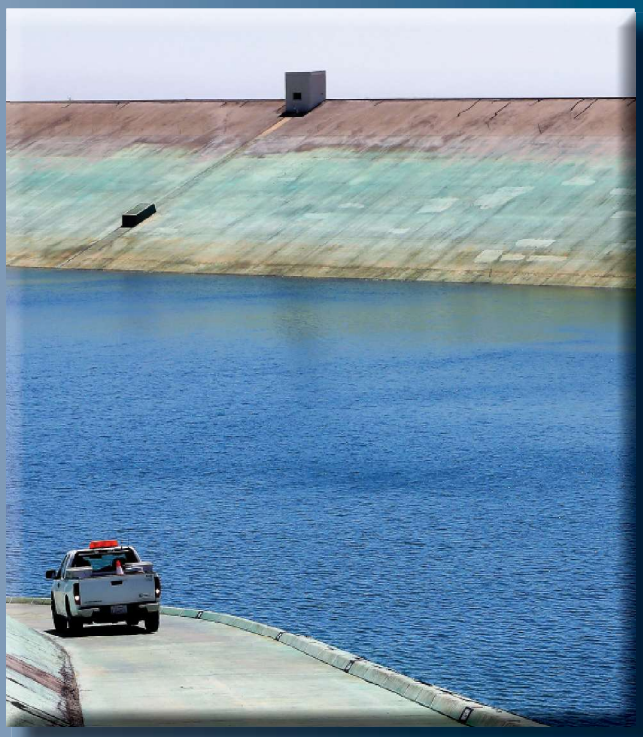
Fallbrook Public Utility District



Fallbrook Public Utility District

Fiscal Year 2020-21 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 - Dave Baxter

District #2 - Ken Endter, President

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

District #5 - Charley Wolk

District Management:

General Manager - Jack Bebee

Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Jodi Brown, Kelly Laughlin, Aaron Cook, Mick Cothran, Noelle Denke, 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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990 East Mission Road
Fallbrook, California
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June 22, 2020

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

Budget Message

Enclosed is the Fiscal Year 2020-21 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 presented here supports these goals and objectives.

Overcoming Challenges

This year has brought unprecedented challenges to the District and the World. The District's ability to adapt business practices to effectively manage the changes in operations required by the pandemic speak directly to management's recent efforts to both enhance and update the District's operations. The new phone system allowed Customer Service to receive calls like normal with staff working remotely. Access to the billing and water use information allowed them to answer customer questions. The payment options like PayNearMe and credit cards recently implemented provide customers more payment options. This ensured cash and other payments could be made even with the offices closed. Dedicated operators ensured uninterrupted service.

We also understand that this pandemic has added an additional financial burden to our ratepayers many of whom were already struggling with the increasing cost of water. In this Budget, additional steps have been taken to hold the District's costs flat to the prior budget as we continue to pursue our long-term objectives of stabilizing the cost of water to our customers.

Water Affordability

The District has been faced in the past with escalating wholesale water costs driven by major infrastructure investments by the San Diego County Water Authority (SDCWA) in supply reliability. The SDCWA water purchase costs represent over 50% of the District's water enterprise operating costs. With SDCWA facing operational inefficiencies that result from declining water demands and considering the construction of a more than $4 billion pipeline to the All-American Canal, the District is facing significant water cost increases from SDCWA. To address this, the District has initiated

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a process to change its water wholesaler to Eastern Municipal Water District (EMWD). This change would reduce the District's cost of water by approximately 30% and not impact water reliability. The significant cost savings that would result from this change would help make the District's water more affordable for the community and help revitalize the region's agricultural industry.

In addition to the regional investments in San Diego County water 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 of the WaterFix on the cost of water is not known, the original cost in 2017 was expected to be just over $16 billion. Since this cost is to be recovered on 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 another 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 is under construction and is scheduled to begin producing water in 2022. This project will be one of the largest capital investments made by the District over the next decade. The District has secured 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.

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.

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Looking Forward

The social and economic impacts of the pandemic will continue to impact the region. The District is focused on tracking the impacts and mitigating cost increases to provide much needed economic relief to the District's customers. The District is focused on taking the final step to a level of water independence by completing the construction 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 lowering its wholesale water costs by changing the Districts wholesale provider. While this effort will be politically challenging it has the potential to provide our customers with immediate and substantial rate relief.

During this Budget cycle, management will remain vigilant and take proactive measures to cut expenditures if the economic impacts of the pandemic intensify and disrupt the District's cash flows. This budget includes a reduction in staffing and a delay in filling vacant positions to hold down total labor costs. Additional mitigation may also include deferral of capital expenditures and identifying other expenditures that can be deferred.

Jack Bebee
General Manager

David Shank
Assistant General Manager/CFO

Budget in Brief

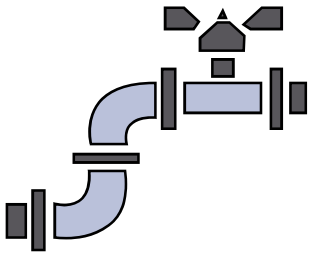
Fiscal Year 2019-20 Accomplishments

- Construction of the SMRCUP Project has begun and is on schedule.
- Key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects have been completed.
- 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.
- Due to operational efficiency gains one FTE positon was eliminated saving the District over $140,000/year in labor and benefit costs.
- Completed the planned enhancements to the financial accounting system operations and structure to streamline operations and enhance controls.
- Improved the District's customer bill paying experience by enhancing Bill pay and bill notification options.
- Upgraded and implemented a Computerized Maintenance Management System (CMMS) to enhance the District's maintenance and asset management practices.
- The District's first Comprehensive Annual Financial Report (CAFR) and an annual budget document that received the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Awards.

Fiscal Year 2020-21 Goals

The Key Goals for the upcoming year include:

- Maintain the SMRCUP Project construction schedule with a goal of beginning deliveries of approximately 50% of our supply by 2022.
- Complete key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects.
- Complete project of replacing meters with smart meters (Advanced Metering Infrastructure (AMI) meters) replacement project and continue outreach to customers on how these meters can help them better monitorand reduce water use and water costs.
- Complete a review of the billing and banking systems to assess cost savings opportunities and operation enhancement that might be realized.
- Continue to move the District's LAFCO initiatives forward and complete the detachment negotiations with the San Diego County Water Authority (SDCWA).
- Pursue power storage grant opportunities to reduce the District's operating costs.
- Produce a Comprehensive Annual Financial Report (CAFR) and an annual budget document that meet the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Awards.



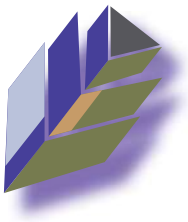
Continue projects to replace key pipelines and valves to reduce water outages and blowouts.

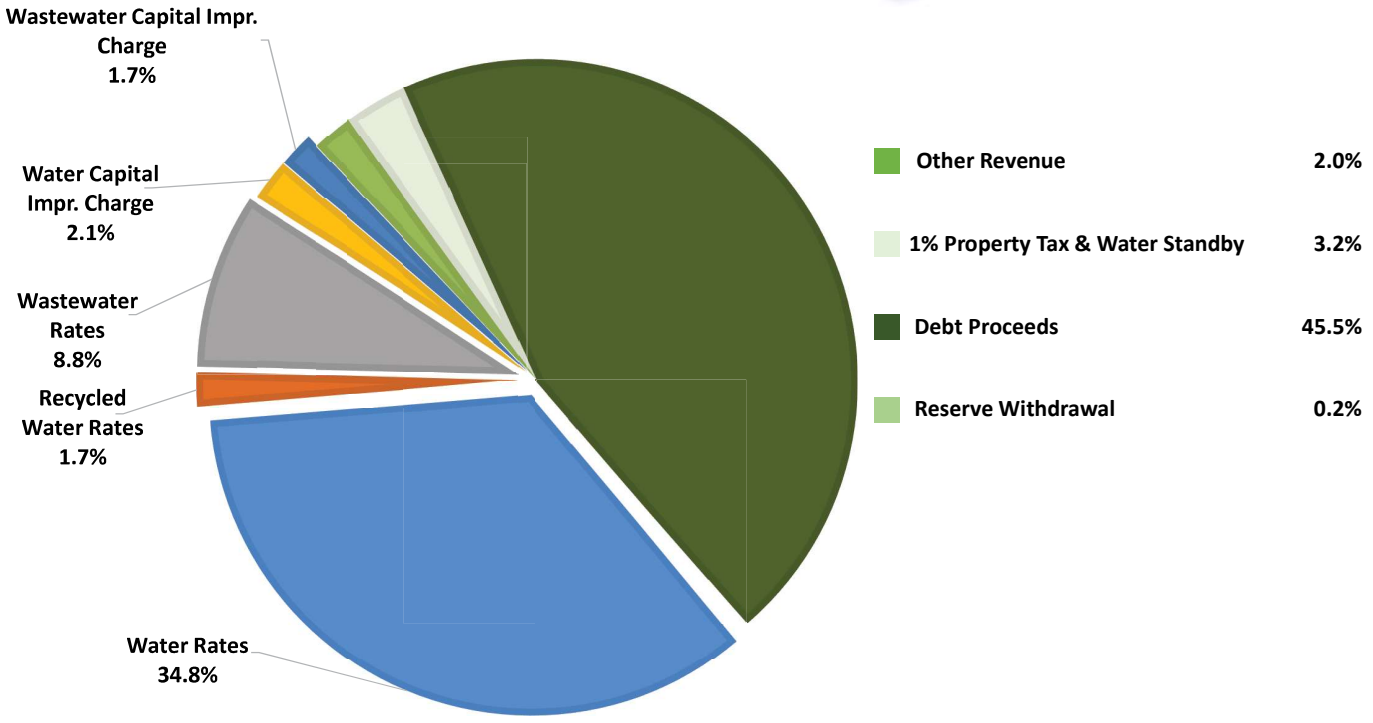
Sources of Funds

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. Fiscal Year 2019-20 was the second year with low water sales levels. As a result of this low water sales trend, the District has revised its projected average water sales levels lower for planning purposes. The water, recycled water and wastewater rate increases for the Budget are up to 8%, 8%, and 4.5%, respectively, for Calendar Year 2021 and were approved during the Proposition 218 process in 2017. While these increases are in-line with the financial plan adopted by the Board in 2018, the Board will take action to adopt Calendar Year 2021 rates and charges in December of 2020. When the Board takes action on rates and charges, it will take into account the economic impact the pandemic has had on the service area and strive to mitigate rate increases. **Appendix B shows the districts average water bill compared to other local agencies.**

Chart 1 shows a breakdown of the District's $70 million budgeted sources of funds. Rate and charge revenues makes up 49.1% 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 withdrawals from reserves are budgeted this year to make up for a budgeted revenue shortfall. 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 2020-21
Total Revenue $70,155,238





Use of Funds

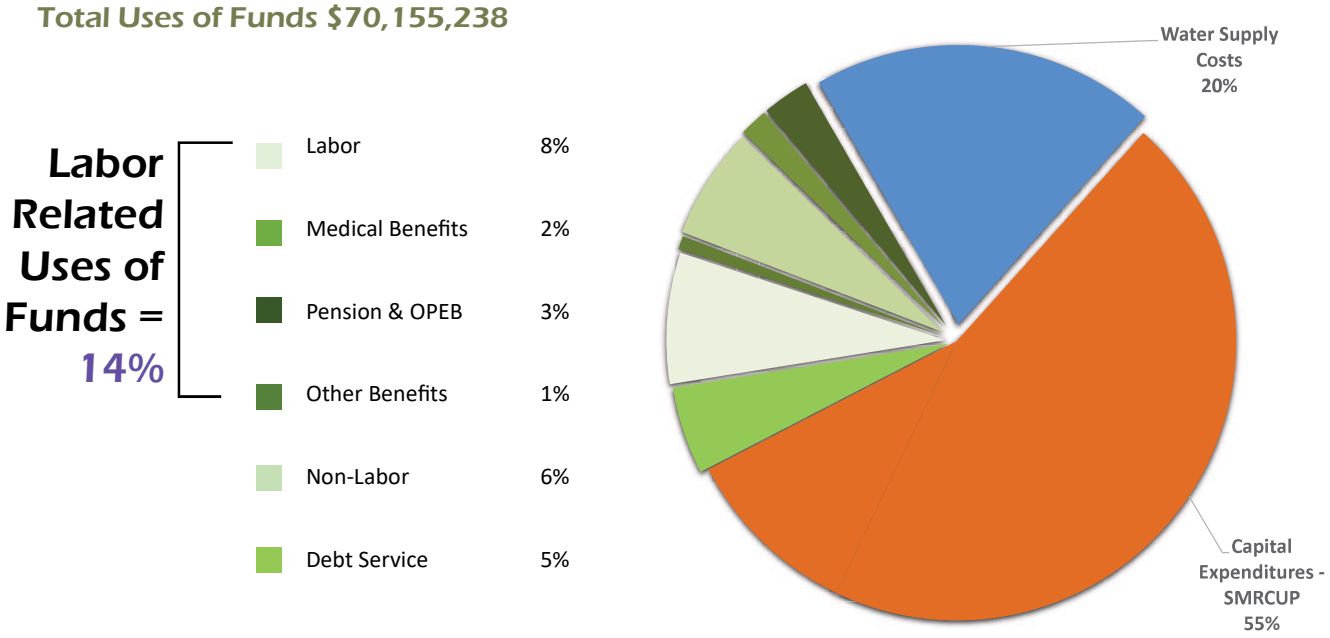
The Adopted Operating Budget includes a 0.1% decrease in the salaries and a 0.1% increase in non-labor expenses. The budget to budget salary decrease, while small, is due to the Board's cost containment efforts. The District has focused on managing employee benefit costs with a long-term strategy to mitigate pension and healthcare costs. The increase of 5.8% is largely due to increased required retirement plan (CalPERS) payments. (See District Benefits and Appendix B for more detail) The overall increase in the salaries, non-labor and benefit budget is 1.5%, which is less than 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-two 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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Salaries	$ 5,111,090	$ 5,324,861	$ 5,420,878	$ 5,316,951	-0.1%
Non-Labor (excludes cost of water)	4,565,405	4,509,670	4,088,997	4,515,332	0.1%
Total Labor and Non-Labor Expenses	**$ 9,676,495**	**$ 9,834,531**	**$ 9,509,875**	**$ 9,832,283**	**0.0%**
Benefits	2,899,667	3,425,369	3,425,369	3,625,253	5.8%
Total Expense	**$12,576,162**	**$ 13,259,901**	**$ 12,935,244**	**$ 13,457,536**	**1.5%**

Chart #2 - Uses of Funds Fiscal Year 2020-21
Total Uses of Funds $70,155,238



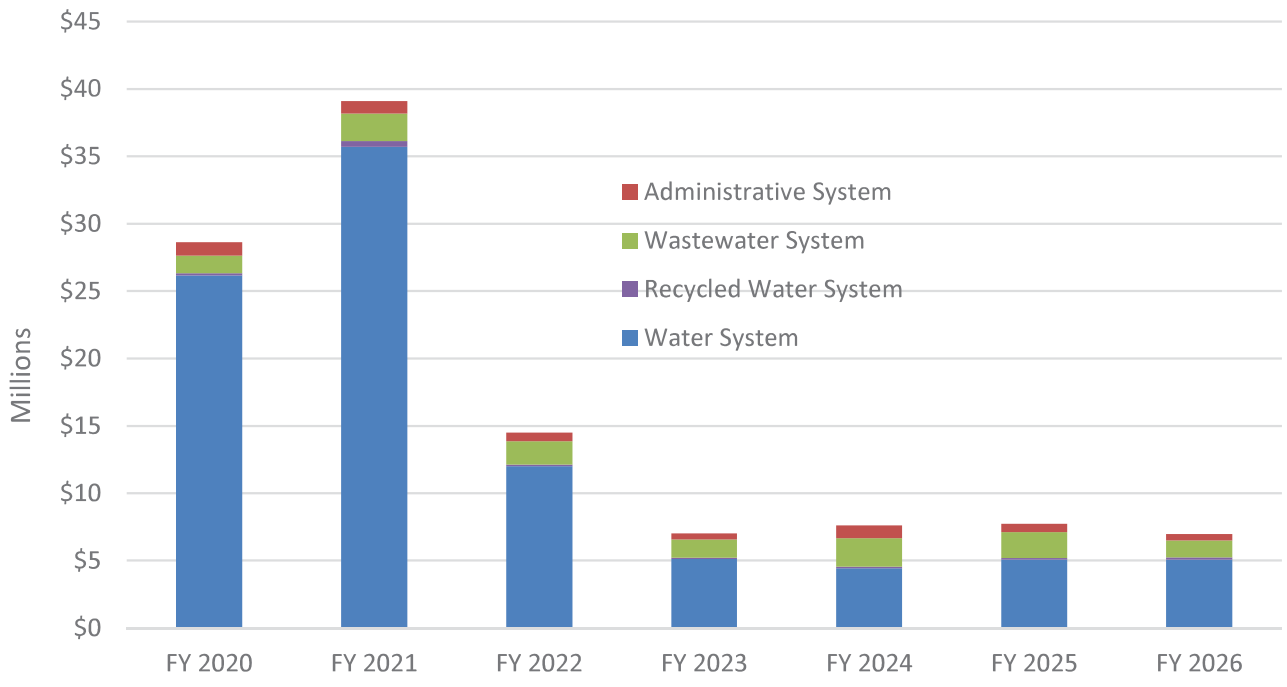
Capital Budget

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 $62.9 million SMRCUP in Fiscal Years 2019-20 through 2021-22 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 2020-21 is $39.1 million, with $31.9 million funded with a SRF Loan.

Recycled water program

Pipeline relining program

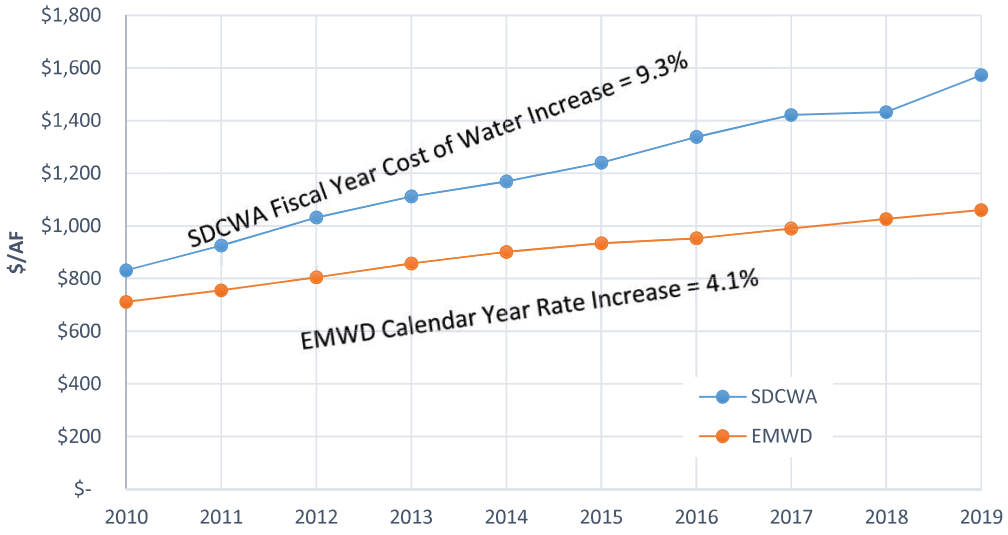
Chart #3 - Fallbrook Public Utility District's Annual Budgeted CIP Expenditures



Financial Summaries

This year, as shown in the updated financial projections for Fiscal Year 2019-20 in Table #2, the District is projecting a deposit to reserves. Looking forward, the District has made a significant reduction in the average water sales level due to a persistent trend of lower annual water sales. SDCWA, the District's water wholesaler, continues to increase the region's cost of water due to its high cost water supply mix that is comprised of water transfer deliveries from the Imperial Irrigation District (IID) and its purchase contract with Poseidon Recourses. The District is pursuing detachment from SDCWA and annexation into Eastern Municipal Water District (EMWD) to save the District water users over 30% on their water costs. EMWD offers the District a reliable alternative wholesaler to SDCWA at a significantly lower cost. Chart 4 illustrates the per unit savings that the District would realize by purchasing its water from EMWD and shows EMWD maintains a lower average annual increase.

Chart #4 - District's Estimated Wholesale Water Costs



As shown in the financial projections in Table 2, a budgeted reserve withdrawal of $0.2 million is planned. Chart 5 shows the District's reserve balances are expected to remain relatively 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.

Chart #5 - District's Fund Balances and Target Balance Level

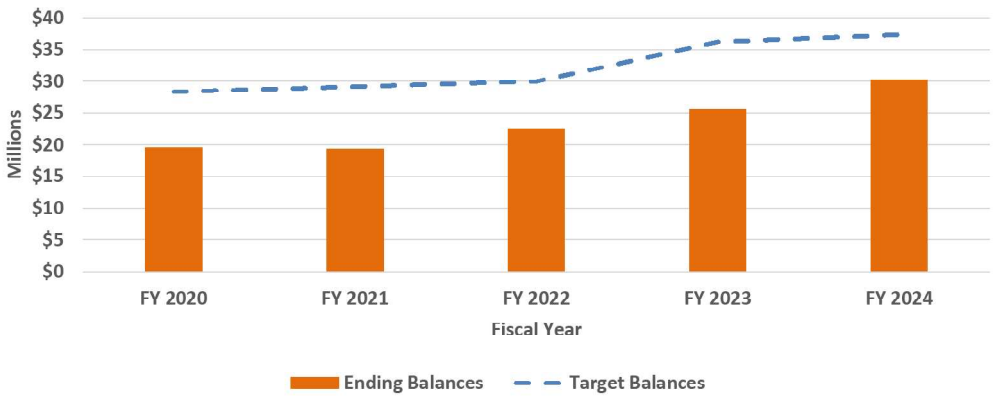


Table #2 - Fallbrook Public Utility District's Financial Summary

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues					
Revenue from Rates					
Water	$ 21,390,868	$ 24,414,828	$ 26,368,177	$ 28,492,566	$ 31,803,088
Recycled Water	1,229,603	1,188,241	1,285,881	1,388,751	1,499,851
Wastewater	5,941,086	6,186,330	6,466,015	6,756,986	7,061,050
Subtotal Revenue from Rates	**$ 28,561,557**	**$ 31,789,398**	**$ 34,120,073**	**$ 36,638,302**	**$ 40,363,989**
Other Operating Revenue Subtotal	**$ 941,243**	**$ 804,001**	**$ 868,491**	**$ 1,001,995**	**$ 1,127,716**
Non-Operating Revenue	**$ 5,582,222**	**$ 5,508,830**	**$ 5,646,870**	**$ 5,802,424**	**$ 5,969,437**
Total Revenues	**$ 35,085,022**	**$ 38,102,229**	**$ 40,635,434**	**$ 43,442,721**	**$ 47,461,141**
Total Operating Expenses	**$ 25,893,971**	**$ 27,470,440**	**$ 26,992,855**	**$ 27,798,224**	**$ 29,585,309**
Net Operating Revenues	**$ 9,191,051**	**$ 10,631,790**	**$ 13,642,578**	**$ 15,644,498**	**$ 17,875,832**
Total Debt Service	**$ 2,890,815**	**$ 3,563,049**	**$ 3,801,333**	**$ 5,534,480**	**$ 5,534,503**
Total Capital Expenditures	**$ 28,650,013**	**$ 39,121,750**	**$ 14,517,971**	**$ 7,026,158**	**$ 7,630,858**
Total Expenditures	**$ 57,434,799**	**$ 70,155,238**	**$ 45,312,160**	**$ 40,358,862**	**$ 42,750,670**
SRF Loan Proceeds	$ 23,308,627	$ 31,900,000	$ 7,727,258	$ -	$ -
Change in Net Position *	**$ 958,850**	**$ (153,009)**	**$ 3,050,531**	**$ 3,083,860**	**$ 4,710,471**
Beginning Balances	*$ 18,624,152*	*$ 19,583,002*	*$ 19,429,993*	*$ 22,480,524*	*$ 25,564,384*
Ending Balances	*$ 19,583,002*	*$ 19,429,993*	*$ 22,480,524*	*$ 25,564,384*	*$ 30,274,855*

*Change in net position is Total Revenues minus Total Expenditures plus SRF Loan Proceeds.

Budget User Guidance

The District's Fiscal Year 2020-21 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.

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Fallbrook Public Utility District

California

For the Fiscal Year Beginning

July 1, 2019

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: 33,000
- 9,300 water customers
- 5,000 sewer customers
- 29 recycled water customers
- 67 employees budgeted
- $32 million operating revenues
- $145 million in total assets
- 8,200 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 just over half 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.

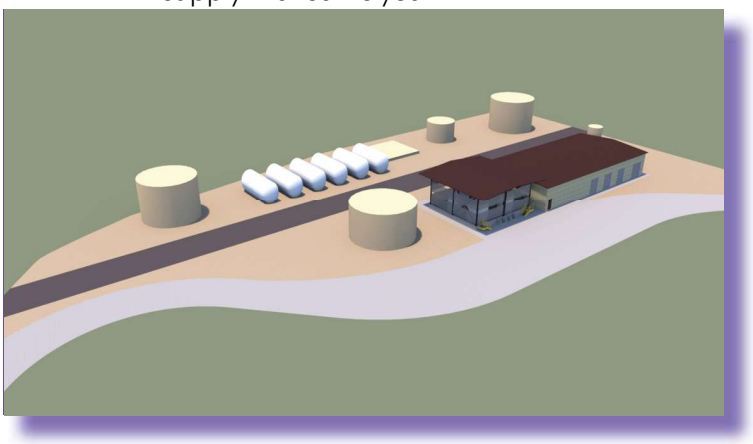
Water System

The District imports 99% of its water from the SDCWA with the remaining 1% coming from a local well. The District has 4 connections to the imported water system, three of the four are directed connected to MWD owned pipelines and the fourth which is currently not in use is connected to SDCWA's pipeline. 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 SMRCUP was originally projected to provide a long-term average annual of 3,100 acre-feet per year to the District's ratepayers based on an assessment of available supplies and demands for both the District and Camp Pendleton. The District's demands were also originally projected to be approximately 9,500 acre-feet per year so the project was projected to provide roughly 30% of the District's demands. Based on demand reductions from Camp Pendleton the available supplies from the SMRCUP project has increased to approximately 4,300 acre-feet per year of average annual water supplies. In addition, the District's long-term demand projections have decreased to roughly 8,100 acre-feet per year, so the long term expected supply percentage is now projected to be just over half of the District's total demands. Construction of a bi-directional pipeline and groundwater treatment plant began construction in the Fall of 2019.

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

The District's five-year average annual water sales is 9,010 acre-feet. Residential and commercial customers represent 62% of sales, and agricultural customers make up the remaining 38%. 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 being driven by the economics of agriculture production and the fact that high wholesale water costs make only limited crops profitable. The District's agricultural water sales have reduced from 7,000 acre-feet in Fiscal Year 2008 to 2,300 in Fiscal Year 2019.

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 29 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. The District is in the process of securing grant funding to help off-set the cost of the project feasibility studies.

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 - Dave Baxter

District #2 - Ken Endter, President

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

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 2018 population is estimated to be 33,021 with 11,289 households. Fallbrook's population has remained relatively unchanged over the past several years.

Figure #1 - District Service Area

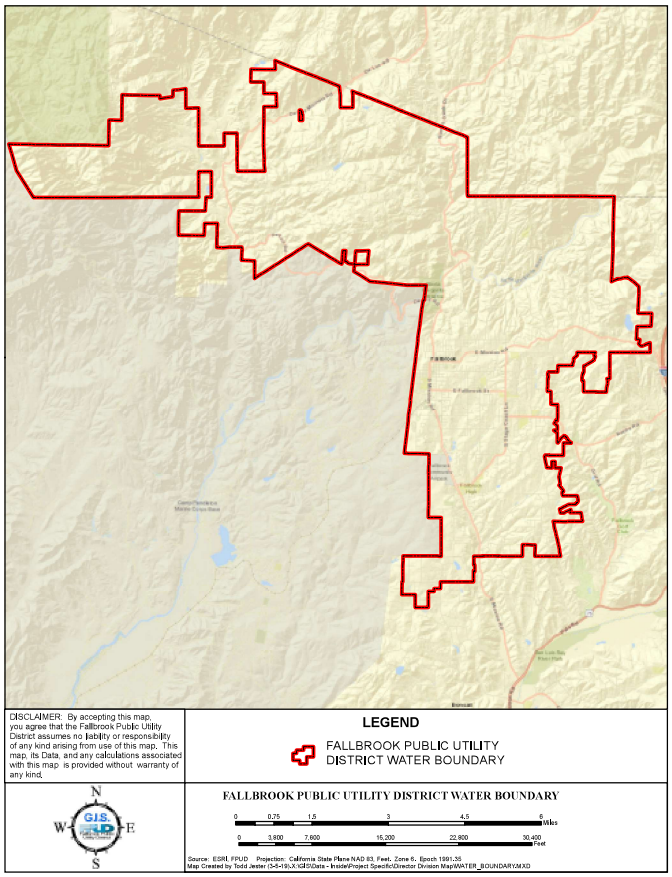
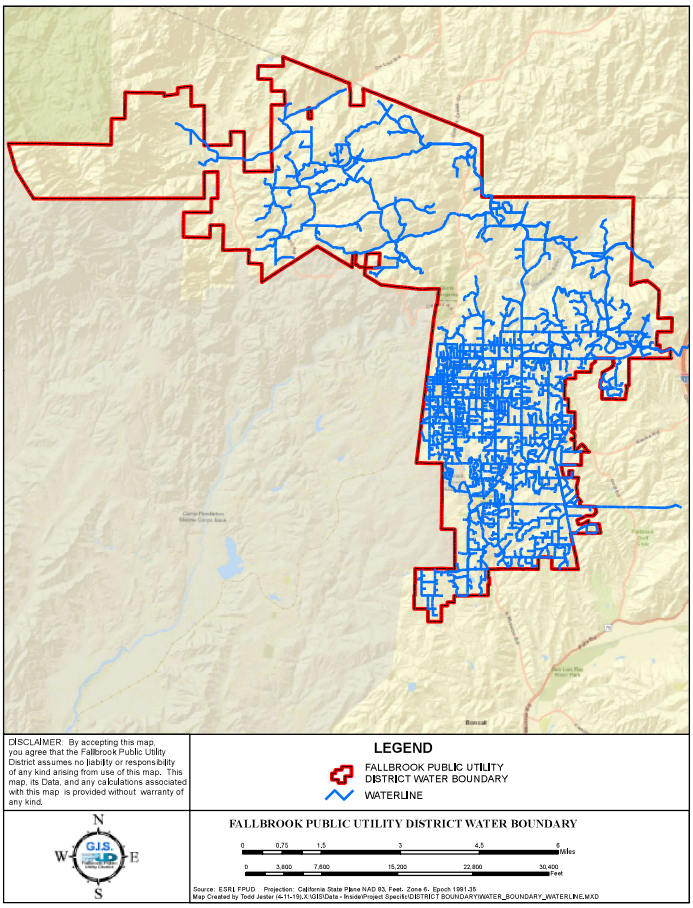


Figure #2 - District Pipelines



The median household income in Fallbrook was $60,223, which is less than the state median of $71,228 and slightly lower than the national average of $60,293. As of December 2019, San Diego County's unemployment rate was 2.8%, which is lower than the State's 3.9%.

The San Diego Association of Governments (SANDAG) projects that the County's population will approach 4.1 million residents in 2050, up from 3.4 million in 2020. 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 2020/2021

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 and securing the most cost effective source of imported water.

Fiscal Year 2020-21 District Objectives:

1. Maintain the construction progress of the SMRCUP in order to begin delivery of local water by 2022.
2. Take all necessary steps to ensure the District's LAFCO application to switch water wholesalers and reduce water costs continues to move towards LAFCO approval and a vote of District ratepayers.
3. Continue to evaluate funding alternatives including additional grants to help support water quality treatment improvements to the SMRCUP and to expand recycled water service to increase utilization of existing supplies.
4. Implement 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 2020-21 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. Implement the recently updated 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 2020-21 District Objectives:

1. Continue implementation and reporting of Key Performance Measures (KPIs) for engineering, operations, finance, customer service 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 by implementation of mobile device work order and service order processes as part of the new Enterprise Asset Management (EAM) System.
3. Build on recently implemented regional collaboration programs to evaluate new ways to reduce operating costs through shared 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 2020-21 District Objectives:

1. Improve our customer engagement by holding an annual community engagement event to both educate the public and receive public input on District priorities.
2. Promote the District role in helping benefit the community. Expand high-school internship program.
3. Provide administrative support for the community benefit program proposal submitted to LAFCO.
4. Continue to improve customer engagement through social media and quarterly newsletters. Develop 2 short videos to highlight key aspects of the District.
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. Achieve District of Distinction 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 2020-21 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.

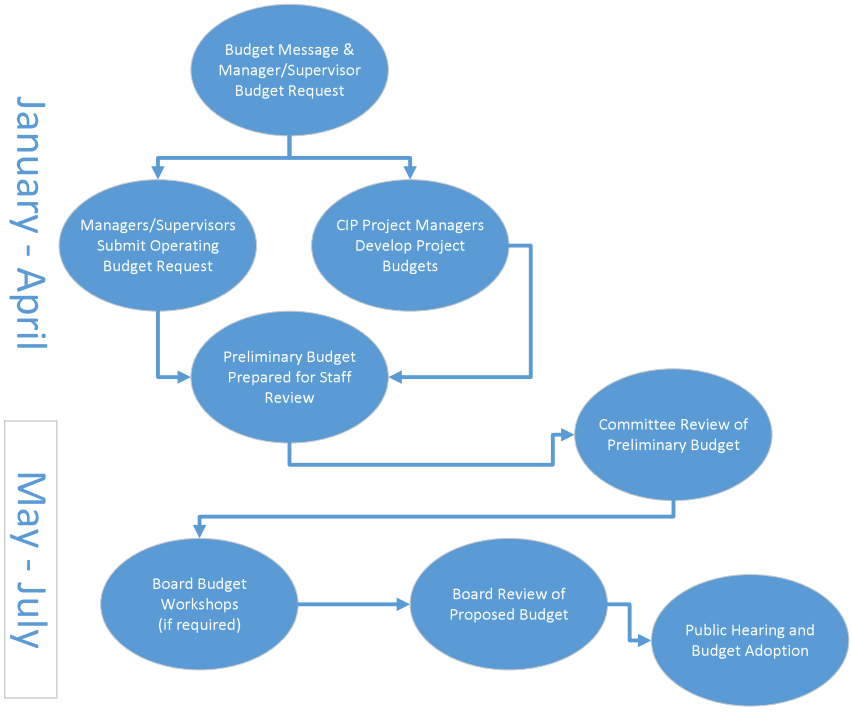
The District operates as an enterprise fund, which has a set of self-balancing accounts that record the financial position of each of the District's services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent 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.

Figure #3 - Fallbrook District's Annual Budget Process



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.

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. **Appendix C provides the Board Resolution.**

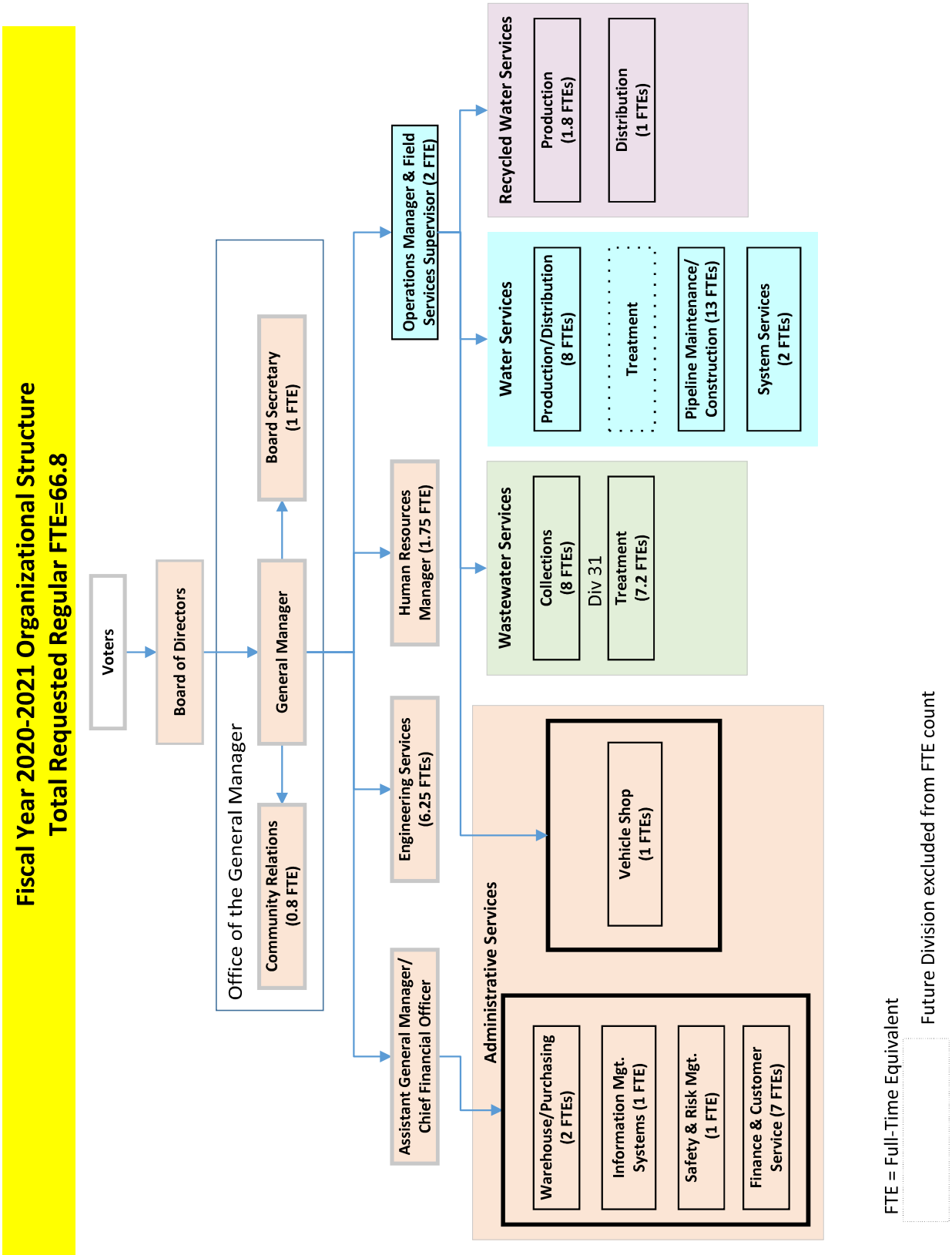
DISTRICT ORGANIZATIONAL CHART

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 66.8 Full Time Equivalent (FTE), which is one less FTE from the previous Fiscal Year. 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 2020-21 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=66.8*

Fund Structure

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 2020-21 is $5.4 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 million from the sale of the District's Santa Margarita Property in Fiscal Year 2018-19.

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 2020-21 is $1.4 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 2020-21 is $0.8 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 2020-21 is $0.1 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 2020-21 target balance for the Water Capital Fund is $15.9 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 2020-21 target balance for the Wastewater Capital Fund is $5.2 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 2020-21 target balance for the Water Capital Fund is $0.4 million.

Fund Summary

The Districts total water target fund balance (21.3 million) equals the water working capital/operating fund (5.4 million), the rate stabilization fund (0 million) and the water services capital fund (15.9 million). The total recycled water target fund balance (0.5 million) equals the recycled working capital/operating fund (0.1 million) and the recycled water services capital fund (0.4 million). The total wastewater target fund balance (7.4 million) equals the wastewater working capital/operating fund (1.4 million), the rate stabilization fund (0.8 million) and the wastewater services capital fund (5.2 million). The District's projected Fiscal Year 2020-21 year-end balances are shown in the table below.

Table #1 - Total Fund Balances

Service	Target Balance (Millions)	Projected Fiscal Year 2020-21 Ending Balance (Millions)
Water	$ 21.3	$ 15.4
Recycled Water	$ 0.5	$ 0.3
Wastewater	$ 7.4	$ 3.7
Total	**$ 29.2**	**$ 19.4**

Other Funds Maintained by the District

Section 115 Pension and OPEB Trust Fund

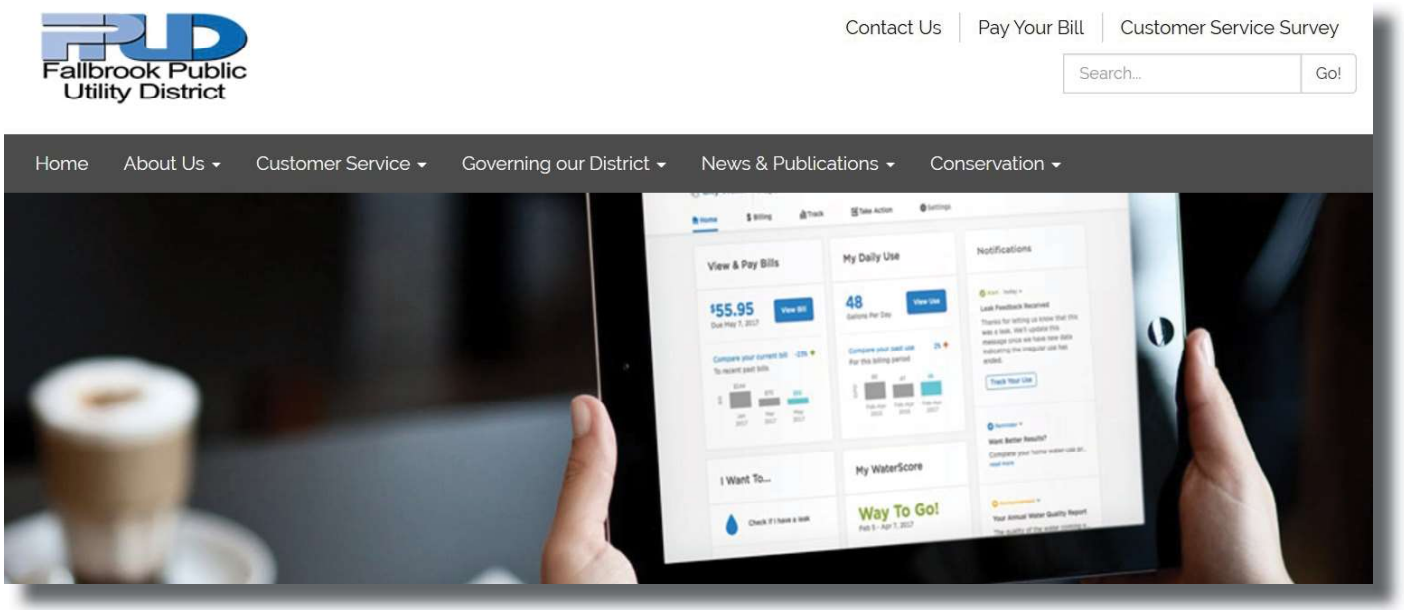
This fund was set up in Fiscal Year 2016-17 as an irrevocable trust established for the benefit of the pension and Other Post-Employment Benefits (OPEB) beneficiaries. The fund is managed by Public Agency Retirement Services (PARS) and is restricted in its use to funding pension and OPEB expenditures. The funds restricted for OPEB and pension costs are tracked in the fund. The fund balance was $6.5 million on March 31, 2020. 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 off-set on-going OPEB costs. Details on the District's pension and OPEB obligations are provided in Appendix D.

District's Financial Management Policies

The District maintains certain policies that govern aspects of the District's financial management. The District 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 and other policies for ease of reference.



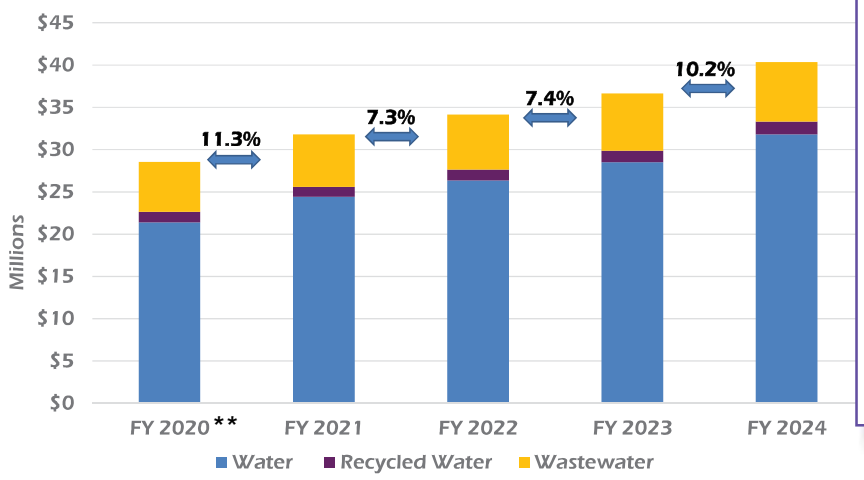
Financial Summaries

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. A similar increase is assumed for Calendar Years 2023 and 2024 but a rate and charge study will be conducted to determine the actual rate increases. 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 2021 rates and charges in December 2020. Since no decision on the rate and charge increases has been made at this time, the Budget uses 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 2020-2021 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 2019-22

	CY 2019	CY 2020	CY 2021	CY 2022
Water Rate increase				
Approved Increase	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%
Wastewater Rate increase				
Approved Increase	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%
Recycled Water Rate increase				
Approved Increase	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%

Chart #1 - Projected Total Rate Revenues *



Looking Forward

The economic impacts and duration of the pandemic are still unknown. While the Budget uses rate and charge increases in line with the Board's financial plan, the Board will take action to set rates in December 2020. At that time both the economic impacts and duration of the pandemic will be more clear. The Board will take these factors into consideration when adopting rates and charges and may elect to defer projects to mitigate rate increases.

* Total Rate Revenue increases shown

** Projected revenues based upon current District sales projections

This section provides an overview of the Districts overall 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 decrease by -8.8% next year based upon estimated wholesale water rate increases and a significant decrease in projected water sales. In the following years, wholesale water rates are

projected to increase annually in line with past averages 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 purchased water costs by approximately 7.6%. For labor and non-labor, the result of the escalation is an average annual increase of 4.0%. This includes projected increase in the District's pension and other benefits costs.

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

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues					
Revenue from Rates					
Water	$ 21,390,868	$ 24,414,828	$ 26,368,177	$ 28,492,566	$ 31,803,088
Recycled Water	1,229,603	1,188,241	1,285,881	1,388,751	1,499,851
Wastewater	5,941,086	6,186,330	6,466,015	6,756,986	7,061,050
Subtotal Revenue from Rates	**$ 28,561,557**	**$ 31,789,398**	**$ 34,120,073**	**$ 36,638,302**	**$ 40,363,989**
Other Operating Revenue					
Pass-through Charges					
MWD RTS Charge	$ 423,957	$ 291,331	$ 305,436	$ 320,971	$ 336,861
SDCWA IAC Charge	456,283	501,670	552,055	670,024	779,855
Sundry*	11,000	11,000	11,000	11,000	11,000
SDCWA Incentive	50,003	-	-	-	-
Other Revenue Subtotal	**$ 941,243**	**$ 804,001**	**$ 868,491**	**$ 1,001,995**	**$ 1,127,716**
Non-Operating Revenue					
Water Availability Charge**	$ 203,000	$ 204,000	$ 204,000	$ 204,000	$ 204,000
1% Property Tax	2,067,422	2,022,485	2,032,597	2,042,760	2,052,974
Investment Earnings	284,544	141,500	125,732	144,135	167,518
Water CIP Charge	1,373,621	1,455,281	1,556,735	1,653,313	1,755,694
Pumping CIP Charge	32,756	32,756	32,756	32,756	32,756
Other Revenue	220,000	250,000	255,000	260,100	265,302
Water Capacity Fees	3,000	50,000	50,500	51,005	51,515
Wastewater CIP Charge	1,170,233	1,207,132	1,255,873	1,293,426	1,332,275
Wastewater Capacity fees	105,000	35,000	35,700	36,414	37,142
Federal Interest Rate Subsidy	122,647	110,677	97,977	84,516	70,261
Subtotal Non-Operating Revenue	**$ 5,582,222**	**$ 5,508,830**	**$ 5,646,870**	**$ 5,802,424**	**$ 5,969,437**
Total Revenues	**$ 35,085,022**	**$ 38,102,229**	**$ 40,635,434**	**$ 43,442,721**	**$ 47,461,141**

* 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.

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

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Total Revenues	$35,085,022	$38,102,229	$40,635,434	$43,442,721	$47,461,141
Operating Expenses					
Water Supply Costs					
Purchased Water Costs***	$ 12,778,727	$ 13,810,108	$ 11,302,476	$ 10,813,148	$ 11,928,736
Pumping Costs	180,000	202,797	212,936	223,583	246,159
SMRCUP Treatment	-	-	1,431,394	2,098,131	2,161,075
Labor Costs	2,869,597	2,895,222	3,039,983	3,191,982	3,351,581
Fringe Benefits	1,809,326	1,974,048	2,102,361	2,239,015	2,350,965
Services, Materials & Supplies	1,902,947	2,122,900	2,186,587	2,252,185	2,319,750
Administrative Expenses	6,353,374	6,465,365	6,717,118	6,980,180	7,227,043
Total Operating Expenses	$ 25,893,971	$ 27,470,440	$ 26,992,855	$ 27,798,224	$ 29,585,309
Net Operating Revenues	$ 9,191,051	$ 10,631,790	$ 13,642,578	$ 15,644,498	$ 17,875,832
Total Debt Service	$ 2,890,815	$ 3,563,049	$ 3,801,333	$ 5,534,480	$ 5,534,503
Total Capital Expenditures	$ 28,650,013	$ 39,121,750	$ 14,517,971	$ 7,026,158	$ 7,630,858
Total Expenditures	$ 57,434,799	$ 70,155,238	$ 45,312,160	$ 40,358,862	$ 42,750,670
SRF Loan Proceeds	$ 23,308,627	$ 31,900,000	$ 7,727,258	$ -	$ -
Change in Net Position ****	$ 958,850	$ (153,009)	$ 3,050,531	$ 3,083,860	$ 4,710,471
Beginning Balances	*$ 18,624,152*	*$ 19,583,002*	*$ 19,429,993*	*$ 22,480,524*	*$ 25,564,384*
Ending Balance	*$ 19,583,002*	*$ 19,429,993*	*$ 22,480,524*	*$ 25,564,384*	*$ 30,274,855*

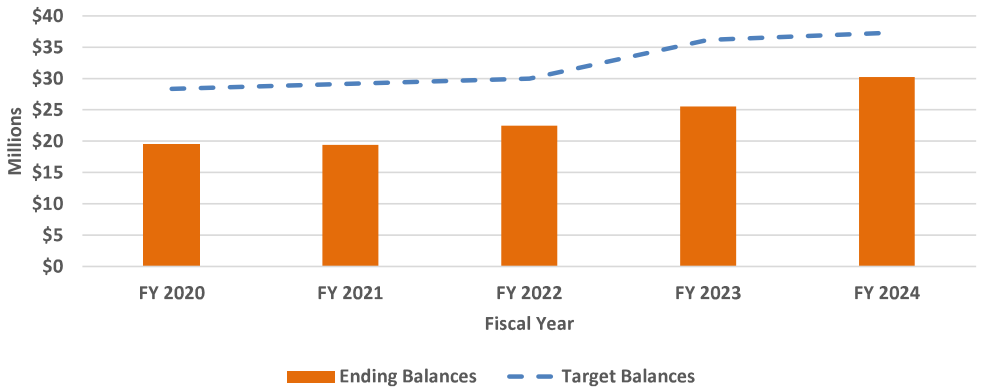
***Detail on purchased water costs provided on page 43. Purchased water costs include MWD RTS Charge and SDCWA IAC Charge.

****Change in net position is Total Revenues minus Total Expenditures plus SRF Loan Proceeds..

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 offsets the use of the District's financial resources as shown in the table above. The Fiscal Year 2020-21 Change in Net Position shows the District is utilizing reserves in that particular fiscal year. In Fiscal Year 2020-21, the District is projecting the withdrawal of $153,009 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 revenues. Water sales levels determine the Districts water sales 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 2020-21 budget cycle, water supply conditions are near normal with most reservoirs near 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.

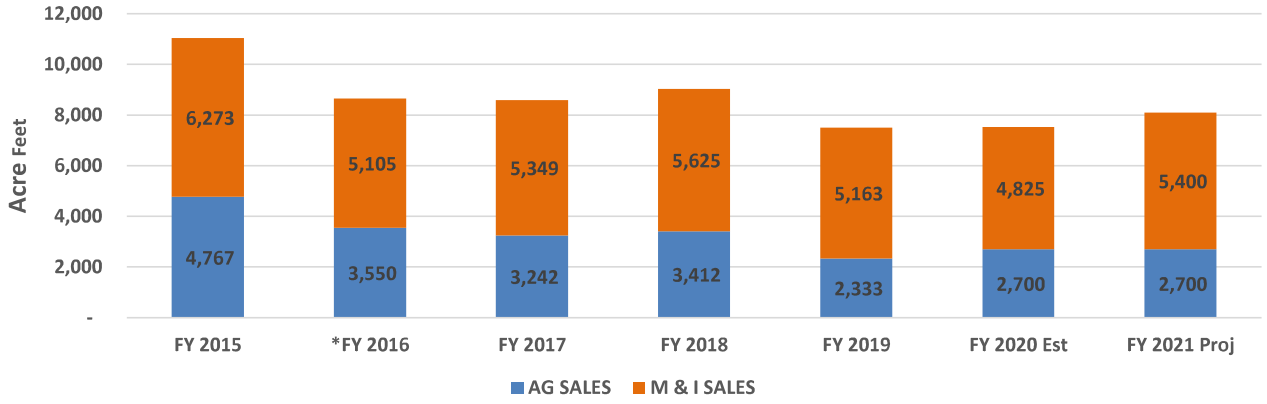
The District's sales over the last five years including the estimate for the current fiscal year and the projected water sales for the budget period are shown in Table 1. The table shows water production and total sales; production includes system losses, and water sales are units sold to customers. 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 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20 Estimated	FY 2020-21 Projected
Production	11,849	9,573	9,193	10,090	8,043	8,100	8,650
Total Sales (adjusted for system losses)	**11,040**	**8,656**	**8,592**	**9,269**	**7,496**	**7,525**	**8,100**
AG Sales	4,767	3,550	3,242	3,412	2,333	2,700	2,700
M&I Sales	6,273	5,105	5,349	5,625	5,163	4,825	5,400

As the table and chart shows, recent years have been impacted by restrictions in use levels, wet weather and changes in customer use patterns all of which result in reduced water demands. The District's Fiscal Year 2019-20 water demands are expected to be at or near the historic low levels seen last year, Fiscal Year 2018-19. This persistent trend in lower water demands has caused the District to reevaluate how it projects future water demands. After looking at changes in the region's agricultural industry and domestic water use patterns, the District has reduced the long-term average water sales it uses for planning purposes. The projected Fiscal Year 2020-21 water sales use this new long-term average, which is an 11% decrease from what the District had previously used to project water sales largely due to the projected permanent loss of agriculture.

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 2020-21 provided here include rate and charge increases in line what was approved by the Board as part of the 2017 Rate and Charge Study. The primary driver of the 2.5% revenue decrease budget to budget is the decrease in water sales. Fiscal Year 2019-20 sales revenues are projected to be 12.6% below budgeted levels due to lower water sales.

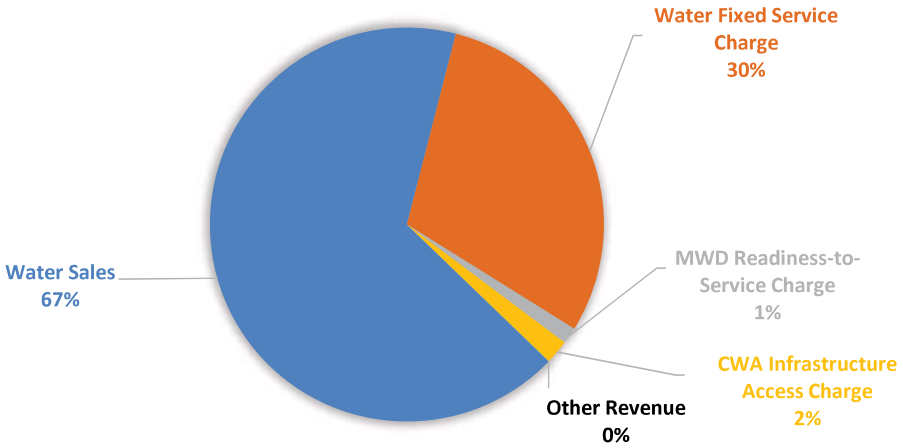
Table #2 - Water Services Sources of Revenue

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Operating Revenues:					
Water Sales	$ 13,204,050	$ 18,260,895	$ 14,402,371	$ 16,867,076	-7.6%
Water Fixed Service Charge	6,291,436	7,004,867	6,988,497	7,547,752	7.8%
MWD Readiness-to-Service Charge	339,086	310,753	423,957	291,331	-6.3%
SDCWA Infrastructure Access Charge	428,785	457,553	456,283	501,670	9.6%
Other Revenue	218,432	5,000	5,000	5,000	0.0%
Total Operating Revenue	**$ 20,481,789**	**$ 26,039,068**	**$ 22,276,108**	**$ 25,212,828**	**-3.2%**
Non-Operating Revenues:					
Water Capital Improvement Charge	$ 1,305,331	$ 1,390,702	$ 1,373,621	$ 1,455,281	4.6%
Property Tax	1,099,256	955,580	1,100,000	1,050,225	9.9%
Water Availability Charge	204,359	203,000	203,000	204,000	0.5%
Water Capacity Charges	47,237	70,000	3,000	50,000	-28.6%
Investment Earnings	239,393	213,394	200,822	100,000	-53.1%
Pumping Capital Improvement Charge	24,337	37,000	32,756	32,756	-11.5%
Gain/Loss on sale of assets	6,200,000	-	-	-	N/A
Other Revenue	199,433	180,046	220,000	250,000	38.9%
Total Non-Operating Revenue	**$ 9,319,346**	**$ 3,049,723**	**$ 3,133,199**	**$ 3,142,262**	**3.0%**
Total Revenues	**$ 29,801,135**	**$ 29,088,790**	**$ 25,409,306**	**$ 28,355,090**	**-2.5%**

Water sales revenues represent 60% of the District's water operating revenues with the remaining 40% 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 $62.9 million loan will provide funding for the project's costs. The project costs are expected to be $23.3 million, $31.9 million and $7.7 million in Fiscal Years 2019-20, 2020-21 and 2021-22, respectively.

Chart #2 - Fiscal Year 2020-21 Water Services Operating Revenues

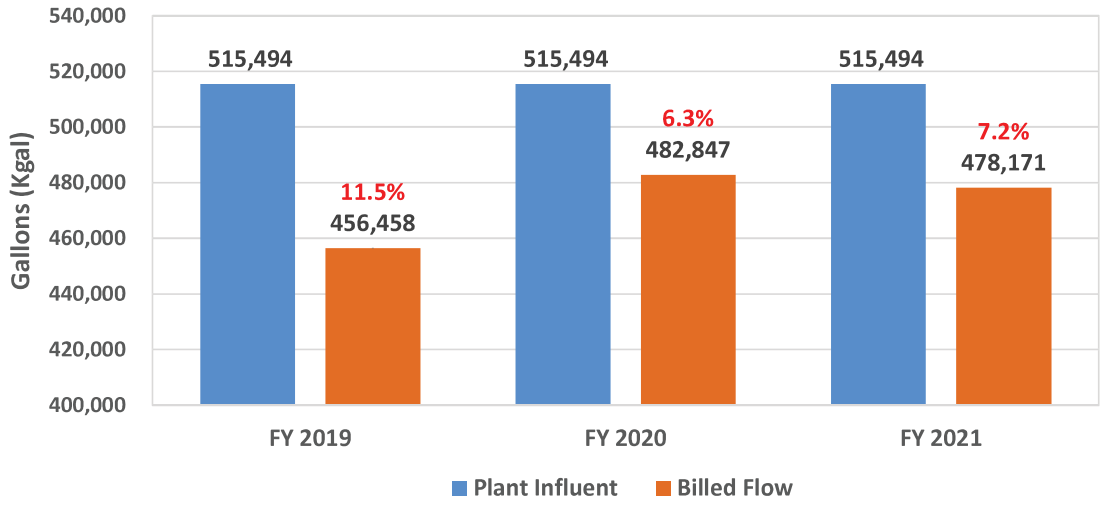


Wastewater Services Sources of Funds

Wastewater revenue is relatively stable since it is billed based upon indoor water used. To estimate the amount of water used indoors 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 3-month winter average. 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 2020-21 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 2020-21 shows billable flows near average plant flow levels. Prior to adopting rates and charges in December 2020, staff will develop a recommendation for changes in the residential billable flow methodology.

Chart #3 - Wastewater Services Average Annual Flows

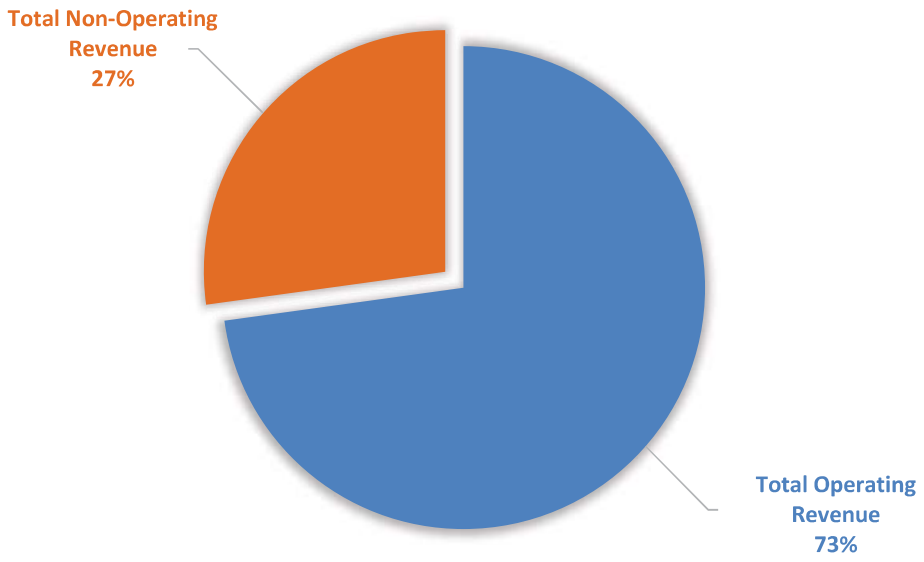


Wastewater Services operating and non-operating revenues are shown in Table 3. The primary source of operating revenue for Wastewater Services is the Wastewater Service Charge. The primary non-operating revenues are the Wastewater Capital Improvement charge, which, like the Water Capital Improvement 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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Operating Revenue					
Wastewater Service Charges	$ 5,453,590	$ 6,214,076	$ 5,941,086	$ 6,186,330	-0.4%
Sundry Other Revenue	10,230	1,000	1,000	1,000	0.0%
Total Operating Revenue	**$ 5,463,820**	**$ 6,215,076**	**$ 5,942,086**	**$ 6,187,330**	**-0.4%**
Non-Operating Revenue					
Wastewater Capital Improvement Charge	$ 1,144,390	$ 1,185,299	$ 1,170,233	$ 1,207,132	1.8%
Property Tax	956,993	912,422	912,422	916,985	0.5%
Wastewater Capacity Charges	133,729	31,522	105,000	35,000	11.0%
Investment Earnings	84,296	56,675	81,396	40,000	-29.4%
Federal Interest Rate Subsidy	134,924	122,647	122,647	110,677	-9.8%
Total Non-Operating Revenue	**$ 2,454,332**	**$ 2,308,565**	**$ 2,391,698**	**$ 2,309,793**	**0.1%**
Total Revenues	**$ 7,918,152**	**$ 8,523,641**	**$ 8,333,784**	**$ 8,497,123**	**-0.3%**

Chart #4 - Fiscal Year 2020-21 Wastewater Services Operating Revenues



Recycled Water Services Sources of Funds

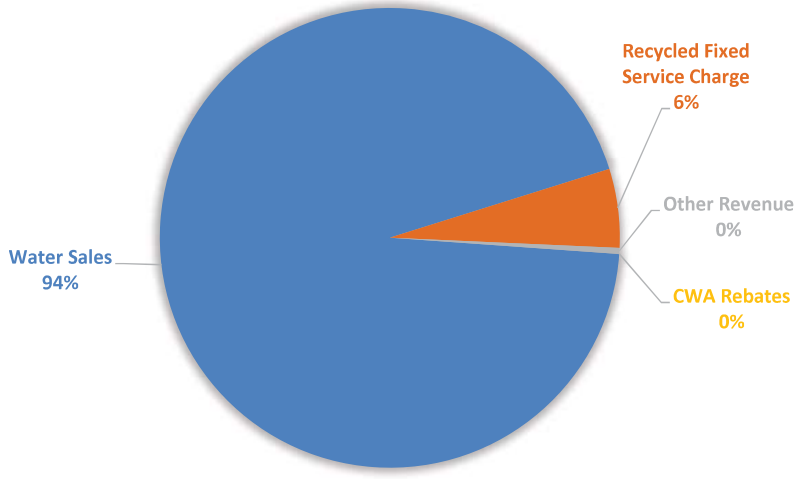
While recycled water sales are subject to weather driven water demands, these customers are not subject to use restrictions due to drought. It is for this reason that many have chosen to be a recycled water customer. While the District is expanding the distribution system, the customer base is relatively 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 2020-21 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. The District is actively exploring opportunities to more fully utilize the recycled water available. This includes expanding retail sales and utilizing the recycled water as part of an indirect potable water supply. 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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Increase (%)
Operating Revenues					
Water Sales	$ 920,376	$ 1,318,476	$ 1,168,400	$ 1,122,142	-14.9%
Recycled Fixed Service Charge	(17,974)	64,354	61,203	66,099	2.7%
Other Revenue	6,061	5,000	5,000	5,000	0.0%
CWA Rebates	90,480	50,003	50,003	-	-100.0%
Total Operating Revenue	**$ 998,943**	**$ 1,437,833**	**$ 1,284,606**	**$ 1,193,241**	**-17.0%**
Non-Operating Revenues					
Property Tax	49,786	50,294	55,000	55,275	9.9%
Investment Earnings	2,409	14,475	2,326	1,500	-89.6%
Total Non-Operating Revenue	**$ 52,195**	**$ 64,768**	**$ 57,326**	**$ 56,775**	**-12.3%**
Total Revenues	**$ 1,051,138**	**$ 1,502,602**	**$ 1,341,932**	**$ 1,250,016**	**-16.8%**

Chart #5 - Fiscal Year 2020-21 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 also 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 Districts Services' operating budgets. It is denoted as Allocated Benefits Expenditures on each Services' Total Operating Budget Summary Table.

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 are now possible and allow line item comparisons.

Table #1 - Overview of Total Services Operating Budget

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Total Labor *	$ 5,111,090	$ 5,324,861	$ 5,420,878	$ 5,316,951	-0.1%
Total Non-Labor	4,565,405	4,509,670	4,088,997	4,515,332	0.1%
Operating Total	**$ 9,676,495**	**$ 9,834,531**	**$ 9,509,875**	**$ 9,832,283**	**-0.0%**
Benefits Expenses	2,899,667	3,425,369	3,425,369	3,625,253	5.8%
Total Services Operating Budget	**$12,576,162**	**$ 13,259,901**	**$ 12,935,244**	**$13,457,536**	**1.5%**

** 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 20 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

Position	Actual FTE* FY 2018-19	Actual FTE FY 2019-20	Proposed FTE FY 2020-21
General Manager	1.0	1.0	1.0
Board Secretary	1.0	1.0	-
Executive Assistant/ Board Secretary	-	-	1.0
Assistant General Manager/Chief Financial Officer	1.0	1.0	1.0
Human Resources Manager	1.0	1.0	1.0
Senior Accountant	1.0	1.0	1.0
Accounting Technician	2.0	2.0	2.0
Management Analyst	-	1.0	1.0
Safety & Risk Officer	1.0	1.0	1.0
Information Systems Tech	1.0	1.0	1.0
Senior Engineer	1.0	1.0	1.0
Engineering Supervisor	1.0	1.0	-
Administrative Office Specialist	1.0	1.0	1.0
Engineering Technician	4.0	3.0	3.0
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
Customer Service Specialist	2.0	2.0	2.0
Customer Service Representative	1.0	1.0	1.0
Purchasing Warehouse Supervisor	1.0	1.0	1.0
Warehouse Purchasing Specialist	1.0	1.0	1.0
Equipment Tech	1.0	-	-
Equipment Mechanic	1.0	1.0	1.0
TOTAL FTE	**25.8**	**24.8**	**23.8**

**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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Total Labor*	$ 2,352,772	$ 2,512,198	$ 2,551,281	$ 2,421,728	-3.6%
Total Non-Labor	2,295,135	2,279,270	2,186,050	2,392,432	5.0%
Services Operating Total	**$ 4,647,907**	**$ 4,791,468**	**$ 4,737,331**	**$ 4,814,160**	**0.5%**
Allocated Benefits Expenditures**	1,334,795	1,616,043	1,616,043	1,651,205	2.2%
Total Services Budget	**$ 5,982,702**	**$ 6,407,511**	**$ 6,353,374**	**$ 6,465,366**	**0.9%**

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

*** Includes transfer to Pension/OPEB Trusts*

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Office of the General Manager					
Labor:					
Salaries	$ 471,350	$ 449,438	$ 492,201	$ 431,934	-3.9%
Non-Labor:					
Director Expenses	33,527	40,000	31,522	40,000	0.0%
General & Administrative	14,757	13,320	15,404	12,700	-4.7%
Equipment (Non Capital)	2,987	-	-	-	0.0%
Materials/Services/Supplies	77,654	52,800	100,281	68,300	29.4% *
Professional Services	286,214	240,000	279,408	316,000	31.7% *
Memberships/Training/Permits	85,181	94,400	88,000	96,600	2.3%
Santa Margarita Watermaster	114,059	115,000	120,425	123,429	7.3%
Total Non-Labor	**$ 614,379**	**$ 555,520**	**$ 635,040**	**$ 657,029**	**18.3%**
Division Operating Total	**$ 1,085,729**	**$ 1,004,958**	**$ 1,127,241**	**$ 1,088,963**	**8.4%**

**Increased outside support costs for detachment efforts.*

Finance & Customer Service					
Labor:					
Salaries	$ 652,647	$ 671,504	$ 744,674	$ 757,348	12.8% *
Non-Labor:					
Contractor Services	25,986	14,000	18,380	19,000	35.7%
Equipment (Non Capital)	2,686	4,000	5,277	4,000	0.0%
Materials/Services/Supplies	221,960	193,200	194,318	195,700	1.3%
Professional Services	151,333	145,500	124,443	136,000	-6.5%
Memberships/Training/Permits	3,373	3,000	2,059	2,700	-10.0%
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 405,338**	**$ 359,700**	**$ 344,477**	**$ 357,400**	**-0.6%**
Division Operating Total	**$ 1,057,985**	**$ 1,031,204**	**$ 1,089,151**	**$ 1,114,748**	**8.1%**

**FTE dedicated to Finance & Customer Service functions added.*

Warehouse & Purchasing					
Labor:					
Salaries	$ 166,186	$ 162,550	$ 188,105	$ 169,919	4.5%
Non-Labor:					
Contractor Services	102,455	108,000	110,000	115,000	6.5%
Equipment (Non Capital)	1,910	3,500	4,025	4,000	14.3%
Materials/Services/Supplies	104,927	80,450	124,640	98,450	22.4% *
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	308	1,000	795	1,000	0.0%
Utilities **	45,571	40,000	51,444	45,000	12.5%
Total Non-Labor	**$ 255,171**	**$ 232,950**	**$ 290,904**	**$ 263,450**	**13.1%**
Division Operating Total	**$ 421,357**	**$ 395,500**	**$ 479,009**	**$ 433,369**	**9.6%**

**Cost increase driven by actual cost levels.*

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Human Resources					
Labor:					
Salaries	$ 186,551	$ 169,083	$ 217,424	$ 198,212	17.2% *
Non-Labor:					
Contractor Services	4,722	43,200	30,649	31,325	-27.5%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	19,937	21,300	16,323	17,400	-18.3%
Professional Services	16,292	10,000	15,000	10,000	0.0%
Memberships/Training/Permits	86,738	91,450	72,191	95,950	4.9%
Education Funding	-	30,000	1,748	30,000	0.0%
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 127,689**	**$ 195,950**	**$ 135,911**	**$ 184,675**	**-5.8%**
Division Operating Total	**$ 314,240**	**$ 365,033**	**$ 353,335**	**$ 382,887**	**4.9%**

**Added .75 FTE dedicated to Human Resources functions.*

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

Information Management					
Labor:					
Salaries	$ 85,608	$ 87,578	$ 89,649	$ 93,937	7.3%
Non-Labor:					
Contractor Services	106,459	28,150	28,000	58,150	106.6% *
Equipment (Non Capital)	24,083	25,000	22,500	25,000	0.0%
Materials/Services/Supplies	129,198	149,800	132,500	145,728	-2.7%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 259,740**	**$ 202,950**	**$ 183,000**	**$ 228,878**	**12.8%**
Division Operating Total	**$ 345,348**	**$ 290,528**	**$ 272,649**	**$ 322,815**	**11.1%**

**Increase due to costs associated with web based Computerized Maintenance Management System (CMMS).*

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

Engineering Services					
Labor:					
Salaries	$ 522,747	$ 570,334	$ 575,838	$ 475,800	-16.6% *
Non-Labor:					
Contractor Services	193	2,500	345	2,500	0.0%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	45,393	67,500	69,495	42,000	-37.8%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	1,035	1,200	227	500	-58.3%
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 46,621**	**$ 71,200**	**$ 70,067**	**$ 45,000**	**-36.8%**
Division Operating Total	**$ 569,368**	**$ 641,534**	**$ 645,905**	**$ 520,800**	**-18.8%**

**1 FTE transferred to Finance & Customer Service functions, .75 FTE allocated to Human Resources functions, and 1 FTE eliminated.*

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Safety & Risk					
Labor:					
Salaries	$ 157,353	$ 205,226	$ 161,919	$ 204,842	-0.2%
Non-Labor:					
Contractor Services	16,973	28,500	14,506	18,500	-35.1%
Equipment (Non Capital)	81,574	35,000	37,461	35,000	0.0%
Materials/Services/Supplies	3,267	11,500	35,940	27,500	139.1%
Professional Services	89,904	270,000	177,717	275,000	1.9%
Memberships/Training/Permits	-	500	767	-	-100.0%
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 191,718**	**$ 345,500**	**$ 266,391**	**$ 356,000**	**3.0%**
Division Operating Total	$ 349,071	$ 550,726	$ 428,310	$ 560,842	1.8%

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

Vehicle Services & Shop					
Labor:					
Salaries	$ 110,330	$ 196,485	$ 81,471	$ 89,735	-54.3% *
Non-Labor:					
Contractor Services	22,676	20,500	24,700	25,000	22.0%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	371,803	295,000	235,560	275,000	-6.8%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 394,479**	**$ 315,500**	**$ 260,260**	**$ 300,000**	**-4.9%**
Division Operating Total	$ 504,809	$ 511,985	$ 341,731	$ 389,735	-23.9%

**Time allocation to division reduced.*
***Utility cost increase driven by actual cost levels.*

Fiscal Year 2019-20 Accomplishments

- Completed the financial system restructuring to better track labor and benefit costs for operations and capital projects
- Conducted a review of organizational structure
- Implemented several enhancements to bill payment options, water use alerts and electronic bill reminders
- Started construction of the SMRCUP
- Updated the District's performance evaluation process
- Developed CAD standards and drawing templates for improved CIP design

Fiscal Year 2020-21 Goals and Objectives

- Document finance policy and procedure guides
- Resilience Assessment for compliance with the 2018 AWIA Section 2013
- Assist in the Development or update of the District's ERP based on Assessment study in accordance with the AWIA
- Develop a policies and procedures manual for HR
- Complete comprehensive update of standard specifications/drawings/approved materials list
- Utilize CityWorks to adopt improved work flows for new customer service requests
- Establish Sewer Improvement District in targeted portions of the sewer service area

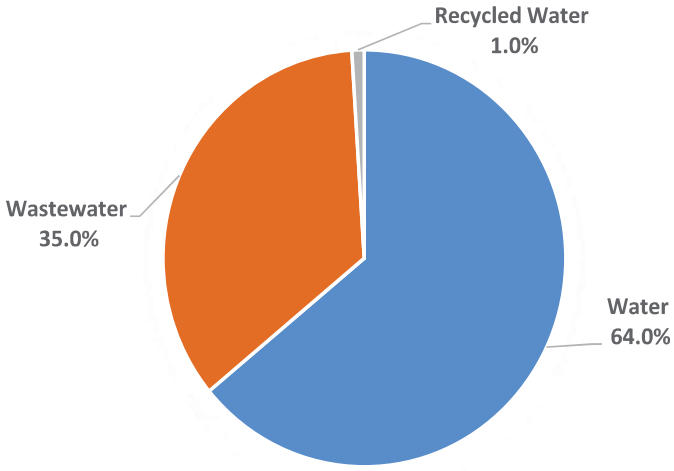
Key Performance Indicators

- 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: 14,317

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

Position	Actual FTE FY 2018-19	Actual FTE FY 2019-20	Proposed FTE FY 2020-21
Construction/ Maintenance Supervisor	1.0	-	-
Field Services Manager	-	1.0	1.0
Utility Technician	4.75	4.75	5.5
Utility Worker I & II	9.5	9.5	9.5
System Service/ Shop Supervisor	1.0	1.0	1.0
Operations Manager	1.0	1.0	1.0
System Operations Supervisor	1.0	1.0	1.0
Systems Operator I/II	3.0	3.0	3.0
Instrumentation & Control Specialist	1.0	-	-
Senior Instrumentation & Control Specialist	-	1.0	1.0
Maintenance Electrician	1.0	-	-
Instrumentation, Electrical & Controls Tech	-	2.0	2.0
Backflow/ Cross Connection Tech	0.75	0.75	-
TOTAL FTE	**24.0**	**25.0**	**25.0**

** 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 inquiries

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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Total Labor *	$ 1,455,940	$ 1,422,713	$ 1,513,659	$ 1,449,807	1.9%
Total Non-Labor	986,932	949,500	599,584	758,000	-20.2%
Operating Total	**$ 2,442,872**	**$ 2,372,213**	**$ 2,113,243**	**$ 2,207,807**	**-6.9%**
Allocated Benefits Expenditures	825,996	915,201	915,201	988,521	8.0%
Total Direct Water Costs	**$ 3,268,868**	**$ 3,287,415**	**$ 3,028,444**	**$ 3,196,328**	**-2.8%**
Allocation of Administrative Services	3,170,832	4,100,807	4,100,807	4,137,834	0.9%
Total Services Budget	**$ 6,439,700**	**$ 7,388,221**	**$ 7,129,251**	**$ 7,334,162**	**-0.7%**

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Production & Distribution					
Labor:					
Salaries	$ 654,839	$ 747,781	$ 717,716	$ 679,375	-9.1% *
Non-Labor:					
Contractor Services	28,640	49,000	25,595	51,000	4.1%
Equipment (Non Capital)	-	14,000	6,541	14,000	0.0%
Materials/Services/Supplies	270,647	217,000	195,843	238,000	9.7%
Professional Services	63	-	-	-	NA
Memberships/Training/Permits	60,736	90,000	72,159	80,000	-11.1%
Utilities **	63,047	65,000	68,718	75,000	15.4%
Total Non-Labor	**$ 423,133**	**$ 435,000**	**$ 368,856**	**$ 458,000**	**5.3%**
Division Operating Total	**$ 1,077,972**	**$ 1,182,781**	**$ 1,086,572**	**$ 1,137,375**	**-3.8%**

**Allocated additional labor costs to System Services.*

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Pipeline Maintenance & Construction					
Labor:					
Salaries	$ 299,607	$ 346,089	$ 397,139	$ 380,361	9.9% *
Non-Labor:					
Contractor Services	80,079	111,000	26,324	36,000	-67.6%
Equipment (Non Capital)	-	10,000	3,722	10,000	0.0%
Materials/Services/Supplies	50,908	32,000	16,250	33,000	3.1%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	144	500	-	-	-100.0%
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 131,131**	**$ 153,500**	**$ 46,296**	**$ 79,000**	**-48.5%**
Division Operating Total	**$ 430,738**	**$ 499,589**	**$ 443,435**	**$ 459,361**	**-8.1%**

**Increased labor costs from Vehicle Services.*
***Utility cost increase driven by actual cost levels.*

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
System Services					
Labor:					
Salaries	$ 501,494	$ 328,844	$ 398,804	$ 390,071	18.6% *
Non-Labor:					
Contractor Services	205,294	136,000	62,222	76,000	-44.1%
Equipment (Non Capital)	712	-	-	-	NA
Materials/Services/Supplies	226,662	225,000	122,210	145,000	-35.6%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
Total Non-Labor	**$ 432,668**	**$ 361,000**	**$ 184,432**	**$ 221,000**	**-38.8%**
Division Operating Total	**$ 934,162**	**$ 689,844**	**$ 583,236**	**$ 611,071**	**-11.4%**

**Increased labor costs from Production & Distribution*
***Utility cost increase driven by actual cost levels.*

Fiscal Year 2019-20 Accomplishments

- Replaced 63 water main valves as of May 1
- Upgraded the Yarnell Cla-Val Pressure Reducing Station by replacing critical components and added radio communication
- Installed two 36" culverts and repaired the Stage Coach Right of Way
- Removed the solar panels, replaced the roof and reinstalled the solar panels on the tractor shed in the yard
- Completed multiple office remodels
- Currently working on the Bio Solids barn at the WRP and the drainage system for the FPUD warehouse
- Exchanged 691 meters and 38 back flow devices; Repaired 12 water main leaks and 13 service line leaks as of May 1
- Updated Calgon the software and HMI at the UV treatment plant. Added remote access capabilities for the Calgon technicians
- Developed a full list of preventative maintenance activities and work-flows with CityWorks CMMS
- Added radio communications at the SDCWA De Luz-1 meter to monitor and track flow
- Upgraded Harris Pump Station electrical and SCADA

Fiscal Year 2020-21 Goals and Objectives

- Upgrade the SCADA system to improve communication between critical sites
- Upgraded pressure/flow control facilities to increase reliability and better track flow rates and water loss
- Fully implement CMMS for preventative maintenance and reactive work orders
- Replace 100 valves
- Rebuild Lynda Ln PRV Station
- Rebuild Ross Lake PRV Station

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

Water Supply Costs

The District's Water Supply Costs are comprised of Purchased Water Costs and pumping costs. The District's Purchased Water Costs are the cost of wholesale water from SDCWA. Water Supply Costs are broken down into fixed and variable costs. Variable or Commodity costs vary depending on the amount of water purchased (this includes pumping costs). 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. SDCWA's recommended rates and charges are used for the cost of water estimate. The reduction in the Variable Water Cost is due to the reduced water sales projections. The District's variable and fixed water charges are summarized below:

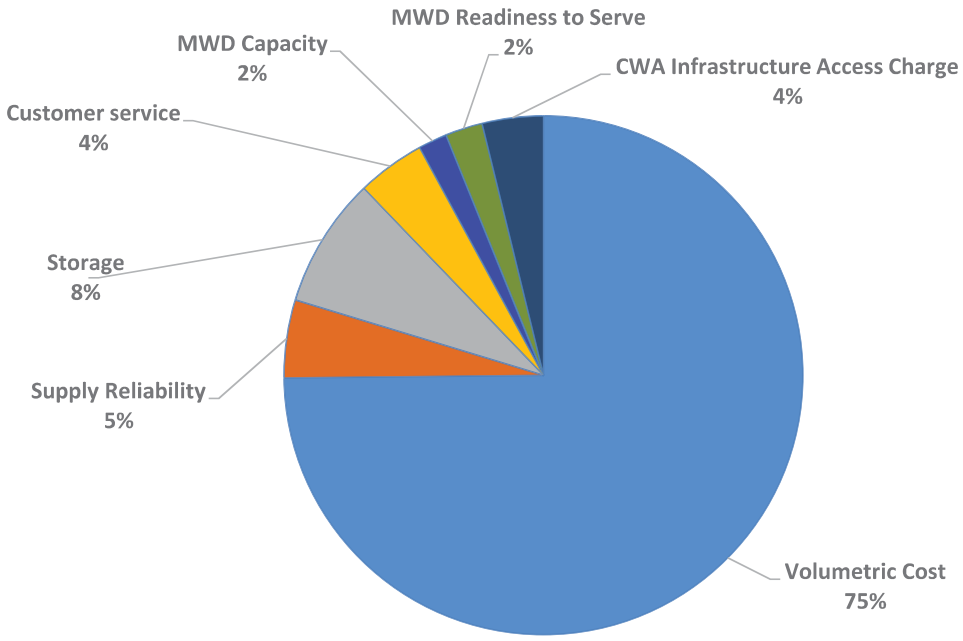
Fixed Costs

SDCWA has a fixed meter fee (the IAC), which has increased 37.4% over the past two calendar years. This fixed cost is passed through to the District's customers and therefore increases each customers' fixed costs.

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

	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Variable Costs:					
Variable Water Costs	$ 9,318,288	$ 12,427,091	$ 9,629,669	$ 10,587,871	-14.8%
Fixed Costs:					
Supply Reliability	$ 519,150	$ 593,136	$ 593,136	$ 690,036	16.3%
Storage	1,133,928	1,110,090	1,110,090	1,066,398	-3.9%
Customer service	618,534	585,942	585,942	570,306	-2.7%
MWD Capacity	273,605	254,982	254,982	244,872	-4.0%
MWD Readiness to Serve	340,392	310,440	310,440	291,012	-6.3%
SDCWA IAC	436,668	474,468	474,468	562,410	18.5%
Total Cost of Water	**$ 12,640,565**	**$ 15,756,149**	**$ 12,958,727**	**$ 14,012,905**	**-11.1%**
Estimated $/AF	$ 1,686	$ 1,583	$ 1,722	$ 1,730	9.3%

Chart #2 - Water Supply Costs 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 25% 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 75% 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 function. Wastewater Services historic and proposed staffing levels are shown in Table 9.

Table #9 - Wastewater Services Approved Positions

Position	Actual FTE FY 2018-19	Actual FTE FY 2019-20	Proposed FTE FY 2020-21
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	0.85	0.85	0.85
Lead Plant Operator	1.7	1.7	1.7
Plant Operator	1.7	1.7	1.7
Environmental Compliance Technician	0.5	0.5	0.5
Laboratory Technician	0.85	0.85	0.85
Mechanical Technician	0.8	0.8	0.8
Plant Maintenance Worker	0.8	0.8	0.8
TOTAL FTE	**15.2**	**15.2**	**15.2**

** 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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Total Labor *	$ 1,171,926	$ 1,190,718	$ 1,230,872	$ 1,257,231	5.6%
Total Non-Labor	1,019,664	1,018,400	1,057,013	1,136,900	11.6%
Operating Total	**$ 2,191,590**	**$ 2,209,118**	**$ 2,287,885**	**$ 2,394,131**	**8.4%**
Allocated Benefits Expenditures	664,867	765,963	765,963	857,217	11.9%
Total Direct Wastewater Costs	**$ 2,856,457**	**$ 2,975,082**	**$ 3,053,848**	**$ 3,251,349**	**9.3%**
Allocation of Administrative Services	2,512,735	2,242,629	2,242,629	2,262,878	0.9%
Total Services Budget	**$ 5,369,192**	**$ 5,217,710**	**$ 5,296,477**	**$ 5,514,227**	**5.7%**

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Collections					
Labor:					
Salaries	$ 522,471	$ 434,419	$ 481,124	$ 429,802	-1.1%
Non-Labor:					
Contractor Services	7,847	38,200	36,117	43,000	12.6%
Equipment (Non Capital)	-	5,000	2,366	5,000	0.0%
Materials/Services/Supplies	134,430	152,300	71,488	125,000	-17.9%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	1,369	900	307	900	0.0%
Utilities **	100,989	82,000	113,087	120,000	46.3%
Total Non-Labor	**$ 244,635**	**$ 278,400**	**$ 223,365**	**$ 293,900**	**5.6%**
Division Operating Total	**$ 767,106**	**$ 712,819**	**$ 704,489**	**$ 723,702**	**1.5%**

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Treatment					
Labor:					
Salaries	$ 649,455	$ 756,299	$ 749,748	$ 827,430	9.4%
Non-Labor Expenses:					
Contractor Services	140,986	164,000	243,783	213,500	30.2% *
Equipment (Non Capital)	44,752	13,000	4,868	9,000	-30.8%
Materials/Services/Supplies	277,292	246,000	252,881	310,500	26.2% *
Professional Services	-	-	46,667	-	NA
Memberships/Training/Permits	60,111	65,000	83,689	95,000	46.2% *
Utilities **	251,888	252,000	201,760	215,000	-14.7%
Total Non-Labor	**$ 775,029**	**$ 740,000**	**$ 833,648**	**$ 843,000**	**13.9%**
Division Operating Total	**$ 1,424,484**	**$ 1,496,299**	**$ 1,583,396**	**$ 1,670,430**	**11.6%**

** Increase in cost due to new NPDES permit.*

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

Fiscal Year 2019-20 Accomplishments

- Operated Water Reclamation Plant processes effectively from the headwork's to secondary treatment including solids handling to stay in compliance while optimizing operation
- Made programming and minor hardware upgrades to increase reliability and provide flexibility of operation
- Added redundancy and fail-over capabilities to key processes
- Reduced power consumption by 10.7%
- 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

Fiscal Year 2020-21 Goals and Objectives

- Operate Water Reclamation Plant treatment units to stay in compliance with state and federal regulations, including new NPDES permit R9-2019-0169
- Minimize power and chemical usage
- 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

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 an additional 5%

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

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 FY 2018-19	Actual FTE FY 2019-20	Proposed FTE FY 2020-21
Chief Plant Operator	0.15	0.15	0.15
Lead Plant Operator	0.3	0.3	0.3
Plant Operator	0.3	0.3	0.3
Environmental Compliance Technician	0.5	0.5	0.5
Laboratory Technician	0.15	0.15	0.15
Mechanical Technician	0.2	0.2	0.2
Plant Maintenance Worker	0.2	0.2	0.2
Utility Technician	0.25	0.25	0.5
Utility Worker I	0.5	0.5	0.5
Backflow/ Cross Connection Tech	0.25	0.25	-
TOTAL FTE	**2.8**	**2.8**	**2.8**

** 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 value 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 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Total Labor *	$ 130,452	$ 199,232	$ 125,066	$ 188,184	-5.5%
Total Non-Labor	263,674	262,500	246,350	228,000	-13.1%
Operating Total	**$ 394,126**	**$ 461,732**	**$ 371,416**	**$ 416,184**	**-9.9%**
Allocated Benefits Expenditures	74,009	128,162	128,162	128,310	0.1%
Total Direct Recycled Water Costs	**$ 468,135**	**$ 589,894**	**$ 499,578**	**$ 544,494**	**-7.7%**
Allocation of Administrative Services	299,135	64,075	64,075	64,654	0.9%
Total Services Budget	**$ 767,270**	**$ 653,969**	**$ 563,653**	**$ 609,148**	**-6.9%**

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

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

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Production					
Labor:					
Salaries	$ 125,989	$ 159,229	$ 122,277	$ 150,060	-5.8%
Non-Labor:					
Contractor Services	13,623	17,500	27,603	20,000	14.3%
Equipment (Non Capital)	11	8,000	3,435	4,000	-50.0%
Materials/Services/Supplies	113,842	112,000	110,457	91,000	-18.8%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	107,952	108,000	86,468	95,000	-12.0%
Total Non-Labor	**$ 235,428**	**$ 245,500**	**$ 227,963**	**$ 210,000**	**-14.5%**
Division Operating Total	**$ 361,417**	**$ 404,729**	**$ 350,240**	**$ 360,060**	**-11.0%**
Distribution					
Labor:					
Salaries	$ 4,463	$ 40,003	$ 2,789	$ 38,124	-4.7%
Non-Labor:					
Contractor Services	-	-	-	-	NA
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	27,743	17,000	17,853	18,000	5.9%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	503	-	534	-	NA
Total Non-Labor	**$ 28,246**	**$ 17,000**	**$ 18,387**	**$ 18,000**	**5.9%**
Division Operating Total	**$ 32,709**	**$ 57,003**	**$ 21,176**	**$ 56,124**	**-1.5%**

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

Fiscal Year 2019-20 Accomplishments

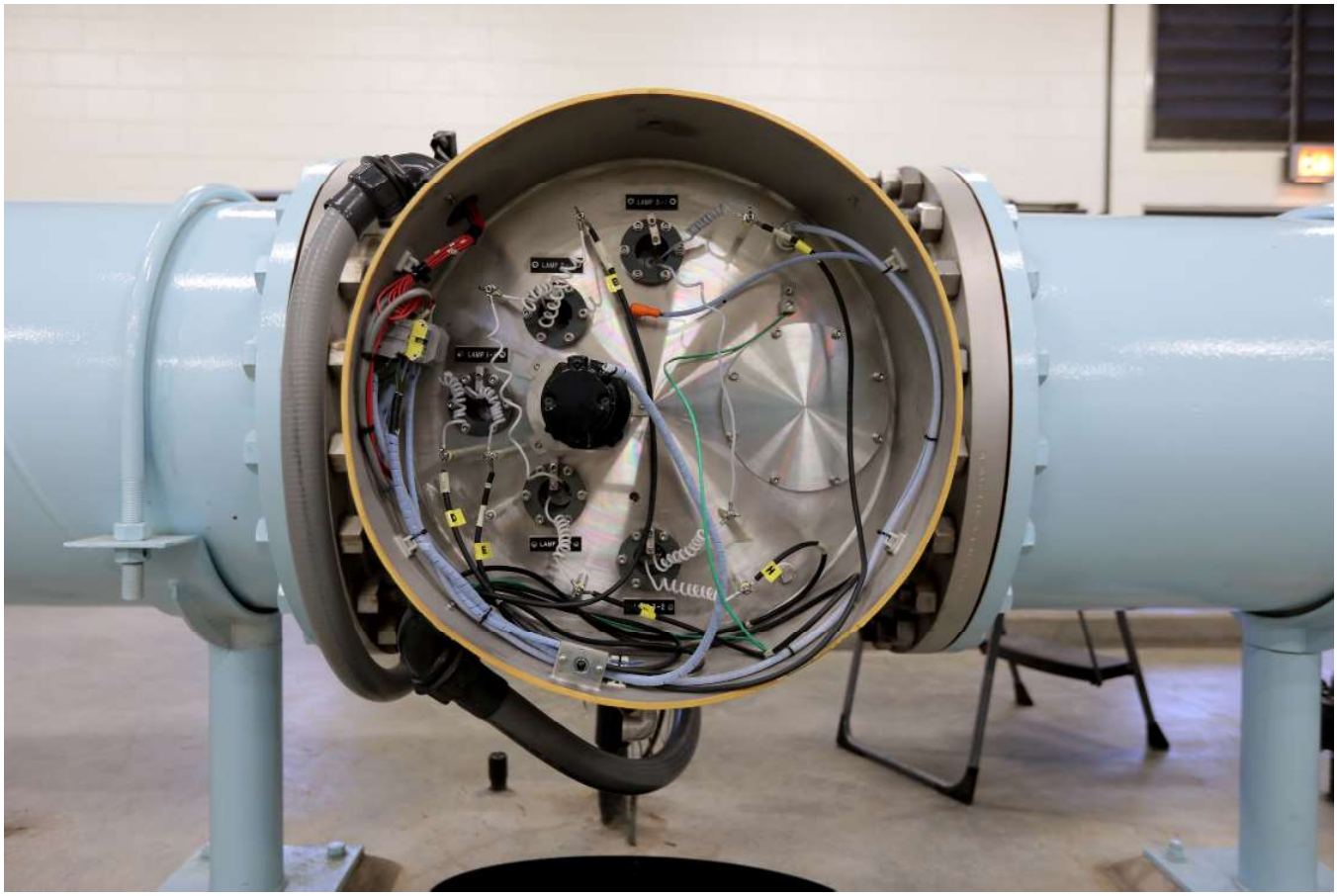
- Operated the Water Reclamation Plant tertiary treatment units effectively, reduced power, and stayed in compliance with applicable permits: Order No. 91-39, Title 22, State Recycled Water Permits and Policy
- Provided reliable recycled water production by maintaining the mechanical integrity of equipment using preventative and predictive measures

Fiscal Year 2020-21 Goals and Objectives

- Operate the Water Reclamation Plant tertiary treatment units while staying in compliance with the applicable recycled water permits: Order No. 91-39, Title 22, State Recycled Water Permits and Policy
- Maintain the Water Reclamation Plant tertiary equipment from the filters to the reclaimed water pond, using preventative and predictive measures, to reliably produce recycled water

Key Performance Indicators

- Maintain an overall compliance of > 99.9% each month from all samples associated with the Title 22 and WDR Permit



UV Plant

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.

Strategic Planning

The District's proactive management of the district's pension obligations has resulted in approximately 84% funding of its pension obligations. This limits the potential for future rate and charge increases due to pension obligation funding needs.

Chart #3 - Fiscal Year 2020-21 Benefits Breakdown

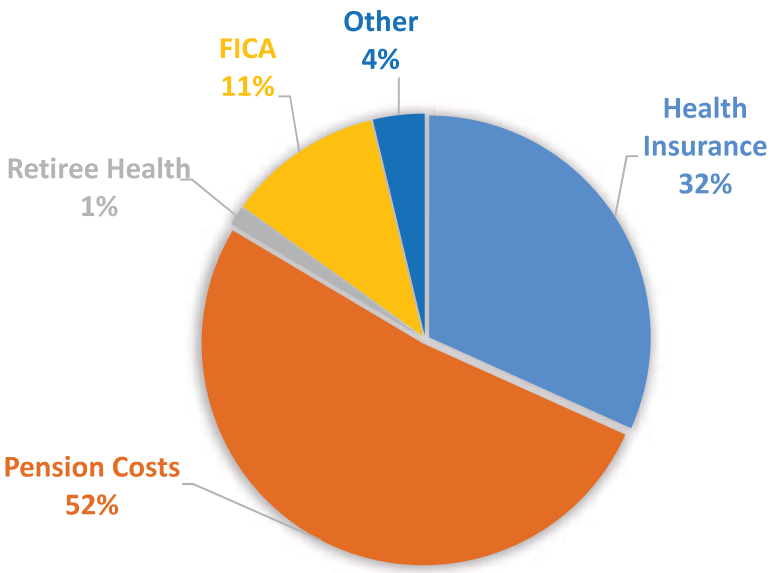
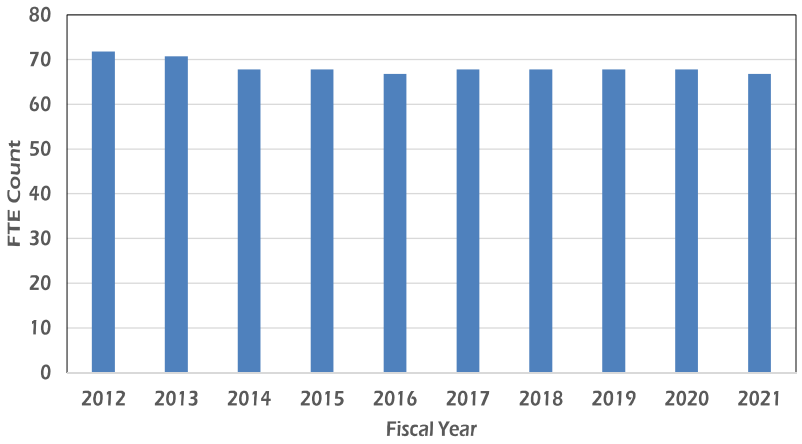


Table #15 - Breakdown of District's Employee Benefit Costs

Description	FY 2018-19 Actual	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21 Budget	Budget to Budget Change (%)
Auto Allowance	$ 15,058	$ 14,500	$ 14,500	$ 14,500	0.0%
Insurance - Dental	64,152	70,701	70,701	73,856	4.5%
Insurance - Vision	13,148	14,394	14,394	14,394	0.0%
Insurance - Health	873,472	964,776	964,776	1,000,135	3.7%
Insurance - Life and Disability	34,184	41,555	41,555	51,714	24.4% *
Insurance - Worker's Comp	138,235	154,979	154,979	157,403	1.6%
Longevity Bonus	27,529	32,945	32,945	36,448	10.6%
FICA - Employer's share	424,952	447,152	447,152	462,225	3.4%
CalPERS Annual Contribution	541,874	593,480	593,480	652,605	10.0%
CalPERS Unfunded Liability Payment	705,142	881,796	851,471	965,469	9.5%
Pension/OPEB Liability Trust Payment	650,000	500,000	500,000	500,000	0.0%
Employer's share (401 & 457)	17,048	20,410	20,410	51,467	152.2% *
District Share of Retiree Medical Insurance	36,801	45,851	45,851	57,615	25.7%
Retiree Compensated Absence Payout	-	50,000	50,000	20,000	-60.0%
Uniforms & Boots	8,862	31,396	31,396	31,460	0.2%
Total	**$ 3,550,457**	**$ 3,863,936**	**$3,833,611**	**$ 4,089,292**	**5.8%**

** Increase in benefit cost due to changes in employee Memorandum of Understanding (MOU).*

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



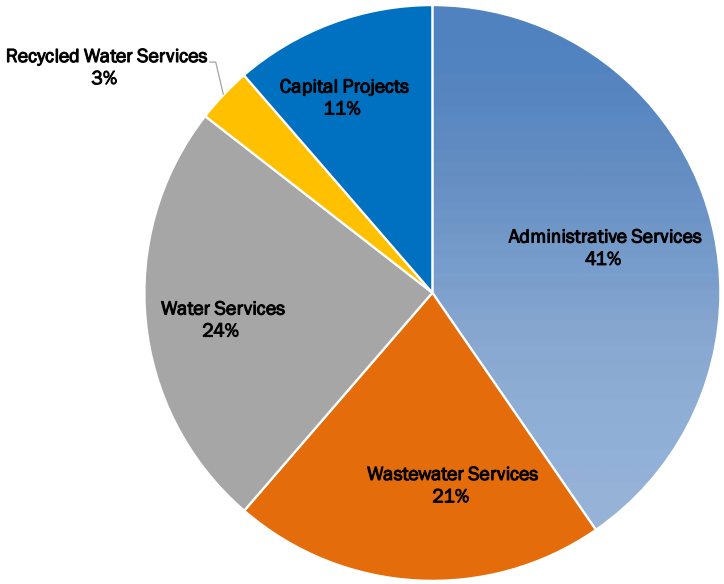
The District's staffing levels are shown in Chart 4 and reflect the reduction of one FTE. The District participates in the California Public Employees' Retirement System (CalPERS). Recent changes to CalPERS accounting practices have caused pension costs for participating agencies to increase. The District's 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 9.5% increase in this cost. The District has maintained its 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 healthcare insurance costs are budgeted to increase by 4.1% driven by a change in the healthcare coverage elections made by new hires. The District's healthcare insurance premium increases were in line with inflation. The other major driver of the increase is changes to employee benefits as a result of the MOU. This changed the District's cost for Life and Disability and provided a 0.5% District match to employee contributions to their deferred compensation plan. 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 2020-21 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). The 2011 SRF Loan funded the construction of a water treatment facility serving the Red Mountain Reservoir. The 2016 SRF Loan funded the rehabilitation and modernization of the District's Water Reclamation Plant. The 2010 QECB loan funded the District's 1 MW solar facility.

In addition, the District expects to issue approximately $62.9 million in additional debt to finance the District's SMRCUP groundwater treatment plant with State Revolving Fund Loans (2018 SRF Loan). While the agreement has been approved, the final amount and payment schedule have not yet been determined. During the construction period, interest payments will be made on the outstanding balance. The table below shows the debt service payment schedule for each debt issuance. The debt service in Fiscal Year 2021-22 increases significantly because full debt service payments for the SMRCUP loan begin.

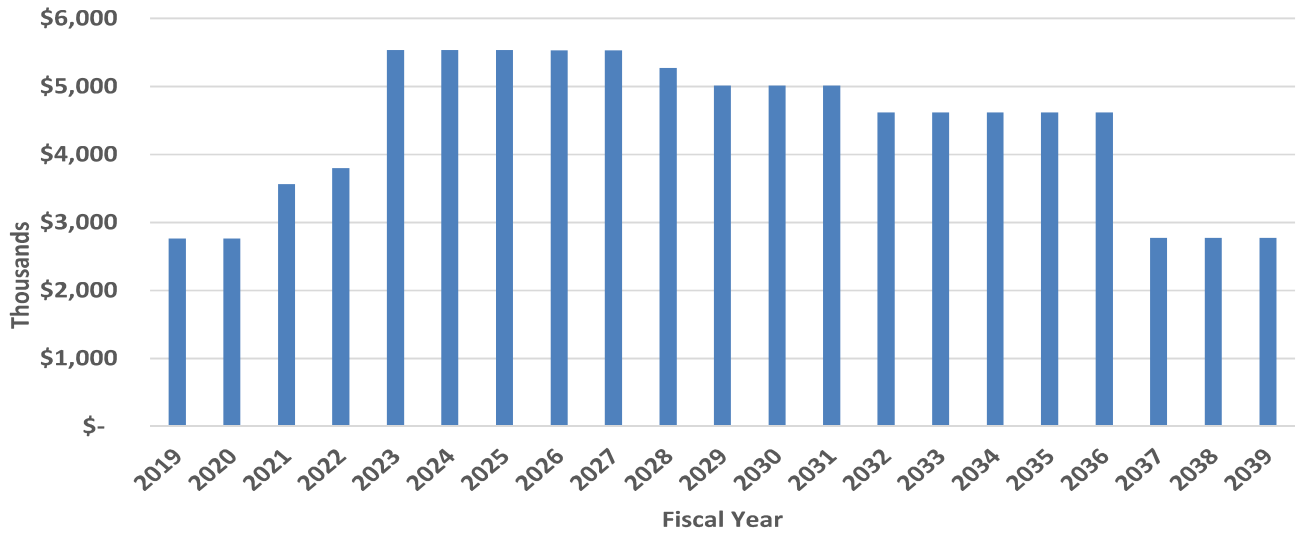
Table #16 - Debt Service Budget Summary

	Service			
Debt Issuance	**Water**	**Wastewater**	**Recycled Water**	**Total Debt Service**
2018 SRF Loan*	$ 800,810	$ -	$ -	$ 800,810
2011 SRF Loan	395,851	-	-	395,851
2016 SRF Loan**	-	1,292,022	553,724	1,845,746
2010 QECB	-	520,642	-	520,642
Total	**$ 1,196,661**	**$ 1,812,664**	**$ 553,724**	**$ 3,563,048**

** During the construction period the District pays interest on the funds received from the State at the loan interest rate of 1.9%.*

*** 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 2020-21 and the amount allocated to each service.

Table #17 - Fiscal Year 2020-21 Debt Service Schedule

Year Ending	Red Mountain State Revolving Fund Loan		Water Reclamation Plant State Revolving loan		QECB* Loan		SMRCUP State Revolving	District Annual
June 30	Principle	Interest	Principle	Interest	Principle	Interest	Funds**	Debt Service
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	20	$2,761,290
2021	300,807	95,044	1,303,039	542,706	345,316	175,326	800,810	$3,563,048
2022	308,589	87,261	1,331,706	514,039	366,104	155,208	1,038,424	$3,801,332
2023	316,573	79,277	1,361,004	484,742	387,783	133,884	2,771,216	$5,534,479
2024	324,764	71,087	1,390,946	454,800	410,388	111,302	2,771,216	$5,534,502
2025	333,166	62,685	1,421,547	424,199	433,953	87,409	2,771,216	$5,534,174
2026	341,786	54,065	1,452,821	392,925	458,515	62,150	2,771,216	$5,533,477
2027	350,628	45,222	1,484,783	360,963	484,114	35,465	2,771,216	$5,532,391
2028	359,700	36,151	1,517,448	328,298	254,219	7,296	2,771,216	$5,274,327
2029	369,006	26,844	1,550,832	294,914	-	-	2,771,216	$5,012,812
2030	378,553	17,297	1,584,950	260,796	-	-	2,771,216	$5,012,812
2031	388,347	7,503	1,619,819	225,927	-	-	2,771,216	$5,012,812
2032	-	-	1,655,455	190,291	-	-	2,771,216	$4,616,962
2033	-	-	1,691,875	153,871	-	-	2,771,216	$4,616,962
2034	-	-	1,729,096	116,649	-	-	2,771,216	$4,616,962
2035	-	-	1,767,136	78,609	-	-	2,771,216	$4,616,962
2036	-	-	1,806,014	39,732	-	-	2,771,216	$4,616,962
2037	-	-	-	-	-	-	2,771,216	$2,771,216
2038	-	-	-	-	-	-	2,771,216	$2,771,216
2039	-	-	-	-	-	-	2,771,216	$2,771,216
2040	-	-	-	-	-	-	2,771,216	$2,771,216
2041	-	-	-	-	-	-	2,771,216	$2,771,216
2042	-	-	-	-	-	-	2,771,216	$2,771,216
2043	-	-	-	-	-	-	2,771,216	$2,771,216
2044	-	-	-	-	-	-	2,771,216	$2,771,216
2045	-	-	-	-	-	-	2,771,216	$2,771,216
2046	-	-	-	-	-	-	2,771,216	$2,771,216
2047	-	-	-	-	-	-	2,771,216	$2,771,216
2048	-	-	-	-	-	-	2,771,216	$2,771,216
2049	-	-	-	-	-	-	2,771,216	$2,771,216
2050	-	-	-	-	-	-	2,771,216	$2,771,216
2051	-	-	-	-	-	-	2,771,216	$2,771,216
2052	-	-	-	-	-	-	2,771,216	$2,771,216

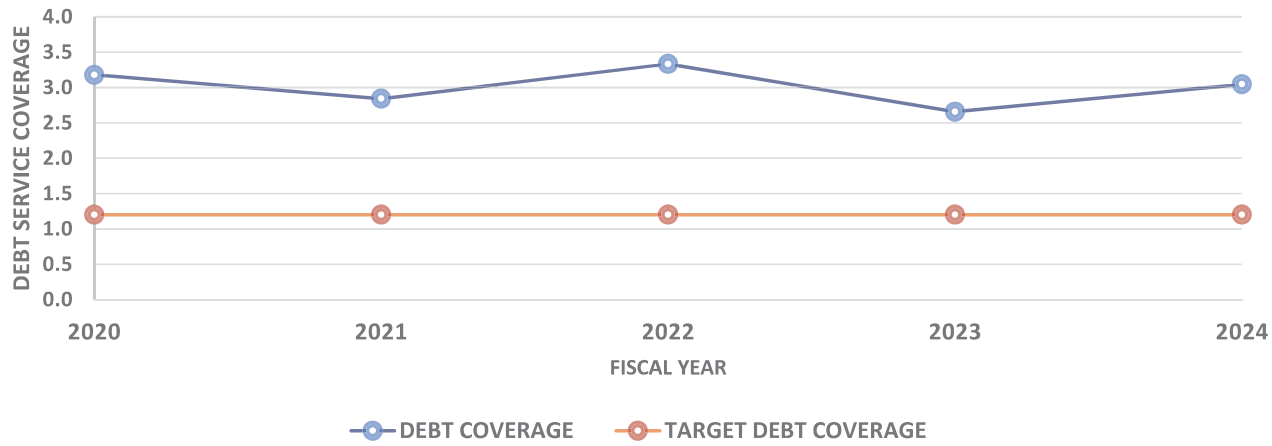
**Qualified Energy Conservation Revenue Bonds. Debt service is not adjusted for interest rate subsidy payments.*

*** Debt service based upon approved loan amount and interest rate. Actual debt service will be calculated once the Santa Margarita Conjuctinove Use Project is completed.*

The District expects to make an interest payment on the 2018 SRF Loan this budget period. The Full debt service for the 2018 SRF 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



Santa Margarita River

Project Summary for Fiscal Year 2020-21

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.

Figure #1 - Fallbrook District Facilities.

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 2019-20, Table #1 shows budget vs projected actual expenses for each capital project category. Water Capital expenses were slightly under budget. Recycled Water Capital expenses were under budget as a result of delays in the state grant process which slowed the start of the water supply reliability feasibility project. Wastewater Capital Expenses for the year were also under budget, primarily due to the Overland Trail Lift Station (OTLS) Rehabilitation Project bid coming in lower than budget and slower procurement schedules as a result of the pandemic response. The OTLS project was scheduled to be constructed over multiple fiscal years anyway as explained in greater detail in the individual project description section. Finally, administrative capital expenses were very close to budget.

Capital Project Summary for Fiscal Year 2020-21

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 ongoing construction of the $62.9 million SMRCUP 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 2020-21 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 2020-21 include:

- Completion of the first phase of the Winter Haven Road Pipeline Replacement Project started in Fiscal Year 19-20.
- Replacement of approximately 1,000 linear feet of 20" pipe along the Gum Tree Pipeline.
- Initiate phase two of the Winter Haven Road Pipeline Replacement Project, approximately 2,650 linear feet of 12" water main.

The SMRCUP project is currently under construction, approximately 35 percent complete, and scheduled to begin operating in the fall of 2021.

The existing Toyon Pump Station was built in 1982 and has exceeded its useful life. It serves 63 accounts in the Toyon Service area, above Red Mountain Reservoir. The planned replacement will be constructed near the UV Plant, consolidating district facilities at the Red Mountain Site.

Recoating of the 2.8 MG Steel Reservoir in the De Luz area. The 2.8 MG Steel Reservoir is the last of the Districts 8 steel reservoirs to be recoated as part of the reservoir coating program implemented over the last few years.

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 project was awarded in December 2019. The contractor is currently procuring long lead items and will mobilize to the site in early May. Work is scheduled to be completed in December 2020. The project will address needed maintenance while improving operational efficiencies by eliminating the Anthony's Corner Lift Station.

At the Water Reclamation Plant (WRP), the headworks cover replacement scheduled for the current year will not be completed until the coming fiscal year due to procurement delays. With that in mind, some smaller equipment replacements that were scheduled for next year are being prioritized in the final few months of the current year. Additionally, needed repairs to the secondary and tertiary storage pond liners will be made, as well as significant SCADA control improvements.

For the recycled water system, five aging below grade confined space air release/vacuum valve vaults will be replaced with new above grade air valves. Remote pressure monitoring capabilities will be added in strategic locations. The biggest recycled system project is the continuation of the water supply reliability feasibility effort currently underway.

Table #1 - Capital Improvements Projects Summary Table

	FY 2019-20 Budget	FY 2019-20 Projected	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Water Capital Projects								
Pipelines & Valve Replacement Projects by District	$ 720,000	$ 656,214	$ 670,000	$ 587,272	$ 593,144	$ 704,177	$ 605,066	$ 611,117
Pipeline Replacement Projects by Contractors	1,303,933	1,377,411	1,298,000	2,507,237	3,615,579	3,168,795	3,014,717	3,216,406
Deluz ID Projects	80,000	-	80,000	103,030	104,060	105,101	106,152	107,214
Pump Stations	-	-	233,750	175,151	52,030	52,551	53,076	53,607
Meter Replacement	675,000	403,837	675,000	618,181	52,030	21,020	21,230	21,443
Pressure Reducing Stations	90,000	58,345	20,000	92,727	20,812	21,020	21,230	21,443
Red Mountain Reservoir Improvements	70,000	65,209	40,000	41,212	364,211	52,551	95,537	53,607
Steel Reservoir Improvements	-	235,415	669,000	70,060	10,406	10,510	849,216	696,888
Treatment Plant R&R	-	-	-	-	208,121	210,202	212,304	214,427
SCADA Upgrades/ Security/Telemetry	130,000	61,186	130,000	97,879	93,654	89,336	111,460	112,574
Total PAYGO Water Capital Projects	**$ 3,068,933**	**$ 2,857,617**	**$ 3,815,750**	**$ 4,292,749**	**$ 5,114,048**	**$ 4,435,262**	**$ 5,089,989**	**$ 5,108,725**
Santa Margarita Conjunctive Use Project Construction	$ 27,179,100	$ 23,308,627	$ 31,900,000	$ 7,727,258	$ -	$ -	$ -	$ -
Total Water Capital Projects	**$ 30,248,033**	**$ 26,166,244**	**$ 35,715,750**	**$ 12,020,007**	**$ 5,114,048**	**$ 4,435,262**	**$ 5,089,989**	**$ 5,108,725**
Recycled Water Capital Projects								
Recycled Water Improvements	$ 406,000	$ 158,898	$ 430,000	$ 117,454	$ 118,629	$ 119,815	$ 121,013	$ 175,830
Total Recycled Water Capital Projects	**$ 406,000**	**$ 158,898**	**$ 430,000**	**$ 117,454**	**$ 118,629**	**$ 119,815**	**$ 121,013**	**$ 175,830**
Wastewater Capital Projects								
WRP Improvements	$ 240,000	$ 224,300	$ 245,000	$ 257,575	$ 208,121	$ 998,460	$ 796,140	$ 428,854
Collection System Improvements	1,740,000	1,077,181	1,740,000	1,372,361	1,071,822	1,080,438	1,050,905	525,346
Outfall Improvements	80,000	10,000	50,000	82,424	52,030	52,551	53,076	268,034
Total Wastewater Capital Projects	**$ 2,060,000**	**$ 1,311,481**	**$ 2,035,000**	**$ 1,712,360**	**$ 1,331,973**	**$ 2,131,448**	**$ 1,900,121**	**$ 1,222,234**
Administrative Capital Projects								
Administrative Upgrades	$ 20,000	$ -	$ 30,000	$ 15,455	$ 26,015	$ 446,679	$ 26,538	$ 26,803
Engineering & Operations Information Systems	125,000	132,308	40,000	30,909	31,218	31,530	31,846	32,164
Facility Improvements/Upgrades/Security	70,000	86,537	185,000	128,788	88,451	26,275	26,538	26,803
District Yard Improvements	220,000	210,464	120,000	51,515	-	52,551	53,076	-
Vehicles and Heavy Equipment	560,000	584,081	566,000	441,484	315,823	387,297	497,322	395,082
Total Administrative Capital Projects	**$ 995,000**	**$ 1,013,390**	**$ 941,000**	**$ 668,150**	**$ 461,508**	**$ 944,333**	**$ 635,320**	**$ 480,853**
Total Capital Budget Projects	**$ 6,529,933**	**$ 5,341,386**	**$ 7,221,750**	**$ 6,790,714**	**$ 7,026,158**	**$ 7,630,858**	**$ 7,746,443**	**$ 6,987,642**
Total all Capital Projects (Including SMRCUP)	**$ 33,709,033**	**$ 28,650,013**	**$ 39,121,750**	**$ 14,517,971**	**$ 7,026,158**	**$ 7,630,858**	**$ 7,746,443**	**$ 6,987,642**

Table of Contents

Capital Project Description, Goals and Impacts

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 2020-21 also include:

- Valve Replacement Program – Goal to replace 100 valves. Well-functioning isolation valves are critical to minimize the number of customers impacted during planned or unplanned shutdowns.
- Miscellaneous Pipeline Replacements – Small segments of mainline identified as needing repaired/replaced throughout the year.
- Mainline Leak Detection Survey – Survey of selected segments of water main to identify existing small leaks to help prioritize the pipeline replacement program.
- Easement Rehabilitation – Restoration of easement roads to maintain access to District pipelines and facilities.

Valves Replaced by Year	
Year	Quantity
FY 2016/17	82
FY 2017/18	112
FY 2018/19	57
FY 2019/20	76 (as of 5/1/20)
FY 2020/21	100 (Target)

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.

Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Valve Replacement Program	Continuous Replacement Program	$ 500,000
Miscellaneous Pipeline Replacements	Continuous Replacement Program	$ 100,000
Mainline Leak Detection	Continuous Detection Program	$ 20,000
Easement Rehabilitation	Continuous Rehabilitation Program	$ 50,000
Total		**$ 670,000**

Water Department

Pipeline Replacement Projects by Contractors

Project Description:

Significant pipeline replacement projects performed by contractors. Projects are prioritized based on the pipeline asset risk assessment model to minimize pipeline failures and unplanned service outages. Specific projects planned for Fiscal Year 2020-21 include:

- Gum Tree Pipeline Replacement Phase 1 – 1,000 linear feet of 20 inch water main. The Gum Tree Lane Pipeline is a 20-inch cement lined iron pipe transmission main that conveys water from Red Mountain to Gheen Reservoir. Its actual age is unknown, but it was relined in 1966. There are multiple above grade creek-crossings that have deteriorated and required repairs in areas that are challenging to access. This replacement project will focus on approximately 1,000 linear feet in the vicinity of the above grade creek crossings. Ideally the pipe will be realigned to avoid existing creek crossings depending on ability to acquire right-of-way.
- Winter Haven Road Pipeline Replacement Phase 1 – 2,500 linear feet of 12-inch water main. The Winter Haven Road Pipeline is a 12-inch cement lined iron pipe that was relined in 1968. In recent years, there have been multiple leaks and flow restrictions. Replacement of the first phase, between Clearcrest Lane and Havencrest Lane started in Fiscal Year 2019-20 and is scheduled to be complete by August of 2020.
- Winter Haven Road Pipeline Replacement Phase 2 – 2,650 linear feet of 12-inch water main. The second phase of the Winter Haven Road Pipeline Replacement will continue east from Havencrest Lane to Sunnycrest Lane. It is anticipated this project will start construction late in the year and will likely be completed during the following Fiscal Year.

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:

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

Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Gum Tree Pipeline Replacement Phase 1	$ 370,500	$ 370,500
Winter Haven Road Pipeline Replacement Phase 1	$ 839,280	$ 100,000
Winter Haven Road Pipeline Replacement Phase 2	$ 927,500	$ 827,500
Total		**$ 1,298,000**

Water Department

DeLuz ID 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 2020-21 include:

- Ross Lake PRV – New pressure reducing valve station connecting the De Luz Aqueduct to the 1.0 MG Zone. This will improve operational flexibility in the De Luz service area. The new station was planned for the current year, but had to be deferred due to construction staff constraints.
- Lynda Lane PRV – replacement or elimination of the aging Lynda Lane PRV depending on analysis from the updated system hydraulic model. The existing PRV serves a small zone with six meters. Staff will be exploring alternatives for serving these meters or replacing the aging 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 station will help improve water reliability by providing operational flexibility in the DeLuz service area. The project will have a negligible impact on operation costs.

Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Ross Lake PRV	$ 60,000	$ 60,000
Lynda Lane PRV	$ 20,000	$ 20,000
Total		**$ 80,000**

Water Department

Pump Stations

Project Description:

The District has 5 pump stations that deliver water to higher elevation areas. In Fiscal Year 2020-21, the following Pump Station projects are planned:

- Toyon Pump Station Replacement – This pump station was scheduled to be replaced in 2019, but had to be deferred due to other capital priorities. The pump station serves 63 accounts in the Toyon Service Area above Red Mountain Reservoir. The existing facility, built in 1982, is housed in a wood structure adjacent to the narrow Toyon Heights Road and is in poor condition. The new station will be constructed at the Red Mountain site, near the UV Plant, making it easier for operators to access and getting it out of the way for the public. The project will include new pumps, improved SCADA capabilities, and approximately 550 linear feet of new 8-inch water main to connect it to the Toyon Service Area.
- Donnil Pump Station Surge Tank – The surge tank at the Donnil Pump Station has not been functioning consistently and has required frequent maintenance. Either upgrades to the existing tank will be made, or the tank will be replaced with pressure control valves to improve the performance of the pump station.

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:

These projects will reduce operations and maintenance cost for the facilities by replacing the equipment that is at the end of its useful life. There will be additional SCADA controls added to help with remote operation and troubleshooting. The projects will improve water service reliability in their respective service areas.

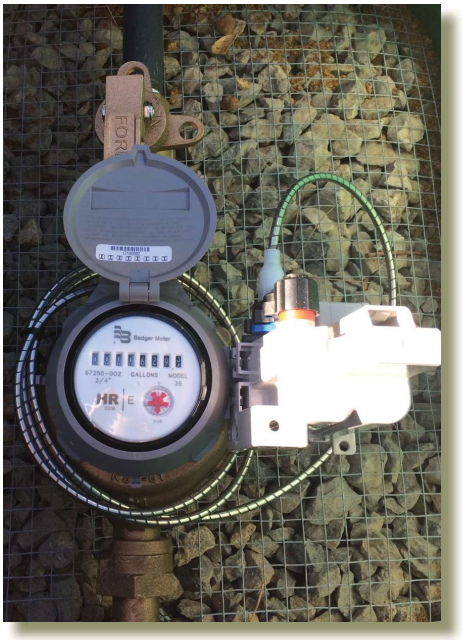
Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Toyon Pump Station Replacement	$ 218,750	$ 218,750
Donnil Pump Station Surge Tank	$ 15,000	$ 15,000
Total		**$ 233,750**

Water Department

Meter Replacement Program

Project Description:



In accordance with the Meter Replacement Program Budget, the District will complete the fifth 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. As of April 1, 2020, 7,265 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.

Project Budget:

Project	Total Project Budget	FY 2020-21 Budget
Meter Replacement Program	$ 3,000,000	$ 675,000
Total		**$ 675,000**

Water Department

Pressure Reducing Station Rehabilitation

Project Description:

The District has over 20 pressure control stations throughout the distribution system to enable service at all the various hydraulic zones. As part of the capital program, routine investments are made to maintain and improve the function of these pressure control stations. For Fiscal Year 2020-21, the focus will be to complete the final details of the two station overhauls done over the last two years; McDonald and Yarnell. McDonald was completely rebuilt and at Yarnell the pressure control valves were replaced. Remaining work to complete the two stations includes minor site surface work and adding telemetry to enhance the ability to monitor flow and pressure remotely.

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.

Project Budget:

Project	Total Project Budget	FY 2020-21 Budget
Rebuild PRVs	Continuous Rehabilitation Program	$ 20,000
Total		**$ 20,000**

Red Mountain Reservoir Facility Improvements

Project Description:

Replacement and rehabilitation of equipment and facilities at the Red Mountain Site, including the reservoir and UV plant. Projects for Fiscal Year 2020-21 include:

- Additional Mixer – with the SMRCUP scheduled to begin deliveries in late 2021, the operation of the Red Mountain Reservoir will be significantly altered. There will likely be winter months with little system demand, but large SMRCUP deliveries that will need to be stored for several months in the reservoir. To maintain water quality additional reservoir mixing capacity will be needed. Part of this project will be to identify the extent of that need and the best equipment to meet that need. Tentatively it is anticipated that an additional mixer similar to the Solarbee that is currently operating in the reservoir will be needed.
- De Luz/Sachse Pump Design – Similar to the mixing needs described above, during months when 100% of demand can be met by SMRCUP deliveries, additional pumping capabilities will be needed to deliver water from Red Mountain to the Sachse Zone and the De Luz Service Area. In the past, these areas have been supplied by higher elevation turn outs on the MWD aqueducts. The intent of this project is to have a pump station design complete, ready for construction in the second half of 2021.
- Reservoir Liner Condition Assessment – Assessment of the existing Red Mountain Reservoir liner to determine long term capital needs for maintenance and potential relining.

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:

Proper reservoir mixing will improve operational efficiency. The addition of a new pump station will result in additional operational time and cost. However, there will be no impact until the pump station is actually operating in future fiscal years.

Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Reservoir Mixer	$ 20,000	$ 20,000
Sachse/De Luz Pump Station Design	$ 10,000	$ 10,000
Reservoir Liner Condition Assessment	$ 10,000	$ 10,000
Total		**$ 40,000**

Water Department

Steel Reservoir Improvements

Project Description:

The District has eight steel reservoirs. Seven of the eight have been recoated over the last seven years. Recoating the reservoirs protect them from corrosion and extend their useful life. In Fiscal Year 2020-21 the following projects are planned:

- 2.8 Million Gallon Steel Reservoir Recoating – Recoating inside and outside of steel reservoir and replacement of old equipment and instrumentation. Replace cathodic protection system components as needed. Relining of manholes toextend the life of these facilities
- Cathodic Protection Repair – The steel reservoirs use sacrificial anodes to further prevent corrosion. Last year an assessment of the cathodic systems at each of the reservoirs was performed. As a result, the systems at the Rattlesnake and Toyon will 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 projects will ensure the long-term integrity of these water supply reservoirs. There are no additional operating costs.

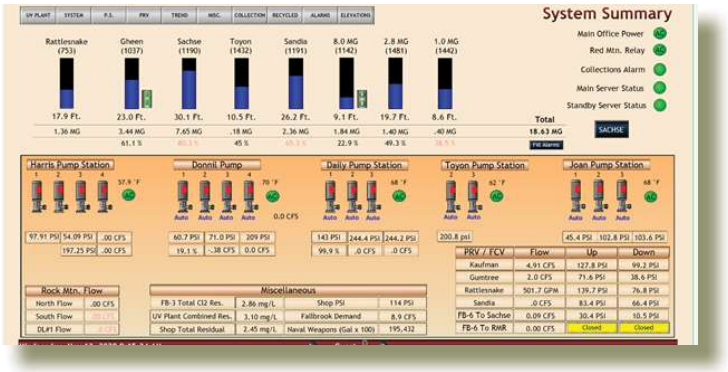
Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
2.8 MG Steel Reservoir Recoating	$ 654,000	$ 654,000
Cathodic Protection Repair	$ 15,000	$ 15,000
Total		**$ 669,000**

Water Department

SCADA and Security

Project Description:



SCADA and security upgrades protect the District's facilities and enable improved remote operations and controls. Projects for Fiscal Year 2020-21 include:

- Network Security/Firewall Improvements – Improvements will enable better remote access capabilities while enhancing network security. •
- Development of Risk and Resiliency Plan – Per new EPA standards a comprehensive system Risk and Resiliency Plan is required to be in place by June 30, 2021.
- RTU/Control Panel Replacements – Replacement of outdated equipment that will improve remote monitoring and control of the 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 Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Network Security/Firewall Improvements	Continuous Improvement Program	$ 20,000
Development of Risk and Resiliency Plan	$ 10,000	$ 10,000
RTU/Control Panel Replacements	Continuous Improvement Program	$ 100,000
Total		**$ 130,000**

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 FPUD. Projected to provide on average 4,300 acre-feet per year of local water. The project construction is expected to take approximately 2 years. Construction started in September 2019 and is expected to be completed in October 2021.

Supports Strategics Goals:

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

Operating Impacts:

The project will provide on average 50% 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 Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Construction	$ 58,395,885	$ 30,000,000
Construction Management/Design Services During Construction	$ 3,925,000	$ 1,500,000
Internal Staff Support	$ 215,000	$ 150,000
SCADA Integration Services	$ 400,000	$ 250,000
Total	**$ 62,935,885**	**$ 31,900,000**

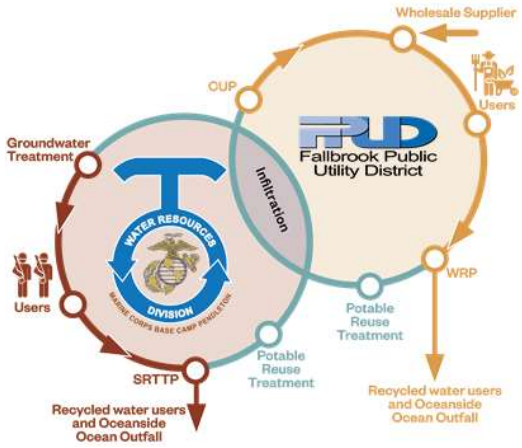
Water Department

Recycled Water Improvements

Project Description:

The recycled system delivers water that has been treated to Title 22 tertiary standards for outdoor use. Projects for Fiscal Year 2020-21 include:

- Air/Vacuum Valve Replacement – When originally constructed, several of the air/vacuum valves were placed in vaults below grade. These vaults are in disrepair and require confined space entry when operated. Five of these vaults will be replaced with new above grade air valves.
- Distribution SCADA Improvements – Remote pressure monitoring capabilities will be added in strategic locations to better identify issues with fluctuating pressure.
- Water Supply Reliability Feasibility Study – This effort began in FY 2019-20 and will likely extend into the following FY as well. 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:

There is no impact to the operating budget, but air/vac replacements and pressure monitoring will simplify operations. The pilot study 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 Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Air/Vacuum Valve Replacement	$ 60,000	$ 60,000
Distribution SCADA Improvements	$ 20,000	$ 20,000
Water Supply Reliability Feasibility Study	$ 700,000	$ 350,000
Total		**$ 430,000**

Recycled Water Department

Water Reclamation Plant Improvements

Project Description:

On-going repair and replacement of key components of the Water Reclamation Plant (WRP) are critical to maintaining this critical facility. The projects for Fiscal Year 2020-21 include:

- Bio Solids Storage Shed – The existing barn was in very poor condition and was demolished as part of the SMRCUP project to make space for the new treatment facilities. The new barn was scheduled for FY 2019-20 and is substantially complete. However, the project will most likely be completed after the start of the new fiscal year.
- Headworks Cover Replacement – The headworks cover has deteriorated over time and is in need of replacing. The project was designed and awarded in FY 2019-20. However, due to longer than anticipated fabrication and delivery time, will not be installed until FY 2020-21. To prevent the deferment of needed capital improvements, projects planned for FY2020-21 were accelerated, essentially swapping the timing. These include replacement of plant equipment (air/vac valves, AC units, manual bar rake) and repairs to the pond liners.
- Fall Retrieval/Safety Equipment – Addition of fall retrieval system throughout the aeration basin for improved safety.
- Conveyor System Improvements – Replace conveyor control system, increasing automation and remote control capabilities.

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, and in the case of the conveyor improvements, will simplify operations.

Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Bio Solids Storage Shed	$ 100,000	$ 25,000
Headworks Cover Replacement	$ 140,000	$ 140,000
Fall Retrieval/Safety Equipment	$ 20,000	$ 20,000
Conveyor System Improvements	$ 75,000	$ 60,000
Total		**$ 245,000**

Wastewater Department

Collections System Projects

Project Description:

Projects include replacements and major repairs to existing sewer infrastructure.

The proposed purchases and costs for Fiscal Year 2020-21 include:

- Overland Trail Lift Station Rehabilitation – 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. Construction began in FY2019-20 and is scheduled to be complete in December 2020.
- Replacement of Sewer Main Creek Crossing – District staff have been strategically replacing sewer main lines at creek and culvert crossings to prevent spills into waterbodies. This year's plan is to replace the Fallbrook Creek crossing on Elder Street.
- Sewer Main Relining – Extends the life of sewer mains by rehabilitating them in place. This year approximately 1,800 linear feet of pipe will be relined.
- SCADA/Telemetry Upgrades – Replacement of outdated RTU's and radio communications at the Green Canyon and Doughrty Lift Stations for improved remote monitoring and control. Design for complete electrical upgrade of Green Canyon Lift Station.

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 Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Overland Trail Lift Station	$ 3,300,000	$ 1,500,000
Creek Crossing	$ 75,000	$ 75,000
Sewer Main Relining	$ 145,000	$ 145,000
SCADA Upgrades	$ 20,000	$ 20,000
Total		**$ 1,740,000**

Outfall Improvements

Project Description:

The project includes replacement of air/vac valves, 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.

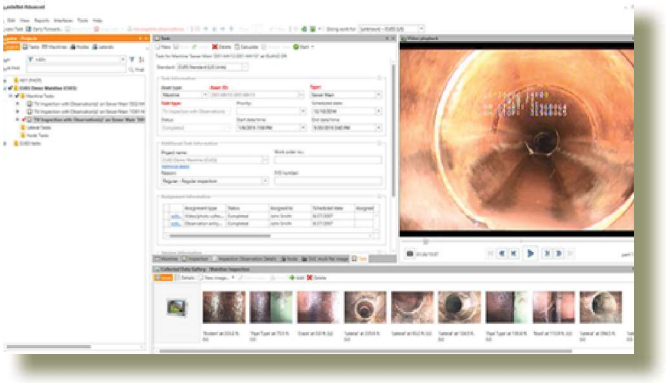
Project Budget:

Project	Total Project Budget	FY 2020-21 Budget
Outfall Improvements	Ongoing Improvement Program	$ 50,000
Total		**$ 50,000**

Wastewater Department

Engineering & Operations Information Systems

Project Description:



These project include updates to the tools and software utilized for asset management and operations.

The planned updates for Fiscal Year 2020-21 include:

- GIS Upgrade Implementation – Ongoing upgrades to the geographic information system that holds the district wide asset database and displays this information spatially on district mapbooks.
- EAM Implementation – The District adopted the enterprise asset management system CityWorks in FY 2019-20, which will streamline and digitize work orders and maintenance records, improving workforce productivity and longterm asset management. Funds for the current year are intended to provide training and support from the District's contracted CityWorks specialist consultant and purchase remote access devices for use by crews in the field.
- Sewer CCTV Software Upgrade – The District uses the CCTV system GraniteNET for routine inspection of the collections facilities. The proposed software upgrades will enhance maintenance of the facilities and aid in prioritizing facility repairs and replacements.

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 Budgets:

Project	Total Project Budget	FY 2020-21 Budget
GIS Upgrade Implementation	Ongoing Upgrades	$ 5,000
EAM Implementation	$ 155,000	$ 35,000
Sewer CCTV Software Upgrade	$ 30,000	$ 30,000
Total		**$ 70,000**

Facility Improvements/Upgrades/Security

Project Description:

The project includes capital projects for administration facilities, including staff offices, shop, and warehouse facilities to help maintain efficient operation of the District.

The projects include the following:

- Minor Rehabilitation and Office Furniture – Miscellaneous office rehabilitation and furniture replacement.
- Building Roof Repair – Spot repairs as needed to keep the roof functional until it can be replaced.
- Facility Renovations – Continued renovation of the yard offices for Departments 3 and 4 as well as the yard restroom facilities. Replace the warehouse rollup door. Install new key fob door lock 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:

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

Projects Budgets:

Project	Total Project Budget	FY 2020-21 Budget
Minor Rehabilitation and Office Furniture	Ongoing Rehabilitation	$ 10,000
Building Roof Repair	$ 25,000	$ 25,000
Facility Renovations	$ 150,000	$ 150,000
Total		**$ 185,000**

Administration Department

District Yard Improvements

Project Description:

Projects consist of on-going improvements at the District Yard to maintain the facility. The focus for Fiscal Year 2020-21 will be to replace the perimeter fence, which is in poor condition. Sections of the decorative fence around the front office have corroded, leaving gaps and openings. The chain-link and wood fence around the back yard is inadequate for proper security and is in poor condition in several areas.

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.

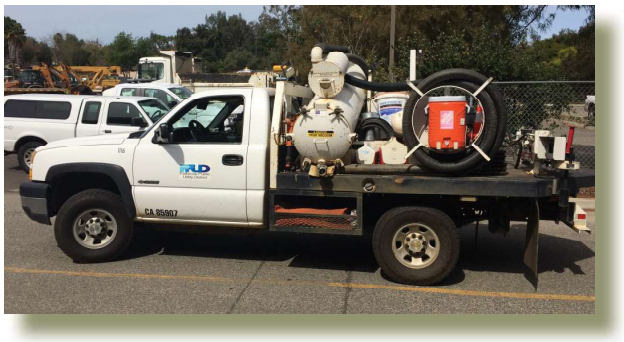
Project Budget:

Project	Total Project Budget	FY 2020-21 Budget
Site Security Fencing	$ 120,000	$ 120,000
Total		**$ 120,000**

Administration Department

Vehicles 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 2020-21 include:

- Replacement of three fleet vehicles based on criteria established in the Fleet Replacement Plan
- Replacement of one full size truck (1054)
- Replacement of full size crane
- Miscellaneous Equipment – Wachs Vacuum Unit for Valve Truck, Generator for Main Office/SCADA System backup power.
- Safety Equipment/Trailer

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 Budget:

Administration Department

Project	Total Project Budget	FY 2020-21 Budget
Fleet Vehicles	Ongoing Replacement Program	$ 100,000
Full Size Truck	$ 100,000	$ 100,000
Crane	$ 300,000	$ 300,000
Miscellaneous Equipment	$ 45,000	$ 45,000
Safety Equipment/Trailer	$ 21,000	$ 21,000
Total		**$ 566,000**

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

CSMFO – California Society of Municipal Finance Officers

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.

EAM – Enterprise Asset Management

EIR/EIS - Environmental Impact Report/Environmental Impact Statement

EMWD - Eastern Municipal Water District

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.

EUM - Effective Utility Management

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

HCF - Hundred Cubic Feet

IAC - Infrastructure Access Charge

IAWP - Interim Agricultural Water Program

IID – Imperial Irrigation District

IPR – Indirect Potable Reuse

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

MG - Million Gallon

MGD - Million Gallons per Day

MOU - Memorandum of Understanding

MW - Megawatt

MWD - Metropolitan Water District of Southern California

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.

OTLS - Overland Trail Lift Station

PARS - Public Agency Retirement Services

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.

Purchased Water Costs- These are the costs of the District's wholesale water purchases from SDCWA.

QECB - Qualified Energy Conservation Revenue Bond

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. .

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

UWMP - Urban Water Management Plan

Water Supply Costs - Comprised of Purchased Water Costs and pumping costs.

WRP – Water Reclamation Plant

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

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues					
Revenue from Rates					
Water	$ 21,390,868	$ 24,414,828	$ 26,368,177	$ 28,492,566	$ 31,803,088
Recycled Water	1,229,603	1,188,241	1,285,881	1,388,751	1,499,851
Wastewater	5,941,086	6,186,330	6,466,015	6,756,986	7,061,050
Subtotal Revenue from Rates	**$ 28,561,557**	**$ 31,789,398**	**$ 34,120,073**	**$ 36,638,302**	**$ 40,363,989**
Other Operating Revenue					
Pass-through Charges					
MWD RTS Charge	$ 423,957	$ 291,331	$ 305,436	$ 320,971	$ 336,861
SDCWA IAC Charge	456,283	501,670	552,055	670,024	779,855
Sundry	11,000	11,000	11,000	11,000	11,000
MWD/CWA Incentive	50,003	-	-	-	-
Subtotal Other Operating Revenues	**$ 941,243**	**$ 804,001**	**$ 868,491**	**$ 1,001,995**	**$ 1,127,716**
Non-Operating Revenue					
Water Availability Charge	$ 203,000	$ 204,000	$ 204,000	$ 204,000	$ 204,000
1% Property Tax	2,067,422	2,022,485	2,032,597	2,042,760	2,052,974
Investment Earnings	284,544	141,500	125,732	144,135	167,518
Water CIP Charge	1,373,621	1,455,281	1,556,735	1,653,313	1,755,694
Pumping Charge (Cap. Impr part)	32,756	32,756	32,756	32,756	32,756
Facility Rent	220,000	250,000	255,000	260,100	265,302
Water Capacity Fees	3,000	50,000	50,500	51,005	51,515
Wastewater CIP Charge	1,170,233	1,207,132	1,255,873	1,293,426	1,332,275
Wastewater Capacity Fees	105,000	35,000	35,700	36,414	37,142
Federal Interest Rate Subsidy	122,647	110,677	97,977	84,516	70,261
Subtotal Non-Operating Revenue	**$ 5,582,222**	**$ 5,508,830**	**$ 5,646,870**	**$ 5,802,424**	**$ 5,969,437**
Total Revenues	**$ 35,085,022**	**$ 38,102,229**	**$ 40,635,434**	**$ 43,442,721**	**$ 47,461,141**
Operating Expenses					
Water Supply Costs					
Purchased Water Costs	$ 12,778,727	$ 13,810,108	$ 11,302,476	$ 10,813,148	$ 11,928,736
Pumping Costs	180,000	202,797	212,936	223,583	246,159
SMRCUP Treatment	-	-	1,431,394	2,098,131	2,161,075
Labor Costs	2,869,597	2,895,222	3,039,983	3,191,982	3,351,581
Fringe Benefits	1,809,326	1,974,048	2,102,361	2,239,015	2,350,965
Services, Materials & Supplies	1,902,947	2,122,900	2,186,587	2,252,185	2,319,750
Allocated Admin Expenses	6,353,374	6,465,365	6,717,118	6,980,180	7,227,043
Total Operating Expenses	**$ 25,893,971**	**$ 27,470,440**	**$ 26,992,855**	**$ 27,798,224**	**$ 29,585,309**
Net Operating Revenues	**$ 9,191,051**	**$ 10,631,790**	**$ 13,642,578**	**$ 15,644,498**	**$ 17,875,832**
Debt Service					
Total Debt Service	**$ 2,890,815**	**$ 3,563,049**	**$ 3,801,333**	**$ 5,534,480**	**$ 5,534,503**
Capital Expenditures					
Total Capital Expenditures	**$ 28,650,013**	**$ 39,121,750**	**$ 14,517,971**	**$ 7,026,158**	**$ 7,630,858**
Total Expenditures	**$ 57,434,799**	**$ 70,155,238**	**$ 45,312,160**	**$ 40,358,862**	**$ 42,750,670**
SRF Loan Proceeds	$ 23,308,627	$ 31,900,000	$ 7,727,258	$ -	$ -
Change in Net Position *	**$ 958,850**	**$ (153,009)**	**$ 3,050,531**	**$ 3,083,860**	**$ 4,710,471**
Beginning Balances	*$ 18,624,152*	*$ 19,583,002*	*$ 19,429,993*	*$ 22,480,524*	*$ 25,564,384*
Ending Balances	*$ 19,583,002*	*$ 19,429,993*	*$ 22,480,524*	*$ 25,564,384*	*$ 30,274,855*

*Change in net position is Total Revenues minus Total Expenditures plus SRF Loan Proceeds..

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

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues					
Revenues from Rates					
Revenues from Current Rates	$ 21,390,868	$ 23,475,796	$ 23,475,941	$ 23,488,253	$ 24,275,304
Proposed Revenue Adjustments	-	939,032	2,892,236	5,004,313	7,527,783
Subtotal Operating Revenues	**$ 21,390,868**	**$ 24,414,828**	**$ 26,368,177**	**$ 28,492,566**	**$ 31,803,088**
Other Operating Revenues					
Pass-through Charges					
MWD RTS Charge	$ 423,957	$ 291,331	$ 305,436	$ 320,971	$ 336,861
SDCWD IAC Charge	456,283	501,670	552,055	670,024	779,855
Sundry	5,000	5,000	5,000	5,000	5,000
Subtotal Other Operating Revenues	**$ 885,240**	**$ 798,001**	**$ 862,491**	**$ 995,995**	**$ 1,121,716**
Non-Operating Revenue					
Water Availability Charge	$ 203,000	$ 204,000	$ 204,000	$ 204,000	$ 204,000
1% Property Tax	1,100,000	1,050,225	1,055,476	1,060,754	1,066,057
Investment Earnings	200,822	100,000	102,825	122,311	147,090
Water Capital Improvement Charge	1,373,621	1,455,281	1,556,735	1,653,313	1,755,694
Pumping Charge (Cap. Impr part)	32,756	32,756	32,756	32,756	32,756
Other Revenue	220,000	250,000	255,000	260,100	265,302
Water Capacity Fees	3,000	50,000	50,500	51,005	51,515
Subtotal Non-Operating Rev	**$ 3,133,199**	**$ 3,142,262**	**$ 3,257,292**	**$ 3,384,239**	**$ 3,522,415**
Total Revenues	**$ 25,409,306**	**$ 28,355,090**	**$ 30,487,960**	**$ 32,872,799**	**$ 36,447,218**
Operating Expenses					
Water Supply Costs					
Purchased Water Costs	$ 12,778,727	$ 13,810,108	$ 11,302,476	$ 10,813,148	$ 11,928,736
Pumping Costs	180,000	202,797	212,936	223,583	246,159
SMRCUP Treatment	-	-	1,431,394	2,098,131	2,161,075
Labor Costs	1,513,659	1,449,807	1,522,297	1,598,412	1,678,333
Fringe Benefits	915,201	988,521	1,052,775	1,121,205	1,177,265
Services, Materials & Supplies	599,584	758,000	780,740	804,162	828,287
Allocated Administrative Expenses	4,066,159	4,137,834	4,298,956	4,467,315	4,625,307
Total Operating Expenses	**$ 20,053,330**	**$ 21,347,066**	**$ 20,601,574**	**$ 21,125,957**	**$ 22,645,162**
Net Operating Revenue	**$ 5,355,976**	**$ 7,008,024**	**$ 9,886,386**	**$ 11,746,842**	**$ 13,802,056**
Debt Service					
Total Debt Service	**$ 525,396**	**$ 1,196,661**	**$ 1,434,275**	**$ 3,167,067**	**$ 3,167,067**
Capital Expenditures					
Total Capital Expenditures	**$ 27,179,634**	**$ 36,656,750**	**$ 12,688,157**	**$ 5,575,556**	**$ 5,379,595**
Total Expenditures	**$ 47,758,360**	**$ 59,200,477**	**$ 34,724,006**	**$ 29,868,580**	**$ 31,191,824**
SRF Loan Proceeds	$ 23,308,627	$ 31,900,000	$ 7,727,258	$ -	$ -
Change In Net Position *	$ 959,573	$ 1,054,613	$ 3,491,212	$ 3,004,219	$ 5,255,394
Beginning Balances	*$ 13,377,717*	*$ 14,337,290*	*$ 15,391,903*	*$ 18,883,115*	*$ 21,887,334*
Ending Balances	*$ 14,337,290*	*$ 15,391,903*	*$ 18,883,115*	*$ 21,887,334*	*$ 27,142,728*

*Change in net position is Total Revenues minus Total Expenditures plus SRF Loan Proceeds..

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

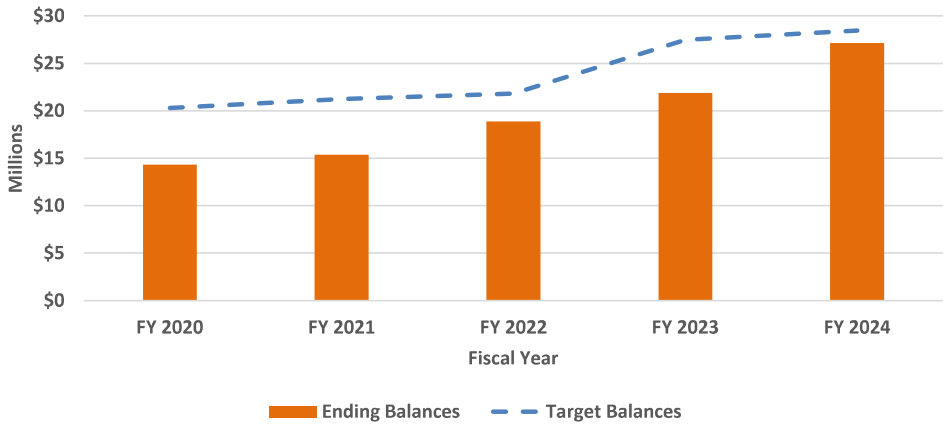


Table #3 - Fallbrook Public Utility District's Wastewater Projections

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues					
Revenues from Rates					
Revenues from Current Rates	$ 5,941,086	$ 6,050,200	$ 6,051,417	$ 6,051,417	$ 6,051,417
Proposed Revenue Adjustments	-	136,130	414,598	705,568	1,009,633
Subtotal Operating Revenues	**$ 5,941,086**	**$ 6,186,330**	**$ 6,466,015**	**$ 6,756,986**	**$ 7,061,050**
Other Operating Revenues					
Sundry	1,000	1,000	1,000	1,000	1,000
Subtotal Other Operating Revenues	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**
Non-Operating Revenue					
Wastewater Capital Improvement Charge	$ 1,170,233	$ 1,207,132	$ 1,255,873	$ 1,293,426	$ 1,332,275
Wastewater Capacity Fees	105,000	35,000	35,700	36,414	37,142
1% property Tax - IDS	912,422	916,985	921,569	926,177	930,808
Federal Interest Rate Subsidy	122,647	110,677	97,977	84,516	70,261
Investment Earnings	81,396	40,000	20,689	19,137	16,798
Subtotal Non-Operating Revenues	**$ 2,391,698**	**$ 2,309,793**	**$ 2,331,809**	**$ 2,359,670**	**$ 2,387,284**
Total Revenues	**$ 8,333,784**	**$ 8,497,123**	**$ 8,798,824**	**$ 9,117,655**	**$ 9,449,334**
Operating Expenses					
Labor Costs	$ 1,230,872	$ 1,257,231	$ 1,320,093	$ 1,386,097	$ 1,455,402
Fringe Benefits	765,963	857,217	912,936	972,277	1,020,891
Services, Materials & Supplies	1,057,013	1,136,900	1,171,007	1,206,137	1,242,321
Allocated Administrative Expenses	2,223,681	2,262,878	2,350,991	2,443,063	2,529,465
Total Operating Expenses	**$ 5,277,529**	**$ 5,514,226**	**$ 5,755,027**	**$ 6,007,574**	**$ 6,248,079**
Net Operating Revenue	**$ 3,056,255**	**$ 2,982,897**	**$ 3,043,797**	**$ 3,110,081**	**$ 3,201,255**
Debt Service					
Total Debt Service	**$ 1,811,696**	**$ 1,812,664**	**$ 1,813,334**	**$ 1,813,689**	**$ 1,813,712**
Capital Expenditures					
Total Capital Expenditures	**$ 1,311,481**	**$ 2,035,000**	**$ 1,712,360**	**$ 1,331,973**	**$ 2,131,448**
Total Expenditures	**$ 8,400,706**	**$ 9,361,890**	**$ 9,280,721**	**$ 9,153,236**	**$ 10,193,239**
Change in Net Position *	$ (66,922)	$ (864,767)	$ (481,897)	$ (35,581)	$ (743,905)
Beginning Balances	*$ 4,620,809*	*$ 4,553,887*	*$ 3,689,121*	*$ 3,207,223*	*$ 3,171,642*
Ending Balances	*$ 4,553,887*	*$ 3,689,121*	*$ 3,207,223*	*$ 3,171,642*	*$ 2,427,737*

*Change in net position is Total Revenues minus Total Expenditures..

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

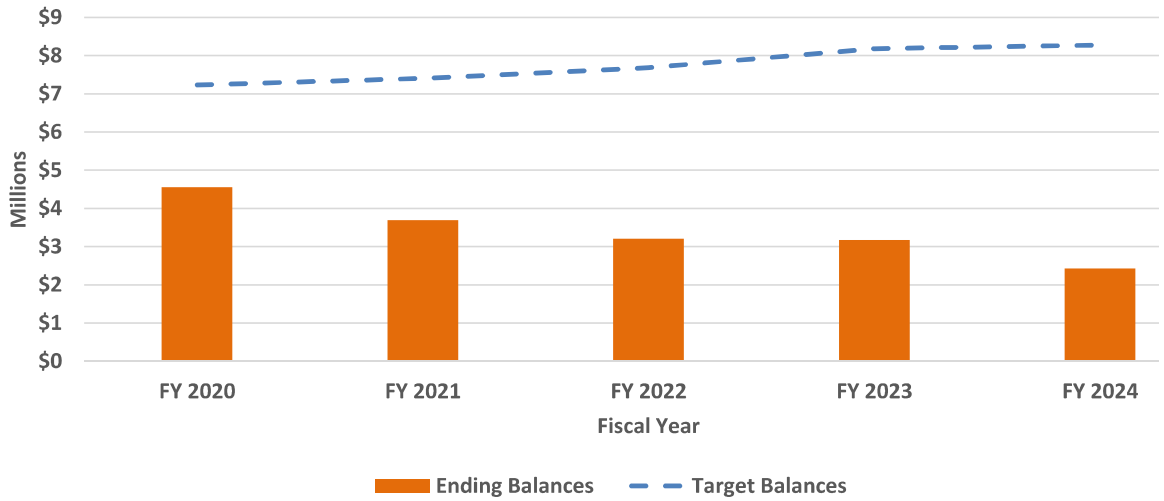


Table #4 Fallbrook Public Utility District's Recycled Water Projections

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues					
Revenues from Rates					
Revenues from Current Rates	$ 1,229,603	$ 1,142,539	$ 1,144,837	$ 1,144,837	$ 1,144,837
Proposed Revenue Adjustments	-	45,702	141,044	243,914	355,014
Other Operating Revenues					
SDCWA Incentive	$ 50,003	$ -	$ -	$ -	$ -
Sundry	5,000	5,000	5,000	5,000	5,000
Subtotal Other Operating Revenues	**$ 55,003**	**$ 5,000**	**$ 5,000**	**$ 5,000**	**$ 5,000**
Non-Operating Revenue					
1% Property Tax	$ 55,000	$ 55,275	$ 55,551	$ 55,829	$ 56,108
Investment Earnings	2,326	1,500	2,217	2,687	3,629
Subtotal Non-Operating Revenue	**$ 57,326**	**$ 56,775**	**$ 57,769**	**$ 58,516**	**$ 59,738**
Total Revenue	**$ 1,341,932**	**$ 1,250,016**	**$ 1,348,649**	**$ 1,452,267**	**$ 1,564,589**
Operating Expenses					
Labor Costs	$ 125,066	$ 188,184	$ 197,593	$ 207,473	$ 217,847
Fringe Benefits	128,162	128,310	136,650	145,532	152,809
Services, Materials & Supplies	246,350	228,000	234,840	241,885	249,142
Allocated Administrative Expenses	63,534	64,654	67,171	69,802	72,270
Total Operating Expenses	**$ 563,112**	**$ 609,148**	**$ 636,255**	**$ 664,692**	**$ 692,068**
Net Operating Revenue	**$ 778,820**	**$ 640,868**	**$ 712,395**	**$ 787,575**	**$ 872,521**
Debt Service					
Total Debt Service	**$ 553,724**	**$ 553,724**	**$ 553,724**	**$ 553,724**	**$ 553,724**
Capital Expenditures					
Total Capital Expenditures	**$ 158,898**	**$ 430,000**	**$ 117,454**	**$ 118,629**	**$ 119,815**
Total Expenditures	**$ 1,275,734**	**$ 1,592,872**	**$ 1,307,433**	**$ 1,337,045**	**$ 1,365,607**
Change in Net Position *	$ 66,199	$ (342,855)	$ 41,217	$ 115,222	$ 198,982
Beginning Balances	*$ 625,626*	*$ 691,825*	*$ 348,969*	*$ 390,186*	*$ 505,408*
Ending Balances	*$ 691,825*	*$ 348,969*	*$ 390,186*	*$ 505,408*	*$ 704,390*

*Change in net position is Total Revenues minus Total Expenditures..

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

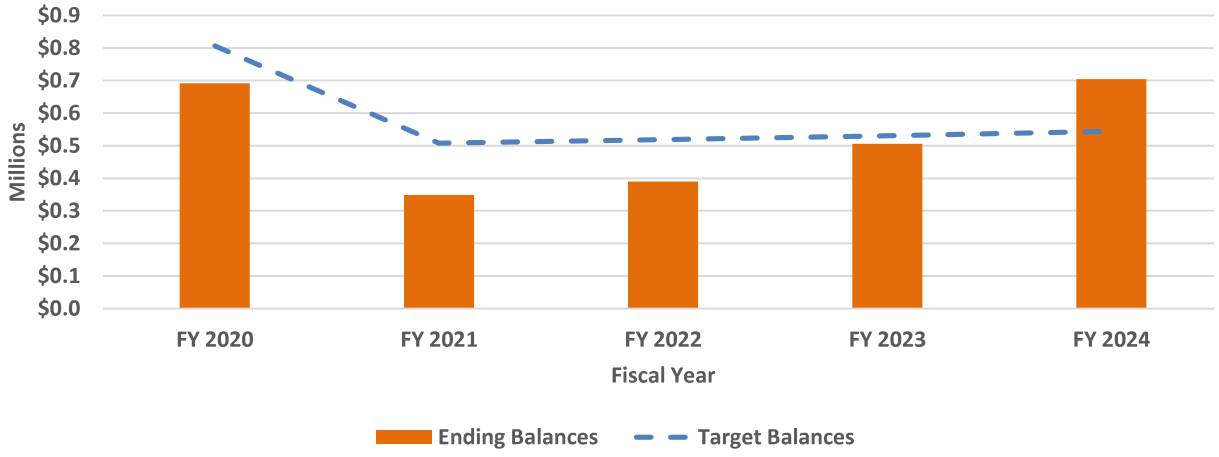


Table #5 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years

	FY 2009-10	FY 2010-11	FY 2011-12
Changes in Net Position:			
Operating Revenues	$ 21,795,259	$ 21,255,448	$ 23,661,715
Operating Expenses	(24,347,069)	(24,175,989)	(26,140,572)
Other Operating Revenues	142,229	363,564	279,560
Operating Income (loss)	**$ (2,409,581)**	**$ (2,556,977)**	**$ (2,199,297)**
Non-Operating Revenues (expenses)			
Property Taxes Ad-Valorem	$ 1,602,551	$ 1,549,625	$ 1,552,911
Capital Improvement Charges	-	404,175	414,910
California Solar Initiative Rebate	-	-	534,835
Investment income	490,664	147,486	87,217
Water Availability Charges	201,397	200,944	200,906
Lease Revenue	215,154	184,983	177,095
Integovernmental Revenue - Federal Interest Subsidy	-	-	-
Connection Fees	108,631	112,499	190,932
Federal Grants	-	-	-
Gain on Impairment	-	-	-
Other Non-Operating Revenues	748,834	102,704	109,261
Other Non-Operating Expenses	(276,937)	(508,849)	(294,462)
Total Non-Operating Revenues(expenses), net	**$ 3,090,294**	**$ 2,193,567**	**$ 2,973,605**
Net income Before Capital Contributions	**$ 680,713**	**$ (363,410)**	**$ 774,308**
Capital Contributions	211,782	3,094,483	273,825
Capital Grant - Proposition 50	-	-	338,331
Capital Grant - Proposition 84	-	-	-
Extraordinary Items	-	-	-
Changes in Net Position	**$ 892,495**	**$ 2,731,073**	**$ 1,386,464**
Net Assets			
Beginning, as restated	**$ 67,149,470**	**$ 68,041,965**	**$ 70,773,038**
Adjustments to restate balance	-	-	-
Ending, as restated	**$ 68,041,965**	**$ 70,773,038**	**$ 72,159,502**

(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 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
$ 27,582,160	$ 28,955,183	$ 27,483,881	$ 25,356,017	$ 27,256,065	$ 29,882,022	$ 26,944,550
(28,007,733)	(33,062,764)	(29,367,701)	(27,921,351)	(30,678,705)	(33,319,799)	(31,708,417)
439,560	681,876	-	-	-	-	-
$ 13,987	**$ (3,425,705)**	**$ (1,883,820)**	**$ (2,565,334)**	**$ (3,422,640)**	**$ (3,437,777)**	**$ (4,763,867)**
$ 1,582,219	$ 1,694,090	$ 1,719,296	$ 1,815,734	$ 1,889,808	$ 1,984,543	$ 2,106,034
1,252,501	1,981,822	2,134,025	2,224,529	2,283,558	2,476,452	2,505,876
779,786	843,714	729,519	740,125	234,930	-	-
30,507	209,175	141,433	324,126	63,861	18,188	915,275
201,037	200,779	200,810	200,808	200,730	229,400	204,359
181,100	183,641	185,770	185,220	166,012	178,602	199,433
-	-	-	185,040	238,765	145,338	134,924
247,607	118,581	208,521	131,894	238,124	411,744	180,966
-	-	-	-	-	-	-
-	-	-	-	-	(273,396)	9,338,297
81,008	69,816	162,913	91,361	32,729	-	-
(291,721)	(344,730)	(321,941)	(690,409)	(385,483)	(959,015)	(909,966)
$ 4,064,044	**$ 4,956,888**	**$ 5,160,346**	**$ 5,208,428**	**$ 4,963,034**	**$ 4,211,886**	**$ 14,675,198**
$ 4,078,031	**$ 1,531,183**	**$ 3,276,526**	**$ 2,643,094**	**$ 1,540,394**	**$ 774,109**	**$ 9,911,331**
595,205	76,746	153,790	75,299	59,509	73,661	73,789
-	828,598 [1]	224,596 [1]	874,040 [3]	773,163	-	-
-	-	-	682,428	-	67,100	-
-	-	-	-	-	-	-
$ 4,673,236	**$ 2,436,527**	**$ 3,65,912**	**$ 4,274,861**	**$ 2,373,066**	**$ 914,870**	**$ 9,985,120**
$ 72,159,502	**$ 76,678,353**	**$ 79,114,880**	**$ 75,034,991**	**$ 79,309,852**	**$ 85,168,437**	**$ 86,083,307**
(154,385)	-	(7,734,801) [2]	-	3,485,519	-	-
$ 76,678,353	**$ 79,114,880**	**$ 75,034,991**	**$ 79,309,852**	**$ 85,168,437**	**$ 86,083,307**	**$ 96,068,427**

Chart #1 - Operating Expenses by Activity

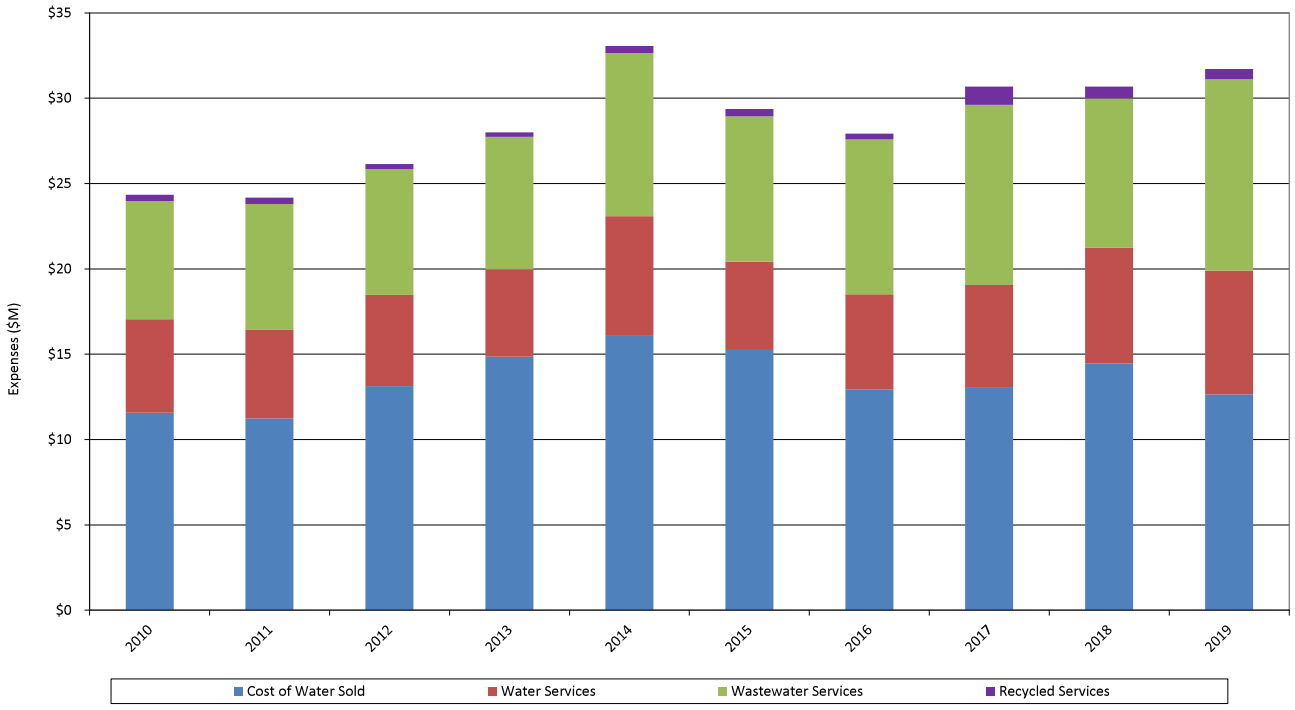


Chart #2 - Operating Revenues by Source

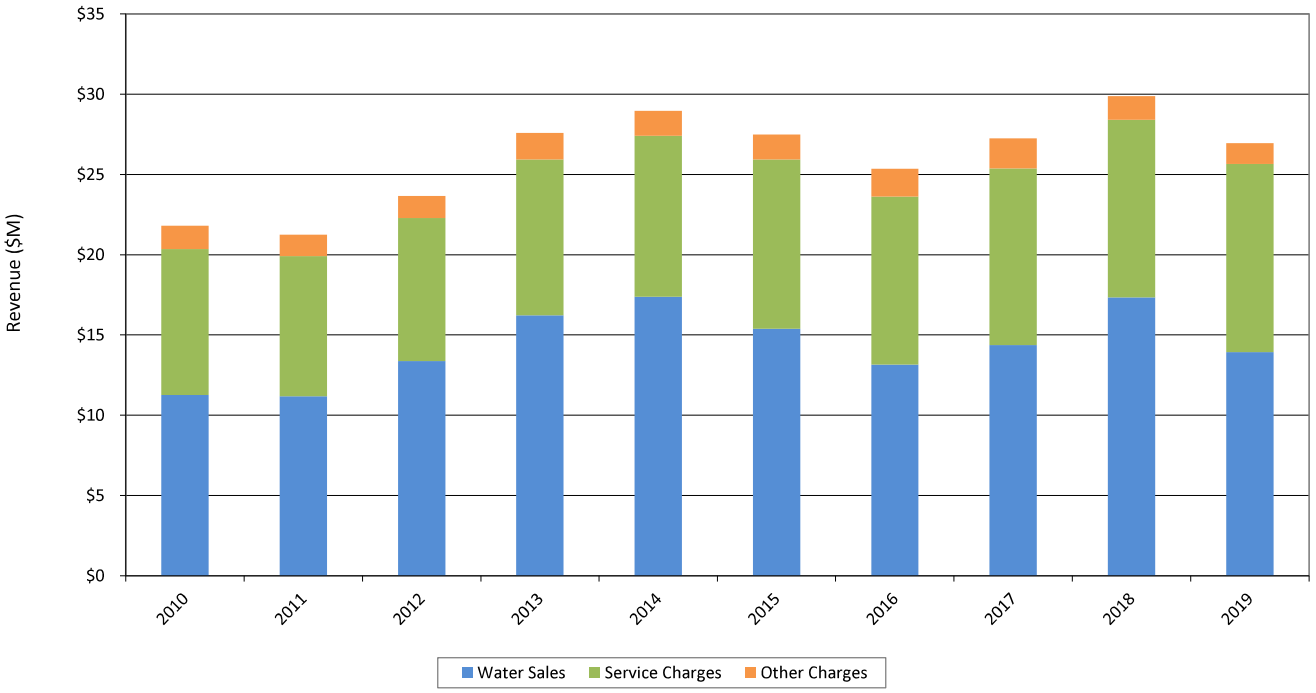
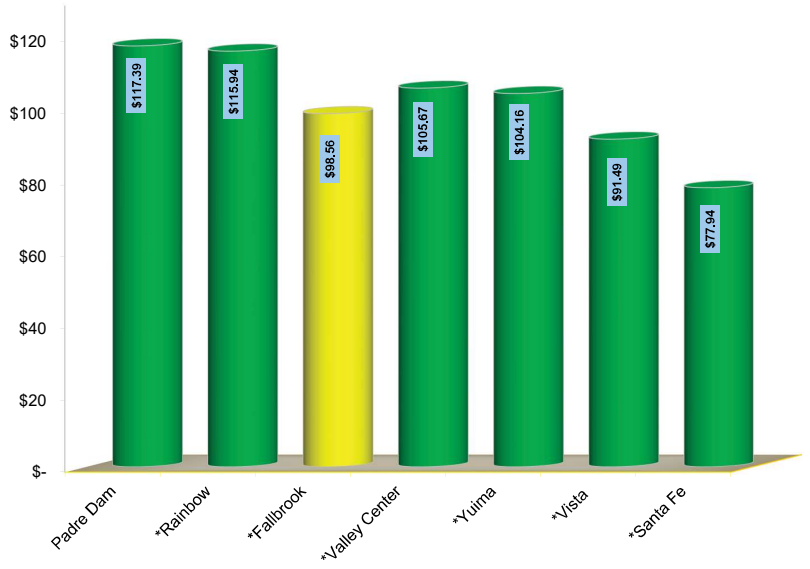
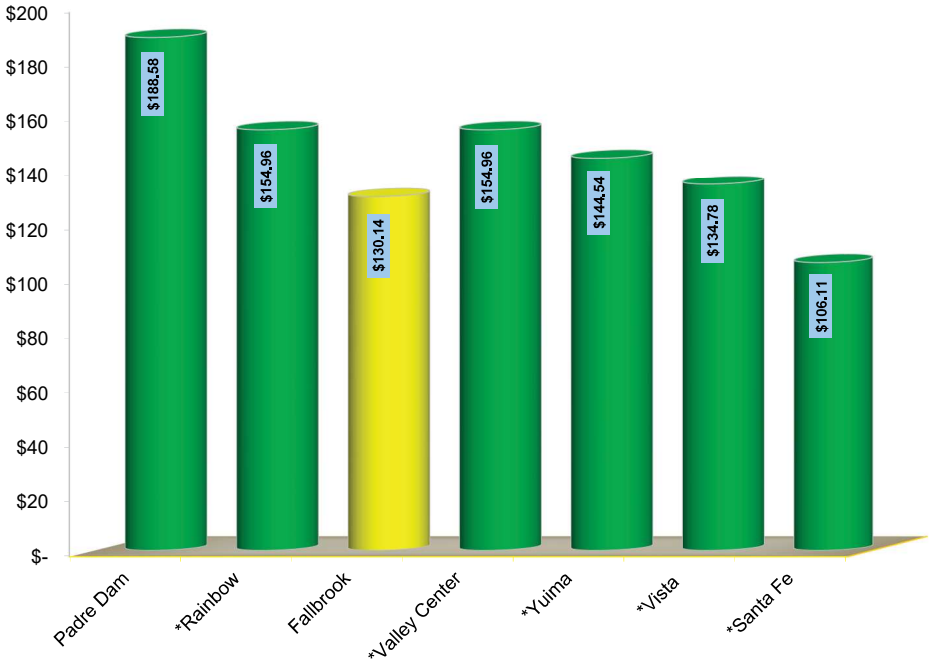


Chart #3 - Projected Water Bill for Fiscal Year 2020-21, Based on 11 HCF Water Use With a ¾" Residential Meter *



*As of the time of the survey in May 2020, the member agency's FY 2021 rate increase was unavailable and an assumption was made that no rate increase will be implemented for FY 2021.

Chart #4 - Projected Water Bill for Fiscal Year 2020-21 Based on 20 HCF Water Use With a ¾" Residential Meter *



*As of the time of the survey in May 2020, the member agency's FY 2021 rate increase was unavailable and an assumption was made that no rate increase will be implemented for FY 2021.

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

Source: Otay Water District rate survey.

Fallbrook Public Utility District 's Capitalization Policy

FALLBROOK PUBLIC UTILITY DISTRICT	Standard Policy	
	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.

Fallbrook Public Utility District 's Fund Balance Policy

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 Committee/Board of Directors and public in April and a second preliminary Budget in May. The final Budget is presented in June 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
Sec. 15.1 – Rev. 7/19

Fallbrook Public Utility District 's Investment Policy

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 imited 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", theequivalent 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 recognzed 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 amd 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 expeerience 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

RESOLUTION NO. 4998

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE FALLBROOK PUBLIC UTILITY DISTRICT APPROVING AND ESTABLISHING THE DISTRICT'S FISCAL YEAR 2020-21 BUDGET FOR OPERATIONS, MAINTENANCE, WATER PURCHASES, CAPITAL IMPROVEMENTS, EQUIPMENT, AND DEBT SERVICE AND APPROPRIATING $70,711,170 CONSITENT WITH THE APPROVED BUDGET

* * * * *

WHEREAS, the Fiscal Policy and Insurance Committee has reviewed and considered the Recommended Fiscal Year 2020-21 Budget during publicly noticed meetings on April 22, 2020 and May 26, 2020; and

WHEREAS, the Board has reviewed and considered the Recommended Fiscal Year 2020-21 Budget during a publicly noticed meeting on June 22, 2020;

NOW, THEREFORE, BE IT RESOLVED BY the Board of Directors of the Fallbrook Public Utility District as follows:

1. The District's Fiscal Year 2020-21 Budget, as presented to the Board of Directors at the publicly noticed meeting on June 22, 2020, is hereby approved.

2. Expenditure under the District's approved Fiscal Year 2020-21 Budget is hereby appropriated as follows:

For administration, operations, and maintenance:	$13,457,534
For water purchases:	$14,012,905
For PAYGO capital improvements, and equipment:	$ 7,221,750
For Santa Margarita Conjunctive Use Project capital improvements:	$31,900,000
For Revenue Bonds, State Revolving Fund, and interest and principal:	$ 3,563,049
TOTAL	$70,155,238

3. Expenditure of appropriated funds shall be consistent with the approved Budget. Except as provided in this Resolution, no increases or decreases to the Budget shall occur except upon prior approval by the Board.

4. Notwithstanding the total appropriations, set forth herein, the General Manager is authorized subject only to the total appropriations to exceed the expenditure amount designated in the approved Budget for water purchases to meet the District's water demands.

5. The annual Liquidity Fund Level target for Fiscal Year 2020-21 is kept at the current level of $3.7 million and no draws from the District's long-term investment portfolio is planned.

6. A draw of $153,009 from the District's long-term investments is planned, and any unanticipated draws will go to the Board for approval.

PASSED AND ADOPTED by the Board of Directors of the Fallbrook Public Utility District at a regular meeting of the Board held on the 22nd day of June, 2020, by the following vote:

AYES: Directors Baxter, DeMeo, Endter, McDougal, and Wolk
NOES: None
ABSTAIN: None
ABSENT: None

President, Board of Directors

ATTEST:

Secretary, Board of Directors

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 2017-18 was $14.1 million. In Fiscal Year 2017-18, the latest CalPERS valuation date, the District's pension liability was 72.6% funded for Classic employees and 91.6% funded for PEPRA employees.

Fiscal Year Ending (6/30)	Classic	PEPRA	Total
FY 2018-19	$ 730,148	$ 534	$ 730,682
FY 2019-20	888,000	1,300	889,300
FY 2020-21	1,013,000	2,800	1,015,800
FY 2021-22	1,159,000	4,300	1,163,300
FY 2022-23	1,269,000	5,900	1,274,900
FY 2023-24	1,361,000	7,100	1,368,100
FY 2024-25	1,439,000	8,000	1,447,000

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 2020-21 is 13.146% of payroll, which is up from the Fiscal Year 2019-20 is 12.142%. The NCR for PEPRA employees is 7.874% of payroll in Fiscal Year 2020-21 and was 7.072% in Fiscal Year 2019-20.

District's 115 Pension Trust

As part of the District's commitment to fiscal sustainability, a Section 115 Pension Trust has been established. The trust holds assets pledged to pay for future pension related expenses. The Trust as of April 30 held $5.98 million.

District's Other Post-Employment Benefits (OPEB)

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 96.6% funded based upon an actuarial valuation report as of June 30, 2020. Based upon planned contributions to the OPEB Trust Fund, the District expects to fully fund the OPEB liability over the next 3 years. As of April 30, 2020, the OPEB Trust Fund held $986,761.