

Otay Water District Adopted Operating and Capital Budget

Fiscal Year 2008-2009



Spring Valley, California



Adopted

Operating and Capital Budget

Fiscal Year 2008-2009

Board of Directors

Gary Croucher - President, Division 3
Jose Lopez - Vice President, Division 4
Jaime Bonilla - Treasurer, Division 2
Larry Breitfelder - Division 1
Mark Robak - Division 5



640-1 and 640-2 Reservoirs Project under construction - October 2007

Management

Mark Watton - General Manager
German Alvarez - Assistant General Manager, Finance and Administration
Manny Magana - Assistant General Manager, Engineering and Operations
Joseph R. Beachem - Chief Financial Officer

ADOPTED OPERATING AND CAPITAL BUDGET FISCAL YEAR 2008-2009

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...Dedicated to Community Service

2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004
TELEPHONE: 670-2222, AREA CODE 619

September 2, 2008

Honorable Board of Directors
Otay Water District

I am pleased to present the Otay Water District's Adopted Operating and Capital Budget for Fiscal Year 2008-09. This year's budget establishes the management plan to finance all of the District's services and programs during the 2009 fiscal year.

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. To do so, this year and in coming years, we will be faced with several key challenges. These challenges include: the



slowdown in the local and national economy; instability in the financial markets; widespread home foreclosures; the likelihood of continued drought in the Southwest; and possible water shortages due in part to the reduction in water deliveries from the Sacramento – San Joaquin Bay Delta. In adopting this budget, these factors motivated your board to make the stability and strength of the District among its highest priorities.

Given these uncertain times, the District must find the best solutions that balance the expectations placed on it by our customers and key community and financial stakeholders with the significant challenges we face. Meeting these challenges requires dedication and a commitment to continuous improvement and the innovative use of technologies and resources.

The primary way to achieve our objectives is to improve all aspects of our core business processes. The main tool we will utilize in this regard is the Strategic Business Plan which was updated this year and adopted by your board for the 2009 through 2011 timeframe.

Efficiency improvements have become the new competitive advantage for utilities. As a result, the theme of the plan is to capitalize on the infrastructure investments we have already made in the last few years. We will use the slowdown in the regional economy to realign our energies and optimize how we manage and maintain the nearly half billion dollars of "in-ground" assets utilizing the technology we have recently put in place.

The Strategic Business Plan also carries forth the District's transformation from a growth-centric to a maintenance-based organization. Where capital and developer fees supported growth the

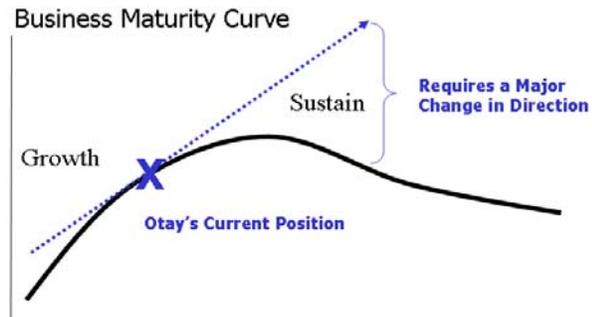
District was very successful in managing the rapid pace of development we experienced. Today we have become equally focused in managing long-term maintenance and replacement of our infrastructure.

This necessary change is illustrated by the business maturity curve. During high growth, we focus on achieving the macro targets of building and installing new infrastructure.

In the future, the resources required to support slower growth are reduced but the effort to maintain and improve assets increases. Income, however, will be derived more from rates and less from fees.

Consequently, increased costs place pressure more directly on rates. Therefore, to meet our customer and financial goals, the District will emphasize internal efficiency and development of technology assisted best practices.

In effect, we will use our investments in technology to do more with the same or fewer resources.



Today, the District provides water service to nearly 47,340 potable and 640 recycled customers within approximately 125.5 square miles of southeastern San Diego County. In the past, all of the potable water purchased by the District was purchased from the San Diego County Water Authority (CWA) who in turn purchases water from the region's water importer, the Metropolitan Water District of Southern California. Last year, the District began purchasing raw water from CWA and having that water treated by the Helix Water District. This action brought regional water treatment closer to our customers and reduced dependence on water treatment located outside of San Diego County proper.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,630 homes and businesses, equivalent to 6,640 Assigned Service Units, within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) project is capable of recycling wastewater at a rate of 1.3 million gallons per day. The District also purchases up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Water Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista.

BUDGET SUMMARY

The District's operating expenditures are from its three major sectors: potable water, recycled water, and sewer, totaling \$67,062,700 for Fiscal Year 2009. Revenues from potable and recycled water for Fiscal Year 2009 are projected to be \$55,573,900 about \$4.8 million (9.5%) more than Fiscal Year 2008. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation, while the cost of water increases due to supply limitations. Sewer revenues are projected to be \$2,145,300, about

\$270,000 less than Fiscal Year 2008, due to a change in sewer billing methodology and lower water consumption.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated a six-year Rate Model to ensure sound financial planning and reserve levels.
- Unprecedented water supply rate increases of 13.2% from CWA because of the high cost of supply programs, higher energy and operating costs.
- Implemented rate increases in potable and recycled water and sewer. This included pass-through rate increases from CWA, and County of San Diego who raised costs to water and sewer customers.
- In response to the economic slowdown, the District has reduced staffing levels from 173 full time equivalents to 169, and cut operating expenditures by \$885,800 due to program deferrals and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rate is the ninth-lowest and below the county-wide average.
- Expanded residential, landscape, and commercial water conservation programs.

The Fiscal Year 2008-09 Capital Budget consists of 66 projects and a budget of \$30.9 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget was reduced by \$7.5 million compared to last year's projection in response to the housing slowdown.

The Future

The coming years will be challenging times for everyone in the water industry. Following Governor Schwarzenegger's declaration of a statewide drought in California in June, the District declared a Level 1 drought watch. By doing so, we have begun calling on all customers to achieve up to a 10 percent reduction in their water use through voluntary measures. By summer of next year, we estimate we could be in Level 2 drought alert or perhaps even a drought emergency where voluntary conservation gives way to mandatory measures and all customers are required to cut water use by 30 to 40 percent.

As you would expect, this will impact the finances of the District and staff throughout the District are working diligently to prepare for the consequences of an extended drought should it come to pass. With that in mind, our strength as an organization is vastly enhanced by the practices and policies put in place by your board to ensure the strength and stability of the District as we move forward into uncertain times. These actions will assure our success as an organization and the well-being of the customers we serve.

AWARDS AND ACKNOWLEDGMENTS

To recognize the Supply Link Project, connecting our recycled water system to the City of San Diego's South Bay Water Reclamation Plant, the American Society of Civil Engineers (ASCE) presented the District the *2007 Outstanding Civil Engineering Project* for the 30" Recycled

Water Pipeline, Dairy Mart Road to the 450-1 Reservoir. Additionally, for this same project, the Construction Management Association of America (CMAA) presented Otay Water District the *2008 Project Achievement Award* for the Recycled Water Pipeline to recognize outstanding achievement in the practice of construction management.

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. In addition, the CAFR received the *Outstanding Financial Reporting Award* from the California Society of Municipal Finance Officers (CSMFO).

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2007, as well as four awards from the CSMFO for *Excellence in Budgeting, Excellence in Capital Budgeting, Meritorious in Public Communications, and Meritorious in Innovation*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

This budget reflects the Board of Directors' vision for the District, management, and its employees. We will continue to strive to make improvements in our budget process, including an extensive review and analysis of projections for revenues, expenditures, capital projects, and reserves. I would like to thank all the staff involved in this process for the efforts put forth in the preparation of this budget to ensure a successful outcome.

To the Board of Directors, we acknowledge and appreciate your continued support and direction in achieving excellence in financial management.



Mark Watton, General Manager



Budget Foreword

OTAY WATER DISTRICT AT-A-GLANCE

HISTORY

The Otay Water District was formed in January 1956 and joined the San Diego County Water Authority (CWA) in September 1956 to acquire the right to purchase and distribute imported water throughout its service area. The District is also responsible for the collection, treatment, and disposal of wastewater from a portion of the northern region of the District. In 1980, the District started operation of the Ralph W. Chapman Water Recycling Facility (RWCWRF), and in June, 2007, a new source of recycled water from the City of San Diego was obtained, allowing Otay Water District to supply 15 to 20 percent of total water demand with recycled water.

MISSION STATEMENT

The District's mission is to provide safe and reliable water and wastewater services to its community with innovation, in a cost efficient, water-wise, and environmentally responsible manner.

SERVICE AREA

The District's boundaries encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the City of San Diego metropolitan area and running from the City of El Cajon south to the international border.

GOVERNMENT

The Otay Water District was formed in 1956 to serve as a public water and sewer agency, authorized as a California special district under the provisions of the Municipal Water District Act of 1911. The District's ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective geographic division, to serve staggered four-year terms on its governing board. The District is a "revenue neutral" public agency, meaning that each end-user pays only their fair share of the District's costs of water acquisitions and the operation and maintenance of the public facilities.

ORGANIZATIONAL STRUCTURE

The General Manager reports directly to the Board of Directors, and through two Assistant General Managers and the District management, oversees day-to-day operations. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning while the other oversees the Water Operations and Engineering departments. These and other lines of reporting are shown on the organization chart on page 13.

GENERAL INFORMATION

For Fiscal Year 2009, the District will have a staff of 168.75 full-time equivalent employees under the leadership of the General Manager. The District provides water service to approximately 39% of its land area with a population of more than 191,500 people. This percentage increases as the District's service area continues to grow to ultimate build-out. The District is projected to deliver approximately 38,800 acre-feet of potable water to 47,340 potable customer accounts and to ultimately deliver 62,700 acre-feet of potable water to serve 277,000 people or 50,300 accounts. The rate of growth, as projected by the San Diego Association of Governments (SANDAG) for the Chula Vista area of San Diego County, is approximately 2.1% per year over the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 0.6% for Fiscal Year 2009.

Since 1956, the District has provided high quality water to an arid region of the southeastern San Diego County. In 1971, the District constructed a small collection and treatment plant for sewer in the northern section of the District, and in 1980 the District opened the RWCWRF. Finally in 1986, the District found a use for recycled water in the construction industry for soil compression. For over 50 years, the available supply of water has helped transform the District service area from a mostly scrub and cactus-covered backcountry into a wonderful balance of diverse environments.

Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF is capable of recycling wastewater at a rate of 1.3 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional 6,720 acre-feet per year of recycled water beginning in Fiscal Year 2008. This makes Otay Water District the largest retail provider of recycled water in the county.

The District also owns and operates a wastewater collection system providing public sewer service to approximately 4,630 customer accounts within the Jamacha drainage basin. The sewer service area covers approximately 8,797 acres, which is about 11% of the District's total service area. Residential customers comprise 98% of the sewer customer base.

STATEMENT OF VALUES

As Otay Water District employees we dedicate ourselves to:

CUSTOMERS

We take pride that our commitment to customer-centered service is our highest priority.

EXCELLENCE

We strive to provide the highest quality and value in all that we do.

INTEGRITY

We commit ourselves to doing the right thing.
Ethical behavior, trustworthiness and accountability are the District's foundation.

TEAMWORK

We promote mutual trust.
We share information, knowledge and ideas to reach our common goals.

EMPLOYEES

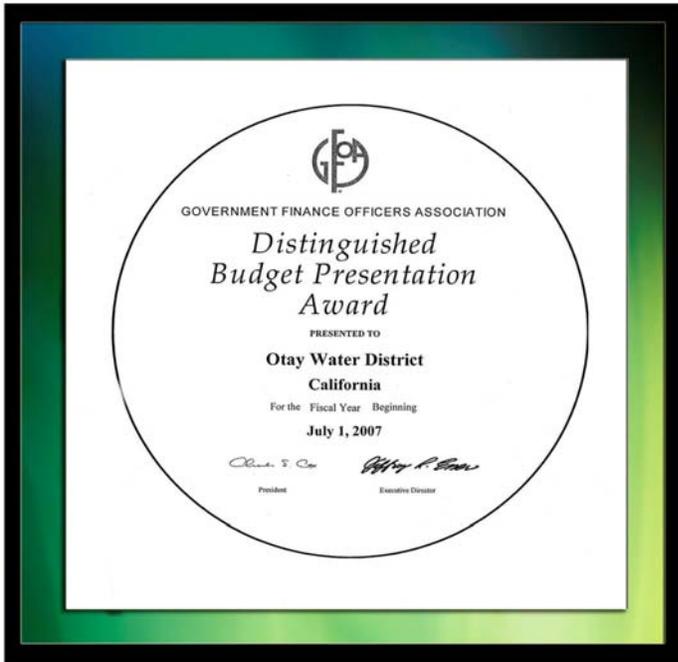
We see each individual as unique and important.
We value diversity and open communication to promote fairness, dignity and respect.

Otay Water District Employees



Dedicated to Community Service

FINANCIAL AWARDS



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to Otay Water District, California for its annual budget for the fiscal year beginning July 1, 2007. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2007-2008*.



FINANCIAL AWARDS



The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Meritorious in Public Communications* for Fiscal Year 2007 -2008.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting* for Fiscal Year 2007- 2008.

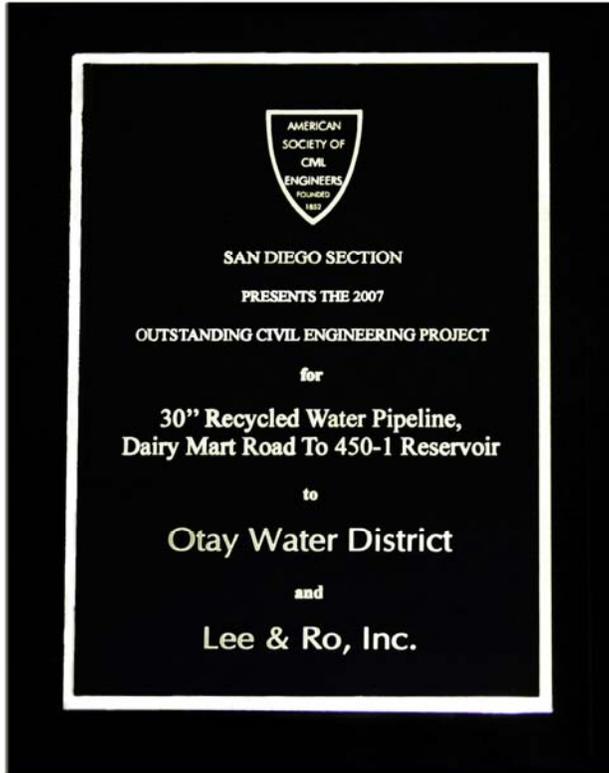


FINANCIAL AWARDS

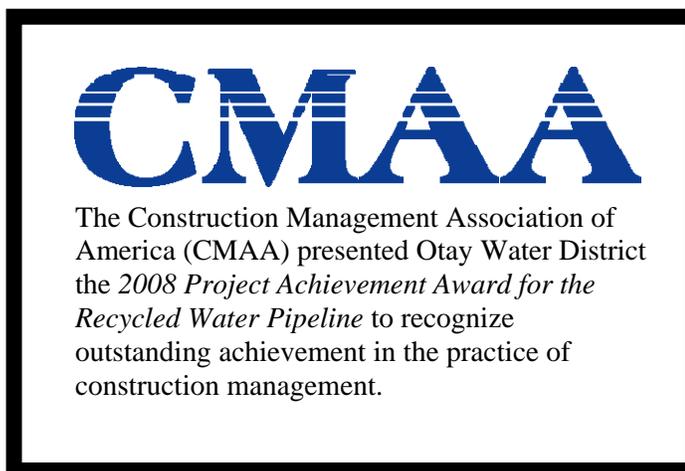


The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Meritorious in Budget Innovations* for Fiscal Year 2007-2008.

AWARDS



The American Society of Civil Engineers (ASCE) presented Otay Water District and Lee & Ro, Inc. the *2007 Outstanding Civil Engineering Project* for 30'' Recycled Water Pipeline, Dairy Mart Road to 450-1 Reservoir.



BALANCED SCORECARD

Introduction

The strategic plan is the core document which guides the agency's efforts to meet and positively adapt to change. The plan examines a three year timeframe and explicitly defines the strategies, goals, objectives and performance measures needed to meet these challenges. It is based upon the District's mission, vision and values, and focused around a key challenge – which is the theme for the FY 2009-2011 plan.



Key Challenge

The theme of the FY 2009-2011 plan is to capitalize on the infrastructure investments made in the last few years. The District has begun to address the transformation from a growth-centric to a maintenance-based organization. Capital and developer fees support growth but replacement and maintenance are supported by rates and operating expenses. The District has been very successful in managing growth but now needs to become more focused in managing long-term

BALANCED SCORECARD

maintenance and replacement of its infrastructure. As the current economic environment cools there is opportunity to realign energies and optimize the management and maintenance of the nearly half billion dollars of District “in-ground” assets. In addition, with water supplies being challenged due to drought conditions, the District needs to be flexible in managing a limited supply while maintaining a positive relationship with customers.

Efficiency improvements have become the new competitive advantage for utilities. Staff will need to do more with the same or fewer resources. The primary way to achieve this target is to improve all aspects of core business processes.

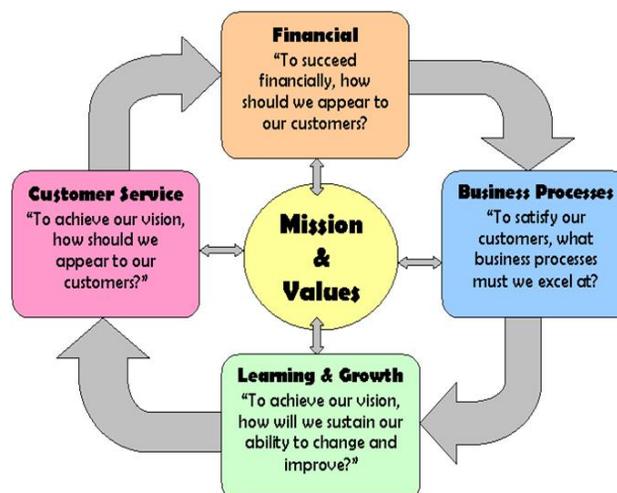
Key Challenge

The key challenge for the District is to find the best solutions that balance our requirements with the significant constraints we face. Some of these constraints are escalating cost, drought, increasing regulatory compliance and uncertainty, customer demands for improved services, and competition for supply and resources. Meeting these challenges requires dedication and commitment to continuous improvement, and the innovative use of technologies and resources.

This necessary change is illustrated by the business maturity curve. During high growth, we focused on achieving the macro targets of building and installing new infrastructure. In the future, the resources required to support slower growth are reduced but the effort to maintain and improve assets is increasing. Income, however, will be derived more from rates and less from fees. Consequently, increased costs place pressure more directly on rates. Therefore, to meet customer and financial goals, the District will need to emphasize internal efficiency and development of technology-assisted best practices.

Methodology

The Balanced Scorecard focuses on four perspectives as a mechanism for setting strategic direction and balancing competing priorities. This industry best practice has been adopted by the District because it allows for examination of our plans from different perspectives.



BALANCED SCORECARD

Every three years the District engages in a major revision of its strategic plan. This current plan (covering Fiscal Years 2009-2011) is the third in a series of three-year plans beginning in 2003. The process is inclusive. Starting with a thorough review of the last effort, the District's Vision, Mission, and Key Challenge statements are examined and revised. Individual interviews are conducted with the Board of Directors, approximately 30 staff members, union representatives, as well as team meetings involving all Otay staff. Assistance from professional consultants and industry best practice advice are taken into account to provide third party input.

The primary tool, however, is a very thorough review process by the Senior Management Team of every strategy, goal, objective, project plan, performance measure, and target contained in the plan. Through this team discussion process the General Manager gains consensus with his staff on the exact priorities for the District, including detailed financial and resource considerations required to execute the plan. Thus the plan serves as an informal contract between District staff and the General Manager on the strategic work that will be done and what the District hopes to achieve over the next three years. In turn, the General Manager presents the plan to the Board for approval. Through the strategic plan and budget approval processes, the Board is then able to make well-informed oversight decisions about the District's direction.

Performance Management

Performance metrics and targets are a critical element of the strategic plan but differ from strategic plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance measures are designed to ensure the day-to-day operations of the utility are meeting agreed-upon expectations. Performance measures are in the process of being revised and will be finalized prior to plan initiation on July 1, 2008. The Board will be advised in June when the measures have been thoroughly developed and meaningful targets have been identified.

Customer

Maximize Our Customers' Satisfaction

-  Listen to Our Customers
-  Effective Use Multi-Channel Communications

Educate our Customers on Important Water Related Matters

-  Expand the District's Water Conservation Programs to maximize District-wide water conservation
-  Maximize Recycled Water Use and Public Knowledge

BALANCED SCORECARD

Help Shape the Water Industry's Direction

-  Legislative and Political Influence for District's Programs
-  Optimize the District's Water Industry Participation

Financial

Develop a Long Term Financial Planning Program

-  Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy and drought uncertainties.
-  Conduct financial threat assessment for growth, water availability, inflation and other revenue sources.
-  Re-calculate all Capacity and Annexation Fees with New Rehabilitation and Repair Plan.

Optimize All Revenue Streams

-  Modify existing rate structures.

Business Processes

Implement Industry Best Practices for Utility Development

-  Potable Water
-  Sewer
-  Recycled Water

Optimize the District's Operating Efficiency

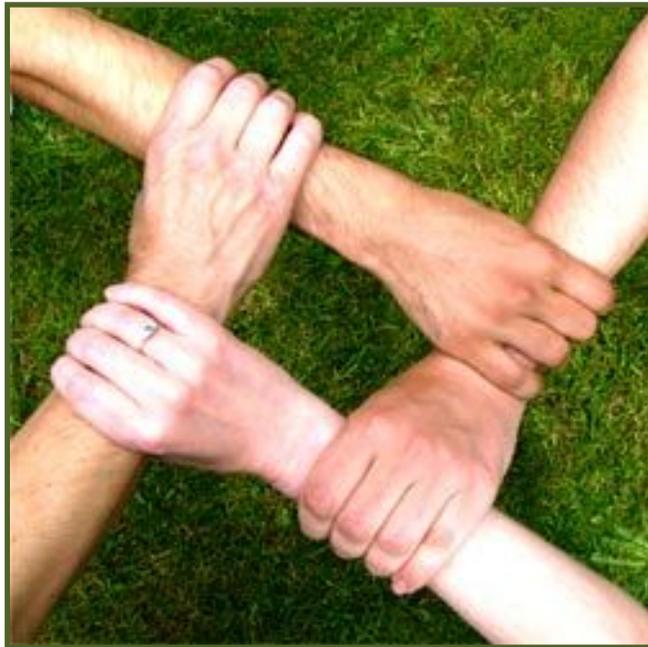
-  Minimize the District's total life cycle asset costs
-  Update the District's IT Strategic Plan.
-  Optimize the use of existing technologies
-  Increase field productivity through improved efficiency
-  Improve the efficiency of business process
-  Optimize Disaster Preparedness

BALANCED SCORECARD

Learning and Growth

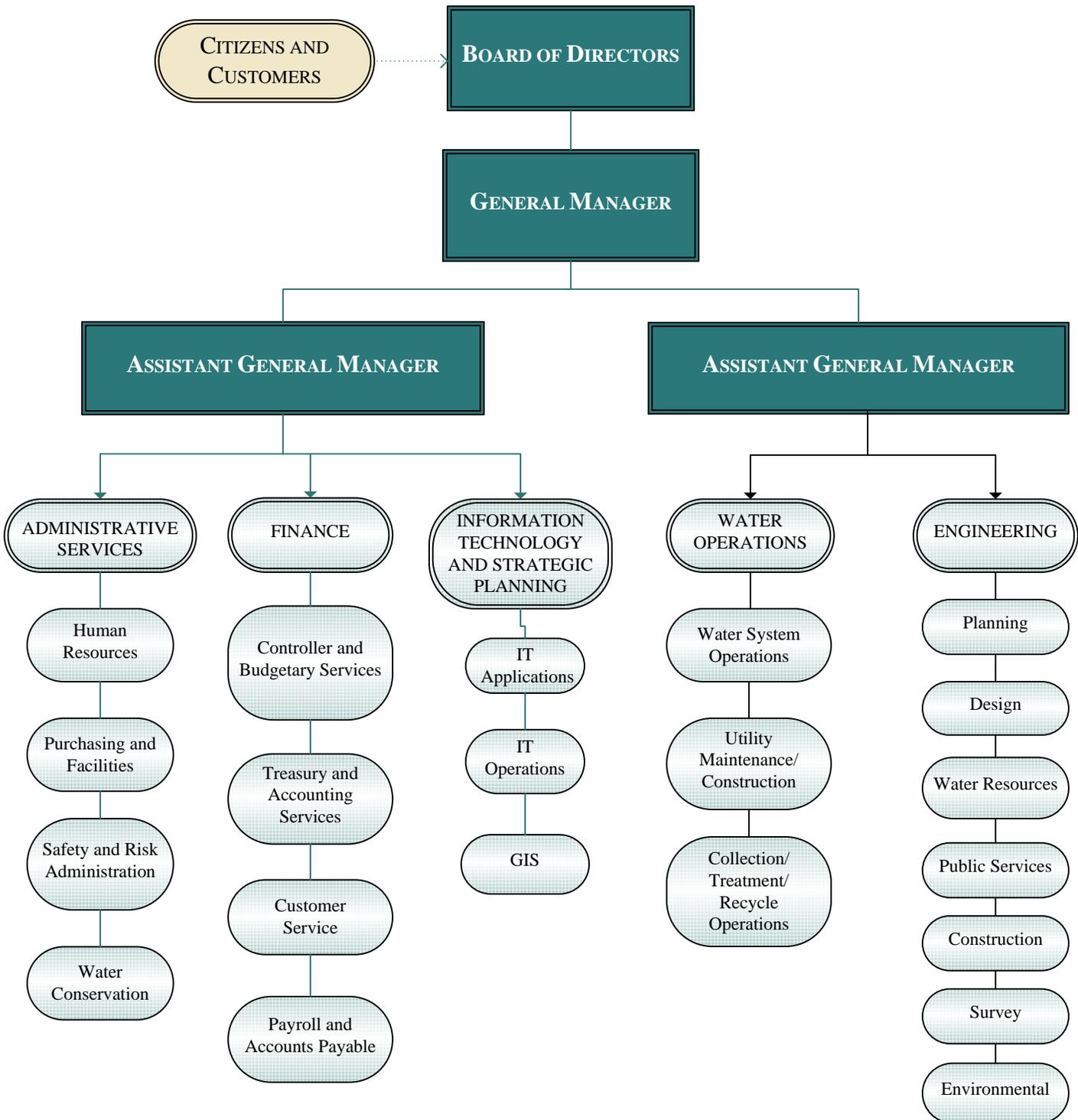
Results-Oriented Workforce

-  Retain Dedicated Workforce
-  Hire the “Best”
-  Staff Development
-  Workforce Management
-  Knowledge Management
-  Community involvement/District Outreach





ORGANIZATION CHART



BUDGET GUIDE

The District views the budget as an essential tool for proper financial management. This budget is developed with input from the various department levels of the organization and is adopted prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and citizens. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future plans. To help readers navigate this document, the following is a general description of each of the tabulated sections of the budget.

Budget Foreword

This introductory section contains descriptions and general information about the District, strategic focus areas highlighting major initiatives and accomplishments, and the Budget Calendar and Process.

Policies

This section includes a summary of the District's financial policies and practices, including the Reserve Policy, Investment Policy, and Debt Policy.

History and Community Profile

Included in this section is the history of the District, along with the current and future economic conditions and projections. It also includes statistics on the District's customers, the region's tax base, and rainfall.

Financial Summaries

This section contains an overview of the District's revenues and expenditures by fund for the current budgeted fiscal year and prior two years' actual and estimated amounts. It includes a description of each of the revenue and expense categories as well as charts depicting their relationships.

Five-Year Forecast

The District prepares a comprehensive Rate Model each year based on budget input, trends, new programs, and requirements. Estimates are made of cost increases, rate increases, targeted fund balances, capital needs, and debt requirements. Analysis for the current budget year plus five subsequent years is conducted and a five-year forecast is prepared based on the Rate Model results.

BUDGET GUIDE

Revenues and Expenditures

The District budgets revenues and expenditures by Potable, Recycled, and Sewer Systems. General revenues and expenditures that are not specific to one system or department are budgeted in General Revenues and Expenses section. An allocation of overhead type costs is made to equitably spread the cost of running the District among the various business segments.

Departmental Operating Budget

This section provides a summary of each department's operating expenditures and detailed budget information including its mission, responsibilities, three-year staffing, performance indicators, accomplishments, and goals. Also provided are graphical presentations of departmental budget percentages to District total, as well as summary expenditure information by division for three fiscal years.

Capital Budget

An overview of the District's Capital Improvement Program (CIP), the Water Resources Master Plan (WRMP), major assumptions and criteria, a five-year listing of CIP project expenditures and the justification and impact on the Operating Budget and capital purchases budget for the fiscal year are located in this section.

Appendix

The last section consists of a Glossary of budget and financial terms, List of Acronyms, and an Index.

Gabrielle Topper
2007 "Water is Life" Winner
4th Grade
Rancho San Diego
Elementary School



BUDGET CALENDAR

Each year, the Finance Department prepares a Budget Workbook for distribution to the departments. This workbook gives instructions and deadlines for each phase of the budget. The budget process is explained on pages 18 and 19.

February 15, 2008	Chiefs submit CIP budget for new projects and changes to existing projects.
February 20, 2008	Departments submit requests for new personnel and/or personnel reclassifications, and long-term staffing to Human Resources.
February 27, 2008	Human Resources Department (HR) performs a preliminary review of submitted requests.
March 3, 2008	Each department submits the following items: <ul style="list-style-type: none"> • Position analysis questionnaires • Operating and administrative budget • Capital purchases and justification • Personnel budget and work order percentage allocation
March 5, 2008	General Manager approves new personnel and/or personnel reclassification requests.
March 10, 2008	Finance Department reviews Operating Budget and performs Reconciliation with departments.
March 12, 2008	Chiefs submit GM approved Personnel Requests and Request for Reclassification; and Position Analysis forms to HR.
May 14, 2008	Finance reviews department operating budgets with GM and AGMs, and reviews department preliminary CIP budget with Chief of Engineering.
May 21, 2008	Finance reviews personnel cost with Chiefs, AGMs and GM, and completes second review of CIP budget with AGMs and Engineering.
May 28, 2008	General Manager reviews CIP budget.

April 21, 2008	Finance reviews assumptions and rates with Chiefs, AGMs and GM.
April 24, 2008	General Manager reviews Preliminary Budget.
May 19, 2008	Practice run of budget presentation with Finance, Chiefs, AGMs and GM.
June 10, 2008	Public Workshop – Adopt FY 2008-09 Operating and Capital Budgets.
October 31, 2008	Mail Prop 218 Notices.
December 15, 2008	Prop 218 Hearing.

BUDGET PROCESS

The District has integrated the Capital Improvement Program (CIP) Budget and the Operating Budget. These budgets are developed based on the District's Water Resources Master Plan and Strategic Business Plan. New initiatives and programs are categorized into the Balanced Scorecard perspectives. Appropriate budget amounts are determined by using the historical data of operations, growth, developers' input, SANDAG projections, and economic outlook. The District is accounted for and budgeted on an enterprise basis and conforms to the guidelines of Generally Accepted Accounting Principles (GAAP).

To assure reliable, high-quality service to the 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:

- an average projected long-term growth rate of 2%
- pass-through rate increases for cost imposed on the District by the wholesale water providers
- accurate projections of capital budget needs (including replacement needs)
- reserve funding in accordance with the Reserve Policy to meet future growth demands and financial stability
- funding of the Strategic Plan initiatives as categorized into the Balanced Scorecard perspectives
- avoid rate spikes by leveling rate increases over a six-year period

Each year, the Finance Department prepares a Budget Workbook for distribution to the departments. This workbook gives instructions to departments on how to budget for positions, administrative, and materials expenses. Included in this workbook are historical trends, assumptions, and training on how to enter the expense data into the District budget system.

Administrative and Materials Expenses are entered into the budget system by individual requests. These requests are compared to last year's budget and expenses to determine reasonableness by the Finance Department. New or large increases in costs are supported by explanations for these costs and presented to the General Manager and the Board of Directors prior to adopting the budget.

The budgeting of salaries and benefits is performed in the position budgeting module of the budget system. This tool allows the District to budget for each authorized position and the associated benefits. Departments submit requests for new positions, reclassifications, or advancements to the Assistant General Managers. These requests are reviewed by the Assistant General Managers and then presented to the General Manager for approval. Upon their approval, the Finance Department enters these changes, as well as negotiated pay increases and benefit rate changes, into the position budget system. Position budgeting calculates the salaries and benefits to be included in the District's budget.

BUDGET PROCESS

The Finance Department prepares the budget for the Potable, Recycled, and Sewer Systems based on estimated cost increases from the District's wholesale water providers as well as estimated sewer charge increases provided by the City of San Diego. Other significant factors in the budget development include projected growth in customer accounts and weather. Additionally, all general revenue and expense budgets are calculated using trend analysis and any external factors that may affect these items.

The Engineering Department issues budget instructions for the CIP budget process. Each project manager receives a report of year-to-date project expenses and then estimates cost to the end of the fiscal year. They also project future costs to complete the project. Costs are adjusted for scope changes as well as construction cost increases. Engineering then compiles the CIP Budget and submits it to the Assistant General Managers and the General Manager for review prior to presentation to the Board of Directors.

Once all of these budgets have been calculated, the Finance Department inputs all of the operating revenues and expenses, CIP expenses, reserve funding, and reserve levels into the District's Rate Model. Inflation for cost and volume are input into the Rate Model to project the next five years of revenue and expenses. Rates are then set for the current fiscal year, plus five subsequent years, such that all financial targets are met. Using this comprehensive modeling tool, the District is able to smooth future rate increases, determine when debt should be issued, and maintain all of the reserve levels in accordance with the Reserve Policy.

In the spring, the Strategic Plan is presented to the Board of Directors for adoption. This is followed by a coordinated presentation of the budget by all departments, to the Board of Directors for their approval at a special budget workshop in May. The adoption of the Strategic Plan and budget on an annual basis gives the District its direction for the following fiscal year.

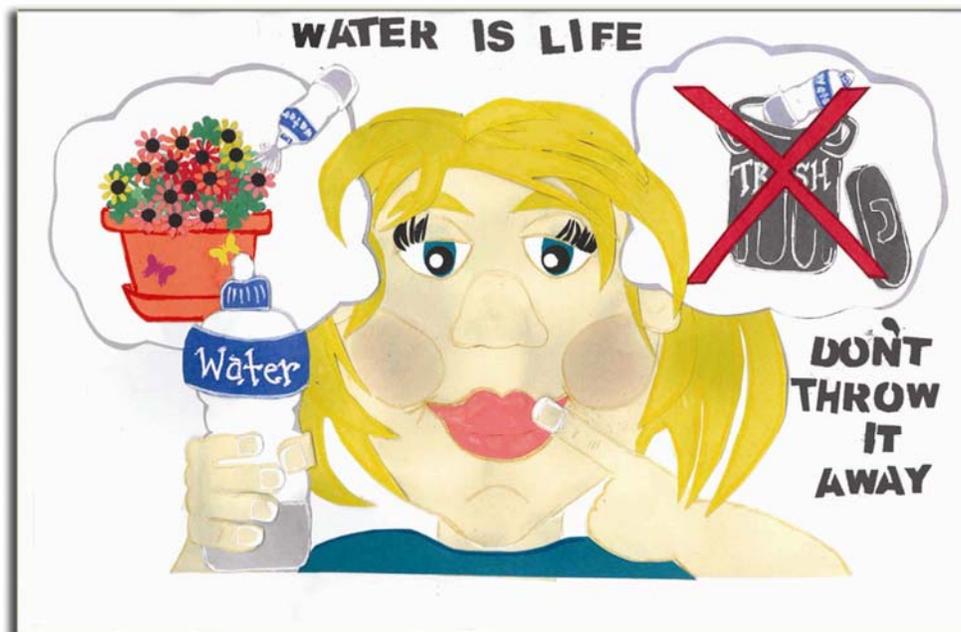
During the year, each department receives monthly budget and cost reports that are essential to monitor and control costs. As events occur or conditions change, modifications to or deviations from the original budget may be necessary. In the event the General Manager determines that an emergency exists which requires immediate action, he may transfer appropriation within the budget allocations, or request that the Board of Directors increase the current budgeted funds.

Due to the size of the District's CIP, a separate budget book has been prepared outlining in detail the projects and expenditures required to ultimate build-out. A synopsis of the CIP may be found under the Capital Budget section of this report. As part of the integrated budget, capital purchases have been included within the CIP Budget.

The Budget Report is intended as a financial guide and may be modified by the Board of Directors during Fiscal Year 2009.

BUDGET BASIS

The District utilizes the accrual basis for budget and accounting, recognizing revenues and expenses in the period in which they are earned and incurred, respectively. The District reports its activities on an enterprise basis, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise. The intent of the District is that the costs (including replacement cost of existing assets) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.



2007 "Water is Life" Winner
Kirstine Donegan
6th Grade
Clear View Charter School

RESOLUTION NO. 4124

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2008-2009
OPERATING AND CAPITAL BUDGET

WHEREAS, the Otay Water District Board of Directors have been presented with a budget for the operation of the Otay Water District for Fiscal Year 2008-2009; and

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

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Operating and Capital Budget for the operation of the District, incorporated herein by reference, is hereby adopted as the District's budget for Fiscal Year 2008-2009.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 23rd day of June 2008, by the following vote:

Ayes: Directors Croucher, Lopez, Breitfelder, Bonilla
Noes: None
Abstain: Director Robak
Absent: None



President

ATTEST:



Assistant District Secretary

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History and Community Profile

PAST AND PRESENT

On January 27, 2006, the Otay Water District celebrated its golden anniversary. Over 50 years ago, the California State Legislature officially authorized the District to an entitlement to imported water. The Otay Water District was formed in 1956 by a small group of ranchers, farmers and other property owners concerned about the declining quality and quantity of well water. In 1957, developers in south Spring Valley created the La Presa County Water District to gain water from the San Diego County Water Authority (CWA). In the fall of 1969, these two districts merged into the Otay Water District.

Since then, the District has grown from a handful of customers and two employees to become an organization operating a water network with more than 722 miles of potable and 93 miles of recycled pipelines, 43 reservoirs, a sewer treatment plant, and one of the largest recycled water distribution systems in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching to businesses, high-tech industries, and large master-planned communities. The water district's boundaries currently stretch from Otay Mesa and eastern Chula Vista to Spring Valley, southern El Cajon, and Jamul.

The District is facing a very dry year with the Colorado River in the midst of a prolonged multi-year drought and the Sierra Nevada snow pack at its lowest level in many years. To add to this situation, water deliveries are being curtailed to the State Water Project to protect endangered Delta Smelt. All of this is likely to mean less water for Southern California in the years ahead.

These current problems make the work the District is doing all the more critical. On June 1, 2007 the District dedicated Supply Link Project connecting recycled water system to the City of San Diego's City South Bay Water Reclamation Plant. Today, the District purchases about six million gallons per day (mgd) of recycled water from the city in addition to the one mgd produced at RWCWRF. With recycled water meeting a large portion of the landscape irrigation needs, this means approximately seven mgd of potable water does not have to be pumped hundreds of miles from northern California or the Colorado River. Instead, enough drinking water to serve more than 15,000 homes is being conserved and can be used to address shortages in the years to come.

CURRENT ECONOMIC CONDITIONS

Currently, the District services the needs of a growing population by purchasing water from the San Diego County Water Authority (CWA). CWA purchases its water from the Metropolitan Water District of Southern California (MWD) and the Imperial Irrigation District (IID). Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from two sources, CWA, and the Helix Water District (HWD) in the North area of the District. In the Southern region, in addition to the treated water deliveries from CWA, the District has an emergency agreement with the City of San Diego in the case of a shutdown of the main treated water source. Through innovative agreements like this, benefits can be achieved by both parties by using excess capacity of another agency, and diversifying local supply, thereby increasing reliability.

For almost as long as it has been delivering potable water, the District has collected and recycled wastewater generated within the Jamacha drainage basin and pumped the recycled water south to the Salt Creek basin where it is used for irrigation and other non-potable uses. However, the demand for recycled water out-paced the supply, requiring the District to supplement the limited supply of recycled water with potable water. Through the new agreement with the City of San Diego, the District has discontinued supplementing its recycled demand with potable water. Once again, this decreases the demand on potable water and increases reliability of the District's supply.

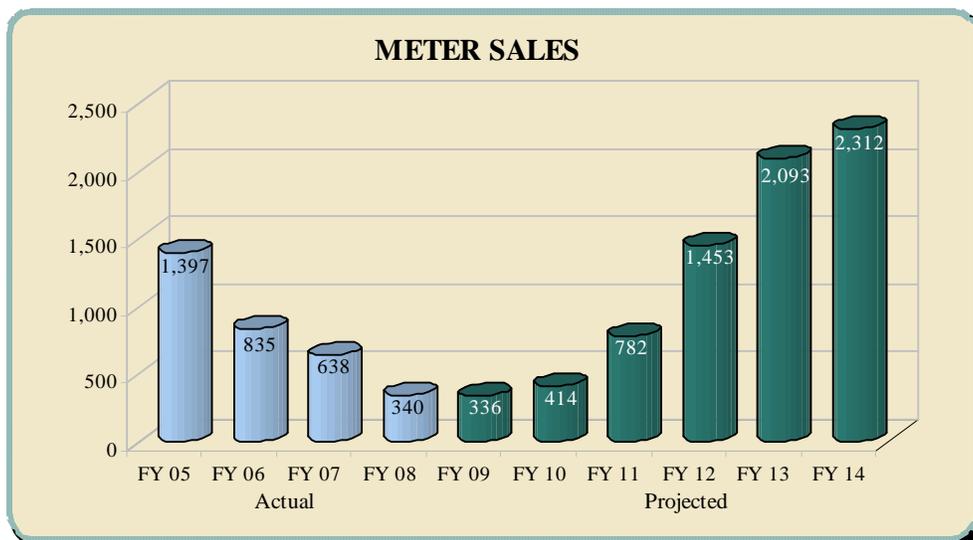
The District's sewer service area is growing at a slow but steady rate of approximately 1.2% each year. Most of this growth is from small development projects or homeowners converting their septic system to sewer because of environmental issues.

The District's service area was one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. It is estimated that the District is currently serving approximately 191,500 residents. In just the past six years, the District has added more than 7,950 new customer connections. The phenomenal growth has slowed, as our local and national economy is experiencing a downturn. This slowdown is reflected internally as the District's Development Services Department approved on average 24 permits per month, and sold 220 water meters in Fiscal Year 2007-2008.



THE FUTURE

The District continues to use the challenges presented by growth to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Business Plan, it has captured the Board of Director's vision and united its staff in a common mission. The organization has achieved a number of significant accomplishments based on its successful adherence to its Strategic Business Plan. The District is not only poised to continue successfully providing an affordable, safe, and reliable water supply for the people of its service area, but is set to reap the rewards of greater efficiencies and economies of scale.



The Engineering Department projects that over the next six years the District will sell another 7,390 meters. SANDAG, the regional planning agency, shows a slowing of the historic annual growth rate of 6.3% since 1980, to a projected future annual growth rate of 1.7% through 2030, for the City of Chula Vista. For the unincorporated areas of the region the historic annual growth rate has been only 1.3% since 1980, but is expected to increase to 2.1% through 2030.



DEMOGRAPHICS

The District boundaries shown in the chart below encompass an area of approximately 125 square miles in San Diego County, located immediately east of the City of San Diego metropolitan area and running from the City of El Cajon south to the international border.



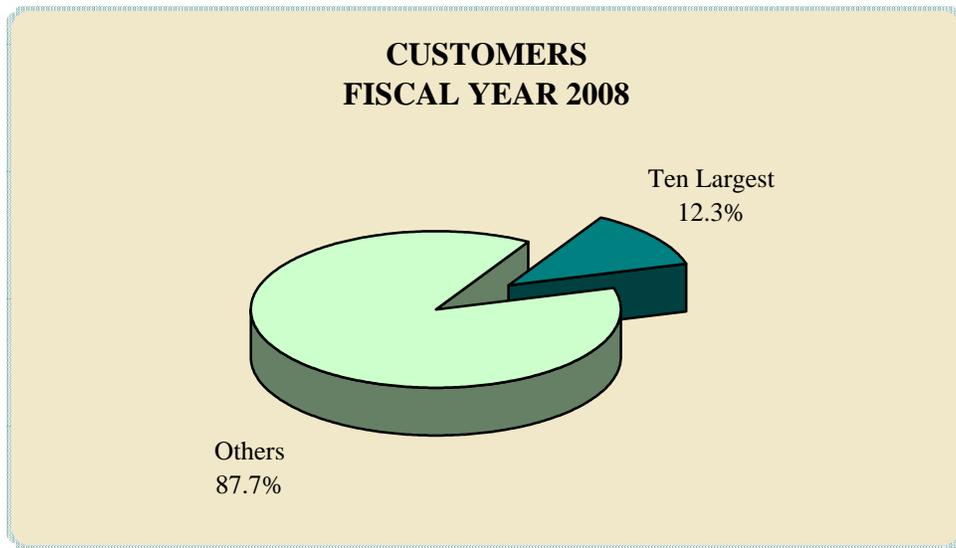
SANDAG creates and maintains a tremendous quantity of demographic, economic, land use, transportation and criminal justice information about the San Diego region. The demographic data include population characteristics like age, education, and employment. Because of the overlapping of the District's service area with the cities of Chula Vista, La Mesa, El Cajon, and the unincorporated areas of Spring Valley and Jamul, the following demographic data is from the City of Chula Vista as it most closely represents the District.

The population of Chula Vista has grown from 83,927 in 1980, to 135,136 in 1990, to 173,556 in 2000, and in 2008 the population reached 231,305. This represents, an increase of 147,378 in the past 28 years or a 175.6% increase, which correlates to the District's rapid growth for the same period.

The racial make up of Chula Vista is 50% Hispanic, 28% White, 13% Asian, 4% Black, and the remaining 5% is all other groups. The median household income for Chula Vista was \$71,298 in 2007, and 97% of Chula Vista's housing units were occupied.

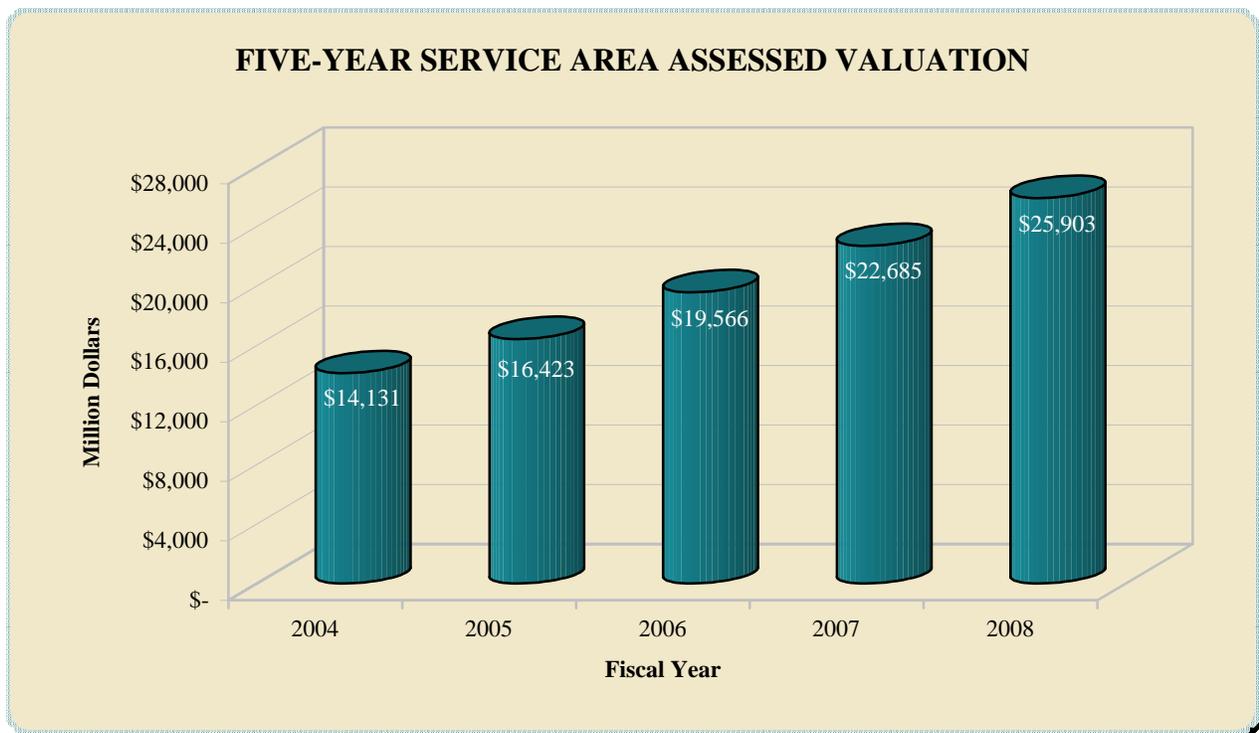
TEN LARGEST CUSTOMERS - FISCAL YEAR 2008

Customer Name	Customer Type	Annual Revenues	% of Water Sales
1. City Of Chula Vista	Publicly Owned	\$ 1,934,992	3.8%
2. State Of California	Publicly Owned	961,095	1.9%
3. County Of San Diego	Publicly Owned	772,190	1.5%
4. Eastlake III Community Assoc	Construction (Potable, Temporary)	602,122	1.2%
5. Eastlake Country Club	Irrigation (Reclaimed, Permanent)	399,287	0.8%
6. Steele Canyon	Irrigation (Potable, Permanent)	359,162	0.7%
7. Salt Creek Partners LLC	Irrigation (Reclaimed, Permanent)	349,322	0.7%
8. Eastlake Summit	Master-Metered (Potable, Permanent)	316,696	0.6%
9. Sweetwater School District	Publicly Owned	294,320	0.6%
10. Otay Project LP	Construction (Potable, Temporary)	271,068	0.5%
Total		<u>\$ 6,260,256</u>	<u>12.3%</u>
Estimated FY08 Water Sales		<u>\$ 50,753,112</u>	



SERVICE AREA ASSESSED VALUATION

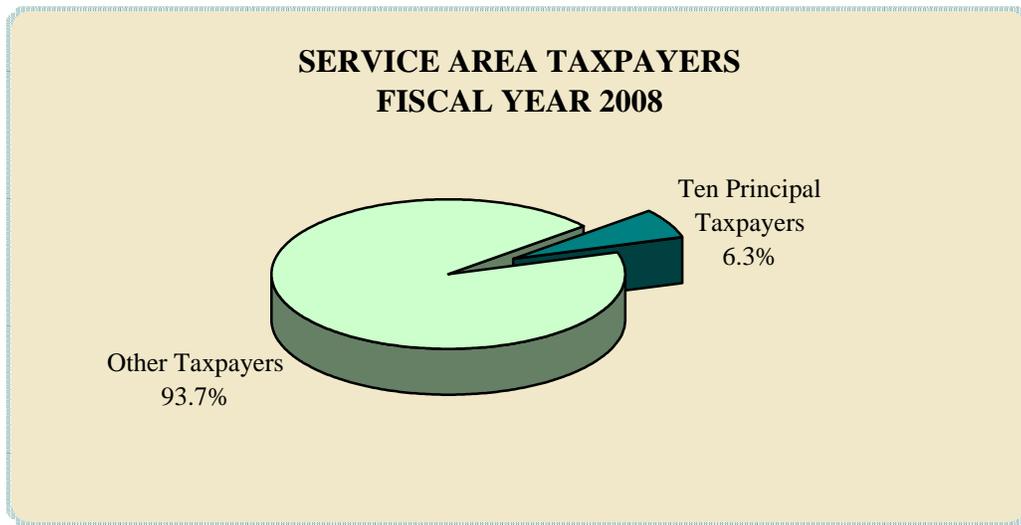
Otay Water District's service area encompasses property with over \$25 billion of assessed valuation. Properties are assessed at 100% of their full value less any exemptions such as, exemption from taxation under the law and homeowner's exemptions. As shown in the chart below, there has been a significant increase in the assessed value of properties in the District service area. This increase is due to both growth in the number of new homes, as well as increases in home prices. The growth in new homes is expected to continue at a long-term rate of 2% until ultimate build-out. The assessed valuation is the basis for the property tax change. The District receives its portion of the 1% property tax, according to Proposition 13 and AB8, and with the increases in the assessed valuation the District will benefit by receiving its proportionate share of this increase. Even with the down turn in the property values the District is anticipating a modest increase of 3%.



Source: County of San Diego Auditor and Controller

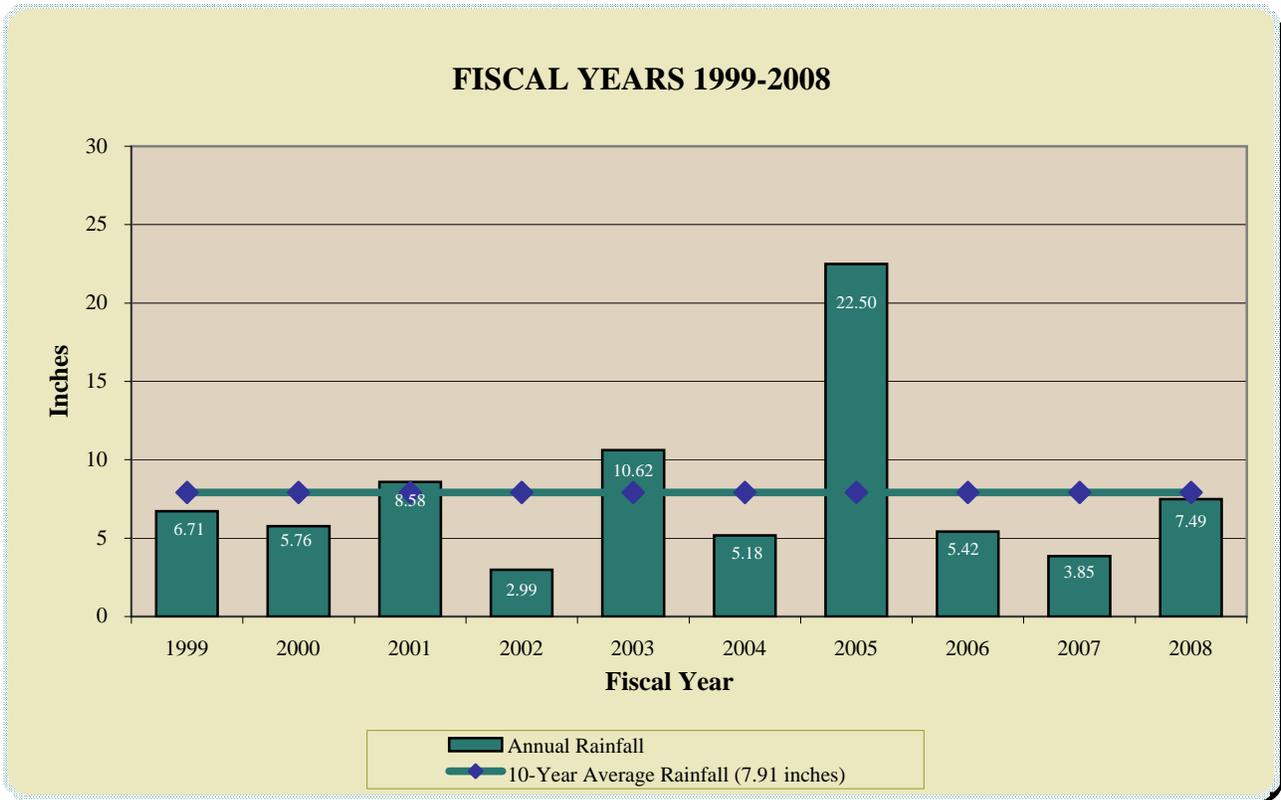
TEN PRINCIPAL TAXPAYERS AS OF JUNE 30, 2008

Organization	Assessed Value	Percent to Total
1. SAN DIEGO EXPRESSWAY LIMITED PARTNERSHIP (SDELP)	\$ 600,000,000	2.32%
2. GGP-OTAY RANCH LP	183,317,833	0.71%
3. VILLAGE II OF OTAY HB SUB	181,107,368	0.70%
4. OV THREE TWO LLC	118,746,964	0.46%
5. REGULO PLACE APARTMENTS INVESTORS LLC	113,980,960	0.44%
6. SHEA HOMES LIMITED PARTNERSHIP	93,277,630	0.36%
7. EQR-MISSIONS AT SUNBOW LLC	88,805,655	0.34%
8. RANCHO MESA LP	85,503,816	0.33%
9. VILLAGE II OF OTAY LP	84,565,792	0.34%
10. SP LAVIDA REAL LLC	80,027,108	0.31%
Total	\$ 1,629,333,126	6.29%
Total Service Area Assessed Valuation	\$ 25,902,796,201	



Source: County of San Diego Auditor and Controller

SAN DIEGO RAINFALL



The 10-year average of 7.91 inches for San Diego rainfall reflects the long-term drought conditions for our area. San Diego's rainfall average over 20 years is 9.63 inches; the 30-year average is 10.47 inches. The District expects drought conditions to continue for FY2009.

Under drought conditions there is the real potential for mandatory cutbacks. In the event of cutbacks, District water-sale revenues would decrease. Related water purchase expenses would also be reduced dampening the impact of the decrease in revenues. The severity of cutbacks would dictate the magnitude of the District's response and type of reaction.

The San Diego rainfall information shown in the chart above uses data from the San Diego Airport at Lindbergh Field and is provided by the Western Regional Climate Center. More information can be obtained from their website: <http://www.wrcc.dri.edu>. The Western Regional Climate Center's Web site data, in turn, is derived from data received from the National Climatic Data Center, the National Weather Service, the National Resource Conservation Service, the Bureau of Land Management, the U.S. Forest Service, and other federal, state, and local agencies. Although the data reflects actual rainfall at Lindbergh field, it is representative of rainfall for the area served by the Otay Water District.



Financial Summaries

BUDGET SUMMARY

The Operating Budget is summarized and presented in the Operating Budget Summary on page 34. Also included in this section is the Operating Budget Summary by Business on page 35, the Fund Balance Summary by Fund on page 37, and the Revenues and Expenditures by Fund schedule on pages 38 and 39. The Revenues, Expenditures, and Sources and Uses of Funds by Type for all funds is presented on page 40. For Fiscal Year 2009, the District increased both water and sewer rates for its customers in order to pass-through cost increases from water and sewer agencies. These cost increases are being experienced by our neighboring water agencies and most are encountering similar, if not greater, rate increases.

Operating Budget Summary

The Operating Budget for Fiscal Year 2009 is \$67,062,700 in comparison to the previous adjusted fiscal year budget of \$66,180,500. The \$882,200 increase is primarily due to unprecedented water supply rate increases of 13.2% from CWA because of the high cost of supply programs, higher energy and operating costs.

The District uses a rate model to build the budget for the current fiscal year and five subsequent years. To do this, estimates for growth, water costs, and others such as rainfall, and average water consumption per customer, are used throughout the model to calculate individual revenue and expense amounts in each year. Engineering Department is primarily responsible for the growth estimates as described in the budget process on pages 18 and 19. Water cost estimates are obtained from District water suppliers, CWA and MWD, and power cost inflators from San Diego Gas and Electric, the District power supplier. Labor and benefit cost inflators are based on the Memorandum of Agreement with District labor union, as well as estimates from District health providers. Other general inflators are derived from statistical data from consumer price indexes for the region.

Revenues

Potable Water Sales

Potable water sales represent revenue collected from the sale of water, including: system charges, energy charges, and penalties. It is estimated that 36,350 acre-feet of potable water will be sold during Fiscal Year 2009. Budgeted revenues from water sales are projected to be \$49,229,400, an increase of 3.6% over the previous year's budget. Additional schedules relating to potable water sales are included in the Potable Revenues and Expenditures section of this budget.

Recycled Water Sales

Recycled water sales represent revenue collected from the sale of 4,670 acre-feet of recycled water to customers at a discount of 15% of the potable irrigation rate. The FY 2009 sales revenue budget of \$6,344,500, an increase of \$343,100 from FY 2008, includes the incentive credits provided by MWD and the CWA.

Sewer Revenues

Sewer charges are the monthly fees collected from the sewer service connections. The fees are determined by volume of flow and the strength of solids discharged into the sewer system.

Meter Fees

Meter fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section.

Capacity Fee Revenues

These fees are earned by the General Fund for Engineering Department's support for expansion functions.

Betterment Fees for Maintenance

These fees are earned by the General Fund for Water Operations Department's maintenance of certain District assets.

Annexation Fees

The District collects Annexation Fees when new customers annex into the District. The fee is based on the excess capacity built by existing users and ensures that future users fund a portion of the facilities that were sized and built for their future use.

Tax Revenues

The District receives 1% property tax revenues, debt-related assessments, and availability fees on properties within the District's boundaries. These revenues are collected by the County of San Diego via the Property Tax Roll and remitted to the District annually.

Non-Operating Revenues

Non-Operating Revenues are revenues that are not directly related to the operation of a water/sewer utility, and include such items as District property rentals and leases, and billing services for the City of Chula Vista.

Interest

Interest is earned by each fund that has a positive balance, and is paid by each fund with a negative balance. Interest income on General Fund balances is considered general use revenue.

General Fund Draw Down

This draw down of the General Fund is made when the balance is sufficient (in accordance to the Reserve Policy) to fund operating expenditures of the District. If the balance was not sufficient, either rates would be increased or expenditures cut to balance the budget. The Rate Model does not show this as an ongoing funding source as revenues are sufficient to cover expenditures. This draw down is being used as a means to smooth out the rate increases necessary to fund new programs.

Expenditures

Potable Water Purchases

Water purchases indicate the expense of purchasing 38,800 acre-feet for the District's potable water supply. A provision has been made to allow 2,440 acre-feet of water for District usage, leakage, and evaporation.

Recycled Water Purchases

Recycled water purchases indicate the expense of purchasing 3,470 acre-feet for the District's recycled water supply. The District no longer budgets for a potable supplement to the recycled system due to the new source of recycled water from the City of San Diego.

Infrastructure Access Charge

This charge was established in Fiscal Year 1999 by CWA to finance a portion of its fixed annual costs including construction, operation, and maintenance of its aqueducts. This fixed charge is based on the number of "household meter equivalents."

Customer Service Charge

This charge was established in Fiscal Year 2004 by CWA as a fixed charge. The Customer Service Charge is set to recover costs necessary to support CWA's development of policies, and implementation of programs that benefit the region as a whole.

Emergency Storage Charge

The Emergency Storage Charge was established by CWA in Calendar Year 2003, to recover costs associated with non-agricultural water deliveries and is allocated based on each member agency's share of deliveries.

Capacity Reservation Charge

This charge was established in Fiscal Year 2002 by the MWD, as a fixed charge on a member agency's requested maximum day capacity. The Capacity Reservation Charge is a charge per cubic-foot-second (cfs) and is applied to the amount of capacity (daily flow) a member agency expects to use during the peak period from May through September.

Readiness-to-Serve Charge

This charge was established in Fiscal Year 1996 by MWD, to recover the principal and interest payments on non-tax supported debt service used to fund the capital improvements necessary to meet the continuing reliability and quality needs associated with current demands. These costs are offset by standby charges collected by the MWD on the tax bills of District customers.

Power Costs

Power is the cost associated with the transmission and distribution of water to customers. The pumping costs to distribute water vary with elevation and will increase as water sales increase.

Labor and Benefits

Labor and benefits are the wages and fringe benefits for 168.75 Full-time Equivalent (FTE) employees. Labor costs are reduced by the number of hours that are charged to non-operating Capital Improvement Program (CIP) and developer deposit projects. The detail of actual personnel and payroll related expenses is included in the Departmental Operating Budget section.

Administrative Expenses

Administrative expenses are costs incurred by various departments that are directly related to District operations. Additional details are supplied in the Departmental Operating Budget section.

Materials and Maintenance

Materials and maintenance expense is the cost associated with the operation and maintenance of District facilities. Additional details are supplied in the Departmental Operating Budget section.

Expansion Reserves

These reserves are established to fund expansion needs including project costs, existing debt payments, and new debt that will be issued in the future to fund expansion.

Replacement Reserves

These reserves are established to fund the replacement needs including project costs, existing debt payments, and new debt that will be issued in the future to fund replacement.

Operating Budget Summary by Business

The Budget Summary by System schedule reflects the separation of operating revenues and expenses among potable water, recycled water, and sewer. This information is provided due to the necessity to collect sufficient revenue from each type of operation to recover the full cost of operating expenses and to ensure that the customers are charged for services received.

Fund Balance Summary by Fund

This schedule shows each fund's balance at June 30, 2008, and the projected balance for June 30, 2009, based on the results of the budget and Rate Model. This includes transfers between funds made to meet target levels as outlined in the Reserve Policy.

Revenues and Expenditures by Fund

The Revenues and Expenditures by Fund schedule reflect each fund's revenues and expenditures by business line, where appropriate. This schedule is reconciled to the Fund Balance Summary and excludes transfers between funds.

Revenues and Expenditures by Type – All Funds

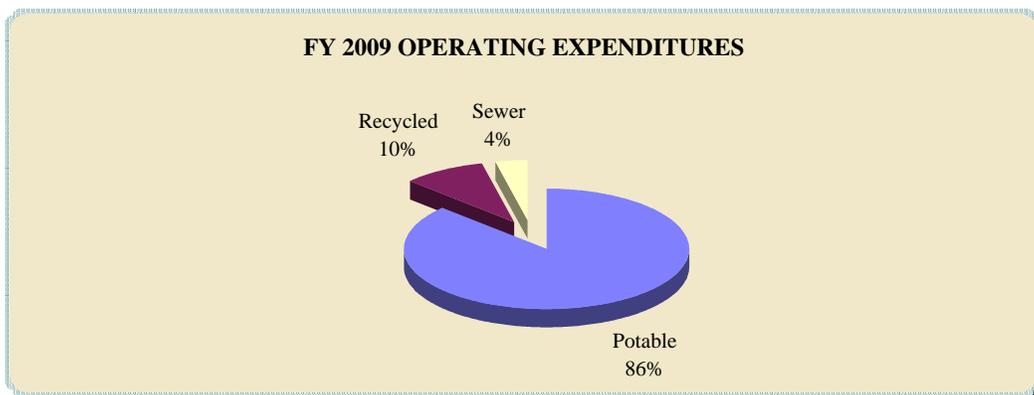
This is a consolidated schedule of revenues and expenditures, including sources and uses of funds but excluding fund transfers.

OPERATING BUDGET SUMMARY - GENERAL FUND

	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Potable Water Sales	\$ 44,112,749	\$ 47,506,500	\$ 44,804,854	\$ 49,229,400	\$1,722,900	3.6%
Recycled Water Sales	4,492,858	6,001,400	5,948,258	6,344,500	343,100	5.7%
Sewer Revenues	2,577,993	2,679,100	2,414,886	2,145,300	(533,800)	(19.9%)
Meter Fees	246,539	318,500	79,790	103,800	(214,700)	(67.4%)
Capacity Fee Revenues	1,536,911	1,414,500	1,480,165	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	802,021	895,900	822,600	1,122.2%
Annexation Fees	2,119,886	1,464,500	526,435	483,600	(980,900)	(67.0%)
Tax Revenues	3,646,158	4,003,800	4,024,645	4,137,300	133,500	3.3%
Non-operating Revenues	2,068,134	1,680,200	2,297,826	1,633,100	(47,100)	(2.8%)
Interest	1,173,649	1,038,700	1,038,425	667,800	(370,900)	(35.7%)
Transfer from Expansion Reserve	-	-	-	-	-	0.0%
General Fund Draw Down	283,600	-	-	120,100	120,100	100.0%
TOTAL REVENUES	62,258,477	66,180,500	63,417,304	67,062,700	882,200	1.3%
EXPENDITURES						
Potable Water Purchases	21,562,502	23,984,100	22,253,362	25,183,600	1,199,500	5.0%
Recycled Water Purchases	1,829,476	1,423,000	1,278,084	1,490,800	67,800	4.8%
CWA - Infrastructure Access Charge	1,003,927	1,090,200	1,090,228	1,227,500	137,300	12.6%
CWA - Customer Service Charge	846,505	950,400	949,222	1,049,800	99,400	10.5%
CWA - Emergency Storage Charge	1,230,830	1,507,800	1,507,895	1,774,700	266,900	17.7%
MWD - Capacity Reservation Charge	530,708	569,400	570,980	602,800	33,400	5.9%
MWD - Net RTS and Standby Charges	512,206	552,600	564,193	665,100	112,500	20.4%
Subtotal - Water Costs	27,516,154	30,077,500	28,213,964	31,994,300	1,916,800	6.4%
Power	2,489,977	2,804,800	2,647,885	2,780,500	(24,300)	(0.9%)
Labor and Benefits	14,602,940	15,604,500	16,462,021	17,185,400	1,580,900	10.1%
Administrative Expenses	5,467,656	6,982,300	6,153,593	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	3,701,221	4,452,900	4,112,180	3,872,800	(580,100)	(13.0%)
Expansion Reserve	-	2,590,200	2,590,200	5,016,700	2,426,500	93.7%
Betterment Reserve	-	3,432,900	3,432,900	-	(3,432,900)	(100.0%)
Replacement Reserve	4,540,000	235,400	235,400	277,900	42,500	18.1%
State Loan Reserve	-	-	-	-	-	0.0%
TOTAL EXPENDITURES	58,317,949	66,180,500	63,848,142	67,062,700	882,200	1.3%
EXCESS REVENUES (EXPENSE)	\$ 3,940,528	\$ -	\$ (430,837)	\$ -	\$ -	0.0%

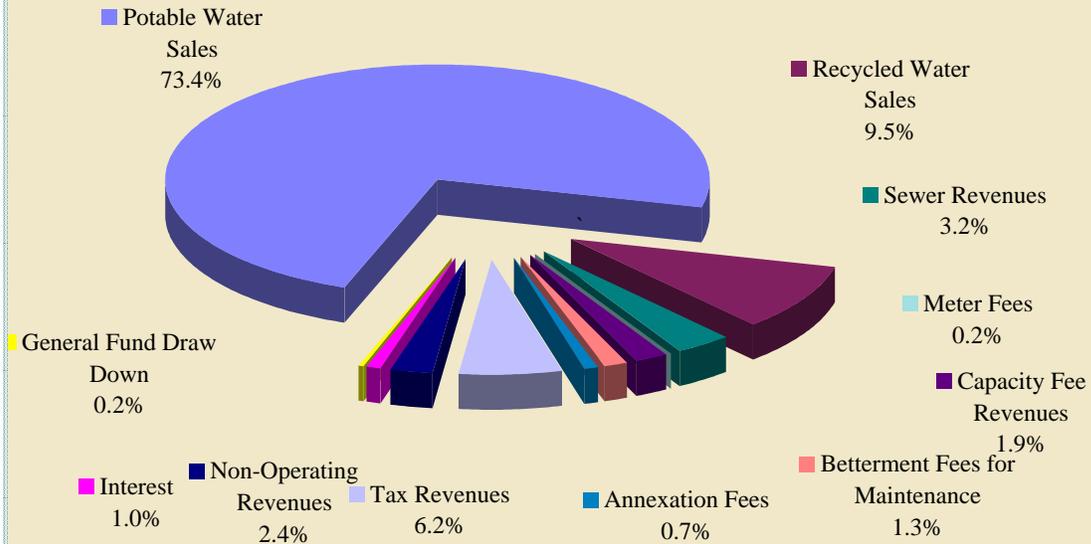
FY 2009 OPERATING BUDGET SUMMARY BY BUSINESS

	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 49,229,400	\$ -	\$ -	\$ 49,229,400
Recycled Water Sales	-	6,344,500	-	6,344,500
Sewer Revenues	-	-	2,145,300	2,145,300
Meter Fees	92,400	11,400	-	103,800
Capacity Fee Revenues	1,301,900	-	-	1,301,900
Betterment Fees for Maintenance	895,900	-	-	895,900
Annexation Fees	483,600	-	-	483,600
Tax Revenues	4,080,900	-	56,400	4,137,300
Non-operating Revenues	1,606,700	-	26,400	1,633,100
Interest	582,500	24,600	60,700	667,800
Transfer from Expansion Reserve	-	-	-	-
General Fund Draw Down	-	-	120,100	120,100
TOTAL REVENUES	58,273,300	6,380,500	2,408,900	67,062,700
EXPENDITURES				
Water Purchases (CWA)	25,183,600	1,471,000	-	26,654,600
Water Purchases (CSD)	-	19,800	-	19,800
CWA - Infrastructure Access Charge	1,227,500	-	-	1,227,500
CWA - Customer Service Charge	1,049,800	-	-	1,049,800
CWA - Emergency Storage Charge	1,774,700	-	-	1,774,700
MWD - Capacity Reservation Charge	602,800	-	-	602,800
MWD - Net RTS and Standby Charges	665,100	-	-	665,100
Subtotal - Water Costs	30,503,500	1,490,800	-	31,994,300
Power	2,216,100	466,800	97,600	2,780,500
Labor and Benefits	15,400,300	1,143,100	642,000	17,185,400
Administrative Expenses	5,433,300	346,500	155,300	5,935,100
Materials & Maintenance	2,133,400	225,400	1,514,000	3,872,800
Expansion Reserve	2,586,700	2,430,000	-	5,016,700
Replacement Reserve	-	277,900	-	277,900
TOTAL EXPENDITURES	58,273,300	6,380,500	2,408,900	67,062,700
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

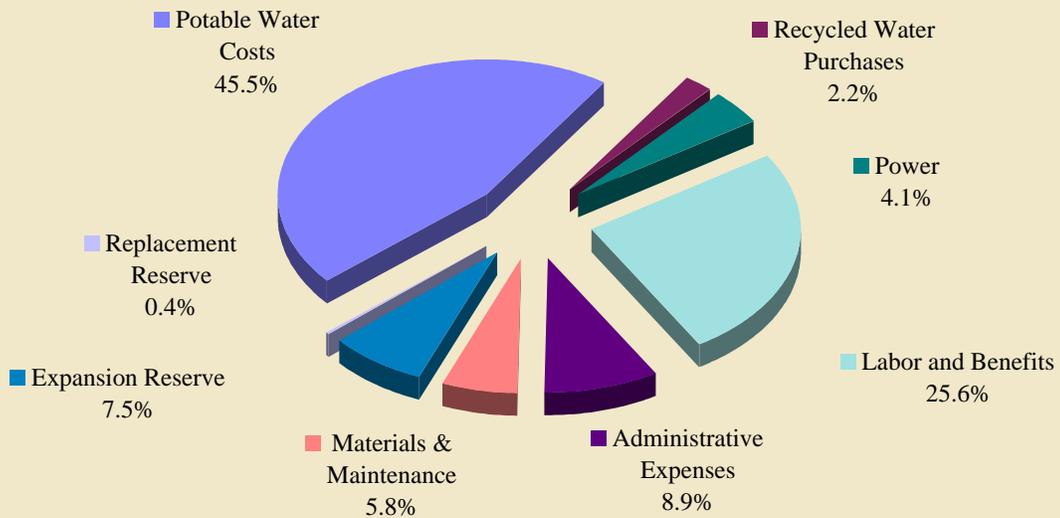


OPERATING REVENUES AND EXPENDITURES

FY 2009 OPERATING REVENUES



FY 2009 OPERATING EXPENDITURES



FUND BALANCE SUMMARY BY FUND

	Estimated	Estimated, Fiscal Year 2009			Projected
	Balance			Interfund	Balance
	June 30, 2008	Revenues	Expenditures	Transfers ⁽¹⁾	June 30, 2009
GENERAL FUND					
Potable	\$ 20,814,655	\$ 58,273,300	\$ 58,273,300	\$ (10,761,300)	\$ 10,053,355
Recycled	186,779	6,380,500	6,380,500	(87,100)	99,679
Sewer	3,693,425	2,408,900	2,408,900	(2,250,000)	1,443,425
Total General Fund	24,694,859	67,062,700	67,062,700	(13,098,400)	11,596,459
EXPANSION FUND					
Potable and Recycled ⁽²⁾	11,525,511	6,692,600	20,666,600	8,975,000	6,526,511
Sewer	440,991	11,900	100,000	-	352,891
Total Expansion Fund	11,966,501	6,704,500	20,766,600	8,975,000	6,879,401
BETTERMENT FUND					
Potable	(317,791)	1,462,400	6,963,500	12,855,500	7,036,609
Recycled	1,122,560	17,900	964,200	-	176,260
Sewer	-	52,100	18,900	(33,200)	-
Total Betterment Fund	804,769	1,532,400	7,946,600	12,822,300	7,212,869
REPLACEMENT FUND					
Potable	17,367,594	551,300	6,877,700	5,072,500	16,113,694
Recycled	4,302,708	121,400	1,000,000	365,000	3,789,108
Sewer	10,115,607	162,800	852,400	(7,221,800)	2,204,207
Total Replacement Fund	31,785,910	835,500	8,730,100	(1,784,300)	22,107,010
OPEB FUND	10,458,191	293,000	1,020,000	(810,000)	8,921,191
DEBT RESERVE FUND	8,078,335	1,028,100	1,190,400	-	7,916,035
TOTAL	\$ 87,788,565	\$ 77,456,200	\$ 106,716,400	\$ 6,104,600	\$ 64,632,965

⁽¹⁾ The total for interfund transfers does not net to \$0 because some transfers are already reflected in the Operating Revenues and Expenditures for General Fund as follows:

Expansion Reserve	\$ (5,826,700)
Replacement Reserve	(277,900)
Total	(6,104,600)

⁽²⁾ Potable and Recycled funds are combined for expansion purposes.

REVENUES AND EXPENDITURES BY FUND

	FY 2007	FY 2008		FY 2009
	Actual ⁽¹⁾	Budget	Estimated	Projected
REVENUES				
GENERAL FUND				
Potable	\$ 54,474,400	\$ 57,236,600	54,716,191	\$ 58,273,300
Recycled	4,795,706	6,124,500	6,050,180	6,380,500
Sewer	2,988,371	2,819,400	2,650,933	2,408,900
Total General Fund	62,258,477	66,180,500	63,417,304	67,062,700
EXPANSION FUND				
Potable	48,887,594	12,840,700	18,495,813	5,652,900
Recycled	(21,951,341)	(878,800)	4,154,878	1,039,700
Sewer	426,692	22,000	19,586	11,900
Total Expansion Fund	27,362,945	11,983,900	22,670,277	6,704,500
BETTERMENT FUND				
Potable	3,543,792	1,739,400	1,491,179	1,462,400
Recycled	(22,155)	13,000	57,527	17,900
Sewer	219,887	42,200	51,508	52,100
Total Betterment Fund	3,741,525	1,794,600	1,600,214	1,532,400
REPLACEMENT FUND				
Potable	(8,307,488)	946,100	1,632,201	551,300
Recycled	822,137	143,400	190,859	121,400
Sewer	10,210,374	468,600	452,254	162,800
Total Replacement Fund	2,725,023	1,558,100	2,275,314	835,500
OPEB FUND	1,094,165	885,800	718,071	293,000
DEBT RESERVE FUND	42,806,639	1,177,400	2,135,184	1,028,100
Total Revenues	\$ 139,988,773	\$ 83,580,300	92,816,363	\$ 77,456,200

⁽¹⁾ FY 2007 Actual Revenues include distribution of reserve by fund:

	<u>Expansion</u>	<u>Betterment</u>	<u>Replacement</u>
Potable	\$ 29,461,989	\$ (129,035)	(10,406,080)
Recycled	(29,867,860)	(34,650)	682,818
Sewer	405,871	163,684	9,723,262
Total	\$ -	\$ -	-

REVENUES AND EXPENDITURES BY FUND

	FY 2007	FY 2008		FY 2009
	Actual ⁽¹⁾	Budget	Estimated	Projected
<u>EXPENDITURES</u>				
GENERAL FUND				
Potable	\$ 52,175,932	\$ 57,236,600	55,353,927	\$ 58,273,300
Recycled	4,423,063	6,124,500	5,870,127	6,380,500
Sewer	1,718,954	2,819,400	2,649,088	2,408,900
Total General Fund	58,317,949	66,180,500	63,873,142	67,062,700
EXPANSION FUND				
Potable	9,260,303	18,458,700	14,764,399	18,525,600
Recycled	16,952,901	2,045,800	1,077,034	2,141,000
Sewer	-	10,000	5,288	100,000
Total Expansion Fund	26,213,204	20,514,500	15,846,721	20,766,600
BETTERMENT FUND				
Potable	6,251,183	9,278,600	6,865,949	6,963,500
Recycled	(1,406)	769,700	299,218	964,200
Sewer	187,051	18,800	67,344	18,900
Total Betterment Fund	6,436,828	10,067,100	7,232,511	7,946,600
REPLACEMENT FUND				
Potable	2,887,732	6,746,100	6,228,063	6,877,700
Recycled	84,459	670,000	155,829	1,000,000
Sewer	(116,450)	1,284,400	126,116	852,400
Total Replacement Fund	2,855,741	8,700,500	6,510,008	8,730,100
OPEB FUND	629,982	580,000	7,153,008	1,020,000
DEBT RESERVE FUND ⁽²⁾	16,666,316	1,194,500	21,666,011	1,190,400
Total Expenditures	111,120,020	107,237,100	122,281,401	106,716,400
EXCESS (DEFICIT)	\$ 28,868,754	\$ (23,656,800)	(29,465,038)	\$ (29,260,200)

REVENUES AND EXPENDITURES BY TYPE - ALL FUNDS

	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Projected
<u>REVENUES AND FUND SOURCES</u>				
Water Sales	\$ 44,112,749	\$ 47,506,500	\$ 44,804,854	\$ 49,229,400
Recycled Water Sales	4,492,858	6,001,400	5,948,258	6,344,500
Sewer Charges	2,577,993	2,679,100	2,414,886	2,145,300
Capacity Fee Revenues	9,591,724	9,651,500	20,104,726	5,880,900
Capacity Fees for Maintenance	1,536,911	1,414,500	1,480,165	1,301,900
Betterment Fee Revenues	929,363	1,056,200	909,191	1,078,000
Betterment Fees for Maintenance	-	73,300	802,021	895,900
Annexation Fees	2,119,886	1,464,500	526,435	483,600
Tax Revenues	3,646,158	4,003,800	4,024,645	4,137,300
Non-Operating Revenues	2,068,134	1,680,200	2,297,826	1,633,100
GO Bond Debt Tax Revenues	863,995	751,900	917,168	628,200
Sewer Debt Tax Revenues	357,467	357,500	393,931	356,100
Availability Fees	538,003	557,700	520,709	515,700
Grants	5,842,822	1,300,000	2,931,466	420,000
Meter Fees	246,539	318,500	79,790	103,800
COPs Proceeds	56,463,022	-	-	-
Interest	4,317,550	4,763,700	4,660,292	2,182,400
General Fund Draw Down	283,600	-	-	120,100
Total Revenues and Fund Sources	\$ 139,988,773	\$ 83,580,300	92,816,364	\$ 77,456,200
<u>EXPENDITURES AND USES OF FUNDS</u>				
Water Purchases	\$ 25,686,678	\$ 28,654,500	\$ 26,935,880	\$ 30,503,500
Recycled Water Purchases	1,829,476	1,423,000	1,278,084	1,490,800
CIP Expenses	32,448,472	34,463,100	24,833,132	30,939,000
Labor Expenses	14,602,940	15,604,500	16,462,021	17,185,400
Administrative Expenses	5,467,656	6,982,300	6,153,593	5,935,100
Debt Service	2,712,655	4,525,700	3,668,118	5,496,900
Materials and Maintenance	3,701,221	4,452,900	4,112,180	3,872,800
Power	2,489,977	2,804,800	2,647,885	2,780,500
Capacity Fees for Maintenance	1,536,911	1,414,500	1,480,165	1,301,900
Betterment Fees for Maintenance	-	73,300	802,021	895,900
COPs Proceeds Distribution	15,473,225	-	20,471,183	-
OPEB Health Expenses	629,982	580,000	7,153,008	655,000
Payment to PERS	-	-	-	365,000
Trustee Fees	825	-	632	-
General Fund Transfers	4,540,000	6,258,500	6,283,500	5,294,600
Total Expenditures and Uses of Funds	111,120,020	107,237,100	122,281,402	106,716,400
EXCESS (DEFICIT)	\$ 28,868,754	\$ (23,656,800)	(29,465,038)	\$ (29,260,200)

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Five-Year Forecast

FIVE-YEAR FORECAST

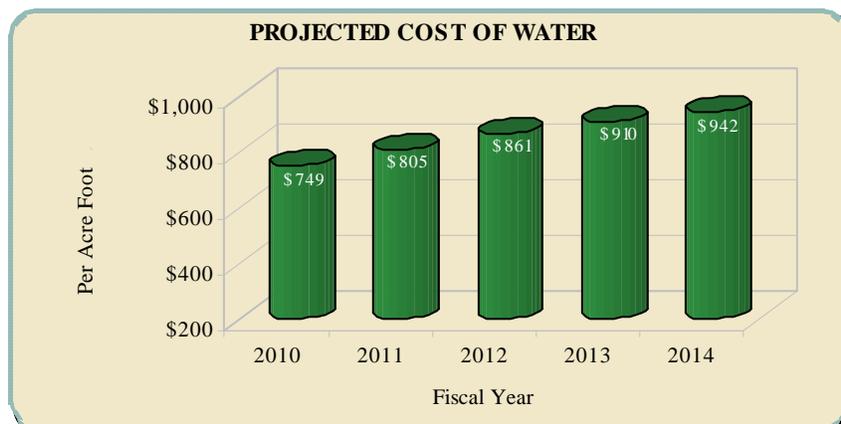
Financial Forecast for Fiscal Years 2010-2014

This financial forecast is designed to provide a general understanding of how revenues and expenditures are expected to influence the District over the next five years. Revenue and expenditure projections are reviewed in relation to their effect on funding capital projects, reserve levels, and operating fund balances. The District updates its Rate Model on an annual basis in order to make these projections and determine recommended rates. The model looks at debt ratios, projected rate increases, cost increases, and growth projections.

The District must look at building new infrastructure to service the needs of its customers. The CIP Master Plan looks at the service needs of all customers over the next six years and at the betterment and expansion needs from now until ultimate build-out. These capital projects and the funding for them are reviewed annually by the Engineering Department. As new capital assets are brought into service, they are managed by an Infrastructure Management System (IMS) which is crucial to tracking and maintaining the history of 722 miles of potable pipelines, 93 miles of recycled pipelines, 88 miles of sewer lines, 39 potable and 4 recycled reservoirs, 22 potable and 2 recycled pump stations, and a 1.3 million gallons per day reclamation plant. Utilizing an integrated database from the Geographic Information System (GIS) provides real-time work order planning, execution, and consolidation of all maintenance history. These systems are also integrated with financial software to allow asset tracking and management information. As these systems are further developed, the District will be able to better anticipate operating costs associated with these capital projects. The impact of the CIPs on the Operating Budget is addressed in the CIP section of this budget.

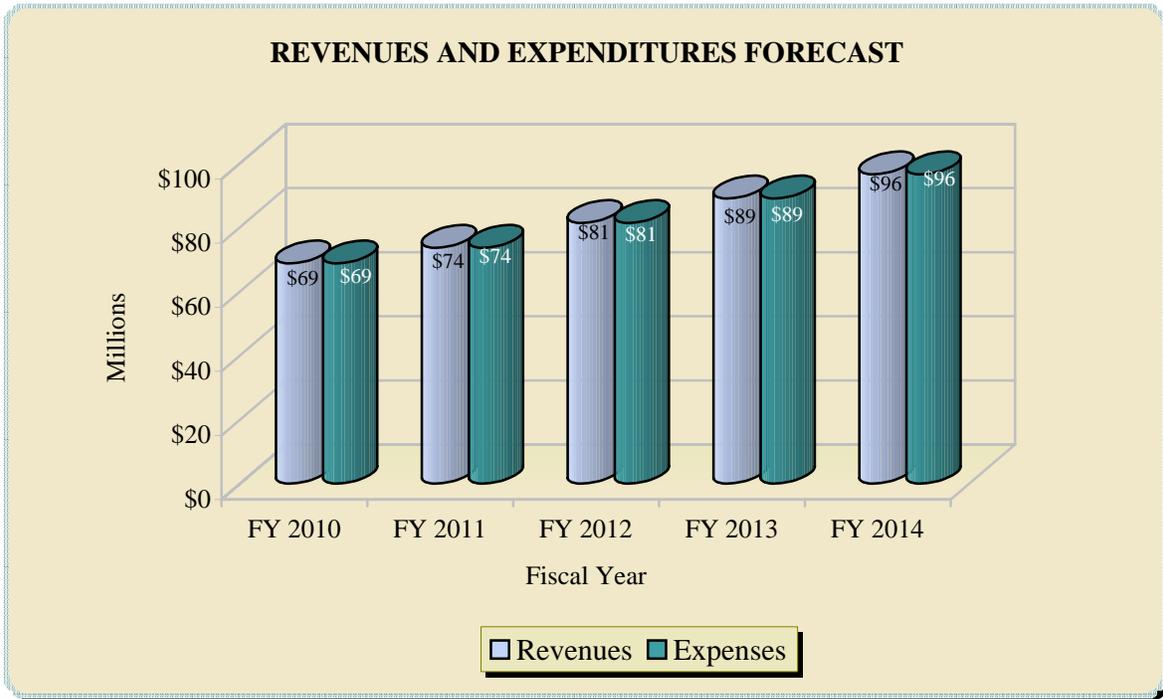
Projected Cost of Water

The projected water cost is based on CWA's Rate Modeling Program. This process evaluates many options of the Regional Water Facilities Master Plan, which determines the most feasible projects for water resources and incorporates these decisions into CWA's Capital Improvement Program. This cost is also based on CWA's estimated water cost for purchases from MWD and the Imperial Irrigation District (IID).



GENERAL FUND FORECAST - FY 2010 THROUGH FY 2014

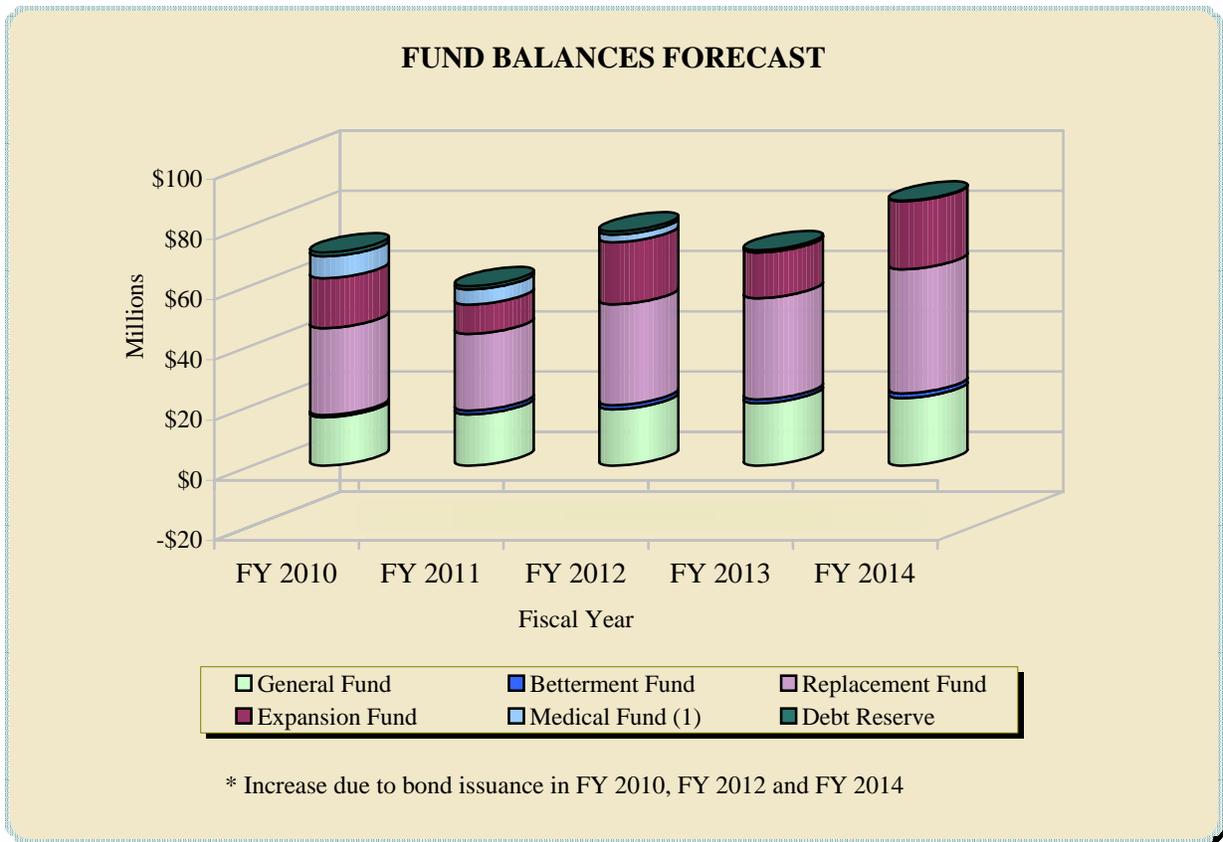
This forecast incorporates both cost increases for expenditures and rate increases for revenues, as well as growth projections.



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues					
Water/Sewer Rates	\$ 59,210,400	\$ 63,390,400	\$ 69,683,800	\$ 75,849,800	\$ 82,651,700
Meter Fees	140,300	244,500	442,400	624,800	676,000
Capacity Fee Revenues	1,308,400	1,321,500	1,334,700	1,348,000	1,361,500
Betterment Fees	907,700	901,400	923,900	947,100	970,900
Annexation Fees	643,800	1,087,100	1,990,000	2,857,300	3,138,000
Non-operating Revenues	1,662,000	1,693,200	1,728,700	1,768,000	1,808,600
Tax Revenues	4,237,800	4,360,900	4,533,000	4,750,200	4,979,600
Interest Income	423,600	488,800	614,800	774,100	846,300
General Fund Draw Down	117,700	70,600	49,300	16,900	-
TOTAL	\$ 68,651,700	\$ 73,558,400	\$ 81,300,600	\$ 88,936,200	\$ 96,432,600
Expenditures and Transfers					
Water Cost	\$ 33,138,400	\$ 34,638,700	\$ 37,875,600	\$ 41,300,400	\$ 44,266,200
Power	2,726,500	2,758,900	2,926,400	3,129,000	3,353,000
Labor and Benefits	18,046,800	18,950,800	19,834,600	20,847,600	21,985,200
Administrative Expenses	6,407,700	6,579,000	6,756,900	6,937,400	7,121,100
Materials & Maintenance	3,996,000	4,130,900	4,331,500	4,542,700	4,764,800
Fund Transfers, Net	4,336,300	6,500,100	9,575,600	12,179,100	14,942,300
TOTAL	\$ 68,651,700	\$ 73,558,400	\$ 81,300,600	\$ 88,936,200	\$ 96,432,600
Excess Revenues	\$ -				

FUND BALANCES - FY 2010 THROUGH FY 2014

<u>Fund</u>	<u>Year-End Forecast Balances</u>				
	<u>FY 2010 *</u>	<u>FY 2011</u>	<u>FY 2012 *</u>	<u>FY 2013</u>	<u>FY 2014 *</u>
General Fund	\$ 16,088,300	\$ 16,987,200	\$ 18,756,800	\$ 20,724,500	\$ 22,439,400
Betterment Fund	769,600	1,280,900	1,375,500	1,234,700	1,504,000
Replacement Fund	28,844,200	25,440,900	33,408,600	33,679,900	41,326,500
Expansion Fund	16,592,700	9,796,700	20,702,200	15,149,600	22,528,300
Medical Fund ⁽¹⁾	7,237,200	5,024,200	2,522,100	187,300	(16,300)
Debt Reserve	1,297,600	1,117,000	987,600	617,800	233,300
TOTAL	\$ 70,829,600	\$ 59,646,900	\$ 77,752,800	\$ 71,593,800	\$ 88,015,200



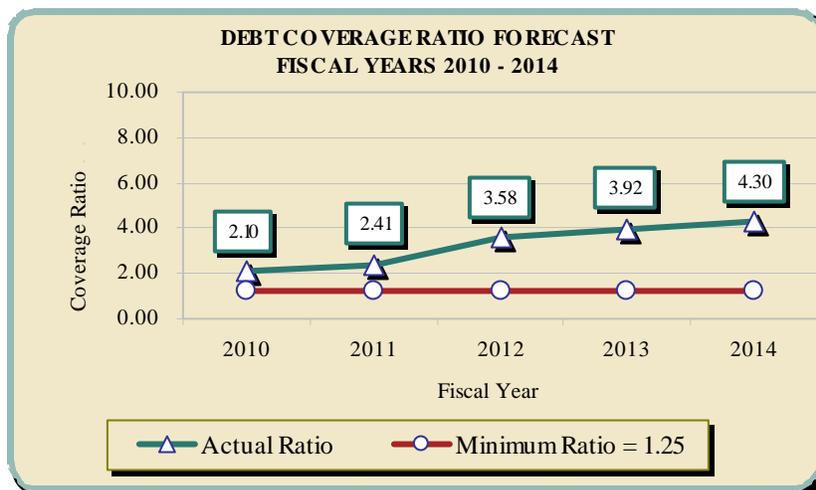
⁽¹⁾ Medical Fund is decreasing as the OPEB Trust is funded.

DEBT MANAGEMENT

Financing the capital improvements needed to keep up with the growing demand for water in the District's service area has been accomplished through a combination of long-term and short-term financing sources. These include General Obligation Bonds, Certificates of Participation (COPs), developer fees, and pay-as-you-go funding.

Debt Management

The District's primary debt management objective is to keep the level of indebtedness within available resources and within limits that will allow the District to meet the debt service coverage ratios required by the bond covenant. Currently, there are four outstanding bond issues and a State Sewer Loan, which the District will gradually retire per scheduled principal and interest payments. Bonds have been and will be used to improve existing facilities and to build the projects in the Capital Improvement Program (CIP). The District's debt service obligations have a significant effect upon the District's current and future water rates. In a continuing effort to reduce debt expenses, the District was successful in raising its overall credit rating from A+ to AA-, which is projected to save in excess of \$1.5 million over the life of the most recently issued bonds. To meet the bond indebtedness obligation and maintain stable rates, a Long-Term Financing Plan has been developed to forecast revenues and operating requirements. The District has instituted a schedule of gradual rate increases designed to generate sufficient revenue to pay off existing and planned future debt issues without large and/or rapid rate increases. See the Policies Section of the budget for the District's complete Debt Policy.



The Actual Ratio includes growth-related revenues, such as Capacity and Annexation Fees. The Minimum Ratio excludes these revenues in accordance with existing District Bond Covenants.

SCHEDULE OF OUTSTANDING DEBT

#	Year Incurred	Description	Maturity Date	Original Amount	Outstanding Balance 06/30/08
1	1996	Certificates of Participation (COPs)	September 1, 2026	\$ 15,400,000	\$ 12,500,000
2	1998	General Obligation (GO) Bonds	August 31, 2022	11,835,000	8,810,000
3	2004	Certificates of Participation (COPs)	September 1, 2023	12,270,000	10,835,000
4	1994	State Loan	November 30, 2010	5,000,000	1,031,730
5	2007	Certificates of Participation (COPs)	September 1, 2036	42,000,000	42,000,000
Total Outstanding Debt				\$ 86,505,000	\$ 75,176,730

	All Debts	GO Bonds
Total Assessed Valuation - FY 2008	\$25,902,796,201	\$ 12,518,643,676
Percentage of Original Debt to Assessed Valuation	0.33%	0.09%
Debt Limit per District Debt Policy (% of Assessed Valuation)	15.00%	15.00%



PROJECTED PRINCIPAL AND INTEREST PAYMENTS BY DEBT

FY	1996 COPs ⁽¹⁾	GOBs	2004 COPs	State Loan	2007 COPs	Total
2009	946,283	830,823	928,159	359,583	2,491,328	5,556,176
2010	928,323	831,035	927,334	359,347	2,491,358	5,537,397
2011	910,363	830,258	925,604	358,981	2,494,770	5,519,976
2012	892,403	828,166	927,487	6,010	2,496,801	5,150,867
2013	970,702	824,645	922,993	-	2,497,520	5,215,860
2014	948,252	824,452	921,706	-	2,496,926	5,191,336
2015	925,802	822,951	923,575	-	2,499,864	5,172,192
2016	999,610	824,542	923,544	-	2,501,301	5,248,997
2017	972,670	819,750	921,819	-	2,500,791	5,215,030
2018	945,730	818,500	918,985	-	2,498,674	5,181,889
2019	1,015,048	820,542	913,944	-	2,494,316	5,243,850
2020	983,618	816,042	912,129	-	2,492,856	5,204,645
2021	952,188	814,833	912,979	-	2,493,390	5,173,390
2022	1,017,017	816,667	911,281	-	2,491,723	5,236,688
2023	981,097	811,708	907,844	-	2,491,760	5,192,409
2024	1,041,435	-	901,899	-	2,489,326	4,432,660
2025	1,001,025	-	-	-	2,489,160	3,490,185
2026	1,056,874	-	-	-	2,485,504	3,542,378
2027	1,108,232	-	-	-	2,483,304	3,591,536
2028	-	-	-	-	2,483,038	2,483,038
2029	-	-	-	-	2,479,796	2,479,796
2030	-	-	-	-	2,478,402	2,478,402
2031	-	-	-	-	2,478,644	2,478,644
2032	-	-	-	-	2,475,485	2,475,485
2033	-	-	-	-	2,471,609	2,471,609
2034	-	-	-	-	2,473,240	2,473,240
2035	-	-	-	-	2,470,714	2,470,714
2036	-	-	-	-	2,464,031	2,464,031
2037	-	-	-	-	2,462,828	2,462,828
TOTAL	\$ 18,596,672	\$ 12,334,914	\$ 14,701,282	\$ 1,083,921	\$ 72,118,459	\$ 118,835,248

⁽¹⁾ Interest on the 1996 Certificates of Participation is variable and is projected using an interest rate of 4.49%



Revenues and Expenditures

POTABLE REVENUES AND EXPENSES

The District will provide water service to approximately 47,340 potable customers by the end of Fiscal Year 2009. Ninety-four percent of the potable customers are residential and the remaining six percent are comprised of: publicly owned, commercial, agricultural, landscaping, and construction. Although the extensive residential developments have slowed down in recent years, the District still expects moderate growth of 0.6% for Fiscal Year 2009. Unit sales are anticipated to increase 1.7% from the previous year's budget due to the slightly expanded customer base and a predicted change in the weather.

Water rates vary among the customer classifications. The water rates for residential customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged. Currently all non-residential customers are charged a flat rate per unit. The District plans to implement a tiered rate structure for all customer types to encourage conservation and bring equity among the classes. This new rate structure is planned for a January 1, 2009 implementation.

Unit sales represent approximately 67% of the water sales budget. Other revenue sources include: system charges, energy charges, penalties, and other pass-through charges from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

All customers are required to pay fixed monthly fees of the MWD and CWA fixed charge and the District system fee, based on meter size. These fees recover 27.3% of the potable water sales revenue. Water rates, energy fees, and penalties recover the remaining 72.7% of remaining revenues necessary to fund operations. The District will adjust the system fee, as needed, to balance fixed costs with fixed revenues following industry best practice.

Energy charges are based on the quantity of water used and the elevation to which the water has been lifted to provide service. Revenue from energy charges is used to recover the power costs associated with pumping. This charge is proposed to increase based on a review of these costs to ensure that sufficient revenue is collected to offset pumping costs.

Penalties are charged to District customers when late payments are made on accounts. These penalty revenues are budgeted based on historical trends.

The District receives 100% of its potable water from CWA, which purchases water from MWD. Any increase in costs by CWA or MWD impacts the District's water purchases and directly affects the District's fees, rates, and service charges.

Prior to Fiscal Year 2007, all water purchases from CWA were treated water. The District has entered an agreement with the Helix Water District (Helix) to purchase raw water from CWA and have Helix treat this water. This takes the pressure off the CWA treated demands as a region, and gives the District an additional source of water which increases the reliability of deliveries.

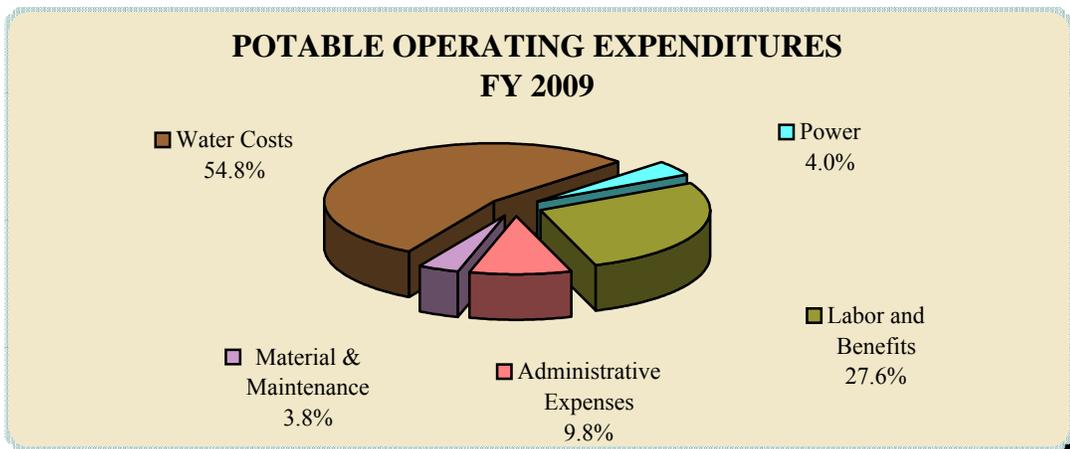
In Fiscal Year 2009, the District is estimating the purchase of 38,800 acre-feet of potable water to meet the demands of its customers. Provisions have been made for District usage, leakage, and evaporation in the amount of 2,440 acre-feet.



Pipes feeding the 640-1 and 640-2 Reservoirs

OPERATING BUDGET SUMMARY - POTABLE

	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Water Sales	\$ 44,112,749	\$47,506,500	\$ 44,804,854	\$ 49,229,400	\$ 1,722,900	3.6%
Meter Fees	196,259	294,400	70,614	92,400	(202,000)	(68.6%)
Capacity Fee Revenues	1,430,092	1,414,500	1,468,123	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	802,021	895,900	822,600	1,122.2%
Annexation Fees	2,119,886	1,464,500	526,435	483,600	(980,900)	(67.0%)
Tax Revenues	3,593,168	3,952,500	3,968,046	4,080,900	128,400	3.2%
Non-operating Revenues	2,066,796	1,679,200	2,270,714	1,606,700	(72,500)	(4.3%)
Interest	955,451	851,700	805,385	582,500	(269,200)	(31.6%)
TOTAL REVENUES	54,474,400	57,236,600	54,716,191	58,273,300	1,036,700	1.8%
EXPENDITURES						
Water Purchases (CWA)	19,970,363	21,123,300	20,184,919	25,183,600	4,060,300	19.2%
Water Purchases (CSD)	1,595,019	2,860,800	2,009,193	-	(2,860,800)	(100.0%)
Tier II Purchases	(2,880)	-	59,249	-	-	0.0%
CWA - Infrastructure Access Charge	1,003,927	1,090,200	1,090,228	1,227,500	137,300	12.6%
CWA - Customer Service Charge	846,505	950,400	949,222	1,049,800	99,400	10.5%
CWA - Emergency Storage Charge	1,230,830	1,507,800	1,507,895	1,774,700	266,900	17.7%
MWD - Capacity Reservation Charge	530,708	569,400	570,980	602,800	33,400	5.9%
MWD - Net RTS and Standby Charges	512,206	552,600	564,193	665,100	112,500	20.4%
Subtotal - Water Costs	25,686,678	28,654,500	26,935,880	30,503,500	1,849,000	6.5%
Power	2,036,630	2,208,100	2,261,265	2,216,100	8,000	0.4%
Labor and Benefits	13,479,021	13,876,500	14,774,392	15,400,300	1,523,800	11.0%
Administrative Expenses	5,154,135	6,521,500	5,663,175	5,433,300	(1,088,200)	(16.7%)
Material & Maintenance	2,543,968	2,768,100	2,511,316	2,133,400	(634,700)	(22.9%)
Expansion Reserve	-	-	-	2,586,700	2,586,700	100.0%
Betterment Reserve	-	3,207,900	3,207,900	-	(3,207,900)	(100.0%)
Replacement Reserve	3,275,500	-	-	-	-	0.0%
TOTAL EXPENDITURES	52,175,932	57,236,600	55,353,927	58,273,300	1,036,700	1.8%
EXCESS REVENUES (EXPENSES)	\$ 2,298,468	\$ -	\$ (637,735)	\$ -	\$ -	0.0%



CLASSIFICATION OF WATER SALES - POTABLE

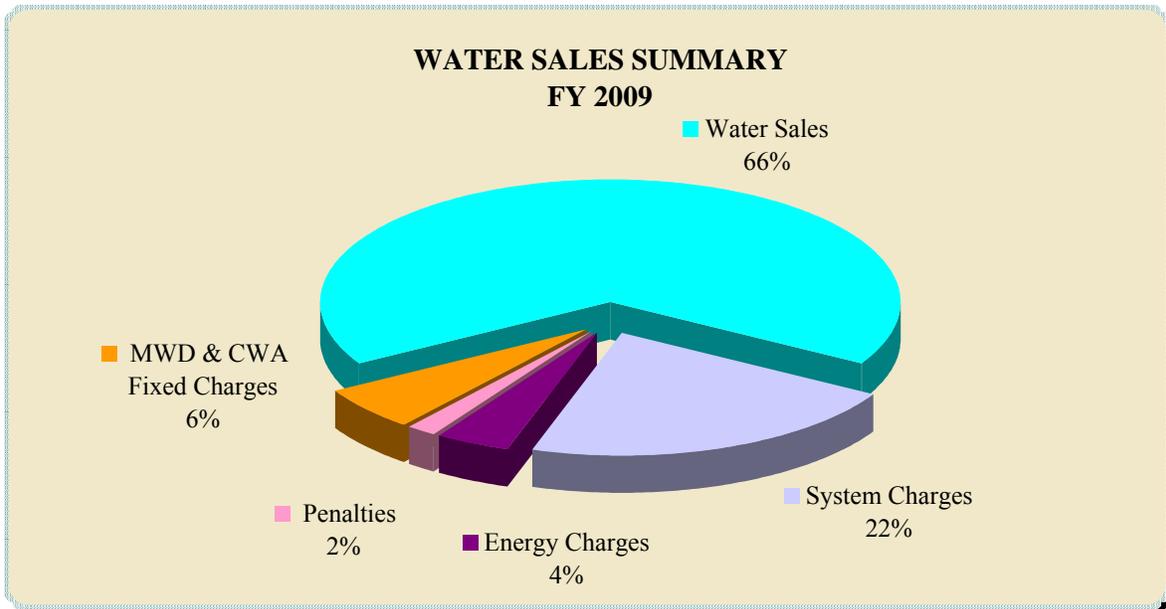
	<u>FY 2008 Estimated</u>	<u>FY 2009 Budget</u>	<u>Variance</u>
<u>Water Sales:</u>			
Water Sales	\$ 30,049,415	\$ 32,836,500	\$ 2,787,085
System Fees	9,611,046	10,619,400	1,008,354
Energy Fees	1,834,102	2,047,100	212,998
MWD and CWA Fixed Fees	2,530,306	2,819,500	289,194
Penalties	779,985	906,900	126,915
Total	<u>\$ 44,804,854</u>	<u>\$ 49,229,400</u>	<u>\$ 4,424,546</u>

Water Sales : Unit Sales x Rate

System Charges : Fixed monthly fee based on meter size

*Energy Charges : Energy pumping fee of \$0.034 per unit of water for each 100 feet of lift
or fraction thereof above the base elevation of 450 feet*

Penalties : Late charges, locks , etc.

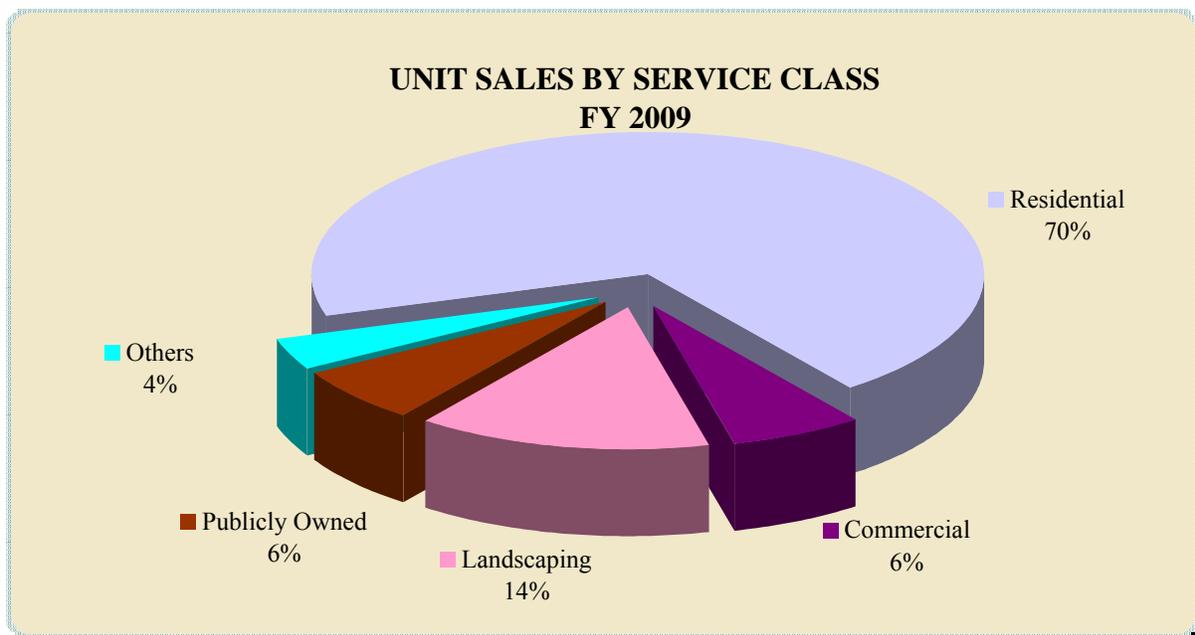


WATER SALES SUMMARY BY SERVICE CLASS - POTABLE

	Accounts	Fiscal Year 2009 Sales Budget		Current Rate	Proposed* Rate
		Units	Amount		
Residential	44,502	11,013,600	\$ 22,665,600	\$ 1.95	\$ 2.06 **
Publicly-Owned	246	997,700	2,162,300	2.06	2.31
Commercial	1,207	978,300	2,042,700	1.98	2.23
Landscaping	1,201	2,271,800	4,772,600	2.00	2.10 **
Agricultural	26	47,400	98,800	1.98	2.23
Temporary and Others	160	525,400	1,094,500	1.98	2.23
Total Potable Water Sales	47,342	15,834,200	\$ 32,836,500	1.97	2.07

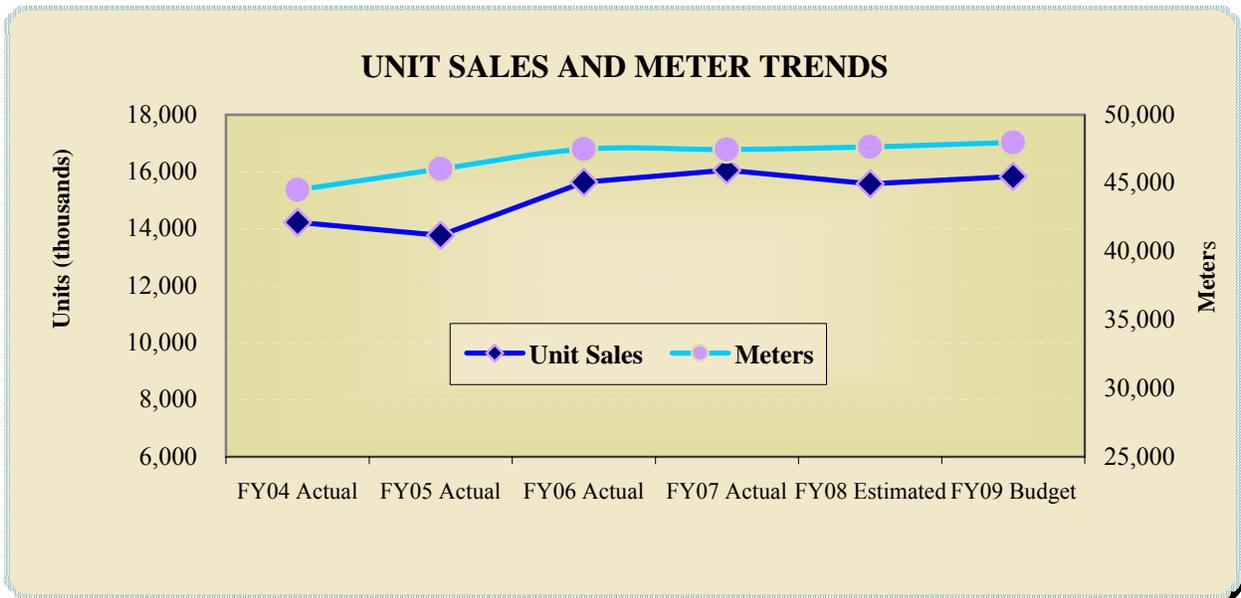
*Proposed rate effective January 1, 2009, pending Proposition 218 hearing and Board approval.

**Based on average rate.



UNIT SALES HISTORY BY CUSTOMER CLASS - POTABLE

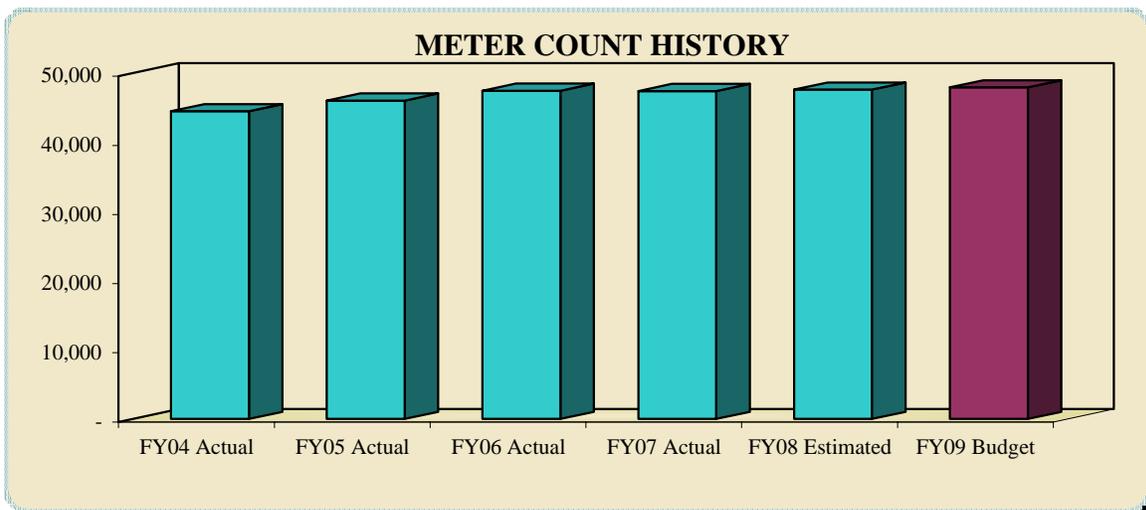
	Actual				Estimated	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Residential	8,275,224	8,083,816	9,668,100	9,713,112	9,402,189	9,627,700
Master Meters	1,055,922	1,181,402	1,198,200	1,434,040	1,445,634	1,385,900
Publicly-Owned	933,517	901,639	919,200	984,391	925,268	997,700
Commercial	904,788	895,098	983,300	901,615	933,958	978,300
Landscaping	2,219,274	1,931,104	2,122,500	2,276,003	2,243,012	2,271,800
Agricultural	82,343	48,628	51,836	53,787	58,687	47,400
Temporary	750,530	723,712	689,000	696,516	556,305	525,400
Others	6,429	-	-	-	10,615	-
Total	<u>14,228,027</u>	<u>13,765,399</u>	<u>15,632,136</u>	<u>16,059,464</u>	<u>15,575,668</u>	<u>15,834,200</u>



SYSTEM FEES - POTABLE

Service Class	Meter Size	Meter Count FY09 Growth	Current Rates	Proposed* Rates	Budgeted System Fees		
					Existing Meters	Additional Meters	Total Meters
Residential	0.75	238	\$ 12.30	\$ 13.80	\$ 6,672,400	\$ 20,700	\$ 6,693,100
	1.00	-	19.80	22.25	200,300	-	200,300
	1.50	-	38.95	43.78	9,400	-	9,400
	2.00	-	64.95	73.00	6,600	-	6,600
	3.00	-	104.55	117.51	-	-	-
	4.00	-	119.70	134.54	15,300	-	15,300
	6.00	-	239.20	268.86	-	-	-
	10.00	-	456.60	513.22	-	-	-
Non-Residential	0.75	43	24.00	26.95	143,100	7,300	150,400
	1.00	20	36.95	41.50	383,600	5,200	388,800
	1.50	-	51.95	58.39	593,800	-	593,800
	2.00	13	64.95	73.00	896,400	6,000	902,400
	3.00	-	104.55	117.51	95,900	-	95,900
	4.00	-	119.70	134.54	355,400	-	355,400
	6.00	-	239.20	268.86	45,700	-	45,700
	10.00	-	456.60	513.22	34,900	-	34,900
Fire Services	Various	-	25.40	28.55	203,000	-	203,000
Special System Fees					-	-	822,400
Turn Over Fees	850		10.00	10.00	102,000	-	102,000
Budgeted Potable System Fees		314			\$ 9,757,800	\$ 39,200	\$ 10,619,400

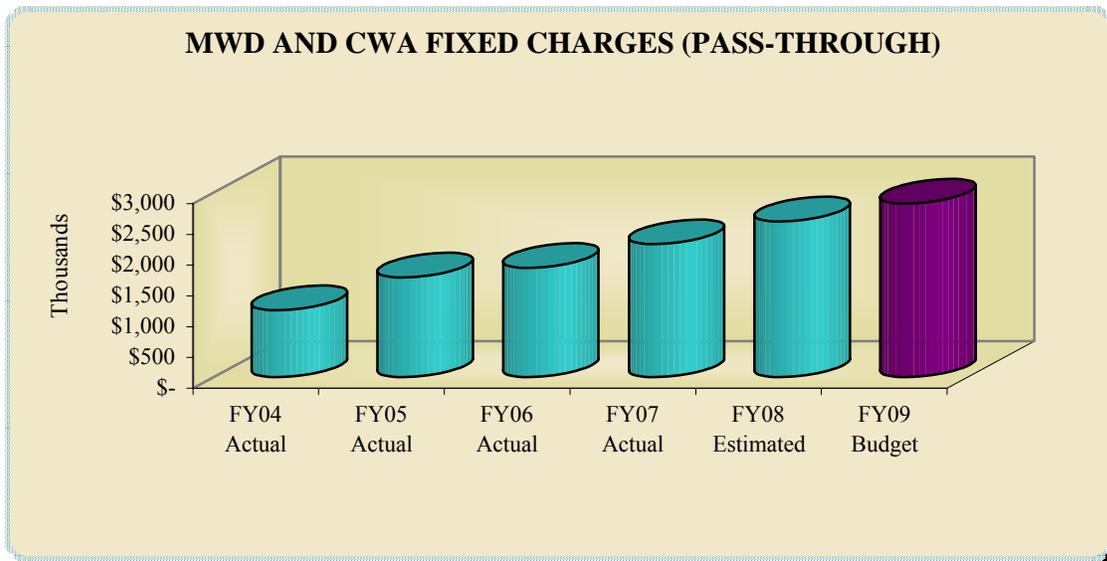
*Proposed rates effective January 1, 2009 pending Proposition 218 hearing and Board approval.



MWD AND CWA FIXED FEES (PASS -THROUGH) POTABLE

Classification	Meter Size	Meter Count FY09 Growth	Current Rates	Proposed* Rates	Budgeted MWD & CWA - Fixed Charges		
					Existing	Growth	Total
Residential	0.75	238	\$ 3.85	\$ 4.33	\$ 2,091,200	\$ 6,500	\$ 2,097,700
	1.00	-	6.15	6.91	62,200	-	62,200
	1.50	-	11.60	13.04	2,800	-	2,800
	2.00	-	20.05	22.54	2,000	-	2,000
	4.00	-	63.15	70.98	8,000.00	-	8,000
	6.00	-	115.50	129.82	-	-	-
Non-Residential	0.75	43	3.85	4.33	22,700	1,200	23,900
	1.00	20	6.15	6.91	63,500	900	64,400
	1.50	-	11.60	13.04	132,200	-	132,200
	2.00	13	20.05	22.54	275,500	1,800	277,300
	3.00	-	36.95	41.53	33,900	-	33,900
	4.00	-	63.15	70.98	70,000	-	70,000
	6.00	-	115.50	129.82	22,100	-	22,100
	10.00	-	300.30	337.54	23,000	-	23,000
Total		314			\$ 2,809,100	\$ 10,400	\$ 2,819,500

*Proposed rates effective January 1, 2009 pending Proposition 218 hearing and Board approval.



METER FEES - POTABLE

Meter Fees:

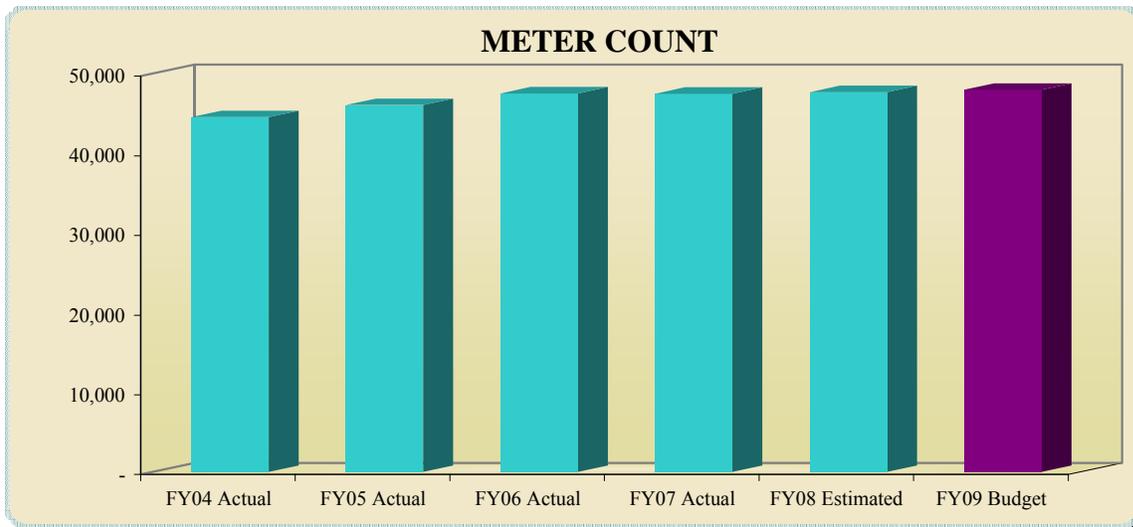
Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Meter Size	Installation Fee	Meter Fee	AMR Fee
0.75	\$ 60.00	\$ 59.00	\$ 147.00
1.00	60.00	117.00	147.00
1.50	103.00	250.00	147.00
2.00	240.00	475.00	147.00
3.00	300.00	653.00	147.00
4.00	300.00	1,370.00	147.00
6.00	300.00	2,500.00	147.00
10.00	300.00	3,737.00	147.00

Fiscal Year 2009 Growth by Meter Size

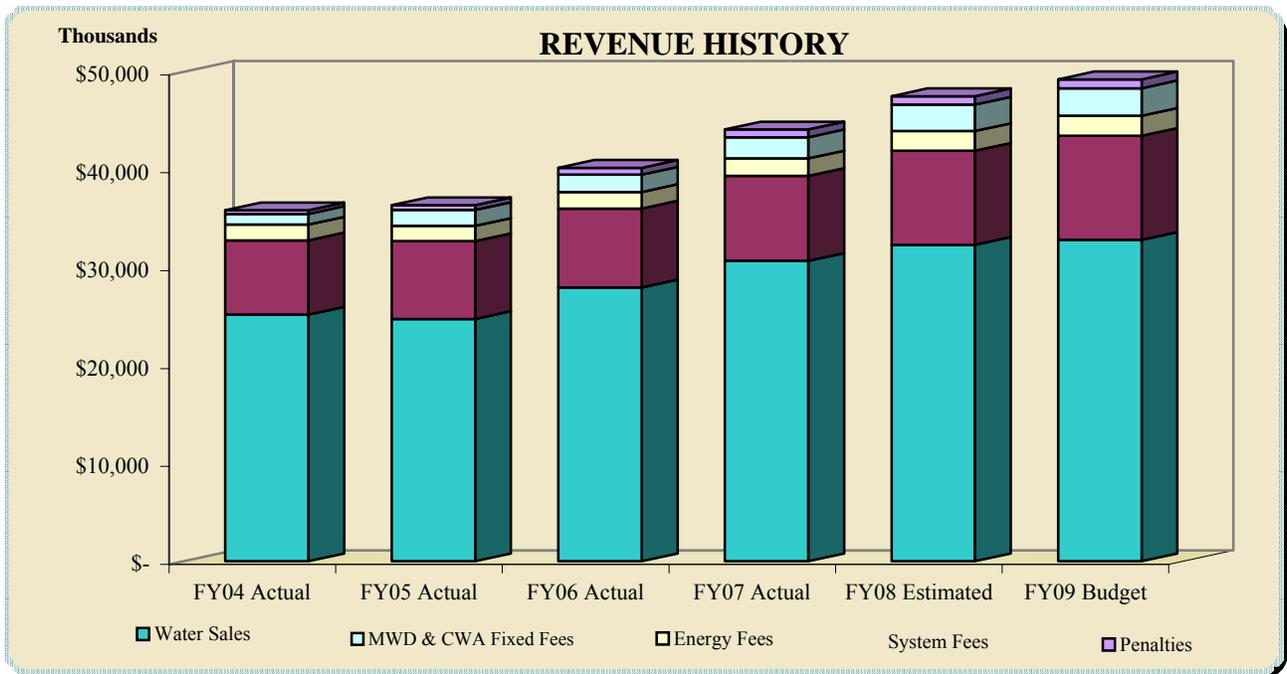
Service Class	0.75	1.00	1.50	2.00	3.00	Total
Residential	238	-	-	-	-	238
Non-Residential	43	20	-	13	-	76
Total Number of Meters	281	20	-	13	-	314

Total Meter Fees	\$ 74,700	\$ 6,500	\$ -	\$ 11,200	\$ 92,400
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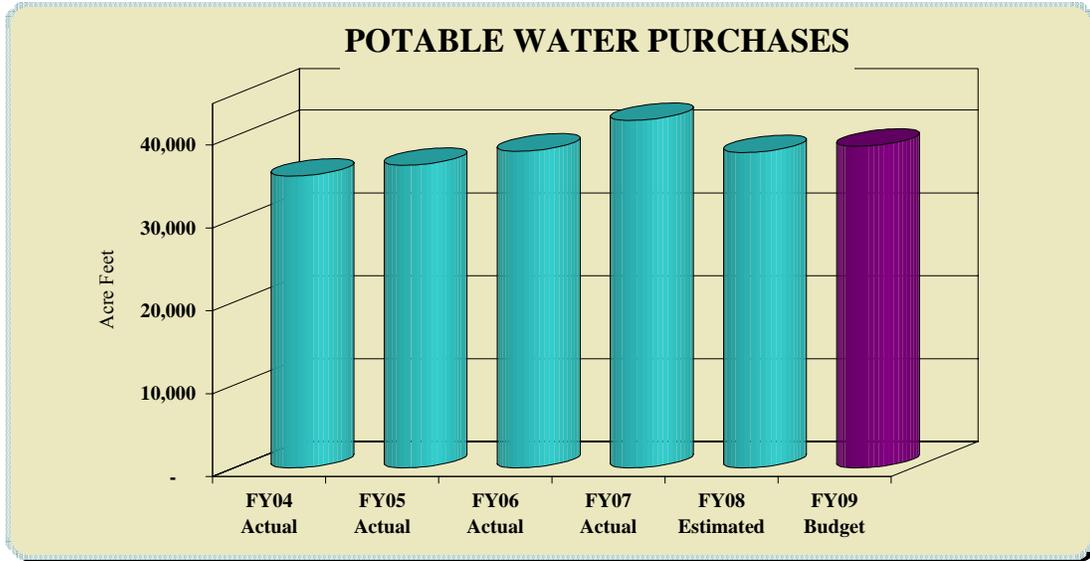
REVENUE HISTORY - POTABLE

	Actual				Estimated	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Water Sales	\$25,204,669	\$24,760,101	\$27,975,777	\$30,696,070	\$30,049,415	\$32,836,500
System Fees	7,576,328	7,933,913	8,056,340	8,658,339	9,611,046	10,619,400
Energy Fees	1,618,000	1,573,999	1,696,492	1,801,455	1,834,102	2,047,100
MWD and CWA Fixed Fee	1,088,156	1,620,548	1,775,186	2,159,269	2,530,306	2,819,500
Penalties	374,283	494,915	688,374	797,615	779,985	906,900
Total	<u>\$35,861,436</u>	<u>\$36,383,476</u>	<u>\$40,192,169</u>	<u>\$44,112,748</u>	<u>\$44,804,854</u>	<u>\$49,229,400</u>



Note:
 Fiscal Year 2005 Water Sales and Energy Fees dropped due to 22.51 inches of rainfall.

WATER PURCHASES AND RELATED COSTS - POTABLE



	FY09 Budget	Rate ⁽¹⁾	FY09 Budget	% to Total
	Acre Feet		Purchase Costs	
Potable Water Purchases				
Budgeted Sales (CWA)	36,350.3	\$614/\$695	\$ 23,600,400	93.7%
District & Unbilled Usage	503.3	\$614/\$695	324,000	1.3%
Water Loss	1,939.7	\$614/\$695	1,259,200	5.0%
TOTAL VARIABLE CHARGES	38,793.3		\$ 25,183,600	100.0%

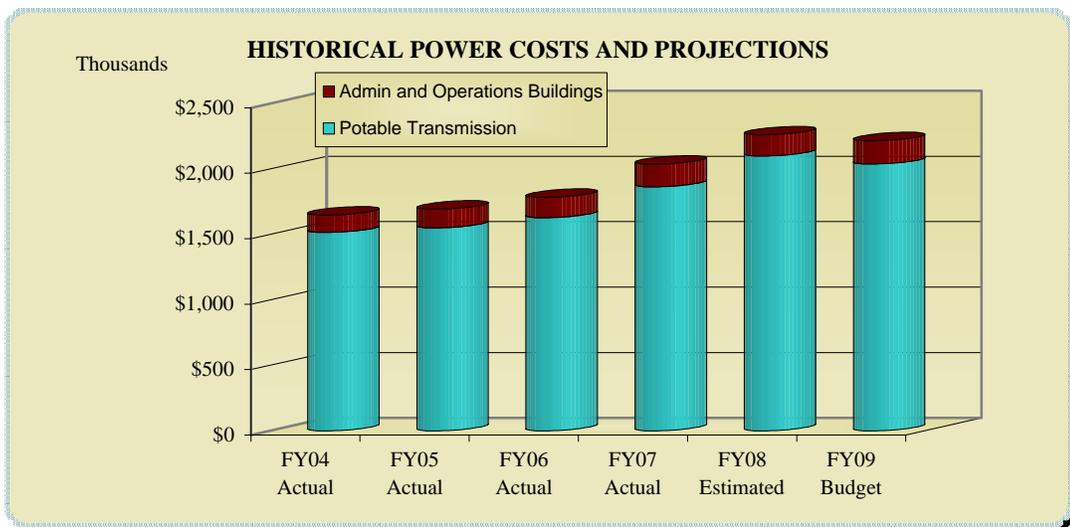
MWD & CWA FIXED CHARGES:

	FY08 Estimated	FY09 Budget
Infrastructure Access Charge (IAC)	\$ 1,090,228	\$ 1,227,500
Customer Service Charge (CSC)	949,222	1,049,800
Emergency Storage Charge (ESC)	1,507,895	1,774,700
Capacity Reservation Charge (CRC)	570,980	602,800
Readiness-to-Serve Charge (RTS)	564,193	665,100
TOTAL FIXED CHARGES	\$ 4,682,518	\$ 5,319,900

(1) The first rate applies to purchases from July to December of the budget fiscal year; the second from January to June.

POWER COSTS - POTABLE

	Admin and Operations Buildings	Potable Transmission	Total Potable Power Costs
FY04 Actual	132,391	1,515,642	1,648,033
FY05 Actual	142,630	1,551,029	1,693,659
FY06 Actual	154,567	1,628,153	1,782,721
FY07 Actual	172,646	1,863,984	2,036,630
FY08 Estimated	160,945	2,100,320	2,261,265
FY09 Budget	177,500	2,038,600	2,216,100

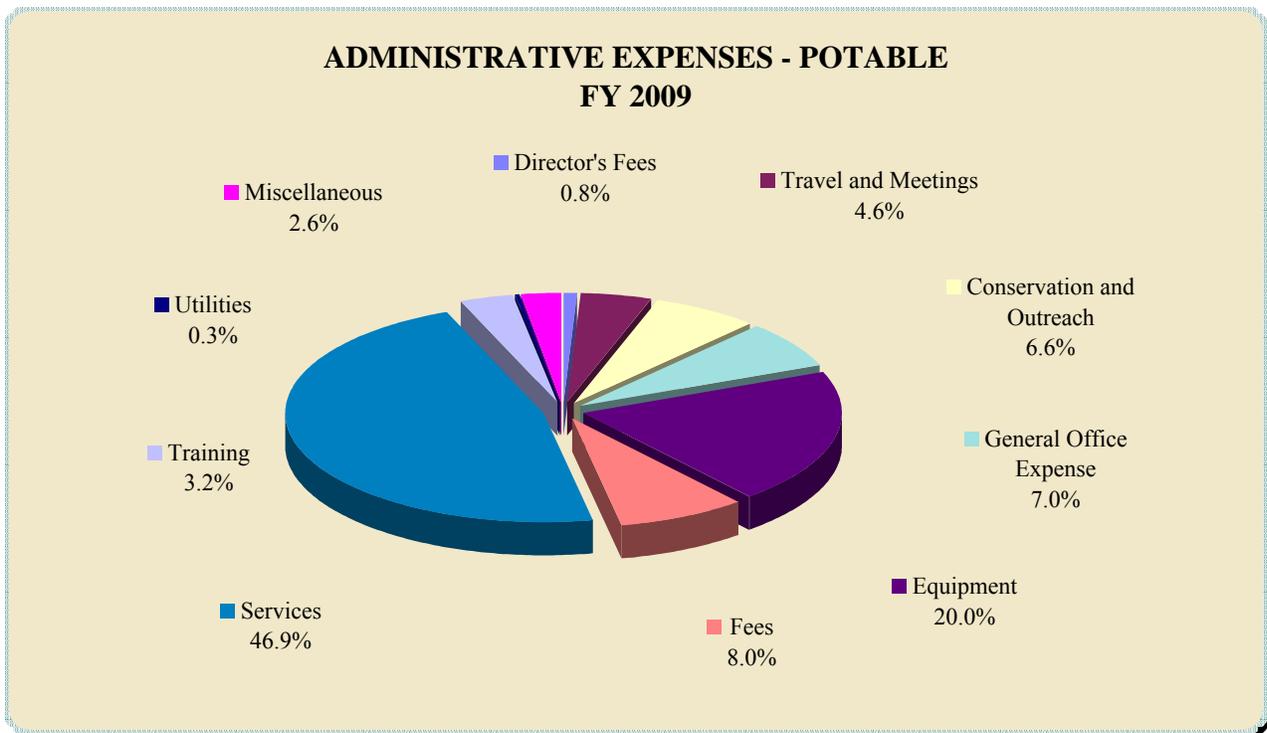


Note:

- (1) The fluctuation in the power cost is caused by increases and decreases in annual rainfall.
- (2) Subsequent to Budget approval, staff identified a misclassification of a power meter among potable, recycled, and sewer which also caused the fluctuation in power costs.

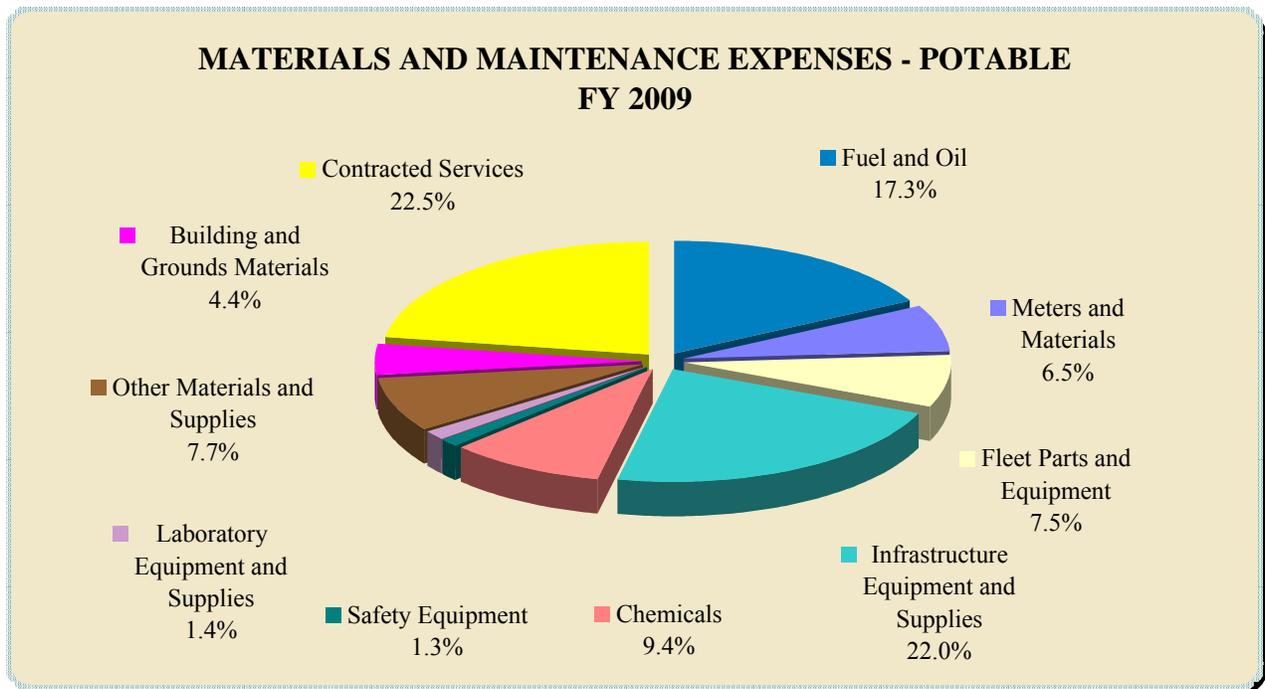
ADMINISTRATIVE EXPENSES - POTABLE

	FY 2007	FY 2008		FY 2009	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Director's Fees	\$ 18,700	\$ 48,000	\$ 24,002	\$ 40,000	(8,000)	(16.7%)
Travel and Meetings	158,506	270,900	184,690	239,400	(31,500)	(11.6%)
Conservation and Outreach	168,831	481,800	286,240	348,000	(133,800)	(27.8%)
General Office Expense	344,782	359,400	380,573	364,900	5,500	1.5%
Equipment	901,151	1,014,300	1,012,075	1,045,300	31,000	3.1%
Fees	421,420	367,700	400,310	419,000	51,300	14.0%
Services	2,023,530	2,923,300	2,112,143	2,454,700	(468,600)	(16.0%)
Training	97,772	173,100	92,693	167,600	(5,500)	(3.2%)
Utilities	12,870	14,000	14,495	15,600	1,600	11.4%
Miscellaneous	212	-	239	133,900	133,900	100.0%
Total	4,147,775	5,652,500	4,507,460	5,228,400	(424,100)	(7.5%)
Less: Overhead Allocation	(600,940)	(807,300)	(697,212)	(767,400)	39,900	(4.9%)
Subtotal	3,546,834	4,845,200	3,810,248	4,461,000	(384,200)	(7.9%)
General Expenses	1,607,300	1,676,300	1,852,927	972,300	(704,000)	(42.0%)
Total Administrative Expenses	\$ 5,154,134	\$ 6,521,500	\$ 5,663,175	\$ 5,433,300	\$ (1,088,200)	(16.7%)

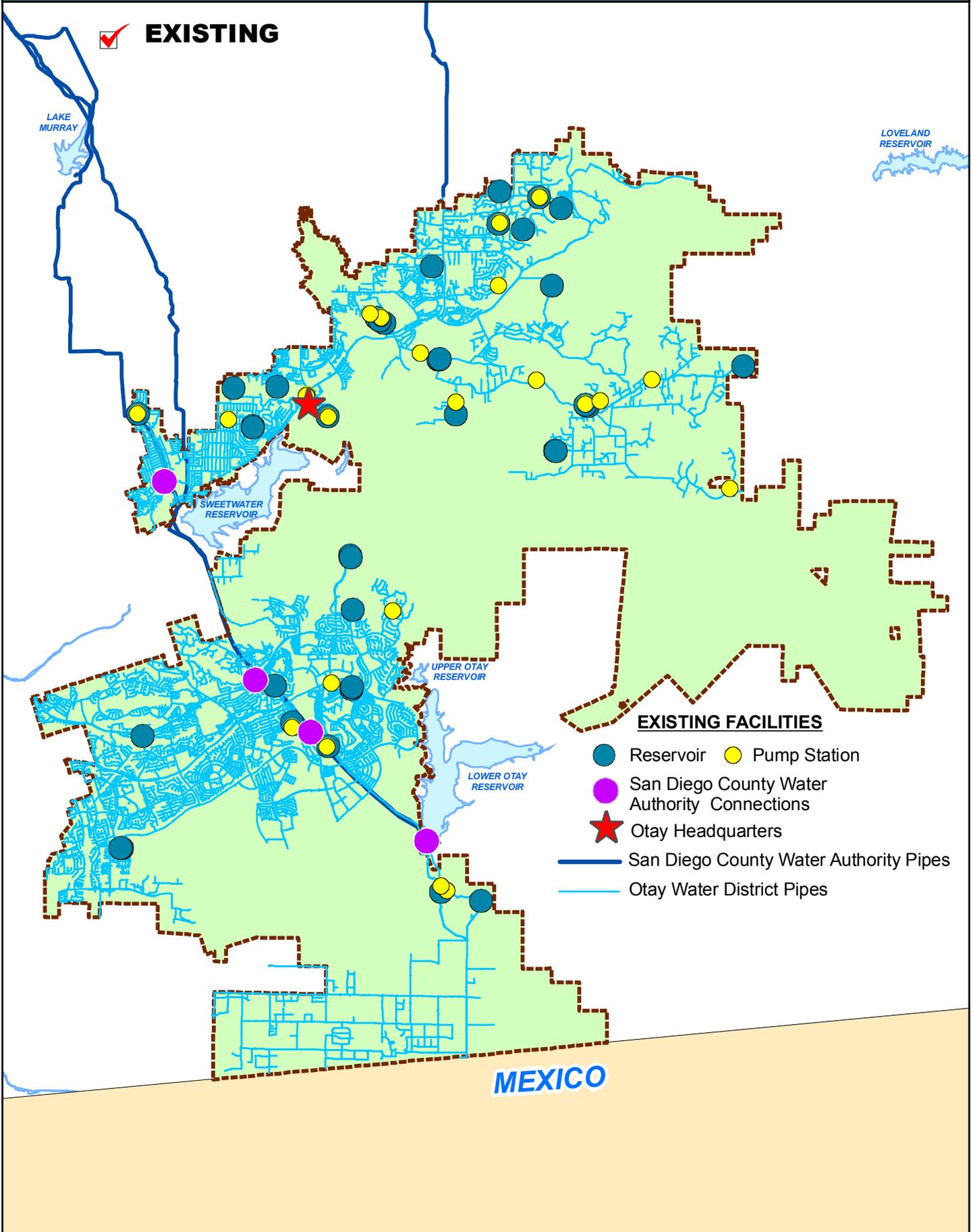


MATERIALS AND MAINTENANCE EXPENSES - POTABLE

	FY 2007	FY 2008		FY 2009	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 406,417	\$ 570,000	\$ 494,190	\$ 369,000	(201,000)	(35.3%)
Meters and Materials	312,406	304,400	327,882	138,000	(166,400)	(54.7%)
Fleet Parts and Equipment	159,601	161,100	152,794	161,000	(100)	(0.1%)
Infrastructure Equipment and Supplies	531,277	523,500	625,944	470,000	(53,500)	(10.2%)
Chemicals	197,565	225,000	161,961	200,000	(25,000)	(11.1%)
Safety Equipment	17,761	14,700	18,970	27,500	12,800	87.1%
Laboratory Equipment and Supplies	30,473	30,000	31,178	30,000	-	0.0%
Other Materials and Supplies	280,772	231,500	129,433	163,600	(67,900)	(29.3%)
Building and Grounds Materials	109,016	122,000	93,735	93,000	(29,000)	(23.8%)
Contracted Services	498,680	585,900	475,228	481,300	(104,600)	(17.9%)
Total Materials and Maintenance	\$ 2,543,968	\$ 2,768,100	\$ 2,511,316	\$ 2,133,400	\$ (634,700)	(22.9%)



POTABLE WATER SERVICE AREA



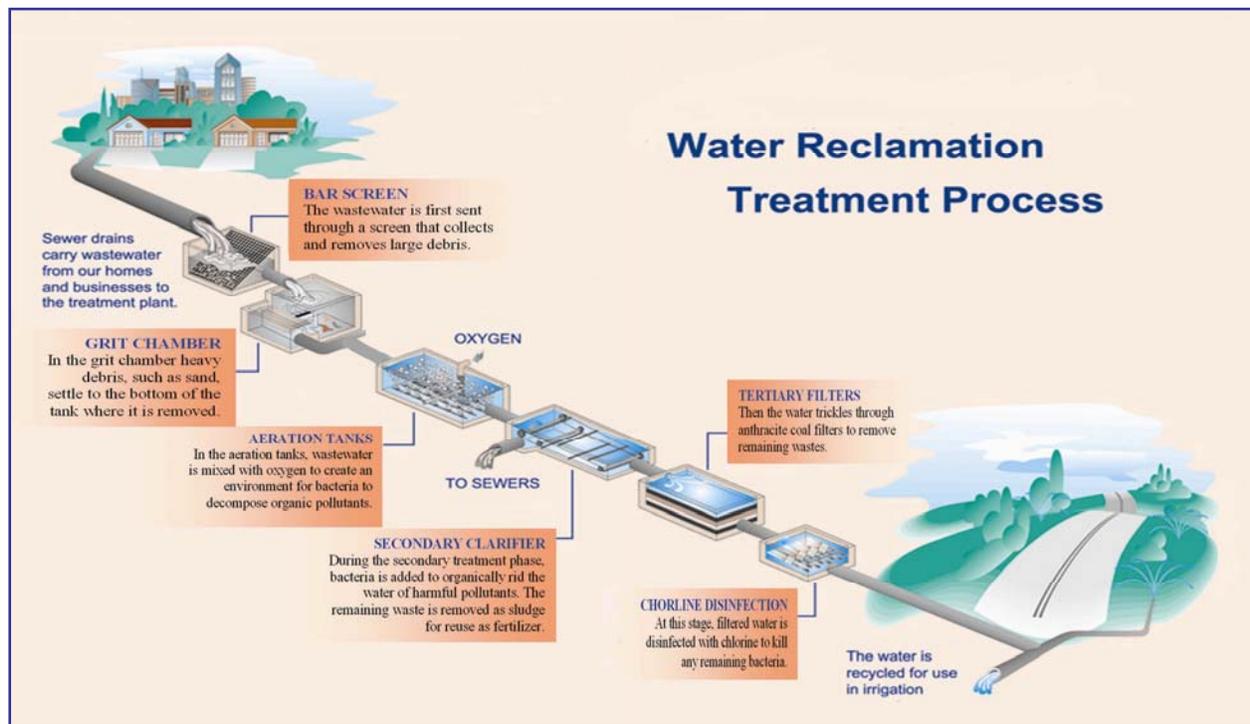
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RECYCLED REVENUES AND EXPENSES

In 1980, the District started operation of the Ralph W. Chapman Water Recycling Facility (RWCWRF). The RWCWRF project is capable of recycling wastewater at the rate of 1.3 million gallons per day (MGD) to augment potable water supplies for irrigation purposes. The RWCWRF treatment process consists of primary, secondary, and tertiary treatment. The RWCWRF's conversion time from raw sewage to full Title 22 recycled water is approximately 20 hours.

The steps of the water recycling process are as follows:



Primary Treatment: The raw sewage flows in at the drum screen, also known as the “headworks” which removes a large amount of coarse organic and inorganic material that is either floating or in suspension. This is followed by a grit chamber, which removes the heavy settled material.

Secondary Treatment: This is where the biological treatment begins. The first step takes place in the aeration tanks, also known as reactors or sedimentation basins, which contain a huge mass of bacteria that feed on the organic material in sewage. These bacteria are aerobic, and therefore require a great quantity of pumped-in air to help them thrive. The second step in the process is clarification where the sludge from the aeration tanks is allowed to settle to the bottom and the

clear liquid, or secondary effluent, flows out over weirs at the surface. Some of the settled sludge is disposed of and some is returned to the aeration tanks to keep the process in balance. The secondary effluent flowing over the weirs is now ready for the next step.

Tertiary Treatment: Just before filtration, a small amount of coagulant is added as a filter aid which helps suspended material in the secondary effluent “clump” on the surface of the filters. The filters consist of a layer of sand with a layer of anthracite coal on top. As the fluid moves through the filters, the flow goes through a chlorine contact chamber where disinfection takes place. Solids, screenings, and sludge are discharged to the City of San Diego Metropolitan Wastewater (Metro) system.

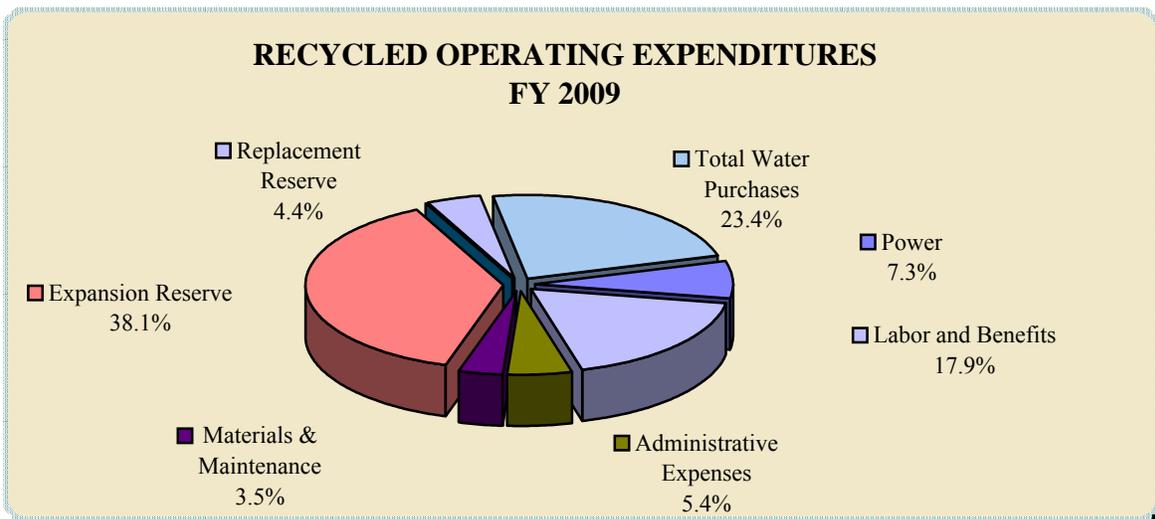
The District operates the largest recycled water distribution system in San Diego County and will supply approximately 4,670 acre-feet of recycled water to 642 landscaping and construction customers by the end of Fiscal Year 2009. The recycled water customer base consists primarily of irrigation at golf courses, schools, parks and open space in the Eastlake, Otay Ranch, and Rancho Del Rey and other areas of eastern Chula Vista.

The District entered a landmark agreement with the City of San Diego in October 2003, to purchase up to six million gallons a day of recycled water from their South Bay Water Reclamation Plant. To bring this plan to fruition, the District constructed a 30-inch, six-mile pipeline, a 12-million gallon reservoir and a pump station to bring this new source of recycled water into the District’s system. These projects were completed in Spring 2007, which eliminated the immediate need for a potable supplement of the recycled system. The benefits of this to the region as a whole are great as less demand on the potable system is created, which reduces future capacity and storage requirements. The \$42 million investment in capital outlay results in a significant reduction of water purchase costs and an increase in system reliability. The District expects that 15 to 20 percent of its total water demand will be met using recycled water.

Producing and distributing recycled water is costly. To help offset the costs of supplying alternative water sources, both CWA and MWD offer incentive programs. In Fiscal Year 1991, the District signed agreements with CWA and MWD to take advantage of the programs they offered. A second agreement was signed in 2000. In 2005, the District agreed to terminate both agreements and to enter into a new agreement which allowed the District to maximize its ability to earn incentives and to simplify the grant requirements. Currently, the District receives \$200 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

OPERATING BUDGET SUMMARY - RECYCLED

	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Recycled Water Sales	\$ 3,294,170	\$ 3,583,800	\$ 3,347,964	\$ 3,648,700	64,900	1.8%
System Fees	335,063	432,800	425,061	524,900	92,100	21.3%
Energy Fees	190,570	264,800	248,429	304,000	39,200	14.8%
MWD/CWA Rebates	592,056	1,614,900	1,833,949	1,798,400	183,500	11.4%
Penalties	80,998	105,100	92,855	68,500	(36,600)	(34.8%)
Total Reclaimed Water Sales	4,492,858	6,001,400	5,948,258	6,344,500	343,100	5.7%
Meter Fees	50,280	24,100	9,176	11,400	(12,700)	(52.7%)
Capacity Fee Revenues	106,820	-	12,042	-	-	0.0%
Interest	145,748	99,000	80,704	24,600	(74,400)	(75.2%)
TOTAL REVENUES	4,795,706	6,124,500	6,050,180	6,380,500	256,000	4.2%
EXPENDITURES						
Water Purchases (CWA)	1,597,592	1,423,000	-	1,471,000	48,000	3.4%
Water Purchases (CSD) / Meter Fees	231,884	-	1,278,084	19,800	19,800	100.0%
Total Water Purchases	1,829,476	1,423,000	1,278,084	1,490,800	67,800	4.8%
Power	358,359	493,600	288,261	466,800	(26,800)	(5.4%)
Labor and Benefits	567,385	895,400	955,086	1,143,100	247,700	27.7%
Administrative Expenses	205,245	271,300	290,718	346,500	75,200	27.7%
Materials & Maintenance	198,098	226,000	242,779	225,400	(600)	(0.3%)
Expansion Reserve	-	2,590,200	2,590,200	2,430,000	(160,200)	(6.2%)
Betterment Reserve	-	225,000	225,000	-	(225,000)	(100.0%)
Replacement Reserve	1,264,500	-	-	277,900	277,900	100.0%
TOTAL EXPENDITURES	4,423,063	6,124,500	5,870,127	6,380,500	256,000	4.2%
EXCESS REVENUES (EXPENSES)	\$ 372,643	\$ -	\$ 180,053	\$ -	\$ -	0.0%



CLASSIFICATION OF WATER SALES - RECYCLED

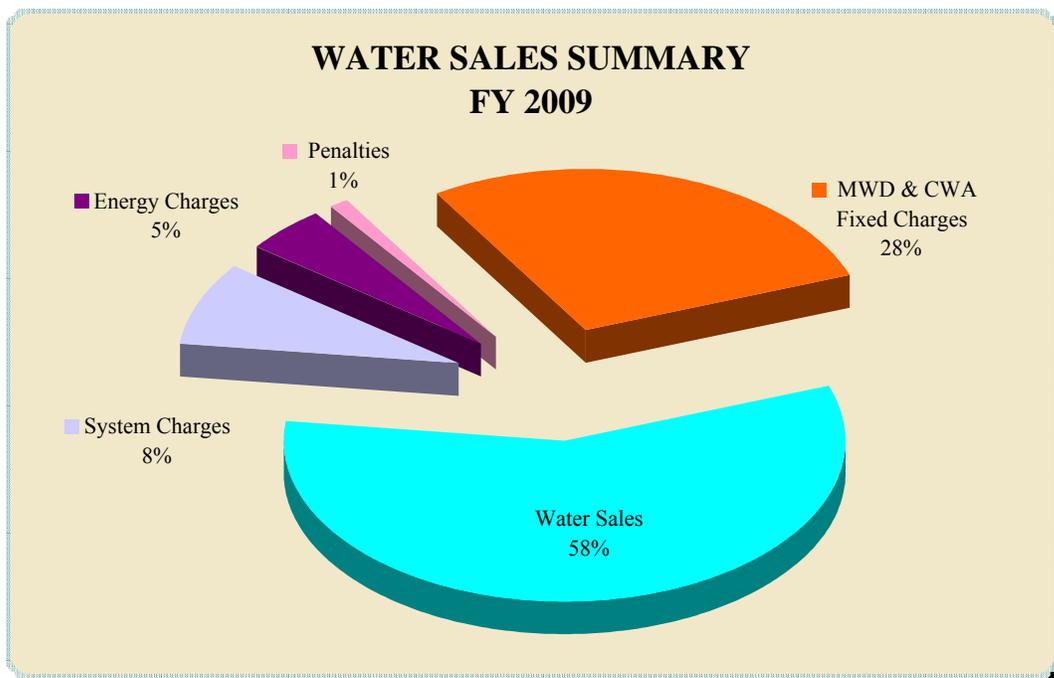
	FY 2008 Estimated	FY 2009 Budget	Variance
<u>Recycled Water Sales:</u>			
Water Sales	\$ 3,347,964	\$ 3,648,700	\$ 300,736
System Fees	425,061	524,900	99,839
Energy Fees	248,429	304,000	55,571
MWD & CWA Rebates	1,833,949	1,798,400	(35,549)
Penalties	92,855	68,500	(24,355)
Total	\$ 5,948,258	\$ 6,344,500	\$ 396,242

Water Sales : Unit Sales x Rate

System Charges : Fixed monthly fee based on meter size

Energy Charges : Energy pumping fee of \$0.032 per unit of water for each 100 feet of lift or fraction thereof above the base elevation of 450 feet

Penalties : Late charges, locks , etc.



WATER SALES SUMMARY BY SERVICE CLASS - RECYCLED

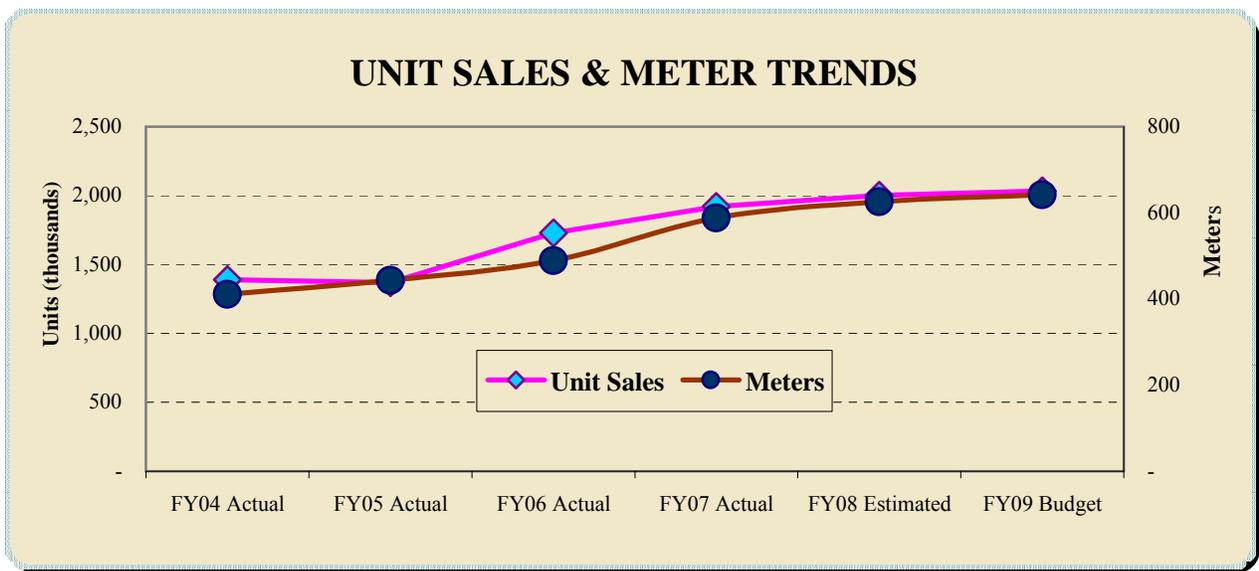
	Fiscal Year 2009 Sales Budget			Current Rate	Proposed* Rate	
	Accounts	Units	Amount			
Recycled Water Sales:						
Publicly-Owned	290	875,000	\$ 1,611,000	\$ 1.75	\$ 1.97	
Commercial	352	1,159,800	2,037,700	1.67	1.88	
Total	642	2,034,800	\$ 3,648,700	\$ 1.70	\$ 1.79	**

*Proposed rate effective January 1, 2009, pending the Proposition 218 hearing and Board approval.

**Based on average rate.

UNIT SALES HISTORY - RECYCLED

	ACTUAL				Estimated	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Unit Sales	1,388,621	1,368,462	1,729,000	1,920,287	2,001,137	2,034,800



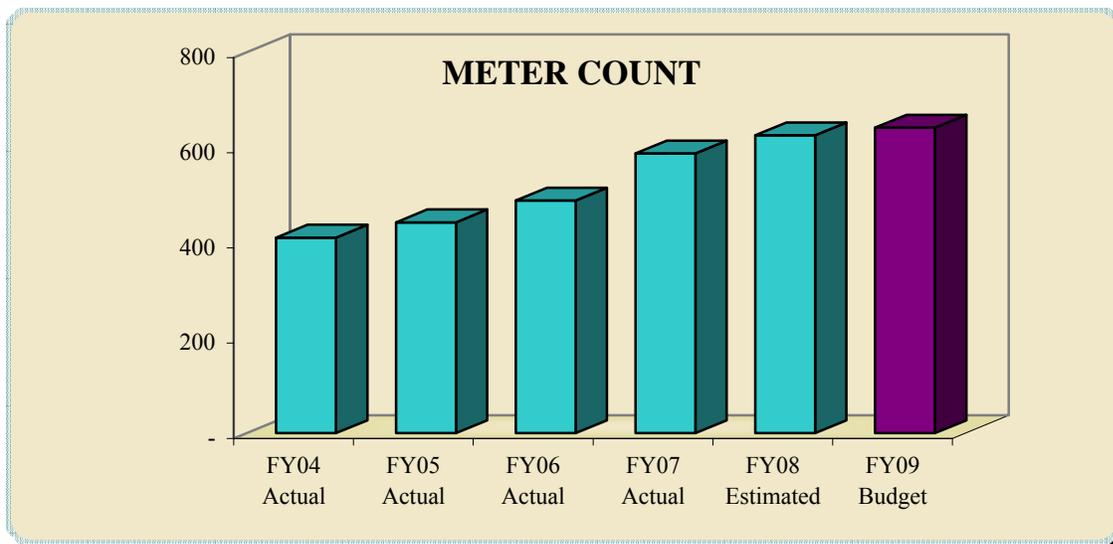
SYSTEM FEES - RECYCLED

Service Class	Meter Size	Meter Count		Current Rates	Proposed* Rates	Budgeted System Fees		
		6/30/08	FY09			Existing Meters	Additional Meters	Total Meters
Recycled	0.75	1	-	\$ 27.85	\$ 31.30	\$ 400	\$ -	\$ 400
	1.00	84	11	42.90	48.00	45,800	6,000	51,800
	1.50	355	-	60.30	67.78	272,800	-	272,800
	2.00	171	9	75.40	84.40	164,000	8,600	172,600
	3.00	3	-	121.30	136.00	4,600	-	4,600
	4.00	5	-	138.90	156.00	8,800	-	8,800
	6.00	2	-	277.60	312.00	7,100	-	7,100
	10.00	1	-	529.90	595.50	6,800	-	6,800
Total		622	20			\$ 510,300	\$ 14,600	\$ 524,900

Budgeted Recycled System Fees

\$ 524,900

**Proposed rates effective January 1, 2009, pending the Proposition 218 hearing and Board approval.*



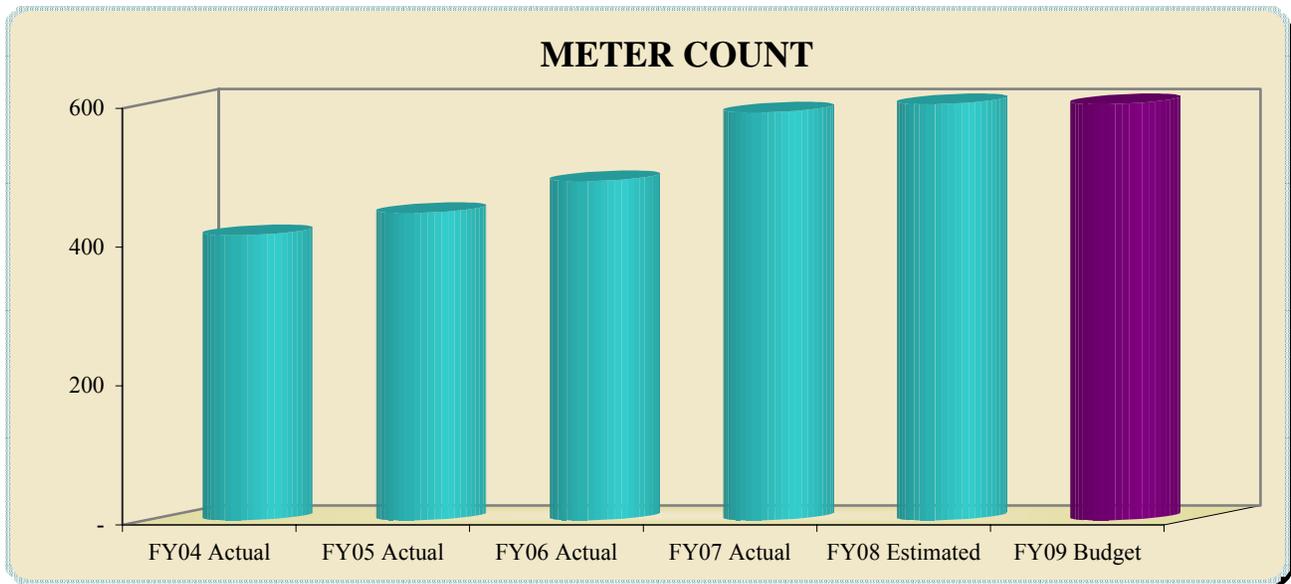
METER FEES - RECYCLED

Meter Size	Installation Fee	Meter Fee	AMR Fee
0.75	\$ 60.00	\$ 59.00	\$ 147.00
1.00	60.00	117.00	147.00
1.50	103.00	250.00	147.00
2.00	240.00	475.00	147.00
3.00	300.00	653.00	147.00
4.00	300.00	1,370.00	147.00
6.00	300.00	2,500.00	147.00
10.00	300.00	3,737.00	147.00

Meter Fees:

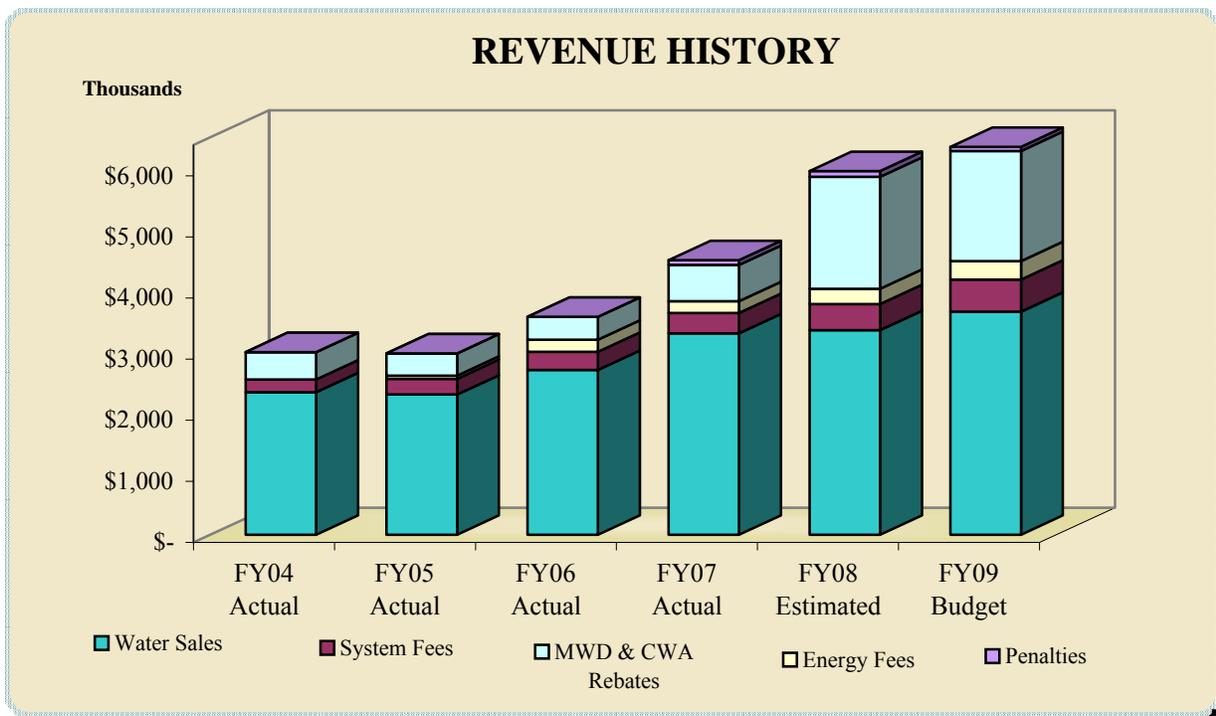
Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Fiscal Year 2009 Growth by Meter Size						
	0.75	1.00	1.50	2.00	3.00	Total
Residential		11	-	9	-	20
Total Meter Fees	\$ -	\$ 3,600	\$ -	\$ 7,800	\$ -	\$ 11,400



REVENUE HISTORY - RECYCLED

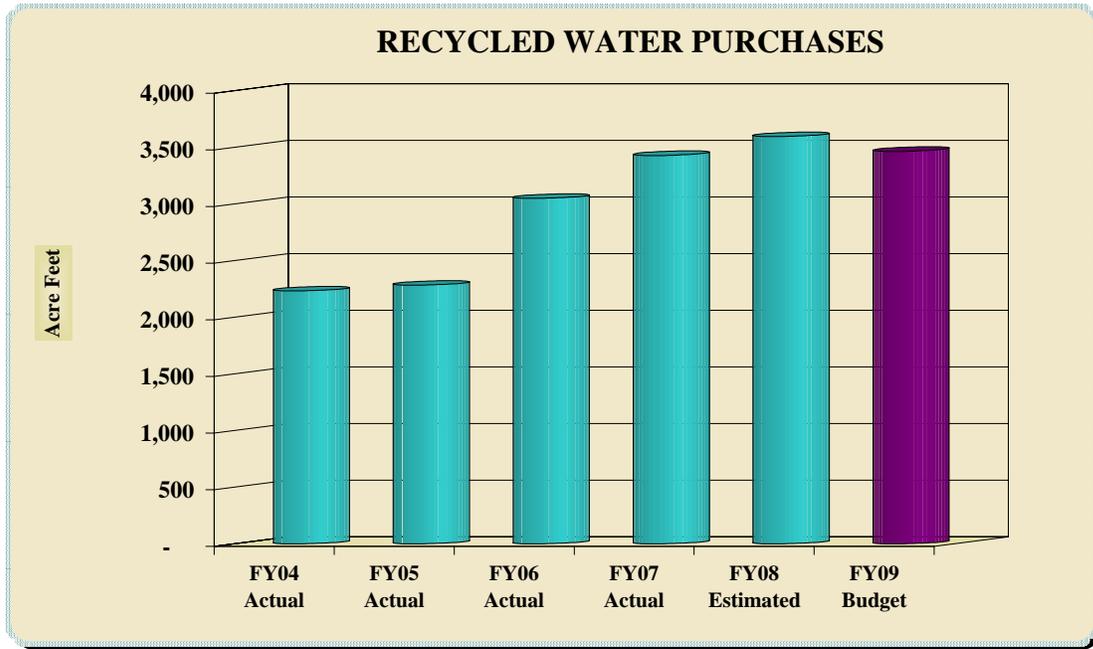
	ACTUAL				Estimated	Budgeted
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Water Sales	\$ 2,330,323	\$ 2,292,432	\$ 2,694,517	\$3,294,170	\$ 3,347,964	\$ 3,648,700
System Fees	210,208	256,659	298,153	335,063	425,061	524,900
Energy Fees	-	52,119	198,599	190,570	248,429	304,000
MWD & CWA Rebates	447,020	363,370	372,172	592,056	1,833,949	1,798,400
Penalties	-	-	-	80,998	92,855	68,500
Total	\$ 2,987,551	\$ 2,964,580	\$ 3,563,441	\$ 4,492,857	\$ 5,948,258	\$ 6,344,500



Note:

Retroactive increase was given by CWA from \$147 to \$200 acre foot received in FY 08 applicable to FY 07.

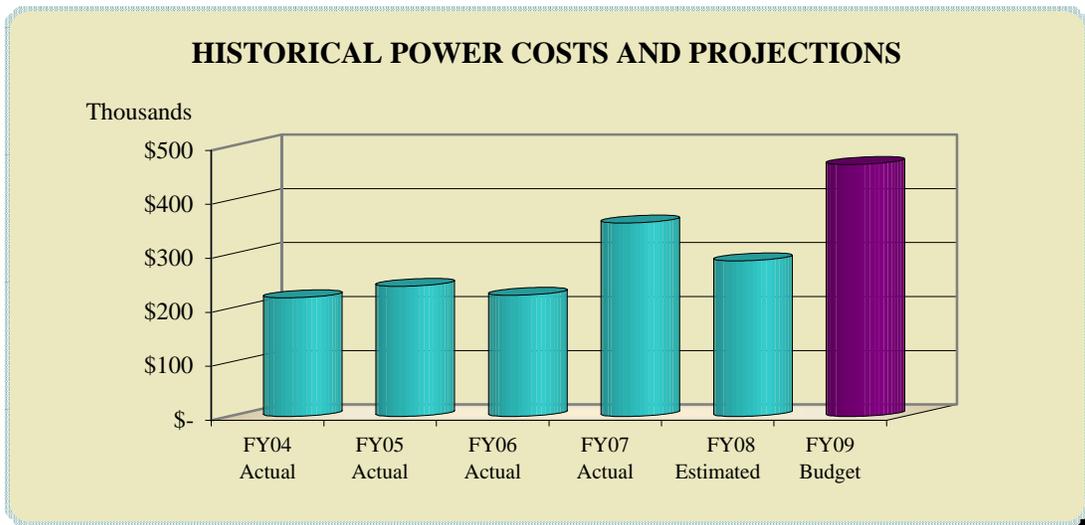
WATER PURCHASES - RECYCLED



	<u>FY09 Budget</u> <u>Acre Feet</u>	<u>Rate</u>	<u>FY09 Budget</u> <u>Purchase Costs</u>	<u>% to Total</u>
SBWRP Recycled Water Purchases (CSD)				
Recycled Water Purchases	3,465.6	\$ 424.50	\$ 1,471,000	98.7%
Meter Fee	-	1,646.50	19,800	1.3%
Total	<u>3,465.6</u>		<u>\$ 1,490,800</u>	<u>100.0%</u>

POWER COSTS - RECYCLED

	Treatment and Recycled Transmission
FY04 Actual	219,500
FY05 Actual	241,000
FY06 Actual	224,200
FY07 Actual	358,359
FY08 Estimated	288,261
FY09 Budget	466,800



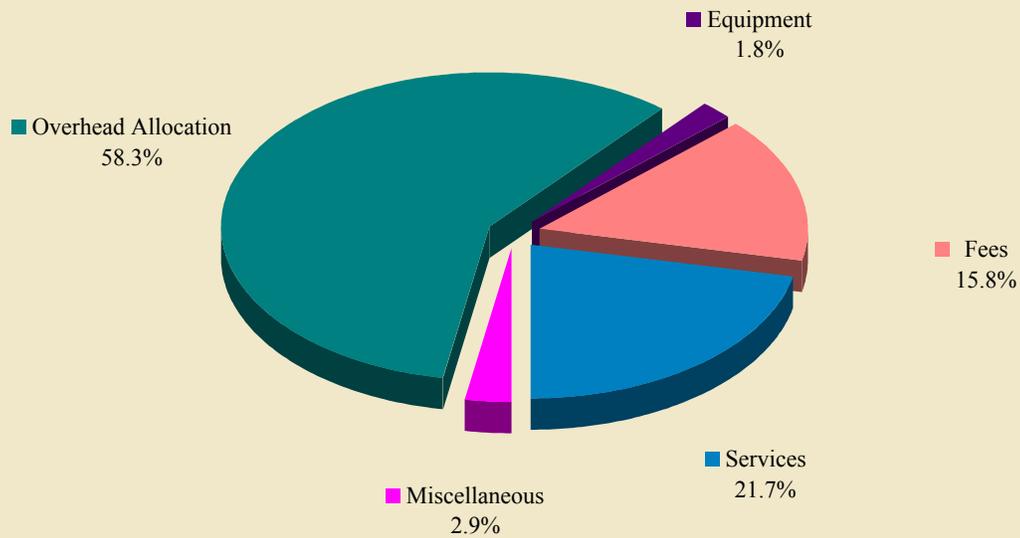
Note:

- (1) *The fluctuation in the power cost is caused by increases and decreases in annual rainfall.*
- (2) *Subsequent to Budget approval, staff identified a misclassification of a power meter among potable, recycled, and sewer which also caused the fluctuation in power costs.*

ADMINISTRATIVE EXPENSES - RECYCLED

	FY 2007	FY 2008		FY 2009	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Equipment	\$ 540	\$ 3,000	\$ 868	\$ 6,300	\$ 3,300	110.0%
Fees	-	7,000	33,738	53,000	46,000	657.1%
Services	104,633	105,000	88,873	75,200	(29,800)	(28.4%)
Miscellaneous	-	-	-	9,900	9,900	100.0%
						0.0%
Total	105,173	115,000	123,479	144,400	29,400	25.6%
Overhead Allocation	100,071	156,300	167,239	202,100	45,800	29.3%
Total Administrative Expenses	\$ 205,245	\$ 271,300	\$ 290,718	\$ 346,500	\$ 75,200	27.7%

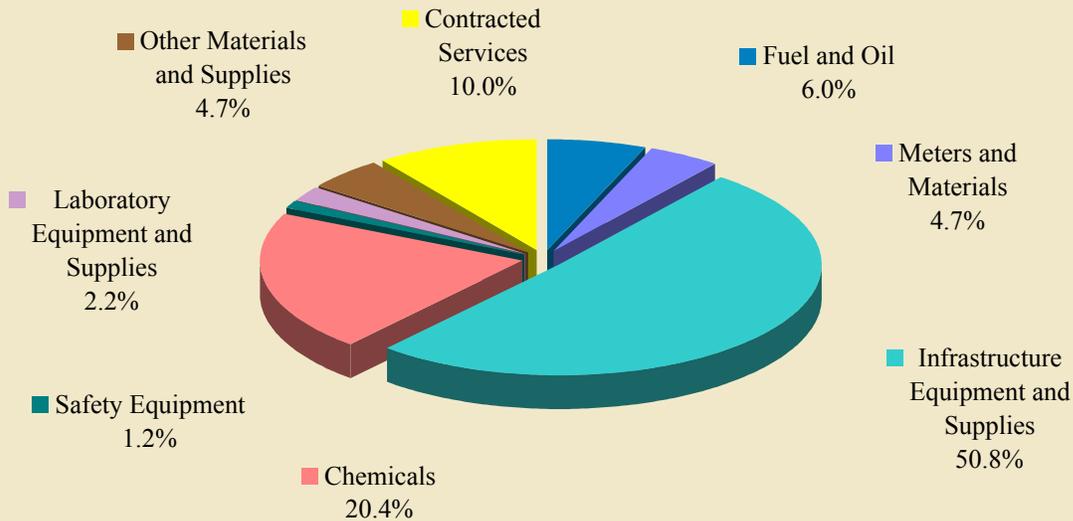
**ADMINISTRATIVE EXPENSES - RECYCLED
FY 2009**



MATERIALS AND MAINTENANCE EXPENSES - RECYCLED

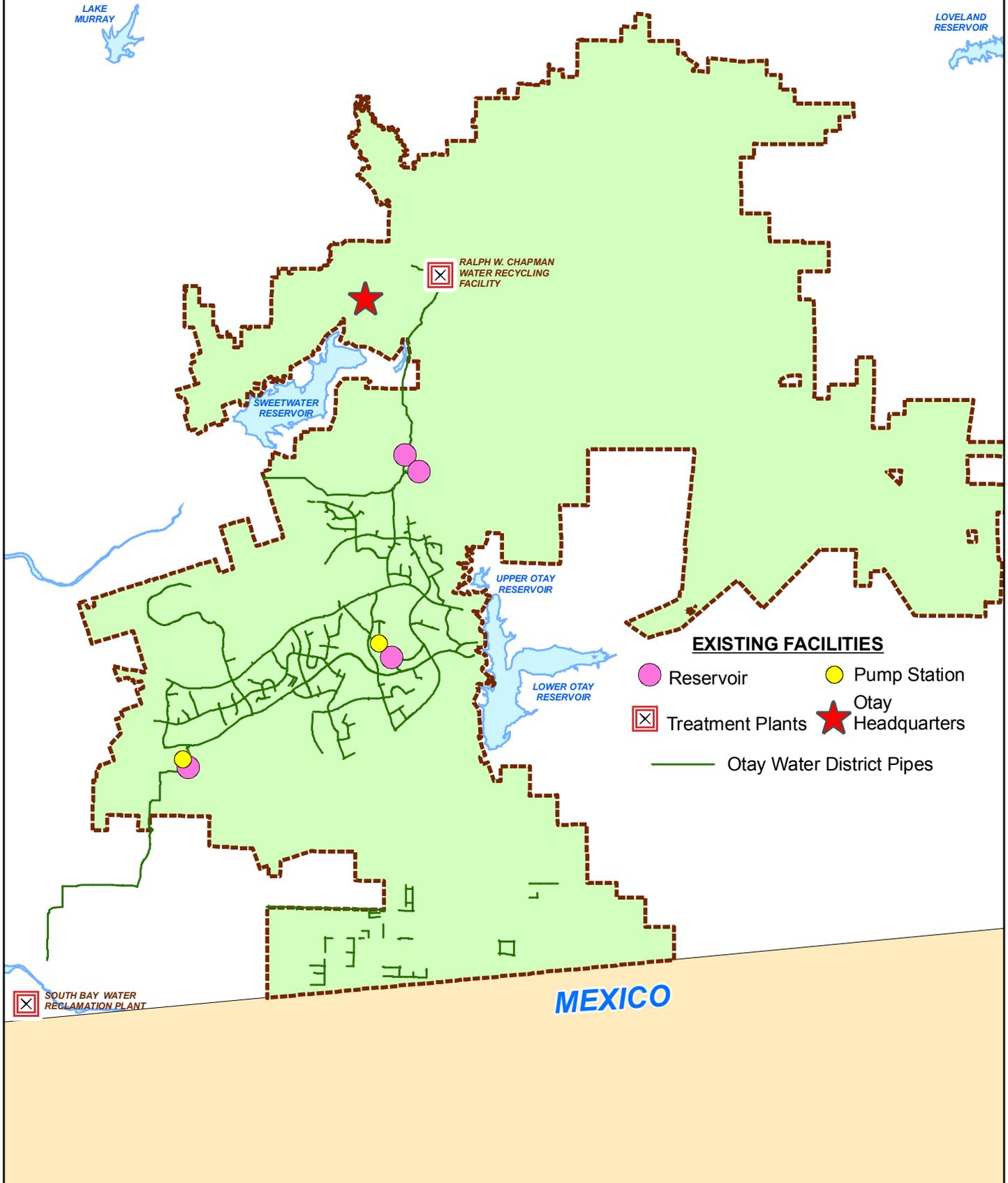
	FY 2007	FY 2008		FY 2009	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 12,348	\$ 27,000	\$ 13,646	\$ 13,500	(13,500)	(50.0%)
Meters and Materials	9,632	10,000	16,321	10,500	500	5.0%
Infrastructure Equipment and Supplies	96,997	110,000	134,430	114,500	4,500	4.1%
Chemicals	64,508	66,000	62,426	46,000	(20,000)	(30.3%)
Safety Equipment	2,379	1,500	1,353	2,800	1,300	86.7%
Laboratory Equipment and Supplies	2,060	4,000	5,200	5,000	1,000	25.0%
Other Materials and Supplies	5,765	5,000	7,088	10,600	5,600	112.0%
Contracted Services	4,210	2,500	2,315	22,500	20,000	800.0%
Total Materials and Maintenance	\$ 198,098	\$ 226,000	\$ 242,779	\$ 225,400	\$ (600)	(0.3%)

MATERIALS AND MAINTENANCE EXPENSES - RECYCLED FY 2009



RECYCLED WATER SERVICE AREA

 **EXISTING**



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SEWER REVENUES AND EXPENSES

The District provides sewer service to approximately 15,200 customers through 4,630 accounts (or approximately 6,640 Assigned Service Units) located in the northern section of the District. The District operates and maintains the sewage collection system serving Rancho San Diego, Singing Hills and portions of Mount Helix within the Upper Sweetwater River Basin, also known as the Jamacha Basin. Residential customers comprise 98.5% of the customer base. Modest growth of 1.2% is anticipated in Fiscal Year 2009.

Wastewater collection within the Jamacha Basin is provided by two agencies: the Otay Water District and the Spring Valley Sanitation District. Customers in the basin, not served by either agency, dispose of their sewage through septic tanks. After the sewer has been collected, it is sent to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF) treatment plant where the District produces recycled water, see page 62 outlining the sewer process. The byproduct of the treatment process is called sludge and it is discharged through the City of San Diego Metropolitan Wastewater (Metro) and the Spring Valley Sanitation District systems.

The Otay Water District is a member of Metro Wastewater System and a significant amount of the sewer operation costs is for estimated sewer service charges from Metro totaling \$1,041,900 for Fiscal Year 2009. Additionally, the District will pay \$247,000 for its share of the operation and maintenance cost of the Rancho San Diego Outfall and the Spring Valley Outfall to dispose of sewage to Metro for Fiscal Year 2009.

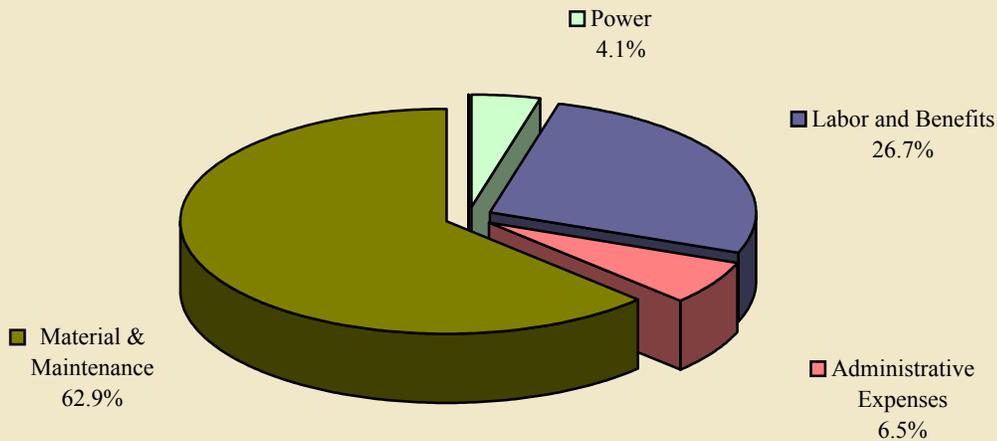
The charge for sewer service is mandated by the State Revenue Program Guidelines which requires the use of a "Service Unit Assignment Formula" that converts higher strength uses into a service unit value comparable to the use impact of a single-family residential user or equivalent dwelling unit (EDU). The rate of discharge and strength of sewage for non-residential customers tends to be higher than a single-family residential user. Due to their higher discharge and strength, non-residential customers are assigned more units: 11% of the total service units, while only comprising 1.5% of the customer base. The formula for the sewer rates is shown on page 82.

In addition to the monthly sewer fee, sewer customers are annually assessed \$54 per assigned service unit on their property tax statements. This revenue of \$359,600 is necessary for the payment of principal and interest on the \$5 million State loan to modify the RWCWRF. The outstanding balance on the loan is \$1,031,730 with an interest rate of 3.5%. The debt service payment for Fiscal Year 2009 is \$359,800.

OPERATING BUDGET SUMMARY - SEWER

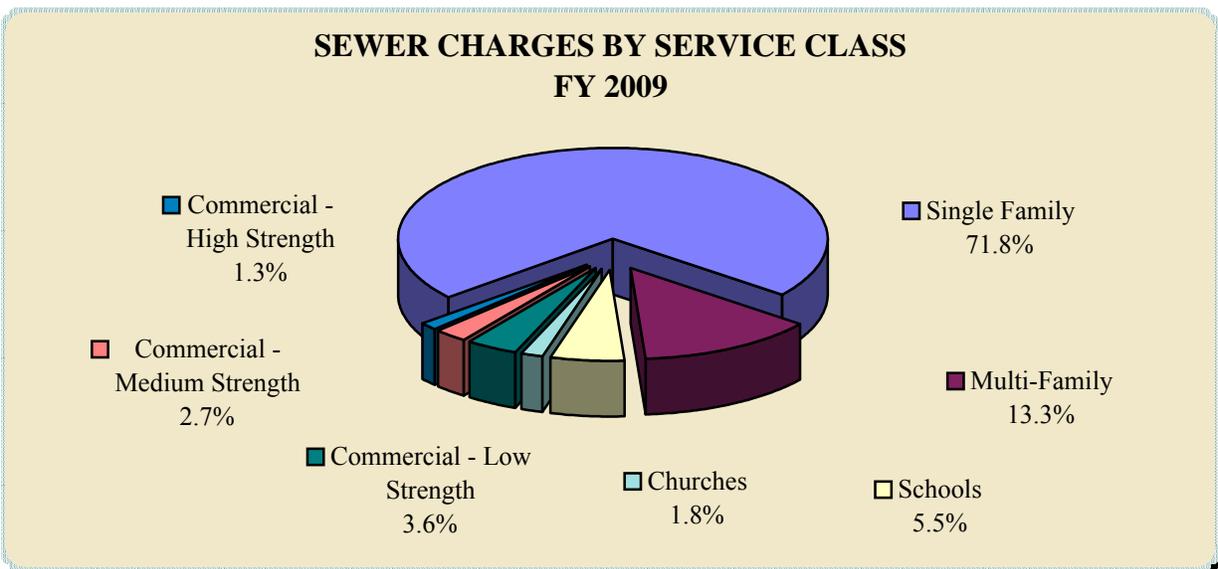
	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Sewer Charges	2,577,993	2,679,100	2,414,886	2,145,300	(533,800)	(19.9%)
Non-operating Revenues	1,338	1,000	27,112	26,400	25,400	2540.0%
Tax Revenues	52,990	51,300	56,599	56,400	5,100	9.9%
Interest	72,450	88,000	152,336	60,700	(27,300)	(31.0%)
General Fund Draw Down	283,600	-	-	120,100	120,100	100.0%
TOTAL REVENUES	2,988,371	2,819,400	2,650,933	2,408,900	(410,500)	(14.6%)
EXPENDITURES						
Power	94,989	103,100	98,359	97,600	(5,500)	(5.3%)
Labor and Benefits	556,534	832,600	732,543	642,000	(190,600)	(22.9%)
Administrative Expenses	108,276	189,500	199,700	155,300	(34,200)	(18.0%)
Material & Maintenance	959,155	1,458,800	1,358,086	1,514,000	55,200	3.8%
Replacement Reserve	-	235,400	235,400	-	(235,400)	(100.0%)
TOTAL EXPENDITURES	1,718,954	2,819,400	2,624,088	2,408,900	(410,500)	(14.6%)
EXCESS REVENUES	\$ 1,269,417	\$ -	\$ 26,844	\$ -	\$ -	0.0%

**SEWER OPERATING EXPENDITURES
FY 2009**



SEWER CHARGES SUMMARY BY SERVICE CLASS

	Accounts	Units/ ASU ⁽¹⁾	Base Fee for 3/4" Meter ⁽²⁾		Usage Fee / Sewer Rate		FY 2009 Budget
			Current	Proposed ⁽³⁾	Current	Proposed ⁽³⁾	
Single Family	4,509	4,509	9.75	10.20	1.41	1.47	\$ 1,512,000
Multi-Family	50	1,360	9.75	10.20	1.41	1.47	280,300
Schools	6	283.26			33.26	34.79	115,700
Churches	4	90.38			33.26	34.79	36,900
Commercial							
Low Strength	35	186.98			33.26	34.79	76,300
Medium Strength	18	139.72			33.26	34.79	57,100
High Strength	6	67.47			33.26	34.79	27,500
Penalties							39,500
TOTAL SEWER CHARGES	4,628	6,637					\$ 2,145,300



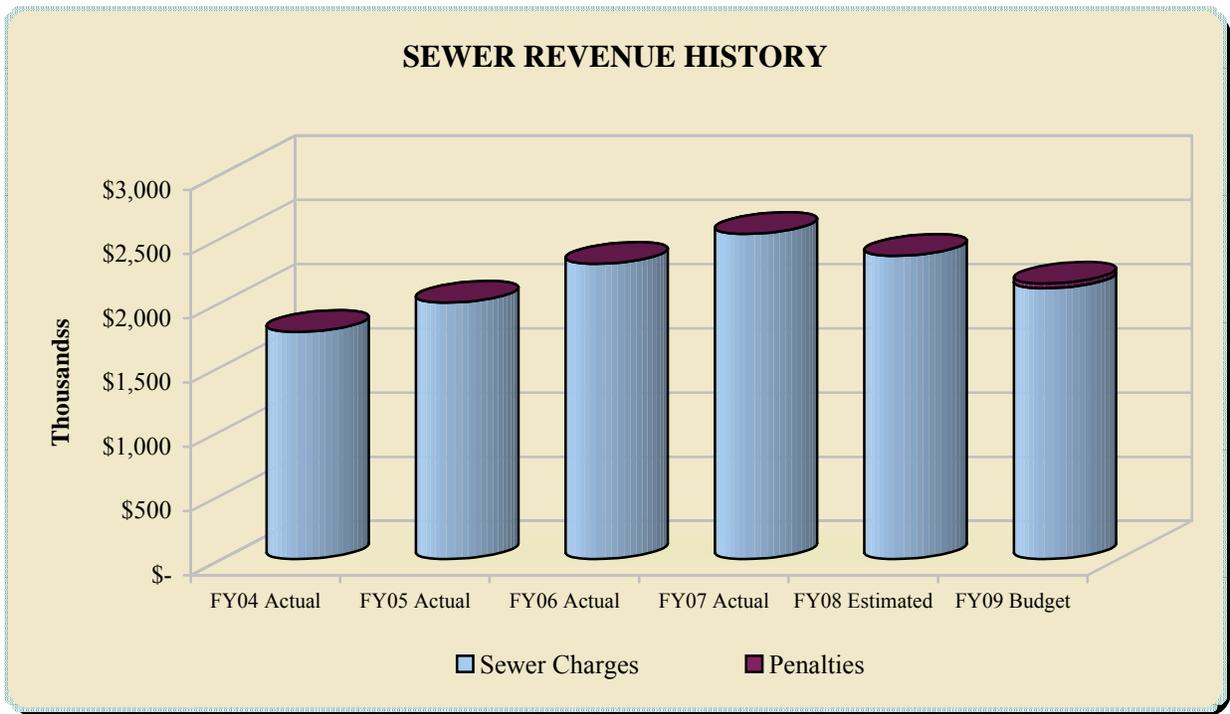
⁽¹⁾ Assigned Service Units

⁽²⁾ Current and Proposed Base Fees for 1" meter are 14.25 and 14.90, respectively.

⁽³⁾ Proposed fee/rate is effective January 1, 2009, pending the Proposition 218 hearing and Board approval.

REVENUE HISTORY - SEWER

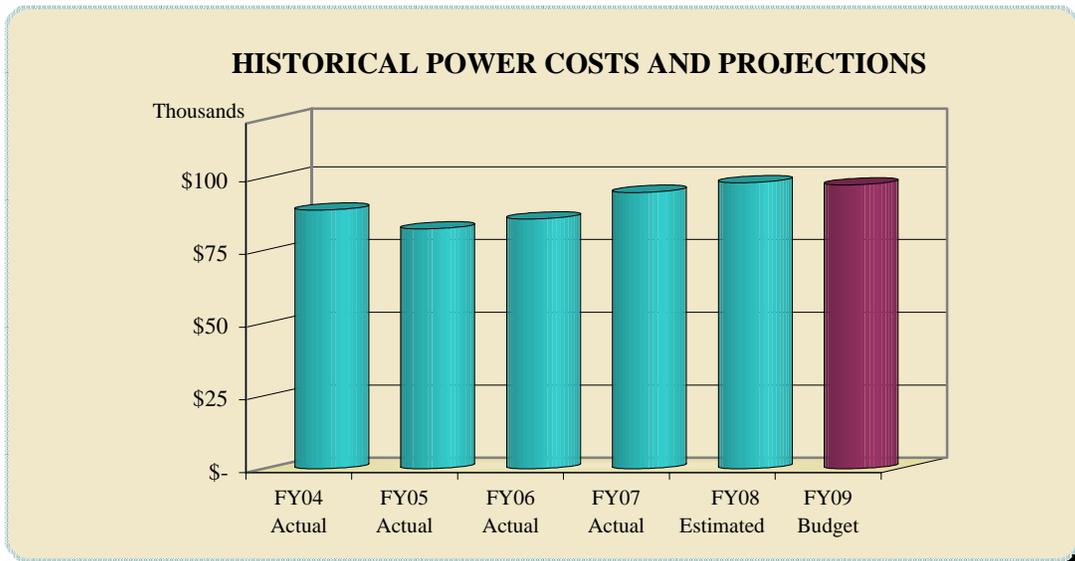
	Actual				Estimated	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Sewer Charges	\$ 1,767,118	\$ 1,995,548	\$ 2,296,856	\$ 2,531,513	\$ 2,359,173	\$ 2,105,800
Penalties ⁽¹⁾	-	-	-	46,480	55,713	39,500
Total	\$ 1,767,118	\$ 1,995,548	\$ 2,296,856	\$ 2,577,993	\$ 2,414,886	\$ 2,145,300



⁽¹⁾ Prior to Fiscal Year 2007, penalties were Potable revenues only.

POWER COSTS - SEWER

	Sewer Lift Station
FY04 Actual	\$ 88,915
FY05 Actual	82,447
FY06 Actual	85,894
FY07 Actual	94,989
FY08 Estimated	98,359
FY09 Budget	97,600

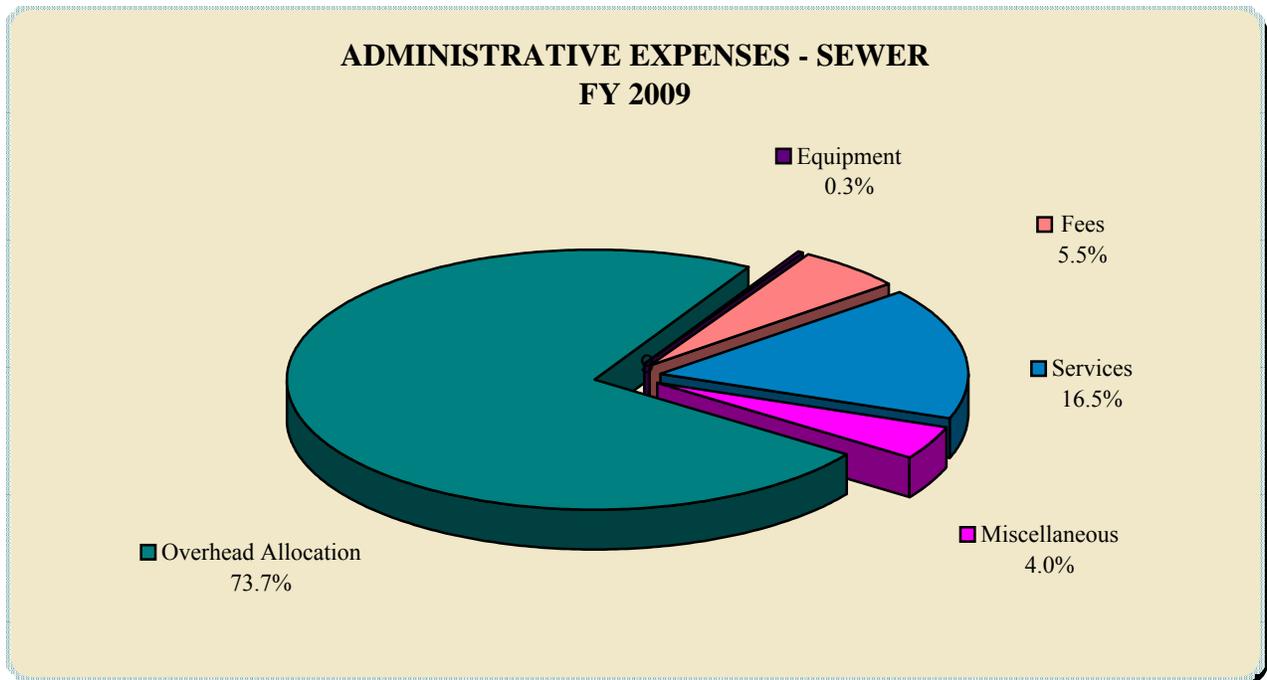


Note:

- (1) The fluctuation in the power cost is caused by increases and decreases in annual rainfall.*
- (2) Subsequent to Budget approval, staff identified a misclassification of a power meter among potable, recycled, and sewer which also caused the fluctuation in power costs.*

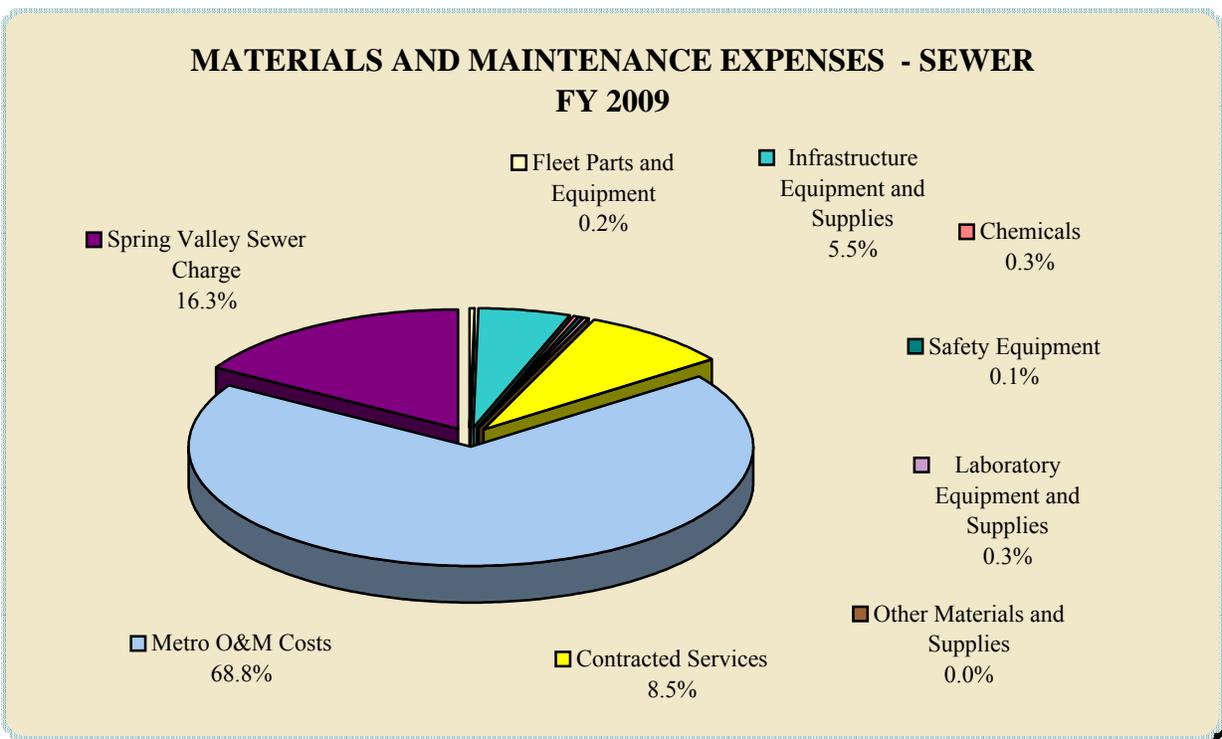
ADMINISTRATIVE EXPENSES - SEWER

	FY 2007	FY 2008		FY 2009	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Equipment	\$ 494	\$ 1,000	\$ 468	\$ 500	(500)	(50.0%)
Fees	-	7,700	20,016	8,500	800	10.4%
Services	6,858	35,000	48,968	25,600	(9,400)	(26.9%)
Miscellaneous	-	-	-	6,200	6,200	100.0%
Total	7,351	43,700	69,452	40,800	(2,900)	(6.6%)
Overhead Allocation	100,925	145,800	130,248	114,500	(31,300)	(21.5%)
Total Administrative Expenses	\$ 108,276	\$ 189,500	\$ 199,700	\$ 155,300	\$ (34,200)	(18.0%)



MATERIALS AND MAINTENANCE EXPENSES - SEWER

	FY 2007	FY 2008		FY 2009	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ -	\$ -	\$ 996	\$ -	-	0.0%
Fleet Parts and Equipment	-	2,000	406	3,000	1,000	50.0%
Infrastructure Equipment and Supplies	98,183	99,000	104,579	83,000	(16,000)	(16.2%)
Chemicals	3,837	3,000	3,089	4,000	1,000	33.3%
Safety Equipment	1,439	1,000	1,208	1,000	-	0.0%
Laboratory Equipment and Supplies	13,213	3,000	3,626	5,000	2,000	66.7%
Other Materials and Supplies	692	-	33	100	100	100.0%
Contracted Services	-	127,000	7,628	129,000	2,000	1.6%
Materials and Maintenance	<u>117,364</u>	<u>235,000</u>	<u>121,564</u>	<u>225,100</u>	<u>(9,900)</u>	<u>(4.2%)</u>
Sewer Charges						
Metro O&M Costs	617,686	988,800	1,034,276	1,041,900	53,100	5.4%
Spring Valley Sewer Charge	224,105	235,000	202,246	247,000	12,000	5.1%
Total Sewer Charges	<u>841,791</u>	<u>1,223,800</u>	<u>1,236,522</u>	<u>1,288,900</u>	<u>65,100</u>	<u>5.3%</u>
Total Materials and Maintenance	\$ 959,155	\$ 1,458,800	\$ 1,358,086	\$ 1,514,000	\$ 55,200	3.8%



FORMULA FOR SEWER RATES

Each year the District is required to revise its formula for determining sewer rates in accordance with the State Revenue Program Guidelines.

For residential sewer customers, effective January 1, 2008, a “Winter Average” fee structure was implemented for calculating the monthly sewer charge. A usage fee will be charged based on the prior year’s “Winter Average” water consumption, reduced by a 15% usage discount, times a rate of \$1.47. A base fee of \$10.20 for a ¾ inch water meter and \$14.90 for a 1 inch or greater water meter shall be applied.

The commercial formula takes into consideration the cost associated with daily flow, chemical oxygen demand (COD) and the removal of suspended solids (SS). The COD and SS determine the strength factor for the groups of high, medium and low, and the State Water Resources Control Board (SWRCB) determines these factors. The factors beginning January 1, 2004 are shown below:

1.000	Schools
1.000	Churches
1.000	Low Strength Commercial
1.238	Medium Strength Commercial
2.203	High Strength Commercial

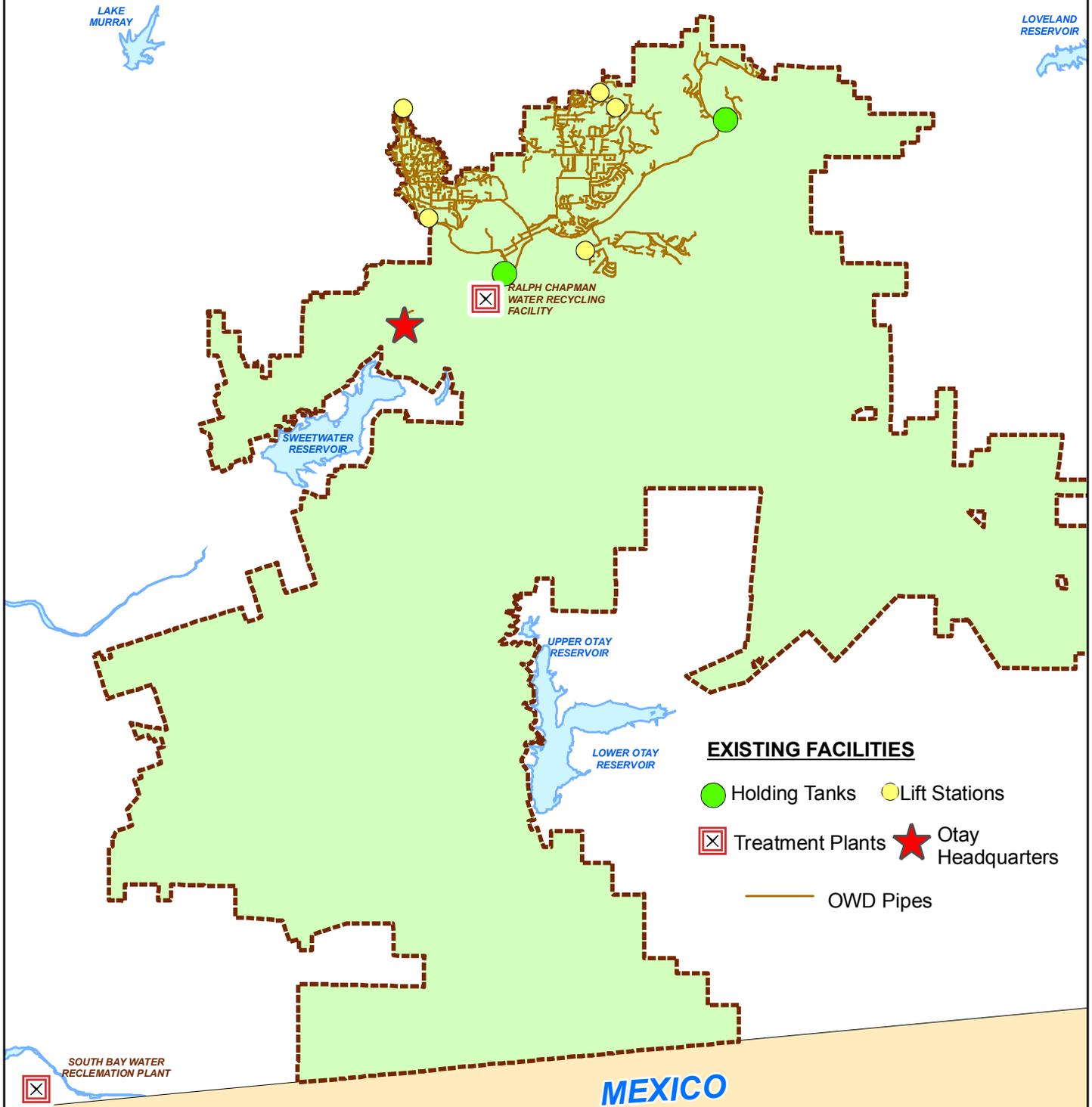
The following formula is based on an estimated daily flow of 250 gallons per day plus 280 milligrams per liter of Biological Oxygen Demand (BOD) and 234 milligrams per liter of SS for a residential equivalent dwelling unit or an assigned service unit (ASU). The new method of calculating the sewer rate is to multiply the flow by the strength factor to determine the Assigned Service Unit (ASU) as follows:

$$\begin{aligned}
 &\text{Daily Flow} \quad \quad \quad \times \quad \text{Strength Factor} \quad = \quad \text{Assigned Service Unit} \\
 &(\text{gpd} \times .85)/250\text{gpd} \quad \times \quad \text{as shown above} \quad = \quad \text{ASU}
 \end{aligned}$$

The ASU is then multiplied by the district-wide sewer rate to determine the monthly sewer charge. The sewer rates per ASU effective on January 1st of Calendar Years 2008 and 2009 (proposed rates pending the Proposition 218 hearing and Board approval) are \$33.26 and \$34.79, respectively.

The minimum charge for commercial shall be no lower than one ASU at low strength. For public schools, flow is based on average daily attendance for the prior school year, including summer school, as reported by schools to meet state requirements. For elementary schools, 50 students equal one ASU; for junior high schools, 40 students equal one ASU; for high schools, 24 students equal one ASU. For colleges, flow is based on the number of Certificated and Classified Staff, and students enrolled in each school session.

SEWER SERVICE AREA



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GENERAL REVENUES AND EXPENSES

The District's revenues and expenses in this section are not directly related to the services delivered to potable, recycled, or sewer customers, yet they are operating expenses or revenues.

General Revenues

Capacity fees have a restricted purpose when collected to cover costs including, but not limited to, planning, design, construction, and financing associated with facilities for the District's expansion needs. The District uses a portion of capacity fee revenues to provide general planning and developer support. These fees reimburse the General Fund for cost of providing these services.

Betterment fees for maintenance are earned by the Operating Budget as our Operations Department maintains specific assets of the district.

Annexation fees are collected when developers buy into the District's potable and recycled water facilities. The fee insures that future users fund the portion of the facilities that were sized and built for their future use by prior customers. Annexation fees are unrestricted and therefore included in the General Fund revenues.

The 1% Property Tax is a result of Proposition 13 which occurred in 1978 which limited general levy property tax rate for all taxing authorities to a total rate of 1% of the assessed value. Subsequent legislation AB8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. These general use funds are currently being used as a source of operating revenue.

The District levies availability charges each year in developed areas to be used for upgrades and betterment and in undeveloped areas to provide a funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be used only for the benefit of the improvement district in which it is assessed.

Included in the General Revenues are a variety of Non-Operating Revenues. These revenues include lease revenue, set-up fees, sewer billing fees, grants, and any miscellaneous revenues. Revenues are received from the lease of District property, mainly for the purpose of cell-sites. When the District enters a new lease there is a one-time fee charged with the set-up of each cell-site. The District incurs expenses related to these leases and the purpose of the fee is to recover the cost to set up the lease.

In addition to the cell-site leases, the District leases land to the Salt Creek Golf Club. The lease terms include a minimum annual rent guarantee plus a percentage of sales over 3%. This lease is a 40 year term with two additional five year options.

For most of the District's water customers in the City of Chula Vista, the City of Chula Vista (CCV) provides the sewer services. The CCV sewer fees are based on water consumption. Because of the interrelated functions, the CCV contracts with the District for processing and billing of their sewer customers within the District for a fee.

General Expenses

The expenses in this section are general operating expenses not associated with an individual department. These include legal costs, insurance premiums, changes in accrued employee leave balances, and miscellaneous interest. These expenses represent 6% of the total Departmental Budget.

Legal expenses are viewed as a District-wide general expense because it benefits each department and usually is not attributed to any one department. The District retains outside legal services rather than having in-house counsel.

Insurance expense is viewed as District-wide general expense because it benefits each department and cannot be attributed to any one department. The District participates in a program where it can reduce its premium by implementing training sessions to reduce on-the-job accidents and injuries.

Some employee benefits are charged to the General Expense Department because they are not entirely attributable to the specific department or year in which they are earned. For example, when a pay rate increase occurs for an employee and leave balances increase in value due to this change. In this case, the expense is charged to the General Expense Department.



450-1 Recycled Water Reservoir

GENERAL REVENUES

	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Capacity Fee Revenues	\$ 1,536,911	\$ 1,414,500	\$ 1,480,165	1,301,900	\$ (112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	802,021	895,900	822,600	1122.2%
Annexation Fees	2,119,886	1,464,500	526,435	483,600	(980,900)	(67.0%)
<u>Tax Revenues</u>						
1% General Tax	2,930,494	3,328,700	3,279,923	3,430,000	101,300	3.0%
Availability Fees	715,664	675,100	744,722	707,300	32,200	4.8%
Total Tax Revenues	3,646,158	4,003,800	4,024,645	4,137,300	133,500	3.3%
General Revenues	\$ 7,302,955	\$ 6,956,100	\$ 6,833,265	\$ 6,818,700	\$ (137,400)	(2.0%)

NON-OPERATING REVENUES

	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
Property Rental	\$ 914,403	\$ 894,200	\$ 962,929	\$ 1,052,600	158,400	17.7%
Sewer Billing Fees	354,815	355,500	358,053	359,900	4,400	1.2%
Set-up Fee for Lease Site	10,000	18,000	9,000	14,000	(4,000)	(22.2%)
Grants	14,246	197,000	74,175	50,500	(146,500)	(74.4%)
Revenue from Shared Facility		-	26,430	26,400	26,400	100.0%
Miscellaneous	774,671	215,500	867,239	129,700	(85,800)	(39.8%)
Non-Operating Revenues	\$ 2,068,134	\$ 1,680,200	\$ 2,297,826	\$ 1,633,100	\$ (47,100)	(2.8%)

GENERAL AND NON-OPERATING REVENUES BY BUSINESS

	FY 2009 Budget			
	Potable	Recycled	Sewer	Total
Capacity Fee Revenues	\$ 1,301,900	\$ -	\$ -	\$ 1,301,900
Betterment Fees for Maintenance	895,900	-	-	895,900
Annexation Fees	483,600	-	-	483,600
<u>Tax Revenues</u>				-
1% Property Tax	3,430,000	-	-	3,430,000
Availability Fees	650,900	-	56,400	707,300
Total Tax Revenues	4,080,900	-	56,400	4,137,300
<u>Non-Operating Revenues</u>				
Property Rental	1,052,600	-	-	1,052,600
Sewer Billing Fees	359,900	-	-	359,900
Set-up Fee for Lease Site	14,000	-	-	14,000
Grants	50,500	-	-	50,500
Revenue from Shared Facility	-	-	26,400	26,400
Miscellaneous	129,700	-	-	129,700
Total Non-Operating Revenues	1,606,700	-	26,400	1,633,100
Total General and Non-Operating Revenues	\$ 8,369,000	\$ -	\$ 82,800	\$ 8,451,800

Note: For General and Non-Operating Revenues, the Potable Fund serves as the District's General Fund for accounting purposes.

GENERAL EXPENSES

	FY 2007	FY 2008		FY 2009	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
<u>Administrative Expenses</u>						
Legal Fees	\$ 1,224,441	\$ 1,209,000	1,405,594	\$ 467,500	\$ (741,500)	(61.3%)
General Insurance	382,192	467,300	447,333	504,800	37,500	8.0%
Interest	667	-	-	-	-	0.0%
Total Administrative Expenses	1,607,300	1,676,300	1,852,927	972,300	(704,000)	(42.0%)
<u>Benefits</u>						
Benefits ⁽¹⁾	205,725	10,000	694,712	(188,300)	(198,300)	(1,983.0%)
Total General Expenses	\$ 1,813,025	\$ 1,686,300	\$ 2,547,639	\$ 784,000	\$ (902,300)	(53.5%)

⁽¹⁾ FY 2009 budget amount is negative because of Vacancy Factor (salary savings) of \$424,300. This is netted against other District-wide Labor and Benefit Expenses. In prior years Vacancy Factor was budgeted in the individual departments.



Departmental Operating Budget

DEPARTMENTAL OPERATING BUDGET

Labor and Benefits

Labor and Benefits represent 26.8% of the total Operating Budget. In Fiscal Year 2008, the Employees' Association signed a six-year Memorandum of Understanding (MOU) with the District. The highlights of this agreement included: changes to salaries based on a salary survey, changes to the medical and dental plans, enhancements of the retirement package with to include post retirement health benefits for active employees, and rewriting MOU to streamline the District practices.

District personnel are assigned to work in six departments: General Manager, Administrative Services, Finance, Information Technology & Strategic Planning, Water Operations, and Engineering. The departments are further categorized by functions into divisions. The Fiscal Year 2009 Budget includes funding for labor and benefits for 168.75 Full-time Equivalent (FTE) employees and a 3% across-the-board salary increase on July 1, 2008.

The staffing level for Fiscal Year 2009 has a decrease of four FTE employees from Fiscal Year 2008. The District has chosen to eliminate four vacant positions in areas have experienced a reduction of work due to slowing of growth.

A projected 8.7% of the labor and benefits costs will be charged to projects included in the Capital Improvement Program (CIP) and Developer Deposits. These are not considered Operating Projects and therefore reduce the Operating Budget by \$1,706,500. The Water Operations Department, with its staff of 71 employees, is responsible for maintaining and operating the District's facilities.

Administrative Expenses

Administrative Expenses represent 8.9% of the District's total operating costs. A detailed listing of the Administrative Expenses for Fiscal Year 2009 is shown on page 95. The reduction of \$741,500 in legal expenses due to the completion of several significant cases, as well as, additional reductions in other areas of \$305,700 based on the deferral of non-critical projects, and cost cutting measures lead to this overall reduction of over \$1 million in Administrative Expenses.

Administrative Expenses include such items as memberships, office supplies, staff training, directors' fees, water conservation programs, safety expenses, and regulatory agencies' fees. Some of the administrative expenses are more discretionary than others such as insurance or regulatory fees which are mandatory; whereas the District may be better able to control other expenses such as training or business meetings to some extent. The safety needs of the District's customers and employees and the compliance with regulatory agencies are of utmost importance to the District and these costs are considered necessary expenses.

DEPARTMENTAL OPERATING BUDGET

Materials and Maintenance

The Materials and Maintenance budget allows the District to provide and improve reliable, high-quality products, services, and support to its customers.

As the District continues to grow and new facilities are added, additional maintenance and services will be required. This year, there was a 13% decrease due to the following reductions; a \$214,500 reduction in fuel costs despite rising prices because of the discontinued use of a gasoline powered pump station, a \$165,900 reduction in meter cost because of the fewer new meter sets for new homes, and finally the deferral of non-essential projects and other cost saving measures.

The Water Operations Department implemented an Infrastructure Management System (IMS) which allows for better maintenance of assets as well as tracking new assets coming on-line, planning for repair or replacement of assets as well as assessing the condition of the infrastructure. IMS is helping the District to better track and manage the Materials and Maintenance costs.

Performance Measurement Program

The Board of Directors approves the strategic goals and objectives. Departments then incorporate these into their budgets to ensure adequate funds are available to implement these plans. The District has updated its performance measurement program this fiscal year (See the plan objective and measures in the department sections that follow) to provide measurable results of progress on both strategic and key operational goals and objectives. The measures have been developed by comparing key District activities with functional and available operational data that provide reliable feedback on progress. Developed cooperatively with staff and the help of measurement experts, the measures are designed to be comparable to measures commonly found in similar industries.

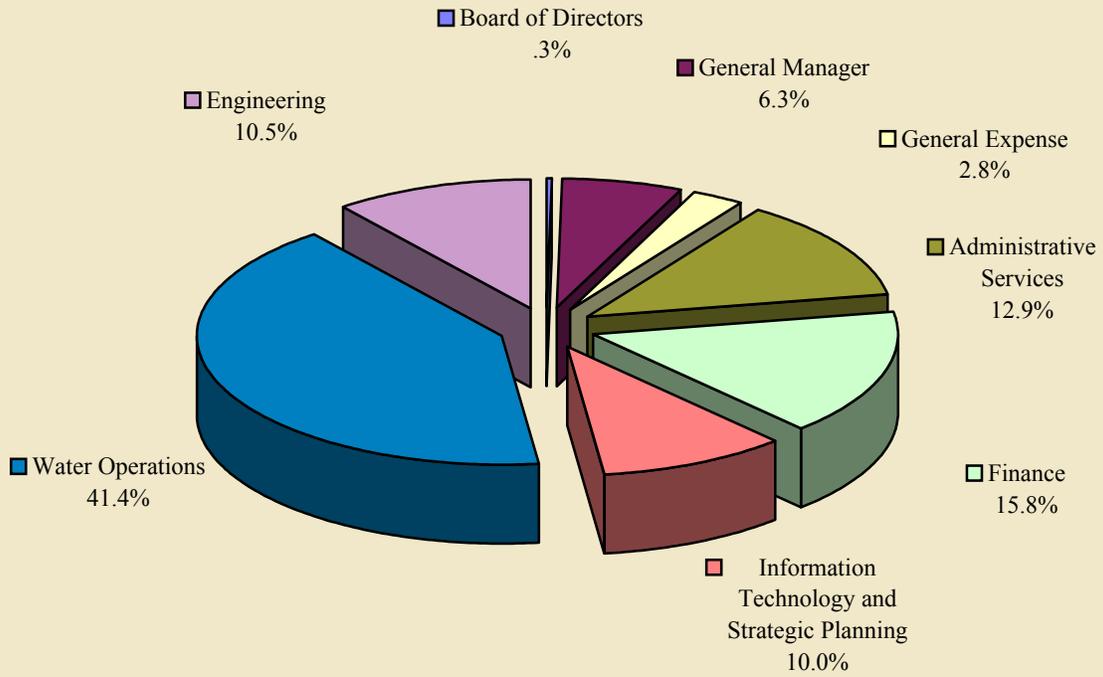
The performance measures focus on “best practice” as applied to the District. Measures are collected and reviewed quarterly by the Senior Management Team and also reviewed by the Board at least twice a year. Results are used to set new targets for the following fiscal year and to hold staff accountable for the current fiscal year.

DEPARTMENTAL OPERATING BUDGET

TOTAL DEPARTMENTAL OPERATING BUDGET

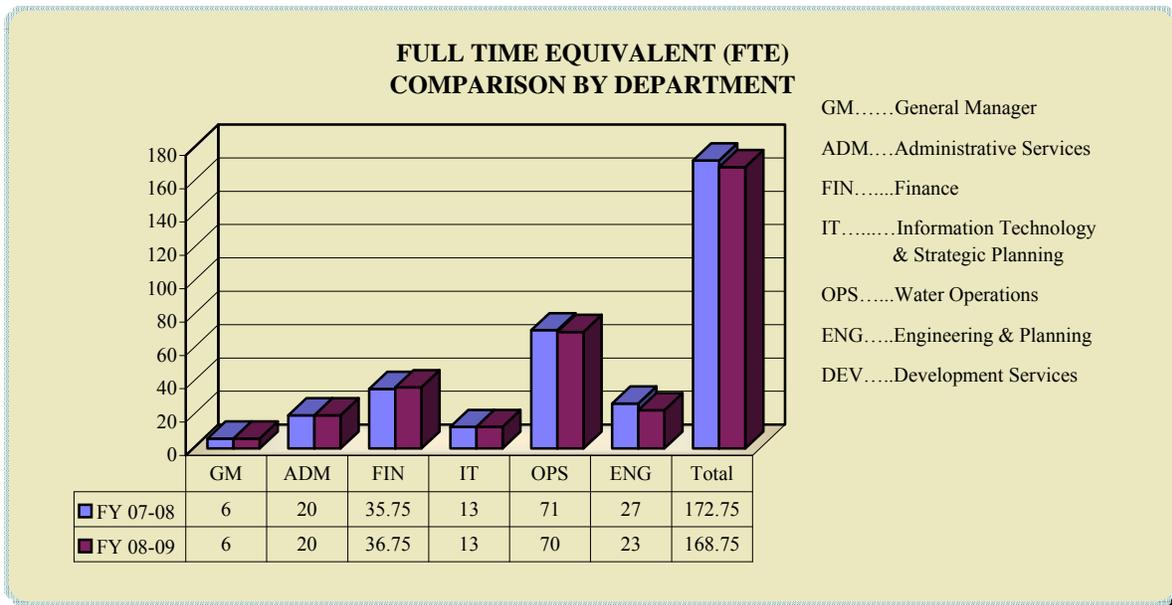
Fiscal Year 2009

\$28,216,700



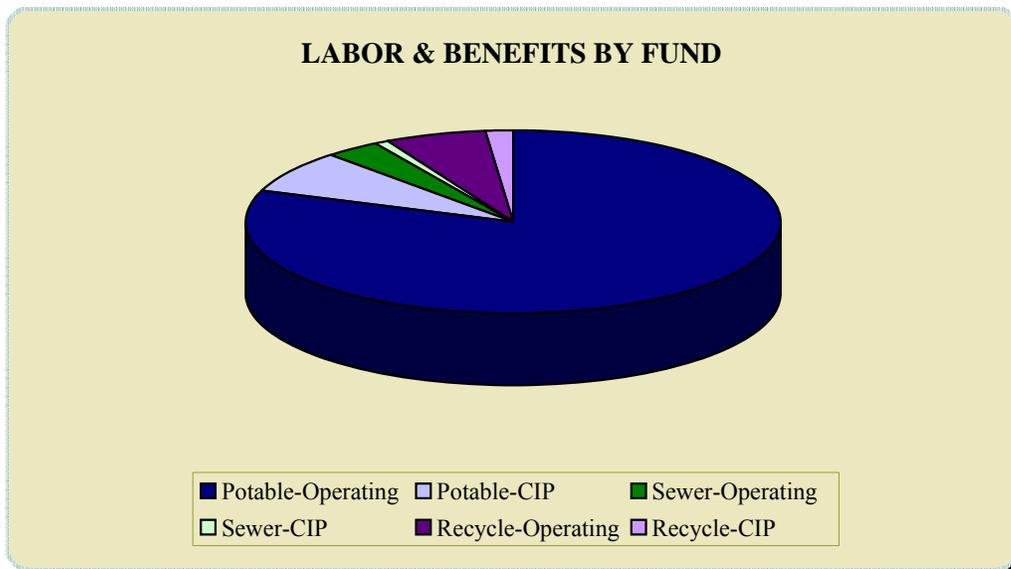
LABOR & BENEFITS

	FY07	FY08		FY09
	Actual	Budget	Estimated	Budget
Total Labor Costs	\$ 9,571,332	\$ 10,402,700	\$ 10,317,566	\$ 11,175,500
Benefits				
Pension	2,646,045	3,129,500	3,063,318	3,140,400
Employee Assistance Program	7,575	7,500	5,269	7,500
Worker's Compensation	314,130	287,800	358,860	281,100
Health/Dental/Life Insurance	1,614,703	1,669,800	1,909,802	1,934,900
Social Security / Medicare	798,752	904,600	870,316	954,300
Salary Continuation Insurance	71,355	74,900	81,560	87,700
Employee Awards	18,168	-	23,860	-
State Unemployment Insurance	1,304	10,000	26,711	20,000
Vacation / Sick / Holiday / Other Leave	1,745,843	1,911,000	1,991,568	2,063,100
Total Fringe Benefits	7,217,875	7,995,100	8,331,264	8,489,000
Total Labor & Benefits	16,789,207	18,397,800	18,648,830	19,664,500
Less: Non-Operating Labor & Benefits				
Labor Costs	943,765	1,192,100	943,249	1,063,800
Fringe Benefits Allocation	557,116	735,600	558,549	642,700
Total WO Allocation	1,500,881	1,927,700	1,501,798	1,706,500
Operating Labor & Benefits	15,288,326	16,470,100	17,147,032	17,958,000
Less: Overhead Allocation Personnel Portion	685,386	865,700	685,011	772,600
Operating Labor & Benefits	\$ 14,602,940	\$ 15,604,400	\$ 16,462,021	\$ 17,185,400



LABOR & BENEFITS BY FUND - FISCAL YEAR 2009

	<u>Potable</u>	<u>Sewer</u>	<u>Recycled</u>	<u>Developer Reimbursed-CIP</u>	<u>Total</u>
Total Operating Labor Costs	\$ 9,374,900	\$ 266,600	\$ 470,200	\$ -	\$ 10,111,700
Benefits	7,340,700	179,100	326,500	-	7,846,300
Overhead Allocation-Personnel Portion	(1,307,700)	193,600	341,500	-	(772,600)
Total Operating Labor & Benefits	15,407,900	639,300	1,138,200	-	17,185,400
Total CIP Labor Costs	\$ 602,000	\$ 74,900	\$ 147,500	\$ 239,400	\$ 1,063,800
Benefits	363,800	41,400	88,300	149,200	642,700
Overhead Allocation-Personnel Portion	437,200	54,400	107,000	174,000	772,600
Total CIP Labor & Benefits	1,403,000	170,700	342,800	562,600	2,479,100
Total Labor & Benefits	16,810,900	810,000	1,481,000	562,600	19,664,500

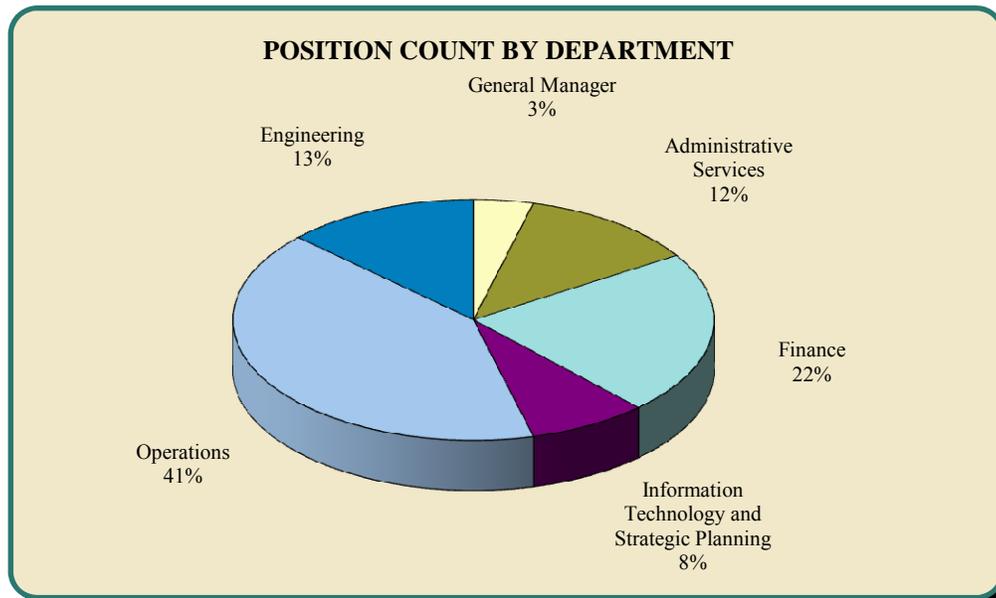


POSITION COUNT BY DEPARTMENT

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
General Manager	6	6	6
Total - General Manager Department	6	6	6
FTE	6.00	6.00	6.00
Administrative Services	3	3	3
Human Resources	4	5	4
Purchasing	9	9	9
Safety	1	1	1
Conservation	2	2	3
Total Administrative Services Department	19	20	20
FTE	19.00	20.00	20.00
Controller and Budgetary Services	7	7	7
Treasury and Accounting Services	6	6	6
Customer Service	18	19	20
Payroll and Accounts Payable	4	4	4
Total Finance Department	35	36	37
FTE	34.75	35.75	36.75
Information Technology and Strategic Planning Applications	5	5	5
Information Technology Operations	5	4	4
Geographic Information Systems	3	4	4
Total IT and Strategic Planning Department	13	13	13
FTE	13.00	13.00	13.00
Operations Management	2	2	2
Water System Operations	27	27	28
Utility Maintenance/Construction	35	35	33
Collection/Treatment/Reclamation Operations	7	7	7
Total Operations Department	71	71	70
FTE	71.00	71.00	70.00
Engineering Management	4	3	3
Engineering	27	24	20
Total Engineering Department	31	27	23
FTE	31.00	27.00	23.00
District Total Position Count	175	173	169
FTE	174.75	172.75	168.75

CONTRACT / TEMPORARY EMPLOYEES

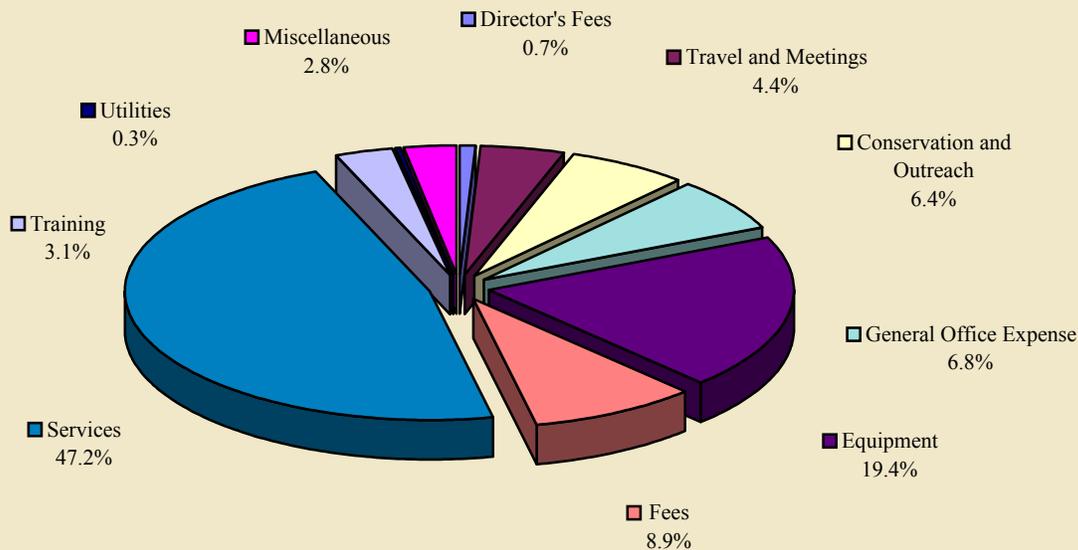
	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Consultant	0	0	1
Customer Service Field Representative I and II	2	2	2
Customer Service Representative I and II	1	0	0
Water Conservation Intern	0	1	0
Administrative Analyst	0	1	1
County Water Authority Interns	1	1	1
Engineering Intern	1	1	1
Total Contract/Temporary Employees	5	6	6



ADMINISTRATIVE EXPENSES - TOTAL

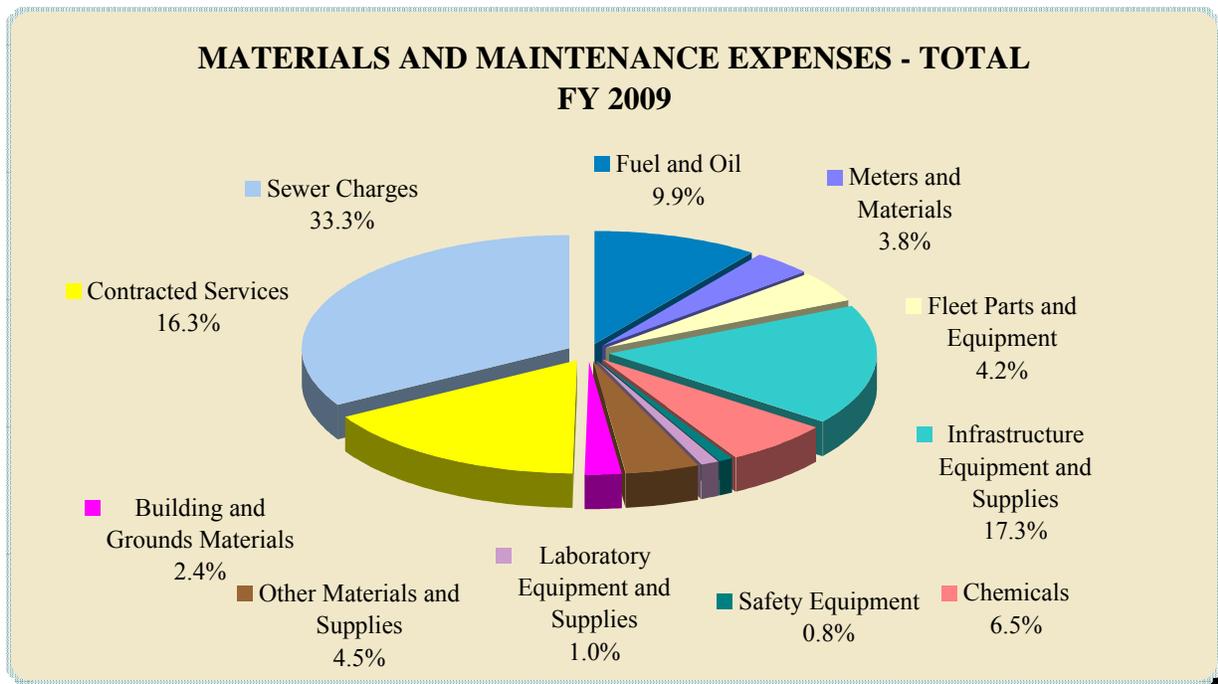
	FY 2007	FY 2008		FY 2009	Budget Variance	%
	Actual	Budget	Estimated	Budget		
Director's Fees	\$ 18,700	\$ 48,000	\$ 24,002	\$ 40,000	(8,000)	(16.7%)
Travel and Meetings	158,506	270,900	184,690	239,400	(31,500)	(11.6%)
Conservation and Outreach	168,831	481,800	286,240	348,000	(133,800)	(27.8%)
General Office Expense	344,782	359,400	380,573	364,900	5,500	1.5%
Equipment	902,185	1,018,300	1,013,411	1,052,100	33,800	3.3%
Fees	421,420	382,400	454,063	480,500	98,100	25.7%
Services	2,135,021	3,063,300	2,249,985	2,555,500	(507,800)	(16.6%)
Training	97,772	173,100	92,693	167,600	(5,500)	(3.2%)
Utilities	12,870	14,000	14,495	15,600	1,600	11.4%
Miscellaneous	212	-	239	150,000	150,000	100.0%
Total	4,260,300	5,811,200	4,700,391	5,413,600	(397,600)	(6.8%)
Less: Overhead Allocation	(399,944)	(505,200)	(399,725)	(450,800)	54,400	(10.8%)
Subtotal	3,860,356	5,306,000	4,300,666	4,962,800	(343,200)	(6.5%)
General Expenses	1,607,300	1,676,300	1,852,927	972,300	(704,000)	(42.0%)
Total Administrative Expenses	\$ 5,467,656	\$ 6,982,300	\$ 6,153,593	\$ 5,935,100	\$ (1,047,200)	(15.0%)

ADMINISTRATIVE EXPENSES - TOTAL FY 2009



MATERIALS AND MAINTENANCE EXPENSES - TOTAL

	FY 2007	FY 2008		FY 2009	Budget	%
	Actual	Budget	Estimated	Budget	Variance	
Materials and Maintenance						
Fuel and Oil	\$ 418,765	\$ 597,000	\$ 508,832	\$ 382,500	(214,500)	(35.9%)
Meters and Materials	322,038	314,400	344,203	148,500	(165,900)	(52.8%)
Fleet Parts and Equipment	159,801	163,100	153,200	164,000	900	0.6%
Infrastructure Equipment and Supplies	726,457	732,500	864,954	667,500	(65,000)	(8.9%)
Chemicals	265,909	294,000	227,476	250,000	(44,000)	(15.0%)
Safety Equipment	21,579	17,200	21,530	31,300	14,100	82.0%
Laboratory Equipment and Supplies	45,747	37,000	40,004	40,000	3,000	8.1%
Other Materials and Supplies	287,229	236,500	136,554	174,300	(62,200)	(26.3%)
Building and Grounds Materials	109,016	122,000	93,735	93,000	(29,000)	(23.8%)
Contracted Services	502,890	715,400	485,171	632,800	(82,600)	(11.5%)
Materials and Maintenance	2,859,430	3,229,100	2,875,658	2,583,900	(645,200)	(20.0%)
Sewer Charges						
Metro O&M Costs	617,686	988,800	1,034,276	1,041,900	53,100	5.4%
Spring Valley Sewer Charge	224,105	235,000	202,246	247,000	12,000	5.1%
Total Sewer Charges	841,791	1,223,800	1,236,522	1,288,900	65,100	5.3%
Total Materials and Maintenance	\$ 3,701,221	\$ 4,452,900	\$ 4,112,180	\$ 3,872,800	\$ (580,100)	(13.0%)



OPERATING EXPENDITURES BY DEPARTMENT

	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Departmental Expenditures				
Board of Directors	\$ 27,737	\$ 111,700	\$ 38,951	\$ 98,800
General Manager	1,344,001	1,485,500	1,766,341	1,768,800
General Expense	1,813,025	1,686,300	2,547,639	784,000
Administrative Services	3,212,442	3,868,200	3,224,540	3,640,100
Finance	3,783,964	3,994,100	4,023,183	4,471,600
Information Technology and Strategic Planning	2,371,027	2,705,900	2,666,776	2,819,800
Water Operations	9,651,972	11,253,200	10,858,139	11,678,900
Engineering ⁽¹⁾	2,652,979	3,305,600	2,686,961	2,954,700
Total Departmental Expenditures	24,857,147	28,410,500	27,812,529	28,216,700
Less: Overhead Allocation	(1,085,330)	(1,370,900)	(1,084,736)	(1,223,400)
Net Departmental Expenditures	23,771,817	27,039,600	26,727,793	26,993,300
Non-Departmental Expenditures				
Water Purchases	27,516,154	30,077,500	28,213,964	31,994,300
Power	2,489,978	2,804,800	2,647,885	2,780,500
Expansion Reserve	-	2,590,200	2,590,200	5,016,700
Betterment Reserve	-	3,432,900	3,432,900	-
Replacement Reserve	4,540,000	235,400	235,400	277,900
Total Non-Departmental Expenditures	34,546,132	39,140,800	37,120,349	40,069,400
TOTAL OPERATING EXPENDITURES	\$ 58,317,949	\$ 66,180,400	\$ 63,848,142	\$ 67,062,700

⁽¹⁾ Engineering, and Planning and Development Services sections combined in FY2008

OPERATING EXPENDITURES BY OBJECT

	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
Departmental Expenditures				
Labor and Benefits	\$ 15,288,326	\$ 16,470,100	17,147,031	\$ 17,958,000
Director's Fees	18,700	48,000	24,002	40,000
Travel and Meetings	158,506	270,900	184,690	239,400
Conservation and Outreach	168,831	481,800	286,240	348,000
General Office Expense	344,783	359,400	380,573	364,900
Equipment	902,185	1,018,300	1,013,411	1,052,100
Fees	2,028,053	2,058,700	2,306,990	1,452,800
Services	2,135,021	3,063,300	2,249,985	2,555,500
Training	97,772	173,100	92,693	167,600
Materials & Maintenance	2,859,430	3,229,100	2,875,658	2,583,900
Power and Utilities	12,870	14,000	14,495	15,600
Sewer Charges	841,791	1,223,800	1,236,522	1,288,900
Miscellaneous	212	-	239	150,000
Interest	667	-	-	-
Total Departmental Expenditures	24,857,147	28,410,500	27,812,529	28,216,700
Less: Overhead Allocation	(1,085,330)	(1,370,900)	(1,084,736)	(1,223,400)
Net Departmental Expenditures	23,771,817	27,039,600	26,727,793	26,993,300
Non-Departmental Expenditures				
Water Purchases	27,516,154	30,077,500	28,213,964	31,994,300
Power	2,489,978	2,804,800	2,647,885	2,780,500
Expansion Reserve	-	2,590,200	2,590,200	5,016,700
Betterment Reserve	-	3,432,900	3,432,900	-
Replacement Reserve	4,540,000	235,400	235,400	277,900
Total Non-Departmental Expenditures	34,546,132	39,140,800	37,120,349	40,069,400
TOTAL OPERATING EXPENDITURES	\$ 58,317,949	\$ 66,180,400	\$ 63,848,142	\$ 67,062,700

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BOARD OF DIRECTORS

Mission Statement

To provide save, reliable water, recycled water and wastewater services to our community in an innovative, cost efficient, water-wise and environmentally responsible manner.

Division 4



Jose Jopez
Vice President

Division 3



Gary Croucher
President

Division 2



Jaime Bonilla
Treasurer

Division 1



Larry Breitfelder

Division 5



Mark Robak

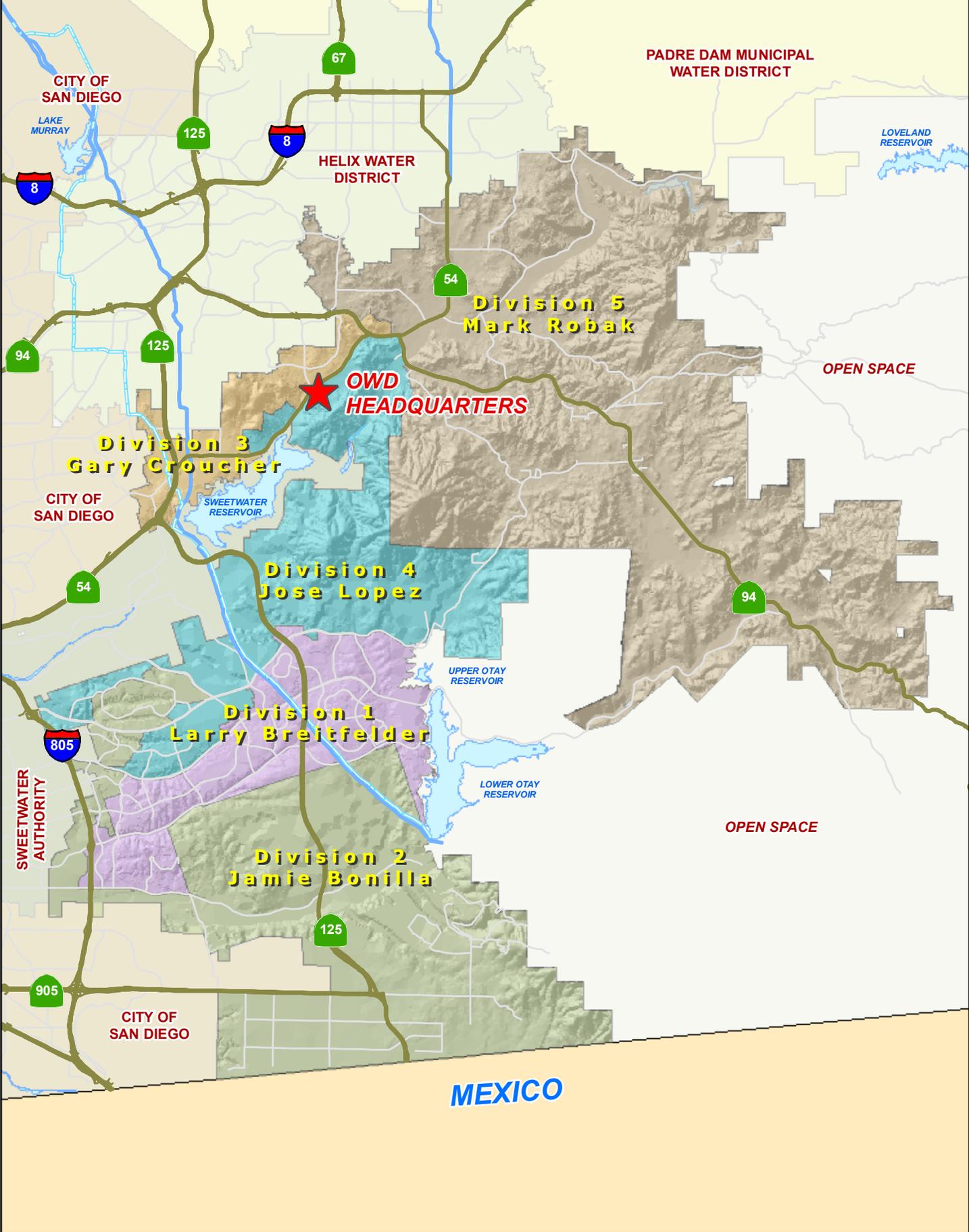
Division Title

Division No.

Board of Directors

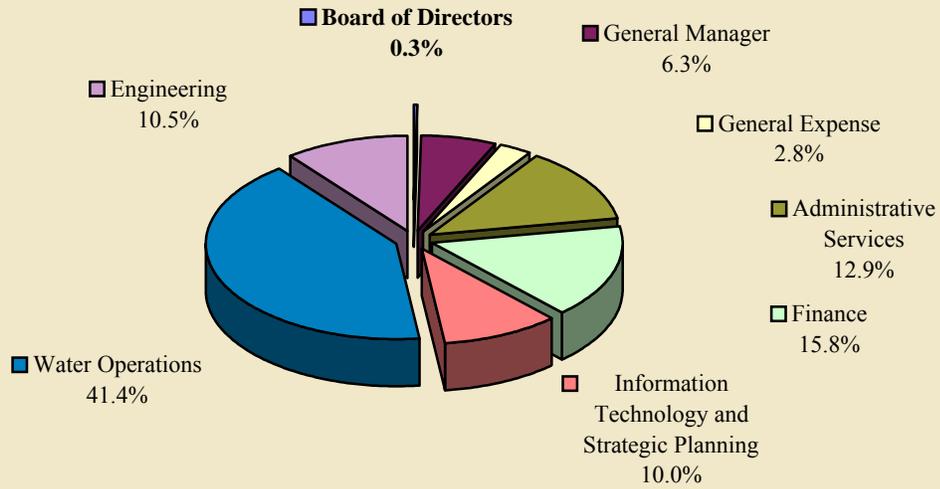
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DISTRICT BOUNDARY



BOARD OF DIRECTORS

FY 2009 Total Departmental Budget - \$28.2 Million Board of Directors - \$98,800

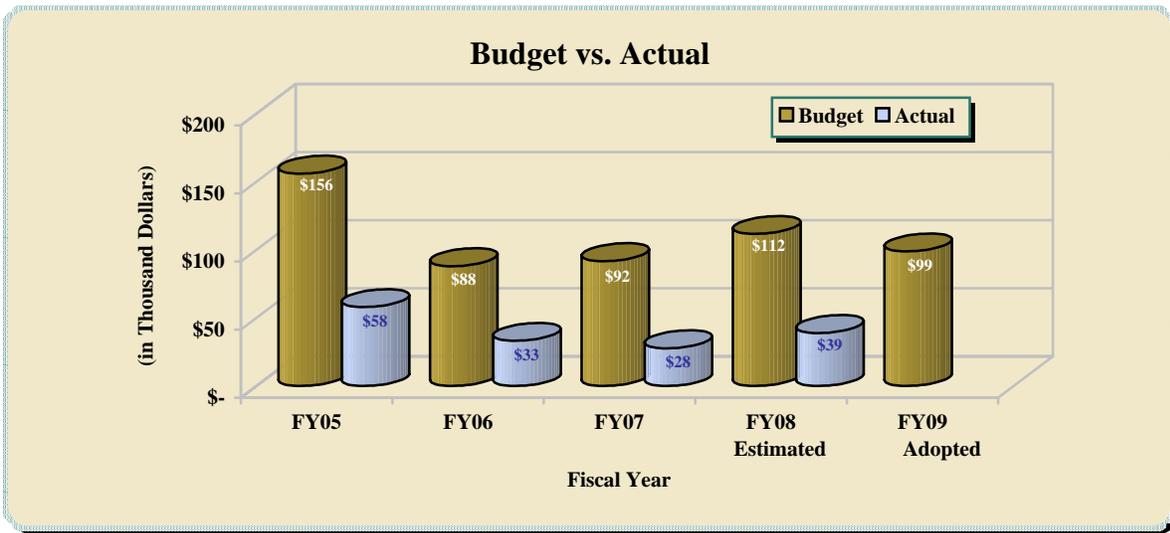


Board of Directors
TOTAL

	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
Board of Directors	\$ 27,737	\$ 111,700	\$ 38,951	\$ 98,800
TOTAL	\$ 27,737	\$ 111,700	\$ 38,951	\$ 98,800

BOARD OF DIRECTORS

Board of Directors	FY 2007		FY 2008		FY 2009
	Actual	Budget	Estimated	Budget	Budget
Benefits	\$ 1,671	\$ 40,000	\$ 2,148	\$ 40,000	\$ 40,000
Director's Fees	18,700	48,000	24,002	40,000	40,000
Travel and Meetings	7,366	23,700	12,751	18,800	18,800
Total	\$ 27,737	\$ 111,700	\$ 38,951	\$ 98,800	\$ 98,800



GENERAL MANAGER

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 manner.

Key Challenges

“The key challenge for Otay is to find the best solutions that balance our requirements with the significant constraints we face. Some of these constraints are escalating cost, drought, increasing regulatory compliance and uncertainty, customer demands for improved services, and competition for supply and resources. Meeting these challenges requires dedication and a commitment to continuous improvement, and the innovative use of technologies and resources.”

General Manager’s Vision

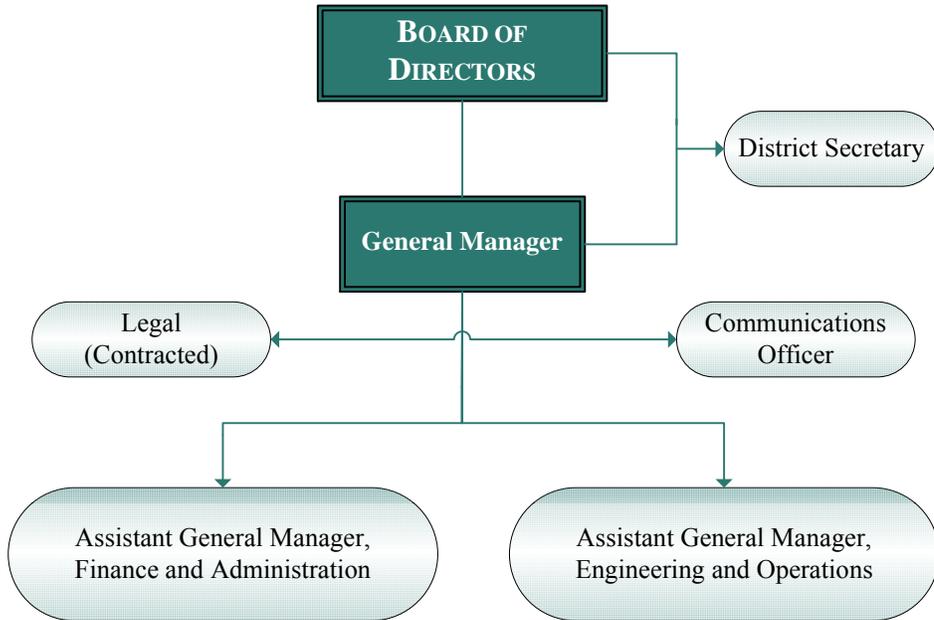
“A District that is at the forefront in innovations to provide water services at affordable rates, with a reputation for outstanding customer service.”

- Mark Watton



<u>Division Title</u>	<u>Division No.</u>
General Manager	1111
Assistant General Manager, Finance and Administrative Services ...	2111
Assistant General Manager, Engineering and Operations	3111

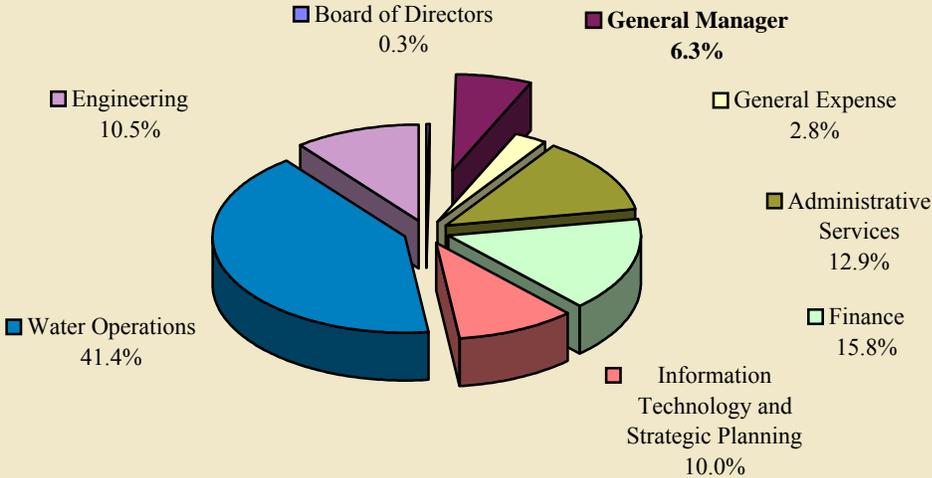
DISTRICT POSITION COUNT - 169
GENERAL MANAGER DEPARTMENT - 6



Personnel Count	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
General Manager	1	1	1
Assistant General Manager, Finance and Administration	1	1	1
Assistant General Manager, Engineering and Operations	1	1	1
District Secretary	1	1	1
Assistant District Secretary	1	1	1
Communications Officer	1	1	1
Total	6	6	6

GENERAL MANAGER

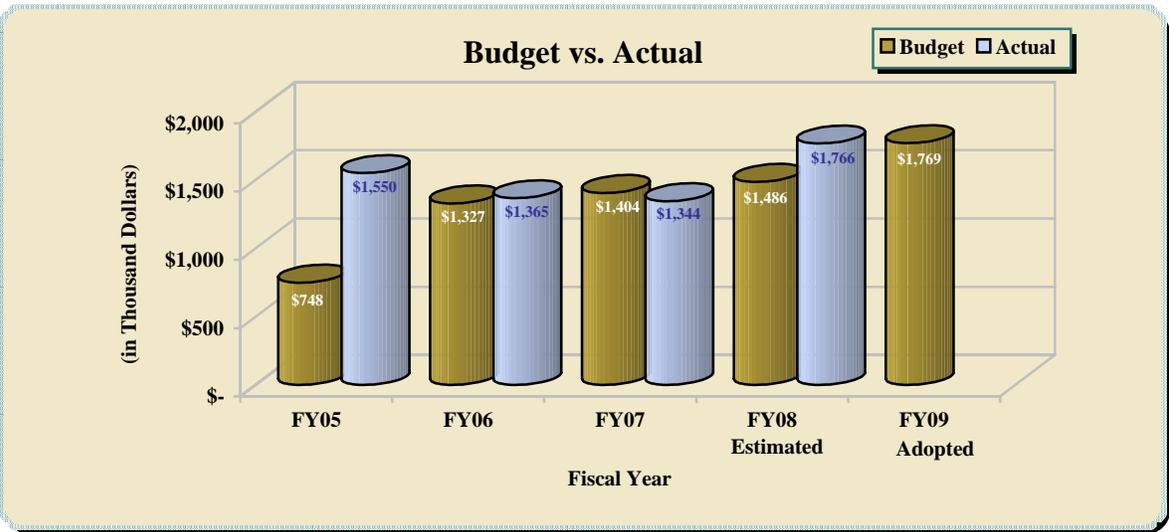
FY 2009 Total Departmental Budget - \$28.2 Million
General Manager - \$1,768,800



	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
General Manager	\$ 880,208	\$ 1,017,400	\$ 1,029,403	\$ 1,056,000
Legal	6,059	-	202,545	178,300
Assistant General Manager, Finance and Administration	241,266	237,200	267,243	272,300
Assistant General Manager, Engineering and Operations	216,468	230,900	267,150	262,200
TOTAL	\$ 1,344,001	\$ 1,485,500	\$ 1,766,341	\$ 1,768,800

GENERAL MANAGER

	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,059,362	\$ 1,098,600	1,419,734	\$ 1,403,400
Travel and Meetings	75,924	95,600	76,043	93,500
Conservation and Outreach	2,110	5,000	3,868	7,000
General Office Expense	19,133	8,300	27,033	9,000
Equipment	134	3,000	1,197	3,000
Fees	31,086	32,000	37,699	45,000
Services	156,040	240,500	200,488	207,000
Training	-	2,500	40	900
Miscellaneous	212	-	239	-
Total	\$ 1,344,001	\$ 1,485,500	\$ 1,766,341	\$ 1,768,800



GENERAL MANAGER

Accomplishments – Fiscal Year 2007-2008

- Adopted a new five-year Memorandum of Understanding (MOU) with employees of the Otay Water District.
- Updated and adopted a 2009 through 2011 Strategic Business Plan.
- Adopted a balanced budget for FY 2009 during challenging economic and water supply conditions.
- Adopted an updated Drought Response Conservation Program.
- Approved a ground lease and joint use agreement with the San Miguel Consolidated Fire Protection District for a Regional Training Center.
- Dedicated the micro-turbine gas-to-energy project. This energy project uses methane gas created from a closed county landfill to power the District's recycled water treatment plant.
- Continued to expand working relationships with Mexican counterparts in an effort to develop new desalination water opportunities in Mexico.
- Maintained and provided potable water, sewer, and recycled water infrastructure that are appropriate to meet current and future needs.
- Provided Leadership within CWA Board in Organization and Water Supply.
- Received numerous awards recognizing the outstanding achievements of the District including:
 - Government Finance Officers Association: Certificate of Achievement for Excellence in Financial Reporting – Comprehensive Annual Financial Report (CAFR) FY 2007/2008; and the Distinguished Budget Presentation award, Fiscal Year 2007-2008.
 - California Society of Municipal Finance Officers: the Excellence in Operating Budgeting award, Fiscal Year 2007-2008; the Meritorious in Public Communications award, Fiscal Year 2007-2008; the Meritorious in Innovation in Budgeting award, Fiscal Year 2007-2008; and the Excellence in Capital Budgeting award, Fiscal Year 2007-2008.
 - Construction Management Association of America: Distinguished Owner Honoree for 2007; and the Client of the Year award for 2007.
 - American Society of Civil Engineers – San Diego Section: Outstanding Civil Engineering Project for 2007 (presented in May 2008); and the Award of Merit for the 30-inch in diameter Recycled Water Pipeline, Dairy Mart Road to 450-1 Reservoir.
 - Municipal Information Systems Association of California: Excellence in IT Practices Award for 2006-2007 (presented in April of 2008).
 - Certificate of Recognition for Excellence in Energy Conservation for 2008 from San Diego Gas and Electric Company.

Other Recognition:

- California Assembly Certificate of Recognition presented by Assembly member Joel Anderson, April 10, 2008. In recognition of using landfill gas to power the Ralph W. Chapman Water Recycling Facility.
- Golden Watchdog of the Year Award for 2007 from the San Diego County Taxpayers Association 30-inch diameter Recycled Water Pipeline, Dairy Mart Road to 450-1 Reservoir.

ADMINISTRATIVE SERVICES

Mission Statement

To provide support to the Board of Directors, the General Manager, and, District staff to meet objectives in satisfying the needs of our customers by providing, through best management practices, the full range of employer and employee services, administrative services, risk management, and water conservation.



<u>Division Title</u>	<u>Division No.</u>
Administrative Services Chief	2211
Human Resources	2221
Purchasing and Facilities	2231
Safety and Risk Administration	2241
Water Conservation	2251

DISTRICT POSITION COUNT - 169
ADMINISTRATIVE SERVICES DEPARTMENT - 20

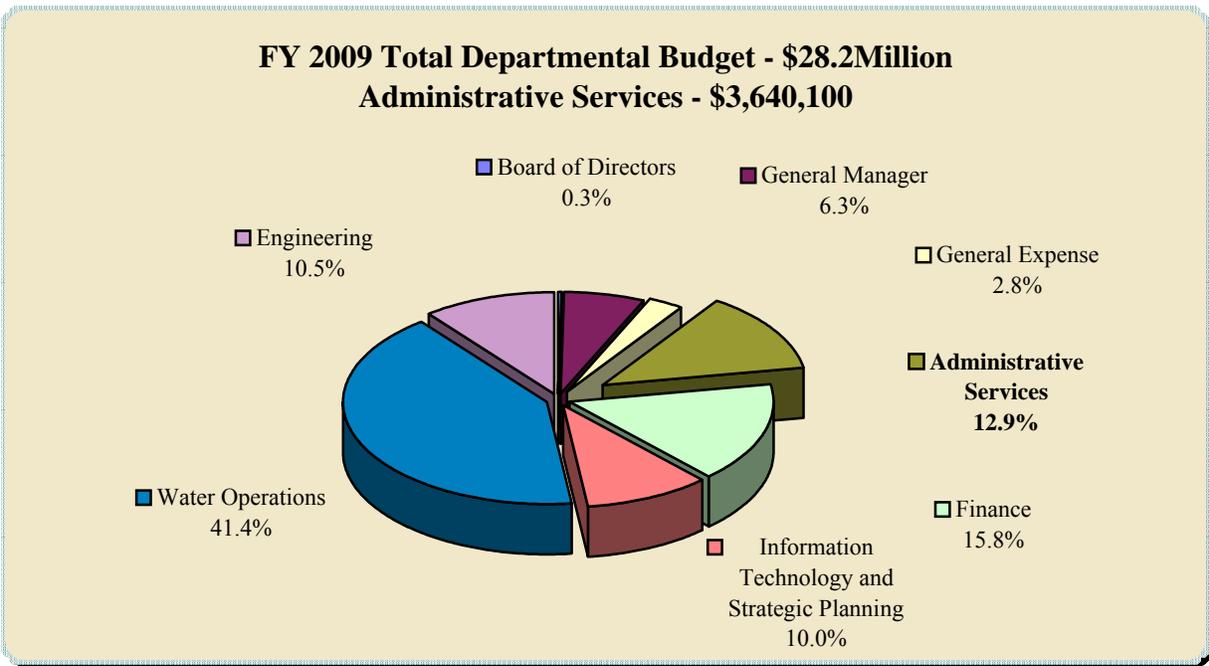


Personnel Count	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Chief, Administrative Services	1	1	1
Confidential Secretary	1	2	2
Office Assistant	1	0	0
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	2	1
Human Resources Technician	1	1	1
Purchasing & Facilities Manager	1	1	1
Buyer I and II	1	2	2
Assistant Buyer	1	0	0
Lead Warehouse Worker	1	0	0
Lead Warehouse Worker / Facilities Worker	0	1	1
Warehouse / Delivery Worker	2	2	2
Warehouse Assistant (PT)	0	0	0
Facilities Maintenance Technician	2	2	2
Facilities Maintenance Assistant	1	1	1
Safety & Security Administrator	1	1	1
Water Conservation Manager	1	1	1
Water Conservation Specialist	1	1	2
Total	19	20	20

ADMINISTRATIVE SERVICES

Department Responsibilities

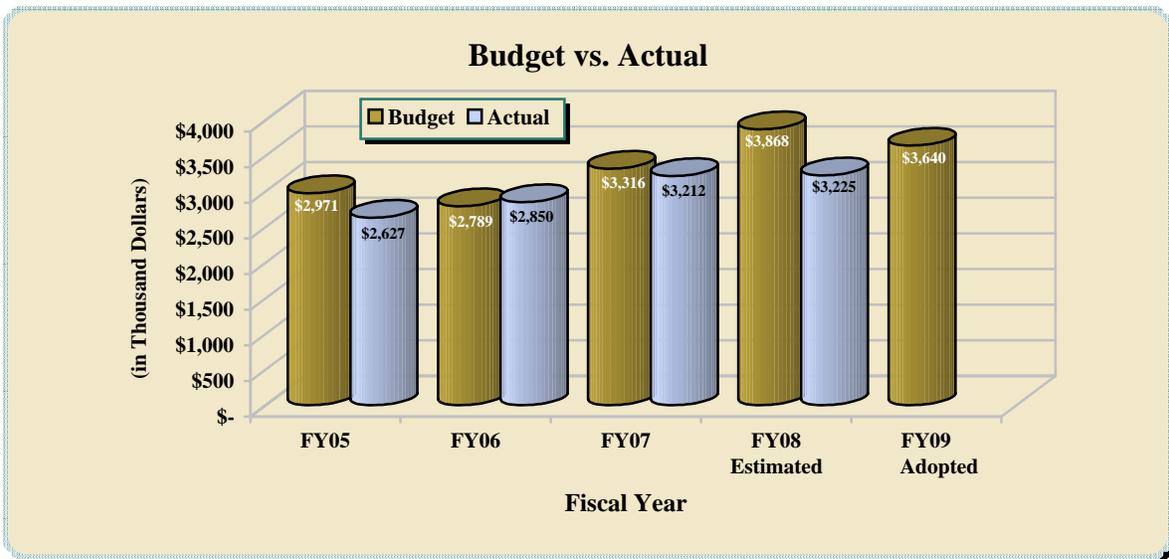
The Administrative Services Department, under the general direction of the Assistant General Manager, provides the following support services: Human Resources, Purchasing and Facilities, Safety and Risk Administration, and Water Conservation. It also coordinates assigned activities with other District departments and outside agencies, and provides highly responsible and complex administrative support for the District, General Manager and Board of Directors.



	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
Administrative Chief	\$ 302,854	\$ 370,700	\$ 366,778	\$ 397,400
Human Resources	863,138	941,000	693,278	799,400
Purchasing and Facilities	1,399,735	1,586,600	1,417,751	1,520,300
Safety and Security	238,666	226,600	188,515	217,400
Water Conservation	408,049	743,300	558,218	705,600
TOTAL	\$ 3,212,442	\$ 3,868,200	\$ 3,224,540	\$ 3,640,100

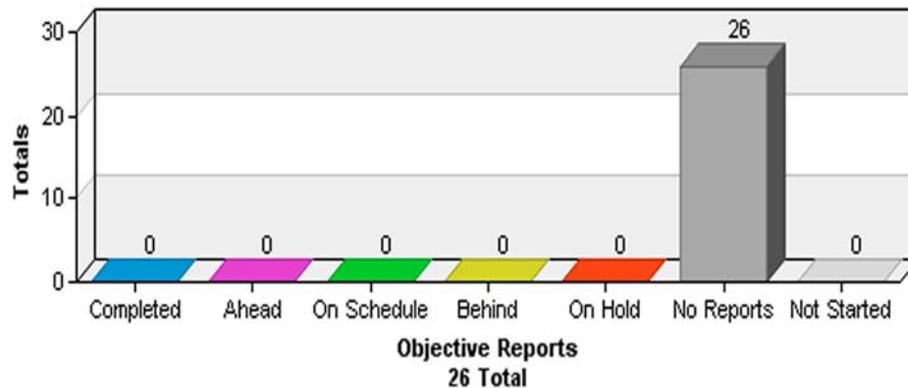
ADMINISTRATIVE SERVICES

	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,815,729	\$ 2,052,800	1,990,684	\$ 2,226,600
Travel and Meetings	12,525	23,800	25,314	21,700
Conservation and Outreach	166,721	476,800	282,372	341,000
General Office Expense	113,525	115,400	125,918	132,800
Equipment	113,626	111,000	93,824	94,600
Fees	5,451	7,500	8,564	7,500
Services	520,185	446,400	293,482	330,600
Training	72,629	126,600	80,557	126,400
Materials & Maintenance	379,181	493,900	309,330	343,300
Power and Utilities	12,870	14,000	14,495	15,600
Total	\$ 3,212,442	\$ 3,868,200	\$ 3,224,540	\$ 3,640,100



ADMINISTRATIVE SERVICES – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2008-2009



Object Legend:

-  Scorecard
-  Strategy
-  Goal
-  Objective

Objective Status Legend:

- Complete
- Ahead of Schedule
- On Schedule
- Behind Schedule
- On Hold
- No Reports
- Not Scheduled to Start Yet

 Scorecard
Customer

 Strategy: Educate our customers on important water related matters.

 Goal: Expand the District’s Water Conservation Programs to maximize District-wide water conservation.

 Objectives:

- 1.2.1.1 ● Promote and encourage adoption of conservation practices for new construction within District service territory.
- 1.2.1.2 ● Participate in the revision of the 14 water conservation Best Management Practices and prepare to implement those that are locally cost-effective.

 Goal: Maximize recycled water use and public knowledge.

 Strategy: Help shape the water industry’s direction.

 Goal: Legislative and political influence for District programs.

 Objectives:

- 1.3.1.1 ● Continue to actively participate in County Water Authority, Metropolitan Water District of Southern California, state policy making and pending legislative review and comment.
- 1.3.1.2 ● Promote enhancements to city, county and state water conservation requirements and implement appropriate BMPs (political side).

 Goal: Optimize the District’s water industry participation.

 Strategy: Maximize our customer’s satisfaction.

 Goal: Effectively use multi-channel communications.

 Objectives:

- 1.1.2.7 ● Written publications – develop and effective program for producing new customer communications, including drought related communication. Evaluate bi-lingual options.
- 1.1.2.8 ● Develop a comprehensive community outreach plan and materials to target specific community stakeholders with additional information or presentations on drought, recycled water, and water conservation.

 Goal: Listen to our customers

 Objective:

- 1.1.1.1 ● Capture customers’ attitude and awareness through a repeatable customer survey program.

 Scorecard	Financial
---	-----------

 Strategy: Develop a long-term financial planning program.

 Goal: Conduct financial threat assessment for growth, water availability, inflation and other revenue sources.

 Goal: Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy, and drought uncertainties.

 Objective:

- 2.1.1.1 ● Facilities and staffing plan needs.

 Goal: Recalculate all capacity and annexation fees with new rehabilitation and repair program.

 Strategy: Optimize all revenue streams.

 Goal: Modify existing rate structures.

 Scorecard	Business Processes
---	--------------------

 Strategy: Implement industry best practices for utility development.

 Objective:

- 3.1.1.2 ● Update District’s Drought Management Plan including actions for enforcement.

 Goal: Recycled water.

 Goal: Sewers.

 Strategy: Improve financial analysis and reporting.

 Goal: Improve cost per unit reporting.

 Goal: Improve the efficiency and effectiveness of District-wide reporting.

 Strategy: Optimize the District's operation efficiency.

 Goal: Improve the efficiency of business processes.

 Objectives:

3.2.5.2 ● Evaluate web-based employee performance reviews.

3.2.5.5 ● Automate application process.

 Goal: Increase productivity through improved field efficiency.

 Goal: Minimize the District's total life cycle asset costs.

 Goal: Optimize disaster preparedness.

 Objectives:

3.2.6.1 ● Review/consolidate the District's Disaster Preparedness Program.

3.2.6.2 ● Update security assessment and implement technology recommendations.

3.2.6.3 ● Evaluate and make recommendations regarding Environmental Health, Emergency Preparedness, and Safety Management System.

 Goal: Optimize the use of existing technologies.

 Goal: Update the District's IT Strategic Plan.

 Scorecard	Learning and Growth
---	---------------------

 Strategy: Results oriented workforce.

 Goal: Community Involvement/District outreach.

 Objective:

4.1.7.1 ● Optimize community involvement throughout the District.

 Goal: Hire the "best."

 Objectives:

4.1.2.1 ● Review and update classification plan and revise critical areas.

4.1.2.2 ● Review and revise marketing strategy and recruiting tools.

 Goal: Knowledge Management.

 Goal: Performance Management.

 Objective:

- 4.1.5.1  Update and expand annual review process to include greater emphasis of the Strategic Plan objectives and performance measures and understanding of career goals and how they may relate to the District's Succession Plan.

 Goal: Retain dedicated workforce.

 Objectives:

- 4.1.1.1  Evaluate effective communication tools throughout the Organization.
- 4.1.1.2  Evaluate the Pay-for-Performance program.
- 4.1.1.3  Evaluate the Employee Recognition program.
- 4.1.1.4  Access findings of 2008 employee survey.
- 4.1.1.5  Conduct employee survey.

 Goal: Staff Development.

 Objectives:

- 4.1.3.1  Develop and identify required and desired District-wide training for all classifications.
- 4.1.3.2  Develop and maintain a formal program to track employee training.

 Goal: Workforce Management.

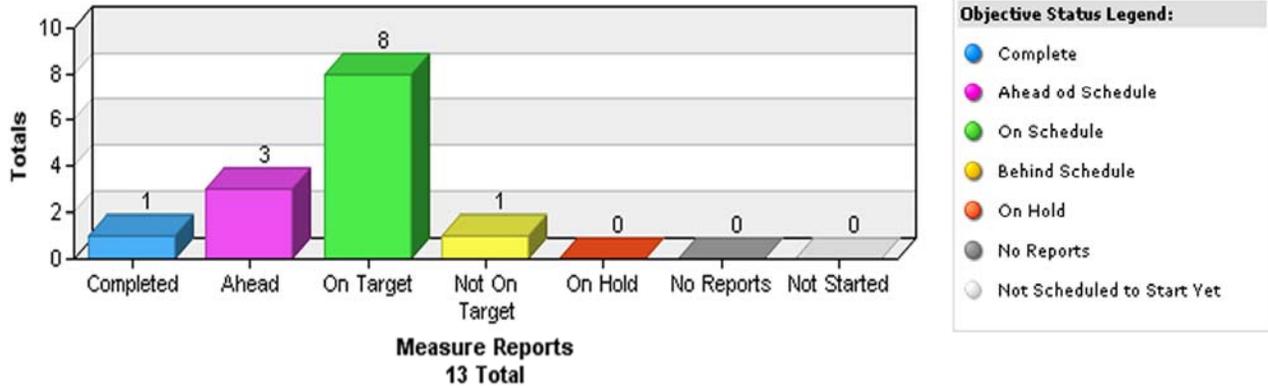
 Objective:

- 4.1.4.1  Identify core elements of Succession Planning that can be tailored to the District's needs.

Note: See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

ADMINISTRATIVE SERVICES PERFORMANCE MEASURES

Fiscal Year 2007-2008



Strategic Plan FY 2006-2008

Activity/Criterion	Fiscal Year 2005-2006 Actual	Fiscal Year 2006-2007 Actual	Fiscal Year 2007-2008	
			Target	Actual
Garden Awareness - measures the customer awareness of the garden	N/A	47.0%	50.0%	44.0%
Customer Satisfaction - measures the level of overall customer satisfaction with the District	N/A	90.0%	90.0%	93.0%
Industry Papers and Publications - measures the number of industry papers and presentations to industry	N/A	5 per year (cumulative)	5 per year (cumulative)	100.0%
Public Relations Plan Execution - measures implementation of public outreaches, 50th anniversary, and recycled water outreach plans	N/A	1.0	90.0% above	100.0%
Blanket Order Activity - percentage of material purchases purchased via blanket purchase order	16.9%	16.1%	15% or Greater	16.6%
Inventory Accuracy - actual/recorded inventory	99.8%	99.8%	97.0%	99.9%
Total Water Saved - estimate of water saved per year through conservation programs (voucher programs and landscape surveys)	94.0%	88.0%	100.0%	102.0%
Training Hours per Employee - measures the quantity of formal training utility employees are actually completing	N/A	11.0 per quarter	9.3 per quarter	43.7%

Turnover Rate - annual percentage of voluntary terminations (excludes retirement)	9.9%	13.6%	10% per year	3.1%
Time to Fill - number of recruitments on time/total number of recruitments	100.0%	95.7%	90.0%	93.0%
Safety Training Program - a minimum of 8 safety training programs of which 90% of field employees attend. Supervision will be required to ensure that their staff has attended the classes as provided and track their employee's status.	N/A	100%	19 per quarter (cumulative)	171.0%
H&S Severity Rate - quantifies the rate of employee days lost from work due to illness or injury	6	105	4 or less per year	142.5%
Service Connections per FTE - ratio of number of customers to Full -Time Equivalent	274	276.3%	Greater than 217	280.8%

Strategic Plan FY 2009-2011		
** I.D. Number	Activity/Criterion	Fiscal Year 2008-2009 Target
1.1.1	Customer Satisfaction - Measures the level of overall customer satisfaction with the District. Survey is conducted on an annual basis. Formation of survey begins in Q1. Actual survey measures calendar year (January-December). Currently reported quarterly.	90.0%
1.3.2	Total Water Saved - Estimate of water saved per year through conservation programs	120.0%
1.4.3	H&S Severity Rate - Quantifies the rate of employee days lost from work due to illness or injury	54.5%
1.4.4	Turnover Rate - Annual number of voluntary terminations (excludes retirement)	8.0%
1.4.5	Training Hours Per Employee - Measures the quantity of formal training utility employees are actually completing. This indicator is expressed as the number of formal training hours per employee per year.	37.4%
1.2.44	Blanket Order Activity - Percentage of material purchases acquired via blanket POs	15.0%

** See the Balanced Scorecard on pages 8-12 to locate individual performance measures.

ADMINISTRATIVE SERVICES

Accomplishments – Fiscal Year 2007-2008

Human Resources

- Implemented a five-year labor agreement which included executing the results of a District-wide compensation study, updating Employee Handbooks, and training all employees regarding the changes.
- Facilitated a smooth transition of health, dental, life, and flexible benefits carriers ensuring that all employees and retirees were well informed of the changes. This was done by providing assistance, written communication materials, employee informational meetings, and answering employee questions.
- Conducted a Request for Proposal (RFP) process to obtain the services of a consultant to develop a repeatable employee survey program. Worked with the consultant to draft a comprehensive employee survey, administered the survey, and the consultant compiled the results which will be presented in FY09.
- Coordinated and received all credit for the Special District Risk Management Association Credit Incentive Program. The credit totaled \$96,466 for Property and Liability and Workers' Compensation premiums.
- Researched and implemented a District-wide Employee Wellness Program.

Water Conservation

- Funded over 160,000 square-feet of artificial turf (two football fields) at two high schools within the District; in part through a grant from the U.S. Bureau of Reclamation.
- Funded 32 residential Smart Controllers rebates through our pilot rebate program and 73 through the commercial smart landscape voucher program
- Funded the removal of turf grass with over 24,000 square feet of artificial turf grass at single-family homes in the last three months of the fiscal year.
- Funded 1,546 residential clothes washer vouchers, a new programmatic high since the program began in 1994.
- Conducted over 70 residential water use surveys.
- Funded large landscape audits involving over 28 acres of irrigated landscape.
- Increased the District's annual active water conservation savings figure another 158 acre-feet to 1,403 acre-feet of water saved due to many of the activities outlined above.

Purchasing

- Completed inventory of minor asset tracking using Radio Frequency Identification (RFID).
- Implemented upgrades to heating, ventilating, and air conditioning (HVAC) systems.
- Assisted IT in creating the CO-LO data center in Operations. This is a back-up data center to accommodate disaster recovery in the event that our primary system is disabled.
- Developed an outline for Long-term Facilities and Space Planning.

Safety and Security

- Implemented and coordinated an Emergency Operations Center (EOC) for Firestorm 2007. Debriefed activities of the EOC and implemented recommendations.
- Restored Habitat Management Area damaged by Firestorm 2007.
- Updated the CalARP Program for the Treatment Plant-Risk Management Program (RMP), Process Safety Management (PSM), and Seismic Analysis.
- Hazwooper Team – Updated training requirements, medical certificates, equipment inventory, and team organization.

FINANCE

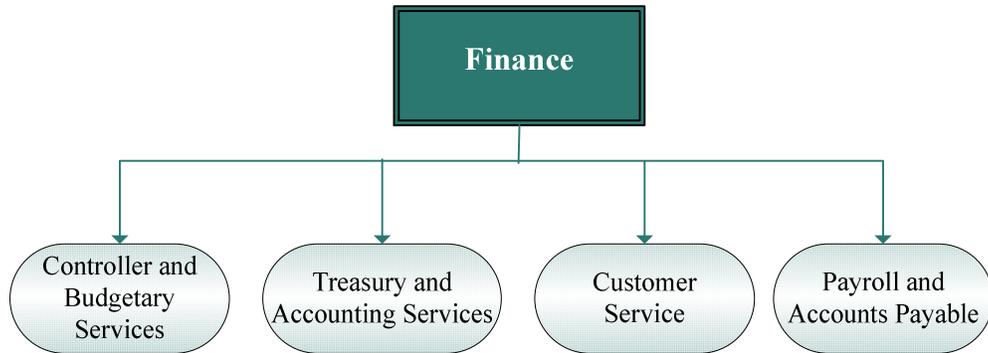
Mission Statement

To provide effective tracking of all financial impacts of the District's activities. Information is efficiently compiled and verified in accordance with regulatory requirements and is provided to management, the public, the Board, and other governing bodies in order to support quality decision making. The department's mission is also to safeguard District funds, pay all District financial obligations, and provide internal and external customers with prompt, reliable service and information.



<u>Division Title</u>	<u>Division No.</u>
Finance Chief	2311
Controller and Budgetary Services	2321
Treasury and Accounting Services	2331
Customer Service	2341
Payroll and Accounts Payable	2251

DISTRICT POSITION COUNT - 169
FINANCE DEPARTMENT - 37

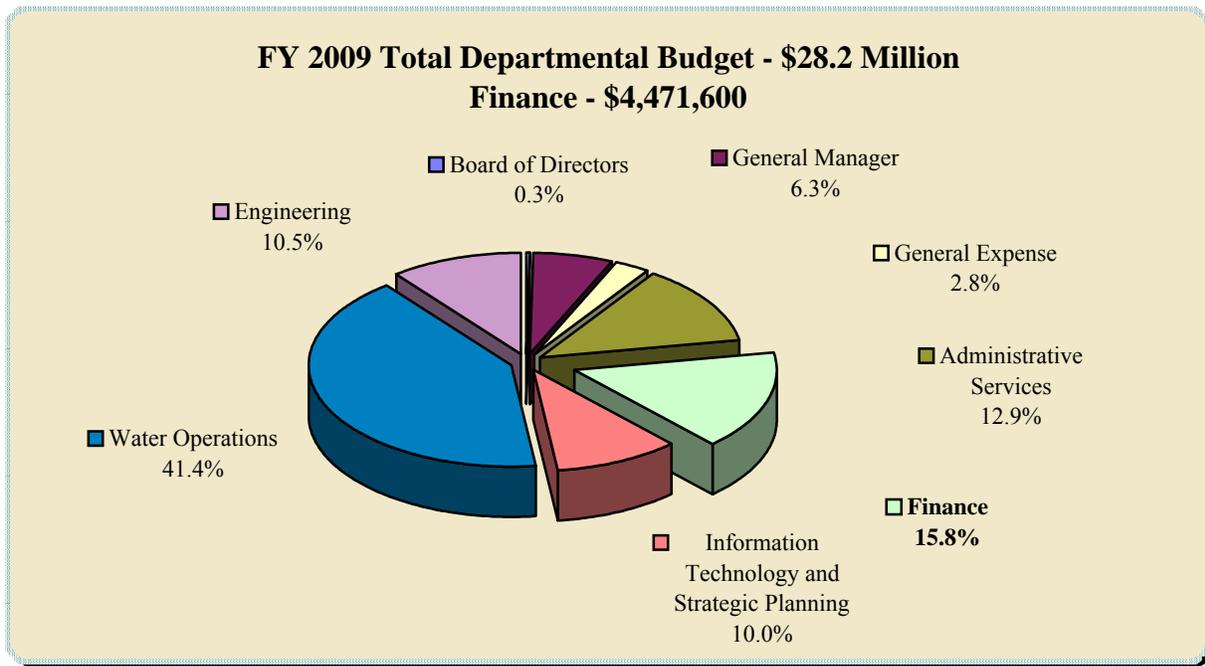


Personnel Count	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Secretary (Part-Time)	0	1	1
Finance Manager, Treasury and Accounting	1	1	1
Finance Manager, Controller and Budget	1	1	1
Finance Supervisor, Payroll and A/P	1	1	1
Customer Service Manager	1	1	1
Customer Service Supervisor	1	1	2
Senior Accountant	4	4	4
Accountant	4	4	4
Payroll Technician	1	1	1
Accounting Assistant	2	2	2
Senior Customer Service Representative	0	2	2
Customer Service Representative I, II and III	9	8	8
Lead Customer Service Field Representative	1	1	1
Customer Service Field Representative I and II	6	6	6
Office Assistant	0	0	0
Office Assistant (Part-Time)	1	0	0
Total	35	36	37

FINANCE

Department Responsibilities

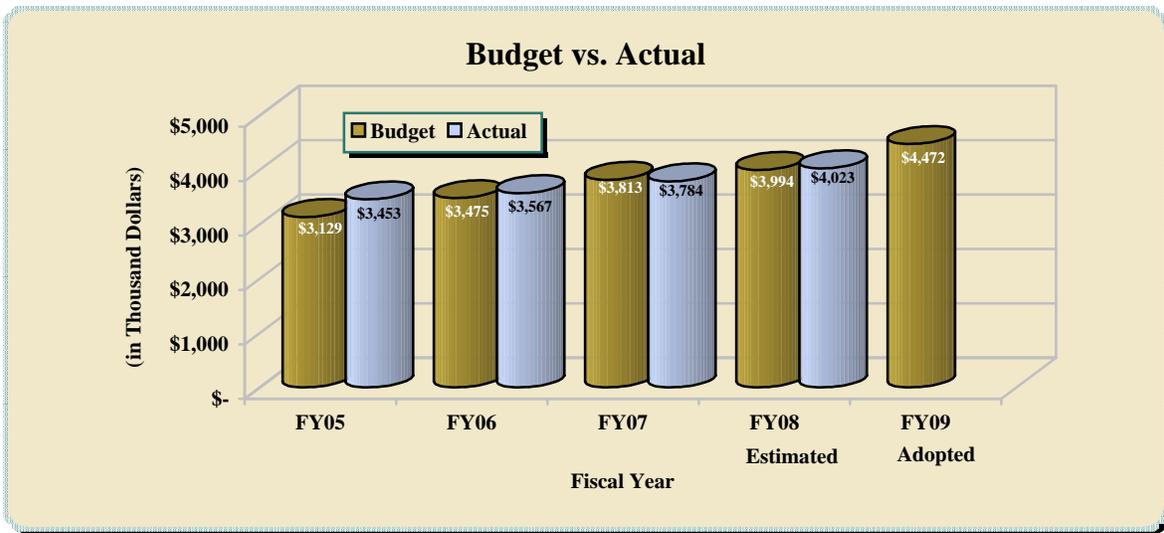
The Finance and Accounting Department, under the general direction of the Assistant General Manager, provides the following support services: Controller and Budgetary Services, Treasury and Accounting Services, Customer Service, and Payroll and Accounts Payable; ensures District's conformance with modern finance and accounting theory, practices, and compliance with applicable state and federal laws; implements financial accounting and reporting programs and practices to meet the District's fiduciary responsibilities; and provides highly responsible and complex administrative support to the District, General Manager, and Board of Directors.



	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Finance Chief	\$ 371,435	\$ 405,800	\$ 399,060	\$ 421,600
Controller and Budgetary Services	462,186	479,000	491,969	545,100
Treasury and Accounting Services	816,050	891,500	965,988	1,005,200
Customer Service	1,804,777	1,869,400	1,811,273	2,105,400
Payroll and Accounts Payable	329,516	348,400	354,893	394,300
TOTAL	\$ 3,783,964	\$ 3,994,100	\$ 4,023,183	\$ 4,471,600

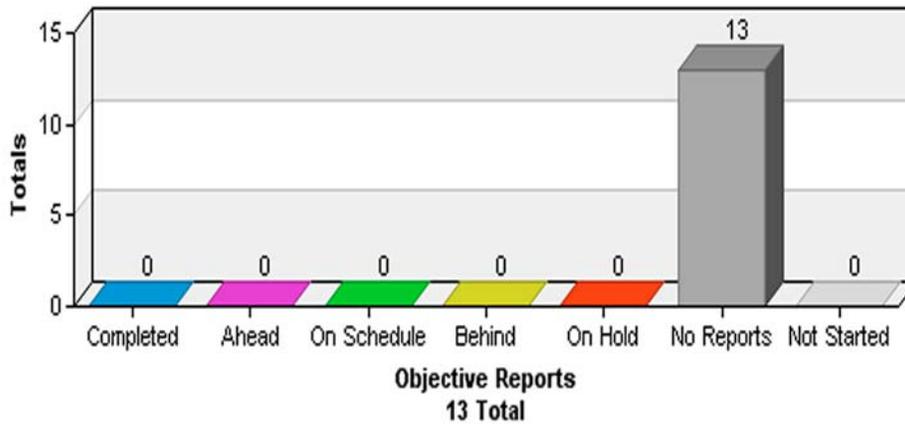
FINANCE

	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 3,088,034	\$ 3,320,300	\$ 3,347,617	\$ 3,762,300
Travel and Meetings	17,381	26,900	15,521	19,900
General Office Expense	190,826	198,600	205,088	196,800
Equipment	1,422	1,600	2,627	8,600
Fees	325,440	244,000	292,138	280,000
Services	160,861	202,700	160,192	203,500
Total	\$ 3,783,964	\$ 3,994,100	\$ 4,023,183	\$ 4,471,600



FINANCE – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2008-2009



Object Legend:

-  Scorecard
-  Strategy
-  Goal
-  Objective

Objective Status Legend:

- Complete
- Ahead of Schedule
- On Schedule
- Behind Schedule
- On Hold
- No Reports
- Not Scheduled to Start Yet

 Scorecard
Customer

 Strategy: Educate our customers on important water related matters.

 Goal: Expand the District’s Water Conservation Programs to maximize District-wide water conservation.

 Goal: Maximize recycled water use and public knowledge.

 Strategy: Help shape the water industry’s direction.

 Goal: Legislative and political influence for District programs.

 Goal: Optimize the District’s water industry participation.

 Strategy: Maximize our customer’s satisfaction.

 Goal: Effectively use multi-channel communications.

 Objectives:

1.1.2.1 ● Incoming calls – streamline and document the District’s incoming customer call processes.

1.1.2.6 ● Evaluate the most cost effective and efficient processes and tools to communicate service related issues to customers. For example: email, target mail, door hanger, etc.

 Goal: Listen to our customers.

 Objective:

1.1.1.2 ● Expand a more detailed customer complaint tracking and reporting system.

 Scorecard	Financial
---	-----------

 Strategy: Develop a long-term financial planning program.

 Goal: Conduct financial threat assessment for growth, water availability, inflation and other revenue sources.

 Objective:

2.1.2 ● Conduct financial threat assessment for growth, water availability, inflation and other revenue sources.

 Goal: Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy, and drought uncertainties.

 Objective:

2.2.1.2 ● Develop the long-term financial plan.

 Goal: Recalculate all capacity and annexation fees with new rehabilitation and repair program.

 Objective:

2.1.3 ● Recalculate all capacity and annexation fees with new rehabilitation and repair program.

 Strategy: Optimize all revenue streams.

 Goal: Modify existing rate structures.

 Objectives:

2.2.1.1 ● Simplify residential fee structures and the billing system.

2.2.1.2 ● Reduce complexity of and simplify rate structure.

2.2.1.3 ● Evaluate drought stage rates and propose changes.

2.2.1.4 ● Evaluate and improve effectiveness of bill.

 Scorecard	Business Processes
---	--------------------

 Strategy: Implement industry best practices for utility development.

 Goal: Potable water.

 Goal: Recycled water.

 Goal: Sewers.

 Strategy: Improve financial analysis and reporting.

 Goal: Improve cost per unit reporting.

 Objective:

3.3.1.1 ● Develop and measure cost per unit expenditures and forecasts.

 Goal: Improve the efficiency and effectiveness of District-wide reporting.

 Strategy: Optimize the District's operation efficiency.

 Goal: Improve the efficiency of business processes.

 Objective:

3.2.5.3 ● Enhance A/P to electronically pay bills for frequent vendors and routine bills and maximize the use of e-bills.

 Goal: Increase productivity through improved field efficiency.

 Goal: Minimize the District's total life cycle asset costs.

 Goal: Optimize disaster preparedness.

 Goal: Optimize the use of existing technologies.

 Objective:

3.2.3.3 ● Evaluate implementing a fixed network Automated Meter Reading.

 Goal: Update the District's IT Strategic Plan.

 Scorecard	Learning and Growth
---	---------------------

 Strategy: Results oriented workforce.

 Goal: Community Involvement/District outreach.

 Goal: Hire the "best."

 Goal: Knowledge Management.

 Goal: Performance Management.

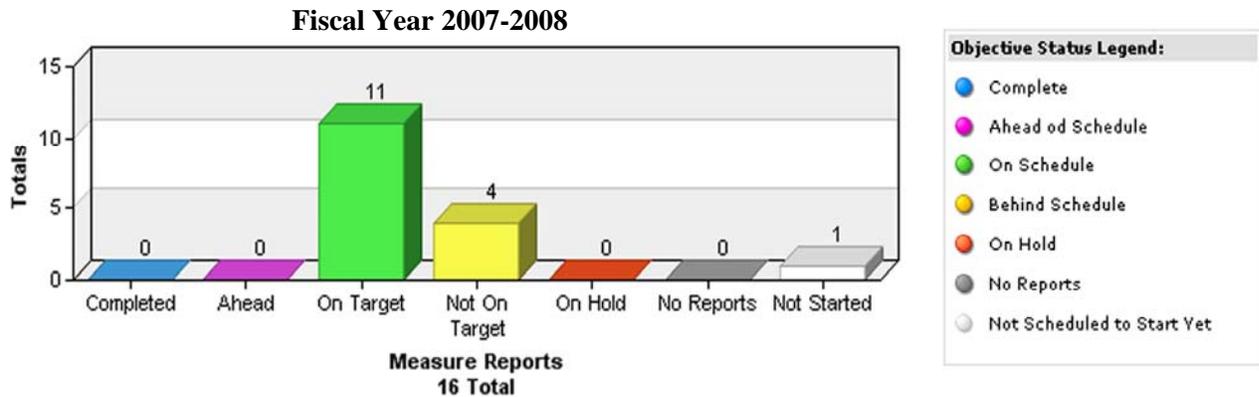
 Goal: Retain dedicated workforce.

 Goal: Staff Development.

 Goal: Workforce Management.

Note: See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures

FINANCE PERFORMANCE MEASURES



Strategic Plan FY 2006-2008				
Activity/Criterion	Fiscal Year 2005-2006 Actual	Fiscal Year 2006-2007 Actual	Fiscal Year 2007-2008	
			Target	Actual
Alternative Payments - number of non-traditional payments	17.8%	21.0%	20.0% of total number of payments	29.8%
Customer Service Cost per Account (QualServe) - measures the amount of resources a utility applies to its customer service program	N/A	\$50	\$55	\$52
Meter Reading Accuracy - number of misreads/total number of meter reads	100.0%	100.0%	100.0%	99.9%
Answer Rate - percentage of calls as a measure of all calls received	94.3%	96.0%	97.0% or Greater	96.1%
Write-Offs - write-offs over water sales per month	0.03%	0.01%	Less than 0.5%	Less than 0.01%
Debt Coverage Ratio - measures level of debt service	N/A	0.1%	.20% or less	0.1%
Reserve Level - measures the District's reserve levels against the plan	N/A	100.0%	100.0%	100.0%
Billing Accuracy - number of incorrect bills reissued or adjusted	N/A	9.7%	9.3%	14.5%

Water Rate Ranking - District's average customer bill as compared to other agencies in San Diego County	N/A	39.0%	Less than 50.0%	33.0%
Sewer Rate Ranking - District's average customer bill as compared to other agencies in San Diego County	63.0%	50.0%	Less than 50.0%	46.6%
Return on Investments - average rate of return on investments	83.0%	100.1%	Meet or exceed 100% of LAIF	105.4%
Overtime Percentage - comparing actual to budgeted overtime to monitor costs	70.7%	153.0%	Less than 100.0%	102.3%
O&M Cost per Account - operation cost for O&M per account (per customer)	\$408 per customer	\$433 per customer	\$387 per customer	\$479
Automatic Meter Reading Program (AMR) - percentage of AMR with radio reads used for billing	N/A	89.0% of meters in ground	75.0% of meters in ground	82.0%
Unaccounted for Water Loss - percentage for unaccounted water	6.0%	3.6%	5% or less	2.7%
System Renewal/Replacement Rate - this indicator quantifies the rate at which the utility is meeting its individual need for infrastructure renewal and replacement	N/A	30.7%	4.5%	0.0%

Strategic Plan FY 2009-2011		
** I.D. Number	Activity/Criterion	Fiscal Year 2008 2009 Target
3.1.20	Answer Rate - percentage of calls as a measure of all calls received	97.0%
3.2.11	O&M Cost per Account (QualServe) - operation cost for O&M per account (per customer)	\$436 per customer
3.2.13	Billing Accuracy (QualServe) - Number of incorrect bills issued	99.8%
3.2.14	Overtime Percentage - comparing actual to budgeted overtime to monitor costs	100.0%
3.2.15	Sewer Rate Ranking - District's average customer bill as compared to other agencies in San Diego County	50.0%

3.2.16	Water Rate Ranking - District's average customer bill as compared to other agencies in San Diego County	50.0%
3.2.17	Debt Coverage Ratio (QualServe) - measures level of debt service	168.0%
3.2.18	Reserve Level - Measures all of the District's reserve levels against the plan	100.0%
3.3.12	Distribution System Loss (QualServe) - Percentage for unaccounted water	3.0%
3.3.19	System Renewal/Replacement Rate (QualServe) - This indicator quantifies the rate at which the utility is meeting its individual need for infrastructure renewal and replacement	24.7

** See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

FINANCE

Accomplishments 2007-2008

Controller and Budgetary Services

- Prepared a balanced budget that met the Strategic Plan and received the Government Finance Officers Association (GFOA) “Distinguished Budget Presentation Award” for the fourth consecutive year and in addition, received three awards from the California Society of Municipal Finance Officers (CSMFO) for “Excellence in Operating Budgeting,” “Meritorious in Public Communications,” and “Meritorious in Innovation in Budgeting.”
- The Capital Improvement Program (CIP) Budget received the “Excellence in Capital Budgeting Award” from the CSMFO for the third year in a row.
- Developed a Budget-at-a-Glance document to be used by Board members and management staff at public outreach events.
- Two new financial reports were developed, as part of the Strategic Plan, to enhance financial reporting, and automate reports and processes to improve efficiency. The first is the series of revenue reports and the second is an automated Water Loss report.
- Designed and implemented a new sewer billing methodology along with a water and sewer bill calculator for customers to use on the District's website to estimate their bill using a new set of rates.

Treasury and Accounting Services

- Received the GFOA award for Excellence in Financial Reporting 2006-07, for our Comprehensive Annual Financial Report (CAFR), for the fourth consecutive year.
- Maintained the investment portfolio to consistently achieve a monthly return that exceeds that of LAIF (benchmark).
- Set up an OPEB account with CALPers for retired employee health care benefits, to include the initial funding authorized by the Board and the FY-08 Annual Required Contribution (ARC).
- Completed a review of major assets for insurance with SDRMA, eliminating duplicate entries and disposed assets, and updating service capacity and current replacement costs.
- October 2007 wildfires: Worked with FEMA and the State Office of Emergency Services (OES) to obtain disaster assistance funding for costs/losses incurred due

to the fires. Also billed Ramona & Fallbrook for assistance provided by the District. Total reimbursements received: \$54,990.

- Reconciled the US/Mexico Interconnection account to assist in the billing and collection of \$740,000, as a part of the renewal of the contract with Mexico.

Customer Service

- Implemented an auto-dialer which eliminated the need for charging a contact fee and resulted in a reduction of staff time by 40 hours per month. In addition, using the auto-dialer to contact customers has resulted in a 90% contact rate up from 30% last year.
- Eliminated manual tagging with fees to customers for non-payment and replaced it with postcard mailings with no fees. This saved 10 hours of staff time per week with annual savings to customers of \$72,000.
- Installed 4,409 AMR meters this year which continues to save many hours of meter reading every month.
- Completed a review of meter reading routes and then changed or modified them to increase efficiency. This also resulted in the addition of another meter reading route to even out the workload.
- Modified the dates for customers using auto-pay by increasing payment options from 2 days per month to 5 days per month to ensure customer accounts were debited closer to their billing due date. This change positively affected over 2,000 customers.
- Restructured off-site payment center responsibilities which resulted in saving 6 hours per month of staff time.
- Increased overall customer satisfaction by 15% as measured by the survey results.
- Implemented auto-dialer calls to alert customers with higher than normal consumption with options to curb usage or check for possible leaks.
- Simplified the billing fees which support our billing rate structure and in the process eliminated over 40 fees which resulted in a faster bill processing time.
- Moving toward the one call customer resolution per issue, customers reported making 1.6 calls per issue this year as opposed to 1.8 in 2006. The percentage of customers with unresolved issues was only 7% this year down from 13% in 2006.
- Shifted the responsibility of routine billing functions from IT to Customer Service which resulted in greater control and tighter management capabilities.
- Extensive laptop training yielded greater efficiency in work done by field representatives.

Payroll and Accounts Payable

- Completed bi-weekly payroll and weekly account payable check runs in a timely manner. While these processes are routine, they are highly visible and sensitive to employees and vendors.
- Completed quarterly tax returns for the District which culminated with the processing, printing, and distributing of W2s and 1099s for 2007.
- Implemented new MOU changes for healthcare coverage and insurance plans.
- Automated bi-weekly direct deposits pay check copies for employees. Instead of employees receiving a hard copy the copies are being emailed saving both time and money.

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INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

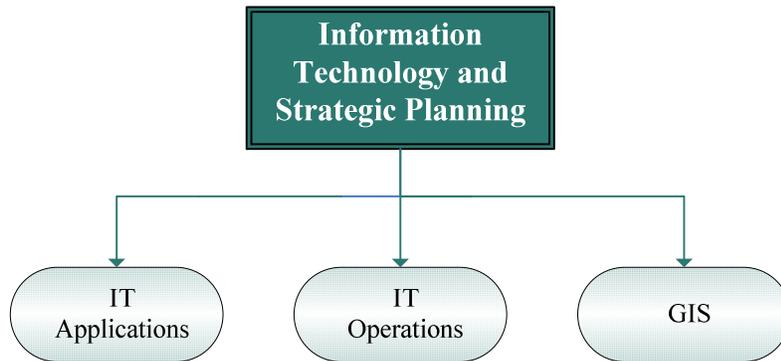
Mission Statement

To provide the best quality technology in achieving the goals of the District in serving our customers and employees.



<u>Division Title</u>	<u>Division No.</u>
IT Chief/Applications	2411
IT Operations	2321
Geographic Information System (GIS)	2331

DISTRICT POSITION COUNT - 169
INFORMATION TECHNOLOGY AND
STRATEGIC PLANNING DEPARTMENT - 13

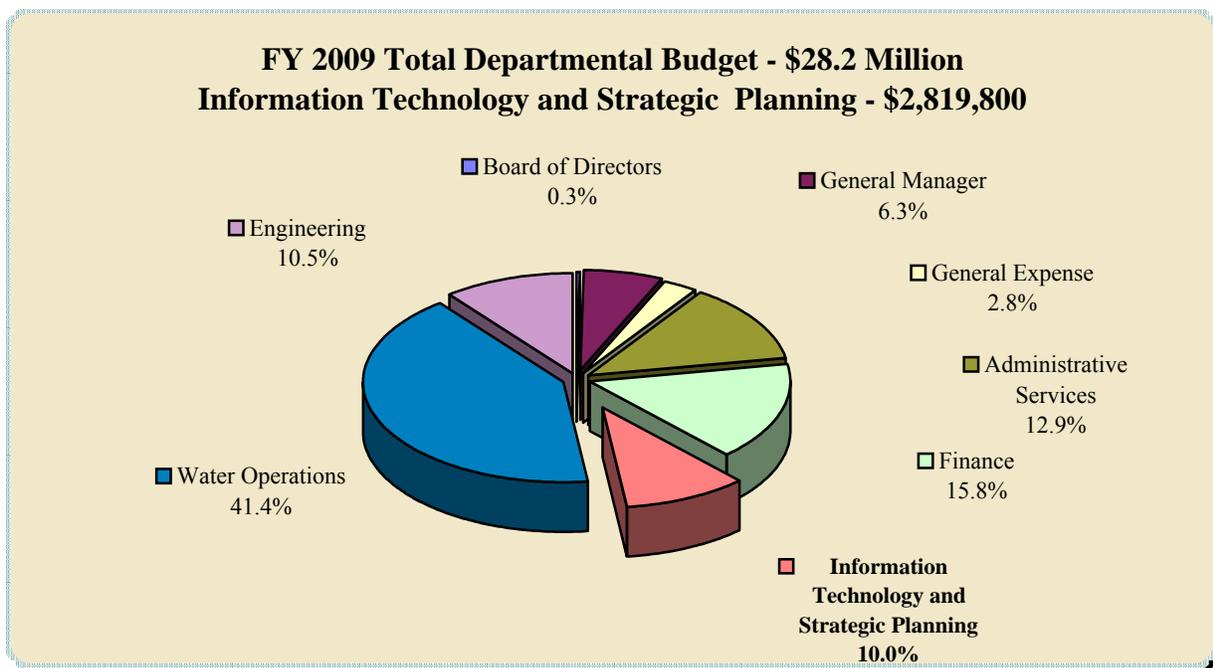


Personnel Count	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Chief Information Officer	1	1	1
GIS Manager	0	1	1
GIS Supervisor	1	0	0
IT Operations Manager	0	1	1
IT Operations Supervisor	1	0	0
GIS Programmer/Analyst	0	1	1
GIS Technician	2	2	2
Computer Systems Administrator	1	0	0
Network Engineer	0	1	1
Database Administrator	1	1	1
Business System Analyst I and II	3	3	3
Network Analyst	1	1	1
Records Assistant	1	1	1
Program and Systems Support Analyst	1	0	0
Total	13	13	13

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Department Responsibilities

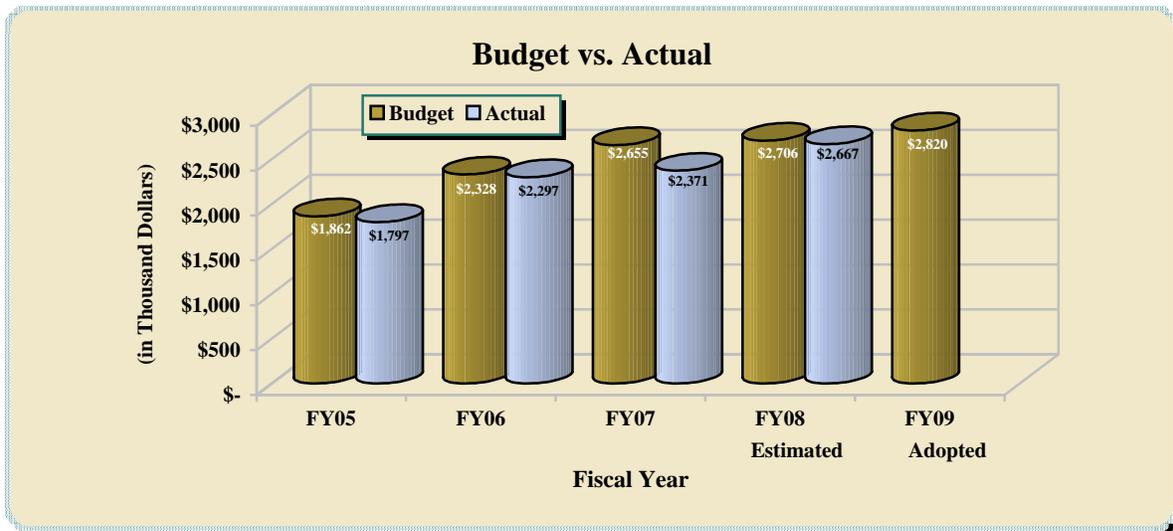
The Information Technology and Strategic Planning Department, under the general direction of the Assistant General Manager, provides the following support services: development and implementation of information technology; District's Strategic Planning Process, including the development of long-term strategic initiatives, and defining performance measurement metrics; information system support to the District and provides highly responsible and complex administrative support to the District, General Manager, and Board of Directors.



	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
IT Chief/Applications	\$ 663,364	\$ 800,800	\$ 826,727	\$ 878,000
IT Operations	1,405,784	1,370,600	1,315,667	1,378,300
Geographic Information System	301,878	534,500	524,382	563,500
TOTAL	\$ 2,371,027	\$ 2,705,900	\$ 2,666,776	\$ 2,819,800

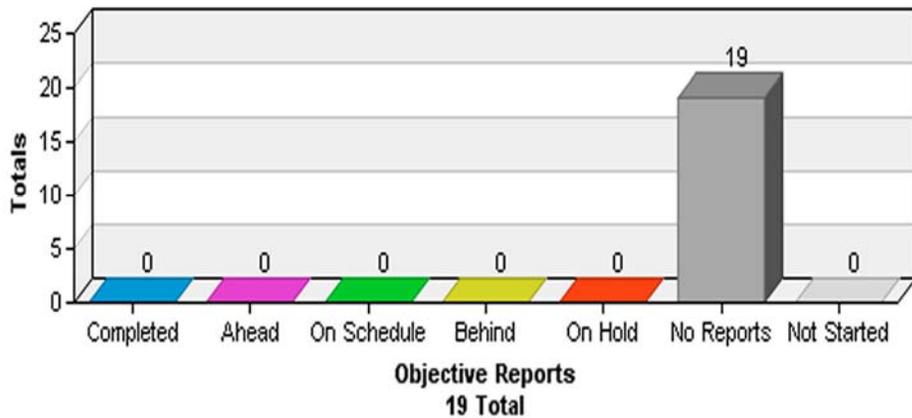
INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

	FY 2007	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 1,233,518	\$ 1,572,400	\$ 1,558,653	\$ 1,693,100
Travel and Meetings	10,716	19,400	7,366	18,100
General Office Expense	6,613	10,000	6,732	6,800
Equipment	718,690	825,900	871,909	862,600
Services	382,713	249,700	215,174	213,500
Training	18,776	28,500	6,942	25,700
Total	\$ 2,371,027	\$ 2,705,900	\$ 2,666,776	\$ 2,819,800



IT – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2008-2009



Object Legend:

- Scorecard
- Strategy
- Goal
- Objective

Objective Status Legend:

- Complete
- Ahead of Schedule
- On Schedule
- Behind Schedule
- On Hold
- No Reports
- Not Scheduled to Start Yet

Scorecard Customer

Strategy: Educate our customers on important water related matters.

Goal: Expand the District’s Water Conservation Programs to maximize District-wide water conservation.

Goal: Maximize recycled water use and public knowledge.

Strategy: Help shape the water industry’s direction.

Goal: Legislative and political influence for District programs.

Goal: Optimize the District’s water industry participation.

Objectives:

- 1.3.2.1 Promote and encourage leadership opportunities for District staff in water industry committees.
- 1.3.2.2 Evaluate and implement American Water Works Peer Review for the District.

Strategy: Maximize our customers’ satisfaction.

Goal: Effectively use multi-channel communications.

Objectives:

- 1.1.2.2 Interactive voice response – enhance the usefulness of the Interactive Voice Response for better customer service across the District.
- 1.1.2.3 Auto dialer – Enhance the usefulness of the Auto dialer to efficiently notify customers of District events.
- 1.1.2.4 Web page – Evaluate and enhance the District’s web site design to allow easier use and navigation.

- 1.1.2.5 ● E-customer account – Enhance the customer’s ease of access to personalized account information including water use, payment status and historical trending.

 Goal: Listen to our customers.

	Scorecard	Financial
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 Strategy: Develop a long-term financial planning program.

 Goal: Conduct financial threat assessment for growth, water availability, inflation and other revenue sources.

 Goal: Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy, and drought uncertainties.

 Goal: Recalculate all capacity and annexation fees with new rehabilitation and repair program.

 Strategy: Optimize all revenue streams.

 Goal: Modify existing rate structures.

	Scorecard	Business Processes
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 Strategy: Implement industry best practices for utility development.

 Goal: Potable water.

 Goal: Recycled water.

 Goal: Sewers.

 Strategy: Improve financial analysis and reporting.

 Goal: Improve cost per unit reporting.

 Goal: Improve the efficiency and effectiveness of District-wide reporting.

 Objective:

- 3.3.2.1 ● Utilize SCADA to calibrate water model.

 Strategy: Optimize the District’s operation efficiency.

 Goal: Improve the efficiency of business processes.

 Objective:

- 3.2.5.1 ● Investigate using electronic signatures on staff reports, shutdowns, contracts, magazines, newsletters, reimbursements, project closeouts, etc.

 Goal: Increase productivity through improved field efficiency.

 Goal: Minimize the District’s total life cycle asset costs.

 Goal: Optimize disaster preparedness.

 Goal: Optimize the use of existing technologies.

 Objectives:

- 3.2.3.2 ● Optimize use of Voiceover Internet Protocol and unified messaging.
- 3.2.3.4 ● Optimize the use of SharePoint.
- 3.2.3.5 ● Develop optimized field use processing using integrated technology.
- 3.2.3.6 ● Assess and implement security best practices for all Otay networks.

 Goal: Update the District's IT Strategic Plan.

 Objectives:

- 3.2.2.1 ● Evaluate the long-term viability of Eden financials and billing system.
- 3.2.2.2 ● Enhance the integration of the Infrastructure Management System, Eden, Customer Information System, Supervisory Control and Data Acquisition, Geographic Information System (GIS).
- 3.2.2.3 ● Enhance existing Capital Project tracking system.
- 3.2.2.4 ● Enhance the District's data management, data update process and data architecture including enterprise standard data. Update process for ensuring GIS data is accurate.
- 3.2.2.5 ● Develop and employ the field wireless network for key facilities.



Scorecard

Learning and Growth

 Strategy: Results oriented workforce.

 Goal: Community Involvement/District outreach.

 Goal: Hire the "best."

 Goal: Knowledge Management.

 Objectives:

- 4.1.6.1 ● Update District-wide Record Management Program.
- 4.1.6.2 ● Develop information systems support for Asset Management Program.

 Goal: Performance Management.

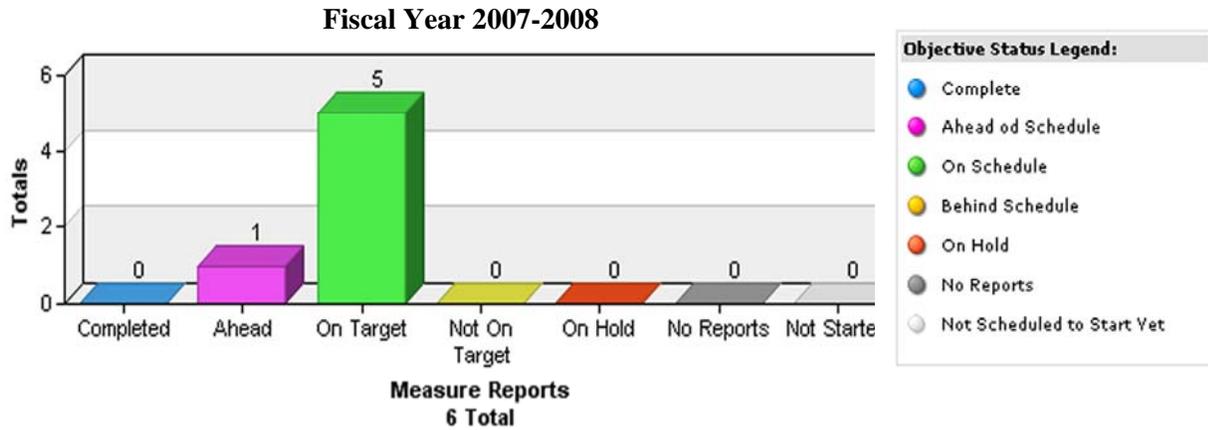
 Goal: Retain dedicated workforce.

 Goal: Staff Development.

 Goal: Workforce Management.

Note: See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance measures.

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING PERFORMANCE MEASURES



Strategic Plan FY 2006-2008				
Activity/Criterion	Fiscal Year 2005-2006 Actual	Fiscal Year 2006-2007 Actual	Fiscal Year 2007-2008	
			Target	Actual
Organizational Best Practices Index (QualServe) - summarizes the implementation of management programs or practices	N/A	27	24 or above	28
Web Site Hits - tracks the number of web site hits	N/A	24,616 per month	20,000 per month	24,961 per month
Strategic Plan Goals - percentage of Strategic Plan Goals on track	97.0%	96.0%	90.0%	93.0%
IT Help Request - percentage of help requests resolved by due date	87.7%	90.9%	90.0%	91.6%
Network - total operational network time per year	99.4%	99.0%	99.0%	99.0%
GIS Accuracy - how quickly do additions to our infrastructure get updated in the GIS system	95.0%	91.0%	90.0%	91.0%

Strategic Plan FY 2009-2011

** LD. Number	Activity/Criterion	Fiscal Year 2008-2009 Target
4.1.23	Customer Satisfaction with web site - tracks customer satisfaction with web site through survey	77
4.3.25	Network Availability - Percent of up time for network during normal business hours	99.0%
4.4.24	Web Site Hits - tracks the number of web site hits per month	11,000 per month

** See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Accomplishments – Fiscal Year 2007-2008

Strategic Planning and Applications

- Developed the FY09-FY11 Strategic Plan in conjunction with the entire senior team.
- A multi-year capital project (2003-2008) installing an Enterprise Resource Planning system (ERP) has been completed. The project included a complete replacement of the Customer Billing System, Financial Systems, and Permitting Systems which were running on an obsolete HP3000. The project also included adding a new ESRI based GIS System and Infrastructure Management System. All software is now running on a new server-based platform with a common MSSQL database environment. This effort was completed on time and 10% under budget.
- Through database optimization and software upgrades, customer bill processing time was improved by more than 100% reducing cycle time from 14 hours to less than six. This improvement significantly extends the life of our new systems.
- A complete upgrade of our special assessments process and implementation of a new Eden module realized nearly \$1.5 million in revenue from property tax bills.
- Implementation of an out-dial application has saved a full headcount in Customer Service by automating a cumbersome manual customer contact process.

IT Operations

- Otay received the Municipal Information Systems Association of California (MISAC) Award for “Excellence in IT Practices.”
- Developed a “COLO” data center. This is a back-up data center to accommodate disaster recovery in the event that our primary system is disabled.
- Revised the records document type list, records retention schedule, records process, issued a one million page scanning bid, and set the stage for full utilization of records management software.
- Added the following services or upgrades that significantly expanded capacity and services:
 - Installed both a New SAN/Tape Library and File/Print Server.
 - Upgraded backup software and process.
 - New C-Class enclosures installed in both Data Center and COLO
 - Increased internet bandwidth capacity 10 fold, eliminating a potential bottleneck for web based work

- Upgraded email spam blocking software.
- When District Headquarters was under evacuation threat during Firestorm October 2007, IT staff was able to stand up a remote Emergency Operations Center.

Geographic Information Systems (GIS)

- Completed the architecture design for the new GIS system which will provide Otay GIS users a new platform with high reliability and availability. This design will accommodate Otay's growing demand for the next 3-4 years.
- Completed the implementation of the new business process of creating "hydrant parcels" by loading GIS formatted hydrant data (including unique ID and street address) into Parcel Manager to create unique place holders for future temporary meters. This effort will cleanup the duplicated and dummy APNs and supply the customer service staff with a clear geographic location, address, and unique identifier for each service location.
- Completed the update of the District's asset list, including buildings and major facilities, to provide insurance companies with the District's latest assets for accurate assessments.
- Completed the GIS-IMS synchronization. More than 210,000 potable records, 11,000 recycled records, and 16,000 sewer records have been fully populated into Infrastructure Management System and are ready for creating Work Orders. After this mass update, the synchronization is an ongoing process.

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WATER OPERATIONS

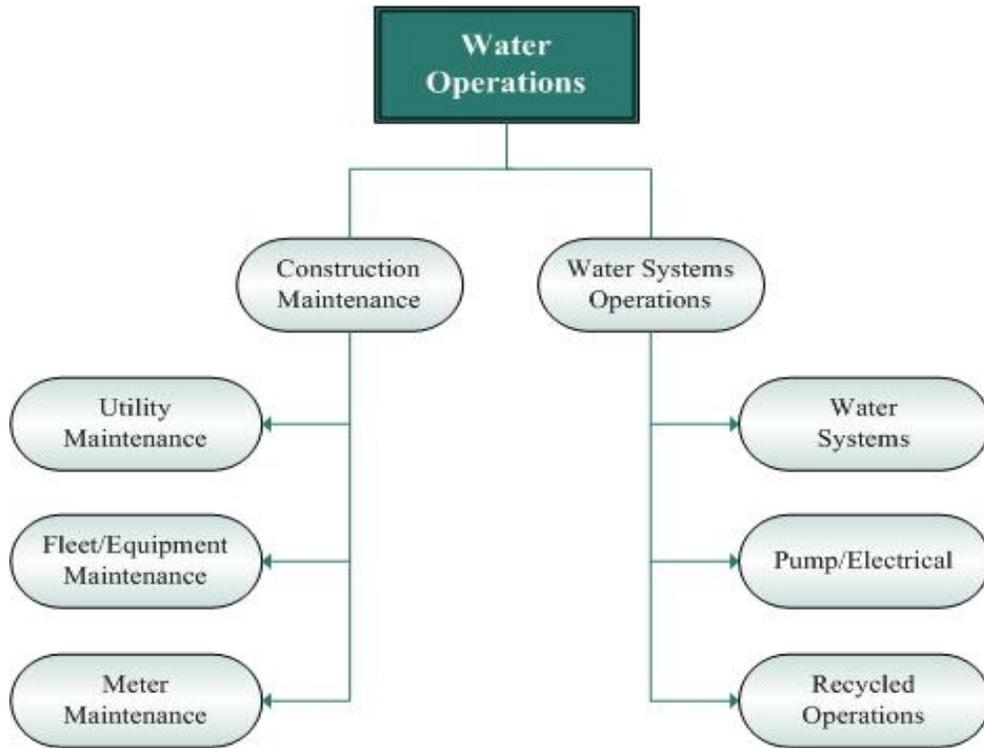
Mission Statement

To provide all operations and maintenance services in the highest possible professional, efficient, safe, and cost effective manner to all internal and external customers, and to strive to continually improve the level of service this department provides.



<u>Division Title</u>	<u>Division No.</u>
Water Operations Chief	3211
Water Systems Operations	3220
Construction Maintenance	3230

DISTRICT POSITION COUNT - 169
OPERATIONS DEPARTMENT - 70



DISTRICT POSITION COUNT - 169
OPERATIONS DEPARTMENT - 70

Personnel Count	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Chief, Water Operations	1	1	1
Executive Secretary	1	1	1
Systems Operations Manager	1	1	1
Water Systems Supervisor	2	1	1
Pump Electrical Supervisor	1	1	1
Recycled Water Systems Supervisor	0	0	1
Meter Maintenance/Cross Connect Supervisor	1	1	1
Lead Water Systems Operator	2	2	2
Water Systems Operator I, II, and III	9	9	9
Valve Maintenance Worker	1	1	1
Senior Disinfection Technician	1	2	2
Disinfection Technician	1	0	0
Senior SCADA Instrumentation Technician	2	2	1
SCADA Instrumentation Technician	0	0	1
Electrician I and II	2	2	2
Pump Mechanic I and II	2	2	2
Lead Cross Connection/ Meter Maintenance Worker	1	1	1
Meter Maintenance/Cross Connect Worker I and II	5	5	5
Construction Maintenance Manager	1	1	1
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	5	5	5
Utility Workers I and II	10	10	10
Senior Utility/Equipment. Operator	4	4	3
Equipment Shop Supervisor	1	0	0
Fleet Maintenance Supervisor	0	1	1
Equipment Shop Mechanic I and II	4	4	3
Welder II	1	1	1
Reclamation Plant Supervisor	1	1	1
Lead Reclamation Plant Operator	0	1	1
Reclamation Plant Operator	3	3	3
Water System Technician	1	0	0
Lead Recycled Water Distribution Operator	0	1	1
Recycled Water Distribution Operator	3	3	3
Laboratory Analysts I and II	2	2	2
Total	<u>71</u>	<u>71</u>	<u>70</u>

WATER OPERATIONS

Department Responsibilities

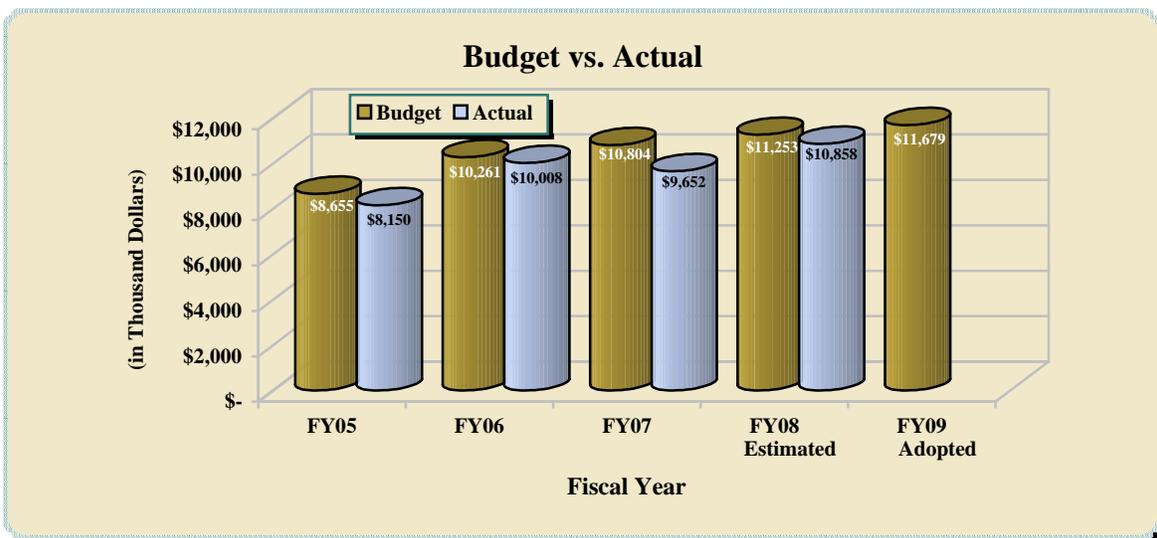
The Water Operations Department, under the general direction of the Assistant General Manager, provides the following support services: Potable and Recycled Water System Operations, Construction Maintenance, and Sewer Collection and Treatment Operations; and provides highly responsible and complex technical and administrative support to the District, General Manager, and Board of Directors.



	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
Water Operations Chief	\$ 349,382	\$ 456,400	\$ 405,756	\$ 446,300
Water Systems	4,937,801	5,924,700	5,917,659	6,748,800
Construction Maintenance	4,364,789	4,872,100	4,534,724	4,483,800
TOTAL	\$ 9,651,972	\$ 11,253,200	\$10,858,139	\$11,678,900

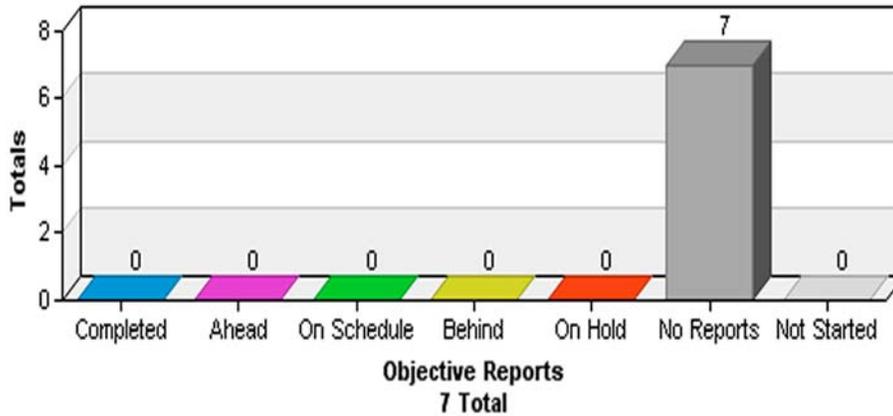
WATER OPERATIONS

	FY 2006	FY 2008		FY 2009
	Actual	Budget	Estimated	Budget
Labor and Benefits	\$ 6,105,646	\$ 6,663,800	\$ 6,539,909	\$ 7,381,100
Travel and Meetings	21,104	48,300	28,509	44,500
General Office Expense	5,903	7,000	4,863	6,000
Equipment	67,227	73,100	40,530	77,100
Fees	33,352	43,900	91,725	93,000
Services	103,732	442,600	345,289	386,500
Training	6,152	15,500	4,716	11,200
Materials & Maintenance	2,467,066	2,735,200	2,566,076	2,240,600
Sewer Charges	841,791	1,223,800	1,236,522	1,288,900
Miscellaneous	-	-	-	150,000
Total	\$ 9,651,972	\$ 11,253,200	\$10,858,139	\$11,678,900



WATER OPERATIONS – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2008-2009



Object Legend:

- Scorecard
- Strategy
- Goal
- Objective

Objective Status Legend:

- Complete
- Ahead of Schedule
- On Schedule
- Behind Schedule
- On Hold
- No Reports
- Not Scheduled to Start Yet

Scorecard
Customer

- Strategy: Educate our customers on important water related matters.
 - Goal: Expand the District’s Water Conservation Programs to maximize District-wide water conservation.
 - Goal: Maximize recycled water use and public knowledge.
- Strategy: Help shape the water industry’s direction.
 - Goal: Legislative and political influence for District programs.
 - Goal: Optimize the District’s water industry participation.
- Strategy: Maximize our customer’s satisfaction.
 - Goal: Effectively use multi-channel communications.
 - Goal: Listen to our customers.

Scorecard
Financial

- Strategy: Develop a long-term financial planning program.
 - Goal: Conduct financial threat assessment for growth, water availability, inflation, and other revenue sources.
 - Goal: Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy, and drought uncertainties.
 - Goal: Recalculate all capacity and annexation fees with new rehabilitation and repair program.

 Strategy: Optimize all revenue streams.

 Goal: Modify existing rate structures.



Scorecard

Business Processes

 Strategy: Implement industry best practices for utility development.

 Goal: Potable water.

 Objective:

3.1.1.4

- Develop and implement a proactive leak detection program to reduce distribution system water loss.

 Goal: Recycled water.

 Goal: Sewers.

 Objective:

3.1.2.2

- Develop and implement Treatment Plant enhancements including automation for remote operation and shutdown, technology improvement and upgrade of facilities.

 Strategy: Improve financial analysis and reporting.

 Goal: Improve cost per unit reporting.

 Goal: Improve the efficiency and effectiveness of District-wide reporting.

 Strategy: Optimize the District's operation efficiency.

 Goal: Improve the efficiency of business processes.

 Objectives:

3.2.5.4

- Enhance fuel tracking and reporting system.

3.2.5.6

- Develop a Heavy Equipment Capital Replacement Plan.

 Goal: Increase productivity through improved field efficiency.

 Goal: Minimize the District's total life cycle asset costs.

 Objectives:

3.2.1.2

- Expand meter testing for 3" and larger calibration and replacement program.

3.2.1.3

- Evaluate increasing the completion schedule of District's valve actuation, valve replacement, and air vac programs.

 Goal: Optimize disaster preparedness.

 Goal: Optimize the use of existing technologies.

 Objectives:

3.2.3.1

- Optimize functionality, business continuity, bandwidth, and use of SCADA.

 Goal: Update the District's IT Strategic Plan.

 Strategy: Results oriented workforce.

 Goal: Community Involvement/District outreach.

 Goal: Hire the “best.”

 Goal: Knowledge Management.

 Goal: Performance Management.

 Goal: Retain dedicated workforce.

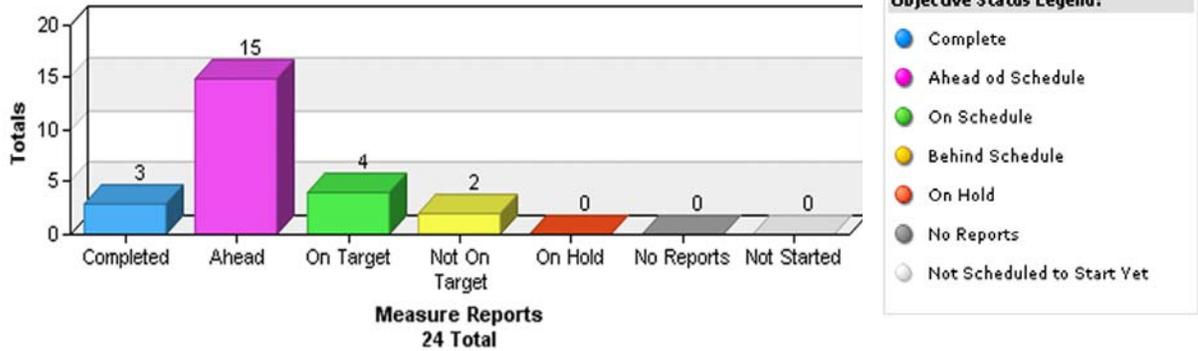
 Goal: Staff Development.

 Goal: Workforce Management.

Note: See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

WATER OPERATIONS PERFORMANCE MEASURES

Fiscal Year 2007-2008



Strategic Plan FY 2006-2008				
Activity/Criterion	Fiscal Year 2005-2006 Actual	Fiscal Year 2006-2007 Actual	Fiscal Year 2007-2008	
			Target	Actual
Technical Quality Complaint Rate (QualServe) - complaints per 1,000 customer accounts. The median benchmark performance indicator for technical quality complaints is expressed as follows: Region for the west is 7.6; by size, between 100,001-500,000 is 8.6; and by type, combining water and wastewater is 7.6	N/A	3.9	8	3.6
Potable Water Supplement - measures the amount of potable water needed to supplement recycled water demand	N/A	2.0%	not to exceed 5% of system demand	0.0%
Valve Exercising Program - maintenance of distribution systems' infrastructure to ensure minimal interruption of potable water delivery to the customer	98.0%	685 per quarter	381 per quarter	538 per quarter
O&M Cost per MG (QualServe) - measures the operation and maintenance costs to treat one million gallons of wastewater	N/A	\$2,211/MG	\$3,096/MG	\$1,829/MG
Planned Drinking Water Maintenance Ratio in Cost - compares how effectively the District is investing in planned maintenance	N/A	68.0%	63.5%	66.6%

Planned Wastewater Maintenance Ratio in Cost - percentage of planned maintenance costs compared to combined planned and corrective maintenance costs	N/A	83.0%	75%	76.5%
Direct Cost of Treatment per MG (QualServe) - measures the direct cost of wastewater treatment and does not include staff overhead or fringe benefits	N/A	\$1,113/MG	\$2,450/MG	\$930/MG
AMR Program - Install a total of 3,200 retrofits per year; 800 per quarter	61.0%	100.0%	3,200	3,943
AMR Ramar Replacement Program - Replacement of existing Ramar Transponders	N/A	100.0%	1139	100.0%
Unplanned Disruptions (QualServe) - quantifies the number of unplanned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts	N/A	0.7%	0.7%	0.5%
Drinking Water Compliance Rate (QualServe) - quantifies the percentage of time each year that the District meets all of the health related drinking water standards in U.S. National Primary Drinking Water Regulations	N/A	100.0%	100.0%	100.0%
Recycled Water Production - produce greater than 1.20 MGD for 90% of the days with demand of 1.3 MGD	N/A	27.0%	69.0%	63.5%
Planned Drinking Water Maintenance Ratio In Hours - compares how effectively the District is investing in planned maintenance	N/A	68.0%	63.5%	68.0%
Collection System Integrity (QualServe) - number of wastewater collection system failures per 100 miles of collection system pipeline	N/A	0.0%	3.8%	0.6%
Planned Wastewater Maintenance Ratio in Hours - percentage of planned maintenance hours compared to combined planned and corrective maintenance hours performed	N/A	N/A	70.0%	65.8%
Sewer Overflow Rate (QualServe) - measures the wastewater collection system pipeline condition and the effectiveness of routine maintenance	N/A	0	2.5%	0.3%
Pump Efficiency Testing - pump efficiency testing on 50% of the potable water pumps each year	N/A	100.0%	100.0%	100.0%
Automatic Control Valve Testing - test operation and perform preventative maintenance on all automatic valves semi-annually	N/A	90.0%	90.0%	100.0%

Main Flushing Program - actual over-planned pipelines (520) to be flushed per quarter	0.0%	209.0%	90.0%	170.0%
Water Distribution System Integrity (QualServe) -measures the condition of the water distribution system expressed as the total annual number of leaks and breaks per 100 miles of distribution piping	N/A	16.3	16.9	15.6
Recycled Water System Integrity - tracks number of leaks or breaks per 100 miles of water distribution system	N/A	1.4	16.9	3.1
Air Vac Update Program - measures the number of potable air vacs updated to DHS standards	N/A	100.0%	90.0%	103.0%
Fire Hydrant Maintenance - measures the number of fire hydrants serviced	N/A	187.0	149.0	202.0
Planned Water Service Disruption Rate (QualServe) - quantifies the number of planned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts	N/A	7.8	0.9	2.3

Strategic Plan FY 2009-2011		
** I.D. Number	Activity/Criterion	Fiscal Year 2008-2009 Target
5.1.31	Unplanned Disruptions (QualServe) - Quantifies the number of unplanned water outages experienced by the utility customer expressed as number of accounts affected per 1,000 accounts	0.7%
5.1.32	Technical Quality Complaint - The number of complaints is a good measure of customer service. Technical quality complaints allow us to measure the complaint rates we are experiencing with individual quantification of those related to core utility services. It is expressed as complaints per 1,000 customer accounts.	9
5.2.26	Planned Drinking Water Maintenance Ratio in \$ (QualServe) - Compares how effectively the District is investing in planned maintenance	\$66
5.2.27	Planned Recycled Water Maintenance Ratio in \$ - Compares how effectively the District is investing in planned maintenance	\$70
5.2.28	Planned Wastewater Maintenance Ration in \$ - Percentage of planned maintenance costs compared to combined planned and corrective maintenance costs	\$77

5.2.35	Direct Cost of Treatment per MG (QualServe) - Measures the direct cost of wastewater treatment and does not include staff overhead or fringe benefits, but it does include their salaries	\$1,008/MG
5.2.36	O&M Cost per MG (QualServe) - Qualserve measure for the operation and maintenance cost to treat one million gallons of wastewater	\$1,959/MG
5.3.34	% PMs completed - To track the percentage of scheduled PM's that are completed in the Reclamation Plant, Pump/Electric Section, Valve Maintenance Program, and Fleet Shop	90.0%
5.3.25	Valve Exercising Program - Maintenance of distribution systems' infrastructure to ensure minimal interruption of potable water delivery to the customer	1,692
5.3.29	Water Distribution System Integrity (QualServe) - measures the condition of the water distribution system expressed as the total annual number of leaks and break per 100 miles of distribution piping	16
5.3.3.	Planned Water Service Disruption Rate (QualServe) - Quantifies the number of planned water outages experienced by the utility customer expressed as number of accounts affected per 1000 accounts.	2.5
5.3.33	Drinking Water Compliance Rate (QualServe) - Quantifies the percentage of time each year that the District meets all of the health related drinking water standards in U.S. National Primary Drinking Water Regulations	100.0%
5.3.34	Collection System Integrity (QualServe) - Number of wastewater collection system failures per 100 miles of collection system pipeline	3.5
5.3.37	Replace manual read meters with automated meter - Increase meter reading efficiency and reduce water loss through increased meter accuracy	4,500
5.3.38	Recycled Water System Integrity - Tracks number of leaks or breaks per 100 miles of water distribution system	6.6%
5.3.39	Sewer Overflow Rate (QualServe) - Measures the wastewater collection system pipeline condition and the effectiveness of planned maintenance	0.0%

** See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

WATER OPERATIONS

Accomplishments – Fiscal Year 2007-2008

Water Operations Chief

- Through the use of the new micro turbines at the Treatment Plant, and installing new soft starters at several pump stations, energy savings have been realized while extending the life of the motors.
- Implemented automatically generated preventive work orders in the IMS system. Utilization of IMS helps plan work schedules and provides accurate maintenance records.
- Reorganized Treatment Plant tasks that have resulted in a reduction of overtime per operator on holidays, while still complying with permit requirements and ensuring proper operations.
- During the 2007 October fires, Operations staff volunteered to help restore service to the Ramona Water District customers. Staff also worked in conjunction with the County of San Diego to provide potable water and sewer disposal to displaced customers in Otay's North District.
- After the Fenton incident, Operations staff reacted quickly to inspect all meters where dual service, potable and recycled, existed.
- Staff proceeded on changing green-colored recycled water appurtenances to the required purple color. The conversion was documented, mapped, tested, and Trimbled.

Water Systems

- Exceeded the annual targets for the Valve-exercising, Main-flushing, and Fire Hydrant Maintenance Programs. All valves in the North District have now been maintained due to a change in the work process that enabled us to streamline production.
- Successfully completed 40 planned shutdowns, 16 more than the previous year. These shutdowns were performed for developer projects, valve replacements, and CIP projects which includes the two 640 Reservoir projects.
- While responding to the Fenton Business Center misconnection, the Systems Operations staff worked diligently with the customers and the California Department of Public Health (CDPH) to restore proper service. They performed disinfection, flushing, and sampling, and coordinated with the CDPH on corrective actions.

- Received a certificate of recognition from SDG&E for Excellence in Energy Conservation.
- The Valve Crew exercised 2,153 valves, maintained 810 fire hydrants, and flushed 341 mains.
- Staff successfully repaired and made operational the automatic transfer switch at the 980-2 Pump Station resulting in an efficient run of the emergency generator and supply power to the pump station in the event of a power outage.
- Automated fire suppression sprinklers were installed at the 1200-1, 1090-1, and 832-1 pump stations and the Treatment Plant.
- During the 2007 October fires, staff assisted with servicing and transporting a backup generator to Fallbrook Public Utility District.
- The reclamation plant operators improved the method of managing the treatment process by routinely interpreting the observation of micro-biological organisms and calculating a daily mass balance to determine sludge wasting requirements.
- The Treatment Plant's SCADA system was expanded to include the monitoring of treatment process parameters and equipment operation to meet the new requirements of the Master Reclamation Permit issued by the State Water Resources Control Board in May 2007.
- The collection system operators began development of a detailed sewer system cleaning procedure for every pipeline segment in the collection system.
- The Treatment Plant's preventative maintenance schedule was converted into IMS - plant operators have been trained and work orders are now being generated.
- The preliminary screening sluice-water alternative modification was completed. The new system uses screened wastewater and waste-backwash water, rather than recycled water, to flush screenings.
- The old Recycled Operations (RO) building was converted into the Treatment Plant's storage building.
- The Treatment Plant's chlorine-related: Process Safety Management, California Accidental Release, and Process Safety Management programs were reviewed and updated.
- Chopper pumps were installed at the Steele Canyon Sewer Lift Station which greatly reduce plugging frequency and corrective maintenance cost.
- A turbidometer was installed and two polymer chemical-addition pumps were upgraded at the secondary clarifier discharge point to satisfy a permit requirement. This now allows the plant to discontinue polymer feed when turbidity is monitored continuously at this location.
- Staff worked in partnership with the City of San Diego's South Bay Water Reclamation Plant (SBWRP). In the course of the year, SBWRP pumped 1,161,959,548 gallons or 3,567 acre/feet to the 450-1 Recycled Reservoir. With

the water received from San Diego and the production of the Treatment Plant, staff was able to eliminate the need for any potable supplementation.

Construction Maintenance

- Developed and implemented a modified and improved Vehicle Replacement and Management Program that resulted in a reduction of needed staffing in the Fleet Maintenance Section. Savings will be realized in labor, maintenance, and fuel costs while driving newer more efficient vehicles.
- The CIP Air-vac Upgrade Program was projected to upgrade 130 air-vacs to meet CDPH standards. Staff actually was able to complete 164 upgrades, exceeding the projected amount.
- The green to purple recycled conversions in the central portion of the District have produced significant numbers. Staff has produced 1,931 changes to the recycled-water system to show true recycled appurtenances, from air-vac cans to reclaimed markers.
- Through the use of IMS, the reporting system for the District's Backflow Prevention Program has been updated and improved.
- Developed and implemented a Large Meter Testing Program.

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ENGINEERING

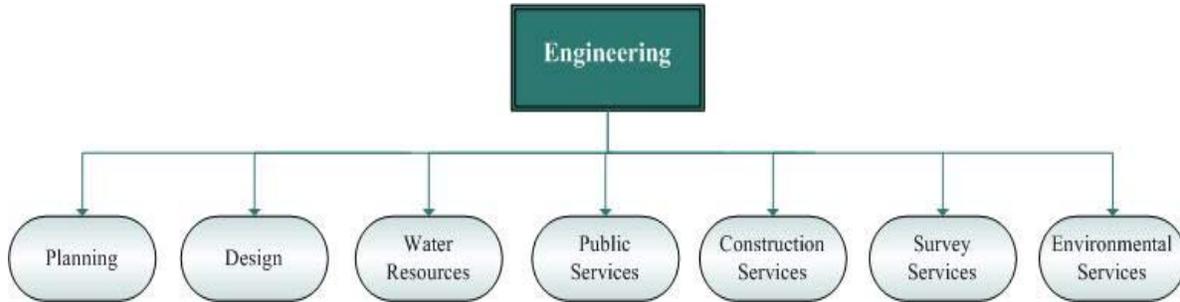
Mission Statement

To provide customer satisfaction by delivering quality engineering and planning services to our customers. Quality design and planning services that meets or exceeds the appropriate codes and regulations, while being creative and technically sound..



<u>Division Title</u>	<u>Division No.</u>
Engineering Chief	3311
Planning	3321
Design	3331
Water Resources	3341
Public Services	3421
Construction Services	3431
Survey Services	3441
Environmental Services	3451

DISTRICT POSITION COUNT - 169
ENGINEERING DEPARTMENT - 23

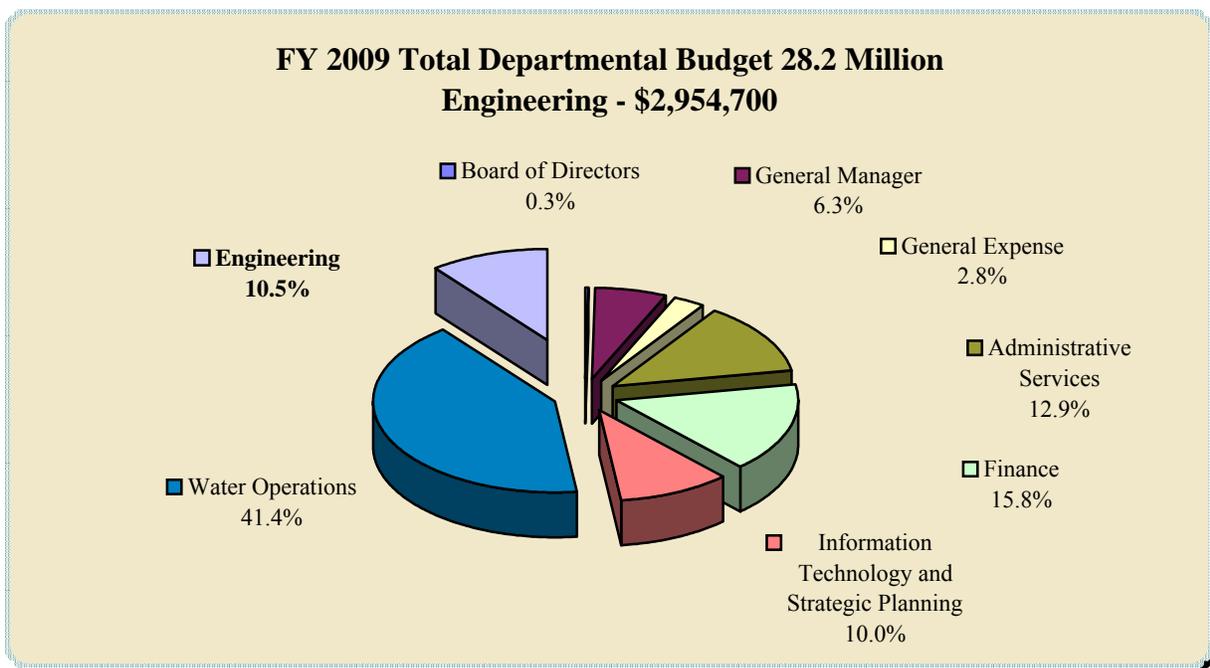


Personnel Count	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Chief, Engineering	0	1	1
Chief, Engineering & Planning	1	0	0
Chief, Development Services	1	0	0
Executive Secretary	1	1	1
Secretary	1	1	1
Engineering Manager	2	2	2
Public Services Manager	1	1	1
Senior Civil Engineer	3	2	2
Associate Civil Engineer	2	3	2
Assistant Civil Engineer	3	1	0
Environmental Compliance Specialist	0	1	1
Permit Technicians I and II	0	2	2
Senior Engineering Technician	0	0	3
Engineering Technicians I, II and III	7	4	0
Inspection Supervisor	1	1	1
Construction Inspectors I and II	4	4	3
Surveying Supervisor	1	1	1
Survey Technician	1	1	1
Assistant Survey Technician	1	1	1
Office Assistant	1	0	0
Total	31	27	23

ENGINEERING

Department Responsibilities

The Engineering Department, under the general direction of the Assistant General Manager, provides the following support services: Planning, Design, Construction, Project Management and surveying of all District facilities; responsible for strategic planning, capital budget, water resources planning, support facilities planning, environmental services, quality control, construction, developer designed and constructed facilities; coordinates assigned activities with other district departments and outside agencies; provides highly responsible and complex administrative and technical support to the District, General Manager, and Board of Directors.

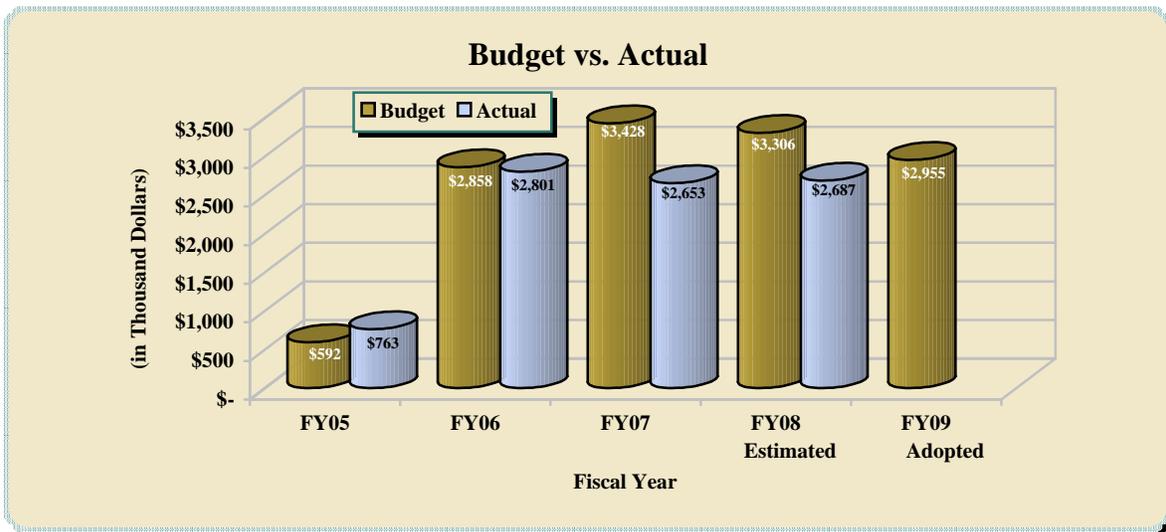


	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
Engineering Chief ⁽¹⁾	\$ 454,447	\$ 490,400	\$ 418,228	\$ 359,200
Planning	226,148	661,900	353,222	605,000
Design	510,873	466,500	429,041	291,700
Water Resources	306,146	143,300	146,718	157,400
Public Services	202,612	205,300	253,658	280,900
Construction Services	208,743	430,500	520,111	356,100
Survey Services	224,845	264,200	235,877	302,100
Environmental Services	519,166	643,500	330,106	602,300
TOTAL	\$ 2,652,979	\$ 3,305,600	\$ 2,686,961	\$ 2,954,700

⁽¹⁾ Effective FY 2008, Engineering and Development Services Departments are combined; Development Services Chief Section is deactivated.

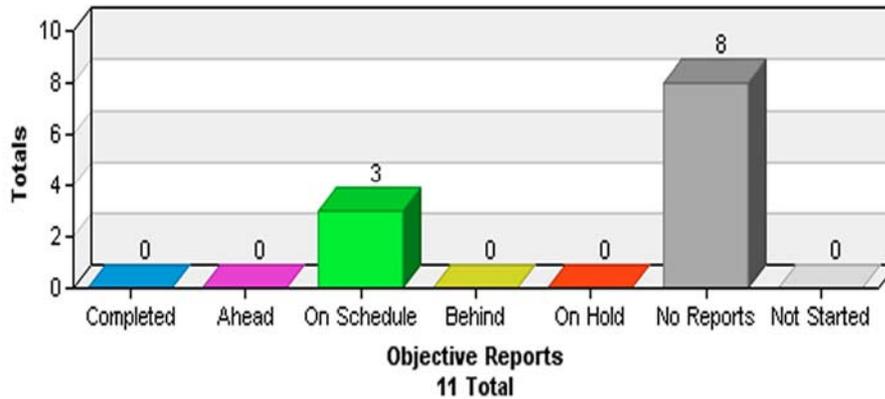
ENGINEERING

	FY 2007 Actual	FY 2008 Budget Estimated		FY 2009 Budget
Labor and Benefits	\$ 1,778,641	\$ 1,712,200	\$ 1,593,576	\$ 1,639,800
Travel and Meetings	13,490	33,200	19,186	22,900
General Office Expense	8,784	20,100	10,889	13,500
Equipment	1,086	3,700	3,322	6,200
Fees	26,090	55,000	23,936	55,000
Services	811,490	1,481,400	1,035,360	1,214,400
Training	215	-	439	2,900
Materials & Maintenance	13,183	-	253	-
Total	\$ 2,652,979	\$ 3,305,600	\$ 2,686,961	\$ 2,954,700



ENGINEERING – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2008-2009



Object Legend:

- Scorecard
- Strategy
- Goal
- Objective

Objective Status Legend:

- Complete
- Ahead of Schedule
- On Schedule
- Behind Schedule
- On Hold
- No Reports
- Not Scheduled to Start Yet

Scorecard Customer

Strategy: Educate our customers on important water related matters.

Goal: Expand the District’s Water Conservation Programs to maximize District-wide water conservation.

Goal: Maximize recycled water use and public knowledge.

Objective:

1.2.2.1

Continue a regional approach and expand District’s recycled water outreach program to landscape architects, maintenance companies, developers, contractors, and homeowner associations.

Strategy: Help shape the water industry’s direction.

Goal: Legislative and political influence for District programs.

Goal: Optimize the District’s water industry participation.

Strategy: Maximize our customer’s satisfaction.

Goal: Effectively use multi-channel communications.

Goal: Listen to our customers.

Scorecard Financial

Strategy: Develop a long-term financial planning program.

 Goal: Conduct financial threat assessment for growth, water availability, inflation and other revenue sources.

 Goal: Establish a long-term (15 year) financial plan including scenarios and contingencies for changes in demographics, local economy, and drought uncertainties.

 Goal: Recalculate all capacity and annexation fees with new rehabilitation and repair program.

 Strategy: Optimize all revenue streams.

 Goal: Modify existing rate structures.

 Scorecard	Business Processes
---	--------------------

 Strategy: Implement industry best practices for utility development.

 Goal: Potable water.

 Objectives:

3.3.1.1

- Prioritize and implement recommendations contained in the Integrated Resources Plan and Water Resources Master Plan to obtain additional potable water supply by 15%.

3.1.1.3

- Create a comprehensive environmental program that is cost effective and proactive in response to environmental compliance.

 Goal: Recycled water.

 Objectives:

3.1.3.1

- Obtain new recycled water supplies by 10% by prioritizing and implementing the recommendations in the IRP and WRMP.

3.1.3.2

- Finalize evaluation of North District service area expansion for recycled water and seek approvals for funding.

 Goal: Sewers

 Objective:

3.1.2.1

- Evaluate the long-term requirement for costs and benefits of seeking additional sewer collection flow, treatment, and/or disposal capacity.

 Strategy: Improve financial analysis and reporting.

 Goal: Improve cost per unit reporting.

 Goal: Improve the efficiency and effectiveness of District-wide reporting.

 Strategy: Optimize the District's operation efficiency.

 Goal: Improve the efficiency of business processes.

 Objectives:

- 3.2.5.8  Enforce use of separate meters for irrigation during the Sub-Area Master Plan (SAMP) Review Process to maximize the use of recycled water. Irrigation of landscaped areas shall have a separate meter regardless if potable or recycled water is available, while maximizing the use of recycled water.
- 3.2.5.7  Identify existing facilities that are good candidates for conversion to separate irrigation meters (recycled and/or potable water) specifically for multi-family/industrial/commercial projects.

 Goal: Increase productivity through improved field efficiency.

 Objective:

- 3.2.4.1  To obtain access to shared electricity, gas, telephone, from cell site vendors, San Diego County, and other agencies.

 Goal: Minimize the District's total life cycle asset costs.

 Objectives:

- 3.2.1.1  Develop and implement an Asset Management Program Plan to extend the useful life of capital assets.
- 3.2.1.4  Enhance construction inspection on construction projects by implementing IMS.

 Goal: Optimize disaster preparedness.

 Goal: Optimize the use of existing technologies.

 Goal: Update the District's IT Strategic Plan.

Scorecard

Learning and Growth

 Strategy: Results oriented workforce.

 Goal: Community Involvement/District outreach.

 Goal: Hire the "best."

 Goal: Knowledge Management.

 Goal: Performance Management.

 Goal: Retain dedicated workforce.

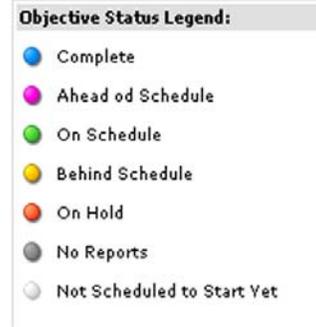
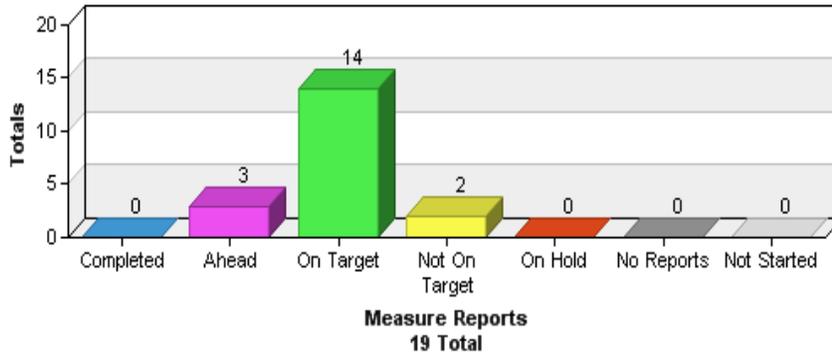
 Goal: Staff Development.

 Goal: Workforce Management.

Note: See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

ENGINEERING PERFORMANCE MEASURES

Fiscal Year 2007-2008



Strategic Plan FY 2006-2008

Activity/Criterion	Fiscal Year 2005-2006 Actual	Fiscal Year 2006-2007 Actual	Fiscal Year 2007-2008	
			Target	Actual
Recycled Water Supply versus Demand - determine the percentage of recycled water demand met with potable water	N/A	68.9%	0.0%	0.0%
Grant Funds - measures the percentage of grants awarded compared to relevant grant proposals submitted	N/A	57.9%	50.0%	57.9%
Plan Check - measures the time to complete a plan check	N/A	100%	80% or above	100.0%
CIP Projects Expenditures vs. Budget - compares quarterly CIP expenditures with budget	92.0%	87.0%	75% or greater	81.0%
Project Constructability Review - measures projects that receive a review with those projects scheduled to receive a review	N/A	100.0%	100.0%	100.0%
Project Construction Budget - measures the number of projects in construction within plus or minus 5%-10% of the budget	N/A	100.0%	90.0%	82.0%

Actual Recycled Water Demand vs. Projected Demand - measures the actual recycled water demand against the projected recycled water demand	N/A	103.8%	90.0%	105.2%
North District Alternative Water Supply - measures alternative water supply capabilities to meet a 10-day continuous supply outage in the summer	40.0%	40.0%	100.0% or greater	110.0%
South District Alternative Water Supply - measures alternative water supply capabilities to meet a 10-day continuous supply outage in the summer	100.0%	110.0%	100.0% or greater	120.0%
Sewer Collection Disposal Capacity - measures sewer disposal capacity vs. the total sewer collection rate	N/A	154.8%	100.0%	172.4%
Facility Maps - measures the timeliness of inserting maps to CADD	N/A	0.84	Less than 1.0	1.0%
Facility Surveying - measures the timeliness of surveying facilities after project acceptance	N/A	1.01	Less than 1.0	100
Mark out Accuracy - measures the percentage of at-fault hits over time	N/A	100.0%	Greater than 99.75%	99.8%
Cathodic Protection Program - inspect and test Cathodic Test Stations for pipelines, and anodes in steel reservoirs	N/A	100.0%	90.0%	100.0%
Project Closeout Time - measures the average time between the issuance of a NOSC and NOC for CIP projects in construction	N/A	100.0%	90.0%	267.0%
Construction Change Order Rate - measures the rate of change orders for CIP projects under construction	-1.5%	0.0%	Less than 4%	1.1%
APCD Compliance - measures the compliance of all engines and generators permitted under APCD	N/A	100.0%	95% or above	100.0%
Construction Inspection Productivity Index - measures productivity of construction inspectors	N/A	130.0%	90.0% or better	100.0%
Construction Claims - reduce construction claims	-19.0%	0.0%	Less than 5.0%	0.0%

Strategic Plan FY 2009-2011		
** I.D. Number	Activity/Criterion	Fiscal Year 2008-2009 Target
2.2.9	CIP Project Expenditures vs. Budget - Compares quarterly CIP expenditures with budget. Extract data from CIP Quarterly Report using Grand Total numbers.	95.0%
2.3.7	Mark-out Accuracy - Measures the percentage of at-fault hits over time	100.0%
2.3.8	Project Closeout Time - Measures the average time between the issuance of a Notice of Substantial Completion (NOSC) and a Notice of Completion (NOC) for CIP projects in construction. Consider only projects where the NOC was completed within the Fiscal Year.	100.0%
2.2.10	Construction Change Order Incidences - Measures the rate of change orders for CIP projects under construction. Extract data from CIP Quaterly Construction Contract Status Report.	3.0%

** See pages 8-12 for the entire Balanced Scorecard presentation and explanation of the Performance Measures.

ENGINEERING

Accomplishments – Fiscal Year 2007-2008

Planning & Design

- Completed design of the Recycled Operations (RO) Building Remodel (CIP R2053).
- Completed annual Comprehensive Cathodic Protection Survey for the District's pipelines, reservoirs, and miscellaneous facilities (CIP P1043).

Construction

- The following project was completed this fiscal year:
 - Telegraph Canyon Road Paving (CIP P1270)
- Nine CIP projects were in construction with a total contract value of \$34 million.
- Quality assurance and control exercised for over 31,914 linear feet of pipe on approximately 245 projects constructed by developers. All projects were accomplished with no loss of time due to injuries or accidents.

Water Resources

- Received in excess of \$2 million from the United States Bureau of Reclamation for participation in their Title XIV Program. The agreement provides for up to 25% funding of over \$90 million for District recycled water projects.
- Received \$721,466 for the Proposition 50 Grant from the State Water Resources Control Board for the recycled water supply link between the City of San Diego South Bay Water Reclamation Plant and the District's existing recycled water system.
- Successful completion of the Membrane Bioreactor Feasibility Report and Study effort.
- Negotiated the San Diego County Water Authority and District Recycled Water Sales Incentive agreement and received Board approval for sales of supply from South Bay Water Reclamation Plant.

Public Services

- Generated revenue in excess of \$3 million.
- Thirty (30) cell site leases brought in over \$843,000 in revenue.
- Processed over \$520,000 in Reimbursement Agreements.
- Processed 607 permits.

Survey

- Completed 2,655 mark-outs with an accuracy rate of 99.96%.
- Twelve (12) parcel maps and 7 subdivision maps totaling 142 lots added to the cadastral base map this year. In addition, 201 assessor's parcel map pages were researched and all new parcels updated.
- Drafted 327 easements and exported them to the GIS.
- Located 147 facilities (facilities include, appurtenances, valves, fire hydrants, blow offs, fire services, all sewer manholes, laterals and clean out throughout the District) and transferred them into our information system.

Environmental

- Mitigated Negative Declaration (MND) for the 1485-1 Pump Station was adopted by the Board on September 5, 2007. (P2172)

GENERAL EXPENSE

Mission Statement

To record and track the general expenses of the District which are not applicable to a specific department.



Division Title

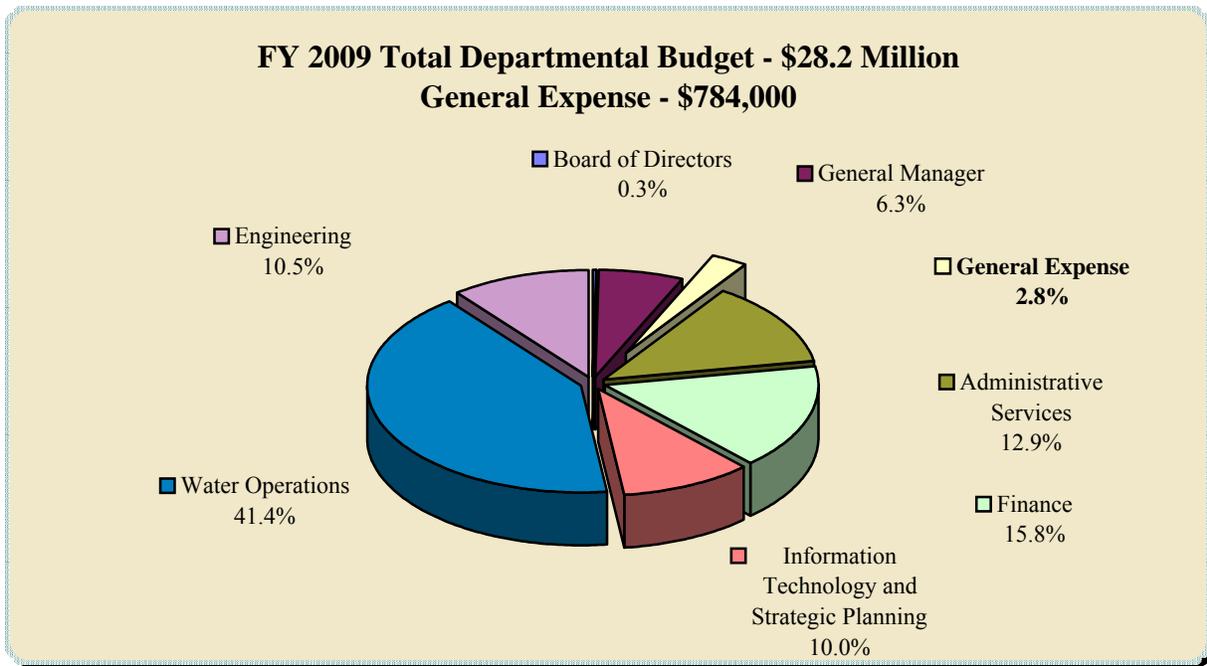
Division No.

General Expense 1311

GENERAL EXPENSE

Description

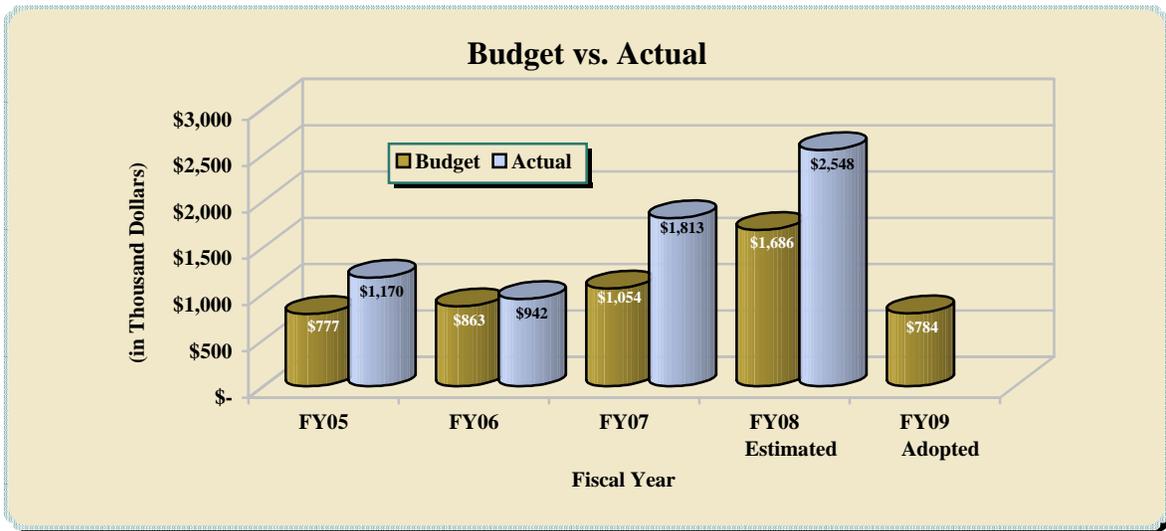
The expenses in this section are general operating expenses not associated with an individual department. The expenses include: legal costs, insurance premiums, changes in accrued employee leave balances and miscellaneous interest. These expenses represent 4% of the total Departmental Budget.



	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
General Expense	\$ 1,813,025	\$ 1,686,300	\$ 2,547,639	\$ 784,000
TOTAL	\$ 1,813,025	\$ 1,686,300	\$ 2,547,639	\$ 784,000

GENERAL EXPENSE

	FY 2007 Actual	FY 2008 Budget	FY 2008 Estimated	FY 2009 Budget
Labor and Benefits ⁽¹⁾	\$ 205,725	\$ 10,000	\$ 694,712	\$ (188,300)
Fees	1,606,633	1,676,300	1,852,927	972,300
Interest	667	-	-	-
Total	\$ 1,813,025	\$ 1,686,300	\$ 2,547,639	\$ 784,000



⁽¹⁾ FY 2009 budget amount is negative because of Vacancy Factor (salary savings) of \$424,300. This is netted against other District-wide Labor and Benefit Expenses. In prior years Vacancy Factor was budgeted in the individual departments.

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Capital Budget

CAPITAL IMPROVEMENT PROGRAM

The District provides water service to a population of approximately 191,500 which is expected to ultimately increase to 277,000. This growth as well as the maintenance of existing assets requires long term capital planning. The process is a dynamic one, due to the evolving needs of the community, the water supply issues, and changing regulations, and therefore is part of the District's overall strategic planning. The capital planning process involves identifying current and future needs, and prioritizing them based on certain operating assumptions. The primary objective of this planning effort is to support an orderly, efficient program of expansion, replacement and betterment, while maintaining a stable long-range financial plan.

To accommodate this growth requires that the District invest \$500 million in capital assets through ultimate build-out. The Fiscal Year 2009 Capital Budget is \$30.9 million and the five-year Capital Improvement Program (CIP) totals \$170 million. A separate CIP Budget Notebook contains the descriptions, justifications, expenditures, and funding for all the identified projects to ultimate build-out.

Assumptions and Criteria

The Water Resources Master Plan was based on several major assumptions and design criteria as follows:

1. Utilizing historical water demands for each land use type in the District to calculate future demands;
2. Using maximum day peaking factors that vary with demand level;
3. Utilizing land use as planned by the City of Chula Vista;
4. Providing ten days of emergency water supply through a maximum of five days in covered reservoirs and a minimum of five days from interconnections with adjacent agencies;
5. Inclusion of emergency operational storage to meet the five-day covered storage requirement into the ten-day outage supply requirement.

In summary, the CIP is developed based on the District's Water Resources Master Plan, incorporating historical data, growth, developers' input, SANDAG projections, and long-term economic outlook.

Justification for Project and Impact on Operating Budget

The justification for each project is determined by whether it is required due to growth (Expansion), improvements or upgrades (Betterment), or to replace an existing asset (Replacement). As these projects are completed and placed into service, there may be an impact on the Operating Budget by increasing cost in the areas of maintenance, energy or chemicals as shown on the justification and impact pages in this section.

CAPITAL IMPROVEMENT PROGRAM

This year, all capital expenditures are in the CIP. This includes capital facilities and capital purchases. Capital purchases are non-recurring operating expense items for District-wide use that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Vehicle, Office Equipment and Furniture, and Field Equipment purchases, the details of which can be found on page 31. Capital Facility Projects are items that exceed \$10,000 or \$20,000 for infrastructure related items (as defined under Capital Equipment on page 171 of the Glossary) and have a useful life of at least two years.

The CIP projects identified are prioritized based on the following criteria:

1. Safety, restoration of service, immediate obligation, Board directed or critical system need.
2. System upgrades or requirements to maintain system reliability in the next few fiscal years.
3. Need to meet the future growth of the system.
4. Project requirement may be reduced in capacity or may have low probability of need in the future.

The following three categories of CIP projects are:

Expansion

Facilities required to support new or future users which are funded from capacity fees, or user rates.

Betterment

Facilities required because of inadequate capacity or new requirements that benefit existing users and funded from availability, betterment fees or rates.

Replacement

Facilities required to renew or replace existing facilities that have deteriorated or have exceeded their useful life and are funded from user rates.

Capital Improvement Projects

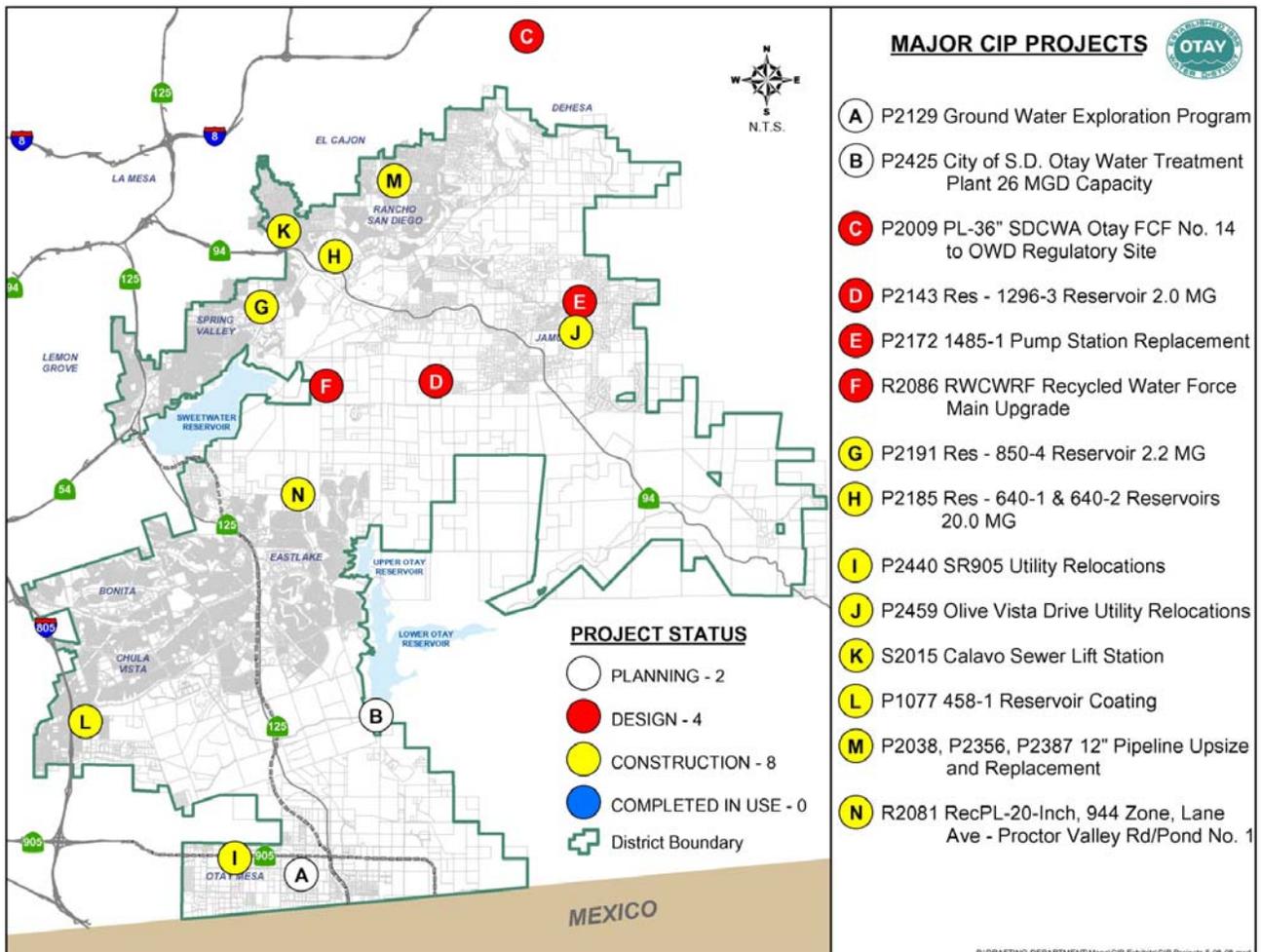
The 2009 Fiscal Year CIP Budget contains 66 projects. The cost of the work planned for Fiscal Year 2009 is \$30.9 million. Of the 66 projects planned for Fiscal Year 2009, three are designated as reimbursable projects with estimated costs of \$540,000. These projects are built by developers and reimbursed by the District.

MAJOR CIP PROJECTS

The following shows how the \$30.9 million of projects are broken down into four categories:

1. Capital facilities \$ 23.0 million
2. Replacement or renewal projects \$ 5.8 million
3. Capital purchase projects \$ 1.6 million
4. Developer reimbursement projects \$.5 million

The Five-Year CIP and Fiscal Year 2009 Capital Budgets are consistent with the District's Water Resources Master Plan, current capacity fees, and the District's strategic financial objectives.



FLAGSHIP CIP PROJECTS IN CONSTRUCTION



SR-905 Utility Relocations

Project started in September 2006 and is 95% completed. This project includes the relocation of three pipelines crossing under SR-905 and the reconditioning of two seismic valve vaults.

850-4 Reservoir

Project started in March 2008 and is expected to be completed in June 2009. This project includes the construction of a 2.2 MG steel reservoir.



FLAGSHIP CIP PROJECTS IN CONSTRUCTION



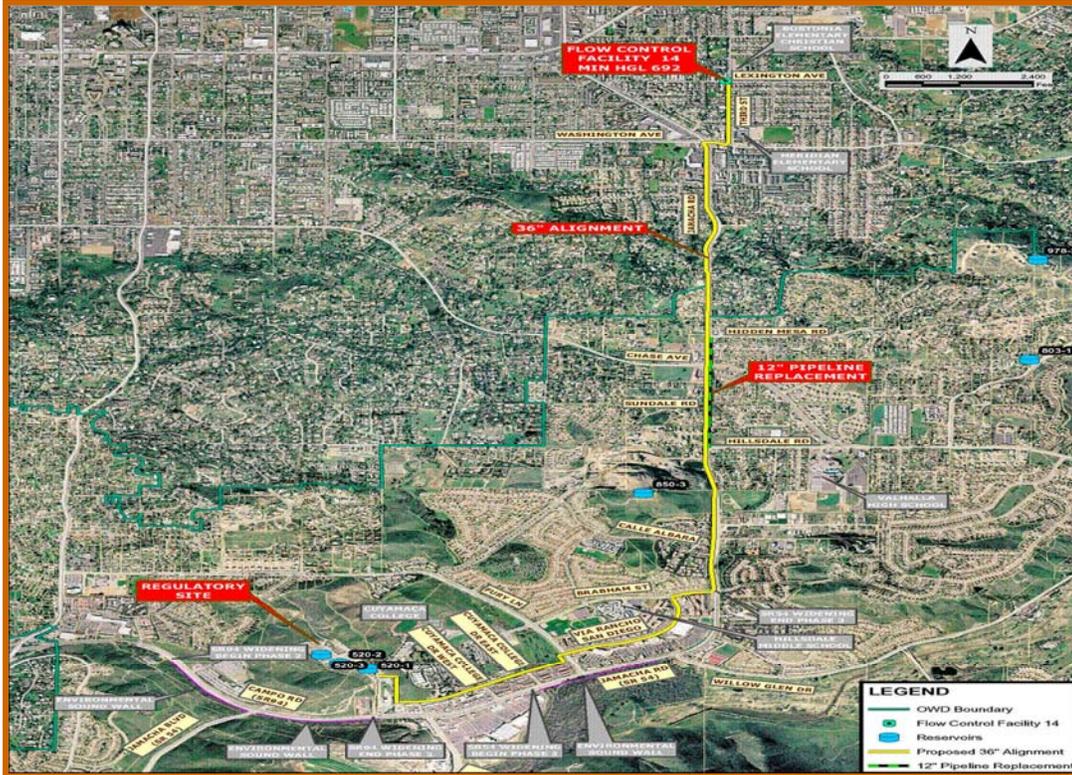
640-1 & 640-2 Reservoirs

This project was awarded to Pacific Hydrotech and was started in January 2007. Expected completion is December 2008. Project consists of two 10-million gallon circular pre-stressed concrete reservoirs, 11,000 feet of large diameter pipe, several valve and control vaults and demolition of the 520-1 Concrete Reservoir.

- Key Component:** Construction for two 10-MG pre-stressed circular reservoirs and associated piping.
- Schedule:** Notice to Proceed was issued in January 2007. Project completion expected December 2008.
- Cost:** The project budget is \$29.5 million, of which \$22.2 million, or 75%, has been spent.
- Significant Issues:** 640-1 Reservoir: Completed construction.
640-2 Reservoir: Completed construction.

These Reservoirs are needed as operational storage for the La Presa System, as well as the necessary emergency storage, consistent with the District's planning criteria. Additionally this project eliminates flow rejection and pressure fluctuation, and maximizes energy efficiency, thereby reducing cost.

FLAGSHIP CIP PROJECT IN DESIGN



36-Inch Pipeline From FCF No. 14 to Regulatory Site Project

- Key Component:** Approximately 5 miles of 36-Inch pipeline for potable water from Otay’s FCF No. 14 to the Regulatory Site.
- Schedule:** Preparing 90% design drawings.
- Cost:** The project budget is \$18.5 million, of which \$1.6 million, or 9% has been spent.
- Significant Issues:** District continues coordination with CalTrans, City of El Cajon, Cuyamaca College, and other agencies to incorporate comments into the project design. A focus group was held to discuss potential alignment improvements. The City of El Cajon will not permit the design alignment. Alternatives are being considered.
(Note: Project engineering contract terminated. Lee & Ro, Inc. has been contracted to finish.)

This 36” pipeline will provide the District with 16 million gallons a day water supply which will result in enhanced reliability for the District’s water systems.

PROGRESS ON MAJOR PROJECT

City of San Diego's Water Treatment Plant, Capacity

Key Component: Acquire at least 30 MGD and up to 50 MGD of local treatment capacity from City of San Diego (City).

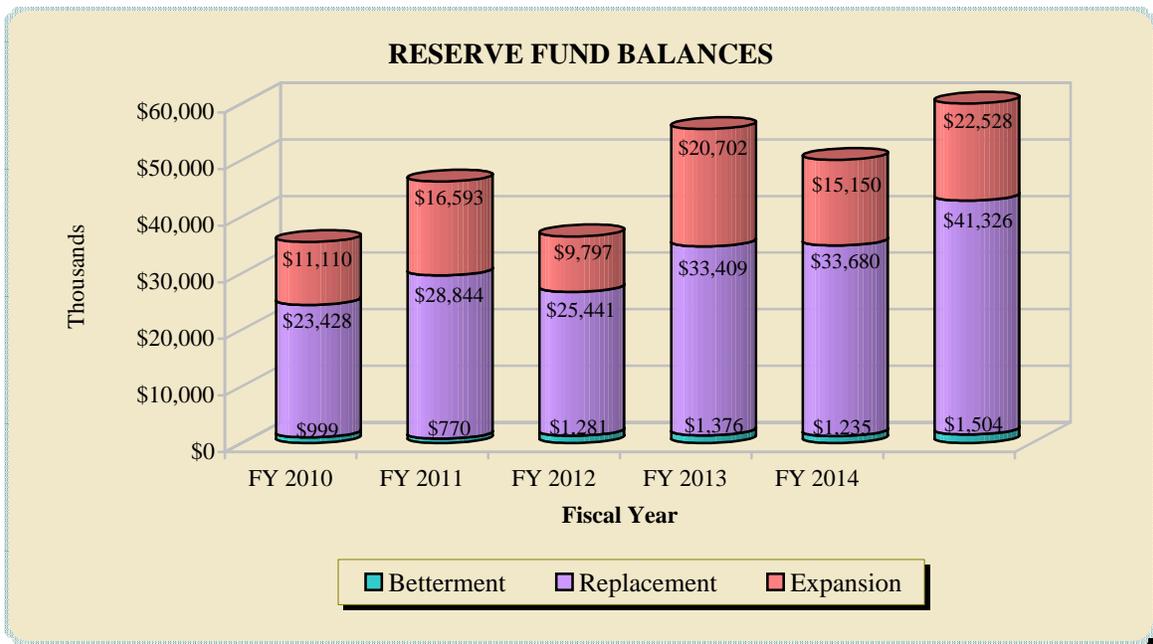
Schedule: The District Board approved the SD17 Principals of Understanding (POU) with the City and CWA. Draft SD17 Agreement and negotiations have been halted by the City Water Department.

Cost: Only staff time has been budgeted; project cost is dependent upon negotiations outcome.

Significant Issues: The City will supply "Surplus Water" from the Otay Water Treatment Plant to the District per the current 1999 Agreement.

CIP RESERVE FUNDS

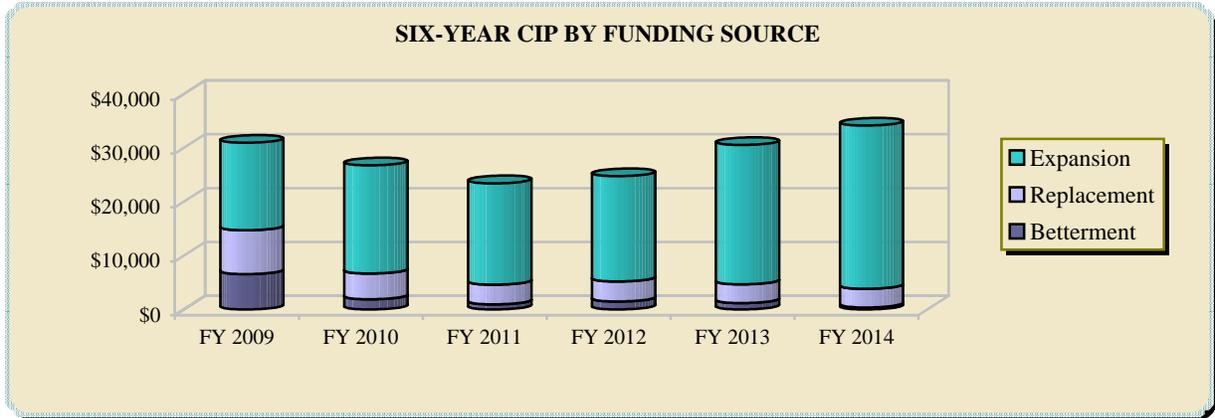
The CIP Reserve Funds presentation, shown on the following pages, is designed to provide an understanding of how the funding of CIPs is expected to financially influence the District over the next six years. The financial impacts are based on CIP and its funding sources, including fund transfers in accordance with the District's Reserve Policy, and planned debt issuances. This data is captured in the District's Rate Model on an annual basis in order to make these projections.



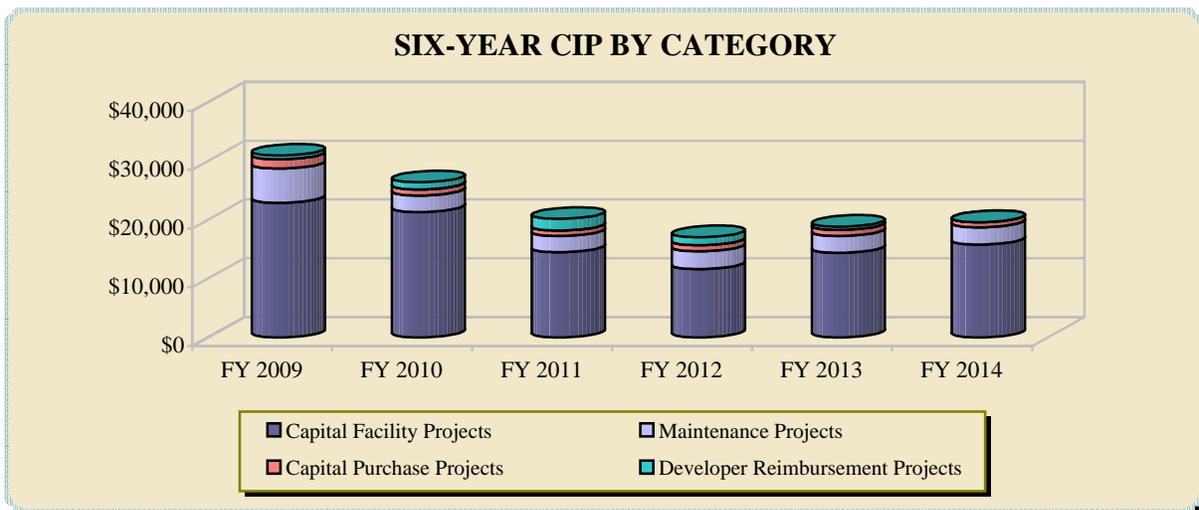
(Thousand \$000s)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total
Capacity Fees	\$ 2,841	\$ 3,722	\$ 6,158	\$ 11,121	\$ 15,890	\$ 17,437	\$ 57,168
Debt financing	-	27,640	-	25,325	-	21,600	74,565
Grants	2,420	2,890	2,890	1,000	1,000	1,000	11,200
Interest	1,178	1,089	1,222	1,582	2,070	2,263	9,404
Betterment Charges	1,078	1,100	1,123	1,146	1,170	1,194	6,811
Temporary Meters	1,040	1,040	1,042	1,047	1,053	1,055	6,278
Availability (Betterment Portion)	516	526	537	548	559	571	3,257
Transfer from General Fund	27,005	6,737	8,653	11,068	13,201	15,184	81,849
Interfund Transfers	156	160	163	167	171	175	993
Total Sources	36,233	44,904	21,790	53,004	35,113	60,479	251,524
CIP Projects	30,939	26,743	23,402	24,738	30,510	34,102	170,434
Betterment Fees for Maintenance	896	908	901	924	947	971	5,547
Debt Service	4,307	5,116	5,690	6,873	7,559	8,575	38,118
Developer Services	1,302	1,308	1,322	1,335	1,348	1,362	7,976
Interfund Transfers	7,411	160	163	167	171	175	8,248
Total Uses	44,854	34,235	31,478	34,037	40,535	45,185	230,323
Net Sources (Uses)	\$ (8,621)	\$ 10,669	\$ (9,688)	\$ 18,968	\$ (5,422)	\$ 15,295	\$ 21,201

CIP FUNDING SOURCE AND CATEGORY

(Thousands \$000s)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTAL
Expansion	\$ 16,236	\$ 20,103	\$ 18,806	\$ 19,583	\$ 25,853	\$ 30,292	\$130,871
Betterment	6,529	1,854	946	1,470	1,156	366	12,322
Replacement	8,174	4,787	3,651	3,686	3,501	3,444	27,241
TOTAL	\$ 30,939	\$ 26,743	\$ 23,402	\$ 24,738	\$ 30,510	\$ 34,102	\$170,434



(Thousands \$000s)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTAL
Capital Facility Projects	\$ 22,912	\$ 21,338	\$ 14,477	\$ 11,603	\$ 14,395	\$ 15,792	\$100,517
Maintenance Projects	5,834	2,815	2,775	3,055	2,870	2,940	20,289
Capital Purchase Projects	1,553	1,030	930	1,030	1,030	870	6,443
Developer Reimbursement Projects	640	1,210	1,990	1,350	530	-	5,720
Subtotal	30,939	26,393	20,172	17,038	18,825	19,602	132,969
FY 2010 Through FY 2014 Projects	-	350	3,230	7,700	11,685	14,500	37,465
TOTAL	\$ 30,939	\$ 26,743	\$ 23,402	\$ 24,738	\$ 30,510	\$ 34,102	\$170,434



CIP PROJECTS (\$1,000s)

The 2009 Fiscal Year CIP Budget contains 66 projects. The costs for the work planned for Fiscal Year 2009 is \$30.9 million. Of the 66 projects planned for Fiscal Year 2009, three are designated as reimbursable projects with estimated costs of \$540,000. These projects are built by developers and reimbursed by the District.

CIP No.	Description	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	Total
CAPITAL FACILITY PROJECTS								
P2009	PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site	\$ 8,000	\$ 11,450	\$ 700	\$ -	\$ -	\$ -	\$ 20,150
P2033	PL - 16-Inch, 1296 Zone, Melody Road - Campo/Presilla	2	150	1,000	669	-	-	1,821
P2038	PL - 12-Inch, 978 Zone, Jamacha, Hidden Mesa, and Chase Upsize and Replacements	900	1,000	-	-	-	-	1,900
P2040	Res - 1655-1 Reservoir 0.5 MG	1	1	83	700	795	-	1,580
P2129	Groundwater Exploration Program	10	10	15	25	630	1,280	1,970
P2143	Res - 1296-3 Reservoir 2 MG	1,900	1,265	-	-	-	-	3,165
P2172	PS - 1485-1 Pump Station Replacement	1,125	850	-	-	-	-	1,975
P2185	Res - 640-1 Reservoir 20.0 MG	3,900	-	-	-	-	-	3,900
P2190	PL - 10-Inch, 1485 Zone, Jamul Highlands Road to Presilla Drive	5	5	120	94	-	-	224
P2191	Res - 850-4 Reservoir 2.2 MG	1,950	200	-	-	-	-	2,150
P2318	PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections	200	344	-	-	-	-	544
P2387	PL - 12-Inch, 832 Zone, Steele Canyon Road - Via Caliente/Campo	500	-	-	-	-	-	500
P2450	Otay River Groundwater Well Demineralization/Development	115	85	800	3,600	400	-	5,000
P2451	Rosarito Desalination Facility Conveyance System	150	150	150	150	1,350	3,000	4,950
P2457	Otay Mountain Groundwater Well Development	10	290	6,000	200	-	-	6,500
P2460	I.D. 7 Trestle and Pipeline Demolition	20	55	300	-	-	-	375
P2462	Otay River Demineralization Feasibility Study	150	-	-	-	-	-	150
P2463	South Bay Regional Concentrate Conveyance Feasibility Study	15	-	-	-	-	-	15
P2464	San Diego 17 Pump Station and Flow Control Facility	15	-	-	-	-	-	15
P2465	Regulatory Site Material Storage Bins	220	-	-	-	-	-	220
P2466	Regional Training Facility	150	-	-	-	-	-	150
P2467	San Diego Formation Groundwater Feasibility Study	400	800	-	-	-	-	1,200
P2471	850/657 PRS at La Presa Pump Station	5	90	205	-	-	-	300
P2472	Water Supply Feasibility Studies	150	50	50	50	50	50	400
P2473	PS - 711-1 Pump Station Improvement	50	150	-	-	-	-	200
P2474	Fuel Storage Covers and Containment	100	-	-	-	-	-	100
P2475	Pump Station Fire Safety Improvements	50	-	-	-	-	-	50
P2476	Dis - 1090-1 Pump Station Disinfection System Upgrade	100	-	-	-	-	-	100
P2477	Res - 624-1 Reservoir Cover Replacement	250	200	-	-	-	-	450
R2034	RecRes - 860-1 Reservoir 4 MG	104	394	1,800	1,500	-	-	3,798
R2048	RecPL - Otay Mesa Distribution Pipelines and Conversions	10	1,200	650	140	-	-	2,000
R2053	RWCWRF - R.O. Building Remodel and Office Furniture	50	-	-	-	-	-	50
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	100	300	750	1,000	530	-	2,680
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	200	1,000	377	1,000	1,500	-	4,077
R2081	RecPL - 20-Inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1	590	-	-	-	-	-	590
R2087	RecPL - 20-Inch, 944 Zone, Wueste Road - Olympic/Otay WTP	100	1,200	600	50	-	-	1,950
R2088	RecPL - 20-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservoir	81	149	1,000	250	-	-	1,480
R2089	North District Recycled Water Regulatory Compliance	110	-	-	-	-	-	110
R2091	RecPS - 944-1 Pump Station Upgrade	324	-	-	-	-	-	324
R2092	Dis - 450-1 Reservoir Disinfection Facility	750	-	-	-	-	-	750
R2093	MBR City of Chula Vista	50	50	50	50	1,500	3,300	5,000
S2016	Solar Panel Installation Phase I	100	200	200	200	-	-	700
42	Total Capital Facility Projects	23,012	21,638	14,850	9,678	6,755	7,630	83,563
REPLACEMENT/RENEWAL PROJECTS								
P2356	PL - 12-Inch, 803 Zone, Jamul Drive Permastran Pipeline Replacement	705	-	-	-	-	-	705
P2366	APCD Engine Replacements and Retrofits	170	180	190	220	200	200	1,160
P2382	Safety and Security Improvements	169	40	30	30	-	-	269
P2416	SR-125 Utility Relocations	10	-	-	-	-	-	10
P2422	Agency Interconnections	250	250	250	250	250	250	1,500
P2440	I-905 Utility Relocations	925	125	-	-	-	-	1,050
P2441	NG/RAMAR Meter Replacements	100	-	-	-	-	-	100

CIP PROJECTS (\$1,000s)

CIP No.	Description	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	Total
REPLACEMENT/RENEWAL PROJECTS								
P2453	SR-11 Utility Relocations	5	165	125	205	-	-	500
P2456	Air and Vacuum Valve Upgrades	520	550	580	600	620	640	3,510
P2458	AMR Manual Meter Replacement	1,250	1,375	1,500	1,650	1,700	1,750	9,225
R2086	RWCWRF Force Main AirVac Replacements and Road Improvements	1,000	-	-	-	-	-	1,000
S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	430	130	100	100	100	100	960
S2015	Calavo Lift Station Replacement	300	-	-	-	-	-	300
13	Total Replacement/Renewal Projects	5,834	2,815	2,775	3,055	2,870	2,940	20,289
CAPITAL PURCHASE PROJECTS								
P2282	Vehicle Capital Purchases	228	220	220	220	220	210	1,318
P2285	Office Equipment and Furniture Capital Purchases	20	60	60	60	60	60	320
P2286	Field Equipment Capital Purchases	45	100	100	100	100	100	545
P2443	Information Technology Mobile Services	250	150	150	150	150	-	850
P2461	Records Management System Upgrade	50	-	-	-	-	-	50
P2469	Information Technology Network and Hardware	500	300	200	300	300	300	1,900
P2470	Application Systems Development and Integration	380	200	200	200	200	200	1,380
P2478	Administration Building Engine/Generator Set	80	-	-	-	-	-	80
8	Total Capital Purchase Projects	1,553	1,030	930	1,030	1,030	870	6,443
DEVELOPER REIMBURSEMENT PROJECTS								
P2134	PL - 16-Inch, 711 Zone, Birch Road - SR 125/EastLake	200	10	-	-	-	-	210
P2414	PL - 12" to 16" Oversize, 803 Zone, Dehesa Road - Dehesa Meadow/OWD Bndy	10	-	-	-	-	-	10
R2033	RecPL - 12-Inch, 944 Zone, Birch Road - La Media/EastLake	330	-	-	-	-	-	330
3	Total Developer Reimbursement Projects	540	10	-	-	-	-	550
66	Total - FY 2009 Projects	30,939	25,493	18,555	13,763	10,655	11,440	110,845
7	FY 2010 Through FY 2014 Projects	-	1,250	4,847	10,975	19,855	22,662	59,589
Grand Totals		\$ 30,939	\$ 26,743	\$ 23,402	\$ 24,738	\$ 30,510	\$ 34,102	170,434

CIP JUSTIFICATION AND IMPACT ON OPERATING BUDGET

Projected Incremental Operating Expenditures										
CIP No.	Description	J/FS ⁽²⁾	Total	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	Total
CAPITAL PURCHASE PROJECTS										
P2443	IT Mobile Services	E/R	\$ 18,000	\$ 18,000	\$ 18,500	\$ 19,100	\$ 19,700	\$ 20,300	\$ 20,900	\$ 116,500
Total Capital Purchase Projects			18,000	18,000	18,500	19,100	19,700	20,300	20,900	116,500
DEVELOPER REIMBURSEMENT PROJECTS										
P2104	PL - 12-Inch, 711 Zone	E	2,000	-	-	-	-	-	2,000	2,000
P2107	PL - 12-Inch, 711 Zone	E	1,700	-	-	-	-	-	1,700	1,700
P2134	PL - 16-Inch, 711 Zone	E	1,000	-	-	1,000	1,000	1,000	1,000	4,000
P2325	PL - 10" to 12" Oversize	E	2,300	-	-	-	2,300	2,400	2,500	7,200
P2367	PL - 16-Inch, 980 Zone	E	3,300	-	-	1,700	3,400	3,500	3,600	12,200
P2402	PL - 12-Inch, 624 Zone	E	1,000	-	-	-	1,000	1,000	1,000	3,000
P2403	PL - 12-Inch, 624 Zone	E	3,100	-	-	-	-	-	3,100	3,100
P2414	PL - 12" to 16" Oversize	E	2,400	-	2,400	2,500	2,600	2,700	2,800	13,000
R2028	RecPL - 8-Inch, 680 Zone	E	2,400	-	-	-	-	-	2,400	2,400
R2033	RecPL - 12-Inch, 944 Zone	E	2,100	-	2,100	2,200	2,300	2,400	2,500	11,500
R2042	RecPL - 8-Inch, 944 Zone	E	900	-	-	500	900	900	900	3,200
R2047	RecPL - 12-Inch, 680 Zone	E	1,400	-	-	700	1,400	1,400	1,400	4,900
R2058	RecPL - 16-Inch, 860 Zone	E	5,400	-	-	-	-	5,400	5,600	11,000
R2082	RecPL - 24-Inch, 680 Zone	E	1,200	-	-	1,200	1,200	1,200	1,200	4,800
R2083	RecPL - 20-Inch, 680 Zone	E	700	-	-	700	700	700	700	2,800
R2084	RecPL - 20-Inch, 680 Zone	E	1,900	-	-	-	1,900	2,000	2,100	6,000
R2085	RecPL - 20-Inch, 680 Zone	E	1,300	-	-	-	1,300	1,300	1,300	3,900
Total Developer Reimbursement Projects			34,100	-	4,500	10,500	20,000	25,900	35,800	96,700
Total Operating Budget Cost Impact			\$ 161,900	\$ (17,100)	\$ 151,700	\$ 164,200	\$ 196,700	\$ 194,300	\$ 371,300	\$ 1,061,100

The preceding schedule shows anticipated operating costs associated with each project in the CIP, and below is a summary of each category of new costs that will be impacted. No additional revenues are associated with the individual projects, as revenues are linked more directly to growth in water sales and capacity fee revenues.

Cost Category	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Operations and Maintenance	\$ (17,100)	\$ 30,200	\$ 30,600	\$ 59,800	\$ 81,000	\$ 116,900	\$ 301,400
Energy	-	91,900	100,900	103,900	75,500	213,100	585,300
Chemical	-	29,600	32,700	33,000	37,800	41,300	174,400
Total Operating Budget Cost Impact	\$ (17,100)	\$ 151,700	\$ 164,200	\$ 196,700	\$ 194,300	\$ 371,300	\$ 1,061,100

Note: See pages 184-185 for complete description of CIP projects.

FY 2009 CAPITAL PURCHASES

Capital purchases are non-recurring operating expense items for District-wide use that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Vehicle, Office Equipment and Furniture, and Field Equipment purchases.

Item#	Description	Amount	Type
Field Equipment			
Engineering Development			
25	Fuel island management system	\$ 45,000	R
	Total Field Equipment - Engineering Development	<u>45,000</u>	
Total Field Equipment		<u>45,000</u>	
Office Equipment			
Administration			
12	Color Copier/Printer	\$ 20,000	R
	Total Office Equipment - Administration	<u>20,000</u>	
Total Office Equipment		<u>20,000</u>	
Vehicles			
Operations			
13	2008 Ford Ranger or equivalent mid-size	17,000	R
14	2008 Ford Ranger or equivalent mid-size	17,000	R
15	2008 Ford F250 or similar cab and chassis	25,000	R
16	2008 Ford Ranger 4x4 or equivalent mid-size	19,000	R
17	2008 Ford F150 or similar	21,000	R
18	2008 Ford F250 or similar cab and chassis	21,000	R
19	2008 Toyota Matrix or equivalent	20,000	R
20	2008 Ford Ranger or equivalent mid-size	17,000	R
21	2008 Ford Ranger or equivalent mid-size	17,000	R
22	2008 Ford Explorer or equivalent	24,000	R
23	2008 Ford Ranger or equivalent	17,000	R
24	2007 or 2008 Yamaha Rhino 700 Auto 4x4 Utility Terrain Vehicle	<u>13,000</u>	R
Total Vehicles		<u>228,000</u>	
Total Capital Purchases Budget		<u><u>\$ 293,000</u></u>	

N - New

R - Replacement



Policies

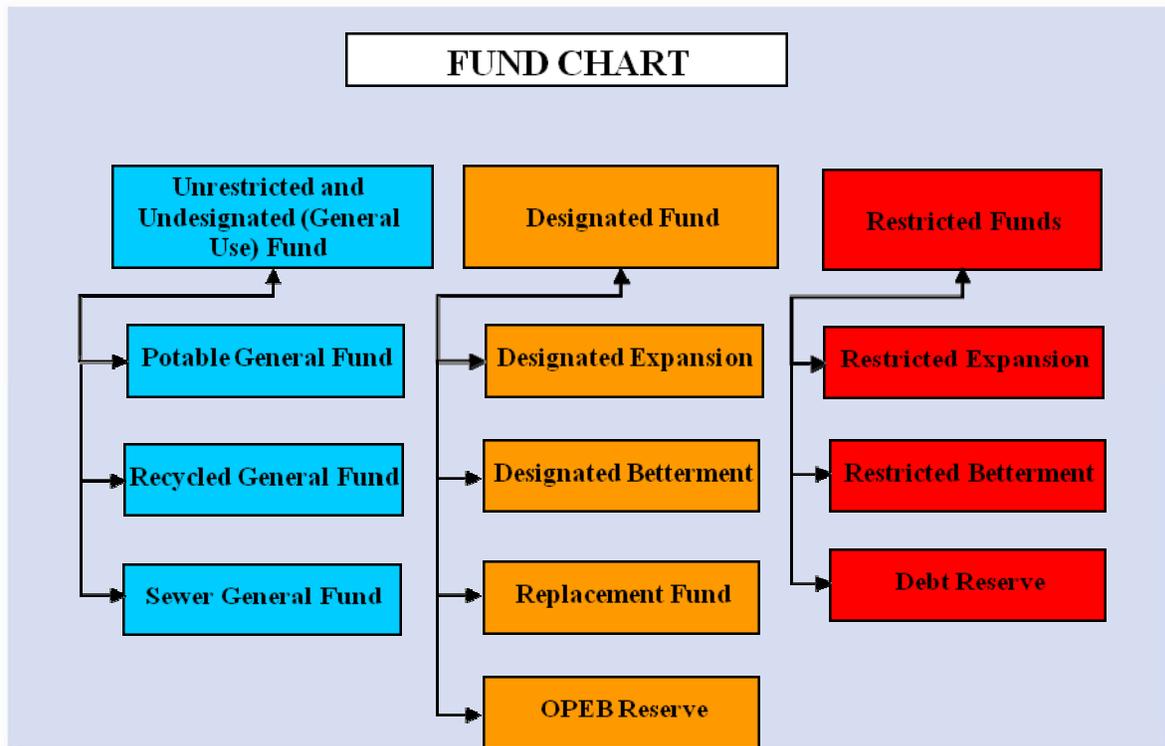
SUMMARY OF FINANCIAL POLICIES

Introduction

This section includes a brief synopsis of the District’s Reserve Policy, Investment Policy, and Debt Policy.

The Reserve Policy is a comprehensive policy which explains how the District is operated, including the distinction of business segments to ensure users pay their fair share of costs. It explains how fees are collected and what they are used for. It also explains the difference between funds, as well as how transfers shall be made, and defines each reserve target funding level. The District adopted this new policy in March 2006.

The following chart depicts the detailed flow of funds that may be useful in understanding the Reserve Policy.



Investment Policy is a guideline for the prudent investment of cash. It follows government code as well as authority granted by the Board of Directors. The primary objectives, in order of significance, are to invest safely, with adequate liquidity, and to achieve sufficient return on investments. This policy was revised and adopted by the Board in September 2006 and received a Certification of Excellence Award from the Association of Public Treasurers of the United States and Canada (APT US&C).

The Debt Policy establishes that debt financing will only be used for capital Improvement Projects (CIP), which have an extended useful life on ten years or longer, and that exceed the District's ability to be funded with current resources such as annual cash flow, fund balances, or reserves. Additionally, the life of a project is expected to exceed the term of the financing. The District strives to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic services and the achievement of district policy objectives. This policy was revised and adopted by the Board in January 2007 and receive a Certification of Excellence award from the Association of Public Treasurers of the United States and Canada (APT US&C).

RESERVE POLICY

1.0 The District

The Otay Water District is a publicly-owned water and sewer service agency, more specifically, a California special district, authorized in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. The District is a "revenue neutral" public agency, meaning each end user pays its fair share of the District's costs of water acquisition, construction of infrastructure and the operation and maintenance of the public water facilities.

The District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has a distinct customer base. In addition, the developer community, large and small, makes up a significant class of customer for each business segment. As a result, the District has four distinct customer service types:

- Developers
- Potable water users
- Recycled water users
- Sewer users

The District has established practices and developed computer systems that have enabled the District to maintain a clear separation between these service costs. Regardless of customer class, financial principles regarding cost allocation and fund accounting are fundamental to the District's Reserve Policy. These principles are derived from the statements of the Governmental Accounting Standards Board (GASB), and from oversight and advisory bodies such as the California State Auditor, the Little Hoover Commission, and the Government Finance Officers Association (GFOA). These have significant impacts on how the finances of the District are organized and how financial processes work within the organization.

1.1 The District's Use of Funds

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The Operating and Maintenance (O&M) expenditures generally support the purchase and delivery of potable and recycled water, and the transportation and treatment of sewage. The capital expenditures support the construction of infrastructure necessary to deliver service. The District uses various reserves to support the operating and capital efforts. Capital infrastructure is funded using two methods: pay-as-you-go or debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction of infrastructure in all three business areas: potable, recycled, and sewer. Both the capital and operating efforts within the District are different for each of the four distinct customer types.

The District uses a set of funds to accumulate and account for revenues allocated to different activities. Those funds receive funding up to the levels defined in this policy. Each year, as a part of the annual budget process, the District's rate model is updated for each fund with the current fund balances and the estimated revenues and expenditures for the next six years. The expenditure or funding requirements are then evaluated to ensure that the existing fund levels and additional revenues are sufficient within the current budget cycle and the next five years. If a deficit is identified, then options for transfers, debt, and/or rate increases are evaluated.

1.2 The District's Capital Improvement Program (CIP)

The planning, design, and construction costs of all facilities within the three business segments are allocated to three cost areas: Expansion, Betterment, and/or Replacement. The funding allocation for these three cost areas is defined in the District's Capital Improvement Program (CIP) and is determined by an engineering analysis which identifies which type of customers will benefit from the facility. Expansion is for new customers, betterment is for existing customers where the facility is improved, and replacement is for existing customers where the facility is replaced. If an expansion capital project also results in betterment or replacement, the costs are allocated to new users (Expansion) and existing users (Betterment and Replacement) so that the developers will only pay the expansion portions. This policy protects both the developing and established areas from incurring inappropriate costs. Developing areas are not required to finance facilities that are due for replacement or betterment; conversely, established areas are not required to replace facilities before they are worn out simply because of new development. Each facility has the potential to be classified into all three categories to various degrees. In addition to these standard categories there are occasional CIPs that may be billable to a third party such as relocations.



a. Expansion Fund

The portion of a project that benefits new users is funded by the developing areas through capacity fees. Future expansion costs are divided by all future connections to calculate the capacity fee. This capacity fee is the primary funding source for expansion projects and is accounted for separately and used solely for the planning, design, and construction of expansion facilities. The majority of the funding sources are restricted in nature with the exception of the general use funds placed into the Designated Expansion Fund.

b. Betterment Fund

The District may construct a project that results in a significant benefit to existing users. Facilities that improve reliability or meet new or increased standards of service are considered betterment facilities. In such a case, user rate charges and betterment fees could be used as a funding source for that portion of the project that results in a lowering of overall operation and maintenance costs or an improvement to the existing users. Betterment may also be a result of increased standards or regulations on water or sewer systems. If the existing system must be improved in order to meet the new standards this cost is a betterment cost. The majority of the

funding sources are restricted in nature of their use and the geographic area of use, with the exception of the general use funds placed in the Designated Betterment Fund.

c. Replacement Fund

Replacement of facilities is funded primarily by general user rates. The portion of a project that benefits existing users is funded by the Replacement Fund. It is expected that the District will debt finance a significant portion of the future replacement facilities. The District has a Debt Policy (Policy No. 45) that guides the debt issuance process. The replacement reserve will serve as an immediate funding source for replacement projects and will provide the necessary flexibility to begin projects while the appropriate debt financing is being obtained.



1.21 Relocations

Occasionally, relocation of facilities is required when the District has easements for the pipe location. When a project is relocated, the cost of the new facility shall be funded by the party without an easement or if no parties have easements then it is funded by the party causing the relocation. When this occurs, a CIP project may be created which is wholly or partially funded by a third party who must reimburse the District for the cost of the relocation. Depending on the nature of the facilities, the funding source for these projects could be from replacement, expansion, betterment or third party funding of projects at the District. Each project is individually negotiated. When determining how much this fund will pay for construction, the following guideline is suggested: If a project has more than five years of useful life remaining then funding is incremental, if there is less than five years remaining funds are contributed from the Replacement Fund on a pro-rata basis.

1.22 Oversizing

In some cases, where reasonable, the developer may be required by the District to oversize new facilities for future development in order to obtain economies of scale. The developer will be reimbursed for incremental over-sizing costs as per Policy No. 27. These reimbursements are only for backbone facilities funded by capacity fees - not for the distribution system within a development which is an obligation of the developer separate from the capacity fees. These smaller distribution pipes serving the individual homes within a development are often referred to as “in-tract” pipelines.

1.23 Exclusion of Developed Areas from Expansion Costs

Developed areas are considered to have sufficient supply and capacity to meet their current requirements as provided by the developers. In addition, they are considered to have borne capital financial costs that are at least proportionate to the benefits they have received from capital facilities. Accordingly, no regional capital financial costs are allocated to these areas so that they will not incur any costs for newly developing areas. In the case of a capital project that produces District-wide cost savings, however; the District may provide financial support to new facilities.

1.24 *Improvement Districts (IDs)*

Improvement Districts are established in order to facilitate the funding of a particular improvement by the specific beneficiaries. The District has a number of Improvement Districts that were established for General Obligation (GO) debt repayment. Many of these GO issuances have been paid off and, as outlined in the Debt Policy, it is unlikely that the District will issue additional GO debt. IDs continue to be used for other funding purposes. First, to distinguish sewer customers from water customers on the county tax roll; second, to place parcels on the county tax roll for the collection of availability fees; third, for the charging of special water rates; and fourth, to track which properties have paid annexation fees.

Over the years, the District has taken a district-wide perspective to funding improvements. This philosophy is evident by the district-wide capacity fee and annexation fee. The District also uses district-wide water rates. As time continues, it is expected that IDs will continue to outgrow their purpose. So, while many IDs remain their use will diminish over time.

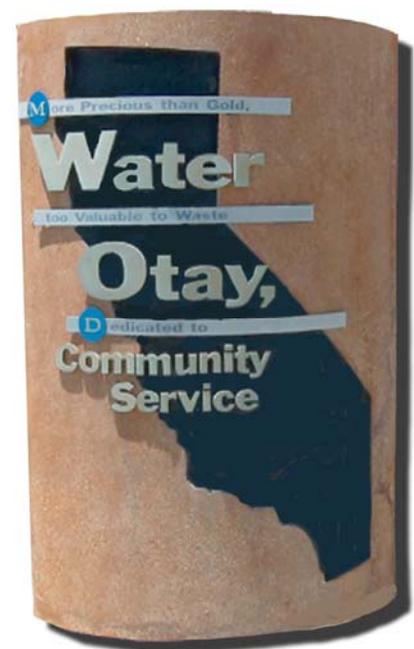
1.3 **The Purpose of the Policy**

Public entities accumulate and maintain reserves to ensure both financial stability and the continuation of the ability to provide services. Financial stability and the increase in credit quality that result from stability allow the public entity to weather times of uncertainty and the impacts of negative events, both major and minor. Funded reserves allow for the continued maintenance of property and payment of expenses beyond the magnitude of the funds available in a single fiscal period. In the final analysis, the type and level of reserves are driven by the type and magnitude of uncertainty faced by the District.

A “reserve” has a number of meanings:

- Working capital required to insure timely payment of obligations
- A buffer against volatility in revenues
- Liquidity required to obtain other goods and services (e.g., bank services)
- Designated funds to protect creditors
- Funds set aside to replace assets at the end of their useful lives
- Funds set aside to repair or replace assets damaged or destroyed at unanticipated times

It is important to note that reserve, fund balance, and net assets are not the same. Fund balance and net assets are accounting terms and may not always be in the form of cash or liquid investments. Fund balances and net assets may not always be reserves unless a designation of all or a portion of fund balance is made. It is important to note that the term, fund balance was recently replaced by net assets as codified by the Governmental Accounting Standards Board (GASB).



In short, reserves are the liquid assets of the District, accumulated and maintained for application to fund contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the management and use of these funds. Few policies have a more significant impact on the financial health and stability of the District. This policy explains several key financial concepts used by the District and provides some background information to the overall strategies and practices utilized. The District has a fiduciary obligation to its customers to manage and direct the use of public funds for the purpose of providing water and sewer services in an efficient and financially sound manner.

1.4 Policy Guidelines

In 2000, the Little Hoover Commission reviewed the levels of reserve funds for special districts in California and prepared a report reflecting that special districts were accumulating unreasonable levels of funds. As a proactive response, the California Special Districts Association (CSDA) prepared Reserve Guidelines for its members. The Reserve Guidelines were significant in noting that reserve levels need to be in context of the organization's overall business model and capital improvement plan.

There are a number of potential events which the District should consider in the development of reserves:

- Economic Uncertainty—performance of the regional economy and the impact of that performance on demand for water
- Weather—the amount of rainfall and the impact of weather on the availability and the cost of water
- Government Mandates—the impact of federal and state regulation, particularly environmental regulation
- Tax Changes—Limitations on the District's taxing and spending powers through the passage of a voter referendum, the impound of District property taxes or the removal of the District's power to levy property taxes, further increases to ERAF contributions or changes in calculation methodology
- Operating Costs—Increases in operating and maintenance costs because of inflation, labor agreement or other modification
- Force Majeure—Unanticipated expenditures resulting from natural disasters or intentional acts
- Emergency Maintenance—Unanticipated expenditures resulting from unexpected failure of assets (e.g. rupture in the primary transmission system)
- Unexpected Variation in Cash Flow—the incidence of additional costs or decreased revenues that requires short-term borrowing in the absence of sufficient funds

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, 2003-137. Each of these recommendations has been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

- Distinguish between restricted and unrestricted reserves
- Establish distinct purposes for all reserves
- Set target levels, such as minimums and maximums, for the accumulation of reserves
- Identify the events or conditions that prompt the use of reserves
- Conform with plans to acquire or build capital assets
- Receive Board approval and be in writing
- Require periodic review of reserve balances and rationale for maintaining them

Yet, the State Auditor’s report acknowledges that the California Constitution (Article XIII B, Section 5) is vague in its provisions governing the accumulation and use of reserve. Specifically, the Constitution states that “each entity of the government can establish contingency, emergency, reserve, or similar funds as it deems reasonable and proper.”¹ Similarly, the State’s Water Code does not impose any requirements as to specific or recommended reserve fund levels. As a result, the public finance community as a whole has yet to settle on any real objective standards for the level of reserve funds appropriate for governmental enterprises. This lack of consensus as to specific standards is indicative of the wide variance of the financial and operations contexts for different districts and different contingencies justifying reserve of funds.

The Government Finance Officers Association (GFOA) in its Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund (2002) states:

In establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e., governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

In the preparation of this policy, each of the CSDA guidelines and the GFOA recommendations has been considered. In addition, all seven objectives provided by the State Auditor are specifically addressed for each reserve. The District wholly supports the State Auditor’s efforts to bring a high-level of quality to reserve governance and establishing a standard of performance.

¹ California State Auditor, Bureau of State Audits, “California’s Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable,” dated June 2004, 2003-137; p. 8.

The District recognizes that the customer pays for services provided. Quality management requires that periodic valuations be performed so that fees and charges can be set at appropriate levels to recover the cost of service. The District's Reserve Policy has been drafted with consideration of the GFOA, CSDA, and State Auditor general guidelines as provided above. In addition, the District has adopted the following principles in the management of its funds:

- Funds are held and used only for the purpose for which they are collected. This is done to maintain equity between customers.
- Each of the service types is tracked separately so that expenditures and revenues can be monitored and evaluated for each customer type. This provides the District with the necessary information to appropriately charge for each of the services.
- Separation of O&M from capital expenditures occurs within each of the service types. This is done because the funding of these expenditures is often on different timelines or use different funding sources.
- The District will hold its reserve at responsible and prudent levels. This policy sets minimum, maximum, and target levels for each of the various funds. This has been done so that the District can maintain funds to meet the purpose for which the funds were established. The levels are set by reference to line items in the District's financial statements and approved budgets. This allows reserve levels to adjust to the District's changing financial circumstances.
- Debt financing of facilities provides intergenerational equity and maintains rates at reasonable levels. This equity is accomplished with the long-term financing by spreading the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use them. Optionally, the District could amass significant reserves by pre-collecting funds in a Replacement Reserve Fund allowing the District to cash fund all replacements. In order to obtain those funds, significant rate increases would be required, burdening the current customers and creating reserve levels difficult to defend to the ratepayers or other oversight entities.

These concepts are fundamental to the way the District manages its funds and have a direct impact on the way rates and charges are set. The District performs annual budget evaluations and updates its rate study model on at least an annual basis to monitor and adjust the various funds and revenue sources. The separation, tracking, and projecting of the various funds and expenditures create the essential information necessary for the equitable rate structure maintained by the District. The annual review preserves the balance between services provided and the prices charged. This review also insures that funds will be available to continue to serve the District's customers.

Sources of Funds

2.0 Developers

a. Meter Installation Charges (General Use)

Meter fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

b. Annexation Fees (General Use)

Annexation Fees are outlined in Section 9 of the Code of Ordinances. This is the buy-in to the District's potable and recycled water facilities paid by the developer and based on the excess capacity built by existing users. This fee insures that future users fund a portion of the facilities that were sized and built for their future use by prior customers. The annexation fees are general use funds and help to offset current customer costs. The calculation of the fee uses a system-wide evaluation that combines the potable and reclamation systems. This methodology is used because the two water systems work hand-in-hand, the recycled system brings a new supply of water to the District reducing the need for potable systems and the higher cost of obtaining new potable supplies.

c. Developer Deposits (General Use)

These deposits are for the engineering and operations services provided to developers. They are tracked separately for each developer and any excess amount is returned to the developer.

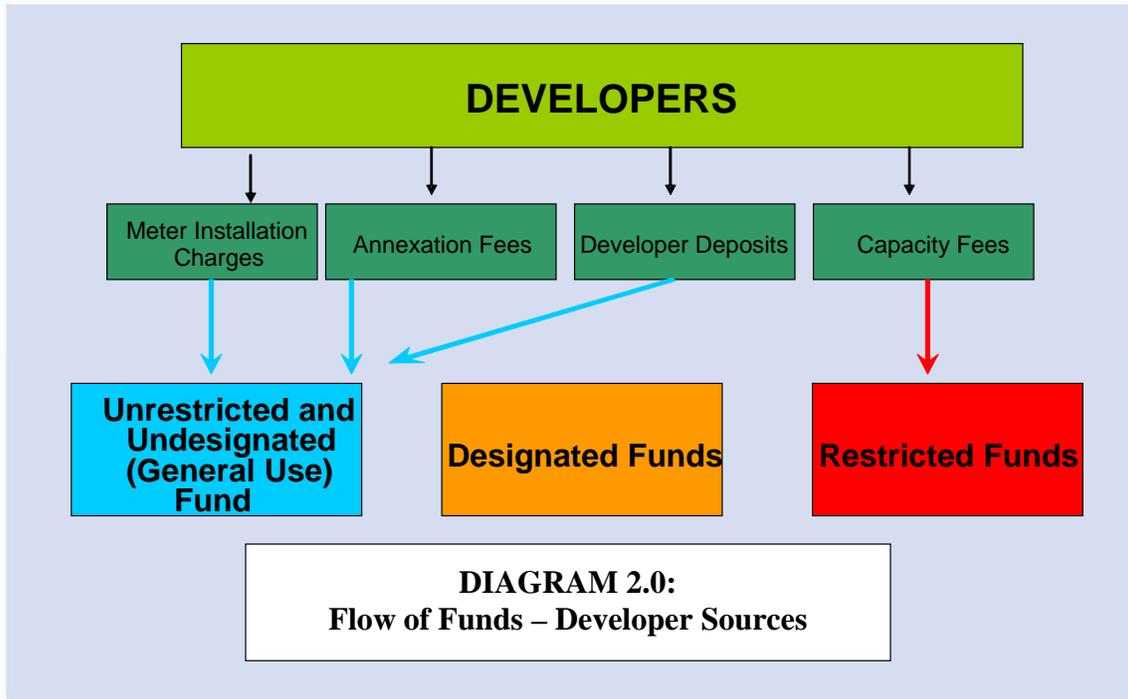
d. Capacity Fees (Restricted)

The capacity fee is outlined in Section 28 of the Code of Ordinances. Capacity fees are based on the estimated construction cost of expansion divided by the number of future Equivalent Dwelling Units (EDUs). The capacity fee covers costs including, but not limited to, planning, design, construction, and financing associated with facilities for the District's expansion needs. Ultimate facility needs are based on projected land use planning. These needs and the projected costs change over time as regulatory agencies determining land use make changes. Significant variations in future land use occur and can alter projected facility requirements. As these changes occur, the District will review the capacity fee calculation. These fees are paid by developers.

The District's construction of infrastructure occurs prior to the addition of EDUs. This serves two purposes: one it ensures that the District can serve the pending construction as it is completed; two, it is more efficient to oversize many facilities at the outset rather than build for the current need and then reconstruct when the future need is realized. As a result of this strategy, the District has financed construction with bond financing as the existing expansion funds are depleted.

The capacity fee is calculated based on the expansion costs of the combined recycled and potable water systems needs. This methodology, just like the annexation fee methodology, is used because the two water systems work hand-in-hand. All capacity fees can be used for either

potable or recycled but only for expansion needs. So, while capacity fees are not restricted separately, one portion for potable and the other portion for recycled, they are tracked separately.



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

Charges to users for water, sewer, and recycled water are uniform throughout the District for similar customer types. This policy reduces possible misunderstanding that might occur among customers if rates varied between geographical areas. It also provides for an administratively straightforward billing process.

b. Monthly System Fees (General Use)

This is a fixed revenue source that is charged monthly. The amount of the charge is based on the meter size.

c. Energy Charges (General Use)

The energy pumping fee is \$0.034 per unit of water for each 100 feet of lift, or fraction thereof, above the base elevation of 450 feet. This charge is placed on the monthly water bills of all water customers.

d. Penalties (General Use)

Penalties are added to the monthly water and sewer bills for late charges, locks, etc.

e. Pass-through Fixed Charges (General Use)

A fixed monthly charge to the District's customers intended to collect sufficient funds to pass-through the increased fixed cost from CWA and MWD.

f. Special Rates and Charges (Restricted)

In addition to the uniform water charges, the District currently has five special water rates and one sewer rate. The five water rates are all for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines in the respective areas. Each of these is listed as follows:

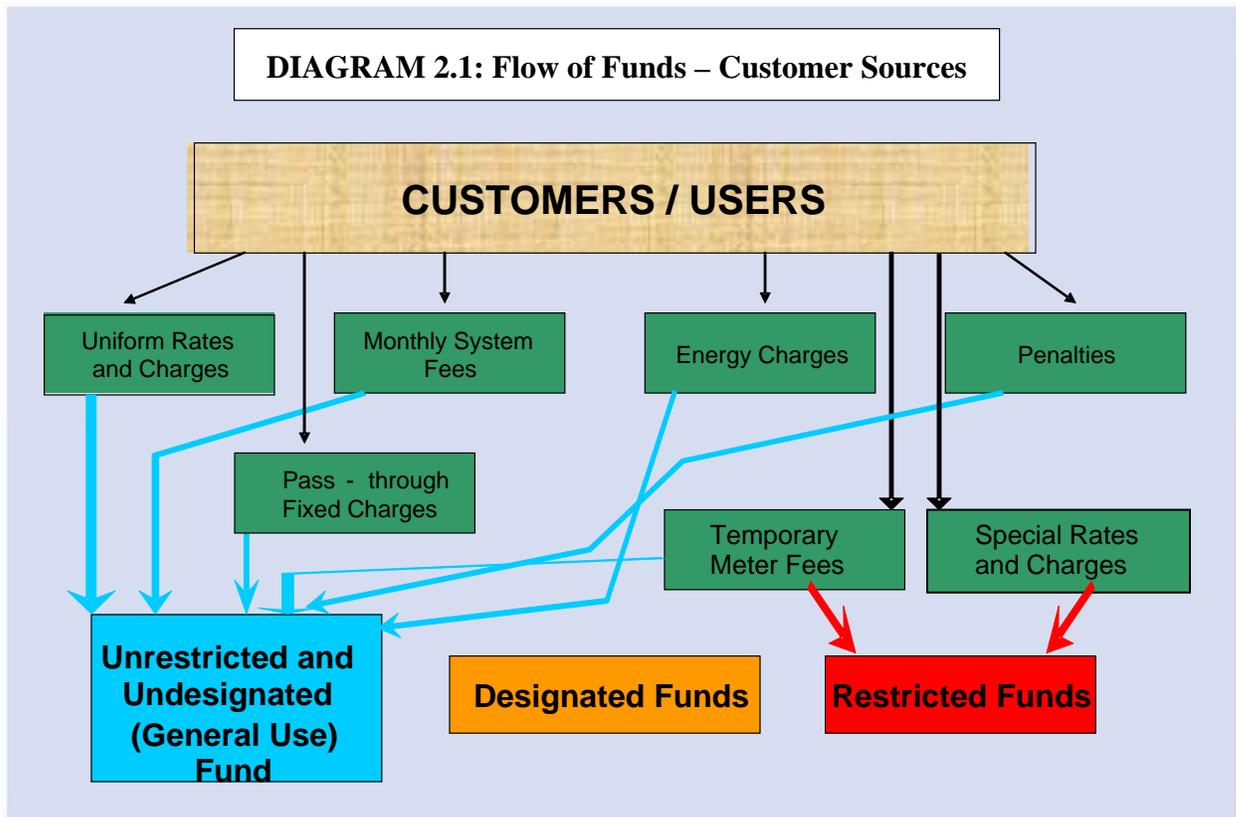
- North District water charge (code section 25.03H)
- ID 9 water charge (code section 25.03I)
- ID 3 water charge (code section 25.03J)
- ID 10 water charge (code section 25.03J)
- La Presa water charge (code section 25.03J)
- Russell Square sewer charge (code section 53.04C)

When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas that they were collected. Therefore, these are Restricted Funds by geographic area as well as by purpose. These fees however, can be used for maintenance, unlike the availability fees. These six special fees along with availability fees are tracked separately, by geographic area, so they can be evaluated for the target funding levels separately. To meet this need, each special rate and charge is accounted for in a “sub-fund” of the betterment fund.



g. Temporary Meter Fees (General Use/Restricted)

Water charges, in lieu of capacity fees, are charged on temporary meters. This is done because while temporary meters use system capacity they are not charged a capacity fee. Temporary water use is charged at two times the water rate with the added charge placed in the Restricted Expansion Fund. The primary users of these temporary meters are developers however; general customers also use these for various purposes.



2.2 County-Collected Taxes and Fees

a. General Levy Property Tax Receipts (1% Property Tax) (General Use)

In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of one percent of the assessed value. Subsequent legislation, AB 8, established that the receipts from the one percent levy were to be distributed to taxing agencies proportionate to each agency's general levy receipts prior to Proposition 13. Funds received are for general use.

b. Availability Charges (General Use/Restricted)

The District levies availability charges each year in developed and undeveloped areas. Current legislation provides that any amount up to \$10 per parcel is general use and any amount over \$10 per parcel is restricted to be expended in and for that Improvement District (ID). IDs were formed to provide the lowest cost funding possible for the development of water and sewer systems. Accordingly, the District may use any amount over \$10 to develop water and sewer systems which are either, expansion, betterment, or replacement. This portion is geographically restricted and restricted by purpose. The Restricted Funds are accounted for in "sub-funds" of the Betterment Fund (see 2.1 f.).

Availability fees can be used for the development of facilities consistent with the purpose of the ID which they are collected in, while special rates and fees can also cover the maintenance of those facilities. As charges are incurred on these projects the respective IDs are charged reducing the betterment fund. In the event that funds are not used, the Restricted Funds must be returned to the property owners that paid them. Therefore, the monies in this fund may only be used to finance the construction, installation, and maintenance of the systems within the geographic area of the specific IDs. The District has historically used these funds for

betterment capital facilities however, they are available for any facility construction purpose benefiting the ID whether replacement, betterment, or expansion.

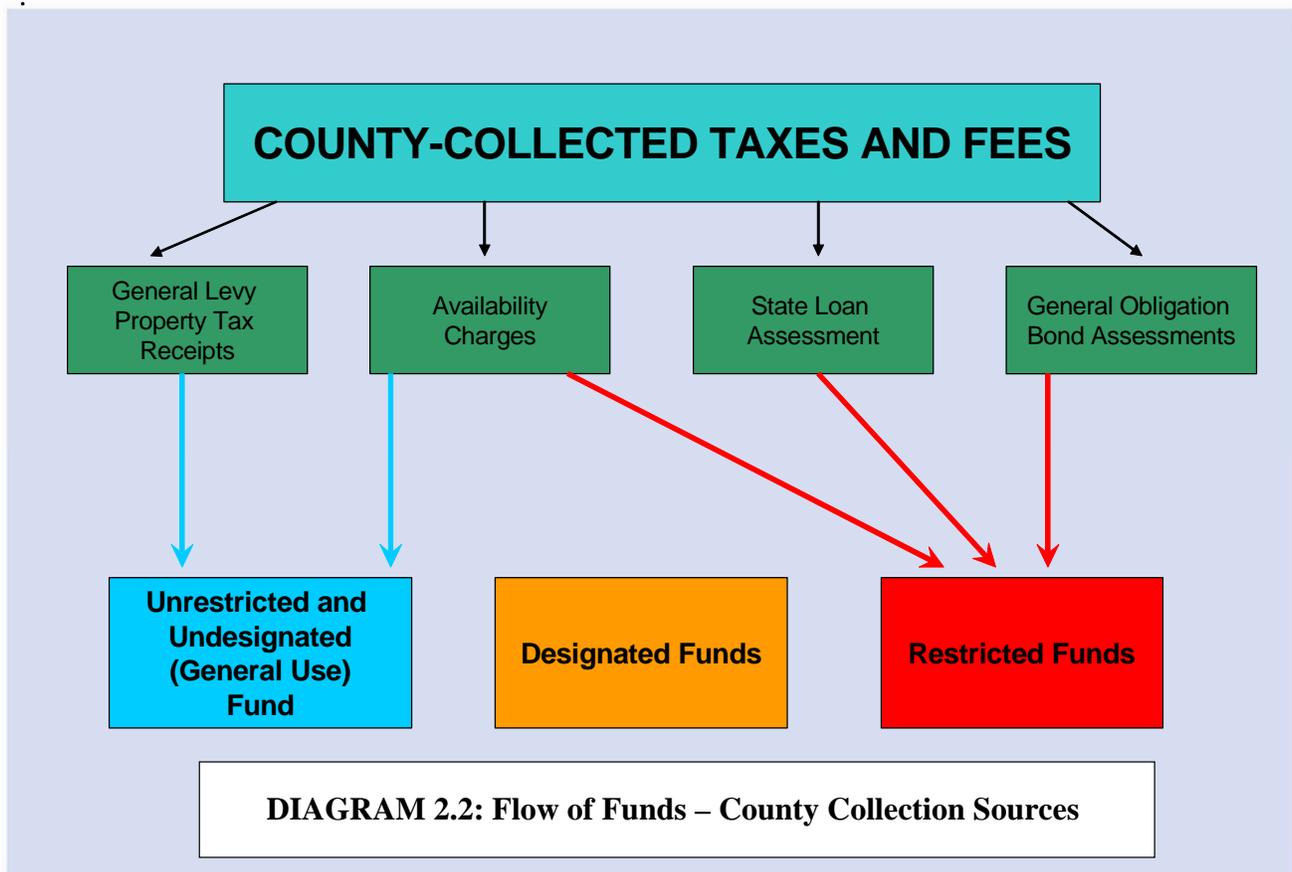
Each year the District sends notices to all new customers informing them of the availability fees and their purpose. This notice also informs the customers of the date and time of the public hearing to receive public comment on this fee. The availability fees are split between the Betterment Fund and the General Fund.

c. State Loan Assessment (Restricted)

The District assesses a \$54 charge per unit of sewer service each year on the sewer customers. This is collected via the County Tax Roll and is specifically collected for the repayment of the State Loan.

d. General Obligation (GO) Bond Assessments (Restricted)

The District occasionally issues GO debt and establishes an Improvement District for the repayment of that debt. When this financing method is used, the County Tax Roll can be used to collect funds and pay debt obligation



2.3 Miscellaneous Income

a. Miscellaneous Rents and Leases (General Use)

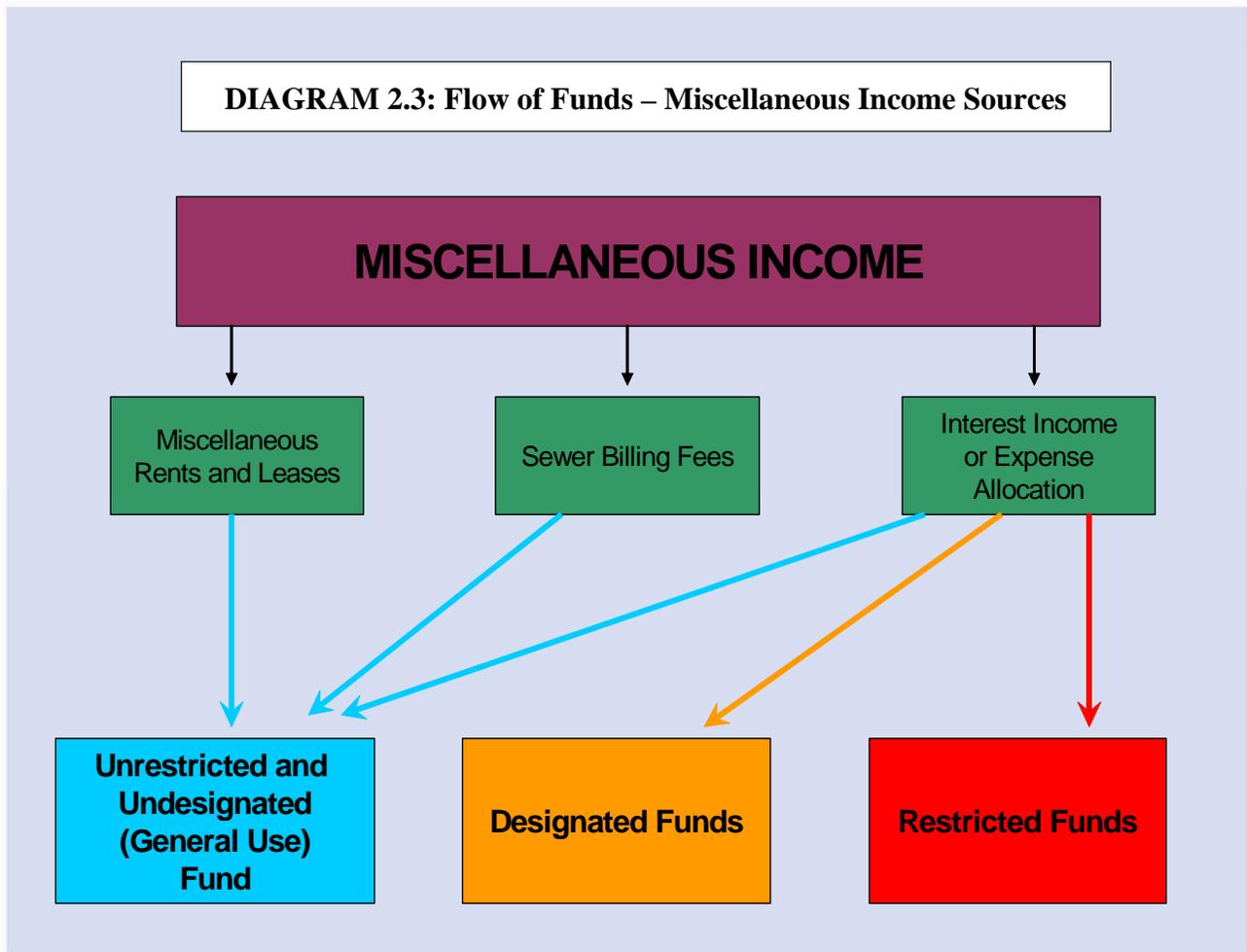
Revenues received from the rental and lease of District property. There is also a one-time fee charged with the set-up of each new lease. The District incurs expenses related to these rents and leases and this fee's purpose is to recover the cost to set up the lease.

b. Sewer Billing Fees (General Use)

Fees received from the City of Chula Vista for processing and billing of their sewer customers within our District.

c. Interest Income or Expense Allocation (General Use, Designated, and Restricted)

Interest income (expense) will be allocated each month based upon each fund's month-ending balance.



2.4 Debt Issuance

a. Loans (General/Restricted Use)

As the District determines that additional funding is required for a particular purpose the option of borrowing is considered. The determination to borrow is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. As an option to bond indebtedness, loans are available especially to satisfy short term financing needs. These loans may or may not be contractually restricted for a particular purpose.

b. General Obligation (GO) Bonds (Restricted)

As the District becomes more developed it becomes less likely that GO debt will be used as it requires a vote of the public to be approved. Bond proceeds are restricted for the construction of those facilities identified in the GO bond issuance. Occasionally, specific portions of bond proceeds may be allocated for the repayment of the principal and interest, also called debt service, on these bonds. As the District determines that additional funding is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action.

c. Certificates of Participation (Restricted)

General revenues of the District are pledged as security for COPs indebtedness. Before issuing COPs, the District will determine that additional funding is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate study update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. This form of financing has become the industry's preferred form of financing as it does not require a vote of the general public.

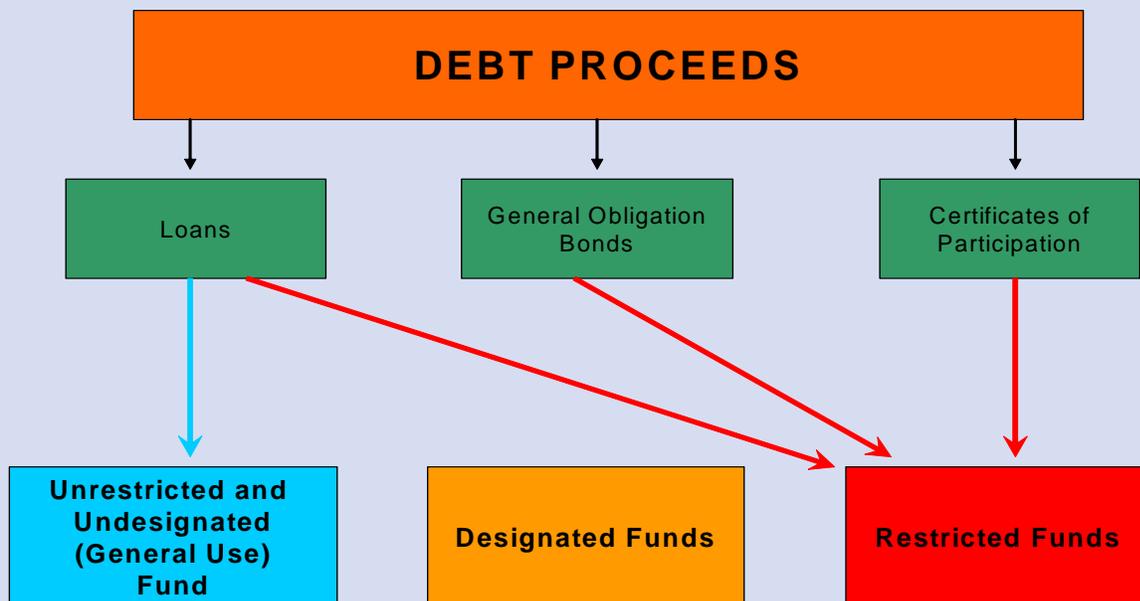


DIAGRAM 2.4: Flow of Funds – Debt Issuance Sources

2.5 Inter-fund Transfers

Each year in the budgeting process future reserve levels are projected over the next six years. Based on these projections, fund transfers are recommended. Monies may be transferred between Unrestricted and General Fund (see 4.0 “Funding Levels” and 4.1 “Fund Transfers”). Funds may not be transferred to or from any of the restricted funds.

Fund Types

3.0 General Funds

a. Purpose

The General Fund is neither restricted nor designated. The District maintains only one General Fund for each business segment (water, sewer, and recycled). This fund holds the working capital and emergency operating reserves. This fund can be used to supplement the District’s rates and charges and be a temporary source of revenue to balance the Operating Budget and avoid spikes in the rates or significant and abrupt increases. This would only occur if there was a temporary need for funds that would smooth out a rate spike or to ramp up what would otherwise be a dramatic rate increase.

This fund also plays a role in the debt planning of the District. It is an industry practice to have a fund that can be used to stabilize rates. This fund is viewed by the debt markets as a commitment by the District to ensure financial stability of the rates and charges of the District. The District is anticipated to issue a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also access low cost financing for future projects.

While the General Fund has a short-term focus to fund the District’s annual operations, it is supported by the six year rate model. This fund is primarily used to fund the operations of the District however; it can be used for any District purpose.

b. Sources

Meter installation charges, annexation fees, temporary meter fees, uniform rates and charges, monthly system fees, energy charges, penalties, pass-through fixed charges, general levy property tax receipts, availability charges, miscellaneous rents and leases, sewer billing fees, interest incomes or expense allocation, loans, and a portion of the temporary meter fees.

c. Levels

- i. **Minimum Level** – The minimum funding level for the General Fund is three months of operating budget expenses.
- ii. **Maximum Level** – The maximum funding level for the General Fund is nine months of operating budget expenses. In the event that this fund exceeds the seven month level, the excess will be evaluated or transferred to one or more of the designated funds.
- iii. **Target Level** – The target level of funding is three months of operating budget expenses. In the event that the fund drops below the target level rate increases or fund transfers would be considered.

3.1 Designated Funds

a. Purpose

Designated cash funds are “general use” funds that have been set apart by Board action for a specific purpose. These funds can only be used for those purposes. However, these funds are at the discretion of the Board and can be used for any other District purpose by an action of the Board. The District maintains designated cash funds as follows:

- Other Post Employment Benefits Fund (OPEB)
- Designated Expansion Fund
- Designated Betterment Fund
- Replacement Fund

Detailed descriptions of the funds are as follows:

i. **Other Post Employment Benefits Fund (OPEB)**

The OPEB Fund is used to fund the medical benefits of qualified retirees as outlined in the District’s benefits plan. It is fully funded by user rates. Every two years the fund is evaluated for additional funding requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, costs of health insurance, or general market conditions.

These funds are currently designated but may be placed into a trust effectively removing the District’s day-to-day access to the funds. This would allow the funds to offset the actuarial liability of the District to fund OPEB. However, these funds are currently designated and therefore, may be used at Board direction for any purpose.

ii. **Designated Expansion Fund**

The purpose of this fund is to supplement the financing of expansion projects. In the event the restricted expansion funds are not sufficient to fund the expansion projects these funds may be used. This fund must be evaluated in conjunction with the Restricted Expansion Fund as they work in concert.

There is significant interdependency between the District’s potable and recycled water systems. For this reason, the two systems are supported by one combined capacity fee. The same capacity fee is charge on all water connection regardless of whether they are potable or recycled. For this reason the Restricted and Designated Expansion Funds for these two business segments must be considered jointly when using the rate model and setting fees.

The District currently has not sewer expansion and therefore has no sewer capacity fees and no active sewer expansion funds.

This fund contains general use funds and at the direction of the Board may be used for any District purpose.

iii. **Designated Betterment Fund**

The purpose of this fund is to supplement the Restricted Betterment Fund for sewer, water, or recycled. The District maintains three separate designated betterment funds, one for each business segment. In the event a Restricted Betterment Fund is not sufficient to fund betterment projects this fund will be used. This fund must be evaluated in conjunction with the Restricted Betterment Fund as they work in concert. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.). This is a general use fund and at the direction of the Board may be used for any District purpose.



iv. **Replacement Fund**

The purpose of this fund is to pay for the replacement of capital infrastructure and capital purchases. This is a Designated Fund and was created to meet a portion of the District's replacement needs. This fund is not to be used for the replacement of non-capital items. Debt financing of replacement will be the primary source of funds for replacement however; this reserve is established to fund a portion of replacement and ensure that necessary replacements will occur regardless of the immediate availability of the debt markets. With the District's development of its financial systems and the greater need and ability to separate funds, the Replacement Fund has been separated into three funds: water, recycled, and sewer.



Projects undertaken solely for the purpose of replacing major capital equipment or facilities, i.e., where the cost exceeds \$10,000 for capital purchases or \$20,000 for infrastructure items, generally are not considered normal maintenance. Where the cost is below \$10,000 the costs are financed annually as operational maintenance. As charges are incurred on a replacement project the funds are deducted from the Replacement Fund on a monthly basis.



This is a Designated Fund and may be redirected for any purpose at Board direction.

b. Sources

The sources of funding for designated funds are limited to interfund transfers from available unrestricted funds (see 3.0 b.) and interest earnings on fund balances within designated funds. Unrestricted funds may come from other designated funds or from the General Fund. The operating budget is another source of designated general revenues. As a part of the normal budget process the general revenues are sufficient to fund a significant portion of the ongoing needs of the designated funds.

c. Levels Other Post Employment Benefits Fund

A. **Minimum Level** – Fully funded as identified under the actuarial study of the District’s OPEB liability.

B. **Maximum Level** – Fully funded as identified by an actuarial study. In the event that the fund is over funded, the District will target for the full funding within five (5) years reducing the annual funding levels.

C. **Target Level** – Fully funded to meet the actuarially defined valuation. In the event that the fund is not fully funded, the District will target for full funding within five (5) years by increasing funding levels. This increased funding would be in the form of either annual budget funding or fund transfers.



i. Designated Expansion Fund

A. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for expansion funds will decrease and eventually be reduced to zero. When considering the funding of expansion the Restricted Expansion Fund and the Designated Expansion Fund work in concert and must be considered jointly.

B. **Maximum Level** – The maximum level of this fund is limited to five years of unfunded expansion needs as described in the District’s CIP Budget. To determine the unfunded amount the total expansion costs must be reduced by the projected restricted expansion revenues. Bond financing is expected to fund a large portion of expansion.

C. **Target Level** – In order to facilitate debt financing of expansion, it is important that the expansion funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of expansion funds. If the combined expansion funds drop below six months of expenditures this would trigger either a transfer of general use funds or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Expansion Fund while transfers would be placed in the Designated Expansion Fund. If the combined expansion funds exceeded target the District should consider the need to reduce capacity fees or transferring designated funds to meet another purpose.

- ii. Designated Betterment Fund
- A. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for betterment funds will decrease and eventually be reduced to zero. When considering the funding of expansion the Restricted Betterment Fund and the Designated Betterment fund work in concert and must be considered jointly.
- B. **Maximum Level** – The maximum level of this fund is limited to five years of unfunded betterment needs as described in the District’s CIP Budget. To determine the unfunded amount the total betterment costs must be reduced by the projected restricted betterment revenues. Bond financing is expected to fund a large portion of betterment.
- C. **Target Level** – In order to facilitate debt financing of betterment, it is important that the betterment funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of betterment funds. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.). If the combined betterment funds drop below six months of expenditures this would trigger either a transfer of general use funds or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Betterment Fund while transfers would be placed in the Designated Betterment Fund. If this target is exceeded, then the District should evaluate reductions in the special water rates and availability fees and also consider transfers to other funds.
- iii. Replacement Fund
- A. **Minimum Level** – The minimum level of funding is 3% of the historical value of existing assets as identified in the District’s current financial statement.
- B. **Maximum Level** – The maximum level of funding is 6% of existing assets. In the event the maximum level is exceeded in any year, then the excess will be transferred as per the general transfer guidelines found in Section IV.
- C. **Target Level** – The target level of funding is 4% of existing assets. In the event that the fund falls below the recommended target level, transfers or operating revenues would be shifted to support the Replacement Funds. The District will act based on the annual five (5) year rate study to insure that at the end of that planning horizon the fund exceeds the minimum level and is approaching the target level.

3.2 Restricted Funds

a. Purpose

Restricted cash funds are those that are legally set aside for a particular purpose and cannot be used for any other purpose. The District maintains three Restricted Funds:

- Restricted Expansion Fund
- Restricted Betterment Fund
- Debt Reserve Fund

The definition and purpose of each of these funds is described below:

i. Restricted Expansion Fund

The Restricted Expansion Fund works hand-in-hand with the Designated Expansion Fund. When evaluating the need for additional funding, both the restricted and designated funds must be considered as one fund. The sole purpose of this fund is to construct potable, recycled, and sewer facilities to the extent they serve the expansion needs of the District. Recycled and potable are jointly accounted for as these water systems work in concert. The sewer expansion is accounted for separately but is currently inactive as there is no sewer expansion.

This fund is restricted by law and therefore is a Restricted Fund that can be used for no other purpose. Government Code section 66001 requires that these funds be accounted for separately and upon request that an accounting be provided. In addition, five years after the first deposit into the account or fund, the Code requires the District make specific findings regarding any unexpended funds, whether those funds are committed to expenditure or not (Government Code section 66001). The same findings must continue to be made once every five years thereafter. If the findings are not made, the statute requires the District refund the fees to the current owner of the affected property. The manner of the refund is at the District's discretion.



As charges are incurred on a project, and the project has been identified as an expansion project, the costs are deducted from the Expansion Fund. This allocation of funds is done on a monthly basis. In the event that funds are not used for the expansion of District facilities the funds must be returned to the developers who paid them. In the case where a policy change requires a betterment project that would have been an expansion project at the time the capacity fee was collected, reserves may be used for that betterment project. The expansion reserves may also be used for bond repayment, to the extent the debt was incurred to fund expansion.

ii. Restricted Betterment Fund

The Betterment Reserve covers the cost to construct, install, and in some cases to maintain the potable, recycled, and sewer systems. The District maintains three separate designated betterment funds, one for each business segment. These funds are restricted by law for use within the area in which the fees are collected (Water Code 71631.6). However, the legal restriction of this fund depends upon the particular revenue source. (see Section 2.1 f. for a review of the special rates and availability fees).

iii. Debt Reserve Fund

The purpose of the Debt Reserve Fund is to pay periodic principal and interest debt payments on the outstanding debt. As these payments are made the funds are reduced. As additional debt is incurred, new property tax assessments may be authorized funded

from assessments on the Property Tax Roll. Annually, the District sets the tax rate at a level necessary to fund that year's debt payments. These rates are applied to the assessed valuation of the property. Changes in property values in assessment areas result in inverse fluctuations in the tax rate necessary to generate the required debt payments.

In other cases, such as assessment districts, the debt service is funded through an assessment being levied on each parcel within the district. In assessment districts, the amount of the levy will vary by parcel and is based on the amount of benefit that parcel received from the improvement.

In addition, debt service may be funded through water rates. In the case of funding from water rates, there would not be a restriction on those debt reserve funds. They may remain in the General Fund or be placed in a Designated Fund if the Board were to take specific action to designate rate funds for the purpose of debt payments.

These funds are legally restricted for the specific debt issuance for which they are collected. These funds are not available for any other purpose and may not be designated for any other purpose. If these funds are not used for the payment of the specific debt for which they are collected they must be returned to the customers who made the tax roll payments. The District must evaluate the exact need of funds to avoid the costly reimbursement process.

b. Sources

Temporary meter fees and capacity fees fund expansion while special rates and charges and availability charges fund the betterment fund. The debt reserves are funded by the State Loan Assessment, and GO bond assessments. Each debt fund can also be funded with the proceeds of the debt. Lastly, each fund is allotted its share of the interest income or expense.

c. Levels

i. Restricted Expansion Fund

A. **Minimum Level** – While there is no minimum balance, an action is required when the balance of the combined Restricted Expansion Fund and the Designated Expansion Fund drops below six months of expenditures. This would trigger either a transfer of funds from a non-Restricted Fund or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Expansion Fund while transfers would be placed in the Designated Expansion Fund.

B. **Maximum Level** – The maximum of this fund is limited not by a particular dollar amount but by the limited ability to collect funds for this purpose. This limitation is mandated by Government Code section 66001. Under the Code, the District must identify the purpose of the fee and the use to which it will be put, effectively establishing a nexus between the development project or class of project and the improvement being financed. The District must further establish that the amount of the funds being collected will not exceed that needed to pay for the improvement (Government Code section 66005). Under this mandate, also referred to as AB 1600, the Mitigation Fee Act and Government Code

sections 66000 et seq., the District can only collect capacity fees for expansion projects. To insure compliance with this, the District performs periodic rate studies, a part of which is the calculation of the legally defensible capacity fee. Therefore, the District is limited in this fund by the nexus between the need for expansion expenditures and the fee that is approved for its collection.

With the lack of a dollar limitation for the maximum, it is incumbent on the District to maintain the planned construction of capital infrastructure. While building ahead of the need makes it unlikely that the capacity fees will accumulate to any great degree, significant delays in construction may result in high levels of the Restricted Expansion Fund. This is one reason why the District reports to the Board on a periodic basis the progress of the CIP spending. Further, the annual update of the rate model brings the Restricted and Designated Expansion Fund balances to the Board's attention. Also, the District provides annual Developer meetings where the existing and projected reserve levels are reviewed.

C. **Target Level** – In order to facilitate debt financing of expansion, it is important that the expansion funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of expansion funds.



ii. Restricted Betterment Fund

A. **Minimum Level** – While there is no minimum, less than six months of available funds in the combined Restricted Betterment and Designated Betterment Funds would trigger either a transfer of funds from a non-Restricted Fund or a borrowing of funds with a bond sale. Bond funds would be placed in the Restricted Betterment Fund while transfers would be placed in the Designated Betterment Fund.

B. **Maximum Level** – The maximum to be retained in this fund is five years of unfunded CIP betterment expenditures as defined in the CIP budget forecast. To determine the unfunded amount the total betterment costs must be reduced by the projected restricted betterment revenues. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees and also consider transfers to other funds.

C. **Target Level** – In order to facilitate debt financing of betterment, it is important that the betterment funds retain a reserve of six months prior to any attempt to obtain bond financing. This reserve allows the District the time necessary to issue additional debt without running out of betterment funds. When considering the funding levels for betterment funds there are multiple sub-funds within betterment that must be individually considered (see 2.1 f.).

iii. Debt Reserve Fund

A. **Minimum Level** – As debt service payments are made the funds may be completely depleted if no other payments are required.

- B. **Maximum Level** – Sufficient to pay the periodic annual debt service payments. As levels approach this maximum, the District must evaluate the rate at which funds are being collected so as to not over collect. Reductions in the tax rates have been common as property values have risen. Even if the maximum is exceeded, no refunds would occur if future debt payments are necessary. The action required if funds exceed the maximum is a reduction of the rate of collection which will bring the balance down over time.
- C. **Target Level** – The target level of funds for the various debt issuances is six months of debt service. This target level will be reduced as the term of the debt comes to a close.

FUND	ACTIONS TO CONSIDER IF BELOW TARGET	TARGET	MAXIMUM
Restricted Expansion Fund *	Capacity fee increase Bond financing	Six months of capital expenditures	Nexus of cost to fee
Restricted Betterment Funds **	Rate increase Bond financing	Six months of capital expenditures	5 yr unfunded needs
Debt Reserve Fund	Increase tax collection	One semi-annual payment	Two semi-annual payments
Designated Expansion Fund *	Fund transfers	Six months of capital expenditures	5 yr unfunded needs
Designated Betterment Fund **	Fund transfers	Six months of capital expenditures	5 yr unfunded needs
OPEB Fund	Fund transfers	Full funding	Full funding
Replacement Fund	Fund transfers	4% of infrastructure	6% of infrastructure
General Fund	Rate increase Fund transfers	Three months of operating budget expenses	Nine months

DIAGRAM 3.0: Fund Targets

* Expansion needs must consider the Restricted and Designated Expansion Funds as well as any available bond financing.
 ** Betterment needs must consider the Restricted and Designated Betterment Funds as well as any available bond financing

Fund Transfers

4.0 Funding Levels

As described in the preceding sections, the District maintains funds for its operating and capital activities. These funds fall into three accounting categories; 1) unrestricted and undesignated, or general use funds, 2) designated, and 3) restricted. The source of the money for each fund was discussed along with the purpose, source of funds, and levels. Key determinants of these funds are the target levels, minimums, and maximums. The funding levels must be viewed in the context of the economic environment, political environment, and must always be viewed in light of a District's rate model. The District's six-year rate model not only shows the current balance but also shows the trend of the fund balances. Often the trend of the fund is a greater indicator of financial stability than is the current balance.

The rate model is updated each year with the budget process and evaluates each fund over the next six years. The rate model will take into account the general economic environment, looking at the development rate, supply rate increases, the possibility of raising rates, capital infrastructure spending, and strategic plan initiatives. The fund balances may at times be over the target amount or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the District's financial activities and the guidelines of this policy.

4.1 Fund Transfers

A significant portion of the funding for the District's designated funds comes from interfund transfers from the Unrestricted or General Funds. It is important to note that the District has the ability to use General Funds for any business purpose. General Funds may be transferred to any other unrestricted fund for any business need. Designated funds are General Funds which have been set aside for a specific purpose by Board action. These funds can only be used for the purpose they were designated, or with Board action, they may be used for any business purpose. General Funds may also be used for any restricted purpose but are not transferred to Restricted Funds due to the sensitivity of the tracking of Restricted Funds. If funds are needed for a restricted purpose they are transferred to a Designated Fund identified with the restricted purpose. Restricted Funds may only be used for the purpose that they were collected therefore no transfers are made to or from these funds.

In many situations, fund transfers are expected as some funds will exceed their maximum or drop below their minimums. Only funds that are below the stated target are eligible to receive transferred funds. Funds that exceed their maximums are first to be considered for transfers out followed by funds that exceed their targets. Funds that exceed their minimums are also available for fund transfer out but only when other options are not available.

The rationale for prioritizing fund transfers is based on the immediacy of the need and the availability of funds from other funding sources. For example, the General Fund is first to receive funds when it drops below its target or minimum levels. This is because of the immediate and ongoing nature of the expenditures that are served by this fund. The operation of the District is first and foremost of the objectives of the District. On the other end of the spectrum, the Replacement Fund has a long-term perspective and will be used to partially fund replacement assets for many years to come. Debt financing is available to respond to this long

term, foreseeable, and planned cash flow. This fund is less likely to have immediate needs and has other funding options.

When making the determination of when transfers are necessary, all funds work as independent funds. The exceptions to this rule are the two expansion funds (one restricted and one designated) and the two betterment funds (one restricted and one designated). Each of these two sets of funds work as one but are kept separate due to the significant difference in the fund types, one being restricted and one originating from General Funds. It is unlikely to have high immediacy of need in these funds as they, like the Replacement Fund, are long term in nature and have debt financing as an alternative funding source.

As an example, if during the rate model update process it was determined that the expansion funds (designated and restricted) would drop and stay below the minimum during the planning horizon, this would trigger a bond sale or a transfer of unrestricted funds. If in the cash planning process, it was anticipated that the General Fund would remain above target during the planning horizon of six (6) years and that the trend did not present a problematic underfunded status, then those funds would be considered available for transfer prior to making funds available from the sale of bonds. Also, if during this period another Designated Fund was anticipated to exceed its maximum then the excess would be transferred to the Designated Expansion Fund prior to any other transfers. Funds are evaluated to determine which has the greatest need or availability of funds before any fund transfer recommendation is presented to the Board.



RESERVE POLICY GLOSSARY

The Reserve Policy contains terminology that is unique to public finance and budgeting. The following glossary provides assistance in understanding these terms.

Annexation Fees: Whenever utility service is requested for land outside the boundaries of an improvement district, the land to be serviced must first be annexed. The annexation fee for water was set on March 3, 1997 at \$1,000 per EDU. The fee for sewer annexation was set at \$3,819 on December 16, 1998. These base rates are adjusted quarterly according to a cost of living index.

Assets: Resources owned or held by Otay Water District that have monetary value.

Availability Fees: The District levies charges each year in developed areas to be used for upgrades, betterment, or replacement and in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be used only for the purpose of the improvement district for which it was assessed.

Betterment Fees: In addition to other applicable water rates and charges, water customers pay a fee based on water service zone or Improvement District. These fees are restricted for use in the area where they are collected and may be used for the construction and maintenance of facilities.

Bond: A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are authorized in a District bond resolution. The most common types of bonds are General Obligation (GO) bonds and Certificates of Participation (COPs). These are frequently used for construction of large capital projects such as buildings, reservoirs, pipelines and pump stations.

Capital Equipment: Fixed assets such as vehicles, marine equipment, computers, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000.

Capital Improvement Program: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

CWA: The County Water Authority was organized in 1944 under the State County Water Authority Act for the primary purpose of importing Colorado River water to augment the local water supplies of the Authority's member agencies. The Authority purchases water from the Metropolitan Water District of Southern California (MWD) which imports water from the Colorado River and the State Water Project.

Debt Service: The District's obligation to pay the principal and interest of bonds and other debt instruments according to a predetermined payment schedule.

Expenditures/Expenses: These terms refer to the outflow of funds paid or to be paid for an asset, goods, or services obtained regardless of when actually paid for. (Note: An encumbrance is not an expenditure). An encumbrance reserves funds to be expended in a future period.

Fund: An account used to track the collection and use of monies for a specifically defined purpose.

Fund Balance: The current funds on hand resulting from the historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the results of operations.

Interest Income: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to the various funds each month based upon each fund's prior month-ending balance.

Late Charges/Penalties: Charges and penalties are imposed on customer accounts for late payments, returned checks, and related telephone contacts.

Operating Budget: The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel, and does not include purchases of major capital plant or equipment which is budgeted for separately in the Capital Budget. The Operating Budget also identifies planned non-operating revenues and expenses.

Revenue: Monies that the District receives as income. It includes such items as water sales and sewer fees. Estimated revenues are those expected to be collected during the fiscal year.

System Fees: Each water service customer pays a monthly system charge for water system replacement, maintenance, and operation expenses. The charge is based on the size of the meter and class of service.

Taxes: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on General Obligation bonds approved by the voters prior to July 1, 1978.

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. All non-residential customers are charged a flat rate per unit. A unit of water is 100 cubic feet or 748 gallons of water.

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INVESTMENT POLICY

1.0 Policy

It is the policy of the Otay Water District to invest public funds in a manner which will provide maximum security with the best interest return, while meeting the daily cash flow demands of the entity and conforming to all state statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all financial assets of the Otay Water District. The District pools all cash for investment purposes. These funds are accounted for in the District's audited Comprehensive Annual Financial Report (CAFR) and include:

- 2.1 General Fund
- 2.2 Capital Project Funds
 - 2.2.1 Designated Expansion Fund
 - 2.2.2 Restricted Expansion Fund
 - 2.2.3 Designated Betterment Fund
 - 2.2.4 Restricted Betterment Fund
 - 2.2.5 Designated Replacement Fund
- 2.3 Other Post Employment Fund (OPEB)
- 2.4 Debt Reserve Fund

Exceptions to the pooling of funds do exist for tax-exempt debt proceeds and deferred compensation funds. Funds received from the sale of general obligation bonds, certificates of participation or other tax-exempt financing vehicles are segregated from pooled investments and the investment of such funds are guided by the legal documents that govern the terms of such debt issuances.

3.0 Prudence

Investments should be made with judgment and care, under current prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "Prudent Person" and/or "Prudent Investor" standard (California Government Code 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations

from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective

As specified in the California Government Code 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

- 4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Otay Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.
- 4.2 Liquidity: The Otay Water District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.
- 4.3 Return on Investment: The Otay Water District's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Authority to manage the Otay Water District's investment program is derived from the California Government Code, Sections 53600 through 53692. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer (CFO), who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the CFO.

The CFO shall establish written investment policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment

portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

7.0 Authorized Financial Dealers and Institutions

The Chief Financial Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers who are authorized to provide investment services in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the District with the following, as appropriate:

- Audited Financial Statements.
- Proof of National Association of Security Dealers (NASD) certification.
- Proof of state registration.
- Completed broker/dealer questionnaire.
- Certification of having read the District’s Investment Policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the CFO. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

8.0 Authorized and Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. The District is governed by the California Government Code, Sections 53600 through 53692, to invest in the following types of securities, as further limited herein:

- 8.01 United States Treasury Bills, Bonds, Notes or those instruments for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.
- 8.02 Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by State Law (currently \$40 million). The District may also invest bond proceeds in LAIF with the same but independent maximum limitation.
- 8.03 Bonds, debentures, notes and other evidence of indebtedness issued by any of the following government agency issuers:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- Federal National Mortgage Association (FNMA or "Fannie Mae")
- Government National Mortgage Association (GNMA or "Ginnie Mae")
- Student Loan Marketing Association (SLMA or "Sallie Mae")
- Federal Farm Credit Bank (FFCB)

There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

- 8.04 Interest-bearing demand deposit accounts and Certificates of Deposit (CD) will be made only in Federal Deposit Insurance Corporation (FDIC) insured accounts. For deposits in excess of the insured maximum of \$100,000, approved collateral shall be required in accordance with California Government Code, Section 53652. Investments in CD's are limited to 15 percent of the District's portfolio.
- 8.05 Commercial paper, which is short-term, unsecured promissory notes of corporate and public entities. Purchases of eligible commercial paper may not exceed 10 percent of the outstanding paper of an issuing corporation, and maximum investment maturity will be restricted to 270 days. Investment is further limited as described in California Government Code, Section 53601(g). Purchases of commercial paper may not exceed 15 percent of the District's portfolio.
- 8.06 Medium-term notes defined as all corporate debt securities with a maximum remaining maturity of five years or less, and that meet the further requirements of California Government Code, Section 53601(j). Investments in medium-term notes are limited to 15 percent of the District's portfolio.
- 8.07 Money market mutual funds that invest only in Treasury securities and repurchase agreements collateralized with Treasury securities, and that meet the further requirements of California Government Code, Section 53601(k). Investments in money market mutual funds are limited to 15 percent of the District's portfolio.
- 8.08 The San Diego County Treasurer's Pooled Money Fund, which is a County managed investment pool, may be used by the Otay Water District to invest excess funds. There is no percentage limitation of the portfolio which can be invested in this category.
- 8.09 Under the provisions of California Government Code 53601.6, the Otay Water District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment that may result in a zero interest accrual if held to maturity. Also, the borrowing of funds for investment purposes, known as leveraging, is prohibited.

9.0 Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc., utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

10.0 Collateralization

Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

11.0 Safekeeping and Custody

All security transactions entered into by the Otay Water District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the District and evidenced by safekeeping receipts.

12.0 Diversification

The Otay Water District will diversify its investments by security type and institution, with limitations on the total amounts invested in each security type as detailed in Paragraph 8.0, above, so as to reduce overall portfolio risks while attaining benchmark average rate of return. With the exception of U.S. Treasury securities, government agencies, and authorized pools, no more than 50% of the District's total investment portfolio will be invested with a single financial institution.

13.0 Maximum Maturities

To the extent possible, the Otay Water District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five years from the date of purchase. However, for time deposits with banks or savings and loan associations, investment maturities will not exceed two years. Investments in commercial paper will be restricted to 270 days.

14.0 Internal Control

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

15.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The Otay Water District's investment strategy is passive. Given this strategy, the basis used by the CFO to determine whether market yields are being achieved shall be the State of California Local Agency Investment Fund (LAIF) as a comparable benchmark.

16.0 Reporting

The Chief Financial Officer shall provide the Board of Directors monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value, and market value.
- Percentage of the portfolio represented by each investment category.

17.0 Investment Policy Adoption

The Otay Water District's investment policy shall be adopted by resolution of the District's Board of Directors. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

INVESTMENT POLICY GLOSSARY

Active Investing: Active investors will purchase investments and continuously monitor their activity, often looking at the price movements of their stocks many times a day, in order to exploit profitable conditions. Typically, active investors are seeking short term profits.

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker/Dealer: Any individual or firm in the business of buying and selling securities for itself and others. Broker/dealers must register with the SEC. When acting as a broker, a broker/dealer executes orders on behalf of his/her client. When acting as a dealer, a broker/dealer executes trades for his/her firm's own account. Securities bought for the firm's own account may be sold to clients or other firms, or become a part of the firm's holdings.

Certificate of Deposit (CD): A short or medium term, interest bearing, FDIC insured debt instrument offered by banks and savings and loans. Money removed before maturity is subject to a penalty. CDs are a low risk, low return investment, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from a few months to several years.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured short-term promissory note, issued by corporations, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report Report (CAFR): The official annual report for the Otay Water District. It includes detailed financial information prepared in conformity with generally accepted accounting principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a set date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Depenture: A bond secured only by the general credit of the issuer.

Delivery Versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivatives: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures deposits in member banks and thrifts, currently up to \$100,000 per deposit.

Federal Farm Credit Bank (FFCB): The Federal Farm Credit Bank system supports agricultural loans and issues securities and bonds in financial markets backed by these loans. It has consolidated the financing programs of several related farm credit agencies and corporations.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Bank (FHIB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

Federal Home Loan Mortgage Corporation (FHLMC Or Freddie Mac): A stockholder owned, publicly traded company chartered by the United States federal government in 1970 to purchase mortgages and related securities, and then issue securities and bonds in financial markets backed

by those mortgages in secondary markets. Freddie Mac, like its competitor Fannie Mae, is regulated by the United States Department of Housing and Urban Development (HUD).

Federal National Mortgage Association (FNMA Or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA Or Ginnie Mae): A government owned agency which buys mortgages from lending institutions, securitizes them, and then sells them to investors. Because the payments to investors are guaranteed by the full faith and credit of the U.S. Government, they return slightly less interest than other mortgage-backed securities.

Interest-Only Strips: A mortgage backed instrument where the investor receives only the interest, no principal, from a pool of mortgages. Issues are highly interest rate sensitive, and cash flows vary between interest periods. Also, the maturity date may occur earlier than that stated if all loans within the pool are pre-paid. High prepayments on underlying mortgages can return less to the holder than the dollar amount invested.

Inverse Floater: A bond or note that does not earn a fixed rate of interest. Rather, the interest rate is tied to a specific interest rate index identified in the bond/note structure. The interest rate earned by the bond/note will move in the opposite direction of the index. An inverse floater increases the market rate risk and modified duration of the investment.

Leverage: Investing with borrowed money with the expectation that the interest earned on the investment will exceed the interest paid on the borrowed money.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Agency Investment Fund (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Mutual Funds: An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds raise money by selling shares of the fund to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds, and money market instruments.

Money Market Mutual Funds: An open-end mutual fund which invests only in money markets. These funds invest in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper.

National Association Of Securities Dealers (NASD): A self-regulatory organization of the securities industry responsible for the operation and regulation of the NASDAQ stock market and over-the-counter markets. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Passive Investing: An investment strategy involving limited ongoing buying and selling actions. Passive investors will purchase investments with the intention of long term appreciation and limited maintenance, and typically don't actively attempt to profit from short term price fluctuations. Also known as a buy-and-hold strategy.

Primary Dealer: A designation given by the Federal Reserve System to commercial banks or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions. These dealers submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission registered securities broker/dealers, banks, and a few unregulated firms.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Public Securities Association (PSA): A trade organization of dealers, brokers, and bankers who underwrite and trade securities offerings.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Range Note: An investment whose coupon payment varies and is dependent on whether the current benchmark falls within a pre-determined range.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Regional Dealer: A securities broker/dealer, registered with the Securities & Exchange Commission (SEC), who meets all of the licensing requirements for buying and selling securities.

Repurchase Agreement (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

Secondary Market: A market made for the purchase and sale of outstanding securities issues following their initial distribution.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Sec Rule 15C3-1: See Uniform Net Capital Rule.

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.), and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Student Loan Marketing Association (SLMA or Sallie Mae): A federally established, publicly traded corporation which buys student loans from colleges and other lenders, pools them, and sells them to investors.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

DEBT POLICY

1.0 Policy

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

2.0 Scope

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

3.0 Legal & Regulatory Requirements

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

4.0 Capital Facilities Funding

Financial Planning

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

Funding Criteria

The Chief Financial Officer (CFO) will evaluate all capital project requests and develop a proposed funding plan. Priority may be given to those projects that can be funded with current resources (annual cash flow, fund balances or reserves). Those projects that cannot be funded with current resources may be deferred or the CFO may recommend that they be funded with

debt financing. However, debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term cash-flow instruments is excluded from this limitation.

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

Funding Sources

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

Pay-As-You-Go Projects

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

1. The project be deferred until funds are available, or
2. Based on the priority of the project, long-term debt is issued to finance the project.

Debt Financed Projects

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

1. The life of the project or asset to be financed is 10 years or longer and its useful life is expected to exceed the term of the financing.
2. Revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed without jeopardizing the credit rating of the District.
3. Market conditions present favorable interest rates and demand for District financing.
4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.
5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.

5.0 Debt Structure

General

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

Limitations on the Issuance of Variable Rate Debt

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

The comparison will be based on the following criteria:

1. The interest rate used to estimate interest costs will be the 10 year average for weekly variable rates.
2. The variable rate debt costs will include an estimate for annual costs such as letter of credit fees, liquidity fees, remarketing fees, monthly draw fees and annual rating fees applicable to the letter of credit.
3. Any potential reserve fund earnings will reduce the fixed rate debt service or variable rate debt service as applicable.

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

Variable rate debt should not represent more than 25% of the District's total debt portfolio. This level of exposure to interest rate fluctuations is considered to be manageable in an environment of increasing interest rates. At a higher ratio than this, the District might be faced with an

unplanned water rate increase to meet its Rate Covenants. Rating agencies use this ratio in their analysis of the District's overall credit rating.

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

6.0 Credit Objectives

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

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

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

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

7.0 Competitive and Negotiated Sale Criteria

Competitive Sale

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

Negotiated Sale

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

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

8.0 Refunding Debt

Purpose

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

1. Lower annual debt service by taking advantage of lower current interest rates.
2. Update or revise covenants on outstanding debt issue if a Rate Covenant appears to be too high, has precluded the District from implementing its financing plan, or has caused the District to increase rates to customers.
3. Restructure debt service associated with an issue to facilitate the issuance of additional debt, usually in order to smooth out peaks in total debt service which can occur frequently as one debt issue is layered on top of existing debt issues.
4. Alter bond characteristics such as call provisions or payment dates.
5. Pay for conversion costs such as funding a reserve fund or paying for credit enhancement when converting variable rate debt to fixed rate debt.

Restrictions on Refunding

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

Savings Criteria

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

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

9.0 Subordinate Lien Debt

The District will issue subordinate lien debt only if it is financially beneficial to the District or consistent with creditworthiness objectives. Subordinate lien debt is structured to be payable second in priority to the District's other outstanding debt. Typically, subordinate lien debt might

be issued if the District desired a more flexible Rate Covenant with respect to its new obligations and did not want to refinance all of its existing debt to obtain that less restrictive Rate Covenant.

10.0 Derivatives

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

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

11.0 Financing Participants

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

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

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

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

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

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

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

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

Municipal Bond Insurer: The Municipal Bond Insurer can be one of several insurance companies that provide municipal bond insurance policies securing payment of the District's debt. These policies provide that the Municipal Bond Insurer will pay the District's debt in the event that the District defaults on its payments. Debt which is insured carries the Municipal Bond Insurer's credit rating, in most cases, AAA. The insurance premium for the bond insurance policy is paid one time at the issuance of the debt and is non-cancelable for the term of

the debt. Unlike a letter of credit, bond insurance policies do not provide liquidity and are most typically purchased for fixed rate debt.

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

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

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

12.0 Conflict Of Interest And Standards Of Conduct

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

13.0 Continuing Disclosure

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

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

14.0 Investment & Arbitrage Compliance

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

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

15.0 Types of Debt Financing

General Obligation Bonds

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

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

Voters within Improvement District No. 27 of the District authorized \$100 million general obligation bonds in 1989. The District issued \$11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately \$29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts

throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

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

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

Revenue Bonds

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

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

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

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

Lease/Purchase Agreements

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

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

State Water Loans

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

Land Based Financing

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

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

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

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

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

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

16.0 Rating Agency Applications

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

17.0 Use of Credit Enhancement

Credit enhancement is a generic term that means any third-party guarantee of debt service. Credit enhancement providers include municipal bond insurance companies or financial institutions. The purchase of credit enhancement allows the District's bond issue to carry the same credit rating as the credit provider. The District will seek to use credit enhancement when

such credit enhancement proves cost-effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines.

Fixed Rate Bonds

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

Variable Rate Bonds

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

DEBT POLICY GLOSSARY

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

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

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

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

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

Basis Point: One one-hundredth of one percent.

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

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

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

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

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

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

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

CIP: Capital Improvement Program.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Appendix

GLOSSARY

The Fiscal Budget contains terminology that is unique to public finance and budgeting. The following budget glossary provides assistance in understanding these terms.

Accrual Basis of Accounting: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of cash receipts and disbursements.

Acre-Foot: The volume of water that will cover one acre to a depth of one foot. One acre-foot equals 435.6 units or 325,850 gallons.

Additional Systems Fees: Effective May 1, 1986, each customer receiving water service in the Improvement District 9 water service zone pays an additional monthly meter system charge of \$2.00 for each meter in service.

Annexation Fees: Whenever utility service is requested for land outside the boundaries of an improvement district, the land to be serviced must first be annexed. The annexation fee for water was set on May 30, 2006 at \$1,411 per EDU. The fee for sewer annexation was set at \$3,819 on December 16, 1998. These base rates are adjusted quarterly according to a cost of living index. The rates as of July 1, 2008 are \$1,519 and \$5,165 for water and sewer, respectively.

Appropriation: The annual budget adopted by the District's Board for monitoring and control purposes, serving as a financial plan.

Assets: Resources owned or held by the District that have monetary value.

Availability Fees: The District levies charges each year in developed areas to be used for general purposes for construction of facilities, and in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be restricted only for the purpose of constructing facilities in the improvement district for which it was assessed.

Balanced Budget: A balanced financial plan, for a specified period of time that matches all planned revenues and expenditures with various services. The District uses a fiscal year beginning each July 1 and ending each June 30 for budgetary and financial reporting purposes.

Betterment Fees: In addition to other applicable water rates and charges, certain water customers pay a fee based on water service zone or improvement district. These are restricted for the use in the area where they are collected and may be used for the construction and maintenance of facilities.

GLOSSARY

Betterment Fees for Maintenance: The Operating Budget earns betterment fees for maintenance work performed on infrastructure within special betterment zones, where fees are collected for the construction and maintenance of these specific assets.

Bond: A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are authorized in a District bond resolution. The most common types of bonds are general obligation (GO) bonds and Certificates of Participation (COPs). These are frequently used for construction of large capital projects such as buildings, reservoirs, pipelines and pump stations.

Budget Basis: The budget and accounting basis for the District is recognized on an accrual basis. Accrual basis means that revenues are recognized when earned and expenses are recognized when incurred.

Capacity Fee: A connection fee is charged when a new water meter is placed into service. This fee is based on the estimated construction cost of expansion of the system to meet the needs of all future customers. This fee covers the cost including, but is not limited to, planning, design, construction, and financing of expansion of the system.

Capacity Fee Revenues: These fees are earned by the Operating Budget as the Engineering Department supports expansion functions.

Capacity Reservation Charge: An MWD charge passed on by CWA to individual agencies. This fee is paid based on the District's peak water demand.

Capital Budget: The portion of the annual budget that appropriates funds for the purchase of capital equipment items and capital improvements. These expenditures are separated from regular operating items, such as salaries, utilities and office supplies. The Capital Budget includes funds for capital equipment purchases over \$10,000, such as vehicles, furniture, machinery, microcomputers and special tools or \$20,000 for infrastructure related items, which are distinguished from operating items according to their value and projected useful life.

Capital Equipment: Fixed assets such as vehicles, marine equipment, computers, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000 or \$20,000 for infrastructure related items (this may not extend useful life of the infrastructure, but without it, the whole asset is rendered useless).

Capital Improvement Program: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

GLOSSARY

Class of Service: All customers are classified based on the type of service used. For example, the water rate per unit is determined by a classification such as residential versus business.

CWA: The County Water Authority was organized in 1944 under the State County Water Authority Act for the primary purpose of importing Colorado River water to augment the local water supplies of the Authority's member agencies. The Authority purchases water from MWD which imports water from the Colorado River and the State Water Project.

Deannexation Fees: Each request for detachment of land from an improvement district is reviewed on a case-by-case basis. The fees are determined based on the present value of future debt service requirements.

Debt Service: The District's obligation to pay the principal and interest of bonds and other debt instruments according to a predetermined payment schedule.

Depreciation: An expense recorded to allocate a tangible asset's cost over its useful life.

Desalination: The removal of dissolved minerals (including salts) from seawater or brackish water. Engineered water desalination processes, which produce potable water from seawater or brackish water, have become important because many regions throughout the world suffer from water shortages.

Energy Fees: Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge is the rate of \$.034 (proposed to increase on January 1, 2009 to \$.037) per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

Enterprise Fund: Fund that provides goods or services to the public for a fee that makes the entity self-supporting.

Expenditures/Expenses: These terms refer to the outflow of funds paid or to be paid for an asset, goods or services obtained regardless of when actually paid for. (Note: An encumbrance is not expenditure). An encumbrance reserves funds to be expended in a future period.

Fire Service: Water service is provided by the District solely for use in fire hydrants or fire sprinkler systems from lines or laterals connected to the District's water mains. The monthly system charge is \$25.40 per month (proposed to increase to \$28.55 on January 1, 2009) for each connection for fire protection service.

GLOSSARY

Fiscal Year: Twelve-month term designating the beginning and ending period for recording financial transactions. The District has specified July 1 to June 30 as its fiscal year.

Fund Balance: The current funds on hand resulting from the historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the result of operations.

General Fund: The District's general fund is an enterprise fund – one for each of the District's three business lines Potable, Recycled and Sewer services. Each is an accounting entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

Grants: Contributions or gifts of cash or other assets from another governmental agency to be used or expended for a specified purpose, activity, or facility. Capital grants are restricted by the grantor for the acquisition and/or construction of fixed assets. Operating grants are restricted by the grantor for operating purposes or may be used for either capital or operating purposes at the discretion of the grantee.

Infrastructure Access Charge (IAC): A pass-through charge from CWA to each member agency. The charge is to finance a portion of CWA's fixed annual costs including the construction, operation and maintenance of aqueducts and emergency storage projects. The fee was adopted in January of 1999.

Interest Income: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to improvement districts each month based upon each fund's prior month-ending balance.

Late Charges/Penalties: Charges and penalties are imposed on delinquent accounts. A late payment charge of 5% of the most recent delinquent amount is added to the account. Other miscellaneous late fees and penalties are detailed in the District's Code of Ordinances.

Meter and Lateral Fees: Charge includes the material costs for the meter, meter box, and the labor cost for installation to connect a new service to the distribution system.

Metropolitan Water District (MWD) Standby Charges: Revenue generated from property taxes by MWD to cover the Readiness-to-Serve (RTS) Charge for the new debt service for construction projects necessary to meet reliability and quality needs. The RTS Charge was adopted in 1996.

GLOSSARY

Multiple Unit Charges: In addition to the system fee, a monthly charge is made for service provided through one meter to more than one occupant in a building. The rate is \$3.85 (proposed to be eliminated on January 1, 2009) per month for each unit in a multiple unit residential, commercial or industrial building.

Net Assets: The difference between total assets and total liabilities. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is strengthening or weakening.

1% General Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

Operating Budget: The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel, and does not include purchases of major capital plant or equipment which is budgeted for separately in the Capital Budget.

Other Income: Revenues that are not directly related to the business of providing water and sewer services. For example, contract billing service for the City of Chula Vista and the City of San Diego to bill their sewer customers based on water consumption.

Property Rental Income: Rent or lease agreements for the use of District property.

Recycled Water Rates: Non-potable water service provided from water produced by the District's reclamation plant and other non-potable sources. Recycled water is not used for domestic purposes and all other uses must comply with federal, state and local laws and regulations regarding the use of recycled water.

Reserve Fund: The District maintains Reserve Funds per the District's policy for both designated and restricted balances. Designated Reserve Funds are "general use" funds designated by the Board. Restricted reserves are those that are legally set aside for a particular purpose and cannot be used for any other purpose.

Residential Conservation: The water rates for residential customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged. The District has established a water conservation program to promote water conservation and planning.

GLOSSARY

Revenue: Monies that the District receives as income. It includes such items as water sales and sewer fees. Estimated revenues are those expected to be collected during the fiscal year.

Readiness-to-Serve Charge (RTS): was adopted by MWD in Fiscal 1996. The charge serves as a foundation of fixed revenue for MWD. It covers the new debt service for construction projects necessary to meet reliability and quality needs of current water-users as opposed to new customers.

Sale of Fixed Assets: District equipment, which has been determined by the Board to be of no use, obsolete and/or beyond the useful life and therefore, may be sold.

Set-up Fees for Accounts: A charge of \$10 is added for each account transferred to another customer.

System Fees: Each water service customer pays a monthly system charge for water system replacement, maintenance and operation expenses. The charge is based on the size of the meter and class of service.

Taxes: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on general obligation bonds approved by the voters prior to July 1, 1978.

Temporary Water Charge: The rate for temporary water service is two times the rate for permanent service. The additional charge is to offset the cost of construction of facilities for larger capacity.

Tier 2 Charge: An MWD charge passed on by CWA to individual agencies. This is an added charge on all water sales by CWA in excess of the District's 90% baseline water usage.

Usage Surcharge: In addition to the water rates, a surcharge is paid by each customer when the number of units of water furnished in any month exceeds the monthly usage allowance for the size of meter being used. This charge is proposed to be eliminated on January 1, 2009.

Water Capacity Fees: Charges paid by customers to connect to a District water system for potable or recycled water service. Fees are determined by multiplying the demand factor for the meter size by the total of the District-wide capacity fee and applicable zone charge.

GLOSSARY

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. All non-residential customers are charged a flat rate per unit. A unit of water is 100 cubic feet or 748 gallons of water. The District plans to implement a tiered rate structure for all customer types to encourage conservation and bring equity among the classes. The new rate structure will be implemented on January 1, 2009.

Working Capital: A financial measure which represents available operating liquidity. It is calculated as current assets minus current liabilities.

LIST OF ACRONYMS

AF	Acre-Foot/Feet
AMR	Automated Meter Reader/Reading
APCD	Air Pollution Control District
ASCE	American Society of Civil Engineers
ASU	Assigned Service Unit
AWWA	American Water Works Association
BIT	Bi-annual Inspection Terminals
BMP	Best Management Practices
BOD	Biological Oxygen Demand
BRP	Business Resumption Plan
CADD	Computer Aided Design & Drafting
CARB	California Air Resources Board
CDPH	California Department of Public Health
CAFR	Comprehensive Annual Financial Report
CCV	City of Chula Vista
CEQA	California Environmental Quality Act
CFS	Cubic Foot per Second
CHP	California Highway Patrol
CIP	Capital Improvement Program
CIS	Customer Information System
CIT	Collaborative Improvement Teams
CMOM	Capacity, Management, Operations & Maintenance
CMTA	California Municipal Treasurers Association
COD	Chemical Oxygen Demand
COPS	Certificates of Participation
CRC	Capacity Reservation Charge
CSC	Customer Service Charge
CSD	City of San Diego
CSMFO	California Society of Municipal Finance Officers
CWA	County Water Authority (San Diego)
DBMS	Database Management System
DBP	Disinfectant By-Products
DEH	Department of Environmental Health
DHS	Department of Health Services
DVP	Delivery-versus-Payment
EDU	Equivalent Dwelling Unit
EIR	Environmental Impact Review
EOC	Equal Opportunity Commission
ERP	Enterprise Resource Planning

LIST OF ACRONYMS

ESC	Emergency Storage Charge
FCF	Flow Control Facility
FHLMC	Freddie Mac or Federal Home Loan Mortgage Corporation
FNMA	Fannie Mae or Federal National Mortgage Association
FTE	Full-time Equivalent
FY	Fiscal Year
GASB	Government Accounting Standards Board
GFOA	Government Finance Officers Association
GIS	Geographic Information System
GO	General Obligation (bonds)
GPM	Gallons per Minute
GPS	Global Positioning System
HCF	Hundred Cubic Foot
HMA	Habitat Management Area
HR	Human Resources
HRIS	Human Resources Information System
HWD	Helix Water District
IAC	Infrastructure Access Charge
ID	Improvement District
IID	Imperial Irrigation District
IIPP	Injury and Illness Prevention Program
IMS	Infrastructure Management System
IRP	Integrated Water Resources Plan
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response
LAFCO	Local Area Formation Commission
LAIF	Local Agency Investment Fund
LMSE	La Mesa Sweetwater Extension
LOPS	Lower Otay Pump Station
MBR	Membrane Bioreactor
MG	Million Gallons
MGD	Million Gallons per Day
MISAC	Municipal Information Systems Association of California
MH	Man-hours
MOU	Memorandum of Understanding
MSCP	Multiple Species Conservation Program
MSRB	Municipal Securities Rulemaking Board
MWD	Metropolitan Water District

LIST OF ACRONYMS

MWWD	Metropolitan Waste Water Department (City of San Diego)
NCCP	Natural Community Conservation Plan
NEPA	National Environmental Protection Act
NIMS	National Incident Management System
NOC	Notice of Completion
NOSC	Notice of Substantial Completion
NPDES	National Pollution Discharge Elimination System
O&M or O/M	Operations and Maintenance
OES	Office of Emergency Services (State)
OIS	Otay Information System
OPEB	Other Post Employee Benefits
OWD	Otay Water District
PB	Pacific Bay
PDR	Preliminary Design Report
PEIR	Program Environmental Impact Report
PERS	Public Employees' Retirement System
PL	Pipeline
POU	Principles of Understanding
PRS	Pressure Reducing Station
PS	Pump Station
PT	Part-time
RFID	Radio Frequency Identification
RFP	Request for Proposal
RSD	Rancho San Diego
RTS	Readiness-to-Serve
R/W	Right-of-Way
RWCWRF	Ralph W. Chapman Water Recycling Facility
SAMP	Sub-Area Master Plan
SANDAG	San Diego Association of Governments
SCADA	Supervisory Control and Data Acquisition
SBWRP	South Bay Water Reclamation Plant
SDRMA	San Diego Risk Management Association
SEC	Securities and Exchange Commission
SHRM	Society of Human Resources Management
SLMA	Sallie Mae or Student Loan Marketing Association
SS	Suspended Solids
SSMP	Sewer System Management Plan
SVSD	Spring Valley Sanitation District
SWA	Sweetwater Authority

LIST OF ACRONYMS

SWRCB	State Water Resources Control Board
USBR	U.S. Bureau of Reclamation
UWMP	Urban Water Management Plan
WADG	Water Agency Design Guideline
WD	Water District
WER	Work Environment Review
WRMP	Water Resources Master Plan
WTP	Water Treatment Plant

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