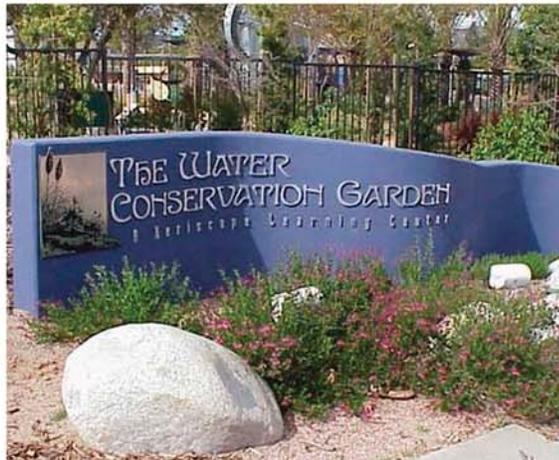




OTAY WATER DISTRICT

Adopted Operating and Capital Budget

Fiscal Year 2007-2008



*Spring Valley,
California*



**ADOPTED
OPERATING AND CAPITAL BUDGET
FISCAL YEAR 2007-2008**

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

Management

Mark Watton - General Manager

German Alvarez - Assistant General Manager, Finance and Administration

Manny Magaña - Assistant General Manager, Engineering and Operations

Joseph R. Beachem - Chief Financial Officer

ADOPTED OPERATING AND CAPITAL BUDGET FISCAL YEAR 2007-2008

TABLE OF CONTENTS

| | Page |
|--|------|
| Letter of Transmittal | iv |
| BUDGET FOREWORD | |
| Otay Water District At-A-Glance | 1 |
| General Information | 2 |
| Statement of Values | 3 |
| Awards | 4 |
| Balanced Scorecard | 8 |
| Organization Chart | 13 |
| Budget Guide | 14 |
| Budget Calendar | 16 |
| Budget Process & Basis | 17 |
| Resolution No. 4097 | 20 |
| POLICIES | |
| Summary of Financial Policies | 21 |
| Reserve Policy | 22 |
| Reserve Policy Glossary | 48 |
| Investment Policy | 50 |
| Investment Policy Glossary | 56 |
| Debt Policy | 62 |
| Debt Policy Glossary | 75 |
| HISTORY AND COMMUNITY PROFILE | |
| Past and Present | 79 |
| Current Economic Conditions | 80 |
| The Future | 81 |
| Demographics | 82 |
| Ten Largest Customers | 83 |
| Service Area Assessed Valuation | 84 |
| Ten Principal Taxpayers | 85 |
| San Diego County Rainfall | 86 |
| FINANCIAL SUMMARIES | |
| Budget Summary | 87 |
| Operating Budget Summary – General Fund | 91 |
| Operating Budget Summary by Business | 92 |
| Operating Revenues & Expenditures | 93 |
| Fund Balance Summary by Fund | 94 |
| Revenues & Expenditures by Fund | 95 |

FIVE-YEAR FORECAST

| | |
|---|-----|
| Five-Year Forecast | 97 |
| General Fund Forecast | 98 |
| Fund Balances | 99 |
| Debt Management | 100 |
| Schedule of Outstanding Debt | 101 |
| Projected Principal & Interest Payments by Debt | 102 |

REVENUES AND EXPENDITURES

Potable Revenues and Expenditures

| | |
|--------------------------------------|-----|
| Potable Narrative | 103 |
| Operating Budget Summary | 105 |
| Classification of Water Sales | 106 |
| Water Sales Summary by Service Class | 107 |
| Unit Sales History by Customer Class | 108 |
| System Fees | 109 |
| MWD & CWA Fixed Fees (Pass-Through) | 110 |
| Meter Fees | 111 |
| Revenue History | 112 |
| Water Purchases and Related Costs | 113 |
| Power Costs | 114 |
| Administrative Expenses | 115 |
| Materials and Maintenance Expenses | 116 |
| Potable Water Service Area Maps | 117 |

Recycled Revenues and Expenditures

| | |
|--------------------------------------|-----|
| Recycled Narrative | 118 |
| Operating Budget Summary | 121 |
| Classification of Water Sales | 122 |
| Water Sales Summary by Service Class | 123 |
| System Fees | 124 |
| Meter Fees | 125 |
| Revenue History | 126 |
| Water Purchases | 127 |
| Power Costs | 128 |
| Administrative Expenses | 129 |
| Materials and Maintenance Expenses | 130 |
| Recycled Water Service Area Maps | 131 |

Sewer Revenues and Expenditures

| | |
|--------------------------------------|-----|
| Sewer Narrative | 132 |
| Operating Budget Summary | 134 |
| Customers and Assigned Service Units | 135 |
| Revenue History | 136 |
| Power Costs | 137 |
| Administrative Expenses | 138 |
| Materials and Maintenance Expenses | 139 |
| Formula for Sewer Rates | 140 |
| Sewer Service Area Map | 141 |

General Revenues and Expenditures

| | |
|---|-----|
| General Revenues and Expenses Narrative | 142 |
| General Revenues | 144 |
| General Expenses | 145 |

DEPARTMENTAL OPERATING BUDGET

| | |
|---|-----|
| Departmental Operating Budget Narrative | 146 |
| Labor & Benefits | 149 |
| Position Count by Department | 151 |
| Administrative Expenses | 153 |
| Materials and Maintenance Expenses | 154 |
| Operating Expenditures by Department | 155 |
| Operating Expenditures by Object | 156 |
| Departmental Budgets: | |
| Board of Directors | 157 |
| General Manager | 161 |
| Administrative Services | 166 |
| Finance | 177 |
| Information Technology and Strategic Planning | 188 |
| Water Operations | 197 |
| Engineering | 210 |
| General Expense | 223 |

CAPITAL BUDGET

| | |
|--|-----|
| Capital Improvement Program Narrative | 226 |
| Major CIP Projects | 228 |
| Flagship CIP Projects Completed | 229 |
| Flagship CIP Projects in Construction | 231 |
| Flagship CIP Project in Design | 233 |
| Progress on Major Project | 234 |
| CIP Reserve Funds | 235 |
| CIP Funding Source and Category | 236 |
| CIP Schedule | 237 |
| CIP Justification and Impact on Operating Budget | 239 |
| Capital Purchases Budget | 241 |

APPENDIX

| | |
|------------------|-----|
| Glossary | 242 |
| List of Acronyms | 248 |

This page intentionally left blank





...Dedicated to Community Service

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

September 1, 2007

Honorable Board of Directors
Otay Water District

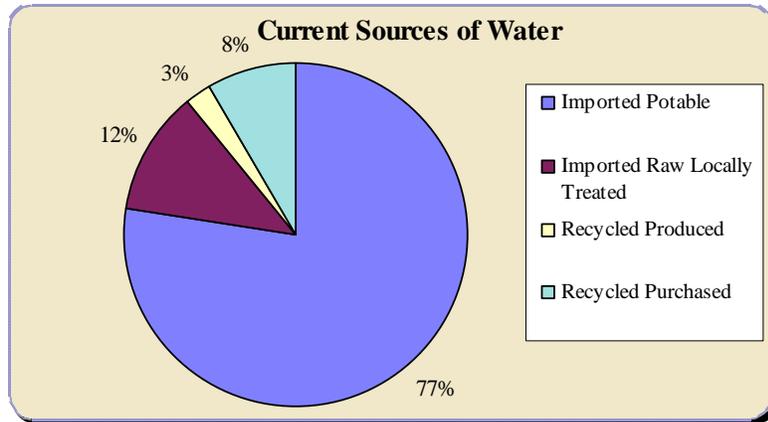
I am pleased to present the Otay Water District Adopted Operating and Capital Budget for Fiscal Year 2007-08. With the District's mission to provide safe and reliable potable and recycled water and sewer services, there is an emphasis on water resources, system reliability, and new maintenance requirements. This year's budget establishes the management plan to finance all of the District's services and programs during the 2008 Fiscal Year.

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



Since the District was formed in 1956, it has grown from a handful of customers and two employees to become an organization operating a network with more than 763 miles of pipelines, 42 reservoirs, a sewer treatment plant, and now owns and operates one of the largest recycled water distribution networks 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.

Today, the District provides water service to nearly 47,030 potable and 585 recycled customers within approximately 125 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. The Otay Water District contracted with the City of San Diego to treat this raw water giving the District a new source of potable water. There are ongoing negotiations with the City of San Diego to expand water treatment services in the future through a new connection. By taking raw water through CWA's system there is increased reliability of water supplied to the District.



The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,630 homes and businesses (or 6,620 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) is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF project is capable of reclaiming wastewater at a rate of 1.3 million gallons per day.

On June 1, 2007, the District dedicated its new Supply Link Project connecting its recycled water system to San Diego’s South Bay Water Reclamation Plant taking about six million gallons a day of recycled water for irrigation purposes; this allows more potable water to be available for human consumption. The purchase of this water allows the District to receive recycled financial incentives from both MWD and CWA which help to offset the investment in capital necessary to make this new source of water a reality.

BUDGET SUMMARY

For the first time in the District’s history, the fiscal year budget exceeds \$100 million, with 2008 operating expenditures of \$66.2 million and capital expenditures of \$34.5 million. The District’s goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The District’s operating expenditures are from its three major sectors: water, reclamation, and sewer. Revenues from potable and recycled water for Fiscal Year 2008 are projected to be \$63,361,100 about \$7.3 million (12.9%) greater than Fiscal Year 2007. Water sales are expected to increase as a result of the slowing but continuing growth occurring within the District’s service area. This growth should add over 1,030 new customer accounts and increase the District’s assets by approximately \$35 million for the year.

Significant aspects of the Operating Budget are:

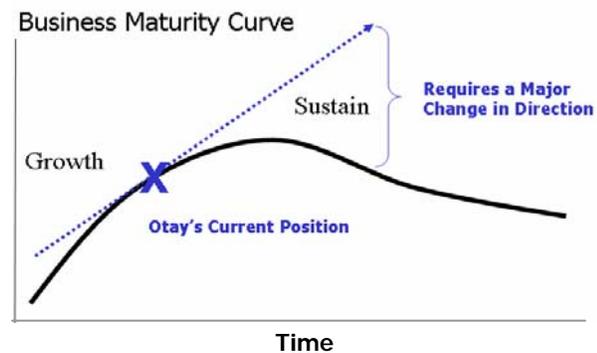
- A balanced budget meeting the goals of the Strategic Plan.
- An updated a six-year Rate Model to ensure sound financial planning and reserve levels.
- Implemented rate increases in potable and reclaimed water and sewer. This included pass-through rate increases from CWA, City of San Diego, and County of San Diego who raised costs to the water and sewer customers.
- Of San Diego County’s 23 water agencies, Otay’s water rate is the eighth-lowest and below the county-wide average.

- Issued \$42 million in debt in Fiscal Year 2007 to fund the construction of new facilities, and replacement or enhancement of existing facilities.
- Funding for the six million gallons per day recycled water purchase agreement with the City of San Diego.
- Increased credits from MWD and CWA for recycled water purchases from the City of San Diego.
- Expanded residential, landscape, and commercial water conservation programs.
- Funding the fifth year of a Five-Year Labor Agreement ending in Fiscal Year 2008.

The projected operating cost for salaries and benefits is \$15.6 million, which is an increase of \$988,100 (6.8%) compared to Fiscal Year 2007. The increase in labor is predominately the result of negotiated pay and benefit increases.

Estimated growth totaling 1,030 potable and recycled water accounts will bring the new customer count to 48,030 potable and 615 recycled accounts by the end of Fiscal Year 2008, this number of accounts equates to approximately 75,300 equivalent dwelling units (EDUs). The ultimate population projection of 277,000 will total to an estimated 114,000 EDUs and an average annual water demand of approximately 56 million gallons per day (MGD). To accommodate this growth, the District will need to invest an estimated \$500 million in capital assets before ultimate build-out is realized. The Fiscal Year 2007-08 Capital Budget consists of 82 projects and a budget of \$34.5 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth.

The District has begun to address the transformation from a growth-centric to a maintenance-based organization. Developer fees support growth but replacement and maintenance is supported by rates and operating expenses. Otay has been very successful in managing growth and now needs to focus on managing long-term maintenance and replacement of its relatively new but aging infrastructure.



STRATEGIC PLAN

To guide operations and planning efforts during this time of sustained growth, in 2001, the District began developing a Strategic Plan. This plan was designed to address the unique challenges and opportunities resulting from growth. It would also guide the District as it strives to develop the necessary infrastructure and operational practices to perform its primary business while ensuring that quality customer service and competitive rates are maintained.

The first multi-year Strategic Plan was adopted by the Board of Directors in 2002. Each year, the Board of Directors reviews and updates the plan. While the first plan guided the District through a period of record growth, the updated plan using a balanced scorecard method, looks forward to a time when the majority of the requisite physical infrastructure is in place and the

District begins to transform from a growth-centric entity to a maintenance-based organization. The District has been very successful managing growth and recognizes that continued success is predicated on developing reliable, long-term, water supplies as well as managing long-term maintenance and replacement of its infrastructure. (A summary of the Balanced Scorecard is provided on pages 8-12.)

One key to addressing the challenges is to capitalize on the significant investment that has been made to implement an integrated information system. With the Otay Information System in place, the District has focused on business process improvement utilizing best-in-class technology. Other Strategic Plan objectives include: securing additional water sources, continuing expansion of potable and recycled water networks, expanding use of recycled water, and continuing efforts to promote conservation.

The current Strategic Plan identifies how the District needs to change in order to meet future challenges and responsibilities. The plan is focused on all areas of the agency and describes through cascading strategies, goals, and objectives, how it will achieve the desired changes. Major themes in the updated plan are: 1) the movement toward improvement of maintenance business practices so that the life of assets can be extended, 2) the development of improved and more precise financial information to assist in management decisions, 3) the improvement of customer service through enhanced customer knowledge and contact, and 4) the building of critical assets on time and budget. As noted, the plan calls for the rapid adoption of technological systems and the review of business practices that will yield increased productivity. Part of the plan is a set of detailed performance measures which monitor the quarterly productivity of the agency. This mix of long-term objectives and short-term measures of productivity focuses the District on change while maintaining a high quality of customer service.

Putting the Strategic Plan to Work

Using the Strategic Plan as a guide and with the Board of Directors support, the District has been able to put into place many substantial improvements. Some of the most significant accomplishments are the integrated information system, the GIS system, and numerous policy and procedure improvements. These accomplishments, along with the forward thinking perspective of the District, paved the way for a thorough and persuasive presentation to two rating agencies resulting in the positive outcome of a bond rating upgrade for Otay Water District from an A+ to an AA-. Putting the Strategic Plan to work has resulted in operational savings and in the case of the bond rating it has resulted in approximately \$1.5 million of interest expense savings.

Water Resources

The Strategic Plan drives advances in every aspect of District operations. For instance, the Strategic Plan called for updating of the Urban Water Management Plan (UWMP) which was completed in December 2005. The UWMP serves as a long-range planning document for water supply and demand, and provides an overview of the District's water supply and usage, recycled water, and conservation programs. The UWMP works to ensure the District always has the water resources it needs to meet the demands of a growing community.



Last year the District completed an Integrated Water Resources Plan (IRP). The mission of the IRP is to find the optimal mix of imported water, local supplies, and conservation efforts to meet projected ultimate supply requirements in a cost-effective manner while also incorporating environmental impacts, implementation risks, and other factors. The planning objectives are to maintain affordability, meet water

quality standards, achieve supply reliability, increase system flexibility, increase supply diversity, and address environmental and institutional constraints. The IRP identifies and evaluates all potential water resource supply opportunities to arrive at a recommended diverse water supply portfolio. The water supply portfolio will provide a strategic approach and focused direction to be incorporated into the water resources master plan and the Capital Improvement Program for the development of sufficient water supply to meet the planning objectives for long-term sustainability. The water supply alternatives include all potential opportunities such as desalination, groundwater, water transfers, recycled water supply development, and interagency agreements. In the coming year, the District will begin facilities rehabilitation and replacement assessment which will define expected capital outlays for future system replacements. This approach is clearly focused on asset management as a core discipline.

Recycled Water

Included in the UWMP is the agreement with the City of San Diego which allows the District to purchase recycled water from the City's South Bay Reclamation Facility. This contract delivers on average, more than six million gallons per day of recycled water to the District's growing population. Recycled water purchased from this facility is used to irrigate golf courses, parks, open space, road medians, and other commercial processes. Using this resource to address specific demands has resulted in the District reducing its potable water use by approximately 15%, maximizing the beneficial use of an alternative resource, which makes millions of gallons per day of potable water available for higher quality and better purposes. On June 1, 2007, the District dedicated the Supply Link Project connecting the recycled water system to the City of San Diego's South Bay Water Reclamation Plant. The District received \$3.3 of a \$4 million grant from Proposition 50 and another \$2.4 million from the State Water Resources Control Board (SWRCB) for partial funding of this project.

The Future

The Otay Water 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



Plan, the plan 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 the plan. As a result, the District is poised to successfully continue providing an affordable, safe, and reliable water supply for the people of its service area.

AWARDS AND ACKNOWLEDGMENTS

Because of the vision and years of hard work that went into the Supply Link Project connecting our recycled water system to the City of San Diego's South Bay Water Reclamation Plant, the San Diego County Taxpayer's Association awarded the District with the *Golden Watchdog of the Year Award for 2007*, the American Society of Civil Engineers presented the District the *Award of Merit*, and the WaterReuse Association of California named Otay its *Utility of the Year*.

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, 2006. 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, 2006, as well as three awards from the CSMFO for *Excellence in Budgeting*, *Excellence in Public Communications*, and *Excellence in Capital Budgeting*. 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 of 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 their 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 2008, the District will have a staff of 172.75 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 190,000 people. This percentage increases as the District's service area continues to grow to ultimate build-out. The District is projected to deliver approximately 38,500 acre-feet of potable water to about 48,030 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 4.3% per year over the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 2.1% for Fiscal Year 2008.

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 reclaiming 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 2007. 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.

The District was formed in 1956 to serve as a public water and sewer agency authorized as a California special district in 1956 by the state legislature under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by its Board of Directors.

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 Ralph W. Chapman Water Recycling Facility. 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.

Photo Credits: Aerial photos, courtesy of Manny Ramirez, see pages 21 and 119

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 for its annual budget for the fiscal year beginning July 1, 2006. 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 *Excellence in Operating Budgeting for Fiscal Year 2006 - 07*.



FINANCIAL AWARDS



The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award *Excellence in Public Communications Budgeting for Fiscal Year 2006 - 07.*

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award *Excellence in Capital Budgeting for Fiscal Year 2006 - 07.*



AWARDS



The San Diego Taxpayers Association announced that the Otay Water District's Supply Link project is the recipient of its *2007 Golden Watchdog Award*.

The Supply Link project redirects millions of gallons of recycled water that was released each day into the ocean, and instead uses it to irrigate golf courses, freeway landscapes, and parks in eastern Chula Vista.

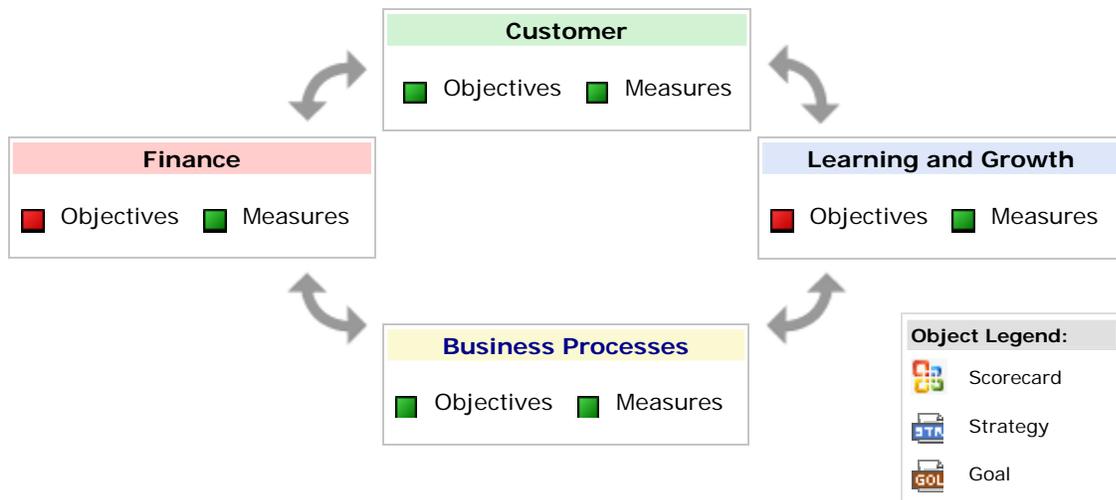
AWARDS



The Otay Water District has been named the *Recycled Water Agency of the Year for 2006* by the WateReuse Association of California. This prestigious award recognizes the District's commitment to recycled water use, its extensive recycled water network, and its new Supply Link Project to connect with the City of San Diego's South Bay Water Reclamation Plant.

BALANCED SCORECARD

The District's strategies have been categorized into the following four Balanced Scorecard perspectives:



Customer

Customers are the most important aspect of the District's business. The District provides its customers with a variety of public potable and recycled water service and sanitary sewer service. The customers and the surrounding community trust that the District will provide safe, secure, and reliable water supply far into the future at an affordable price. These customers also expect prompt and courteous service from all District staff, with a continually increasing demand for additional convenience and access to accounting information. The customers seek accurate information in the areas of water quality, cost savings, water conservation, and the regulatory limitations and beneficial uses of recycled water. In order to continually increase the District's level of customer services, the District will implement the following customer perspective strategies, goals, and objectives.

Customer Satisfaction

-  Enhance the District's customer satisfaction focus by evaluating customer feedback.
-  Enhance customer communications for increased accessibility and ease of use.
-  Improve customer service by expanding employee access to Otay Information System (OIS) information.
-  Enhance communication with developers.

BALANCED SCORECARD

Community Outreach

-  Expand water conservation in new commercial and residential construction.
-  Maximize recycled water use.
-  Expand the Public Education Program.
-  Define a program for increased relations with Mexico.
-  Update and implement the District's Government and Public Relations Programs.

Industry Involvement

-  Learn industry trends and promote District achievements.

Finance

The District is a steward of public funds to provide water, recycled and sewer public utility services to a rapidly growing customer base. Strengthening and acquiring water supply for reliability and growth places upward pressure on water rates. These are in addition to the normal inflationary pressures on the cost to operate and maintain the existing treatment and distribution systems. During this growth period, the District is able to fund new capital with developer fees and bond financings in congruence with the strategy that growth pays for growth.

Over time, the District will require significant funding to rehabilitate and replace the District's infrastructure including pipelines, treatment plant, and associated processing equipment. The District ensures its continued financial health through long-term financial planning, formalized financial policies, enhanced budget controls, fair pricing, debt planning, and improved financial reporting. In alignment with this, the District has developed the following financial perspective strategies, goals, and objectives.

Financial Planning

-  Establish the District's long-term financial plans.
-  Aggressively pursue all relevant grants.
-  Evaluate potential real property trades, leases, or sales to increase revenues.

Controls

-  Update the District's financial policies.
-  Improve the District's budget controls.

BALANCED SCORECARD

Full Cost of Services

-  Provide full and accurate cost accounting of District services.

Reporting

-  Improve the District's financial reporting.

Business Processes

The District is committed to improving its business processes to better achieve the desired strategies, goals, and objectives. The District recognizes that efficient and effective business processes are essential to achieving the desired return on investment and improving operational excellence. As the growth in the District's sphere of influence continues, implementing infrastructure management, integrated information solutions, and business process reengineering to achieve the most efficient and effective business practices possible are critical to its success.

Planning for Infrastructure and Supply

-  Meet current and future potable water demands.
-  Develop an Integrated Resources Plan (IRP) for evaluating alternative sources of water.
-  Implement planned security initiatives.

Recycled Water Leader

-  Develop the District's Sewer Master Plan.
-  Obtain more recycled water supplies.
-  Seek additional recycled water customers.
-  Operate the recycled water system efficiently.

Stewards of Public Infrastructure

-  Conduct best practice preventative maintenance activities.
-  Successfully transfer completed project into Operations.
-  Develop cost effective environmental program.

Business Efficiency

-  Fully integrate the Otay Information System (OIS).

BALANCED SCORECARD

-  Complete business process reengineering effort.
-  Develop a comprehensive Knowledge Management Plan.
-  Implement field technology solutions.
-  Implement the Legal Plan.
-  Streamline service installation process.
-  Policies and Guidelines.
-  Financial and Managerial Reporting.

Learning and Growth

The District is in a period of significant growth and change that will require a highly flexible and skilled workforce. Continually increasing cost pressures and foreseeable changes as the District's business cycle matures will require doing more with fewer resources. In order to meet these upcoming challenges, the District wishes to train and motivate its workforce by providing all employees with a professional workplace culture, effective employee relations, enhanced employee development, and a recognition program. The goal is to increase the capacity of the overall organization to achieve the strategies, goals, and objectives of the District.

Plan for the Future

-  Develop Long-Term Staffing Plan.
-  Generate a Long-Term Facility and Space Plan.

Highly Qualified Staff

-  Continue to recruit and retain a highly qualified workforce.

Train and Develop at All Organizational Levels

-  Evaluate and implement an Executive Training Program targeted at future strategic goals.
-  Continue a Management Development Program.
-  Promote and recognize District staff participation in industry research projects and publications.
-  Enhance employee training with new programs.
-  Continue Incentive Program.

BALANCED SCORECARD



Staff Inclusion



Formalize Collaborative Improvement Teams (CIT).



Monitor and Celebrate Success



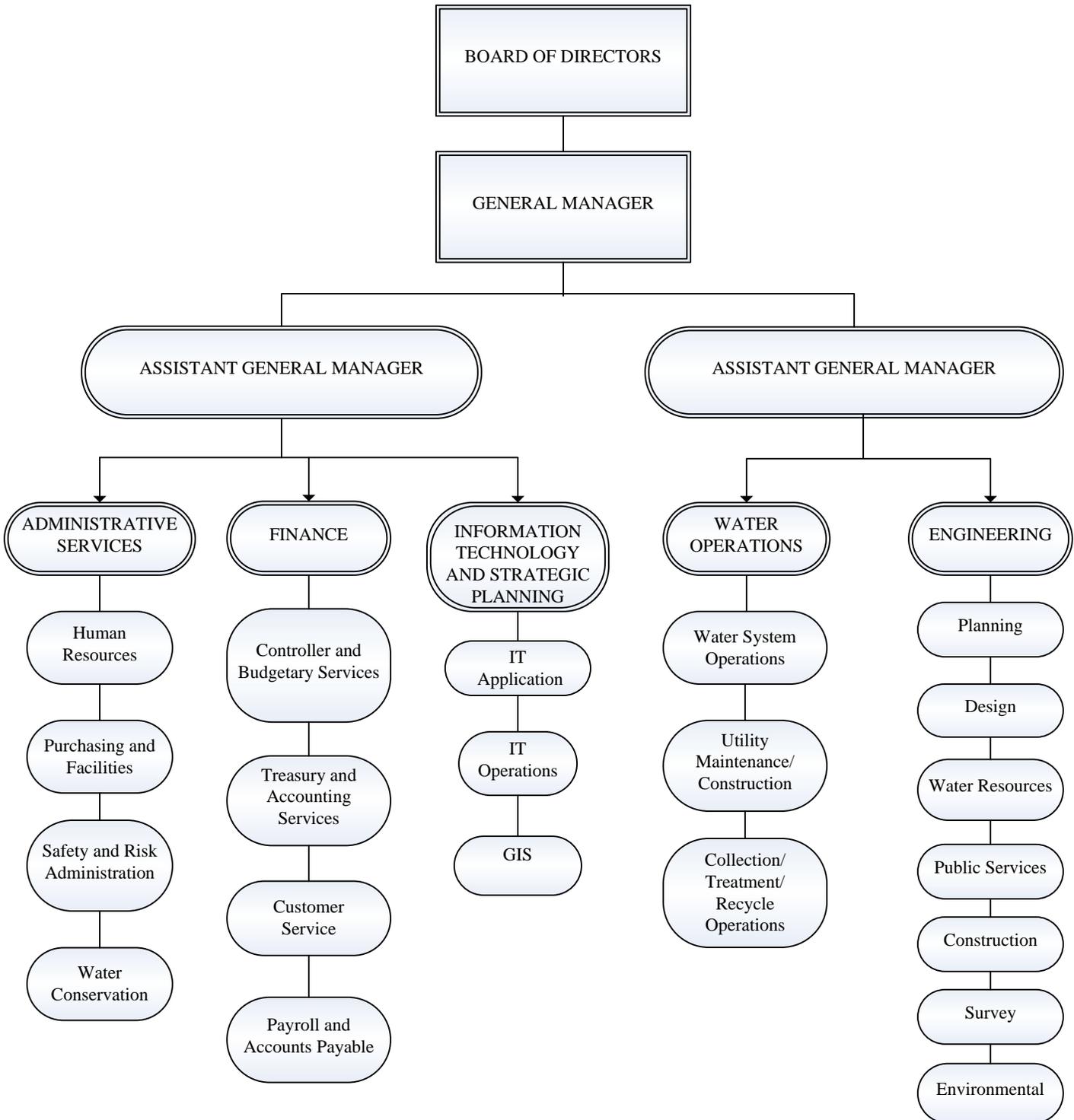
Finalize and implement the District's Recognition and Reward Program.



Establish a repeatable Employee Survey Program and benchmark against others.



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 you 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 prospects. 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 of cost increases, rate increases, targeted fund balances, capital needs, and debt requirements are made. Analysis for the current budget year plus five additional 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 a general revenues and expenditures section. An allocation of overhead type cost is made to equitably spread the cost to run the District between budget 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

This last section consists of a Glossary of budget and financial terms, and a List of Acronyms used in this budget book.



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 17 and 18.

| | |
|-------------------|---|
| February 3, 2007 | Budget workbooks and instructions for Operating and Capital Budget are distributed to departments. |
| February 20, 2007 | Departments submit requests for new personnel and/or personnel reclassifications to Human Resources. |
| February 28, 2007 | Human Resources Department performs a preliminary review of submitted requests. |
| March 9, 2007 | 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 • CIP budget sheets submitted to Engineering for review |
| March 12, 2007 | General Manager approves new personnel and personnel reclassification requests. |
| March 14, 2007 | <ol style="list-style-type: none"> 1. Finance Department reviews Operating Budget and reconciles with departments. 2. Engineering Department reviews and prepares CIP budget and submits to Finance for review and incorporation into the Rate Model to calculate proposed rates. |
| April 18, 2007 | General Manager performs preliminary review of the budget. |
| May 15, 2007 | Final review of the proposed budget and rates is done by the General Manager. |
| May 29, 2007 | Present for approval to the Board of Directors the Fiscal Year 2008 Operating and Capital Budget. |

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 expenditures 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 factors 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 monitor 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 2008.

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.



RESOLUTION NO. 4097

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2007-2008
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 2007-2008; 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 2007-2008.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 29th day of May 2007, by the following vote:

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



President *on behalf of*
B.C.

ATTEST:



District Secretary



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 between 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 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 of 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 received a Certification of Excellence Award from the Association of Public Treasurers of the United States and Canada (APT US&C).



This page intentionally left blank



RESERVE POLICY

INTRODUCTION

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.

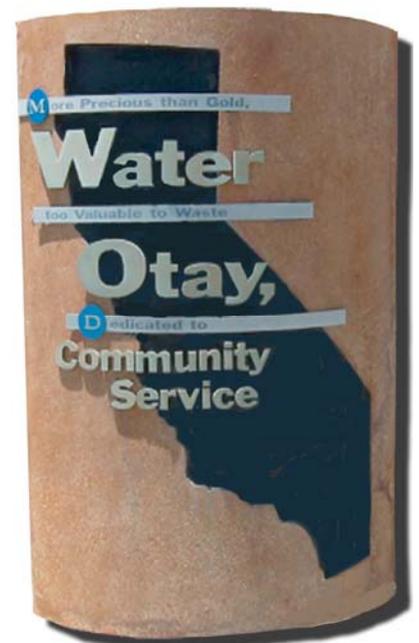
1.3 The Purpose of the Policy

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).

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.

- 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.

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.

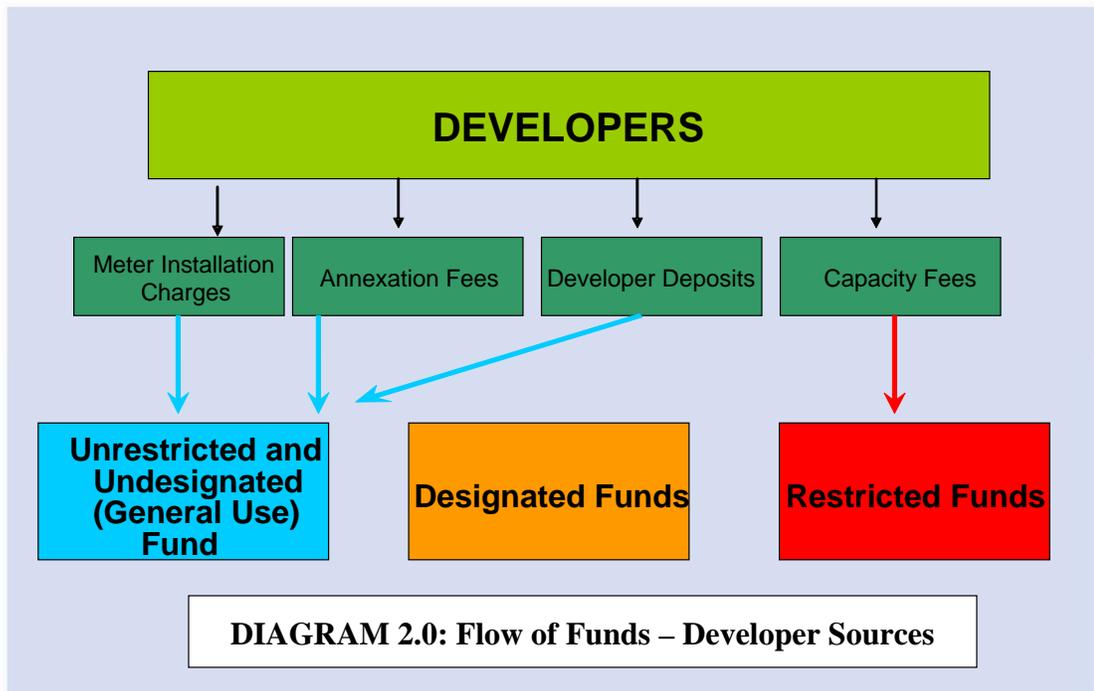
d. Capacity Fees (Restricted)

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 \$0.032 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:

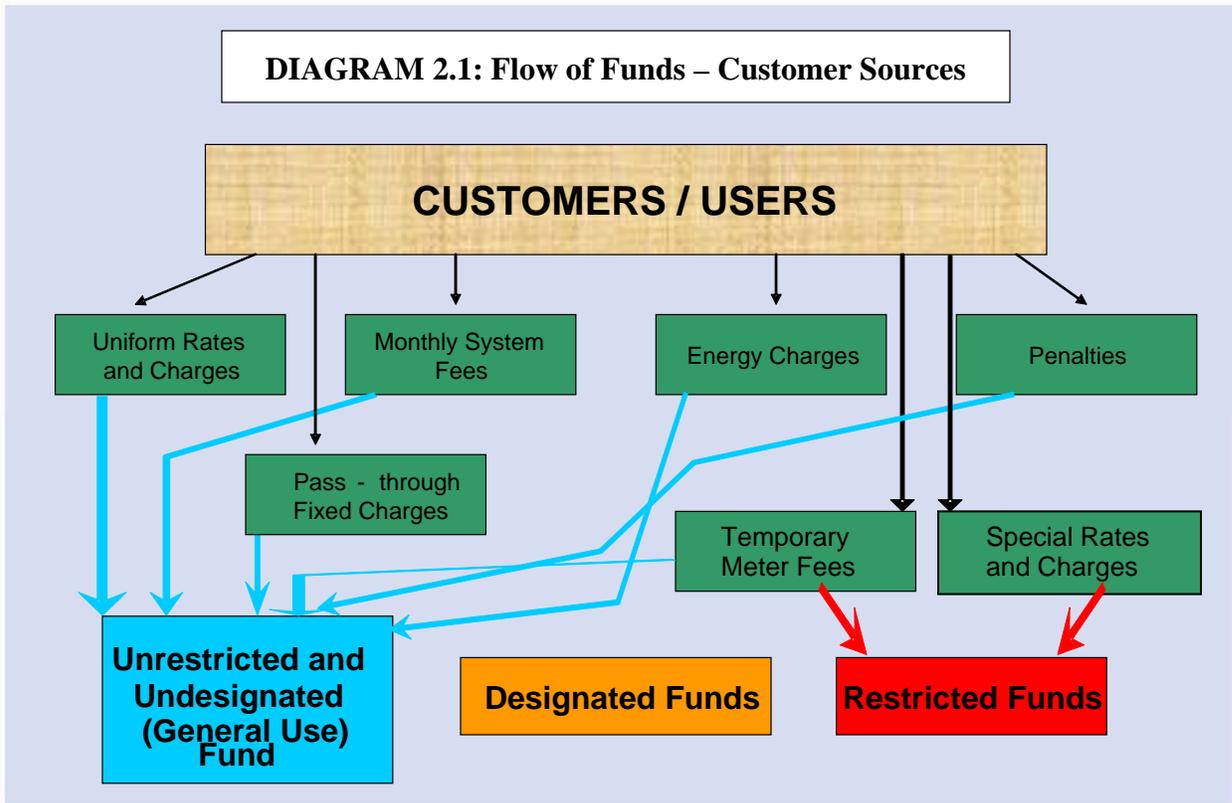
- North District water charge (code section 25.03H)
- ID 9 water charge (code section 25.03I)
- ID 3 water charge (code section 25.03J)
- ID 10 water charge (code section 25.03J)
- La Presa water charge (code section 25.03J)
- Russell Square sewer charge (code section 53.04C)

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.

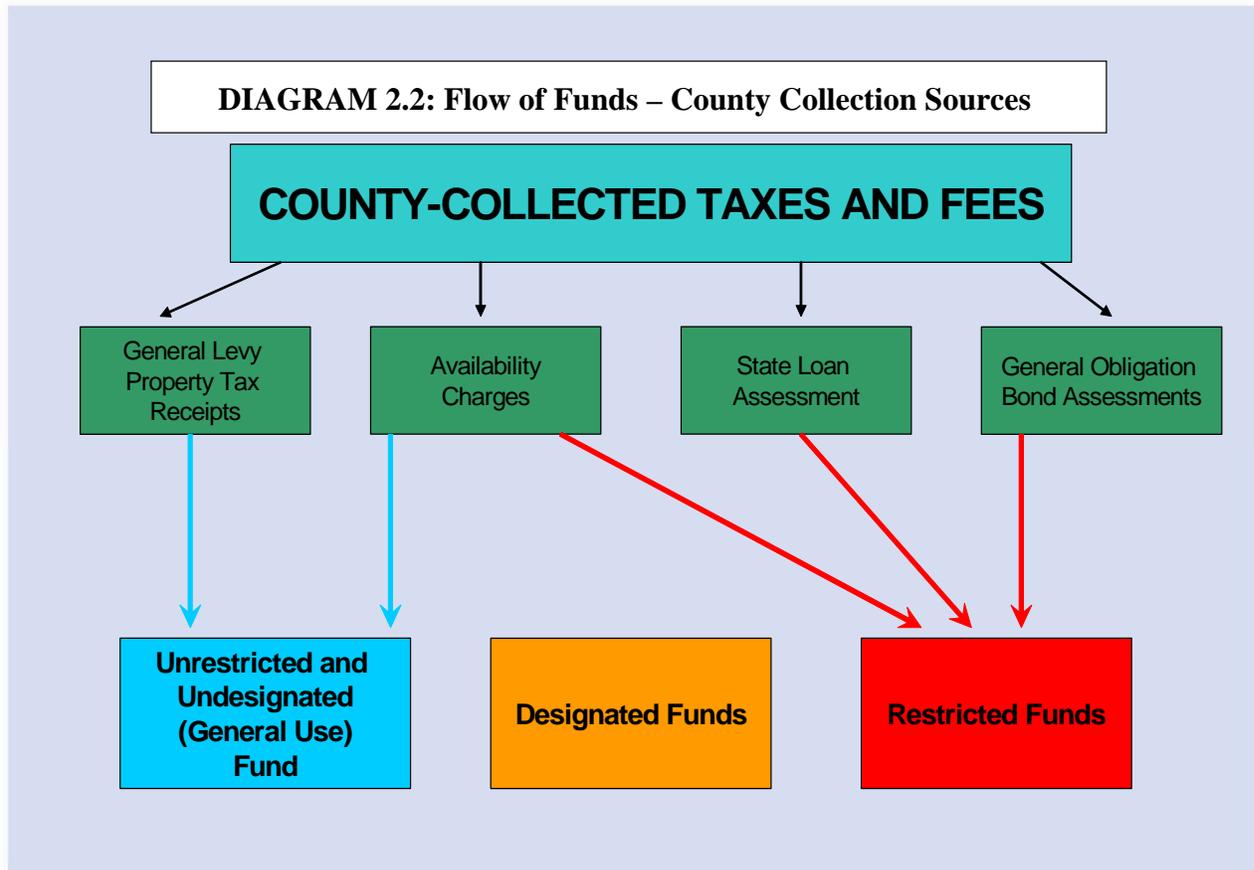
Each year the District sends notices to all new customers informing them of the availability fees and their purpose. This notice also informs the customers of the date and time of the public hearing to receive public comment on this fee. The availability fees are split between the Betterment Fund and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

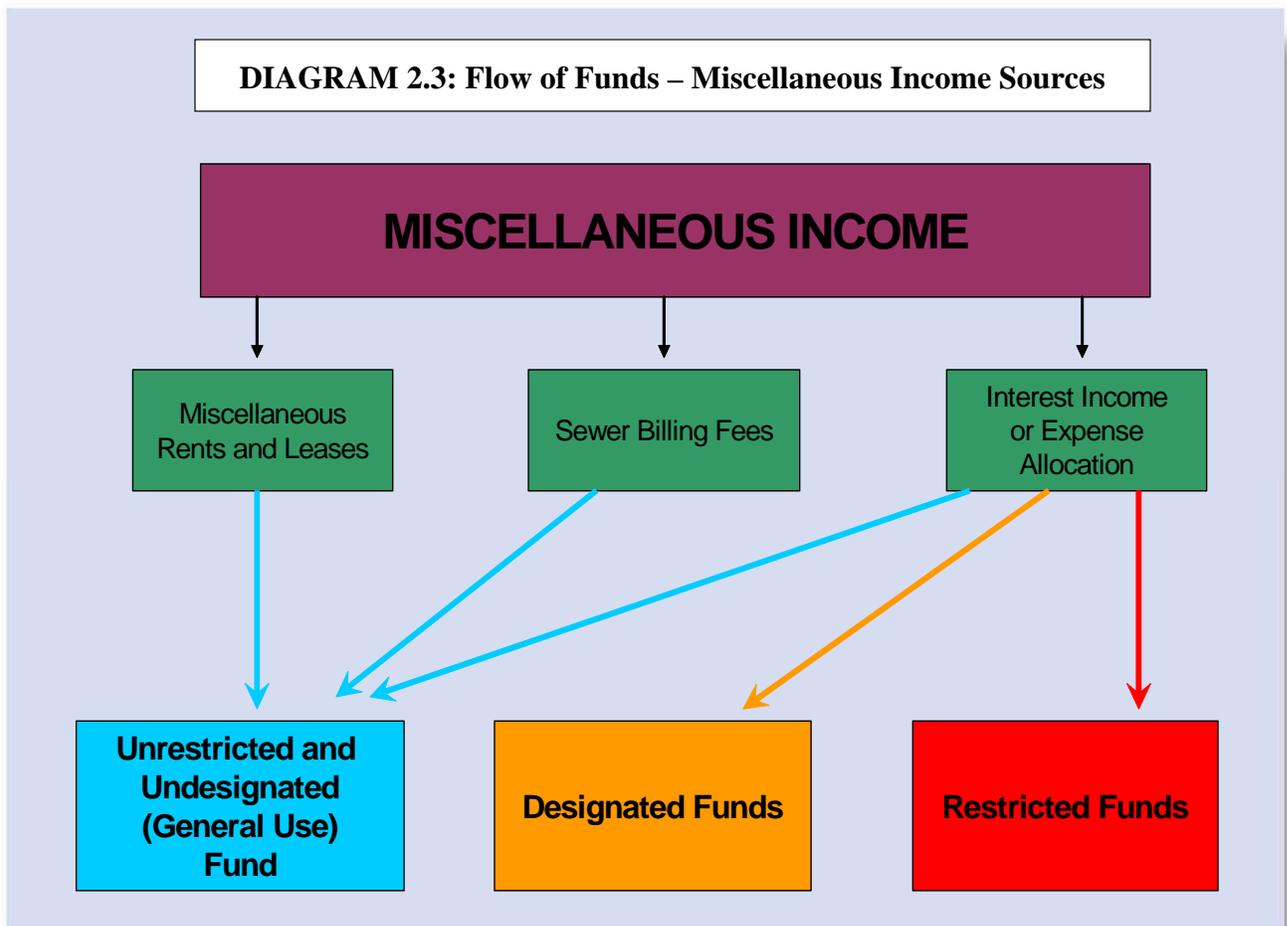
Revenues received from the rental and lease of District property. There is also a one-time fee charged with the set-up of each new lease. The District incurs expenses related to these rents and leases and this fee's purpose is to recover the cost to set up the lease.

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

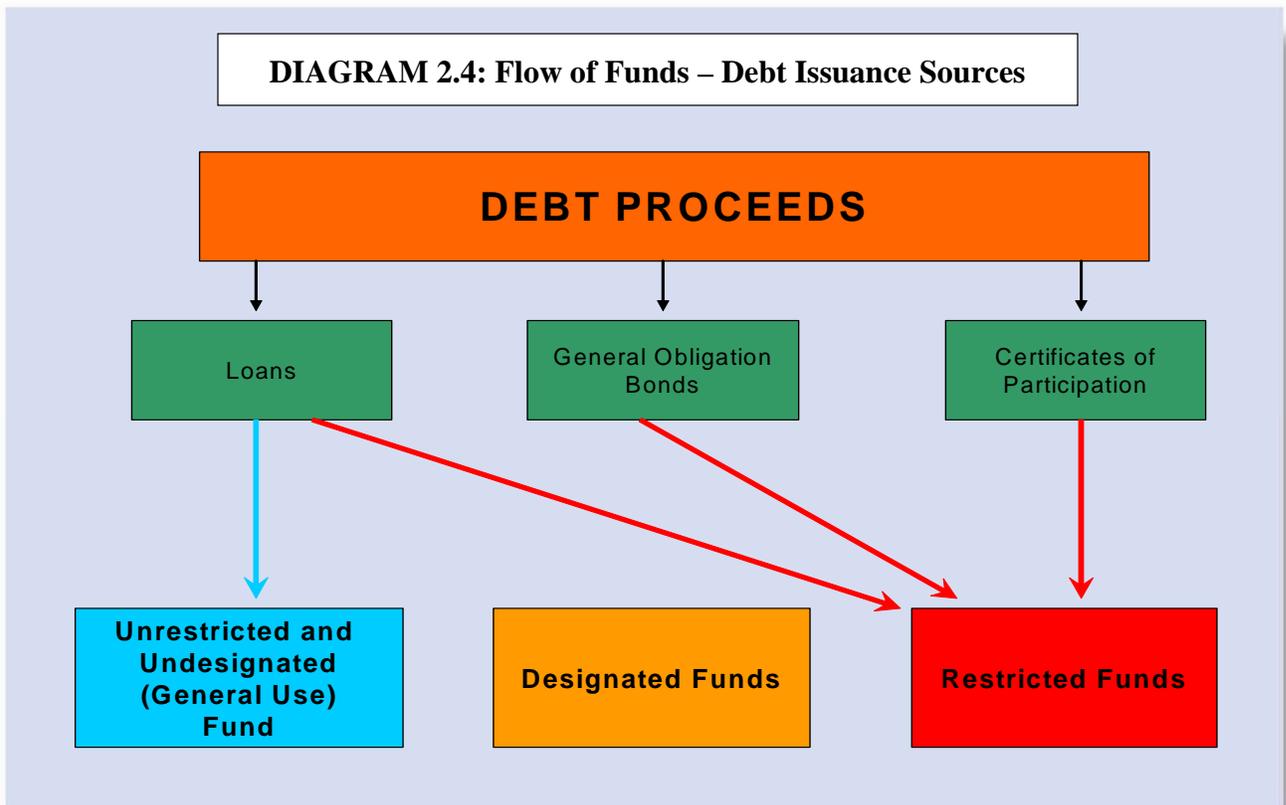
recommended to the Board for action. As an option to bond indebtedness, loans are available especially to satisfy short term financing needs. These loans may or may not be contractually restricted for a particular purpose.

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.



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.

DIAGRAM 3.0: Fund Targets

| 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 |

* 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.

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 statues 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 (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.

DEBENTURE: 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 (FHLB): 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 refinancings that become marginally cost-effective after the entire issuance process is complete.

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

9.0: SUBORDINATE LIEN DEBT

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

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

10.0: DERIVATIVES

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

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

11.0: FINANCING PARTICIPANTS

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

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

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

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

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

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

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

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

Municipal Bond Insurer: The Municipal Bond Insurer can be one of several insurance companies that provide municipal bond insurance policies securing payment of the District's debt. These policies provide that the Municipal Bond Insurer will pay the District's debt in the event that the District defaults on its payments. Debt which is insured carries the Municipal Bond Insurer's credit rating, in most cases, AAA. The insurance premium for the bond insurance policy is paid one time at the issuance of the debt and is non-cancelable for the term of

the debt. Unlike a letter of credit, bond insurance policies do not provide liquidity and are most typically purchased for fixed rate debt.

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

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

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

12.0: CONFLICT OF INTEREST AND STANDARDS OF CONDUCT

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

13.0: CONTINUING DISCLOSURE

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

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

14:0 INVESTMENT & ARBITRAGE COMPLIANCE

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

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

15.0: TYPES OF DEBT FINANCING

General Obligation Bonds

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

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

Voters within Improvement District No. 27 of the District authorized \$100 million general obligation bonds in 1989. The District issued \$11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998. The District also has approximately \$29 million in general obligation bonds authorized between 1960 and 1978 for various Improvement Districts

throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

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

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

Revenue Bonds

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

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

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

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

Lease/Purchase Agreements

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

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

State Water Loans

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

Land Based Financing

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

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

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

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

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

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

16.0: RATING AGENCY APPLICATIONS

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

17.0: USE OF CREDIT ENHANCEMENT

Credit enhancement is a generic term that means any third-party guarantee of debt service. Credit enhancement providers include municipal bond insurance companies or financial institutions. The purchase of credit enhancement allows the District's bond issue to carry the same credit rating as the credit provider. The District will seek to use credit enhancement when

such credit enhancement proves cost-effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines.

Fixed Rate Bonds

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

Variable Rate Bonds

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

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.



This page intentionally left blank





History and Community Profile

PAST AND PRESENT

On January 27, 2006, the Otay Water District (OWD) celebrated its golden anniversary. Over fifty years ago, the California State Legislature officially authorized the OWD 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 680 miles of potable and 83 miles of recycled pipelines, 42 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.

The problems we are hearing about make the work we are doing all the more critical. On June 1, 2007 we dedicated our Supply Link Project connecting our recycled water system to the City of San Diego's South Bay Water Reclamation Plant. Today, we are taking about six million gallons (mgd) per day of recycled water from the city and adding it to the one mgd we are producing at our own treatment plant. 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.

Because of the vision and years of hard work that went into the successful completion of the District's new supply of recycled water, the District was awarded the *Golden Watchdog of the year award for 2007* by the San Diego Taxpayer's Association, and the *Utility of the Year* by the WateReuse Association of California



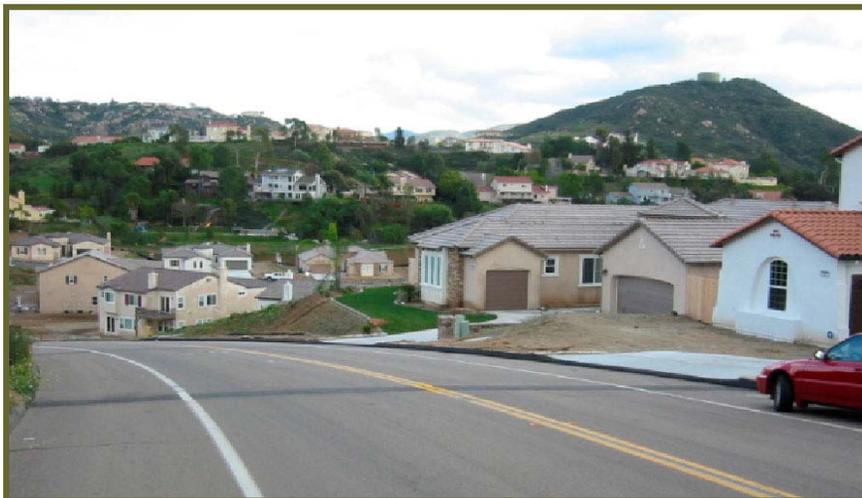
CURRENT ECONOMIC CONDITIONS

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. Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. In Fiscal Year 2007, the District began purchasing raw water from CWA and having the City of San Diego treat the water at the Lower Otay Pump Station. The District is in negotiations with the City of San Diego to increase its raw water purchases and treatment in a new connection called SD17. These new water sources will help take pressure off the potable system and increase the reliability through diversifying the District's supply.

For almost as long as it has been delivering potable water, the Otay Water District has collected and reclaimed 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 the potable supply and increases the reliability of the District's supply.

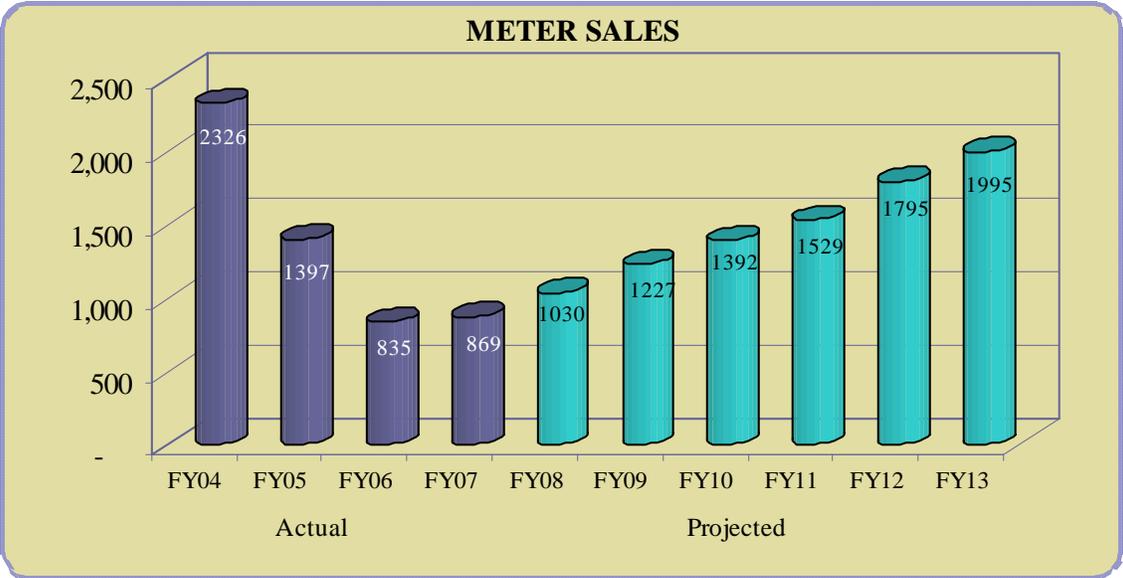
The District's sewer service area is growing at a slow but steady rate of approximately 1.2% each year. Most of this growth is from small development projects or homeowners converting their septic system into sewer because of environmental issues.

The District's service area is in one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. The phenomenal growth has slowed slightly in the past few years, and is continuing at a slower pace. It is estimated that the District is currently serving approximately 190,000 residents. In just the past five years, the District has added more than 7,600 new customer connections. This is reflected internally as the District's Development Services Department approved on average 35 permits per month, and sold 800 water meters in Fiscal Year 2006-2007.



THE FUTURE

The Otay Water 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 Otay Water 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 8,960 meters. The San Diego Association of Governments (SANDAG), the regional planning agency, shows a slowing of growth for the City of Chula Vista after 2010, and an increase in growth in the unincorporated areas of the region through 2020.



DEMOGRAPHICS

The Otay Water 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 boarder.



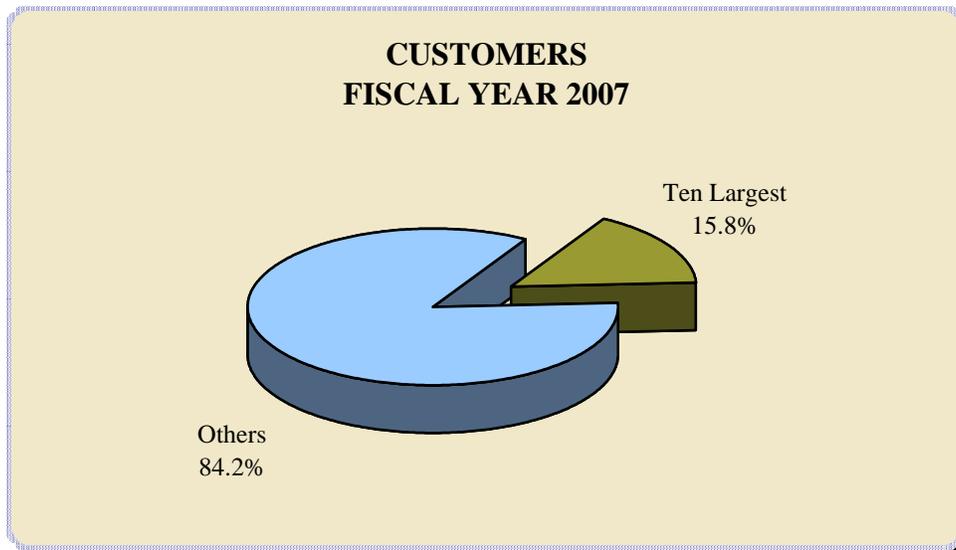
The San Diego Association of Governments (SANDAG), the regional planning agency, creates and maintains a tremendous quantity of demographic, economic, land use, transportation and criminal justice information about the San Diego region. The demographic data includes population characteristics like age, education, and employment. Because of the overlapping of Otay'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 2006 the population reached 223,423. This represents an increase of 139,496 in the past 26 years or a 166.2% increase, which correlates to the District's rapid growth for the same period.

The racial make up of Chula Vista is 50% Hispanic, 29% White, 13% Asian, 4% Black, and the remaining 4% is all other groups. The median household income for Chula Vista was \$68,497 in 2006, and 97% of Chula Vista's housing units were occupied.

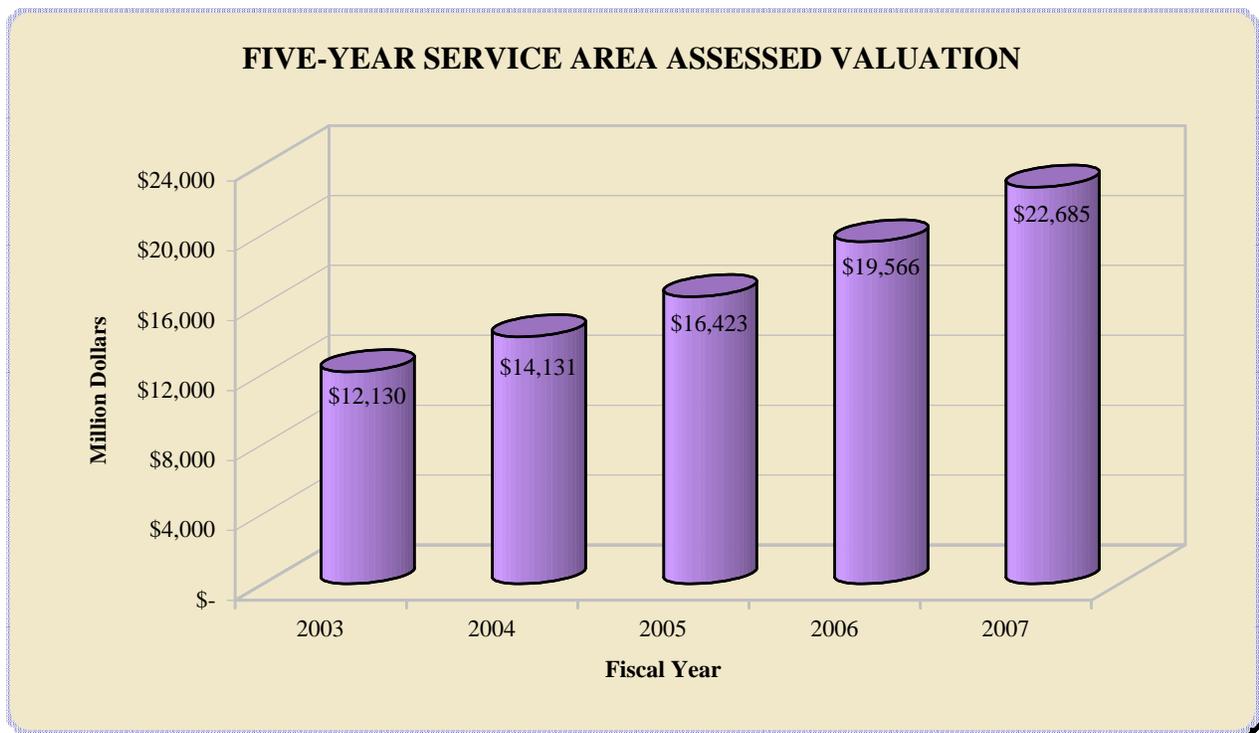
TEN LARGEST CUSTOMERS - FISCAL YEAR 2007

| Customer Name | Customer Type | Annual Revenues | % of Water Sales |
|---------------------------------|--------------------------------------|----------------------|------------------|
| 1. City Of Chula Vista | Publicly Owned | \$ 2,555,440 | 5.3% |
| 2. State Of California | Publicly Owned | 993,602 | 2.0% |
| 3. County Of San Diego | Publicly Owned | 801,420 | 1.6% |
| 4. Eastlake III Community Assoc | Construction (Potable, Temporary) | 576,165 | 1.2% |
| 5. Mcmillin | Construction, Irrigation (Reclaimed) | 571,469 | 1.2% |
| 6. Eastlake Country Club | Irrigation (Reclaimed, Permanent) | 547,092 | 1.1% |
| 7. Country Hills Apartments | Residential, Irrigation (Potable) | 491,231 | 1.0% |
| 8. Otay River Constructors | Construction (Potable, Temporary) | 386,212 | 0.8% |
| 9. Salt Creek Partners LLC | Irrigation (Reclaimed, Permanent) | 383,076 | 0.8% |
| 10. Otay Project LP | Construction (Potable, Temporary) | <u>365,690</u> | <u>0.8%</u> |
| Total | | <u>\$ 7,671,397</u> | <u>15.8%</u> |
| Estimated FY07 Water Sales | | <u>\$ 48,605,607</u> | |



SERVICE AREA ASSESSED VALUATION

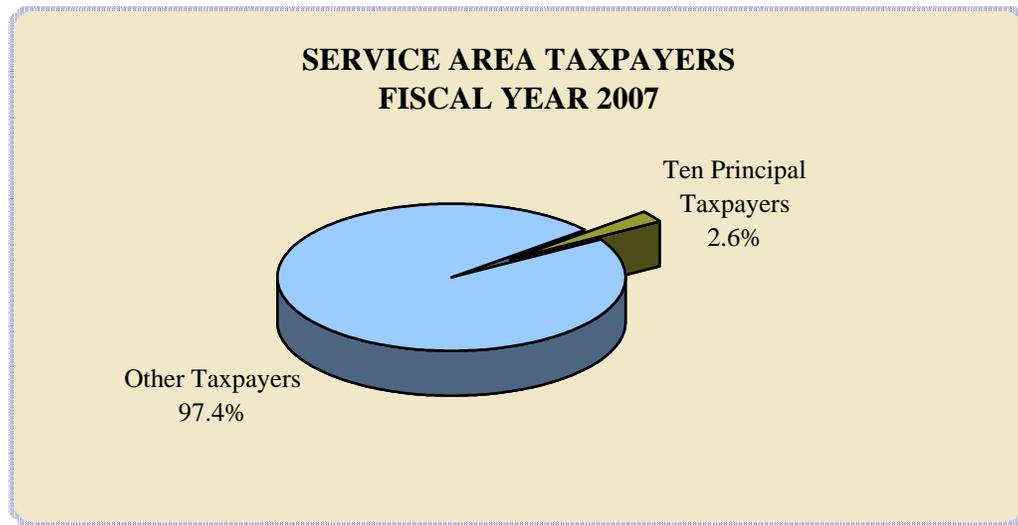
Otay Water District's service area encompasses property with over \$22 billion of assessed valuation. Properties are assessed at 100% of their full value less any exemptions such as, exemption from taxation under the law and homeowner's exemptions. As shown in the chart below, there has been a significant 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 3% 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 5%.



Source: County of San Diego Auditor and Controller

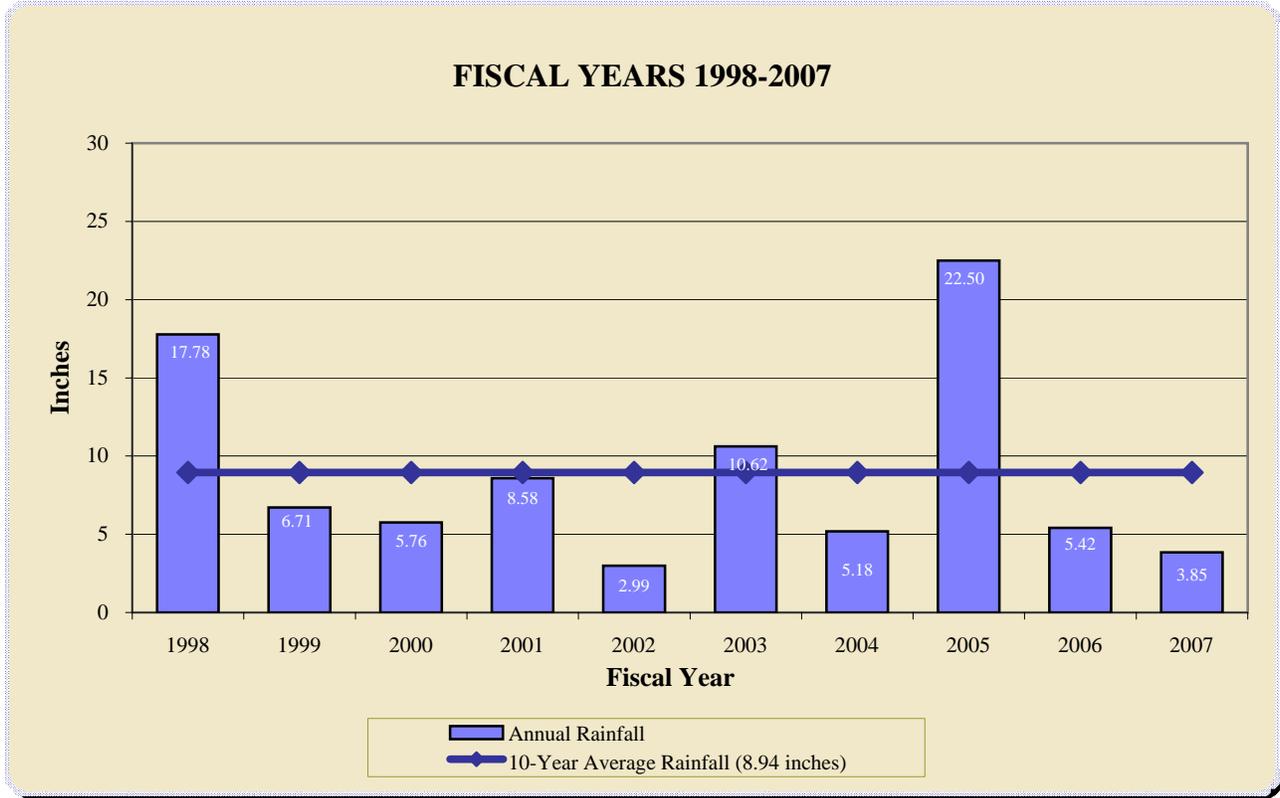
TEN PRINCIPAL TAXPAYERS AS OF JUNE 30, 2007

| Organization | Assessed Value | Percent to Total |
|--|--------------------------|------------------|
| 1. Corrections Corp of America | \$ 72,132,074 | 0.32% |
| 2. SP La Vida Real LLC | 72,000,000 | 0.32% |
| 3. SSR Realty Advisors/Calstrs | 71,828,419 | 0.32% |
| 4. BRE Properties Inc | 66,388,974 | 0.29% |
| 5. S V Portfolio L P | 64,296,720 | 0.28% |
| 6. Camden USA Inc | 58,777,852 | 0.26% |
| 7. CON AM Partners | 50,176,051 | 0.22% |
| 8. EQR - Missions At Sunbow LLC | 48,274,560 | 0.21% |
| 9. FW CA Rancho San Diego Village LLC | 41,848,000 | 0.19% |
| 10. PPF Industrial | 39,250,000 | 0.17% |
| Total | \$ 584,972,650 | 2.58% |
| Total Service Area Assessed Valuation | \$ 22,684,693,592 | |



Source: County of San Diego Auditor and Controller

SAN DIEGO COUNTY RAINFALL



San Diego rainfall levels continued to drop in FY2007, with under four inches of rain. The District budgeted expecting FY2008 rainfall to remain within its normal average of about 9 inches a year. If there is another low rainfall year, the District can expect water sales to outpace the budgeted number.

Under drought conditions there is the real potential for mandatory cutbacks. In the event of cutbacks, District revenues would decrease as sales fall short of budget. Expenses however, would also be reduced dampening the negative impact of revenue shortfalls on the budget. 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 91. Also included in this section is the Operating Budget Summary by Business on page 92, the Fund Balance Summary by Fund on page 94, and the Revenues and Expenditures by Fund schedule on pages 95 and 96. For Fiscal Year 2008, 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 2008 is \$66,180,500 in comparison to the previous adjusted fiscal year budget of \$59,070,600. The \$7,109,900 increase is primarily due to higher water cost due to price and growth increases, increases in salary and benefit costs, increases in funding of new programs, and finally increases in funding of reserves.

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 38,500 acre-feet of potable water will be sold during Fiscal Year 2008. Budgeted water sales are projected to be \$47,506,500, an increase of 10.1% 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 4,900 acre-feet of recycled water to customers at a discount of 15% of the potable rate. The FY 2008 sales revenue budget of \$6,001,400, an increase of \$1,555,000 from FY 2007, includes the incentive credits provided by the Metropolitan Water District (MWD) and the County Water Authority (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 Operating Budget as our Engineering Department supports expansion functions.

Annexation Fees

The District collects Annexation Fees when new customers annex into the District. This fee is based on the excess capacity built by existing users and insures 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 Role 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 41,300 acre-feet for the District's potable water supplies. A provision has been made to allow 2,780 acre-feet of water for District usage, leakage, and evaporation.

Recycled Water Purchases

Water purchases indicate the expense of purchasing 3,800 acre-feet for the District's recycled water supplies. 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 172.75 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.

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.

Debt Service

Debt Service is the principal and interest expense associated with the existing debt. Debt payments are shown in the reserve funded by the debt. Schedules showing outstanding debt and principal and interest payments are shown in the Five-Year Forecast section of this budget.

Operating Budget Summary by Business

The Budget Summary by System schedule reflects the separation of operating revenues and expenses among potable water, reclaimed 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, 2007, and the projected balance for June 30, 2008, 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 schedules reflect each fund's revenues and expenditures by business line, where appropriate. This schedule is reconciled to the Fund Balance Summary and includes transfers between funds.

OPERATING BUDGET SUMMARY - GENERAL FUND

| | FY 2006 | FY 2007 | | FY 2008 | Budget | Variance |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|------------------|--------------|
| | Actual | Budget | Estimated | Budget | Variance | % |
| REVENUES | | | | | | |
| Potable Water Sales | \$ 40,192,169 | \$ 43,130,800 | \$44,112,749 | \$ 47,506,500 | \$ 4,375,700 | 10.1% |
| Recycled Water Sales | 3,563,441 | 4,485,400 | 4,492,858 | 6,001,400 | 1,516,000 | 33.8% |
| Sewer Revenues | 2,296,856 | 2,568,100 | 2,577,993 | 2,679,100 | 111,000 | 4.3% |
| Meter Fees | 270,167 | 278,500 | 246,539 | 318,500 | 40,000 | 14.4% |
| Capacity Fee Revenues | 1,356,611 | 1,000,200 | 1,536,911 | 1,414,500 | 414,300 | 41.4% |
| Betterment Fees for Maintenance | - | - | - | 73,300 | 73,300 | 100.0% |
| Annexation Fees | - | 1,216,900 | 2,119,886 | 1,464,500 | 247,600 | 20.3% |
| Tax Revenues | 3,388,734 | 3,427,400 | 3,646,158 | 4,003,800 | 576,400 | 16.8% |
| Non-operating Revenues | 1,985,828 | 1,674,100 | 2,068,134 | 1,680,200 | 6,100 | 0.4% |
| Interest | - | 1,005,600 | 1,173,649 | 1,038,700 | 33,100 | 3.3% |
| General Fund Draw Down | 1,210,400 | 283,600 | - | - | (283,600) | (100.0%) |
| TOTAL REVENUES | 54,264,206 | 59,070,600 | 61,974,876 | 66,180,500 | 7,109,900 | 12.0% |
| EXPENDITURES | | | | | | |
| Potable Water Purchases | 20,350,772 | 21,218,200 | 21,562,502 | 23,984,100 | 2,765,900 | 13.0% |
| Recycled Water Purchases | 1,232,198 | 1,736,700 | 1,829,476 | 1,423,000 | (313,700) | (18.1%) |
| CWA - Infrastructure Access Charge | 844,855 | 1,003,900 | 1,003,927 | 1,090,200 | 86,300 | 8.6% |
| CWA - Customer Service Charge | 771,760 | 846,800 | 846,505 | 950,400 | 103,600 | 12.2% |
| CWA - Emergency Storage Charge | 1,047,601 | 1,230,600 | 1,230,830 | 1,507,800 | 277,200 | 22.5% |
| MWD - Capacity Reservation Charge | 508,756 | 514,800 | 530,708 | 569,400 | 54,600 | 10.6% |
| MWD - Net RTS and Standby Charge | 460,717 | 512,200 | 512,206 | 552,600 | 40,400 | 7.9% |
| Subtotal - Water Costs | 25,216,659 | 27,063,200 | 27,516,154 | 30,077,500 | 3,014,300 | 11.1% |
| Power | 2,113,787 | 2,677,800 | 2,489,978 | 2,804,800 | 127,000 | 4.7% |
| Labor and Benefits | 14,431,295 | 14,606,300 | 15,232,922 | 15,604,500 | 998,200 | 6.8% |
| Administrative Expenses | 3,971,885 | 5,559,600 | 5,467,656 | 6,982,300 | 1,422,700 | 25.6% |
| Materials & Maintenance | 3,885,976 | 4,623,700 | 3,701,221 | 4,452,900 | (170,800) | (3.7%) |
| Debt Service ⁽¹⁾ | 2,820,714 | - | - | - | - | 0.0% |
| Expansion Reserve | 1,001,300 | - | - | 2,590,200 | 2,590,200 | 100.0% |
| Betterment Reserve | - | - | - | 3,432,900 | 3,432,900 | 100.0% |
| Replacement Reserve | - | 4,540,000 | 6,657,369 | 235,400 | (4,304,600) | (94.8%) |
| TOTAL EXPENDITURES | 53,441,616 | 59,070,600 | 61,065,300 | 66,180,500 | 7,109,900 | 12.0% |
| EXCESS REVENUES (EXPENSE) | \$ 822,590 | \$ - | \$ 909,576 | \$ - | \$ - | 0.0% |

⁽¹⁾ Effective in FY07, debt service (\$357,000 for Sewer State loan and \$840,000 for ID 27 GO Bond) and corresponding tax revenues are accounted for separately under restricted reserves.

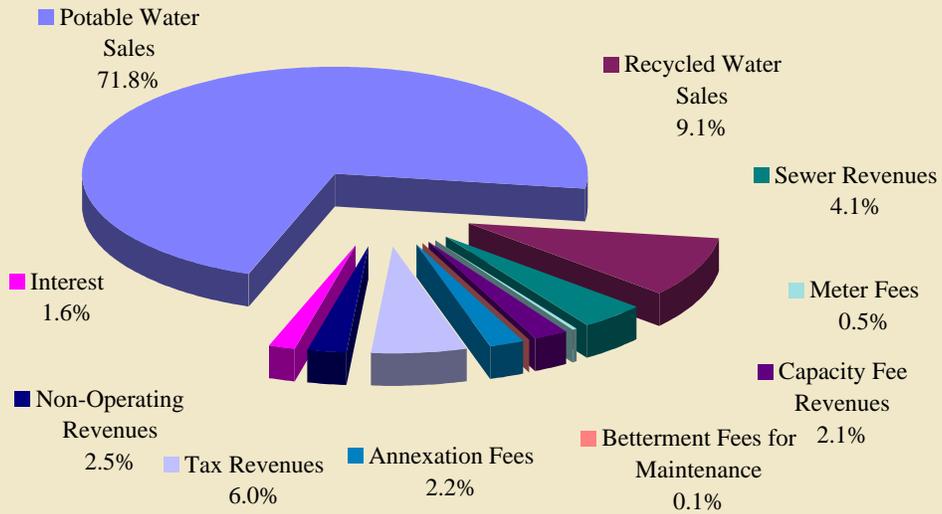
FY 2008 OPERATING BUDGET SUMMARY BY BUSINESS

| | Potable | Recycled | Sewer | Total |
|------------------------------------|-------------------|------------------|------------------|-------------------|
| REVENUES | | | | |
| Water Sales | \$ 47,506,500 | \$ - | \$ - | \$ 47,506,500 |
| Recycled Water Sales | - | 6,001,400 | - | 6,001,400 |
| Sewer Revenues | - | - | 2,679,100 | 2,679,100 |
| Meter Fees | 294,400 | 24,100 | - | 318,500 |
| Capacity Fee Revenues | 1,414,500 | - | - | 1,414,500 |
| Betterment Fees for Maintenance | 73,300 | - | - | 73,300 |
| Annexation Fees | 1,464,500 | - | - | 1,464,500 |
| Tax Revenues | 3,952,500 | - | 51,300 | 4,003,800 |
| Non-operating Revenues | 1,679,200 | - | 1,000 | 1,680,200 |
| Interest | 851,700 | 99,000 | 88,000 | 1,038,700 |
| TOTAL REVENUES | 57,236,600 | 6,124,500 | 2,819,400 | 66,180,500 |
| EXPENDITURES | | | | |
| Water Purchases (CWA) | 21,123,300 | - | - | 21,123,300 |
| Water Purchases (CSD) | 2,860,800 | 1,423,000 | - | 4,283,800 |
| CWA - Infrastructure Access Charge | 1,090,200 | - | - | 1,090,200 |
| CWA - Customer Service Charge | 950,400 | - | - | 950,400 |
| CWA - Emergency Storage Charge | 1,507,800 | - | - | 1,507,800 |
| MWD - Capacity Reservation Charge | 569,400 | - | - | 569,400 |
| MWD - Net RTS and Standby Charges | 552,600 | - | - | 552,600 |
| Subtotal - Water Costs | 28,654,500 | 1,423,000 | - | 30,077,500 |
| Power | 2,208,100 | 493,600 | 103,100 | 2,804,800 |
| Labor and Benefits | 13,876,500 | 895,400 | 832,600 | 15,604,500 |
| Administrative Expenses | 6,521,500 | 271,300 | 189,500 | 6,982,300 |
| Materials & Maintenance | 2,768,100 | 226,000 | 1,458,800 | 4,452,900 |
| Expansion Reserve | - | 2,590,200 | - | 2,590,200 |
| Betterment Reserve | 3,207,900 | 225,000 | - | 3,432,900 |
| Replacement Reserve | - | - | 235,400 | 235,400 |
| TOTAL EXPENDITURES | 57,236,600 | 6,124,500 | 2,819,400 | 66,180,500 |
| EXCESS REVENUES | \$ - | \$ - | \$ - | \$ - |

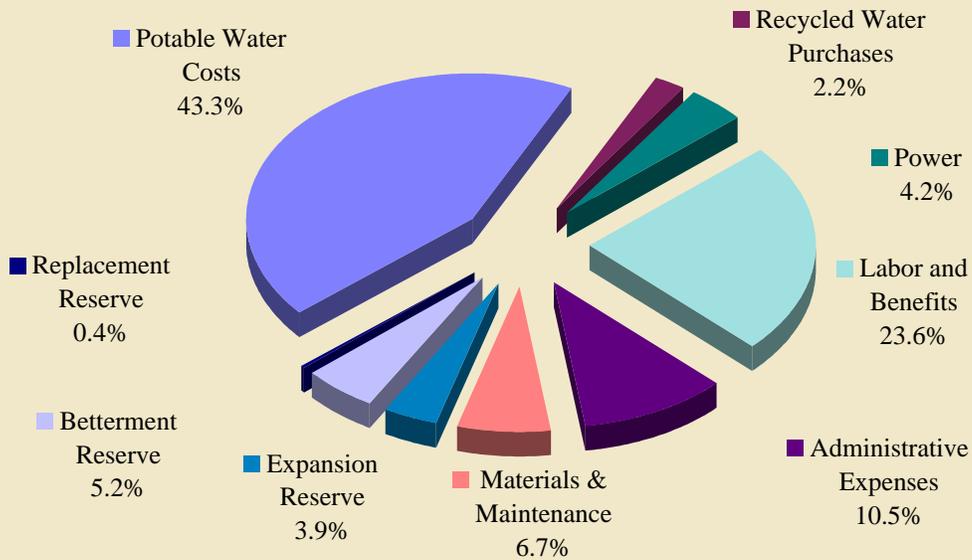


OPERATING REVENUES & EXPENDITURES

FY 2008 OPERATING REVENUES



FY 2008 OPERATING EXPENDITURES



FUND BALANCE SUMMARY BY FUND

| | Estimated | Estimated, Fiscal Year 2008 | | | Projected |
|-------------------------------------|-----------------------|-----------------------------|-----------------------|------------------------------------|----------------------|
| | Balance | Revenues | Expenditures | Interfund Transfers ⁽¹⁾ | Balance |
| | June 30, 2007 | | | | June 30, 2008 |
| GENERAL FUND | | | | | |
| Potable | \$ 26,925,082 | \$ 57,236,600 | \$ 57,236,600 | \$ (6,137,100) | \$ 20,787,982 |
| Recycled | 1,031,364 | 6,124,500 | 6,124,500 | (2,239,800) | (1,208,436) |
| Sewer | 2,854,704 | 2,819,400 | 2,819,400 | 465,400 | 3,320,104 |
| Total General Fund | 30,811,150 | 66,180,500 | 66,180,500 | (7,911,500) | 22,899,650 |
| EXPANSION FUND | | | | | |
| Potable and Recycled ⁽²⁾ | 3,446,253 | 11,961,900 | 20,504,500 | 1,655,000 | (3,441,347) |
| Sewer | 426,692 | 22,000 | 10,000 | - | 438,692 |
| Total Expansion Fund | 3,872,945 | 11,983,900 | 20,514,500 | 1,655,000 | (3,002,655) |
| BETTERMENT FUND | | | | | |
| Potable | (3,348,020) | 1,739,400 | 9,278,600 | 7,282,500 | (3,604,720) |
| Recycled | 264,251 | 13,000 | 769,700 | 1,100,000 | 607,551 |
| Sewer | 270,836 | 42,200 | 18,800 | (272,000) | 22,236 |
| Total Betterment Fund | (2,812,933) | 1,794,600 | 10,067,100 | 8,110,500 | (2,974,933) |
| REPLACEMENT FUND | | | | | |
| Potable | 18,898,359 | 946,100 | 6,746,100 | 2,982,500 | 16,080,859 |
| Recycled | 2,887,678 | 143,400 | 670,000 | 1,380,000 | 3,741,078 |
| Sewer | 9,993,923 | 468,600 | 1,284,400 | 17,000 | 9,195,123 |
| Total Replacement Fund | 31,779,960 | 1,558,100 | 8,700,500 | 4,379,500 | 29,017,060 |
| OPEB FUND | 16,893,128 | 885,800 | 580,000 | - | 17,198,928 |
| DEBT RESERVE FUND | 27,584,163 | 1,177,400 | 1,194,200 | 25,000 | 27,592,363 |
| TOTAL | \$ 108,128,413 | \$ 83,580,300 | \$ 107,236,800 | \$ 6,258,500 | \$ 90,730,413 |

⁽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 | \$ (2,590,200) |
| Betterment Reserve | (3,432,900) |
| Replacement Reserve | (235,400) |
| Total | (6,258,500) |

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

Note: Significant changes in fund balances are due to debt proceeds from proposed debt issuances in the budget year, as well as interfund transfers effected by the implementation of the newly-adopted reserve policy.

REVENUES AND EXPENDITURES BY FUND

| | FY 2006 | FY 2007 | | FY 2008 |
|--|----------------------|-----------------------|--------------------|----------------------|
| | Actual | Budget | Estimated (1) | Projected |
| REVENUES | | | | |
| GENERAL FUND | | | | |
| Potable | \$ 47,967,356 | \$ 51,539,800 | 54,474,400 | \$ 57,236,600 |
| Recycled | 3,586,870 | 4,569,500 | 4,795,706 | 6,124,500 |
| Sewer | 2,709,980 | 2,961,300 | 2,704,771 | 2,819,400 |
| Total General Fund | 54,264,206 | 59,070,600 | 61,974,876 | 66,180,500 |
| EXPANSION FUND | | | | |
| Potable | 8,823,888 | 26,416,100 | 45,201,490 | 12,840,700 |
| Recycled | 66,058 | 7,462,400 | (35,670,784) | (878,800) |
| Sewer | - | 13,400 | 426,692 | 22,000 |
| Total Expansion Fund | 8,889,946 | 33,891,900 | 9,957,398 | 11,983,900 |
| BETTERMENT FUND | | | | |
| Potable | 1,488,640 | 7,760,200 | 4,434,749 | 1,739,400 |
| Recycled | - | - | 262,845 | 13,000 |
| Sewer | - | 45,000 | 304,905 | 42,200 |
| Total Betterment Fund | 1,488,640 | 7,805,200 | 5,002,499 | 1,794,600 |
| REPLACEMENT FUND | | | | |
| Potable | 796,699 | 543,000 | (9,506,944) | 946,100 |
| Recycled | - | 57,900 | 809,243 | 143,400 |
| Sewer | - | 359,100 | 10,210,973 | 468,600 |
| Total Replacement Fund | 796,699 | 960,000 | 1,513,272 | 1,558,100 |
| OPEB FUND | 538,372 | 671,600 | 1,094,164 | 885,800 |
| DEBT RESERVE FUND⁽²⁾ | - | 1,065,400 | 42,797,802 | 1,177,400 |
| Total Revenues | \$ 65,977,863 | \$ 103,464,700 | 122,340,012 | \$ 83,580,300 |

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

| | <u>Expansion</u> | <u>Betterment</u> | <u>Replacement</u> |
|--------------|------------------|-------------------|--------------------|
| Potable | \$ 35,234,459 | \$ (129,035) | (10,406,080) |
| Recycled | (35,640,330) | (34,650) | 682,818 |
| Sewer | 405,871 | 163,684 | 9,723,262 |
| Total | \$ - | \$ - | - |

⁽²⁾ Debt Reserve Fund budgeted separately from General Fund effective Fiscal Year 2007

REVENUES AND EXPENDITURES BY FUND

| | FY 2006 | FY 2007 | | FY 2008 |
|---|------------------------|----------------------|--------------------|------------------------|
| | Actual | Budget | Estimated (1) | Projected |
| <u>EXPENDITURES</u> | | | | |
| GENERAL FUND | | | | |
| Potable | \$ 48,502,163 | \$ 51,539,800 | 54,474,400 | \$ 57,236,600 |
| Recycled | 2,241,740 | 4,569,500 | 4,795,706 | 6,124,500 |
| Sewer | 2,697,714 | 2,961,300 | 1,795,195 | 2,819,400 |
| Total General Fund | 53,441,616 | 59,070,600 | 61,065,300 | 66,180,500 |
| EXPANSION FUND | | | | |
| Potable | 33,217,943 | 7,076,600 | 9,791,020 | 18,458,700 |
| Recycled | - | 14,431,800 | 11,053,572 | 2,045,800 |
| Sewer | - | - | - | 10,000 |
| Total Expansion Fund | 33,217,943 | 21,508,400 | 20,844,591 | 20,514,500 |
| BETTERMENT FUND | | | | |
| Potable | 2,446,912 | 2,428,000 | 5,015,139 | 9,278,600 |
| Recycled | - | 233,400 | (1,406) | 769,700 |
| Sewer | - | 99,000 | 34,069 | 18,800 |
| Total Betterment Fund | 2,446,912 | 2,760,400 | 5,047,802 | 10,067,100 |
| REPLACEMENT FUND | | | | |
| Potable | 5,128,374 | 4,814,600 | 3,795,446 | 6,746,100 |
| Recycled | - | 634,400 | 84,459 | 670,000 |
| Sewer | - | 937,400 | 269,432 | 1,284,400 |
| Total Replacement Fund | 5,128,374 | 6,386,400 | 4,149,337 | 8,700,500 |
| OPEB FUND | 641,464 | 580,000 | 629,982 | 580,000 |
| DEBT RESERVE FUND ⁽²⁾ | - | 1,193,100 | 16,666,316 | 1,194,200 |
| Total Expenditures | 94,876,309 | 91,498,900 | 108,403,329 | 107,236,800 |
| EXCESS (DEFICIT) | \$ (28,898,446) | \$ 11,965,800 | 13,936,683 | \$ (23,656,500) |



Five-Year Forecast

FIVE-YEAR FORECAST

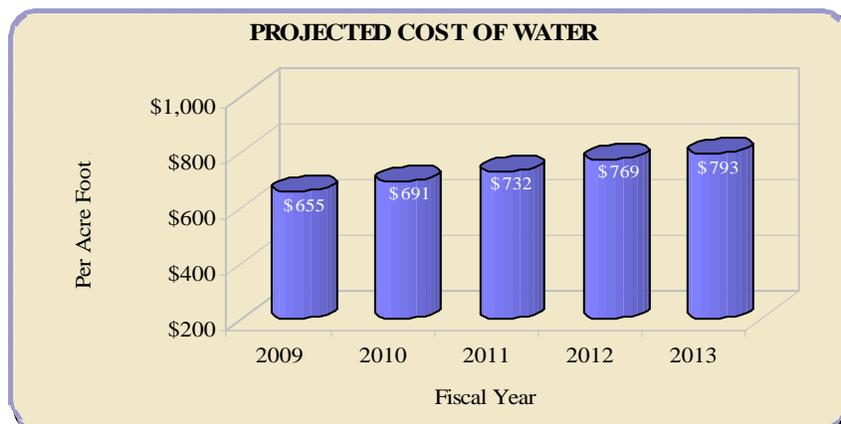
Financial Forecast for Fiscal Years 2009-2013

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 680 miles of potable pipelines, 83 miles of recycled pipelines, 86 miles of sewer lines, 38 potable and 4 recycled reservoirs, 24 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 asset 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.

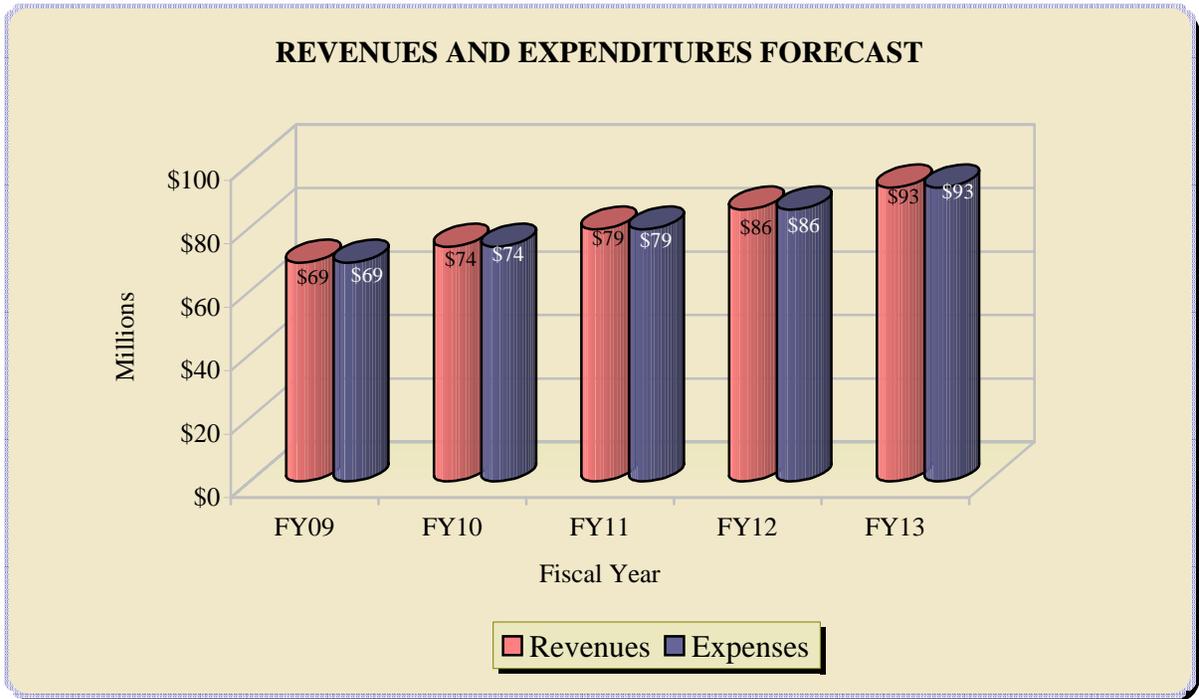
Projected Cost of Water

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 2009 THROUGH FY 2013

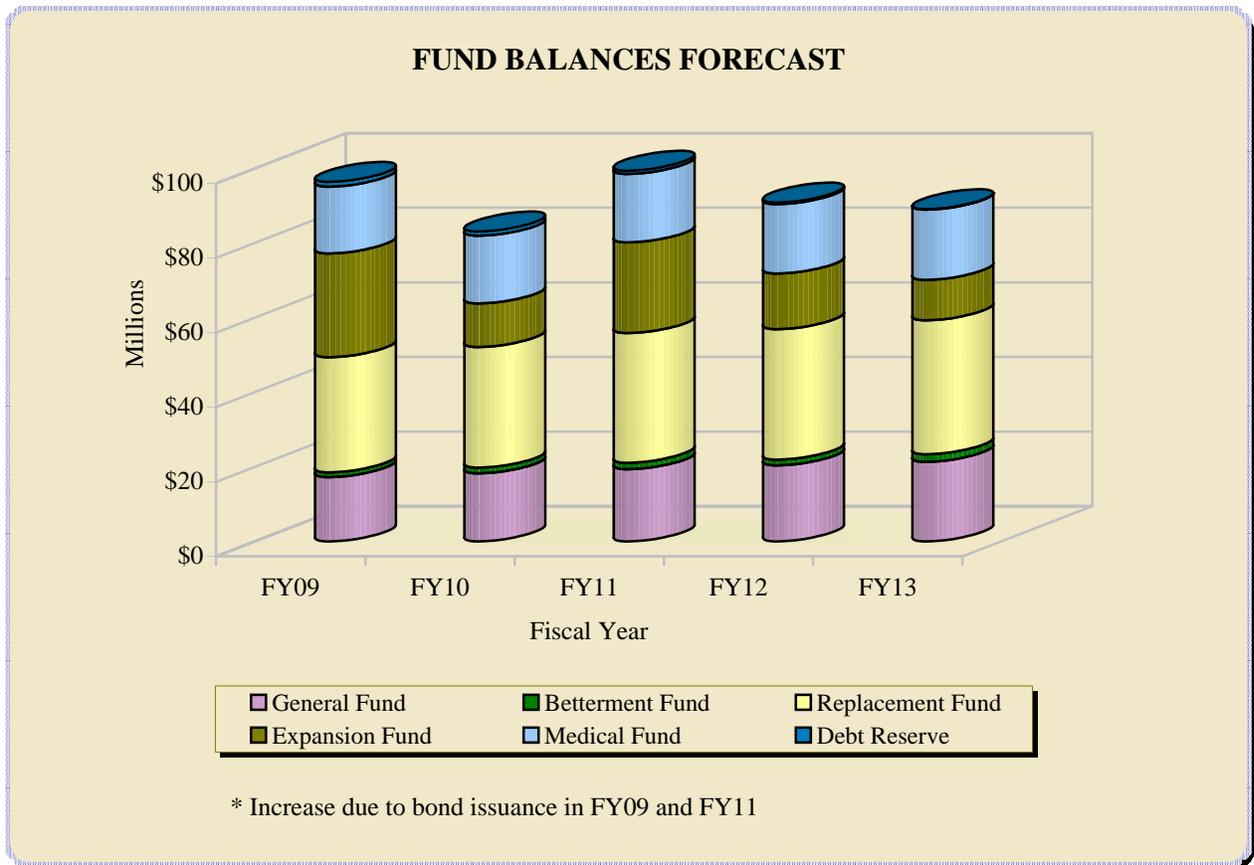
This forecast incorporates both cost increases for expenditures and rate increases for revenues, as well as growth projections.



| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues | | | | | |
| Water/Sewer Rates | \$ 58,883,300 | \$ 63,573,300 | \$ 68,649,500 | \$ 74,462,000 | \$ 81,016,300 |
| Meter Fees | 322,600 | 329,700 | 339,600 | 358,700 | 374,900 |
| Capacity Fee Revenues | 1,420,200 | 1,424,500 | 1,427,300 | 1,433,000 | 1,437,300 |
| Betterment Fees | 75,500 | 77,700 | 80,100 | 82,500 | 85,000 |
| Annexation Fees | 1,570,100 | 1,686,700 | 1,815,400 | 1,961,600 | 2,125,700 |
| Non-operating Revenues | 1,732,000 | 1,788,600 | 1,844,600 | 1,900,700 | 1,961,500 |
| Tax Revenues | 4,073,900 | 4,146,200 | 4,220,900 | 4,299,700 | 4,382,200 |
| Interest Income | 865,100 | 930,900 | 1,004,300 | 1,117,400 | 1,212,400 |
| TOTAL | \$ 68,942,700 | \$ 73,957,600 | \$ 79,381,700 | \$ 85,615,600 | \$ 92,595,300 |
| Expenditures and Transfers | | | | | |
| Water Cost | \$ 32,583,700 | \$ 35,059,600 | \$ 37,908,100 | \$ 40,843,400 | \$ 43,601,400 |
| Power | 2,959,400 | 3,126,200 | 3,306,800 | 3,516,200 | 3,750,400 |
| Labor and Benefits | 16,481,000 | 17,409,100 | 18,380,700 | 19,397,700 | 20,460,300 |
| Administrative Expenses | 6,362,800 | 6,131,100 | 6,303,900 | 6,481,300 | 6,663,500 |
| Materials & Maintenance | 4,671,000 | 4,842,700 | 5,071,700 | 5,312,400 | 5,565,200 |
| Fund Transfers, Net | 5,884,800 | 7,388,900 | 8,410,500 | 10,064,600 | 12,554,500 |
| TOTAL | \$ 68,942,700 | \$ 73,957,600 | \$ 79,381,700 | \$ 85,615,600 | \$ 92,595,300 |
| Excess Revenues | \$ - |

FUND BALANCES - FY 2009 THROUGH FY 2013

| <u>Fund</u> | <u>Year-End Forecast Balances</u> | | | | |
|------------------|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>FY 2009 *</u> | <u>FY 2010</u> | <u>FY 2011 *</u> | <u>FY 2012</u> | <u>FY 2013</u> |
| General Fund | \$ 17,206,000 | \$ 18,200,100 | \$ 19,325,300 | \$ 20,325,500 | \$ 21,299,300 |
| Betterment Fund | 1,290,800 | 1,535,300 | 1,749,600 | 1,549,200 | 2,028,600 |
| Replacement Fund | 30,889,900 | 32,368,500 | 34,764,100 | 35,039,000 | 35,956,800 |
| Expansion Fund | 27,791,300 | 11,660,400 | 24,302,100 | 14,853,100 | 10,838,500 |
| Medical Fund | 17,912,000 | 18,166,600 | 18,392,900 | 18,625,700 | 18,849,200 |
| Debt Reserve | 1,252,400 | 1,088,100 | 815,000 | 439,500 | 52,500 |
| TOTAL | \$ 96,342,400 | \$ 83,019,000 | \$ 99,349,000 | \$ 90,832,000 | \$ 89,024,900 |

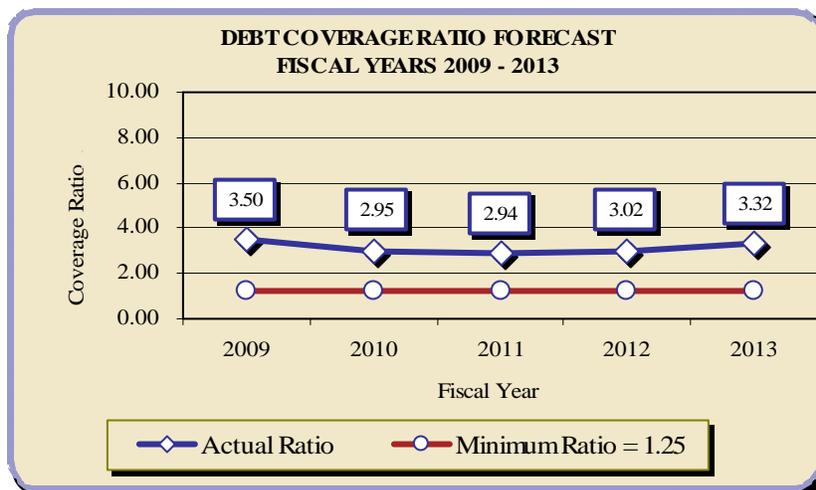


DEBT MANAGEMENT

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 06/30/07 |
|-------------------------------|---------------|--------------------------------------|-------------------|----------------------|------------------------------|
| 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 | 1,350,778 |
| 5 | 2007 | Certificates of Participation (COPs) | September 1, 2036 | 42,000,000 | 42,000,000 |
| Total Outstanding Debt | | | | \$ 86,505,000 | \$ 75,495,778 |

| | All Debts | GO Bonds |
|---|------------------|-------------------|
| Total Assessed Valuation - FY 2007 | \$22,684,693,592 | \$ 10,348,663,242 |
| Percentage of Original Debt to Assessed Valuation | 0.38% | 0.11% |
| Debt Limit per District Debt Policy (% of Assessed Valuation) | 15.00% | 15.00% |



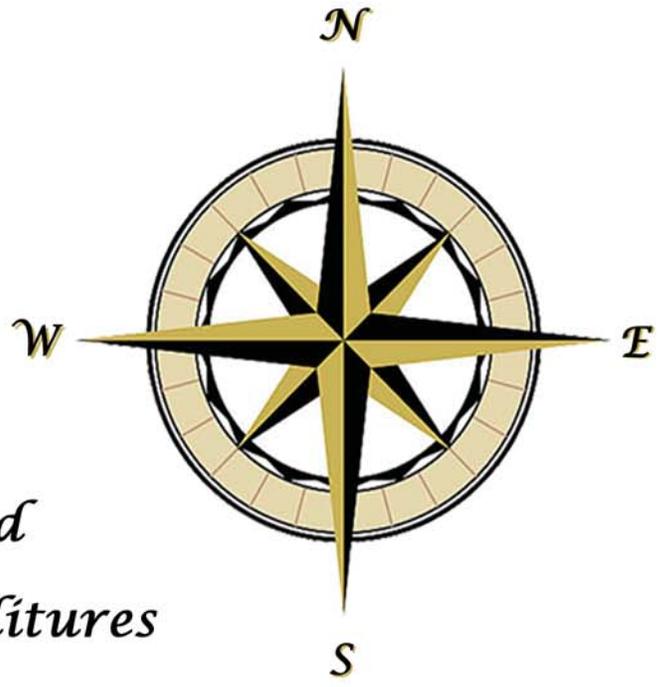
PROJECTED PRINCIPAL AND INTEREST PAYMENTS BY DEBT

| FY | 1996 COPs ⁽¹⁾ | GOBs | 2004 COPs | State Loan | 2007 COPs | Total |
|--------------|--------------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|
| 2008 | 613,750 | 834,385 | 928,534 | 359,811 | 1,720,919 | 4,457,399 |
| 2009 | 704,167 | 830,822 | 928,159 | 359,583 | 2,491,328 | 5,314,059 |
| 2010 | 694,167 | 831,035 | 927,334 | 359,347 | 2,491,358 | 5,303,241 |
| 2011 | 684,167 | 830,258 | 925,604 | 358,981 | 2,494,770 | 5,293,780 |
| 2012 | 674,167 | 828,166 | 927,487 | 6,010 | 2,496,801 | 4,932,631 |
| 2013 | 762,083 | 824,645 | 922,993 | - | 2,497,520 | 5,007,241 |
| 2014 | 749,583 | 824,452 | 921,706 | - | 2,496,926 | 4,992,667 |
| 2015 | 737,083 | 822,951 | 923,575 | - | 2,499,864 | 4,983,473 |
| 2016 | 822,500 | 824,542 | 923,544 | - | 2,501,301 | 5,071,887 |
| 2017 | 807,500 | 819,750 | 921,819 | - | 2,500,791 | 5,049,860 |
| 2018 | 792,500 | 818,500 | 918,985 | - | 2,498,674 | 5,028,659 |
| 2019 | 875,417 | 820,542 | 913,944 | - | 2,494,316 | 5,104,219 |
| 2020 | 857,917 | 816,042 | 912,129 | - | 2,492,856 | 5,078,944 |
| 2021 | 840,417 | 814,833 | 912,979 | - | 2,493,390 | 5,061,619 |
| 2022 | 920,833 | 816,667 | 911,281 | - | 2,491,723 | 5,140,504 |
| 2023 | 900,833 | 811,708 | 907,844 | - | 2,491,760 | 5,112,145 |
| 2024 | 978,750 | - | 901,899 | - | 2,489,326 | 4,369,975 |
| 2025 | 956,250 | - | - | - | 2,489,160 | 3,445,410 |
| 2026 | 1,031,667 | - | - | - | 2,485,504 | 3,517,171 |
| 2027 | 1,104,583 | - | - | - | 2,483,304 | 3,587,887 |
| 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 | \$ 16,508,334 | \$ 13,169,298 | \$ 15,629,816 | \$ 1,443,732 | \$ 73,839,378 | \$ 120,590,558 |

⁽¹⁾ Interest on the 1996 Certificates of Participation is variable and is projected using an interest rate of 2.5%



Revenues and Expenditures



*Potable Revenues and
Expenditures*

POTABLE REVENUES AND EXPENSES

The District will provide water service to approximately 48,030 potable customers by the end of Fiscal Year 2008. 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 2.1% for Fiscal Year 2008. Unit sales are anticipated to increase 2.4% from the previous year's budget due to the expanded customer base and change in weather. The rainfall in Fiscal Year 2007 was less than four inches which is six inches less than a normal rainfall year.

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. Effective January 1, 2005, an updated block rate structure for residential customers was implemented to encourage conservation and to bring equity among all customer classes. All non-residential customers are charged a flat rate per unit. The rates for the various classes are shown on page 107.

Unit sales represent approximately 68% 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 a fixed monthly system fee based on meter size. The fee recovers 34% of the fixed costs associated with delivering water. Water rates, energy fees, and penalties recover the remaining 66% of fixed costs and all variable costs. 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 and the maintenance of the pump stations. This charge is

New water-rate hike in pipeline

Proposal would cover higher costs for 2008
By: Mike Lee – San Diego Union-Tribune

“Water agencies countywide are increasing their rates to offset rapidly rising wholesale water prices.

The water authority’s board voted June 28 to increase the agency’s 2008 rates by about 8 percent, though each retail water provider’s final cost is different because of several variables. The authority is trying to pay for more expensive water from the Metropolitan Water District in Los Angeles and for construction projects to make the region drought-proof.

Some of the countywide agency’s 24 member districts anticipated the increase and incorporated it into their latest rates. Others, including the city of San Diego, will likely finalize a new rate increase this fall. San Diego approved four years of annual rate boosts in February – before water authority officials knew what they would charge in 2008. “It puts pressure on all (the) member agencies,” said Mark Watton, general manager for the Otay Water District. “If you are not current on those pass-throughs, they compound in the future and you have created a huge problem.” Otay is looking to raise its rates by more than 5 percent next year in response to the increased cost of water.

In previous years, the public barely noticed rate increases from wholesale water suppliers because those price boosts often were nominal and were passed along discreetly to ratepayers. Because of a state Supreme Court ruling last summer, retail water providers now must notify residents about these increases and hold public hearings to discuss them. The proposed rate changes will be outlined in notices set to go out to property owners in the coming months.”

reviewed periodically to ensure that sufficient revenue is collected to offset total 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 the County Water Authority. The CWA purchases water from the 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 City of San Diego to purchase raw water from CWA and have the City of San Diego 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. This water is taken through the Lower Otay Pump Station (LOPS) which is a temporary pump station. The District is in negotiations with the City of San Diego for additional treatment through the SD17 connection which will further diversify our water resources.

In Fiscal Year 2008, the District is estimating the purchase of 41,300 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 2,780 acre-feet.



OPERATING BUDGET SUMMARY - POTABLE

| | FY 2006 | FY 2007 | | FY 2008 | Budget | Variance |
|------------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|--------------|
| | Actual | Budget | Estimated | Budget | Variance | % |
| REVENUES | | | | | | |
| Water Sales | \$ 40,192,169 | \$43,130,800 | \$ 44,112,749 | \$47,506,500 | \$ 4,375,700 | 10.1% |
| Meter Fees | 249,288 | 253,500 | 196,259 | 294,400 | 40,900 | 16.1% |
| Capacity Fee Revenues | 1,356,611 | 1,000,200 | 1,430,092 | 1,414,500 | 414,300 | 41.4% |
| Betterment Fees for Maintenance | - | - | - | 73,300 | 73,300 | 100.0% |
| Annexation Fees | - | 1,216,900 | 2,119,886 | 1,464,500 | 247,600 | 20.3% |
| Tax Revenues | 2,978,122 | 3,377,500 | 3,593,168 | 3,952,500 | 575,000 | 17.0% |
| Non-operating Revenues | 1,980,766 | 1,668,100 | 2,066,796 | 1,679,200 | 11,100 | 0.7% |
| Interest | - | 892,800 | 955,451 | 851,700 | (41,100) | (4.6%) |
| General Fund Draw Down | 1,210,400 | - | - | - | - | 0.0% |
| TOTAL REVENUES | 47,967,356 | 51,539,800 | 54,474,400 | 57,236,600 | 5,696,800 | 11.1% |
| EXPENDITURES | | | | | | |
| Water Purchases (CWA) | 20,212,012 | 16,653,700 | 19,970,363 | 21,123,300 | 4,469,600 | 26.8% |
| Water Purchases (CSD) | 138,760 | 4,564,500 | 1,595,019 | 2,860,800 | (1,703,700) | (37.3%) |
| Tier II Purchases | - | - | (2,880) | - | - | 0.0% |
| CWA - Infrastructure Access Charge | 844,855 | 1,003,900 | 1,003,927 | 1,090,200 | 86,300 | 8.6% |
| CWA - Customer Service Charge | 771,760 | 846,800 | 846,505 | 950,400 | 103,600 | 12.2% |
| CWA - Emergency Storage Charge | 1,047,601 | 1,230,600 | 1,230,830 | 1,507,800 | 277,200 | 22.5% |
| MWD - Capacity Reservation Charge | 508,756 | 514,800 | 530,708 | 569,400 | 54,600 | 10.6% |
| MWD - Net RTS and Standby Charges | 460,717 | 512,200 | 512,206 | 552,600 | 40,400 | 7.9% |
| Subtotal - Water Costs | 23,984,461 | 25,326,500 | 25,686,678 | 28,654,500 | 3,328,000 | 13.1% |
| Power | 1,702,448 | 2,310,900 | 1,987,186 | 2,208,100 | (102,800) | (4.4%) |
| Labor and Benefits | 13,192,558 | 12,774,300 | 14,109,003 | 13,876,500 | 1,102,200 | 8.6% |
| Administrative Expenses | 3,739,631 | 5,057,000 | 5,154,135 | 6,521,500 | 1,464,500 | 29.0% |
| Material & Maintenance | 2,421,295 | 2,795,600 | 2,543,968 | 2,768,100 | (27,500) | (1.0%) |
| Debt Service | 2,460,470 | - | - | - | - | 0.0% |
| Expansion Reserve | 1,001,300 | - | - | - | - | 0.0% |
| Betterment Reserve | - | - | - | 3,207,900 | 3,207,900 | 100.0% |
| Replacement Reserve | - | 3,275,500 | 4,993,429 | - | (3,275,500) | (100.0%) |
| TOTAL EXPENDITURES | 48,502,162 | 51,539,800 | 54,474,400 | 57,236,600 | 5,696,800 | 11.1% |
| EXCESS REVENUES (EXPENSES) | \$ (534,807) | \$ - | \$ - | \$ - | \$ - | 0.0% |



CLASSIFICATION OF WATER SALES - POTABLE

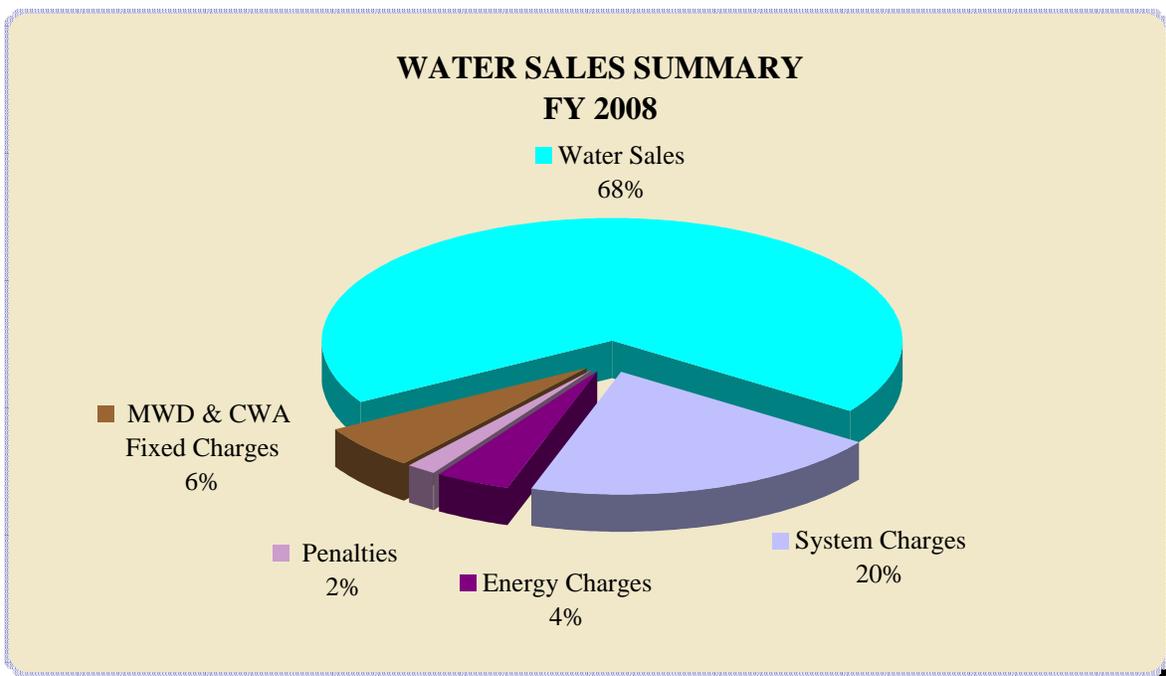
| | <u>FY 2007 Estimated</u> | <u>FY 2008 Budget</u> | <u>Variance</u> |
|----------------------------|------------------------------|-----------------------------|----------------------------|
| <u>Water Sales:</u> | | | |
| Water Sales | \$ 30,696,071 | \$ 32,331,300 | \$ 1,635,229 |
| System Fees | 8,658,339 | 9,596,300 | 937,961 |
| Energy Fees | 1,801,455 | 2,018,000 | 216,545 |
| MWD and CWA Fixed Fees | 2,159,269 | 2,708,800 | 549,531 |
| Penalties | 797,615 | 852,100 | 54,485 |
| Total | <u>\$ 44,112,749</u> | <u>\$ 47,506,500</u> | <u>\$ 3,393,751</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.

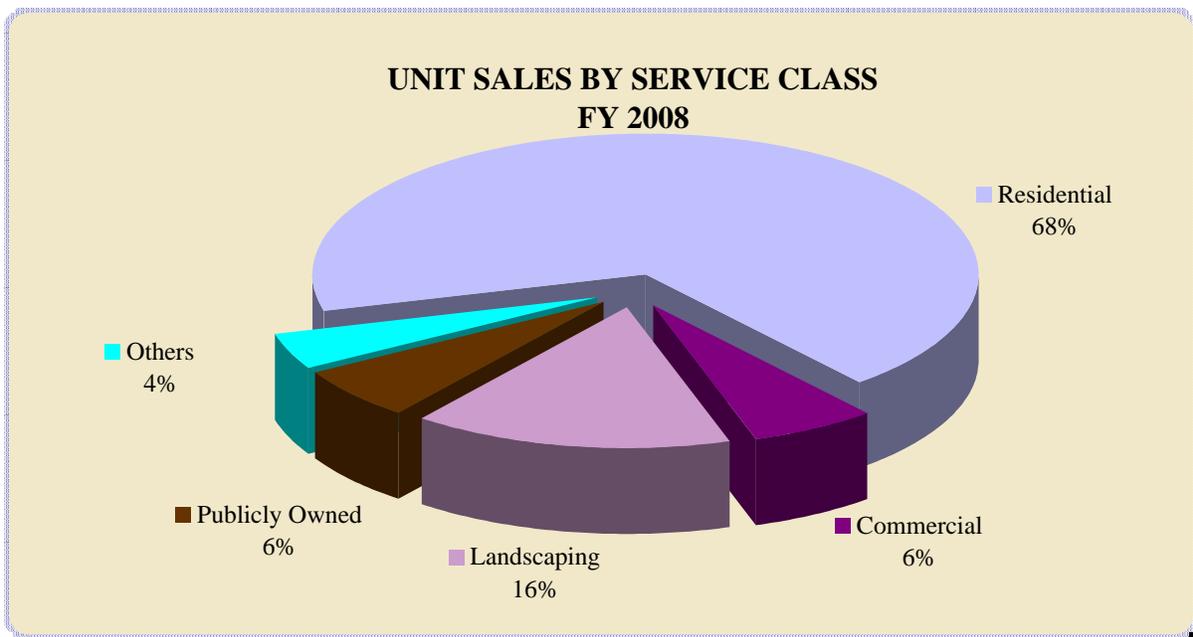


WATER SALES SUMMARY BY SERVICE CLASS - POTABLE

| | <u>Accounts</u> | <u>Fiscal Year 2008 Sales Budget</u> | | <u>Current Rate</u> | <u>Approved* Rate</u> |
|----------------------------------|-----------------|--------------------------------------|----------------------|---------------------|-----------------------|
| | | <u>Units</u> | <u>Amount</u> | | |
| Residential | 45,073 | 11,388,400 | \$ 21,782,300 | \$ 1.88 | \$ 1.91 ** |
| Publicly-Owned | 263 | 1,005,000 | 2,031,900 | 1.99 | 2.06 |
| Commercial | 1,207 | 1,065,000 | 2,068,100 | 1.91 | 1.98 |
| Landscaping | 1,205 | 2,603,800 | 5,097,100 | 1.93 | 1.96 ** |
| Agricultural | 32 | 66,400 | 128,800 | 1.91 | 1.98 |
| Temporary and Others | 249 | 630,300 | 1,223,100 | 1.91 | 1.98 |
| Total Potable Water Sales | 48,029 | 16,758,900 | \$ 32,331,300 | 1.90 | 1.93 |

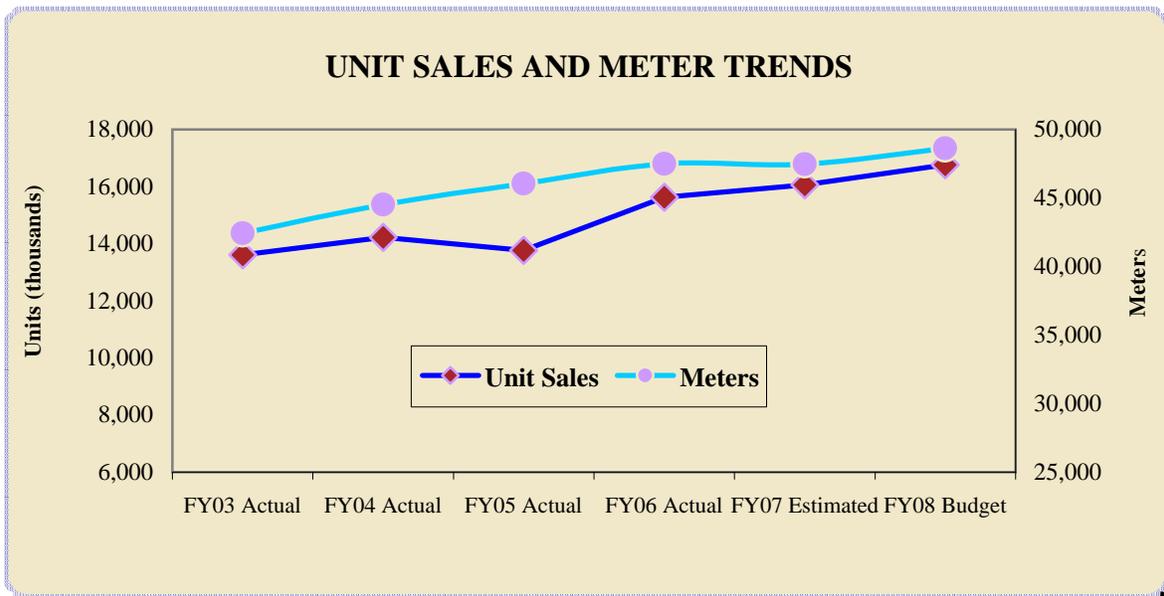
*Approved rate effective January 1, 2008.

**Based on average rate.



UNIT SALES HISTORY BY CUSTOMER CLASS - POTABLE

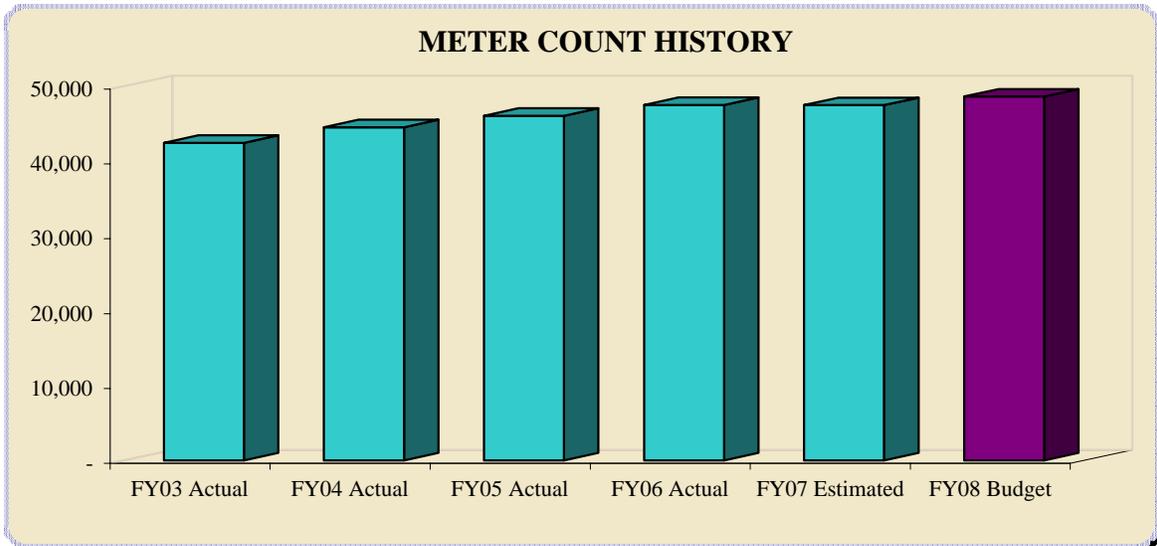
| | Actual | | | | Estimated FY 2007 | Budget FY 2008 |
|-----------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|
| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | | |
| Residential | 7,965,460 | 8,275,224 | 8,083,816 | 9,668,100 | 9,713,112 | 10,027,800 |
| Master Meters | 1,018,044 | 1,055,922 | 1,181,402 | 1,198,200 | 1,434,040 | 1,360,600 |
| Publicly-Owned | 929,850 | 933,517 | 901,639 | 919,200 | 984,391 | 1,005,000 |
| Commercial | 740,622 | 904,788 | 895,098 | 983,300 | 901,615 | 1,065,000 |
| Landscaping | 2,136,847 | 2,219,274 | 1,931,104 | 2,122,500 | 2,276,003 | 2,603,800 |
| Agricultural | 81,513 | 82,343 | 48,628 | 51,836 | 53,787 | 66,400 |
| Temporary | 735,185 | 750,530 | 723,712 | 689,000 | 696,516 | 630,300 |
| Others | 6,364 | 6,429 | - | - | - | - |
| Total | <u>13,613,885</u> | <u>14,228,027</u> | <u>13,765,399</u> | <u>15,632,136</u> | <u>16,059,464</u> | <u>16,758,900</u> |



SYSTEM FEES - POTABLE

| Service Class | Meter Size | Current Rates | Approved* Rates | Budgeted System Fees | | |
|-------------------------------------|------------|---------------|-----------------|----------------------|-------------------|---------------------|
| | | | | Existing Meters | Additional Meters | Total Meters |
| Residential | 0.75 | \$ 11.30 | \$ 12.30 | \$ 6,032,300 | \$ 73,000 | \$ 6,105,300 |
| | 1.00 | 18.15 | 19.80 | 160,500 | - | 160,500 |
| | 1.50 | 35.75 | 38.95 | 6,700 | - | 6,700 |
| | 2.00 | 59.60 | 64.95 | 4,500 | - | 4,500 |
| | 3.00 | 95.90 | 104.55 | - | - | - |
| | 4.00 | 109.80 | 119.70 | - | - | - |
| | 6.00 | 219.45 | 239.20 | 2,800 | - | 2,800 |
| | 10.00 | 418.90 | 456.60 | - | - | - |
| Non-Residential | 0.75 | 22.00 | 24.00 | 141,000 | 1,800 | 142,800 |
| | 1.00 | 33.90 | 36.95 | 343,100 | 1,900 | 345,000 |
| | 1.50 | 47.65 | 51.95 | 549,200 | 1,700 | 550,900 |
| | 2.00 | 59.60 | 64.95 | 813,800 | 18,200 | 832,000 |
| | 3.00 | 95.90 | 104.55 | 84,200 | - | 84,200 |
| | 4.00 | 109.80 | 119.70 | 381,400 | - | 381,400 |
| | 6.00 | 219.45 | 239.20 | 55,000 | - | 55,000 |
| | 10.00 | 418.90 | 456.60 | 31,500 | - | 31,500 |
| Fire Services | Various | 23.30 | 25.40 | 172,400 | - | 172,400 |
| Special System Fees | | | | - | - | 721,300 |
| Budgeted Potable System Fees | | | | \$ 8,778,400 | \$ 96,600 | \$ 9,596,300 |

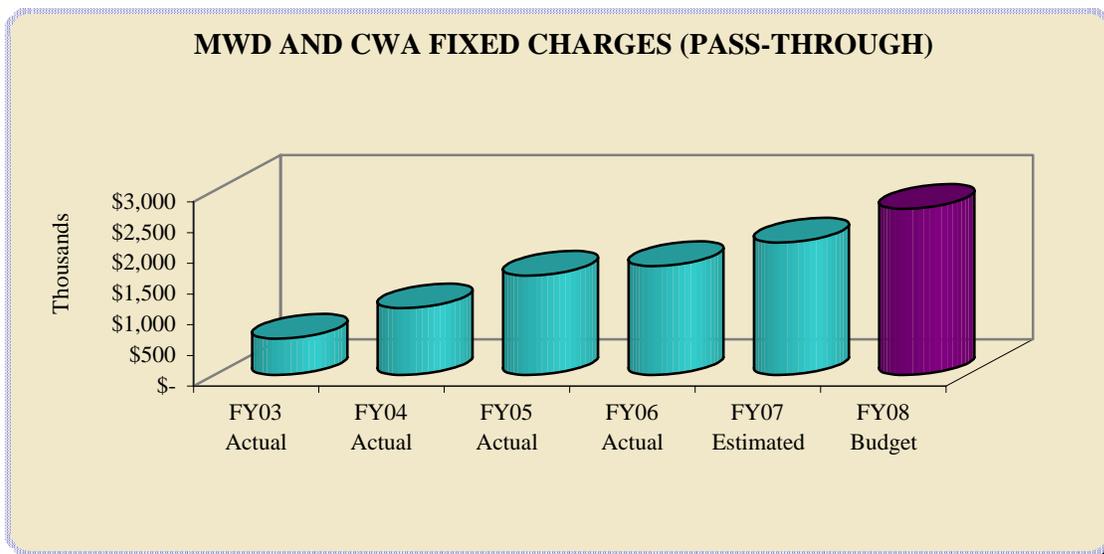
*Approved rates effective January 1, 2008.



MWD AND CWA FIXED FEES (PASS -THROUGH) POTABLE

| Classification | Meter Size | Current Rates | Approved* Rates | Budgeted MWD & CWA - Fixed Charges | | |
|------------------------|------------|---------------|-----------------|------------------------------------|------------------|---------------------|
| | | | | Existing | Growth | Total |
| Residential | 0.75 | \$ 3.55 | \$ 3.85 | \$ 1,891,500 | \$ 23,100 | \$ 1,914,600 |
| | 1.00 | 5.65 | 6.15 | 49,900 | - | 49,900 |
| | 1.50 | 10.65 | 11.60 | 2,000 | - | 2,000 |
| | 2.00 | 18.45 | 20.05 | 1,400 | - | 1,400 |
| | 4.00 | 58.20 | 63.15 | - | - | - |
| | 6.00 | 106.45 | 115.50 | 1,300 | - | 1,300 |
| Non-Residential | 0.75 | 3.55 | 3.85 | 22,700 | 300 | 23,000 |
| | 1.00 | 5.65 | 6.15 | 57,100 | 300 | 57,400 |
| | 1.50 | 10.65 | 11.60 | 122,700 | 400 | 123,100 |
| | 2.00 | 18.45 | 20.05 | 251,600 | 5,600 | 257,200 |
| | 3.00 | 34.05 | 36.95 | 29,800 | - | 29,800 |
| | 4.00 | 58.20 | 63.15 | 201,700 | - | 201,700 |
| | 6.00 | 106.45 | 115.50 | 26,600 | - | 26,600 |
| | 10.00 | 276.75 | 300.30 | 20,800 | - | 20,800 |
| Total | | | | \$ 2,679,100 | \$ 29,700 | \$ 2,708,800 |

*Approved rates effective January 1, 2008.



METER FEES - POTABLE

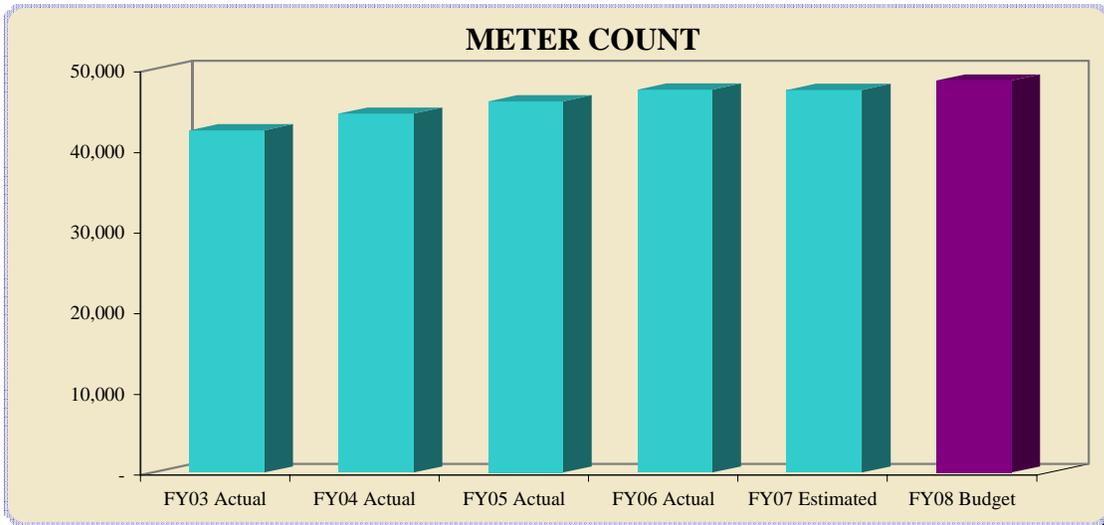
Meter Fees:

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 |

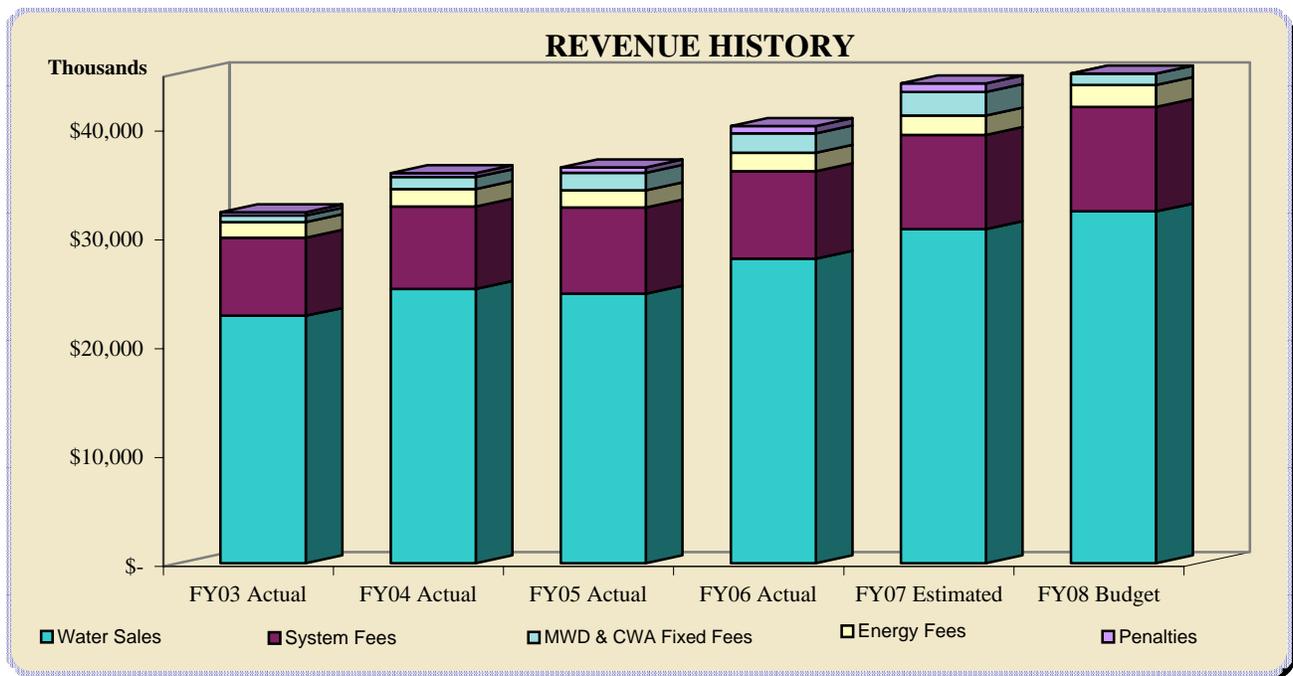
| Fiscal Year 2008 Growth by Meter Size | | | | | | |
|---------------------------------------|------------|----------|----------|-----------|----------|--------------|
| Service Class | 0.75 | 1.00 | 1.50 | 2.00 | 3.00 | Total |
| Residential | 933 | - | - | - | - | 933 |
| Non-Residential | 12 | 8 | 5 | 44 | - | 69 |
| Total Number of Meters | 945 | 8 | 5 | 44 | - | 1,002 |

| | | | | | | |
|-------------------------|------------|----------|----------|-----------|--|------------|
| Total Meter Fees | \$ 251,400 | \$ 2,600 | \$ 2,500 | \$ 37,900 | | \$ 294,400 |
|-------------------------|------------|----------|----------|-----------|--|------------|



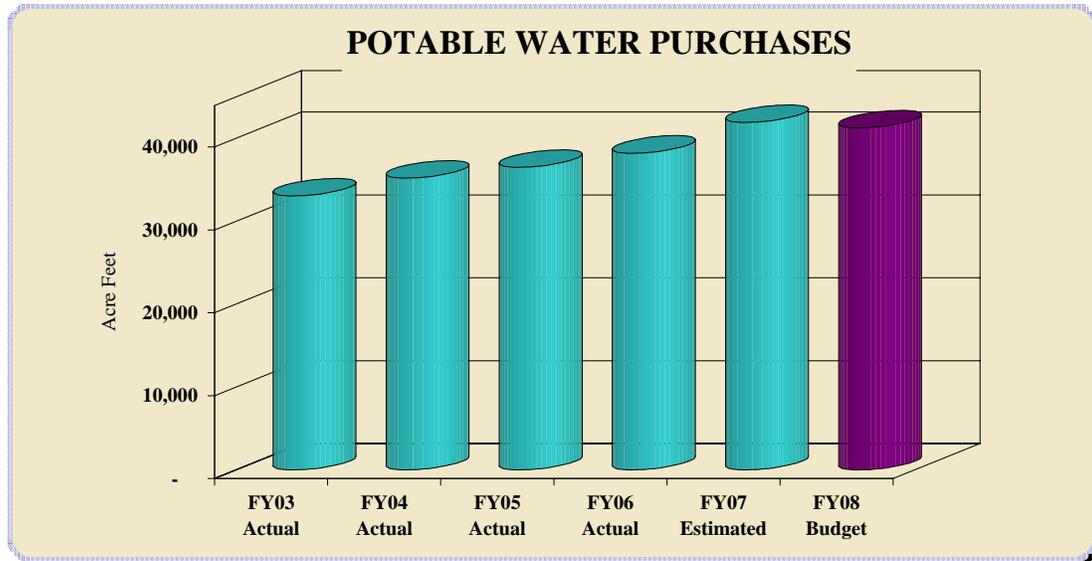
REVENUE HISTORY - POTABLE

| | Actual | | | | Estimated | Budget |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
| Water Sales | \$22,732,862 | \$25,204,669 | \$24,760,101 | \$27,975,777 | \$30,696,071 | \$32,331,300 |
| System Fees | 7,191,403 | 7,576,328 | 7,933,913 | 8,056,340 | 8,658,339 | 9,596,300 |
| Energy Fees | 1,433,269 | 1,618,000 | 1,573,999 | 1,696,492 | 1,801,455 | 2,018,000 |
| MWD and CWA Fixed Fees | 591,667 | 1,088,156 | 1,620,548 | 1,775,186 | 2,159,269 | 2,708,800 |
| Penalties | 312,774 | 374,283 | 494,915 | 688,374 | 797,615 | 852,100 |
| Total | <u>\$32,261,975</u> | <u>\$35,861,436</u> | <u>\$36,383,476</u> | <u>\$40,192,169</u> | <u>\$44,112,749</u> | <u>\$47,506,500</u> |



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

WATER PURCHASES AND RELATED COSTS - POTABLE



| | FY08 Budget Acre Feet | Rate ⁽¹⁾ | FY08 Budget Purchase Costs | % to Total |
|--------------------------------|--------------------------|---------------------|-------------------------------|---------------|
| Potable Water Purchases | | | | |
| Budgeted Sales (CWA) | 33,005.1 | \$572/\$614 | \$ 19,482,200 | 80.0% |
| District & Unbilled Usage | 717.4 | \$572/\$614 | 423,600 | 1.7% |
| Water Loss | 2,062.7 | \$572/\$614 | 1,217,500 | 5.0% |
| Budgeted Sales (CSD) | 5,468.0 | \$512/\$537 | 2,860,800 | 13.3% |
| TOTAL VARIABLE CHARGES | 41,253.2 | | \$ 23,984,100 | 100.0% |

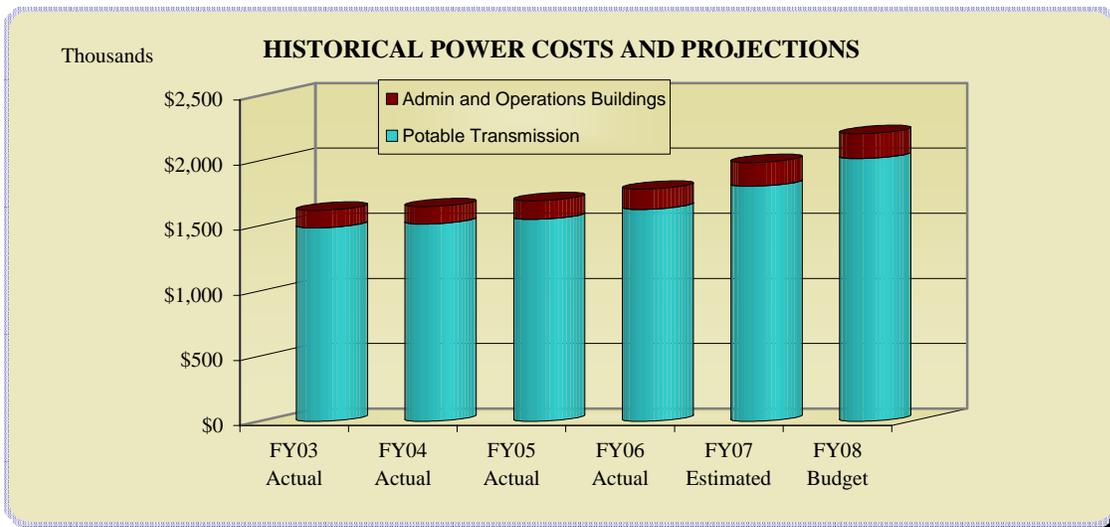
MWD & CWA FIXED CHARGES:

| | FY07 Estimated | FY08 Budget |
|------------------------------------|---------------------|---------------------|
| Infrastructure Access Charge (IAC) | \$ 1,003,927 | \$ 1,090,200 |
| Customer Service Charge (CSC) | 846,505 | 950,400 |
| Emergency Storage Charge (ESC) | 1,230,830 | 1,507,800 |
| Capacity Reservation Charge (CRC) | 530,708 | 569,400 |
| Readiness-to-Serve Charge (RTS) | 512,206 | 552,600 |
| TOTAL FIXED CHARGES | \$ 4,124,176 | \$ 4,670,400 |

(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

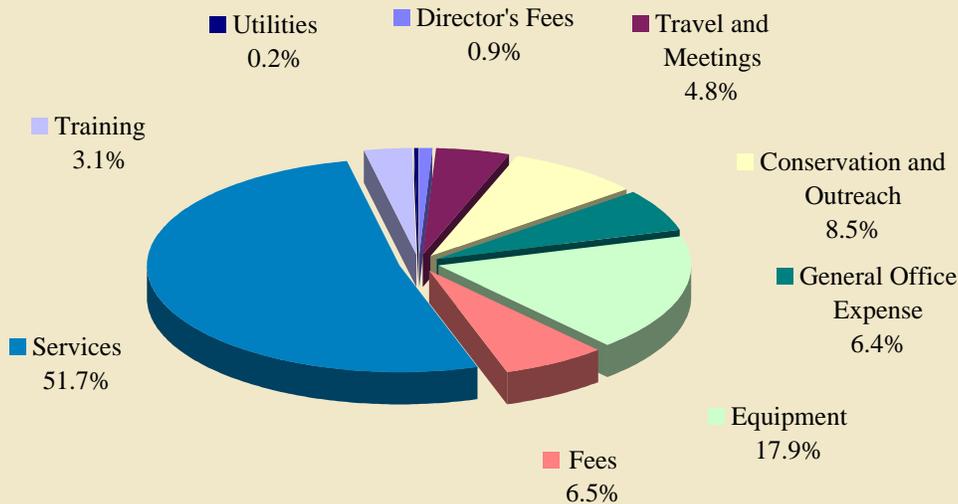
| | Admin and Operations Buildings | Potable Transmission | Total Potable Power Costs |
|----------------|---|---------------------------------|--------------------------------------|
| FY03 Actual | \$ 133,691 | \$ 1,486,080 | \$ 1,619,771 |
| FY04 Actual | 132,391 | 1,515,642 | 1,648,033 |
| FY05 Actual | 142,630 | 1,551,029 | 1,693,659 |
| FY06 Actual | 154,567 | 1,628,153 | 1,782,721 |
| FY07 Estimated | 182,501 | 1,804,686 | 1,987,187 |
| FY08 Budget | 190,100 | 2,018,000 | 2,208,100 |



ADMINISTRATIVE EXPENSES - POTABLE

| | FY 2006 | FY 2007 | | FY 2008 | Budget Variance | % |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------|
| | Actual | Budget | Estimated | Budget | | |
| Director's Fees | \$ 19,800 | \$ 48,000 | \$ 18,700 | \$ 48,000 | - | 0.0% |
| Travel and Meetings | 175,432 | 236,200 | 158,506 | 270,900 | 34,700 | 14.7% |
| Conservation and Outreach | 148,439 | 229,500 | 168,831 | 481,800 | 252,300 | 109.9% |
| General Office Expense | 375,730 | 364,700 | 344,782 | 359,400 | (5,300) | (1.5%) |
| Equipment | 711,679 | 973,600 | 901,151 | 1,014,300 | 40,700 | 4.2% |
| Fees | 179,180 | 371,700 | 421,420 | 367,700 | (4,000) | (1.1%) |
| Services | 1,858,732 | 2,639,300 | 2,023,530 | 2,923,300 | 284,000 | 10.8% |
| Training | 113,700 | 153,700 | 97,772 | 173,100 | 19,400 | 12.6% |
| Utilities | 11,530 | 11,700 | 12,870 | 14,000 | 2,300 | 19.7% |
| Miscellaneous | - | - | 212 | - | - | 0.0% |
| Total | 3,594,223 | 5,028,400 | 4,147,775 | 5,652,500 | 624,100 | 12.4% |
| Less: Overhead Allocation | (796,190) | (978,600) | (600,940) | (807,300) | 171,300 | (17.5%) |
| Subtotal | 2,798,033 | 4,049,800 | 3,546,835 | 4,845,200 | 795,400 | 19.6% |
| General Expenses | 941,598 | 1,007,200 | 1,607,300 | 1,676,300 | 669,100 | 66.4% |
| Net Administrative Expenses | \$ 3,739,631 | \$ 5,057,000 | \$ 5,154,135 | \$ 6,521,500 | \$ 1,464,500 | 29.0% |

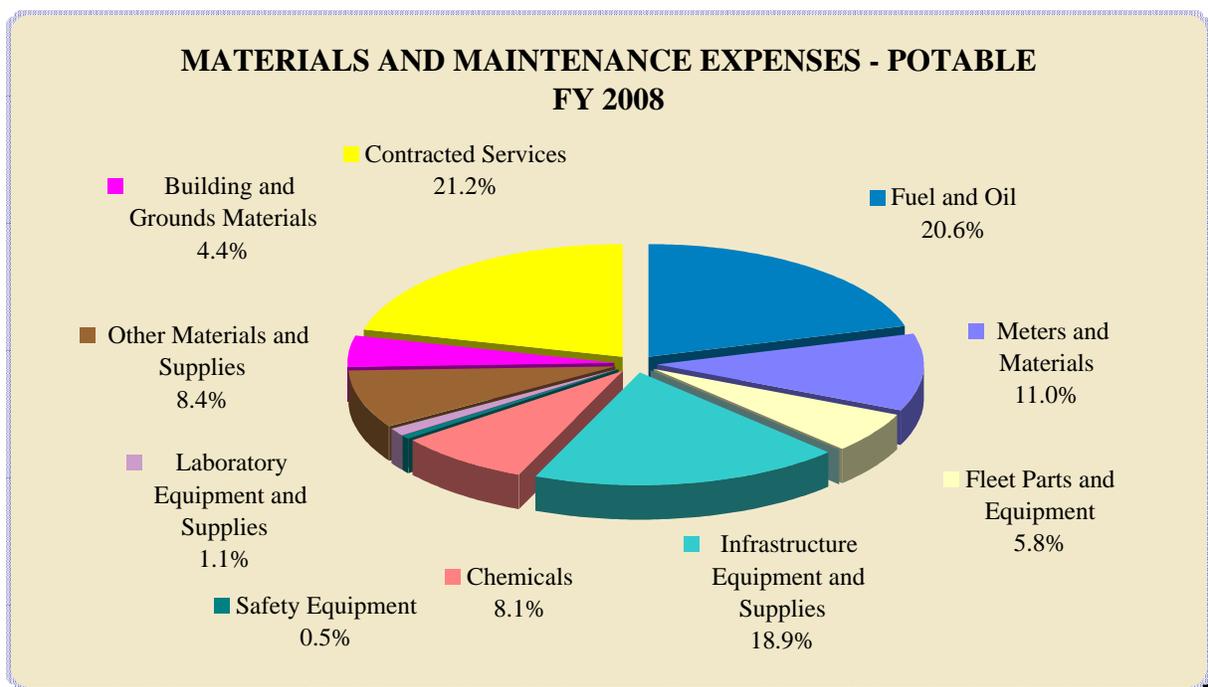
ADMINISTRATIVE EXPENSES - POTABLE FY 2008



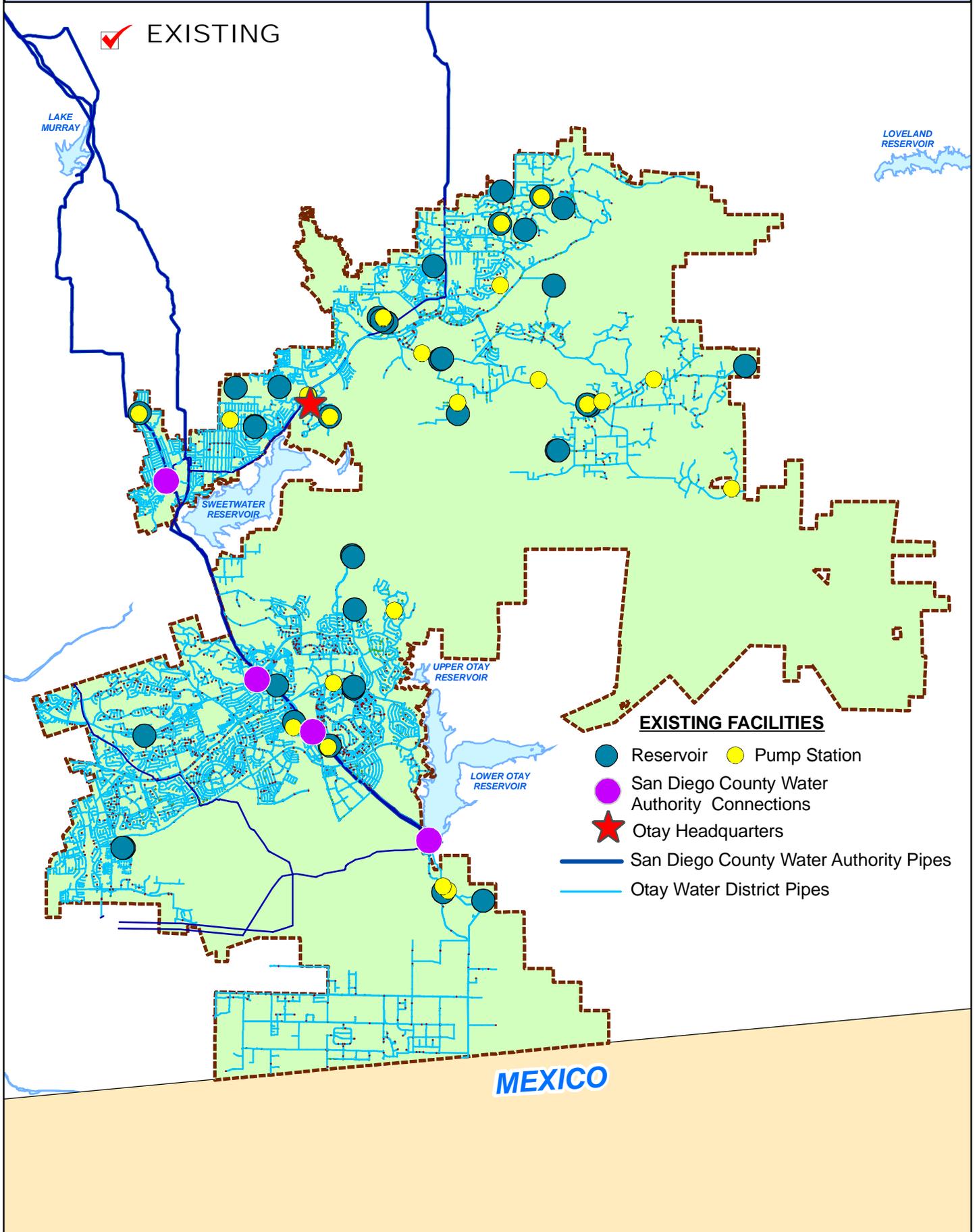
MATERIALS AND MAINTENANCE EXPENSES - POTABLE

| | FY 2006 | FY 2007 | | FY 2008 | Budget | % |
|--|---------------------|---------------------|---------------------|---------------------|--------------------|---------------|
| | Actual | Budget | Estimated | Budget | Variance | |
| Materials and Maintenance | | | | | | |
| Fuel and Oil | \$ 280,051 | \$ 766,000 | \$ 406,417 | \$ 570,000 | (196,000) | (25.6%) |
| Meters and Materials | 499,051 | 265,100 | 312,406 | 304,400 | 39,300 | 14.8% |
| Fleet Parts and Equipment | 151,407 | 155,000 | 159,601 | 161,100 | 6,100 | 3.9% |
| Landscaping Materials ⁽¹⁾ | 6,300 | - | - | - | - | 0.0% |
| Infrastructure Equipment and Supplies | 633,035 | 685,200 | 531,277 | 523,500 | (161,700) | (23.6%) |
| Chemicals | 174,799 | 195,000 | 197,565 | 225,000 | 30,000 | 15.4% |
| Safety Equipment | 28,026 | 14,000 | 17,761 | 14,700 | 700 | 5.0% |
| Laboratory Equipment and Supplies | 26,511 | 30,000 | 30,473 | 30,000 | - | 0.0% |
| Other Materials and Supplies | 206,769 | 150,500 | 280,772 | 231,500 | 81,000 | 53.8% |
| Building and Grounds Materials | 87,827 | 154,400 | 109,016 | 122,000 | (32,400) | (21.0%) |
| Contracted Services | 327,520 | 380,400 | 498,680 | 585,900 | 205,500 | 54.0% |
| Materials and Maintenance | 2,421,295 | 2,795,600 | 2,543,968 | 2,768,100 | (27,500) | (1.0%) |
| Total Materials and Maintenance | \$ 2,421,295 | \$ 2,795,600 | \$ 2,543,968 | \$ 2,768,100 | \$ (27,500) | (1.0%) |

⁽¹⁾ Landscaping outsourced in FY 2006

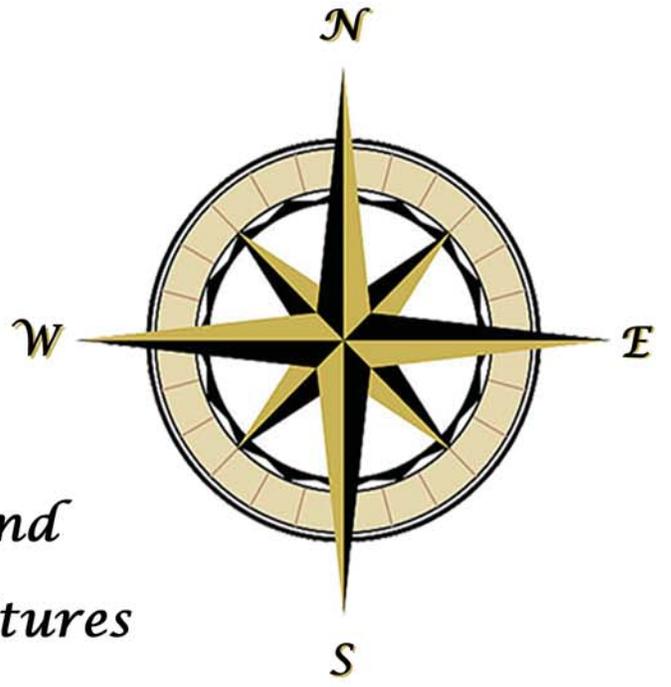


POTABLE WATER SERVICE AREA



This page intentionally left blank



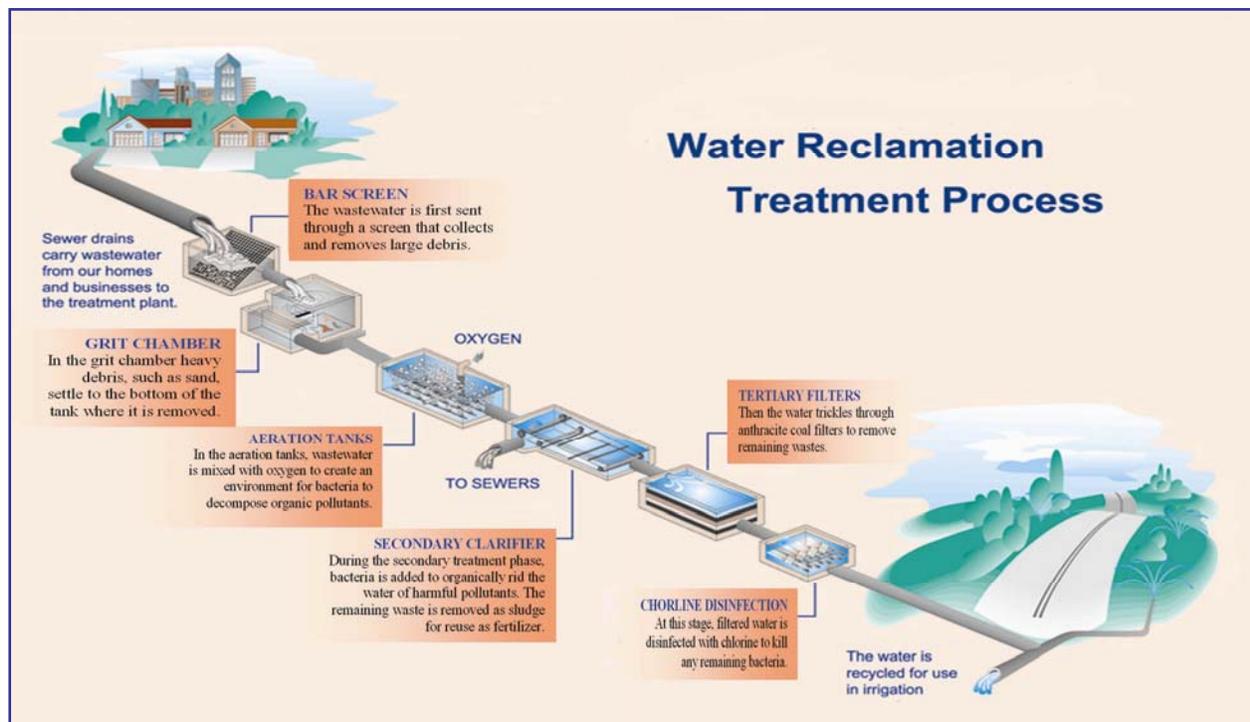


*Recycled Revenues and
Expenditures*

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 4,480 acre-feet of recycled water to 566 landscaping and construction customers by the end of Fiscal Year 2007. 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. Due to the plant's limited treatment capacity, 2,587 acre-feet of potable water will be used to supplement the reclamation system to meet customers' demands.

This 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 is in the process of completing construction of 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 are expected to be completed in Spring 2007, which



will greatly reduce the potable supplement. The benefits of this to the region as a whole are great as less demand on the potable system will be made, which reduces future capacity and storage requirements. The estimated \$42 million investment in capital outlay is anticipated to result 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 will allow the District to maximize its ability to earn incentives and to simplify the grant requirements. Currently, the District receives \$147 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

City to announce largest sale of reclaimed water

San Diego Union-Tribune – June 1, 2007 by Mike Lee, Staff Writer

San Diego city officials will announce the largest sale of recycled water in county history today.

The buyer is the Otay Water District, which has agreed to purchase about 6 million gallons of reclaimed – or partially purified – water each day for irrigating golf courses, parks and other areas in eastern Chula Vista. The water will come from San Diego's two reclamation plants.

But even with this major deal, the reclamation facilities will operate at only about one-third of their combined capacity. The city will continue to pump tens of millions of gallons of partially treated wastewater into the ocean daily instead of recycling them for sale.

Few businesses are willing to buy reclaimed water, partly because they don't want to pay for the installation of specialized plastic piping. It's expensive to put in the purple pipes in developed areas – so expensive that San Diego has stopped doing such work for the time being.

Meanwhile, Mayor Jerry Sanders has rejected the politically volatile idea of super-purifying the wastewater so it can be used as drinking water. The concept, known as reservoir augmentation, has been espoused by several City Council members, a city-sponsored citizens' panel, a coalition of water districts throughout the county, many environmentalists and the county grand jury.

San Diego is seeking more buyers of reclaimed water but doesn't have much money to expand the program, said Marsi Steirer, a top official for the city's water department.

Last year, San Diego completed a roughly \$1 million study of water-reuse options. Reservoir augmentation was a central recommendation in that analysis. The concept involves putting super-purified water into the city's San Vicente Reservoir near Lakeside. There, it would mix with river water and be treated again before being piped throughout the city.

Sanders doesn't dispute the science behind reservoir augmentation, but he insists that such projects are divisive, expensive and unnecessary. He points to desalination and importation of water as better options.

While debate continues over reservoir augmentation, the Otay Water District's new purchase of reclaimed water is being touted as a win-win situation.

San Diego will receive an estimated \$2 million a year from Otay, while the district will be able to significantly lower its reliance on imported water.

“Every (gallon) that we recycle is a (gallon) of potable imported water that we won't put in the landscape,” said Otay manager, Mark Watton.

The district began planning its \$43 million piping and storage network for reclaimed water in the early 1990s, Watton said. The project started well before Otay officials were sure where their reclaimed water would come from.

“We knew that we were a little ahead putting in the purple pipe . . . but we also knew that you could never go in and retrofit a neighborhood. You had to have the pipes in” while the communities were being developed, Watton said.

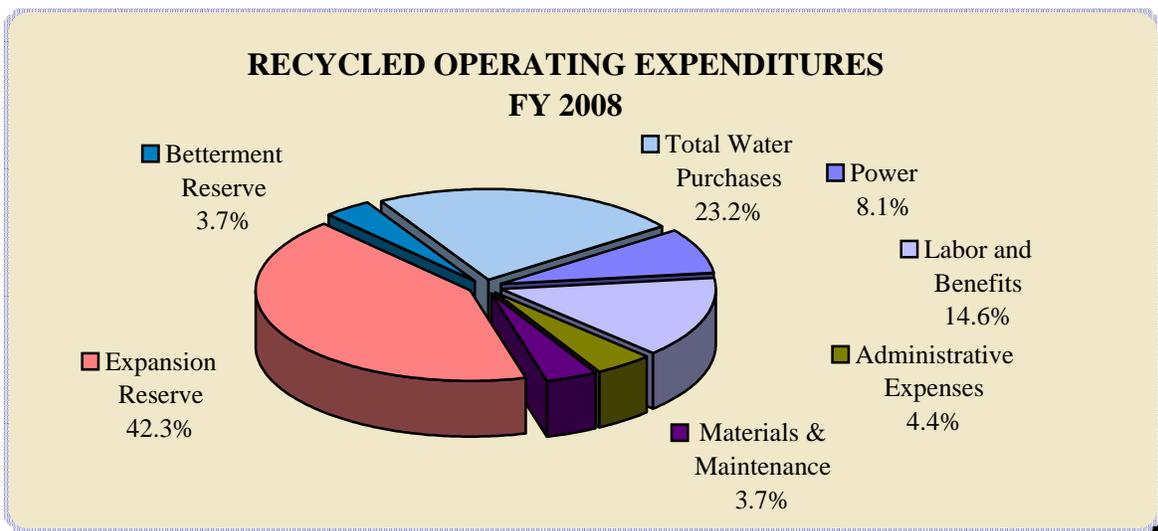
Nowadays, drought conditions affecting the Colorado River and minimal snowpacks in Northern California make Otay's investment look smart. San Diego County gets most of its water from these two sources.

Using reclaimed water makes parks and other open spaces “essentially drought-proof,” Watton said.



OPERATING BUDGET SUMMARY - RECYCLED

| | FY 2006 | FY 2007 | | FY 2008 | Budget Variance | Variance % |
|-----------------------------------|---------------------|------------------|------------------|------------------|--------------------|---------------|
| | Actual | Budget | Estimated | Budget | | |
| REVENUES | | | | | | |
| Recycled Water Sales | \$ 2,694,517 | \$ 3,216,000 | \$ 3,294,171 | \$ 3,583,800 | 367,800 | 11.4% |
| System Fees | 298,153 | 340,000 | 335,063 | 432,800 | 92,800 | 27.3% |
| Energy Fees | 198,599 | 215,400 | 190,570 | 264,800 | 49,400 | 22.9% |
| MWD/CWA Rebates | 372,172 | 633,000 | 592,056 | 1,614,900 | 981,900 | 155.1% |
| Penalties | - | 81,000 | 80,998 | 105,100 | 24,100 | 29.8% |
| Total Reclaimed Water Sales | 3,563,441 | 4,485,400 | 4,492,858 | 6,001,400 | 1,516,000 | 33.8% |
| Meter Fees | 20,879 | 25,000 | 50,280 | 24,100 | (900) | (3.6%) |
| Non-operating Revenues | 2,550 | 3,000 | - | - | (3,000) | (100.0%) |
| Interest | - | 56,100 | 145,748 | 99,000 | 42,900 | 76.5% |
| TOTAL REVENUES | 3,586,870 | 4,569,500 | 4,795,706 | 6,124,500 | 1,555,000 | 34.0% |
| EXPENDITURES | | | | | | |
| Water Purchases (CWA) | 1,232,198 | 1,421,300 | 1,597,592 | - | (1,421,300) | (100.0%) |
| Water Purchases (CSD) | - | 315,400 | 231,884 | 1,423,000 | 1,107,600 | 351.2% |
| Total Water Purchases | 1,232,198 | 1,736,700 | 1,829,476 | 1,423,000 | (313,700) | (18.1%) |
| Power | 185,103 | 202,600 | 431,562 | 493,600 | 291,000 | 143.6% |
| Labor and Benefits | 591,299 | 822,700 | 567,385 | 895,400 | 72,700 | 8.8% |
| Administrative Expenses | 106,445 | 314,200 | 205,245 | 271,300 | (42,900) | (13.7%) |
| Materials & Maintenance | 126,695 | 228,800 | 198,098 | 226,000 | (2,800) | (1.2%) |
| Expansion Reserve | - | - | - | 2,590,200 | 2,590,200 | 100.0% |
| Betterment Reserve | - | - | - | 225,000 | 225,000 | 100.0% |
| Replacement Reserve | - | 1,264,500 | 1,563,940 | - | (1,264,500) | (100.0%) |
| TOTAL EXPENDITURES | 2,241,740 | 4,569,500 | 4,795,706 | 6,124,500 | 1,555,000 | 34.0% |
| EXCESS REVENUES (EXPENSES) | \$ 1,345,130 | \$ - | \$ - | \$ - | \$ - | 0.0% |



CLASSIFICATION OF WATER SALES - RECYCLED

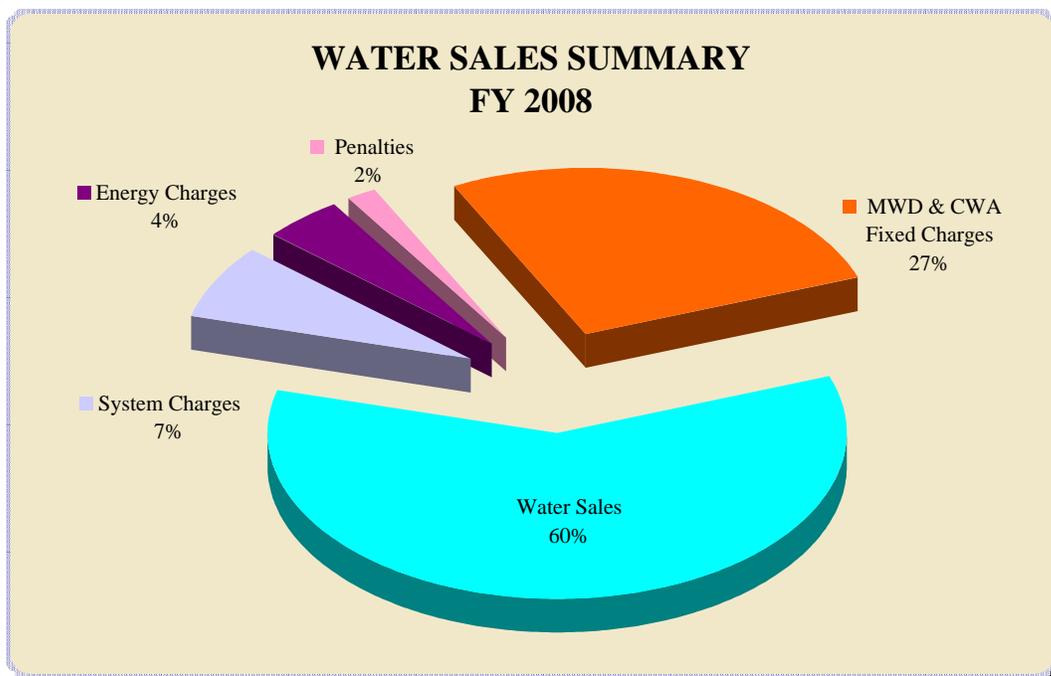
| | FY 2007 Estimated | FY 2008 Budget | Variance |
|-------------------------------------|----------------------|---------------------|---------------------|
| <u>Recycled Water Sales:</u> | | | |
| Water Sales | \$ 3,294,170 | \$ 3,583,800 | \$ 289,630 |
| System Fees | 335,063 | 432,800 | 97,737 |
| Energy Fees | 190,570 | 264,800 | 74,230 |
| MWD & CWA Rebates | 592,056 | 1,614,900 | 1,022,844 |
| Penalties | 80,998 | 105,100 | 24,102 |
| Total | \$ 4,492,858 | \$ 6,001,400 | \$ 1,508,542 |

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

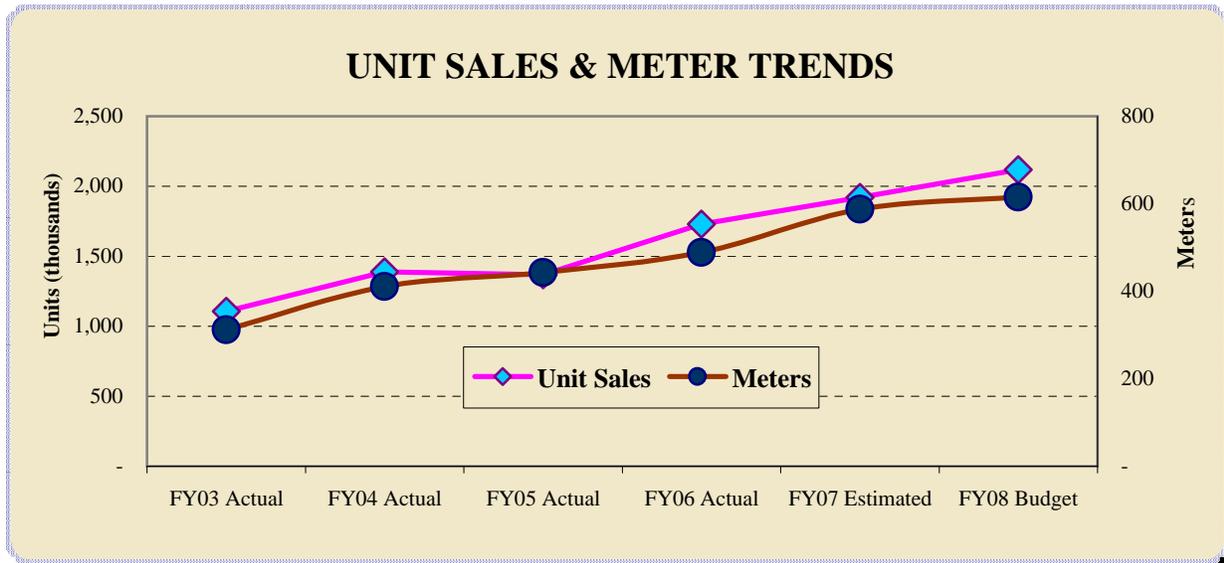
| | Fiscal Year 2008 Sales Budget | | | Current Rate | Approved* Rate | |
|---------------------|-------------------------------|-----------|--------------|-----------------|-------------------|----|
| | Accounts | Units | Amount | | | |
| Water Sales: | | | | | | |
| Recycled | 614 | 2,118,800 | \$ 3,583,800 | \$ 1.68 | \$ 1.69 | ** |

*Approved rate effective January 1, 2008.

**Based on average rate.

UNIT SALES HISTORY - RECYCLED

| | ACTUAL | | | | Estimated | Budget |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
| Recycled | 1,106,302 | 1,388,621 | 1,368,462 | 1,729,000 | 1,920,287 | 2,118,800 |



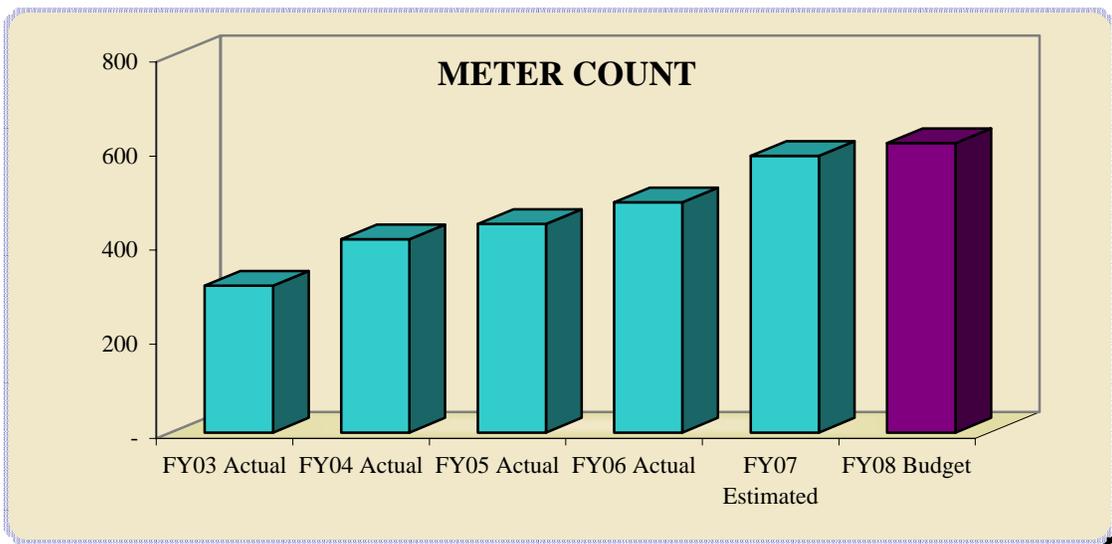
SYSTEM FEES - RECYCLED

| Service Class | Meter Size | Meter Count | | Current Rates | Approved* Rates | Budgeted System Fees | | |
|-----------------|------------|-------------|-----------|---------------|-----------------|----------------------|-------------------|-------------------|
| | | 6/30/07 | FY08 | | | Existing Meters | Additional Meters | Total Meters |
| Recycled | 0.75 | 3 | - | \$ 22.00 | \$ 27.85 | \$ 900 | \$ - | \$ 900 |
| | 1.00 | 66 | - | 33.90 | 42.90 | 30,400 | - | 30,400 |
| | 1.50 | 339 | 14 | 47.65 | 60.30 | 219,600 | 9,100 | 228,700 |
| | 2.00 | 166 | 12 | 59.60 | 75.40 | 134,500 | 9,700 | 144,200 |
| | 3.00 | 4 | 1 | 95.90 | 121.30 | 5,200 | 1,300 | 6,500 |
| | 4.00 | 4 | 2 | 109.80 | 138.90 | 6,000 | 1,500 | 7,500 |
| | 6.00 | 3 | - | 219.45 | 277.60 | 8,900 | - | 8,900 |
| | 10.00 | 1 | - | 418.90 | 529.90 | 5,700 | - | 5,700 |
| Total | | 586 | 29 | | | \$ 411,200 | \$ 21,600 | \$ 432,800 |

Budgeted Recycled System Fees

\$ 432,800

*Approved rates effective January 1, 2008.



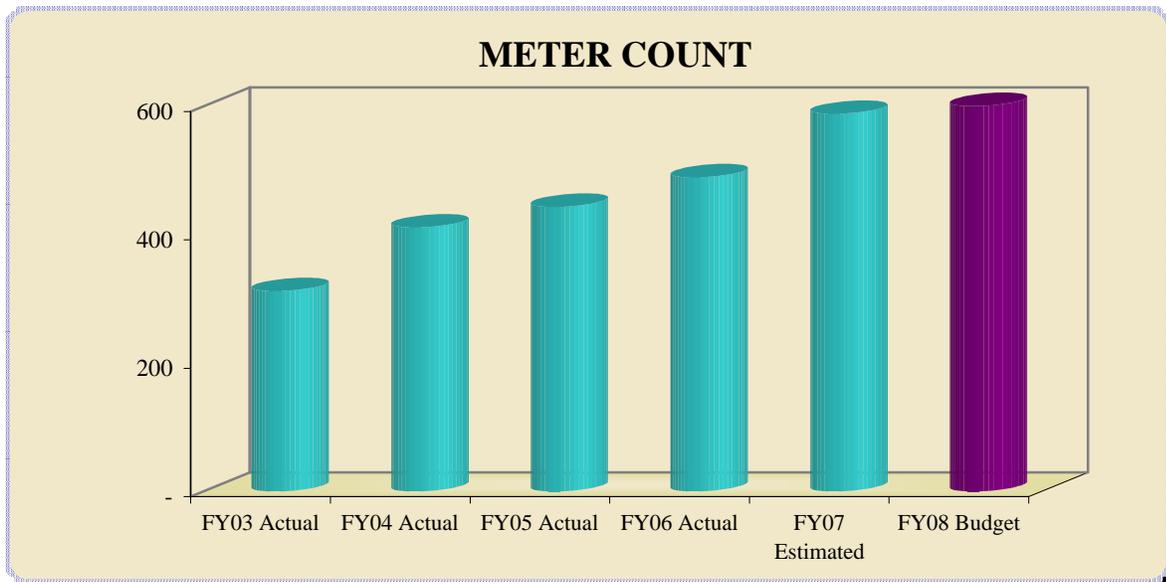
METER FEES - RECYCLED

| 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:

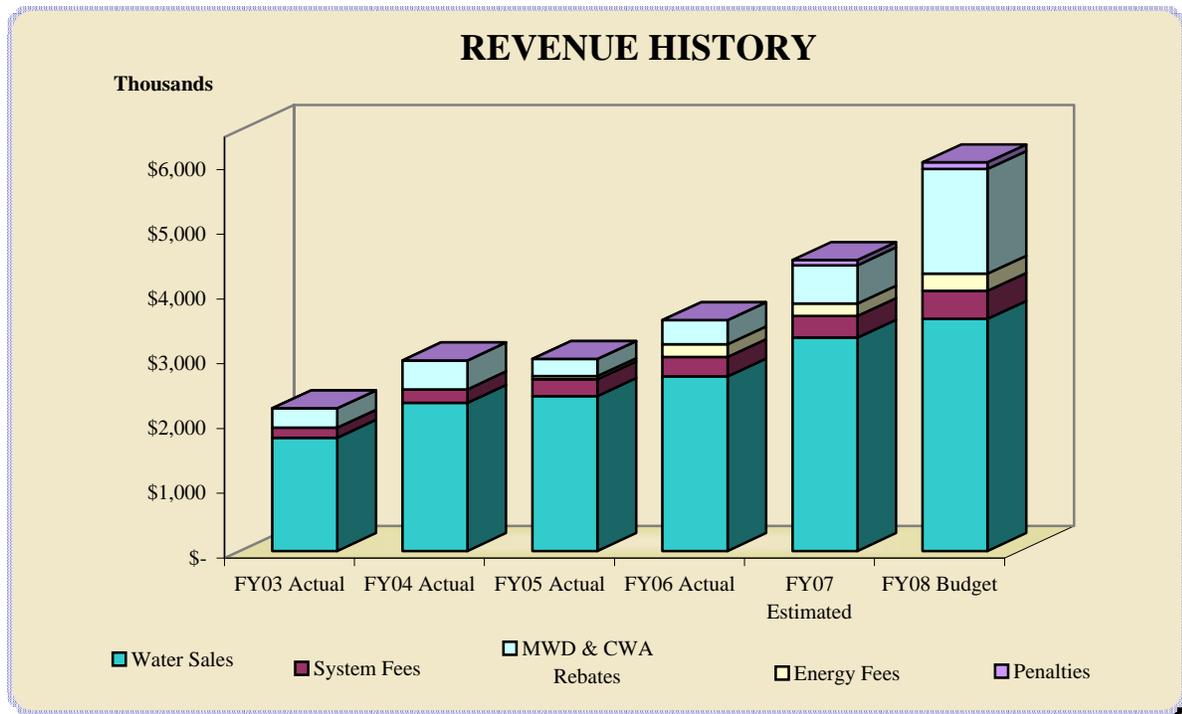
Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

| Fiscal Year 2008 Growth by Meter Size | | | | | | |
|---------------------------------------|------|------|------|-----------|------|-----------|
| | 0.75 | 1.00 | 1.50 | 2.00 | 3.00 | Total |
| Residential | | - | - | 28 | - | 28 |
| Total Meter Fees | \$ - | \$ - | \$ - | \$ 24,100 | \$ - | \$ 24,100 |



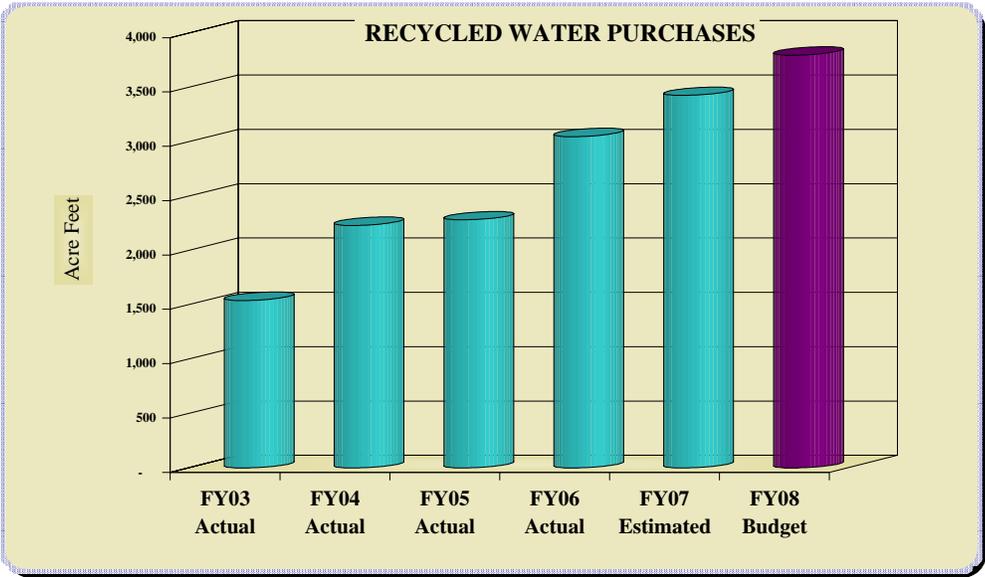
REVENUE HISTORY - RECYCLED

| | ACTUAL | | | | Estimated | Budgeted |
|-------------------|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
| Water Sales | \$ 1,749,369 | \$ 2,285,666 | \$ 2,392,952 | \$ 2,694,517 | \$3,294,170 | \$ 3,583,800 |
| System Fees | 153,859 | 210,208 | 256,659 | 298,153 | 335,063 | 432,800 |
| Energy Fees | - | - | 52,119 | 198,599 | 190,570 | 264,800 |
| MWD & CWA Rebates | 298,445 | 447,020 | 262,850 | 372,172 | 592,056 | 1,614,900 |
| Penalties | - | - | - | - | 80,998 | 105,100 |
| Total | \$ 2,201,673 | \$ 2,942,894 | \$ 2,964,580 | \$ 3,563,441 | \$4,492,858 | \$ 6,001,400 |



Note:
Fiscal Year 2005 Water Sales and Rebates drop due to 22.51 inches of rainfall.

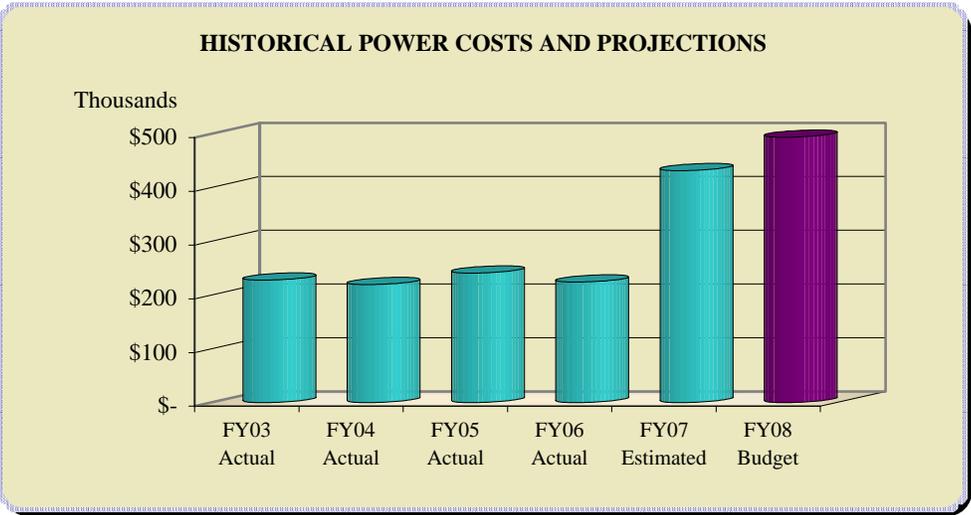
WATER PURCHASES - RECYCLED



| | <u>FY08 Budget</u> <u>Acre Feet</u> | <u>Rate</u> | <u>FY08 Budget</u> <u>Purchase Costs</u> | <u>% to Total</u> |
|---|--|-------------|---|-------------------|
| SBWRP Recycled Water Purchases (CSD) | | | | |
| Recycled Water Purchases | <u>3,799.7</u> | \$375 | <u>\$ 1,423,000</u> | 100.0% |

POWER COSTS - RECYCLED

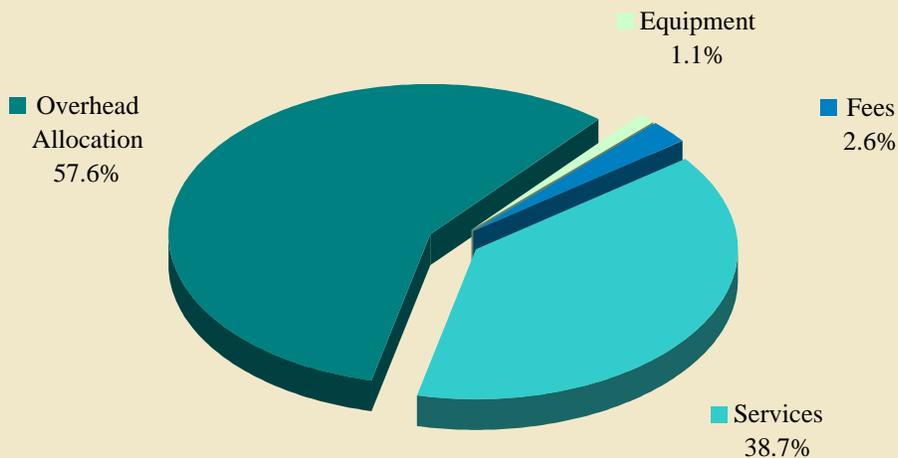
| | Treatment and Recycled Transmission |
|----------------|--|
| FY03 Actual | \$ 227,800 |
| FY04 Actual | 219,500 |
| FY05 Actual | 241,000 |
| FY06 Actual | 224,200 |
| FY07 Estimated | 431,562 |
| FY08 Budget | 493,600 |



ADMINISTRATIVE EXPENSES - RECYCLED

| | FY 2006 | FY 2007 | | FY 2008 | Budget Variance | % |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|----------------|
| | Actual | Budget | Estimated | Budget | | |
| Equipment | \$ 168 | \$ 1,000 | \$ 540 | \$ 3,000 | \$ 2,000 | 200.0% |
| Fees | - | - | - | 7,000 | 7,000 | 100.0% |
| Services | 3,522 | 166,000 | 104,633 | 105,000 | (61,000) | (36.7%) |
| Total | 3,690 | 167,000 | 105,173 | 115,000 | (52,000) | (31.1%) |
| Overhead Allocation | 102,756 | 147,200 | 100,071 | 156,300 | 9,100 | 6.2% |
| Administrative Expenses | \$ 106,446 | \$ 314,200 | \$ 205,245 | \$ 271,300 | \$ (42,900) | (13.7%) |

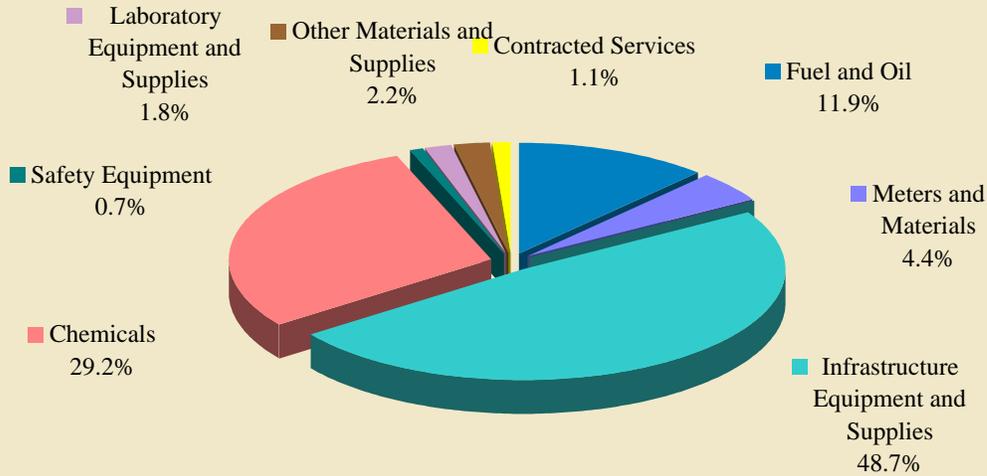
**ADMINISTRATIVE EXPENSES - RECYCLED
FY 2008**



MATERIALS AND MAINTENANCE EXPENSES - RECYCLED

| | FY 2006 | FY 2007 | | FY 2008 | Budget | % |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|---------------|
| | Actual | Budget | Estimated | Budget | Variance | |
| Materials and Maintenance | | | | | | |
| Fuel and Oil | \$ 22,213 | \$ 35,000 | \$ 12,348 | \$ 27,000 | (8,000) | (22.9%) |
| Meters and Materials | 525 | 10,000 | 9,632 | 10,000 | - | 0.0% |
| Fleet Parts and Equipment | 96 | - | 199 | - | - | 0.0% |
| Infrastructure Equipment and Supplies | 38,440 | 119,000 | 96,997 | 110,000 | (9,000) | (7.6%) |
| Chemicals | 56,746 | 56,000 | 64,508 | 66,000 | 10,000 | 17.9% |
| Safety Equipment | - | 1,800 | 2,379 | 1,500 | (300) | (16.7%) |
| Laboratory Equipment and Supplies | 76 | 2,000 | 2,060 | 4,000 | 2,000 | 100.0% |
| Other Materials and Supplies | 8,440 | - | 5,765 | 5,000 | 5,000 | 100.0% |
| Building and Grounds Materials | 159 | - | - | - | - | 0.0% |
| Contracted Services | - | 5,000 | 4,210 | 2,500 | (2,500) | (50.0%) |
| Materials and Maintenance | 126,695 | 228,800 | 198,098 | 226,000 | (2,800) | (1.2%) |
| Total Materials and Maintenance | \$ 126,695 | \$ 228,800 | \$ 198,098 | \$ 226,000 | \$ (2,800) | (1.2%) |

MATERIALS AND MAINTENANCE EXPENSES - RECYCLED FY 2008

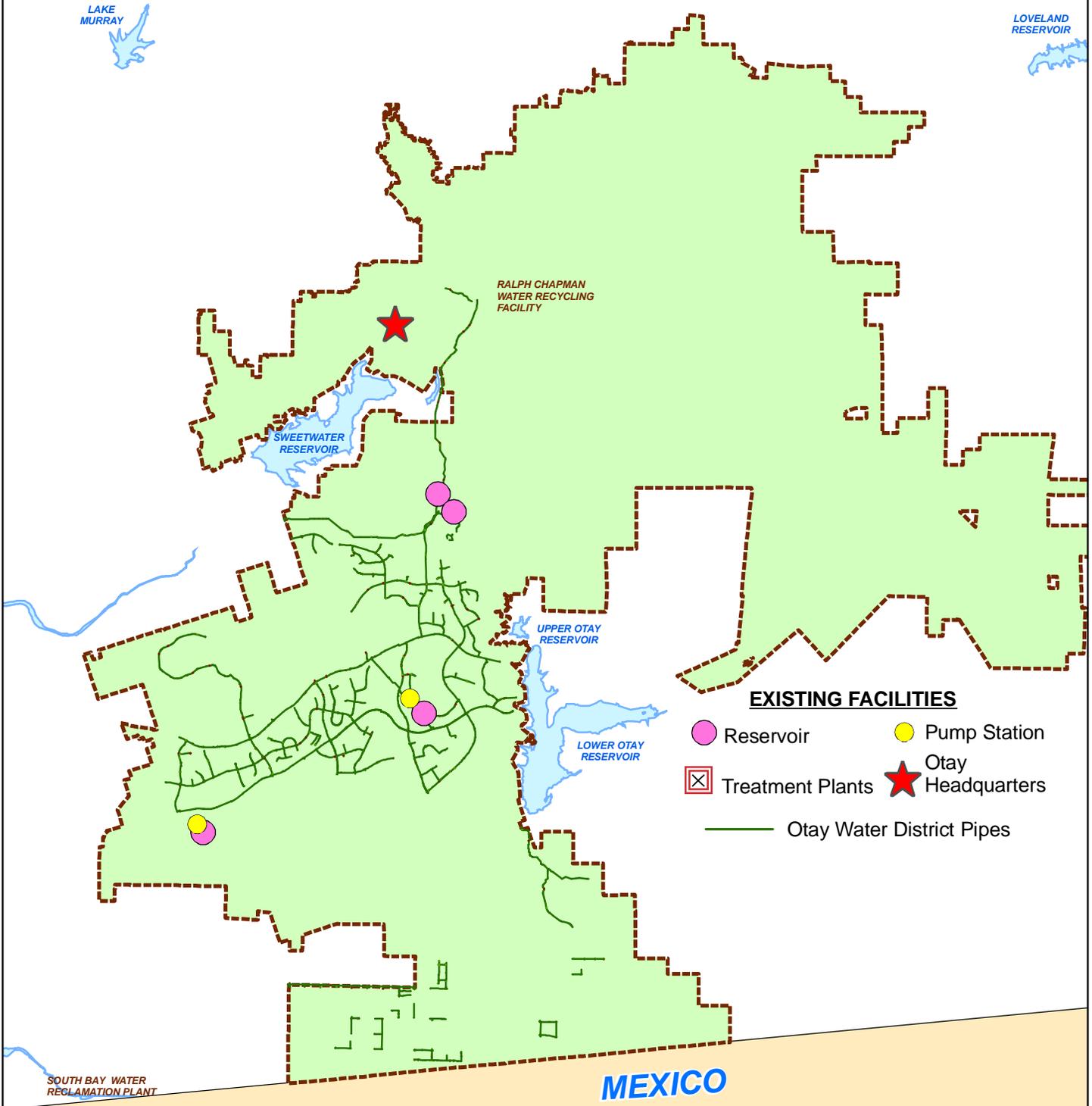


This page intentionally left blank



RECYCLED WATER SERVICE AREA

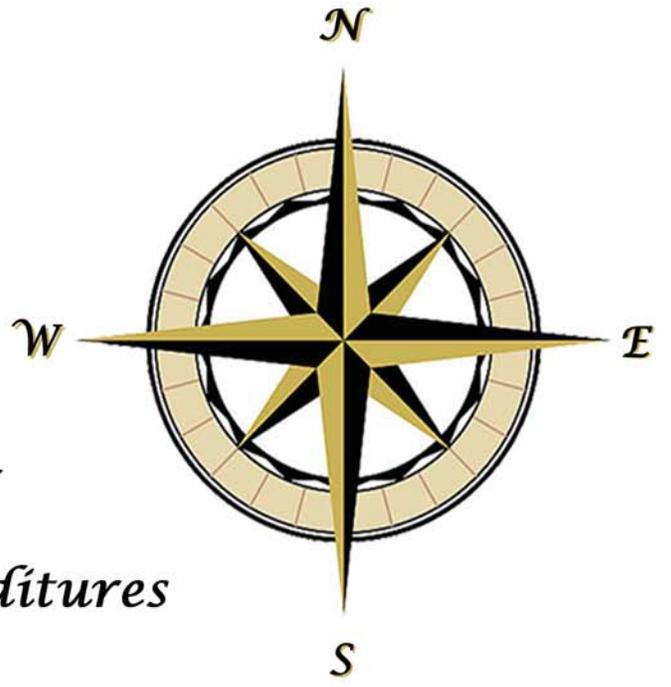
 EXISTING



This page intentionally left blank



*Sewer Revenues and
Expenditures*



SEWER REVENUES AND EXPENSES

The District provides sewer service to approximately 15,200 customers through 4,630 accounts (or 6,620 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 2008.

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 118 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 \$988,800 for Fiscal Year 2008. Additionally, the District will pay \$235,000 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 2008.

The charge for sewer service is mandated by the State Revenue Program Guidelines

Converting Landfill Gas Into Electricity Jamacha Landfill

Pedro J. Porras, June 2007

The Jamacha Landfill, located near the intersection of Campo Road and Singer Lane in Rancho San Diego, is one of ten inactive landfill sites throughout the County of San Diego with gas control systems that is own and operated by the County of San Diego. This landfill is also adjacent to the Otay Water District's reclamation plant known as the Ralph W. Chapman Water Recycling Facility.

Decomposing trash creates methane gas that is collected and pumped through a web of pipes to a central processing facility where electricity is created. Now, turning the landfill gas into electric energy, gas that would otherwise be wasted, and use that electric energy to operate a facility that treats wastewater into high quality treated water useful for irrigation is an extraordinary collaborative endeavor between two public agencies; the County of San Diego and the Otay Water District. This project exemplifies the conscientious endeavor made by public servants to provide effective and efficient services to their customers while enhancing the environment.

The Department of Public Works Solid Waste Management staff identified Jamacha Landfill as having a potential for a successful project. Among several features that the county found attractive, these micro turbines can operate on waste gases with methane content as low as 30 percent. In July of 2006, the County of San Diego entered into an agreement with the Otay Water District for a project to continue to process the landfill gas through the existing skid and piped it down to 3 new 70 kW micro turbines at the Ralph W. Chapman Water Recycling Facility.

The 3 micro turbines will be able to supply power for all of the treatment plant operations during winter and approximately 65 percent during summer. During summer, we can receive power from the micro turbines and SDG&E at the same time. In winter, however, when the micro turbines produce more power than what we need, the excess power will go to SDG&E's grid.

This is a great collaborative effort between two public agencies with extraordinary results, from cleaning the air, to reducing power demands from the grid, to treating wastewater for reuse in landscaping while reducing the imported water demand.

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 140.

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 \$357,500 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 \$1,350,780 with an interest rate of 3.5%. The debt service payment for Fiscal Year 2008 is \$359,800.

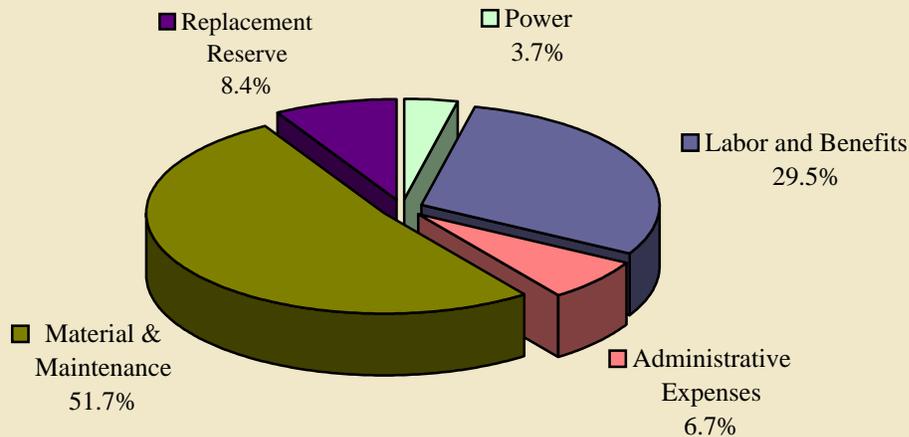


Micro turbines at the RWCWRF that convert landfill gas into electricity.

OPERATING BUDGET SUMMARY - SEWER

| | FY 2006 | FY 2007 | | FY 2008 | Budget Variance | Variance % |
|---------------------------|------------------|------------------|-------------------|------------------|--------------------|---------------|
| | Actual | Budget | Estimated | Budget | | |
| REVENUES | | | | | | |
| Sewer Charges | 2,296,856 | 2,568,100 | 2,577,993 | 2,679,100 | 111,000 | 4.3% |
| Non-operating Revenues | 2,512 | 3,000 | 1,338 | 1,000 | (2,000) | (66.7%) |
| Tax Revenues | 410,612 | 49,900 | 52,990 | 51,300 | 1,400 | 2.8% |
| Interest | - | 56,700 | 72,450 | 88,000 | 31,300 | 55.2% |
| General Fund Draw Down | - | 283,600 | - | - | (283,600) | (100.0%) |
| TOTAL REVENUES | 2,709,980 | 2,961,300 | 2,704,771 | 2,819,400 | (141,900) | (4.8%) |
| EXPENDITURES | | | | | | |
| Power | 226,237 | 164,300 | 71,230 | 103,100 | (61,200) | (37.2%) |
| Labor and Benefits | 647,438 | 1,009,300 | 556,534 | 832,600 | (176,700) | (17.5%) |
| Administrative Expenses | 125,809 | 188,400 | 108,276 | 189,500 | 1,100 | 0.6% |
| Material & Maintenance | 1,337,986 | 1,599,300 | 959,155 | 1,458,800 | (140,500) | (8.8%) |
| Debt Service | 360,244 | - | - | - | - | 0.0% |
| Replacement Reserve | - | - | 100,000 | 235,400 | 235,400 | 100.0% |
| TOTAL EXPENDITURES | 2,697,714 | 2,961,300 | 1,795,195 | 2,819,400 | (141,900) | (4.8%) |
| EXCESS REVENUES | \$ 12,266 | \$ - | \$ 909,576 | \$ - | \$ - | 0.0% |

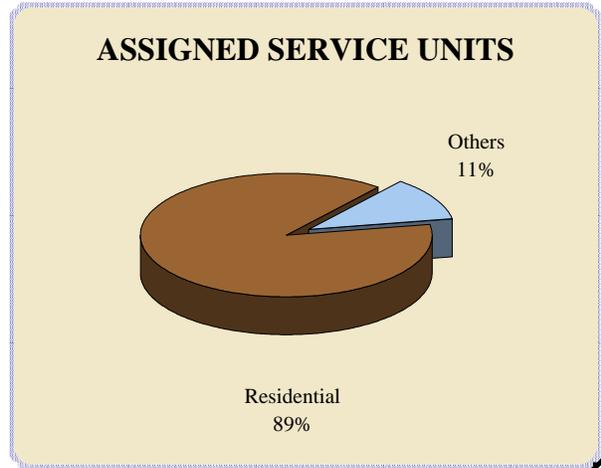
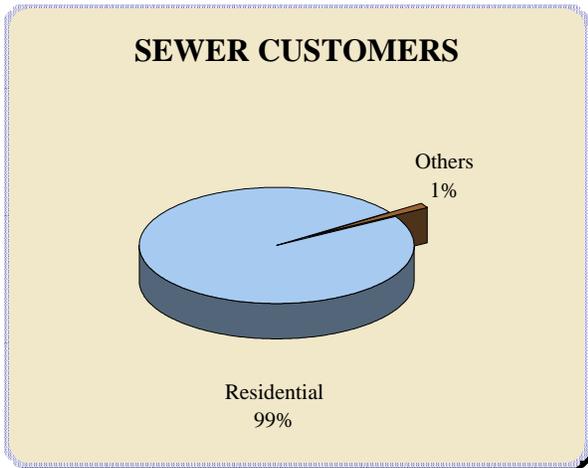
**SEWER OPERATING EXPENDITURES
FY 2008**



CUSTOMERS AND ASSIGNED SERVICE UNITS - SEWER

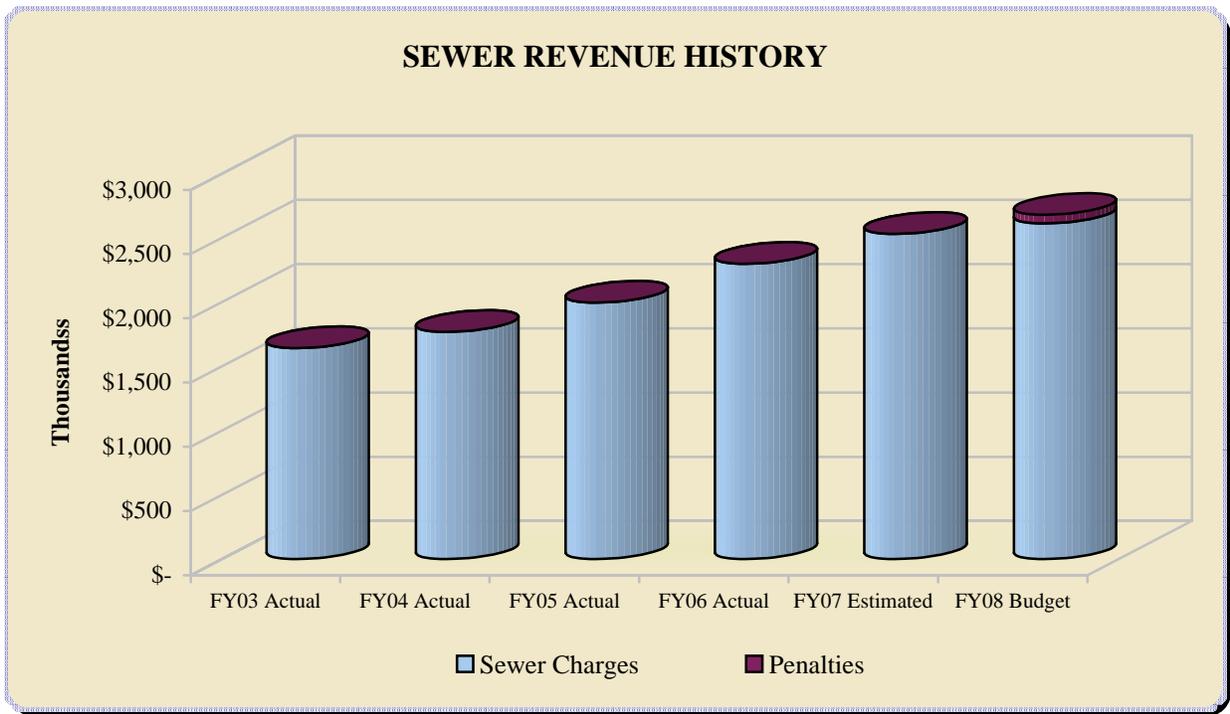
FY 2008

| User Category | Total Accounts | Assigned Service Units |
|-----------------------|---------------------|---------------------------|
| Residential: | | |
| Single-Family | 4,509 | 4,509.00 |
| Multi-Family | 50 | 1,360.00 |
| Institutional: | | |
| Schools | 6 | 269.70 |
| Churches | 4 | 87.03 |
| Commercial: | | |
| Low Strength | 34 | 181.27 |
| Medium Strength | 18 | 141.71 |
| High Strength | 6 | 72.45 |
| Total | <u>4,627</u> | <u>6,621.16</u> |



REVENUE HISTORY - SEWER

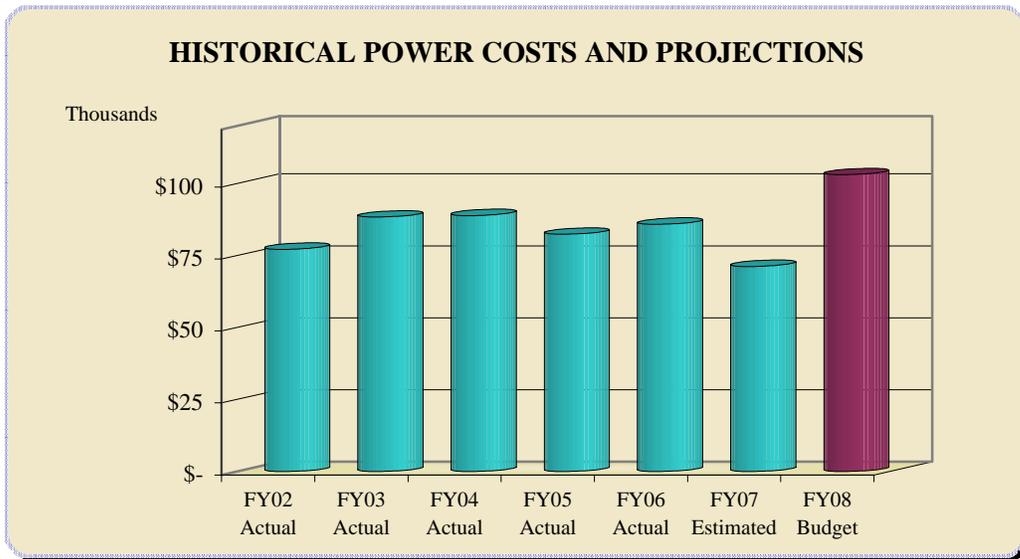
| | Actual | | | | Estimated | Budget |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
| Sewer Charges | \$ 1,640,943 | \$ 1,767,118 | \$ 1,995,548 | \$ 2,296,856 | \$ 2,531,513 | \$ 2,612,100 |
| Penalties ⁽¹⁾ | - | - | - | - | 46,480 | 67,000 |
| Total | <u>\$ 1,640,943</u> | <u>\$ 1,767,118</u> | <u>\$ 1,995,548</u> | <u>\$ 2,296,856</u> | <u>\$ 2,577,993</u> | <u>\$ 2,679,100</u> |



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

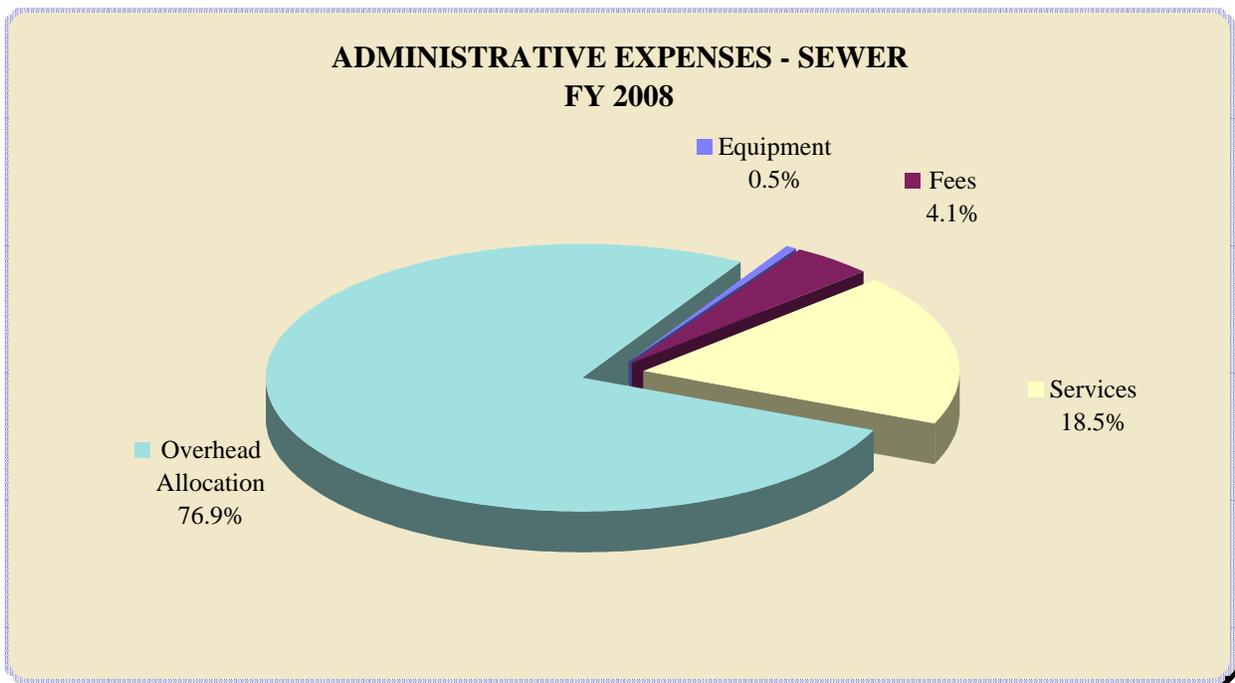
POWER COSTS - SEWER

| | Sewer Lift Station |
|----------------|-------------------------------|
| FY02 Actual | \$ 77,200 |
| FY03 Actual | 88,398 |
| FY04 Actual | 88,915 |
| FY05 Actual | 82,447 |
| FY06 Actual | 85,894 |
| FY07 Estimated | 71,230 |
| FY08 Budget | 103,100 |



ADMINISTRATIVE EXPENSES - SEWER

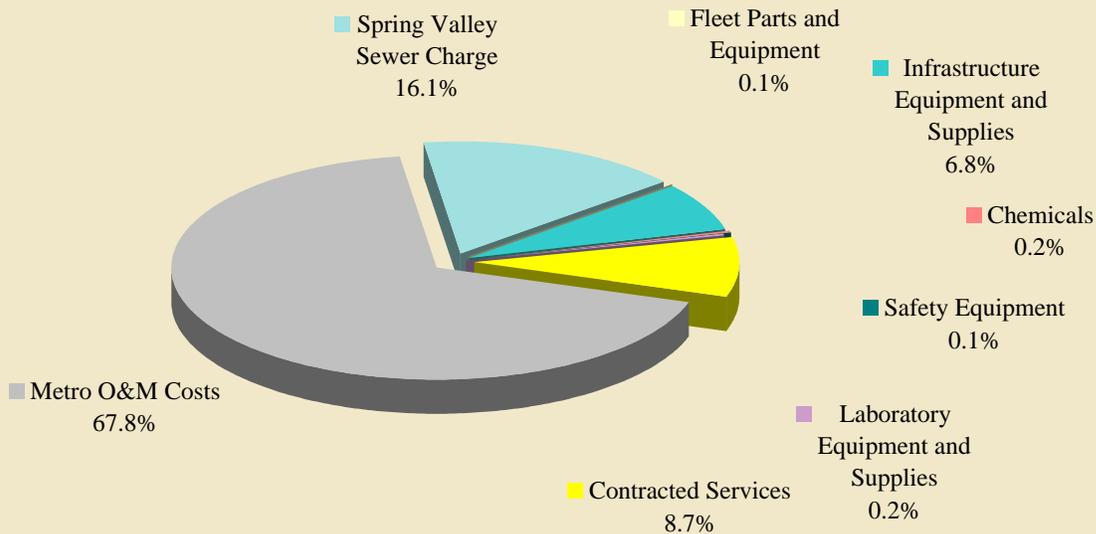
| | FY 2006 | FY 2007 | | FY 2008 | Budget Variance | % |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------|
| | Actual | Budget | Estimated | Budget | | |
| Equipment | \$ 8,898 | \$ 1,000 | \$ 494 | \$ 1,000 | - | 0.0% |
| Fees | 232 | 500 | - | 7,700 | 7,200 | 1440.0% |
| Services | 3,206 | 10,000 | 6,858 | 35,000 | 25,000 | 250.0% |
| Total | 12,477 | 11,500 | 7,351 | 43,700 | 32,200 | 280.0% |
| Overhead Allocation | 113,332 | 176,900 | 100,925 | 145,800 | (31,100) | (17.6%) |
| Administrative Expenses | \$ 125,809 | \$ 188,400 | \$ 108,276 | \$ 189,500 | \$ 1,100 | 0.6% |



MATERIALS AND MAINTENANCE EXPENSES - SEWER

| | FY 2006 | FY 2007 | | FY 2008 | Budget | % |
|--|---------------------|---------------------|-------------------|---------------------|---------------------|----------------|
| | Actual | Budget | Estimated | Budget | Variance | |
| Materials and Maintenance | | | | | | |
| Meters and Materials | \$ 5 | \$ - | \$ - | \$ - | \$ - | 0.0% |
| Fleet Parts and Equipment | 289 | - | - | 2,000 | 2,000 | 100.0% |
| Infrastructure Equipment and Supplies | 150,904 | 122,000 | 98,183 | 99,000 | (23,000) | (18.9%) |
| Chemicals | 4,699 | 3,000 | 3,837 | 3,000 | - | 0.0% |
| Safety Equipment | 1,687 | 2,800 | 1,439 | 1,000 | (1,800) | (64.3%) |
| Laboratory Equipment and Supplies | 34,263 | 10,000 | 13,213 | 3,000 | (7,000) | (70.0%) |
| Other Materials and Supplies | 167 | - | 692 | - | - | 0.0% |
| Contracted Services | 5,006 | 100,000 | - | 127,000 | 27,000 | 27.0% |
| Materials and Maintenance | 197,019 | 237,800 | 117,364 | 235,000 | (2,800) | (1.2%) |
| Sewer Charges | | | | | | |
| Metro O&M Costs | 916,774 | 1,130,000 | 617,686 | 988,800 | (141,200) | (12.5%) |
| Spring Valley Sewer Charge | 224,193 | 231,500 | 224,105 | 235,000 | 3,500 | 1.5% |
| Total Sewer Charges | 1,140,967 | 1,361,500 | 841,791 | 1,223,800 | (137,700) | (10.1%) |
| Total Materials and Maintenance | \$ 1,337,986 | \$ 1,599,300 | \$ 959,155 | \$ 1,458,800 | \$ (140,500) | (8.8%) |

MATERIALS AND MAINTENANCE EXPENSES - SEWER FY 2008



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 will be used 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 \$1.41. A base fee of \$9.75 for a ¾ inch water meter and \$14.25 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:

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

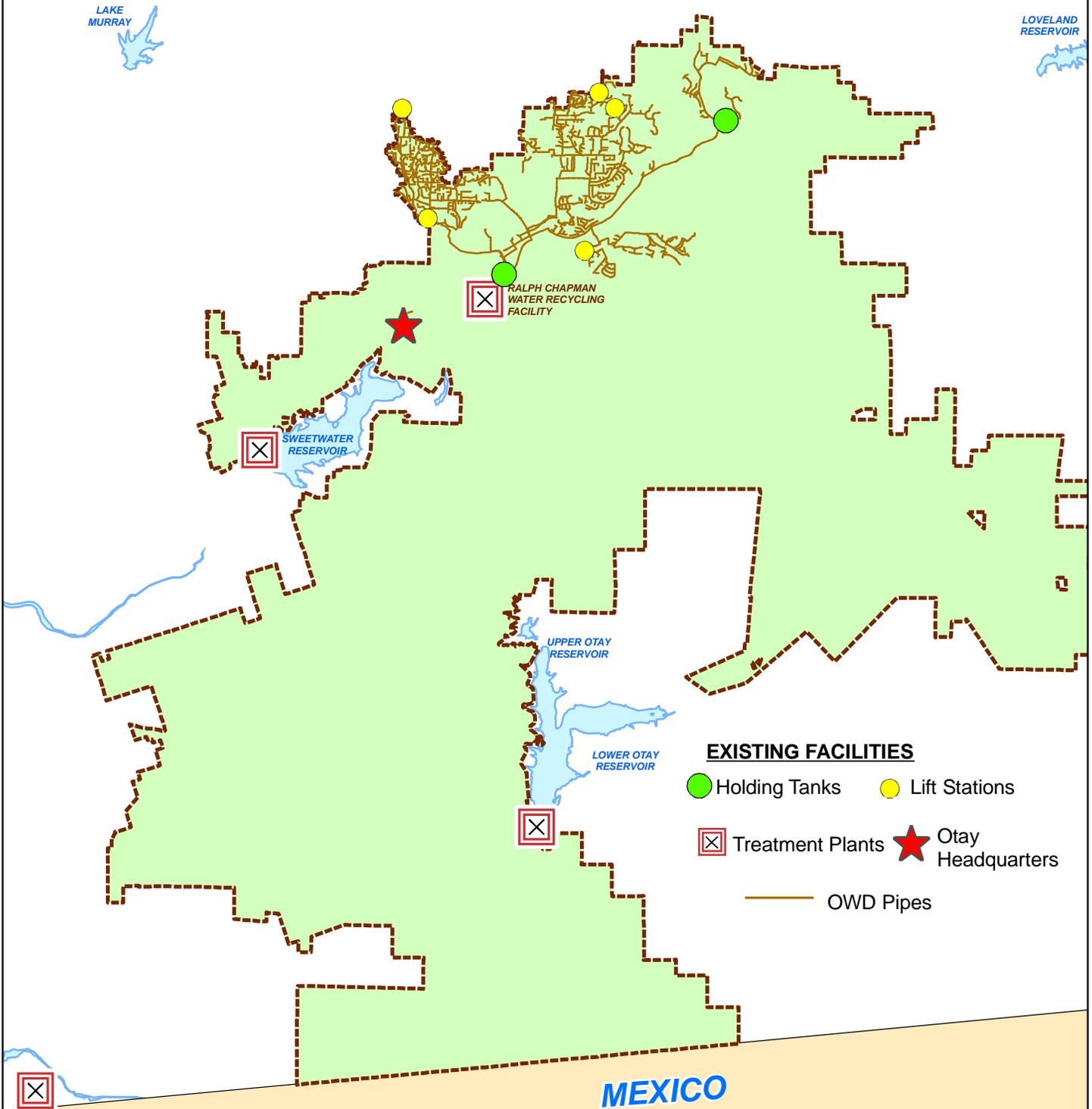
The ASU is then multiplied by the district-wide sewer rate to determine the monthly sewer charge. The sewer rates per ASU effective on January 1st of Calendar Years 2007 and 2008 are \$32.70 and \$33.26, respectively.

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.

This page intentionally left blank

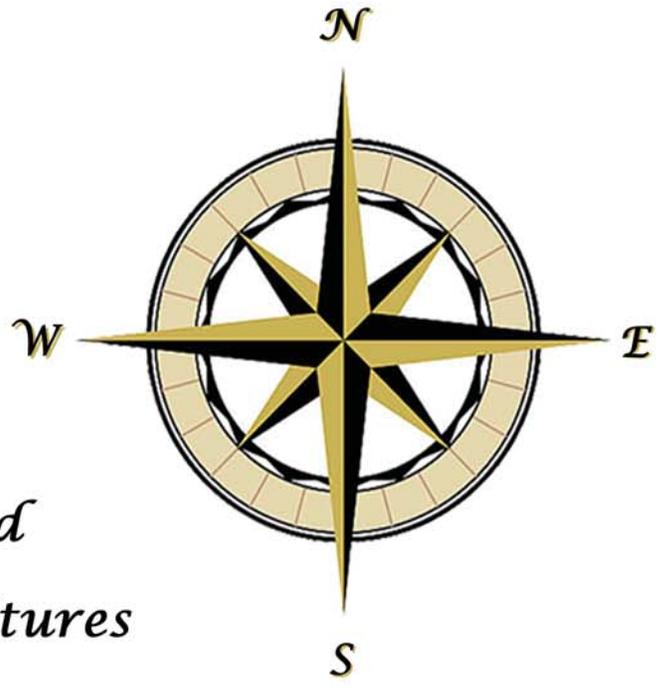


SEWER SERVICE AREA



This page intentionally left blank





*General Revenues and
Expenditures*

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.

Annexation fees are collected when developers buy into the District's potable and recycled water facilities. The fee insures that future users fund a 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.

For Fiscal Years 2005 and 2006, the State of California imposed an Educational Revenue Augmentation Fund Shift of property tax revenue away from special districts such as the Otay Water District. This shift equated to a \$1,210,400 loss in 1% tax revenue. In Fiscal Year 2007, the District received its full amount of this tax 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.

Miscellaneous interest expense is recorded in this section. This is related to a five-year lease of a Vactor truck that the District acquired four years ago. The truck was capitalized, but the interest expense for the lease purchase is considered an operating expense.

GENERAL REVENUES

| | FY 2006 | FY 2007 | | FY 2008 | Budget | Variance |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------|
| | Actual | Budget | Estimated | Budget | Variance | % |
| Capacity Fee Revenues | \$ 1,356,611 | \$ 1,000,200 | \$ 1,536,911 | 1,414,500 | \$ 414,300 | 41.4% |
| Betterment Fees for Maintenance | - | - | - | 73,300 | 73,300 | 100.0% |
| Annexation Fees | - | 1,216,900 | 2,119,886 | 1,464,500 | 247,600 | 20.3% |
| <u>Tax Revenues</u> | | | | | | |
| 1% General Tax | 1,338,279 | 2,802,700 | 2,930,494 | 3,328,700 | 526,000 | 18.8% |
| Availability Fees | 609,099 | 624,700 | 715,664 | 675,100 | 50,400 | 8.1% |
| Total Tax Revenues | 3,388,734 | 3,427,400 | 3,646,158 | 4,003,800 | 576,400 | 16.8% |
| General Revenues | \$ 4,745,345 | \$ 5,644,500 | \$ 7,302,955 | \$ 6,956,100 | \$ 1,311,600 | 23.2% |

NON-OPERATING REVENUES

| | FY 2006 | FY 2007 | | FY 2008 | Budget | Variance |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------|-------------|
| | Actual | Budget | Estimated | Budget | Variance | % |
| Property Rental | \$ 806,014 | \$ 1,124,200 | \$ 914,403 | \$ 894,200 | (230,000) | (20.5%) |
| Sewer Billing Fees | 347,205 | 350,900 | 354,815 | 355,500 | 4,600 | 1.3% |
| Set-up Fee for Lease Site | 33,000 | 52,000 | 10,000 | 18,000 | (34,000) | (65.4%) |
| Grants | 2,890 | 25,000 | 14,246 | 197,000 | 172,000 | 688.0% |
| Miscellaneous | 796,720 | 122,000 | 774,671 | 215,500 | 93,500 | 76.6% |
| Non-Operating Revenues | \$ 1,985,828 | \$ 1,674,100 | \$ 2,068,134 | \$ 1,680,200 | \$ 6,100 | 0.4% |

GENERAL AND NON-OPERATING REVENUES BY BUSINESS

| | FY 2008 Budget | | | |
|---|---------------------|-------------|------------------|---------------------|
| | Potable | Recycled | Sewer | Total |
| Capacity Fee Revenues | \$ 1,414,500 | \$ - | \$ - | \$ 1,414,500 |
| Betterment Fees for Maintenance | 73,300 | - | - | 73,300 |
| Annexation Fees | 1,464,500 | - | - | 1,464,500 |
| <u>Tax Revenues</u> | | | | |
| 1% Property Tax | 3,328,700 | - | - | 3,328,700 |
| Availability Fees | 623,800 | - | 51,300 | 675,100 |
| Total Tax Revenues | 3,952,500 | - | 51,300 | 4,003,800 |
| <u>Non-Operating Revenues</u> | | | | |
| Property Rental | 894,200 | - | - | 894,200 |
| Sewer Billing Fees | 355,500 | - | - | 355,500 |
| Set-up Fee for Lease Site | 18,000 | - | - | 18,000 |
| Grants | 197,000 | - | - | 197,000 |
| Miscellaneous | 214,500 | - | 1,000 | 215,500 |
| Total Non-Operating Revenues | 1,679,200 | - | 1,000 | 1,680,200 |
| Total General and Non-Operating Revenues | \$ 8,584,000 | \$ - | \$ 52,300 | \$ 8,636,300 |

GENERAL EXPENSES

| | FY 2006 | FY 2007 | | FY 2008 | Budget | Variance |
|--------------------------------|-------------------|---------------------|---------------------|---------------------|-------------------|----------|
| | Actual | Budget | Estimated | Budget | Variance | % |
| <u>Administrative Expenses</u> | | | | | | |
| Legal Fees | \$ 578,116 | \$ 671,000 | 1,224,441 | 1,209,000 | \$ 538,000 | 80.2% |
| General Insurance | 363,483 | 335,500 | 382,192 | 467,300 | 131,800 | 39.3% |
| Interest | - | 700 | 667 | - | (700) | (100.0%) |
| Total Administrative Expenses | 941,598 | 1,007,200 | 1,607,300 | 1,676,300 | 669,100 | 66.4% |
| <u>Benefits</u> | | | | | | |
| Benefits | - | 47,000 | 214,202 | 10,000 | (37,000) | (78.7%) |
| Total General Expenses | \$ 941,598 | \$ 1,054,200 | \$ 1,821,502 | \$ 1,686,300 | \$ 632,100 | 60.0% |



Departmental Operating Budget

DEPARTMENTAL OPERATING BUDGET

Labor and Benefits

Labor and Benefits represent 23.5% of the total Operating Budget. In Fiscal Year 2004, the Employees' Association signed a five-year Memorandum of Understanding (MOU) with the District. The highlights of this agreement included: changes to the medical and dental plans with employees paying a portion of their dependent's premiums, enhancements of the retirement package with the Public Employees' Retirement System (PERS) to include a "2.7% at 55" benefit, and the rewriting of the entire MOU to streamline the grievance procedure and other 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 2008 Budget includes funding for labor and benefits for 172.75 Full-time Equivalent (FTE) employees and a 3% across-the-board salary increase on July 1, 2007.

The staffing level for Fiscal Year 2008 has a decrease of two FTE employees from Fiscal Year 2007. The District has chosen to eliminate two vacant positions in areas that have experienced a reduction of work due to slowing of growth.

A projected 11.5% 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 \$1,927,700. 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 25.6% of the District's total operating costs. A detailed listing of the Administrative Expenses for Fiscal Year 2008 is shown on page 153. Several significant long-term planning projects and some one-time anticipated legal expenses caused nearly \$1 million of this budget increase.

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 3.7% decrease due to two significant reductions in cost; a \$196,000 reduction in fuel costs at the Lower Otay Pump station because of reduced operating time and a decrease of \$141,200 in the Metro O&M costs because of an adjustment by the City of San Diego.

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.

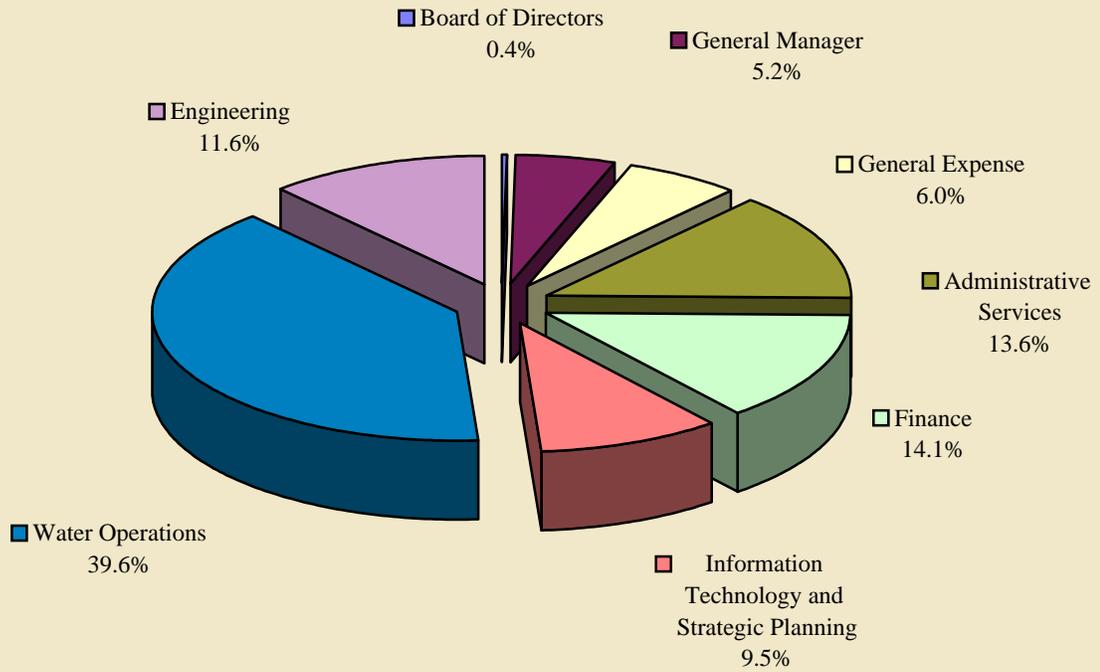
Performance Measurement Program

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 updated its performance measurement program in Fiscal Year 2006 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

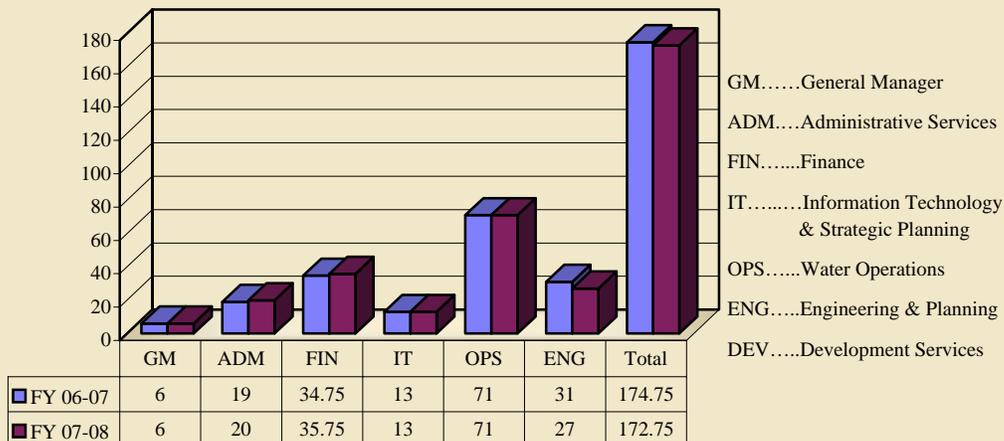
TOTAL DEPARTMENTAL OPERATING BUDGET Fiscal Year 2008 \$28,410,500



LABOR & BENEFITS

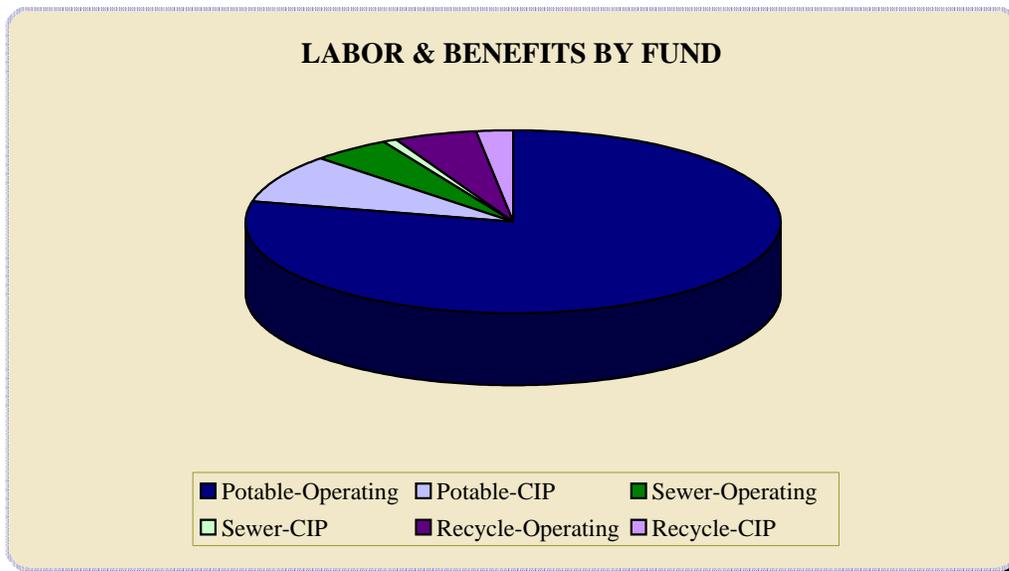
| | FY06 | FY07 | | FY08 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Actual | Budget | Estimated | Budget |
| Total Labor Costs | \$ 9,353,829 | \$ 10,427,200 | \$ 9,571,332 | \$ 10,402,700 |
| Benefits | | | | |
| Pension | 2,831,808 | 2,996,000 | 2,646,045 | 3,129,500 |
| Employee Assistance Program | 7,444 | 7,500 | 7,575 | 7,500 |
| Worker's Compensation | 593,756 | 295,700 | 314,130 | 287,800 |
| Health/Dental/Life Insurance | 1,567,034 | 1,577,900 | 2,244,685 | 1,669,800 |
| Social Security / Medicare | 780,852 | 871,700 | 798,752 | 904,600 |
| Salary Continuation Insurance | 73,636 | 79,300 | 71,355 | 74,900 |
| Employee Awards | 3,115 | - | 18,168 | - |
| State Unemployment Insurance | 17,691 | 20,000 | 1,304 | 10,000 |
| Vacation / Sick / Holiday / Other Leave | 1,738,682 | 1,922,200 | 1,745,843 | 1,911,000 |
| Total Fringe Benefits | 7,614,018 | 7,770,300 | 7,847,857 | 7,995,100 |
| Total Labor & Benefits | 16,967,847 | 18,197,500 | 17,419,189 | 18,397,800 |
| Less: Non-Operating Labor & Benefits | | | | |
| Labor Costs | 1,368,893 | 1,544,500 | 943,765 | 1,192,100 |
| Fringe Benefits Allocation | 814,999 | 925,000 | 557,116 | 735,600 |
| Total WO Allocation | <u>2,183,892</u> | <u>2,469,500</u> | <u>1,500,881</u> | <u>1,927,700</u> |
| Operating Labor & Benefits | 14,783,955 | 15,728,000 | 15,918,308 | 16,470,100 |
| Less: Overhead Allocation Personnel Portion | <u>994,124</u> | <u>1,121,700</u> | <u>685,386</u> | <u>865,700</u> |
| Operating Labor & Benefits | <u>\$ 13,789,831</u> | <u>\$ 14,606,300</u> | <u>\$ 15,232,922</u> | <u>\$ 15,604,400</u> |

**FULL TIME EQUIVALENT (FTE)
COMPARISON BY DEPARTMENT**



LABOR & BENEFITS BY FUND - FISCAL YEAR 2008

| | <u>Potable</u> | <u>Sewer</u> | <u>Recycle</u> | <u>Developer Reimbursed-CIP</u> | <u>Total</u> |
|---|-------------------|----------------|------------------|---------------------------------|-------------------|
| Total Operating Labor Costs | \$ 8,497,800 | \$ 344,000 | \$ 368,800 | \$ - | \$ 9,210,600 |
| Benefits | 6,762,100 | 238,800 | 258,600 | - | 7,259,500 |
| Overhead Allocation-Personnel Portion | (1,383,300) | 249,800 | 267,800 | - | (865,700) |
| Total Operating Labor & Benefits | 13,876,600 | 832,600 | 895,200 | - | 15,604,400 |
| Total CIP Labor Costs | \$ 645,800 | \$ 56,500 | \$ 167,800 | \$ 322,000 | \$ 1,192,100 |
| Benefits | 397,900 | 33,300 | 99,300 | 205,100 | 735,600 |
| Overhead Allocation-Personnel Portion | 469,000 | 41,000 | 121,800 | 233,900 | 865,700 |
| Total CIP Labor & Benefits | 1,512,700 | 130,800 | 388,900 | 761,000 | 2,793,400 |
| Total Labor & Benefits | 15,389,300 | 963,400 | 1,284,100 | 761,000 | 18,397,800 |

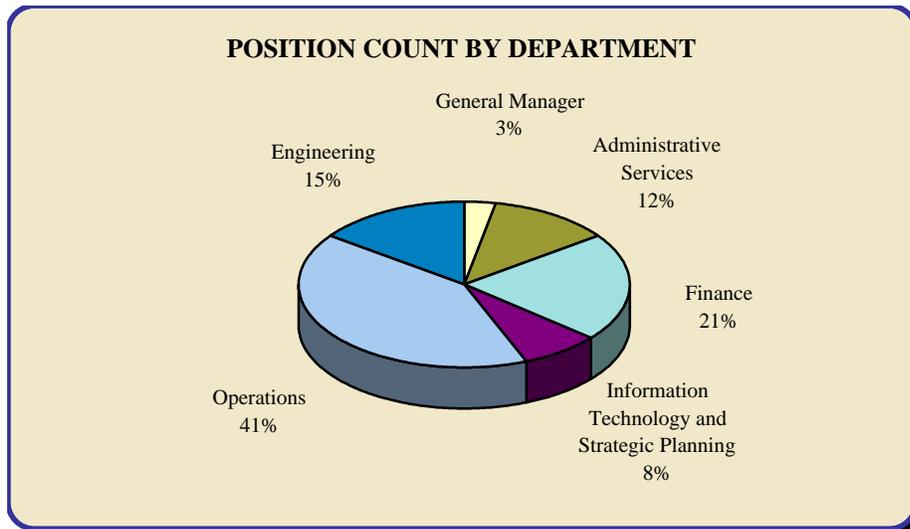


POSITION COUNT BY DEPARTMENT

| | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</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 | 4 | 5 |
| Purchasing | 9 | 9 | 9 |
| Safety | 1 | 1 | 1 |
| Conservation | 2 | 2 | 2 |
| Total Administrative Services Department | 19 | 19 | 20 |
| FTE | 18.50 | 19.00 | 20.00 |
| Controller and Budgetary Services | 7 | 7 | 7 |
| Treasury and Accounting Services | 6 | 6 | 6 |
| Customer Service | 17 | 18 | 19 |
| Payroll and Accounts Payable | 4 | 4 | 4 |
| Total Finance Department | 34 | 35 | 36 |
| FTE | 33.75 | 34.75 | 35.75 |
| Information Technology and Strategic Planning Application | 4 | 5 | 5 |
| Information Technology Operations | 5 | 5 | 4 |
| Geographic Information Systems | 3 | 3 | 4 |
| Total IT and Strategic Planning Department | 12 | 13 | 13 |
| FTE | 12.00 | 13.00 | 13.00 |
| Operations Management | 3 | 2 | 2 |
| Water System Operations | 25 | 27 | 27 |
| Utility Maintenance/Construction | 36 | 35 | 35 |
| Collection/Treatment/Reclamation Operations | 8 | 7 | 7 |
| Total Operations Department | 72 | 71 | 71 |
| FTE | 72.00 | 71.00 | 71.00 |
| Engineering Management | 4 | 4 | 3 |
| Engineering | 28 | 27 | 24 |
| Total Engineering Department | 32 | 31 | 27 |
| FTE | 32.00 | 31.00 | 27.00 |
| District Total Position Count | 175 | 175 | 173 |
| FTE | 174.25 | 174.75 | 172.75 |

CONTRACT / TEMPORARY EMPLOYEES

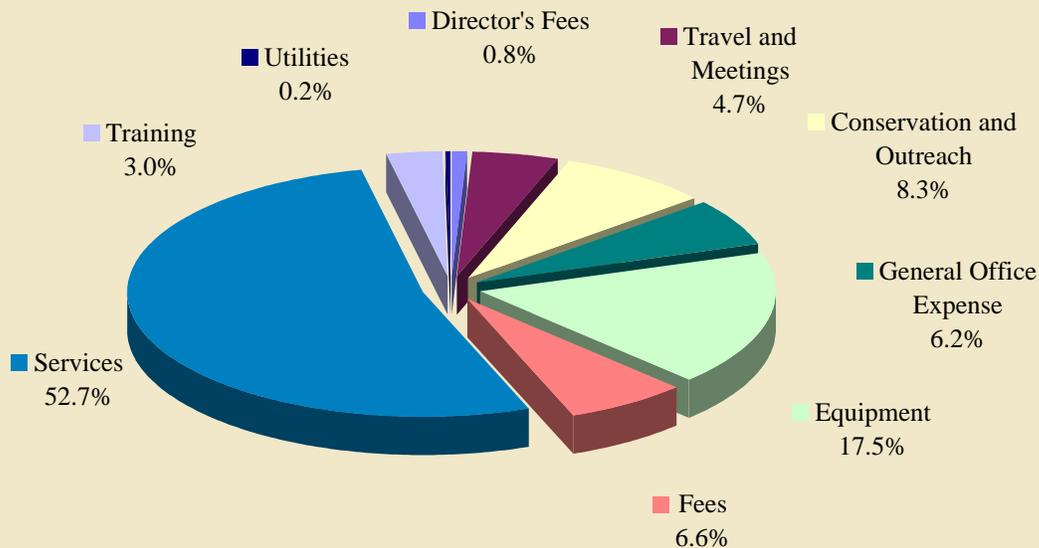
| | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|--|----------------|----------------|----------------|
| Database Analyst | 1 | 0 | 0 |
| Customer Service Field Representative I and II | 0 | 2 | 2 |
| Customer Service Representative I and II | 0 | 1 | 0 |
| Total Contract/Temporary Employees | 1 | 3 | 2 |



ADMINISTRATIVE EXPENSES - TOTAL

| | FY 2006 | FY 2007 | | FY 2008 | Budget Variance | % |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|--------------|
| | Actual | Budget | Estimated | Budget | | |
| Director's Fees | \$ 19,800 | \$ 48,000 | \$ 18,700 | \$ 48,000 | - | 0.0% |
| Travel and Meetings | 175,432 | 236,200 | 158,506 | 270,900 | 34,700 | 14.7% |
| Conservation and Outreach | 148,439 | 229,500 | 168,831 | 481,800 | 252,300 | 109.9% |
| General Office Expense | 375,872 | 364,700 | 344,782 | 359,400 | (5,300) | (1.5%) |
| Equipment | 720,744 | 975,600 | 902,185 | 1,018,300 | 42,700 | 4.4% |
| Fees | 179,413 | 372,200 | 421,420 | 382,400 | 10,200 | 2.7% |
| Services | 1,865,460 | 2,815,300 | 2,135,021 | 3,063,300 | 248,000 | 8.8% |
| Training | 113,700 | 153,700 | 97,772 | 173,100 | 19,400 | 12.6% |
| Utilities | 11,530 | 11,700 | 12,870 | 14,000 | 2,300 | 19.7% |
| Miscellaneous | - | - | 212 | - | - | 0.0% |
| Total | 3,610,390 | 5,206,900 | 4,260,300 | 5,811,200 | 604,300 | 11.6% |
| Less: Overhead Allocation | (580,103) | (654,500) | (399,944) | (505,200) | 149,300 | (22.8%) |
| Subtotal | 3,030,287 | 4,552,400 | 3,860,356 | 5,306,000 | 753,600 | 16.6% |
| General Expenses | 941,598 | 1,007,200 | 1,607,300 | 1,676,300 | 669,100 | 66.4% |
| Administrative Expenses - Total | \$ 3,971,885 | \$ 5,559,600 | \$ 5,467,656 | \$ 6,982,300 | \$ 1,422,700 | 25.6% |

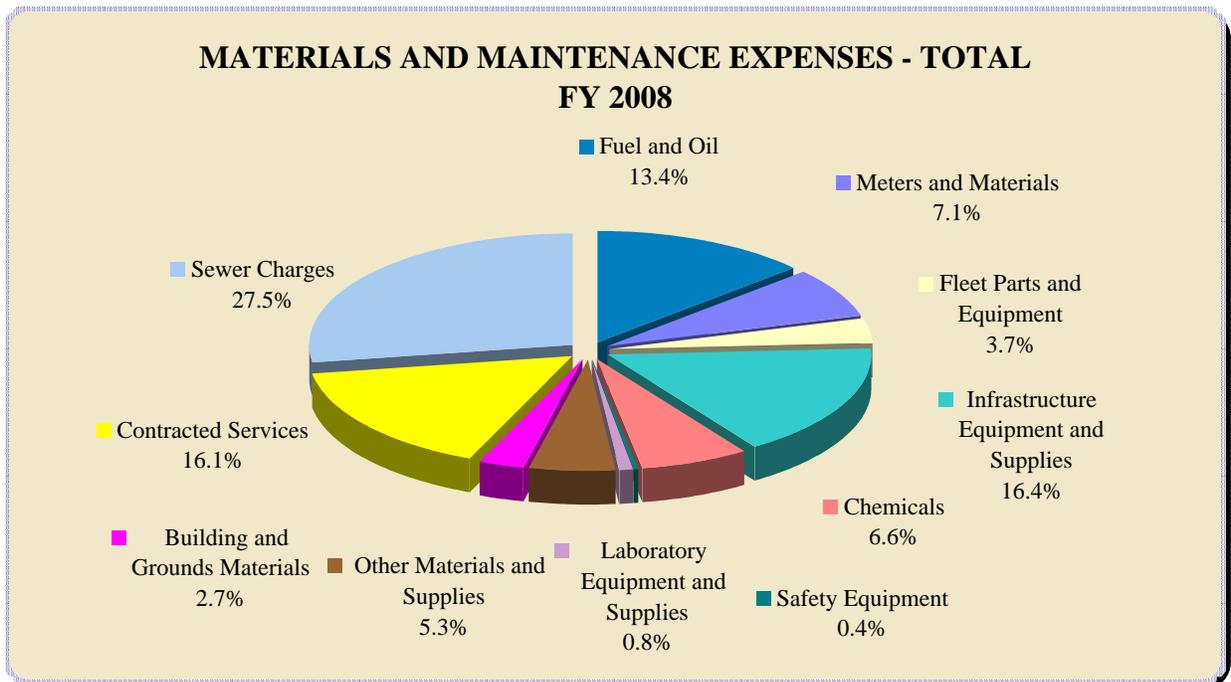
ADMINISTRATIVE EXPENSES - TOTAL FY 2008



MATERIALS AND MAINTENANCE EXPENSES - TOTAL

| | FY 2006 | FY 2007 | | FY 2008 | Budget | % |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| | Actual | Budget | Estimated | Budget | Variance | |
| Materials and Maintenance | | | | | | |
| Fuel and Oil | \$ 302,264 | \$ 801,000 | \$ 418,765 | \$ 597,000 | (204,000) | (25.5%) |
| Meters and Materials | 499,581 | 275,100 | 322,038 | 314,400 | 39,300 | 14.3% |
| Fleet Parts and Equipment | 151,791 | 155,000 | 159,801 | 163,100 | 8,100 | 5.2% |
| Landscaping Materials ⁽¹⁾ | 6,300 | - | - | - | - | 0.0% |
| Infrastructure Equipment and Supplies | 822,379 | 926,200 | 726,457 | 732,500 | (193,700) | (20.9%) |
| Chemicals | 236,243 | 254,000 | 265,909 | 294,000 | 40,000 | 15.7% |
| Safety Equipment | 29,713 | 18,600 | 21,579 | 17,200 | (1,400) | (7.5%) |
| Laboratory Equipment and Supplies | 60,849 | 42,000 | 45,747 | 37,000 | (5,000) | (11.9%) |
| Other Materials and Supplies | 215,376 | 150,500 | 287,229 | 236,500 | 86,000 | 57.1% |
| Building and Grounds Materials | 87,987 | 154,400 | 109,016 | 122,000 | (32,400) | (21.0%) |
| Contracted Services | 332,526 | 485,400 | 502,890 | 715,400 | 230,000 | 47.4% |
| Materials and Maintenance | 2,745,009 | 3,262,200 | 2,859,430 | 3,229,100 | (33,100) | (1.0%) |
| Sewer Charges | | | | | | |
| Metro O&M Costs | 916,774 | 1,130,000 | 617,686 | 988,800 | (141,200) | (12.5%) |
| Spring Valley Sewer Charge | 224,193 | 231,500 | 224,105 | 235,000 | 3,500 | 1.5% |
| Total Sewer Charges | 1,140,967 | 1,361,500 | 841,791 | 1,223,800 | (137,700) | (10.1%) |
| Total Materials and Maintenance | \$ 3,885,976 | \$ 4,623,700 | \$ 3,701,221 | \$ 4,452,900 | \$ (170,800) | (3.7%) |

⁽¹⁾ Landscaping outsourced in FY 2006



OPERATING EXPENDITURES BY DEPARTMENT

| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|---|----------------------|----------------------|----------------------|----------------------|
| Departmental Expenditures | | | | |
| Board of Directors | \$ 33,206 | \$ 91,700 | \$ 27,805 | \$ 111,700 |
| General Manager | 1,365,468 | 1,403,500 | 1,387,654 | 1,485,500 |
| General Expense | 941,598 | 1,054,200 | 1,821,502 | 1,686,300 |
| Administrative Services | 2,849,587 | 3,316,300 | 3,287,262 | 3,868,200 |
| Finance | 3,566,714 | 3,813,000 | 3,911,212 | 3,994,100 |
| Information Technology and Strategic Planning | 2,297,117 | 2,655,400 | 2,421,856 | 2,705,900 |
| Water Operations | 10,008,312 | 10,803,800 | 9,903,566 | 11,253,200 |
| Engineering ⁽¹⁾ | 2,801,382 | 3,427,900 | 2,726,271 | 3,305,600 |
| Total Departmental Expenditures | 23,863,384 | 26,565,800 | 25,487,129 | 28,410,500 |
| Less: Overhead Allocation | (1,574,227) | (1,776,200) | (1,085,330) | (1,370,900) |
| Net Departmental Expenditures | 22,289,157 | 24,789,600 | 24,401,799 | 27,039,600 |
| Non-Departmental Expenditures | | | | |
| Water Purchases | 25,216,659 | 27,063,200 | 27,516,154 | 30,077,500 |
| Power | 2,113,787 | 2,677,800 | 2,489,978 | 2,804,800 |
| Debt Service | 2,820,714 | - | - | - |
| Expansion Reserve | 1,001,300 | - | - | 2,590,200 |
| Betterment Reserve | - | - | - | 3,432,900 |
| Replacement Reserve | - | 4,540,000 | 6,657,369 | 235,400 |
| Total Non-Departmental Expenditures | 31,152,460 | 34,281,000 | 36,663,501 | 39,140,800 |
| TOTAL OPERATING EXPENDITURES | \$ 53,441,617 | \$ 59,070,600 | \$ 61,065,300 | \$ 66,180,400 |

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

OPERATING EXPENDITURES BY OBJECT

| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Departmental Expenditures | | | | |
| Labor and Benefits | \$ 15,425,420 | \$ 15,728,000 | \$ 15,918,308 | \$ 16,470,100 |
| Director's Fees | 19,800 | 48,000 | 18,700 | 48,000 |
| Travel and Meetings | 175,432 | 236,200 | 158,506 | 270,900 |
| Conservation and Outreach | 148,439 | 229,500 | 168,831 | 481,800 |
| General Office Expense | 375,871 | 364,700 | 344,782 | 359,400 |
| Equipment | 720,745 | 975,600 | 902,185 | 1,018,300 |
| Fees | 1,121,011 | 1,378,700 | 2,028,053 | 2,058,700 |
| Services | 1,865,460 | 2,815,300 | 2,135,021 | 3,063,300 |
| Training | 113,700 | 153,700 | 97,772 | 173,100 |
| Materials & Maintenance | 2,745,009 | 3,262,200 | 2,859,430 | 3,229,100 |
| Power and Utilities | 11,530 | 11,700 | 12,870 | 14,000 |
| Sewer Charges | 1,140,967 | 1,361,500 | 841,791 | 1,223,800 |
| Miscellaneous | - | - | 212 | - |
| Interest | - | 700 | 667 | - |
| Total Departmental Expenditures | 23,863,384 | 26,565,800 | 25,487,129 | 28,410,500 |
| Less: Overhead Allocation | (1,574,227) | (1,776,200) | (1,085,330) | (1,370,900) |
| Net Departmental Expenditures | 22,289,157 | 24,789,600 | 24,401,799 | 27,039,600 |
| Non-Departmental Expenditures | | | | |
| Water Purchases | 25,216,659 | 27,063,200 | 27,516,154 | 30,077,500 |
| Power | 2,113,787 | 2,677,800 | 2,489,978 | 2,804,800 |
| Debt Service | 2,820,714 | - | - | - |
| Expansion Reserve | 1,001,300 | - | - | 2,590,200 |
| Betterment Reserve | - | - | - | 3,432,900 |
| Replacement Reserve | - | 4,540,000 | 6,657,369 | 235,400 |
| Total Non-Departmental Expenditures | 31,152,460 | 34,281,000 | 36,663,501 | 39,140,800 |
| TOTAL OPERATING EXPENDITURES | \$ 53,441,617 | \$ 59,070,600 | \$ 61,065,300 | \$ 66,180,400 |

This page intentionally left blank



BOARD OF DIRECTORS

Mission Statement

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

Division 4



Jose Lopez
Vice President

Division 3



Gary Croucher
President

Division 2



Jaime Bonilla
Treasurer

Division 1



Larry Breitfelder

Division 5



Mark Robak

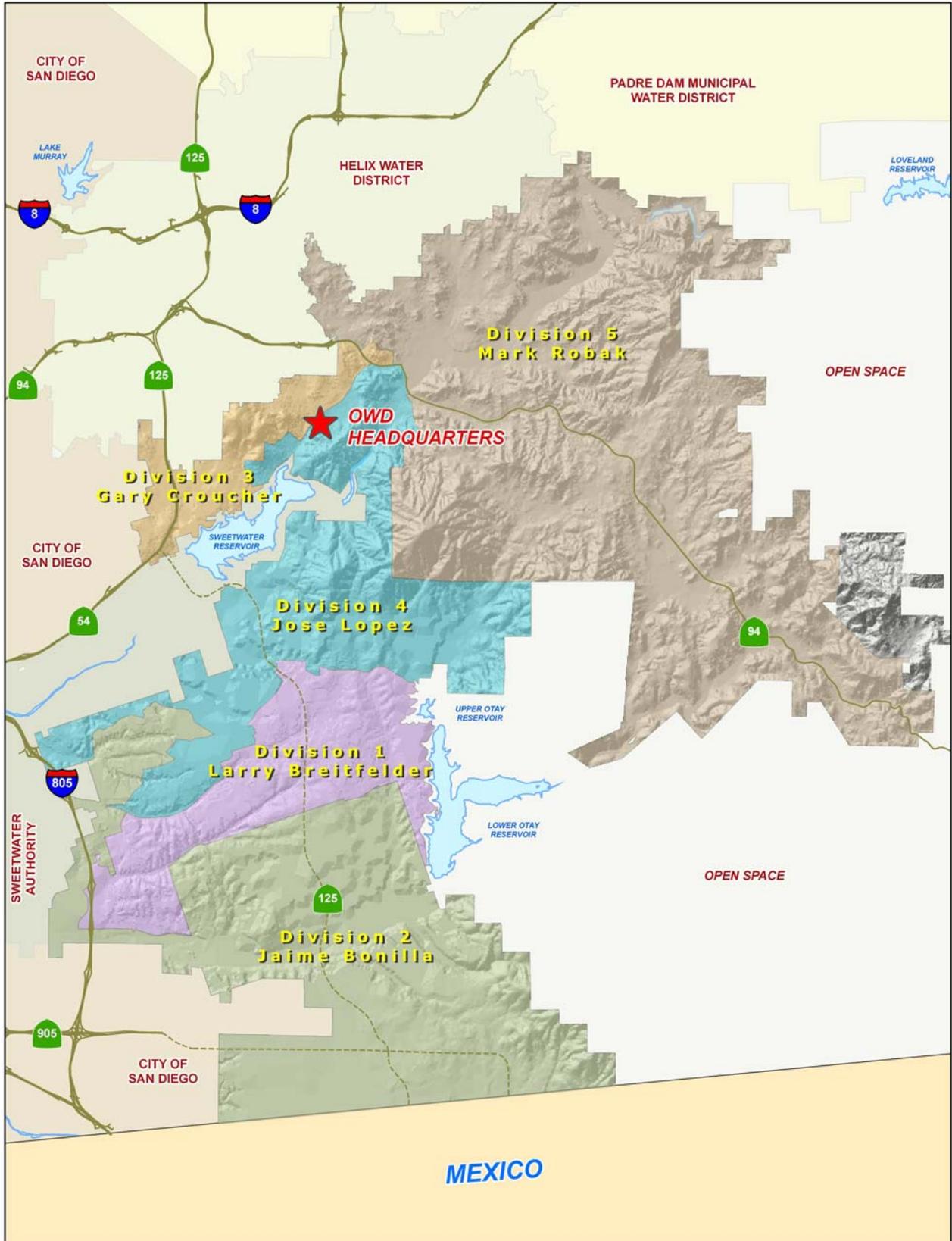
Division Title

Division No.

Board of Directors

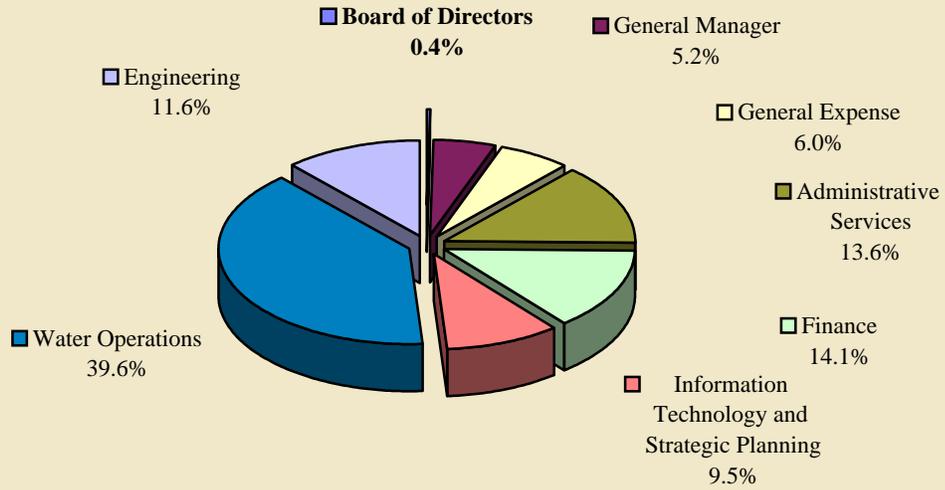
1111

DISTRICT BOUNDRY



BOARD OF DIRECTORS

FY 2008 Total Departmental Budget - \$28.4 Million Board of Directors - \$111,700

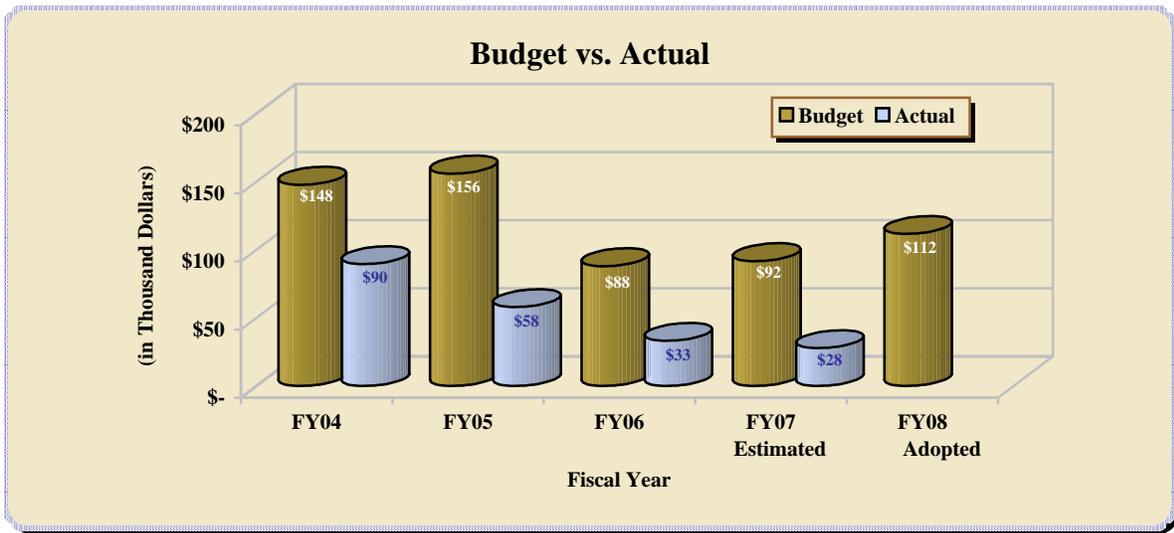


Board of Directors
TOTAL

| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|--------------------|-------------------|-------------------|----------------------|-------------------|
| Board of Directors | \$ 33,206 | \$ 91,700 | \$ 27,805 | \$ 111,700 |
| TOTAL | \$ 33,206 | \$ 91,700 | \$ 27,805 | \$ 111,700 |

BOARD OF DIRECTORS

| Board of Directors | FY 2006 | | FY 2007 | | FY 2008 |
|---------------------|------------------|------------------|------------------|-------------------|-------------------|
| | Actual | Budget | Estimated | Budget | Budget |
| Benefits | \$ 1,890 | \$ 20,000 | \$ 1,740 | \$ 40,000 | \$ 40,000 |
| Director's Fees | 19,800 | 48,000 | 18,700 | 48,000 | 48,000 |
| Travel and Meetings | 11,516 | 23,700 | 7,366 | 23,700 | 23,700 |
| Total | \$ 33,206 | \$ 91,700 | \$ 27,805 | \$ 111,700 | \$ 111,700 |



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 - 173
ADMINISTRATIVE SERVICES DEPARTMENT - 20

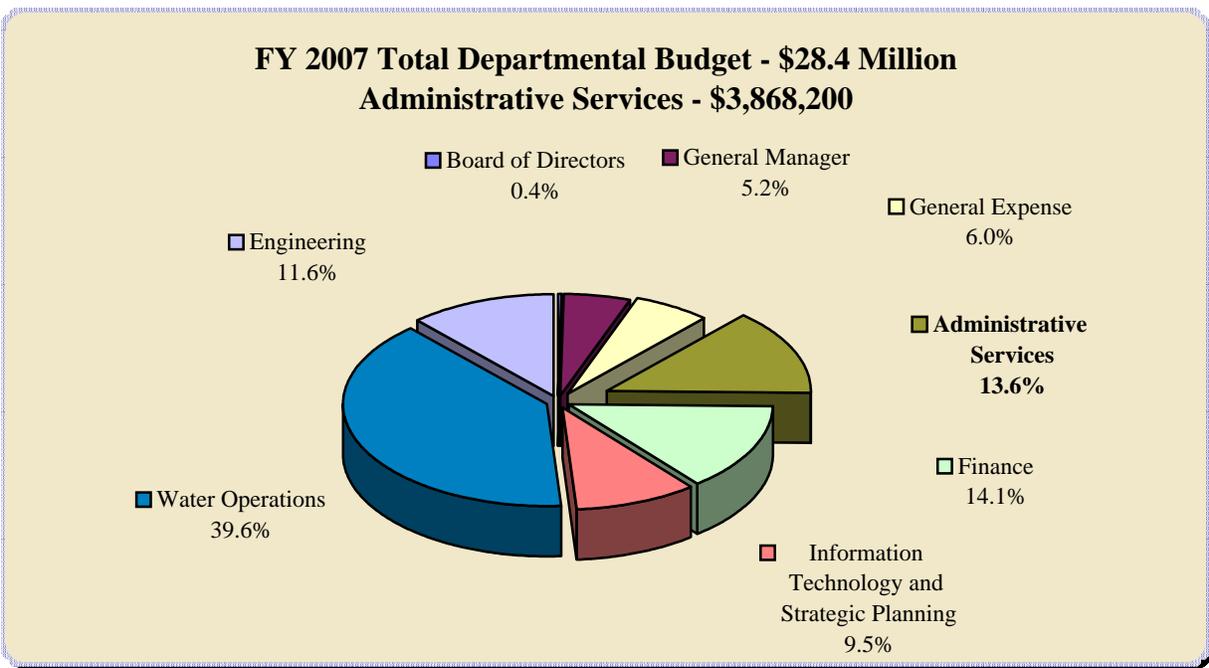


| Personnel Count | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|---|-----------------------|-----------------------|-----------------------|
| Chief, Administrative Services | 1 | 1 | 1 |
| Executive Secretary | 1 | 0 | 0 |
| Confidential Secretary | 0 | 1 | 2 |
| Office Assistant | 1 | 1 | 0 |
| Human Resources Manager | 1 | 1 | 1 |
| Senior Human Resources Analyst | 1 | 1 | 1 |
| Human Resources Analyst | 1 | 1 | 2 |
| Human Resources Technician | 1 | 1 | 1 |
| Purchasing & Facilities Manager | 1 | 1 | 1 |
| Buyer I and II | 1 | 1 | 2 |
| Assistant Buyer | 1 | 1 | 0 |
| Lead Warehouse Worker | 1 | 1 | 0 |
| Lead Warehouse Worker / Facilities Worker | 0 | 0 | 1 |
| Warehouse / Delivery Worker | 1 | 2 | 2 |
| Warehouse Assistant (PT) | 1 | 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 | 1 |
| Total | 19 | 19 | 20 |

ADMINISTRATIVE SERVICES

Department Responsibilities

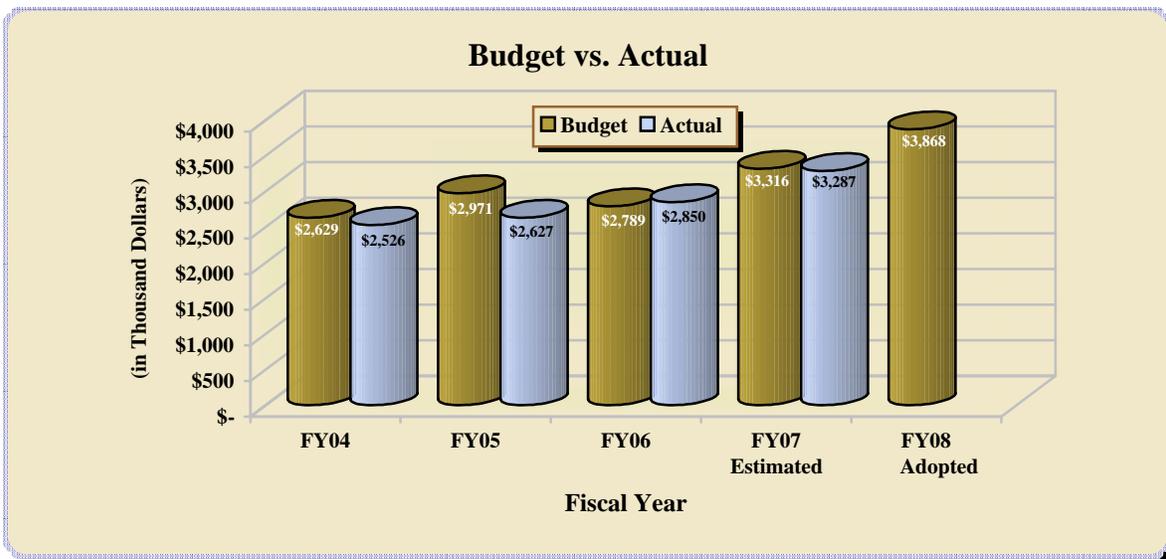
The Administrative Services Department, under the general direction of the Assistant General Manager, provides the following support services: Human Resources, Purchasing and Facilities, Safety and Risk Administration, and Water Conservation. It also coordinates assigned activities with other District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



| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|---------------------------|---------------------|---------------------|----------------------|---------------------|
| Administrative Chief | \$ 328,550 | \$ 318,000 | \$ 315,298 | \$ 370,700 |
| Human Resources | 622,375 | 752,000 | 881,487 | 941,000 |
| Purchasing and Facilities | 1,245,250 | 1,498,900 | 1,428,982 | 1,586,600 |
| Safety and Security | 245,127 | 254,000 | 244,571 | 226,600 |
| Water Conservation | 408,285 | 493,400 | 416,924 | 743,300 |
| TOTAL | \$ 2,849,588 | \$ 3,316,300 | \$ 3,287,262 | \$ 3,868,200 |

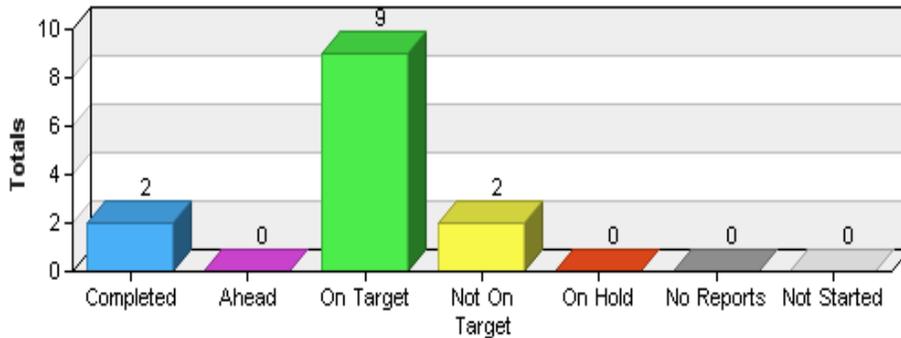
ADMINISTRATIVE SERVICES

| | FY 2006 | FY 2007 | | FY 2008 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | Actual | Budget | Estimated | Budget |
| Labor and Benefits | \$ 1,835,213 | \$ 1,858,600 | \$ 1,890,549 | \$ 2,052,800 |
| Travel and Meetings | 15,755 | 22,700 | 12,525 | 23,800 |
| Conservation and Outreach | 138,430 | 221,900 | 166,721 | 476,800 |
| General Office Expense | 117,592 | 115,000 | 113,525 | 115,400 |
| Equipment | 105,622 | 149,600 | 113,626 | 111,000 |
| Fees | 9,111 | 12,700 | 5,451 | 7,500 |
| Services | 305,231 | 398,600 | 520,185 | 446,400 |
| Training | 66,094 | 104,700 | 72,629 | 126,600 |
| Materials & Maintenance | 245,010 | 420,800 | 379,181 | 493,900 |
| Power and Utilities | 11,530 | 11,700 | 12,870 | 14,000 |
| Total | \$ 2,849,588 | \$ 3,316,300 | \$ 3,287,262 | \$ 3,868,200 |



ADMINISTRATIVE SERVICES PERFORMANCE MEASURES

Fiscal Year 2006-2007



Legend

- Completed
- Ahead of Target
- On Target
- Not on Target
- On Hold
- No Reports
- Not Scheduled to Start Yet

**Measure Reports
13 Total**

| Activity/Criterion | Fiscal Year 2005-2006 Actual | Fiscal Year 2006-2007 | | Fiscal Year 2007-2008 Target |
|--|------------------------------------|-----------------------------|-------------------------|------------------------------------|
| | | Target | Actual | |
| Garden Awareness - measures the customer awareness of the garden | N/A | 50.0% | 47.0% | 50.0% |
| Customer Satisfaction - measures the level of overall customer satisfaction with the District | N/A | 90.0% | 90.0% | 90.0% |
| Industry Papers and Publications - measures the number of industry papers and presentations to industry | N/A | 5 per year (cumulative) | 5 per year (cumulative) | 5 per year (cumulative) |
| Public Relation Plan Execution - measures implementation of public outreaches, 50th anniversary, and recycled water outreach plans | N/A | 90.0% above | 1.0 | 90.0% above |
| Training Hours per Employee (QualServe) - measures the quantity of formal training utility employees are actually completing | N/A | 9.3 per quarter | 11.0 per quarter | 9.3 per quarter |
| Safety Training Program - a minimum of 8 safety training programs of which 90% of field employees attend | N/A | 19 per quarter (cumulative) | 100% | 19 per quarter (cumulative) |
| Time to Fill - number of recruitments on time/total number of recruitments | 100.0% | 90.0% | 95.7% | 90.0% |
| Service Connections per FTE - ratio of number of customers to Full Time Equilavent | 274 | Greater than 217 | 276.3% | Greater than 217 |

| | | | | |
|---|-------|--------------------|-------|--------------------|
| Turnover Rate - number of voluntary terminations/average number of employees during measurement period | 9.9% | 10% per year | 13.6% | 10% per year |
| Blanket Order Activity - percentage of material purchases purchased via blanket purchase order | 16.9% | 15% or Greater | 16.1% | 15% or Greater |
| Inventory Accuracy - actual/recorded inventory | 99.8% | 97.0% | 99.8% | 97.0% |
| Employee H&S Severity Rate (QualServe) - number of lost work days per 100 employees | 6 | 4 or less per year | 105 | 4 or less per year |
| Total Water Saved - estimate of water saved per year through conservation programs (voucher programs and landscape surveys) | 94.0% | 90.0% | 88.0% | 90.0% |

ADMINISTRATIVE SERVICES

Accomplishments – Fiscal Year 2006-2007

Human Resources

- Communicated current workplace policies and employment standards by assessing and updating the Employee Handbooks and New Employee Orientation Program.
- Implemented District-wide employee training to communicate all new policies, procedures, and programs.
- Developed and distributed the Benefits Statement to all employees to demonstrate the value of their compensation package beyond their paycheck.
- In preparation for labor negotiations, developed a comprehensive Leave of Absence Policy and developed and updated 14 other policies and Memorandum of Understanding (MOU) language.
- Achieved recruitment goals by hiring 46 employees.

Water Conservation

- Prepared and completed the FY05-06 Best Management Practices (BMP) Report.
- Distributed over 90 residential Smart Controllers.
- Promoted the Artificial Turf Program at three high schools within the District.
- Participated in the design, coordination, and implementation of the first Water Conservation Summit.
- Promoted the end of the single-family toilet voucher program, replacing 1,363 older toilets with Ultra-low flush or High Efficiency toilets this fiscal year and approximately 22,000 toilets since the program started in 1991.

Safety and Risk

- Developed a new Safety Recognition Program.
- Recognized by California Highway Patrol (CHP) for six years of satisfactory ratings of the District's Bi-annual Inspection Terminals (BIT) and Pull Notice programs.

Otay Water District Pipeline: January 2007

By: David Burpeau, Safety and Risk Administration

The District recently was awarded a special recognition by the California Highway Patrol - **California Biennial Motor Safety Vehicle Compliance Inspection Award** - This award was presented to Otay for our efforts in the *California Biennial Motor Safety Vehicle Compliance Inspection Award* for meritorious achievement and commitment to highway safety. The Biennial Inspection of Terminals (BIT) program inspects all motor carriers operating trucks in California to rate their compliance with motor vehicle laws. Otay has achieved consecutive satisfactory safety compliance ratings since December, 1991.

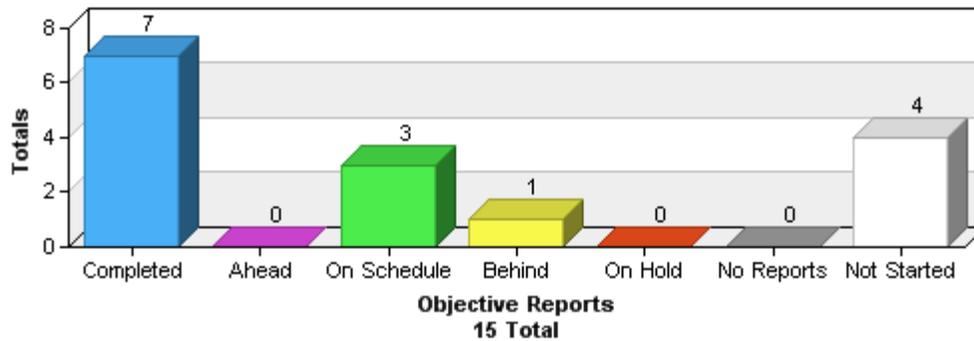
- Provided National Incident Management System (NIMS) training 100, 200, 700 and 800 for all affected staff.
- Received over \$85,000 credit towards annual premiums for Property and Liability and Workers' Compensation from Special District's Risk Management Authority (SDRMA) for the District's excellent loss control and safety programs.

Purchasing and Facilities Maintenance

- Transitioned the administration of the District-wide landscape maintenance contract from Operations to Facilities Maintenance, freeing responsibility from core function positions.
- Implemented the Contracts Module of EDEN software, enhancing and centralizing the collection, management, and reporting of contract related data and providing critical information to project/contract managers on an as-needed basis through an enterprise application.
- Evaluated and implemented Radio Frequency Identification (RFID) for minor asset tracking, simplifying the inventory process and improving the accounting of these items through the application of a technology based system.
- Evaluated, with the Operations Department, the acquisition and operation of the District's light duty fleet, identifying cost reduction and efficiency initiatives including alternative gas efficient vehicles and modified vehicle retention criteria designed to maximize the return on surplus vehicles and reduce fleet operating costs.

ADMINISTRATIVE SERVICES – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2007-2008



Goal

Objective

General Manager

Customer

Goal: Enhance the District's customer satisfaction focus by evaluating customer feedback

Objectives: Implement a standardized Potable and Recycled Water Customer Survey

Goal: Expand water conservation in new commercial and residential construction

Objectives: Expand partnerships with city of Chula Vista officials, developers, and community leaders

Goal: Maximize recycled water use

Objectives: Expand outreach to elected local officials and community leaders to discuss the benefits of recycled water.

Goal: Expand the Public Education Program

Objectives: Develop quarterly articles for Star news and Union Tribune feature

Goal: Define a program for increased relations with Mexico

Objectives: Identify and promote opportunities for by-national cooperation and understanding

Goal: Learn industry trends and promote District achievements

-  Objectives:
- Promote the District's success in relevant areas by publishing white papers, applying for awards, and speaking at State and national conferences.

Human Resources

Learning and Growth

 Goal: Develop Long-Term Staffing Plan

-  Objectives:
- Create a Long-Term Staffing Plan

 Goal: Continue to recruit and retain a highly qualified workforce

-  Objectives:
- Promote the value of the District's compensation and benefits plan
 - Perform a comprehensive Compensation Study
 - Negotiate successor Memorandum of Understanding in FY 2008

 Goal: Enhance employee training with new programs

-  Objectives:
- Develop and implement a training needs assessment and implement appropriate recommendations.

 Goal: Establish a repeatable Employee Survey Program and baseline measures

-  Objectives:
- Establish a repeatable Employee Survey Program and baseline measures.

Purchasing and Facilities

Finance

 Goal: Improve the District's budget controls

-  Objectives:
- Implement a Contract Management Tool

 Goal: Generate a Long-Term Facility and Space Plan

-  Objectives:
- Develop a Long-Term Facility and Space Plan

Water Conservation

Customer

 Goal: Maximize recycled water use

-  Objectives:
- Develop additional educational materials on beneficial uses of recycled water and best proactive case studies financial controls

 Goal: Provide full and accurate cost accounting of District services

-  Objectives:
- Develop standard and flat fee methodology for key district services
 - Assess and develop guidelines for life-cycle and activity-based cost in conjunction with IMS

 Goal: Policies and Guidelines

-  Objectives:
- Update the District's Investment Policy

 Goal: Enhance the District's customer satisfaction focus by evaluating customer feedback

-  Objectives:
- Implement a Customer Comment Tracking Program
 - Expand a Quality Control/Audit program to ensure quality customer service
 - Implement an independent Customer Follow-up Program

 Goal: Enhance customer communications for increased accessibility and ease of use

-  Objectives:
- Improve customer access to their account information via the Web
 - Evaluate expanded use of multilingual communication Program

This page intentionally left blank



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, and sensitive manner, in all aspects of operation, so that public health, environment and quality of life are enhanced.

Key Challenges

"The Otay Water District faces unprecedented growth necessitating the acquisition and development of water treatment and supply opportunities, infrastructure expansion and improvements, and enhanced customer services. The District faces an environment of escalating costs, increasing regulatory compliance and uncertainty, customer demands for continuously improving services, and competition for resources. The key challenge for the District is to find the best solutions that balance Otay's requirements with these significant constraints."

General Manager's Vision

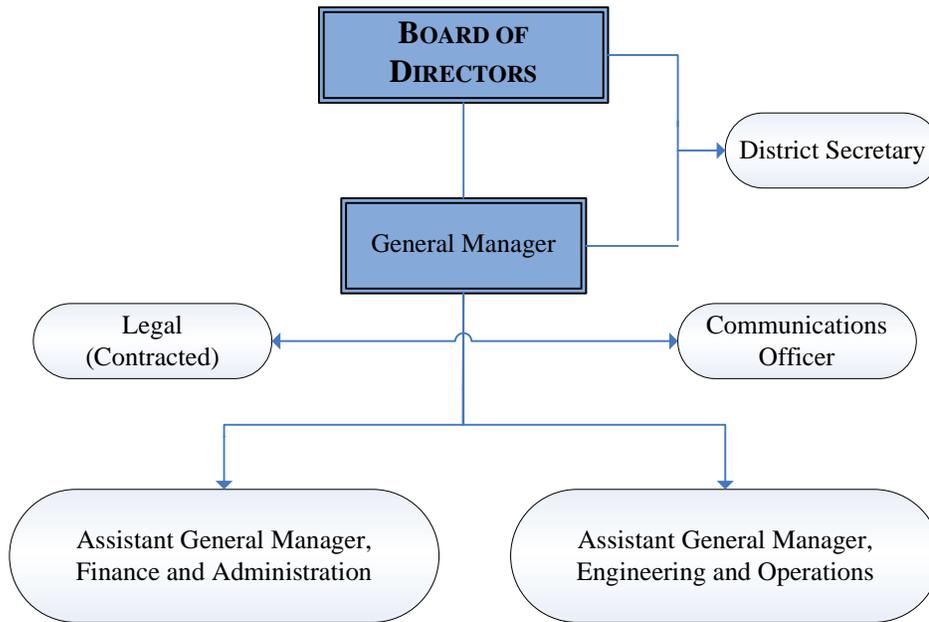
"A District that is at the forefront in innovations to provide water services at affordable rates, with a reputation for outstanding customer service."

- 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 |

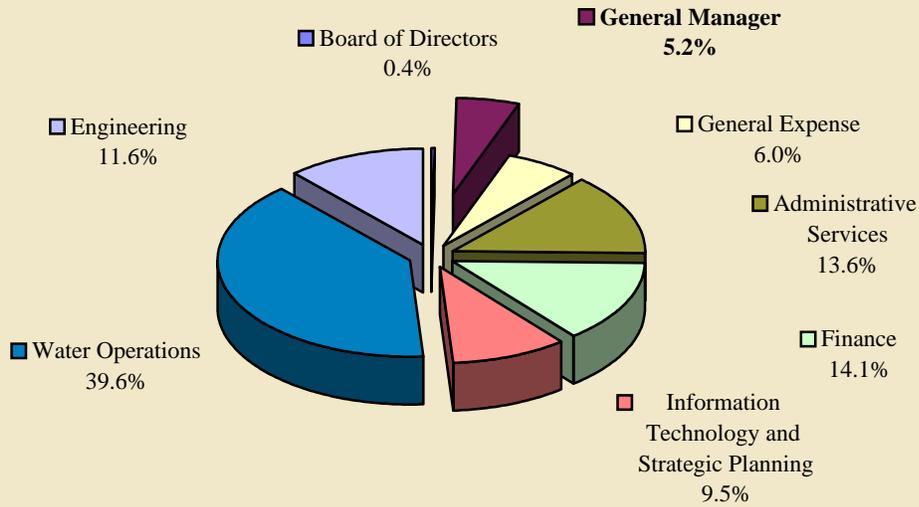
DISTRICT POSITION COUNT - 173
GENERAL MANAGER DEPARTMENT - 6



| Personnel Count | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</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

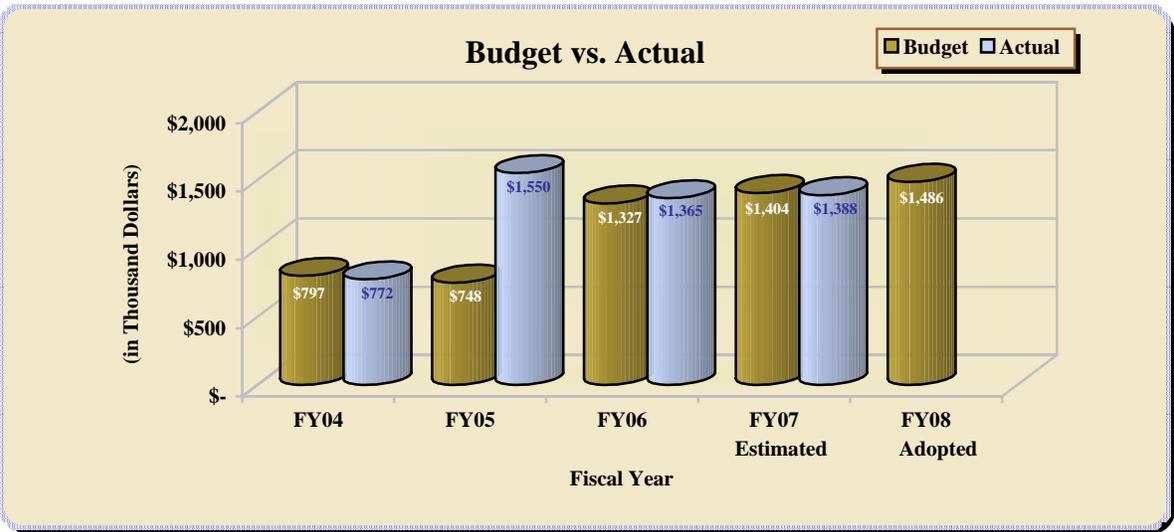
FY 2008 Total Departmental Budget - \$28.4 Million General Manager - \$1,485,500



| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|---|---------------------|---------------------|----------------------|---------------------|
| General Manager | \$ 883,407 | \$ 932,200 | \$ 905,333 | \$ 1,017,400 |
| Legal | 5,046 | 3,500 | 6,059 | - |
| Assistant General Manager, Finance and Administration | 241,478 | 237,100 | 251,193 | 237,200 |
| Assistant General Manager, Engineering and Operations | 235,537 | 230,700 | 225,069 | 230,900 |
| TOTAL | \$ 1,365,468 | \$ 1,403,500 | \$ 1,387,654 | \$ 1,485,500 |

GENERAL MANAGER

| | FY 2006 | FY 2007 | | FY 2008 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | Actual | Budget | Estimated | Budget |
| Labor and Benefits | \$ 1,104,648 | \$ 1,060,500 | \$ 1,103,014 | \$ 1,098,600 |
| Travel and Meetings | 80,644 | 91,600 | 75,924 | 95,600 |
| Conservation and Outreach | 9,803 | 7,600 | 2,110 | 5,000 |
| General Office Expense | 12,275 | 18,800 | 19,133 | 8,300 |
| Equipment | 3,259 | 1,500 | 134 | 3,000 |
| Fees | 27,387 | 30,500 | 31,086 | 32,000 |
| Services | 127,436 | 188,000 | 156,040 | 240,500 |
| Training | 15 | 5,000 | - | 2,500 |
| Miscellaneous | - | - | 212 | - |
| Total | \$ 1,365,468 | \$ 1,403,500 | \$ 1,387,654 | \$ 1,485,500 |



GENERAL MANAGER

Accomplishments – Fiscal Year 2006-2007

- Led efforts which resulted in an upgrade of the Otay Water District's bond rating from A+ to AA-. Savings to district customers as a result of the upgrade could total as much as \$1.5 million.
- Dedicated the Recycled Water Supply Link project. This \$43 million project is conserving approximately six million gallons of potable water each day, which is enough drinking water to serve more than 14,000 homes and businesses.
- Broke ground on the East County Treated Water project along with the San Diego County Water Authority, Helix, Lakeside, and Padre Dam Water Districts. Not only will this project substantially reduce anticipated capital improvement expenditures, it will also greatly increase regional supply diversity and treated water reliability.
- Completed a feasibility study to build a joint training facility with the San Miguel Consolidated Fire Protection District.
- Initiated negotiations for a new Memorandum of Understanding (MOU) with the Otay Employee Association.
- Provided employees with expanded health care options.
- Established and maintained excellent working relationships with key government, business, and community organizations to foster better understanding and build support for water projects.
- Expanded working relationships with our Mexican counterparts in an effort to pursue water related opportunities with Mexico.
- Maintained and provided potable water, sewer and recycled water infrastructure that are appropriate to meet current and future needs.

FINANCE

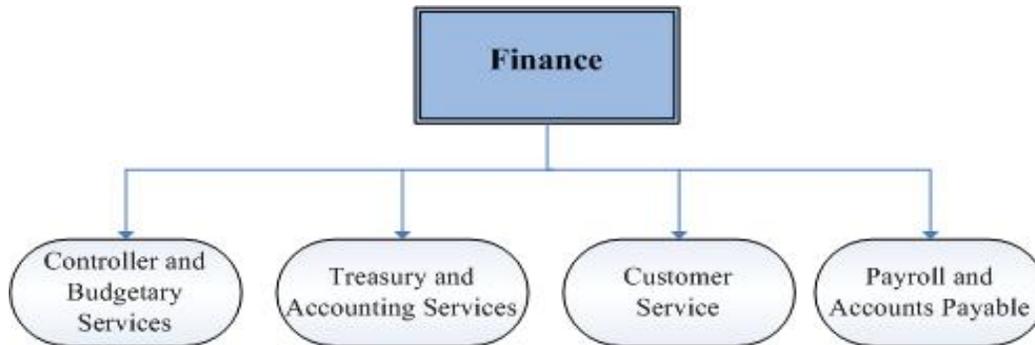
Mission Statement

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 | 2351 |

DISTRICT POSITION COUNT - 173
FINANCE DEPARTMENT - 36

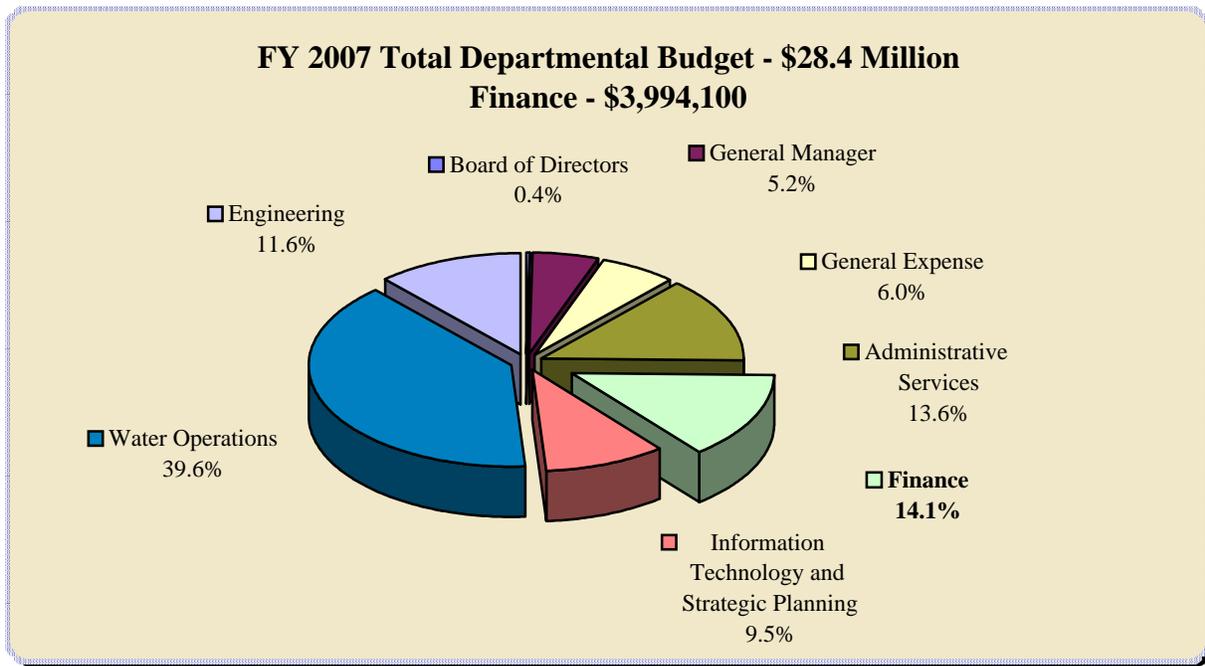


| Personnel Count | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|--|-----------------------|-----------------------|-----------------------|
| Chief Financial Officer | 1 | 1 | 1 |
| Executive Secretary | 1 | 1 | 1 |
| Secretary (Part-Time) | 0 | 0 | 1 |
| Finance Manager, Treasury and Accounting | 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 | 1 |
| Senior Accountant | 4 | 4 | 4 |
| Accountant | 4 | 4 | 4 |
| Payroll Technician | 1 | 1 | 1 |
| Accounting Assistant | 2 | 2 | 2 |
| Senior Customer Service Representative | 0 | 0 | 2 |
| Customer Service Representative I, II and III | 7 | 9 | 8 |
| Lead Customer Service Field Representative | 1 | 1 | 1 |
| Customer Service Field Representative I and II | 6 | 6 | 6 |
| Office Assistant | 1 | 0 | 0 |
| Office Assistant (Part-Time) | 1 | 1 | 0 |
| Total | 34 | 35 | 36 |

FINANCE

Department Responsibilities

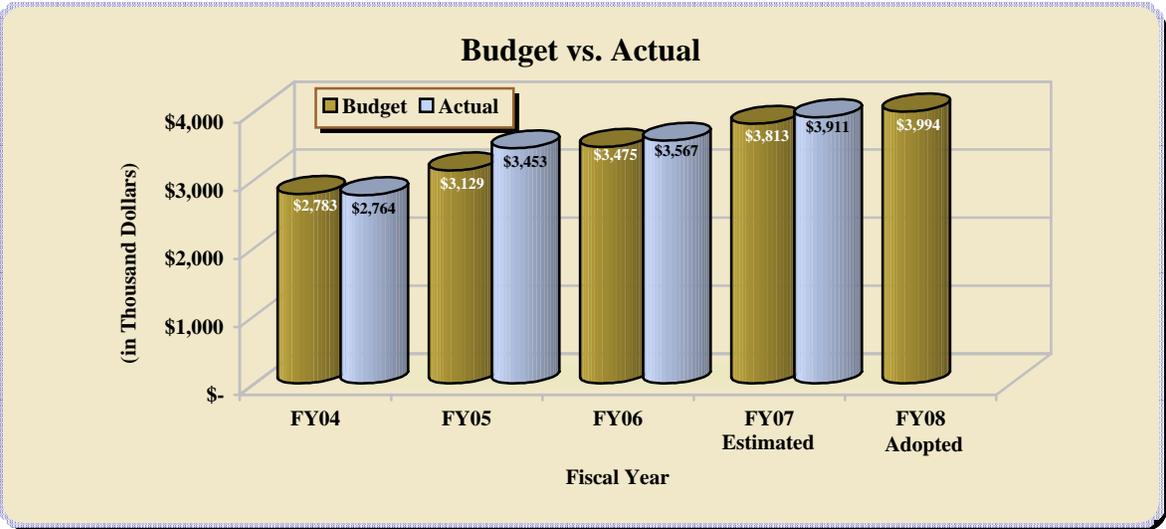
The Finance and Accounting Department, under the general direction of the Assistant General Manager, provides the following support services: Controller and Budgetary Services, Treasury and Accounting Services, Customer Service, and Payroll and Accounts Payable; ensures District's conformance with modern 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 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|-----------------------------------|---------------------|---------------------|----------------------|---------------------|
| Finance Chief | \$ 358,872 | \$ 350,800 | \$ 385,227 | \$ 405,800 |
| Controller and Budgetary Services | 478,638 | 458,100 | 481,090 | 479,000 |
| Treasury and Accounting Services | 711,084 | 787,100 | 841,593 | 891,500 |
| Customer Service | 1,648,384 | 1,871,600 | 1,860,303 | 1,869,400 |
| Payroll and Accounts Payable | 369,736 | 345,400 | 342,999 | 348,400 |
| TOTAL | \$ 3,566,714 | \$ 3,813,000 | \$ 3,911,212 | \$ 3,994,100 |

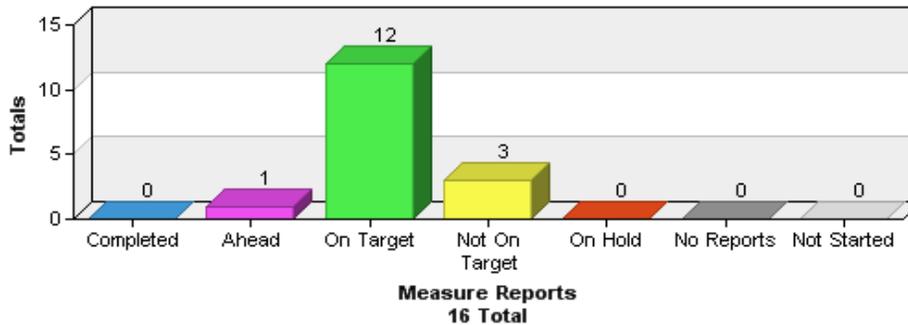
FINANCE

| | FY 2006 | FY 2007 | | FY 2008 |
|------------------------|---------------------|---------------------|---------------------|---------------------|
| | Actual | Budget | Estimated | Budget |
| Labor and Benefits | \$ 2,947,633 | \$ 3,163,500 | \$ 3,215,282 | \$ 3,320,300 |
| Travel and Meetings | 19,807 | 22,600 | 17,381 | 26,900 |
| General Office Expense | 220,966 | 191,400 | 190,826 | 198,600 |
| Equipment | 5,031 | 200 | 1,422 | 1,600 |
| Fees | 64,577 | 233,500 | 325,440 | 244,000 |
| Services | 308,701 | 201,800 | 160,861 | 202,700 |
| Total | \$ 3,566,714 | \$ 3,813,000 | \$ 3,911,212 | \$ 3,994,100 |



FINANCE PERFORMANCE MEASURES

Fiscal Year 2006-2007



Legend

- Completed
- Ahead of Target
- On Target
- Not on Target
- On Hold
- No Reports
- Not Scheduled to Start Yet

| Activity/Criterion | Fiscal Year 2005-2006 Actual | Fiscal Year 2006-2007 | | Fiscal Year 2007-2008 Target |
|--|------------------------------|-----------------------------------|--------------------|-----------------------------------|
| | | Target | Actual | |
| Water Rate Ranking - average water bill/other agencies' water bill | 30.5% | Lower than 50.0% | 39.0% | Lower than 50.0% |
| Sewer Rate Ranking - average sewer bill/other agencies' sewer bill | 63.0% | Lower than 50.0% | 50.0% | Lower than 50.0% |
| Meter Reading Accuracy - number of misreads/total number of meter reads | 100.0% | 100.0% | 100.0% | 100.0% |
| Answer Rate - percentage of calls answered as a measure of all calls received | 94.3% | 97.0% or Greater | 96.0% | 97.0% or Greater |
| Alternative Payments - number of non-cash payments/total payments | 17.8% | 20.0% of total number of payments | 21.0% | 20.0% of total number of payments |
| Write-Offs - write-offs over water sales per month | 0.03% | Less than 0.5% | 0.01% | Less than 0.5% |
| Return on Investments - average rate of return on investments | 83.0% | Meet or exceed 100% of LAIF | 100.1% | Meet or exceed 100% of LAIF |
| Overtime Percentage - actual over budgeted overtime costs | 70.7% | Less than 100.0% | 153.0% | Less than 100.0% |
| O&M Cost per Account - operations cost for O&M per account | \$408 per customer | \$387 per customer | \$433 per customer | \$387 per customer |
| Unaccounted for Water Loss - percentage of unaccounted water | 6.0% | 5.0% or Less | 3.6% | 5.0% or Less |
| Customer Service Cost per Account (QualServe) - measures the amount of resources a utility applies to its customer service program | N/A | \$55 | \$50 | \$55 |

| | | | | |
|--|-----|---------------------------|---------------------------|---------------------------|
| Debt Coverage Ratio (QualServe) - measures level of debt service | N/A | .20% or less | 0.1% | .20% or less |
| Reserve Level - measures the District's reserve levels against the plan | N/A | 100.0% | 100.0% | 100.0% |
| Billing Accuracy (QualServe) - number of corrected bills reissued or adjusted as a result of a customer initiated contact | N/A | 9.3% | 9.7% | 9.3% |
| Automatic Meter Reading Program (AMR) - percentage of AMR with radio reads used for billing | N/A | 75.0% of meters in ground | 89.0% of meters in ground | 75.0% of meters in ground |
| System Renewal/Replacement Rate (QualServe) - indicator quantifies the rate at which the utility is meeting its individual need for infrastructure renewal and replacement | N/A | 4.5% | 30.7% | 4.5% |

FINANCE

Accomplishments – Fiscal Year 2006-2007

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 third year in a row and in addition, received two awards from the California Society of Municipal Finance Officers (CSMFO) for: “Excellence in Operating Budgeting” and “Excellence in Public Communications.”
- The Capital Improvement Program (CIP) Budget received the “Excellence in Capital Budgeting Award” from the CSMFO for the second year in a row.
- Re-negotiated a new 25 year agreement for recycled water credits with the San Diego County Water Authority.
- Automated monthly financial reporting to streamline processes and improve timeliness of reporting.
- Completed the review and reorganization of financial records and destruction in accordance with the records management policy.

Otay Water District lands double-A credit rating **The Business of Water**

San Diego Daily Transcript: February 6, 2007

By: Jeran Wittenstein

Fitch Ratings, the credit rating house, announced last week it has upgraded the Otay Water District from an “A+ to an “AA-“ rating, a move that could save the district as much as \$1.5 million over the next 30 years, according to Otay Water District CFO Joe Beachem.

“It’s a pretty good accomplishment that will provide a substantial benefit to ratepayers,” he said.

Otay Water District aims to generate \$42 million from a competitive sale of bonds on Feb. 20. They are structured as 30-year bonds with level debt service and a 10-year par call.

Beachem said the district plans to have three debt issuances in the next three to five years to fund significant facilities projects in order to serve the robust growth occurring in areas like Chula Vista that fall within its district.

Proceeds of the February sale will finance an expansion of Otay’s water distribution system, including construction of a pipeline to a water treatment plant located in Helix Water District and two 10-million-gallon reservoirs. The projects will improve supply diversity and reliability of Otay’s water supply, Beachem said.

The Otay Water District serves a population of 189,000 in south-eastern San Diego County, including rapidly growing areas of the city of Chula Vista. Otay provides water to approximately 52,000 connections. Water connections have grown 4 percent annually over the past five years and are projected to grow around 3 percent annually.

Otay has an extensive reclaimed water distribution system, and current demand for reclaimed water – approximately 3.5 million gallons per day – exceeds the 1 mgd Otay can currently provide from its wastewater treatment facility.

In March 2007, Otay will complete construction of a 6-mile pipeline to connect with a city of San Diego wastewater treatment facility that is expected to provide a sufficient supply of reclaimed water to meet Otay’s needs. As a result, the district will be able to reduce its purchases of more expensive treated water from SDCWA, resulting in a direct reduction to purchased water costs.

Treasury and Accounting Services

- Received a credit rating upgrade from A+ to AA-.
- Received the GFOA award for Outstanding Financial Reporting 2005-06, for our Comprehensive Annual Financial Report (CAFR), for the third consecutive year.
- Successfully issued \$42 million in new debt securities (COPS-2007).
- Obtained an unqualified opinion on the Audited Financial Statements for the fiscal year ending June 30, 2006.
- Improved the investment portfolio to consistently achieve a monthly return that exceeds that of LAIF (benchmark).
- Updated the District's Investment Policy and the Debt Policy. Both received Certification Awards by the Association of Public Treasurers of the United States and Canada (APT US&C).
- Drafted a policy for reporting illegal or improper activity, and presented training to Otay management & staff.

Customer Service

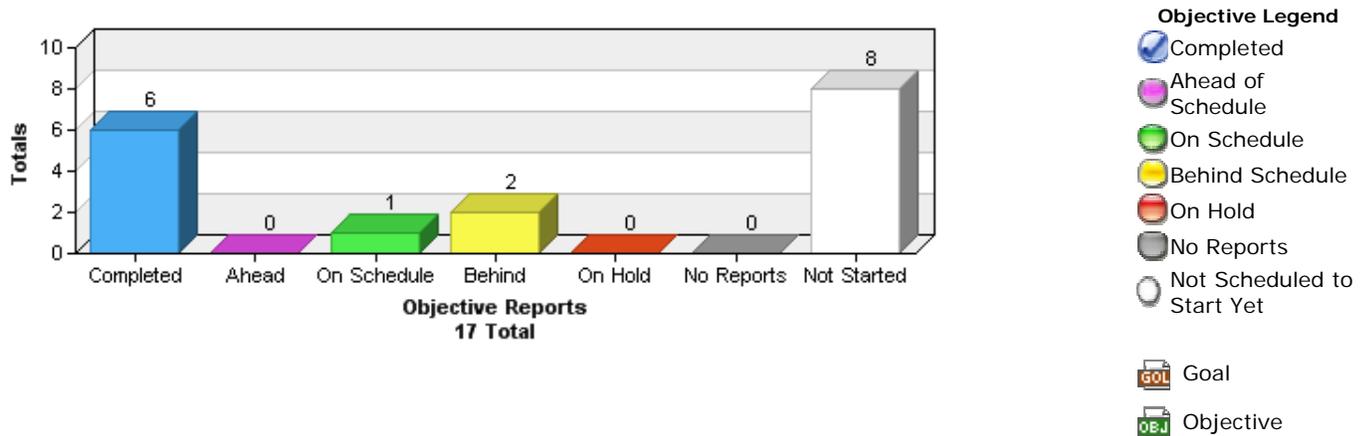
- Completed Phase I & II of the Interactive Voice Response (IVR) implementation which allows customers 24/7 access to their account information.
- Successfully implemented the Special Assessments module in the Eden System.
- Completed Parcel Manager clean up and developed on-going systematic process for parcel updates.
- Completed testing and timeline for implementation of auto-dialing capabilities.
- Automated tag service orders which resulted in saving 40 hours per month. Automated the auto-write-off process and streamlined the collection process which resulted in saving 20 hours per month.
- Automated handling of on-line home bill payers through the bank. This resulted in faster posting of customer payments.
- Implemented use of GPS technology for routing.
- Successfully completed credit card outsourcing.
- Implemented new meter reading software and hardware.
- Installed 13,642 AMR meters; this is 28% of the total meters to be replaced that has resulted in saving many hours of meter reading time every month.
- Continued to work on new specifications and pricing for modifications and enhancements to the CIS billing system which when implemented will result in time savings and process improvements.

Payroll and Accounts Payable

- Cross-trained accounts payable and payroll personnel providing enhanced department coverage. This is important because these duties have a defined schedule with very little flexibility.
- Completed bi-weekly payroll and weekly accounts 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 W2's and 1099's for 2006.

FINANCE – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2007-2008



Chief Financial Officer

Finance

- Goal: Establish the District’s long-term financial plans
 - Objectives:
 - Implement a long-term financing plan to support the District’s Master Plan
 - Explore adopting a Conservation-based Rate Plan gradually increasing the fixed rate percentage

Controller and Budgetary Services

Finance

- Goal: Improve the District’s budget controls
 - Objectives:
 - Evaluate program budgeting
 - Refine the overhead and direct charging policies

Business Processes

- Goal: Policies and Guidelines
 - Objectives:
 - Develop comprehensive budget policies and guidelines

 Goal: Financial and Managerial Reporting

-  Objectives:
- Improve the District's financial reporting
 - Develop comprehensive management reporting

Treasury and Accounting Services

Finance

 Goal: Improve the District's budget controls

-  Objectives:
- Evaluate key business processes to ensure adequate financial controls
 - Perform routine financial audit

 Goal: Provide full and accurate cost accounting of District services

-  Objectives:
- Develop standard and flat fee methodology for key district services
 - Assess and develop guidelines for life-cycle and activity-based cost in conjunction with IMS

 Goal: Policies and Guidelines

-  Objectives
- Update the District's Investment Policy

Customer Service

Customer

 Goal: Enhance the District's customer satisfaction focus by evaluating customer feedback

-  Objectives:
- Implement a Customer Comment Tracking Program
 - Expand a Quality Control/Audit program to ensure quality customer service
 - Implement an independent Customer Follow-up Program

 Goal: Enhance customer communications for increased accessibility and ease of use

-  Objectives:
- Improve customer access to their account information via the Web
 - Evaluate expanded use of multilingual communication Program

This page intentionally left blank



INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

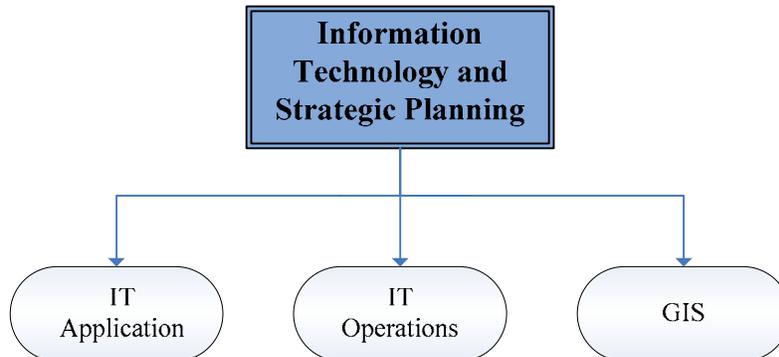
Mission Statement

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 | 2421 |
| Geographic Information System (GIS) | 2431 |

DISTRICT POSITION COUNT - 173
INFORMATION TECHNOLOGY &
STRATEGIC PLANNING DEPARTMENT - 13

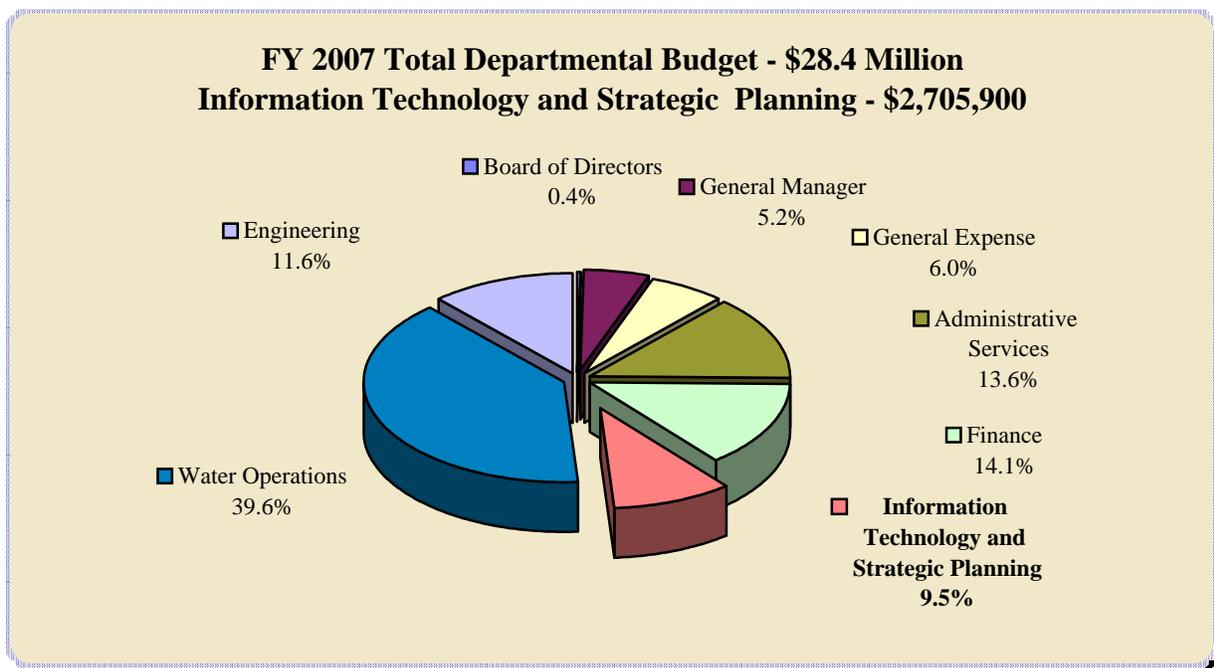


| Personnel Count | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| Chief Information Officer | 1 | 1 | 1 |
| GIS Manager | 0 | 0 | 1 |
| GIS Supervisor | 1 | 1 | 0 |
| GIS Programmer/Analyst | 0 | 0 | 1 |
| GIS Technician | 2 | 2 | 2 |
| Computer Systems Administrator | 1 | 1 | 0 |
| IT Operations Manager | 0 | 0 | 1 |
| IT Operations Supervisor | 1 | 1 | 0 |
| Database Administrator | 0 | 1 | 1 |
| Business System Analyst I and II | 3 | 3 | 3 |
| Network Engineer | 0 | 0 | 1 |
| Network Support Technician | 1 | 1 | 1 |
| Records Assistant | 1 | 1 | 1 |
| Program and Systems Support Analyst | 1 | 1 | 0 |
| Total | 12 | 13 | 13 |

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Department Responsibilities

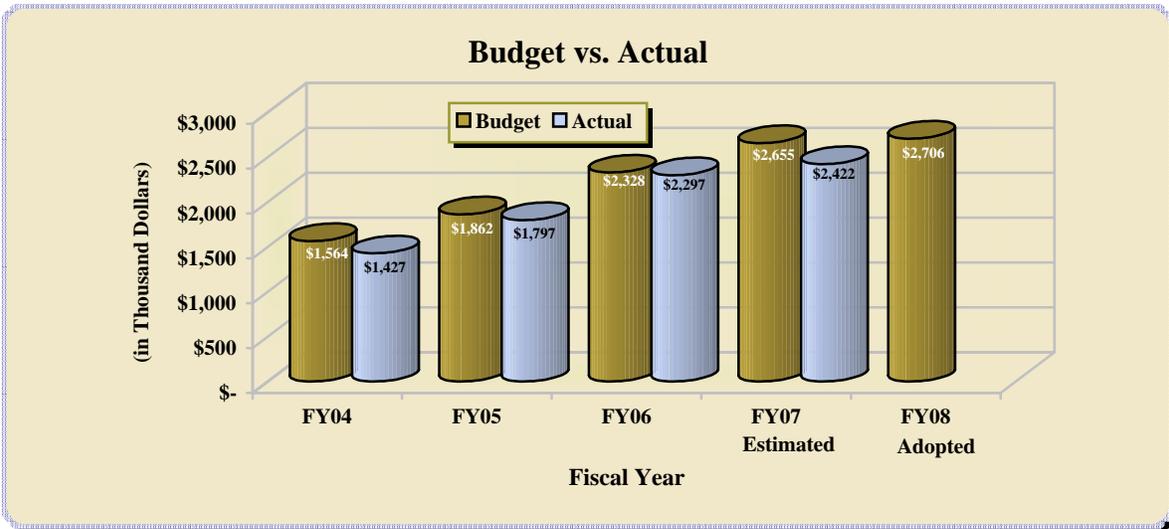
The Information Technology and Strategic Planning Department, under the general direction of the Assistant General Manager, provides the following support services: development and implementation of information technology; District's Strategic Planning Process, including the development of long-term 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 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|-------------------------------|---------------------|---------------------|----------------------|---------------------|
| IT Chief/Applications | \$ 649,297 | \$ 648,500 | \$ 689,727 | \$ 800,800 |
| IT Operations | 1,277,868 | 1,613,000 | 1,419,938 | 1,370,600 |
| Geographic Information System | 369,952 | 393,900 | 312,190 | 534,500 |
| TOTAL | \$ 2,297,117 | \$ 2,655,400 | \$ 2,421,856 | \$ 2,705,900 |

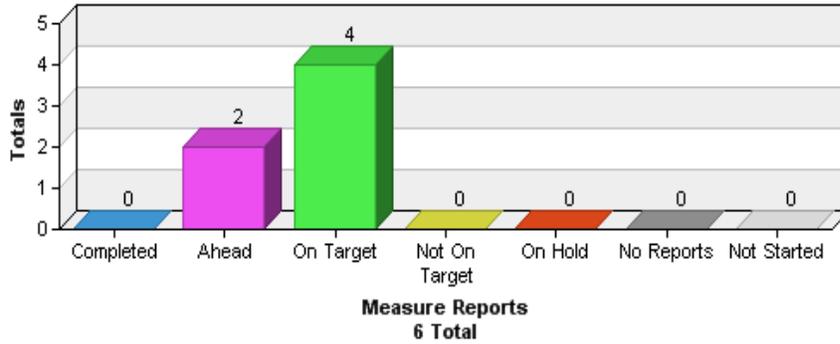
INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

| | FY 2006 | FY 2007 | | FY 2008 |
|------------------------|---------------------|---------------------|---------------------|---------------------|
| | Actual | Budget | Estimated | Budget |
| Labor and Benefits | \$ 1,528,314 | \$ 1,583,100 | \$ 1,284,347 | \$ 1,572,400 |
| Travel and Meetings | 8,070 | 20,100 | 10,716 | 19,400 |
| General Office Expense | 4,804 | 13,900 | 6,613 | 10,000 |
| Equipment | 560,806 | 731,900 | 718,690 | 825,900 |
| Services | 160,411 | 275,400 | 382,713 | 249,700 |
| Training | 34,587 | 31,000 | 18,776 | 28,500 |
| Total | \$ 2,297,117 | \$ 2,655,400 | \$ 2,421,856 | \$ 2,705,900 |



INFORMATION TECHNOLOGY AND STRATEGIC PLANNING PERFORMANCE MEASURES

Fiscal Year 2006-2007



Legend

- Completed
- Ahead of Target
- On Target
- Not on Target
- On Hold
- No Reports
- Not Scheduled to Start Yet

| Activity/Criterion | Fiscal Year 2005-2006 Actual | Fiscal Year 2006-2007 | | Fiscal Year 2007-2008 Target |
|---|------------------------------------|-----------------------|------------------|------------------------------------|
| | | Target | Actual | |
| Organizational Best Practices Index (QualServe) - summarizes the implementation of management programs or practices | N/A | 24 or above | 27 | 24 or above |
| Web Site Hits - tracks the number of web site hits | N/A | 20,000 per month | 24,616 per month | 20,000 per month |
| Strategic Plan Goals - percentage of Strategic Plan Goals on track | 97.0% | 90.0% | 96.0% | 90.0% |
| IT Help Request - percentage of help requests resolved by due date | 87.7% | 90.0% | 90.9% | 90.0% |
| Network - total operational network time per year | 99.4% | 99.0% | 99.0% | 99.0% |
| GIS Accuracy - number of drawings computerized/number of drawings filed | 95.0% | 90.0% | 91.0% | 90.0% |

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Accomplishments – Fiscal Year 2006-2007

Applications and Strategic Planning

- Implemented a “Balanced Scorecard” methodology as part of an ongoing Strategic Plan and Performance Measurement Program. Seventy one strategic objectives and 78 performance measures are tracked to ensure the District is moving forward to a distinct plan and day-to-day performance is measured and managed to achieve improvements.
- Significant enhancements made to the applications environment include:
 - added new functionality for contract management to its financial modules
 - specialized taxation software
 - 7/24 support for payment plans over the web
 - Interactive Voice Response (IVR) for the customer information and billing modules
- Added powerful report generation tools that produce reliable and advanced management reports which are easily available to all staff.
- Recognized the need for systems support for “in field” task management and reporting systems and enhanced support for the work management system.
- New tasks and business processes have been added for preventive maintenance and tracking business processes associated with support of field operations.

Otay Water District Pipeline: January 2007
By: Bill Jenkins, IT Operations Manager

Otay Water’s IT Department is placing the finishing touches on the build out and migration to the new Data Center. The project required keeping the current network operational while building the new Data Center.

The new Data Center features:

- “Blade servers” which require less space, electricity, and cooling
- Separate identical test and production environments
- Two inline UPS units to support the Data Center in power outages
- SQL 2005 Cluster to consolidate databases now housed on 17 different servers
- An inline air-conditioning unit backed up by two roof mounted air conditioners to keep the Data Center cool in the event of A/C failure
- A new Cisco switch to provide redundancy in the event of a switch failure
- A network “backbone” that runs at 1 Gigabit speed, compared to 100 Megabit speed in the old Data Center
- A network that enhances mobile access through tablet PCs
- A much more mature IT disaster recovery and business continuity platform
- Enhanced security for access to the data center

For Otay staff, many of the improvements will be transparent, except for anticipated better network performance and fewer help desk requests.

The IT Department is now in the process of updating and migrating major applications such as EDEN Inforum Gold (IG), GIS, IMS, Exchange Outlook, INET and Otay website to their new servers.

Overall many of the changes in the data center design will reduce future costs. For example by consolidating databases we reduced future software costs. We used a vendor as the general contractor on the project, and Otay’s Pump/Electric, Warehouse and Facilities staff made major contributions to the project’s success. The project was on time and in budget. “It was a team effort all the way” said Bill Jenkins – IT Operations Manager.

Geographic Information Systems (GIS)

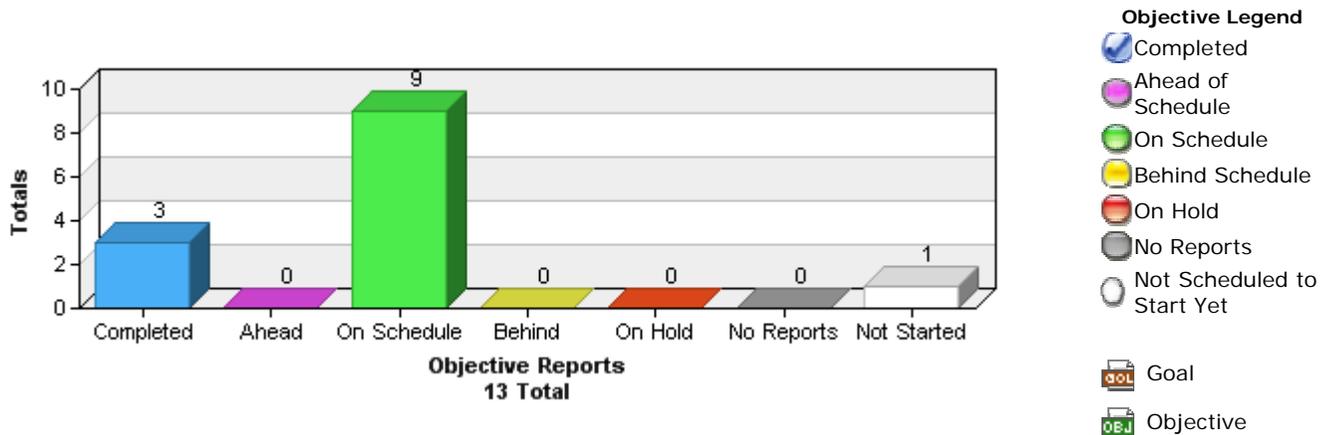
- Redesigned and created a process whereby new parcels created are added quickly and accurately to the database improving the accuracy and timeliness of updating land and parcel based information to the GIS. This parcel data is now available to staff and customers to issue permits or inspections.
- Developed a process to synchronize data from the GIS system and to populate a specific work order when a specific asset was specified, thus allowing information to always be current and accurate.

IT Operations

- Transformed the data center by making the following enhancements:
 - replaced obsolete hardware and software
 - consolidated space and improved organization with a new rack design
 - installed new air conditioning equipment
 - electrical work and replacement of backup power supplies were added
 - expanded the Citrix environment and increased capacity
 - enhanced server capacity and speeds
 - established a new design that allowed isolation of testing and production systems
 - equipment that was removed from the existing data center will be utilized in creating a back-up data center during the next fiscal year
- Conducted the following major enhancements to the NEC telecom system:
 - upgraded the PBX
 - installed IVR to permit bill paying by phone
 - added redundant dial tone for disaster recovery
 - rolled out an Out Dialing feature for customer notifications
- Deployed 50 field laptop computers with wireless air card connections for use by field staff.
- Assisted with deployment of GPS into over 90 District vehicles in conjunction with GIS and Fleet Maintenance.
- Upgraded conference rooms with a wide screen monitor connected to the network and the Internet which allows for more productive meetings.

INFORMATION TECHNOLOGY AND STRATEGIC PLANNING

Goals and Objectives – Fiscal Year 2007-2008



IT Chief/Applications

Customer

Goal: Enhance customer communications for increased accessibility and ease of use.

Objectives: Implement automated notification procedure for planned or emergency maintenance, outages or boil-water notices.

Business Processes

Goal: Fully integrate the Otay Information systems (OIS)

Objectives: Fully integrate the Otay Information systems (OIS)

Goal: Complete business process reengineering effort

Objectives: Continuous management Development and Growth Effort through process Innovation

Goal: Develop a comprehensive knowledge Management Plan

Objectives: Explore and develop two process improvement objectives per year

Goal: Implement field technology solutions

Objectives: Maximize the district use of mobile, GIS and GPS technologies including route planning for maintenance crews and meter readers and locations based services

 Goal: Implement the Legal Plan

 Objectives: Ensure that significant contracts receive legal review

 Goal: Enhance customer communications for increased accessibility and ease of use

 Objectives: Evaluate and Implement the Interactive Voice Response (IRV) System
 Implement summary billing

IT Operations

Customer

 Goal: Enhance customer communications for increased accessibility and ease of use

 Objectives: Enhance the District's Web Page and its links

 Goal: Improve customer service by expanding employee access to OIS information

 Objectives: Provide secure and protected use of OIS information to employees on a 24 hour and mobile basis

Business Processes

 Goal: Implement planned security initiatives

 Objectives: Perform cyber-security tests
 Implement a Business Resumption Plan (BRP)

 Goal: Develop a comprehensive Knowledge Management Plan

 Objectives: Update the District's records management program

This page intentionally left blank



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.

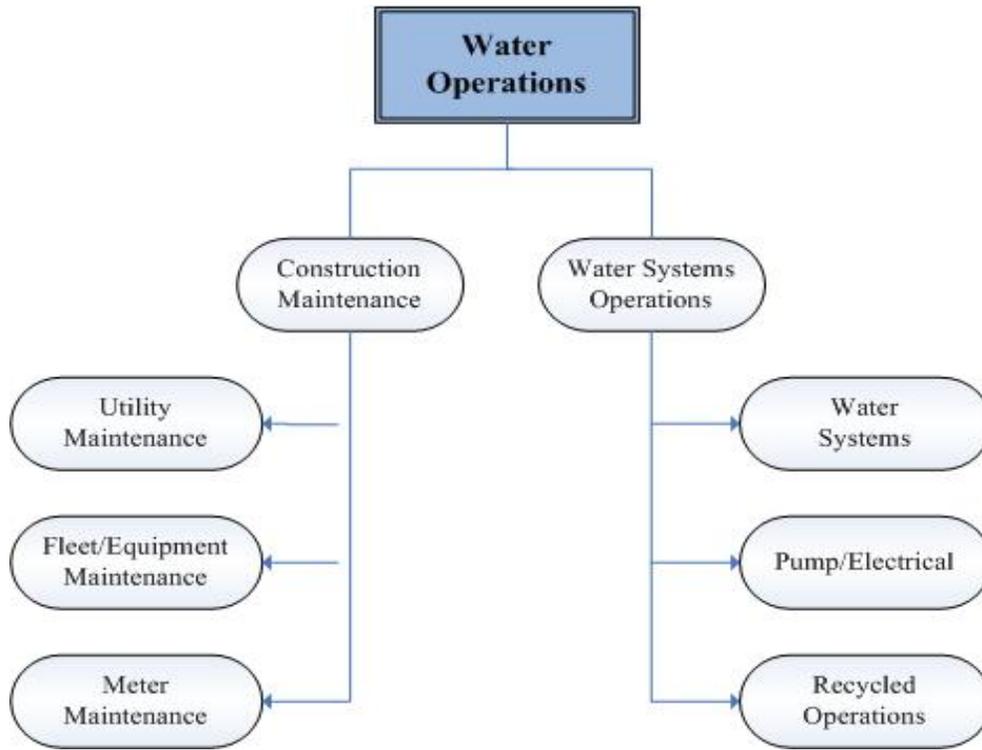


Division Title

Division No.

| | |
|------------------------------------|------|
| Water Operations Chief. | 3211 |
| Water Systems Operations. | 3220 |
| Construction Maintenance | 3230 |

DISTRICT POSITION COUNT - 173
OPERATIONS DEPARTMENT - 71



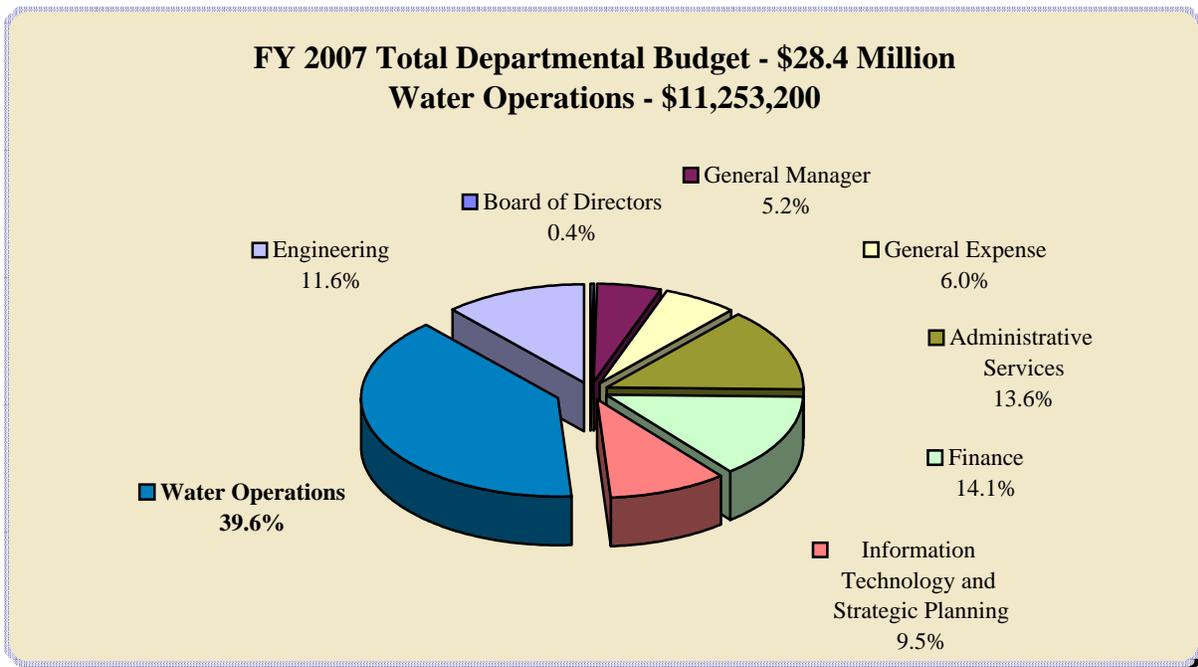
DISTRICT POSITION COUNT - 173
OPERATIONS DEPARTMENT - 71

| Personnel Count | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|---|-----------------------|-----------------------|-----------------------|
| Chief, Water Operations | 1 | 1 | 1 |
| Planner Scheduler | 1 | 0 | 0 |
| Executive Secretary | 1 | 1 | 1 |
| Systems Operations Manager | 1 | 1 | 1 |
| Water Systems Supervisor | 1 | 2 | 1 |
| Pump Electrical Supervisor | 1 | 1 | 1 |
| Meter Maintenance/Cross Connect Supervisor | 1 | 1 | 1 |
| Water Systems Crew Leader | 2 | 2 | 2 |
| Water Systems Operator I, II, and III | 9 | 9 | 9 |
| Valve Maintenance Worker | 0 | 1 | 1 |
| Senior Disinfection Technician | 1 | 1 | 2 |
| Disinfection Technician | 1 | 1 | 0 |
| Senior SCADA Instrumentation Technician | 1 | 2 | 2 |
| Electrician/Instrumentation Technician | 1 | 0 | 0 |
| Electrician I and II | 2 | 2 | 2 |
| Pump Mechanic I and II | 2 | 2 | 2 |
| Lead 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 | 4 |
| Equipment Shop Supervisor | 1 | 1 | 0 |
| Fleet Maintenance Supervisor | 0 | 0 | 1 |
| Equipment Shop Mechanic I and II | 4 | 4 | 4 |
| Welder II | 1 | 1 | 1 |
| Custodian/Automotive Attendant | 1 | 0 | 0 |
| Reclamation Plant Supervisor | 1 | 1 | 1 |
| Reclamation Plant Crew Leader | 0 | 0 | 1 |
| Reclamation Plant Operator | 3 | 3 | 3 |
| Recycled Lab Supervisor | 1 | 0 | 0 |
| Water System Technician | 1 | 1 | 0 |
| Lead Recycled Water Distribution Operator | 0 | 0 | 1 |
| Recycled Water Distribution Operator | 3 | 3 | 3 |
| Laboratory Analysts I and II | 2 | 2 | 2 |
| Total | <u>72</u> | <u>71</u> | <u>71</u> |

WATER OPERATIONS

Department Responsibilities

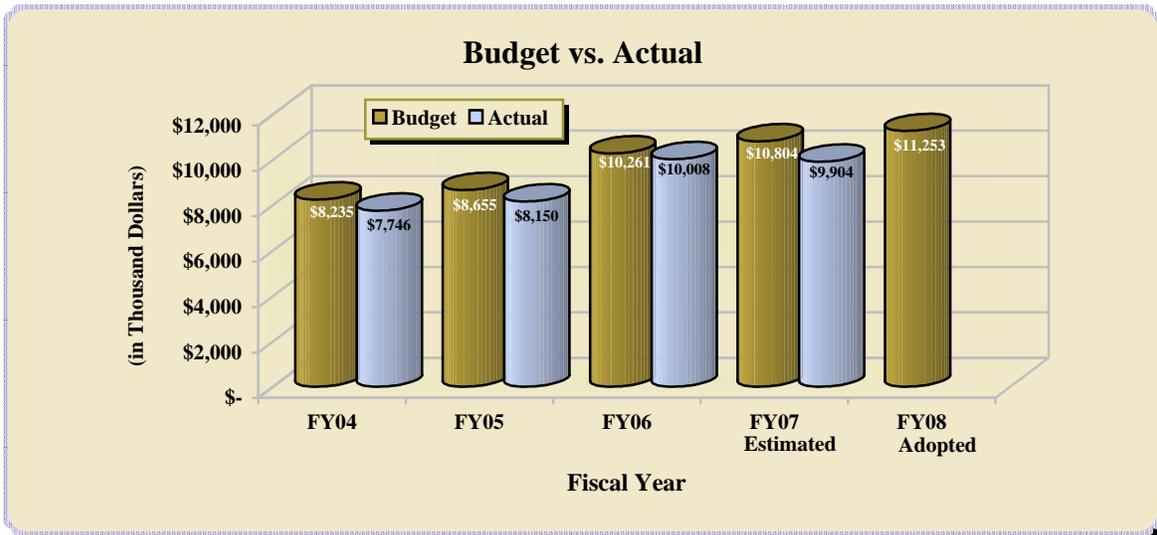
The Water Operations Department, under the general direction of the Assistant General Manager, provides the following support services: Potable and Recycled Water System Operations, Construction Maintenance, and Sewer Collection and Treatment Operations; and provides highly responsible and complex technical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



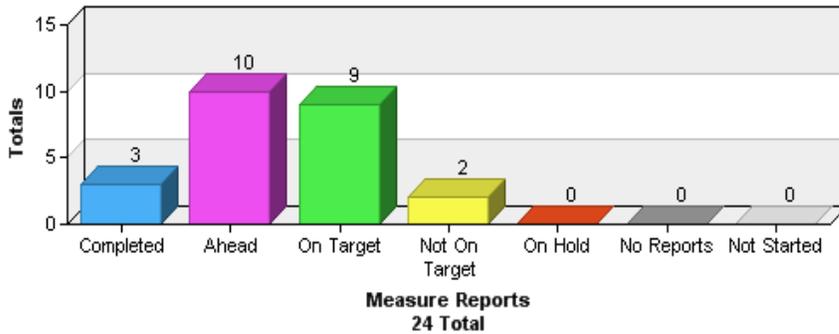
| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|--------------------------|----------------------|----------------------|----------------------|---------------------|
| Water Operations Chief | \$ 566,450 | \$ 368,800 | \$ 361,146 | \$ 456,400 |
| Water Systems | 4,976,728 | 5,697,800 | 5,070,223 | 5,924,700 |
| Construction Maintenance | 4,465,134 | 4,737,200 | 4,472,197 | 4,872,100 |
| TOTAL | \$ 10,008,312 | \$ 10,803,800 | \$ 9,903,566 | \$11,253,200 |

WATER OPERATIONS

| | FY 2006 | FY 2007 | | FY 2008 |
|-------------------------|----------------------|----------------------|---------------------|---------------------|
| | Actual | Budget | Estimated | Budget |
| Labor and Benefits | \$ 6,203,555 | \$ 6,130,200 | \$ 6,357,239 | \$ 6,663,800 |
| Travel and Meetings | 22,651 | 22,300 | 21,104 | 48,300 |
| General Office Expense | 6,520 | 5,500 | 5,903 | 7,000 |
| Equipment | 44,589 | 90,900 | 67,227 | 73,100 |
| Fees | 47,553 | 45,500 | 33,352 | 43,900 |
| Services | 68,062 | 295,500 | 103,732 | 442,600 |
| Training | 11,681 | 11,000 | 6,152 | 15,500 |
| Materials & Maintenance | 2,462,528 | 2,841,400 | 2,467,066 | 2,735,200 |
| Sewer Charges | 1,140,967 | 1,361,500 | 841,791 | 1,223,800 |
| Total | \$ 10,008,312 | \$ 10,803,800 | \$ 9,903,566 | \$11,253,200 |



WATER OPERATIONS PERFORMANCE MEASURES



| Activity/Criterion | Fiscal Year 2005-2006 Actual | Fiscal Year 2006-2007 | | Fiscal Year 2007-2008 Target |
|--|------------------------------------|-----------------------------------|-----------------|------------------------------------|
| | | Target | Actual | |
| AMR Program - AMR Meters Installed (total of 1,100 retrofits per years; 275 per qtr) | 61% | 100% | 100% | completed |
| Valve Exercising Program - maintenance of distribution systems' infrastructure to ensure minimal interruption of Potable Water delivery to the customer | 89.0% | 381 per quarter | 685 per quarter | 381 per quarter |
| Main Flushing Program - actual over-planned pipelines (520) to be flushed per quarter | 0.0% | 90.0% | 209% | 90.0% |
| Technical Quality Complaint Rate (QualServe) - as 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 | 8 | 3.9 | 8 |
| Potable Water Supplement - measures the amount of potable water needed to supplement recycled water demand | N/A | not to exceed 5% of system demand | 2% | not to exceed 5% of system demand |
| O&M Cost per MG (QualServe) - measures the operation and maintenance costs to treat one million gallons of wastewater | N/A | \$3,096/MG | \$2,211/MG | \$3,096/MG |

| | | | | |
|---|-----|------------|------------|------------|
| 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 | \$2,450/MG | \$1,113/MG | \$2,450/MG |
| AMR Program - replacement of 4,556 existing Ramar transponders | N/A | 100% | 100% | completed |
| 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% | 0.7% |
| 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% | 100% | 100% |
| Recycled Water Production - produce greater than 1.20 MGD for 90% of the days with demand of 1.3 MGD | N/A | 69% | 27% | 69% |
| Planned Drinking Water Maintenance Ratio Cost (QualServe) - compares how effectively the District is investing in planned maintenance | N/A | 63.5% | 68% | 63.5% |
| Collection System Integrity (QualServe) - number of wastewater collection system failures per 100 miles of collection system pipeline | N/A | 3.8 | 0 | 3.8 |
| Planned Wastewater Maintenance Ratio Cost (QualServe) - percentage of planned maintenance cost per total combined planned and corrective maintenance hours | N/A | 75% | 83% | 75% |
| Sewer Overflow Rate (QualServe) - measures the wastewater collection system pipeline condition and the effectiveness of routine maintenance | N/A | 2.5% | 0 | 2.5% |
| Pump Efficiency Testing - pump efficiency testing on 50% of the potable water pumps each year | N/A | 100% | 100% | 100% |
| Automatic Control Valve Testing - test operation and do preventative maintenance on all automatic valves semi-annually | N/A | 90% | 90% | 90% |
| 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 | 16.9 | 16.3 | 16.9 |
| Recycled Water System Integrity - tracks number of leaks or breaks per 100 miles of water distribution system | N/A | 16.9 | 1.4 | 16.9 |

| | | | | |
|--|-----|-----|------|-----|
| Air Vac Update Program - measures the number of potable air vacs updated to DHS standards | N/A | 90% | 100% | 90% |
| Fire Hydrant Maintenance - measures the number of fire hydrants serviced | N/A | 149 | 187 | 149 |
| 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 | 0.9 | 7.8 | 0.9 |

WATER OPERATIONS

Accomplishments – Fiscal Year 2006-2007

Water Operations Chief

- Worked closely with the Engineering Department to successfully start-up the recycled water pipeline from the South Bay Water Reclamation Plant (SBWRP).
- The department Performed 24 planned shutdowns which was six more than the previous year. Most of these shutdowns were for developer projects or valve replacements. This is notable considering the amount of planning and work involved for each shutdown.
- After receiving the “Flex Your Power Award” Otay received a congratulatory letter from Senator Barbara Boxer stating “The dedication and strong leadership you have displayed represents a valuable contribution to the community and sets a shining example for us all to follow as we strive to reduce our energy consumption.”
- Received a Certificate of Achievement from the California Highway Patrol for six consecutive satisfactory ratings and one administrative review since December 1991 for our Biennial Inspections of Terminals (BIT) program.
- Otay received a Certificate of Recognition from SDG&E for excellence in energy savings and our commitment to the community by saving energy during temporary critical times last summer through our participation in SDG&E’s Demand Response Program.
- Significant improvements regarding the most recent inspection of the District’s facilities were acknowledged by Dr. Tuba Ertas, Department of Health Services.
- The Department tracked and reported on 24 Performance Measures.

Team of Excellence Award

By Manny Magaña

June 23, 2007

The “Team of Excellence Award” recognizes and rewards accomplishments and contributions by employees working in teams on a special project or assignment of significance to the District.

This year’s award goes to the project coordination team of Ron Ripperger, Jerry Munoz, Jake Vaclavek, and Richard Shackley. They took the lead role on a seven day Inspection and Shutdown of the District’s 36-inch transmission water main from #5 connection to La Presa Pump Station. This was the District’s largest, most complex water shutdown ever undertaken, as it involved months of preparation, planning, and detailed coordination between Operations, Engineering, and the inspection contractor. In addition, two major tie-ins were undertaken on the same critical supply pipeline at the same time with an adjacent developer, the Point. A detailed Shutdown Action Plan was created to assist everyone involved and ensure that all work would be successfully completed during the seven day shutdown between 2-5-07 and 2-11-07. This project was completed ahead of schedule and resulted in a number of future improvements for similar type inspection projects.

This critical project was a win/win for everyone involved, Otay, the Point, the inspection contractor, and our customers, as no disruption in water service occurred and the project was completed ahead of schedule. The project was successful only because of everyone’s cooperative effort, their pre-planning commitment, and close communication between both the Engineering and Operations Departments.

- Successfully managed and tracked the Operations Budget.
- Worked closely with IT to successfully implement our automatic phone system.
- Continued communications with employees to ensure that they understand management directives, such as the District's Strategic Plan, Best Management Practices, the budget, and organizational changes.

Water Systems

- Successfully coordinated the shutdown and inspection of the 36-inch main from the old No. 11 connection in Spring Valley to the La Presa Pump Station which is the primary feed of drinking water to the North District. This was completed without customer disruptions or water supply concerns.
- Successfully coordinated the shutdown of the 42-inch inlet and outlet for the 624-3 Reservoir (30 MG) relocation project for the SR-125 toll road. These pipelines are the main arteries that supply the South District and were shutdown for the tie-in of the relocated lines which was completed without customer disruptions or water supply concerns.
- Coordinated with the County of San Diego and their contractors on the installation of microturbines and gas lines at the Ralph W. Chapman Water Recycling Facility (RWCWRF) to produce power from gases produced at the landfill.
- Revised the District's Code of Ordinance Policy 26 to formalize and update our recycled water functions.
- Received approval from the Department of Health Services (DHS) for the Stage 2 Disinfectant By-Products (DBP) Sampling Plan for trihalomethane and haloacetic acid sampling plan.
- Assisted in the new Master Reclamation Permit application.
- Coordinated with the City of San Diego on taking up to 10 MGD of potable water at Lower Otoy Pump Station and up to 6 MGD recycled water from the SBWRP.
- Assisted in the development of a new vehicle purchase program.

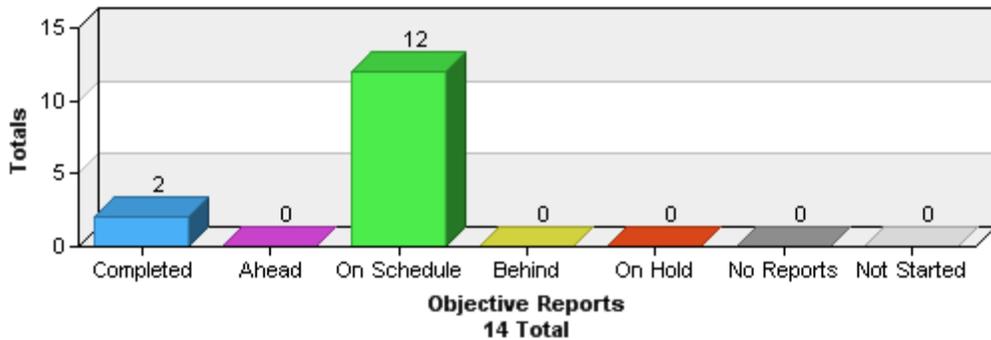
Construction Maintenance

- Expanded the comprehensive valve actuation program to include main flushing and fire hydrant maintenance. The valve crew exercised 1,531 valves, flushed 416 mains, and maintained 941 fire hydrants, in coordination with both the Utility Maintenance and Water Operations Sections.
- Saved the District more than \$100,000 annually by changing the way District vehicles are serviced in-house, increasing efficiency and enabling the District to reduce manpower by one person.
- Worked closely with IT to successfully implement the Global Positioning System project.

- Ensured the District engines met or exceeded the Air Pollution Control District's (APCD) requirements for permitted use to avoid costly fines.
- The impending California Air Resources Board (CARB) pending "Off-Road Diesel" regulations will have a great financial impact in the District's construction equipment. Staff attended a preliminary CARB workshop and has applied for engine retrofit grant money.
- Upgraded air-vacs and blow-offs during the 36-inch Jamacha Blvd. pipeline shutdown and inspection.
- The remaining Ramar Automated Meter Reading (AMR) units have been successfully replaced with the Master Meter 3G units.

WATER OPERATIONS – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2007-2008



- Objective Legend**
- Completed
 - Ahead of Schedule
 - On Schedule
 - Behind Schedule
 - On Hold
 - No Reports
 - Not Scheduled to Start Yet
- Goal
- Objective

Water Operations Chief

Customer

- Goal: Enhance the District’s customer satisfaction focus by evaluating customer feedback
 - Objectives: Communicate with customers prior to facility improvements
- Goal: Improve customer service by expanding employee access to OIS information
 - Objectives: Evaluate OIS information as meeting customer service
- Goal: Enhance the District’s customer satisfaction focus by evaluating customer feedback
 - Objectives: Utilize the District’s management reporting

Learning and Growth

- Goal: Continue the Certification Incentive Program
 - Objectives: Elevate awareness of opportunities for Operations employees to achieve higher certification
 - Attend industry courses and seminars

Business Processes

- Goal: Fully integrate the Otay Information systems (OIS)
 - Objectives: Fully integrate the Otay Information systems (OIS)
- Goal: Fully integrate the Otay Information systems (OIS)
 - Objectives: Fully integrate the Otay Information systems (OIS)

-  Goal: Develop a comprehensive Knowledge management Plan
 -  Objectives:
 -  Review, improve and document Operations practice for staff training

Water Systems Operations

Business Processes

-  Goal: meet current and future potable water demands
 -  Objectives:
 -  Operate the system to meet demands 24/7
 -  Meet all of the health-related water standards in the US National Primary Drinking Water Regulations
-  Goal: Operate the Recycled Water System Efficiently
 -  Objectives:
 -  Reduce the amount of potable water augmentation and increase the recycled water productivity
-  Goal: Conduct best practice preventative maintenance activities
 -  Objectives:
 -  Quantify the condition of the District's collection and distribution system

Construction Maintenance

Customer

-  Goal: Enhance the District's customer satisfaction focus by evaluating customer feedback
 -  Objectives:
 -  Evaluate and respond to customer concerns affected by facility improvements

Business Processes

-  Goal: Conduct best practice preventative maintenance activities
 -  Objectives:
 -  Document and report planned maintenance ratios and activities
-  Goal: Implement field technology solutions
 -  Objectives:
 -  Conversion of District's meters to AMR
-  Goal: meet current and future potable water demands
 -  Objectives:
 -  Operate the system to meet demands 24/7
 -  Meet all of the health-related water standards in the US National Primary Drinking Water Regulations

This page intentionally left blank



ENGINEERING

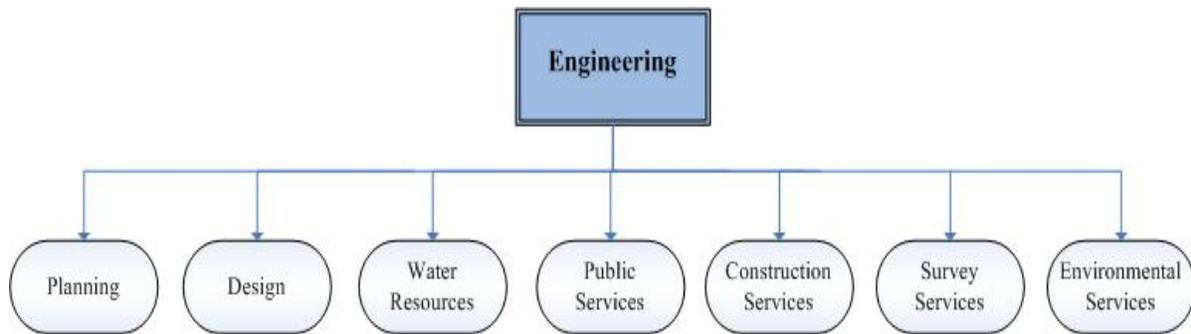
Mission Statement

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 - 173
ENGINEERING DEPARTMENT - 27

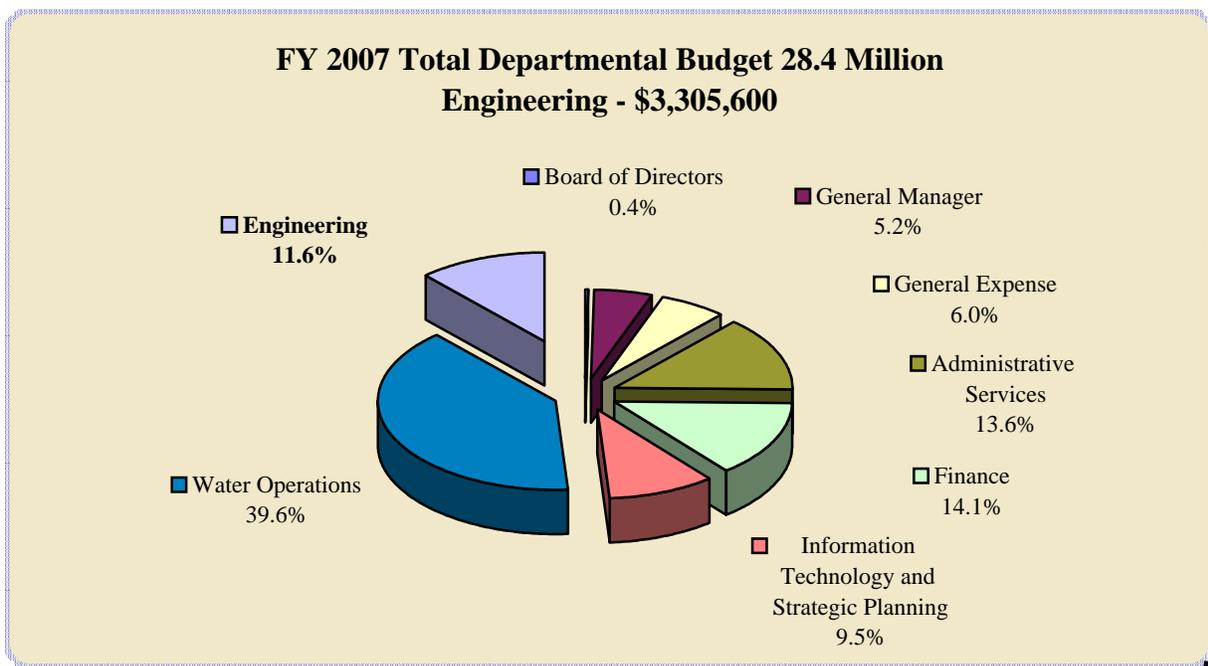


| Personnel Count | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| Chief, Engineering | 0 | 0 | 1 |
| Chief, Engineering & Planning | 1 | 1 | 0 |
| Chief, Development Services | 1 | 1 | 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 | 3 | 2 |
| Associate Civil Engineer | 2 | 2 | 3 |
| Assistant Civil Engineer | 3 | 3 | 1 |
| Environmental Compliance Specialist | 0 | 0 | 1 |
| Permit Technicians I and II | 0 | 0 | 2 |
| Engineering Technicians I, II and III | 8 | 7 | 4 |
| Inspection Supervisor | 1 | 1 | 1 |
| Construction Inspectors I and II | 4 | 4 | 4 |
| Surveying Supervisor | 1 | 1 | 1 |
| Survey Technician | 1 | 1 | 1 |
| Assistant Survey Technician | 1 | 1 | 1 |
| Office Assistant | 1 | 1 | 0 |
| Total | 32 | 31 | 27 |

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.

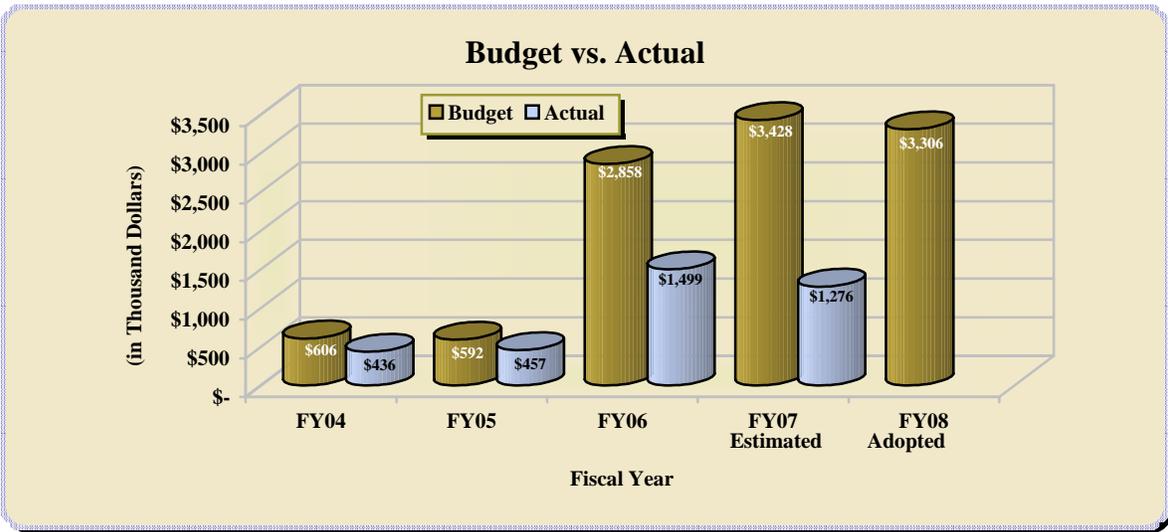


| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|----------------------------------|---------------------|---------------------|----------------------|---------------------|
| Engineering Chief ⁽¹⁾ | \$ 828,909 | \$ 574,600 | \$ 472,573 | \$ 490,400 |
| Planning | 749,768 | 448,400 | 231,940 | 661,900 |
| Design | 417,749 | 776,200 | 525,044 | 466,500 |
| Water Resources | 62,250 | 403,500 | 312,960 | 143,300 |
| Public Services | 254,576 | 130,800 | 210,692 | 205,300 |
| Construction Services | 244,636 | 205,200 | 216,953 | 430,500 |
| Survey Services | 243,495 | 245,500 | 234,042 | 264,200 |
| Environmental Services | - | 643,700 | 522,067 | 643,500 |
| TOTAL | \$ 2,801,382 | \$ 3,427,900 | \$ 2,726,271 | \$ 3,305,600 |

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

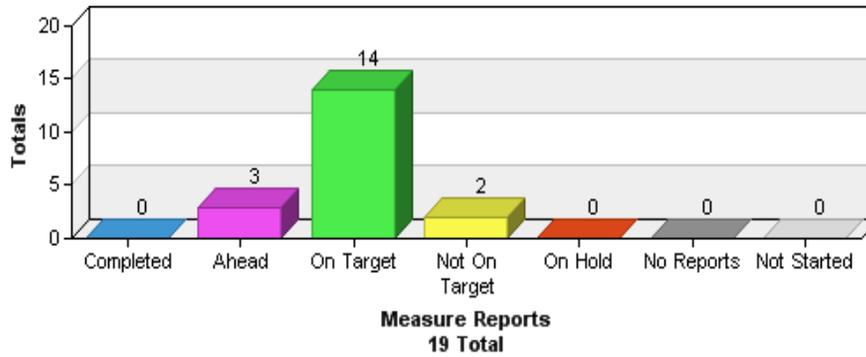
ENGINEERING

| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|-------------------------|---------------------|---------------------|----------------------|---------------------|
| Labor and Benefits | \$ 1,804,167 | \$ 1,865,100 | \$ 1,851,933 | \$ 1,712,200 |
| Travel and Meetings | 16,991 | 33,200 | 13,490 | 33,200 |
| General Office Expense | 13,714 | 20,100 | 8,784 | 20,100 |
| Equipment | 1,438 | 1,500 | 1,086 | 3,700 |
| Fees | 30,659 | 50,000 | 26,090 | 55,000 |
| Services | 895,619 | 1,456,000 | 811,490 | 1,481,400 |
| Training | 1,322 | 2,000 | 215 | - |
| Materials & Maintenance | 37,471 | - | 13,183 | - |
| Total | \$ 2,801,382 | \$ 3,427,900 | \$ 2,726,271 | \$ 3,305,600 |



ENGINEERING PERFORMANCE MEASURES

Fiscal Year 2006-2007



Legend

- Completed
- Ahead of Target
- On Target
- Not on Target
- On Hold
- No Reports
- Not Scheduled to Start Yet

| Activity/Criterion | Fiscal Year 2005-2006 Actual | Fiscal Year 2006-2007 | | Fiscal Year 2007-2008 Target |
|--|------------------------------------|-----------------------|--------|------------------------------------|
| | | Target | Actual | |
| Recycled Water Supply versus Demand - determine the percentage of recycled water demand met with potable water | N/A | 0.0% | 68.9% | 0.0% |
| Grant Funds - measures the percentage of grants awarded compared to relevant grant proposals submitted | N/A | 50.0% | 57.9% | 50.0% |
| Plan Check - measures the time to complete plan check | N/A | 80% or above | 100% | 80% or above |
| CIP Projects Expenditures vs Budget - compares quarterly CIP expenditures with budget | 92.0% | 75% or greater | 87.0% | 75.0% or greater |
| 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 | 90.0% | 100.0% | 90.0% |
| Actual Recycled Water Demand vs Projected Demand - measures the actual recycled water demand against the projected recycled water demand | N/A | 90.0% | 103.8% | 90.0% |

| | | | | |
|--|--------|---------------------|--------|---------------------|
| North District Alternative Water Supply - measures alternative water supply capabilities to meet a 10 day continuous supply outage in the summer | 40% | 100.0% or Greater | 40.0% | 100.0% or Greater |
| South District Alternative Water Supply - measures alternative water supply capabilities to meet a 10 day continuous supply outage in the summer | 110.0% | 100.0% or Greater | 110.0% | 100.0% or Greater |
| Sewer Collection Disposal Capacity - measures sewer disposal capacity versus the total sewer collection rate | N/A | 100.0% | 154.8% | 100.0% |
| Facility Maps - measures the timeliness of inserting maps to CADD | N/A | Less than 1.0 | 0.84 | Less than 1.0 |
| Facility Surveying - measures the timeliness of surveying facilities after project acceptance | N/A | Less than 1.0 | 1.01 | Less than 1.0 |
| Mark out Accuracy - measures the percentage of at-fault hits over time | N/A | Greater than 99.75% | 100.0% | Greater than 99.75% |
| Cathodic Protection Program - inspect and test Cathodic Test Stations for pipelines, and anodes in steel reservoirs | N/A | 90.0% | 100.0% | 90.0% |
| Project Closeout Time - measures the average time between the issuance of a NOSC and NOC for CIP projects in construction | N/A | 90.0% | 100.0% | 90.0% |
| Construction Change Order Rate - measures the rate of change orders for CIP projects under construction | -1.50% | Less than 4% | 0.0% | Less than 4% |
| APCD Compliance - measures the compliance of all engines and generators permitted under APCD | N/A | 95% or above | 100.0% | 95% or above |
| Construction Inspection Productivity Index - measures productivity of construction inspectors | N/A | 90% or better | 130.0% | 90.0% or better |
| Construction Claims - reduce construction claims | -0.19% | Less than 5% | 0.0% | Less than 5.0% |

ENGINEERING

Accomplishments – Fiscal Year 2006-2007

Planning

- Prepared scope of work and Request for Proposal (RFP) for the Water Resources Master Plan and Program Environmental Impact Report and interviewed firms.
- Continued a program to identify and prioritize agency inter-connections.
- Initiated a Feasibility Study for the construction of a Membrane Bioreactor (MBR) in conjunction with the City of Chula Vista and Sweetwater Authority.
- Continued utilization of the Sewer System Management Plan (SSMP) to fulfill annual agency reporting requirements.
- Completed documentation for SCADA instrumentation and drawings for Remote Terminal Units.

Design

- Completed the final draft of the Preliminary Design Report (PDR) for the 36-inch pipeline from Flow Control Facility (FCF) #14 to the Regulatory Site.
- Completed comprehensive cathodic protection survey for the District's pipelines, reservoirs, and miscellaneous facilities.
- Completed design of the Olive Vista Utility Relocation Project and advertised for construction.

Otay Water District to Receive Grant for Recycled Water Pipeline

November 7, 2005

By: Armando Buelna

On November 7, 2005, the Otay Water District (OWD) was all but assured to receive a \$4 million grant from the State Water Resources Control Board (SWRCB). In a ceremony held at the district's headquarters, Gerald D. Secundy, a board member with the SWRCB, formally presented OWD's board of directors with a Facilities Plan Approval letter for the Proposition 50 grant, for which final sign-off is expected in about two weeks. The grant will be used for the district's recycled water supply link, a six-mile pipeline, reservoir and pump station project that connects OWD's recycled water network to the city of San Diego's South Bay Water Reclamation Plant.

Proposition 50, the Water Quality, Supply and Safe Drinking Water Projects, Coastal Wetlands Purchase and Protection Bond Initiative was passed by California voters on November 5, 2002. This \$3.44 billion bond measure includes funding for safe drinking water programs, water supply and reliability programs, wetland restoration, and water recycling. The \$4 million grant, the maximum amount being awarded by the SWRCB, will be applied to the \$40 million cost of the project.

The OWD broke ground on the recycled water supply link project on October 24, 2005. It includes a six-mile long, 30"-inch in diameter transmission pipeline, a 12-million gallon reservoir and 16-million gallons per day pump station. In 2003, OWD signed a landmark 20-year purchase agreement with the city of San Diego for up to ten million gallons per day of high quality recycled water.

"This recycled water pipeline project combined with our purchase agreement with the city of San Diego is setting a historic precedent for Otay and the region," according to Jose Lopez, president of the OWD's board of directors. "When we activate this new pipeline in 2007, up to 20 percent of our district's total annual demand will be met with recycled water."

Note: The pipeline was dedicated and put into service on June 1, 2007. As of June 30th, OWD has received \$3.3 million of the \$4 million grant with the remaining \$0.7 million expected in the next fiscal year

- Completed the design and awarded construction for the following projects:
 - Telegraph Canyon Paving
 - SR 905 Utility Relocation
 - Meter Shop Remodel
- Completed 73 plan checks for potable and recycled water for new developer projects, 30 fire service plan checks, and three sewer plan checks.
- Completed the access road paving for the Lower Otay Pump Station project.
- Awarded five professional service contracts for as-needed design services ranging in value from \$45,000 to \$175,000.

Construction

- Completed the following projects this fiscal year:
 - 30" Recycled Water Pipeline
 - 450 Recycled Water Reservoir/680 Recycled Water Pump Station
 - Meter Shop Remodel
 - Lower Otay Pump Station Access Road
 - 944 Reservoir Paving
 - Sweetwater Springs Agency Interconnection
- Managed Change Order incidence to less than 1% of a project's construction cost.
- Quality assurance and control was exercised for over 75,000 linear feet of pipe on approximately 270 projects constructed by developers. All projects were accomplished with no loss of time due to injuries or accidents.
- Conducted overall quality control management for facilities installed by developers.
- A total of eight CIP projects were constructed or are in progress with a value of \$56 million. This is up \$11 million from last year.
- Conducted constructability review for CIP projects and plan checks for all developer projects.
- Managed project closeout to less than 100 days between Notice of Substantial Completion (NOSC) and Notice of Completion (NOC).

Water Resources

- WaterReuse awarded Otay Water District the "Large Water Agency of the Year Award" for its efforts in recycled water development.
- Received approximately \$3,200,000 thus far, of the \$4,000,000 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 Otay Water District existing recycled water system.

- Finalized the Cooperative Agreement between the City of San Diego and the US Bureau of Reclamation (USBR). The Cooperative Sub Agreement between the City and Otay Water District was approved for the USBR Title XVI funding of over \$90,000,000 for recycled water projects. This includes \$10,000,000 for recycled water projects that have already been constructed as negotiated, which is atypical of the Title XVI process.
- Completed agreement negotiations and obtained the Board of Directors approval for the Otay Flow Control Facility No. 14 improvements to 16 million gallons per day of capacity to be completed by the San Diego County Water Authority as part of the East County Regional Treated Water Improvement Program Agreement.
- Completed the Integrated Water Resources Plan (IRP).
- Participated in joint funding and development of two feasibility studies under Proposition 50 Chapter 6a grant applications for the Otay River Demineralization Groundwater Well development concept and the South County Regional Brine Discharge Conveyance Facility. Both of these \$500,000 projects were awarded a \$250,000 grant.
- Assisted in the preparation of the joint Sweetwater Authority/Otay Water District SDCWA LISA (Local Investigations and Studies Assistance) grant application for the San Diego Formation Conjunctive Use Study effort. Grant award notice is pending.
- Completed the development of the Fiscal Year 2008 Capital Improvement Program (CIP) and integrated the CIP project sheets onto the Inet.

Environmental

- Completed the amendment of the RWCWRF Waste Discharge requirements and acquired a Recycled Water Master Reclamation Permit which was adopted by the Regional Water Quality Control Board.
- Obtained all applicable permits for the 640 Reservoirs Project and the 36-inch La Presa Pipeline Inspection and Repair Project.
- Completed the RFP process for the as-needed environmental services contract and interviewed the three most qualified consultant firms.
- Began a RFP to select an environmental consultant to prepare a sub area plan that will be amended into the Joint Agencies National Community Conservation Plan (NCCP).
- Worked closely with County of San Diego Air Pollution Control District (APCD) to achieve zero violations of the 37 permitted engines in the District.
- Obtained California Environmental Quality Act (CEQA) exemptions for the Olive Vista Utility Relocation and the Telegraph Canyon Road Paving Projects.
- Continued management of the San Miguel Habitat Management Area and the 1004-2 Reservoir Access Road Five-Year Re-vegetation Project.

- Provided on-going environmental support to design, planning, and operations.

Public Service

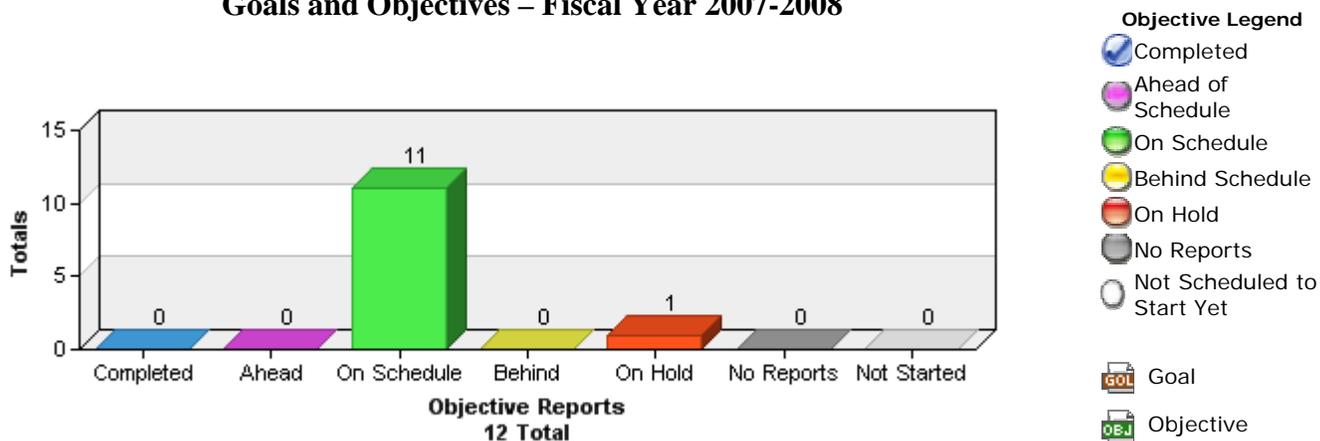
- Processed 893 permits.
- Generated revenue in excess of \$10 million.
- Managed 30 cell site leases that brought in nearly \$800,000 in revenue.
- Processed more than \$520,000 in reimbursement agreements.
- Closed 24 projects and refunded developers their deposits totaling \$76,300.
- Sent 236 letters to developers delinquent in their accounts and collected over \$220,000.
- Established a web page for Public Contractors and Developers to access various Public Service forms, meter fees, and design guidelines.

Survey

- Eighteen parcel maps and 13 subdivision maps with a total of 711 lots were added to the cadastral base map this year. In addition, 200 assessor's parcel map pages were researched and all new parcels updated.
- Backlog of assigned facility data collection on accepted projects has been eliminated.
- Completed 2,547 mark-outs with an accuracy rate of 99.961%.
- Worked on ten CIP projects this year. The work included boundary and topographical surveys, construction staking and construction checks, facility location (pothole) surveys, and composition of easement legal descriptions.
- Drafted 47 easements and exported them to the GIS.

ENGINEERING – BALANCED SCORECARD

Goals and Objectives – Fiscal Year 2007-2008



Engineering Chief

Business Processes



Goal: Develop a comprehensive Knowledge Management Plan



Objectives:



Integrate engineering Document Management with Records Management

Planning

Business Processes



Goal: Meet current and future potable water demands



Objectives:



Improve existing and obtain additional inter-agency connections

Design

Customer



Goal: Expand the Public Education Program



Objectives:



Promote the District's innovative water supply strategies

Water Resources

Customer

 Goal: Maximize recycled water use

 Objectives:  Promote acceptance of recycled water use in other geographic areas within the District's sphere of influence: North District, Rancho San Diego, and Resort Parcel-Village 13 by Otay lakes

Finance

 Goal: Establish the District's long-term financial plans

 Objective:  Implement a long term planning process that results in a sound financial plan

Public Services

Customer

 Goal: Enhance customer communications for increased accessibility and ease of use

 Objectives  Automating access to Public Services information through the District's website

 Goal: Improve District's customer satisfaction focus by evaluating customer feedback

 Objectives  Streamline business process by implementing a flat rate for service installation

Business Processes

 Goal: Streamline service installation process

 Objectives:  Develop contractors list to prepare "Service Installation Request" to help Otay OPS forces

Construction Services

Business Processes

 Goal: Successfully transfer completed project into Operations

 Objectives  Implement construction feedback loop

Survey Services

Customer

 Goal: Enhance the District's customer satisfaction focus by evaluating customer feedback

 Objectives

 Facility location-WSA Markouts, facility verification, GPS an acquisition of facilities that are not in the system

Business Processes

 Goal: Implement field technology solutions

 Objectives

 Implement IMS in Survey Division

Environmental Services

Business Processes

 Goal: Develop cost effective environmental program

 Objectives

 Obtain Official Approval for Otay's Natural Community Conservation Plan

This page intentionally left blank



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.

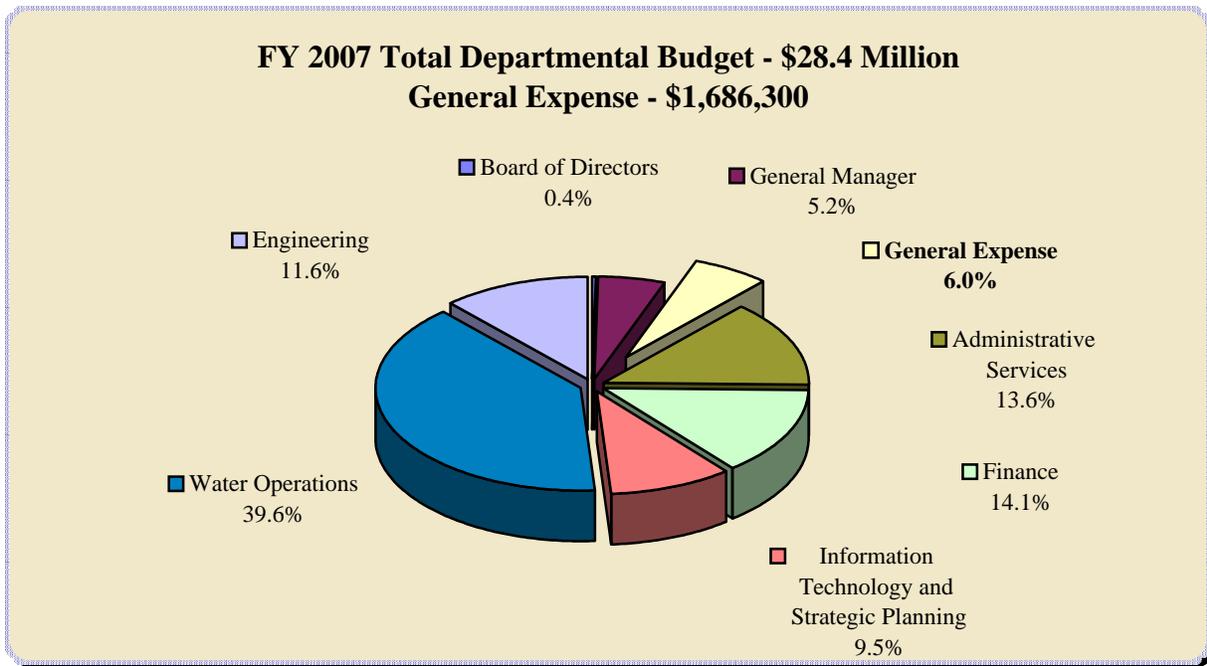
General Expense

1311

GENERAL EXPENSE

Description

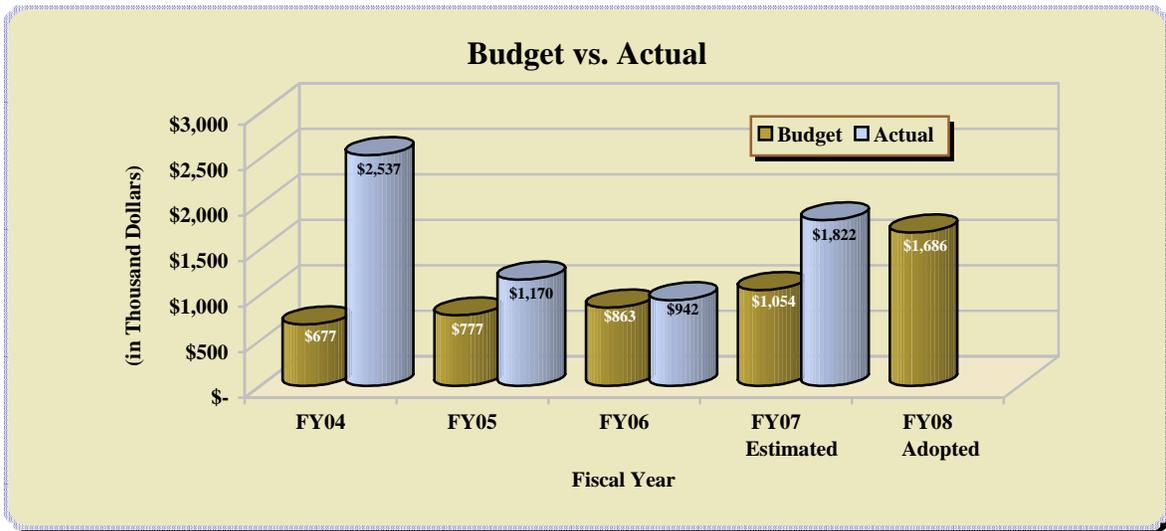
The expenses in this section are general operating expenses not associated with an individual department. The expenses include: legal costs, insurance premiums, changes in accrued employee leave balances and miscellaneous interest. These expenses represent 4% of the total Departmental Budget.



| | FY 2006 Actual | FY 2007 Budget | FY 2007 Estimated | FY 2008 Budget |
|-----------------|-------------------|---------------------|----------------------|---------------------|
| General Expense | \$ 941,598 | \$ 1,054,200 | \$ 1,821,502 | \$ 1,686,300 |
| TOTAL | \$ 941,598 | \$ 1,054,200 | \$ 1,821,502 | \$ 1,686,300 |

GENERAL EXPENSE

| | FY 2006 | FY 2007 | | FY 2008 |
|--------------------|-------------------|---------------------|---------------------|---------------------|
| | Actual | Budget | Estimated | Budget |
| Labor and Benefits | \$ - | \$ 47,000 | \$ 214,202 | \$ 10,000 |
| Fees | 941,598 | 1,006,500 | 1,606,633 | 1,676,300 |
| Interest | - | 700 | 667 | - |
| Total | \$ 941,598 | \$ 1,054,200 | \$ 1,821,502 | \$ 1,686,300 |



This page intentionally left blank





Capital Budget

CAPITAL IMPROVEMENT PROGRAM

The District provides water service to a population of approximately 190,000 which is expected to ultimately increase to 277,000. The growth rate projected by the San Diego Association of Governments (SANDAG) and incorporated in the Water Resources Master Plan is nearly 2.7% per annum for the next 10-15 years. However, based on current economic conditions, staff is projecting a 2.1% growth rate in population and equivalent dwelling units (EDUs) for Fiscal Year 2008. The EDU is the demand created by a typical single-family dwelling requiring a 3/4" water meter. A business creates a demand equivalent to several single-family dwellings, thus the term equivalent dwelling unit. Presently, our projected 48,650 customer accounts equate to a projected 75,301 EDUs. The ultimate population of 277,000 will result in an estimated 114,000 EDUs and an average annual water demand of approximately 56 million gallons per day (MGD).

To accommodate this growth requires that the District invest \$500 million in capital assets through ultimate build-out. The Fiscal Year 2008 Capital Budget is \$34.5 million and the five-year Capital Improvement Program (CIP) totals \$157 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

Capital Purchases and Facilities

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 223. Capital facility projects are items that exceed \$10,000 or \$20,000 for infrastructure related items and have a useful life of at least two years.

The Capital Improvement Program (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 Capital Improvement Program includes the following three categories of improvement projects:

Expansion

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

Betterment

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

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

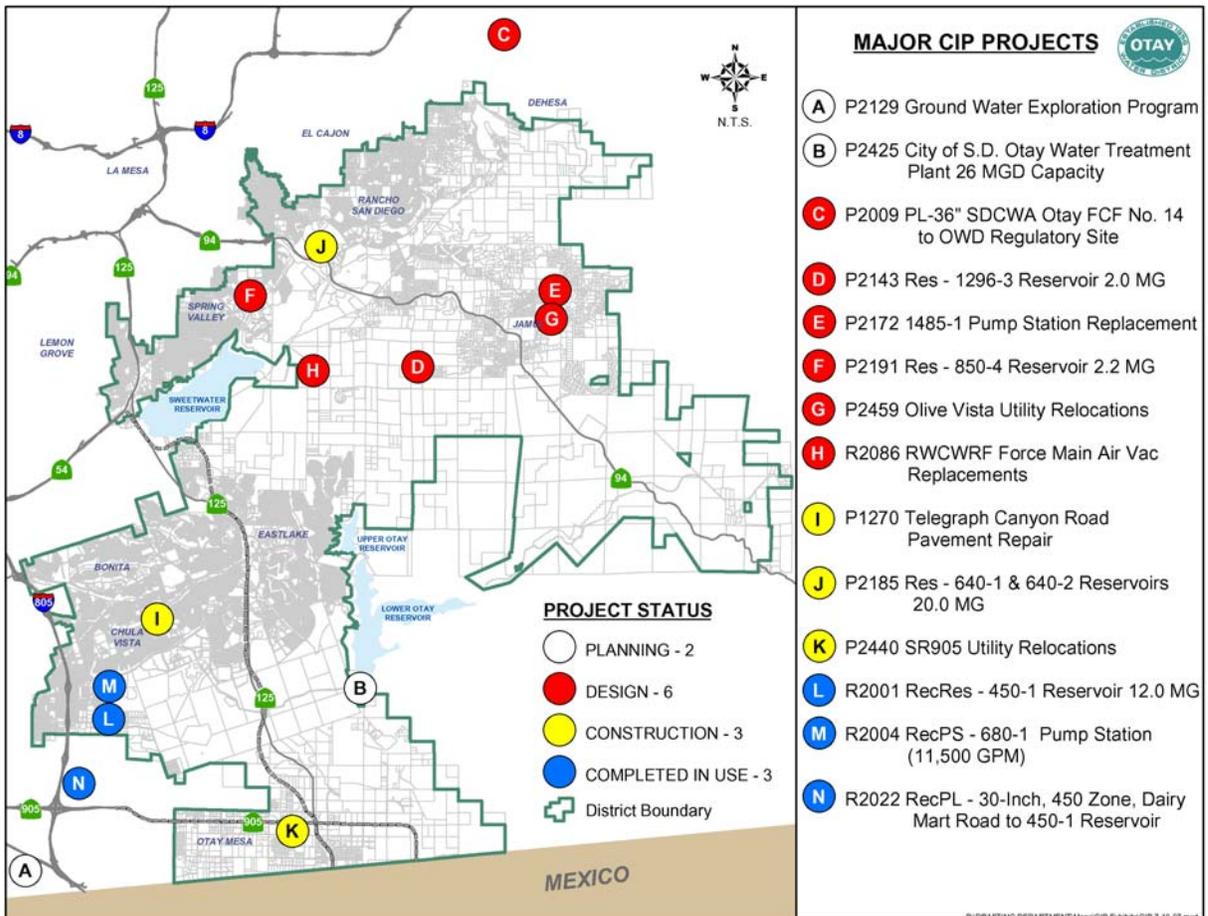
The 2008 Fiscal Year CIP Budget contains 82 projects. The cost of the work planned for Fiscal Year 2008 is \$34.5 million. Of the 82 projects planned for Fiscal Year 2008, 27 are designated as reimbursable projects, totaling \$1.5 million. These projects are built by developers and reimbursed by the District.

MAJOR CIP PROJECTS

The following shows how the \$34.5 million of projects are broken down into four categories:

- | | |
|-------------------------------------|-----------------|
| 1. Capital facilities | \$ 24.9 million |
| 2. Replacement or renewal projects | \$ 6.7 million |
| 3. Capital purchase projects | \$ 1.4 million |
| 4. Developer reimbursement projects | \$ 1.5 million |

The Five-Year CIP and Fiscal Year 2008 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 COMPLETED



450-1 Reservoir / 680-1 Pump Station

Reservoir and the Pump Station were completed in April 2007.



Key Component: 12,000 GPM (17.3 MGD) pump station delivering recycled water from 450-1 Reservoir to the 680 and 944 recycled water pressure zones.

Schedule: Construction started in late November 2005. Original contract completion date was April 1, 2007.

Cost: The construction project budget was \$18.3 million and the amount spent to complete this project was \$17.7 million.

Significant Issues: Construction was accepted in June 2007 and the pump station is in use.



30" Recycled Water Pipeline Project
Project was awarded for construction in May 2005. This pipeline will deliver recycled water from South Bay to the 450/680 Reservoir and Pump Station. Project is expected to be completed in the fall of 2006.

Key Component: Approximately 6 miles of 30" pipeline for recycled water from City of San Diego's South Bay Water Reclamation Plant (SBWRP) to Otay's 450-1 Reservoir and 680-1 Pump Station.

Schedule: Full Notice to Proceed given on September 28, 2005. Contract completion date was December 23, 2006.

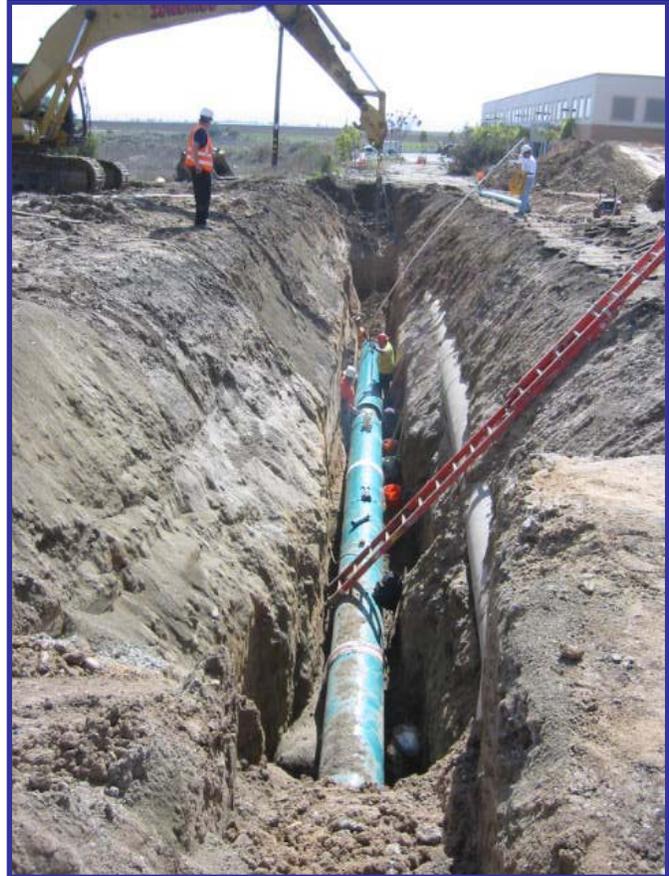
Cost: The construction project budget was \$23.6 million and the amount spent to complete this project was \$22.9 million.

Significant Issues: Construction was accepted in May 2007 and the pipeline is in use.

FLAGSHIP CIP PROJECTS CONSTRUCTION

SR-905 Utility Relocations

Project started on September 7, 2006 and is expected to be completed in the winter of 2007. This project includes the relocation of three pipelines crossing under SR-905 and the reconditioning of two seismic valve vaults.



Telegraph Canyon Road Paving Project

Project started on June 6, 2007 and is expected to be completed in early August 2007. The project includes numerous trench line pavement rehabilitations along Telegraph Canyon Road and repaving excavations at the 980-2 Pump Station site.



Site Grading



Inlet/Outlet Valve Vault

**640-1 and 640-2
Reservoirs Project
(20.0 MG)**

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

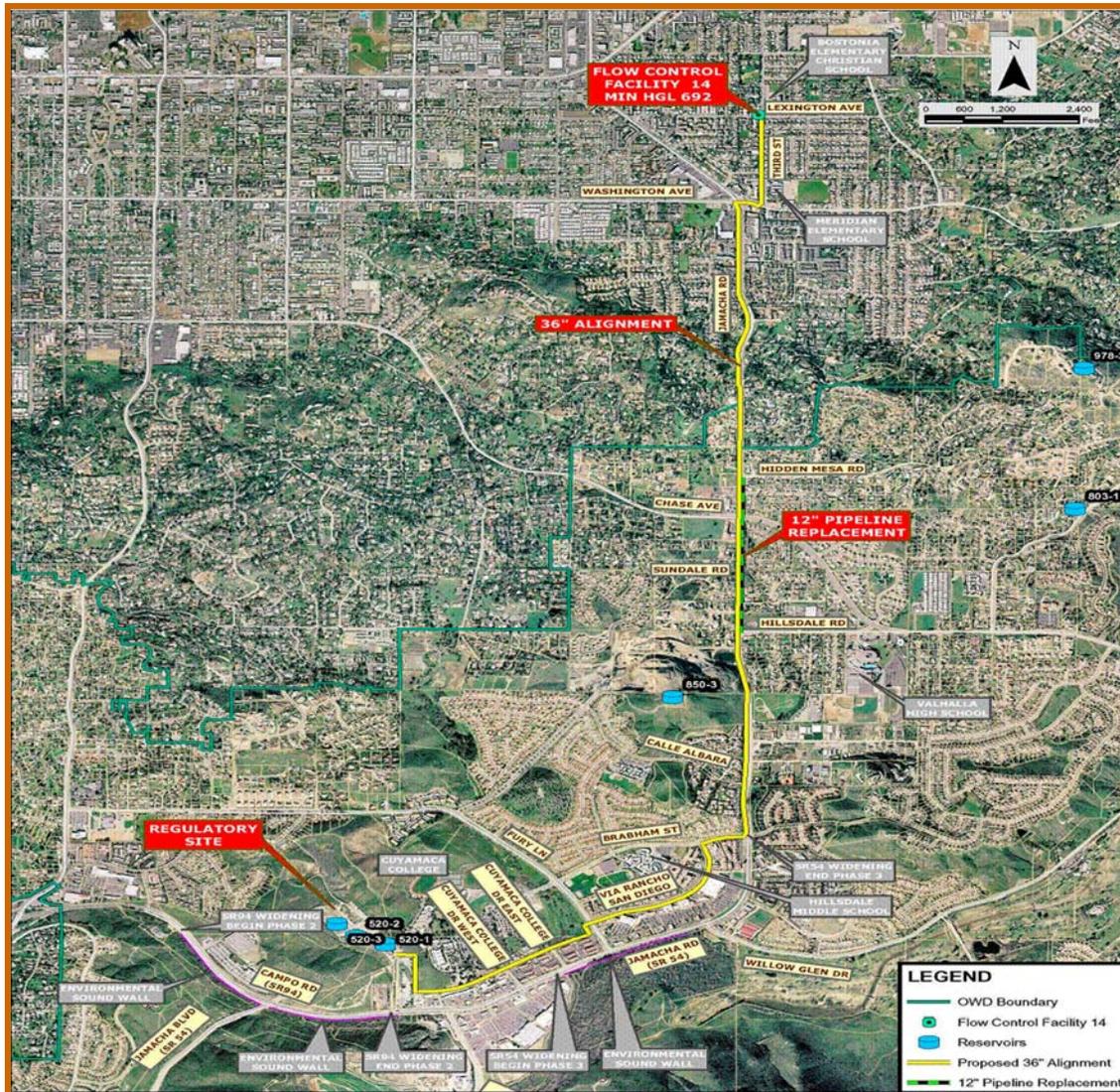
Key Component: Construction for two (2) 10-MG prestressed circular reservoirs and associated piping.

Schedule: Notice to Proceed was issued in January 2007. Project completion date is expected to be in November 2008.

Cost: The construction project budget is 29% spent - \$7.3 million out of a total budget of \$24.9 million. The total project budget is \$29.5 million, of which \$9.4 million or 32%, has been spent.

Significant Issues: 640-1; Installed 42" outlet piping and poured concrete encasement under first reservoir. 640-2; Placed 10' surcharge over the engineering fill of the second reservoir. Began laying the inlet and outlet piping.

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 preliminary design report and reviewing alternative alignments.
- Cost:** The construction project budget is \$18.5 million.
- Significant Issues:** District received final draft of the preliminary design report and design is on schedule.

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: Otay Board approved the SD17 POU with the City, SDCWA and Otay. Draft SD17 Agreement under negotiation.

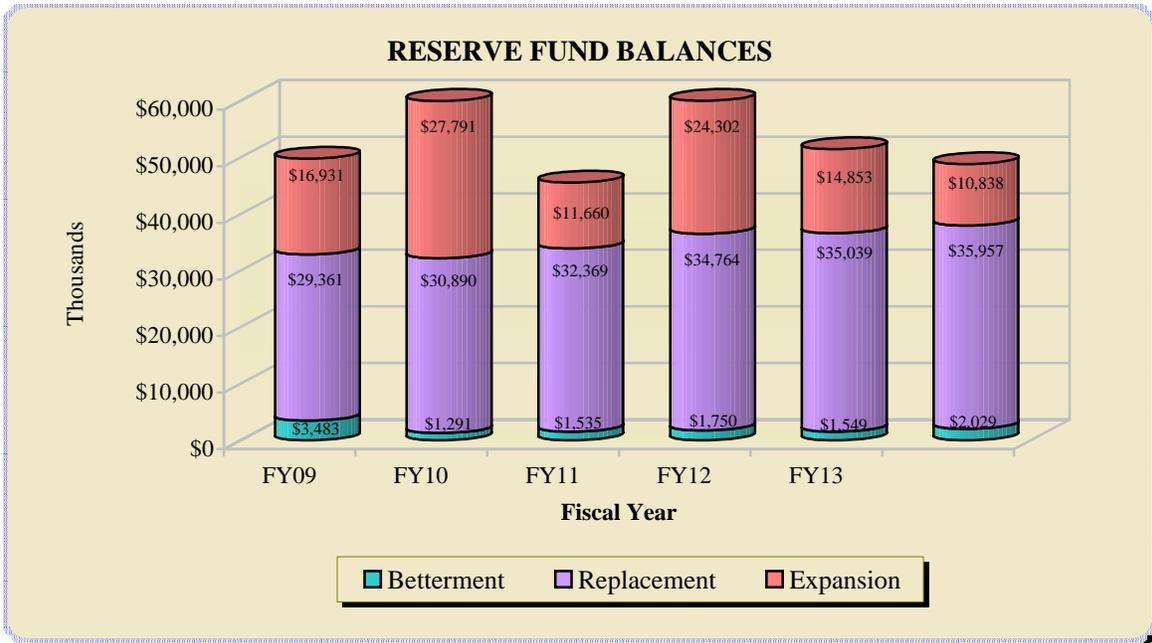
Cost: Only staff time has been budgeted; project cost is dependent upon negotiations outcome.

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

The City has an opportunity to obtain a \$6,500,000 Matching Proposition 50 Grant for SD17 consisting of a pump station at the Alvarado WTP to pump up to 60 MGD into SDCWA Pipeline No. 4. SD17 is estimated to cost \$20,000,000. The District desires to acquire 50 MGD capacity. This project will provide an opportunity to the City to generate revenue from surplus capacity. For the District, this is an opportunity to save cost on water treatment while providing an additional source of water supply.

CIP RESERVE FUNDS

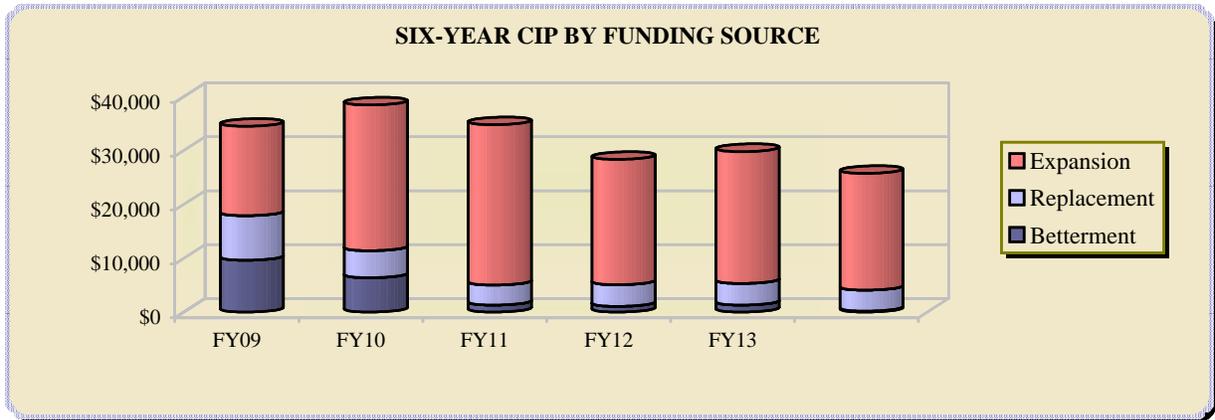
The CIP Reserve Funds presentation, shown on the following pages, is designed to provide an understanding of how the funding of CIPs is expected to financially influence the District over the next six years. The financial impacts are based on the CIP program and its funding sources, including fund transfers 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.



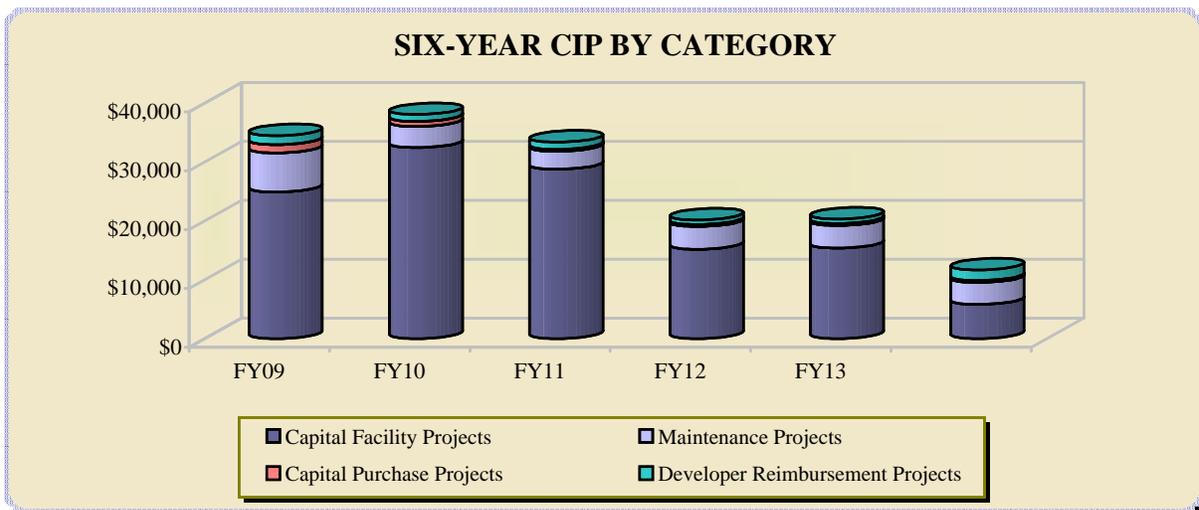
| (Thousand \$000s) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | Total |
|-----------------------------------|-------------------|------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| Capacity Fees | \$ 7,448 | \$ 8,652 | \$ 9,560 | \$ 9,804 | \$ 13,009 | \$ 13,472 | \$ 61,945 |
| Debt financing | - | 29,970 | - | 26,570 | - | - | 56,540 |
| Grants | 2,300 | 4,550 | 4,750 | 1,450 | 250 | 250 | 13,550 |
| Interest | 2,771 | 2,833 | 2,774 | 2,847 | 3,164 | 2,920 | 17,310 |
| Betterment Charges | 1,056 | 1,078 | 1,100 | 1,123 | 1,146 | 1,170 | 6,673 |
| Temporary Meters | 1,204 | 1,209 | 1,212 | 1,215 | 1,220 | 1,223 | 7,283 |
| Availability (Betterment Portion) | 558 | 569 | 581 | 593 | 605 | 618 | 3,524 |
| Transfer from General Fund | 14,145 | 6,930 | 8,335 | 9,245 | 11,030 | 13,555 | 63,240 |
| Interfund Transfers | 1,140 | 435 | 144 | 419 | 195 | 181 | 2,514 |
| Total Sources | 30,621 | 56,227 | 28,457 | 53,266 | 30,619 | 33,389 | 232,578 |
| CIP Projects | 34,463 | 38,442 | 34,769 | 28,334 | 29,787 | 25,723 | 191,518 |
| Betterment Fees for Maintenance | 73 | 76 | 78 | 80 | 83 | 85 | 474 |
| Debt Service | 3,331 | 5,658 | 6,450 | 7,754 | 8,496 | 8,580 | 40,268 |
| Developer Services | 1,415 | 1,420 | 1,425 | 1,427 | 1,433 | 1,437 | 8,557 |
| Interfund Transfers | 1,140 | 435 | 144 | 419 | 195 | 181 | 2,514 |
| Total Uses | 40,422 | 46,031 | 42,865 | 38,014 | 39,993 | 36,006 | 243,331 |
| Net Sources (Uses) | \$ (9,800) | \$ 10,196 | \$ (14,408) | \$ 15,252 | \$ (9,375) | \$ (2,617) | \$ (10,753) |

CIP FUNDING SOURCE AND CATEGORY

| (Thousands \$000s) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | TOTAL |
|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Expansion | \$ 16,600 | \$ 27,040 | \$ 29,764 | \$ 23,273 | \$ 24,507 | \$ 21,683 | \$142,866 |
| Betterment | 9,599 | 6,371 | 1,259 | 1,066 | 1,276 | 166 | 19,737 |
| Replacement | 8,265 | 5,032 | 3,746 | 3,995 | 4,004 | 3,874 | 28,916 |
| TOTAL | \$ 34,463 | \$ 38,442 | \$ 34,769 | \$ 28,334 | \$ 29,787 | \$ 25,723 | \$191,518 |



| (Thousands \$000s) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | TOTAL |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Capital Facility Projects | \$ 24,901 | \$ 32,441 | \$ 28,777 | \$ 15,180 | \$ 15,350 | \$ 5,800 | \$122,449 |
| Maintenance Projects | 6,645 | 3,581 | 3,045 | 3,849 | 3,845 | 3,720 | 24,685 |
| Capital Purchase Projects | 1,406 | 870 | 320 | 320 | 320 | 320 | 3,556 |
| Developer Reimbursement Projects | 1,511 | 1,150 | 1,215 | 800 | 800 | 1,825 | 7,301 |
| Subtotal | 34,463 | 38,042 | 33,357 | 20,149 | 20,315 | 11,665 | 157,991 |
| FY 2009 Through FY 2013 Projects | - | 400 | 1,412 | 8,185 | 9,472 | 14,058 | 33,527 |
| TOTAL | \$ 34,463 | \$ 38,442 | \$ 34,769 | \$ 28,334 | \$ 29,787 | \$ 25,723 | \$191,518 |



CAPITAL IMPROVEMENT PROGRAM (\$1,000s)

The 2008 Fiscal Year CIP Budget contains 82 projects. The costs for the work planned for Fiscal Year 2008 is \$34.5 million. Of the 82 projects planned for Fiscal Year 2008, 18 are designated as reimbursable projects with estimated costs of \$1.5 million. These projects are built by developers and reimbursed by the District.

| CIP No. | Description | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | Total |
|-------------------------------------|---|---------------|---------------|---------------|---------------|---------------|--------------|----------------|
| CAPITAL FACILITY PROJECTS | | | | | | | | |
| P2009 | PL - 36-Inch, SDCWA Otay FCF No. 14 to Regulatory Site | \$ 1,150 | \$ 9,770 | \$ 6,865 | \$ 45 | \$ - | \$ - | \$ 17,830 |
| P2033 | PL - 16-Inch, 1296 Zone, Melody Road - Campo/Presilla | 5 | 185 | 1,160 | 470 | - | - | 1,820 |
| P2037 | Res - 980-3 Reservoir 15 MG | 200 | 200 | 800 | 4,500 | 7,825 | 50 | 13,575 |
| P2038 | PL - 12-Inch, 978 Zone, Jamacha, Hidden Mesa, and Chase Upsize and Replacements | 980 | 505 | - | - | - | - | 1,485 |
| P2040 | Res - 1655-1 Reservoir 0.5 MG | 1 | 1 | 85 | 700 | 795 | - | 1,582 |
| P2129 | Groundwater Exploration Program | 10 | 10 | 15 | 25 | 630 | 1,280 | 1,970 |
| P2143 | Res - 1296-3 Reservoir 2 MG | 1,200 | 1,800 | 50 | - | - | - | 3,050 |
| P2172 | PS - 1485-1 Pump Station Replacement | 200 | 1,200 | 500 | - | - | - | 1,900 |
| P2185 | Res - 640-1 Reservoir 20.0 MG | 15,000 | 6,000 | 500 | - | - | - | 21,500 |
| P2190 | PL - 10-Inch, 1485 Zone, Jamul Highlands Road to Presilla Drive | 5 | 5 | 120 | 95 | - | - | 225 |
| P2191 | Res - 850-4 Reservoir 2.2 MG | 750 | 1,800 | 100 | - | - | - | 2,650 |
| P2258 | PS - Lower Otay Pump Station Phase 1 (9,000 GPM) | 50 | - | - | - | 2,000 | 3,670 | 5,720 |
| P2267 | 36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations | 150 | - | - | - | - | - | 150 |
| P2295 | 624-1 Reservoir Disinfection Facility, Inlet/Outlet/Bypass and 613-1 Reservoir Demolition | 550 | - | - | - | - | - | 550 |
| P2318 | PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections | - | 200 | 345 | - | - | - | 545 |
| P2370 | Res - Dorchester Reservoir and Pump Station Demolition | - | - | - | 65 | 70 | - | 135 |
| P2387 | PL - 12-Inch, 832 Zone, Steele Canyon Road - Via Caliente/Campo | 270 | 185 | - | - | - | - | 455 |
| P2450 | Otay River Groundwater Well Demineralization/Development | 115 | 85 | 800 | 3,600 | 400 | - | 5,000 |
| P2451 | Rosarito Desalination Facility Conveyance System | 5 | 5 | 15 | 80 | 95 | 800 | 1,000 |
| 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 | 200 | - | - | - | - | - | 200 |
| P2463 | South Bay Regional Concentrate Conveyance Feasibility Study | 25 | 100 | - | - | - | - | 125 |
| P2464 | San Diego 17 Pump Station and Flow Control Facility | 750 | 7,500 | 8,000 | - | - | - | 16,250 |
| P2465 | Regulatory Site Material Storage Bins | 30 | 220 | - | - | - | - | 250 |
| P2466 | Regional Training Facility | 100 | 100 | - | - | - | - | 200 |
| P2467 | San Diego Formation Groundwater Feasibility Study | 800 | 800 | - | - | - | - | 1,600 |
| R2001 | RecRes - 450-1 Reservoir 12 MG | 50 | - | - | - | - | - | 50 |
| R2004 | RecPS - 680-1 Pump Station (11,500 GPM) | 50 | - | - | - | - | - | 50 |
| R2034 | RecRes - 860-1 Reservoir 4 MG | - | 100 | 395 | 1,800 | 1,500 | - | 3,795 |
| R2053 | RWCWRF - R.O. Building Remodel and Office Furniture | 305 | 50 | - | - | - | - | 355 |
| R2077 | RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway | 50 | 50 | 378 | 1,000 | 1,500 | - | 2,978 |
| R2081 | RecPL - 20-Inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1 | 900 | 300 | - | - | - | - | 1,200 |
| R2087 | RecPL - 20-Inch, 944 Zone, Wueste Road - Olympic/Otay WTP | 50 | 50 | 2,000 | 1,400 | 85 | - | 3,585 |
| R2088 | RecPL - 20-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservoir | 50 | 50 | 149 | 1,000 | 250 | - | 1,499 |
| R2089 | North District Recycled Water Regulatory Compliance | 195 | - | - | - | - | - | 195 |
| R2090 | MBR Water Recycling Facility Feasibility Study | 40 | - | - | - | - | - | 40 |
| R2091 | RecPS - 944-1 Pump Station Upgrade | 325 | - | - | - | - | - | 325 |
| R2092 | Dis - 450-1 Reservoir Disinfection Facility | 300 | 800 | - | - | - | - | 1,100 |
| S2016 | Solar Panel Installation Phase I | 10 | 25 | 200 | 200 | 200 | - | 635 |
| 40 | Total Capital Facility Projects | 24,901 | 32,441 | 28,777 | 15,180 | 15,350 | 5,800 | 122,449 |
| REPLACEMENT/RENEWAL PROJECTS | | | | | | | | |
| P2356 | PL - 12-Inch, 803 Zone, Jamul Drive Permastran Pipeline Replacement | 420 | 266 | - | - | - | - | 686 |
| P2366 | APCD Engine Replacements and Retrofits | 160 | 170 | 180 | 190 | 220 | - | 920 |
| P2382 | Safety and Security Improvements | 90 | 90 | 90 | 89 | - | - | 359 |
| P2416 | SR-125 Utility Relocations | 190 | - | - | - | - | - | 190 |
| P2422 | Agency Interconnections | 300 | 300 | 300 | 300 | 300 | 300 | 1,800 |
| P2440 | I-905 Utility Relocations | 360 | 300 | - | - | - | - | 660 |
| P2441 | NG/RAMAR Meter Replacements | 100 | - | - | - | - | - | 100 |

CAPITAL IMPROVEMENT PROGRAM (\$1,000s)

| CIP No. | Description | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | Total |
|---|--|------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| REPLACEMENT/RENEWAL PROJECTS | | | | | | | | |
| P2447 | Information Technology Meter Routing | 80 | - | - | - | - | - | 80 |
| P2453 | SR-11 Utility Relocations | 5 | 165 | 125 | 680 | 655 | 670 | 2,300 |
| P2455 | Data Cleansing Project | 160 | - | - | - | - | - | 160 |
| 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 |
| P2459 | Olive Vista Drive Utility Relocations | 1,100 | - | - | - | - | - | 1,100 |
| P2468 | Finance Department Office Remodel | 50 | - | - | - | - | - | 50 |
| R2086 | RWCWRF Force Main AirVac Replacements and Road Improvements | 670 | - | - | - | - | - | 670 |
| S2012 | SVSD Outfall and RSD Replacement and OM Reimbursement | 605 | 365 | 270 | 340 | 350 | 360 | 2,290 |
| S2015 | Calavo Lift Station Replacement | 585 | - | - | - | - | - | 585 |
| 17 | Total Replacement/Renewal Projects | 6,645 | 3,581 | 3,045 | 3,849 | 3,845 | 3,720 | 24,685 |
| CAPITAL PURCHASE PROJECTS | | | | | | | | |
| P2282 | Vehicle Capital Purchases | 210 | 220 | 220 | 220 | 220 | 220 | 1,310 |
| P2286 | Field Equipment Capital Purchases | 91 | 100 | 100 | 100 | 100 | 100 | 591 |
| P2353 | Information Technology System Enhancements and Replacements | 365 | 350 | - | - | - | - | 715 |
| P2361 | Information Technology GIS Enhancements | 150 | 100 | - | - | - | - | 250 |
| P2363 | Information Technology Utility Billing, Data Management, and Financial System | 200 | 100 | - | - | - | - | 300 |
| P2443 | Information Technology Mobile Services | 240 | - | - | - | - | - | 240 |
| P2461 | Records Management System Upgrade | 150 | - | - | - | - | - | 150 |
| 7 | Total Capital Purchase Projects | 1,406 | 870 | 320 | 320 | 320 | 320 | 3,556 |
| DEVELOPER REIMBURSEMENT PROJECTS | | | | | | | | |
| P2070 | PL - 16-Inch, 980 Zone, Pacific Bay Homes Road- Proctor Valley/Rolling Hills Hydro | 550 | - | - | - | - | - | 550 |
| P2121 | PL - 16-Inch, 711 Zone, Hunte Parkway - Olympic/EastLake | 1 | - | - | - | - | - | 1 |
| P2133 | PL - 16-Inch, 711 Zone, EastLake Parkway - Olympic/Birch | 1 | - | - | - | - | - | 1 |
| P2164 | PL - 20-Inch, 980 Zone, EastLake Parkway - Olympic/Birch | 1 | - | - | - | - | - | 1 |
| P2169 | PL - 20-Inch, 980 Zone, EastLake Parkway - Birch/Rock Mountain | 325 | - | - | - | - | - | 325 |
| P2325 | PL - 10" to 12" Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy | 130 | - | - | - | - | - | 130 |
| P2367 | PL - 16-Inch, 980 Zone, Olympic Parkway - East Palomar/EastLake | - | 850 | 415 | - | - | - | 1,265 |
| P2397 | PL - 12-Inch, 711 Zone, EastLake Parkway - Birch/Rock Mountain | 175 | - | - | - | - | - | 175 |
| P2414 | PL - 12" to 16" Oversize, 803 Zone, Dehesa Road - Dehesa Meadow/OWD Bndy | 10 | - | - | - | - | - | 10 |
| P2435 | PL - 16-Inch, 711 Zone, Birch Road - La Media/SR-125 | 30 | - | - | - | - | - | 30 |
| R2031 | RecPL - 12-Inch, 944 Zone, EastLake Parkway - Olympic/Birch | 1 | - | - | - | - | - | 1 |
| R2033 | RecPL - 12-Inch, 944 Zone, Birch Road - La Media/EastLake | 50 | - | - | - | - | - | 50 |
| R2040 | RecPL - 12-Inch, 680 Zone, Hunte Parkway - Olympic/EastLake | 1 | - | - | - | - | - | 1 |
| R2041 | RecPL - 8-Inch, 944 Zone, EastLake Parkway - Birch/Rock Mountain | 1 | - | - | - | - | - | 1 |
| R2043 | RecPL - 8-Inch, 944 Zone, Rock Mountain Road - La Media/SR-125 | 235 | - | - | - | - | - | 235 |
| R2058 | RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta | - | 300 | 300 | 300 | 300 | 480 | 1,680 |
| R2082 | RecPL - 24-Inch, 680 Zone, Olympic Parkway - Village 2/Heritage | - | - | 500 | 500 | 500 | 246 | 1,746 |
| R2084 | RecPL - 20-Inch, 680 Zone, Village 2 - Heritage/La Media | - | - | - | - | - | 1,099 | 1,099 |
| 18 | Total Developer Reimbursement Projects | 1,511 | 1,150 | 1,215 | 800 | 800 | 1,825 | 7,301 |
| 82 | Total - FY 2008 Projects | 34,463 | 38,042 | 33,357 | 20,149 | 20,315 | 11,665 | 157,991 |
| 12 | FY 2009 Through FY 2013 Projects | - | 400 | 1,412 | 8,185 | 9,472 | 14,058 | 33,527 |
| | Grand Totals | \$ 34,463 | \$ 38,442 | \$ 34,769 | \$ 28,334 | \$ 29,787 | \$ 25,723 | 191,518 |

CIP JUSTIFICATION AND IMPACT ON OPERATING BUDGET

As the District grows and constructs new capital assets, the cost to maintain these new assets will be added to the operating budget as they are brought into service. To determine the cost to maintain these new assets, the District looks at the cost of maintaining similar assets through the Infrastructure Management System and financial system. Costs are tracked by three main infrastructure asset groups of pipes, pump stations and reservoirs, as well as capital purchases and other types. Pipes typically have only operation and maintenance (O&M) costs associated with them, pump stations have O&M as well as power cost, and reservoirs have O&M and chemical cost. Each of the capital purchases and other types has its own unique O&M cost ⁽¹⁾.

When the new assets are built or acquired for expansion or betterment, it is assumed that there will be new operating costs associated with them. Some projects such as the Automated Meter Reading program actually reduce operating costs through the automation process.

| Projected Incremental Operating Expenditures | | | | | | | | | | |
|--|---|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| CIP No. | Description | J/FS ⁽²⁾ | Total | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | Total |
| CAPITAL FACILITY PROJECTS | | | | | | | | | | |
| P2009 | PL - 36-Inch, SDCWA Otay | E | \$ 8,700 | \$ - | \$ - | \$ 4,400 | \$ 8,700 | \$ 9,000 | \$ 9,300 | \$ 31,400 |
| P2033 | PL - 16-Inch, 1296 Zone | E | 2,200 | - | - | - | - | 2,200 | 2,300 | 4,500 |
| P2037 | Res - 980-3 Reservoir | E | 28,200 | - | - | - | - | - | 28,200 | 28,200 |
| P2038 | PL - 12-Inch, 978 Zone | B/R | 1,500 | - | - | 1,500 | 1,500 | 1,500 | 1,500 | 6,000 |
| P2040 | Res - 1655-1 Reservoir | B | 900 | - | - | - | - | 500 | 900 | 1,400 |
| P2143 | Res - 1296-3 Reservoir | E | 3,800 | - | - | 1,900 | 3,800 | 3,900 | 4,000 | 13,600 |
| P2172 | PS - 1485-1 Pump Station | B/R | 7,400 | - | - | 7,400 | 7,600 | 7,800 | 8,000 | 30,800 |
| P2185 | Res - 640-1 Reservoir | E/B | 37,600 | - | - | 18,800 | 37,600 | 38,700 | 39,900 | 135,000 |
| P2190 | PL - 10-Inch, 1485 Zone | B | 400 | - | - | - | - | 400 | 400 | 800 |
| P2191 | Res - 850-4 Reservoir | E/B | 4,200 | - | - | 4,200 | 4,300 | 4,400 | 4,500 | 17,400 |
| P2295 | 624-1 Reservoir Disinfect | E/B/R | 8,400 | 8,400 | 8,700 | 9,000 | 9,300 | 9,600 | 9,900 | 54,900 |
| P2318 | PL - 20-Inch, 657 Zone | B | 100 | - | - | - | 100 | 100 | 100 | 300 |
| P2357 | PS - 657-1/850-1 Pump Station | B | (44,400) | - | - | - | - | - | (44,400) | (44,400) |
| P2370 | Res - Dorchester Reservoir | B | (4,800) | - | - | - | - | - | (4,800) | (4,800) |
| P2387 | PL - 12-Inch, 832 Zone | B | 600 | - | - | 600 | 600 | 600 | 600 | 2,400 |
| P2447 | IT Meter Routing | E/R | 3,600 | - | 3,600 | 3,700 | 3,800 | 3,900 | 4,000 | 19,000 |
| P2450 | Otay River Groundwater Well | E | 27,900 | - | - | - | - | - | 27,900 | 27,900 |
| P2457 | East Otay Mesa Groundwater | E | 11,200 | - | - | - | - | 11,200 | 11,500 | 22,700 |
| P2458 | AMR Retrofit | B/R | (226,400) | (36,500) | (34,500) | (34,700) | (39,300) | (40,400) | (41,000) | (226,400) |
| P2464 | San Diego 17 PS and Flow Control Facility | E | 308,200 | - | - | - | 308,200 | 317,400 | 326,900 | 952,500 |
| R2001 | RecRes - 450-1 Reservoir | E | 11,800 | 11,800 | 12,200 | 12,600 | 13,000 | 13,400 | 13,800 | 76,800 |
| R2004 | RecPS - 680-1 Pump Station | E | 170,100 | 170,100 | 175,200 | 180,500 | 185,900 | 191,500 | 197,200 | 1,100,400 |
| R2034 | RecRes - 860-1 Reservoir | E | 7,500 | - | - | - | - | - | 7,500 | 7,500 |
| R2077 | RecPL - 24-Inch, 860 Zone | E | 2,700 | - | - | - | - | - | 2,700 | 2,700 |
| R2081 | RecPL - 16-Inch, 944 Zone | E | 2,700 | - | 2,700 | 2,800 | 2,900 | 3,000 | 3,100 | 14,500 |
| R2087 | RecPL - 16-Inch, 944 Zone | E | 1,500 | - | - | - | - | 1,500 | 1,500 | 3,000 |
| R2088 | RecPL - 24-Inch, 860 Zone | E | 2,400 | - | - | - | - | 2,400 | 2,500 | 4,900 |
| R2091 | RecPS - 944-1 Pump Station Upgrade | E/B | 107,900 | - | 107,900 | 111,100 | 114,400 | 117,800 | 121,300 | 572,500 |
| R2092 | Dis - 450-1 Res Disinfection Facility | B | 10,700 | - | - | 10,700 | 11,000 | 11,300 | 11,600 | 44,600 |
| Total Capital Facility Projects | | | \$ 704,800 | \$ 153,800 | \$ 275,800 | \$ 334,500 | \$ 673,400 | \$ 711,700 | \$ 750,900 | \$ 2,900,100 |

(1) O&M costs include labor and benefits, materials, and overhead.

(2) J/FS - Justification and Funding Source - Some projects have multiple funding sources as indicated by a slash (/):

E - Expansion

B - Betterment

R - Replacement

Note: See pages 237-238 for complete description of CIP projects.

CIP JUSTIFICATION AND IMPACT ON OPERATING BUDGET

| Projected Incremental Operating Expenditures | | | | | | | | | | |
|---|-------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| CIP No. | Description | J/FS ⁽²⁾ | Total | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | Total |
| CAPITAL PURCHASE PROJECTS | | | | | | | | | | |
| P2286 | Field Equipment Capital Purch | R | \$ 1,500 | \$ 800 | \$ 2,000 | \$ 4,100 | \$ 8,400 | \$ 17,300 | \$ 35,600 | \$ 68,200 |
| P2443 | IT Mobile Services | E/R | 18,000 | - | 18,000 | 18,500 | 19,100 | 19,700 | 20,300 | 95,600 |
| Total Capital Purchase Projects | | | 19,500 | 800 | 20,000 | 22,600 | 27,500 | 37,000 | 55,900 | 163,800 |
| DEVELOPER REIMBURSEMENT PROJECTS | | | | | | | | | | |
| P2070 | PL - 16-Inch, 980 Zone | E | 1,000 | - | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 5,000 |
| P2107 | PL - 12-Inch, 711 Zone | E | 1,700 | - | - | - | - | - | 1,700 | 1,700 |
| P2121 | PL - 16-Inch, 711 Zone | E | 2,900 | 2,900 | 3,000 | 3,100 | 3,200 | 3,300 | 3,400 | 18,900 |
| P2133 | PL - 16-Inch, 711 Zone | E | 1,900 | 1,900 | 2,000 | 2,100 | 2,200 | 2,300 | 2,400 | 12,900 |
| P2134 | PL - 16-Inch, 711 Zone | E | 1,000 | - | - | - | 1,000 | 1,000 | 1,000 | 3,000 |
| P2164 | PL - 20-Inch, 980 Zone | E | 900 | 900 | 900 | 900 | 900 | 900 | 900 | 5,400 |
| P2169 | PL - 20-Inch, 980 Zone | | 900 | - | 900 | 900 | 900 | 900 | 900 | 4,500 |
| P2325 | PL - 10" to 12" Oversize | E | 2,300 | - | 2,300 | 2,400 | 2,500 | 2,600 | 2,700 | 12,500 |
| P2367 | PL - 16-Inch, 980 Zone | E | 3,300 | - | - | 1,700 | 3,300 | 3,400 | 3,500 | 11,900 |
| P2397 | PL - 12-Inch, 711 Zone | | 300 | - | 300 | 300 | 300 | 300 | 300 | 1,500 |
| P2402 | PL - 12-Inch, 624 Zone | E | 1,000 | - | - | - | - | 1,000 | 1,000 | 2,000 |
| P2414 | PL - 12" to 16" Oversize | E | 2,400 | 2,400 | 2,500 | 2,600 | 2,700 | 2,800 | 2,900 | 15,900 |
| P2435 | PL - 16-Inch, 711 Zone | E | 1,400 | - | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | 7,000 |
| R2028 | RecPL - 8-Inch, 680 Zone | | 2,400 | - | - | - | - | 2,400 | 2,500 | 4,900 |
| R2031 | RecPL - 12-Inch, 944 Zone | E | 900 | 900 | 900 | 900 | 900 | 900 | 900 | 5,400 |
| R2033 | RecPL - 12-Inch, 944 Zone | E | 2,100 | - | 2,100 | 2,200 | 2,300 | 2,400 | 2,500 | 11,500 |
| R2040 | RecPL - 12-Inch, 680 Zone | E | 2,900 | 2,900 | 3,000 | 3,100 | 3,200 | 3,300 | 3,400 | 18,900 |
| R2041 | RecPL - 8-Inch, 944 Zone | E | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | 8,400 |
| R2042 | RecPL - 8-Inch, 944 Zone | E | 900 | - | - | - | 500 | 900 | 900 | 2,300 |
| R2043 | RecPL - 8-Inch, 944 Zone | E | 1,200 | - | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 6,000 |
| R2047 | RecPL - 12-Inch, 680 Zone | E | 1,400 | - | - | - | 700 | 1,400 | 1,400 | 3,500 |
| R2058 | RecPL - 16-Inch, 860 Zone | E | 5,400 | - | - | - | - | - | 5,400 | 5,400 |
| R2082 | RecPL - 24-Inch, 680 Zone | E | 3,100 | - | - | - | - | - | 3,100 | 3,100 |
| R2083 | RecPL - 20-Inch, 680 Zone | E | 700 | - | 700 | 700 | 700 | 700 | 700 | 3,500 |
| R2085 | RecPL - 20-Inch, 680 Zone | E | 900 | - | - | - | - | - | 900 | 900 |
| Total Developer Reimbursement Projects | | | 51,400 | 13,300 | 23,600 | 25,900 | 30,300 | 35,500 | 47,400 | 176,000 |
| Total Operating Budget Cost Impact | | | \$ 775,700 | \$ 167,900 | \$ 319,400 | \$ 383,000 | \$ 731,200 | \$ 784,200 | \$ 854,200 | \$ 3,239,900 |

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 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | Total |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Operations and Maintenance | \$ 13,700 | \$ 68,700 | \$ 95,900 | \$ 163,700 | \$ 189,700 | \$ 241,900 | \$ 773,600 |
| Energy | 144,800 | 241,000 | 254,500 | 524,500 | 549,100 | 547,100 | 2,261,000 |
| Chemical | 9,400 | 9,700 | 32,600 | 43,000 | 45,400 | 65,200 | 205,300 |
| Total Operating Budget Cost Impact | \$ 167,900 | \$ 319,400 | \$ 383,000 | \$ 731,200 | \$ 784,200 | \$ 854,200 | \$ 3,239,900 |

FY 2008 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 | | | |
| 1 | GPS Survey Equipment based on an estimate from Trimble | \$ 54,000 | N |
| | Total Field Equipment - Engineering Development | <u>54,000</u> | |
| Operations | | | |
| 9 | Valve exercise machine for the valve program | \$ 15,000 | N |
| 11 | John Deere Backhoe Hydraulic Hammer with installation and attachments | 21,500 | N |
| | Total Field Equipment - Operations | <u>36,500</u> | |
| Total Field Equipment | | <u>90,500</u> | |
| Vehicles | | | |
| Operations | | | |
| 10 | 2008 Mid-size Super Cab 4 door pickup truck or equivalent. | 25,000 | R |
| 2 | 2008 Full-size Superduty 4 door Supercab diesel or equivalent. | 30,000 | R |
| 3 | 2008 Full-size Superduty 4 door Supercab diesel or equivalent. | 30,000 | R |
| 4 | 2008 Mid-size Super Cab 4 door or equivalent. | 25,000 | R |
| 5 | 2008 Mid-size Super Cab 4 door or equivalent. | 25,000 | R |
| 6 | 2008 Mid-size Super Cab 4 door or equivalent. | 25,000 | R |
| 7 | 2008 Mid-size Super Cab 4 door or equivalent. | 25,000 | R |
| 8 | 2008 Mid-size Super Cab 4 door or equivalent. | 25,000 | R |
| Total Vehicles | | <u>210,000</u> | |
| Total Field Equipment and Vehicles Budget | | <u><u>\$ 300,500</u></u> | |

N - New

R - Replacement



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.

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 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.

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.

GLOSSARY

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 Reservation Charge: A Metropolitan Water District charge passed on by the San Diego County Water Authority 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.

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

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 the Metropolitan Water District of Southern California (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.

GLOSSARY

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 \$.032 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.

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.

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 \$23.30 per month for each connection for fire protection service.

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 comprised 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.

GLOSSARY

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.

Irrigation Penalties: Potable water service provided solely for irrigation of landscaping will receive a seasonably-adjusted allotment of water equal to 48" per year for the actual area to be irrigated. Use of water in excess of the allotment shall be subject to penalty pricing. The first violation is no surcharge. The second violation is 100% surcharge on excess water used. The third violation is 400% surcharge. The fourth and subsequent violations are 800% surcharge.

Late Charges/Penalties: Charges and penalties are imposed on delinquent accounts. A late payment charge of 5% of the total 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.

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 \$3.21 (\$3.53 effective 1/1/07) per month for each unit in a multiple unit residential, commercial or industrial building.

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.

GLOSSARY

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.

Reclaimed Water Rates: Non-potable water service provided from water produced by the District's reclamation plant and other non-potable sources. Reclaimed 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 reclaimed 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.

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.

RTS: Readiness-to-Serve Charge was adopted by the Metropolitan Water District (MWD) in Fiscal 1996. The charge will serve as a foundation of fixed revenue for MWD. It will cover 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.

GLOSSARY

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: A Metropolitan Water District charge passed on by the San Diego County Water Authority 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.

Water Capacity Fees: Charges paid by customers to connect to a District water system for potable or reclaimed 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.

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.

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 |
| 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 |
| ESC | Emergency Storage Charge |
| FCF | Flow Control Facility |

LIST OF ACRONYMS

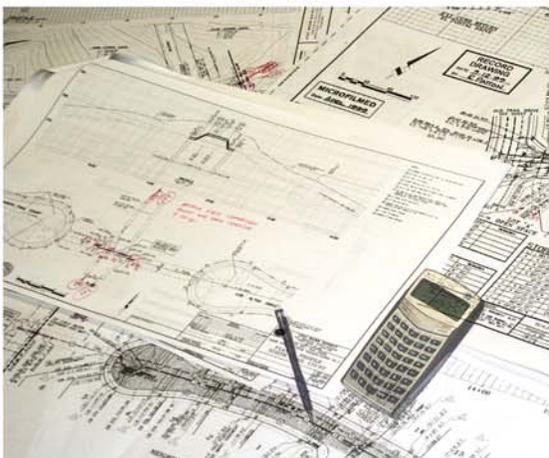
| | |
|-------|---|
| FHLMC | Freddie Mac or Federal Home Loan Mortgage Corporation |
| FNMA | Fannie Mae or Federal National Mortgage Association |
| FTE | Full-time Equivalent |
| FY | Fiscal Year |
| GASB | Government Accounting Standards Board |
| GFOA | Government Financial Officers Association |
| 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 |
| 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 |
| MGP | Million Gallons per |
| MH | Man-hours |
| MOU | Memorandum of Understanding |
| MSCP | Multiple Species Conservation Program |
| MSRB | Municipal Securities Rulemaking Board |
| MWD | Metropolitan Water District |
| MWWD | Metropolitan Waste Water Department (City of San Diego) |
| NCCP | Natural Community Conservation Plan |
| NEPA | National Environmental Protection Act |

LIST OF ACRONYMS

| | |
|------------|--|
| 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 |
| OIS | Otay Information System |
| 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 |
| SPSD | Spring Valley Sanitation District |
| SS | Suspended Solids |
| SSMP | Sewer System Management Plan |
| SWA | Sweetwater Authority |
| SWRCB | State Water Resource Control Board |
| USBR | U.S. Bureau of Reclamation |
| UWMP | Urban Water Management Plan |
| WADG | Water Agency Design Guideline |
| WD | Water District |

LIST OF ACRONYMS

| | |
|------|-----------------------------|
| WER | Work Environment Review |
| WRMP | Water Resources Master Plan |
| WTP | Water Treatment Plant |



Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2096
www.otaywater.gov

