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

MONDAY
March 30, 2009
12:30 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. INFORMATIONAL REPORT REGARDING FISCAL YEAR 2010 DRAFT CAPITAL IMPROVEMENT PROGRAM BUDGET (PEASLEY) [20 minutes]

4. INFORMATIONAL REPORT TO THE BOARD REGARDING THE TIMING OF POTENTIAL RATE INCREASES (BEACHEM) [30 minutes]

5. ADJOURNMENT

BOARD MEMBERS ATTENDING:
Jaime Bonilla, Chair
Jose Lopez

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

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

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

Certification of Posting

I certify that on March 27, 2009 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 March 27, 2009.

Susan Cruz, District Secretary

AGENDA ITEM 3

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	March 30, 2009
SUBMITTED BY:	James Peasley JP Engineering Manager	W.O./G.F. NO:	P1210 DIV. NO. All
APPROVED BY: (Chief)	Rod Posada Chief, Engineering		
APPROVED BY: (Asst. GM)	Manny Magaña Assistant General Manager of Engineering and Operations		
SUBJECT:	Board Workshop Informational Item Regarding Fiscal Year 2010 Draft Capital Improvement Program Budget		

GENERAL MANAGER'S RECOMMENDATION:

No recommendation. This is an informational item only.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To provide the Otay Water District (District) Board of Directors with information regarding the draft Fiscal Year (FY) 2010 Capital Improvement Program (CIP) budget.

ANALYSIS:

The District has an integrated CIP budget and operating budget. These budgets are developed using the Water Resources Master Plan and the Strategic Business Plan as the foundation. The District views the CIP budget as an essential tool for proper financial management of the CIP projects. The District manages growth and maintenance of assets and pursues water supply acquisition efforts through this program. The draft FY 2010 CIP budget is developed with input from staff throughout the

organization. It is a comprehensive and balanced financial plan. The CIP budget is developed driven by demands for services, existing infrastructure needs, and the District's financial status and resources.

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

- Annual average projected long-term growth rate of 2%.
- Pass-through rate increases for costs imposed on the District by the wholesale water providers.
- Accurate projections of capital and replacement project budget requirements.
- Reserve funding in accordance with the Reserve Policy to meet future growth.
- Funding of the Strategic Plan initiatives.
- Avoidance of rate spikes by leveling rate increases over a six-year period.

The CIP budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints. The District staff held five formal sessions to refine and justify the cost estimates, schedules, and project need, that resulted in many changes in the draft FY 2010 CIP. There were 25 new CIP projects added to the draft FY 2010 CIP, there were 10 CIP projects that were deleted and/or completed in FY 2009, and nearly 50% of the CIP projects had either their total project expenditure estimates and/or expenditure schedules revised.

Current CIP projects in construction, local groundwater supply development, commitments per terms of existing agreements, Rosarito Desalinization, emergency alternative water supply, and the Otay Mesa Recycled Water Supply Link are the group of CIP projects that have the major impact the magnitude of the projected expenditures. The FY 2010 CIP budget consists of 85 projects with projected expenditures in FY 2010 that total $38.26 million. See Attachment B which is the draft FY 2010 six year CIP project list and corresponding expenditure projections.

The East County Regional Treated Water Supply Agreement 36-inch transmission main project alone accounts for $17.0 million of the total FY 2010 expenditure projection. The CIP projects currently under construction amount to nearly $5.8 million in FY

2010. The local water supply development projects, such as the Middle Sweetwater River Groundwater Well, the Otay River Groundwater Desalinization, etc., projects total nearly $2.7 million in FY 2010. The Otay Recycled Water Supply Link Project accounts for nearly $2.1 million in FY 2010. It is projected that $300,000 will be expended in FY 2010 for environmental and preliminary design efforts for the Rosarito Desalinization conveyance system project. The expenditure projections for this group of CIP projects total $27.9 million or about 73% of the total projected expenditures of $38.26 million in FY 2010.

Staff supports the draft FY 2010 CIP budget and encourages the Board's support and feedback.

FISCAL IMPACT:

The Finance staff will be presenting the fiscal impact of the draft FY 2010 CIP budget and the draft FY 2010 operating budget.

STRATEGIC GOAL:

Development of the annual Capital Improvement Program budget and financial impact integration supports the District's Mission statement, "To provide the best quality of water and wastewater service to the customers of the Otay Water District, in a professional, effective, and efficient manner" and the District's Strategic Goal, in planning for infrastructure and supply to meet current and future potable water demands.

LEGAL IMPACT:

None.

General Manager

P:\jpeasley\Staff Report FY 2010 CIP Workshop 3-30-09 (2).doc

Attachments: Attachment A
Attachment B

ATTACHMENT A

SUBJECT/PROJECT:	Board Workshop Informational Item Regarding Fiscal Year 2010 Draft Capital Improvement Program Budget
P1210	

COMMITTEE ACTION:

There was no committee meeting held.

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

Otay Water District
5th Draft FY 2010 CIP Project List
($1,000)

CIP Project Count	CIP Project No.	Brief Project Title and Description	Total Projected Project Cost	Project Manager	Projected Prior To FY 2010 Expenditure	Projected FY 2010 Scheduled Expenditure	Projected FY 2011 Scheduled Expenditure	Projected FY 2012 Scheduled Expenditure	Projected FY 2013 Scheduled Expenditure	Projected FY 2014 Scheduled Expenditure	Projected FY 2015 Scheduled Expenditure	FY 2010 Total Projected Project Cost	Difference Project Totals Check	Comments Questions Ideas Etc.
1	P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	$25,500	Ripperger	$3,200	$17,000	$5,300					$25,500	$0	
2	P2010	PL - 24-Inch, Sweetwater Authority Perdue WTP to 36-Inch Main	$4,000	Ripperger	$265	$135	$400	$1,600	$1,600			$4,000	$0	
3	P2033	PL - 16-Inch, 1296 Zone, Melody Road - Campo/Presilla	$1,826	Ripperger	$5		$2	$150	$1,000	$669		$1,826	$0	
4	P2037	Res - 980-3 Reservoir 15 MG	$14,205	Ripperger	$543			$200	$800	$4,500	$8,162	$14,205	$0	
5	P2038	PL - 12-Inch, 978 Zone, Jamacha, Hidden Mesa, and Chase Upsize and Replacements	$3,000	Kay	$1,200	$1,500	$300					$3,000	$0	
6	P2040	Res - 1655-1 Reservoir 0.5 MG	$2,055	Ripperger	$479	$1	$1	$1	$78	$700	$795	$2,055	$0	
7	P2104	PL - 12-Inch, 711 Zone, La Media Road - Birch/Rock Mountain	$833	Charles					$833			$833	$0	
8	P2107	PL - 12-Inch, 711 Zone, Rock Mountain Road - La Media/SR 125	$722	Charles					$722			$722	$0	
9	P2143	Res - 1296-3 Reservoir 2 MG	$3,640	Kay	$2,000	$1,640						$3,640	$0	
10	P2172	PS - 1485-1 Pump Station Replacement	$2,475	Ripperger	$800	$1,650	$25					$2,475	$0	
11	P2181	PL - 30-Inch, 1296 Zone, Proctor Valley Road - Proctor Valley PS/Millar Ranch	$4,200	Ripperger		$100	$400	$2,000	$1,700			$4,200	$0	
12	P2185	Res - 640-1 Reservoir 20.0 MG	$28,750	Ripperger	$28,200	$550						$28,750	$0	
13	P2190	PL - 10-Inch, 1485 Zone, Jamul Highlands Road to Presilla Drive	$228	Ripperger	$4			$130	$94			$228	$0	
14	P2191	Res - 850-4 Reservoir 2.2 MG	$3,300	Kay	$3,000	$300						$3,300	$0	
15	P2203	PL - 36-Inch, 1296 Zone, Proctor Valley Road - Millar Ranch/Pioneer	$1,500	Ripperger		$120	$140	$800	$440			$1,500	$0	
16	P2204	PL - 24-Inch, 1296 Zone, Pioneer Way - Proctor Valley/1296 Reservoirs	$2,000	Ripperger		$100	$200	$1,100	$600			$2,000	$0	
17	P2235	Res - 624-4 Emergency Reservoir 40.0 MG	$32,000	Ripperger				$1,000	$6,500	$10,000	$14,500	$32,000	$0	
18	P2267	36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations	$435	Munoz	$235		$200					$435	$0	
19	P2282	Vehicle Capital Purchases	$4,311	Rahders	$1,583	$484	$410	$420	$640	$392	$382	$4,311	$0	
20	P2285	Office Equipment and Furniture Capital Purchases	$512	Dobrawa	$392	$20	$20	$20	$20	$20	$20	$512	$0	
21	P2286	Field Equipment Capital Purchases	$1,000	Rahders	$662	$108	$65	$50	$50	$50	$15	$1,000	$0	
22	P2318	PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections	$600	Kennedy	$70	$1	$99	$230	$200			$600	$0	
23	P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy	$50	Charles		$1	$49					$50	$0	
24	P2356	PL - 12-Inch, 803 Zone, Jamul Drive Permastran Pipeline Replacement	$765	Kay	$750	$15						$765	$0	
25	P2357	PS - 657-1/850-1 Pump Station Demolition	$300	Kennedy			$50	$250				$300	$0	
26	P2366	APCD Engine Replacements and Retrofits	$2,834	Rahders	$1,644	$180	$190	$220	$200	$200	$200	$2,834	$0	
27	P2370	Res - Dorchester Reservoir and Pump Station Demolition	$150	Kennedy	$13		$67	$70				$150	$0	
28	P2382	Safety and Security Improvements	$1,539	Cudal	$1,219	$70	$50	$50	$50	$50	$50	$1,539	$0	
29	P2387	PL - 12-Inch, 832 Zone, Steele Canyon Road - Via Caliente/Campo	$440	Kay	$425	$15						$440	$0	
30	P2391	PS - Perdue WTP Pump Station (5 MGD)	$5,200	Ripperger		$200	$300	$2,700	$2,000			$5,200	$0	
31	P2402	PL - 12-Inch, 624 Zone, La Media Road - Village 7/Otay Valley	$444	Charles					$444			$444	$0	
32	P2403	PL - 12-Inch, 624 Zone, Heritage Road - Olympic/Otay Valley	$925	Charles				$380	$500	$45		$925	$0	
33	P2416	SR-125 Utility Relocations	$900	Kennedy	$860	$40						$900	$0	
34	P2430	PL - 30-Inch, 980 Zone, Proctor Valley Road - PB Bndy/Proctor Valley PS	$5,200	Ripperger		$150	$450	$2,400	$2,200			$5,200	$0	
35	P2434	Rancho Del Rey Groundwater Well Development	$2,800	Peasley	$552	$48	$200	$1,000	$1,000			$2,800	$0	
36	P2440	I-905 Utility Relocations	$3,016	Ripperger	$2,753	$200	$63					$3,016	$0	
37	P2443	Information Technology Mobile Services	$1,352	Stevens	$902	$150	$100	$100	$100			$1,352	$0	
38	P2450	Otay River Groundwater Well Demineralization Project	$11,030	Peasley	**$10**	**$20**	**$100**	**$500**	**$1,000**	**$5,000**	**$4,400**	**$11,030**	**$0**	
39	P2451	Rosarito Desalination Facility Conveyance System	$30,000	Peasley	$200	$300	$850	$12,000	$14,000	$2,650		$30,000	$0	
40	P2453	SR-11 Utility Relocations	$500	Kennedy	$5	$75	$175	$245				$500	$0	
41	P2456	Air and Vacuum Valve Upgrades	$2,624	Acuna	$1,224	$500	$450	$450				$2,624	$0	
42	P2458	AMR Manual Meter Replacement	$10,447	Keeran	$2,547	$1,400	$1,500	$1,650	$1,700	$1,650		$10,447	$0	
43	P2461	Records Management System Upgrade	$256	Jenkins	$156	$100						$256	$0	
44	P2465	Regulatory Site Material Storage Bins	$310	Kay	$300	$10						$310	$0	
45	P2466	Regional Training Facility	$252	Coburn-Boyd	$102	$90	$60					$252	$0	
46	P2467	San Diego Formation Groundwater Feasibility Study	$1,800	Peasley	$600	$600	$600					$1,800	$0	
47	P2469	Information Technology Network and Hardware	$1,900	Jenkins	$250	$300	$200	$300	$300	$300	$250	$1,900	$0	
48	P2470	Application Systems Development and Integration	$1,810	Stevens	$380	$430	$200	$200	$200	$200	$200	$1,810	$0	
49	P2471	850/657 PRS at La Presa Pump Station	$310	Kennedy	$5	$80	$225					$310	$0	
50	P2472	Water Supply Feasibility Studies	$175	Peasley	$25	$150						$175	$0	
51	P2473	PS - 711-1 Pump Station Improvement	$425	Kennedy	$50	$325	$50					$425	$0	
52	P2474	Fuel Storage Covers and Containment	$125	Kennedy	$25	$100						$125	$0	
53	P2475	Pump Station Fire Hydrant Installations	$50	Kennedy	$10	$40						$50	$0	
54	P2477	Res - 624-1 Reservoir Cover Replacement	$450	Kennedy	$25	$325	$100					$450	$0	
55	P2479	Operations Yard Property Acquisition	$370	Dobrawa	$350	$20						$370	$0	
56	P2481	Middle Sweetwater River Basin Groundwater Well System	$8,000	Peasley	$1,000	$1,000	$2,000	$4,000				$8,000	$0	
57	P2482	Otay Mesa Lot 7 Groundwater Well System	$3,200	Peasley	$150	$150	$1,700	$1,200				$3,200	$0	
58	P2483	PS - 870-1Pump Motor and Switch Gear Replacement	$130	Anderson		$130						$130	$0	
59	P2484	Large Water Meter Replacement Program	$535	Keeran		$135	$100	$100	$100	$100		$535	$0	

Otay Water District
5th Draft FY 2010 CIP Project List
($1,000)

CIP Project Count	CIP Project No.	Brief Project Title and Description	Total Projected Project Cost	Project Manager	Projected Prior To FY 2010 Expenditure	Projected FY 2010 Scheduled Expenditure	Projected FY 2011 Scheduled Expenditure	Projected FY 2012 Scheduled Expenditure	Projected FY 2013 Scheduled Expenditure	Projected FY 2014 Scheduled Expenditure	Projected FY 2015 Scheduled Expenditure	FY 2010 Total Projected Project Cost	Difference Project Totals Check	Comments Questions Ideas Etc.
60	P2485	SCADA Communication System and Software Replacement	$915	Stalker		$265	$650					$915	$0	
61	P2486	Asset Management Plan Condition Assessment and Data Acquisition	$800	Peasley		$300	$300	$200				$800	$0	
62	P2487	Sir Francis Helix and Otay Valley Cal American Agency Interconnections	$250	Kay	$50	$200						$250	$0	
63	P2488	Del Rio Road Helix and Otay Agency Interconnection	$150	Kay		$25	$125					$150	$0	
64	P2489	Gillespie Drive Helix and Otay Agency Interconnection	$150	Kay		$25	$125					$150	$0	
65	P2490	1296-1 Reservoir Interior/Exterior Coating and Upgrades	$350	Kay		$340	$10					$350	$0	
66	P2491	850-3 Reservoir Exterior Coating	$300	Kay		$290	$10					$300	$0	
67	P2492	1296-2 Reservoir Interior/Exterior Coating and Upgrades	$600	Kay		$30	$560	$10				$600	$0	
68	P2493	624-2 Reservoir Interior Coating and Upgrades	$950	Kay		$30	$910	$10				$950	$0	
69	P2494	Multiple Species Conservation Plan	$226	Coburn-Boyd		$141	$75	$10				$226	$0	
70	P2495	San Miguel Habitat Management/Mitigation Area	$1,000	Coburn-Boyd		$225	$150	$150	$175	$150	$150	$1,000	$0	
71	P2496	Otay Lakes Road Utility Relocations	$100	Ripperger		$75	$25					$100	$0	
72	R2028	RecPL - 8-Inch, 680 Zone, Heritage Road - Santa Victoria/Otay Valley	$600	Charles				$85	$430	$85		$600	$0	
73	R2034	RecRes - 860-1 Reservoir 4.0 MG	$3,800	Ripperger	$30			$400	$2,000	$1,370		$3,800	$0	
74	R2042	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - SR-125/EastLake	$140	Charles				$140				$140	$0	
75	R2047	RecPL - 12-Inch, 680 Zone, La Media Road - Birch/Rock Mountain	$450	Charles				$450				$450	$0	
76	R2048	RecPL - Otay Mesa Distribution Pipelines and Conversions	$2,000	Ripperger	$10	$150	$250	$1,500	$90			$2,000	$0	
77	R2053	RWCWRF - R.O. Building Remodel and Office Furniture	$590	Ripperger	$575	$15						$590	$0	
78	R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	$3,000	Kennedy	$400	$520	$775	$775	$530			$3,000	$0	
79	R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	$4,100	Kennedy	$200	$900	$2,600	$350	$50			$4,100	$0	
80	R2081	RecPL - 20-Inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1	$1,160	Kay	$1,140	$20						$1,160	$0	
81	R2082	RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage	$801	Charles	$1		$50	$750				$801	$0	
82	R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	$400	Charles			$350	$50				$400	$0	
83	R2084	RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media	$426	Charles	$1			$75	$350			$426	$0	
84	R2085	RecPL - 20-Inch, 680 Zone, La Media - State/Olympic	$600	Charles				$580	$20			$600	$0	
85	R2086	RWCWRF Force Main AirVac Replacements and Road Improvements	$1,300	Kay	$1,285	$15						$1,300	$0	
86	R2087	RecPL - 20-Inch, 944 Zone, Wueste Road - Olympic/Otay WTP	$4,500	Kennedy	$200	$500	$3,500	$300				$4,500	$0	
87	R2088	RecPL - 20-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservoir	$3,500	Kennedy	$65	$5	$20	$200	$1,700	$1,510		$3,500	$0	
88	R2089	North District Recycled Water Regulatory Compliance	$220	Coburn-Boyd	$200	$20						$220	$0	
89	R2091	RecPS - 944-1 Pump Station Upgrade	$550	Kennedy	$50	$500						$550	$0	
90	R2092	Dis - 450-1 Reservoir Disinfection Facility	$830	Kay	$760	$70						$830	$0	
91	R2093	MBR City of Chula Vista	$5,000	Peasley	$20	$50	$50	$50	$50	$1,500	$3,280	$5,000	$0	
92	R2094	Potable Irrigation Meters to Recycled Water Conversions	$2,000	Kennedy		$500	$500	$1,000				$2,000	$0	
93	R2095	RWCWRF - Filter Storage Reservoir Cover Replacement	$75	Ripperger		$75						$75	$0	
94	R2096	RWCWRF - Blower System Rehabilitation/Replacement	$1,000	Kennedy		$800	$200					$1,000	$0	
95	R2097	RWCWRF - Salt Creek Live Stream Discharge	$320	Coburn-Boyd	$34	$26	$160	$100				$320	$0	
96	S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	$3,030	Peasley	$2,200	$300	$130	$100	$100	$100	$100	$3,030	$0	
97	S2015	Calavo Lift Station Replacement	$560	Kay	$550	$10						$560	$0	
98	S2016	Solar Power Feasibility Study	$150	Kennedy	$100	$50						$150	$0	
99	S2017	Brine Disposal Pipeline Otay River Demineralization Plant to South Bay Outfall	$5,600	Peasley		$5	$10	$40	$100	$4,000	$1,445	$5,600	$0	
100	S2018	RWCWRF - Secondary Process Automation	$50	Stalker		$50						$50	$0	
101	S2019	Avocado Boulevard 8-Inch Sewer Main Improvement	$1,632	Kay		$600	$1,032					$1,632	$0	
102	S2020	Calavo Drive 8-Inch Sewer Main Replacement	$350	Kay		$40	$300	$10				$350	$0	
103	S2021	Jamacha Road 8-Inch Sewer Main Replacement	$150	Kay		$30	$110	$10				$150	$0	
104	S2022	Hidden Mesa Drive 8-Inch Sewer Main Rehabilitation	$50	Kay		$5	$40	$5				$50	$0	
		FY 2010 Projected Expenditures	**$292,431**		**$67,041**	**$38,260**	**$30,408**	**$42,866**	**$44,666**	**$35,241**	**$33,949**	**$292,431**	**$0**	
												$292,431		

Add MWH Perdue WTP to Central Area Intertie ? $26,592,000
This project substitues the Proctor Valley Intertie and Perdue WTP to North District Intertie, P2010, P2181, P2203, P2204, P2391, & P2430.

Blue New CIP Projects
Green Revised Total Projected Project Cost and/or Expenditure Schedule
Purple Delete CIP Project and Created Specific CIP Projects
Delete Deleted CIP Project

AGENDA ITEM 4

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	April 1, 2009
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:	To inform the Board of the various issues related to the potential drought rate increases and the standard annual rate increase		

GENERAL MANAGER'S RECOMMENDATION:

To inform the Board of the various issues related to the potential drought rate increases and the standard annual rate increase.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To inform the Board of the various issues related to the potential drought rate increases and the standard annual rate increase.

ANALYSIS:

Background

Given the current information and discussions, it is likely that MWD will implement a Drought Stage II to be effective July 1st. Water allotments and corresponding penalties for water usage over the allotments may also be implemented. CWA may or may not follow suit. In addition, it is expected that MWD and CWA will both implement their regular annual rate increase early. Instead of a January 1st implementation they are considering a September 1st implementation.

The District is well positioned to react to the July 1st drought pricing as it has already approved drought pricing schedules through a 218 process. This gives the District the ability to

react quickly and implement drought pricing on July 1st if that is the desired course of action.

The timing of the September 1st increase does not pose any significant challenge. While the District still needs to go through the 218 process, if the Board were to approve the budget by the June 3rd Board meeting, this gives staff adequate time to implement a change by September 1st.

Timing of Annual Increase

The District has always been sensitive to matching CWA's annual rate increases with timely District rate increases. This is motivated by the desire to maintain the debt coverage ratio at a targeted level without the need to spike rates to make up for lost time. The debt coverage ratio is a measure of how much net revenue is available to pay the annual debt obligations. The District's target of 150% requires that net revenues are at 150% of annual debt payments. Meeting the District's minimum debt coverage ratio is not only a binding obligation to the bond holders, but meeting a targeted level above that minimum is a key financial indicator used in the determination of the District's credit rating. In the May budget workshop and the June 3rd Board meeting, staff will be recommending that the District matches the timing of the annual rate increase from CWA.

Timing of Drought Rates

The timing of the drought rate implementation is not nearly as clear as the annual increase. There are a number of issues to consider in determining the timing and level of the drought rate implementation. These issues are equal in their significance and this staff report provides the opportunity to consider all the issues listed below:

1. Administrative factors
2. Customer education
3. Over allotment penalties
4. Financial risks
5. Sales volume uncertainty

While each of these issues is discussed in the sections below, it is understood that the Board's primary concern is that the District maintains it financial stability. So, while administrative and customer factors are certainly important, the financial health of the District will be considered heavily in any recommendations brought to the Board. If a July 1st implementation date is desired, then a Board action at the May

6th Board meeting would be needed in order to notify customers in a timely manner.

Administrative Factors

There are various pros and cons to consider when evaluating the best timing of the drought rates. From a customer service perspective, dealing with customers would be much easier if there was only one combined rate increase. Two rate increases will require two notifications, two training sessions for staff, and two testing periods. Even though the opportunity for errors is twice as great, staff feels that the risks related to this are well managed. The additional cost is approximately $15,000 and four added weeks of staff time. Two rate increases would however, create some clarity as the notices would not be as complicated and the timing of the rate increases would coincide with the underlying events.

Customer Education

An informed and educated public is the primary challenge in overcoming the potential negative perceptions customers could form. This is a challenge that staff will be focused on as the communications are being developed for the rate increases, whether the increases are consolidated or separate. Carefully prepared notices would be able to educate the public on the reasons, timing, and amounts of the increases.

Earlier implementation of the drought rates would promote added conservation and also allow staff to have two additional months of water usage data under higher rates. This information may be valuable as the District may be considering mid-year adjustments to the drought rates. Another positive for separate increases is that this option would be consistent with the messages put out by the media. A counter argument favoring one consolidated increase is that customers would have a longer time period of media exposure before the rate change, giving them time to adjust their usage and also time for the education efforts to create a more positive outlook on water conservation.

Over Allotment Penalties

The calculation of the penalties is as follows: Penalty = 2 x Tier II water rates x Otay's share of the CWA overage. Currently, the Tier II water rate is projected to be approximately $850/aft. This means the price of water purchased over the allotment level would be approximately 3 times the cost of water purchased under the allotment level. The penalties will only be assessed to the agencies that exceed their

allotment and only in the event that CWA exceeds its allotment from MWD.

Knowing that Otay's costs for potable water are approximately 50% of the total potable operating budget, these penalties area significant change that must be considered carefully. Otay is expected to be notified soon about the amount of its annual allotment. This, in conjunction with the District's sales projections, will give staff an estimate of potential penalties and in the amount of sales variability it would take to incur penalties.

Financial Risk Assessment

The District has always maintained healthy reserves which protect it from the cash flow risk caused by budget fluctuations. In the event of a budget shortfall, the District may opt to use reserves and recuperate the reserves in the next budget cycle. The drought rates provide added flexibility however, they are not essential to manage the cash flow risk.

Maintenance of the debt coverage ratio is much more sensitive to net revenues and therefore to the over allotment penalties. Unlike the management of cash flows above, the debt coverage ratio cannot use reserves to offset added costs or lower revenues.

Looking at the upcoming years, lower sales will have the same impact that they have had in the past; they will generate modestly lower net revenues slightly affecting the debt coverage ratio. This modest impact is becuase the lost revenues are offset by the reduced cost of purchasing water. In the past, higher sales would have generated approximately $207/aft positive net revenue. This would generate a higher debt coverage ratio and a positive financial effect. Looking to the upcoming years, the impact of over allotment penalties will cause higher sales to create a net loss of approximately $1,519/aft or a $670,000 net loss for every 1% increase in actual sales over budgeted sales. It is expected that the budget will incorporate any anticipated penalties and therefore the debt coverage ratio will be insulated from these penalties; however, any sales over budget will have a direct negative impact on the debt coverage ratio.

In the event of selling substantially more water than is budgeted, the drought rate pricing will be a critical tool to manage the financial risk.

Budgeting Dynamic

The impact of over projecting sales remains modestly negative while the impact of under budgeting sales has become substantial. This has significantly changed the dynamic of budgeting. For example, a 3% positive variance in the 2009 water sales would have swung the net revenues to the point where the bond covenants would not be met. This is a fairly tight model to work within and where the flexibility of the drought rates will be valuable. Staff will be monitoring sales closely in the upcoming years to anticipate the potential for unbudgeted penalties and will be making recommendations to implement adjustments to the drought pricing level, as needed.

Because of the changed dynamic, when staff looks at the range of potential water sales, they will recommend a projection on the higher end of that range. This will incorporate a moderately higher level of penalties into the budget and rates (assuming allotted sales are lower than budgeted sales). It would reduce the risk of selling at higher levels than budgeted and therefore reduce the risk of unbudgeted penalties.

The higher the allotment relative to budget, the less pressure to motivate added conservation. It is possible that the allotted sales will come in close, or even greater, than budgeted sales. At this level drought pricing may be considered unnecessary at the initial stages. Again, the monitoring of the sales volumes will be critical to ensure that the District is able to react in a timely manner and minimize the risk of net losses.

Water Sales Projections

Accurately projecting sales has become more important in this new budgeting dynamic. Accurate sales projections will narrow the band of potential water sales and minimize the potential for over or under collecting revenues. Unfortunately, the heightened need for accurate sales projections comes at a time when the reliability of sales projections is facing new challenges. Three significant changes add to the difficulty of this task.

- Economic conditions add to the uncertainty of conservation and water sales.
- Media and water agency outreach add to the uncertainty of water sales.
- Rate increases will motivate customers to conserve, however due to the very recent implementation of these rates, the level of that conservation if fairly uncertain.

- Jan. 2009 - 12.4% general rate increase
- Jan. 2009 - rate study had varying impacts
- Sept. 2009 - CWA pending increase potential for 15% to 20% increase

To help offset the increased challenges in projecting sales, staff is not only using growth projections, rainfall projections, and historical usage data by class, but is also surveying large customer on usage. Staff has also developed more sophisticated reports to evaluate the most up-to-date usage information.

Conclusion

The need to meet the allocations is twofold. First, that the region is able to maintain its water supply, and second, so that the District can avoid substantial penalties. To accomplish the needed level of conservation, the District has already established Drought Stages and the Drought Stage pricing, with the expectation that these tools will be used, as necessary, to motivate conservation, fund conservation programs, and offset potential penalties.

The timing of the implementation of drought pricing is being evaluated. Significant factors in the recommendation will be the District's water allotment, the projected water sales, and customer input.

Timing of the annual CWA rate increase is currently anticipated to be September 1, 2009. Staff will be recommending that the timing of the Otay annual rate increase match this timing in order to maintain the District debt coverage ratio and balance the budget without large fluctuations in the proposed rates.

FISCAL IMPACT:

Informational only. No Impact

STRATEGIC GOAL:

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

LEGAL IMPACT:

Mark Watton MHC

General Manager

Attachments:

A) Committee Action Form

B) Presentation

ATTACHMENT A

SUBJECT/PROJECT:	To inform the Board of the various issues related to the potential drought rate increases and the standard annual rate increase

COMMITTEE ACTION:

This is an informational item only.

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.

Timing of Rate Changes

April 1, 2009

Board Meeting

Two Potential CWA Rate Changes

- CWA Annual Increase - Sept. 1st
  - Typically January 1st
  - Regardless of when Otay would implement a rate increase, a full 218 process would be required
  - There is sufficient time to implement on Sept. 1st

- CWA Drought Penalty Pricing - July 1st
  - 218 process completed – prepared to implement
  - Staff is evaluating a recommended implementation date
  - There is time to notify customers and implement on July 1st

Timing of Increases

- Annual Rate Increases:

  It is important for the District to match the timing of CWA rate increases in order to maintain the debt coverage ratio without causing dramatic fluctuations in rates.

- Drought Rates Implementation:

  The recommended timing of the drought rates is being evaluated. The analysis must consider the following:

1. Administrative factors
2. Customer education
3. Over allotment penalties with the declaration of Drought Stage II
4. Financial risk assessment
   - Impact on cash flow and budget fluctuations
   - Impact on debt coverage ratios
5. Greater uncertainty of projected water sales
   - Economic pressures
   - Effectiveness of drought messages
   - Impact of significant rate increases on purchases

1. Administrative Factors

Early Implementation – Two separate increases

- Consistent timing with the underlying events
- Early information on customer reaction to rate changes
- Added implementation cost and effort
- Two rate increases in a short period of time creates:
  - Training difficulties
  - Difficult historical analysis due to 3 sets of rates in a short period of time
- Adds cost to the customer notification process

Delayed Implementation – One combined rate increase

- Complicated 218 notice

2. Customer Education

Early implementation – Two separate increases

- Keeps increases distinct yet may generate questions
- More consistent with media coverage
- Earlier price signal motivates greater conservation
- Questions will be asked why there are back to back increases

Delayed Implementation – One combined rate increase

- Perception of higher increase
- Allows added time for media coverage and customer acceptance
- Gives customers added time to alter water use habits

3. Over Allotment Penalties

- Otay Penalty = 2 x Tier II water rate (approx $1,700/aft) x Otay's share of CWA's overage.
  - Approximately 3 times more than water purchased under the allotment level
  - Only if Otay exceeds its allotment and
  - Only if CWA exceeds its allotment

- Two components:
  - Allotments – To be set shortly
  - Sales Projections – Currently being evaluated

4. Financial Risk Assessment

- Cash Flow Risk – Budget Fluctuations
  - The District has always maintained healthy reserves which protect it from the cash flow risk caused by budget fluctuations.
  - While drought rates provide added flexibility they are not essential to manage cash flow risk.
- Financial Bond Covenants
  - Maintenance of the debt coverage ratio, on the other hand, due to the method of calculation cannot rely on reserves leaving:
    - Penalty pricing – creates a significant uncertainty in the debt coverage ratio
    - Drought rates – key flexibility to modify rates and manage uncertainty
    - Accurate setting of rates – is also key to limiting uncertainty

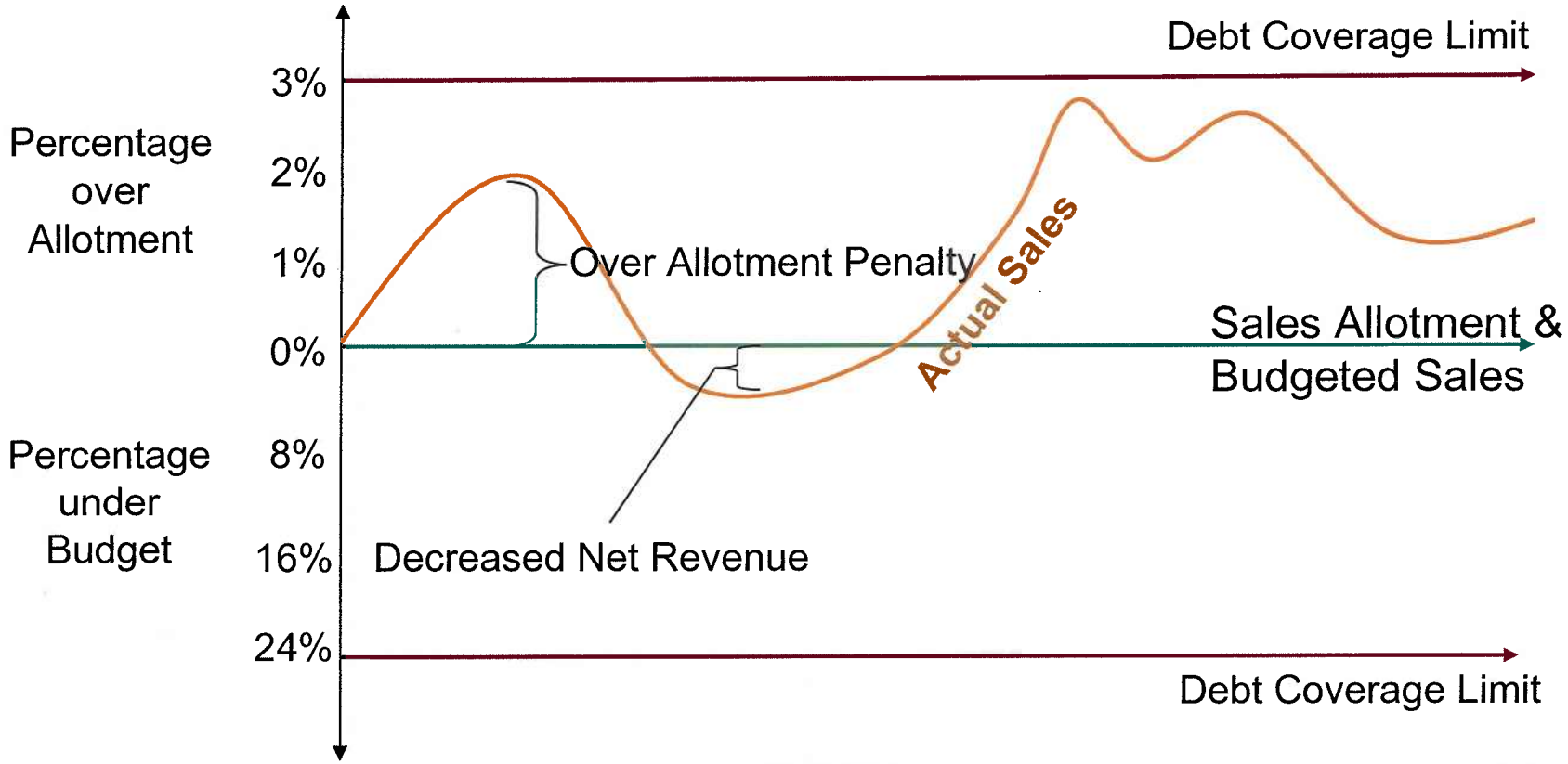
Penalty Price Impact on Debt Coverage Ratio

- Historically
  - The debt coverage ratio was relatively insensitive to variations from sales projections:
  - Water sales > Budget = greater than expected debt coverage ratio
  - Water sales < Budget = modestly lower debt coverage ratio due to the reduced purchase cost of water.

- Prospectively
  - The impact of selling less than expected remains modest and unchanged.
  - However, with the introduction of an allotment, the impact of selling more than the allotment is substantial.
    - Accurate budgeting to project penalties is essential
    - Monitoring sales to budget is essential
    - Use of drought pricing may be key to managing this new reality

Risk Assessment - Sensitivity Analysis

- Monthly monitoring of sales will be important in order to maintain the District's required debt coverage ratio.



Risk Assessment - Sensitivity Analysis

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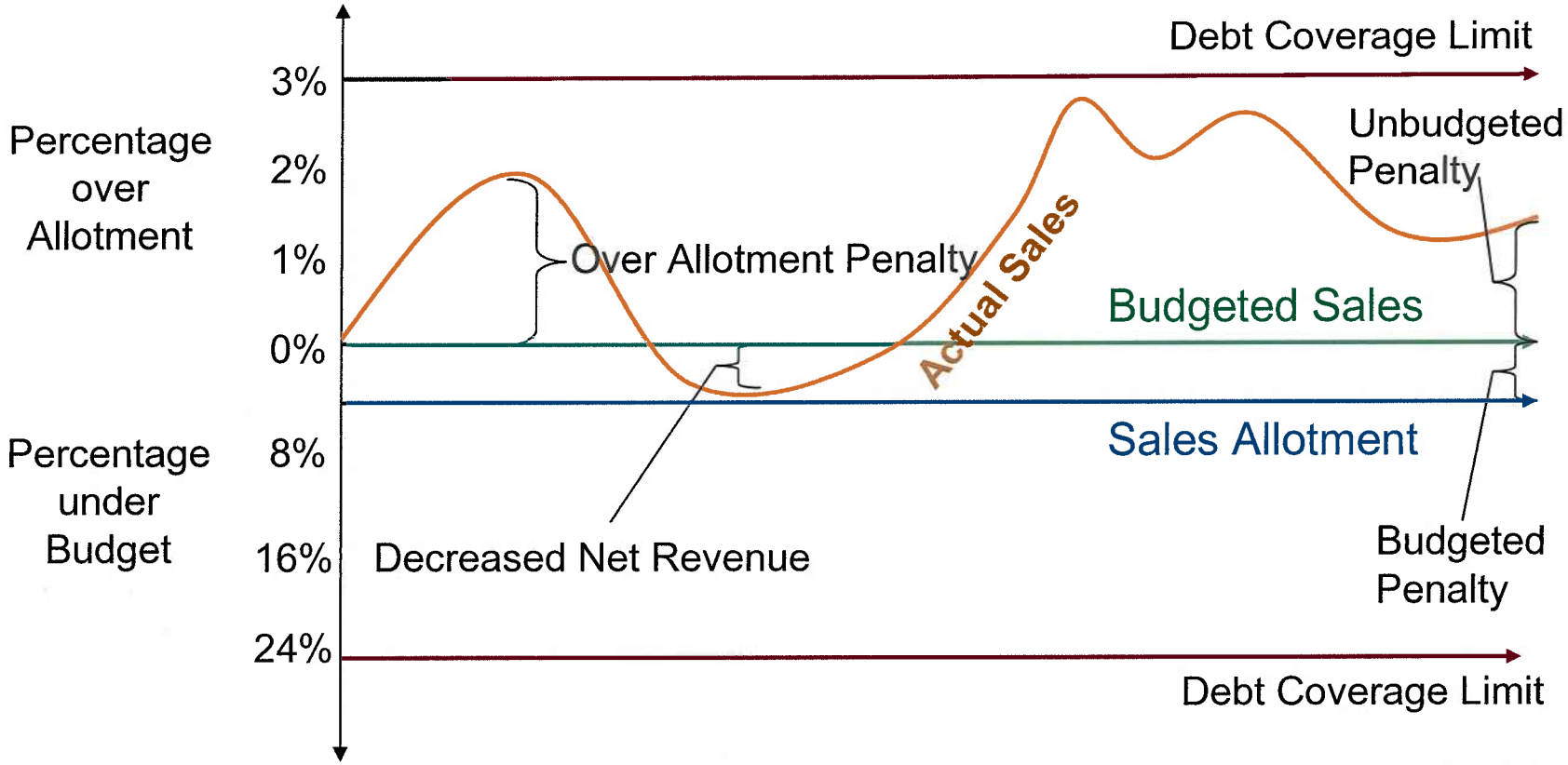


Impact of Under/Over Projected Sales

- Under projected water sales
  - May cause substantial unplanned penalties, and
  - The need to raise rates using the drought rate pricing
- Over projected water sales
  - May cause surplus funds as penalty pricing would be built into the budget
  - These funds may be used for any purpose however, the reduction of potable water dependence might be a primary use:
    - Conservation measures
    - Expansion of recycled water use

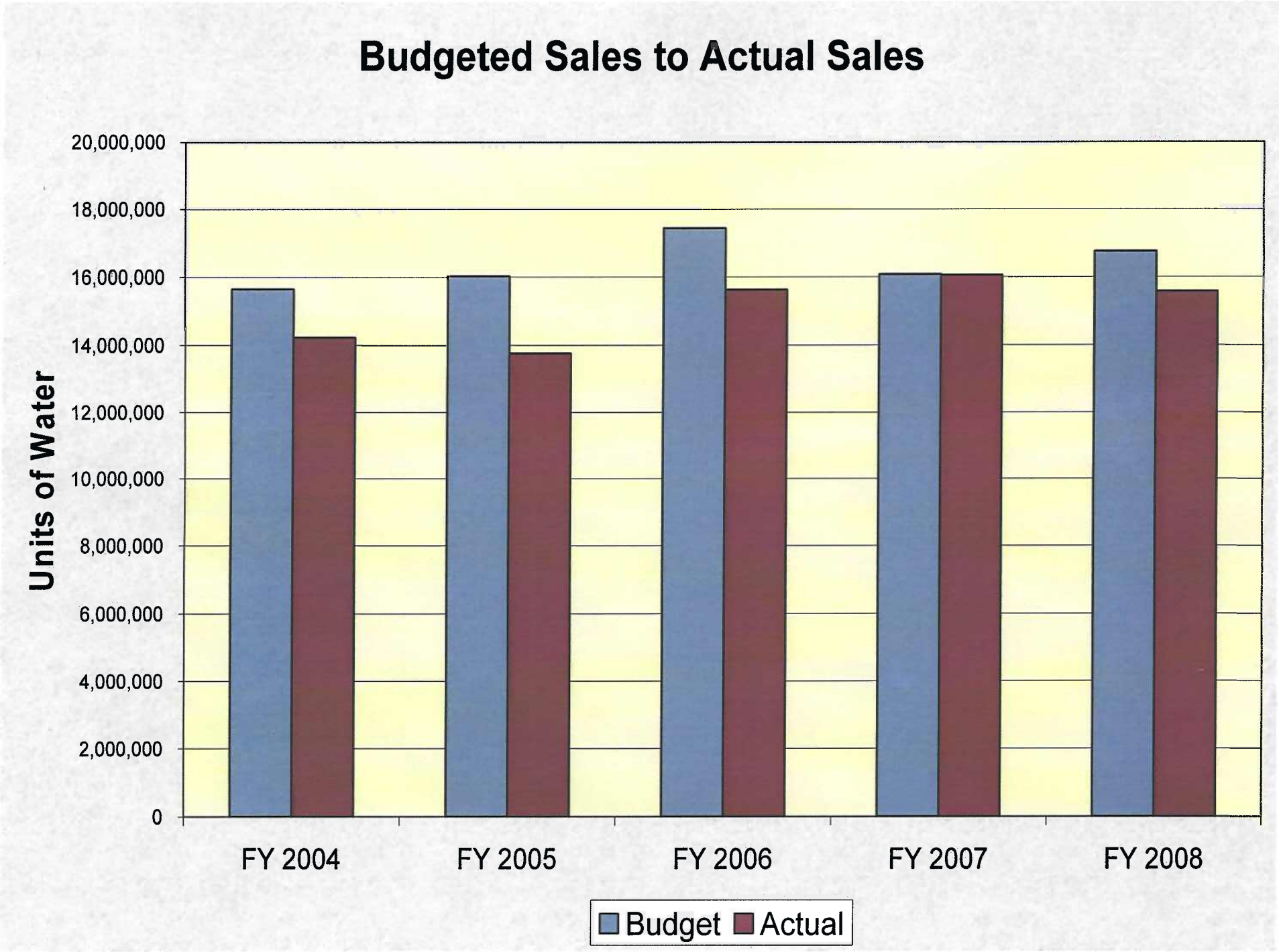
5. Growing Sales Uncertainty

- Uncertain amount of conservation due to Economic Conditions
- Unknown amount of conservation due to Media Outreach
- Unknown effect of past and future significant rate increases
  - Jan. 2009 - 12.4% general increase
  - Jan. 2009 - Varying impact of the rate study
  - Sept. 2009 - CWA pending increase of 15% to 20%

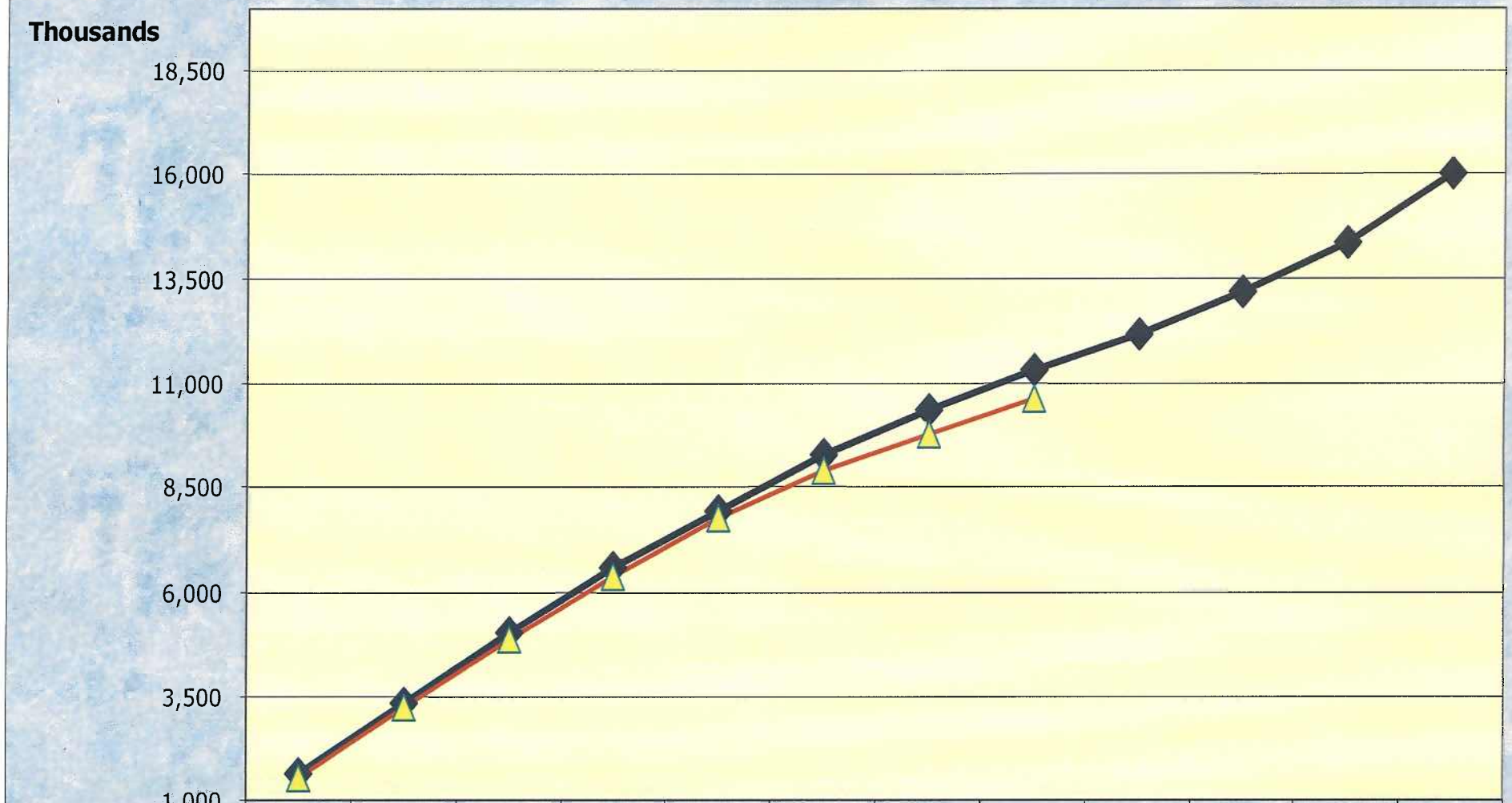
Measures to Determine Sales

- Growth Projections
  - Currently, this has low sensitivity due to the minimal amount of growth
- Rainfall Projections
- Historical usage data
- Evaluations consider customer class differences
- Recent Trend Analysis
  - Looking at more current information to judge customer reactions to price changes and drought messages. Overall sales are down 6% from 2007, the base year used in the calculation of the allotments.

- Customer Surveys
  - Staff is calling high use customers to help determine the adjustments these users may be making in the upcoming year.
  - Plans are being considered to use a survey firm to expand this effort if the information proves to be valuable.

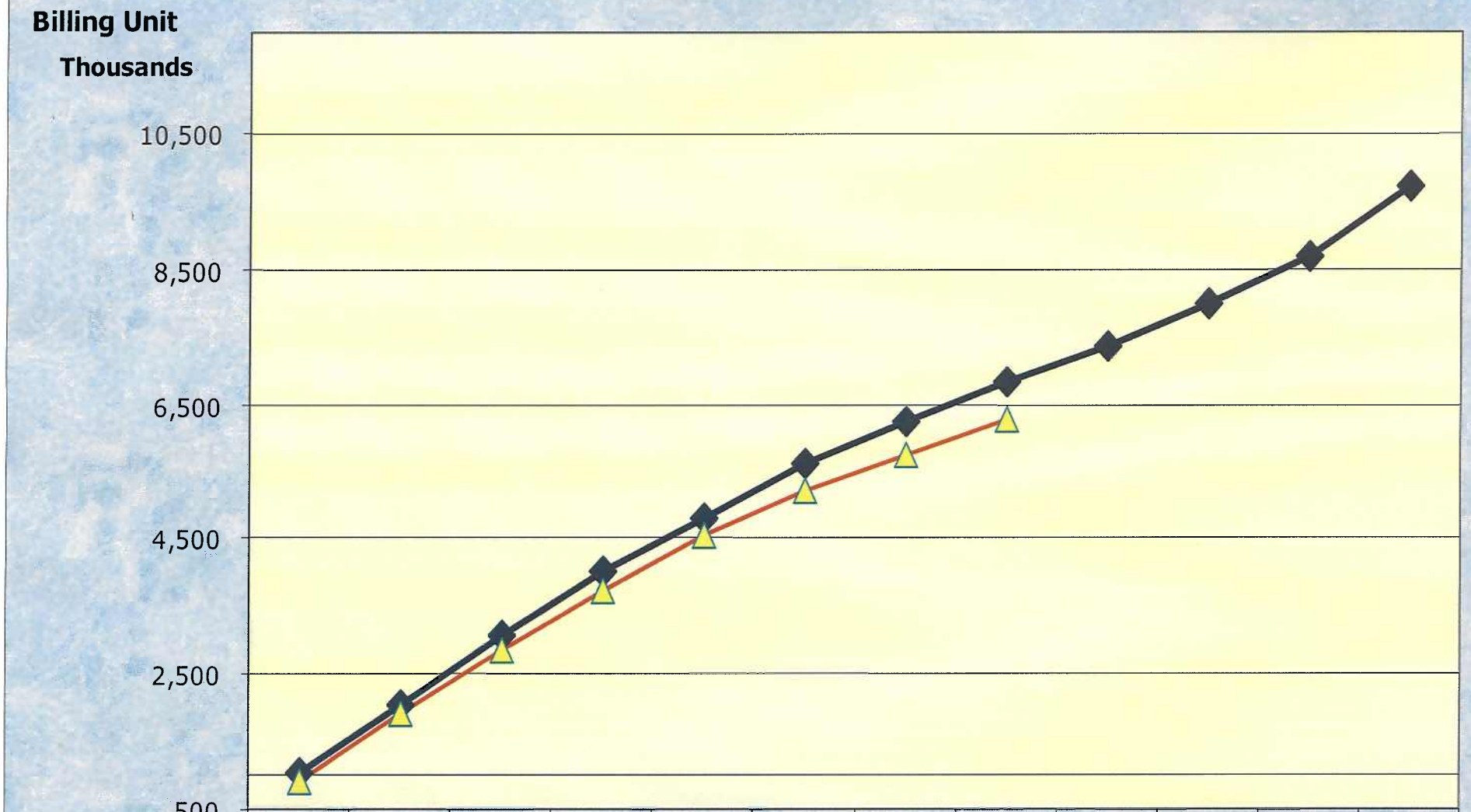

Budgeted Sales to Actual Sales
Units of Water
20,000,000
18,000,000
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
Budget
Actual

Potable Unit Sales



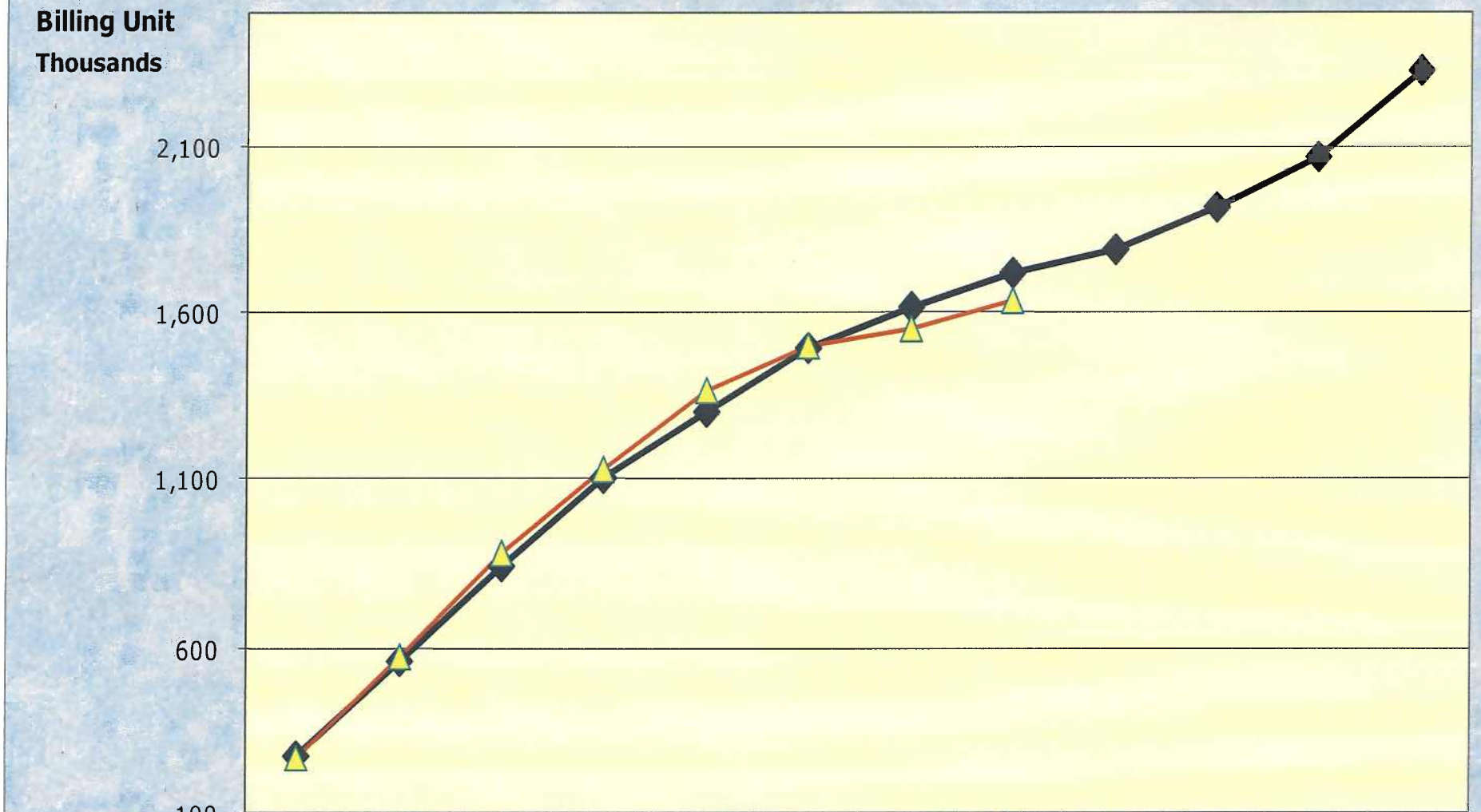
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	1,661	3,339	5,057	6,627	7,950	9,284	10,329	11,288	12,152	13,194	14,318	15,980
Actual FY 09	1,549	3,256	4,898	6,391	7,792	8,901	9,771	10,607				
% Change	-7%	-2%	-3%	-4%	-2%	-4%	-5%	-6%				

Residential Unit Sales



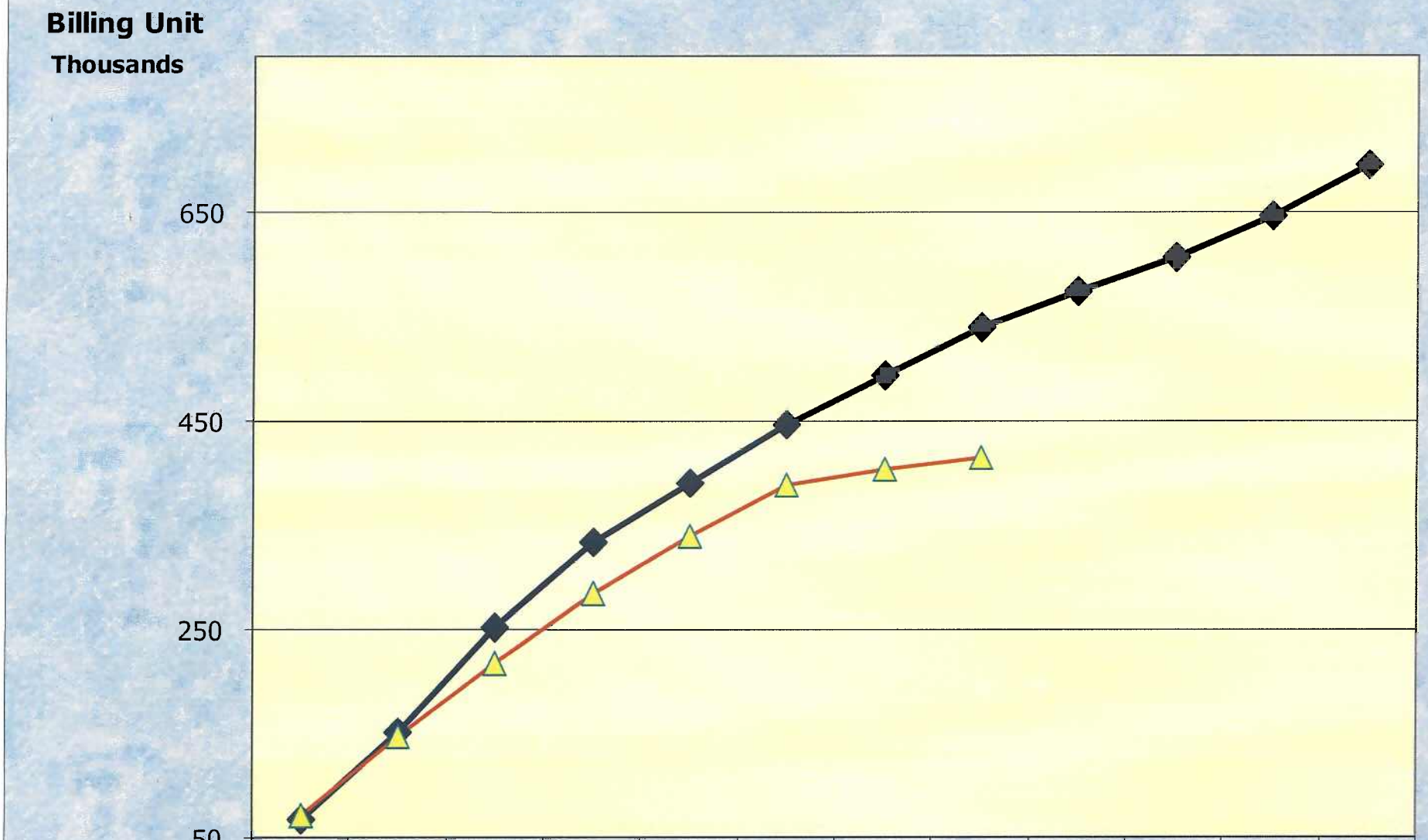
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	1,033	2,040	3,074	4,008	4,804	5,605	6,238	6,823	7,359	8,001	8,691	9,713
Actual FY 09	910	1,912	2,858	3,720	4,539	5,191	5,736	6,250				
% Change	-12%	-6%	-7%	-7%	-6%	-7%	-8%	-8%				

Landscaping and Agriculture



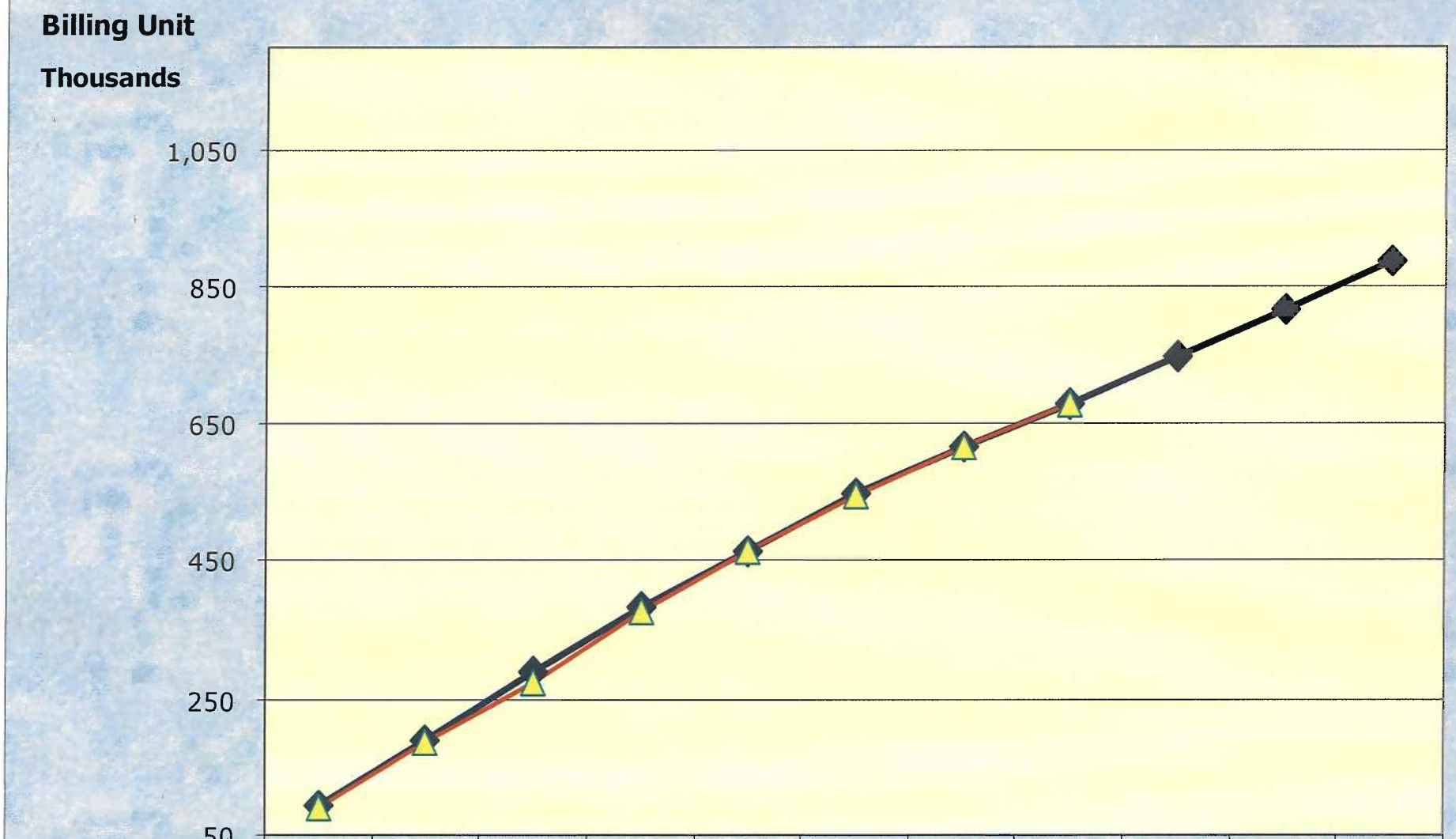
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	270	559	841	1,102	1,302	1,493	1,611	1,716	1,784	1,913	2,064	2,330
Actual FY 09	268	574	881	1,125	1,363	1,501	1,549	1,630				
% Change	-1%	3%	5%	2%	5%	1%	-4%	-5%				

Temporary Meters



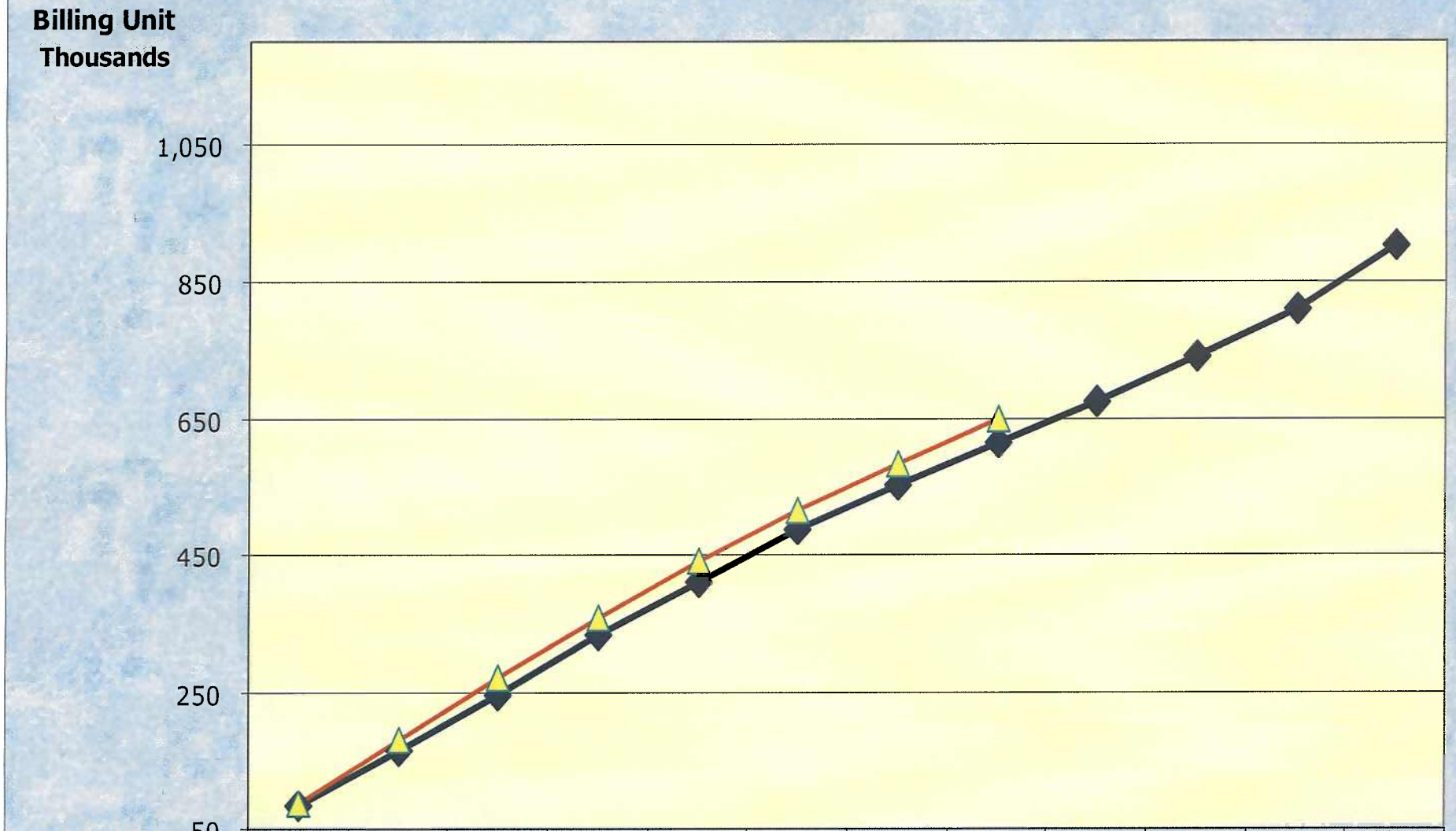
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	66	150	251	333	390	448	495	541	574	607	647	697
Actual FY 09	71	148	217	284	339	388	404	415				
% Change	7%	-2%	-14%	-14%	-13%	-13%	-18%	-23%				

Publicly-Owned



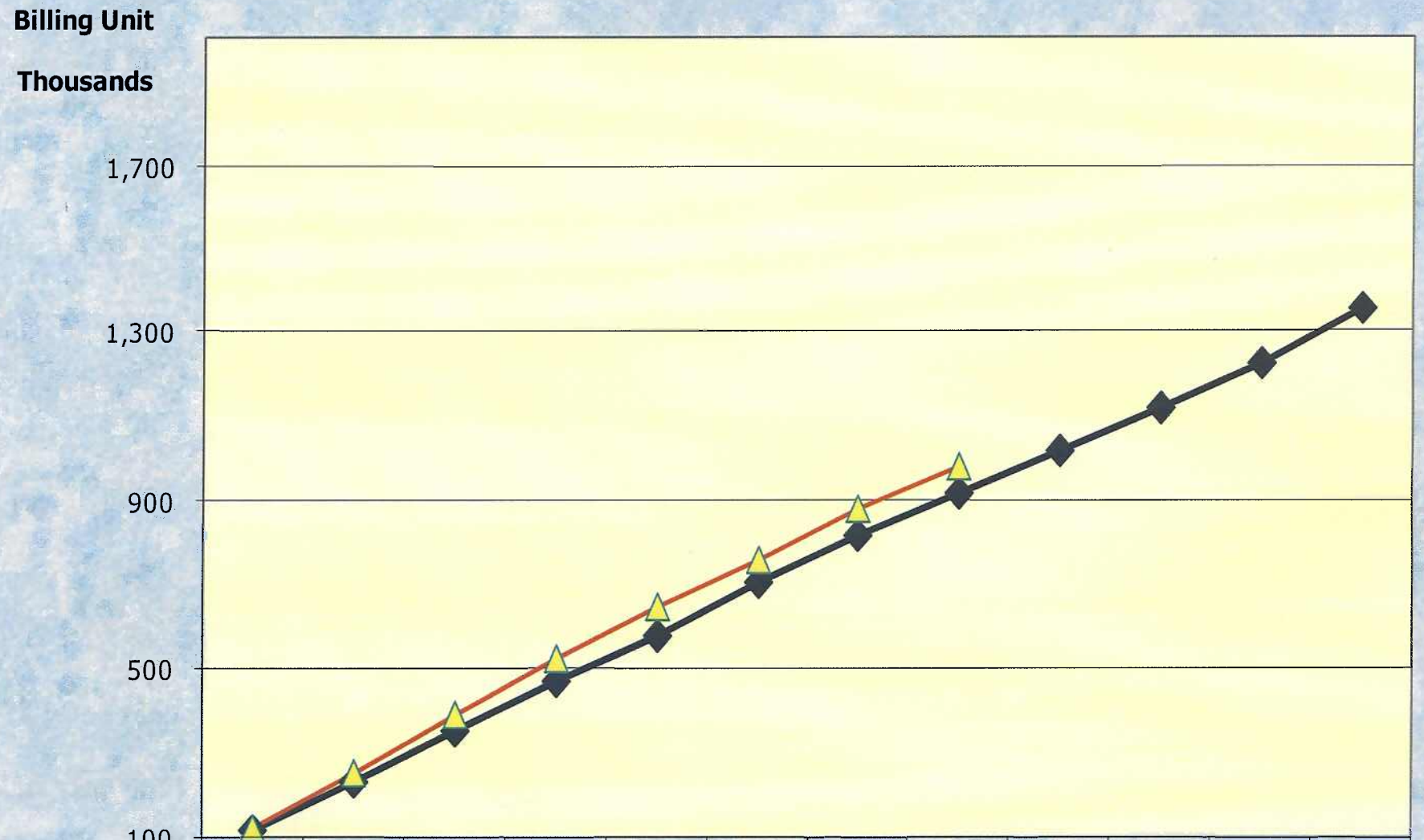
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Actual FY 07	93	191	290	381	464	547	616	679	746	815	887
Actual FY 09	92	188	273	377	463	543	615	679			
% Change	-2%	-1%	-6%	-1%	0%	-1%	0%	0%			

Commercial



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	83	165	246	333	412	489	555	616	675	741	808	902
Actual FY 09	87	179	272	358	441	516	586	649				
% Change	4%	8%	10%	7%	7%	5%	6%	5%				

Multi-Residential Unit Sales



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	115	233	354	471	578	703	816	914	1,014	1,117	1,221	1,354
Actual FY 09	121	254	393	522	643	758	877	980				
% Change	5%	9%	11%	11%	11%	8%	8%	7%				

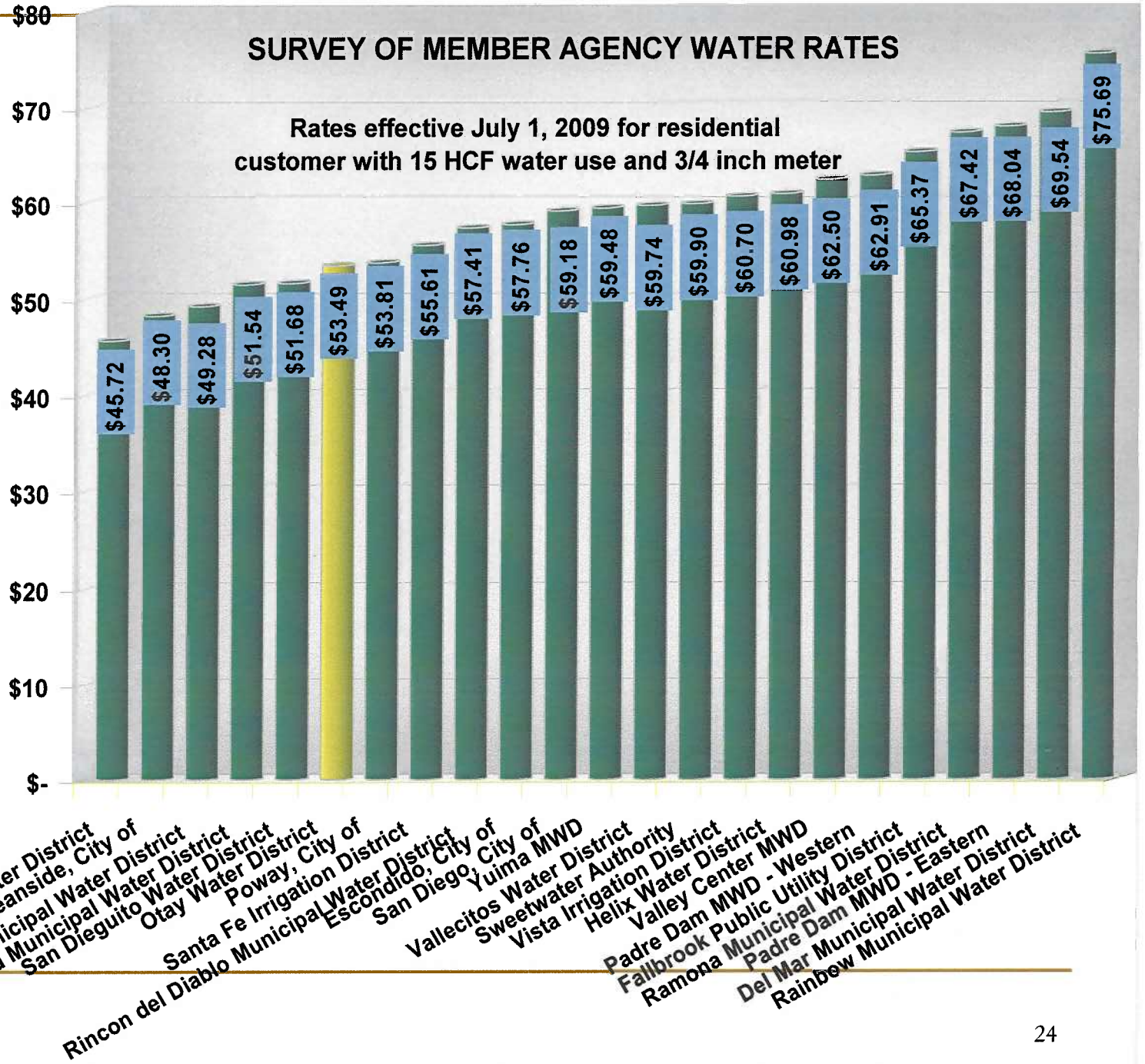
Timing of Increases

- Annual Rate Increase – recommended to match CWA
- Drought Pricing –
  - To be determined with a recommendation going to the May Board meeting. Significant factors in the recommendation are:
    - Otay Water District's water allotment
    - Projected water sales
    - Customer input on conservation
  - With the greater sensitivity of selling more water than budgeted, the need for continuous monitoring and potential adjustments has never been greater.

Other Financial Data

- The following charts are included:
  - Position Relative to Water Rates
  - Write-offs and Aging as a % of Sales
  - Aging as a % of Accounts Receivable

Otay is the 6th of 23 agencies



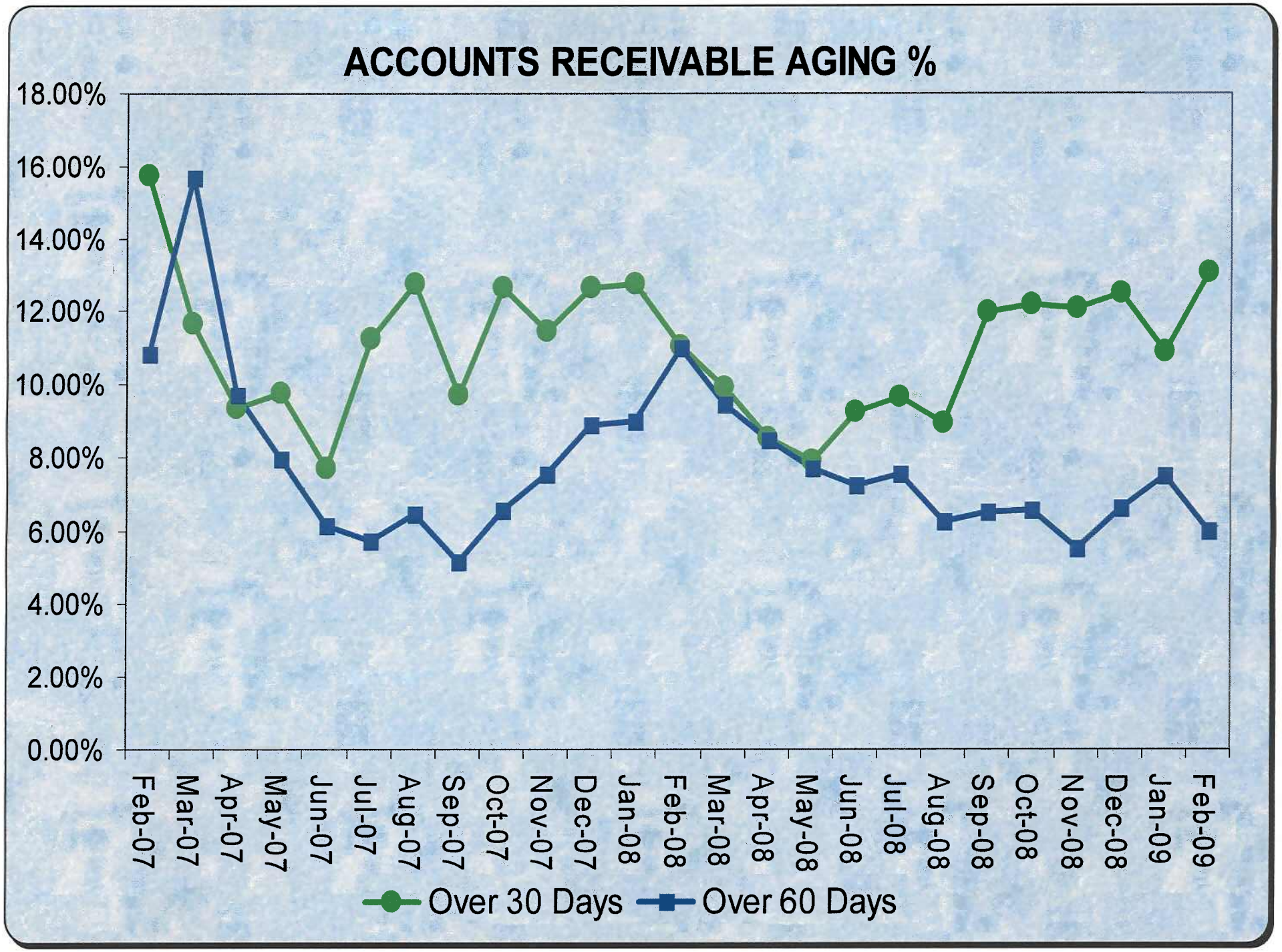
Accounts Receivables

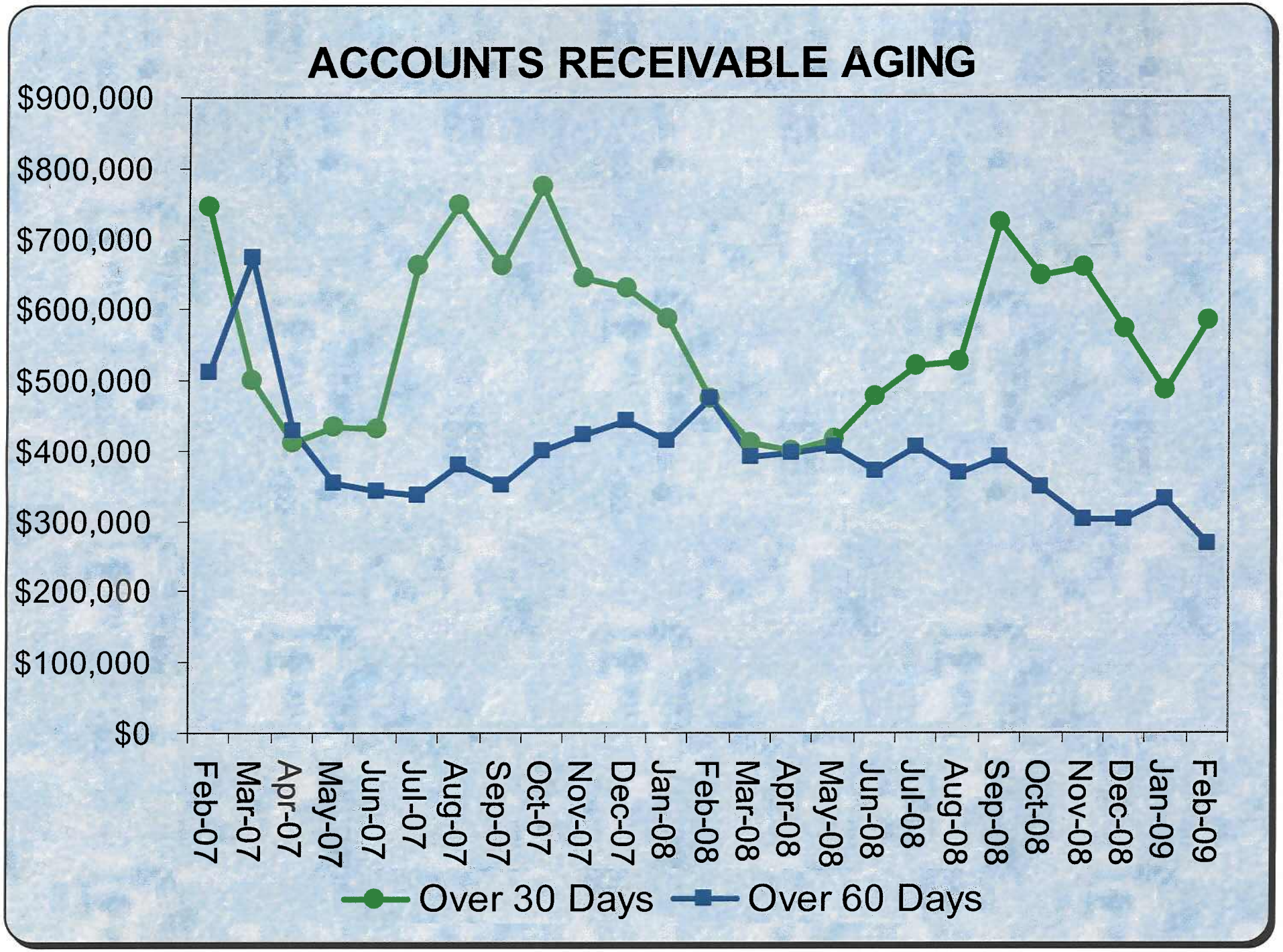
- Monthly Table of Aging and Write-Offs (as a percentage of sales)

	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	12 Month AVG
30 Days	11.9	9.0	8.9	9.4	10.4	9.0	13.9	13.5	16.0	17.9	16.1	19.2	12.9%
60 Days	11.3	9.0	8.6	7.3	8.1	6.3	7.5	7.3	7.3	9.5	11.0	8.8	8.5%
Write-offs	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.36%

- Annual Table of Aging and Write-Offs (as a percentage of sales)

	6-30-06	6-30-07	6-30-08	Thru 02/09
30 Days	9.9%	10.7%	11.2%	12.4%
60 Days	8.8%	8.5%	8.8%	8.3%
Write-offs	0.33%	0.19%	0.23%	0.36%


ACCOUNTS RECEIVABLE AGING %
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Over 30 Days
Over 60 Days


ACCOUNTS RECEIVABLE AGING
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Over 30 Days
Over 60 Days