

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

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM
TUESDAY
July 24, 2007
11:30 A.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. APPROVE AN AGREEMENT BETWEEN THE SAN DIEGO COUNTY WATER AUTHORITY (CWA) AND THE OTAY WATER DISTRICT FOR LOCAL WATER SUPPLY DEVELOPMENT PROGRAM FUNDING (LWSD AGREEMENT) CONTINGENT UPON CWA'S BOARD OF DIRECTORS APPROVAL OF SUBSTANTIALLY THE SAME (PEASLEY) [15 minutes]
4. ADJOURNMENT

BOARD MEMBERS ATTENDING:

Mark Robak, Chair
Larry Breitfelder

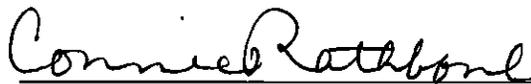
All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

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 July 20, 2007 I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 24 hours in advance of the meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on July 20, 2007.



Connie Rathbone, Asst. District Secretary



AGENDA ITEM 3

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	August 1, 2007
SUBMITTED BY:	Jim Peasley <i>JHP</i> Engineering Manager	PROJECT NO:	P1210- DIV. NO. N/A 019000
REVIEWED BY:	Rod Posada <i>Rod Posada</i> (Chief) Chief, Engineering		
APPROVED BY:	Manny Magaña <i>Manny Magaña</i> (Asst. GM): Assistant General Manager, Engineering and Operations		
SUBJECT:	Execution Authorization of an Agreement for Local Water Supply Development Program Funding between the San Diego County Water Authority and the Otay Water District		

GENERAL MANAGER'S RECOMMENDATION:

That the Board of Directors authorize the General Manager to execute an agreement between the San Diego County Water Authority (Water Authority) and the Otay Water District (District) for Local Water Supply Development Program Funding (LWSD Agreement) contingent upon Water Authority Board of Directors approval of substantially the same.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

This report seeks Board of Directors authorization for the General Manager to enter into an agreement for Local Water Supply Development Program Funding for the Otay Water District's South District Reclamation Program (Project), between the Water Authority and District. The Water Authority staff plans to present for approval the LWSD Agreement at their July 26, 2007 Board meeting. The LWSD Agreement is provided as Attachment B.

ANALYSIS:

In December 1991, the Water Authority's Board of Directors authorized their General Manager to enter into an agreement to provide LWSD (formally Recycled Water Development Fund (RWDF)) Program funding incentives to the District for its Phase I water recycling project for a maximum yield of 1,500 acre feet per year (af/yr), supplied by the Ralph W. Chapman Water Recycling Facility (RWCWRF). This is known as the Phase I LWSD Agreement.

Yield is defined as the quantity of actual recycled water sold to District customers. Since September 1991, the District has been receiving LWSD Program incentives from the Water Authority for its Phase I water recycling project efforts.

The District seeks to increase its current LWSD Program allowable yield from 1,500 af/yr to 8,501 af/yr, as a direct result of entering into an agreement with the City of San Diego (City) for recycled water supplied from their South Bay Water Reclamation Plant (SBWRP). The District's recycled water demand in calendar year 2006 was approximately 4,389 af. In October 2003, the District and the City executed an agreement which allows the District to purchase recycled water produced at the City's SBWRP (SBWRP Agreement). The SBWRP Agreement obligates the City to produce, supply, and sell to the District up to 6 million gallons per day (mgd) or approximately 6,700 af/yr of recycled water. The SBWRP Agreement also allows the District to request the City to supply SBWRP flows above 6 mgd and the City may honor the request at their option if additional supply is available. The term of the SBWRP Agreement is for 20 years beginning January 1, 2007.

In March 2005, the Water Authority Board of Directors authorized execution of a new agreement that replaced two existing Local Resource Program (LRP) agreements between the Metropolitan Water District of Southern California (Metropolitan), the District, and the Water Authority, and terminated the two existing LRP agreements upon execution of the new replacement agreement. This new Local Resource Program replacement agreement provides for funds from Metropolitan of up to \$185 per acre foot (af) of yield. In order to reflect the increase in recycled water use to be supplied from the City's SBWRP and for efficiency purposes, Water Authority and District staff have also merged the existing Phase I LWSD Agreement into the new LWSD Agreement, thus resulting in one LWSD Agreement, for the Otay Water District's South District Reclamation Program.

The new LWSD Agreement will provide the District with LWSD Program funding incentives of up to \$200 per af for up to a combined total project yield of 8,501 af/yr of recycled water beneficially reused. The 8,501 af/yr number is based upon the projected South District recycled water demand at the end of the new LWSD term. The new LWSD Agreement provides for recycled water sales yield as of May 1, 2007. The new LWSD Agreement would end on June 30, 2029 for the supply from both the SBWRP and the RWCWRF.

The District's application for LWSD Program funding incentives for its South District Reclamation Program was reviewed by the Water Authority staff and they determined that the required LWSD Program eligibility criteria had been met. The Project results in a new local water supply, which reduces demands on the Water Authority for imported water. The South District Reclamation Program has also demonstrated a financial need in that cumulative project expenditures are expected to exceed cumulative project revenues during the term of the LWSD Agreement.

Water Authority staff will conduct an annual financial review of the District's Project to determine whether the Project continues to show a financial need. Based on the results of this review process, the Water Authority's LWSD contribution rate may be lower than and shall not exceed the maximum rate of \$200 per af. The Project will continue to receive LWSD Program incentives if the Project continues to show a financial need.

Staff recommends Board of Directors authorization for the General Manager to execute the new LWSD Agreement.

FISCAL IMPACT:

Lital Bell

The term of the new LWSD Agreement was established based upon a financial analysis considering the combined RWCWRF and SBWRP supply sources to determine what would be the estimated date that the net present value of LWSD Program incentive funds would break even. The break even point requires increasing the term by 13 years for supply from the RWCWRF beyond the current 25 year term since 1991 and decreasing the maximum term by 3 years for supply from the SBWRP from 25 years to 22 years beginning May 2007. The financial analysis using the CWA LWSD program criteria and combining the two agreements established that the new agreement term should end on June 30, 2029.

Staff has projected that for fiscal year 2008 the District may receive an estimated \$914,000 from the Water Authority LWSD program and an estimated \$845,450 from the Metropolitan LRP program based on a projected recycled water demand of 4,570 af/yr with a

LWSD contribution rate of \$200 per af and with a LRP contribution rate of \$185 per af.

STRATEGIC GOAL:

The LWSD Agreement supports the Otay WD Mission Statement, "To provide the best quality of water and wastewater service to the customers of the Otay Water District, in a professional, effective, efficient, and sensitive manner, in all aspects of operation, so that public health, environment and quality of life are enhanced." and the Otay strategic goal, in planning for infrastructure and supply to meet current and future water demands.

LEGAL IMPACT:

A.B.

None.



General Manager

Attachments

JP/RP/MM:jfp



ATTACHMENT A

SUBJECT/PROJECT:	Execution Authorization of an Agreement for Local Water Supply Development Program Funding between the San Diego County Water Authority and the Otay Water District
PROJECT No.:	P1210-019000

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on July 24, 2007. The Committee supported Staff's recommendation.

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

AGREEMENT FOR
LOCAL WATER SUPPLY DEVELOPMENT PROGRAM FUNDING
BETWEEN
THE SAN DIEGO COUNTY WATER AUTHORITY
AND
THE OTAY WATER DISTRICT

This agreement ("Agreement") is made this ____ day of _____, 2007, between the San Diego County Water Authority (Water Authority), a county water authority and the Otay Water District (Agency), a water district established under the Municipal Water District Law of 1911, (collectively, the Parties) with respect to the following facts:

RECITALS

1. The Water Authority has established the Local Water Supply Development (LWSD) Program, (formerly referred to as the Recycled Water Development Fund (RWDF) Program), which provides financial incentives of up to \$200 per acre-foot (AF) to assist its member agencies in the development of cost-effective water recycling projects that prevent, or reduce a demand, for imported water. The amount of funding received is based on actual financial need of the Agency after consideration is given to all other sources of revenue. The financial need is evaluated on an annual basis and, if eligible, LWSD Program funding is available for up to 25 years from the initial date recycled water deliveries begin.

2. There is now in effect an RWDF Agreement, executed in December of 1991 (the "1991 Agreement"), between the Water Authority and the Agency for the development and utilization of recycled water, which provides for the Agency to receive financial contributions from the Water Authority's RWDF Program. In September of 1991, the Agency began recycled water deliveries eligible for RWDF Program incentive funding. Such deliveries were supplied solely from the Agency's Ralph W. Chapman Water Recycling Facility (RWCWRF) ("Agency's 1991 Project").

It is the intent of the Parties to terminate the 1991 Agreement and to provide for this LWSD Agreement (Agreement) to replace the 1991 Agreement between the Water Authority and the Agency in connection with future LWSD incentive disbursements.

3. In the fall of 2003, in an effort to diversify its sources of recycled water, the Agency entered into an agreement with the City of San Diego (City) for recycled water supplies from the City's South Bay Water Reclamation Plant (SBWRP). The supply agreement allows the Agency to purchase 6 million gallons per day (approximately 6,700 AF per year) of recycled water produced at the SBWRP. In May of 2007, after constructing adequate facilities for storage and transmission (the "Agency's 2007 Project"), the Agency began delivering to its customers recycled water acquired from the SBWRP.

4. The major elements of the Otay Water District's South District Reclamation Program (Agency Program) include the RWCWRF and SBWRP supply sources and related systems, such as the pump stations, reservoirs, transmission mains, distribution pipelines, and related appurtenances to serve customers connected to the recycled water system.

Section 1. Definitions

Recycled Water: is treated wastewater that is subject to water quality standards and regulatory agency oversight and approval, and is usable for designated non-potable, beneficial uses such as landscape and agricultural irrigation, industrial processes, and commercial applications.

Project: means the Project for production and/or delivery of Recycled Water, developed under this Agreement, as described in Exhibit A.

Agency: is the public agency that owns and operates, or proposes to own and operate, the Project. The Agency may or may not be a member agency of the Water Authority.

Project Sponsor: is the member agency of the Water Authority whose service area is served by the Project.

End User: is each of the ultimate users that purchase the Recycled Water produced by the Project.

Beneficial Use: means use of Recycled Water, supplied by the Project, and utilized by an End User, that provides benefit to the region. This includes, but is not limited to, landscape irrigation for parks, campgrounds, golf courses, freeway medians, community greenbelts, and school athletic fields; irrigation for agricultural food crops and nursery stock; recreational and aesthetic enjoyment associated with the replenishment of lakes, ponds, and ornamental fountains; dust control at construction sites; and makeup water for cooling tower use and other industrial and commercial purposes.

Recycled Water Rate: means the rate used to calculate revenues from recycled water sales. If the Agency is a retail water agency, the Recycled Water Rate is the higher of: 1) Agency's recycled water rate(s) for sales to End Users; or 2) eighty-five percent (85%) of the lowest applicable potable water rate of the Agency for the End User served by the Project. A participating retail water agency has the prerogative to charge their customers less than eighty-five percent (85%) of the lowest applicable potable water rate of the Agency for the End User served by the Project. However, the Agency will continue to be analyzed on the basis of charging eighty-five (85%) of the lowest applicable potable water rate of the Agency for the End User served by the Project for LWSD Program incentive calculation purposes. If the Agency is not a retail water agency, the Recycled Water Rate is the higher of the Agency's rate for each class of recycled water service, or 85% of the Agency's Sponsor's rate for each equivalent class of potable water service. A non-retail agency has the prerogative to charge their customers less than eighty-five percent (85%) of the Agency's Sponsor's rate for each equivalent class of potable water service. However, the non-retail agency will continue to be analyzed on the basis of charging eighty-five (85%) of the Agency's Sponsor's rate for each equivalent class of potable water service for LWSD Program incentive calculation purposes. For purposes of this definition, applicable potable water rate shall mean the commodity charge for the class of service associated with the End User being served by the Project.

Allowable Project Yield: means the actual amount of recycled water, measured in acre-feet, which is sold and delivered to the End Users by the Project in any given year, and which is used within the Water Authority's service area. "Yield" shall exclude any non-revenue generating Recycled Water, which is used for on-site landscape irrigation, filter backwash, cooling and/or process water use, and those uses that will not reduce a demand for potable water from the Water Authority. Yield shall also exclude any potable water used to supplement or replace the Recycled Water provided to the End Users. If an Agency

determines that Yield delivered to any End User will not result in the collection of revenue, the Agency will calculate the cost per AF value of that Yield at 85% of the lowest applicable potable water rate for End Users served. The Agency will clearly track and report this Yield on a monthly, billing basis. This Yield will be used in the calculation of revenue to annually determine the Water Authority's LWSD Program incentive contribution.

Project Revenues: means revenues from recycled water sales, plus any other revenues, which offset the costs of recycled water production or distribution. These additional revenues may include Metropolitan incentives (such as LRP incentives), federal and state grants, contributions from other agencies, connection fees, capacity charges, meter charges, special assessments, interest earnings on debt service reserves, and tax revenues.

Project Costs: means the actual Project cost to produce an acre-foot of Recycled Water beneficially reused by Project End Users and is comprised of three components: Annualized Capital Costs, Annualized Operation and Maintenance (O&M) Costs and Annualized Replacement Costs. Project Costs exclude the cost of existing facilities, the cost of those Project components necessary to meet National Pollutant Discharge Elimination Permit (NPDES) and Waste Discharge Permit requirements, the costs of primary and secondary treatment facilities, and the cost of those Project components funded by grants or contributions from private or public agencies. Project Costs may include costs incurred by Agency for the retrofitting of private water systems to the extent necessary to permit the attainment of Project Yield.

Capital Cost Values: means the actual cost of the development of the tertiary water treatment facility, the distribution system, and the debt service associated with the construction of these facilities.

LWSD Program: means the San Diego County Water Authority's Local Water Supply Development Program.

Section 2. Development and Operation of the Project

2.1 Elements of Project: The Project shall include all or a portion of the following elements: production, transmission, distribution, metering, storage, pumping and other facilities necessary for the storage and delivery of Recycled Water, as described in the "Project Description," attached hereto as Exhibit A and by reference made a part of this Agreement.

2.2 Firm Source of Water: Agency warrants that it has a firm source of wastewater to produce Recycled Water to operate the Project described herein.

2.3 Authority Over Sewer Service: Agency warrants that it has the authority to provide sewer, water or other services as necessary to carry out the Project, or has a contract with the provider of sewer, water, or other service, in areas tributary to the Project, to obtain effluent from which Recycled Water will be produced. Agency further warrants that the residences, businesses, and industries in the area in which Recycled Water will be used, are or can be required to discharge wastewater for subsequent treatment.

2.4 Right to Sell Water: Agency warrants that it is able and has a right to sell such Yield as is produced by the Project.

2.5 Planning, Design, and Construction Costs: Agency shall be solely responsible for the planning, design, environmental proceedings and compliance, right-of-way acquisitions, permits, construction and any capital costs of the Project or any modifications thereof. The Water Authority shall have no responsibilities, obligations or liabilities regarding the planning, design, environmental proceedings and compliance, right-of-way acquisitions permits, or construction of the Project or any modifications thereof. Nor shall Water Authority be responsible for any capital costs of the Project.

2.6 Owner of Project: Agency shall be designated as the sole and exclusive owner of all Project facilities, except for those portions, if any, constituting a portion of the Water Authority's distribution system or installed within the boundaries of End Users' properties. Water Authority shall have no ownership right, title, security interest, or other interest in any Project facilities, nor any rights, duties, or responsibilities for operation and maintenance thereof. The sole obligation of the Water Authority shall be to pay the Contribution Rate for the Yield generated by the Project.

2.7 Operation of Project: Agency shall be solely responsible for the operation and maintenance of all components of the Project, including providing or obtaining an adequate wastewater supply and distributing and delivering Recycled Water to each End User's meter.

2.8 Meters: Metering devices shall be installed and owned, operated and maintained by Agency for the purpose of measuring Project Yield. Each meter shall be read in accordance with the Agency's regular billing cycle for purposes of billing and accounting between the Parties to determine at the beginning of each billing cycle the quantity of Recycled Water billed to End Users during the preceding billing cycle.

Agency shall install metering devices at the Recycled Water storage reservoirs to determine the quantity of potable water, if any, blended with Recycled Water and delivered to End Users during each billing cycle. The Agency will be responsible for ensuring that all metering devices are properly installed, calibrated, and maintained. The Agency shall be solely responsible for the accuracy of the meter readings. The Water Authority reserves the right to review the meter readings and may request independent meter accuracy testing. The costs of any independent meter test will be divided equally between the Water Authority and the Agency.

2.9 Maintenance of Project: Agency agrees to properly operate, maintain, replace as necessary, and inspect the facilities comprising the Project, regularly and in accordance with all applicable state and federal laws, rules, regulations, and guidelines for the term of this Agreement.

2.10 Operating Principles: Agency agrees, at all times during the term of this Agreement, to use its best efforts to operate the Project facilities in accordance with generally accepted professional standards and maintenance and operation principles and in such manner as to provide service to existing and future End Users on a fair and equitable basis.

2.11 Staffing: Agency shall provide sufficient qualified personnel to properly operate and maintain the Project facilities. Such personnel shall meet applicable certification requirements of pertinent regulatory agencies.

2.12 Compliance with Regulatory Requirements and Laws: Agency shall ensure, either directly or by contract with End Users, that all Recycled Water produced and delivered by the Project is

used in compliance with all applicable federal, state and local statutes, ordinances, regulations and other requirements, and shall further ensure that connections to the Recycled Water system are properly designed and constructed. Additionally, the Agency must demonstrate that appropriate regulatory and public health permits have been, or will be, obtained.

2.13 California Environmental Quality Act: Agency shall ensure that the Project complies with the provisions of the California Environmental Quality Act (CEQA). The Water Authority shall not be obligated to make any payments for Recycled Water produced and/or delivered by any component of a Project that does not comply with CEQA requirements.

Section 3. Calculation of Contribution Rate and Method of Payment

The following conditions govern the calculation of the LWSD Program contribution rate and the payment of incentives:

3.1 Agreement Term: The term of the Agreement will be from May 1, 2007, and will end on June 30, 2029, or until the Project no longer qualifies to receive LWSD Program incentives. If the Project does not demonstrate a financial need in any given year, then funding will not be allocated for that specific year.

3.2 Maximum Contribution Rate: The Maximum Contribution Rate is currently set at \$200 per acre-foot of Project Yield. The Maximum Contribution Rate may be adjusted periodically by the Water Authority Board of Directors. The Water Authority shall pay to Agency the Contribution Rate for Yield supplied by the Project, provided that unless agreed otherwise in writing, the Water Authority shall not be obligated to make a contribution for Allowable Project Yield in excess of 8,501 acre-feet in any one Water Authority fiscal year, nor shall Water Authority be obligated to contribute for any Recycled Water in advance of its delivery to End Users.

3.3 Contribution Rate: The Contribution Rate for an acre-foot of Project Yield will be established annually by the Water Authority for each Project deemed eligible for LWSD Program incentives. The Contribution Rate will be determined based on the specific financial need of the Project and may be less than the Maximum Contribution Rate.

3.4 Calculation of Contribution Rate: At the end of each fiscal year, the Water Authority will conduct a financial review of the Project to determine the Project's cumulative net balance, (i.e., the difference between cumulative Project Revenues and cumulative Project Costs, for the coming fiscal year). The Project will be eligible to receive LWSD Program incentives if the cumulative net balance for the coming fiscal year is projected to be less than zero (i.e., if cumulative Project Costs exceed cumulative Project Revenues). The Contribution Rate for a Project will be established in such a manner as to maintain a cumulative Project balance of \$0, provided, however, that the Contribution Rate may not exceed the Maximum Contribution Rate. The Water Authority will include an allowance for foregone interest earnings in the calculation of the Project's cumulative net balance.

3.5 Addition of Earnings/Cost of Funds to Cumulative Net Balance: For the purpose of computing the Cumulative Net Balance in any given fiscal year, there shall be added to Project Costs the annual cost of funds to the Agency for carrying any negative Cumulative Net Balance from the first day of the fiscal year the Project begins deliveries of Recycled Water to an End User through the last

day of the fiscal year under consideration. For the purpose of computing the Cumulative Net Balance in any given fiscal year, there shall be added to Project Revenues the estimated earnings of the Agency on any positive Cumulative Net Balance from the first day of the fiscal year the Project begins deliveries of Recycled Water to an End user through the last day of the fiscal year under consideration. See the following example:

	<i>First Year of Delivery</i>	<i>Second Year of Delivery</i>	<i>Third Year of Delivery</i>
Project Revenue	\$100	\$400	\$1,200
Project Cost	<u>\$500</u>	<u>\$500</u>	<u>\$500</u>
Balance	<u>(\$400)</u>	<u>(\$100)</u>	<u>\$700</u>
Cumulative Net Balance	(\$400)	(\$520)	\$154
Cost of Funds/ Interest Adjustment*	<u>(\$20)</u>	<u>(\$26)</u>	<u>\$8</u>
Adjusted Cumulative Net Balance	(\$420)	(\$546)	\$162

*Assumes 5% of Cumulative Net Balance

3.6 Return of Excess Contributions: In the event that the Project has a positive cumulative net balance at the end of any fiscal year, the Agency will return to the Water Authority the amount of any contributions made during that year so as to achieve a cumulative net balance of \$0. The policy of the Water Authority is not to provide contributions for projects that can maintain a positive Cumulative Net Balance without a Water Authority contribution.

3.7 Method of Invoicing and Payment: The Agency shall invoice the Water Authority monthly for the Project Yield, based upon the quantities billed to End Users during the previous month. Billings shall be based upon meter reads at each and every connection of the Project to an End User.

LWSD Program incentives will be paid monthly based on the actual Project Yield during the previous billing cycle and the Actual Contribution Rate for the Project. Incentives to the member agencies will be provided in the form of a credit on their monthly Statement of Water Deliveries and Charges. If the Agency receiving the credit is not a Water Authority member agency, a reimbursement check will be issued directly to the Agency by the Water Authority.

3.8 Financial Assistance Program (FAP) Reimbursement: If applicable, the Agency must reimburse the Water Authority for any funds received under the Financial Assistance Program (FAP) in accordance with FAP guidelines. Any FAP reimbursements owed the Water Authority may be deducted from the Agency's monthly LWSD Program incentive payments.

3.9 Eligible Project Costs:

“Annualized Capital Costs” shall be computed using only the following incurred costs by the Agency for the Project:

- Design and construction management service fees.
- Planning, design, and construction costs of the Project facilities; these costs may include a recycled water distribution system of varying diameter recycled water pipeline, pump stations, and storage facilities. The tertiary treatment facilities shall not be used for wastewater disposal purposes.
- Agency administration of the Project planning, design, construction, and start-up costs. These costs represent a reasonable overhead allocation that must be agreed upon with the Water Authority.
- Land, right-of-way and easements for the Project and Recycled Water system facilities.
- Environmental documentation and mitigation measures directly related to the implementation or operation of the Project and required to comply with applicable environmental permits and laws, including but not limited to the California Environmental Quality Act, National Environmental Policy Act, and the California and Federal Endangered Species Acts. Environmental documentation costs shall commence with the Notice of Preparation and conclude with the filing of the Notice of Determination.
- All other costs not specified in the above section shall be excluded, unless previously approved by the Water Authority.
- All contributions (e.g. Metropolitan and Water Authority incentives, grants, fees, charges, etc.) shall be offset "or netted" against the capital cost values for the purpose of computing the Annualized Capital Costs component.

“Operation and Maintenance Costs” for the applicable fiscal year shall be computed using only the following incurred costs by the Agency for the Project:

- Professional consulting service fees for Project operation, maintenance and audit.
- Agency labor costs and/or contract costs (rate based on current market rate.)
- Chemicals and supplies for the Project operation and maintenance.
- Net electrical energy (recovery energy shall be deducted from energy purchased) for eligible facilities and distribution system operations. The Water Authority shall not pay for electrical energy costs if the Agency fails to install metering devices.
- Contractor services and supplies for Project facilities, operation, and maintenance and repair to maintain reliable system operation and achieve regulatory compliance.
- Monitoring required by permits, including water quality sampling and analysis of Recycled Water produced by the Project.
- All other costs not specified in the above section shall be excluded, unless previously approved by the Water Authority.
- All contributions shall be offset against operating cost values for the purpose of computing the Operation and Maintenance Costs component.

“Replacement Costs” shall be computed on the following basis:

- Cost estimates for replacement of major Project parts exceeding \$100,000, will be

subject to internal Water Authority staff review to determine the reasonableness of the submitted cost estimate.

- Project parts identified for replacement will have met or exceeded average lifecycles for that identified replacement part.
- Salvage value of replaced parts shall be offset against replacement costs.
- All contributions shall be offset against replacement cost values for the purpose of computing the Replacement Costs component.
- All other costs not specified in the section above shall be excluded, unless previously approved by the Water Authority.

Note: The Water Authority may request explanations or a review of the detailed costs included in the Agency's submittal of eligible costs, however, the Water Authority's determination as to the validity of the costs is final.

3.10 Project Revenue Sources: "*Annual Revenue Sources*" shall consist, but not be limited to, the following sources:

- Revenues from Recycled Water sales, plus any other revenues, which offset the costs of Recycled Water production or distribution.
- Metropolitan Local Resources Program (LRP) incentives.
- Federal and state grants awarded to an Agency's program.
- Agency connection fees, capacity charges, meter charges, special assessments, and tax revenues.
- Interest earnings on debt service.
- All other revenues not specified in the above section, but obtained after the first fiscal year of operation, shall be included in the total revenue calculation of each subsequent fiscal year.

Section 4. Annual Financial Review and Record Keeping

4.1 Annual Review: The Water Authority will conduct an annual review of Project Costs and Revenues to determine the Contribution Rate for the Project. The Water Authority will mail the appropriate reporting forms to the Agency by November 1st of each year. The Agency must submit to the Water Authority Exhibit B (Local Water Supply Development Program Expenditure and Revenue Worksheets) and Exhibit C (Internal Control Questionnaire), which require providing estimated Project Costs and Revenues for the current and upcoming fiscal year. The Water Agency will also provide actual Project Costs and Revenues for the prior fiscal year. These forms must be submitted to the Water Authority by January 31st of each year. For the purposes of projecting future year costs, inflation factors and interest rates will be determined by the Water Authority.

The Water Authority (or its authorized agent) shall have the right to physically examine the accounting and Project records of the Agency to verify Project Costs and Project Revenues no less than every three years and will require an independent audit of those records. The Agency will submit all

requested materials to the Water Authority no later than three weeks from the date of the initial request.

Notwithstanding the formula described above, the Contribution Rate for any year may be adjusted: (a) to reflect the results of any review/audit by the Water Authority of the actual Project Costs and Project Revenue during previous Project operation years; and (b) to reduce the Contribution Rate by an amount equal to the Agency's obligation to repay any sum owed to the Water Authority under the Financial Assistance Program (FAP) for reclamation planning studies for this Project or any other Agency projects.

4.2 Record Retention: The Agency shall establish and maintain accounting records of all revenue sources received and costs incurred for the construction, operation and maintenance, and replacement of parts for the Project as described in Section 3.9 - Eligible Project Costs, and Section 3.10 - Project Revenue Sources. Accounting for the Project shall utilize generally accepted accounting principles and be consistent with the terms of this Agreement.

The Agency's Project accounting records must clearly distinguish all costs for the Project from the Agency's other water production, treatment, and distribution costs. These records shall also be adequate to determine Recycled Water and Project Yield in order to accomplish all cost calculations contemplated within the context of the Project.

The Agency shall establish and maintain accounting records of all contributions including grants that offset "Eligible Project Costs."

The Agency shall collect Recycled Water and Project Yield data for each fiscal year of the Project and retain records of that data based on metering requirements. In addition, the Agency shall collect and retain records of the total annual amount of water conveyed outside the Agency's service area using Project facilities. The Agency shall keep all Project records for at least three years following the termination of this Project Agreement.

The Water Authority shall have the right to audit Recycled Water and Project Yield data relevant to the terms of any Agreement entered into for a period of three fiscal years following termination of the Project Agreement. The Water Authority may elect to have such reviews/audits conducted by its staff or by others, including independent accountants or engineers, as designated by the Water Authority. The Agency shall make available for inspection to the Water Authority or its designee, upon 30 days written notice, all records, books and other documents related to the determination of Project Yield. Based on the results of any independent review or audit, an adjustment for over- or underpayment of Project Yield for each applicable fiscal year shall be paid by the Water Authority or the Agency within one year of determination after such adjustment. The costs of any independent review or audit shall be equally divided between the parties.

Section 5. Performance Provisions

The Water Authority reserves the right to terminate the Project if construction has not commenced or the Allowable Project Yield is not delivered by a mutually agreed upon date (subject to bi-annual review). The Water Authority, after consultation with Agency, may reduce its Contribution Rate by a factor equal to the percentage shortfall of the actual Allowable Project Yield to the Agency's projected targeted Allowable Project Yield or in some other manner that reflects the realistically attainable yield

for the Project.

Section 6. Term and Amendments

The term of the Agreement shall be as set forth in Section 3.1, herein and shall not exceed twenty-two (22) years, provided the Project has a financial need. In the event that for any year the Contribution Rate equals more than zero, the Agreement shall not be terminated, and no funds shall be owed to the Agency by the Water Authority.

In the event of an Agreement breach, the Water Authority reserves the right to cease advancing current and future funds and may seek reimbursement for previously advanced funds. Additionally, the breach may prohibit the Agency from participating in any future cooperative agreements with the Water Authority.

The Agreement may be modified through bilateral agreement between the parties. Any modifications made to the Agreement shall be confirmed in writing prior to performance of the change.

Section 7. Indemnity - Hold Harmless

The Agency agrees to defend, indemnify, and hold harmless the Water Authority, its officers, and employees, from all damage, injury, claims, demands, losses, and liability to the extent that the same are the result of Agency conducting the Project, or the negligence or willful misconduct of the Agency or any of its officers, employees or any other person acting pursuant to its control in performing the work under this agreement.

Section 8. Laws and Venue

This Agreement shall be interpreted in accordance with the laws of the state of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court in San Diego County.

Section 9. Assignment

The Agency shall not assign, sublet, or transfer this agreement or any rights or interest in this Agreement without the written consent of the Water Authority, which may be withheld for any reason.

Section 10. Integration

This Agreement represents the entire understanding of the Water Authority and the Agency as to those matters contained herein. No prior oral or written understanding should be of any force or effect with respect to those matters covered hereunder. This Agreement may not be modified or altered except in writing signed by the Water Authority and the Agency.

Section 11. Notice

Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, registered or certified, postage prepaid, addressed to:

If to Water Authority:

San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123
Attn: Ken Weinberg
Director of Water Resources

If to Agency:

Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2096
Attn: Mark Watton
General Manager

Section 12: Signatures

The individuals executing this Agreement represent and warrant that they have the legal capacity and authority to do so on behalf of their respective legal entities.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above:

SAN DIEGO COUNTY WATER AUTHORITY Approved as to form and legality:

By: _____
Ken Weinberg
Director of Water Resources

By: _____
General Counsel

OTAY WATER DISTRICT

Approved as to form and legality:

By: _____
Mark Watton
General Manager

By: _____
General Counsel

EXHIBIT A

OTAY WATER DISTRICT SOUTH DISTRICT RECLAMATION PROGRAM

April 2007

ENGINEERING REPORT

INTRODUCTION

The Otay WD has the responsibility for water supply acquisition and distribution within its jurisdictional boundary. The Otay WD jurisdiction and the Otay WD South District Reclamation Program service area are shown on the maps located in Appendix A. The Otay WD South District is defined as the Central Area System and the Otay Mesa System.

The Otay WD receives 100% of its potable water supply as treated water, delivered by the San Diego County Water Authority (SDCWA) via the San Diego Second Aqueduct. In calendar year 2006 the purchased potable water supply was 37.2 million gallons per day (mgd) on an annual average basis. The projected annual average potable water demand at build out is 56.3 mgd.

Because of its complete dependence on imported water, the Otay WD faced the prospect of up to 50% cutbacks in its water supply during the last drought. As a result of that experience, the Otay WD is committed to developing a larger more diversified local potable and recycled water resource components. The use of recycled water plays a significant role to decrease reliance on imported water.

The Otay Water District South District Reclamation Program was developed by the Otay WD as a multi-phased approach to implement a water recycling program. By 1990, the Otay WD began in earnest the development of recycled water markets and construction of master planned capital improvement program facilities for transmission and distribution of recycled water. To serve the projected recycled water demands, the Otay WD has and continues to plan to construct the required capital improvement program facilities to meet the needs of its customers. Also, the Otay WD has been and will continue to require developers to install recycled water distribution pipelines within their developments to use recycled water for landscape irrigation and other potential uses.

The projected recycled water demand at ultimate build out is projected to be 9,300 acre-feet per year (af/yr). There is an existing recycled water supply that typically produces about 1,300 acre-feet per year from the Ralph W. Chapman Water Recycling Facility (RWCWRF). The Otay WD owns and operates the RWCWRF. It is estimated that there will be at least 1,150 use sites at ultimate build out. The recycled water demand in calendar year 2006 was 4,389 acre-feet and it is used entirely for landscape irrigation. The Otay WD has been retailing recycled water for over 20 years, since the mid the 1980's.

The Otay WD entered into an agreement with the City of San Diego that provides for recycled water supply from their South Bay Water Reclamation Plant (SBWRP). The recycled water demand is

expected to continue to increase at a rapid pace as the rate of population growth within the eastern portions of the City of Chula Vista and the Otay Mesa areas of the Otay WD continues to exceed expectations. The current recycled water supply shortfall is met by supplementing the recycled water system with potable water. The recycled water system will be supplemented with potable water until the source of supply from the SBWRP is available with the completion and initiation of operations of the system supply link components. It is estimated that normal recycled water supply operations from the SBWRP will begin in April 2007 or soon thereafter.

PROJECTED RECYCLED WATER SUPPLY

The Otay WD provides wastewater collection and treatment only in a relatively small portion of its jurisdictional service area. The Otay WD owns and operates the Ralph W. Chapman Water Recycling Facility (RWCWF), which has the ability to produce about 1.2 mgd or approximately 1,300 af/yr of recycled water meeting Title 22 requirements for landscape irrigation purposes. In the remainder of the Otay WD jurisdictional service area, wastewater is collected by the County of San Diego, the City of Chula Vista, or the City of San Diego. Wastewater from these agencies is conveyed to the City of San Diego’s Metropolitan Wastewater Department (MWWD) for treatment. Some of this wastewater is treated by MWWD at its South Bay Water Reclamation Plant (SBWRP), and the remainder is sent to the Point Loma Wastewater Treatment Plant for treatment and disposal through an ocean outfall. All wastewater generated in the Otay WD service area that is not recycled is sent to MWWD for treatment. This water is treated and discharged into the Pacific Ocean.

A second source of recycled water for the Otay WD is the City of San Diego’s South Bay Water Reclamation Plant (SBWRP). In the fall of 2003, the Otay WD and the City executed an agreement for Otay WD to purchase recycled water produced at the SBWRP. This agreement will provide an additional 6 mgd, or more if available, of recycled water to the Otay WD, or at least approximately 6,700 af/yr. The Otay WD also acquired the right to purchase supply from the SBWRP that exceeds 6 mgd if the City has the supply available. The agreement will increase the Otay WD current recycled water supply from 1.2 mgd to at least 7.2 mgd.

The Otay WD is essentially complete with the construction of the necessary transmission and related facilities that link the SBWRP to the Otay WD existing recycled water transmission system in order to receive the SBWRP supply source. It is projected that in April 2007 or sooner thereafter, the Otay WD will have substantially completed construction of the transmission system facilities and take delivery of the recycled water produced at the SBWRP. The Otay WD continues to expand its recycled water system and has one of the largest distribution systems for recycled water in San Diego County.

The Otay WD projected potable and recycled water supply requirements are shown in Table 1.

Table 1

Projected Water Supply Requirement (af/yr)

Water Supply Sources	FY 2005	FY 2010	FY 2015	FY 2020	FY 2025	FY 2030
San Diego County Water Authority	37,618	45,772	52,349	59,799	66,560	75,108

Recycled Water	3,322	4,848	5,620	6,515	7,553	8,756
Total	40,940	50,620	57,969	66,314	74,113	83,864

In 2005, the RWCWRF produced 1,150 af/yr of recycled water, slightly less than its full capacity. In addition, the Otay WD used potable water to supplement the recycled water system when sufficient recycled water to meet demands was not available.

RECYCLED WATER USES

In the year 2006, there were in excess of 500 recycled irrigation meters receiving recycled water produced by the RWCWRF. In 2006, approximately 1,233 af/yr of recycled water produced by the RWCWRF was supplied to recycled water users. Current uses consist primarily of commercial landscape irrigation, golf course irrigation, and irrigation of public places like parks, streetscapes, schools, highway medians, and open space areas. The Olympic Training Center facility in the City of Chula Vista also uses recycled water to irrigate practice fields and common areas within the training center. These users collectively demanded more water than the output of RWCWRF, and the Otay WD supplemented the recycled water system with potable water. The total demand on the Otay WD’s recycled water system was 4,389 acre-feet in calendar year 2006. Because this demand exceeded the Otay WD available supply from RWCWRF, the Otay WD used potable water to supplement the recycled system supply.

PROJECTED RECYCLED WATER DEMAND

The Otay WD service area is experiencing rapid growth and development in the geographic area where recycled water is approved for use, which is the South District. There are two distinct recycled water market areas within the South District of the Otay WD service area, known as the Central Area and the Otay Mesa. The Central Area includes a number of major residential developments, and the Otay Mesa is expected to develop almost exclusively as industrial with small commercial and residential land uses. Developers in both systems are anticipating that recycled water will be available, and dual distribution pipelines are planned or already in place.

The Otay WD’s 2002 Water Resources Master Plan included an assessment of current and future demand for recycled water. Most of the currently identified uses are for outdoor irrigation. Other opportunities for the expanded uses of recycled water are being examined, including but not limited to wetlands and other habitat restoration, power plant cooling, groundwater recharge, brackish water intrusion barriers, and industrial process water. The juvenile detention facility in Otay Mesa was constructed with a dual distribution system to allow the use of recycled water for toilet flushing. When the Otay WD recycled water system is expanded to serve the Otay Mesa area, the juvenile detention facility may be served with recycled water. The Otay WD has also recently entered into an agreement with Otay Landfill, Inc., the operator of the Otay Landfill. The landfill operators currently plan to use 100,000 gallons per day (gpd) of recycled water for daily landfill operations such as dust suppression. This landfill use conversion will offset an equivalent demand for potable water, estimated at 110 af/yr.

The recycled water markets in the Central Area System include primarily the major development projects such as EastLake Trails, EastLake Land Swap areas, EastLake Vistas, EastLake Woods,

Sunbow II, Rancho San Miguel, Rolling Hills Ranch, EastLake Business Center II, SR 125, and the Otay Ranch. The Otay Ranch land uses are identified in the Otay Ranch General Development Plan. The Otay Ranch GDP land areas are defined as the Otay Valley Parcel, San Ysidro Mountains Parcel, and the Proctor Valley Parcel. The land areas included within these three defined parcels are known as Village 1, Village 2, Village 3, Village 4, Village 5, Village 6, Village 7, Village 8, Village 9, Village 10, Village 11, Planning Area 12, Village 13, Village 14, Village 15, Planning Area 16, Planning Area 17, Planning Area 18a, Planning Area 18b, and Planning Area 19. The Village 13, Village 14, Village 15, Planning Area 16, Planning Area 17, and Planning Area 19 land areas are located in the Upper and Lower Otay Reservoir watersheds and hence are not currently used as potential recycled water markets areas. The remaining Villages and Planning Areas are entirely within the Otay Valley Parcel of the Otay Ranch GDP. The Otay Ranch GDP Planning Area 18a is located in the Otay Mesa System.

The potential recycled water markets in the Otay Mesa System include commercial and industrial land uses and the SR 125 and SR 905 freeways. The land uses as defined by the Otay Mesa Community Plan and the East Otay Mesa Specific Plan were used to generate demand estimates as well. The East Mesa Detention Facility and the R. J. Donovan State Prison toilet flushing and laundry demands were obtained from the Otay Mesa Raw/Reclaimed Water Transmission Facility Feasibility Analysis planning report prepared by Robert Bein, William Frost & Associates, dated August 1997. Using the defined planning criteria and assumptions within the WRMP results in a projected ultimate annual average day demand of 6.34 mgd for the Central Area System and 1.89 mgd for the Otay Mesa System totaling 8.23 mgd at ultimate build out. Appendix F of the 2002 WRMP provides a summary of the demand projections, development identification, and the details of the land use data used to generate the demand estimates.

The projected recycled water demand is shown in Table 2.

Table 2

Projected Recycled Water Demands (ac/yr)

Type of Use	Treatment Level	FY 2010	FY 2015	FY 2020	FY 2025	FY 2030
Landscape	Tertiary - Title 22	4,848	5,620	6,515	7,553	8,756
Total		4,848	5,620	6,515	7,553	8,756

The demand for irrigation water varies significantly from month to month in San Diego County. The Otay WD recycled water demand on a monthly average basis in 2006 was about 0.8 mgd during a cold weather month and exceeded 6.5 mgd during a hot weather month. At build out, the annual average day demand is expected to exceed 8.23 mgd, with a peak summer month demand of about 17.8 mgd. The Otay WD's recycled supply from RWCWRF and SBWRP will average about 7 to 8 mgd over the course of a year. Therefore, during peak demand periods the recycled water system may have to be supplemented with potable water if additional recycled water supply is not acquired in the future. The Otay WD will continue to review existing and future wastewater treatment facilities in the South County as potential sources to increase its supply of recycled water.

MANADORY USE ORDINANCE

The Otay WD made the commitment and commenced its wastewater recycling efforts over 20 years ago. A major component of the commitment to recycle was to enact an ordinance that requires recycled water be used for any and all appropriate and approved non-potable uses. The requirement continues today, with all new applications for water service being reviewed for opportunities to use recycled water. The Otay WD has also established financial incentives for the use of recycled water within its service area.

The Otay WD Code of Ordinances, Section 26, Water Reclamation Plan and Implementing Procedures, details the requirements for the use of recycled water whenever feasible. Section 26 of the Code of Ordinances is known as the mandatory use ordinance. The mandatory use ordinance is in place to assure that identified users will use recycled water when made available. It is stated in the Otay WD Code of Ordinances, Section 26, that; "It is the policy of the District that reclaimed water shall be used within the jurisdiction wherever its use is financially and technically feasible, and consistent with legal requirements, preservation of public health, safety and welfare, and the environment." The implementation of this policy provides the Otay WD the opportunity to plan, fund, and construct facilities to meet projected recycled water market demands consistent with land use policy decisions. It also provides the Otay WD with the authority to condition proponents of proposed development projects to plan, fund, and construct distribution facilities and irrigation systems for the intended use of recycled water. This process assures and generates recycled water demands within all new development projects as they are implemented. Consequently, the necessary recycled water markets are created.

RECYCLED WATER CAPITAL IMPROVEMENT PROGRAM FACILITIES

The major elements of the Otay WD South District Reclamation Program project facilities include the planned capital improvement program facilities identified in the 2002 WRMP. These CIP projects include pump stations, reservoirs, and transmission mains to serve the customer demand connected to the distribution system pipelines.

Contained within the Otay WD 2002 WRMP there is Plate No. 11-1 and Plate No. 11-2 which show the location of the capital improvement program facilities and existing recycled water system facilities within the Central Area System and Otay Mesa System respectively. The future distribution pipelines are generally not shown on Plate No. 11-1 and No. 11-2. The facilities shown with capital improvement program project numbers are the primary pump station, reservoir, and transmission mains planned, funded, and constructed by the Otay WD. Additional distribution pipelines and laterals will be required to serve specific customers. The distribution pipelines and laterals are exaction projects (i.e. developer projects) and thus are the development project proponent's responsibility to plan, fund, and construct. These pipelines will typically be 12-inch and smaller in diameter. It should be recognized that some of the proposed transmission main alignments may change as development plans for various areas are revised and/or refined in the future. The intent is to align all the transmission mains within the currently planned roadways as much as possible. As development projects are proposed the project proponents will be required to prepare a plan that will define the capital facilities and distribution pipelines required to serve the intended recycled water demands. The known remaining recycled water capital improvement program (CIP) projects that are planned to be

constructed within the Central Area and Otay Mesa Systems are included within the Otay WD Phase I and Phase II CIP plan. Phase I is projects planned to be constructed within the next six years and Phase II are projects planned to be constructed after the year 2013. The currently known remaining capital improvement program projects are listed in Table 3.

Table 3

Capital Improvement Program Projects

CIP Project Number	CIP Project Title	Phase
R2001	RecRes - 450-1 Reservoir 12 MG	I
R2003	RecRes - 680-1 Reservoir 3.4 MG	I
R2004	RecPS - 680-1 Pump Station (11,500 GPM)	I
R2022	RecPL - 30-Inch, 450 Zone, Otay Valley - Dairy Mart/450-1 Reservoir	I
R2031	RecPL - 12-Inch, 944 Zone, EastLake Parkway - Olympic/Birch	I
R2033	RecPL - 12-Inch, 944 Zone, Birch Road - La Media/EastLake	I
R2034	RecRes - 860-1 Reservoir 4 MG	I
R2040	RecPL - 12-Inch, 680 Zone, Hunte Parkway - Olympic/EastLake	I
R2041	RecPL - 8-Inch, 944 Zone, EastLake Parkway - Birch/Rock Mountain	I
R2042	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - SR-125/EastLake	I
R2043	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - La Media/SR-125	I
R2047	RecPL - 12-Inch, 680 Zone, La Media Road - Birch/Rock Mountain	I
R2053	RWCWRF - R.O. Building Remodel and Office Furniture	I
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	I
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	I
R2081	RecPL - 20-Inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1	I
R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	I
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	I
R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	I
R2085	RecPL - 20-Inch, 680 Zone, La Media - State/Olympic	I
R2086	RWCWRF Force Main AirVac Replacements and Road Improvements	I
R2087	RecPL - 20-Inch, 944 Zone, Wueste Road - Olympic/Otay WTP	I
R2088	RecPL - 20-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservoir	I
R2028	RecPL - 8-Inch, 680 Zone, Heritage Road - Olympic/Otay Valley	II
R2037	RecPL - 8-Inch, 680 Zone, La Media Road - Rock Mountain/Otay Valley	II
R2038	RecPL - 8-Inch, 680 Zone, Rock Mountain Road - La Media/Otay Valley	II
R2055	RWCWRF - Effluent Meter	II
R2067	RWCWRF - Waste Backwash Water Pipeline	II
R2068	RWCWRF - Load Equalization Tank	II
R2073	RecPL - 24-Inch, 860 Zone, Alta Road - Airway/Border	II
R2075	Brine Disposal Pipeline Otay Mesa to Metro Sewer System	II
R2078	RecPL - 8-Inch, 680 Zone, Otay Valley Road - SR 125/Heritage	II

R2079	RecPL - 6-Inch, 450 Zone, Otay Valley Road - Otay Valley/Entertainment	II
R2080	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Medical Center/Heritage	II

POTENTIAL FINANCIAL RESOURCES

The Otay WD has been in the recycled water business for over two decades. It currently operates a recycled water system consisting of a network of transmission mains, distribution pipelines, pump stations, reservoirs, etc. and has over 500 service connections. Other water recycling projects operated adjacent to the service area include the South Bay Water Reclamation Plant.

The Otay WD will be able to expedite the implementation of the major elements of the Otay WD South District Reclamation Program project facilities due to its expertise in planning, funding, and experience in implementing its recycled water program. Otay WD has demonstrated its expertise by the development of a 2002 Water Resources Master Plan, a Six Year Capital Improvement Program, and implementation of water meter capacity fees and water rates that provide the foundation for funding and maintaining an expanded recycled water system. The Otay WD South District Reclamation Program project facilities are fully addressed and are a major component of both the 2002 Water Resources Master Plan and the Six year Capital Improvement Program.

The strategy for financing the Otay WD South District Reclamation Program project facilities remains essentially unchanged over the years and is the successful foundation for funding the program. The anticipated funding of the capital facilities is from a variety of sources including water meter capacity fees, debt financing, interest, a \$4,000,000 State Water Resource Control Board (SWRCB) grant, U.S. Bureau of Reclamation Title XVI grant funds, etc. The anticipated funding for operational costs is from water rates in combination with incentives based upon recycled water sold to retail customers from the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority (SDCWA).

The United States Department of the Interior Bureau of Reclamation through the Reclamation Wastewater and Groundwater Study and Facilities Act of 1992 Public Law 102-575 Title XVI, Section 1612 entered into a funding agreement (Cooperative Agreement) that authorizes funding for recycled water projects for up to 25% of the total capital costs. The Cooperative Agreement covers the activities and costs necessary for the planning, design, and construction of the define Otay Water District's Recycled Water Infrastructure Program that will provide the facilities necessary for a recycled water system within the Otay WD.

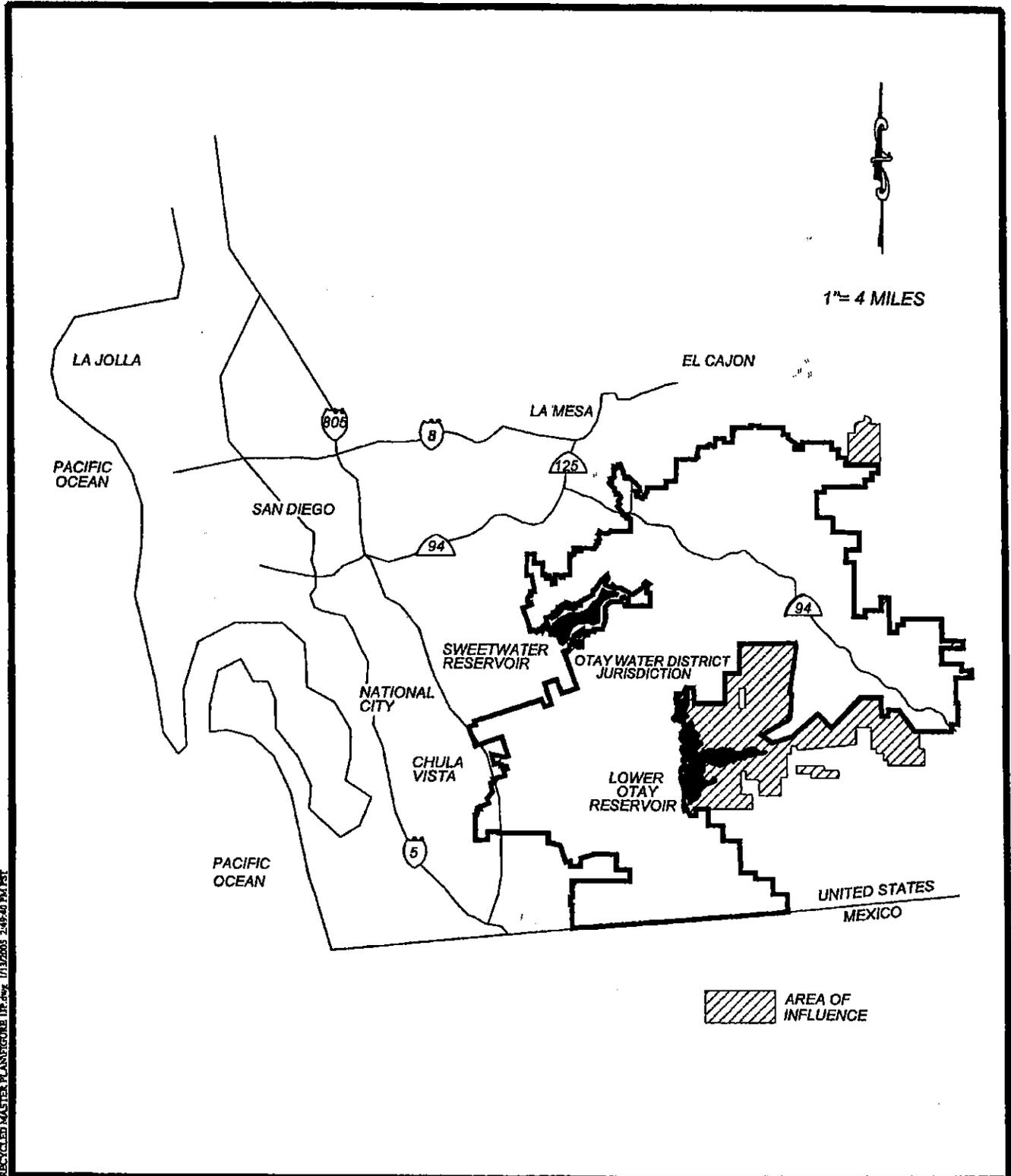
The total estimated cost of the projects identified in the Cooperative Agreement is \$80,645,000. In addition, the Cooperative Agreement provides for funding of incurred costs, in a total amount not to exceed \$10,000,000 for costs incurred on or after January 1, 2001, which if had been incurred after execution of the Cooperative Agreement, would have been allowable under the provisions of the Cooperative Agreement. Hence, the total estimated costs are \$90,645,000 for which up to 25% funding of this amount could be provided by the Federal Government.

To fund the operational costs for the Otay WD South District Reclamation Program project the income

from recycled water sales, supplemented by recycled water sales incentives from the MWD and the SDCWA are used. The recycled water is sold by the Otay WD at a rate equal to 85% of the potable water rate.

Appendix A

OTAY WD SOUTH DISTRICT RECLAMATION PROGRAM MAPS



P:\WORK\PROJ\10241\10241\10241\10241\MASTER PLANNING\FIGURE 1.PDF 1/13/2005 2:49:40 PM PST

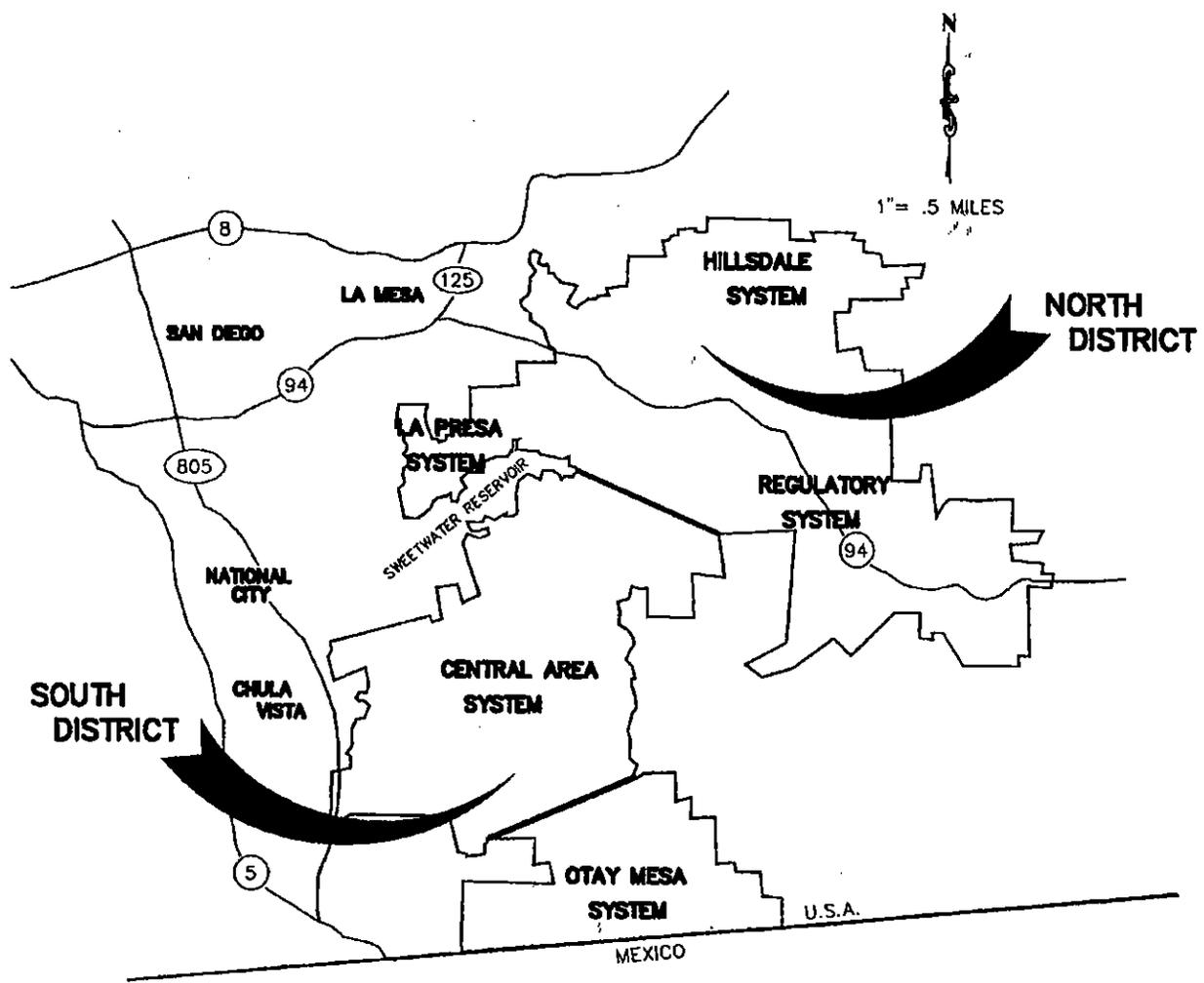


OTAY WATER DISTRICT

OTAY WATER DISTRICT PLANNING AREA

FIGURE 1

JANUARY 2005



P:\WORKING\CIP_V3\11\01_30024_4\RECYCLED MASTER PLAN\FIGURE 2.JP.dwg 1/13/2005 2:46:37 PM PST



OTAY WATER DISTRICT

WATER SYSTEMS

FIGURE 2

JANUARY 2005

EXHIBIT B

**LOCAL WATER SUPPLY DEVELOPMENT PROGRAM
EXPENDITURE AND REVENUE WORKSHEETS**

CAPITAL EXPENDITURES

Fiscal Year: _____

Type of Facility	Amount Financed	Interest Rate/ Term	Type of Financing	Annual Debt Service	First Yr. of Debt Svc.

OPERATIONS & MAINTENANCE

Fiscal Year: _____

Type of Facility	Annual Costs	Comments (If Primary & Secondary costs included explain)
Distribution		
Effluent Pumping		
Tertiary Treatment		
Lab		
Administration		
Replacement Res.		
Purchase of Recycled Water		
Other		

REPLACEMENT COSTS

Fiscal Year: _____

Type of Facility	Annual Costs	Description of Replaced Part
Replacement Costs		

REVENUES

Fiscal Year: _____

Type of Revenue	Per Unit Cost	Yield (Acre Feet)	Annual Revenue Total
Recycled Water Sales			
Sewer Fees			
Capacity Charges			
Connection Fees			
Tax Revenue			
Metropolitan LRP Funding			
Grants			
Other			

Note: Include any fees, charges, and taxes if offsetting recycling costs.

RECYCLED WATER SALES

Provide a projection of Recycled Water sales for a 25 year period or until the maximum sales level has been reached.

<u>Year</u>	<u>Sales/AFY</u>
1	_____
2	_____
3	_____
4	_____
5	_____
6	_____
7	_____
8	_____
9	_____
10	_____
11	_____
12	_____
13	_____
14	_____
15	_____
16	_____
17	_____
18	_____
19	_____
20	_____
21	_____
22	_____
23	_____
24	_____
25	_____

Name of Worksheet Preparer: _____

Telephone number and e-mail address: _____

EXHIBIT C

**Local Water Supply Development (LWSD) Program
Internal Control Questionnaire**

Prepared by	Date	Index
Reviewed by	Date	

Name, Title, and Telephone No. of Member Agency representative completing questionnaire:

1. Please provide an organization chart displaying key personnel responsible for implementing, controlling, recording, and reporting on significant LWSD Program activities, including financial transactions and measurement of results of operations. Attach organization chart.
2. Are there any periodic reports prepared to assist Project Management staff in controlling or reporting on Project operations and financial status, including comparisons of budget projections vs. actual costs incurred? If YES, identify below:
3. Describe any significant accounting policies, including capitalization of equipment and cost allocation of direct and indirect costs to various projects. What is the threshold for capitalizing costs? Is any of the Project mortgaged or otherwise encumbered?
4. What are the procedures for recording, classifying, and summarizing Project transactions? Are the expenditures grouped and recorded in the general ledger by project?
5. Do the Project general ledger control accounts agree with subsidiary records?

6. Have generally accepted accounting principles been applied on a consistent basis?

7. Does the cost accounting system in place segregate the Project costs from other costs incurred?

8. Are there written requirements for documentation, including supporting calculations, for all adjustments and write-offs to Project account balances? Who has responsibility to assure proper authorization for all adjustments and write-offs? Please explain policy.

9. Are there any policies requiring the reporting of significant, unusual, or nonrecurring transactions or events?

10. Has an outside accounting firm audited your financial statements? If so, please provide copies of the reports for the fiscal year in question.

11. Make accessible copies of minutes (or other appropriate documentation) of the Project Committee (or similar governing committee) meetings during the fiscal year in question.

12. Have any grants or other contributions been received since inception of the agreement, which might impact the Project Costs? If so, please provide detailed information for grants and contributions received.

13. Have any modifications or substitutions of the amount of "Allowable Project Yield" of the Agreement been approved by the parties to the Agreement since inception of the Project? If YES, describe below.

14. Have all Project billings for water deliveries (Allowable Project Yield) as of June 30th been submitted to the Authority? If No, explain below.

15. Has a party to the Agreement asserted that any other party has defaulted on any of their contractual obligations under the Agreement?

16. Are there any events or material transactions that occurred after fiscal year end that have a significant effect on the financial records relating to the Project?