

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

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM

THURSDAY
July 19, 2012
11:30 A.M.

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

AGENDA

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

DISCUSSION ITEMS

3. APPROVE THE ISSUANCE OF A PURCHASE ORDER TO RDO EQUIPMENT COMPANY, INC. IN THE AMOUNT OF \$102,515.50 FOR THE PURCHASE OF ONE (1) JOHN DEERE BACKHOE (MARTINEZ) [5 minutes]
4. ADOPT ORDINANCE NO. 534 AMENDING THE DISTRICT'S CODE OF ORDINANCES SECTION 28, CONNECTION FEES AND CHARGES FOR POTABLE OR RECLAIMED WATER SERVICE; APPENDIX A, SCHEDULE OF FEES AND CHARGES, SECTION 28.02; AND SECTION 27, REQUIREMENTS AND LIMITATIONS FOR OBTAINING WATER SERVICE, EFFECTIVE SEPTEMBER 1, 2012 (BELL/KENNEDY) [10 minutes]
5. ADOPT RESOLUTION NO. 4201 OF THE DISTRICT'S CODE OF ORDINANCE AMENDING POLICY NO. 25, THE RESERVE POLICY, WHICH INCLUDES UPDATED GLOSSARY DEFINITIONS (BELL) [5 minutes]

6. RECEIVE THE DISTRICT'S INVESTMENT POLICY (POLICY NO. 27) FOR REVIEW AND TO RE-DELEGATE AUTHORITY FOR ALL INVESTMENT RELATED ACTIVITIES TO THE CHIEF FINANCIAL OFFICER IN ACCORDANCE WITH GOVERNMENT CODE SECTION 53607 (BELL) [5 minutes]
7. ADJOURNMENT

BOARD MEMBERS ATTENDING:

Jose Lopez, Chair
Mitch Thompson

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.

The Agenda, and any attachments containing written information, are available at the District's website at www.otaywater.gov. Written changes to any items to be considered at the open meeting, or to any attachments, will be posted on the District's website. Copies of the Agenda and all attachments are also available through the District Secretary by contacting her at (619) 670-2280.

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 July 13, 2012 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 meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on July 13, 2012.

/s/ Susan Cruz, District Secretary

AGENDA ITEM 3



STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	August 1, 2012
SUBMITTED BY:	Jose Martinez, Utility Services Manager	PROJECT:	Various DIV. NO. ALL
APPROVED BY:	<input checked="" type="checkbox"/> Pedro Porras, Chief of Water Operations <input checked="" type="checkbox"/> German Alvarez, Asst. General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Approval to Purchase Replacement Backhoe		

GENERAL MANAGER'S RECOMMENDATION:

That the Board authorize the General Manager to issue a purchase order to RDO Equipment Company Inc. in the amount of \$102,515.50 for the purchase of one (1) John Deere Backhoe.

COMMITTEE ACTION:

See Attachment "A".

PURPOSE:

To obtain Board authorization to purchase a John Deere Backhoe.

ANALYSIS:

Included in the approved FY 2013 budget is one (1) new Backhoe. The Backhoe is a replacement scheduled to be utilized by the Utility Maintenance Staff.

Currently, the District's essential equipment includes six (6) backhoes, the oldest being unit #1565, a model year 1987 680 Case Backhoe. Due to the age of this machine this unit is to be replaced with a new APCD emissions compliant machine. Funding for this purchase has been included in the CIP P2366.

Based on system operation evaluations of work flow by the Construction/Maintenance supervision and management, it is recommended that 1 new John Deere model 330 Backhoe be purchased and the older Case Backhoe be declared surplus.

It should be noted that the existing backhoe is 25 years old. This replacement will noticeably reduce the District's diesel emissions output and will be in compliance with APCD regulations. Purchase price includes the John Deere Backhoe (\$81,389.00), an Okada Breaker (\$13,753.00) and applicable taxes (\$7,373.51) for a total purchase price of \$102,515.51.

In accordance with District policy, bids were solicited for the backhoe. Three (3) bids were received. Prices received include all applicable fees and taxes and delivery.

Dealer	Bid	Bid Price
RDO Equipment Company	2012 John Deere 310SJ	\$102,515.51
Pape Machinery	2012 John Deere 310SJ	\$110,676.49
Blaine Equipment Co.	2012 John Deere 310SJ	\$112,045.99

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

The original projected cost for the purchase of this equipment is \$105,000. The actual cost of the vehicle will be \$102,515.51, to be charged against the APCD Replacement and Retrofits CIP P2366. The total cost in this equipment will not exceed budgeted funding.

The total FY13 project budget for the CIP P2366 APCD Replacement and Retrofits is \$120,000. Existing expenditures and current encumbrances for the CIP, including the vehicle purchased under this request if approved, is \$117,515.51. Based on the Utility Service Manager's evaluation, the CIP P2366 budget is sufficient to complete the budgeted purchase.

The Finance Department has determined that 100% of the funds are available in the replacement fund.

Expenditure Summary:

For FY-13, two items are proposed for purchased under this CIP.

FY13 Equipment Replacement CIP P2366 Budget:	\$120,000.00
1. Proposed Equipment Purchase: Backhoe	\$102,515.51
2. Proposed Replacement Light Tower	\$15,000.00
Total, Projected Expenditures of Equipment Replacements FY13, P2366 Budget:	\$117,515.51

STRATEGIC GOAL:

Have adequate equipment to operate the system to meet demand twenty-four hours a day, seven days a week.

LEGAL IMPACT:

None.

Attachments: Attachment A - Committee Action



ATTACHMENT A

SUBJECT/PROJECT:	
------------------	--

COMMITTEE ACTION:

The Finance, Administration and Communications Committee met on July 19, 2012 and supported staffs' recommendation.

NOTE:

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



STAFF REPORT

TYPE MEETING:	Regular Board Meeting	MEETING DATE:	August 1, 2012
SUBMITTED BY:	Rita Bell, Finance Manager Bob Kennedy, Senior Civil Engineer	PROJECT:	DIV.NO. All
APPROVED BY: (Chief)	<input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Adopt Ordinance No. 534 Amending the District's Code of Ordinances Section 28, Connection Fees and Charges for Potable or Reclaimed Water Service; Appendix A, Schedule of Fees and Charges, Section 28.02; and Section 27, Requirements and Limitations for Obtaining Water Service, Effective September 1, 2012		

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopt Ordinance No. 534 to amend the District's Code of Ordinances Section 28, Connection Fees and Charges for Potable or Reclaimed Water Service; Appendix A, Schedule of Fees and Charges, Section 28.02; and Section 27, Requirements and Limitations for Obtaining Water Service, effective September 1, 2012.

PURPOSE:

To present to the Board revisions to the District's Code of Ordinances Section 28, Connection Fees and Charges for Potable or Reclaimed Water Service; Appendix A, Section 28.02, Installation Charges for Water Meter and Water Service Laterals, to update the District's meter fees and installation charges due to changes in material and labor costs; and to update Section 27, Requirements and Limitations for Obtaining Water Service.

ANALYSIS:

Background

Water meter fees and installation charges have not been updated since January 2002, when the automated meter reading (AMR) program was implemented. At this time, an AMR fee of \$147 was created to cover the higher cost of the AMR meters. Currently, about 48,200 of the approximately 48,500 District customer accounts have AMR water meters. These numbers reflect meters that were either replaced over the past ten years with an AMR meter or installed as a new AMR meter. Having a separate AMR fee is no longer necessary since all new meters sold are AMR.

By the end of Fiscal Year 2013, it is anticipated that all of the District's water meters will be AMR with some exceptions, such as temporary and fire service meters.

Since January 2002, meter technology regulations such as no-lead meters and installation methods have changed, making this an appropriate time to reexamine the method and cost involved with purchasing and installing meters.

In addition, staff evaluated Section 27, "Requirements for Obtaining Water Service," and is proposing changes. It is proposed to add Section 27.02G Phased Projects. This change will provide a developer option to phase the delivery of water meters based on the project implementation to build-out. It is also proposed to revise Section 27.03 "Manufacturers Recommended Maximum Flow Rate for District Meters." This change reflects advancements in equipment implemented by the District to capture volumes through the meters at both the high and low end of the meter spectrum.

Proposed Fees and Installation Charges

Historic meter costs, including additional parts, were based on the technology of the day and meters were priced by size only. Since many things have changed over the years, a review and update of these meters and fees was necessary.

The proposed meter fees are based on the actual purchase costs of the meters and the ancillary parts needed to install these meters. The meters and materials are based on size and service type which is categorized as Potable Non-Irrigation, Potable/Recycled Irrigation, and Combined Fire and Domestic.

The proposed installation charges are based on the District's standard labor rates (including fringe and overhead charges) for the salaries of Meter Maintenance Workers or Utility Crew as of July 1, 2012. The weight and configuration of current meters from 3/4" up to 2" require the same amount of time to install, based on the Meter Shop's most recent experience. Therefore, the proposed installation charge of \$96 will be the same for 3/4" to 2" meters. Meters that are 3" to 4" require an installation fee of \$578, based on two hours of labor for two Meter Maintenance Workers. The installation for a 6" meter is \$913, based on two hours of labor for three Meter Maintenance Workers. Lastly, the 8" and 10" meter installation fee of \$1,400 is based on a Utility Crew's average cost to install these meters.

The following table shows the existing and proposed installation fees and the elimination of the AMR fees:

Meter Size	Current Installation Fees			Proposed Fee	Change
	Install Fee	AMR Fee	Total		
3/4"	\$ 60.00	\$ 147.00	\$ 207.00	\$ 96.00	\$ (111.00)
1"	60.00	147.00	207.00	96.00	(111.00)
1.5"	103.00	147.00	250.00	96.00	(154.00)
2"	240.00	147.00	387.00	96.00	(291.00)
3"	300.00	147.00	447.00	578.00	131.00
4"	300.00	147.00	447.00	578.00	131.00
6"	300.00	147.00	447.00	913.00	466.00
8"	300.00	147.00	447.00	1,400.00	953.00
10"	300.00	147.00	447.00	1,400.00	953.00

All fees within the Code of Ordinances are listed in Appendix A. Proposed meter fees and installation charges are listed in Exhibit IV of the Attachments, which reflects the pending changes to Appendix A. Additionally, similar to Capacity and Annexation Fees, the recommendation is to increase meter fees on a quarterly basis, using the *Engineering News Record (ENR) Construction Cost Index* for the Los Angeles Region, to ensure fees keep up with current costs. The benefit of increasing the fees on a quarterly basis, tied to this index, is that they will maintain a more up-to-date full cost recovery in the interim periods between another fee review, which should be conducted at least every five years to keep up with changes in meter and installation costs and technologies.

FISCAL IMPACT: Joseph R. Beachem, Chief Financial Officer

Based on projected potable and recycled water meter sales, the fiscal impact for Fiscal Year 2013 is an increase in meter fee revenues of approximately \$16,700.

There is no fiscal impact for Section 27.

STRATEGIC GOAL:

To ensure that the costs of service are kept current, this revenue source will help the District meet its fiscal responsibility to its ratepayers.

LEGAL IMPACT: _____

None.

Attachments:

- A) Committee Action Form
- B) Ordinance No. 534
 - Exhibit I Strike-through Section 28
 - Exhibit II Proposed Section 28
 - Exhibit III Strike-through Appendix A
 - Exhibit IV Proposed Appendix A
 - Exhibit V Strike-through Section 27
 - Exhibit VI Proposed Section 27

ATTACHMENT A

SUBJECT/PROJECT:	Adopt Ordinance No. 534 Amending the District's Code of Ordinances Section 28, Connection Fees and Charges for Potable or Reclaimed Water Service; Appendix A, Schedule of Fees and Charges, Section 28.02; and Section 27, Requirements and Limitations for Obtaining Water Service, Effective September 1, 2012
-------------------------	---

COMMITTEE ACTION:

That the Finance, Administration and Communications Committee recommend that the Board adopt Ordinance No. 534 amending the District's Code of Ordinances Section 28, Connection Fees and Charges for Potable or Reclaimed Water Service; Appendix A, Schedule of Fees and Charges, Section 28.02; and Section 27, Requirements and Limitations for Obtaining Water Service, effective September 1, 2012.

NOTE:

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

ORDINANCE NO. 534

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE OTAY WATER DISTRICT AMENDING SECTION 28, CONNECTION FEES AND CHARGES FOR POTABLE OR RECLAIMED WATER SERVICE; APPENDIX A, SCHEDULE OF FEES AND CHARGES, SECTION 28.02; AND SECTION 27, REQUIREMENTS AND LIMITATIONS FOR OBTAINING WATER SERVICE

BE IT ORDAINED by the Board of Directors of Otay Water District that the District's Code of Ordinances, Section 28, Connection Fees and Charges for Potable or Reclaimed Water Service; and Appendix A, Section 28.02, Installation Charges for Water Meter and Water Service Laterals; and Section 27, Requirements and Limitations for Obtaining Water Service (per Exhibits II, IV and VI) be replaced.

NOW, THEREFORE, BE IT RESOLVED that the new proposed Section 28, Connection Fees and Charges for Potable or Recycled Water Service; Appendix A, Section 28.02, Installation Charges for Water Meter and Water Service Laterals; and Section 27, Requirements and Limitations for Obtaining Water Service of the Code of Ordinances shall become effective September 1, 2012.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting duly held this 1st day of August 2012, by the following roll call vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

President

ATTEST:

District Secretary

SECTION 28

CONNECTION FEES AND CHARGES FOR POTABLE OR ~~RECLAIMED~~
RECYCLED WATER SERVICE

Formatted: Font color: Red, Strikethrough

Formatted: Font color: Red

28.01 COLLECTION OF FEES AND CHARGES

A. Fees and Charges to be paid by the Customer.

The following fees and charges shall be paid by the customer to connect to a District water system for potable water or ~~reclaimed~~ recycled water service; these are in addition to the fees and charges in Section 9 and 25. Fees and charges shall include, but not be limited to, District fees, San Diego County Water Authority fees, applicable zone charge and charges for work performed by District personnel on behalf of the customer. These charges may include the installation by District personnel of a water service lateral, and inspections required due to the requirement of a back flow device. These charges may also include a meter fee, installation fee (where laterals exist), lateral fee, meter box fee, and excavation permit fee.

Formatted: Font color: Red, Strikethrough

Formatted: Font color: Red

B. Basis for Determination of Connection Fees and Charges.

The fees and charges shall be determined as follows:

For permanent water meters, including potable or recycled irrigation service, the total water connection fee shall be determined on the basis of the demand to be placed on the District water system. The extent of demand will be determined on the basis of the size of the water meter, as set forth in Section 27 of the Code. For fire service, as outlined in Section 38.03 of the Code, the size and fee would be set based on water use requirements without additional fire capacity. The water connection fee will be determined by multiplying the demand factor for the meter size, as set forth below, by the total of the District-wide capacity fee and applicable zone charge.

<u>Meter Size</u>	<u>Demand Factor</u>
3/4"	1
1	2-1/2
1-1/2"	5
2"	8
3"	16
4"	25
6"	50
8"	80
10"	115

1. The District-wide capacity fee and the applicable zone charge shall constitute the "base rate." For fees or charges after July 1, 2010, the base rate shall be adjusted quarterly for fluctuations in construction costs, as measured by the *Engineering News Record Construction Cost Index for the Los Angeles Region*. The ENR Construction Cost Index of 9777.19 (as of July 1, 2009) shall be deemed the "base index." The adjustment shall be in an amount equal to the percentage change in the ENR Construction Cost Index from the base index for the period from June 10, 2009 to the date of payment. (See Appendix A, 28.01 B.1. for fees.)

2. The District-wide new water supply fee shall constitute the "base rate." For fees or charges after July 1, 2010, the base rate shall be adjusted quarterly for fluctuations in construction costs, as measured by the *Engineering News Record Construction Cost Index for the Los Angeles Region*. The ENR Construction Cost Index of 9777.19 (as of July 1, 2009) shall be deemed the "base index." The adjustment shall be in an amount equal to the percentage change in the ENR Construction Cost Index from the base index for the period from June 10, 2009 to the date of payment. (See Appendix A, 28.01 B.2. for fees.)

28.02 INSTALLATION CHARGES FOR WATER METER AND WATER SERVICE LATERALS

The determination of the water meter or service lateral size shall be based upon the information provided by the customer as detailed in Section 27 of the Code. The meter fees and installation charges are set forth in Appendix A, 28.02.

Formatted: Font color: Red

Where a ~~water meter larger than 2-inch or a~~ new water lateral is required, a customized, written estimate of the District's costs will be prepared.

Formatted: Font color: Red, Strikethrough

The customer shall deposit the estimated costs with the District prior to commencement of the work. If actual costs incurred by the District are less than the amount deposited, the District shall refund the excess to the customer. If the actual costs incurred exceed the amount deposited, the customer shall reimburse the District for the additional costs.

A. The meter fees and installation charges shall be set effective ~~August~~ September 1, 2012, and then adjusted in the same manner as capacity fees as described in Section 28.01 B.1 above (See Appendix A, 28.01 B.2. for fees).

Formatted: Font color: Red

Formatted: List Paragraph, Indent: Left: 1", Hanging: 0.5", Numbered + Level: 1 + Numbering Style: A, B, C, ... + Start at: 1 + Alignment: Left + Aligned at: 1" + Indent at: 1.25"

Formatted: Font color: Red

28.03 METER FEE REFUND

A. If a water meter/service has been paid for but not installed, a customer may receive a refund of the District's capacity fee and charges. If San Diego County Water Authority capacity fees have been paid to San Diego County Water Authority, the customer shall request a refund from San Diego County Water Authority.

B. If the customer wants to change the meter/service size, they will be credited with the number of equivalent dwelling units they have previously purchased and will be refunded any balance per Section 28.03 A, above. If additional equivalent dwelling units are required, the customer will be charged based on 28.01 and 28.02.

C. If a water meter/service has been previously paid and installed, and the customer requests a different meter size, the customer shall pay for the new meter and installation fees, plus any differential in capacity and new water supply fees as described in Section 28.03 B above.

Formatted: Font color: Red

Formatted: Indent: Left: 1", Hanging: 0.5"

Formatted: Font: (Default) Courier New, Font color: Red

Formatted: Font color: Red

SECTION 28 CONNECTION FEES AND CHARGES FOR POTABLE OR RECYCLED WATER SERVICE

28.01 COLLECTION OF FEES AND CHARGES

A. Fees and Charges to be paid by the Customer.

The following fees and charges shall be paid by the customer to connect to a District water system for potable water or recycled water service; these are in addition to the fees and charges in Section 9 and 25. Fees and charges shall include, but not be limited to, District fees, San Diego County Water Authority fees, applicable zone charge and charges for work performed by District personnel on behalf of the customer. These charges may include the installation by District personnel of a water service lateral, and inspections required due to the requirement of a back flow device. These charges may also include a meter fee, installation fee (where laterals exist), lateral fee, meter box fee, and excavation permit fee.

B. Basis for Determination of Connection Fees and Charges.

The fees and charges shall be determined as follows:

For permanent water meters, including potable or recycled irrigation service, the total water connection fee shall be determined on the basis of the demand to be placed on the District water system. The extent of demand will be determined on the basis of the size of the water meter, as set forth in Section 27 of the Code. For fire service, as outlined in Section 38.03 of the Code, the size and fee would be set based on water use requirements without additional fire capacity. The water connection fee will be determined by multiplying the demand factor for the meter size, as set forth below, by the total of the District-wide capacity fee and applicable zone charge.

<u>Meter Size</u>	<u>Demand Factor</u>
3/4"	1
1	2-1/2
1-1/2"	5
2"	8
3"	16
4"	25
6"	50
8"	80
10"	115

1. The District-wide capacity fee and the applicable zone charge shall constitute the "base rate." For fees or charges after July 1, 2010, the base rate shall be adjusted quarterly for fluctuations in construction costs, as measured by the *Engineering News Record Construction Cost Index for the Los Angeles Region*. The ENR Construction Cost Index of 9777.19 (as of July 1, 2009) shall be deemed the "base index." The adjustment shall be in an amount equal to the percentage change in the ENR Construction Cost Index from the base index for the period from June 10, 2009 to the date of payment. (See Appendix A, 28.01 B.1. for fees.)

2. The District-wide new water supply fee shall constitute the "base rate." For fees or charges after July 1, 2010, the base rate shall be adjusted quarterly for fluctuations in construction costs, as measured by the *Engineering News Record Construction Cost Index for the Los Angeles Region*. The ENR Construction Cost Index of 9777.19 (as of July 1, 2009) shall be deemed the "base index." The adjustment shall be in an amount equal to the percentage change in the ENR Construction Cost Index from the base index for the period from June 10, 2009 to the date of payment. (See Appendix A, 28.01 B.2. for fees.)

28.02

INSTALLATION CHARGES FOR WATER METER AND WATER SERVICE LATERALS

The determination of the water meter or service lateral size shall be based upon the information provided by the customer as detailed in Section 27 of the Code. The meter fees and installation charges are set forth in Appendix A, 28.02.

Where a new water lateral is required, a customized, written estimate of the District's costs will be prepared.

The customer shall deposit the estimated costs with the District prior to commencement of the work. If actual costs incurred by the District are less than the amount deposited, the District shall refund the excess to the customer. If the actual costs incurred exceed the amount deposited, the customer shall reimburse the District for the additional costs.

- A. The meter fees and installation charges shall be set effective September 1, 2012, and then adjusted in the same manner as capacity fees as described in Section 28.01 B.1 above (See Appendix A, 28.01 B.2. for fees).

28.03

METER FEE REFUND

- A. If a water meter/service has been paid for but not installed, a customer may receive a refund of the District's capacity fee and charges. If San Diego County Water Authority capacity fees have been paid to San Diego County Water Authority, the customer shall request a refund from San Diego County Water Authority.
- B. If the customer wants to change the meter/service size, they will be credited with the number of equivalent dwelling units they have previously purchased and will be refunded any balance per Section 28.03 A, above. If additional equivalent dwelling units are required, the customer will be charged based on 28.01 and 28.02.
- C. If a water meter/service has been previously paid and installed, and the customer requests a different meter size, the customer shall pay for the new meter and installation fees, plus any differential in capacity and new water supply fees as described in Section 28.03 B above.

Otay Water District							
Appendix A							
Section #	Code #	Fee Description	Meter Size			Charges	
9	9.04 A.1.	District Annexation Processing Fee				\$744.00	
	9.04 B.	Annexation Fees for Water Annexations into Otay Water District Boundaries				District-wide Annexation Fee	
			3/4"			\$1,556.00	
			1"			\$3,890.00	
			1-1/2"			\$7,780.00	
			2"			\$12,448.00	
			3"			\$24,896.00	
			4"			\$38,900.00	
			6"			\$77,800.00	
			8"			\$124,480.00	
			10"			\$178,940.00	
	9.04 C.4.	Annexation Fees for Annexations to Sewer Improvement Districts				\$5,741.00	
10	10.01	Filing of Petition				\$50.00	
23	23.04	Backflow Certification					
		- Second Notification				\$10.00	
		- Third Notification				\$25.00	
		- Reconnection (service resumed)				\$50.00	
		- Initial Filing Fee (New applicants for addition to the list of approved backflow prevention device testers)				\$25.00	
		- Renewal Filing Fee (to remain on list of approved backflow prevention device testers)			Annually	\$10.00	
25	25.03 A.	Set-up Fees for Accounts				\$10.00	

Section #	Code #	Fee Description	Meter Size	Charges		
25	25.03 C.	Monthly Fixed System Charges, MWD & CWA Charges ⁽¹⁾	Meter Size	System Charge	MWD & CWA Fixed Charge	Total Fixed Charge
			3/4"	\$14.58	\$14.01	\$28.59
			1"	\$18.52	\$23.33	\$41.85
			1-1/2"	\$28.37	\$46.74	\$75.11
			2"	\$40.18	\$74.74	\$114.92
			3"	\$71.68	\$149.48	\$221.16
			4"	\$107.13	\$233.58	\$340.71
			6"	\$205.59	\$467.09	\$672.68
			8"	\$323.73	\$747.39	\$1,071.12
			10"	\$461.57	\$1,070.74	\$1,532.31
25	25.03 E.1.(b)	Domestic Residential Water Rates ⁽¹⁾		Unit	Charge	
				0 - 5	\$1.58	
				6-10	\$2.45	
				11-22	\$3.19	
				23 or more	\$4.92	
25	25.03 E.2.(b)	Multiple Residential Water Rates - Per Dwelling Unit ⁽¹⁾		0-4	\$2.43	
				5-9	\$3.15	
				10 or more	\$4.85	
25	25.03 E.3.(b)	Business and Publicly-Owned Water Rates ⁽¹⁾	under 10"	0-173	\$2.59	
				174-831	\$2.66	
				832 or more	\$2.70	
			10" & larger	0-7,426	\$2.59	
				7,427-14,616	\$2.66	
				14,617 or more	\$2.70	
25	25.03 E.4.(c)	Irrigation and Commercial Agricultural Using Potable Water Rates ⁽¹⁾	1" & smaller	0-49	\$3.53	
				50-132	\$3.60	
				133 or more	\$3.66	

⁽¹⁾ Water rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges					
25	25.03 E.4.(c)	Irrigation and Commercial Agricultural Using Potable Water Rates ⁽¹⁾	1.5" & 2"	0-144	\$3.53				
				145-355	\$3.60				
				356 or more	\$3.66				
			3" & larger	0-1,044	\$3.53				
				1,045-8,067	\$3.60				
				8,068 or more	\$3.66				
			25	25.03 E.5.(c)	Recycled Water Rates ⁽¹⁾	3/4" - 1"	0-42	\$3.02	
							43-97	\$3.06	
							98 or more	\$3.12	
1.5" & 2"	0-168	\$3.02							
	169-402	\$3.06							
	403 or more	\$3.12							
3" & 4"	0-403	\$3.02							
	404-820	\$3.06							
	821 or more	\$3.12							
6" & larger	0-7,916	\$3.02							
	7,917-16,357	\$3.06							
	16,358 or more	\$3.12							
25	25.03 E.6.(b)	Temporary and Construction Water Service Rates ⁽¹⁾				1" & smaller	0-49	\$7.06	
							50-132	\$7.20	
							133 or more	\$7.32	
			1.5" & 2"	0-144	\$7.06				
				145-355	\$7.20				
				356 or more	\$7.32				
			3" & larger	0-1,044	\$7.06				
				1,045-8,067	\$7.20				
				8,068 or more	\$7.32				

(1) Water rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges	
25	25.03 E.8.(b)	Tank Trucks Water Rates ⁽¹⁾	1" & smaller	0-49	\$7.06
				50-132	\$7.20
				133 or more	\$7.32
			1.5" & 2"	0-144	\$7.06
				145-355	\$7.20
				356 or more	\$7.32
			3" & larger	0-1,044	\$7.06
				1,045-8,067	\$7.20
				8,068 or more	\$7.32
25	25.03 E.9.(c)	Application Fee for Water Service Outside District Boundaries			\$500.00
25	25.03 E.9.(d)	Water Rate for Service Outside District Boundaries ⁽¹⁾	1" & smaller	0-49	\$7.06
				50-132	\$7.20
				133 or more	\$7.32
			1.5" & 2"	0-144	\$7.06
				145-355	\$7.20
				356 or more	\$7.32
			3" & larger	0-1,044	\$7.06
				1,045-8,067	\$7.20
				8,068 or more	\$7.32
25	25.03 E.10.(b)	Application Fee for Water Service Outside an Improvement District			\$275.00
25	25.03 E.10.(c)	Water Rate for Service Outside Improvement District ⁽¹⁾	1" & smaller	0-49	\$7.06
				50-132	\$7.20
				133 or more	\$7.32
(1) Water rates on all billing cycles beginning in calendar year 2012					

Section #	Code #	Fee Description	Meter Size	Charges					
25	25.03 E.10.(c)	Water Rate for Service Outside Improvement District (continued) ⁽¹⁾	1.5" & 2"	0-144	\$7.06				
				145-355	\$7.20				
				356 or more	\$7.32				
			3" & larger	0-1,044	\$7.06				
				1,045-8,067	\$7.20				
				8,068 or more	\$7.32				
			25	25.03 E.11.(c)	Fire Service Monthly Charge			\$30.11	
			25	25.03 E.12.(b)	Additional Water Service for Property Not Subject to District Taxes		per unit	\$0.293	
			25	25.03 E.13.(b)	Interim Service Water Rate in Improvement District 7 ⁽¹⁾	1" & smaller	0-49	\$7.06	
50-132	\$7.20								
133 or more	\$7.32								
1.5" & 2"	0-144	\$7.06							
	145-355	\$7.20							
	356 or more	\$7.32							
3" & larger	0-1,044	\$7.06							
	1,045-8,067	\$7.20							
	8,068 or more	\$7.32							
25	25.03 F.	Energy Charges for Pumping Water ⁽¹⁾		Per 100 ft of lift over 450 ft per unit	\$0.045				
25	25.03 G.1.	Additional Water Charge for Service in the North District		Per unit charge except for the first 5 units of residential	\$0.08				
(1) Water rates on all billing cycles beginning in calendar year 2012									

Section #	Code #	Fee Description	Meter Size	Charges			
25	25.03 H.1.	Additional Water Charges for Service in the Improvement District 9 Water Service Zone		Per unit charge except for the first 5 units of residential	\$0.27		
25	25.03 H.2.	Additional Monthly System Fee for Improvement District 9			\$2.00		
25	25.03 I.1.(a)	Additional Water Charges for Services in Improvement District 3		Per unit charge except for the first 5 units of residential	0.19 per H.C.F.	Effective Jan 1, 2011	
				"	0.20 per H.C.F.	Effective Jan 1, 2012	
				"	0.21 per H.C.F.	Effective Jan 1, 2013	
25	25.03 I.1.(b)	Additional Water Charges for Services in Improvement District 10		Per unit charge except for the first 5 units of residential	0.27 per H.C.F.	Effective Jan 1st 2011-2018	
25	25.03 I.1.(c)	Additional Water Charges for Services in La Presa		Per unit charge except for the first 5 units of residential	0.08 per H.C.F.	Effective Jan 1st 2011-2013	
25	25.04 A.	Deposits for Non-Property Owners	3/4"		\$75.00		
			1"		\$150.00		
			1-1/2"		\$200.00		
			2"		\$360.00		
			3"		\$800.00		
			4"		\$1,350.00		
			6"		\$3,300.00		
			8"		\$4,400.00		
			10"		\$5,500.00		

Section #	Code #	Fee Description	Meter Size	Charges			
28	28.01 B.1.	Capacity Fees and Zone Charge			District-wide Capacity Fee		
		- I.D.'s 1,2,3,5,7,9,10,19,20,22,22/27 (excluding Triad), and 25 (only I.D.'s 5,7,10,19,22, and 22/27 require reclaimed irrigation meters).	3/4"		\$7,900.00		
			1"		\$19,750.00		
			1-1/2"		\$39,500.00		
			2"		\$63,200.00		
			3"		\$126,400.00		
			4"		\$197,500.00		
			6"		\$395,000.00		
			8"		\$632,000.00		
			10"		\$908,500.00		
		- 22/27 TRIAD	3/4"		\$5,912.00		
			1"		\$14,780.00		
			1-1/2"		\$29,560.00		
			2"		\$47,296.00		
			3"		\$94,592.00		
			4"		\$147,800.00		
			6"		\$295,600.00		
			8"		\$472,960.00		
			10"		\$679,880.00		
28	28.01 B.2.	New Water Supply Fee					
		- All IDs including Triad	3/4"		\$910.00		
			1"		\$2,275.00		
			1-1/2"		\$4,550.00		
			2"		\$7,280.00		
			3"		\$14,560.00		
			4"		\$22,750.00		
			6"		\$45,500.00		
			8"		\$72,800.00		
			10"		\$104,650.00		
28	28.02	Installation Charges for Water Meter and Water Service Laterals	Meter Size	Meter-Fee	Meter-Box	Installation	Total-Fee
			3/4"	\$59.00	\$47.00	\$60.00	\$166.00
			1"	\$117.00	\$47.00	\$60.00	\$224.00
			1-1/2"	\$250.00	\$61.00	\$103.00	\$414.00

Section #	Code #	Fee Description	Meter Size	Charges			
28	28.02	Installation Charges for Water Meter and Water Service Laterals (continued)	Meter Size				
			2"	\$475.00	\$61.00	\$240.00	\$776.00
			3"	\$653.00	\$1,770.00	\$300.00	\$2,723.00
			4"	\$1,370.00	\$1,770.00	\$300.00	\$3,440.00
			6"	\$2,500.00	\$1,770.00	\$300.00	\$4,570.00
			8"	\$3,737.00	\$2,760.00	\$300.00	\$6,797.00
			10"	\$5,060.00	\$2,760.00	\$300.00	\$8,120.00
31	31.02 D.1.	Requirement of Temporary Meter for Service		minimum/per day	\$25.00		
31	31.03 A.1.	Requirement of Deposit for Temporary Meters					
			3/4"		\$150.00		
			1"		\$180.00		
			1-1/2"		\$330.00		
			2"		\$2,046.00		
			3"		\$850.00		
			4"		\$1,986.00		
			6"		\$2,465.00		
		- Construction Trailer Temporary Meter	2"		\$2,046.00		
		- Tank Truck Temporary Meter (Ordinance No. 372)	2"		\$850.00		
31	31.03 A.4.	Temporary Meter Install & Removal			\$128.00		
31	31.03 A.5.	Temporary Meter Move Fee (includes backflow certification)	3/4" - 2"		\$64.00		
			3" and larger	No backflow test	\$64.00		
33	33.07 A.	Customer Request for Meter Test (Deposit)	5/8", 3/4" & 1"		\$25.00		
			1-1/2" & 2 "		\$50.00		
			3" & Larger		\$125.00		
34	34.01 D.2.	Returned Check Charges			\$25.00		

Section #	Code #	Fee Description	Meter Size	Charges			
34	34.02 B.	Late Payment Charge			5% of Delinquent Balance		
34	34.02 G.1.(d)	Delinquency Tag			\$10.00		
34	34.02 G.3.(a)	Meter "Turn-On" Charge		During regular business hours	\$35.00		
34	34.02 G.3.(b)	Meter "Turn-On" Charge		After regular business hours	\$65.00		
53	53.04 C.1.	Sewer Connection Fee - Russell Square			\$7,500.00		
53	53.04 C.2.	Monthly Sewer Service Charge - Russell Square			\$200.00		
53	53.11 A.	Set-up Fees for Accounts			\$10.00		
53	53.11 B.2.	Residential Sewer Charges ⁽²⁾		Rate multiplied by winter average units	\$1.77		
53	53.11 B.3.	Residential Sewer Charges Base Fee ⁽²⁾	5/8" & 3/4"		\$12.26		
			1" & larger		\$17.88		
53	53.11 B.4.	Monthly Residential Sewer Rate Without Consumption History ⁽²⁾	5/8" & 3/4"		\$34.83		
			1" & larger		\$40.45		
53	53.11.C.4.	Winter Averaging - Sewer					
		- Single Residential		15 units - 15% discount = 12.75 units			
		- Multi-Residential		6 units - 15% discount = 5.1 units			

⁽²⁾ Sewer rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges
53	53.11 D.2.	Multi-Residential Rate Charges - Sewer ⁽²⁾		Rate multiplied by winter average units \$1.77
53	53.11 E.6.	Public Schools Sewer Rate ⁽²⁾		Per ASU (Based on Student Count) \$41.75
53	53.11 F.1.	Monthly Service Charge for Commercial and Institutional Sewer ⁽²⁾		Per ASU \$41.75
60	60.03	Issuance of Availability Letters for Water and/or Sewer Service		\$75.00
72	72.04 A.1.	Locking or Removing Damaged or Tampered Meters		
		- To Pull and Reset Meter	3/4" - 2"	\$170.00
		- Broken Curbstop or Tabs	3/4" - 1"	\$192.00
		- If Customer uses Jumper	3/4" - 1"	\$149.00
		- Broken Lock/Locking Device	3/4" - 1"	\$56.00
		- Cap Lock (Welded)	3/4" - 1"	\$158.00
		- Broken Curbstop or Tabs	1.5" - 2"	\$265.00
		- To Pull and Reset Meter	3"	\$351.00
		- To Pull and Reset Meter	4"	\$454.00
		- To Pull and Reset Meter	6"	\$454.00
		- To Pull and Reset Meter	8"	\$600.00
		- To Pull and Reset Meter	10"	\$600.00
72	72.05 D. A.	Type I Fine		
		- First Violation		\$100.00
		- Second Violations		\$200.00
		- Third or each additional violation of that same ordinance or requirement within a twelve-month period		\$500.00

(2) Sewer rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges
		Type II Fine	Will not exceed per each day the violation is identified or continues.	\$5,000.00
		Type III Fine	Fine up to amount specified per each day the violation is identified or continues.	\$500.00
		Type IV Fine	Fine up to amount specified per each day the violation is identified or continues.	\$500.00
State Water Code	#71630 & Annual Board Resolution #4142	Water Availability/Standby Annual Special Assessment Charge	Less than one-acre all I.D.s & Outside an I.D.	\$10.00
			Per acre in I.D. 1, 5, & Outside an I.D.	\$10.00
			Per acre in I.D. 2,3,7,9,10,19,20,22,25,& 27	\$30.00
			Less than one-acre Outside I.D. and greater than one mile from District facilities.	\$3.00
			Per acre for outside I.D. & greater than one mile from District facilities.	\$3.00
State Water Code	#71630 & Annual Board Resolution #4142	Sewer Availability/Standby Annual Special Assessment Charge	Less than one acre I.D. 4, 14, & 18	\$10.00
			Per acre I.D. 4, 14, & 18	\$30.00

Section #	Code #	Fee Description	Meter Size	Charges		
Annual Board Resolution		General Obligation Bond Annual Tax Assessment	Per \$1000 of assessed value for I.D. 27	\$0.005		
Policies						
5		Copies of Identifiable Public Records		\$0.10/page		
		Cassette Tape Duplication		\$2.00/tape		
		Yearly Subscription Service for Agendas and Ratified Minutes		\$20.00/year or \$0.50/meeting		
		Yearly Subscription Service for Board Packet and Ratified Minutes		\$100.00/year for first copy and \$200.00/year for each copy thereafter		

Otay Water District							
Appendix A							
Section #	Code #	Fee Description	Meter Size		Charges		
9	9.04 A.1.	District Annexation Processing Fee			\$744.00		
	9.04 B.	Annexation Fees for Water Annexations into Otay Water District Boundaries			District-wide Annexation Fee		
			3/4"		\$1,556.00		
			1"		\$3,890.00		
			1-1/2"		\$7,780.00		
			2"		\$12,448.00		
			3"		\$24,896.00		
			4"		\$38,900.00		
			6"		\$77,800.00		
			8"		\$124,480.00		
			10"		\$178,940.00		
	9.04 C.4.	Annexation Fees for Annexations to Sewer Improvement Districts			\$5,741.00		
10	10.01	Filing of Petition			\$50.00		
23	23.04	Backflow Certification					
		- Second Notification			\$10.00		
		- Third Notification			\$25.00		
		- Reconnection (service resumed)			\$50.00		
		- Initial Filing Fee (New applicants for addition to the list of approved backflow prevention device testers)			\$25.00		
		- Renewal Filing Fee (to remain on list of approved backflow prevention device testers)		Annually	\$10.00		
25	25.03 A.	Set-up Fees for Accounts			\$10.00		

Section #	Code #	Fee Description	Meter Size	Charges		
				System Charge	MWD & CWA Fixed Charge	Total Fixed Charge
25	25.03 C.	Monthly Fixed System Charges, MWD & CWA Charges ⁽¹⁾	Meter Size			
			3/4"	\$14.58	\$14.01	\$28.59
			1"	\$18.52	\$23.33	\$41.85
			1-1/2"	\$28.37	\$46.74	\$75.11
			2"	\$40.18	\$74.74	\$114.92
			3"	\$71.68	\$149.48	\$221.16
			4"	\$107.13	\$233.58	\$340.71
			6"	\$205.59	\$467.09	\$672.68
			8"	\$323.73	\$747.39	\$1,071.12
			10"	\$461.57	\$1,070.74	\$1,532.31
25	25.03 E.1.(b)	Domestic Residential Water Rates ⁽¹⁾		Unit	Charge	
				0 - 5	\$1.58	
				6-10	\$2.45	
				11-22	\$3.19	
				23 or more	\$4.92	
25	25.03 E.2.(b)	Multiple Residential Water Rates - Per Dwelling Unit ⁽¹⁾		0-4	\$2.43	
				5-9	\$3.15	
				10 or more	\$4.85	
25	25.03 E.3.(b)	Business and Publicly-Owned Water Rates ⁽¹⁾	under 10"	0-173	\$2.59	
				174-831	\$2.66	
				832 or more	\$2.70	
			10" & larger	0-7,426	\$2.59	
				7,427-14,616	\$2.66	
				14,617 or more	\$2.70	
25	25.03 E.4.(c)	Irrigation and Commercial Agricultural Using Potable Water Rates ⁽¹⁾	1" & smaller	0-49	\$3.53	
				50-132	\$3.60	
				133 or more	\$3.66	

⁽¹⁾ Water rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges					
25	25.03 E.4.(c)	Irrigation and Commercial Agricultural Using Potable Water Rates (continued) ⁽¹⁾	1.5" & 2"	0-144	\$3.53				
				145-355	\$3.60				
				356 or more	\$3.66				
			3" & larger	0-1,044	\$3.53				
				1,045-8,067	\$3.60				
				8,068 or more	\$3.66				
			25	25.03 E.5.(c)	Recycled Water Rates ⁽¹⁾	3/4" - 1"	0-42	\$3.02	
							43-97	\$3.06	
							98 or more	\$3.12	
1.5" & 2"	0-168	\$3.02							
	169-402	\$3.06							
	403 or more	\$3.12							
3" & 4"	0-403	\$3.02							
	404-820	\$3.06							
	821 or more	\$3.12							
6" & larger	0-7,916	\$3.02							
	7,917-16,357	\$3.06							
	16,358 or more	\$3.12							
25	25.03 E.6.(b)	Temporary and Construction Water Service Rates ⁽¹⁾				1" & smaller	0-49	\$7.06	
							50-132	\$7.20	
							133 or more	\$7.32	
			1.5" & 2"	0-144	\$7.06				
				145-355	\$7.20				
				356 or more	\$7.32				
			3" & larger	0-1,044	\$7.06				
				1,045-8,067	\$7.20				
				8,068 or more	\$7.32				

⁽¹⁾ Water rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges	
25	25.03 E.8.(b)	Tank Trucks Water Rates ⁽¹⁾	1" & smaller	0-49	\$7.06
				50-132	\$7.20
				133 or more	\$7.32
			1.5" & 2"	0-144	\$7.06
				145-355	\$7.20
				356 or more	\$7.32
			3" & larger	0-1,044	\$7.06
				1,045-8,067	\$7.20
				8,068 or more	\$7.32
25	25.03 E.9.(c)	Application Fee for Water Service Outside District Boundaries			\$500.00
25	25.03 E.9.(d)	Water Rate for Service Outside District Boundaries ⁽¹⁾	1" & smaller	0-49	\$7.06
				50-132	\$7.20
				133 or more	\$7.32
			1.5" & 2"	0-144	\$7.06
				145-355	\$7.20
				356 or more	\$7.32
			3" & larger	0-1,044	\$7.06
				1,045-8,067	\$7.20
				8,068 or more	\$7.32
25	25.03 E.10.(b)	Application Fee for Water Service Outside an Improvement District			\$275.00
25	25.03 E.10.(c)	Water Rate for Service Outside Improvement District ⁽¹⁾	1" & smaller	0-49	\$7.06
				50-132	\$7.20
				133 or more	\$7.32
			1.5" & 2"	0-144	\$7.06
				145-355	\$7.20
				356 or more	\$7.32
⁽¹⁾ Water rates on all billing cycles beginning in calendar year 2012					

Section #	Code #	Fee Description	Meter Size	Charges		
25	25.03 E.10.(c)	Water Rate for Service Outside Improvement District (continued) ⁽¹⁾	3" & larger	0-1,044	\$7.06	
				1,045-8,067	\$7.20	
				8,068 or more	\$7.32	
25	25.03 E.11.(c)	Fire Service Monthly Charge			\$30.11	
25	25.03 E.12.(b)	Additional Water Service for Property Not Subject to District Taxes		per unit	\$0.293	
25	25.03 E.13.(b)	Interim Service Water Rate in Improvement District 7 ⁽¹⁾	1" & smaller	0-49	\$7.06	
				50-132	\$7.20	
				133 or more	\$7.32	
			1.5" & 2"	0-144	\$7.06	
				145-355	\$7.20	
				356 or more	\$7.32	
			3" & larger	0-1,044	\$7.06	
				1,045-8,067	\$7.20	
				8,068 or more	\$7.32	
25	25.03 F.	Energy Charges for Pumping Water ⁽¹⁾		Per 100 ft of lift over 450 ft per unit	\$0.045	
25	25.03 G.1.	Additional Water Charge for Service in the North District		Per unit charge except for the first 5 units of residential	\$0.08	
25	25.03 H.1.	Additional Water Charges for Service in the Improvement District 9 Water Service Zone		Per unit charge except for the first 5 units of residential	\$0.27	
25	25.03 H.2.	Additional Monthly System Fee for Improvement District 9			\$2.00	
⁽¹⁾ Water rates on all billing cycles beginning in calendar year 2012						

Section #	Code #	Fee Description	Meter Size	Charges		
				Per unit charge except for the first 5 units of residential		Effective
25	25.03 I.1.(a)	Additional Water Charges for Services in Improvement District 3		0.19 per H.C.F.		Effective Jan 1, 2011
				"	0.20 per H.C.F.	Effective Jan 1, 2012
				"	0.21 per H.C.F.	Effective Jan 1, 2013
25	25.03 I.1.(b)	Additional Water Charges for Services in Improvement District 10		0.27 per H.C.F.		Effective Jan 1st 2011-2018
25	25.03 I.1.(c)	Additional Water Charges for Services in La Presa		0.08 per H.C.F.		Effective Jan 1st 2011-2013
25	25.04 A.	Deposits for Non-Property Owners	3/4"		\$75.00	
			1"		\$150.00	
			1-1/2"		\$200.00	
			2"		\$360.00	
			3"		\$800.00	
			4"		\$1,350.00	
			6"		\$3,300.00	
			8"		\$4,400.00	
			10"		\$5,500.00	
28	28.01 B.1.	Capacity Fees and Zone Charge			District-wide Capacity Fee	
		- I.D.'s 1,2,3,5,7,9,10,19,20,22,22/27 (excluding Triad), and 25 (only I.D.'s 5,7,10,19,22, and 22/27 require reclaimed irrigation meters).	3/4"		\$7,900.00	
			1"		\$19,750.00	
			1-1/2"		\$39,500.00	
			2"		\$63,200.00	
			3"		\$126,400.00	
			4"		\$197,500.00	
			6"		\$395,000.00	
			8"		\$632,000.00	
			10"		\$908,500.00	

Section #	Code #	Fee Description	Meter Size	Charges			
28	28.01 B.1.	- 22/27 TRIAD	3/4"		\$5,912.00		
			1"		\$14,780.00		
			1 -1/2"		\$29,560.00		
			2"		\$47,296.00		
			3"		\$94,592.00		
			4"		\$147,800.00		
			6"		\$295,600.00		
			8"		\$472,960.00		
			10"		\$679,880.00		
28	28.01 B.2.	New Water Supply Fee	3/4"		\$910.00		
		- All IDs including Triad	1"		\$2,275.00		
			1-1/2"		\$4,550.00		
			2"		\$7,280.00		
			3"		\$14,560.00		
			4"		\$22,750.00		
			6"		\$45,500.00		
			8"		\$72,800.00		
			10"		\$104,650.00		
28	28.02	Installation Charges for Water Meter and Water Service Laterals	Meter Size	Meter Cost	Installation	Total	Meter Box/Vault (if Needed)
		Potable (Non-Irrigation)	3/4" x 7.5"	\$202.30	\$96.00	\$298.30	\$81.50
			3/4" x 9"	\$215.39	\$96.00	\$311.39	\$81.50
			1"	\$261.05	\$96.00	\$357.05	\$81.50
			1.5"	\$424.31	\$96.00	\$520.31	\$184.76
			2"	\$607.99	\$96.00	\$703.99	\$184.76
			3"	\$1,894.74	\$578.00	\$2,472.74	\$3,295.81
			4"	\$3,290.86	\$578.00	\$3,868.86	\$3,295.81
			6"	\$5,684.21	\$913.00	\$6,597.21	\$3,295.81
			8"	\$7,102.00	\$1,400.00	\$8,502.00	\$4,728.07
			10"	\$10,214.00	\$1,400.00	\$11,614.00	\$4,728.07
		Potable/Recycled Irrigation	3/4" x 7.5"	\$202.30	\$96.00	\$298.30	\$207.70
			3/4" x 9"	\$215.39	\$96.00	\$311.39	\$207.70
			1"	\$261.05	\$96.00	\$357.05	\$207.70
			1.5"	\$424.31	\$96.00	\$520.31	\$207.70
			2"	\$607.99	\$96.00	\$703.99	\$207.70
			3"	\$1,311.35	\$578.00	\$1,889.35	\$3,295.81
			4"	\$2,553.00	\$578.00	\$3,131.00	\$3,295.81

Section #	Code #	Fee Description	Meter Size	Charges			
		Potable/Recycled Irrigation (continued)	6"	\$4,596.23	\$913.00	\$5,509.23	\$3,295.81
			8"	\$6,123.00	\$1,400.00	\$7,523.00	\$4,728.07
			10"	\$8,689.00	\$1,400.00	\$10,089.00	\$4,728.07
		Combined Fire and Domestic	4"	\$7,829.25	\$578.00	\$8,407.25	\$3,295.81
			6"	\$10,420.05	\$913.00	\$11,333.05	\$3,295.81
			8"	\$15,150.00	\$1,400.00	\$16,550.00	\$4,728.07
			10"	\$20,674.74	\$1,400.00	\$22,074.74	\$4,728.07
31	31.02 D.1.	Requirement of Temporary Meter for Service		minimum/per day	\$25.00		
31	31.03 A.1.	Requirement of Deposit for Temporary Meters					
			2"		\$2,046.00		
			4"		\$1,986.00		
			6"		\$2,465.00		
		- Construction Trailer Temporary Meter	2"		\$2,046.00		
		- Tank Truck Temporary Meter (Ordinance No. 372)	2"		\$850.00		
31	31.03 A.4.	Temporary Meter Install & Removal			\$128.00		
31	31.03 A.5.	Temporary Meter Move Fee (includes backflow certification)	3/4" - 2"		\$64.00		
			3" and larger	No backflow test	\$64.00		
33	33.07 A.	Customer Request for Meter Test (Deposit)	5/8", 3/4" & 1"		\$25.00		
			1-1/2" & 2"		\$50.00		
			3" & Larger		\$125.00		
34	34.01 D.2.	Returned Check Charges			\$25.00		
34	34.02 B.	Late Payment Charge			5% of Delinquent Balance		
34	34.02 G.1.(d)	Delinquency Tag			\$10.00		

Section #	Code #	Fee Description	Meter Size	Charges			
34	34.02 G.3.(a)	Meter "Turn-On" Charge		During regular business hours	\$35.00		
34	34.02 G.3.(b)	Meter "Turn-On" Charge		After regular business hours	\$65.00		
53	53.04 C.1.	Sewer Connection Fee - Russell Square			\$7,500.00		
53	53.04 C.2.	Monthly Sewer Service Charge - Russell Square			\$200.00		
53	53.11 A.	Set-up Fees for Accounts			\$10.00		
53	53.11 B.2.	Residential Sewer Charges ⁽²⁾		Rate multiplied by winter average units	\$1.77		
53	53.11 B.3.	Residential Sewer Charges Base Fee ⁽²⁾	5/8" & 3/4"		\$12.26		
			1" & larger		\$17.88		
53	53.11 B.4.	Monthly Residential Sewer Rate Without Consumption History ⁽²⁾	5/8" & 3/4"		\$34.83		
			1" & larger		\$40.45		
53	53.11.C.4.	Winter Averaging - Sewer					
		- Single Residential		15 units - 15% discount = 12.75 units			
		- Multi-Residential		6 units - 15% discount = 5.1 units			
53	53.11 D.2.	Multi-Residential Rate Charges - Sewer ⁽²⁾		Rate multiplied by winter average units	\$1.77		
53	53.11 E.6.	Public Schools Sewer Rate ⁽²⁾		Per ASU (Based on Student Count)	\$41.75		
53	53.11 F.1.	Monthly Service Charge for Commercial and Institutional Sewer ⁽²⁾		Per ASU	\$41.75		

⁽²⁾ Sewer rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges
60	60.03	Issuance of Availability Letters for Water and/or Sewer Service		\$75.00
72	72.04 A.1.	Locking or Removing Damaged or Tampered Meters		
		- To Pull and Reset Meter	3/4" - 2"	\$170.00
		- Broken Curbstop or Tabs	3/4" - 1"	\$192.00
		- If Customer uses Jumper	3/4" - 1"	\$149.00
		- Broken Lock/Locking Device	3/4" - 1"	\$56.00
		- Cap Lock (Welded)	3/4" - 1"	\$158.00
		- Broken Curbstop or Tabs	1.5" - 2"	\$265.00
		- To Pull and Reset Meter	3"	\$351.00
		- To Pull and Reset Meter	4"	\$454.00
		- To Pull and Reset Meter	6"	\$454.00
		- To Pull and Reset Meter	8"	\$600.00
		- To Pull and Reset Meter	10"	\$600.00
72	72.05 D. A.	Type I Fine		
		- First Violation		\$100.00
		- Second Violations		\$200.00
		- Third or each additional violation of that same ordinance or requirement within a twelve-month period		\$500.00
		Type II Fine	Will not exceed per each day the violation is identified or continues.	\$5,000.00
		Type III Fine	Fine up to amount specified per each day the violation is identified or continues.	\$500.00
		Type IV Fine	Fine up to amount specified per each day the violation is identified or continues.	\$500.00

⁽²⁾ Sewer rates on all billing cycles beginning in calendar year 2012

Section #	Code #	Fee Description	Meter Size	Charges
State Water Code	#71630 & Annual Board Resolution #4142	Water Availability/Standby Annual Special Assessment Charge	Less than one-acre all I.D.s & Outside an I.D.	\$10.00
			Per acre in I.D. 1, 5, & Outside an I.D.	\$10.00
			Per acre in I.D. 2,3,7,9,10,19,20,22,25,& 27	\$30.00
			Less than one-acre Outside I.D. and greater than one mile from District facilities.	\$3.00
			Per acre for outside I.D. & greater than one mile from District facilities.	\$3.00
State Water Code	#71630 & Annual Board Resolution #4142	Sewer Availability/Standby Annual Special Assessment Charge	Less than one acre I.D. 4, 14, & 18	\$10.00
			Per acre I.D. 4, 14, & 18	\$30.00
Annual Board Resolution		General Obligation Bond Annual Tax Assessment	Per \$1000 of assessed value for I.D. 27	\$0.005
Policies				
5		Copies of Identifiable Public Records		\$0.10/page
		Cassette Tape Duplication		\$2.00/tape
		Yearly Subscription Service for Agendas and Ratified Minutes		\$20.00/year or \$0.50/meeting
		Yearly Subscription Service for Board Packet and Ratified Minutes		\$100.00/year for first copy and \$200.00/year for each copy thereafter

EXHIBIT V

Formatted: Right

SECTION 27 REQUIREMENTS AND LIMITATIONS FOR OBTAINING WATER SERVICE

Formatted: Different first page header

27.01 REQUIREMENT FOR WATER/SEWER PERMIT AND PAYMENT OF FEES, CHARGES, AND DEPOSITS

A. Requirement for Water/Sewer Permits. Water meters shall not be installed nor water service furnished until an application, in the form of a water/sewer permit, has been executed by the customer at the District office.

B. Requirement for Payment of Fees, Charges and Deposits. Payment of all required fees, charges and deposits shall be made by the customer at the time the water meter is purchased. A customer requesting water service shall pay the fees, charges, and deposits as set forth in Section 28 of this Code.

C. Requirement for a Building Permit. A customer requesting permanent water service shall be required to present a valid building permit for the property issued by the appropriate governmental agency, except that a building permit is not required by a customer requesting permanent water service to: 1) install and maintain landscaping prior to the construction of a building; 2) perform mass grading operations; or 3) to satisfy conditions imposed by other government agencies, including a single meter for grading for four lots or less which are part of the same parcel map. Government agencies shall be exempt from the requirement of presenting a valid building permit.

D. Requirement for a Service Lateral. The customer requesting water service shall either have an existing service lateral or purchase a new lateral installation at the time of the meter purchase.

E. Commercial Parcels - 5,000 square feet or Larger Irrigated Landscape. When a customer requests water service on a parcel of land with irrigated landscape equal to 5,000 square feet or more, a separate meter will be required for irrigation purposes on the site.

F. Reclaimed Water Service Areas. In areas designated as reclaimed water service areas, the customer shall be required to install a separate reclaimed water service lateral and meter to supply irrigation to the parcel.

G. Second Meter For Indoor Use. Any customer who obtained a single meter prior to October 17, 1990, a second meter for indoor use may be obtained, without paying water capacity fees, San Diego County Water Authority fees and applicable zone charges on the second meter, if the following criteria are met:

1. The additional meter is solely for the purpose of isolating current domestic (indoor) water use from that used for outdoor landscaping. The additional meter shall be on a separate lateral.

2. All costs of on-site plumbing changes, including approved back-flow prevention devices, will be the responsibility of the customer.

3. The customer acknowledges that adding a second meter will result in a second water bill and associated monthly system fee.

4. The customer will be required to pay all fees and charges prior to meter installation.

27.02 SIZE OF WATER METER

A water meter shall be sized to ensure that the maximum demand (in gallons per minute) will not exceed 80% of the manufacturer's recommended maximum flow rate, as shown in Section 27.03. In no case shall the water meter size be less than $\frac{3}{4}$ -inch. The size of the water meter and service lateral required for water service shall be determined by the General Manager as follows:

A. Detached Single-Family Residential Dwelling Unit. The customer may submit calculated maximum demand (in gallons per minute), provided that maximum demand must be no more than twenty four (24) gallons per minute for a $\frac{3}{4}$ -inch meter.

B. Apartments, Condominiums, Mobile Home Parks and other Multiple Family Residential Dwelling Units with Individual Meters. The calculated maximum demand shall be per Section 27.02A.

C. Business, Commercial, Industrial, Apartments, Condominiums, Mobile Home Parks and other Multiple-Family Residential Dwelling Units. The customer shall submit building plans signed by a licensed building architect. The plans shall list the number of fixture units, the parcel size (in acres), and the calculated maximum demand (in gallons per minute) to be placed on each water meter.

D. Irrigation. The customer shall submit irrigation plans signed by a licensed landscape architect. The plans shall indicate the calculated maximum demand (in gallons per minute) to be placed on each water meter and the total area to be irrigated (in square feet). The plans must also be in compliance with the requirements of Section 27.05.

E. Other. In the case of other types of service not included above, the customer shall submit information as requested by the General Manager. Any customer may request and purchase a separate meter to isolate landscaping from indoor use.

F. Requirement for Multiple Meters. The General Manager may require multiple meters when it is in the best interest of the District.

- o G. Phased Projects. Should the developer choose to phase a multi-family project and determines the use of a smaller meter is practical within the initial phase, they must provide fixture unit calculations for review and approval by the District for each phase of development including the build-out of the project. The developer shall provide a letter to the District stating they acknowledge the initial meter is temporary and that they understand that they must purchase a larger meter, paying all applicable meter upsize fees when they connect future phases to this system. At Plan Review and Submittal the developer shall show fixture count and meter size for each of the phases to final build-out.

27.03 MANUFACTURERS RECOMMENDED MAXIMUM FLOW RATE FOR DISTRICT METERS

Customers are cautioned to control the rates of flow of water through District meters. Operation of a meter at flows in excess of the manufacturer's recommendations will cause severe damage to operating parts. Rated capacities for meters used in this District are as follows:

ORDINARY METERS

<u>Meter Size Recommended</u> <u>In Inches</u>	<u>Manufacturer's</u> <u>Maximum Rate in U. S. Gallons</u> <u>per Minute</u>
3/4	30
1	50
1-1/2	100
2	160
3	530 500
4	1350 1000
6	2700 2000
8	3500 3400
10	6500 5000

~~COMPOUND METERS~~
~~(Multi family, Apartments etc.)~~

Formatted: Font: Italic, Strikethrough, Double strikethrough

2	285
3	400
4	750
6	1700

27.04 RESALE OR DISTRIBUTION OF WATER

No customer may resell or redistribute any portion of the water furnished by the District except as provided below:

- A. Use of Submeters for Resale or Redistribution of water. Owners or operators of mobile home parks, apartments, condominium complexes, industrial complexes and land used for agricultural purposes may resell water furnished by the District through the use of a submetering system under the following conditions: (1) owners and operators shall comply with State law (California Code of Regulations Section 4090) prohibiting any surcharge on the water rate; (2) the water system on the private property side of the master meter, including the submeters, shall be solely the responsibility of the owner or operator; and (3) the owner or operator shall clearly delineate on the bill that any cost associated with the submeters is a cost imposed by the property owner or operator and not by Otay Water District.

- B. Ratio Utility Billing Systems. To the extent permitted under law, owners or operators of multiunit structures where submeters have not been installed may elect to implement a Ratio Utility Billing System (RUBS) or alternative billing system to determine proportionate shares of water charges and bill tenants accordingly.

27.05 CONSERVATION AND LOCAL SUPPLY USE REQUIREMENTS

The requirements below apply to all new residential and commercial developments or redevelopments. The landscape requirements also apply to any re-landscaping that is subject to review by the District, the County of San Diego, City of Chula Vista or the City of San Diego.

1. Indoor Fixtures and Appliances. All water fixtures and appliances installed, including the ones in the following list, must be high-efficiency:

- Toilets and urinals
- Faucets
- Showerheads
- Clothes Washers

- Dishwashers

“High-efficiency” means fixtures and appliances that comply with the most efficient specifications under the EPA WaterSense® or Energy Star programs,¹ as in effect at the time installation commences.

2. Landscape requirements. Only “Smart” irrigation controllers² may be installed and only low-water use plants may be used in non recreational landscapes. All landscapes must also be designed and managed consistent with requirements of the local agency within which the property is located, be it the County of San Diego, the City of Chula Vista or the City of San Diego.

a. Installed smart irrigation controllers shall be properly programmed/scheduled according to the manufacturer’s instructions and/or site specific conditions based on soil type, plant type, irrigation type, weather and/or reference evapotranspiration data.

b. Two irrigation schedules shall be prepared, one for the initial establishment period of three months or until summer hardened, and one for the established landscape, which incorporates the specific water needs of the plants and turf throughout the calendar year. The schedules shall be continuously available on site to those responsible for the landscape maintenance and posted at the smart controller.

c. Any Covenants, Conditions, and Restrictions (CC&Rs) pertaining to a new subdivision/development shall not limit or prohibit the use and maintenance of low water use plant materials and the use of artificial turf, and shall require property owners to design and maintain their landscapes consistent with the applicable City and County’s regulations.

d. Dedicated irrigation meters shall be installed in:

¹ Certified EPA WaterSense® products, and Energy Star products, are at least 20% more efficient than the applicable federal standards.

² Smart Irrigation Controller means a controller that uses real time, soil moisture or weather data to automatically adjust irrigation run-times. Furthermore, to qualify as a Smart Irrigation Controller, the device must be certified by the Irrigation Association and/or the EPA WaterSense® program.

- All parks and common areas with 5,000 square feet or more of irrigated landscape
- Commercial sites with 5,000 square feet or more of irrigated landscape

e. In compliance with Section 23.03 of this Code of Ordinance, pressure regulators must be installed when and where appropriate to maximize the life expectancy and efficiency of the irrigation system.

5. New commercial developments must install separate, dual-distribution systems for potable and recycled water.

6. The requirements of this Section shall not be interpreted in any way to limit the owner's obligation to comply with any other applicable federal, state, or local laws or regulations.

EXHIBIT VI

SECTION 27 REQUIREMENTS AND LIMITATIONS FOR OBTAINING WATER SERVICE

27.01 REQUIREMENT FOR WATER/SEWER PERMIT AND PAYMENT OF FEES, CHARGES, AND DEPOSITS

A. Requirement for Water/Sewer Permits. Water meters shall not be installed nor water service furnished until an application, in the form of a water/sewer permit, has been executed by the customer at the District office.

B. Requirement for Payment of Fees, Charges and Deposits. Payment of all required fees, charges and deposits shall be made by the customer at the time the water meter is purchased. A customer requesting water service shall pay the fees, charges, and deposits as set forth in Section 28 of this Code.

C. Requirement for a Building Permit. A customer requesting permanent water service shall be required to present a valid building permit for the property issued by the appropriate governmental agency, except that a building permit is not required by a customer requesting permanent water service to: 1) install and maintain landscaping prior to the construction of a building; 2) perform mass grading operations; or 3) to satisfy conditions imposed by other government agencies, including a single meter for grading for four lots or less which are part of the same parcel map. Government agencies shall be exempt from the requirement of presenting a valid building permit.

D. Requirement for a Service Lateral. The customer requesting water service shall either have an existing service lateral or purchase a new lateral installation at the time of the meter purchase.

E. Commercial Parcels - 5,000 square feet or Larger Irrigated Landscape. When a customer requests water service on a parcel of land with irrigated landscape equal to 5,000 square feet or more, a separate meter will be required for irrigation purposes on the site.

F. Reclaimed Water Service Areas. In areas designated as reclaimed water service areas, the customer shall be required to install a separate reclaimed water service lateral and meter to supply irrigation to the parcel.

G. Second Meter for Indoor Use. Any customer who obtained a single meter prior to October 17, 1990, a second meter for indoor use may be obtained, without paying water capacity fees, San Diego County Water Authority fees and applicable zone charges on the second meter, if the following criteria are met:

1. The additional meter is solely for the purpose of isolating current domestic (indoor) water use from that used for outdoor landscaping. The additional meter shall be on a separate lateral.

2. All costs of on-site plumbing changes, including approved back-flow prevention devices, will be the responsibility of the customer.

3. The customer acknowledges that adding a second meter will result in a second water bill and associated monthly system fee.

4. The customer will be required to pay all fees and charges prior to meter installation.

27.02 SIZE OF WATER METER

A water meter shall be sized to ensure that the maximum demand (in gallons per minute) will not exceed 80% of the manufacturer's recommended maximum flow rate, as shown in Section 27.03. In no case shall the water meter size be less than $\frac{3}{4}$ -inch. The size of the water meter and service lateral required for water service shall be determined by the General Manager as follows:

A. Detached Single-Family Residential Dwelling Unit. The customer may submit calculated maximum demand (in gallons per minute), provided that maximum demand must be no more than twenty four (24) gallons per minute for a $\frac{3}{4}$ -inch meter.

B. Apartments, Condominiums, Mobile Home Parks and other Multiple Family Residential Dwelling Units with Individual Meters. The calculated maximum demand shall be per Section 27.02A.

C. Business, Commercial, Industrial, Apartments, Condominiums, Mobile Home Parks and other Multiple-Family Residential Dwelling Units. The customer shall submit building plans signed by a licensed building architect. The plans shall list the number of fixture units, the parcel size (in acres), and the calculated maximum demand (in gallons per minute) to be placed on each water meter.

D. Irrigation. The customer shall submit irrigation plans signed by a licensed landscape architect. The plans shall indicate the calculated maximum demand (in gallons per minute) to be placed on each water meter and the total area to be irrigated (in square feet). The plans must also be in compliance with the requirements of Section 27.05.

E. Other. In the case of other types of service not included above, the customer shall submit information as

requested by the General Manager. Any customer may request and purchase a separate meter to isolate landscaping from indoor use.

F. Requirement for Multiple Meters. The General Manager may require multiple meters when it is in the best interest of the District.

G. Phased Projects. Should the developer choose to phase a multi-family project and determines the use of a smaller meter is practical within the initial phase, they must provide fixture unit calculations for review and approval by the District for each phase of development including the build-out of the project. The developer shall provide a letter to the District stating they acknowledge the initial meter is temporary and that they understand that they must purchase a larger meter, paying all applicable meter upsize fees when they connect future phases to this system. At Plan Review and Submittal the developer shall show fixture count and meter size for each of the phases to final build-out.

27.03 MANUFACTURERS RECOMMENDED MAXIMUM FLOW RATE FOR DISTRICT METERS

Customers are cautioned to control the rates of flow of water through District meters. Operation of a meter at flows in excess of the manufacturer's recommendations will cause severe damage to operating parts. Rated capacities for meters used in this District are as follows:

ORDINARY METERS

<u>Meter Size</u> <u>Recommended</u> <u>In Inches</u>	<u>Manufacturer's</u> <u>Maximum Rate in U. S. Gallons</u> <u>per Minute</u>
3/4	30
1	50
1-1/2	100
2	160
3	500
4	1000
6	2000
8	3400
10	5000

27.04 RESALE OR DISTRIBUTION OF WATER

No customer may resell or redistribute any portion of the water furnished by the District except as provided below:

- A. Use of Submeters for Resale or Redistribution of water. Owners or operators of mobile home parks, apartments, condominium complexes, industrial complexes and land used for agricultural purposes may resell water furnished by the District through the use of a submetering system under the following conditions:
- (1) owners and operators shall comply with State law (California Code of Regulations Section 4090) prohibiting any surcharge on the water rate; (2) the water system on the private property side of the master meter, including the submeters, shall be solely the responsibility of the owner or operator; and (3) the owner or operator shall clearly delineate on the bill that any cost associated with the submeters is a cost imposed by the property owner or operator and not by Otay Water District.
- B. Ratio Utility Billing Systems. To the extent permitted under law, owners or operators of multiunit structures where submeters have not been installed may elect to implement a Ratio Utility Billing System (RUBS) or alternative billing system to determine proportionate shares of water charges and bill tenants accordingly.

27.05 CONSERVATION AND LOCAL SUPPLY USE REQUIREMENTS

The requirements below apply to all new residential and commercial developments or redevelopments. The landscape requirements also apply to any re-landscaping that is subject to review by the District, the County of San Diego, City of Chula Vista or the City of San Diego.

1. Indoor Fixtures and Appliances. All water fixtures and appliances installed, including the ones in the following list, must be high-efficiency:

- Toilets and urinals
- Faucets
- Showerheads
- Clothes Washers
- Dishwashers

"High-efficiency" means fixtures and appliances that comply with the most efficient specifications under the EPA

WaterSense® or Energy Star programs,¹ as in effect at the time installation commences.

2. Landscape requirements. Only "Smart" irrigation controllers² may be installed and only low-water use plants may be used in non recreational landscapes. All landscapes must also be designed and managed consistent with requirements of the local agency within which the property is located, be it the County of San Diego, the City of Chula Vista or the City of San Diego.

a. Installed smart irrigation controllers shall be properly programmed/scheduled according to the manufacturer's instructions and/or site specific conditions based on soil type, plant type, irrigation type, weather and/or reference evapotranspiration data.

b. Two irrigation schedules shall be prepared, one for the initial establishment period of three months or until summer hardened, and one for the established landscape, which incorporates the specific water needs of the plants and turf throughout the calendar year. The schedules shall be continuously available on site to those responsible for the landscape maintenance and posted at the smart controller.

c. Any Covenants, Conditions, and Restrictions (CC&Rs) pertaining to a new subdivision/development shall not limit or prohibit the use and maintenance of low water use plant materials and the use of artificial turf, and shall require property owners to design and maintain their landscapes consistent with the applicable City and County's regulations.

d. Dedicated irrigation meters shall be installed in:

- All parks and common areas with 5,000 square feet or more of irrigated landscape
- Commercial sites with 5,000 square feet or more of irrigated landscape

¹ Certified EPA WaterSense® products, and Energy Star products, are at least 20% more efficient than the applicable federal standards.

² Smart Irrigation Controller means a controller that uses real time, soil moisture or weather data to automatically adjust irrigation run-times. Furthermore, to qualify as a Smart Irrigation Controller, the device must be certified by the Irrigation Association and/or the EPA WaterSense® program.

e. In compliance with Section 23.03 of this Code of Ordinance, pressure regulators must be installed when and where appropriate to maximize the life expectancy and efficiency of the irrigation system.

5. New commercial developments must install separate, dual-distribution systems for potable and recycled water.

6. The requirements of this Section shall not be interpreted in any way to limit the owner's obligation to comply with any other applicable federal, state, or local laws or regulations.



STAFF REPORT

TYPE MEETING: Regular Board	MEETING DATE: August 1, 2012
SUBMITTED BY: Rita Bell, Finance Manager	PROJECT: DIV.NO. All
APPROVED BY: <input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer	
<input checked="" type="checkbox"/> German Alvarez, Assistant General Manager	
<input checked="" type="checkbox"/> Mark Watton, General Manager	
SUBJECT: Adopt Resolution No. 4201 of the District's Code of Ordinances Amending Policy No. 25, the Reserve Policy, which Includes Updated Glossary Definitions	

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopt Resolution No. 4201 of the District's Code of Ordinances amending Policy No. 25, the Reserve Policy, which includes updated glossary definitions.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To present to the Board three revisions of the Reserve Policy. First, to remove the State Loan Assessment wording in Section 2.2, c. as the loan has been paid in full. Second, to modify the definition of Late Charges/Penalties. Lastly, to modify the definition of Water Rates. The two definitions are in the Reserve Policy Glossary and are changed to reflect current practices.

BACKGROUND:

In March 2006, the Reserve Policy was updated to reflect industry best practices, clearly defining the sources and uses of the District's funds and establishing the minimums, maximums, and targets for each of the funds. In May 2010, the Board adopted a new capacity fee and annexation fee methodology, as well as a new water supply fee. As a result of these Board approved changes, the new sources and uses of fees were incorporated into the Reserve Policy.

ANALYSIS:

In October 2010, the District made the final payment on the Sewer State Loan. Accordingly, the District no longer collects a fee on

the county tax roll to pay for this debt. Therefore, it is being proposed that paragraph 2.2.c. "State Loan Assessment (Restricted)" be removed from the Reserve Policy.

As part of continuous quality assurance review performed by staff, some necessary changes to the glossary definitions were identified and are being recommended for Board approval.

In 2008, the Board approved the elimination of charges for contacting customers and notifying them of past due status. The definition of "Late Charges/Penalties" in the Glossary was not updated at that time to reflect this change. The proposed definition has been modified to delete the phone contact charges and also modified to add other penalties for infringements. The District charges penalties for infringements such as broken curb stops, and meter reset fees. This modification is necessary for completeness of the definition. The proposed definition of "Late Charges/Penalties" in the Glossary states that charges and penalties are imposed on customer accounts for late payments, returned payments, and other infringements of the District's Code of Ordinances.

In 2009, the Board approved moving from a flat rate structure for non-residential customers to a tiered rate structure. In this structure, water rates are based on meter size and amounts of units consumed. The glossary's definition of "Water Rates" for non-residential customers was not updated at that time to reflect this change. This update to the Reserve Policy modifies the Glossary definition to reflect the current inclining block rate structure.

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

FISCAL IMPACT: _____

None.

STRATEGIC GOAL:

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

LEGAL IMPACT: _____

None.

Attachments:

- A) Committee Action Form
- B) Resolution No. 4201
 - Exhibit 1 Strike-through Policy No. 25
 - Exhibit 2 Proposed Policy No. 25



ATTACHMENT A

SUBJECT/PROJECT:	Adopt Resolution No. 4201 of the District's Code of Ordinances Amending Policy No. 25, the Reserve Policy, which Includes Updated Glossary Definitions
-------------------------	--

COMMITTEE ACTION:

The Finance, Administration and Communications Committee recommends that the Board adopt Resolution No. 4201 of the District's Code of Ordinances amending Policy No. 25, the Reserve Policy, which includes updated glossary definitions.

NOTE:

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

RESOLUTION NO.4201

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

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

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

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

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of the Otay Water District that the amended Reserve Policy, incorporated herein as an attachment, is hereby adopted.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Otay Water District at a board meeting held this 1st day of August 2012, by the following vote:

Ayes:
Noes:
Abstain:
Absent:

President

ATTEST:

District Secretary

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

1.0 The District

The Otay Water District is a California municipal water district, authorized in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. The District is a "revenue neutral" public agency; meaning each end user pays their fair share of the District's costs of water acquisition, construction of infrastructure, and the operation and maintenance of the public water facilities.

The District provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such, the District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has an identifiable customer base. In addition, the developer community, large and small, makes up a significant class of customer for each business segment. As a result, the District has four distinct customer service types:

- Developers
- Potable water users
- Recycled water users
- Sewer users

The District has established practices and developed computer systems that have enabled the District to maintain a clear separation between the service costs relating to each of its four customer service types. Regardless of customer class, financial principles regarding cost allocation and fund accounting are fundamental to the District's Reserve Policy. These principles are derived from the statements of the Governmental Accounting Standards Board (GASB), and from oversight and advisory bodies such as the California State Auditor, the Little Hoover Commission, and the Government Finance Officers Association (GFOA). These have significant impacts on how the finances of

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

the District are organized and how financial processes work within the organization.

1.1 The District's Use of Financial Resources

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

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

1.2 The District's Capital Improvement Program (CIP)

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

a. New Water Supply

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

b. Expansion

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

c. Replacement

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

d. Betterment

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

1.21 Relocations

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

guideline is suggested: if a project has more than five years of useful life remaining, an incremental cost view should be considered; if the project has less than five years of useful life remaining, a pro-rata cost approach should be considered. Also, the likelihood the District will benefit from an asset's life extension should be evaluated prior to allocating costs.

1.22 Oversizing

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

1.23 Exclusion of Developed Areas from Expansion Costs

Developed areas are assumed to have sufficient supply and capacity to meet their current requirements as provided by the developers. In addition, they are considered to have borne capital financial costs that are at least proportionate to the benefits they have received from capital facilities. Accordingly, no regional capital financing costs are allocated to these areas so that they will not incur any costs for newly developing areas, except for capital projects that produce district-wide benefit or cost savings.

1.24 Improvement Districts (IDs)

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

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

that IDs will continue to outgrow their purpose and their use will diminish.

1.3 The Purpose of the Policy

Public entities accumulate and maintain reserves to ensure both financial stability and continuous availability of services. Financial stability and the resulting improved credit quality allow the public entity to weather times of uncertainty and the impact of negative events, both major and minor. Reserves allow for the ongoing maintenance of property and timely payment of expenses even when such expenses exceed money available from a single fiscal period. In the final analysis, the type and level of reserves are driven by the type and magnitude of uncertainty faced by the public entity.

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

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

It is important to note that reserves, fund balance, and net assets are not the same. Fund balance and net assets are accounting terms and may not always be in the form of cash or liquid investments. Fund balances and net assets may not always be reserves unless a designation of all or a portion of fund balance is made. In addition, the term fund balance was replaced by net assets as codified by the Governmental Accounting Standards Board (GASB).

In short, reserves are the liquid assets of the District, accumulated and maintained for application to finance contingent future activities, whether known or unanticipated, operating or

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

capital in nature. The District's Reserve Policy governs the management and use of these financial resources. Few policies have a more significant impact on the financial health and stability of the District. This policy explains several key financial concepts used by the District and provides some background information to the overall strategies and practices utilized. The District has a fiduciary obligation to its customers, to manage and direct the use of public funds for the purpose of providing water and sewer services in an efficient and financially sound manner.

1.4 Policy Guidelines

In 2000, the Little Hoover Commission reviewed the levels of reserve funds for special districts in California and prepared a report reflecting that special districts were accumulating unreasonable levels of funds. As a proactive response, the California Special Districts Association (CSDA) prepared Reserve Guidelines for its members. The Reserve Guidelines were significant in noting that reserve levels need to be in context of the organization's overall business model and capital improvement plan.

There are a number of potential events which the District should consider in the development of reserves:

- Economic Uncertainty - performance of the regional economy and the impact of that performance on demand for water.
- Weather - the amount of rainfall and the impact of weather on the availability and the cost of water as well as the demand for water.
- Government Mandates - the impact of federal and state regulation, particularly environmental regulation.
- Tax Changes - limitations on the District's taxing and spending powers through the passage of a voter referendum, the impound of District property taxes or the removal of the District's power to levy property taxes, further increases to Educational Revenue Augmentation Fund (ERAF) contributions or changes in calculation methodology.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

- Operating Costs - increases in operating and maintenance costs because of inflation, labor agreement or other modification.
- Force Majeure - unanticipated expenditures resulting from natural disasters or intentional acts.
- Emergency Maintenance - unanticipated expenditures resulting from unexpected failure of assets (e.g., rupture in the primary transmission system).
- Unexpected Variation in Cash Flow - the incidence of additional costs or decreased revenues that require short-term borrowing in the absence of sufficient financial resources.

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, Report No. 2003-137. All of these recommendations have been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

- Distinguish between restricted and unrestricted reserves.
- Establish distinct purposes for all reserves.
- Set target levels, including minimums and maximums, for the accumulation of reserves.
- Identify the events or conditions that prompt the use of reserves.
- Conform to plans to acquire or build capital assets.
- Receive Board approval and that it is in writing.
- Require periodic review of reserve balances and rationale for maintaining them.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Yet, the State Auditor's report acknowledges that the California Constitution (Article XIII B, Section 5) is vague in its provisions governing the accumulation and use of reserves.¹

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Specifically, the Constitution states that "each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund...or similar funds as it shall deem reasonable and proper."² Similarly, the State's Water Code does not impose any requirements as to specific or recommended reserve fund levels. As a result, the public finance community as a whole has yet to settle on any real objective standards for the level of reserve funds appropriate for governmental enterprises. This lack of consensus as to specific standards is indicative of the wide variance of the financial and operations context for different districts and different contingencies justifying reserves.

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

- The predictability of its revenues and the volatility of its expenditures (*i.e.*, higher levels of the unreserved fund balances may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (*i.e.*, the availability of resources in other funds may reduce the amount of the unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (*i.e.*, a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (*i.e.*, governments may wish to maintain higher levels of the unreserved fund balance to

² California Constitution, Article XIII B, Section 5.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

compensate for any portion of unreserved fund balance already designated for a specific purpose).

In the preparation of this policy, each of the CSDA guidelines and the GFOA recommendations has been considered. In addition, all seven objectives provided by the State Auditor are specifically addressed for each reserve. The District wholly supports the State Auditor's efforts to bring a high-level of quality to reserve governance and establishing a standard of performance.

The District recognizes that the customer pays for services provided. Quality management requires that periodic valuations be performed so that fees and charges can be set at appropriate levels to recover the cost of service. The District's Reserve Policy has been drafted with consideration of the GFOA, CSDA, and State Auditor's general guidelines as provided above. In addition, the District has adopted the following principles in the management of its financial resources:

- Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity among customers.
- Each of the service types is tracked separately so that expenditures and revenues can be monitored and evaluated for each customer type. This provides the District with the necessary information to appropriately charge for each of the services.
- Separation of operations and maintenance from capital expenditures occurs within each of the service types. This is done because the financing of these expenditures is often on different timelines or use different reserves.
- The District will hold its reserves at responsible and prudent levels. This policy sets minimum, maximum, and target levels for each of the various funds. This has been done so that the District can maintain reserves to meet the purpose for which the funds were established. The levels are set by reference to line items in the District's financial statements and approved budgets. This allows reserve levels to adjust to the District's changing financial circumstances.
- Debt financing of facilities provides intergenerational equity and maintains rates at reasonable levels. This equity

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

is accomplished with long-term financing which spreads the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use them. The District could amass significant reserves by pre-collecting financial resources in a Replacement Reserve Fund allowing the District to cash finance all replacements. However, this would require significant rate increases burdening the current customers and creating reserve levels difficult to defend to the ratepayers or other oversight entities.

These concepts are fundamental to the way the District manages its funds and have a direct impact on the way rates and charges are set. The District performs annual budget evaluations and updates its rate model on an annual basis to monitor and adjust the various funds and revenue sources. The separation, tracking, and projecting of the various funds and expenditures create the essential information necessary for the equitable rate structure maintained by the District. The annual review preserves the balance between services provided and the fees charged. This review also insures that reserves will be available to continue to serve the District's customers.

Financial Sources

2.0 Developers

a. Meter Installation Charges (General Use)

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

b. Developer Deposits (General Use)

These deposits are for the engineering and operations services provided to developers. They are tracked separately for each developer and any excess amount is returned to the developer.

c. Annexation Fees (Restricted)

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Annexation fees³ are collected as a condition of annexing into the District's potable and recycled water facilities. Since the existing facilities have been built and maintained by developers or customers within the District, the annexation fee is calculated based on the present value of all property taxes (1% property tax and availability fees) paid by existing and prior customers. The annexation fee insures that future users finance a portion of facilities that were sized, built, and maintained for both existing and future users. Proceeds of annexation fees are restricted and can be used for expansion, replacement, or betterment projects. These reserves may be shifted back and forth as financing needs change.

d. Annexation Fees (Unrestricted)

A sewer annexation fee is collected when property is annexed into an improvement district. This fee is calculated using the "buy-in" basis and therefore is unrestricted.

e. New Water Supply Fee (Restricted)

New water supply fees⁴ are based on the cost of the expansion portion of new water supply projects divided by the number of future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District's new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects. Although the fees collected are not restricted separately, one portion for potable and the other for recycled, they are tracked separately.

f. Capacity Fees (Restricted)

Capacity fees⁴ are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in"

³ Code of Ordinances, Section 9.

⁴ Code of Ordinances, Section 28

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

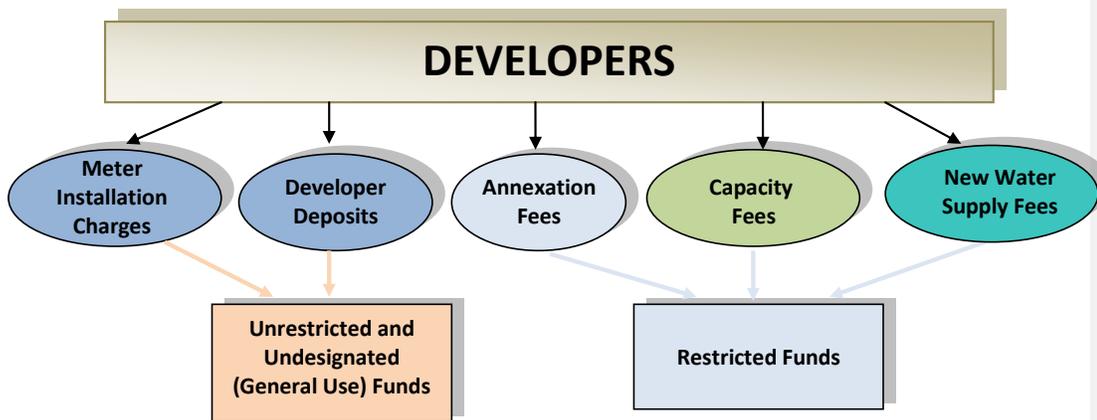
Facility needs are based on projected land use planning. Changes in anticipated future land use occur and can alter projected facility requirements. Thus, both the anticipated facilities needs and their projected costs change over time as regulatory agencies make changes to land use. The District periodically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

The District's construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and two, it is more efficient to oversize many facilities at the outset rather than build for the current need and then reconstruct when the future need is realized. As a result of this strategy, the District has financed construction with bond financing as the existing expansion reserves are depleted.

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

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 2.0: Flow of Funds - Developer Sources



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

Charges to users for water, sewer, and recycled water are uniform throughout the District for similar customer types.

b. Monthly System Fees (General Use)

This is a fixed revenue source that is charged monthly. The amount of the charge is based on the meter size.

c. Energy Charges (General Use)

The energy pumping fee is a charge per unit of water for each 100 feet of lift, or fraction thereof, above the base elevation of 450 feet. This charge is placed on the monthly water bills of all water customers.

d. Penalties (General Use)

Penalties are added to the monthly water and sewer bills for late charges, locks, etc.

e. Pass-through Fixed Charges (General Use)

A fixed monthly charge to the District's customers intended to collect sufficient funds to pass-through the increased

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

f. Special Rates and Charges (Restricted)

In addition to the uniform water charges, the District currently has five special water rates and one sewer rate. The five water rates are for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines. Each of these rates and charges must be used within the respective geographic areas from which they are collected. These special charges are listed below:

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

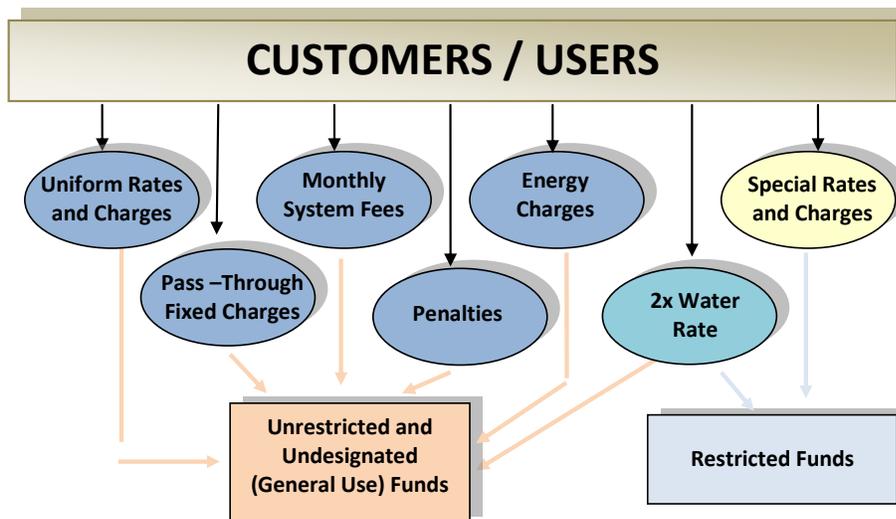
When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees were collected. Therefore, these are restricted reserves by geographic area as well as by purpose. These rates and charges can also be used for maintenance; unlike the availability fees (discussed in 2.2 B.). These six special rates and charges along with availability fees are tracked separately, by geographic area, so they can be individually evaluated to maintain the targeted reserve levels. To meet this need, each special rate and charge is accounted for in a "sub-fund" of the Betterment Fund.

g. Temporary Meter Fees (General Use/Restricted)

Water charges, in lieu of capacity fees, are charged on temporary meters. This is done because temporary meters use system capacity but they are not charged a capacity fee. Temporary water use is charged at two times the water rate with the added charge placed in the Restricted Expansion Fund. The primary users of these temporary meters are developers; however, general customers also use these for various purposes.

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 2.1: Flow of Funds - Customer Sources



2.2 County-Collected Taxes and Fees

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

In 1978, Proposition 13 limited the levy of ad valorem property taxes on real property to one percent of the assessed value of such property. Subsequent legislation, AB 8, established that the receipts from the one percent levy were to be distributed to taxing agencies proportionate to each agency's general levy receipts prior to Proposition 13. Taxes received are for general use.

b. Availability Charges (General Use/Restricted)

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

~~e. State Loan Assessment (Restricted)~~

~~The District assesses a charge per unit of sewer service each year on the sewer customers. This is collected via the county tax roll and is specifically collected for the repayment of the state loan. When this loan is paid off the charge will be removed.~~

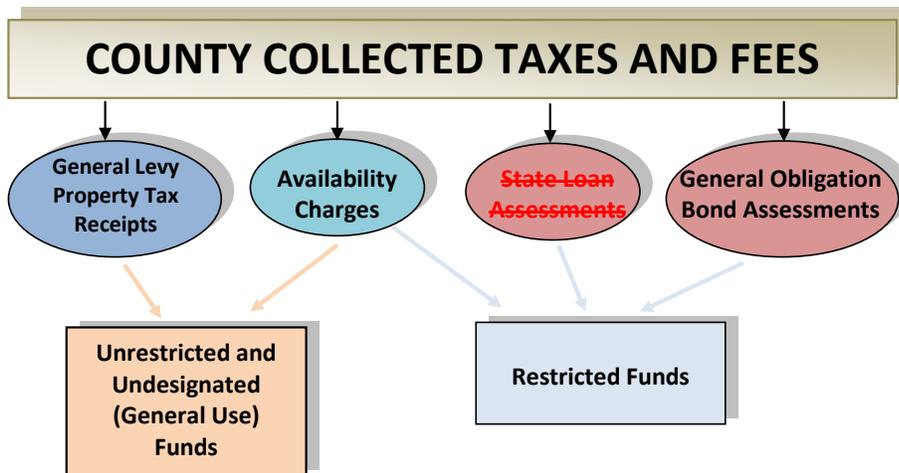
~~d.~~ c. Improvement District General Obligation (GO) Bond Assessments (Restricted)

The District has historically issued general obligation (GO) debt and establishes an improvement district for the repayment of that debt. When this financing method is used, the county tax roll can be used to collect special taxes or assessments within the ID to pay the debt obligation. The proceeds of the debt are restricted for the purpose as defined in the bond documents.

Formatted: Indent: Left: 0.5", Hanging: 0.5", No bullets or numbering

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 2.2: Flow of Funds – County Collection Sources



OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

2.3 Miscellaneous Income

a. Miscellaneous Rents and Leases (General Use)

Revenues received from the rental and lease of District property are general use revenues. Not only are they periodic revenues, but there is also a one-time fee charged with the setup of each new lease. The District incurs expenses related to these rents and leases. The one-time fees are calculated to recover the costs to setup the leases.

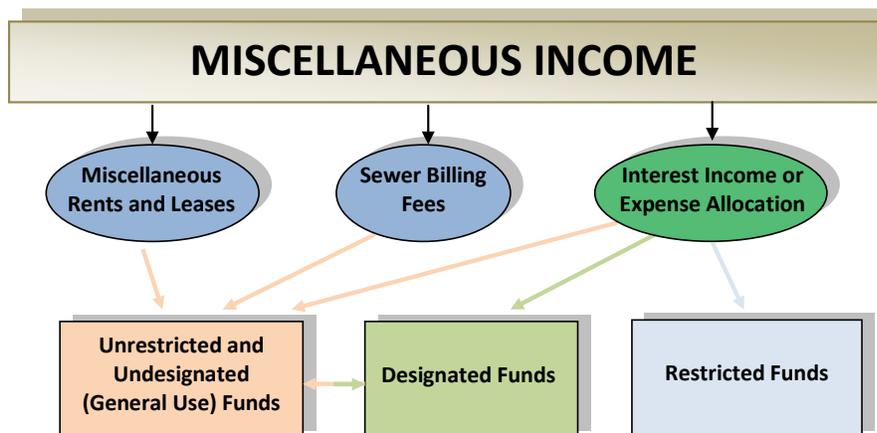
b. Sewer Billing Fees (General Use)

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

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

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

Diagram 2.3: Flow of Funds – Miscellaneous Income Sources



OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

|

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

2.4 Debt Issuance

a. Loans (General/Restricted Use)

As the District determines that additional financing is required for a particular purpose, the option of borrowing is considered. The determination to borrow is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. As an option to bond indebtedness, loans are available to satisfy short-term financing needs. These loans may or may not be contractually restricted for a particular purpose.

b. General Obligation (GO) Bonds (Restricted)

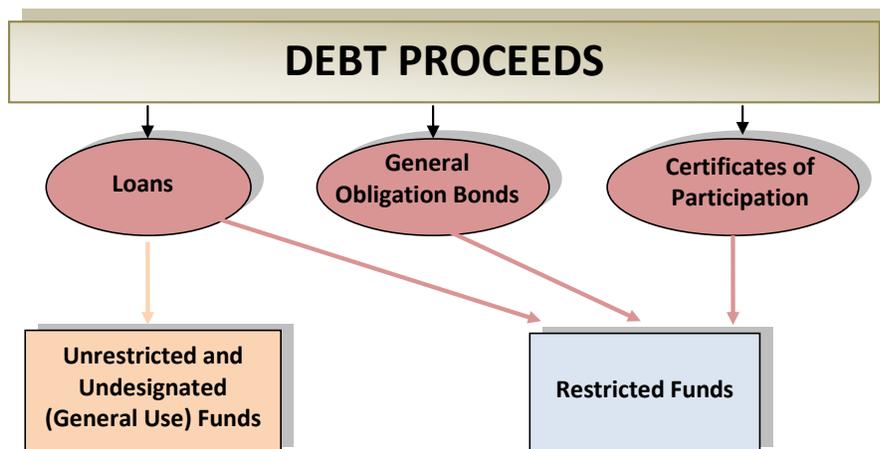
As the District becomes more developed it becomes less likely that general obligation debt will be used as it requires a vote of the public to be approved. Bond proceeds are restricted for the construction of those facilities identified in the GO bond issuance. Occasionally, specific portions of bond proceeds may be allocated for the repayment of the principal and interest, also called debt service, on these bonds. As the District determines that additional financing is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action.

c. Certificates of Participation (COPs) (Restricted)

General revenues of the District are pledged as security for Certificates of Participation (COPs) indebtedness. If the District determines that additional financing is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. This form of financing has become the industry's preferred form of financing as it does not require a vote of the general public.

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 2.4: Flow of Funds – Debt Issuance Sources



**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

2.5 Inter-fund Transfers

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

Fund Types and Categories

3.0 General Funds

a. Purpose

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

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

The General Fund also plays a role in the debt planning of the District. This fund is viewed by the debt markets as a commitment by the District to ensure financial stability of the rates and charges of the District. The District is anticipated to need a number of debt issuances over the years and this fund will help the District not only to stabilize

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

rate fluctuations but also to access low cost financing for future projects.

b. Sources

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

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

c. Funding Levels

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

II. **Maximum Level** - The maximum reserve level for the General Fund is nine months of operating budget expenses. In the event that this fund exceeds the seven month level, the excess will be evaluated or transferred to one or more of the designated funds.

III. **Target Level** - The target level of reserves is three months of operating budget expenses. In the event that the fund drops below the target level, rate increases or fund transfers would be considered.

3.1 Designated Other Post Employment Benefits (OPEB) Fund

a. Purpose

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

b. Sources

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

c. Funding Levels

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

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

3.2 New Water Supply Fund Category

a. Purpose

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

b. Sources

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

c. Funding Levels

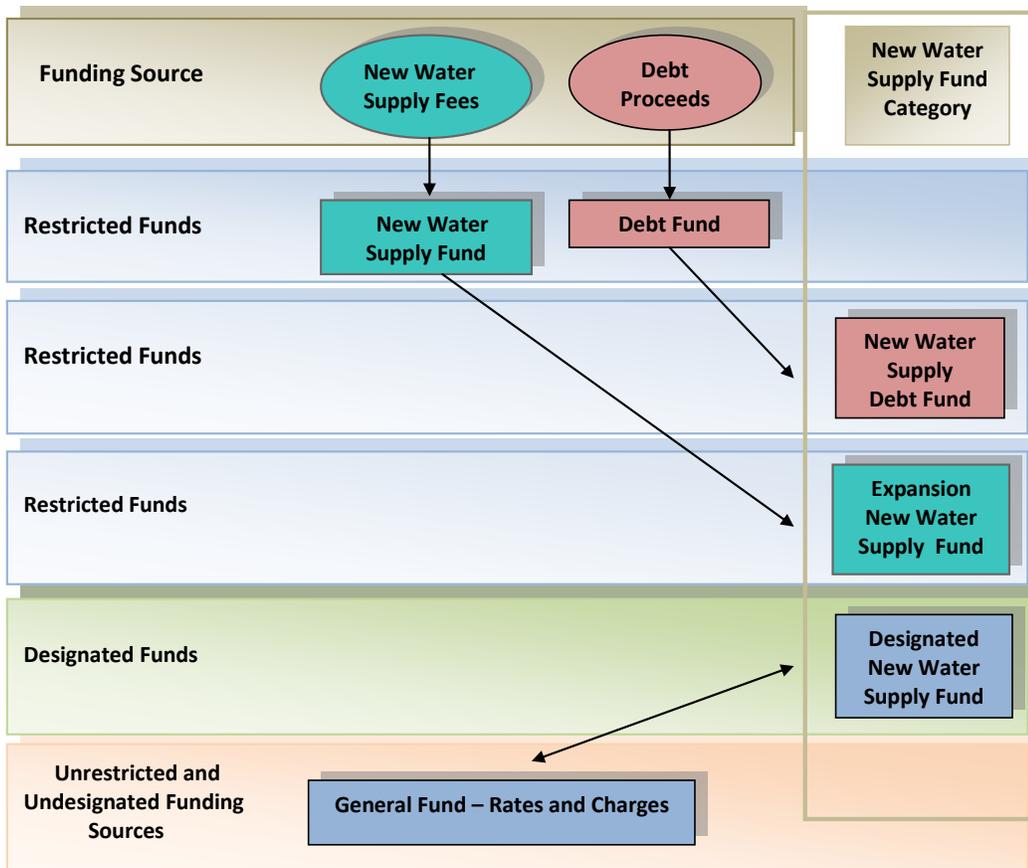
- I. **Minimum Level** - As the District matures the CIP will move to purely replacement projects. As the District moves through its lifecycle the need for new water supply reserves will decrease and may be reduced to zero.

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

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

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 3.2: New Water Supply Fund Category



**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Formatted: Font: 10 pt

3.3 Expansion Fund Category

a. Purpose

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

b. Sources

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

c. Funding Levels

- I. **Minimum Level** - As the District matures the CIP will move to purely replacement and betterment projects. As the District moves through this lifecycle the need for expansion reserves will decrease and may be reduced to zero.
- II. **Maximum Level** - The maximum reserve level for the expansion category of funds is limited to five years of unfinanced expansion facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total financing needs must be reduced by the projected expansion revenues, bond financing, and any restricted or general fund revenues allocated to this fund category. If the combined expansion reserves exceed target levels, the District should consider reducing capacity fees, reallocating

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

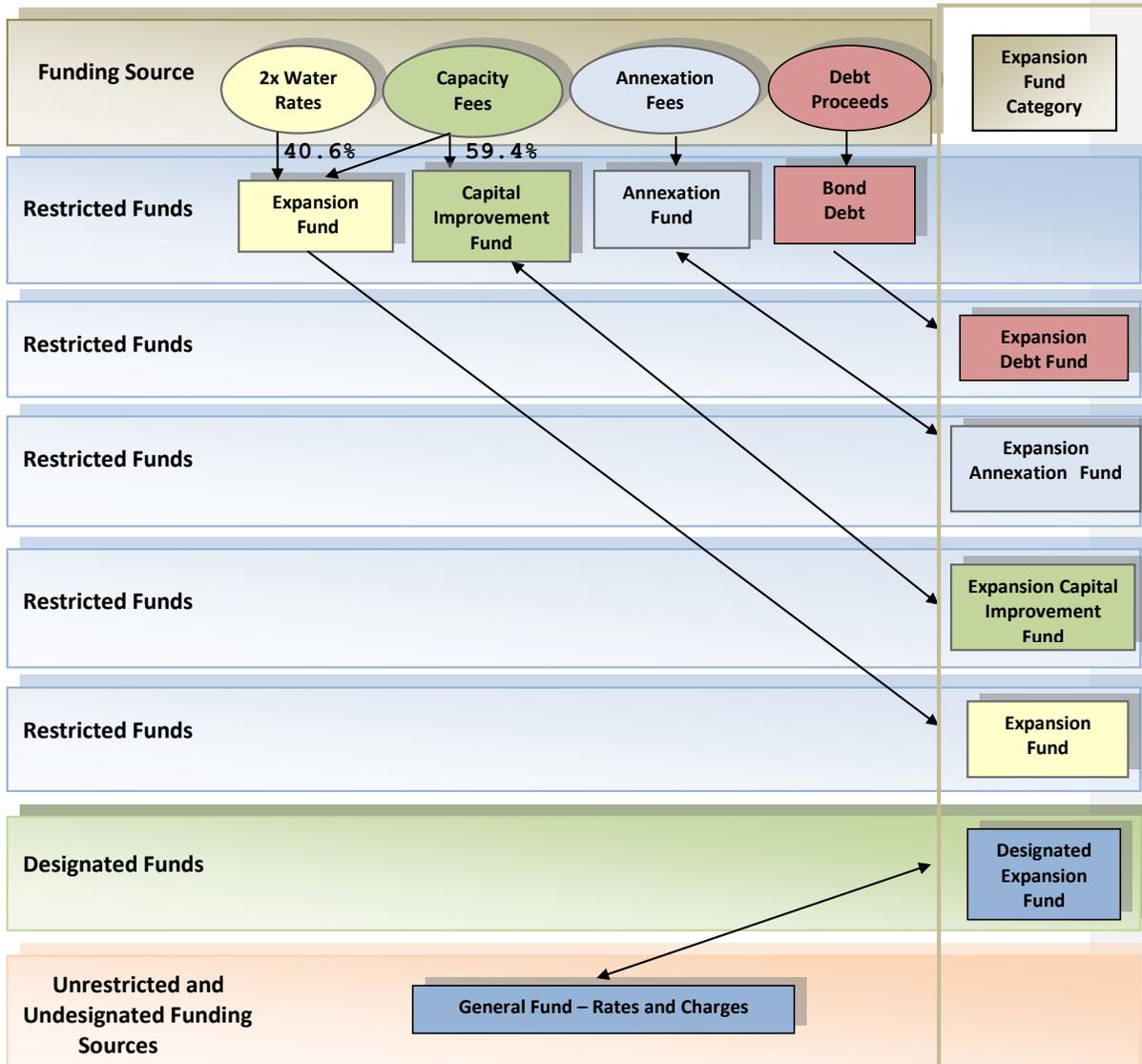
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

restricted or designated funds to meet other purposes, or shifting the timing of expansion projects.

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

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 3.3: Expansion Fund Category



OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

3.4 Replacement Fund Category

a. Purpose

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

With the District's development of its financial systems and the greater need and ability to separate and track reserves, the replacement reserves have been separated into three funds: water, recycled, and sewer.

Projects undertaken solely for the purpose of replacing major capital equipment or facilities, i.e., where the cost exceeds \$10,000 for capital purchases or \$20,000 for infrastructure items, generally these are not considered normal maintenance. When the cost is below \$10,000, the costs are financed annually as operational maintenance. As charges are incurred on replacement projects the reserves are deducted from the respective Replacement Funds on a monthly basis.

b. Sources

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

c. Funding Levels

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

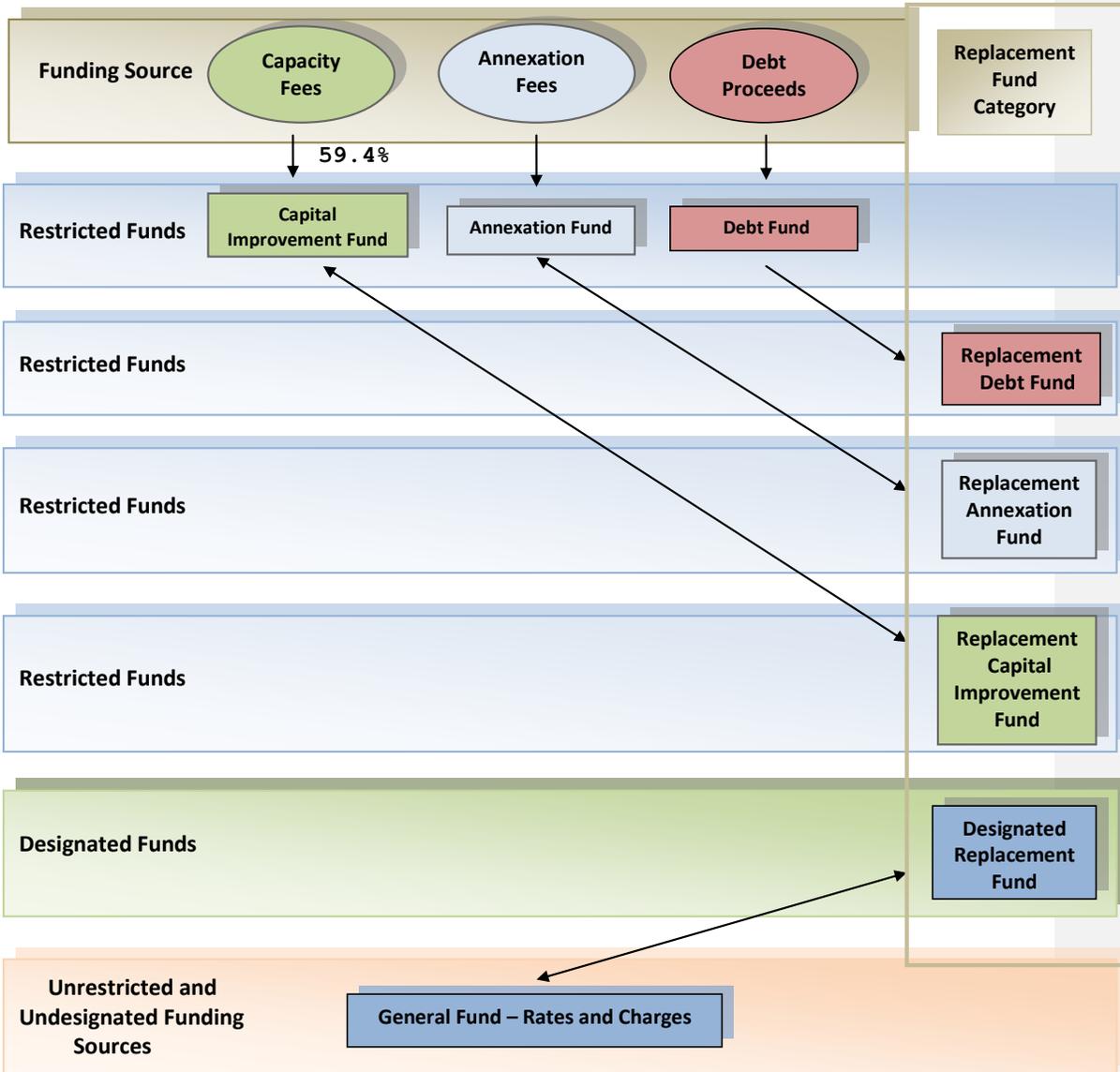
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

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

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 3.4: Replacement Fund Category



OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

3.5 Betterment Fund Category

a. Purpose

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

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

b. Sources

The Betterment Fund category receives restricted revenues by improvement district via special water rates and from availability fees collected through the county tax roll. Betterment may also be financed by debt proceeds, annexation fees, the "buy-in" portion of the capacity fee, as well as the general fund through a designation of reserves.

c. Funding Levels

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

II. **Maximum Level** - The maximum reserve level for the betterment category of funds is limited to five years of unfinanced betterment facilities as

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

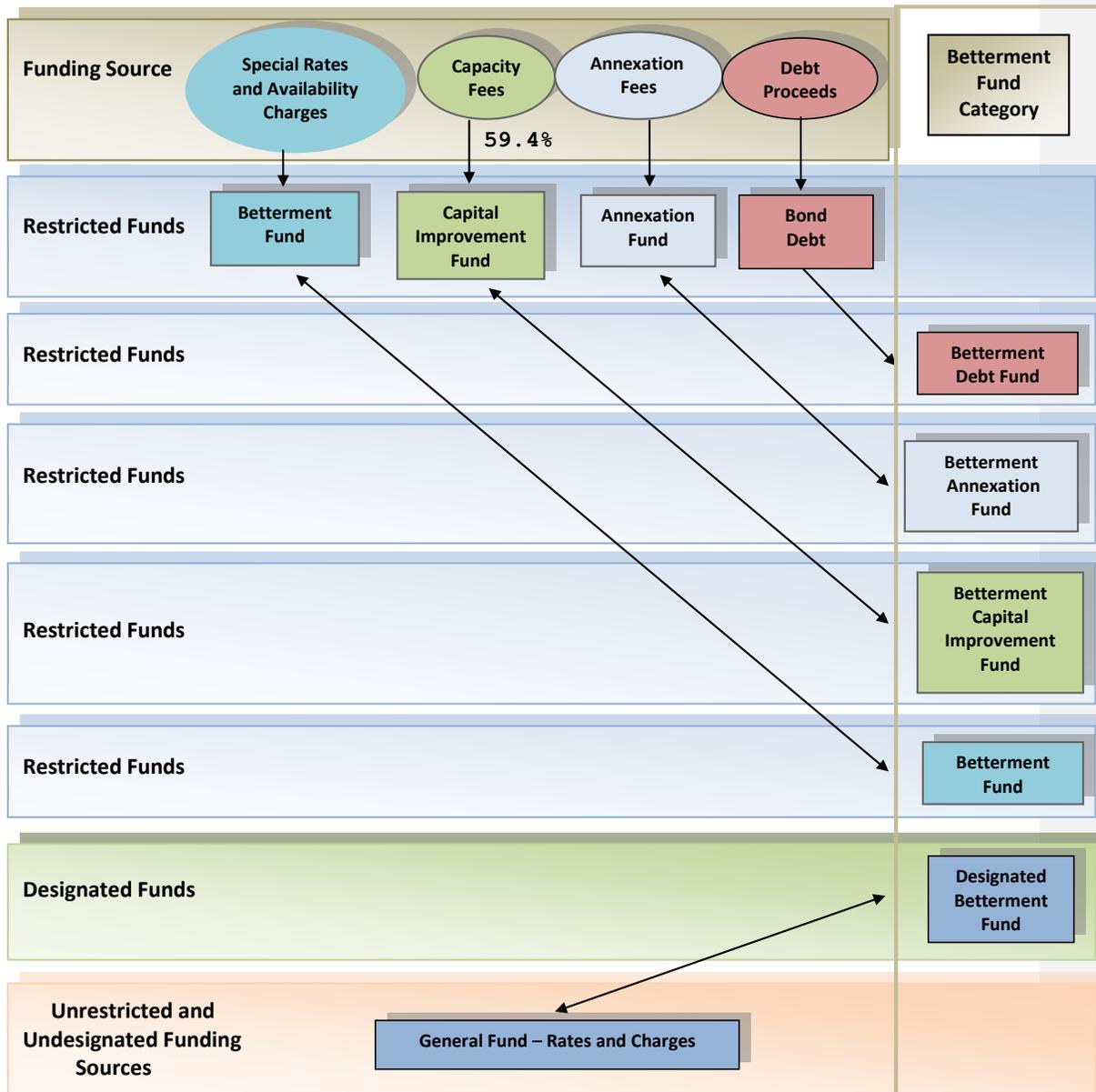
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

described in the District's CIP Budget. To determine the unfinanced amount, the total financing need must be reduced by the projected betterment revenues, bond financing, annexation, and general fund designations. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.

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

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 3.5: Betterment Fund Category



**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Diagram 3.6: Fund Targets

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

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

Additional Restricted Funds

4.0 Capital Improvement Fund

a. Purpose

The "Capital Improvement Fund's sole purpose is to track the "buy-in" portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

b. Sources

The "buy-in" portion of the capacity fee collected after June 30, 2010.

c. Funding Levels

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

4.1 Annexation Fund

a. Purpose

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

b. Sources

Potable and recycled annexation fees collected after

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

June 30, 2010.

c. Uses

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

4.2 Debt Reserve Fund

a. Purpose

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

b. Sources

Debt proceeds.

c. Uses

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

Fund Transfers

5.0 Funding Levels

As described in the preceding sections, the District maintains reserves for its operating and capital activities. These reserves can be of three types: 1) undesignated or general use reserves, 2) designated, and 3) restricted for a specific purpose. The restricted reserves can be restricted geographically and/or by purpose. The District maintains various funds to track the

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

various designations and restrictions. The source of the money for each fund was discussed along with the purpose, source of funds, and levels. Key characteristics of these funds are the target levels, minimums, and maximums. The funding levels must be viewed in the context of the economic environment, political environment, and in light of the District's rate model. The District's six-year rate model not only shows the current balance but also shows the trend of the fund balances. Often the trend of the fund is a greater indicator of financial stability than is the current balance.

The rate model is updated each year with the budget process and evaluates each fund over the next six years. The rate model will take into account the general economic environment, looking at the development rate, supply rate increases, the possibility of raising rates, capital infrastructure spending, and strategic plan initiatives. The fund balances may at times be over or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the projected District's financial activities and the guidelines of this policy.

5.1 Fund Transfers

Reserves within the District's various designated funds come from interfund transfers of unrestricted general use reserves. It is important to note that the District has the ability to use general use reserves for any business purpose. General use reserves may be transferred to and from any unrestricted fund for any business need. Designated reserves are general use reserves which have been set aside for a specific purpose by Board action. These reserves can only be used for the purpose they were designated, or with Board action they may be used for any other business purpose. While general use reserves may be used for any restricted purpose they may not be transferred to Restricted Funds due to the sensitivity of the tracking of restricted reserves. If reserves are needed for a restricted purpose they are transferred to a Designated Fund within the fund category with that particular purpose. Reserves restricted to a fund category may only be used within that category and may not be transferred to another category. For example, the new water supply fee and the "incremental" portion of the capacity fee are restricted reserves for a specific purpose, and may not be transferred to another

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

category as no other category has the same purpose. However, the "buy-in" portion of the capacity fees and annexation fees are restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose.

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

The rationale for prioritizing reserve transfers is based on the immediacy of the need and the availability of reserves from other funding sources. For example, the General Fund is first to receive reserves when it drops below its target or minimum levels. This is because of the immediate and ongoing nature of the expenditures that are served by this fund. The operation of the District is first and foremost of the objectives of the District. On the other end of the spectrum, the Replacement Fund has a long-term perspective and will be used to partially finance replacement assets for many years to come. Debt financing is available to respond to this long term, foreseeable, and planned cash flow. This fund is less likely to have immediate needs and has other financing options.

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

As an example, if during the rate model update process it was determined that the Expansion Funds (designated and restricted)

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

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

OTAY WATER DISTRICT BOARD OF DIRECTORS POLICY			
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

GLOSSARY

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

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

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

Availability Fees: The District levies charges each year in developed areas to be used for upgrades, betterment, or replacement and in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be used only for the purpose of the improvement district for which it was assessed.

Betterment Fees: In addition to other applicable water rates and charges, water customers pay a fee based on water service zone or Improvement District. These fees are restricted for use in the area where they are collected and may be used for the construction and maintenance of facilities.

Bond: A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are authorized in a District bond resolution. The most common types of bonds are General Obligation (GO) bonds and Certificates of Participation (COPs). These are frequently used for construction of large capital projects such as buildings, reservoirs, pipelines and pump stations.

Capital Equipment: Fixed assets such as vehicles, marine equipment, computers, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

Capital Improvement Program: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

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

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

Expenditures/Expenses: These terms refer to the outflow of funds paid or to be paid for an asset, goods, or services obtained regardless of when actually paid for. (Note: An encumbrance is not an expenditure). An encumbrance reserves funds to be expended in a future period.

Fund: An account used to track the collection and use of monies for a specifically defined purpose.

Fund Balance: The current funds on hand resulting from the historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the results of operations.

Interest Income: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to the various funds each month based upon each fund's prior month-ending balance.

Late Charges/Penalties: Charges and penalties are imposed on customer accounts for late payments, returned ~~checks~~ payments, and ~~related telephone contacts~~ other infringements of the District's Code of Ordinances.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

1% Property Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB 8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

Operating Budget: The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel, and does not include purchases of major capital plant or equipment which is budgeted for separately in the Capital Budget. The Operating Budget also identifies planned non-operating revenues and expenses.

Revenue: Monies that the District receives as income. It includes such items as water sales and sewer fees. Estimated revenues are those expected to be collected during the fiscal year.

System Fees: Each water service customer pays a monthly system charge for water system replacement, maintenance, and operation expenses. The charge is based on the size of the meter and class of service.

Taxes: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on General Obligation bonds approved by the voters prior to July 1, 1978.

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. Effective in 2009, all non-residential customers are charged for water based on a tiered rate structure in which water rates are based on meter size and amount of units consumed. All non-residential customers are charged a flat rate per unit. A unit of water is 100 cubic feet or 748 gallons of water.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	11/3/10 8/1/12

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

1.0 The District

The Otay Water District is a California municipal water district, authorized in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. The District is a "revenue neutral" public agency; meaning each end user pays their fair share of the District's costs of water acquisition, construction of infrastructure, and the operation and maintenance of the public water facilities.

The District provides water service within its boundaries, and provides sewer and recycled water service within certain portions of the District. As such, the District operates three distinct business segments:

- Potable water
- Recycled water
- Sewer

Each of these business segments has an identifiable customer base. In addition, the developer community, large and small, makes up a significant class of customer for each business segment. As a result, the District has four distinct customer service types:

- Developers
- Potable water users
- Recycled water users
- Sewer users

The District has established practices and developed computer systems that have enabled the District to maintain a clear separation between the service costs relating to each of its four customer service types. Regardless of customer class, financial principles regarding cost allocation and fund accounting are fundamental to the District's Reserve Policy. These principles are derived from the statements of the Governmental Accounting Standards Board (GASB), and from oversight and advisory bodies such as the California State Auditor, the Little Hoover Commission, and the Government Finance Officers Association (GFOA). These have significant impacts on how the finances of the District are organized and how financial processes work within the organization.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

1.1 The District's Use of Financial Resources

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

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

1.2 The District's Capital Improvement Program (CIP)

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

a. New Water Supply

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

b. Expansion

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

c. Replacement

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

d. Betterment

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

1.21 Relocations

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

considered; if the project has less than five years of useful life remaining, a pro-rata cost approach should be considered. Also, the likelihood the District will benefit from an asset's life extension should be evaluated prior to allocating costs.

1.22 Oversizing

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

1.23 Exclusion of Developed Areas from Expansion Costs

Developed areas are assumed to have sufficient supply and capacity to meet their current requirements as provided by the developers. In addition, they are considered to have borne capital financial costs that are at least proportionate to the benefits they have received from capital facilities. Accordingly, no regional capital financing costs are allocated to these areas so that they will not incur any costs for newly developing areas, except for capital projects that produce district-wide benefit or cost savings.

1.24 Improvement Districts (IDs)

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

1.3 The Purpose of the Policy

Public entities accumulate and maintain reserves to ensure both financial stability and continuous availability of services. Financial stability and the resulting improved credit quality allow the public entity to weather times of uncertainty and the impact of negative events, both major and minor. Reserves allow for the ongoing maintenance of property and timely payment of expenses even when such expenses exceed money available from a single fiscal period. In the final analysis, the type and level of reserves are driven by the type and magnitude of uncertainty faced by the public entity.

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

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

It is important to note that reserves, fund balance, and net assets are not the same. Fund balance and net assets are accounting terms and may not always be in the form of cash or liquid investments. Fund balances and net assets may not always be reserves unless a designation of all or a portion of fund balance is made. In addition, the term fund balance was replaced by net assets as codified by the Governmental Accounting Standards Board (GASB).

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

have a more significant impact on the financial health and stability of the District. This policy explains several key financial concepts used by the District and provides some background information to the overall strategies and practices utilized. The District has a fiduciary obligation to its customers, to manage and direct the use of public funds for the purpose of providing water and sewer services in an efficient and financially sound manner.

1.4 Policy Guidelines

In 2000, the Little Hoover Commission reviewed the levels of reserve funds for special districts in California and prepared a report reflecting that special districts were accumulating unreasonable levels of funds. As a proactive response, the California Special Districts Association (CSDA) prepared Reserve Guidelines for its members. The Reserve Guidelines were significant in noting that reserve levels need to be in context of the organization's overall business model and capital improvement plan.

There are a number of potential events which the District should consider in the development of reserves:

- Economic Uncertainty - performance of the regional economy and the impact of that performance on demand for water.
- Weather - the amount of rainfall and the impact of weather on the availability and the cost of water as well as the demand for water.
- Government Mandates - the impact of federal and state regulation, particularly environmental regulation.
- Tax Changes - limitations on the District's taxing and spending powers through the passage of a voter referendum, the impound of District property taxes or the removal of the District's power to levy property taxes, further increases to Educational Revenue Augmentation Fund (ERAF) contributions or changes in calculation methodology.
- Operating Costs - increases in operating and maintenance costs because of inflation, labor agreement or other modification.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

- Force Majeure - unanticipated expenditures resulting from natural disasters or intentional acts.
- Emergency Maintenance - unanticipated expenditures resulting from unexpected failure of assets (e.g., rupture in the primary transmission system).
- Unexpected Variation in Cash Flow - the incidence of additional costs or decreased revenues that require short-term borrowing in the absence of sufficient financial resources.

The California State Auditor has, in its oversight role, offered a number of quality recommendations for the development of reserve policies as outlined in its report entitled, "California's Independent Water Districts: Reserve Amounts Are Not Always Sufficiently Justified, and Some Expenses and Contract Decisions Are Questionable," dated June 2004, Report No. 2003-137. All of these recommendations have been incorporated into this policy in an effort to address key issues surrounding the management and use of District reserves. The detailed objectives as identified by the State Auditor are as follows:

- Distinguish between restricted and unrestricted reserves.
- Establish distinct purposes for all reserves.
- Set target levels, including minimums and maximums, for the accumulation of reserves.
- Identify the events or conditions that prompt the use of reserves.
- Conform to plans to acquire or build capital assets.
- Receive Board approval and that it is in writing.
- Require periodic review of reserve balances and rationale for maintaining them.

Yet, the State Auditor's report acknowledges that the California Constitution (Article XIII B, Section 5) is vague in its provisions governing the accumulation and use of reserves.¹

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Specifically, the Constitution states that "each entity of the government can establish contingency, emergency, unemployment, reserve, sinking fund...or similar funds as it shall deem reasonable and proper."² Similarly, the State's Water Code does not impose any requirements as to specific or recommended reserve fund levels. As a result, the public finance community as a whole has yet to settle on any real objective standards for the level of reserve funds appropriate for governmental enterprises. This lack of consensus as to specific standards is indicative of the wide variance of the financial and operations context for different districts and different contingencies justifying reserves.

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

- The predictability of its revenues and the volatility of its expenditures (*i.e.*, higher levels of the unreserved fund balances may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (*i.e.*, the availability of resources in other funds may reduce the amount of the unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (*i.e.*, a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (*i.e.*, governments may wish to maintain higher levels of the unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

² California Constitution, Article XIII B, Section 5.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

In the preparation of this policy, each of the CSDA guidelines and the GFOA recommendations has been considered. In addition, all seven objectives provided by the State Auditor are specifically addressed for each reserve. The District wholly supports the State Auditor's efforts to bring a high-level of quality to reserve governance and establishing a standard of performance.

The District recognizes that the customer pays for services provided. Quality management requires that periodic valuations be performed so that fees and charges can be set at appropriate levels to recover the cost of service. The District's Reserve Policy has been drafted with consideration of the GFOA, CSDA, and State Auditor's general guidelines as provided above. In addition, the District has adopted the following principles in the management of its financial resources:

- Reserves are held and used only for the purpose for which they are collected. This is done to maintain equity among customers.
- Each of the service types is tracked separately so that expenditures and revenues can be monitored and evaluated for each customer type. This provides the District with the necessary information to appropriately charge for each of the services.
- Separation of operations and maintenance from capital expenditures occurs within each of the service types. This is done because the financing of these expenditures is often on different timelines or use different reserves.
- The District will hold its reserves at responsible and prudent levels. This policy sets minimum, maximum, and target levels for each of the various funds. This has been done so that the District can maintain reserves to meet the purpose for which the funds were established. The levels are set by reference to line items in the District's financial statements and approved budgets. This allows reserve levels to adjust to the District's changing financial circumstances.
- Debt financing of facilities provides intergenerational equity and maintains rates at reasonable levels. This equity is accomplished with long-term financing which spreads the cost of facilities over the life of the facilities. The burden to pay for facilities is then paid by those who use

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

them. The District could amass significant reserves by pre-collecting financial resources in a Replacement Reserve Fund allowing the District to cash finance all replacements. However, this would require significant rate increases burdening the current customers and creating reserve levels difficult to defend to the ratepayers or other oversight entities.

These concepts are fundamental to the way the District manages its funds and have a direct impact on the way rates and charges are set. The District performs annual budget evaluations and updates its rate model on an annual basis to monitor and adjust the various funds and revenue sources. The separation, tracking, and projecting of the various funds and expenditures create the essential information necessary for the equitable rate structure maintained by the District. The annual review preserves the balance between services provided and the fees charged. This review also insures that reserves will be available to continue to serve the District's customers.

Financial Sources

2.0 Developers

a. Meter Installation Charges (General Use)

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

b. Developer Deposits (General Use)

These deposits are for the engineering and operations services provided to developers. They are tracked separately for each developer and any excess amount is returned to the developer.

c. Annexation Fees (Restricted)

Annexation fees³ are collected as a condition of annexing into the District's potable and recycled water facilities. Since the existing facilities have been built and maintained by developers or customers within the District, the

³ Code of Ordinances, Section 9.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

annexation fee is calculated based on the present value of all property taxes (1% property tax and availability fees) paid by existing and prior customers. The annexation fee insures that future users finance a portion of facilities that were sized, built, and maintained for both existing and future users. Proceeds of annexation fees are restricted and can be used for expansion, replacement, or betterment projects. These reserves may be shifted back and forth as financing needs change.

d. Annexation Fees (Unrestricted)

A sewer annexation fee is collected when property is annexed into an improvement district. This fee is calculated using the "buy-in" basis and therefore is unrestricted.

e. New Water Supply Fee (Restricted)

New water supply fees⁴ are based on the cost of the expansion portion of new water supply projects divided by the number of future equivalent dwelling units (EDU). The new water supply fee covers the cost of planning, design, construction, and financing associated with facilities for the District's new supply needs. These fees are paid by developers. The proceeds of this fee may be used only for new potable or recycled water supply projects. Although the fees collected are not restricted separately, one portion for potable and the other for recycled, they are tracked separately.

f. Capacity Fees (Restricted)

Capacity fees⁴ are based on the value of existing and future facilities divided by the number of existing and future equivalent dwelling units. This method of calculating capacity fees is called the combined method, where the "buy-in" portion of the capacity fee covers costs to repay existing customers for the facilities that they have built, and where the "incremental" portion of the capacity fee covers the cost of future expansion facilities. The "buy-in" portion of the capacity fee is restricted to pay for planning, design, construction, and financing associated with expansion, replacement or betterment facilities. The "buy-in" portion may be shifted back and forth between expansion, betterment or replacement as the financing needs change. The

⁴ Code of Ordinances, Section 28

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

“incremental” portion of the capacity fee is limited to planning, design, construction, and financing exclusively for expansion facilities (excluding new water supply expansion).

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

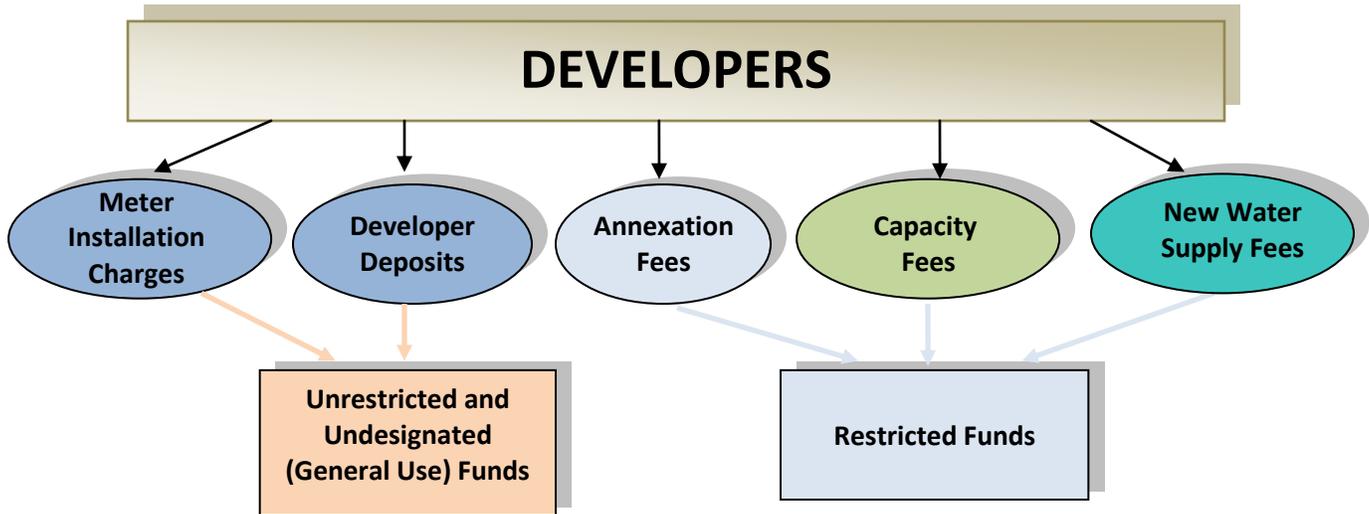
The District’s construction of infrastructure occurs prior to the addition of EDUs. This sequence serves two purposes: one it ensures that the District can serve the pending construction as it is completed; and two, it is more efficient to oversize many facilities at the outset rather than build for the current need and then reconstruct when the future need is realized. As a result of this strategy, the District has financed construction with bond financing as the existing expansion reserves are depleted.

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 2.0: Flow of Funds - Developer Sources



2.1 Customers/Users

a. Uniform Rates and Charges (General Use)

Charges to users for water, sewer, and recycled water are uniform throughout the District for similar customer types.

b. Monthly System Fees (General Use)

This is a fixed revenue source that is charged monthly. The amount of the charge is based on the meter size.

c. Energy Charges (General Use)

The energy pumping fee is a charge per unit of water for each 100 feet of lift, or fraction thereof, above the base elevation of 450 feet. This charge is placed on the monthly water bills of all water customers.

d. Penalties (General Use)

Penalties are added to the monthly water and sewer bills for late charges, locks, etc.

e. Pass-through Fixed Charges (General Use)

A fixed monthly charge to the District's customers intended to collect sufficient funds to pass-through the increased

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

f. Special Rates and Charges (Restricted)

In addition to the uniform water charges, the District currently has five special water rates and one sewer rate. The five water rates are for construction, installation, and maintenance of water storage reservoirs, pump stations, and water lines. Each of these rates and charges must be used within the respective geographic areas from which they are collected. These special charges are listed below:

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

When these rates were established they were for the specific purpose of constructing, installing, and maintaining the water and sewer systems in the areas in which the fees were collected. Therefore, these are restricted reserves by geographic area as well as by purpose. These rates and charges can also be used for maintenance; unlike the availability fees (discussed in 2.2 B.). These six special rates and charges along with availability fees are tracked separately, by geographic area, so they can be individually evaluated to maintain the targeted reserve levels. To meet this need, each special rate and charge is accounted for in a "sub-fund" of the Betterment Fund.

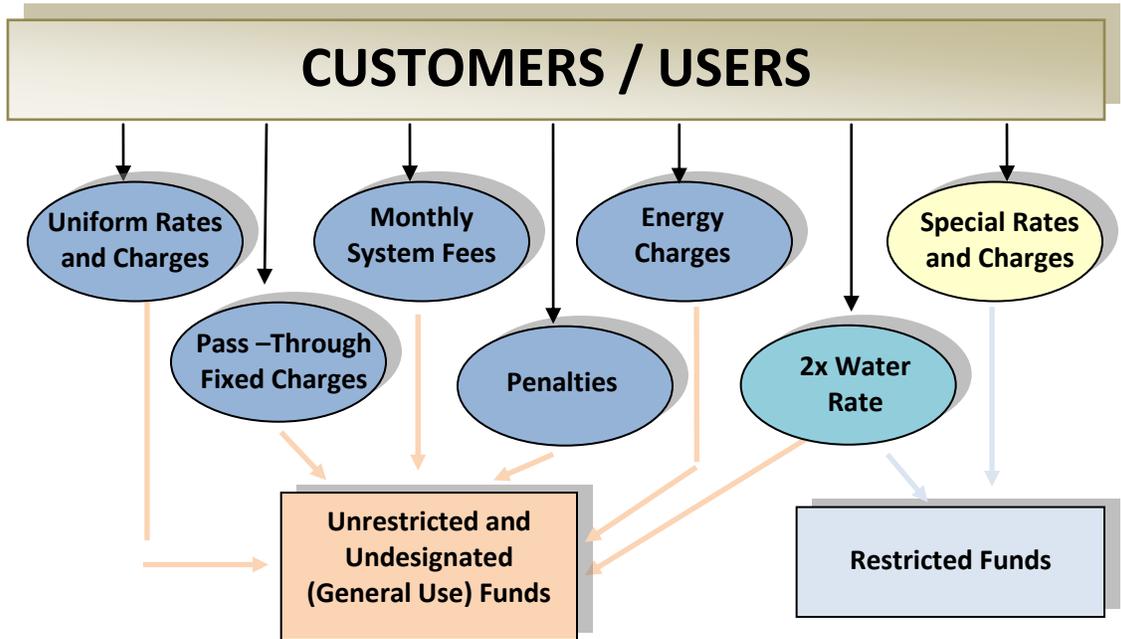
g. Temporary Meter Fees (General Use/Restricted)

Water charges, in lieu of capacity fees, are charged on temporary meters. This is done because temporary meters use system capacity but they are not charged a capacity fee. Temporary water use is charged at two times the water rate with the added charge placed in the Restricted Expansion Fund. The primary users of these temporary meters are developers; however, general customers also use these for various purposes.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 2.1: Flow of Funds - Customer Sources



2.2 County-Collected Taxes and Fees

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

In 1978, Proposition 13 limited the levy of ad valorem property taxes on real property to one percent of the assessed value of such property. Subsequent legislation, AB 8, established that the receipts from the one percent levy were to be distributed to taxing agencies proportionate to each agency's general levy receipts prior to Proposition 13. Taxes received are for general use.

b. Availability Charges (General Use/Restricted)

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

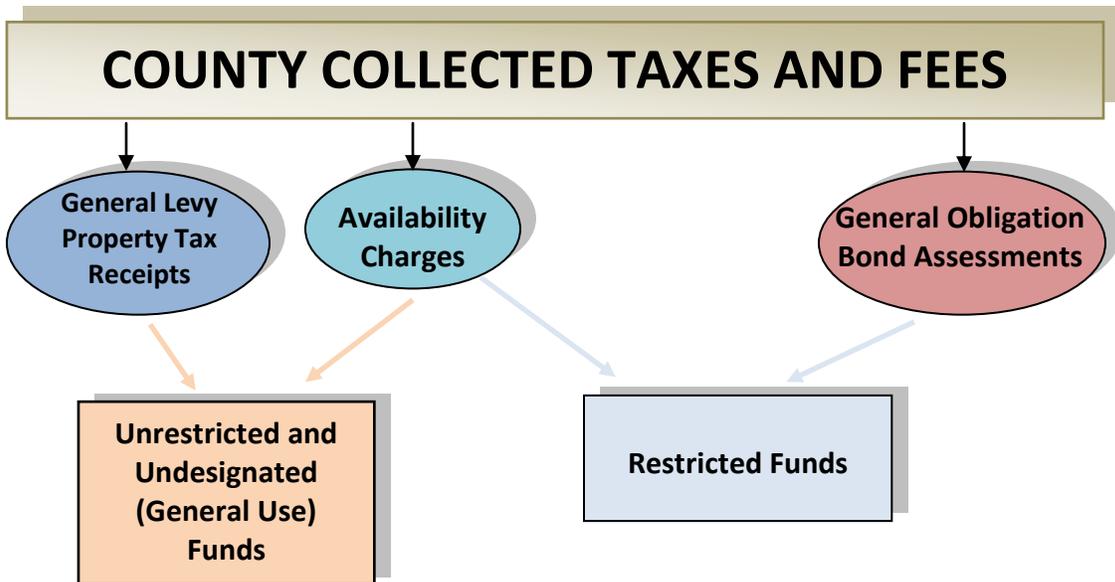
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

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

The District has historically issued general obligation (GO) debt and establishes an improvement district for the repayment of that debt. When this financing method is used, the county tax roll can be used to collect special taxes or assessments within the ID to pay the debt obligation. The proceeds of the debt are restricted for the purpose as defined in the bond documents.

Diagram 2.2: Flow of Funds – County Collection Sources



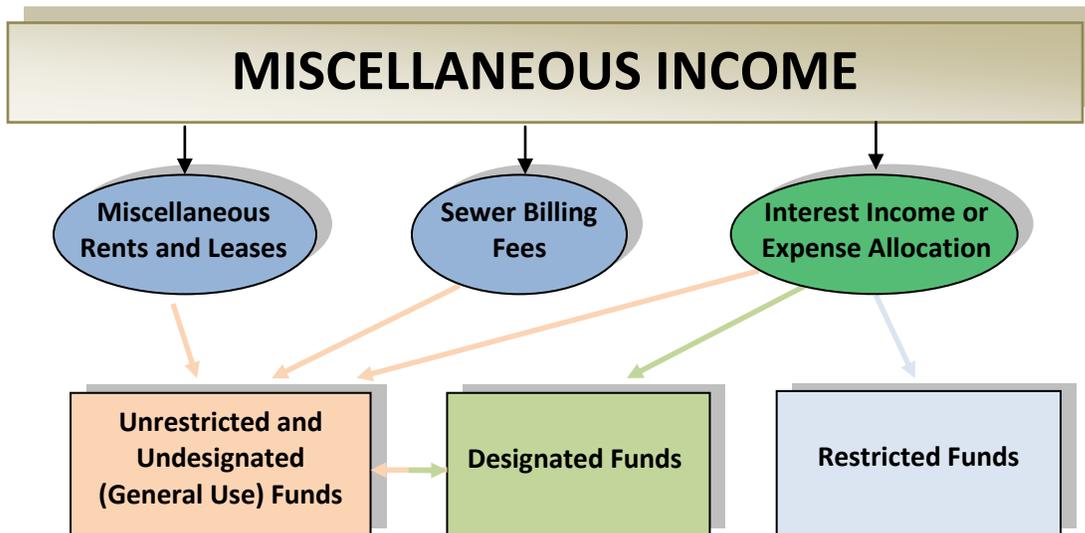
**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

2.3 Miscellaneous Income

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

Diagram 2.3: Flow of Funds – Miscellaneous Income Sources



**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

2.4 Debt Issuance

a. Loans (General/Restricted Use)

As the District determines that additional financing is required for a particular purpose, the option of borrowing is considered. The determination to borrow is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. As an option to bond indebtedness, loans are available to satisfy short-term financing needs. These loans may or may not be contractually restricted for a particular purpose.

b. General Obligation (GO) Bonds (Restricted)

As the District becomes more developed it becomes less likely that general obligation debt will be used as it requires a vote of the public to be approved. Bond proceeds are restricted for the construction of those facilities identified in the GO bond issuance. Occasionally, specific portions of bond proceeds may be allocated for the repayment of the principal and interest, also called debt service, on these bonds. As the District determines that additional financing is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action.

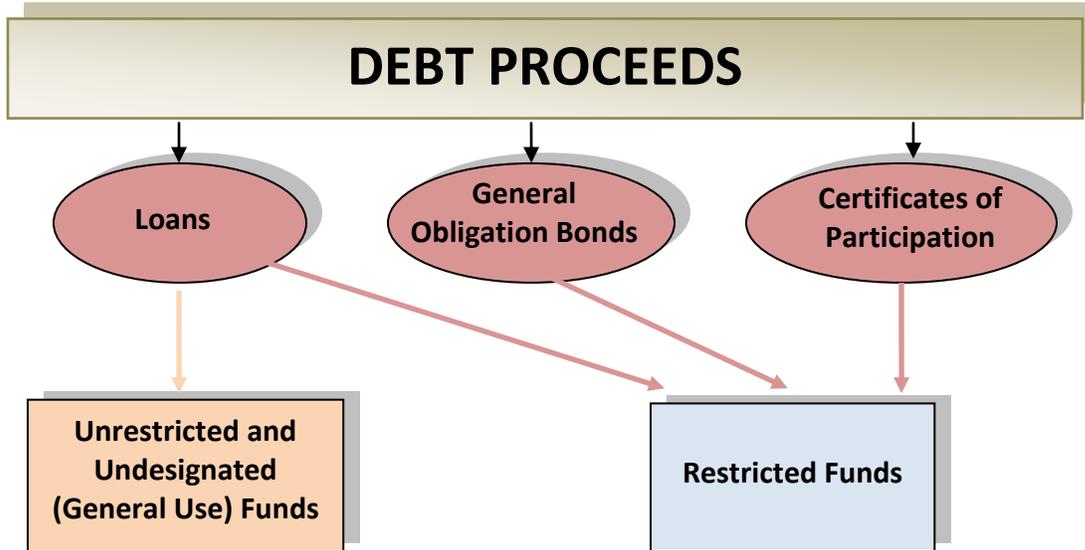
c. Certificates of Participation (COPs) (Restricted)

General revenues of the District are pledged as security for Certificates of Participation (COPs) indebtedness. If the District determines that additional financing is required for a particular purpose, the option of debt issuance is considered. The determination to issue debt is made as a part of the annual rate model update and is evaluated in accordance with the Debt Policy before it is recommended to the Board for action. This form of financing has become the industry's preferred form of financing as it does not require a vote of the general public.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 2.4: Flow of Funds – Debt Issuance Sources



2.5 Inter-fund Transfers

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

Fund Types and Categories

3.0 General Funds

a. Purpose

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

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

The General Fund also plays a role in the debt planning of the District. This fund is viewed by the debt markets as a commitment by the District to ensure financial stability of the rates and charges of the District. The District is anticipated to need a number of debt issuances over the years and this fund will help the District not only to stabilize rate fluctuations but also to access low cost financing for future projects.

b. Sources

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

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

c. Funding Levels

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

II. **Maximum Level** - The maximum reserve level for the General Fund is nine months of operating budget expenses. In the event that this fund exceeds the seven month level, the excess will be evaluated or transferred to one or more of the designated funds.

III. **Target Level** - The target level of reserves is three months of operating budget expenses. In the event that the fund drops below the target level, rate increases or fund transfers would be considered.

3.1 Designated Other Post Employment Benefits (OPEB) Fund

a. Purpose

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

b. Sources

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

c. Funding Levels

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

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

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

3.2 New Water Supply Fund Category

a. Purpose

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

b. Sources

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

c. Funding Levels

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

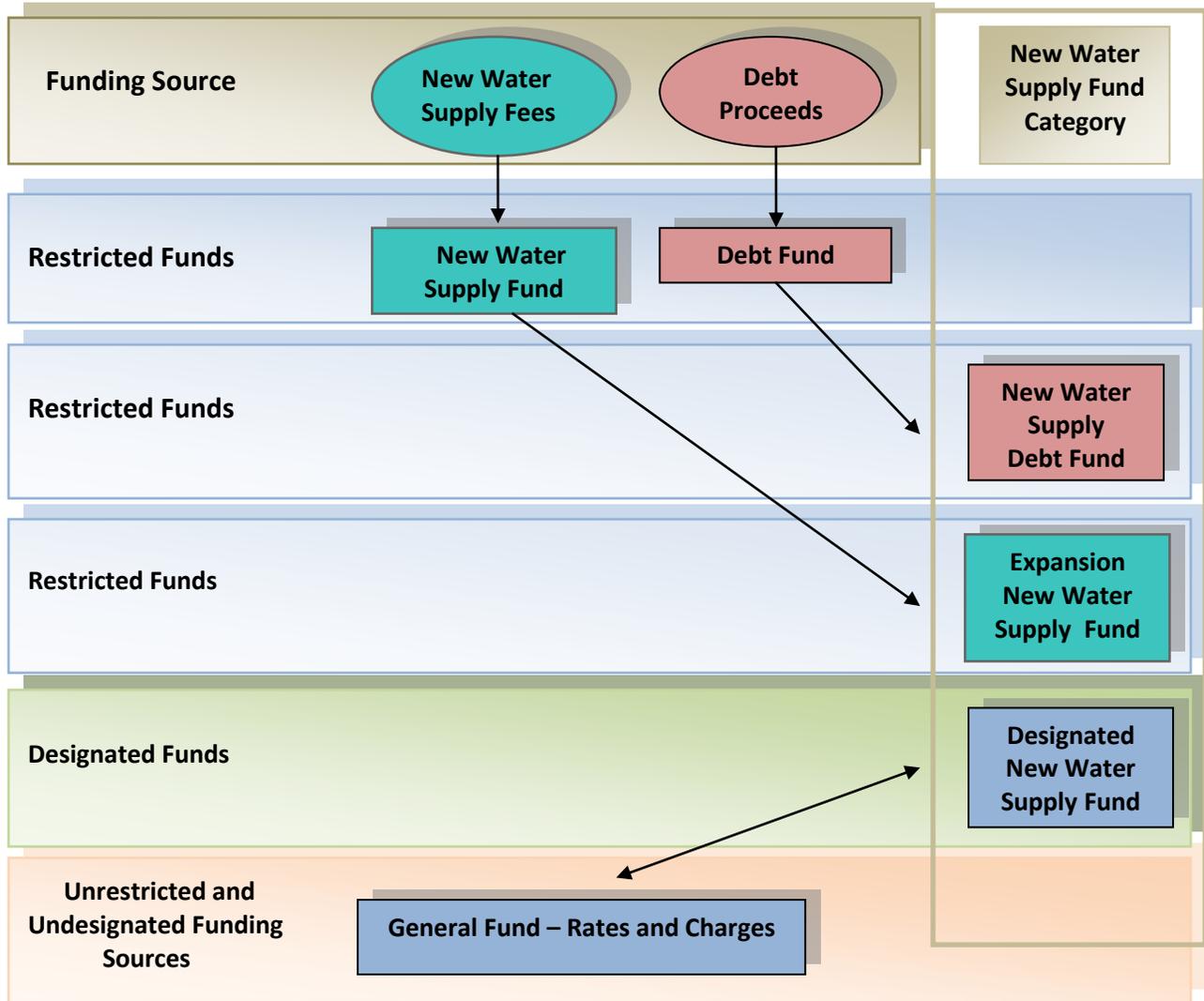
II. **Maximum Level** - The maximum reserve level for the new water supply category of funds is limited to five years of the unfinanced new water supply facilities as described in the District's CIP Budget. To determine the unfinanced amount, the total new water supply financing needs must be reduced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

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 3.2: New Water Supply Fund Category



3.3 Expansion Fund Category

a. Purpose

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Capital Improvement Fund, and the Designated Expansion Fund. Potable and recycled reserves are considered jointly while sewer is evaluated separately.

b. Sources

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

c. Funding Levels

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

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

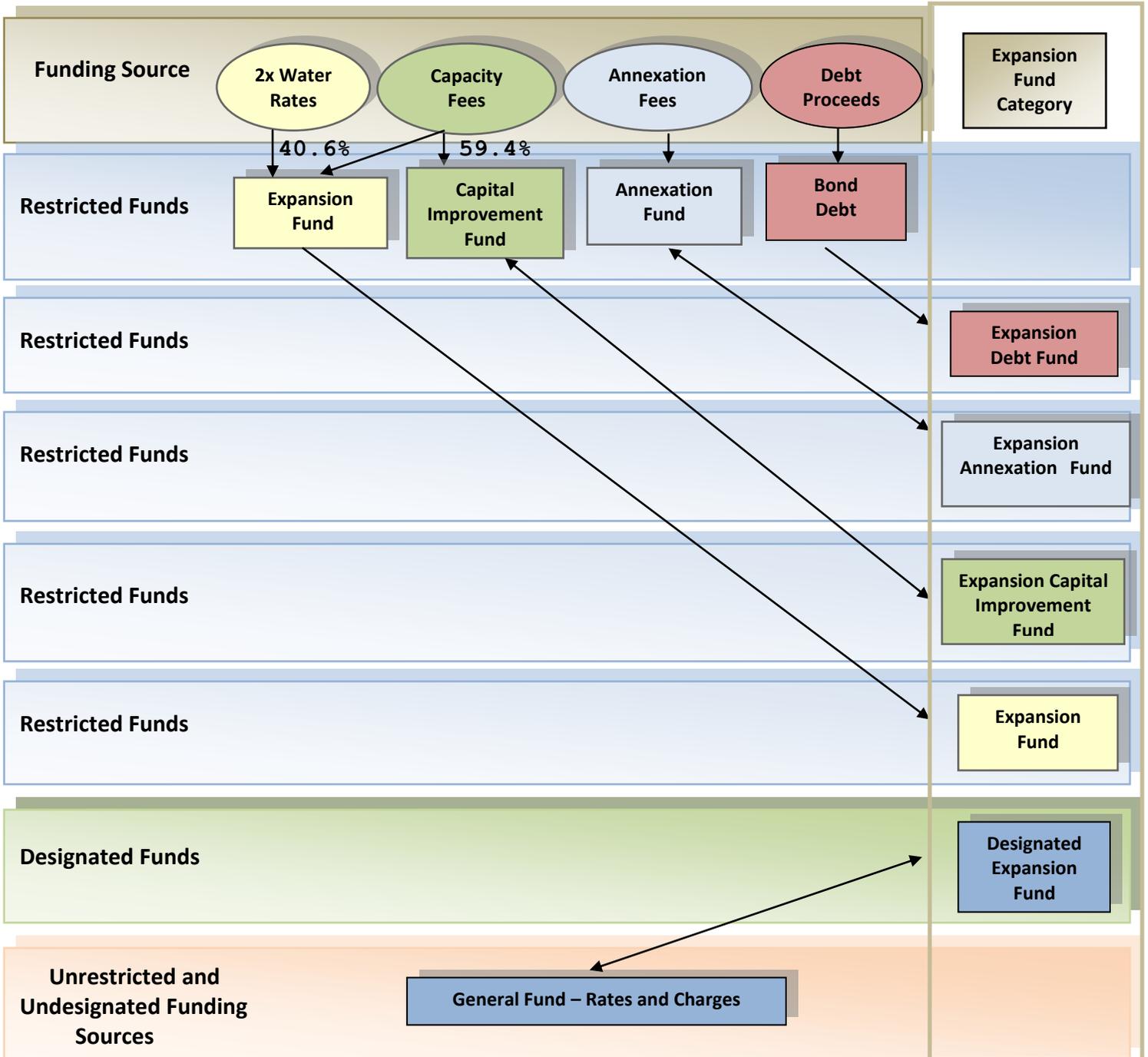
Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 3.3: Expansion Fund Category



OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

3.4 Replacement Fund Category

a. Purpose

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

With the District's development of its financial systems and the greater need and ability to separate and track reserves, the replacement reserves have been separated into three funds: water, recycled, and sewer.

Projects undertaken solely for the purpose of replacing major capital equipment or facilities, *i.e.*, where the cost exceeds \$10,000 for capital purchases or \$20,000 for infrastructure items, generally these are not considered normal maintenance. When the cost is below \$10,000, the costs are financed annually as operational maintenance. As charges are incurred on replacement projects the reserves are deducted from the respective Replacement Funds on a monthly basis.

b. Sources

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

c. Funding Levels

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

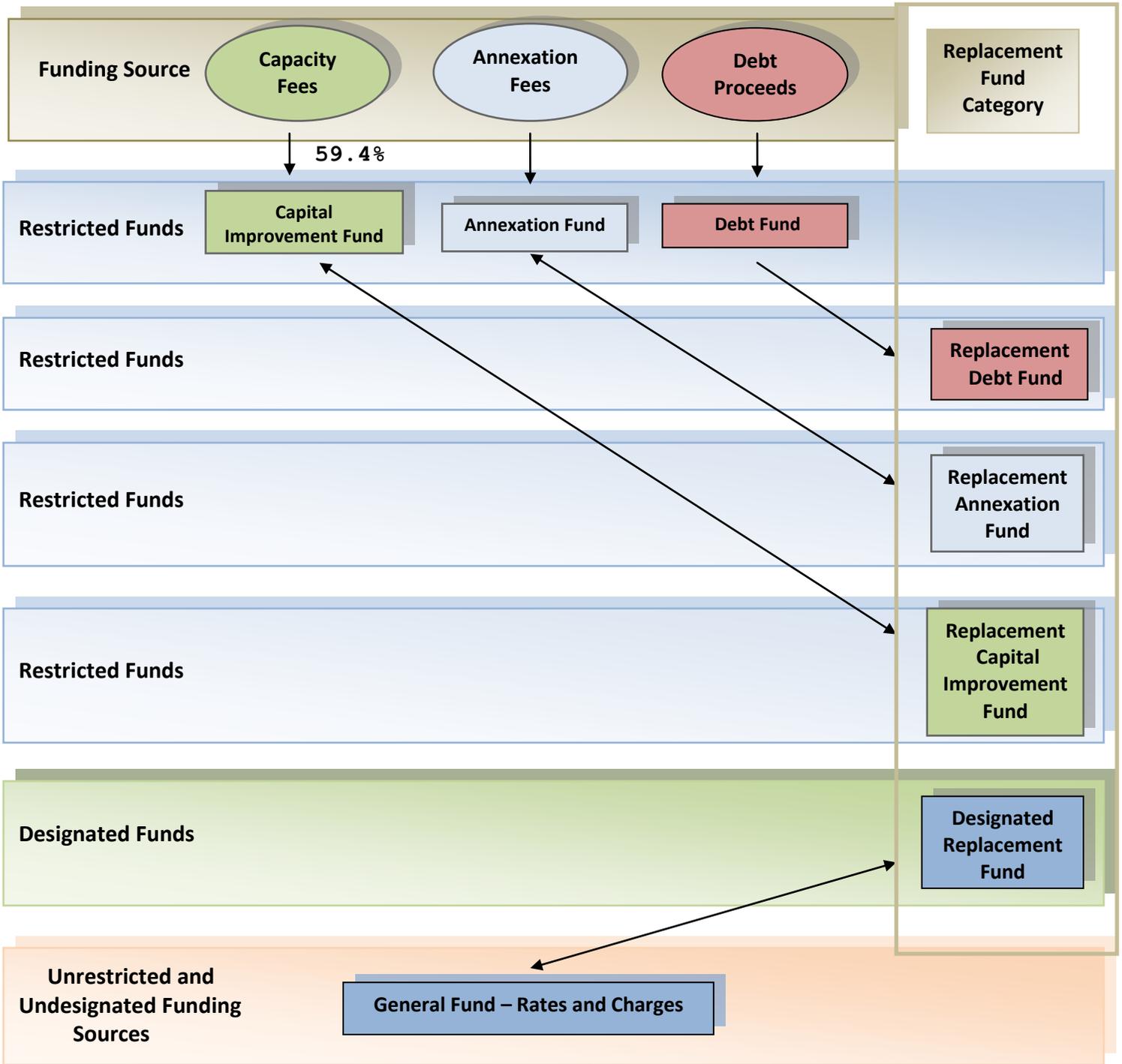
combined replacement reserves exceed target levels, the District should consider transferring annexation fees or the "buy-in" portion of the capacity fee to meet other purposes. Another consideration would be to shift the timing of replacement projects.

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 3.4: Replacement Fund Category



OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

3.5 Betterment Fund Category

a. Purpose

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

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

b. Sources

The Betterment Fund category receives restricted revenues by improvement district via special water rates and from availability fees collected through the county tax roll. Betterment may also be financed by debt proceeds, annexation fees, the "buy-in" portion of the capacity fee, as well as the general fund through a designation of reserves.

c. Funding Levels

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

II. **Maximum Level** - The maximum reserve level for the betterment category of funds is limited to five years of unfinanced betterment facilities as

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

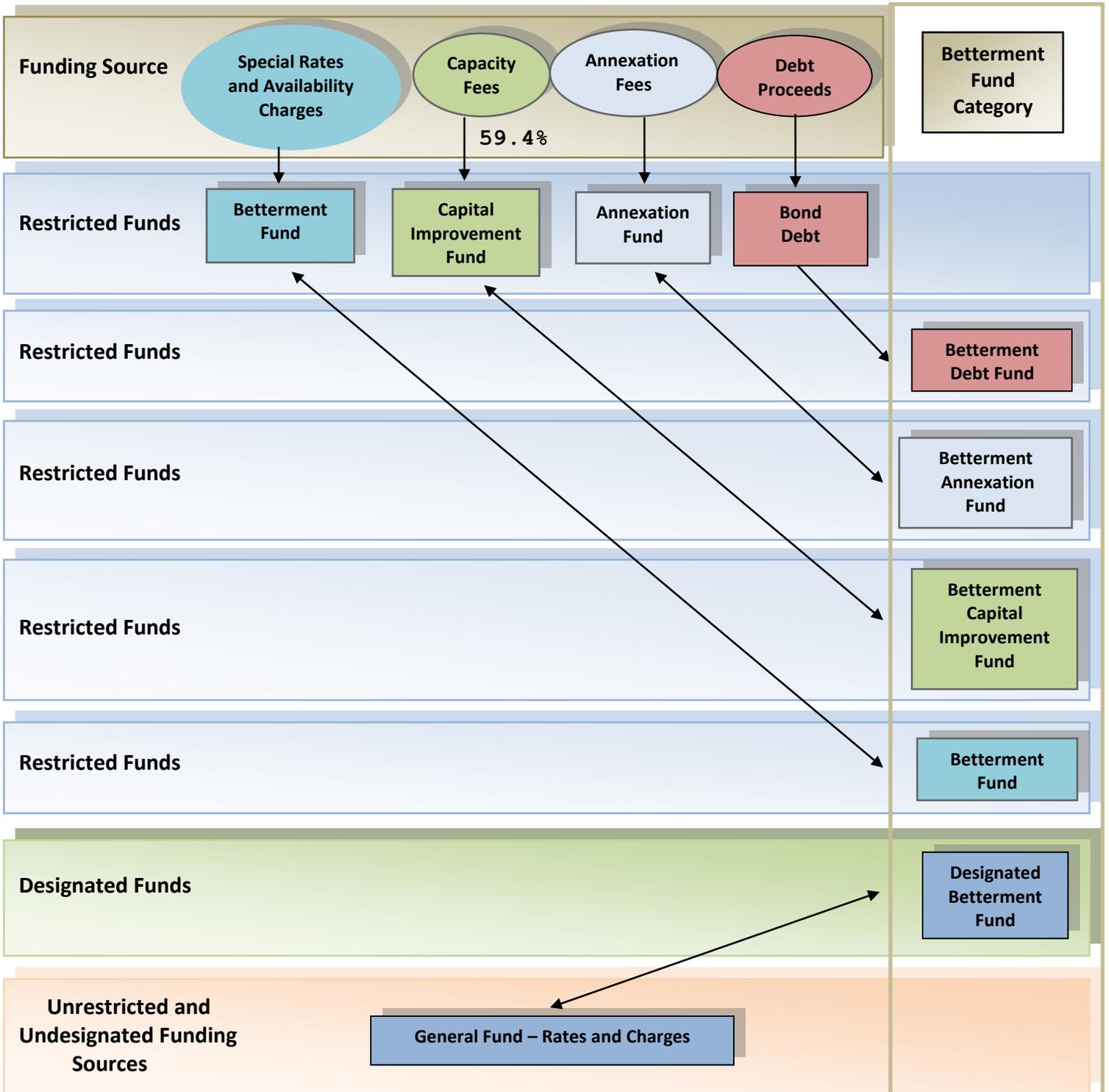
described in the District's CIP Budget. To determine the unfinanced amount, the total financing need must be reduced by the projected betterment revenues, bond financing, annexation, and general fund designations. If this maximum is exceeded, then the District should evaluate reductions in the special water rates and availability fees, transferring designated reserves to meet other purposes, or shifting the timing of betterment projects.

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 3.5: Betterment Fund Category



**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Diagram 3.6: Fund Targets

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

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

Additional Restricted Funds

4.0 Capital Improvement Fund

a. Purpose

The "Capital Improvement Fund's sole purpose is to track the "buy-in" portion of the capacity fee and to ensure these fees are expended solely for the purpose for which they were

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

b. Sources

The "buy-in" portion of the capacity fee collected after June 30, 2010.

c. Funding Levels

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

4.1 Annexation Fund

a. Purpose

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

b. Sources

Potable and recycled annexation fees collected after June 30, 2010.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

c. Uses

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

4.2 Debt Reserve Fund

a. Purpose

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

b. Sources

Debt proceeds.

c. Uses

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

Fund Transfers

5.0 Funding Levels

As described in the preceding sections, the District maintains reserves for its operating and capital activities. These reserves can be of three types: 1) undesignated or general use reserves, 2) designated, and 3) restricted for a specific purpose. The restricted reserves can be restricted geographically and/or by purpose. The District maintains various funds to track the various designations and restrictions. The source of the money

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

for each fund was discussed along with the purpose, source of funds, and levels. Key characteristics of these funds are the target levels, minimums, and maximums. The funding levels must be viewed in the context of the economic environment, political environment, and in light of the District's rate model. The District's six-year rate model not only shows the current balance but also shows the trend of the fund balances. Often the trend of the fund is a greater indicator of financial stability than is the current balance.

The rate model is updated each year with the budget process and evaluates each fund over the next six years. The rate model will take into account the general economic environment, looking at the development rate, supply rate increases, the possibility of raising rates, capital infrastructure spending, and strategic plan initiatives. The fund balances may at times be over or under the target amount. This is not only acceptable but expected. The rate model provides an empirical estimate of the conformance between the projected District's financial activities and the guidelines of this policy.

5.1 Fund Transfers

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

“buy-in” portion of the capacity fees and annexation fees are restricted for purposes that are shared by more than one category of funds and may therefore be transferred to a restricted fund within another fund category as long as it shares the same purpose.

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

The rationale for prioritizing reserve transfers is based on the immediacy of the need and the availability of reserves from other funding sources. For example, the General Fund is first to receive reserves when it drops below its target or minimum levels. This is because of the immediate and ongoing nature of the expenditures that are served by this fund. The operation of the District is first and foremost of the objectives of the District. On the other end of the spectrum, the Replacement Fund has a long-term perspective and will be used to partially finance replacement assets for many years to come. Debt financing is available to respond to this long term, foreseeable, and planned cash flow. This fund is less likely to have immediate needs and has other financing options.

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

As an example, if during the rate model update process it was determined that the Expansion Funds (designated and restricted) would drop and stay below the minimum during the six-year planning

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

GLOSSARY

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

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

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

Availability Fees: The District levies charges each year in developed areas to be used for upgrades, betterment, or replacement and in undeveloped areas to provide a source of funding for planning, mapping, and preliminary design of facilities to meet future development. Current legislation provides that any availability charge in excess of \$10.00 per acre shall be used only for the purpose of the improvement district for which it was assessed.

Betterment Fees: In addition to other applicable water rates and charges, water customers pay a fee based on water service zone or Improvement District. These fees are restricted for use in the area where they are collected and may be used for the construction and maintenance of facilities.

Bond: A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are authorized in a District bond resolution. The most common types of bonds are General Obligation (GO) bonds and Certificates of Participation (COPs). These are frequently used for construction of large capital projects such as buildings, reservoirs, pipelines and pump stations.

Capital Equipment: Fixed assets such as vehicles, marine equipment, computers, furniture, technical instruments, etc. which have a life expectancy of more than two years and a value over \$10,000.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

Capital Improvement Program: A long-range plan of the District for the construction, rehabilitation and modernization of the District-owned and operated infrastructure.

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

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

Expenditures/Expenses: These terms refer to the outflow of funds paid or to be paid for an asset, goods, or services obtained regardless of when actually paid for. (Note: An encumbrance is not an expenditure). An encumbrance reserves funds to be expended in a future period.

Fund: An account used to track the collection and use of monies for a specifically defined purpose.

Fund Balance: The current funds on hand resulting from the historical collection and use of monies. The difference between assets and liabilities reported in the District's Operating Fund plus residual equities or balances and changes therein, from the results of operations.

Interest Income: Earnings from the investment portfolio. Per District Policy Number 25, interest income will be allocated to the various funds each month based upon each fund's prior month-ending balance.

Late Charges/Penalties: Charges and penalties are imposed on customer accounts for late payments, returned payments, and other infringements of the District's Code of Ordinances.

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
RESERVE POLICY	25	2/10/93	8/1/12

1% Property Tax: In 1978, Proposition 13 limited general levy property tax rates for all taxing authorities to a total rate of 1% of full cash value. Subsequent legislation, AB 8, established that the receipts from the 1% levy were to be distributed to taxing agencies according to approximately the same proportions received prior to Proposition 13. Funds received are to be used for facilities construction or debt service on bonds sold to build facilities.

Operating Budget: The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel, and does not include purchases of major capital plant or equipment which is budgeted for separately in the Capital Budget. The Operating Budget also identifies planned non-operating revenues and expenses.

Revenue: Monies that the District receives as income. It includes such items as water sales and sewer fees. Estimated revenues are those expected to be collected during the fiscal year.

System Fees: Each water service customer pays a monthly system charge for water system replacement, maintenance, and operation expenses. The charge is based on the size of the meter and class of service.

Taxes: California Water Code Section 72091 authorizes the District, as a municipal water district, to levy ad valorem property taxes which are equal to the amount required to make annual payments for principal and interest on General Obligation bonds approved by the voters prior to July 1, 1978.

Water Rates: Rates vary among classes of service and are measured in units. The water rates for residential customers are based on an accelerated block structure. As more units are consumed, a higher unit rate is charged. Effective in 2009, all non-residential customers are charged for water based on a tiered rate structure in which water rates are based on meter size and amount of units consumed. A unit of water is 100 cubic feet or 748 gallons of water.



STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	August 1, 2012
SUBMITTED BY:	Rita Bell, Finance Manager	PROJECT:	DIV.NO. All
APPROVED BY:	<input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager		
SUBJECT:	Annual Review of the District's Investment Policy (Policy No. 27) and Re-Delegation of Authority for All Investment Related Activities to the Chief Financial Officer		

GENERAL MANAGER'S RECOMMENDATION:

That the Board receive the District's Investment Policy (Policy No. 27) for review and to re-delegate authority for all investment related activities to the Chief Financial Officer (CFO), in accordance with Government Code Section 53607.

COMMITTEE ACTION: _____

See Attachment A.

PURPOSE:

Government Code Section 53646 recommends that the District's Investment Policy be rendered to the Board on an annual basis for review. In addition, Government Code Section 53607 requires that for the CFO's delegation of authority to remain effective, the governing board must re-delegate authority over investment activities on an annual basis. There are no recommended changes to the Investment Policy and staff is requesting that the Board re-delegate authority to the CFO.

ANALYSIS:

The primary goals of the investment policy are to assure compliance with the California Government Code, Sections 53600 et seq, and to protect the principal of the funds. The code provides a broad range of investment options for local agencies, including Federal Treasuries, Federal Agencies, Callable Federal Agencies, the State Pool, the County Pool, high-grade corporate debt, and others. Over the past years, the size of the District's portfolio has fluctuated between \$103 million and \$88 million due to planned outlays for construction projects.

Because of the District's adherence to a conservative range of authorized investments, we have been able to maintain a healthy and diversified portfolio with no investment losses despite an extended period of turmoil and instability in the national financial markets. The policy is consistent with the current law and the overall objectives of the policy are being met.

FISCAL IMPACT: _____

None.

STRATEGIC GOAL:

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

LEGAL IMPACT: _____

None.

Attachments:

- A) Committee Action Form
- B) Investment Policy No. 27
- C) Portfolio Management: Portfolio Summary
- D) Investment Policy Presentation



ATTACHMENT A

SUBJECT/PROJECT:	Annual Review of Investment Policy (Policy No. 27) and Re-delegation of Authority for All Investment Related Activities to the Chief Financial Officer
-------------------------	--

COMMITTEE ACTION:

The Finance, Administration, and Communications Committee receive the Investment Policy (Policy No. 27) for review, and to re-delegate authority for all investment related activities to the Chief Financial Officer (CFO), in accordance with Government Code Section 53607.

NOTE:

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

1.0: POLICY

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

2.0: SCOPE

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

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

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

3.0: PRUDENCE

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

The standard of prudence to be used by investment officials shall be the "Prudent Person" and/or "Prudent Investor" standard (California

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

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

4.0: OBJECTIVE

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

- 4.1) Safety: Safety of principal is the foremost objective of the investment program. Investments of the Otay Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

- 4.2) Liquidity: The Otay Water District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

- 4.3) Return on Investment: The Otay Water District's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 DELEGATION OF AUTHORITY

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

system of controls to regulate the activities of subordinate officials and their procedures in the absence of the CFO.

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

6.0: ETHICS AND CONFLICTS OF INTEREST

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

7.0: AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

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

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

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

As annual review of the financial condition and registrations of qualified bidders will be conducted by the CFO. A current audited

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

8.0: AUTHORIZED AND SUITABLE INVESTMENTS

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

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

8.02) Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by State Law (currently \$40 million). The District may also invest bond proceeds in LAIF with the same but independent maximum limitation.

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

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- Federal National Mortgage Association (FNMA or "Fannie Mae")
- Government National Mortgage Association (GNMA or "Ginnie Mae")
- Student Loan Marketing Association (SLMA or "Sallie Mae")
- Federal Farm Credit Bank (FFCB)

There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

8.04) Interest-bearing demand deposit accounts and Certificates of Deposit (CD) will be made only in Federal Deposit

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

Insurance Corporation (FDIC) insured accounts. For deposits in excess of the insured maximum of \$100,000, approved collateral shall be required in accordance with California Government Code, Section 53652. Investments in CD's are limited to 15 percent of the District's portfolio.

8.05) Commercial paper, which is short-term, unsecured promissory notes of corporate and public entities. Purchases of eligible commercial paper may not exceed 10 percent of the outstanding paper of an issuing corporation, and maximum investment maturity will be restricted to 270 days. Investment is further limited as described in California Government Code, Section 53601(g). Purchases of commercial paper may not exceed 15 percent of the District's portfolio.

8.06) Medium-term notes defined as all corporate debt securities with a maximum remaining maturity of five years or less, and that meet the further requirements of California Government Code, Section 53601(j). Investments in medium-term notes are limited to 15 percent of the District's portfolio.

8.07) Money market mutual funds that invest only in Treasury securities and repurchase agreements collateralized with Treasury securities, and that meet the further requirements of California Government Code, Section 53601(k). Investments in money market mutual funds are limited to 15 percent of the District's portfolio.

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

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

9.0: INVESTMENT POOLS/MUTUAL FUNDS

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

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

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

10.0 COLLATERALIZATION

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

11.0: SAFEKEEPING AND CUSTODY

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

12.0: DIVERSIFICATION

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

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

13.0: MAXIMUM MATURITIES

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

14.0: INTERNAL CONTROL

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

15.0: PERFORMANCE STANDARDS

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

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

16.0: REPORTING

The Chief Financial Officer shall provide the Board of Directors monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, amortized book value, and market value.
- Percentage of the portfolio represented by each investment category.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

17.0: INVESTMENT POLICY ADOPTION

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

18.0: GLOSSARY

See Appendix A.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

APPENDIX A: GLOSSARY

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

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

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

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

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

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

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

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

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

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

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

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

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

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

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

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures deposits in member banks and thrifts, currently up to \$100,000 per deposit.

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

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

FEDERAL HOME LOAN BANK (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

guarantees that all security holders will receive timely payment of principal and interest.

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

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

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

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

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

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

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

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

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

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A self-regulatory organization of the securities industry responsible for the operation and regulation of the NASDAQ stock market and over-the-counter markets. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

PASSIVE INVESTING: An investment strategy involving limited ongoing buying and selling actions. Passive investors will purchase

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

investments with the intention of long term appreciation and limited maintenance, and typically don't actively attempt to profit from short term price fluctuations. Also known as a buy-and-hold strategy.

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

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

PUBLIC SECURITIES ASSOCIATION (PSA): A trade organization of dealers, brokers, and bankers who underwrite and trade securities offerings.

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

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

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

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

**OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY**

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

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

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

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

STUDENT LOAN MARKETING ASSOCIATION (SLMA or Sallie Mae): A federally established, publicly traded corporation which buys student loans from colleges and other lenders, pools them, and sells them to investors.

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

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

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
DISTRICT INVESTMENT POLICY	27	9/15/93	9/6/06

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

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

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

OTAY
Portfolio Management
Portfolio Summary
June 30, 2012

Attachment C

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 360 Equiv.	YTM 365 Equiv.
Federal Agency Issues- Callable	53,097,000.00	53,096,651.05	53,095,133.70	61.11	831	669	0.593	0.602
Certificates of Deposit - Bank	81,326.80	81,326.80	81,326.80	0.09	731	570	0.280	0.284
Local Agency Investment Fund (LAIF)	11,600,832.35	11,614,882.26 *	11,600,832.35	13.35	1	1	0.353	0.358
San Diego County Pool	22,109,219.22	22,115,010.00	22,109,219.22	25.45	1	1	0.503	0.510
	86,888,378.37	86,907,870.11	86,886,512.07	100.00%	509	410	0.538	0.546
Investments								
Cash								
(not included in yield calculations)	1,444,472.47	1,444,472.47	1,444,472.47		1	1	0.227	0.231
Total Cash and Investments	88,332,850.84	88,352,342.58	88,330,984.54		509	410	0.538	0.546

Total Earnings	June 30	Month Ending	Fiscal Year To Date	Fiscal Year Ending
Current Year		38,759.99	574,013.15	574,013.15
Average Daily Balance		88,926,434.70	95,876,722.67	
Effective Rate of Return		0.53%	0.60%	

I hereby certify that the investments contained in this report are made in accordance with the District Investment Policy Number 27 adopted by the Board of Directors on September 6, 2006. The market value information provided by Interactive Data Corporation. The investments provide sufficient liquidity to meet the cash flow requirements of the District for the next six months of expenditures.

Joseph Beachem for JFB 7/12/12
 Joseph Beachem, Chief Financial Officer

* Used May 31 Fair Market Value rate

Reporting period 06/01/2012-06/30/2012

Run Date: 07/12/2012 - 11:15

Portfolio OTAY
 AP
 PM (PRF PM1) 7.3.0
 Report Ver. 7.3.3b



DISTRICT INVESTMENT POLICY

Policy No. 27

August 1, 2012

POLICY REVIEW

- **Purpose:**

- Annual Review

- Delegation of Investment Authority

INVESTMENT POLICY GUIDELINES

A. California Government Code:

- Sections 53600 through 53692

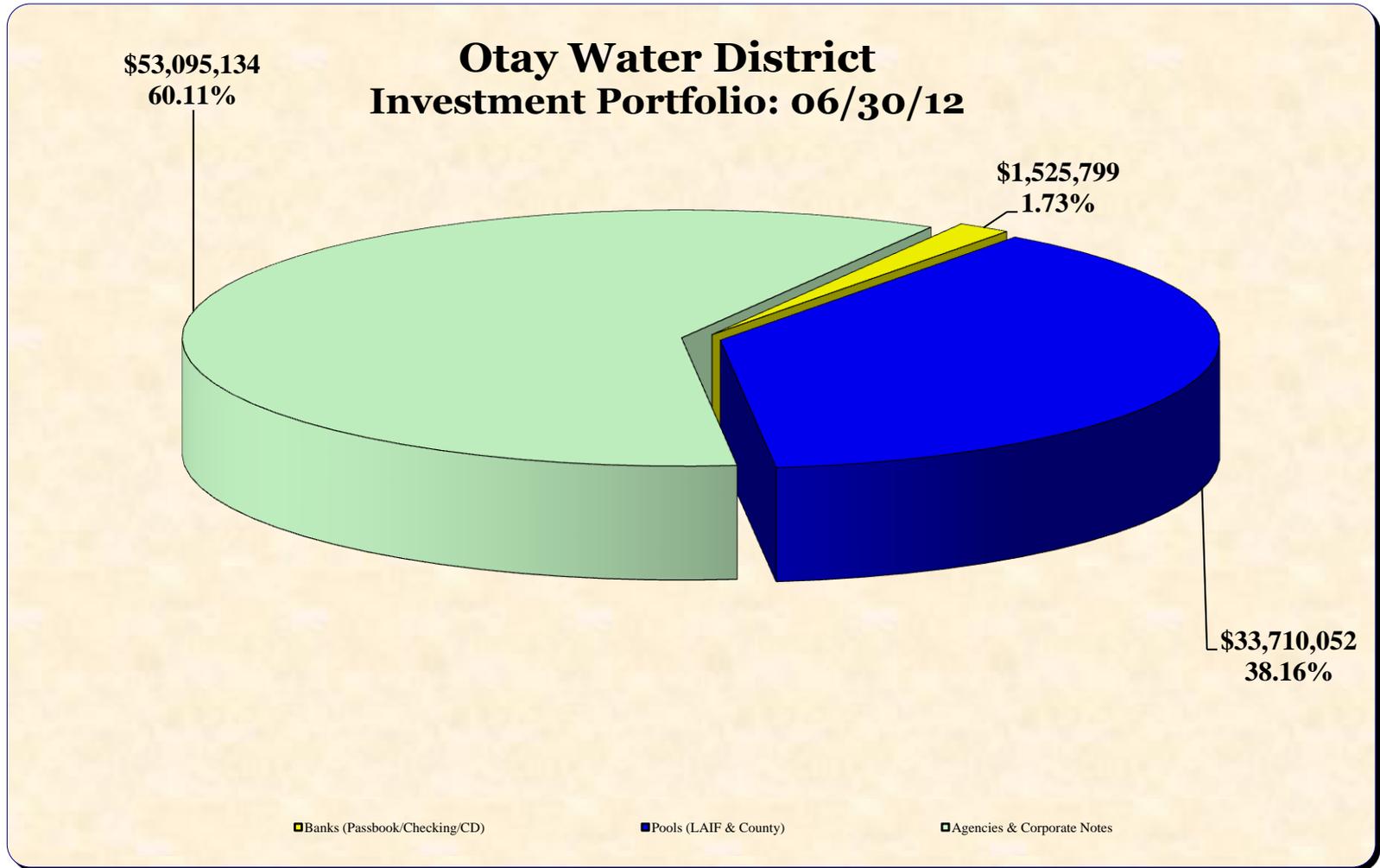
B. Investment Policy Certification:

- Association of Public Treasurers of the United States & Canada (APT US&C)

INVESTMENT PORTFOLIO: 6/30/12

		Authorized	
	\$('000s)	\$ / %	Actual %
LAIF (Operating)	\$7,533	\$50 M	8.52%
LAIF (Bonds)	\$4,068	100%	4.61%
Govt. Agency Bonds	\$53,097	100%	60.11%
Bank Deposits & CDs	\$1,526	15%	1.73%
San Diego County Pool	\$22,109	50%	25.03%
TOTAL:	\$88,333		

INVESTMENT PORTFOLIO: 6/30/12



INVESTMENT PERFORMANCE

Fund Objectives

- Safety
- Liquidity
- Return on Investment

Fund Performance: FY-12 FY-11

- | | | |
|---------|-------|-------|
| ➤ OTAY: | 0.60% | 1.25% |
| ➤ LAIF: | 0.40% | 0.50% |

REQUESTED BOARD ACTION

Re-delegate authority for all investment related activities to the Chief Financial Officer (CFO), in accordance with Government Code Section 53607.