

Otay Water District

2009 Budget Workshop

June 10, 2008

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Workshop Agenda

- **Rate Model Review (Joe Beachem)**
 - A Financing Plan / Rate Model
- **Implementation of Rate Changes (Rita Bell)**
 - Potable, Recycled, and Sewer Rates
- **Capital Improvement Budget (Rod Posada)**
 - IT Projects (Geoff Stevens)
- **Balanced Operating Budget (Rita Bell)**
 - Growth projections
 - Shifting of operating expenses (Pedro Porras)
 - Management of Staffing Levels (Rom Sarno)
- **Summary of Recommendations (Joe Beachem)**

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RATE MODEL REVIEW

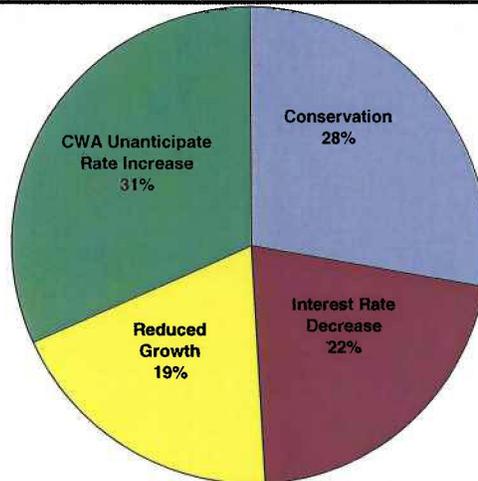
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Serious Budget Challenges

- CWA & MWD changes in rate projections
 - From 6.4% to 10.3% in 2009
 - Building in an additional 5.4% in 2010 – prudent approach
- Economic Recession and the Housing Slowdown
 - Meter Sales dropping, 2009 is 29% of sales 3 years ago
 - Relatively flat until 2012
- Interest Rate Cuts
 - From 5.3% to 3.0%
- Reduced water sales by 15% due to Conservation – prudent in light of possible water drought scenarios.

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Causes of the Rate Increase

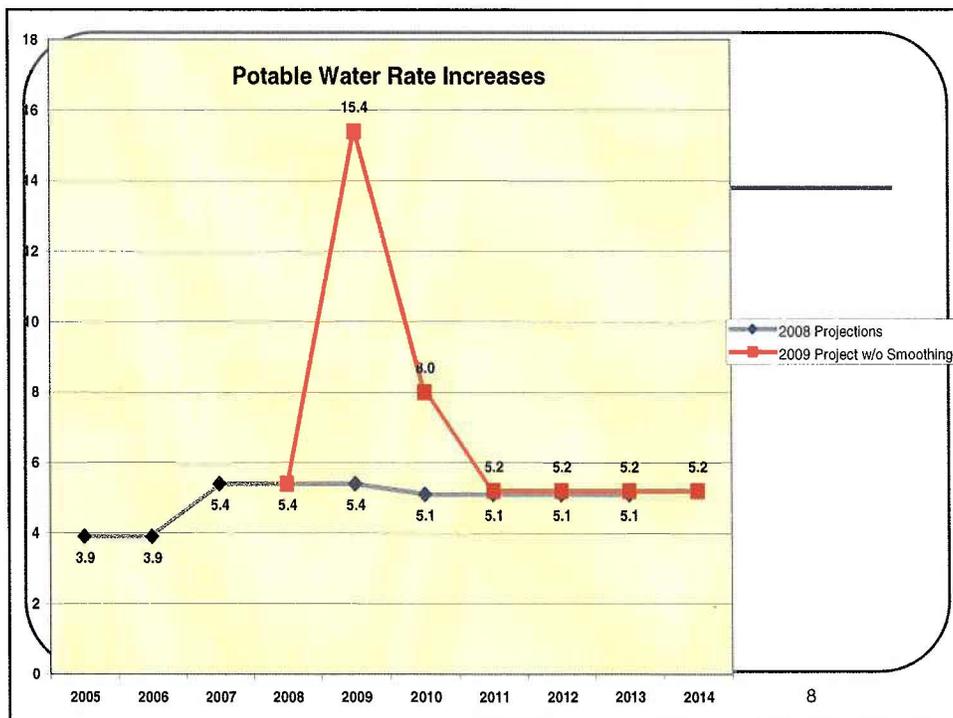
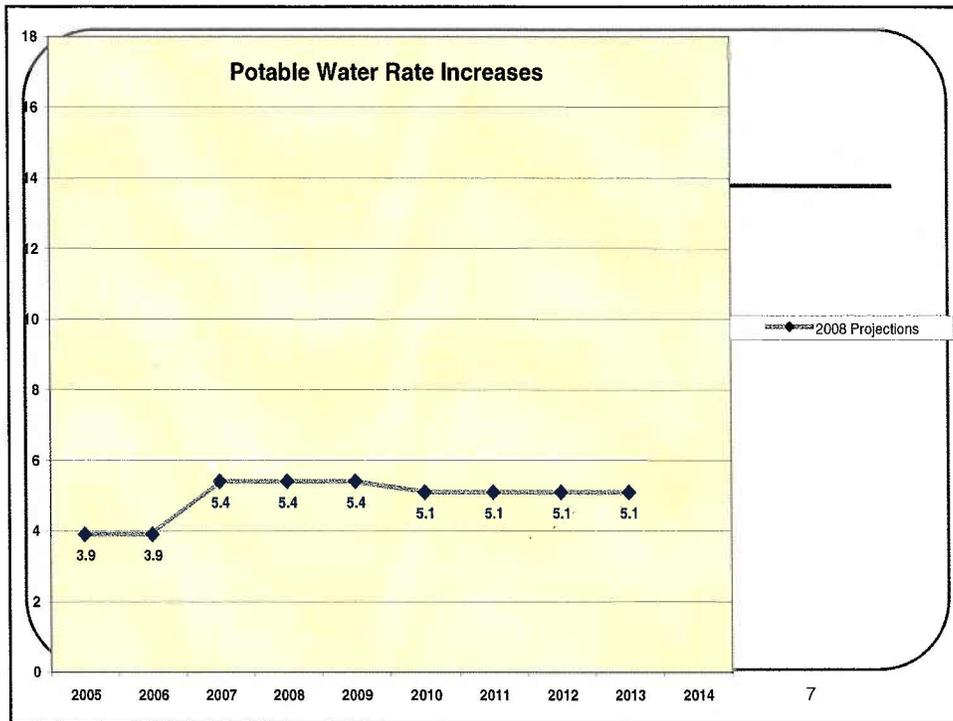


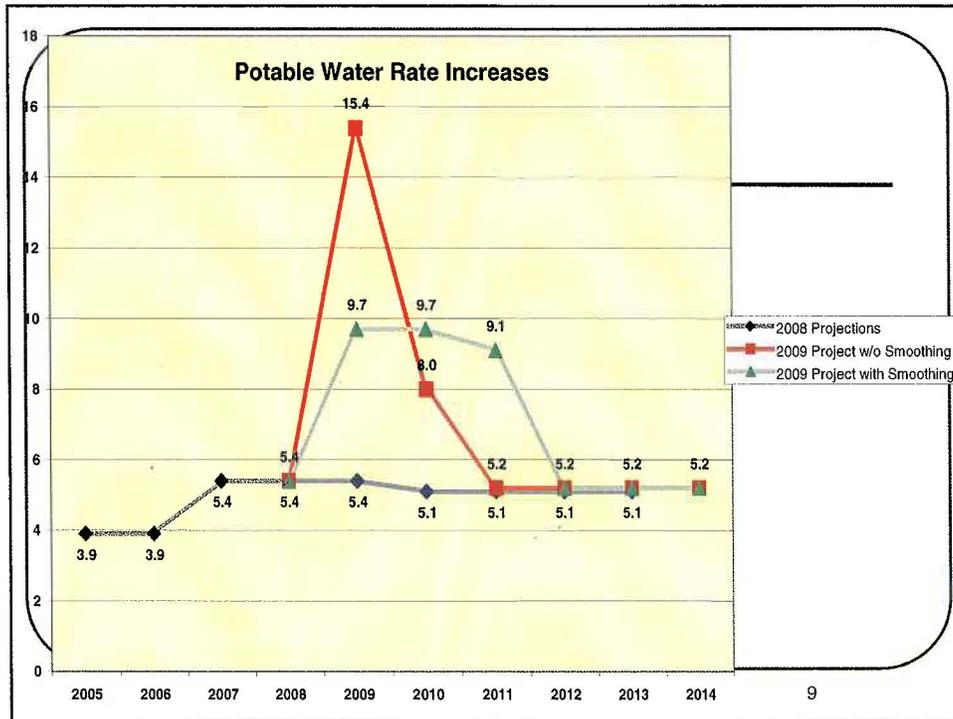
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Management's Response

- Reevaluated and Reduced CIP spending and budget
 - 2008 CIP expenditures at 75% budget
 - 2009 CIP budget was reduced by \$7.5M compared to last year's projection
- Reevaluated and Reduced the Operating Budget
 - FTEs were cut from 173 to 169 saving approximately \$368,000 in labor costs
 - Savings of \$ 885,800 due to program deferrals and other discretionary spending cuts
 - \$741,500 in Legal due to fewer legal issue
 - \$643,600 due to lower Water sales (rainfall & conservation)
- Fund Transfers
- Debt Issuance to spread the cost to those that use the facilities
- Using \$9.5 Million of Available Sewer Reserves
 - Deferring the debt issuance by 8 months

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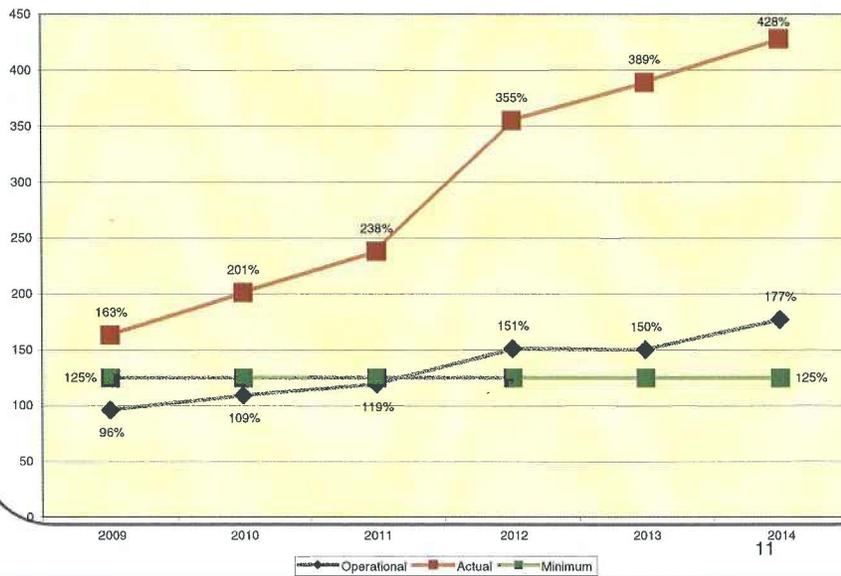




Credit Rating

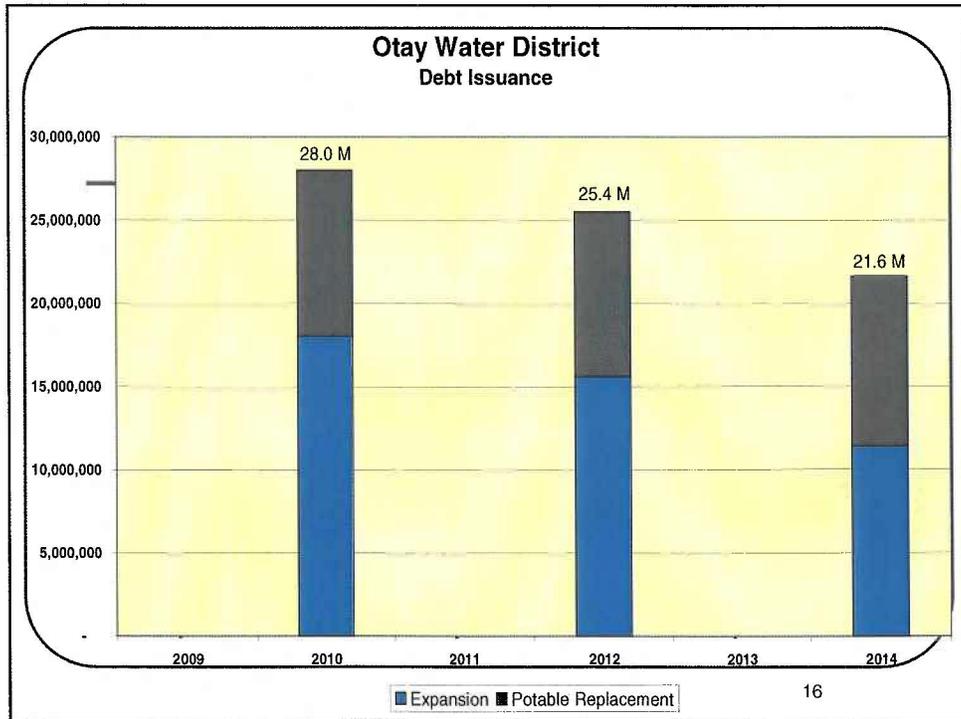
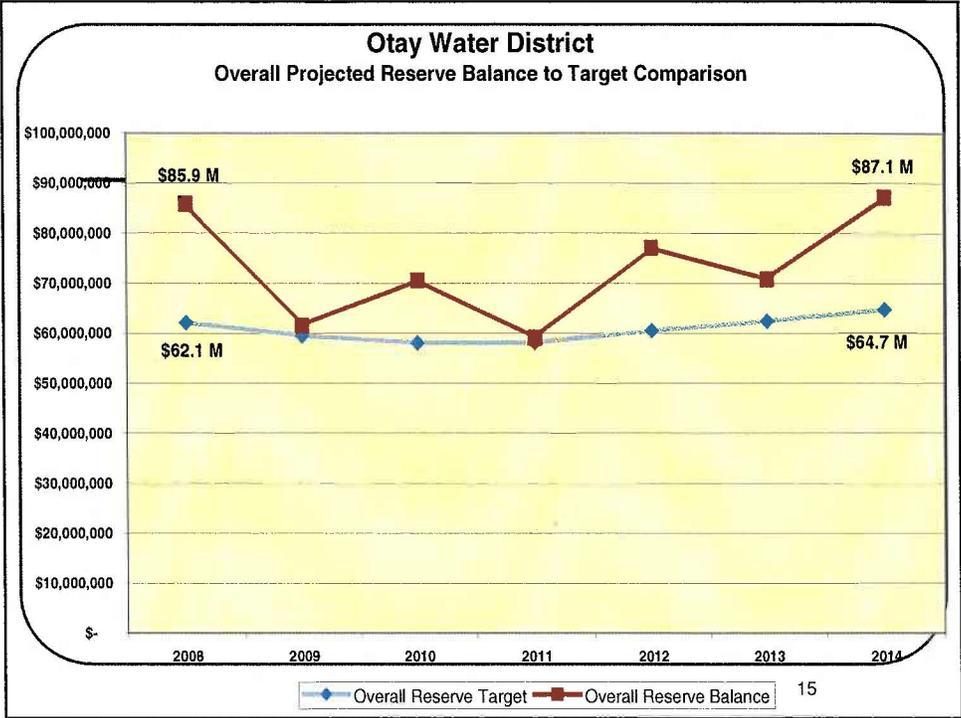
- Financial Ratios
- Reserve Policy
- Rate Model
- Debt Policy
- Financing Plan
- Technologically Advanced: GIS, IMS, Integration
- Forward Thinking Management
- Excellent Strategic Planning
- All Reserves On or Above Target
- Board is Supportive of the Rate Model to maintain the District's Financial Strength
- Low Rates give Flexibility

Debt Coverage Ratios



Successfully Level Rates

- Maintaining the Financial Strength of the District
- Budget that supports:
 - Strategic Plan objectives
 - 66 CIPs in 2009
 - A high level of service to our customers
- Maintaining reserves at target levels per the approved Reserve Policy



\$28 Million in Fund Transfers

- Adheres to the Reserve Policy Guidelines
- To maintain target reserve levels

Proposed 2009 Fund Transfers

Potable

General Fund to Replacement	4,950,000
General Fund to Designated Betterment	3,473,000
General Fund to Designated Expansion	6,440,000
Opeb Fund to GF	810,000

Recycled

General Fund to Replacement	102,300
General Fund to Designated Expansion	2,425,000
Designated Betterment to Replacement	262,700

Sewer

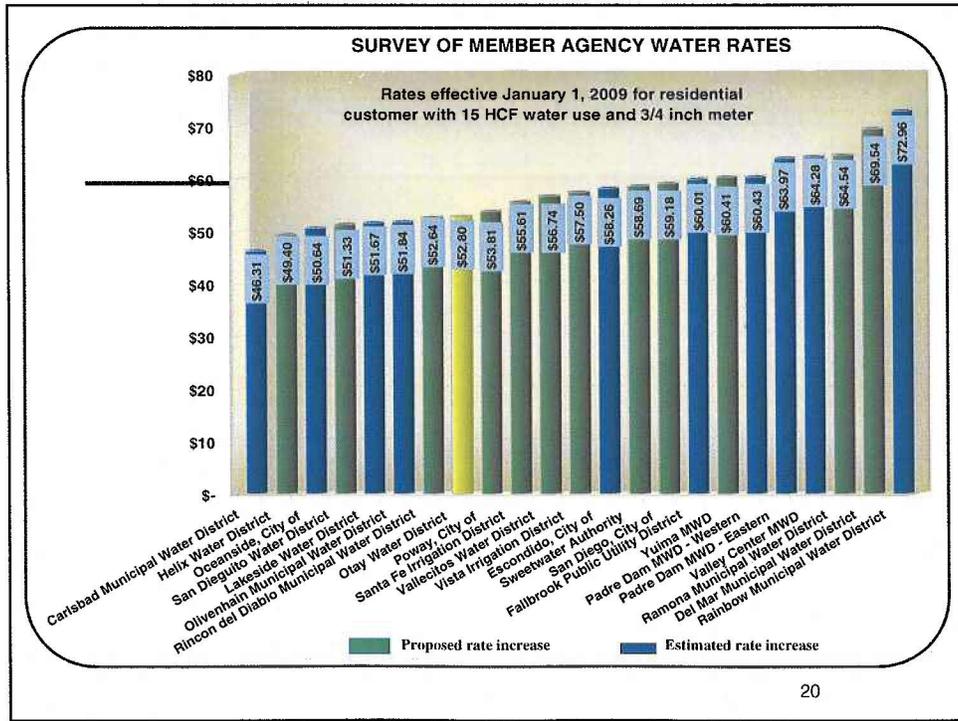
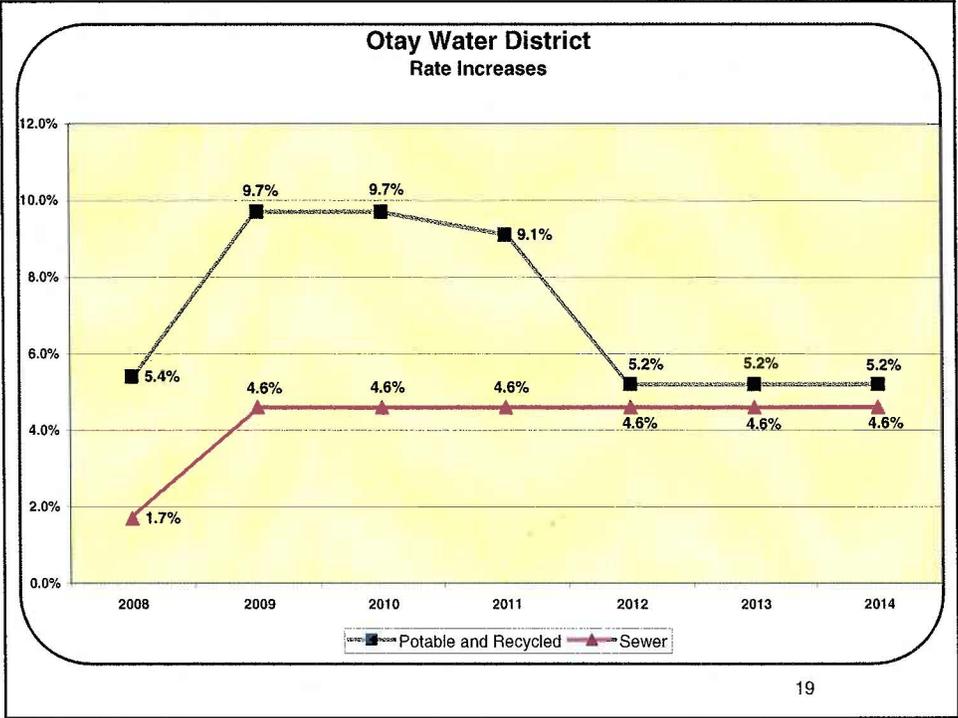
General Fund to Potable Betterment	2,250,000
Replacement Fund to Potable Replacement	7,255,000

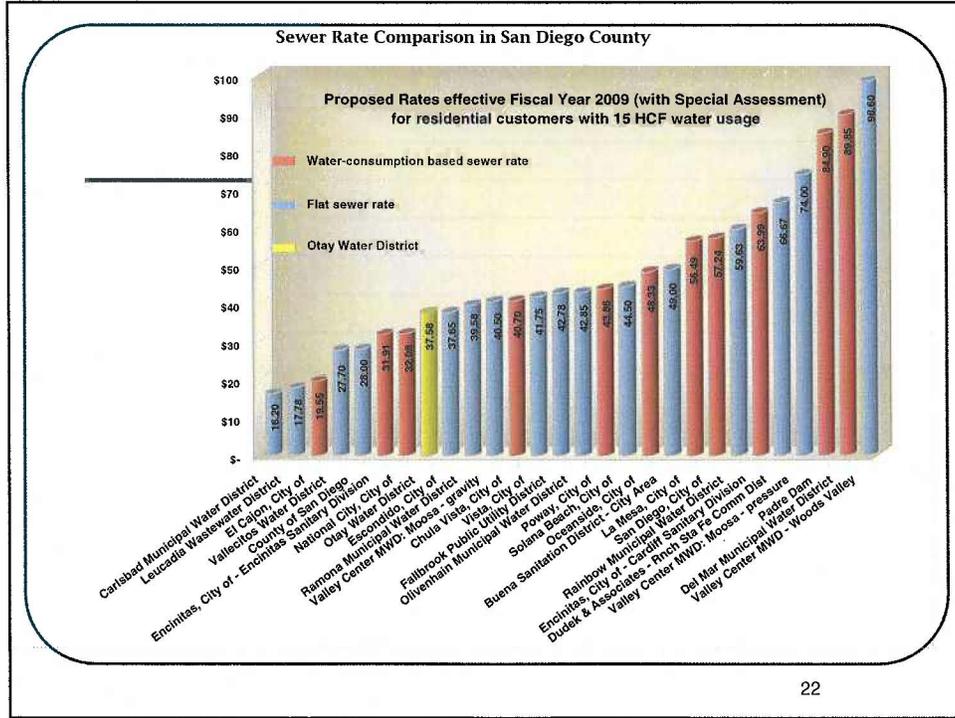
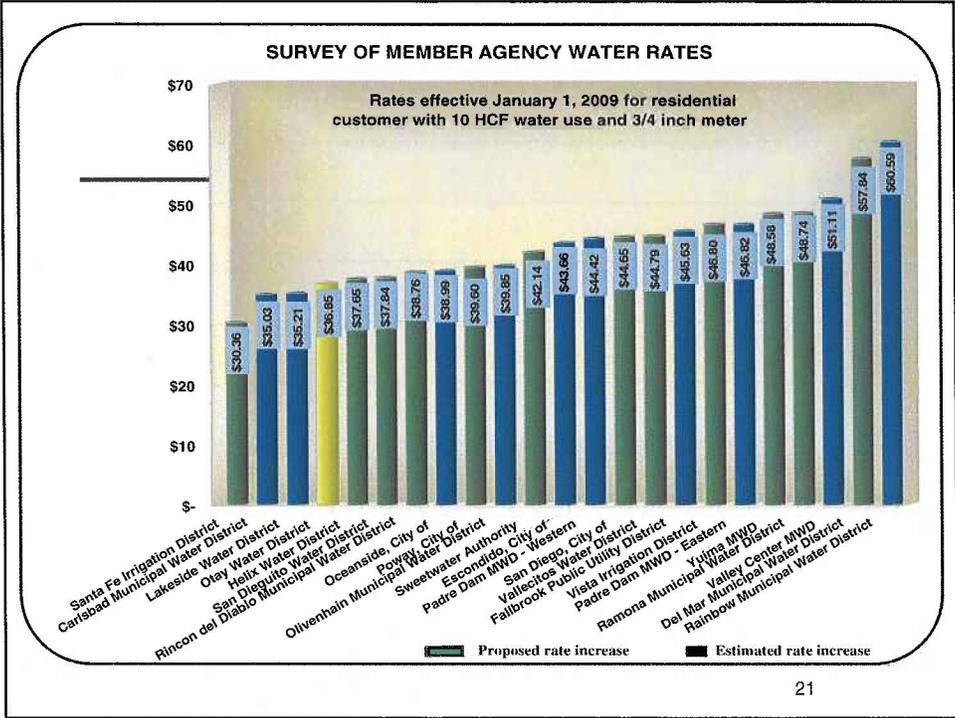
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Recommended Rate Changes

- Water rate increases are Greater than Expected at 9.7% – Changes are due to the following:
 - CWA/MWD Rate Increases
 - Growth/Economic Slowdown
 - Interest Rate Reductions
 - Reduced Water Sales from Conservation and Weather of 15%
- Future Uncertainties
 - SD 17
 - Asset Management Plan
 - SD Reclaimed Water Rate
 - Power and Fuel Costs
 - SSMP
- **Sewer rate increases are Greater than Expected at 4.6%** - This change is to maintain revenues at a level equal to expenses and hold the reserves which are over target for anticipated future costs.

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IMPLEMENTATION OF RATE CHANGES

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Rate Structure

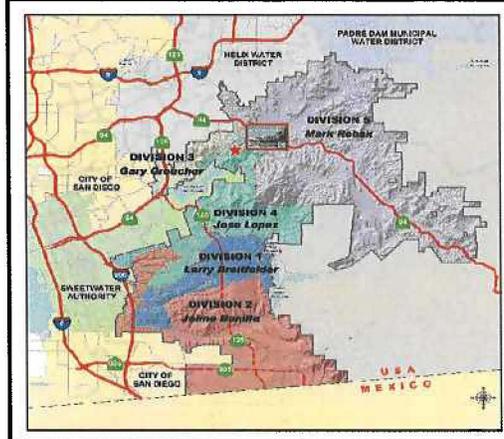
Customer	Nexus of Revenue & Cost	Tiered Water Rate Structure	Drought Rate Structure	Encourages Conservation	Proposed Rate Increase
Potable - Single Family Residential					9.7%
Potable - Commercial					9.7%
Recycled					9.7%
Sewer					4.6%

Green - indicates existing structure Blue - indicates proposed changes

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CAPITAL IMPROVEMENT PROGRAM BUDGET

FY 2008 – 2009



Rod Posada, P.E., P.L.S
Chief of Engineering

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Growth Projections

640 Reservoirs



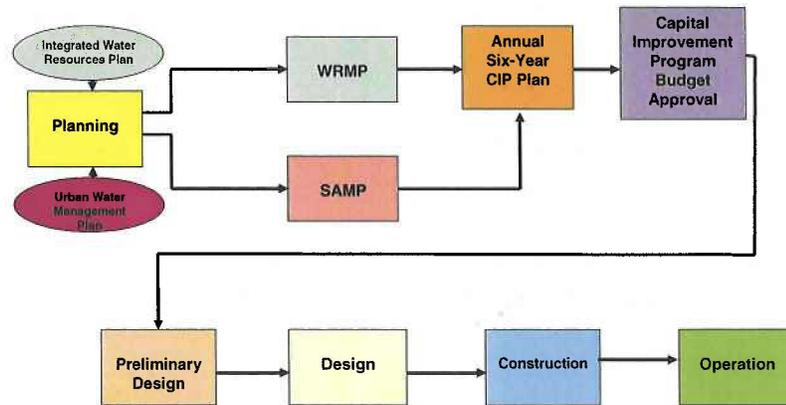
Olive Vista Pipeline



- ◆ Otay has experienced a significant slow down in growth over the last few years.
- ◆ The housing market in the region and within the City of Chula Vista are projected to remain quite slow for at least two more years with a modest upturn in year three.
- ◆ Projected meter sales in EDUs for FY 2008 are 620, with 520 for FY 2009, and 670 for FY 2010.

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CIP Project Development Process



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CIP Project Criteria

- ◆ Condition of Existing Facilities
- ◆ Operating System Requirements
- ◆ Water, Recycled, and Sewer System Deficiencies
- ◆ Regulatory and Permitting Requirements
- ◆ Agreement Commitments
- ◆ Developer Driven Facilities
- ◆ Economic Outlook and Growth Projection
- ◆ Board of Directors and Management Directives

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CIP Budget Assumptions

- ◆ Growth to remain slow with an increase of less than 1%.
- ◆ Projects for expansion, betterment, and replacement are included within the CIP.
- ◆ Six-year CIP expenditure plan to be as level as possible.
- ◆ The ENR Construction Cost Index is reported to have increased by 3.4% in 2007.
- ◆ The SDCWA reports that producer prices to construction industries have increased by 7% from 12/06 to 2/08.

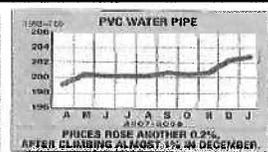
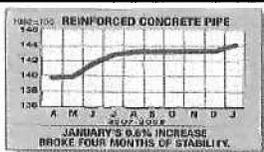
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Pipe Prices Start 2008 With Modest Increases

Pipe producers started the year with modest monthly price increases averaging less than 1%. Reinforced concrete pipe prices start the year between 5% and 8% higher than January 2007's levels, while PVC sewer and water pipe begin 2008 2% to 5% higher than

a year ago. Despite increasing 1.2% this month, prices for 1/2-in. copper water tubing are just 1% higher than a year ago. This modest increase follows robust year-to-year January increases of 45% for 2007, 31% for 2006, 28% for 2005 and 7% for 2004.

ENR's Materials Price Indexes



ENR January 21, 2008

ENR's Materials Price Index



ENR March 10, 2008

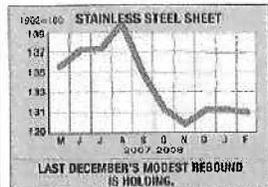
Cost Index

Construction Cost Index
 Escalation measured by the CCI held at an annual rate of 2.7% for the second consecutive month.

20-CITY 1913=100	FEB. 2008 INDEX VALUE	% CHG. MONTH	% CHG. YEAR
CONSTRUCTION COST	8094.28	+0.1	+2.7
CONSUMER LAMINATE	17086.97	+0.1	+3.5
WARE S-10L	32.48	+0.1	+3.5

ENR February 25/March 3, 2008

ENR's Materials Price Indexes



ENR February 25/March 3, 2008

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CIP Budget Expenditure Estimates

FY 2008 CIP Six-Year Budget Estimates (\$ Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Totals	\$34.5	\$38.4	\$34.8	\$28.3	\$29.8	\$25.7
Six-Year Total:						\$191.5

FY 2009 CIP Six-Year Projected Budget Estimates (\$ Millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Totals	\$30.9	\$26.8	\$23.4	\$24.7	\$30.5	\$34.1
Six-Year Total:						\$170.4

CIP Budget Breakdown

(\$ Millions)

	<u>Actual</u> <u>FY 2006</u>	<u>Actual</u> <u>FY 2007</u>	<u>Budget</u> <u>FY 2008</u>	<u>Budget</u> <u>FY 2009</u>
◆ Capital Backbone	\$30.9	\$27.6	\$24.9	\$23.0
◆ Developer Reimbursement	\$ 2.8	\$ 1.6	\$ 1.5	\$ 0.5
◆ Replacement & Renewal.....	\$ 1.1	\$ 1.7	\$ 6.6	\$ 5.8
◆ Capital Purchases	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.6
Totals.....	\$36.3	\$32.4	\$34.5	\$30.9

Major Capital Backbone Projects

POTABLE WATER	(\$ Millions)
◆ PL – 36-Inch, SDGWA Otay FCF No. 14 to Regulatory Site	\$22.0
◆ Res – 980-3 Reservoir 15 MG	\$14.2
◆ Res – 1296-3 Reservoir 2 MG	\$3.6
◆ PS – 1485-1 Pump Station Replacement	\$2.4
◆ Res – 640-1 Reservoir 20.0 MG	\$28.5
◆ Res – 850-4 Reservoir 2.2 MG	\$3.3
◆ Rosarito Desalination Facility & Conveyance System	\$5.0
◆ Otay River Groundwater Well Demineralization/Development	\$5.0
◆ Otay Mountain Groundwater Well Development	\$6.5
Total:	\$90.5
RECYCLED WATER	
◆ RecPL – 20-Inch, 944 Zone, Lane Avenue – Proctor Valley/Pond No.1	\$1.1
◆ RecRes – 860-1 Reservoir 4 MG	\$3.8
◆ RecPL – 24-Inch 860 Zone, Alta Road – Alta Gate/Airway	\$4.1
◆ RecPL – 20-Inch, 944 Zone, Wueste Road, Olympic/Otay WTP	\$2.0
◆ RecPL – 16-Inch, 860 Zone, Airway Road – Otay Mesa/Alta	\$3.0
◆ RecPL – 20-Inch, 860 Zone, County Jail – Roll Reservoir/860-1 Reservoir	\$1.5
◆ RecPL – Otay Mesa Distribution Pipelines and Conversions	\$2.0
◆ North District Recycled Water Regulatory Compliance	\$0.2
Total:	\$17.7

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IT Projects

- Improve reliability of billing and customer contact processes.
- Expanding use of GPS and routing to increase efficiency.
- Supporting asset management initiative with quality systems integration with GIS, IMS, and Financial systems.
- Expansion of remote high speed wireless communications throughout our service territory.
- Improvement of internal communications using web based tools.
- Leveraging strategic plan reporting for performance improvement.
- Assist in improving treatment plant automation program.

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BALANCED OPERATING BUDGET

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2009 Operating Budget

The Otay Water District is facing water rate increases due to higher supply costs, mandated programs and aging of infrastructure, these cost increases are not unique to Otay.

This presentation provides an overview of our financial outlook.

- ❖ **Budget Process**
- ❖ **Budget Highlights**
- ❖ **Growth Projections**
- ❖ **Budget Details**
- ❖ **Conclusion**

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Budget Process

- This year's biggest challenge was to find ways to reduce the Operating and CIP budgets to minimize the rate increases
- The Rate Model, Operating and CIP Budgets are aligned in the process
- Examined growth and cost changes
- Analyzed budget methodology and past projections
- Review of all Operating and CIP Budget requests
- Finance, General Manager, and Assistant GMs met with departments to determine reasonableness of budget requests and made adjustments where necessary

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Budget Highlights - - UPDATE

- Balanced budget
- Built in Slow Down of Economy and anticipated Drought Stages
 - CWA/MWD Rate Increases
 - Growth/Economic Slowdown
 - Interest Rate Reductions
 - Reduced Water Sales from Conservation and Weather of 15%

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Growth Projections

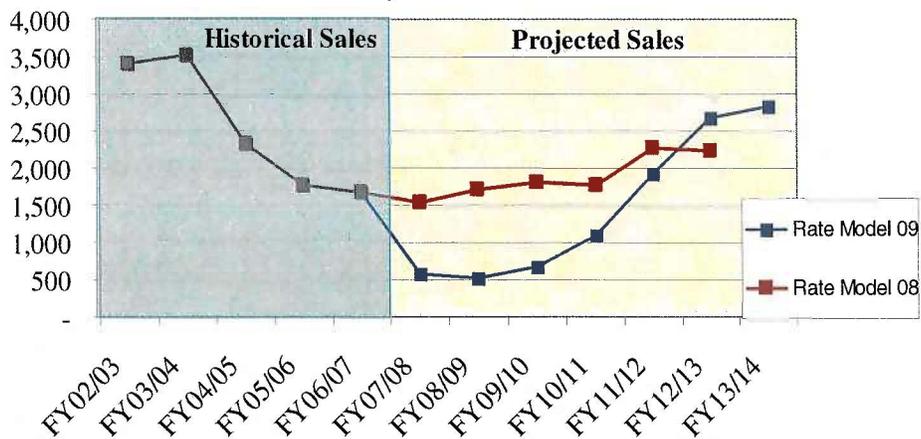
The District is projected to serve approximately 48,611 individual water customer accounts. The number of new water customers are growing at a much slower rate.

Customer Category	Annual Growth	Annual Growth	Annual Growth
	Rate FY 06/07	Rate FY 07/08	Rate FY 08/09
Single Family Residential	1.8%	2.1%	.6%
Multi-family Residential	1.8%	2.1%	.6%
Commercial	1.8%	2.1%	.6%
Landscaping	1.8%	2.1%	.6%
Agricultural	0.0%	0.0%	0.0%
Publicly Owned	1.8%	2.1%	.6%
Construction (Temporary)	0%	0.0%	0.0%
Reclaimed	5.0%	4.8%	2.7%

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Historic Meter Sales in EDUs

Potable and Recycled Meter Sales in EDUs



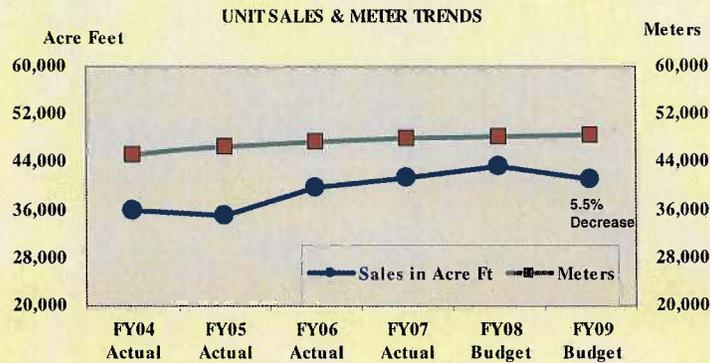
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Budget Details - Revenues

REVENUES	FY 2008	FY 2009	Budget	Variance
	Budget	Budget	Variance	%
Potable Water Sales	\$ 47,506,500	\$ 48,657,500	\$ 1,151,000	2.4%
Recycled Water Sales	6,001,400	6,298,100	296,700	4.9%
Sewer Revenues	2,679,100	2,145,300	(533,800)	(19.9%)
Meter Fees	318,500	103,800	(214,700)	(67.4%)
Capacity Fee Revenues	1,414,500	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	73,300	895,900	822,600	1122.2%
Annexation Fees	1,464,500	483,600	(980,900)	(67.0%)
Tax Revenues	4,003,800	4,137,300	133,500	3.3%
Non-operating Revenues	1,680,200	1,633,100	(47,100)	(2.8%)
Interest	1,038,700	666,400	(372,300)	(35.8%)
General Fund Draw Down	-	120,100	120,100	100.0%
TOTAL REVENUES	66,180,500	66,443,000	262,500	0.4%

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Water Sales



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Budget Details – Potable Sales Revenues

- Potable Water Sales Revenue increase of 2.4%
\$1,151,000

• Water Sales (Variable)	\$138,900
• System Fees	\$884,200
• Energy Fees	\$16,000
• MWD & CWA Fixed Fees	\$68,100
• Penalties	\$43,800

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Budget Details – Recycled Revenues

- Recycled Water Sales increase 4.9% or \$296,700

• MWD and CWA Credits	\$183,500
• Water Sales (Variable)	\$25,600
• System Fees	\$83,400
• Energy Fees	\$41,600
• Penalties	(\$ 37,400)

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Budget Details – Sewer Revenues

Sewer Charges decrease 19.9% (\$533,800)

- Sewer Charges (\$506,300)
- Penalties (\$27,500)

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Budget Details – Revenues (cont.)

- Meter Fees: Decrease 67.4% (\$214,700)
 - due to lower meter sales estimates
- Capacity Fee Reimbursement: Decrease 8% (\$112,600)
 - due to less operating projects funded by cap fees
- Betterment Fees for Maintenance: First year included in budget \$822,600, actual increase \$20,000
 - due to improvement in the District's ability to track maintenance cost of facilities by ID
- Non-Operating Income: Decrease 2.8% (\$47,100)
 - Decrease in Grant Revenue of \$147,000
 - Property rentals increase of \$158,400
- Tax Revenues: Increase 3.3% (\$133,500)
 - 3% growth in FY 09

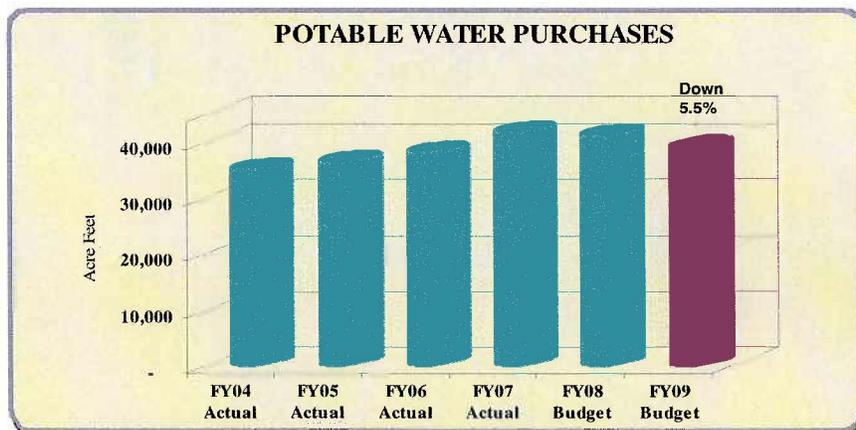
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Budget Details - Expenditures

	FY 2008 Budget	FY 2009 Budget	Budget Variance	Variance %
EXPENDITURES				
Potable Water Purchases	23,984,100	24,880,300	896,200	3.7%
Recycled Water Purchases	1,423,000	1,452,700	29,700	2.1%
CWA - Infrastructure Access Charge	1,090,200	1,216,800	126,600	11.6%
CWA - Customer Service Charge	950,400	1,050,000	99,600	10.5%
CWA - Emergency Storage Charge	1,507,800	1,774,800	267,000	17.7%
MWD - Capacity Reservation Charge	569,400	595,700	26,300	4.6%
MWD - Net RTS and Standby Charges	552,600	614,400	61,800	11.2%
Subtotal - Water Costs	30,077,500	31,584,700	1,507,200	5.0%
Power	2,804,800	2,780,500	(24,300)	(0.9%)
Labor and Benefits	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	2,590,200	4,810,000	2,219,800	85.7%
Betterment Reserve	225,000		(225,000)	(100.0%)
Replacement Reserve	3,443,300	274,500	(3,168,800)	(92.0%)
TOTAL EXPENDITURES	66,180,500	66,443,000	262,500	0.4%

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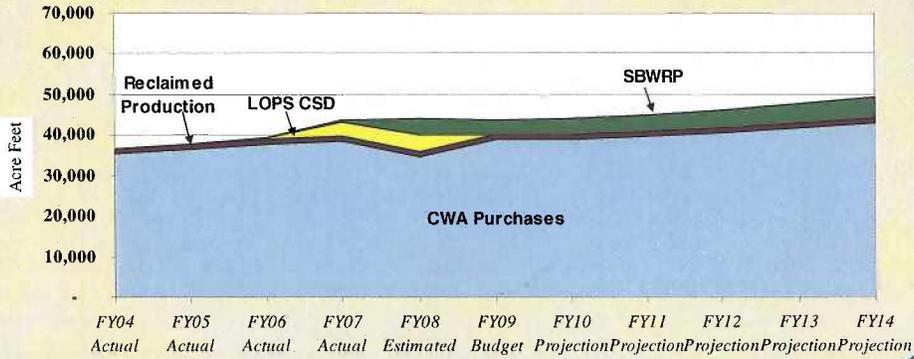
Water Purchases



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New Sources of Water

WATER PURCHASES



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Potable Variable Cost of Water

- Variable Costs increase 3.7% or \$896,200
 - Volume Decrease of 5.5% due to slow growth, rainfall, & conservation
 - Water Price Increase by CWA of 7.3% on 1/1/08 & 10.3% on 1/1/09 (average price increase of 8.65%)

	Current 2008	Proposed 2009	2009 Increase	2009 % Inc
CWA \$Price/AF	\$614	\$677	\$63	10.3%

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Recycled Variable cost of Water

- Variable Cost Increase of .7% or \$9,900
 - Volume Decrease of 8.8% due to slow growth, rainfall, & conservation
 - Anticipaed Water Cost Increase of \$133,400 due to Price Increase by City of San Diego of 7.3% on 1/1/08 & 10.3% on 1/1/09 (average price increase of 8.65%)

	Current 2008	Proposed 2009	2009 Increase	2009 % Inc
CWA \$Price/AF	\$375	\$413.50	\$38.50	10.3%

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Fixed Cost of Water

Fixed Cost increase 12.9% or \$601,100

MWD	Capacity Reservation Charge	\$26,300	4.6%
MWD	Readiness-to-Serve Charge	\$61,800	11.2%
CWA	Customer Service Charge	\$99,600	10.5%
CWA	Emergency Storage Charge	\$267,700	17.7%
CWA	Infrastructure Assess Charge	\$126,600	11.6%
CSD	Recycled Meter Fee	<u>\$19,800</u>	new
	Total Fixed Cost	\$601,100	

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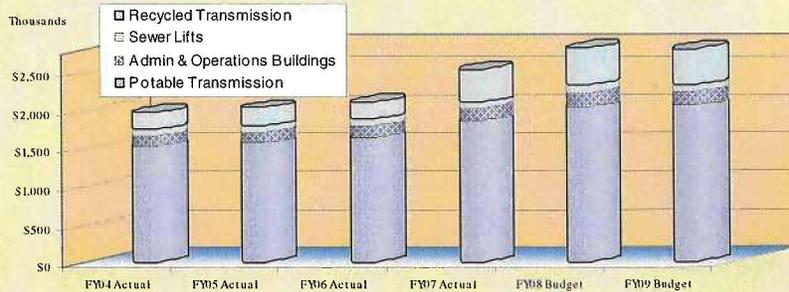
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Power

HISTORICAL POWER COSTS & PROJECTIONS



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Budget Details - Expenditures

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Staffing Highlights

- Process
 - Departments identified specific personnel requests for HR review
 - Senior Team conducted an analysis of:
 - Work load and organizational requirements
 - Existing vacancies
- Results
 - Four vacant positions were deleted, reducing total count from 173 to 169

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Labor and Benefits

Salary and Fringe: Increase 10.3% \$1,601,000

- Salary Cost: Increase of 7.6% \$792,800
- Shift of Labor from CIP to Operating: \$221,200
- Benefit Changes: Increase 6.2% \$493,900

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Budget Details - Expenditures

	FY 2008	FY 2009	Budget	Variance
	Budget	Budget	Variance	%
EXPENDITURES				
Potable Water Purchases	23,984,100	24,880,300	896,200	3.7%
Recycled Water Purchases	1,423,000	1,452,700	29,700	2.1%
CWA - Infrastructure Access Charge	1,090,200	1,216,800	126,600	11.6%
CWA - Customer Service Charge	950,400	1,050,000	99,600	10.5%
CWA - Emergency Storage Charge	1,507,800	1,774,800	267,000	17.7%
MWD - Capacity Reservation Charge	569,400	595,700	26,300	4.6%
MWD - Net RTS and Standby Charges	552,600	614,400	61,800	11.2%
Subtotal - Water Costs	30,077,500	31,584,700	1,507,200	5.0%
Power	2,804,800	2,780,500	(24,300)	(0.9%)
Labor and Benefits	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	2,590,200	4,810,000	2,219,800	85.7%
Betterment Reserve	225,000	-	(225,000)	(100.0%)
Replacement Reserve	3,443,300	274,500	(3,168,800)	(92.0%)
TOTAL EXPENDITURES	66,180,500	66,443,000	262,500	0.4%

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Budget Details - Expenditures

	FY 2008	FY 2009	Budget	Variance
	Budget	Budget	Variance	%
EXPENDITURES				
Potable Water Purchases	23,984,100	24,880,300	896,200	3.7%
Recycled Water Purchases	1,423,000	1,452,700	29,700	2.1%
CWA - Infrastructure Access Charge	1,090,200	1,216,800	126,600	11.6%
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Subtotal - Water Costs	30,077,500	31,584,700	1,507,200	5.0%
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Labor and Benefits	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	2,590,200	4,810,000	2,219,800	85.7%
Betterment Reserve	225,000	-	(225,000)	(100.0%)
Replacement Reserve	3,443,300	274,500	(3,168,800)	(92.0%)
TOTAL EXPENDITURES	66,180,500	66,443,000	262,500	0.4%

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Operations Department Savings

- SCADA support contract no longer needed \$30,000
- DHS requirements completed for Treatment Plant \$20,000
- Deferred 624-3 Reservoir PRV overhaul \$35,000
- Change in chemical from solid to liquid sodium hypochlorite \$25,000
- Complete Scrubber required 5 year maintenance \$35,000

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Budget Details - Expenditures

	FY 2008	FY 2009	Budget	Variance
	Budget	Budget	Variance	%
EXPENDITURES				
Potable Water Purchases	23,984,100	24,880,300	896,200	3.7%
Recycled Water Purchases	1,423,000	1,452,700	29,700	2.1%
CWA - Infrastructure Access Charge	1,090,200	1,216,800	126,600	11.6%
CWA - Customer Service Charge	950,400	1,050,000	99,600	10.5%
CWA - Emergency Storage Charge	1,507,800	1,774,800	267,000	17.7%
MWD - Capacity Reservation Charge	569,400	595,700	26,300	4.6%
MWD - Net RTS and Standby Charges	552,600	614,400	61,800	11.2%
Subtotal - Water Costs	30,077,500	31,584,700	1,507,200	5.0%
Power	2,804,800	2,780,500	(24,300)	(0.9%)
Labor and Benefits	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	2,590,200	4,810,000	2,219,800	85.7%
Betterment Reserve	225,000		(225,000)	(100.0%)
Replacement Reserve	3,443,300	274,500	(3,168,800)	(92.0%)
TOTAL EXPENDITURES	66,180,500	66,443,000	262,500	0.4%

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Operating Budget Summary

	Potable	Recycled	Sewer	Total
REVENUES				
TOTAL REVENUES	57,700,100	6,334,000	2,408,900	66,443,000
EXPENDITURES				
Water Costs	30,132,000	1,452,700	-	31,584,700
Power	2,216,100	466,800	97,600	2,780,500
Labor and Benefits	15,400,300	1,143,100	642,000	17,185,400
Administrative Expenses	5,433,300	346,500	155,300	5,935,100
Materials & Maintenance	2,133,400	225,400	1,514,000	3,872,800
Expansion Reserve	2,385,000	2,425,000	-	4,810,000
Replacement Reserve	-	274,500	-	274,500
TOTAL EXPENDITURES	57,700,100	6,334,000	2,408,900	66,443,000

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Conclusion

- **Balanced budget which meets the needs of our customers** (Available for immediate approval)
- **Supported by a 9.7% potable and recycled water rate increases** (Approval after the 218 hearing)
- **Supported by a 4.6% rate increase in sewer charges** (Approval after the 218 hearing)

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SUMMARY OF RECOMMENDATIONS

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Summary of Recommendations

1. Adopt Resolution No. 4124 to approve the 2009 Operating and CIP Budget
2. Approve the fund transfers
3. Direct staff to proceed with the Rate Study and Proposition 218 hearing and notices for the recommended rate increases

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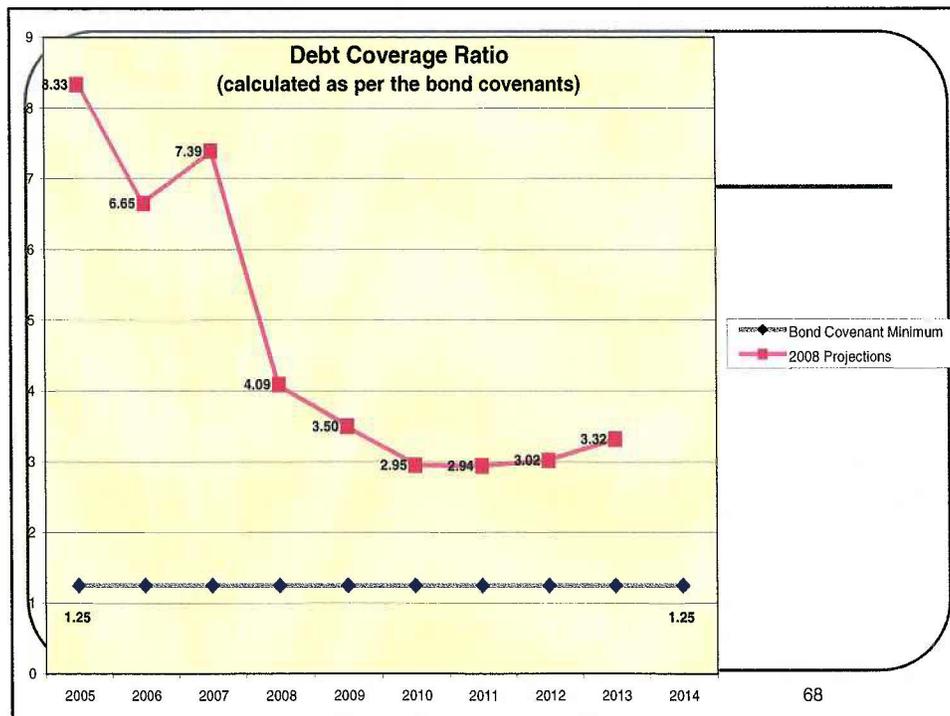
QUESTIONS?

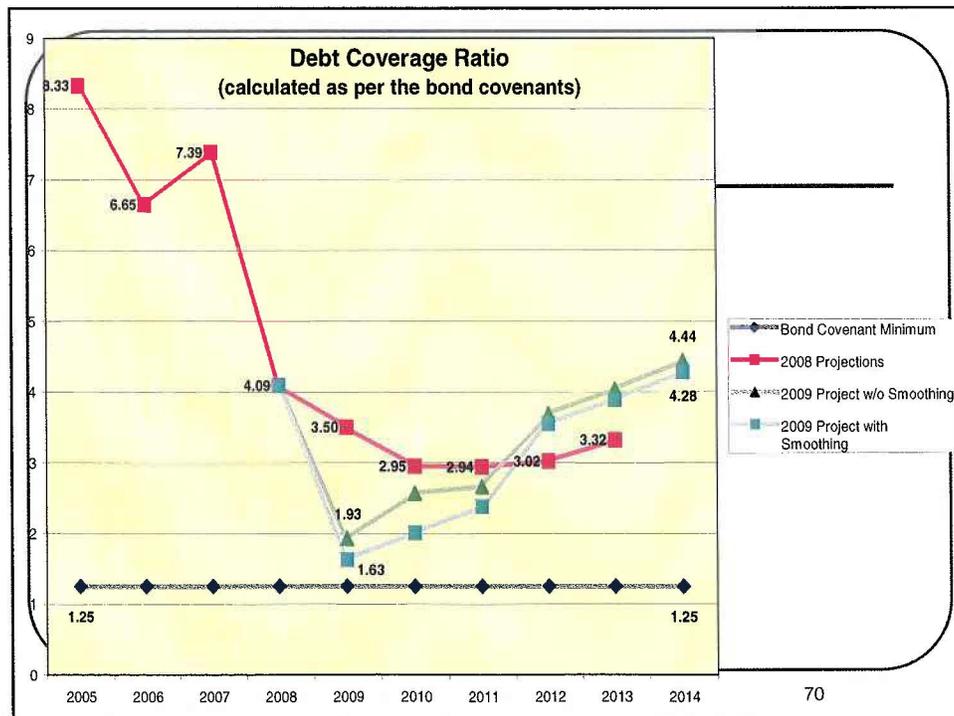
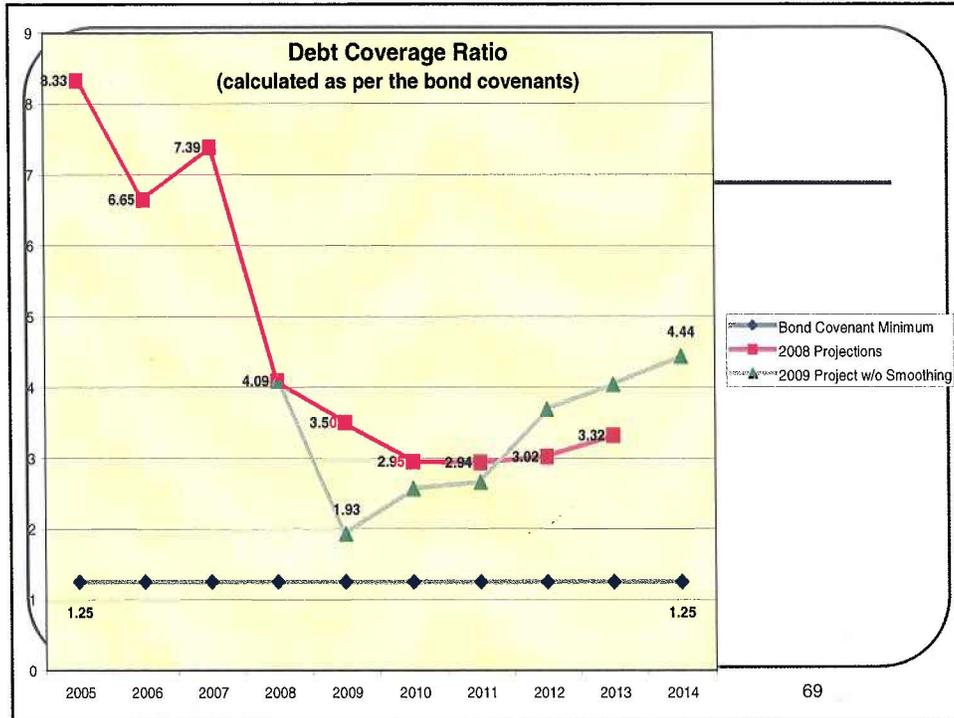
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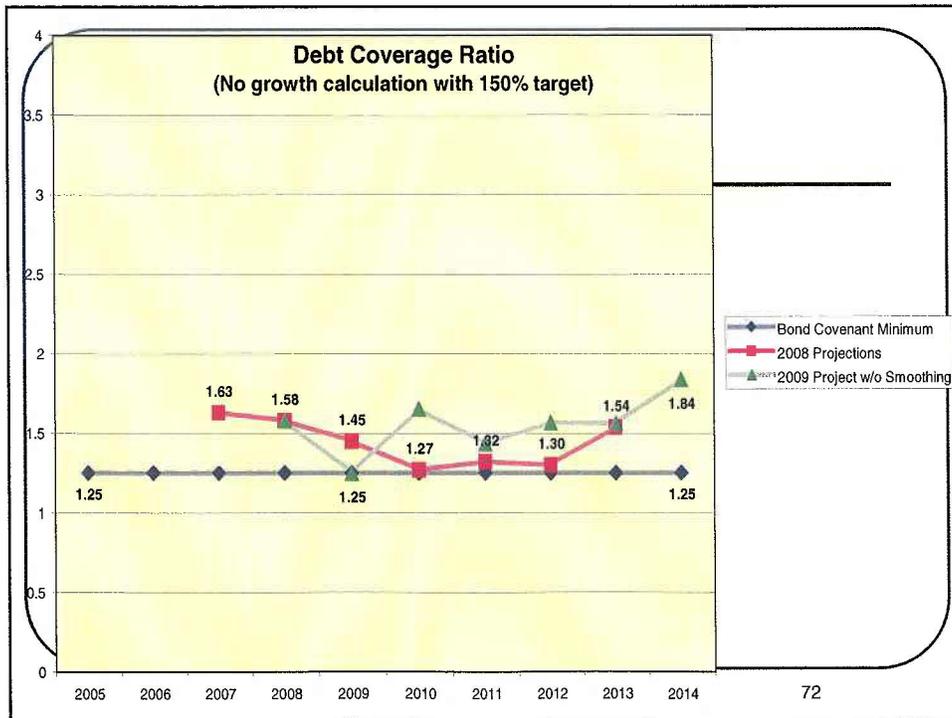
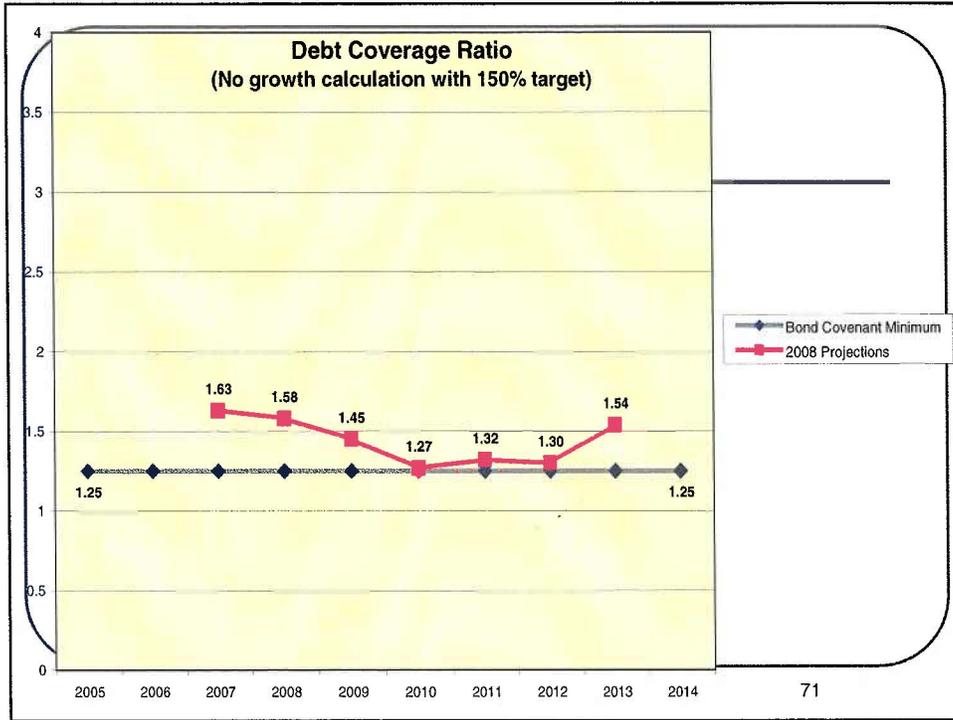
Supplemental Section

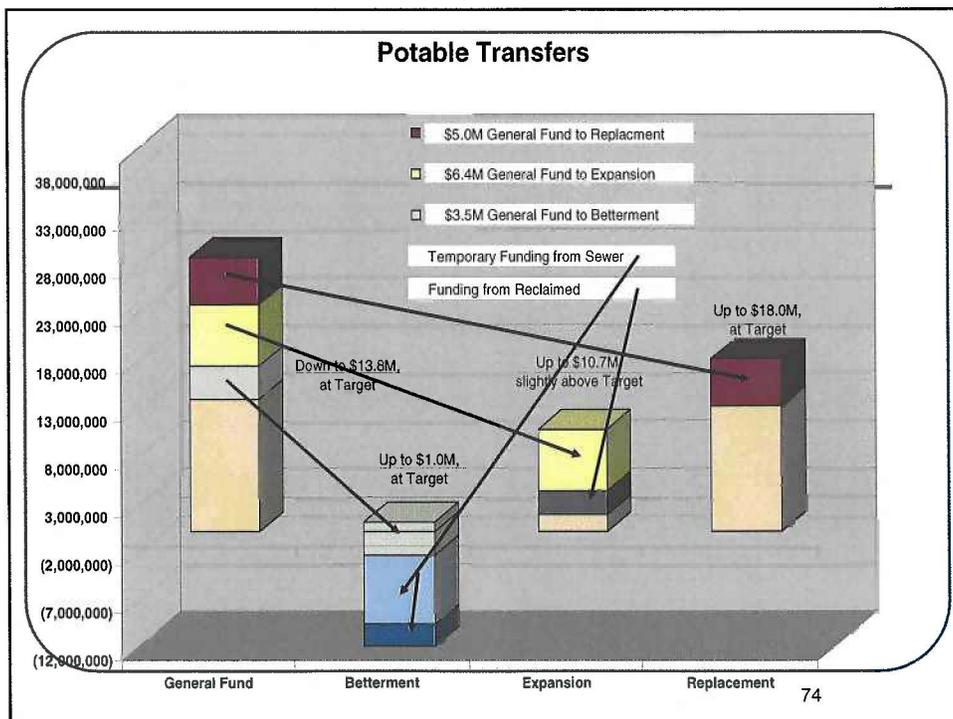
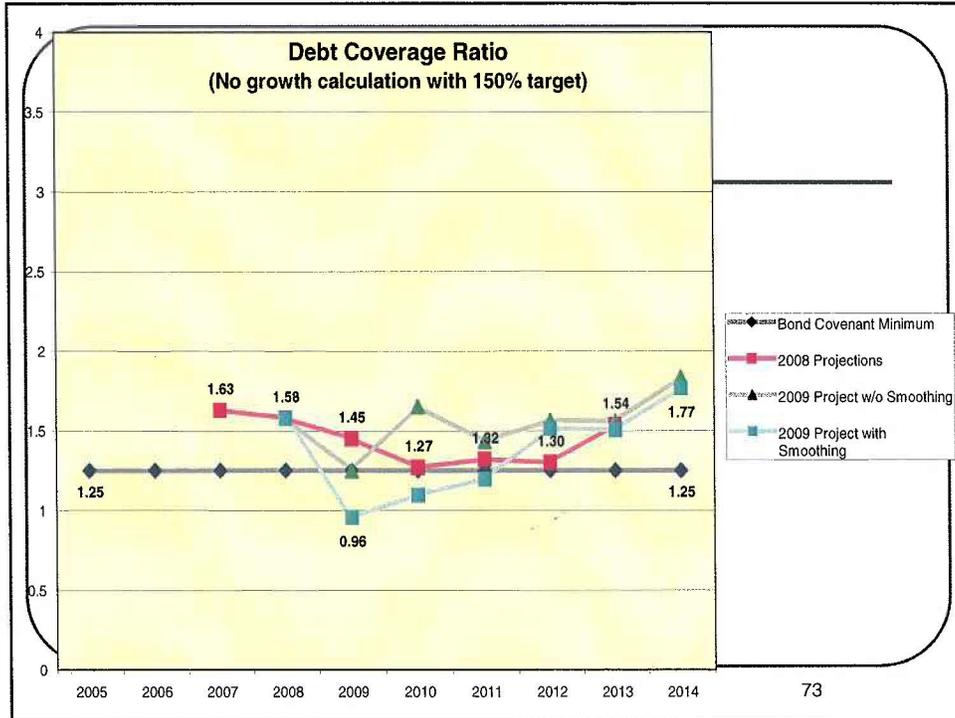
1. Debt Coverage Ratios (supplement to pages 7 to 9)
2. Budget Transfers (supplement to page 17)
 1. Potable Transfers
 2. Reclaimed Transfers
 3. Sewer Transfers
3. Rate Changes (supplement to page 24)
 1. Potable Rates
 2. Recycled Rates
 3. Sewer Rates
4. CIP (supplement to pages 25 to 34)
 1. CIP Budget Development Process
 2. Completed CIP Projects
 3. Added and Contingency CIP Projects
 4. CIP Projects Budgets Unchanged
 5. CIP Projects Budget Increases
 6. CIP Projects Budget Decreases
5. Expense Increases (supplement to pages 47 to 61)
 1. Water Cost Increases
 2. Power Costs
 3. Administrative Expenses
 4. Materials Expense
 5. Funding of Reserves

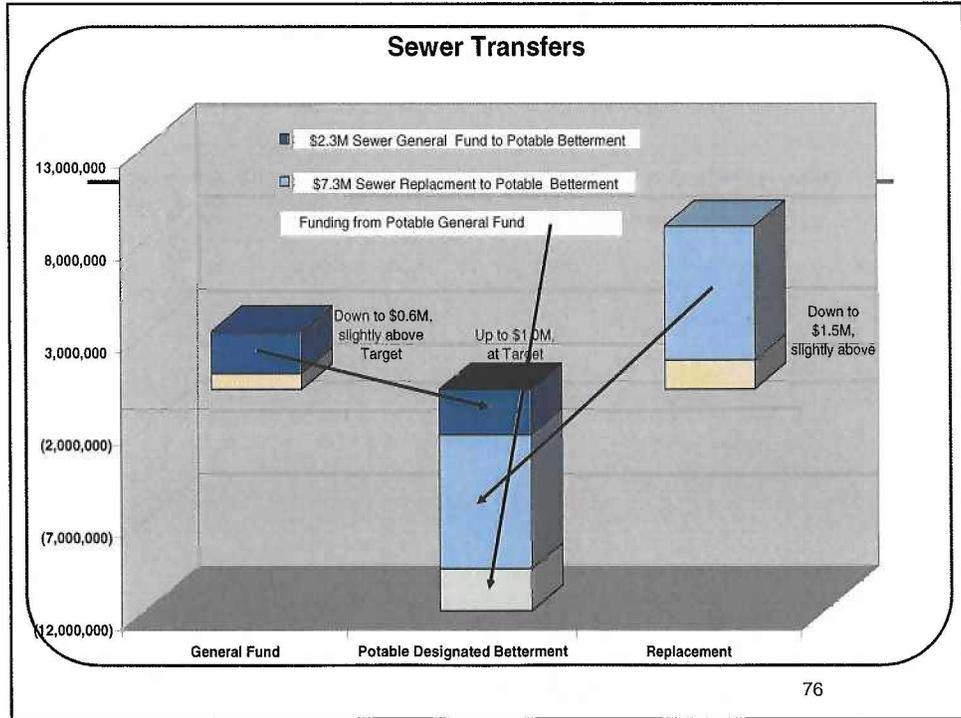
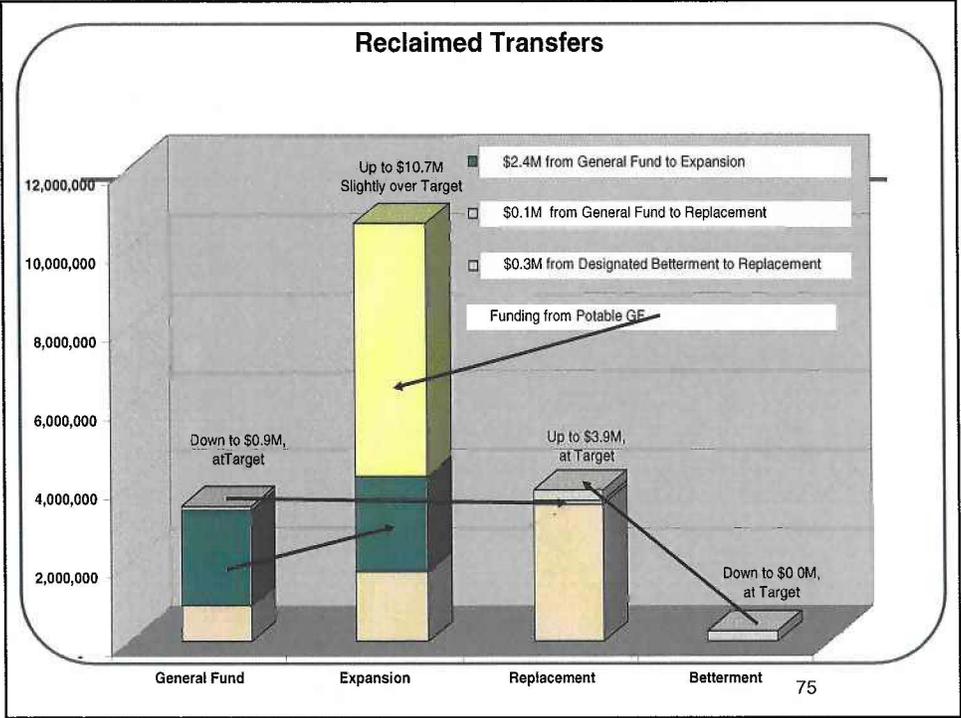
67











Potable Rate Changes

- Recommend a 9.7% rate increase which is primarily a pass-through of supply cost increases
 - Single Family Residential
 - Raise Rates sufficient to balance the budget
 - Implement a Drought Rate Structure
 - Commercial Customers
 - Implement a Tiered Rate Structure
 - Raise Rates sufficient to balance the budget
 - Implement a Drought Rate Structure

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Recycled Rates

- Recommend a 9.7% rate increase which is primarily a pass-through of supply cost increases
- Create a Tiered Rate Structure
- Do not propose a drought rate structure for recycled water customers

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Sewer Rate Increase

- Recommended a 4.6% Increase in Monthly Sewer Rate sufficient to cover costs
- The same percentage increase will be applied evenly to fixed and variable charges
- Meets the legal requirement to have a nexus between cost and rates

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CIP Budget Development Process

- ◆ CIP projects are founded upon the WRMP, IRP, UWMP, and Sub-Area Master Plans.
- ◆ CIP projects are selected and established based on need, growth, and requirements.
- ◆ The draft CIP budget goes through an iterative process to meet established financial constraints and service level criteria.
- ◆ Expenditure targets for the next six years for the CIP projects are established.

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Completed CIP Projects in FY 2008

CIP No.	Brief Project Title and Description	Project Budget
P2070	PL - 16-Inch, 980 Zone, Pacific Bay Homes Road- Proctor Valley/Rolling Hills Hydro PS	\$550,000
P2121	PL - 16-Inch, 711 Zone, Hunte Parkway - Olympic/EastLake	\$551,000
P2133	PL - 16-Inch, 711 Zone, EastLake Parkway - Olympic/Birch	\$151,000
P2164	PL - 20-Inch, 980 Zone, EastLake Parkway - Olympic/Birch	\$211,000
P2169	PL - 20-Inch, 980 Zone, EastLake Parkway - Birch/Rock Mountain	\$325,000
P2295	624-1 Reservoir Disinfection Facility, Inlet/Outlet/Bypass and 613-1 Reservoir Demolition	\$4,500,000
P2353	Information Technology System Enhancements and Replacements	\$3,762,000
P2361	Information Technology GIS Enhancements	\$1,945,000
P2363	Information Technology Utility Billing, Data Management, and Financial System	\$6,600,000
P2397	PL - 12-Inch, 711 Zone, EastLake Parkway - Birch/Rock Mountain	\$175,000
P2435	PL - 16-Inch, 711 Zone, Birch Road - La Media/SR-125	\$280,000
P2447	Information Technology Meter Routing	\$130,000
P2455	Data Cleansing Project	\$350,000
P2459	Olive Vista Drive Utility Relocations	\$1,242,000
P2468	Finance Department Office Remodel	\$50,000
R2001	RecRes - 450-1 Reservoir 12 MG	\$9,967,000
R2004	RecPS - 680-1 Pump Station (11,500 GPM)	\$8,333,000
R2031	RecPL - 12-Inch, 944 Zone, EastLake Parkway - Olympic/Birch	\$125,000
R2040	RecPL - 12-Inch, 680 Zone, Hunte Parkway - Olympic/EastLake	\$450,000
R2041	RecPL - 8-Inch, 944 Zone, EastLake Parkway - Birch/Rock Mountain	\$125,000
R2043	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - La Media/SR-125	\$235,000
R2090	MBR Water Recycling Facility Feasibility Study	\$100,000
Total:		\$40,157,000

Added and Contingency CIP Projects

CIP No.	Brief Project Title and Description (Added)	Project Budget
P2285	Office Equipment and Furniture Capital Purchases	\$576,000
P2469	Information Technology Network and Hardware	\$1,900,000
P2470	Application Systems Development and Integration	\$1,380,000
P2471	850/657 PRS at La Presa Pump Station	\$300,000
P2472	Water Supply Feasibility Studies	\$400,000
P2473	PS - 711-1 Pump Station Improvement	\$200,000
P2474	Fuel Storage Covers and Containment	\$100,000
P2475	Pump Station Fire Safety Improvements	\$50,000
P2476	Dis - 1090-1 Pump Station Disinfection System Upgrade	\$100,000
P2477	Res - 624-1 Reservoir Cover Replacement	\$450,000
P2478	Administration Building Engine/Generator Set	\$80,000
R2048	RecPL - Otay Mesa Distribution Pipelines and Conversions	\$2,000,000
R2093	MBR City of Chula Vista	\$5,000,000
Total:		\$12,536,000
CIP No.	Brief Project Title and Description (Contingency)	Project Budget
P2235	Res - 624-4 Emergency Reservoir 40.0 MG	\$32,000,000
Total:		\$32,000,000

CIP Project Budgets Unchanged

(\$ Millions)

CIP No.	Brief Project Title and Description	FY 08	FY 09	Budget Unchanged
		Budget	Proposed Budget	
P2033	PL - 16-Inch, 1296 Zone, Melody Road - Campo/Presilla	\$1,826	\$1,826	\$0
P2037	Res - 980-3 Reservoir 15 MG	\$14,205	\$14,205	\$0
P2040	Res - 1655-1 Reservoir 0.5 MG	\$2,055	\$2,055	\$0
P2104	PL - 12-Inch, 711 Zone, La Media Road - Birch/Rock Mountain	\$633	\$633	\$0
P2107	PL - 12-Inch, 711 Zone, Rock Mountain Road - La Media/SR 125	\$722	\$722	\$0
P2129	Groundwater Exploration Program	\$2,530	\$2,530	\$0
P2190	PL - 10-Inch, 1485 Zone, Jamul Highlands Road to Presilla Drive	\$228	\$228	\$0
P2258	PS - Lower Otay Pump Station Phase 1 (9,000 GPM)	\$7,805	\$7,805	\$0
P2267	36-Inch Main Pumpouts and Air/Vacuum Ventilation Installations	\$345	\$345	\$0
P2318	PL - 20-Inch, 657 Zone, Summit Cross-Tie and 36-Inch Main Connections	\$601	\$601	\$0
P2357	PS - 657-1/850-1 Pump Station Demolition	\$300	\$300	\$0
P2367	PL - 18-Inch, 980 Zone, Olympic Parkway - East Palomar/EastLake	\$1,500	\$1,500	\$0
P2370	Res - Dorchester Reservoir and Pump Station Demolition	\$150	\$150	\$0
P2382	Safety and Security Improvements	\$1,317	\$1,317	\$0
P2402	PL - 12-Inch, 624 Zone, La Media Road - Village 7/Otay Valley	\$444	\$444	\$0
P2450	Otay River Groundwater Well Demineralization/Development	\$5,000	\$5,000	\$0
P2457	Otay Mountain Groundwater Well Development	\$6,500	\$6,500	\$0
P2481	Records Management System Upgrade	\$150	\$150	\$0
P2482	Otay River Demineralization Feasibility Study	\$200	\$200	\$0
P2485	Regulatory Site Material Storage Bins	\$250	\$250	\$0
P2487	San Diego Formation Groundwater Feasibility Study	\$1,600	\$1,600	\$0
R2028	RecPL - 8-Inch, 680 Zone, Heritage Road - Santa Victoria/Otay Valley	\$600	\$600	\$0
R2034	RecRes - 860-1 Reservoir 4.0 MG	\$3,800	\$3,800	\$0
R2042	RecPL - 8-Inch, 944 Zone, Rock Mountain Road - SR-125/EastLake	\$141	\$141	\$0
R2047	RecPL - 12-Inch, 680 Zone, La Media Road - Birch/Rock Mountain	\$450	\$450	\$0
R2053	RWCWRF - R.O. Building Remodel and Office Furniture	\$495	\$495	\$0
R2083	RecPL - 20-Inch, 680 Zone, Heritage Road - Village 2/Olympic	\$400	\$400	\$0
R2088	RecPL - 20-Inch, 860 Zone, County Jail - Roll Reservoir/860-1 Reservoir	\$1,500	\$1,500	\$0
R2089	North District Recycled Water Regulatory Compliance	\$200	\$200	\$0
R2091	RecPS - 944-1 Pump Station Upgrade	\$325	\$325	\$0
Totals:		\$56,472	\$56,472	\$0

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CIP Project Budget Increases

(\$ Millions)

CIP No.	Brief Project Title and Description	FY 08	FY 09	Budget Increase
		Budget	Proposed Budget	
P2009	PL - 36-Inch, SDGWA Otay FCF No. 14 to Regulatory Site	\$18,490	\$22,000	\$3,510
P2038	PL - 12-Inch, 978 Zone, Jamacha, Hidden Mesa, and Chase Upsize and Replacements	\$1,600	\$2,400	\$800
P2143	Res - 1296-3 Reservoir 2 MG	\$3,340	\$3,640	\$300
P2172	PS - 1485-1 Pump Station Replacement	\$2,225	\$2,375	\$150
P2235	Res - 624-4 Emergency Reservoir 40.0 MG	\$27,750	\$32,000	\$4,250
P2282	Vehicle Capital Purchases	\$2,451	\$2,689	\$238
P2356	PL - 12-Inch, 803 Zone, Jamul Drive Permastran Pipeline Replacement	\$765	\$815	\$50
P2366	APCD Engine Replacements and Retrofits	\$2,438	\$2,798	\$360
P2387	PL - 12-Inch, 832 Zone, Steele Canyon Road - Via Caliente/Campo	\$525	\$584	\$59
P2414	PL - 12" to 16" Oversize, 803 Zone, Dehesa Road - Dehesa Meadow/OWD Bndy	\$152	\$153	\$1
P2416	SR-125 Utility Relocations	\$809	\$870	\$61
P2440	I-905 Utility Relocations	\$1,660	\$2,460	\$800
P2441	NG/RAMAR Meter Replacements	\$1,932	\$2,035	\$103
P2443	Information Technology Mobile Services	\$652	\$1,502	\$850
P2451	Rosario Desalination Facility Conveyance System	\$1,000	\$5,000	\$4,000
P2456	Air and Vacuum Valve Upgrades	\$3,744	\$4,214	\$470
P2458	AMR Manual Meter Replacement	\$9,368	\$10,277	\$909
P2460	I.D. 7 Trestle and Pipeline Demolition	\$375	\$376	\$1
P2466	Regional Training Facility	\$200	\$220	\$20
R2033	RecPL - 12-Inch, 944 Zone, Birch Road - La Media/EastLake	\$300	\$330	\$30
R2058	RecPL - 16-Inch, 860 Zone, Airway Road - Otay Mesa/Alta	\$2,000	\$3,000	\$1,000
R2077	RecPL - 24-Inch, 860 Zone, Alta Road - Alta Gate/Airway	\$3,000	\$4,100	\$1,100
R2085	RecPL - 20-Inch, 680 Zone, La Media - State/Olympic	\$500	\$600	\$100
R2086	RWCWRF Force Main AirVac Replacements and Road Improvements	\$875	\$1,300	\$425
S2016	Solar Panel Installation Phase I	\$645	\$710	\$65
Totals:		\$86,796	\$106,448	\$19,652

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CIP Project Budget Decreases (\$ Millions)

CIP No.	Brief Project Title and Description	FY 08	FY 09	Budget Decreases
		Budget	Proposed Budget	
P2134	PL - 16-inch, 711 Zone, Birch Road - SR 125/EastLake	\$412	\$210	\$202
P2185	Res - 640-1 Reservoir 20.0 MG	\$29,500	\$28,500	\$1,000
P2191	Res - 850-4 Reservoir 2.2 MG	\$3,285	\$3,250	\$35
P2286	Field Equipment Capital Purchases	\$1,202	\$1,161	\$41
P2325	PL - 10" to 12" Oversize, 1296 Zone, PB Road - Rolling Hills Hydro PS/PB Bndy	\$130	\$50	\$80
P2403	PL - 12-inch, 624 Zone, Heritage Road - Olympic/Otay Valley	\$975	\$925	\$50
P2422	Agency Interconnections	\$2,050	\$1,600	\$450
P2453	SR-11 Utility Relocations	\$2,300	\$500	\$1,800
P2463	South Bay Regional Concentrate Conveyance Feasibility Study	\$125	\$25	\$100
P2464	San Diego 17 Pump Station and Flow Control Facility	\$16,250	\$30	\$16,220
R2081	RecPL - 20-inch, 944 Zone, Lane Avenue - Proctor Valley/Pond No. 1	\$1,290	\$1,090	\$200
R2082	RecPL - 24-inch, 680 Zone, Olympic Parkway - Village 2/Heritage	\$1,747	\$801	\$946
R2084	RecPL - 20-inch, 680 Zone, Village 2 - Heritage/La Media	\$1,100	\$426	\$674
R2087	RecPL - 20-inch, 944 Zone, Wueste Road - Olympic/Otay WTP	\$3,598	\$2,000	\$1,598
R2092	Dis - 450-1 Reservoir Disinfection Facility	\$1,100	\$830	\$270
S2012	SVSD Outfall and RSD Replacement and OM Reimbursement	\$3,571	\$2,846	\$725
S2015	Calavo Lift Station Replacement	\$726	\$526	\$200
Totals :		\$69,361	\$44,770	\$24,591

85

Water Costs Increase 5.0% or \$1,507,200

- Variable Cost Increase
 - Potable \$896,200
 - Recycled \$ 9,900

- Fixed Cost Increase
 - Potable \$581,300
 - Recycled \$19,800

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Power

- Power Cost decrease .9% (\$24,300)
 - Water demand decrease of 5.5% due to slow growth, rainfall, & conservation
 - SDG&E rates increase of 2.0% on 1/1/08 and 2.8% on 7/1/08

87

Administrative Expense

Decrease 15.0% (\$1,047,200) due to 4 main categories:

- Cuts in Departmental Budgets (\$145,600)
- Completion of Contracts (\$84,000)
- Conservation grants Removed (\$120,000)
- One-time legal expenses deleted (\$741,500)

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Material & Maintenance

- Overall Decrease 13.0% (\$580,100)
- Fuel & Oil Decrease (\$214,500)
(LOPS decrease of \$243,600, Fuel Price increase of \$29,100)
- Metro Sewer and SVSD O&M Increase \$65,100
- Decrease in contracted services (\$82,600)
 - janitorial painting
 - landscaping parking lot maintenance
- Decrease in meters (\$165,900)
- Decrease in: (\$182,200)
 - Infrastructure & Other Supplies
 - Chemicals Lab Supplies

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Continued Reserve Funding

- Prior year – Replacement, Expansion, & Betterment Reserves
- Current year – Replacement & Expansion Reserves
- In accordance with the Reserve Policy

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