

OTAY WATER DISTRICT  
FINANCE, ADMINISTRATION AND COMMUNICATIONS  
COMMITTEE MEETING  
and  
SPECIAL MEETING OF THE BOARD OF DIRECTORS

2554 SWEETWATER SPRINGS BOULEVARD  
SPRING VALLEY, CALIFORNIA  
BOARDROOM

**TUESDAY**  
**October 21, 2014**  
**11:30 A.M.**

This is a District Committee meeting. This meeting is being posted as a special meeting in order to comply with the Brown Act (Government Code Section §54954.2) in the event that a quorum of the Board is present. Items will be deliberated, however, no formal board actions will be taken at this meeting. The committee makes recommendations to the full board for its consideration and formal action.

**AGENDA**

1. ROLL CALL
2. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

**DISCUSSION ITEMS**

3. ADOPT ORDINANCE NO. 548 AMENDING SECTION 6, CONFLICT OF INTEREST CODE, OF THE DISTRICT'S CODE OF ORDINANCES (WATTON) [5 minutes]
4. APPROVE THE DISTRICT BECOMING A MEMBER OF THE NATIONAL JOINT POWERS ALLIANCE, WHICH WOULD ENABLE THE DISTRICT TO ACCESS THE SUNLIFE POOL FOR SHORT AND LONG TERM DISABILITY; AND APPROVE THE DISTRICT JOINING THE CSAC EIA POOL FOR DENTAL THIRD PARTY ADMINISTRATOR SERVICES (WILLIAMSON) [ 5 minutes]
5. ADOPT RESOLUTION NO. 4245 TO REVISE BOARD POLICY NO. 47, POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE (WILLIAMSON) [5 minutes]
6. ADOPT RESOLUTION NO. 4244 AMENDING POLICY NO. 25, RESERVE POLICY, OF THE DISTRICT'S CODE OF ORDINANCES (BELL) [5 minutes]



# AGENDA ITEM 3



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
SUBMITTED BY:	Mark Watton General Manager	PROJECT:	Various DIV.NO. ALL
APPROVED BY:	<input checked="" type="checkbox"/> Susan Cruz, District Secretary <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	ADOPT ORDINANCE NO. 548 AMENDING SECTION 6, CONFLICT OF INTEREST CODE, OF THE DISTRICT'S CODE OF ORDINANCES		

### **GENERAL MANAGER'S RECOMMENDATION:**

That the Board adopt Ordinance No. 548 amending Section 6, Conflict of Interest Code, of the District's Code of Ordinances to expand the list of positions required to file a Form 700 and amend the disclosure categories. The updates and amendments are reflected in Exhibit A of Attachment B.

### **COMMITTEE ACTION:**

Please see attachment A.

### **PURPOSE:**

To amend the District's Conflict of Interest Code contained within the District's Code of Ordinances to expand the list of positions required to file a Form 700 and amend the disclosure categories.

### **ANALYSIS:**

As required by the Political Reform Act ("Act"), staff and General Counsel has conducted a biennial review of the District's Conflict of Interest Code ("COI Code"). The District desires to expand the list of positions required to file a Form 700 to include the *Assistant Chief of Administrative Services and Information Technology* and *Assistant Chief of Water Operations* as these positions participate in

the making of decisions that may have a material affect on financial interests as established by the District's COI Code. In addition, Counsel suggested that the District amend the disclosure categories for several positions that are required to file a Form 700 as follows:

Chief of Administrative Services	1, 2, 3, 4, 5, <u>6</u> , <u>7</u>
Chief Financial Officer	1, 2, 5, <u>6</u> , 7
Chief Information Officer	1, <u>2</u> , 3, <u>6</u> , 7
Chief of Engineering	1, 2, 3, 4, <u>6</u> , 7
Chief of Water Operations	1, 2, 3, 4, <u>6</u> , 7

These proposed changes to the COI Code are reflected in Exhibit A to Attachment B of this staff report.

**FISCAL IMPACT:**         Joe Beachem, Chief Financial Officer

None.

**LEGAL IMPACT:**

None.

Attachments:

- Attachment A: Committee Action
- Attachment B: Ordinance No. 548, Amending Conflict of Interest Code



## ATTACHMENT A

SUBJECT/PROJECT:	
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### **COMMITTEE ACTION:**

The Finance, Administration and Communications Committee reviewed this item in detail at a meeting held on October 21, 2014 and supported staffs' recommendation and presentation to the full board.

### **NOTE:**

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

ORDINANCE NO. 548

AN ORDINANCE OF THE BOARD OF DIRECTORS  
OF THE OTAY WATER DISTRICT  
AMENDING SECTION 6,  
CONFLICT OF INTEREST CODE,  
OF THE DISTRICT'S CODE OF ORDINANCE

BE IT ORDAINED by the Board of Directors of Otay Water District that the District's Code of Ordinances, Section 6, Conflict of Interest Code, be amended to expand the list of positions required to file a Form 700 and amend the disclosure categories. The amendments are presented in Exhibit A attached to this ordinance.

NOW, THEREFORE, BE IT RESOLVED that the amendments to Section 6, Conflict of Interest Code, to the District's Code of Ordinances shall become effective immediately upon adoption.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting duly held this 5<sup>th</sup> day of November 2014, by the following vote:

AYES:  
NOES:  
ABSENT:  
ABSTAIN:

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President

ATTEST:

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District Secretary

DIVISION I        DISTRICT ADMINISTRATION  
 CHAPTER 5        PERSONNEL PRACTICES  
 SECTION 6        CONFLICT OF INTEREST CODE

6.01        DEFINITIONS

The definitions contained in the Political Reform Act of 1974, regulations of the Fair Political Practices Commission (2 Cal. Code of Regs. Sections 18100, *et seq.*), and any amendments to the Act or regulations, are incorporated by reference into this conflict of interest code.

6.02        DESIGNATED EMPLOYEES

The persons holding positions listed in the Appendix are designated employees. It has been determined that these persons make or participate in the making of decisions which may foreseeably have a material effect on financial interests.

6.03        DISCLOSURE CATEGORIES

This Code does not establish any disclosure obligation for those designated employees who are also specified in Government Code Section 87200 if they are designated in this code in that same capacity or if the geographical jurisdiction of this agency is the same as or is wholly included within the jurisdiction in which those persons must report their financial interest pursuant to Article 2 of Chapter 2 of the Political Reform Act, Government Code Sections 87200, *et seq.*<sup>1</sup> In addition, this code does not establish any disclosure obligation for any designated public officials who are designated in a conflict of interest code for another agency, if all of the following apply:

(A) The geographical jurisdiction of this agency is the same as or is wholly included within the jurisdiction of the other agency;

(B) The disclosure assigned in the code of the other agency is the same as that required under article 2 of chapter 7 of the Political Reform Act, Government Code Section 87200; and

(C) The filing officer is the same for both agencies.

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<sup>1</sup> Designated employees who are required to file statements of economic interest under any other agency's Conflict of Interest Code or under Article 2 for a different jurisdiction, may expand their statement of economic interests to cover reportable interest in both jurisdictions, and file copies of this expanded statement with both entities in lieu of filing separate and district statements, provided that each copy of such expanded statement filed in place of an original is signed and verified by the designated employee as if it were an original. See Government Code Section 81004.

Such persons are covered by this Code for disqualification purposes only. With respect to all other designated employees, the disclosure categories set forth in the Appendix specify which kinds of financial interest are reportable. Such a designated employee shall disclose in his or her statement of economic interest those financial interests he or she has which are of the kind described in the disclosure categories to which he or she is assigned in the Appendix. It has been determined that the financial interests set forth in a designated employee's disclosure categories are the kinds of financial interest which he or she foreseeably can affect materially through the conduct of his or her office.

6.04            STATEMENTS OF ECONOMIC INTERESTS: PLACE OF FILING

All officials and employees required to submit a statement of economic interest (employees in Designated Positions) shall file their statements with the General Manager, or his or her designee. The District shall make and retain a copy of all statements filed by Designated Positions and forward the originals of such statements to the Executive Office of the Board of Supervisors of San Diego County. All retained statements, originals or copies shall be available for public inspection and reproduction. (Cal. Gov't Code § 81008)<sup>2</sup>

6.05            STATEMENTS OF ECONOMIC INTERESTS: TIME OF FILING

(A) Initial Statements. All designated employees employed by the agency on the effective date of this code, as originally adopted, promulgated and approved by the code reviewing body, shall file statements within 30 days after the effective date of this code. Thereafter, each person already in a position when it is designated by an amendment to this code shall file an initial statement within 30 days after the effective date of the amendment.

(B) Assuming Office Statements. All persons assuming designated positions after the effective date of this code shall file statements within 30 days after assuming the designated positions, or if subject to State Senate confirmation, 30 days after being nominated or appointed.

(C) Annual Statements. All designated employees shall file statements no later than April 1.

(D) Leaving Office Statements. All persons who leave designated positions shall file statements within 30 days after leaving office.

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<sup>2</sup> See Government Code section 81010 and 2 Cal. Code of Regs. section 18115 for the duties of filing officers and persons in agencies who make and retain copies of statements and forward the originals to the filing officer.

6.06      STATEMENTS FOR PERSONS WHO RESIGN PRIOR TO ASSUMING OFFICE

Any person who resigns within 12 months of initial appointment, or within 30 days of the date of notice provided by the filing officer to file an assuming office statement, is not deemed to have assumed office or left office, provided he or she did not make or participate in the making of, or use his or her position to influence any decision and did not receive or become entitled to receive any form of payment as a result of his or her appointment. Such persons shall not file either an assuming or a leaving office statement.

(A) Any person who resigns a position within 30 days of the date of a notice from the filing officer shall do both of the following:

1. File a written resignation with the appointing power; and
2. File a written statement with the filing officer declaring under penalty of perjury that during the period between appointment and resignation he or she did not make, participate in the making, or use the position to influence any decision of the agency or receive, or become entitled to receive, any form of payment by virtue of being appointed to the position.

6.07      CONTENTS OF AND PERIOD COVERED BY STATEMENTS OF ECONOMIC INTERESTS

(A) Contents of Initial Statements

Initial statements shall disclose any reportable investments, interests in real property and business positions held on the effective date of the code and income received during the 12 months prior to the effective date of the code.

(B) Contents of Assuming Office Statements

Assuming office statements shall disclose any reportable investments, interests in real property and business positions held on the date of assuming office or on the date of appointment, and income received during the 12 months prior to the date of assuming office or the date of being appointed, respectively.

(C) Contents of Annual Statements

Annual statements shall disclose any reportable investments, interests in real property, income and business positions held or received during the previous calendar year provided, however, that the period covered by an employee's first annual statement shall begin on the effective date of the code or the date of assuming office, whichever is later.

(D) Contents of Leaving Office Statements

Leaving office statements shall disclose reportable investments, interest in real property, income and business positions held or received during the period between the closing date of the last statement filed and the date of leaving office.

6.08 MANNER OF REPORTING

Statements of economic interest shall be made on forms prescribed by the Fair Political Practices Commission and supplied by the agency, and shall contain the following information:

(A) Investments and Real Property Disclosure

When an investment or an interest in real property<sup>3</sup> is required to be reported<sup>4</sup>, the statement shall contain the following:

1. A statement of the nature of the investment or interest;
2. The name of the business entity in which each investment is held, and a general description of the business activity in which the business entity is engaged;
3. The address or other precise location of the real property;
4. A statement whether the fair market value of the investment or interest in real property exceeds two thousand dollars (\$2,000), exceeds ten thousand dollars (\$10,000), exceeds one hundred thousand dollars (\$100,000), or exceeds one million dollars (\$1,000,000).

(B) Personal Income Disclosure

When personal income is required to be reported<sup>5</sup>, the statement shall contain:

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<sup>3</sup> For the purpose of disclosure only (not disqualification), an interest in real property does not include the principal residence of the filer.

<sup>4</sup> Investments and interests in real property which have a fair market value of less than \$2,000 are not investments and interests in real property within the meaning of the Political Reform Act. However, investments or interests in real property of an individual include those held by the individual's spouse and dependent children as well as a pro rata share of any investment or interest in real property of any business entity or trust in which the individual, spouse and dependent children own, in the aggregate, a direct, indirect or beneficial interest of 10 percent or greater.

<sup>5</sup> A designated employee's income includes his or her community property interest in the income of his or her spouse but does not include salary or reimbursement for expenses received from a state, local or federal government agency.

1. The name and address of each source of income aggregating \$500 or more in value or \$50 or more in value if the income was a gift, and a general description of the business activity, if any, of each source;
2. A statement whether the aggregate value of income from each source, or in the case of a loan, the highest amount owed to each source, was one thousand dollars (\$1,000) or less, greater than one thousand dollars (\$1,000), greater than ten thousand dollars (\$10,000), or greater than one hundred thousand dollars (\$100,000);
3. A description of the consideration, if any, for which the income was received;
4. In the case of a gift, the name, address and business activity of the donor and any intermediary through which the gift was made; a description of the gift; the amount or value of the gift; and the date on which the gift was received;
5. File In the case of a loan, the annual interest rate and the security, if any, given for the loan.

(C) Business Entity Income Disclosure

When income of a business entity, including income of a sole proprietorship is required to be reported<sup>6</sup>, the statement shall contain:

1. The name, address and a general description of the business activity of the business entity;
2. The name of every person from whom the business entity received payments if the filer's pro rata share of gross receipts from such person was equal to or greater than \$10,000.

(D) Business Position Disclosure

When business positions are required to be reported, a designated employee shall list the name and address of each business entity in

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<sup>6</sup> Income of a business entity is reportable if the direct, indirect or beneficial interest of the filer and the filer's spouse in the business entity aggregates a 10 percent or greater interest. In addition, the disclosure of persons who are clients or customers of a business entity is required only if the clients or customers are within one of the disclosure categories of the filer.

which he or she is a director, officer, partner, trustee, employee or in which he or she holds any position of management, a description of the business activity in which the business entity is engaged, and the designated employee's position with the business entity.

(E) Acquisition or Disposal During Reporting Period

In the case of an annual or leaving office statement, if an investment or an interest in real property was partially or wholly acquired or disposed of during the period covered by the statement, the statement shall contain the date of acquisition or disposal.

6.09 PROHIBITION ON RECEIPT OF HONORARIA

A. No designated public official shall accept any honorarium from any source, if the member or employee would be required to report the receipt of income or gifts from that source on his or her statement of economic interests.

Subdivisions (a), (b), and (c) of Government Code Section 89501 shall apply to the prohibitions in this section.

This section shall not limit or prohibit payments, advances, or reimbursements for travel and related lodging and subsistence authorized by Government Code section 89506.

6.10 PROHIBITION ON RECEIPT OF GIFTS IN EXCESS OF AMOUNT ESTABLISHED BY LAW<sup>7</sup>

A. No designated public official shall accept gifts with a total value of more than the maximum amount established by law, in any calendar year, from any single source, if the member or employee would be required to report the receipt of income or gifts from that source on his or her statement of economic interests.

Subdivisions (e), (f), and (g) of Government Code section 89503 shall apply to the prohibitions in this section.

6.11 LOANS TO PUBLIC OFFICIALS

A. No elected officer of a state or local government agency shall, from the date of his or her election to office through the date that he or she vacates office, receive a personal loan from any officer, employee, member, or consultant of the state or local government

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<sup>7</sup> Designated Persons are prohibited from accepting gifts from any single source in a calendar year with a total value in excess of designated amounts. See Govt. Code § 89503, sub-divisions (e), (f) and (g). [Note: Pursuant to 2 CCR § 18940.2 (b), the FPPC adjusts the gift limit every odd-numbered year to reflect changes in the Consumer Price Index; therefore, the \$390 limit adopted by the FPPC in January of 2007 will be updated in January 2009 and every odd year thereafter, until further notice.]

agency in which the elected officer holds office or over which the elected officer's agency has direction and control.

B. No public official who is exempt from the state civil service system pursuant to subdivisions (c), (d), (e), (f), and (g) of Section 4 of Article VII of the Constitution shall, while he or she holds office, receive a personal loan from any officer, employee, member, or consultant of the state or local government agency in which the public official holds office or over which the public official's agency has direction and control. This subdivision shall not apply to loans made to a public official whose duties are solely secretarial, clerical, or manual.

C. No elected officer of a state or local government agency shall, from the date of his or her election to office through the date that he or she vacates office, receive a personal loan from any person who has a contract with the state or local government agency to which that elected officer has been elected or over which that elected officer's agency has direction and control. This subdivision shall not apply to loans made by banks or other financial institutions or to any indebtedness created as part of a retail installment or credit card transaction, if the loan is made or the indebtedness created in the lender's regular course of business on terms available to members of the public without regard to the elected officer's official status.

D. No public official who is exempt from the state civil service system pursuant to subdivisions (c), (d), (e), (f), and (g) of Section 4 of Article VII of the Constitution shall, while he or she holds office, receive a personal loan from any person who has a contract with the state or local government agency to which that elected officer has been elected or over which that elected officer's agency has direction and control. This subdivision shall not apply to loans made by banks or other financial institutions or to any indebtedness created as part of a retail installment or credit card transaction, if the loan is made or the indebtedness created in the lender's regular course of business on terms available to members of the public without regard to the elected officer's official status. This subdivision shall not apply to loans made to a public official whose duties are solely secretarial, clerical, or manual.

E. This section shall not apply to the following:

1. Loans made to the campaign committee of an elected officer or candidate for elective office.

2. Loans made by a public official's spouse, child, parent, grandparent, grandchild, brother, sister, parent-in-law, brother-in-law, sister-in-law, nephew, niece, aunt, uncle, or first cousin, or the spouse of any such persons, provided that the person making the

loan is not acting as an agent or intermediary for any person not otherwise exempted under this section.

3. Loans from a person which, in the aggregate, do not exceed five hundred dollars (\$500) at any given time.

4. Loans made, or offered in writing, before January 1, 1998.

#### 6.12 LOAN TERMS

A. Except as set forth in subdivision (B), no elected officer of a state or local government agency shall, from the date of his or her election to office through the date he or she vacates office, receive a personal loan of five hundred dollars (\$500) or more, except when the loan is in writing and clearly states the terms of the loan, including the parties to the loan agreement, date of the loan, amount of the loan, term of the loan, date or dates when payments shall be due on the loan and the amount of the payments, and the rate of interest paid on the loan.

B. This section shall not apply to the following types of loans:

1. Loans made to the campaign committee of the elected officer.

2. Loans made to the elected officer by his or her spouse, child, parent, grandparent, grandchild, brother, sister, parent-in-law, brother-in-law, sister-in-law, nephew, niece, aunt, uncle, or first cousin, or the spouse of any such person, provided that the person making the loan is not acting as an agent or intermediary for any person not otherwise exempted under this section.

3. Loans made, or offered in writing, before January 1, 1998.

4. Nothing in this section shall exempt any person from any other provision of Title 9 of the Government Code.

#### 6.13 PERSONAL LOANS

A. Except as set forth in subdivision (B), a personal loan received by any designated public official shall become a gift to the designated public official for the purposes of this section in the following circumstances:

1. If the loan has a defined date or dates for repayment, when the statute of limitations for filing an action for default has expired.

2. If the loan has no defined date or dates for repayment, when one year has elapsed from the later of the following:

a. The date the loan was made.

b. The date the last payment of one hundred dollars (\$100) or more was made on the loan.

c. The date upon which the debtor has made payments on the loan aggregating to less than two hundred fifty dollars (\$250) during the previous 12 months.

B. This section shall not apply to the following types of loans:

1. A loan made to the campaign committee of an elected officer or a candidate for elective office.

2. A loan that would otherwise not be a gift as defined in this title.

3. A loan that would otherwise be a gift as set forth under subdivision (A), but on which the creditor has taken reasonable action to collect the balance due.

4. A loan that would otherwise be a gift as set forth under subdivision (A), but on which the creditor, based on reasonable business considerations, has not undertaken collection action. Except in a criminal action, a creditor who claims that a loan is not a gift on the basis of this paragraph has the burden of proving that the decision for not taking collection action was based on reasonable business considerations.

5. A loan made to a debtor who has filed for bankruptcy and the loan is ultimately discharged in bankruptcy.

C. Nothing in this section shall exempt any person from any other provisions of Title 9 of the Government Code.

#### 6.14 DISQUALIFICATION

No designated employee shall make, participate in making, or in any way attempt to use his or her official position to influence the making of any governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family or on:

(A) Any business entity in which the designated employee has a direct or indirect investment worth \$2,000 or more;

(B) Any real property in which the designated employee has a direct or indirect interest worth \$2,000 or more;

(C) Any source of income, other than gifts and other than loans by a commercial lending institution in the regular course of business on terms available to the public without regard to

official status, aggregating \$500 or more in value provided to, received by or promised to the designated employee within 12 months prior to the time when the decision is made;

- (D) Any business entity in which the designated employee is a director, officer, partner, trustee, employee, or holds any position of management; or
- (E) Any donor of, or any intermediary or agent for a donor of, a gift or gifts aggregating to the maximum amount established by law, or more, in value provided to, received by, or promised to the designated employee within 12 months prior to the time when the decision is made.

#### 6.15 LEGALLY REQUIRED PARTICIPATION

No designated public official shall be prevented from making or participating in the making of any decision to the extent his or her participation is legally required for the decision to be made. The fact that the vote of a designated public official who is on a voting body is needed to break a tie does not make his or her participation legally required for purposes of this section.

#### 6.16 DISQUALIFICATION OF STATE OFFICERS AND EMPLOYEES

In addition to the general disqualification provisions of Section 6.14, no state administrative official shall make, participate in making, or use his or her official position to influence any governmental decision directly relating to any contract where the state administrative official knows or has reason to know that any party to the contract is a person with whom the state administrative official, or any member of his or her immediate family has, within 12 months prior to the time when the official action is to be taken:

- (A) Engaged in a business transaction or transactions on terms not available to members of the public, regarding any investment or interest in real property; or
- (B) Engaged in a business transaction or transactions on terms not available to members of the public regarding the rendering of goods or services totaling in value \$1000 or more.

#### 6.17 DISCLOSURE OF DISQUALIFYING INTEREST

When a designated public official determines that he or she should not make a governmental decision because he or she has a

disqualifying interest in it, the determination not to act may be accompanied by disclosure of the disqualifying interest.

6.18 ASSISTANCE OF THE COMMISSION AND COUNSEL

Any designated employee who is unsure of his or her duties under this code may request assistance from the Fair Political Practices Commission pursuant to Government Code Section 83114 or from the attorney for his or her agency, provided that nothing in this section requires the attorney for the agency to issue any formal or informal opinion.

6.19 VIOLATIONS

This code has the force and effect of law. Designated employees violating any provision of this code are subject to the administrative, criminal and civil sanctions provided in the Political Reform Act, Government Code Sections 81000 - 91015. In addition, a decision in relation to which a violation of the disqualification provisions of this code or of Government Code Section 87100 or 87450 has occurred may be set aside as void pursuant to Government Code Section 91003.

6.20 PROHIBITED TRANSACTIONS

Members of the Board of Directors and Designated Employees shall comply with the Prohibited Transactions policy, annexed hereto as Exhibit A, pursuant to California Government Code Sections 1090, et seq.

6.21 INCOMPATIBLE ACTIVITIES

Members of the Board of Directors, District officers, and all other District employees shall comply with the Incompatible Activities policy, annexed hereto as Exhibit B, pursuant to California Government Code Sections 1126, et seq.

APPENDIX

OTAY WATER DISTRICT  
CONFLICT OF INTEREST CODE  
DESIGNATED POSITIONS

The Treasurer and all District Officials who manage the investment of public funds are included in and governed by this Conflict of Interest Code only with respect to its disqualification provisions. For purposes of disclosure, the Treasurer and all District Officials who manage the investment of public funds are governed by the statutory conflict of interest provisions of Article 2 of Chapter 7 of the Political Reform Act of 1974. (Government Code Sections 87200, et seq.)

DESIGNATED EMPLOYEES'

<u>TITLE OR FUNCTION</u>	<u>DISCLOSURE CATEGORIES ASSIGNED</u>
Members of the Board of Directors	1, 2, 3, 4, 5, 6
General Manager	1, 2, 3, 4, 5, 6
District Secretary	6
<u>Assistant Chief Administrative Services and Information Tech.</u>	<u>1, 2, 3, 4, 5, 6</u>
<u>Assistant Chief of Water Operations</u>	<u>1, 2, 3, 4, 6, 7</u>
<del>Assistant- General Manager</del>	1, 2, 3, 4, 5, 6, 7
Chief of Administrative Services	1, 2, 3, 4, 5, 6, <u>7</u>
Chief Financial Officer	1, 2, 5, <u>6</u> , 7
Chief Information Officer	1, <u>2</u> , 3, <u>6</u> , 7
Chief of Engineering	1, 2, 3, 4, <u>6</u> , 7
Chief of Water Operations	1, 2, 3, 4, <u>6</u> , 7
Associate Civil Engineer	1, 2, 3, 4, 7
Communications Officer	6
Customer Service Manager	2, 5, 7
Environmental Compliance Specialist	1, 2, 3, 4, 7

Engineering Manager <sup>+</sup>	1, 2, 3, 4, 7
Finance Manager, Controller, and Budget	2, 5, 7
Finance Manager, Treasury, and Accounting	2, 5, 7
GIS Manager	3, 6, 7
Human Resources Manager	3, 6
IT Manager	3, 6, 7
Network Engineer	3, 6, 7
Purchasing and Facilities Manager	2, 6
Safety and Security Administrator	1, 2, 3, 4, 6
Senior Buyer	6
Senior Civil Engineer	1, 2, 3, 4, 7
System Operations Manager	1, 2, 3, 4, 7
Utility Services Manager	1, 2, 3, 4, 7
Water Conservation Manager	2, 3, 4, 6
Consultant <sup>8</sup>	1, 2, 3, 4, 5, 6

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<sup>8</sup> Consultants are required to file disclosure statements where they: (a) conduct research and arrive at conclusions with respect to rendition of information, advice, recommendation or counsel independent of control and direction of the agency or any agency official other than normal contract monitoring; and (b) possess no authority with respect to any agency decision beyond the rendition of information, advice, recommendation or counsel. The determination as to whether a consultant shall be required to file a disclosure statement shall be made by the General Manager or his or her designee.

**APPENDIX, CONTINUED**

**DISCLOSURE CATEGORIES**

The disclosure categories listed below identify the types of investments, business entities, sources of income, or real property which the designated employee must disclose for each disclosure category to which he or she is assigned.

Category 1: All investments and business positions in, and sources of income from, all business entities that do business or own real property in the District, plan to do business or own real property in the District within the next year or have done business or owned real property in the District within the past two years.

Category 2: All interests in real property which are located in whole or in part within, or not more than two (2) miles outside the boundaries of the District.

Category 3: All investments and business positions in, and sources of income from, business entities subject to the regulatory, permit or licensing authority of the Designated Employee's Department, will be subject to such authority within the next year or have been subject to such authority within the past two years.

Category 4: All investments, business positions, and sources of income from, business entities that are engaged in land development, construction or the acquisition or sale of real property in the District, plan to engage in such activities in the District within the next year or have engaged in such activities in the District within the past two years.

Category 5: All investments and business positions in, and sources of income from, business entities that are banking, savings and loan or other financial institutions.

Category 6: All investments and business positions in, and sources of income from, business entities that provide services, supplies, materials, machinery or equipment of a type purchased, leased, used, or administered by the District.

Category 7: All investments and business positions in, and sources of income from, business entities that provide services, supplies, materials, machinery or equipment of a type purchased, leased, used, or administered by the Designated Employee's Department.

## EXHIBIT A

### Prohibited Transactions for Specified Personnel

Members of the Board of Directors ("Members") shall comply with this Prohibited Transactions policy pursuant to California Government Code §§ 1090, *et seq.*

Members shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members. Members shall not be purchasers at any sale or vendors at any purchase made by them in their official capacity. Members shall not be deemed to be interested in a contract entered into by a body or board of which they are members if the Member has only a remote interest in the contract and if the fact of that interest is disclosed to the body or board of which the Member is a member and noted in its official records, and thereafter the body or board authorizes, approves, or ratifies the contract in good faith by a vote of its membership sufficient for the purpose without counting the vote or votes of the Board of Directors member with the remote interest. "Remote interest" shall be defined as in California Government Code § 1091(b).

Members shall not be considered to be financially interested in a contract if their interest is including, but not limited to, any of the following (Government Code § 1091.5):

1. That of an officer in being reimbursed for his/her actual and necessary expenses incurred in the performance of an official duty;
2. That of a recipient of public services generally provided by the public body or board of which he/she is a member, on the same terms and conditions as if he or she were not a member of the board;
3. That of a landlord or tenant of the contracting party if such contracting party is the federal government or any federal department or agency, this state or an adjoining state, any department or agency of this state or an adjoining state, any county or city of this state or an adjoining state, or an public corporation or special, judicial or other public district of this state or an adjoining state unless the subject matter of such contract is the property in which such officer or employee has such interest as landlord or tenant in which even his/her interest shall be deemed a remote interest within the meaning of, and subject to, the provisions of Government Code 1091;
4. That of a spouse of an officer or employee of a public agency if his/her spouse's employment or office-holding has

|  
existed for at least one year prior to his/her election or appointment;

5. That of a non-salaried member of a nonprofit corporation, provided that such interest is disclosed to the board at the time of the first consideration of the contract, and provided further that such interest is noted in its official records;
6. That of a non-compensated officer of a nonprofit, tax-exempt corporation, which, as one of its primary purposes, supports the functions of the board or to which the board has legal obligation to give particular consideration, and provided further that such interest is noted in its official records;
7. That of compensation for employment with a governmental agency, other than the governmental agency that employs the officer or employee, provided that the interest is disclosed to the board at the time of consideration of the contract, and provided further that the interest is noted in its official records;
8. That of an attorney of the contracting party of that of an owner, officer, employee or agent of a firm which renders, or has rendered, service to the contracting party in the capacity of stockbroker, insurance agent, insurance broker, real estate agent, or real estate broker if these individuals have not received and will not receive remuneration, consideration, or a commission as a result of the contract and if these individuals have an ownership interest of less than 10 percent in the law practice or firm, stock brokerage firm, insurance firm or real estate firm.

In addition, Members shall not be deemed to be interested in a contract made pursuant to competitive bidding under a procedure established by law if their sole interest is that of an officer, director, or employee of a bank or savings and loan association with which a party to the contract has the relationship of borrower or depositor, debtor or creditor (Government Code § 1091.5).

**Authority:**

California Government Code §§ 1090, *et seq.*

## EXHIBIT B

### Incompatible Activities Policy

District officers, members of the Board of Directors, and all other District employees (collectively, "district personnel") shall comply with this Incompatible Activities policy pursuant to California Government Code §§ 1126, *et seq.*

District personnel shall not engage in any employment, activity, or enterprise for compensation which is inconsistent, incompatible, in conflict with, or inimical to his or her duties as a member of the Board of Directors, or with the duties, functions, or responsibilities of his or her appointing power or the agency by which he or she is employed.

The outside employment, activity, or enterprise of district personnel is prohibited if it: (1) involves the use for private gain or advantage of his or her local District time, facilities, equipment and supplies; or the badge, uniform, prestige, or influence of his or her local District office or employment or, (2) involves receipt or acceptance by district personnel of any money or other consideration from anyone other than the District for the performance of an act which district personnel, if not performing such act, would be required or expected to render in the regular course or hours of their local District employment or as a part of their duties as a local District officer or employee or, (3) involves the time demands as would render performance of his or her duties as a local district personnel member less efficient.

Nothing in this policy shall be interpreted to prohibit any outside employment, activity, counsel, or enterprise on behalf of another governmental entity, subject to common law and professional conflict of interest rules.

Copies of this regulation shall be posted in prominent places at the District Office. District personnel who violate this regulation may be subject to discipline as set forth in the applicable Code of Ordinances and Policies. Board of Directors members who violate this section may be subject to censure. Disciplinary appeals by district personnel shall be handled pursuant to applicable Code of Ordinances and Policies.

#### **Authority:**

California Government Code §§ 1125, *et seq.*

# AGENDA ITEM 4



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
		PROJECT:	Various DIV. NO. ALL
SUBMITTED BY:	Kelli Williamson Human Resources Manager		
APPROVED BY:	<input checked="" type="checkbox"/> Adolfo Segura, Asst. Chief, Administrative Services & IT <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	REQUEST BOARD APPROVAL TO CHANGE SHORT AND LONG TERM DISABILITY INSURANCE CARRIERS AND DENTAL THIRD PARTY ADMINISTRATOR		

**GENERAL MANAGER'S RECOMMENDATION:**

That the Board:

- a. Authorize the General Manager to take the steps necessary to have the Otay Water District (District) become a member the National Joint Powers Alliance (NJPA), which would enable the District to access the SunLife pool for Short and Long Term Disability; and
- b. Authorize the General Manager to take the steps necessary to have the District join the CSAC EIA pool for Dental Third Party Administrator services.

**COMMITTEE ACTION:**

See "Attachment A".

**PURPOSE:**

Authorize the General Manager to take the steps necessary to join the SunLife pool for Short and Long Term Disability benefits through membership in the NJPA, and to join the CSAC EIA pool for Dental Third Party Administrator services.

**ANALYSIS:**

The District works with Alliant Employee Benefits, its benefit consultant, on an annual basis to review insurance plans to ensure that

the District is receiving the highest level of service at the most cost-effective prices. We are nearing the end of a three year rate guarantee for the Short and Long Term Disability Plan and are at the end of an annual contract with our Dental Third Party Administrator. Alliant recently provided information on both plans which shows that there are more cost-effective options. The District believes it will continue to receive the highest level of service while creating a long-term savings for the District by changing carriers for both plans.

### Short and Long Term Disability

The Short and Long Term Disability insurance provides protection for employees when they are unable to work due to an injury or illness by providing 66 2/3% of their base salary. There is a 30-day elimination period before an employee would be eligible to receive disability payment. The District is currently with The Hartford for our Short and Long Term Disability Plans.

The Hartford initially provided the District with an annual renewal rate with an increase of 31%. This increase is due to our high claims experience during the three years we have been their client. Alliant contacted six other providers, including two benefit pools, to receive bids.

Hartford (original renewal)	\$88,131
Hartford (negotiated renewal)	\$67,098
CIGNA IEA Program	\$60,626
Guardian	Declined
MetLife	Declined
SunLife	\$58,250
UNUM	\$75,749
VOYA (aka ING) CSAC	\$105,294

As you can see from the chart above, two companies declined to quote since their rates would not be competitive (Guardian and MetLife), and two companies provided quotes but the quotes were not competitive (UNUM and VOYA). Alliant also gathered information from two benefit pools (SunLife and CIGNA). Both were able to provide competitive rates and Alliant was able use this information to re-negotiate with The Hartford to maintain the current cost. The Hartford rate pass, however, is still more than the bids offered by SunLife and CIGNA.

Based on the District's claims experience and in anticipation of potential long term savings, District staff recommends switching to the SunLife Short and Long Term Disability pool.

In order to qualify for this pooled program with SunLife, the District will be required to become a member of National Joint Powers Alliance (Attachment B). This national arrangement places the District into the largest pool established for the public entity sector, pooling all

experience for the entire membership. The District still owns and maintains its disability contracts and benefit schedules but eliminates experience rating and the risk of future large increases specifically to our premiums. There is no financial or organizational liability to NJPA or to its organization activities.

### Dental Insurance

The District currently uses Delta Dental as the Third Party Administrator to the self-funded Dental Plan. Delta Dental charges an administration fee (ASO) based on a per-member per-month (PMPM) figure. The current rate is \$7.50 PMPM and the proposed rate beginning January 1, 2015 is \$8.15, an 8.7% increase.

Beginning next year, the District is interested in moving our dental program to the Alliant pooled program to control future renewal ASO increases. This is the first year that this pool has been made available to outside participants that already have an ASO contract in place with Delta Dental. Although the District proposes to move to the pooled program, Delta Dental would continue to provide network savings, handle claims processing and underwriting. The District will be required to pay an \$8.50 PMPM ASO fee for the first year in the program (2015). This includes the \$8.15 ASO Delta Dental fee and a \$0.35 fee for Preferred Benefit Insurance Administrators to provide eligibility and billing/reconciliation services. Other related work would transition to Alliant and the CSAC EIA program. Beginning in 2016, the District would pay the reduced ASO fee of approximately \$6.81 PMPM (including all fees based on 2015 rates) in the Alliant program, a 20% reduction from our current fee. Alliant's underwriters predict this ASO fee will be reduced in the 2016 renewal due to overall growth in the pool.

### Insurance Pools

These pools are less expensive than continuing with an arrangement similar to what the District currently has outside of the pool, and would also alleviate the need to bid our provider continuously every few years. There will be some set up required for District staff under the new arrangement, however, this will not result in any changes to the plan design or dental providers and the change will be seamless for the employees and retirees. Should the District decide to change carriers in the future, the District may do so by providing a 30-day notice to the carriers.

**FISCAL IMPACT:**             Joe Beachem, Chief Financial Officer

If approved the combined annual savings on the disability and dental plans is approximately \$13,048 per year. This savings does not account for the initial staff time cost that will be necessary to coordinate the change. As the current cost levels were budgeted, the recommended lower cost options would be more than covered by the current budget.

The current estimated cost of Short and Long Term Disability insurance is approximately \$67,098 based on the District's payroll provided to

our benefit consultant and has been budgeted through the annual budget process. By changing carriers, the estimated annual cost is \$58,250, a savings of \$8,848 per year (13.2%). The SunLife premium will be guaranteed for three years. The only fluctuation will be due to payroll increasing, which means the District could yield greater savings.

For the dental plan, the District will pay the renewal fee of \$8.15 PMPM which has been budgeted through the annual budget process, plus an additional \$0.35 PMPM fee for the first year. Beginning the second year, it is estimated the fee will be \$6.81 PMPM or possibly less. Annually, the fee will be approximately \$21,300 next year and approximately \$17,100 or less in future years, resulting in an annual cost-savings of approximately \$4,200, a 19.7% decrease.

**STRATEGIC GOAL:**

Optimize the District's Operating Efficiency.

**LEGAL IMPACT:**

None.

**ATTACHMENTS:**

Attachment A - Committee Action Report

Attachment B - Membership Agreement for the National Joint Powers Alliance



## ATTACHMENT A

<b>SUBJECT/PROJECT:</b>	REQUEST BOARD APPROVAL TO CHANGE SHORT AND LONG TERM DISABILITY INSURANCE CARRIERS AND DENTAL THIRD PARTY ADMINISTRATOR
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### **COMMITTEE ACTION:**

The Finance, Administration, and Communications Committee met on October 21, 2014, to review this item. The Committee supports presentation to the full Board.

### **NOTE:**

The "Committee Action" is written in anticipation of the Committee moving the item forward for Board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full Board.



**MEMBERSHIP AGREEMENT  
PARTICIPATING MEMBER**

**This Agreement, made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_,  
by and between National Joint Powers Alliance®, hereinafter referred to as "NJPA" and  
\_\_\_\_\_ hereinafter referred to as the "Applicant".**

**Witnesseth:**

That for a good and valuable consideration of the premises, mutual terms, covenants, provisions, and conditions hereafter set forth, it is agreed by and between the parties as follows:

*Whereas, the NJPA is created by Minnesota Statute §123A.21 (with membership further defined in M.S. §471.59) to serve cities, counties, towns, public or private schools, political subdivisions of Minnesota or another state, another state, any agency of the State of Minnesota or the United States including instrumentalities of a governmental unit and all non-profits; and*

*Whereas, NJPA's purpose as defined in M.S. §123A.21 is to assist in meeting specific needs of clients which could be better provided by NJPA than by the members themselves; and*

*Whereas, the NJPA Board of Directors has established the ability for an "Applicant" desiring to participate in NJPA contracts and procurement programs to become a Participating Member; and*

*Whereas, the NJPA Board of Directors has determined that Participating Members will have no financial or organizational liability to NJPA or to its organizational activities;*

**Now Therefore,** it is hereby stipulated and agreed that the "Applicant" Agency desires to be a Participating Member of NJPA with contract purchasing benefits, in accordance with terms and conditions of the applicable contract(s), and that NJPA hereby grants said Membership to said "Applicant."

**Term:**

This continuing agreement shall remain in force or until either party elects to dissolve the Agreement by written notice.

**THEREFORE, IN WITNESS THEREOF,**

the parties hereto have executed this Agreement the day and year written above.

**National Joint Powers Alliance®  
200 1st Street NE, Suite 1  
Staples, MN 56479**

**Member Name:**

By \_\_\_\_\_  
AUTHORIZED SIGNATURE

\_\_\_\_\_  
AUTHORIZED SIGNATURE

Its \_\_\_\_\_  
TITLE

\_\_\_\_\_  
TITLE

\_\_\_\_\_  
DATE

\_\_\_\_\_  
DATE

**MEMBERSHIP AGREEMENT  
PARTICIPATING MEMBER**



**PATICIPATING MEMBER INFORMATION**

Applicant Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_ Federal ID Number: \_\_\_\_\_  
Contact Person: \_\_\_\_\_  
Title: \_\_\_\_\_  
E-mail: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Website \_\_\_\_\_

Please indicate an address to which your Membership materials may be delivered.

Thank you.

**APPLICANT ORGANIZATION TYPE:**

- K-12
- Government or Municipality
- Higher Education
- Non-Profit
- Other (please specify):

**I WAS REFERRED BY:**

(please specify)

- Advertisement \_\_\_\_\_
- Current NJPA Member \_\_\_\_\_
- Vendor Representative \_\_\_\_\_
- Trade Show \_\_\_\_\_
- NJPA Website \_\_\_\_\_
- Other \_\_\_\_\_

**Completed applications may be returned to:**

National Joint Powers Alliance ®  
200 First Street NE, Suite 1  
Staples, MN 56479

**Duff Erholtz**

phone 218-894-5490  
fax 218-894-3045  
e-mail [duff.erholtz@njpaoop.org](mailto:duff.erholtz@njpaoop.org)

# AGENDA ITEM 5



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
		PROJECT:	DIV. NO. ALL
SUBMITTED BY:	Kelli Williamson Human Resources Manager		
APPROVED BY:	<input checked="" type="checkbox"/> Adolfo Segura, Assistant Chief, Admin. Services and IT <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	ADOPT RESOLUTION #4245 TO REVISE THE POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE (BOARD POLICY #47)		

**GENERAL MANAGER'S RECOMMENDATION:**

That the Board adopt Resolution #4245 to revise Board Policy #47, Policy Against Discrimination and Harassment and Complaint Procedure.

**COMMITTEE ACTION:**

Please see "Attachment A".

**PURPOSE:**

To request that the Board adopt Resolution #4245 and approve revisions to Board Policy #47, Policy Against Discrimination and Harassment and Complaint Procedure (Attachment B).

**ANALYSIS:**

Consistent with the District's Strategic Plan, the District regularly reviews policies and procedures to ensure they are streamlined and are clear and consistent with applicable laws.

After consultation with General Counsel, District staff is recommending revisions to the attached policy. This policy was also reviewed with the Otay Water District Employees' Association (Association). The Association has agreed to the policy as presented. Updates deemed

appropriate at this time are detailed below and revisions are shown in the attached strike-through versions of the policy (Exhibit 1).

Policy Against Discrimination and Harassment and Complaint Procedure (Board Policy #47)

Based on recent legislative updates, District staff is recommending minor revisions to the attached policy to clarify certain protected classifications to include military and veteran status, gender identity, gender expression and related updates.

Based on the above, it is requested that the Board of Directors adopt Resolution #4245 in support of the proposed revisions.

**FISCAL IMPACT:**             Joe Beachem, Chief Financial Officer

None.

**STRATEGIC GOAL:**

Optimize the District's Operating Efficiency.

**LEGAL IMPACT:**

None.

**ATTACHMENTS:**

Attachment A - Committee Action Report

Attachment B - Resolution #4245

Exhibit 1 - Draft Copy, Policy Against Discrimination and Harassment and Complaint Procedure (Board Policy #47)

Attachment C - Proposed Copy, Policy Against Discrimination and Harassment and Complaint Procedure (Board Policy #47)



## ATTACHMENT A

<b>SUBJECT/PROJECT:</b>	ADOPT RESOLUTION #4245 TO REVISE THE POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE (BOARD POLICY #47)
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### **COMMITTEE ACTION:**

The Finance, Administration, and Communications Committee met on October 21, 2014, to review this item. The Committee supports presentation to the full Board.

### **NOTE:**

The "Committee Action" is written in anticipation of the Committee moving the item forward for Board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full Board.

RESOLUTION NO. 4245

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE OTAY WATER DISTRICT TO  
REVISE DISTRICT POLICY

**WHEREAS**, the Board of Directors of Otay Water District have established policies, procedures, ordinances, and resolutions for the efficient operation of the District; and

**WHEREAS**, it is the policy of the District to establish procedures to review policies, procedures, ordinances, and resolutions periodically to ensure they are current and relevant; and

**WHEREAS**, District staff has identified Board Policy #47, Policy Against Discrimination and Harassment and Complaint Procedure, as requiring revisions as per the attached strike-through copies.

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of the Otay Water District amends the Board Policies indicated above in the form presented to the Board at this meeting.

**PASSED, APPROVED AND ADOPTED** by the Board of Directors of the Otay Water District at a regular meeting held this 5<sup>th</sup> of November, 2014.

\_\_\_\_\_  
\_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
\_\_\_\_\_  
Secretary

OTAY WATER DISTRICT  
**BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
	47	10/11/05	<del>10/5/11</del> <u>11/5/14</u>

PURPOSE

The purpose of this policy is to (i) advise all employees that the Otay Water District ("District") disapproves of and will not tolerate unlawful discrimination or harassment of its employees, or retaliation against those who report such behavior, and (ii) set forth a procedure for investigating and resolving internal complaints of discrimination, harassment, or retaliation.

POLICY

The District is committed to providing a work environment free of unlawful discrimination, harassment, or retaliation against those who report discrimination or harassment. Discrimination or harassment based on sex (including gender, gender identity, gender expression, pregnancy, childbirth or related medical condition), race, color, ~~religion~~religious creed, national origin, ancestry, physical or mental disability, medical condition, genetic information, marital status, age, sexual orientation, military or veteran status or any other basis protected by federal, state or local law is prohibited. Discrimination or harassment based on the perception that a person has any of those characteristics, or is associated with a person who has or is perceived as having any of those characteristics, is prohibited. Retaliation against any person who complains of unlawful discrimination or harassment or who provides evidence relating to such a complaint, is prohibited.

This Policy applies to all terms and conditions of employment, including, but not limited to: hiring, placement, advancement, promotion, disciplinary action, layoff, recall, transfer, leave of absence, compensation and training. It applies to each District employee, member of the Board of Directors, and to all vendors conducting business with the District. Similarly, the District will not tolerate discrimination or harassment by its employees of non-employees with whom the District employees have a business, service or professional relationship. The District will also attempt to protect employees from harassment by non-employees in the workplace.

OTAY WATER DISTRICT  
**BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
	47	10/11/05	<del>10/5/11</del> <a href="#">11/5/14</a>

DEFINITIONS

Discrimination - Any decision or action that is based on an individual's status as a member of a protected class that adversely affects a District employee or the employee's work conditions, terms of employment, or work environment.

Harassment - Any decision or action that is based on a District employee's status as a member of a protected class, made for the purpose or having the effect of adversely affecting that employee's work conditions, terms of employment, or work environment. Harassment may include, but is not limited to:

- Verbal conduct such as epithets, derogatory jokes or comments, slurs, or unwelcome sexual advances, invitations or comments;
- Visual displays such as derogatory and/or sexually-oriented posters, photography, cartoons, drawings or gestures;
- Physical conduct including assault, unwanted touching, intentionally blocking normal movement or interfering with work;
- Threats and demands to submit to sexual requests as a condition of continued employment or to avoid an adverse consequence, and offers of employment benefits in return for sexual favors.

Such conduct constitutes harassment when (1) submission to the conduct is made either an explicit or implicit condition of employment; (2) submission or rejection of the conduct is used as the basis for an employment decision; or (3) the harassment interferes with an employee's work performance or creates an intimidating, hostile, or offensive work environment.

Protected Class - Any class of persons who share a common sex, race, color, religion, ~~us~~ creed, national origin, ancestry, physical or mental disability, medical condition, genetic information, marital status, age, sexual orientation, military or veteran status or any other "protected class" recognized by federal, state or local laws. For purposes of this definition, "sex" includes gender,

OTAY WATER DISTRICT  
**BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
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gender identity, gender expression, pregnancy, childbirth, or a pregnancy- or childbirth-related medical condition.

Retaliation - Any decision or action that is based on the fact that a District employee has previously complained of discrimination, harassment, or retaliation prohibited by this Policy (regardless of whether a formal complaint has been made) or has provided evidence in the investigation of another District employee's complaint under this Policy, made for the purpose of adversely affecting the employee's conditions of employment, terms of employment, or work environment.

Sexual Harassment - A form of harassment that is based on an employee's gender but which objectively and subjectively creates an adverse impact on the employee regardless of the purpose or intent of the alleged harasser.

COMPLAINT PROCEDURE

An employee or job applicant who believes he or she has been the victim of discrimination, harassment, or retaliation by a District employee, a member of the Board of Directors, or a vendor may make a complaint verbally, or in writing by completing the District's Discrimination and Harassment Complaint Form. An employee may make a complaint to any of the following:

- Human Resources;
- Any supervisor, manager, Department Chief, Assistant General Manager, or General Manager;
- Complaints against the General Manager should be directed to the President of the Board of Directors.

Applicants may make a complaint to any of the following:

- Human Resources or;
- General Manager.

Any person described above shall forward each written discrimination complaint to the General Manager or designee immediately or upon receiving the complaint or having knowledge of the complaint. If a

OTAY WATER DISTRICT  
**BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
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complaint is made verbally, the person receiving the complaint shall notify Human Resources immediately.

Every reported complaint of discrimination, harassment or retaliation will be investigated thoroughly and promptly. If any manager, supervisor, Assistant Department Chief, Department Chief, or Assistant General Manager becomes aware of or suspects discrimination, harassment, or retaliation against a District employee or applicant, or any allegation thereof, he/she must immediately notify the Human Resources Manager of the relevant facts and circumstances.

The General Manager or designee may conduct the investigation of alleged discrimination, harassment, or retaliation, or may delegate responsibility for the investigation to another District management employee. If the complaint is against the General Manager, the President of the Board of Directors shall be responsible for conducting the investigation, assigning another management employee, or outside investigator and overseeing the investigation. If the complaint is against the Board of Directors, the General Manager shall be responsible for contracting with an outside investigator to conduct the investigation. The Board will take appropriate action based on the findings.

During its investigation, the District shall take appropriate steps to protect the privacy of all parties involved. However, This shall not be construed to justify refusing to inform a person who has been accused of violating this Policy of the identity of the complainant and witnesses against him/her, ~~however~~. Reports of discrimination, harassment, or retaliation may not be made anonymously, but information regarding any report and subsequent investigation will be disseminated on a "need to know" basis.

In the event that an investigation will take longer than 60 calendar days to complete, the investigator must notify the complainant of this fact prior to the expiration of 60 days and provide an anticipated completion date, in writing.

OTAY WATER DISTRICT  
**BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
	47	10/11/05	<del>10/5/11</del> <a href="#">11/5/14</a>

If a finding is made that discrimination, harassment, or retaliation has occurred, the District shall take remedial action appropriate to the circumstances, which may include disciplinary action up to and including termination for an employee who has violated this Policy or sanctions for a vendor who has violated this Policy.

Every District employee has a duty to participate in good faith in any investigation conducted under this Policy. Failure to participate in good faith is a ground for disciplinary action appropriate to the circumstances. All employees are encouraged to report in good faith discrimination, harassment, or retaliation. The District will not tolerate retaliation against any employee making a good faith complaint of discrimination, harassment or retaliation, or for cooperating in an investigation. However, reports made maliciously or in bad faith may subject an employee to disciplinary action appropriate to the circumstances up to and including termination.

The action of making a complaint does not preclude a complainant from filing a complaint with the appropriate State or Federal agency. For information as to where to file a claim, an employee may contact the Equal Employment Opportunity Commission at [www.eeoc.gov](http://www.eeoc.gov) or (213) 894-1000 or the Department of Fair Employment and Housing at [www.dfeh.ca.gov](http://www.dfeh.ca.gov) or (800) 884-1684.

POLICY HISTORY

Human Resources Policy and Procedure, Effective August 4, 1993.  
Board Policy adopted October 11, 2005.

**OTAY WATER DISTRICT  
BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
	47	10/11/05	11/5/14

PURPOSE

The purpose of this policy is to (i) advise all employees that the Otay Water District ("District") disapproves of and will not tolerate unlawful discrimination or harassment of its employees, or retaliation against those who report such behavior, and (ii) set forth a procedure for investigating and resolving internal complaints of discrimination, harassment, or retaliation.

POLICY

The District is committed to providing a work environment free of unlawful discrimination, harassment, or retaliation against those who report discrimination or harassment. Discrimination or harassment based on sex (including gender, gender identity, gender expression, pregnancy, childbirth or related medical condition), race, color, religious creed, national origin, ancestry, physical or mental disability, medical condition, genetic information, marital status, age, sexual orientation, military or veteran status or any other basis protected by federal, state or local law is prohibited. Discrimination or harassment based on the perception that a person has any of those characteristics, or is associated with a person who has or is perceived as having any of those characteristics, is prohibited. Retaliation against any person who complains of unlawful discrimination or harassment or who provides evidence relating to such a complaint, is prohibited.

This Policy applies to all terms and conditions of employment, including, but not limited to: hiring, placement, advancement, promotion, disciplinary action, layoff, recall, transfer, leave of absence, compensation and training. It applies to each District employee, member of the Board of Directors, and to all vendors conducting business with the District. Similarly, the District will not tolerate discrimination or harassment by its employees of non-employees with whom the District employees have a business, service or professional relationship. The District will also attempt to protect employees from harassment by non-employees in the workplace.

OTAY WATER DISTRICT  
**BOARD OF DIRECTORS POLICY**

Subject: POLICY AGAINST DISCRIMINATION AND HARASSMENT AND COMPLAINT PROCEDURE	Policy Number	Date Adopted	Date Revised
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DEFINITIONS

Discrimination - Any decision or action that is based on an individual's status as a member of a protected class that adversely affects a District employee or the employee's work conditions, terms of employment, or work environment.

Harassment - Any decision or action that is based on a District employee's status as a member of a protected class, made for the purpose or having the effect of adversely affecting that employee's work conditions, terms of employment, or work environment. Harassment may include, but is not limited to:

- Verbal conduct such as epithets, derogatory jokes or comments, slurs, or unwelcome sexual advances, invitations or comments;
- Visual displays such as derogatory and/or sexually-oriented posters, photography, cartoons, drawings or gestures;
- Physical conduct including assault, unwanted touching, intentionally blocking normal movement or interfering with work;
- Threats and demands to submit to sexual requests as a condition of continued employment or to avoid an adverse consequence, and offers of employment benefits in return for sexual favors.

Such conduct constitutes harassment when (1) submission to the conduct is made either an explicit or implicit condition of employment; (2) submission or rejection of the conduct is used as the basis for an employment decision; or (3) the harassment interferes with an employee's work performance or creates an intimidating, hostile, or offensive work environment.

Protected Class - Any class of persons who share a common sex, race, color, religious creed, national origin, ancestry, physical or mental disability, medical condition, genetic information, marital status, age, sexual orientation, military or veteran status or any other "protected class" recognized by federal, state or local laws. For purposes of this definition, "sex" includes gender, gender

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identity, gender expression, pregnancy, childbirth, or a pregnancy- or childbirth-related medical condition.

Retaliation - Any decision or action that is based on the fact that a District employee has previously complained of discrimination, harassment, or retaliation prohibited by this Policy (regardless of whether a formal complaint has been made) or has provided evidence in the investigation of another District employee's complaint under this Policy, made for the purpose of adversely affecting the employee's conditions of employment, terms of employment, or work environment.

Sexual Harassment - A form of harassment that is based on an employee's gender but which objectively and subjectively creates an adverse impact on the employee regardless of the purpose or intent of the alleged harasser.

COMPLAINT PROCEDURE

An employee or job applicant who believes he or she has been the victim of discrimination, harassment, or retaliation by a District employee, a member of the Board of Directors, or a vendor may make a complaint verbally, or in writing by completing the District's Discrimination and Harassment Complaint Form. An employee may make a complaint to any of the following:

- Human Resources;
- Any supervisor, manager, Department Chief, Assistant General Manager, or General Manager;
- Complaints against the General Manager should be directed to the President of the Board of Directors.

Applicants may make a complaint to any of the following:

- Human Resources or;
- General Manager.

Any person described above shall forward each written discrimination complaint to the General Manager or designee immediately of receiving the complaint or having knowledge of the complaint. If a

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complaint is made verbally, the person receiving the complaint shall notify Human Resources immediately.

Every reported complaint of discrimination, harassment or retaliation will be investigated thoroughly and promptly. If any manager, supervisor, Assistant Department Chief, Department Chief, or Assistant General Manager becomes aware of or suspects discrimination, harassment, or retaliation against a District employee or applicant, or any allegation thereof, he/she must immediately notify the Human Resources Manager of the relevant facts and circumstances.

The General Manager or designee may conduct the investigation of alleged discrimination, harassment, or retaliation, or may delegate responsibility for the investigation to another District management employee. If the complaint is against the General Manager, the President of the Board of Directors shall be responsible for conducting the investigation, assigning another management employee, or outside investigator and overseeing the investigation. If the complaint is against the Board of Directors, the General Manager shall be responsible for contracting with an outside investigator to conduct the investigation. The Board will take appropriate action based on the findings.

During its investigation, the District shall take appropriate steps to protect the privacy of all parties involved. However, this shall not be construed to justify refusing to inform a person who has been accused of violating this Policy of the identity of the complainant and witnesses against him/her. Reports of discrimination, harassment, or retaliation may not be made anonymously, but information regarding any report and subsequent investigation will be disseminated on a "need to know" basis.

In the event that an investigation will take longer than 60 calendar days to complete, the investigator must notify the complainant of this fact prior to the expiration of 60 days and provide an anticipated completion date, in writing.

If a finding is made that discrimination, harassment, or retaliation has occurred, the District shall take remedial action appropriate to

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the circumstances, which may include disciplinary action up to and including termination for an employee who has violated this Policy or sanctions for a vendor who has violated this Policy.

Every District employee has a duty to participate in good faith in any investigation conducted under this Policy. Failure to participate in good faith is a ground for disciplinary action appropriate to the circumstances. All employees are encouraged to report in good faith discrimination, harassment, or retaliation. The District will not tolerate retaliation against any employee making a good faith complaint of discrimination, harassment or retaliation, or for cooperating in an investigation. However, reports made maliciously or in bad faith may subject an employee to disciplinary action appropriate to the circumstances up to and including termination.

The action of making a complaint does not preclude a complainant from filing a complaint with the appropriate State or Federal agency. For information as to where to file a claim, an employee may contact the Equal Employment Opportunity Commission at [www.eeoc.gov](http://www.eeoc.gov) or (213) 894-1000 or the Department of Fair Employment and Housing at [www.dfeh.ca.gov](http://www.dfeh.ca.gov) or (800) 884-1684.

POLICY HISTORY

Human Resources Policy and Procedure, Effective August 4, 1993.  
Board Policy adopted October 11, 2005.



# AGENDA ITEM 6

## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
SUBMITTED BY:	Rita Bell, Finance Manager	PROJECT:	DIV.NO. All
APPROVED BY:	<input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Adopt Resolution No. 4244 Amending Policy No. 25, the Reserve Policy, of the District's Code of Ordinances		

### **GENERAL MANAGER'S RECOMMENDATION:**

That the Board adopt Resolution No. 4244 amending Policy No. 25, the Reserve Policy, of the District's Code of Ordinances.

### **COMMITTEE ACTION:** \_\_\_\_\_

Please see Attachment A.

### **PURPOSE:**

To present to the Board three revisions of the Reserve Policy. First, to reflect the changes to the Water and Sewer Capacity and Annexation Fees as a result of the study. Second, to remove the Special Rates and Charges related to North District, Improvement Districts (IDs) 1, 3, 9, and 10 which have reached the end of the intended purpose of these fees. Lastly, to modify the descriptions of the 1% property tax, OPEB, and betterment sources. In addition, four definitions in the Reserve Policy Glossary were changed to reflect current practices.

### **BACKGROUND:**

In August 2012, the Reserve Policy was modified to incorporate the results of a water and sewer capacity fee and annexation fee study which changed the methodology of calculation and created a new water supply fee. As a result of these Board approved changes, the new sources and uses of fees were incorporated into the Reserve Policy.

**ANALYSIS:**

In September 2014, the District adopted new water and sewer capacity and annexation fees as the result of a study performed by HDR. The most significant change due to the study was to create a sewer annexation fee and to calculate two sewer capacity fees based on whether the parcel is located within or outside of an ID. Additionally, a change was made to reflect the percentage allocation between the expansion and the "buy-in" portion of the water capacity fee. The proposed modifications to the Reserve Policy reflect these approved changes in fees.

In addition, after reviewing the basis of the calculation of the annexation fee it appeared this fee more closely fits into the general use revenue. Legal counsel agreed with this change and accordingly, staff is recommending the necessary modifications to the Reserve Policy.

On January 1, 2014, the special rates and charges for IDs 1 and 3 expired. In March 2014 the Board voted to eliminate the special rates and charges for IDs 9, 10, and North District effective January 1, 2015, since the purpose of these special fees has been achieved. Accordingly, any reference to these special fees is being removed from the Reserve Policy.

As part of continuous quality assurance review performed by staff, some necessary changes to the descriptions of the 1% property tax, the OPEB reserve, and the sources of the betterment fund as well as glossary definitions, were identified and are being recommended for Board approval. These changes are consistent with both staff's and legal counsel's understanding of the sources and uses of District revenues.

The proposed policy is in alignment with the District's financial plan and is an integral part of the annual rate model update which impacts the District's rates and fees.

**FISCAL IMPACT:** \_\_\_\_\_

None.

**STRATEGIC GOAL:**

The District ensures its continued financial health through long-term financial planning and debt planning.

**LEGAL IMPACT:** \_\_\_\_\_

None.

Attachments:

- A) Committee Action
- B) Resolution No. 4244  
    Exhibit I Strike-through Policy No. 25
- C) Proposed Policy No. 25



## ATTACHMENT A

<b>SUBJECT/PROJECT:</b>	Adopt Resolution No. 4244 Amending Policy No. 25, the Reserve Policy, of the District's Code of Ordinances
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### **COMMITTEE ACTION:**

The Finance, Administration and Communications Committee recommends that the Board adopt Resolution No. 4244 amending Policy No. 25, the Reserve Policy, of the District's Code of Ordinances.

### **NOTE:**

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

RESOLUTION NO.4244

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE  
OTAY WATER DISTRICT AMENDING  
RESERVE POLICY NO. 25 OF THE  
DISTRICT'S CODE OF ORDINANCES

WHEREAS, the Otay Water District Board of Directors have been presented with an amended Reserve Policy No. 25 of the District's Code of Ordinances for the financial management of the Otay Water District; and

WHEREAS, the amended Reserve Policy has been reviewed and considered by the Board, and it is in the interest of the District to adopt the amended Reserve Policy; and

WHEREAS, the strike-through copy of the proposed policy is attached as Exhibit 1 to this resolution; and

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the amended Policy No. 25, incorporated herein as Attachment C, is hereby adopted.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a board meeting held this 5th day of November, 2014, by the following vote:

Ayes:  
Noes:  
Abstain:  
Absent:

\_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
District Secretary

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**1.0 The District**

The Otay Water District is a California municipal water 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 their 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 provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such, the District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has an identifiable 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 the service costs relating to each of its four customer service types. 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.

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**1.1 The District's Use of Financial Resources**

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The operating costs include costs relating to 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 services. The District uses various funds to support the operating and capital efforts. Operations and maintenance is financed only by rates and charges, also called pay-as-you-go, while capital infrastructure is financed using two financing methods: pay-as-you-go and debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction, betterment, and replacement of infrastructure in all three business areas: potable, recycled, and sewer.

The District establishes different funds to track revenues allocated to different activities. Once established, each fund receives financial resources up to the levels defined in this policy. Every 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 requirements and financial resources are then evaluated to ensure that the existing fund balances and additional revenues are sufficient within the current budget cycle and for the next five years to maintain target fund levels. If a deficit is identified, then options for transfers, shifting CIP projects, debt, cost saving measures, and/or rate increases are evaluated.

**1.2 The District's Capital Improvement Program (CIP)**

The planning, design, and construction costs of all capital facilities within the three business segments are allocated to four cost types and corresponding fund categories: New Water Supply, Expansion, Replacement, and/or Betterment. The allocation to these four cost types is defined in the District's Capital Improvement Program (CIP) and is determined by an engineering analysis that identifies which type of customer will benefit from each facility, planned or existing. The costs of the capital

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improvements are borne by either existing users or by the developing areas, or by a combination of the two, as applicable. This Reserve Policy protects both the existing users and the developing areas from incurring unwarranted costs. Developing areas are not required to finance facilities that are replacement or betterment and established areas are not required to replace facilities before they are worn out because of new development. However, to ensure a fair allocation of costs, each facility has the potential to be classified into any or all of the four cost types. In addition to these cost types there are occasional CIPs that may be billable to a third party, if for example a third party requires a District facility be relocated. Paragraphs a through d below, describe how the costs of capital facilities are financed through various fees.

a. New Water Supply

The portion of a new supply project that benefits new users is financed from the reserves in the New Water Supply Fund category. These reserves are primarily derived from proceeds of the new water supply fee. The New Water Supply Fund is restricted, meaning the amounts credited to this fund are accounted for separately and are used solely for the planning, design, and construction of the new water supply expansion facilities. Debt financing may also be a temporary financial resource to finance new water supply projects. The District has a Debt Policy (Policy No. 45) that guides the debt issuance process. Any debt proceeds used for this purpose would be restricted in nature and tracked separately. General use reserves may also be placed in the Designated New Water Supply Fund and used for water supply projects.

b. Expansion

The portion of a CIP project that benefits new users is financed from the reserves in the Expansion Fund category. These reserves are primarily derived from proceeds of the "incremental" portion of the capacity fees collected within developing areas. Capacity fees are accounted for separately and used for the planning, design, and construction of expansion facilities. Additionally, expansion may be financed by ~~annexation fees or~~ the "buy-in" portion of the capacity fee. ~~Both of these fees are~~ which is restricted for CIP purposes, but not specifically for expansion. Debt financing may also be a temporary financial resource for

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expansion projects. General use reserves may also be placed in the Designated Expansion Fund and used for expansion projects.

c. Replacement

The portion of a CIP project that benefits existing users by replacing an existing facility is financed from the reserves in the Replacement Fund category. Replacement of facilities may be financed with proceeds of ~~annexation fees,~~ the "buy-in" portion of the capacity fees, general use reserves held in the Designated Replacement Fund, and debt proceeds. The various funding sources available for replacement projects is anticipated to provide the necessary flexibility to begin projects while any necessary debt financing is being obtained.

d. Betterment

Facilities that improve reliability, meet new regulations, or create increased levels of service are considered betterment facilities that benefit existing users. The reserves in the Betterment Fund category are used to finance these projects or portions of projects. ~~Certain user rates, and charges, and betterment fees are restricted geographically for betterment of facilities, but may also be used for general maintenance of facilities in that area.~~ Proceeds of ~~the annexation fee and~~ the "buy-in" portion of the capacity fees may also be used to finance betterment projects. General use reserves may be placed in the Designated Betterment Fund and used for betterment projects.

*1.21 Relocations*

Occasionally, relocation of a District facility is required by a third party. If the District has a superior easement the relocation cost will be paid by the third party, but only to the extent that the District does not benefit from the relocation. When relocation is required, a CIP project may be created which is wholly or partially financed by a third party. On occasion, the District will require that its own facilities be relocated. Depending on the nature of the facilities, the financial resources for these projects could be from new water supply, expansion, replacement, betterment or third party financing. Each project is individually negotiated with the third party based on the facts and circumstances of the relocation. Occasionally, the District

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will improve the facilities that are being relocated. When determining how to allocate costs to various funds the following guideline is suggested: if a project has more than five years of useful life remaining, an incremental cost view should be considered; if the project has less than five years of useful life remaining, a pro-rata cost approach should be considered. Also, the likelihood the District will benefit from an asset's life extension should be evaluated prior to allocating costs.

*1.22 Oversizing*

If deemed reasonable by the District, in connection with the construction of backbone facilities, a developer may be required to oversize new facilities for future development. The developer is reimbursed for incremental oversizing costs as per Policy No. 26. These reimbursements are not available for the distribution system within a development which is an obligation of the developer.

*1.23 Exclusion of Developed Areas from Expansion Costs*

Developed areas are assumed 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 financing costs are allocated to these areas so that they will not incur any costs for newly developing areas, except for capital projects that produce district-wide benefit or cost savings.

*1.24 Improvement Districts (IDs)*

Improvement Districts (IDs) are established to facilitate the financing of particular improvements by the specific beneficiaries. The District has a number of improvement districts that were established for General Obligation (GO) debt repayment. Most GO debt has been paid off and it is unlikely that the District will issue additional GO debt. Improvement districts continue to be used for other purposes: 1) to distinguish sewer customers from water customers on the county tax roll; or 2) to place parcels on the county tax roll for the collection of availability fees; ~~or 3) for charging special water rates.~~

Over the years, the District moved to a district-wide perspective of financing improvements. This philosophy is evident by the

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district-wide capacity and annexation fees. The District also uses district-wide water rates. As time goes on, it is expected that IDs will continue to outgrow their purpose and their use will diminish.

**1.3 The Purpose of the Policy**

Public entities accumulate and maintain reserves to ensure both financial stability and continuous availability of services. Financial stability and the resulting improved credit quality allow the public entity to weather times of uncertainty and the impact of negative events, both major and minor. Reserves allow for the ongoing maintenance of property and timely payment of expenses even when such expenses exceed money available from 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 public entity.

A "reserve" has a number of meanings, as follows:

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

It is important to note that reserves, 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. In addition, the term fund balance was replaced by net assets as codified by the Governmental Accounting Standards Board (GASB).

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In short, reserves are the liquid assets of the District, accumulated and maintained for application to finance contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the management and use of these financial resources. 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 as well as the demand for 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

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Educational Revenue Augmentation Fund (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 require short-term borrowing in the absence of sufficient financial resources.

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, Report No. 2003-137. All of these recommendations have 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, including minimums and maximums, for the accumulation of reserves.
- Identify the events or conditions that prompt the use of reserves.
- Conform to plans to acquire or build capital assets.
- Receive Board approval and that it is in writing.
- Require periodic review of reserve balances and rationale for maintaining them.

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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 reserves.<sup>1</sup>

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<sup>1</sup> 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.

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Specifically, the Constitution states that "each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund...or similar funds as it shall deem reasonable and proper."<sup>2</sup> 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 context for different districts and different contingencies justifying reserves.

The Government Finance Officers Association (GFOA) in its "Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund" (2002) states that in establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors. These include:

- The predictability of its revenues and the volatility of its expenditures (*i.e.*, higher levels of the unreserved fund balances 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 the unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (*i.e.*, a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (*i.e.*, governments may wish to maintain higher levels of the unreserved fund balance to

<sup>2</sup> California Constitution, Article XIII B, Section 5.

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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's general guidelines as provided above. In addition, the District has adopted the following principles in the management of its financial resources:

- Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity among 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 operations and maintenance from capital expenditures occurs within each of the service types. This is done because the financing of these expenditures is often on different timelines or use different reserves.
- The District will hold its reserves 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 reserves 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

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is accomplished with long-term financing which spreads the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use them. The District could amass significant reserves by pre-collecting financial resources in a Replacement Reserve Fund allowing the District to cash finance all replacements. However, this would require significant rate increases 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 model on 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 fees charged. This review also insures that reserves will be available to continue to serve the District's customers.

**Financial Sources**

**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 financed by developers.

b. 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.

c. Water Annexation Fees (General Use ~~Restricted~~) ~~Is this restricted?~~

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Annexation fees<sup>3</sup> are collected as a condition of annexing into the District's potable ~~and or~~ recycled water facilities. Since the existing facilities have been built and maintained by developers or customers within the District, the annexation fee is calculated based on the present value of all property taxes (1% property tax and availability fees) paid by existing and prior customers. The annexation fee ~~insures that future users finance a portion of facilities that were sized, built, and maintained for both existing and future users. reimburses existing customers for past contributions so that all customers have contributed more~~ equally to water facilities. Proceeds of annexation fees are unrestricted and can may be used for any expansion, replacement, or betterment projects. These reserves may be shifted back and forth as financing needs change. general fund purposes.

~~d. Sewer Annexation Fees (UnRestrictedGeneral Use) Is this restricted?~~

d. A sewer annexation fee is collected when property is annexed into an improvement district. This fee is calculated using the "buy in" basis and therefore is unrestricted. Since the existing facilities have been built and maintained by developers or customers within the District sewer IDs, the annexation fee is calculated based on the present value of all availability fees paid by existing and prior customers. The annexation fee reimburses existing customers for past contributions so that all customers have contributed more equally to sewer facilities. insures that future users finance a portion of facilities that were sized, built, and maintained for both existing and future users. Proceeds of the annexation fees are unrestricted and canmay be used for any general fund purposes.  
~~are restricted and can be used for expansion, replacement, or betterment projects. These reserves may be shifted back and forth as financing needs change.~~

e. New Water Supply Fee (Restricted)

New water supply fees<sup>4</sup> are based on the cost of the expansion portion of new water supply projects divided by the number of

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<sup>3</sup> Code of Ordinances, Section 9.

<sup>4</sup> Code of Ordinances, Section 28

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future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District's new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects. Although the fees collected are not restricted separately, one portion for potable and the other for recycled, they are tracked separately.

f. Water Capacity Fees (Restricted)

Water ~~Capacity~~ fees<sup>4</sup> are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in" portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. The "incremental" portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities (excluding new water supply expansion).

g. Sewer Capacity Fees (Restricted)

Sewer capacity fees are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where~~uses the~~ "buy-in" ~~portion process whereof~~ the capacity fee covers cost to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. ~~At any the time an expansion project is determined planned, the fee calculation will include the cost of the expansion project and the expansion EDUs, making this calculation a combined approach.~~ The "buy-in" portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted

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back and forth between expansion, betterment or replacement as the financing needs change. The "incremental" portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities. For parcels within a sewer ID the calculation excludes the tax debt already paid by these customers therefore, producing a lower fee than for parcels outside of a sewer ID. The capacity fees are restricted to pay for planning, design, construction, and financing associated with the expansion, replacement, or betterment of facilities.

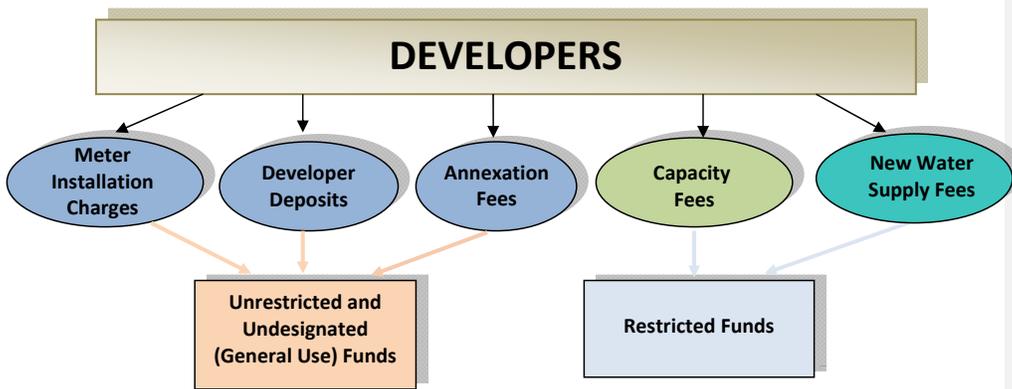
Facility needs are based on projected land use planning. Changes in anticipated future land use occur and can alter projected facility requirements. Thus, both the anticipated facilities needs and their projected costs change over time as regulatory agencies make changes to land use. The District periodically reviews the capacity fee calculation to accommodate such variations. These fees are paid by developers.

The District's construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and 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 reserves are depleted.

The water capacity fee is calculated based on the combined recycled and potable water systems needs. This methodology is used because the two water systems work hand-in-hand. All capacity fees can be used for either potable or recycled but must be tracked to distinguish between the "buy-in" and "incremental" portions as described above. So, while capacity fees are not restricted separately by potable and recycled, they are tracked separately.

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**Diagram 2.0: Flow of Funds - Developer Sources**



**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.
- 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 a charge 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

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fixed costs from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

f. Special Rates and Charges (~~Unrestricted~~General Use)

In addition to the uniform water and sewer charges, the District ~~currently has five~~ a special water rates and one sewer rate for the Russell Square lift station. ~~The five water rates are~~ Russell Square fee is for construction, installation, and maintenance or repair of water storage reservoirs, pump stations, and water lines the Russell Square lift station. ~~Each of these rates and charges must be used within the respective geographic areas from which they are collected. These special charges are listed below:~~ This fee is collected in accordance with the Russell Square sewer charge (see Code of Ordinances Section 53.03B).

- ~~• North District water charge (Code section 25.03G)~~
- ~~• ID 9 water charge (Code section 25.03H)~~
- ~~• ID 3 water charge (Code section 25.03I)~~
- ~~• ID 10 water charge (Code section 25.03I)~~
- ~~• La Presa water charge (Code section 25.03I)~~
- ~~• Russell Square sewer charge (Code section 53.04C)~~

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~~When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees were collected. Therefore, these are restricted reserves by geographic area as well as by purpose. These rates and charges can also be used for maintenance; unlike the availability fees (discussed in 2.2 B.). These six special rates and charges along with availability fees are tracked separately, by geographic area, so they can be individually evaluated to maintain the targeted reserve levels. 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 temporary meters use system capacity but 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

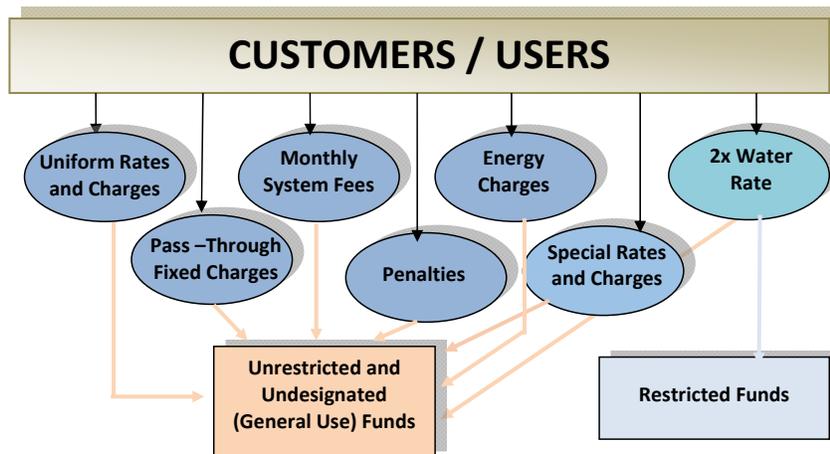
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Fund. The primary users of these temporary meters are developers; however, general customers also use these for various purposes.

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Diagram 2.1: Flow of Funds - Customer Sources



## 2.2 County-Collected Taxes and Fees

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

In 1978, Proposition 13 limited the levy of ad valorem property taxes on real property to one percent of the assessed value of such property. 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. Taxes received are for general use. Spending limits for the District are governed by the 1979 passage of California Proposition 4, Limitations of Government Appropriations (GANN limit). Proposition 4 places an appropriation limit on most spending from tax proceeds.

### 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 the improvement district (ID) within

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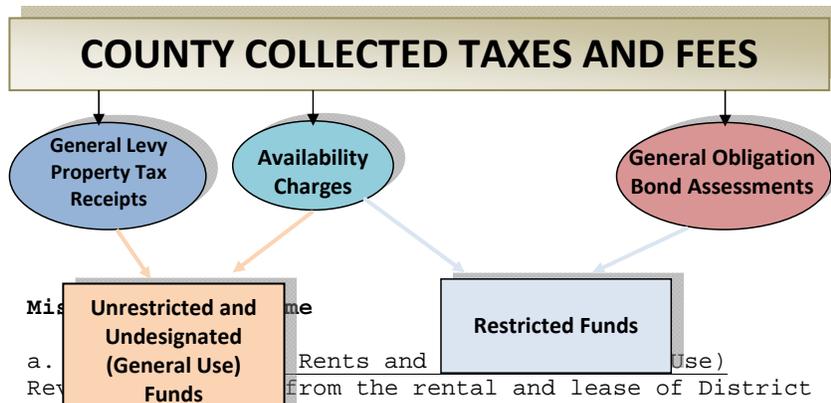
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which it is collected. Accordingly, the District may use availability charges in excess of \$10 toward costs of water and sewer facilities which are either, expansion, betterment, or replacement of facilities consistent with the purpose of the ID in which they are collected. This portion of the proceeds of availability charges is geographically restricted and restricted by purpose. As costs are incurred on these projects the respective IDs are charged, reducing the reserves. To the extent that availability charges are not used for the purpose for which they are collected, they must be returned to the property owners that paid them. The District has historically used these reserves for betterment capital facilities thus, the restricted reserves are accounted for in "sub-funds" of the Betterment Fund (see 2.1 f.).

c. Improvement District General Obligation (GO) Bond Assessments (Restricted)

The District has historically issued general obligation (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 special taxes or assessments within the ID to pay the debt obligation. The proceeds of the debt are restricted for the purpose as defined in the bond documents.

**Diagram 2.2: Flow of Funds – County Collection Sources**



2.3 Miscellaneous Revenues (General Use)  
 a. Rents and Lease Revenues (General Use)  
 Revenue from the rental and lease of District property and general use revenues. Not only are they

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periodic revenues, but there is also a one-time fee charged with the setup of each new lease. The District incurs expenses related to these rents and leases. The one-time fees are calculated to recover the costs to setup the leases.

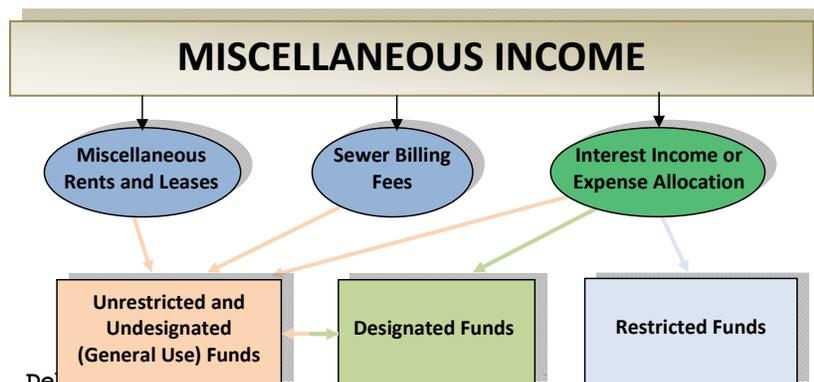
b. Sewer Billing Fees (General Use)

Sewer billing fees are general use revenues. The District provides processing and billing services to the City of Chula Vista to bill and collect from their customers for sewer service. These fees are to recover the cost the District incurs to provide this service.

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

Interest income (expense) will be allocated every month based upon each fund's month-ending balance. In this way, each fund receives credit for interest earned by that fund and each fund with a negative balance is charged for the use of the other fund's reserves.

**Diagram 2.3: Flow of Funds – Miscellaneous Income Sources**



2.4 De

a. Loans (General/Restricted Use)

As the District determines that additional financing 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

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with the Debt Policy before it is recommended to the Board for action. As an option to bond indebtedness, loans are available 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 general obligation 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 financing 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.

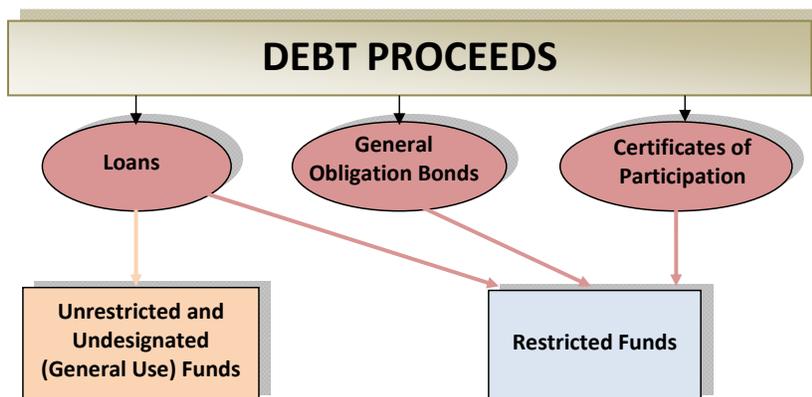
c. Certificates of Participation (COPs) (Restricted)

General revenues of the District are pledged as security for Certificates of Participation (COPs) indebtedness. If the District determines that additional financing 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. This form of financing has become the industry's preferred form of financing as it does not require a vote of the general public.

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**Diagram 2.4: Flow of Funds – Debt Issuance Sources**



**2.5 Inter-fund Transfers**

Each year in the budgeting process, future fund levels are projected for the next six years. Based on these projections transfers are recommended. Reserves may be transferred between Unrestricted or Designated Funds and the General Fund (see 4.0 "Funding Levels" and 4.1 "Fund Transfers"). Reserves may not be transferred to or from any of the restricted funds unless it is between two restricted funds with a shared purpose.

**Fund Types and Categories**

**3.0 General Funds**

a. Purpose

The General Fund is neither restricted nor designated. The District maintains one General Fund for each business segment (water, sewer, and recycled). This fund holds the working capital and emergency operating reserves. While the General Fund has a short-term focus to finance the District's annual operations, it is supported by the six-year rate model. This

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fund is primarily used to finance the operations of the District; however, it can be used for any District purpose.

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. This fund can also be used to avoid spikes in the rates or significant and abrupt increases. It is an industry practice to have a fund that can be used to stabilize rates. This would only occur if there was a temporary need for reserves that would smooth out a rate spike or to ramp up what would otherwise be a dramatic rate increase.

The General Fund also plays a role in the debt planning of the District. 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 need a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also to access low cost financing for future projects.

b. Sources

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

The sewer general fund receives sewer charges, penalties, availability charges, sewer annexation fees ~~(calculated on the "buy in" basis)~~, and interest income or expense allocation.

c. Funding Levels

- I. **Minimum Level** - The minimum reserve level for each business segment of the General Fund is three months of operating budget expenses (evaluated separately for each segment).

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II. **Maximum Level** - The maximum reserve 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 reserves 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 Other Post Employment Benefits (OPEB) Fund

a. Purpose

Designated Other Post Employment Benefits (OPEB) reserves are "general use" reserves that have been set apart by Board action to finance the medical benefits of qualified retirees as outlined in the District's benefits plan. This fund is available to hold any Board designated OPEB funds. ~~District fund holds only a portion of the total OPEB reserves. The other portion is held in~~ The District also has a trust at CalPERS and is restricted for the purpose of financing the OPEB liability. Money held in the CalPERS trust restricts the funds from any use other than OPEB. The two portions funds are considered jointly when looking at target reserve levels. Every two years, ~~the fund is evaluated by an actuarial study is performed~~ to update the annual financing requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, health insurance costs, or general market conditions. ~~The reserves held by the District are currently designated and may be placed into the CalPERS trust to legally restrict the funds, removing the District's legal access to these reserves.~~

b. Sources

The OPEB liability may be financed by general use reserves coming from user rates and charges, either from an operating budget expenditure or from interfund transfers. Transfers of unrestricted reserves may come from the various designated funds or from the General Fund. As a part of the normal budget process, annual operating revenues have been

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sufficient to finance the ongoing needs of this designated fund. While debt financing is also an option, the District has only used user rates and charges to finance this fund.

c. Funding Levels

- I. **Minimum Level** - The minimum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. When considering the reserve level of this fund, both the District held OPEB reserves and CalPERS held OPEB reserves must be considered jointly.
  
- II. **Maximum Level** - The maximum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, exceed the OPEB liability, the District will reduce the annual funding levels as defined by the actuarial study.
  
- III. **Target Level** - The target reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, fall below the OPEB liability, the District will increase the annual funding levels as defined by the actuarial study.

**3.2 New Water Supply Fund Category**

a. Purpose

The New Water Supply Fund category is to finance the expansion portion of new water supply projects and is therefore to be paid by developers. When considering the reserve level of the New Water Supply category; the New Water Supply Fund, the New Water Supply Debt Fund, and the Designated New Water Supply Fund all work in concert and must be considered jointly.

b. Sources

The New Water Supply Fund receives reserves only from the new water supply fee. Other funds within the new water supply category of funds receive debt proceeds and general use reserves through a designation to this category.

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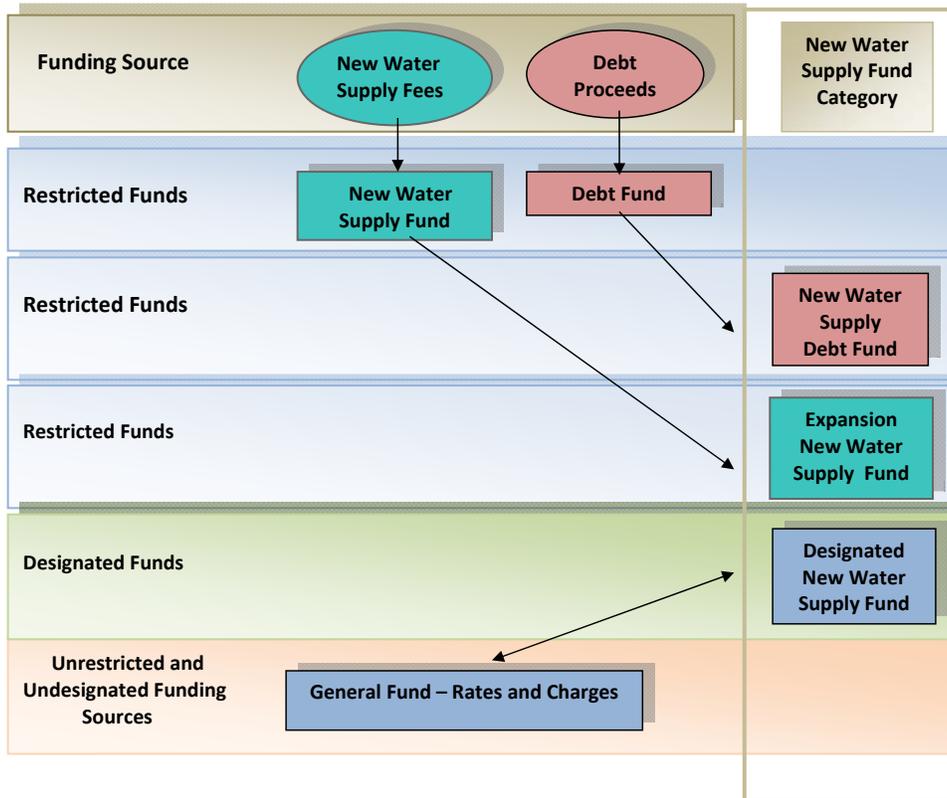
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c. Funding Levels

- I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.
  
- II. **Maximum Level** - The maximum reserve level for the new water supply category of funds is limited to five years of the unfinanced new water supply facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total new water supply financing needs must be reduced by the projected new water supply revenues, general fund designations, and bond financing. If the combined new water supply reserves exceed the target level, the District should consider transferring designated reserves to meet other purposes, reduce the new water supply fee, or change the timing of the new water supply projects.
  
- III. **Target Level** - In order to facilitate debt financing of the new water supply, it is important that the various new water supply funds retain an overall reserve level of six months, prior to any attempt to obtain debt financing. This reserve level allows the District the time necessary to issue additional debt without depleting new water supply reserves. If the combined new water supply reserve levels drop below six months of expenditures, this would trigger a transfer of general use reserves, a bond sale, or a change in the timing of new water supply projects. Bond proceeds would be placed in the Restricted New Water Supply Debt Fund while transfers would be placed in the Designated New Water Supply Fund.

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**Diagram 3.2: New Water Supply Fund Category**



### 3.3 Expansion Fund Category

#### a. Purpose

The Expansion Fund category is to finance the expansion portion of capital projects and therefore is to be paid for by developers. When considering the reserve levels of the expansion category, the following funds work in concert and must be considered jointly: the Expansion Fund, Expansion Debt Fund, ~~Annexation Fund (potable and recycled only)~~, Capital Improvement Fund, and the Designated Expansion Fund.

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Potable and recycled reserves are considered jointly while sewer is evaluated separately.

b. Sources

The Expansion Fund is financed by water charges in lieu of capacity fees (for temporary meters) and the "incremental" portion of the capacity fee. The other funds in this category may also be financed by debt proceeds, ~~annexation fees,~~ the "buy-in" portion of the capacity fee, and the general fund through a designation of reserves.

c. Funding Levels

**I. Minimum Level** - As the District matures the CIP will move to purely replacement and betterment projects. As the District moves through this lifecycle the need for expansion reserves will decrease and may be reduced to zero.

**II. Maximum Level** - The maximum reserve level for the expansion category of funds is limited to five years of unfinanced expansion facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total financing needs must be reduced by the projected expansion revenues, bond financing, and any restricted or general fund revenues allocated to this fund category. If the combined expansion reserves exceed target levels, the District should consider reducing capacity fees, reallocating restricted or designated funds to meet other purposes, or shifting the timing of expansion projects.

**III. Target Level** - The target level is six months of expansion expenditures. It is important that the expansion reserves remain at a minimum of six months of expansion expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting expansion reserves. If the combined expansion reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, an adjustment to the timing of expansion projects, or

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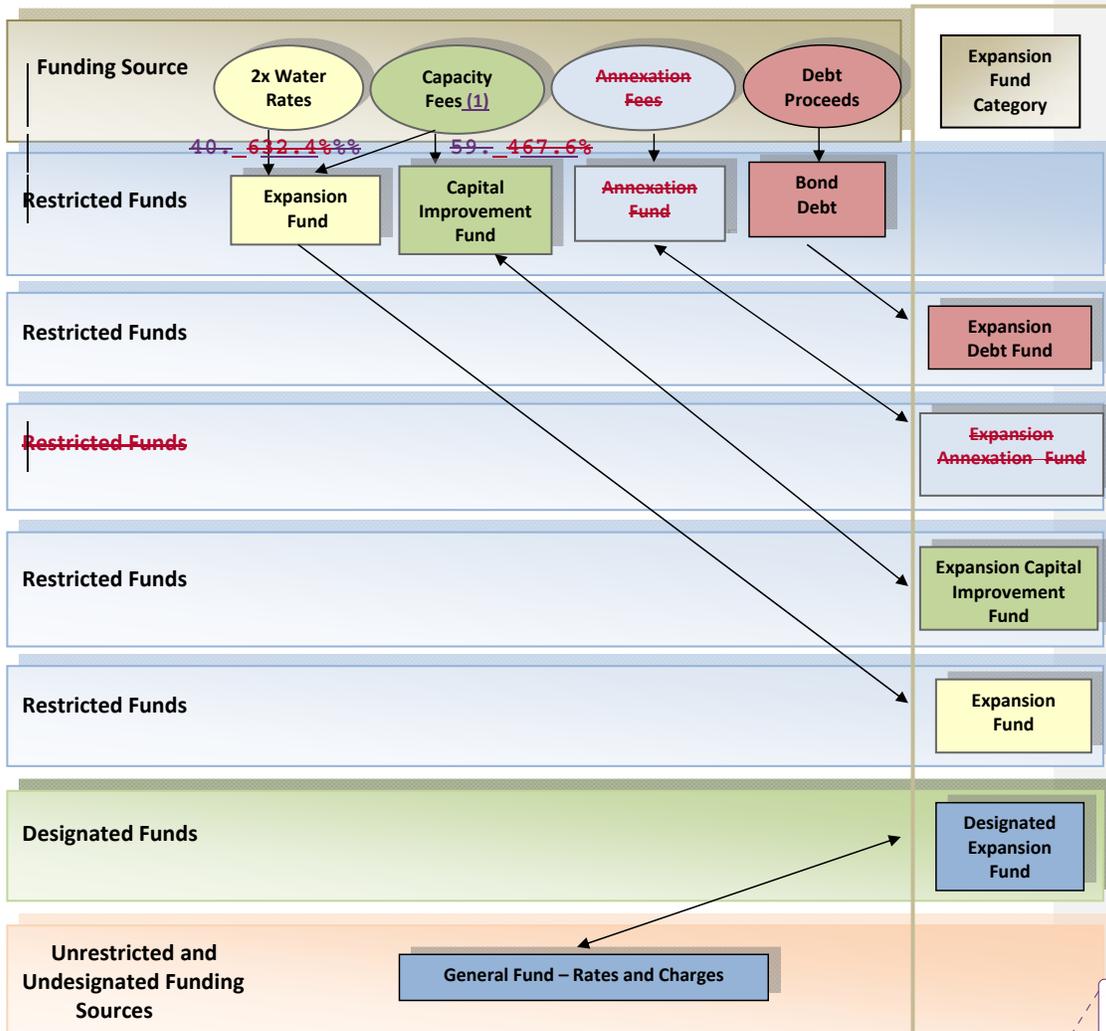
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a reallocation of restricted reserves. Bond proceeds would be placed in the Restricted Bond Fund, transfers of general use reserves would be placed in the Designated Expansion Fund, and transfers of restricted reserves would be placed in ~~either the Expansion Annexation Fund or the~~ Expansion Capital Improvement Fund.

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**Diagram 3.3: Expansion Fund Category**



(1) For Water Capacity Fees 32.4% goes into the Expansion fund and 67.6% goes into the Capital Improvement Fund. For Sewer Capacity Fees, 100% would go to the Capital Improvement Fund to be used for replacement or betterment.

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**3.4 Replacement Fund Category**

a. Purpose

The Replacement Fund category is to finance replacement projects. When considering the reserve levels of the replacement category of funds, the following funds work in concert and must be considered jointly: the ~~Annexation Fund~~, Debt Fund, Capital Improvement Fund, and the Designated Replacement Fund. The purpose of these reserves is to pay for the replacement of capital infrastructure and capital purchases. These reserves are not to be used for the replacement of non-capital items.

With the District's development of its financial systems and the greater need and ability to separate and track reserves, the replacement reserves have 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 these are not considered normal maintenance. When the cost is below \$10,000, the costs are financed annually as operational maintenance. As charges are incurred on replacement projects the reserves are deducted from the respective Replacement Funds on a monthly basis.

b. Sources

The various funds in this category are financed by debt proceeds, ~~annexation fees~~, the "buy-in" portion of the capacity fee, and general fund designations.

c. Funding Levels

I. **Minimum Level** - The minimum reserve level of this category of funds is 3% of the historical value of existing assets as identified in the District's current financial statements. Potable, recycled, and sewer replacement are evaluated separately.

II. **Maximum Level** - The maximum reserve level of this category of funds is 6% of existing assets. If the

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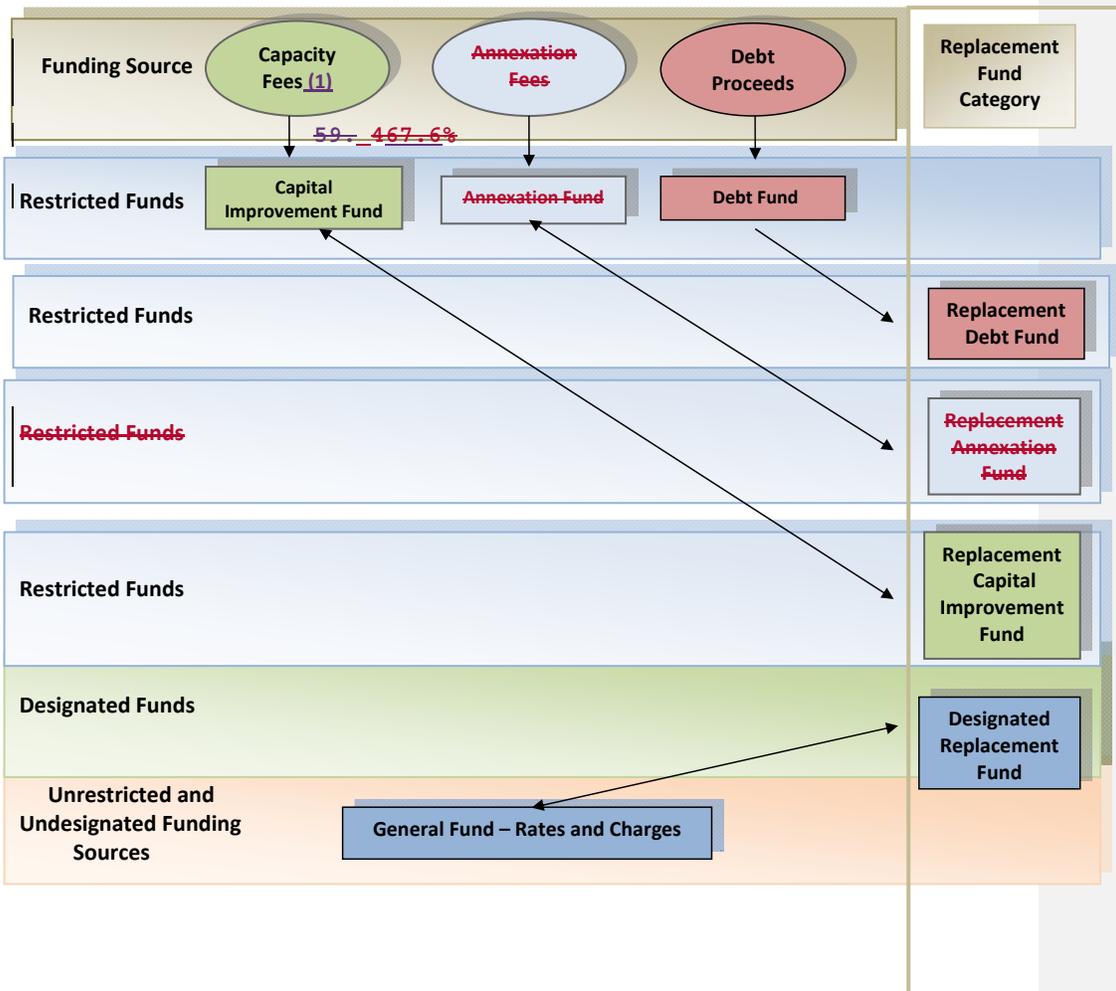
combined replacement reserves exceed target levels, the District should consider transferring ~~annexation fees or~~ the "buy-in" portion of the capacity fee to meet other purposes. Another consideration would be to shift the timing of replacement projects.

- III. **Target Level** - The target reserve level of this category of funds is 4% of existing assets. In the event that the reserves fall below the recommended target level, the District should consider transferring ~~annexation fees or~~ the "buy-in" portion of the capacity fee. The District should also consider shifting the timing of replacement projects or issuing debt to support the planned level of facility replacement. The District will act based on the annual six-year rate model, to insure that at the end of that planning horizon the reserves exceed the minimum level and is approaching the target level.

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**Diagram 3.4: Replacement Fund Category**



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(1) ~~For Water Capacity Fees 67.6% goes into the Capital Improvement Fund. For Sewer Capacity Fees, 100% would go to the Capital Improvement Fund to be used for replacement or betterment.~~

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### 3.5 Betterment Fund Category

a. Purpose

The Betterment Fund category is to finance the betterment portion of capital projects with a portion going to maintenance of the potable, recycled, and sewer systems. The District maintains separate Betterment Fund categories, one for each improvement district. An improvement district is a legally defined geographic area usually established for the purpose of bond financing of facilities. The betterment reserves within these funds are restricted by law for use within the improvement district in which the fees were collected (Water Code 71631.6). However, the legal restriction of this reserve depends upon the particular revenue source. (See Section 2.1-2 fb. for a review of the ~~special rates and~~ availability fees).

When considering the reserve levels of the betterment category of funds, the following funds work in concert and must be considered jointly: the Betterment Fund, ~~Annexation Fund,~~ Debt Fund, Capital Improvement Fund, and Designated Betterment Fund.

b. Sources

The Betterment Fund category receives restricted revenues by improvement district ~~via special water rates and~~ from availability fees ~~(the first \$10 is unrestricted, while amounts over \$10 are restricted)~~ collected through the county tax roll. Betterment may also be financed by debt proceeds, ~~annexation fees,~~ the "buy-in" portion of the capacity fee, as well as the general fund through a designation of reserves.

c. Funding Levels

I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through this lifecycle the need for

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betterment reserves will decrease and may be reduced to zero.

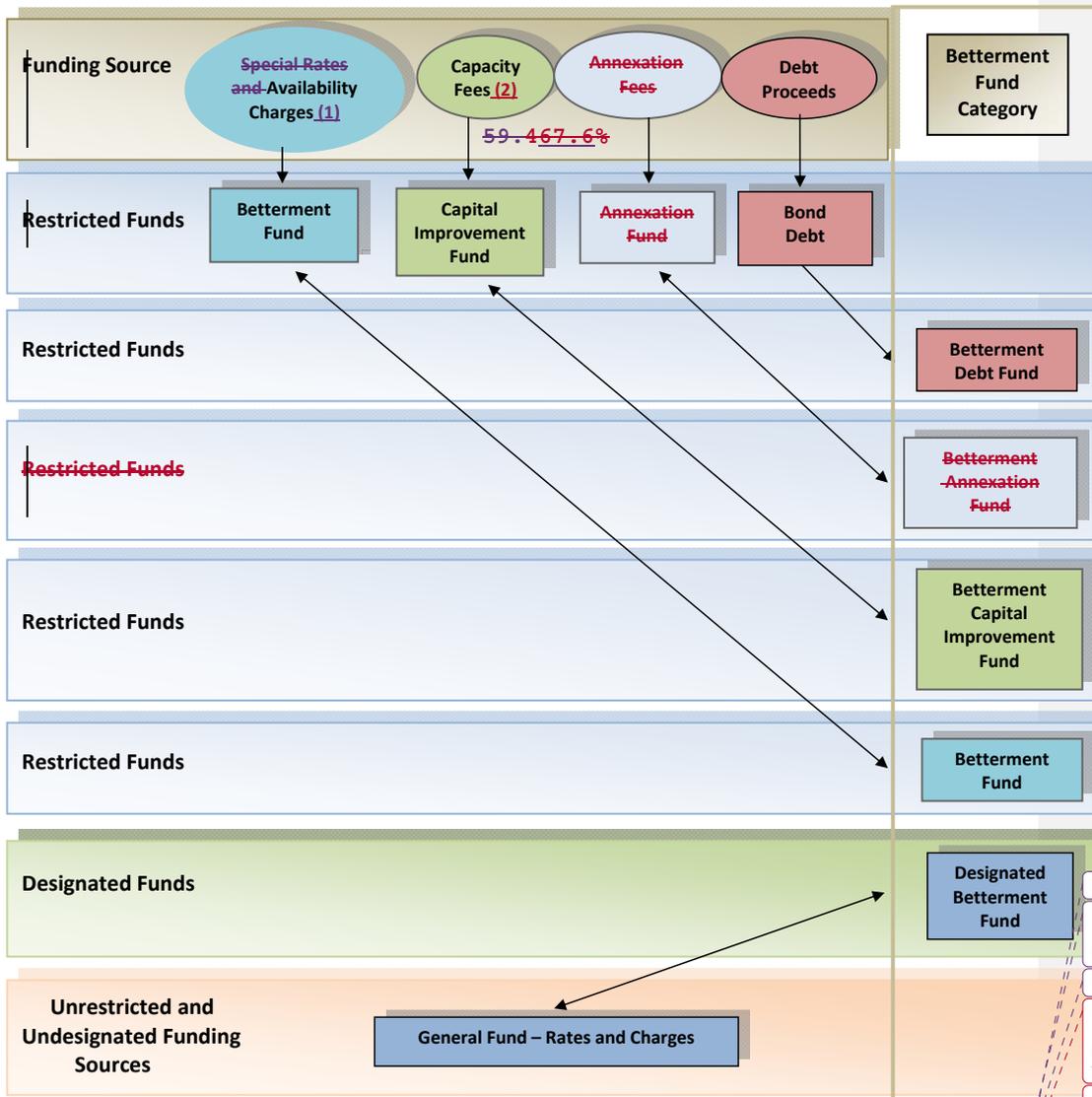
II. **Maximum Level** - The maximum reserve level for the betterment category of funds is limited to five years of unfinanced betterment facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total financing need must be reduced by the projected betterment revenues, bond financing, ~~annexation~~, and general fund designations. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.

III. **Target Level** - The target is six months of betterment expenditures. It is important that the betterment reserves remain at a minimum of six months of betterment expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting betterment reserves. If the combined betterment reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, or an adjustment to the timing of betterment projects. Bond proceeds would be placed in the Betterment Bond Fund while transfers would be placed in the Designated Betterment Fund.

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**Diagram 3.5: Betterment Fund Category**



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(1) The portion of charges over \$10 per parcel is restricted.  
 (2) For Water Capacity Fees 67.6% goes into the Capital Improvement Fund. For Sewer Capacity Fees, 100% would go to the Capital Improvement Fund.

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**Diagram 3.6: Fund Targets**

Fund or Fund Category	Actions to Consider if below Target	Target	Maximum
New Supply Fund Category	New supply fee increase, bond financing, or transfer to <del>designation</del> <u>designated</u> or <del>to CIF Funds</del> or <del>Annexation Fund</del>	Total of all funds in fund category = six months of capital expenditures	Nexus of cost to fee
Expansion Fund Category	Capacity fee increase, bond financing, or transfer to <del>designation</del> <u>designated</u> or <del>to CIF Funds</del> or <del>Annexation Fund</del>	Total of all funds in fund category = six months of capital expenditures	Nexus of cost to fee
Replacement Fund Category	Bond financing, or transfer to <del>designation</del> <u>designated</u> or <del>to CIF Funds</del> or <del>Annexation Fund</del>	Total of all funds in fund category = 4% of infrastructure	Nexus of cost to fee
Betterment Fund Category	Bond financing, or transfer to <del>designation</del> <u>designated</u> or <del>to CIF Funds</del> or <del>Annexation Fund</del>	Total of all funds in fund category = six months of capital expenditures	5 years unfunded needs
Debt Reserve Fund	Increase tax collection or rates	One semi-annual payment	Two semi-annual payments
OPEB Fund	Fund transfers	Full funding	Full funding
General Fund	Rate increase or fund transfers	Three months of operating budget expenses	Nine months of operating budget expenses

~~Note: The annexation fee for sewer is a general fund revenue.~~

**Additional Restricted Funds**

**4.0 Capital Improvement Fund**

- a. Purpose

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The "Capital Improvement Fund's sole purpose is to track the "buy-in" portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were collected. In this case it is to pay for facilities that were in existence at the time this fee was established. These fees may be used for expansion, replacement, or betterment projects or any debt related to these categories. These water capacity fees may also be used for either the potable or the recycled systems. As capacity fees are collected, the "buy-in" portion of the fee is allocated as needed to one of three capital improvement funds, one in each of the Expansion, Replacement, and Betterment Fund categories. These reserves are used to pay debt or offset any negative balance within these three categories of funds. For sewer, these fees fund the Expansion, Replacement, or Betterment Fund categories. These fees may not be used to finance the New Water Supply category, as there were no new water supply facilities in existence at the time the new methodology for capacity fees was established.

b. Sources

The "buy-in" portion of the capacity fee collected after June 30, 2010 or after September 30, 2014 for sewer.

c. Funding Levels

There are no minimums, maximums, or target levels for these reserves on an individual basis. The allocation of this fee to the various capital improvement funds is dependent on the overall reserve levels within each fund category.

~~4.1 Annexation Fund~~

~~a. Purpose~~

~~The Annexation Fund's sole purpose is to track the potable, and recycled, and sewer annexation fees collected and to ensure these fees are expended solely for the purpose for which they were collected. The annexation fees may be used for expansion, replacement, or betterment projects or any debt related to these categories. These fees may be used for either the potable or recycled systems. These reserves may not be used to finance the New Water Supply category, as it was not in existence at the time the fee was established. As these fees are collected they are allocated as needed to one~~

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~~of three capital improvement funds, one in each of the Expansion, Replacement, and Better Fund categories.~~

~~b. Sources~~

~~Potable and recycled annexation fees collected after June 30, 2010 or after September 30, 2014 for sewer.~~

~~c. Uses~~

~~There are no minimums, maximums, or target levels for these reserves on an individual basis. The allocation of this fee to the various Annexation Funds is dependent on the overall reserve levels within each fund category.~~

**4.21 Debt Reserve Fund**

a. Purpose

The Debt Reserve Fund is established to hold the proceeds from the various debt issuances. There are two types of debt, General Obligation bonds and Certificates of Participation bonds. The proceeds are transferred to the New Water Supply, Expansion, Replacement, or Betterment Debt Funds as they are expended for various facilities within those fund categories. As repayment of the debt occurs, the balances within these individual funds are reduced so that the financial impact of issuing debt is tracked within the category for which the debt was issued.

b. Sources

Debt proceeds.

c. Uses

There are no minimums, maximums, or target levels for this fund on an individual basis. This fund is available on an as needed basis to fund CIP projects for new water supply, expansion, replacement, or betterment. From a funding level perspective, these reserves are evaluated in the context of all the various funds within each fund category.

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**Fund Transfers**

**5.0 Funding Levels**

As described in the preceding sections, the District maintains reserves for its operating and capital activities. These reserves can be of three types: 1) undesignated or general use reserves, 2) designated, and 3) restricted for a specific purpose. The restricted reserves can be restricted geographically and/or by purpose. The District maintains various funds to track the various designations and restrictions. The source of the money for each fund was discussed along with the purpose, source of funds, and levels. Key characteristics 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 in light of the 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 or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the projected District's financial activities and the guidelines of this policy.

**5.1 Fund Transfers**

Reserves within the District's various designated funds come from interfund transfers of unrestricted general use reserves. It is important to note that the District has the ability to use general use reserves for any business purpose. General use reserves may be transferred to and from any unrestricted fund for any business need. Designated reserves are general use reserves which have been set aside for a specific purpose by Board action. These reserves can only be used for the purpose they were designated, or

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with Board action they may be used for any other business purpose. While general use reserves may be used for any restricted purpose they may not be transferred to Restricted Funds due to the sensitivity of the tracking of restricted reserves. If reserves are needed for a restricted purpose they are transferred to a Designated Fund within the fund category with that particular purpose. Reserves restricted to a fund category may only be used within that category and may not be transferred to another category. For example, the new water supply fee and the "incremental" portion of the capacity fee are restricted reserves for a specific purpose, and may not be transferred to another category as no other category has the same purpose. However, the "buy-in" portion of the capacity fees ~~and annexation fees~~ are restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose.

In many situations reserve transfers are expected as some fund categories will exceed their maximums or drop below their minimums. Only fund categories that are below the stated target are eligible to receive transferred reserves. Fund categories 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 reserve transfers out, but only when other options are not available.

The rationale for prioritizing reserve transfers is based on the immediacy of the need and the availability of reserves from other funding sources. For example, the General Fund is first to receive reserves 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 finance 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 financing options.

When making the determination of when transfers are necessary, all funds within a fund category work as a group. The combined

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balance of the restricted and designated funds is looked at when determining whether the fund category requires additional funding from the Restricted Capital Improvement Fund, ~~Restricted Annexation Fund~~, Restricted Debt Fund, or the General Fund. Because the Capital Improvement Fund ~~and Annexation Fund~~ may finance expansion, replacement or betterment reserves may be transferred between these fund categories, but only back and forth within its own type of restricted fund.

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 six-year planning horizon, this would trigger a bond sale, a transfer of general use reserves, and/or a transfer of restricted reserves. If in the cash planning process, it was anticipated that the General Fund would remain above target during the planning horizon and that the trend did not present a problematic underfunded status, then General Fund reserves would be considered available for transfer prior to making proceeds available from a bond sale. Also, if during this period the Betterment Fund category was anticipated to exceed its maximum, then reserves from either the Designated Betterment Fund, ~~the Annexation Fund~~, or the Capital Improvement Fund would be transferred to the corresponding Expansion Fund prior to a bond sale. All funds are evaluated to determine which has the greatest need or availability of reserves before any reserve transfer recommendation is presented to the Board.

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**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: When water service is requested for land outside the boundaries of the District, the land to be serviced must first be annexed. For sewer service the land must be annexed into an improvement district within the District.

Assets: Resources owned or held by Otay Water District that has 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.

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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 payments, and other infringements of the District's Code of Ordinances.

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1% Property 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, AB 8, 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. 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.

Russell Square: A sewer lift station constructed in 1983 that serves four properties in the Russell Square Development.

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.

Tax Collection for Bond Debtes: 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.

Unit: A Unit of water is 100 cubic feet or 748 gallons of water.

Water Rates: Rates vary among classes of service and are measured in Units. The water rates for residential customers are based on

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an accelerated block structure. As more Units are consumed, a higher Unit rate is charged. Effective in 2009, all non-residential customers are charged for water based on a tiered rate structure in which water rates are based on meter size and amount of Units consumed.

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## 1.0 The District

The Otay Water District is a California municipal water 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 their 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 provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such, the District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has an identifiable 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 the service costs relating to each of its four customer service types. 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.

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**1.1 The District's Use of Financial Resources**

All of the District's expenditures fall into two broad categories: operating costs and capital expenditures. The operating costs include costs relating to 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 services. The District uses various funds to support the operating and capital efforts. Operations and maintenance is financed only by rates and charges, also called pay-as-you-go, while capital infrastructure is financed using two financing methods: pay-as-you-go and debt issuance (requiring annual debt service). The Capital Improvement Program (CIP) and the two funding methods support the construction, betterment, and replacement of infrastructure in all three business areas: potable, recycled, and sewer.

The District establishes different funds to track revenues allocated to different activities. Once established, each fund receives financial resources up to the levels defined in this policy. Every 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 requirements and financial resources are then evaluated to ensure that the existing fund balances and additional revenues are sufficient within the current budget cycle and for the next five years to maintain target fund levels. If a deficit is identified, then options for transfers, shifting CIP projects, debt, cost saving measures, and/or rate increases are evaluated.

**1.2 The District's Capital Improvement Program (CIP)**

The planning, design, and construction costs of all capital facilities within the three business segments are allocated to four cost types and corresponding fund categories: New Water Supply, Expansion, Replacement, and/or Betterment. The allocation to these four cost types is defined in the District's Capital Improvement Program (CIP) and is determined by an engineering analysis that identifies which type of customer will benefit from each facility, planned or existing. The costs of the capital

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improvements are borne by either existing users or by the developing areas, or by a combination of the two, as applicable. This Reserve Policy protects both the existing users and the developing areas from incurring unwarranted costs. Developing areas are not required to finance facilities that are replacement or betterment and established areas are not required to replace facilities before they are worn out because of new development. However, to ensure a fair allocation of costs, each facility has the potential to be classified into any or all of the four cost types. In addition to these cost types there are occasional CIPs that may be billable to a third party, if for example a third party requires a District facility be relocated. Paragraphs a through d below, describe how the costs of capital facilities are financed through various fees.

a. New Water Supply

The portion of a new supply project that benefits new users is financed from the reserves in the New Water Supply Fund category. These reserves are primarily derived from proceeds of the new water supply fee. The New Water Supply Fund is restricted, meaning the amounts credited to this fund are accounted for separately and are used solely for the planning, design, and construction of the new water supply expansion facilities. Debt financing may also be a temporary financial resource to finance new water supply projects. The District has a Debt Policy (Policy No. 45) that guides the debt issuance process. Any debt proceeds used for this purpose would be restricted in nature and tracked separately. General use reserves may also be placed in the Designated New Water Supply Fund and used for water supply projects.

b. Expansion

The portion of a CIP project that benefits new users is financed from the reserves in the Expansion Fund category. These reserves are primarily derived from proceeds of the "incremental" portion of the capacity fees collected within developing areas. Capacity fees are accounted for separately and used for the planning, design, and construction of expansion facilities. Additionally, expansion may be financed by the "buy-in" portion of the capacity fee which is restricted for CIP purposes, but not specifically for expansion. Debt financing may also be a temporary financial resource for expansion projects. General use reserves may

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also be placed in the Designated Expansion Fund and used for expansion projects.

c. Replacement

The portion of a CIP project that benefits existing users by replacing an existing facility is financed from the reserves in the Replacement Fund category. Replacement of facilities may be financed with proceeds of the "buy-in" portion of the capacity fees, general use reserves held in the Designated Replacement Fund, and debt proceeds. The various funding sources available for replacement projects is anticipated to provide the necessary flexibility to begin projects while any necessary debt financing is being obtained.

d. Betterment

Facilities that improve reliability, meet new regulations, or create increased levels of service are considered betterment facilities that benefit existing users. The reserves in the Betterment Fund category are used to finance these projects or portions of projects. Proceeds of the "buy-in" portion of the capacity fees may also be used to finance betterment projects. General use reserves may be placed in the Designated Betterment Fund and used for betterment projects.

*1.21 Relocations*

Occasionally, relocation of a District facility is required by a third party. If the District has a superior easement the relocation cost will be paid by the third party, but only to the extent that the District does not benefit from the relocation. When relocation is required, a CIP project may be created which is wholly or partially financed by a third party. On occasion, the District will require that its own facilities be relocated. Depending on the nature of the facilities, the financial resources for these projects could be from new water supply, expansion, replacement, betterment or third party financing. Each project is individually negotiated with the third party based on the facts and circumstances of the relocation. Occasionally, the District will improve the facilities that are being relocated. When determining how to allocate costs to various funds the following guideline is suggested: if a project has more than five years of useful life remaining, an incremental cost view should be considered; if the project has less than five years of useful life remaining, a pro-rata cost approach should be considered. Also,

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the likelihood the District will benefit from an asset's life extension should be evaluated prior to allocating costs.

*1.22 Oversizing*

If deemed reasonable by the District, in connection with the construction of backbone facilities, a developer may be required to oversize new facilities for future development. The developer is reimbursed for incremental oversizing costs as per Policy No. 26. These reimbursements are not available for the distribution system within a development which is an obligation of the developer.

*1.23 Exclusion of Developed Areas from Expansion Costs*

Developed areas are assumed 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 financing costs are allocated to these areas so that they will not incur any costs for newly developing areas, except for capital projects that produce district-wide benefit or cost savings.

*1.24 Improvement Districts (IDs)*

Improvement Districts (IDs) are established to facilitate the financing of particular improvements by the specific beneficiaries. The District has a number of improvement districts that were established for General Obligation (GO) debt repayment. Most GO debt has been paid off and it is unlikely that the District will issue additional GO debt. Improvement districts continue to be used for other purposes: 1) to distinguish sewer customers from water customers on the county tax roll; or 2) to place parcels on the county tax roll for the collection of availability fees.

Over the years, the District moved to a district-wide perspective of financing improvements. This philosophy is evident by the district-wide capacity and annexation fees. The District also uses district-wide water rates. As time goes on, it is expected that IDs will continue to outgrow their purpose and their use will diminish.

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**1.3 The Purpose of the Policy**

Public entities accumulate and maintain reserves to ensure both financial stability and continuous availability of services. Financial stability and the resulting improved credit quality allow the public entity to weather times of uncertainty and the impact of negative events, both major and minor. Reserves allow for the ongoing maintenance of property and timely payment of expenses even when such expenses exceed money available from 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 public entity.

A "reserve" has a number of meanings, as follows:

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

It is important to note that reserves, 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. In addition, the term fund balance was 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 finance contingent future activities, whether known or unanticipated, operating or capital in nature. The District's Reserve Policy governs the

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management and use of these financial resources. 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 as well as the demand for 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 Educational Revenue Augmentation Fund (ERAF) contributions or changes in calculation methodology.
- Operating Costs - increases in operating and maintenance costs because of inflation, labor agreement or other modification.

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- 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 require short-term borrowing in the absence of sufficient financial resources.

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, Report No. 2003-137. All of these recommendations have 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, including minimums and maximums, for the accumulation of reserves.
- Identify the events or conditions that prompt the use of reserves.
- Conform to plans to acquire or build capital assets.
- Receive Board approval and that it is 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 reserves.<sup>1</sup>

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<sup>1</sup> 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.

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Specifically, the Constitution states that "each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund...or similar funds as it shall deem reasonable and proper."<sup>2</sup> 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 context for different districts and different contingencies justifying reserves.

The Government Finance Officers Association (GFOA) in its "Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund" (2002) states that in establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors. These include:

- The predictability of its revenues and the volatility of its expenditures (*i.e.*, higher levels of the unreserved fund balances 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 the unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (*i.e.*, a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (*i.e.*, governments may wish to maintain higher levels of the unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

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<sup>2</sup> California Constitution, Article XIII B, Section 5.

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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's general guidelines as provided above. In addition, the District has adopted the following principles in the management of its financial resources:

- Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity among 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 operations and maintenance from capital expenditures occurs within each of the service types. This is done because the financing of these expenditures is often on different timelines or use different reserves.
- The District will hold its reserves 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 reserves 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 long-term financing which spreads the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use

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them. The District could amass significant reserves by pre-collecting financial resources in a Replacement Reserve Fund allowing the District to cash finance all replacements. However, this would require significant rate increases 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 model on 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 fees charged. This review also insures that reserves will be available to continue to serve the District's customers.

**Financial Sources**

**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 financed by developers.
  
- b. 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.
  
- c. Water Annexation Fees (General Use)  
Annexation fees<sup>3</sup> are collected as a condition of annexing into the District's potable or recycled water facilities. Since the existing facilities have been built and maintained

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<sup>3</sup> Code of Ordinances, Section 9.

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by developers or customers within the District, the annexation fee is calculated based on the present value of all property taxes (1% property tax and availability fees) paid by existing and prior customers. The annexation fee reimburses existing customers for past contributions so that all customers have contributed more equally to water facilities. Proceeds of annexation fees are unrestricted and may be used for any general fund purpose.

d. Sewer Annexation Fees (General Use)

A sewer annexation fee is collected when property is annexed into an improvement district. Since the existing facilities have been built and maintained by developers or customers within a sewer IDs, the annexation fee is calculated based on the present value of all availability fees paid by existing and prior customers. The annexation fee reimburses existing customers for past contributions so that all customers have contributed more equally to sewer facilities. Proceeds of the annexation fees are unrestricted and may be used for any general fund purpose.

e. New Water Supply Fee (Restricted)

New water supply fees<sup>4</sup> are based on the cost of the expansion portion of new water supply projects divided by the number of future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District's new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects. Although the fees collected are not restricted separately, one portion for potable and the other for recycled, they are tracked separately.

f. Water Capacity Fees (Restricted)

Water capacity fees<sup>4</sup> are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in"

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<sup>4</sup> Code of Ordinances, Section 28

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portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. The "incremental" portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities (excluding new water supply expansion).

g. Sewer Capacity Fees (Restricted)

Sewer capacity fees are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers cost to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in" portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. The "incremental" portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities. For parcels within a sewer ID the calculation excludes the tax debt already paid by these customers therefore, producing a lower fee than for parcels outside of a sewer ID. The capacity fees are restricted to pay for planning, design, construction, and financing associated with the expansion, replacement, or betterment of facilities.

Facility needs are based on projected land use planning. Changes in anticipated future land use occur and can alter projected facility requirements. Thus, both the anticipated facilities needs and their projected costs change over time as regulatory agencies make changes to land use. The District periodically reviews the capacity fee calculation to accommodate such variations. These fees are paid by developers.

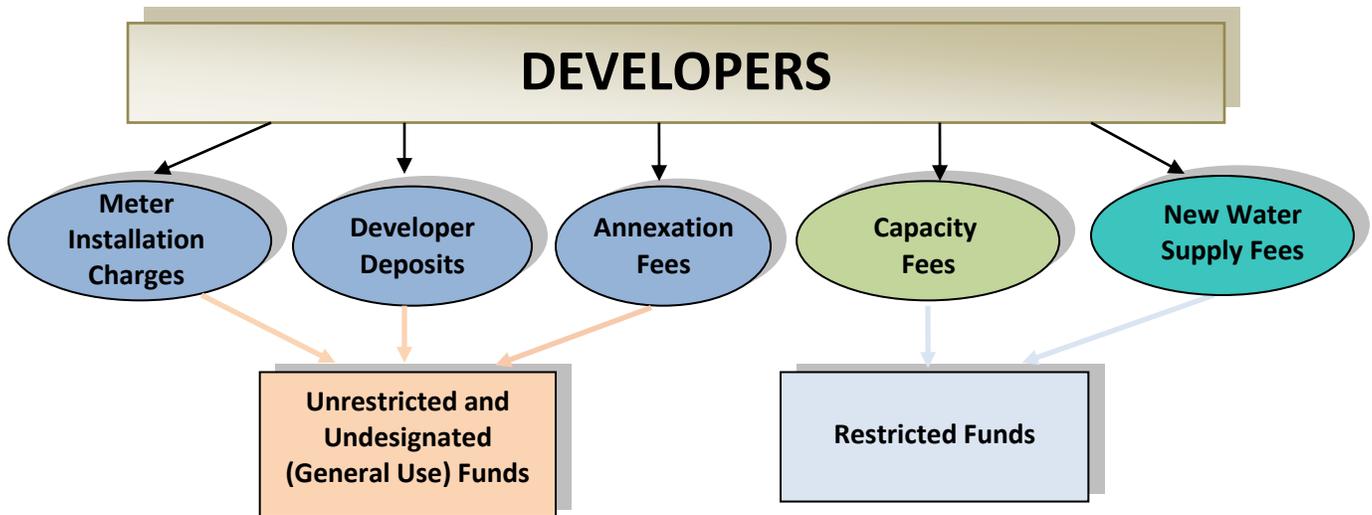
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The District's construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and two, it is more efficient to oversize 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 reserves are depleted.

The water capacity fee is calculated based on the combined recycled and potable water systems' needs. This methodology is used because the two water systems work hand-in-hand. All capacity fees can be used for either potable or recycled but must be tracked to distinguish between the "buy-in" and "incremental" portions as described above. So, while capacity fees are not restricted separately by potable and recycled, they are tracked separately.

**Diagram 2.0: Flow of Funds - Developer Sources**



**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.

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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 a charge 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 costs from the County Water Authority (CWA) and the Metropolitan Water District (MWD).

f. Special Rates and Charges (General Use)

In addition to the uniform water and sewer charges, the District has a special sewer rate for the Russell Square lift station. The Russell Square fee is for construction, installation, maintenance or repair of the Russell Square lift station. This fee is collected in accordance with the Russell Square sewer charge (see Code of Ordinances Section 53.03B).

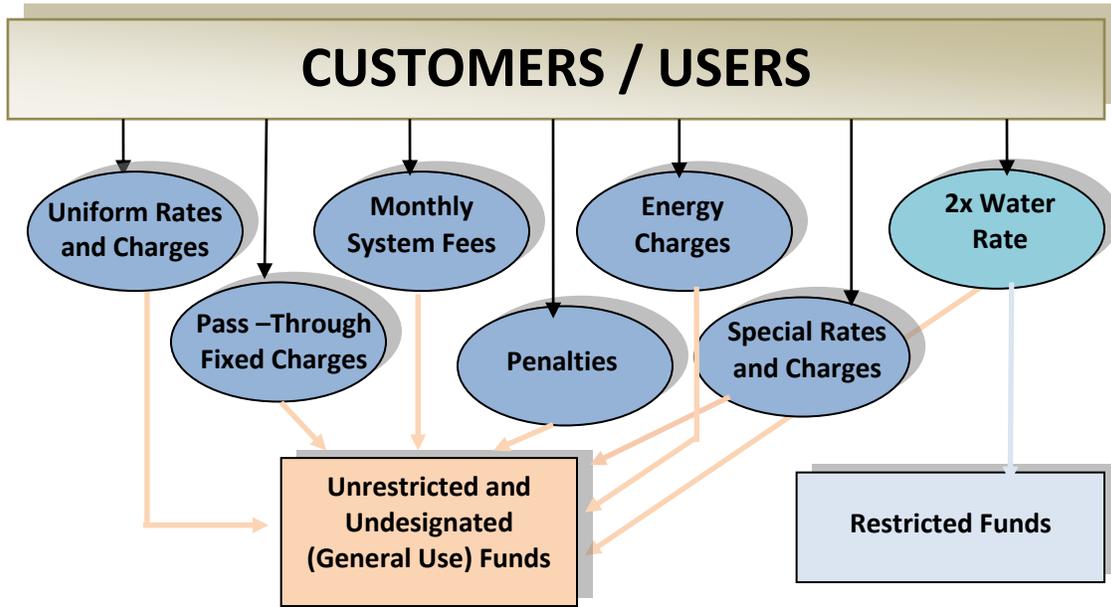
g. Temporary Meter Fees (General Use/Restricted)

Water charges, in lieu of capacity fees, are charged on temporary meters. This is done because temporary meters use system capacity but 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.

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**Diagram 2.1: Flow of Funds - Customer Sources**



**2.2 County-Collected Taxes and Fees**

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

In 1978, Proposition 13 limited the levy of ad valorem property taxes on real property to one percent of the assessed value of such property. 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. Taxes received are for general use. Spending limits for the District are governed by the 1979 passage of California Proposition 4, Limitations of Government Appropriations (GANN limit). Proposition 4 places an appropriation limit on most spending from tax proceeds.

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 the improvement district (ID) within

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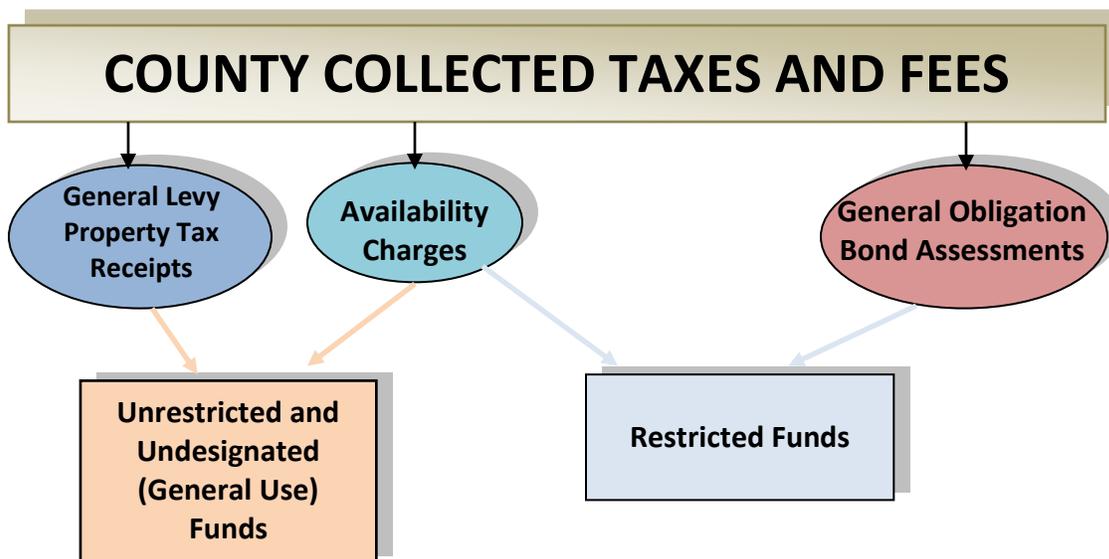
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which it is collected. Accordingly, the District may use availability charges in excess of \$10 toward costs of water and sewer facilities which are either, expansion, betterment, or replacement of facilities consistent with the purpose of the ID in which they are collected. This portion of the proceeds of availability charges is geographically restricted and restricted by purpose. As costs are incurred on these projects the respective IDs are charged, reducing the reserves. To the extent that availability charges are not used for the purpose for which they are collected, they must be returned to the property owners that paid them. The District has historically used these reserves for betterment capital facilities thus, the restricted reserves are accounted for in "sub-funds" of the Betterment Fund (See 2.1 f.).

c. Improvement District General Obligation (GO) Bond Assessments (Restricted)

The District has historically issued general obligation (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 special taxes or assessments within the ID to pay the debt obligation. The proceeds of the debt are restricted for the purpose as defined in the bond documents.

**Diagram 2.2: Flow of Funds – County Collection Sources**



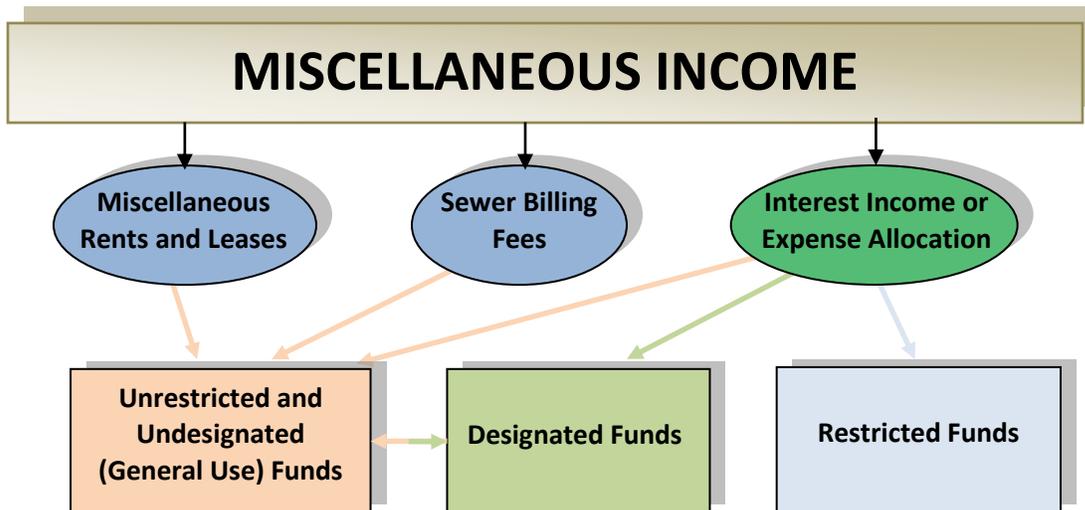
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**2.3 Miscellaneous Income**

- a. Miscellaneous Rents and Leases (General Use)  
Revenues received from the rental and lease of District property are general use revenues. Not only are they periodic revenues, but there is also a one-time fee charged with the setup of each new lease. The District incurs expenses related to these rents and leases. The one-time fees are calculated to recover the costs to setup the leases.
  
- b. Sewer Billing Fees (General Use)  
Sewer billing fees are general use revenues. The District provides processing and billing services to the City of Chula Vista to bill and collect from their customers for sewer service. These fees are to recover the cost the District incurs to provide this service.
  
- c. Interest Income or Expense Allocation (General Use, Designated, and Restricted)  
Interest income (expense) will be allocated every month based upon each fund's month-ending balance. In this way, each fund receives credit for interest earned by that fund and each fund with a negative balance is charged for the use of the other fund's reserves.

**Diagram 2.3: Flow of Funds – Miscellaneous Income Sources**



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**2.4 Debt Issuance**

a. Loans (General/Restricted Use)

As the District determines that additional financing 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 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 general obligation 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 financing 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.

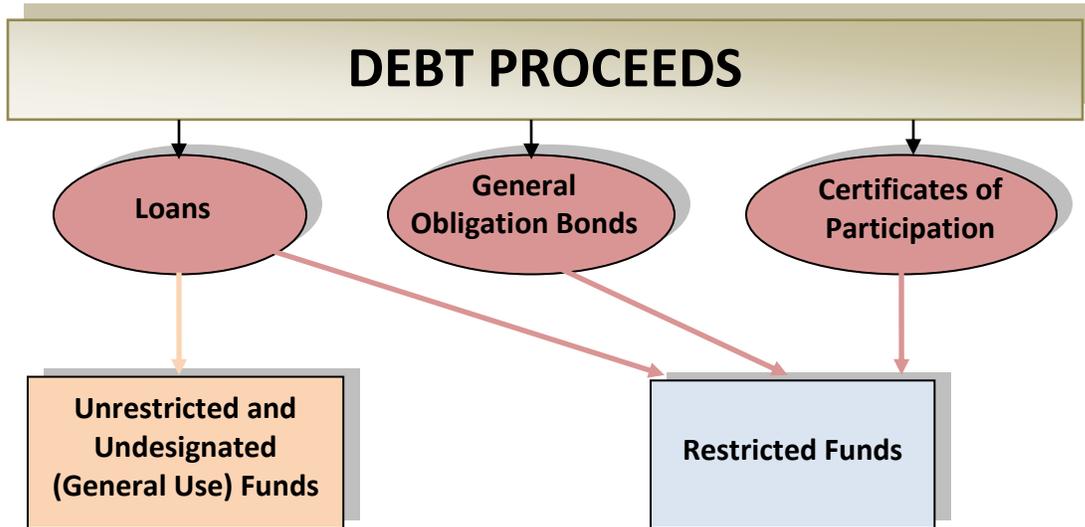
c. Certificates of Participation (COPs) (Restricted)

General revenues of the District are pledged as security for Certificates of Participation (COPs) indebtedness. If the District determines that additional financing 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. This form of financing has become the industry's preferred form of financing as it does not require a vote of the general public.

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**Diagram 2.4: Flow of Funds – Debt Issuance Sources**



**2.5 Inter-fund Transfers**

Each year in the budgeting process, future fund levels are projected for the next six years. Based on these projections transfers are recommended. Reserves may be transferred between Unrestricted or Designated Funds and the General Fund (see 4.0 “Funding Levels” and 4.1 “Fund Transfers”). Reserves may not be transferred to or from any of the restricted funds unless it is between two restricted funds with a shared purpose.

**Fund Types and Categories**

**3.0 General Funds**

a. Purpose

The General Fund is neither restricted nor designated. The District maintains one General Fund for each business segment (water, sewer, and recycled). This fund holds the working capital and emergency operating reserves. While the General Fund has a short-term focus to finance the District’s annual operations, it is supported by the six-year rate model. This

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fund is primarily used to finance the operations of the District; however, it can be used for any District purpose.

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. This fund can also be used to avoid spikes in the rates or significant and abrupt increases. It is an industry practice to have a fund that can be used to stabilize rates. This would only occur if there was a temporary need for reserves that would smooth out a rate spike or to ramp up what would otherwise be a dramatic rate increase.

The General Fund also plays a role in the debt planning of the District. 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 need a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also to access low cost financing for future projects.

b. Sources

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

The sewer general fund receives sewer charges, penalties, availability charges, sewer annexation fees, and interest income or expense allocation.

c. Funding Levels

- I. **Minimum Level** - The minimum reserve level for each business segment of the General Fund is three months of operating budget expenses (evaluated separately for each segment).

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II. **Maximum Level** - The maximum reserve 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 reserves 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 Other Post Employment Benefits (OPEB) Fund**

a. Purpose

Designated Other Post Employment Benefits (OPEB) reserves are "general use" reserves that have been set apart by Board action to finance the medical benefits of qualified retirees as outlined in the District's benefits plan. This fund is available to hold any Board designated OPEB funds. The District also has a trust at CalPERS and is restricted for the purpose of financing the OPEB liability. Money held in the CalPERS trust restricts the funds from any use other than OPEB. The two funds are considered jointly when looking at target reserve levels. Every two years, actuarial study is performed to update the annual financing requirements. Changes in the actuarial valuation may result from changes in benefit levels, employee population, health insurance costs, or general market conditions.

b. Sources

The OPEB liability may be financed by general use reserves coming from user rates and charges, either from an operating budget expenditure or from interfund transfers. Transfers of unrestricted reserves may come from the various designated funds or from the General Fund. As a part of the normal budget process, annual operating revenues have been sufficient to finance the ongoing needs of this designated fund. While debt financing is also an option, the District has only used user rates and charges to finance this fund.

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c. Funding Levels

I. **Minimum Level** - The minimum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. When considering the reserve level of this fund, both the District held OPEB reserves and CalPERS held OPEB reserves must be considered jointly.

II. **Maximum Level** - The maximum reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, exceed the OPEB liability, the District will reduce the annual funding levels as defined by the actuarial study.

III. **Target Level** - The target reserve level for this fund is equal to the District's OPEB liability as determined by the actuarial study. In the event that the two funds, as described above, fall below the OPEB liability, the District will increase the annual funding levels as defined by the actuarial study.

**3.2 New Water Supply Fund Category**

a. Purpose

The New Water Supply Fund category is to finance the expansion portion of new water supply projects and is therefore to be paid by developers. When considering the reserve level of the New Water Supply category; the New Water Supply Fund, the New Water Supply Debt Fund, and the Designated New Water Supply Fund all work in concert and must be considered jointly.

b. Sources

The New Water Supply Fund receives reserves only from the new water supply fee. Other funds within the new water supply category of funds receive debt proceeds and general use reserves through a designation to this category.

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c. Funding Levels

I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.

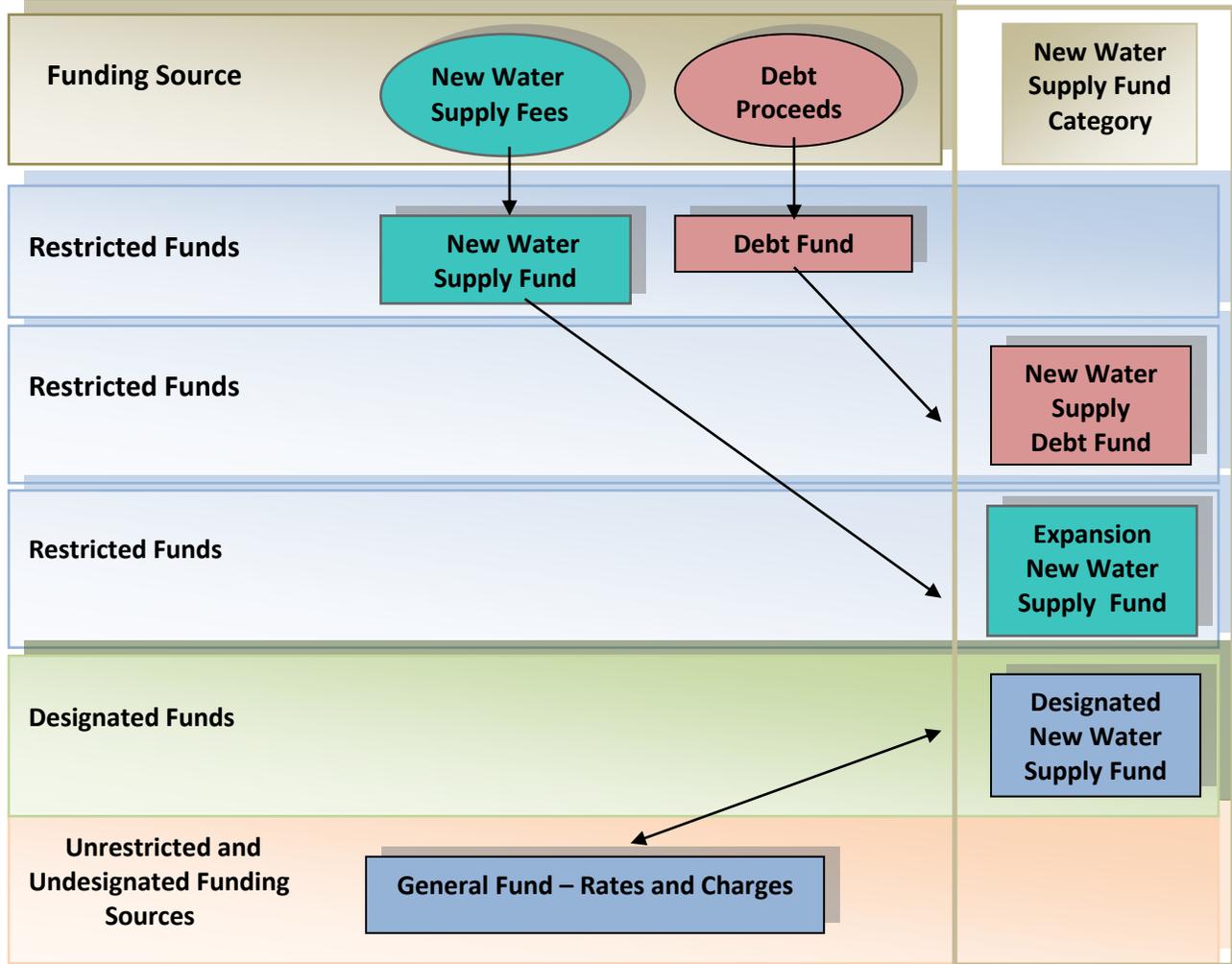
II. **Maximum Level** - The maximum reserve level for the new water supply category of funds is limited to five years of the unfinanced new water supply facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total new water supply financing needs must be reduced by the projected new water supply revenues, general fund designations, and bond financing. If the combined new water supply reserves exceed the target level, the District should consider transferring designated reserves to meet other purposes, reduce the new water supply fee, or change the timing of the new water supply projects.

III. **Target Level** - In order to facilitate debt financing of the new water supply, it is important that the various new water supply funds retain an overall reserve level of six months, prior to any attempt to obtain debt financing. This reserve level allows the District the time necessary to issue additional debt without depleting new water supply reserves. If the combined new water supply reserve levels drop below six months of expenditures, this would trigger a transfer of general use reserves, a bond sale, or a change in the timing of new water supply projects. Bond proceeds would be placed in the Restricted New Water Supply Debt Fund while transfers would be placed in the Designated New Water Supply Fund.

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**Diagram 3.2: New Water Supply Fund Category**



**3.3 Expansion Fund Category**

a. Purpose

The Expansion Fund category is to finance the expansion portion of capital projects and therefore is to be paid for by developers. When considering the reserve levels of the expansion category, the following funds work in concert and must be considered jointly: the Expansion Fund, Expansion Debt Fund, Capital Improvement Fund, and the Designated Expansion Fund. Potable and recycled reserves are considered jointly while sewer is evaluated separately.

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b. Sources

The Expansion Fund is financed by water charges in lieu of capacity fees (for temporary meters) and the "incremental" portion of the capacity fee. The other funds in this category may also be financed by debt proceeds, the "buy-in" portion of the capacity fee, and the general fund through a designation of reserves.

c. Funding Levels

**I. Minimum Level** - As the District matures the CIP will move to purely replacement and betterment projects. As the District moves through this lifecycle the need for expansion reserves will decrease and may be reduced to zero.

**II. Maximum Level** - The maximum reserve level for the expansion category of funds is limited to five years of unfinanced expansion facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total financing needs must be reduced by the projected expansion revenues, bond financing, and any restricted or general fund revenues allocated to this fund category. If the combined expansion reserves exceed target levels, the District should consider reducing capacity fees, reallocating restricted or designated funds to meet other purposes, or shifting the timing of expansion projects.

**III. Target Level** - The target level is six months of expansion expenditures. It is important that the expansion reserves remain at a minimum of six months of expansion expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting expansion reserves. If the combined expansion reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, an adjustment to the timing of expansion projects, or a reallocation of restricted reserves. Bond proceeds would be placed in the Restricted Bond

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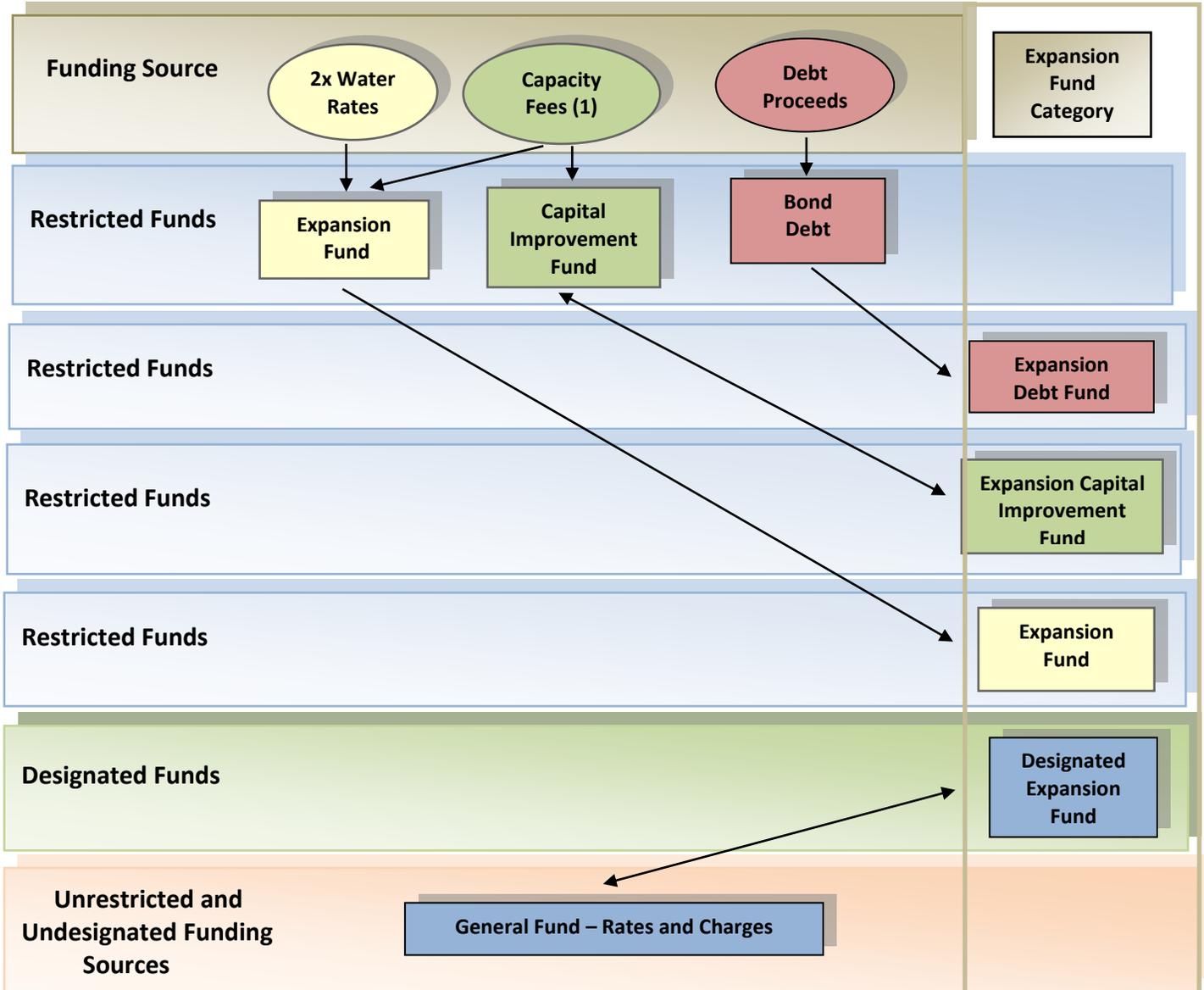
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Fund, transfers of general use reserves would be placed in the Designated Expansion Fund, and transfers of restricted reserves would be placed in the Expansion Capital Improvement Fund.

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**Diagram 3.3: Expansion Fund Category**



(1) For Water Capacity Fees 32.4% goes into the Expansion fund and 67.6% goes into the Capital Improvement Fund. For Sewer Capacity Fees 100% goes into the Capital Improvement Fund.

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**3.4 Replacement Fund Category**

a. Purpose

The Replacement Fund category is to finance replacement projects. When considering the reserve levels of the replacement category of funds, the following funds work in concert and must be considered jointly: the Debt Fund, Capital Improvement Fund, and the Designated Replacement Fund. The purpose of these reserves is to pay for the replacement of capital infrastructure and capital purchases. These reserves are not to be used for the replacement of non-capital items.

With the District's development of its financial systems and the greater need and ability to separate and track reserves, the replacement reserves have 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 these are not considered normal maintenance. When the cost is below \$10,000, the costs are financed annually as operational maintenance. As charges are incurred on replacement projects the reserves are deducted from the respective Replacement Funds on a monthly basis.

b. Sources

The various funds in this category are financed by debt proceeds, the "buy-in" portion of the capacity fee, and general fund designations.

c. Funding Levels

I. **Minimum Level** - The minimum reserve level of this category of funds is 3% of the historical value of existing assets as identified in the District's current financial statements. Potable, recycled, and sewer replacement are evaluated separately.

II. **Maximum Level** - The maximum reserve level of this category of funds is 6% of existing assets. If the

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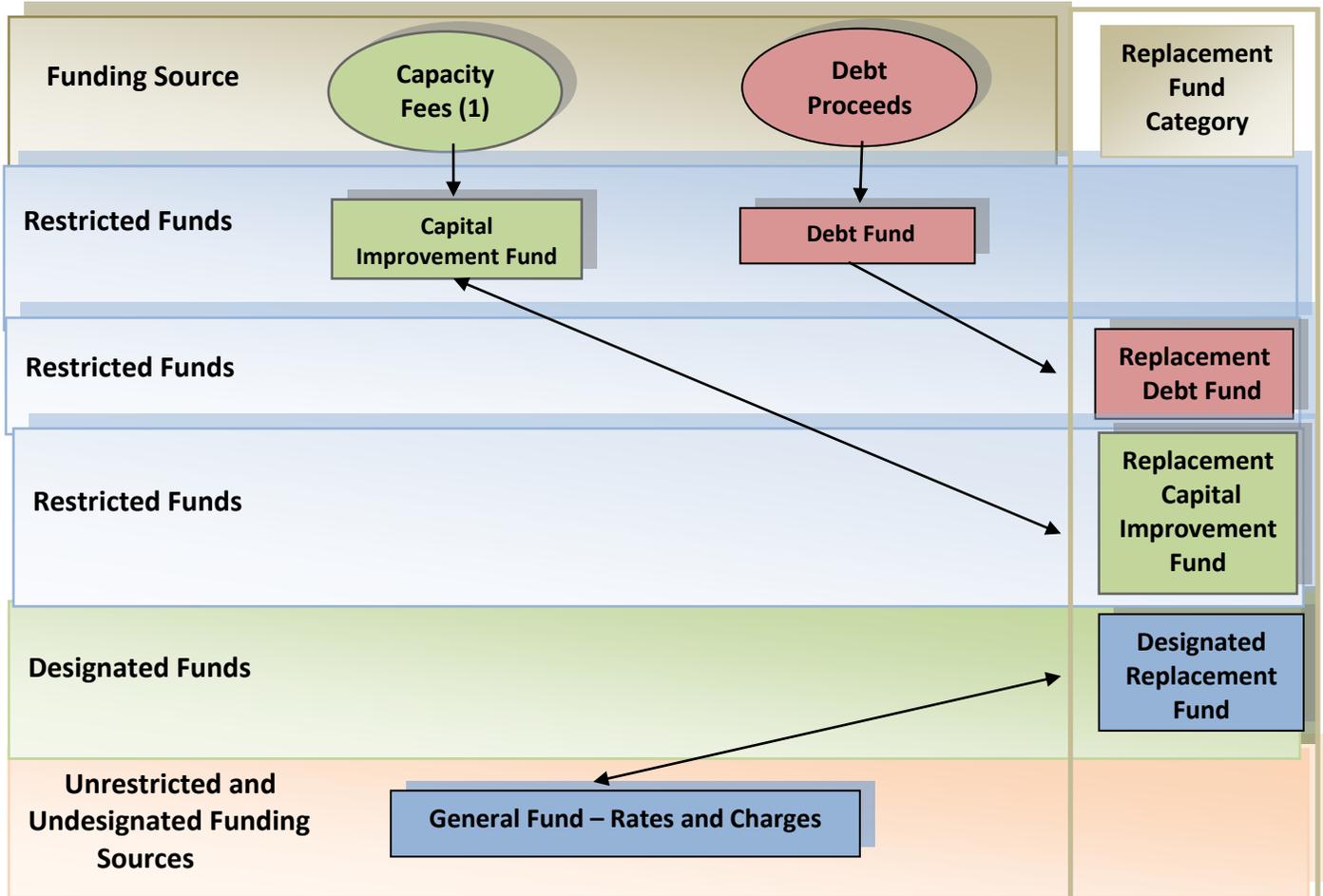
combined replacement reserves exceed target levels, the District should consider transferring the "buy-in" portion of the capacity fee to meet other purposes. Another consideration would be to shift the timing of replacement projects.

- III. **Target Level** - The target reserve level of this category of funds is 4% of existing assets. In the event that the reserves fall below the recommended target level, the District should consider transferring the "buy-in" portion of the capacity fee. The District should also consider shifting the timing of replacement projects or issuing debt to support the planned level of facility replacement. The District will act based on the annual six-year rate model, to insure that at the end of that planning horizon the reserves exceed the minimum level and is approaching the target level.

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**Diagram 3.4: Replacement Fund Category**



(1) For Water Capacity Fees 67.6% goes into the Capital Improvement Fund.  
For Sewer Capacity Fees 100% goes into the Capital Improvement Fund.

**3.5 Betterment Fund Category**

a. Purpose

The Betterment Fund category is to finance the betterment portion of capital projects with a portion going to maintenance of the potable, recycled, and sewer systems. The District maintains separate Betterment Fund categories, one for each improvement district. An improvement district is a legally defined geographic area usually established for the purpose of bond financing of facilities. The betterment reserves within

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these funds are restricted by law for use within the improvement district in which the fees were collected (Water Code 71631.6). However, the legal restriction of this reserve depends upon the particular revenue source. (See Section 2.2 b. for a review of the availability fees).

When considering the reserve levels of the betterment category of funds, the following funds work in concert and must be considered jointly: the Betterment Fund, Debt Fund, Capital Improvement Fund, and Designated Betterment Fund.

b. Sources

The Betterment Fund category receives restricted revenues by improvement district from availability fees (the first \$10 is unrestricted, while amounts over \$10 are restricted) collected through the county tax roll. Betterment may also be financed by debt proceeds, the "buy-in" portion of the capacity fee, as well as the general fund through a designation of reserves.

c. Funding Levels

I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through this lifecycle the need for betterment reserves will decrease and may be reduced to zero.

II. **Maximum Level** - The maximum reserve level for the betterment category of funds is limited to five years of unfinanced betterment facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total financing need must be reduced by the projected betterment revenues, bond financing, and general fund designations. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.

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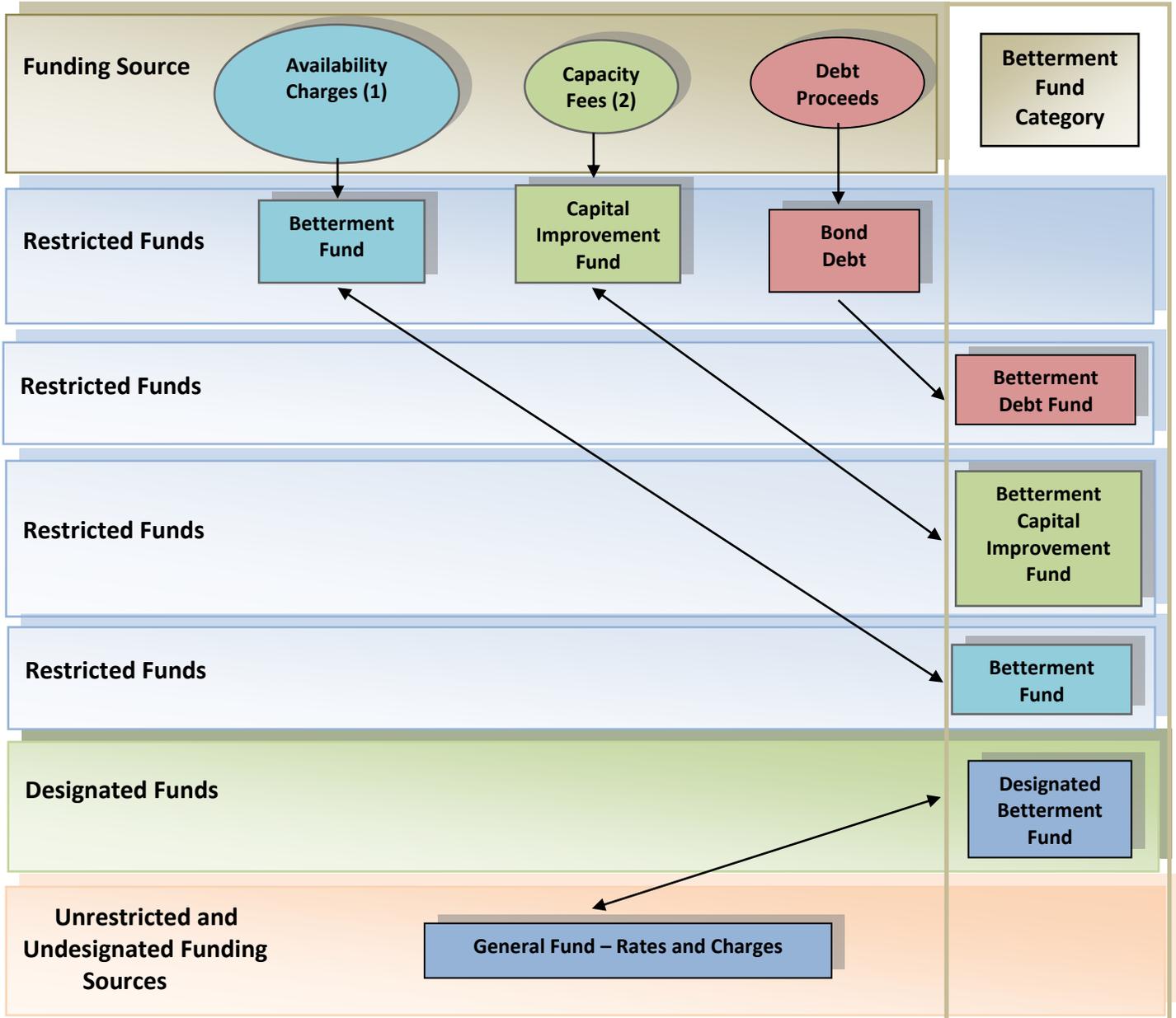
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III. **Target Level** - The target is six months of betterment expenditures. It is important that the betterment reserves remain at a minimum of six months of betterment expenditures. This reserve level allows the District the time necessary to issue additional debt without depleting betterment reserves. If the combined betterment reserves drop below six months of expenditures this would trigger a transfer of general use reserves, a bond sale, or an adjustment to the timing of betterment projects. Bond proceeds would be placed in the Betterment Bond Fund while transfers would be placed in the Designated Betterment Fund.

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**Diagram 3.5: Betterment Fund Category**



- (1) The portion of charges over \$10 per parcel is restricted.
- (2) For Water Capacity Fees 67.6% goes into the Capital Improvement Fund. For Sewer Capacity Fees 100% goes into the Capital Improvement Fund.

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**Diagram 3.6: Fund Targets**

Fund or Fund Category	Actions to Consider if below Target	Target	Maximum
New Supply Fund Category	New supply fee increase, bond financing, or transfer to designated or CIF Funds	Total of all funds in fund category = six months of capital expenditures	Nexus of cost to fee
Expansion Fund Category	Capacity fee increase, bond financing, or transfer to designated or CIF Funds	Total of all funds in fund category = six months of capital expenditures	Nexus of cost to fee
Replacement Fund Category	Bond financing, or transfer to designated or CIF Funds	Total of all funds in fund category = 4% of infrastructure	Nexus of cost to fee
Betterment Fund Category	Bond financing, or transfer to designated or CIF Funds	Total of all funds in fund category = six months of capital expenditures	5 years unfunded needs
Debt Reserve Fund	Increase tax collection or rates	One semi-annual payment	Two semi-annual payments
OPEB Fund	Fund transfers	Full funding	Full funding
General Fund	Rate increase or fund transfers	Three months of operating budget expenses	Nine months of operating budget expenses

**Additional Restricted Funds**

**4.0 Capital Improvement Fund**

a. Purpose

The "Capital Improvement Fund's sole purpose is to track the "buy-in" portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were collected. In this case it is to pay for facilities that were in existence at the time this fee was established.

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These fees may be used for expansion, replacement, or betterment projects or any debt related to these categories. The water capacity fees may also be used for either the potable or the recycled systems. As capacity fees are collected, the "buy-in" portion of the fee is allocated as needed to one of three capital improvement funds, one in each of the Expansion, Replacement, and Betterment Fund categories. These reserves are used to pay debt or offset any negative balance within these three categories of funds. For sewer, these fees fund the Expansion, Replacement, or Betterment Fund categories. These fees may not be used to finance the New Water Supply category, as there were no new water supply facilities in existence at the time the new methodology for capacity fees was established.

b. Sources

The "buy-in" portion of the capacity fee collected after June 30, 2010 or after September 30, 2014 for sewer.

c. Funding Levels

There are no minimums, maximums, or target levels for these reserves on an individual basis. The allocation of this fee to the various capital improvement funds is dependent on the overall reserve levels within each fund category.

**4.1 Debt Reserve Fund**

a. Purpose

The Debt Reserve Fund is established to hold the proceeds from the various debt issuances. There are two types of debt, General Obligation bonds and Certificates of Participation bonds. The proceeds are transferred to the New Water Supply, Expansion, Replacement, or Betterment Debt Funds as they are expended for various facilities within those fund categories. As repayment of the debt occurs, the balances within these individual funds are reduced so that the financial impact of issuing debt is tracked within the category for which the debt was issued.

b. Sources

Debt proceeds.

c. Uses

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There are no minimums, maximums, or target levels for this fund on an individual basis. This fund is available on an as needed basis to fund CIP projects for new water supply, expansion, replacement, or betterment. From a funding level perspective, these reserves are evaluated in the context of all the various funds within each fund category.

**Fund Transfers**

**5.0 Funding Levels**

As described in the preceding sections, the District maintains reserves for its operating and capital activities. These reserves can be of three types: 1) undesignated or general use reserves, 2) designated, and 3) restricted for a specific purpose. The restricted reserves can be restricted geographically and/or by purpose. The District maintains various funds to track the various designations and restrictions. The source of the money for each fund was discussed along with the purpose, source of funds, and levels. Key characteristics 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 in light of the 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 or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the projected District's financial activities and the guidelines of this policy.

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**5.1 Fund Transfers**

Reserves within the District's various designated funds come from interfund transfers of unrestricted general use reserves. It is important to note that the District has the ability to use general use reserves for any business purpose. General use reserves may be transferred to and from any unrestricted fund for any business need. Designated reserves are general use reserves which have been set aside for a specific purpose by Board action. These reserves can only be used for the purpose they were designated, or with Board action they may be used for any other business purpose. While general use reserves may be used for any restricted purpose they may not be transferred to Restricted Funds due to the sensitivity of the tracking of restricted reserves. If reserves are needed for a restricted purpose they are transferred to a Designated Fund within the fund category with that particular purpose. Reserves restricted to a fund category may only be used within that category and may not be transferred to another category. For example, the new water supply fee and the "incremental" portion of the capacity fee are restricted reserves for a specific purpose, and may not be transferred to another category as no other category has the same purpose. However, the "buy-in" portion of the capacity fees are restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose.

In many situations reserve transfers are expected as some fund categories will exceed their maximums or drop below their minimums. Only fund categories that are below the stated target are eligible to receive transferred reserves. Fund categories 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 reserve transfers out, but only when other options are not available.

The rationale for prioritizing reserve transfers is based on the immediacy of the need and the availability of reserves from other funding sources. For example, the General Fund is first to receive reserves 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

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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 finance 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 financing options.

When making the determination of when transfers are necessary, all funds within a fund category work as a group. The combined balance of the restricted and designated funds is looked at when determining whether the fund category requires additional funding from the Restricted Capital Improvement Fund, Restricted Debt Fund, or the General Fund. Because the Capital Improvement Fund may finance expansion, replacement or betterment reserves may be transferred between these fund categories, but only back and forth within its own type of restricted fund.

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 six-year planning horizon, this would trigger a bond sale, a transfer of general use reserves, and/or a transfer of restricted reserves. If in the cash planning process, it was anticipated that the General Fund would remain above target during the planning horizon and that the trend did not present a problematic underfunded status, then General Fund reserves would be considered available for transfer prior to making proceeds available from a bond sale. Also, if during this period the Betterment Fund category was anticipated to exceed its maximum, then reserves from either the Designated Betterment Fund, or the Capital Improvement Fund would be transferred to the corresponding Expansion Fund prior to a bond sale. All funds are evaluated to determine which has the greatest need or availability of reserves before any reserve transfer recommendation is presented to the Board.

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**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: When water service is requested for land outside the boundaries of the District, the land to be serviced must first be annexed. For sewer service the land must be annexed into an improvement district within the District.

Assets: Resources owned or held by Otay Water District that has 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.

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.

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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 payments, and other infringements of the District's Code of Ordinances.

1% Property 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, AB 8, 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.

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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.

Russell Square: A sewer lift station constructed in 1983 that serves four properties in the Russell Square Development.

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.

Tax Collection for Bond Debt: 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.

Unit: A Unit of water is 100 cubic feet or 748 gallons of water.

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. Effective in 2009, all non-residential customers are charged for water based on a tiered rate structure in which water rates are based on meter size and amount of Units consumed.

# AGENDA ITEM 7



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
		PROJECT:	DIV. NO. All
SUBMITTED BY:	Marissa Dychitan Senior Accountant		
APPROVED BY:	<input checked="" type="checkbox"/> Kevin Koeppen, Finance Manager <input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Approve the District's Audited Financial Statements for the Fiscal Year Ended June 30, 2014		

### **GENERAL MANAGER'S RECOMMENDATION:**

That the Board approve the District's Audited Financial Statements (Attachment B), including the Independent Auditors' unqualified opinion, for the fiscal year ended June 30, 2014.

### **COMMITTEE ACTION:**

See Attachment A.

### **PURPOSE:**

To inform the Board of the significant financial events which occurred during the fiscal year ended June 30, 2014 as reflected in the audited financial statements.

### **ANALYSIS:**

Teaman, Ramirez & Smith, Inc., performed the audit and found that, in all material respects, the financial statements correctly represent

the financial position of the District. They found no material errors in the financial records or statements (Attachment D).

**Total Assets:**

Total assets decreased by \$5.7 million or .99% during Fiscal Year 2014, to \$576.6 million, due primarily to depreciation and the expenditure of CIP planning and environmental costs that do not qualify as capital costs under the Generally Accepted Accounting Principles(GAAP). Another significant factor was the annual payment of long-term debt.

**Deferred Outflows:**

In June 2013, the District issued \$7.7 million of 2013 Water Revenue Refunding Bonds for an advanced refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance the District received \$8.5 million in proceeds, including a \$1.0 million premium, to fund the \$8.1 million of outstanding principal and \$.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of \$.1 million in FY2014 and \$.4 million in FY2013 are reflected as a deferred outflow of resources on the Statement of Net Position.

**Total Liabilities & Net Positions:**

Total liabilities decreased by approximately \$2.6 million or 1.96% from the previous fiscal year, to \$131.9 million. This is attributable to a decrease in long-term debt of \$3.7 million.

The decrease in total assets of \$5.7 million and decrease in deferred outflow of resources of \$.3 million, along with the decrease in total liabilities of \$2.6 million, yields a decrease in net positions(equity) of \$3.4 million or .76%, to \$444.8 million.

**Capital Contributions:**

Capital contributions for the year totaled \$3.4 million during Fiscal Year 2014, an increase of \$.6 million or 22.24% from Fiscal Year 2013 contributions. This increase is mainly due to the increased in contributed fixed assets.

**Results of Operations:**

Operating revenues increased \$9.1 million or 11.89%, mainly as a result of the overall increase in water rates from the prior fiscal

year and increases in units sold due to drier weather and higher temperatures.

Cost of water sales increased \$5.5 million or 10.81% due to the increase in CWA water costs.

***Non-Operating Revenues & Expenses:***

Non-operating revenues increased \$0.1 million or .22%, to \$7.8 million for FY2014. The increase was primarily a result of increased investment income.

***Additional Audit Correspondence:***

As a part of completing the audit engagement, the audit firm also provides the following letters summarizing their observations and conclusions concerning the District's overall financial processes:

- Management Letter: The auditors did not identify any deficiencies in internal controls that they considered to be material weaknesses. See Attachment C.
- Audit Committee Letter: This letter describes overall aspects of the audit to include audit principles, performance, dealings with management, and significant findings or issues.

There were no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

There were no disagreements with management concerning financial accounting, reporting, or auditing matters, and there were no significant difficulties in dealing with management in performing the audit. See Attachment D.

- Report on Applying Agreed-Upon Procedures: A review of the District's investment portfolio at year end, and a sample of specific investment transactions completed throughout the fiscal year was performed and there were no exceptions to compliance from the District's Investment Policy. See Attachment E.

**FISCAL IMPACT:**

None.

**STRATEGIC GOAL:**

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.

**LEGAL IMPACT:**

None.

Attachments:

- A) Committee Action Form
- B) Audited Annual Financial Statements
- C) Management Letter
- D) Audit Committee Letter
- E) Report on Applying Agreed-Upon Procedures



## ATTACHMENT A

<b>SUBJECT/PROJECT:</b>	Approve the District's Audited Financial Statements for the Fiscal Year Ended June 30, 2014
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### **COMMITTEE ACTION:**

The Finance, Administration, and Communications Committee recommend that the Board approve the District's audited financial statements, including the Independent Auditor's unqualified opinion, for the Fiscal Year Ended June 30, 2014.

### **NOTE:**

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

**OTAY WATER DISTRICT**

**FINANCIAL STATEMENTS**  
**WITH**  
**REPORT ON AUDIT BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2014 AND 2013**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Otay Water District  
Spring Valley, California

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Otay Water District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otay Water District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

## **Other Matters**

### *Prior Period Financial Statements*

The financial statements of the District as of June 30, 2013, were audited by other auditors whose report dated October 22, 2013, expressed an unqualified opinion on those statements. Additionally, those statements included an emphasis of matter paragraph describing the implementation of GASB standards and an other matter paragraph relating to required supplementary information and other information.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Funding Progress for PERS, and DPHP on pages 3-10 and 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Riverside, California

\_\_\_\_\_, 2014

# Management's Discussion and Analysis

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2014. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis. All amounts, unless otherwise indicated, are expressed in millions of dollars.

## Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$444.8 million (*net position*). Of this amount, \$83.0 million (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- Total assets decreased by \$5.7 million or .99% during Fiscal Year 2014, to \$576.6 million, due primarily to depreciation offset by investments in capital infrastructure, contributions and improved operating results.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The *Statements of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net positions may serve as a useful indicator of whether the financial position of the District is improving or weakening.

The *Statements of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The *Statements of Cash Flows* presents information on cash receipts and payments for the fiscal year.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

# Management's Discussion and Analysis

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees.

## **Financial Analysis:**

As noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$444.8 million at the close of the most recent fiscal year.

By far the largest portion of the District's net position, \$357.9 million (80%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Statements of Net Position (In Millions of Dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Current and Other Assets	\$ 109.9	\$ 106.3	\$ 109.9
Capital Assets	<u>466.7</u>	<u>476.0</u>	<u>480.8</u>
Total Assets	<u>576.6</u>	<u>582.3</u>	<u>590.7</u>
<b>Deferred Outflows of Resources</b>			
Deferred Amount on Refunding	<u>0.1</u>	<u>0.4</u>	<u>0.0</u>
Total Deferred Outflows of Resources	<u>0.1</u>	<u>0.4</u>	<u>0.0</u>
<b>Liabilities</b>			
Long-Term Debt Outstanding	105.3	109.0	112.0
Other Liabilities	<u>26.6</u>	<u>25.5</u>	<u>24.6</u>
Total Liabilities	<u>131.9</u>	<u>134.5</u>	<u>136.6</u>
<b>Net Position</b>			
Net Investment in Capital Assets	357.9	376.5	381.7
Restricted for Debt Service	3.9	4.6	4.7
Unrestricted	<u>83.0</u>	<u>67.1</u>	<u>67.7</u>
Total Net Position	<u>\$ 444.8</u>	<u>\$ 448.2</u>	<u>\$ 454.1</u>

# Management's Discussion and Analysis

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While the District's operations and population continue to grow, albeit at slower rates than in prior years, the pattern of reduced growth of the District's Net Position is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and slow recovery from financial crisis.

In FY-2014 the District has fully used the remainder of the \$51.2 million proceeds from the issuance of its 2010 Water Revenue Bonds program (See Note 4 in the Notes to Financial Statements) for its CIP program (See Note 3 in the Notes to Financial Statements) as seen by the increase in Capital Assets of \$3.4 million before accumulated depreciation. The District also saw a decrease in Long-Term Debt of \$3.7 million due to the annual payments of long-term debt.

Certain planning and environmental study costs associated with capital projects such as the Otay Mesa Desalination and Disinfection System or San Miguel Habitat Management/Mitigation Area do not qualify as capital costs under Generally Accepted Accounting Principles and are included in the miscellaneous expenses of the District. For FY-2013 and FY-2014 those expenses were \$1.6 million and \$2.9 million, respectively.

For the entire financial reporting period, Fiscal Years 2014 and 2013, Total Net Position decreased approximately \$3.4 million for FY-2014, to \$444.8 million, as compared to FY-2013 when Net Position decreased by \$5.9 million. At the end of FY-2014 the District is able to report positive balances in all categories of net position. This situation also held true for the prior two fiscal years.

# Management's Discussion and Analysis

## Statements of Revenues, Expenses, and Changes in Net Position (In Millions of Dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water Sales	\$ 81.3	\$ 72.2	\$ 63.8
Wastewater Revenue	2.8	2.6	2.4
Connection and Other Fees	1.9	2.1	2.2
Non-operating Revenues	<u>7.8</u>	<u>7.7</u>	<u>8.4</u>
Total Revenues	<u>93.8</u>	<u>84.6</u>	<u>76.8</u>
Depreciation Expense	16.1	16.5	15.2
Other Operating Expense	76.5	70.8	65.8
Non-operating Expense	<u>8.0</u>	<u>6.0</u>	<u>5.7</u>
Total Expenses	<u>100.6</u>	<u>93.3</u>	<u>86.7</u>
Loss Before Capital Contributions	(6.8)	(8.7)	(9.9)
Capital Contributions	<u>3.4</u>	<u>2.8</u>	<u>6.8</u>
Change in Net Position	(3.4)	(5.9)	(3.1)
Beginning Net Position	<u>448.2</u>	<u>454.1</u>	<u>457.2</u>
Ending Net Position	<u>\$ 444.8</u>	<u>\$ 448.2</u>	<u>\$ 454.1</u>

Water Sales increased by \$9.1 million in FY-2014 and \$8.4 million in FY-2013, mainly due to rate increases in both years and an increase in units sold in FY14 due to the ongoing drought conditions. The slowdown in District growth, as a result of the economic crisis, continues to impact the District as Connection and Other Fees revenues declined by \$0.2 million in FY-2014 and \$0.1 million in FY-2013.

Other Operating Expense increased predominantly due to the increase in Cost of Water Sales, from a combination of the increased price-per-acre-foot of water obtained from the Los Angeles Metropolitan Water District of 7.7%, and 4.0% from San Diego County Water Authority, brought on by the high cost of supply programs as well as higher energy and operating costs. Increases in units purchased in FY14 also contributed to the increases in Operating Expenses.

The slowdown in the economy appears to have leveled off. However, during the nationwide housing mortgage crisis, developers had either slowed-down or totally stopped work on many projects until economic conditions improve and the demand for growth returns. The development that has returned has done so at a much slower rate. This has resulted in Capital Contributions remaining low over the last 3 years, compared to the extended growth of the previous 10 years. While this slowdown now appears to have stabilized, the District was also aided in its Capital Contributions through the receipt of additional federal grant monies and state reimbursements of \$169,000 in FY-2014 and \$184,000 in FY-2013.

# Management's Discussion and Analysis

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## Non-operating Revenues

### Non-operating Revenues by Major Source (In Millions of Dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Taxes and Assessments	\$ 3.5	\$ 3.5	\$ 3.5
Rents and Leases	1.3	1.3	1.2
Other Non-operating Revenue	<u>3.0</u>	<u>2.9</u>	<u>3.7</u>
Total Non-operating Revenues	<u>\$ 7.8</u>	<u>\$ 7.7</u>	<u>\$ 8.4</u>

The District's non-operating revenues increased by \$0.1 million in FY-2014 and decreased by \$0.8 million in FY-2013. The decrease in FY-2013 was primarily a result of decreased miscellaneous and investment earnings.

# Management's Discussion and Analysis

## Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2014, totaled \$466.7 million. Included in this amount is land. The District's capital assets decreased by 2.0% for FY-2014 and by 1.0% in FY-2013.

<b>Capital Assets</b>			
(In Millions of Dollars)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 13.7	\$ 13.7	\$ 13.7
Construction in Progress	11.7	17.1	17.5
Water System	465.9	458.8	452.1
Recycled Water System	110.3	108.9	108.0
Sewer System	41.2	41.2	37.8
Field Equipment	8.8	8.9	8.6
Buildings	18.9	18.8	18.6
Transportation Equipment	3.3	3.5	3.2
Communication Equipment	2.9	2.6	2.5
Office Equipment	<u>17.5</u>	<u>17.3</u>	<u>17.2</u>
	694.2	690.8	679.2
Less Accumulated Depreciation	<u>(227.5)</u>	<u>(214.8)</u>	<u>(198.4)</u>
Net Capital Assets	<u>\$ 466.7</u>	<u>\$ 476.0</u>	<u>\$ 480.8</u>

As indicated by figures in the table above, the majority of capital assets added during both fiscal years were related to the potable and recycled water systems. In addition, the majority of the cost of construction-in-progress is also related to these water systems. Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

At June 30, 2014, the District had \$105.3 million in outstanding debt (net of \$3.5 million of maturities occurring in FY-2015), which consisted of the following:

General Obligation Bonds	\$ 5.3
Certificates of Participation	45.0
Revenue Bonds	<u>55.0</u>
Total Long-Term Debt	<u>\$ 105.3</u>

# Management's Discussion and Analysis

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In June 2013, the District issued \$7.7 million of 2013 Water Revenue Refunding Bonds for an advance refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance the District received \$8.5 million in proceeds, including a \$1.0 million premium, to fund the \$8.1 million of outstanding principal and \$0.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of \$0.1 million in FY-2014 and \$0.4 million in FY-2013 are reflected as a deferred outflow of resources on the Statement of Net Position.

Additional information on the District's long-term debt can be found in Note 4 of the Notes to Financial Statements.

## **Fiscal Year 2014-2015 Budget**

Growth in the San Diego area has declined over the last 4 years, but is now slowly improving. This modest shift is also being reflected in the demand for housing. Although San Diego received less than normal rainfall in Fiscal Year 2014, the District is expecting that San Diego's rainfall will return to its average pattern and volume in the coming years. Water sales volumes are expected to increase slightly, by less than one percent over FY-2014 actual sales as the economy improves and both hotter and drier than normal climatic conditions persist. Higher usage is expected to occur even as efforts to promote water conservation ramp-up due to the adoption of emergency drought regulations. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, proposals to construct tunnels under the Bay Delta are extremely costly, face tremendous environmental obstacles, and will be tested and challenged in the court as well as at the ballot box. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

The District is currently at about 75% of its projected ultimate population, serving approximately 213,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve approximately 285,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from CWA, who in turn purchases its water from MWD and the Imperial Irrigation District (IID). Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA directly and from Helix Water District via contract with CWA. In addition, the District has an emergency agreement with the City of San Diego to purchase water in the case of a shutdown of the main treated water source. The City of San Diego also has a long-term contract with the District to provide recycled water for landscape and irrigation usage. Through innovative agreements like these, benefits can be achieved by both parties by using excess capacity of another agency, and diversifying local supply, thereby increasing reliability.

# Management's Discussion and Analysis

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## Financial

The District is projected to deliver approximately 29,192 acre-feet of potable water to 49,257 potable customer accounts during Fiscal Year 2014-2015. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. A combination of factors, including the ongoing drought and recession, have created challenges in developing economic projections for the current fiscal year. Both unemployment and levels of distressed activity in the commercial and residential resale market have improved from their economic crisis peaks. However, both economic indicators remain significantly above the levels of the boom years from 2001 to 2005. The ongoing negative impacts to the District of the economic indicators and conservation are partially offset by growth as the District's commercial and residential permits have shown slow and steady improvement from the lows of the economic crisis. While all of these factors impact the region's water usage, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

Management is unaware of any other conditions that could have a significant impact on the District's current financial position, net position, or operating results.

## Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Otay Water District's finances for the Board of Directors, citizens, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2004.



## STATEMENTS OF NET POSITION

### JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Notes 1 and 2)	\$ 30,493,474	\$ 33,958,281
Restricted Cash and Cash Equivalents (Notes 1 and 2)	116,639	4,087,042
Investments (Note 2)	27,631,622	16,258,960
Board Designated Investments (Note 2)	21,605,368	14,860,502
Restricted Investments (Notes 1 and 2)	4,564,972	13,560,004
Accounts Receivable, Net	12,879,121	11,856,029
Accrued Interest Receivable	83,679	53,950
Taxes and Availability Charges Receivable, Net	333,589	431,159
Restricted Taxes and Availability Charges Receivable, Net	41,091	41,657
Inventories	775,007	800,085
Prepaid Items and Other Receivables	<u>1,047,708</u>	<u>1,072,706</u>
 Total Current Assets	 <u>99,572,270</u>	 <u>96,980,375</u>
Non-current Assets:		
Net OPEB Asset (Note 7)	<u>10,385,336</u>	<u>9,345,437</u>
Capital Assets (Note 3):		
Land	13,714,963	13,714,963
Construction in Progress	11,642,506	17,110,048
Capital Assets, Net of Depreciation	<u>441,293,934</u>	<u>445,203,648</u>
 Total Capital Assets, Net of Depreciation	 <u>466,651,403</u>	 <u>476,028,659</u>
 Total Non-current Assets	 <u>477,036,739</u>	 <u>485,374,096</u>
 Total Assets	 <u>576,609,009</u>	 <u>582,354,471</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amount on Refunding	<u>78,118</u>	<u>390,591</u>
 Total Deferred Outflows of Resources	 <u>\$ 78,118</u>	 <u>\$ 390,591</u>

Continued

The accompanying notes are an integral part of this statements.



## STATEMENTS OF NET POSITION - CONTINUED

### JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Maturities of Long-term Debt (Note 4)	\$ 3,495,000	\$ 3,470,000
Accounts Payable	11,906,026	11,733,543
Accrued Payroll Liabilities	3,054,520	2,755,421
Other Accrued Liabilities	3,397,500	3,487,430
Customer and Developer Deposits	2,418,754	1,756,983
Accrued Liabilities	1,564,992	1,518,651
Liabilities Payable from Restricted Assets:		
Restricted Accrued Interest	<u>70,804</u>	<u>76,154</u>
 Total Current Liabilities	 <u>25,907,596</u>	 <u>24,798,182</u>
Non-current Liabilities:		
Long-term Debt (Note 4):		
General Obligation Bonds	5,283,563	5,849,918
Certificates of Participation	44,980,314	46,465,525
Revenue Bonds	55,058,490	56,678,987
Other Non-current Liabilities	<u>649,344</u>	<u>718,543</u>
 Total Non-current Liabilities	 <u>105,971,711</u>	 <u>109,712,973</u>
 Total Liabilities	 <u>131,879,307</u>	 <u>134,511,155</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	357,912,154	376,549,168
Restricted for Debt Service	3,855,673	4,612,890
Unrestricted	<u>83,039,993</u>	<u>67,071,849</u>
 Total Net Position	 <u>\$ 444,807,820</u>	 <u>\$ 448,233,907</u>

The accompanying notes are an integral part of this statements.



## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>OPERATING REVENUES</b>		
Water Sales	\$ 81,287,164	\$ 72,187,081
Wastewater Revenue	2,791,523	2,625,087
Connection and Other Fees	1,946,886	2,069,220
Total Operating Revenues	<u>86,025,573</u>	<u>76,881,388</u>
<b>OPERATING EXPENSES</b>		
Cost of Water Sales	56,068,147	50,600,551
Wastewater	1,834,465	1,638,354
Administrative and General	18,608,603	18,550,811
Depreciation	16,055,808	16,545,622
Total Operating Expenses	<u>92,567,023</u>	<u>87,335,338</u>
Operating Income (Loss)	<u>(6,541,450)</u>	<u>(10,453,950)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment Earnings	522,286	22,155
Taxes and Assessments	3,537,162	3,545,595
Availability Charges	729,961	707,881
Gain (Loss) on Sale of Capital Assets	(426,140)	(546,799)
Rents and Leases	1,317,736	1,276,914
Miscellaneous Revenues	2,088,132	2,780,603
Donations	(119,687)	(120,684)
Interest Expense	(4,872,060)	(3,977,538)
Miscellaneous Expenses	(3,054,447)	(1,917,389)
Total Non-operating Revenues (Expenses)	<u>(277,057)</u>	<u>1,770,738</u>
Income (Loss) Before Capital Contributions	(6,818,507)	(8,683,212)
Capital Contributions	<u>3,392,420</u>	<u>2,775,132</u>
Change in Net Position	(3,426,087)	(5,908,080)
Total Net Position, Beginning	<u>448,233,907</u>	<u>454,141,987</u>
Total Net Position, Ending	<u>\$ 444,807,820</u>	<u>\$ 448,233,907</u>

The accompanying notes are an integral part of this statements.



## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 83,717,366	\$ 73,425,100
Receipts from Connections and Other Fees	1,946,886	2,069,220
Other Receipts	2,088,132	2,780,603
Payments to Suppliers	(57,217,950)	(50,206,581)
Payments to Employees	(19,974,636)	(20,491,758)
Other Payments	(3,231,510)	(2,038,073)
	<u>7,328,288</u>	<u>5,538,511</u>
Net Cash Provided By (Used For) Operating Activities		
	<u>7,328,288</u>	<u>5,538,511</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from Taxes and Assessments	3,635,298	3,612,045
Receipts from Property Rents and Leases	1,202,050	1,276,914
	<u>4,837,348</u>	<u>4,888,959</u>
Net Cash Provided By (Used For) Noncapital and Related Financing Activities		
	<u>4,837,348</u>	<u>4,888,959</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Contributions	1,903,528	1,515,238
Proceeds from Sale of Capital Assets	102,574	-
Proceeds from Debt Related Taxes and Assessments	729,961	707,881
Net Proceeds from Issuance of Long-Term Debt	-	8,329,385
Retirements of Long-Term Debt	-	(8,100,000)
Principal Payments on Long-Term Debt	(3,470,000)	(3,320,000)
Interest Payments and Fees	(4,518,596)	(5,201,467)
Acquisition and Construction of Capital Assets	(5,718,373)	(10,035,376)
	<u>(10,970,906)</u>	<u>(16,104,339)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities		
	<u>(10,970,906)</u>	<u>(16,104,339)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	492,557	395,773
Proceeds from Sale and Maturities of Investments	52,121,219	68,832,000
Purchase of Investments	(61,243,716)	(60,638,762)
	<u>(8,629,940)</u>	<u>8,589,011</u>
Net Cash Provided By (Used For) Investing Activities		
	<u>(8,629,940)</u>	<u>8,589,011</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,435,210)	2,912,142
Cash and Cash Equivalents - Beginning	38,045,323	35,133,181
Cash and Cash Equivalents - Ending	<u>\$ 30,610,113</u>	<u>\$ 38,045,323</u>

Continued

The accompanying notes are an integral part of this statements.



## STATEMENTS OF CASH FLOWS - CONTINUED FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows Provided By (Used For) Operating Activities:</b>		
Operating Income (Loss)	\$ (6,541,450)	\$ (10,453,950)
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	16,055,808	16,545,622
Miscellaneous Revenues	2,088,132	2,780,603
Miscellaneous Expenses	(3,231,510)	(2,038,073)
(Increase) Decrease in Accounts Receivable	(1,023,092)	(1,280,059)
(Increase) Decrease in Inventory	25,078	(10,316)
(Increase) Decrease in Net OPEB Asset	(1,039,899)	(1,023,535)
(Increase) Decrease in Prepaid Items and Other Receivables	20,997	153,997
Increase (Decrease) in Accounts Payable	172,483	1,255,177
Increase (Decrease) in Accrued Payroll and Related Expenses	299,099	164,149
Increase (Decrease) in Other Accrued Liabilities	(89,930)	(445,012)
Increase (Decrease) in Customer Deposits	661,771	(107,009)
Increase (Decrease) in Prepaid Capacity Fees	(69,199)	(3,083)
	<u>\$ 7,328,288</u>	<u>\$ 5,538,511</u>
<b>Schedule of Cash and Cash Equivalents:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 30,493,474	\$ 33,958,281
Restricted Cash and Cash Equivalents	<u>116,639</u>	<u>4,087,042</u>
	<u>\$ 30,610,113</u>	<u>\$ 38,045,323</u>
<b>Supplemental Disclosures</b>		
Non-Cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	\$ 1,488,893	\$ 1,259,894
Change in Fair Value of Investments and Recognized Gains/Losses	201,891	(353,950)
Amortization Related to Long-term Debt	177,063	154,246

The accompanying notes are an integral part of this statements.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A) Reporting Entity

The reporting entity Otay Water District (the “District”) includes the accounts of the District and the Otay Water District Financing Authority (the “Financing Authority”).

The Otay Water District (the “District”) is a public entity established in 1956 pursuant to the Municipal Water District Law of 1911 (Section 711 et. Seq. of the California Water Code) for the purpose of providing water and sewer services to the properties in the District. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions based on District population for a four-year alternating term.

The District formed the Financing Authority on March 3, 2010 under the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to assist the District in the financing of public capital improvements.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Financing Authority as a “blended” component unit. Despite being legally separate, the Financing Authority is so intertwined with the District that it is in substance, part of the District’s operations. Accordingly, the balances and transactions of this component unit are reported within the funds of the District. Separate financial statements are not issued for the Financing Authority.

#### B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District reports its activities as an enterprise fund, 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.

The basic financial statements of the Otay Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### B) Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

##### Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the assets, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of the net investment in capital assets.

##### Restricted Net Position

This component of net position consists of net position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

##### Unrestricted Net Position

This component of net position consists of net position that do not meet the definition of “net investment in capital assets” or “restricted net position”.

The District distinguishes operating revenues and expenses from those revenues and expenses that are nonoperating. Operating revenues are those revenues that are generated by water sales and wastewater services while operating expenses pertain directly to the furnishing of those services. Nonoperating revenues and expenses are those revenues and expenses generated that are not associated with the normal business of supplying water and wastewater treatment services.

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of \$41,631 and \$52,535 at June 30, 2014 and 2013, respectively.

Additionally, capacity fee contributions received which are related to specific operating expenses are offset against those expenses and included in Cost of Water Sales in the Statements of Revenues and Expenses and Changes in Net Position.

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District’s practice to consider restricted - net position to have been depleted before unrestricted - net position is applied, however it is at the Board’s discretion.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### C) New Accounting Pronouncements

##### Implemented

The GASB has issued Statement No. 66, "Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62." The requirements of this Statement are effective for financial statements for periods beginning after December 15 2012. Currently, the Statement is not applicable to the District.

##### Pending Accounting Standards

GASB has issued the following statements which impact the District's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

#### D) Deferred Outflows / Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, *deferred amount on refunding*, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2014 or June 30, 2013.

#### E) Statements of Cash Flows

For purposes of the Statements of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

#### F) Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. All investments are stated at their fair value, the District has not elected to report certain investments at amortized costs.

#### G) Inventory and Prepaids

Inventory consists primarily of materials used in the construction and maintenance of the water and sewer system and is valued at weighted average cost. Both inventory and prepaids use the consumption method whereby they are reported as an asset and expensed as they are consumed.

#### H) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Infrastructure assets in excess of \$20,000 and other capital assets in excess of \$10,000 are capitalized if they have an expected useful life of two years or more. The District will also capitalize individual purchases under the capitalization threshold if they are part of a new capital program. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits, overhead, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest for fiscal years ending June 30, 2014 and 2013 of \$176,782 and \$995,721, respectively, is included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

Water System	15-70 Years
Field Equipment	2-50 Years
Buildings	30-50 Years
Communication Equipment	2-10 Years
Transportation Equipment	2-4 Years
Office Equipment	2-10 Years
Recycled Water System	50-75 Years
Sewer System	25-50 Years



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

#### I) **Compensated Absences**

It is the District's policy to record vested or accumulated vacation and sick leave as an expense and liability as benefits accrue to employees. As of June 30, 2014 and 2013, total accrued paid time off was \$2,352,861 and \$2,120,399, respectively.

#### J) **Classification of Liabilities**

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

#### K) **Allowance for Doubtful Accounts**

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectibility of existing specific accounts. The allowance for doubtful accounts was \$152,680 and \$150,000 for 2014 and 2013, respectively.

#### L) **Property Taxes**

Tax levies are limited to 1% of full market value (at time of purchase) which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

#### M) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### N) **Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 2) CASH AND INVESTMENTS

The primary goals of the District's Investment Policy are to assure compliance with all Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

Cash and Investments are classified in the accompanying financial statements as follows:

	2014	2013
Statement of Net Position:		
Cash and Cash Equivalents	\$ 30,493,474	\$ 33,958,281
Restricted Cash and Cash Equivalents	116,639	4,087,042
Investments	27,631,622	16,258,960
Board Designated Investments	21,605,368	14,860,502
Restricted Investments	4,564,972	13,560,004
Total Cash and Investments	\$ 84,412,075	\$ 82,724,789

Cash and Investments consist of the following:

	2014	2013
Cash on Hand	\$ 2,950	\$ 2,950
Deposits with Financial Institutions	2,065,122	1,107,051
Investments	82,344,003	81,614,788
Total Cash and Investments	\$ 84,412,075	\$ 82,724,789

#### Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's Investment Policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio <sup>(1)</sup>	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	None	None
Certificates of Deposit	5 years	15%	None
Corporate Medium-Term Notes	5 years	15%	None
Commercial Paper	270 days	15%	10%
Money Market Mutual Funds	N/A	15%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

<sup>(1)</sup> Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 2) CASH AND INVESTMENTS - Continued

#### Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities, so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2014 and 2013.

#### June 30, 2014

Investment Type	Remaining Maturity (in Months)				
	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	
U.S. Government Sponsored Entities	\$ 53,716,144	\$ 3,005,760	\$ 7,001,050	\$ 43,709,334	\$ -
Local Agency Investment Fund (LAIF)	11,368,272	11,368,272	-	-	-
San Diego County Pool	17,143,000	17,143,000	-	-	-
Money Market Funds	<u>116,587</u>	<u>116,587</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 82,344,003</u>	<u>\$ 31,633,619</u>	<u>\$ 7,001,050</u>	<u>\$ 43,709,334</u>	<u>\$ -</u>

#### June 30, 2013

Investment Type	Remaining Maturity (in Months)				
	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	
U.S. Government Sponsored Entities	\$ 44,599,731	\$ 3,002,850	\$ 17,974,890	\$ 23,621,991	\$ -
Local Agency Investment Fund (LAIF)	17,032,057	17,032,057	-	-	-
San Diego County Pool	<u>19,983,000</u>	<u>19,983,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 81,614,788</u>	<u>\$ 40,017,907</u>	<u>\$ 17,974,890</u>	<u>\$ 23,621,991</u>	<u>\$ -</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 2) CASH AND INVESTMENTS - Continued

#### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2014 and 2013 for each investment type.

#### June 30, 2014

<u>Investment Type</u>		<u>Legal Rating</u>	<u>AAA</u>	<u>AA</u>	<u>A-1</u>	<u>Not Rated</u>
U.S. Government Sponsored Entities	\$ 53,716,144	N/A	\$ 53,716,144	\$ -	\$ -	\$ -
Local Agency Investment Fund (LAIF)	11,368,272	N/A	-	-	-	11,368,272
San Diego County Pool	17,143,000	N/A	-	-	-	17,143,000
Money Market Funds	<u>116,587</u>	N/A	<u>-</u>	<u>-</u>	<u>116,587</u>	<u>-</u>
Total	<u>\$ 82,344,003</u>		<u>\$ 53,716,144</u>	<u>\$ -</u>	<u>\$ 116,587</u>	<u>\$ 28,511,272</u>

#### June 30, 2013

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
U.S. Government Sponsored Entities	\$ 44,599,731	N/A	\$ 44,599,731	\$ -	\$ -
Local Agency Investment Fund (LAIF)	17,032,057	N/A	-	-	17,032,057
San Diego County Pool	<u>19,983,000</u>	N/A	<u>-</u>	<u>-</u>	<u>19,983,000</u>
Total	<u>\$ 81,614,788</u>		<u>\$ 44,599,731</u>	<u>\$ -</u>	<u>\$ 37,015,057</u>



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 2) CASH AND INVESTMENTS - Continued

#### Concentration of Credit Risk

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2014 and 2013 are as follows:

#### June 30, 2014

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 19,723,794
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	\$ 17,997,640
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 7,986,280
Federal Farm Credit Banks	U.S. Government Sponsored Entities	\$ 8,008,430

#### June 30, 2013

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 12,961,010
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	\$ 9,720,091
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 4,976,820
Federal Farm Credit Banks	U.S. Government Sponsored Entities	\$ 14,955,390

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2014, \$1,553,944 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2013, \$1,063,279 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 2) CASH AND INVESTMENTS - Continued

#### Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost-basis.

#### San Diego County Pooled Fund

The San Diego County Pooled Investment Fund (SDCPIF) is pooled investment fund program governed by the County of San Diego Board of Supervisors, and administered by the County of San Diego Treasurers and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty.

The County of San Diego's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of San Diego Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of San Diego Auditor-Controller's Office - 1600 Pacific Coast Highway, San Diego California 92101.

#### Collateral for Deposits

All cash is entirely insured or collateralized.

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

The District may waive the 110% collateral requirement for deposits which are insured up to \$250,000 by the FDIC.

#### Board Designated Investments

Investments are Board restricted for the cost of the following District projects:

	2014	2013
New Water Supply	\$ 322,087	\$ 863,973
Expansion	6,078	369,791
Replacement	21,277,203	13,626,738
Total	\$ 21,605,368	\$ 14,860,502



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 2) CASH AND INVESTMENTS - Continued

#### Restricted Cash and Cash Equivalents

	<u>2014</u>	<u>2013</u>
Debt Service:		
Water Revenue Bond Series 2010	\$ 116,639	\$ 4,087,042
Total	<u>\$ 116,639</u>	<u>\$ 4,087,042</u>

#### Restricted Investments

	<u>2014</u>	<u>2013</u>
Debt Service:		
General Obligation Bond ID No. 27-2009	\$ 812,239	\$ 917,708
Water Revenue Bond Series 2010A	1,026,909	1,029,999
Water Revenue Bond Series 2010B	2,696,849	11,602,893
Construction:		
Betterment	<u>28,975</u>	<u>9,404</u>
Total	<u>\$ 4,564,972</u>	<u>\$ 13,560,004</u>



## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2014 AND 2013

### 3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 13,714,963	\$ -	\$ -	\$ 13,714,963
Construction in Progress	<u>17,110,048</u>	<u>8,498,574</u>	<u>(13,966,116)</u>	<u>11,642,506</u>
Total Capital Assets Not Depreciated	<u>30,825,011</u>	<u>8,498,574</u>	<u>(13,966,116)</u>	<u>25,357,469</u>
Capital Assets, Being Depreciated				
Infrastructure	608,634,474	11,562,280	(2,848,379)	617,348,375
Field Equipment	8,934,034	144,207	(265,548)	8,812,693
Buildings	18,849,509	79,370	-	18,928,879
Transportation Equipment	3,497,789	422,566	(611,753)	3,308,602
Communication Equipment	2,562,480	428,140	(110,479)	2,880,141
Office Equipment	<u>17,298,342</u>	<u>274,011</u>	<u>(59,160)</u>	<u>17,513,193</u>
Total Capital Assets Being Depreciated	<u>659,776,628</u>	<u>12,910,574</u>	<u>(3,895,319)</u>	<u>668,791,883</u>
Less Accumulated Depreciation:				
Infrastructure	181,997,301	13,313,914	(2,086,011)	193,225,204
Field Equipment	7,579,663	181,393	(265,548)	7,495,508
Buildings	7,832,547	504,021	-	8,336,568
Transportation Equipment	2,615,775	295,826	(611,753)	2,299,848
Communication Equipment	1,448,152	408,940	(110,479)	1,746,613
Office Equipment	<u>13,099,542</u>	<u>1,351,714</u>	<u>(57,048)</u>	<u>14,394,208</u>
Total Accumulated Depreciation	<u>214,572,980</u>	<u>16,055,808</u>	<u>(3,130,839)</u>	<u>227,497,949</u>
Total Capital Assets Being Depreciated, Net	<u>445,203,648</u>	<u>(3,145,234)</u>	<u>(764,480)</u>	<u>441,293,934</u>
Total Capital Assets, Net	<u>\$ 476,028,659</u>	<u>\$ 5,353,340</u>	<u>\$ (14,730,596)</u>	<u>\$ 466,651,403</u>

Depreciation expense for the year ended June 30, 2014 was \$16,055,808.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 3) CAPITAL ASSETS - Continued

The following is a summary of changes in Capital Assets for the year ended June 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 13,703,463	\$ 11,500	\$ -	\$ 13,714,963
Construction in Progress	<u>17,452,274</u>	<u>11,751,086</u>	<u>(12,093,312)</u>	<u>17,110,048</u>
Total Capital Assets Not Depreciated	<u>31,155,737</u>	<u>11,762,586</u>	<u>(12,093,312)</u>	<u>30,825,011</u>
Capital Assets, Being Depreciated				
Infrastructure	597,894,929	11,620,876	(881,331)	608,634,474
Field Equipment	8,602,060	331,974	-	8,934,034
Buildings	18,649,209	200,300	-	18,849,509
Transportation Equipment	3,221,249	277,860	(1,320)	3,497,789
Communication Equipment	2,514,151	81,670	(33,341)	2,562,480
Office Equipment	<u>17,201,420</u>	<u>209,037</u>	<u>(112,115)</u>	<u>17,298,342</u>
Total Capital Assets Being Depreciated	<u>648,083,018</u>	<u>12,721,717</u>	<u>(1,028,107)</u>	<u>659,776,628</u>
Less Accumulated Depreciation:				
Infrastructure	169,258,402	12,993,086	(254,187)	181,997,301
Field Equipment	7,373,481	206,182	-	7,579,663
Buildings	7,347,820	484,727	-	7,832,547
Transportation Equipment	2,306,300	310,796	(1,321)	2,615,775
Communication Equipment	1,035,846	445,648	(33,342)	1,448,152
Office Equipment	<u>11,086,817</u>	<u>2,105,183</u>	<u>(92,458)</u>	<u>13,099,542</u>
Total Accumulated Depreciation	<u>198,408,666</u>	<u>16,545,622</u>	<u>(381,308)</u>	<u>214,572,980</u>
Total Capital Assets Being Depreciated, Net	<u>449,674,352</u>	<u>(3,823,905)</u>	<u>(646,799)</u>	<u>445,203,648</u>
Total Capital Assets, Net	<u>\$ 480,830,089</u>	<u>\$ 7,938,681</u>	<u>\$ (12,740,111)</u>	<u>\$ 476,028,659</u>

Depreciation expense for the year ended June 30, 2013 was \$16,545,622.



## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2014 AND 2013

#### 4) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>General Obligation Bonds:</b>					
Improvement District No. 27 - 2009	\$ 6,235,000	\$ -	\$ 535,000	\$ 5,700,000	\$ 550,000
Unamortized Bond Premium	<u>149,918</u>	<u>-</u>	<u>16,355</u>	<u>133,563</u>	<u>-</u>
Net General Obligation Bonds	<u>6,384,918</u>	<u>-</u>	<u>551,355</u>	<u>5,833,563</u>	<u>550,000</u>
<b>Certificates of Participation:</b>					
1996 Certificates of Participation	10,400,000	-	500,000	9,900,000	500,000
2007 Certificates of Participation	37,745,000	-	955,000	36,790,000	995,000
1996 COPS Unamortized Discount	(10,432)	-	(745)	(9,687)	-
2007 COPS Unamortized Discount	<u>(214,043)</u>	<u>-</u>	<u>(9,044)</u>	<u>(204,999)</u>	<u>-</u>
Net Certificates of Participation	<u>47,920,525</u>	<u>-</u>	<u>1,445,211</u>	<u>46,475,314</u>	<u>1,495,000</u>
<b>Revenue Bonds:</b>					
2010 Water Revenue Bonds Series A	12,255,000	-	820,000	11,435,000	845,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2013 Water Revenue Refunding Bonds	7,735,000	-	660,000	7,075,000	605,000
2010 Series A Unamortized Premium	837,019	-	74,402	762,617	-
2013 Bonds Unamortized Premium	<u>976,968</u>	<u>-</u>	<u>96,095</u>	<u>880,873</u>	<u>-</u>
Net Revenue Bonds	<u>58,158,987</u>	<u>-</u>	<u>1,650,497</u>	<u>56,508,490</u>	<u>1,450,000</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 112,464,430</u>	<u>\$ -</u>	<u>\$ 3,647,063</u>	<u>\$ 108,817,367</u>	<u>\$ 3,495,000</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 4) LONG-TERM DEBT - Continued

Long-term liabilities for the year ended June 30, 2013 are as follows:

	Beginning Balance (As Restated)	Additions	Deletions	Ending Balance	Due Within One Year
<b>General Obligation Bonds:</b>					
Improvement District No. 27 - 2009	\$ 6,755,000	\$ -	\$ 520,000	\$ 6,235,000	\$ 535,000
Unamortized Bond Premium	<u>166,271</u>	<u>-</u>	<u>16,353</u>	<u>149,918</u>	<u>-</u>
Net General Obligation Bonds	<u>6,921,271</u>	<u>-</u>	<u>536,353</u>	<u>6,384,918</u>	<u>535,000</u>
<b>Certificates of Participation:</b>					
1996 Certificates of Participation	10,900,000	-	500,000	10,400,000	500,000
2004 Certificates of Participation	8,680,000	-	8,680,000	-	-
2007 Certificates of Participation	38,665,000	-	920,000	37,745,000	955,000
1996 COPS Unamortized Discount	(11,178)	-	(746)	(10,432)	-
2007 COPS Unamortized Discount	(223,087)	-	(9,044)	(214,043)	-
2004 COPS Unamortized Premium	<u>13,005</u>	<u>-</u>	<u>13,005</u>	<u>-</u>	<u>-</u>
Net Certificates of Participation	<u>58,023,740</u>	<u>-</u>	<u>10,103,215</u>	<u>47,920,525</u>	<u>1,455,000</u>
<b>Revenue Bonds:</b>					
2010 Water Revenue Bonds Series A	13,055,000	-	800,000	12,255,000	820,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2010 Series A Unamortized Premium	911,421	-	74,402	837,019	-
2013 Water Revenue Refunding Bonds	-	7,735,000	-	7,735,000	660,000
2013 Bonds Unamortized Premium	<u>-</u>	<u>984,976</u>	<u>8,008</u>	<u>976,968</u>	<u>-</u>
Net Revenue Bonds	<u>50,321,421</u>	<u>8,719,976</u>	<u>882,410</u>	<u>58,158,987</u>	<u>1,480,000</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 115,266,432</u>	<u>\$ 8,719,976</u>	<u>\$ 11,521,978</u>	<u>\$ 112,464,430</u>	<u>\$ 3,470,000</u>

### General Obligation Bonds

In June 1998, the District issued \$11,835,000 of General Obligation Refunding Bonds. The proceeds of this issue, together with other lawfully available monies, were to be used to establish an irrevocable escrow to advance refund and defease in their entirety the District's previous outstanding General Obligation Bond issue. In November 2009, the District issued \$7,780,000 of General Obligation Refunding Bonds Improvement District No. 27-2009 to refund the 1998 issue. The proceeds from the bond issue were \$7,989,884, which included an original issue premium of \$209,884. An amount of \$7,824,647, which consisted of unpaid principal and accrued interest, was deposited into an escrow fund. Pursuant to an optional redemption clause in the 1998 bonds, the District was able to redeem the 1998 bonds, without premium at any time after September 1, 2009. On December 15, 2009 the 1998 bonds were refunded.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 4) LONG-TERM DEBT - Continued

#### General Obligation Bonds - Continued

These bonds are general obligations of Improvement District No. 27 (ID 27) of the District. The Board of Directors has the power and is obligated to levy annual ad valorem taxes without limitation, as to rate or amount for payment of the bonds and the interest upon all property which is within ID 27 and subject to taxation. The General Obligation Bonds are payable from District-wide tax revenues. The Board may utilize other sources for servicing the bond debt and interest.

The Improvement District No. 27-2009 General Obligation Refunding Bonds have interest rates from 3.00% to 4.00% with maturities through Fiscal Year 2023.

Future debt service requirements for the bonds are as follows:

For the Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2015	\$ 550,000	\$ 204,162	\$ 754,162
2016	570,000	187,362	757,362
2017	585,000	169,306	754,306
2018	605,000	147,700	752,700
2019	635,000	122,900	757,900
2020-2023	<u>2,755,000</u>	<u>225,100</u>	<u>2,980,100</u>
	<u>\$ 5,700,000</u>	<u>\$ 1,056,530</u>	<u>\$ 6,756,530</u>

#### Certificates of Participation (COPS)

In June 1996, COPS with face value of \$15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and “net revenues,” as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The variable interest rate is tied to the 30-day LIBOR index and the Securities Industry and Financial Markets Association (SIFMA) index. An irrevocable letter of credit facility is necessary to market the District’s variable rate debt. This facility is with Union Bank and covers the outstanding principal and interest. The facility expires on June 29, 2017. The interest rate at June 30, 2014 was 0.15%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.

In July 2004, Refunding Certificates of Participation (COPS) with a face value of \$12,270,000 were sold by the Otay Service Corporation to advance refund \$11,680,000 of outstanding 1993 COPS. An installment agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 4) LONG-TERM DEBT - Continued

#### Certificates of Participation (COPS) - Continued

In March 2007, Revenue Certificates of Participation (COPS) with face value of \$42,000,000 were sold by the Otay Service Corporation to improve the District's water storage system and distribution facilities. An installment purchase agreement between the District, as a Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates are due in annual installments of \$785,000 to \$2,445,000 from September 1, 2007 through September 1, 2036; bearing interest at 3.7% to 4.47%.

#### Defeased Certificate of Participation (COPS)

In June 2013, the July 2004 COPS were refunded with the issuance of the 2013 Water Revenue Refunding Bonds (see Revenue Bonds on page 33). Proceeds of \$8,575,519, which consisted of unpaid principal and accrued interest, were used to establish an irrevocable escrow to advance refund and defease in their entirety the District's 2004 COPS. Pursuant to an optional redemption clause in the 2004 COPS, the District will be able to redeem the 2004 bonds, without premium at any time after September 1, 2014. As a result, the 2004 COPS are considered to be defeased and the liability of those bonds has been removed from long-term liabilities. The outstanding balance at June 30, 2014 is \$7,500,000.

There is no aggregate reserve requirement for the COPS. Future debt service requirements for the certificates are as follows:

For the Year Ended June 30,	1996 COPS		2007 COPS	
	Principal	Interest*	Principal	Interest
2015	\$ 500,000	\$ 14,225	\$ 995,000	\$ 1,517,301
2016	600,000	13,350	1,035,000	1,479,239
2017	600,000	12,450	1,075,000	1,439,408
2018	600,000	11,550	1,115,000	1,397,798
2019	700,000	10,525	1,155,000	1,354,234
2020-2024	3,900,000	35,925	6,515,000	6,031,444
2025-2029	3,000,000	5,550	7,995,000	4,538,196
2030-2034	-	-	9,875,000	2,644,028
2035-2036	-	-	7,030,000	470,094
	<u>\$ 9,900,000</u>	<u>\$ 103,575</u>	<u>\$ 36,790,000</u>	<u>\$ 20,871,742</u>

\*Variable Rate - Interest reflected at June 30, 2014 at a rate of 0.15%.

The two COP debt issues contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2014.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 4) LONG-TERM DEBT - Continued

#### Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of \$50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of \$13,840,000 plus a \$1,078,824 original issue premium, and Water Revenue Bonds Series 2010B (Taxable Build America Bonds) with a face value of \$36,255,000. The Series 2010A bonds are due in annual installments of \$785,000 to \$1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of \$1,365,000 to \$3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1<sup>st</sup> and September 1<sup>st</sup> of each year until maturity or earlier redemption. The installment payments are to be made from Taxes and Net Revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation described above and the 2013 Water Revenue Refunding Bonds described below.

The proceeds of the bonds will be used to fund the project described above as well as to fund reserve funds of \$1,030,688 (Series 2010A) and \$2,707,418 (Series 2010B). \$542,666 was used to fund various costs of issuance.

The original issue premium is being amortized over the 14 year life of the Series 2010A bonds. Amortization for the year ending June 30, 2014 was \$74,402 and is included in interest expense. The unamortized premium at June 30, 2014 is \$762,617.

The 2010 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collection rates, fees and charges for the Water System which will at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2014.

In June 2013, the 2013 Water Revenue Refunding Bonds were issued to defease the 2004 Refunding Certificates of Participation. The bonds were issued with a face value of \$7,735,000 plus a \$984,975 original issue premium. The bonds are due in annual installments of \$660,000 to \$835,000 from September 1, 2013 through September 1, 2023; bearing interest at 1% to 4%. The installment payments are to be made from Taxes and Net Revenues of the Water System, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation and the 2010A and 2010B described above.

The original issue premium is being amortized over the 11 year life of the Series 2013 bonds. Amortization for the year ending June 30, 2014 was \$96,095 and is included in interest expense. The unamortized premium at June 30, 2014 is \$880,873.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 4) LONG-TERM DEBT - Continued

#### Water Revenue Bonds - Continued

The total amount outstanding at June 30, 2014 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2014, are as follows:

For the Year Ended June 30,	2010 Water Revenue Bond Series A		2010 Water Revenue Bond Series B		2013 Water Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 845,000	\$ 508,563	\$ -	\$ 2,371,868	\$ 605,000	\$ 258,700
2016	870,000	478,488	-	2,371,868	615,000	243,425
2017	900,000	443,088	-	2,371,868	635,000	221,500
2018	940,000	406,288	-	2,371,868	660,000	195,600
2019	975,000	367,988	-	2,371,868	685,000	168,700
2020-2024	5,610,000	1,068,687	-	11,859,342	3,875,000	399,500
2025-2029	1,295,000	33,994	6,000,000	11,123,436	-	-
2030-2034	-	-	9,925,000	8,425,226	-	-
2035-2039	-	-	13,635,000	4,590,582	-	-
2040-2042	-	-	6,795,000	453,978	-	-
	<u>\$ 11,435,000</u>	<u>\$ 3,307,096</u>	<u>\$ 36,355,000</u>	<u>\$ 48,311,904</u>	<u>\$ 7,075,000</u>	<u>\$ 1,487,425</u>

### 5) NET POSITION

#### Designations of Net Position

In addition to the restricted net position, a portion of unrestricted net position, have been designated by the Board of Directors for the following purposes as of June 30, 2014 and 2013:

	2014	2013
Designated Betterment	\$ 4,543,776	\$ 3,629,786
Expansion Reserve	4,457,117	623,834
Replacement Reserve	21,473,229	24,182,442
Designated New Supply Fund	24,125	24,000
Employee Benefits Reserve	<u>307,279</u>	<u>149,705</u>
Total	<u>\$ 30,805,526</u>	<u>\$ 28,609,767</u>



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 6) DEFINED BENEFIT PENSION PLAN

#### Plan Description

The District’s defined plan, (the “Plan”), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees’ Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees’ Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

#### Funding Policy

Active classic members in the Plan are required to contribute 8% of their annual covered salary. By agreement between the Employee Association and the District, the represented employees paid 5.25% of covered salaries beginning August 15, 2011. Also by agreement, the unrepresented employees began paying 4.5% of covered salaries as of July 15, 2011. Prior to these agreements all employees paid 1% of covered salaries. In these same agreements, all employees, after June 30, 2012, contributed an additional 3.5% of covered salaries. Effective January 1, 2013, classic represented employees contribution was reduced to an additional 2.75% of covered salaries. For new members (employees hired on or after January 1, 2013 and are new entrants to the PERS System), employees pay a 6.25% contribution. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.7% at age 55 retirement plan benefits for its classic members and 2.0% at age 62 for its new members under the California Employees’ Pension Reform Act (PEPRA) provisions. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2014 was 25.435%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

#### Annual Pension Costs

For the fiscal year ended June 30, 2014, the District’s annual pension cost and actual contribution was \$3,294,341. The required contribution for the fiscal year ended June 30, 2014 was determined as part of the June 30, 2011 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	21 Years as of the Valuation Date
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (Net of Administrative Expenses)
Projected Salary Increase	3.30% to 14.20% Depending on Age, Service, and Type of Employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 6) DEFINED BENEFIT PENSION PLAN - Continued

#### Annual Pension Costs - Continued

Initial unfunded liabilities are amortized over a closed period that depends on the Plan’s date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS					
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation		
6/30/14	\$ 3,294,341	100%	\$	0	
6/30/13	\$ 3,130,754	100%	\$	0	
6/30/12	\$ 2,951,409	100%	\$	0	

#### Fund Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 69.4% funded. The actuarial accrued liability (AAL) for benefits was \$95,927,777, and the actuarial value of assets was \$66,578,121, resulting in an unfunded actuarial accrued liability (UAAL) of \$29,349,656. The covered payroll (annual payroll of active employees covered by the plan) was \$11,474,462, and the ratio of the UAAL to the covered payroll was 255.8%.

The schedule of funding progress, presented as *required supplementary information* following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

### 7) OTHER POST EMPLOYMENT BENEFITS

#### Plan Description

The District’s defined benefit postemployment healthcare plan, (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers’ Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 7) OTHER POST EMPLOYMENT BENEFITS - Continued

#### Plan Description - Continued

Prior to the plan agreements signed in 2011, the eligibility in the plan was broken into 3 tiers, employees hired before January 1, 1981, employees hired between January 1, 1981 but before July 1, 1993 and employees hired on or after July 1, 1993. Board members elected before January 1, 1995 are also eligible for the plan. Eligibility also includes age and years of service requirements which vary by tier. Benefits include 100% medical and dental premiums for life for the retiree for Tier I, II or III employees, and up to 100% spouse premium for life and dependent premium up to age 19 depending on the tier. The plan also includes survivor benefits to Medicare.

Subsequent to the agreements in 2011 and 2012 all employees are eligible for the plan after 20 years of consecutive service and unrepresented employees hired before January 1, 2013 are eligible after 15 years. Survivor benefits are covered beyond Medicare.

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Effective January 1, 2013, represented employees hired prior to January 1, 2013 or hired on or after January 1, 2013 from another public agency that has reciprocity without having a break in service of more than six months, contribute .75% of covered salaries. In addition, unrepresented and represented employees hired on or after January 1, 2013, and do not have reciprocity from another public agency, contribute 1.75% and 2.5% of covered salaries, respectively. DPHP members receiving benefits contribute based on their selected plan options of EPO, HMO or PPO and whether they are outside the State of California. Contributions by plan members range from \$0 to \$154 per month for coverage to age 65, and from \$0 to \$154 per month, respectively, thereafter.

#### Annual OPEB Cost and Net OPEB Obligation/Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 12.0% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

	<u>2014</u>	<u>2013</u>
Annual Required Contribution (ARC)	\$ 1,439,000	\$ 1,287,000
Interest on Net OPEB Asset	(677,544)	(603,338)
Adjustment to Annual Required Contribution (ARC)	<u>625,000</u>	<u>543,000</u>
Annual OPEB Cost (Expense)	1,386,456	1,226,662
Contributions Made	<u>2,426,355</u>	<u>2,250,198</u>
Increase in Net OPEB Asset	(1,039,899)	(1,023,535)
Net OPEB Asset - Beginning of Year	<u>(9,345,437)</u>	<u>(8,321,902)</u>
Net OPEB Asset - End of Year	<u>\$ (10,385,336)</u>	<u>\$ (9,345,437)</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 7) OTHER POST EMPLOYMENT BENEFITS - Continued

#### Annual OPEB Cost and Net OPEB Obligation/Asset - Continued

For 2014, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) in the amount of \$940,355, which is included in the \$2,426,355 of contributions shown on the previous page. For 2013 this amount was \$877,196, which is included in the \$2,250,198 of contributions shown on the previous page.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2014, 2013 and 2012 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/14	\$ 1,386,456	175%	\$ (10,385,336)
6/30/13	\$ 1,226,662	183%	\$ (9,345,437)
6/30/12	\$ 1,239,315	173%	\$ (8,321,902)

#### Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 22,891,000
Actuarial Value of Plan Assets	\$ 11,831,000
Unfunded Actuarial Accrued Liability (UAAL)	\$ 11,060,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	51.68%
Covered Payroll (Active Plan Members)	\$ 11,969,000
UAAL as a Percentage of Covered Payroll	92.41%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.



# NOTES TO FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2014 AND 2013

### 7) OTHER POST EMPLOYMENT BENEFITS - Continued

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24-Year Fixed (Closed) Period as of the Valuation Date
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2007 Experience Study
Healthcare Cost Trend Rate	Medical: 10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. Dental: 4% per annum.

### 8) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Garden Authority (the “Authority”), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2014 and 2013, the District contributed \$119,687 and \$120,684, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority’s June 30, 2013 audited financial statement is as follows (latest report available):

Assets	\$ 1,555,790
Liabilities	\$3,750
Net Assets	<u>\$ 1,552,040</u>
Revenues, Gains and Other Support	\$ 135,000
Expenses	238,551
Changes in Net Assets	<u>\$ (103,551)</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 9) COMMITMENTS AND CONTINGENCIES

#### **Construction Commitments**

The District had committed to capital projects under construction with an estimated cost to complete of \$8,488,804 at June 30, 2014.

#### **Litigation**

Certain claims, suits and complaints arising in the ordinary course of operation have been filed or are pending against the District. In the opinion of the staff and counsel, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involved such amounts, as would not have significant effect on the financial position or results of operations of the District if disposed of unfavorably.

#### **Refundable Terminal Storage Fees**

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer \$746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2013, 1,751 EDUs had been relinquished and refunded, 15,031 EDUs had been connected, and 1,085 EDUs have neither been relinquished nor connected. At June 30, 2014, 1,751 EDUs had been relinquished and refunded, 15,073 EDUs had been connected, and 1,043 EDUs have neither been relinquished nor connected.

#### **Developer Agreements**

The District has entered into various Developer Agreements with developers towards the expansion of District facilities. The developers agree to make certain improvements and after the completion of the projects the District agrees to reimburse such improvements with a maximum reimbursement amount for each developer. Contractually, the District does not incur a liability for the work until the work is accepted by the District. As of June 30, 2014, none of the outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed \$221,320 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

### 10) RISK MANAGEMENT

#### **General Liability**

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability,



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 10) RISK MANAGEMENT - Continued

#### General Liability - Continued

excess liability, property, automobile, public employee dishonesty, and various other claims. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

General and Auto Liability, Public Officials' Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$10 million combined single limit at \$10 million per occurrence, subject to the following deductibles:

- \$500 per occurrence for third party general liability property damage;
- \$1,000 per occurrence for third party auto liability property damage;
- 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, as respects any employment practices claim or suit arising in whole or any part out of any action involving discipline, demotion, reassignment or termination of any employee of the member.

Employee Dishonesty Coverage: Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2013.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence, effective July 1, 2013.

Boiler and Machinery: Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible, effective July 1, 2013.

Public Officials Personal Liability: \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of \$500 per claim, effective July 1, 2013.

Comprehensive and Collision: On selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA - 201314, effective July 1, 2013.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5.0 million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2013.

#### Health Insurance

Beginning in January 2008, the District began providing health insurance through SDRMA covering all of its employees, retirees, and other dependents. SDRMA is a pooled medical program, administered in conjunction with the California State Association of Counties (CSAC).



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 10) RISK MANAGEMENT - Continued

#### Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

### 11) INTEREST EXPENSE

Interest expense for the years ended June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Amount Expensed	\$ 4,872,060	\$ 3,977,538
Amount Capitalized as a Cost of Construction Projects	<u>176,782</u>	<u>995,721</u>
Total Interest	<u>\$ 5,048,842</u>	<u>\$ 4,973,259</u>

### 12) SEGMENT INFORMATION

During the June 30, 2011 fiscal year, the District issued Revenue Bonds to finance certain capital improvements. While water and wastewater services are accounted for jointly in these financial statements, the investors in the Revenue Bonds rely solely on the revenues of the water services for repayment.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 12) SEGMENT INFORMATION - Continued

Summary financial information for the water services is presented for June 30, 2014:

#### Condensed Statement of Net Position June 30, 2014

	<u>Water Services</u>
<b>ASSETS</b>	
Current Assets	\$ 99,383,693
Capital Assets	448,775,521
Other Assets	11,756,796
	<hr/>
Total Assets	559,916,010
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Amount on Refunding	78,118
	<hr/>
Total Deferred Outflows of Resources	78,118
 <b>LIABILITIES</b>	
Current Liabilities	25,670,427
Long-term Liabilities	105,971,711
	<hr/>
Total Liabilities	131,642,138
 <b>NET POSITION</b>	
Invested in Capital Assets	343,531,272
Restricted for Debt Service	3,855,673
Unrestricted	80,965,045
	<hr/>
Total Net Position	\$ 428,351,990
	<hr/> <hr/>



## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2014 AND 2013

#### 12) SEGMENT INFORMATION - Continued

##### Condensed Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2014

	Water Services
<b>Operating Revenues</b>	
Water Sales	\$ 81,287,164
Connection and Other Fees	1,943,306
Total Operating Revenues	<u>83,230,470</u>
<b>Operating Expenses</b>	
Cost of Water Sales	56,068,147
Administrative and General	18,608,603
Depreciation	15,014,281
Total Operating Expenses	<u>89,691,031</u>
Operating Income (Loss)	(6,460,561)
<b>Nonoperating Revenues (Expenses)</b>	
Investment Earnings	459,098
Taxes and Assessments	3,536,200
Availability Charges	685,444
Gain (Loss) on Sale of Capital Assets	(426,140)
Rents and Leases	1,317,736
Miscellaneous Revenues	2,034,182
Donations	(119,687)
Interest Expense	(4,872,060)
Miscellaneous Expenses	(3,054,447)
Total Nonoperating Revenues (Expenses)	<u>(439,674)</u>
Income (Loss) Before Capital Contributions	(6,900,235)
Capital Contributions	<u>2,725,666</u>
Change in Net Position	(4,174,569)
Total Net Position, Beginning	<u>432,526,559</u>
Total Net Position, Ending	<u>\$ 428,351,990</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

### 12) SEGMENT INFORMATION - Continued

#### Condensed Statement of Cash Flows For the Year Ended June 30, 2014

	<u>Water Services</u>
Net Cash Provided/(Used) by:	
Operating Activities	\$ 6,536,602
Non-capital and Related Financing Activities	4,836,386
Capital and Related Financing Activities	(10,115,070)
Investing Activities	<u>(8,693,128)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,435,210)
Cash and Cash Equivalents, Beginning	<u>38,045,323</u>
Cash and Cash Equivalents, Ending	<u>\$ 30,610,113</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2014 AND 2013**



## REQUIRED SUPPLEMENTARY INFORMATION

### YEARS ENDED JUNE 30, 2014 AND 2013

#### Schedule of Funding Progress for PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/12						
Miscellaneous	\$ 66,578,121	\$ 95,927,777	\$ 29,349,656	69.4%	\$ 11,474,462	255.8%
6/30/11						
Miscellaneous	\$ 62,435,349	\$ 88,411,019	\$ 25,975,670	70.6%	\$ 12,289,529	211.4%
6/30/10						
Miscellaneous	\$ 57,613,987	\$ 81,306,934	\$ 23,692,947	70.9%	\$ 12,140,989	195.1%

#### Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/13						
Miscellaneous	\$ 11,831,000	\$ 22,891,000	\$ 11,060,000	51.68%	\$ 11,969,000	92.41%
6/30/11						
Miscellaneous	\$ 7,893,000	\$ 18,289,000	\$ 10,396,000	43.16%	\$ 12,429,000	83.64%
6/30/09						
Miscellaneous	\$ 6,273,000	\$ 10,070,000	\$ 3,797,000	62.29%	\$ 11,878,000	31.97%

**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Otay Water District  
Spring Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Otay Water District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Riverside, California  
\_\_\_\_\_, 2014

\_\_\_\_\_, 2014

Board of Directors  
Otay Water District  
Spring Valley, CA

We have audited the financial statements of the business-type activities of the Otay Water District (the “District”) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 29, 2014. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies has not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the business-type activities’ financial statements were:

Management’s estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of capital assets depreciation is based on historical estimates of each capitalized item’s useful life. We evaluated the key factors and assumptions used to develop the capital assets depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of net other postemployment benefits (OPEB) obligation is based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the net OPEB obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the fair value of investments in Note 2 to the financial statements represents amounts susceptible to market fluctuation.

The disclosure of capital assets in Note 3 to the financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of other postemployment benefits and the net OPEB obligation in Note 7 to the financial statements represents management's estimate based on an actuarial valuation. Actual results could differ depending on these key factors and assumptions used for the actuarial valuation

The financial statement disclosures are neutral, consistent and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as of a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated \_\_\_\_\_, 2014.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the Schedule of Funding Progress for PERS and the Schedule of Funding Progress for DPHP, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

### Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

Mr. Joseph Beachem  
Chief Financial Officer  
Otay Water District  
Spring Valley, CA

We have performed the procedures enumerated below, which were agreed to by the Otay Water District (the "District"), solely to assist the District's senior management in evaluating the investments of the District as of and for the fiscal year ended June 30, 2014. The District's management is responsible for evaluating the investments of the District. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Obtain a copy of the District's investment policy and determine that it is in effect for the fiscal year ended June 30, 2014.

**Finding:** At June 30, 2014, the current investment policy (Policy #27) is dated August 10, 2011 and was amended on July 3, 2013. This policy was reviewed and approved for the 2013-2014 fiscal year under Resolution No. 4213 at the July 3, 2013 regular board meeting. Therefore the investment policy is in effect for the time period under review.

2. Select 4 investments held at year end and determine if they are allowable investments under the District's Investment Policy.

**Finding:** We selected the following investments: FNMA - Maturity 9/6/2016, FHLB - Maturity 5/19/2017, FHLMC - Maturity 11/28/2016, and FNMA - Maturity 8/26/2016. All four investments are allowable and within maturity limits as stated in the District's investment policy at June 30, 2014.

3. For the four investments selected in #2 above, determine if they are held by a third party custodian designated by the District.

**Finding:** The four investments examined are held by a third party custodian, Union Bank of California, designated by the District in compliance with the District's investment policy. Per discussion with the District's management and evidenced by Union Bank of California's statement, Union Bank does not act as a broker dealer for the District but acts as a custodial agent of the District holding the investments in a trust capacity.

4. Confirm the par or original investment amount and market value for the four investments selected above with the custodian or issuer of the investments.

**Finding:** No exceptions were noted as a result of our procedures.

5. Select two investment earnings transactions that took place during the year and recompute the earnings to determine if the proper amount was received.

**Finding:** Selected the following investment earnings transactions: interest earned on FNMA Note on December 24, 2013 and interest earned on FHLB Bond on February 24, 2014. No exceptions were noted as a result of our procedures.

6. Trace amounts received for transactions selected at #5 above into the District's bank accounts.

**Finding:** No exceptions were noted as a result of our procedures.

7. Select five investment transactions (buy, sell, trade or maturity) occurring during the year under review and determine that the transactions are permissible under the District's investment policy.

**Finding:** We selected the following investment transactions: FHLB Bond sold on October 21, 2013, FHLMC Note sold on October 22, 2013, and FNMA Note purchased on December 19, 2013, FFCB Bond purchased on January 7, 2014, FHLB Bond purchased on February 14, 2014. Those transactions were permissible under the District's investment policy. No exceptions were noted as a result of our procedures.

8. Review the supporting documents for the five investments selected at #7 above to determine if the transactions were appropriately recorded into the District's general ledger.

**Finding:** No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the investments of the District for the fiscal year ending June 30, 2014. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is limited solely for the information and use of the Board of Directors and senior management of the Otay Water District and is not limited to be and should not be used by anyone other than these specified parties.

Riverside, California  
\_\_\_\_\_, 2014

# AGENDA ITEM 8



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
SUBMITTED BY:	Dan Martin Engineering Manager	PROJECT:	R2087- DIV. NO. 2 001101
APPROVED BY:	<input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Informational Item - Temporary Moratorium on the Installation of New Recycled Water Facilities on Otay Mesa Update		

### **GENERAL MANAGER'S RECOMMENDATION:**

No recommendation. This is an informational item only.

### **COMMITTEE ACTION:**

Please see Attachment A.

### **PURPOSE:**

To update the Board on the status of activities that have occurred subsequent to the placement of the temporary moratorium on the installation of new recycled water facilities on Otay Mesa.

### **ANALYSIS:**

As the District has pursued expansion of the District's recycled water system to the Otay Mesa area, the District has encountered a number of issues and risks when considered in total, that challenge both the technical and financial feasibility of delivering recycled water to Otay Mesa. On July 2, 2014, staff presented information to the Board on the uncertainty of recycled water availability for Otay Mesa, the financial feasibility considerations associated with anticipated recycled water rates from the City of San Diego, the uncertainty of securing easements to support the Otay Mesa Recycled

Water Supply Link Project, and the delivery horizon of Indirect Potable Reuse (IPR) and/or Direct Potable Reuse (DPR). As a result of the information presented to the Board, the Board voted to place a temporary moratorium on the installation of new recycled water facilities on Otay Mesa (see Exhibit A for Project location).

As of October 10, 2014, subsequent to the placement of the July 2, 2014 temporary moratorium on the installation of new recycled water facilities on Otay Mesa, staff has focused efforts in the following areas:

- Continued efforts with the City of San Diego (City) to discuss issues and amendments to the agreements between the District and the City.
- Notification to Developers regarding the temporary moratorium on the installation of new recycled water facilities on Otay Mesa and Developer project assessment and implementation.
- A review and assessment of existing District maintained recycled water facilities on Otay Mesa.

**Continued efforts with the City to discuss issues and amendments to the agreements between the District and the City**

On August 12, 2014, the District sent correspondence to the City regarding issues related to the October 23, 2003 Agreement Between the Otay Water District and the City of San Diego for Purchase of Reclaimed Water from the South Bay Water Reclamation Plant ("Agreement"), as well as issues related to Otay's purchase of potable water from the City's Otay Water Treatment Plant. Within the letter staff presented proposals regarding: the "Take-Or-Pay" requirement included in the recycled water Agreement, the City's recycled water rates, miscellaneous terms missing from the recycled water Agreement, and a proposal regarding the unauthorized use of Otay facilities.

Additionally, the August 12, 2014 correspondence includes a proposal to simplify terms included in the Agreement for the Purchase of Treated Water from the Otay Water Treatment Plant Between the City of San Diego and the Otay Water District, dated January 11, 1999 so that the cost of the potable water is understood in advance of ordering the water.

District staff understands that the City staff is currently reviewing the letter and considering the District's proposals.

**Notification to Developers regarding the temporary moratorium on the installation of new recycled water facilities on Otay Mesa and Developer project assessment and implementation.**

In the immediate weeks following the July 2, 2014 Board approval of the temporary moratorium, staff reached out to the Developer community to provide notification to Developers regarding the temporary moratorium. This included direct phone calls to Developers and the posting of a notice regarding the temporary moratorium on the District's Public Services web page (Exhibit B). The notice informs Developers that during the course of the temporary moratorium, the District will not be advancing recycled water projects, requiring the installation of new recycled water infrastructure, nor issuing permits for new recycled water meters on Otay Mesa. Developers have been informed that water to new developments on Otay Mesa will be supplied from the District's potable water system to meet current and future Developer project demand.

District staff also completed a review of the Developer projects on Otay Mesa that are affected by the temporary moratorium. In total, thirty (30) projects were identified. These projects which include both private recycled water systems and public recycled water mains were found to be in various stages of project development ranging from planning to construction. Project specific correspondence on the thirty projects was sent out by staff in August. In light of the temporary moratorium, staff is working with Developers on solutions for each affected project on Otay Mesa to bring the recycled water projects to completion.

Each project has been notified that the District will not be issuing recycled water meters on Otay Mesa while the temporary moratorium is in effect. Furthermore, each project has been notified that water for projects on Otay Mesa will be provided through potable meters (domestic and irrigation) while the temporary moratorium is in effect and that the associated capacity fees for the potable meters will be collected.

Staff reached out to representatives of the Pio Pico Power Plant (Pio Pico) project which anticipates needing a 6-inch recycled water meter and to Corrections Corporation of America (CCA) whose San Diego Correctional Facility project anticipates needing a 4-inch recycled water meter to inform them about the temporary moratorium and to discuss any potential impacts to their respective projects. During discussions with APEX Power Group (APEX), applicants for the Pio Pico project, APEX indicated that a moratorium on the installation of new recycled water facilities and non-availability of recycled water does not appear to impact the Pio Pico project.

The San Diego Correctional Facility project is currently under construction by CCA. Staff is working with CCA on modifications to the planned construction to mitigate impacts to the project as a result of the temporary moratorium. At this time, CCA has not stated if the temporary moratorium or a permanent moratorium will impact the overall construction and operations of the project facilities.

On October 9, 2014, staff attended a joint meeting of the East Otay Mesa Property Owners Association and the Otay Mesa Property Owners Association. Staff presented information on the Otay Water District's temporary moratorium on the installation of new recycled water facilities on Otay Mesa. As a result of the presentation, Association representatives inquired how the District would respond to a new "Super User" water customer if the opportunity presented itself.

A "Super User" that comes to the District or any Water Authority member agency could use the Accelerated Forecasted Growth component of the Water Authority's 2010 Urban Water Management Plan of 2,224 Acre-Feet per year (AFY) for 2015 and increases to 10,948 AFY by 2035. The demand associated with accelerated forecasted is intended to account for SANDAG's land-use development currently projected to occur between 2035 and 2050, but has the likely potential to occur on an accelerated schedule. This land-use is not included in local jurisdictions' general plans, so their projected demands are incorporated at a regional level. When necessary, this additional demand increment, termed, "Accelerated Forecasted Growth," could be used by member agencies to meet the demands of development projects not identified in the general land use plans.

The Association representatives also noted that Developers are pulling recycled water facilities out of their plans due to the temporary moratorium. The representatives expressed concerns that the District may require the recycled water facilities to be installed at a later date if a permanent moratorium is not approved. Staff responded that the District does not intend to go back and require the installation of recycled water facilities removed from projects as a result of the temporary moratorium.

Lastly, Association representatives inquired about the possibility of a more in-depth review of the District's financial analysis that supports the temporary moratorium. Staff will work to set up a follow-up meeting to present this specific information to Association representatives.

**Review and assessment of existing District maintained recycled water facilities on Otay Mesa.**

A review of the existing recycled water infrastructure on Otay Mesa indicates that the recycled water mains have been tested to potable standards. The District maintains interconnection facilities which includes backflow prevention devices at twenty-four (24) locations on Otay Mesa. These devices connect the recycled water mains to the existing potable mains and were put into place in order to provide a water supply until recycled water is available on Otay Mesa. A significant majority of the recycled water infrastructure on Otay Mesa has been placed into service and is currently serving water to the active recycled water meters. In total, less than 1.4 percent of the 16.4 miles of recycled water mains are not charged with water. Should a permanent moratorium on the installation of new recycled water facilities be placed on Otay Mesa, the existing recycled water infrastructure can remain functioning as it does today providing water to the District's customers. Additionally, this infrastructure could serve to provide redundancy to the potable system on Otay Mesa which would enhance reliability.

**Next Steps**

During the coming months, staff plans to meet with City staff to discuss the District's proposals included in the District's August 12, 2014 correspondence.

Staff will also initiate discussions with the San Diego County Water Authority (SDCWA) regarding SDCWA capacity fees that may be assessed on recycled water meters set on Otay Mesa should the Board decide that a future permanent moratorium of recycled water facilities on Otay Mesa is required. Additionally, staff will initiate discussions with the United States Bureau of Reclamation (USBR) regarding the \$950,000 in grant funds that were received for recycled water projects on Otay Mesa.

Staff will continue work on impacted projects on Otay Mesa to bring the recycled water projects to completion. To conclude, staff hasn't seen any reason that would require a change in the direction of the moratorium and will continue addressing the questions and concerns to the Otay Mesa Developers. Staff anticipates providing an update to the Board in spring of 2015.

**FISCAL IMPACT:**     Joe Beachem, Chief Financial Officer

The issues, risks, and financial analysis, as presented in the July 2, 2014 staff report, recommending the temporary moratorium on the installation of new recycled water facilities on Otay Mesa

indicate that the temporary moratorium will assist in mitigating financial impacts to the District should the Board decide that a future permanent moratorium of recycled water facilities on Otay Mesa is required.

There are financial risks associated with a future permanent moratorium. Those risks include reimbursement of \$950,000 in grant funds that were received from the United States Bureau of Reclamation (USBR) and SDCWA capacity fees.

**STRATEGIC GOAL:**

This Project supports the District's Mission statement, "To provide high value water and wastewater services to the customers of the Otay Water District in a professional, effective, and efficient manner" and the District's Vision, "A District that is innovative in providing water services at affordable rates, with a reputation for outstanding customer service."

**LEGAL IMPACT:**

None.

DM/RP:jf

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Attachments: Attachment A - Committee Action  
Exhibit A - Project Location Map  
Exhibit B - Temporary Moratorium Notice



## ATTACHMENT A

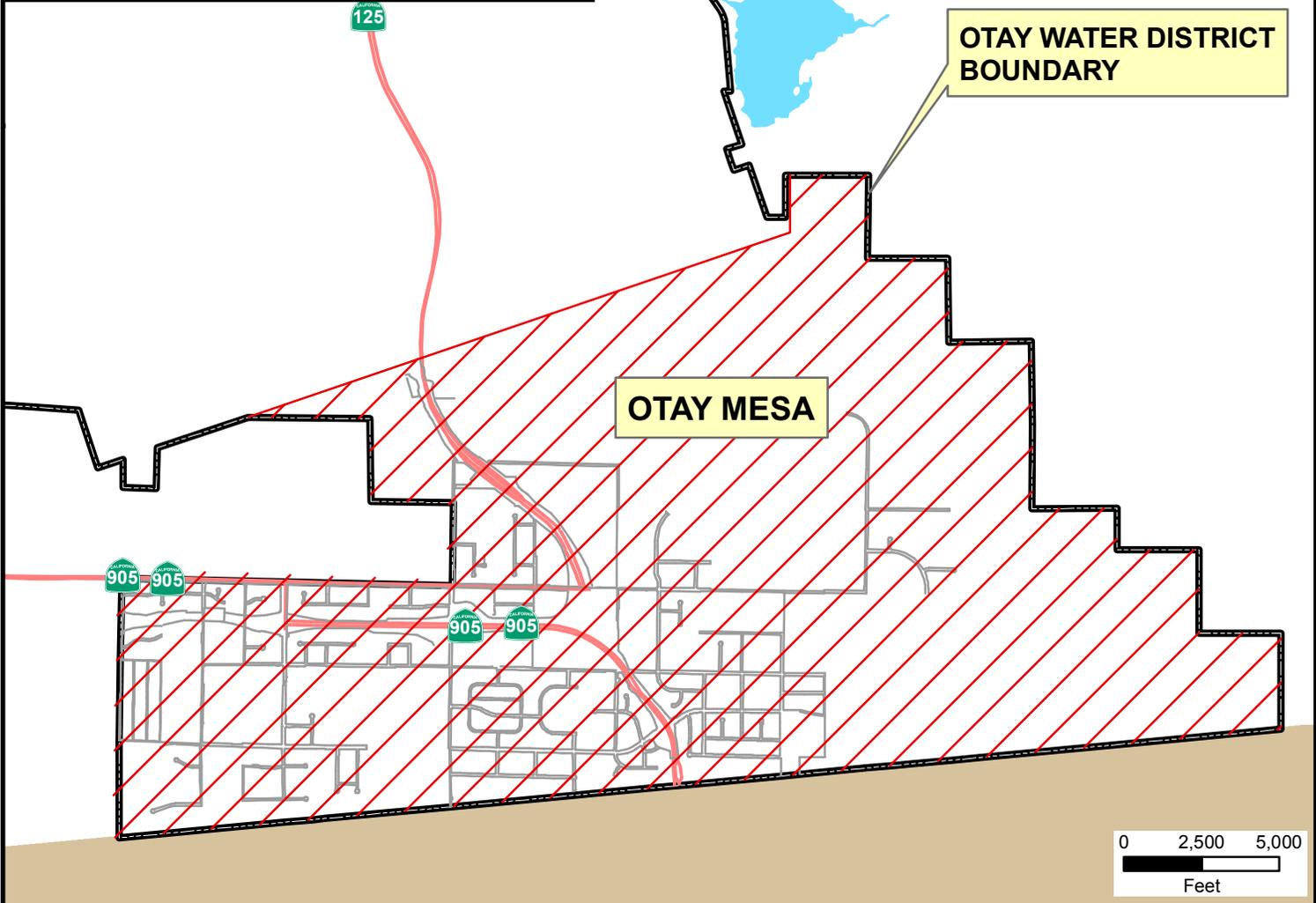
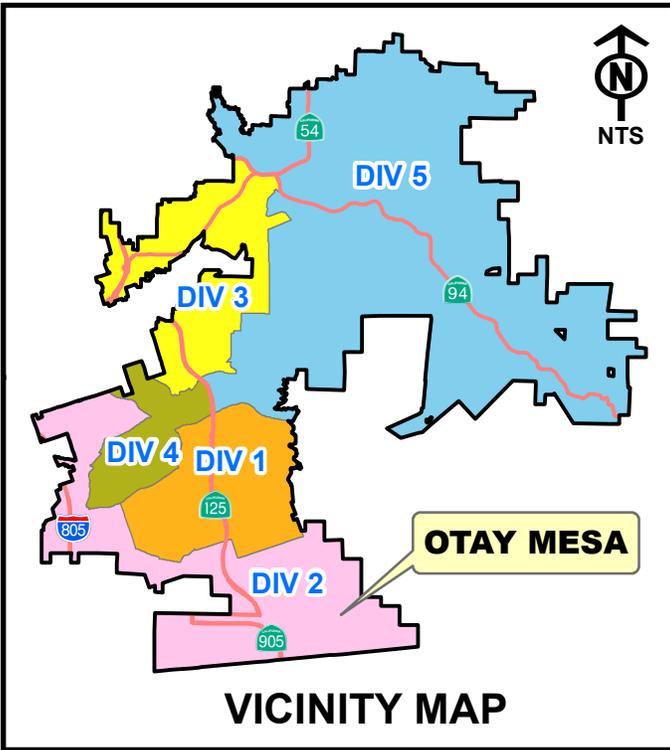
<b>SUBJECT/PROJECT:</b>  N/A	Informational Item - Temporary Moratorium on the Installation of New Recycled Water Facilities on Otay Mesa Update
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### **COMMITTEE ACTION:**

Finance, Admin, and Communications Committee (Committee) reviewed this item at a meeting held on October 21, 2014. The Committee supported Staff's recommendation.

### **NOTE:**

The "Committee Action" is written in anticipation of the Committee moving the item forward for Board approval. This report will be sent to the Board as a Committee approved item, or modified to reflect any discussion or changes as directed from the Committee prior to presentation to the full Board.



**OTAY WATER DISTRICT**  
**OTAY MESA RECYCLED WATER AREA**



P:\WORKING\CIP R2087\Graphics\Exhibits-Figures\Exhibit-A Otay Mesa Recycled Water Area

EXHIBIT A

## EXHIBIT B

# TEMPORARY MORATORIUM ON THE INSTALLATION OF NEW RECYCLED WATER FACILITIES IN OTAY MESA

At the July 2, 2014 Otay Water District's Board of Director's meeting, the District approved a temporary moratorium on the installation of new recycled water facilities in its Otay Mesa service area (see shaded area in the map below). The full staff report is available on the District's website <http://www.otaywater.gov/Otay/agenda.aspx>.

As a result of this action, during the course of the temporary moratorium, the District will not be advancing recycled water projects, requiring the installation of new recycled water infrastructure, nor issuing permits for new recycled water meters. Water to new development will be supplied from the District's potable water system to meet current and future developer project demand. The District will be contacting active developers currently in the design, plan review or construction phases of their projects to review and discuss the specifics of their individual projects with respect to the moratorium.

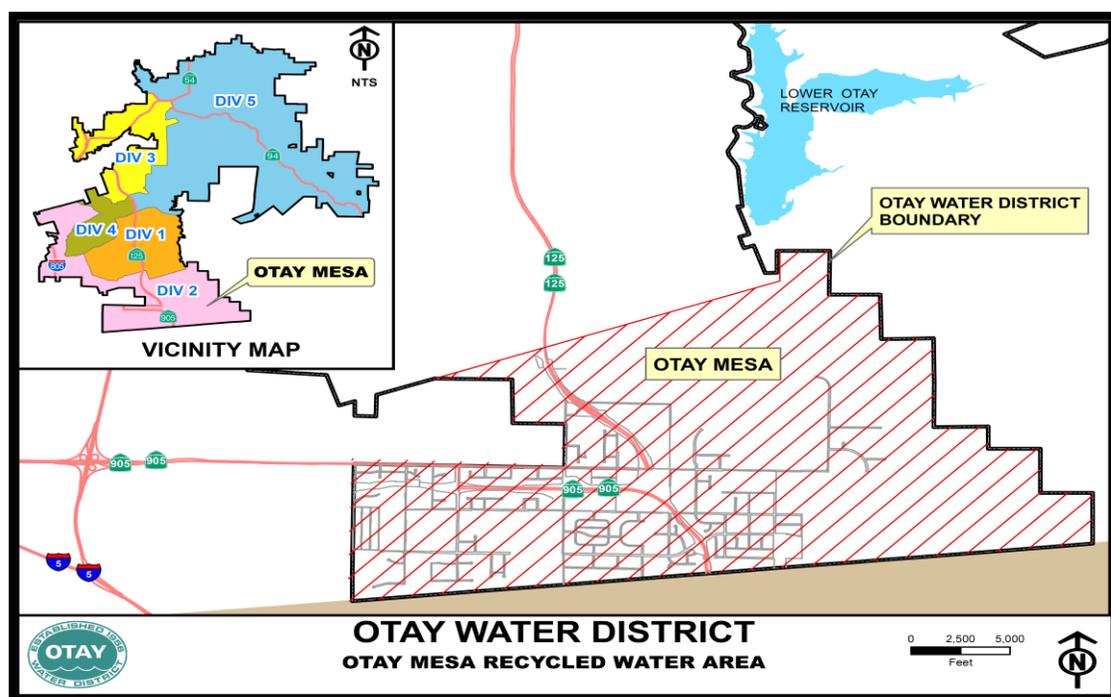
Please note the moratorium is **limited to Otay Mesa** and **does not** apply to the implementation of recycled water projects in east Chula Vista (the District's Central Area) where recycled water is available.

The District continues to stand firm in its commitment to the use of recycled water in order to minimize overall demand for potable water and is proud to operate one of the largest recycled water distribution systems in San Diego County.

If you have questions regarding the temporary moratorium for Otay Mesa, please contact the Otay Water District's [Public Services Division](#) at (619) 670-2241.

### OTAY WATER DISTRICT

Dan Martin, P.E.  
Engineering Manager



# AGENDA ITEM 9



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
		PROJECT:	DIV. NO. All
SUBMITTED BY:	Andrea Carey, Customer Service Manager		
APPROVED BY:	<input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Water Conservation Programs and Services		

### **GENERAL MANAGER'S RECOMMENDATION:**

This is an informational item only.

### **COMMITTEE ACTION:**

See Attachment A.

### **PURPOSE:**

To inform the Board of Directors about the District's water use to-date and the various programs and services offered through Otay's Water Conservation division.

### **ANALYSIS:**

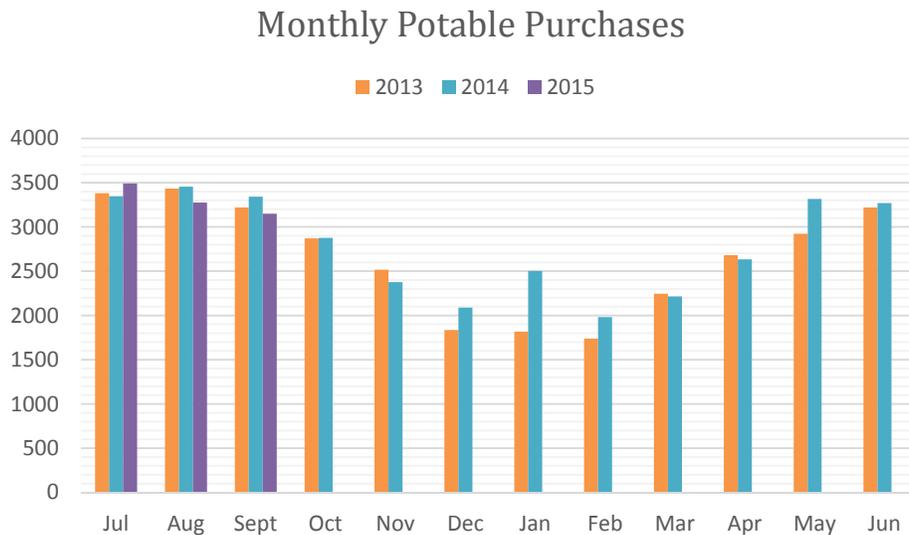
The Otay Water District offers many programs and services to assist and educate its customers on ways to save water and lower their water use. District customers have historically taken advantage of many of the programs offered and the District's overall water use reflects a more conservation minded public.

**Background**

California is experiencing an unprecedented drought due to three years of lower than anticipated rainfall. In response, Governor Brown declared a statewide drought emergency on January 17, 2014.

On July 15<sup>th</sup> the State Water Resources Control Board, in response to continued drought conditions, set forth emergency conservation regulations.

Pursuant to the regulations adopted by the State Water Resources Control Board, Otay is required to report monthly water usage from both the previous month and year by the 15<sup>th</sup> of each month. To date, staff has reported information from June through September 2014. The District’s monthly potable usage is illustrated below. The numbers reported are total potable water purchases in acre-feet.



Potable purchases were up for much of FY 2014. Extremely dry conditions and higher than normal temperatures resulted in an increase in water usage. So far, FY 2015 is seeing an overall decrease in water usage even with higher temperatures than last year. This shows that District customers are taking the drought communications seriously and taking action to conserve water.

The availability of reclaimed water coupled with increased conservation practices by District customers have resulted in a 20% decrease in potable water purchases in the past 10 years.

## Otay's Potable Water Purchases



### Conservation Targets

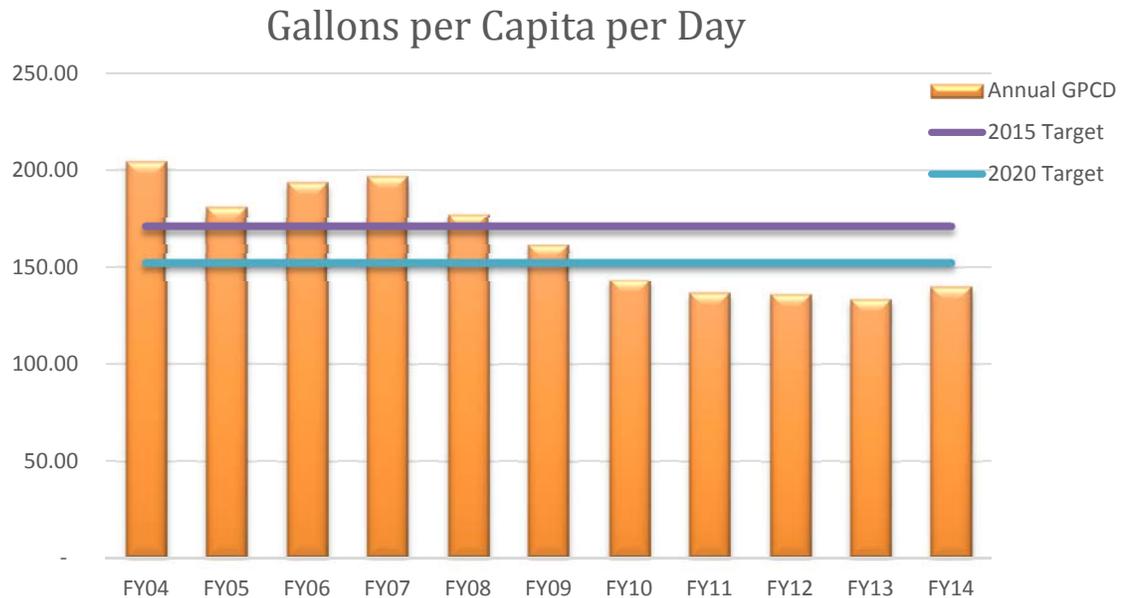
In 2009, Governor Schwarzenegger signed the Water Conservation Act which requires urban water suppliers to reduce water demand by 20% by the year 2020. That same year, the California Urban Water Conservation Council (CUWCC) revised its Water Conservation Best Management Practices (BMPs). In 1991, the CUWCC was created to maximize urban water conservation across California. Otay Water District was one of the initial 120 urban water agencies and environmental groups to sign the first historic Memorandum of Understanding (MOU) which pledged to develop and implement urban water conservation practices to reduce the demand of water supplies. The MOU in 1991 identified 14 BMPs for the District to follow to achieve water conservation. These included targeted outreach, rebate program goals and conservation targets. In 2009, the CUWCC reorganized and added flexibility to its MOU. The new MOU separated the original 14 BMPs into two categories: foundational and programmatic. The foundational BMPs cover operational practices and education programs. These are BMPs that all agencies would report on for compliance. The programmatic BMPs cover residential, commercial and landscape conservation programs. To achieve compliance with the programmatic BMPs, agencies had three options for reporting:

- 1) Checklist Approach: An agency can report on each BMP individually as it did in the previous MOU.
- 2) Flex-track approach: This approach sets specific savings goals based on the calculated savings that would have been achieved in the checklist approach.
- 3) Gallons-per-capita-per day (GPCD) approach: An agency can satisfy the programmatic BMP requirements if it shows a targeted reduction in per capita usage over time.

To align itself with the 20x2020 regulations, the District chose the gallons-per-capita-per-day (GPCD) approach. This eliminated the District having to meet certain rebate or incentive targets as the assumption is that an agency who is taking appropriate conservation measures will also have a reduction of overall water use. The CUWCC set bi-annual GPCD targets beginning in 2010 based on average water

usage from 1997-2006. The District is currently already surpassing the 2018 GPCD target.

In 2010, in accordance with the 20x2020 regulations, the District developed GPCD goals for 2015 and 2020 based on water use from 1999 to 2008 and, as shown below, is meeting both targets.



### Future Conservation Targets

Although the initial drought declaration from the Governor called for a 20% voluntary reduction in water use statewide, there have not been any specific targets given to water agencies by the State Water Resources Control Board. Southern California has been working to reduce water use for many years so there is some concern additional savings targets may be difficult to achieve. Recognizing the disparity between Southern and Northern California conservation efforts over the past ten years, the State Water Resources Control Board is evaluating residential GPCD levels for the nearly 400 agencies reporting statewide. The hope is that these figures will assist those water agencies who have not taken many steps to conserve determine what their targets should be. According to a report dated October 7, 2014, statewide water usage in August was down 11.5% which indicates that agencies throughout California are working to conserve.

With 2013 being the driest year on record statewide, the Metropolitan Water District (MWD) decided in 2014 to avoid water allocations by withdrawing from storage reserves. However, in response to continuing dry conditions, MWD is currently developing an allocation methodology for 2015. MWD anticipates bringing forward the allocation guidelines to their Board in November 2014 with approval expected in December 2014. However, with the San Diego County Water Authority's (CWA) investments to diversify its water supply, the impact of the

allocations will be mitigated. For example, a 20% reduction in MWD water transfers would translate into a 7% reduction to Otay. Staff is monitoring this situation closely and currently evaluating the potential financial impact of reduced water supplies. Staff will update the Board as more information becomes available.

Currently, quarterly GPCD targets are reported within the District's Strategic Plan. These targets align with the 20x2020 mandate. As the drought continues, staff will be evaluating these levels to determine if changes need to be made or additional targets tracked.

### **Water Conservation Programs**

In order to ensure the District continues to meet the 20x2020 goal and to offer customers opportunities to lower water use and save money, the Water Conservation department has worked closely with the San Diego County Water Authority (CWA) and the Metropolitan Water District (MWD) to offer a variety of programs.

### **Educational Programs**

Otay has resources available on its website for teachers and students to learn more about water and water conservation. For teachers, information is provided about the District sponsored poster and photography contests, bus tours to the Water Conservation Garden, Splash Labs, and water education websites. For students, there is information about the poster and photography contests, EPA watershed resources, and State of California water resources.

In addition, the following school programs are financially subsidized by the District through the San Diego County Water Authority.

Water Garden Field Trips: Every year Otay funds up to 30 school bus tours to the Water Conservation Garden. Schools contact the Garden directly to schedule their field trips. In Fiscal Year 2014, 27 classes and over 1,400 students visited the Garden coming from the District's service area.

School-wide Assemblies: CWA provides elementary school assemblies at no cost to the school. Depending on school size, two options are available: 1) H2O, Where did you go? For schools over 500 students or 2) Waterology for schools with 200 to 500 students. As a member of CWA, Otay helps fund these programs that are available to any elementary school in San Diego County. In Fiscal Year 2014, CWA provided assemblies for eight District schools and over 4,600 students.

Splash Lab & Green Machine: The Splash Science Mobile Lab is a self-contained mobile science laboratory that comes to schools to educate classes on the impact of water pollution on the environment and the importance of water conservation. The Green Machine is a mobile field trip to educate students on the importance of a healthy environment. Otay Water District, in conjunction with CWA, funds eight Splash Lab or Green Machine visits per year. The Splash Lab is designed for grades 4 through 6, whereas the Green Machine is designed for Kindergarten

through 4<sup>th</sup> grade. Last year, the Splash Lab visited La Presa Elementary School.

Teacher Workshops: Otay, through its membership in CWA, also provides free workshops for teachers. Currently, workshops on water smart gardening and regional water quality testing are available for qualified teachers.

Reduction in school spending and a focus on performance-based standards have resulted in less requests by school officials for in-school educational resources. Garden field trips are popular among District schools and demand is very high. An increase in the number of field trips budgeted could result in greater conservation exposure to students. Staff will be working with Garden staff to determine if additional funding may be warranted for next year's budget. Staff also plans to do more outreach campaigns to District schools to educate them on the programs above and get feedback on other services the District can provide to schools.

### **Residential Programs**

Partnering with CWA and MWD, Otay provides a variety of conservation programs and services to District customers. Customers are made aware of these programs through a variety of sources such as the District website, the "Pipeline" newsletter, public outreach at community events and MWD and CWA marketing efforts.

California Friendly Landscape Classes: Otay customers can sign-up for free three-hour classes on WaterSmart landscaping. Classes are taught throughout San Diego County on various days and times. The classes are designed to teach individuals how to design sustainable landscapes for the San Diego climate.

Garden Friendly Plant Fairs: Otay Water District partners with Home Depot to offer plant fairs in the fall and spring. Each plant fair features discounts on more than 20 types of water efficient plants. Otay staff is on hand to provide information on water conservation programs and services.

WaterSmart Landscape Makeover Series: CWA offers a series of four classes which provide homeowners with the information needed to makeover a traditional turf yard with drought tolerant landscaping. The classes cover everything from turf removal to design and irrigation.

Community Outreach: Otay participates in several community events throughout the year such as Bonitafest and Harborfest. The focus of the District's presence is to communicate the wide variety of conservation programs available to residents and answer conservation related questions.

Rebates: The chart below shows historical residential rebate data for the District and estimated water savings as a result of the water savings device purchased. The annual water savings is determined by MWD and assumes the devices are replacing old, less efficient products. (Attachment B)

Fiscal Year	Device Type	Number of Rebates	Estimated Water Savings (AF/year)
2012	Toilet	90	2.21
	Washer	763	26.32
	Rotating Nozzle	1,388	6.11
	WBIC	22	5.25
2013	Toilet	19	0.47
	Washer	561	19.35
	Rotating Nozzle	689	3.03
	WBIC	18	4.51
2014	Toilet	225	5.54
	Washer	457	15.77
	Rotating Nozzle	811	3.57
	WBIC	18	3.11
2015 (YTD)	Toilet	169	4.16
	Washer	150	5.18
	Rotating Nozzle	538	2.37
	WBIC	3	0.26

In the early 1990's, federal and state laws were enacted which required only low-flow toilets, and water efficient shower heads and faucets be installed in new and existing homes. Given the average replacement cycle (3-5 percent per year) and the large amount of homes built within the District after 1992, it is estimated that the vast majority of homes are equipped with these water saving devices. High efficiency washing machines are another large indoor water saver. Regulations on washing machine efficiency started in the early 2000's and do not appear to have reached a saturation point yet. Since 1994, over 10,000 residential rebates have been distributed for clothes washers.

Turf Removal Programs: As indoor devices became more and more water efficient, water industry experts turned the focus to outdoor water efficiency as a way to assist in water conservation. Outdoor irrigation contributes to between 40% and 60% of all water use in the District. The removal of water intensive turf and inefficient landscape irrigation products can save customers a large amount of water each month. In order to assist Otay customers with migrating to a more drought tolerant outside landscape, the District has offered a

variety of turf removal programs since 2008. Below is a chart showing residential customer participation in the programs.

Fiscal Year	Program	Coordinating Agency	Number of Rebates	Total Square Footage	Estimated Water Savings (AF/Year)
2008	Artificial Turf Rebate	OWD	34	24,041	3.12533
2009	Cash for Plants	OWD	24	37,694	4.90022
2010	Cash for Plants	OWD	18	21,847	2.84011
2011	Cash for Plants	OWD	17	28,353	3.68589
2012	Cash for Plants	OWD	18	25,098	3.26274
2013	Cash for Plants	OWD	5	6,683	0.86879
2013	Turf Replacement	CWA	7	5,628	0.73164
2014	Turf Replacement	CWA & MWD	31	24,637	3.20281
2015 (YTD)	Turf Replacement	CWA & MWD	3	2,475	0.32175

The MWD program provides rebates of \$2.00 per square-foot when converting existing live turf grass to a low water use alternative. This may include artificial or synthetic turf or other permeable surfaces. MWD's program includes front, side, and backyards. This can be combined with the CWA Turf Replacement Rebate. CWA provides rebates of \$1.50 per square-foot when replacing live irrigated grass in front yards with low water use non-invasive plants. There have been complaints that CWA's process is time consuming and difficult to navigate. As a result, the participation of the CWA program by District customers has been significantly lower. In FY 2014, 24 customers took advantage of the MWD rebate and only seven customers participated in the CWA program. In response, CWA is currently reviewing the program to make changes to the qualification process. There is also discussion about partnering with artificial turf suppliers to offer discounts to San Diego residents since the CWA rebate does not include artificial turf.

Expanded media publicity of the drought has resulted in a large increase in turf removal applications since July 2014. In FY 2014, there were 34 total applications approved by MWD. So far, in FY 2015, there have been 98 applications approved. These applications represent 139,819 square feet of turf removal which, if all are completed, would result in an estimated 18 acre-feet of water savings. It is estimated that approximately 7,700 square feet of turf would need to be replaced to save one acre-foot of water annually.

Site Water Audits: Otay partners with CWA to provide residential customers free indoor and outdoor water audits. Beginning in October,

CWA has expanded this program to allow customers the option to waive the indoor portion of the audit in exchange for assistance programming their irrigation controllers. Recognizing that the biggest opportunities for savings are outdoor, this will give the homeowner additional tools to effectively manage irrigation schedules.

PACE Financing Program: The Property Assessed Clean Energy program (PACE) offers financing options for homeowners on a variety of water and energy savings projects. Customers who may not be able to afford the up-front costs of artificial turf removal or an irrigation overhaul can apply for a loan which is paid through the property tax system. The amount of the loan can be \$5,000 to \$20,000 and can be paid off between 5 and 20 years. There are a variety of lenders that participate in this program. To find a lender one may visit [www.energycenter.org](http://www.energycenter.org) and search by zip code.

### **Commercial Programs**

Site Water Audits: Otay partners with the MWD and CWA to provide commercial customers an audit by a certified irrigation professional.

Water Smart Irrigation Upgrade Program: Otay provides funding for commercial sites to replace older irrigation equipment with more efficient components. Weather-based irrigation controllers (WBIC) and rotating nozzles are excluded from this program as they are already covered under existing MWD rebates. The program reimburses customers up to 40% of the component costs up to a maximum of \$5,000. Otay had one property management company take advantage of this program in FY 2014.

Water Savings Incentive Program: This program is funded by MWD and open to all commercial customers. Customers who install water efficient equipment or change processes to produce water savings can apply to be reimbursed for project costs. Customers can receive up to \$.60 per 1,000 gallons saved per year over the project life, up to 10 years. Incentives are limited to 50% of eligible project costs. Emerald Textiles, a healthcare laundry service company in the Otay Mesa area has recently participated in this program with the installation of a water treatment and recycled system. The company expects to see a 60% reduction in water usage which equals over 30 million gallons per year or 95 acre-feet.

Rebates: The chart below shows historical commercial rebate data for the District and estimated water savings as a result of the water saving devices purchased. The annual water savings is determined by MWD and assumes the devices are replacing old, less efficient products. (Attachment C) Commercial rebate response has historically been much lower than residential. One reason for low response is the

labor costs for replacing fixtures can far exceed the cost of the products themselves.

Fiscal Year	Device Type	Number of Rebates	Estimated Water Savings (AF/year)
2013	Rotating Nozzle	1,375	0.9
	Toilet	72	1.77
	Flow Regulator	300	11.49
	WBIC	16	4.48
2014	Rotating Nozzle	725	7.33
	Toilet	298	0.15
	Ice Making Machine	1	13.05
	Zero Water Urinal	12	1.47
2015 (YTD)	Rotating Nozzle	160	0.7

*Turf Removal Programs:* The MWD and CWA programs explained in the residential section are also available to commercial customers. Below is a chart showing commercial participation in turf removal programs since 2008.

Fiscal Year	Program	Coordinating Agency	Number of Rebates	Square Footage	Estimated Water Savings (AF/Year)
2008	Artificial Turf Rebate	OWD	1	76,709	9.97217
2009	Cash for Plants/Artificial Turf	OWD	5	126,315	16.42095
2010	Cash for Plants	OWD	10	83,291	10.82783
2011	Cash for Plants	OWD	6	26,381	3.42953
2012	Cash for Plants	OWD	6	49,673	6.45749
2013	Cash for Plants	OWD	3	26,670	3.4671
2013	Turf Replacement	CWA	1	6,000	0.78
2014	Turf Replacement	CWA & MWD	0	0	0
2015 (YTD)	Turf Replacement	CWA & MWD	1	4,746	0.61698

## Budget

All programs listed above are either included in the Fiscal Year 2015 budget or through Otay's CWA membership. The table below shows the amount budgeted for each item.

<b>Programs</b>	<b>Budget</b>
Garden Field Trip	\$ 19,900
Bus Costs	\$ 7,000
Splash Lab	\$ 1,800
Residential Clothes Washer	\$ 17,500
Residential WBIC	\$ 3,000
Commercial Smart Irrigation Program	\$ 15,000
Multi-Family Toilet	\$ 2,000
Site Audits	\$ 17,000
Demonstration Garden	\$100,000
<b>Total</b>	<b>\$ 183,200</b>

## Additional Conservation Efforts

Marketing Efforts: Otay Water District engages in various marketing campaigns to give customers the latest conservation and drought information. YouTube videos, social media posts, bill inserts, and newsletters have all recently been distributed to Otay customers to inform them of the District's move to a Level 2 drought and the mandatory restrictions in place.

Water Waste Reporting: Customers can go to the District website or call Customer Service to report all types of water waste such as water run-off, leaks or washing down paved surfaces. These reports are acted on by District staff with letters and/or site visits as warranted. Customers who do not remedy the situation are referred to the Water Conservation department. Water Conservation will attempt to contact the customer to discuss the issue and, if not resolved, may take additional steps such as water turn-off or fines for non-compliance of water waste restrictions.

Leak Notification: As part of the meter reading process, customers whose meter registers a leak alarm due to continuous usage for 24 hours are notified via email, phone call, or site visit. The type of notification is dependent on various thresholds for larger than expected usage.

**Future Conservation Efforts**

District staff will continue to market the conservation programs and services offered to customers and participate in interagency conservation meetings to keep updated on the latest drought information. Should drought conditions continue and the need for additional conservation be required, staff will coordinate outreach campaigns to various customer types to determine programs or funding that can be added to assist with reducing water use.

The District is considering a cooperative endeavor to establish a demonstration garden which is more central to the District's customers. Fiscal year 2015 has an approved budgeted amount of \$100,000 for the demonstration garden.

Staff is currently working with IT to improve the District's conservation web pages. Staff would like to better organize the available information and use links and drop-down menus for faster navigation. In addition, there is a plan to add an interactive calculator to give customers the ability to estimate how their water conservation efforts can translate to a lower water bill.

While the current drought conditions do not seem to be diminishing, District customers are taking warnings seriously and doing their part to conserve water. A reduction in overall water use and an increase in incentive program participation shows the public is committed to reducing water consumption.

**FISCAL IMPACT:**             Joe Beachem, Chief Financial Officer

This is an informational item only and has no fiscal impact. All programs are included in the Water Conservation budget. The total budgeted costs for FY 2015 are \$183,200. Other costs of the conservation programs is incorporated into the general cost of water paid to CWA and MWD.

**STRATEGIC GOAL:**

Actively manage water supply and demand.

**LEGAL IMPACT:**

None.

Attachments:

- A) Committee Action Form
- B) Residential Programs and Rebates
- C) Commercial Programs and Rebates



## ATTACHMENT A

<b>SUBJECT/PROJECT:</b>	Water Conservation Programs and Services
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### COMMITTEE ACTION:

This is an informational item only.

### NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.



## Residential Water Efficient Programs & Rebates

### Water Smart Checkup

Free Indoor and Outdoor Water Conserving Recommendations

- Dial 1/866/883-1332 or visit [watersmartcheckup.org](http://watersmartcheckup.org) to schedule an appointment

### Turf Replacement Program = SD County Water Authority (CWA) Rebate

\$1.50/square foot for replacing grass in the front yard with a Water Smart landscape

- Dial **1/866/685-2322** or visit [turfreplacement.watersmartsd.org](http://turfreplacement.watersmartsd.org) for application form and qualifying standards

*\*\* Since the rebates listed below are subject to change or termination by the Metropolitan Water District of Southern California at any time, please call 1/888/376-3314 or visit [www.SoCalWaterSmart.com](http://www.SoCalWaterSmart.com) for confirmation of available rebates\*\**

<u>Rebates</u>	<u>Total Rebate</u>
** High Efficiency Washer (HEW)	\$135.00 **
** High Efficiency Toilet (HET)	\$100.00 **
** Rain Barrel 4 barrel maximum	\$75.00/barrel **
** Weather Based Irrigation Controller (WBIC) Under 1 irrigated acre	\$140.00 **
** Weather Based Irrigation Controller (WBIC) Over 1 irrigated acre	\$35.00/station **
** Rotating Nozzles 1 rebate per residential address (15 nozzle minimum)	\$4.00 /nozzle **
** Moisture Sensor Added to irrigation controller	\$80.00 **
** Turf Replacement May be added to CWA rebate above Review each wholesale water agency's qualifying standards	\$2.00/sqft **

**For additional information on any program, please contact:  
Richard.Namba@otaywater.gov  
619/670-2730**



## Commercial Water Efficient Programs & Rebates

### Commercial Landscape Survey

Free Landscape and Irrigation Audit

- Dial 1/866/883-1332 or visit [watersmartcheckup.org](http://watersmartcheckup.org) to schedule an appointment

### Commercial Turf Replacement Rebate = SD County Water Authority

\$1.50/square foot for replacing grass with a Water Smart landscape

- Dial 1/866/685-2322 or visit [turfreplacement.watersmartsd.org](http://turfreplacement.watersmartsd.org) for application form and qualifying standards

*\*\* Since the commercial rebates listed below are subject to change or termination by the Metropolitan Water District of Southern California at any time, please call 1/888/376-3314 or visit [www.SoCalWaterSmart.com](http://www.SoCalWaterSmart.com) for confirmation of available rebates\*\**

<u>Rebates</u> (More commercial rebates available at website)	<u>Total Rebate</u>
** High Efficiency Tank Toilets	\$100/multi-family **
** High Efficiency Flushometer Toilet	\$100 **
** Ultra Low & Zero Water Urinals	\$200 **
** Air Cooled Ice Machines	\$1,000 **
** Weather Based Irrigation Controller (WBIC)	\$35/station **
** Rotating Nozzles	\$4 /nozzle **
** Large Rotary Nozzles	\$13/Set **
** In-Stem Flow Regulators	\$1/Regulator **
** Moisture Sensor    Added to irrigation controller	\$35/station **
** Turf Replacement	\$2/sqft **
May be added to CWA rebate above when meeting requirements	

For additional information on any program, please contact:

Richard.Namba@otaywater.gov

619/670-2730

7.1.2014

# AGENDA ITEM 10



## STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 5, 2014
		PROJECT:	DIV. NO. All
SUBMITTED BY:	Andrea Carey, Customer Service Manager		
APPROVED BY:	<input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Proposed Water Conservation Demonstration Garden Partnership		

**GENERAL MANAGER'S RECOMMENDATION:**

This is an informational item only.

**COMMITTEE ACTION:**

See Attachment A.

**PURPOSE:**

To provide the Board with information regarding the potential sites for a water conservation demonstration garden.

**ANALYSIS:**

Staff has reviewed multiple options for a potential demonstration garden in Chula Vista and has narrowed it down to four sites. After visiting them and discussing details with the partner entities, staff has identified Otay Ranch Town Center as a preferred location for the water conservation demonstration garden. The information below will provide the details staff used to identify potential sites and the specific attributes of the four sites considered.

**Background**

In 1992, Otay was a founding member of the nationally renowned five-acre Water Conservation Garden and continues to be a supporting member. The Water Conservation Garden, located in the northern part of the District, provides visitors with information and examples of

water-wise gardening. As the District's population continues to grow in the southern region of San Diego County, Otay is investigating the viability of a partnership to provide those customers with a more convenient water demonstration garden in Chula Vista. A location that might have greater exposure to a larger portion of the District's customer base.

The need to conserve water has grown after several years of below normal rainfall which has created water supply shortages. This has led to Governor Brown's statewide proclamation to conserve water in January 2014. Following suit, Otay declared a Level 2 Supply Alert on August 6, 2014 that initiates mandatory water restrictions. Since grass is the most water dependent species of the landscape, Otay is committed to assisting residential sites in removing grass to conserve water. While generous grass removal rebates exist, the District is looking at the option to provide an additional water conserving demonstration garden that would serve as an inspiration for homeowners that commit to taking out non-functional grass around the house. The demonstration garden would illustrate that water conserving plants provide a multitude of colors, textures, sizes, and shapes that would enhance property value while conserving significant amounts of water.

#### **Partnership Responsibilities**

Since this project would benefit both partnering organizations in meeting community outreach educational objectives and environmental sustainability goals, organization specific responsibilities have been identified. If the initial responsibilities are agreeable to the partnering organizations and a tentative site has been determined, future meetings will focus on finalizing a contract that will insure the design, maintenance, and longevity of the partnership demonstration garden.

#### **Otay Water District would provide:**

- Cost of a professionally designed water conservation demonstration garden design plan that meets the landscape/aesthetic standards of the partnering organization and the community outreach goals of the Otay Water District.
- Cost of the installation of irrigation system, hardscape material and landscape plants that would be identified in the mutually agreed upon design, irrigation, planting, and supplemental design plan documents.
- Cost of interpretive signage that identifies water savings when removing grass and replacing it with California friendly, drought tolerant, and water conserving plants.
- Promotion of the water conservation demonstration garden.
- Promotion of water sustainability partnership.

**Partnership agency would provide:**

- An area of high visibility to locate the garden with a map of the site.
- Water supply for installation of low volume irrigation system to maintain landscape.
- Public access and egress during site's normal hours of business operation.
- Public parking.
- Garden maintenance and water costs.
- Promotion of the water sustainability partnership.

**Potential Demonstration Garden Partnership Sites**

A preliminary review of the District's Chula Vista service area identified potential garden sites that included governmental and commercial entities. Sites reviewed include:

- Chula Vista College (future site);
- High Tech High;
- HOA common ground areas;
- Millenia at Otay Ranch;
- Otay Lake;
- Otay Ranch Town Center;
- City of Chula Vista Open Space;
- Salt Creek Community Center;
- Salt Creek Golf Course;
- Sea World's Aquatica Park;
- Southwestern College; and
- U.S. Olympic Training Center.

A variety of factors were considered as criteria for identifying potential sites and eliminating other sites that would not be compatible with District goals in supporting a water conservation demonstration garden at this time. Factors considered in identifying a potential partner in the District's Chula Vista service area include:

- space available;
- location;
- daily hours of accessibility;
- parking;
- restrooms;
- water service;
- maintenance commitment;
- build-out date;
- shared vision of demonstration garden value;
- environmental stewardship; and
- long-term return on investment.

Of the sites considered, the following four sites best fit the criteria. Preliminary meetings to discuss a partnership and mutually beneficial goals of a demonstration garden have generated positive support from each of the potential partners.

**1. Otay Ranch Town Center (ORTC)**

2015 Birch Road, Suite 500  
Chula Vista, CA 91915

Governing Authority: General Growth Properties (GGP) REIT

Location: Board District 1

**Site Location:** Proposed garden site located adjacent to the western side of the Macy's store located across the street from the ORTC dog park.

**Space Available:** 10,987 square feet

ORTC supports the demonstration garden partnership proposal. On July 8, 2014 there was an inspection of the proposed demonstration garden site. The REI (Recreational Equipment Incorporated) store is in close proximity and supports environmentally friendly sustainability projects.

**Attributes of ORTC Site**

**Accessibility:** Easy public access and egress via 125 Expressway, Birch Road, and Olympic Parkway.

**Parking:** Ample free public parking in ORTC parking lots.

**Restroom Facilities:** Public restroom facilities are available.

**Maintenance:** Brickman/Valley Crest Landscape Company currently maintains ORTC's landscaped areas. They are a highly regarded landscape partnership that also maintains Grossmont Center and Fashion Valley shopping malls and their landscaping meets commercial marketing standards.

**Improvements:** Undeveloped site does not require removal and disposal of existing landscape.

**Exposure:** ORTC provides the broadest public exposure of a water conservation demonstration garden to Chula Vista constituents who reflect a wide range in age, ethnicity, gender, and income.

**Limitations of ORTC Site**

- Commercial for-profit mall site.
  - Long-term financial survivability of ORTC is unknown.
  - Long-range development plan of ORTC is unknown.
- Demonstration garden site can be displaced by future commercial mall tenant.
  - Length of demonstration garden partnership must be negotiated.
  - Partnership contract must protect District's financial investment in site.

- Currently, a completely vacant site with no irrigation infrastructure in place.

## **2. Salt Creek Community Center (SCCC)**

2710 Otay Lakes Road  
Chula Vista, CA 91915

Governing Authority: City of Chula Vista Park & Recreation  
Department

Location: Board District 1 with Board District 5 located north  
of Otay Lakes Road

**Site Location:** Adjacent to entry road and SCCC parking lot. This is a 24-acre community center and park that provides a wide range of recreational activities.

**Space Available:** 5,095 square feet

SCCC supports the demonstration garden partnership proposal. An inspection of the proposed demonstration garden site took place on September 4, 2014.

### **Attributes of Salt Creek Community Center Site**

**Accessibility:** Easy public access off Otay Lakes Rd.

**Parking:** Ample public parking is available.

**Restroom Facilities:** Public restroom facilities are available.

**Maintenance:** Provided by Parks Department and existing irrigation system can be reused for demonstration garden landscape.

**Improvements:** Site consists of grass that must be removed or eradicated.

**Exposure:** Community center is used by many people living in the area for health and sporting events.

### **Limitations of Salt Creek Community Center Site**

- Located at eastern edge of District's Chula Vista residential service area.
  - Primary users of SCCC programs are those living near the community center and park.
- Limited square footage available restricts demonstration garden design plan potential.
- Site maintenance would be provided by city staff with already a large service area to maintain.

## **3. Rice Canyon Open Space Preserve (RCOSP)**

North side of the intersection of Buena Vista Way and Rancho Del Rey Parkway  
Chula Vista, CA 91910

Governing Authority: City of Chula Vista, Open Space Department  
Location: Board District 2

**Site Location:** Demonstration garden site would be immediately adjacent to Rancho Del Rey Parkway.

**Space Available:** 4,850 square feet

RCOSP staff supports demonstration garden partnership proposal. On September 25, 2014 there was an inspection of proposed demonstration garden site. There is an existing succulent and cactus section at the site.

### **Attributes of Rice Canyon Open Space Preserve Site**

**Accessibility:** Public access off Rancho Del Rey Parkway near Buena Vista Way.

**Parking:** Limited parking is available. Eight paved spots exist with a large gravel overflow area for additional cars.

**Restroom Facilities:** Public restroom facilities are not available on-site.

**Maintenance:** Maintenance is currently provided in part by Open Space staff and contracted out to Blue Skies Landscape Maintenance Company.

**Improvements:** Water is available on-site to irrigate demonstration garden area.

**Exposure:** RCOSP is the future site of Chula Vista sponsored composting and sustainability classes. The City of Chula Vista is applying for a \$40,000 grant for RCOSP upgrades.

### **Limitations of Rice Canyon Open Space Site**

- Smallest square footage available of the sites considered.
- A lack of design plan or planting plan is apparent in the current distribution of plant material.
- Site is currently not well maintained with weeds growing throughout.
- Space occupied by cactus and succulents is four times as large as the partnership garden area.
  - Adjacent cactus and succulents have been planted in a haphazard, random arrangement.
  - Aesthetics of a professionally designed demonstration garden space will be a stark contrast to a succulent garden designed with good intentions, volunteer staff, and lack of a unifying design plan.
  - Imbalance in space allocated to existing succulents compared to proposed demonstration garden area creates a false sense of relative importance and value.
- Minimal signage exists to identify or interpret existing plant material.
  - Interpretive signage has not kept up with addition of new succulents and cactus.

#### 4. Southwestern College

900 Otay Lakes Road  
Chula Vista, CA 91910

Governing Authority: Southwestern Community College District  
Location: Board District 4

Still awaiting partnership acknowledgement following the June 18, 2014 campus meeting.

**Site Location:** Centrally located within District's Chula Vista service area.

**Space Available:** Demonstration garden site on campus has not been specifically identified within the four-acre garden with adjacent undeveloped space available.

#### Attributes of Southwestern College Site

**Accessibility:** Public access and egress to navigate campus roads difficult due to normal student traffic.

**Parking:** Limited public parking available campus-wide. Parking tickets issued if parking without a permit or in wrong lot.

**Restroom Facilities:** Public restroom facilities are currently not available in the SBBG. However, restrooms are located outside the SBBG in classroom buildings.

**Maintenance:** Docents may be available to support demonstration garden.

**Improvements:** Awaiting a specific site to determine what would need to be removed or retrofitted.

**Exposure:** Landscape and Nursery Technology Department offering courses since 1975. Faculty and students available to support demonstration garden. Site of South Bay Botanical Garden (SBBG).

#### Limitations of Southwestern College Site

- Multi-tiered college administrative proposal review and approval levels.
  - Southwestern College's commitment to supporting the L&NT Department and the SBBG's long-term role as a campus resource is uncertain based upon budgetary support for faculty positions and garden maintenance.
- Campus facilities operate on a Monday through Friday schedule.
- The South Bay Botanical Garden site is located in southwestern corner of the campus.
  - Limited hours of operation and public accessibility.
  - SBBG operates on a Tuesday - Saturday schedule.
  - Limited public parking adjacent to SBBG.
  - Garden maintenance within SBBG dependent on student and volunteer availability.
  - SBBG was poorly maintained during June 18, 2014 walk through inspection.

**Future Actions**

At this time, based on the criteria identified and of the sites reviewed, Otay Ranch Town Center appears to be the best fit for a demonstration garden in Chula Vista. However, staff will continue to evaluate the potential sites with more focused conversations with potential partnering organizations. This is necessary to develop a clear path of how a demonstration garden might be accomplished. In the event staff and a potential partner have a viable path to accomplish a garden, staff will bring this option to the Board for direction.

**FISCAL IMPACT:**             Joe Beachem, Chief Financial Officer

Fiscal year 2015 has an approved budgeted amount of \$100,000 for the demonstration garden. Since staff time has been budgeted separately under operating salaries and benefits, the full \$100,000 may be used to hire third parties to complete the demonstration garden. To date, none of this budget has been spent.

At this point, staff has been solely focused on evaluating potential sites. With more certainty of the viability of a particular site, the next step will be to develop a request for proposal and obtain bids. Staff will have a better understanding of how to best use the budgeted amount further along in the process.

**STRATEGIC GOAL:**

Work with local agencies to influence developers, builders, and the community to incorporate practical water efficient practices.

**LEGAL IMPACT:**

None.

Attachments:

- A) Committee Action
- B) Presentation



## ATTACHMENT A

<b>SUBJECT/PROJECT:</b>	Proposed Water Conservation Demonstration Garden Partnership
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### COMMITTEE ACTION:

This is an informational item only.

### NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.

# Water Conservation Demonstration Garden

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November 5, 2014



# Parameters for Site Selection

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- Southern portion of the District (Chula Vista area)
- Willing partnering agency
- Space available
- Accessible to the general public
- Onsite parking
- Access to water for irrigation

# OWD Responsibilities

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- Cost of professional garden design plan
- Cost of installation of irrigation system, hardscape material, and landscape plants
- Cost of interpretive signage
- Promotion of the demonstration garden
- Promotion of the water sustainability partnership

# Partner Responsibilities

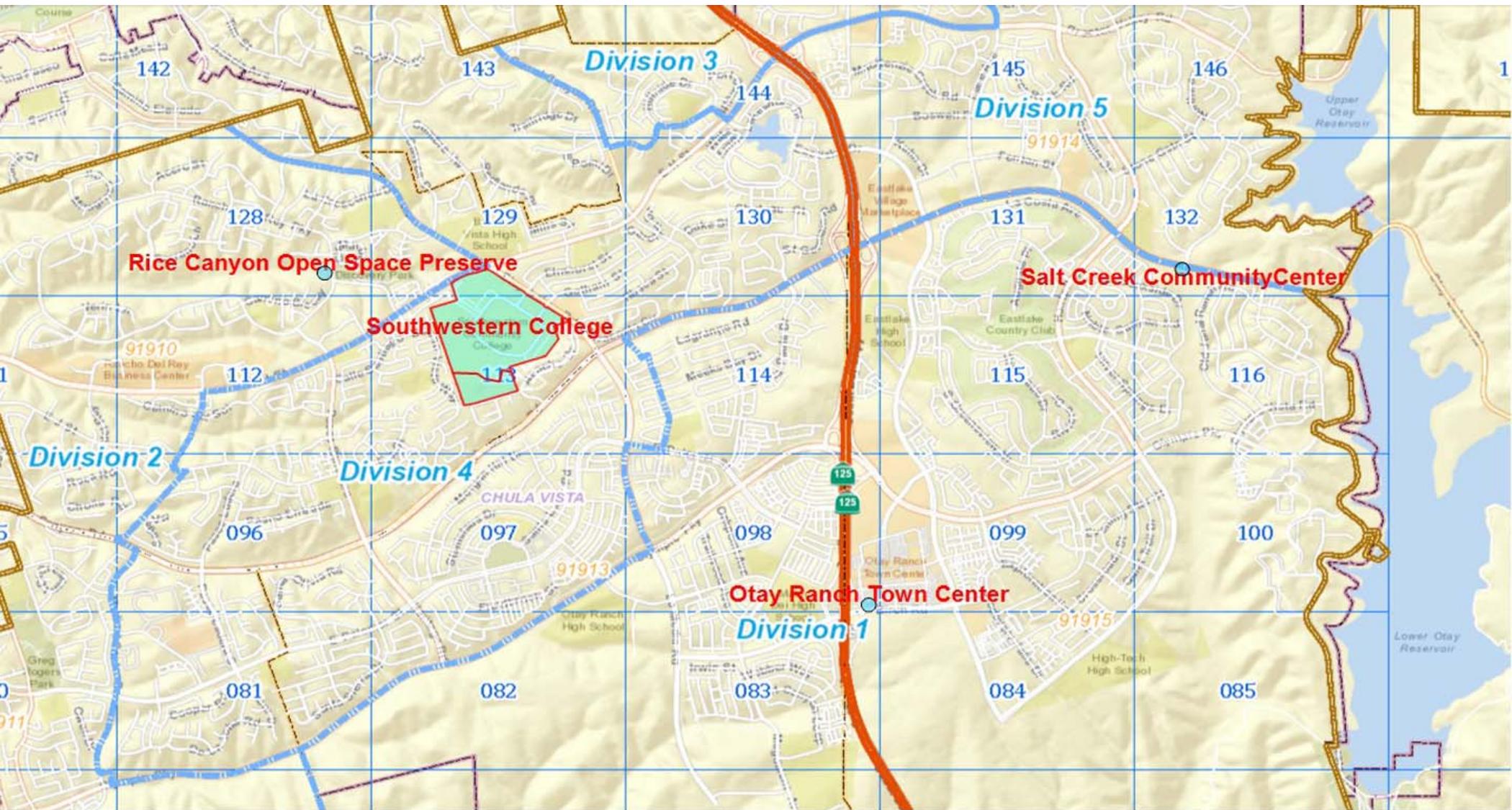
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- An area of high visibility
- Water supply
- Public access
- Maintenance and water costs
- Promotion of the water sustainability partnership

# Potential Sites

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- Otay Ranch Town Center (ORTC)
- Salt Creek Community Center (SCCC)
- Rice Canyon Open Space Preserve (RCOSP)
- Southwestern College



# Otay Ranch Town Center (ORTC)

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**Site Location:** Adjacent to the western side of Macy's store, across the street from the ORTC dog park

**Size of Space:** 10,987 square feet

**Governing Authority:** General Growth Properties

**Location:** Board District 1



# Attributes of ORTC Site

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**Accessibility:** Easy access via 125 Expressway, Birch Road and Olympic Parkway

**Parking:** Ample free parking available

**Restrooms:** Public restroom facilities available

**Maintenance:** Brickman/Valley Crest Landscape Co.

**Improvements:** Completely undeveloped site

**Exposure:** Provides broadest public exposure to a wide variety of constituents

# Limitations of ORTC Site

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- Commercial for-profit mall
  - Long-term financial outlook unknown
  - Long-range development plan unknown
- Demonstration garden site could be displaced by future commercial tenant
  - Length of demonstration garden partnership must be negotiated
  - Partnership contract must protect District's financial investment
- A vacant site with no irrigation structure in place

# ORTC Site



# Salt Creek Community Center (SCCC)

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**Site Location:** Adjacent to entry point at Otay Lakes Rd and parking lot

**Size of Space:** 5,095 square feet

**Governing Authority:** City of Chula Vista Park & Recreation Department

**Location:** Board District 1



Area: 4,733.66 sq ft  
Perimeter: 316.41 ft

### SALT CREEK COMMUNITY CENTER

Division 5

Division 1

WOODS DRIVE

OTAY LAKES ROAD

OTAY

HORNE CREEK DRIVE

PARADISE

CHULA VISTA  
132

91915

W CREEKSIDE DR

esri

More...

Basemap

# Attributes of SCCC Site

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**Accessibility:** Easy access off Otay Lakes Road

**Parking:** Ample free parking available

**Restrooms:** Public restroom facilities available

**Maintenance:** Provided by Chula Vista Parks Department

**Improvements:** Site consists of grass that must be removed

**Exposure:** Community center is used by many people living in the area

# Limitations of SCCC Site

---

- Located at the eastern edge of District's Chula Vista service area
  - Primary users of SCCC programs are those living nearby
- Limited square footage available, restricts garden design plan potential
- Site maintenance would be provided by city staff with an already large service area to maintain

# SCCC Site



# Rice Canyon Open Space Preserve (RCOSP)

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**Site Location:** Adjacent to Rancho Del Rey Parkway

**Size of Space:** 4,850 square feet

**Governing Authority:** City of Chula Vista Open Space Department

**Location:** Board District 2



More... Basemap

Area: 4,760.61 sq ft  
Perimeter: 297.54 ft  
**Division 2**

**RICE CANYON OPEN SPACE PRESERVE**

**BUENA VISTA WAY**

**RANCHO DEL REY PKWY**

**128**  
CHULA VISTA

**91910**

6326841321109741814923460796222

POWERED BY  
**esri**

# Attributes of RCOSP Site

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**Accessibility:** Easy access off Rancho del Rey Parkway near Buena Vista Way

**Parking:** Eight paved spots available with a large gravel overflow area

**Restrooms:** No restrooms available onsite

**Maintenance:** Blue Skies Landscape Maintenance Company

**Improvements:** Water is available on-site for irrigation, existing landscape would need to be removed/re-purposed

**Exposure:** RCOSP is the future site of Chula Vista sponsored composting and sustainability classes

# Limitations of RCOSP Site

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- Smallest square footage of all sites considered
- Existing cactus and succulent garden would be adjacent to demonstration garden and four times the size
  - Stark contrast between professionally designed garden and succulent garden installed by volunteers with no design plan
  - Minimal signage exists to identify existing plant material
- Site is currently not maintained well with weeds growing throughout

# RCOSP Site



# Southwestern College

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**Site Location:** Centrally located within Chula Vista

**Size of Space:** Site has not been specifically identified

**Governing Authority:** Southwestern Community College District

**Location:** Board District 4



# Attributes of Southwestern Site

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**Accessibility:** Public access difficult to normal student traffic

**Parking:** Limited public parking available campus-wide

**Restrooms:** Restrooms located outside existing South Bay Botanical Garden (SBBG)

**Maintenance:** Docents may be available to support garden

**Improvements:** Awaiting a specific site to determine what would need to be removed or retrofitted

**Exposure:** Current site of SBBG, Landscape and Nursery Technology Department offering courses since 1975

# Limitations of Southwestern Site

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- Multi-tiered college administrative proposal review and approval levels
  - Commitment to support demonstration garden is uncertain
- Campus facilities operate on a Monday through Friday schedule
- The South Bay Botanical Garden Site is located in the southwestern corner of campus
  - Limited hours of operability and accessibility (Tuesday-Saturday)
  - Limited public parking
  - Garden maintenance dependent on student and volunteer availability
  - Garden was poorly maintained during walk through on June 18, 2014

# Southwestern College Site



# Next Steps

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- At this time, staff believes Otay Ranch Town Center to be the best fit for a demonstration garden
- Staff will begin having more focused conversations with the potential partnering organizations
- Staff will begin analysis on feasibility of a mutually beneficial garden site