

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.

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 is a publicly-owned 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 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 a fair share of the District's costs of water acquisitions and the operation and maintenance of the public facilities.

ORGANIZATIONAL STRUCTURE

The General Manager manages the day-to-day District operations and reports directly to the Board of Directors. Two Assistant General Managers report to the General Manager. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning while the other oversees the departments of Water Operations, and Engineering and Development Services. These and other lines of reporting are shown on the organization chart on page 8.

**Otay Water District
2554 Sweetwater Springs Blvd
Spring Valley, CA 91978
(619) 670-2222
www.otaywater.gov**

GENERAL INFORMATION

For Fiscal Year 2007, the District will have a staff of 174.75 full-time equivalent employees under the leadership of the General Manager.

The District provides water service to approximately 39% of its service area with a population of more than 189,000 people. This percentage increases as the District's service area continues to develop. The District is projected to deliver approximately 36,900 acre-feet of potable water to about 47,670 potable customer accounts and to ultimately serve 277,000 people, creating an average demand of 56 million gallons per day (MGD). The rate of growth, as projected by the San Diego Association of Governments (SANDAG) for San Diego County, is approximately 5.8% per year over the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 1.8% for Fiscal Year 2007.

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. 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 provider of recycled water in the County.

The District also owns and operates a wastewater collection system providing public sewer service to approximately 4,570 customer accounts (or 6,600 Assigned Service Units) 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 is a publicly-owned 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 and utility services to an arid region of the southeastern San Diego County. For 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, including the cover and pages intentionally left blank, courtesy of Manny Ramirez, also see pages 14, 16, 70 and 73; Soak City, courtesy of City of Chula Vista, page 14; Aqueduct, courtesy of Bureau of Reclamation, page 95.

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.

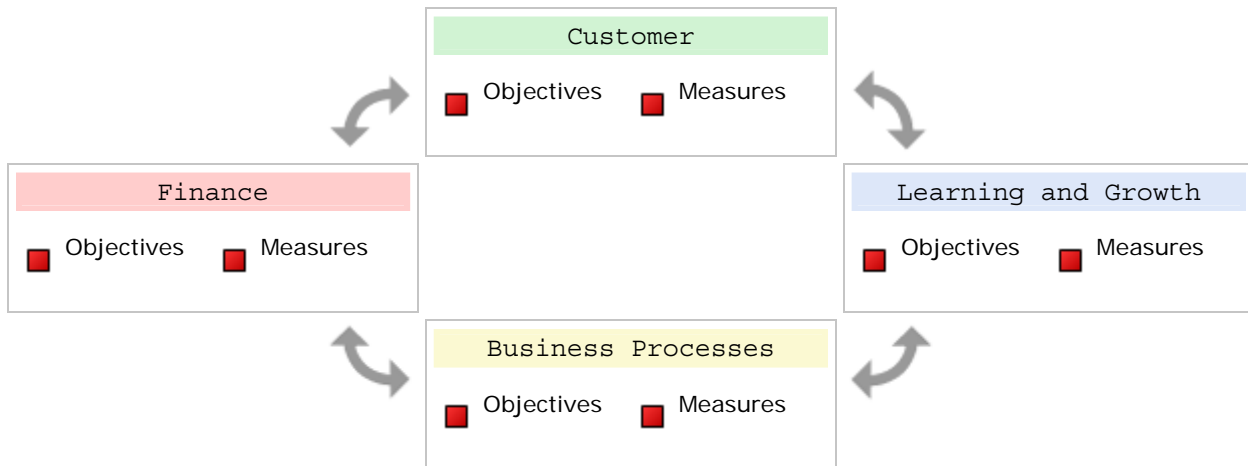
Otay Water District Employees



Dedicated to Community Service

BALANCED SCORECARD

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



Customer

Customers are the most important aspect of its business. The District provides its customers with a variety of public water utility services. The surrounding community and customers trust that the District will provide for a 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. 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 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 Otag 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 a range of 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.

◆ Stewards of Public Infrastructure

- Conduct best practice preventative maintenance activities.

◆ Business Efficiency

- Fully integrate the Otay Information System (OIS).
- Complete business process reengineering effort.
- Develop a comprehensive Knowledge Management Plan.
- Implement field technology solutions.
- Implement the Legal Plan.

BALANCED SCORECARD

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

- Generate a Long-Term Staffing Plan.
- Develop 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.

◆ Staff Inclusion

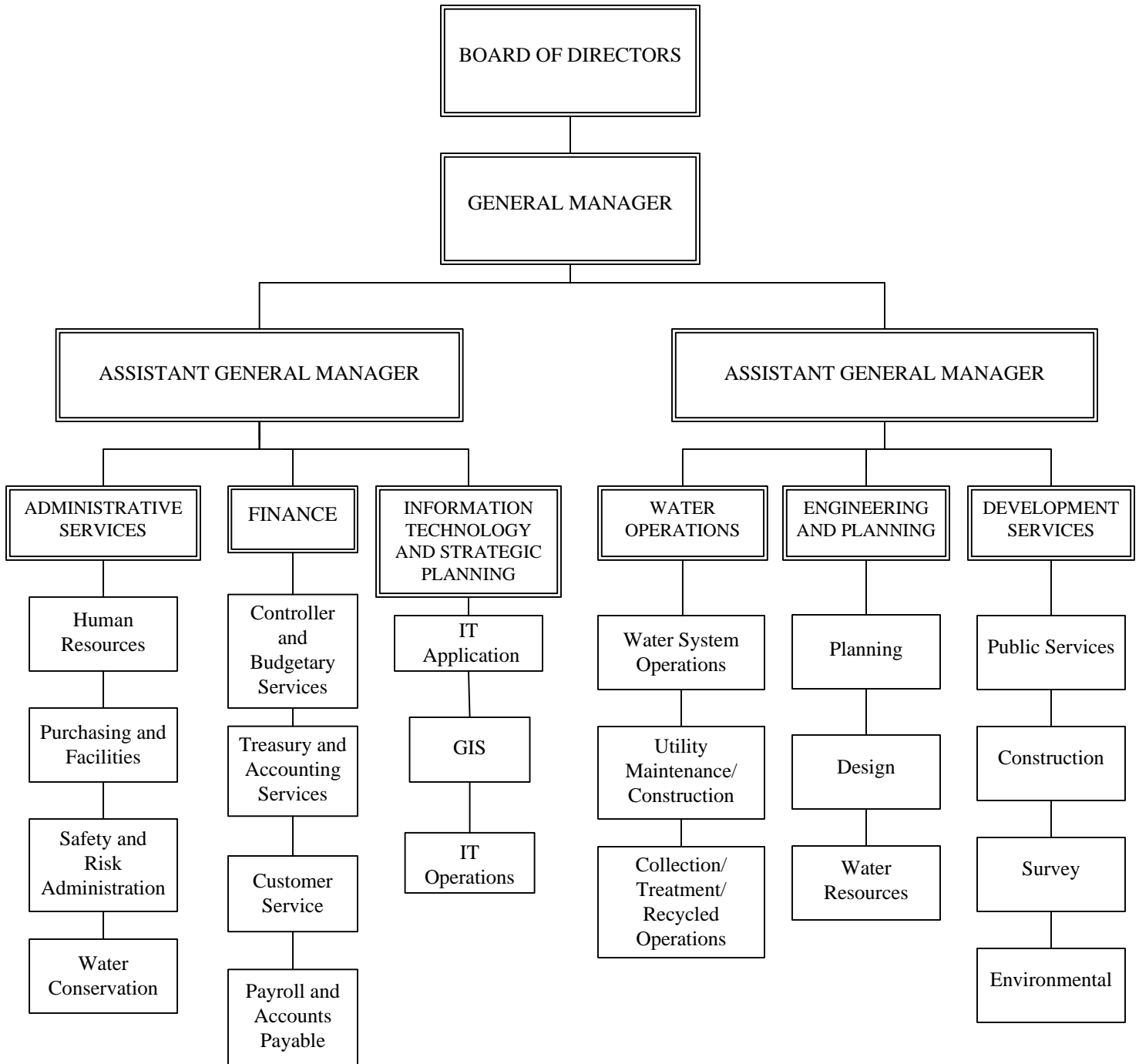
- Formalize Collaborative Improvement Teams (CIT).

◆ 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.

Budget Foreword

This introductory section contains description 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.

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, 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 12 and 13.

February 1, 2006	Budget workbooks and instructions for Operating and Capital Budget are distributed to departments.
February 24, 2006	Departments submit requests for new personnel and/or personnel reclassifications to Human Resources.
March 6, 2006	Human Resources Department performs a preliminary review of submitted requests.
March 17, 2006	General Manager approves new personnel and personnel reclassification requests.
March 10, 2006	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 15, 2006 to March 22, 2006	<ol style="list-style-type: none"> 1. Finance Department reviews Operating Budget and reconciles with departments. 2. Engineering and Planning Department reviews and prepares CIP budget and submits to Finance for review and incorporation into the Rate Model to calculate proposed rates.
April 26, 2006	General Manager performs preliminary review of the budget.
May 15, 2006	Final review of the proposed budget and rates is done by the General Manager.
May 30, 2006	Board of Directors adopts Fiscal Year 2007 Operating and Capital Budgets.

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, then 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 3%
- pass-through rate increases for cost imposed on the District by the wholesale water providers
- accurate projections of capital budget needs
- reserve funding in accordance with the Reserve Policy to meet future growth demands
- funding of the Strategic Plan initiatives as categorized into the Balanced Scorecard perspectives

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 budget adoption.

Position budgeting is used for the salaries and benefits portion of the budget. 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 by the District's wholesale water providers, and sewer system charges, growth in customer accounts, and other factors such as weather. Additionally, all general revenue and expense budgets are calculated using trend analysis and any external factors that may affect these items.

The Engineering and Planning 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, plus future costs to complete the project. Costs are adjusted for scope changes as well as construction cost increases. Engineering and Planning 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. Inflatons for cost and volume changes are input into the Rate Model and cost and rates are calculated for the current fiscal year plus five subsequent years. 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 the Finance, Engineering and Planning Departments presenting to the Board of Directors their recommendations at a special budget meeting in May of each year. 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 with the CIP Budget.

The Budget Report is intended as a financial guide and may be modified by the Board of Directors during Fiscal Year 2007.

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, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.



RESOLUTION NO. 4079

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2007 OPERATING AND CAPITAL
BUDGET

WHEREAS, the Otay Water District Board of Directors have been presented with a budget for the operation of Otay Water District for Fiscal Year 2007; 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

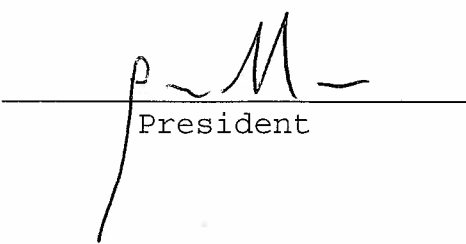
NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Operating and Capital Budget for the operation of the District, incorporated herein by reference, is hereby adopted as the District's budget for Fiscal Year 2007.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 30th day of May 2006, by the following vote:

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

ATTEST:


District Secretary


President

This page intentionally left blank

