

OTAY WATER DISTRICT

Spring Valley, California



Adopted Operating and Capital Budget
Fiscal Year 2015-2016

Otay Water District

Adopted Operating and Capital Budget

Fiscal Year 2015-2016



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Mark Robak, Division 5	Treasurer
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Joseph R. Beachem	Chief Financial Officer
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Adolfo Segura	Assistant Chief, Administrative Services and IT
Pedro Porras	Chief, Water Operations
Jose Martinez	Assistant Chief, Water Operations
Rod Posada	Chief, Engineering

Table of Contents

	Page
Letter of Transmittal	iv
Budget Foreword	
Otay Water District At-A-Glance	1
General Information	2
Statement of Values	3
Awards	4
Strategic Performance Management Plan	8
Organization Chart	15
Budget Overview	16
Resolution No. 4290	23
History and Community Profile	
Past and Present	25
Current Economic Conditions	26
The Future	27
Demographics	29
Water Rate Comparison	30
Sewer Rate Comparison	31
Service Area Assessed Valuation	32
Ten Principal Taxpayers	33
Ten Largest Customers	34
San Diego Rainfall	35
Financial Summaries	
Budget Summary	36
Operating Budget Summary – General Fund	42
Operating Budget Summary by System	44
General Fund Revenues, Expenditures and Transfers	45
Fund Balance Summary by Fund	46
Revenues and Expenditures by Fund	47
Revenues and Expenditures by Type	49
Five-Year Forecast	
Five-Year Forecast	50
General Fund Forecast	51
Fund Balances Forecast	52
Debt Management	53
Schedule of Outstanding Debt	55
Projected Principal Payments by Debt Issuance	56
Projected Interest Payments by Debt Issuance	57

Table of Contents

Revenues and Expenditures

Potable Revenues and Expenditures

Potable Narrative	58
Operating Budget Summary	61
Classification of Water Sales	62
Water Sales Summary by Service Class	63
Unit Sales History and Meter Count by Customer Class	64
System Fees	65
MWD and CWA Fixed Fees (pass-through)	66
Meter Fees	67
Revenue History	68
Water Purchases and Related Costs	69
Power Costs	70
Administrative Expenses	71
Materials and Maintenance Expenses	72
Potable Water Service Area Maps	73

Recycled Revenues and Expenditures

Recycled Narrative	74
Operating Budget Summary	77
Classification of Water Sales	78
Water Sales Summary by Meter Size	79
Unit Sales History and Meter Count by Customer Class	80
System Fees	81
Meter Fees	82
Revenue History	83
Water Purchases	84
Power Costs	85
Administrative Expenses	86
Materials and Maintenance Expenses	87
Recycled Water Service Area Maps	88

Sewer Revenues and Expenditures

Sewer Narrative	89
Operating Budget Summary	90
Sewer Charges Summary by Service Class	91
Sewer System Summary by Meter Size	92
Revenue History	93
Power Costs	94
Administrative Expenses	95
Materials and Maintenance Expenses	96
Formula for Sewer Rates	97
Sewer Service Area Map	99

Table of Contents

General Revenues and Expenditures

General Revenues and Expenses Narrative	100
General Revenues	102
General Expenses	103

Departmental Operating Budget

Departmental Operating Budget Narrative	104
Labor and Benefits	107
Labor and Benefits by Fund	108
Position Count by Department	109
Contract/Temporary Employees	110
Administrative Expenditures	111
Materials and Maintenance Expenditures	112
Operating Expenditures by Department	113
Operating Expenditures by Object	114
Departmental Budgets:	
Board of Directors	115
General Manager	119
Administrative Services	125
Finance	134
IT and Strategic Planning	147
Water Operations	155
Engineering	171
General Expense	181

Capital Budget

Capital Improvement Program Narrative	183
Major CIP Projects	185
CIP Projects in Construction	186
CIP Reserve Funds	191
CIP Funding Source and Category	192
CIP Projects	193
CIP Justification and Impact on Operating Budget	197
Capital Purchases	198

Policies

Summary of Financial Policies	199
Reserve Policy	201
Reserve Policy Glossary	229
Investment Policy	231
Investment Policy Glossary	238
Debt Policy	244
Debt Policy Glossary	257

Appendix

Glossary	262
List of Acronyms	268
Index	271



...Dedicated to Community Service

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

September 24, 2015

Honorable Board of Directors
Otay Water District

I am pleased to present the Otay Water District's Adopted Operating and Capital Budget for Fiscal Year 2016. The budget supports the District's updated FY 2015-2018 Strategic Plan as well as the financing of all of the District's services, programs, and capital needs during the 2016 fiscal year. With a balanced budget and the Strategic Plan in place, the District is well-positioned for continued success in the ensuing years.

The coming years will continue to pose considerable challenges for those in California's water community. The state is facing its fourth straight year of a record drought and despite extensive local efforts to develop more reliable water, Governor Jerry Brown and the State Water Resources Control Board (SWRCB) have ordered mandatory cuts in potable water use across California and set a statewide conservation goal of 25 percent.

To reduce potable water use by 25 percent statewide, the regulations adopted by the SWRCB place each urban water supplier into one of eight tiers which are assigned a conservation standard ranging from 4 percent to 36 percent. Under the SWRCB order, customers of the Otay Water District must reduce water use by 20 percent over the next nine months. This order came despite Otay customers having reduced water use 27 percent since 2007. Each month, the SWRCB will compare every urban water suppliers' water use with their use for the same month in 2013 to determine if they are on track for meeting their conservation standard. Agencies that consistently fail to meet the conservation standard could be fined as much as \$10,000 per day.

The order was also imposed without regard to San Diego County having 97 percent of the water supply it needs to meet customer demand this year, despite four years of record drought. San Diego County, including Otay Water District customers by virtue of being a member of the San Diego County Water Authority (CWA), have expended more than \$3.1 billion over the last decade to create a more reliable water supply network that has shielded

customers from the most severe of the drought's impacts. Water supplies in the San Diego region will improve even more as the western hemisphere's largest desalination plant comes online in a matter of months.

As the conservation mandates went into effect, sales decreased 27 percent in May and 26 percent in June, 2015. The District expects sales to recover somewhat in FY 2016 with the warmer summer months. As one would assume, such dramatic reductions in sales will impact revenues. Staff anticipated moderate reductions in sales and will continue to closely monitor these trends as they relate to overall District finances.

The District's success as an organization through the economic recession, banking crisis, slowdown in the housing industry, and now the severe drought is significantly enhanced by the policies and practices put in place by the Board of Directors to ensure the strength and stability of the District. The management team is fully confident that with these policies and practices, supported by the FY 2015-2018 Strategic Plan, along with a dedicated and talented staff, that we will achieve continued success as an organization and thus, assure the well-being of the people we serve.

FY 2015-2018 STRATEGIC PLAN

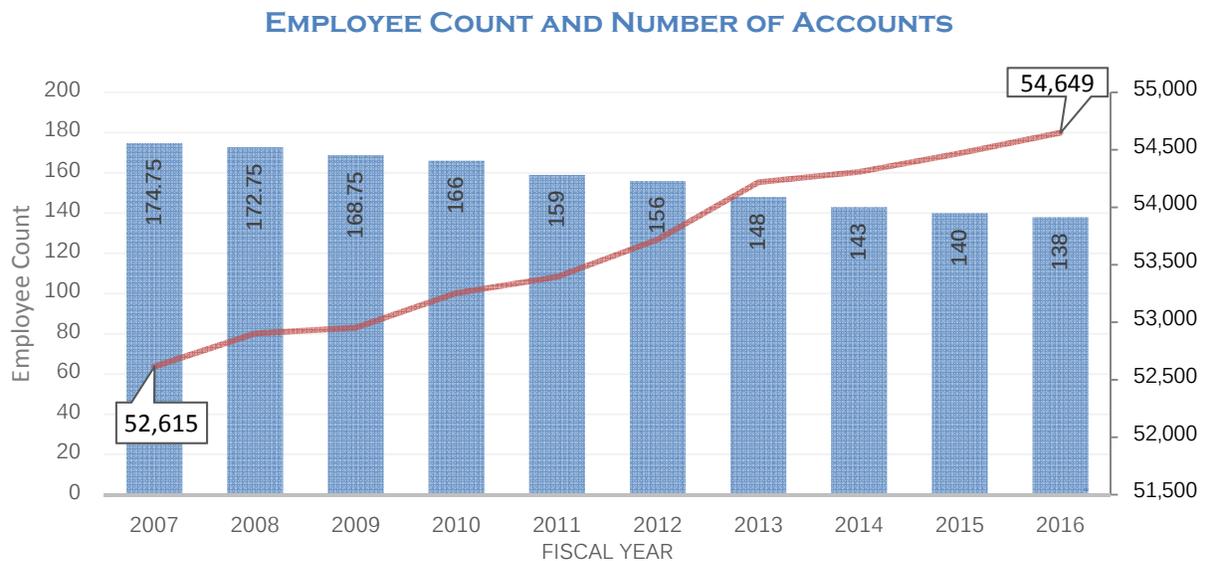
The FY 2015-2018 Strategic Plan consisted of a two-phased approach. Phase 1 has been completed with the primary focus on developing key enterprise-wide projects – SCADA, Work Order/Asset Management, and Emergency Preparedness/NIMS. We are now entering Phase 2 of the FY 2015-2018 Strategic Plan where the focus is to build upon the system foundation, business process improvement, and facilities. Where rapid growth had been a significant focus in the early years of the District and in its earlier strategic plans, today we are primarily focused on managing long-term maintenance and replacement of infrastructure.

The change is based on the recognition that as an organization matures, fewer resources are needed to support growth; but greater effort is required to maintain and upgrade infrastructure and assets. This is important because in this phase of its lifecycle, an organization derives income more from customer rates and less from developer fees. Therefore, the increased maintenance and replacement costs place increased pressure on customer rates. To balance the customer's interest in minimizing rate increases while also maintaining an organization's infrastructure, investments, and a strong financial position; the management team must place greater emphasis on internal efficiency and the

development of technology assisted best practices. In effect, the organization must use investments in technology to do more with the same or fewer resources.

From a water supply perspective, this means determining the optimum mix of water supply, treatment, and delivery solutions for customers. From a daily operating perspective, efficiency improvements have become the primary source of competitive advantage and cost optimization for utilities.

A goal included in the District's past strategic plans is to capitalize on technology investments and utilizing those technologies to continually improve efficiency and productivity. The success of this approach is evidenced by the gains in productivity and by the reduction in staffing the District has experienced. The following charts show that since 2007, the District has reduced staffing by 36.75 full-time equivalent positions, or 21% percent, while the number of customer accounts increased by 2,034.



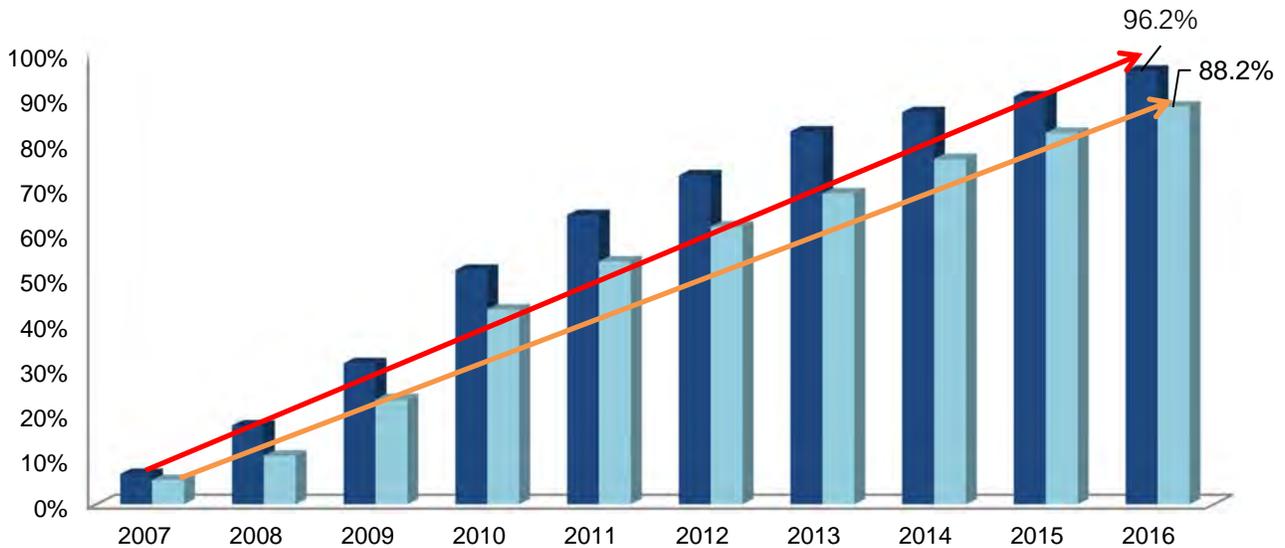
With increased efficiency and higher employee productivity, the District has been able to continue absorbing some of the pass-through costs from its water suppliers, the City of San Diego, San Diego County Water Authority (CWA), and Metropolitan Water District (MWD). This helps to address customer concerns about rising water rates.

Based on an annual survey of water and sewer rates conducted by District staff, Otoy continues to be one of the lower cost providers in San Diego County. The District has the 10th lowest water rate out of the 23 member agencies in San Diego County and the 7th

lowest sewer rate out of the 28 sewer service providers in San Diego County. The results of the water and sewer surveys are shown on pages 30 and 31, respectively.

The chart below shows that since 2007, the wholesale water supply costs have increased 96.2 percent while the District's retail water rates have increased a lesser 88.2 percent.

WHOLESALE WATER SUPPLY COSTS VS. DISTRICT RETAIL RATE INCREASES



The District currently delivers water service to nearly 49,274 potable and 706 recycled water customer accounts. All of the potable water sold to customers is purchased from CWA. Forty-seven percent of this water is in turn purchased from the region's primary water importer, MWD. This number has decreased significantly compared to previous years and beginning in FY 2016, 7% will come from seawater desalination.

The District has been proactive in reducing its dependence on MWD water treatment facilities. For example, in 2009 the District entered into an agreement with CWA that allowed our neighboring Helix Water District to treat imported water on behalf of the District at their Levy Water Treatment Plant. This has brought regional water treatment closer to our customers, which reduces dependence on water treatment facilities located outside of San Diego County.

The District also collects and recycles wastewater from approximately 4,669 homes and businesses. Wastewater is collected and delivered to the Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of reclaiming wastewater at a rate of 1.3

million gallons per day. In addition to the Chapman facility, the District continues purchasing up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Water Reclamation Plant. The use of recycled water for landscape irrigation and industrial processes reduces dependence on imported potable supplies, provides a local supply that is drought proof, and diversifies District resources.

FISCAL YEAR 2016 OPERATING BUDGET SUMMARY

Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer, budgeted at \$89,236,000 for Fiscal Year 2016. Revenues from potable and recycled water are projected to be \$78,897,700, approximately \$1,888,000 less than the Fiscal Year 2015 budget. Water sales volumes are expected to decrease by 8% compared to FY 2015 budgeted sales due to drought mandates. Sewer revenues are projected to be \$3,206,300, approximately \$198,600 more than fiscal year 2015. This increase in sewer revenue is due to the final phase-in of the residential sewer rate increases from 2013. The remaining budgeted revenues of \$7.1 million come from various special fees, assessments, and miscellaneous income.

Significant aspects of the Operating Budget are:

- A balanced budget supporting the goals of the Strategic Plan.
- The use of an economist to project growth for the region.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- Ongoing water supply rate increases of 5.8 percent from MWD and CWA due to the high cost of supply programs, higher energy costs, and increasing operating costs.
- Implemented rate increases in potable, recycled water, and sewer. This included pass-through rate increases from the City of San Diego, CWA, and the County of San Diego.
- In efforts to minimize rate increases, the District has again reduced staffing levels from 140 full-time equivalent positions last year to 138 this year.
- Of San Diego County's 23 water agencies, the Otay Water District's water rates are below the countywide average.

FISCAL YEAR 2016 CAPITAL IMPROVEMENT PROGRAM

The Fiscal Year 2015-16 Capital Improvement Program (CIP) Budget consists of 80 projects and a budget of \$11.1 million. The budget emphasizes long-term planning for ongoing programs to meet population growth while functioning within fiscal constraints. This year's CIP budget increased by \$500,000 compared to last year's projection primarily due to an increase in capital purchases for vehicles and the APCD Engine Replacements and Retrofits.

AWARDS AND ACKNOWLEDGMENTS

- The Government Finance Officers Association of the United States and Canada (GFOA) presented a *Distinguished Budget Presentation Award* to Otay Water District, for its annual budget for the fiscal year beginning July 1, 2014. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.
- The Government Finance Officers Association of the United States and Canada (GFOA) also presented a *Special Capital Recognition* for the Fiscal Year 2014-2015 Budget.
- The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting* for Fiscal Year 2014-2015.
- The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting* for Fiscal Year 2014-2015.
- The Government Finance Officers Association Officers (GFOA) presented Otay Water District the *Certificate of Excellence in Financial Reporting* for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014.

CONCLUSION

The challenges presented this year were met by the Otay Water District's Board of Directors' resolve to keep the stability and financial strength of the District as one of its highest priorities.

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

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

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



Mark Watton, General Manager

At-A-Glance

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.

HISTORY

The Otay Water District was formed in 1956 to serve as a public water and sewer agency, authorized as a California special district under the provisions of the Municipal Water District Act of 1911. The District's ordinances, policies, taxes, and rates for service are set by five Directors elected by voters in their respective geographic area. The District joined the San Diego County Water Authority (CWA) in September 1956 to acquire the right to purchase and distribute imported water throughout its service area. The District is also responsible for the collection, treatment, and disposal of wastewater from a portion of the northern region of the District. In 1980, the District started operation of the Ralph W. Chapman Water Recycling Facility (RWCWRF) and in May 2007 a new source of recycled water from the City of San Diego was obtained, allowing the Otay Water District to supply 11.4% of total water demand with recycled water.

SERVICE AREA

The District's boundaries encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the City of San Diego metropolitan area and running from the City of El Cajon south to the international border, abutting the cities of El Cajon and La Mesa and encompassing most of the City of Chula Vista and a small portion of the City of San Diego.



ORGANIZATIONAL STRUCTURE

The General Manager reports directly to the Board of Directors. The Assistant General Manager along with District management oversees day-to-day operations. The Assistant General Manager oversees the five departments of Administrative Services; Finance; Information Technology and Strategic Planning; Water Operations; and Engineering. These and other lines of reporting are shown on the organization chart on [page 15](#).

General Information

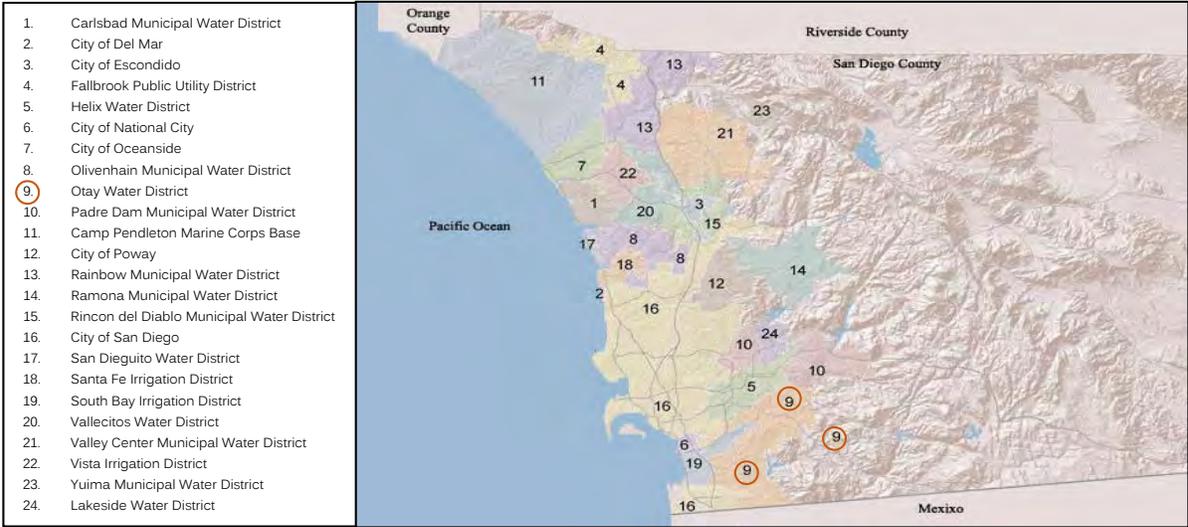
For Fiscal Year 2016, the District will have a staff of 138 full-time equivalent employees under the leadership of the General Manager. The District provides water service to approximately 52% of its expected ultimate deliveries with a population of more than 217,000 people. This percentage increases as the District's service area continues to grow to ultimate build-out. The District is projected to deliver approximately 27,000 acre-feet of potable water to 49,500 potable customer accounts. By 2035, deliveries are expected to reach 48,400 acre-feet of potable water to serve 285,000 people or 69,000 accounts. The growth rate, as projected by the San Diego Association of Governments (SANDAG), for the City of Chula Vista, is approximately .96% per year over the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 0.33% for Fiscal Year 2016.

Since 1956, the District has provided high quality water to a semi-arid region of the southeastern San Diego County. In 1971 the District constructed a small collection and treatment plant for sewer in the northern section of the District, and in 1980 the District opened the Ralph W. Chapman Water Recycling Facility (RWCWRF). For over 50 years, the available supply of water has helped transform the District service area from a mostly scrub and cactus covered backcountry into a balance of diverse environments.

Recycled water from the RWCWRF is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF is capable of recycling wastewater at a rate of 1.3 million gallons per day (1,200 acre-feet per year). The District is also in partnership with the City of San Diego to beneficially reuse an additional 2,906 acre-feet per year of recycled water for fiscal year 2016, and ultimately up to 6,720 acre-feet per year. The District continues to be the largest retail provider of recycled water in the County of San Diego.

The District also owns and operates a wastewater collection system providing public sewer service to approximately 4,670 customer accounts within the Jamacha drainage basin. The sewer service area covers approximately 8,797 acres, which is about 11% of the District's total service area. Residential customers comprise 97% of the sewer customer base.

SAN DIEGO COUNTY WATER AGENCIES



Statement of Values

As Otay Water District employees we dedicate ourselves to:

CUSTOMERS

We take pride that our commitment to customer-centered service is our highest priority.

EXCELLENCE

We strive to provide the highest quality and value in all that we do.

INTEGRITY

We commit ourselves to doing the right thing.
Ethical behavior, trustworthiness and accountability are the District's foundation.

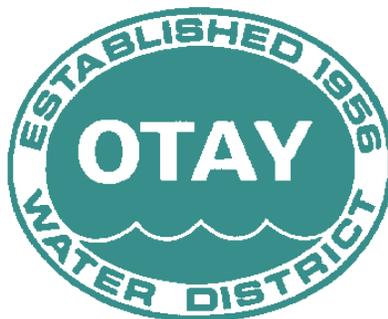
TEAMWORK

We promote mutual trust by sharing information, knowledge and ideas to reach our common goals.

EMPLOYEES

We see each individual as unique and important.
We value diversity and open communication to promote fairness, dignity and respect.

Otay Water District Employees



Dedicated to Community Service

Distinguished Budget Presentation Award

The Government Finance Officers Association (GFOA) presented a *Distinguished Budget Presentation Award* to the District for its annual budget for the fiscal year 2014-2015. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

This year the District also received a Special Capital Recognition from GFOA for its Fiscal Year 2014-2015 Budget.



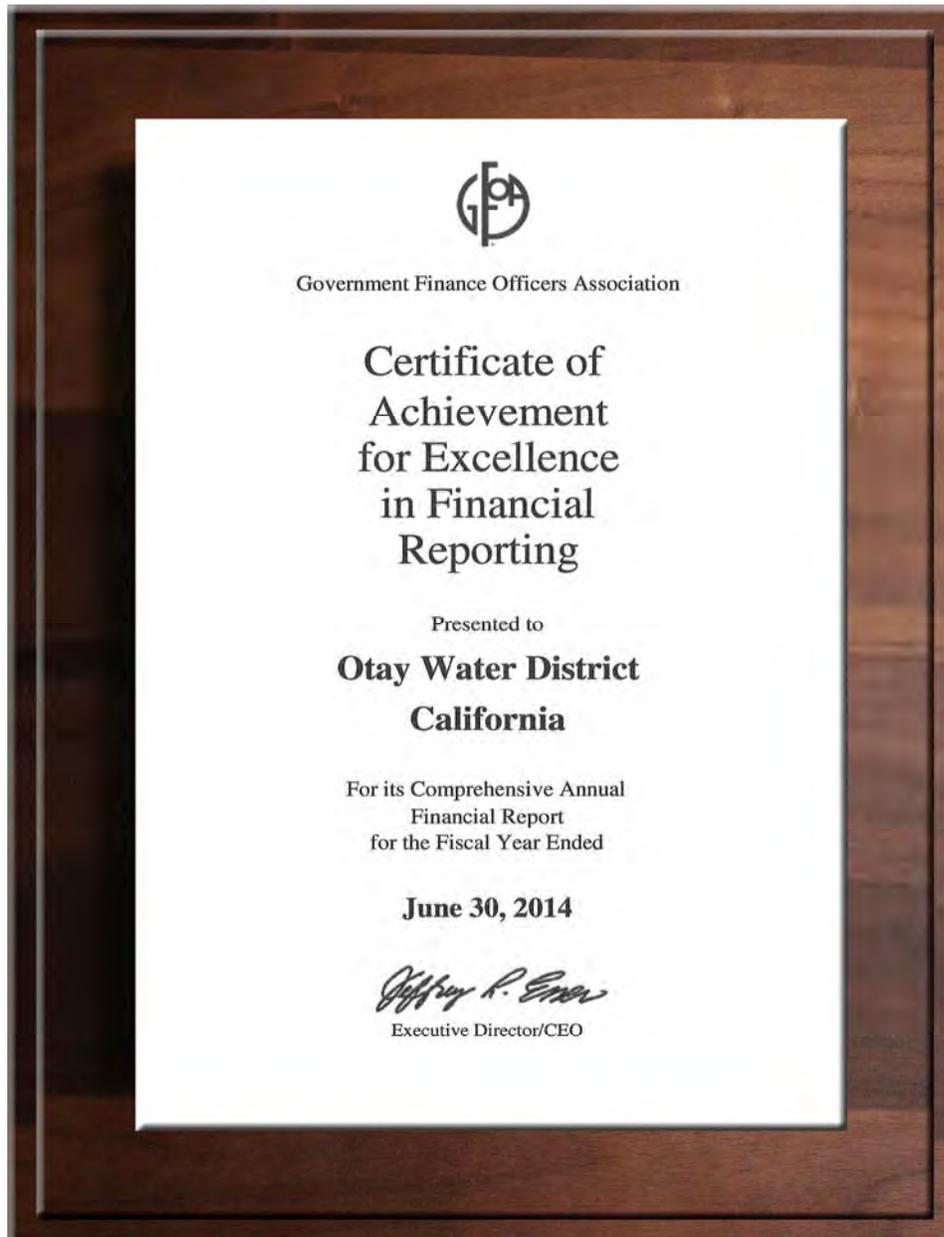
Financial Awards



The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2014-2015*.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2014-2015*.





The Government Finance Officers Association Officers (GFOA) presented Otay Water District the *Certificate of Excellence in Financial Reporting* for its *Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014*.



The Construction Management Association of America (CMAA) presented the Otay Water District with the *2015 Distinguished Owner Honoree Award*.

Strategic Performance Management Plan

INTRODUCTION

The Strategic Plan is the core document which guides the District's efforts to meet and positively adapt to change. The overall plan is extensively reviewed and revised every three to four years. This current edition (covering fiscal years 2015-2018) is the fifth in a series of updated plans.

In order to develop the FY 2015-2018 Strategic Plan, the Senior Management Team carefully reviewed the previous strategic plans and, in an interactive environment, examined future opportunities and risks. After careful analysis, an overall direction is set for the plan. In 2015 a solid systems foundation was put in place completing a replacement work order and SCADA system, and improving the core GIS system for managing the District's infrastructure. The FY 2016 to 2018 objectives, which follow, build upon this foundation and focus on business process improvement and facilities.

The General Manager presented the plan to the Board on May 19, 2015 as part of the overall District Budget. With this plan, the Board is able to make more informed oversight decisions about the utility's direction, and assess performance.



Strategic Performance Management Plan

MISSION

To provide high quality and reliable water and wastewater services to the customers of the Otay Water District, in a professional, effective, and efficient manner.

VISION

A District that is innovative in providing water services at affordable rates, with a reputation for outstanding customer service.

KEY CHALLENGE

Our key challenge, as District staff, is to quantify and demonstrate our commitment and the ability to optimize our resources, business processes, and technology to achieve the strategic plan goals. We, as a team, commit to regularly assess and document how our decisions and work practices accomplish our goals and objectives.

BALANCED SCORECARD GOALS



Strategic Performance Management Plan

FY 2016 – 2018 OBJECTIVES

- Optimize SCADA Program.
- Optimize Asset Management Program.
- Address Dependency on Imported Water through Proper Planning.
- Improve District Emergency Response Program.
- Enhance Communication with Customers.
- Enhance Cost Benefit Analysis.
- Utilize Power and Fuel Effectively.
- Optimize Inventory Management.
- Evaluate City of San Diego Pure Water Program Planning/Implementation.
- Evaluate and Enhance the District's Water Conservation Programs and Services.
- Manage an Effective Leak Detection and Repair Program.
- Enhance District's Facilities Physical Security.
- Improve and Streamline Meter Related Work Processes.
- Evaluate Sewer System Business.
- Evaluate Efficiencies for Delivering Capital Assets.
- Guarantee Adequate Maintenance of all District's Pressure Vessels.
- In Conjunction with the City of San Diego, Manage the Infrastructure for a more Efficient Transmission of Recycled Water.
- Evaluate the Viability of Implementing an Indirect Potable Reuse Program.
- Strengthen Internal Audit Program.
- Evaluate Opportunities to Combine or Transfer Similar Work Functions.
- Optimize GPS/GIS Technology.

Strategic Performance Management Plan

- Evaluate Eden's Self-service Option with HR Module.
- Streamline Procurement and Contractor On-boarding Process via Web-based eProcurement Technology.
- Evaluate Current and New CIS Systems.
- Streamline Enterprise Confined Space Program.
- Streamline Operations Work Processes.
- Streamline Data Input in Reporting for Field Services.
- Streamline Work Processes in Four Strategic Areas Including Departmental Synergies, Technology, Procurements, and Alignment of Business Practices.
- Evaluate Two-Way Emergency Radio Replacement.
- Revise Business Practices by Modifying the Master Recycled Water Permit.
- Implement a Habitat Conservation Plan that will Streamline O&M within District Easements.
- Negotiate a New Successor MOU for Represented Employees for FY 2017 and Related Compensation and Benefits for Unrepresented Employees.
- Succession Planning.

STRATEGIC PLAN PERFORMANCE MEASURES FY 2015-2018

Performance metrics and targets are a critical element of the Strategic Plan but differ from strategic plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance measures are designed to ensure the day-to-day operations of the utility are meeting agreed upon expectations.

- **Customer Satisfaction:** Percent positive/Percent surveyed.
- **Gallons per Capita per Day:** Total potable water purchased/Annual population/Number of days through the end of the quarter.
- **Health & Safety Severity Rate:** Number of lost days/Number of injuries resulting in lost time.

Strategic Performance Management Plan

- **Employee Turnover Rate:** Number of voluntary terminations/Average number of employees.
- **Training Hours per Employee:** Total qualified training hours for all employees/Average number of FTE.
- **Safety Training Program:** Number of safety training hours /Number of field employees.
- **CIP Project Expenditures vs. Budget:** Actual quarterly expenditures/Annual budget.
- **Construction Change Order Incidence:** Total cost of change orders/Total original construction contract amount.
- **Mark-out Accuracy:** Number of mark-outs performed without an at-fault hit.
- **Project Closeout Time:** Number of days between Notice of Substantial Completion (NOSC) and Notice of Completion (NOC) for all construction projects within the quarter/Number of construction projects within the quarter.
- **Answer Rate:** Number of all calls answered/Number of all calls received.
- **O&M Cost per Account:** Total operations O&M costs/Number of accounts.
- **Billing Accuracy:** Number of correct bills/Number of total bills.
- **Overtime Percentage:** Actual overtime costs (including comp time)/Budgeted overtime costs.
- **Sewer Rate Ranking:** Otay percentage ranking for the average bill for sewer among regional agencies.
- **Water Rate Ranking:** Otay percentage ranking among regional agencies.
- **Debt Coverage Ratio:** Qualified net operating revenues/Debt service requirements.
- **Reserve Level:** Number of reserve funds that meet or exceed fund target levels/Total number of reserve funds.
- **Accounts per Employees:** Number of connections/Number of FTEs (excludes sewer, staff handling sewer, recycled connections, staff handling recycled connections, and engineering staff).

Strategic Performance Management Plan

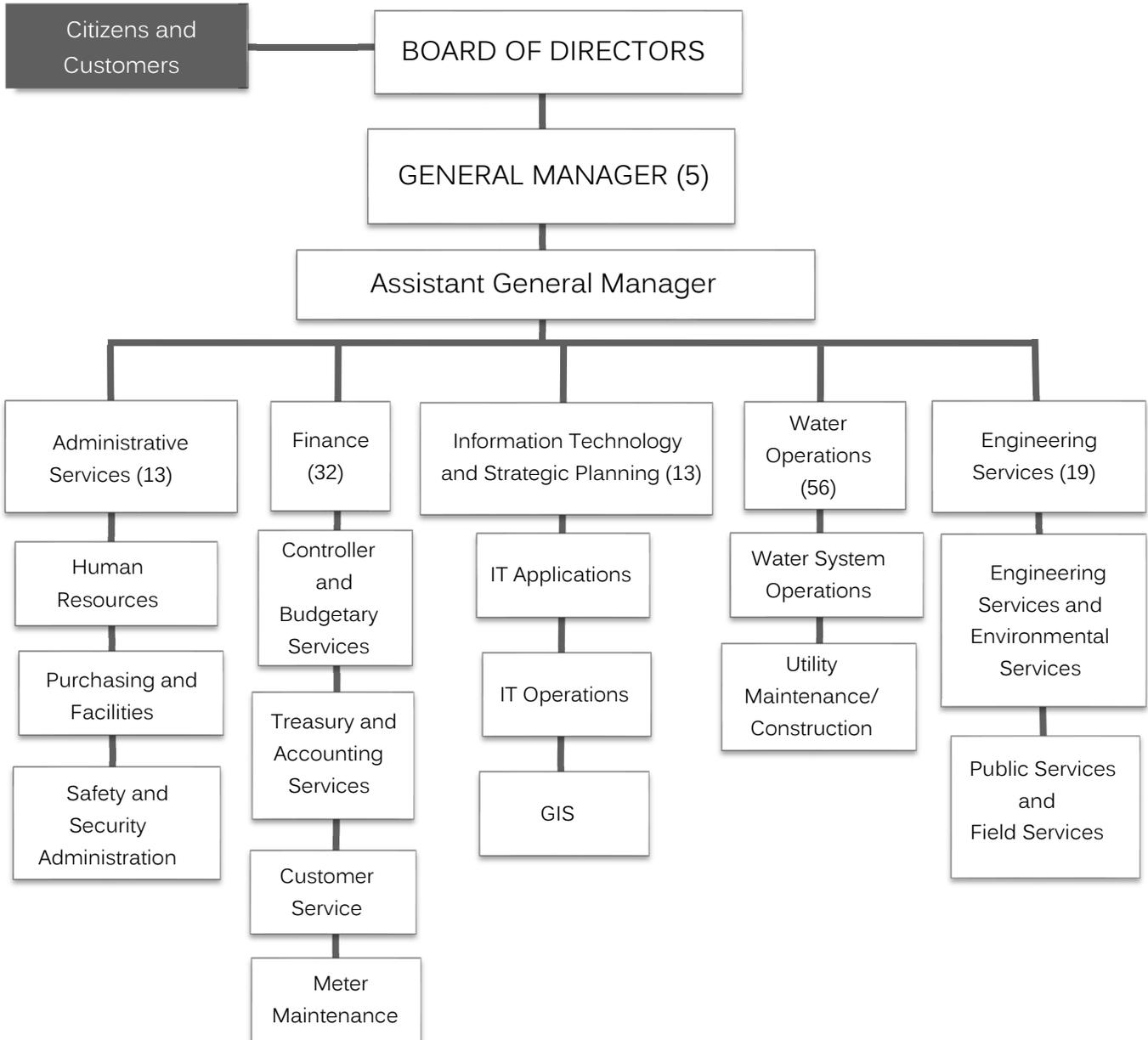
- **Distribution System Loss:** $100 \left[\frac{\text{volume purchased} - (\text{volume sold} + \text{volume used})}{\text{Volume purchased}} \right]$.
- **Customer Satisfaction with Website:** Percentage of satisfied customers based on Customer Opinion and Awareness Survey.
- **Network Availability:** $\frac{\text{Percentage of time availability of core applications during business hours}}{\text{Total time}}$.
- **Website Hits:** Average total visitors per month.
- **Technical Quality Complaint:** $1,000 \times (\text{number of technical quality-associated complaints})$.
- **Planned Potable Water Maintenance Ratio in \$:** $\frac{\text{Total planned maintenance cost}}{\text{Total maintenance cost}}$.
- **Planned Recycled Water Maintenance Ratio in \$:** $\frac{\text{Total planned maintenance cost}}{\text{Total maintenance cost}}$.
- **Planned Wastewater Maintenance Ratio in \$:** $\frac{\text{Total planned maintenance cost}}{\text{Total maintenance cost}}$.
- **Direct Cost of Treatment per MGD:** $\frac{\text{Total O\&M costs directly attributable to sewer treatment}}{\text{Total volume (in MGD)}}$.
- **O&M Cost per MG – Wastewater:** $\frac{\text{Total O\&M cost (less depreciation)}}{\text{Volume in MG processed}}$.
- **% PM's Completed – Fleet Shop:** $\frac{\text{Number of PM's completed}}{\text{Number of PM's scheduled to be completed}}$.
- **% PM's Completed – Reclamation Plant:** $\frac{\text{Number of PM's completed}}{\text{Number of PM's scheduled to be completed}}$.
- **% PM's Completed – Pump/Electric Section:** $\frac{\text{Number of PM's completed}}{\text{Number of PM's scheduled to be completed}}$.
- **System Valve Exercise Program:** $\frac{\text{Actual number of valves exercised per quarter}}{770 \text{ valves per quarter}}$.
- **Water Distribution System Integrity:** $100 \left(\frac{\text{annual total number of leaks or breaks}}{\text{total miles of distribution pipes}} \right)$.

Strategic Performance Management Plan

- **Planned Water Service Disruption Rate:** Number of customers experiencing disruption per 1,000 accounts.
- **Potable Water Compliance Rate:** All primary health regulations are met.
- **Collection System Integrity:** Collection system failure/Total miles of collection system piping.
- **Recycled Water System Integrity:** Leaks or breaks/Number of miles of distribution system.
- **Sewer Overflow Rate:** Total number of sewer overflows/Total miles of pipe in the sewage collection system.
- **Critical Valve Exercising:** Number of critical valves exercised annually.
- **Annual Recycled Water Site Inspections:** Percentage of required recycled water use sites inspected per year.
- **Recycled Water Shutdown Testing:** Percentage of recycled water use sites per year vs. the number required by the Department of Health (DOH).
- **Emergency Facility Testing:** Number of facilities and generators tested on an annual basis/ Total facilities.
- **Leak Detection Program:** Percentage distribution system surveyed for leaks.
- **Reservoir Inspection and Cleaning:** Number of water reservoirs cleaned annually.
- **Main Flushing and Hydrant Maintenance:** Number of mains flushed and fire hydrants maintained.
- **Percent of Bills Sent Electronically:** Total of bills emailed/Total bills processed.
- **Percent of Bills Paid Electronically:** Total number payments received electronically/Total payments received.

Organization Chart

DISTRICT POSITION COUNT - (138 POSITIONS)



Budget Overview

[Budget Guide](#)

The District views the budget as an essential tool for proper financial management. This budget is developed with input from the various department levels of the organization and is set prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and citizens. The budget is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future plans. To help readers navigate this document, the following is a general description of each of the tabulated sections of the budget.

[Budget Foreword](#)

This introductory section contains descriptions and general information about the District, strategic focus areas highlighting major initiatives and accomplishments, and the Budget Calendar and Process.

[History and Community Profile](#)

Included in this section is the history of the District, along with the current and projected economic conditions. It also includes statistics on the District's customers, the region's tax base, San Diego rainfall, future development and projects that will have an impact on the District in the coming years.

[Financial Summaries](#)

This section contains an overview of the District's revenues and expenditures by fund for the current budgeted fiscal year, the prior years' actual amounts, and the future estimated amounts. The prior year's actual amounts are unaudited due to timing of the completion of the financial statement audit; actual amounts may vary pending the completion of the audit. It includes a description of each of the revenue and expense categories as well as charts depicting their relationships.

[Five-Year Forecast](#)

The District prepares a comprehensive Rate Model each year based on budget input, trends, new programs, and requirements. Estimates are made for cost increases, rate increases, targeted fund balances, capital needs, and debt requirements. Analysis for the current budget year plus five subsequent years is conducted and a six-year forecast is prepared based on the Rate Model results.

Budget Overview

[Revenues and Expenditures](#)

The District budgets revenues and expenditures by Potable, Recycled, and Sewer Systems. General revenues and expenditures that are not specific to one system or department are budgeted in the General Revenues and Expenses section. An allocation of overhead costs is made to equitably distribute the cost of running the District among the various business segments.

[Departmental Operating Budget](#)

This section provides a summary of each department's operating expenditures and detailed budget information including its mission, responsibilities, three-year staffing schedules, performance indicators, accomplishments, and goals. Also provided are graphical presentations of departmental budget percentages to District totals, as well as summary expenditure information by division for three fiscal years.

[Capital Budget](#)

An overview of the District's Capital Improvement Program (CIP), the Water Resources Master Plan (WRMP), the Sewer Master Plan, major assumptions and criteria, a six-year listing of CIP project expenditures justifications, and the impact on the Operating Budget and capital purchases budget for the fiscal year are located in this section.

[Policies](#)

This section includes a summary of the District's financial policies and practices, including the Reserve Policy, Investment Policy, and Debt Policy.

[Appendix](#)

The last section consists of a Glossary of budget and financial terms, List of Acronyms, and an Index.

Budget Overview

[Budget Process](#)

The District has integrated the Capital Improvement Program (CIP) Budget and the Operating Budget. These budgets are developed based on the District's Water Resources Master Plan, the Sewer Master Plan and Strategic Business Plan. New initiatives and programs are categorized into the Balanced Scorecard perspectives. Appropriate budget amounts are determined by using the historical data of operations and new growth, developers' input, SANDAG projections, and economic outlook.

To assure reliable, high-quality service to the growing customer base, the District has committed to a number of long-range strategies that drive the budgeting process. The strategies and assumptions used to develop the District's integrated budget are:

- An average projected long-term growth rate of 1.4%.
- Pass-through rate increases for costs imposed on the District by the wholesale water providers.
- Accurate projections of capital budget needs (including replacement needs).
- Reserve funding in accordance with the Reserve Policy to meet future growth demands and maintain financial stability.
- Funding of the Strategic Plan initiatives as categorized into the Balanced Scorecard perspectives.
- Avoid rate spikes by leveling rate increases over a six-year period.

The Finance Department prepares the budget for the Potable, Recycled, and Sewer Systems. This is done using estimated cost increases from the District's wholesale water providers as well as estimated sewer charge increases provided by the County and City of San Diego. Other significant factors in the budget development include projected growth in customer accounts and weather. Additionally, all general revenue and expense budgets are calculated using trend analysis and any external factors that may affect these items.

Each year, the Finance Department provides departments with a Budget Workbook which gives instructions on how to budget for personnel, administrative expenses, and materials and maintenance expenses. Included in this workbook are historical trends, assumptions, and training on how to enter the expense data into the District's budget system.

Budget Overview

Budget Calendar

February	March	April	May-June	July – January
<p>2/11/15 Chiefs submit request for new personnel, personnel reclassification changes, advancements, and long-term staffing to HR</p> <p>2/20/15 Project Managers submit CIP Budgets for new projects and changes to existing projects in CIP Budget application</p> <p>2/25/15 HR to complete preliminary review of new personnel, personnel reclassification changes, requests, and advancements</p> <p>2/25/15 Chiefs to submit Operating and Admin Budget; Capital Purchases and justifications; Labor Budget Worksheet</p>	<p>3/02-3/2015 Finance to review Operating Budget and reconciliation with departments</p> <p>3/03/15 Engineering Department reviews all CIP Budget requests with AGM</p> <p>3/09/15 HR to review new personnel, reclassifications and change requests with GM</p> <p>3/11/15 Finance to review preliminary CIP Budget with Chief of Engineering</p> <p>3/16/15 Finance to have second review of CIP Budget with AGM and Engineering</p> <p>3/30/15 Finance to review Department Operating Budgets and personnel cost with Chiefs, AGM and GM</p> <p>3/30/15 CIP budget presented to the General Manager for review and comments</p>	<p>4/01/15 Chiefs review Strategic Plan objectives and performance measures to ensure they are on target for FY 2015</p> <p>4/03/15 Chiefs submit Position Analysis Questionnaire to HR for GM approval</p> <p>4/08/15 Review CIP Budget with GM</p> <p>4/16/15 General Manager performs preliminary review of budget</p> <p>4/28/15 Preliminary budget review with General Manager</p>	<p>5/04/15 Prepare Draft 218 30-Day Rate Increase Notice</p> <p>5/07/15 Review assumptions and rates with Chiefs, Assistant General Manager, and General Manager</p> <p>5/07/15 Practice run of budget presentation with Finance, Chiefs, AGM, and GM</p> <p>5/19/15 Budget Workshop for FY 2015-2016 Operating and Capital Budgets</p> <p>6/03/15 Board Meeting – approval of the FY 2015-2016 Operating and Capital Budgets</p>	<p>9/02/15 Board approval of water and sewer rate increase notices</p> <p>10/07/15-10/26/15 Rate increase message inserted with water and sewer billing</p> <p>1/01/16 Water and sewer rate increase</p>

Budget Overview

[Personnel Budget](#)

The budgeting of salaries and benefits is performed in the position budgeting module of the Enterprise Resource Planning (ERP) system. This tool allows the District to budget for each authorized position and the associated benefits in an automated fashion. Departments submit requests for new positions, reclassifications, or advancements to the Assistant General Manager. These requests are reviewed by the Assistant General Manager and then presented to the General Manager for approval. Upon their approval, the Finance Department enters these changes, as well as negotiated pay increases and benefit rate changes, into the position budget system. Position budgeting calculates the salaries and benefits to be included in the District's budget.

[Administrative and Materials and Maintenance Budget](#)

Administrative and Materials and Maintenance expenses are entered into the budget model of the ERP system by individual requests. These requests are compared to last year's budget and expenses to determine reasonableness by the Finance Department. All costs are justified and supported by explanations. These budgets are then presented to the General Manager and the Board of Directors prior to adopting the budget.

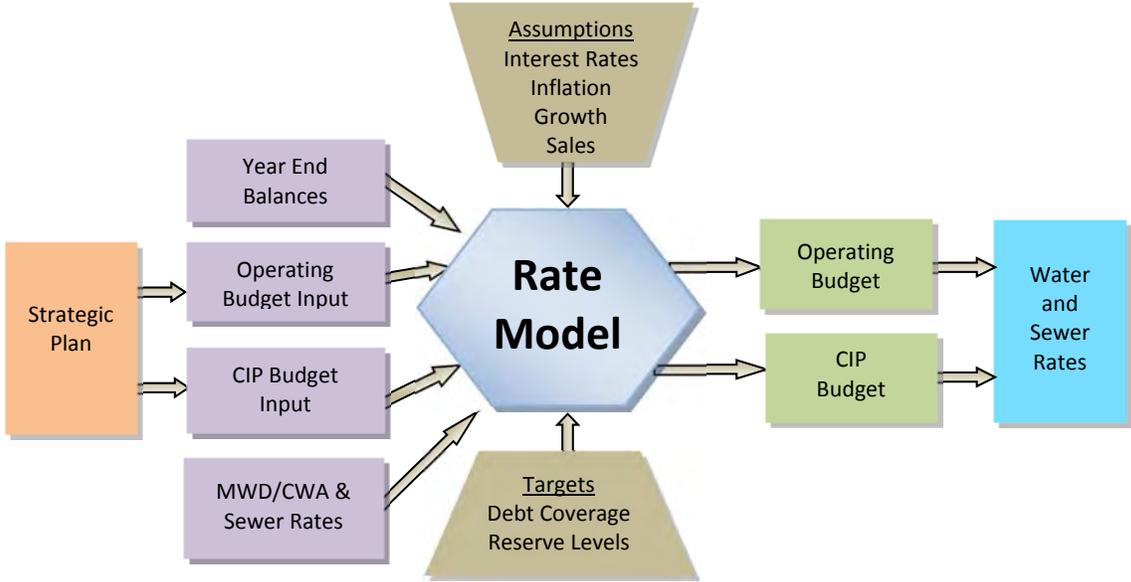
[Capital Improvement Plan \(CIP\) Budget](#)

The Engineering Department issues budget instructions for the CIP budget process. Each project manager uses the CIP Budget module system to review year-to-date project expenses and then estimates cost to the end of the fiscal year. They also project future costs to complete the project. Costs are adjusted for scope changes as well as construction cost increases. Engineering then compiles the CIP Budget and submits it to the Assistant General Manager and the General Manager for review prior to presentation to the Board of Directors.

[Rate Model](#)

Once budgets have been calculated, the Finance Department inputs all of the operating revenues and expenses, CIP expenses, reserve funding, and reserve levels into the District's Rate Model. Inflatons for cost and volume are input into the Rate Model to project the next six years of revenue and expenses. This debt coverage ratio is also evaluated to ensure adequate levels. Rates are then set for the current fiscal year, plus five subsequent years, such that all financial targets are met. Using this comprehensive modeling tool, the District is able to smooth future rate increases, determine when debt should be issued, and maintain all of the reserve levels in accordance with the Reserve Policy.

Budget Overview



The District has a three-year Strategic Plan, and each year in the spring, the portion of the plan that pertains to the upcoming fiscal year is presented to the Board of Directors for review and direction. This is followed by a coordinated presentation of the budget by all departments, to the Board of Directors for their approval at a special budget workshop in May. The review of the Strategic Plan and the adoption of the budget on an annual basis give the District its direction for the following fiscal year.

During the year, each department receives monthly budget and cost reports that are essential to monitor and control costs. As events occur or conditions change, modifications to or deviations from the original budget may be necessary. In the event the General Manager determines that an emergency exists which requires immediate action; he may transfer appropriation within the budget allocations or request that the Board of Directors increase the current budgeted funds.

Due to the size of the District's CIP, a separate budget book has been prepared outlining in detail the projects and expenditures required to ultimate build-out. A synopsis of the CIP may be found under the Capital Budget section of this report. As part of the integrated budget, capital purchases have been included within the CIP Budget.

The Budget Report is intended as a financial guide and may be modified by the Board of Directors during fiscal year 2016. All approved modifications to the budget will be documented in the form of a staff report and noted in the board meeting minutes.

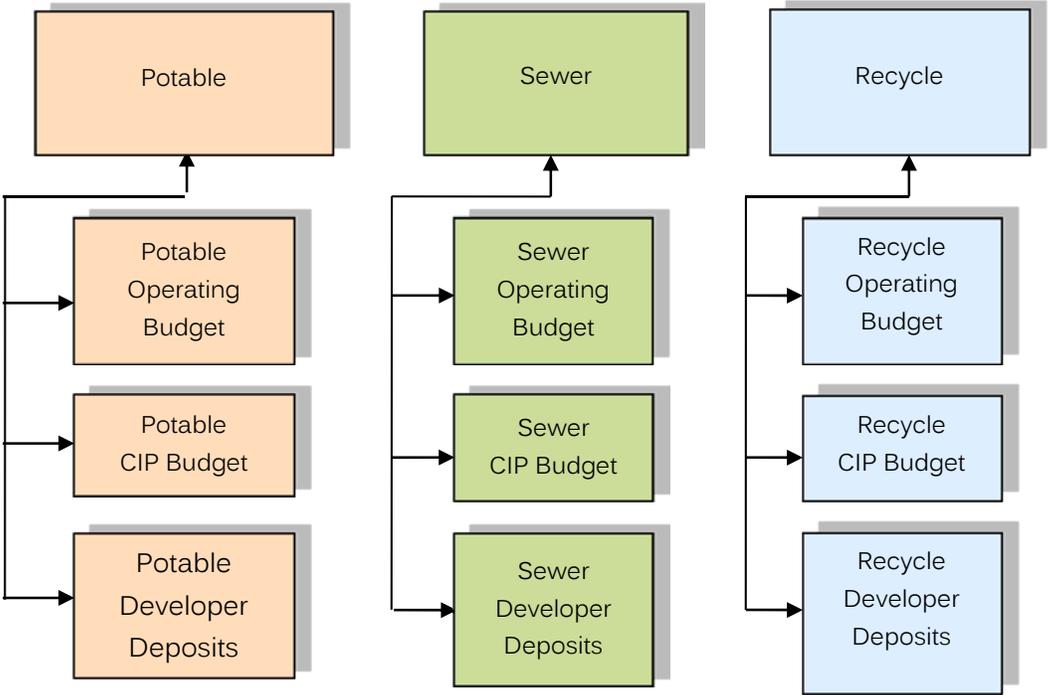
Budget Overview

Budget Basis

The District utilizes the accrual basis for budgeting which is the same as the basis of accounting used in the audited financial statements, recognizing revenues and expenses in the period in which they are earned and incurred, respectively. The District reports its activities on an enterprise fund basis, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise and conforms to the guidelines of Generally Accepted Accounting Principles (GAAP). The intent of the District is that the costs (including replacement cost of existing assets) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

Fund Structure

The District budgets services in one of the three business segments: Potable, Sewer or Recycled. Each business segment categorizes revenue and expenditure as a function of the Operating Budget, Capital Improvement Plan Budget, or Developer Deposits. Please refer to the District's Reserve Policy, beginning on [page 201](#), which provides the detailed flow of funds.



RESOLUTION NO. 4290

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2015-2016
OPERATING AND CAPITAL BUDGET; AND THE JOB
CLASSIFICATION AND SALARY SCHEDULE

WHEREAS, the Otay Water District Board of Directors have been presented with a budget (Exhibit 1) for the operation of the Otay Water District for Fiscal Year 2015-2016; and

WHEREAS, the Fiscal Year 2015-2016 Operating and Capital Budget, has been reviewed and considered by the Board;

WHEREAS, it is in the interest of the District to adopt a budget for said year;

WHEREAS, in connection with the adoption of the budget, the Board is also being presented with a listing of job classifications and salary schedule (Exhibit 2) for its consideration, in order to comply with California Code of Regulations Section 570.5,

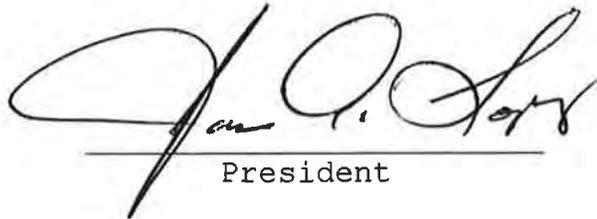
NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the Operating and Capital Budget for the operation of the District, incorporated herein by reference, is hereby adopted as the District's budget for Fiscal Year 2015-2016.

BE IT FURTHER RESOLVED that the Board hereby approves and adopts the salary schedule included with the budget and, consistent with his authority over employee compensation under

both State law and the District's Code of Ordinances, authorizes the General Manager to update the salary schedule whenever necessary to reflect changes made within his authority.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a board meeting held this 3rd day of June 2015, by the following vote:

Ayes: Directors Croucher, Lopez, Robak, Smith and Thompson
Noes: None
Abstain: None
Absent: None



President

ATTEST:



District Secretary

Past and Present

The Otay Water District was formed in 1956 by a small group of ranchers, farmers, and other property owners concerned about the declining quality and quantity of well water. In 1957, developers in south Spring Valley created the La Presa County Water District to obtain water from the San Diego County Water Authority (CWA). The CWA is the water wholesale supplier of the member agencies in San Diego County. In the fall of 1969, Otay Water District and La Presa County Water District merged into the Otay Water District.



La Presa County Water District (ca. 1957)



Since then, the District has grown from a handful of customers and two employees to become an organization operating a water network with more than 727 miles of potable and 104 miles of recycled pipelines, 44 reservoirs, a water reclamation plant, and one of the largest recycled water distribution systems in the State of California. The character of the service area has also changed from predominantly dry-land farming and cattle ranching to businesses, high-tech industries, and large master-planned communities. The District's boundaries currently stretch from Otay Mesa and eastern Chula Vista to Spring Valley, southern El Cajon, and Jamul.

The District continues to face numerous challenges with the slow recovery from the largest economic downturn since the Great Depression and now with the severe drought the State of California is facing. Additionally, the region experienced large water supply cost increases totaling more than 90% since 2007. Finally, the inaction in the State Capitol to address the crisis in the Sacramento – San Joaquin Bay Delta, the source of 30 percent of Southern California's water supply adds further uncertainty to the future cost and availability of water. Fortunately, the District, as a member of the CWA, is well-positioned for water coming from the Colorado River due to the Quantification Settlement Agreements (QSA).

In June 2007, the District dedicated the Supply Link Project connecting the recycled water system to the City of San Diego's City South Bay Water Reclamation Plant. Today, the District purchases about 3 million gallons per day (mgd) of recycled water from the City of San Diego, increasing to 6 mgd ultimately. In addition, 1 mgd is produced at the District's RWCWRF Plant. With recycled water meeting a large portion of the landscape irrigation



needs, this means in the future approximately 7 mgd of potable water does not have to be pumped hundreds of miles from northern California or the Colorado River. Instead, enough drinking water to serve more than 15,000 homes is being replaced by recycled water in the years to come.

Current Economic Conditions

The District services the needs of a growing population by purchasing water from the San Diego County Water Authority (CWA). The CWA purchases its water from the Metropolitan Water District of Southern California (MWD) and the Imperial Irrigation District (IID). The District 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 and from Helix Water District (HWD) by contract with CWA. In addition to the treated water deliveries from CWA, the District has several emergency agreements with the City of San Diego, Helix Water District, and Sweetwater Authority that allows agencies to have flexibility to deal with emergency shutdowns. 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.

For several decades, the District has collected and recycled wastewater generated within the Jamacha drainage basin and pumped the recycled water south to the Salt Creek basin where it is used for irrigation and other non-potable uses. However, the demand for recycled water out-paced the supply, requiring the District to supplement the limited supply of recycled water with potable water. Through the agreement with the City of San Diego, the District has discontinued supplementing its recycled demand with potable water. Once again, this decreases the demand on potable water and increases reliability of the District's supply.

The District's sewer service area is growing at a slow but steady rate of approximately 0.2% each year. Most of this growth is from small development projects or homeowners converting their septic system to sewer because of environmental issues.

The District's water service area was one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. It is estimated that the District is currently serving approximately 217,000 residents. The local and national recovery from the global recession of 2009 has been slow; however, due to San Diego County's diverse economy, it is forecasted to do better than most of the nation.

Over the past 12 years, the District has added more than 7,291 new customer connections, with 2,189 occurring in Fiscal Year 2004. In Fiscal Year 2015, the District sold 139 meters which is an average of 12 meters per month.

The Future

The District continues to use the challenges presented by growth to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Business Plan, it has captured the Board of Director's vision and united its staff in a common mission. The organization has achieved a number of significant accomplishments based on its successful adherence to its Strategic Business Plan. The District is not only poised to continue successfully providing an affordable, safe, and reliable water supply for the people of its service area, but is set to reap the rewards of greater efficiencies and economies of scale.

FUTURE DEVELOPMENT

As in the previous fiscal year, the District employed an economist to provide an Economic Outlook of the national economy, San Diego County's economy, the future of south San Diego County, and an overview of the Otay Water District. Projections of future development indicate that the ratio of multi-family units will increase because the remaining land is zoned for multi-family development.

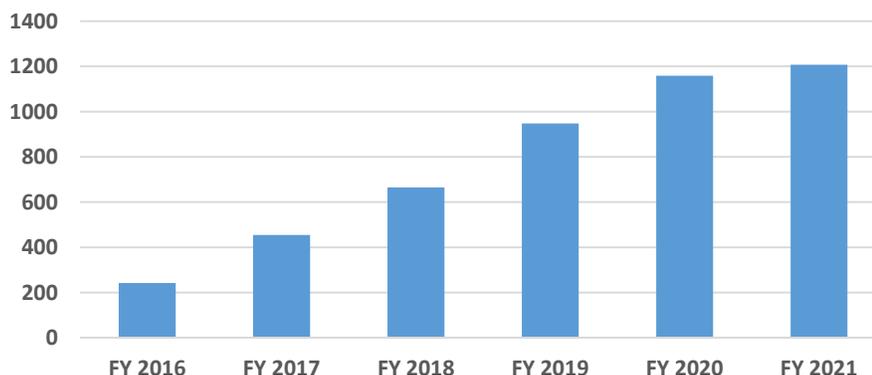
Projected Units for Sale and Rental Otay Water District Service Area FY 2016 through FY 2021							
Project	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	Total
Total Single-Family Units	149	288	375	618	780	805	3,015
Total Condominium	297	202	482	715	780	688	3,164
Total Rental	150	475	885	692	757	714	3,673
Total Units	596	965	1,742	2,025	2,317	2,207	9,852

% Multi-Family	75%	70%	78%	69%	66%	64%	69%
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Source: The London Group Realty Advisors, March 2015

Using the economist report, the District's engineering staff projects that over the next six years the District will sell another 3,207 meters which translates to 4,676 equivalent dwelling units (EDUs). These projections have been incorporated in the Five-Year Forecast on [page 50](#).

PROJECTED METER SALES IN EDUS



The Future

SAN DIEGO COUNTY WATER SUPPLY

San Diego County imports about 90 percent of its water from the Colorado River and Northern California. Since these sources face legal and environmental constraints, the region has been exploring other ways to ensure an adequate water supply, including increased water recycling, more aggressive conservation programs, increased water storage, groundwater desalination, and seawater desalination.

CARLSBAD DESALINATION PROJECT

The District's water wholesaler, the San Diego County Water Authority, voted on November 29, 2012, to approve a water purchase agreement with Poseidon Resources Corporation (Poseidon). Under the water purchase agreement, the County Water Authority will purchase 48,000 to 56,000 acre-feet of water annually from the desalination plant located in Carlsbad, California. The plant is expected to produce up to 54 million gallons of water a day beginning in the fall of 2015 and will generate enough water to serve about 112,000 families and meet 7 to 10 percent of the region's demand. The total price for the desalinated water, including related upgrades to the County Water Authority's pipelines and treatment plant, is projected to start between \$2,014 and \$2,257 per acre-foot (in 2012 dollars). An acre-foot is approximately 325,900 gallons, or enough to supply two typical single-family households of four for a year.



ROSARITO DESALINATION AND THE OTAY MESA CONVEYANCE AND DISINFECTION SYSTEM PROJECTS

The Rosarito Desalination Project is comprised of a 100 million gallons per day seawater reverse osmosis desalination plant, together with a pump station and pipeline, to convey water to Tijuana and to the District. This would be the first cross-border water supply project of its kind and requires public messaging to inform key stakeholders and the public of the significance of the Project. If successful, this Project may start delivering water to District customers by early 2020. The Project includes the construction of facilities on the U.S. side to include a large diameter pipeline 3.5 miles long, a pump station, a disinfection facility and the use of the Roll Reservoir in Otay Mesa.



Rosarito Desalination Project rendering

Demographics

The District boundaries shown in the map encompass an area of approximately 125.5 square miles in San Diego County, located immediately east of the City of San Diego metropolitan area and running from the City of El Cajon south to the international border. SANDAG creates and maintains a tremendous quantity of demographic, economic, land use, transportation, and criminal justice information about the San Diego region. The demographic data include population characteristics such as age, education, and employment. The following demographic data was provided by The London Group Realty Advisors, which summarizes the sub regional areas of Sweetwater, South Bay and Jamul.



DEMOGRAPHICS OF THE OTAY WATER DISTRICT

The population of the Otay Water District has grown from 114,937 in 1980 to 243,916 in 2010. This represents a 149.1% increase over the past 30 years. The average persons per household was 3.32 in 2010. SANDAG reports the City of Chula Vista's ethnic/racial makeup with 58% Hispanic, 20% white, 14% Asian and the remaining population are of other ethnic/racial descent. In a recent economic forecast conducted by The London Group Realty Advisors, the District's median age is 35.7 and 34.0% of adults have a four-year degree or higher. The average household income is \$94,136 and the median household income is \$80,805.

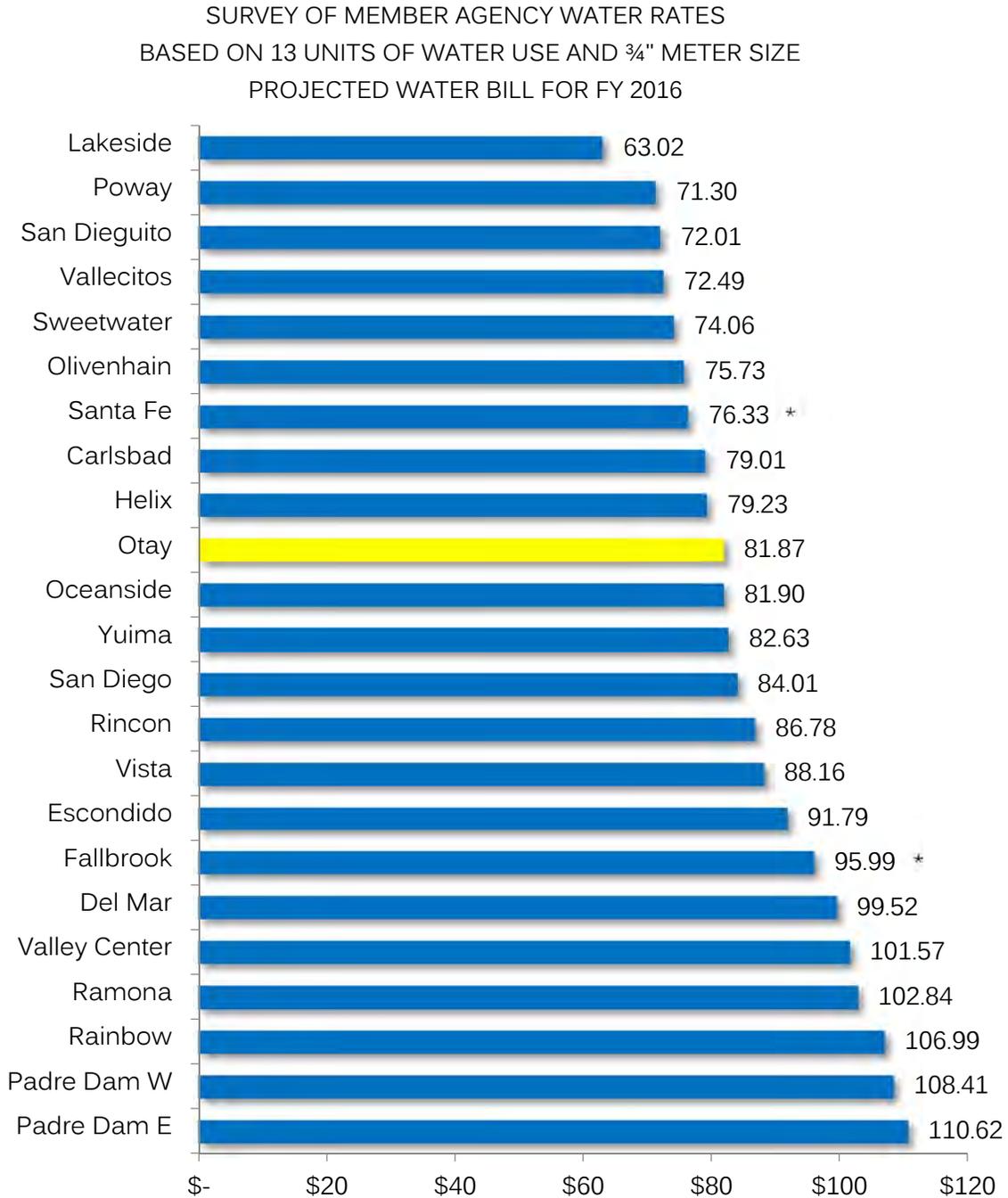
The London Group Realty Advisors have projected that the housing units in the District's service area will consist of low density townhomes and multi-plexes. The average residential sales price in South San Diego County was \$629,632 in 2014.

Otay Water District Demographics	
Population	243,916
Persons/Household	3.32
Ethnic/Racial makeup	
Hispanic	58.0%
White	20.0%
Asian	14.0%
Other	8.0%
Median Age	35.7
Percentage with 4 year degree or higher	34.0%
Average Household Income	\$ 94,136
Median Household Income	\$ 80,805

Source: SANDAG, The London Group Realty Advisors, Claritas Demographics

Water Rate Comparison

The District strives to remain cost effective in its rate setting, by controlling operating cost, yet passing through the full cost of supply. In June 2015, the District conducted a survey of the water rates of the water providers within San Diego County. The following chart shows that the District has the 10th lowest water rate in the region.

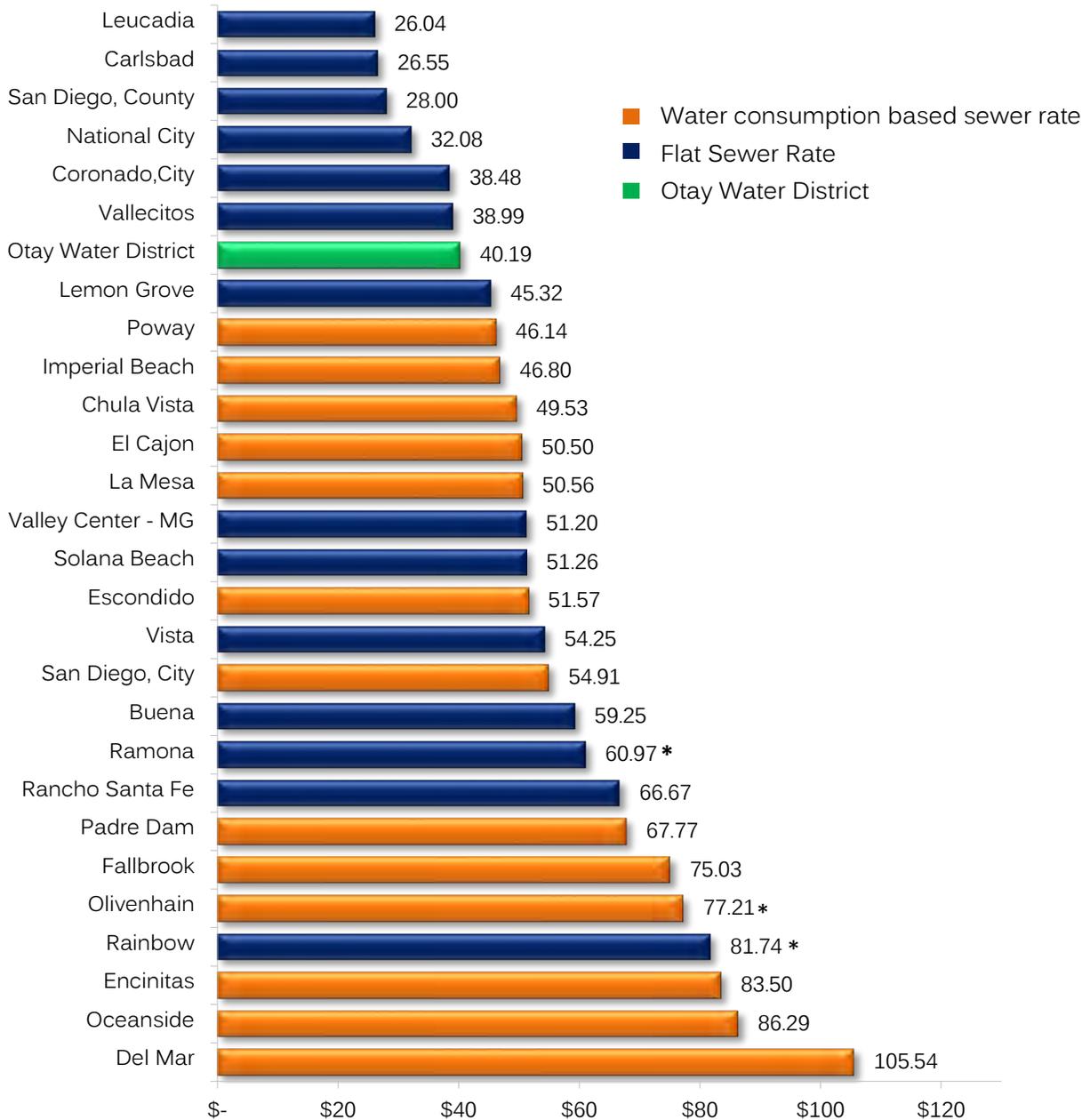


* At the time of the survey in June 2015, the member agency's FY 2016 rate was unavailable. The estimated increase is equal to the District's FY 2016 average rate increase.

Sewer Rate Comparison

The District conducted a survey of the rates of the sewer providers within San Diego County. Sewer rates are billed at either a fixed or variable rate. The following chart shows the various sewer providers and the type of rate that is charged to the consumers. The District is among the lowest sewer rates in the County of San Diego.

SEWER RATE COMPARISON, SAN DIEGO COUNTY
 BASED ON 11 UNITS OF WATER USE AND 3/4" RESIDENTIAL METER SIZE
 PROJECTED SEWER BILL FOR FY 2016

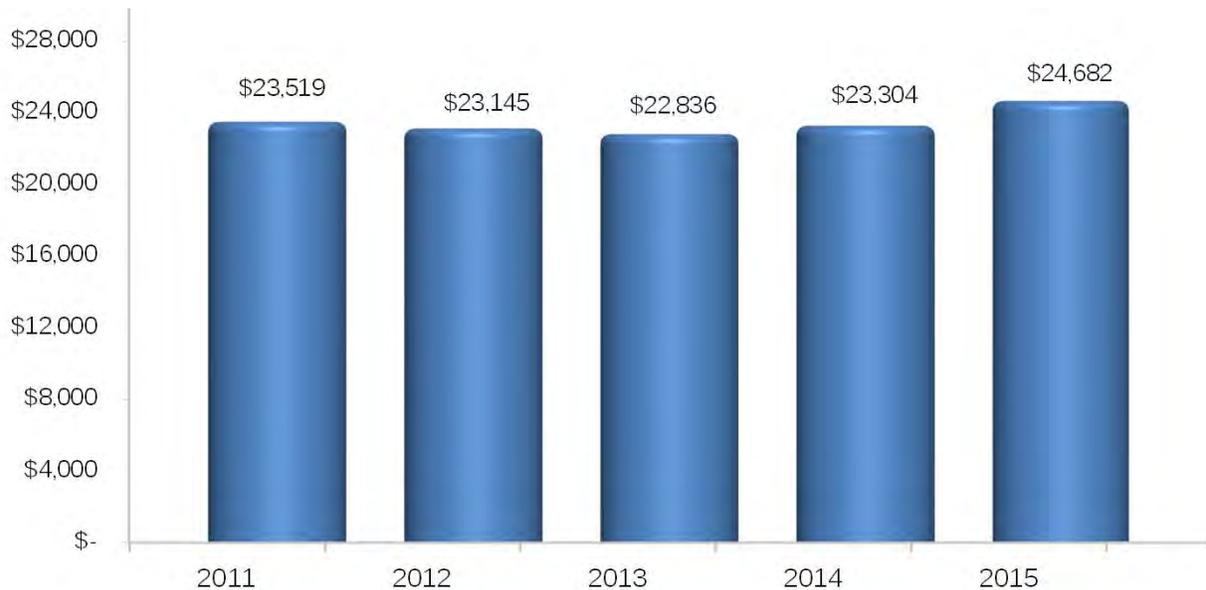


* At the time of the survey in June 2015, the member agency's FY 2016 rate was unavailable. The estimated increase is equal to the District's FY 2016 average rate increase.

Service Area Assessed Valuation

Otay Water District's service area encompasses property with over \$24.7 billion of assessed valuation. Properties are assessed at 100% of their full value less exemption from taxation under the law and homeowner's exemptions. The District receives its portion of the 1% property tax, according to Proposition 13 and AB8. With the very recent increases in the assessed valuation, the District will benefit by receiving its proportionate share of this increase.

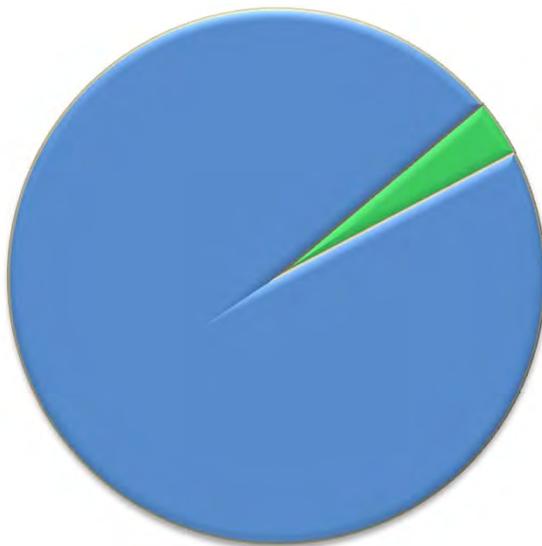
FIVE-YEAR SERVICE AREA ASSESSED VALUATION, IN MILLIONS (\$)



Source: County of San Diego Auditor and Controller

Ten Principal Taxpayers as of June 30, 2015

Organization	Assessed Value	Percent to Total
1. GGP-OTAY RANCH LP	\$ 118,952,326	0.49%
2. BRISA ACQUISITIONS LLC	117,000,000	0.48%
3. AVALON II CALIFORNIA VALUE IV LP	115,380,000	0.47%
4. REGULO PLACE APARTMENTS INVESTORS LLC	100,348,224	0.41%
5. VISTA PACIFIC VILLAS LP	89,856,103	0.37%
6. CORRECTIONS CORP OF AMERICA	80,040,092	0.33%
7. SP LAVIDA REAL LLC	70,794,630	0.29%
8. CAMDEN USA INC.	65,770,597	0.27%
9. BRE-FM CA LLC	51,712,694	0.21%
10. SPE TERRA NOVA VILLAS APARTMENT OWNER LLC	40,900,875	0.17%
Total	\$ 850,755,541	3.45%
Total Service Area Assessed Valuation	\$ 24,682,307,510	

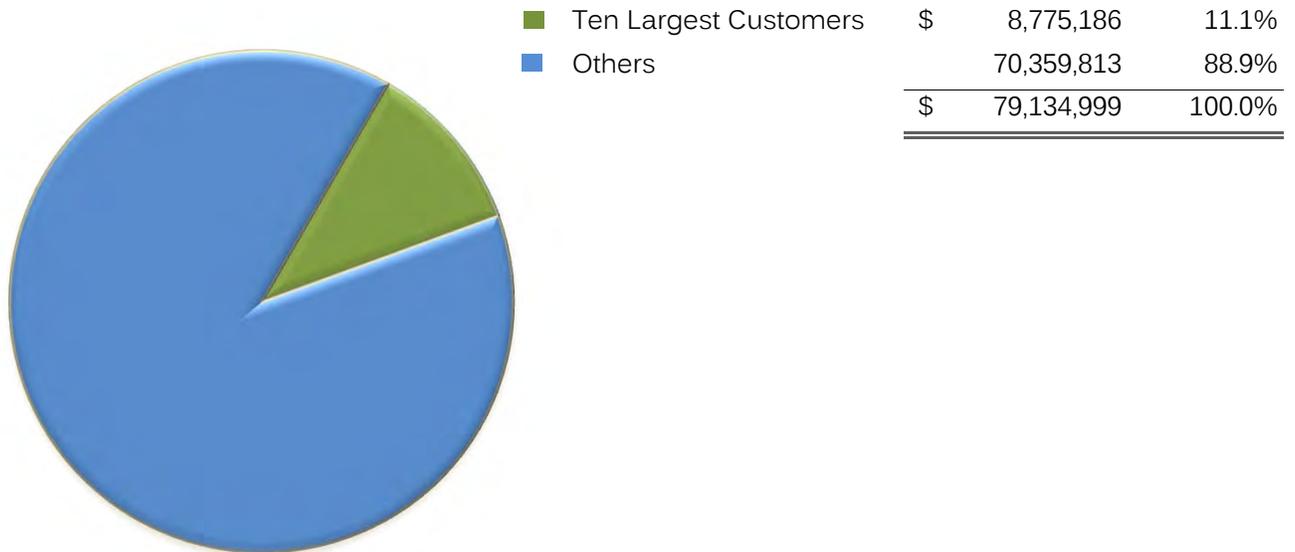


Ten Principal Taxpayers	\$ 850,755,541	3.45%
Other Taxpayers	23,831,551,969	96.55%
	\$ 24,682,307,510	100.00%

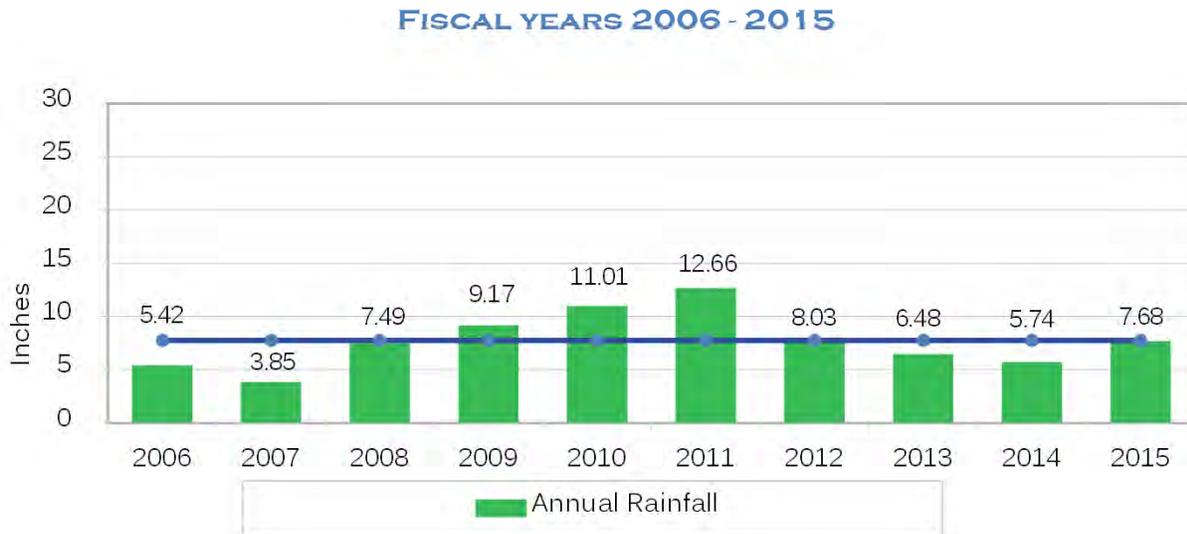
Source: County of San Diego Auditor and Controller

Ten Largest Customers - Fiscal Year 2015

Customer Name	Customer Type	Annual Revenues	% of Water Sales
1. CITY OF CHULA VISTA	Publicly Owned	\$ 3,508,939	4.4%
2. COUNTY OF SAN DIEGO	Publicly Owned	950,461	1.2%
3. STATE OF CALIFORNIA	Publicly Owned	833,907	1.1%
4. EASTLAKE III COMMUNITY	Commercial	781,004	1.0%
5. STEELE CANYON GOLF CLUB LLC	Commercial	735,908	0.9%
6. CHULA VISTA SCHOOL DISTRICT	Publicly Owned	541,036	0.7%
7. SWEETWATER SCHOOL DISTRICT	Publicly Owned	379,353	0.5%
8. SANDAG	Commercial	376,714	0.5%
9. EASTLAKE 1 HOA	Commercial	364,252	0.5%
10. ROLLING HILLS RANCH COMM ASSOC	Commercial	303,611	0.4%
Total		\$ 8,775,186	11.1%
		\$ 79,134,999	



San Diego Rainfall



On April 1, 2015, Governor Brown ordered cities and towns across California to cut water use by 25%. This mandatory drought restriction was the first in state history. For the water year 2016 (defined as October 1 - September 30), climatologists are anticipating El Nino conditions, with the greatest chances of wet conditions in Southern California. Precipitation falling in the Sierra's region is important because snowmelt feeds the major reservoirs in Northern California.

Although San Diego received less than normal rainfall in Fiscal Year 2015, the District is hopeful that San Diego's rainfall will return to its average pattern and volume for Fiscal Year 2016. The 10-year average of 7.75 inches for San Diego rainfall reflects the long-term drought conditions for our area. San Diego's rainfall average over 20 years is 8.96 inches; the 30-year average is 9.74 inches; and the 40-year average is 10.34 inches.

San Diego rainfall, while a contributing factor, is not the controlling factor for our potable water supply shortage. The San Diego region imports 83% of its potable supply, so conditions elsewhere significantly affect the actual amount of water available to the District. In the event the amount of water supplied to the District is reduced, water sales revenues would decrease. Related water purchase expenses would also be reduced, mitigating the impact of the decrease in revenues. The amount of any supply reduction would dictate the magnitude of the District's response and type of reaction.

The San Diego rainfall information shown in the chart above uses data from the San Diego Airport at Lindbergh Field and is provided by the Western Regional Climate Center. More information can be obtained from their website: <http://www.wrcc.dri.edu>. The Western Regional Climate Center's website data, in turn, is derived from data received from the National Climatic Data Center, the National Weather Service, the National Resource Conservation Service, the Bureau of Land Management, the U.S. Forest Service, and other federal, state, and local agencies. Although the data reflects actual rainfall at Lindbergh field, it is representative of rainfall for the area served by the Otay Water District.

Budget Summary

The FY 2016 Operating Budget is summarized and presented in the *Operating Budget Summary- General Fund* on [pages 42-43](#). This schedule presents the District's overall revenues and expenditures by type. Also included in this section is the *Operating Budget Summary by System* on [page 44](#) which presents the General Fund budget in the business segments of Potable, Recycled, and Sewer. Additional schedules provided in this section are the General Fund Revenues, Expenditures and Transfers; Fund Balance Summary by Fund; Revenues and Expenditures by Fund; and Revenues and Expenditures by Type - All Funds; are presented on [pages 45-49](#).

For Fiscal Year 2016, the District has approved an increase in water rates primarily to pass-through cost increases from water suppliers. The District also approved an increase in sewer rates for the rehabilitation of the aging sewer system. Neighboring agencies are experiencing similar cost increases and most are encountering similar rate increases.

The Operating Budget for Fiscal Year 2016 is \$91.6 million in comparison to the previous fiscal year budget of \$86.1 million. The \$5.5 million increase is a result of water supply rate increases of 2.5% from MWD and 3.6% from CWA. CWA's increase is due to the high cost of supply programs, including the early delivery of Carlsbad desalination water. CWA also needs to secure a prudent financial position by achieving the rate stabilization fund targets and smoothing the water rates.

GENERAL FUND REVENUES

[Potable Water Sales](#)

Potable water sales revenue collected from the sale of water including: system charges, energy charges, and penalties accounts for 78.2% of the District's operating revenues. It is estimated that 26,868.7 acre-feet of potable water will be sold during FY 2016, which is a decrease of 2,323.7 from FY 2015. Budgeted revenues from water sales are projected to be \$69.8 million, a decrease of 3% from FY 2015, which is primarily due to mandatory drought restrictions imposed by the State Water Resources Control Board. Additional schedules relating to potable water sales are included in the Potable Revenues and Expenditures section of this budget.

[Recycled Water Sales](#)

Recycled Water is not subject to the State Water Resources Control Board's drought mandates. Recycled water sales revenue is generated from the sale of 3,955.7 acre-feet of recycled water. The recycled rate is 15% less than the potable irrigation rate. The FY 2015 sales revenue budget is \$9.1 million which is an increase of \$289,400 from FY 2015 and includes the incentive credits provided by MWD and CWA.

[Sewer Revenues](#)

Sewer charges are the monthly fees collected and represents 99% of the District's sewer revenue. The remaining 1% of revenue is derived from penalties. The monthly fees are determined by volume of flow and the strength of solids discharged into the sewer system. The FY 2016 Sewer Revenues are projected to be \$3.2 million which is an increase from the prior year of \$198,600.

Budget Summary

Meter Fees

Meter fees are charges collected for new water service connections. Fees vary depending upon meter size and the type of service. The FY 2016 revenue from meter fees is \$66,200, which is an increase of \$14,700 compared to the FY 2015 budget. The costs associated with meter installations are included in the Operating Expenses section.

Capacity Fee Revenues

These fees are earned by the General Fund for the Engineering Department's support for expansion functions. The FY 2016 capacity fee revenue is \$1.13 million which is a decrease of \$15,800 compared to FY 2015.

Betterment Fees for Maintenance

These fees are earned by the General Fund for the Water Operations Department's maintenance of certain District assets. In May 2015, the Board took action to discontinue the collection of these fees beginning in FY 2016.

Tax Revenues

The District receives 1% property tax revenues and availability fees on properties within the District's boundaries. These revenues are collected by the County of San Diego via the Property Tax Roll and are remitted to the District annually. Based on the historical collections from the County of San Diego, the District's projected tax revenues of \$3.9 million which is an increase of \$134,200 compared to FY 2015.

Spending limits for the District are governed by the 1979 passage of California Proposition 4, Limitations of Government Appropriations (Article XIII B of the California Constitution, commonly known as the GANN limit). Proposition 4 places an appropriations limit on most spending from tax proceeds. The following table shows that the District is below the Gann Limit.

Otay Water District Appropriations Limit (in thousands)						
Fiscal Year	2010	2011	2012	2013	2014	2015
Gann Limit	\$ 3,826	\$ 3,787	\$ 3,917	\$ 4,120	\$ 4,392	\$ 4,454
Appropriations subject to the limit	\$ 3,008	\$ 2,924	\$ 2,890	\$ 2,892	\$ 2,968	\$ 3,134

Non-Operating Revenues

Non-operating revenues are revenues that are not directly related to the operation of a water or sewer utility and include such items as District property rentals and leases, and billing services for the City of Chula Vista. The District projected \$1.87 million in revenues for FY 2016 which is a slight decrease of \$74,200 compared to FY 2015.

Budget Summary

[Interest](#)

Interest is earned by each fund that has a positive balance and is paid by each fund with a negative balance. Interest income on General Fund balances is considered general use revenue. Interest revenue is projected to be \$157,500 in FY 2016 which is \$80,100 more than in FY 2015.

GENERAL FUND EXPENDITURES

[Potable Water Purchases](#)

Water purchases are the expenses of purchasing 28,052.0 acre-feet for the District's potable water supply. A provision has been made to allow 1,183.3 acre-feet of water for District usage, leakage, and evaporation. Total Potable Water Purchases are projected to be \$32.3 million in FY 2016 which is a decrease of \$2.2 million compared to FY 2015.

[Recycled Water Purchases](#)

Recycled water purchases are the expenses of purchasing 2,906.4 acre-feet for the District's recycled water supply which remain unchanged from Fiscal Year 2015. In addition to the purchases there is a contractual Take-or-Pay payment budgeted for 1,910.8 acre-feet which is 298 acre-feet more than FY 2015. Total Recycled Purchases are projected to be \$1.7 million in FY 2016 which is an increase of \$104,300 compared to FY 2015.

[Infrastructure Access Charge](#)

This charge was established in FY 1999 by CWA to finance a portion of its fixed annual costs including annual payments of principal and interest on debt as well as 80% of all operation and maintenance costs. This fixed charge is based on the number of "household meter equivalents." Infrastructure access charges are projected at \$1.9 million in FY 2016.

[Customer Service Charge](#)

This charge was established in FY 2004 by CWA as a fixed charge. The Customer Service Charge is set to recover costs necessary to support CWA's development of policies and implementation of programs that benefit the region as a whole. Customer service charges are projected to remain at \$1.8 million in FY 2016.

[Reliability Charge](#)

This charge was established in FY 2016 by CWA as a fixed charge and became effective January 2016. The Reliability Charge is set to recover a portion of the fixed costs associated with the Carlsbad Desalination Plant and IID water transfer costs. Allocation of this charge is based upon member agencies share of the rolling five-year average M&I deliveries. The reliability charge is projected to be \$950,400 for FY 2016 (January through June 2016).

[Emergency Storage Charge](#)

The Emergency Storage Charge was established by CWA in calendar year 2003, to recover costs associated with non-agricultural water deliveries and is allocated based on each member agency's share of deliveries. The emergency storage charge is projected to remain at \$4.7 million in FY 2016.

Budget Summary

[Capacity Reservation Charge](#)

This charge was established in FY 2002 by the MWD, as a fixed charge on a member agency's requested maximum daily capacity. The Capacity Reservation Charge is a charge per cubic-foot-second (cfs) and is applied to the amount of capacity (daily flow) a member agency expects to use during the peak period from May through September. Capacity reservation charges are projected to be \$806,400 which is an increase of \$105,000 compared to FY 2015.

[Readiness-to-Serve Charge](#)

This charge was established in FY 1996 by MWD, to recover the principal and interest payments on non-tax supported debt service used to fund the capital improvements necessary to meet the continuing reliability and quality needs associated with current demands. These costs are offset by standby charges collected by MWD on the tax bills of District customers. These charges are projected to remain at \$1.8 million in FY 2015.

[Power Costs](#)

Power costs are expenses associated with the transmission and distribution of water to customers. The pumping costs to distribute water vary with elevation and will increase as water sales increase. Power costs are projected to be \$3.1 million, which is an increase of \$274,400 compared to FY 2015.

[Labor and Benefits](#)

Labor and benefits are the wages and fringe benefits for FY 2016 Full-time Equivalent (FTE) employees. Labor costs are reduced by the number of hours that are charged to non-operating Capital Improvement Program (CIP) and developer deposit projects. The detail of actual personnel and payroll related expenses is included in the Departmental Operating Budget section. Labor and benefits increased by \$633,400 from \$19.7 million to \$20.4 million in FY 2016.

[Administrative Expenses](#)

Administrative expenses are costs incurred by various departments that are directly related to District operations. Administrative expenses are projected to remain at \$5.4 million in FY 2016. Additional details are supplied in the Departmental Operating Budget section.

[Materials and Maintenance Expenses](#)

Materials and maintenance expenses are costs associated with the operation and maintenance of District facilities. Materials and maintenance expenses are projected to remain at \$3.6 million in FY 2016. Additional details are supplied in the Departmental Operating Budget section.

Budget Summary

GENERAL FUND RESERVES

[Expansion Reserves](#)

These reserves are established to fund expansion needs including project costs, existing debt payments, and new debt that will be issued in the future to fund expansion. For FY 2016, these reserves will be funded with \$2.7 million from Recycled Water.

[Betterment Reserves](#)

These reserves are established to fund the betterment needs of facilities including project costs, existing debt payments, and new debt that will be issued in the future to fund betterment. For FY 2016, these reserves will be funded from Potable and Recycled Water for a total of \$2.4 million.

[Replacement Reserves](#)

These reserves are established to fund the replacement needs including project costs, existing debt payments, and new debt that will be issued in the future to fund replacement. For FY 2016, these reserves will be funded from Potable, Recycled Water, and Sewer Funds totaling \$3.4 million.

[New Water Supply Reserves](#)

These reserves are established to fund new water supply needs including project costs, existing debt payments, and new debt that will be issued in the future to fund expansion. For FY 2016, this reserve will be funded with \$35,000 from Potable Water.

FUND TRANSFERS

Fund transfers are necessary to ensure that each fund pays its fair share of costs, or to achieve required fund balances per the District's policy.

[Transfer to OPEB Trust](#)

For FY 2016, the Potable General Fund is budgeted to fund the OPEB Trust \$1,006,000 for retiree health liabilities.

[Transfer to Sewer Replacement Reserve](#)

For FY 2016, Potable Water will fund the Sewer Replacement Reserve with \$1,199,300, a repayment of borrowed funds.

Budget Summary

OTHER FINANCIAL SCHEDULES/PRESENTATIONS

[Operating Budget Summary by System](#)

The Budget Summary by System schedule reflects the separation of operating revenues and expenses among potable water, recycled water, and sewer. This is provided as information but is necessary to ensure sufficient revenue is collected from sewer customers versus water customers.

[General Fund – Revenue, Expenditures, and Transfers](#)

This schedule shows the General Fund's total revenues, expenditures, and transfers showing the prior year's actuals, the prior year's budget and unaudited actuals, the current year's budget, along with the variance from the prior year's budget.

[Fund Balance Summary by Fund](#)

This schedule shows each fund's balance at June 30, 2015, and the projected balance for June 30, 2016. These balances are based on the results of the budget and rate model. This includes transfers between funds made to meet target levels as outlined in the Reserve Policy.

[Revenues and Expenditures by Fund](#)

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

[Revenues and Expenditures by Type – All Funds](#)

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

Operating Budget Summary - General Fund

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget	
	Actual	Budget	Actual *	Budget	\$	%
Revenues						
Potable Water Sales	\$ 71,272,396	\$ 71,959,100	\$ 70,281,989	\$ 69,783,700	\$ (2,175,400)	(3.0%)
Recycled Water Sales	10,014,767	8,826,600	8,853,010	9,116,000	289,400	3.3%
Sewer Revenues	2,757,867	3,007,700	3,009,634	3,206,300	198,600	6.6%
Meter Fees	78,465	51,500	90,246	66,200	14,700	28.5%
Capacity Fee Revenues	1,167,405	1,150,600	1,312,108	1,134,800	(15,800)	(1.4%)
Betterment Fees for Maintenance	485,738	301,800	188,123	-	(301,800)	(100.0%)
Tax Revenues	3,624,363	3,763,700	3,814,516	3,897,900	134,200	3.6%
Non-operating Revenues	2,057,519	1,947,800	2,404,375	1,873,600	(74,200)	(3.8%)
Interest	124,197	77,400	128,599	157,500	80,100	103.5%
Transfer from Potable General Fund	-	553,800	553,800	-	(553,800)	(100.0%)
General Fund Draw Down	214,400	-	-	-	-	0.0%
Total Revenues	\$ 91,797,117	\$ 91,640,000	\$ 90,636,400	\$ 89,236,000	\$ (2,404,000)	(2.6%)
Expenditures						
Potable Water Purchases	\$ 36,151,147	\$ 34,521,500	\$ 33,952,017	\$ 32,332,100	(2,189,400)	(6.3%)
Recycled Water Purchases	1,661,887	1,601,500	1,360,807	1,705,800	104,300	6.5%
CWA - Infrastructure Access Charge	1,856,202	1,901,400	1,900,266	1,931,400	30,000	1.6%
CWA - Customer Service Charge	1,753,840	1,792,200	1,796,853	1,777,800	(14,400)	(0.8%)
CWA - Reliability Charge	-	-	-	950,400	950,400	100.0%
CWA - Emergency Storage Charge	4,515,596	4,741,200	4,720,701	4,681,800	(59,400)	(1.3%)
MWD - Capacity Reservation Charge	531,318	701,400	701,976	806,400	105,000	15.0%
MWD - Net RTS and Standby Charge	1,740,511	1,800,000	1,817,339	1,798,800	(1,200)	(0.1%)
Subtotal - Water Costs	\$ 48,210,501	\$ 47,059,200	\$ 46,249,959	\$ 45,984,500	\$ (1,074,700)	(2.3%)
Power	\$ 2,808,846	\$ 2,838,400	\$ 3,048,335	\$ 3,112,800	\$ 274,400	9.7%
Labor and Benefits	19,044,022	19,747,600	19,406,815	20,381,000	633,400	3.2%
Administrative Expenses	4,085,545	5,419,200	4,503,990	5,387,800	(31,400)	(0.6%)
Materials & Maintenance	3,157,876	3,619,800	3,339,777	3,612,800	(7,000)	(0.2%)
Subtotal - Operations Costs	\$ 29,096,289	\$ 31,625,000	\$ 30,298,917	\$ 32,494,400	\$ 869,400	2.7%
Expansion Reserve	3,428,000	2,538,900	2,538,900	2,695,800	156,900	6.2%
Betterment Reserve	125,000	3,530,000	3,530,000	2,400,000	(1,130,000)	(32.0%)
Replacement Reserve	4,230,000	3,270,200	3,270,200	3,421,000	150,800	4.6%
Transfer to Sewer General Fund	152,800	553,800	553,800	-	(553,800)	(100.0%)
OPEB Trust	1,242,900	647,100	647,100	1,006,000	358,900	55.5%
Potable General Fund	1,913,000	1,583,800	1,583,800	-	(1,583,800)	(100.0%)
Sewer Replacement	-	127,000	127,000	1,199,300	1,072,300	844.3%
New Supply Reserve	-	705,000	705,000	35,000	(670,000)	(95.0%)
Subtotal - Reserve Funding	\$ 11,091,700	\$ 12,955,800	\$ 12,955,800	\$ 10,757,100	\$ (2,198,700)	(17.0%)
Total Expenditures	\$ 88,398,490	\$ 91,640,000	\$ 89,504,676	\$ 89,236,000	\$ (2,404,000)	(2.6%)
Excess Revenues (Expenditures)	\$ 3,398,627	\$ -	\$ 1,131,724	\$ -	\$ -	

* Actual unaudited

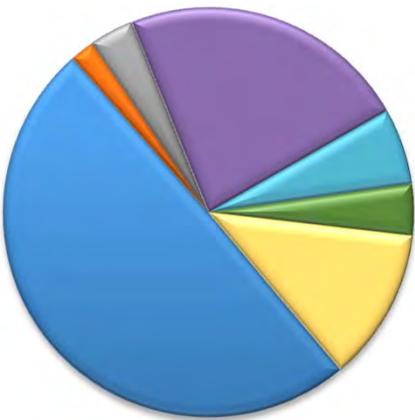
Operating Budget Summary - General Fund

FY 2016 OPERATING REVENUES



Potable Water Sales	\$ 69,783,700	78.2%
Recycled Water Sales	9,116,000	10.2%
Sewer Revenues	3,206,300	3.6%
Meter Fees	66,200	0.1%
Capacity Fee Revenues	1,134,800	1.3%
Tax Revenues	3,897,900	4.4%
Non-operating Revenues	1,873,600	2.0%
Interest	157,500	0.2%
Total	\$ 89,236,000	100.0%

FY 2016 OPERATING EXPENDITURES



Potable Water Purchases	\$ 44,278,700	49.7%
Recycled Water Purchases	1,705,800	1.8%
Power	3,112,800	3.5%
Labor and Benefits	20,381,000	22.8%
Administrative Expenses	5,387,800	6.1%
Materials & Maintenance	3,612,800	4.0%
Reserve Funding	10,757,100	12.1%
Total	\$ 89,236,000	100.0%

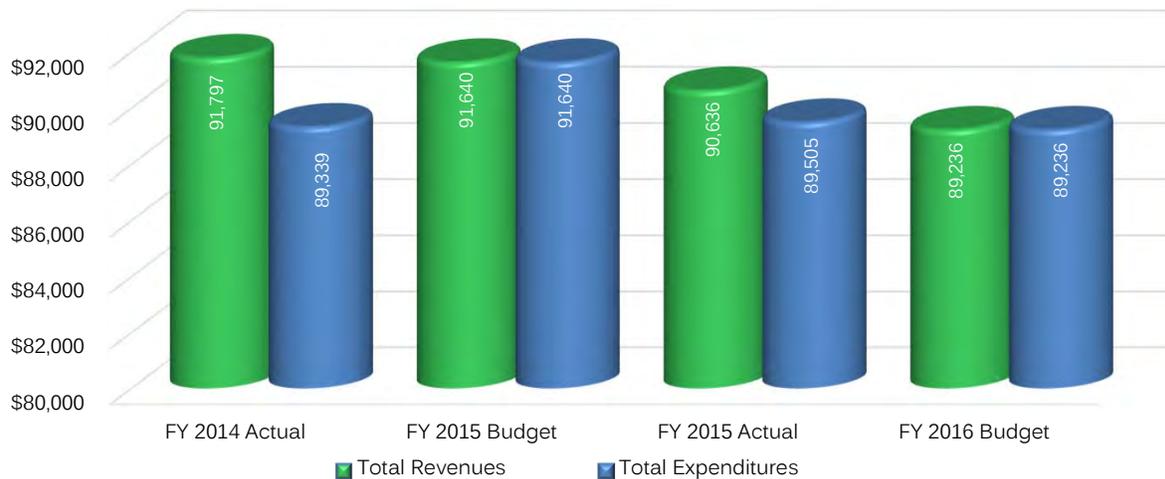
FY 2016 Operating Budget Summary by System

	Potable	Recycled	Sewer	Total
Revenues				
Water Sales	\$ 69,783,700	\$ -	\$ -	\$ 69,783,700
Recycled Water Sales	-	9,116,000	-	9,116,000
Sewer Revenues	-	-	3,206,300	3,206,300
Meter Fees	65,800	400	-	66,200
Capacity Fee Revenues	1,134,800	-	-	1,134,800
Tax Revenues	3,846,300	-	51,600	3,897,900
Non-operating Revenues	1,836,400	-	37,200	1,873,600
Interest	143,000	6,300	8,200	157,500
Total Revenues	\$ 76,810,000	\$ 9,122,700	\$ 3,303,300	\$ 89,236,000
Expenditures				
Water Purchases	\$ 32,332,100	\$ 1,705,800	\$ -	\$ 34,037,900
CWA - Infrastructure Access Charge	1,931,400	-	-	1,931,400
CWA - Customer Service Charge	1,777,800	-	-	1,777,800
CWA - Reliability Charge	950,400	-	-	950,400
CWA - Emergency Storage Charge	4,681,800	-	-	4,681,800
MWD - Capacity Reservation Charge	806,400	-	-	806,400
MWD - Net RTS and Standby Charges	1,798,800	-	-	1,798,800
Subtotal - Water Costs	\$ 44,278,700	\$ 1,705,800	\$ -	\$ 45,984,500
Power	2,372,400	563,600	176,800	\$ 3,112,800
Labor and Benefits	18,518,100	1,181,600	681,300	20,381,000
Administrative Expenses	4,865,200	321,800	200,800	5,387,800
Materials & Maintenance	2,168,300	287,800	1,156,700	3,612,800
Subtotal - Operations Costs	\$ 27,924,000	\$ 2,354,800	\$ 2,215,600	\$ 32,494,400
Expansion Reserve	-	2,695,800	-	2,695,800
Betterment Reserve	-	1,945,000	455,000	2,400,000
Replacement Reserve	2,493,900	328,000	599,100	3,421,000
OPEB Trust	914,100	58,300	33,600	1,006,000
Sewer Replacement	1,199,300	-	-	1,199,300
New Supply Reserve	-	35,000	-	35,000
Subtotal - Reserve Funding	\$ 4,607,300	\$ 5,062,100	\$ 1,087,700	\$ 10,757,100
Total Expenditures	\$ 76,810,000	\$ 9,122,700	\$ 3,303,300	\$ 89,236,000
Excess Revenue (Expenditures)	\$ -	\$ -	\$ -	\$ -

General Fund - Revenues, Expenditures and Transfers

	FY 2014	FY 2015		FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
REVENUES AND FUND SOURCES						
Water Sales	\$ 81,287,163	\$ 80,785,700	\$ 79,134,999	\$ 78,899,700	\$ (1,886,000)	(2.3%)
Sewer Revenues	2,757,867	3,007,700	3,009,634	3,206,300	198,600	6.6%
Meter Fees	78,465	51,500	90,246	66,200	14,700	28.5%
Capacity Fee Revenues	1,167,405	1,150,600	1,312,108	1,134,800	(15,800)	(1.4%)
Betterment Fee Revenues	485,738	301,800	188,123	-	(301,800)	(100.0%)
Tax Revenues	3,624,363	3,763,700	3,814,516	3,897,900	134,200	3.6%
Non-Operating Revenues	2,057,519	1,947,800	2,404,375	1,873,600	(74,200)	(3.8%)
Interest	124,197	77,400	128,599	157,500	80,100	103.5%
Transfers	214,400	553,800	553,800	-	(553,800)	(100.0%)
Total Revenue and Fund Sources	\$ 91,797,119	\$ 91,640,000	90,636,400	\$ 89,236,000	(2,404,000)	(2.6%)
EXPENDITURES AND FUND USES						
Water Purchases	48,210,501	47,059,200	46,249,959	45,984,500	(1,074,700)	(2.3%)
Power	2,808,846	2,838,400	3,048,335	3,112,800	274,400	9.7%
Administrative Expenses	4,085,545	5,419,200	4,503,990	5,387,800	(31,400)	(0.6%)
Materials and Maintenance	3,157,876	3,619,800	3,339,777	3,612,800	(7,000)	(0.2%)
Labor and Benefits	19,984,919	19,747,600	19,406,815	20,381,000	633,400	3.2%
Transfers	11,091,700	12,955,800	12,955,800	10,757,100	(2,198,700)	(17.0%)
Total Expenditures and Fund Uses	\$ 89,339,387	\$ 91,640,000	\$ 89,504,676	\$ 89,236,000	\$ (2,404,000)	(2.6%)
Excess Revenues/(Expenditures)	\$ 2,457,732	\$ -	1,131,724	\$ -	\$ -	(100.0%)

GENERAL FUND REVENUES, EXPENDITURES AND TRANSFERS, IN MILLIONS (\$)



*Actuals unaudited

Fund Balance Summary by Fund

	Actual*	Fiscal Year 2016 Budget			Projected
	Balance			Interfund	Balance
	June 30, 2015	Revenues	Expenditures	Transfers ⁽¹⁾	June 30, 2016
General Fund					
Potable	\$ 22,433,599	\$ 76,810,000	\$ 76,810,000	(2,168,800)	\$ 20,264,799
Recycled	4,175,386	9,122,700	9,122,700	(2,043,200)	2,132,186
Sewer	2,008,510	3,303,300	3,303,300	(1,586,500)	422,010
Total General Fund	28,617,495	89,236,000	89,236,000	(5,798,500)	22,818,995
Expansion Fund					
Potable and Recycled ⁽²⁾	657,541	4,224,700	5,744,200	1,270,000	408,041
Sewer	18,346	100	-	(15,000)	3,446
Total Expansion Fund	675,887	4,224,800	5,744,200	1,255,000	411,487 ⁽³⁾
Betterment Fund					
Potable	4,737,827	805,500	3,759,500	(1,575,000)	208,827
Recycled	(185,680)	6,900	753,400	1,945,000	1,012,820
Sewer	519,916	34,000	251,000	470,000	772,916
Total Betterment Fund	5,072,063	846,400	4,763,900	840,000	1,994,563 ⁽³⁾
Replacement Fund					
Potable	30,094,484	3,304,300	7,175,800	10,435,000	36,657,984
Recycled	5,214,322	48,500	870,100	328,000	4,720,722
Sewer	10,621,521	89,800	1,520,000	3,384,900	12,576,221
Total Replacement Fund	45,930,328	3,442,600	9,565,900	14,147,900	53,954,928
New Supply Fund					
Potable	1,062,201	259,900	177,500	(730,000)	414,601
Recycled	(15,548)	1,400	4,800	35,000	16,052
Sewer	-	-	-	-	-
Total New Supply Fund	1,046,653	261,300	182,300	(695,000)	430,653 ⁽³⁾
OPEB Fund					
	31,445	100	1,006,000	1,006,000	31,545 ⁽⁴⁾
Debt Service Fund					
	4,658,306	758,100	780,700	-	4,635,706
Total	\$ 86,032,176	\$ 98,769,300	\$ 111,279,000	\$ 10,755,400	\$ 84,277,877

⁽¹⁾ The total for interfund transfers does not net to \$0 because some transfers are already reflected in the Operating Revenues and Expenditures for General Fund as follows:

Expansion Reserve	\$	2,695,800
Betterment Reserve		2,400,000
Replacement Reserve		3,421,000
New Supply Reserve		35,000
OPEB Reserve		1,006,000
Total	\$	9,557,800

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

⁽³⁾ The fund balance is anticipated to change more than 10% due to the Districts ongoing current year CIP expenditures fund by current years revenues and prior years debt issuance proceeds, as well as transfers made in accordance with the Reserve Policy found on [pages 201-230](#).

⁽⁴⁾ This is a planned reduction of this reserve to fund the PERS OPEB trust in accordance with the actuarial analysis, as well as fund salary and benefit cost in accordance with the Memorandum of Understanding with the labor union.

*Actual unaudited

Revenues and Expenditures by Fund

	FY 2014	FY 2015		FY 2016
	Actual	Budget	Actual*	Budget
General Fund				
Potable	\$ 78,707,722	\$ 79,154,100	\$ 78,106,717	\$ 76,810,000
Recycled	10,031,730	8,834,400	8,871,699	9,122,700
Sewer	2,996,065	3,651,500	3,657,984	3,303,300
Total General Fund	91,735,517	91,640,000	90,636,400	89,236,000
Expansion Fund				
Potable	\$ 4,158,840	1,788,700	1,947,314	4,121,400
Recycled	1,698,412	115,200	245,449	103,300
Sewer	7,803	200	150	100
Total Expansion Fund	5,865,055	1,904,100	2,192,913	4,224,800
Betterment Fund				
Potable	\$ 3,294,249	1,098,500	1,070,815	805,500
Recycled	(456,923)	4,200	23,515	6,900
Sewer	37,336	42,100	36,137	34,000
Total Betterment Fund	2,874,662	1,144,800	1,130,467	846,400
Replacement Fund				
Potable	\$ 9,296,348	1,022,900	2,206,897	3,304,300
Recycled	122,907	27,500	221,136	48,500
Sewer	48,764	37,700	75,480	89,800
Total Replacement Fund	9,468,019	1,088,100	2,503,513	3,442,600
New Supply Fund				
Potable	\$ 385,981	191,500	396,763	259,900
Recycled	(371,603)	1,600	50,898	1,400
Sewer	-	-	-	-
Total New Supply Fund	14,378	193,100	447,661	261,300
OPEB Fund	\$ 823,523	600	11,011	100
Debt Service Fund	\$ 663,497	655,000	755,609	758,100
Total Revenues	\$ 111,444,652	\$ 96,625,700	97,677,574	\$ 98,769,300

*Actual unaudited

Revenues and Expenditures by Fund

	FY 2014	FY 2015		FY 2016
	Actual	Budget	Actual*	Budget
General Fund				
Potable	\$ 78,424,638	\$ 79,154,100	\$ 77,332,582	\$ 76,810,000
Recycled	8,472,312	8,834,400	8,782,103	9,122,700
Sewer	2,442,437	3,651,500	3,389,991	3,303,300
Total General Fund	89,339,387	91,640,000	89,504,676	89,236,000
Expansion Fund				
Potable	\$ 4,658,990	4,843,000	4,689,037	4,469,300
Recycled	1,557,915	1,284,200	1,283,173	1,274,900
Sewer	-	-	7,510	-
Total Expansion Fund	6,216,905	6,127,200	5,979,720	5,744,200
Betterment Fund				
Potable	\$ 3,352,161	3,699,800	2,875,698	3,759,500
Recycled	59,228	175,400	541,156	753,400
Sewer	180,310	305,000	214,301	251,000
Total Betterment Fund	3,591,699	4,180,200	3,631,155	4,763,900
Replacement Fund				
Potable	\$ 5,640,438	6,852,300	6,948,034	7,175,800
Recycled	1,181,130	831,400	515,482	870,100
Sewer	777,199	1,275,000	1,376,978	1,520,000
Total Replacement Fund	7,598,767	8,958,700	8,840,494	9,565,900
New Supply Fund				
Potable	\$ 427,719	467,600	372,965	177,500
Recycled	128,420	4,800	104,255	4,800
Sewer	-	-	-	-
Total New Supply Fund	556,139	472,400	477,220	182,300
OPEB Fund	\$ 940,355	958,000	929,113	1,006,000
Debt Reserve Fund	\$ 13,650,886	750,100	749,263	780,700
Total Expenditures	121,894,137	113,086,600	110,111,640	111,279,000
Surplus/(Deficit)	\$ (10,449,486)	\$ (16,460,900)	(12,434,066)	\$ (12,509,700)

*Actual unaudited

Revenues and Expenditures by Type - All Funds

	FY 2014	FY 2015		FY 2016
	Actual	Budget	Actual*	Budget
Revenues and Fund Sources				
Water Sales	81,287,163	80,785,700	79,135,000	78,899,700
Sewer Revenues	2,757,867	3,007,700	3,009,634	3,206,300
Meter Fees	78,465	51,500	90,246	66,200
Capacity Fee Revenues	2,703,862	2,293,500	3,943,190	3,126,200
Betterment Fee Revenues	709,986	340,500	309,510	28,600
New Supply Fee Revenue	225,038	180,300	402,987	244,700
Capacity Fees for Maintenance	1,167,405	1,150,600	1,312,108	1,134,800
Betterment Fees for Maintenance	485,738	301,800	188,123	-
Tax Revenues	3,624,363	3,763,700	3,814,516	3,897,900
Availability Fees	549,409	441,500	477,137	444,400
Non-Operating Revenues	2,057,519	1,947,800	2,404,375	1,873,600
GO Bond Debt Tax Revenues	641,798	651,700	726,878	722,800
Sewer Debt Tax Revenues	962	500	-	1,000
COPs Proceeds	13,566,703	770,400	750,485	799,200
Grants	209,873	111,100	3,867	3,714,200
Interest	407,007	273,600	555,718	609,700
Interfund Transfers	152,800	553,800	553,800	-
Total Revenue and Fund Sources	\$ 110,625,958	\$ 96,625,700	97,677,574	\$ 98,769,300
Expenditures and Fund Uses				
Water Purchases	48,210,501	47,059,200	46,249,959	45,984,500
Power	2,808,846	2,838,400	3,048,335	3,112,800
Administrative Expenses	4,085,545	5,419,200	4,503,990	5,387,800
Materials and Maintenance	3,157,876	3,619,800	3,339,777	3,612,800
Labor Expenses	19,984,919	19,747,600	19,406,815	20,381,000
CIP Expenses	8,497,568	10,575,900	9,726,136	11,341,200
Debt Service	8,563,486	8,460,300	8,451,485	8,532,000
Capacity Fees for Maintenance	1,170,985	1,150,600	1,312,107	1,134,800
Betterment Fees for Maintenance	485,738	301,800	188,123	-
OPEB Retiree Health Expenses	940,355	958,000	929,113	1,006,000
COPs Proceeds Distribution	12,900,198	-	-	29,000
General Fund Transfers	2,065,800	2,137,600	2,137,600	2,493,900
Interfund Transfers	9,025,900	10,818,200	10,818,200	8,263,200
Total Expenditures and Fund Uses	121,897,717	113,086,600	110,111,640	111,279,000
Surplus/(Deficit)	\$ (11,271,759)	\$ (16,460,900)	(12,434,066)	\$ (12,509,700)

Note: Consistent with the District's financing plan, the 2010 debt proceeds along with District reserves have been used to fund capital projects, resulting in the expected deficits in Fiscal Years 2014 and 2015 shown above.

*Actual unaudited

Five-Year Forecast – FY 2017 through FY 2021

The District updates its Rate Model to build the budget for the upcoming fiscal year and to forecast the five subsequent years. This financial forecast is designed to provide a general understanding of how revenues and expenditures are expected to influence the District and is reviewed in relation to its effect on funding capital projects and reserve levels. Estimates for growth, water costs, and others such as rainfall, and average water consumption per customer, are used throughout the Rate Model to calculate various revenue and expense amounts in each year. The Engineering Department is primarily responsible for the growth estimates as described in the budget overview on [page 18](#). Water cost estimates are obtained from District water suppliers, CWA and MWD, and power cost inflators from San Diego Gas and Electric, the District power supplier. Labor and benefit cost inflators are based on the Memorandum of Understanding with the District's labor union, estimates from the District's health providers, as well as actuarial reports from the District's pension providers. Other general inflators are derived from statistical data from consumer price indexes for the region.

The District must look at building new infrastructure to service the needs of its customers. The CIP Master Plan looks at the service needs of all customers over the next six years and at the betterment and expansion needs from now until ultimate build-out. The capital projects and the funding for them are reviewed annually by the Engineering Department. As new capital assets are brought into service, they are managed by a GIS-centric Asset Management System, CityWorks, which is crucial to tracking and maintaining the history of 726 miles of potable pipelines, 102 miles of recycled pipelines, 88 miles of sewer mains, 40 potable and 4 recycled reservoirs, 21 potable and 3 recycled pump stations, and a 1.3 million gallons per day reclamation plant. Utilizing an integrated database from the Geographic Information System (GIS) provides real-time work order planning, execution, and consolidation of all maintenance history. These systems are also integrated with financial software to allow asset tracking and management information. As the systems are further developed, the District will be able to better anticipate operating costs associated with the capital projects. The impact of the CIPs on the Operating Budget is addressed in the CIP section of this budget.

PROJECTED COST OF WATER

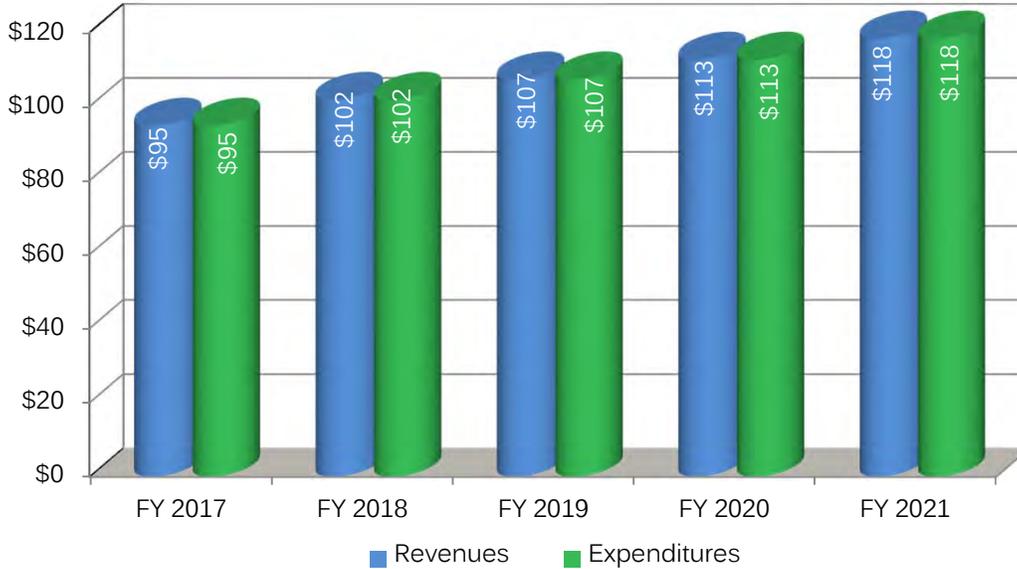
The projected water cost is based on CWA's Rate Modeling Program. This program evaluates many options of the Regional Water Facilities Master Plan, which determines the most feasible projects for water resources and incorporates these decisions into CWA's Capital Improvement Program. This cost is also based on CWA's estimated water cost for purchases from MWD and the Imperial Irrigation District (IID).



General Fund Forecast - FY 2017 through FY 2021

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

REVENUES AND EXPENDITURES FORECAST, IN MILLIONS (\$)



	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
REVENUES	Revenues				
Water/Sewer Rates	87,380,400	94,151,100	99,471,400	104,544,800	109,952,900
Meter Fees	71,500	76,700	78,700	81,800	85,400
Capacity Fee Revenues	1,140,500	1,151,900	1,163,400	1,175,000	1,186,800
Non-operating Revenues	1,903,100	1,934,200	1,967,200	2,002,000	2,037,500
Tax Revenues	3,998,300	4,103,400	4,214,000	4,401,100	4,598,900
Interest Income	202,100	259,200	297,600	337,900	383,100
Total Revenues	\$ 94,695,900	\$ 101,676,500	\$ 107,192,300	\$ 112,542,600	\$ 118,244,600

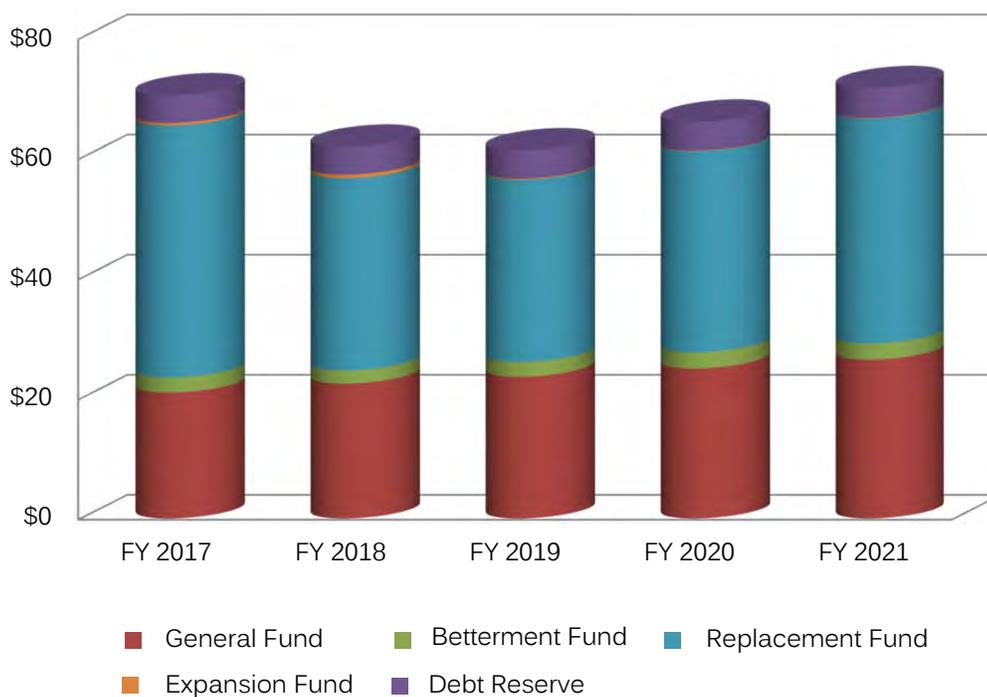
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
EXPENDITURES & TRANSFERS	Expenditures and Transfers				
Water Cost	\$ 50,115,400	\$ 54,801,700	\$ 58,873,100	\$ 63,386,700	\$ 68,229,200
Power	3,308,000	3,526,000	3,692,900	3,878,400	4,077,600
Labor and Benefits	21,338,600	22,104,400	22,325,000	22,820,900	23,325,700
Administrative Expenses	5,395,200	5,555,000	5,481,600	5,649,900	5,823,800
Materials & Maintenance	3,729,200	3,887,800	4,045,200	4,209,300	4,379,900
Net Transfers (Reserve Funding)	10,809,500	11,801,600	12,774,500	12,597,400	12,408,400
Total Expenditures and Transfers	\$ 94,695,900	\$ 101,676,500	\$ 107,192,300	\$ 112,542,600	\$ 118,244,600

Excess Revenues (Expenditures)	\$ -				
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Fund Balances - FY 2017 through FY 2021

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Fund Balances by Fund					
General Fund	\$ 20,985,900	\$ 22,476,600	\$ 23,609,700	\$ 24,997,100	\$ 26,465,400
Betterment Fund	2,527,600	2,210,800	2,480,500	2,713,300	2,707,500
Replacement Fund	41,936,100	32,000,200	30,314,700	33,448,500	37,431,100
Expansion Fund	445,100	587,700	184,500	106,900	106,900
New Supply Fund	812,600	1,207,800	1,608,900	1,802,800	1,805,900
Debt Reserve	4,574,500	4,643,300	4,722,800	4,829,800	4,951,000
Total Fund Balance	\$ 71,281,800	\$ 63,126,400	\$ 62,921,100	\$ 67,898,400	\$ 73,467,800

FUND BALANCES FORECAST, IN MILLIONS (\$)



Debt Management

The District has been successful in financing capital improvements through a combination of long-term and short-term financing plans. Financial tools used include General Obligation Bonds, Certificates of Participation (COPs), Build America Bonds (BABs), developer fees, and pay-as-you-go funding.

The District's primary debt management objective is to keep the level of indebtedness within available resources and within limits that will allow the District to meet the debt service coverage ratios required by the bond covenant. Bonds have been and will be used to improve existing facilities and to build the projects in the Capital Improvement Program (CIP). The District's debt service obligations have a significant effect upon the District's current and future water rates. All efforts that minimize the cost of debt have a corresponding effect that reduces water rates.

In July 2014, Standard & Poor's (S&P) affirmed the District's AA rating. At the same time, S&P revised its outlook on the District from negative to stable. The revised outlook was based on the District's improved financial performance during the previous two fiscal years, a strong liquidity position, and strong income levels in the District's service area. S&P cited the complete reliance on expensive imported potable water as a partial offset to these credit strengths.



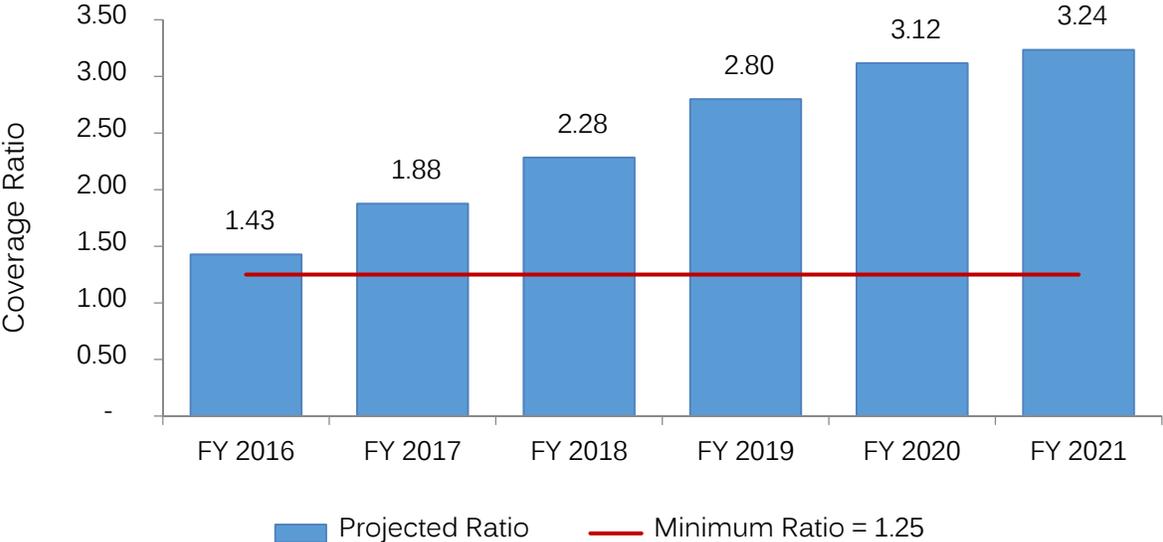
850-2 Pump Station discharge pipes feeding the distribution system

Debt Management

The District achieved a 199% actual debt coverage ratio, including growth revenues, for fiscal year 2015, which exceeded the debt covenant minimum ratio of 125%. To meet the bond indebtedness obligation and maintain stable rates, the rate model is used to forecast revenues and operating requirements. In the next six years, the District does not anticipate the need to issue new debt and expects the District's financial performance to yield strong levels prior to any debt issued. The chart below show the District's projected debt coverage ratio from FY 2016 through FY 2021. The debt coverage ratios are growing as rates are set to ensure adequate funding of the reserves.

The District's Board of Directors believes that a strong debt coverage ratio will benefit the ratepayers as it reduces the cost of water infrastructure; and therefore have been willing to support this with necessary rate increases. The District has projected a schedule of rate increases designed to generate sufficient revenue to pay off existing and planned future debt issues. See the Policies section of the budget for the District's complete Debt Policy.

PROJECTED DEBT COVERAGE RATIO



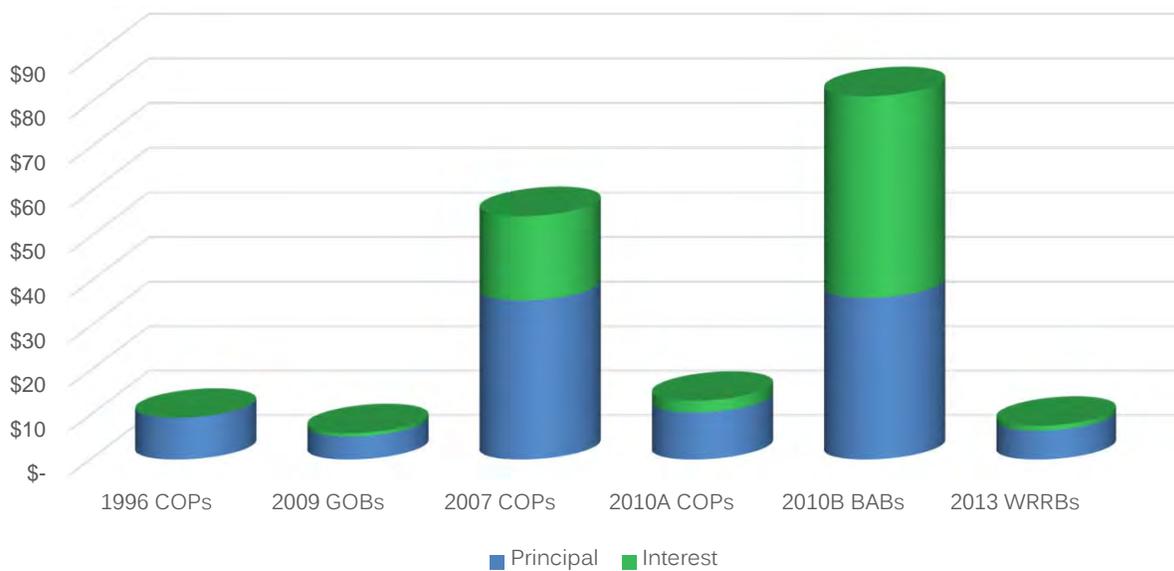
Schedule of Outstanding Debt

Year			Maturity	Original	Outstanding
# Incurred	Description		Date	Amount	Balance
					6/30/2016
1	1996	Certificates of Participation (COPs)	September 1, 2026	\$ 15,400,000	\$ 9,400,000
2	2007	Certificates of Participation (COPs)	September 1, 2036	42,000,000	5,150,000
3	2009	General Obligation (GO) Bonds	August 31, 2022	7,780,000	35,795,000
4	2010	Certificates of Participation Series A (COPs)	September 1, 2024	13,840,000	10,590,000
5	2010	Build America Bonds Series B (BABs)	September 1, 2040	36,355,000	36,355,000
6	2013	Water Revenue Refunding Bonds	September 1, 2023	7,735,000	6,470,000
Total Outstanding Debt				\$ 123,110,000	\$ 103,760,000

	All Debts	GO Bonds
Total Assessed Valuation - FY 2015	\$24,682,307,510	\$ 11,157,255,925
Percentage of Original Debt to Assessed Valuation	0.50%	0.07%
Debt Limit per District Debt Policy (% of Assessed Valuation)	15.00%	15.00%

Note: The accounting for debt proceeds and payments is described in the District's Reserve Policy.

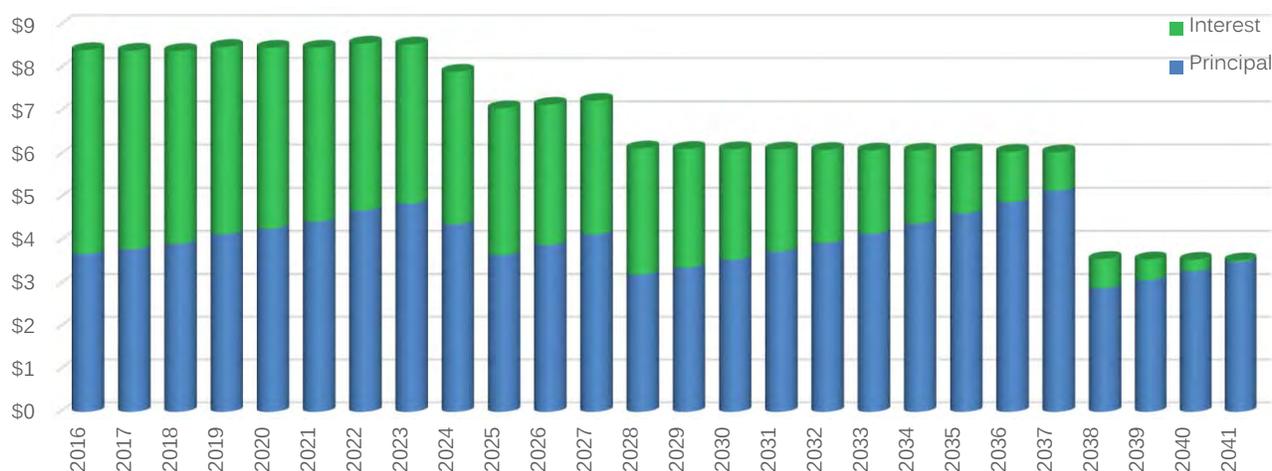
TOTAL OUTSTANDING DEBT, IN MILLIONS (\$)



Projected Principal Payments by Debt Issuance

FY	1996 COPs	2009 GOBs	2007 COPs	2010A COPs	2010B BABs	2013 WRRBs	Total
2016	600,000	570,000	1,035,000	870,000	-	615,000	3,690,000
2017	600,000	585,000	1,075,000	900,000	-	635,000	3,795,000
2018	600,000	605,000	1,115,000	940,000	-	660,000	3,920,000
2019	700,000	635,000	1,155,000	975,000	-	685,000	4,150,000
2020	700,000	650,000	1,200,000	1,015,000	-	715,000	4,280,000
2021	700,000	680,000	1,250,000	1,065,000	-	745,000	4,440,000
2022	800,000	705,000	1,300,000	1,120,000	-	775,000	4,700,000
2023	800,000	720,000	1,355,000	1,175,000	-	805,000	4,855,000
2024	900,000	-	1,410,000	1,235,000	-	835,000	4,380,000
2025	900,000	-	1,470,000	1,295,000	-	-	3,665,000
2026	1,000,000	-	1,530,000	-	1,365,000	-	3,895,000
2027	1,100,000	-	1,595,000	-	1,450,000	-	4,145,000
2028	-	-	1,665,000	-	1,545,000	-	3,210,000
2029	-	-	1,735,000	-	1,640,000	-	3,375,000
2030	-	-	1,810,000	-	1,745,000	-	3,555,000
2031	-	-	1,890,000	-	1,855,000	-	3,745,000
2032	-	-	1,970,000	-	1,975,000	-	3,945,000
2033	-	-	2,055,000	-	2,105,000	-	4,160,000
2034	-	-	2,150,000	-	2,245,000	-	4,395,000
2035	-	-	2,245,000	-	2,390,000	-	4,635,000
2036	-	-	2,340,000	-	2,550,000	-	4,890,000
2037	-	-	2,445,000	-	2,715,000	-	5,160,000
2038	-	-	-	-	2,895,000	-	2,895,000
2039	-	-	-	-	3,085,000	-	3,085,000
2040	-	-	-	-	3,290,000	-	3,290,000
2041	-	-	-	-	3,505,000	-	3,505,000
Total	\$ 9,400,000	\$ 5,150,000	\$ 35,795,000	\$ 10,590,000	\$ 36,355,000	\$ 6,470,000	\$ 103,760,000

COMBINED DEBT SERVICE THROUGH MATURITY, IN MILLIONS (\$)



Projected Interest Payments by Debt Issuance

FY	1996 COPs ⁽¹⁾	2009 GOBs	2007 COPs	2010A COPs	2010B BABs	2013 WRRBs ⁽²⁾	Total
2016	1,780	181,663	1,466,301	466,888	2,371,868	237,275	4,725,775
2017	1,660	162,969	1,425,791	431,088	2,371,868	213,033	4,606,409
2018	1,540	139,633	1,383,674	393,754	2,371,868	186,800	4,477,270
2019	1,403	114,433	1,339,316	354,988	2,371,868	159,567	4,341,575
2020	1,263	88,533	1,292,856	306,196	2,371,868	131,167	4,191,884
2021	1,123	61,533	1,243,390	253,363	2,371,868	101,567	4,032,844
2022	967	33,500	1,191,723	197,821	2,371,868	70,767	3,866,645
2023	807	4,800	1,136,760	139,529	2,371,868	38,767	3,692,531
2024	630	-	1,079,326	78,279	2,371,868	5,567	3,535,670
2025	450	-	1,019,160	11,331	2,371,868	-	3,402,810
2026	253	-	955,504	-	2,299,330	-	3,255,087
2027	37	-	888,304	-	2,207,767	-	3,096,108
2028	-	-	818,038	-	2,110,252	-	2,928,289
2029	-	-	744,796	-	2,006,679	-	2,751,475
2030	-	-	668,402	-	1,896,516	-	2,564,918
2031	-	-	588,644	-	1,779,392	-	2,368,036
2032	-	-	505,485	-	1,651,430	-	2,156,915
2033	-	-	416,609	-	1,514,409	-	1,931,018
2034	-	-	323,240	-	1,368,290	-	1,691,530
2035	-	-	225,714	-	1,212,689	-	1,438,403
2036	-	-	124,031	-	1,046,730	-	1,170,761
2037	-	-	17,828	-	869,973	-	887,801
2038	-	-	-	-	681,541	-	681,541
2039	-	-	-	-	480,724	-	480,724
2040	-	-	-	-	266,587	-	266,587
2041	-	-	-	-	38,421	-	38,421
Total	\$ 11,913	\$ 787,064	\$ 18,854,892	\$ 2,633,235	\$ 45,149,410	\$ 1,144,510	\$ 73,425,425

⁽¹⁾ Interest on the 1996 Certificates of Participation is variable and is projected using an interest rate of .02%.

⁽²⁾ The 2013 Water Revenue Refunding Bonds were an advanced refunding of the 2004 COPs, which was a refunding of the 1993 COPs.

Potable Revenues and Expenditures

POTABLE REVENUES

The District will provide water service to approximately 49,454 potable customers by the end of Fiscal Year 2016. Ninety-one percent of the potable customers are residential and the remaining nine percent are comprised of multi-residential, publicly-owned, commercial, agricultural, landscaping, and construction. With the decline in residential developments in recent years, the District expects only nominal growth of 0.33% for Fiscal Year 2016. Unit sales are anticipated to decrease 8.0% compared to the previous year's budget.

Surge Tank at the 803-2 Pump Station



Water rates vary among the customer classifications. The water rates for all customers are based on an accelerated block structure; as more units are consumed, a higher unit rate is charged on units sold in the top tiers. These unit sales represent approximately 65% of the water sales budget. Other revenue sources include: system charges, energy charges, penalties, and other pass-through charges from the San Diego County Water Authority (CWA) and the Metropolitan Water District (MWD).

All customers are required to pay fixed monthly fees, the MWD and CWA fixed charge, and the District system fee. These fixed charges are based on meter size. These fees recover 30% of the potable water sales revenue. Water rates, energy fees, and penalties recover the remaining 70% of revenues necessary to fund operations. (Note: when potable and recycled revenues are combined the fixed fees do not exceed 30% of the total revenues.)

Energy charges are based on the quantity of water used and the elevation to which the water has been lifted to provide service. Energy charges are set so as to recover the power costs associated with pumping. This charge is adjusted based on an annual review of these costs to ensure that sufficient revenue is collected to offset pumping costs.

Penalties are charged to the District customer accounts when payments are delinquent. These penalty revenues are budgeted based on historical trends.

Potable Revenues and Expenditures

POTABLE EXPENDITURES

In Fiscal Year 2016, the District estimates to purchase 28,052 acre-feet of potable water, sufficient to meet the demands of its customers. Provisions have been made for District usage, leakage, and evaporation in the amount of 1,183.3 acre-feet.

Today, the District purchases 100% of its potable water from the San Diego County Water Authority (CWA); however, in the past the District purchased only treated water through the CWA's treated water pipeline. Then in 2006, to diversify the water supply and to become less reliant on treated water from outside the region, Otay entered an agreement to purchase 10,000 acre-feet of raw water treated by neighboring Helix Water District at their Levy Water Treatment Plant. This raw water comes into the region through a CWA raw water pipeline which gives the District redundancy in water supply. The reliability is necessary to ensure water deliveries can continue in an emergency situation such as earthquakes or other natural disasters. The District's agreement also brings regional water treatment closer to our customers, which reduces dependence on water treatment facilities located outside of San Diego County. Flow Control Facility No. 14 connects the Helix Water District to Otay Water District through approximately 5 miles of 36" pipeline.

Although the District does not own a direct water supply reservoir that captures surface water, there are cooperative agreements between CWA and the other member agencies to manage water demands and supply the region in times of need.



Replacing pump at the 944 Pump Station

The member agencies and CWA reservoirs serves multiple functions including: surface water capture, seasonal shift water storage, carryover storage, local sources of emergency water supplies, system capacity buffers during peak demand periods and offers a level of security for short and long-term emergency situations. The location of each reservoir, as shown on [page 60](#), effects the extent to which it can perform the various functions, as does the individual agencies' operational plan implemented at each location.

Potable Revenues and Expenditures



The San Diego County Water Authority (CWA) purchases water for the County of San Diego from MWD and the Imperial Irrigation District (IID). Any cost increases by CWA, MWD, or IID impacts the District's water purchases and directly affects the District's fees, rates, and service charges. Beginning in late fall 2015, the Carlsbad Desalination Project, the largest and most technologically advanced seawater desalination project in the Western Hemisphere, is expected begin operations and anticipated to meet 7-10% of the region's water demand.



Operating Budget Summary - Potable

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual *	Budget	\$	%
Revenues						
Water Sales	\$ 71,272,396	\$ 71,959,100	\$ 70,281,989	\$ 69,783,700	\$ (2,175,400)	(3.0%)
Meter Fees	77,503	51,100	86,165	65,800	14,700	28.8%
Capacity Fee Revenues	1,167,405	1,150,600	1,304,598	1,134,800	(15,800)	(1.4%)
Betterment Fees for Maintenance	485,738	301,800	188,123	-	(301,800)	(100.0%)
Tax Revenues	3,580,042	3,712,100	3,769,963	3,846,300	134,200	3.6%
Non-operating Revenues	2,024,615	1,914,000	2,370,615	1,836,400	(77,600)	(4.1%)
Interest	100,023	65,400	105,264	143,000	77,600	118.7%
Total Revenues	\$ 78,707,722	\$ 79,154,100	\$ 78,106,717	\$ 76,810,000	\$ (2,344,100)	(3.0%)
Expenditures						
Potable Water Purchases	\$ 36,151,147	\$ 34,521,500	\$ 33,952,017	\$ 32,332,100	\$ (2,189,400)	(6.3%)
CWA - Infrastructure Access Charge	1,856,202	1,901,400	1,900,266	1,931,400	30,000	1.6%
CWA - Customer Service Charge	1,753,840	1,792,200	1,796,853	1,777,800	(14,400)	(0.8%)
CWA - Reliability Charge	-	-	-	950,400	950,400	100.0%
CWA - Emergency Storage Charge	4,515,596	4,741,200	4,720,701	4,681,800	(59,400)	(1.3%)
MWD - Capacity Reservation Charge	531,318	701,400	701,976	806,400	105,000	15.0%
MWD-Net RTS and Standby Charges	1,740,511	1,800,000	1,817,339	1,798,800	(1,200)	(0.1%)
Subtotal - Water Costs	\$ 46,548,614	\$ 45,457,700	\$ 44,889,152	\$ 44,278,700	\$ (1,179,000)	(2.6%)
Power	2,057,945	2,188,400	2,280,061	2,372,400	184,000	8.4%
Labor and Benefits	17,007,323	17,663,500	17,383,737	18,518,100	854,600	4.8%
Administrative Expenses	3,616,818	4,927,100	4,040,636	4,865,200	(61,900)	(1.3%)
Materials & Maintenance	1,654,641	1,921,800	1,743,396	2,168,300	246,500	12.8%
Subtotal - Operations Costs	\$ 24,336,727	\$ 26,700,800	\$ 25,447,830	\$ 27,924,000	\$ 1,223,200	4.6%
Expansion Reserve	3,418,000	-	-	-	-	(100.0%)
Betterment Reserve	-	2,805,000	2,805,000	-	(2,805,000)	(100.0%)
Replacement Reserve	-	675,000	675,000	2,493,900	1,818,900	269.5%
Transfer to Sewer General Fund	152,800	553,800	553,800	-	(553,800)	(100.0%)
Transfer to OPEB	1,114,600	546,000	546,000	914,100	368,100	67.4%
Transfer to General Fund Reserve	1,913,000	1,583,800	1,583,800	-	(1,583,800)	(100.0%)
Transfer to Sewer Replacement	-	127,000	127,000	1,199,300	1,072,300	844.3%
Transfer to New Supply Fund	-	705,000	705,000	-	(705,000)	(100.0%)
Subtotal - Reserve Funding	\$ 6,598,400	\$ 6,995,600	\$ 6,995,600	\$ 4,607,300	\$ (2,388,300)	(34.1%)
Total Expenditures	\$ 77,483,741	\$ 79,154,100	\$ 77,332,582	\$ 76,810,000	\$ (2,344,100)	(3.0%)
Excess Revenues (Expenditures)	\$ 1,223,981	\$ -	\$ 774,135	\$ -	\$ -	

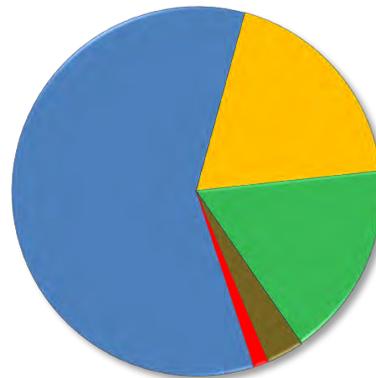
* Actual unaudited

Classification of Water Sales - Potable

	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual*	Budget	Budget	\$	%
Water Sales	\$ 44,025,774	\$ 45,669,500	\$ 41,344,900	\$ (4,324,600)	-9.5%
System Fees	12,380,370	12,337,500	13,292,300	954,800	7.7%
Energy Fees	2,134,865	2,145,600	2,311,300	165,700	7.7%
MWD and CWA Fixed Fees	10,846,411	10,936,200	11,946,600	1,010,400	9.2%
Penalties	894,569	870,300	888,600	18,300	2.1%
Total Water Sales	\$ 70,281,989	\$ 71,959,100	\$ 69,783,700	\$ (2,175,400)	-3.0%

FY 2016 CLASSIFICATION OF WATER SALES

Water Sales	\$ 41,344,900	59.0%
System Charges	13,292,300	19.0%
Energy Charges	2,311,300	3.0%
MWD and CWA Fixed Charges	11,946,600	17.0%
Penalties	888,600	2.0%
Total Water Sales	\$ 69,783,700	100.0%



Water Rates: Rates vary among classes of service and are charged per unit of water. A unit of water is equal to 100 cubic feet of water. On January 1, 2009, the District implemented a tiered rate structure for all customer types to encourage conservation and bring equity among the classes.

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.

Energy Fees: The energy pumping fee is \$.072 per 100 cubic feet of water for each 100 feet of lift above the elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

MWD and CWA Fixed Fees: These pass-through charges are calculated to recover the MWD's and CWA's fixed annual costs including the construction, operation and maintenance of aqueducts, and emergency storage projects. These fixed charges are based on the size of the meter.

Penalties: Charges and penalties are imposed on customer accounts for late payments and returned checks.

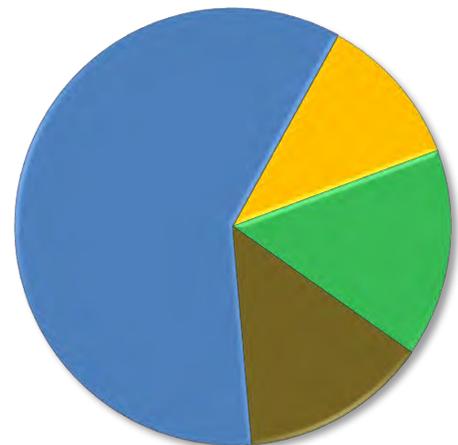
Water Sales Summary by Service Class - Potable

	Water Rates		Number of Accounts	FY 2016 Sales Budget	
	Current	Approved*		Units	Amount
Residential			45,025	6,954,400	\$ 23,198,800
Conservation Tier (< 5 hcf)	\$ 1.95	\$ 1.99			
6 - 10	3.04	3.10			
11 - 22	3.95	4.03			
over 23 hcf	6.08	6.20			
Master Meter			862	1,326,700	4,631,000
0 - 4	3.00	3.06			
5 - 9	3.89	3.96			
over 10 hcf	6.00	6.12			
Public and Commercial			1,469	1,802,500	5,895,300
Tier I	3.21	3.27			
Tier II	3.26	3.32			
Tier III	3.31	3.37			
Agriculture, Landscaping, and Construction			1,348	1,620,500	7,176,300
Tier I	4.37	4.45			
Tier II	4.42	4.50			
Tier III	4.47	4.56			
Total			48,704	11,704,100	\$ 40,901,400
Government Fee	0.32	0.37	-	-	443,500
Total Water Sales			48,704	11,704,100	\$ 41,344,900

*Approved rates for water billed beginning in January 2016.

FY 2016 UNIT SALES BY SERVICE CLASS

■ Residential	6,954,400	60%
■ Master Meter	1,326,700	10%
■ Public and Commercial	1,802,500	20%
■ Agricultural and Landscaping	1,620,500	10%
Total Water Sales	11,704,100	100%



Unit Sales History and Meter Count by Customer Class - Potable

Unit Sales History (in hcf)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual					Budget
Residential	\$ 7,486,069	\$ 7,507,214	\$ 7,836,873	\$ 8,050,828	\$ 7,248,930	\$ 6,954,400
Master Meters	1,389,616	1,409,515	1,495,057	1,536,902	1,482,502	1,326,700
Public and Commercial	1,771,396	1,859,571	2,031,253	2,056,075	2,049,294	1,802,500
Agricultural and Landscaping	1,537,304	1,581,243	1,723,839	1,931,856	1,795,230	1,529,900
Temporary and Fire Services	179,472	153,351	102,020	144,458	168,469	90,600
Total Unit Sales	\$ 12,363,857	\$ 12,510,894	\$ 13,189,042	\$ 13,720,119	\$ 12,744,425	\$ 11,704,100

Meter Count

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual					Budget
Residential	43,903	44,396	44,670	44,826	44,941	45,025
Master Meters	797	799	800	798	806	862
Public and Commercial	1,434	1,433	1,493	1,449	1,453	1,470
Agricultural and Landscaping	1,223	1,227	1,227	1,229	1,227	1,228
Temporary and Fire Services	797	810	772	846	881	869
Total Meter Count	48,154	48,665	48,962	49,148	49,308	49,454

UNIT SALES IN THOUSANDS AND METER COUNT TRENDS

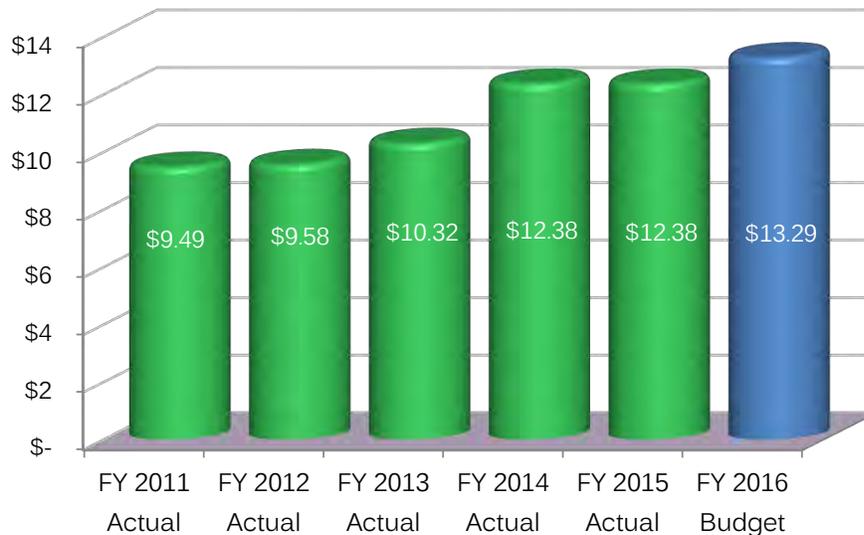


System Fees - Potable

Meter	FY 2016	Current	Approved*	FY 2015	FY 2016	Budget to Budget Variance	
Size	Meter Count	Rates	Rates	Budget	Budget	\$	%
All Service Types							
0.75	43,794	\$ 19.39	\$ 18.91	\$ 9,340,100	\$ 10,046,600	\$ 706,500	7.56%
1.00	2,433	27.39	26.71	725,600	789,800	64,200	8.85%
1.50	940	47.40	46.22	491,400	527,800	36,400	7.41%
2.00	1,082	71.39	69.61	850,500	915,400	64,900	7.63%
3.00	75	135.41	132.02	107,300	118,800	11,500	10.72%
4.00	184	207.43	202.24	405,600	450,000	44,400	10.95%
6.00	16	407.50	397.31	71,800	77,300	5,500	7.66%
8.00	3	647.56	631.37	21,400	23,000	1,600	7.48%
10.00	5	927.63	904.44	51,100	55,000	3,900	7.63%
Sub-total	48,532			12,064,800	13,003,700	938,900	7.78%
Fire Services							
0.63	691	25.32	24.69	190,700	207,300	16,600	8.70%
0.75	9	25.32	24.69	2,500	2,700	200	8.00%
1.00	26	25.32	24.69	7,500	7,800	300	4.00%
2.00	16	25.32	24.69	6,000	4,800	(1,200)	-20.00%
3.00	-	25.32	24.69	-	-	-	
4.00	-	34.12	33.27	-	-	-	
10.00	-	34.12	33.27	-	-	-	
Sub-total	742			206,700	222,600	15,900	7.69%
Turn Over Fees		10.00	10.00	66,000	66,000	-	
Total	49,274			\$ 12,337,500	\$ 13,292,300	\$ 954,800	7.74%

*Approved rates for water billed beginning in January 2016.

HISTORICAL SYSTEM FEES, IN MILLIONS (\$)



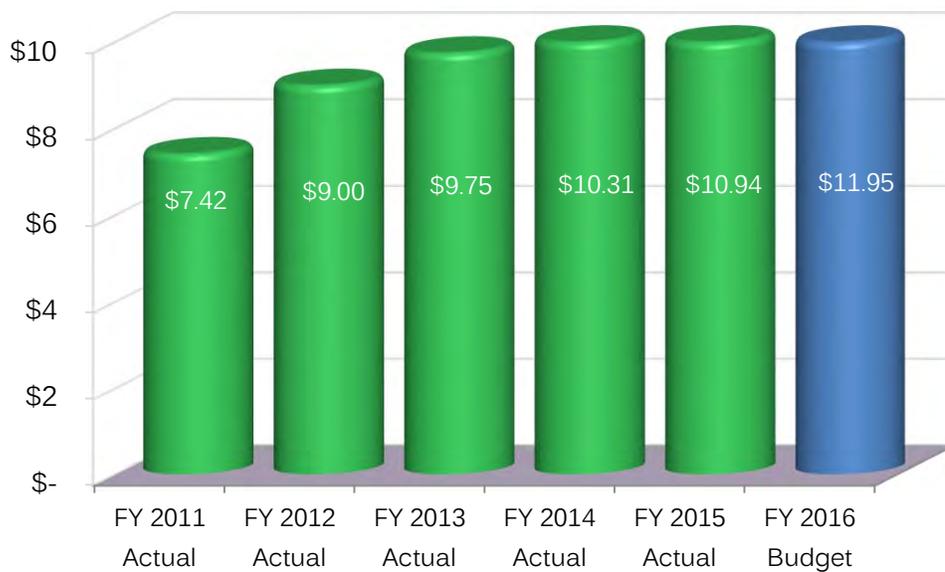
MWD and CWA Fixed Fees (Pass-Through) - Potable

Meter Size	FY 2016 Meter Count	Current Rates	Approved* Rates	FY 2015 Budget	FY 2016 Budget	Budget to Budget Variance	
						\$	%
0.75	43,796	\$ 13.67	\$ 16.84	\$ 7,379,700	\$ 8,004,300	\$ 624,600	8.46%
1.00	2,572	25.35	31.24	749,900	873,300	123,400	16.46%
1.50	935	57.35	70.66	662,200	717,800	55,600	8.40%
2.00	1,083	97.53	120.17	1,300,000	1,414,600	114,600	8.82%
3.00	76	207.44	255.60	184,300	208,800	24,500	13.29%
4.00	98	332.20	409.32	387,600	432,200	44,600	11.51%
6.00	16	680.02	837.89	134,300	145,700	11,400	8.49%
8.00	3	1,098.15	1,353.09	40,700	44,100	3,400	8.35%
10.00	5	1,580.67	1,947.62	97,500	105,800	8,300	8.51%
Total	48,584			\$ 10,936,200	\$ 11,946,600	\$ 1,010,400	9.24%

*Approved rates for water billed beginning in January 2016.

Note: Construction Meters, Fire Services, and Recycled Meters are exempt from MWD and CWA Fixed Fees.

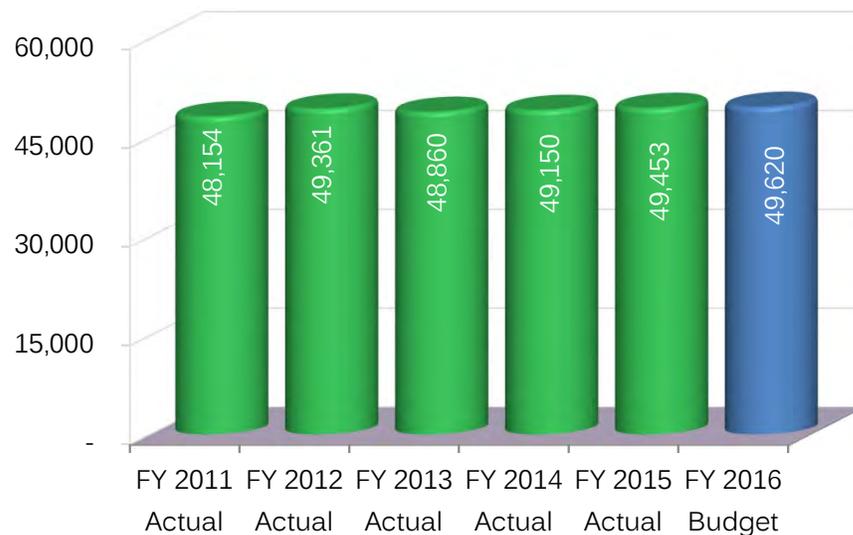
HISTORICAL MWD AND CWA FIXED FEES, IN MILLIONS (\$)



Meter Fees - Potable

Meter Size	Meter Sales	Installation Fee	Meter Fee	Total Fees	Budgeted Amount
0.75	162	\$ 102.56	\$ 216.13	\$ 318.69	\$ 51,600
1.00	-	102.56	278.89	381.45	-
1.50	1	102.56	453.31	555.87	600
2.00	-	102.56	649.55	752.11	-
3.00	2	617.51	2,024.25	2,641.76	5,300
4.00	2	617.51	3,515.80	4,133.31	8,300
6.00	-	975.40	6,072.73	7,048.13	-
8.00	-	1,495.69	7,587.43	9,083.12	-
10.00	-	1,495.69	10,912.14	12,407.83	-
Total	<u>167</u>				<u>\$ 65,800</u>

HISTORICAL METER COUNT

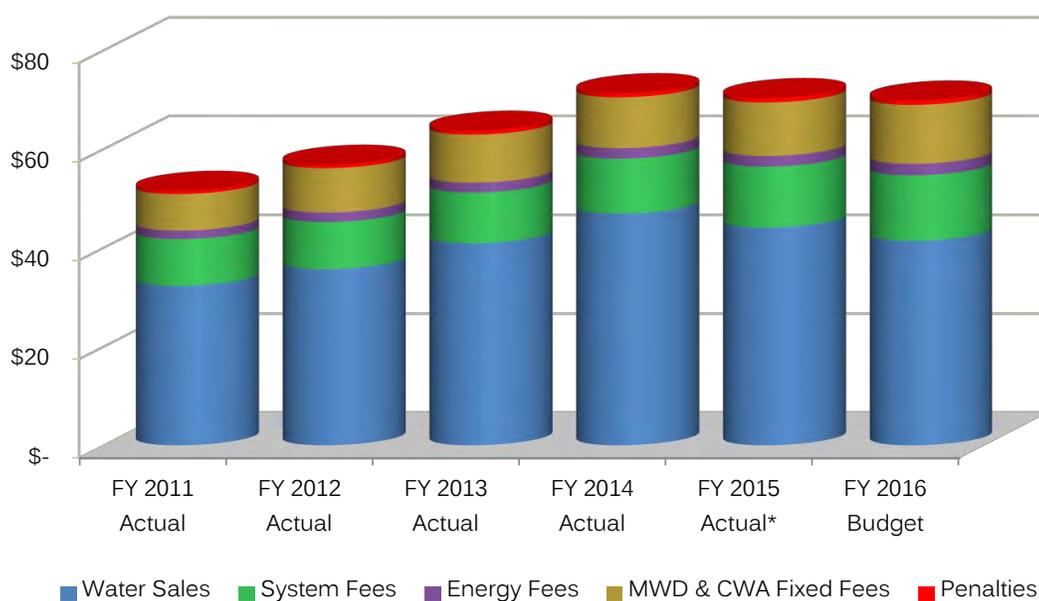


Meter Fees: Charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Revenue History - Potable

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015*	FY 2016
	Actual					Budget
Water Sales	\$ 32,236,451	\$ 35,615,558	\$ 40,845,630	\$ 46,856,253	\$ 44,025,774	\$ 41,344,900
System Fees	9,490,904	9,583,563	10,315,199	11,152,291	12,380,370	13,292,300
Energy Fees	1,693,186	1,881,776	1,964,062	2,114,844	2,134,865	2,311,300
MWD and CWA Fixed Fees	7,421,386	9,000,267	9,747,977	10,309,983	10,846,411	11,946,600
Penalties	665,931	703,081	796,426	839,025	894,569	888,600
Total Potable Revenues	\$ 51,507,858	\$ 56,784,245	\$ 63,669,294	\$ 71,272,396	\$ 70,281,989	\$ 69,783,700

REVENUE HISTORY - POTABLE, IN MILLIONS (\$)



*Actual unaudited

Water Purchases and Related Costs - Potable

FY 2015 Actual*	FY 2016 Budget	FY 2015 Actual*	FY 2016 Budget	Budget to Budget Variance	
Acre Feet		Purchase Costs		\$	%

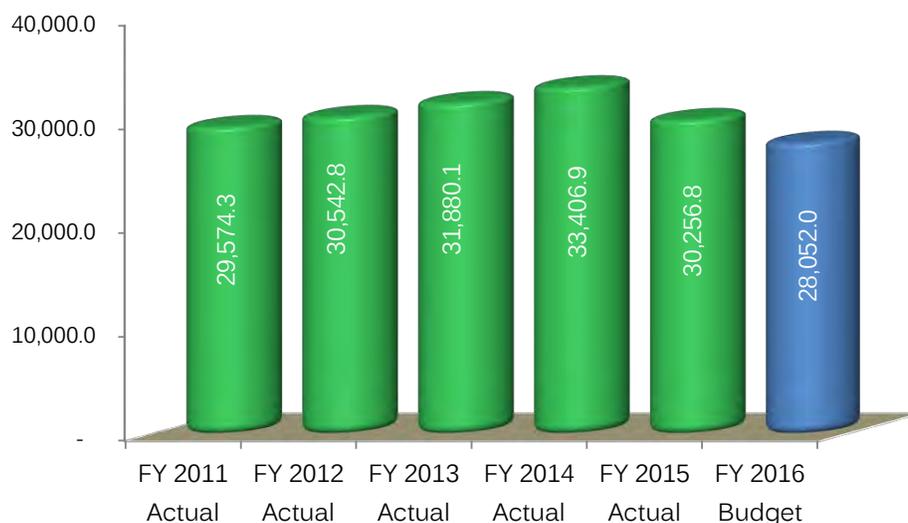
Potable Water Purchases (CWA):

Rate Effective January			\$ 1,143.00	\$ 1,165.00	\$ 22	1.9%
Budgeted Sales	29,529.4	26,868.7	\$ 32,967,241	\$ 30,968,000	\$ (1,999,241)	-6.1%
District & Unbilled Usage	126.3	61.2	141,004	70,800	(70,204)	-49.8%
Water Loss	643.2	1,122.1	745,071	1,293,300	548,229	73.6%
Budgeted Sales Treatment (CSD)	-	-	98,700	-	(98,700)	-100.0%
Less: Potable Supplement	(42.1)		(46,436)	-	46,436	-100.0%
Total Variable Charges	30,256.8	28,052.0	\$ 33,905,580	\$ 32,332,100	(1,573,480)	-4.6%

CWA and MWD Fixed Charges:

CWA - Infrastructure Access Charge			\$ 1,900,266	\$ 1,931,400	\$ 31,134	1.6%
CWA - Customer Service Charge			1,796,853	1,777,800	(19,053)	-1.1%
CWA - Emergency Storage Charge			4,720,701	4,681,800	(38,901)	-0.8%
CWA - Reliability Fixed Charge			-	950,400	950,400	100.0%
MWD - Capacity Reservation Charge			701,976	806,400	104,424	14.9%
MWD - Readiness-to-Serve Charge			1,817,339	1,798,800	(18,539)	-1.0%
Total Fixed Charges			\$ 10,937,135	\$ 11,946,600	\$ 1,009,465	9.2%
Total Variable and Fixed Charges			\$ 44,842,715	\$ 44,278,700	\$ (564,015)	-1.3%
Average Cost Per Acre-Foot			\$ 1,482	\$ 1,578		

HISTORICAL POTABLE WATER PURCHASES, IN ACRE-FEET



*Actual unaudited

Power Costs - Potable

	FY 2013	FY 2014	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Actual	Actual*	Budget	\$	%
Administrative Buildings	164,785	\$ 179,919	\$ 216,744	\$ 225,700	\$ 8,956	4.1%
Potable Transmission	1,610,428	1,878,026	2,063,318	2,146,700	83,382	4.0%
Total Potable Power Costs	\$ 1,775,213	\$ 2,057,945	\$ 2,280,062	\$ 2,372,400	\$ 92,338	4.0%

HISTORICAL POWER COSTS, IN THOUSANDS (\$)



*Actual unaudited

Administrative Expenditures - Potable

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Administrative Expenditures						
Directors' Fees	\$ 19,834	\$ 30,000	\$ 20,382	\$ 30,000	\$ -	-
Travel and Meetings	147,068	207,700	158,205	214,400	6,700	3.2%
Conservation and Outreach	136,743	174,900	144,026	176,900	2,000	1.1%
General Office Expense	258,732	280,800	257,756	284,700	3,900	1.4%
Equipment	942,826	1,133,300	1,230,413	1,106,500	(26,800)	(2.4%)
Fees	489,867	498,700	481,243	1,056,900	558,200	111.9%
Services	1,286,792	2,042,300	1,526,937	2,224,600	182,300	8.9%
Training	65,818	123,500	77,232	99,000	(24,500)	(19.8%)
Utilities	12,929	14,000	14,184	14,900	900	6.4%
General Expenses	844,099	1,041,000	821,303	250,000	(791,000)	(76.0%)
Bad Debt Expense	149,364	148,000	91,269	148,000	-	0.0%
Subtotal before Overhead	\$ 4,354,072	\$ 5,694,200	\$ 4,822,950	\$ 5,605,900	\$ (88,300)	(1.6%)
Less: Overhead Allocation	(737,254)	(767,100)	(782,314)	(740,700)	26,400	(3.4%)
Total Expenditures	\$ 3,616,818	\$ 4,927,100	\$ 4,040,636	\$ 4,865,200	\$ (61,900)	(1.3%)

FY 2016 ADMINISTRATIVE EXPENDITURES - POTABLE

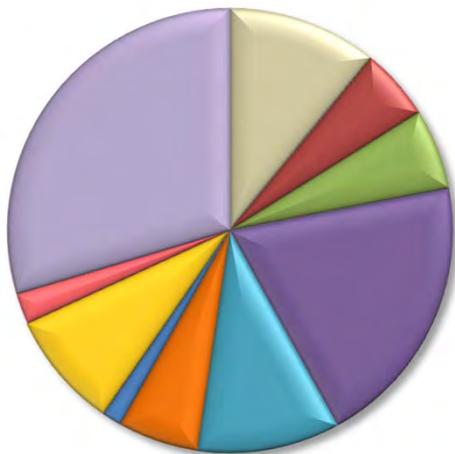


* Actual unaudited

Materials and Maintenance Expenditures - Potable

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Materials and Maintenance						
Fuel and Oil	187,861	\$ 289,300	\$ 184,027	235,600	\$ (53,700)	(18.6%)
Meters and Materials	63,345	113,100	110,956	113,100	-	0.0%
Fleet Parts and Equipment	111,271	128,400	118,367	127,400	(1,000)	(0.8%)
Infrastructure Equipment & Supplies	358,877	367,900	358,197	433,500	65,600	17.8%
Chemicals	208,743	223,500	190,169	225,500	2,000	0.9%
Safety Equipment	31,888	41,300	39,343	126,300	85,000	205.8%
Laboratory Equipment and Supplies	35,057	35,000	34,655	31,000	(4,000)	(11.4%)
Other Materials and Supplies	126,227	126,300	173,865	185,200	58,900	46.6%
Building and Grounds Materials	55,608	46,500	55,375	47,900	1,400	3.0%
Contracted Services	475,764	550,500	478,442	642,800	92,300	16.8%
Total Expenditures	\$ 1,654,641	\$ 1,921,800	\$ 1,743,396	\$ 2,168,300	\$ 246,500	12.8%

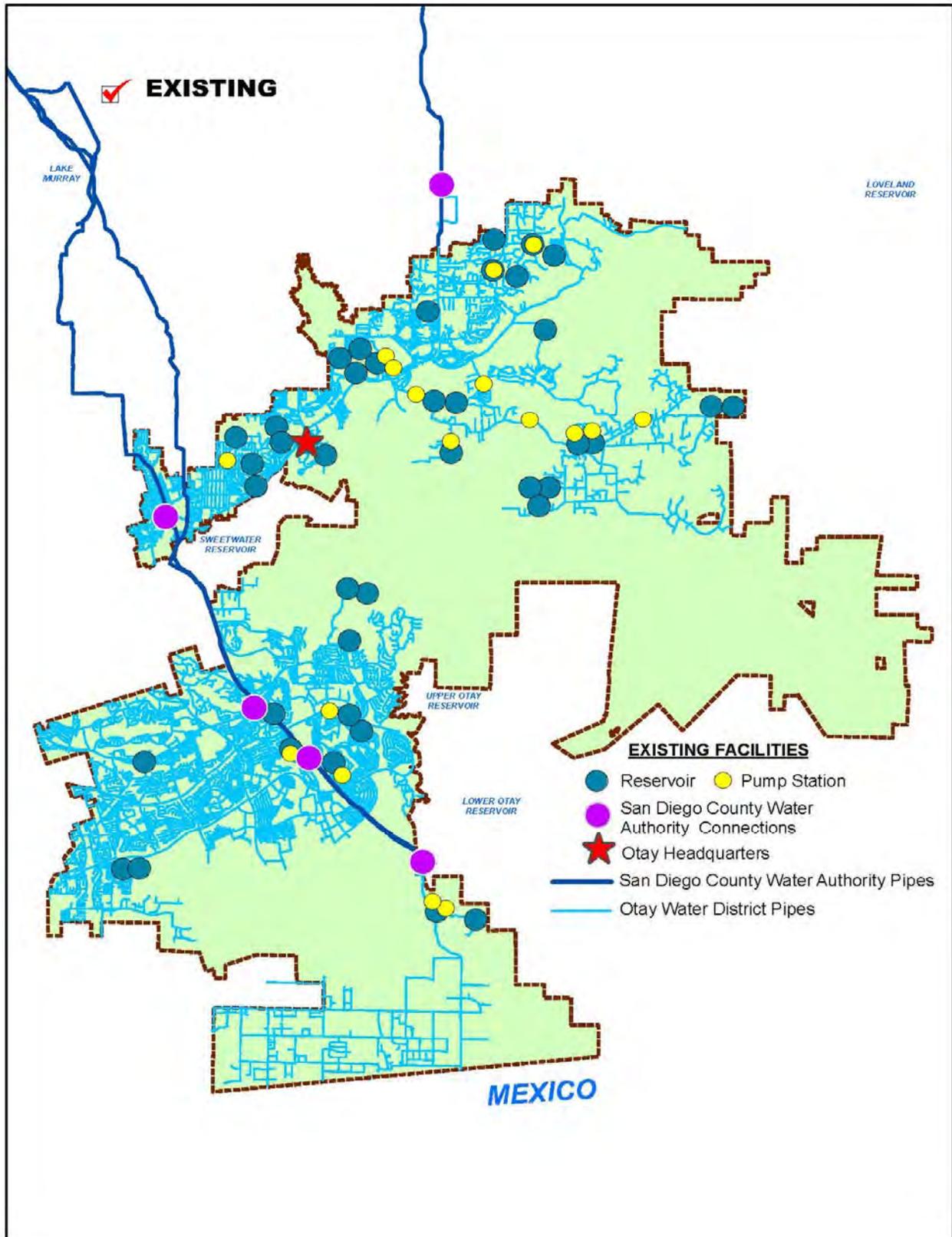
FY 2016 MATERIALS AND MAINTENANCE EXPENDITURES - POTABLE



Fuel and Oil	\$ 235,600	10.9%
Meters and Materials	113,100	5.2%
Fleet Parts and Equipment	127,400	5.9%
Infrastructure Equipment and Supplies	433,500	20.0%
Chemicals	225,500	10.4%
Safety Equipment	126,300	5.8%
Laboratory Equipment and Supplies	31,000	1.4%
Other Materials and Supplies	185,200	8.5%
Building and Grounds Materials	47,900	2.2%
Contracted Services	642,800	29.7%
	\$ 2,168,300	100.0%

* Actual unaudited

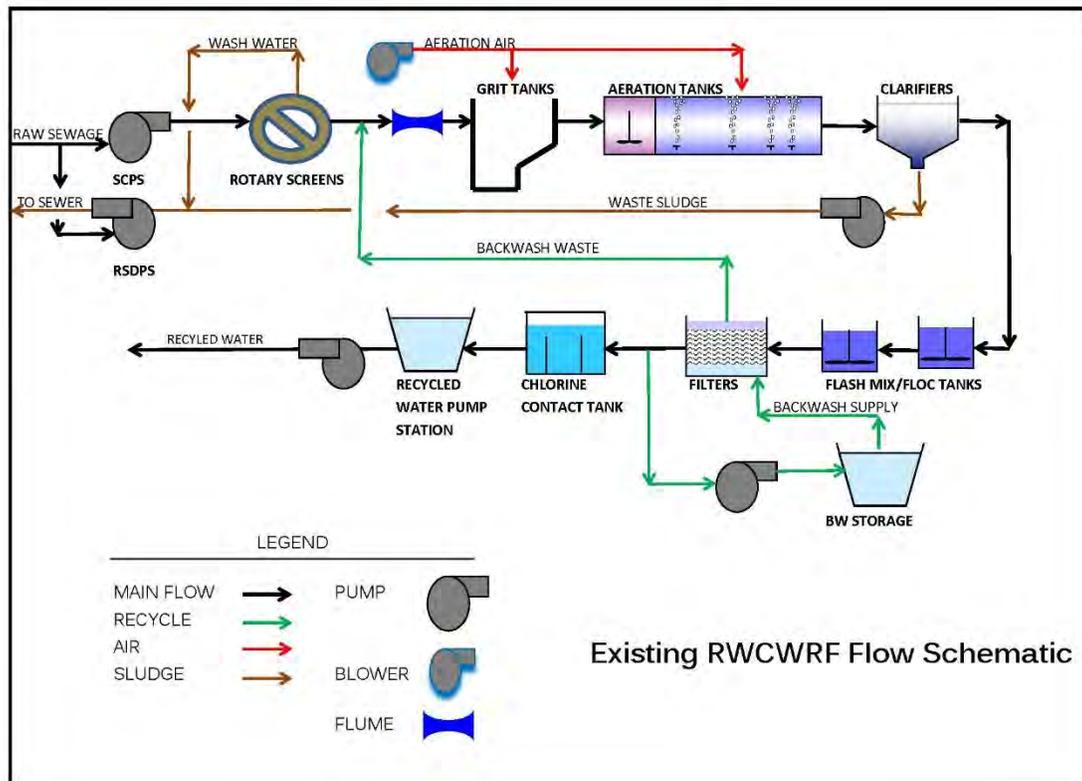
Potable Water Service Area



Recycled Revenues and Expenditures

In 1980, the District began operation of the Ralph W. Chapman Water Recycling Facility (RWCWRF). The RWCWRF plant is capable of recycling wastewater at the rate of 1.3 million gallons per day (MGD) to augment water supplies for irrigation purposes only. The treatment process consists of primary, secondary, and tertiary treatment. The facility's conversion time to treat raw sewage to full Title 22 recycled water is approximately 20 hours.

The steps of the water recycling process are as follows:



PRIMARY TREATMENT

The raw sewage flows in at the rotary screen, also known as the “headworks” which removes a large amount of coarse organic and inorganic material that is either floating or in suspension. This is followed by a grit chamber, which removes the heavy settled material.

SECONDARY TREATMENT

This is where the biological treatment begins. The first step takes place in the aeration tanks, also known as reactors or sedimentation basins, which contain bacteria that feed on the organic material in sewage. These bacteria are aerobic, and therefore require a great quantity of pumped-in air to help them thrive. The second step in the process is clarification where the sludge from the aeration tanks is allowed to settle to the bottom and the clear liquid, or secondary effluent, flows out over weirs at the surface. Some of the settled sludge is disposed of and some is returned to the aeration

Recycled Revenues and Expenditures

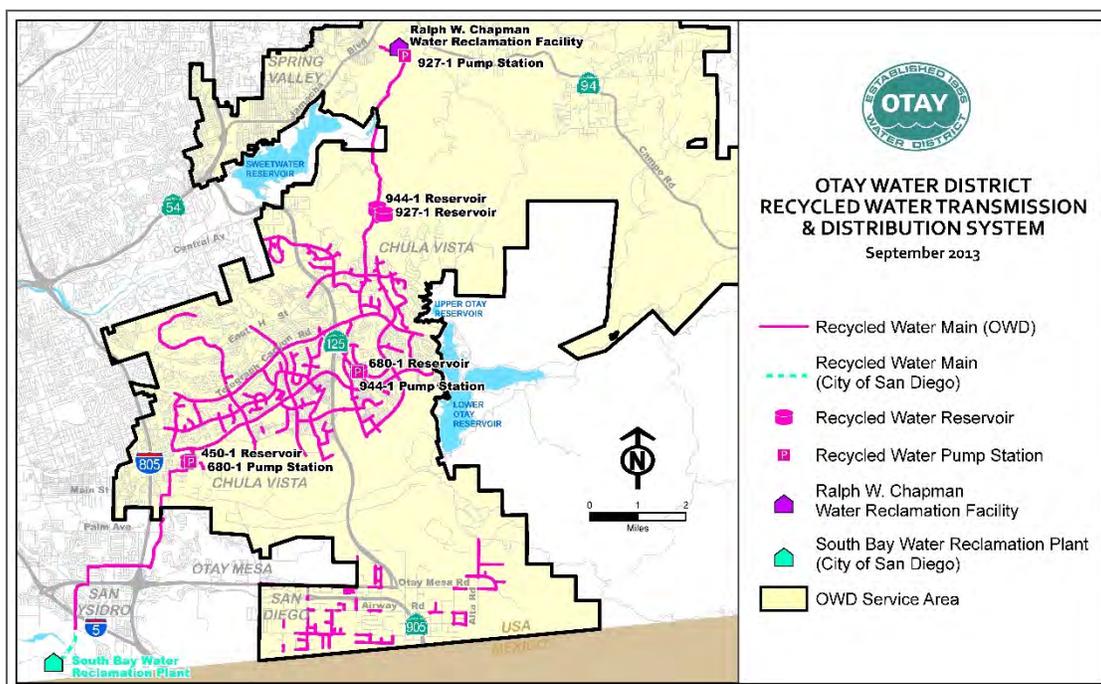
tanks to keep the process in balance. The secondary effluent flowing over the weirs is now ready for the next step. Solids, screenings, and sludge are discharged to the City of San Diego Metropolitan Wastewater (Metro) system.

TERTIARY TREATMENT

Just before filtration, a small amount of coagulant is added as a filter aid which helps suspended material in the secondary effluent “clump” on the surface of the filters. The filters consist of a layer of sand with a layer of anthracite coal on top. As the fluid moves through the filters, the flow goes through a chlorine contact chamber where disinfection takes place, completing the process of recycling wastewater into recycled water.

The District entered an agreement with the City of San Diego in October 2003, to purchase up to six million gallons a day of recycled water from their South Bay Water Reclamation Plant (SBWRP). To bring this plan to fruition, the District constructed a 30-inch six mile pipeline, a 12 million gallon reservoir, and a pump station to bring this new source of recycled water into the District’s system. These projects were completed in spring 2007 which eliminated the need for a potable supplement into the recycled system. The benefits of this to the region as a whole are great, as less demand on the potable system will be made, reducing future capacity and storage requirements. The \$42 million investment in capital outlay results in a significant reduction of water purchase costs and an increase in system reliability. The District expects that 11.6 percent of its total water demand will be met using recycled water.

Both the RWCWRF plant, owned and operated by the District, and the SBWRP plant, owned and operated by the City of San Diego, supply the District’s recycled distribution system, as shown in the diagram below.



Recycled Revenues and Expenditures

The District operates the largest recycled water distribution system in San Diego County and will supply approximately 2,906.4 acre-feet of recycled water to 706 landscaping and construction customers by the end of Fiscal Year 2016. The recycled water customer base consists primarily of irrigation at golf courses, schools, parks, and open space. The geographic area of this water use includes Eastlake, Otay Ranch, Rancho Del Rey, and other areas of eastern Chula Vista.

Producing and distributing recycled water is costly. To help offset the costs of supplying alternative water sources, both CWA and MWD offer incentive programs. In Fiscal Year 1991, the District signed agreements with CWA and MWD to take advantage of the programs they offered. A second agreement was signed in 2000. In 2005, the District agreed to terminate both agreements and entered into a new agreement which allows the District to maximize its ability to earn incentives and to simplify the grant requirements. Currently, the District receives \$200 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.



927-1 Recycled Water Reservoir

Operating Budget Summary - Recycled

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual *	Budget	\$	%
Revenues						
Recycled Water Sales	\$ 10,014,767	\$ 8,826,600	\$ 8,853,010	\$ 9,116,000	\$ 289,400	3.3%
Meter Fees	962	400	4,081	400	-	0.0%
Interest	16,001	7,400	14,608	6,300	(1,100)	(14.9%)
General Fund Draw Down	61,600	-	-	-	-	0.0%
Total Revenues	\$ 10,093,330	\$ 8,834,400	\$ 8,871,699	\$ 9,122,700	\$ 288,300	3.3%
Expenditures						
Recycled Water Purchases	1,661,887	1,601,500	1,360,807	1,705,800	104,300	6.5%
Power	591,883	469,400	600,799	563,600	94,200	20.1%
Labor and Benefits	1,205,253	1,181,800	1,258,945	1,181,600	(200)	(0.0%)
Administrative Expenses	298,562	285,600	290,362	321,800	36,200	12.7%
Materials & Maintenance	282,827	295,900	270,990	287,800	(8,100)	(2.7%)
Subtotal - Operations Costs	\$ 4,040,412	\$ 3,834,200	\$ 3,781,903	\$ 4,060,600	\$ 226,400	5.9%
Expansion Reserve	10,000	2,538,900	2,538,900	2,695,800	156,900	6.2%
Betterment Reserve	125,000	725,000	725,000	1,945,000	1,220,000	168.3%
Replacement Reserve	4,230,000	1,679,000	1,679,000	328,000	(1,351,000)	(80.5%)
Transfer to OPEB	66,900	57,300	57,300	58,300	1,000	1.7%
Transfer to New Supply Fund	-	-	-	35,000	35,000	100.0%
Subtotal - Reserve Funding	\$ 4,431,900	\$ 5,000,200	\$ 5,000,200	\$ 5,062,100	\$ 61,900	1.2%
Total Expenditures	\$ 8,472,312	\$ 8,834,400	\$ 8,782,103	\$ 9,122,700	\$ 288,300	3.3%
Excess Revenues/Expenditures	\$ 1,681,554	\$ -	\$ 89,596	\$ -	\$ -	

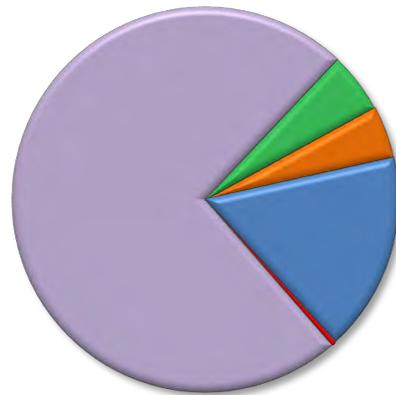
* Actual unaudited

Classification of Water Sales - Recycled

	FY 2015*	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Budget	\$	%
Water Sales	\$ 6,412,122	\$ 6,506,000	\$ 6,694,500	\$ 188,500	2.9%
System Fees	431,121	438,600	464,300	25,700	5.9%
Energy Fees	369,302	322,300	399,200	76,900	23.9%
MWD and CWA Rebates	1,611,764	1,522,800	1,522,900	100	0.0%
Penalties	28,701	36,900	35,100	(1,800)	-4.9%
Total Recycled Water Sales	\$ 8,853,010	\$ 8,826,600	\$ 9,116,000	\$ 289,400	3.3%

FY 2016 CLASSIFICATION OF WATER SALES

Water Sales	\$ 6,694,500	73%
System Charges	464,300	5%
Energy Charges	399,200	4%
MWD and CWA Rebates	1,522,900	17%
Penalties	35,100	1%
Total	\$ 9,116,000	100%



Water Rates: Rates vary among classes of service and are charged per unit of water. A unit of water is equal to 100 cubic feet of water. On January 1, 2009, the District implemented a tiered rate structure for all customer types to encourage conservation and bring equity among the classes.

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.

Energy Fees: The energy pumping fee is \$.072 per 100 cubic feet of water for each 100 feet of lift above the elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

MWD and CWA Rebates: Incentive from MWD and CWA for providing recycled water. The District receives \$200 from CWA and \$185 from MWD for every acre-foot (AF) of recycled water sold.

Penalties: Charges and penalties are imposed on customer accounts for late payments and returned checks.

*Actual unaudited

Water Sales Summary by Meter Size - Recycled

	Water Rates		Fiscal Year 2016 Sales Budget		
	Current	Approved*	Accounts	Units	Amount
Recycled .75" and 1.0" Meter			101	49,300	\$ 186,900
0 - 32 units	\$ 3.73	\$ 3.80			
33 - 75 units	3.79	3.86			
over 76 units	3.84	3.91			
Recycled 1.5" and 2.0" Meter			591	1,253,400	4,820,000
0 - 130 units	3.73	3.80			
131 - 325 units	3.79	3.86			
over 326 units	3.84	3.91			
Recycled 3.0" and 4.0" Meter			11	87,100	329,800
0 - 440 units	3.73	3.80			
441 - 1,050 units	3.79	3.86			
over 1,051 units	3.84	3.91			
Recycled more than 6.0" Meter			1	214,700	819,800
0 - 4,000 units	3.73	3.80			
4,001 - 10,000 units	3.79	3.86			
over 10,000 units	3.84	3.91			
Recycled Commercial <10" Meter			1	67,000	185,500
0 - 440 units	2.72	2.77			
441 - 1,050 units	2.77	2.82			
over 1,051 units	2.81	2.86			
Recycled Commercial >10" Meter			1	51,600	142,700
0 - 4,000 units	2.72	2.77			
4,001 - 10,000 units	2.77	2.82			
over 10,000 units	2.81	2.86			
Total			706	1,723,100	\$ 6,484,700
Government Fee	0.32	0.34	-	-	209,800
Total Water Sales			706	1,723,100	\$ 6,694,500

*Approved rates for water billed beginning in January 2016.

Unit Sales History and Meter Count by Customer Class - Recycled

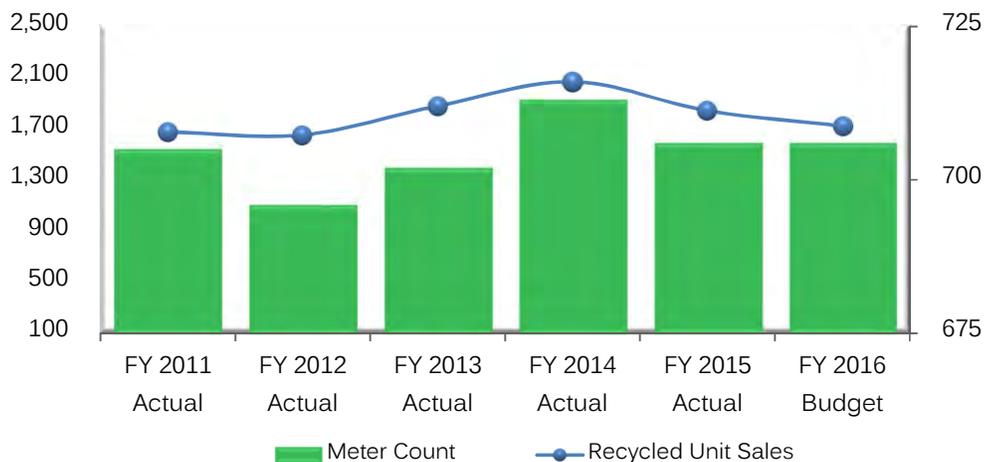
Unit Sales History (in hcf)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual					Budget
Recycled .75" & 1.0" Meter	46,328	47,699	59,698	68,523	63,142	49,300
Recycled 1.5" & 2.0" Meter	1,220,953	1,201,012	1,366,238	1,474,879	1,365,116	1,253,400
Recycled 3.0" & 4.0" Meter	74,444	93,899	100,991	134,386	103,125	87,100
Recycled > 6.0" Meter	333,866	310,223	352,023	390,542	192,003	214,700
Recycled Commercial<10" Meter	-	-	-	-	67,010	67,000
Recycled Commercial>10" Meter	-	-	-	-	51,560	51,600
Total Unit Sales	1,675,591	1,652,833	1,878,950	2,068,330	1,841,956	1,723,100

Meter Count

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual					Budget
Recycled .75" & 1.0" Meter	95	101	103	100	101	101
Recycled 1.5" & 2.0" Meter	576	581	587	588	590	591
Recycled 3.0" & 4.0" Meter	11	11	11	11	11	11
Recycled > 6.0" Meter	4	3	3	3	1	1
Recycled Commercial<10" Meter	-	-	-	-	1	1
Recycled Commercial>10" Meter	-	-	-	-	1	1
Total Meter Count	686	696	704	702	705	706

UNIT SALES IN THOUSANDS (\$) AND METER COUNT TRENDS

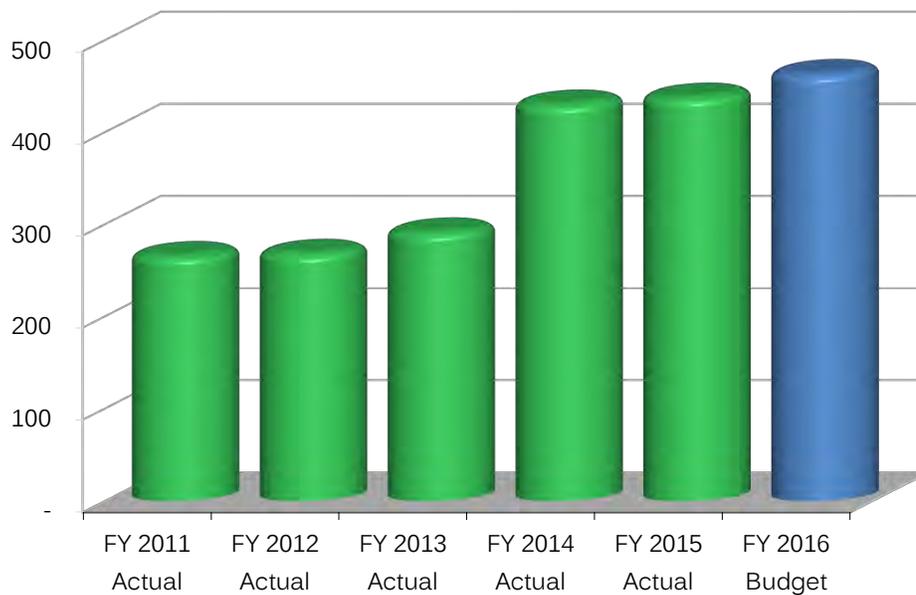


System Fees - Recycled

Meter	Meter Count	Current	Approved*	FY 2015	FY 2016	Budget to Budget Variance	
Size	Budget	Rates	Rates	Actual	Budget	\$	%
0.75	2	\$ 19.39	\$ 18.91	\$ 400	\$ 500	\$ 100	25.0%
1.00	99	27.39	26.71	30,200	32,100	1,900	6.3%
1.50	396	47.40	46.22	206,700	222,400	15,700	7.6%
2.00	195	71.39	69.61	153,300	165,000	11,700	7.6%
3.00	4	135.41	132.02	6,000	6,400	400	6.7%
4.00	7	207.43	202.24	18,300	17,200	(1,100)	-6.0%
6.00	2	407.50	397.31	13,500	9,700	(3,800)	-28.1%
8.00	-	647.56	631.37	-	-	-	0.0%
10.00	1	927.63	904.44	10,200	11,000	800	7.8%
Total	706			\$ 438,600	\$ 464,300	\$ 25,700	5.9%

*Approved rates for water billed beginning in January 2016.

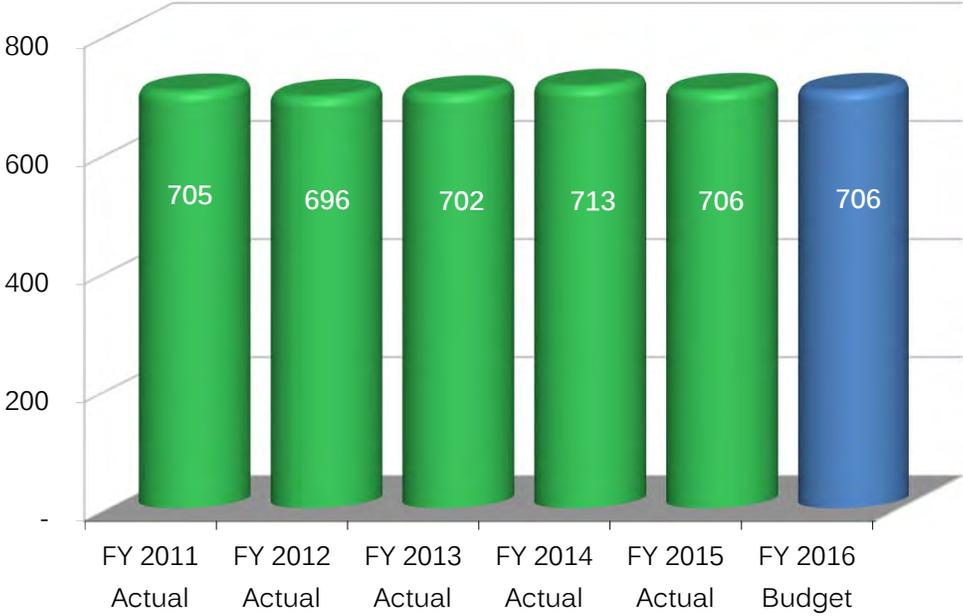
HISTORICAL SYSTEM FEES, IN THOUSANDS (\$)



Meter Fees - Recycled

Meter Size	Meter Sales	Installation Fee	Meter Fee	Total Fees	Total Amount
0.75	-	\$ 102.56	\$ 216.13	\$ 318.69	\$ -
1.00	1	102.56	278.89	381.45	400
1.50	-	102.56	453.31	555.87	-
2.00	-	102.56	649.55	752.11	-
3.00	-	617.51	2,024.25	2,641.76	-
4.00	-	617.51	3,515.80	4,133.31	-
6.00	-	975.40	6,072.73	7,048.13	-
8.00	-	1,495.69	7,587.43	9,083.12	-
10.00	-	1,495.69	10,912.14	12,407.83	-
Total	<u>1</u>				<u>\$ 400</u>

HISTORICAL METER COUNT

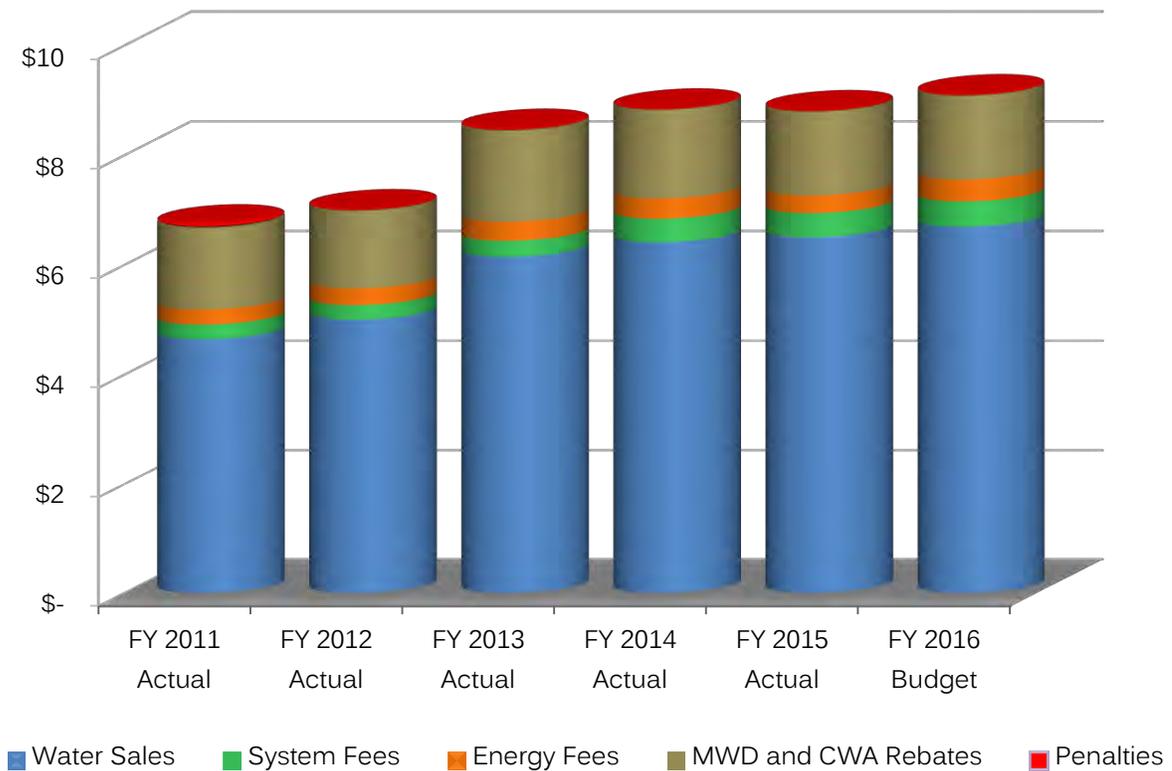


Meter Fees: Charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Revenue History - Recycled

	Actual					Budgeted
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015*	FY 2016
Water Sales	\$ 4,645,719	\$ 4,999,441	\$ 6,148,619	\$ 7,416,631	\$ 6,412,122	\$ 6,694,500
System Fees	266,547	268,937	292,201	356,806	431,121	464,300
Energy Fees	274,608	303,867	346,064	383,513	369,302	399,200
MWD and CWA Rebates	1,482,019	1,413,335	1,660,736	1,828,134	1,611,764	1,522,900
Penalties	93,146	33,323	40,867	29,682	28,701	35,100
Total Recycled Revenue	\$ 6,762,039	\$ 7,018,903	\$ 8,488,487	\$ 10,014,766	\$ 8,853,010	\$ 9,116,000

REVENUE HISTORY - RECYCLED, IN MILLIONS (\$)



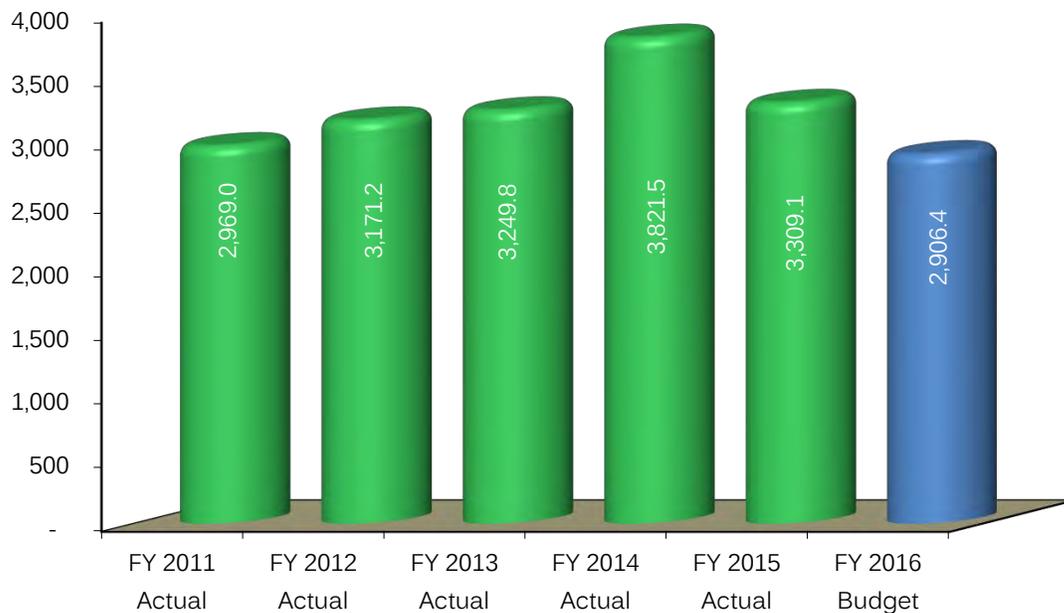
*Actual unaudited

Water Purchases - Recycled

	FY 2015 Actual*	FY 2016 Budget	FY 2015 Actual*	FY 2016 Budget	Budget to Budget Variance	
	Acre Feet		Purchase Costs		\$	%
Rate			\$ 350.00	\$ 350.00	\$ -	0.0%
Recycled Water Purchases	3,309.1	2,906.4	\$ 1,158,206	\$ 1,017,200	(141,006)	-12.2%
Meter Fee \$1,646.50 monthly	-	-	19,758	19,800	42	0.2%
Take-or-pay contract ⁽¹⁾	806.6	1,910.8	282,300	668,800	386,500	136.9%
Sub-Total			\$ 1,460,264	\$ 1,705,800	245,536	16.8%
Less: City of San Diego Credit ⁽²⁾			(99,457)	-	99,457	-100.0%
Add: Potable Supplement	42.1		46,436	-	(46,436)	-100.0%
Total	4,157.8	4,817.2	\$ 1,407,243	\$ 1,705,800	\$ 298,557	21.2%

Average Cost Per Acre-Foot (Effective Rate)	\$ 441.28	\$ 586.92
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HISTORICAL RECYCLED WATER PURCHASES, IN ACRE-FEET



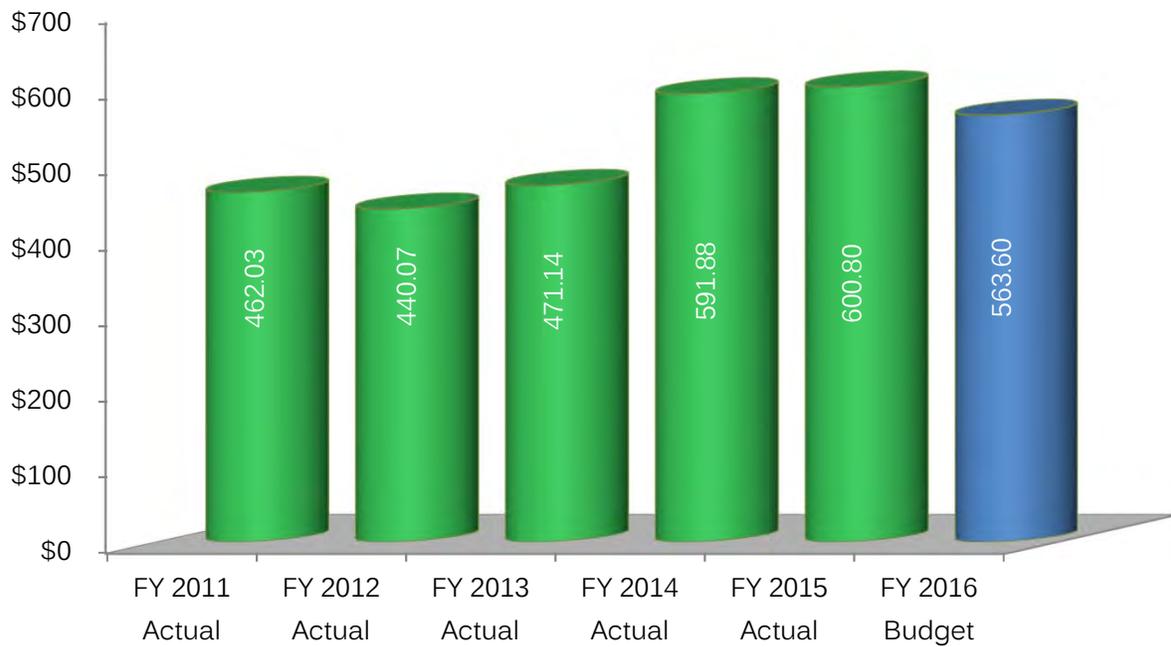
⁽¹⁾ This is the anticipated take-or-pay amount to be paid to the City of San Diego. The contract requires the purchase of a minimum volume of water. The District does not anticipate meeting the minimum therefore, a payment would be due to the City of San Diego.

⁽²⁾ This is a one time credit of \$88,911 given by the City of San Diego for overcharged meter fees and a credit of \$10,546 due to a Plant Shutdown in January.

Power Costs - Recycled

	FY 2013	FY 2014	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Actual	Actual*	Budget	\$	%
Treatment and Recycled Transmission	\$ 471,139	\$ 591,883	\$ 600,799	\$ 563,600	\$ (37,199)	-6.2%

HISTORICAL POWER COSTS, IN THOUSANDS (\$)

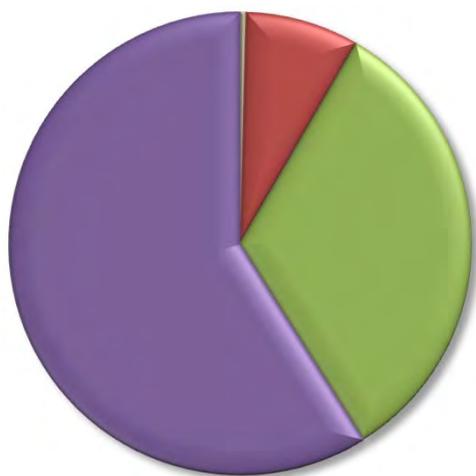


*Actual unaudited

Administrative Expenditures - Recycled

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Administrative Expenditures						
Travel and Meetings	\$ 42	\$ -	\$ -	\$ -	\$ -	-
Equipment	327	1,300	-	1,300	-	-
Fees	27,046	24,000	25,587	25,600	1,600	6.7%
Services	70,021	65,100	57,491	105,200	40,100	61.6%
Subtotal before Overhead	\$ 97,436	\$ 90,400	\$ 83,078	\$ 132,100	\$ 41,700	46.1%
Add: Overhead Allocation	201,126	195,200	207,284	189,700	(5,500)	(2.8%)
Total Expenditures	\$ 298,562	\$ 285,600	\$ 290,362	\$ 321,800	\$ 36,200	12.7%

FY 2016 ADMINISTRATIVE EXPENDITURES - RECYCLED



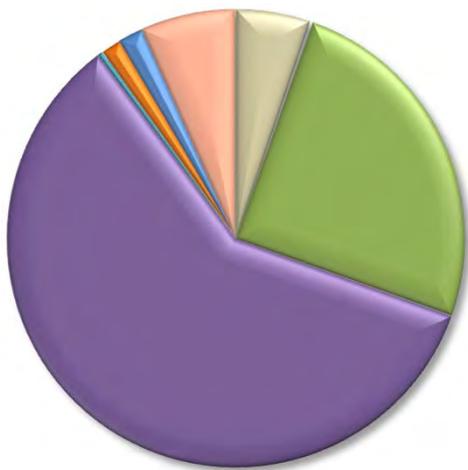
Equipment	\$ 1,300	0.4%
Fees	25,600	8.0%
Services	105,200	32.7%
Overhead Allocation	189,700	58.9%
	<u>\$ 321,800</u>	<u>100.0%</u>

* Actual unaudited

Materials and Maintenance Expenditures - Recycled

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Materials and Maintenance						
Fuel and Oil	\$ 11,336	\$ 15,000	\$ 12,370	\$ 15,000	\$ -	0.0%
Meters and Materials	2,793	700	865	700	-	0.0%
Infrastructure Equipment & Supplies	85,660	87,500	81,933	72,000	(15,500)	(17.7%)
Chemicals	160,146	169,100	154,979	170,600	1,500	0.9%
Safety Equipment	-	1,000	1,386	1,000	-	-
Laboratory Equipment and Supplies	3,945	4,000	3,971	4,000	-	-
Other Materials and Supplies	7,056	5,300	3,439	5,200	(100)	(1.9%)
Contracted Services	11,891	13,300	12,047	19,300	6,000	45.1%
Total Expenditures	\$ 282,827	\$ 295,900	\$ 270,990	\$ 287,800	\$ (8,100)	(2.7%)

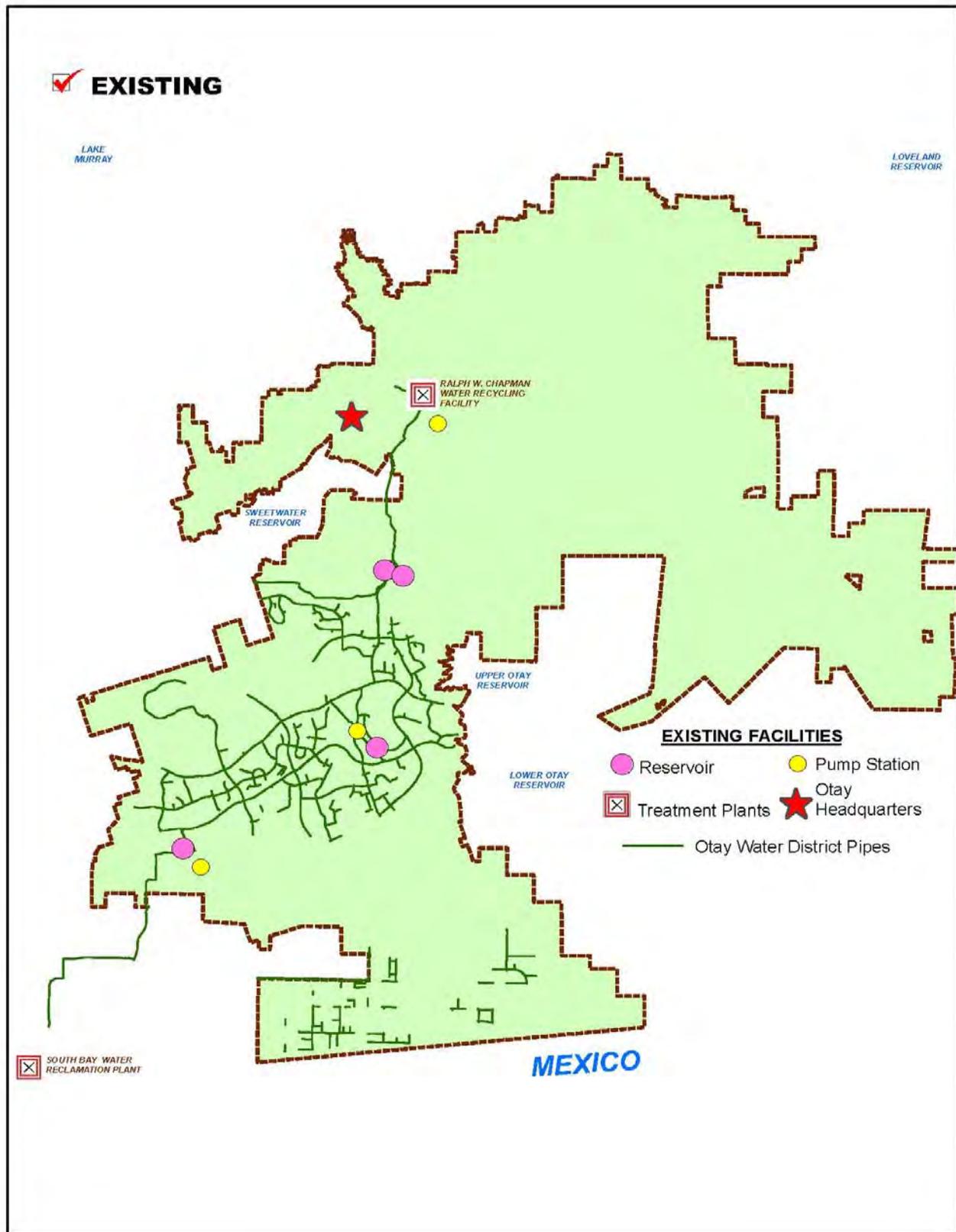
FY 2016 MATERIALS AND MAINTENANCE EXPENDITURES - RECYCLED



Fuel and Oil	\$ 15,000	5.2%
Meters and Materials	700	0.2%
Infrastructure Equipment & Supplies	72,000	25.0%
Chemicals	170,600	59.4%
Safety Equipment	1,000	0.3%
Laboratory Equipment and Supplies	4,000	1.4%
Other Materials and Supplies	5,200	1.8%
Contracted Services	19,300	6.7%
	\$ 287,800	100.0%

* Actual unaudited

Recycled Water Service Area



Sewer Revenues and Expenditures

The District provides sewer service to approximately 15,200 customers through 4,670 accounts located in the northern section of the District. The District operates and maintains the sewage collection system serving Rancho San Diego, Singing Hills, and portions of Mount Helix, all within the Upper Sweetwater River Basin. This basin is also known as the Jamacha Basin. Residential customers comprise 98.4% of the customer base. Modest growth of 0.33% is anticipated in Fiscal Year 2016.

Wastewater collection within the Jamacha Basin is provided by two agencies: the Otay Water District and the County of San Diego, (formerly the Spring Valley Sanitation District). Customers in the basin, not served by either agency, dispose of their sewage through septic tanks. After the sewage has been collected, it is sent to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF) treatment plant where the District produces recycled water, see [page 74](#) outlining the sewer process. The by-product of the treatment process is called sludge and it is discharged through the City of San Diego Metropolitan Wastewater (Metro) and the County of San Diego systems.

The District is a member of Metro Wastewater Joint Powers Authority and shares in the use of the City of San Diego's regional wastewater facilities. A significant amount of the sewer operation costs is for sewer service charges from the Metro Wastewater JPA which is budgeted at \$815,000 for Fiscal Year 2016. Additionally, the District will pay \$181,400 for its share of the operation and maintenance cost of the Rancho San Diego Outfall and the Spring Valley Outfall to transport sewage to Metro for Fiscal Year 2016.

To meet State of California requirements, customers must pay their fair share of sewer costs. The District is required to determine sewer rates in accordance with the State's Revenue Program Guidelines. During Fiscal Year 2013, the District performed a Cost of Service Study and Rate Study (i.e. reviewed rates, fees, charges, costs, and the usage structure) and determined that increases in rates, fees, and charges are necessary in order to recover sufficient revenues to operate and maintain the public sewer system.

Sewer bills are based on the rate of discharge and the strength for non-residential customers. Due to their higher discharge and strength, non-residential customers (comprising 1.6% of the customer base) comprise 12% of the total sewer charges. The formula for sewer rates is shown on [pages 97 and 98](#).

Operating Budget Summary - Sewer

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual *	Budget	\$	%
Revenues						
Sewer Revenues	\$ 2,757,867	\$ 3,007,700	\$ 3,009,634	\$ 3,206,300	\$ 198,600	6.6%
Capacity Fee Revenues	-	-	7,510	-	-	(100.0%)
Tax Revenues	44,321	51,600	44,553	51,600	-	0.0%
Non-operating Revenues	32,904	33,800	33,760	37,200	3,400	10.1%
Interest	8,173	4,600	8,727	8,200	3,600	78.3%
Transfer from Potable General Fund	-	553,800	553,800	-	(553,800)	(100.0%)
General Fund Draw Down	152,800	-	-	-	-	(100.0%)
Total Revenue	\$ 2,996,065	\$ 3,651,500	\$ 3,657,984	\$ 3,303,300	\$ (348,200)	(9.5%)
Expenditures						
Power	\$ 159,018	\$ 180,600	\$ 167,475	\$ 176,800	\$ (3,800)	(2.1%)
Labor and Benefits	831,446	902,300	764,133	681,300	(221,000)	(24.5%)
Administrative Expenses	170,165	206,500	172,992	200,800	(5,700)	(2.8%)
Materials & Maintenance	1,220,408	1,402,100	1,325,391	1,156,700	(245,400)	(17.5%)
Subtotal - Operations Costs	\$ 2,381,037	\$ 2,691,500	\$ 2,429,991	\$ 2,215,600	\$ (475,900)	(17.7%)
Betterment Reserve	-	-	-	455,000	455,000	100.0%
Replacement Reserve	-	916,200	916,200	599,100	(317,100)	(34.6%)
Transfer to OPEB	61,400	43,800	43,800	33,600	(10,200)	(23.3%)
Subtotal - Reserve Funding	\$ 61,400	\$ 960,000	\$ 960,000	\$ 1,087,700	\$ 127,700	13.3%
Total Expenditures	\$ 2,442,437	\$ 3,651,500	\$ 3,389,991	\$ 3,303,300	\$ (348,200)	(9.5%)
Excess Revenue/(Expenditures)	\$ 553,628	\$ -	\$ 267,993	\$ -	\$ -	

* Actual unaudited

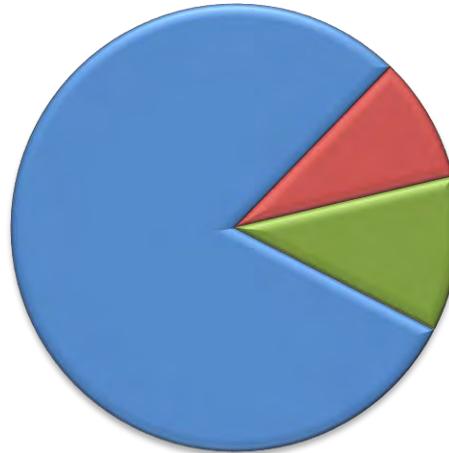
Sewer Charges Summary by Service Class

	FY 2016	Usage Fee		FY 2015	FY 2016	Budget to Budget Variance	
	Accounts	Current	Approved ⁽¹⁾	Budget	Budget	\$	%
Single-Family	4,545	\$ 2.46	\$ 2.46	\$ 1,572,800	\$ 1,672,800	\$ 100,000	6%
Multi-Family	50	2.46	2.46	187,700	190,100	2,400	1%
Commercial							
Low Strength	45	2.46	2.46	53,300	54,900	1,600	3%
Medium Strength	13	3.53	3.53	33,600	34,000	400	1%
High Strength	7	5.63	5.63	17,500	39,200	21,700	55%
Schools	6	2.46	2.46	109,900	96,700	(13,200)	-14%
Churches	4	2.46	2.46	8,500	9,900	1,400	14%
Total Sewer Charges	<u>4,670</u>			<u>\$ 1,983,300</u>	<u>\$ 2,097,600</u>	<u>\$ 114,300</u>	

⁽¹⁾ Approved rates for sewer service beginning in January 2016.

FY 2016 SEWER CHARGES BY SERVICE CLASS

Single-Family	\$ 1,672,800	80.0%
Multi-Family	190,100	9.0%
Commercial	234,700	11.0%
	<u>\$ 2,097,600</u>	<u>100.0%</u>



Sewer System Fee Summary by Meter Size

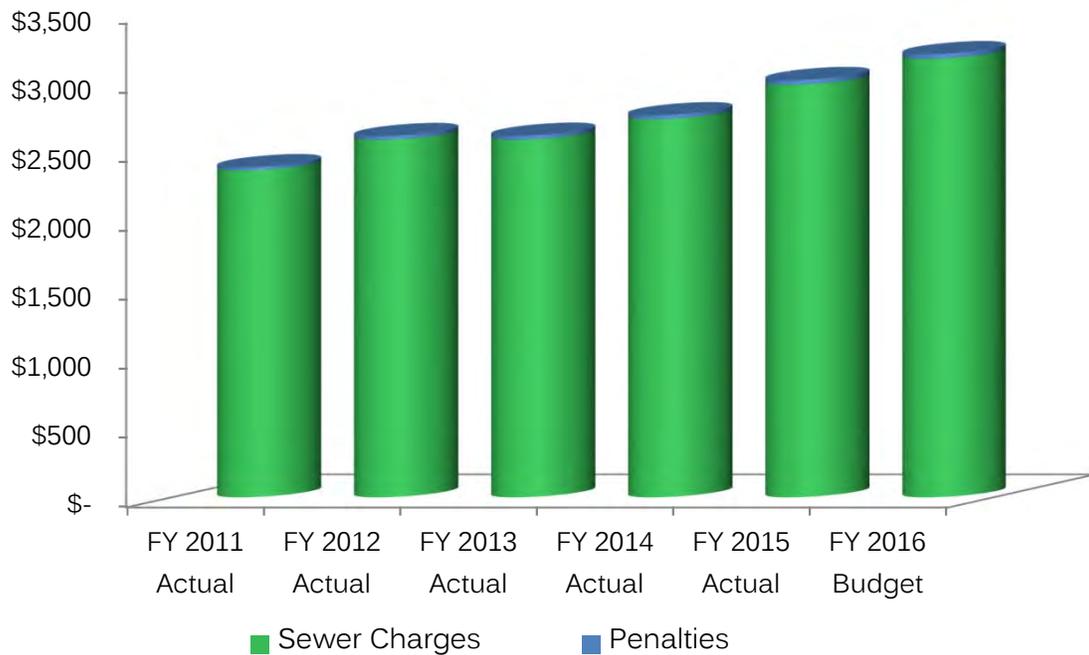
	FY 2016	Current	Approved*	FY 2015	FY 2016	Budget to Budget Variance	
	Accounts	Rates	Rates	Budget	Budget	\$	%
Single-Family	4,545	\$ 15.89	\$ 17.19	\$ 824,900	\$ 901,800	\$ 76,900	8.5%
Non-Residential							
0.75	22	27.07	27.07	6,700	6,800	100	1.5%
1.00	6	39.89	39.89	2,800	2,800	-	0.0%
1.50	20	71.82	71.82	16,800	17,200	400	2.3%
2.00	63	110.17	110.17	81,400	83,400	2,000	2.4%
3.00	6	199.66	199.66	14,000	14,400	400	2.8%
4.00	6	327.51	327.51	23,000	23,600	600	2.5%
6.00	1	647.12	647.12	7,600	7,800	200	2.6%
8.00	-	1,030.67	1,030.67	-	-	-	
10.00	1	1,478.12	1,478.12	17,300	17,800	500	2.8%
Total Sewer System Fee	<u>4,670</u>			<u>\$ 994,500</u>	<u>\$ 1,075,600</u>	<u>\$ 81,100</u>	

* Approved rates for sewer service beginning in January 2016. Approved residential rate includes \$1.30 re-capture rate.

Revenue History - Sewer

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015*	FY 2016
	Actual					Budget
Sewer Charges	\$ 2,363,313	\$ 2,368,192	\$ 2,588,991	\$ 2,736,867	\$ 2,986,734	\$ 3,173,000
Penalties	23,287	27,173	29,300	21,000	33,760	33,300
Total	\$ 2,386,600	\$ 2,395,365	\$ 2,618,291	\$ 2,757,867	\$ 3,020,494	\$ 3,206,300

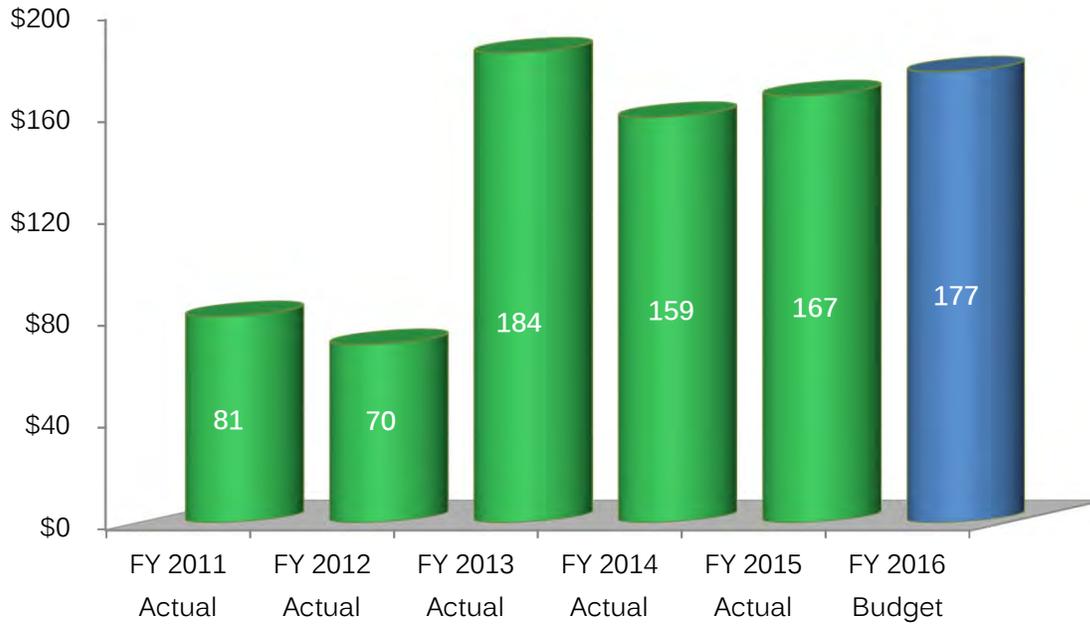
REVENUE HISTORY - SEWER, IN THOUSANDS (\$)



Power Costs - Sewer

	FY 2013	FY 2014	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Actual	Actual*	Budget	\$	%
Sewer Lift Station	\$ 184,108	\$ 159,018	\$ 167,475	\$ 176,800	\$ 9,325	5.6%

HISTORICAL POWER COSTS, IN THOUSANDS (\$)

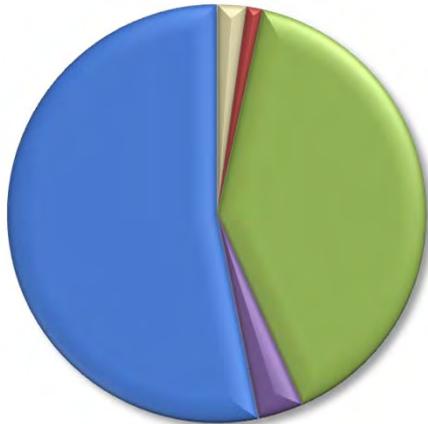


*Actual unaudited

Administrative Expenditures - Sewer

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Administrative Expenditures						
Equipment	\$ -	\$ 5,000	\$ 3,575	\$ 4,500	\$ (500)	(10.0%)
Fees	292	2,000	6,715	2,500	500	25.0%
Services	30,664	44,900	35,508	80,000	35,100	78.2%
Bad Debt Expense	5,380	7,000	2,222	7,000	-	0.0%
Total	\$ 36,336	\$ 58,900	\$ 48,020	\$ 94,000	\$ 35,100	59.6%
Add: Overhead Allocation	133,829	147,600	124,972	106,800	(40,800)	(27.6%)
Total Expenditures	\$ 170,165	\$ 206,500	\$ 172,992	\$ 200,800	\$ (5,700)	(2.8%)

FY 2016 ADMINISTRATIVE EXPENDITURES - SEWER



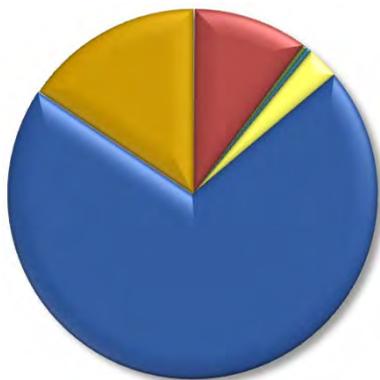
Equipment	\$ 4,500	2.2%
Fees	2,500	1.2%
Services	80,000	39.9%
Bad Debt Expense	7,000	3.5%
Overhead Allocation	106,800	53.2%
	<u>\$ 200,800</u>	<u>100.0%</u>

* Actual unaudited

Materials and Maintenance Expenditures - Sewer

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Materials and Maintenance						
Fleet Parts and Equipment	\$ 1,006	\$ 1,500	\$ 4,689	\$ 1,500	\$ -	-
Infrastructure Equipment & Supplies	51,627	69,600	72,609	115,800	46,200	66.4%
Chemicals	3,705	4,500	4,507	4,500	-	-
Safety Equipment	77	1,900	44	-	(1,900)	(100.0%)
Laboratory Equipment and Supplies	4,936	5,000	5,221	5,000	-	-
Other Materials and Supplies	198	200	2,884	100	(100)	(50.0%)
Contracted Services	36,335	24,500	26,924	33,400	8,900	36.3%
Subtotal Materials and Maintenance	\$ 97,884	\$ 107,200	\$ 116,878	\$ 160,300	\$ 53,100	49.5%
Sewer Charges						
Metro O&M Costs	1,021,724	\$ 1,020,300	1,020,276	815,000	\$ (205,300)	(20.1%)
Spring Valley Sewer Charge	100,800	274,600	188,237	181,400	(93,200)	(33.9%)
Subtotal Sewer Charges	1,122,524	1,294,900	1,208,513	996,400	(298,500)	(23.1%)
Total Expenditures	\$ 1,220,408	\$ 1,402,100	\$ 1,325,391	\$ 1,156,700	\$ (245,400)	(17.5%)

FY 2016 MATERIALS AND MAINTENANCE EXPENDITURES - SEWER



Fleet Parts and Equipment	\$ 1,500	0.1%
Infrastructure Equipment & Supplies	115,800	10.0%
Chemicals	4,500	0.4%
Laboratory Equipment & Supplies	5,000	0.4%
Other Materials and Supplies	100	0.0%
Contracted Services	33,400	2.9%
Metro O&M Costs	815,000	70.5%
Spring Valley Sewer Charge	181,400	15.7%
	<u>\$ 1,156,700</u>	<u>100.0%</u>

* Actual unaudited

Formula for Sewer Rates

To meet State of California requirements, customers must pay their fair share of sewer costs. The District is required to determine sewer rates in accordance with the State's Revenue Program Guidelines.

RESIDENTIAL AND MULTI-RESIDENTIAL SEWER SERVICE

To estimate sewer use, the District averages metered water use for the winter months of January through April. A "winter average" is the basis of the sewer charges for the entire year. The winter months are the best time to average water use because less water is used outdoors and most of the water used flows to the sewer system. The District gives customers a 15% usage discount to acknowledge that not all water purchased goes to the sewer system. The maximum consumption charge is based on 30 units.

The following is the sewer bill formula for residential and multi-residential customers:

$$((\text{Winter Average} \times .85) \times \text{Usage Fee}) + \text{System Fee}$$

The current usage fee and system fee for single-family residential customers \$2.46 and \$15.89, respectively. Effective January 1, 2016 the usage fee and system fee will be \$2.46 and \$17.19, respectfully.

The current usage fee for multi-residential customers is \$2.46 and will remain the same at \$2.46 for the calendar year 2016. The system fee for multi-residential is based on meter size and will remain unchanged for the calendar year 2016 as shown on [page 92](#).

COMMERCIAL AND INDUSTRIAL SEWER SERVICE

To estimate sewer use, the District averages metered water use. An "average annual consumption" is the basis of the sewer charges for the entire year. The average annual consumption is defined as the units of water billed from January through December of the previous year. The District gives customers a 15% usage discount to acknowledge that not all water purchased goes to the sewer system.

The following is the sewer formula for commercial and industrial customers:

$$(\text{Average Annual Consumption} \times .85 \times \text{Usage Fee} \times \text{Strength Factor}) + \text{System Fee}$$

The District calculates the monthly bill based on the customer's water use, sewer strength and the size of the customer's water meter which is more equitable among customer classes. The rates and charges by meter size are shown on [page 92](#).

Formula for Sewer Rates

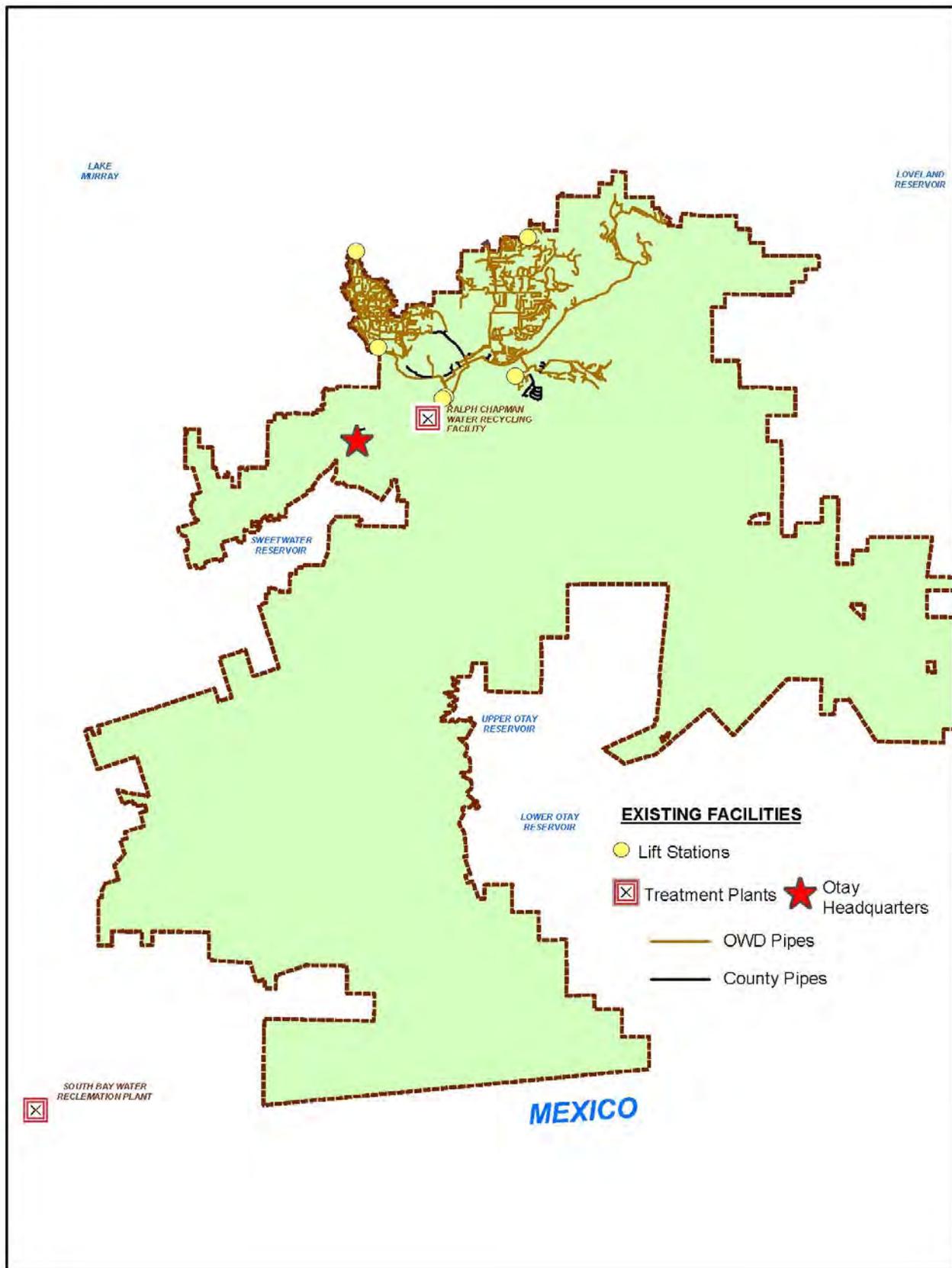
into various categories and has identified Strength Factors for each of these business categories. The standard of measure for Strength Factors is the typical sewer strength of a single-family residence (SFR). The Strength Factors established by the SWRCB are listed below and are used by the District in the calculation of commercial sewer rates. These factors are in terms of the strength relative to a SFR, with a SFR having a strength factor of 1.

The following are the Strength Factors:

Description	Strength Factor	Fee
Low-Strength Commercial *	1.000	\$ 2.46
Medium-Strength Commercial	2.000	\$ 3.53
High-Strength Commercial	4.000	\$ 5.63

*Schools and churches are categorized as Low-Strength Commercial customers.

Sewer Service Area



General Revenues and Expenses

The District's revenues and expenses in this section are not directly related to the services delivered to potable, recycled, or sewer customers, yet they are operating expenses or revenues.

GENERAL REVENUES

Capacity fees are restricted for the purpose of funding the District facilities. When collected, these fees may cover costs including but not limited to planning, design, construction, and financing associated with facilities. The District uses a portion of capacity fee revenues to provide general expansion planning and developer support. These fees reimburse the General Fund for the cost of providing these services. For FY 2016, capacity fees are projected to be \$1,134,800 which is \$15,800 less than FY 2015.

Betterment fees are earned by the General Fund for facilities maintenance performed by the Water Operations Department.

Annexation fees are collected when developers buy into the District's potable or recycled water facilities. The fee ensures that future users fund the portion of the facilities that were sized and built for their future use by prior customers. Prior to FY 2010, annexation fees were unrestricted and therefore included in the General Fund revenues. With the new fee methodology, these fees are now restricted for the purpose of capital improvements.

The 1% property tax is a result of Proposition 13 that was approved in 1978, which limited the general levy property tax rate for all taxing authorities to a total rate of 1% of the assessed value. Subsequent legislation, AB8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. These general use funds are currently being used as a source of operating revenue. Tax Revenues are projected to increase by \$135,100 to \$3,213,000.

The District levies availability charges each year in developed areas to be used for upgrades and betterment and in undeveloped areas to provide 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 parcel or acre shall be used only for the benefit of the improvement district in which it is assessed. Availability fees are projected to be \$684,900.

Included in the General Revenues are a variety of Non-Operating Revenues. These revenues include lease revenues, set-up fees, sewer billing fees, grants, and miscellaneous revenues. Lease revenues make up a large portion of general revenues and are mainly from the lease of cell-sites on District property. When the District enters a new lease there is a one-time fee charged with the set-up of each cell-site. The District incurs expenses related to these leases and the purpose of the fee is to recover the cost to set up the lease.

General Revenues and Expenses

In addition to the cell-site leases, the District leases land to the Highlands Links Golf Group., LLC. The lease terms include a minimum annual rent guarantee plus a percentage of sales.

For most of the District's water customers in the City of Chula Vista (CCV), the City of Chula Vista provides the sewer services. The CCV sewer fees are based on water consumption. Because of the shared customer base, the CCV contracts with the District for the billing of their sewer customers who live within the District.

GENERAL EXPENSES

The expenses in this section are general operating costs not associated with an individual department. These include legal costs, insurance premiums, changes in accrued employee leave balances, and miscellaneous interest. These expenditures represent 7.5% of the total Departmental Budget.

Legal expenditures are viewed as a District-wide general cost because they benefit all departments and usually are not attributed to any one department. The District retains outside legal services instead of in-house counsel.

Insurance premiums are also viewed as District-wide general cost because it benefits all departments and cannot be attributed to any one department. The District participates in a program where it can reduce its premium by implementing training sessions to reduce on-the-job accidents and injuries.

Some employee benefits are charged to the General Expense Department because they are not entirely attributable to a specific department or fiscal year in which they are incurred. For example, when a pay rate increase occurs for an employee, his/her leave balances increase in value due to this change. In this case, the cost is charged to the General Expense Department.

General Revenues

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual *	Budget	\$	%
Fee Revenues						
Capacity Fee Revenues	\$ 1,170,985	\$ 1,150,600	\$ 2,404,375	\$ 1,134,800	\$ (15,800)	(1.4%)
Betterment Fees for Maintenance	485,738	301,800	485,738	-	(301,800)	(100.0%)
Subtotal Fee Revenues	1,656,723	1,452,400	2,890,113	1,134,800	(317,600)	(21.9%)
Tax Revenues						
1% General Tax	2,894,402	3,077,900	2,894,402	3,213,000	135,100	4.4%
Availability Fees	729,961	685,800	-	684,900	(900)	(0.1%)
Subtotal Tax Revenues	3,624,363	3,763,700	2,894,402	3,897,900	134,200	3.6%
General Revenue	\$ 5,281,086	\$ 5,216,100	\$ 5,784,515	\$ 5,032,700	\$ (183,400)	(3.5%)

Non-Operating Revenues

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual *	Budget	\$	%
Property Rental	\$ 1,317,736	\$ 1,302,500	\$ 1,232,920	\$ 1,269,800	(32,700)	(2.5%)
Sewer Billing Fees	372,473	372,400	375,741	375,500	3,100	0.8%
Set-up Fee for Lease Site	22,500	-	24,500	-	-	0.0%
Grants	40,867	-	3,867	-	-	0.0%
Revenue from Shared Facility	32,152	33,800	-	37,200	3,400	10.1%
Miscellaneous	271,791	239,100	733,587	191,100	(48,000)	(20.1%)
Non-Operating Revenue	\$ 2,057,519	\$ 1,947,800	\$ 2,370,615	\$ 1,873,600	\$ (74,200)	(3.8%)

General and Non-Operating Revenues by Business

	FY 2016			
	Potable	Recycled	Sewer	Total
Capacity Fee Revenues	\$ 1,134,800	\$ -	\$ -	\$ 1,134,800
1% General Tax	3,213,000	-	-	3,213,000
Availability Fees	633,300	-	51,600	684,900
Property Rental	1,269,800	-	-	1,269,800
Sewer Billing Fees	375,500	-	-	375,500
Revenue from Shared Facility	-	-	37,200	37,200
Miscellaneous	191,100	-	-	191,100
Total General and Non-Operating Revenue	\$ 6,817,500	\$ -	\$ 88,800	\$ 6,906,300

Note: For General and Non-Operating Revenues, the Potable Fund serves as the District's General Fund for accounting purposes.

General Expense

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
General Expense						
Labor and Benefits ⁽¹⁾	\$ 1,536,043	\$ 1,290,800	\$ 1,487,720	\$ 1,183,400	\$ (107,400)	(8.3%)
Legal Fees	280,069	410,000	174,636	250,000	(160,000)	(39.0%)
General Insurance	549,869	631,000	645,410	586,000	(45,000)	(7.1%)
Services	14,161	-	-	-	-	0.0%
Training	2,566	-	-	-	-	0.0%
Total General Expense	\$ 2,382,708	\$ 2,331,800	\$ 2,307,766	\$ 2,019,400	\$ (312,400)	(13.4%)

⁽¹⁾ Benefits include District-wide labor and benefit costs not attributable to any one department, such as the effect of cost of living raises on accrued leave liabilities or the Other Post Employment Benefit (OPEB) costs. These costs are netted against the District's anticipated Vacancy Factor. The Vacancy Factor for FY 2015 and FY 2016 is \$185,600 and \$338,300, respectively. Additionally, the labor and benefits shown on this schedule are those related to operating costs and does not include CIP labor and benefit costs.

* Actual unaudited

Departmental Operating Budget

LABOR AND BENEFITS

Labor and Benefits represent 22.8% of the total Operating Budget. District personnel are assigned to work in six departments: General Manager, Administrative Services, Finance, Information Technology & Strategic Planning, Water Operations, and Engineering. The departments are further categorized by functions into divisions. The Fiscal Year 2016 Budget includes funding for labor and benefits for 138 full-time equivalent (FTE) employees.

The staffing level for Fiscal Year 2016 had a decrease of three (3) FTE employees from Fiscal Year 2015. The District has chosen to eliminate vacant positions in areas that have experienced a reduction of workload requirements. Since 2007, the District has reduced FTEs by 21% due to slowed growth and by focusing on efficiencies and automation. Efficiencies have been achieved by strategic planning, goal setting, outsourcing, and leveraging advancements in technology.

A projected 7.6% of the labor and benefits costs will be charged to projects included in the Capital Improvement Program (CIP) and Developer Deposits. These labor and benefit costs are not considered operating costs and therefore reduce the Operating Budget by \$1,748,600.

ADMINISTRATIVE EXPENSES

Administrative Expenses decreased by \$31,400 or (.06%) compared to FY 2016 and is shown on [page 111](#). In Fiscal Year 2016, more funding has been provided for Water Conservation efforts and an investment in the District's leak detection program. This increase is offset by lower costs in legal services, equipment, fees, training, and overhead allocation to work orders.

Administrative Expenses include such items as memberships, office supplies, staff training, Directors' fees, water conservation programs, safety expenses, and regulatory agencies' fees. Some of the administrative expenses are less discretionary than others such as insurance or regulatory fees which are mandatory. The District is more able to control expenses such as training or business meetings. The safety needs of the District's customers and employees and compliance with regulatory agencies are of utmost importance, so related expenses are considered necessary.

MATERIALS AND MAINTENANCE

Like all costs included by the District, the Materials and Maintenance Expenses allow the District to provide reliable, high-quality products, services, and support to its customers. As the District continues to grow and technology and regulations change, maintenance and services will be adjusted, as needed.

For Fiscal Year 2016, there is a .02% decrease in Materials and Maintenance Expenses totaling \$7,000. The sewer charges decreased by 23%, or \$298,000 and Fuel and Oil decreased by 17.3% by \$53,700. This decrease is offset by increases in Safety Equipment of \$83,100 for the purchase of

Departmental Operating Budget

emergency equipment and emergency response supplies. Other materials, supplies, and contracted services have also increased by \$58,700 and \$107,200 for the leak detection program.

Currently, the Water Operations Department uses an Infrastructure Management System (IMS) for the maintenance of existing and new assets. The District plans on replacing the legacy system (IMS) with a GIS Centric Work Order System that will further improve the tracking and management of the Materials and Maintenance Expenses.

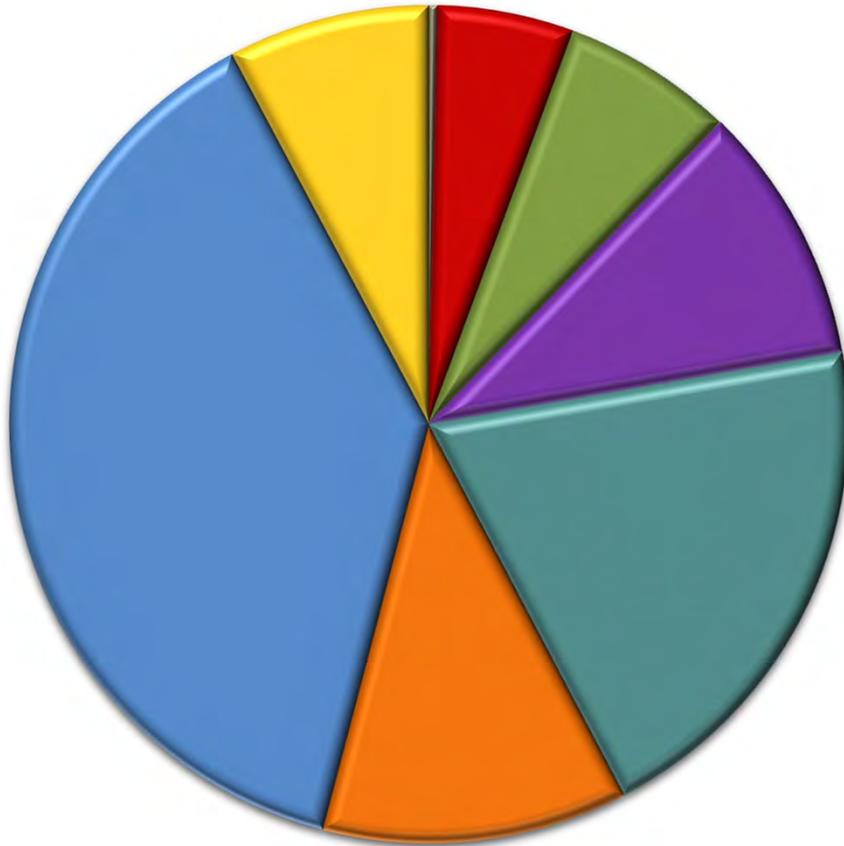
STRATEGIC PLAN IMPLEMENTATION

Strategic goals and objectives, as presented to the Board of Directors, are incorporated into departmental operating budgets to ensure adequate funds are available to implement the Strategic Plan. The District updates its performance measurement program each fiscal year to provide measurable results of progress on both strategic and key operational goals and objectives. (See the plan objectives and measures in the department sections that follow.) Performance measures have been developed by comparing key District activities with functional and available operational data that provide reliable feedback on progress. Developed cooperatively with staff and the help of outside consultants, the measures are designed to be comparable to measures commonly found in similar industries.

The performance measures focus on “best practice” as applied to the District. Measures are collected and reviewed quarterly by the Senior Management Team and reviewed by the Board at least twice a year. Results are used to set new targets for the following fiscal year and to hold staff accountable for the current fiscal year.

Departmental Operating Budget

TOTAL FY 2016 DEPARTMENTAL OPERATING BUDGET \$30,586,900

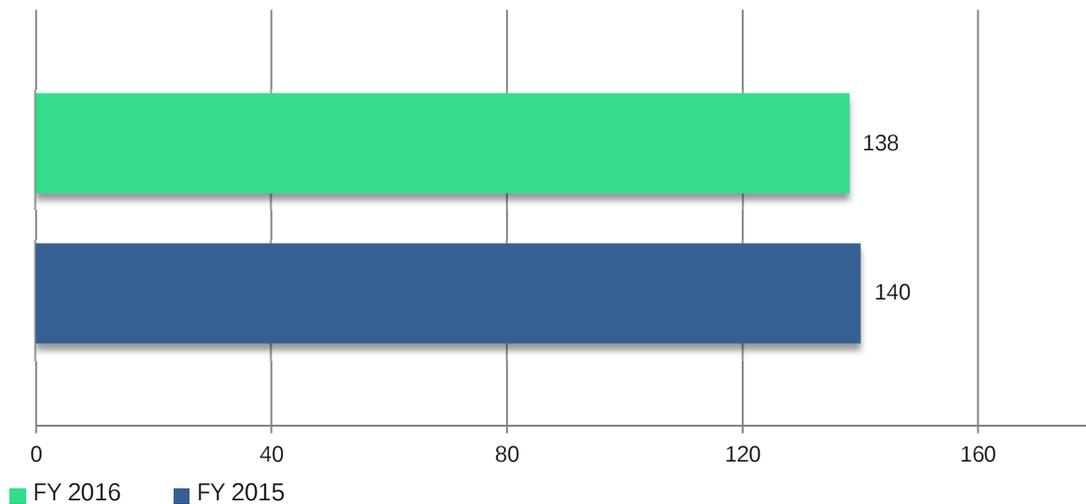


Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.3%
General Expense	2,019,400	6.6%
Administrative Services	3,070,500	10.0%
Finance	6,128,400	20.0%
Information Technology and Strategic Planning	3,610,600	11.8%
Water Operations	11,663,400	38.1%
Engineering	2,381,600	7.8%
	<u>\$ 30,586,900</u>	<u>100.0%</u>

Labor and Benefits

	FY 2014	FY 2015		FY 2016
	Actual	Budget	Actual*	Budget
Labor Costs	\$ 11,029,405	\$ 11,337,400	\$ 11,177,926	\$ 11,487,900
Benefits				
Pension	3,096,070	3,596,600	3,575,595	3,885,300
Employee Assistance Program	3,827	4,000	3,755	4,000
Workers' Compensation	230,015	267,300	261,821	260,000
Health/Dental/Life Insurance/OPEB	3,542,644	3,825,600	3,611,579	4,012,200
Social Security/Medicare	909,150	945,200	927,579	948,200
Salary Continuation Insurance	64,304	65,000	56,144	67,800
State Unemployment Insurance	43,492	60,000	9,998	30,000
Vacation/Sick/Holiday/Other Leave	2,140,833	2,103,800	2,277,556	2,195,300
Total Benefits	10,030,335	10,867,500	10,724,027	11,402,800
Total Labor and Benefits	21,059,740	22,204,900	21,901,953	22,890,700
Less: Non-Operating Labor and Benefits				
Labor Costs	949,323	1,001,100	1,062,022	1,048,100
Benefits Allocation	544,962	729,200	661,849	700,500
Total Non-Operating Labor and Benefits	1,494,285	1,730,300	1,723,871	1,748,600
Operating Labor & Benefits	19,565,455	20,474,600	20,178,082	21,142,100
Total Overhead Allocation	1,091,721	1,151,300	1,221,325	1,205,300
Less: Overhead Allocation Personnel Portion	689,422	727,000	771,267	761,100
Admin Portion of Overhead (36.85%)	\$ 402,299	424,300	450,058	444,200
Net Operating Labor and Benefits	\$ 18,876,033	\$ 19,747,600	\$ 19,406,815	\$ 20,381,000

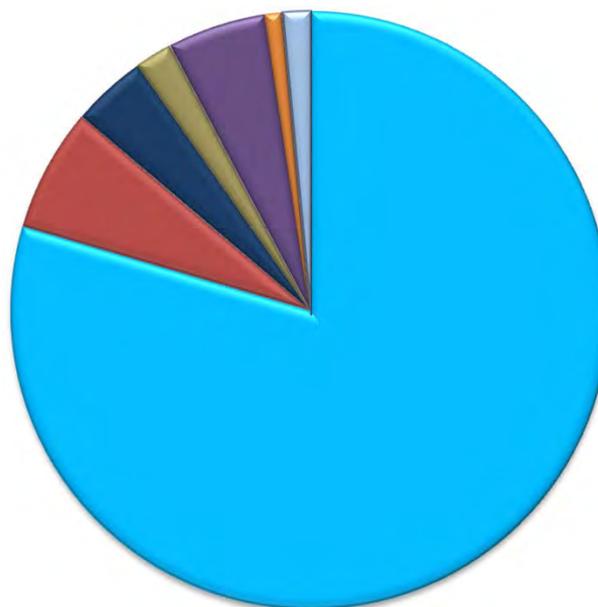
FULL - TIME EQUIVALENT (FTE)



*Actual unaudited

Labor and Benefits by Fund - Fiscal Year 2016

	Potable	Sewer	Recycled	Developer Reimbursed-CIP	Total
Operating Labor Costs	\$ 9,740,000	\$ 252,100	\$ 447,700	\$ -	\$ 10,439,800
Benefits	10,047,500	246,100	408,700	-	10,702,300
Overhead Allocation-Personnel	(1,269,300)	183,100	325,100	-	(761,100)
Total Operating Labor and Benefits	18,518,200	681,300	1,181,500	-	20,381,000
CIP Labor Costs	561,000	152,200	138,000	196,900	1,048,100
Benefits	371,800	95,400	91,500	141,800	700,500
Overhead Allocation-Personnel	407,400	110,500	100,200	143,000	761,100
Total CIP Labor and Benefits	1,340,200	358,100	329,700	481,700	2,509,700
Total Labor and Benefits	\$ 19,858,400	\$ 1,039,400	\$ 1,511,200	\$ 481,700	\$ 22,890,700



Potable-Operating	\$ 18,518,200	80.9%
Potable-CIP	1,340,200	5.8%
Sewer-Operating	681,300	3.0%
Sewer-CIP	358,100	1.6%
Recycle-Operating	1,181,500	5.2%
Recycle-CIP	329,700	1.4%
Develeper Reimbursed-CIP	481,700	2.1%
	\$ 22,890,700	100.0%

Position Count by Department

	FY 2014	FY 2015	FY 2016	
General Manager	5	5	5	
Total FTE - General Manager	5	5	5	
<hr/>				
Administrative Services				
Administrative Services Management	3	3	3	
Human Resources	4	3	3	(1)
Purchasing	7	7	6	
Safety	1	1	1	
Conservation	1	0	0	(2)
Total FTE - Administrative Services	16	14	13	
<hr/>				
Finance				
Financial Management	3	3	3	
Controller and Budgetary Services	5	5	5	
Treasury and Accounting Services	6	6	6	
Customer Service	15	11	10	(1), (2)
Conservation	0	1	1	(2)
Meter Maintenance	0	8	7	(1), (2)
Total FTE - Finance	29	34	32	
<hr/>				
IT and Strategic Planning				
IT and Strategic Planning Applications	5	4	4	(2)
IT Operations	3	4	5	(2)
Geographic Information Systems	4	4	4	
Total FTE - IT and Strategic Planning	12	12	13	
<hr/>				
Operations				
Operations Management	2	2	3	(2)
Water System Operations	26	21	19	(2)
Utility Maintenance/Construction	26	26	27	(2)
Collection/Treatment/Reclamation Operations	7	7	7	
Total FTE - Operations	61	56	56	
<hr/>				
Engineering				
Engineering Management	3	3	3	
Engineering	17	16	16	(1)
Total FTE - Engineering	20	19	19	
<hr/>				
District Total FTE Position Count	143	140	138	

(1) The District's strategic planning efforts of streamlining business processes enabled the District to be more efficient and provided an opportunity to reduce staffing.

(2) Positions were re-classified and/or transferred as part of streamlining the District's organizational structure.

Contract / Temporary Employees

	FY 2014	FY 2015	FY 2016	
Water Conservation Technician	1	0	0	(1)
Senior Civil Engineer	0	1	0	(1), (2)
Total Contract/Temporary Employees	1	1	0	

FY 2016 POSITION COUNT

General Manager	5	4%
Administrative Services	13	10%
Finance	32	21%
IT and Strategic Planning	13	10%
Operations	56	41%
Engineering	19	14%
	138	100%



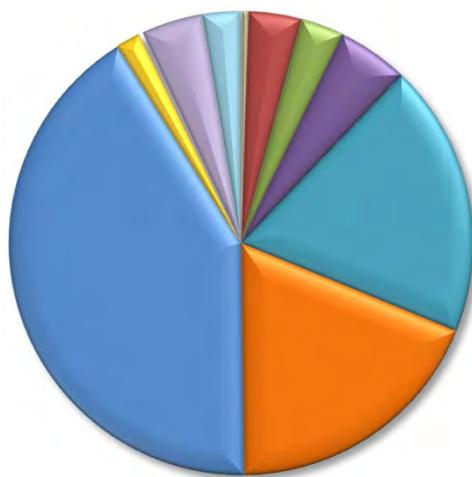
(1) The District's strategic planning efforts of streamlining business processes enabled the District to be more efficient and provided an opportunity to reduce staffing.

(2) Positions were re-classified and/or transferred as part of streamlining the District's organizational structure.

Administrative Expenditures - Total

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Administrative Expenditures						
Directors' Fees	\$ 19,834	\$ 30,000	\$ 20,382	\$ 30,000	\$ -	-
Travel and Meetings	147,110	207,700	158,205	214,400	6,700	3.2%
Conservation and Outreach	136,743	174,900	144,026	176,900	2,000	1.1%
General Office Expense	258,732	280,800	257,756	284,700	3,900	1.4%
Equipment	943,153	1,139,600	1,233,988	1,112,300	(27,300)	(2.4%)
Fees	517,205	524,700	513,545	1,085,000	560,300	106.8%
Services	1,387,477	2,152,300	1,619,936	2,409,800	257,500	12.0%
Training	65,818	123,500	77,232	99,000	(24,500)	(19.8%)
Utilities	12,929	14,000	14,184	14,900	900	6.4%
General Expenses	844,099	1,041,000	821,303	250,000	(791,000)	(76.0%)
Bad Debt Expense	154,744	155,000	93,491	155,000	-	0.0%
Subtotal before Overhead	\$ 4,487,844	\$ 5,843,500	\$ 4,954,048	\$ 5,832,000	(11,500)	(0.2%)
Less: Overhead Allocation	(402,299)	(424,300)	(450,058)	(444,200)	(19,900)	-
Total Expenditures	\$ 4,085,545	\$ 5,419,200	\$ 4,503,990	\$ 5,387,800	\$ (31,400)	(0.6%)

FY 2016 TOTAL ADMINISTRATIVE EXPENDITURES, IN THOUSANDS (\$)



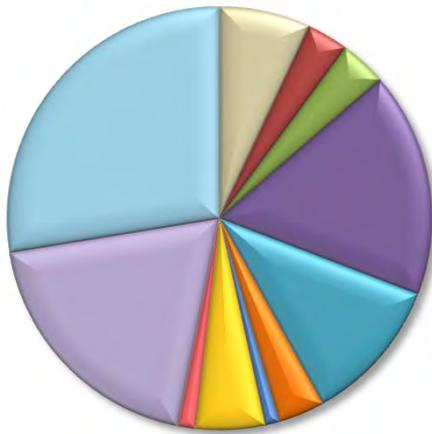
Directors' Fees	\$ 30,000	0.5%
Travel and Meetings	214,400	3.7%
Conservation & Outreach	176,900	3.0%
General Office Expense	284,700	4.9%
Equipment	1,112,300	19.1%
Fees	1,085,000	18.6%
Services	2,409,800	41.3%
Training	99,000	1.7%
Utilities	14,900	0.3%
General Expense	250,000	4.3%
Bad Debt Expense	155,000	2.6%
	<u>\$ 5,832,000</u>	<u>100.0%</u>
Less: Overhead Allocation	(444,200)	
Total Administrative Expenses	<u><u>\$ 5,387,800</u></u>	

* Actual unaudited

Materials and Maintenance Expenditures - Total

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget Variance	
	Actual	Budget	Actual*	Budget	\$	%
Materials and Maintenance						
Fuel and Oil	\$ 199,197	\$ 304,300	\$ 196,397	\$ 250,600	\$ (53,700)	(17.6%)
Meters and Materials	66,138	113,800	111,821	113,800	-	0.0%
Fleet Parts and Equipment	112,277	129,900	123,056	128,900	(1,000)	(0.8%)
Infrastructure Equipment & Supplies	496,164	525,000	512,739	621,300	96,300	18.3%
Chemicals	372,594	397,100	349,655	400,600	3,500	0.9%
Safety Equipment	31,965	44,200	40,773	127,300	83,100	188.0%
Laboratory Equipment and Supplies	43,938	44,000	43,847	40,000	(4,000)	(9.1%)
Other Materials and Supplies	133,481	131,800	180,188	190,500	58,700	44.5%
Building and Grounds Materials	55,608	46,500	55,375	47,900	1,400	3.0%
Contracted Services	523,990	588,300	517,413	695,500	107,200	18.2%
Subtotal Materials and Maintenance	\$ 2,035,352	\$ 2,324,900	\$ 2,131,264	\$ 2,616,400	\$ 291,500	12.5%
Sewer Charges						
Metro O&M Costs	1,021,724	\$ 1,020,300	1,020,276	815,000	\$ (205,300)	(20.1%)
Spring Valley Sewer Charge	100,800	274,600	188,237	181,400	(93,200)	(33.9%)
Subtotal Sewer Charges	\$ 1,122,524	\$ 1,294,900	\$ 1,208,513	\$ 996,400	\$ (298,500)	(23.1%)
Total Expenditures	\$ 3,157,876	\$ 3,619,800	\$ 3,339,777	\$ 3,612,800	\$ (7,000)	(0.2%)

FY 2016 MATERIALS AND MAINTENANCE EXPENDITURES



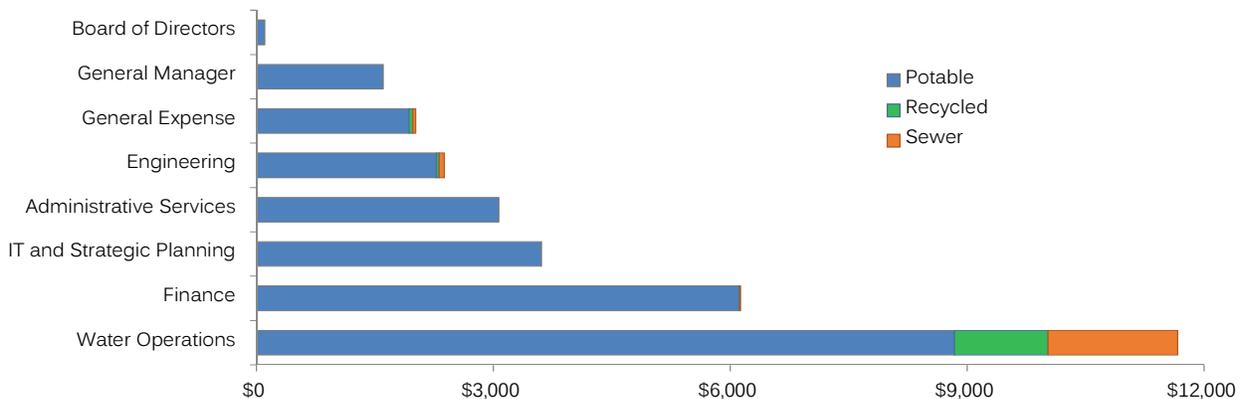
Fuel and Oil	\$ 250,600	6.9%
Meters and Materials	113,800	3.1%
Fleet Parts and Equipment	128,900	3.6%
Infrastructure Equipment and Supplies	621,300	17.2%
Chemicals	400,600	11.1%
Safety Equipment	127,300	3.5%
Laboratory Equipment and Supplies	40,000	1.1%
Other Materials and Supplies	190,500	5.3%
Building and Grounds Materials	47,900	1.3%
Contracted Services	695,500	19.3%
Sewer Charges	996,400	27.6%
	\$ 3,612,800	100.0%

* Actual unaudited

Operating Expenditures by Department

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget
	Actual	Budget	Actual*	Budget	Variance
Departmental Expenditures					
Board of Directors	\$ 100,367	\$ 115,100	\$ 95,949	\$ 107,100	\$ (8,000)
General Manager	1,353,831	1,562,300	1,386,637	1,605,900	43,600
General Expense	2,382,708	2,331,800	2,309,023	2,019,400	(312,400)
Administrative Services	2,915,571	2,995,600	2,847,208	3,070,500	74,900
Finance	5,463,210	5,816,700	5,496,511	6,128,400	311,700
IT and Strategic Planning	3,021,303	3,373,800	3,491,549	3,610,600	236,800
Water Operations	10,314,465	11,384,100	10,712,348	11,663,400	279,300
Engineering	1,827,709	2,358,500	2,132,682	2,381,600	23,100
Total Departmental Expenditures	\$ 27,379,164	\$ 29,937,900	\$ 28,471,907	\$ 30,586,900	\$ 649,000
Less: Overhead Allocation	(1,091,721)	(1,151,300)	(1,221,325)	(1,205,300)	(54,000)
Net Departmental Expenditures	\$ 26,287,443	\$ 28,786,600	\$ 27,250,582	\$ 29,381,600	\$ 595,000
Non-Departmental Expenditures					
Water Purchases	\$ 48,210,501	\$ 47,059,200	\$ 46,249,959	\$ 45,984,500	\$ (1,074,700)
Power	2,808,846	2,838,400	3,048,335	3,112,800	274,400
Expansion Reserve	3,428,000	2,538,900	2,538,900	2,695,800	156,900
Betterment Reserve	125,000	3,530,000	3,530,000	2,400,000	(1,130,000)
Replacement Reserve	4,230,000	3,270,200	3,270,200	3,421,000	150,800
Transfer to Sewer General Fund	152,800	553,800	553,800	-	(553,800)
Transfer to General Fund Reserve	1,913,000	1,583,800	1,583,800	-	(1,583,800)
Transfer to Sewer Replacement	-	127,000	127,000	1,199,300	1,072,300
Transfer to OPEB	1,242,900	647,100	647,100	1,006,000	358,900
Transfer to New Supply Reserve	-	705,000	705,000	35,000	(670,000)
Total Non-Departmental Expenditure	\$ 62,111,047	\$ 62,853,400	\$ 62,254,094	\$ 59,854,400	\$ (2,999,000)
Total Operating Expenditures	\$ 88,398,490	\$ 91,640,000	\$ 89,504,676	\$ 89,236,000	\$ (2,404,000)

FY 2016 FUNDING SOURCE BY DEPARTMENT, IN MILLIONS (\$)



* Actual unaudited

Operating Expenditures by Object

	FY 2014	FY 2015	FY 2015	FY 2016	Budget to Budget
	Actual	Budget	Actual*	Budget	Variance
Departmental Expenditures					
Labor and Benefits	\$ 19,733,444	\$ 20,474,600	\$ 20,178,082	\$ 21,142,100	\$ 667,500
Director's Fees	19,834	30,000	20,382	30,000	-
Travel and Meetings	147,110	207,700	158,205	214,400	6,700
Conservation and Outreach	136,743	174,900	144,026	176,900	2,000
General Office Expense	258,732	280,800	257,756	284,700	3,900
Equipment	943,153	1,139,600	1,233,988	1,112,300	(27,300)
Fees	1,361,304	1,565,700	1,334,848	1,335,000	(230,700)
Services	1,387,477	2,152,300	1,619,936	2,409,800	257,500
Training	65,818	123,500	77,232	99,000	(24,500)
Materials & Maintenance	2,035,352	2,324,900	2,131,264	2,616,400	291,500
Power and Utilities	12,929	14,000	14,184	14,900	900
Sewer Charges	1,122,524	1,294,900	1,208,513	996,400	(298,500)
Bad Debt Expense	154,744	155,000	93,491	155,000	-
Total Departmental Expenditures	\$ 27,379,164	\$ 29,937,900	\$ 28,471,907	\$ 30,586,900	\$ 649,000
Less: Overhead Allocation	(1,091,721)	(1,151,300)	(1,221,325)	(1,205,300)	(54,000)
Net Departmental Expenditures	\$ 26,287,443	\$ 28,786,600	\$ 27,250,582	\$ 29,381,600	\$ 595,000
Non-Departmental Expenditures					
Water Purchases	\$ 48,210,501	\$ 47,059,200	\$ 46,249,959	\$ 45,984,500	\$ (1,074,700)
Power	2,808,846	2,838,400	3,048,335	3,112,800	274,400
Expansion Reserve	3,428,000	2,538,900	2,538,900	2,695,800	156,900
Betterment Reserve	125,000	3,530,000	3,530,000	2,400,000	(1,130,000)
Replacement Reserve	4,230,000	3,270,200	3,270,200	3,421,000	150,800
Transfer to Sewer General Fund	152,800	553,800	553,800	-	(553,800)
Transfer to General Fund Reserve	1,913,000	1,583,800	1,583,800	-	(1,583,800)
Transfer to Sewer Replacement	-	127,000	127,000	1,199,300	1,072,300
Transfer to OPEB	1,242,900	647,100	647,100	1,006,000	358,900
Transfer to New Supply Fund	-	705,000	705,000	35,000	(670,000)
Total Non-Departmental Expenditures	\$ 62,111,047	\$ 62,853,400	\$ 62,254,094	\$ 59,854,400	\$ (2,999,000)
Total Operating Expenditures	\$ 88,398,490	\$ 91,640,000	\$ 89,504,676	\$ 89,236,000	\$ (2,404,000)

*Actual unaudited

Board of Directors



Jose Lopez
President
Division 4



Mitchell Thompson
Vice President
Division 2



Mark Robak
Treasurer
Division 5



Tim Smith
Division 1



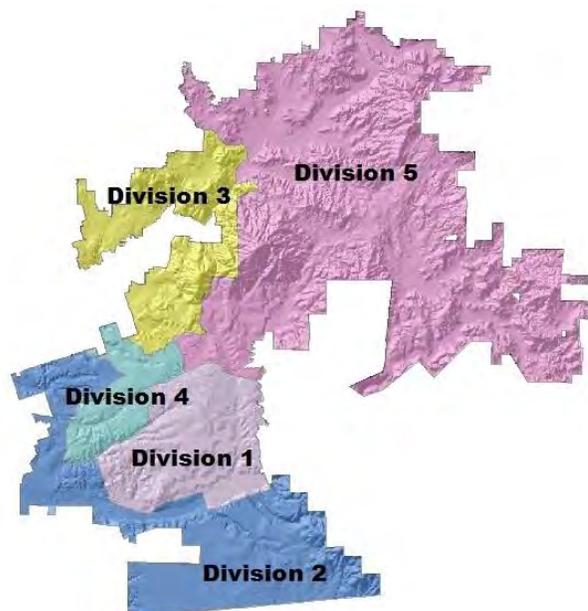
Gary Croucher
Division 3

BOARD OF DIRECTORS

The Otay Water District is a revenue-neutral public agency established in accordance with the California Water Code. This not-for-profit status means Otay has no private shareholders, pays no dividends and therefore does not report to, nor answer to the California Public Utilities Commission. The District does, however, answer to the public through a five-member Board of Directors. Each Director is elected by voters within their respective division boundaries to represent the public's interest with regard to rates for service, taxes, policies, ordinances, and other matters related to the management and operation of the Otay Water District. Directors serve four-year, alternating terms on the Board.

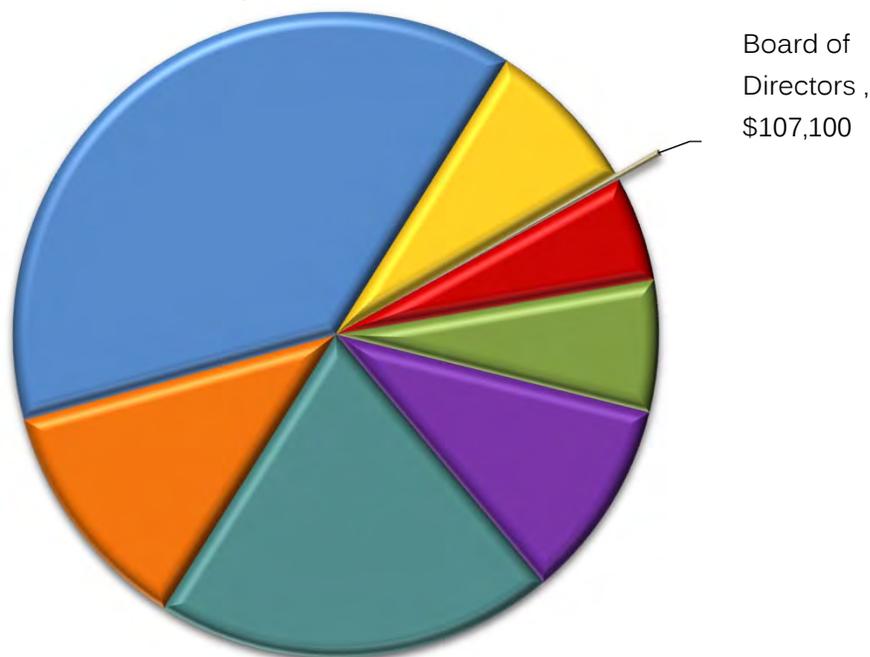
MISSION STATEMENT

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



Board of Directors

FY 2016 Total Departmental Budget
\$30.6 Million



Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.0%
General Expense	2,019,400	7.5%
Administrative Services	3,070,500	12.3%
Finance	6,128,400	16.7%
IT and Strategic Planning	3,610,600	10.9%
Water Operations	11,663,400	40.1%
Engineering	2,381,600	7.1%
	\$ 30,586,900	100.0%

Board of Directors

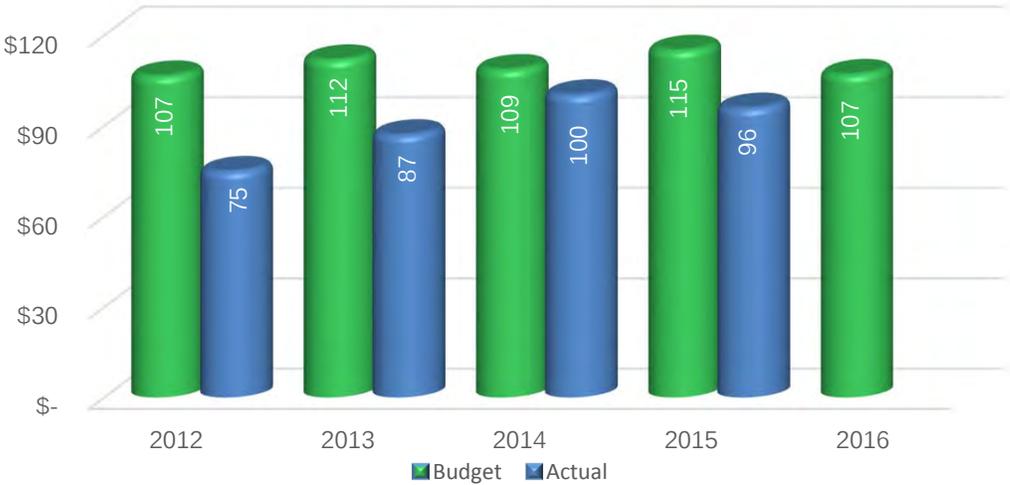
FY 2014	FY 2015	FY 2015	FY 2016
Actual	Budget	Actual*	Budget
\$ 100,367	\$ 115,100	\$ 95,949	\$ 107,100

*Actual unaudited

Board of Directors

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Benefits	71,935	\$ 68,500	69,094	\$ 61,600
Director's Fees	19,834	30,000	20,382	30,000
Travel and Meetings	7,798	16,600	6,473	15,500
Training	800	-	-	-
Total	\$ 100,367	\$ 115,100	\$ 95,949	\$ 107,100

BUDGET VS. ACTUAL, IN THOUSANDS (\$)



*Actual unaudited

Director's Division Boundaries



General Manager

MISSION

To provide high value water and wastewater services to the customers of the Otay Water District, in a professional, effective, and efficient manner.

GENERAL MANAGER'S VISION

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

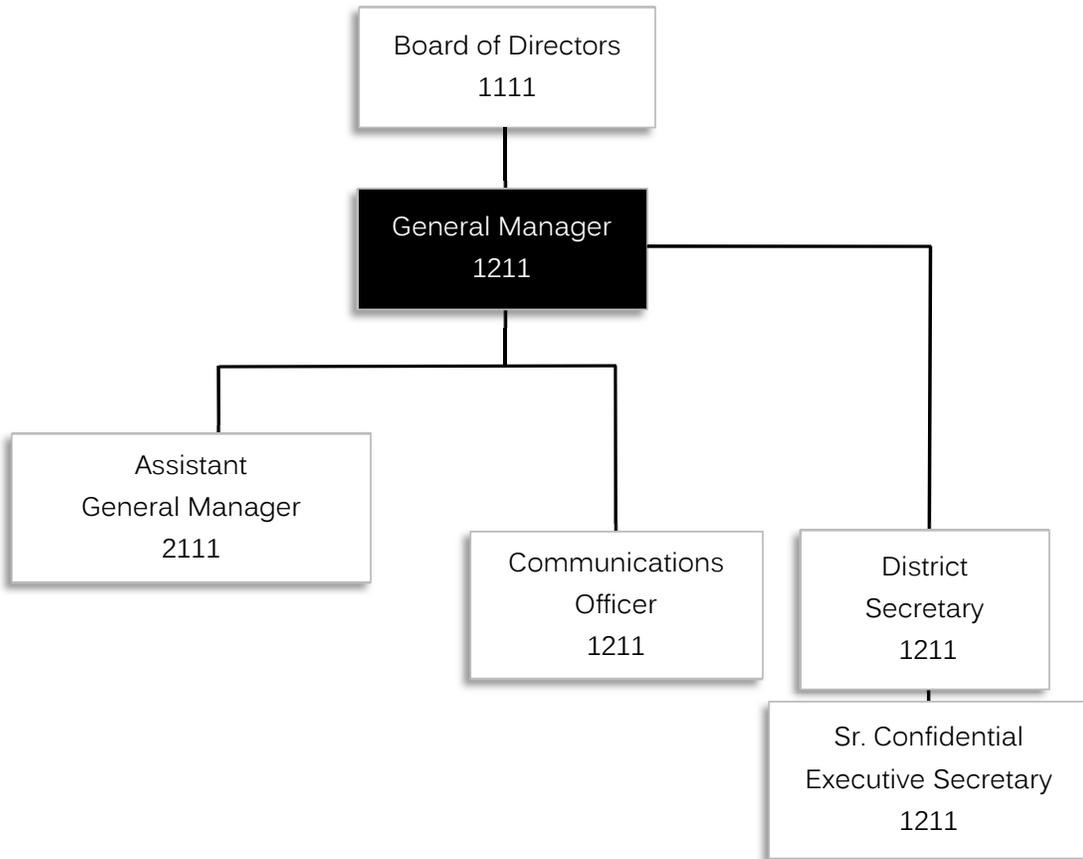
KEY CHALLENGE

Our key challenge, as District staff, is to quantify and demonstrate our commitment and the ability to optimize our resources, business processes, and technology to achieve the strategic plan goals. We, as a team, commit to regularly assess and document how our decisions and work practices accomplish our goals and objectives.



General Manager - Position Count

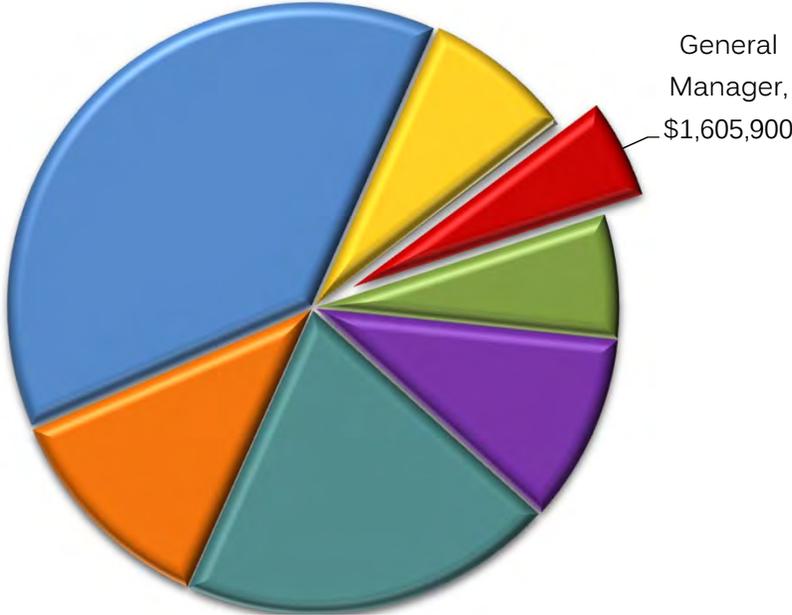
DISTRICT POSITION COUNT - 138
GENERAL MANAGER DEPARTMENT - (5 POSITIONS)



<u>Position Title</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
General Manager	1	1	1
Assistant General Manager	1	1	1
District Secretary	1	1	1
Sr. Confidential Executive Secretary	1	1	1
Communications Officer	1	1	1
Total	5	5	5

General Manager

FY 2016 Total Departmental Budget
\$30.6 Million



Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.3%
General Expense	2,019,400	6.6%
Administrative Services	3,070,500	10.0%
Finance	6,128,400	20.0%
IT and Strategic Planning	3,610,600	11.8%
Water Operations	11,663,400	38.1%
Engineering	2,381,600	7.8%
Total	\$ 30,586,900	100.0%

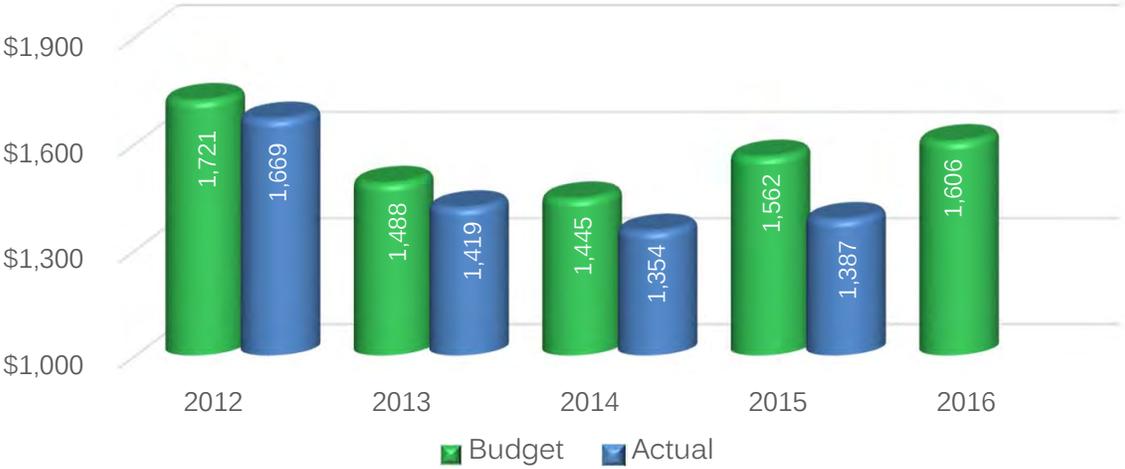
	FY 2014 Actual	FY 2015 Budget	FY 2015 Actual*	FY 2016 Budget
General Manager	\$ 1,039,143	\$ 1,240,500	\$ 1,061,445	\$ 1,263,300
Assistant General Manager	314,688	321,800	325,192	342,600
Total	\$ 1,353,831	\$ 1,562,300	\$ 1,386,637	\$ 1,605,900

*Actual unaudited

General Manager

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits	\$ 1,112,599	\$ 1,128,400	\$ 1,152,471	\$ 1,199,600
Travel and Meetings	42,804	54,600	44,127	54,600
Conservation and Outreach	3,421	7,000	4,061	6,000
General Office Expense	3,164	5,300	2,449	1,700
Equipment	2,700	4,000	2,400	3,000
Fees	47,303	64,000	57,930	48,000
Services	141,689	199,000	123,049	193,000
Materials & Maintenance	-	100,000	-	100,000
Miscellaneous	151	-	150	-
Total	\$ 1,353,831	\$ 1,562,300	\$ 1,386,637	\$ 1,605,900

BUDGET VS. ACTUAL, IN THOUSANDS (\$)



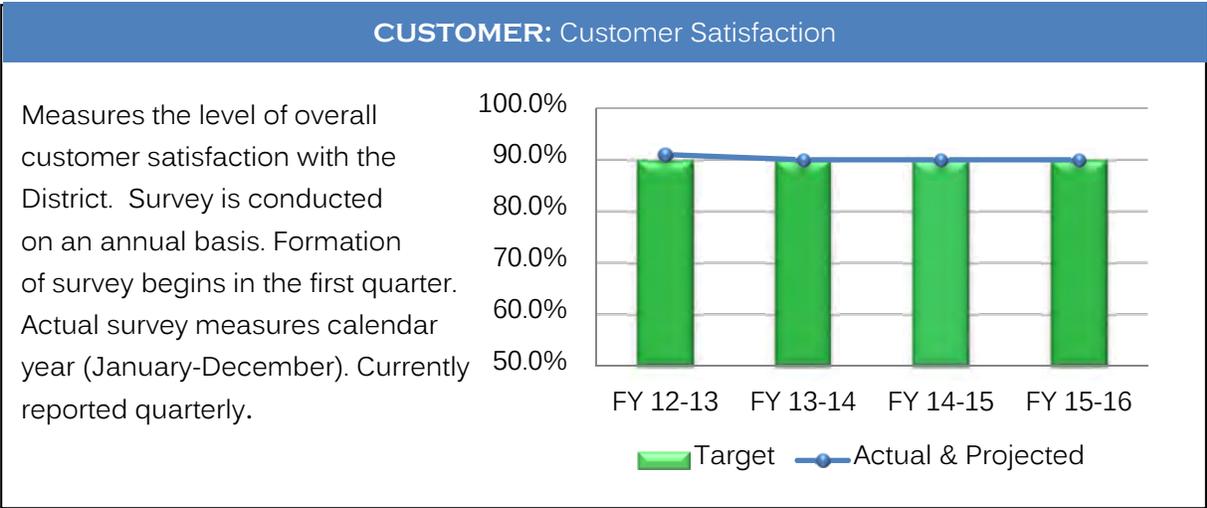
*Actual unaudited

General Manager

Services We Provide

The General Manager's office provides leadership and direction for all District services and operations including potable, recycled, and the treatment plant. As head of the agency, the General Manager interacts with the Board of Directors to set policies and strategic direction and ensures that all applicable laws and regulations are met. The General Manager oversees, coordinates, and directs the development and execution of annual plans, and operating and capital improvement projects; represents the District in establishing and maintaining relationships with member agencies and external organizations, and is focused on executing the District's mission, Strategic Plan, and Board priorities.

Performance Measures – Strategic Plan FY 2015-2018



General Manager

Accomplishments – Fiscal Year 2014-2015

- For FY 2015, Otay Water District continued to be one of the lower cost water service providers of San Diego County's 23 public water agencies.
- The District updated and implemented the FY 2015-2018 Strategic Plan. This is the 12th year the plan has been in place.
- The District successfully responded to the state's drought emergency and the Water Resources Control Board's order to immediately reduce potable water use by 20% over 2013 levels.
- The District reached the conservation goal through the rapid development and implementation of a Drought Community Outreach Plan that coordinated and deployed all existing outreach tools to cost-effectively communicate with every customer through either direct mail, bill messaging, email or auto-dial phone messaging. In the first weeks of implementation, customers reduced potable water use by 25%. This was followed by monthly reductions of 27% and 26%, respectively.
- Through restructuring and without resorting to layoffs, the District's labor costs were reduced through the elimination of two full-time equivalent positions (FTE).
- Since 2007, the District has experienced a reduction of 36.75 FTEs, or 21%. In the same timeframe, the number of customers served per FTE has grown from 301 to 396, an increase of 31.5%.
- Staffing reductions from 2007 to present have resulted in a cumulative net savings of \$23,935,600. These savings have helped to lessen the impact of higher wholesale water costs to the District's ratepayers.
- For the eleventh consecutive year, the District received the *Distinguished Budget Presentation Award* from the Government Finance Officers Association (GFOA) of the United States and Canada.
- For the eleventh consecutive year, the District received the GFOA's *Certificate of Achievement for Excellence in Financial Reporting*.
- The District completed the Notice of Preparation (NOP) and scoping meeting in conjunction with the U.S. State Department for the Otay Mesa Conveyance and Disinfection System project Environment Impact Report/Environmental Impact Statement. The goal is to obtain a Presidential Permit to be able to receive desalinated water from the proposed Desalination Plant in Rosarito, B.C., Mexico.
- The District continues to work with the California Department of Public Health, Mexican officials and NSC Agua as they continue working toward permitting, approval, and construction of an ocean water desalination facility to serve potential customers in Mexico and in Otay's service area.

Administrative Services - General

MISSION STATEMENT

To provide support to the Board of Directors, the General Manager, and District staff by identifying and meeting objectives to satisfy the needs of our customers by providing, through best management practices, the full range of employer and employee services, administrative services, risk management, safety and security, and emergency preparedness and response.

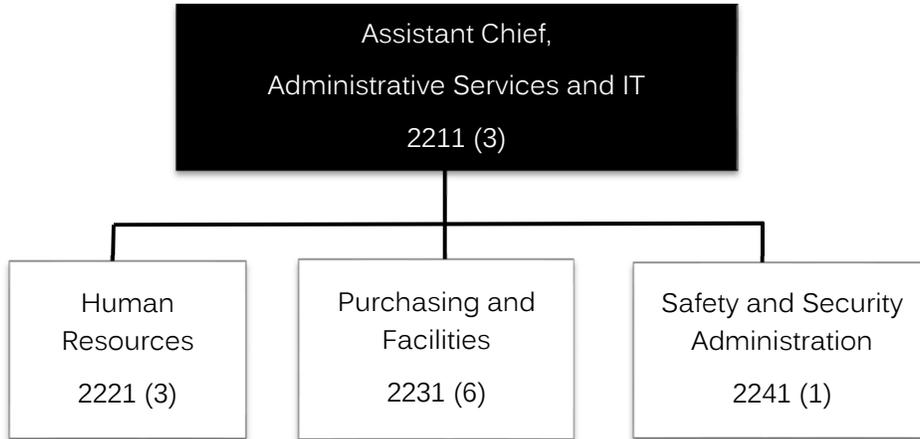


DEPARTMENT RESPONSIBILITIES

The Administrative Services Department, under the general direction of the Assistant General Manager and Assistant Chief of Administrative Services and Information Technology Services, provides the following support services: Human Resources, Purchasing, Facilities Maintenance, and Safety and Security Administration. The department also coordinates assigned activities with other departments and outside agencies, and provides highly responsible and complex administrative support to the District, General Manager, and Board of Directors.

Administrative Services - Position Count

DISTRICT POSITION COUNT - 138 ADMINISTRATIVE SERVICES DEPARTMENT - (13 POSITIONS)

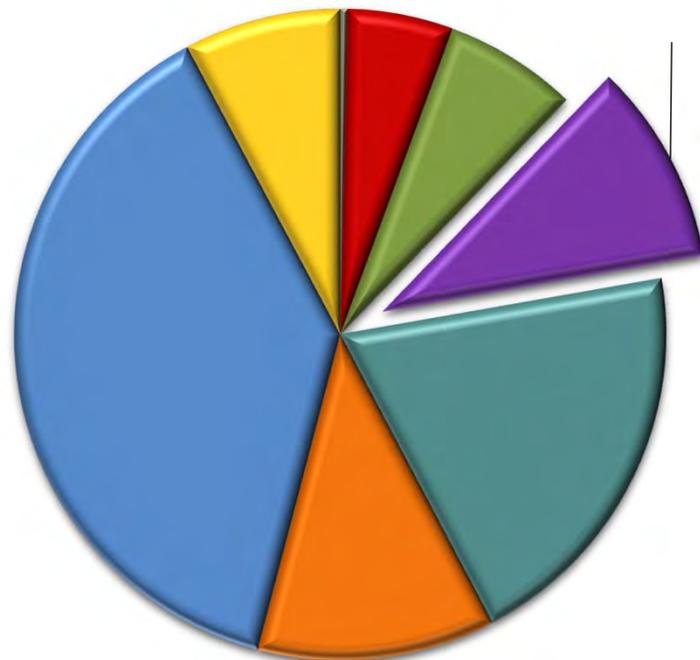


<u>Position Title</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Chief, Administrative Services (Assistant Chief, Administrative Services and IT) (a)	1	1	1
Confidential Executive Secretary	1	1	1
Confidential Secretary	1	1	1
Human Resources Manager	1	1	1
Senior Human Resources Analyst	1	1	1
Human Resources Analyst	1	1	1
Human Resources Technician	1	0	0
Purchasing & Facilities Manager	1	1	1
Senior Buyer	1	1	1
Assistant Buyer	1	1	1
Lead Warehouse Worker / Facilities Worker	1	1	0
Warehouse / Delivery Worker	1	1	1
Facilities Maintenance Technician	2	2	2
Safety & Security Specialist	1	1	1
Senior Water Conservation Specialist	1	0	0
Total	16	14	13

(a) Interim position oversees Administrative Services and Information Technology (IT).

Administrative Services

FY 2016 Total Departmental Budget
\$30.6 Million



Administrative
Services,
\$3,070,500

Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.3%
General Expense	2,019,400	6.6%
Administrative Services	3,070,500	10.0%
Finance	6,128,400	20.0%
IT and Strategic Planning	3,610,600	11.8%
Water Operations	11,663,400	38.1%
Engineering	2,381,600	7.8%
Total	\$ 30,586,900	100.0%

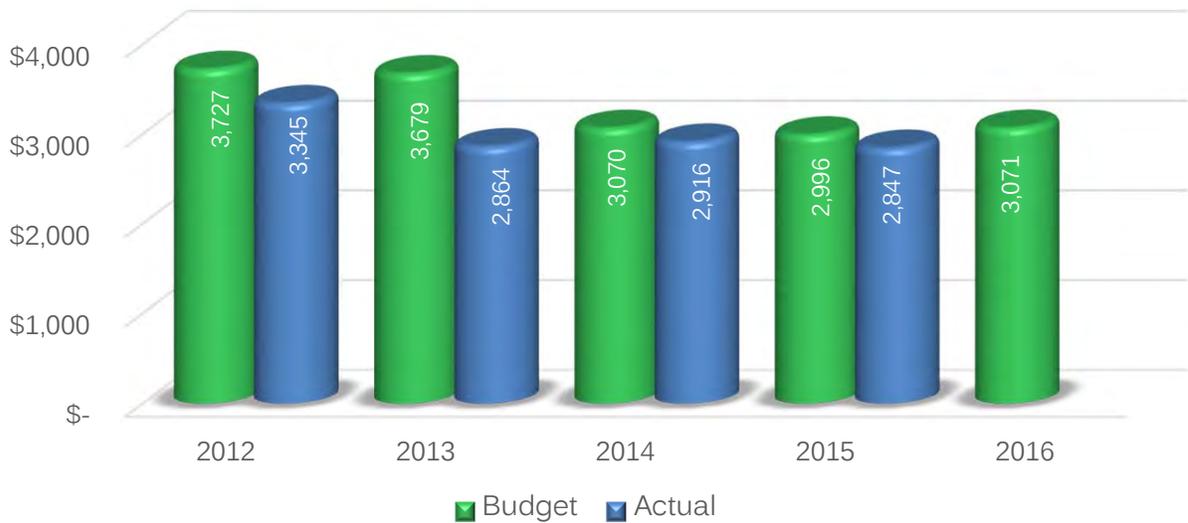
	FY 2014 Actual	FY 2015 Budget	FY 2015 Actual*	FY 2016 Budget
Administrative Chief	\$ 481,371	\$ 463,800	\$ 569,260	\$ 511,700
Human Resources	720,522	703,300	694,264	730,000
Purchasing and Facilities	1,452,526	1,455,800	1,221,295	1,415,900
Safety and Security	261,152	372,700	362,389	412,900
Total	\$ 2,915,571	\$ 2,995,600	\$ 2,847,208	\$ 3,070,500

*Actual unaudited

Administrative Services

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits	\$ 2,027,956	\$ 2,044,500	\$ 1,952,312	\$ 2,065,700
Travel and Meetings	5,052	16,700	11,075	17,300
General Office Expense	106,291	108,000	100,119	106,000
Equipment	64,074	75,500	62,972	81,000
Fees	-	-	750	-
Services	294,272	316,000	298,789	282,600
Training	41,446	92,600	56,002	70,000
Materials & Maintenance	363,551	328,300	351,005	433,000
Power and Utilities	12,929	14,000	14,184	14,900
Total	\$ 2,915,571	\$ 2,995,600	\$ 2,847,208	\$ 3,070,500

BUDGET VS. ACTUAL, IN THOUSANDS (\$)



*Actual unaudited

Administrative Services – Strategic Plan Objectives

ADMINISTRATIVE SERVICES OBJECTIVES - STRATEGIC PLAN FY 2015-2018

Completed Objectives:

BUSINESS PROCESSES

- Enhanced security processes and planning.

LEARNING AND GROWTH

- Finalized negotiations of a successor Memorandum of Understanding for represented employees, implemented related compensation and benefits for unrepresented employees, and implemented updates to policies and MOU.

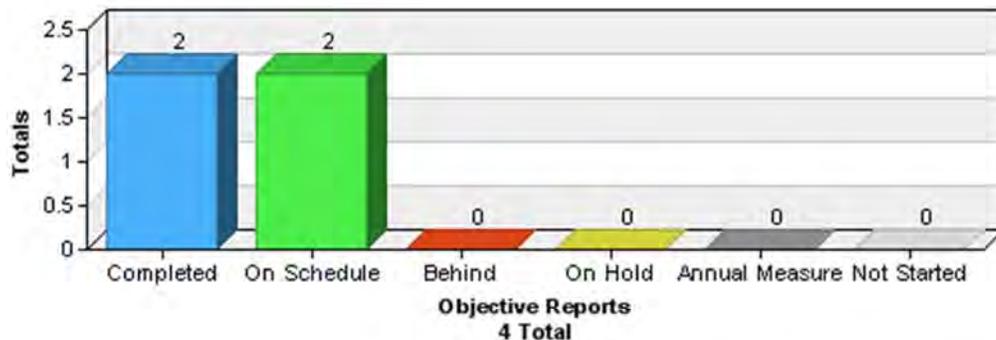
Objectives on schedule:

BUSINESS PROCESSES

- Evaluate opportunities to combine or transfer similar work functions.

CUSTOMER

- Regularly produce and evaluate communications tools and explore the effective use of new media options including: electronic newsletters, auto-dialer services, video streaming, social networks or web media to ensure the District's outreach efforts are cost-effectively reaching all stakeholders.



Legend	
	Completed
	On Schedule
	Behind Schedule
	On Hold
	No Reports
	Not Scheduled to Start Yet

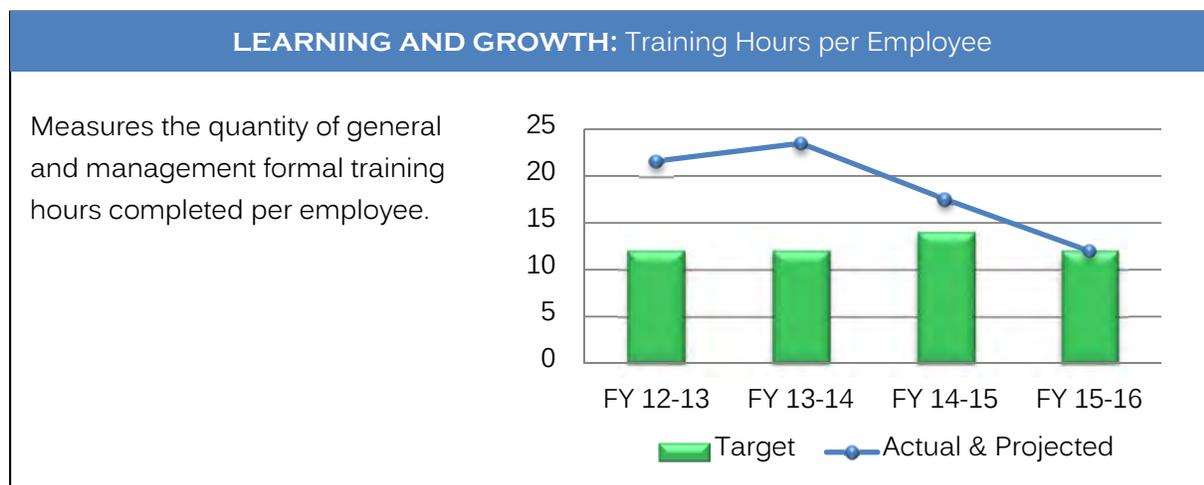
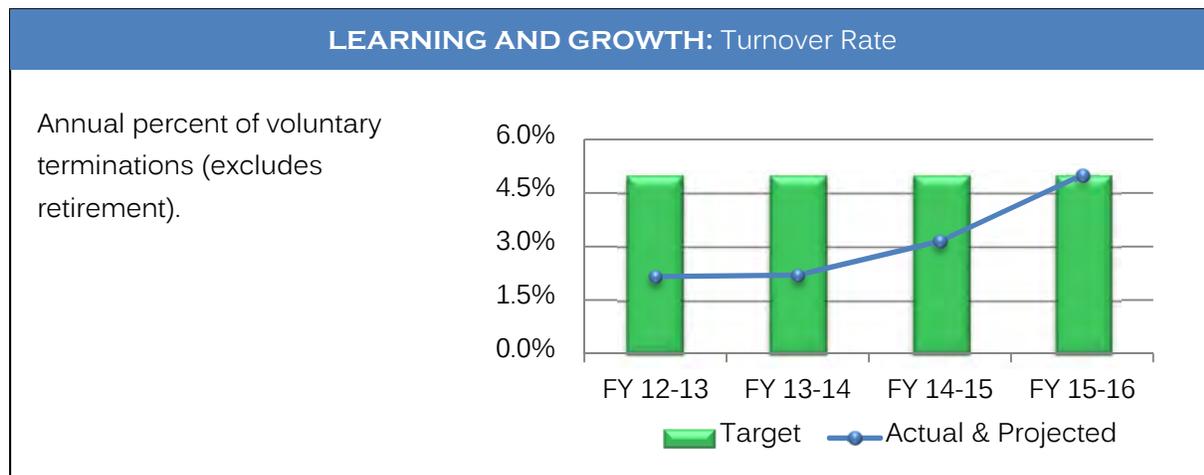
Administrative Services – Human Resources

HUMAN RESOURCES

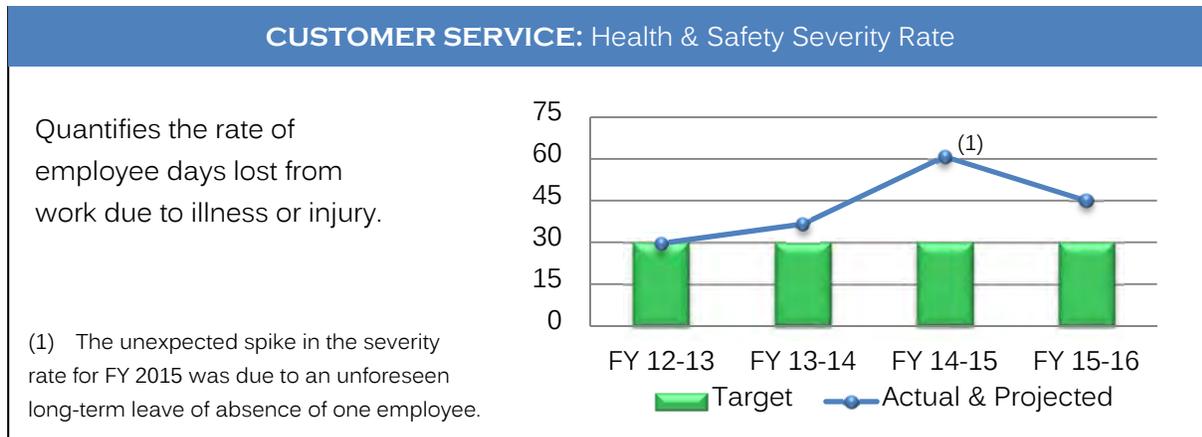
Services We Provide

Human Resources, under the direction of the Assistant Chief of Administrative and Information Technology Services, provides the following support services: recruits, selects and ensures the retention of qualified employees; develops, implements and administers policies, procedures, collective bargaining contracts and employee programs; ensures up-to-date classification plans and a competitive compensation program; manages benefits programs for employees and retirees; manages the Workers' Compensation program; oversees employee performance through staff management to include employee training and development; recognition and incentives; performance evaluation process and employee discipline; ensures legal compliance; and implements work/life balance initiatives to include a wellness program.

Performance Measures – Strategic Plan FY 2015-2018



Administrative Services – Human Resources



Accomplishments – Fiscal Year 2014-2015

- Decreased labor costs by participating with other departments to reduce two (2) full-time positions by instituting efficiency programs, which minimized the impact of higher water costs from wholesalers, resulting in District-wide annual cost-savings of approximately \$254,000.
- Finalized negotiations and implementation of a three-year successor Memorandum of Understanding (MOU) with the Employee Association that will be in effect from July 1, 2014-June 30, 2017. Updates to contract language include streamlining grievance and discipline procedures, updating leave provisions, eliminating double time and updating assignment of premiums for standby and call back pay resulting in approximately \$14,000 annual cost-savings for these pay types, and making general updates to 26 sections to further streamline MOU language.
- Worked with benefit consultant to price ancillary benefits in the market and changed Short and Long-Term Disability coverage, which resulted in a savings of approximately \$9,000 per year with a three-year rate guarantee, totaling approximately \$27,000 over the three-year period. The District also changed the dental third party administrator arrangement, which was a seamless transfer for employees while providing for cost-savings to the District of approximately \$4,200, a 19.7% decrease after the first year of implementation.
- Coordinated and received credit for the Special District Risk Management Authority's (SDRMA) Credit Incentive Program. The District received a combined credit of approximately \$97,700, which was applied towards the Property/Liability and Workers' Compensation premiums. This credit includes CIP, longevity distribution, and a 5% multi-program discount. In addition to this credit, the District received a high-volume discount of approximately \$268,000.
- Developed and/or updated various policies, procedures, and programs to include the Policy Against Discrimination & Harassment and Complaint Procedure, Supervisor Performance Evaluation Manual, Department of Transportation Procedure, and Paid Sick Leave Policy for Temporary Employees.
- Successfully completed the recruitment and selection process for 20 positions within the District..

Administrative Services – Purchasing

PURCHASING

Services We Provide

The Purchasing Division, under general direction of the Assistant Chief of Administrative and Information Technology Services, oversees the general purchasing standards used within the District; purchases and oversees the procurement of supplies, equipment, and services; controls and administers the District's standard materials inventory; disposes of surplus materials, equipment, and supplies; assists in the acquisition and disposal of non-infrastructure related real estate; performs non-structural facility maintenance work; and administers and manages outsourced facility maintenance service contracts. Also, as needed, provides complex purchasing related analysis and consultation to the District and General Manager.

Accomplishments – Fiscal Year 2014-2015

- Instituted a Help Desk Ticket email process to assist Operations field personnel to immediately report conditions in need of attention using iPhones and Toughbooks.
- Directed the conversion of the District's CalCard online expense reporting program, a cumbersome time-consuming paper-based expense reporting practice, to U.S. Bank's online portal, reducing expense report submissions from 6 weeks to nearly real-time. Streamlined procedures to assist in capturing early payment rebates and saved hundreds of labor hours with one-time data entry and automated processes.
- Setup of Office Depot's online ordering system with the District's contracted pricing to give departments direct access to purchase office supplies eliminating the requisitioning process, purchasing, invoicing, and warehousing of low dollar items, resulting in savings of staff time.
- With the aid of Safety and Security, upgraded the obsolete analog fire alarm panels at Operations, Warehouse, and Administration buildings to all digital systems in order to meet the latest codes and standards.
- Eliminated vacant Lead Warehouse and Facilities Worker position by rearranging current associated duties. All aspects of warehouse support, inventory, the fuel island, surplus, and e-waste management duties were absorbed by the Purchasing Manager and staff, resulting in savings of approximately \$142,232 per year.
- Facilities and Safety & Security staff has begun a District-wide program to standardize and modernize the District's physical security alarm, access control, and video verification systems and to consolidate administrative functions under DMP's Entré Access & Security Management System Software. To date, two sites have been integrated into the new program with the remaining scheduled throughout FY 2016-17.

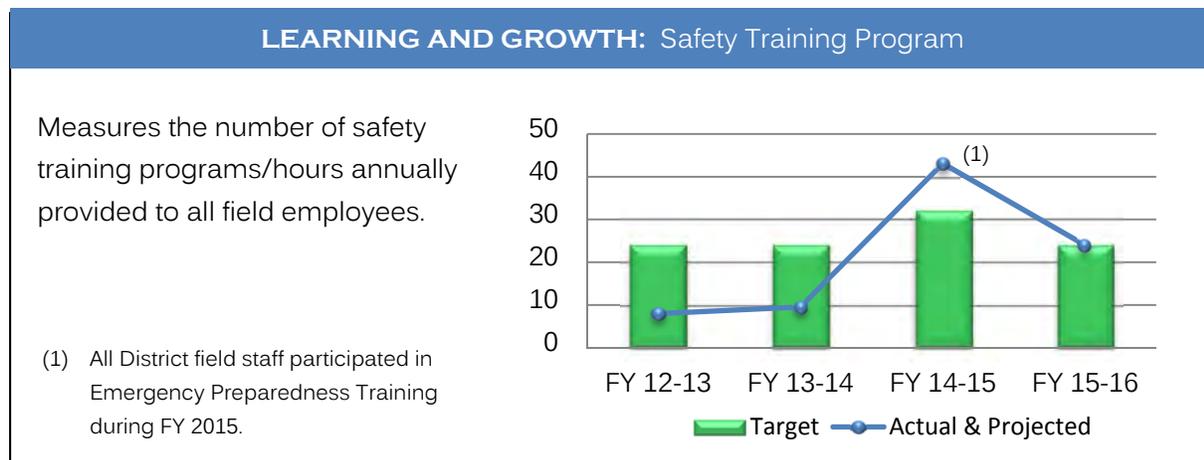
Administrative Services – Safety and Security

SAFETY AND SECURITY

Services We Provide

Safety and Security, under the direction of the Assistant Chief of Administrative and Information Technology Services, provides the following: assesses the occupational exposure to risk; evaluates hazards and mitigation of safety hazards and risk to injury; directs and supervises accident investigations relating to occupational injuries, fleet incidents and/or damage to, or theft of District property; develops hazardous materials business plans, community right-to-know, Risk Management Prevention and Process Safety Management plans; develops and implements procedures to ensure compliance with safe work practices and determines training needs to address issues; develops, implements and manages safety programs; manages the District's security program; implements, schedules and coordinates recurring safety training; coordinates the Department of Transportation (DOT), the District's Drug Free Workplace, and DMV Pull-Notice Programs; and plans and coordinates the District's emergency preparedness program.

Performance Measures – Strategic Plan FY 2015-2018



Accomplishments – Fiscal Year 2014-2015

- District-wide completion of the Incident Command System (ICS) and National Incident Management System (NIMS) training framework. The training further prepares the District with response, management, and cooperation of incidents ranging from local to state-wide emergency events.
- Developed and/or updated various policies, procedures, and programs to include Cal/OSHA regulatory updates to Heat Illness Prevention, Noise/Hearing Conservation, First Aid/AED/CPR, Confined Space/Confined Space Rescue, Fall Protection, Forklift Operations, Reporting Injuries, Spill Prevention Control and Countermeasure Plans (SPCC), inspections and revalidation of 25 qualified District facilities with chemical inventories.
- Commenced the first phase of a District-wide program to standardize and modernize District physical security, access control, monitoring and video system. This phase included a successful proof of concept evaluation of the new enterprise security model at two District facilities and Board approval for the migration of selected facilities.

Finance – General

MISSION STATEMENT

To provide timely, accurate, and clear information that optimizes service to the District's staff and ratepayers. Through continuous improvement, professional service, and effective fiscal policies the Finance Department will ensure that financial resources are collected, recorded, protected, and expended in a fiscally responsible manner.

Meter Maintenance



Customer Service



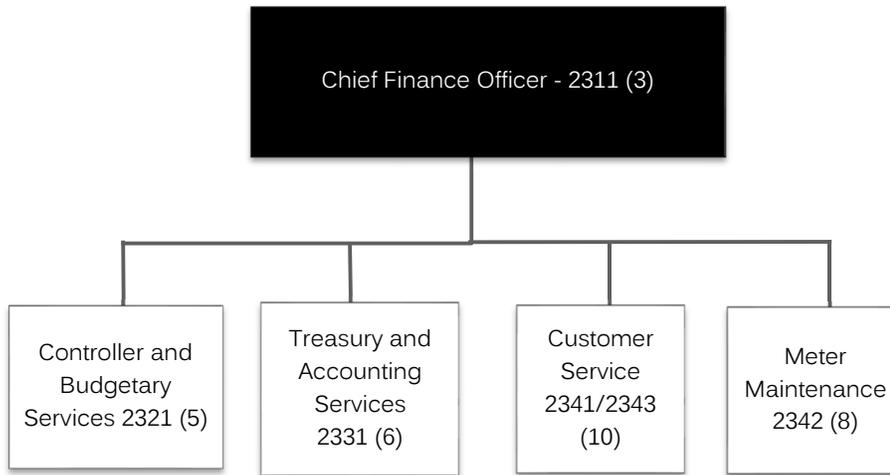
Finance

DEPARTMENT RESPONSIBILITIES

The Finance Department, under the general direction of the Chief Financial Officer, provides the following support services: Controller and Budgetary Services, Treasury and Accounting Services, Payroll and Accounts Payable, and Customer Service. The Department ensures the District's conformance with modern finance, accounting theory and practices, and compliance with applicable state and federal laws. In addition, it provides customer support, meter reading and maintenance, and water conservation outreach programs. The Finance staff provides highly responsible and complex administrative and technical support to the District, General Manager, and Board of Directors.

Finance - Position Count

DISTRICT POSITION COUNT - 138 FINANCE DEPARTMENT - (32 POSITIONS)



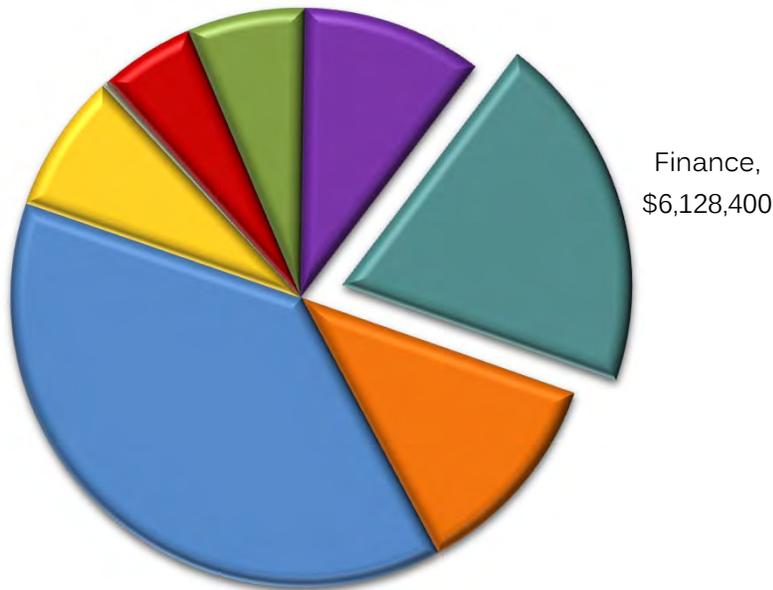
<u>Position Title</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Chief Financial Officer	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Finance Manager, Treasury and Accounting	1	1	1
Finance Manager, Controller and Budget	1	1	1
Customer Service Manager	2	2	2
Senior Accountant	4	4	4
Accountant	3	3	3
Accounting Technician ^(a)	2	2	2
Lead Customer Service Representative	2	2	2
Customer Service Representative I, II and III	7	7	6
Lead Customer Service Field Representative	1	1	1
Customer Service Field Representative I and II	3	3	2
Lead Cross Connection/Meter Maintenance Worker ^(a)	0	1	1
Meter Maintenance Worker I & II ^(a)	0	3	3
Senior Conservation Specialist ^(b)	0	1	1
Total	29	34	32

^(a) Beginning in FY 2015, Meter Maintenance was moved to Finance.

^(b) Beginning in FY 2015, Senior Conservation Specialist Position was moved to Finance.

Finance

FY 2016 Total Departmental Budget
\$30.6 Million



■ Board of Directors	\$ 107,100	0.4%
■ General Manager	1,605,900	5.3%
■ General Expense	2,019,400	6.6%
■ Administrative Services	3,070,500	10.0%
■ Finance	6,128,400	20.0%
■ IT and Strategic Planning	3,610,600	11.8%
■ Water Operations	11,663,400	38.1%
■ Engineering	2,381,600	7.8%
	\$ 30,586,900	100.0%

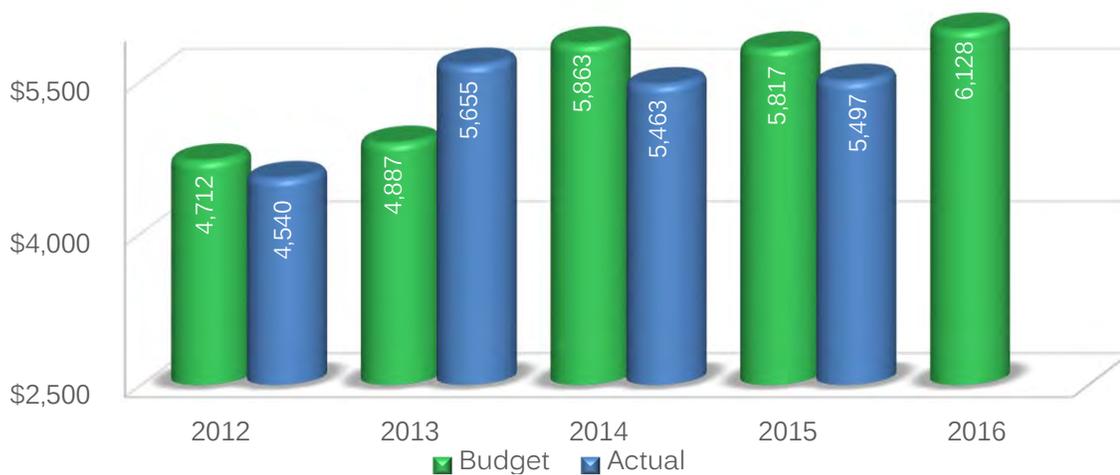
	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Finance Chief	\$ 503,297	\$ 517,100	\$ 524,447	\$ 544,600
Controller and Budgetary Services	820,598	827,600	830,236	883,300
Treasury and Accounting Services	1,283,993	1,293,900	1,289,188	1,364,700
Customer Service	2,048,685	2,148,900	1,964,999	2,115,600
Meter Shop	542,089	606,300	601,735	626,100
Water Conservation	264,548	422,900	285,906	594,100
Total	\$ 5,463,210	\$ 5,816,700	\$ 5,496,511	\$ 6,128,400

*Actual unaudited

Finance

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits	\$ 4,374,755	\$ 4,567,800	4,475,530	\$ 4,687,100
Travel and Meetings	14,990	25,100	17,611	26,100
Conservation and Outreach	133,322	167,900	139,965	170,900
General Office Expense	147,820	164,700	153,875	167,800
Equipment	-	200	-	-
Fees	368,200	362,200	354,813	351,600
Services	171,379	237,900	123,313	432,500
Training	-	-	-	500
Materials & Maintenance	98,151	135,900	138,063	136,900
Bad Debt Expense	154,593	155,000	93,341	155,000
Total	\$ 5,463,210	\$ 5,816,700	\$ 5,496,511	\$ 6,128,400

BUDGET VS. ACTUAL, IN THOUSANDS (\$)



*Actual unaudited

Finance – Strategic Plan Objectives

FINANCE DEPARTMENT OBJECTIVES – STRATEGIC PLAN FY 2015-2018

Objectives on Schedule:

BUSINESS PROCESSES

- Evaluate and enhance the District's water conservation programs and services.
- Improve and streamline meter related processes.
- Streamline Finance business processes.

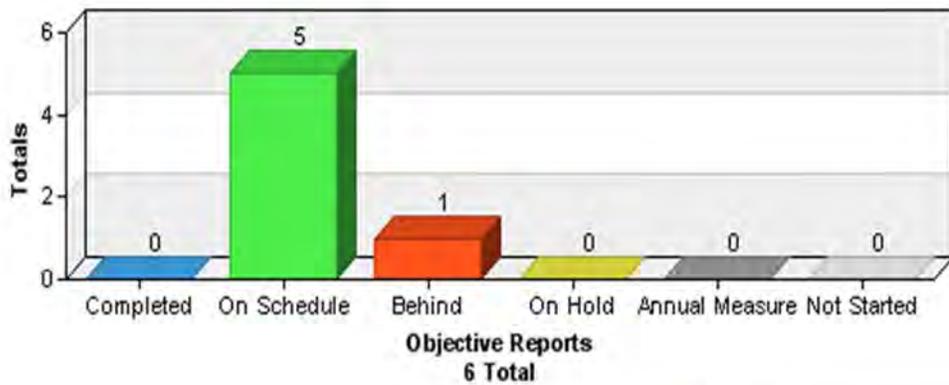
FINANCIAL

- Implement an internal audit program for the District with the purpose of ensuring adequate controls are in place to safeguard the property of the District.
- Improve financial planning and communication regarding the expenditure of District funds.

Objectives behind Schedule:

CUSTOMER

- Enhance communications with customers using our new phone system.



Legend	
■	Completed
■	On Schedule
■	Behind Schedule
■	On Hold
■	No Reports
■	Not Scheduled to Start Yet

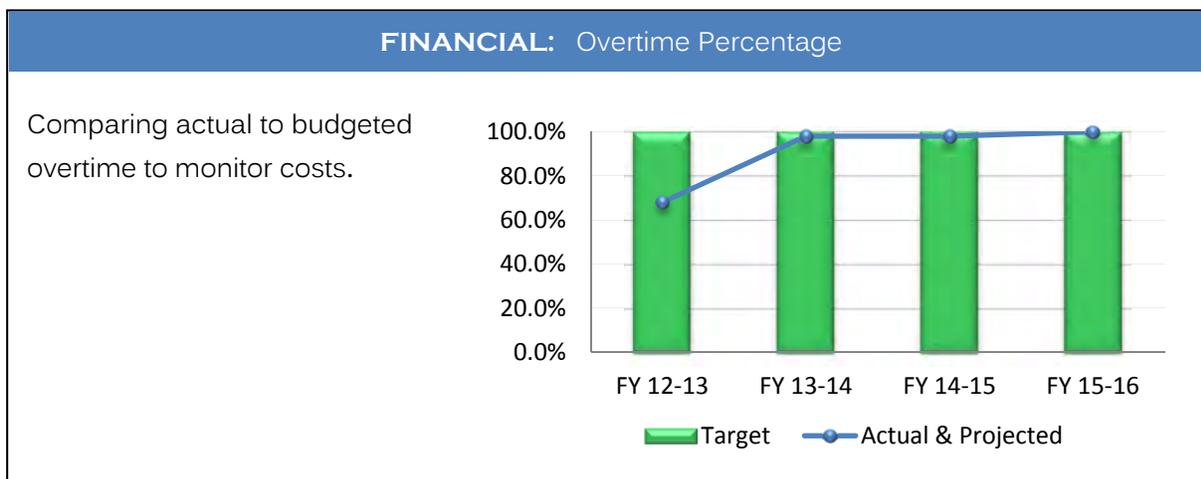
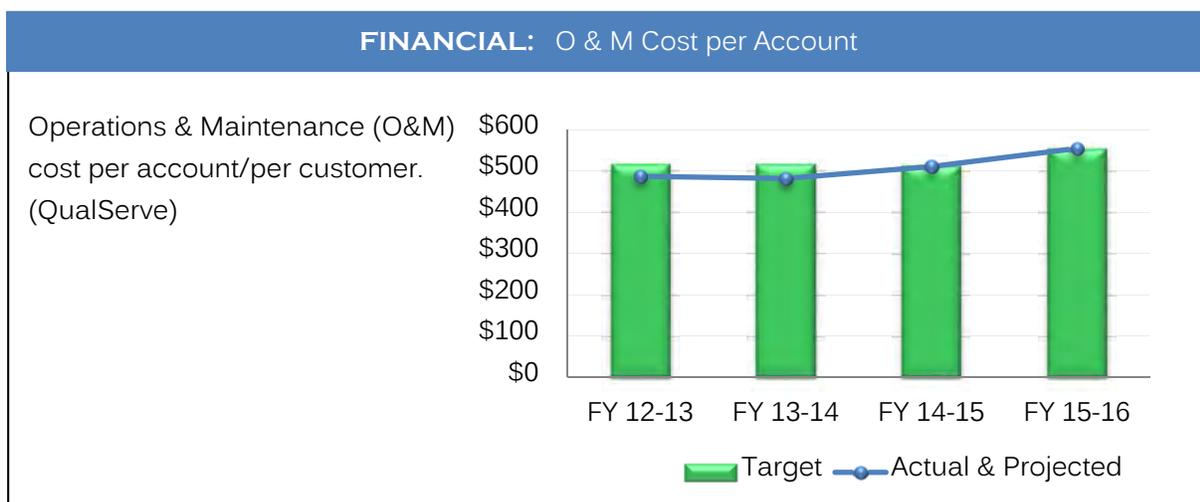
Finance – Controller and Budgetary Services

CONTROLLER AND BUDGETARY SERVICES

Services We Provide

The Controller and Budgetary Services Division is responsible for developing and publishing the annual operating and capital budgets as well as preparing the six-year financial plan and proposing rate changes. Staff prepares monthly and annual reports, monitors budget variances, and coordinates interactions with outside agencies. This division is also responsible for the bi-weekly payroll of 138 full-time and temporary employees using the District's Integrated Financial Eden System. Timesheets and pay stubs are collected and distributed electronically. Benefits and deductions are processed bi-weekly. Federal and state tax returns are filed on a quarterly basis and W2s are filed annually.

Performance Measures – Strategic Plan FY 2015-2018



Finance – Controller and Budgetary Services

FINANCIAL: Sewer Rate Ranking

District's average customer bill as compared to other agencies in San Diego County. Otay is ranked 7th of 28 agencies.



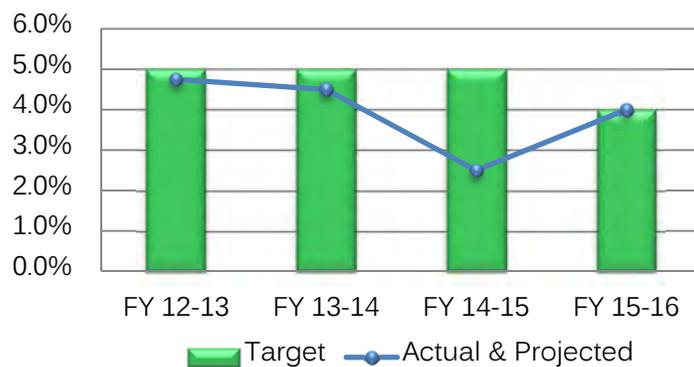
FINANCIAL: Water Rate Ranking

District's average customer bill as compared to other agencies in San Diego County. Otay is ranked 10th of 23 agencies.



BUSINESS PROCESSES: Distribution System Loss

Percentage for unaccounted Water. (QualServe)



Finance – Controller and Budgetary Services

Accomplishments – Fiscal Year 2014-2015

- For the eleventh consecutive year, the District has met nationally recognized guidelines and has been awarded the *Distinguished Budget Presentation* award for the Fiscal Year 2014-2015 Budget by the Government Finance Officers Association (GFOA). In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, a financial plan, as an operations guide and as a communications device. This award is a significant achievement and is the highest form of recognition in governmental budgeting. This year the District also received a Special Capital Recognition from GFOA for its Fiscal Year 2014-2015 Budget.
- For the ninth consecutive year, the District has been awarded the *Operating Budget Excellence Award* for the Fiscal Year 2014-2015 Budget by the California Society of Municipal Finance Officers (CSMFO) which recognizes agencies that have prepared a budget document or a communication tool that meets certain standards.
- For the tenth consecutive year, the District has been awarded the *Capital Budget Excellence Award* for the Fiscal Year 2014-2015 Capital Improvement Program Budget by the CSMFO which recognizes agencies that have prepared a Capital Improvement Budget document or a communication tool that meets certain standards.
- Consolidated eight water IDs and two sewer IDs into one ID each for water and sewer. The consolidation process involved creating, sending and posting multiple Proposition 218 notices regarding the consolidation and public hearings. Finance staff effectively worked with legal counsel and communicated with various public agencies within each ID to post multiple public notices. As a result of the consolidation, greater efficiency has been achieved.

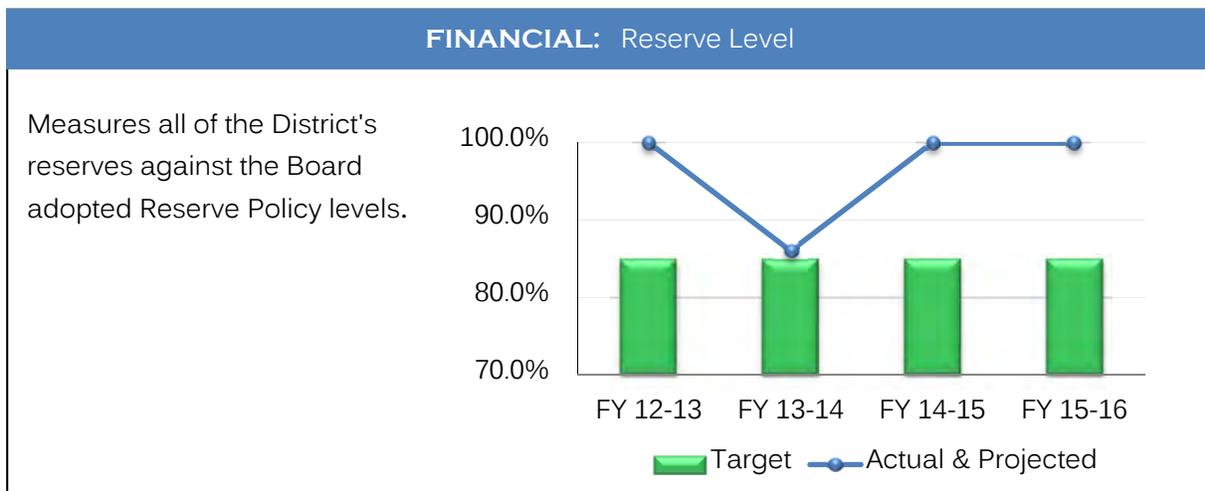
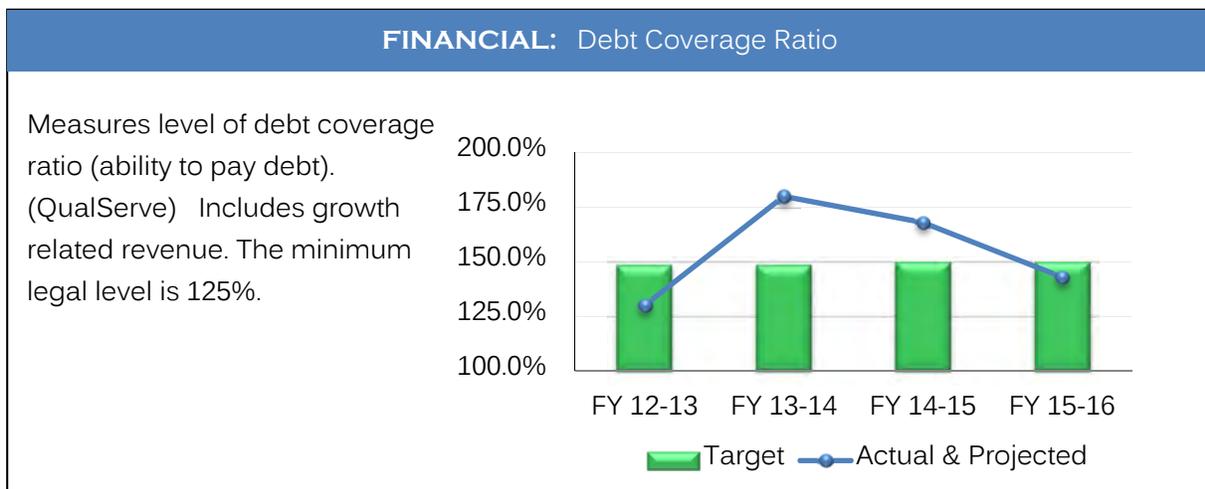
Finance – Treasury and Accounting Services

TREASURY AND ACCOUNTING SERVICES

Services We Provide

The Treasury and Accounting Services Division coordinates and directs the activities of the general ledger accounting; audit; banking and cash management; investments and treasury functions; debt financing; job costing; cost accounting; fixed assets; and contract review. The division is responsible for the accounts payable process which pays approximately 750 invoices on a monthly basis. It is also responsible for completing the District's annual financial audit and publishing of the Comprehensive Annual Financial Report (CAFR). The division conducts an annual review of the District's Investment Policy, as required by law, with approval by the Board of Directors. It provides financial analysis and review of staff projects and operational business proposals. It also assists in the preparation of the District's annual operating and capital budgets, along with updating the Rate Model and the six-year financial plan.

Performance Measures – Strategic Plan FY 2015-2018



Finance – Treasury and Accounting Services

Accomplishments – Fiscal Year 2014-2015

- For the eleventh consecutive year, the District has been awarded the *Certificate of Achievement for Excellence in Financial Reporting* by the Government Finance Officers Association (GFOA) for the Comprehensive Annual Financial Report (CAFR) for fiscal year ending June 30, 2014. This is the highest form of recognition in the area of governmental accounting and financial reporting, and clearly demonstrates how the District takes great care in maintaining high financial standards.

Finance – Customer Service

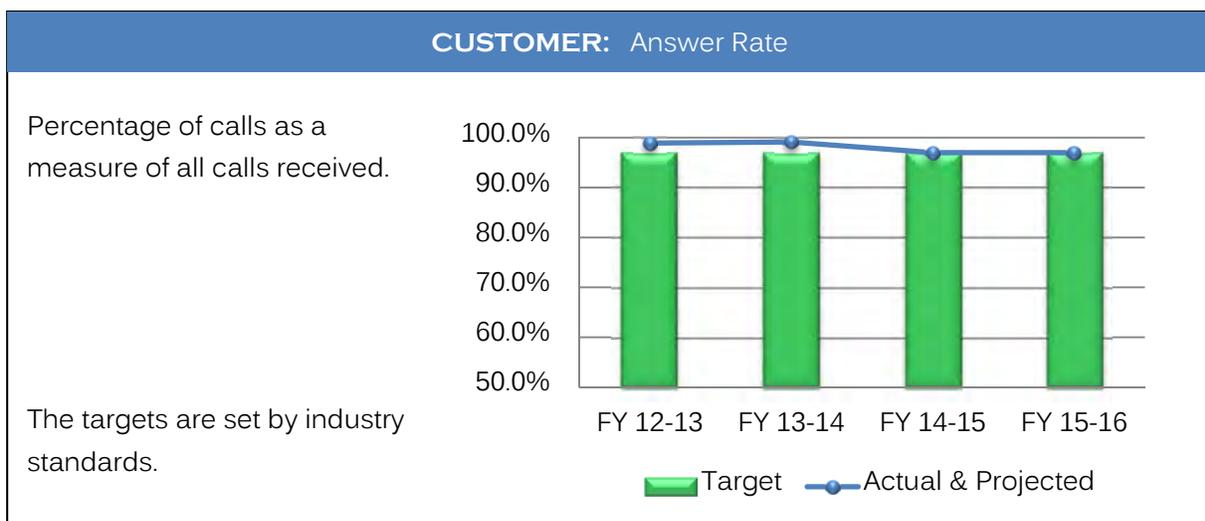
CUSTOMER SERVICE

Services We Provide

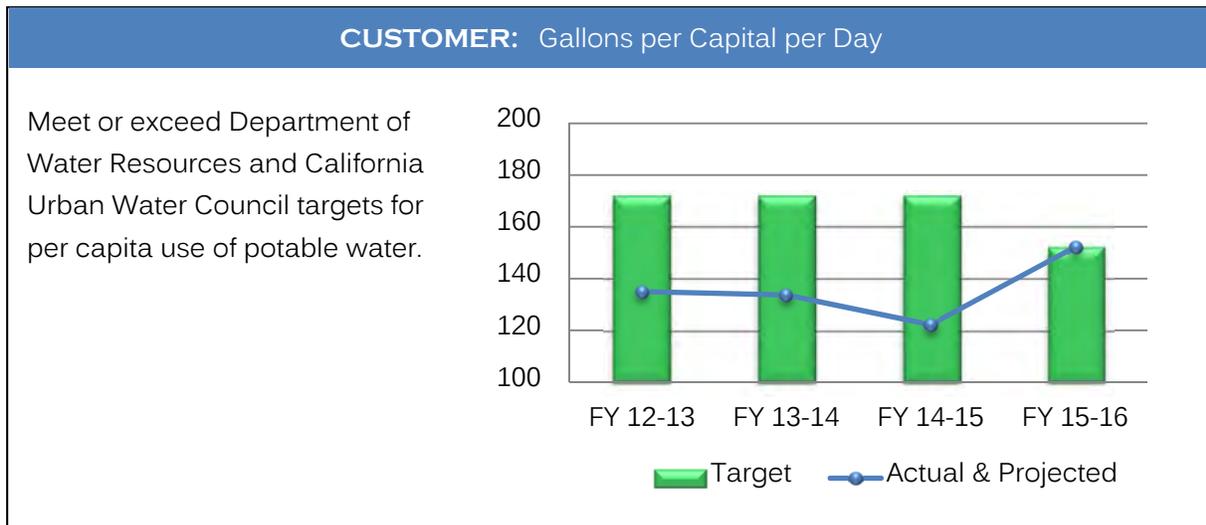
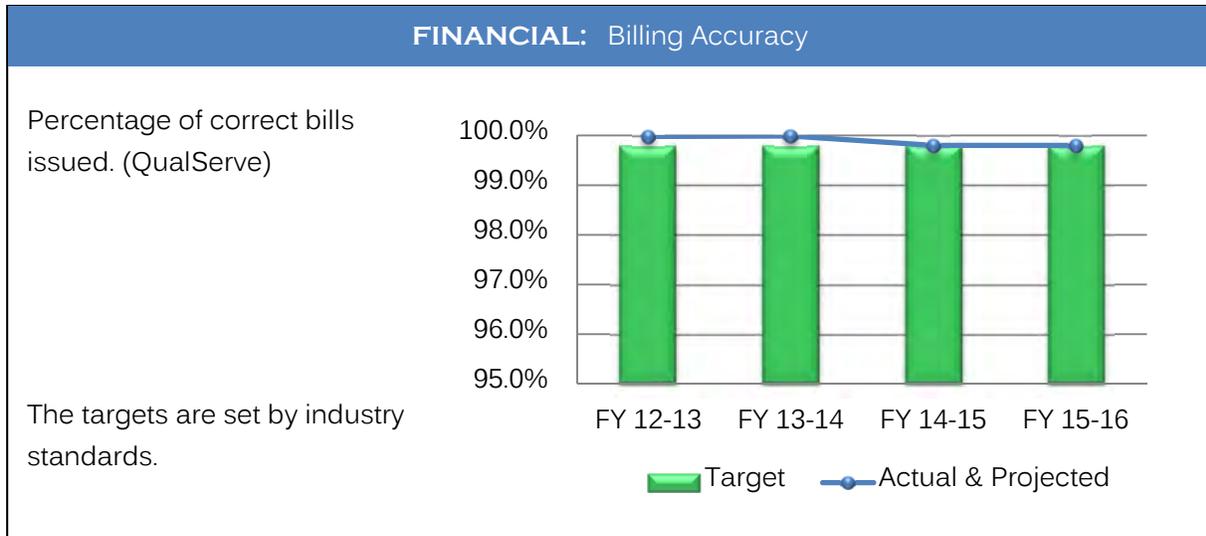
The Customer Service Division is responsible for providing billing, receipting, collections, and customer care for water and sewer services in addition to assisting with water conservation. The billing and customer care teams handle the coordination of billing and receipting of approximately 49,000 accounts per month. Customers have the choice of receiving either a paper bill or an electronic bill. Various payment options include ACH, web, IVR (telephone), and the convenience of multiple locations for walk-in payments. The District has an automated phone system and web portal which give customers access to their account information 24/7. If they desire more personal service, the customer care team handles an average of 5,000 customer calls per month. The water conservation staff promotes and conducts residential and large landscape surveys, promotes the Water Conservation Garden as a resource, participates in outreach events throughout the community, helps fund and promote a variety of incentive and other programs available to its customers, and manages the District's Water Shortage Response Plan as well as its water waste reporting program.

The Meter Shop is responsible for the installation and maintenance of all meters in the District. They manage the District's backflow/cross-connection prevention which includes annual testing of devices and water meters to ensure the continued safety of the potable water system. Staff responds to customer issues regarding meter accuracy, conducts site audits, and maintains records as required by various regulatory agencies. The Meter Reading team reads approximately 49,000 potable, recycled, and District meters a month using automatic meter reading technology.

Performance Measures – Strategic Plan FY 2015-2018



Finance – Customer Service



Accomplishments – Fiscal Year 2014-2015

- In May 2015, the State Water Resources Control Board issued a drought mandate to reduce consumption 20% over 2013 levels. The District successfully responded to the mandate through outreach via phone calls and emails to the 50,000 District customers. In June 2015, the District had a 25.9% reduction over 2013 water usage.
- In FY 2015, the customer service division expanded its responsibility to also respond to non-emergency operations customer calls. This function was previously handled by the Operations Secretary. The change in responsibility has increased the efficiency and effectiveness of customer service for the District.

Finance – Customer Service

- Responded to over 400 reports of water waste via a letter, phone call or site visit that resulted in more efficient and effective water conservation efforts.
- Successfully moved the large meter testing program in-house with the purchase of the equipment to accomplish the testing. This has yielded a significant cost savings and is also less disruptive to customers because staff has more discretion in scheduling the testing. Staff has tested 120 large meters in a nine-month period.
- Implemented a mobile payment platform to allow customers 24 hour access to pay their bills using a smart phone or tablet. This enhancement provides customers with greater flexibility in viewing and paying their water bills.

IT and Strategic Planning - General

MISSION STATEMENT

To provide superior technology and strategic planning services to support District goals, staff and customer service.

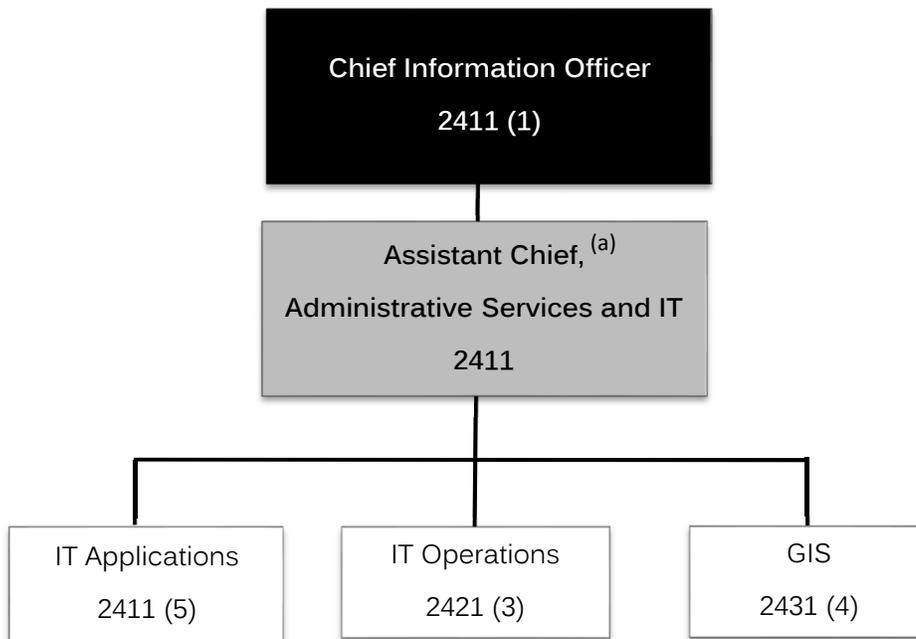


DEPARTMENT RESPONSIBILITIES

The Information Technology and Strategic Planning Department, under the general direction of the Chief Information Officer and the Assistant Chief of Administrative Services and Information Technologies and Strategic Planning, provides the following support services: development and implementation of information technology; District's Strategic Planning process including the development of long-term strategic initiatives and defining performance measurement metrics; information system support; and provides highly responsible complex administrative and technical support to the Directors.

IT and Strategic Planning - Position Count

DISTRICT POSITION COUNT - 138 INFORMATION TECHNOLOGY & STRATEGIC PLANNING DEPARTMENT - (13 POSITIONS)

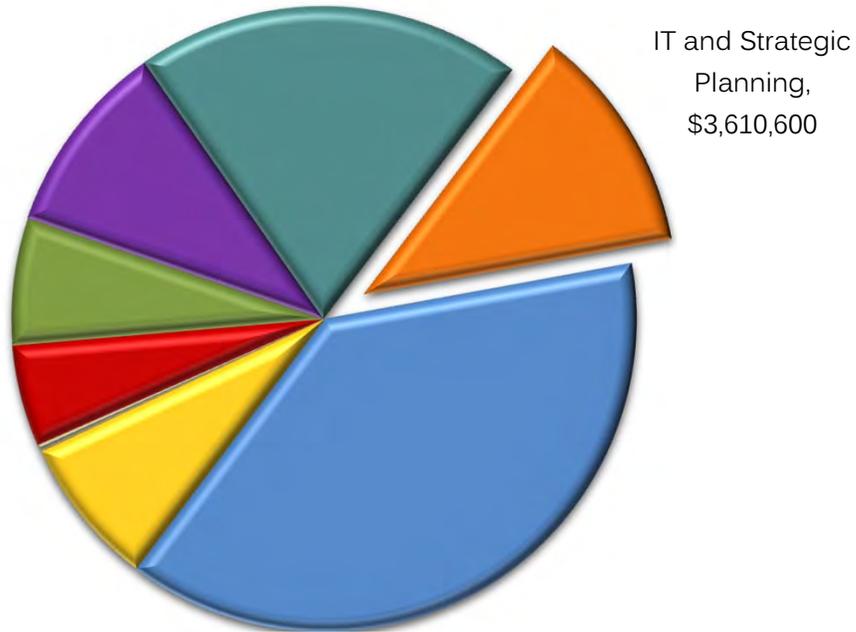


<u>Position Title</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Chief Information Officer	1	1	1
IT Manager	1	1	1
GIS Manager	1	1	1
GIS Programmer/Analyst	1	1	1
GIS Analyst	1	1	1
GIS Technician	1	1	1
Network Engineer	1	1	1
Database Administrator	1	1	1
Data Systems Technician	0	0	1
Lead Business System Analyst	1	1	1
Business System Analyst I and II	2	2	2
Network Analyst	1	1	1
Total	12	12	13

^(a) Interim position is budgeted in Administrative Services and also oversees IT and Strategic Planning.

IT and Strategic Planning

FY 2016 Total Departmental Budget
\$30.6 Million



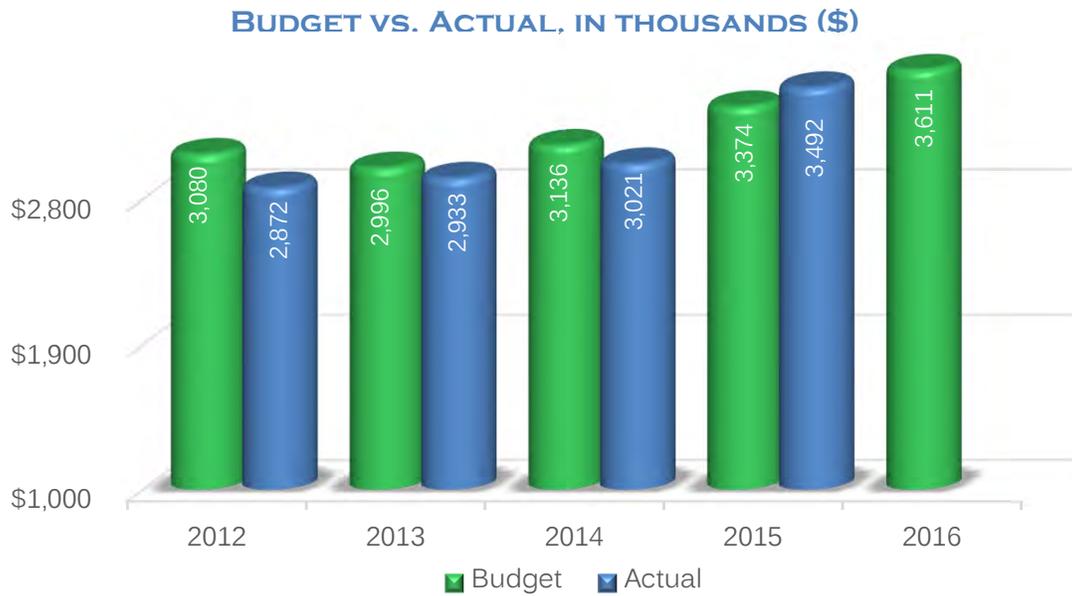
Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.3%
General Expense	2,019,400	6.6%
Administrative Services	3,070,500	10.0%
Finance	6,128,400	20.0%
IT and Strategic Planning	3,610,600	11.8%
Water Operations	11,663,400	38.1%
Engineering	2,381,600	7.8%
	\$ 30,586,900	100.0%

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
IT Chief/Applications	\$ 899,920	\$ 957,000	\$ 827,936	\$ 304,600
IT Operations	1,384,713	1,462,400	1,738,011	2,376,400
Geographic Information System	736,670	954,400	925,602	929,600
Total	\$ 3,021,303	\$ 3,373,800	\$ 3,491,549	\$ 3,610,600

*Actual unaudited

IT and Strategic Planning

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits	\$ 2,056,743	\$ 2,042,200	\$ 2,090,887	\$ 2,326,900
Travel and Meetings	20,276	26,700	31,946	32,700
General Office Expense	426	1,500	983	1,400
Equipment	844,062	1,017,700	1,136,520	983,600
Services	88,456	278,700	223,623	259,000
Training	11,340	7,000	7,590	7,000
Total	\$ 3,021,303	\$ 3,373,800	\$ 3,491,549	\$ 3,610,600



*Actual unaudited

IT and Strategic Planning – IT Operations

IT AND STRATEGIC PLAN OBJECTIVES – STRATEGIC PLAN FY 2015-2018

Objectives Completed:

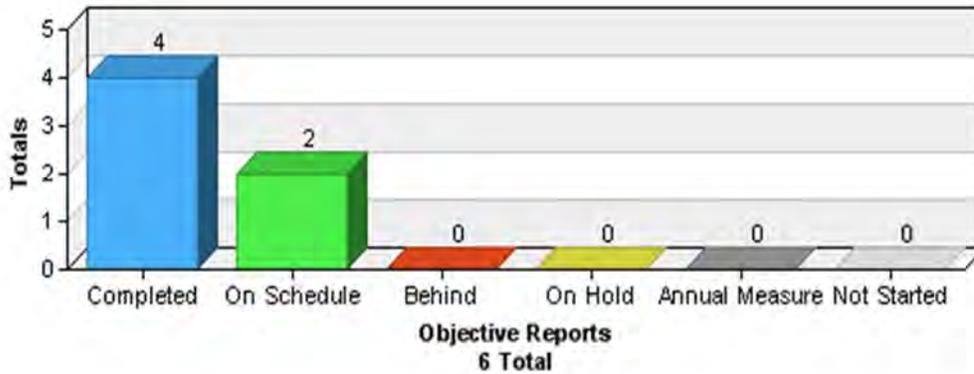
BUSINESS PROCESSES

- Implement GIS-centric work order system.
- Improve the operating cost and efficiency of data center and network services.
- Replace SCADA software system. (1)
- Implement wireless radio and data network for SCADA and field operations.(1)

Objectives on Schedule:

BUSINESS PROCESSES

- Implement enterprise GIS centric data structures, tools, and mechanisms for asset management.
- Develop asset management criticality and condition assessments for District facilities.(1)



Legend	
Blue	Completed
Green	On Schedule
Red	Behind Schedule
Yellow	On Hold
Grey	No Reports
Light Grey	Not Scheduled to Start Yet

(1) Completed jointly with Water Operations Department.

IT and Strategic Planning – IT Operations

IT APPLICATIONS

Services We Provide

The Information Technology and Strategic Planning Department provides the following support services: development and implementation of information technology; the District's Strategic Planning process including the development of long-term strategic initiatives and defining performance measurement metrics; and information systems support to the District. The department also provides highly responsible and complex administrative and technical support to the District, General Manager, and Board of Directors.

Accomplishments – Fiscal Year 2014-2015

- Updated and implemented the FY 2015 – 2018 Strategic Plan. This is the 12th year the plan has been in place. The effort involved an analysis of the past plan, assessment of industry trends, workshops with management, line staff and the Board. Included in the plan was a significant update to strategic Information System initiatives including a replacement work order and SCADA system for operational improvements and further alignment of enterprise systems.
- IT executed a major redesign of the District's public facing website. The redesign placed emphasis on customer ease of use, improved functionality, and overall information access. The site was designed from a "mobile-friendly" perspective to ensure access by the growing number of mobile users. The new site also offers an ePayment option for customers wanting to make online payments.
- The District replaced its legacy enterprise work order system with Cityworks. Cityworks is a SQL based GIS-centric system, which leverages the District's GIS and Financial system investments by integrating enterprise work order function, asset management, expenditures and capital planning. The inter-relationship of these processes is core to the day-to-day operation and maintenance of the District's water infrastructure services and asset management.
- During the past year, the District continued the replacement of its legacy enterprise SCADA system. The new SCADA system provides real-time information, monitoring and device management of the District's reservoir, Treatment Plant and water distribution assets.

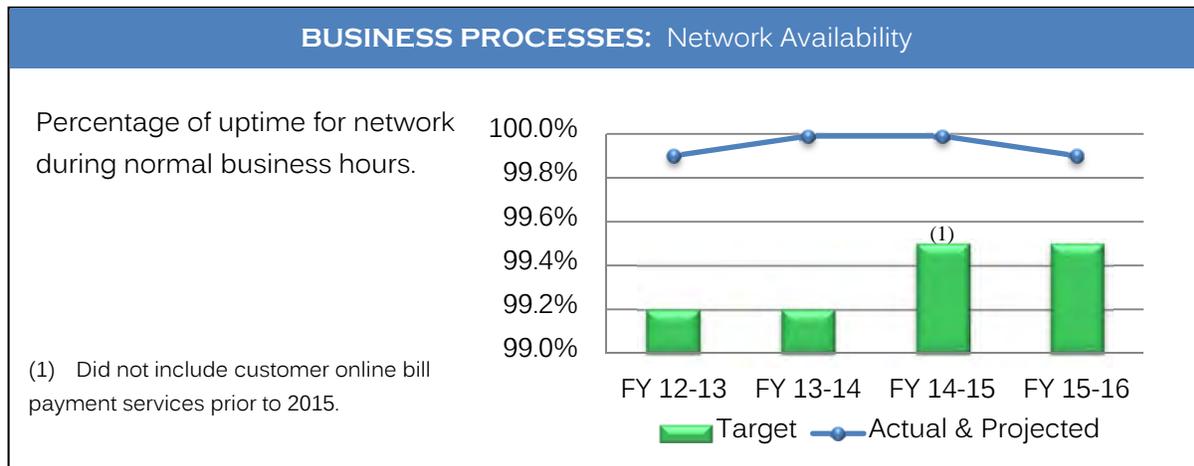
IT and Strategic Planning – IT Operations

IT OPERATIONS

Services We Provide

IT Operations is responsible for day-to-day functions of the District's enterprise data center; network and desktop hardware/software; disaster recovery; telecommunications; mobile and wireless networks; website; and help desk. IT Operations has shared responsibilities of enterprise physical access security and video surveillance services.

Performance Measures – Strategic Plan FY 2015-2018



Accomplishments – Fiscal Year 2014-2015

- IT staff replaced its aging enterprise data storage infrastructure utilized for the District's business critical applications. The new data storage solution offers improved administration, increased capacity, performance, reliability, and security. This new solution also gives the District many advantages including data encryption functionality, improved data protection, hardware redundancy, and scalability.

IT and Strategic Planning – GIS System

GEOGRAPHIC INFORMATION SYSTEM (GIS)

Services We Provide

The GIS division is responsible for enterprise development and maintenance of District spatial data, applications, and related programs. It is also responsible for the data collection and data QA/QC of the District's facility data and land-based data. In addition, it provides technical support in designing, developing, documenting and maintaining the District's database systems and creates database structures that consolidate the conceptual, logical and physical models of data.

Accomplishments – Fiscal Year 2014-2015

- Upgraded the District's Enterprise GIS Dashboard with enhanced functions focusing on customer billing information. The Dashboard enhances staff effectiveness and productivity by providing real-time data to Customer Service staff, Meter Readers, Meter Shop, and Operations field staff.
- Developed a new Engineering Construction Inspection template for the GIS mobile platform. The new template will optimize the field data and reporting function, save time, and assist Inspection staff with enhanced productivity.
- Developed new GIS function templates for the Water Utility group. The new hydrant, potable meter, and recycled meter templates will enhance activity, coordination, and status reporting among field and supervisor staff. The templates will also allow supervisors to produce daily, weekly, and monthly activity reports.
- Served as the U.S. Geological Survey (USGS) image acquisition contract steward for Mid/South San Diego County region. Under our stewardship, the District coordinated the participation of nine San Diego County agencies. The District was responsible for the negotiation and contract execution. Via this effort, the District also saved more than \$30,000 on the yearly imaging service cost.

Water Operations - General

MISSION STATEMENT

To provide all operations and maintenance service in the most efficient, safe, and cost effective manner to all internal and external customers, and to strive to continually improve the level of service.

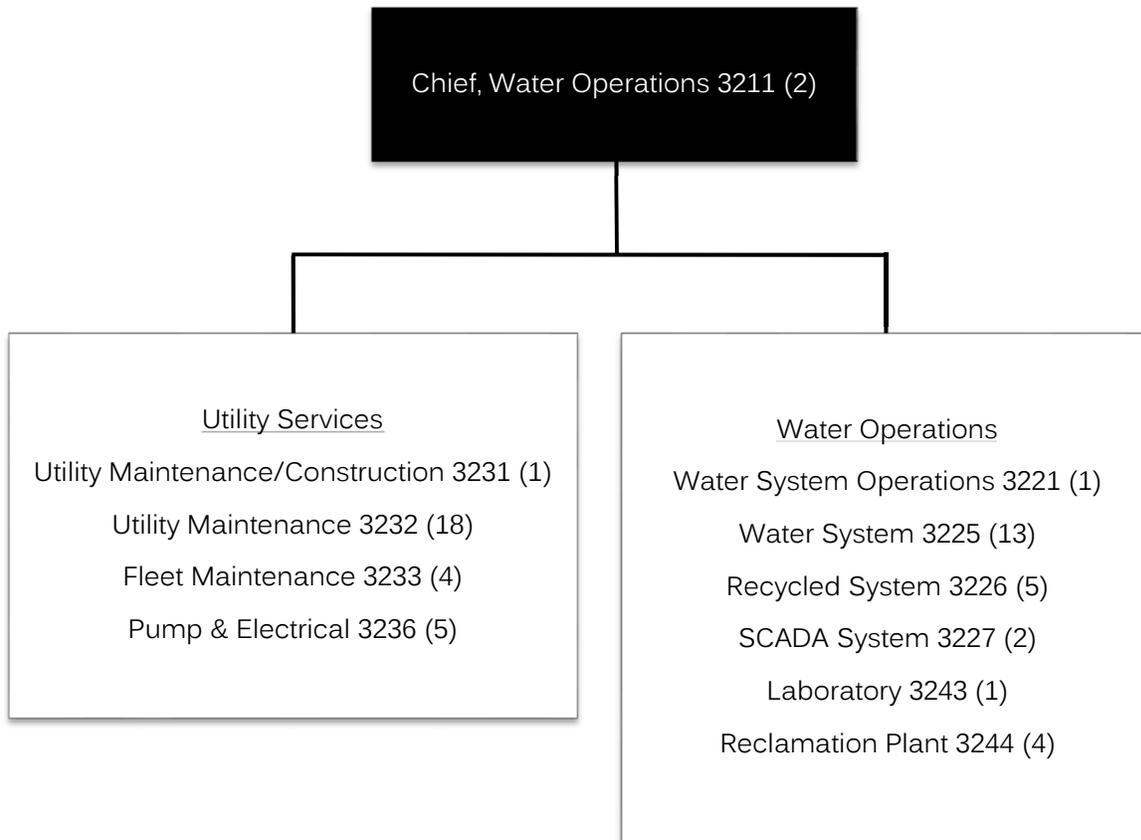


DEPARTMENT RESPONSIBILITIES

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

Water Operations - Position Count

DISTRICT POSITION COUNT - 138 WATER OPERATIONS DEPARTMENT - (56 POSITIONS)



Water Operations - Position Count

DISTRICT POSTION COUNT - 138 WATER OPERATIONS DEPARTMENT - (56 POSITIONS)

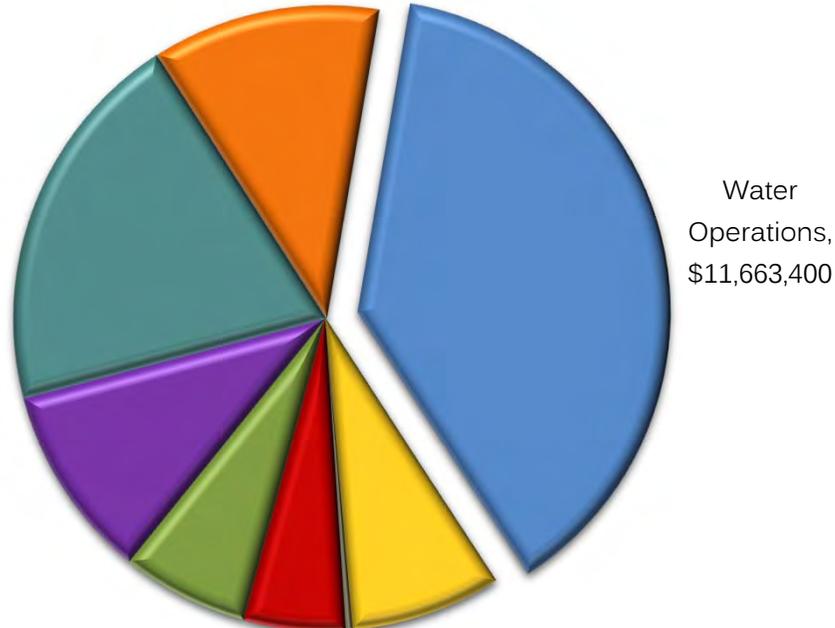
<u>Position Title</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Chief, Water Operations	1	1	1
Assistant Chief, Water Operations	0	0	1
Executive Secretary	1	1	1
Systems Operations Manager	1	1	1
Water Systems Supervisor	1	1	1
Pump Electrical Supervisor	1	1	1
Recycled Water Systems Supervisor	1	1	1
Lead Water Systems Operator	2	2	2
Water Systems Operator I, II, and III	9	9	8
Valve Maintenance Worker	1	1	2
Senior Disinfection Technician	2	2	2
Senior SCADA Instrumentation Technician	1	1	2
SCADA Instrumentation Technician	1	1	0
Electrician I and II	2	2	2
Pump Mechanic I and II	2	2	2
Lead Cross Connection/ Meter Maintenance Worker ⁽¹⁾	1	0	0
Meter Maintenance Worker I and II ⁽¹⁾	4	0	0
Utility Services Manager	1	1	0
Utility Maintenance Supervisor	2	2	2
Utility Crew Leader	3	3	3
Utility Workers I and II	8	8	8
Senior Utility/Equipment. Operator	3	3	3
Fleet Maintenance Supervisor	1	1	1
Equipment Mechanic I and II	3	3	3
Reclamation Plant Supervisor	1	1	1
Lead Reclamation Plant Operator	1	1	1
Reclamation Plant Operator I, II, III	2	2	2
Recycled Water Distribution Operator	4	4	4
Laboratory Analysts	1	1	1
Total	61	56	56

(1) Beginning in FY 2015, Meter Maintenance was moved to Finance.

Water Operations

FY 2016 Total Departmental Budget

\$30.6 Million



Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.3%
General Expense	2,019,400	6.6%
Administrative Services	3,070,500	10.0%
Finance	6,128,400	20.0%
IT and Strategic Planning	3,610,600	11.8%
Water Operations	11,663,400	38.1%
Engineering	2,381,600	7.8%
Total	\$ 30,586,900	100.0%

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Water Operations Chief	\$ 426,459	\$ 445,900	\$ 440,401	\$ 450,300
Water Systems	5,723,947	6,329,200	5,916,109	6,115,700
Construction Maintenance	4,164,059	4,609,000	4,355,838	5,097,400
Total	\$ 10,314,465	\$ 11,384,100	\$ 10,712,348	\$ 11,663,400

*Actual unaudited

Water Operations

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits ⁽¹⁾	\$ 7,160,946	\$ 7,744,600	7,466,321	\$ 8,008,200
Travel and Meetings	38,385	49,300	29,911	48,800
General Office Expense	74	300	-	300
Equipment	32,317	42,200	32,096	44,700
Fees	75,652	65,500	79,477	69,400
Services	301,853	415,600	243,149	540,100
Training	9,096	11,000	10,680	9,000
Materials & Maintenance	1,573,618	1,760,700	1,642,201	1,946,500
Sewer Charges	1,122,524	1,294,900	1,208,513	996,400
Total	\$ 10,314,465	\$ 11,384,100	\$ 10,712,348	\$ 11,663,400

⁽¹⁾ Excludes CIP labor and benefits.

BUDGET VS. ACTUAL, IN THOUSANDS (\$)



*Actual unaudited

Water Operations – Strategic Plan Objectives

WATER OPERATIONS OBJECTIVES - STRATEGIC PLAN FY 2015-2018

In Phase 1 of the 2015-2018 Strategic Plan, the Operations Department's primary responsibilities was to sponsor and implement two major software replacement projects. As a GIS based asset management program is at the foundation of the District's long-term plans, Water Operations needed to implement a GIS based work order and SCADA system so that all future work would be accurately reflected in future maintenance and replacement plans. The Senior Team designated Water Operations as the initial department to effect this upgrade. As such, the 2015 Strategic Objectives were met by the Operations Department's sponsorship and implementation efforts; both systems were installed on time and budget. In the 2016–2018 Strategic Plan the IT and Strategic Planning Section will take the lead in the implementation and reducing the per unit costing of work and streamline business processes.

Objectives Completed:

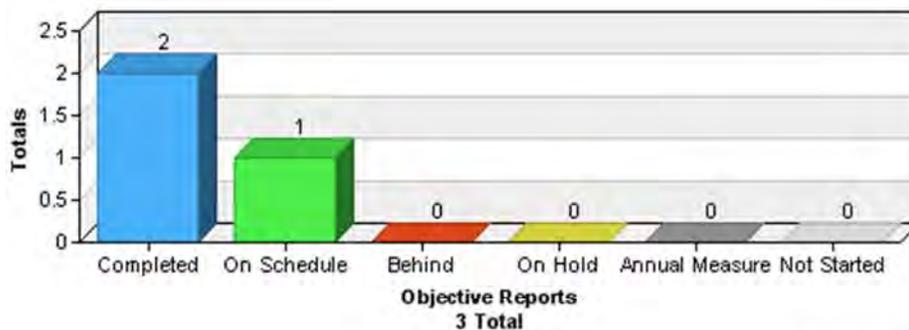
BUSINESS PROCESSES

- Replace SCADA software system.(1)
- Implement wireless radio and data network for SCADA and field operation.(1)

Objectives on Schedule:

BUSINESS PROCESSES

- Develop asset management criticality and condition assessments for District facilities. (1)



Legend	
Blue	Completed
Green	On Schedule
Red	Behind Schedule
Yellow	On Hold
Grey	No Reports
Light Grey	Not Scheduled to Start Yet

(1) Completed jointly with IT and Strategic Planning Section.

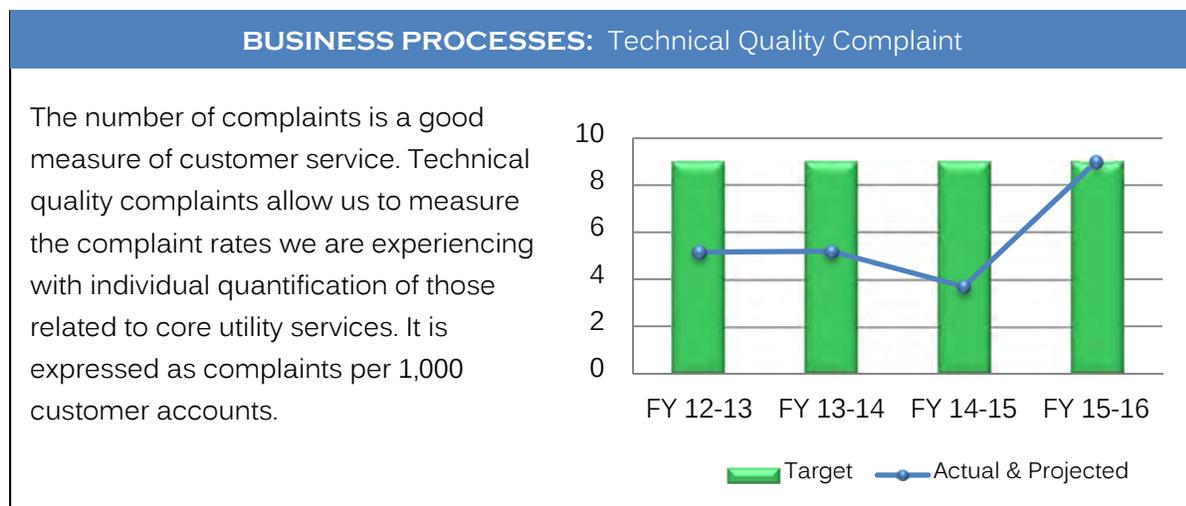
Water System Operations

WATER SYSTEM OPERATIONS

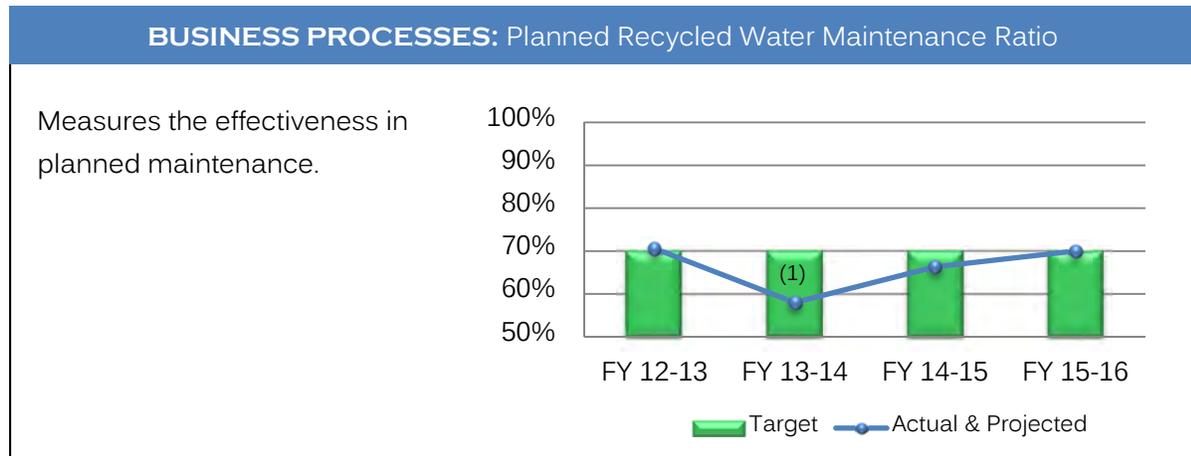
Services We Provide

The Water Systems Operations Division encompasses five sections which are responsible for operations and monitoring of the potable and recycled water distribution systems as well as the Ralph W. Chapman Water Recycling Facility. The water system operators monitor and operate the water distribution system to ensure it provides safe, reliable drinking water to the District's customers. The SCADA staff performs installations, maintenance, updates, and modifications to the SCADA control system and related communications equipment, both for existing facilities as well as CIP projects. The treatment plant staff maintains and operates the District's sewer treatment plant in order to produce high-quality recycled water to the District's recycled water customers. The recycled system operators monitor and operate the recycled water distribution system to ensure it provides adequate supply to the District's recycled water customers and periodically conduct cross-connection tests to ensure that the potable distribution system is completely isolated from the recycled water system. Laboratory staff ensures all regulatory-required sampling, analyses, and reporting is done to meet the requirements from the State Water Resources Control Board for potable water and the Regional Water Quality Control Board for recycled water and the reclamation plant treatment process. Laboratory staff works closely with the water system operators and disinfection staff to monitor and optimize the water quality in the distribution system. They also perform bacteriological sampling and analyses for Utility Maintenance and Engineering to ensure proper disinfection was performed after maintenance or new construction.

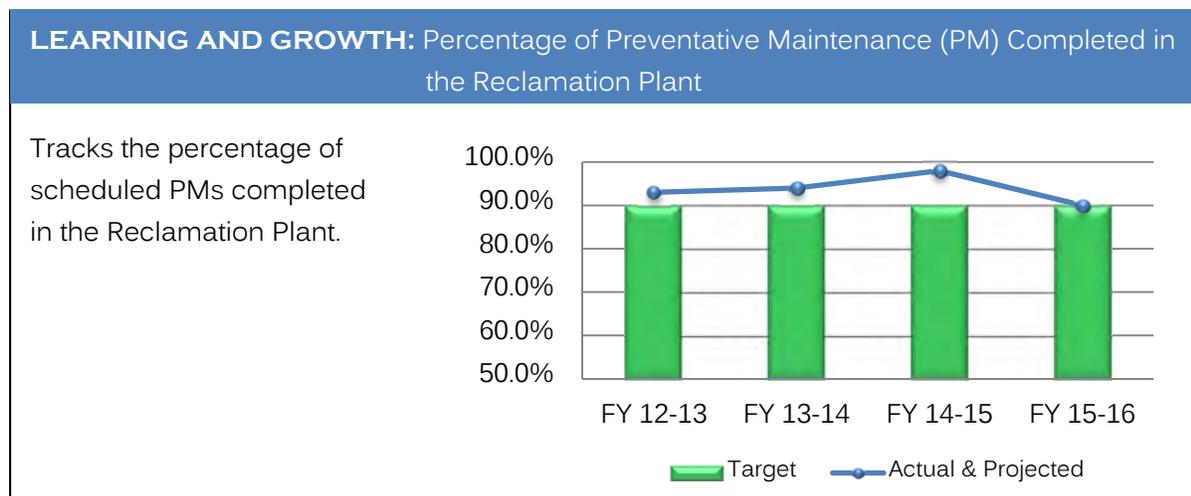
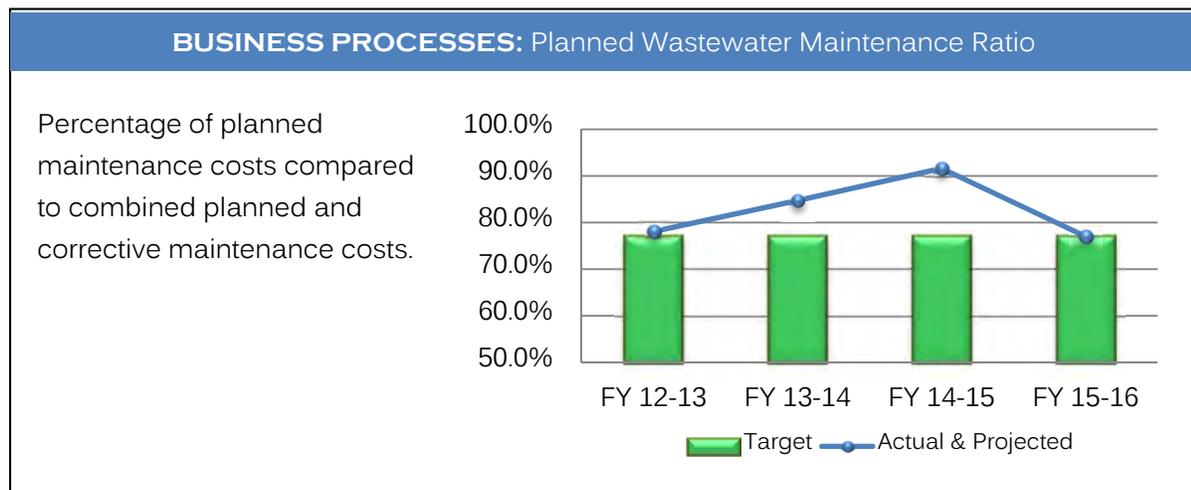
Performance Measures - Strategic Plan FY 2015-2018



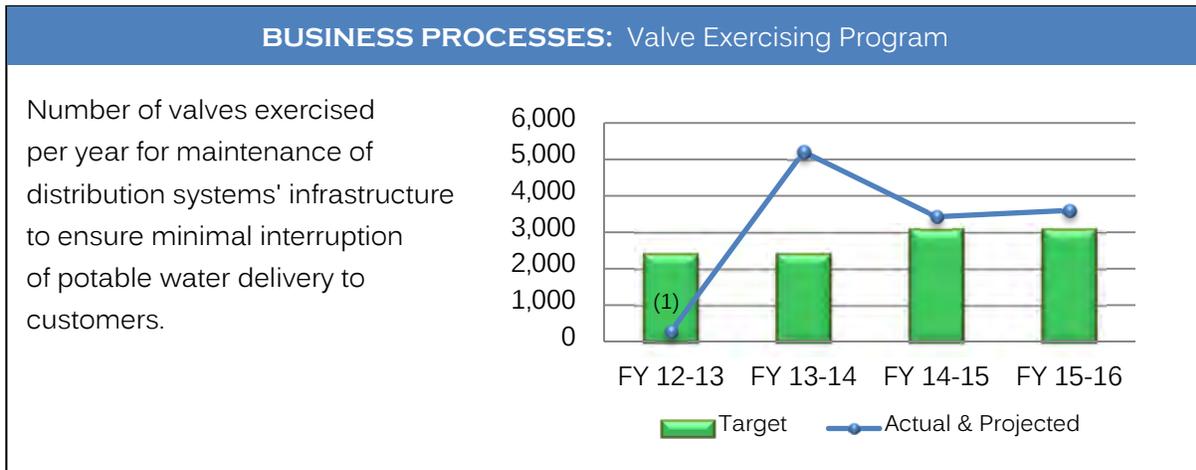
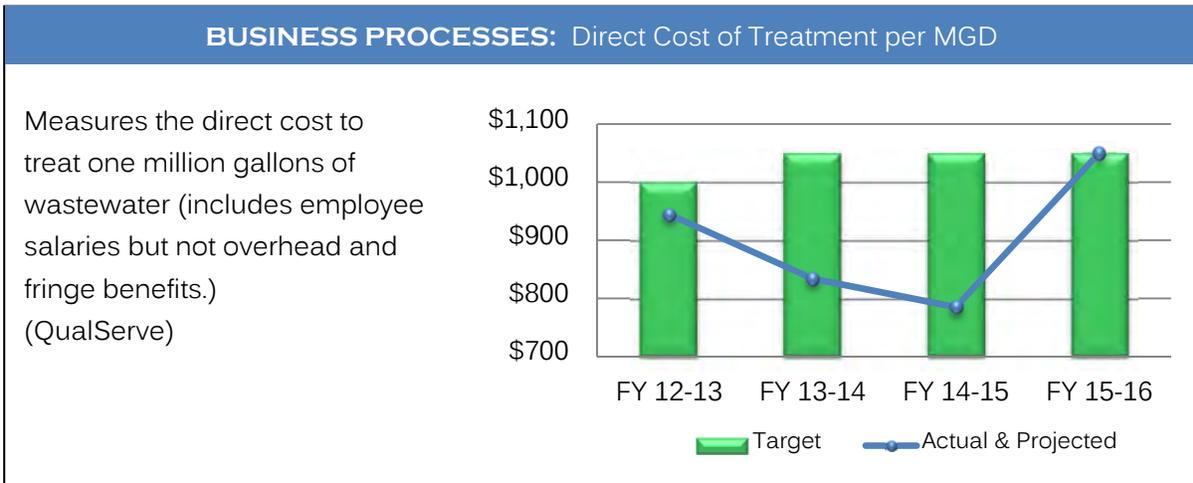
Water System Operations



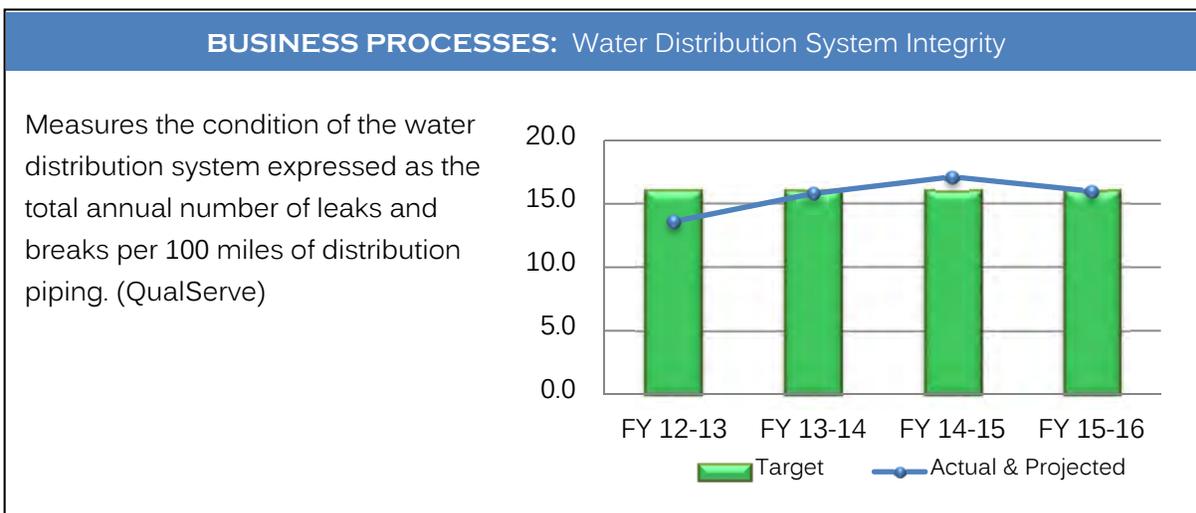
(1) In FY 2013-2014 the target was not met due to the repairs needed to the 927/944 pressure regulating valves at the Use Area.



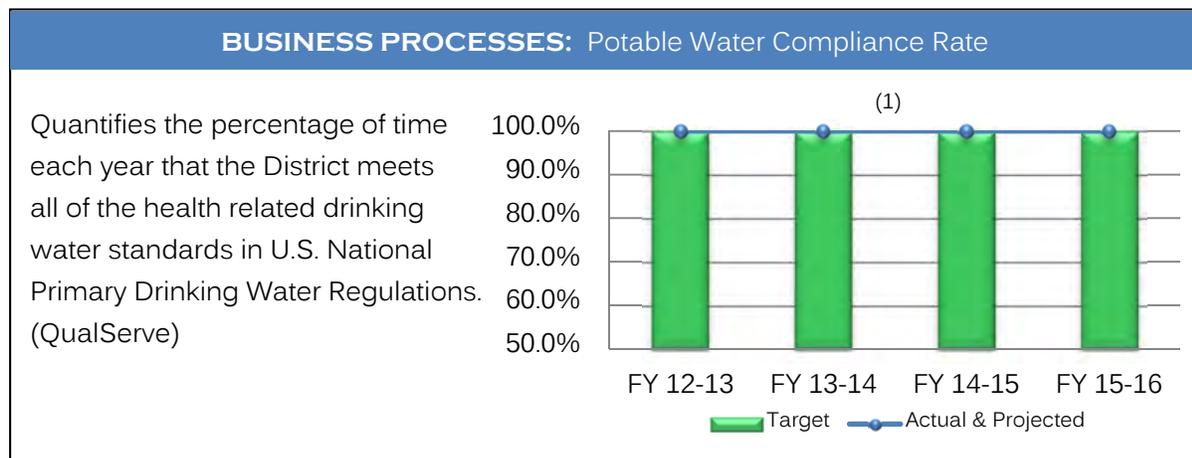
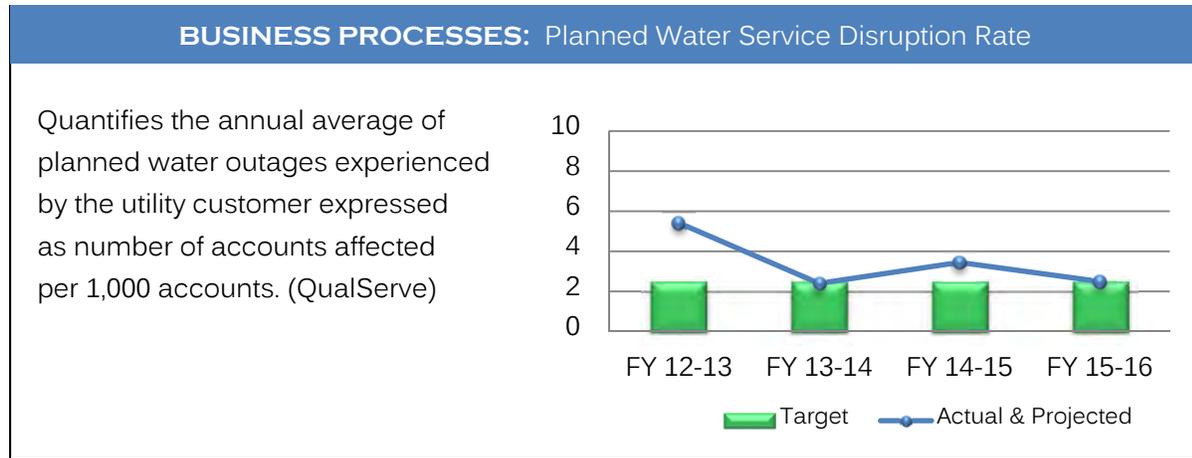
Water System Operations



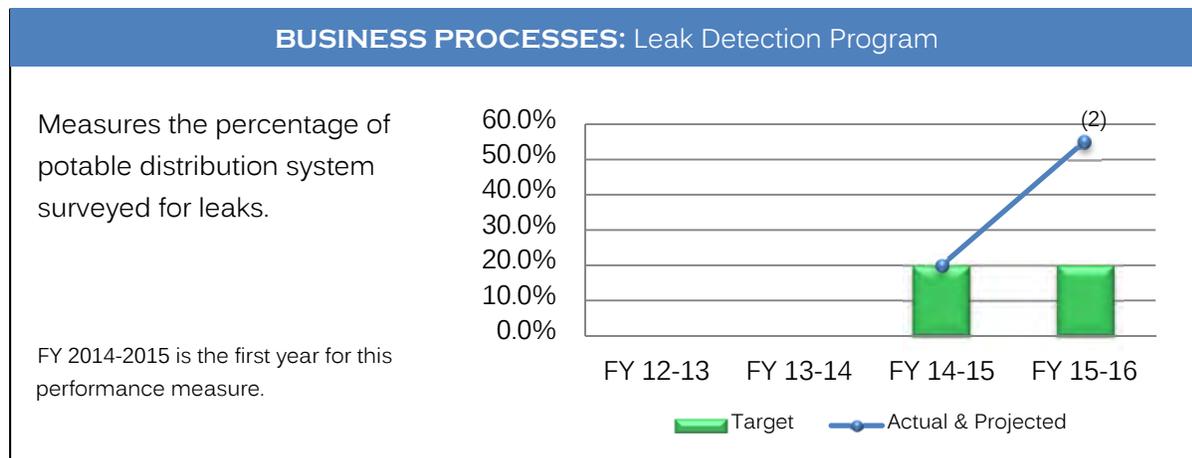
(1) FY 2012-2013 was below target due to low staffing levels.



Water System Operations

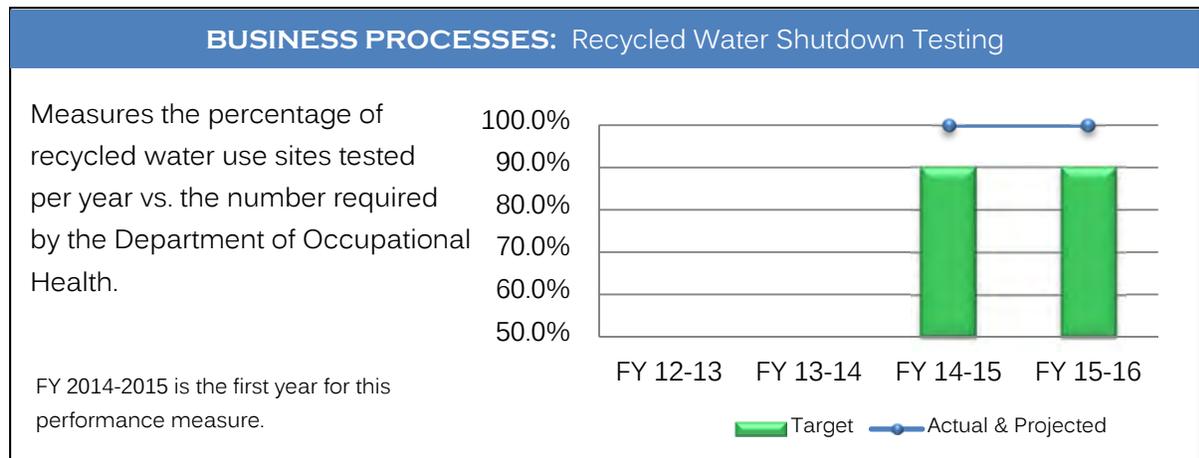
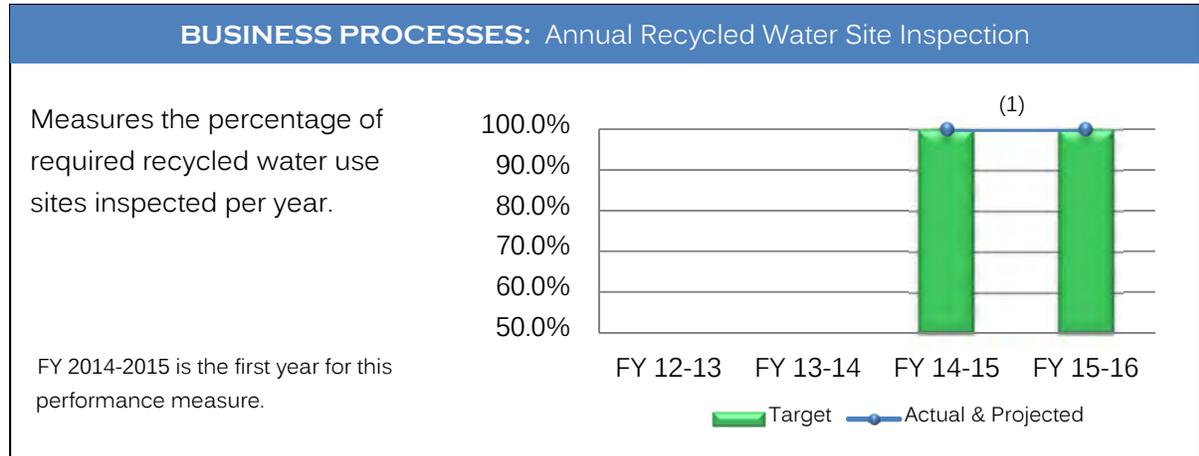


(1) Both actual/projected and target are at 100%.

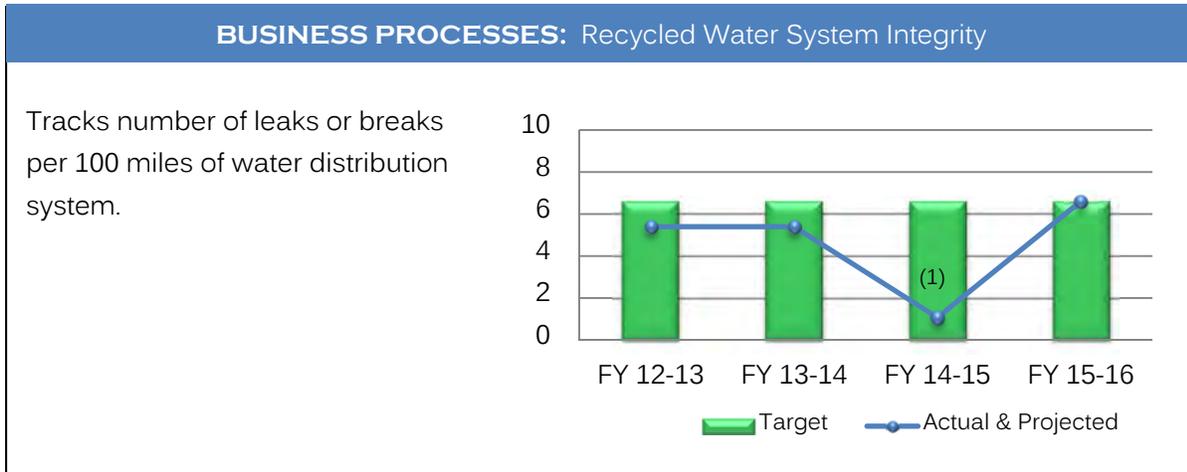


(2) The long-term leak detection plan at the District was to complete 100% leak detection over 5 years (about 20% per year). The board approved staff's recommendation to complete the remaining 55% in FY 2016.

Water System Operations



Water System Operations



(1) FY 2014-2015 there was one break/leak on the recycled water system.

Accomplishments – Fiscal Year 2014-2015

- Coordinated proactive leak detection services for approximately 20% of the potable system and 18% of the recycled system. This project identified 93 potable leaks, which in turn were repaired by the Utility Maintenance section and resulted in a payback of the cost of the leak detection survey in about 4 months.
- Effective July 1, 2015, transferred the Recycled Water Operator division to the Engineering Department to streamline the business process.
- Coordinated with Water Systems and Utility Maintenance sections and the Customer Service division to transfer the valve crew business process from Water Systems to Utility Maintenance. This resulted in a reduction of one full-time employee.
- With the assistance of the District's Environmental Specialist, staff centralized and coordinated all Hazardous Management Business Plan inspections. This revised process leverages synergy between departments and helps ensure compliance with regulating agencies.
- During FY 2015, the new SCADA system and Cityworks implementation began. This will streamline processes. CityWorks will automatically generate routine maintenance work orders from the motor and engine run-time hours provided by SCADA.

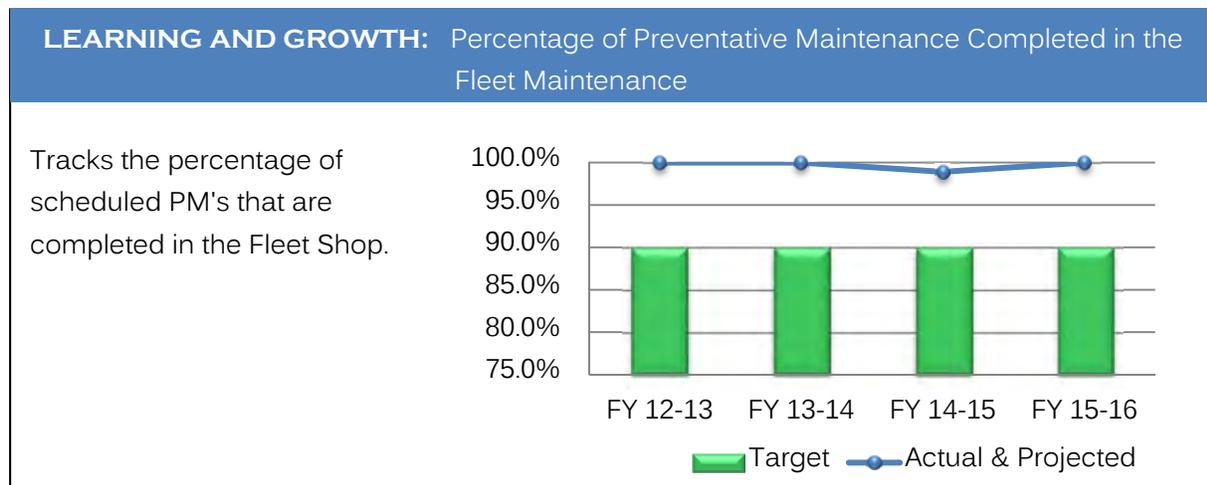
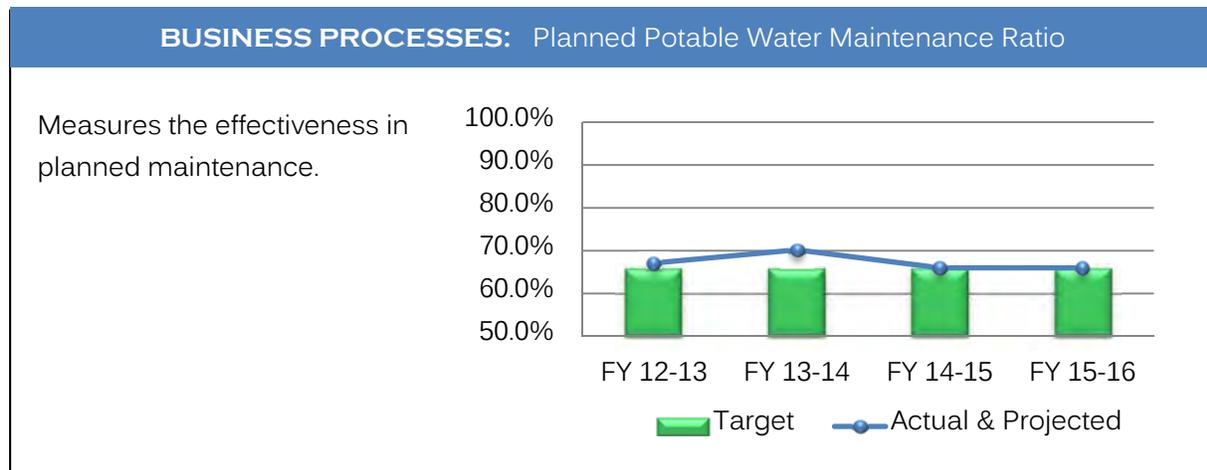
Water Operations – Utility Services Maintenance

UTILITY SERVICES MAINTENANCE

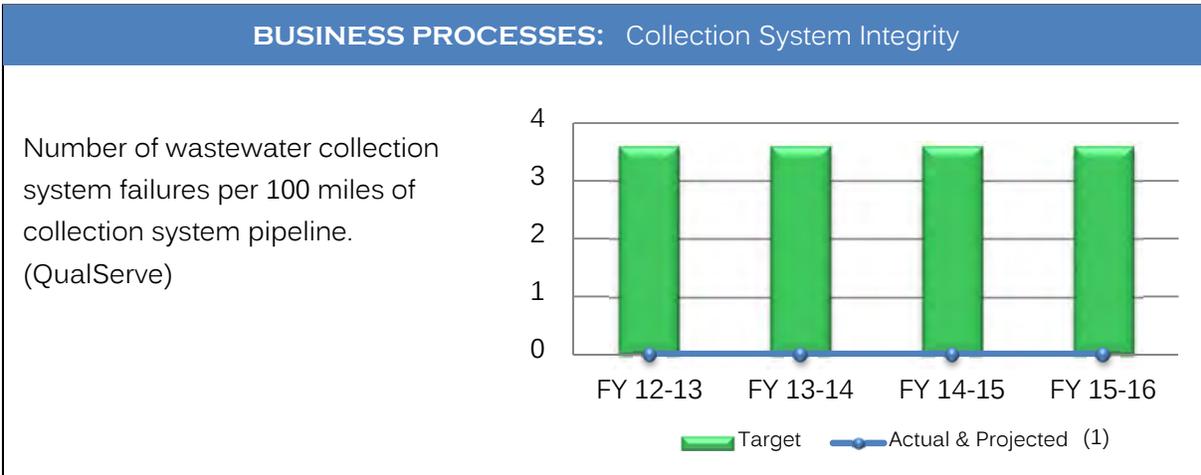
Services We Provide

The Utility Maintenance and Construction Division has three sections which provide vital maintenance functions to ensure continuity of the drinking water, recycled water, and wastewater services to District customers while adhering to all applicable regulatory compliance requirements. Utility Maintenance staff maintains all collection and potable distribution and recycled distribution systems, including regular inspection and cleaning of the wastewater collection system. They also exercise valves, install and/or repair main pipelines and service lines expediently, while following all established safety rules and regulations. The Fleet Maintenance staff implements active preventative maintenance practices and repairs on all District vehicles and equipment to ensure optimum performance while establishing fuel efficient operational practices and emissions compliance. Pump and Electrical staff performs preventative, predictive and corrective maintenance on all pumps, motors, switchgear, and control valves in the District and assists with electrical maintenance and installation throughout the District.

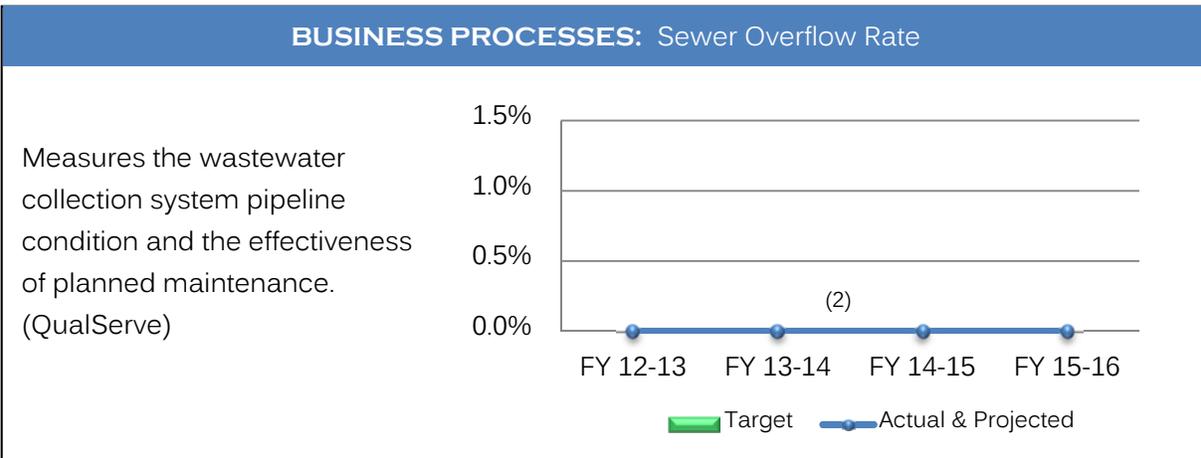
Performance Measures – Strategic Plan FY 2015-2018



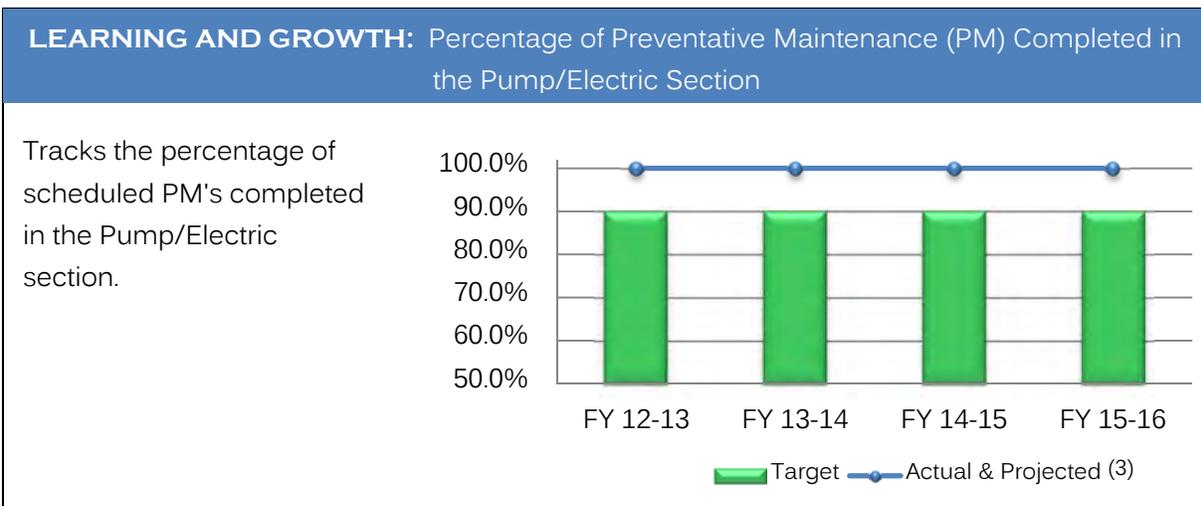
Water Operations – Utility Services Maintenance



(1) The actual and projected number of system failures for FY 2013-2016 is 0.

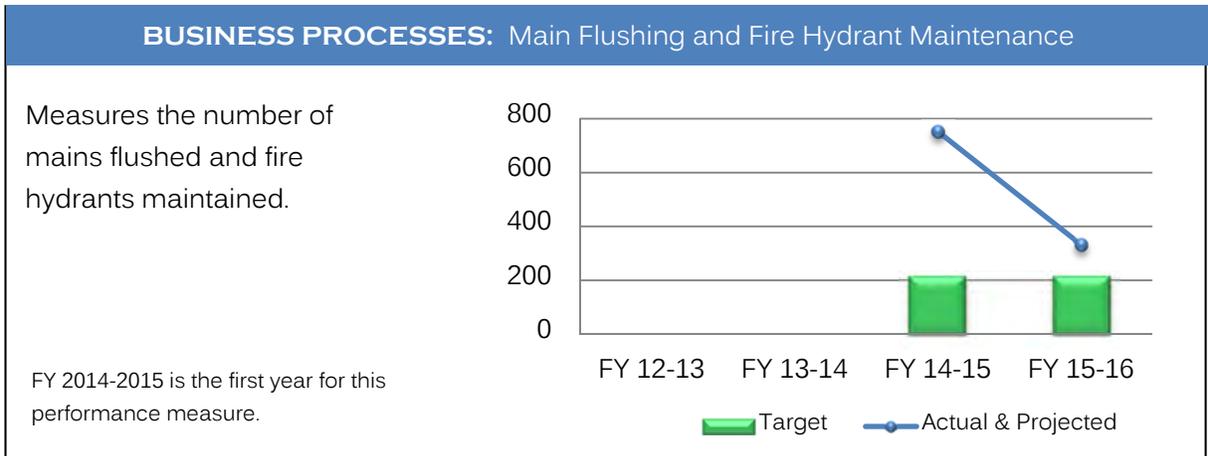
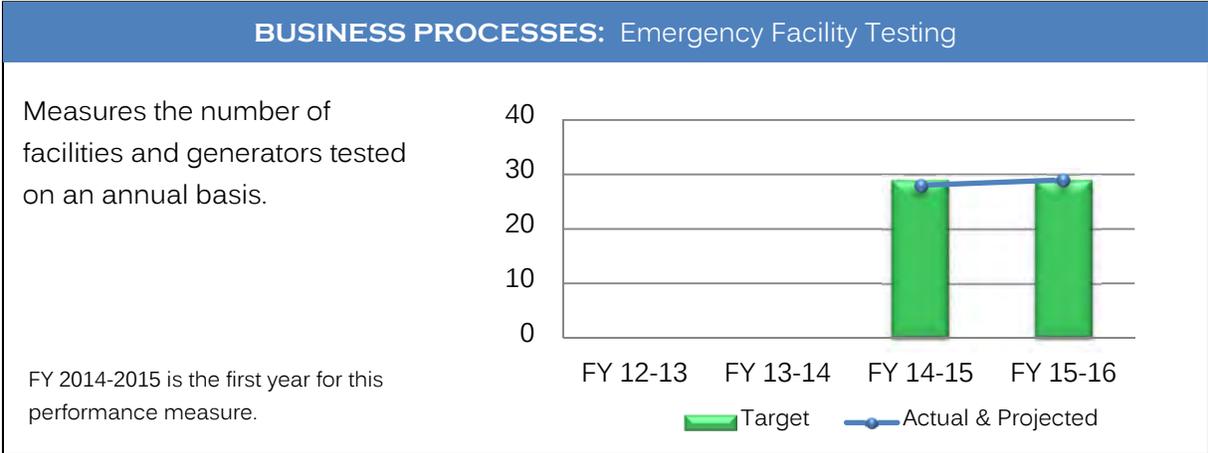


(2) Both actual/projected and targets are at 0.0%.

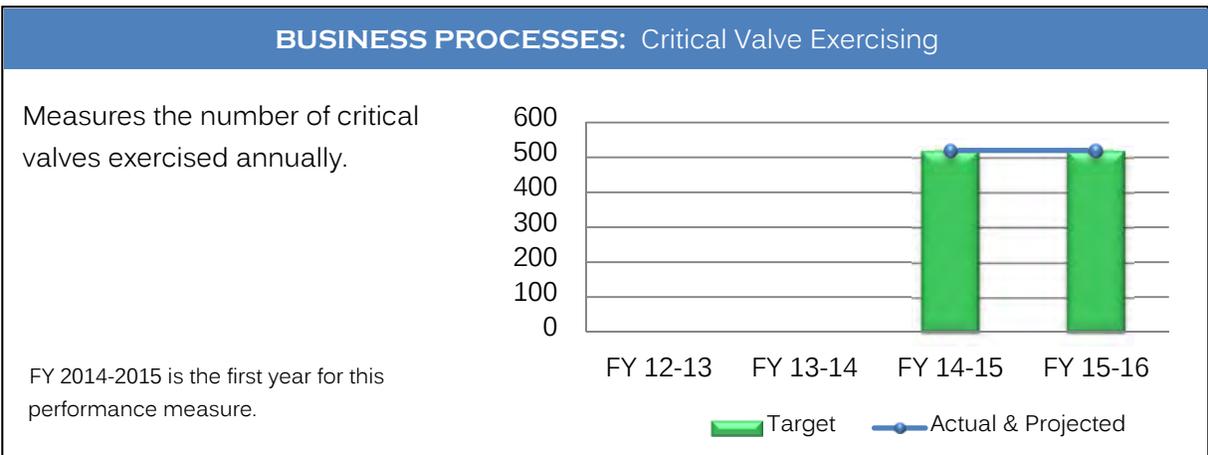


(3) The actual and projected maintenance is 100% complete.

Water Operations – Utility Services Maintenance



Note: In FY 2014-2015, fire hydrant maintenance was the focus for the valve crew. For FY 2015-2016, main flushing will only be completed on a reactive basis.



Water Operations – Utility Services Maintenance

Accomplishments – Fiscal Year 2014-2015

- As a result of rotating all levels of Utility Workers through the CCTV and flushing tasks, Utility Maintenance staff was able to rely more on Utility Worker I and Utility Worker II personnel to reduce labor costs when performing collection system maintenance.
- The overall size of the fleet was reduced by two units thereby reducing capital and operating expenses.
- As a result of the District's proactive inspection efforts, staff shut down and repaired defects in a 14-inch recycled force main that was located in an environmentally sensitive area.
- Conducted the District's first systematic and certified pressure vessel inspection. The inspection was performed by a certified pressure vessel inspector (API 510) on the District's oldest hydro tank (Rancho Jamul) with no significant defects noted. These inspection efforts will continue until all hydro tank inspections are complete. Based on the results of the inspections, they will continue on a pro-active frequency.

Engineering - General

MISSION STATEMENT

To provide Engineering, Construction, and Environmental services for the District and for the development community, quality control of future District assets, and expediting of the permitting process, through the use of our dedicated employees and innovative technology with the goal of attaining excellent customer satisfaction.

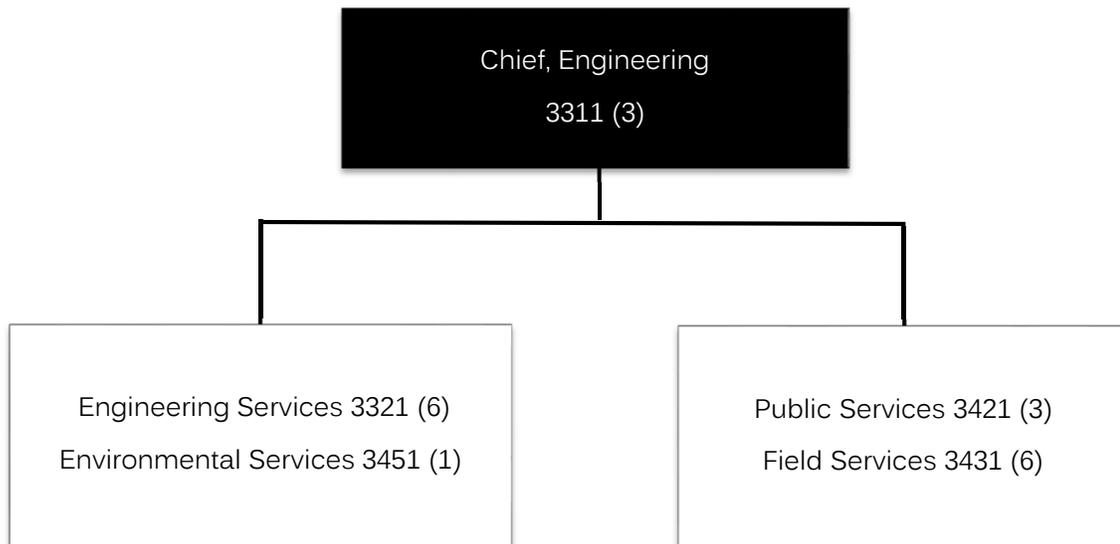


DEPARTMENTAL RESPONSIBILITIES

The Engineering Department, under the general direction of the Chief of Engineering, provides the following support services: Planning, Design, Construction Management, Inspection Project Management, Surveying, and Public Services of all District facilities. The department is responsible for strategic planning; the capital budget; water resources planning; support facilities planning; environmental services; quality control; construction; developer designed and constructed facilities; along with coordinating assigned activities with other District departments and outside agencies. It provides highly responsible and complex administrative and technical support to the District, General Manager, and the Board of Directors.

Engineering - Position Count

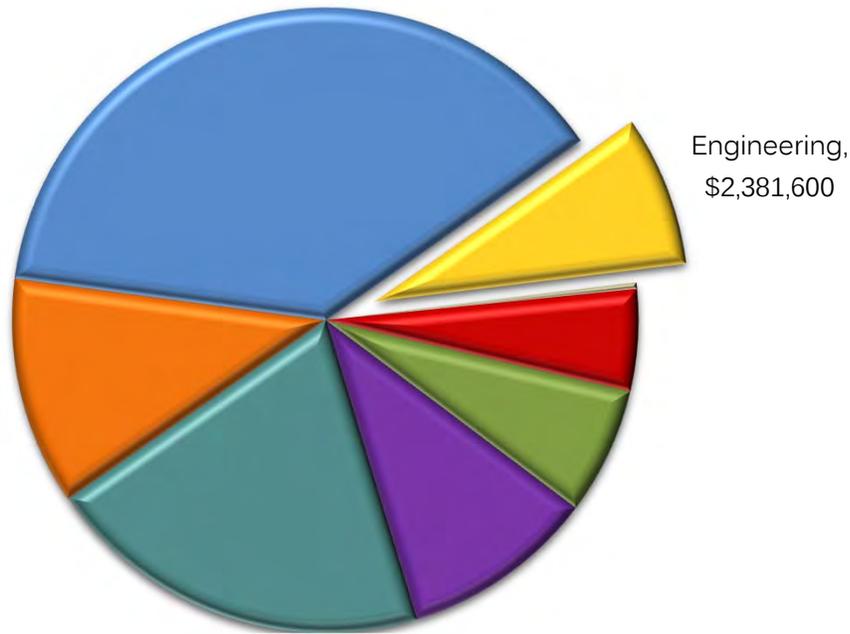
DISTRICT POSITION COUNT - 138
ENGINEERING DEPARTMENT - (19 POSITIONS)



<u>Position Title</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Chief, Engineering	1	1	1
Executive Secretary	1	1	1
Secretary	1	1	1
Engineering Manager	2	2	2
Senior Civil Engineer	2	2	2
Associate Civil Engineer	0	0	1
Construction Management Specialist	1	0	0
Assistant Civil Engineer I and II	1	1	0
Environmental Compliance Specialist	1	1	1
Permit Technicians	2	2	2
Senior Engineering Technician	2	2	2
Inspection Supervisor	1	1	1
Construction Inspectors I and II	3	3	3
Supervising Land Surveyor	1	1	1
Assistant Survey Technician	1	1	1
Total	20	19	19

Engineering

FY 2016 Total Departmental Budget
\$30.6 Million



Board of Directors	\$ 107,100	0.4%
General Manager	1,605,900	5.3%
General Expense	2,019,400	6.6%
Administrative Services	3,070,500	10.0%
Finance	6,128,400	20.0%
IT and Strategic Planning	3,610,600	11.8%
Water Operations	11,663,400	38.1%
Engineering	2,381,600	7.8%
	\$ 30,586,900	100.0%

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Engineering Chief	\$ 302,990	\$ 371,900	\$ 338,021	\$ 390,700
Engineering Services ⁽¹⁾	497,566	835,300	728,167	808,500
Public Services ⁽²⁾	849,590	948,800	931,380	1,016,500
Environmental Services	177,563	202,500	135,114	165,900
Total	\$ 1,827,709	\$ 2,358,500	\$ 2,132,682	\$ 2,381,600

⁽¹⁾ Engineering Services includes Planning, Design, and Water Resources.

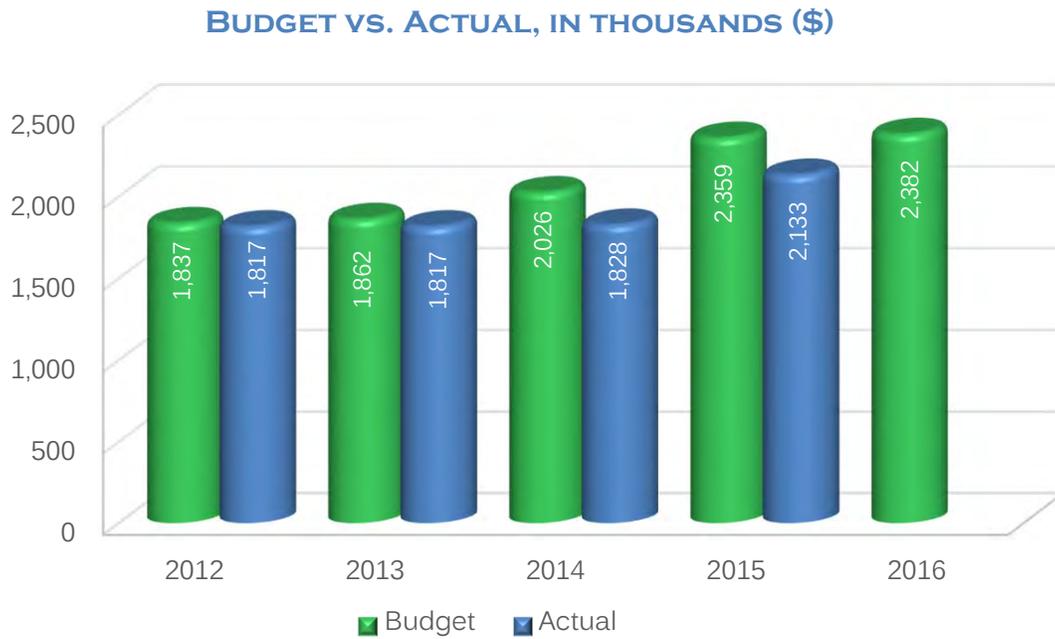
⁽²⁾ Public Services includes Public, Construction, and Survey Services.

*Actual unaudited

Engineering

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits ⁽¹⁾	\$ 1,392,467	\$ 1,587,800	\$ 1,483,742	\$ 1,609,600
Travel and Meetings	17,805	18,700	17,062	19,400
General Office Expense	957	1,000	330	7,500
Fees	26,050	33,000	21,832	30,000
Services	389,828	705,100	606,756	702,600
Training	570	12,900	2,960	12,500
Materials & Maintenance	32	-	-	-
Total	\$ 1,827,709	\$ 2,358,500	\$ 2,132,682	\$ 2,381,600

⁽¹⁾ Excludes CIP labor and benefits.



*Actual unaudited

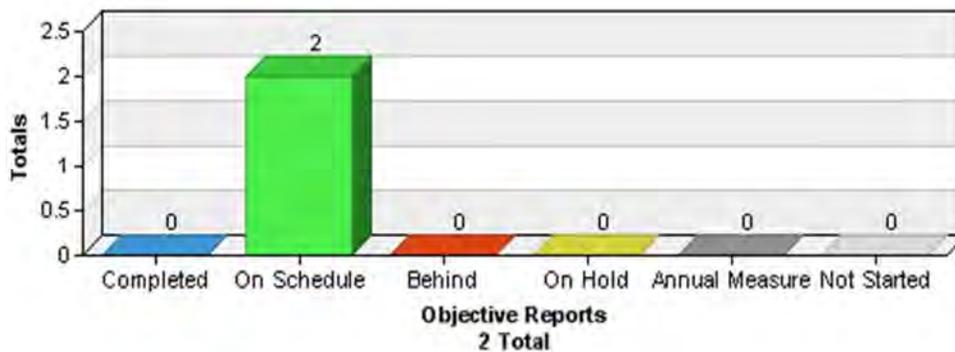
Engineering - Strategic Plan Objectives

ENGINEERING STRATEGIC PLAN OBJECTIVES – STRATEGIC PLAN FY 2015-2018

Objectives on Schedule:

BUSINESS PROCESSES

- To evaluate options to efficiently manage and operate a sewer system in the Jamacha Basin with the San Diego County Sanitation Department.
- Evaluate and provide recommendations to the City of San Diego Pure Water Program.



Legend	
■	Completed
■	On Schedule
■	Behind Schedule
■	On Hold
■	No Reports
■	Not Scheduled to Start Yet

Engineering – Planning, Design

PLANNING / DESIGN / ENVIRONMENTAL / WATER RESOURCES

Services We Provide

The Planning, Design, Environmental, and Water Resources Divisions provide a variety of services directly related to potable water, recycled water, and sewer services. Water resources staff identifies, negotiates, and develops additional potable and recycled water supplies. Planning staff develops the preliminary design of a project in order to facilitate final design and ultimately construction of the facility. Planning staff also coordinates the review of planning documents related to potential new development. Design staff prepares the design of facilities and advertises projects for bid. Environmental staff coordinates and tracks the project through the construction stage and for a period after construction, if long-term mitigation is required. In addition, staff assists the Operations Department on special design projects related to maintenance of existing facilities including the Ralph W. Chapman Water Reclamation Facility. Additionally, Water Resources staff coordinates with other agencies on regional issues and is responsible for obtaining grants, loans, and cost-sharing opportunities.

Accomplishments – Fiscal Year 2014-2015

- Prepared cross-functional analysis to consolidate the Recycled Water Systems Division with the Field Services Division to create efficiencies which will result in the reduction of hiring Outside Services consultants that currently support the Developer Recycled Water Program.
- With the use of new technology, completed condition assessment and inspection of 4,000 feet of the existing Ralph W. Chapman Water Reclamation Facility (RWCWRF) 14-inch Force Main. Completed repairs to prevent potential damage to the environmental preserve, Sweetwater watershed, and other District facilities.
- Completed the condition assessment and inspection of approximately 2.2 miles of pipe of the 36-inch La Presa Pipeline starting from the District headquarters off Jamacha Boulevard to the Regulatory site. Completed repairs to preserve the useful life of this pipeline for another 30-40 years.
- Worked closely with staff and representatives from NSC Agua to coordinate on approaches to ensure compliance with the California Water Resources Control Board Drinking Water Program regulatory requirements. To meet these requirements, NSC Agua started a two year source water testing program in September 2014 at the power plant intake and outlet structures. The objective of this source water quality testing is to determine the type of constituents in the ocean water and then to ensure that the appropriate treatment will be performed and that the desalinated water product will meet the California water quality standards.

Engineering – Planning, Design

- Participated in a monthly workgroup with several stakeholders from the private and public sectors of the United States and Mexico developing Mexican federal standards for inlets, outfalls, and brine disposal from desalination plants. This effort resulted in a knowledge interchange, cooperation, and recognition of the Otay Water District by the Border Affairs Commission of the Mexican Congress.
- Completed the Notice of Preparation (NOP) and scoping meeting in conjunction with the U.S. State Department for the Otay Mesa Conveyance and Disinfection System project Environmental Impact Report/Environmental Impact Statement. Coordinated three project site visits to the District by U.S. State Dept. personnel. The goal is to obtain a Presidential Permit to be able to receive desalinated water from the proposed Desalination Plant in Rosarito B.C., Mexico.
- Completed installation of the corrosion inhibitor treatment system on the Water Operations Building's fire sprinkler system which will increase the useful life of the protection system.
- Received the "*Distinguished Owner Honoree*" award from Construction Management Association of America – San Diego Chapter.

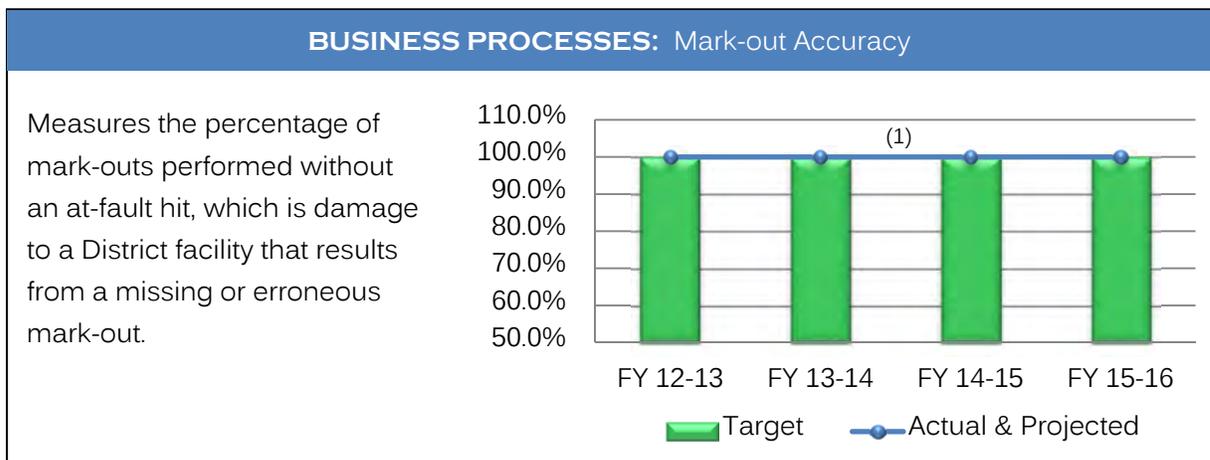
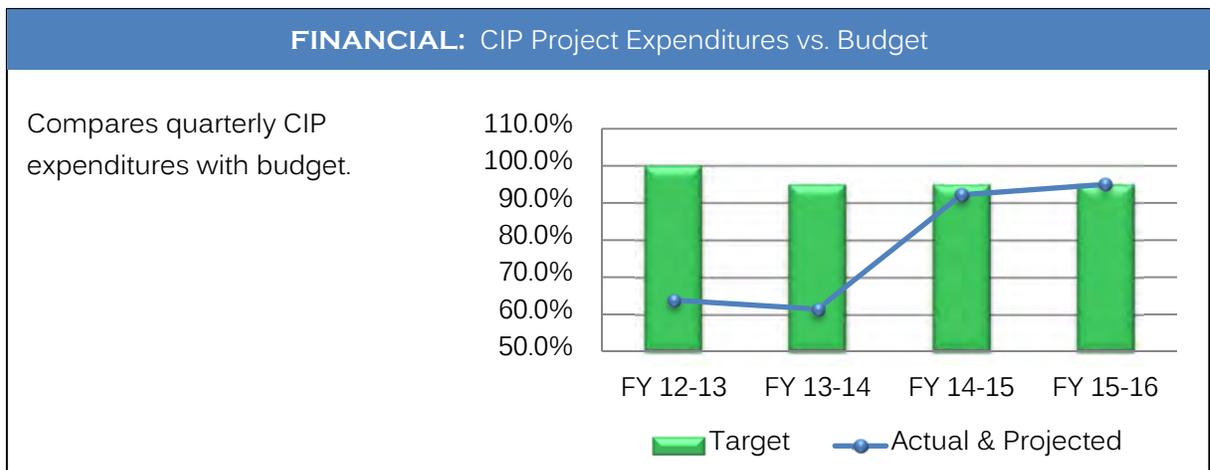
Engineering – Public Services

PUBLIC SERVICES / SURVEY / INSPECTION / CONSTRUCTION

Services We Provide

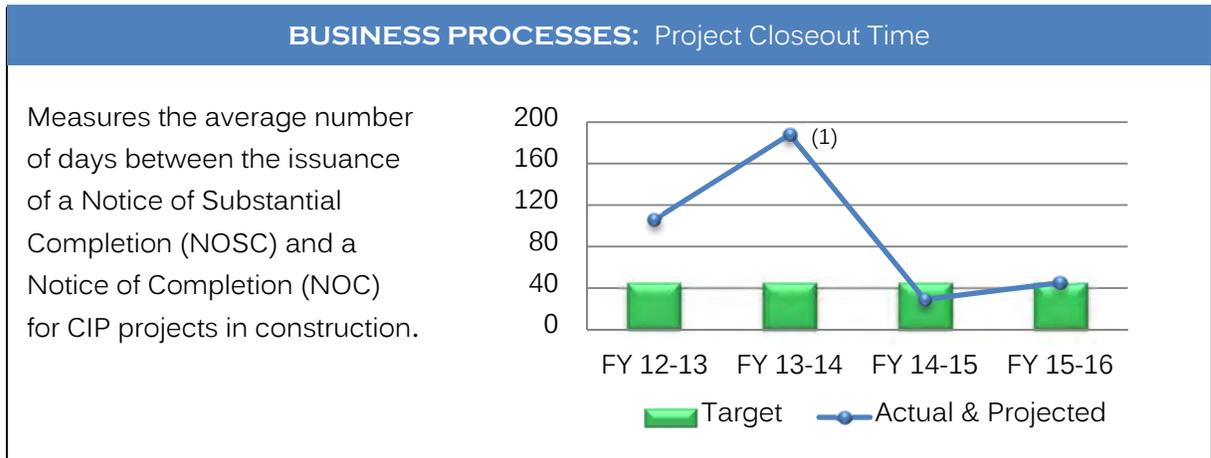
The Public Services, Survey, Inspection, and Construction Divisions assist the public by responding to customer visits, phone calls, and inquiries regarding permits, plan-checking fees, filing procedures, permit status, meter sales, meter costs, and lateral costs. Staff administers all plan-checking submittals for potable water, recycled water, and sewer applications for approval, cellular lease agreements, fire service, and backflow inspections, project deposits, and invoicing. Staff also provides inspections to private developer funded projects and the District's Capital Improvement Projects, easement and encroachment enforcements, and survey and utility mark-outs of District facilities and GPS plots. Once bid, the Construction staff provides construction management for the projects.

Performance Measures – Strategic Plan FY 2015-2018

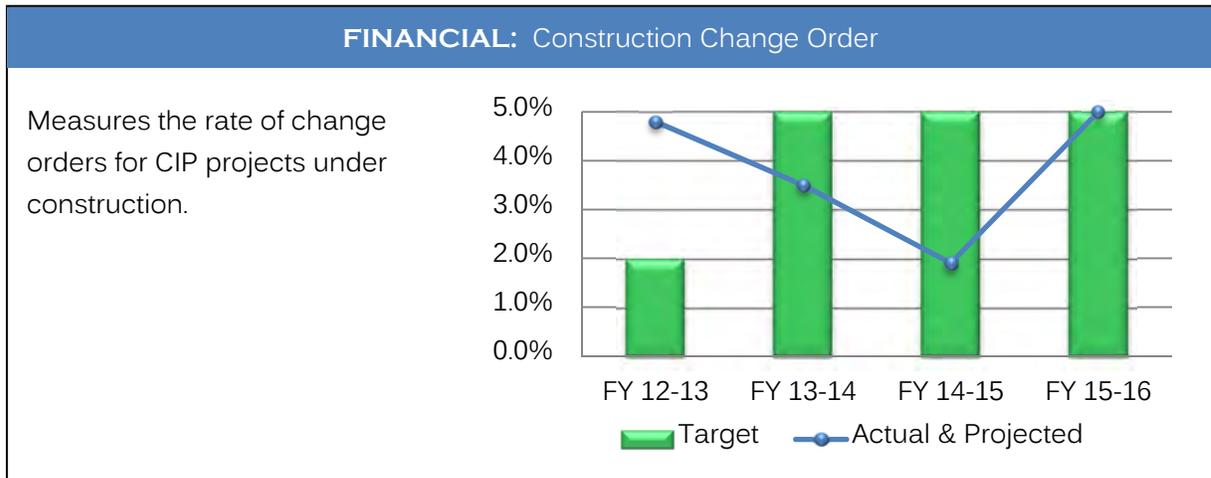


(1) Both actual/projected and targets are 100%.

Engineering – Public Services



(1) The FY 2013-2014 results for the above performance measure was highly influenced by contractor performance issues on the R2091 project which delayed contract closeout.



Accomplishments – Fiscal Year 2014-2015

- Increased meter revenue by \$3.73 million or 122% over FY 2015 budgeted amount. Issued 66 permits in support of development within the District increasing the District's customer base.
- Increased revenue by 4.8% from FY 2014 cell site leases in excess of \$1.19 million and maintained 33 cell site leases. The revenue generated through the cell site lease program assists in reducing the costs paid by the District's ratepayers.
- Completed 3,724 USA Mark-out tickets with an accuracy rate of 100%, an increase of 1.8% from Fiscal Year 2014. Also, completed 26 surveys related to various projects included in the FY 2015 CIP.

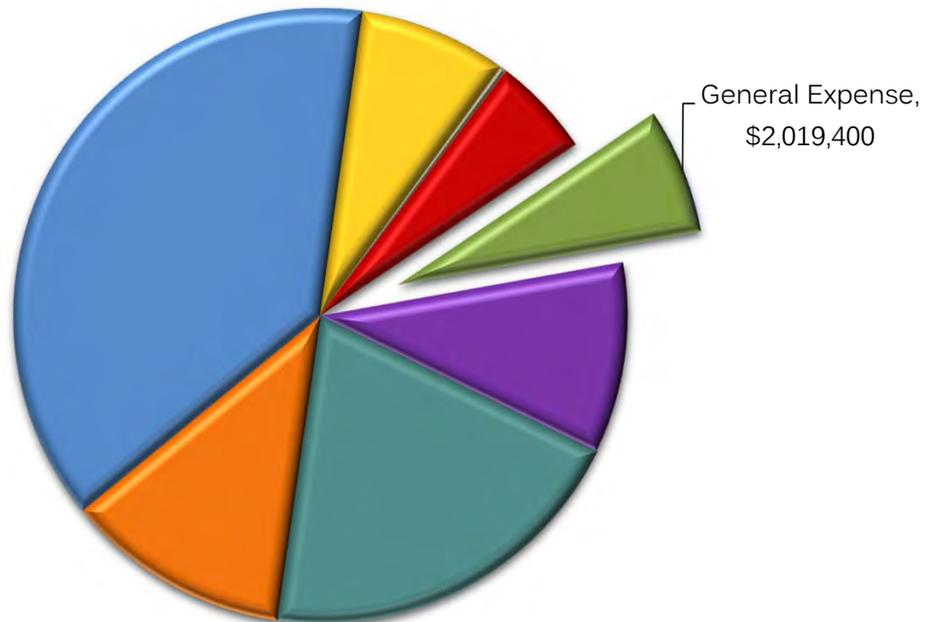
Engineering – Public Services

- Performed QA/QC on 6,033 linear feet of pipeline. Also, performed 121 meter sets, rehabbed 3 tanks, and reviewed 36 plan checks that consisted of fire services, backflows, and developer pipeline projects as part of the delivery of the FY 2015 CIP and active developer projects. As a result, the District's service area was expanded for future customers.
- Completed construction of the 624-2 Reservoir Coating and Upgrades project. This is a twenty-seven year old reservoir and by maintaining the reservoir we are improving the water reliability and preserving the useful life for another 20 years. The total construction cost of the project was \$1,180,770.
- Completed construction of the 870-1 Reservoir Access Road Paving Project which provides enhanced access for maintenance.

General Expense

The expenditures in this section are general operating costs not associated with an individual department. The expenditures include: legal costs, insurance premiums, changes in accrued employee leave balances and miscellaneous interest. These expenditures represent 6.6% of the total Department Budget.

FY 2016 Total Departmental Budget
\$30.6 Million



Board of Directors	\$	107,100	0.4%
General Manager		1,605,900	5.3%
General Expense		2,019,400	6.6%
Administrative Services		3,070,500	10.0%
Finance		6,128,400	20.0%
IT and Strategic Planning		3,610,600	11.8%
Water Operations		11,663,400	38.1%
Engineering		2,381,600	7.8%
Total	\$	30,586,900	100.0%

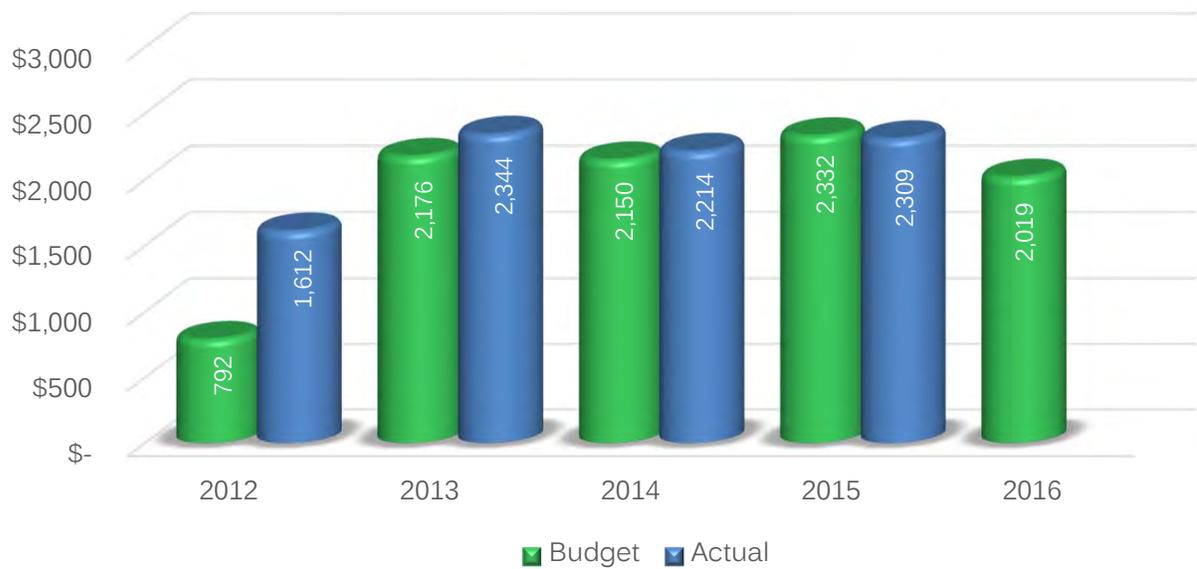
	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
General Expense	\$ 2,382,708	\$ 2,331,800	\$ 2,309,023	\$ 2,019,400

*Actual unaudited

General Expense

	FY 2014	FY 2015	FY 2015	FY 2016
	Actual	Budget	Actual*	Budget
Labor and Benefits ⁽¹⁾	\$ 1,536,043	\$ 1,290,800	\$ 1,487,720	\$ 1,183,400
Fees	844,099	1,041,000	820,046	836,000
Services	-	-	1,257	-
Training	2,566	-	-	-
Total	\$ 2,382,708	\$ 2,331,800	\$ 2,309,023	\$ 2,019,400

BUDGET VS. ACTUAL, IN THOUSANDS (\$)



⁽¹⁾ Benefits include District-wide labor and benefit costs not attributable to any one department, such as the effect of cost of living raises on accrued leave liabilities or the Other Post Employment Benefit (OPEB) costs. These costs are netted against the District's anticipated Vacancy Factor. The Vacancy Factor for FY 2015 and FY 2016 is \$185,600 and \$338,300, respectively. Additionally, the labor and benefits shown on this schedule are those related to operating costs and does not include CIP labor and benefit costs.

*Actual unaudited

Capital Improvement Program

The District provides water service to a population of approximately 217,000 which is expected to ultimately increase to 308,000 by the year 2050. This growth as well as the maintenance of existing assets requires long-term capital planning. The process is dynamic, due to the evolving needs of the community, the water supply issues, and changing regulations. As such, capital planning is part of the District's overall strategic planning. The capital planning process involves identifying current needs, future needs, and prioritizing them based on certain operating assumptions. The primary objective of this planning effort is to support an orderly and efficient program of expansion, new water supply, replacement, and betterment, while maintaining a stable long-range financial plan.

To accommodate growth requires that the District invest \$283 million in capital assets through ultimate build-out. The Fiscal Year 2016 Capital Budget is \$11.1 million and the six-year Capital Improvement Program (CIP) totals \$193.9 million. A separate CIP Budget document contains the descriptions, justifications, expenditures, and funding for all the identified projects to ultimate build-out.

ASSUMPTIONS AND CRITERIA

The CIP is developed based on the District's Water Resources Master Plan, incorporating historical data, growth, developers' input, SANDAG projections, and long-term economic outlook.

The Water Resources Master Plan was built using several major assumptions and design criteria as follows:

1. Utilizing historical water demands for each land use type in the District to calculate future demands.
2. Using maximum day peaking factors that vary with demand level.
3. Utilizing land use as planned by the City of Chula Vista.
4. Providing ten days of emergency water supply through a maximum of five days in covered reservoirs and a minimum of five days from interconnections with adjacent agencies.
5. Inclusion of emergency operational storage to meet the five-day covered storage requirement into the ten-day outage supply requirement.

CIP JUSTIFICATION AND IMPACT ON OPERATING BUDGET

The justification for each project is determined by whether it is required due to growth (Expansion), new water sources (New Supply), improvements or upgrades (Betterment), or to replace an existing asset (Replacement). As these projects are completed and placed into service, there may be an impact on the Operating Budget by increasing costs in the areas of maintenance, energy, or chemicals as shown on the justification and impact pages in this section.

Capital Improvement Program

CAPITAL PURCHASES AND FACILITIES

All capital expenditures are in the CIP. This includes capital facilities and capital purchases. Capital purchases are non-recurring operating expenditures for assets that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Vehicles, Office Equipment, Furniture, and Field Equipment purchases. The details of these purchases can be found on [page 198](#). Capital Facility Projects are items that exceed \$10,000 or \$20,000 for infrastructure related items (as defined under Capital Equipment on [page 263](#) of the Glossary) and have a useful life of at least two years.

The CIP projects are identified and are prioritized based on the following criteria:

1. Safety, restoration of service, immediate obligation, Board directed, or critical system need.
2. System upgrades or requirements to maintain system reliability in the next few fiscal years.
3. Need to meet the future growth of the system.
4. Project requirement may be reduced in capacity or may have low probability of need in the future.

The following are the four categories of CIP projects:

NEW WATER SUPPLY

Facilities required to support new sources of water are funded from new supply fees or user rates.

EXPANSION

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

BETTERMENT

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

REPLACEMENT

Facilities required to renew or replace existing facilities that have deteriorated or have exceeded their useful life are funded from user rates.

Major CIP Projects

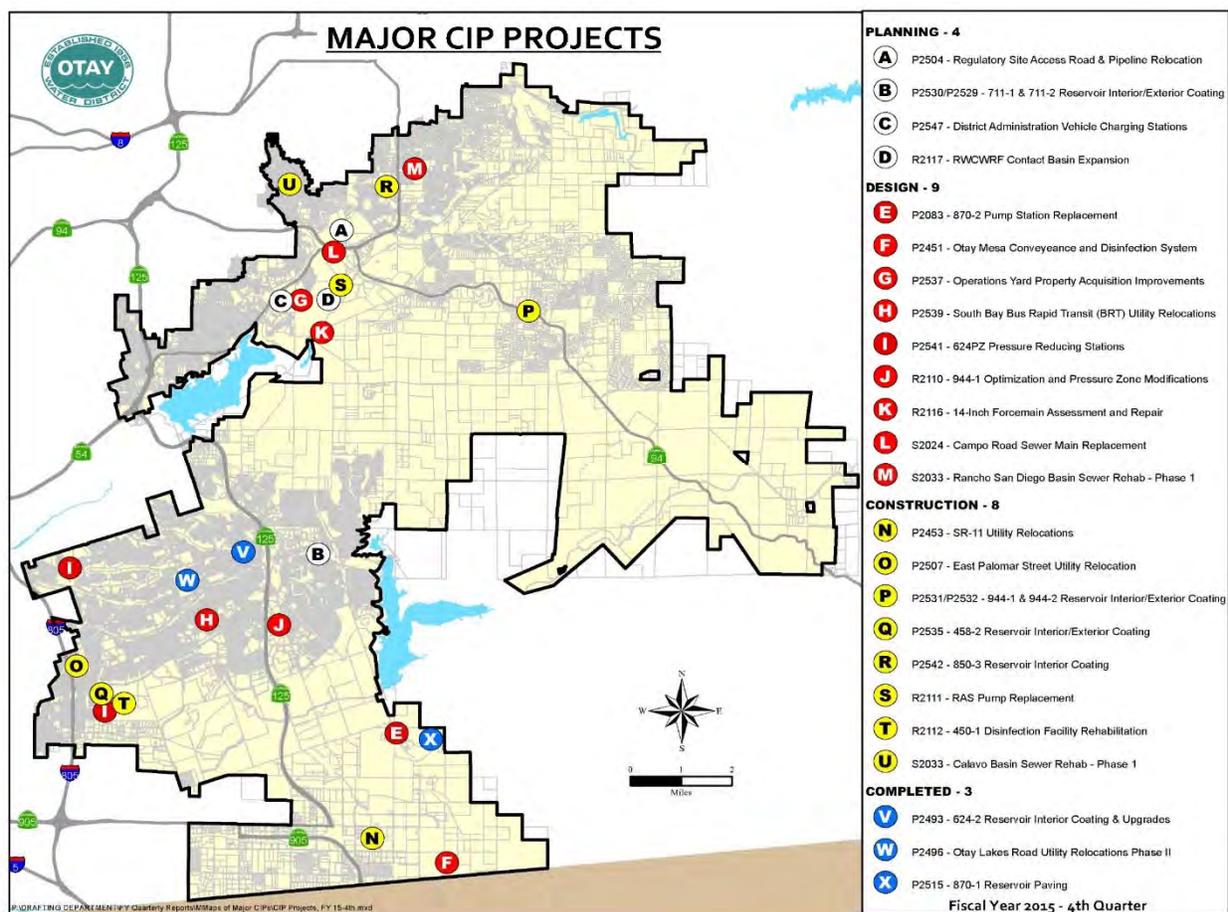
CAPITAL IMPROVEMENT PROJECTS

The Fiscal Year 2016 CIP Budget contains 89 projects. The cost of the work planned for 80 of these projects fall within Fiscal Year 2016 and total \$11.1 million. Of the 80 projects planned for Fiscal Year 2016, one is designated as a reimbursable project with an estimated cost totaling \$1,000. These projects are built by developers and reimbursed by the District.

The following shows how the \$11.1 million of projects are broken down into four categories:

1. Capital facilities \$ 3.1 million
2. Replacement or renewal projects \$ 6.9 million
3. Capital purchase projects \$ 1.1 million
4. Developer reimbursement projects \$ 1.0 thousand

The Six-Year CIP and Fiscal Year 2015 Capital Budget are consistent with the District's Water Resources Master Plan, current capacity fees, and the District's strategic financial objectives.



CIP Projects in Construction

Calavo Basin Sewer
Rehabilitation – Phase I
(S2033)



Payment Restoration



Trench Restoration

- Project part of the District's comprehensive sewer management program.
- Project will replace deteriorated or sagging sections of sewer pipe.
- Overall Project Budget: \$6.00M
- Start: January 2015
- Estimated Completion: July 2015

CIP Projects in Construction



850-3 Reservoir Interior
Coating & Upgrades
(P2542)

Sandblasting Interior Roof



Interior Roof Prior to Sandblasting

- Remove and Replace Deteriorating Reservoir Coatings.
- Structural Modifications to Increase Service Life.
- \$0.53M Budget
- Start: May 2015
- Estimated Completion: October 2015

CIP Projects in Construction

944-1, 944-2, & 458-2 Reservoir
Interior/Exterior Coating & Upgrades
(P2531, P2532, P2535)



Scaffolding Removal on the 944-2 Reservoir

- Remove and Replace Deteriorating Reservoir Coatings.
- Structural Modifications to Increase Service Life.
- \$1.83M Budget
- Start: November 2014
- Estimated Completion: October 2015

CIP Projects in Construction



450-1 Disinfection Facility
Rehabilitation
(R2112)

Disinfection Facility – New Roll-Up Door



Disinfection Facility – New Chemical Pump Concrete Pad

- Remove and Replace Sodium Hypochlorite Tanks and Chemical Feed Pumps.
- Construct New Roll-Up Door.
- \$0.27M Budget
- Start: January 2015
- Estimated Completion: July 2015

CIP Projects in Construction

SR-11 Utility Relocations Sequence
(P2453)



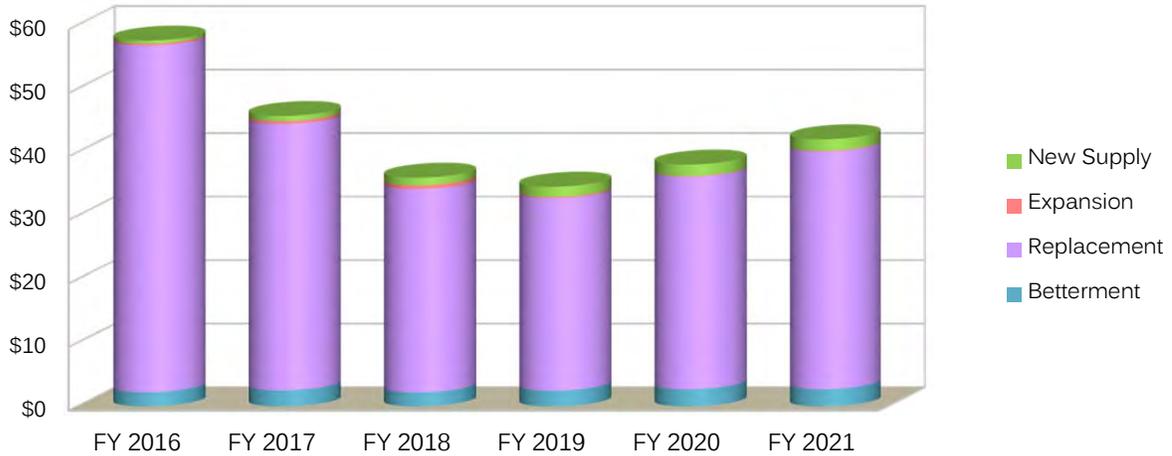
Heat Shrink a Cathodic Protection Sleeve on an Installation for the SR-11

- Relocate Existing Water Facilities to support SR-11 Construction.
- \$2.25M Budget
- Start: February 2014
- Estimated Completion: August 2015

CIP Reserve Funds

The CIP Reserve Funds presentation, shown on the following pages, is designed to provide an understanding of how the funding of CIPs is expected to financially influence the District over the next six years. The financial impacts are based on CIPs and their funding sources, including fund transfers in accordance with the District's Reserve Policy, and planned debt issuances. This data is captured in the District's Rate Model on an annual basis in order to make these projections. The District does not anticipate issuing new water or sewer debt.

RESERVE FUND BALANCES, IN THOUSANDS (\$)

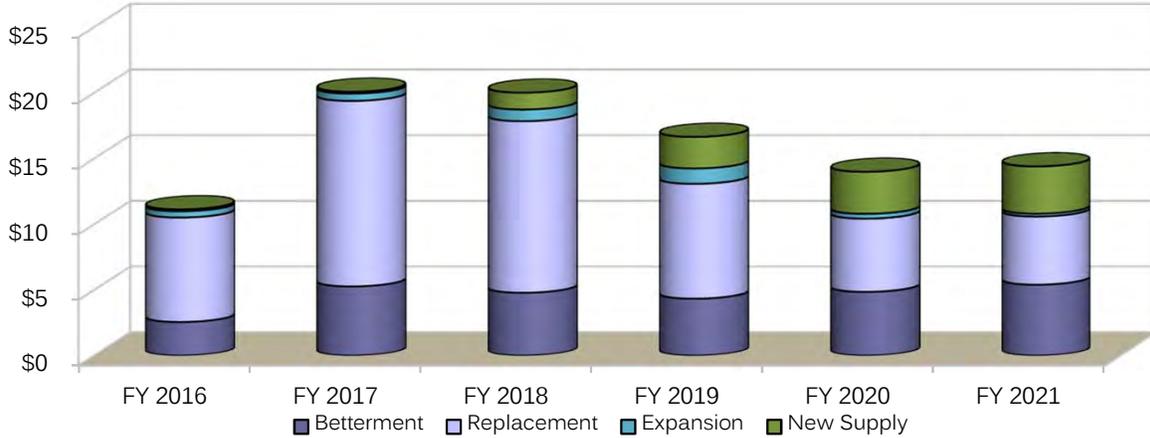


	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
CIP Reserve Funds, in Thousands (\$)							
Beginning Balance	\$ 54,032	\$ 57,795	\$ 45,100	\$ 35,643	\$ 34,298	\$ 37,881	\$ 264,749
Capacity Fees	2,220	4,251	6,323	9,557	11,952	12,864	47,167
Grants	3,714	-	-	-	-	-	3,714
Interest	416	507	486	453	503	594	2,958
Temporary Meters	397	399	403	407	413	419	2,439
Availability (Betterment Portion)	473	491	510	529	550	571	3,124
New Supply Fee	245	475	715	1,050	1,322	1,418	5,224
COPS 2010B Reimbursement	770	770	770	770	770	770	4,621
Transfer from General Fund	15,549	9,364	10,211	11,491	11,015	10,693	68,323
Interfund Transfers	30	40	47	50	54	58	279
Total Sources	23,814	16,297	19,465	24,307	26,579	27,387	137,849
CIP Projects	11,136	20,085	20,014	16,651	13,997	14,407	96,290
Debt Service	7,780	7,764	7,757	7,840	7,824	7,814	46,779
Developer Services	1,135	1,142	1,151	1,162	1,174	1,187	6,950
Total Uses	20,051	28,991	28,922	25,653	22,995	23,408	150,019
Net Sources (Uses)	\$ 3,763	\$ (12,694)	\$ (9,457)	\$ (1,345)	\$ 3,584	\$ 3,979	\$ (12,171)
Ending Balance	\$ 57,795	\$ 45,100	\$ 35,643	\$ 34,298	\$ 37,881	\$ 41,860	\$ 252,578

CIP Funding Source and Category

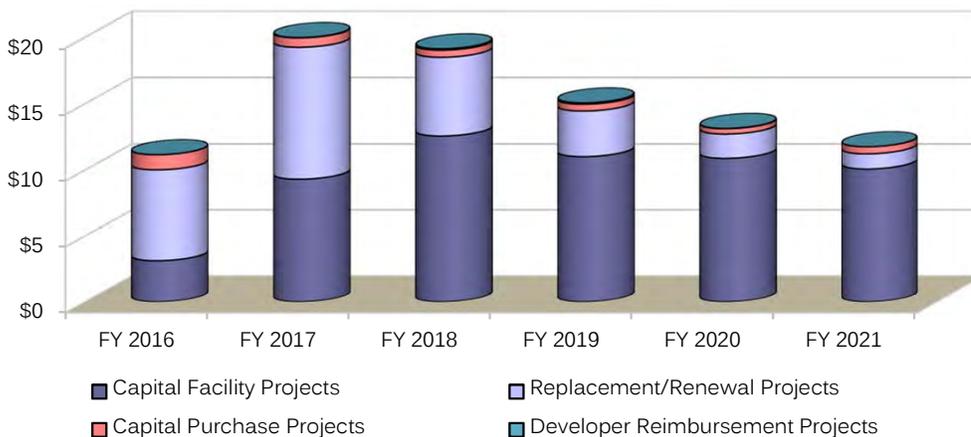
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
CIP Funding Source							
Expansion	\$ 479	\$ 556	\$ 889	\$ 1,171	\$ 367	\$ 213	\$ 3,676
Betterment	2,558	5,271	4,785	4,335	4,852	5,402	27,202
Replacement	7,959	14,118	13,060	8,745	5,578	5,192	54,652
New Supply	140	140	1,280	2,400	3,200	3,600	10,760
Total	\$ 11,136	\$ 20,085	\$ 20,014	\$ 16,651	\$ 13,997	\$ 14,407	\$ 96,290

SIX-YEAR CIP BY FUNDING SOURCE, IN THOUSANDS (\$)



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
CIP Category							
Capital Facility Projects	\$ 3,111	\$ 9,283	\$ 12,546	\$ 10,991	\$ 10,863	\$ 10,055	\$ 56,849
Replacement/Renewal Projects	6,883	9,948	5,933	3,437	1,832	1,150	29,183
Capital Purchase Projects	1,141	705	535	513	402	532	3,828
Developer Reimbursement Projects	1	29	100	100	20	-	250
Subtotal	11,136	19,965	19,114	15,041	13,117	11,737	90,110
FY 2017 Through FY 2021 Projects	-	120	900	1,610	880	2,670	6,180
Total	\$ 11,136	\$ 20,085	\$ 20,014	\$ 16,651	\$ 13,997	\$ 14,407	\$ 96,290

SIX-YEAR CIP BY CATEGORY, IN THOUSANDS (\$)



CIP Projects (\$1,000s)

The 2016 Fiscal Year CIP Budget contains 89 projects. The costs for the work planned for Fiscal Year 2016 is \$11.1 million. Of the 80 projects planned for Fiscal Year 2016, one is designated as a reimbursable project with an estimated cost of \$1,000. This project is built by a developer and reimbursed by the District.

CAPITAL FACILITY PROJECTS

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
P2040	Res - 1655-1 Reservoir 0.5 MG	\$ 25	\$ 250	\$ 900	\$ 925	\$ 100	\$ -	\$ 2,200
P2083	PS - 870-2 Pump Station Replacement	350	5,000	5,000	3,350	-	-	13700
P2267	36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations	50	200	55	-	-	-	305
P2325	PL-10" to 12" Oversize, 1296 Zone, PB Road-Rolling Hills Hydro PS/PB Bndy	1	20	-	-	-	-	21
P2451	Otay Mesa Desalination Conveyance and Disinfection System	350	350	3,200	6,000	8,000	9,000	26900
P2466	Regional Training Facility	8	6	-	-	-	-	14
P2469	Information Technology Network and Hardware	175	50	-	-	-	-	225
P2470	Financial System Enhancements	100	-	-	-	-	-	100
P2486	Asset Management Plan Condition Assessment and Data Acquisition	75	75	28	-	-	-	178
P2511	Otay Interconnect Pipeline	50	200	200	102	1	1	554
P2537	Operations Yard Property Acquisition Improvements	450	150	15	-	-	-	615
P2540	Work Order Management System Replacement	60	100	-	-	-	-	160
P2541	624 Pressure Zone PRSs	525	5	-	-	-	-	530
P2547	District Administration Vehicle Charging Stations	1	43	5	-	-	-	49
P2549	Fuel System Upgrade	30	-	-	-	-	-	30
P2551	Blossom Lane Helix WD and Otay WD Interconnection	150	13	-	-	-	-	163
P2552	South Barcelona Helix WD and Otay WD Interconnection	150	20	-	-	-	-	170
P2554	640/340 PRS at Energy Way and Nirvana Avenue	1	1	50	250	75	23	400
P2555	Administration and Operations Parking Lot Improvements	10	50	100	100	100	140	500
P2561	Res - 711-3 Reservoir Cover/Liner Replacement	5	95	1,700	-	-	-	1800
P2562	Res - 571-1 Reservoir Cover/Liner Replacement	1	9	10	90	2,490	-	2600
P2563	Res - 870-1 Reservoir Cover/Liner Replacement	1	5	5	9	90	890	1000
P2568	Technology Business Processes Improvement	40	75	-	-	-	-	115
P2569	Metro Ethernet Implementation/ District Facilities - Pilot	100	-	-	-	-	-	100
P2570	SCADA Equipment & Infrastructure Enhancement	-	100	100	100	-	-	300
P2571	Datacenter Network Enhancement & Replacement of Infrastructure Componets	-	-	-	100	100	-	200
P2572	Enterprise Resource Planning (ERP) Replacement	-	-	-	-	-	250	250
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	5	20	20	-	-	-	45
R2107	RWCWRF Screening Compactor and Chlorine Injectors Enclosure	7	-	-	-	-	-	7

CIP Projects (\$1,000s)

CAPITAL FACILITY PROJECTS, CONTINUED

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
R2108	Res - 927-1 Reservoir Cover Replacement	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10
R2110	RecPS - 944-1 Optimization and Pressure Zone Modifications	25	5	92	-	-	-	122
R2114	Large Recycle Pump Replacement at the RWCWRF 927-1 Pump Station	40	-	-	-	-	-	40
R2117	RWCWRF Disinfection System Improvements	110	1,100	1,100	100	-	-	2410
R2118	Steele Canyon Sewer PS Chopper Pump	40	-	-	-	-	-	40
R2119	Treatment Plant Automation & Security Upgrades	50	50	50	50	-	-	200
R2121	Res - 944-1 Reservoir Cover/Liner Replacement	25	1,375	-	-	-	-	1400
R2122	Emergency Recycled Water Fire Hydrant Installations	75	-	-	-	-	-	75
S2043	RWCWRF Sludge Handling System	1	1	1	1	1	1	6
38	Total Capital Facility Projects	\$ 3,096	\$ 9,368	\$ 12,631	\$ 11,177	\$ 10,957	\$ 10,305	\$ 57,534

REPLACEMENT/RENEWAL PROJECTS

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
P2382	Safety and Security Improvements	\$ 300	\$ 250	\$ -	\$ -	\$ -	\$ -	\$ 550
P2453	SR-11 Utility Relocations	5	5	250	250	257	-	767
P2485	SCADA Communication System and Software Replacement	75	35	150	150	150	160	720
P2493	624-2 Reservoir Interior/Exterior Coating	55	50	-	-	-	-	105
P2494	Multiple Species Conservation Plan	87	-	-	-	-	-	87
P2495	San Miguel Habitat Management/Mitigation Area	120	120	160	160	180	190	930
P2496	Otay Lakes Road Utility Relocations	20	5	-	-	-	-	\$25
P2504	Regulatory Site Access Road and Pipeline Relocation	50	365	135	20	-	-	\$570
P2507	East Palomar Street Utility Relocation	25	120	110	-	-	-	\$255
P2508	Pipeline Cathodic Protection Replacement Program	150	300	50	47	-	-	\$547
P2515	870-1 Reservoir Paving	15	-	-	-	-	-	\$15
P2518	803-3 Reservoir Interior/Exterior Coating	20	45	-	-	-	-	\$65
P2519	832-2 Reservoir Interior/Exterior Coating	20	45	25	-	-	-	\$90
P2520	Motorola Mobile Radio Upgrade	30	14	-	-	-	-	\$44
P2529	711-2 Reservoir Interior & Exterior Coating	600	130	25	35	-	-	\$790
P2530	711-1 Reservoir Interior & Exterior Coating	800	200	15	25	-	-	\$1,040
P2531	944-1 Reservoir Interior & Exterior Coating	130	50	35	-	-	-	\$215
P2532	944-2 Reservoir Interior & Exterior Coating	50	50	50	-	-	-	\$150
P2533	1200-1 Reservoir Interior & Exterior Coating	5	490	35	35	-	-	\$565
P2534	978-1 Reservoir Interior & Exterior Coating	-	10	275	5	35	-	\$325
P2535	458-2 Reservoir Interior & Exterior Coating & Upgrades	115	5	35	-	-	-	\$155
P2538	Administration and Operations Building Fire Sprinkler Replacement Program	5	20	18	-	-	-	\$43
P2539	South Bay Bus Rapid Transit (BRT) Utility Relocations	100	100	100	40	-	-	\$340

CIP Projects (\$1,000s)

REPLACEMENT/RENEWAL PROJECTS, CONTINUED

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
P2542	850-3 Reservoir Interior Coating	\$ 230	\$ 15	\$ 35	\$ -	\$ -	\$ -	\$ 280
P2543	850-1 Reservoir Interior/Exterior Coating	-	10	515	10	40	-	\$575
P2544	850-2 Reservoir Interior/Exterior Reservoir Coating	5	5	880	10	40	-	\$940
P2545	980-1 Reservoir Interior/Exterior Coating	950	445	50	50	-	-	\$1,495
P2546	980-2 Reservoir Interior/Exterior Coating	-	-	10	1,390	10	40	\$1,450
P2550	Fuel Island Upgrade	75	-	-	-	-	-	\$75
P2553	Heritage Road Bridge Replacement and Utility Relocation	10	100	290	645	155	-	\$1,200
P2557	520 Res Recirculation Pipeline Chemical Supply and Analyzer Feed Replacement Project	1	29	65	5	-	-	\$100
P2558	Additional Pump Station Fuel Storage	25	-	-	-	-	-	\$25
P2559	Pressure Vessel Repair and Replacement Program	50	250	-	-	-	-	\$300
P2564	Administration Carpet Replacement Program	65	75	75	-	-	-	\$215
P2565	803-2 Reservoir Interior/Exterior Coating & Upgrades	-	-	-	5	675	45	\$725
P2566	520-2 Reservoir Interior/Exterior Coating & Upgrades	-	-	-	-	10	1,780	\$1,790
P2567	1004-2 Reservoir Interior/Exterior Coating & Upgrades	-	-	-	-	10	555	\$565
R2109	Sweetwater River Wooden Trestle Improvement for the Recycled Water Forcemain	400	10	-	-	-	-	\$410
R2111	RWCWRF - RAS Pump Replacement	250	-	-	-	-	-	\$250
R2112	450-1 Disinfection Facility Rehabilitation	40	25	-	-	-	-	\$65
R2116	RecPL - 14-Inch, 927 Zone, Forcemain Assessment and Repair	225	1,000	150	50	-	-	\$1,425
R2120	RWCWRF Filtered Water Storage Tank Improvements	10	245	245	-	-	-	\$500
S2012	San Diego County Sanitation District Outfall and RSD Outfall Replacement	50	150	150	200	250	300	\$1,100
S2024	Campo Road Sewer Main Replacement	500	3,400	1,000	-	-	-	\$4,900
S2027	Rancho San Diego Pump Station Rehabilitation	320	1,000	1,000	915	-	-	\$3,235
S2033	Sewer System Rehabilitation	900	800	800	800	800	500	\$4,600
46	Total Replacements and Renewal Projects	\$ 6,883	\$ 9,968	\$ 6,733	\$ 4,847	\$ 2,612	\$ 3,570	\$ 34,613

CAPITAL PURCHASE PROJECTS

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
P2282	Vehicle Capital Purchases	\$ 556	\$ 298	\$ 295	\$ 327	\$ 308	\$ 317	\$ 2,101
P2285	Office Equipment and Furniture Capital Purchases	15	15	15	14	6	-	65
P2286	Field Equipment Capital Purchases	50	100	83	68	16	105	\$422
P2366	APCD Engine Replacements and Retrofits	535	307	157	118	78	110	\$1,305
4	Total Capital Purchase	\$1,156	\$720	\$550	\$527	\$408	\$532	\$3,893

CIP Projects (\$1,000s)

DEVELOPER REIMBURSEMENT PROJECTS

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
P2556	HWY 94 Upsized Utility Relocations at Melody Lane	\$ 1	\$ 29	\$ 100	\$ 100	\$ 20	\$ -	\$ 250
1	Total Reimbursement Projects	\$1	\$29	\$100	\$100	\$20	\$0	\$250

SUMMARY

CIP No	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
80	Total - FY 2016 Projects	\$11,136	\$19,965	\$19,114	\$15,041	\$13,117	\$11,737	\$90,110
9	Total - FY 2017 through FY 2021 Projects	\$0	\$120	\$900	\$1,610	\$880	\$2,670	\$6,180
89	Grand Totals	\$11,136	\$20,085	\$20,014	\$16,651	\$13,997	\$14,407	\$96,290

CIP Justification and Impact on Operating Budget

The following schedule shows anticipated operating costs associated with each project in the CIP. Below is a summary of each category of new costs that will be impacted. No additional revenues are associated with the individual projects, as revenues are linked more directly to growth in water sales and capacity fee revenues.

PROJECTED INCREMENTAL OPERATING EXPENDITURES ⁽¹⁾

CIP #	Description	Cost Cat. ⁽²⁾	Funding Source ⁽³⁾	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	TOTAL
P2040	Res - 1655-1 Reservoir 0.5 MG	M	E/B	\$0	\$0	\$0	\$50	\$51	\$52	\$153
P2451	Otay Mesa Desalination Conveyance and Disinfection System	M/E/C	N/B	-	-	-	-	40,000	75,000	115,000
P2466	Regional Training Facility	M	E/B	1,000	1,000	1,000	1,000	-	-	4,000
P2537	.	M/E	B	-	700	725	750	776	800	3,751
P2547	District Administration Vehicle Charging Stations	M/E	E/B	-	700	700	700	700	700	3,500
S2043	RWCWRF Sludge Handling System	M/E/C	B	-	-	-	-	-	30,000	30,000
				1,000	2,400	2,425	2,500	41,527	106,552	156,404
				\$2,000	\$4,800	\$4,850	\$5,000	\$83,054	\$213,104	\$312,808

Cost Category	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	TOTAL
Maintenance (M)	\$1,000	\$1,200	\$1,200	\$1,250	\$10,252	\$20,252	\$35,154
Energy (E)	-	1,200	1,225	1,250	26,275	66,300	96,250
Chemical (C)	-	-	-	-	5,000	20,000	25,000
Total Operating Budget Cost Impact	\$ 1,000	\$ 2,400	\$ 2,425	\$ 2,500	\$ 41,527	\$ 106,552	\$ 156,404

- ⁽¹⁾ Projected Incremental Operating Expenditures (operating cost) or O&M includes labor, benefits, materials, and overhead.
O&M cost for pipes: Total annual operating cost divided by the number of feet of pipe in the system = O&M cost to maintain a foot of pipe. This rate is then multiplied by the number of feet in new pipeline, and is increased annually for inflation.
O&M cost for a pump station: Total annual operating cost divided by the number of million of gallons a day (MGD) capacity in the system = O&M cost per MGD. This rate is then multiplied by the MGD capacity of the new pump station. Similarly, power cost per MGD for transmission is calculated and applied to the MGD of the new pump station. Chemical expenses are incurred for pumping at the well sites. All estimated costs are increased annually for inflation.
O&M cost for a reservoir: Total annual operating cost divided by the number of million gallons (MG) of storage capacity in the system. This rate per MG is then multiplied by the MG capacity of the new reservoir. Reservoirs require chemical treatment; therefore, the chemical cost per MG is estimated and applied to the future operating cost. Both O&M and chemical costs are increased annually for inflation.
 Each of the capital purchases and other types of assets has its own unique O&M cost.
- ⁽²⁾ Cost Category - Indicates maintenance cost (M), energy cost (E), or chemical cost (C), based on the project type and Engineer's estimates.
- ⁽³⁾ Funding Source - Some projects have multiple funding sources as indicated by a slash (/):
 E - Expansion B - Betterment R - Replacement N - New Supply

Note: See pages 193-196 for complete description of CIP projects.

FY 2016 Capital Purchases

Capital purchases are non-recurring operating expense items for District-wide use that cost more than \$10,000 each and have an estimated useful life of two years or more. The Capital Purchase Projects include Field Equipment, Office Equipment and Furniture, and Vehicle purchases.

Item#	Description	Amount
OFFICE EQUIPMENT/FURNITURE		
Administrative Services		
11	Workstation ergonomics	\$ 15,000
Total of Office Equipment/Furniture		<u>\$ 15,000</u>
FIELD EQUIPMENT		
Finance		
3	Portable Meter Test Program/hardware	15,000
Operations		
19	Valve machine	35,000
Total of Field Equipment		<u>50,000</u>
VEHICLES		
Operations		
18	Replace truck bed for Unit No. 184	11,000
9	Potable Vactor truck with 15-yard debris body	405,000
21	One-ton service truck with engine driven Hydraulic air compressor and 20-foot crane.	140,000
Total of Vehicles		<u>556,000</u>
APCD ENGINE REPLACEMENTS AND RETROFITS		
Operations		
22	Portable Emissions Analyzer	14,500
17	Two portable engine driven pumps	520,000
Total of APCD Engine Replacements and Retrofits		535,000
Grand Total		<u><u>\$ 1,156,000</u></u>
Summary by Project		
	P2285 Office	\$ 15,000
	P2286 Field	50,000
	P2282 Vehicle	556,000
	P2366 APCD Engine Replacements and Retrofits	535,000
Grand Total		<u><u>\$ 1,156,000</u></u>

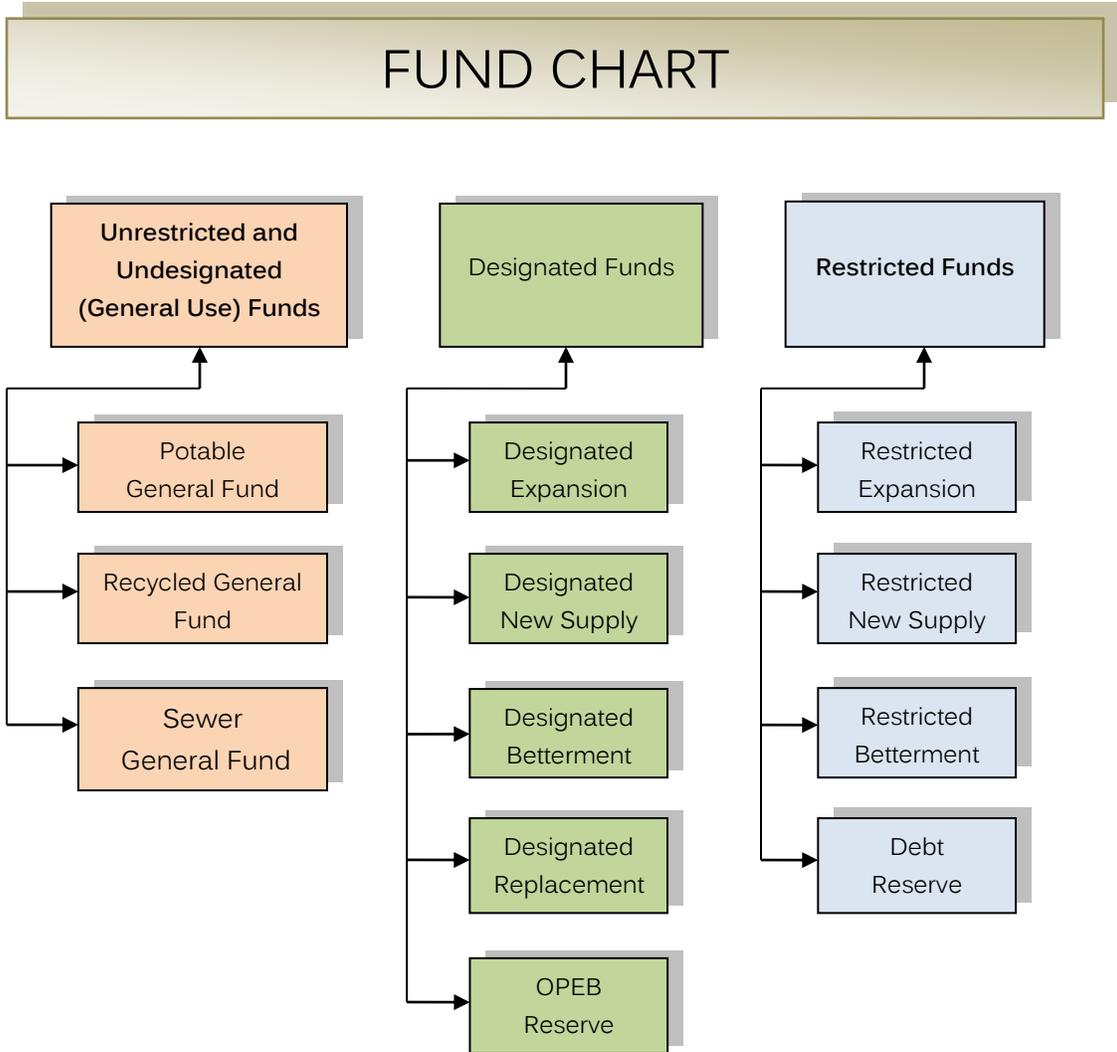
Summary of Financial Policies

INTRODUCTION

This section includes a brief synopsis of the District’s Reserve Policy, Investment Policy, and Debt Policy.

The Reserve Policy is a comprehensive policy which explains how the District is operated, including the distinction of business segments to ensure the various users pay their fair share of costs. It explains how fees are collected and what they are used for. It also explains the difference between funds, as well as how transfers shall be made, and defines each reserve target funding level. This policy was adopted by the Board in November 2010. The District periodically reviews the policy to ensure it reflects current policies and financial practices. The Reserve Policy was updated and adopted by the Board in November 2014.

The following chart depicts the detailed flow of funds that may be useful in understanding the Reserve Policy.



Summary of Financial Policies

The Investment Policy is a guideline for the prudent investment of cash. It outlines government code as well as authority granted by the Board of Directors. The primary objectives, in order of significance, are to invest safely, with adequate liquidity, and to achieve a return on investments. In August 2007, the District received a Certification of Excellence Award from the Association of Public Treasurers of the United States and Canada (APT US&C) for this policy. The Investment Policy was updated and adopted by the Board in May 2015.

The Debt Policy establishes that debt financing will only be used for Capital Improvement Projects (CIP), which have an extended useful life for ten years or longer, and that exceed the District's ability to be funded with current resources such as annual cash flow, fund balances, or reserves. Additionally, the life of a project is expected to exceed the term of the financing. The District strives to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic services and the achievement of district policy objectives. In August 2007, the District received a Certification of Excellence award from the Association of Public Treasurers of the United States and Canada (APT US&C) for this policy. The Debt Policy was updated and adopted by the Board in September 2013.

Reserve Policy

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.

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

Reserve Policy

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 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

Reserve Policy

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 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, 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.

Reserve Policy

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.

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.

Reserve Policy

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 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.
- 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).

Reserve Policy

- 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.¹

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."² 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.

¹ California State Auditor, Bureau of State Audits, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, 2003-137; p. 8.

² California Constitution, Article XIII B, Section 5.

Reserve Policy

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).

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

Reserve Policy

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 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 fees³ 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 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.

³ Code of Ordinances, Section 9.

Reserve Policy

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 fees⁴ 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 fees⁴ 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 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.

⁴ Code of Ordinances, Section 28.

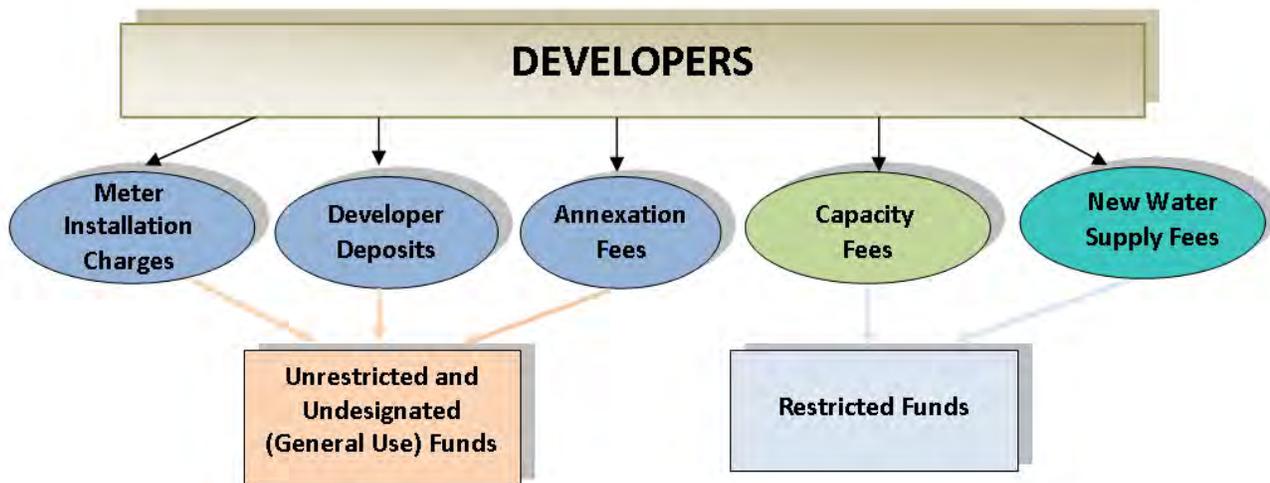
Reserve Policy

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.

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.

Reserve Policy

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).

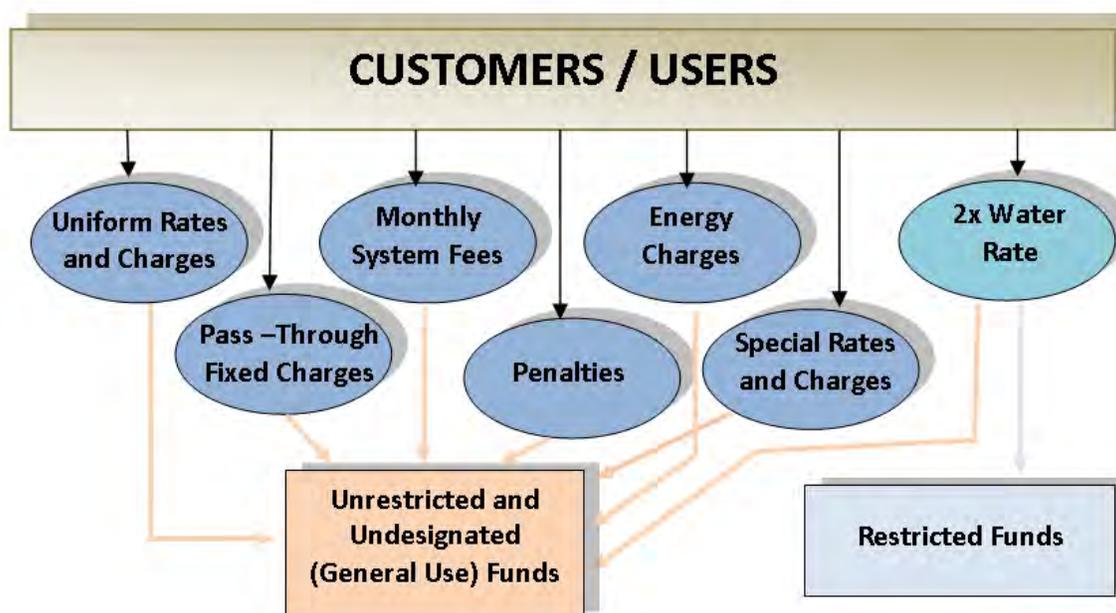
f. [Special Rates and Charges \(General Use\)](#)

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.

DIAGRAM 2.1: FLOW OF FUNDS - CUSTOMER SOURCES



Reserve Policy

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 \(General Use/Restricted\)](#)

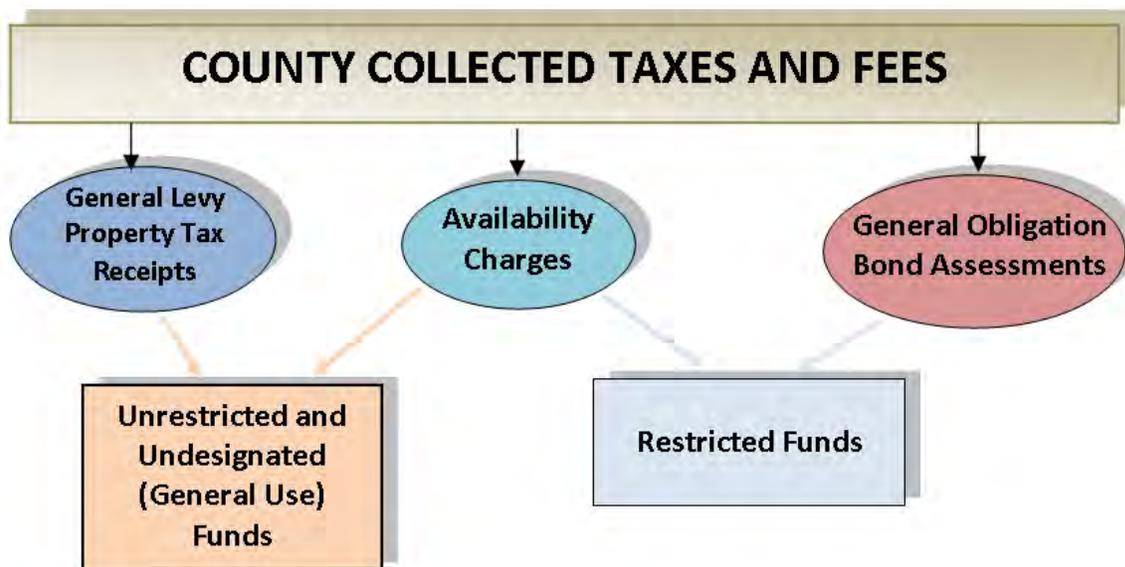
The District levies availability charges each year in developed and undeveloped areas. Current legislation provides that any amount up to \$10 per parcel is general use and any amount over \$10 per parcel is restricted to be expended in and for the improvement district (ID) within which it is collected. 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.

Reserve Policy

DIAGRAM 2.2: FLOW OF FUNDS – COUNTY COLLECTION SOURCES



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 \(General Use\)](#)

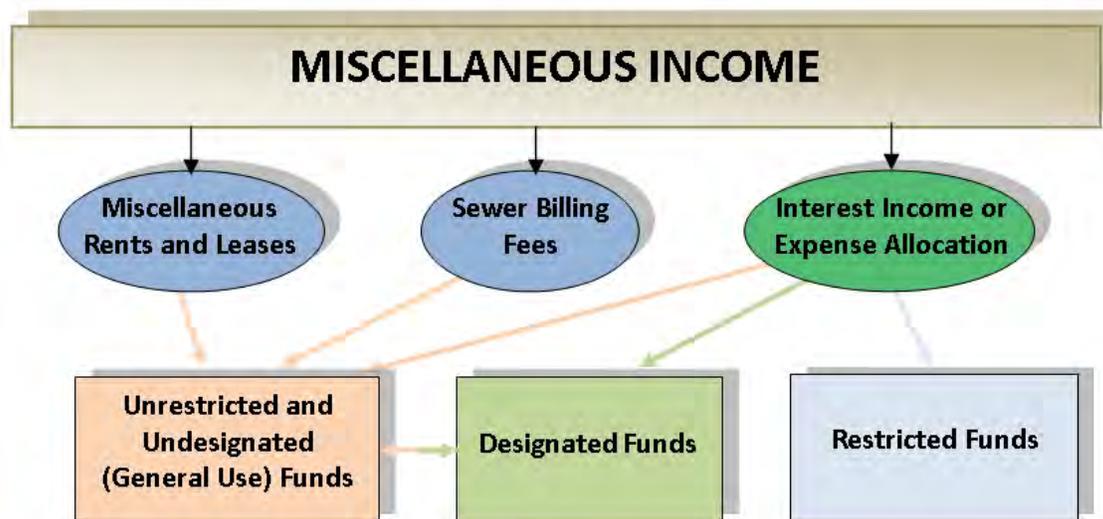
Sewer billing fees are general use revenues. The District provides processing and billing services to the City of Chula Vista to bill and collect from their customers for sewer service. These fees are to recover the cost the District incurs to provide this service.

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.

Reserve Policy

DIAGRAM 2.3: FLOW OF FUNDS – MISCELLANEOUS INCOME SOURCES



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)

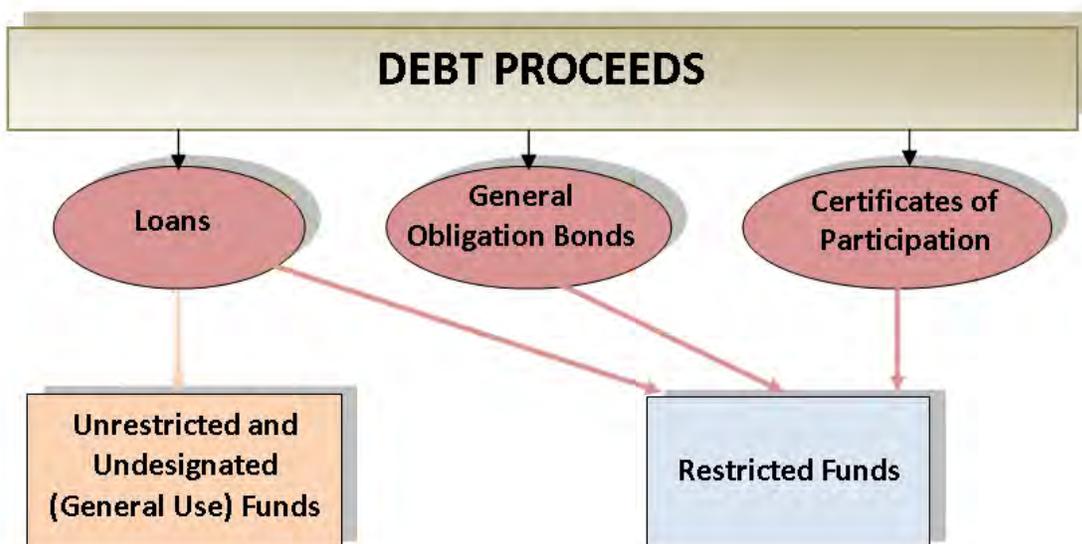
As the District becomes more developed it becomes less likely that general obligation debt will be used as it requires a vote of the public to be approved. Bond proceeds are restricted for the construction of those facilities identified in the GO bond issuance. Occasionally, specific portions of bond 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.

Reserve Policy

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 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.

Reserve Policy

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).
- 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

Reserve Policy

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.

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.

c. [Funding Levels](#)

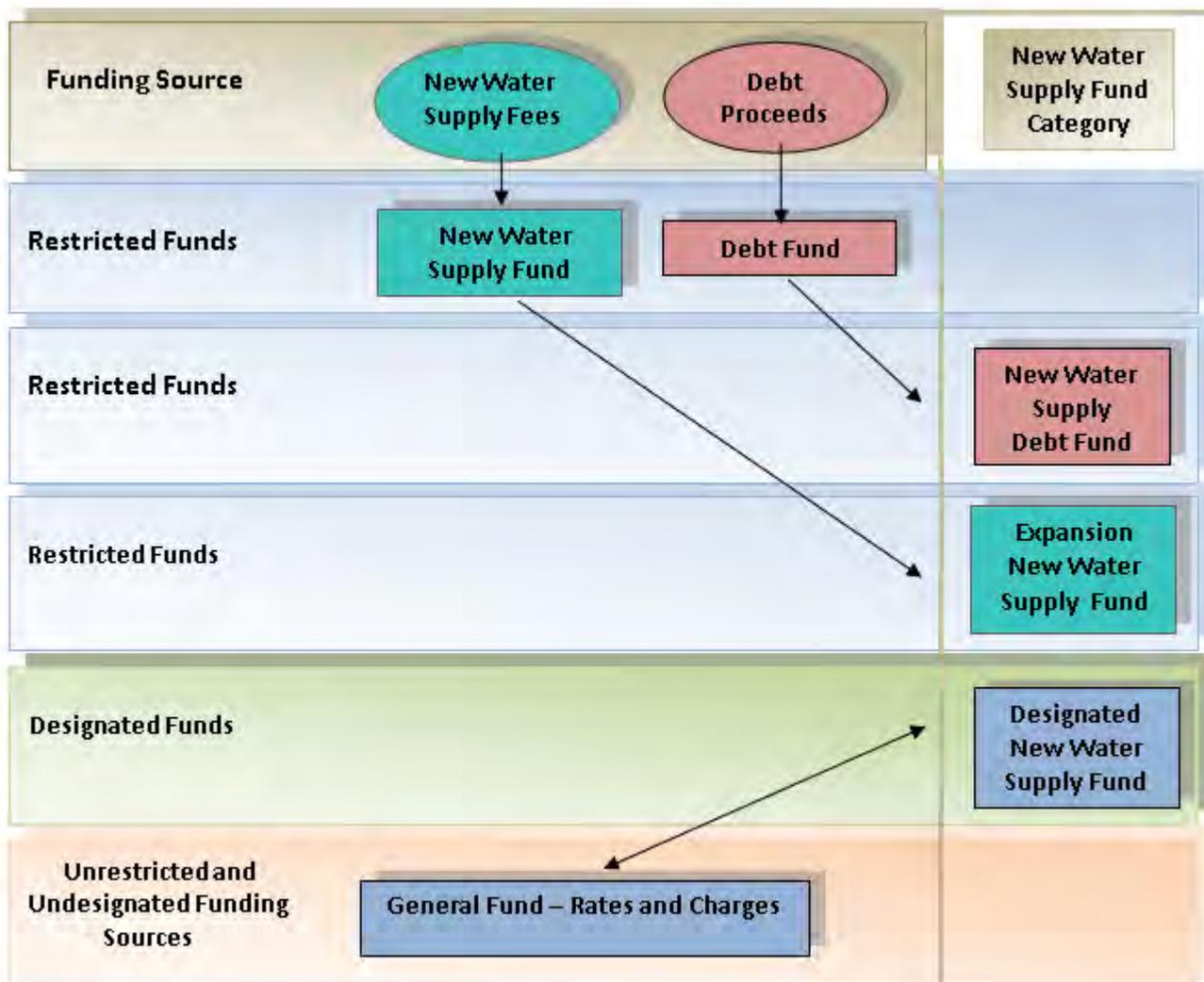
- I. **Minimum Level** – As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.
- II. **Maximum Level** – The maximum reserve level for the new water supply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

Reserve Policy

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.

DIAGRAM 3.2: NEW WATER SUPPLY FUND CATEGORY



Reserve Policy

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.

b. Sources

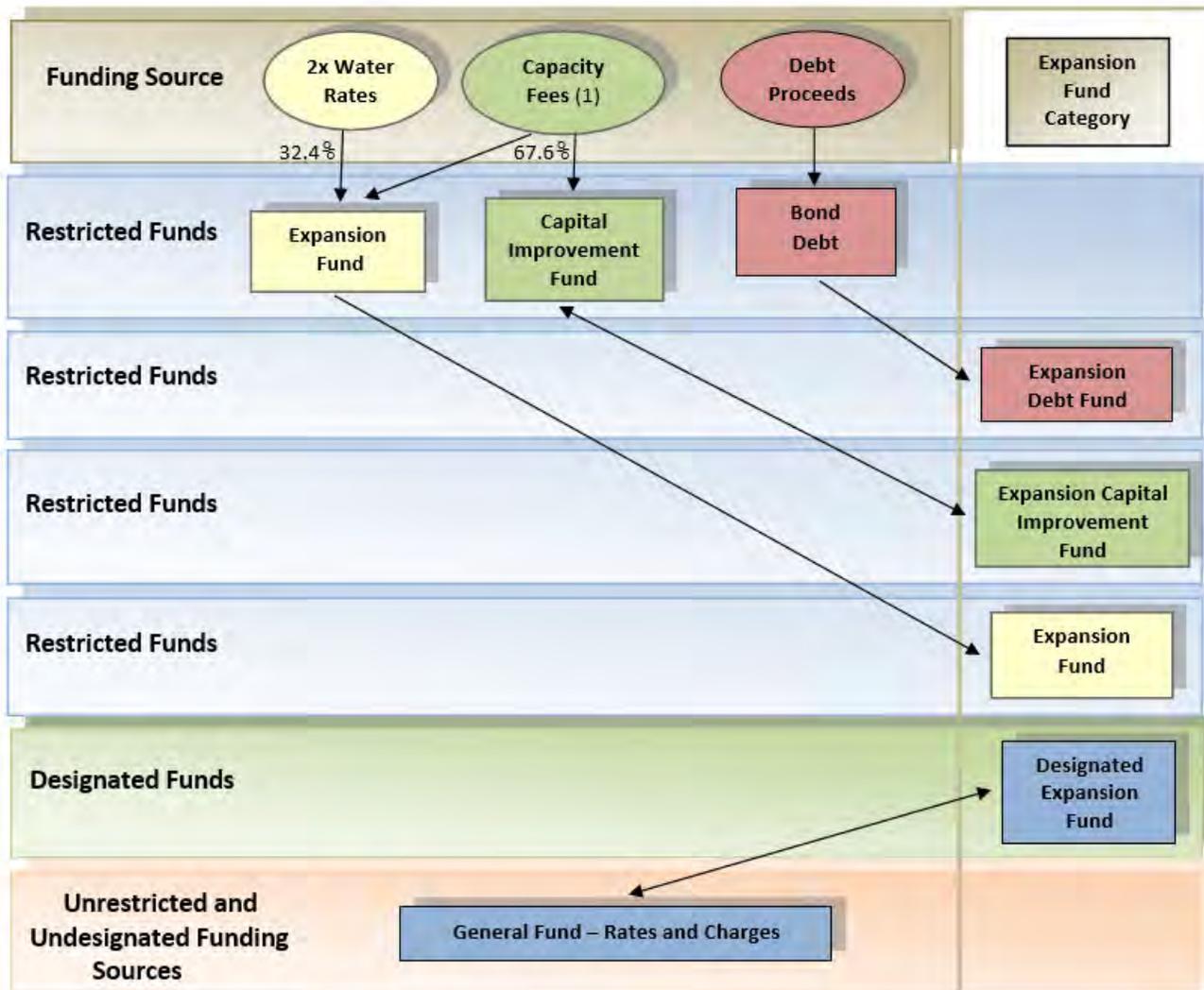
The Expansion Fund is financed by water charges in lieu of capacity fees (for temporary meters) and the “incremental” portion of the capacity fee. The other funds in this category may also be financed by debt proceeds, the “buy-in” portion of the capacity fee, and the general fund through a designation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

Reserve Policy

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 to the Capital Improvement Fund.

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.

Reserve Policy

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](#)

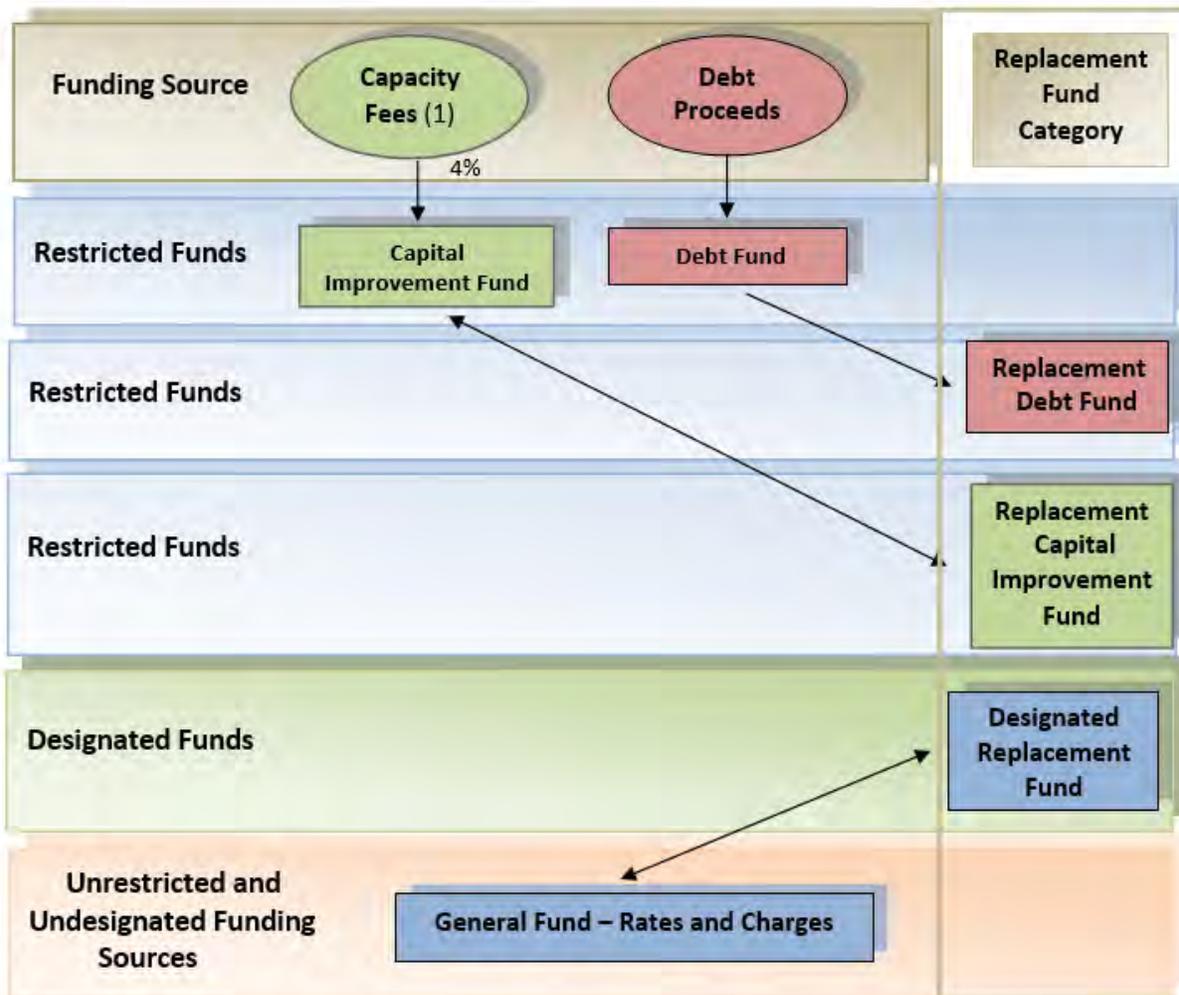
The various funds in this category are financed by debt proceeds, the "buy-in" portion of the capacity fee, and general fund designations.

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 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.

Reserve Policy

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 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).

Reserve Policy

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](#)

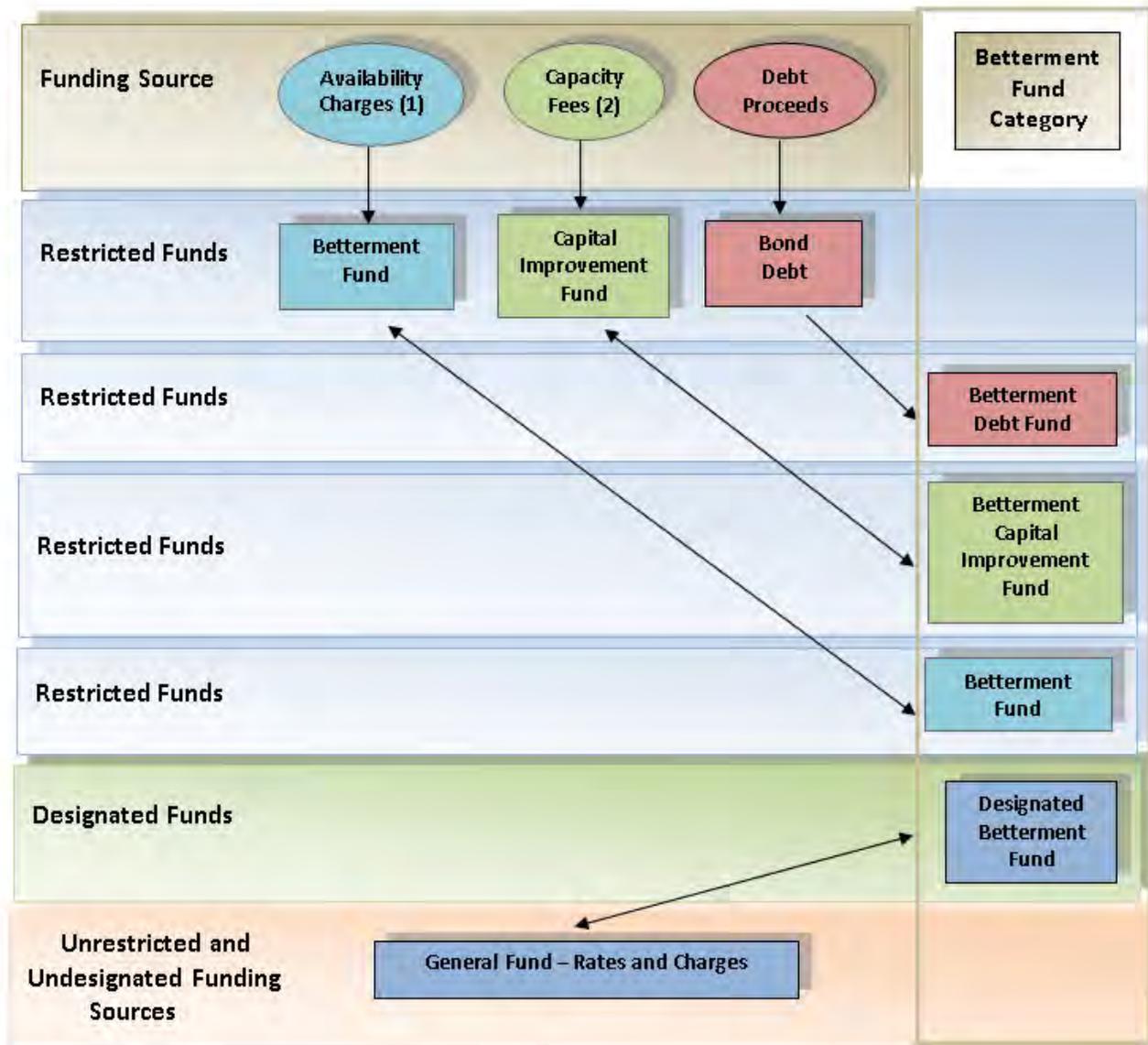
The Betterment Fund category receives restricted revenues by improvement district from availability fees (the first \$10 is unrestricted, while amounts over \$10 are restricted) collected through the county tax roll. Betterment may also be financed by debt proceeds, the “buy-in” portion of the capacity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

Reserve Policy

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.

Reserve Policy

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. 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.

Reserve Policy

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](#)

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.

Reserve Policy

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 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 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,

Reserve Policy

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.

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.

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.

Glossary

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.

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.

Investment Policy

1.0 POLICY

It is the policy of the Otay Water District to invest public funds in a manner which will provide maximum security with the best interest return, while meeting the daily cash flow demands of the entity and conforming to all state statues governing the investment of public funds.

2.0 SCOPE

This investment policy applies to all financial assets of the Otay Water District. The District pools all cash for investment purposes. These funds are accounted for in the District's audited Comprehensive Annual Financial Report (CAFR) and include:

- 2.1) General Fund
- 2.2) Capital Project Funds
 - 2.2.1) Designated Expansion Fund
 - 2.2.2) Restricted Expansion Fund
 - 2.2.3) Designated Betterment Fund
 - 2.2.4) Restricted Betterment Fund
 - 2.2.5) Designated Replacement Fund
 - 2.2.6) Restricted New Water Supply Fund
- 2.3) Other Post Employment Fund (OPEB)
- 2.4) Debt Reserve Fund

Exceptions to the pooling of funds do exist for tax-exempt debt proceeds, debt reserves and deferred compensation funds. Funds received from the sale of general obligation bonds, certificates of participation or other tax-exempt financing vehicles are segregated from pooled investments and the investment of such funds are guided by the legal documents that govern the terms of such debt issuances.

3.0 PRUDENCE

Investments should be made with judgment and care, under current prevailing circumstances, which persons of prudence, discretion and intelligence, exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "Prudent Person" and/or "Prudent Investor" standard (California Government Code 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investment Policy

4.0 OBJECTIVE

As specified in the California Government Code 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

- 4.1) **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the Otay Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.
- 4.2) **Liquidity:** The Otay Water District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.
- 4.3) **Return on Investment:** The Otay Water District's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 DELEGATION OF AUTHORITY

Authority to manage the Otay Water District's investment program is derived from the California Government Code, Sections 53600 through 53692. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer (CFO), who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the CFO.

The CFO shall establish written investment policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

6.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the

Investment Policy

performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Chief Financial Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers who are authorized to provide investment services in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the District with the following, as appropriate:

- Audited Financial Statements.
- Proof of National Association of Security Dealers (NASD) certification.
- Proof of state registration.
- Completed broker/dealer questionnaire.
- Certification of having read the District’s Investment Policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the CFO. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. The District is governed by the California Government Code, Sections 53600 through 53692, to invest in the following types of securities, as further limited herein:

8.01) United States Treasury Bills, Bonds, Notes or those instruments for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

8.02) Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by State Law (currently \$50 million). The District may also invest bond proceeds in LAIF with the same but independent maximum limitation.

Investment Policy

8.03) Bonds, debentures, notes and other evidence of indebtedness issued by any of the following government agency issuers:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- Federal National Mortgage Association (FNMA or "Fannie Mae")
- Government National Mortgage Association (GNMA or "Ginnie Mae")
- Federal Farm Credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (FAMCA or "Farmer Mac")

There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable. Government agencies whose implied guarantee has been reduced or eliminated shall require an "A" rating or higher by a nationally recognized statistical rating organization.

8.04) Interest-bearing demand deposit accounts and Certificates of Deposit (CD) will be made only in Federal Deposit Insurance Corporation (FDIC) insured accounts. For deposits in excess of the applicable FDIC insured maximum, approved collateral shall be required in accordance with California Government Code, Section 53652. Investments in CD's are limited to 15 percent of the District's portfolio.

8.05) Commercial paper, which is short-term, unsecured promissory notes of corporate and public entities. Purchases of eligible commercial paper may not exceed 10 percent of the outstanding paper of an issuing corporation, and maximum investment maturity will be restricted to 270 days. Investment is further limited as described in California Government Code, Section 53601(h). Purchases of commercial paper may not exceed 10 percent of the District's portfolio and no more than 10 percent of the outstanding commercial paper of any single issuer.

8.06) Medium-term notes defined as all corporate debt securities with a maximum remaining maturity of five years or less, and that meet the further requirements of California Government Code, Section 53601(k). Investments in medium-term notes are limited to 10 percent of the District's portfolio.

8.07) Money market mutual funds that invest only in Treasury securities and repurchase agreements collateralized with Treasury securities, and that meet the further requirements of California Government Code, Section 53601(l). Investments in money market mutual funds are limited to 10 percent of the District's portfolio.

Investment Policy

8.08) The San Diego County Treasurer's Pooled Money Fund, which is a County managed investment pool, may be used by the Otay Water District to invest excess funds. There is no percentage limitation of the portfolio which can be invested in this category.

8.09) Under the provisions of California Government Code 53601.6, the Otay Water District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment that may result in a zero interest accrual if held to maturity. Also, the borrowing of funds for investment purposes, known as leveraging, is prohibited.

9.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc., utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

10.0 COLLATERALIZATION

Collateralization will be required on certificates of deposit exceeding the applicable FDIC insured maximum. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

11.0 SAFEKEEPING AND CUSTODY

All security transactions entered into by the Otay Water District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the District and evidenced by safekeeping receipts.

Investment Policy

12.0 DIVERSIFICATION

The Otay Water District will diversify its investments by security type and institution, with limitations on the total amounts invested in each security type as detailed in Paragraph 8.0, above, so as to reduce overall portfolio risks while attaining benchmark average rate of return. With the exception of U.S. Treasury securities, government agencies, and authorized pools, no more than 50% of the District's total investment portfolio will be invested with a single financial institution.

13.0 MAXIMUM MATURITIES

To the extent possible, the Otay Water District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five years from the date of purchase. However, for time deposits with banks or savings and loan associations, investment maturities will not exceed two years. Investments in commercial paper will be restricted to 270 days.

14.0 INTERNAL CONTROL

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

15.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The Otay Water District's investment strategy is passive. Given this strategy, the basis used by the CFO to determine whether market yields are being achieved shall be the State of California Local Agency Investment Fund (LAIF) as a comparable benchmark.

16.0 REPORTING

The Chief Financial Officer shall provide the Board of Directors monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Average life and final maturity of all investments listed.

Investment Policy

- Coupon, discount or earnings rate.
- Par value, amortized book value, and market value.
- Percentage of the portfolio represented by each investment category.

17.0 INVESTMENT POLICY ADOPTION

The Otay Water District's investment policy shall be adopted by resolution of the District's Board of Directors. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

18.0 GLOSSARY

See Appendix A.

Appendix A: Glossary

Active Investing: Active investors will purchase investments and continuously monitor their activity, often looking at the price movements of their stocks many times a day, in order to exploit profitable conditions. Typically, active investors are seeking short term profits.

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker/Dealer: Any individual or firm in the business of buying and selling securities for itself and others. Broker/dealers must register with the SEC. When acting as a broker, a broker/dealer executes orders on behalf of his/her client. When acting as a dealer, a broker/dealer executes trades for his/her firm's own account. Securities bought for the firm's own account may be sold to clients or other firms, or become a part of the firm's holdings.

Certificate of Deposit (CD): A short or medium term, interest bearing, FDIC insured debt instrument offered by banks and savings and loans. Money removed before maturity is subject to a penalty. CDs are a low risk, low return investment, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from a few months to several years.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured short-term promissory note, issued by corporations, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report (CAFR): The official annual report for the Otay Water District. It includes detailed financial information prepared in conformity with generally accepted accounting principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a set date.

Appendix A: Glossary

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery Versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivatives: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures deposits in member banks and thrifts, currently up to \$100,000 per deposit.

Federal Farm Credit Bank (FFCB): The Federal Farm Credit Bank system supports agricultural loans and issues securities and bonds in financial markets backed by these loans. It has consolidated the financing programs of several related farm credit agencies and corporations.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Appendix A: Glossary

Federal Agricultural Mortgage Corporation (FAMC or Farmer Mac): A stockholder owned, publicly-traded corporation that was established under the Agricultural Credit Act of 1987, which added a new Title VIII to the Farm Credit Act of 1971. Farmer Mac is a government sponsored enterprise, whose mission is to provide a secondary market for agricultural real estate mortgage loans, rural housing mortgage loans, and rural utility cooperative loans. The corporation is authorized to purchase and guarantee securities. Farmer Mac guarantees that all security holders will receive timely payments of principal and interest.

Federal Home Loan Bank (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): A stockholder owned, publicly traded company chartered by the United States federal government in 1970 to purchase mortgages and related securities, and then issue securities and bonds in financial markets backed by those mortgages in secondary markets. Freddie Mac, like its competitor Fannie Mae, is regulated by the United States Department of Housing and Urban Development (HUD).

Federal National Mortgage Association (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): A government owned agency which buys mortgages from lending institutions, securitizes them, and then sells them to investors. Because the payments to investors are guaranteed by the full faith and credit of the U.S. Government, they return slightly less interest than other mortgage-backed securities.

Interest Only Strips: A mortgage backed instrument where the investor receives only the interest, no principal, from a pool of mortgages. Issues are highly interest rate sensitive, and cash flows vary between interest periods. Also, the maturity date may occur earlier than that stated if all loans within the pool are pre-paid. High prepayments on underlying mortgages can return less to the holder than the dollar amount invested.

Appendix A: Glossary

Inverse Floater: A bond or note that does not earn a fixed rate of interest. Rather, the interest rate is tied to a specific interest rate index identified in the bond/note structure. The interest rate earned by the bond/note will move in the opposite direction of the index. An inverse floater increases the market rate risk and modified duration of the investment.

Leverage: Investing with borrowed money with the expectation that the interest earned on the investment will exceed the interest paid on the borrowed money.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Agency Investment Fund (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Mutual Funds: An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds raise money by selling shares of the fund to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds, and money market instruments.

MONEY MARKET MUTUAL FUNDS: An open-end mutual fund which invests only in money markets. These funds invest in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper.

National Association of Securities Dealers (NASD): A self-regulatory organization of the securities industry responsible for the operation and regulation of the NASDAQ stock market and over-the-counter markets. Its

Appendix A: Glossary

regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Passive Investing: An investment strategy involving limited ongoing buying and selling actions. Passive investors will purchase investments with the intention of long term appreciation and limited maintenance, and typically don't actively attempt to profit from short term price fluctuations. Also known as a buy-and-hold strategy.

Primary Dealer: A designation given by the Federal Reserve System to commercial banks or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions. These dealers submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission registered securities broker/dealers, banks, and a few unregulated firms.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Public Securities Association (PSA): A trade organization of dealers, brokers, and bankers who underwrite and trade securities offerings.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Range Note: An investment whose coupon payment varies and is dependent on whether the current benchmark falls within a pre-determined range.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Regional Dealer: A securities broker/dealer, registered with the Securities & Exchange Commission (SEC), who meets all of the licensing requirements for buying and selling securities.

Repurchase Agreement (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to

Appendix A: Glossary

compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: A market made for the purchase and sale of outstanding securities issues following their initial distribution.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Sec Rule 15C3-1: See Uniform Net Capital Rule.

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FAMCA, etc.), and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Debt Policy

1.0: POLICY

It is the policy of the Otay Water District to finance the acquisition of high value assets that have an extended useful life through a combination of current revenues and debt financing. Regularly updated debt policies and procedures are an important tool to insure the use of the District's resources to meet its commitments, to provide the highest quality of service to the District's customers, and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions as circumstances dictate.

2.0: SCOPE

This policy is enacted in an effort to standardize the issuance and management of debt by the Otay Water District. The primary objective is to establish conditions for the use of debt, to minimize the District's debt service requirements and cost of issuance, to retain the highest practical credit rating, maintain full and complete financial disclosure and reporting, and to maintain financial flexibility for the District. This policy applies to all debt issued by the District including general obligation bonds, revenue bonds, capital leases and special assessment debt.

3.0: LEGAL & REGULATORY REQUIREMENTS

The Chief Financial Officer (CFO) and the District's Legal Counsel will coordinate their activities to ensure that all securities are issued in full compliance with Federal and State law.

4.0: CAPITAL FACILITIES FUNDING

Financial Planning

The District maintains a six-year financial projection that identifies operating requirements and public facility and equipment requirements, and has developed a Rate Model for funding the District's 6-Year Capital Improvement Program (CIP). The District's CIP Budget places the capital requirements in order of priority and schedules them for funding and implementation. It identifies a full range of capital needs, provides for the ranking of the importance of such needs, and identifies all the funding sources that are available to cover the costs of the projects. In cases where the program identifies project funding through the use of debt financing, the budget should provide information needed to determine debt capacity. The Rate Model and the CIP Budget give the Board part of the data needed to make informed judgments concerning the possibility of issuing debt.

Funding Criteria

The Chief Financial Officer (CFO) will evaluate all capital project requests and develop a proposed funding plan. Priority may be given to those projects that can be funded with current resources (annual cash flow, fund balances or reserves). Those projects that cannot be funded with current resources may be deferred or

Debt Policy

the CFO may recommend that they be funded with debt financing. However, debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term cash-flow instruments is excluded from this limitation.

The General Manager will recommend the funding plan to the Board. The General Manager may deem it necessary or desirable in certain circumstances to convene a Finance Committee meeting to evaluate funding options presented by the Chief Financial Officer.

Funding Sources

The District's capital improvements can be classified in three categories: those related to an expansion of the system ("expansion"), those related to upgrading the existing system ("betterment") and those related to repairing or replacing existing infrastructure ("replacement"). In general, capital improvements for betterment or replacement are financed primarily through user charges, availability charges, and betterment charges. Capital improvements for expansion are financed through capacity fees. Accordingly, these fees are reviewed at least annually or more frequently as required and set at levels sufficient to ensure that new development pays its fair share of the costs of constructing necessary infrastructure. Additionally, the District will seek State and Federal grants and other forms of intergovernmental aid wherever possible.

Pay-As-You-Go Projects

The District's capacity fees are the major funding source in financing additions to the water system and the recycled water system. Over time, the fees collected and the cost to construct the capital projects should balance. However, collection of these fees is subject to significant fluctuation based on the rate of new development. Accordingly, the Chief Financial Officer, in developing the funding plan for the CIP, will determine that current revenues and adequate fund balances are available so project phasing can be accomplished. If this is not the case, the Chief Financial Officer may recommend that:

1. The project be deferred until funds are available, or
2. Based on the priority of the project, long-term debt is issued to finance the project.

Debt Financed Projects

If a project or projects are to be financed with long-term debt, the District should use the following criteria to evaluate the suitability of the financing for the particular project or projects:

1. The life of the project or asset to be financed is 10 years or longer and its useful life is expected to exceed the term of the financing.
2. Revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed without jeopardizing the credit rating of the District.
3. Market conditions present favorable interest rates and demand for District financing.

Debt Policy

4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.
5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.

5.0: DEBT STRUCTURE

General

The District will normally issue debt with a maturity of not more than 30 years. The structure should approximate level debt service for the term where it is practical or desirable. There will be no debt structures that include increasing debt service levels in subsequent years, with the first and second year of a debt payoff schedule the exception and related to projected additional income to be generated by the project to be funded. There will be no "balloon" debt repayment schedules that consist of low annual payments and one large payment of the balance due at the end of the term. There will always be at least interest paid in the first fiscal year after debt issuance and principal starting no later than the first fiscal year after the date the facility or equipment is expected to be placed in service. Capitalized interest will not be for a period of more than necessary to provide adequate security for the financing.

Limitations on the Issuance of Variable Rate Debt

The District will normally issue debt with a fixed rate of interest. The District may issue variable rate for the purpose of managing its interest costs. At the same time, the District should protect itself from too much exposure to interest rate fluctuations. In determining that it is in the District's best interest to issue certain debt at variable rates instead of fixed rates, at the time of issuing any variable rate debt, there should be at least a 10% estimated reduction in annual debt costs by issuing variable rate debt when compared to a similar issuance of fixed rate debt. If the estimated overall cost savings from issuing variable rate debt is not at least 10% at the time of issuance, relatively small fluctuations in rates could actually increase the District's financing costs over the life of the bonds compared to a similar fixed rate financing. By using this 10% factor at the time of issuance, the District can be relatively assured that its variable rate financing will be cost-effective over the term of the bonds.

The comparison will be based on the following criteria:

1. The interest rate used to estimate variable interest costs will be the higher of the 10 year average rate or the current weekly variable rate.
2. The variable rate debt costs will include an estimate for annual costs such as letter of credit fees, liquidity fees, remarketing fees, monthly draw fees and annual rating fees applicable to the letter of credit.
3. Any potential reserve fund earnings will reduce the fixed rate debt service or variable rate debt service as applicable.

Debt Policy

Periodically, using the criteria described above, the Chief Financial Officer will compare the estimated annual debt service costs to maturity of any variable rate debt with estimated debt service if the debt was converted to fixed rates. If this analysis produces a break even in total payments over the life of the issue, the Chief Financial Officer will recommend converting such variable rate debt to fixed rate.

Variable rate debt should not represent more than 25% of the District's total debt portfolio. This level of exposure to interest rate fluctuations is considered to be manageable in an environment of increasing interest rates. At a higher ratio than this, the District might be faced with an unplanned water rate increase to meet its Rate Covenants. Rating agencies use this ratio in their analysis of the District's overall credit rating.

Further, Rate Covenants applicable to variable rate debt shall not compromise the issuance of additional debt planned by the District and variable rate debt should always contain a provision to allow conversion to a fixed rate at the District's option.

6.0: CREDIT OBJECTIVES

The Otay Water District seeks to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic services and achievement of District policy objectives.

Factors taken into account in determining the credit rating for a financing include:

1. Diversity of the District's customer base.
2. Proven track record of completing capital projects on time and within budget.
3. Strong, professional management.
4. Adequate levels of staffing for services provided.
5. Reserves.
6. Ability to consistently meet or exceed Rate Covenants.

The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the District is committed to ensuring that actions within its control are prudent and well planned.

7.0: COMPETITIVE AND NEGOTIATED SALE CRITERIA

Competitive Sale

The District will use a competitive bidding process in the sale of debt unless the nature of the issue or specific circumstances warrants a negotiated sale. The CFO will determine the best bid in a competitive sale by calculating the true interest cost (TIC) of each bid.

Debt Policy

Negotiated Sale

Types of debt that would typically lend themselves to the negotiated sale format are variable rate debt and unrated debt. Circumstances that might warrant a negotiated sale may occur when the issue is of a limited size that would not attract wide-spread investor interest, during periods of high levels of issuance by other entities in the State, or during periods of market volatility or with relatively new financing techniques. In the event the District decides to use a negotiated sale, it will pay management fees only to those firms that place orders for bonds.

If the size of the District's proposed issue is not cost effective, the District may also consider issuing its debt by private placement or through any qualified Joint Power Authority (JPA) in the State of California whose principal business is issuing bonds.

8.0: REFUNDING DEBT

Purpose

Periodic reviews of all outstanding debt will be undertaken by the Chief Financial Officer to determine refunding (refinancing) opportunities. The purpose of the refinancing may be to:

1. Lower annual debt service by taking advantage of lower current interest rates.
2. Update or revise covenants on outstanding debt issue if a Rate Covenant appears to be too high, has precluded the District from implementing its financing plan, or has caused the District to increase rates to customers.
3. Restructure debt service associated with an issue to facilitate the issuance of additional debt, usually in order to smooth out peaks in total debt service which can occur frequently as one debt issue is layered on top of existing debt issues.
4. Alter bond characteristics such as call provisions or payment dates.
5. Pay for conversion costs such as funding a reserve fund or paying for credit enhancement when converting variable rate debt to fixed rate debt.

Restrictions on Refunding

Tax-exempt bonds typically have provisions that preclude early redemption of the bonds for a period of years after issuance. The number of times a tax-exempt bond can be refinanced prior to its Optional Redemption date (known as Advance Refunding) is limited by the IRS. For debt issued after 1986, issuers may only provide for Advance Refunding of obligations in advance of the Optional Redemption date one time. There is no limit by the IRS on the ability of issuers to redeem bonds early once the Optional Redemption date has been reached (known as Current Refunding).

Debt Policy

Savings Criteria

In cases where an Advance Refunding or Current Refunding is intended to provide debt service savings, the District may commence the refinancing process if a minimum five percent (5%) present value savings net of issuance costs and any cash contributions can be demonstrated. Since interest rates may fluctuate between the time when a refinancing is authorized and when the debt is issued, beginning the process with at least a 5% savings should provide the District with some level of protection that it can achieve a minimum of three percent (3%) net present value savings of the refunding bonds when and if the debt is issued. These minimum standards are intended to protect the District staff from spending time on refundings that become marginally cost-effective after the entire issuance process is complete.

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

9.0: SUBORDINATE LIEN DEBT

The District will issue subordinate lien debt only if it is financially beneficial to the District or consistent with creditworthiness objectives. Subordinate lien debt is structured to be payable second in priority to the District's other outstanding debt. Typically, subordinate lien debt might be issued if the District desired a more flexible Rate Covenant with respect to its new obligations and did not want to refinance all of its existing debt to obtain that less restrictive Rate Covenant.

10.0: FINANCING PARTICIPANTS

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

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

Debt Policy

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

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

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

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

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

Letter of Credit Bank: The Letter of Credit Bank is a U.S. or foreign bank that has issued a letter of credit providing both credit enhancement (the Letter of Credit Bank will pay the debt in the event that the District defaults on the payment) and liquidity for a variable rate bond issue. These banks have their own short-term credit rating, which can be higher than the District's short-term credit rating. Liquidity is needed because variable rate bondholders are allowed to "put" their bonds back to the District if they do not like the interest rate currently being offered. The District's Remarketing Agent then finds a new buyer for those bonds, but in the event that no buyer is found, a draw is made under the letter of credit to purchase the bonds that have been "put." As soon as the bonds are remarketed to another buyer, the letter of credit is repaid. The letter of credit fees are paid annually or quarterly. Letter of credits are typically issued for not more than 3 years and must be renewed during the life of the bonds. Credit enhancement is discussed further under the heading "CREDIT ENHANCEMENT."

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

Debt Policy

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

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

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

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

11.0: CONFLICT OF INTEREST AND STANDARDS OF CONDUCT

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

12.0: CONTINUING DISCLOSURE

The District acknowledges the responsibilities of the underwriting community and pledges to make all reasonable efforts to assist underwriters in their efforts to comply with SEC Rule 15c2-12 and MSRB Rule G-36. The District will file its official statements with the MSRB and the nationally recognized municipal securities information repositories. The District will also post copies of its comprehensive financial reports on the MSRB's Electronic Municipal Market Access (EMMA) website, and will disseminate other information that it deems pertinent to the market in a timely manner (For bonds issued after 2012, 10 days). While initial bond disclosure requirements pertain to underwriters, the District will provide financial information and

Debt Policy

notices of material events on an ongoing basis throughout the life of the issue. Material events are defined as those events which are considered to likely reflect on the credit supporting the securities.

(a) The events considered material according to the SEC are:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. Tender offers;
7. Defeasances;
8. Ratings changes; and
9. Bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this section (b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Unless described in paragraph (a) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. Appointment of a successor or additional trustee or the change of the name of a trustee;
4. Nonpayment related defaults;
5. Modifications to the rights of Owners of the Bonds;
6. Notices of redemption; and

Debt Policy

7. Release, substitution or sale of property securing repayment of the Bonds.

Whenever the District obtains knowledge of the occurrence of a Listed Event under (b) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

13:0 INVESTMENT & ARBITRAGE COMPLIANCE

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

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

14.0: TYPES OF DEBT FINANCING

General Obligation Bonds

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

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

Voters within Improvement District No. 27 of the District authorized \$100 million general obligation bonds in 1989. The District issued \$11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998 and again in 2009. The District also has approximately \$29 million in general obligation bonds authorized between 1960 and 1978 for various improvement districts throughout the District, but unissued. General obligation bonds can only be issued under these existing authorizations to the extent necessary to fund the improvements specified by each ballot measure.

Debt Policy

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

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

Revenue Bonds

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

Also there may be a test required to demonstrate that future revenues will be sufficient to maintain debt service coverage levels after any proposed additional bonds are issued. The District will strive to meet industry and financial market standards with such ratios without impacting the current rating. Annual adjustments to the District's rate structure may be necessary to maintain these coverage ratios.

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

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

Debt Policy

Lease/Purchase Agreements

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

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

State Water Loans

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

Land Based Financing

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

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

Debt Policy

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

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

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

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

15.0: RATING AGENCY APPLICATIONS

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

16.0: USE OF CREDIT ENHANCEMENT

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

Debt Policy

effective. Selection of credit enhancement providers will be subject to a competitive bid process using the District's purchasing guidelines, if applicable.

Fixed Rate Bonds

Credit enhancement for fixed rate bonds is obtained by the purchase of bond insurance. If a commitment for bond insurance is obtained for a particular issue, the District will estimate the annual debt service for the issue based on current interest rates applicable to the credit rating of the bond insurer. If the estimated debt

service on this basis is less than or equal to estimated debt service for the issue based on interest rates for bonds with the District's underlying or stand-alone credit rating, the District will purchase the bond insurance. Any intention of the District to prepay the debt ahead of its scheduled maturity will be taken into account in the analysis. Credit enhancement may be used to improve or establish a credit rating on a District debt obligation even if such credit enhancement is not cost effective if, in the opinion of the Chief Financial Officer, the use of such credit enhancement meets the District's debt financing goals and objectives, such as, funding of a reserve fund for the bonds.

Variable Rate Bonds

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

17.0: GLOSSARY

Ad Valorem Tax: A tax calculated "according to the value" of property. Such a tax is based on the assessed valuation of tangible personal property. In most jurisdictions, the tax is a lien on the property enforceable by seizure and sale of the property. General restrictions, such as overall restrictions on rates, or the percent of charge allowed, sometimes apply. As a result, ad valorem taxes often function as the balancing element in local budgets.

Advance Refunding: A procedure whereby outstanding bonds are refinanced by the proceeds of a new bond issue prior to the date on which outstanding bonds become due or are callable. Typically an advance refunding is performed to take advantage of interest rates that are significantly lower than those associated

Debt Policy

with the original bond issue. At times, however, an advance refunding is performed to remove restrictive language or debt service reserve requirements required by the original issue.

Amortization: The planned reduction of a debt obligation according to a stated maturity or redemption schedule.

Arbitrage: The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

Assessed Valuation: The appraised worth of property as set by a taxing authority through assessments for purposes of ad valorem taxation.

Basis Point: One one-hundredth of one percent.

Bond: A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

Bond Counsel: An attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

Bond Insurance: A type of credit enhancement whereby a monoline insurance company indemnifies an investor against a default by the issuer. In the event of a failure by the issuer to pay principal and interest in-full and on-time, investors may call upon the insurance company to do so. Once assigned, the municipal bond insurance policy generally is irrevocable. The insurance company receives an up-front fee, or premium, when the policy is issued.

Call Option: A contract through which the owner is given the right but is not obligated to purchase the underlying security or commodity at a fixed price within a limited time frame.

Cap: A ceiling on the interest rate that would be paid.

Capital Lease: The acquisition of a capital asset over time rather than merely paying rent for temporary use. A lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the lease, is referred to as a capital lease.

Certificate of Participation: A financial instrument representing a proportionate interest in payments such as lease payments by one party (such as the District acting as a lessee) to another party (often a trustee).

Debt Policy

CIP: Capital Improvement Program.

Competitive Sale: The sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

Continuing Disclosure: The requirement by the Securities and Exchange Commission for most issuers of municipal debt to provide current financial information to the informational repositories for access by the general marketplace.

Debt Service: The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

Defeasance: Providing for payment of principal of premium, if any, and interest on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal defeasance usually involves establishing an irrevocable escrow funded with only cash and U.S. Government obligations.

Derivative: A financial product that is based upon another product. Generally, derivatives are risk mitigation tools.

Discount: The difference between a bond's par value and the price for which it is sold when the latter is less than par.

Financial Advisor: A consultant who advises an issuer on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms and bond ratings.

General Obligation Bonds: Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

Municipal Securities Rulemaking Board (MSRB): The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market.

Negotiated Sale: A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding.

Official Statement: A document published by the issuer that discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities.

Debt Policy

Option: A derivative contract. There are two primary types of options (see Put Option and Call Option). An option is considered a wasting asset because it has a stipulated life to expiration and may expire worthless. Hence, the premium could be wasted.

Optional Redemption: The redemption of an obligation prior to its stated maturity, which can only occur on dates specified in the bond indenture.

Overlapping Debt: The legal boundaries of local governments often overlap. In some cases, one unit of government is located entirely within the boundaries of another. Overlapping debt represents the proportionate share of debt that must be borne by one unit of government because another government with overlapping or underlying taxing authority issued its own bonds.

Par Value: The face value or principal amount of a security.

Pay-as-you-go: To pay for capital improvements from current resources and fund balances rather than from debt proceeds.

Put Option: A contract that grants to the purchaser the right but not the obligation to exercise.

Rate Covenant: A covenant between the District and bondholders, under which the District agrees to maintain a certain level of net income compared to its debt payments, and covenants to increase rates if net income is not sufficient to meet such level.

Refunding: A procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds.

Revenue Bonds: A bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer with taxing power is not pledged. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise. Generally, no voter approval is required prior to issuance.

Special Assessments: A charge imposed against property or parcel of land that receives a special benefit by virtue of some public improvement that is not, or cannot be enjoyed by the public at large. Special assessment debt issues are those that finance such improvements and are repaid by the assessments charged to the benefiting property owners.

Swap: A customized financial transaction between two or more counterparties who agree to make periodic payments to one another. Swaps cover interest rate, equity, commodity and currency products. They can be simple floating for fixed exchanges or complex hybrid products with multiple option features.

Debt Policy

True Interest Cost (TIC): A method of calculating the overall cost of a financing that takes into account the time value of money. The TIC is the rate of interest that will discount all future payments so that the sum of their present value equals the issue proceeds.

Underwriter: The term used broadly in the municipal market, to refer to the firm that purchases a securities offering from a governmental issuer.

Yield Curve: Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and financial activity, and other market forces.

Glossary

The Fiscal Budget contains terminology that is unique to public finance and budgeting. The following budget glossary provides assistance in understanding these terms.

ACCRUAL BASIS OF ACCOUNTING: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of cash receipts and disbursements.

ACRE-FOOT: The volume of water that will cover one acre to a depth of one foot. One acre-foot equals 435.6 units or 325,850 gallons.

ADDITIONAL SYSTEMS FEES: Effective May 1, 1986, each customer receiving water service in the Improvement District 9 water service zone pays an additional monthly meter system charge of \$2.00 for each meter in service.

ANNEXATION FEES: Whenever water service is requested for land outside the boundaries of the District the land must first be annexed into the District. The annexation fee for water service was set at \$1,477 per EDU on July 1, 2009. Whenever sewer service is requested for land outside the boundaries of an improvement district (ID) the land must first be annexed into the ID. The fee for sewer annexation was set at \$3,819 on December 16, 1998. These base rates are adjusted quarterly according to a cost of living index. The rates as of July 1, 2014 are \$1,622 and \$5,986 for water and sewer, respectively.

APPROPRIATION: The annual budget adopted by the District's Board appropriates funds for monitoring and control purposes, and serves as a financial plan.

ASSETS: Resources owned or held by the District that have monetary value.

AVAILABILITY FEES: The District levies charges each year in developed areas to be used for general purposes for construction of facilities. This fee is levied in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be restricted only for the purpose of constructing facilities in the improvement district in which it was assessed.

BALANCED BUDGET: A financial plan, for a specified period of time that matches all planned revenues and expenditures with various services. This plan has sufficient sources of funds to support the planned expenditures. The District uses a fiscal year beginning July 1 and ending June 30 for budgetary and financial reporting purposes.

BETTERMENT FEES: In addition to other applicable water rates and charges, certain water customers pay a fee based on water service zone or improvement district. These are restricted for the use in the area where they are collected and may be used for the construction and maintenance of facilities.

Glossary

BETTERMENT FEES FOR MAINTENANCE: The Operating Budget earns betterment fees for maintenance work performed on infrastructure within special betterment zones. Betterment fees are collected for the construction and maintenance of these specific assets.

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.

BUDGET BASIS: The budget and accounting basis for the District is recognized on an accrual basis. Accrual basis means that revenues are recognized when earned and expenses are recognized when incurred.

CAPACITY FEE: A connection fee is charged when a new water meter is placed into service. This fee is a contribution of capital to either reimburse existing customers for the available capacity in the existing system, or to help finance planned future growth-related capacity improvements.

CAPACITY FEE REVENUES: These fees are earned by the Operating Budget as the Engineering Department supports expansion functions.

CAPACITY RESERVATION CHARGE: An MWD charge passed on by CWA to individual agencies. This fee is paid based on the District's peak water demand.

CAPITAL BUDGET: The portion of the annual budget that appropriates funds for the purchase of capital equipment items and capital improvements. These expenditures are separated from regular operating items, such as salaries, utilities, and office supplies. The Capital Budget includes funds for capital equipment purchases over \$10,000, such as vehicles, furniture, machinery, computer systems, and special tools. The capital budget also includes funds for infrastructure related items over \$20,000 (as explained below) which are distinguished from operating items according to their value and projected useful life.

CAPITAL EQUIPMENT: Fixed assets such as vehicles, equipment, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000. This category may include items over \$20,000 that are infrastructure related items (this cost may not extend useful life of the water or sewer infrastructure, but without the purchase of the item, the whole asset is rendered useless, as described in the District's Capitalization Policy).

CAPITAL IMPROVEMENT PROGRAM: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

Glossary

CLASS OF SERVICE: All customers are classified based on the type of service used. For example, the water rate per unit is determined by a classification such as residential versus business.

CWA: The County Water Authority was organized in 1944 under the State County Water Authority Act for the primary purpose of importing Colorado River water to augment the local water supplies of the Authority's member agencies. The Authority purchases water from MWD which imports water from the Colorado River and the State Water Project.

DEANNEXATION FEES: Each request for detachment of land from an improvement district is reviewed on a case-by-case basis. The fees are determined based on the present value of future debt service requirements.

DEBT COVERAGE RATIO: The ratio of net revenue to annual interest and principal payments on debt.

DEBT SERVICE: The District's obligation to pay the principal and interest of bonds and other debt instruments according to a predetermined payment schedule.

DEPRECIATION: An expense recorded to allocate a tangible asset's cost over its useful life.

DESALINATION: The removal of dissolved minerals (including salts) from seawater or brackish water. Engineered water desalination processes, which produce potable water from seawater or brackish water, have become important because many regions throughout the world suffer from water shortages.

ENERGY FEES: Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge rate is \$.045 (decreases on January 1, 2013 to \$.042) per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of 29 zones based on elevation.

ENTERPRISE FUND: Fund that provides goods or services to the public for a fee that makes the entity self-supporting.

ENTERPRISE RESOURCE PLANNING: Systems with a shared database that supports multiple functions used by different business units.

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.

Glossary

FIRE SERVICE: Water service is provided by the District solely for use in fire hydrants or fire sprinkler systems from lines or laterals connected to the District's water mains. The monthly system charge is \$34.57 per month for each connection for fire protection service.

FISCAL YEAR: Twelve-month term designating the beginning and ending period for recording financial transactions. The District has specified July 1 to June 30 as its fiscal year.

FUND BALANCE: The current funds on hand resulting from the net historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the result of operations.

GENERAL FUND: The District's general fund is an enterprise fund – one for each of the District's three business lines Potable, Recycled and Sewer services. Each is an accounting entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

GRANTS: Contributions or gifts of cash or other assets from another governmental agency to be used or expended for a specified purpose, activity, or facility. Capital grants are restricted by the grantor for the acquisition and/or construction of fixed assets. Operating grants are restricted by the grantor for operating purposes or may be used for either capital or operating purposes at the discretion of the grantee.

INFRASTRUCTURE ACCESS CHARGE (IAC): A pass-through charge from CWA to each member agency. The charge is to finance a portion of CWA's fixed annual costs including the construction, operation and maintenance of aqueducts and emergency storage projects. The fee was adopted in January of 1999.

INTEREST INCOME: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to improvement districts each month based upon each fund's prior month-ending balance.

LATE CHARGES/PENALTIES: Charges and penalties are imposed on customer accounts for late payments, returned payments, and other infringement of the District's Code of Ordinances.

METER AND LATERAL FEES: Charge includes the material costs for the meter, meter box, and the labor cost for installation to connect a new service to the distribution system.

Glossary

METROPOLITAN WATER DISTRICT (MWD) STANDBY CHARGES: Revenue generated from property taxes by MWD to cover the Readiness-to-Serve (RTS) Charge. This charge pays for the debt service for construction projects necessary to meet reliability and quality needs. The RTS Charge was adopted in 1996.

NET ASSETS: The difference between total assets and total liabilities. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is strengthening or weakening.

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 are budgeted for separately in the Capital Budget.

OTHER INCOME: Revenues that are not directly related to the business of providing water and sewer services. For example, contract billing service for the City of Chula Vista and the City of San Diego to bill their sewer customers based on water consumption.

PROPERTY RENTAL INCOME: Rent or lease agreements for the use of District property.

QUALSERVE: A voluntary quality improvement program designed exclusively for water and wastewater utilities.

RECYCLED WATER RATES: Non-potable water service provided from water produced by the District's reclamation plant and other non-potable sources. Recycled water is not used for domestic purposes and all uses must comply with federal, state and local laws and regulations regarding the use of recycled water.

RESERVE FUND: The District maintains Reserve Funds per the District's policy for both designated and restricted balances. Designated Reserve Funds are "general use" funds designated by the Board. Restricted reserves are those that are legally set aside for a particular purpose and cannot be used for any other purpose.

RESIDENTIAL CONSERVATION: The water rates for residential customers use an accelerated block structure; as more units are consumed, a higher unit rate is charged. The District has established a water conservation program to promote water conservation and planning.

Glossary

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.

READINESS-TO-SERVE CHARGE (RTS): Adopted by MWD in Fiscal 1996. The charge serves as a foundation of fixed revenue for MWD. It covers the new debt service for construction projects necessary to meet reliability and quality needs of current water-users as opposed to new customers.

SALE OF FIXED ASSETS: District equipment, which has been determined by the Board to be of no use, obsolete, and/or beyond the useful life and therefore, may be sold.

SET-UP FEES FOR ACCOUNTS: A charge of \$10 is added for each account transferred to another customer.

SYSTEM FEES: Each water service customer pays a monthly system charge for water system replacement, maintenance and operation expenses. The charge is based on the size of the meter and class of service.

TAXES: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on general obligation bonds approved by the voters prior to July 1, 1978.

TEMPORARY WATER CHARGE: The rate for temporary water service is two times the rate for permanent service. The additional charge is to offset the cost of construction of expansion facilities.

TIER 2 CHARGE: An MWD charge passed on by CWA to individual agencies. This is an added charge on all water sales by CWA in excess of the District's 90% baseline water usage.

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

WATER CAPACITY FEES: Charges paid by customers to connect to a District water system for potable or recycled water service. Fees are determined by multiplying the demand factor for the meter size by the total of the District-wide capacity fee and applicable zone charge

WATER RATES: Rates vary among classes of service. The water rates for residential customers use 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.

WORKING CAPITAL: A financial measure which represents available operating liquidity. The calculation is current assets minus current liabilities.

List of Acronyms

AF	Acre-Foot/Feet
AMR	Automated Meter Reader/Reading
APCD	Air Pollution Control District
APWA	American Public Works Association
ASCE	American Society of Civil Engineers
ASU	Assigned Service Unit
AWWA	American Water Works Association
BABS	Build America Bonds
BMP	Best Management Practices
BOD	Biological Oxygen Demand
CAD	Computer Aided Design
CAFR	Comprehensive Annual Financial Report
CCV	City of Chula Vista
CDFG	California Department of Fish and Game
CEQA	California Environmental Quality Act
CIP	Capital Improvement Program
COD	Chemical Oxygen Demand
COPS	Certificates of Participation
CRC	Capacity Reservation Charge
CSC	Customer Service Charge
CSD	City of San Diego
CSDA	California Special Districts Association
CSMFO	California Society of Municipal Finance Officers
CMMS	Computerized Maintenance Management System
CUWCC	California Urban Water Conservation Council
CWA	County Water Authority (San Diego)
DOT	Department of Transportation
DVP	Delivery-versus-Payment
EBPP	Electronic Bill Pay and Presentment
EDU	Equivalent Dwelling Unit
ERP	Enterprise Resource Planning
ESC	Emergency Storage Charge
FCF	Flow Control Facility
FEMA	Federal Emergency Management Association
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles

List of Acronyms

GASB	Government Accounting Standards Board
GF	General Funds
GFOA	Government Finance Officers Association
GIS	Geographic Information System
GO	General Obligation (bonds)
GPCD	Gallons per Capita per Day
GPM	Gallons per Minute
GPS	Global Positioning System
HCF	Hundred Cubic Foot
HCP	Habitat Conservation Plan
HR	Human Resources
HVAC	Heating Ventilation and Air Conditioning
HWD	Helix Water District
IAC	Infrastructure Access Charge
ID	Improvement District
IID	Imperial Irrigation District
IMS	Infrastructure Management System
IRP	Integrated Water Resources Plan
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response
LAIF	Local Agency Investment Fund
MBR	Membrane Bioreactor
MG	Million Gallons
MGD	Million Gallons per Day
MND	Mitigated Negative Declaration
MOU	Memorandum of Understanding
MWD	Metropolitan Water District
NCCP	Natural Community Conservation Plan
NIMS	National Incident Management System
NOC	Notice of Completion
NOSC	Notice of Substantial Completion
O&M or O/M	Operations and Maintenance
OPEB	Other Post Employee Benefits
OWD	Otay Water District
PB	Pacific Bay
PERS	Public Employees' Retirement System

List of Acronyms

PL	Pipeline
PRS	Pressure Reducing Station
PRV	Pressure Reducing Valve
PS	Pump Station
QSA	Quantitative Settlement Agreements
RFP	Request for Proposal
RSD	Rancho San Diego
RTS	Readiness-to-Serve
RWCWRF	Ralph W. Chapman Water Recycling Facility
SAMP	Sub-Area Master Plan
SANDAG	San Diego Association of Governments
SBWRP	South Bay Water Reclamation Plant
SCADA	Supervisory Control and Data Acquisition
SDG&E	San Diego Gas & Electric
SS	Suspended Solids
SVSD	Spring Valley Sanitation District
SWRCB	State Water Resources Control Board
UML	Unified Modeling Language
USFWS	United States Fish and Wildlife Service
UWMP	Urban Water Management Plan
VFD	Variable Frequency Drive
VOIP	Voice Over Internet Protocol
WRMP	Water Resources Master Plan
WTP	Water Treatment Plant

Index

Administrative Expenditures	71,86,95,111
At-A-Glance	1
Awards	4-7
Budget Calendar	19
Budget Guide	16-17
Budget Process and Overview	18-22
Budget Summary	36-41
Capital Improvement Program Narrative	183-184
Capital Purchases Budget	198
CIP Projects in Construction	186-190
CIP Funding Source and Category	192
CIP Justification and Impact on Operating Budget	197
CIP Major Projects	185
CIP Projects	193-196
CIP Reserve Funds	191
Classification of Water Sales	62,78
Current Economic Conditions	26
Debt Management	53-54
Debt Policy	245-257
Debt Policy Glossary	257-261
Demographics	29
Department Budgets:	
Administrative Services	125-133
Board of Directors	115-118
Engineering	171-180
Finance	134-146
General Expense	181-182
General Manager	119-124
IT and Strategic Planning	147-154
Water Operations	155-170
Departmental Operating Budget Narrative	104-106
Five-Year Forecast	50
Formula for Sewer Rates	97-98
Fund Balance Summary by Fund	46
Fund Balances	52
Future, The	27-28
General Fund Forecast	51
General Fund Revenues, Expenditures and Transfers	45
General Information	2
General Expense	103

Index

General Revenues	102
General Revenues and Expenses Narrative	100-101
Glossary	262-267
Investment Policy	231-237
Investment Policy Glossary	238-243
Labor and Benefits	107-108
Letter of Transmittal	iv-x
List of Acronyms	268-270
Materials and Maintenance Expenditures	72,87,96,112
Meter Fees	67,82,92
MWD and CWA Fixed Fees (Pass-Through)	66
Operating Budget Summary	61,77,90
Operating Budget Summary by System	44
Operating Budget Summary – General Fund	42-43
Operating Expenditures by Department	113
Operating Expenditures by Object	114
Organization Chart	15
Past and Present	25
Position Count by Department	109-110
Potable Narrative	58-60
Power Costs	70,85,94
Projected Interest Payments by Debt Issuance	57
Projected Principal Payments by Debt Issuance	56
Recycled Narrative	74-76
Reserve Policy	201-228
Reserve Policy Glossary	229-230
Resolution 4290	23-24
Revenue History	68,83,93
Revenues and Expenditures by Fund	47-48
Revenues and Expenditures by Type	49
San Diego Rainfall	35
Schedule of Outstanding Debt	55
Service Area Assessed Valuation	32
Service Area Maps	73,88,99,118
Sewer Charges Summary by Service Class	91
Sewer Narrative	89
Sewer Rate Comparison	31
Statement of Values	3
Strategic Performance Management Plan	7-14
Summary of Financial Policies	199-200

Index

System Fees	65,81
Table of Contents	i-iii
Ten Largest Customers	34
Ten Principal Taxpayers	33
Unit Sales History and Meter Count by Customer Class	64,80
Water Purchases - Recycled	84
Water Purchases and Related Costs - Potable	69
Water Rate Comparison	30
Water Sales Summary by Meter Size	79
Water Sales Summary by Service Class	63