



Adopted Operating and Capital Budget

Fiscal Year 2009-2010

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Division 3

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Division 4

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Photo Courtesy of Garden Retreat Design



Lake Oroville at 27% of Capacity - December 2008

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Mark Watton

Management

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Assistant General Manager,
Finance and Administration

Manny Magana
Assistant General Manager,
Engineering and Operations

Joseph R. Beachem
Chief Financial Officer

ADOPTED OPERATING AND CAPITAL BUDGET FISCAL YEAR 2009-2010

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	15
Budget Guide	16
Budget Calendar	18
Budget Process and Basis	20
Resolution No. 4136	23
 HISTORY AND COMMUNITY PROFILE	
Past and Present	24
Current Economic Conditions	25
The Future	26
Demographics	27
Ten Largest Customers	28
Water Rate Comparison	29
Sewer Rate Comparison	30
Service Area Assessed Valuation	31
Ten Principal Taxpayers	32
San Diego Rainfall	33
 FINANCIAL SUMMARIES	
Budget Summary	34
Operating Budget Summary – General Fund	38
Operating Budget Summary by System	39
Operating Revenues and Expenditures	40
Fund Balance Summary by Fund	41
Revenues and Expenditures by Fund	42
Revenues and Expenditures by Type	44
 FIVE-YEAR FORECAST	
Five-Year Forecast	45
General Fund Forecast	46
Fund Balances	47
Debt Management	48
Schedule of Outstanding Debt	49
Projected Principal Payments by Debt Issuance	50
Projected Interest Payments by Debt Issuance	51

REVENUES AND EXPENDITURES

Potable Revenues and Expenditures

Potable Narrative	52
Operating Budget Summary	54
Classification of Water Sales	55
Water Sales Summary by Service Class	56
Unit Sales History by Customer Class	57
System Fees	58
MWD and CWA Fixed Fees (Pass-Through)	59
Meter Fees	60
Revenue History	61
Water Purchases and Related Costs	62
Power Costs	63
Administrative Expenses	64
Materials and Maintenance Expenses	65
Potable Water Service Area Maps	66

Recycled Revenues and Expenditures

Recycled Narrative	67
Operating Budget Summary	69
Classification of Water Sales	70
Water Sales Summary by Service Class	71
System Fees	72
Meter Fees	73
Revenue History	74
Water Purchases	75
Power Costs	76
Administrative Expenses	77
Materials and Maintenance Expenses	78
Recycled Water Service Area Maps	79

Sewer Revenues and Expenditures

Sewer Narrative	80
Operating Budget Summary	81
Sewer Charges Summary by Service Class	82
Revenue History	83
Power Costs	84
Administrative Expenses	85
Materials and Maintenance Expenses	86
Formula for Sewer Rates	87
Sewer Service Area Map	88

General Revenues and Expenditures

General Revenues and Expenses Narrative	89
General Revenues	91
General Expenses	92

DEPARTMENTAL OPERATING BUDGET

Departmental Operating Budget Narrative	93
Labor and Benefits	96
Labor and Benefits by Fund	97
Position Count by Department	98
Contract/Temporary Employees	99
Administrative Expenses	100
Materials and Maintenance Expenses	101
Operating Expenditures by Department	102
Operating Expenditures by Object	103
Departmental Budgets:	
Board of Directors	104
General Manager	108
Administrative Services	114
Finance	125
Information Technology and Strategic Planning	136
Water Operations	144
Engineering	158
General Expense	168

CAPITAL BUDGET

Capital Improvement Program Narrative	171
Major CIP Projects	173
Flagship CIP Projects in Construction	174
CIP Projects in Construction	177
CIP Reserve Funds	179
CIP Funding Source and Category	180
CIP Projects	181
CIP Justification and Impact on Operating Budget	183
Capital Purchases Budget	185

POLICIES

Summary of Financial Policies	186
Reserve Policy	188
Reserve Policy Glossary	213
Investment Policy	215
Investment Policy Glossary	221
Debt Policy	227
Debt Policy Glossary	240

APPENDIX

Glossary	244
List of Acronyms	250
Index	254



...Dedicated to Community Service

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

September 1, 2009

Honorable Board of Directors
Otay Water District

I am pleased to present the Otay Water District's (District) Adopted Operating and Capital Budget for Fiscal Year 2010. This year's budget establishes the management plan to finance all of the District's services and programs during the 2010 fiscal year.

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As in past years, we again face key challenges. These challenges include an economy in recession and continuing

instability in the financial markets; ongoing home foreclosures; drought in the Southwest; water shortages brought about by legal action to reduce water deliveries from the Sacramento – San Joaquin Bay Delta; and the higher cost of imported water.



Given these uncertain times, the District must find the best solutions that balance the many expectations placed on it by its customers. Meeting our customer's expectations requires dedication and a commitment to continuous improvement.

The primary way to achieve our objectives is to improve all aspects of our core business processes. The main tool we will continue to use is our Strategic Plan. The District adopted its first Strategic Plan in 2003, and it's updated every three years. It is reviewed quarterly by management and semi-annually by the Board. This year it was updated for the 2009 through 2011 timeframe.

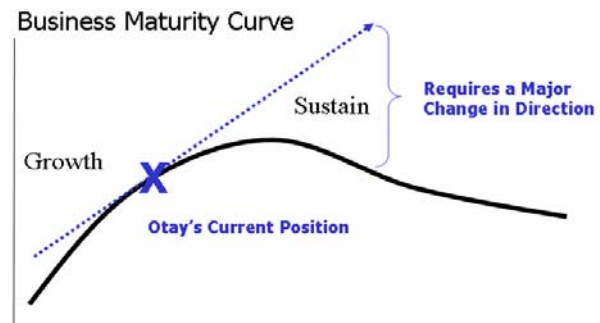
Efficiency improvements have become the new competitive advantage for utilities. As a result, the theme of the 2009 through 2011 Strategic Plan is to capitalize on the technology investments we have made and to utilize these technologies to continue to improve productivity and efficiency.

The Strategic Plan also carries forth the District's transformation from a growth-centric to a maintenance-based organization. Where capital and developer fees supported growth for many years, today we have become equally focused in managing long-term maintenance and replacement of our infrastructure.

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

In the future, however, fewer resources are needed to support slowing growth, but the effort to maintain and improve infrastructure and assets increases.

In future years, the District also derives income more from rates and less from fees. Consequently, increased costs place pressure on rates more directly. Therefore, to balance the customer's interest in minimizing rate increases while also maintaining its infrastructure investments and our strong financial position, the District will emphasize internal efficiency and development of technology assisted best practices. In effect, we will use our investments in technology to do more with the same or even fewer resources.



Today, the District provides water service to nearly 47,125 potable and 683 recycled water customers within approximately 125.5 square miles of southeastern San Diego County. All of the potable water sold to customers is purchased from the San Diego County Water Authority (CWA). Much of this water is purchased from the region's water importer, the Metropolitan Water District of Southern California (MWD). The District entered into an agreement with CWA to have the Helix Water District, at their Levy Water Treatment Plant, treat imported untreated water on behalf of the Otay Water District. This action brought regional water treatment closer to customers and reduced dependence on water treatment facilities located outside of San Diego County.

To deliver that locally treated water to customers, the District initiated construction of a 5.1 mile, 36-inch diameter pipeline. Drinking water delivered by the new pipeline will be stored in two newly constructed 10 million gallon reservoirs. In addition to bringing water treatment closer to customers, this new source of treated water, pipeline, and storage reservoir system diversifies the District's water supply and improves reliability.

The Otay Water District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,640 homes and businesses. Wastewater collected is conveyed to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of reclaiming wastewater at a rate of 1.3 million gallons per day.

The District also purchases up to six million gallons per day of recycled water from the City of San Diego's South Bay Water Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and other approved uses in the City of Chula Vista, California. The use of recycled water reduces dependency on imported supplies and provides a local supply thereby diversifying District resources.

BUDGET SUMMARY

The Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer, totaling \$75,716,500 for Fiscal Year 2010. Revenues from potable and recycled water are projected to be \$64,077,000, about \$8.5 million (15.3%) more than Fiscal Year 2009. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation, however, rate increases are essential to offset the higher cost of water. Sewer revenues are projected to be \$2,244,800, about \$99,500 more than Fiscal Year 2009 because of necessary rate increases. The remaining revenue of \$9.4 million comes from special fees and assessments and miscellaneous income.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- 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.
- Implemented rate increases in potable, recycled water, and sewer. This included pass-through rate increases from CWA, and County of San Diego.
- In response to the economic slowdown, the District has again reduced staffing levels from 169 full time equivalents to 166. It also cut operating expenditures by \$793,100 due to program funding changes and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rate is the eight-lowest and below the county-wide average.
- Expanded residential, landscape, and commercial water conservation programs.

The 2009-10 Capital Improvement Budget (CIP) consists of 87 projects and a budget of \$37.2 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget increased by \$10.5 million compared to last year's projection due to new water supply projects.

The Future

The coming years will continue to be challenging times for those in California's water community. After years of record low precipitation that dramatically curtailed snow runoff from the Sierra Nevada Mountains, California's governor declared an official statewide drought. Following the governor's action, Southern California's largest water wholesaler announced a water supply alert across its six-county service area. It also urged all local jurisdictions to implement water conservation ordinances and to "significantly increase efforts" to conserve water.

In addition to the drought, federal court orders have curtailed water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta. Worsening environmental conditions in the Bay Delta now challenge Southern California's ability to receive water from the State Water Project. A political stalemate in the state capital has also made

finding compromise or addressing the environmental issues in the Bay Delta more difficult. These factors combined are driving higher costs for water across the state.

Through foresight and its investments in drought-proof recycled water, conservation, and a water rate structure that rewards conservation, the Otay Water District has thus far avoided having to require mandatory water conservation. Rather, the District has achieved its water conservation goals using voluntary measures. As you would expect, the planned water sales reductions have impacted price and will continue to affect the District's finances. Staff continues working diligently to address the financial impacts of conservation as it prepares for the possibility of a severe water shortage and prolonged sales reductions.

With these factors in mind, our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District as we move forward into uncertain times. We are fully confident that with the policies and practices put in place by the Board, supported by dedicated and talented staff; we will achieve continued success as an organization and assure the well-being of the customers we serve.

In adopting this budget, these factors were met by the Otay Water District's Board of Directors resolve to keep the stability and strength of the District as one of its highest priorities.

AWARDS AND ACKNOWLEDGMENTS

- 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 that ended June 30, 2008. In order to be awarded a Certificate of Achievement, a government agency must publish an easy to understand and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.
- The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for the Fiscal Year beginning July 1, 2008, as well as two awards from the California Society of Municipal Finance Officers (CSMFO) for *Excellence in Operating Budgeting* and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.
- The American Society of Civil Engineers (ASCE) presented Otay Water District and Infrastructure Engineering Corporation the *2008 Outstanding Civil Engineering Project for Water Supply/Waste Water Treatment & Reuse for 640 Reservoirs*. Additionally, the Construction Management Association of America (CMAA) presented Otay Water District the *2009 Project Achievement Award for the 640-1 and 640-2 Reservoirs* to recognize outstanding achievement in the practice of construction management.
- The Otay Water District's Information Technology and Strategic Planning Department was awarded the Center for Digital Government's Best of California, Leadership and

Excellence Award for 2008 and the Municipal Information Systems Association of California's (MISAC) "Excellence in IT Practices Award."

- The California Highway Patrol presented the Otay Water District a Certificate of Achievement for its terminal which has achieved consecutive satisfactory compliance ratings. This is a meritorious achievement that "recognizes the commitment to highway safety demonstrated by the personnel responsible for operation of this terminal."

In conclusion, this Budget reflects the vision of the Board of Directors of the Otay Water District, its management, and its employees. We will continue to strive to make improvements in our budget processes, including an extensive review and analysis of projections for revenues, expenditures, capital projects, and reserves.

I would like to thank all the staff involved in this process for the efforts put forth in the preparation of this budget to ensure a successful outcome.

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



Mark Watton, General Manager