



THE CITY OF SAN DIEGO Water Utility

20
02
Annual Financial Report



Successes Lay Foundation for Future





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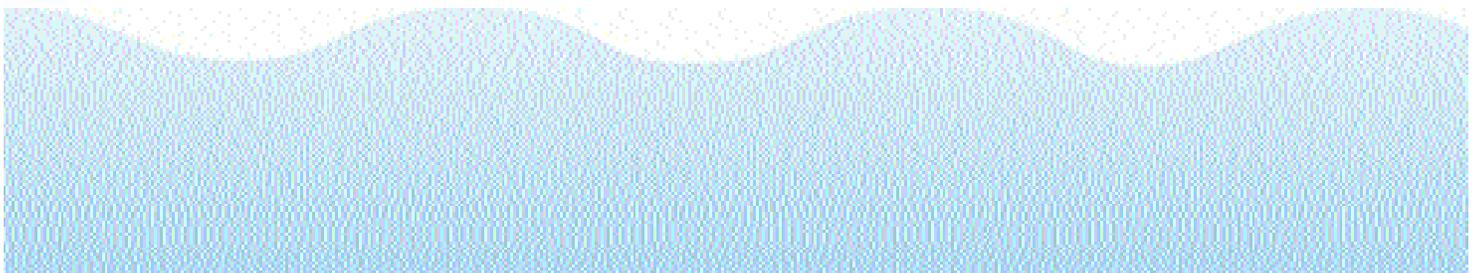
Fiscal Year Ended June 30, 2002



Office of the City Auditor
and Comptroller
Ed Ryan
City Auditor and Comptroller



THE CITY OF SAN DIEGO



The City of San Diego Mayor and City Council Members

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Mayor

Scott Peters
Councilmember District 1

Byron Wear
Councilmember District 2

Toni Atkins
Councilmember District 3

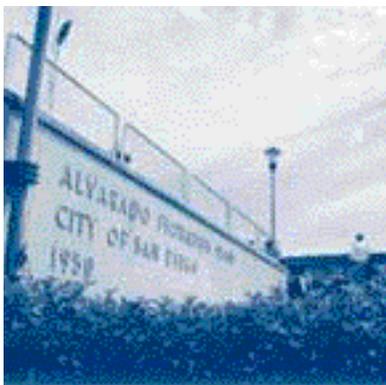
George Stevens
Councilman District 4

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Councilmember District 5

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Councilmember District 6

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Councilmember District 8



City Officials

Michael T. Uberuaga
City Manager

Ed Ryan
Auditor and Comptroller

Mary Vattimo
Treasurer

Casey Gwinn
City Attorney

George I. Loveland
Deputy City Manager

Richard Mendes
Utilities General Manager

Charles Abdelnour
City Clerk



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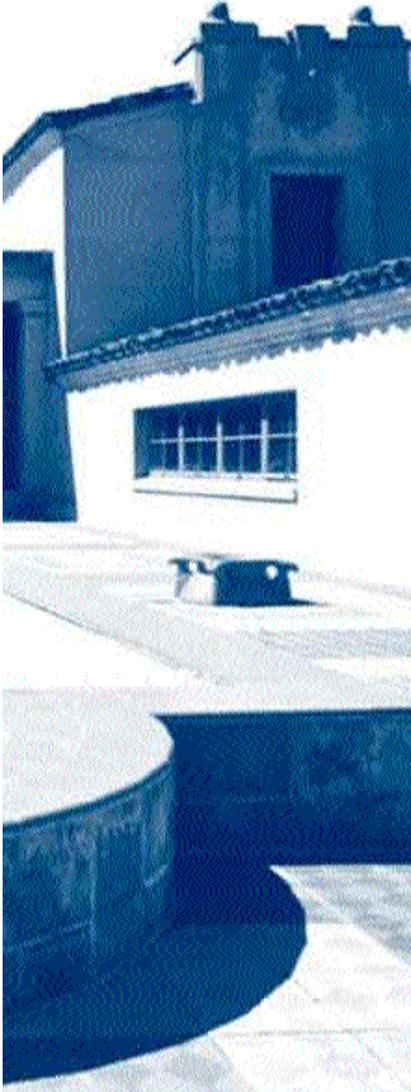
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Letter from the Director

It was the great philosopher George Santayana who first wrote, "Those who do not remember the past are condemned to repeat it." It's an interesting quote meant as a warning to those charging blindly into the future without thinking of what came before. It's obviously deep with meaning and is as relevant today as it was decades ago when Santayana first wrote it. However, at the City of San Diego Water Department, we're putting a new twist on this old adage.

We're constantly remembering the past in order that we can repeat it. For more than 100 years the Water Department has delivered safe, healthful drinking water to the citizens of San Diego. Our record of continuous service with absolutely no drinking water violations is one that is virtually unmatched. How many businesses in the world can make the claim that for more than a century they've continuously met their most important goal? We're proud to say that we have.

To continue to serve our customers so well takes a lot of hard work and strategic planning. Not only do we need to make sure that somebody turning a tap today gets safe, clean water, we need to be mindful of that person's child who may be turning that same tap in 25 years. They'll need healthful water as well, and the decisions we're making today are ensuring that future generations will have a safe, potable water supply.

When making decisions that impact the future, we're constantly examining our past. There are so many lessons to be learned from those who came before us that if we ignored them we'd be doing a tremendous disservice to ourselves and to our customers. San Diegans have been fortunate to have had 100 years of dedicated Water Department employees serving them and our city. Their successes offer excellent lessons for the future.

On the following pages you'll get a peek at the history of the City of San Diego Water Department, our commitment to learning from and celebrating the past, and a glimpse of what lies ahead. While we agree with Santayana's warning about the pitfalls of ignoring history, when you have a history as accomplished as ours, you'd be foolish not to learn from and celebrate it. After all, when we turn the tap on today and clean drinking water flows out, it's because 25 years ago somebody at the Water Department was doing a great job of planning for 2002.

Larry Gardner

Larry Gardner
Water Department Director

Successes Lay Foundation for Future

For any venture to have long-term success there must be some forward-thinking and creative individuals involved. One of the biggest success stories in San Diego's history is the City of San Diego Water Department. Those who deserve the credit for laying the foundation for this success are those who created it: San Diegans.

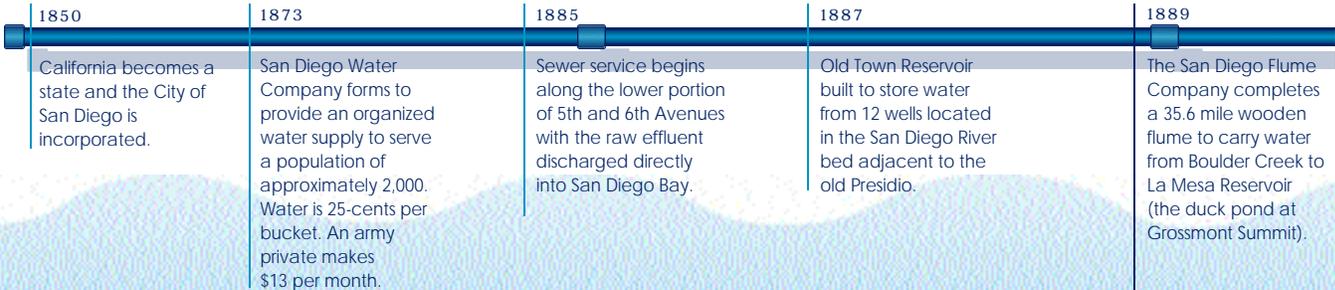
It must have been a tough decision in 1901 to spend valuable City dollars to buy out undependable private water companies and form a municipal Water Department. One can imagine that as turn-of-the-century San Diegans entered voting booths on April 20, 1901, there was some trepidation as to whether or not forming a municipal department to deliver water would lessen the frustrations caused by the unreliability of water purveyors. It surely wasn't an easy decision, but by a comfortable margin San Diegans sagely voted to create what is now known as the City of San Diego Water Department.

These types of intelligent decisions, based on what's good for the future of San Diego, have occurred time after time during the more than 100-year history of the Water Department. Today, the City of San Diego boasts one of the largest and most complex

water storage treatment and delivery systems in the world, incorporating more than 3,000 miles of pipeline and serving more than 1.2 million people in a service area of 403 square miles. The Water Department prides itself on its commitment to deliver safe and reliable drinking water. Evidence of this commitment is found in the fact that we have never received a single water quality violation from the California Department of Health Services.

It's all speculation, but it's interesting to consider where we'd be as a city if past Water Department officials, as well as the citizens of San Diego, hadn't constantly made the right decisions regarding water and the future of water in San Diego. It's easy to look back now and see that the decisions made during the past century were the right ones, but at the time these decisions must have caused a lot of anxiety.

Obviously, San Diego's water future got off on the right foot thanks to that 1901 vote. Reliability and strategic planning replaced the old era of private companies hustling water for a quick buck. The Water Department moved quickly to help satisfy





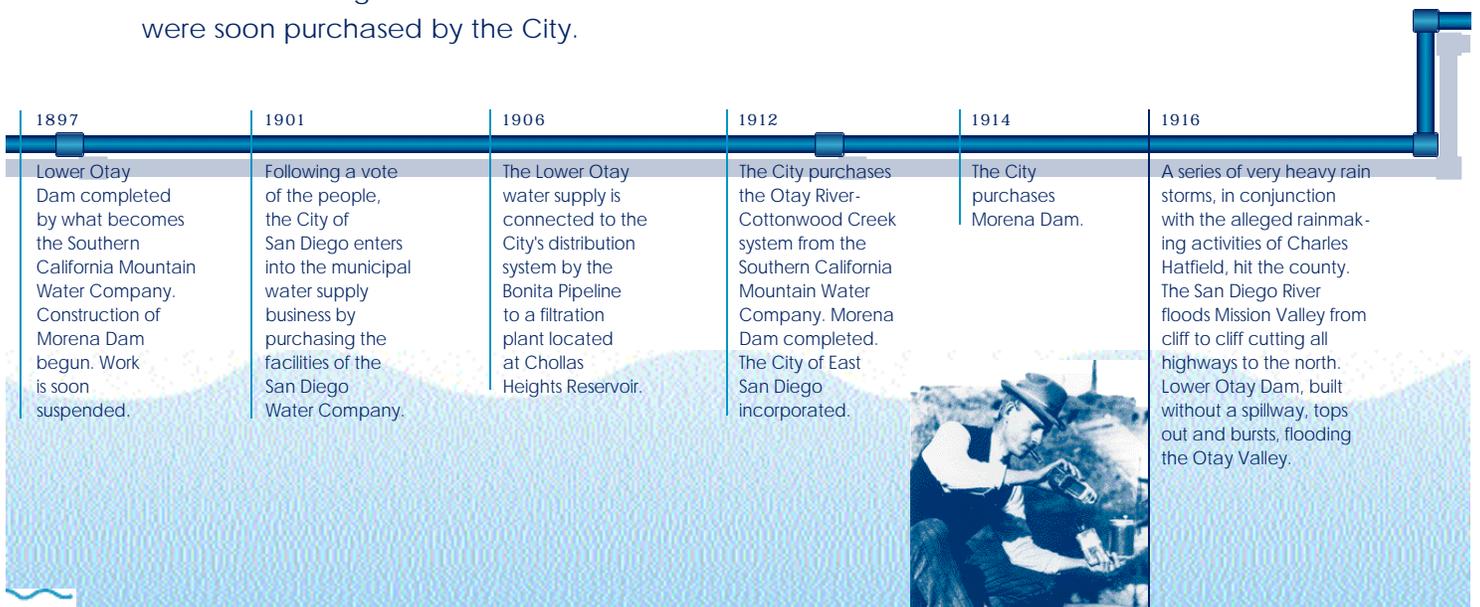
the water needs of its citizens and by 1906 the Bonita Pipeline was built connecting the Lower Otay water supply to Chollas Heights Reservoir where the City's filtration plant was constructed. Water from the new plant was then put into an ever-expanding distribution system.

It soon became obvious that simply distributing water wasn't going to meet the city's demands much longer. Several ideas were brought forth including the questionable one of hiring a rainmaker named Charles M. Hatfield. Apparently he worked his magic so well that beginning on January 15, 1916, it rained for 15 straight days. The runoff from these storms caused some of the worst flooding in the area's history.

The dalliance with rainmakers quickly passed and, after much study, officials determined the prudent path was to build storage dams. Thus began San Diego's era of buying and building dams. The City had already purchased the Morena Dam in 1914, and construction of Lower Otay Dam, now known as Savage Dam, was finished in 1918. That same year Lake Hodges Dam and the San Dieguito Dam were built. Both were soon purchased by the City.

In 1928 construction of what is now Sutherland Dam commenced. For many reasons, some political, others because the building of the dam was especially tricky due to the site, construction was abandoned. The dam wasn't completed until 1954. In 1935 the City completed the El Capitan Dam and the El Capitan Pipeline, which connected the reservoir to the City's water supply system. A year later, with the reservoirs providing the city's drinking water, the water wells in Mission Valley were decommissioned. The wells, which were once the sole provider of water to the citizens, were no longer being used.

Obviously, the decision to build dams was a good one and continues to pay off for the citizens of San Diego. Not only do the dams hold our vital drinking water supply, they offer a myriad of recreational opportunities. Begun in 1913, the City of San Diego City Lakes Program is one of the oldest, largest and most innovative city recreational programs in America.



In the early 1940s, due to World War II, the population of San Diego exploded. With the wartime population boom came the harsh realization that in order to keep up with growth the area needed imported water. In 1944 the San Diego County Water Authority was organized with the purpose of importing and distributing Colorado River water. At the time imported water was reaching Los Angeles but not San Diego. In an emergency measure signed by President Franklin D. Roosevelt, a committee was formed to find a way to get water from the Colorado River to a San Diego County bursting at the seams with military personnel. An estimated 430,700 people lived in San Diego County then, far more than local water supplies could keep up with.

An aqueduct was built to carry water from the Metropolitan Water District's Colorado River Aqueduct 71 miles south to the new San Vicente Reservoir. The new aqueduct was completed in 1947, and San Diego now had access to Colorado River water.

It would have been understandable if after the war officials quit planning so diligently.

After all, we had imported water and plenty of storage reservoirs. Luckily for us, however, they could see the need for even more water and a better local water system. Construction soon began on the Alvarado Filtration Plant, located adjacent to Lake Murray. Today, more than 50 years after the plant was brought on-line, Alvarado continues to deliver clean and safe water to half a million San Diegans a day. Recently, the American Water Works Association recognized the Alvarado Plant as an *American Water Landmark*. This award recognizes qualified facilities at least 50 years old that have had a direct and significant relationship with water's supply, treatment, distribution, or technological development. The award reads, "The Alvarado Water Treatment Plant has been the heart of the



1918	1922	1935
<p>Reconstruction completed on the Lower Otay Dam, now renamed Savage Dam. Lake Hodges Dam and San Dieguito Dam completed by the Santa Fe Land & Improvement Co. Both were later purchased by the City.</p>	<p>City forces complete Barrett Dam and the Dulzura Conduit. Both are built to link Morena Reservoir and the Cottonwood Creek/Pine Creek watersheds with the City's water supply system at Lower Otay.</p>	<p>The City completes construction of El Capitan Dam and the El Capitan Pipeline connecting it to the City's water supply system. University Heights Filtration Plant enlarged.</p>



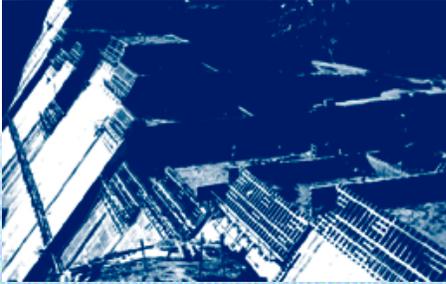
City of San Diego's drinking water system for the City and the surrounding community."

In 1951 the Alvarado Treatment Plant was big news, as were plans, ideas and schemes for bringing water from Northern California to Southern California. In 1956, a new Department of Water Resources was formed and a serious study undertaken to build a system that would include an aqueduct to carry Bay Delta water to the south. However, arguments over the location of the aqueduct and who would pay for it led politicians in Sacramento to mothball the project. But, in 1958 newly elected Gov. Pat Brown got the ball rolling once again and a Proposition was put on the ballot asking Californians to approve the selling of bonds to build the California Aqueduct. Despite Gov. Brown's stumping for the Proposition there was a lot of opposition from those who felt the project, which would be one of the most ambitious engineering

undertakings ever, would never work. In fact, the *San Francisco Chronicle* labeled the whole thing a hoax.

The bond election of 1960 was a cliffhanger. A total of 5.8 million Californians went to the polls and at one point the bond measure was trailing by 200,000 votes. But then the San Diego County ballots came in with a yes vote of 4-to-1. Thanks to all the support from San Diego, the Proposition won by more than 173,000 votes. Once again, the voters of San Diego had positively changed the course of water history.

The building of what became known as the State Water Project was an awesome task. Plans called for the construction of 23 dams and reservoirs, 22 pumping plants, six power plants, 473 miles of canals, 175 miles of pipelines and 20 miles of tunnels. It took more than a decade to complete but in April, 1972, just in time to temper the effects of another drought, water from the State Water Project arrived in Southern California. Since then the City of San Diego has been receiving a blend of water from the Colorado River and, thanks to the State Water Project, the Sierras in Northern California.

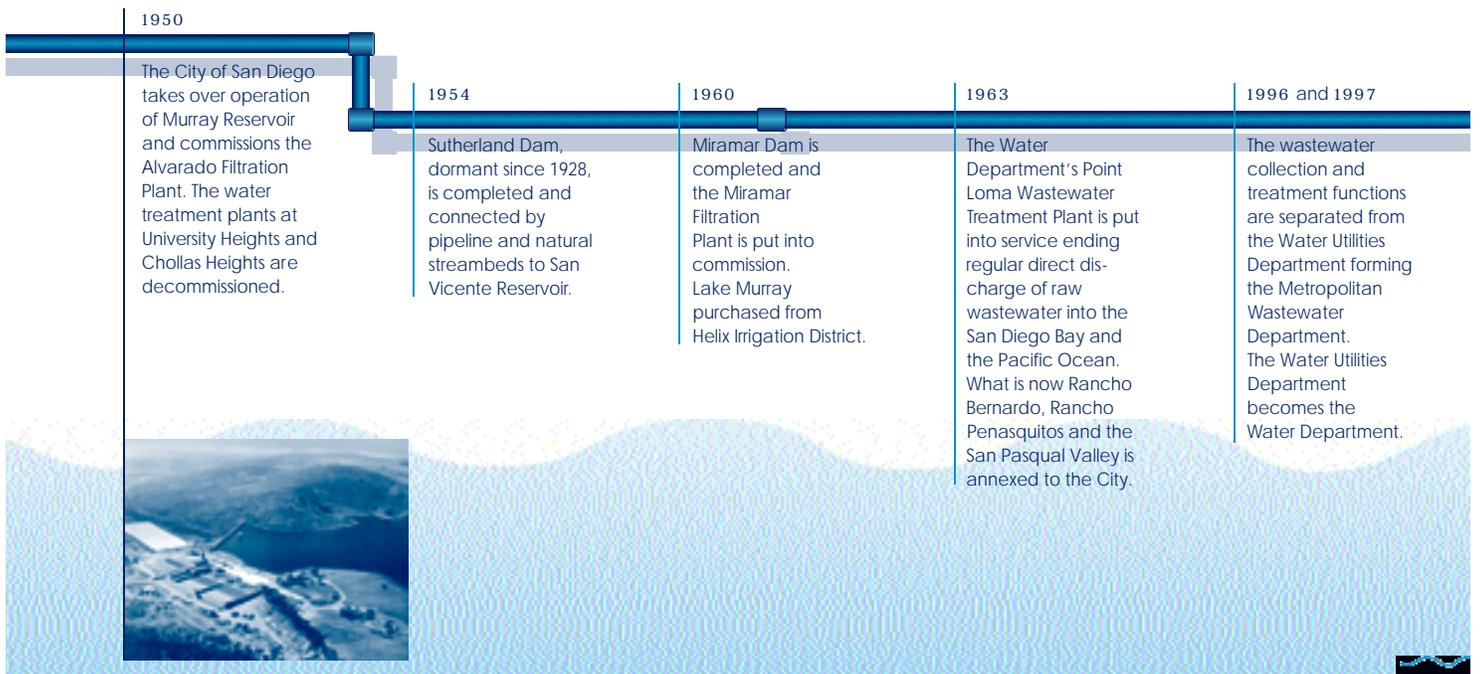
1936	1943	1947
<p>The City decommissions water wells operated in Mission Valley.</p> 	<p>San Vicente Dam and pipeline are dedicated following two years of construction. This provides another source of water for San Diego's booming wartime population. The U.S. Navy completes the City's first sewerage treatment plant in an effort to reduce the health risks to sailors on ships in San Diego Bay.</p> 	<p>The first imported water from the Colorado River flows into San Vicente Reservoir. This ends San Diego's total dependence on local sources for water.</p> 

All during the century the City of San Diego Water Department was instrumental in forming the critical water decisions that have shaped our present and will shape our future. But as our predecessors never rested, neither do we. The Water Department is constantly looking ahead to find solutions to future water problems before the problems become critical. There is no one answer, one silver bullet, that will solve our future water problems. It will most certainly have to be a combination of ideas.

One important aspect the Water Department is working hard on is decreasing our need for imported water. Created in 1985, the award-winning Water Conservation Program is actively educating the public on ways to conserve water. Water conservation educational information is distributed via the media, special events, community fairs and elementary school visits. In addition, information is presented to civic and social groups through our speaker's bureau and with a click of the mouse, via our web pages at www.sandiego.gov/water.

Recognizing that water in San Diego is too precious a resource to use just once, two water recycling plants are now up and running providing a safe, dependable non-potable water supply. At full capacity, the North City Water Reclamation Plant will be able to produce 30 million gallons of recycled water a day, and the South Bay Reclamation Plant, which is still undergoing testing, will eventually produce up to 15 million gallons per day.

The Water Department's Capital Improvements Program has formulated an ambitious and vital plan for the future of



San Diego. By 2008, approximately \$900 million will have been spent to enlarge, upgrade, rehabilitate and, seismically retrofit virtually every aspect of the City's storage, treatment and delivery systems. It's this kind of commitment by Water Department and City officials, as well as the citizens of San Diego, that future generations will point to as a critical decision that shaped their future.

There are countless other decisions now being made which will affect the future. Where will tomorrow's water supplies come from? Certainly desalination (turning sea water into drinking water) will be something that will be considered. Also, the Water Department is exploring the idea of using groundwater and has embarked on a groundwater asset development program. And what else lies just over the horizon?

Many new challenges face the City of San Diego Water Department, and other water purveyors in the United States. There are new rules and regulations being passed every day and if you're not moving ahead, you're falling behind. At the City of San Diego Water Department we're not afraid to work hard and take some risks in order to accomplish our goals. It's something we've been doing for more than 100 years.



1998	2000	2002	2002	2008
<p>The Water Department creates the Capital Improvements Program to help solve a number of pressing problems related to the City's water treatment and delivery system. Funding of the CIP is through a water revenue plan, including an initial rate increase to support the recommended infrastructure improvements, and the selling of bonds. For the Water Department, it was the first issuance of bonds in more than 30 years. The City of San Diego sells \$383 million in water bonds in just one day. The rate on the bonds is 5.09 percent, the lowest rate on a City transaction in decades. The low interest rate and the fact that the bonds sell in one day demonstrates the confidence the business community and investors has in the City of San Diego, the Water Department and its Capital Improvements</p>	<p>The rehabilitations and improvements of the Point Loma Reservoir and the Soledad Reservoir are completed. These are the first of many upgrades to the water system brought about by the Capital Improvements Program. The total cost of the two projects is just about \$6 million.</p>	<p>Nearly \$287 million worth of water bonds are sold. Combined with a new water rate package the sale of the bonds helps finance future capital improvements including the upgrade and expansions of the three water treatment plants.</p>	<p>The Mid-City Pipeline is completed. Another important part of the Capital Improvements Program, this pipeline can deliver up to 43 million gallons of water a day and greatly enhances service to a large portion of San Diego.</p>	<p>Completion of the upgrades and expansion of the three water treatment plants. The Otay Water Treatment Plant project costs an estimated \$44 million and increases capacity from 34 to 40 million gallons a day. The Miramar Water Treatment Plant project costs an estimated \$135 million and increases capacity from 140 to 215 million gallons of water a day. The Alvarado Water Treatment Plant project costs an estimated \$152 million and increases capacity from 120 to 150 million gallons a day.</p>

