations.

LEGAL IMPACT:

None.

Mark Watton

General Manager

Attachments:

A) Committee Action Form
B) Financing Plan (2006 Update)
C) Financing Plan (2006 Update) Presentation

ATTACHMENT A

SUBJECT/PROJECT:	Presentation of the Financing Plan (2006 Update)

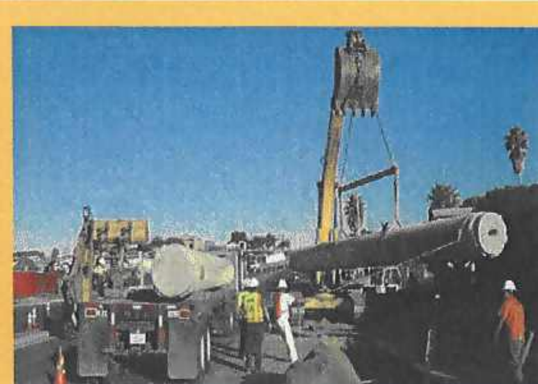
COMMITTEE ACTION:

The Finance and Administration Committee recommends that the Board receive the Financing Plan (2006 Update), an independent review of the District's plan to finance the pending infrastructure.

NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

OTAY WATER DISTRICT



FINANCING PLAN UPDATE

2007 Certificates of Participation

December 2006

December 21, 2006

Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, California 91978

EXECUTIVE SUMMARY

The District adopted a Financing Plan in 2004 in anticipation of significant capital investment needs between 2004 and 2008. The 2004 Financing Plan demonstrated that the District could, using a combination of net operating income and existing reserves, fund planned capital projects from these sources through fiscal year 2006. The 2004 Financing Plan concluded that $27.5 million bond financing would be required in 2007 to timely implement the District's capital improvement plan, while maintaining sufficient operating and capital reserves. Further, the 2004 Financing Plan concluded that the implementation of a series of rate increases would be necessary to provide sufficient income to issue the debt in 2007. These rate increases were estimated using the District's Rate Model program. The projected rate increases have been implemented.

The purpose of this Financing Plan Update ("Update") is to again summarize the funding of the capital improvement program from among available resources, with a time horizon of the six year period from fiscal year 2007 through 2012. This is consistent with the District's current 2007-2012 Capital Improvement Program (CIP) Budget. The District's CIP is somewhat accelerated from the projected CIP in 2004. Many of the projects are regional in nature and ahead of schedule, putting additional short-term demands on District cashflow. As a result, the debt financing recommended in 2007 included in this Update has increased to $42 million. The increased financing is recommended in lieu of drawing down the District reserves.

This Update will demonstrate that, after meeting the debt service requirements for current and anticipated long-term debt, sufficient cashflow remains to pay for pay-as-you-go CIP, ongoing operations and to maintain the targeted reserve levels specified in the District's Reserve Policy adopted in March 2006. The Reserve Policy outlines best-practices reserve levels for operations and maintenance and the District's expansion, betterment and replacement capital project funds.

Specifically, the goals of this Update are:

- Fund the District's immediate capital financing needs, as well the overall Six-Year Capital Improvement Program for each of Water System, Recycled Water System and Sewer System:

Expansion	$162,674,000
Betterment	26,605,000
Replacement	29,859,000
	$219,138,000

This Update provides for funding of capital improvements at 100% of the estimated budget for 2007 and 2008, and 80% thereafter.

- Provide for the required debt service on outstanding and anticipated debt payable from Net Operating Revenues of the Water and Recycled Water Systems and analyze the impact of rate increases projected in the Rate Model on the District's ability to continue to meet its rate covenants.
- Provide $26 million in the Replacement Reserve, $1.8 million in the Betterment Reserve and $10 million in the Expansion Reserve required by the District's Reserve Policy by the end of the six year period.
- Maintain an operating cash reserve equal to 90 days of expenses for each of the three operational components required by the District's Reserve Policy.
- Analyze the economics of converting the District's existing variable rate 1996 Certificates of Participation to a fixed rate of interest in accordance with the District's Debt Policy (adopted in 2004 and updated in September 2006).

Recommendation

Debt Financing. This Update recommends the District issue approximately $42 million in fixed rate debt to be used toward the District's overall CIP Budget in the next 24 months. Further series of debt issuance are recommended in 2009 ($20.2 million) and 2011 ($12.1 million).

The proposed term of the 2007 debt is 30 years. Future debt is expected to have a term of 20 years. This Update recommends a longer term for this first series of debt in order to allow the District flexibility to meet certain coverage ratios in anticipation of the debt to be issued over the next four years. The term for subsequent issues can be shortened or lengthened depending on the actual versus projected results of operations going forward. A conversion of the 1996 Certificates of Participation to a fixed rate is not recommended at this time, however, monitoring of the economics of conversion should continue on a regular basis.

Reserves. This Update recommends that the District target the reserve levels outlined in its Reserve Policy rather than draw down reserves to finance a greater portion of the CIP Budget at this time. Since Reserves would typically be replenished over a shorter time frame than the 20 to 30 years of debt repayment, significant additional rate increases would be needed over and above those contained in the Rate Model to accomplish this by the end of the six year CIP Program currently being funded. Further, if rates were increased to replenish the Reserves, and the District had some unforeseen expenditures, additional rate increases to pay for such costs could drive rate increases (as a percentage) extremely high. Financing the additional CIP costs through debt provides some future rate setting flexibility.

Rate Increases. This Update is based on the rate increases calculated in the District's Rate Model. The Rate Model was recently updated to reflect the actual results of the first quarter of 2006/07 and the best estimate of CIP expenditures for the next 24 months. As was the case in 2004, continued implementation of these rate increases is crucial to the District's ability to fund the CIP over the next six years without compromising its reserve levels. The first planned 5.4% rate increase is scheduled for public hearing on January 3, 2007. The recommended rate increases are 5.4% for the next two years, followed by 5.1% for three years, and 3.9% thereafter.

PURPOSE OF THE FINANCING PLAN UPDATE

This Update summarizes the timing and method of funding capital improvements over the next five years based on the current CIP and the current Rate Model. The CIP is separated into improvement categories – Expansion, Betterment and Replacement. Each improvement category contains the combined CIP for each operational area – Water, Recycled Water, and (if applicable) Sewer. Each category of improvements is designed to be funded with operational net cashflow, bond proceeds, transfers within operational areas, other capital related charges or a combination of these sources.

PROPOSED FUNDING SOURCES

The proposed funding for each improvement category is shown below. Transfers from the operating funds are discussed later in the Update. The ending balance shown at the end of the six year period is not less than the minimum requirements of the Reserve Policy.

Expansion CIP

(in $Thousands)	2007	2008	2009	2010	2011	2012
Beginning Fund Balance	$ 2,398.0	$18,112.0	$10,433.6	$20,870.0	$16,462.0	$ 5,972.0
Capacity Fees & Surcharges	7,331.4	8,173.8	11,922.0	10,694.5	10,873.5	20,083.7
Grants	4,240.0	1,616.0	3,592.0	3,592.0	2,080.0	1,520.0
General Fund Transfers	-	4,350.0	6,900.0	4,550.0	6,450.0	8,450.0
Temporary Meter Revenues	799.8	803.8	811.8	819.9	828.1	836.4
Interest	407.1	708.4	821.1	1,012.5	646.3	486.1
Betterment Fund Transfers	320.9	619.4	511.0	610.1	331.6	257.4
Bond Financing	30,550.0	-	12,950.0	-	8,150.0	-
Total Annual Sources	43,649.2	16,271.4	37,507.9	21,279.0	29,359.5	31,633.6
Expansion Projects(1)	24,066.3	19,300.9	21,334.0	19,885.4	33,343.1	20,869.6
Debt Service(2)	2,868.7	3,643.7	4,722.2	4,776.1	5,470.7	5,474.4
Developer Services	1,000.2	1,005.2	1,015.3	1,025.5	1,035.8	1,046.2
Total Uses	27,935.2	23,949.8	27,071.5	25,687.0	39,849.6	27,390.2
Ending Fund Balance	**$18,112.0**	**$10,433.6**	**$20,870.0**	**$16,462.0**	**$ 5,972.0**	**$10,215.3**

(1) Beginning in 2009, the District expects that 80% of the projected CIP costs will be expended in the fiscal year budgeted.
(2) Debt Service is secured by Net Operating Income, Property Taxes and Capacity Fees.

Grants from the Bureau of Reclamation represent a significant source of funding for the Expansion CIP relating to the Recycled System. The District will need to monitor the grant program closely in order to achieve the funding plan for this system component.

Betterment CIP

(in $Thousands)	2007	2008	2009	2010	2011	2012
Beginning Fund Balance	$(3,414.2)	$ 5,444.0	$ 4,243.3	$ 3,686.8	$ 1,824.9	$ 2,483.7
Availability	546.3	561.5	584.4	605.3	625.4	652.7
Betterment Charges	948.9	1,017.2	1,054.3	1,092.9	1,132.9	1,174.2
General Fund Transfers	2,650.0	6,539.0	(1,295.2)	2,117.0	1,543.0	1,187.0
Interest	39.8	236.3	204.7	147.5	121.5	125.5
Bond Financing	8,500.0	-	6,800.0	-	-	-
Total Annual Sources	12,685.0	8,354.0	7,348.1	3,962.7	3,422.8	3,139.4
Betterment Projects	2,905.9	8,029.6	5,769.8	3,757.2	948.5	2,073.2
Exp/Rep Projects	356.3	704.8	536.9	674.1	422.9	334.5
Debt Service (2)	564.6	820.3	1,597.9	1,393.3	1,392.5	1,392.3
Total Uses	3,826.8	9,554.7	7,904.6	5,824.6	2,763.9	3,800.0
Ending Fund Balance	**$ 5,444.0**	**$ 4,243.3**	**$ 3,686.8**	**$ 1,824.9**	**$ 2,483.7**	**$ 1,823.1**

(1) Beginning in 2009, the District expects that 80% of the projected CIP costs will be expended in the fiscal year budgeted.
(2) Debt Service is secured by Net Operating Income and Property Taxes.

Replacement CIP

(in $Thousands)	2007	2008	2009	2010	2011	2012
Beginning Fund Balance	$22,249.9	$28,037.2	$26,220.8	$25,980.6	$25,804.8	$29,939.3
General Fund Transfers	9,850.0	2,740.0	1,370.0	1,470.0	1,570.0	1,600.0
Interest	986.0	1,323.3	1,347.6	1,385.9	1,571.0	1,637.6
Betterment Fund Transfers	35.4	85.4	25.9	64.0	91.3	77.1
Bond Financing	2,950.0	-	450.0	-	3,900.0	-
Total Annual Sources	13,821.4	4,148.7	3,193.5	2,919.9	7,132.3	3,314.7
Replacement Projects	7,561.6	5,405.5	2,833.8	2,483.0	2,185.2	6,018.0
Debt Service (2)	472.5	559.6	599.9	612.7	812.6	948.9
Total Uses	8,034.1	5,965.1	3,433.7	3,095.7	2,997.8	6,966.9
Ending Fund Balance	**$28,037.2**	**$26,220.8**	**$25,980.6**	**$25,804.8**	**$29,939.3**	**$26,287.1**

(1) Beginning in 2009, the District expects that 80% of the projected CIP costs will be expended in the fiscal year budgeted.
(2) Debt Service is secured by Net Operating Income and Property Taxes.

FINANCING THE CIP

The primary sources of funding the CIP are net operating revenues, capacity fees, betterment fees and spending down certain replacement reserves. The first two sources provide security for the District's bonded debt, as well as providing direct cashflow to the capital funds. Bonding capacity is achieved by capitalizing the cashflow from the Water and Recycled Water Systems over a period of time, in the case of the 2007 debt, 30 years, which provides the funding that the District needs to complete the proposed CIP in conjunction with the other sources of funds. *The Sewer System operations are not included in the pledge to debt financing.*

The charts in "Proposed Funding Sources" above show that the District will need to issue debt in 2007 to fund approximately $42,000,000 (including issuance costs) in capital projects, allocated as follows:

- $30,550,000 in Expansion Projects
- $17,500,000 in Betterment Projects
- $2,950,000 in Replacement Projects

Additional financing projected in 2009 would provide a total of $20,200,000 for the CIP and financing projected in 2011 would provide a total of $12,050,000 for the CIP. The combination of the three financings fund $74,500,000 of the total anticipated $219,000,000 CIP budget, or 34% of total expected costs.

General Financing Considerations

To determine the optimum debt issuance for the District, several factors are analyzed. The type of debt issued the District may vary depending on circumstances and the following factors.

- **Rate Covenants**

  Legal provisions contained in the bond indenture make clear the District's responsibilities and the bondholder's recourse in the event of the District's non-compliance. Legal provisions generally refer to the District's "rate covenant." A rate covenant is the District's pledge to bondholders that it will increase service charges sufficient to provide an adequate "coverage ratio" for the debt service. In most cases, this will result in the District pledging to generate net income of at least 120% of debt service through a combination of operations and other pledged revenue such as capacity fees, and often may require the District to demonstrate a higher actual ratio, 125% when issuing additional debt.

  The rate covenant is analyzed in conjunction with an assessment the District's customer base, rate competitiveness, operational flexibility, management, financial strength and regulatory pressures. When these assessments indicate that the District's expected ongoing performance will be well in excess of the minimum levels guaranteed by the rate covenant, the degree of strength granted by the rate covenant becomes much less relevant to the District's credit rating. In contrast, when future performance is expected to be closer to levels guaranteed by the rate covenant, the rate covenant itself becomes important to the assumptions of continued stability at that level. In such cases, the rate covenant can play an important role in the rating.

Based on the current Rate Model projections of revenues, operating expenses and capacity and annexation fees ("Pledged Net Revenues"), Pledged Net Revenues available for debt service are expected to exceed 3 times the debt service obligation. However, in the short term, debt service will not be completely covered in full using only pledged operating income (this excludes non-operating income and one-time sources such as capacity fees). This can be expected to play a role in determining the District's credit rating, since future rate increases are needed to replace the ultimate loss over time of one-time capacity fee revenues. Continuing to increase rates will be crucial to maintaining the rate covenants in the future as the one-time revenues decline over time. This is detailed in the section "Rate Covenant" below.

- **Maturity**

  The District has two outstanding issues payable from the Pledged Net Revenues. The 2004 COPs mature in 2023 and the 1996 COPs mature in 2026. Both of these issues have approximately level debt service each year. When the two issues are combined, the combined debt service is approximately equal for all years until 2023 and then drops off in 2024 after the final maturity of the 2004 COPs. The District's objective for structuring future debt should be to maintain approximately level debt service on an aggregate basis as much as possible, while still amortizing a sufficient amount of the principal of the new debt. This provides the District with level expenditures and more stability in the rate setting.

- **Interest Rate Risk**

  Variable rate debt still may look attractive in the current interest rate environment. An objective analysis should be made using reasonable assumptions as to future interest rates and the other costs associated with variable rate debt -- discussed below under "Credit Risk" – when analyzing whether or not to issue variable rate debt. The District's Debt Policy requires a comparison of debt service based on variable rates with a comparable fixed rate issue and a minimum 10% estimated reduction in the anticipated costs of financing before deciding to issue variable rate debt. This criteria is intended to offset future interest rate risk by making sure there are enough debt service savings in the early years to minimize rises in future interest rates.

Credit Risk

Variable rate bonds require both credit support and a liquidity facility. The interest on variable rate bonds is based on a 7-day investment rate for the reason that any investor can tender their bonds back to the District to be repurchased on 7 days' notice. Because of the short-term nature of the investment, the securities that the District is "competing" with for investors are AAA-rated or AA-rated mutual funds. Therefore, variable debt needs to have credit enhancement to achieve a comparable AAA or AA rating, as well as liquidity support to provide the District with a mechanism to purchase any bonds that are tendered before they can be remarketed to new investors.

Typically credit support and liquidity can be obtained in one instrument – a letter of credit. Letters of credit normally expire in five years and must be renewed several times throughout the term of the debt. This exposes the District to three different risks. First, the bank's own credit rating can be downgraded, and correspondingly, the District's bond rating will be lowered. This generally will increase the interest rate associated with a variable rate issue. Second, at the time of renewal, the letter of credit bank can renegotiate its fees. This exposes the District to the possibility of increased annual credit fees. In either of these situations, the District has the option of changing banks. However, there are a limited number of banks in this market, and the District may not be able to find a replacement letter of credit at the same fee it was charged in the past. Therefore, so-called "credit risk" is an important component of any analysis of fixed versus variable rate debt. The annual credit fees for the District's 1996 Variable Rate Certificates of Participation increased from .25% to .30% of the outstanding debt at the first renewal, to .40% of the outstanding debt at the second renewal and to .50% of the outstanding debt at the third renewal.

Sale Method

The Debt Policy states that the District will use a competitive bidding process in the sale of debt unless the nature of the issue or specific circumstances warrants a negotiated sale. Types of debt that would typically lend themselves to the negotiated sale format are variable rate debt and unrated debt. Circumstances that might warrant a negotiated sale may occur when the issue is of a limited size that would not attract wide-spread investor interest, during periods of high levels of issuance by other entities in the State or during periods of market volatility. None of the factors that would warrant a negotiated sale are present for the purpose of this Update, and the recommendation is to sell the debt outlined in this Update on a competitive basis.

Existing Debt

The District currently has three outstanding debt issues. The terms of the issues are summarized in the table below. The Rate Covenant applicable to the 1996 COPs and the 2004 COPs must be complied with before issuing any additional debt secured by the Pledged Net Revenues. The Rate Covenant is detailed in the section "Rate Covenant" below.

Issue	Issue Date	Average Interest Rate	Final Maturity	Optional Call Date	Security
2004 Certificates of Participation	August 2004	4.10%	2023	9/1/14	District-wide Net Income
1996 Variable Rate Demand Certificates of Participation	June 1996	Variable - Currently 3.38%	2026	Any Date	District-wide Net Income
General Obligation Refunding Bonds, Series 1998	June 1998	4.8%	2022	9/1/2008	ID 27 *Ad Valorem* Taxes

The District has also entered into a loan with the State Water Board. The loan matures in 2010 and bears interest at 3.5%.

Voters within Improvement District No. 27 of the District authorized $100 million general obligation bonds in 1989. The District issued $11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately $29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

The General Obligation Bonds are secured by ad valorem taxes levied in ID 27. These taxes are only available to pay the General Obligation Bonds and not for any other operational purpose. As such, the taxes and debt service on these bonds have been excluded from Rate Covenant. It is also not proposed that the District use any of its existing General Obligation Bond authority to fund the current 6 year CIP.

Conversion of the 1996 COPs to Fixed Rate

The District's Debt Policy outlines a formula for determining if it is in the District's best interest to issue certain debt at variable rates instead of fixed rates, by requiring that at the time of issuing any variable rate debt, there should be at least a 10% estimated reduction in annual debt costs by issuing variable rate debt when compared to a similar issuance of fixed rate debt.

Using this 10% factor at the time of issuance will allow the District to be relatively assured that its variable rate financing will be cost-effective over the term of the bonds.

Since the 1996 COPs already bear interest at a variable, periodic assessments should be made to determine if or when to convert the 1996 COPs to a fixed rate. Since the District has already reaped the benefits of extremely low interest rates over the last three years, it is not necessary to demonstrate the same level of savings (10%) for the remaining term of the financing. Instead, at this point, the District should focus on the risk of rates increasing in the future and should be able to demonstrate that the variable rate 1996 COPs are at least as cost-effective as a comparable fixed rate issue going forward.

The following chart compares the estimated debt service and additional costs associated with the 1996 COPs with a fixed rate issue based on today's rates. Variable rate bonds require some form of credit enhancement to be marketable. Credit enhancement is comprised of two components, credit support and liquidity. The cost of credit enhancement is paid annually. Other annual costs associated with variable rate issues include the fees of a remarketing agent as well as rating fees. All of these annual costs are added to the estimated principal and interest to determine the total annual debt service requirements. Pursuant to the Debt Policy, the interest rate used to calculate the debt service is the average interest rate for the last 10 years. However, since it is unlikely that this rate will be reached in the next three years, a lower rate was used initially increases progressively until the average rate is reached. The rates used are shown below:

Through 9/1/2007	3.50%
Next 12 months	3.60%
Thereafter	3.75%

The annual credit enhancement costs are assumed to be the same as the existing fee, .50% of the outstanding principal. The remarketing fees are based on .125% of the outstanding principal and the rating fees are estimated to be $3,000 annually. The analysis for the fixed rate bonds assumes that the District purchases bond insurance.

This analysis was last completed in June 2006 and showed that there were $220,000 cost savings to leaving the 1996 COPs in their variable rate mode. This represented about a 2% savings in overall costs by leaving the debt in a variable rate mode. Recently, however, short-term interest rates have continued to rise (affecting the variable rates), while long term fixed rates have held steady and in some cases, declined. Due to this anomaly in the yield curve, the chart on the following page demonstrates that a conversion of the 1996 COPs to fixed rate is much closer to a break even at this time continued monitoring of the economics of converting should occur regularly. Since short term variable rates plateau at today's level (3.4%) and letter of credit fees do not increase, the cost to the District would be $625,000 from conversion today.

Complete cashflow schedules relating to the conversion of the 1996 COPs can be found in Appendix B.

Year End	1996 COP Prin/Int	Annual Costs	1996 COP Total	Fixed Rate Refinancing	Difference
9/1/2008	850,000	87,925	937,925	1,005,000	(67,075)
9/1/2009	853,750	80,425	934,175	1,005,000	(70,825)
9/1/2010	838,750	77,925	916,675	1,005,000	(88,325)
9/1/2011	823,750	75,425	899,175	1,005,000	(105,825)
9/1/2012	908,750	72,925	981,675	1,005,000	(23,325)
9/1/2013	890,000	69,800	959,800	1,005,000	(45,200)
9/1/2014	871,250	66,675	937,925	1,005,000	(67,075)
9/1/2015	952,500	63,550	1,016,050	1,005,000	11,050
9/1/2016	930,000	59,800	989,800	1,005,000	(15,200)
9/1/2017	907,500	56,050	963,550	1,005,000	(41,450)
9/1/2018	985,000	52,300	1,037,300	1,005,000	32,300
9/1/2019	958,750	47,925	1,006,675	1,005,000	1,675
9/1/2020	932,500	43,550	976,050	1,005,000	(28,950)
9/1/2021	1,006,250	39,175	1,045,425	1,005,000	40,425
9/1/2022	976,250	34,175	1,010,425	1,005,000	5,425
9/1/2023	1,046,250	29,175	1,075,425	1,005,000	70,425
9/1/2024	1,012,500	23,550	1,036,050	1,005,000	31,050
9/1/2025	1,078,750	17,925	1,096,675	1,005,000	91,675
9/1/2026	1,141,250	4,800	1,146,050	1,005,000	141,050
	$ 17,963,750	$ 1,003,075	$ 18,966,825	$ 19,095,000	$ (128,175)

This chart demonstrates that a conversion of the 1996 COPs to fixed rate is very close to a break even at this time and a conversion to fixed rates should be monitored regularly. Complete cashflow schedules relating to the conversion of the 1996 COPs can be found in Appendix B.

Rate Covenant

Assuming that the 1996 COPs are converted to fixed rates as part of the 2007 COPs, the Rate Covenant applicable to the 2004 COPs must be complied with when issuing the 2007 Certificates of Participation and all future debt. The Rate Covenant requires Pledged Net Revenues (which includes the 1% Property Tax) be at least equal to 125% of Debt Service. The following definitions are also used in the Rate Covenant:

Net Revenues equal Gross Revenues less O&M Expenses

Gross Revenues are defined as:

(i) All water availability charges not exceeding $10 per acre per year

(ii) All income, rents, rates, fees, charges and other money derived by the District from the ownership or operation of the Water System, including, without limitation:

  (a) Income, rents, rates, fees, charges and other money derived from the sale, furnishing and supplying of water and other services, facilities and commodities sold, furnished or supplied through the facilities of the Water System, including connection fees;

  (b) The earnings on and income from investment of such income, rents, rates, fees, charges and other money; and

  (c) The proceeds derived by the District directly or indirectly from the sale, lease or disposition of a part of the Water System

Water System is defined as all properties and assets, real and personal, tangible and intangible, of the District now or hereafter existing, used or pertaining to the production, treatment, transmission, distribution and sale of water, including all additions, extensions, expansions, improvements and betterments thereto, and equipping thereof.

Debt Service payment for variable rate debt (if the 1996 COPs are not converted, or additional variable rate debt is issued in the future) are calculated using the 25 Year Revenue Bond Index as the interest rate to compute annual debt service. Currently the 25 Yr RBI Index is 4.55%.

The table on the following page demonstrates the calculation of Pledged Net Revenues and the compliance with the Rate Covenant for the 2007 COPS and the future financings in 2009 and 2011. First, an analysis of coverage solely from operations (which excludes non-operating income such as rental income) is provided to give the District a sense of the coverage from rates and charges. A further analysis is done combining the operating income with one-time pledged revenues such as capacity fees and annexation fees. This combined coverage ratio demonstrates the District's legal compliance with the Rate Covenant. However, the ability to demonstrate coverage from operations only will play a role in the rating process and is shown to highlight again how crucial it is for the District to continue to implement planned rate increases to provide the ability for future series of financing.

Calculation of Net Pledged Revenue and Rate Covenant Compliance

	2006	2007	2008	2009	2010	2011	2012
Pledged Operating Revenue							
Potable Sales - Existing Rates	$40,512,879	$42,161,400	$43,131,200	$44,597,700	$45,935,600	$47,194,300	$48,940,500
Recycled Sales - Existing Rates	3,242,731	3,776,000	3,970,100	4,147,600	4,272,000	4,429,100	4,666,800
	43,755,610	45,937,400	47,101,300	48,745,300	50,207,600	51,623,400	53,607,300
Potable Sales - Rate Increases	-	1,024,500	3,433,800	6,150,500	9,085,100	12,217,000	15,811,000
Recycled Sales - Rate Increases	-	85,600	309,300	564,600	837,200	1,138,300	1,498,500
Total Revenue from Sales	43,755,610	47,047,500	50,844,400	55,460,400	60,129,900	64,978,700	70,916,800
1% Property Taxes	1,420,049	2,802,700	2,852,700	2,902,700	2,952,700	3,002,700	3,052,700
Portion of Construction Revenue	1,089,700	799,800	803,800	811,800	819,900	828,100	836,400
Availability Fees	609,099	574,800	590,800	614,900	636,800	658,000	686,700
Portion of Capacity Fees (1)	1,222,200	1,000,200	1,005,200	1,015,300	1,025,500	1,035,800	1,046,200
Meter Fees	428,900	278,500	286,200	293,300	293,500	306,400	328,000
MWD/CWA Rebate (Recycled)	372,172	633,000	1,794,800	1,785,200	1,758,800	1,772,200	1,801,000
Investment Earnings	3,173,752	2,705,900	3,515,400	3,564,000	3,842,200	3,762,700	3,776,600
Total Operating Revenue and Taxes	**52,071,482**	**55,842,400**	**61,693,300**	**66,447,600**	**71,459,300**	**76,344,600**	**82,444,400**
Total Operational and Maintenance Costs	**(47,520,682)**	**(51,872,400)**	**(54,764,200)**	**(58,289,500)**	**(62,044,100)**	**(65,985,200)**	**(70,566,000)**
Net Operating Income	**4,550,800**	**3,970,000**	**6,929,100**	**8,158,100**	**9,415,200**	**10,359,400**	**11,878,400**
Maximum Annual Debt Service:							
1996 COP	1,112,000	1,112,000	1,112,000	1,112,000	1,112,000	1,112,000	1,112,000
2004 COP	944,000	944,000	944,000	944,000	944,000	944,000	944,000
2007 COP	-	925,000	2,625,000	2,625,000	2,625,000	2,625,000	2,625,000
2009 and 2011 COP	-	-	-	600,000	1,565,000	1,965,000	2,890,000
Total Debt Service	2,056,000	2,981,000	4,681,000	5,281,000	6,246,000	6,646,000	7,171,000
Coverage from Pledged Operating Income	**221%**	**133%**	**148%**	**154%**	**151%**	**156%**	**157%**
Net Revenues	4,550,800	3,970,000	6,929,100	8,158,100	9,415,200	10,359,400	11,878,400
Annexation Fees	1,262,146	1,216,900	1,305,900	1,416,500	1,530,400	1,650,400	1,795,300
Capacity Fees	6,983,579	6,330,800	7,168,000	10,976,700	9,669,500	9,838,200	19,037,800
Total Pledged Revenue	**$12,796,525**	**$11,517,700**	**$15,403,800**	**$20,551,300**	**$20,615,100**	**$21,848,000**	**$32,711,500**
Coverage from Total Pledged Revenue	**622%**	**386%**	**329%**	**389%**	**330%**	**329%**	**432%**

(1) A portion of Capacity Fees allocable to CIP Project Costs included in O&M.

CONCLUSION

Implementation of the financing recommended in this Update will allow the District to meet its current six-year strategy to complete needed infrastructure, to maintain appropriate reserves for future CIP, to meet emergencies and to provide predicable rate increases. If the District continues to implement the rate increases project in the Rate Model, it will position itself favorably for the issuance of the additional debt described herein that is anticipated in 2009 and 2011 in accordance with Rate Covenants and other requirement for issuance of such debt. The balancing debt financing, maintenance of reserves and meeting targeted debt coverage levels serves to keep the District on sound financial footing as it moves forward in its capital budgeting for future periods, while maintaining flexibility to the greatest extent possible with respect to its rates and charges and to meet any unforeseen challenge.

APPENDIX A
2007 CERTIFICATES OF PARTICIPATION

SOURCES AND USES OF FUNDS

Otay Water District
2007 Certificates of Participation

APPENDIX A

Sources:	
Bond Proceeds:	
Par Amount	42,000,000.00
Net Premium	384,409.95
	42,384,409.95

Uses:	
Delivery Date Expenses:	
Cost of Issuance	215,000.00
Underwriter's Discount	462,000.00
Bond Insurance	194,000.00
Reserve Fund Surety Bond	64,000.00
	935,000.00
Other Uses of Funds:	
Water CIP	41,449,409.95
	42,384,409.95

Note: AAA Rates as of December 8, 2006 Plus 10 BP

BOND PRICING

Otay Water District
2007 Certificates of Participation

APPENDIX A

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Call Date	Call Price	Premium (-Discount)
Serial Bonds:								
	09/01/2008	1,390,000	4.100%	3.520%	100.840			11,676.00
	09/01/2009	1,445,000	4.100%	3.550%	101.304			18,842.80
	09/01/2010	1,505,000	4.100%	3.570%	101.729			26,021.45
	09/01/2011	1,570,000	4.100%	3.600%	102.060			32,342.00
	09/01/2012	1,635,000	4.100%	3.620%	102.374			38,814.90
	09/01/2013	1,700,000	4.100%	3.640%	102.641			44,897.00
	09/01/2014	1,770,000	4.100%	3.670%	102.797			49,506.90
	09/01/2015	1,840,000	4.100%	3.700%	102.894			53,249.60
	09/01/2016	1,915,000	4.100%	3.750%	102.775			53,141.25
	09/01/2017	1,995,000	4.100%	3.830%	102.316			46,204.20
	09/01/2018	2,075,000	4.100%	3.950%	101.375			28,531.25
	09/01/2019	2,165,000	4.100%	4.080%	100.194			4,200.10
	09/01/2020	2,250,000	4.100%	4.200%	98.977			-23,017.50
	09/01/2021	2,345,000	4.250%	4.250%	100.000			
	09/01/2022	2,445,000	4.300%	4.300%	100.000			
	09/01/2023	2,550,000	4.550%	4.550%	100.000			
	09/01/2024	2,665,000	4.550%	4.550%	100.000			
	09/01/2025	2,785,000	4.550%	4.550%	100.000			
	09/01/2026	2,910,000	4.550%	4.550%	100.000			
	09/01/2027	3,045,000	4.550%	4.550%	100.000			
		42,000,000						384,409.95
Term Bond:								
	09/01/2036		4.600%	4.550%	100.314 C	09/01/2014	100.000	
		42,000,000						384,409.95

BOND PRICING

Otay Water District
2007 Certificates of Participation

APPENDIX A

Dated Date	03/01/2007	
Delivery Date	03/01/2007	
First Coupon	09/01/2007	
Par Amount	42,000,000.00	
Premium	384,409.95	
Production	42,384,409.95	100.915262%
Underwriter's Discount	-462,000.00	-1.100000%
Purchase Price	41,922,409.95	99.815262%
Accrued Interest		
Net Proceeds	41,922,409.95	

Note: AAA Rates as of December 8, 2006 Plus 10 BP

BOND SUMMARY STATISTICS

Otay Water District
2007 Certificates of Participation

APPENDIX A

Dated Date	03/01/2007
Delivery Date	03/01/2007
Last Maturity	09/01/2027
Arbitrage Yield	4.283228%
True Interest Cost (TIC)	4.353198%
Net Interest Cost (NIC)	4.364434%
All-In TIC	4.478276%
Average Coupon	4.349477%
Average Life (years)	12.351
Duration of Issue (years)	9.293
Par Amount	42,000,000.00
Bond Proceeds	42,384,409.95
Total Interest	22,562,040.00
Net Interest	22,639,630.05
Total Debt Service	64,562,040.00
Maximum Annual Debt Service	3,185,895.00
Average Annual Debt Service	3,149,367.80
Underwriter's Fees (per $1000)	
Average Takedown	
Other Fee	11.000000
Total Underwriter's Discount	11.000000
Bid Price	99.815262

Bond Component	Par Value	Price	Average Coupon	Average Life
Serial Bonds	42,000,000.00	100.915	4.349%	12.351
	42,000,000.00			12.351

	TIC	All-In TIC	Arbitrage Yield
Par Value	42,000,000.00	42,000,000.00	42,000,000.00
+ Accrued Interest			
+ Premium (Discount)	384,409.95	384,409.95	384,409.95
- Underwriter's Discount	-462,000.00	-462,000.00	
- Cost of Issuance Expense		-215,000.00	
- Other Amounts		-258,000.00	-194,000.00
Target Value	41,922,409.95	41,449,409.95	42,190,409.95
Target Date	03/01/2007	03/01/2007	03/01/2007
Yield	4.353198%	4.478276%	4.283228%

Note: AAA Rates as of December 8, 2006 Plus 10 BP

BOND DEBT SERVICE

Otay Water District
2007 Certificates of Participation

APPENDIX A

Period Ending	Principal	Coupon	Interest	Debt Service
09/01/2007			896,602.50	896,602.50
09/01/2008	1,390,000	4.100%	1,793,205.00	3,183,205.00
09/01/2009	1,445,000	4.100%	1,736,215.00	3,181,215.00
09/01/2010	1,505,000	4.100%	1,676,970.00	3,181,970.00
09/01/2011	1,570,000	4.100%	1,615,265.00	3,185,265.00
09/01/2012	1,635,000	4.100%	1,550,895.00	3,185,895.00
09/01/2013	1,700,000	4.100%	1,483,860.00	3,183,860.00
09/01/2014	1,770,000	4.100%	1,414,160.00	3,184,160.00
09/01/2015	1,840,000	4.100%	1,341,590.00	3,181,590.00
09/01/2016	1,915,000	4.100%	1,266,150.00	3,181,150.00
09/01/2017	1,995,000	4.100%	1,187,635.00	3,182,635.00
09/01/2018	2,075,000	4.100%	1,105,840.00	3,180,840.00
09/01/2019	2,165,000	4.100%	1,020,765.00	3,185,765.00
09/01/2020	2,250,000	4.100%	932,000.00	3,182,000.00
09/01/2021	2,345,000	4.250%	839,750.00	3,184,750.00
09/01/2022	2,445,000	4.300%	740,087.50	3,185,087.50
09/01/2023	2,550,000	4.550%	634,952.50	3,184,952.50
09/01/2024	2,665,000	4.550%	518,927.50	3,183,927.50
09/01/2025	2,785,000	4.550%	397,670.00	3,182,670.00
09/01/2026	2,910,000	4.550%	270,952.50	3,180,952.50
09/01/2027	3,045,000	4.550%	138,547.50	3,183,547.50
	42,000,000		22,562,040.00	64,562,040.00

Note: AAA Rates as of December 8, 2006 Plus 10 BP

APPENDIX B
1996 VARIABLE RATE DEMAND
CERTIFICATES OF PARTICIPATION

DETAILED BOND DEBT SERVICE

Otay Water District
1996 Certificates of Participation

APPENDIX B
Left in Variable Rate Mode
Based on Estimated Future Variable Rates

Term Bond

Period Ending	Principal	Interest	Debt Service
09/01/2008	400,000	450,000	850,000
09/01/2009	400,000	453,750	853,750
09/01/2010	400,000	438,750	838,750
09/01/2011	400,000	423,750	823,750
09/01/2012	500,000	408,750	908,750
09/01/2013	500,000	390,000	890,000
09/01/2014	500,000	371,250	871,250
09/01/2015	600,000	352,500	952,500
09/01/2016	600,000	330,000	930,000
09/01/2017	600,000	307,500	907,500
09/01/2018	700,000	285,000	985,000
09/01/2019	700,000	258,750	958,750
09/01/2020	700,000	232,500	932,500
09/01/2021	800,000	206,250	1,006,250
09/01/2022	800,000	176,250	976,250
09/01/2023	900,000	146,250	1,046,250
09/01/2024	900,000	112,500	1,012,500
09/01/2025	1,000,000	78,750	1,078,750
09/01/2026	1,100,000	41,250	1,141,250
	12,500,000	5,463,750	17,963,750

Bond Variable Rate Table

Begin Date	End Date	Interest Rate
09/01/2006	09/01/2007	3.500%
09/01/2007	09/01/2008	3.600%
09/01/2008	09/01/2009	3.750%
09/01/2009	09/01/2026	3.750%

NET DEBT SERVICE

Otay Water District
1996 Certificates of Participation

APPENDIX B
Left in Variable Rate Mode
Based on Estimated Future Variable Rates

Period Ending	Total Debt Service	Letter of Credit Fees	Remarketing Fees	Rating Fees	Draw Fees	Net Debt Service
09/01/2008	850,000	62,500	15,625	6,000	3,600	937,725
09/01/2009	853,750	60,500	15,125	3,000	1,800	934,175
09/01/2010	838,750	58,500	14,625	3,000	1,800	916,675
09/01/2011	823,750	56,500	14,125	3,000	1,800	899,175
09/01/2012	908,750	54,500	13,625	3,000	1,800	981,675
09/01/2013	890,000	52,000	13,000	3,000	1,800	959,800
09/01/2014	871,250	49,500	12,375	3,000	1,800	937,925
09/01/2015	952,500	47,000	11,750	3,000	1,800	1,016,050
09/01/2016	930,000	44,000	11,000	3,000	1,800	989,800
09/01/2017	907,500	41,000	10,250	3,000	1,800	963,550
09/01/2018	985,000	38,000	9,500	3,000	1,800	1,037,300
09/01/2019	958,750	34,500	8,625	3,000	1,800	1,006,675
09/01/2020	932,500	31,000	7,750	3,000	1,800	976,050
09/01/2021	1,006,250	27,500	6,875	3,000	1,800	1,045,425
09/01/2022	976,250	23,500	5,875	3,000	1,800	1,010,425
09/01/2023	1,046,250	19,500	4,875	3,000	1,800	1,075,425
09/01/2024	1,012,500	15,000	3,750	3,000	1,800	1,036,050
09/01/2025	1,078,750	10,500	2,625	3,000	1,800	1,096,675
09/01/2026	1,141,250			3,000	1,800	1,146,050
	17,963,750	725,500	181,375	60,000	36,000	18,966,625

SOURCES AND USES OF FUNDS

Otay Water District
Certificates of Participation - Convert 1996 COPS

APPENDIX B
Variable Rate Conversion to Fixed Rate on Sept 1, 2007

Sources:	
Bond Proceeds:	
Par Amount	12,820,000.00
Net Premium	116,413.45
	12,936,413.45

Uses:	
Delivery Date Expenses:	
Cost of Issuance	215,000.00
Underwriter's Discount	141,020.00
Bond Insurance	57,000.00
Reserve Fund Surety Bond	20,000.00
	433,020.00
Other Uses of Funds:	
Repay 1996 COPs on 9/1/07	12,500,000.00
Rounding	3,393.45
	12,503,393.45
	12,936,413.45

Note: AAA Rates as of December 8, 2006 Plus 10 BP

BOND DEBT SERVICE

Otay Water District
Certificates of Participation - Convert 1996 COPS

APPENDIX B
Variable Rate Conversion to Fixed Rate on Sept 1, 2007

Period Ending	Principal	Coupon	Interest	Debt Service
09/01/2008	460,000	4.100%	544,540.00	1,004,540.00
09/01/2009	475,000	4.100%	525,680.00	1,000,680.00
09/01/2010	495,000	4.100%	506,205.00	1,001,205.00
09/01/2011	515,000	4.100%	485,910.00	1,000,910.00
09/01/2012	540,000	4.100%	464,795.00	1,004,795.00
09/01/2013	560,000	4.100%	442,655.00	1,002,655.00
09/01/2014	585,000	4.100%	419,695.00	1,004,695.00
09/01/2015	605,000	4.100%	395,710.00	1,000,710.00
09/01/2016	630,000	4.100%	370,905.00	1,000,905.00
09/01/2017	655,000	4.100%	345,075.00	1,000,075.00
09/01/2018	685,000	4.100%	318,220.00	1,003,220.00
09/01/2019	710,000	4.100%	290,135.00	1,000,135.00
09/01/2020	740,000	4.100%	261,025.00	1,001,025.00
09/01/2021	770,000	4.250%	230,685.00	1,000,685.00
09/01/2022	805,000	4.300%	197,960.00	1,002,960.00
09/01/2023	840,000	4.550%	163,345.00	1,003,345.00
09/01/2024	875,000	4.550%	125,125.00	1,000,125.00
09/01/2025	915,000	4.550%	85,312.50	1,000,312.50
09/01/2026	960,000	4.550%	43,680.00	1,003,680.00
	12,820,000		6,216,657.50	19,036,657.50

Note: AAA Rates as of December 8, 2006 Plus 10 BP

BOND PRICING

Otay Water District
Certificates of Participation - Convert 1996 COPS

APPENDIX B
Variable Rate Conversion to Fixed Rate on Sept 1, 2007

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Premium (-Discount)
Serial Bonds:						
	09/01/2008	460,000	4.100%	3.520%	100.565	2,599.00
	09/01/2009	475,000	4.100%	3.550%	101.052	4,997.00
	09/01/2010	495,000	4.100%	3.570%	101.495	7,400.25
	09/01/2011	515,000	4.100%	3.600%	101.847	9,512.05
	09/01/2012	540,000	4.100%	3.620%	102.177	11,755.80
	09/01/2013	560,000	4.100%	3.640%	102.459	13,770.40
	09/01/2014	585,000	4.100%	3.670%	102.633	15,403.05
	09/01/2015	605,000	4.100%	3.700%	102.748	16,625.40
	09/01/2016	630,000	4.100%	3.750%	102.652	16,707.60
	09/01/2017	655,000	4.100%	3.830%	102.225	14,573.75
	09/01/2018	685,000	4.100%	3.950%	101.327	9,089.95
	09/01/2019	710,000	4.100%	4.080%	100.188	1,334.80
	09/01/2020	740,000	4.100%	4.200%	99.006	-7,355.60
	09/01/2021	770,000	4.250%	4.250%	100.000	
	09/01/2022	805,000	4.300%	4.300%	100.000	
	09/01/2023	840,000	4.550%	4.550%	100.000	
	09/01/2024	875,000	4.550%	4.550%	100.000	
	09/01/2025	915,000	4.550%	4.550%	100.000	
	09/01/2026	960,000	4.550%	4.550%	100.000	
		12,820,000				116,413.45

Dated Date	09/01/2007	
Delivery Date	09/01/2007	
First Coupon	09/01/2008	
Par Amount	12,820,000.00	
Premium	116,413.45	
Production	12,936,413.45	100.908061%
Underwriter's Discount	-141,020.00	-1.100000%
Purchase Price	12,795,393.45	99.808061%
Accrued Interest		
Net Proceeds	12,795,393.45	

Note: AAA Rates as of December 8, 2006 Plus 10 BP

ATTACHMENT C

OTAY WATER DISTRICT

FINANCING PLAN UPDATE

2007 Certificates of Participation

December 2006

Financing Plan Update

- **Update of 2004 Financing Plan**
- **Purpose is to Demonstrate Capacity to Fund the Next 6 Year CIP Budget**
  - Demonstrate Adequate Coverage Ratio from Operations and Capacity Fees
  - Maintain Targeted Reserve Levels
  - Provide Sound Financial Foundation for Future CIP

Financing Plan Update

- **First Financing Plan Completed in 2004**
  - Recommended Implementation of a Series of Rate Increases in Anticipation of Future Financing of a Portion of the CIP
  - Anticipated $27.5 Million COPs to be Issued in 2007
  - Based on Rate Model Developed in 2003

Current CIP Requirement

- Current CIP Underway are Large-Scale, Regional Projects
- Construction on Budget or Ahead of Schedule
- Creates Additional Short-Term Cashflow Demands
  - Result is to Increase Recommended Amount of Financing in 2007 to $42 Million

Future Requirements

Future Financing in 2009 ($20 Million) and 2011 ($12 Million) will Result in Approximately 34% of 2007-2012 CIP Budget Funded with Debt Financing

Maintenance of Reserves

- Maintaining Reserves at Policy Target is an Important Component of District Long-Term Financial Strength
- Recommend Increasing the 2007 Financing from Earlier Estimates Rather Than Draw Upon Reserves

Maintenance of Reserves

- Softens Impact on Near-Term Rates
  - Increase Rates Slowly over Time, Rather than Try to Replenish Reserves during the 6 Year CIP Budget Period
  - More Flexibility if Future Rate Setting
  - Provides Cushion for Rate Increases for Unforeseen Expenditures if Needed

Rate Covenants

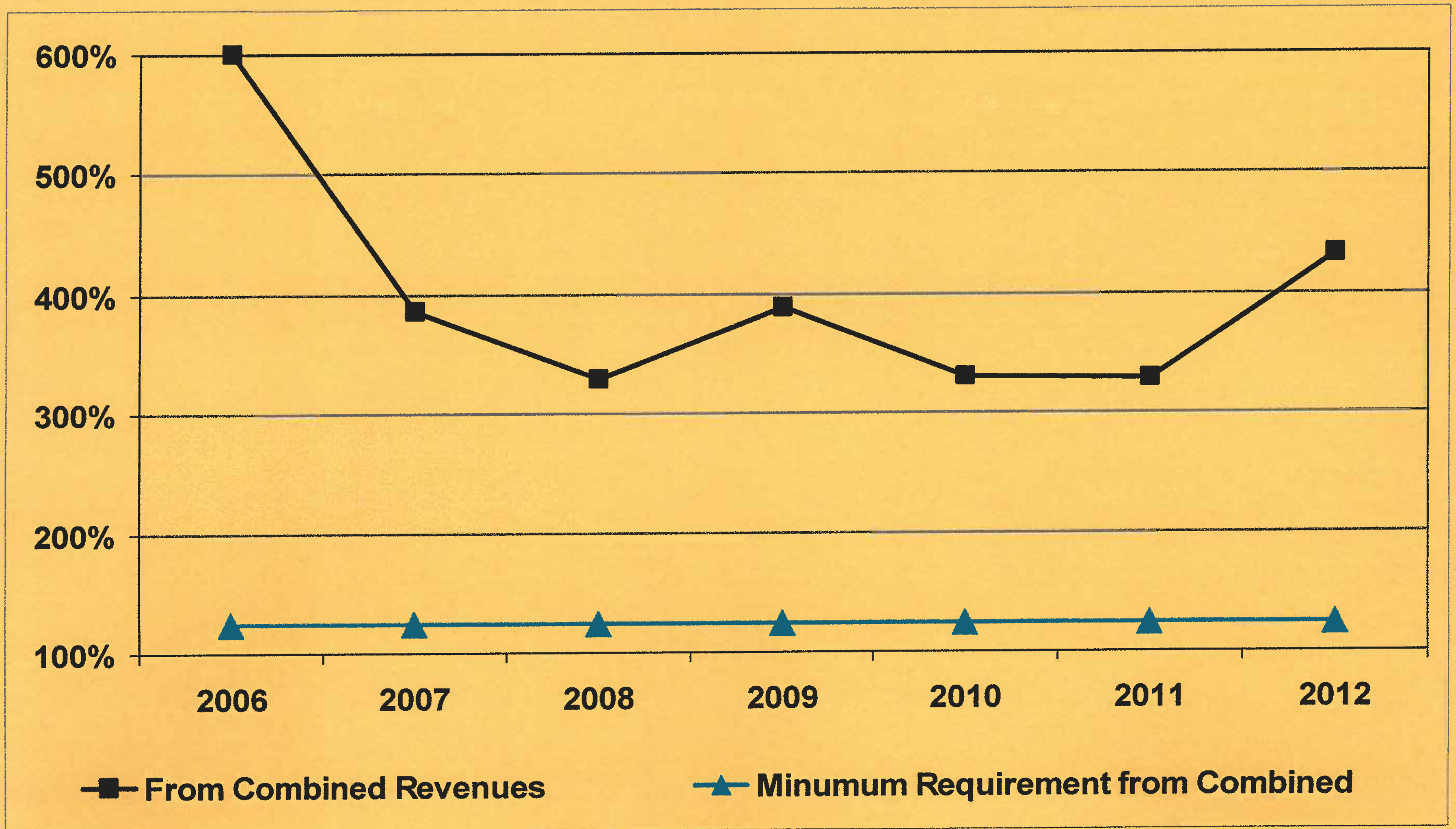
- Credit Strength Also Based on Ability of the District to Implement Rates to Maintain Adequate Ratio of Revenues to Debt Service
  - Rates Should Produce a Minimum Ratio of Operating Net Revenues to Debt Service should be 100%
  - Rates and Capacity Fees Should Produce a Minimum Ratio of 120%
  - Higher Coverage (125%) Needs to Be Demonstrated to Issue Additional Debt

Anticipated Rate Increases

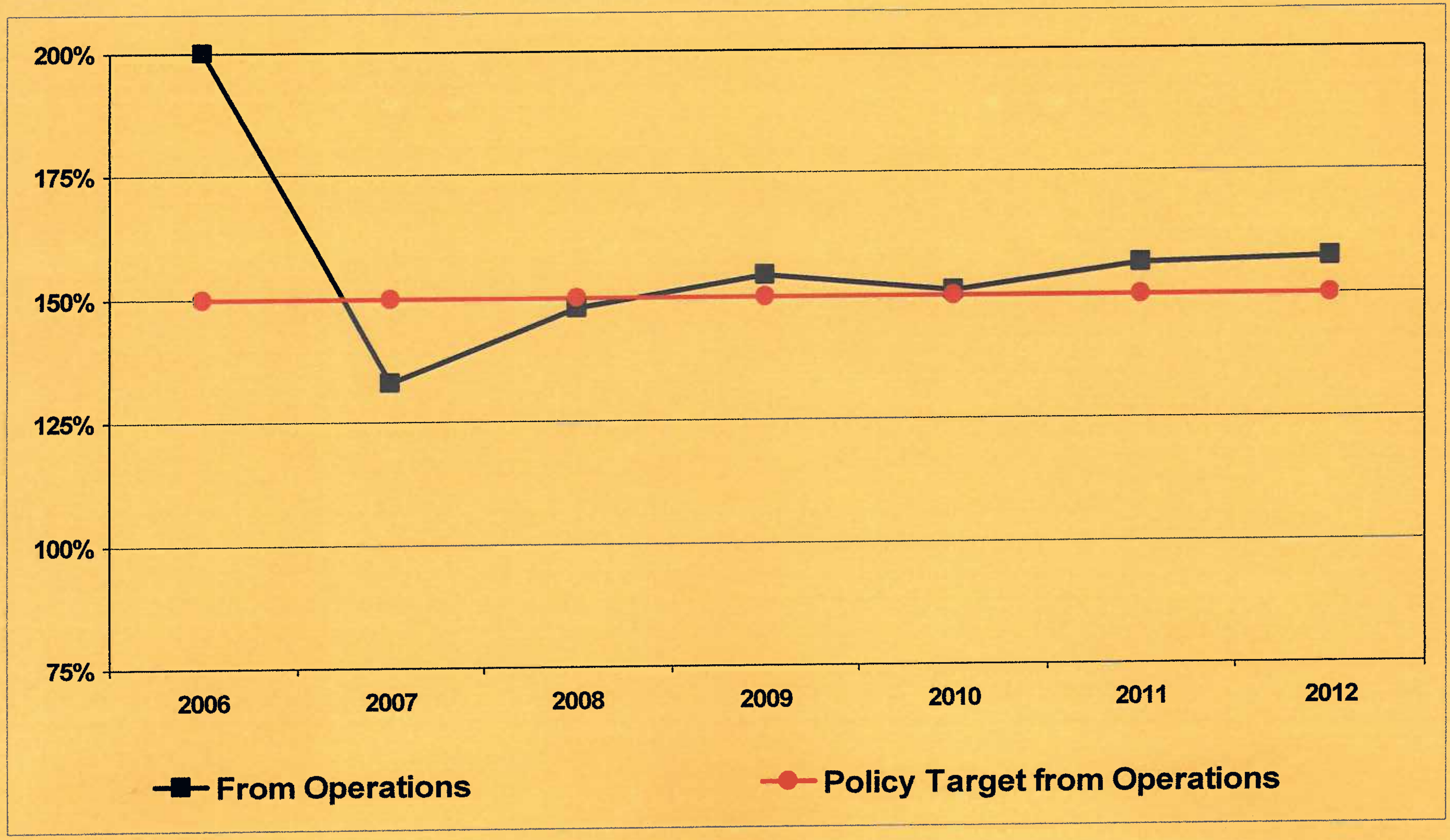
- Rate Model Estimates Future Increases Based on Analysis of Operations, Reserves, Rate Covenants and CIP

2007	5.4%	2010	5.1%
2008	5.4%	2011	5.1%
2009	5.4%	2012	5.1%

Anticipated Coverage Ratios



Anticipated Coverage Ratios



Recommendation

- 2007 Financing in the Amount of $42 Million
  - 30 Year Maturity To Provide More Flexibility For Rate Setting
- Continued Implementation of Rate Increases Projected in Rate Model
- Maintenance of Targeted Reserve Levels

AGENDA ITEM 5

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	January 3, 2007
SUBMITTED BY:		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:	Approve the Implementation of the Rate Increase as Proposed by the FY 2006-2007 Operating and Capital Budget		

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve the implementation of the rate increase as proposed by the FY 2006-2007 Operating and Capital Budget.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To present for the Board's consideration the implementation of the rate increase as proposed by the FY 2006-2007 Operating and Capital Budget.

ANALYSIS:

Approval of the rate changes will increase potable and reclaimed water rates by 5.4%. Staff is recommending a combination of fixed and variable rate changes to accomplish this overall 5.4% rate increase.

The changes would include an increase in the variable water rate to all classes of potable customers of approximately 2.9%. Staff is also recommending an increase in the variable water rate to all classes of recycled customer's of 4.85%. The system fees have not been increased since 1993. This fixed fee component of the District's revenues is important to maintain revenue stability. The system fee for both potable and recycled customers is recommended to increase by 10% from \$10.25 to \$11.30 for a single-family residence.

Finally, the District also has a fixed fee to potable customers that cover the County Water Authority (CWA) and Metropolitan

Water District (MWD) Fixed Charges. CWA and MWD have increased these charges by $715,000. The individual increases are identified below:

Customer Service Charge	$101,400
Emergency Storage Charge	$272,100
Infrastructure Access Charge	$231,200
Capacity Reservation Charge	$12,500
Readiness-to-Serve Charge	$97,800

This change in costs is passed-through directly to the potable customers via a fixed fee called CWA and MWD Fixed Charges. The fee change needed to cover this increase is 24%, from $2.85 to $3.55 for a single-family residence.

The Board's approval will also implement a 5.8% increase for sewer which includes cost and rate increases from Metro and Spring Valley sewer, new regulations, and operating cost increases.

Staff has prepared a Water/Sewer Rate Fact Sheet (Attachment C). This fact sheet has been prepared to provide a summary of pertinent information that can be shared with customers and other interested parties.

This action item is scheduled following the Prop. 218 public hearing which is set to receive protests from the public regarding the rate changes. Notices of the hearing were sent at least 45 days prior to the hearing and were sent to all customers and property owners affected by the rate changes. With the completion of the hearing the Board will be able to consider all customer input and move forward as they deem appropriate.

FISCAL IMPACT:

The rate changes will support the District's operations, strategic plan initiates, and the District's capital improvement plan. With these changes, the District will be able to maintain reserve level targets and retain its financial strength.

STRATEGIC GOAL:

Through well-established financial policies and wise management of funds, the District will continue to guarantee fiscal responsibility to its ratepayers and community at large.

LEGAL IMPACT:

None.

General Manager

Attachments:

A) Committee Action Form
B) Public Hearing Notice Re: Proposed Rate Increases
C) Water/Sewer Rate Increase Fact Sheet
D) Customer Letters

ATTACHMENT A

SUBJECT/PROJECT:	Approve the Implementation of the Rate Increase as Proposed by the FY 2006-2007 Operating and Capital Budget

COMMITTEE ACTION:

The Finance and Administration Committee recommends that the Board approve the implementation of the rate increase as proposed by the FY 2006-2007 Operating and Capital Budget.

NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

ATTACHMENT B

Please be advised there will be a Public Hearing regarding proposed water and sewer rates:

Wednesday, January 3, 2007
3:30 p.m. in the Board Meeting Room
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Purpose and Summary of Rates: The purpose of the new rate structure is to make it possible for the Otay Water District to maintain the level of service to its customers and a balanced budget. The new rates were determined after performing a detailed six-year analysis of all costs and revenues. This analysis shows a significant portion of the required rate increases are directly related to higher costs for energy and water supply. The proposed rate increases are set forth in the enclosed tables.

Pursuant to currently applicable law, owners of record may respond to proposed rate increases. If you desire to object to the proposed rate increases, you may file a written protest with the Secretary of the Otay Water District at or prior to the time and date set for the public hearing. Under applicable law, protests must be received in writing prior to the close of the public hearing to be considered. A valid protest must contain a description of the real property sufficient to identify the parcel you own within the boundaries of the District (address and or assessor parcel number), the owner(s) name(s), and signature of the owner(s). If the current owner is not shown on the last equalized assessment roll of the County of San Diego, written evidence must be submitted that the person signing the protest is the owner(s). Protests can be mailed or physically delivered to: **Board Secretary, Otay Water District, at the address above.** DO NOT SEND PROTESTS VIA EMAIL.

If a majority of the affected property owners file written protests, the proposed water or sewer rate charges will not be implemented. If you have questions regarding this notice, please visit our Web site at www.otaywater.gov or speak with a Customer Representative at (619) 670-2227 between 8:00 a.m. and 5:00 p.m. Monday through Friday.

Este informe contiene información muy importante sobre su tarifa de agua. Por favor llame servicio al cliente (619-670-2227) se tiene preguntas.

OTAY WATER DISTRICT — ESTABLISHED 1956

Monthly Charges

Customer Class: Domestic Service

Meter Size	System Charge (Through 12-31-06)	System Charge (Proposed 1-1-07)	MWD & CWA Fixed Charge (Through 12-31-06)	MWD & CWA Fixed Charge (Proposed 1-1-07)
3/4"	10.25	11.30	2.85	3.55
1"	16.50	18.15	4.55	5.65
1-1/2"	32.50	35.75	8.55	10.65
2"	54.20	58.60	14.80	18.45

Customer Classes: Multi Residential, Business, Combined Domestic/Agriculture, Publicly-owned, Commercial Agricultural, Non Agricultural Irrigation, Reclaimed, Irrigation using Non-potable and Reclaimed

Meter Size	System Charge (Through 12-31-06)	System Charge (Proposed 1-1-07)	MWD & CWA Fixed Charge* (Through 12-31-06)	MWD & CWA Fixed Charge* (Proposed 1-1-07)
3/4"	20.00	22.00	2.85	3.55
1"	30.80	33.90	4.55	5.65
1-1/2"	43.30	47.65	8.55	10.65
2"	54.20	59.60	14.80	18.45
3"	87.20	95.90	27.35	34.05
4"	99.80	109.80	46.75	58.20
6"	199.50	219.45	85.50	106.45
10"	380.80	418.90	222.30	276.75

* Not charged to Non Agricultural Irrigation and Reclaimed

Fire Service System Charges - From $21.20 to $23.30

Customer Class: Multi Residential Multiple Unit Charge per meter from $3.21 to $3.53

Customers paying two times the water rate (Tank Trucks, Temporary Construction Meters and service outside the Otay Water District or an Improvement District) are impacted by the changes in their base rates.

Sewer Charge per ASU - From $30.90 to $32.70

ASU - Assigned Service Unit

Water Unit Charges

Improvement District Additional Water Charges

Service Area	Rate per H.C.F. (Through 12-31-06)	Rate per H.C.F. (Proposed 1-1-07)
ID 3	0.14	0.15
ID 10	0.22	0.23

Customer Class: Domestic Service

Number of H.C.F Furnished	Rate per H.C.F. (Through 12-31-06)	Rate per H.C.F. (Proposed 1-1-07)
*1-5	1.05	1.08
6-10	1.73	1.78
11-35	1.88	1.94
Over 36	2.75	2.83

* Applies if 10 units or less used

Customer Class: Multi Residential and Residential Attached

Number of H.C.F Furnished	Rate per H.C.F. (Through 12-31-06)	Rate per H.C.F. (Proposed 1-1-07)
0-4	1.73	1.78
Over 4-15	1.88	1.94
Over 15	2.75	2.83

Customer Classes: Business, Combined Domestic/Agriculture, Publicly Owned, Commercial, Agricultural, Non Agricultural Irrigation, Special Agreement

Rate per H.C.F. (Through 12-31-06)	Rate per H.C.F. (Proposed 1-1-07)
1.85	1.91

Customer Class: Reclaimed, Irrigation using Non potable and Reclaimed

Rate per H.C.F. (Through 12-31-06)	Rate per H.C.F. (Proposed 1-1-07)
1.57	1.65

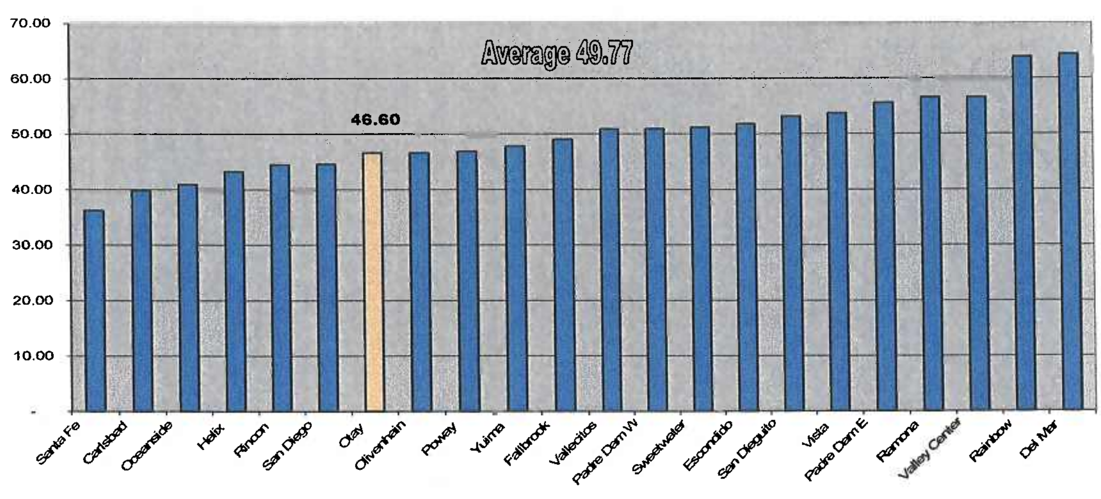
ATTACHMENT C

Water/Sewer Rate Increase Fact Sheet

- The Otay Water District will be holding a public hearing on January 3, 2007, to consider a 5.4% rate increase that, if approved, would take effect in January 2007.
- If approved, the average customer would see their rates increase by $2.50 per month.
- The increase is mostly a pass-through to our water wholesalers, the San Diego County Water Authority (CWA) and the Metropolitan Water District of Southern California (MWD).
- CWA and MWD will use the funds to pay for higher system costs such as higher energy and water costs, but also to fund system wide facility upgrades such as the Emergency Water Storage Program to improve long-term reliability programs including developing desalination and recycled water projects.
- Approximately 54% of the proposed increase is passed-through to our water wholesalers, the CWA and the MWD.

- The remaining 46% percent (or $1.15) is to cover increased district costs for programs and services such as:
    - To meet new regulatory standards (Health Department's requirements for Air Vac relocations, reservoir covers, and the EPA's new valve exercising program).
    - Higher energy costs to operate district facilities, pump stations, and fleet vehicles.
    - Higher costs for supplies such as pipe, concrete, asphalt, and steel.
    - Programs to reduce future operating expenditures (Automated Meter Reading).
    - Fully funding ongoing maintenance.
- Despite the increase, the Otay Water District's rates are the seventh lowest in San Diego County (based on an average water use of 15 units per month).

Water Rate Comparison (Projected)
15 Units



- The modest rate increase would also be a part of our long-term rate model that helps the district maintain a balanced budget, meet reserve target levels, ensure financial stability, meet the debt coverage ratio targets, while funding district operations to meet strategic plan objectives.

- If approved, sewer customers would also see an increase of 5.8% or $1.80 per month.
- The increase is primarily a pass-through to cover higher costs from the Metropolitan Wastewater Joint Powers Authority (82%) and the Spring Valley Sanitation District (6%).
- The remaining 12% percent or .22 cents is to cover increased district costs for energy, materials, maintenance, as well as labor costs.

THIS IS REPRESENTATIVE OF THE LETTERS
FORWARDED TO CONSTITUENTS WHO
WROTE TO THE DISTRICT
OPPOSING THE RATE INCREASE

<Date>

Customer Name
Address
City, State Zip Code

Dear <Title Mr./Ms.> <Last Name>:

This is to confirm receipt of your letter of opposition with regard to the District's proposed water rate increase. We appreciate your taking a moment to share with us your thoughts. Your comments will be included as part of the hearing record.

Again, thank you for your letter as your comments are valuable to the District.

Sincerely,

Susan Cruz,
Board Secretary

December 11-2006

Otay Water Distrit

To whom it my concern.

To respond at letter for the increase water fees. I have read the proposal for the year 2007 and I NOT AGREE WITH THIS PROPOSAL .This purpose is wrong because all of us live in tight budgets and we can't afford it.

I live in 1721 melrose ave #16 Chula Vista Ca. 91911
Account no. 208-7015-66
Meter nno. 481255

Thanks for take care of my opinion.

Ramon Dela Tova
1721 melrose ave #16
Chula vista ca. 91911
619 5851378

December 12, 2006

Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

To Whom It May Concern:

I think we pay more than enough for the water at the current rates. Please do not raise the price of the water. Perhaps you should hire an efficacy expert to help you find better ways of running the business.

Sincerely,

Kay Cole

Kay Cole
1362 Darby Street
Spring Valley, CA 91977

December 4, 2006
5

Dear Board Secretary, Otay Water District:

We protest the increase in sewer charges (from $30.90 to $32.70 a month) as proposed by the Otay Water District. It was only a year ago that the sewer rate went up $4.00 a month. You need to cut back on expenses, especially your pension plan.
We do not receive water from the Otay Water District.

Sincerely,

Brenda Post
Gregory Post

owners of parcel # 502-193-07-00
11174 Explorer Road
La Mesa, CA 91941

5 November 15, 2006
2560 Brust Ct.
El Cajon, Ca.
92019

Dear Sirs;

Yes, I would like to protest new water and sewer rates because we pay too much for our water already! These are big properties here, but we in this family are very careful with water use. The parcel number is number 8 if I am reading the plans correctly, but I do believe that it could be part of parcel 7. My husband, Arthur E. Clarke, passed away in 2005 and these kinds of things are a little beyond me!

Sincerely,

(Mrs.) Eula Clarke

I protest the proposed increase in water and sewer rate charges.

Fred L. Province

Fred L. Province
1647 Enfield St.
Spring Valley, CA 91977
Parcel # 577-511-14-00
11-10-06

3

~~EAST PALOMARES ST / C.V. CA (OLD CO~~

2

We are a retired couple on A limited income. We & our daughter takes baths every third day unless we do dirty sweaty work. We load all (DISHWASHER/WASHER) to MAX before operating. We don't have a pool & don't water the backyard. We water the front yard once a week. Yet, our water & sewer cost as much as our gas & electric (non-renewable energy) even though rain renews, snow renews, and sewer pipes are reusable. Why?

And you want to charge even more! We can't afford it up even more.

Sincerely,
Mr & Mrs [illegible]

"Therefore if anyone is in Christ, he is a new creation. The old has gone, the new has come."
2 Corinthians 5:17

1

October 30, 2006

Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Subject: Rate Increase

Dear Otay Water District Board Members,

While we are fully in support of the OWD being fiscally sound, we must object to the rate increase at this time. We may ultimately support it once we understand it and believe that certain deficiencies within the process are corrected. We have several significant concerns with the OWD notification letter which leads me to this position.

First and foremost, the letter notifying rate payers of the increase is not clear and does not seem to have the intent to truly inform the average rate payer. In essence, there is an abundance of information provided, but provides too much information for the average rate payer to understand and interpret as to how they will actually be affected. There is a very detailed breakdown of the different areas measured and the corresponding rate increases. However, it is not clear how much our monthly bill will increase. In most other instances we've seen of rate increase notifications by other utilities, there is a clear indication of the actual monthly increase or with a min/max range and an average increase.

A second concern is that only owners of record may respond. This seems quite unrealistic and unjust to the people really paying the bill. While many owners live in their properties, many also rent their property to tenants and either have the renter directly contract and pay for service themselves or the land owner may pay the bill and pass the costs on to the renter. In either case, the resident is the one who ultimately pays for the water. The persons eligible to comment should be the ratepayer of record. In the event that the rate payer is a land lord, notice should be sent to the land lord (at the address he/she receives the bill) and to the resident (at the address to which service is provided). The rate paying landlord's comment should be accepted, but the resident should also be allowed an advisory comment.

Finally, the notification letter does not allow e-mail correspondence on the rate increase to be accepted by the OWD. In this internet age, this is completely unreasonable. As a Planning Commissioner for Chula Vista, we regularly take e-mail comment on projects and it is included in the public record. Citizens are also invited and encouraged to electronically provide their thoughts and opinions to the Mayor, City Council and Staff. E-mail correspondence should be as readily accepted by the OWD as any hard copy e-mail sent through the postal service.

We sincerely hope that the OWD Board Members will seriously consider these points. We think the process for the proposed rate increase is archaic and does not take into account the realities of the world today with respect making the process well communicated and easy to understand, being rate-payer friendly, being just to those really paying the water bill, and in taking advantage of modern communication technology.

Sincerely,

Bryan and Denee' Felber
1455 Appalachian Place

Bryan Felber
1455 Appalachian Pl.
Chula Vista, CA 91915-1558

SAN DIEGO CA 921

OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BLVD
SPRING VALLEY, CA 91978

91978+2004

November 21, 2006

TO: BOARD SECRETARY, OTAY WATER DISTRICT
RE: PROPOSED WATER & SEWER RATE INCREASES
FROM: EDWARD & M. CRISTINA del TORO
1312 CORONADO AVENUE
SPRING VALLEY CA 91977
ASSESSOR PARCEL # 579 400 15 00

Please be advised that this is a written protest against the proposed rate increases that the Otay Water District would like to implement that would affect my residence. I consider myself and my household to be conservative water users. My water charge for usage is quite low compared to the water system fee that is charged every month by Otay. This month my water charge is $6.95 and the water system fee is $10.25.

You should reconsider just passing on those rate increases to residents who use excessive amounts of water in proportion to the number of people in their household and their personal needs, e.g. having a pool, sizeable acreage, etc. Conservative water users like myself should be rewarded and not charged the rate increases as an incentive for continuing to be frugal water users.

Thank you.

Sincerely,

Edward del Toro M. Cristina del Toro

Edward & M. Cristina del Toro

12-6-06

To The Secretary, Otay Water District

This is the Letter of Protest agains the Rate Increase that The Board secretary Otay Water District has Purpose.

My Name is Ernesto Gonzalez
510 Broadview st.
Spring Valley, CA. 91977
Parcel # 583 643 0500

Thank you

Ernesto Gonzalez

2

October 26, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978

Re: Proposed Water and Sewer Rate Increase

To Whom It May Concern:

I hereby officially lodge my objection regarding Otay Water District's proposed water and sewer rate increase.

Residence address: 1001 Calma Drive
Chula Vista, CA 91910

Parcel No. #640-162-39-00

Sincerely,

Patricia Pestka

Patricia Pestka
Owner

ACCT 200 1252-01 23 NOVEMBER 2006 2

Att. Board Secretary Otay Water District

I wish to protest any rate changes to both Water & sewer current rates as they are NOT needed at this time. I have been a user of Otay Water District for 38 years. you replaced the meters twice in the past (2) years. whats going on? We pay the highest water bills with the (G) Local Betterment $2.42 fees & San Diego CWA Infrastructure fees $2.85 & (C) Water System fees $0.25 in our county. My monthly water bill have increased from $30-$35 dollars a month to $60-$70 dollars a month, that 100% in the last 4-5 years - Enough is Enough. Maybe we should have a audit of why these rate increases are necessary at this time or, see if the Public Utility Commission can't put Otay Water District under their control. with the State of California Assembly & Senate's actions I will follow up on this issue

William B. Yancey Sr

305 Spruce St

Chula Vista CA 91911

cc file

CRU.

619-420-8253

2

Board Secretary,
Otay Water District

Tuesday, October 31, 2006

Re: Protest against proposed
water and/or sewer rate charges

Account **255-1467-14**

I desire to object to the proposed rate increases. Please file this as a written protest with the Secretary of the Otay Water District against the proposed water or sewer rate charges.

Below please find property address and my information.

Thank you

Jorge Cortez
1473 Old Janal Ranch Road,
Chula Vista, CA 91915

December 1, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley CA 91978

To Whom It May Concern:

This is a response to the announcement on the public hearing regarding the proposed water and sewer rates increase to be heard on January 3, 2007. We, Jeffrey C. Chua and Jennifer J. Chua, married joint owners of assessor parcel number 5944303400 also known as 548 Almonte Place Chula Vista CA 91910, hereby protest against said proposed water and sewer rates increase. The amount we are currently paying for our water supply and sewerage system is already a great burden on our finances and this proposal to increase the rates will not help us in any way. We hope you will be considerate regarding this matter.

Thank you.

Sincerely,

Jeffrey C. Chua

Jennifer J. Chua

|

Lisa Piancone
605 San Pablo Place
Chula Vista, CA 91914

November 1, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

RE: Protest of Proposed Increase of Water and Sewer Rates

Dear Board Secretary,

I wish to file a written protest that I, Lisa Piancone, owner of 605 San Pablo Place, Chula Vista, CA 91914, am protesting the proposed increase of water and sewer rates.

Thank you.

Sincerely,

Lisa Piancone
Owner
605 San Pablo Place
Chula Vista, CA 91914
Assessor Parcel Number 595-530-25-00

1

October 28, 2006

Dear Sir,
I object to the proposed water and sewer rate increase. My address is 2209 Rolling Ridge Road, Chula Vista, California 91914. My name is Jo Ann Greenhouse.

Sincerely,
Jo Ann Greenhouse
Jo Ann Greenhouse

November 6, 2006

OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BL
SPRING VALLEY, CALIFORNIA 91978

ATTN: Board Secretary

Dear Secretary of Water District,

I am the owner of 2149 Hamden Dr. in the city of Chula Vista. Every month that I look at my water bill, I am applauded at how high it is. I wanted to let the Board know that I pay more for sewer charges than I do for the actual cost of water. I am opposed to any type of proposed rate structure increase to the water or sewer.

Sincerely,

Michael Cohen

3

November 9, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd
Spring Valley, CA 91978

To whom it may Concern:
I am writing to protest the proposed rate increases. I am a senior citizen living on a meager fixed income and I cannot afford any more increases in my utilities. I do not see any better service coming my way and feel that the cost of doing business should be borne by the company selling the product. If my rates keep increasing, I shall not be able to afford to live here and I cannot afford to go anywhere else ether.

Sincerely,

Charlotte Marshall-Potts

Charlotte Marshall-Potts, consumer

CHARLOTTE POTTS
8338 STANSBURY ST
SPRING VALLEY,CA
91977

SAN DIEGO CA 921
10 NOV 2006 PM 8 T

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd
Spring Valley, CA 91978

91978+2096

Board Secretery
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

I formally protest to raising the water rates. I already pay almost $200.00/month.

Sincerley,

Edgardo Arroyo
2721 Magnolia Point Ct.
Chula Vista, CA 91914
Parcell # 595-740-44-00

4

December 4, 2006

Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

I am sending this letter so that it can be recorded that we:

OBJECT TO THE PROPOSED RATE INCREASES!

Our rates and cost have increased way to much over the past five years. If our systems need to be updated then this cost should be paid by permits for new construction! Between mello roos, taxes sur charges etc. we pay more than our share already!

We have an acre of property and if rates go up again we will have to stop watering this area. Is their any current provisions for credits or rate deductions for undeveloped land? If so pleas let us know.

Sincerely,
Vincent P Matyas
308 Crestview Drive
Bonita, ca 91902

Vincent P. Matyas

Nov. 27, 2006

4

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Dear Secretary:

We, the below owners of stated property, object to the proposed water & sewer rate increases.

Sincerely,
Thomas R. Carter / [signature]

Thomas and Wendy Carter
960 Camino Del Sol
Chula Vista, CA 91910

5

To whom it may concern,

This letter is to inform you that as a property owner in the Otay Water District I oppose the increase to our water and sewer rates.

Sincerely,
Brian J. Rogers
Brian J. Rogers
1706 Bridgehampton Pl.
El Cajon, CA 92019
(619) 444-5415

Brian J. Rogers
1706 Bridgehampton Pl.
El Cajon, CA 92019

SAN DIEGO CA 921
15 NOV 2006 PM 10 T

Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

91978+2036

11/14/06

Parcel # 519-250-12-00

To the Board Secretary of the Otay Water District:

I object to the proposed rate increases for water and sewer.

Larry W Brown

Larry W Brown

. Order No.
Escrow No.
Loan No.
RECORDING REQUESTED BY
WHEN RECORDED MAIL TO:

Larry Brown
13130 Rio Brava Court
Jamul, CA 91935

FP
2P
1C

Parcel # 519-250-12-00

DOC # 2006-0777004

NOV 01, 2006 9:46 AM

OFFICIAL RECORDS
SAN DIEGO COUNTY RECORDER'S OFFICE
GREGORY J. SMITH, COUNTY RECORDER
FEES: 14.00
OC: OC
PAGES: 2

DOCUMENTARY TRANSFER TAX $...0.00 spouse transfer ....

.....Computed on the consideration or value of property conveyed;

.....Computed on the consideration or value less liens or encumbrances remaining at time of sale; OR

.....Exempt from imposition of the Documentary Transfer Tax pursuant to Revenue and Taxation Code § 11927(a), on transferring community, quasi-community, or quasi-marital property assets between spouses, pursuant to a judgment, an order, or a written agreement between spouses in contemplation of any such judgment or order.

Sallie Kay Brown
Signature of declaring grantor or grantee

INTERSPOUSAL TRANSFER GRANT DEED

(Excluded from reappraisal under California Constitution Article 13A § 1 et seq.)

This is an Interspousal Transfer and not a change in ownership under § 63 of the Revenue and Taxation Code and Grantor(s) has(have) checked the applicable exclusion from reappraisal:

☐ A transfer to a trustee for the beneficial use of a spouse, or the surviving spouse of a deceased transferor, or by a trustee of such a trust to the spouse of the trustor;

☐ A transfer to a spouse or former spouse in connection with a property settlement agreement or decree of dissolution of a marriage or legal separation;

☐ A creation, transfer, or termination, solely between spouses, of any co-owner's interest;

☐ The distribution of a legal entity's property to a spouse or former spouse in exchange for the interest of such spouse in the legal entity in connection with a property settlement agreement or a decree of dissolution of a marriage or legal separation;

☐ Other:

☑ **Check when creating separate property interest in grantee spouse: It is the express intent of the grantor, being the spouse of the grantee, to convey all right, title and interest of the grantor, community or otherwise, in and to the herein described property to the grantee as his/her sole and separate property.**

FOR A VALUABLE CONSIDERATION, receipt of which is hereby acknowledged,

SALLIE K. BROWN, SPOUSE OF GRANTEE (who acquired title as Sallie Kay Cottrell trustee of Sallie Kay Cottrell Family Trust

hereby GRANT(S) to

Larry Brown, a married man as his sole and separate property

MAIL TAX STATEMENTS TO:

Same as above

(continued on next page)

the real property in the City of Jamul County of San Diego, State of California, described as

Lot 19 of Rancho San Miguel, In the county of San Diego, State of California, according to map thereof no. 7937, filed in the office of the county recorder of San Diego County, May 16, 1974.
Parcel 2:
An easement 8.00 feet wide for ingress and egress over that portion of Lot 20 of Rancho San Miguel, in the county of San Diego, State of California, according to map thereof no. 7937, filed in the office of the county recorder of San Diego county, May 16, 1974, 8.00 Feet in width, the southeasterly and easterly line of which is described as follows:

Beginning at the most southerly corner of said lot 20; thence north 49 57' 33" east, 173.02 feet of an angle point in the boundary of said lot; thence continuing along said boundary, north 00 07' 42" west, 82 Feet.

Dated @

Sallie K. Brown
SALLIE K. BROWN

STATE OF CALIFORNIA }
COUNTY OF San Diego }ss.

On Oct 31, 06 before me,
Reza M. Kaghazchi, Notary,
a notary public, personally appeared Sallie K. Brown,
~~personally known to me~~ (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name~~(s)~~ is/are subscribed to the within instrument and acknowledged to me that ~~he/~~she/they executed the same in ~~his/~~her/~~their~~ authorized capacity~~(ies)~~, and that by his/her/their signature~~(s)~~ on the instrument the person~~(s)~~ or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

Signature Reza M. Kaghazchi

OFFICIAL SEAL
REZA M. KAGHAZCHI
NOTARY PUBLIC-CALIFORNIA
COMM. NO. 1497282
SAN DIEGO COUNTY
MY COMM. EXP. JUNE. 26, 2008
RBG-1

(This area for official notarial seal)

5

Basil Younan
2450 Sawgrass Street
El Cajon, CA 92019
Parcel No. 518-222-30-00

November 28, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Dear Sir or Madam

Subject: Rate Increase Proposal

I am writing to you to express my objection to the proposed water and sewer rate increase. My name, address and parcel number are listed above. Thank you.

Basil Younan

Basil Younan
Property Owner

Division 5

5

Maher Younan
923 Avenida Del Oceano
El Cajon, CA 92019
Parcel No. 514-470-15-00

November 28, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Dear Sir or Madam

Subject: Rate Increase Proposal

I am writing to you to protest the proposed water and sewer rate increase. My name, address and parcel number are listed above. Thank you.

M. Younan
Maher Younan
Property Owner

Riyadh Makani
11602 Avenida Anacapa
El Cajon, CA 92019
Parcel No. 502-272-75-00

November 28, 2006

Board Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Dear Sir or Madam

Subject: Rate Increase Proposal

I am writing to you to express my objection to the proposed water and sewer rate increase. My name, address and parcel number are listed above. Thank you.

R. Makani

Riyadh Makani
Property Owner

5

ELVIA RUCKER
3236 Ma Lou Drive
Jamul, California 91935
(619) 669-4917

December 4, 2006

Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

To whom it may concern:

We are vehemently **opposed** to the rate increase proposed by the Otay Water District. Our water rate is already exorbitant and outpaces other water districts in San Diego County. Our family has taken positive steps in reviewing and curtailing our water usage. We propose that the water district likewise review and curtail its expenditures.

Elvia Rucker
Elvia Rucker

Harold V. Rucker
Harold Rucker

5

November 30, 2006
2590 Indigo Drive
El Cajon, CA 92019

Otay Water District
Sweetwater Springs Blvd.
Spring Valley, CA 91978

Attention: Mark Watton
General Manager

Dear Mr. Watton:

I am appalled at the rate increase you are proposing for the Otay Water District customers. I note in your article that you picked a low paying customer to use for your example showing the amount of increase.

I am living in a gated community where we are required to keep our lawns presentable. My water bills this year have been $86.77 last January, $91.33 in February, $58.57 in March, April $50.09, May $84.51, in June $91.31, July, $127.09, August $123.95, September $118.54, October $139.6 4, and $123.95 again in November. I don't know what the bill will be in December. Hardly the $46.60 you used in your example.

While I am writing, I also think it is "highway robbery" to add the sewer charge on 100 % of this water bill as most of it never sees the sewer.

I'm certain that none of this means anything to you but to me, a retiree living on a set budget, it can be devastating.

Sincerely,

Audrey J. Kenney

Audrey J. Kenney

5

November 17, 2006

Baord Secretary
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Gentlemen:

Regarding your proposed rate hike:

Yes, I protest. We are already paying the highest rates in the area due to Board squabbling and subsequent legal fees. I suggest you reduce the per diems you pay your Board members and cut other wasteful administrative expenses and NOT raise your rates.

Very truly yours,

Connie Crusha

Connie Crusha
1077 Vista Madera Lane
El Cajon, 92019

Acct # 231-6630-22

5

To: Secretary of the Otay Water District:
RE: Proposed rate increases

I would like to object to the proposed rate increases. The address of the real property is,

2420 Starlight Court
Chula Vista, Ca 91915

Owners: Ruben & Heather Martin

Ruben Martin

Heather L. Martin

Please be advised there will be a Public Hearing regarding proposed water and sewer rates:

Wednesday, January 3, 2007
3:30 p.m. in the Board Meeting Room
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Purpose and Summary of Rates: The purpose of the new rate structure is to make it possible for the Otay Water District to maintain the level of service to its customers and a balanced budget. The new rates were determined after performing a detailed six-year analysis of all costs and revenues. This analysis shows a significant portion of the required rate increases are directly related to higher costs for energy and water supply. The proposed rate increases are set forth in the enclosed tables.

Pursuant to currently applicable law, owners of record may respond to proposed rate increases. If you desire to object to the proposed rate increases, you may file a written protest with the Secretary of the Otay Water District at or prior to the time and date set for the public hearing. Under applicable law, protests must be received in writing prior to the close of the public hearing to be considered. A valid protest must contain a description of the real property sufficient to identify the parcel you own within the boundaries of the District (address and or assessor parcel number), the owner(s) name(s), and signature of the owner(s). If the current owner is not shown on the last equalized assessment roll of the County of San Diego, written evidence must be submitted that the person signing the protest is the owner(s). Protests can be mailed or physically delivered to: **Board Secretary, Otay Water District, at the address above.** **DO NOT SEND PROTESTS VIA EMAIL.**

If a majority of the affected property owners file written protests, the proposed water or sewer rate charges will not be implemented. If you have questions regarding this notice, please visit our Web site at www.otaywater.gov or speak with a Customer Representative at (619) 670-2227 between 8:00 a.m. and 5:00 p.m. Monday through Friday.

Este informe contiene información muy importante sobre su tarifa de agua. Por favor llame servicio al cliente (619-670-2227) se tiene preguntas.

Wanda Kinermon
1517 Apache Dr., Unit C
Chula Vista, Ca. 91910

December 5, 2006

Otay Water District
2554 Sweetwater Spring Blvd.
Spring Valley, Ca 91978

Dear Sir or Madam:

This letter is in protest of the January 3, 2007, increase of 5.4% water charges. The economy being as it is, this would be a burden for the working class citizen. If this increase is due to the water energy cost, please explain to me why the Chula Vista is continuing to build more and more homes in south east Chula Vista. My paycheck will not be increased by 5.4%, not even 1%. This 5.4% increase is more than inflation. Please reconsider that if you must increase the water cost, please reduce it by a percentage that's feasible for all.

Thank you for any consideration you might give this letter.

Sincerely,

Wanda Kinermon

To: Board Secretary,
Otay Water District

Nov. 29, 2006

Fr: Evangeline and Farolito Montenegro
10421 Lake Breeze Dr.
Spring Valley, Ca 91977

Parcel# 505-741-03-00

To whom it may concern:

Please let it be known that we would like to PROTEST/OBJECT to the proposed water rate increase.

Respectfully,

EVANGELINE MONTENEGRO

FAROLITO MONTENEGRO

Scott Montgomery
2717 Isham Springs Ct
Spring Valley, CA 91977
(619) 549-5780 Cell
(619) 670-6932 Home

December 10, 2006

Otay Water District

Subject: Proposed Water and Sewer Rates

Reference: Notice of Public Hearing

Dear Otay Water District,

I protest the proposed increase in water and sewer rates.

The average person is paying about 50% of their income in taxes and various fees. There has to be a limit to everything and stopping this increase would be a place to start!

Most Sincerely,

Scott Montgomery

Scott Montgomery

Attention!!!!!!

The Otay Water District will be increasing your water and sewage rates. There will be a public hearing:

When: Wednesday, January 3, 2007
Where: 2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978
Time: 3:30 p.m. in the board meeting room

Owners of property (homes) may **protest these proposed rate hikes**. The protest must be in writing to the Secretary of the Otay Water District at or prior to the date set for the public hearing.

I am protesting the proposed rate increases

Please fill in the necessary information, (note! parcel number is optional), required information flagged with * and send to:
Board Secretary, Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Can't send protest via E mail, must be sent by mail only
* Owners name: BARBARA EDWARDS

* I am protesting the proposed rate increases for water and sewage by Otay Water District. I am the owner of the real property located at (address):
1390 BLUE FALLS DR
CHULA VISTA, CA. 91910

Not required
My parcel number is (located on your property tax bill (PARCEL/BILL NO. XXX-XXX-XX-XX)
My parcel number is ______

* Signature of owner of Real Property Barbara Edwards

Send your written protest to:
Board Secretary, Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Very Important:

If a majority of the affected property owners file written protests, the proposed water and sewage rate increases will not be implemented. If you have any questions or concerns see or call (619) 670-2227 between 8:00a.m. and 5p.m.
Thank you for your participation, please attend the public hearing.

Dan McAllister
San Diego County Treasurer-Tax Collector
P.O. BOX 129009 • San Diego, California 92112

① TOLL FREE:	(877) TAX-4SDC (829-4732)
② FAX:	(619) 531-6056
③ PAY ONLINE:	WWW.SDTREASTAX.COM

For Fiscal Year Beginning July 1, 2006 and Ending June 30, 2007

CURRENT OWNER
GERBER GEORGE R JR
1300 RAVEN AVE
CHULA VISTA CA 91911

SPECIAL MESSAGES

OWNER MESSAGES

④ PROPERTY ADDRESS - DESCRIPTION - SUBDIVISION

01300 RAVEN AVE

LOT 1

ZENITH II

⑤ MAP NO.
008331

⑦ DOCUMENT NO.
486232

⑧ DOCUMENT DATE
12/18/03

⑥ DESCRIPTION		VALUES & EXEMPTIONS
LAND	$	166464
IMPROVEMENTS		171666
TOTAL L&I		338130
PERSONAL PROPERTY		
EXEMPTIONS		
HOMEOWNERS	$	
OTHER		
NET TAXABLE VALUE		338130

⑨ OWNER OF RECORD ON JANUARY 1, 2006: GERBER GEORGE R JR

Z91911 007836 20624 1/1

RETAIN THIS PORTION FOR YOUR RECORDS

⑩ PARCEL / BILL NO.	⑪ TAX RATE AREA	⑫ CORTAC NO.	⑬ 1st Installment 11/1/06		⑭ 2nd Installment 2/1/07		⑮ TOTAL DUE
620-662-21-00	01045		1884.00	+	1884.00	=	3768.00

⑯ YOUR TAX DISTRIBUTION

AGENCY	BASE	RATE	TAX AMOUNT
1% TAX ON NET VALUE		1.00000	3381.30
VOTER APPROVED BONDS:			
ELEMENTARY SCHOOL	NET	0.02662	90.01
HIGH SCHOOL	NET	0.02016	68.16
COMMUNITY COLLEGE	NET	0.01405	47.50
METRO WATER DISTRICT	NET	0.00470	15.89
TOTAL ON NET VALUE		1.06553	3602.86
FIXED CHARGE ASSMTS:	PHONE #		
CO MOSQUITO/RAT CTRL	800-273-5167		2.28
MOSQUITO/DISEASE CTRL	800-273-5167		6.36
OPEN SPACE DIST[illegible]	8[illegible]-67[illegible]-7516		125.00
WATER AVAILABIL[illegible]	619-670-2284		10.00
MWD WTR STANDBY CHRG	8[illegible]-55[illegible]864		[illegible]

⑰ YOUR TAX DISTRIBUTION

AGENCY	BASE	RATE	TAX AMOUNT
CWA WTR AVAILABILITY	858-522-6900		10.00
TOTAL AMOUNT			3768.00

23L (Rev 7/06)

SECURED TAX BILL

TO: BOARD SECRETARY, OTAY WATER DISTRICT. 12-6-06

I GEORGE R. GERBER JR.

THE OWNER & OCCUPANT OF THE ABOVE PROPERTY DO PROTEST & OBJECT TO THE PROPOSED RATE INCREASE.

George R. Gerber Jr

GEORGE R. GERBER JR.