

OTAY WATER DISTRICT
SPECIAL MEETING OF THE BOARD OF DIRECTORS
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

and

THE LOBBY OF THE
JW MARRIOTT ORLANDO LAKES
4040 CENTRAL FLORIDA PARKWAY
ORLANDO, FL 32837

MONDAY
June 23, 2008
3:30 P.M.

AGENDA

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

WORKSHOP

5. ADOPT RESOLUTION NO. 4124, APPROVING THE FISCAL YEAR 2008-2009 OPERATING AND CAPITAL BUDGETS; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; AND DIRECT STAFF TO PROCEED WITH THE RATE STUDY AND PROPOSITION 218 HEARING AND NOTICES

ACTION ITEMS

6. CONSIDERATION TO PROVIDE A SPONSORSHIP OF \$500 TO THE OAK BROOK MIDDLE SCHOOL AND STEEL CANYON HIGH SCHOOL STUDENTS WHO WILL REPRESENT THE STATE OF CALIFORNIA IN THE NATIONAL HISTORY DAY COMPETITION IN MARYLAND WITH A PRESENTATION ON THE HISTORY OF CALIFORNIA WATER WARS
7. ADJOURNMENT

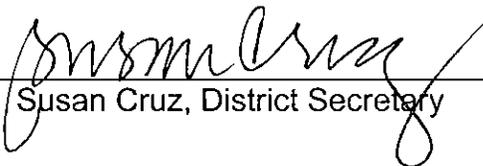
All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on June 20, 2008, I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 24 hours in advance of the special meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on June 20, 2008.



Susan Cruz, District Secretary

AGENDA ITEM 5



STAFF REPORT

TYPE MEETING:	Special Board Meeting	MEETING DATE:	June 23, 2008
SUBMITTED BY:	Rita Bell, Finance Manager <i>R.B.</i>	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief):	Joseph R. Beachem, Chief Financial Officer <i>R.B.</i>		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager <i>GA</i>		
SUBJECT:	Select a Budget Supported by One of the Debt Coverage Options and Approve the Corresponding Fund Transfers for Potable, Recycled, and Sewer; Adopt Resolution No. 4124 to Approve the FY 2008-2009 Operating and Capital Budget; and Direct Staff to Proceed with the Rate Study and Proposition 218 Hearing and Notices for the Recommended Rate Increases		

GENERAL MANAGER'S RECOMMENDATION:

That the Board:

- a) Select a budget supported by one of the debt coverage options and approve the corresponding fund transfers for potable, recycled, and sewer.
- b) Adopt Resolution No. 4124 of the Board of Directors of Otay Water District to approve the Fiscal Year 2008-2009 Operating and Capital Budget.
- c) Direct staff to proceed with the Rate Study and Proposition 218 hearing and notices for the recommended rate increases.

COMMITTEE ACTION: _____

N/A

PURPOSE:

To obtain approval of the Fiscal Year 2008-2009 Operating and Capital Budget; various fund transfers; adoption of Resolution No. 4124; and direction to move forward with the Rate Study and Proposition 218 hearing and notices.

ANALYSIS:

On June 10th, staff presented the proposed FY 2008-2009 Operating and Capital Budget. The Board requested additional information regarding the budget. This staff report responds to those questions, as well as the recent unanticipated water cost increases by CWA, and the overall process that must be followed due to Proposition 218.

At the June 10th Board meeting, staff presented what the rates would need to be to obtain a debt coverage ratio of 125% but recommended a budget that incorporated rate smoothing. It is expected that the rate smoothing option will preserve the District's credit rating; however, the Board expressed concerns over the economy and the possibility that the assumptions in the Rate Model might not be conservative enough, given the continued deterioration of the economy and water supply, to maintain the level of financial strength needed for future operations. Staff will review the major assumptions in the Rate Model as well as present three rate options that are expected to support three different levels of the debt coverage ratio.

Water Cost Update

Each year, in the budget process, staff relies on information provided by CWA for the setting of water rates for the following calendar year. This year on April 9th, CWA gave a preliminary estimate of a 10.3% rate increase. Later, on June 10th, the same day as our Budget Workshop, CWA announced at the Member Agency Finance Officers meeting, that the new proposed water rate increase would be 13.2%. Because of the late notice, this higher cost was not built into the Rate Model presented to the Board for the Fiscal Year 2009 Budget at the Budget Workshop on June 10th. The 2.9% higher water rate added an additional \$409,600 in potable and recycled water cost to the budget and caused the base rate model (at 95% debt ratio) to increase from 9.7% to 11.4%.

The District is not alone in the affect of the higher water cost on rates. In discussions with neighboring water agencies, this new higher cost will cause them to reevaluate their proposed rate increases, as they will have to pass the higher cost onto their customers. Districts with already adopted rate increases will have to address the higher cost at a separate rate meeting or in the next year's budget process.

Proposition 218 Process

Since the precedence set by the "Bighorn - Desert View Water Agency v. Virtil (Kelley)" case, the District must hold a properly noticed Proposition 218 (hereafter Prop 218) hearing, to avoid any question of compliance and thereby protect the District against potential litigation.

The process has been to propose the rates necessary to balance the budget during the Budget Workshop each year. This year, staff has requested to perform a rate study with the assistance of a consultant which will do the following: achieve the overall revenue identified in the budget process to balance the budget, simplify the current rate structure, and develop a drought rate structure that will prepare the District to respond to drought stages, as they are declared. At the conclusion of the rate study, staff will propose the specific changes for each of the various rates to the Board in late summer, early fall 2008. With the Board's direction, the Prop 218 notices will be sent to ratepayers 45 days prior to a public hearing. A Prop 218 hearing will be held late fall or early winter, and at the conclusion of the hearing, the Board will be asked to approve the rate increases.

Rate Model Scenarios

To respond to the Board's concerns regarding economic uncertainties, staff developed three scenarios to examine the effects on rates. The three scenarios are as follows:

- "No Growth" Scenario - This scenario assumes that no meters will be sold in FY 2010 and FY 2011, and with reduced meter sales in FY 2012 through FY 2014. With the reduction in meter sales, there are corresponding reductions in water purchases and sales, and an associated \$54 million reduction in the six-year CIP Budget.
- "State Tax Shift" Scenario - Under this scenario, staff assumed a \$1,240,000 one-time reduction in 1% property tax. The law which allows this to occur is called Proposition 1A. Under this law, the State would have to repay this to local entities and is limited to how many times this "borrowing" can occur.
- "Combined No Growth & Tax Shift" Scenario - This scenario combines the effect of the two individual scenarios above.

Debt Coverage Ratio Options

For the base rate model budget presented in this staff report, staff has prepared three options of 95%, 100% and 125% debt ratios. These three debt ratios are each expected to maintain the District's financial strength so that the AA- credit rating can also be maintained. The chart below shows the results of the analysis.

Debt Ratio	Base Model Rates			FY 2009 Budget	FY 2009 Transfers
	FY 2009	FY 2010	FY 2011		
95%	11.4%	9.6%	9.1%	\$66.8M	\$27.0M
100%	12.4%	8.9%	8.9%	\$67.1M	\$27.3M
125%	17.2%	7.3%	5.2%	\$68.2M	\$28.4M

Staff also prepared models with the three sets of debt ratios (95%, 100% and 125%) to understand the relative rate sensitivity of the three scenarios described above. The charts below present the results of this analysis.

Debt Ratio	No Growth Rates		
	FY 2009	FY 2010	FY 2011
95%	11.4%	9.4%	9.4%
100%	12.5%	9.3%	9.3%
125%	17.2%	6.7%	6.7%

With the "No Growth" scenario, cutting growth out entirely in 2010 and 2011, is rate neutral due to the significant cuts in the CIP budget that would come with a no growth scenario. This is good news and affords the District some flexibility.

Debt Ratio	State Tax Shift Rates		
	FY 2009	FY 2010	FY 2011
95%	16.8%	6.3%	6.3%
100%	17.8%	5.9%	5.9%
125%	22.7%	4.3%	4.3%

The "State Tax Shift" that could occur under Proposition 1A has a much larger impact on rates in the first year because there is no corresponding expense reduction to obtain the debt ratio targets.

Debt Ratio	Combined Rates		
	FY 2009	FY 2010	FY 2011
95%	16.8%	7.0%	7.0%
100%	17.8%	6.5%	6.5%
125%	22.7%	4.9%	4.9%

The combined effect of the "No Growth" and "State Tax Shift" is identical to the "State Tax Shift" scenario in the first year, due to the same reasons. However, in the second and third years, rates are slightly higher due to a compounding effect to catch up.

Reduced Water Sales

Staff was also asked to examine the effect of water sales reduction and the impact that has on Net Revenues. When the volume of water purchases and sales were increased by 5.5%, the net effect of this change was only 2.1%. The reason is that approximately 25% of sales revenue is fixed by the way of monthly system fees, and MWD and CWA fixed fees. Likewise, approximately 15% of water costs are fixed by MWD and CWA. Staff will examine the mix of fixed and variable water revenue in the upcoming rate study to ensure the best mix of compliance with Best Management Practice (BMP) 11, where no more than 30% of your revenue should be fixed in nature; and the maximization of fixed revenues to protect against the volatility of consumption shifts and encourage water conservation.

Non-Operating Revenues

Staff was requested to review the decrease in Non-Operating Revenues, specifically the revenues associated with the lease agreements. The reason for the 2.8% decrease is not related to decreases in lease agreements; it is a combination of a decrease in water conservation grant revenue (offset by incentive expenses) and the increases in lease revenues.

The District currently has 30 leases: 14 with Consumer Price Index (CPI) annual inflators; 11 with a 3% fixed annual increase that are renegotiated at the end of the 5 year term; 4 with a 3% fixed that is adjusted every 5 years at the option period for the average San Diego CIP or market rate, whichever is greater; and 1 graduated increase lease for the golf course. The District is anticipating 7 new lease agreements for cell-sites, all with a CPI inflator.

FISCAL IMPACT:

RAB

Each of the three budget options is a balanced budget ranging from an operating budget of \$66.8 to \$68.2 with a CIP budget of \$30.9. With budget approval, the District will move forward into Fiscal Year 2009 with clear financial direction. Staff will also make preparations to work with a consultant for the purpose of rate setting and the Proposition 218 hearing necessary to implement the rate changes which support this

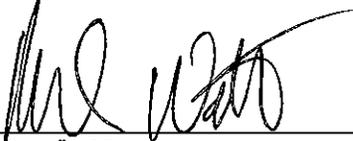
budget. This budget provides continued funding for the District's administration, maintenance, and operations, and is consistent with the recently adopted Strategic Plan and Reserve Policies.

STRATEGIC GOAL:

Ensure financial health through formalized policies, prudent investing, and efficient operations.

LEGAL IMPACT: _____

None.



General Manager

Attachments:

- A) Resolution No. 4124
- B) FY 2008-2009 Operating and Capital Budget Presentation June 23, 2008
- C) Addendum to the FY 2008-2009 Proposed Operating and Capital Budget
- D) Budget Staff Report from June 10, 2008 Board Meeting
- E) FY 2008-2009 Operating and Capital Budget Presentation June 10, 2008

RESOLUTION NO. 4124

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT ADOPTING THE
FISCAL YEAR 2008-2009
OPERATING AND CAPITAL BUDGET

WHEREAS, the Otay Water District Board of Directors have been presented with a budget for the operation of the Otay Water District for Fiscal Year 2008-2009; and

WHEREAS, the Operating and Capital Budget has been reviewed and considered by the Board, and it is in the interest of the District to adopt a budget for said year; and

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 2008-2009.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a special board meeting held this 23rd day of June 2008, by the following vote:

Ayes:
Noes:
Abstain:
Absent:

President

ATTEST:

District Secretary

Attachment B

Otay Water District

FY 2009 Budget Workshop

June 23, 2008

1

Review of Annual Process

- Asking for Board to approve the budget
- Preliminary view of rate structure to the Board (optional), Aug/Sept
- Bring proposed rate structure to the Board, Sept/Oct
- Prop 218 notices to be issued in Oct/Nov
- Prop 218 hearing to be held in Nov/Dec
- Board approval of rates Nov/Dec (same day as hearing)

2

Workshop Objectives

Present 3 Options for approval of Operating Budget

Present for approval a \$30.9M CIP Budget

Request Approval of associated Fund Transfers

Supported by:

- Associated rate increase for potable and recycled customers
- A 4.6% rate increase for sewer customers

Budget approval is requested before the beginning of the new fiscal year, while the rate changes can only be approved after a Prop 218 hearing.

3

CWA Rate Increases

- **CWA Increases**
 - Originally from projected at 6.4% last year, then increased to 10.3% on April 9, 2008
 - On June 10th, CWA announced an higher water rate increase of 13.2% (additional \$409,600 in water costs)
 - Building in an additional 4.5% in FY 2010 is a prudent approach
- **San Diego Reclaimed Increases**
 - Assume similar increase as CWA

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CWA Increases

- Variable Cost increase 5.0% or \$1,199,500
- Water Price Increase by CWA of 7.3% on 1/1/08 and 13.2% on 1/1/09

	Current 2008	Proposed 2009	2009 Increase	2009 % Inc
CWA \$/AF	\$614	\$695	\$81	13.2%

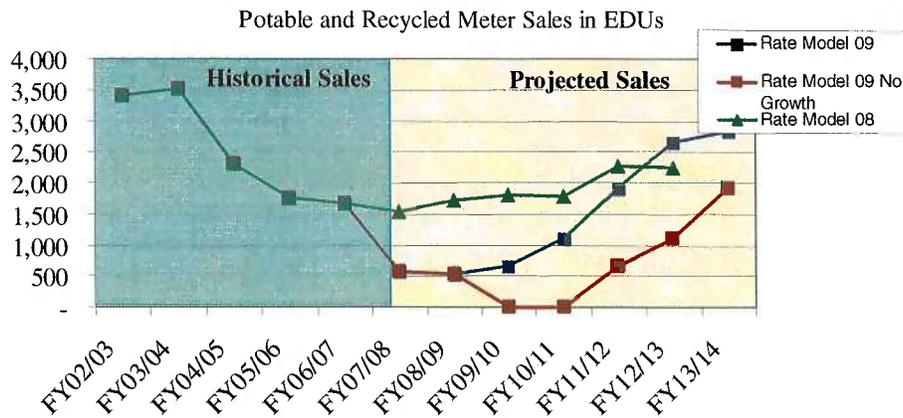
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Rate Model Scenarios

- No Growth
 - Assume zero meter sales in 2010 and 2011
 - Associated reductions in CIP by \$54M over six year window
- State Tax Shift (Proposition 1A)
- Combination of No Growth and State Tax Shift

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Historic Meter Sales in EDUs



7

State Property Tax Shift

- Under Proposition 1A, the State is now limited to the amount and conditions it can shift property tax revenues away from local entities
- The most the State could take in one year is \$1,240,000 (FY 2005 levels)
- The State would have to repay this to the District before it could borrow again

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Debt Coverage Ratio Options

- Option 1 - 95% Debt Coverage Ratio
 - Operating Budget \$66.8M
 - Rate Increase 11.4%
 - Transfers of \$27.0M

- Option 2 – 100% Debt Coverage Ratio
 - Operating Budget \$67.1M
 - Rate Increase 12.4%
 - Transfers of \$27.3M

- Option 3 – 125% Debt Coverage Ratio
 - Operating Budget \$68.2M
 - Rate Increase 17.2%
 - Transfers of \$28.4M

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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

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Debt Coverage Ratios

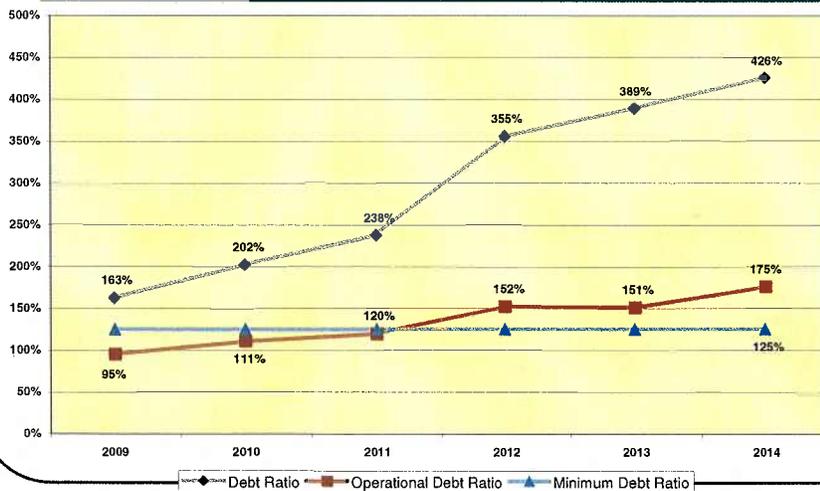
- Base Model is updated with water cost increases of 13.2%
- No Growth assumes no meter sales in FY 2010 & FY 2011, cuts in CIP
- State Tax Shift (Prop 1A) assumes a one-time property tax reduction to FY 2005 level
- Combined is the No Growth and State Tax Shift

Debt Ratio	Base Model			No Growth			State Tax Shift			Combined		
95%	11.4%	9.6%	9.1%	11.4%	9.4%	9.4%	16.8%	6.3%	6.3%	16.8%	7.0%	7.0%
100%	12.4%	8.9%	8.9%	12.5%	9.3%	9.3%	17.8%	5.9%	5.9%	17.8%	6.5%	6.5%
125%	17.2%	7.3%	5.2%	17.2%	6.7%	6.7%	22.7%	4.3%	4.3%	22.7%	4.9%	4.9%

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Debt Coverage Ratios - 95%

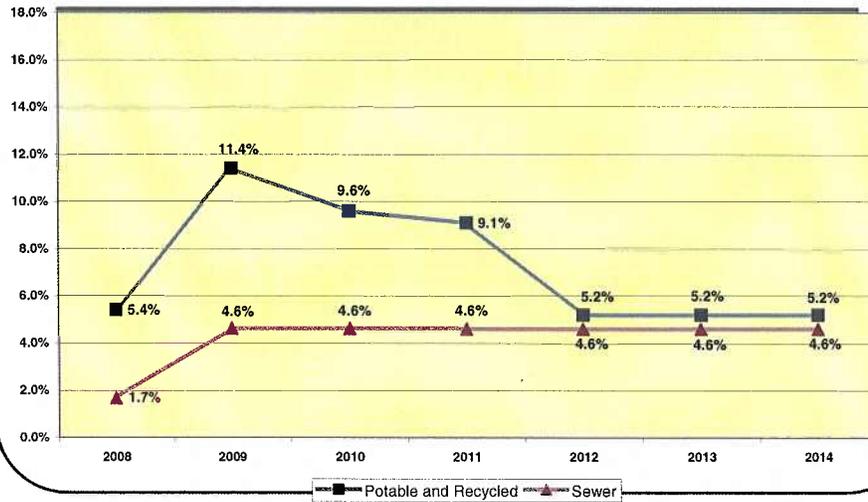
Otay Water District
Debt Ratios



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Debt Ratio – 95%

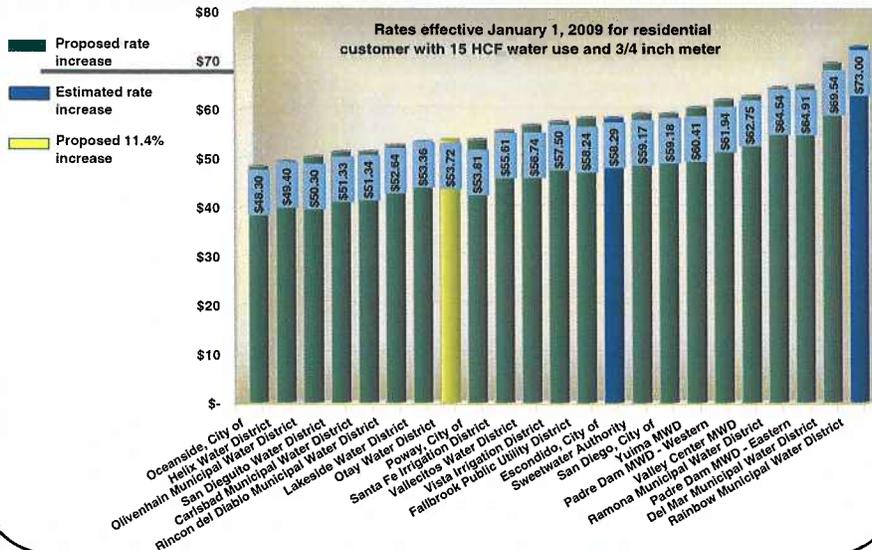
Otay Water District Rate Increases



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Debt Ratio – 95%

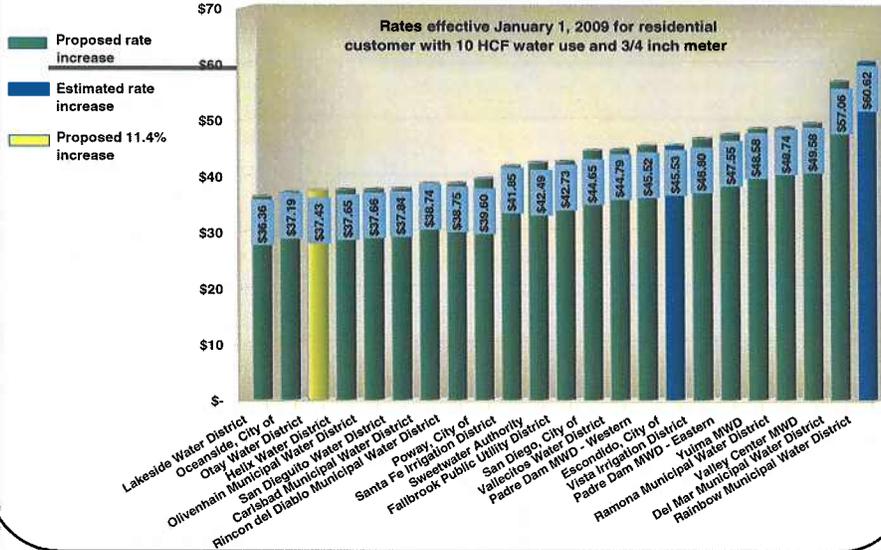
SURVEY OF MEMBER AGENCY WATER RATES



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Debt Ratio - 95%

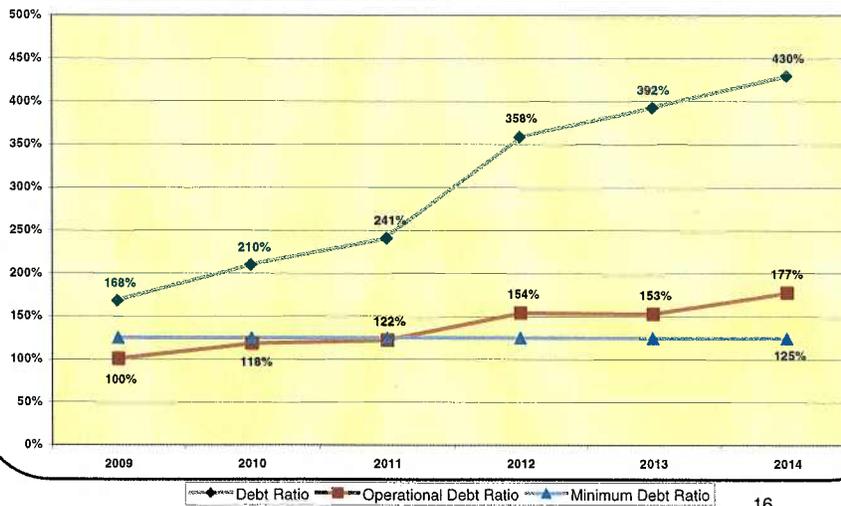
SURVEY OF MEMBER AGENCY WATER RATES



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Debt Coverage Ratios - 100%

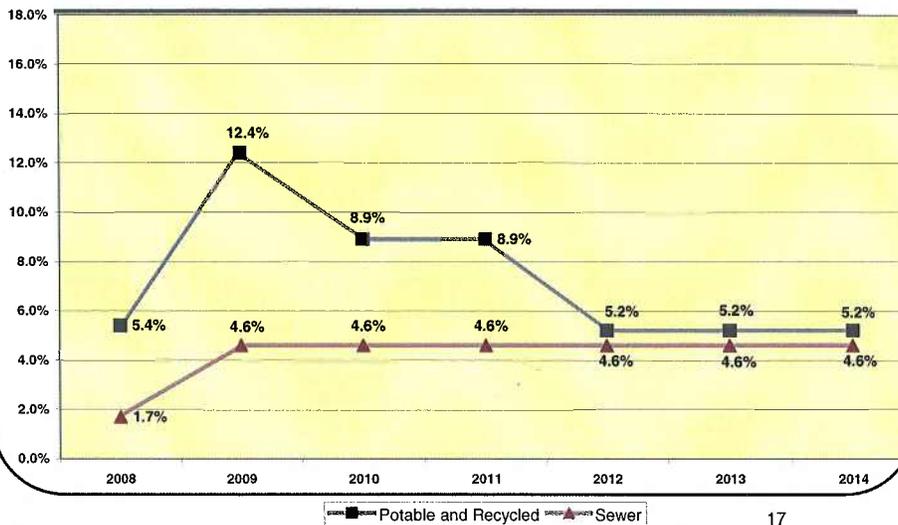
Otay Water District Debt Ratios



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Debt Ratio – 100%

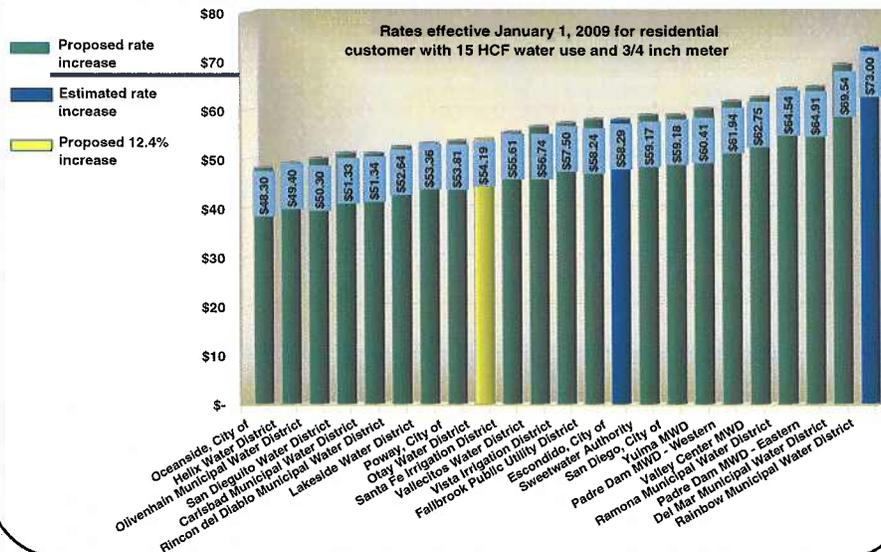
Otay Water District Rate Increases



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Debt Ratio – 100%

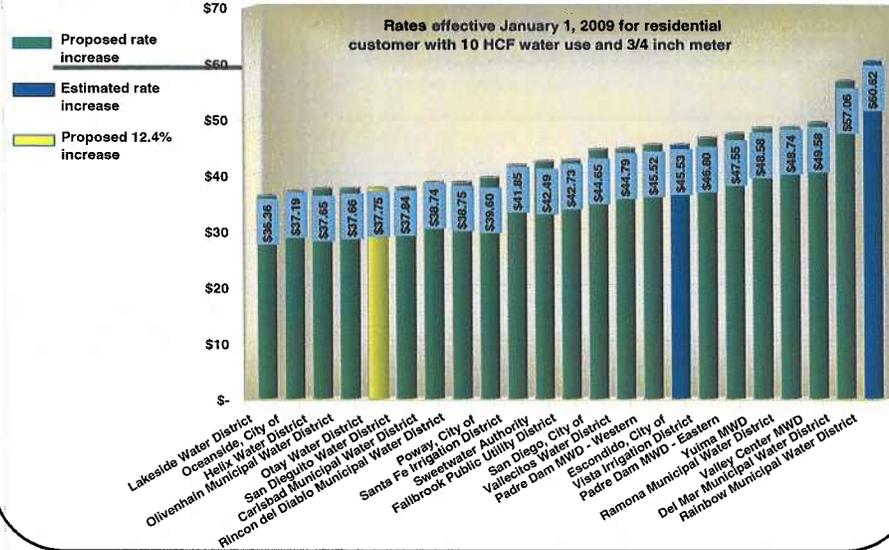
SURVEY OF MEMBER AGENCY WATER RATES



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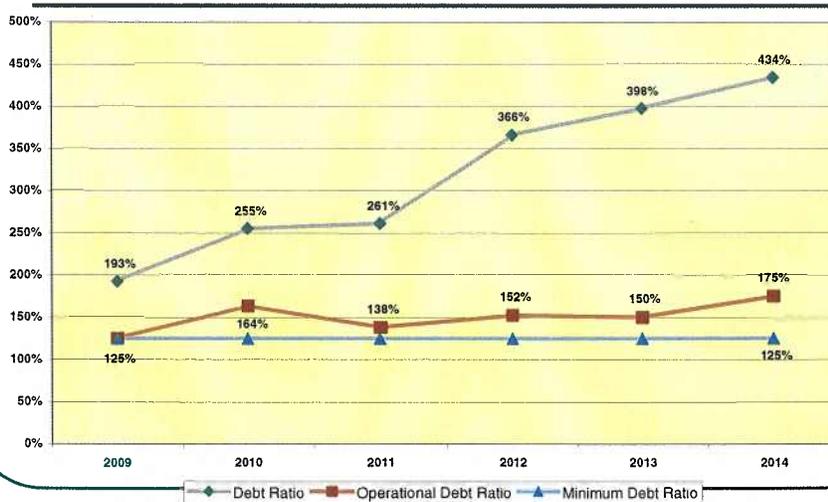
Debt Ratio – 100%

SURVEY OF MEMBER AGENCY WATER RATES



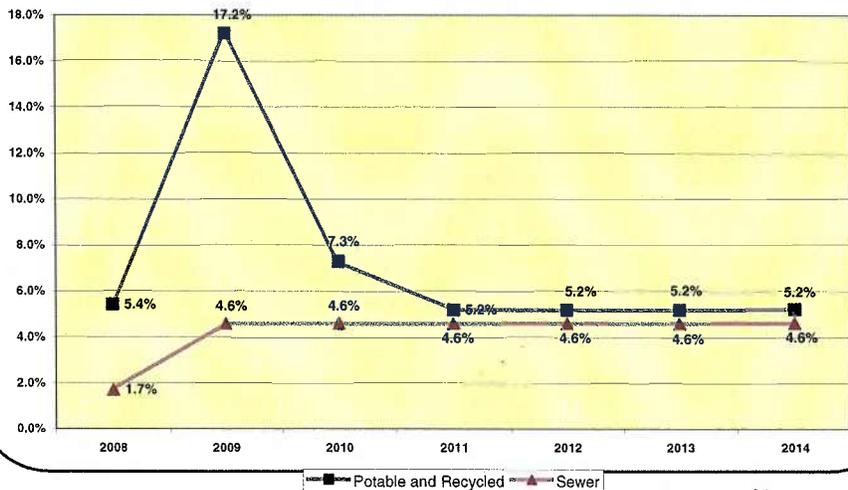
Debt Coverage Ratios - 125%

Otay Water District Debt Ratios



Debt Ratio – 125%

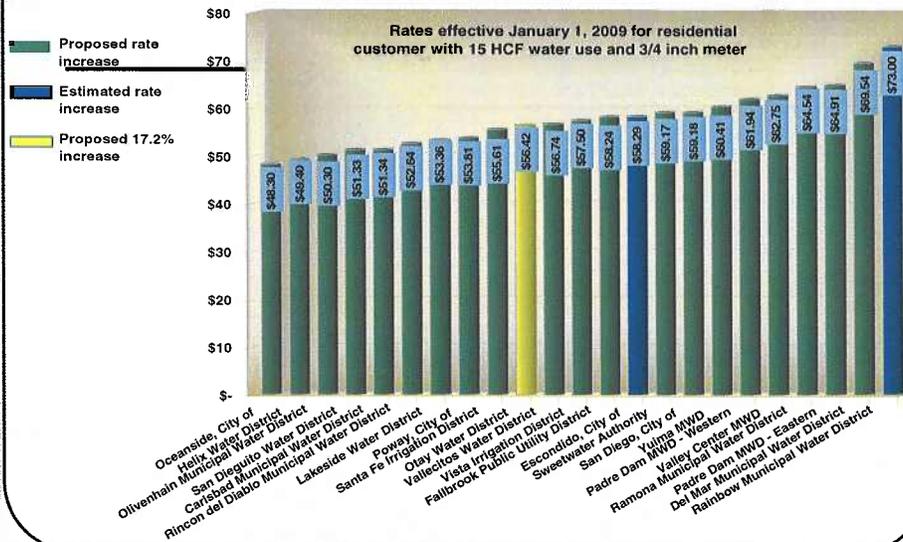
Otay Water District
Rate Increases



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Debt Ratio – 125%

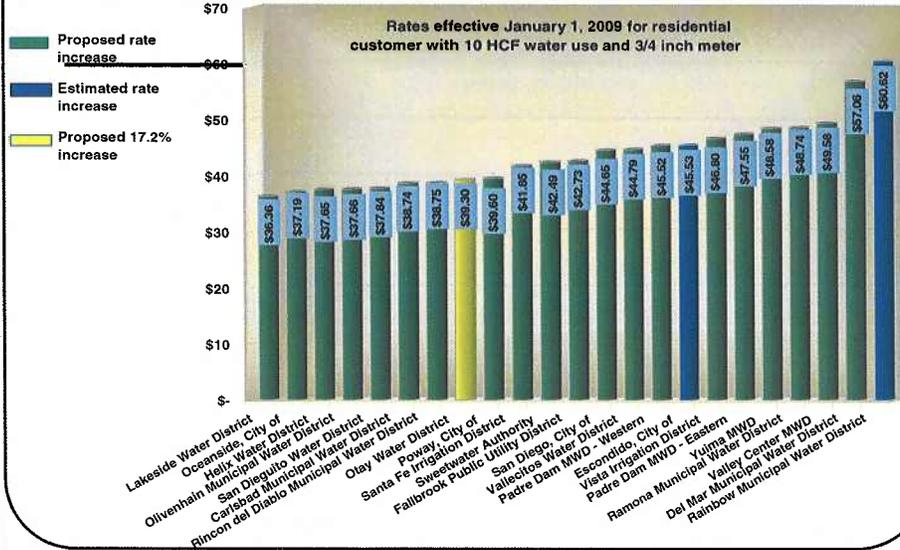
SURVEY OF MEMBER AGENCY WATER RATES



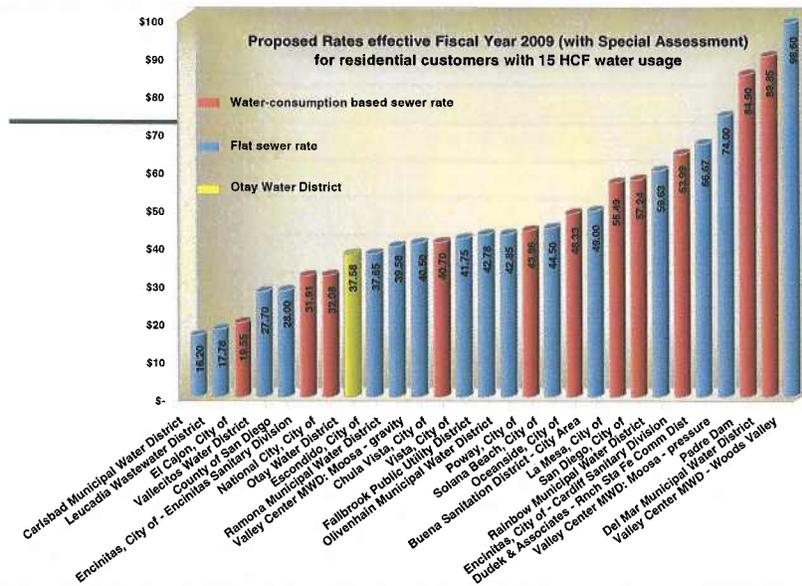
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Debt Ratio - 125%

SURVEY OF MEMBER AGENCY WATER RATES



Sewer Rate Comparison in San Diego County



Successfully Set Rates

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

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Follow-up items

- Reduction in Water Sales Net Effect
- Non-Operating Income

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Sales Reductions

- Show impact of 5.5% volume reduction in fixed and variable water sales/purchases.
 - Due to growth slowdown
 - Due to change in rainfall estimates
 - Due to conservation

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Effect of Sales Reductions

	FY 2009 Budget	5.5% More Volume	Change due to Volume
Revenues			
Variable	41,182,000	44,032,200	2,850,200
Fixed	13,773,600	13,773,600	-
Total Revenues	54,955,600	57,805,800	2,850,200
Costs			
Variable	29,337,500	31,041,100	1,703,600
Fixed	5,339,663	5,339,663	-
Total Costs	34,677,163	36,380,763	1,703,600
Net Effect	20,278,437	21,425,037	1,146,600

Net Percentage Change

2.1%

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Non-Operating Income

- Decrease 2.8% (\$47,100)
 - Decrease in Grant Revenue of \$147,000
 - Property Rental increase of \$158,400

30	<u>Current Lease</u>
11	3% Fixed Increase, renegotiated at end of 5 year term (Cell Site)
4	3% Fixed with CPI or market adjustment every 5 years (Cell Site)
14	CPI Increase (Cell Site)
1	Graduated Increase (Golf Course)
7	<u>Anticipated New Leases (Cell Site with CPI Inflatons)</u>

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Conclusion

- Presenting 3 Operating Budgets supported by Rate Options for Potable and Recycled, and Recommended Sewer Increase, for Board Approval
 - Option 1 – 11.4%
 - Option 2 – 12.4%
 - Option 3 – 17.2%
 - Sewer Rate increase of 4.6%
- Present CIP Budget of \$30.9M for Approval

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Balanced Operating Budgets Options

	Option 1	Option 2	Option 3
REVENUES			
TOTAL REVENUES	\$ 66,834,800	\$ 67,062,700	\$ 68,194,800
EXPENDITURES			
Water Costs	31,994,300	31,994,300	31,994,300
Power	2,780,500	2,780,500	2,780,500
Labor and Benefits	17,185,400	17,185,400	17,185,400
Administrative Expenses	5,935,100	5,935,100	5,935,100
Materials & Maintenance	3,872,800	3,872,800	3,872,800
Expansion Reserve	4,787,900	5,016,700	6,137,800
Replacement Reserve	278,800	277,900	288,900
TOTAL EXPENDITURES	\$ 66,834,800	\$ 67,062,700	\$ 68,194,800

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CIP Budget FY 2009

	Budget FY 2009
Capital Backbone	\$23.0M
Developer Reimbursement	\$ 0.5M
Replacement & Renewal.....	\$ 5.8M
Capital Purchases	\$ 1.6M
Totals.....	\$30.9M

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Fund Transfers

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

Proposed Fund Transfers	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
Potable			
General Fund to Replacement	4,950,000	4,950,000	4,950,000
General Fund to Designated Betterment	3,473,000	3,473,000	3,473,000
General Fund to Designated Expansion	6,335,000	6,545,000	7,550,000
Total Potable Transfers	14,758,000	14,968,000	15,973,000
Reclaimed			
General Fund to Replacement	102,300	102,300	102,300
Designated Betterment to Replacement	262,700	262,700	262,700
General Fund to Designated Expansion	2,411,000	2,430,000	2,515,000
Total Reclaimed Transfers	2,776,000	2,795,000	2,880,000
Sewer			
General Fund to Potable Betterment	2,250,000	2,250,000	2,250,000
Replacement Fund to Potable Betterment	7,255,000	7,255,000	7,255,000
Total Sewer Transfers	9,505,000	9,505,000	9,505,000
Total Transfers	27,039,000	27,268,000	28,358,000

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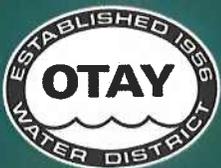
Summary of Recommendations

1. Select a Budget supported by one of the debt coverage ratio option and Adopt Resolution No. 4124 to approve Operating and CIP Budget
2. Approve associated 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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Otay Water District Proposed Operating and Capital Budget

Fiscal Year 2008-2009



Spring Valley, California

Option 1 - 95% Debt Ratio



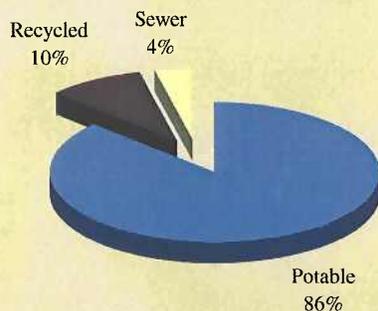
OPERATING BUDGET SUMMARY - GENERAL FUND

	FY 2007 Actual	FY 2008 Budget	FY 2009 Budget	Budget Variance	Variance %
REVENUES					
Potable Water Sales	\$ 44,112,749	\$ 47,506,500	\$ 49,019,600	\$ 1,513,100	3.2%
Recycled Water Sales	4,492,858	6,001,400	6,326,400	325,000	5.4%
Sewer Revenues	2,577,993	2,679,100	2,145,300	(533,800)	(19.9%)
Meter Fees	246,539	318,500	103,800	(214,700)	(67.4%)
Capacity Fee Revenues	1,536,911	1,414,500	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	895,900	822,600	1,122.2%
Annexation Fees	2,119,886	1,464,500	483,600	(980,900)	(67.0%)
Tax Revenues	3,646,158	4,003,800	4,137,300	133,500	3.3%
Non-operating Revenues	2,068,134	1,680,200	1,633,100	(47,100)	(2.8%)
Interest	1,173,649	1,038,700	667,800	(370,900)	(35.7%)
General Fund Draw Down	-	-	120,100	120,100	100.0%
TOTAL REVENUES	61,974,877	66,180,500	66,834,800	654,300	1.0%
EXPENDITURES					
Potable Water Purchases	21,562,502	23,984,100	25,183,600	1,199,500	5.0%
Recycled Water Purchases	1,829,476	1,423,000	1,490,800	67,800	4.8%
CWA - Infrastructure Access Charge	1,003,927	1,090,200	1,227,500	137,300	12.6%
CWA - Customer Service Charge	846,505	950,400	1,049,800	99,400	10.5%
CWA - Emergency Storage Charge	1,230,830	1,507,800	1,774,700	266,900	17.7%
MWD - Capacity Reservation Charge	530,708	569,400	602,800	33,400	5.9%
MWD - Net RTS and Standby Charge	512,206	552,600	665,100	112,500	20.4%
Subtotal - Water Costs	27,516,154	30,077,500	31,994,300	1,916,800	6.4%
Power	2,489,977	2,804,800	2,780,500	(24,300)	(0.9%)
Labor and Benefits	15,232,922	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	5,467,656	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	3,701,221	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	-	2,590,200	4,787,900	2,197,700	84.8%
Betterment Reserve	-	225,000	-	(225,000)	(100.0%)
Replacement Reserve	6,657,369	3,443,300	278,800	(3,164,500)	(91.9%)
TOTAL EXPENDITURES	61,065,300	66,180,500	66,834,800	654,300	1.0%
EXCESS REVENUES (EXPENSE)	\$ 909,576	\$ -	\$ -	\$ -	0.0%

FY 2009 OPERATING BUDGET SUMMARY BY BUSINESS

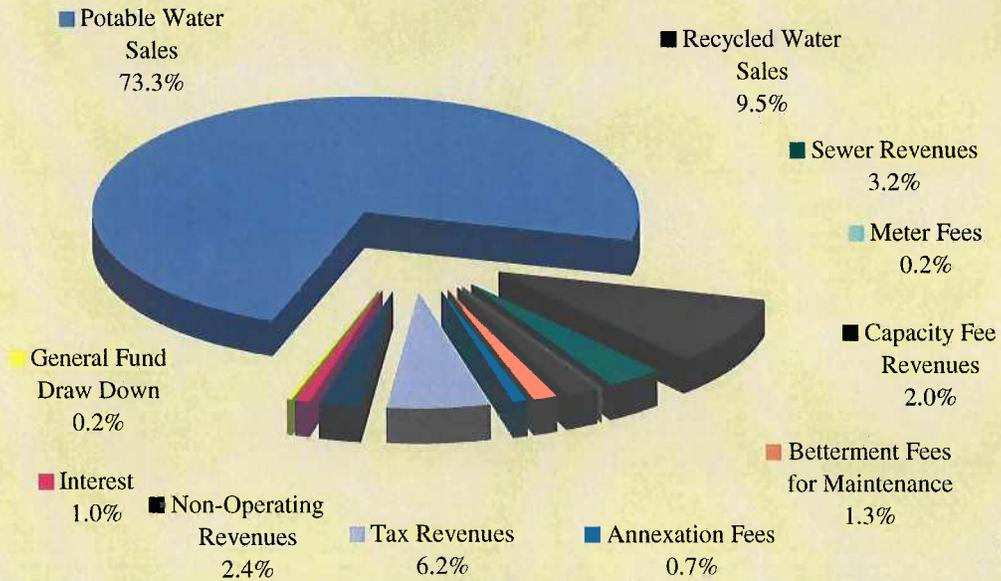
	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 49,019,600	\$ -	\$ -	\$ 49,019,600
Recycled Water Sales	-	6,326,400	-	6,326,400
Sewer Revenues	-	-	2,145,300	2,145,300
Meter Fees	92,400	11,400	-	103,800
Capacity Fee Revenues	1,301,900	-	-	1,301,900
Betterment Fees for Maintenance	895,900	-	-	895,900
Annexation Fees	483,600	-	-	483,600
Tax Revenues	4,080,900	-	56,400	4,137,300
Non-operating Revenues	1,606,700	-	26,400	1,633,100
Interest	582,500	24,600	60,700	667,800
General Fund Draw Down	-	-	120,100	120,100
TOTAL REVENUES	58,063,500	6,362,400	2,408,900	66,834,800
EXPENDITURES				
Water Purchases (CWA)	25,183,600	1,471,000	-	26,654,600
Water Purchases (CSD)	-	19,800	-	19,800
CWA - Infrastructure Access Charge	1,227,500	-	-	1,227,500
CWA - Customer Service Charge	1,049,800	-	-	1,049,800
CWA - Emergency Storage Charge	1,774,700	-	-	1,774,700
MWD - Capacity Reservation Charge	602,800	-	-	602,800
MWD - Net RTS and Standby Charges	665,100	-	-	665,100
Subtotal - Water Costs	30,503,500	1,490,800	-	31,994,300
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	2,376,900	2,411,000	-	4,787,900
Replacement Reserve	-	278,800	-	278,800
TOTAL EXPENDITURES	58,063,500	6,362,400	2,408,900	66,834,800
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

FY 2009 OPERATING EXPENDITURES

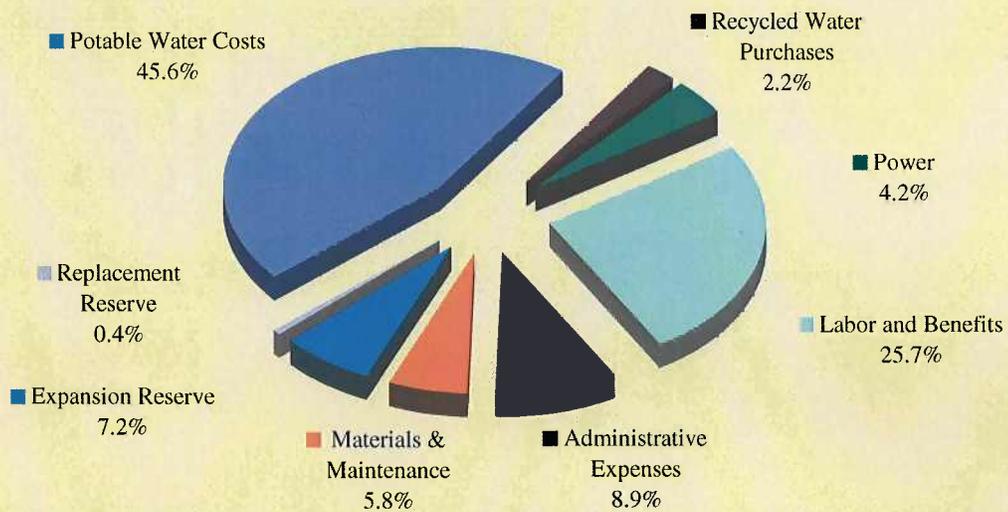


OPERATING REVENUES & EXPENDITURES

FY 2009 OPERATING REVENUES

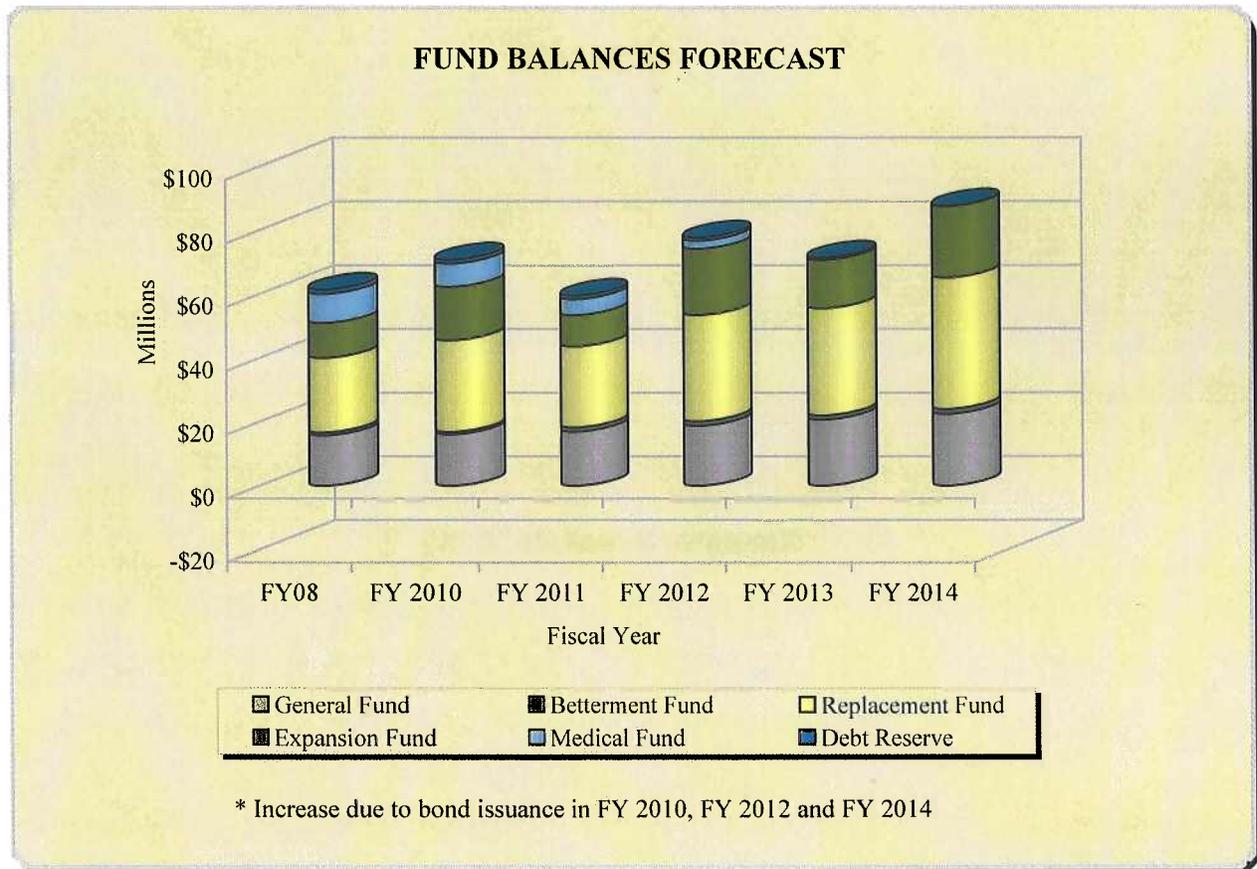


FY 2009 OPERATING EXPENDITURES



FUND BALANCES - FY 2010 THROUGH FY 2014

<u>Fund</u>	<u>Year-End Forecast Balances</u>					
	<u>FY 2009</u>	<u>FY 2010 *</u>	<u>FY 2011</u>	<u>FY 2012 *</u>	<u>FY 2013</u>	<u>FY 2014 *</u>
General Fund	\$ 15,712,800	\$ 16,084,700	\$ 16,987,000	\$ 18,753,000	\$ 20,722,600	\$ 22,440,100
Betterment Fund	999,100	769,600	1,280,900	1,375,500	1,234,700	1,504,000
Replacement Fund	23,428,000	28,844,200	25,440,900	33,408,600	33,679,900	41,326,500
Expansion Fund	10,877,600	16,735,100	9,799,800	20,815,700	15,154,200	22,411,500
Medical Fund	9,144,900	7,237,200	5,024,200	2,522,100	187,300	(16,300)
Debt Reserve	1,401,100	1,297,600	1,117,000	987,600	617,800	233,300
TOTAL	\$ 61,563,500	\$ 70,968,400	\$ 59,649,800	\$ 77,862,500	\$ 71,596,500	\$ 87,899,100



Option 2 - 100% Debt Ratio



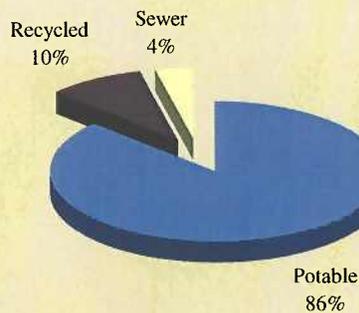
OPERATING BUDGET SUMMARY - GENERAL FUND

	FY 2007 Actual	FY 2008 Budget	FY 2009 Budget	Budget Variance	Variance %
REVENUES					
Potable Water Sales	\$ 44,112,749	\$ 47,506,500	\$ 49,229,400	\$ 1,722,900	3.6%
Recycled Water Sales	4,492,858	6,001,400	6,344,500	343,100	5.7%
Sewer Revenues	2,577,993	2,679,100	2,145,300	(533,800)	(19.9%)
Meter Fees	246,539	318,500	103,800	(214,700)	(67.4%)
Capacity Fee Revenues	1,536,911	1,414,500	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	895,900	822,600	1,122.2%
Annexation Fees	2,119,886	1,464,500	483,600	(980,900)	(67.0%)
Tax Revenues	3,646,158	4,003,800	4,137,300	133,500	3.3%
Non-operating Revenues	2,068,134	1,680,200	1,633,100	(47,100)	(2.8%)
Interest	1,173,649	1,038,700	667,800	(370,900)	(35.7%)
General Fund Draw Down	-	-	120,100	120,100	100.0%
TOTAL REVENUES	61,974,877	66,180,500	67,062,700	882,200	1.3%
EXPENDITURES					
Potable Water Purchases	21,562,502	23,984,100	25,183,600	1,199,500	5.0%
Recycled Water Purchases	1,829,476	1,423,000	1,490,800	67,800	4.8%
CWA - Infrastructure Access Charge	1,003,927	1,090,200	1,227,500	137,300	12.6%
CWA - Customer Service Charge	846,505	950,400	1,049,800	99,400	10.5%
CWA - Emergency Storage Charge	1,230,830	1,507,800	1,774,700	266,900	17.7%
MWD - Capacity Reservation Charge	530,708	569,400	602,800	33,400	5.9%
MWD - Net RTS and Standby Charge	512,206	552,600	665,100	112,500	20.4%
Subtotal - Water Costs	27,516,154	30,077,500	31,994,300	1,916,800	6.4%
Power	2,489,977	2,804,800	2,780,500	(24,300)	(0.9%)
Labor and Benefits	15,232,922	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	5,467,656	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	3,701,221	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	-	2,590,200	5,016,700	2,426,500	93.7%
Betterment Reserve	-	225,000	-	(225,000)	(100.0%)
Replacement Reserve	6,657,369	3,443,300	277,900	(3,165,400)	(91.9%)
TOTAL EXPENDITURES	61,065,300	66,180,500	67,062,700	882,200	1.3%
EXCESS REVENUES (EXPENSE)	\$ 909,576	\$ -	\$ -	\$ -	0.0%

FY 2009 OPERATING BUDGET SUMMARY BY BUSINESS

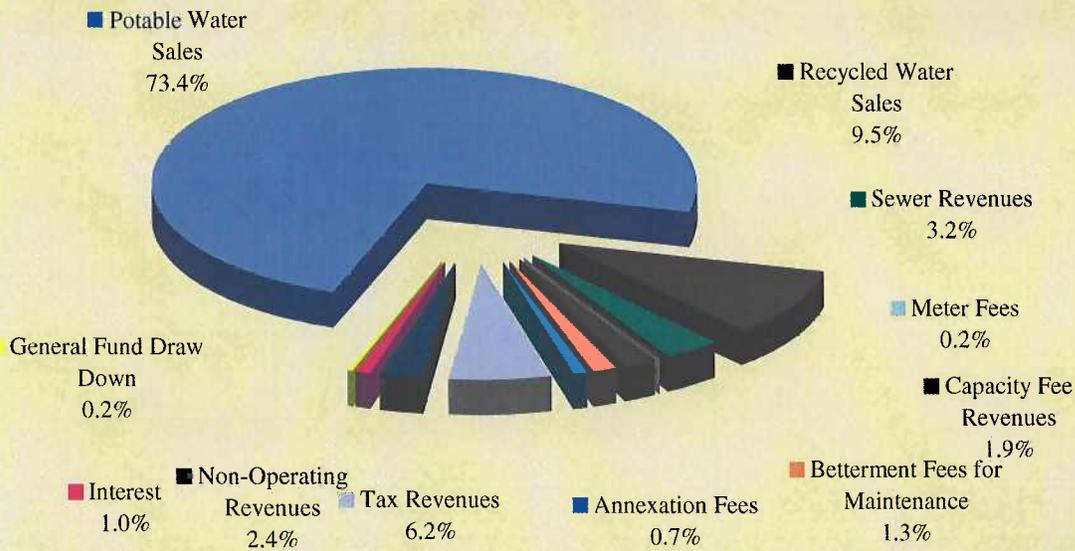
	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 49,229,400	\$ -	\$ -	\$ 49,229,400
Recycled Water Sales	-	6,344,500	-	6,344,500
Sewer Revenues	-	-	2,145,300	2,145,300
Meter Fees	92,400	11,400	-	103,800
Capacity Fee Revenues	1,301,900	-	-	1,301,900
Betterment Fees for Maintenance	895,900	-	-	895,900
Annexation Fees	483,600	-	-	483,600
Tax Revenues	4,080,900	-	56,400	4,137,300
Non-operating Revenues	1,606,700	-	26,400	1,633,100
Interest	582,500	24,600	60,700	667,800
General Fund Draw Down	-	-	120,100	120,100
TOTAL REVENUES	58,273,300	6,380,500	2,408,900	67,062,700
EXPENDITURES				
Water Purchases (CWA)	25,183,600	1,471,000	-	26,654,600
Water Purchases (CSD)	-	19,800	-	19,800
CWA - Infrastructure Access Charge	1,227,500	-	-	1,227,500
CWA - Customer Service Charge	1,049,800	-	-	1,049,800
CWA - Emergency Storage Charge	1,774,700	-	-	1,774,700
MWD - Capacity Reservation Charge	602,800	-	-	602,800
MWD - Net RTS and Standby Charges	665,100	-	-	665,100
Subtotal - Water Costs	30,503,500	1,490,800	-	31,994,300
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	2,586,700	2,430,000	-	5,016,700
Replacement Reserve	-	277,900	-	277,900
TOTAL EXPENDITURES	58,273,300	6,380,500	2,408,900	67,062,700
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

FY 2009 OPERATING EXPENDITURES

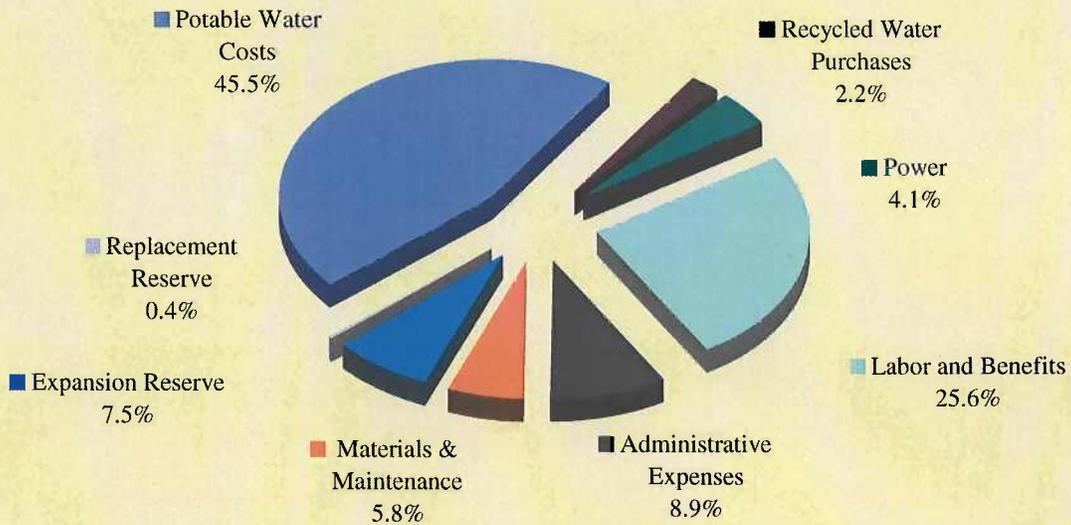


OPERATING REVENUES & EXPENDITURES

FY 2009 OPERATING REVENUES

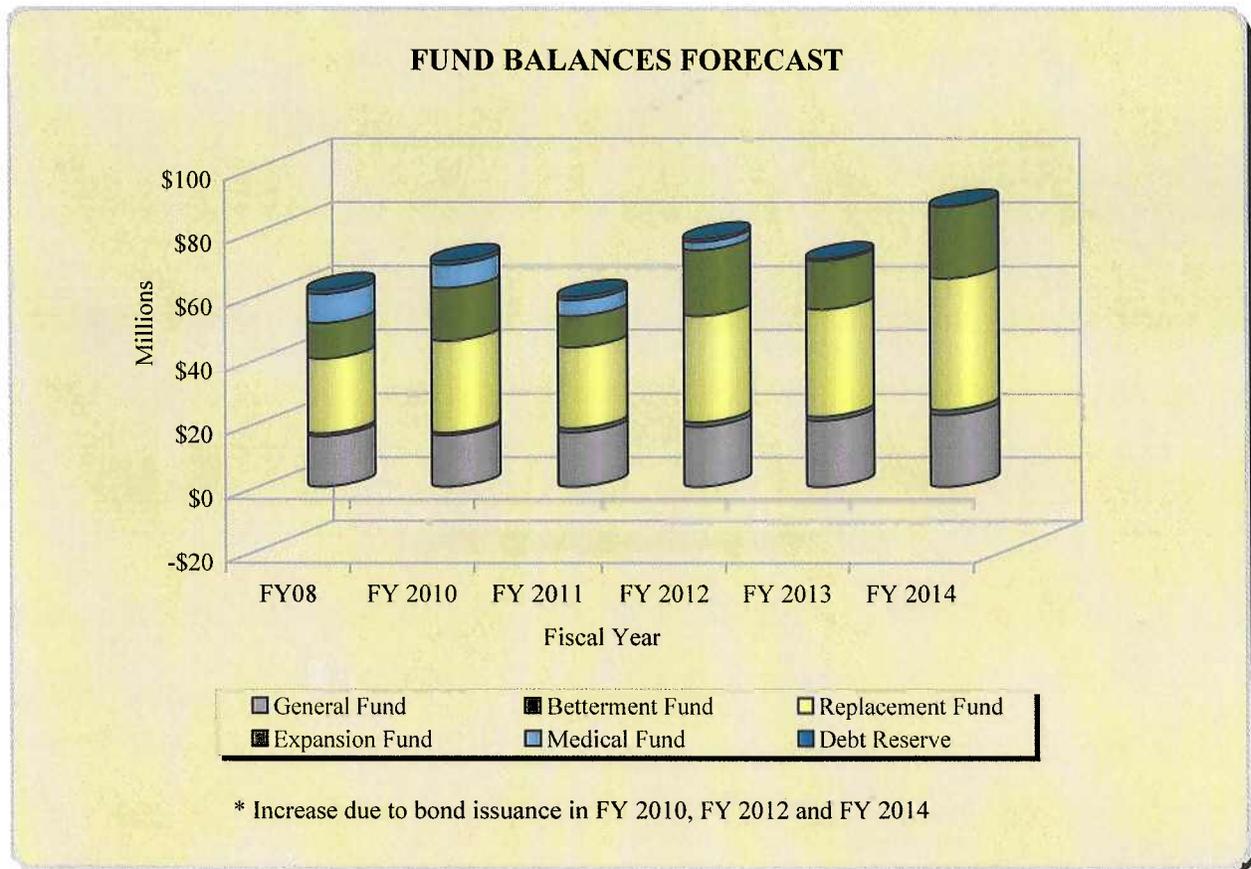


FY 2009 OPERATING EXPENDITURES



FUND BALANCES - FY 2010 THROUGH FY 2014

<u>Fund</u>	<u>Year-End Forecast Balances</u>					
	<u>FY 2009</u>	<u>FY 2010 *</u>	<u>FY 2011</u>	<u>FY 2012 *</u>	<u>FY 2013</u>	<u>FY 2014 *</u>
General Fund	\$ 15,711,700	\$ 16,088,300	\$ 16,987,200	\$ 18,756,800	\$ 20,724,500	\$ 22,439,400
Betterment Fund	999,100	769,600	1,280,900	1,375,500	1,234,700	1,504,000
Replacement Fund	23,428,000	28,844,200	25,440,900	33,408,600	33,679,900	41,326,500
Expansion Fund	11,110,100	16,592,700	9,796,700	20,702,200	15,149,600	22,528,300
Medical Fund	9,144,900	7,237,200	5,024,200	2,522,100	187,300	(16,300)
Debt Reserve	1,401,100	1,297,600	1,117,000	987,600	617,800	233,300
TOTAL	\$ 61,794,900	\$ 70,829,600	\$ 59,646,900	\$ 77,752,800	\$ 71,593,800	\$ 88,015,200



Option 3

Option 3 - 125% Debt Ratio

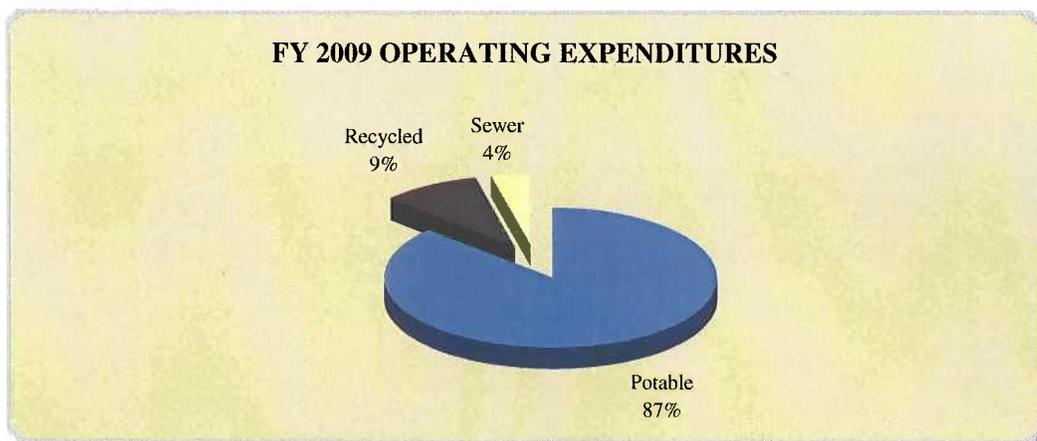


OPERATING BUDGET SUMMARY - GENERAL FUND

	FY 2007 Actual	FY 2008 Budget	FY 2009 Budget	Budget Variance	Variance %
REVENUES					
Potable Water Sales	\$ 44,112,749	\$ 47,506,500	\$ 50,265,400	\$ 2,758,900	5.8%
Recycled Water Sales	4,492,858	6,001,400	6,440,500	439,100	7.3%
Sewer Revenues	2,577,993	2,679,100	2,145,300	(533,800)	(19.9%)
Meter Fees	246,539	318,500	103,800	(214,700)	(67.4%)
Capacity Fee Revenues	1,536,911	1,414,500	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	895,900	822,600	1,122.2%
Annexation Fees	2,119,886	1,464,500	483,600	(980,900)	(67.0%)
Tax Revenues	3,646,158	4,003,800	4,137,300	133,500	3.3%
Non-operating Revenues	2,068,134	1,680,200	1,633,100	(47,100)	(2.8%)
Interest	1,173,649	1,038,700	667,900	(370,800)	(35.7%)
General Fund Draw Down	-	-	120,100	120,100	100.0%
TOTAL REVENUES	61,974,877	66,180,500	68,194,800	2,014,300	3.0%
EXPENDITURES					
Potable Water Purchases	21,562,502	23,984,100	25,183,600	1,199,500	5.0%
Recycled Water Purchases	1,829,476	1,423,000	1,490,800	67,800	4.8%
CWA - Infrastructure Access Charge	1,003,927	1,090,200	1,227,500	137,300	12.6%
CWA - Customer Service Charge	846,505	950,400	1,049,800	99,400	10.5%
CWA - Emergency Storage Charge	1,230,830	1,507,800	1,774,700	266,900	17.7%
MWD - Capacity Reservation Charge	530,708	569,400	602,800	33,400	5.9%
MWD - Net RTS and Standby Charge	512,206	552,600	665,100	112,500	20.4%
Subtotal - Water Costs	27,516,154	30,077,500	31,994,300	1,916,800	6.4%
Power	2,489,977	2,804,800	2,780,500	(24,300)	(0.9%)
Labor and Benefits	15,232,922	15,604,500	17,185,400	1,580,900	10.1%
Administrative Expenses	5,467,656	6,982,300	5,935,100	(1,047,200)	(15.0%)
Materials & Maintenance	3,701,221	4,452,900	3,872,800	(580,100)	(13.0%)
Expansion Reserve	-	2,590,200	6,137,800	3,547,600	137.0%
Betterment Reserve	-	225,000	-	(225,000)	(100.0%)
Replacement Reserve	6,657,369	3,443,300	288,900	(3,154,400)	(91.6%)
TOTAL EXPENDITURES	61,065,300	66,180,500	68,194,800	2,014,300	3.0%
EXCESS REVENUES (EXPENSE)	\$ 909,576	\$ -	\$ -	\$ -	0.0%

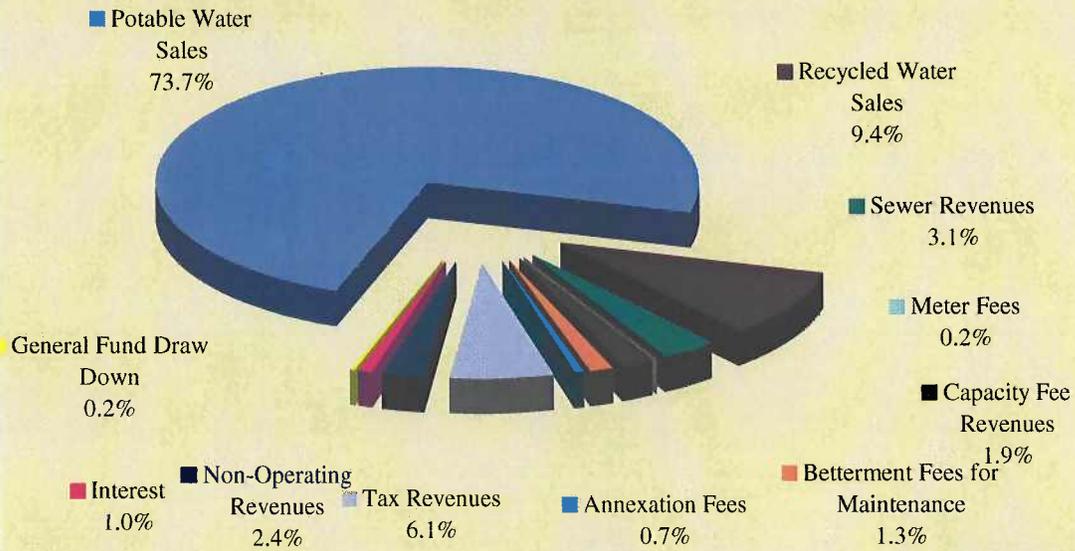
FY 2009 OPERATING BUDGET SUMMARY BY BUSINESS

	Potable	Recycled	Sewer	Total
REVENUES				
Water Sales	\$ 50,265,400	\$ -	\$ -	\$ 50,265,400
Recycled Water Sales	-	6,440,500	-	6,440,500
Sewer Revenues	-	-	2,145,300	2,145,300
Meter Fees	92,400	11,400	-	103,800
Capacity Fee Revenues	1,301,900	-	-	1,301,900
Betterment Fees for Maintenance	895,900	-	-	895,900
Annexation Fees	483,600	-	-	483,600
Tax Revenues	4,080,900	-	56,400	4,137,300
Non-operating Revenues	1,606,700	-	26,400	1,633,100
Interest	582,600	24,600	60,700	667,900
General Fund Draw Down	-	-	120,100	120,100
TOTAL REVENUES	59,309,400	6,476,500	2,408,900	68,194,800
EXPENDITURES				
Water Purchases (CWA)	25,183,600	1,471,000	-	26,654,600
Water Purchases (CSD)	-	19,800	-	19,800
CWA - Infrastructure Access Charge	1,227,500	-	-	1,227,500
CWA - Customer Service Charge	1,049,800	-	-	1,049,800
CWA - Emergency Storage Charge	1,774,700	-	-	1,774,700
MWD - Capacity Reservation Charge	602,800	-	-	602,800
MWD - Net RTS and Standby Charges	665,100	-	-	665,100
Subtotal - Water Costs	30,503,500	1,490,800	-	31,994,300
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	3,622,800	2,515,000	-	6,137,800
Replacement Reserve	-	288,900	-	288,900
TOTAL EXPENDITURES	59,309,400	6,476,500	2,408,900	68,194,800
EXCESS REVENUES	\$ -	\$ -	\$ -	\$ -

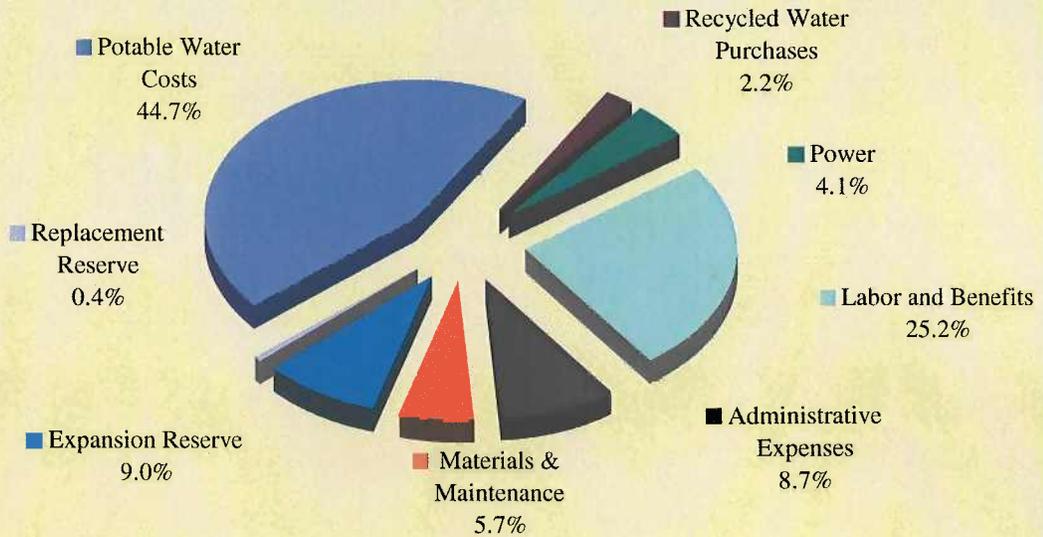


OPERATING REVENUES & EXPENDITURES

FY 2009 OPERATING REVENUES

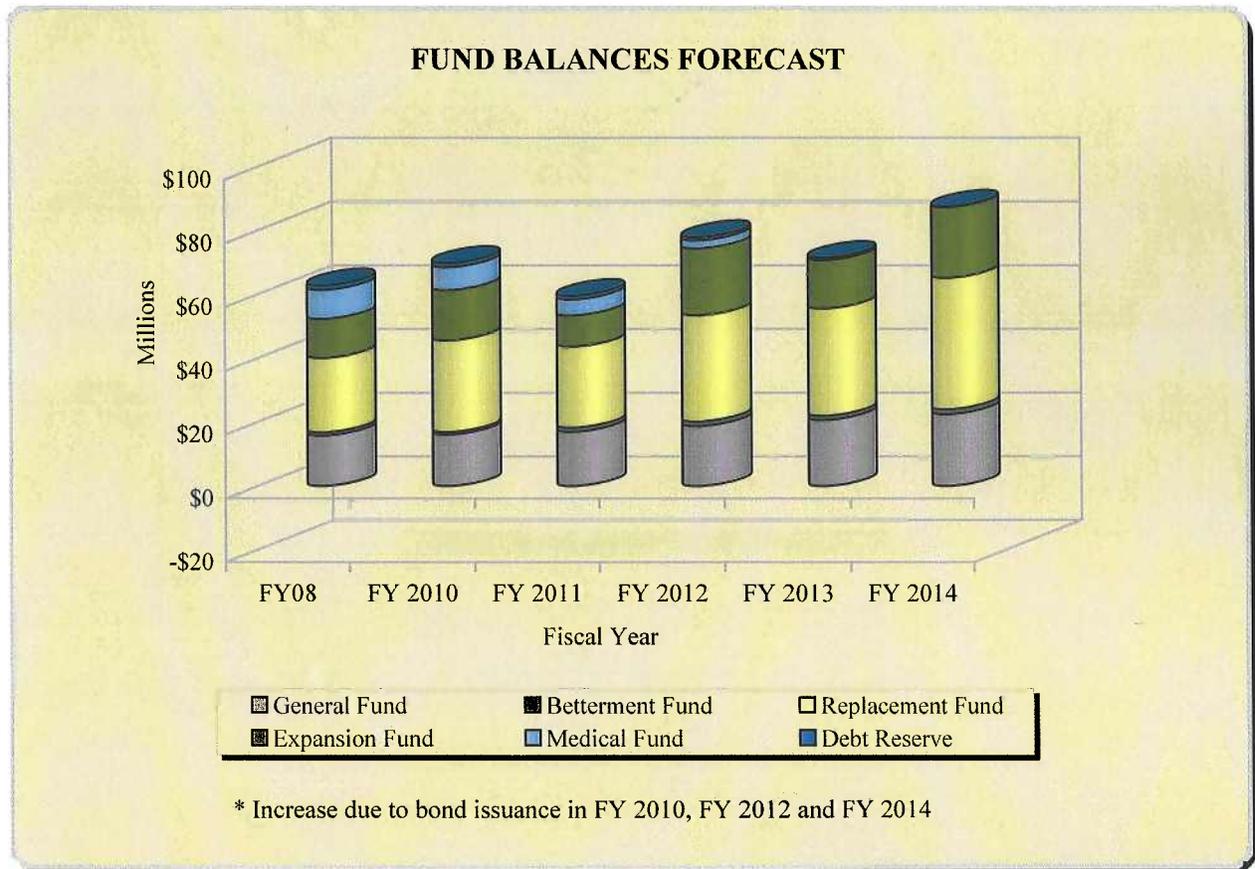


FY 2009 OPERATING EXPENDITURES



FUND BALANCES - FY 2010 THROUGH FY 2014

<u>Fund</u>	<u>Year-End Forecast Balances</u>					
	<u>FY 2009</u>	<u>FY 2010 *</u>	<u>FY 2011</u>	<u>FY 2012 *</u>	<u>FY 2013</u>	<u>FY 2014 *</u>
General Fund	\$ 15,716,200	\$ 16,085,800	\$ 16,988,100	\$ 18,757,700	\$ 20,725,000	\$ 22,439,800
Betterment Fund	999,100	769,600	1,280,900	1,375,500	1,234,700	1,504,000
Replacement Fund	23,428,000	28,844,200	25,440,900	33,408,600	33,679,900	41,326,500
Expansion Fund	12,216,500	15,726,200	9,793,900	21,006,600	15,149,300	22,152,100
Medical Fund	9,144,900	7,237,200	5,024,200	2,522,100	187,300	(16,300)
Debt Reserve	1,401,100	1,297,600	1,117,000	987,600	617,800	233,300
TOTAL	\$ 62,905,800	\$ 69,960,600	\$ 59,645,000	\$ 78,058,100	\$ 71,594,000	\$ 87,639,400

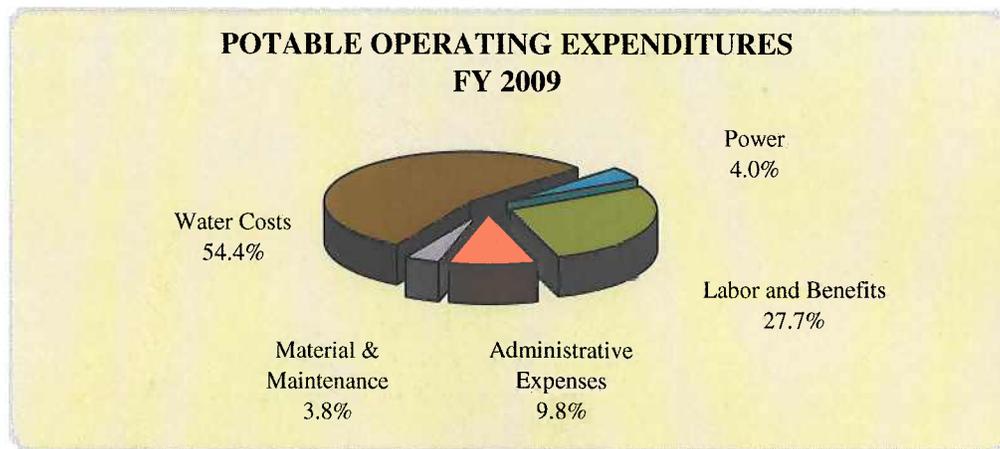


**Potable Revenues
and
Expenditures**



OPERATING BUDGET SUMMARY - POTABLE

	FY 2007 Actual	FY 2008 Budget	FY 2009 Budget	Budget Variance	Variance %
REVENUES					
Water Sales	\$ 44,112,749	\$ 47,506,500	\$ 49,229,400	\$ 1,722,900	3.6%
Meter Fees	196,259	294,400	92,400	(202,000)	(68.6%)
Capacity Fee Revenues	1,430,092	1,414,500	1,301,900	(112,600)	(8.0%)
Betterment Fees for Maintenance	-	73,300	895,900	822,600	1,122.2%
Annexation Fees	2,119,886	1,464,500	483,600	(980,900)	(67.0%)
Tax Revenues	3,593,168	3,952,500	4,080,900	128,400	3.2%
Non-operating Revenues	2,066,796	1,679,200	1,606,700	(72,500)	(4.3%)
Interest	955,451	851,700	582,500	(269,200)	(31.6%)
TOTAL REVENUES	54,474,400	57,236,600	58,273,300	1,036,700	1.8%
EXPENDITURES					
Water Purchases (CWA)	19,970,363	21,123,300	25,183,600	4,060,300	19.2%
Water Purchases (CSD)	1,595,019	2,860,800	-	(2,860,800)	(100.0%)
Tier II Purchases	(2,880)	-	-	-	0.0%
CWA - Infrastructure Access Charge	1,003,927	1,090,200	1,227,500	137,300	12.6%
CWA - Customer Service Charge	846,505	950,400	1,049,800	99,400	10.5%
CWA - Emergency Storage Charge	1,230,830	1,507,800	1,774,700	266,900	17.7%
MWD - Capacity Reservation Charge	530,708	569,400	602,800	33,400	5.9%
MWD - Net RTS and Standby Charges	512,206	552,600	665,100	112,500	20.4%
Subtotal - Water Costs	25,686,678	28,654,500	30,503,500	1,849,000	6.5%
Power	1,987,186	2,208,100	2,216,100	8,000	0.4%
Labor and Benefits	14,109,003	13,876,500	15,400,300	1,523,800	11.0%
Administrative Expenses	5,154,135	6,521,500	5,433,300	(1,088,200)	(16.7%)
Material & Maintenance	2,543,968	2,768,100	2,133,400	(634,700)	(22.9%)
Expansion Reserve	-	-	2,586,700	2,586,700	100.0%
Replacement Reserve	4,993,429	3,207,900	-	(3,207,900)	(100.0%)
TOTAL EXPENDITURES	54,474,400	57,236,600	58,273,300	1,036,700	1.8%
EXCESS REVENUES (EXPENSES)	\$ -	\$ -	\$ -	\$ -	0.0%



CLASSIFICATION OF WATER SALES - POTABLE

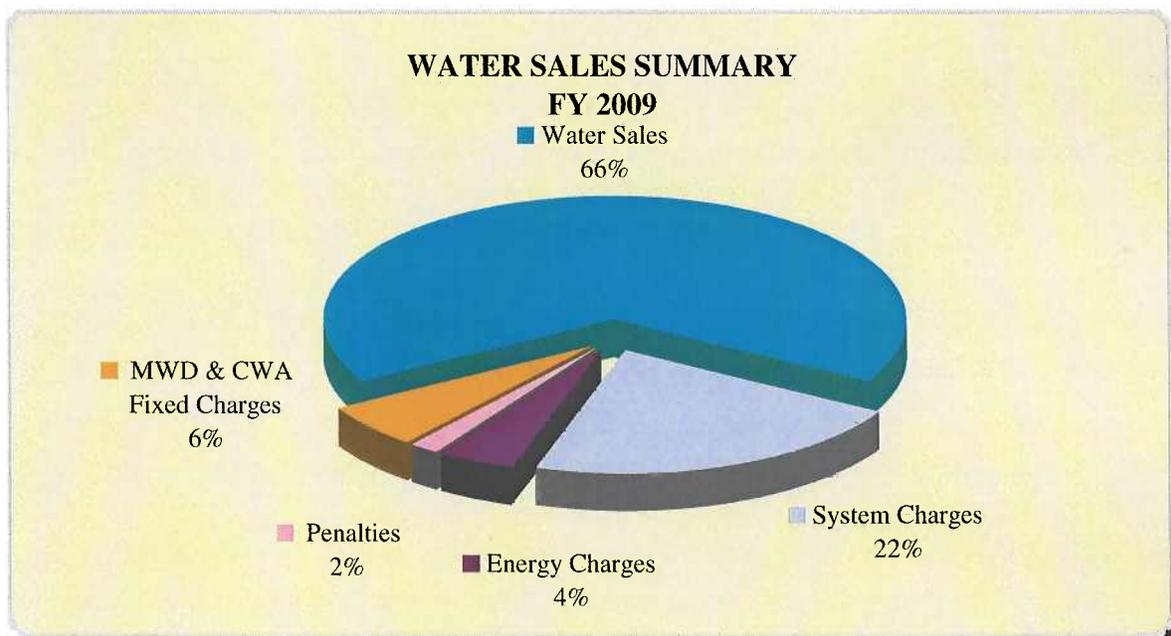
<u>Water Sales:</u>	<u>FY 2008 Budget</u>	<u>FY 2009 Budget</u>	<u>Variance</u>
Water Sales	\$ 32,331,300	\$ 32,836,500	\$ 505,200
System Fees	9,596,300	10,619,400	1,023,100
Energy Fees	2,018,000	2,047,100	29,100
MWD and CWA Fixed Fees	2,708,800	2,819,500	110,700
Penalties	852,100	906,900	54,800
Total	\$ 47,506,500	\$ 49,229,400	\$ 1,722,900

Water Sales : Unit Sales x Rate

System Charges : Fixed monthly fee based on meter size

*Energy Charges : Energy pumping fee of \$0.034 per unit of water for each 100 feet of lift
or fraction thereof above the base elevation of 450 feet*

Penalties : Late charges, locks , etc.

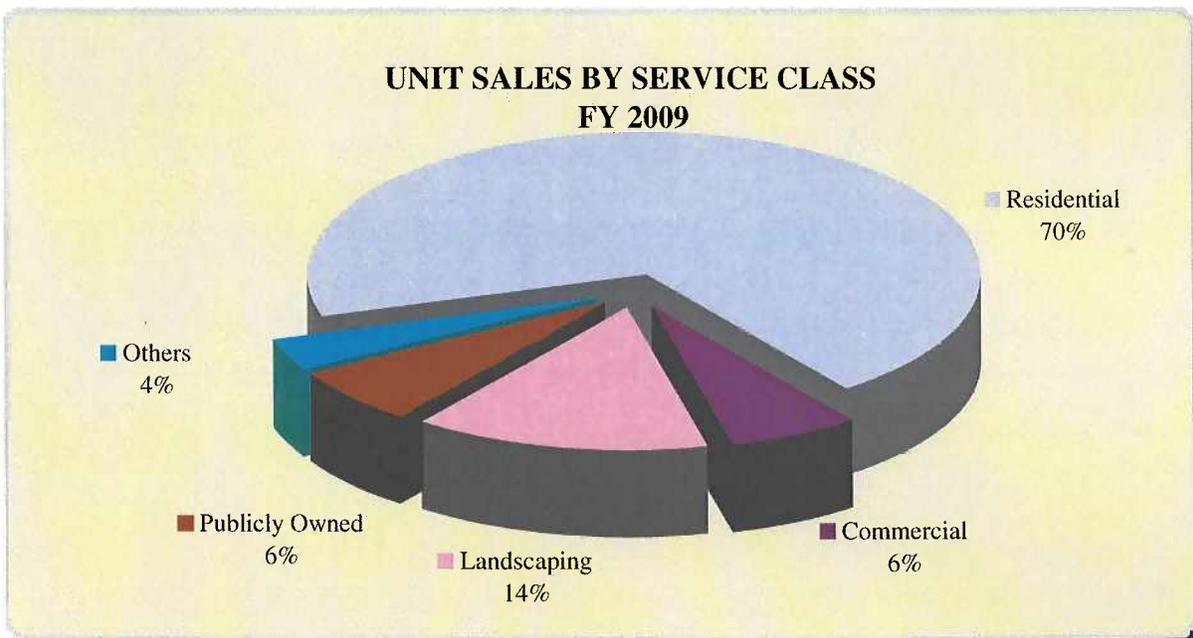


WATER SALES SUMMARY BY SERVICE CLASS - POTABLE

	Accounts	Fiscal Year 2009 Sales Budget		Current Rate	Proposed* Rate	
		Units	Amount			
Residential	44,502	11,013,600	\$ 22,665,600	\$ 1.95	\$ 2.06	**
Publicly-Owned	246	997,700	2,162,300	2.06	2.31	
Commercial	1,207	978,300	2,042,700	1.98	2.23	
Landscaping	1,201	2,271,800	4,772,600	2.00	2.10	**
Agricultural	26	47,400	98,800	1.98	2.23	
Temporary and Others	160	525,400	1,094,500	1.98	2.23	
Total Potable Water Sales	47,342	15,834,200	\$ 32,836,500	1.97	2.07	

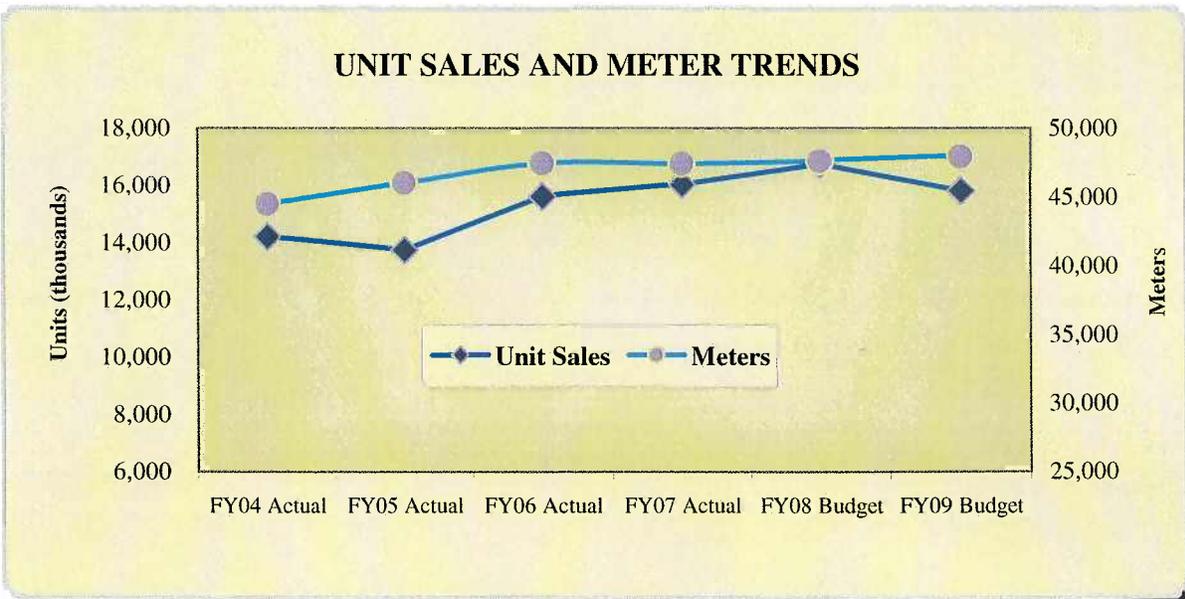
*Proposed rate effective January 1, 2009.

**Based on average rate.



UNIT SALES HISTORY BY CUSTOMER CLASS - POTABLE

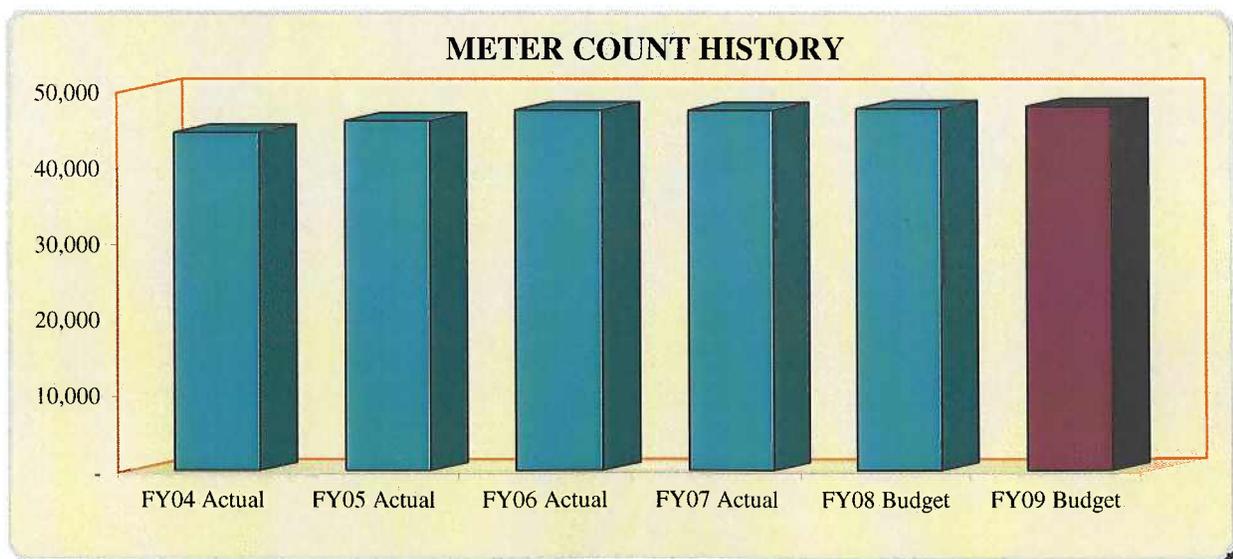
	Actual				Budget	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Residential	8,275,224	8,083,816	9,668,100	9,713,112	10,027,800	9,627,700
Master Meters	1,055,922	1,181,402	1,198,200	1,434,040	1,360,600	1,385,900
Publicly-Owned	933,517	901,639	919,200	984,391	1,005,000	997,700
Commercial	904,788	895,098	983,300	901,615	1,065,000	978,300
Landscaping	2,219,274	1,931,104	2,122,500	2,276,003	2,603,800	2,271,800
Agricultural	82,343	48,628	51,836	53,787	66,400	47,400
Temporary	750,530	723,712	689,000	696,516	630,300	525,400
Others	6,429	-	-	-	-	-
Total	<u>14,228,027</u>	<u>13,765,399</u>	<u>15,632,136</u>	<u>16,059,464</u>	<u>16,758,900</u>	<u>15,834,200</u>



SYSTEM FEES - POTABLE

Service Class	Meter Size	Meter Count FY09 Growth	Current Rates	Proposed* Rates	Budgeted System Fees		
					Existing Meters	Additional Meters	Total Meters
Residential	0.75	238	\$ 12.30	\$ 13.80	\$ 6,672,400	\$ 20,700	\$ 6,693,100
	1.00	-	19.80	22.25	200,300	-	200,300
	1.50	-	38.95	43.78	9,400	-	9,400
	2.00	-	64.95	73.00	6,600	-	6,600
	3.00	-	104.55	117.51	-	-	-
	4.00	-	119.70	134.54	15,300	-	15,300
	6.00	-	239.20	268.86	-	-	-
	10.00	-	456.60	513.22	-	-	-
Non-Residential	0.75	43	24.00	26.95	143,100	7,300	150,400
	1.00	20	36.95	41.50	383,600	5,200	388,800
	1.50	-	51.95	58.39	593,800	-	593,800
	2.00	13	64.95	73.00	896,400	6,000	902,400
	3.00	-	104.55	117.51	95,900	-	95,900
	4.00	-	119.70	134.54	355,400	-	355,400
	6.00	-	239.20	268.86	45,700	-	45,700
	10.00	-	456.60	513.22	34,900	-	34,900
Fire Services	Various	-	25.40	28.55	203,000	-	203,000
Special System Fees					-	-	822,400
Turn Over Fees	850		10.00	10.00	102,000	-	102,000
Budgeted Potable System Fees		314			\$ 9,757,800	\$ 39,200	\$ 10,619,400

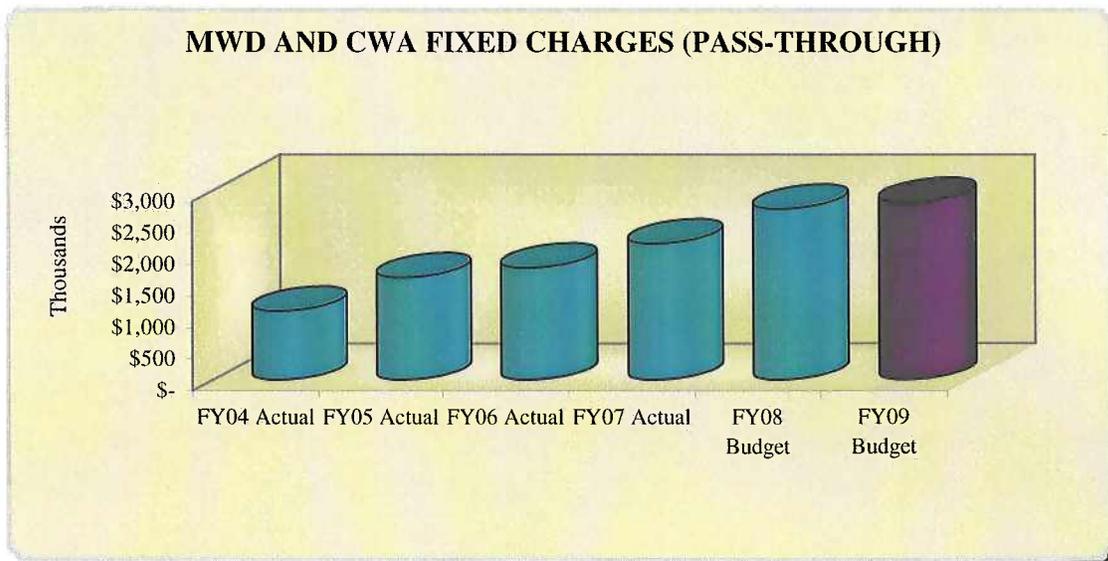
*Proposed rates effective January 1, 2009.



MWD AND CWA FIXED FEES (PASS -THROUGH) POTABLE

Classification	Meter Size	Current Rates	Proposed* Rates	Budgeted MWD & CWA - Fixed Charges		
				Existing	Growth	Total
Residential	0.75	\$ 3.85	\$ 4.33	\$ 2,091,200	\$ 6,500	\$ 2,097,700
	1.00	6.15	6.91	62,200	-	62,200
	1.50	11.60	13.04	2,800	-	2,800
	2.00	20.05	22.54	2,000	-	2,000
	4.00	63.15	70.98	8,000.00	-	8,000
	6.00	115.50	129.82	-	-	-
Non-Residential	0.75	3.85	4.33	22,700	1,200	23,900
	1.00	6.15	6.91	63,500	900	64,400
	1.50	11.60	13.04	132,200	-	132,200
	2.00	20.05	22.54	275,500	1,800	277,300
	3.00	36.95	41.53	33,900	-	33,900
	4.00	63.15	70.98	70,000	-	70,000
	6.00	115.50	129.82	22,100	-	22,100
	10.00	300.30	337.54	23,000	-	23,000
Total				\$ 2,809,100	\$ 10,400	\$ 2,819,500

*Proposed rates effective January 1, 2009.



METER FEES - POTABLE

Meter Fees:

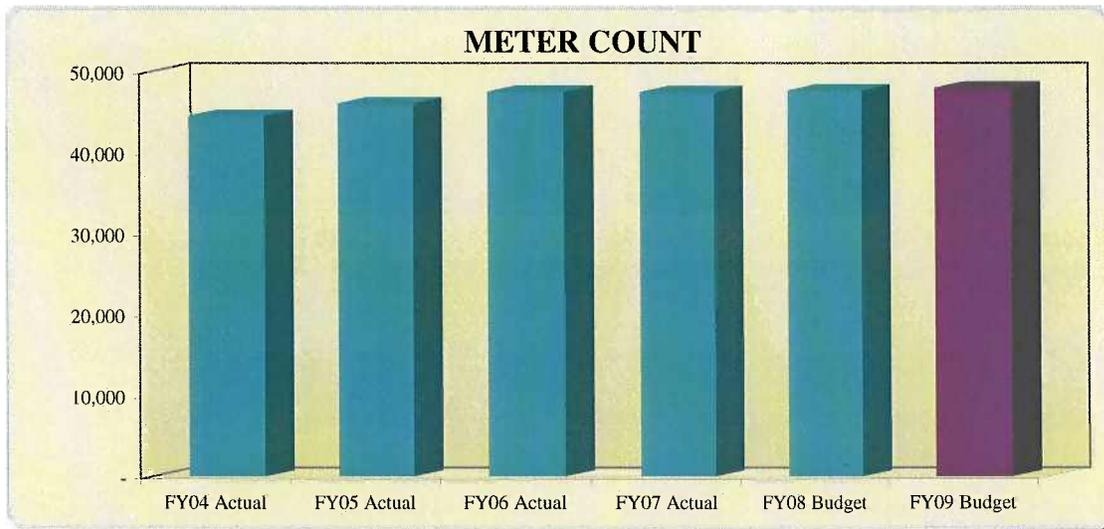
Meter Fees are charges collected for new water service connections. Fees vary depending upon meter size and type of service. The costs associated with meter installations are included in the Operating Expenses section of the budget. These charges are funded by developers.

Meter Size	Installation Fee	Meter Fee	AMR Fee
0.75	\$ 60.00	\$ 59.00	\$ 147.00
1.00	60.00	117.00	147.00
1.50	103.00	250.00	147.00
2.00	240.00	475.00	147.00
3.00	300.00	653.00	147.00
4.00	300.00	1,370.00	147.00
6.00	300.00	2,500.00	147.00
10.00	300.00	3,737.00	147.00

Fiscal Year 2009 Growth by Meter Size

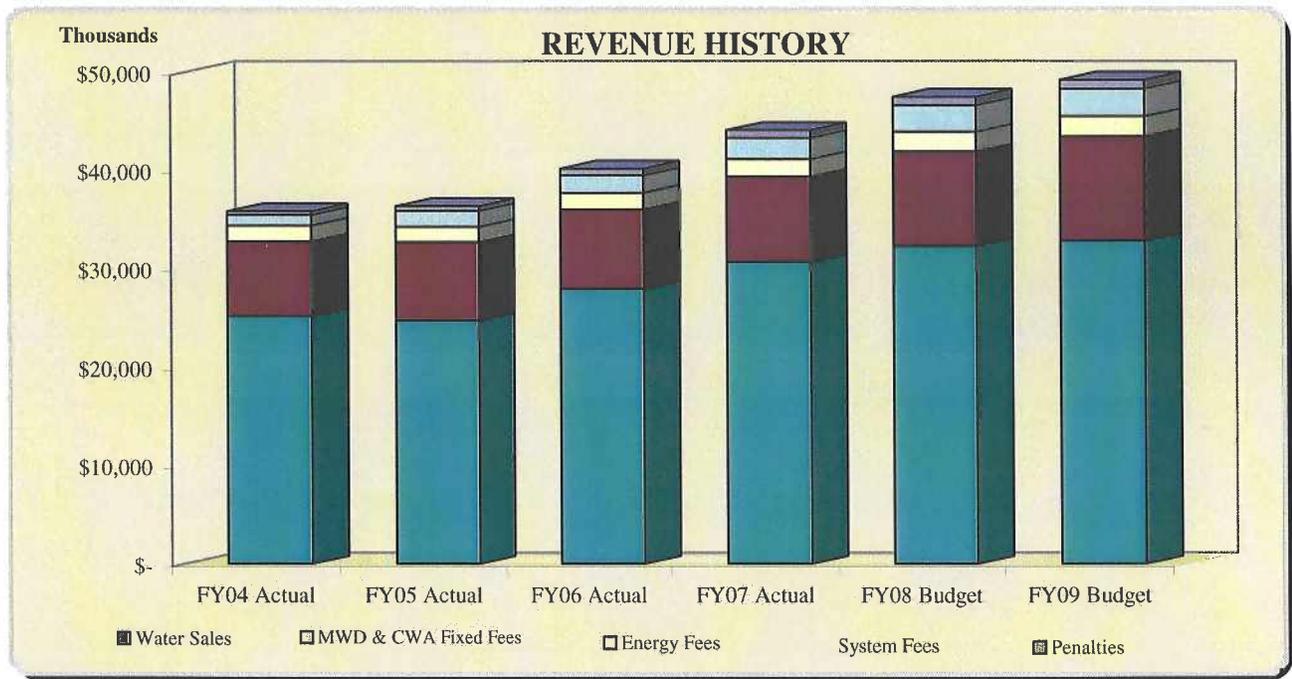
Service Class	0.75	1.00	1.50	2.00	3.00	Total
Residential	238	-	-	-	-	238
Non-Residential	43	20	-	13	-	76
Total Number of Meters	281	20	-	13	-	314

Total Meter Fees	\$ 74,700	\$ 6,500	\$ -	\$ 11,200	\$ 92,400
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REVENUE HISTORY - POTABLE

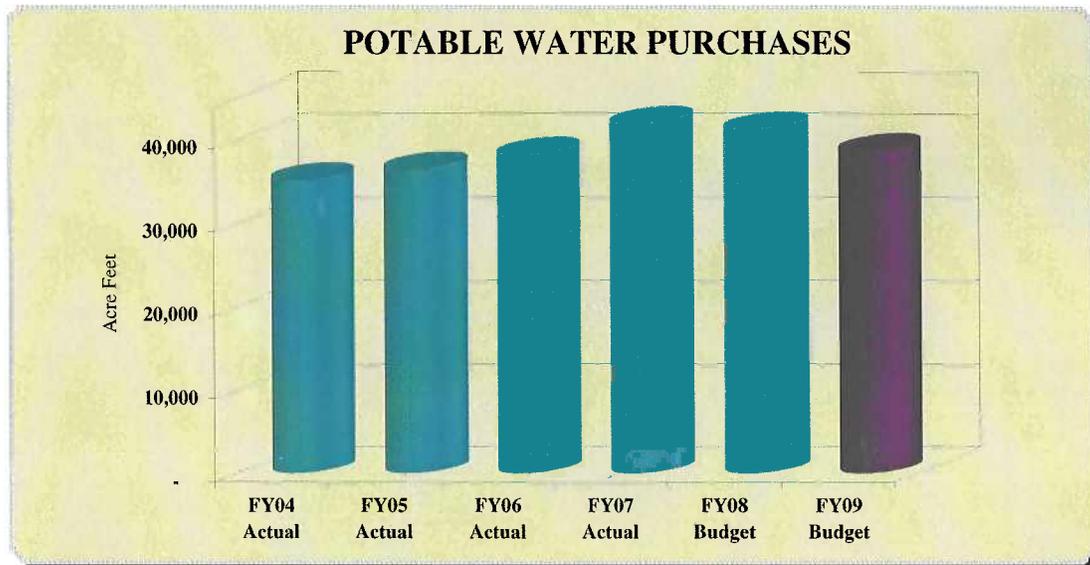
	Actual				Budget	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Water Sales	\$25,204,669	\$24,760,101	\$27,975,777	\$30,696,070	\$32,331,300	\$32,836,500
System Fees	7,576,328	7,933,913	8,056,340	8,658,339	9,596,300	10,619,400
Energy Fees	1,618,000	1,573,999	1,696,492	1,801,455	2,018,000	2,047,100
MWD and CWA Fixed Fe	1,088,156	1,620,548	1,775,186	2,159,269	2,708,800	2,819,500
Penalties	374,283	494,915	688,374	797,615	852,100	906,900
Total	<u>\$35,861,436</u>	<u>\$36,383,476</u>	<u>\$40,192,169</u>	<u>\$44,112,748</u>	<u>\$47,506,500</u>	<u>\$49,229,400</u>



Note:

Fiscal Year 2005 Water Sales and Energy Fees drop due to 22.51 inches of rainfall.

WATER PURCHASES AND RELATED COSTS - POTABLE



	FY09 Budget Acre Feet	Rate ⁽¹⁾	FY09 Budget Purchase Costs	% to Total
Potable Water Purchases				
Budgeted Sales (CWA)	36,350.3	\$614/\$695	\$ 23,600,400	93.7%
District & Unbilled Usage	503.3	\$614/\$695	324,000	1.3%
Water Loss	1,939.7	\$614/\$695	1,259,200	5.0%
TOTAL VARIABLE CHARGES	<u>38,793.3</u>		<u>\$ 25,183,600</u>	<u>100.0%</u>

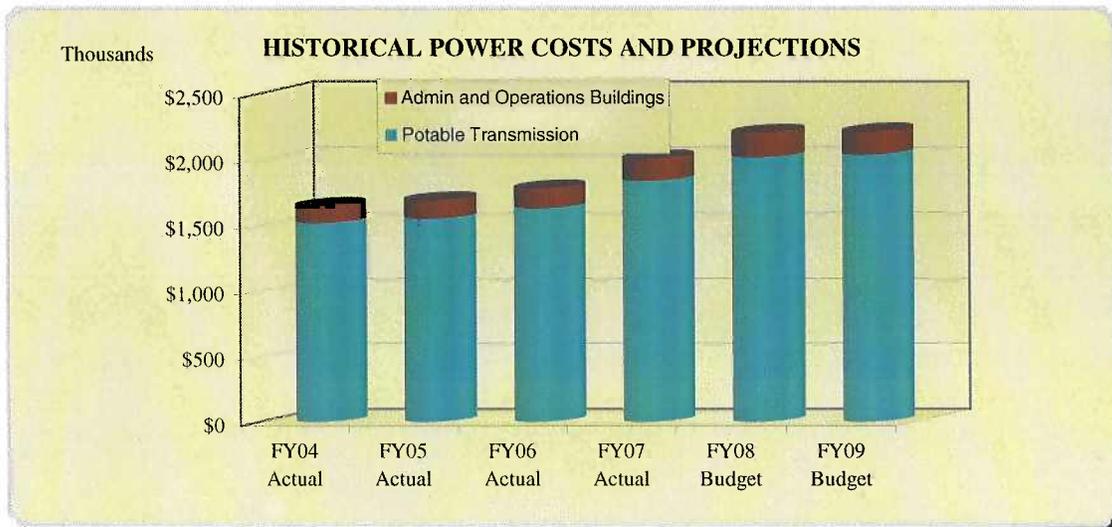
MWD & CWA FIXED CHARGES:

	FY08 Budget	FY09 Budget
Infrastructure Access Charge (IAC)	\$ 1,090,200	\$ 1,227,500
Customer Service Charge (CSC)	950,400	1,049,800
Emergency Storage Charge (ESC)	1,507,800	1,774,700
Capacity Reservation Charge (CRC)	569,400	602,800
Readiness-to-Serve Charge (RTS)	552,600	665,100
TOTAL FIXED CHARGES	<u>\$ 4,670,400</u>	<u>\$ 5,319,900</u>

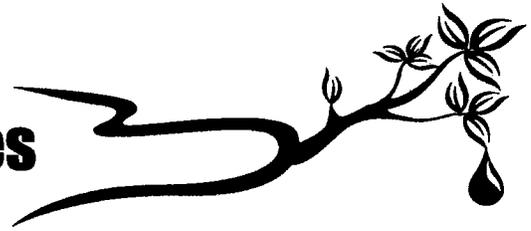
(1) The first rate applies to purchases from July to December of the budget fiscal year; the second from January to June.

POWER COSTS - POTABLE

	Admin and Operations Buildings	Potable Transmission	Total Potable Power Costs
FY04 Actual	132,391	1,515,642	1,648,033
FY05 Actual	142,630	1,551,029	1,693,659
FY06 Actual	154,567	1,628,153	1,782,721
FY07 Actual	172,646	1,838,636	2,011,282
FY08 Budget	190,100	2,018,000	2,208,100
FY09 Budget	177,500	2,038,600	2,216,100



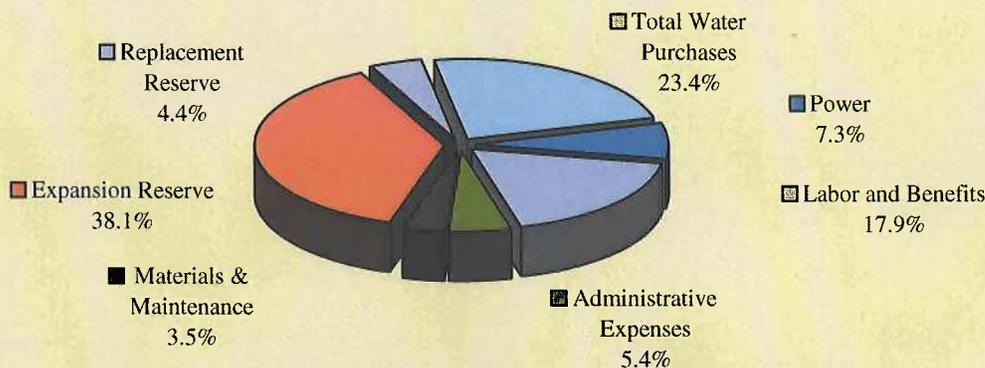
**Recycled Revenues
and
Expenditures**



OPERATING BUDGET SUMMARY - RECYCLED

	FY 2007 Actual	FY 2008 Budget	FY 2009 Budget	Budget Variance	Variance %
REVENUES					
Recycled Water Sales	\$ 3,294,170	\$ 3,583,800	\$ 3,648,700	64,900	1.8%
System Fees	335,063	432,800	524,900	92,100	21.3%
Energy Fees	190,570	264,800	304,000	39,200	14.8%
MWD/CWA Rebates	592,056	1,614,900	1,798,400	183,500	11.4%
Penalties	80,998	105,100	68,500	(36,600)	(34.8%)
Total Reclaimed Water Sales	4,492,858	6,001,400	6,344,500	343,100	5.7%
Meter Fees	50,280	24,100	11,400	(12,700)	(52.7%)
Capacity Fee Revenues	106,820	-	-	-	0.0%
Interest	145,748	99,000	24,600	(74,400)	(75.2%)
TOTAL REVENUES	4,795,706	6,124,500	6,380,500	256,000	4.2%
EXPENDITURES					
Water Purchases (CWA)	1,597,592	1,423,000	1,471,000	48,000	3.4%
Water Purchases (CSD) / Meter Fees	231,884	-	19,800	19,800	100.0%
Total Water Purchases	1,829,476	1,423,000	1,490,800	67,800	4.8%
Power	431,562	493,600	466,800	(26,800)	(5.4%)
Labor and Benefits	567,385	895,400	1,143,100	247,700	27.7%
Administrative Expenses	205,245	271,300	346,500	75,200	27.7%
Materials & Maintenance	198,098	226,000	225,400	(600)	(0.3%)
Expansion Reserve	-	2,590,200	2,430,000	(160,200)	(6.2%)
Betterment Reserve	-	225,000	-	(225,000)	(100.0%)
Replacement Reserve	1,563,940	-	277,900	277,900	100.0%
TOTAL EXPENDITURES	4,795,706	6,124,500	6,380,500	256,000	4.2%
EXCESS REVENUES (EXPENSES)	\$ -	\$ -	\$ -	\$ -	0.0%

RECYCLED OPERATING EXPENDITURES FY 2009



CLASSIFICATION OF WATER SALES - RECYCLED

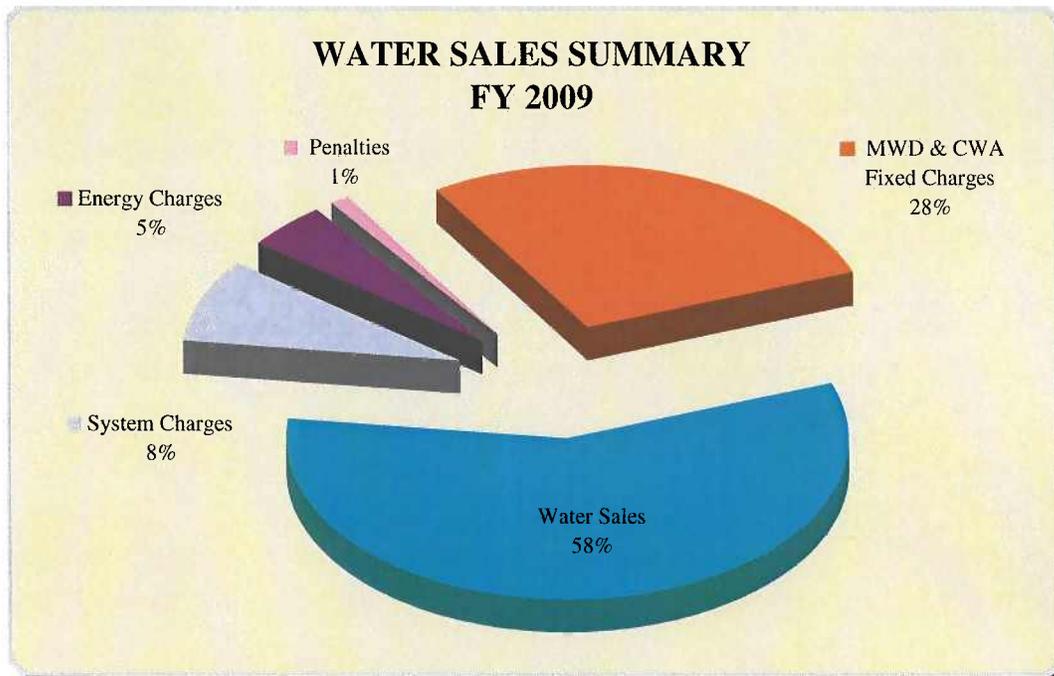
	FY 2008 Budget	FY 2009 Budget	Variance
Recycled Water Sales:			
Water Sales	\$ 3,583,800	\$ 3,648,700	\$ 64,900
System Fees	432,800	524,900	92,100
Energy Fees	264,800	304,000	39,200
MWD & CWA Rebates	1,614,900	1,798,400	183,500
Penalties	105,100	68,500	(36,600)
Total	\$ 6,001,400	\$ 6,344,500	\$ 343,100

Water Sales : Unit Sales x Rate

System Charges : Fixed monthly fee based on meter size

*Energy Charges : Energy pumping fee of \$0.032 per unit of water for each 100 feet of lift
or fraction thereof above the base elevation of 450 feet*

Penalties : Late charges, locks , etc.



WATER SALES SUMMARY BY SERVICE CLASS - RECYCLED

	Fiscal Year 2009 Sales Budget		Current Rate	Proposed* Rate	
	Accounts	Units			
Water Sales:					
Publicly-Owned	290	875,000	\$ 1,611,000	\$ 1.75	\$ 1.97
Commercial	352	1,159,800	2,037,700	1.67	1.88
Recycled	642	2,034,800	\$ 3,648,700	\$ 1.70	\$ 1.79

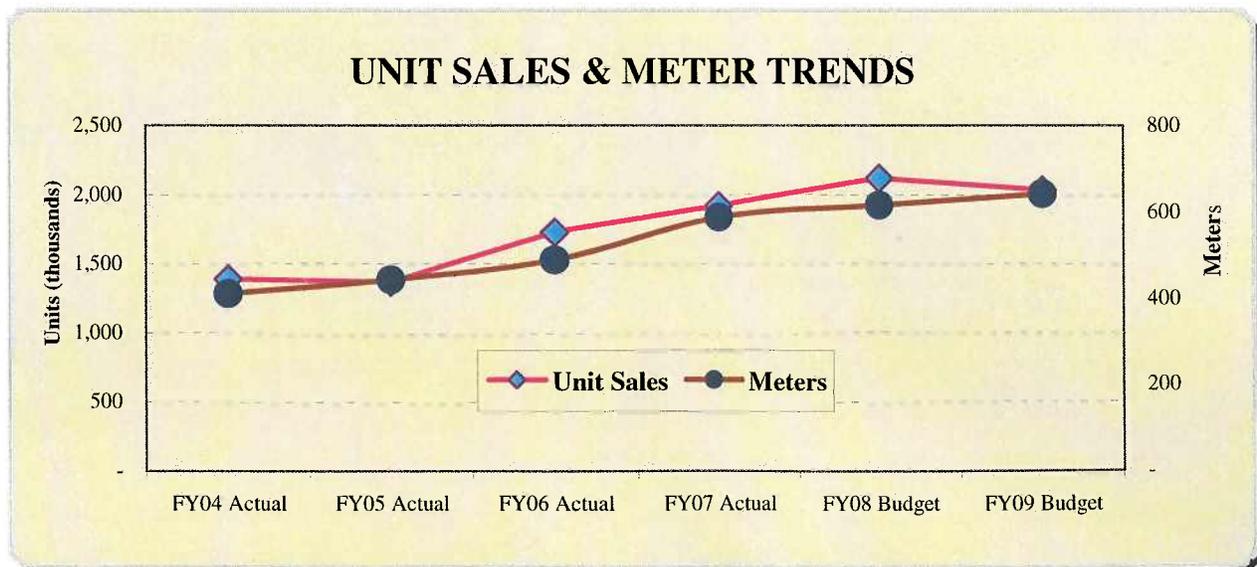
**

*Proposed rate effective January 1, 2009.

**Based on average rate.

UNIT SALES HISTORY - RECYCLED

	ACTUAL				Budget	Budget
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Recycled	1,388,621	1,368,462	1,729,000	1,920,287	2,118,800	2,034,800



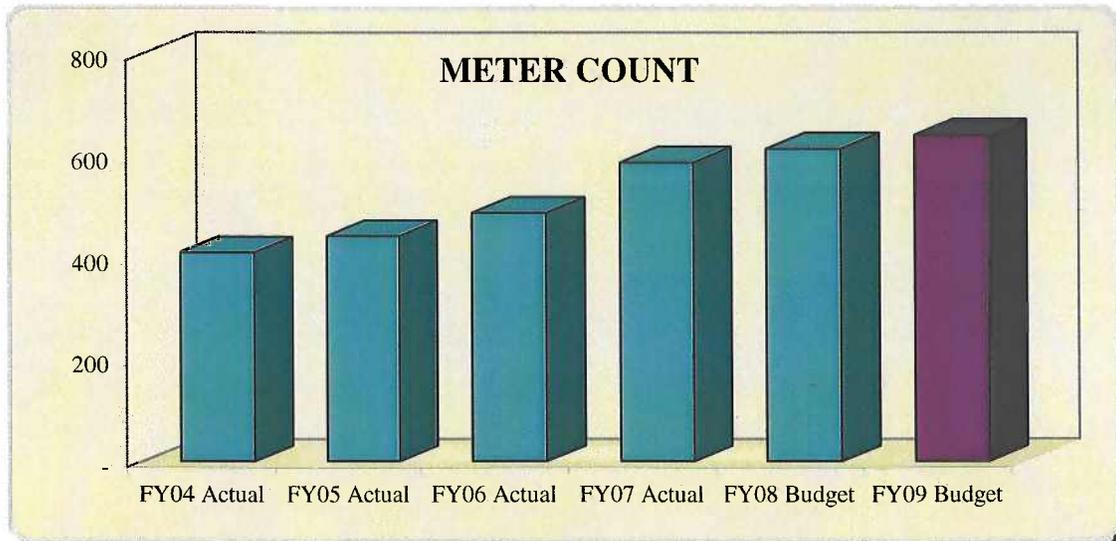
SYSTEM FEES - RECYCLED

Service Class	Meter Size	Meter Count		Current Rates	Proposed* Rates	Budgeted System Fees		
		6/30/08	FY09			Existing Meters	Additional Meters	Total Meters
Recycled	0.75	1	-	\$ 27.85	\$ 31.30	\$ 400	\$ -	\$ 400
	1.00	84	11	42.90	48.00	45,800	6,000	51,800
	1.50	355	-	60.30	67.78	272,800	-	272,800
	2.00	171	9	75.40	84.40	164,000	8,600	172,600
	3.00	3	-	121.30	136.00	4,600	-	4,600
	4.00	5	-	138.90	156.00	8,800	-	8,800
	6.00	2	-	277.60	312.00	7,100	-	7,100
	10.00	1	-	529.90	595.50	6,800	-	6,800
Total		622	20			\$ 510,300	\$ 14,600	\$ 524,900

Budgeted Recycled System Fees

\$ 524,900

*Proposed rates effective January 1, 2009.



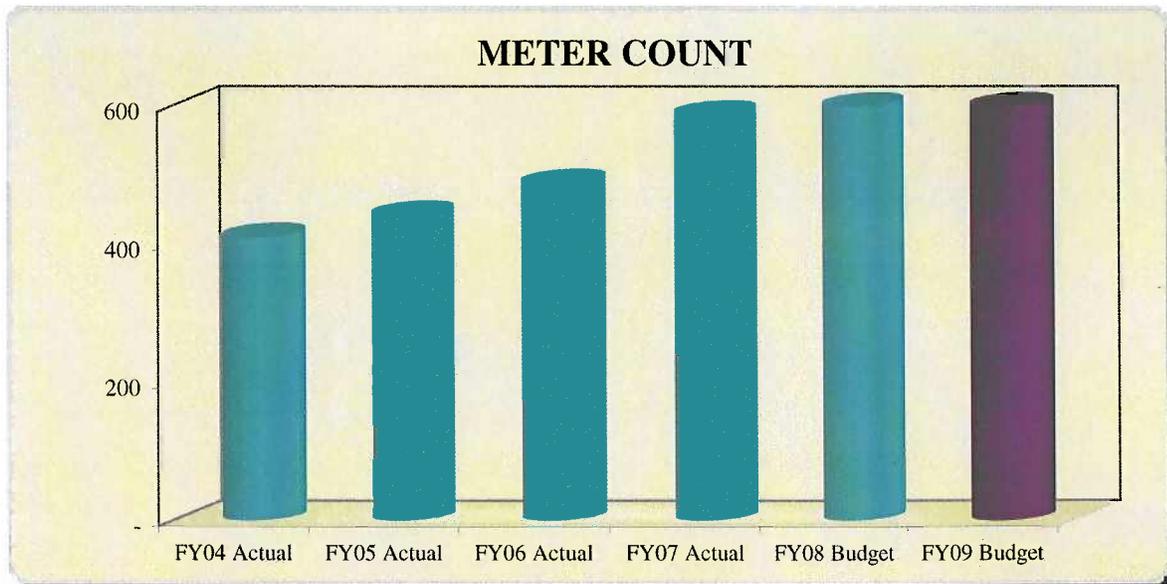
METER FEES - RECYCLED

Meter Fees:

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

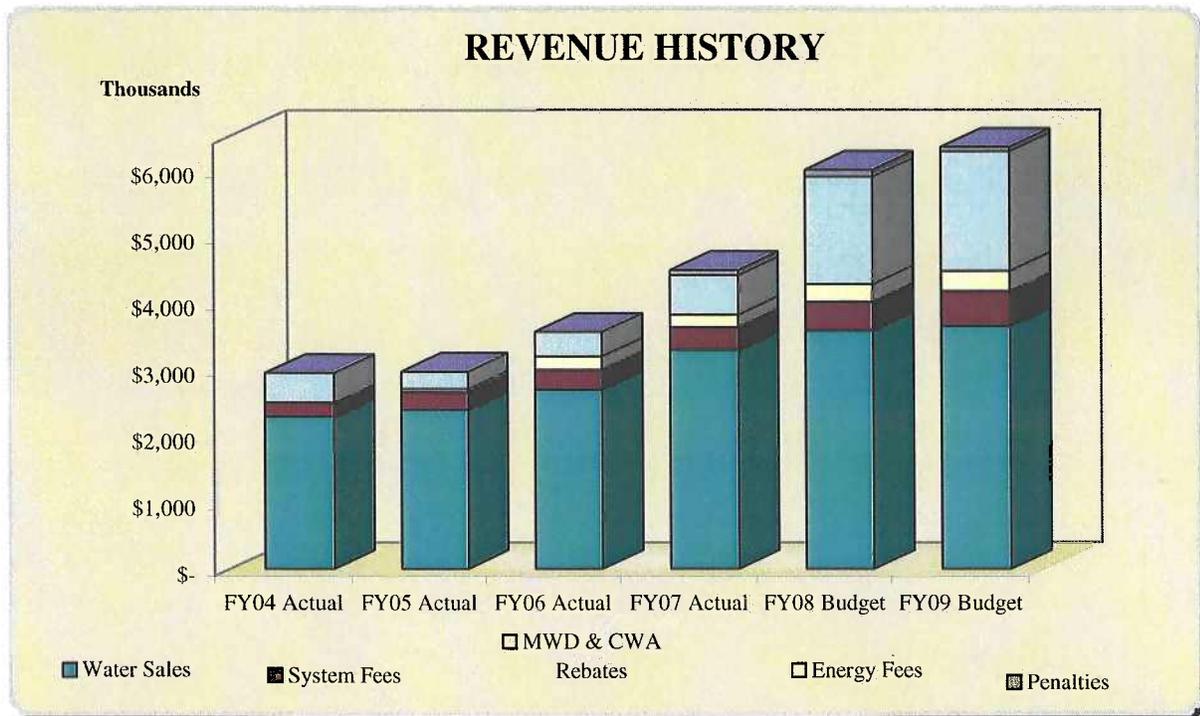
Meter Size	Installation Fee	Meter Fee	AMR Fee
0.75	\$ 60.00	\$ 59.00	\$ 147.00
1.00	60.00	117.00	147.00
1.50	103.00	250.00	147.00
2.00	240.00	475.00	147.00
3.00	300.00	653.00	147.00
4.00	300.00	1,370.00	147.00
6.00	300.00	2,500.00	147.00
10.00	300.00	3,737.00	147.00

Fiscal Year 2009 Growth by Meter Size						
	0.75	1.00	1.50	2.00	3.00	Total
Residential		11.00	-	9.00	-	20
Total Meter Fees	\$ -	\$ 3,600	\$ -	\$ 7,800	\$ -	\$ 11,400



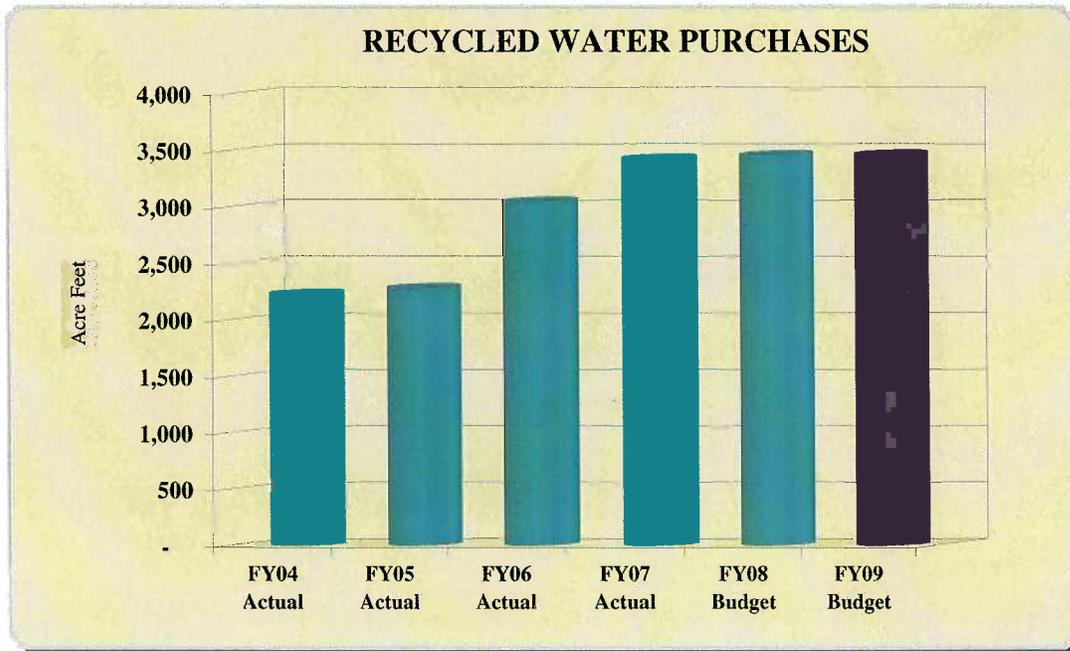
REVENUE HISTORY - RECYCLED

	ACTUAL				Budgeted	Budgeted
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Water Sales	\$ 2,285,666	\$ 2,392,952	\$ 2,694,517	\$3,294,170	\$3,583,800	\$ 3,648,700
System Fees	210,208	256,659	298,153	335,063	432,800	524,900
Energy Fees	-	52,119	198,599	190,570	264,800	304,000
MWD & CWA Rebates	447,020	262,850	372,172	592,056	1,614,900	1,798,400
Penalties	-	-	-	80,998	105,100	68,500
Total	\$ 2,942,894	\$ 2,964,580	\$ 3,563,441	\$ 4,492,857	\$ 6,001,400	\$ 6,344,500



Note:
Fiscal Year 2005 Water Sales and Rebates drop due to 22.51 inches of rainfall.

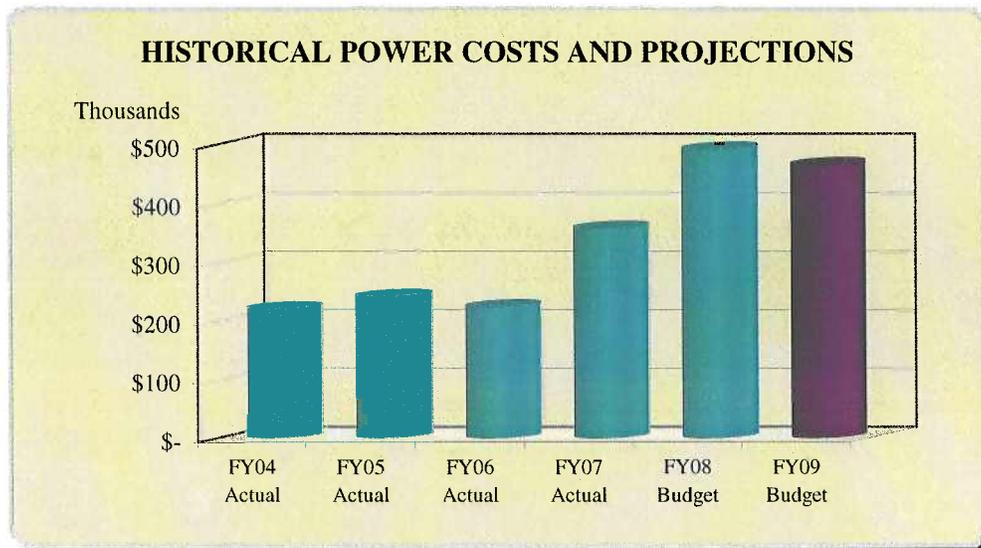
WATER PURCHASES - RECYCLED



	<u>FY09 Budget</u> <u>Acre Feet</u>	<u>Rate</u>	<u>FY09 Budget</u> <u>Purchase Costs</u>	<u>% to Total</u>
SBWRP Recycled Water Purchases (CSD)				
Recycled Water Purchases	3,465.6	\$ 424.50	\$ 1,471,000	98.7%
Meter Fee	-	1,646.50	19,800	1.3%
Total	<u>3,465.6</u>		<u>\$ 1,490,800</u>	<u>100.0%</u>

POWER COSTS - RECYCLED

	<u>Treatment and Recycled Transmission</u>
FY04 Actual	219,500
FY05 Actual	241,000
FY06 Actual	224,200
FY07 Actual	358,359
FY08 Budget	493,600
FY09 Budget	466,800





AGENDA ITEM 7

STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	June 10, 2008
SUBMITTED BY:	Rita Bell, Finance Manager	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)	Joseph R. Beachem, Chief Financial Officer		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager		
SUBJECT:	Adopt Resolution No. 4124 to Approve the FY 2008-2009 Operating and Capital Budget; Approve Fund Transfers for Potable, Recycled, and Sewer; and Direct Staff to Proceed with the Rate Study and Proposition 218 Hearing and Notices for the Recommended Rate Increases		

GENERAL MANAGER'S RECOMMENDATION:

That the Board:

- a) Adopt Resolution No. 4124 of the Board of Directors of Otay Water District to approve the Fiscal Year 2008-2009 Operating and Capital Budget.

- b) Approve the following 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 General Fund	\$810,000

Recycled:

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

Sewer:

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

- c) Direct staff to proceed with the Rate Study and Proposition 218 hearing and notices for the recommended rate increases.

COMMITTEE ACTION: _____

N/A

PURPOSE:

To obtain approval of the Fiscal Year 2008-2009 Operating and Capital Budget; various fund transfers; adoption of Resolution No. 4124; and direction to move forward with the Rate Study and Proposition 218 hearing and notices.

ANALYSIS:

HIGHLIGHTS

Staff has concluded the development of the proposed budget as well as the update of the six-year Rate Model. These two efforts complement one another resulting in a sound financial plan and a proposed balanced budget. This effort is completed in conjunction with the Board approved Strategic Plan which sets the work plan for upcoming years. The budget is prepared in order to meet all the Strategic Plan objectives. The annual budget process evaluates revenues, expenditures, growth, strategic initiatives, and construction costs, while the Rate Model projects their fiscal impact over the next six years. The proposed FY 2008-2009 Operating Budget is \$66.4 million and the proposed Capital Budget is \$30.9 million. (See Attachment C - FY 2008-2009 Proposed Operating and Capital Budget).

This year, the proposed budget includes a number of issues worth highlighting. Most significant is that once again the District has a proposed balanced budget. In addition, there is the combination of factors which are causing high rate increases for potable water customers throughout the region. This and other significant issues are highlighted below.

Recommended Water Rate Increase (9.7%)

This year, the Rate Model resulted in a recommended 9.7% rate increase for potable and recycled customers. This is substantially higher than the 5.4% projection provided to the Board last year. There are four primary reasons for this unanticipated level or rate increase:

1. In large part, this rate increase is due to the unanticipated rate increases from the San Diego County Water Authority (CWA) and the Metropolitan Water District

(MWD). MWD had projected a 6.0% increase for 2009 but has raised their rates by 9.1%. In turn, CWA had projected only a 6.4% increase but is now raising their rates by 10.3%. Knowing that water purchases historically represent 45% of the District's budgeted expenses, these unexpected changes have a dramatic impact on the District's expenses and rates.

MWD has explained their necessary rate increases are to fund higher costs. Their most significant cost increases are \$40.6 million in the State Water Contract and \$88.6 million in supply programs. Other MWD cost increases include higher debt service costs to fund the CIP, along with increased power, operations and maintenance costs. CWA's rate increases are primarily driven by these MWD rate increases.

The projected CWA increases are not as significant in the following years, at 3.4% in 2010 followed by increases averaging 5.5%. Staff has evaluated CWA's rates and believes that CWA is being overly optimistic. As a result staff, in order to have what is believed to be a more realistic view of future rates, has increased the 2010 CWA rate increase to 7.9%. While CWA's increases are projected to drop from the high of 10.3% this next year, there are three other major factors at work which necessitate the continued need for Otay to raise rates to 9.7% in 2010 and to 9.1% in 2011.

2. Water shortages are becoming a serious threat. In response, the District is budgeting a 15% cut in water sales per capita. In 2009, there is a budgeted reduction of water sales of 5.5% partly due to slightly higher projected rainfall, the economic slowdown, and a 1% conservation factor. The conservation factor is increased significantly in 2010 to 10%, and to the full 15% by 2011. This level of conservation is considered prudent in light of the rate at which water reserves are being drawn down in the past few years and with regards to legislative regulations which are limiting the availability of water.
3. The economic slowdown and the virtual collapse of the housing market have resulted in meter sales revenues that are only 29% of what they were only three years ago. The District is not anticipating a rebound in this source of funds for three more years, which compounds the financial stress through 2011. Growth funds both the operating

budget via annexation fees and the capital budget via capacity fees. Annexation fees reimburse the existing rate-payers for the excess capacity used by the new customers. The annexation fees have dropped by \$778,500 over the past three years placing an added burden on the general rates of the District. On the capital budget side, the capacity fees have dropped by \$4,228,800 over the past three years and to the extent that expansion projects cannot be delayed to match these reduced funding levels, additional debt must be issued, placing added burden on the general rates of the District.

4. The general economic slowdown has motivated the Federal Reserve to stimulate the economy by reducing interest rates. Unfortunately, this has caused the District's rate of return on investments to drop, reducing the revenues that would have helped to hold down rate increases. While the District's current rate of return is exceeding the Local Agency Investment Fund (LAIF), the loss of interest revenues, as compared to last fiscal year, is anticipated to be \$1,991,600. This is a 51% reduction from the 2008 budget year.

It is projected that after three years of increases in the 9% range the District's water rates would be repositioned to again support moderate rate increases in the 5% range, even with continued high levels of conservation and low interest rates. These moderate levels of rate increases do rely on a rebound in housing sales in 2012 and the accuracy of the CWA and MWD rate projections. Given these assumptions, rate increases are expected to hold at 5.2% for the foreseeable future.

The significant challenges facing the budget over the next three years do have a significant effect on the District however, the District maintains a reasonable level of financial strength and is able to maintain all reserves on target in all six years of the Rate Model.

Recommended Sewer Rate Increase (4.6%)

Sewer reserves are also on or above target in all six years of the Rate Model. The sewer rate modeling has resulted in a 4.6% increase for each of the next six years. This is more than the 1.7% projected last year. The strategy presented last year was to allow revenues to drop below expenses in order to use up the General Fund reserves which were well above target levels. This strategy is no longer recommended as the reserve balance in the

sewer General Fund may be needed to support the sewer replacement projects.

While the sewer replacement reserve also has funds in excess of target, a facility study is currently under way that is expected to identify a future need for these reserves. For this reason, it is recommended to maintain reserve levels as is until the District is in a better position to support an appropriate course of action. A moderate 4.6% rate increase maintains sewer revenues at a level sufficient to pay current expenses; therefore, maintaining the General Fund and replacement reserves at their current levels.

Financial Strength

The financial strength of the District has been a primary focus in the preparation of this year's budget and Rate Model. The challenges facing this year and coming years are significant. In this challenging environment is where the District financial strength and management strength make the greatest difference.

As noted by the rating agencies, when the District received its AA- credit rating, the District benefits from excellent planning and management. The rating agencies noted the Board's support of financial strength, the well defined and well funded reserves, best practice strategic planning, defined financial policies, consistent financial planning, strong forward thinking management, sound financial ratios, low water rates, and advanced and integrated GIS, IMS, and financial systems. All these factors, when weighed as a whole, led the District to receive its first credit rating in the AA range.

Since the prior year's budget process, the financial landscape has changed significantly. Knowing that revenue projections would be significantly and negatively impacted, staff has taken difficult and prudent positions on conservation, supplier rates, interest income, and limited growth. These positions all reduce the projected revenues of the District and challenge the strength of the District's financial ratios. With this reduced but prudent view of future revenues, the District would have been facing a significant rate spike of over 15% in 2009 in order to maintain the financial ratios on their intended course.

The District's overall financial strength allows the District to smooth out this rate spike, delaying some of the rate increases and the corresponding revenues, and still maintaining an overall strong financial position. The rate option being recommended is to have three consecutive rate increases in the 9% range,

allowing the District to be responsible to the ratepayers by leveling out the rate spike, letting the financial ratios temporarily drop to a fairly low level, yet maintaining the District's overall financial strength. With the Board's ongoing support of the Rate Model, this recommendation is expected to maintain the District's credit rating in light of the District's general financial strength. The Board of Directors, District staff, and the District's customers can have confidence in the strong financial position and direction of the District.

Fund Transfers

Staff is recommending fund transfers of \$28.0 million. With the adoption of the District's Reserve Policy, staff has clearly defined target levels for each reserve. This policy also outlines the guidelines for making fund transfers. Each of the proposed transfers complies with the policy and is being made so that each of the reserves remains at or above target level. Fund transfers maximize the use of available funds and minimize the use of debt and rate increases.

This year, there are two significant transfers that were unanticipated last year. First, in order to defer debt issuances another seven months and thereby defer the rate increase needed to support that debt issuance, staff is recommending the use of temporarily unused general use sewer reserves from the General Fund and Replacement Fund. These reserves will be replenished in later years with approval of transfers back to these sewer funds. The replenishment has been built into the Rate Model and will be tracked in the accounting system. This combined transfer which totals \$9.5 million will be used to fund potable betterment projects.

The second unanticipated transfer, or portion of a transfer, comes as a result of additional funds made available to the General Fund. Additional betterment funds, netting \$482,000, will be reimbursed to the General Fund as a result of the improved ability to track costs. The water customers in the northern portion of the District pay special fees to fund maintenance and construction of water facilities in their region. In prior years, no method was established to quantify the cost of maintenance, leaving the General Fund to pay for these costs. After paying for capital costs, only one Improvement District has funds available to pay back the General Fund for prior maintenance. Staff calculated that the available \$482,000 would cover the past six years of maintenance costs and will be reimbursing the General Fund for this entire amount.

Debt

The District currently pays \$4.5 million in annual debt payments on the \$75.5 million of outstanding bonds. While the District is not facing the immediate need to issue debt, by January 2010 the District will need to issue \$28 million followed by \$47 million in the next four years. New debt is necessary to fund the Capital Improvement Program (CIP) while maintaining the various reserves at target levels, complying with the Reserve Policy.

Debt payments are made from each of the reserves that received debt funding. In this way, the financing cost of the debt is reflected in the appropriate reserve. This allows the District to accurately see the full cost of expansion, betterment, and replacement. The debt owed by the District is ultimately an obligation of the General Fund and, is in part, funded by transfers from the General Fund.

Reserves

The District manages its reserves based on policy and Board direction. The Reserve Policy has defined funding levels for each of the reserves. These targets are set to manage risk, fund operations, and fund construction projects. The District maintains reserve levels with funding from rates, fund transfers, and debt issuances. During the six years of the Rate Model, each of the reserve levels is maintained at or above target allowing for some fluctuations where financially responsible.

Reserves can be restricted, designated, or general use. The District is legally obligated to spend Restricted Reserves for the purpose for which they are collected. Expansion, betterment, and bond reserves are restricted. Designated reserves are general funds that the Board has set aside for a specific purpose. These can only be used for that purpose unless otherwise directed by the Board. There are designated reserves for replacement, post retirement medical benefits, expansion, and betterment. Highlights of these reserves are as follows:

- **Restricted and Designated Expansion Reserves**

The Restricted and Designated Expansion Reserves work in concert. The combined balance of these reserves is compared to the target level to insure that the District is properly funded to address the construction of both potable and recycled expansion facilities. Expansion facilities support future customers.

The Expansion Reserves are projected to be \$16.2 million at year-end 2008 with a target of \$7.7 million. This level of funding is a result of the 2007 bond issuance which is intended to fund two years of financial need. The reserve level is projected to drop to \$11.0 million by the end of 2009 when the target level is expected to be \$10.0 million. This will be moderately over target; however, the Expansion Reserve will again require debt financing in 2010 of \$18.2 million in order to meet the target level and fund the expansion projects from 2010 to 2012. With debt issuances and ongoing fund transfers from recycled and potable general funds, this reserve will be set at, or just above, the target level.

- **Betterment Reserve**

The Restricted and Designated Betterment Funds also work in concert just as the Expansion Funds. Betterment Funds are used for facilities that address inadequate capacity or new requirements for existing customers. The Betterment Reserve is comprised of 15 separate restricted reserves that can only be spent within the improvement district in which they are collected.

The Betterment Reserves are projected at year-end 2008 to be at \$2.0 million with a target level of \$3.2 million. The plan to bring these funds up to target by the end of 2009 and to fund the sizable betterment projects includes both sizable General Fund transfers and the drawing down of sewer general funds. Each of the Betterment Funds will be able to fund projects and retain the funds necessary to meet or exceed target levels.

- **Bond Reserve**

The District collects restricted funds through the tax roll solely for the repayment of debt. Staff monitors these fund balances and modifies the tax rate each year to ensure that only enough funds will be collected to pay the District bond payment obligations and to meet target reserve levels.

The projected 2008 year-end reserve levels total \$1.6 million with a target level of \$0.6 million. Approximately eight years ago this fund had built up a fairly large surplus. Since that time that surplus has been gradually decreased as the rate has been aggressively cut. This reserve is monitored and adjusted annually to bring the balance closer to target. Fluctuations from target also

result from timing differences due to the six month payment cycle.

- **Replacement Reserve**

Replacement Funds are used for facilities that require replacement due to deterioration or have exceeded their useful life. The combined Replacement Reserves are projected to have a 2008 year-end balance of \$33.1 million with a target level of \$19.5 million. This surplus has primarily resulted from the 2007 bond financing and by the end of 2009 this fund is expected to be at target level. These funds are designated and can be used by the Board for other needs as they arise. The current and future target levels for the Potable and Recycled Replacement Funds can be met with the recommended fund transfers and with the anticipated 2010 and 2012 bond funds.

The sewer portion of the Replacement Reserve is expected to have a surplus throughout the Rate Model. However, much of this surplus is proposed to be temporarily used to fund potable betterment projects. The funds will be replenished to sewer to pay for several sewer issues on the horizon. These issues include: the City of San Diego's ability to obtain a waiver for secondary level of sewage treatment; potential sewer annexations; and, the District's study on renewal and replacement. In light of these, replenishing this reserve is recommended.

- **Post Retirement Medical Reserve**

The projected 2008 year-end balance of this reserve is \$10.7 million dropping to \$9.1 million over the 2009 Fiscal Year. This reserve is on target when combined with the \$5 million that has been transferred to the PERS OPEB fund.

At the direction of the Board, this reserve was fully funded in 2004 by transferring money from the General Fund into a designated fund called the Post Retirement Medical Reserve. In 2008, the Board acted to fund \$5 million of a PERS Other Post Employment Benefits (OPEB) Trust and ongoing payments of the Actuarial Required Costs (ARC). During the six-year Rate Model the PERS OPEB trust will continue to build as it receives the annual ARC funding, and the Otay OPEB fund will continue to diminish as it pays the ongoing costs of retiree medical care. Based on the OPEB evaluation performed in 2008, the two funds are anticipated to remain on target when considered as a whole.

The full funding of these OPEB funds is a significant commitment by the Board of Directors and effectively eliminates for Otay Water District the financial vulnerability that other districts and governments may face.

- **General Fund**

The three General Funds have a target level equal to three months of District operating costs. This level of funding is somewhat lower than typical for a water district. With the thorough financial planning at the District, this level of reserve is possible and allows the District to minimize the burden to the ratepayers by avoiding the funding of significant or redundant reserves. With this in mind, the reserve level was set at three months of expenses.

The District's projected 2008 year-end General Fund reserve balances total \$22.3 million with a target level of \$13.6 million. Over the next year, the balance of the potable and sewer General Funds will be drawn down to the target levels.

Debt Coverage Ratio

Another item in the Rate Model which is significant to the District's ability to issue cost effective bonds is the debt coverage ratio. The District's target is for debt coverage is 150%, the same target used by CWA. The minimum required level is 125%, as defined by the District's bond covenants. In short, the debt coverage ratio is equal to annual net revenues excluding debt service divided by annual debt service.

This ratio measures the District's ability to meet its bond payment obligations and is an important measure used by rating agencies when evaluating the bond rating of the District. With the proposed rate smoothing, this ratio will temporarily drop to fairly low levels. However, the Rate Model shows that with the proposed increases this ratio will exceed the target level of 150% by 2012.

There are three different debt coverage ratios that are used by the District. The "Actual" ratio is defined by the bond covenants and is the only ratio that must remain above 125%. This ratio will drop to 163% in 2009 then climb to over 400% by the end of the Rate Model period. The second ratio is the "No Growth" ratio, which recognizes early the effects of debt and rate increases and also assumes no growth revenues or customers of any kind. This ratio is at 149% in 2009. The third ratio

used by the District is a hybrid of the prior two ratios and is used to measure against our 150% target. This version considers reasonable growth in the customer base but does not recognize any of the capacity or annexation revenues that come with that growth. This version does not recognize early the effects of rate increases or debt issuance. This ratio drops to 96% in 2009 then climbs to over 150% by 2012.

All three of these ratios have been negatively affected by the economic influences that are coming to bare on this year's Rate Model. As mentioned earlier, staff is proposing rate increases that maintain a relatively level rate ramp, avoid a rate spike in the first year, and maintain all reserves at or above target levels. Based on numerous discussions with the Financial Advisor, staff believes that if the Board supports the rate increase as outlined in the Rate Model, the District will be both responsive to the ratepayers and be well-positioned to enter the bond market with a continued AA- bond rating.

Operating Budget

The Fiscal Year 2008-2009 balanced budget supports the pass-through of CWA's increases in water costs, an increased Capital Budget, and new programs to meet regulatory requirements. The budget includes a 9.7% rate increase for potable and recycled, and a 4.6% rate increase for sewer. The Rate Model projects a 9.7% increase for the next two years, a 9.1% increase for year three, with a 5.2% increase for the following three years.

This year, the District was faced with four unanticipated changes that have created budget challenges. Without these changes, the District would have experienced rate increases of no more than 5.4%. Based on an unofficial survey, other districts face similar or even higher rate increases as Otay. Rates for the City of San Diego are projected to go up over 13%. The District, even when faced with financially difficult times, is in a fortunate position. This is due to the way the District has strategically positioned itself, by implementing new technologies, strengthening policies, and implementing cost saving measures, always with a focus on efficiency.

Rate Implementation - Water

The 9.7% rate increase is being implemented for both potable and recycled customers. This is the overall increase that will affect the average water customer for both fixed and variable charges. The District will continue to keep the fixed and variable revenues mixture, as in prior years, maintaining the stability of the revenues.

The potential for drought conditions and mandatory conservation make it very prudent to prepare drought stage pricing. Staff has met with other water district staff to discuss how agencies plan to prepare for this. Staff is moving forward on retaining and working with a rate consultant to evaluate the merits of implementing a tiered rate structure for commercial customers, drought rate structures, and finding ways to simplify the current rate structure. Staff believes these changes will improve billing efficiency and encourage conservation, while at the same time making the bills more understandable to our customers.

The District also passes through a fixed fee for potable customers that cover the CWA & MWD Fixed Charges. CWA & MWD have increased these charges by \$581,300 for Fiscal Year 2009. The individual increases are identified below:

Customer Service Charge	\$99,600
Emergency Storage Charge	\$267,000
Infrastructure Access Charge	\$126,600
Capacity Reservation Charge	\$26,300
Readiness-to-Serve Charge	\$61,800

The fee change needed to cover this increase will be determined upon completion of the Rate Study.

Rate Implementation - Sewer

In Fiscal Year 2008, the District implemented a winter-based water consumption rate structure for its sewer customers. This new structure charges sewer customers based on their average winter water consumption. This year, the recommended rate increase is 4.6%, which is necessary to ensure sufficient revenue are collected to meet the cost of service. Each year, sewer rates change to cover the cost of service including the pass-through of charges from the and the Spring Valley Sanitation District.

The fluctuation of winter consumption, as well as changes in sewer costs can cause significant fluctuations in the sewer rate. Sewer only represents 4% of the total Operating Budget, yet even relatively small changes in the budget can have an effect on the rate. For this reason, staff attempts to level the rate increases over a six-year period to maintain conservative and level rate increases that will meet the needs of the system.

Property Tax

For Fiscal Year 2009, the District is projecting property tax revenue totaling \$4.1 million, which is based on growth in assessed values of parcels within the District's boundaries. This assessment was originally for the purpose of off-setting the operating cost of the District, and therefore, is general use revenue. While the state may attempt to temporarily differ some of these revenues, the District is assuming that we will collect the full amount.

Budgeted Revenues

Budgeted revenues include an overall increase in potable water sales of 2.4% and in recycled water sales of 4.9%. These increases are less than last year's expectations for 2009 despite the unexpected 9.7% rate increase. This is because of three main factors including: first, the dramatic slowdown in the District's growth rate in new potable meters from 2.1% to 0.6%, and from 4.9% to 2.7% for recycled customers; second, the change in rainfall estimates from 4.6 inches of rain to 5.5 inches of rain; and third, the building in of a conservation factor of 1% anticipating customers initial responses to the potential drought.

Reclaimed credits play a large part in increased revenues. Recycled revenues will be receiving \$1,798,400 in MWD and CWA credits; an additional \$183,500 is due to an increase in credits from CWA, moving from \$147 to \$200 per acre-foot, and a small increase of \$113,200 due to new customer demand.

Budgeted sewer revenues decreased 14.6%, despite a mid-year rate increase of 4.6%. This is due mainly to the change to a winter-consumption based rate structure, and the drop in winter water consumption from an average of 20 units to 15 units. Although this change is not revenue neutral this year, staff believes the annual fluctuations will even out over time. The new method puts the District into compliance with Best Management Practices (BMP) 11 which encourages conservation and ensures users pay their fair share for services.

Other changes in the Operating Revenues include the following:

- Due to a decrease in growth projections, Meter Fee Revenues are expected to decrease by 67.4%, partially off-setting this revenue decrease is the reduction of meter material expenses.

- Capacity Fee Reimbursements are expected to decrease by 8.0% due to less expansion related work in the planning and public services area.
- Betterment Fees for Maintenance show an actual increase of \$20,000. This is a shifting of where the fees are applied and due to better information from our systems.
- Non-Operating Revenues are expected to slightly decrease by 2.8%. This change is due to a decrease in conservation grants and corresponding incentive budget. This decrease is offset by increases in lease revenue.
- Tax Revenues are expected to increase slightly by 3% due to an increase in the property tax roll.

Expenses

Overall expenses increased by 0.4%. This increase is due to numerous factors but is primarily due to water costs. The 5.0% increase in the cost of water purchases is due to the CWA and City of San Diego water price increases mentioned above. This increase has both a variable and fixed component. For potable water, the variable price increase is expected to be \$63 per acre-foot causing a total increase in variable potable water costs of \$896,200. This effect of the price change is dampened by the 5.5% reduction of projected water purchases. For recycled water, the total increase in water cost is only \$29,700 due to the price increase per acre-foot estimated to be \$38.50 and a volume decrease of recycled water purchases of 8.8%. The reduced purchase volume is due to slowing of growth, changes in rainfall predictions, and a conservation factor of 1%. The fixed costs paid to CWA and MWD are projected to increase the District's expenses by \$581,300 which is highlighted in the section above.

Power costs are budgeted to decrease 0.9% due to the declining quantity of water sales by 5.5% despite the SDG&E expected 2.8% rate increase on July 1, 2008.

Labor and benefits costs are estimated to increase overall by 10.1%. Salaries will increase a total of 7.6% due to the following:

- MOU increases in cost of living and in-range adjustments
- Decrease in vacancy factor

In addition, more of the District's labor force is being charged to expense due to the slowdown in growth. This slowdown results

in an increase of 1.2% in labor expenses as the labor force shifts to projects that are not billable. In addition, there is a 15.9% increase in medical and dental costs due to a change in the insurance programs and rising medical costs. While the change in the insurance plan initially raises the cost of medical coverage, in the long run this plan is more cost effective and also causes an immediate reduction of the OPEB liability. With the limited ability of the District to enter into this type of insurance in the future, due to the rising average age of plan members, it was prudent that Otay make this change as soon as possible. In addition, with the District's prior plan, the District had significant administrative burdens and increasing exposure to financial risk of catastrophic health events. As a result of the change in medical plans and other changes, \$810,000 is available in the OPEB fund this year to cover the added salary and benefit costs.

The Administrative Expenses decreased by 15%. This is in large part due to four main factors:

1. Departmental budget cuts of \$145,600.
2. Completion of some one-time projects of \$84,000.
3. Conservation grants for Monte Vista artificial turf projects removed for \$120,000. This change in expense is offset by a \$100,000 reduction in grant revenue, with an overall net impact of \$20,000.
4. District deletion of last year's one-time legal expenses of \$741,500.

The Materials and Maintenance budget experienced a decrease of 13%. Cost decreases are in the following areas: fuel expense decreases due to less fuel being used for the Lower Otay Pump Station of \$243,600, which is somewhat offset by \$29,100 for anticipated increases in the price of fuel; decreases in contracted services of \$82,600 for services such as janitorial, painting, landscaping, and parking lot maintenance; decrease in materials of \$82,200 due to both price and volume such as chemicals, parts, and supplies; and finally, due to the slowing of growth and the related cost of meter purchases declining by \$165,900.

Materials and maintenance costs for sewer increased due to the Metropolitan Waste Water Department Operations & Maintenance cost for sewer processing increases of \$65,100. Funding to

reserves is decreasing by \$1.2 million as compared to last year. This year, less funding is needed to keep the Expansion and Betterment Reserves on target and to fund these projects. This funding will keep reserve levels in compliance with the Reserve Policy.

Capital Improvement Program (CIP) Budget

Each year with the budget process, the Engineering Department updates the CIP Budget. This year, the six-year CIP budget has decreased by \$21.1 million from last year's CIP. This decrease is a result of some new projects that are less costly than those they replaced. Also, some projects have been moved out to future years. Additionally, construction costs have leveled off since last year, increasing only 10% over two years instead of last year's estimate of 33%. The new projects and cost changes to existing projects are reviewed and approved along with the Operating Budget. The following process is used to prepare the CIP Budget:

- o CIP projects are selected based on the Water Resources Master Plan (WRMP), the Urban Water Management Plan (UWMP), Integrated Water Resources Plan (IRP), and the following CIP criteria:
 - Existing Facility Conditions
 - Operating System Conditions
 - Water and Sewer System Deficiencies
 - Regulatory and Permitting Requirements
 - Developer Driven Schedules
 - Economic Outlook and Growth Projections
 - Board and Management Directives
- o The CIP goes through an iterative process to meet the criteria of need, growth, and service requirements.
- o The CIP expenditure targets are established for the next six years.

This year, the CIP Budget includes the following amounts by project category:

Capital Backbone	\$22.9
Developer Reimbursement	.6
Replacement and Renewal	5.8
Capital Purchases	<u>1.6</u>
Total (millions)	\$30.9

There are a total of 66 projects in the current six-year CIP plan. Each project is listed in the FY 2008-09 Proposed Operating and Capital Budget (Attachment C). In addition, each project has an individual project sheet with detailed project information including the project description, justification, and funding. These sheets can be found under the Capital Budget section. The total cost of the 66 projects is \$170.4 million.

SUMMARY

Staff has completed the preparation of a proposed balanced budget. This budget was then incorporated into the District's Rate Model which projected revenues and expenditures for all reserves for the next six years. With the proposed debt issuances, fund transfers, and proposed customer rate increases, the District will maintain all reserve levels in all years at or above target levels set in the Reserve Policy. This proposed budget is the foundation of the six-year Rate Model which supports the Strategic Plan initiatives, mandated programs, and the ongoing high level of water and sewer service to District customers.

With the approval of this budget and the rate increases to support it, the District will meet the significant budget challenges presented by higher water costs, reduced growth, lower interest revenues, and lower sales volume. The District will maintain a strong financial standing and be well-positioned for ongoing financial challenges. The District is expected to maintain its AA- credit rating and continue to receive awards from both the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) for its quality budget.

FISCAL IMPACT:

The recommended balanced budget totals \$66.4 million for Operations and \$30.9 for the CIP. With budget approval, the District will move forward into the 2009 Fiscal Year with clear financial direction. Staff will also make preparations to work with a consultant for the purpose of rate setting and the Proposition 218 hearing necessary to implement the rate changes which support this budget. This budget provides continued funding for the District's administration, maintenance, and operations, and is consistent with the recently adopted Strategic Plan and Reserve Policy.

STRATEGIC GOAL:

Ensure financial health through formalized policies, prudent investing, and efficient operations.

LEGAL IMPACT: _____

None.



General Manager

Attachments:

- A) Resolution No. 4124
- B) FY 2008-2009 Operating and Capital Budget Presentation
- C) FY 2008-2009 Proposed Operating and Capital Budget

Attachment E

Otay Water District

2009 Budget Workshop

June 10, 2008

1

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)**

2

RATE MODEL REVIEW

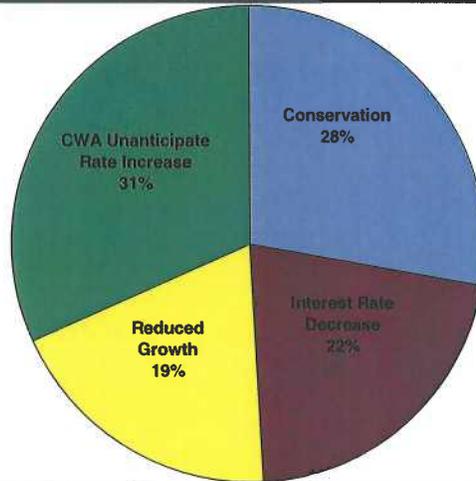
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Serious Budget Challenges

- CWA & MWD changes in rate projections
 - From 6.4% to 10.3% in 2009
 - Building in an additional 4.5% 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

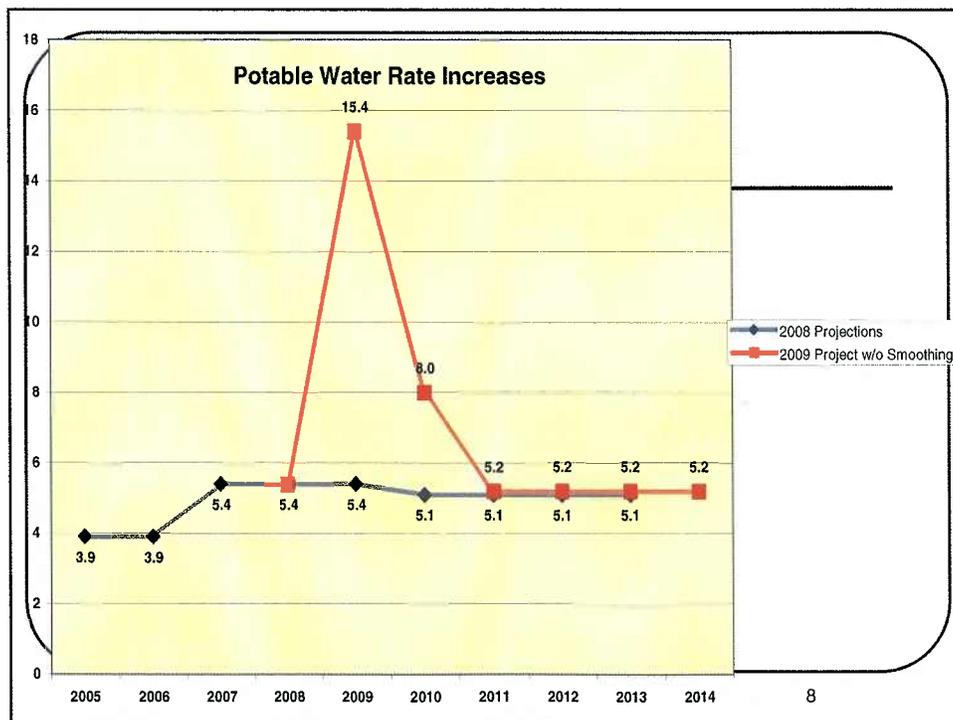
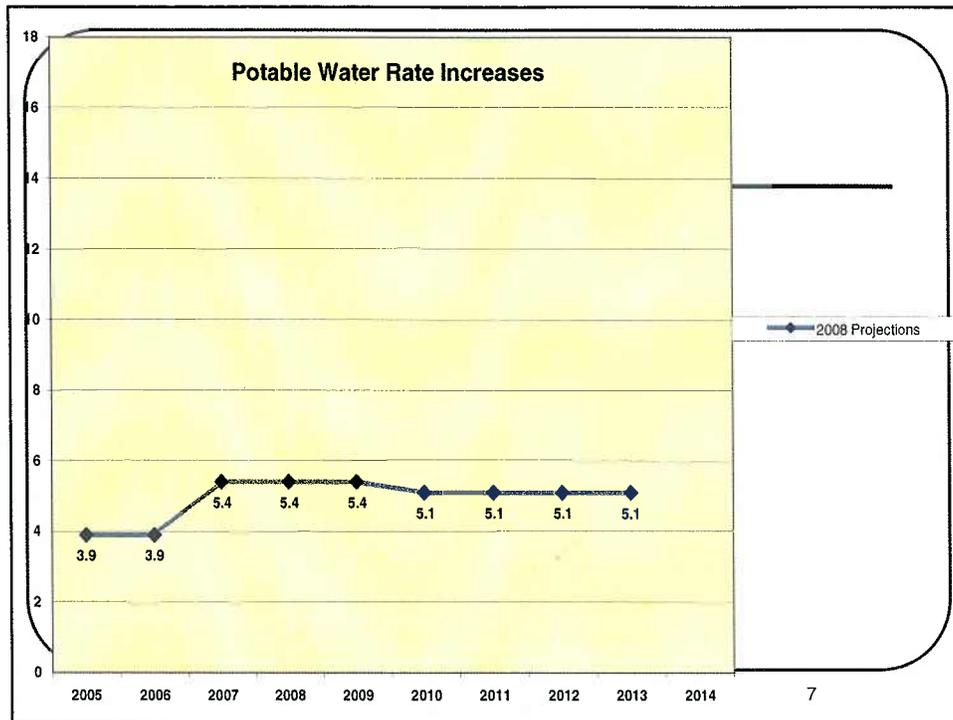


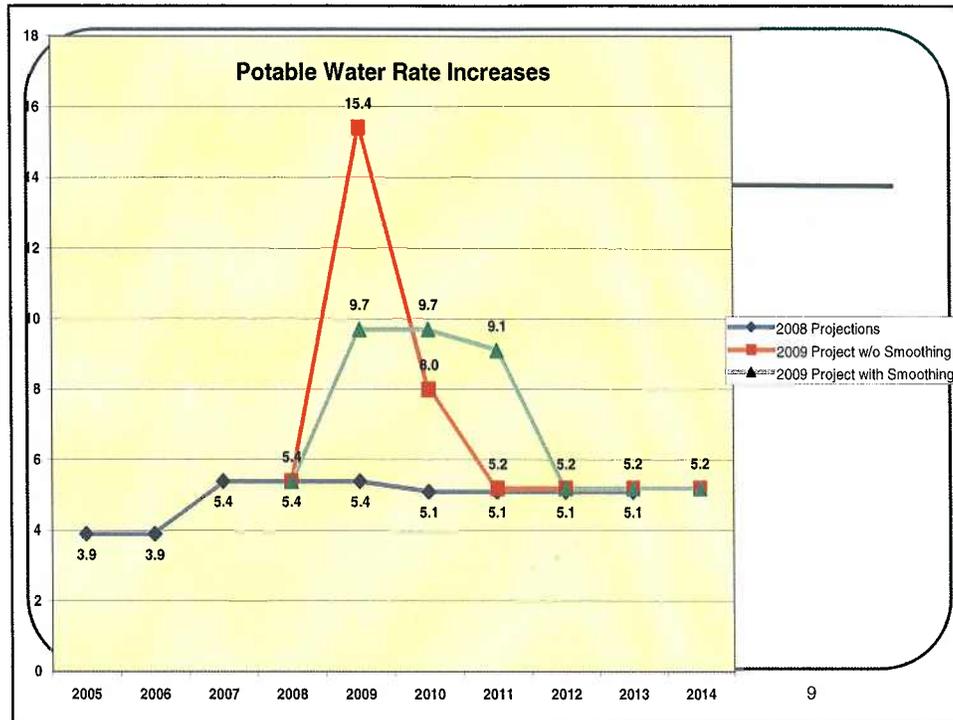
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Management's Response

- 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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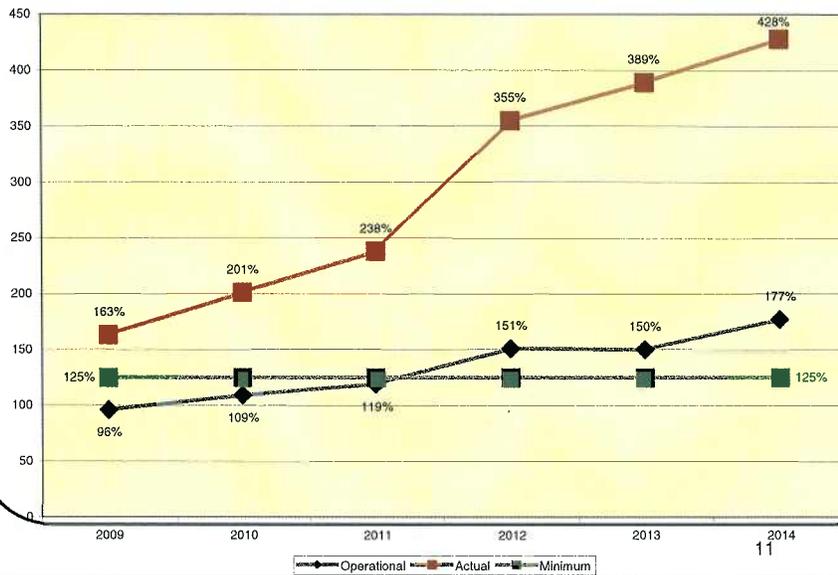




Credit Rating

- 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

Objective of the Workshop

Present for approval a \$66.4M Operating Budget

Present for approval a \$30.9M CIP Budget

Request Approval of \$28.0M in Fund Transfers

Supported by:

- A 9.7% rate increase for potable and recycled customers
- A 4.6% rate increase for sewer customers

Budget approval is requested before the beginning of the new fiscal year, while the rate changes can only be approved after a Prop. 218 hearing.

13

Cash Reserves

Beginning 2009 - Ending 2014

Restricted and Designated Funds

Expansion Funds	\$16.2M	to	\$22.6M
Betterment Funds(15 Funds)	\$2.6M	to	\$1.5M
Bond Funds	\$1.6M	to	\$0.0M

Designated Funds

Replacement Funds	\$33.1M	to	\$41.3M
Retirement Medical Fund	\$10.7M	to	\$0.0M Trust

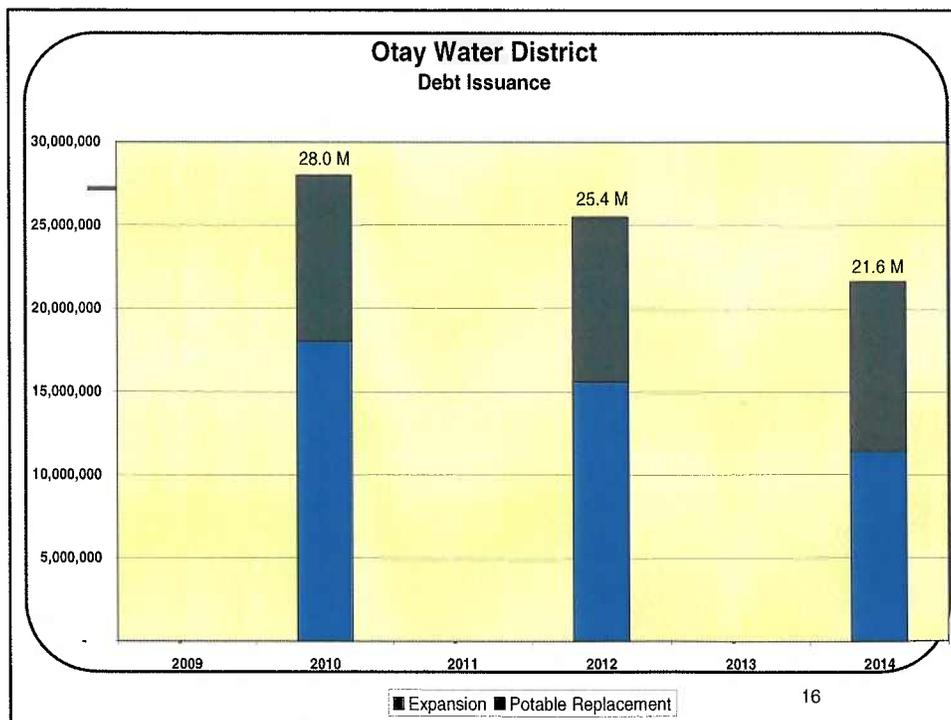
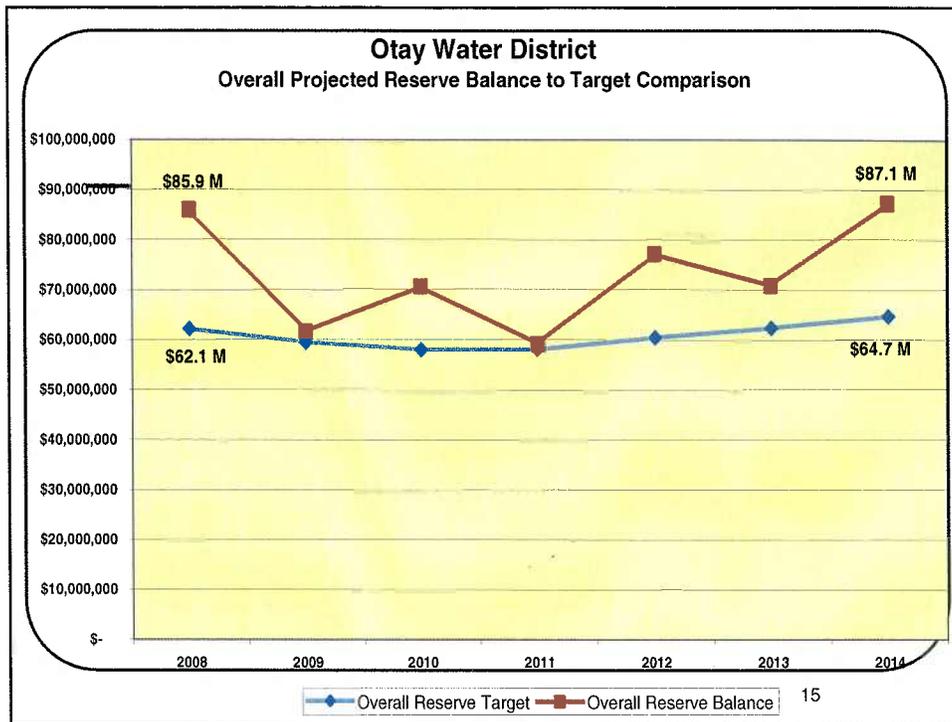
General Funds

• Potable	\$17.8M	to	\$18.0M
• Recycled	\$0.7M	to	\$1.3M
• Sewer	\$3.2M	to	\$2.8M

Total Reserves \$85.9M to \$87.2M

Reserve Targets \$62.1M to \$64.8M

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\$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

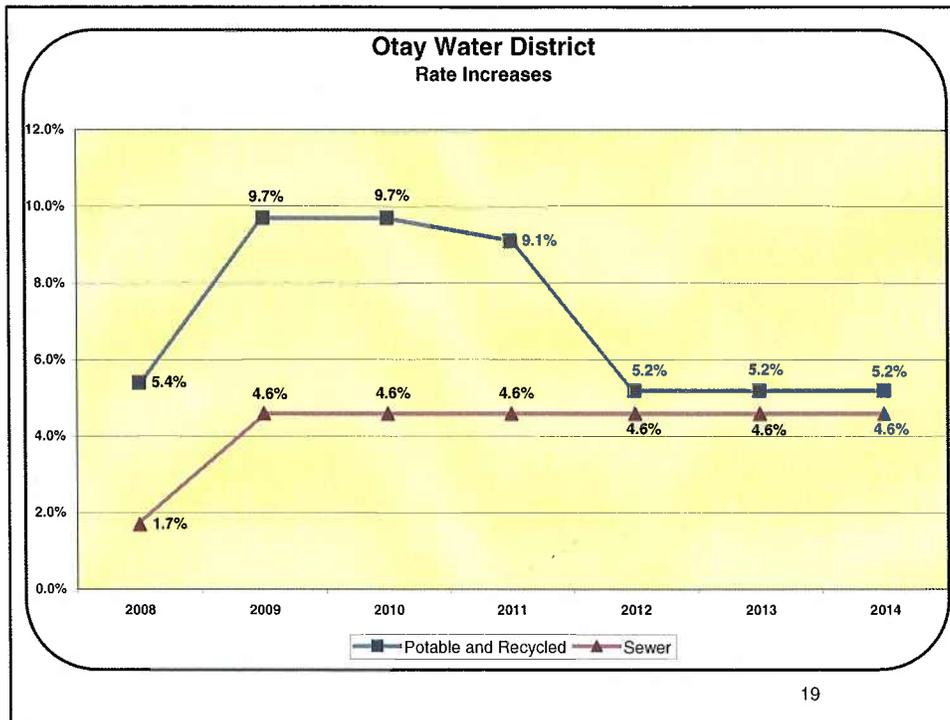
General Fund to Potable Betterment	2,250,000
Replacement Fund to Potable Betterment	7,255,000

17

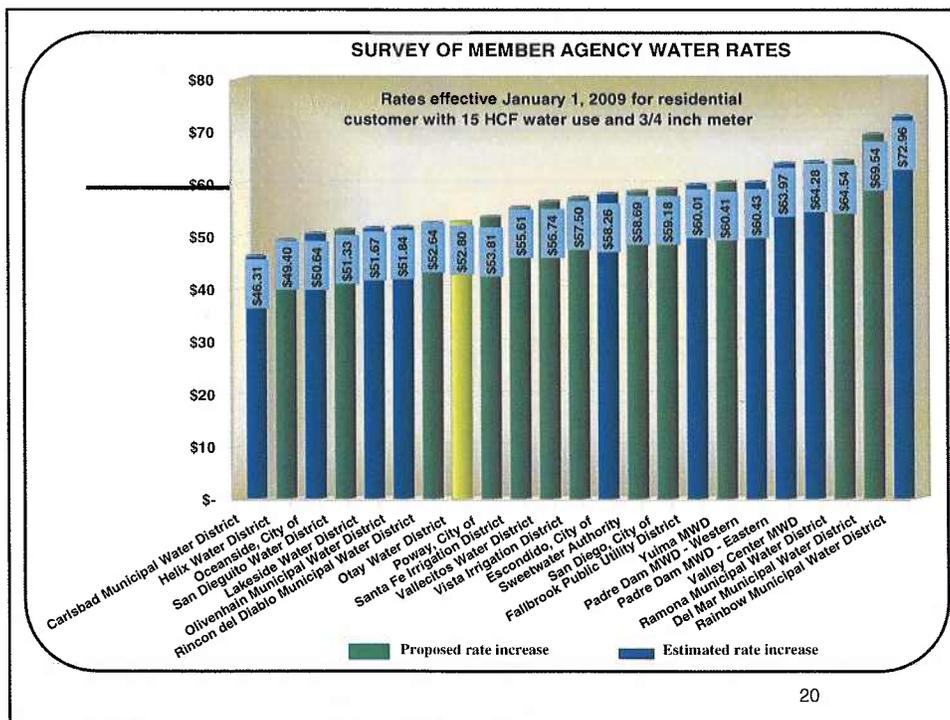
Recommended Rate Changes

- 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.

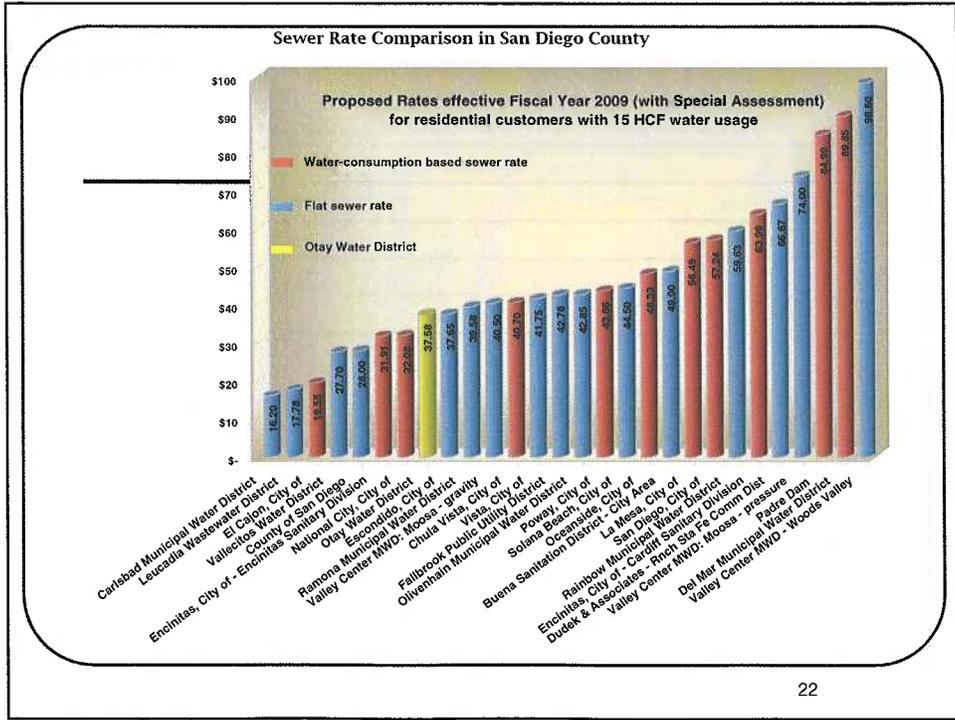
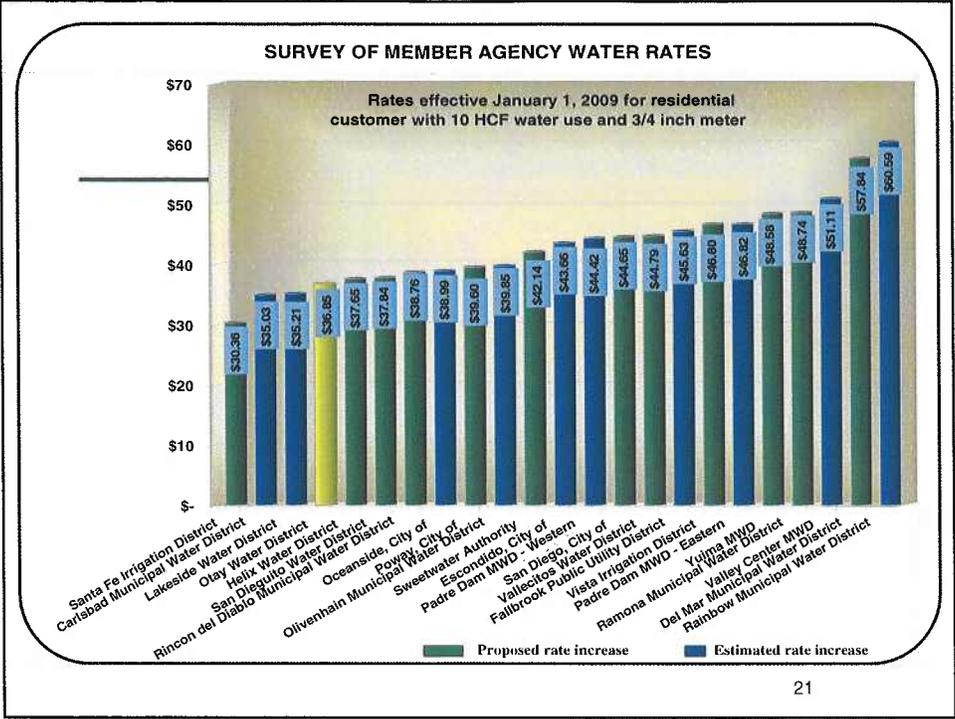
18



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IMPLEMENTATION OF RATE CHANGES

23

Rate Structure

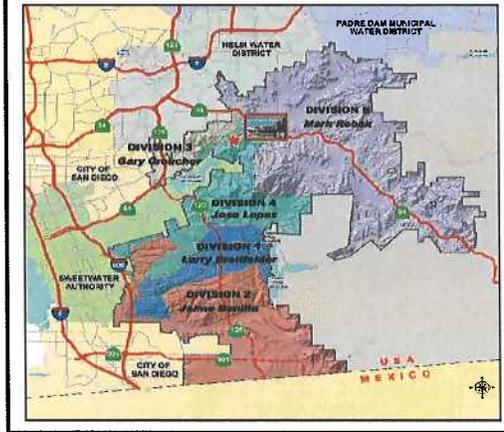
Customer	Nexus of Revenue & Cost	Tiered Water Rate Structure	Drought Rate Structure	Encourages Conservation	Proposed Rate Increase
Potable - Single Family Residential					9.7%
Potable - Commercial					9.7%
Recycled					9.7%
Sewer					4.6%

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



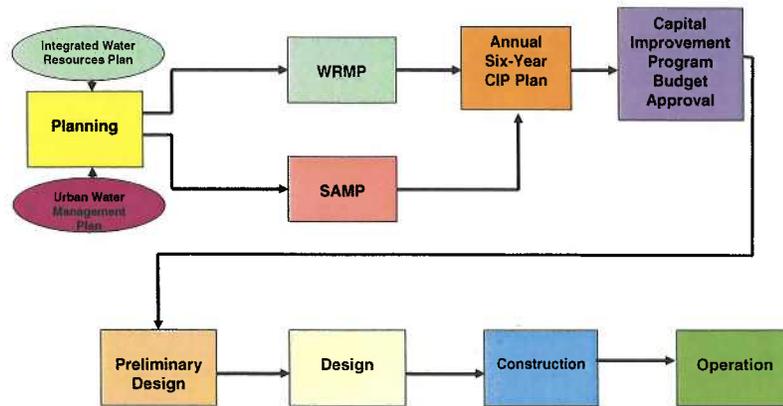
Olive Vista Pipeline



- ◆ 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.

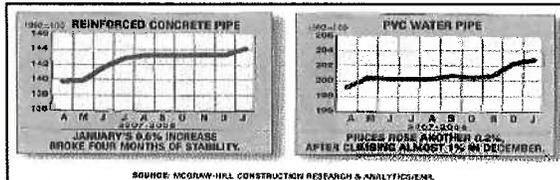
29

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

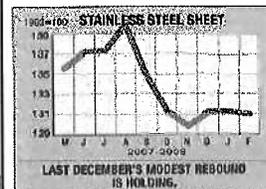
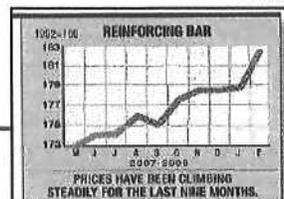
Cost Index

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

	FEB. 2008 INDEX VALUE	% CHG. MONTH	% CHG. YEAR
20-CITY: 1913=100			
CONSTRUCTION COST	8094.28	+0.1	+2.7
COMMON LABOR	17195.97	+0.1	+3.5
GRADE SAIRL	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

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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

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Major Capital Backbone Projects

POTABLE WATER	(\$ Millions)
◆ PL – 36-Inch, SDCWA 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

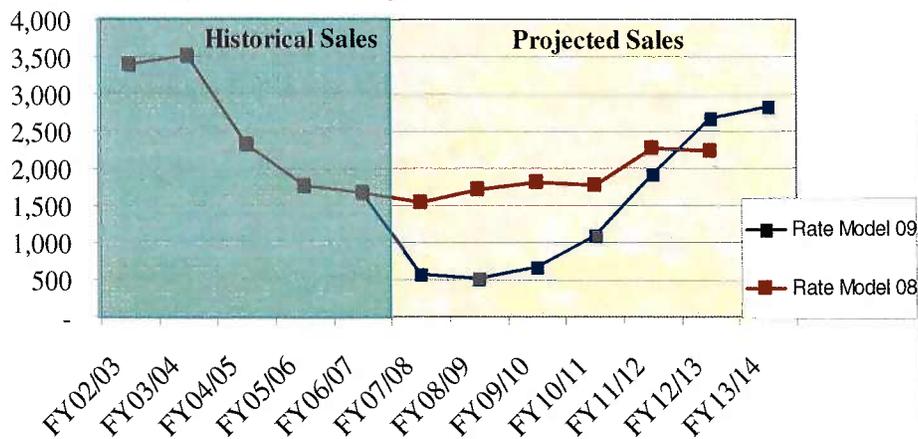
The District is projected to serve approximately 48,611 individual water customer accounts. The number of new water customers are growing at a much slower rate.

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



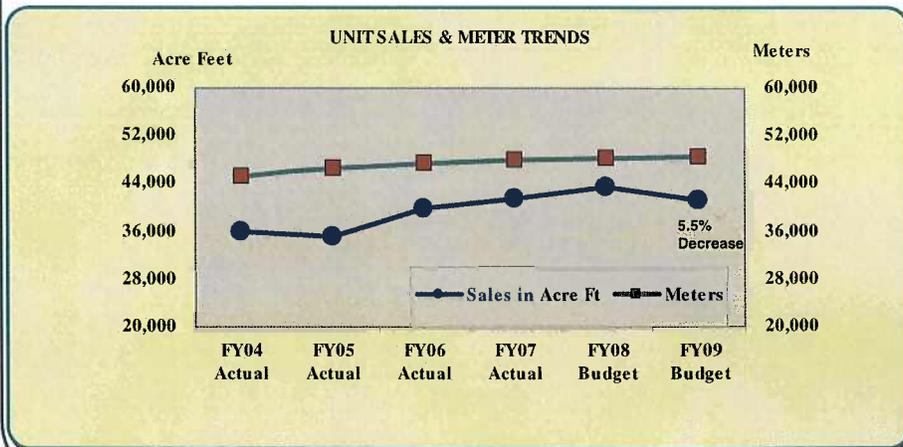
40

Budget Details - Revenues

	FY 2008	FY 2009	Budget	Variance
	Budget	Budget	Variance	%
REVENUES				
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)

45

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

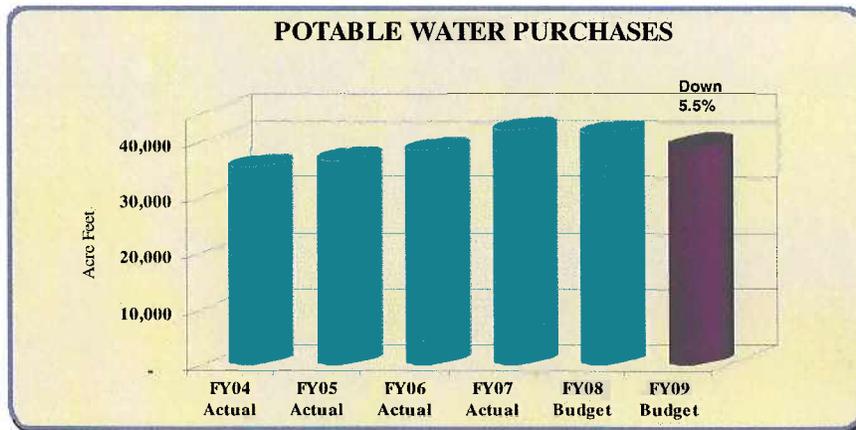
46

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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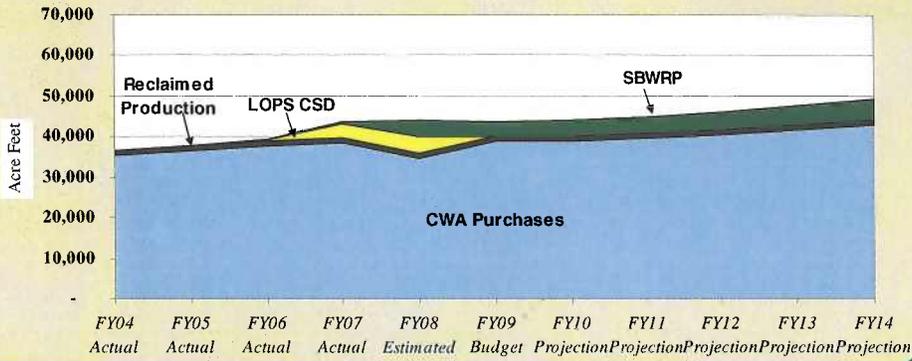
Water Purchases



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

51

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	\$19,800	new
	Total Fixed Cost	\$601,100	

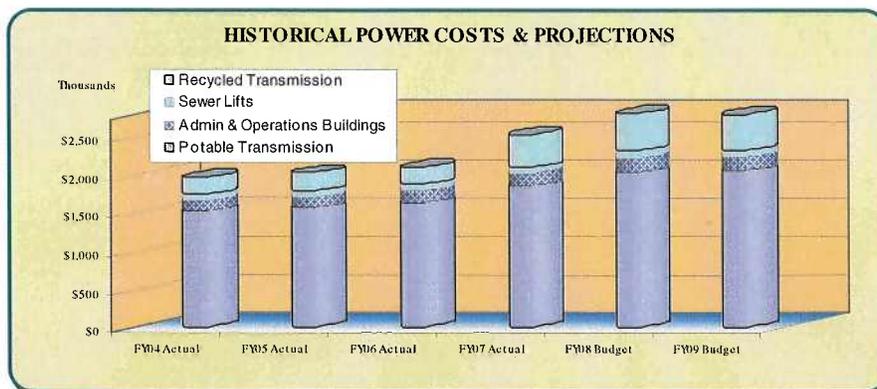
52

Budget Details - Expenditures

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Power



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Budget Details - Expenditures

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TOTAL EXPENDITURES	66,180,500	66,443,000	262,500	0.4%

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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

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58

Budget Details - Expenditures

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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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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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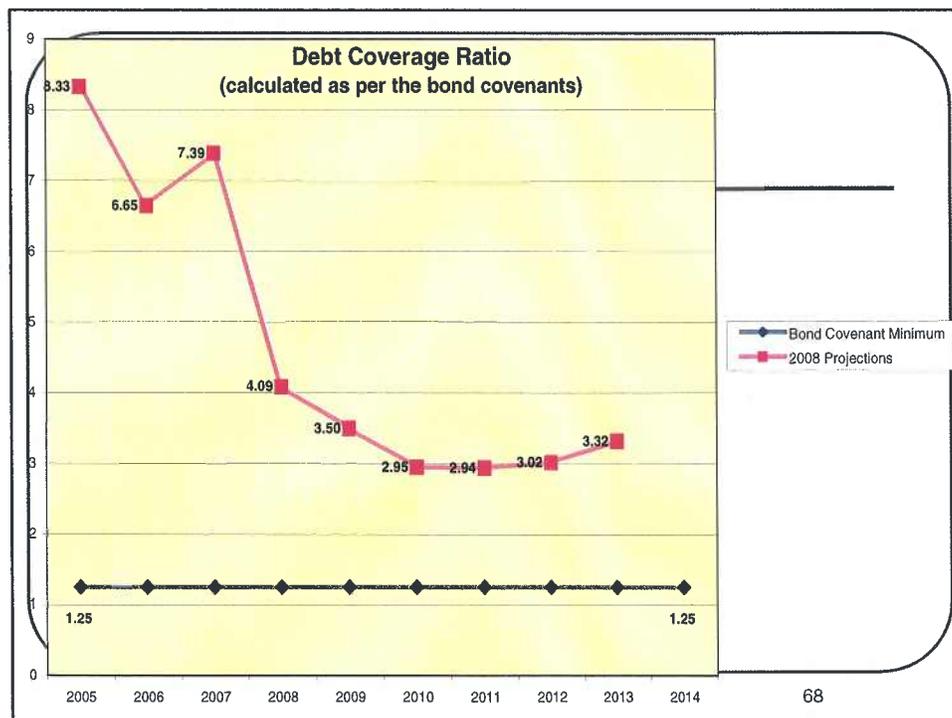
QUESTIONS?

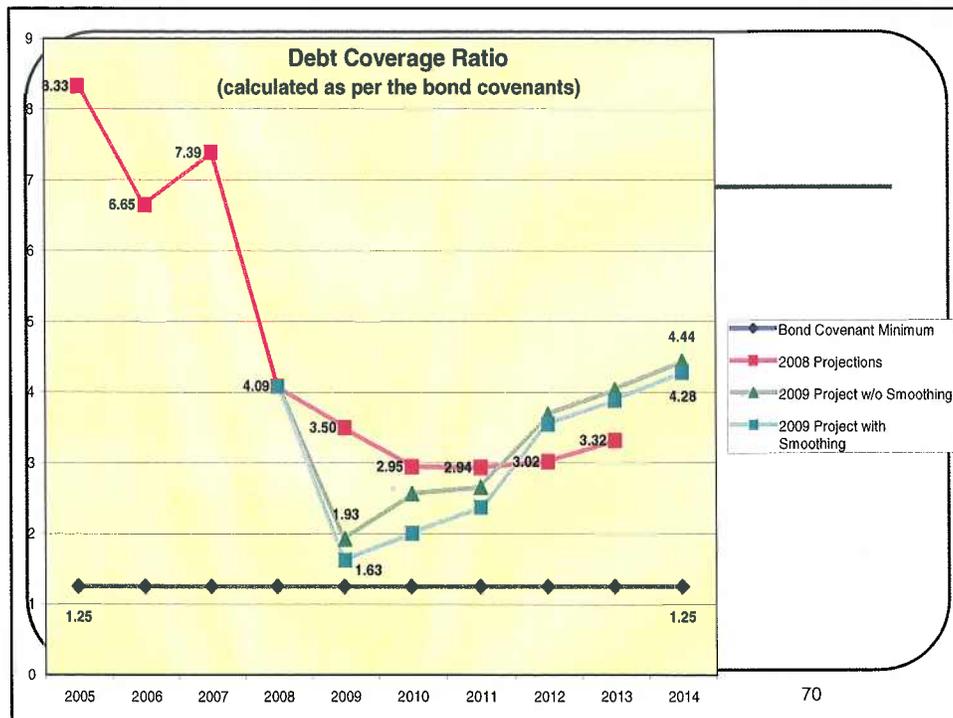
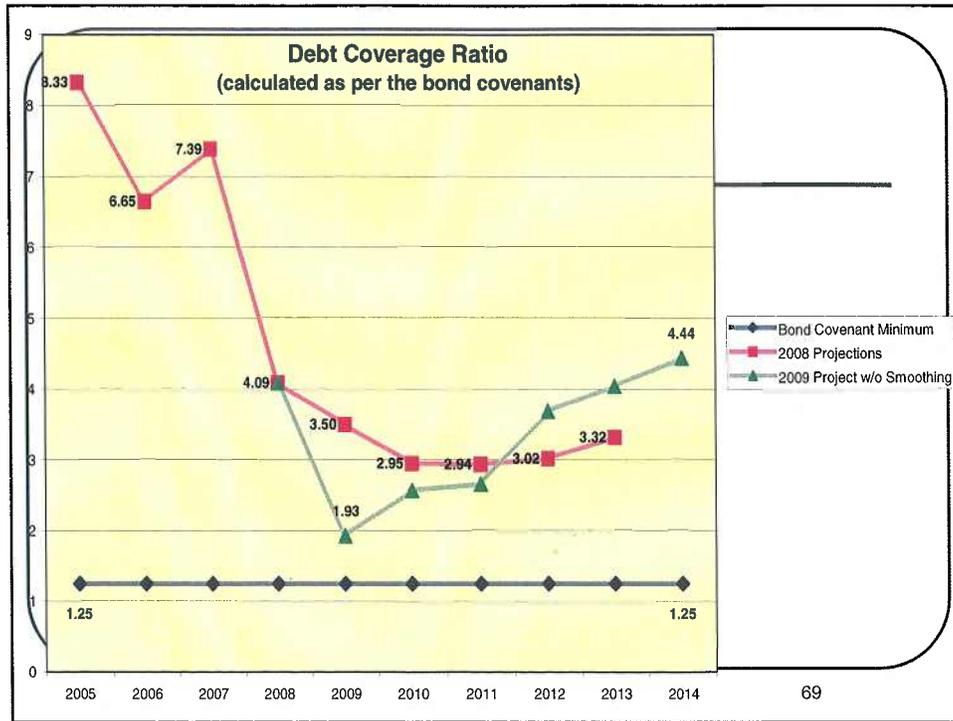
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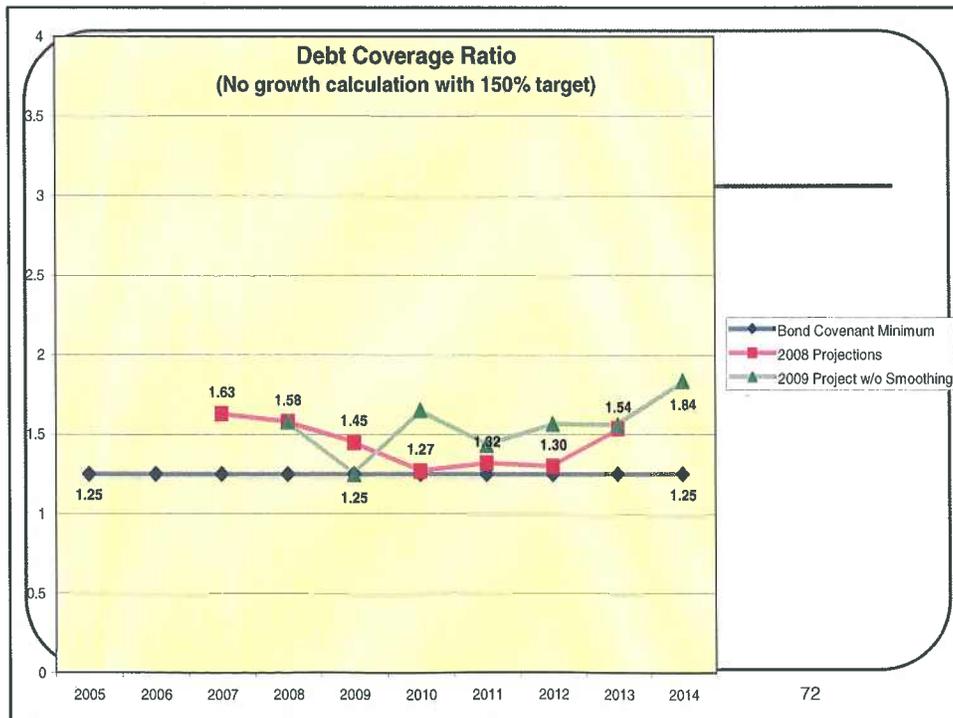
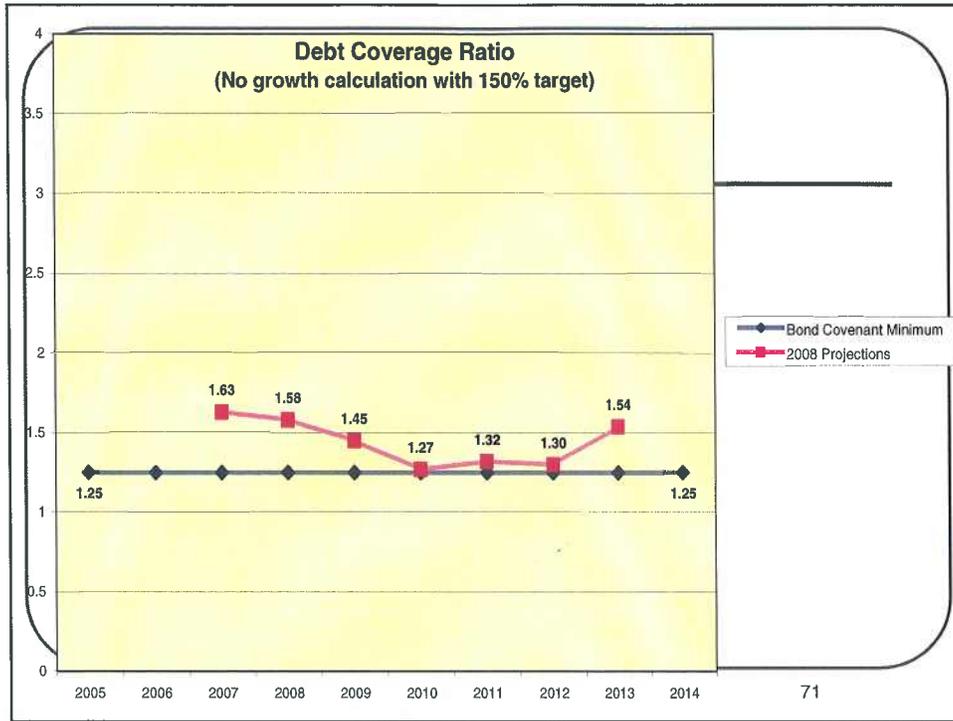
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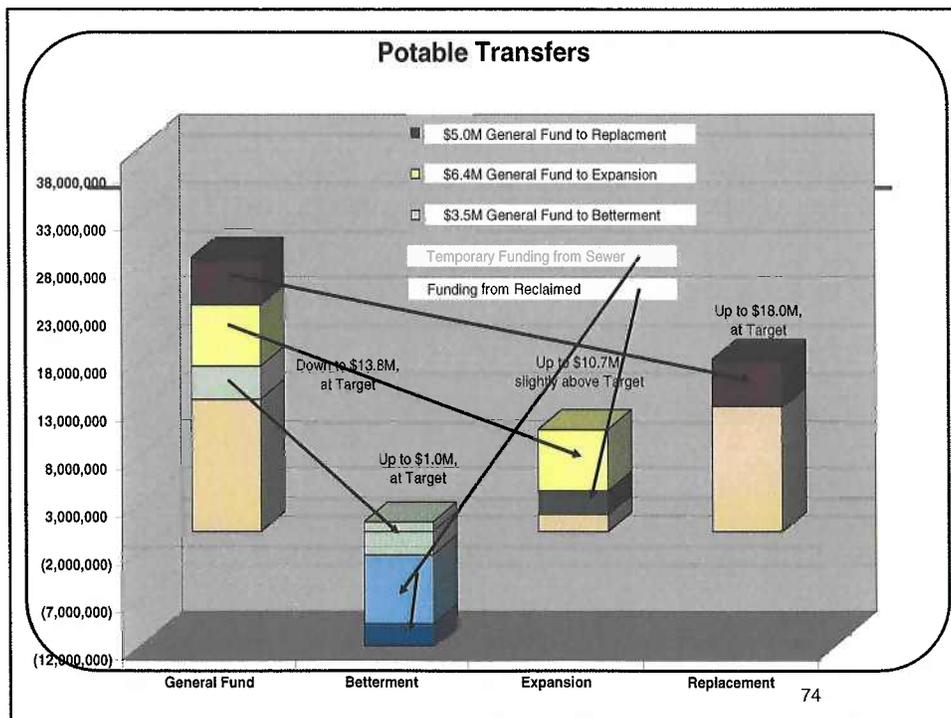
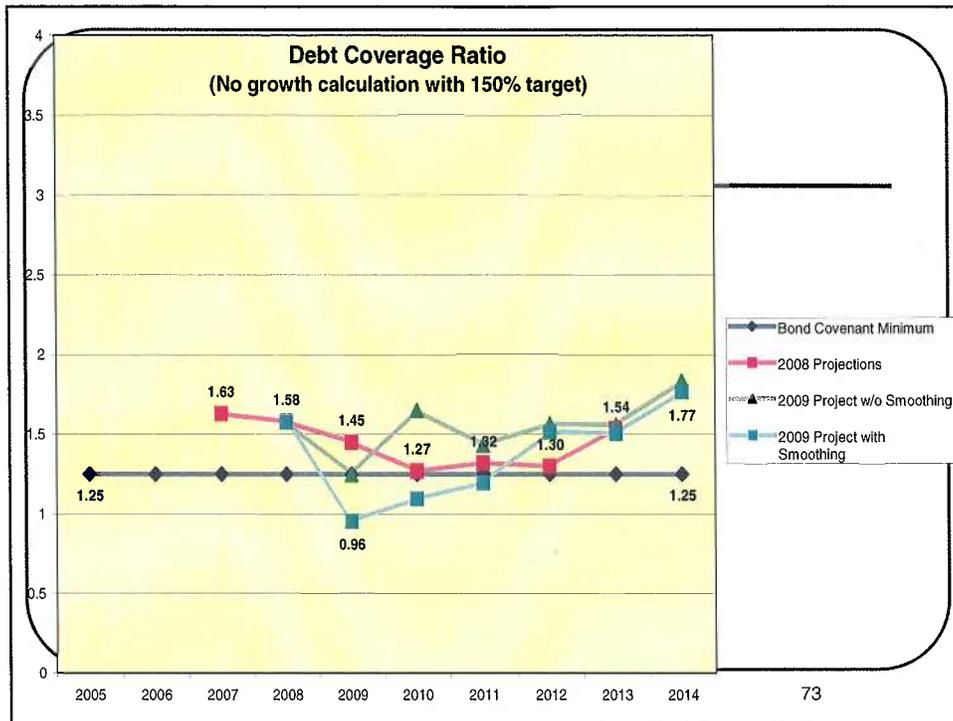
1. Debt Coverage Ratios (supplement to pages 7 to 9)
2. Budget Transfers (supplement to page 17)
 1. Potable Transfers
 2. Reclaimed Transfers
 3. Sewer Transfers
3. Rate Changes (supplement to page 24)
 1. Potable Rates
 2. Recycled Rates
 3. Sewer Rates
4. CIP (supplement to pages 25 to 34)
 1. CIP 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

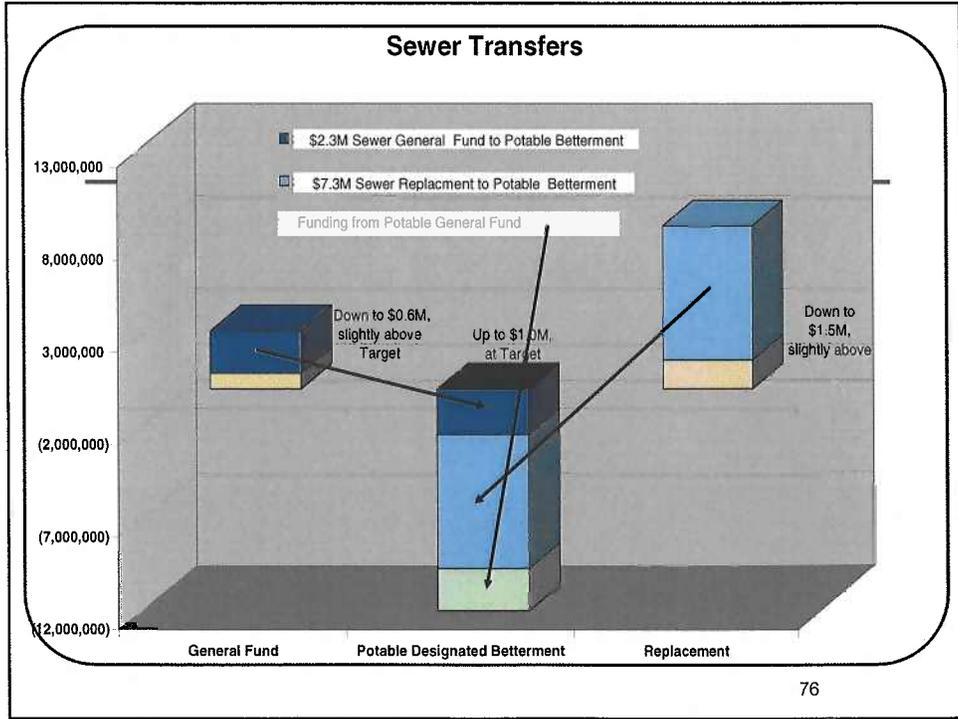
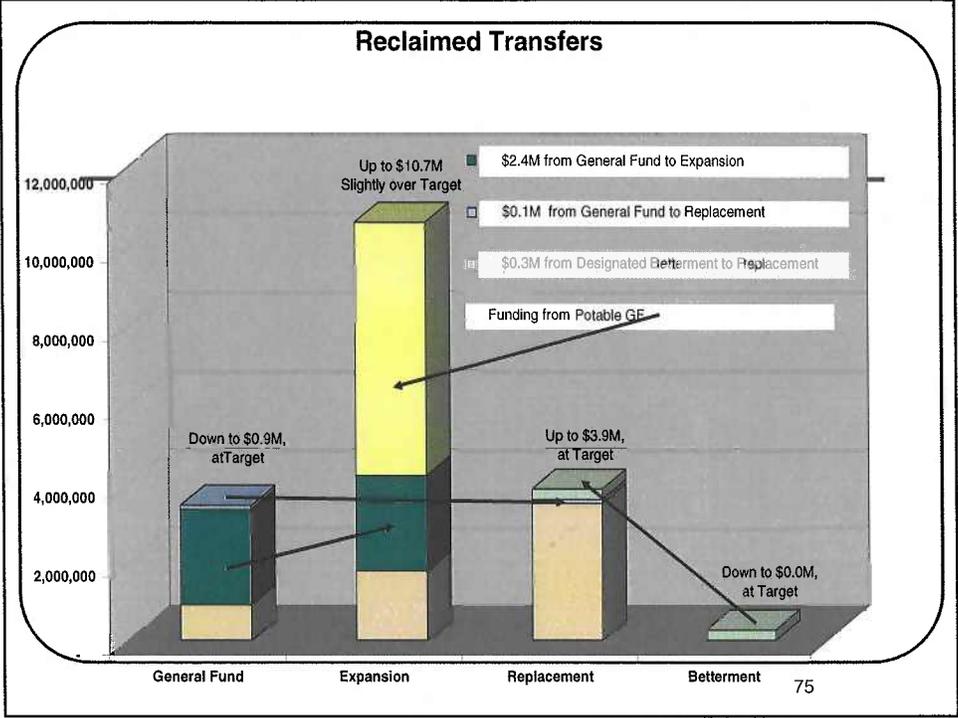
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Potable Rate Changes

- 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

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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

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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	\$833	\$833	\$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 - 16-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
P2461	Records Management System Upgrade	\$150	\$150	\$0
P2462	Otay River Demineralization Feasibility Study	\$200	\$200	\$0
P2465	Regulatory Site Material Storage Bins	\$250	\$250	\$0
P2467	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 - F.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, SDCWA 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	Rosanto 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 Air/Vac 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 Budget	FY 09	
			Proposed Budget	Budget Decreases
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

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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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