



moving FORWARD



**Fallbrook Public Utility District**  
Fiscal Year 2019-20 Adopted Annual Budget



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# Fallbrook Public Utility District

990 East Mission Road  
Fallbrook, CA 92028  
760-728-1125  
www.fpud.com



## Current Board of Directors:

- District #1 - Al Gebhart
- District #2 - Ken Endter
- District #3 - Jennifer DeMeo, Vice-President
- District #4 - Don McDougal, President
- District #5 - Charley Wolk

## District Management:

- General Manager - Jack Bebee
- Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Kelly Laughlin, Aaron Cook, Mick Cothran, Jeff Marchand, Noelle Denke, Todd Lange, Kevin Collins, Debra Potter, Mickey Case, Jason Cavender, Larry Ragsdale, Kyle Drake, Owni Toma, Steve Stone, Veronica Tamzil, Annalece Bokma, Caroline Wilson and Lisa Chaffin for their support in preparing this document.

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Charley Wolk  
*Division 5*

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*General Manager*

David Shank  
*Assistant General Manager/  
Chief Financial Officer*

Mary Lou West  
*Secretary*

General Counsel

Paula de Sousa Mills  
*Best Best & Krieger*

June 17, 2019

Board of Directors  
Fallbrook Public Utility District  
990 East Mission Road  
Fallbrook, California 92028

### **Budget Message**

Enclosed is the Fiscal Year 2019-20 Adopted Operating and Capital Budget (Budget) for the Fallbrook Public Utility District (District). The District is focused on executing the Board of Directors' goals and objectives through the continued implementation of the District Strategic Plan, which is included at the beginning of the budget document. These objectives help the District meet its overall objective, which is to benefit the community of Fallbrook by leveraging sound business practices to provide efficient and reliable services. The Budget supports these goals and objectives.

### **Water Affordability**

The District has been faced in the past with escalating wholesale water costs driven by major investments by the San Diego County Water Authority (SDCWA) in supply reliability. While the result of these investments is improved water supply reliability, it has also resulted in a corresponding increase in the District's water costs. The cost of the water we purchase is 50% of our total operating costs for our water enterprise. In addition to the regional investments in San Diego County supplies, there is a significant proposed statewide water project to fix the Bay-Delta State Water Project, also known as the WaterFix, which delivers our key water supplies from Northern California. While the impact on the price of water the WaterFix will have is not known and Governor Newsom has recently directed changes in the project scope, the original cost was expected to be more than \$16 billion. Since this cost is to be recovered on regional water rates, the project will cause an ongoing increase to wholesale water costs. With the additional increases in water costs due to WaterFix on the horizon, local water supply development, which will reduce our dependence on costly imported water, is one way to mitigate continued wholesale water rate increases.

The District recently settled over 66 years of water rights litigation with Camp Pendleton Marine Corps Base, which has been a hurdle to the District in achieving our own local water supply. This settlement allows the District to finally move forward on the Santa Margarita River Conjunctive Use Project (SMRCUP) which will make local supply for the District a reality and will provide District ratepayers long-term rate relief from increasing wholesale water costs. This project will begin construction during this fiscal year and it will be one of the largest capital investments made by the District over the next decade. The District has applied to receive local supply development incentives from the Metropolitan Water District that will offset some of the projects operating costs and make the supply even more cost effective.



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*Best Best & Krieger*

## Asset Management

The District has implemented an asset management program that balances the cost of infrastructure rehabilitation with the cost of emergency repairs. Our critical buried infrastructure, such as water mains, have an average service life of 80 to 100 years. In the past, the District's replacement cycle for buried assets was on a replacement cycle of 400 years. With this replacement cycle, the frequency of asset failures was expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. In response, the District has proactively managed the renewal and rehabilitation program and is on a path to drive the system service life down from 400 years to 100 years. The recent decreased frequency of asset failures shows that some progress on this program has made, but this is a long-term program to meet the future replacement needs.

## Continuous Improvement

This has been a year of transition for the District. With new leadership in the organization, significant changes to business processes and procedures and continued implementation of an Enterprise Resource Planning (ERP) system, the District is set on a course to adopt many industry-wide best management practices. The District is focused on improving the level of service to its customers in the most cost-effective manner and to continuously evaluate and modify operational practices to achieve this goal. This Budget document is an example of the District's commitment to continuous improvement and improved financial management and transparency and received both the Government Finance Officers Association (GFOA) and California State Municipal Finance Officers (CSMFO) awards for budgeting. In addition, the District produced its first Comprehensive Annual Financial Report (CAFR), which is intended to further improve the District's financial transparency.

## Looking Forward

Long-term increases in water costs and infrastructure replacement needs will continue to be the two main challenges facing the District. The District is focused on taking the final step to a level of water independence this year by starting construction of the SMRCUP project. This project will provide a level of control on the cost of water the ratepayers are faced with. The District is also focused on continuing its infrastructure replacement program, while maintaining the District's long-term fiscal sustainability.

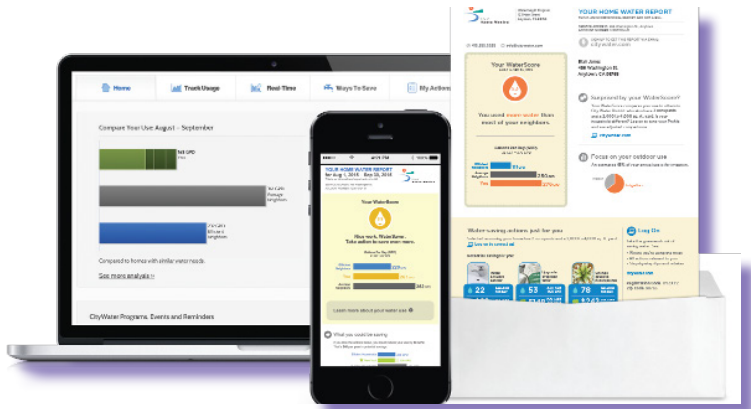
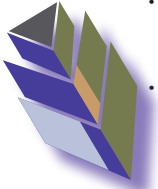
Jack Bebee  
General Manager

David Shank  
Assistant General Manager/CFO

# Budget in Brief

## Fiscal Year 2018-19 Accomplishments

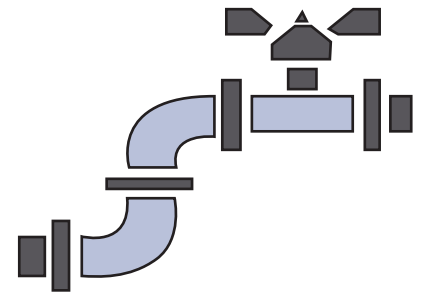
- Finalization of the District’s Santa Margarita water rights and court approval of the settlement agreement for SMRCUP.
- Completion of key pipeline replacement projects at Santa Margarita Drive, Old Stage & Highway 395 to maintain system reliability and improve the methodology for evaluating and prioritizing projects.
- Completed a series of wide scale enhancements to the financial accounting system operations and structure to streamline operations and enhance financial controls.
- **Completed the sale of the District’s Santa Margarita River properties for just under \$10 million helping to secure the District’s future fiscal sustainability.**
- Customer outreach has more than doubled the number of customers using their Smart meters (Advanced Metering Infrastructure (AMI) meters) to help them better monitor and manage water use and water costs.
- Produced the District’s first Comprehensive Annual Financial Report (CAFR) and an annual budget document that received the Government Financial Officers Association’s (GFOA) Distinguished Budget Presentation Award.



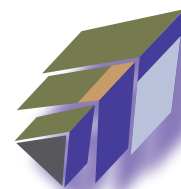
## Fiscal Year 2019-20 Goals

The Key Goals for the upcoming year include:

- Initiate construction of the SMRCUP Project with a goal of beginning deliveries of approximately 30% of our supply by 2022.
- Complete key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects.
- Continue progress on replacing meters with smart meters (Advanced Metering Infrastructure (AMI) meters) and continue outreach to customers on how these meters can help them better monitor and reduce water use and water costs.
- Complete a series of enhancements to the financial accounting system operations and structure to streamline operations and enhance controls.
- Produce a Comprehensive Annual Financial Report (CAFR) and an annual budget document that meet the Government Financial Officers Association’s (GFOA) Distinguished Budget Presentation Award.
- Improve the District’s customer bill paying experience by enhancing Bill pay and notification options.



**Continue projects to replace key pipelines and valves to reduce water outages and blowouts.**

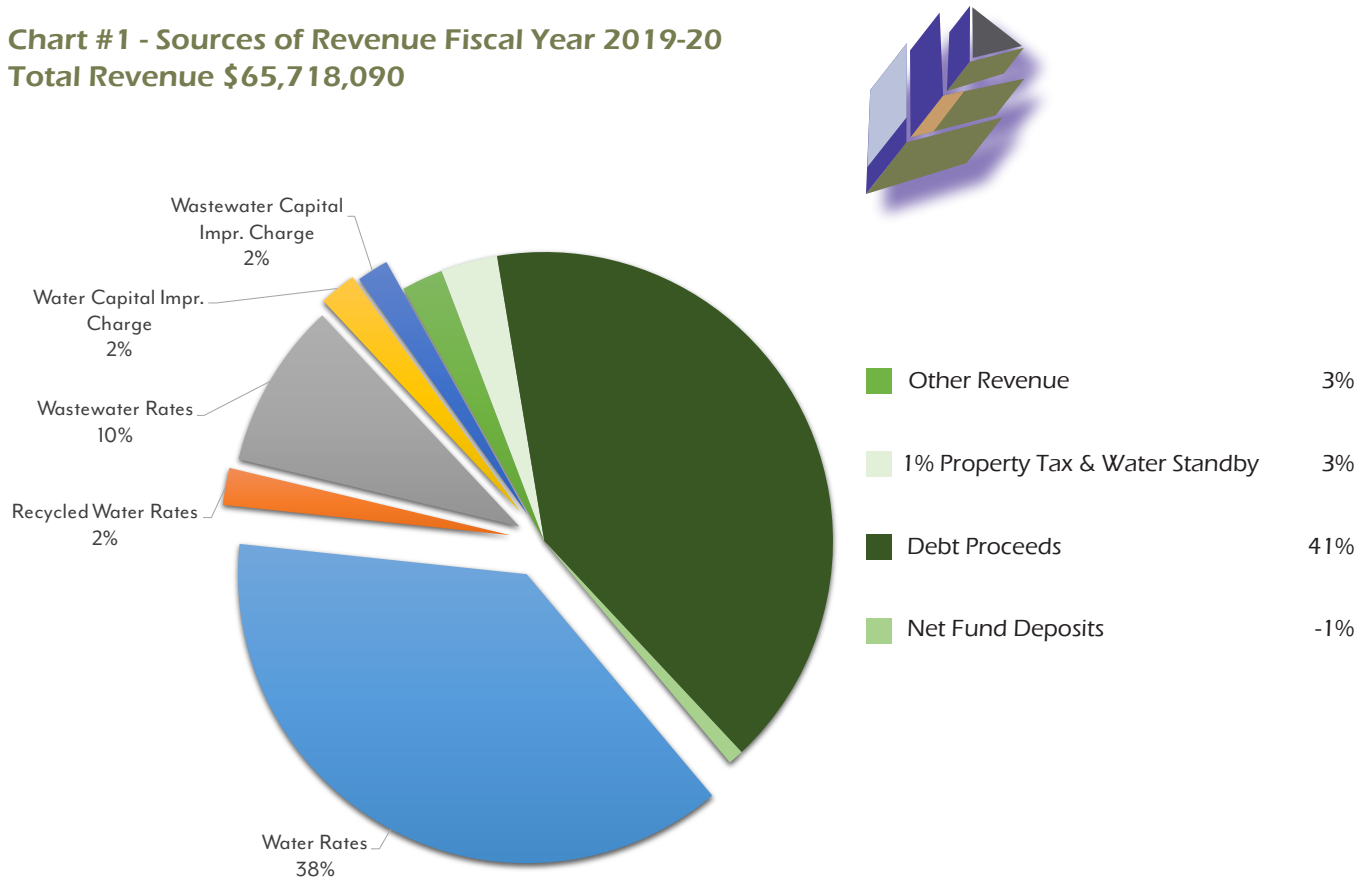


Sources of Funds

The water, recycled water and wastewater systems combined operating and non-operating revenues and net fund withdrawals are budgeted to be sufficient to fund the budgeted uses of funds. The budgeted 16.7% increase in total revenues is driven by increases in water sales, Fiscal Year 2018-19 was wet with low sales, and volume rates and charges. The water, recycled water and wastewater rate increases for the Budget are up to 8%, 8%, and 4.5%, respectively, for Calendar Years 2019 & 2020 and were approved during the Proposition 218 process. While these increases are in-line with the financial plan adopted by the Board, the Board will take action to adopt Calendar Year 2020 rates and charges in December of 2019. Appendix B shows the districts average water and wastewater bill compared to other local agencies

Chart 1 shows a breakdown of the District’s \$65.7 million budgeted sources of funds. Rate and charge revenues makes up 54% of the District’s total budgeted sources of funds. In addition, the District is going to be drawing down its State Revolving Funds (SRF) loan and using the proceeds to pay for the SMRCUP. Net fund deposits are budgeted this year to replenish the District’s reserves. The District plans to fund renewal and replacement Capital Improvement Program (CIP) projects that are funded with cash on a Pay-As-You-Go (PAYGO) basis.

Chart #1 - Sources of Revenue Fiscal Year 2019-20  
Total Revenue \$65,718,090



Use of Funds

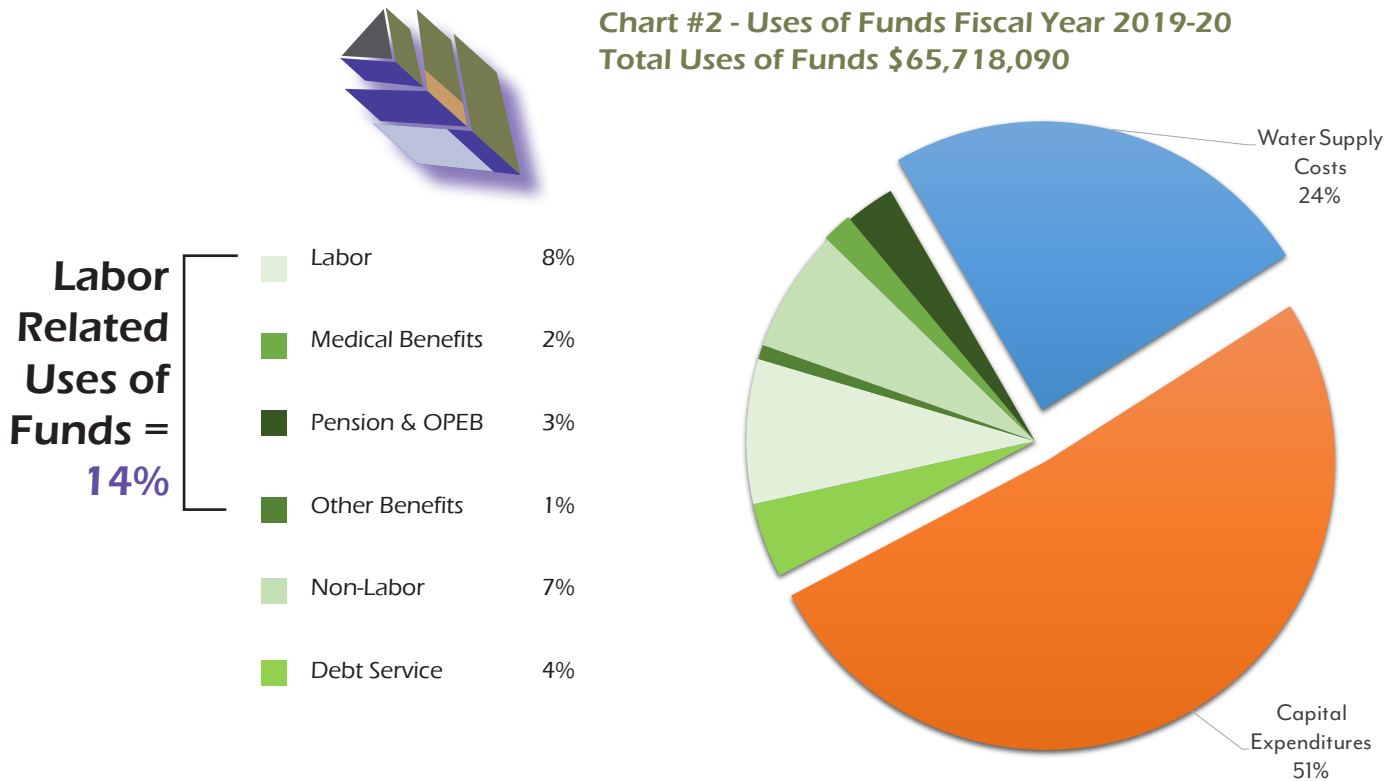
The Adopted Operating Budget includes a 0.8% decrease in the salaries and a 5.3% increase in non-labor expenses. The budget to budget salary decrease, while small, is due to the Board’s cost containment efforts. The District’s successful cost control and judicious planning for pension and Other Post Retirement Benefits (OPEB) has effectively mitigated sharp increases in both pension and healthcare costs as shown by the overall increase of only 4.7%. The overall increase in the salaries, non-labor and benefit budget is 2.6%, which is in line with the rate of inflation.

Chart 2 shows the breakdown of the District’s total use of funds. Labor related uses of fund represent 14% of the District’s budgeted uses of funds. Eighty-six percent of the District’s uses of funds are for non-labor related expenditures. Water supply costs are the District’s single largest ongoing use of funds. Eighty-one percent of the CIP expenditures are due to SMRCUP and funded with a SRF loan.

Table #1 - Operating Budget Comparison, Salaries, Non-Labor and Benefits

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Salaries	\$ 5,325,657	\$ 5,366,812	\$ 5,135,410	\$ 5,324,861	-0.8%
Non-Labor (excludes cost of water)	4,317,670	4,281,685	4,580,069	4,509,670	5.3%
<b>Total Labor and Non-Labor Expenses</b>	<b>\$ 9,643,327</b>	<b>\$ 9,648,497</b>	<b>9,715,479</b>	<b>\$ 9,834,531</b>	<b>1.9%</b>
Benefits	2,939,973	3,270,046	3,270,046	3,425,369	4.7%
<b>Total Expense</b>	<b>\$12,583,300</b>	<b>\$ 12,918,543</b>	<b>\$ 12,985,525</b>	<b>\$ 13,259,901</b>	<b>2.6%</b>

Chart #2 - Uses of Funds Fiscal Year 2019-20  
Total Uses of Funds \$65,718,090



**Capital Budget**

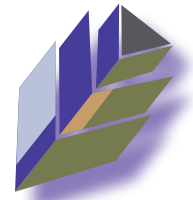
The District has implemented a capital program to improve the overall reliability of the water, wastewater and recycled systems. The most significant on-going component of the capital program is the replacement of aging infrastructure. In addition to rehabilitation, the construction of the \$51 million SMRCUP in Fiscal Years 2019-20 and 2020-21 will be the most significant single project for the next 15-20 years and will provide a long-term cost effective local water supply. The SMRCUP is funded with an SRF loan. Chart 3 shows the annual CIP expenditures by project type. Other projects are shown. The Capital Budget for Fiscal Year 2019-20 is \$33.7 million, with \$27.1 million funded with a SRF Loan.



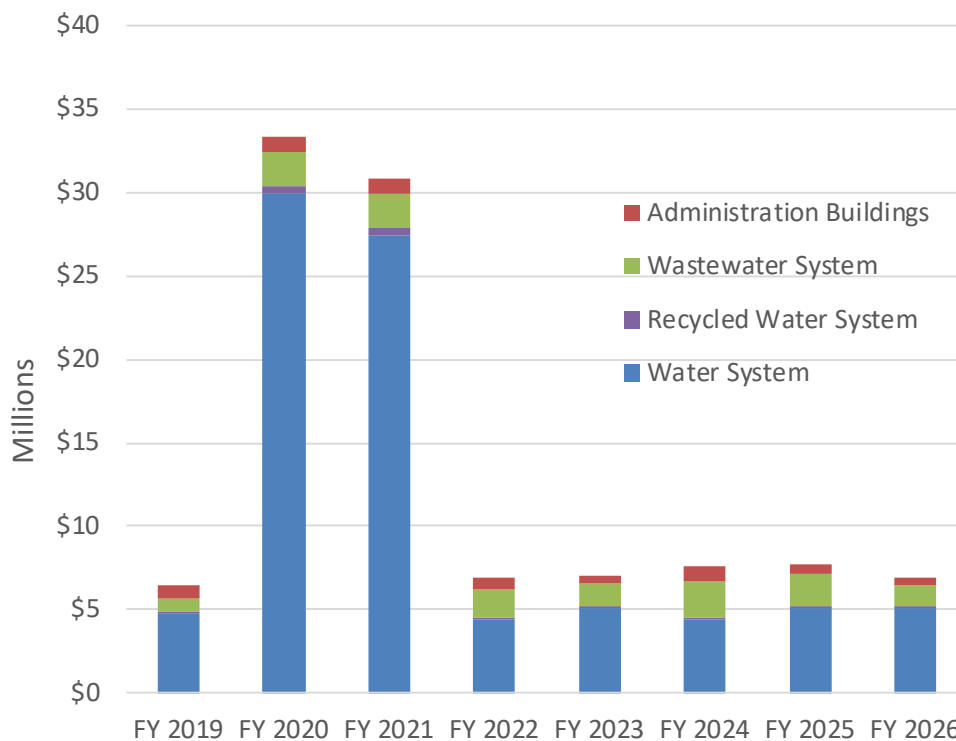
*Recycled water program*



*Pipeline relining program*



**Chart #3 - Fallbrook Public Utility District's Annual Budgeted CIP Expenditures**



Financial Summaries

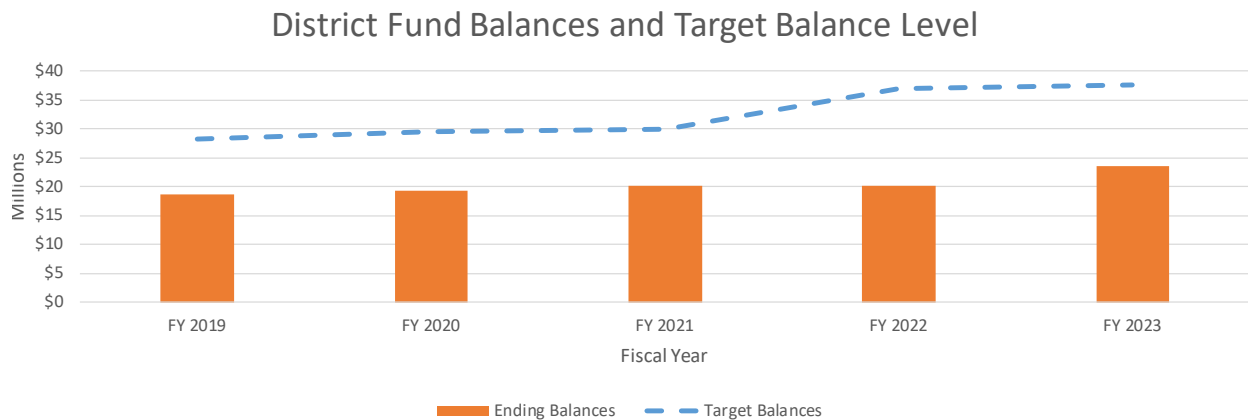
This is the first year in recent history that the District is projecting a net deposit of funds into reserves. The ability to generate sufficient funds to cover total annual expenditures, including PAYGO CIP, and begin to replenish reserves is due to the prudent financial plan implemented by the Board in 2017. As shown in Table 2, a budgeted reserve deposit of \$0.6 million is planned. Chart 4 shows the District’s reserve balances are expected to remain stable but below the target fund levels. The District is projected to maintain a debt service coverage level in excess of its required 1.2x.

Table #2 - Fallbrook Public Utility District’s Financial Summary

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 20,581,498	\$ 25,265,762	\$ 26,868,354	\$ 28,801,664	\$ 31,393,806
Recycled Water	1,286,911	1,382,830	1,341,824	1,449,170	1,565,104
Wastewater	5,432,104	6,214,076	6,494,235	6,787,025	7,092,441
<b>Subtotal Revenue from Rates</b>	<b>\$ 27,300,513</b>	<b>\$ 32,862,667</b>	<b>\$ 34,704,413</b>	<b>\$ 37,037,860</b>	<b>\$ 40,051,351</b>
<b>Other Operating Revenue Subtotal</b>	<b>\$ 939,118</b>	<b>\$ 829,309</b>	<b>\$ 841,246</b>	<b>\$ 891,827</b>	<b>\$ 932,048</b>
<b>Non-Operating Revenue</b>	<b>\$ 5,269,508</b>	<b>\$ 5,423,056</b>	<b>\$ 5,557,433</b>	<b>\$ 5,696,698</b>	<b>\$ 5,880,773</b>
<b>Total Revenues</b>	<b>\$ 33,509,139</b>	<b>\$ 39,115,033</b>	<b>\$ 41,103,092</b>	<b>\$ 43,626,385</b>	<b>\$ 46,864,172</b>
<b>Total Operating Expenses</b>					
	\$ 26,532,961	\$ 29,247,787	\$ 30,071,125	\$ 31,150,474	\$ 30,697,796
<b>Net Operating Revenues</b>	<b>\$ 6,976,178</b>	<b>\$ 9,867,246</b>	<b>\$ 11,031,967</b>	<b>\$ 12,475,911</b>	<b>\$ 16,166,376</b>
<b>Total Debt Service</b>					
	\$ 2,760,020	\$ 2,761,270	\$ 2,762,239	\$ 5,690,223	\$ 5,690,578
<b>Total Capital Expenditures</b>					
	\$ 6,546,920	\$ 33,709,033	\$ 30,848,084	\$ 6,924,653	\$ 7,026,158
SRF Loan Proceeds	\$ -	\$ 27,179,100	\$ 23,543,908	\$ -	\$ -
<b>Change in Net Position</b>	<b>\$ (2,169,182)</b>	<b>\$ 576,043</b>	<b>\$ 965,553</b>	<b>\$ (138,966)</b>	<b>\$ 3,449,639</b>
Proceeds from SMR Property Sale*	\$ 6,200,000	\$ -	\$ -	\$ -	\$ -
Beginning Balances	\$ 14,650,728	\$ 18,681,546	\$ 19,257,589	\$ 20,223,141	\$ 20,084,176
Ending Balances	\$ 18,681,546	\$ 19,257,589	\$ 20,223,141	\$ 20,084,176	\$ 23,533,815

\* Remaining \$3.78 million from the property sale was deposited into the Pension Trust.

Chart #4 - District’s Fund Balances and Target Balance Level



## Budget User Guidance

The District's Fiscal Year 2019-20 Adopted Budget is organized and presented in a manner to better communicate the District's financial operations. Through enhanced transparency stakeholders will be better able to understand the District's costs and cost structure. The budget sections and a summary of the information provided in them is provided below:

**Introduction** – This section provides basic information on the District including history, governance, location and community profile and organizational structure.

**Fund Structure** – This section provides a description of the District's fund structure and financial policies.

**Financial Summaries** – This is a high level summary of the District's financial performance. Summaries for the Water, Wastewater and Recycled Services are shown in Appendix A.

**Sources of Funds** – This provides the projected revenues the District will receive and the underlying assumptions driving changes in the revenues.

**Operating Budget** – This section outlines the District's operating expenditures in addition to providing staffing and descriptions of activities and goals of each component of the District's operations. The benefit costs, debt service costs and how the cost are allocated to different services is also included in this section.

**Capital Budget** – This section outlines the District's capital expenditures and provides a description of the project. The description includes a summary of the project in addition to the project's cost and schedule.

**Appendices** – These provide historical and additional information on the District's financial operations, service area and policies.

\* Tables may not foot due to rounding.





**DISTINGUISHED BUDGET PRESENTATION AWARD**

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
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PRESENTED TO

**Fallbrook Public Utility District  
California**

For the Fiscal Year Beginning

**July 1, 2018**

*Christopher P. Morrill*

Executive Director

## About the District

### History

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."



Water Reclamation Plant on Alturas Road, before Camp Pendleton. Photo courtesy of Tom Rodgers, (1922)

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

### Service Area / STATISTICS

- 44 square-mile service area
- Population: 35,000
- 9,100 water customers
- 5,000 sewer customers
- 16 recycled water customers
- 68 employees budgeted
- \$27 million operating revenues
- \$132 million in total assets
- 10,600 acre-feet sold annually

The District became a member of the San Diego County Water Authority (SDCWA) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (MWD). When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County. Today, the SDCWA provides virtually all of the District's potable water.

### Diversifying the District's Water Supply: The Santa Margarita River

Back when the District used to produce some of its water from the Santa Margarita River, it did so using a small pump in the river, under a direct diversion license from the state of California. In 1948, additional water permits were obtained for diversion facilities and construction of a proposed 150-foot dam that would store 30,000 acre-feet of river water. The diversion works for the small pump were destroyed in 1969 by floods and was not rebuilt. Subsequently the state canceled the small-diversion license for lack of use, but the 30,000 acre-foot storage permit remained in place while the dam was being planned.

The proposed dam, and associated water supply, immediately hit some hurdles. In 1951, soon after the District had obtained water permits from the state, the federal government filed suit against the District over water rights on the river, to quiet its title to the adjudicated rights accruing to the U.S. Marine Corps Base Camp Pendleton. The lawsuit, the U.S. v. Fallbrook case, is the oldest civil case in the county. For more than 66 years, the District has been attempting to develop a permanent local water supply on the Santa Margarita River.

In 1968, a Memorandum of Understanding and Agreement was signed with the Federal Government to develop a two-dam reservoir project on the river that would benefit both Camp Pendleton and the District. This agreement was the culmination of 17 years of litigation. The federally sponsored project was known as the Santa Margarita Project. It never came to fruition however, due to environmental issues, new faces in leadership, and lack of funding.

Then in January 2018, the District’s Board of Directors signed an agreement with Camp Pendleton in a landmark settlement, resolving the U.S. v. Fallbrook case and in April 2019, the federal court adopted the settlement. As part of the settlement, river water will flow to Camp Pendleton and be stored in recharge ponds that seep into an underground aquifer there. Then some of that water will be pumped out of the ground and piped back to the District when needed. Called the SMRCUP, it will provide a local supply, reducing dependence on expensive wholesale purchases from the SDCWA, and is expected to provide about 30% of the District’s water needs.

### Wastewater and Recycled Water History and Mergers

The District’s scope of operations grew in 1994 when the Fallbrook Sanitary District merged with the District. It had provided parts of Fallbrook with recycled water and wastewater service within a 4,200 acre area of downtown. The District took over those services, and the same year the playing fields at Fallbrook High School started receiving reclaimed water as its source of irrigation water. So did two new large nurseries. For the next ten years, the District’s Reclamation Plant (Plant) began receiving a series of awards for safety in operations. In 2015, the District completed a major overhaul, upgrade and expansion of the Plant. The \$27 million project took three years to complete, replacing aged and aging equipment, and allowed for a substantial expansion of the District’s recycled water distribution system. The overhaul involved upgrades to the existing Plant to improve reliability in operation and created much-needed storage space for recycled water.



## Services

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

### Water System

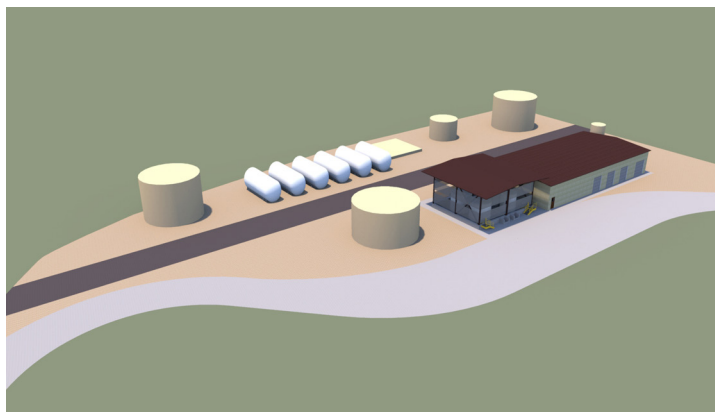
The District imports 99% of its water from the SDCWA with the remaining 1% coming from a local well. The District has four connections to the SDCWA's system. The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District is in the middle of an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use.

The District also recently finalized an agreement with U.S. Marine Corps Base Camp Pendleton to share local water in the Santa Margarita River, of the SMRCUP. The river is expected to provide 30% of the District's total water needs, reducing reliance on the SDCWA. Construction of a bi-directional pipeline and groundwater treatment plant is expected to begin in the Fall of 2019.

The District's five-year average annual water sales is 10,375 acre-feet. Residential and commercial customers represent 59% of sales, and agricultural customers make up the remaining 41%. The District's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is due to drought restrictions and the increases in water costs over the last decade driven by a sharp rise in the cost of the water we purchase. The District's agricultural water sales have reduced from 7,000 acre-feet in Fiscal Year 2008 to 3,200 in Fiscal Year 2017.

### Construction / BI-DIRECTIONAL PIPELINE and GROUNDWATER TREATMENT PLANT

Fallbrook Public Utility District anticipates having this project completed by 2020 and to begin having its own cost-effective supply that same year.



Rendering of the Fallbrook Groundwater Treatment Plant

## Wastewater System

The District's wastewater system is comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 23-mile ocean outfall line.

In an effort to go green, and to save money by reducing hauling and disposal costs of sewage sludge, the District began recycling its sewage sludge in 2008. A state-of-the-art thermal dryer heats the sludge to extremely high temperatures, killing all harmful pathogens. The end product is a sterile fertilizer that can be safely returned to the soil and is classified as a Class A soil amendment. Instead of paying to haul sewage sludge to a landfill, the fertilizer is sold to commercial growers.

## Recycled Water System

The District's recycled water system includes 10.5 miles of buried pipe. Currently the District has 16 recycled water customers, and delivers an average of 0.6 million gallons per day to them. The District provides recycled water for nurseries, sports fields, home owners' associations, Fallbrook High School, street medians, and for freeway irrigation. In 2015, the District completed a \$27 million expansion and upgrade to the water reclamation plant to improve reliability of operation and provide storage for recycled water. The project was completed ahead of schedule and under budget.

To help new users tap into the expanding recycled water system, the District secured funding from the Department of Water Resources through the Prop. 84 grant program. In 2014, the District held a workshop to assist growers with planning, getting permits, purchasing new equipment, and receiving grant funds. Assisting growers through the entire process has helped bring new recycled customers online. The project included expanding the recycled water distribution system in order to add new large water users.

The District has recently applied for grant funding to explore development of a joint Indirect Potable Reuse Project with Camp Pendleton Marine Corps Base.

## Governance and Organizational Structure

The District's Board is made up of five community members who serve overlapping four-year terms. In March 2016, the Board unanimously approved a resolution to change the method of electing board members to "election by district" and approved a map identifying five territorial units within the District. Each director, therefore, is elected by the registered voters of the sub-district he or she resides in, within the District's service area. To run for office, a candidate must live in the area he or she is running to represent. Prior to 2016, directors would win a seat on the board by being the top vote-getters, regardless of where they lived within the District.

### Current Board of Directors:

**District #1 - Al Gebhart**

**District #2 - Ken Endter**

**District #3 - Jennifer DeMeo, Vice-President**

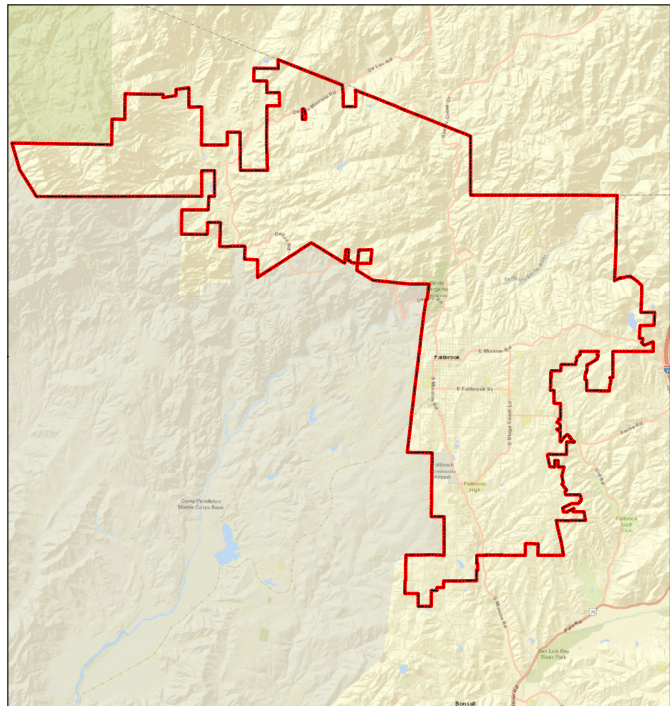
**District #4 - Don McDougal, President**

**District #5 - Charley Wolk**

## Service Area and Local Economy

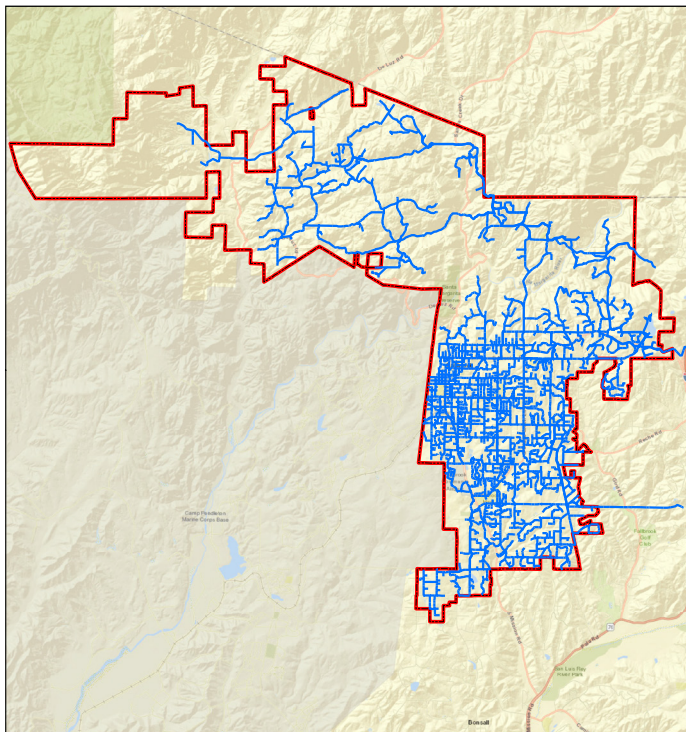
San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character. The District's service area and pipeline is shown in the accompanying maps. The District is bordered to the west by the Naval Weapons Station and U.S. Marine Corps Base Camp Pendleton, making the District's service area a bedroom community for Camp Pendleton's active military and civilian-service workers. The service area's 2017 population is estimated to be 34,330 with 11,418 households. Fallbrook's population has remained relatively unchanged over the past several years.

Figure #1 - District Service Area



DISCLAIMER: By accepting this map, you agree that the Fallbrook Public Utility District assumes no liability or responsibility of any kind arising from use of this map. This map, its Data, and any calculations associated with this map is provided without warranty of any kind.	<b>LEGEND</b> FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY
	<b>FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY</b> 
Source: ESRI, FPU D Projection: California State Plane NAD 83 Feet, Zone 6, Epoch 1995.35 Map Created by Todd Jester (1-11-19) X:\GISData - Inverse\Project Specific\District Boundary\WATER_BOUNDARY.MXD	

Figure #2 - District Pipelines



DISCLAIMER: By accepting this map, you agree that the Fallbrook Public Utility District assumes no liability or responsibility of any kind arising from use of this map. This map, its Data, and any calculations associated with this map is provided without warranty of any kind.	<b>LEGEND</b> FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY WATERLINE
	<b>FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY</b> 
Source: ESRI, FPU D Projection: California State Plane NAD 83 Feet, Zone 6, Epoch 1995.35 Map Created by Todd Jester (1-11-19) X:\GISData - Inverse\Project Specific\District Boundary\WATER_BOUNDARY.WATERLINE.MXD	

The median household income in Fallbrook was \$60,510, which is less than the state median of \$67,739 and slightly higher than the national average of \$59,039. San Diego County's unemployment rate is 3.7%, which is lower than the State's 4.3%.

The San Diego Association of Governments (SANDAG) projects that the County's population will approach 4.4 million residents in 2050, up from 3.3 million in 2016. The District's 2050 housing density is expected to increase slightly as housing demands increase. Employment is also expected to slightly increase by 2050.

## District's Strategic Plan for FY 2019/2020

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**Mission Statement:** To benefit the community of Fallbrook by providing efficient and reliable services.

### #1 Strategic Focus Area | Water Supply

**District Goal:** Provide a reliable, cost-effective water supply through implementation of local water supply projects.

**Fiscal Year 2019-20 District Objectives:**

1. Award and initiate construction of the SMRCUP in order to begin delivery of local water by 2022.
2. Implement partially grant funded Indirect Potable Reuse (IPR) pilot project with Camp Pendleton to lay the groundwork to increase the reliability and availability of local water supplies.

### #2 Strategic Focus Area | Infrastructure

**District Goal:** Maintain reliable infrastructure to our customers in the most cost-effective manner.

**Fiscal Year 2019-20 District Objectives:**

1. Complete capital projects in accordance with approved budget and asset-management plan. Maintain utilization of District construction crews with proactive replacements versus reactive repairs.
2. Complete an update to the asset-management plan to help prioritize projects. This will help ensure lower cost alternatives are evaluated before full replacement of buried infrastructure.

### #3 Strategic Focus Area | Efficiency

**District Goal:** Create a District culture of continuous improvement through the implementation of systems, processes and goals for all aspects of the organization.

**Fiscal Year 2019-20 District Objectives:**

1. Continue implementation and reporting of Key Performance Measures (KPIs) for engineering and operations. Develop KPIs for administration, finance and public outreach. Tie measures to nationally recognized Effective Utility Management (EUM) goals and measure against applicable national bench-marks.
2. Improve the efficiency of operations through mobile implementation of work order and service order processes through funding of a new Enterprise Asset Management (EAM) System.
3. Build off recently implemented regional collaboration programs to further evaluate reducing operating costs through sharing resources without reducing the level of service.

## #4 Strategic Focus Area | Community

**District Goal:** Improve experience for our customers to help provide a positive impact on the community we serve.

### Fiscal Year 2019-20 District Objectives:

1. Continue to focus communications with customers using a customer perspective. Provide additional on-going training to staff on customer service.
2. Promote the District role in helping benefit the community. Lead overall Santa Margarita Watershed group meetings to support coordination among preservation activities. Look to expand high-school internship program. Evaluate opportunities to further expand services to support the community.
3. Hold additional workshops to promote the AMI “smart meter” implementation, and provide training for customers to learn how to use this service to help reduce water costs.
4. Continue to improve customer engagement through social media and quarterly newsletters.
5. Further improve the District budget to identify clearly to the public how costs are allocated and how resources are being managed. Continue to produce a CAFR and achieve a GFOA and California Society of Municipal Finance Officers (CSMFO) budget awards for the Fiscal Year 2019-20 Budget. Achieve District Transparency Certificate of Excellence from the California Special District’s Association.

## #5 Strategic Focus Area | Workforce

**District Goal:** Develop a resilient organization so that key positions can be filled internally with capable staff with proper training and education.

### Fiscal Year 2019-20 District Objectives:

1. Develop the framework for a formal program to identify future leaders in the organization and provide them training and a clearer sense of future opportunities. Look to leverage capabilities of existing staff and expand their responsibility when they show potential.
2. Continue to expand cross-training and external training program for staff, and provide new opportunities and challenges for motivated employees. Reconstitute programs and events to recognize employees and improve employee recognition program.
3. Participate in regional efforts to improve local education, training and internship programs to bring more qualified applications into the industry.
4. Participate in key local and national organizations in the water/wastewater industry, including participating in presentations on District and trainings to improve recognition of the District as an effectively managed and forward-looking utility.



## Budget Basis

The District’s accounting system and practices are based upon Generally Accepted Accounting Principles (GAAP) and are kept on an accrual basis. Under the accrual basis, revenues are recognized when earned and expenditures are recognized when a liability is incurred. The District’s budget is prepared on a cash basis, which means that projected revenues are recognized when cash is assumed to be received and projected expenses are recognized when cash is disbursed.

The District operates as an enterprise fund, which has a set of self-balancing accounts that record the financial position of each of the District’s services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent and self-sufficient, and also ensures service fees are set to recover only costs associated with the particular service.

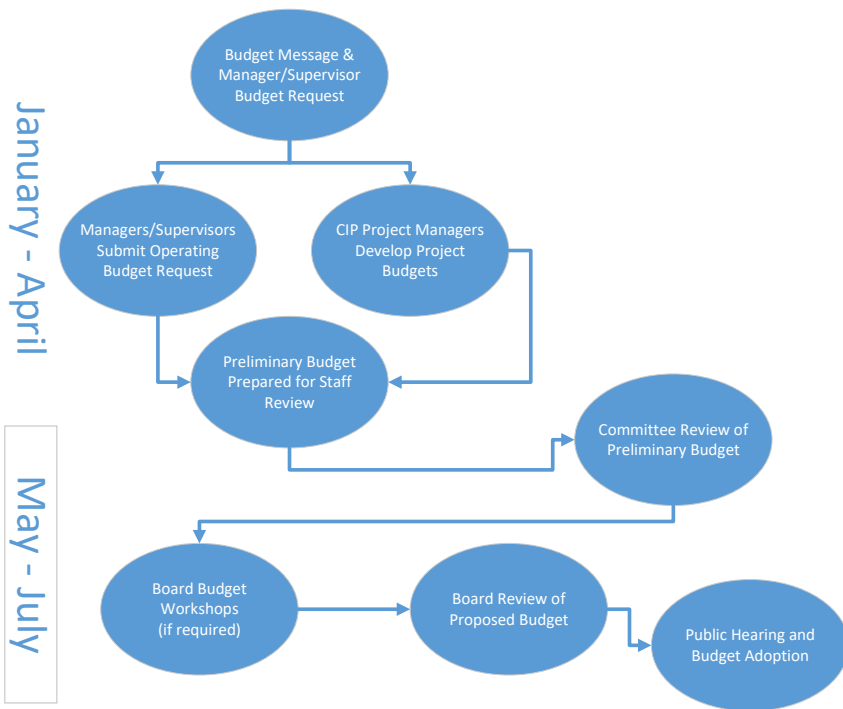
Budget adjustments are made if projects or expenditures are needed that fall outside the District’s adopted budget. These items are brought to the Board for approval and to appropriate the funds. A mid-year budget update is also provided to the Board each year to update spending trends and identify early any potential shortfalls. The District maintains a balanced budget, which means that sources of funds equals uses of funds. Reserve fund withdrawals, if necessary provide a source of funds. Likewise deposits to reserves are a use of funds and are unappropriated balances.

## Budget Process

Each year, the District develops and adopts a new budget for the upcoming fiscal year. The budgeting process begins in January and starts with the budget message. The budget message establishes the priorities of the District in the next fiscal year and provides budget managers guidance on how to prioritize their budget needs. Along with the budget message, each manager/supervisor is provided a spreadsheet that has the current and projected operating expenditures for the current fiscal year and a placeholder for the proposed operating budget.

Each manager/supervisor then evaluates funding needs. Meetings with staff to review planned activities, as well as funding needs for services and equipment, are part of the process to develop and fill in the budgetary needs for each Division. Each manager/supervisor submits operating budgets by the end of February.

Figure #3 - Fallbrook District’s Annual Budget Process



While the operating budget is being developed, the CIP managers meet with the General Manager to develop the CIP project budgets for the upcoming fiscal year as well as the next five years of budgets. The CIP budgets are submitted by the end of February along with the operating budget.

The capital and operating budget are included in the District’s preliminary budget. Once assembled, the preliminary budget is reviewed by the General Manager and staff in a series of meetings. Adjustments are made to the preliminary budget and the revised preliminary budget is reviewed by the Fiscal Policy and Insurance Committee. Once the Committee’s comments are incorporated and the proposed budget developed, budget workshops with the Board, if required, are held. The final proposed budget is then sent to the Board for review. Once Board comments are incorporated into the document, a public hearing, if necessary, is held and the recommended budget is adopted.

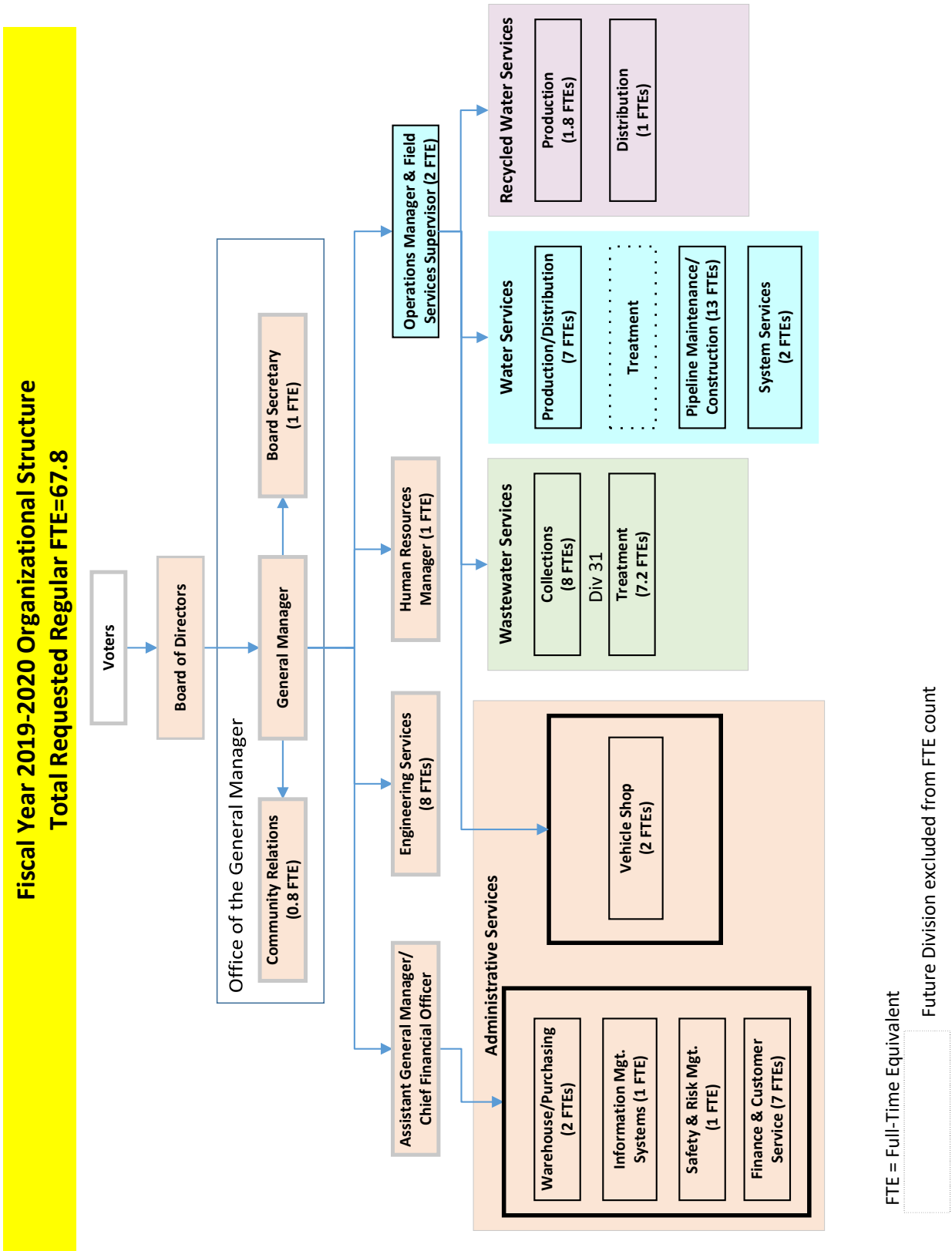
**DISTRICT ORGANIZATIONAL CHART**

The District maintains an efficient level of staffing which requires an organizational structure that is very flat, with staff working across services and filling a variety of roles. The organizational chart provided is designed to illustrate the District’s structure and staffing levels. The Proposed Budget includes 67.8 Full Time Equivalent (FTE), which was the FTE count in Fiscal Year 2019. The boxes under Administrative, Water, Wastewater and Recycled Water Services represent functional groups called Divisions. However, in some cases (Human Resources) a division is a single position. In these cases, the object is colored to illustrate that it is part of Administrative Services.

The Administrative Services department includes all functions that are necessary for the District to operate, but are not specific to Water, Wastewater or Recycled Water Services. While this includes a wide range of activities, these costs are recovered through water, wastewater and sewer rates. The Operating Budget Section provides a detailed discussion of how these costs are recovered through rates and charges. Each Division is a function with the Services. For example, Wastewater Services is comprised of two Divisions. The function of each Division is discussed in the Operating Budget Section.

Water, Wastewater and Recycled Water Services are the District’s other services. The Divisions within each of these services are shown on the organizational chart. Water services is comprised of three Divisions while the other services are broken into two Divisions. While the SMRCUP is not expected to be operating during this Budget, a place holder under Water Services for treatment has been inserted. The function of each division is discussed in the Operating Budget Section.

Figure #4 - Proposed Fiscal Year 2019-20 Organizational Structure 1\*



1. An FTE is the hours worked by one employee on a full-time basis for one year. This is equal to 2,080 hours.

\* Total Requested Regular FTE=67.8

## Fund Structure

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The District's fund structure is set up to support water, wastewater and recycled water operations, and capital funding needs. Each fund is structured to receive certain revenues and fund certain expenditures. The District's working capital or operating funds receive operating and certain non-operating revenues and fund operating expenses for each of the services. The District's capital funds receive certain non-operating revenues that are restricted to capital uses and funds the District's capital expenditures, including a portion of debt service.

In 2017, the District completed the 2017 Water, Recycled Water and Wastewater Rate Study Report (Report). As part of the Report, the District's fund structure and target fund balances were re-evaluated and modified to meet future funding needs. The District's current working capital/operating structure, and a description of each fund and the fund's target balance is provided below:

### Water Services Funds

**Working Capital/Operating Fund:** To be established and maintained at a level of three months operating and maintenance expenses including water purchases. The primary source of funds for the Operating Fund are water sales, fixed service charge and pass-through charge revenues. The Operating Fund Target for Fiscal Year 2019-20 is \$5.8 million.

**Rate Stabilization Fund:** To prevent "spikes" and mid-year changes in rates because of net revenue shortfalls due to weather conditions, state or federal legislation or other future uncertainties. This fund was primarily established to buffer variability of water deliveries from the SMRCUP in dry years. The target level is set equal to two years of debt service payments on the SMRCUP financing. Transfers from the Operating Fund are the source of funds for the Rate Stabilization Fund (RSF). The RSF target and balance are \$0 until the SMRCUP is operational but has been prefunded with the \$6.2 from the sale of SMR Property.

### Wastewater Services Funds

**Working Capital/Operating Fund:** To be established and maintained at a level of three months operating and maintenance expenses. The primary source of funds for the Operating Fund are wastewater service charges and investment earnings. The Operating Fund Target for Fiscal Year 2019-20 is \$1.3 million.

**Rate Stabilization Fund:** To promote smooth and predictable rates and charges, a Rate Stabilization Fund is established with a target level equal to 10% of annual revenues. Transfers from the Operating Fund are the source of funds for the Rate Stabilization Fund. The Rate Stabilization Fund Target for Fiscal Year 2019-20 is \$0.9 million.

### Recycled Water Services Fund

**Working Capital/Operating Fund:** To be established at three months operating and maintenance expenses. The primary source of funds for the Operating Fund are water sales and fixed service charge revenues. The Operating Fund Target for Fiscal Year 2019-20 is \$0.2 million

The District’s capital fund structure and their target balances are provided below:

**Water Services Capital Fund**

The primary source of funds are the Water and Pumping Capital Improvement charges, property tax and standby availability charge receipts, annexation fees, connection fees and meter fees. Target fund balance is set to the equivalent of three-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). The Fiscal Year 2019-20 target balance for the Water Capital Fund is \$15.2 million.

Funds related to the 1958 Annexation and the DeLuz Service Area bond proceeds are tracked separately in the fund.

**Wastewater Services Capital Fund**

The primary source of funds are Wastewater Capital Improvement charges, connection fees, property tax receipts, and meter fees. Target fund balance is set to the equivalent of three-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). The Fiscal Year 2019-20 target balance for the Wastewater Capital Fund is \$5.3 million.

**Recycled Water Services Capital Fund**

Target fund balance is set to the equivalent of three-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). Recycled Operating Fund transfers are the primary source of funds followed by a portion of the property tax receipts. The Fiscal Year 2019-20 target balance for the Water Capital Fund is \$0.7 million.

**Fund Summary**

The Districts total target fund balance for water, recycled water and wastewater and their projected Fiscal Year 2019-20 year-end balances are shown in the table below.

**Table #1 - Total Fund Balances**

<b>Service</b>	<b>Target Balance (Millions)</b>	<b>Projected Fiscal Year 2019-20 Ending Balance (Millions)</b>
Water	\$ 21.0	\$ 14.9
Recycled Water	\$ 0.9	\$ 0.9
Wastewater	\$ 7.5	\$ 3.4
<b>Total</b>	<b>\$ 29.4</b>	<b>\$ 19.2</b>

## **Other Funds Maintained by the District**

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### **Section 1 15 Pension and OPEB Trust Fund**

This fund was set up in Fiscal Year 2016-17 as an irrevocable trust established for the benefit of the pension and Other Post-Employment Benefits (OPEB) beneficiaries. The fund is managed by Public Agency Retirement Services (PARS) and is restricted in its use to funding pension and OPEB expenditures. The funds restricted for OPEB and pension costs are tracked in the fund. The fund balance was \$1.4 million on March 31, 2018. The District OPEB obligation is over 90% funded and no additional contributions will be made this budget. The District has developed a strategy to use returns from the fund to help offset on-going OPEB costs. Details are provided in Appendix D.

## **District's Financial Management Policies**

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The District maintains certain policies that govern aspects of the District's financial management. The District's maintains the following policies:

- Debt Management Policy – Defines the District's debt management (available on website).
- Investment Policy – Establishes permitted investments in compliance with State Code (Article 27 of the District's Administrative Code)
- Fund Balance Policies – Sets target balances for reserves and working capital (Article 15 of the District's Administrative Code)
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure

These policies can be found on the District's website as standalone documents or as part of the District's Administrative Code. Appendix C also provides a copy of the District's Capitalization Policy, which is not available on the website, and other policies for ease of reference.

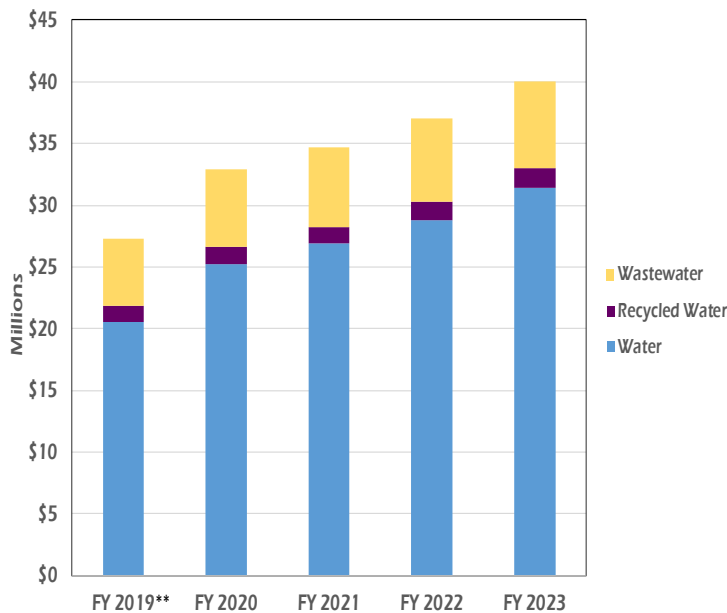
## Financial Summaries

The rate and charge increases included in the projections are in line with the increases approved by the Board in December 2017 as part of the 2017 Water, Recycled Water and Wastewater Rate Study Report and Proposition 218 process. Table 1 shows the approved increases through 2022. Because the rate and charge increases are effective for a calendar year, the impact of a rate increase spans two fiscal years. The projections take this into account and show revenues on a fiscal year basis with the approved rate increases. The Board will set the Calendar Year 2020 rates and charges in December 2019. Since no decision on the rate and charge increases has been made at this time, the Budget use the approved rate and charge increases to project revenues. Chart 1 shows the projected increase in revenues due to the rate adjustments. The large increase in Fiscal Year 2019-2020 is driven by a return to average water sales levels **Appendix A provides the detailed revenue, expense and fund balance projections for Water, Recycled Water, and Wastewater operations.**

**Table #1 - Prop 218 Board Approved Maximum Rate Increases**

	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
<b>Water Rate increase</b>					
Approved Increase	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%
<b>Wastewater Rate increase</b>					
Approved Increase	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%
<b>Recycled Water Rate increase</b>					
Approved Increase	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%

**Chart #1 - Projected Total Rate Revenues \***



\* Total Rate Revenue increases shown

\*\* Projected revenues based upon current District sales projections

This section provides an overview of the Districts projected financial operations. Table 2 provides a detailed summary of the District’s revenues and expenditures and the projected year-end fund balances. Revenues from the District’s water, recycled water and wastewater services are projected to increase over the projection period driven by rate and charge increases. Non-operating revenues are projected to remain relatively stable. Projected costs are assumed to rise at rates of inflation in line with levels assumed in the 2017 Water, Recycled Water and Wastewater Rate Study Report. The cost of treated water is expected to increase by 4.3% next year based upon preliminary published wholesale water rate increases. In the following years, wholesale water rates are projected to increase annually at 10% driven by State and regional water supply reliability related costs. In Fiscal Year 2021-22 the

District is projecting deliveries from the SMRCUP and the related costs. The SMRCUP deliveries reduce the cost of purchased water as shown in Table 2 and in Fiscal Year 2021-22 reduce projected water costs by approximately 7%. For labor and non-labor, the result of the escalation is an average annual increase of 3.1%. This includes projected increase in the District’s pension and other benefits costs.

Table #2 - Fallbrook Public Utility District's Financial Projections

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 20,581,498	\$ 25,265,762	\$ 26,868,354	\$ 28,801,664	\$ 31,393,806
Recycled Water	1,286,911	1,382,830	1,341,824	1,449,170	1,565,104
Wastewater	5,432,104	6,214,076	6,494,235	6,787,025	7,092,441
<b>Subtotal Revenue from Rates</b>	<b>\$ 27,300,513</b>	<b>\$ 32,862,667</b>	<b>\$ 34,704,413</b>	<b>\$ 37,037,860</b>	<b>\$ 40,051,351</b>
<b>Other Operating Revenue</b>					
<b>Pass-through Charges</b>					
MWD RTS Charge	\$ 340,390	\$ 310,753	\$ 325,807	\$ 341,976	\$ 359,288
SDCWA IAC Charge	436,668	457,553	504,439	538,851	561,760
AG Penalties	-	-	-	-	-
Sundry*	11,000	11,000	11,000	11,000	11,000
SDCWA Incentive	151,060	50,003	-	-	-
Class A Bio-solids Sales	-	-	-	-	-
<b>Other Revenue Subtotal</b>	<b>\$ 939,118</b>	<b>\$ 829,309</b>	<b>\$ 841,246</b>	<b>\$ 891,827</b>	<b>\$ 932,048</b>
<b>Non-Operating Revenue</b>					
Water Availability Charge**	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000
1% Property Tax	1,908,753	1,918,296	1,927,888	1,937,527	1,947,215
Investment Earnings	220,444	284,544	296,105	302,305	327,135
Water CIP Charge	1,311,128	1,390,702	1,476,578	1,570,413	1,667,810
Pumping CIP Charge	31,000	37,000	37,000	37,000	37,000
Other Revenue	\$176,516	\$180,046	\$183,647	\$187,320	\$191,067
Water Capacity Fees	\$103,807	\$70,000	\$70,700	\$71,407	\$72,121
Wastewater CIP Charge	\$1,150,517	\$1,185,299	\$1,219,352	\$1,256,272	\$1,293,836
Wastewater Capacity fees	\$30,427	\$31,522	\$32,485	\$33,477	\$57,074
Federal Interest Rate Subsidy	\$133,917	\$122,647	\$110,677	\$97,977	\$84,516
<b>Subtotal Non-Operating Revenue</b>	<b>\$ 5,269,508</b>	<b>\$ 5,423,056</b>	<b>\$ 5,557,433</b>	<b>\$ 5,696,698</b>	<b>\$ 5,880,773</b>
<b>Total Revenues</b>	<b>\$ 33,509,139</b>	<b>\$ 39,115,033</b>	<b>\$ 41,103,092</b>	<b>\$ 43,626,385</b>	<b>\$ 46,864,172</b>
<b>Operating Expenses</b>					
<b>Water Supply Costs</b>					
Purchased Water Costs***	\$ 13,367,435	\$ 15,756,149	\$ 15,952,174	\$ 14,854,858	\$ 10,439,878
Pumping Costs	180,000	231,736	234,866	243,123	257,824
SMRCUP Treatment	-	-	-	1,621,824	5,000,213
Labor Costs	2,771,259	2,812,665	2,953,298	3,100,963	3,256,011
Fringe Benefits	1,674,937	1,809,326	1,926,932	1,994,375	2,064,178
Services, Materials & Supplies	2,249,110	2,230,400	2,297,312	2,366,231	2,437,218
Administrative Expenses	6,290,220	6,407,511	6,706,542	6,969,100	7,242,473
<b>Total Operating Expenses</b>	<b>\$ 26,532,961</b>	<b>\$ 29,247,787</b>	<b>\$ 30,071,125</b>	<b>\$ 31,150,474</b>	<b>\$ 30,697,796</b>
<b>Net Operating Revenues</b>	<b>\$ 6,976,178</b>	<b>\$ 9,867,246</b>	<b>\$ 11,031,967</b>	<b>\$ 12,475,911</b>	<b>\$ 16,166,376</b>

\* Sundry revenues is comprised of miscellaneous revenues and includes revenues from sale of assets taken out of service, which includes sale of equipment and vehicles.

\*\* Fee is charge on a per acre or parcel basis in service area, which is not expected to change.

\*\*\*Detail on purchased water costs provided on page 44. Purchased water costs include MWD RTS Charge and SDCWA IAC Charge.



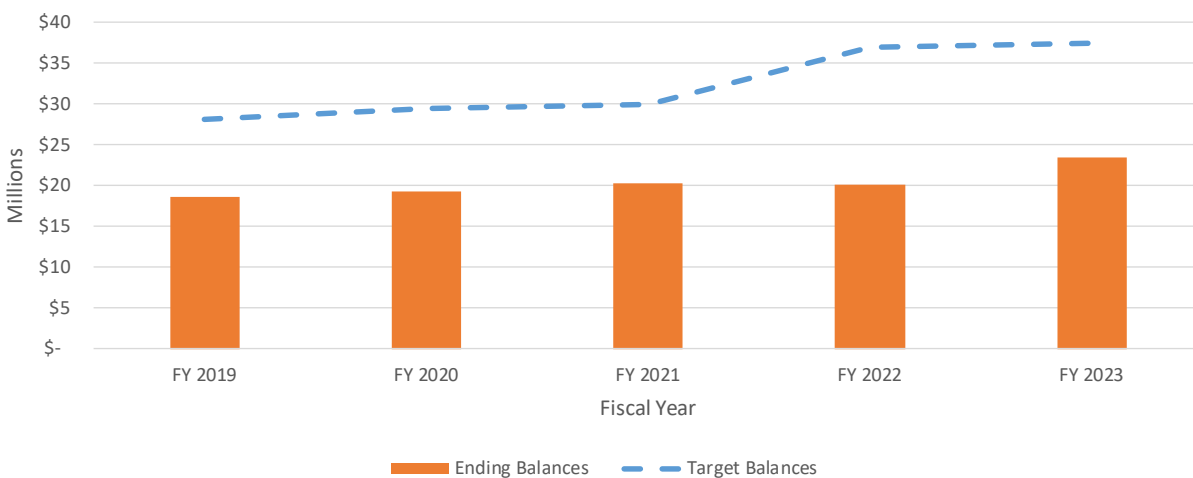
Table #2 - Fallbrook Public Utility District's Financial Projections, cont.

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Net Operating Revenues</b>	\$ 6,976,178	\$ 9,867,246	\$ 11,031,967	\$ 12,475,911	\$ 16,166,376
<b>Total Debt Service</b>	\$ 2,760,020	\$ 2,761,270	\$ 2,762,239	\$ 5,690,223	\$ 5,690,578
<b>Total Capital Expenditures</b>	\$ 6,546,920	\$ 33,709,033	\$ 30,848,084	\$ 6,924,653	\$ 7,026,158
<b>SRF Loan Proceeds</b>	\$ -	\$ 27,179,100	\$ 23,543,908	-	-
<b>Change in Net Position</b>	\$ (2,169,182)	\$ 576,043	\$ 965,553	\$ (138,966)	\$ 3,449,639
<i>Proceeds from SMR Property Sale</i>	\$ 6,200,000	-	-	-	-
<i>Beginning Balances</i>	\$ 14,650,728	\$ 18,681,546	\$ 19,257,589	\$ 20,223,141	\$ 20,084,176
<i>Ending Balance</i>	\$ 18,681,546	\$ 19,257,589	\$ 20,223,141	\$ 20,084,176	\$ 23,533,815

Debt service and capital expenditures are deducted from the District's Net Operating Revenues to determine the change in Net Position for the fiscal year. It is important to note that funds from the SRF Loan offset the use of the District's financial resources as shown in the table above. The Fiscal Year 2019-20 Change in Net Position shows the District is replenishing reserves in that particular fiscal year. In Fiscal Year 2019-20, the District is projecting the deposit of \$576,043 in reserves.

The Beginning Balance shows the funds available at the start of the year and the Ending Balance shows the funds that are available after the year is over. The chart below shows the Target Reserve levels compared to the projected fund balances. **Appendix A provides the detailed revenue, expense and fund balance projections for Water, Recycled Water, and Wastewater operations.**

Chart #2 - District Fund Balances and Target Level



## Water Services Sources of Funds

The primary source of funds for water operations is water sales and monthly service fee revenues. Because Fallbrook is located in a semi-arid region of the United States and is subject to significant fluctuations in the level of water demands, each year careful attention is paid to the projected level of water sales. Heading into the Fiscal Year 2019-20 budget cycle, water supply conditions look good with reservoirs at or above average. Therefore, at this point in time, no water use restrictions are expected to be in place this summer and water sales are projected to be in line with the District's average sales level.

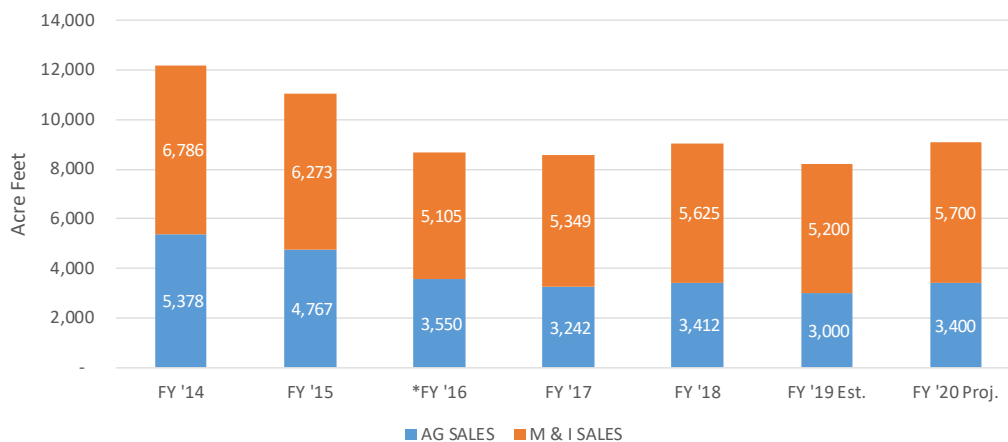
The District's sales over the last five years including the estimate for the current fiscal year and the projected water sales for the budget period. The table shows water production and total sales; production includes system losses, and water sales are units sold to customers. The sales are also split between Municipal & Industrial (M&I) customers and Agriculture (AG) customers. AG customers are eligible for a reduced water rate in exchange for a lower level of water supply reliability or put simply, agricultural customers have to cut back more than other customers when water restrictions are in place.

**Table #1 - Five-Year Production and Sales History**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19 Estimated	FY 2019-20 Projected
<b>Production</b>	12,999	11,849	9,573	9,193	10,090	9,000	9,800
<b>Total Sales (adjusted for system losses)</b>	<b>12,164</b>	<b>11,040</b>	<b>8,656</b>	<b>8,592</b>	<b>9,269</b>	<b>8,200</b>	<b>9,100</b>
<b>AG Sales</b>	5,378	4,767	3,550	3,242	3,412	3,000	3,400
<b>M&amp;I Sales</b>	6,786	6,273	5,105	5,349	5,625	5,200	5,700

As the table and chart shows, recent years have been impacted by both restrictions in use levels as well as wet weather, both of which suppress water demands. With wet conditions currently present, Fiscal Year 2018-19 water demands are expected at or below the low levels seen in the last wet year, Fiscal Year 2016-17. The projected Fiscal Year 2019-20 water sales are shown at the average level.

**Chart#1 - Water Sales Trends**



\*Drought rates in effect July 2015-May 2016. Both M&I and AG sales decreased in this period.

The Water Services operating and non-operating revenues are shown in Table 2. Water sales revenues are those collected by the District for water usage during a billing cycle. Each of the District's customers are charged a fee based upon their user class and water purchased in that billing period. The monthly water fixed service charge revenues are an important revenue stream for the District because they are not subject to volatility in water demands. The District also passes through certain fixed charges from the MWD and the SDCWA. The revenue projection for Fiscal Year 2019-20 provided here include rate and charge increases in line what was approved by the Board. The primary driver of the 8.3% revenue increase budget to budget is the increase in water sales and the rate increases. Fiscal Year 2018-19 sales revenues are projected to be 10.7% below budgeted levels.

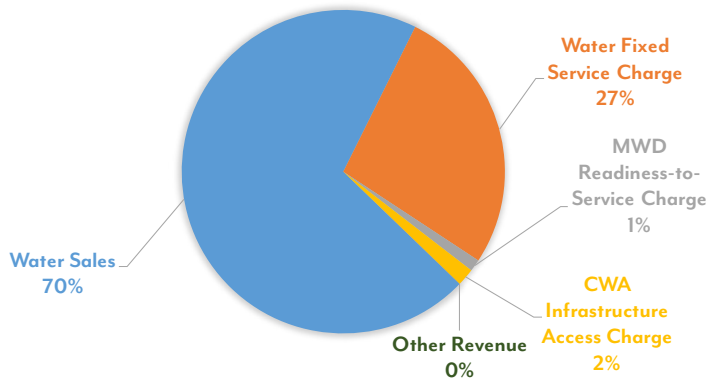
Table #2 - Water Services Sources of Revenue

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Operating Revenues:</b>					
Water Sales	\$ 16,318,670	\$ 16,148,015	\$ 14,040,258	\$ 18,260,895	13.1%
Water Fixed Service Charge	5,934,196	6,697,173	6,541,241	7,004,867	4.6%
MWD Readiness-to-Service Charge	357,204	340,390	340,390	310,753	-8.7%
SDCWA Infrastructure Access Charge	425,736	436,668	436,668	457,553	4.8%
Other Revenue	306,100	300,000	5,000	5,000	-98.3%
<b>Total Operating Revenue</b>	<b>\$ 23,341,906</b>	<b>\$ 23,922,246</b>	<b>\$ 21,363,556</b>	<b>\$ 26,039,068</b>	<b>8.8%</b>
<b>Non-Operating Revenues:</b>					
Water Capital Improvement Charge	\$ 1,235,150	\$ 1,309,424	\$ 1,311,128	\$ 1,390,702	6.2%
Property Tax	1,033,396	950,826	950,826	955,580	0.5%
Water Availability Charge	229,400	203,000	203,000	203,000	0.0%
Water Capacity Charges	120,870	103,807	103,807	70,000	-32.6%
Investment Earnings	18,188	152,470	152,470	213,394	40.0%
Pumping Capital Improvement Charge	39,073	39,073	31,000	37,000	-5.3%
Other Revenue	178,602	176,516	176,516	180,046	2.0%
<b>Total Non-Operating Revenue</b>	<b>\$ 2,854,679</b>	<b>\$ 2,935,117</b>	<b>\$ 2,928,747</b>	<b>\$ 3,049,723</b>	<b>3.9%</b>
<b>Total Revenues</b>	<b>\$ 26,196,585</b>	<b>\$ 26,857,363</b>	<b>\$ 24,292,303</b>	<b>\$ 29,088,790</b>	<b>8.3%</b>

Water sales revenues represent 70% of the District's operating revenues with the remaining 30% of revenues coming from other sources that are independent from water sales. This variable/fixed mix of revenue means that operating revenues are subject to volatility due to water sales levels. Managing this volatility requires good fiscal planning and the use of the Rate Stabilization Fund to make up shortfalls. The primary sources of non-operating revenues are the water Capital Improvement Charge, which is a fixed charge restricted to fund only capital projects, and property tax and Water Availability Charge revenues. Other revenues include pumping Capital Improvement Charge, investment earnings and other income.

The SMRCUP is being funded with a SRF loan. While not shown here as a source of funds, the expected \$51 million loan will provide funding for the project's costs. The project costs are expected to be \$27.2 million and \$23.5 million in Fiscal Years 2019-20 and 2020-21, respectively.

Chart #2 - Fiscal Year 2019-20 Water Services Operating Revenues

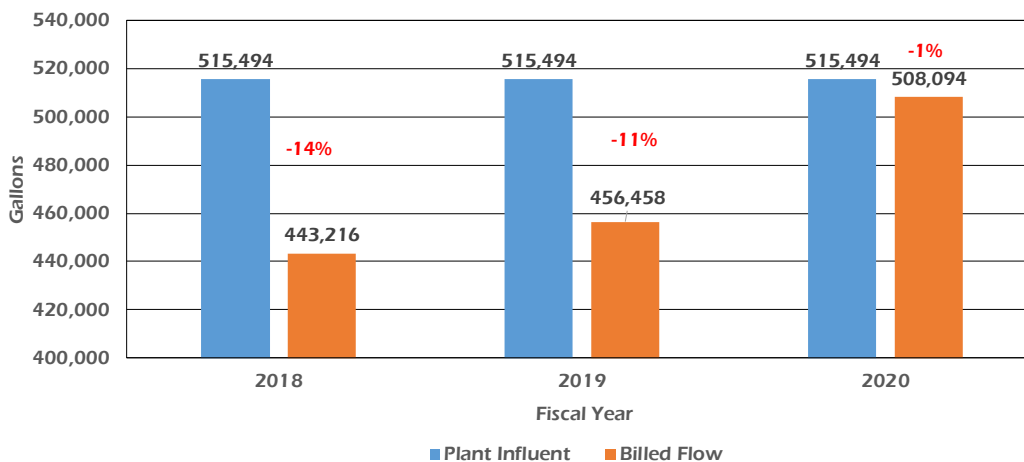


### Wastewater Services Sources of Funds

Wastewater revenue is relatively stable since it is billed upon return flow to the sewer system. To estimate the amount of water used that is returned to the sewer, a return to sewer factor is applied to each user class. For residential users, the return to sewer factor is applied to their two-year winter average (December, January, and February). The winter months, which are typically wet, allow indoor use to be estimated since outdoor/landscape use is at a minimum. However, even the winter average use is adjusted to reflect some level of residential outdoor/landscape, which is not returned to the sewer. This methodology limits the impact weather has on billable sewer flows. The revenue projection for Fiscal Year 2019-20 provided here includes rate and charge increases in line with what was approved by the Board and billable wastewater flows in line with historic wastewater flows at the District water reclamation plant.

Historic averages provide a good basis from which flows and revenue projections can be evaluated. The chart below shows the average annual flows at the plant (Plant Influent) and the billable wastewater flows projected for this budget period. The projection for Fiscal Year 2019-20 shows billable flows near average plant flow levels. Prior years show the District has consistently under billed wastewater flows. This is a pattern staff are focused on correcting while maintaining the current residential billable flow calculation methodology.

Chart #3 - Wastewater Services Average Annual Flows

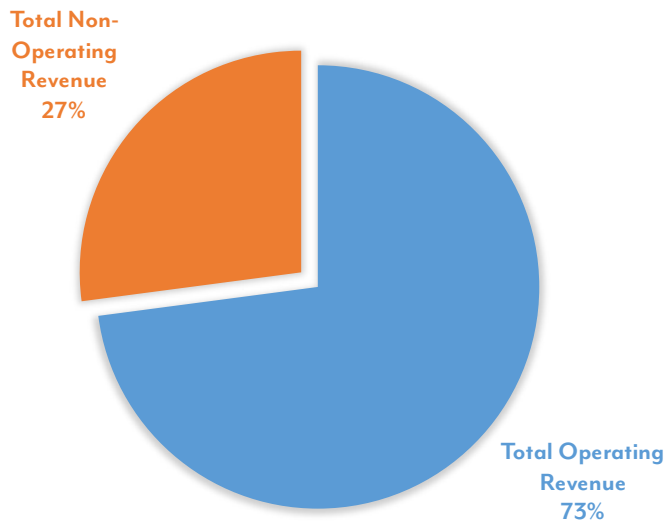


Wastewater Services operating and non-operating revenues are shown in Table 3. The primary source of operating revenue for Wastewater Services is the Wastewater Service Charge. The primary non-operating revenues are the Wastewater Capital Improvement charge, which, like the Water Capital Improvement Charge, is restricted to fund only capital projects. Other non-operating revenues include property tax revenues.

**Table #3 - Wastewater Services Sources of Revenue**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Operating Revenue</b>					
Wastewater Service Charges	\$ 5,258,183	\$ 6,016,613	\$ 5,432,104	\$ 6,214,076	3.3%
Sundry Other Revenue	(15,120)	1,102	1,000	1,000	-9.3%
<b>Total Operating Revenue</b>	<b>\$ 5,243,063</b>	<b>\$ 6,017,715</b>	<b>\$ 5,433,104</b>	<b>\$ 6,215,076</b>	<b>3.3%</b>
<b>Non-Operating Revenue</b>					
Wastewater Capital Improvement Charge	\$ 1,149,667	\$ 1,142,101	\$ 1,150,517	\$ 1,185,299	3.8%
Property Tax	903,366	907,883	907,883	912,422	0.5%
Wastewater Capacity Charges	290,904	30,427	30,427	31,522	3.6%
Investment Earnings	-	58,140	58,140	56,675	-2.5%
Federal Interest Rate Subsidy	144,517	133,917	133,917	122,647	-8.4%
<b>Total Non-Operating Revenue</b>	<b>\$ 2,488,454</b>	<b>\$ 2,272,469</b>	<b>\$ 2,280,884</b>	<b>\$ 2,308,565</b>	<b>1.6%</b>
<b>Total Revenues</b>	<b>\$ 7,731,517</b>	<b>\$ 8,290,184</b>	<b>\$ 7,713,987</b>	<b>\$ 8,523,641</b>	<b>2.8%</b>

**Chart #4 - Fiscal Year 2019-20 Wastewater Services Operating Revenues**



## Recycled Water Services Sources of Funds

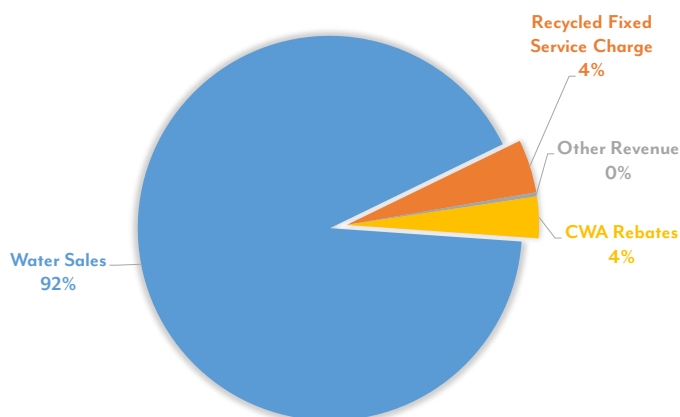
While recycled water sales are subject to weather driven water demands, these customers are not subject to use restrictions due to drought. It is for this reason that many have chosen to be a recycled water customer. While the District is expanding the distribution system, the customer base is relatively small and demands have remained static even with additional customers. Therefore, the historic average adjusted for a small level of growth provide a good basis from which revenues can be budgeted from. The accompanying chart shows the average annual recycled water sales and the sales projected for this budget period. The revenue projection for Fiscal Year 2019-20 provided here include rate and charge increases in line what was approved by the Board.

Recycled Water Services operating and non-operating revenues are shown in Table 4. The primary source of operating revenue for Recycled Water Services is water sales revenue. Recycled Water Services customers pay a per unit rate for recycled water. In addition, the District receives some financial support by the SDCWA to help mitigate the cost of processing the water since it offsets potable water usage and helps increase regional water supply reliability. This assistance will end in October and results in an over all reduction in revenues this year. Other operating revenues include the Fixed Recycled Water Charge. Investment earnings makes up the only non-operating revenues.

**Table #4 - Recycled Water Services Sources of Revenue**

	FY 2017-18 Actual	FY 2018-19 Budget      Projected		FY 2019-20 Budget	Budget to Budget Increase (%)
<b>Operating Revenues</b>					
Water Sales	\$ 1,281,487	\$ 1,271,796	\$ 1,275,854	\$ 1,318,476	3.7%
Recycled Fixed Service Charge	79,442	61,564	62,533	64,354	4.5%
Other Revenue	5,000	5,000	5,000	5,000	0.0%
CWA Rebates	162,448	151,525	151,060	50,003	-67.0%
<b>Total Operating Revenue</b>	<b>\$ 1,528,377</b>	<b>\$ 1,489,884</b>	<b>\$ 1,494,447</b>	<b>\$ 1,437,833</b>	<b>-3.5%</b>
<b>Non-Operating Revenues</b>					
Property Tax	-	50,043	50,043	50,294	0.5%
Investment Earnings	12,441	9,834	9,834	14,475	47.2%
<b>Total Non-Operating Revenue</b>	<b>\$ 12,441</b>	<b>\$ 59,878</b>	<b>\$ 59,877</b>	<b>\$ 64,768</b>	<b>8.2%</b>
<b>Total Revenues</b>	<b>\$ 1,540,818</b>	<b>\$ 1,549,762</b>	<b>\$ 1,554,325</b>	<b>\$ 1,502,602</b>	<b>-3.0%</b>

**Chart #5 - Fiscal Year 2019-20 Recycled Water Services Operating Revenues**



## Operating Budget

### Overview

The District, while relatively small, provides a wide range of services to residents. This section of the budget document provides a detailed description of the District’s budgeted use of funds (operating expenses) for each division/function. To make the budget easy to follow, the District’s Operating Budget is broken out into its main cost centers. The cost center breakdown is: Administrative Services, Water Services, Wastewater Services and Recycled Water Services (collectively the Services).

This section provides a detailed breakdown of the District’s employer-paid employee benefits and debt-service costs. Each of the District’s Services are allocated a portion of the District’s benefits costs based upon the Services’ share of total labor costs. The allocation of the benefits’ costs is detailed in the benefit cost section and each of the Services’ operating budgets show the allocated benefits costs.

In addition to a detailed budget to fund day-to-day operations, this section also provides a description of the divisions within each of the Services. Each division performs a specific program or function. The Services budget’s are developed to support the long and short-term strategic goals of the District.

It should be noted that the District has restructured its accounting system and chart of accounts. As a result of these changes, year to year comparison of the line items may be difficult. Readers should use the totals for comparison purposes.

**Table #1 - Overview of Total Services Operating Budget**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to
	Actual	Budget	Projected	Budget	Budget Change (%)
Total Labor *	\$ 5,325,657	\$ 5,366,812	\$ 5,135,410	\$ 5,324,861	-0.8%
Total Non-Labor	4,317,670	4,281,685	4,580,069	4,509,670	5.3%
<b>Operating Total</b>	<b>\$ 9,643,327</b>	<b>\$ 9,648,497</b>	<b>\$ 9,715,479</b>	<b>\$ 9,834,531</b>	<b>1.9%</b>
Benefits Expenses	2,939,973	3,270,046	3,270,046	3,425,369	4.7%
<b>Total Services Operating Budget</b>	<b>\$ 12,583,300</b>	<b>\$ 12,918,543</b>	<b>\$ 12,985,525</b>	<b>\$ 13,259,901</b>	<b>2.6%</b>

\* Total Labor does not include District’s Benefits.

### Administrative Services

Administrative Services includes a wide range of functions that support the District’s core services: water, wastewater and recycled water. The Organizational Chart on page 19 shows the broad scope of functions captured in the Administrative Services budget. Administrative Service functions include:

- Manages District operations and capital projects
- Implements and maintains District policies and procedures
- Directs and maintains District documents and archives
- Supports activities of the Board of Directors
- Coordinates District legal activities
- Oversees the District’s financial management including debt management, budget, annual audit, treasury and other required financial reporting

- Maintains customer accounts and billing for water, wastewater and recycled water
- Oversees permit process, right of way and District Geographic Information System (GIS) data
- Manages District contracts, and service and construction services procurement
- Administers the District’s water conservation and agricultural water programs
- Creates and administers public outreach activities
- Provides human resources support to the District
- Coordinates and monitors District safety and risk management programs

Administrative Services is broken down into divisions that support a specific Administrative Service’s function. Administrative Services historic and proposed staffing levels are shown in Table 2.

**Table #2 - Administrative Services Approved Positions**

<b>Position</b>	<b>Actual FTE* FY 2017-18</b>	<b>Actual FTE FY 2018-19</b>	<b>Proposed FTE FY 2019-20</b>
General Manager	1.0	1.0	1.0
Board Secretary	1.0	1.0	1.0
Assistant General Manager/Chief Financial Officer	1.0	1.0	1.0
Human Resources Manager	1.0	1.0	1.0
Accounting Supervisor	1.0	-	-
Senior Accountant	-	1.0	1.0
Safety & Risk Officer	1.0	1.0	1.0
Information Systems Tech	1.0	1.0	1.0
Assistant General Manager/ Chief Engineer	1.0	-	-
Senior Engineer		1.0	1.0
Engineering Supervisor	1.0	1.0	1.0
Warehouse Purchasing Specialist	1.0	1.0	1.0
Administrative Office Specialist	1.0	1.0	1.0
Engineering Technician	3.0	4.0	4.0
Drought Management Coordinator	1.0	-	-
GIS Specialist	1.0	1.0	1.0
Operations Specialist	1.0	1.0	1.0
Public Affairs Specialist	0.8	0.8	0.8
Accounting Technician	2.0	2.0	2.0
Customer Service Specialist	1.0	2.0	2.0
Customer Service Representative	2.0	1.0	1.0
Purchasing Warehouse Supervisor	-	1.0	1.0
Warehouse Supervisor	1.0	-	-
Equipment Tech	1.0	1.0	1.0
Equipment Mechanic	1.0	1.0	1.0
<b>TOTAL FTE</b>	<b>25.8</b>	<b>25.8</b>	<b>25.8</b>

\*FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**The Office of the General Manager**

- Oversees all District operations



- Plans, organizes and conducts Board of Directors activities and meetings in addition to supporting Board policy development and execution
- Manages legal activities including public hearing and other required notices
- Serves as public liaison to the Community and other entities (i.e. San Diego County Board member) and manages public relations
- Manages District documents, contracts, and Board of Director meeting agendas and minutes

### **Finance and Customer Services**

- Manage and maintain the District's financial and customer information
- Develop and monitor the District's annual budget
- Manage the annual financial audit and develop financial reports
- Maintain and execute the District's financial policies and procedures
- Manage the District's payroll process, and treasury and debt-management functions
- Establish and monitors the District's internal controls
- Maintain customer service counter and phone line for questions and payment
- Generate and monitor customer bill

### **Warehouse and Purchasing**

- Issue Requests for Proposals, and solicitations for equipment, supplies and materials
- Maintain and manage District equipment, supplies and materials inventory
- Manage purchasing contracts for materials, supplies, equipment and services

### **Human Resources**

- Establish and maintain effective employee relations
- Implement and administer District personnel policies, practices and procedures, and various programs including the performance appraisal system
- Manage recruitment and selection activities, employee benefits and recognition, and training and technical certification
- Support Memorandum of Understanding (MOU) negotiations

### **Information Management**

- Maintain, troubleshoot and upgrade the District's network servers, workstations, copiers and printers, phone system and wireless services
- Create and maintains the District's information system's policies and procedures
- Manage the security of the District's information management systems

### **Engineering Services**

- Oversee implementation of the District's Capital Improvement Program
- Maintain records of District easements, as-built facility drawings and facility location drawings
- Design, develop and maintain the District GIS program

- Provide customer service for water and sewer service
- Process water and sewer requests for new service
- Support outside developer and County projects
- Participation in County subdivision map process for new development
- Assess water and sewer availability and develop requirements
- Review and plan check developer water and sewer improvement plans
- Inspect and document developer installation of District facilities

**Vehicle Services/Shop**

- Service and repair small and large equipment and vehicles

**Safety and Risk**

- Manage and administer the District’s safety and risk program
- Investigate claims against the District and conduct accident/incident investigations
- Maintain and update the District’s Emergency Response Plan and conduct vulnerability assessments

**Table #3 - Administrative Services Total Operating Budget Summary**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor*	\$ 2,520,550	\$ 2,617,900	\$ 2,364,151	\$ 2,512,198	-4.0%
Total Non-Labor	1,879,997	2,230,005	2,330,959	2,279,270	2.2%
<b>Services Operating Total</b>	<b>\$ 4,400,548</b>	<b>\$ 4,847,905</b>	<b>\$ 4,695,110</b>	<b>\$ 4,791,468</b>	<b>-1.2%</b>
Allocated Benefits Expenditures	1,406,543	1,595,110	1,595,110	1,616,043	1.3%
<b>Total Services Budget</b>	<b>\$ 5,807,091</b>	<b>\$ 6,443,015</b>	<b>\$ 6,290,220</b>	<b>\$ 6,407,511</b>	<b>-0.6%</b>

\* Total Labor does not include District’s Benefits

Table #4 - Administrative Services, Division Budget to Budget Comparison

Description	FY 2017-18 Actual*	FY 2018-19		FY 2019-20 Budget	Budget to Budget Change (%)
		Budget	Projected		
<b>Office of the General Manager</b>					
<b>Labor:</b>					
Salaries	\$ 541,860	\$ 458,983	\$ 470,527	\$ 449,438	-2.1%
<b>Non-Labor:</b>					
Director Expenses		52,000	27,064	40,000	-23.1%
General & Administrative		36,100	16,760	13,320	-63.1%
Materials/Services/Supplies		75,600	70,941	52,800	-30.2%
Professional Services		151,000	300,000	240,000	58.9%
Memberships/Training/Permits		77,835	88,942	94,400	21.3%
Santa Margarita Watermaster		91,670	115,807	115,000	25.4%
<b>Total Non-Labor</b>	<b>\$ 399,884</b>	<b>\$ 484,205</b>	<b>\$ 619,514</b>	<b>\$ 555,520</b>	<b>14.7%</b>
<b>Division Operating Total</b>	<b>\$ 941,744</b>	<b>\$ 943,188</b>	<b>\$ 1,090,041</b>	<b>\$ 1,004,958</b>	<b>6.5%</b>

<b>Finance &amp; Customer Service</b>					
<b>Labor:</b>					
Salaries	\$ 660,684	\$ 675,656	\$ 633,450	\$ 671,504	-0.6%
<b>Non-Labor:</b>					
Contractor Services		127,120	26,876	14,000	-89.0%
Equipment (Non Capital)		4,000	1,000	4,000	0.0%
Materials/Services/Supplies		71,300	190,646	193,200	171.0%
Professional Services		105,150	106,252	145,500	38.4%
Memberships/Training/Permits		1,500	1,308	3,000	100.0%
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 459,115</b>	<b>\$ 309,070</b>	<b>\$ 326,082</b>	<b>\$ 359,700</b>	<b>16.4%</b>
<b>Division Operating Total</b>	<b>\$ 1,119,799</b>	<b>\$ 984,726</b>	<b>\$ 959,532</b>	<b>\$ 1,031,204</b>	<b>4.7%</b>

<b>Warehouse &amp; Purchasing</b>					
<b>Labor:</b>					
Salaries	\$ 203,748	\$ 166,563	\$ 164,476	\$ 162,550	-2.4%
<b>Non-Labor:</b>					
Contractor Services		105,200	114,217	108,000	2.7%
Equipment (Non Capital)		17,000	2,002	3,500	-79.4%
Materials/Services/Supplies		154,100	110,066	80,450	-47.8%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	162	1,000	NA
Utilities **		58,300	47,660	40,000	-31.4%
<b>Total Non-Labor</b>	<b>\$ 71,882</b>	<b>\$ 334,600</b>	<b>\$ 274,107</b>	<b>\$ 232,950</b>	<b>-30.4%</b>
<b>Division Operating Total</b>	<b>\$ 275,630</b>	<b>\$ 501,163</b>	<b>\$ 438,583</b>	<b>\$ 395,500</b>	<b>-21.1%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.

Table #4 - Administrative Services, Division Budget to Budget Comparison

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual*	Budget	Projected	Budget	
<b>Human Resources</b>					
<b>Labor:</b>					
Salaries	\$ 217,769	\$ 212,081	\$ 237,878	\$ 169,083	-20.3%
<b>Non-Labor:</b>					
Contractor Services		12,200	26,848	43,200	254.1%
Equipment (Non Capital)		-	-	-	NA
Materials/Services/Supplies		21,700	24,677	21,300	-1.8%
Professional Services		-	8,786	10,000	NA
Memberships/Training/Permits		98,311	91,556	91,450	-7.0%
Education Funding		-	-	30,000	NA
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 108,977</b>	<b>\$ 132,211</b>	<b>\$ 151,867</b>	<b>\$ 195,950</b>	<b>48.2%</b>
<b>Division Operating Total</b>	<b>\$ 326,746</b>	<b>\$ 344,292</b>	<b>\$ 389,745</b>	<b>\$ 365,033</b>	<b>6.0%</b>

<b>Information Management</b>					
<b>Labor:</b>					
Salaries	\$ 83,392	\$ 81,880	\$ 86,231	\$ 87,578	7.0%
<b>Non-Labor:</b>					
Contractor Services		122,450	109,696	28,150	-77.0%
Equipment (Non Capital)		25,000	20,000	25,000	0.0%
Materials/Services/Supplies		118,200	133,389	149,800	26.7%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	-	-	NA
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 257,247</b>	<b>\$ 265,650</b>	<b>\$ 263,085</b>	<b>\$ 202,950</b>	<b>-23.6%</b>
<b>Division Operating Total</b>	<b>\$ 340,639</b>	<b>\$ 347,530</b>	<b>\$ 349,316</b>	<b>\$ 290,528</b>	<b>-16.4%</b>

<b>Engineering Services</b>					
<b>Labor:</b>					
Salaries	\$ 547,378	\$ 670,293	\$ 509,303	\$ 570,334	-14.9%
<b>Non-Labor:</b>					
Contractor Services		2,500	1,000	2,500	0.0%
Equipment (Non Capital)		-	-	-	NA
Materials/Services/Supplies		66,300	56,864	67,500	1.8%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	1,237	1,200	NA
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 169,454</b>	<b>\$ 68,800</b>	<b>\$ 59,101</b>	<b>\$ 71,200</b>	<b>3.5%</b>
<b>Division Operating Total</b>	<b>\$ 716,832</b>	<b>\$ 739,093</b>	<b>\$ 568,404</b>	<b>\$ 641,534</b>	<b>-13.2%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.

Table #4 - Administrative Services, Division Budget to Budget Comparison, cont.

Description	FY 2017-18 Actual*	FY 2018-19		FY 2019-20 Budget	Budget to Budget Change (%)
		Budget	Projected		
<b>Safety &amp; Risk</b>					
<b>Labor:</b>					
Salaries	\$ 160,702	\$ 186,300	\$ 154,904	\$ 205,226	10.2%
<b>Non-Labor:</b>					
Contractor Services		6,250	21,850	28,500	356.0%
Equipment (Non Capital)		45,569	52,826	35,000	-23.2%
Materials/Services/Supplies		24,150	3,596	11,500	-52.4%
Professional Services		265,000	265,000	270,000	1.9%
Memberships/Training/Permits		-	-	500	NA
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 81,683</b>	<b>\$ 340,969</b>	<b>\$ 343,272</b>	<b>\$ 345,500</b>	<b>1.3%</b>
<b>Division Operating Total</b>	<b>\$ 242,385</b>	<b>\$ 527,269</b>	<b>\$ 498,176</b>	<b>\$ 550,726</b>	<b>4.4%</b>

<b>Vehicle Services &amp; Shop</b>					
<b>Labor:</b>					
Salaries	\$ 105,018	\$ 166,143	\$ 107,382	\$ 196,485	18.3%
<b>Non-Labor:</b>					
Contractor Services		20,500	19,634	20,500	0.0%
Equipment (Non Capital)		-	-	-	NA
Materials/Services/Supplies		274,000	274,297	295,000	7.7%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	-	-	NA
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 331,755</b>	<b>\$ 294,500</b>	<b>\$ 293,931</b>	<b>\$ 315,500</b>	<b>7.1%</b>
<b>Division Operating Total</b>	<b>\$ 436,773</b>	<b>\$ 460,643</b>	<b>\$ 401,313</b>	<b>\$ 511,985</b>	<b>11.1%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.

### Fiscal Year 2018-19 Accomplishments

- Enhanced budget controls and financial system operations by restructuring the District’s chart of accounts and budget process
- Updated the District’s ERP and executed a training plan for key staff
- Streamlined and centralized procurement using a paperless system
- Reorganized the warehouse and storage yard to support better inventory management
- Secured the financing for the SMRCUP from the State at very attractive interest rates
- More than doubled the number of customers utilizing the WaterSmart website to manage their water use alerts

**Fiscal Year 2019-20 Goals and Objectives**

- Complete the financial system restructuring to better track labor and benefit costs for operations and capital projects
- Conduct a review of organizational structure
- Start construction of the SMRCUP
- Develop a policies and procedures manual for HR and update the District’s performance evaluation process
- Develop CAD standards and drawing templates for improved CIP design

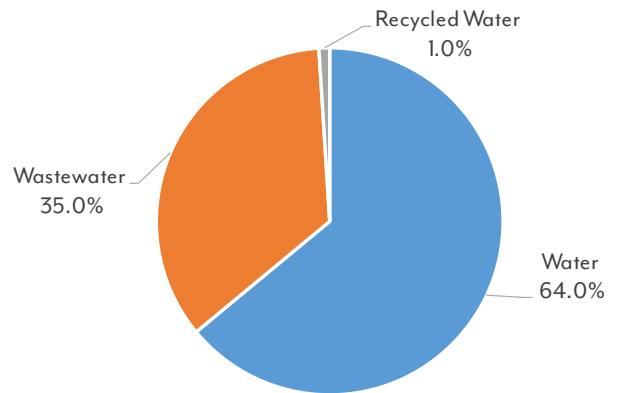
**Key Performance Indicators**

- Maintain an Experience Modification Rate below 1 for the District’s workers compensation rate
- Maintain an average customer service call wait time of less than 3 minutes
- Maintain an inventory shrinkage rate of less than 1%
- Reduce the number of audit findings from one year to the next

**Cost Allocation of Administrative Services**

Because Administrative Services acts like an internal service fund and supports the District’s revenue generating activities, the cost must be recovered through rates and charges levied by the core services; water, wastewater and recycled water. Administrative costs are allocated to water, wastewater and recycled water services operating budgets based upon the share of total accounts in each of the services. The accompanying chart shows the breakdown of accounts and the Administrative Service Allocations.

**Chart #1 - Administrative Services Cost Allocation**



**Total Number of Accounts: 14,309**

**Water Services**

The District provides Water Services to approximately 9,200 meters within the District’s service area. The largest component of the Water Services’ operating budget is the cost of water. The District buys 99% of its water from the SDCWA, which is the region’s wholesale water provider. Water Services provide the following functions:

- Manage the delivery of water from the District’s water supplier and the delivery of water to the District’s customers
- Manage an asset management program that optimizes life-cycle costs and maintains, repairs and replaces system assets
- Operate water system assets including reservoirs, valves, pump stations, control facilities
- Maintain the District’s Water Service’s rights of way
- Manage the District’s water meters and Smart Meter replacement program

Water Services is broken down into divisions that support a specific function. Water Services historic and proposed staffing levels are shown in Table 5.

**Table #5 - Water Services Approved Positions**

<b>Position</b>	<b>Actual FTE FY 2017-18</b>	<b>Actual FTE FY 2018-19</b>	<b>Proposed FTE FY 2019-20</b>
Construction/ Maintenance Supervisor	1.0	1.0	-
Field Services Manager	-	-	1.0
Utility Technician	4.75	4.75	4.75
Utility Worker I & II	9.5	9.5	9.5
System Service/ Shop Supervisor	1.0	1.0	1.0
System Operations Manager	1.0	-	-
Operations Manager	-	1.0	1.0
Lead Systems Operator	1.0	-	-
System Operations Supervisor	-	1.0	1.0
Systems Operator I/II	3.0	3.0	3.0
Instrumentation & Control Specialist	1.0	1.0	1.0
Maintenance Electrician	1.0	1.0	1.0
Backflow/ Cross Connection Tech	0.75	0.75	0.75
<b>TOTAL FTE</b>	<b>24.0</b>	<b>24.0</b>	<b>24.0</b>

\*FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**Production and Distribution**

- Schedule and manages water deliveries to the District to meet customer demands
- Operate water system assets and monitors system conditions including water pressure and water quality
- Maintain crews to operate the system and respond to customer inquires

**Pipeline Maintenance and Construction**

- Maintain the District’s Water Services assets

- Manage all Water Services repairs and asset replacements
- Replace aged water mains and valves
- Maintain 24-hour coverage of large water main breaks
- Maintain all right-of-way and interconnects with neighboring districts

**System Services**

- Meter reading, meter repair and meter exchange programs and delinquent account lock/unlocking

**Table #6 - Water Services Total Operating Budget Summary**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 1,502,853	\$ 1,404,962	\$ 1,457,886	\$ 1,422,713	1.3%
Total Non-Labor	1,079,887	882,600	1,022,442	949,500	7.6%
<b>Operating Total</b>	<b>\$ 2,582,740</b>	<b>\$ 2,287,562</b>	<b>\$ 2,480,328</b>	<b>\$ 2,372,213</b>	<b>3.7%</b>
Allocated Benefits Expenditures	656,829	856,056	856,056	915,201	6.9%
<b>Total Direct Water Costs</b>	<b>\$ 3,239,569</b>	<b>\$ 3,143,618</b>	<b>\$ 3,336,384</b>	<b>\$ 3,287,415</b>	<b>4.6%</b>
Allocation of Administrative Services	3,077,758	4,144,338	4,144,338	4,100,807	-1.1%
<b>Total Services Budget</b>	<b>\$ 6,317,328</b>	<b>\$ 7,287,956</b>	<b>\$ 7,480,722</b>	<b>\$ 7,388,221</b>	<b>1.4%</b>

\* Total Labor does not include District's Benefits.

**Table #7 - Water Services, Division Budget to Budget Comparison**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual *	Budget	Projected	Budget	
<b>Production &amp; Distribution</b>					
<b>Labor:</b>					
Salaries	\$ 782,293	\$ 811,431	\$ 664,624	\$ 747,781	-7.8%
<b>Non-Labor:</b>					
Contractor Services		24,750	7,735	49,000	98.0%
Equipment (Non Capital)		24,000	-	14,000	-41.7%
Materials/Services/Supplies		290,300	221,651	217,000	-25.2%
Professional Services		-	-	-	NA
Memberships/Training/Permits		54,000	90,000	90,000	66.7%
Utilities **		56,000	60,333	65,000	16.1%
<b>Total Non-Labor</b>	<b>\$ 586,290</b>	<b>\$ 449,050</b>	<b>\$ 379,719</b>	<b>\$ 435,000</b>	<b>-3.1%</b>
<b>Division Operating Total</b>	<b>\$ 1,368,583</b>	<b>\$ 1,260,481</b>	<b>\$ 1,044,343</b>	<b>\$ 1,182,781</b>	<b>-6.2%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.



Table #7 - Water Services, Division Budget to Budget Comparison, cont.

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to
	Actual *	Budget	Projected	Budget	Budget Change (%)
<b>Pipeline Maintenance &amp; Construction</b>					
<b>Labor:</b>					
Salaries	\$ 461,327	\$ 283,428	\$ 266,631	\$ 346,089	22.1%
<b>Non-Labor:</b>					
Contractor Services		12,000	94,900	111,000	825.0%
Equipment (Non Capital)		-	-	10,000	NA
Materials/Services/Supplies		120,000	51,557	32,000	-73.3%
Professional Services		-	-	-	NA
Memberships/Training/Permits		60,000	-	500	-99.2%
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 262,109</b>	<b>\$ 192,000</b>	<b>\$ 146,457</b>	<b>\$ 153,500</b>	<b>-20.1%</b>
<b>Division Operating Total</b>	<b>\$ 723,436</b>	<b>\$ 475,428</b>	<b>\$ 413,088</b>	<b>\$ 499,589</b>	<b>5.1%</b>

<b>System Services</b>					
<b>Labor:</b>					
Salaries	\$ 259,233	\$ 310,103	\$ 526,631	\$ 328,844	6.0%
<b>Non-Labor:</b>					
Contractor Services		28,350	196,245	136,000	379.7%
Equipment (Non Capital)		-	962	-	NA
Materials/Services/Supplies		213,200	299,059	225,000	5.5%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	-	-	NA
Utilities **		-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 231,487</b>	<b>\$ 241,550</b>	<b>\$ 496,266</b>	<b>\$ 361,000</b>	<b>49.5%</b>
<b>Division Operating Total</b>	<b>\$ 490,720</b>	<b>\$ 551,653</b>	<b>\$ 1,022,897</b>	<b>\$ 689,844</b>	<b>25.1%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.

### Fiscal Year 2018-19 Accomplishments

- Improved SCADA radio communication between key sites
- Modified pump station control modes to improve efficiency and increase operational flexibility
- Automated flow and pressure control facilities throughout the distribution system
- Maintained 100% regulatory compliance for water quality sampling
- Replaced 60 water main valves and 120 feet of water mains using District staff. Target was 100 valves but priority was shifted from water valve replacements to water meter upgrades for several months, causing valve replacements to fall short of target range. Over the last three years, 251 valves have been replaced.
- On target to replace 1,476 meters meeting annual goal
- Exercised 1,753 valves through April slightly below target of 1,890. Did not meet target due to additional resource needs to address leaks.

**Fiscal Year 2019-20 Goals and Objectives**

- Upgrade the SCADA system to improve communication between critical sites
- Hardware and software improvement to UV Treatment facility to improve remote access and increase reliability
- Upgrade pressure/flow control facilities to better track flow rates and water loss
- Maintain 100% regulatory compliance for water quality sampling
- Replace 100 water main valves and 100 feet of water mains using District staff
- Replace 1,476 meters/ year

**Key Performance Indicators**

- 100% regulatory compliance for water quality sampling
- Exercise 189 valves/month as part of the valve exercise program
- Complete all preventative maintenances work orders on time
- Replace 100 valves/year
- Replace 1,476 meters/year

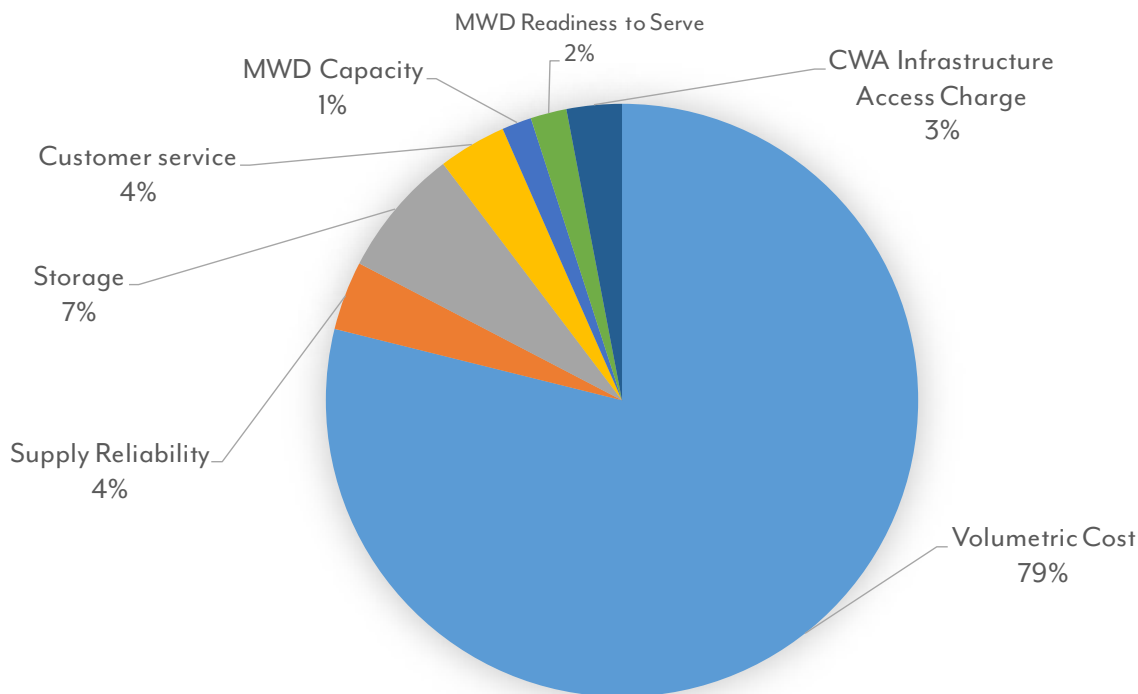
**Cost of Water**

The District’s cost of water is broken down into fixed and variable costs. Variable or Commodity costs vary depending on the amount of water purchased. Fixed charges are set regardless of the water consumed during the billing period. The fixed water costs are comprised of the SDCWA’s charges and MWD fixed charges that are pass through by SDCWA. The District’s variable and fixed water charges are summarized below:

**Table #8 - Variable and Fixed Charges Budget to Budget Comparison**

	FY 2017-18 Actual	FY 2018-19		FY 2019-20 Budget	Budget to Budget Change (%)
		Budget	Projected		
<b>Variable Costs:</b>					
Variable Water Costs	\$ 11,086,286	\$ 11,198,586	\$ 10,045,158	\$ 12,427,091	11.0%
<b>Fixed Costs:</b>					
Supply Reliability		\$ 519,150	\$ 519,150	\$ 593,136	14.3%
Storage	\$ 2,598,408	1,133,928	1,133,928	1,110,090	-2.1%
Customer service		618,534	618,534	585,942	-5.3%
MWD Capacity		273,605	273,605	254,982	-6.8%
MWD Readiness to Serve	357,204	340,392	340,392	310,440	-8.8%
SDCWA IAC	411,331	436,668	436,668	474,468	8.7%
<b>Total Cost of Water</b>	<b>\$ 14,453,229</b>	<b>\$ 14,520,863</b>	<b>\$ 13,367,435</b>	<b>\$ 15,756,149</b>	<b>8.5%</b>

Chart #2 - Cost of Water Breakdown



**Fixed Costs**

**Supply Reliability Charge** - SDCWA charge to collect a portion of the costs associated with highly reliability water supplies (i.e. Desalination).

**Infrastructure Access Charge (IAC)** – Meter charge imposed by SDCWA to provide water capacity.

**Customer Service Charge** – SDCWA charge designed to recover costs associated with SDCWA’s customer service and functions.

**Emergency Storage Charge**– SDCWA charge to recover costs associated with the Emergency Storage Program.

**MWD Capacity Charge** – MWD charge passed-through by the SDCWA. The MWD charge collects costs associated with demand peak.

**MWD Readiness-to-Serve Charge** – MWD charge for State Water Project costs passed through by the SDCWA.

Fixed Costs are **21%** of the Total Cost of Water Purchased from SDCWA

**Variable Costs**

**Melded Supply** – This is the \$/acre-foot rate the District pays for water.

**Melded Treatment** - This is the \$/acre-foot rate the District pays for water that is potable. The District only purchases treated water.

**Transportation** - This is the \$/acre-foot rate the District pays for water transported by the SDCWA.

**Special Agricultural Water Rate (SAWR)** - This is the \$/acre-foot rate the District pays for water that is in the SAWR program.

Variable Costs are **79%** of the Total Cost of Water Purchased from SDCWA

**Wastewater Services**

The District provides Wastewater Services to approximately 5,000 meters within the District’s service area. The largest component of the Wastewater Services’ operating budget is the operating costs of the District’s water reclamation plant. Wastewater Services includes the following functions:

- Operate a water reclamation plant that provides secondary treatment
- Manage an asset management program that optimizes lifecycle costs and maintains, repairs and replace plant and collections system assets
- Meet the Regional Water Quality Control Board’s discharge permit requirements
- Operate and maintain the District’s six collections system lift station and 100 miles of wastewater system piping

Wastewater Services is broken down into divisions that support a specific functions. Wastewater Services historic and proposed staffing levels are shown in Table 9.

**Table #9 - Wastewater Services Approved Positions**

<b>Position</b>	<b>Actual FTE FY 2017-18</b>	<b>Actual FTE FY 2018-19</b>	<b>Proposed FTE FY 2019-20</b>
Collections Supervisor	1.0	1.0	1.0
Utility Technician	2.0	2.0	2.0
Utility Worker I & II	5.0	5.0	5.0
Chief Plant Operator	0.7	0.85	0.85
Lead Plant Operator	1.5	1.7	1.7
Plant Operator	1.4	1.7	1.7
Environmental Compliance Technician	0.5	0.5	0.5
Laboratory Technician	0.7	0.85	0.85
Mechanical Technician	0.6	0.8	0.8
Plant Maintenance Worker	0.6	0.8	0.8
<b>TOTAL FTE</b>	<b>14.0</b>	<b>15.2</b>	<b>15.2</b>

\*FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**Collections**

- Provide emergency repairs and routine maintenance to the collections system
- Manage the District’s collection system inspection program that includes TV inspection of the collections system
- Maintain and operate a vactor truck
- Maintain lift stations, clean outs, system ocean outfall
- Provide light and heavy construction services

**Treatment**

- Operate and maintain the Water Reclamation Plant processes in the following areas: Headworks, Primary Sedimentation, Activated Sludge, Secondary Sedimentation and Solids Handling (which includes an aerobic digester, centrifuges and a sludge dryer)
- Conducts laboratory analysis and reporting to meet the Regional Water Quality Control Board’s discharge permit requirements

**Table #10 - Wastewater Services Operating Budget Summary**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 1,039,398	\$ 1,124,410	\$ 1,174,629	\$ 1,190,718	5.9%
Total Non-Labor	1,140,692	910,930	940,779	1,018,400	11.8%
<b>Operating Total</b>	<b>\$ 2,180,089</b>	<b>\$ 2,035,340</b>	<b>\$ 2,115,408</b>	<b>\$ 2,209,118</b>	<b>8.5%</b>
Allocated Benefits Expenditures	722,393	685,113	685,113	765,963	11.8%
<b>Total Direct Wastewater Costs</b>	<b>\$ 2,902,482</b>	<b>\$ 2,720,453</b>	<b>\$ 2,800,521</b>	<b>\$ 2,975,082</b>	<b>9.4%</b>
Allocation of Administrative Services	2,438,978	2,266,435	2,266,435	2,242,629	-1.1%
<b>Total Services Budget</b>	<b>\$ 5,341,460</b>	<b>\$ 4,986,888</b>	<b>\$ 5,066,956</b>	<b>\$ 5,217,710</b>	<b>4.6%</b>

\* Total Labor does not include District’s Benefits.

**Table #11 - Wastewater Services, Division Budget to Budget Comparison**

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual *	Budget	Projected	Budget	
<b>Collections</b>					
<b>Labor:</b>					
Salaries	\$ 446,613	\$ 410,267	\$ 462,756	\$ 434,419	5.9%
<b>Non-Labor:</b>					
Contractor Services		15,200	9,864	38,200	151.3%
Equipment (Non Capital)		-	-	5,000	NA
Materials/Services/Supplies		168,930	142,170	152,300	-9.8%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	1,847	900	NA
Utilities **		95,000	101,600	82,000	-13.7%
<b>Total Non-Labor</b>	<b>\$ 363,054</b>	<b>\$ 279,130</b>	<b>\$ 255,481</b>	<b>\$ 278,400</b>	<b>-0.3%</b>
<b>Division Operating Total</b>	<b>\$ 809,667</b>	<b>\$ 689,397</b>	<b>\$ 718,237</b>	<b>\$ 712,819</b>	<b>3.4%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.

Table #11 - Wastewater Services, Division Budget to Budget Comparison, cont.

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual *	Budget	Projected	Budget	
<b>Treatment</b>					
<b>Labor:</b>					
Salaries	\$ 592,785	\$ 714,143	\$ 711,873	\$ 756,299	5.9%
Non-Labor Expenses:					
Contractor Services		163,900	80,331	164,000	0.1%
Equipment (Non Capital)		9,950	60,097	13,000	30.7%
Materials/Services/Supplies		252,950	203,327	246,000	-2.7%
Professional Services		-	-	-	NA
Memberships/Training/Permits		56,500	65,162	65,000	15.0%
Utilities **		148,500	276,381	252,000	69.7%
<b>Total Non-Labor</b>	<b>\$ 777,638</b>	<b>\$ 631,800</b>	<b>\$ 685,298</b>	<b>\$ 740,000</b>	<b>17.1%</b>
<b>Division Operating Total</b>	<b>\$ 1,370,423</b>	<b>\$ 1,345,943</b>	<b>\$ 1,397,171</b>	<b>\$ 1,496,299</b>	<b>11.2%</b>

\*Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.

**Fiscal Year 2018-19 Accomplishments**

- Operated Water Reclamation Plant processes effectively from the headwork’s to secondary treatment including solids handling to stay in compliance while optimizing operation.
- Met 100% compliance on all samples except 2 months that were 99.8% and 99.7% due to plant upsets. Target is 99.9% each month.
- Minimized power and chemical use and amount of overtime pay.
- Maintained Water Reclamation Plant equipment from the headwork’s to secondary, including solids handling equipment using preventative and predictive measures.
- Kept Common Sewer Spills to 3 during the year, total gallons spilled 6,375, reduced 10 year average by more than 10%

**Fiscal Year 2019-20 Goals and Objectives**

- Operate Water Reclamation Plant processes effectively from the headwork’s to secondary treatment including solids handling to stay in compliance while optimizing operation.
- Minimize power and chemical use and amount of overtime pay.
- Maintain Water Reclamation Plant equipment from the headwork’s to secondary, including solids handling equipment using preventative and predictive measures.
- Keep Common Sewer Spills to 3 during the year, keep spills under 9,075 gallons keeping 10 year average under 10%

**Key Performance Indicators**

- Reduce 10-year average wastewater spills by 10% - Keep spills under 9,075 gallons
- Reduce the energy use by MG treated at the WRP by 15%.
- Meet 99.9% compliance with all samples each month

**Recycled Water Services**

The District provides Recycled Water Services to 33 meters within the District’s service area. The largest component of the Recycled Water Services’ operating budget is the operating costs of the District’s water reclamation plant. Recycled Water Services includes the following functions:

- Operate the Water Reclamation Plant, equipment and processes necessary to produce recycled water
- Liaise with recycled water customers to schedule deliveries and inspections of service connections
- Operate and maintain the District’s distribution system, which includes 10.5 miles of pipe and 14 customers in the Fallbrook service area , 1 customer off the District’s ocean outfall pipe in the City of Oceanside, and 1 customer that uses the fill station at the treatment plant.

Recycled Water Services is broken down into Divisions that support a specific function. Recycled Water Services historic and proposed staffing levels are shown in Table 12.

**Table #12 - Recycled Water Services Approved Positions**

Position	Actual FTE	Actual FTE	Proposed FTE
	FY 2017-18	FY 2018-19	FY 2019-20
Chief Plant Operator	0.3	0.15	0.15
Lead Plant Operator	0.5	0.3	0.3
Plant Operator	0.6	0.3	0.3
Environmental Compliance Technician	0.5	0.5	0.5
Laboratory Technician	0.3	0.15	0.15
Mechanical Technician	0.4	0.2	0.2
Plant Maintenance Worker	0.4	0.2	0.2
Utility Technician	0.25	0.25	0.25
Utility Worker I	0.5	0.5	0.5
Backflow/ Cross Connection Tech	0.25	0.25	0.25
<b>TOTAL FTE</b>	<b>4.0</b>	<b>2.8</b>	<b>2.8</b>

\* FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**Production**

- Operates and maintains the Water Reclamation Plant tertiary processes, such as the filters, chlorine contact basin, recycled water pumps, and recycled water storage/pond
- Laboratory analyses and reporting to meet permit requirements

**Distribution**

- Maintains the Districts Recycled Water Services distribution assets
- Conducts valve and meter maintenance and replacement
- Operates and maintains a SCADA telemetry system
- Conducts site connection and system inspections
- Maintains right-of-way and interconnects with neighboring districts

Table #13 - Recycled Water Services Operating Budget Summary

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 262,856	\$ 219,540	\$ 138,744	\$ 199,232	-9.3%
Total Non-Labor	217,094	258,150	285,889	262,500	1.7%
<b>Operating Total</b>	<b>\$ 479,950</b>	<b>\$ 477,690</b>	<b>\$ 424,633</b>	<b>\$ 461,732</b>	<b>-3.3%</b>
Allocated Benefits Expenditures	154,207	133,768	133,768	128,162	-4.2%
<b>Total Direct Recycled Water Costs</b>	<b>\$ 634,158</b>	<b>\$ 611,458</b>	<b>\$ 558,401</b>	<b>\$ 589,894</b>	<b>-3.5%</b>
Allocation of Administrative Services	290,355	64,755	64,755	64,075	-1.1%
<b>Total Services Budget</b>	<b>\$ 924,512</b>	<b>\$ 676,213</b>	<b>\$ 623,156</b>	<b>\$ 653,969</b>	<b>-3.3%</b>

\* Total Labor does not include District's Benefits

Table #14 - Recycled Water Services, Division Budget to Budget Comparison

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to Budget Change (%)
	Actual *	Budget	Projected	Budget	
<b>Production</b>					
<b>Labor:</b>					
Salaries	\$ 236,425	\$ 177,936	\$ 133,398	\$ 159,229	-10.5%
<b>Non-Labor:</b>					
Contractor Services		19,800	17,865	17,500	-11.6%
Equipment (Non Capital)		10,000	15	8,000	-20.0%
Materials/Services/Supplies		118,650	132,856	112,000	-5.6%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	-	-	NA
Utilities **		60,000	118,449	108,000	80.0%
<b>Total Non-Labor</b>	<b>\$ 169,454</b>	<b>\$ 208,450</b>	<b>\$ 269,185</b>	<b>\$ 245,500</b>	<b>17.8%</b>
<b>Division Operating Total</b>	<b>\$ 405,879</b>	<b>\$ 386,386</b>	<b>\$ 402,583</b>	<b>\$ 404,729</b>	<b>4.7%</b>

<b>Distribution</b>					
<b>Labor:</b>					
Salaries	\$ 26,431	\$ 41,604	\$ 5,346	\$ 40,003	-3.8%
<b>Non-Labor:</b>					
Contractor Services		17,000	-	-	-100.0%
Equipment (Non Capital)		-	-	-	NA
Materials/Services/Supplies		32,200	16,204	17,000	-47.2%
Professional Services		-	-	-	NA
Memberships/Training/Permits		-	-	-	NA
Utilities **		500	500	-	-100.0%
<b>Total Non-Labor</b>	<b>\$ 47,640</b>	<b>\$ 49,700</b>	<b>\$ 16,704</b>	<b>\$ 17,000</b>	<b>-65.8%</b>
<b>Division Operating Total</b>	<b>\$ 74,071</b>	<b>\$ 91,304</b>	<b>\$ 22,050</b>	<b>\$ 57,003</b>	<b>-37.6%</b>

\* Detailed line item expenditure not available for Fiscal Year 2017-18.

\*\*Utility cost increase driven by actual cost levels.



**Fiscal Year 2018-19 Accomplishments**

- Operating the Water Reclamation Plant recycled water facility while staying in compliance with the applicable recycled water permits: Title 22, State Recycled Water Policy and the State Recycled Water General Permit
- Maintaining the Water Reclamation Plant recycled water equipment in order to sustain mechanical integrity and processes throughout the recycled water process
- Maintained continuous recycled service except for a total of 27 hours of outages.

**Fiscal Year 2019-20 Goals and Objectives**

- Operate Water Reclamation Plant recycled water facility effectively to stay in compliance while reducing treatment costs -includes optimizing power and chemical use and reducing staff overtime
- Provide reliable recycled water production with no interruptions by maintaining equipment using preventative and predictive measures

**Key Performance Indicators**

- Maintain an overall compliance of > 99.9% each month from all samples associated with the Title 22 and WDR Permit
- Reduce recycled water out of service time by 15%

## Employee Benefits

The District updates the cost of the benefits offered to District staff as part of the annual budget. The current Memorandum of Understanding (MOU) between the District and its employee association is set to expire in July 2022, the budget was developed based upon the terms of the current MOU. Table 15 shows the breakdown of the District’s costs related to employee benefits. These cost estimates include expected increases in costs.

Chart #3 - Fiscal Year 2019-20 Benefits Breakdown

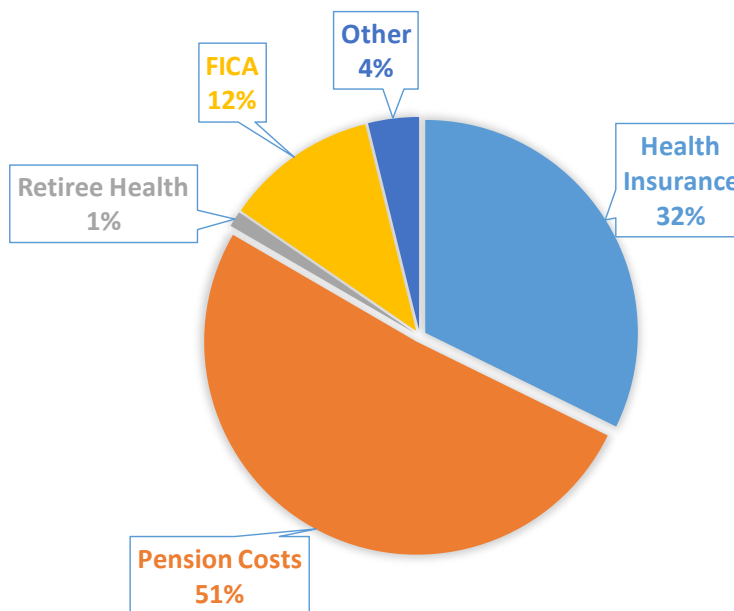
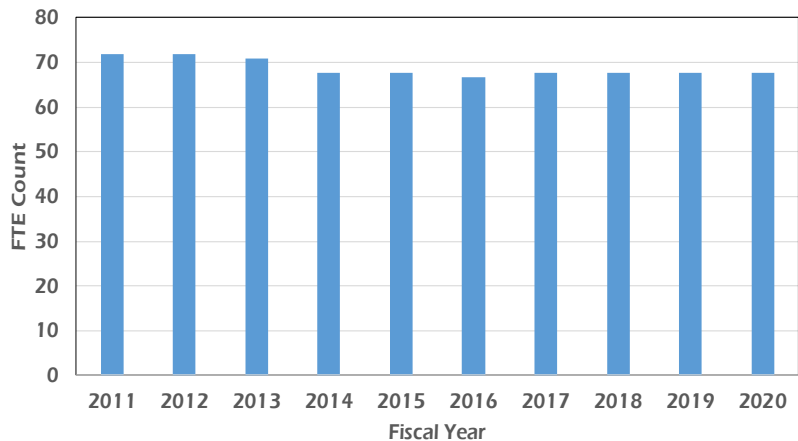


Table #15 - Breakdown of District’s Employee Benefit Costs

Description	FY 2017-18	FY 2018-19		FY 2019-20	Budget to
	Actual	Budget	Projected	Budget	Budget Change (%)
Auto Allowance	\$ 12,269	\$ 14,500	\$ 14,500	\$ 14,500	0.0%
Insurance - Dental	70,096	74,535	70,918	70,701	-5.1%
Insurance - Vision	14,646	15,125	14,756	14,394	-4.8%
Insurance - Health	821,967	863,479	863,479	964,776	11.7%
Insurance - Life and Disability	40,866	47,070	47,070	41,555	-11.7%
Insurance - Worker’s Comp	135,663	136,749	139,952	154,979	13.3%
Longevity Bonus	19,061	21,438	21,438	32,945	53.7%
FICA - Employer’s share	415,692	437,751	437,751	447,152	2.1%
CalPERS Annual Contribution	487,279	581,681	581,681	593,480	2.0%
CalPERS Unfunded Liability Payment	572,257	730,682	730,682	881,796	20.7%
Pension/OPEB Liability Trust Payment	900,000	650,000	650,000	500,000	-23.1%
Employer’s share (401 & 457)	14,437	19,285	18,000	50,411	5.8%
District Share of Retiree Medical Insurance	49,055	40,000	38,000	45,851	14.6%
Retiree Compensated Absence Payout	-	-	-	20,000	NA
Uniforms & Boots	20,840	38,401	30,000	31,396	-18.2%
<b>Total</b>	<b>\$ 3,574,128</b>	<b>\$ 3,670,695</b>	<b>\$ 3,658,227</b>	<b>\$ 3,863,936</b>	<b>5.3%</b>

**Chart #4 - Fallbrook Public Utility District's Approved Full-Time Staffing Equivalents**



The District's staffing levels remain unchanged as shown in Chart 4. The District participates in the California Public Employees' Retirement System (CalPERS). Recent changes to CalPERS accounting practices have caused pension costs for participating agencies to increase. The District's pension cost budget incorporates the costs determined by CalPERS for the next fiscal year. The recent change to the discount rate used to calculate the current cost of the pension benefits already earned by staff are driving up

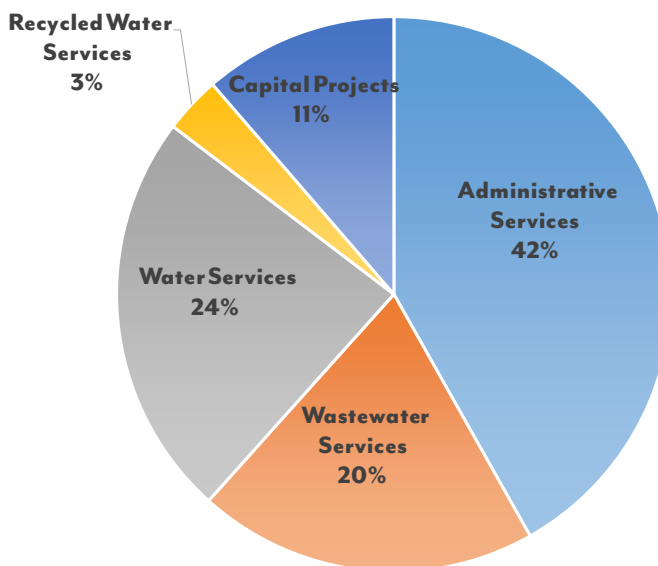
the Unfunded Liability Payment as seen by the 20.7% increase in this cost. The increase in the CalPERS Unfunded Liability Payment was offset by a reduction in the District's contribution to the Pension/OPEB Liability 115 Trust as part of the Board's strategy to mitigate the impacts of changing pension costs. Appendix D provides the District's CalPERS annual payment schedule for the Unfunded Actuarial Accrued Liability (UAAL).

The District's health insurance costs are budgeted to increase by 11.7% driven by a changes in the healthcare coverage elections made by new hires. The District's medical insurance premium increases were in line with inflation. The other major driver of the increase was the addition of a budget for Retiree Compensated Absence Payout. In the past, salary savings on vacant positions were assumed to negate the need to budget for compensated absences payouts. Changes to other benefits are shown on the table.

**Benefit Allocation**

The District's benefit costs are allocated to each of the District's Services based upon its share of the budgeted salary and wages. This allocation methodology aligns the benefit cost allocation with salary and wages, which are the primary determinants of the benefit costs. A portion of the Benefits cost is allocated to labor associated with Capital Projects and is integrated into the projects budget.

**Chart#5 - Fiscal Year 2019-20 Benefits Allocation**



## Debt Service

The District currently has three outstanding long-term debt obligations, the Red Mountain State Revolving Fund Loan (2011 SRF Loan), the Wastewater Reclamation Plant State Revolving Fund Loan (2016 SRF Loan) and the Qualified Energy Conservation Revenue Bonds (2010 QECB).

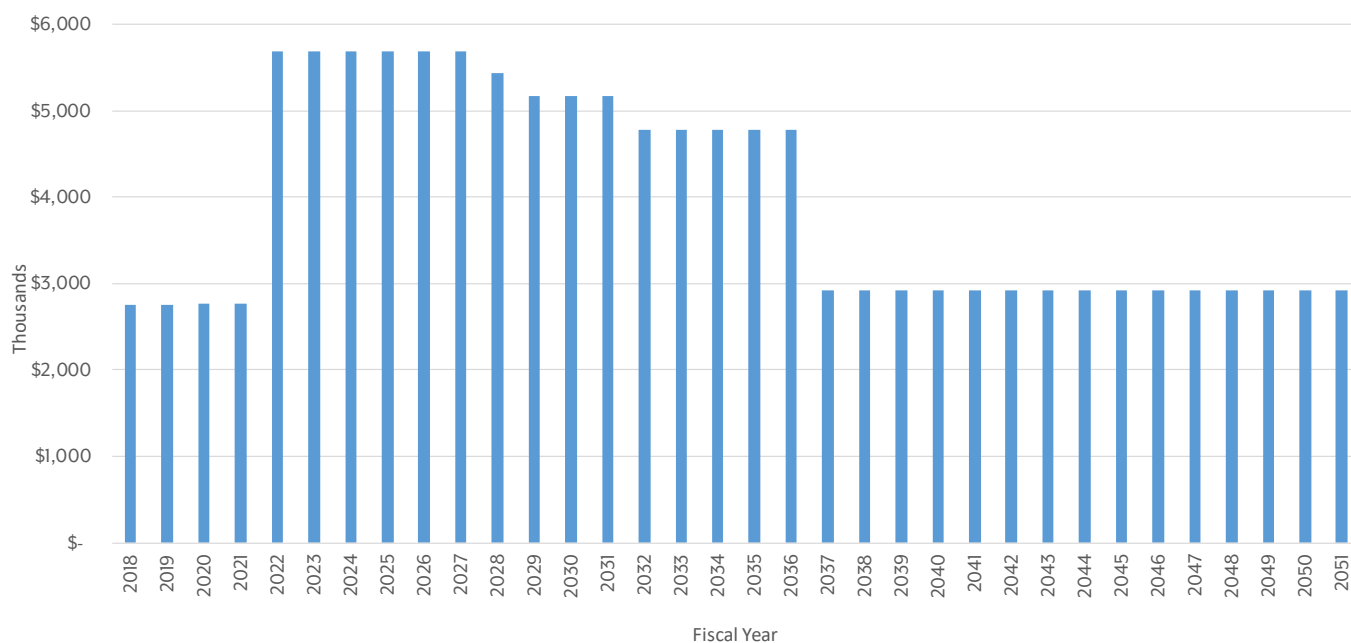
In addition, the District expects to issue approximately \$51 million in additional debt to finance the District’s SMRCUP with State Revolving Fund Loans. While the agreement has been approved, the final amount and payment schedule have not yet been determined. The table below shows the debt service payment schedule for each debt issuance. The debt service in Fiscal Year 2021-22 increases significantly because debt service payments for the SMRCUP loan begin.

**Table #16 - Debt Service Budget Summary**

Debt Issuance	Service			Total Debt Service
	Water	Wastewater	Recycled Water	
2011 SRF Loan	\$ 395,851	\$ -	\$ -	\$ 395,851
2016 SRF Loan*	-	1,292,022	553,724	1,845,746
2010 QECB	-	519,674	-	519,674
<b>Total</b>	<b>\$ 395,851</b>	<b>\$ 1,811,696</b>	<b>\$ 553,724</b>	<b>\$ 2,761,270</b>

\*70% is allocated to wastewater and 30% of the debt service is allocated to recycled water.

**Chart #6 - Annual Debt Service**



Each debt issuance is linked to the Service that it was used to fund. In some cases, the debt service can be allocated to more than one service. The table below shows the debt service payments for Fiscal Year 2019-20 and the amount allocated to each service.

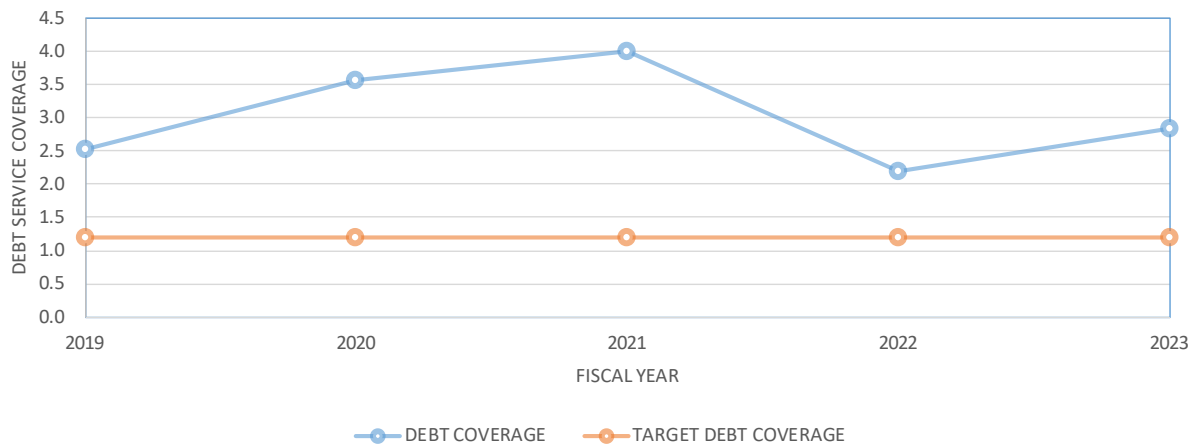
**Table #17 - Fiscal Year 2019-20 Debt Service Schedule**

Year Ending June 30	Red Mountain State Revolving Fund Loan		Water Reclamation Plant State Revolving loan		QECB Loan		SMRCUP State Revolving Fund	District Annual Debt Service
	Principle	Interest	Principle	Interest	Principle	Interest		
	2013	\$ 245,212	\$ 150,639	\$ -	\$ -	\$ 575,745		
2014	251,556	144,295	-	-	593,502	345,519	-	1,334,872
2015	258,064	137,786	-	-	611,992	311,188	-	1,319,031
2016	264,741	131,110	-	-	631,240	275,785	-	1,302,876
2017	271,590	124,260	1,197,952	647,793	270,430	244,706	-	2,756,731
2018	278,617	117,234	1,220,688	625,057	287,973	228,932	-	2,758,501
2019	285,826	110,025	1,247,544	598,202	306,282	212,141	-	2,760,019
2020	293,220	102,630	1,274,990	570,756	325,386	194,288	-	2,761,270
2021	300,807	95,044	1,303,039	542,706	345,316	175,326	-	2,762,238
2022	308,589	87,261	1,331,706	514,039	366,104	155,208	2,927,315	5,690,223
2023	316,573	79,277	1,361,004	484,742	387,783	133,884	2,927,315	5,690,578
2024	324,764	71,087	1,390,946	454,800	410,388	111,302	2,927,315	5,690,601
2025	333,166	62,685	1,421,547	424,199	433,953	87,409	2,927,315	5,690,273
2026	341,786	54,065	1,452,821	392,925	458,515	62,150	2,927,315	5,689,576
2027	350,628	45,222	1,484,783	360,963	484,114	35,465	2,927,315	5,688,490
2028	359,700	36,151	1,517,448	328,298	254,219	7,296	2,927,315	5,430,426
2029	369,006	26,844	1,550,832	294,914	-	-	2,927,315	5,168,911
2030	378,553	17,297	1,584,950	260,796	-	-	2,927,315	5,168,911
2031	388,347	7,503	1,619,819	225,927	-	-	2,927,315	5,168,911
2032	-	-	1,655,455	190,291	-	-	2,927,315	4,773,061
2033	-	-	1,691,875	153,871	-	-	2,927,315	4,773,061
2034	-	-	1,729,096	116,649	-	-	2,927,315	4,773,061
2035	-	-	1,767,136	78,609	-	-	2,927,315	4,773,061
2036	-	-	1,806,014	39,732	-	-	2,927,315	4,773,061
2037	-	-	-	-	-	-	2,927,315	2,927,315
2038	-	-	-	-	-	-	2,927,315	2,927,315
2039	-	-	-	-	-	-	2,927,315	2,927,315
2040	-	-	-	-	-	-	2,927,315	2,927,315
2041	-	-	-	-	-	-	2,927,315	2,927,315
2042	-	-	-	-	-	-	2,927,315	2,927,315
2043	-	-	-	-	-	-	2,927,315	2,927,315
2044	-	-	-	-	-	-	2,927,315	2,927,315
2045	-	-	-	-	-	-	2,927,315	2,927,315
2046	-	-	-	-	-	-	2,927,315	2,927,315
2047	-	-	-	-	-	-	2,927,315	2,927,315
2048	-	-	-	-	-	-	2,927,315	2,927,315
2049	-	-	-	-	-	-	2,927,315	2,927,315
2050	-	-	-	-	-	-	2,927,315	2,927,315
2051	-	-	-	-	-	-	2,927,315	2,927,315
2052	-	-	-	-	-	-	-	-

The District does not expect any debt service related to the SMRCUP during this budget period. Debt service for the State Revolving Fund loan is expected to begin in Fiscal Year 2021-22 and is shown in the summary table. The financial projections in this document include this debt service starting in Fiscal Year 2021-22.

While there is no established legal debt limit for the District, the District has an adopted Debt Management Policy. The Debt Management Policy creates the framework for issuing debt. The District's debt service indentures require that the debt service coverage ratio be maintained at or above 1.2x. Chart 7 shows the projected debt service coverage above the target level of 1.2x. Currently the District has no subordinate debt outstanding.

Chart #7 - Debt Service Coverage Ratio



## Project Summary for Fiscal Year 2019-20

### District Capital Program

Utility districts require long-term investments in extensive capital facilities. The District maintains over 370 miles of buried water and sewer pipe that must be maintained and replaced. The District also has pump stations, lift stations and treatment facilities that require significant expenses to replace and maintain. Figure 1 summarizes the facilities owned and operated by the District. It is critical to develop plans to reduce the overall cost of operating these facilities by completing pro-active capital projects to replace and rehabilitate these assets versus waiting for system failures. A well-planned Capital Program is critical to the long-term stability of the District.

The annual Capital Improvement Budget is used to implement the District’s long-range capital goals. These goals are developed using the District’s Strategic Plan, Urban Water Management Plan, Asset Management Plan and Master Plans. These plans are utilized to develop the lowest lifecycle cost to meet water and wastewater needs and maintain system reliability for the District’s customers.

Projects are selected based on weighing prioritized needs verses available capital funds. Individual project costs are estimated based on current construction cost information. While some projects are well into the design phase and costs can be fairly accurately estimated, others are based on early stage planning estimates. Additionally, unforeseen changes to priorities can result from changing materials and construction costs, pipeline failures, extreme weather, etc.

For Fiscal Year 2018-19, Table #1 shows budget vs projected actual expenses for each capital project category. Water Capital expenses were close to budgeted values. Due to timing of projects, the De Luz Road Pipeline Replacement project will not be completed until Fiscal Year 2019-20. Also, during design of the Toyon Pump Station, it was determined that relocating the facility to the Red Mountain site will improve long term operations. With this in mind, design is ongoing and the rehabilitation of the pump station has been postponed. Recycled Water Capital expenses were significantly under budget due to challenges identifying new customers in areas with potential for low cost distribution system expansion. Accordingly, funds budgeted for system expansion in Fiscal Year 2018-19 were not used. Staff is exploring alternative uses for treated effluent, which is described in more detail in the individual project description section. Wastewater Capital Expenses for the year were also under budget, primarily due to changes to the approach for the Overland Trail Lift Station. The planned rehabilitation is further explained in the project description section. Finally, administrative capital expenses were slightly under budget. The two most significant changes in this section of the budget were delayed implementation of the Enterprise Asset Management upgrades and deferring district yard facility improvements



Figure #1 - Fallbrook District facilities.

## Capital Project Summary for Fiscal Year 2019-20

The District has implemented a capital program to improve the overall reliability of the water, wastewater and recycled systems. The most significant on-going component of the capital program is replacement of aging infrastructure. In addition to rehabilitation, the construction of the \$51 million SMRCUP in Fiscal years 2019-20 and 2020-21 will be the most significant single project for the next 15-20 years and will provide a long-term cost effective local water supply. The key capital projects scheduled for Fiscal Year 2019-20 are summarized on the following pages.

### Water Capital Projects

District construction staff will continue with valve replacement projects to reduce outage impacts of breaks and failures. The District implemented an escalating capital improvement charge to ensure the District is meeting pipeline infrastructure replacement needs. The major pipeline projects for Fiscal Year 2019-20 include:

- Completion of the De Luz Road Pipeline Replacement Project started in Fiscal Year 18-19.
- Replacement of 1,820 linear feet of 12" piping along Winter Haven Road, a portion of which will be relocated out of an inaccessible right of way into the existing street and adding 680 linear feet of 6" pipe in Lorenzo Drive to relocate inaccessible service connections.
- Over last three years, District has replaced 11,450 lf of pipeline.

The SMRCUP project is currently being advertised for bids and is expected to be awarded for construction towards the first part of the year. Construction will begin shortly thereafter and will take two years to complete.

In accordance with the Meter Replacement Program Budget, the District will complete the fifth year of a six year program to replace existing Automatic Meter Reading (AMR) meters with Advanced Metering Infrastructure (AMI) meters to provide for real time data collection and alerts.

### Wastewater/ Recycled Capital Projects

As part of the long-term sewer system replacement plan, the focus will be on lining deteriorating manholes and constructing needed upgrades to the Overland Trail Lift Station (OTLS). The OTLS improvements design was completed in Fiscal Year 2018-19 and will address needed maintenance while improving operational efficiencies by eliminating the Anthony's Corner Lift Station.

At the Water Reclamation Plant (WRP), a new solids waste storage structure will replace the old barn to be demolished as part of the SMRCUP project. The deteriorated headworks covers will be replaced and a condition assessment of the headworks structure will be conducted.

For the recycled water system, 12 failing air/vacuum valves will be replaced. Due to challenges identifying potential new users within cost effective expansion areas and with the addition of the SMRCUP facilities, staff have also begun looking into the feasibility of using treated WRP effluent for ground water augmentation in the Santa Margarita River Aquifer. Grant funds have been applied for, and if received, will be used along with CIP matching funds to conduct pilot treatment studies to determine the feasibility for reuse.



Table #1 - Capital Improvements Projects Summary Table

	FY 2018-19	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Budget	Projected							
<b>Water Capital Projects</b>									
Pipelines & Valve Replacement Projects by District	\$ 755,000	\$ 587,063	\$ 720,000	\$ 581,457	\$ 587,272	\$ 593,144	\$ 704,177	\$ 605,066	\$ 611,117
Pipeline Replacement Projects by Contractors	1,683,888	1,660,729	1,303,933	1,324,090	2,507,237	3,615,579	3,168,795	3,014,717	3,216,406
Deluz ID Projects	100,000	50,000	80,000	102,010	103,030	104,060	105,101	106,152	107,214
Pump Stations	515,000	500,854	-	243,549	175,151	52,030	52,551	53,076	53,607
Meter Replacement	700,000	700,000	675,000	688,568	618,181	52,030	21,020	21,230	21,443
Pressure Reducing Stations	70,000	85,000	90,000	50,500	20,606	20,812	21,020	21,230	-
Red Mountain Reservoir Improvements	70,000	70,000	70,000	40,804	41,212	364,211	52,551	95,537	53,607
Steel Reservoir Improvements	786,000	888,554	-	664,085	70,060	10,406	10,510	849,216	696,888
Treatment Plant R&R	-	-	-	-	206,060	208,121	210,202	212,304	214,427
SCADA Upgrades/ Security/Telemetry	144,000	65,000	130,000	132,613	97,879	93,654	89,336	111,460	112,574
<b>Total PAYGO Water Capital Projects</b>	<b>\$ 4,823,888</b>	<b>\$ 4,607,200</b>	<b>\$ 3,068,933</b>	<b>\$ 3,827,675</b>	<b>\$ 4,426,688</b>	<b>\$ 5,114,048</b>	<b>\$ 4,435,262</b>	<b>\$ 5,089,989</b>	<b>\$ 5,087,282</b>
Santa Margarita Conjunctive Use Project Construction	\$ 12,095,000	\$ 173,000	\$ 27,179,100	\$ 23,543,908	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Water Capital Projects</b>	<b>\$ 16,918,888</b>	<b>\$ 4,780,200</b>	<b>\$ 30,248,033</b>	<b>\$ 27,371,583</b>	<b>\$ 4,426,688</b>	<b>\$ 5,114,048</b>	<b>\$ 4,435,262</b>	<b>\$ 5,089,989</b>	<b>\$ 5,087,282</b>
<b>Recycled Water Capital Projects</b>									
Recycled Water Improvements	\$ 580,000	\$ 80,000	\$ 406,000	\$ 473,326	\$ 117,454	\$ 118,629	\$ 119,815	\$ 121,013	\$ 175,830
<b>Total Recycled Water Capital Projects</b>	<b>\$ 580,000</b>	<b>\$ 80,000</b>	<b>\$ 406,000</b>	<b>\$ 473,326</b>	<b>\$ 117,454</b>	<b>\$ 118,629</b>	<b>\$ 119,815</b>	<b>\$ 121,013</b>	<b>\$ 175,830</b>
<b>Wastewater Capital Projects</b>									
WRP Improvements	\$ 200,000	\$ 200,000	\$ 240,000	\$ 234,623	\$ 257,575	\$ 208,121	\$ 998,460	\$ 796,140	\$ 428,854
Collection System Improvements	1,115,000	607,909	1,740,000	1,774,974	1,372,361	1,071,822	1,080,438	1,050,905	525,346
Outfall Improvements	80,000	20,000	80,000	81,608	82,424	52,030	52,551	53,076	268,034
<b>Total Wastewater Capital Projects</b>	<b>\$ 1,395,000</b>	<b>\$ 827,909</b>	<b>\$ 2,060,000</b>	<b>\$ 2,091,205</b>	<b>\$ 1,712,360</b>	<b>\$ 1,331,973</b>	<b>\$ 2,131,448</b>	<b>\$ 1,900,121</b>	<b>\$ 1,222,234</b>
<b>Administrative Capital Projects</b>									
Administrative Upgrades	\$ 30,000	\$ 38,029	\$ 20,000	\$ 23,462	\$ 15,455	\$ 26,015	\$ 446,679	\$ 26,538	\$ 26,803
Engineering & Operations Information Systems	155,000	25,000	125,000	30,603	30,909	31,218	31,530	31,846	32,164
Facility Improvements/Upgrades/Security	90,000	120,000	70,000	76,508	128,788	88,451	26,275	26,538	26,803
District Yard Improvements	110,000	1,310	220,000	224,422	51,515	-	52,551	53,076	-
Vehicles and Heavy Equipment	616,000	616,000	560,000	556,975	441,484	315,823	387,297	497,322	395,082
<b>Total Administrative Capital Projects</b>	<b>\$ 1,001,000</b>	<b>\$ 800,339</b>	<b>\$ 995,000</b>	<b>\$ 911,969</b>	<b>\$ 668,150</b>	<b>\$ 461,508</b>	<b>\$ 944,333</b>	<b>\$ 635,320</b>	<b>\$ 480,853</b>
<b>Total Capital Budget Projects</b>	<b>\$ 7,799,888</b>	<b>\$ 6,315,448</b>	<b>\$ 6,529,933</b>	<b>\$ 7,304,176</b>	<b>\$ 6,924,653</b>	<b>\$ 7,026,158</b>	<b>\$ 7,630,858</b>	<b>\$ 7,746,443</b>	<b>\$ 6,966,199</b>
<b>Total all Capital Projects (Including SMRCUP)</b>	<b>\$ 19,894,888</b>	<b>\$ 6,488,448</b>	<b>\$ 33,709,033</b>	<b>\$ 30,848,084</b>	<b>\$ 6,924,653</b>	<b>\$ 7,026,158</b>	<b>\$ 7,630,858</b>	<b>\$ 7,746,443</b>	<b>\$ 6,966,199</b>

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## Pipeline and Valve Replacement Projects by District

### Project Description:

Projects include replacing existing valves and pipelines by District staff based on identified priority areas to reduce service interruptions. The primary focus is on valve replacements with a target of replacing 100 valves per year.

The proposed purchases and costs for Fiscal Year 2019-20 also include

- Update to the long-term asset management plan
- Rehabilitation of District easements that require significant rebuilding of the existing access roads
- Surveying of sections of the district for existing small leaks



### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

The valve replacement program is critical in reducing the number of accounts effected by planned shutdowns and unplanned water outages. District pipeline and valve replacement projects do not require any additional operating budget funds, and are expected to reduce emergency repair costs

Valves Replaced by Year	
Year	Quantity
FY 2016/17	82
FY 2017/18	112
FY 2018/19	57
FY 2019/20	100 (Target)

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$720,000
Total Capital:	\$720,000



## DeLuz Road 8" Pipeline Replacement

### Project Description:

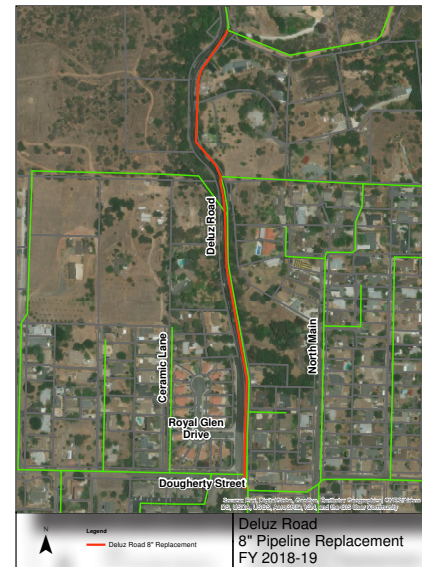
This project was started in Fiscal Year 2018-19 and will replace 2,116 feet of old 8" steel water line. The pipe is failing and has been the location of numerous leaks.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

This project will reduce the cost of leak repair and potential property damage due to pipe failure, but does not require additional operating funds long term.



### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$464,653
Total Capital:	\$890,000



## Winter Haven Road 12” Pipeline Replacement

### Project Description:

This project will replace and relocate portions of 1,820 feet of old steel water line that was concrete lined in the 1968. It will also include approximately 680 feet of new 6” water line in Lorenzo Drive in order to relocate services that are currently difficult to access. The pipe is failing, has been the location of numerous leaks, and is located outside the existing road in a difficult to access wooded area.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

This project will reduce the cost of leak repair and potential property damage due to pipe failure, but does not require additional operating funds long term.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$839,280
Total Capital:	\$839,280



## DeLuz Area Projects

### Project Description:

Capital Projects in the DeLuz Improvement District using Deluz Improvement District Funds. Projects include pipeline extension to specified parcels per adopted policy and rehabilitation of existing infrastructure. Projects for Fiscal Year 2019-20 include a new Pressure Reducing Station at Ross Lake and rehabilitation of the Lynda Lane PRV.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

The new pressure reducing stations will help improve water reliability by providing operational flexibility in the Deluz service area. The projects will have a negligible impact on operation costs.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$80,000
Total Capital:	\$80,000



## Meter Replacement Program

### Project Description:

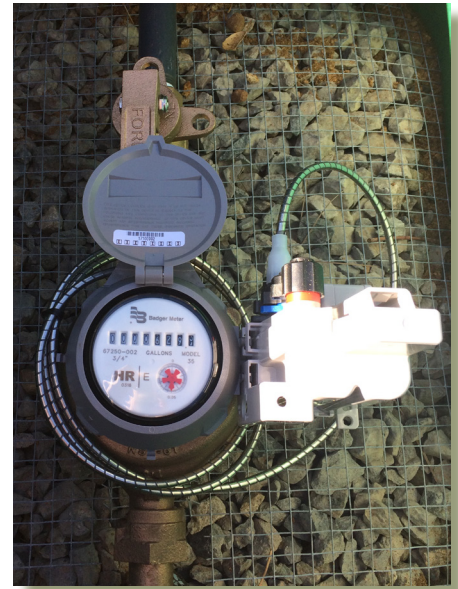
In accordance with the Meter Replacement Program Budget, the District will complete the fourth of a five-year program to replace existing Automatic Meter Reading (AMR) meters with Advanced Metering Infrastructure (AMI) meters to provide for real time data collection and alerts. As of May 31, 2019, 6,574 of the District's 9,252 meters have been exchanged.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

This project ensures accurate billing of water use and reduces labor for reading meter by providing remote radio readings.



### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$675,000
Total Capital:	\$2,380,000



## Pressure Reducing Station Rehabilitation

### Project Description:

Replace two 12-inch pressure reducing valves at Yarnell Pressure Reducing Station and add telemetry to monitor flow and pressure. Make minor improvements to improve operation of Sachse Pressure Reducing Station and UV Plant operations.



### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

This project will reduce operations and maintenance cost for the facility by replacing the equipment that is at the end of its useful life. There will be additional SCADA controls added for monitoring flow and pressure to optimize operation and reduce staffing needs for operating this facility.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$90,000
Total Capital:	\$90,000





## Red Mountain Reservoir Facility Improvements

### Project Description:

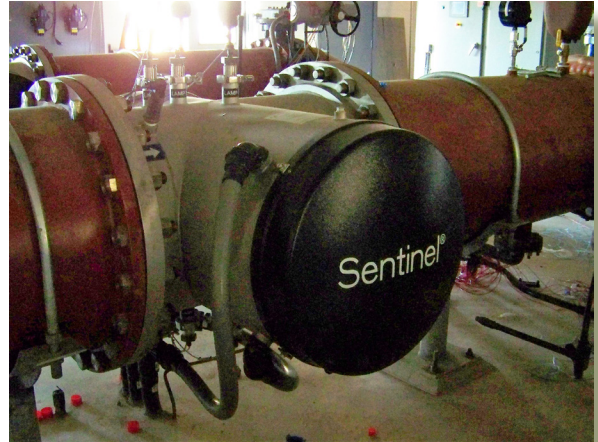
Replace the existing UPS batteries. The uninterruptible power supply batteries have exceeded their useful life and need to be replaced.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

The UPS is critical in that it enables the UV plant to continue operating in the event of a power outage while power is switched over to the on-site backup generator. There is no impact on operation costs.



### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$70,000
Total Capital:	\$70,000



## Santa Margarita River Conjunctive Use Project

### Project Description:

Development of a new groundwater treatment plant to treat water delivered by Camp Pendleton per the executed settlement agreement of US vs FPU. Projected to provide on average 3,100 acre-feet per year of local water. The project construction is expected to take 24 months. It is anticipated construction will start in July 2019 and be completed in June 2021.

### Supports Strategic Goals:

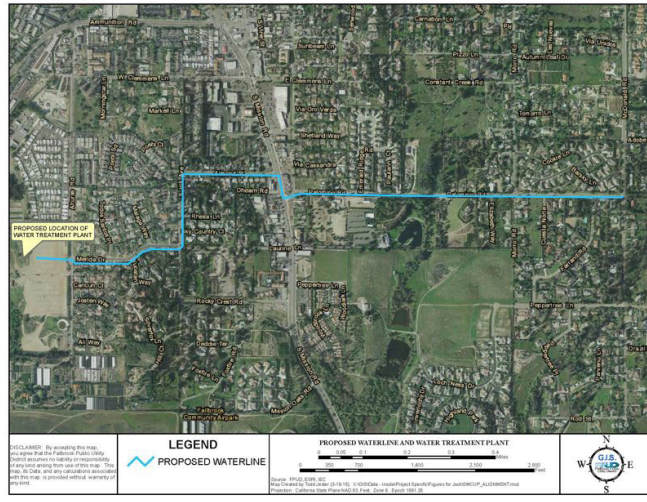
Provide a reliable, cost effective water supply through implementation of local water supply projects.

### Operating Impacts:

The project will provide on average 30% of the District water needs and will help mitigate against future imported water cost increases. Without the project, the District would continue to rely on SDCWA for 99% of District potable water needs. The new facilities will result in significant additional operating costs, but the overall impact to the operating budget is more than offset by reduced expenditures on lower quantities of imported water.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$27,179,100
Total Capital:	\$53,000,000



## SCADA and Security

### Project Description:

Projects includes improvements to SCADA network to improve remote monitoring and control of District facilities, additional remote security improvements to improve monitoring of remote sites and additional water quality monitoring in the distribution system.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

Reduces long-term operating costs of the system by improving ability to address and monitor system conditions remotely.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$130,000
Total Capital:	\$130,000



## Collections System Projects

### Project Description:

Projects include replacements and major repairs to existing sewer infrastructure.

The proposed purchases and costs for Fiscal Year 2019-20 include:

- Replacement of sewer section at creek and culvert crossing by District staff to prevent spills into waterbodies
- Relining of manholes to extend the life of these facilities
- Additional telemetry for operation of the lift stations and collections system



### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

The collection systems capital program is critical in reducing the number of spills and potential fines. The planned projects do not require any additional operating budget funds, and are expected to reduce emergency repair costs.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$240,000
Total Capital:	\$240,000



## Overland Trail Lift Station Rehabilitation

### Project Description:

The Overland Trail Lift Station is in need of mechanical, electrical and structural improvements due to its age and condition. The project includes replacement of the pumps, recoating of the wet well and replacement of electrical gear. The project will also include the elimination of Anthony’s Corner Lift Station and diversion of flows to Overland Trail Lift Station. Design was completed in Fiscal Year 2018-19. Due to the extensive rehabilitation planned, the construction is anticipated to span Fiscal Year 2019-20 into Fiscal Year 2020-21.



### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

Rehabilitation of the lift station will improve reliability which is critical in reducing the number of spills and potential fines. Eliminating Anthony’s Corner Lift Station will simplify operations. The planned projects do not require any additional operating budget funds, and are expected to reduce emergency repair and maintenance costs.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$1,500,000
Total Capital:	\$3,300,000



## Water Reclamation Plant

### Project Description:

The project includes on-going repair and replacement of key components of the Water Reclamation Plant (WRP). These include replacement or addition of facilities as needed to maintain reliable operation. The projects for Fiscal Year 2019-20 include:

- Replacement of Bio Solids Storage Shed – the existing barn is in very poor condition and will be demolished as part of the SMRCUP project to make space for the new treatment facilities.
- Replacement of the headworks cover
- Conduct a detailed condition assessment of the headworks in preparation for future rehabilitation

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

On-going replacement of equipment will ensure long-term reliability of the facility. The projects will not have any impact on operation costs.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$240,000
Total Capital:	\$240,000



## Outfall Rehabilitation

### Project Description:

The project includes replacement of air-vacs and drain valves and connecting piping on the outfall. Replacement of these items is critical to preventing overflows and spills.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

On-going replacement of the items is critical to preventing spills and back-ups in the outfall. This project will reduce the cost of emergency repairs and maintenance, but does not require additional operating funds long term.



### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$80,000
Total Capital:	\$80,000



## Recycled System Rehabilitation

### Project Description:

The project includes replacement of old defunct air and vacuum valves on the reclaimed system mainlines.

### Supports Strategic Goals:

Provide a reliable, cost effective water supply through implementation of local water supply projects.

### Operating Impacts:

On-going replacement of the tertiary systems is critical to ensure reliable operation of the WRP. There is no impact to the operating budget.



### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$56,000
Total Capital:	\$56,000





## Groundwater Augmentation Pilot Project

### Project Description:

Due to challenges identifying potential new users for recycled water within cost effective expansion areas, alternative uses for treated WRP effluent need to be explored. With the addition of the SMRCUP facilities, the infrastructure needed to extract and treat ground water from the Lower Santa Margarita River Aquifer will be in place. Staff have begun looking into the feasibility of using treated WRP effluent for ground water augmentation in the aquifer. Grant funds have been applied for, and if received, will be used along with CIP matching funds to conduct pilot treatment studies to determine the feasibility for reuse. This pilot project will establish the parameters of a potential future full scale project, including additional treatment required, regulatory compliance, construction and operating costs and financial feasibility. The pilot project is expected to take two years. After completion of the pilot project, staff and all involved stakeholders will have the information needed to make an informed decision as to whether and when to move forward with a full scale project.

### Supports Strategic Goals:

Provide a reliable, cost effective water supply through implementation of local water supply projects.

### Operating Impacts:

The pilot studies would not have any operating impacts. If groundwater augmentation is considered feasible, full scale implementation would increase local water supply, eliminate the majority of discharges to the ocean, and improve operations by increasing utilization of the SMRCUP infrastructure.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$350,000
Total Capital:	\$700,000



## District Yard Facilities

### Project Description:

Projects consist of on-going improvements at the District Yard to maintain the facility. Projects include removal of eucalyptus trees that are a fire and safety hazard, sealing, striping and landscaping of the parking lot area, and replacement of cracked curbs and sidewalks.



### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

Reduces long-term costs of maintaining the facility by addressing maintenance needs as they are necessary.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$220,000
Total Capital:	\$220,000



## Fleet and Heavy Equipment

### Project Description:

Having reliable heavy equipment is key to both maintaining reliable service and also replacing and maintaining critical infrastructure. The District has adopted a fleet replacement plan to minimize overall fleet and heavy equipment operating costs by reducing owner equipment to just critical higher use assets, replace vehicles when the cost of repairs for continued ownership is no longer economical and replace older engines to meet California Air Quality requirements. Since November 2016, the overall fleet and heavy equipment inventory has been reduced by eight transportation vehicles, one backhoe and one trencher.



The proposed purchases and costs for Fiscal Year 2019-20 include:

- Replacement of two fleet vehicles based on criteria established in the Fleet Replacement Plan
- Replacement of an electrician truck
- Replace loader and backhoe
- Purchase a portable safety equipment trailer and fuel trailer
- Other miscellaneous field equipment including a hydraulic cut off saw

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

Maintaining a reliable fleet and heavy equipment helps reduce overall operating costs and improves overall reliability of the District operation.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$560,000
Total Capital:	\$560,000



## Administration Capital Projects

### Project Description:

The project includes capital projects for administration facilities to help maintain efficient operation of the administration facility and departments.

The projects include the following:

- Replacement and addition of new hardware and software to support the business systems, including system to provide remote back-up of District electronic files, and backup uninterruptible power supply.
- Upgrades to the Geographic Information System (GIS) software and hardware to improve tracking and monitoring on District assets.
- Implementation of a new Enterprise Asset Management System (EAM) to better track work orders and resources and provide for more efficient deployment of District staff.
- Additional improvements to the administration building including additional security cameras, replacement of deteriorated office furniture, and rehabilitation to the construction yard restroom facilities.

### Supports Strategic Goals:

Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

### Operating Impacts:

On-going investments in administrative facilities and systems is critical to maintain overall reliable and efficient operation.

### Projects Cost:

Fiscal Year 2019-20 Expenditures:	\$215,000
Total Capital:	\$215,000



**Accrual Basis of Accounting** - The basis of accounting under which transactions are recognized when they occur, regardless of the timing of cash receipts and disbursements.

**Acre-Foot (AF)** - A unit of measure equivalent to 325,900 gallons of water.

**AG** - Agricultural Customers

**AMI** – Advanced Meter Infrastructure

**Appropriation** - An amount of money in the budget authorized by the Board of Directors for expenditure or obligation within organizational units for specific purposes.

**Assessed Valuation** - An official government value placed upon real estate or other property as a basis for levying taxes.

**Assets** - Resources owned or held which have monetary and economic value.

**Bay/Delta** - Refers to an environmentally sensitive area of Sacramento/San Joaquin Rivers Delta through which State Water Project water must flow to reach Southern California and other areas.

**Budget** - A balanced financial plan for a given period of time, which includes expenditures and revenues funded through various funds. The budget serves as a financial plan as well as a policy guide, an operations guide, and a communications medium.

**CAFR** - Comprehensive Annual Financial Report

**CalPERS** - California Public Employee Retirement System

**Capital Equipment** - Fixed assets such as vehicles, computers, furniture, and technical instruments which have a life expectancy of more than three years and a value over five thousand dollars.

**Capital Improvement Program (CIP)** - A long-range plan for the construction, rehabilitation and modernization of the District-owned and operated infrastructure and assets.

**Capital Outlay** - Expenditures which result in the acquisition of, or addition to, fixed assets including land, buildings, improvements, machinery, and equipment. Most equipment or machinery is included in the Capital Budget. Capital improvements such as acquisition of land, construction, and engineering expenses are included in the Capital Budget.

**Cash Management** - A conscious effort to manage cash so that interest and penalties paid are minimized and interest earned is maximized. Funds received are deposited on the day of receipt and invested as soon as the funds are available. The District maximizes the return on all funds available for investment without sacrifice of safety.

**CEQA** - California Environmental Quality Act

**CFS** - Cubic Feet per Second

**CMMS** - Computerized Maintenance Management System

**Debt Service** - The current year portion of interest costs and current year principal payments incurred on long-term debt issued by the District.

**Disbursements** - Payments made on obligations.

**District Services** - The District's main cost centers are broken into Services, which include Administrative, Water, Recycled Water, and Wastewater.

**Division** - Part of the District's organizational structure that performs a specific service or function.

**DSCR** - Debt Service Coverage Ratio

**DWR** - California Department of Water Resources

**Each Parcel of Land** - Shall mean each parcel of land assigned a parcel number by the San Diego County Assessor.

**EIR/EIS** - Environmental Impact Report/Environmental Impact Statement

**EMU** - Effective Utility Management

**EPA** - Environmental Protection Agency

**ERP** - An Enterprise Resource Planning information management system integrate areas such as planning, purchasing, inventory, billing, customer accounts and human resources.

**Expenditure** - An amount of money disbursed or obligated. Expenditures include current operating disbursements requiring the present or future use of net current assets, debt service, and capital improvements.

**FCF** - Flow Control Facility

**Fiscal Year (FY)** - The timeframe in which the budget applies. This is the period from July 1 through June 30.

**Fixed Assets** - Long-term tangible assets that have a normal use expectancy of more than three years and do not lose their individual identity through use. Fixed assets include buildings, equipment, and improvements other than buildings and land.

**FTE** - Full Time Equivalent

**Generally Accepted Accounting Principles (GAAP)** - Uniform minimum standards of, and guidelines for, external financial accounting and reporting. They govern the form and content of the basic financial statements of an entity. GAAP encompasses the conventions, rules, and procedures necessary to define accepted accounting practices at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. The primary authoritative statement on the application of GAAP to state and local governments is Government Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements. GAAP provides a standard by which to measure financial presentations.

**GFOA** - Government Financial Officers Association

**GIS** - Geographic Information System. An organized collection of computer hardware, software, and geographic data designed to efficiently capture, store, update, manipulate, analyze, and display all forms of geographically referenced information.

**GPS** - Global Positioning System

**IAC** - Infrastructure Access Charge

**IAWP** - Interim Agricultural Water Program

**IRWM** - Integrated Regional Water Management Program

**KPI** - Key Performance Indicator

**Leases and Rentals** - This includes costs to rent equipment, copy machines, temporary easements and other items.

**LRP** - MWD's Local Resource Program

**LWSD** - SDCWA's Local Water Supply Development, which provides funds to support local supply development.

**M&I** - Municipal and Industrial

**Master Plan** - Regional Water Facilities Master Plan

**ME** - Meter Equivalent

**MWD** - Metropolitan Water District of Southern California

**MG** - Million Gallon

**MGD** - Million Gallons per Day

**MOU** - Memorandum of Understanding

**MW** - Megawatt

**Non-Labor Expenditures** - This includes professional services, services and other operating expenditure like materials, supplies and equipment but excludes the cost of water.

**NPDES** - National Pollutant Discharge Elimination System

**OPEB** - Other Post-Employment Benefits, which includes the District's retiree health care obligation.

**Operating Budget** - The normal, ongoing operating costs incurred to operate the District.

**PAYGO** - Pay-as-you-go capital funding uses cash and reserves to fund Capital Outlays.

**Professional Services** - The normal, ongoing operating costs incurred to operate the District that are procured from companies outside of the District. Examples include legal, auditing, appraisals, engineering, drafting, and design.

**QECCB** - Qualified Energy Conservation Revenue Bond

**PARS** - Public Agency Retirement Services

**Reliability** - Consistently providing a water supply that adequately supports the regional economy.

**Revenue** - Income generated by taxes, notes, bonds, investment income, land rental, and user charges.

**ROW** - Right of Way

**RSF** - Rate Stabilization Fund

**RTS** - Readiness to Service charge

**Salary** – This is the cost of labor for 2,080 hours a year and does not include any employee benefits.

**SANDAG** - San Diego Association of Governments

**SAWR** - Transitional Special Agricultural Water Rate

**SCADA** - Supervisory Control and Data Acquisition

**SD** - San Diego

**SDCWA** - San Diego County Water Authority

**Services** - The normal, ongoing operating costs incurred to operate the District that are procured from companies outside of the District. Examples include repair, maintenance, custodial, and security.

**SMRCUP** - Santa Margarita River Conjunctive Use Project

**SpringBrook** - The District's ERP.

**SR** - State Route



**SRF** - State Revolving Fund

**Sundry/Other Revenues** – This includes disposal of assets and other miscellaneous revenues.

**Total Capital Budget** - The total budget requests for construction projects and associated expenses and equipment.

**Total District Budget** - The sum of the total Operating Budget, Debt Service, Cost of water and Capital Budget.

**Treated Water** - Water delivered to member agencies which has been treated by coagulation, sedimentation, filtration, and chlorination.

**Unfunded Actuarial Accrued Liability** - The unfunded actuarial accrued liability (UAAL) is the difference between the value of benefits earned by employees and the value of assets held in the pension plan.

**UWMP** - Urban Water Management Plan

**Utilities** - This includes gas, electricity, water, and sewer.

**Cost of Water** - The cost of purchasing water from SDCWA.

**WRP** – Water Reclamation Plant

Table #1 - Fallbrook Public Utility District's Enterprise Projections

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 20,581,498	\$ 25,265,762	\$ 26,868,354	\$ 28,801,664	\$ 31,393,806
Recycled Water	1,286,911	1,382,830	1,341,824	1,449,170	1,565,104
Wastewater	5,432,104	6,214,076	6,494,235	6,787,025	7,092,441
<b>Subtotal Revenue from Rates</b>	<b>27,300,513</b>	<b>32,862,667</b>	<b>34,704,413</b>	<b>37,037,860</b>	<b>40,051,351</b>
<b>Other Operating Revenue</b>					
<b>Pass-through Charges</b>					
MWD RTS Charge	\$ 340,390	\$ 310,753	\$ 325,807	\$ 341,976	\$ 359,288
SDCWA IAC Charge	436,668	457,553	504,439	538,851	561,760
Sundry	11,000	11,000	11,000	11,000	11,000
MWD/CWA Incentive	151,060	50,003	-	-	-
Class A Bio-Solids Sales	-	-	-	-	-
<b>Subtotal Other Operating Revenues</b>	<b>\$ 939,118</b>	<b>\$ 829,309</b>	<b>\$ 841,246</b>	<b>\$ 891,827</b>	<b>\$ 932,048</b>
<b>Non-Operating Revenue</b>					
Water Availability Charge	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000
1% Property Tax	1,908,753	1,918,296	1,927,888	1,937,527	1,947,215
Investment Earnings	220,444	284,544	296,105	302,305	327,135
Water CIP Charge	1,311,128	1,390,702	1,476,578	1,570,413	1,667,810
Pumping Charge (Cap. Impr part)	31,000	37,000	37,000	37,000	37,000
Facility Rent	176,516	180,046	183,647	187,320	191,067
Water Capacity Fees	103,807	70,000	70,700	71,407	72,121
Wastewater CIP Charge	1,150,517	1,185,299	1,219,352	1,256,272	1,293,836
Wastewater Capacity Fees	30,427	31,522	32,485	33,477	57,074
Federal Interest Rate Subsidy	133,917	122,647	110,677	97,977	84,516
<b>Subtotal Non-Operating Revenue</b>	<b>\$ 5,269,508</b>	<b>\$ 5,423,056</b>	<b>\$ 5,557,433</b>	<b>\$ 5,696,698</b>	<b>\$ 5,880,773</b>
<b>Total Revenues</b>	<b>\$ 33,509,139</b>	<b>\$ 39,115,033</b>	<b>\$ 41,103,092</b>	<b>\$ 43,626,385</b>	<b>\$ 46,864,172</b>
<b>Operating Expenses</b>					
<b>Water Supply Costs</b>					
Purchased Water Costs	\$ 13,367,435	\$ 15,756,149	\$ 15,952,174	\$ 14,854,858	\$ 10,439,878
Pumping Costs	180,000	231,736	234,866	243,123	257,824
SMRCUP Treatment	-	-	-	1,621,824	5,000,213
Labor Costs	2,771,259	2,812,665	2,953,298	3,100,963	3,256,011
Fringe Benefits	1,674,937	1,809,326	1,926,932	1,994,375	2,064,178
Services, Materials & Supplies	2,249,110	2,230,400	2,297,312	2,366,231	2,437,218
Allocated Admin Expenses	6,290,220	6,407,511	6,706,542	6,969,100	7,242,473
<b>Total Operating Expenses</b>	<b>\$ 26,532,961</b>	<b>\$ 29,247,787</b>	<b>\$ 30,071,125</b>	<b>\$ 31,150,474</b>	<b>\$ 30,697,796</b>
<b>Net Operating Revenues</b>	<b>\$ 6,976,178</b>	<b>\$ 9,867,246</b>	<b>\$ 11,031,967</b>	<b>\$ 12,475,911</b>	<b>\$ 16,166,376</b>
<b>Debt Service</b>					
<b>Total Debt Service</b>	<b>\$ 2,760,020</b>	<b>\$ 2,761,270</b>	<b>\$ 2,762,239</b>	<b>\$ 5,690,223</b>	<b>\$ 5,690,578</b>
<b>Capital Expenditures</b>					
<b>Total Capital Expenditures</b>	<b>\$ 6,546,920</b>	<b>\$ 33,709,033</b>	<b>\$ 30,848,084</b>	<b>\$ 6,924,653</b>	<b>\$ 7,026,158</b>
SRF Loan Proceeds	\$ -	\$ 27,179,100	\$ 23,543,908	\$ -	\$ -
<b>Change in Net Position</b>	<b>\$ (2,169,182)</b>	<b>\$ 576,043</b>	<b>\$ 965,553</b>	<b>\$ (138,966)</b>	<b>\$ 3,449,639</b>
Proceeds from SMR Property Sale	\$ 6,200,000	\$ -	\$ -	\$ -	\$ -
Beginning Balances	\$ 14,650,728	\$ 18,681,546	\$ 19,257,589	\$ 20,223,141	\$ 20,084,176
Ending Balances	\$ 18,681,546	\$ 19,257,589	\$ 20,223,141	\$ 20,084,176	\$ 23,533,815

Table #2 - Fallbrook Public Utility District's Water Projections

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Revenues</b>					
<b>Revenues from Rates</b>					
Revenues from Current Rates	\$ 20,581,498	\$ 24,294,001	\$ 23,921,256	\$ 23,743,062	\$ 23,962,900
Proposed Revenue Adjustments	-	971,760	2,947,099	5,058,602	7,430,907
<b>Subtotal Operating Revenues</b>	<b>\$ 20,581,498</b>	<b>\$ 25,265,762</b>	<b>\$ 26,868,354</b>	<b>\$ 28,801,664</b>	<b>\$ 31,393,806</b>
<b>Other Operating Revenues</b>					
<b>Pass-through Charges</b>					
MWD RTS Charge	\$ 340,390	\$ 310,753	\$ 325,807	\$ 341,976	\$ 359,288
SDCWD IAC Charge	436,668	457,553	504,439	538,851	561,760
Sundry	5,000	5,000	5,000	5,000	5,000
<b>Subtotal Other Operating Revenues</b>	<b>\$ 782,058</b>	<b>\$ 773,306</b>	<b>\$ 835,246</b>	<b>\$ 885,827</b>	<b>\$ 926,048</b>
<b>Non-Operating Revenue</b>					
Water Availability Charge	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000	\$ 203,000
1% Property Tax	950,826	955,580	960,358	965,160	969,986
Investment Earnings	152,470	213,394	237,813	250,925	271,292
Water Capital Improvement Charge	1,311,128	1,390,702	1,476,578	1,570,413	1,667,810
Pumping Charge (Cap. Impr part)	31,000	37,000	37,000	37,000	37,000
Other Revenue	176,516	180,046	183,647	187,320	191,067
Water Capacity Fees	103,807	70,000	70,700	71,407	72,121
<b>Subtotal Non-Operating Rev</b>	<b>\$ 2,928,747</b>	<b>\$ 3,049,723</b>	<b>\$ 3,169,097</b>	<b>\$ 3,285,224</b>	<b>\$ 3,412,275</b>
<b>Total Revenues</b>	<b>\$ 24,292,303</b>	<b>\$ 29,088,790</b>	<b>\$ 30,872,697</b>	<b>\$ 32,972,716</b>	<b>\$ 35,732,129</b>
<b>Operating Expenses</b>					
<b>Water Supply Costs</b>					
Purchased Water Costs	\$ 13,367,435	\$ 15,756,149	\$ 15,952,174	\$ 14,854,858	\$ 10,439,878
Pumping Costs	180,000	231,736	234,866	243,123	257,824
SMRCUP Treatment	-	-	-	1,621,824	5,000,213
Labor Costs	1,457,886	1,422,714	1,493,850	1,568,542	1,646,969
Fringe Benefits	856,056	915,201	974,689	1,008,803	1,044,111
Services, Materials & Supplies	1,022,442	949,500	977,985	1,007,325	1,037,544
Allocated Administrative Expenses	4,025,741	4,100,807	4,292,187	4,460,224	4,635,183
<b>Total Operating Expenses</b>	<b>\$ 20,909,560</b>	<b>\$ 23,376,107</b>	<b>\$ 23,925,751</b>	<b>\$ 24,764,699</b>	<b>\$ 24,061,724</b>
<b>Net Operating Revenue</b>	<b>\$ 3,382,744</b>	<b>\$ 5,712,683</b>	<b>\$ 6,946,946</b>	<b>\$ 8,208,017</b>	<b>\$ 11,670,406</b>
<b>Debt Service</b>					
<b>Total Debt Service</b>	<b>\$ 395,851</b>	<b>\$ 395,851</b>	<b>\$ 395,851</b>	<b>\$ 3,323,166</b>	<b>\$ 3,323,166</b>
<b>Capital Expenditures</b>					
<b>Total Capital Expenditures</b>	<b>\$ 5,521,157</b>	<b>\$ 31,114,141</b>	<b>\$ 28,220,878</b>	<b>\$ 5,010,766</b>	<b>\$ 5,505,628</b>
SRF Loan Proceeds	\$ -	\$ 27,179,100	\$ 23,543,908	\$ -	\$ -
Change In Net Position	\$ (2,372,685)	\$ 1,381,791	\$ 1,874,125	\$ (125,914)	\$ 2,841,613
Proceeds from SMR Property Sale	\$ 6,200,000	\$ -	\$ -	\$ -	\$ -
Beginning Balances	\$ 9,708,028	\$ 13,535,343	\$ 14,917,134	\$ 16,791,259	\$ 16,665,345
Ending Balances	\$ 13,535,343	\$ 14,917,134	\$ 16,791,259	\$ 16,665,345	\$ 19,506,958

Chart #1 - Water Fund Balances and Change in Target Level

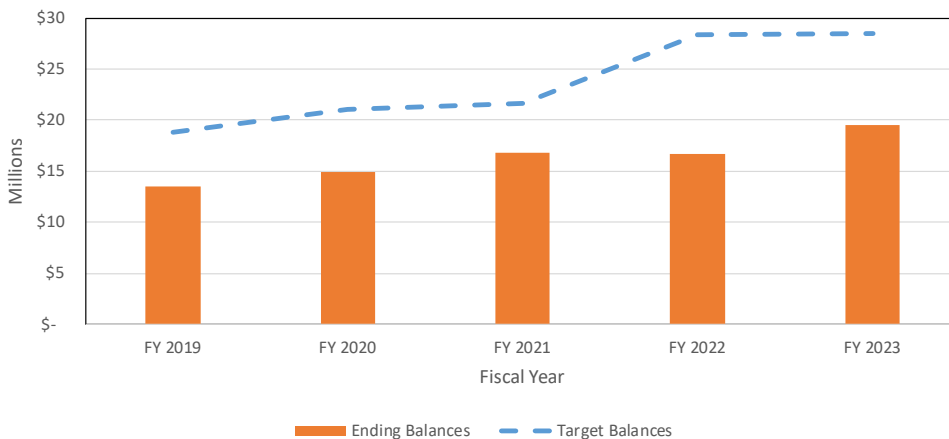


Table #3 - Fallbrook Public Utility District's Wastewater Projections

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Revenues</b>					
<b>Revenues from Rates</b>					
Revenues from Current Rates	\$ 5,432,104	\$ 6,077,336	\$ 6,077,828	\$ 6,078,320	\$ 6,078,320
Proposed Revenue Adjustments	-	136,740	416,407	708,705	1,014,121
<b>Subtotal Operating Revenues</b>	<b>\$ 5,432,104</b>	<b>\$ 6,214,076</b>	<b>\$ 6,494,235</b>	<b>\$ 6,787,025</b>	<b>\$ 7,092,441</b>
<b>Other Operating Revenues</b>					
Class A Bio-solids Sales	\$ -	\$ -	\$ -	\$ -	\$ -
Sundry	1,000	1,000	1,000	1,000	1,000
<b>Subtotal Other Operating Revenues</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>
<b>Non-Operating Revenue</b>					
Wastewater Capital Improvement Charge	\$ 1,150,517	\$ 1,185,299	\$ 1,219,352	\$ 1,256,272	\$ 1,293,836
Wastewater Capacity Fees	30,427	31,522	32,485	33,477	57,074
1% property Tax - IDS	907,883	912,422	916,985	921,569	926,177
Federal Interest Rate Subsidy	133,917	122,647	110,677	97,977	84,516
Investment Earnings	58,140	56,675	47,100	41,579	43,489
<b>Subtotal Non-Operating Revenues</b>	<b>\$ 2,280,884</b>	<b>\$ 2,308,565</b>	<b>\$ 2,326,598</b>	<b>\$ 2,350,874</b>	<b>\$ 2,405,093</b>
<b>Total Revenues</b>	<b>\$ 7,713,987</b>	<b>\$ 8,523,641</b>	<b>\$ 8,821,833</b>	<b>\$ 9,138,900</b>	<b>\$ 9,498,534</b>
<b>Operating Expenses</b>					
Labor Costs	\$ 1,174,629	\$ 1,190,719	\$ 1,250,255	\$ 1,312,768	\$ 1,378,406
Fringe Benefits	685,113	765,963	815,751	844,302	873,852
Services, Materials & Supplies	940,779	1,018,400	1,048,952	1,080,421	1,112,833
Allocated Administrative Expenses	2,201,577	2,242,629	2,347,290	2,439,185	2,534,866
<b>Total Operating Expenses</b>	<b>\$ 5,002,098</b>	<b>\$ 5,217,711</b>	<b>\$ 5,462,247</b>	<b>\$ 5,676,675</b>	<b>\$ 5,899,957</b>
<b>Net Operating Revenue</b>	<b>\$ 2,711,889</b>	<b>\$ 3,305,930</b>	<b>\$ 3,359,586</b>	<b>\$ 3,462,225</b>	<b>\$ 3,598,577</b>
<b>Debt Service</b>					
<b>Total Debt Service</b>	<b>\$ 1,810,445</b>	<b>\$ 1,811,696</b>	<b>\$ 1,812,664</b>	<b>\$ 1,813,334</b>	<b>\$ 1,813,689</b>
<b>Capital Expenditures</b>					
<b>Total Capital Expenditures</b>	<b>\$ 934,781</b>	<b>\$ 2,171,803</b>	<b>\$ 2,146,046</b>	<b>\$ 1,785,924</b>	<b>\$ 1,393,161</b>
Change in Net Position	\$ (33,337)	\$ (677,568)	\$ (599,124)	\$ (137,033)	\$ 391,727
Beginning Balances	\$ 4,150,471	\$ 4,117,134	\$ 3,439,566	\$ 2,840,442	\$ 2,703,409
Ending Balances	\$ 4,117,134	\$ 3,439,566	\$ 2,840,442	\$ 2,703,409	\$ 3,095,136

Chart #2 - Wastewater Fund Balances and Change in Target Level

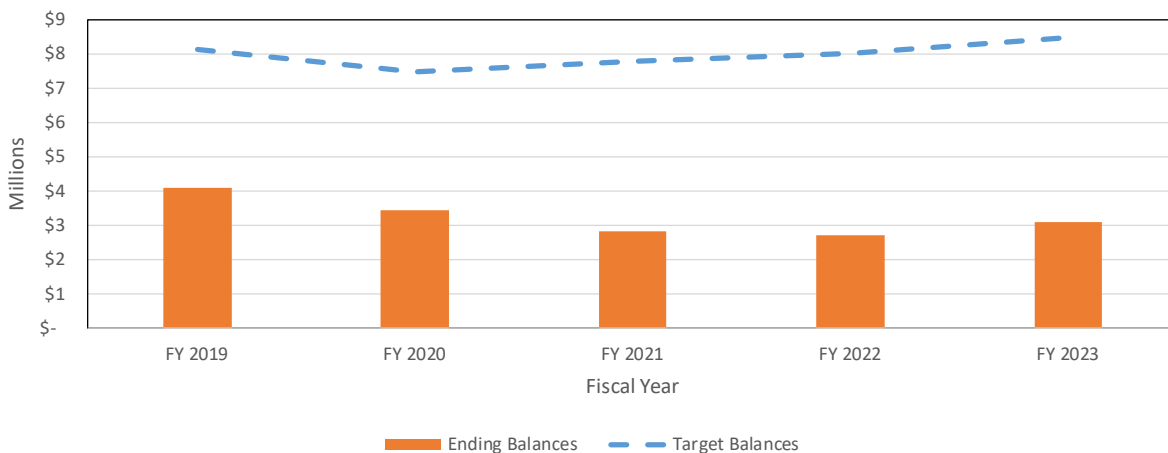


Table #4 Fallbrook Public Utility District’s Recycled Water Projections

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
<b>Revenues</b>					
<b>Revenues from Rates</b>					
Revenues from Current Rates	\$ 1,286,911	\$ 1,329,644	\$ 1,194,644	\$ 1,194,644	\$ 1,194,644
Proposed Revenue Adjustments	-	53,186	147,180	254,526	370,460
<b>Other Operating Revenues</b>					
SDCWA Incentive	\$ 151,060	\$ 50,003	\$ -	\$ -	\$ -
Sundry	5,000	5,000	5,000	5,000	5,000
<b>Subtotal Other Operating Revenues</b>	<b>\$ 156,060</b>	<b>\$ 55,003</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>
<b>Non-Operating Revenue</b>					
1% Property Tax	\$ 50,043	\$ 50,294	\$ 50,545	\$ 50,798	\$ 51,052
Investment Earnings	9,834	14,475	11,192	9,801	12,354
<b>Subtotal Non-Operating Revenue</b>	<b>\$ 59,877</b>	<b>\$ 64,768</b>	<b>\$ 61,738</b>	<b>\$ 60,599</b>	<b>\$ 63,405</b>
<b>Total Revenue</b>	<b>\$ 1,502,848</b>	<b>\$ 1,502,602</b>	<b>\$ 1,408,562</b>	<b>\$ 1,514,769</b>	<b>\$ 1,633,509</b>
<b>Operating Expenses</b>					
Labor Costs	\$ 138,744	\$ 199,232	\$ 209,194	\$ 219,653	\$ 230,636
Fringe Benefits	133,768	128,162	136,493	141,270	146,214
Services, Materials & Supplies	285,889	262,500	270,375	278,486	286,841
Allocated Administrative Expenses	62,902	64,075	67,065	69,691	72,425
<b>Total Operating Expenses</b>	<b>\$ 621,303</b>	<b>\$ 653,969</b>	<b>\$ 683,127</b>	<b>\$ 709,100</b>	<b>\$ 736,116</b>
<b>Net Operating Revenue</b>	<b>\$ 881,545</b>	<b>\$ 848,633</b>	<b>\$ 725,435</b>	<b>\$ 805,669</b>	<b>\$ 897,393</b>
<b>Debt Service</b>					
<b>Total Debt Service</b>	<b>\$ 553,724</b>	<b>\$ 553,724</b>	<b>\$ 553,724</b>	<b>\$ 553,724</b>	<b>\$ 553,724</b>
<b>Capital Expenditures</b>					
<b>Total Capital Expenditures</b>	<b>\$ 90,982</b>	<b>\$ 423,089</b>	<b>\$ 481,161</b>	<b>\$ 127,963</b>	<b>\$ 127,370</b>
Change in Net Position	\$ 236,840	\$ (128,180)	\$ (309,449)	\$ 123,982	\$ 216,300
Beginning Balances	\$ 792,229	\$ 1,029,069	\$ 900,889	\$ 591,439	\$ 715,422
Ending Balances	\$ 1,029,069	\$ 900,889	\$ 591,439	\$ 715,422	\$ 931,721

Chart #3 - Recycled Water Fund Balances and Change in Target Level

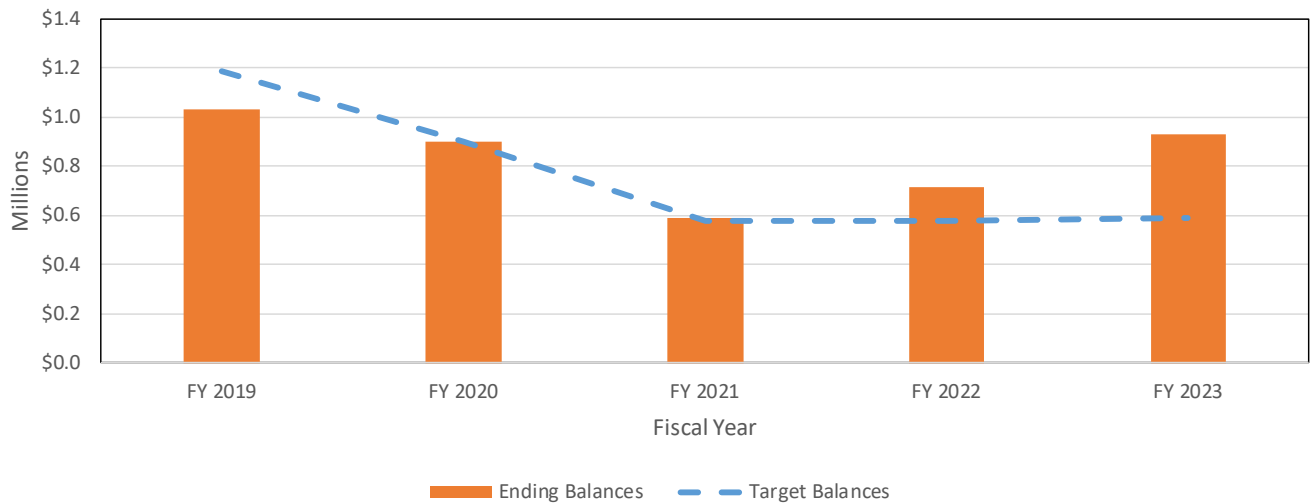


Table #5 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years

	FY 2008-09	FY 2009-10	FY 2010-11
<b>Changes in Net Position:</b>			
Operating Revenues	\$ 21,252,330	\$ 21,795,259	\$ 21,255,448
Operating Expenses	(22,452,094)	(24,347,069)	(24,175,989)
Other Operating Revenues	-	142,229	363,564
<b>Operating Income (loss)</b>	<b>\$ (1,199,764)</b>	<b>\$ (2,409,581)</b>	<b>\$(2,556,977)</b>
<b>Non-Operating Revenues (expenses)</b>			
Property Taxes Ad-Valorem	\$ 1,753,229	\$ 1,602,551	\$ 1,549,625
Capital Improvement Charges	-	-	404,175
California Solar Initiative Rebate	-	-	-
Investment income	515,239	490,664	147,486
Water Availability Charges	200,748	201,397	200,944
Lease Revenue	188,810	215,154	184,983
Intergovernmental Revenue - Federal Interest Subsidy	-	-	-
Connection Fees	154,798	108,631	112,499
Federal Grants	14,097	-	-
Gain on Impairment	-	-	-
Other Non-Operating Revenues	762,228	748,834	102,704
Other Non-Operating Expenses	(358,671)	(276,937)	(508,849)
<b>Total Non-Operating Revenues(expenses), net</b>	<b>\$ 3,230,478</b>	<b>\$ 3,090,294</b>	<b>\$ 2,193,567</b>
<b>Net income Before Capital Contributions</b>	<b>\$ 2,030,714</b>	<b>\$ 680,713</b>	<b>\$ (363,410)</b>
Capital Contributions	508,887	211,782	3,094,483
Capital Grant - Proposition 50	-	-	-
Capital Grant - Proposition 84	-	-	-
Extraordinary Items	-	-	-
<b>Changes in Net Position</b>	<b>\$ 2,539,601</b>	<b>\$ 892,495</b>	<b>\$ 2,731,073</b>
<b>Net Assets</b>			
<b>Beginning, as restated</b>	<b>\$ 64,609,869</b>	<b>\$ 67,149,470</b>	<b>\$ 68,041,965</b>
Adjustments to restate balance	-	-	-
<b>Ending, as restated</b>	<b>\$ 67,149,470</b>	<b>\$ 68,041,965</b>	<b>\$70,773,038</b>

(1) Capital Grant of \$828,598 was received from State of California Wildlife Conservation Board Proposition 50 Funding.

(2) Accumulative effect of change in accounting principals.

(3) State Proposition 50 in the amount of \$874,040 and State Proposition 84 in the amount of \$68,428 was received.

Source: FPUD Finance Department

Table #5 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years, cont.

FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
\$ 23,661,715	\$ 27,582,160	\$ 28,955,183	\$ 27,483,881	\$ 25,356,017	\$ 27,256,065	\$ 29,882,022
(26,140,572)	(28,007,733)	(33,062,764)	(29,367,701)	(27,921,351)	(30,678,705)	(33,319,799)
279,560	439,560	681,876	-	-	-	-
<b>\$(2,199,297)</b>	<b>\$ 13,987</b>	<b>\$ (3,425,705)</b>	<b>\$ (1,883,820)</b>	<b>\$ (2,565,334)</b>	<b>\$ (3,422,640)</b>	<b>\$ (3,437,777)</b>
\$ 1,552,911	\$ 1,582,219	\$ 1,694,090	\$ 1,719,296	\$ 1,815,734	\$ 1,889,808	\$ 1,984,543
414,910	1,252,501	1,981,822	2,134,025	2,224,529	2,283,558	2,476,452
534,835	779,786	843,714	729,519	740,125	234,930	-
87,217	30,507	209,175	141,433	324,126	63,861	18,188
200,906	201,037	200,779	200,810	200,808	200,730	229,400
177,095	181,100	183,641	185,770	185,220	166,012	178,602
-	-	-	-	185,040	238,765	145,338
190,932	247,607	118,581	208,521	131,894	238,124	411,744
-	-	-	-	-	-	-
-	-	-	-	-	-	(273,396)
109,261	81,008	69,816	162,913	91,361	32,729	-
(294,462)	(291,721)	(344,730)	(321,941)	(690,409)	(385,483)	(959,015)
<b>\$ 2,973,605</b>	<b>\$ 4,064,044</b>	<b>\$ 4,956,888</b>	<b>\$ 5,160,346</b>	<b>\$ 5,208,428</b>	<b>\$ 4,963,034</b>	<b>\$ 4,211,886</b>
<b>\$ 774,308</b>	<b>\$ 4,078,031</b>	<b>\$ 1,531,183</b>	<b>\$ 3,276,526</b>	<b>\$ 2,643,094</b>	<b>\$ 1,540,394</b>	<b>\$ 774,109</b>
273,825	595,205	76,746	153,790	75,299	59,509	73,661
338,331	-	828,598 <sup>(1)</sup>	224,596 <sup>(1)</sup>	874,040 <sup>(3)</sup>	773,163	-
-	-	-	-	682,428	-	67,100
-	-	-	-	-	-	-
<b>\$ 1,386,464</b>	<b>\$ 4,673,236</b>	<b>\$ 2,436,527</b>	<b>\$ 3,654,912</b>	<b>\$ 4,274,861</b>	<b>\$ 2,373,066</b>	<b>\$ 914,870</b>
<b>\$70,773,038</b>	<b>\$ 72,159,502</b>	<b>\$ 76,678,353</b>	<b>\$ 79,114,880</b>	<b>\$ 75,034,991</b>	<b>\$ 79,309,852</b>	<b>\$ 85,168,437</b>
-	(154,385)	-	(7,734,801) <sup>(2)</sup>	-	-	-
<b>\$72,159,502</b>	<b>\$76,678,353</b>	<b>\$79,114,880</b>	<b>\$75,034,991</b>	<b>\$79,309,852</b>	<b>\$ 81,682,918</b>	<b>\$ 86,083,307</b>

Chart #1 - Operating Expenses by Activity

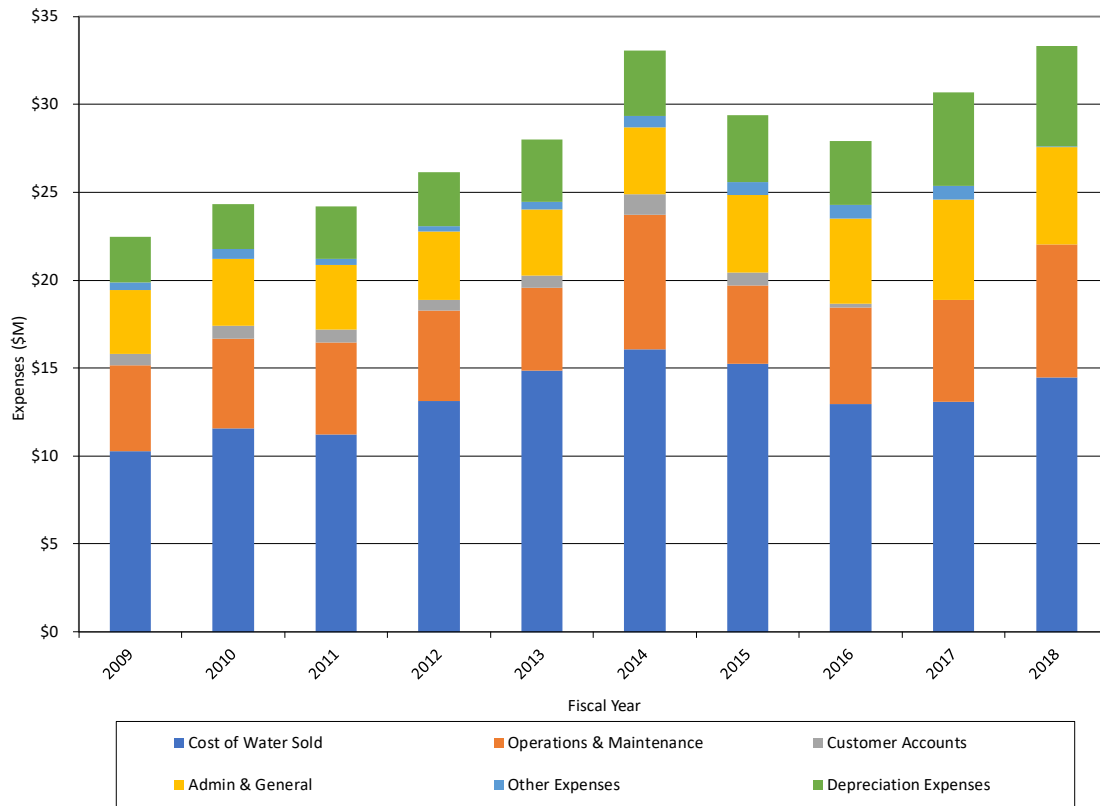
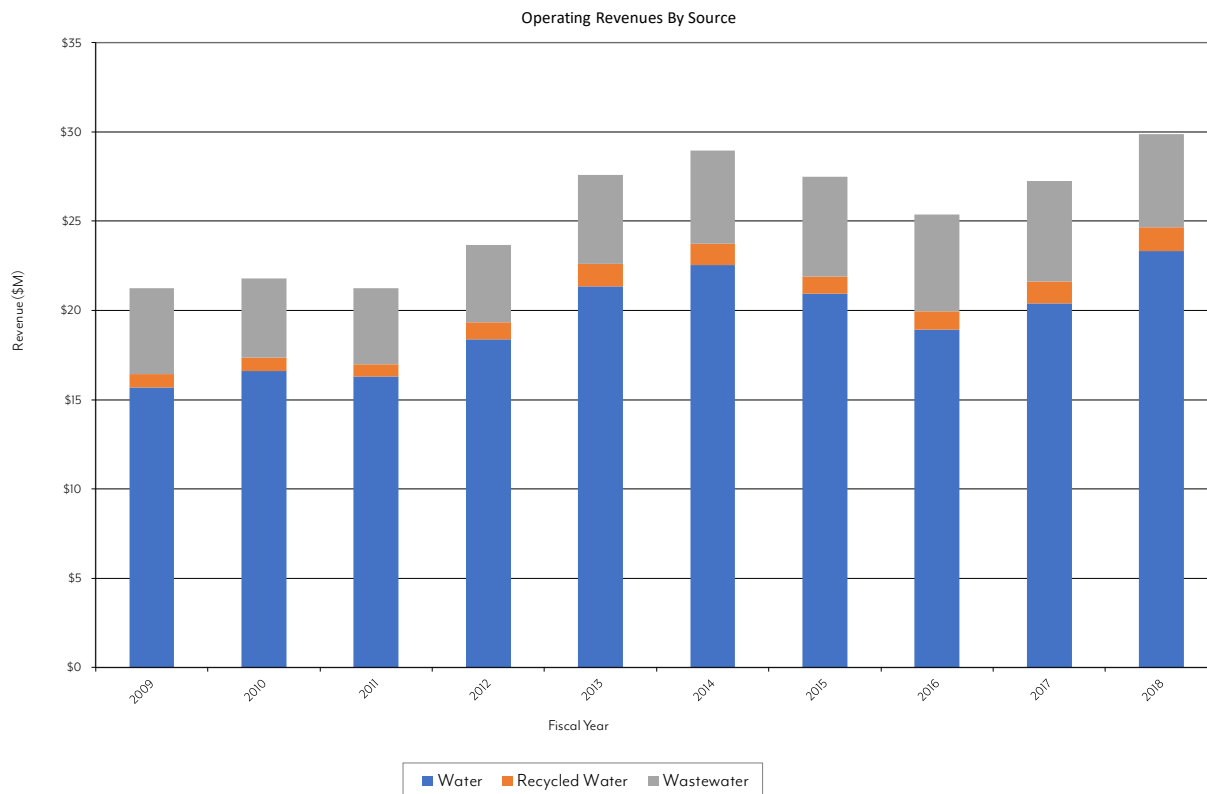
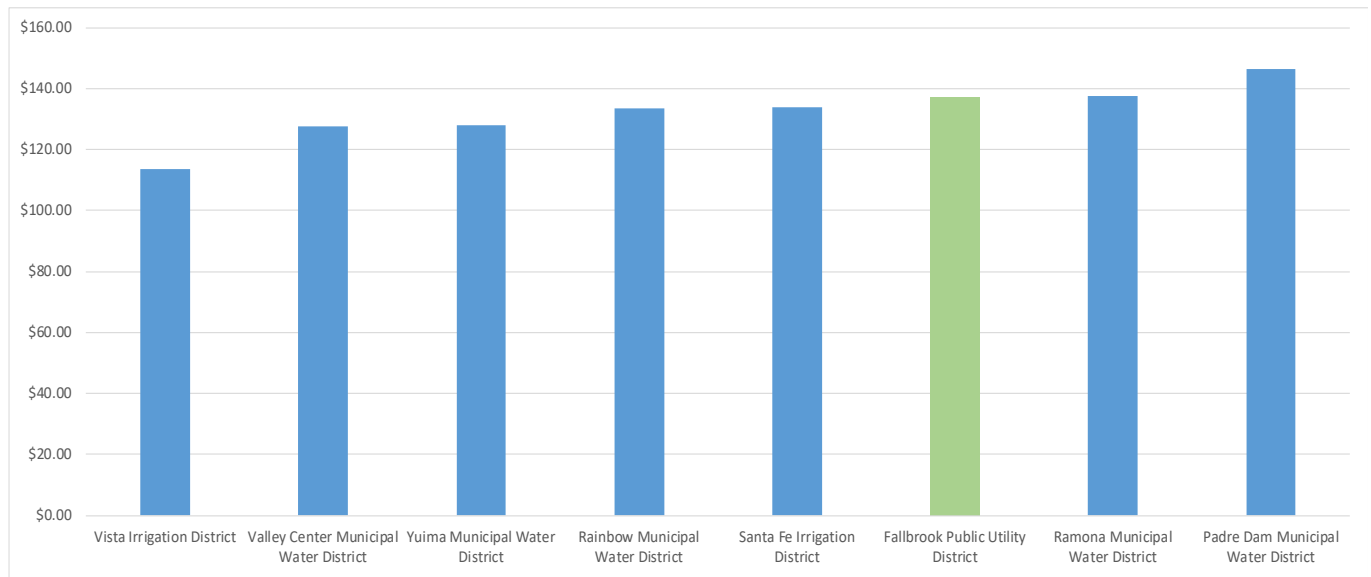


Chart #2 - Operating Revenues by Source

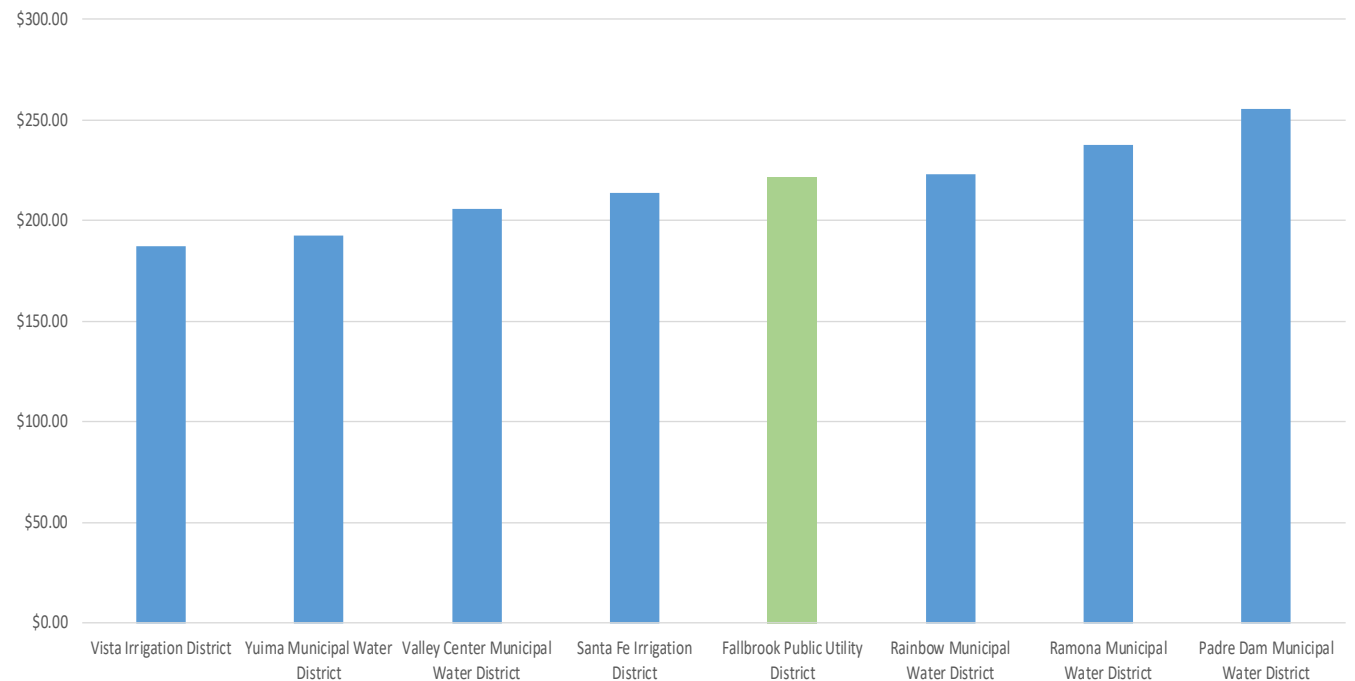




**Chart #3 - Projected Water Bill for Fiscal Year 2019-20, Based on 11 Kgal Water Use (FPUD Domestic Monthly Average) With a 3/4" Meter \***

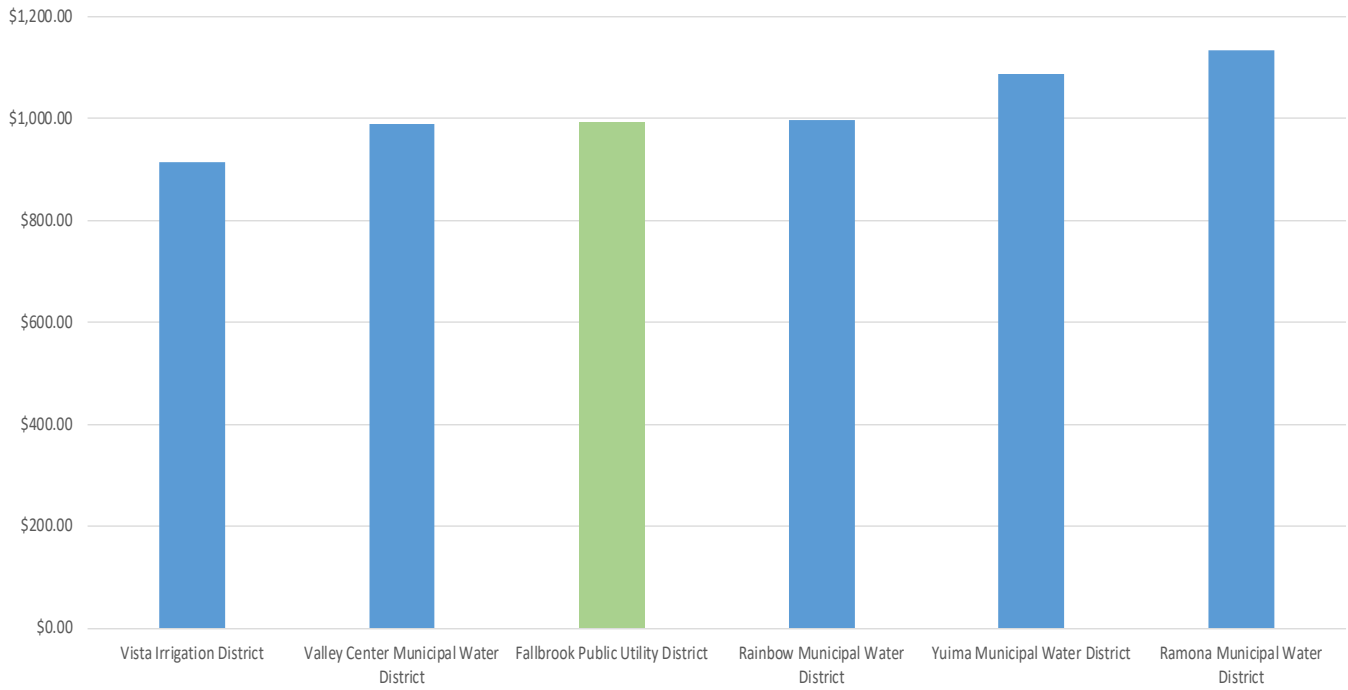


**Chart #4 - Projected Water Bill for Fiscal Year 2019-20 Based on 20 Kgal Water Use (FPUD Large Domestic Monthly Average) With a 1" Meter \***

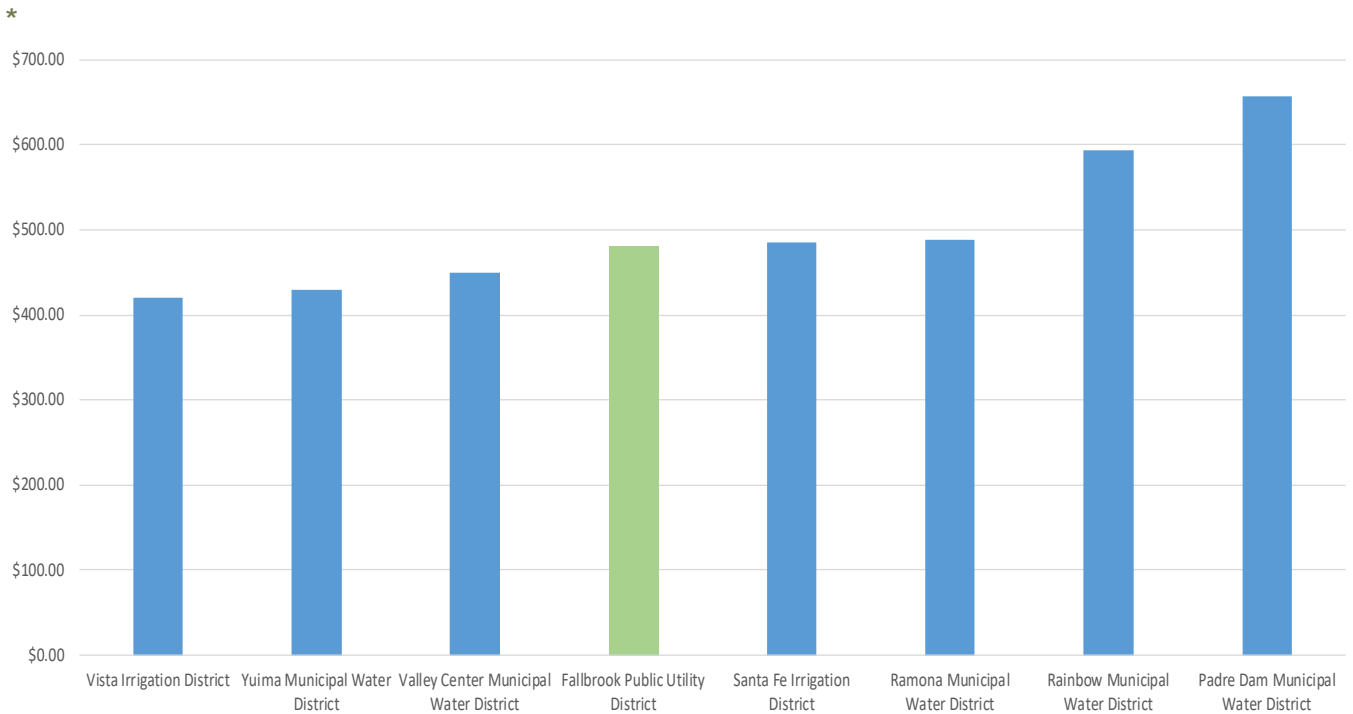


\* Figures based on data available for proposed Calendar Year 2020 rates. Final rates are subject to change.

**Chart #5 - Projected Water Bill for Fiscal Year 2019-20, Based on 156 Kgal water use (FPUD TSAWR Monthly Average) With a 1 1/2" Meter \***



**Chart #6 - Projected Water Bill for Fiscal Year 2019-20 Based on 50 Kgal Water Use (FPUD Commercial Ag Monthly Average) and 1 1/2" Meter \***



\* Figures based on data available for proposed Calendar Year 2020 rates. Final rates are subject to change.

## Fallbrook Public Utility District 's Capitalization Policy

<b>FALLBROOK PUBLIC UTILITY DISTRICT</b>	<b>Standard Policy</b>		
	Drafted by:	CFO/General Manager	
	Original Date:	4-10-2018	
	Revision Date:		
Capital Policy	Review by department:	1 _____ 2 _____ 3 _____	4 _____ 5 _____ 6 _____
	Approved by:	General Manager	

**Purpose:**

*To identify standard process for establishing capital versus operating expenses and placing items in the operating and capital improvement budgets*

**Personnel:**

*Accounting and Supervisors*

**Policy:**

**General Policy**

*The capital policy is established to distinguish capital and operating expenses and placement of projects and items in the Operating or Capital Improvement Budget. Capital expenses are recorded as capital assets and a depreciation schedule is established for these assets. Capital expenses will generally be identified in the Capital Budget as part of the Capital Program (CIP), which identifies the District's capital projects. This budget includes large multi-year construction projects as well as acquisitions of capital equipment and materials. The operational budgets may also include some items that are capitalized based on the criteria identified below:*

**Definitions**

**Capital Budget:** *part of the annual budget adopted by the Board of Directors that identified all Capital Projects for a division including construction projects and acquisition of capital equipment.*

**Operating Budget:** *Part of the annual budget adopted by the Board of Directors that identifies all on-going annual operating costs for a division.*

**Construction Projects:** *Includes actual physical projects completed to build new facilities or rehabilitate existing facilities.*

**Plant Equipment:** *Includes actual physical equipment that may or may not be a part of a larger facility. May include mobile equipment utilized by that division.*

**Useful Life:** *The period of time it is anticipate that the piece of equipment would normally last before having to be replaced. The useful life of the equipment can be extended due to a significant rehabilitation project on the equipment.*

**Capital Projects**

**A. Construction Projects**

*All construction projects for construction of new facilities will be capitalized and included in the Capital Improvements Program. The costs to be capitalized include the costs of associated studies, design, construction, equipment, construction management, legal and administrative expenses. Construction projects related to rehabilitation of existing facilities will be capitalized if the project extends the useful life of the asset for three or more years and the cost of the project related to the asset exceeds \$5,000. Repairs to existing pipelines, valves, meters, etc. that maintain the existing service and repair a leak or failure and do not extending the life of the asset by three or more years and do not exceed \$5,000 are not capitalized. For example, repairing a leak with a leak repair coupling does not change the assets service life and will be expensed even if the project costs exceed \$5,000. If a valve is replaced or a full section of pipe is replaced and the value exceeds \$5,000 the project will be capitalized and the service life adjusted.*

**B. Plant Equipment**

*All Plant Equipment purchased with a value of \$5,000 or greater and a useful life of greater than three years will be capitalized. In general, these items will be included under the capital Improvement budget either as part of a larger capital improvement project or as an acquisition of capital equipment. Routine part replacement costs, such as air filters for the high efficiency blowers, are considered operating expense. Improvements to existing fixed assets may be capitalized and appear in the Capital Budget if they extend the useful life of the asset by three or more years and the cost of the improvement exceeds the \$5,000 threshold.*

**C. Office Equipment**

*Office equipment will be capitalized with a value of \$5,000 or greater and a useful life of greater than three years. Office equipment includes: Office furniture, cabinets, copiers, computer systems and other information technology system. This includes larger software system integrations including initial software costs and implementation costs. In general, these items will be included as a project in the Capital Improvement Program.*

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## Fallbrook Public Utility District 's Fund Balance Policy

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### Article 15. Budget and Fund Management

#### Sec. 15.1 District's Annual Budget.

Preparation of the District Budget is directed by the Assistant General Manager/CFO. Working with the Fiscal Policy and Insurance Committee the General Managers develops annual financial goals and objectives for the budget in February. A first preliminary Budget is presented to the Board of Directors and public in May and a second preliminary Budget in June. The final Budget is presented in July for adoption, along with a resolution adopting a tax rate for Bonded Indebtedness.

The budgeting process is intended to create a transparent process that enables the Board of Directors to estimate the Districts revenues and expenses including employee compensation arising from negotiations and changes in other costs of operations.

##### 15.1.1 Annual Budget Resolution.

The Board shall approve an annual budget resolution that establishes the total appropriation for the fiscal year based on the following budget categories:

1. Administration, operations, and maintenance
2. Water purchases and contingencies
3. Capital improvements and equipment
4. Revenue Bonds, State Revolving Fund, interest, and principal
5. Established annual Liquidity Fund level

In addition, the budget resolution shall identify any anticipated net withdrawal of District reserves for the Fiscal Year. Any unanticipated net withdrawal of District reserves shall be a separate board action. Any withdrawal of funds from long-term investments, as shown in the District's Treasurer's Report, shall require prior Board approval.

Any spending above the established appropriations or additional withdrawal of reserves shall require Board approval. As part of the annual budget process, the Board will review and approve the District's liquidity fund level.

#### Sec. 15.2 Treasurer's Fund.

The Treasurer's Fund is established primarily to account for all District cash and investments and also to record detailed accounting for fringe benefits. Revenues are obtained from a budgeted mark-up on District labor. Revenue and Expense accounts in this fund are closed to the Utility fund annually.

#### Sec. 15.3 General Fund.

The General Fund shall consist of accounts for property tax revenues and appropriations to other funds as determined by the Board.

#### Sec. 15.4 Utility Funds.

The Utility Funds consists of three separate funds reflecting the operating departments of Water, Wastewater and Recycled Water. The funds reflect the revenues from water sales, monthly service charges and other recurring fees and all expenses, including Operating and Maintenance (O&M) and General & Administrative (G&A).

Sec. 15.5 Capital Funds.

The Capital Funds consists of all Property, Plant and Equipment and the expenditures as well as revenues from Capital Improvement Charges that are dedicated/restricted to capital expenditures. All use of revenues in the Capital Funds is restricted to capital investments, which includes capital assets as defined by the District's accounting policy and debt service. Sources of funding and expenditures for capital assets are maintained in three separate funds:

Water – all capital assets associated with the water treatment and distribution system; all administrative buildings and equipment; and all construction equipment and vehicles.

Wastewater – all capital assets associated with treatment facilities and the wastewater collection system.

Recycled Water – all capital assets associated with the recycled water facilities and the recycled water distribution system.

Sec. 15.6 Equipment Fund.

The Equipment Fund consists of all expenses for field equipment operations, maintenance, repair and replacement. Revenues are obtained from a budgeted mark-up on District labor. Revenue and expenses are closed to the Utility fund annually.

Sec. 15.7 Debt Service Funds.

Debt Service funds shall be established to account for General Obligation Bonds, Certificates of Participation, or other indebtedness which the District may incur for construction, completion, or acquisition of works, for the treatment, storage and distribution of water and water rights, including dams, reservoirs, storage tanks, treatment facilities, pipes, pumping equipment, and all necessary equipment and property therefor. The funds shall record annual transactions showing source of revenue, and both interest and principal payments.

Sec. 15.8 Appropriated Fund Balances.

Appropriated Fund Balances shall be established to provide adequate funding to meet the District's short term and long term plans and commitments; to minimize adverse annual and multi-year budgetary impacts from unanticipated expenditures; and to preserve the financial stability of the District against present and future uncertainties in an ever-changing environment. The following Appropriated Fund Balances will be established and maintained.

15.8.1 Utility Funds Appropriated Fund Balances.

1. Water.

- a) Working Capital. To be established and maintained at a level of three months operating and maintenance expenses including water purchases.

- b) Santa Margarita Debt Payment Fund. To prevent “spikes” and mid-year changes in rates because of net revenue shortfalls due to weather conditions, state or federal legislation or other future uncertainties. The target level is set equal to 2-years of debt service payments on the Santa Margarita Conjunctive Use Project financing.

2. Wastewater.

- a) Working Capital. To be established and maintained at a level of three months operating and maintenance expenses.
- b) Rate Stabilization Fund. To promote smooth and predictable rates and charges a Rate Stabilization Fund is established with a target of level equal to 10% of annual revenues.

3. Recycled Water.

- a) Working Capital. To be established at three months operating and maintenance expenses.

15.8.2 Utility Capital Funds Appropriated Fund Balances.

1. Water Capital Fund.

The primary source of funds are the Water and Pumping Capital Improvement charges, annexation fees, connection fees and meter fees. Target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (*i.e.* pipeline renewal/replacement).

- a) Funds related to the 1958 Annexation and the DeLuz Service Area bond proceeds are tracked separately in the fund.

2. Wastewater Capital Fund.

The primary source of funds are Wastewater Capital Improvement Charges, connection fees and meter fees. Target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (*i.e.* pipeline renewal/replacement).

3. Recycled Water Capital Fund.

Target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (*i.e.* pipeline renewal/replacement).

15.8.3 Debt Service Funds.

Each borrowing activity is maintained within a separate Debt Service fund. Some indentures require the establishment of a reserve fund and the District must comply with any creditor

imposed requirements. Since sources of funding to repay each debt instrument varies, the possibility of that inflow being interrupted is likely/possible with different issues in differing circumstances. Because of the possibility of this interruption, each Debt Service Fund should establish an Appropriated Fund Balance equal to the next year’s total debt service (principal and interest).

Sec. 15.9 Petty Cash.

The responsibility for and the accountability for the petty cash fund is assigned to the Assistant General Manager/CFO and/or the Accountant. The fund at all times will total \$400.00 in cash and disbursement receipts. When an employee requires reimbursement, not-to-exceed \$50.00, for an out-of-pocket District expense, a petty cash voucher is filled out and the receipts for purchases attached.

Reimbursement will not be made from the petty cash fund without the immediate supervisor's approval on the petty cash voucher and receipts attached thereto.

During the planned absence of either the Assistant General Manager/CFO or Accountant, the Supervising Accounting Assistant will be authorized to make petty cash reimbursements. Prior to assumption of these duties, cash in the fund will be counted and verified by both the Assistant General Manager/CFO and Accountant.

Periodic audits will be performed as required by District management or the Auditor. Checks drawn to replace the disbursement will be processed in the same manner as any other invoice paid by the District.

ARTICLE 15
Sec. 15.8 - Rev.74/97
Sec. 15.4 & 15.5 – Rev. 4/03
Sec. 15.8 added 4/03
Sec. 15.1 & 15.9 – Rev. 6/06
Sec. 15.9 – Rev. 8/08
Sec. 15.6 – Rev. 9/09
Sec. 15.8.1 – Rev. 12/09
Secs. 15.1, 15.5, 15.8.1, 15.8.2, 15.8.4, 15.9 – Rev. 1/18
Secs. 15.1.1, 15.8.1 – Rev. 2/19
Sec. 15.1.1 – Rev. 4/19



## Fallbrook Public Utility District 's Investment Policy

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### Article 27. Investment Policy

#### Sec. 27.1 General.

The District's Investment Policy and practices of the District Treasurer are based on prudent money management principles and California Government Code, specifically Sections 53600 and 53630 et. seq.

27.1.1 Delegation of Authority. The Board of Directors delegates the investment authority of the District to the Treasurer under the supervision of the General Manager. The Treasurer shall deposit money under the Treasurer's supervision and control in such institutions and upon such terms as the laws of the State of California and the Board of Directors may permit.

The Treasurer may delegate day-to-day investment decision making and execution authority to an investment advisor. Eligible investment advisors must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940. The advisor will follow the Policy and such other written instructions as are provided by the District.

27.1.2 Investment Objectives. The practices of this District will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this Investment Policy. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the objectives of this District shall be:

1. The primary objective shall be to safeguard the principal of the funds under the Treasurer's control.
2. The secondary objective shall be to meet the liquidity needs of the District.
3. The third objective shall be to achieve a return on the funds under control of the Treasurer within the parameters of prudent risk management.

27.1.3 Prudent Investor Standard. The Board of Directors, General Manager, and Treasurer adhere to the guidance provided by the "prudent investor standard," California Government Code (Section 53600.3), which obligates a fiduciary to insure that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual

investments as part of an overall strategy, investments may be acquired as authorized by law.”

Sec. 27.2 Treasurer’s Annual Statement of Investment Policy.

The following is the District’s annual statement of investment policy rendered pursuant to Section 53646 (a) of the Government Code:

27.2.1 Security of Principal Policy. The policy issues directed to protecting the District are:

- a) Limiting exposure to each type of security.
- b) Limiting exposure to each issue and issuer of debt.
- c) Determining the minimum credit requirement for each type of security at the time of purchase.

27.2.2 Liquidity Policy. The policy issues directed to provide necessary liquidity are:

- a) Limiting the length of maturity for securities in the portfolio.
- b) Limiting exposure to illiquid securities.

27.2.3 Return Policy. The policy issues directed to achieving a return are:

- a) Attaining a market rate of return taking into account the investment risk constraints and liquidity needs.
- b) Return is of least importance compared to the safety and liquidity policies described above.
- c) Majority of the investments shall be limited to low risk securities in anticipation of earning a fair return relative to the risk being taken.
- d) The performance of the portfolio shall be compared to an industry benchmark established by the Fiscal Policy and Insurance Committee and shall be reported quarterly. The Fiscal Policy and Insurance Committee shall review the performance benchmark on an annual basis to ensure that it remains appropriate for the District’s investment objectives. The Fiscal Policy and Insurance Committee will bring any recommended changes to the industry benchmark to the Board for approval.

27.2.4 Maturity Policy. The maximum maturity allowed by the California Government Code is five (5) years with shorter limitations specified for specific types of securities. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five-year maturity limit. Such approval must be issued no less than three (3) months prior to the purchase of any security exceeding the five-year maturity limit.

27.2.5 Prohibited Securities. The California Government Code does not authorize a local agency to invest in any of the following derivative notes:

- a) Inverse Floater
- b) Range Notes
- c) Interest-only strips derived from a pool of mortgages
- d) Any security that could result in zero interest accrual

Sec. 27.3 Internal Controls.

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed benefits likely to be derived; and, 2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

Control of Collusion: Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

Separation of Transaction Authority from Accounting and Record Keeping: By separating the person who authorizes or performs the transaction from the person who records or otherwise accounts for the transaction, a separation of duties is achieved.

Custodial Safekeeping: Securities purchased from any bank or dealer including appropriate collateral (as defined by Government Code) shall be placed with an independent third party for custodial safekeeping.

Avoidance of Physical Delivery Securities: Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Clear Delegation of Authority to Subordinate Staff Members: Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Written Confirmation of Telephone Transactions for Investments and/or Wire Transfers: Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

Development of a Wire Transfer Agreement with the Lead Bank or Third Party

Custodian: This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

Sec. 27.4 Permissible Investments.

Where this Policy specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this Policy refers to the credit rating at the time the security is purchased. If an investment advisor is used and an investment's credit rating falls below the minimum rating required at the time of purchase, the investment advisor will immediately notify the Treasurer. The securities shall be reviewed and a plan of action shall be recommended by the Treasurer or investment advisor. The course of action to be followed will be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further drop, and market price of the security. The Fiscal Policy and Insurance Committee will be advised of the situation and intended course of action by e-mail or fax.

The District will limit investments in any one non-government issuer, except investment pools and money market funds, to no more than 5% regardless of security type.

Government Code 53601 addresses permissible investments. These investment categories are:

27.4.1 Government Obligations. Two categories of Government Obligations, U.S. Treasury and Agency obligations may be invested. Both are issued at the federal level. U.S. Treasury obligations are United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. Agency obligations are federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises..

Maximum Maturity: The maximum maturity of an issue shall be the current 5 year issue or an issue which at the time of the investment has a term remaining to maturity not in excess of five (5) years.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category is unlimited.

- 1) Treasury: Unlimited.
- 2) Agencies: Unlimited. No more than 75% of the portfolio value shall be invested in any single issuer.

Minimum Credit Requirement: None.

27.4.2 Banker's Acceptance. This is a draft or bill of exchange, accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the banker's acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust receipts, and other documents evidencing ownership and insurance of the goods financed.

Maximum Maturity: The maximum maturity of an issue shall be 180 days.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category shall be 25%.

Minimum Credit Requirement: "A-1" or equivalent by a nationally recognized statistical rating organization (NRSRO)

27.4.3 Commercial Paper. These are short-term, unsecured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, or some other support agreement. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:

- a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of "A", the equivalent or higher by a NRSRO.
- b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Maximum Maturity: The maximum maturity of an issue shall be 270 days.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category shall be 25%. The District may purchase no more than 10% of the outstanding commercial paper of any single issuer.

Minimum Credit Requirements: "A-1", the equivalent or higher by a NRSRO.

27.4.4 Medium-Term Notes. Corporate and depository institution debt securities issued by corporations organized and operating within the United States, or by depository institutions licensed by the U.S. (or any state) and operating within the U.S.

Maximum Maturity: The maximum maturity of an issue shall be 5 years.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category shall be 30%.

Minimum Credit Requirements: Rated in a rating category of “A”, the equivalent or higher by a NRSRO

27.4.5 Repurchase Agreements. A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the District), the other is the commitment by the seller (i.e., a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

Maximum Maturity: The maximum maturity of repurchase agreements shall be up to one year.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category shall be 10%.

Minimum Credit Requirements: None

27.4.6 Negotiable Certificates of Deposit. Certificates of deposit must be issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.

Maximum Maturity: The maximum maturity of an issue shall be five (5) years.

Maximum Exposure to Portfolio: The maximum exposure to the portfolio for this category shall be 30%.

Minimum Credit Requirements: Rated in a rating category of “A”, the equivalent or higher for CDs issued with a long-term rating and “A-1” or higher for CDs issued with a short-term rating or their equivalents by a NRSRO.

27.4.7 State Local Agency Investment Fund (LAIF). There is no limit by law on the amount of funds that can be placed in this account. Interest is paid directly into the account by the State Local Agency Investment Fund.

27.4.8 San Diego County Treasurer’s Fund. There is no limit by law on the amount of funds that can be placed in this account. Interest is paid directly into the account by the County Treasurer.

27.4.9 Passbook and Money Market Savings Accounts. Savings accounts and/or money market accounts shall be maintained for monies that are needed on a day-to-day basis.

27.4.10 State Obligations / State of California and Other States. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency or authority of the state.

Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

Maximum Maturity: The maximum maturity of an issue shall be the current 5 year issue or an issue which at the time of the investment has a term remaining to maturity not in excess of five (5) years.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for 27.4.10 and 27.4.11-California Local Agency Obligations, category shall be a combined 25% of the book value of the investment portfolio. No more than 5% of the book value of the portfolio at the time of purchase may be invested in bonds issued by any one agency.

Minimum Credit Requirements: Rated in a rating category of “A”, the equivalent or higher for obligations issued with a long-term rating and “A-1” for obligations issued with a short-term rating or their equivalents by a NRSRO .

27.4.11 California Local Agency Obligations. Bonds, notes warrants or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Maximum Maturity: The maximum maturity of an issue shall be the current 5 year issue or an issue which at the time of the investment has a term remaining to maturity not in excess of five (5) years.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for 27.4.10 and 27.4.11-California Local Agency Obligations, category shall be a combined 25% of the book value of the investment portfolio. No more than 5% of the book value of the portfolio at the time of purchase may be invested in bonds issued by any one agency.

Minimum Credit Requirements: Rated in a rating category of “A”, the equivalent or higher for obligations issued with a long-term rating and “A-1” for obligations issued with a short-term rating or their equivalents by a NRSRO.

27.4.12 Joint Powers Authority Pool. The investment with a Joint Powers Authority Pool is mandated by that pool. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with

the Securities and Exchange Commission; (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive; and (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category is unlimited.

Minimum Credit Requirement: None.

27.4.13 Money Market Mutual Funds.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category is 20%.

Minimum Credit Requirements: A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Sections 53601 and 53635.

A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of \$500 million.

27.4.14 Mortgage Pass-Through Securities and Asset-Backed Securities. A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond.

Maximum Maturity: The maximum maturity of an issue shall be the current 5 year issue or an issue which at the time of the investment has a term remaining to maturity not in excess of five (5) years.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category is 20%.

Minimum Credit Requirements: Rated in a rating category of “AA”, the equivalent or higher by a NRSRO.

27.4.15 Supranationals. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.



Maximum Maturity: The maximum maturity of an issue shall be the current 5 year issue or an issue which at the time of the investment has a term remaining to maturity not in excess of five (5) years.

Maximum Exposure of Portfolio: The maximum exposure to the portfolio for this category is 30%.

Minimum Credit Requirements: Rated in a rating category of “AA”, the equivalent or higher by a NRSRO.

Approval: Investments in supranational securities may only be made with prior approval of the Fiscal Policy and Insurance Committee.

Sec. 27.5      Maturity/Limit of Investments.

With the exception of U.S. Treasury and Federal Agency securities, the maturity of a give investment will not exceed five (5) years, without prior board approval per Section 27.2.4.

Sec. 27.6      Reporting Requirements.

The Treasurer shall prepare a quarterly investment report to the Board of Directors that provides an overview of the District’s investments and lists the investment transactions for the period. The report shall also (1) state the compliance of the portfolio with the statement of investment policy, or the manner in which the portfolio is not in compliance, and (2) the report shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The Treasurer shall also provide the Board a summary report of investments on a monthly basis.

A subsidiary ledger of investments may be used in the report in accordance with accepted accounting practices.

In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regular scheduled meeting of the Board.

ARTICLE 27
Revised in its entirety: 2/94
Adopted in current form: 1/96, 1/97, 1/98, 1/99
Sec. 27.2.4 – Rev. 1/00
Adopted in current form: 1/01
Sec. 27.4.7 – Rev. 10/01
Sec. 27.6 – Rev. 1/03
Sec. 27.2.4 – Rev. 1/07
Sec. 27.4.4 – Rev. 3/07
Secs. 27.2.3, 27.4.1(2), 27.4.2, 27.4.3, 27.4.4, & 27.4.6 – Rev. 9/07
Sec. 27.2.1 – Rev. 1/10
Secs. 27.4.10-12 – Rev. 1/12
Secs. 27.2.4, 27.2.5, 27.4.5, 27.4.6, 27.4.7, 27.4.10, 27.4.11, 27.4.13, 27.4.14, 27.5 – Rev. 2/13
Secs. 27.4.6, 27.4.11 – Rev. 1/14
Secs. 27.1, 27.1.1, Attachment A – Rev. 3/15
Secs. 27.1, 27.1.1, 27.1.2, 27.1.3, 27.2, 27.2.3, 27.2.4, 27.3, 27.4, 27.4.1, 27.4.2, 27.4.3, 27.4.4, 27.4.6, 27.4.10, 27.4.11, 27.4.12, 27.4.13, 27.4.14, 27.4.15, 27.5 – Rev. 2/16
Secs. 27.2.4, 27.4, 27.4.3, 27.4.4, 27.4.6, 27.4.10, 27.4.11, 27.4.14, 27.4.15 – Rev. 3/17
Sec. 27.2.3 – Rev. 6/18
Sec. 27.6 – Rev. 7/18
Sec. 27.4.14 – Rev. 2/19

27-10

## District's Pension Benefits

The District participates in CalPERS and has two benefit tiers. The Classic employees are eligible to receive 2.5% of their single highest annual salary for each year of service at the age of 55. An employee hired after January 1, 2013, and is new to CalPERS, or those that have had a break in service of more than six-months fall under the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA employees are eligible to receive 2.0% of the highest three-year average annual salary for each year of service at the age of 62. Both Classic and PEPRA employees are potentially subject to salary maximums when determining their benefit.

### CalPERS Unfunded Actuarial Accrued Liability (UAAL):

The AUL is portion of the pension liability that has been earned but has not been fully funded. The liability is estimated by an actuary based upon many different underlying assumptions. CalPERS amortizes these existing liabilities over a 30-year period. The payment schedule for the Unfunded Liability is shown below for both Classic and PEPRA. The District's net pension liability in Fiscal Year 2016-17 was \$12.2 million. In Fiscal Year 2015-16, the latest CalPERS valuation date, the District's pension liability was 74% funded for Classic employees and 96% funded for PEPRA employees, excluding funds held in the District's 115 pension trust.

	Classic	PEPRA	Total
FY 2018-19	\$ 730,148	\$ 534	\$ 730,682
FY 2019-20	877,520	4,276	881,796
FY 2020-21	987,000	5,000	992,000
FY 2021-22	1,106,000	5,800	1,111,800
FY 2022-23	1,188,000	6,600	1,194,600
FY 2023-24	1,249,000	7,500	1,256,500
FY 2024-25	1,314,000	8,500	1,322,500

### Current Normal Cost

The Normal Cost Rate (NCR) is the percentage of payroll that is contributed to CalPERS to pay for the benefit earned by employees in the current year. This rate is expressed as a percent of payroll. The NCR for Classic employees for Fiscal Year 2019-20 is 12.142% of payroll, which is up from the Fiscal Year 2018-19 rate of 11.419%. The NCR for PEPRA employees is 7.072% of payroll in Fiscal Year 2019-20 and was 7.266% in Fiscal Year 2018-19.

## District's 115 Pension Trust

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In 2016, the District established a 115 Trust to fund the District's pension obligations that is distinct and separate from CalPERS. By establishing a separate Trust, the District was able to diversify investment managers, the trust is managed by Public Agency Retirement Services (PARS), and have more control over how the funds are both invested and utilized for pension costs. Over the last three years, the District has made a series of deposits into the trust. On April 30, 2019, the balance of the pension trust was \$6,032,691. Future deposits to the trust are planned with the goal of achieving a 90% funded level for the District's pension liability. In Fiscal Year 2019-20 \$3.78 million was deposited from SMRCUP property sale.

## District's Other Post-Employment Benefits (OPEB)

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The District provides a retiree healthcare benefit to employees who have ten years of service and are 50 or older. Under the OPEB benefit the District pays for half of the employees' health insurance premium until the beneficiary is 65-years old. The employee must contributed the other half of the insurance premium. The District has established the Section 115 Pension and OPEB Trust Fund (See Fund Structure Section) to fund the District's OPEB liabilities. The District's OPEB liability is 87.5% funded based upon an actuarial valuation report as of June 30, 2018. Based upon district policy, the OPEB Trust Fund will be maintained at or near a target of 90%. The balance in the trust on April 30, 2019 was \$995,306.