

Budget Summary

The Operating Budget is summarized and presented in the Operating Budget Summary on page 38. Also included in this section is the Operating Budget Summary by System on page 39, the Fund Balance Summary by Fund on page 41, and the Revenues and Expenditures by Fund on pages 42 and 43. The Revenues, Expenditures, and Sources and Uses of Funds by Type for all funds are presented on page 44. For Fiscal Year 2010, 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 rate increases.

Operating Budget Summary

The Operating Budget for Fiscal Year 2010 is \$75,716,500 in comparison to the previous fiscal year budget of \$67,062,700. The \$8,653,800 increase is primarily due to unprecedented water supply rate increases of 21.1% from MWD and 18.1% from CWA because of the high cost of supply programs, higher energy and operating costs.

The District uses a rate model to build the budget for the current fiscal year and five subsequent years. To do this, estimates for growth, water costs, and others such as rainfall, and average water consumption per customer, are used throughout the model to calculate various revenue and expense amounts in each year. The Engineering Department is primarily responsible for the growth estimates as described in the budget process on pages 20 and 21. Water cost estimates are obtained from District water suppliers, CWA and MWD, and power cost inflators from San Diego Gas and Electric, the District power supplier. Labor and benefit cost inflators are based on the Memorandum of Understanding with the District's labor union, as well as estimates from District health providers. Other general inflators are derived from statistical data from consumer price indexes for the region.

Revenues

Potable Water Sales

Potable water sales represent revenue collected from the sale of water, including: system charges, energy charges, and penalties. It is estimated that 33,300 acre-feet of potable water will be sold during Fiscal Year 2010. Budgeted revenues from water sales are projected to be \$56,474,500, an increase of 14.7% over the previous year's budget due to two years of unprecedented increases in water costs and the need to pass these costs along to the District's customers. 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 4,560 acre-feet of recycled water to customers at a discount of 15% of the potable irrigation rate. The FY 2010 sales revenue budget of \$7,602,500, an increase of \$1,258,000 from FY 2009, includes the incentive credits provided by MWD and the CWA.

Sewer Revenues

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

Meter Fees

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

Capacity Fee Revenues

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

Betterment Fees for Maintenance

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

Annexation Fees

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

Tax Revenues

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

Non-Operating Revenues

Non-operating revenues are revenues that are not directly related to the operation of a water or 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.

Transfer from OPEB

This money is available to fund operations from the OPEB trust fund. In Fiscal Year 2008, the District established a reserve through PERS, lowering the amount necessary to reserve for OPEB expenses allowing the excess to be available to the general fund.

Expenditures

Potable Water Purchases

Water purchases indicate the expense of purchasing 35,557 acre-feet for the District's potable water supply. A provision has been made to allow 2,255 acre-feet of water for District usage, leakage, and evaporation.

Recycled Water Purchases

Recycled water purchases indicate the expense of purchasing 3,356 acre-feet for the District's recycled water supply. The District no longer budgets for a potable supplement to the recycled system due to the 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 166 Full-time Equivalent (FTE) employees. Labor costs are reduced by the number of hours that are charged to non-operating Capital Improvement Program (CIP) and developer deposit projects. The detail of actual personnel and payroll related expenses is included in the Departmental Operating Budget section.

Administrative Expenses

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

Materials and Maintenance

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

Expansion Reserves

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

Betterment Reserves

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

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.

Transfers

These transfers are necessary to ensure that each fund pays its fair share of costs, or to achieve required fund balances per the District's policy. The Transfer Out for Prop 1A is an anticipated loan to the state of the District's 1% property tax revenue.

Operating Budget Summary by Business

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

Fund Balance Summary by Fund

This schedule shows each fund's balance at June 30, 2009, and the projected balance for June 30, 2010, based on the results of the budget and Rate Model. This includes transfers between funds made to meet target levels as outlined in the Reserve Policy.

Revenues and Expenditures by Fund

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

Revenues and Expenditures by Type – All Funds

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

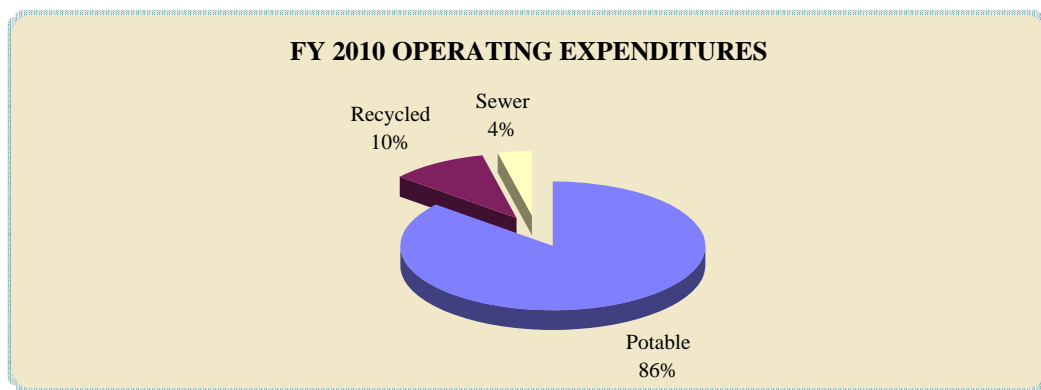
Operating Budget Summary - General Fund

	FY 2008	FY 2009		FY 2010	Budget	Variance
	Actual	Budget	Estimated	Budget	Variance	%
REVENUES						
Potable Water Sales	\$ 44,804,854	\$ 49,229,400	\$ 46,160,394	\$ 56,474,500	\$ 7,245,100	14.7%
Recycled Water Sales	5,948,258	6,344,500	6,238,358	7,602,500	1,258,000	19.8%
Sewer Revenues	2,414,886	2,145,300	2,184,523	2,244,800	99,500	4.6%
Meter Fees	79,790	103,800	71,448	45,600	(58,200)	(56.1%)
Capacity Fee Revenues	1,480,165	1,301,900	1,521,707	1,397,000	95,100	7.3%
Betterment Fees for Maintenance	802,021	895,900	661,998	571,400	(324,500)	(36.2%)
Annexation Fees	526,435	483,600	392,349	120,500	(363,100)	(75.1%)
Tax Revenues	4,024,645	4,137,300	4,054,895	3,852,600	(284,700)	(6.9%)
Non-operating Revenues	2,297,826	1,633,100	4,881,548	1,585,600	(47,500)	(2.9%)
Interest	1,038,425	667,800	377,829	322,900	(344,900)	(51.6%)
Transfer from OPEB	-	810,000	-	1,030,000	220,000	27.2%
General Fund Draw Down	-	120,100	-	469,100	349,000	290.6%
TOTAL REVENUES	63,417,304	67,872,700	66,545,049	75,716,500	7,843,800	11.6%
EXPENDITURES						
Potable Water Purchases	22,253,362	25,183,600	22,778,545	28,033,700	2,850,100	11.3%
Recycled Water Purchases	1,278,084	1,490,800	1,299,976	1,312,000	(178,800)	(12.0%)
CWA - Infrastructure Access Charge	1,090,228	1,227,500	1,227,408	1,344,900	117,400	9.6%
CWA - Customer Service Charge	949,222	1,049,800	1,049,470	1,148,800	99,000	9.4%
CWA - Emergency Storage Charge	1,507,895	1,774,700	1,774,776	2,246,600	471,900	26.6%
MWD - Capacity Reservation Charge	570,980	602,800	603,072	628,800	26,000	4.3%
MWD - Net RTS and Standby Charges	564,193	665,100	665,087	1,140,700	475,600	71.5%
Subtotal - Water Costs	28,213,964	31,994,300	29,398,334	35,855,500	3,861,200	12.1%
Power	2,647,885	2,780,500	2,905,101	2,637,100	(143,400)	(5.2%)
Labor and Benefits	16,462,021	17,185,400	16,440,651	17,212,800	27,400	0.2%
Administrative Expenses	6,153,593	5,935,100	5,941,924	5,329,200	(605,900)	(10.2%)
Materials & Maintenance	4,112,180	3,872,800	3,482,653	3,801,600	(71,200)	(1.8%)
Expansion Reserve	2,590,200	5,016,700	5,016,700	1,610,000	(3,406,700)	(67.9%)
Betterment Reserve	3,432,900	-	-	3,810,000	3,810,000	100.0%
Replacement Reserve	235,400	277,900	277,900	3,660,000	3,382,100	1217.0%
Transfer to Sewer GF	-	-	-	200,000	200,000	100.0%
Transfer Out/In Prop 1A	-	-	-	270,300	270,300	100.0%
Transfer to General Fund Reserve	-	-	-	1,330,000	1,330,000	100.0%
TOTAL EXPENDITURES	63,848,142	67,062,700	63,463,263	75,716,500	8,653,800	12.9%
EXCESS REVENUES (EXPENSE)	\$ (430,837)	\$ 810,000	\$ 3,081,786	\$ -	\$ (810,000)	(100.0%)

Note: FY 2009 Budget has been restated to present Board-authorized use of designated OPEB Reserve.

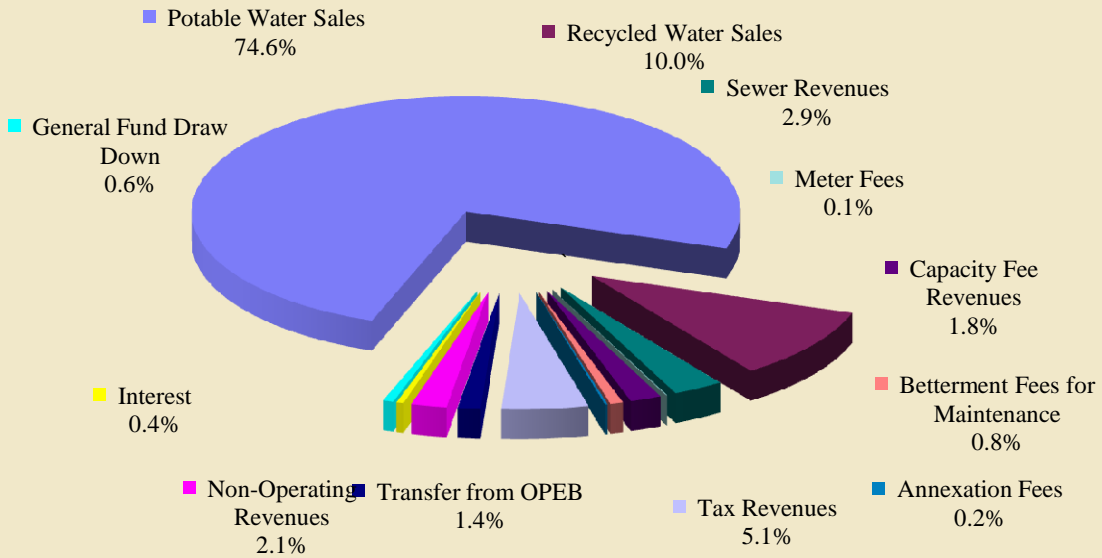
FY 2010 Operating Budget Summary by System

	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 56,474,500	\$ -	\$ -	\$ 56,474,500
Recycled Water Sales	-	7,602,500	-	7,602,500
Sewer Revenues	-	-	2,244,800	2,244,800
Meter Fees	25,600	20,000	-	45,600
Capacity Fee Revenues	1,397,000	-	-	1,397,000
Betterment Fees for Maintenance	571,400	-	-	571,400
Annexation Fees	120,500	-	-	120,500
Tax Revenues	3,802,300	-	50,300	3,852,600
Non-operating Revenues	1,556,500	-	29,100	1,585,600
Interest	286,400	8,000	28,500	322,900
Transfer from OPEB	1,030,000	-	-	1,030,000
General Fund Draw Down	-	-	469,100	469,100
TOTAL REVENUES	65,264,200	7,630,500	2,821,800	75,716,500
EXPENDITURES				
Water Purchases (CWA)	28,033,700	-	-	28,033,700
Water Purchases (CSD)	-	1,312,000	-	1,312,000
CWA - Infrastructure Access Charge	1,344,900	-	-	1,344,900
CWA - Customer Service Charge	1,148,800	-	-	1,148,800
CWA - Emergency Storage Charge	2,246,600	-	-	2,246,600
MWD - Capacity Reservation Charge	628,800	-	-	628,800
MWD - Net RTS and Standby Charges	1,140,700	-	-	1,140,700
Subtotal - Water Costs	34,543,500	1,312,000	-	35,855,500
Power	2,033,400	504,500	99,200	2,637,100
Labor and Benefits	15,111,000	1,177,200	924,600	17,212,800
Administrative Expenses	4,555,000	318,100	456,100	5,329,200
Materials & Maintenance	2,127,500	332,200	1,341,900	3,801,600
Expansion Reserve	-	1,610,000	-	1,610,000
Betterment Reserve	3,700,000	110,000	-	3,810,000
Replacement Reserve	2,710,000	950,000	-	3,660,000
Transfer to Sewer GF	200,000	-	-	200,000
Transfer Out/In Prop 1A	270,300	-	-	270,300
Transfer to GF Reserve	13,500	1,316,500	-	1,330,000
TOTAL EXPENDITURES	65,264,200	7,630,500	2,821,800	75,716,500
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

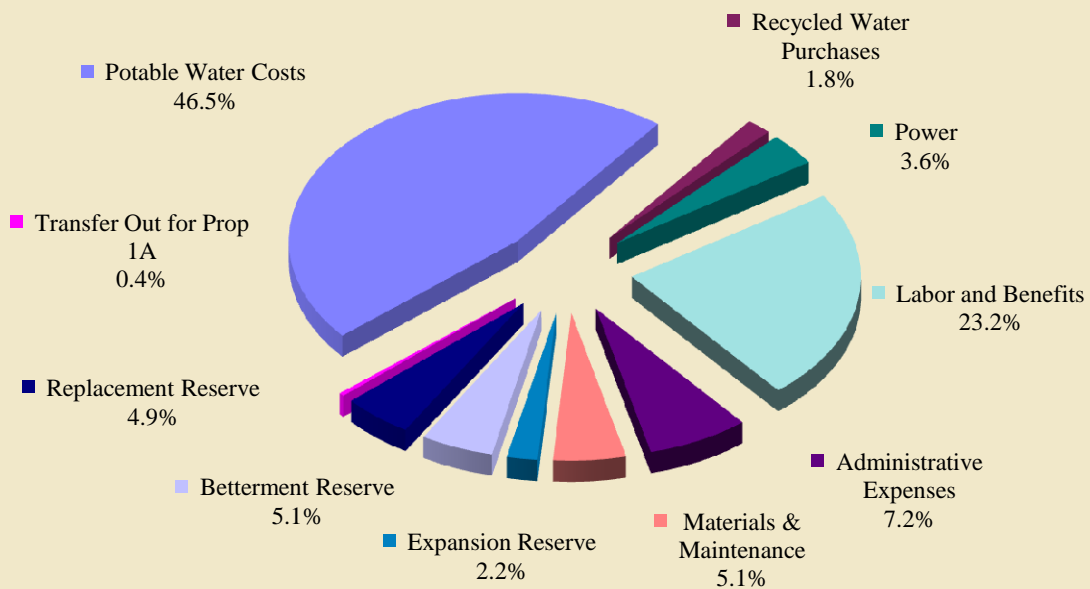


Operating Revenues and Expenditures

FY 2010 OPERATING REVENUES



FY 2010 OPERATING EXPENDITURES



Fund Balance Summary by Fund

	Estimated	Estimated, Fiscal Year 2010			Projected
	Balance	Revenues	Expenditures	Interfund Transfers ⁽¹⁾	Balance
	June 30, 2009				June 30, 2010
GENERAL FUND					
Potable	\$ 9,020,518	\$ 65,264,200	\$ 65,264,200	\$ -	\$ 9,020,518
Recycled	634,946	7,630,500	7,630,500	-	634,946
Sewer	11,366,709	2,821,800	2,821,800	(753,000)	10,613,709
Total General Fund	21,022,173	75,716,500	75,716,500	(753,000)	20,269,173
EXPANSION FUND					
Potable and Recycled ⁽²⁾	18,137,390	15,467,400	18,583,100	1,610,000	16,631,690
Sewer	432,220	4,100	-	(410,000)	26,320
Total Expansion Fund	18,569,610	15,471,500	18,583,100	1,200,000	16,658,010
BETTERMENT FUND					
Potable	2,863,675	23,596,800	15,653,700	3,700,000	14,506,775
Recycled	106,047	(700)	24,700	110,000	190,647
Sewer	-	47,000	673,900	1,163,000	536,100
Total Betterment Fund	2,969,722	23,643,100	16,352,300	4,973,000	15,233,522
REPLACEMENT FUND					
Potable	20,108,672	12,350,700	8,136,600	2,710,000	27,032,772
Recycled	3,830,196	77,000	915,000	950,000	3,942,196
Sewer	2,449,944	39,200	514,300	-	1,974,844
Total Replacement Fund	26,388,812	12,466,900	9,565,900	3,660,000	32,949,812
OPEB FUND	8,436,721	883,300	1,150,600	(1,030,000)	7,139,421
DEBT RESERVE FUND	1,732,715	1,058,000	1,190,400	-	1,600,315
TOTAL	\$ 79,119,753	\$ 129,239,300	\$ 122,558,800	\$ 8,050,000	\$ 93,850,253

⁽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	\$ (1,610,000)
Betterment Reserve	(3,810,000)
Replacement Reserve	(3,660,000)
OPEB Reserve	1,030,000
Total	(8,050,000)

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

Revenues and Expenditures by Fund

	FY 2008	FY 2009		FY 2010
	Actual	Budget	Estimated	Projected
REVENUES				
GENERAL FUND				
Potable	\$ 54,716,191	\$ 59,083,300	\$ 57,968,090	\$ 65,264,200
Recycled	6,050,180	6,380,500	6,259,578	7,630,500
Sewer	2,650,933	2,408,900	2,317,381	2,821,800
Total General Fund ⁽¹⁾	63,417,304	67,872,700	66,545,049	75,716,500
EXPANSION FUND				
Potable	18,495,813	5,652,900	4,445,557	14,343,600
Recycled	4,154,878	1,039,700	1,711,182	1,123,800
Sewer	19,586	11,900	12,512	4,100
Total Expansion Fund	22,670,277	6,704,500	6,169,251	15,471,500
BETTERMENT FUND				
Potable	1,491,179	1,462,400	1,487,503	23,596,800
Recycled	57,527	17,900	16,876	(700)
Sewer	51,508	52,100	36,661	47,000
Total Betterment Fund	1,600,213	1,532,400	1,541,041	23,643,100
REPLACEMENT FUND				
Potable	1,632,201	551,300	643,213	12,350,700
Recycled	190,859	121,400	123,069	77,000
Sewer	452,254	162,800	92,569	39,200
Total Replacement Fund	2,275,314	835,500	858,852	12,466,900
OPEB FUND	718,071	293,000	269,600	883,300
DEBT RESERVE FUND	2,135,184	1,028,100	1,238,139	1,058,000
Total Revenues	\$ 92,816,364	\$ 78,266,200	76,621,932	\$ 129,239,300

⁽¹⁾ FY 2009 General Fund Budget is restated and includes Board-authorized use of designated OPEB Reserve in the amount of \$810,000.

Revenues and Expenditures by Fund

	FY 2008	FY 2009		FY 2010
	Actual	Budget	Estimated	Projected
<u>EXPENDITURES</u>				
GENERAL FUND				
Potable	\$ 55,353,927	\$ 58,273,300	\$ 55,119,417	\$ 65,264,200
Recycled	5,870,127	6,380,500	6,103,430	7,630,500
Sewer	2,649,089	2,408,900	2,240,416	2,821,800
Total General Fund	63,873,142	67,062,700	63,463,263	75,716,500
EXPANSION FUND				
Potable	14,764,399	18,525,600	7,602,270	15,902,200
Recycled	1,077,034	2,141,000	991,176	2,680,900
Sewer	5,288	100,000	21,282	-
Total Expansion Fund	15,846,721	20,766,600	8,614,728	18,583,100
BETTERMENT FUND				
Potable	6,865,949	6,963,500	11,086,808	15,653,700
Recycled	299,218	964,200	770,690	24,700
Sewer	67,344	18,900	18,893	673,900
Total Betterment Fund	7,232,511	7,946,600	11,876,390	16,352,300
REPLACEMENT FUND				
Potable	6,228,063	6,877,700	2,975,778	8,136,600
Recycled	155,829	1,000,000	960,581	915,000
Sewer	126,116	852,400	521,002	514,300
Total Replacement Fund	6,510,008	8,730,100	4,457,361	9,565,900
OPEB FUND	7,153,008	1,020,000	1,481,070	1,150,600
DEBT RESERVE FUND	21,666,012	1,190,400	7,583,759	1,190,400
Total Expenditures	122,281,402	106,716,400	97,476,571	122,558,800
EXCESS (DEFICIT) ⁽¹⁾	\$ (29,465,038)	\$ (28,450,200)	(20,854,639)	\$ 6,680,500

⁽¹⁾ This excess is primarily due to the \$41 million proposed COP (debt) issuance. This issuance is to cover both the 2010 and 2011 CIP. In part this excess is also to maintain reserve balances in accordance with the reserve policy, shown on page 213, and to improve the District's debt coverage ratio, which in turn strengthens the financial position and saves millions in the cost of issuing debt, as described in the debt management narrative on page 48.

Revenues and Expenditures by Type - All Funds

	FY 2008	FY 2009		FY 2010
	Actual	Budget	Estimated	Projected
<u>REVENUES AND FUND SOURCES</u>				
Potable Water Sales	\$ 44,804,854	\$ 49,229,400	\$ 46,160,394	\$ 56,474,500
Proposed COPs	-	-	-	41,000,000
Recycled Water Sales	5,948,258	6,344,500	6,238,358	7,602,500
Grants	2,931,466	2,420,000	2,315,000	5,221,000
Tax Revenues	4,024,645	4,137,300	4,054,895	3,852,600
Capacity Fee Revenues	20,104,726	3,880,900	3,331,640	2,790,000
Sewer Revenues	2,414,886	2,145,300	2,184,523	2,244,800
Interest	4,660,292	2,182,400	2,251,329	1,623,700
Non-Operating Revenues	2,297,826	1,633,100	4,881,548	1,585,600
Capacity Fees for Maintenance	1,480,165	1,301,900	1,521,707	1,397,000
Transfer from OPEB ⁽¹⁾	-	810,000	-	1,030,000
Betterment Fee Revenues	909,191	1,078,000	875,582	948,000
Reimbursement from PERS Trust	-	-	-	715,900
GO Bond Debt Tax Revenues	917,168	628,200	747,175	665,900
Betterment Fees for Maintenance	802,021	895,900	661,998	571,400
Availability Fees	520,709	515,700	527,018	518,600
General Fund Draw Down	-	120,100	-	469,100
Sewer Debt Tax Revenues	393,931	356,100	406,968	362,600
Annexation Fees	526,435	483,600	392,349	120,500
Meter Fees	79,790	103,800	71,448	45,600
Total Revenues and Fund Sources	\$ 92,816,364	\$ 78,266,200	76,621,932	\$ 129,239,300
<u>EXPENDITURES AND USES OF FUNDS</u>				
CIP Expenses	\$ 24,833,132	\$ 30,939,000	\$ 11,658,138	\$ 37,272,100
Potable Water Purchases	26,935,880	30,503,500	28,098,358	34,543,500
Labor Expenses	16,462,021	17,185,400	16,440,651	17,212,800
Interfund Transfers	6,283,500	5,294,600	5,294,600	9,080,000
Administrative Expenses	6,153,593	5,935,100	5,941,924	5,329,200
Debt Service	3,668,751	5,496,900	5,232,079	5,221,200
Materials and Maintenance	4,112,180	3,872,800	3,482,653	3,801,600
Power	2,647,885	2,780,500	2,905,101	2,637,100
General Fund Transfers	-	-	-	1,800,300
Capacity Fees for Maintenance	1,480,165	1,301,900	1,521,707	1,397,000
Recycled Water Purchases	1,278,084	1,490,800	1,299,976	1,312,000
Bond/Loan Issuance Expense	-	-	-	1,230,000
OPEB Health Expenses	7,153,008	655,000	608,070	715,900
Betterment Fees for Maintenance	802,021	895,900	7,724,112	571,400
Payment to PERS	-	365,000	873,000	434,700
COPs Proceeds Distribution	20,471,183	-	6,396,203	-
Total Expenditures and Uses of Funds	122,281,402	106,716,400	97,476,571	122,558,800
EXCESS (DEFICIT) ⁽²⁾	\$ (29,465,038)	\$ (28,450,200)	(20,854,639)	\$ 6,680,500

⁽¹⁾ FY 2009 Budget has been restated to present Board-authorized use of designated OPEB Reserve.

⁽²⁾ See note ⁽¹⁾ on page 43 describing the Excess (Deficit).