

Otay Water District



FY 2010 Budget Workshop

May 21, 2009

Workshop Agenda

- Rate Model Review (Joe Beachem)
 - Debt Coverage Expectations (Suzanne Harrell)
 - Updated Tier Structure (Karyn Keese)
 - Strategic Management (Geoff Stevens)

- Capital Improvement Budget (Rod Posada)

- Balanced Operating Budget (Rita Bell)
 - Growth Projections
 - Shifting of Operating Expenses
 - Management of Staffing Levels

- Summary of Recommendations (Joe Beachem)

Workshop Objectives

- Present for approval of \$75.7M Operating Budget
- Present for approval a \$37.3M CIP Budget
- Request approval of associated fund transfers
- Approval of the 218 Notices

Supported by:

- An average 19.9% rate increase for potable and recycled customers
- An average 7.2% rate increase for sewer customers

Budget approval is requested before the beginning of the new fiscal year, while the rate changes can only be approved after a Prop 218 hearing.

Next Steps

- ❑ Prop 218 hearing to be held in late August
- ❑ Board approval of rates immediately following hearing
- ❑ Implementation of water rate increases on September 1, 2009
- ❑ Implementation of sewer rate increases on January 1, 2010



RATE
MODEL
REVIEW
Water Rates
(Joe Beachem)

Water Rates

□ Factors Pushing Rates Up

- MWD/CWA – unprecedented rate increases
- Debt coverage expectations (Suzanne Harrell)
- Financing of CIP projects
- Reduced water sales

□ Factors Holding Rates Down

- Updated water rate tiers (Karyn Keese)
- Efficiencies via Otay's strategic management (Geoff Stevens)

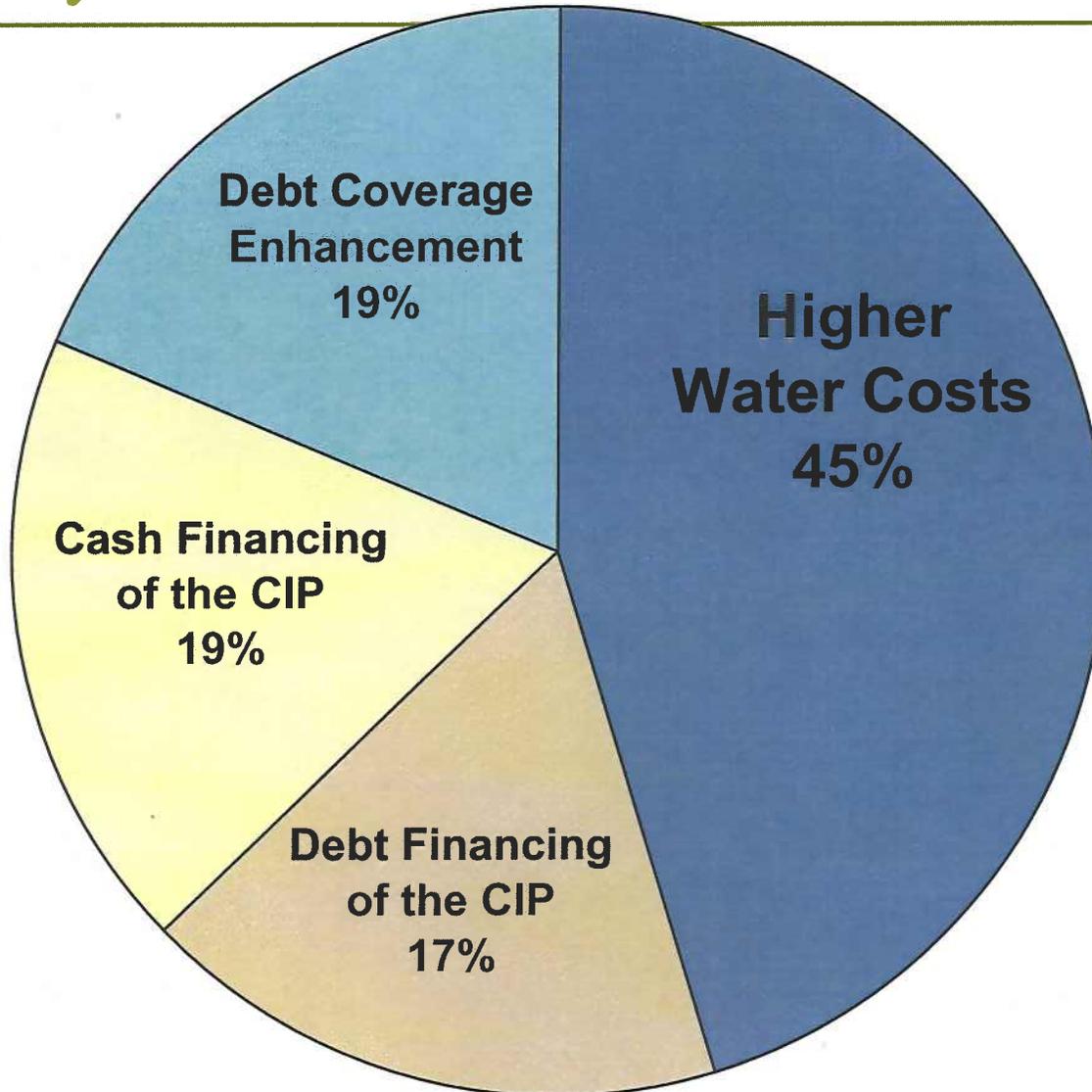
Unprecedented Water Cost Increases

CWA & MWD have raised their water prices due to the state water shortage and to cover the cost of infrastructure projects.

- Creating a compounding effect of more costly water and lower sales over which to spread fixed costs
- MWD - Increase 21.1%
- CWA - Increase 18.1%

Water Cost is 49% of the Otay Operating Budget

Primary Causes of the Rate Increase



Debt Coverage Ratio

History of Otay's Credit Rating and Debt Coverage

- ❑ In February of 2007, Fitch Ratings upgraded the District from A+ to AA-. The District's debt coverage ratio was staying above 125% with a target of 150%.
- ❑ In June of 2008, by holding rates down for the 2009 Fiscal Year, the District brought the debt coverage down to the minimum level that would be acceptable for a strong credit rating of 100%.
- ❑ In September of 2008, the District was able to obtain a rating upgrade from S&P to a AA. This was just before the stock market crash.

New Expectations

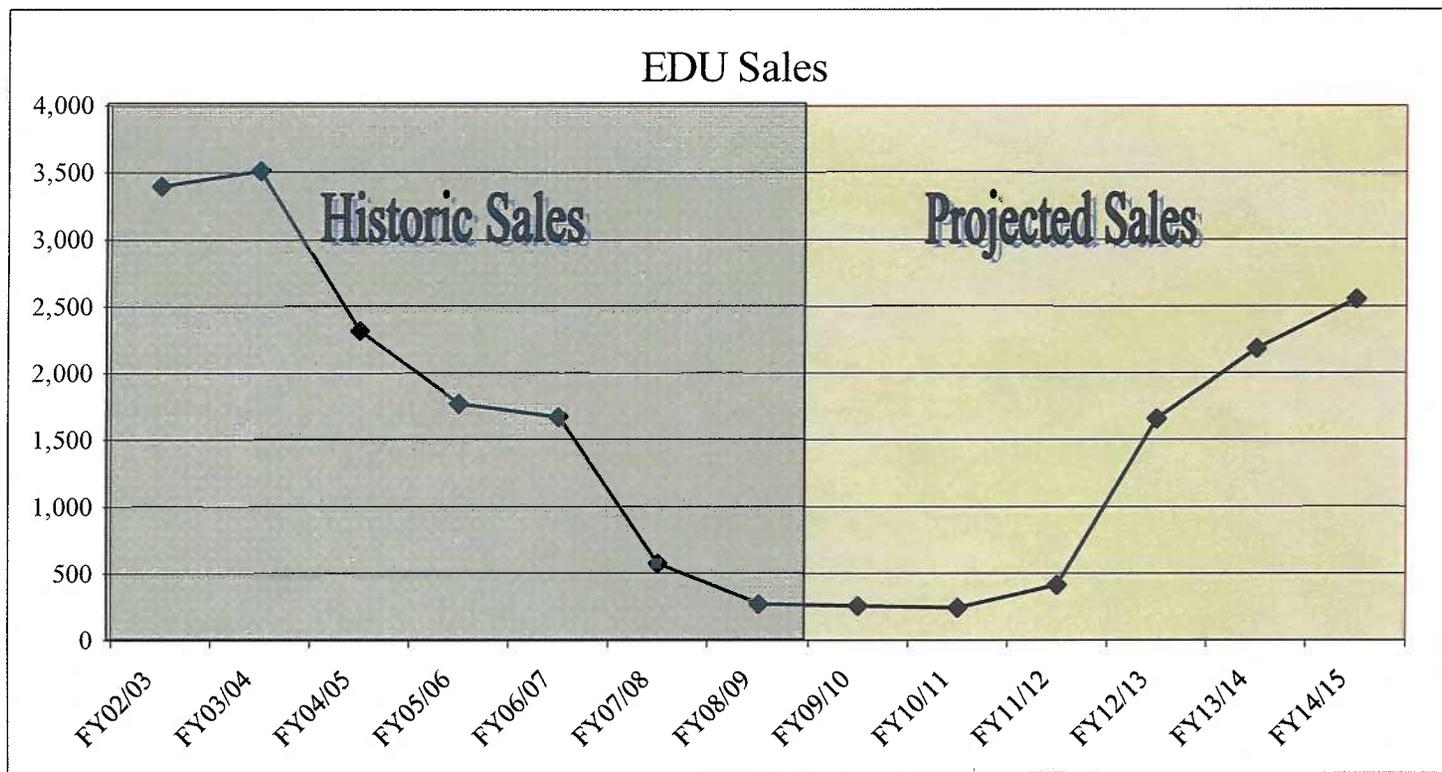
What defined a strong ratio has now changed.

- With the recession and the housing slowdown growth funds are not reliable
 - Meter sales dropping, 2010 is 16% of sales 3 years ago
 - Relatively flat until 2012

- To demonstrate a strong financial position we need to build a debt coverage ratio to 140% without relying on growth revenues.

Meter Sales and Growth

- Projected to sell 153.3 Potable and 109.5 Recycled EDUs in FY 2010



Debt Coverage Ratio - Projections

Start Strong

- ❑ In 2010, with a 19.9% rate increase, the District starts very strong with 208%.

Solid Planning

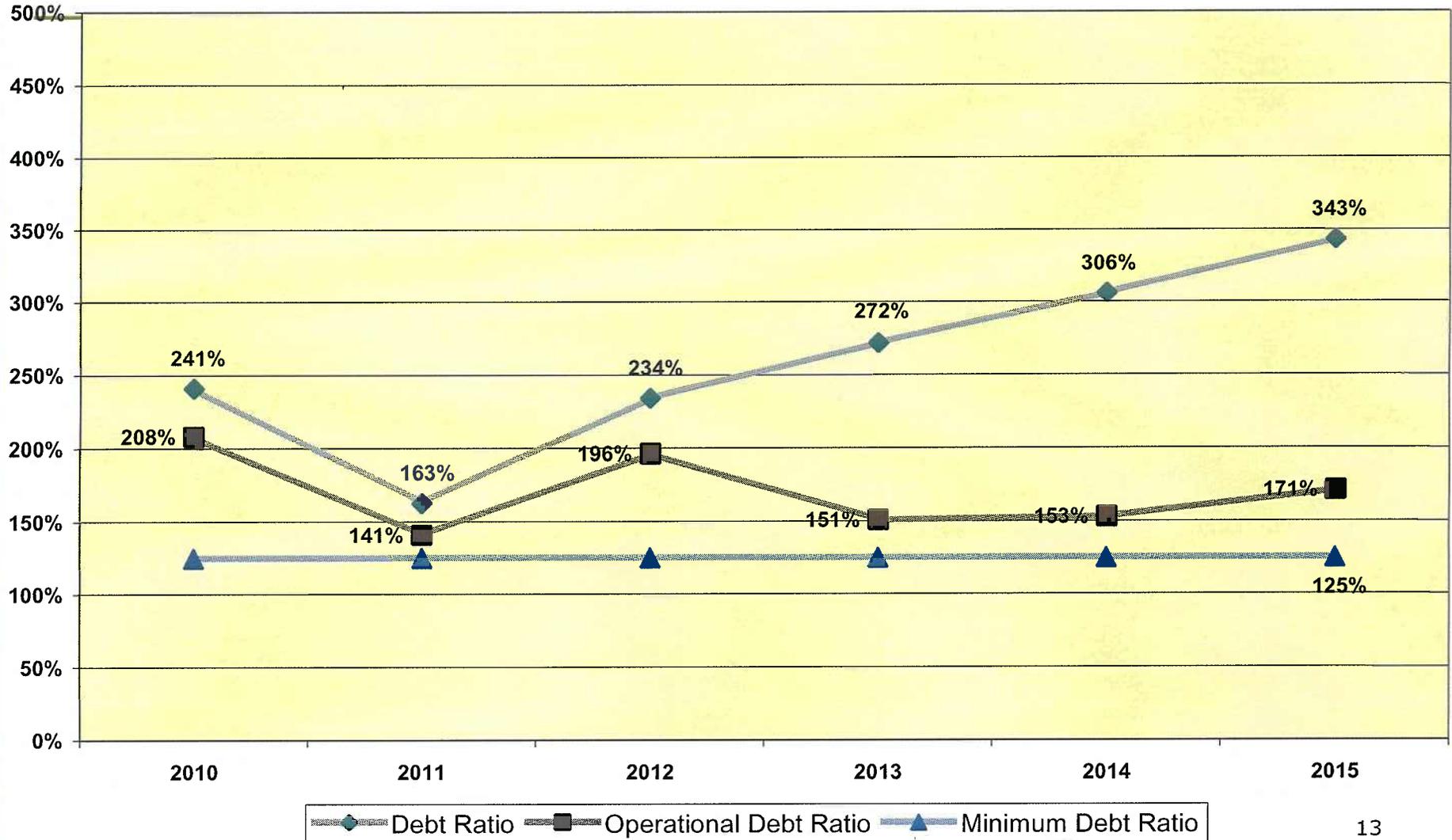
- ❑ In 2011, with the debt service on the new debt, the District drops to 140%. Still Strong
- ❑ Water sales variance analysis shows that a drop in sales of 4.1% more than expected would still leave the District at 125%.

Time to React

- ❑ Monitoring of sales is a focus of the District, at the 2011 budget cycle this issue will be address.
- ❑ Drought pricing is an option during 2011 if conservation significantly exceeds the 2011 budget expectations.

Debt Coverage Ratios

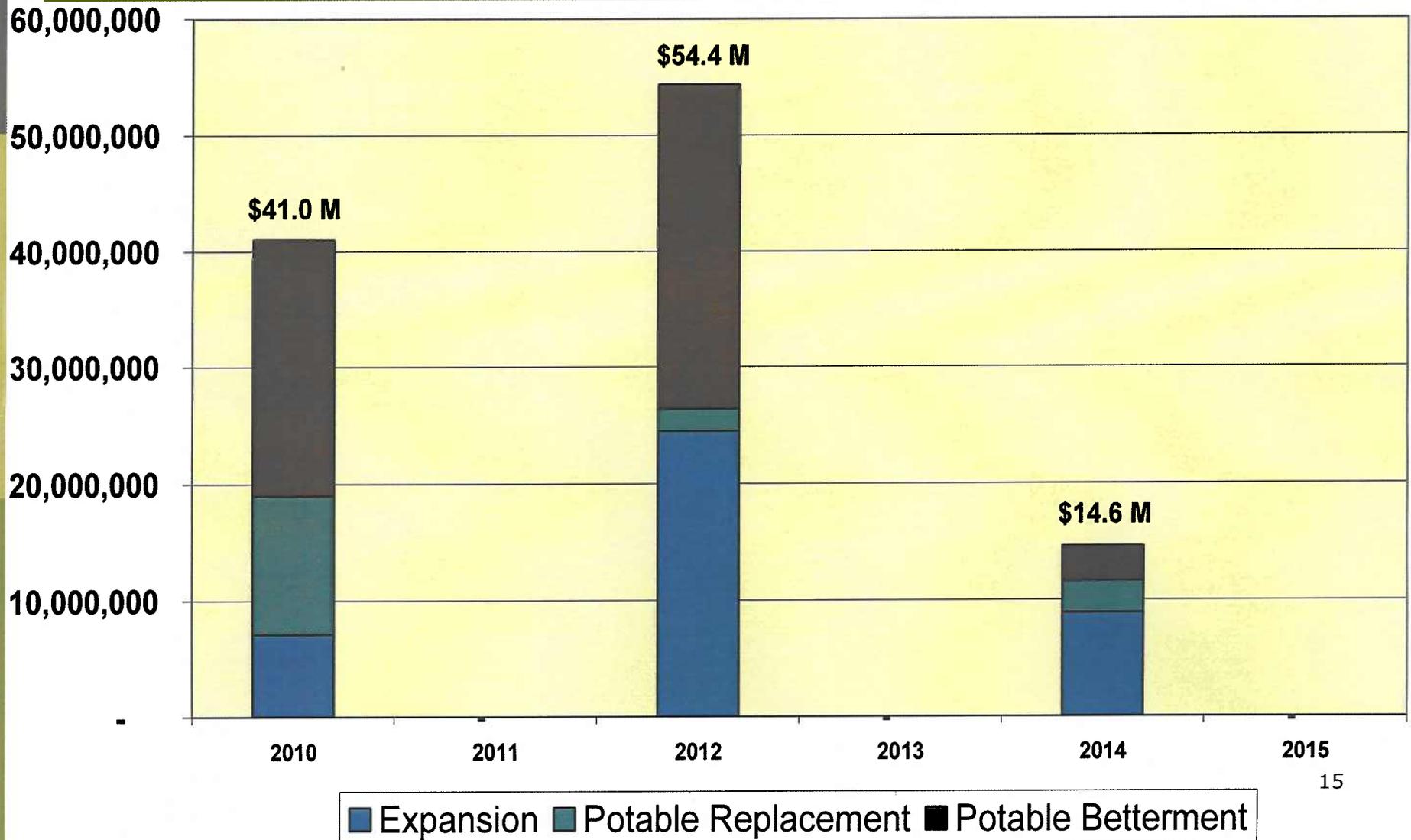
Otay Water District Debt Ratios



Financing the CIP

- The District takes a comprehensive approach to financing.
 - Financing Policy
 - Provides guidance on Debt Issuances and Refinancing
 - Reserve Policy
 - Provides guidance on Fund Transfers
 - Provides guidance on Reserve Balances
- Rate Model – where these policies are modeled into an overall financing plan.

Otay Water District Debt Issuance



Fund Transfers - \$10.4 Million

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

Proposed 2009 Fund Transfers

Potable

General Fund to Replacement	2,710,000
General Fund to Designated Betterment	3,700,000
General Fund to Sewer General Fund	200,000

Recycled

General Fund to Replacement	950,000
General Fund to Designated Expansion	1,610,000
General Fund to Designated Betterment	110,000

Sewer

General Fund to Designated Betterment	753,000
Expansion to Designated Betterment	410,000

Reserve Balances & Targets

Ending 2010 - Ending 2015

Restricted and Designated Funds

Expansion Funds	\$17.2M	to	\$14.3M
Betterment Funds(15 Funds)	\$15.0M	to	\$3.0M
Bond Funds	\$1.4M	to	\$0.6M

Designated Funds

Replacement Funds	\$31.9M	to	\$39.9M
Retirement Medical Fund	\$7.8M	to	\$2.4M

General Funds

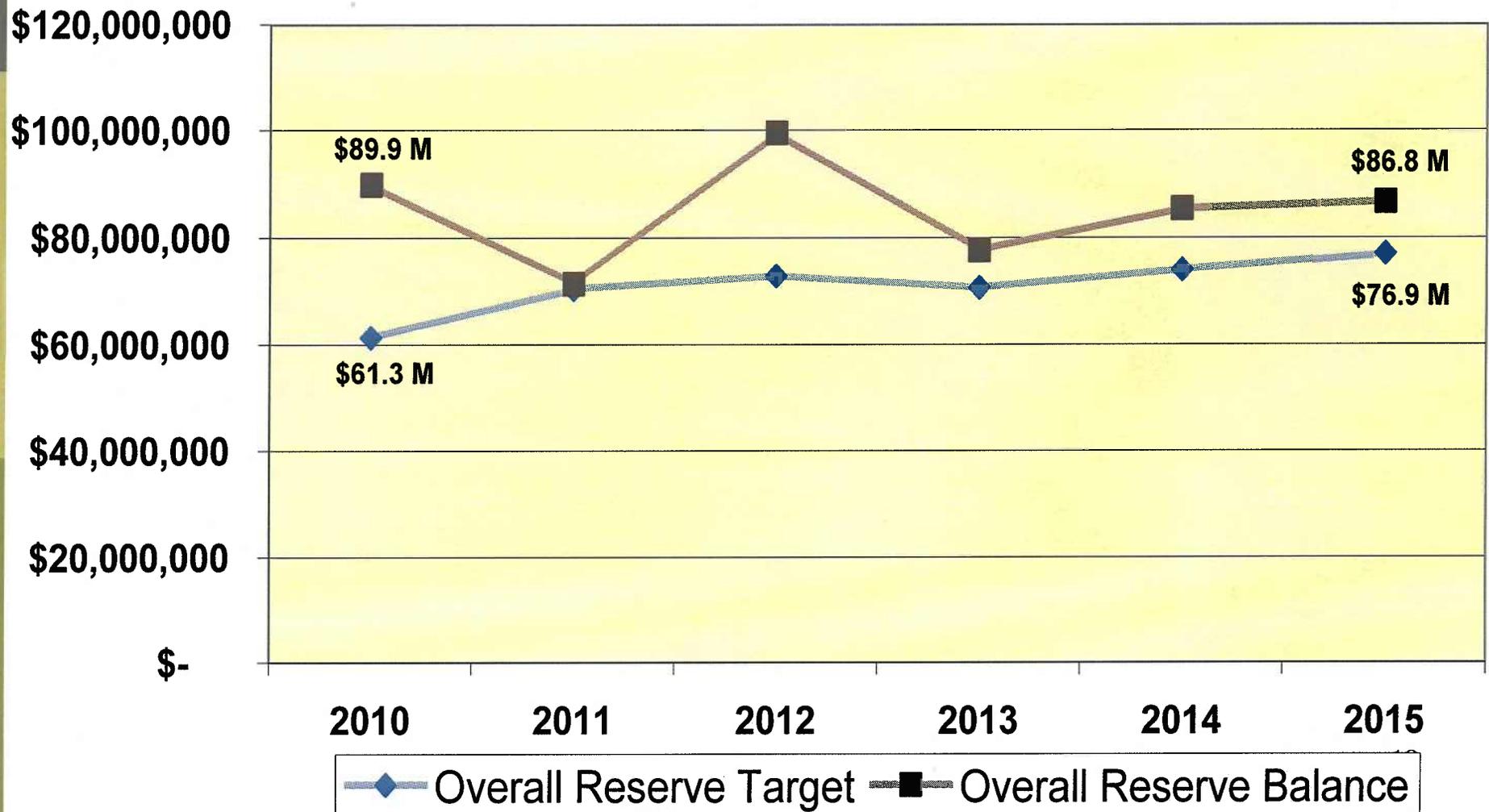
■ Potable	\$14.6M	to	\$23.3M
■ Recycled	\$0.9M	to	\$1.2M
■ Sewer	\$0.9M	to	\$1.9M

Total Reserves **\$89.9M** **to** **\$86.7M**

Reserve Targets **\$61.3M** **to** **\$76.9M**

Otay Water District

Projected Reserve Balances and Target Balances



Reduced Water Sales

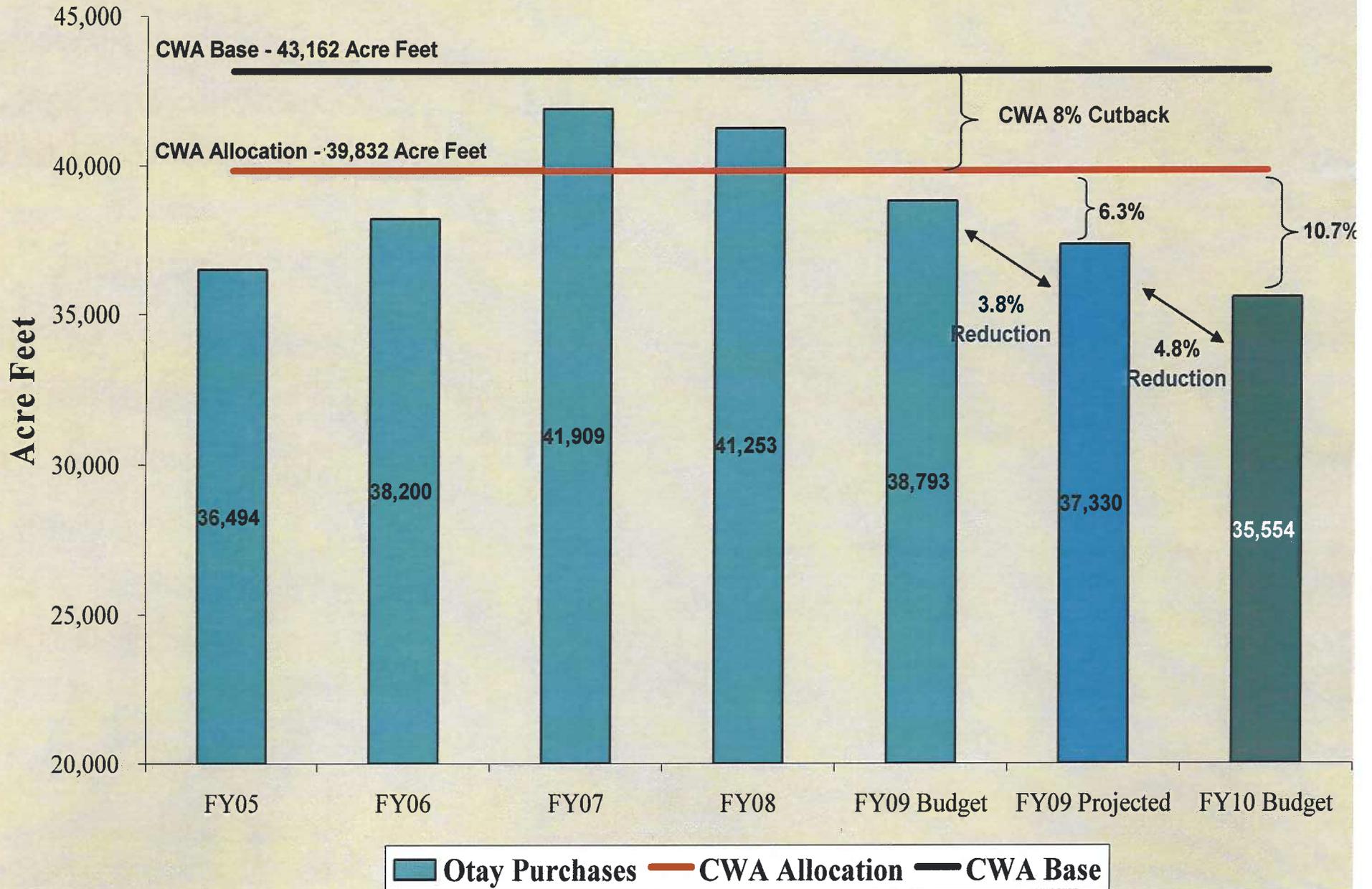
Water Sales Down in FY 2009 by 5.8%

- Budget was reduced for 2% conservation
- Actual reduction exceeds this by 3.8%

- Projected another 4.8% decrease in FY 2010

- Projected another 2% each year for FY 2011 & 2012

OWD and CWA Allocation



Water Sales - Projection

- ❑ Rea & Parker Survey of Single-family Residential
 - Interpretation of the responses, results in a 5.3% conservation factor
- ❑ Survey by Otay Staff of other Potable Customers
 - Response:
 - ❑ Master-metered residential expected to be the same as single-family residential at 5.3%
 - ❑ Landscape, Agriculture, and Construction expected to cut back 10%
 - ❑ Public and Commercial not expected to cut consumption
- ❑ Total Average Consumption reduction - 4.8%

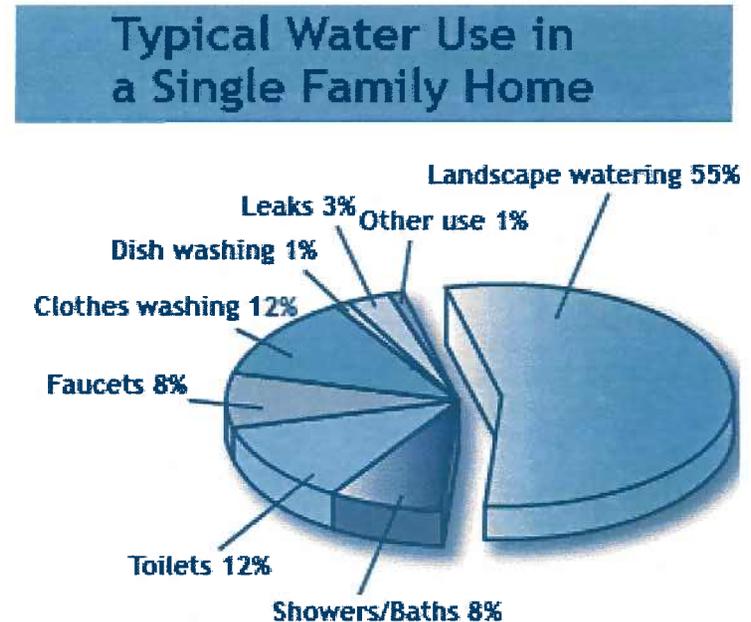
Survey Results

We examined the percentage reduction that customers stated they would conserve and compared it to typical water usage patterns.

For an average customer using 18 units, this chart shows that 55% of their usage is for outdoor landscaping purposes.

For a high water customer using 50 units, we assumed that 75% of their usage is for landscaping.

Answers were weighted based on what the customers stated they would do to conserve and this was applied to the typical usage to calculate a realistic reduction number.



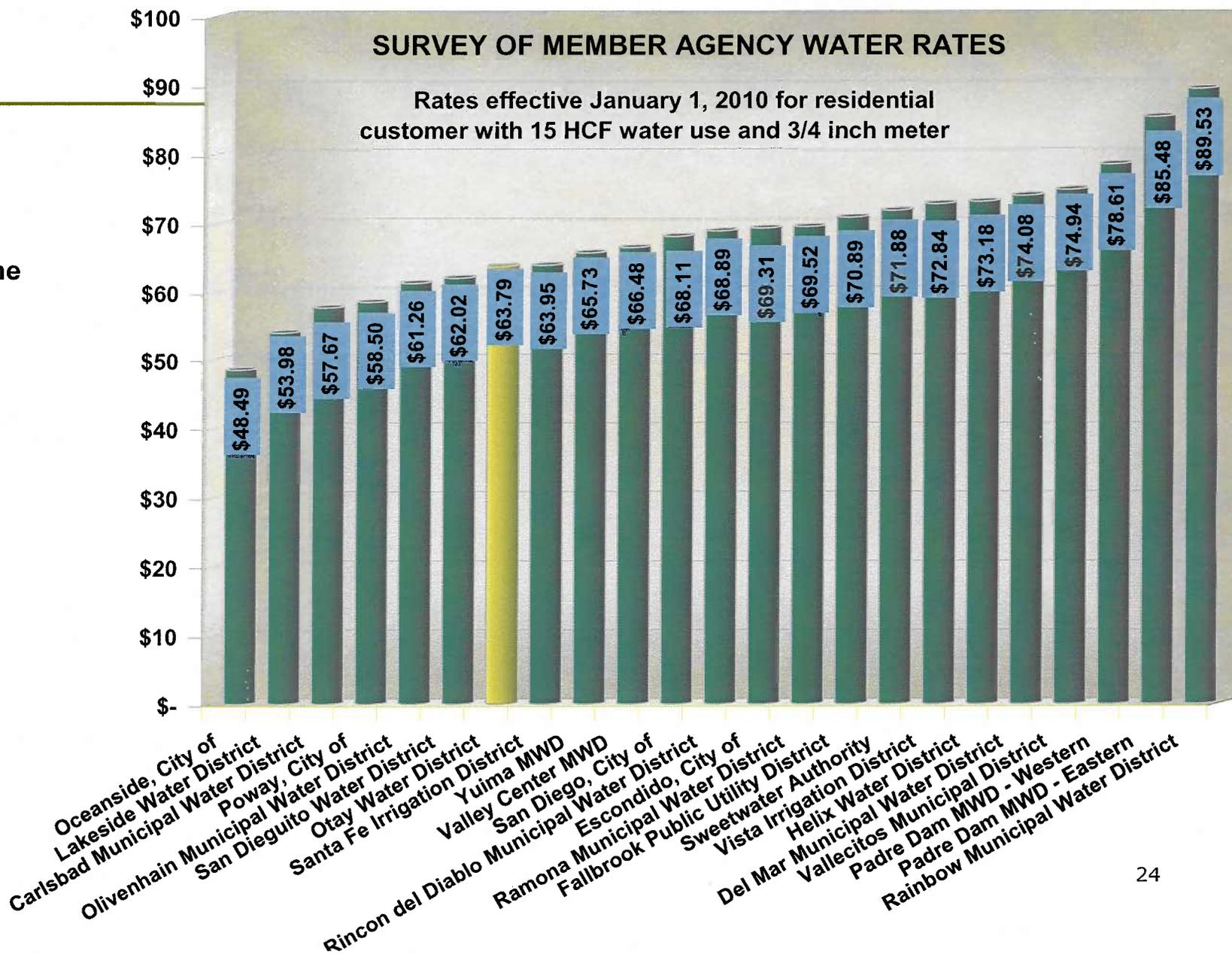
Rate Summary

A 19.9% rate increase for potable and recycled customers

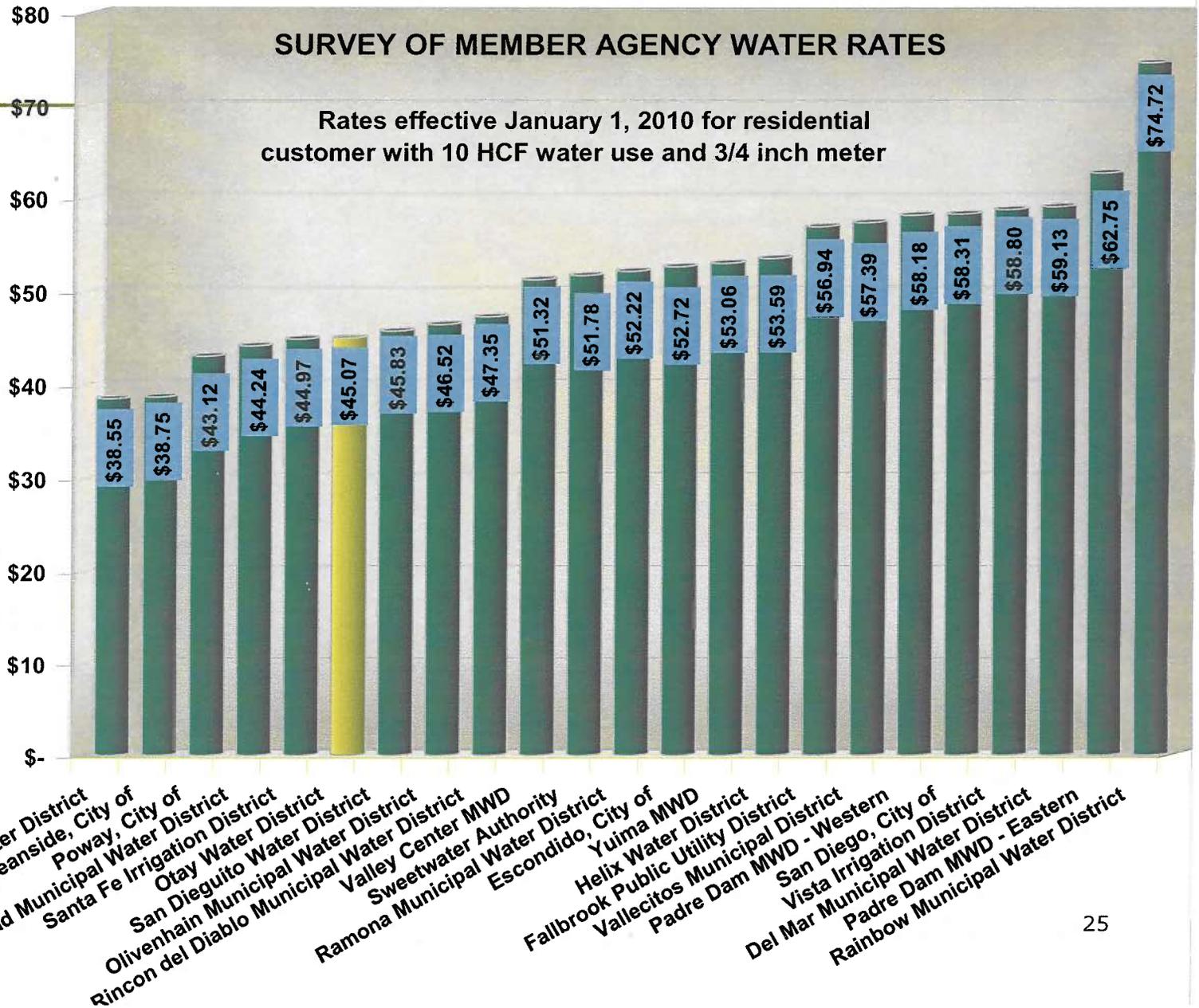
- \$41 Million of Debt Issuance to finance the CIP
- \$10.4 Million of Transfers to maintain reserves and finance the CIP
- Strengthening the Debt Coverage Ratio to 140%
- Incorporating greater levels of conservation
- Raising rates to pay the higher cost of CWA and MWD water
- Maintaining the District's relative position with other water providers

Water Survey Results – 15 Units

Otay is the 7th of 23 agencies



Water Survey Results – 10 Units



Otay is the 6th of 23 agencies

Water Rates

□ Factors Pushing Rates Up

- MWD/CWA – unprecedented rate increases
- Debt coverage expectations (Suzanne Harrell)
- Financing of CIP projects
- Reduced water sales

□ Factors Holding Rates Down

- Updated water rate tiers (Karyn Keese)
- Efficiencies via Otay's strategic management (Geoff Stevens)

2008 Rate Study

- PBS&J - Rate Study
 - Rates and tiers updated
 - Equity and simplicity

- Tiers Based on Industry Standard
 - Base tier ends at winter average
 - Highest tier begins at summer average

- Performed Consumption Analysis
 - Using current usage data
 - Changes to tiers to bring them back to the rate study methodology
 - Changes are incorporated into the 218 notices

Residential Tier Changes

	Current Consumption Blocks		Proposed Consumption Blocks	
Conservation Tier	0	5	0	5
Tier 2	6	10	6	10
Tier 3	11	26	11	22
Tier 4	27+		23+	

- The District's proposed changes to the tiers is comparable to what our neighboring Districts already have in place or to what they are proposing.
- This adjustment of the tiers avoids an additional 0.4% increase in the average water rates.



RATE
MODEL
REVIEW
Sewer Rates

Sewer – Increased Cost

- Increased regulatory requirements regarding the Sewer System Management Plan has increased cost in this area by over \$400,000
 - This is a 16.6% increase of the operating expenses
 - Requires ongoing funding of this annual cost

- Sewer rate increase
 - Recommended Option 1 – 7.2% for six years
 - Option 2 – 9.6% for six years

Sewer - Option 1

7.2% Over 6 Years

- Raises the Operating Revenues over time to be on par with Operating Expenses
- Draws down the Sewer General Fund reserves by \$1.3M
- Draw down is consistent with Reserve Policy as all reserves are over target or exceeding the maximum level

Sewer - Option 2

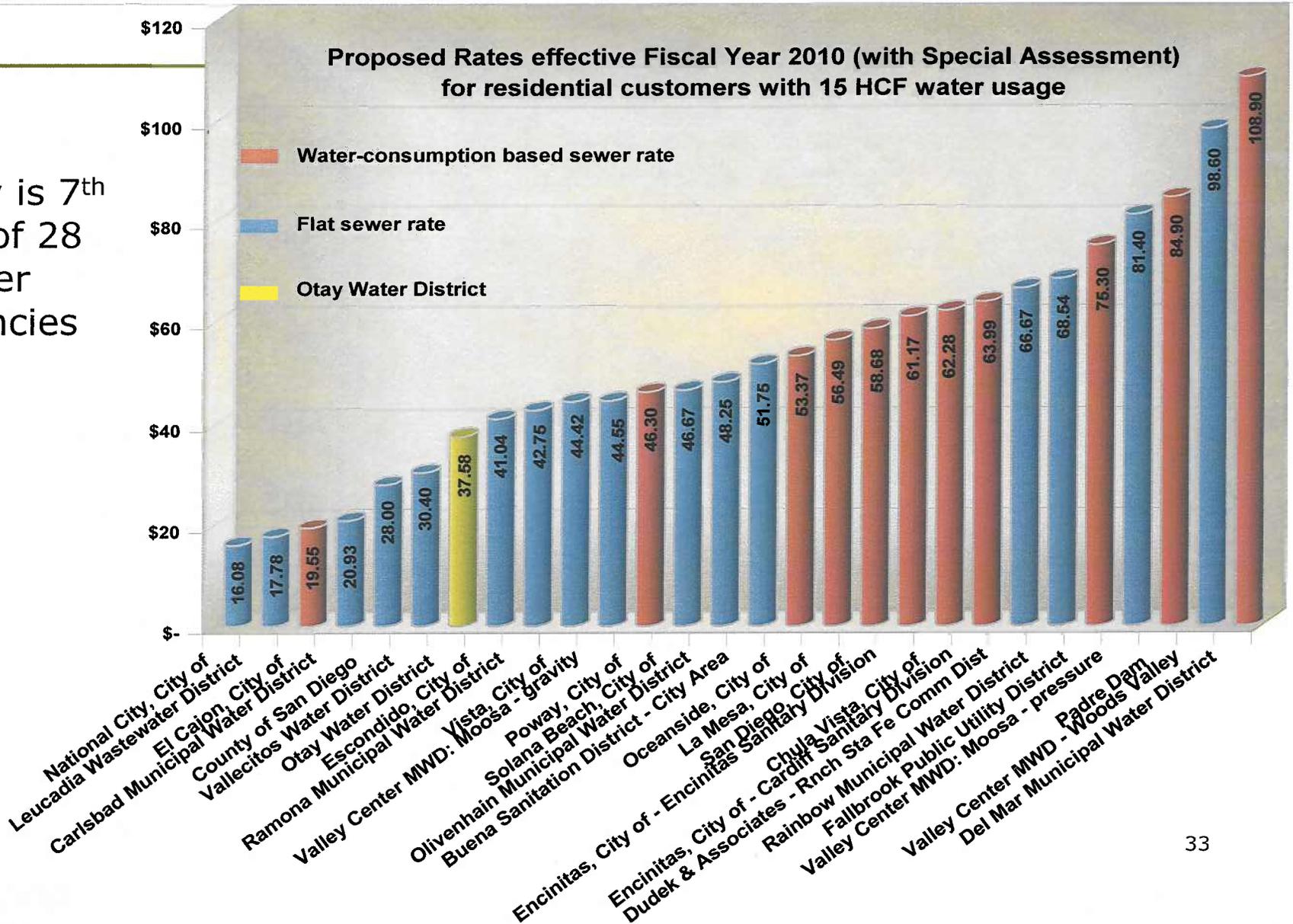
9.6% Rate Increases for the First 6 Years

- Draws down the reserves in the first 3 years, then replenishes them in the following 3 years
- After the 6 year window, rate increases drop significantly
- Maintains status quo of the reserve levels for needs that are not anticipated by the 6-year CIP
 - General fund over target
 - Replacement reserve over maximum

Sewer Survey Results

Sewer Rate Comparison in San Diego County

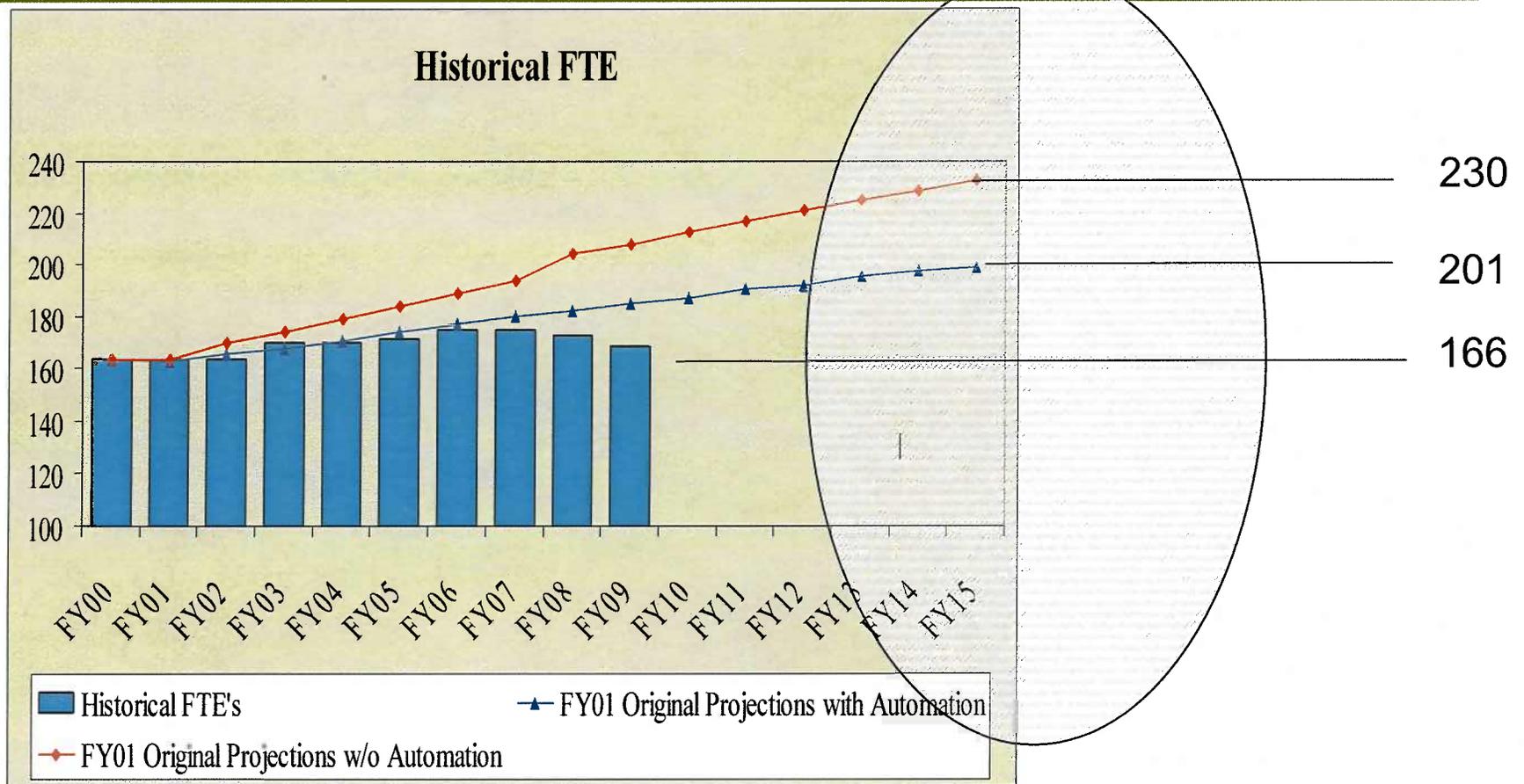
Otay is 7th
out of 28
Sewer
Agencies





Efficiencies
Through
Strategic
Management
(Geoff Stevens)

Otay Staffing Projections



Three Forces Driving Efficiency

- Strategic Planning
- Advanced Technology and Automation
- Implementing Best Management Practices



Center for Digital Government

Strategic Planning

- ❑ Board Guidance And Input
- ❑ Eighth Year Of Functioning Plan
- ❑ Well Developed Set Of Metrics
- ❑ Transparency

Advanced Technology and Planning

- ❑ Implemented Integrated Business Systems
- ❑ Advanced Network And Communications
- ❑ Asset Management
- ❑ Extension Of Field Mobile Technologies

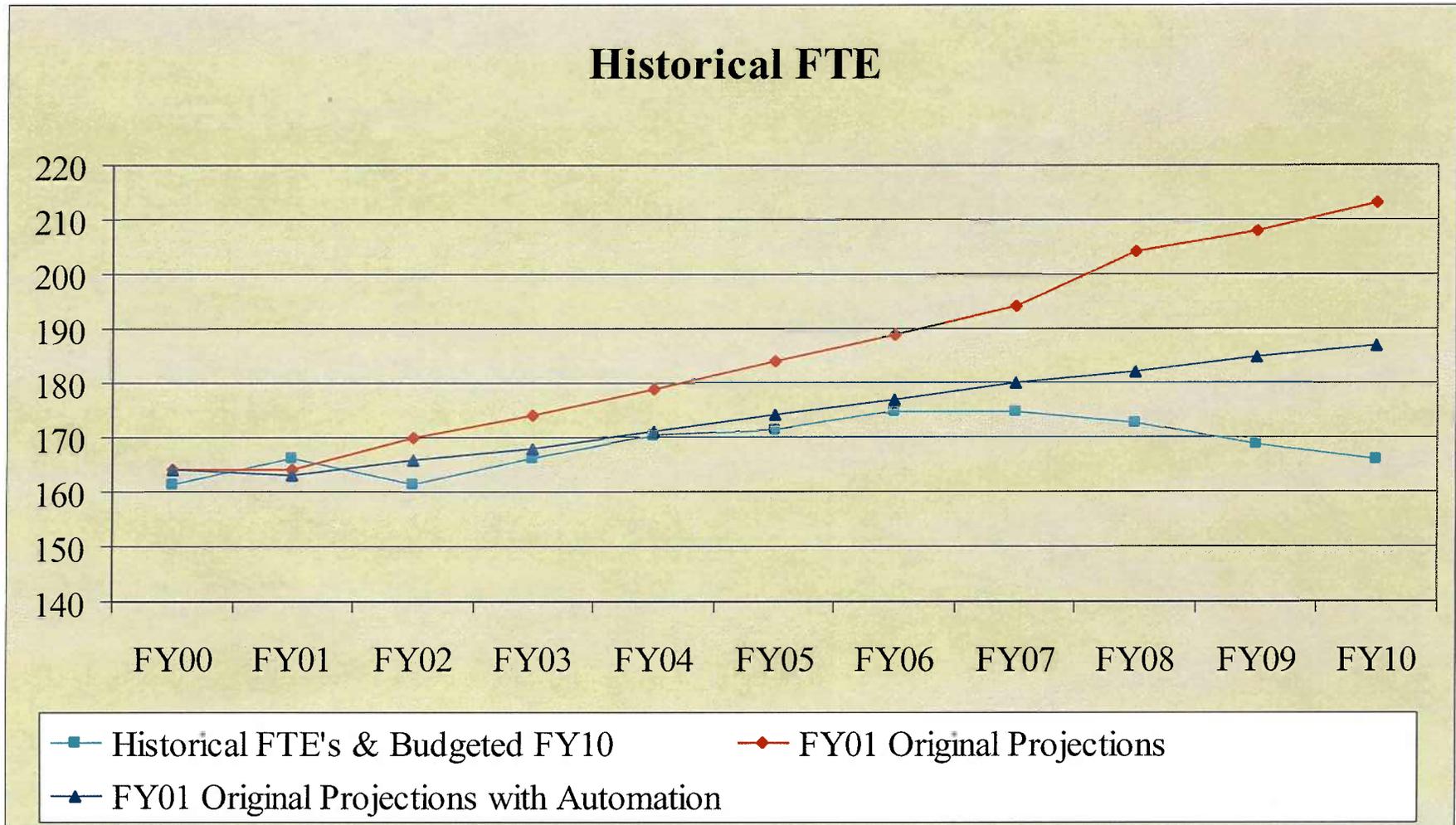
Technology and Systems



Dedication to Industry Best Practices

- Strategic Plan Called For Each Department To Identify Best Practices
- Teams Met And Identified Policy And Practice Improvements
- Results Monitored And Adjusted
- Significant Examples Of Success
 - Outsourcing
 - Financial Policies
 - HR Practices
 - Disaster And Emergency Response
 - Risk Management
 - Water Resources Master Plan / Integrated Resources Plan

Otay Efficiencies





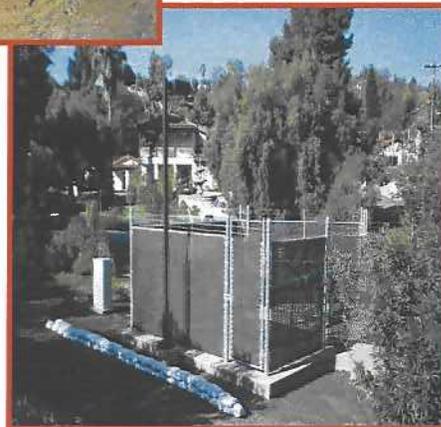
CAPITAL
IMPROVEMENT
PROGRAM
FY 2009-2010
(Rod Posada)

GROWTH PROJECTIONS

450-1 Reservoir Disinfection Facility (R2092)



850-4 Reservoir (P2191)



Calavo Sewer Lift Station (S2015)

- ◆ Development has slowed down and the District has experienced a significant decrease in growth in the last two years.
- ◆ The housing market in the region and within the City of Chula Vista is projected to remain quite slow for at least another year with a modest upturn in the following year.
- ◆ Projected EDU sales for FY 2010 are 263, with 236 for FY 2011, and 413 for FY 2012.

CIP BUDGET ASSUMPTIONS

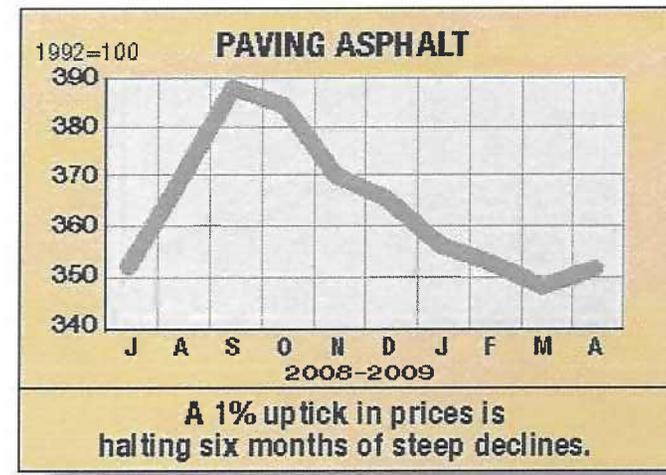
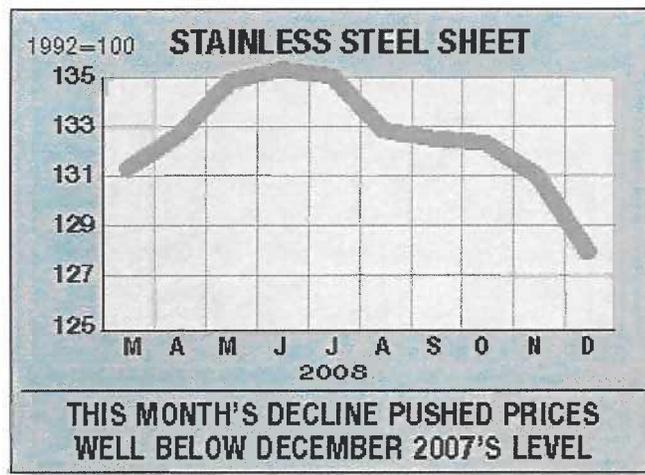
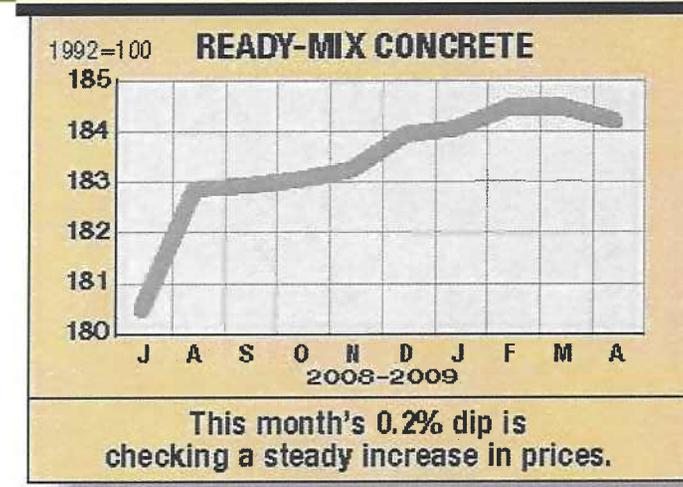
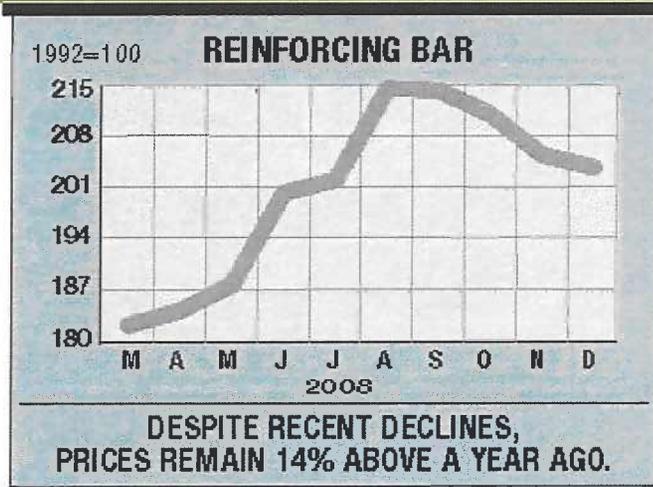
- Growth to remain flat for at least another year.
- Projects for Expansion, Betterment, and Replacement are included within the CIP.
- Six-year CIP expenditure plan to be as level as possible.
- The Engineering News-Record Construction Cost Index projects increases to 5.8% from March 2009 to March 2010.
- SDCWA Construction Index for the same period projects an increase of 0.3%.

ENGINEERING NEWS-RECORD (ENR)

“Recession KO’s Inflation in 2009”

December 22/29, 2008 Magazine

April 6, 2009 Magazine

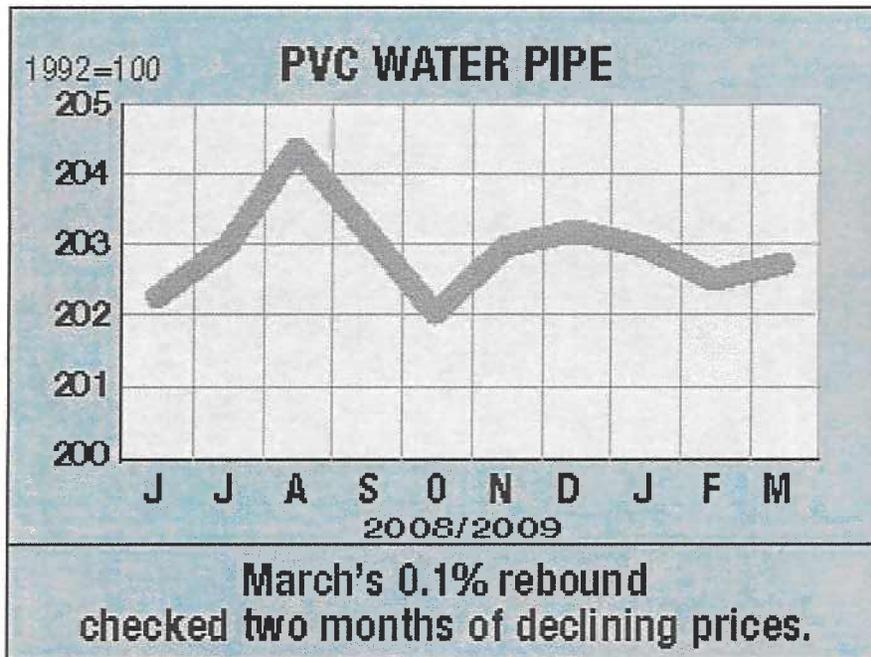


ENGINEERING NEWS-RECORD (ENR)

ENR's Materials Price Indexes

March 9, 2009

640 Reservoir



Source: McGraw-Hill Construction Research & Analytics/ENR.

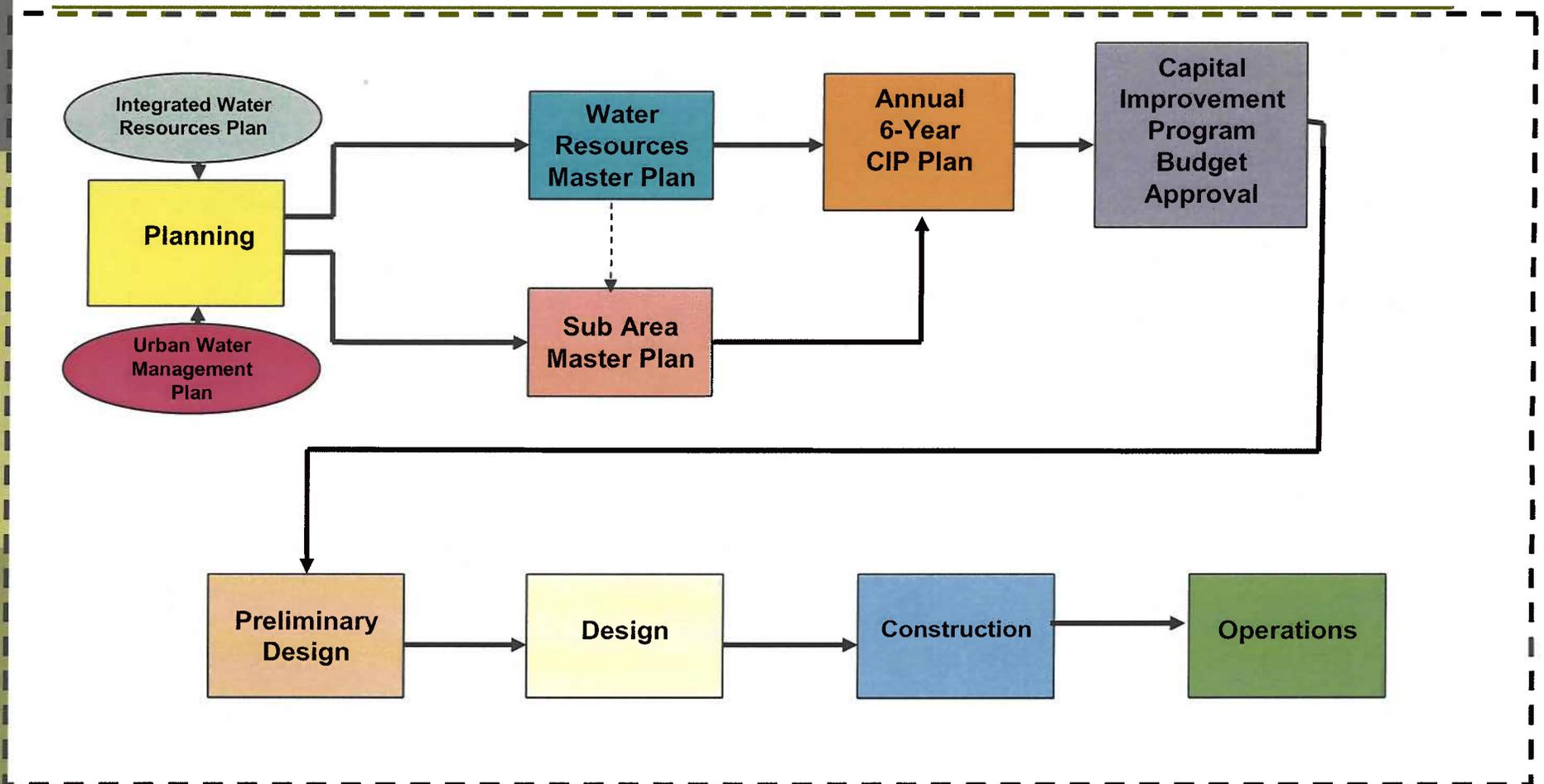
CIP PLANNING DOCUMENTS

- Integrated Water Resources Plan (IRP)
- Water Resources Master Plan (WRMP)
- Sewer System Management Plan (SSMP)
- Sub-Area Master Plan (SAMP)
- Urban Water Management Plan (UWMP)
- Strategic Plan

CIP PROJECT CRITERIA

- Condition of Existing Facilities
- Operating System Requirements
- Water, Recycled, and Sewer System Deficiencies
- Regulatory and Permitting Requirements
- Agreement Commitments
- Developer Driven Facilities
- Economic Outlook and Growth Projection
- Board of Directors and Management Directives

CIP PROJECT DEVELOPMENT PROCESS



CIP 6-YEAR BUDGET LOOK FORWARD

(\$ Millions)

FY 2009

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Totals	\$30.9	\$26.8	\$23.4	\$24.7	\$30.5	\$34.1
Six-Year Total:						\$170.4

FY 2010

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Totals	\$37.3	\$29.9	\$42.4	\$43.8	\$35.0	\$34.0
Six-Year Total:						\$222.4

FY 2010 CIP BUDGET CATEGORIES

(\$ Millions)

	Actual FY 2007	Actual FY 2008	Budget FY 2009	Budget FY 2010
Capital Backbone	\$30.9	\$20.1	\$23.0	\$28.7
Developer Reimbursement	\$2.8	\$1.1	\$0.5	\$0.1
Replacement & Renewal	\$1.1	\$5.5	\$5.8	\$6.7
Capital Purchases	\$1.5	\$1.2	\$1.6	\$1.8
Totals	\$36.3	\$27.9	\$30.9	\$37.3

(Projected 70% of requested for FY09)

\$21.6

OTAY WATER DISTRICT INITIATIVES

Six-Year CIP Expenditure Projections

(\$ Millions)

Integrated Water Resources Plan Supply Projects	\$158.1
Renewal & Replacement Projects	\$10.4
Multiple Species Conservation Plan and San Miguel Habitat Management	\$1.2
Strategic Plan Elements	\$21.1
Other Initiatives	\$31.6
Total Expenditure Projection	\$222.4

HIGH PROFILE CIP PROJECTS

FY 2010 Projections

(\$ Millions)

East County Regional Treated Water Improvement Plan (ECRTWIP) Agreement 36-inch Main	\$15.0
CIP Projects Currently Under Construction	\$4.8
AMR Manual Meter Replacement	\$1.4
Middle Sweetwater River Groundwater Well	\$1.0
Rancho del Rey Well	\$1.5
Otay River Groundwater Desalinization	\$0.6
Otay Mesa Recycled Water Supply Link	\$1.2
Other Projects	\$11.8
Total Expenditure Projection	\$37.3



BALANCED OPERATING BUDGET

(Rita Bell)

FY 2010 Operating Budget

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

This presentation provides an overview of our financial outlook.

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

Budget Process

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

Budget Challenges

- ❑ CWA water cost increases
- ❑ Sales uncertainty – economy, water supply
- ❑ Focused CIP on new supplies of water
- ❑ Improved financial strength – Debt Coverage Ratio
- ❑ Maintain Reserve Levels
- ❑ Issue debt of approximately \$41 Mil
- ❑ Maintaining water and sewer rate position relative to other agencies in the region
- ❑ Change property tax revenue assumptions
 - Assessed Value Reduced by 6%
 - State Tax Grab – Prop 1A of 8%

Growth Projections

The District is projected to serve approximately 48,611 individual water customer accounts. We anticipate continued increases in the number of water customers but at a slower rate of increase as the District increases in size.

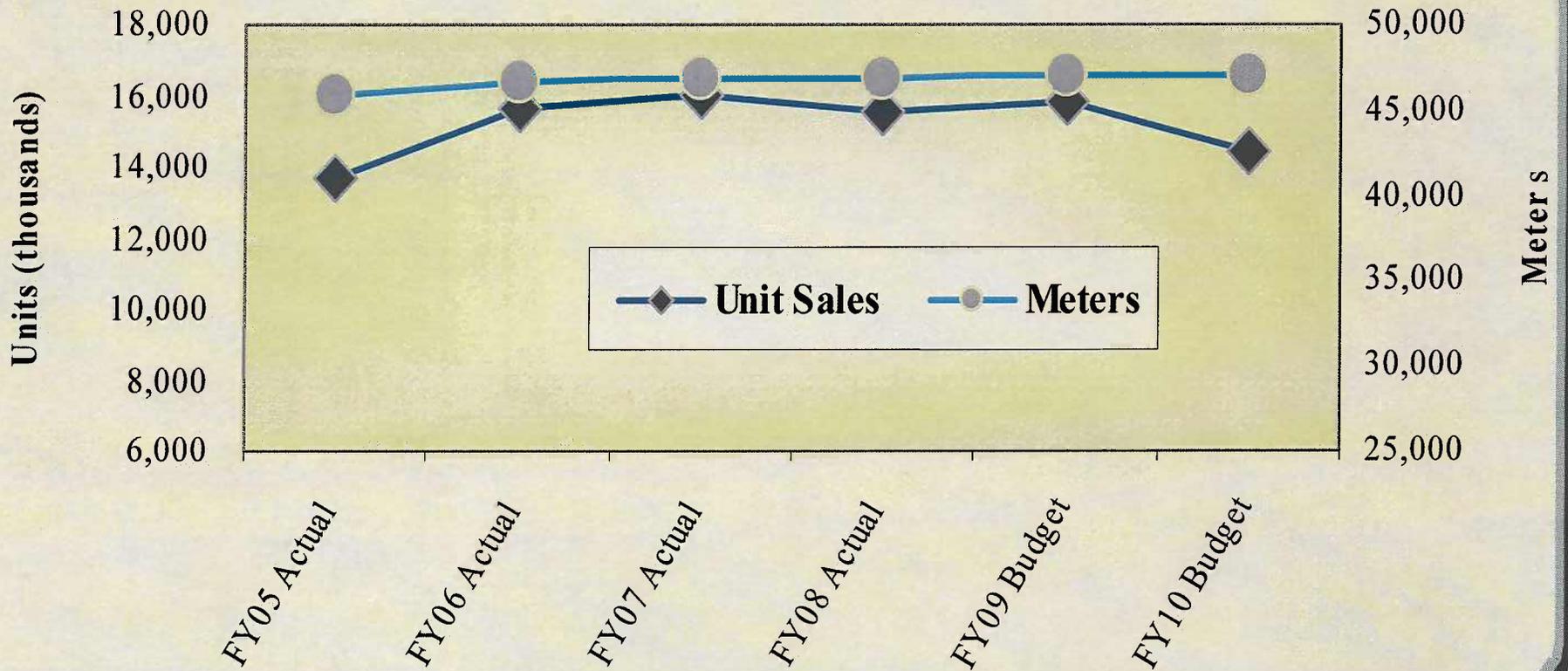
Customer Category	Annual Growth Rate FY 07/08	Annual Growth Rate FY 08/09	Annual Growth Rate FY 09/10
Potable	1.0%	.5%	.2%
Recycled	3.2%	9.0%	3.0%

Budget Details - Revenues

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
REVENUES				
Potable Water Sales	\$ 49,229,400	\$ 56,474,500	\$ 7,245,100	14.7%
Recycled Water Sales	6,344,500	7,602,500	1,258,000	19.8%
Sewer Revenues	2,145,300	2,244,800	99,500	4.6%
Meter Fees	103,800	45,600	(58,200)	(56.1%)
Capacity Fee Revenues	1,301,900	1,397,000	95,100	7.3%
Betterment Fees for Maintenance	895,900	571,400	(324,500)	(36.2%)
Annexation Fees	483,600	120,500	(363,100)	(75.1%)
Tax Revenues	4,137,300	3,852,600	(284,700)	(6.9%)
Non-operating Revenues	1,633,100	1,585,600	(47,500)	(2.9%)
Interest	667,800	322,900	(344,900)	(51.6%)
Transfer from OPEB	810,000	1,030,000	220,000	27.2%
General Fund Draw Down	120,100	469,100	349,000	290.6%
TOTAL REVENUES	67,872,700	75,716,500	7,843,800	11.6%

Water Sales

UNIT SALES AND METER TRENDS



Budget Details – Potable Revenues

- ❑ Potable water volume decrease of 3,053 AF or 8.3%
- ❑ Sales dollar increase of \$7,245,100 or 14.7%

Water Sales (Variable)	\$5,033,500	15.3%
System Fees	(\$1,211,400)	-11.4%
Energy Fees	(\$65,900)	-3.2%
MWD & CWA Fixed Fees	\$3,691,700	130.9%
Penalties	(\$202,800)	-22.4%

- ❑ Fixed fees set at 28% of total per BMP11
- ❑ Variances due to Rate Study implementation on 1/1/09

Budget Details – Recycled Revenues

- ❑ Recycled Water volume decrease of 213 AF or 4.5%
- ❑ Recycled Water Sales increase \$1,258,000 or 19.8%

MWD & CWA Credits	(\$43,500)	-2.4%
Water Sales (Variable)	\$1,505,400	41.3%
System Fees	(\$271,300)	-51.7%
Energy Fees	\$70,800	23.3%
Penalties	(\$3,400)	-5%

- ❑ Variance due to Rate Study Implementation on 1/1/09

Sewer Revenues – Option 1

- Rate increase of 7.2%
- Sewer increase overall sewer revenues by \$412,900 or 17.1%

Sewer Charges	\$99,500	4.6%
Non-Operating Revenues	\$2,700	10.2%
Tax Revenue	(\$6,100)	-10.8%
Interest	(\$32,200)	-53.0%
Reserves	\$349,000	290.6%

Budget Details – Other Revenues

- Meter Fees: Decrease 59.2% (\$61,500)
 - Due to lower meter sales estimates based on economy
- Capacity Fee Revenues: Increase 7.3% \$95,100
 - Due to workload of operating projects funded by cap fees
- Betterment Fees for Maintenance: Decrease 36.2% (\$324,500)
 - Based on less corrective maintenance required
- Annexation Fees: Decrease 75.1% (\$363,100)
 - Due to lower meter sales and fewer parcels requiring to be annexed
- Tax Revenues: Decrease 5.3% (\$217,300)
 - 6% reduction in assessed values
 - Assume an 8% loss in tax revenues as a transfer out in FY 2010

Non-Operating Income

- Non-Operating Income: Decrease 2.9% (\$47,500)
 - Grant revenue decrease of \$197,000
 - Property rentals up \$149,200
 - No new lease agreements (\$18,000 revenue reduction)
 - All leases current
 - CPI or straight percentage increases applied in budget

Budget Details - Expenditures

EXPENDITURES

- Potable Water Purchases
- Recycled Water Purchases
- CWA - Infrastructure Access Charge
- CWA - Customer Service Charge
- CWA - Emergency Storage Charge
- MWD - Capacity Reservation Charge
- MWD - Net RTS and Standby Charges
- Subtotal - Water Costs
- Power
- Labor and Benefits
- Administrative Expenses
- Materials & Maintenance
- Expansion Reserve
- Betterment Reserve
- Replacement Reserve
- Transfer to Sewer GF
- Transfer Out/In Prop 1A
- Transfer to General Fund Reserve

MWD/CWA
INCREASE
\$3,861,200

Otay controlled
DECREASE
\$793,100

CIP funding
INCREASE
\$5,585,700

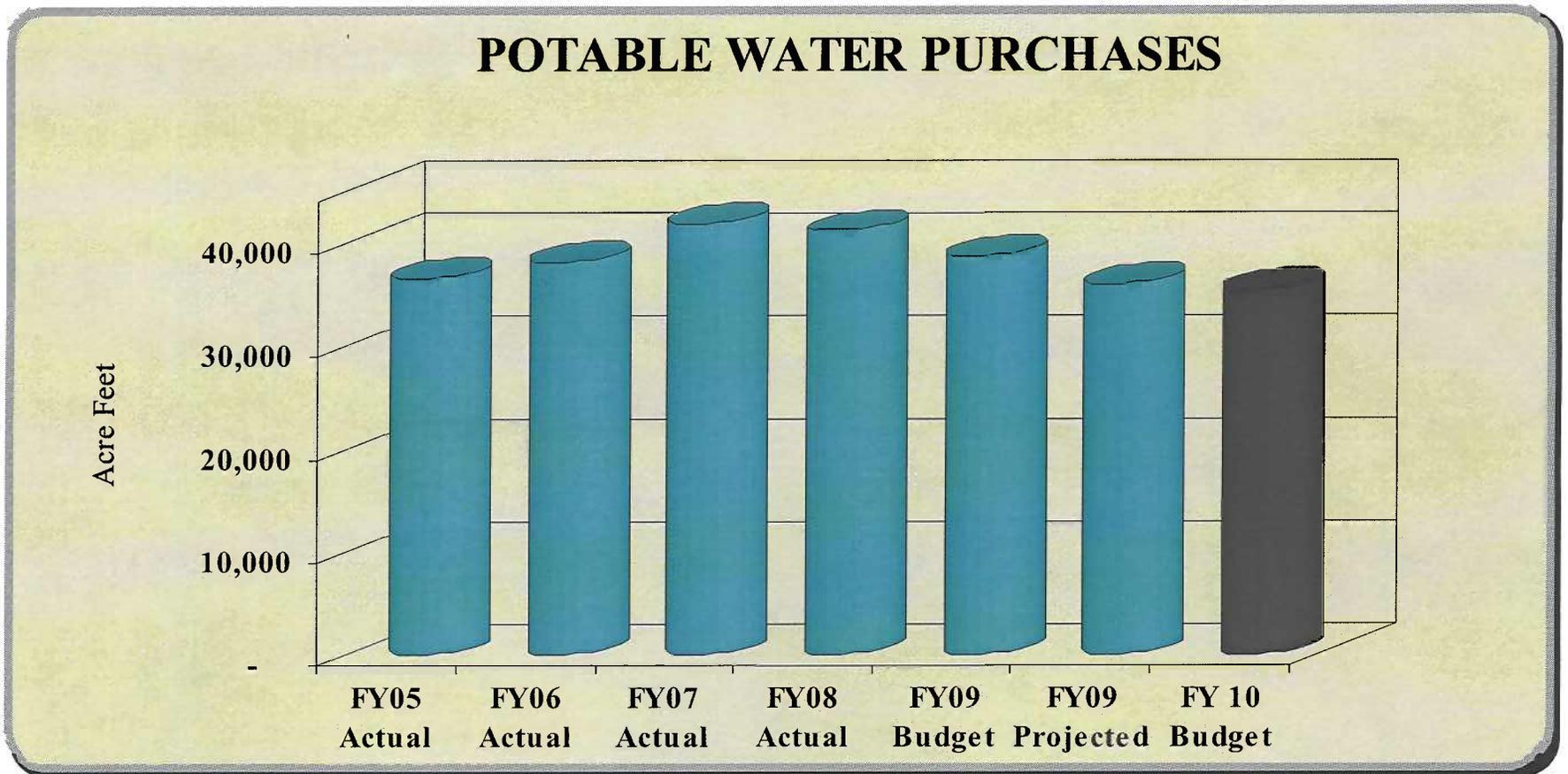
TOTAL
INCREASE
\$8,653,800

TOTAL EXPENDITURES

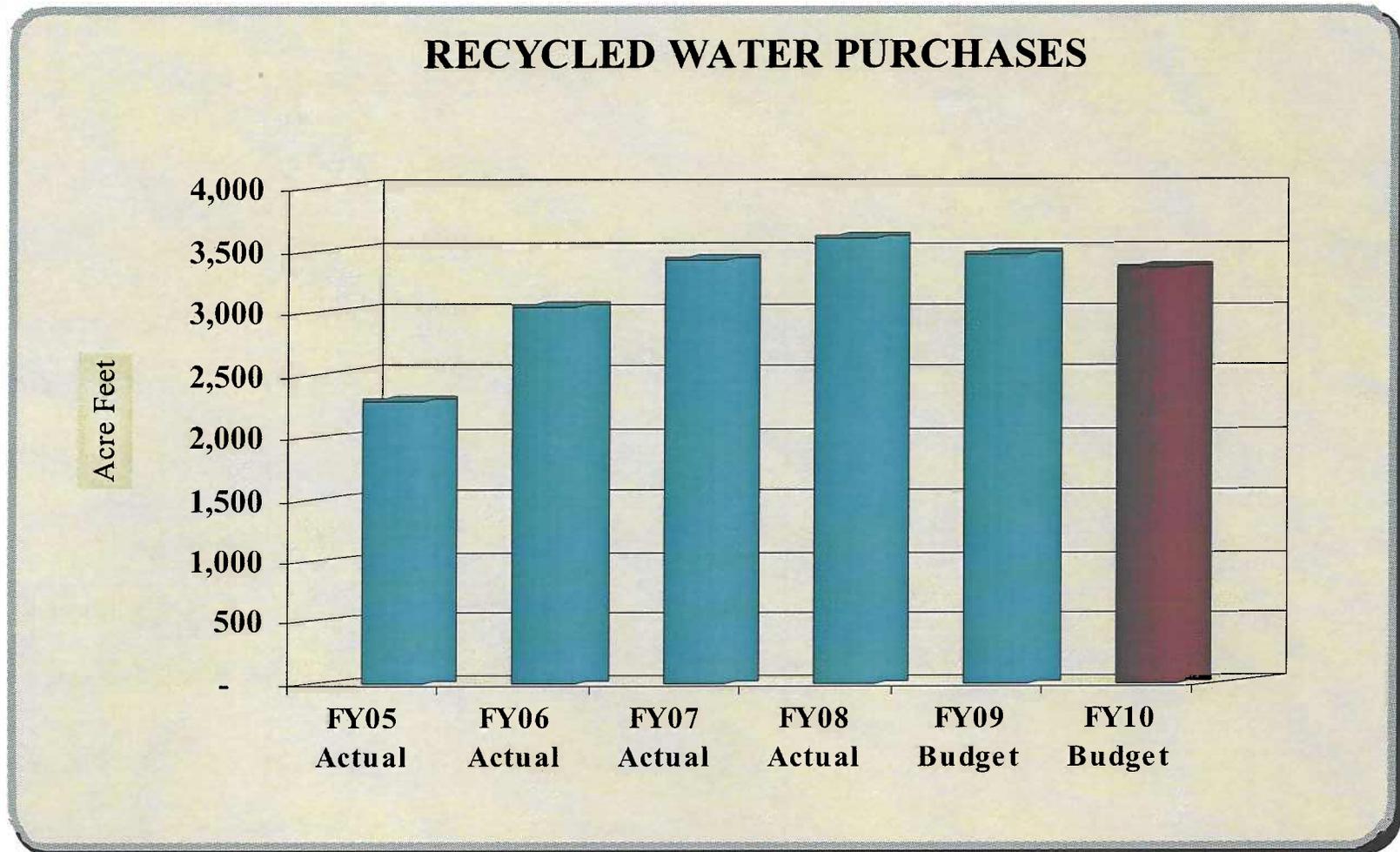
Budget Details - Expenditures

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	25,183,600	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,490,800	1,312,000	(178,800)	(12.0%)
CWA - Infrastructure Access Charge	1,227,500	1,344,900	117,400	9.6%
CWA - Customer Service Charge	1,049,800	1,148,800	99,000	9.4%
CWA - Emergency Storage Charge	1,774,700	2,246,600	471,900	26.6%
MWD - Capacity Reservation Charge	602,800	628,800	26,000	4.3%
MWD - Net RTS and Standby Charges	665,100	1,140,700	475,600	71.5%
Subtotal - Water Costs	31,994,300	35,855,500	3,861,200	12.1%
Power	2,780,500	2,637,100	(143,400)	(5.2%)
Labor and Benefits	17,185,400	17,212,800	27,400	0.2%
Administrative Expenses	5,935,100	5,329,200	(605,900)	(10.2%)
Materials & Maintenance	3,872,800	3,801,600	(71,200)	(1.8%)
Expansion Reserve	5,016,700	1,610,000	(3,406,700)	(67.9%)
Betterment Reserve	-	3,810,000	3,810,000	100.0%
Replacement Reserve	277,900	3,660,000	3,382,100	1217.0%
Transfer to Sewer GF	-	200,000	200,000	100.0%
Transfer Out/In Prop 1A	-	270,300	270,300	100.0%
Transfer to General Fund Reserve	-	1,330,000	1,330,000	100.0%
TOTAL EXPENDITURES	67,062,700	75,716,500	8,653,800	12.9%

Water Purchases - Potable



Water Purchases - Recycled



Water Costs Increase 12.2% (\$3,861,200)

- Variable Cost Increase

□ Potable	(Volume -8.4%)	\$2,850,100
□ Recycled	(Volume -3.25)	(\$ 178,800)

- Fixed Cost Increase

□ Potable	\$1,189,900
□ Recycled	\$0

Potable Variable Cost of Water Preliminary

- Water price increase by CWA of 17.1% on 9/1/09
 - Volume decrease of 5.8% in FY 09 and 4.8% in FY 10, due to slow growth, economy, and conservation
 - Increase of 13.2% on 1/1/09 (weighted average price increase of 16.3%)

	Actual Rate Effective 1-1-08	Actual Rate Effective 1-1-09	Increase	% Inc
CWA \$Price/AF	\$614	\$695	\$81	13.2%
	Actual Rate Effective 1-1-09	Proposed Rate Effective 9-1-09	FY 2010	FY 2010
CWA \$Price/AF	\$695	\$814	\$119	17.1%
Weighted Price/AF Change				16.3%

Fixed Cost of Water Preliminary

Fixed Cost Increase 22.4% or \$1,189,900

MWD	Capacity Reservation Charge	\$26,000	4.3%
MWD	Readiness-to-Serve Charge	\$475,600	71.5%
CWA	Customer Service Charge	\$99,000	9.4%
CWA	Emergency Storage Charge	\$471,900	26.6%
CWA	Infrastructure Access Charge	\$117,500	9.6%
Total Fixed Cost		\$1,189,900	22.4%

Recycled Variable Cost of Water Preliminary

- Variable Cost Decrease of 12.2% or \$178,800
 - Volume decrease of 3.2% due to growth, economy, & conservation
 - Anticipated water price constant for first six months, then cost increase of \$95.24 due to reasonable price estimated increase by City of San Diego of 27.2% on 1/1/10

	Current 2009	Estimated 2010 1/1/10	2010 Increase	2010 % Inc
CWA \$Price/AF	\$350	\$445.25	\$95.24	27.2%

Sewer Costs

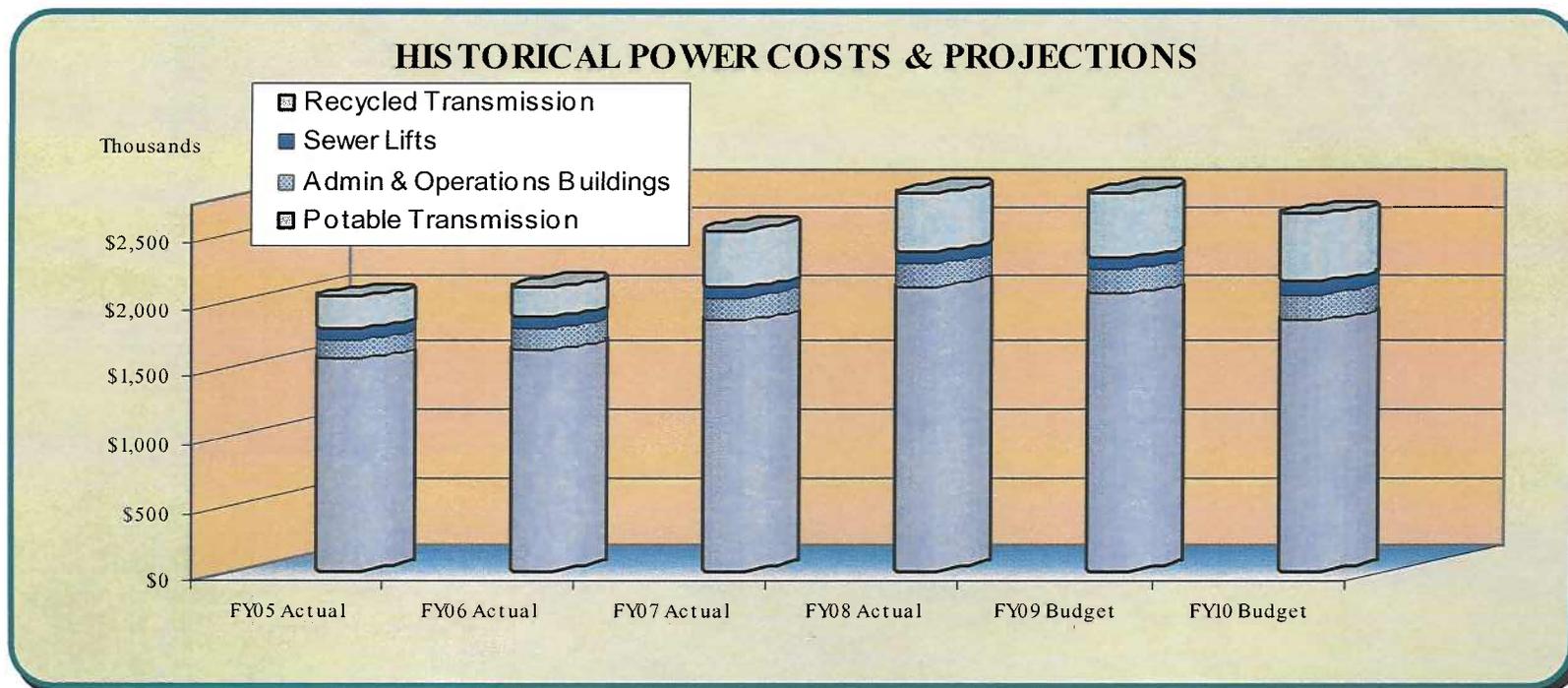
- Increased cost of \$411,300 due to compliance with:
 - Statewide General Waste Discharge Requirements regarding the District's Sewer System Management Plan (SSMP)
 - Increase in Labor
 - Increase in Outside Services to provide Closed Circuit Television (CCTV) services of the sewer system

Expenditures - Power

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	25,183,600	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,490,800	1,312,000	(178,800)	(12.0%)
CWA - Infrastructure Access Charge	1,227,500	1,344,900	117,400	9.6%
CWA - Customer Service Charge	1,049,800	1,148,800	99,000	9.4%
CWA - Emergency Storage Charge	1,774,700	2,246,600	471,900	26.6%
MWD - Capacity Reservation Charge	602,800	628,800	26,000	4.3%
MWD - Net RTS and Standby Charges	665,100	1,140,700	475,600	71.5%
Subtotal - Water Costs	31,994,300	35,855,500	3,861,200	12.1%
Power	2,780,500	2,637,100	(143,400)	(5.2%)
Labor and Benefits	17,185,400	17,212,800	27,400	0.2%
Administrative Expenses	5,935,100	5,329,200	(605,900)	(10.2%)
Materials & Maintenance	3,872,800	3,801,600	(71,200)	(1.8%)
Expansion Reserve	5,016,700	1,610,000	(3,406,700)	(67.9%)
Betterment Reserve	-	3,810,000	3,810,000	100.0%
Replacement Reserve	277,900	3,660,000	3,382,100	1217.0%
Transfer to Sewer GF	-	200,000	200,000	100.0%
Transfer Out/In Prop 1A	-	270,300	270,300	100.0%
Transfer to General Fund Reserve	-	1,330,000	1,330,000	100.0%
TOTAL EXPENDITURES	67,062,700	75,716,500	8,653,800	12.9%

Power

- Power cost decrease 6.6% (\$187,200)
 - Water demand decrease 5.8% in FY 2009 and another 4.8% in FY 2010
 - SDG&E rates increase 3.5% on 1/1/2010



Expenditures – Labor & Benefits

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	25,183,600	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,490,800	1,312,000	(178,800)	(12.0%)
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TOTAL EXPENDITURES	67,062,700	75,716,500	8,653,800	12.9%

Staffing Highlights

□ Process

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

□ Results

- Three vacant positions were deleted (2.75 FTE), reducing FTE from 169 to 166

Labor and Benefits

- Salaries and Benefits increase of \$27,400 or 0.16%
 - Staff reduction and position changes (decrease \$166,900)
 - Salary and Benefits
 - Cola and Merit Increases \$502,900
 - Net change to vacancy factor and vacation and sick leave taken (\$23,900)
 - Reduced overtime (\$30,800)
 - Benefit cost increases \$221,100
 - Charges to CIP (\$475,000)

Expenditures – Administrative

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	25,183,600	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,490,800	1,312,000	(178,800)	(12.0%)
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Transfer Out/In Prop 1A	-	270,300	270,300	100.0%
Transfer to GF Reserve	-	1,330,000	1,330,000	100.0%
TOTAL EXPENDITURES	67,062,700	75,716,500	8,653,800	12.9%

Administrative Expense

- Administrative Expense Budget Decrease of \$605,900 or 10.2%
 - Principal reductions due to 3 projects reclassified to CIP
 - Asset Management \$300,000
 - Multiple Species \$141,000
 - San Miguel Habitat Management \$225,000
 - Offset by increases due to the following items:
 - Pump Stations Paving Program \$80,000
 - Rise in Bad Debt expense estimate \$70,000
 - Decrease in the overhead allocation of \$92,600

Expenditures – Materials & Maintenance

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	25,183,600	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,490,800	1,312,000	(178,800)	(12.0%)
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Labor and Benefits	17,185,400	17,212,800	27,400	0.2%
Administrative Expenses	5,935,100	5,329,200	(605,900)	(10.2%)
Materials & Maintenance	3,872,800	3,801,600	(71,200)	(1.8%)
Expansion Reserve	5,016,700	1,610,000	(3,406,700)	(67.9%)
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Transfer Out/In Prop 1A	-	270,300	270,300	100.0%
Transfer to GF Reserve	-	1,330,000	1,330,000	100.0%
TOTAL EXPENDITURES	67,062,700	75,716,500	8,653,800	12.9%

Materials & Maintenance

- Overall Decrease of \$71,200 or 1.84%

- Fuel & Oil decrease (\$137,600)
- Metro O& M decrease (\$60,900)
- Safety Strategic Plan Increase-EOC \$124,000

Expenditures – Reserves & Transfers

	FY 2009 Budget	FY 2010 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	25,183,600	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,490,800	1,312,000	(178,800)	(12.0%)
CWA - Infrastructure Access Charge	1,227,500	1,344,900	117,400	9.6%
CWA - Customer Service Charge	1,049,800	1,148,800	99,000	9.4%
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MWD - Net RTS and Standby Charges	665,100	1,140,700	475,600	71.5%
Subtotal - Water Costs	31,994,300	35,855,500	3,861,200	12.1%
Power	2,780,500	2,637,100	(143,400)	(5.2%)
Labor and Benefits	17,185,400	17,212,800	27,400	0.2%
Administrative Expenses	5,935,100	5,329,200	(605,900)	(10.2%)
Materials & Maintenance	3,872,800	3,801,600	(71,200)	(1.8%)
Expansion Reserve	5,016,700	1,610,000	(3,406,700)	(67.9%)
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Transfer to Sewer GF	-	200,000	200,000	100.0%
Transfer Out/In Prop 1A	-	270,300	270,300	100.0%
Transfer to GF Reserve	-	1,330,000	1,330,000	100.0%
TOTAL EXPENDITURES	67,062,700	75,716,500	8,653,800	12.9%

Continued Reserve Funding

- ❑ Prior Year – Expansion & Replacement Reserve
- ❑ Current Year – Replacement, Expansion, & Betterment Reserves
- ❑ Current Year – Transfer out for Prop 1A Property Tax & to the General Fund Reserve to meet targets
- ❑ In accordance with the Reserve Policy

Operating Budget Summary

	Potable	Recycled	Sewer	Total
TOTAL REVENUES	65,264,200	7,630,500	2,821,800	75,716,500
EXPENDITURES				
Water Costs	34,543,500	1,312,000	-	35,855,500
Power	2,033,400	504,500	99,200	2,637,100
Labor and Benefits	15,111,000	1,177,200	924,600	17,212,800
Administrative Expenses	4,555,000	318,100	456,100	5,329,200
Materials & Maintenance	2,127,500	332,200	1,341,900	3,801,600
Expansion Reserve	-	1,610,000	-	1,610,000
Replacement Reserve	2,710,000	950,000	-	3,660,000
Transfer to Sewer GF	200,000	-	-	200,000
Transfer Out/In Prop 1A	270,300	-	-	270,300
Transfer to GF Reserve	13,500	1,316,500	-	1,330,000
TOTAL EXPENDITURES	65,264,200	7,630,500	2,821,800	75,716,500

Conclusion

- ❑ Balanced budget which meets the needs of our customers (Available for immediate approval)
- ❑ Supported by a 19.9% potable and recycled water rate increase (Approval after the hearing)
- ❑ Supported by a 7.2% rate increase in sewer charges (Approval after the hearing)



SUMMARY OF RECOMMENDATIONS

Summary of Recommendations

1. Adopt Resolution No. 4136 to approve the FY 2010 Operating and CIP Budget
2. Approve the fund transfers
3. Direct staff to proceed with the Proposition 218 hearing and notices for the recommended rate increases



QUESTIONS?