

**MONTECITO WATER
DISTRICT**

**FISCAL YEAR
2016/17
BUDGET**

Adopted: June 30, 2016



CONTENTS

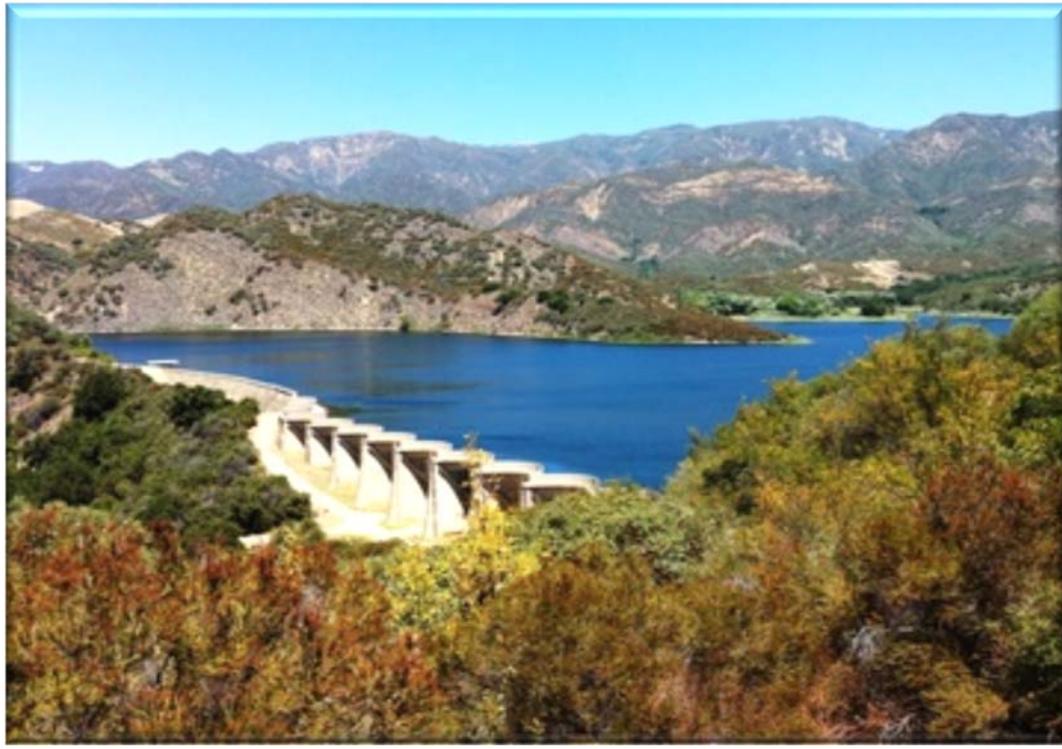
MISSION STATEMENT.....	3
EXECUTIVE SUMMARY.....	4
DISTRICT OVERVIEW.....	8
FISCAL YEAR 2016 – 17 BUDGET SUMMARY.....	26
REVENUE DISCUSSION.....	34
OPERATING EXPENSE DISCUSSION.....	41
JPA EXPENSE DISCUSSION.....	43
MWD OPERATING EXPENSES.....	44
LONG-TERM DEBT.....	49
CAPITAL & EQUIPMENT BUDGET.....	51
MWD CAPITAL REPLACEMENT AND IMPROVEMENT PROGRAM.....	51
EQUIPMENT.....	56
JPA COMMITMENTS.....	58
AVAILABLE RESERVES.....	61
BOARD DESIGNATED RESERVES (AS OF 6/30/16).....	62



MISSION STATEMENT

The mission of the Montecito Water District is to provide an adequate and reliable supply of high quality water to the residents of the Montecito and Summerland communities, at the most reasonable cost.

In carrying out this mission, the District places particular emphasis on providing outstanding customer service, conducting its operations in an environmentally sensitive manner, and working cooperatively with other agencies.





EXECUTIVE SUMMARY

Introduction

The financial projections herein describe the proposed annual fiscal year (FY) budget beginning July 1, 2016 through June 30, 2017. This budget represents a short-term financial plan consistent with the Montecito Water District's (MWD) combined *Five Year Financial Plan, Cost of Service Analysis and Updated Rate Structure that was adopted in August 2013*, and *5-Year Capital Improvement Program*, dated December 2012.

Water Shortage Emergency

MWD, along with many other water agencies in Santa Barbara County and statewide, continues to face a serious water supply shortage crisis, with Santa Barbara County now in the fifth year of a severe drought, designated as drought intensity classification *D4 - exceptional drought*. In February 2014, as a result of the continuing drought, MWD declared a Water Shortage Emergency condition by adopting Ordinances 92 and 93 establishing mandatory water use restrictions and a water allocation/rationing program for all customer classifications. In addition, the adoption of Ordinance 92 placed a temporary moratorium on all new water services.

Ordinances 92 and 93 were adopted to reduce excessive customer water usage due to four consecutive years of rainfall less than 50% of the seasonal average, and in order to protect and extend the remaining water supply for public health and safety purposes. Ordinance 93 also includes financial penalties as a customer conservation provision. The penalties apply to monthly water use in excess of the customer's monthly water supply allocations. Adoption of Ordinances 92 and 93 has resulted in annual residential customer water use declining by 45% on average as compared to customer water use in 2013.

In March 2015, the Board adopted Resolution No. 2124, which approved a Water Shortage Emergency Surcharge. The surcharge was necessary to offset the decrease in annual water sales and to cover substantial costs to manage the drought, including the purchase of supplemental water, as well as the costs for the development of desalinated water, groundwater and other long term water supply solutions.



In addition, the Board adopted Ordinance No. 94, in March 2015, which revised Ordinance No. 93 and increased the allocation of water during the water shortage emergency, as well as provide for penalty rates for consumption in excess of allocation.

This budget projects a water shortage emergency condition continuing through FY 2016/17 with no recharge of the local reservoirs.

Water Supply

Despite above normal rainfall and snowpack in Northern California during water year (WY) 2015/16 which begins October 1 of each year, the ongoing exceptional drought continues to significantly reduce MWD's available local water supplies. For WY 2016/17, for the second consecutive year, MWD is projecting no Cachuma Project water deliveries. In addition, due to diminishing regional lake levels, the District's Jameson Lake is expected to provide only 20% of its average yield in 2016 with supplies expected to be exhausted in mid-2017, assuming no additional recharge.

In accordance with its 2005 Urban Water Management Plan, MWD's current local water supplies indicate a Stage 4 water shortage emergency therefore requiring the continuation of customer allocations and penalties until local water supplies recover to normal conditions.

The above average rainfall in Northern California resulted in an increase in both the annual State Water Project (SWP) Table A allocation and available supplemental water supply purchase opportunities. SWP Table A allocation for 2016, as determined by the California Department of Water Resources, is currently set at 60% of the District's annual entitlement (or 1,980 AF), as compared to 5% in 2015.

In February 2016, the District signed a letter of intent with Central Coast Water Authority to enter into a Supplemental Water Purchase Program Participation Agreement to purchase up to 5,000 acre-feet of water from Antelope Valley/East Kern Water District (AVEK). At their meeting in April, the AVEK Board of Directors approved the proposed exchange. The transaction is subject to further review and approval by DWR. If approved, the District will have projected adequate water supplies through 2019.

Due to the hydraulic limitations of the SWP facilities and the continuation of the ongoing exceptional drought, MWD is placing significant emphasis on enhancing its local water supplies in an effort to rely less on its current drought-susceptible surface water sources. Negotiations continue with the City of Santa Barbara regarding



participation in the regional use of the City's desalination facility, which is expected to be operational in late 2016. The addition of desalinated water as a permanent part of MWD's water supply would improve water supply reliability and security, providing a water supply that is nearly drought proof.

Infrastructure Improvements and Planning

Infrastructure planning and investment is critical to the ongoing reliability of the MWD's production, treatment and distribution systems. The FY 2016/17 budget contains \$2,349,000 in direct MWD capital expenditures and \$708,700 in other JPA commitments for a total of \$3,057,700.

The budget includes distribution system upgrades to ensure adequate supply of water to meet customer demands and repair/replacement projects consistent with aging infrastructure. These capital improvements have been identified as high priority projects.

Projected Water Sales/Revenue

Projected total water sales for FY 2015/16, under Ordinance 93 and 94 allocations and penalties, are expected to be approximately 3,407 acre feet (AF) as compared to 3,331 AF of sales in FY 2014/15. The FY 2016/17 budget projects similar water sales of 3,400 AF due to regional/local water supply conditions, as well as current hydraulic capacity limitations in SWP pipeline between Santa Ynez Pumping Station to Lake Cachuma.

The budget also incorporates a 7.4% increase to water rates and meter service charges as approved by Resolution No. 2107 in September 2013. It should be noted that the water rates and service charges adopted under the resolution did not include costs associated with a *D4 exceptional drought* nor a water shortage emergency, which have resulted in purchasing, importing and treating supplemental water supplies, and a variety of other drought relief measures being undertaken by the District. Also, it did not address the current and projected decrease in water sales revenue due to mandatory water rationing and conservation by District customers.

As a result of decreased water sales, the District adopted Resolution No. 2124 which established a temporary Water Shortage Emergency (WSE) Surcharge at a public hearing dated March 24, 2015. The surcharge was necessary to fund the



unanticipated costs attributed to the ongoing drought emergency, including supplemental water supply purchases, a water conservation program and costs associated with the implementation Ordinances 93/94. Under Resolution No. 2124, the Board can take action and adjust the WSE Surcharge as it deems necessary to restore revenues and to balance revenues and expenses. The surcharge shall only apply until water conditions have returned to normal and all drought-related costs have been recovered.

MWD anticipates a continuation of the extraordinary expenses associated with its drought relief efforts. These expenses will be offset with penalty revenue income under Ordinance 94 and the WSE Surcharge. Staff will continue to monitor drought-related revenue and expenditures and advise the Board if adjustments are necessary.

Recap

The Montecito Water District FY 2016/17 budget provides the planning, framework, and functions necessary to improve, maintain and manage MWD's assets necessary to provide high quality water to the Montecito and Summerland communities during this unprecedented drought while keeping costs as low as feasible.

Nicholas Turner, P.E.
General Manager



DISTRICT OVERVIEW

The Montecito Water District was incorporated on November 10, 1921 as the Montecito County Water District under the provisions of Chapter 387, Statutes of 1913 of the State of California. The 1913 Act was superseded by the present County Water District Act found in Division 12 of the State of California Water Code.

Montecito County Water District changed its name to "Montecito Water District" in July 1979 pursuant to Section 31006 of the Water Code. The District was formed for the purposes of furnishing potable water within the District.

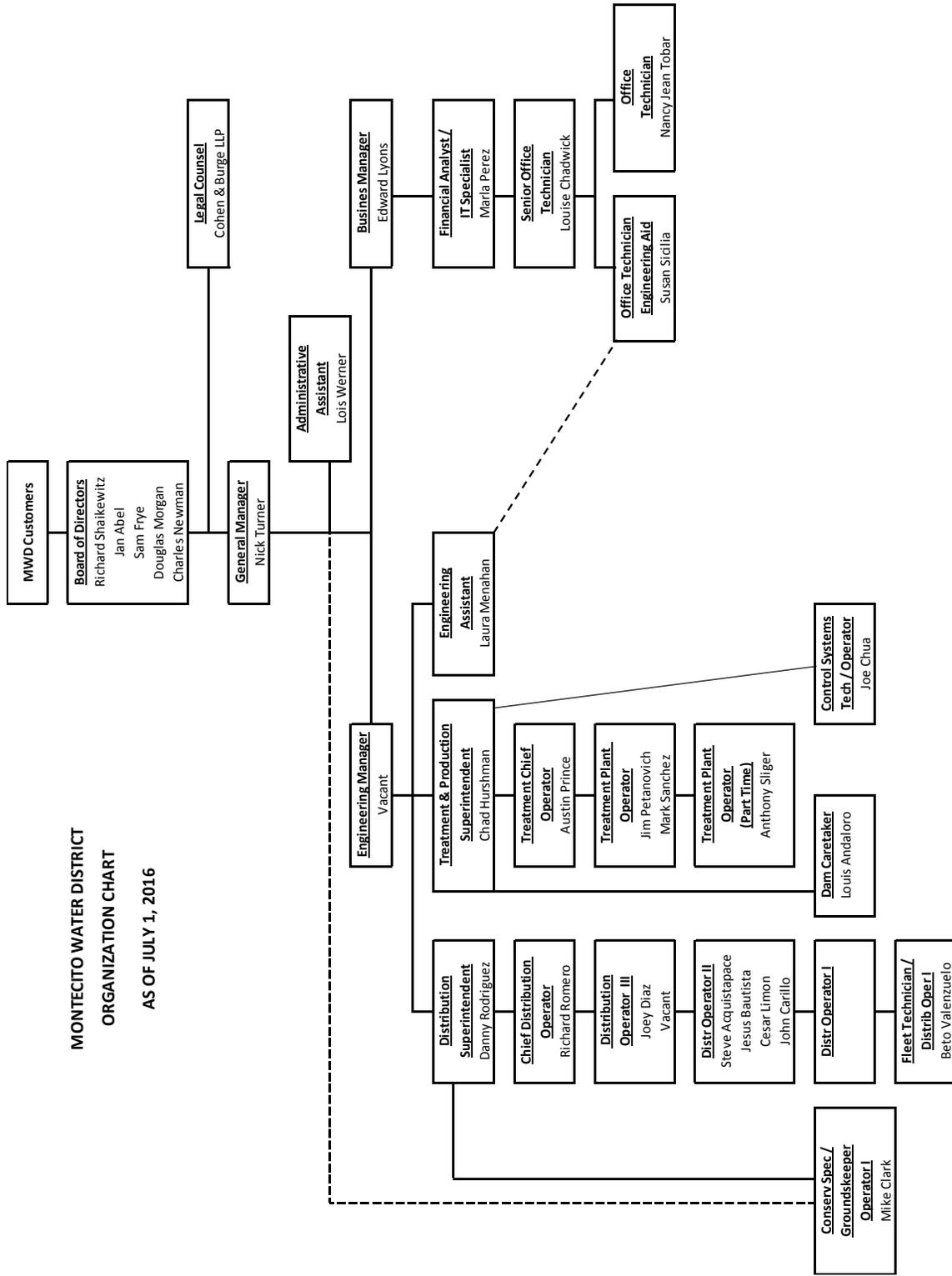
The District is governed by a five member Board of Directors ("the Board") elected by the registered voters of the District to four year terms. The current Directors, their respective terms and occupations are set forth below:

Director	Term Expiration	Occupation
Richard Shaikewitz, President	December 2018	Retired Attorney
Jan Abel, Vice-President	December 2016	Community Volunteer
Samuel Frye, Director	December 2018	Ranch Foreman
Douglas Morgan, Director	December 2018	Retired Economics Professor
Charles Newman, Director	December 2016	Retired Attorney

Pursuant to the Water Code, Sections 30540, 30580 and 30581, management of the District is delegated to the General Manager who reports directly to the Board of Directors. The General Manager oversees day-to-day operations of the different departments which include Water Treatment, Distribution, Engineering and Business. For the 2016/17 fiscal year, the District will have a staff of 25 full time employees under the leadership of the General Manager.



MONTECITO WATER DISTRICT
 ORGANIZATION CHART
 AS OF JULY 1, 2016





WATER SERVICE BOUNDARY AND PURPOSE

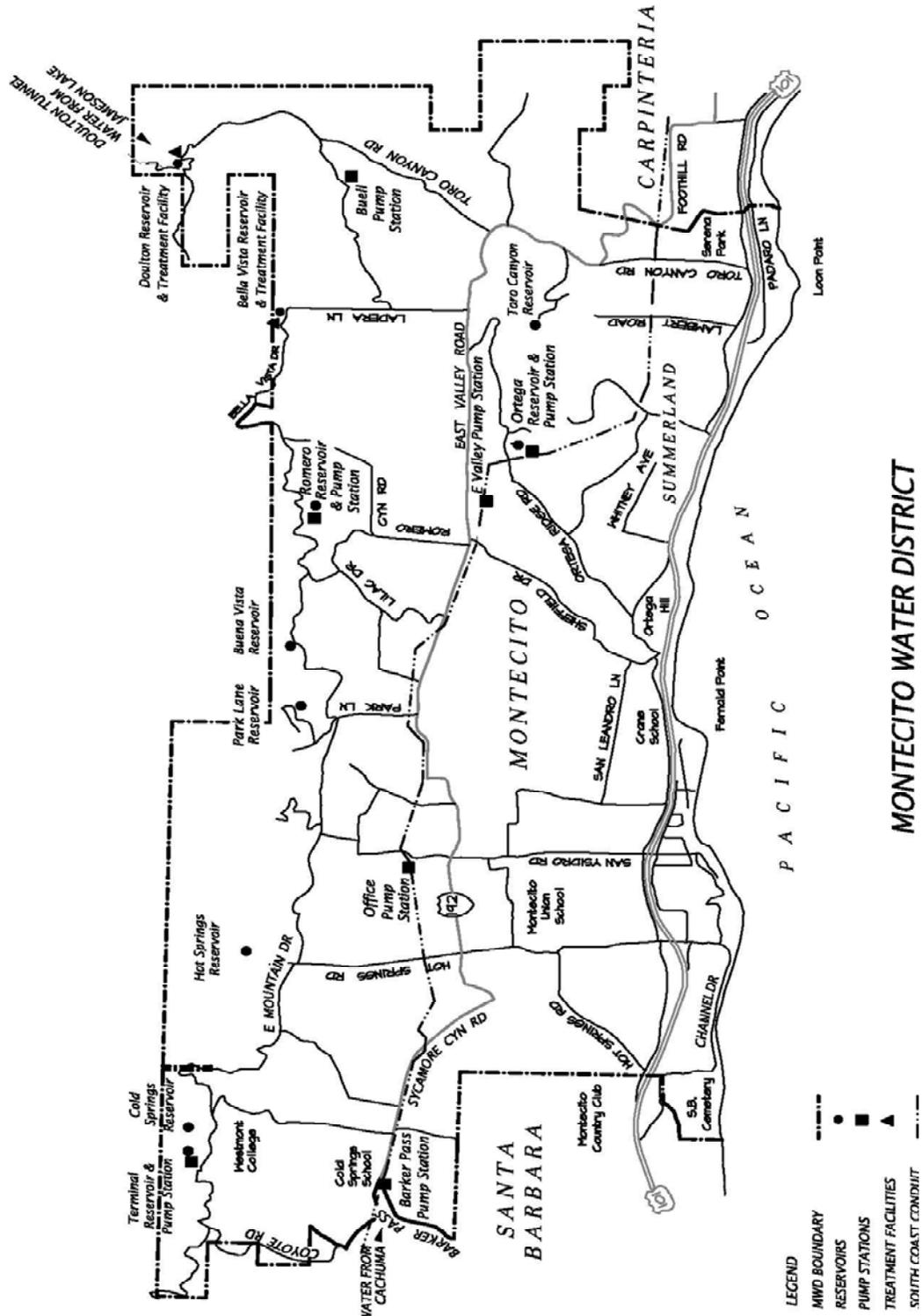
The Montecito Water District is located in the southern coastal portion of Santa Barbara County bounded by the Santa Ynez Mountains coastal range and the Pacific Ocean between the City of Santa Barbara and the Carpinteria valley. The District includes the unincorporated communities of Montecito, Summerland, a portion of the Carpinteria valley on its eastern boundary and a portion of the City of Santa Barbara on its western boundary. The District encompasses an area of about 9,888 acres or 15.4 square miles.

The District terrain is relatively steep, varying in elevation from sea level to 1,800 feet. The water system is gravity-fed from a series of nine reservoirs with numerous pressure zones controlled by pressure regulating stations, with water delivered from Jameson Lake, groundwater wells and lateral turnouts (including three major pump stations) along the Cachuma Project South Coast Conduit (SCC).

The major activities of the District include acquisition, treatment and delivery of water from multiple sources including Jameson Lake, the Cachuma Water Project, the State Water Project and the Montecito Groundwater Basin. The District operates water treatment facilities, pump stations, reservoirs and a State registered dam on the Santa Ynez River. The major activities also include the sale and delivery of water to domestic, agricultural and commercial customers. The District owns and maintains over 110 miles of pipeline to deliver water to its customers.

Please see the District Service Area map on the following page for further information.







CURRENT WATER SUPPLY

GENERAL

MWD has a diverse water supply portfolio consisting of a variety of local, regional and imported water supplies averaging approx. 5,900 acre feet per year (AFY) of water produced based on the historical data for the period of 1998 to 2013. Actual water availability varies from year to year based on weather conditions, environmental, hydrological and regulatory constraints. As a result of the exceptional drought conditions that continue to plague Santa Barbara County for the fifth consecutive year, water production for FY 2016/17 is projected to be approximately 4,200 acre feet (AF), similar to production for FY 2015/16. Until local supplies recover or additional local supplies are acquired, annual production is expected to remain at or below 4,200 AFY.

LOCAL/REGIONAL SUPPLIES

MWD's local and regional water supply sources consist of Lake Cachuma, Jameson Lake, infiltration into Doulton Tunnel and groundwater. Despite above normal rainfall and snowpack in Northern California during WY 2015/16, the ongoing exceptional drought continues to significantly reduce these local water supplies. Cachuma Project water deliveries for WY 2016/17 are anticipated to be 0 AF. Deliveries from Jameson Lake are expected to provide only 20% of the average yield in 2016 with supplies expected to be exhausted in mid-2017, assuming no recharge. Recovery or recharge of local reservoirs is not anticipated in FY 2016/17.



Jameson Lake - April 2016

IMPORTED SUPPLIES

In addition to these local and regional water supplies, MWD receives imported Table A and Supplemental water through the State Water Project (SWP). The SWP provides the District and other South Coast water agencies with a supplemental water supply source which can be used to offset reductions in local and regional water supplies and to meet increasing customer water demand levels when they occur. Water deliveries utilizing these facilities are limited due to a capacity restriction in the Coastal Branch of the SWP between the Santa Ynez Pumping Facility and Lake Cachuma. MWD's annual deliveries utilizing these facilities are limited to a combined total of approx. 3,300 AFY.

The above average rainfall received in Northern California resulted in an increase in imported supplies, both in an increase in the annual State Water Project (SWP) Table A allocation and the availability of supplemental water supply purchase opportunities. The



SWP Table A allocation for 2016, as determined by DWR, is currently 60% of annual entitlement (or 1,980 AF), as compared to 5% in 2015. In addition, MWD is participating in the CCWA 2016 Supplemental Water Purchase Program (SWPP) for the purchase of supplemental water to help offset the reduction in local surface water supplies. MWD continues to analyze its need for additional supplemental water purchases.

WATER SALES

Under the exceptional water shortage conditions requiring the implementation of Ordinance 93 establishing customer allocations, water sales for FY 2016/17 are expected to be very similar to that for FY 2015/16 or approximately 3,400 AF. In addition to 3,400 AF of water sales, the District is required under a contractual obligation as part of the 1928 Juncal Dam Transfer Agreement to transfer 300 AFY of water to the City of Santa Barbara. The non-revenue water, which is calculated as the difference between the total annual water supply production less the projected water sales and the City transfer water, is estimated at 500 AF or approximately 10% of the total annual production. Non-revenue water is a function of real losses (i.e. leakage) and apparent losses (i.e. meter inaccuracies and/or theft). The total water supply needed to meet 3,400 AF of water sales during FY 2016/17 is estimated at approximately 4,200 AF.

Water sales projections of 3,400 AF are due to customer usage changes under Ordinance 93 and 94. Ordinance 93 established water allocations following the water shortage emergency declaration by MWD with conservation incentive penalty rates for monthly customer consumption in excess of the allocation. In March 2015, the Board passed Ordinance No. 94 which revised Ordinance No. 93 and increased the allocation of water during the water shortage emergency, as well as provided for penalty rates for consumption in excess of allocation.

ADDITIONAL WATER SUPPLIES

Recognizing the continued severity of the drought and its impact on water supplies, the District has focused its efforts on supplemental water supply purchase opportunities and the development of new local water supplies. MWD is participating in the CCWA 2016 SWPP for the purchase of 5,000 AF of supplemental water from Antelope Valley-East Kern Water District to help offset the reduction in local surface water supplies. This water was purchased at a cost of \$250/AF and requires the return of 2,500AF within 10yrs. This supplement water purchase is expected to be finalized by the California Department of Water Resources within the first quarter of FY 2016/17.

In addition to acquiring supplemental water, MWD continues with discussions/negotiations with the City of Santa Barbara for the participation in the regional use of the City's desalination facility, which is expected to be operational in late 2016. The addition of desalinated water as a permanent part of MWD's water supply would improve water supply reliability and security, providing a water supply that is nearly drought proof.



AVAILABLE WATER SUPPLY

As of the end of FY 2015/16, the District is projected to have a total available water supply balance of approximately 5,900 AF (See Table 3). This total excludes the 5,000 AF SWPP. With the inclusion of the 5,000 AF supplement water purchase, MWD is projected to have sufficient water supplies through the third quarter of 2019. This supply projection assumes that the water shortage emergency condition exists through 2019 with customer demand remaining similar to that during 2015 and that the Cachuma Project entitlement will remain at 0 AFY over the three-year period.

Table 3 below indicates MWD's available water supply by source as of the beginning of FY 2016/17. Sources are separated into two distinct supplies, (1) source of stored or banked water and (2) additional sources that produce water supply on a monthly basis.



Table 3
AVAILABLE WATER SUPPLY (AF)
As of July 1, 2016

	Source	Water Supply Available (AF)
1	Cachuma Project ²	0
2	Cachuma Carryover ³	1,806
3	Jameson Lake	607
4	SWP Table A (60%)	1,980
5	Supplemental Water Purchased ⁴	1,496
	Total Est. Water Supply Balance¹	5,889

	Additional Sources	Water Supply Available (AF/month)
1	Doulton Tunnel	13
2	Groundwater	50
	Total Est. Additional Monthly Water Supply ⁵	63 AF/month
	Total Est. Additional Annual Water Supply	756 AF/yr.

¹ Total water supply stored and available for use as of July 1, 2016.

² The Cachuma Project entitlement for WY 2016/17 is projected to be 0 AF.

³ Cachuma Carryover water stored in Lake Cachuma. *Cachuma Carryover* defined as Cachuma Project water stored in the lake from a previous water year (WY).

⁴ Total does not include the purchase of 5,000 AF of supplemental water through the 2016 Central Coast Water Authority Supplemental Water Purchase Program, authorized by the MWD Board of Directors in April 2016.

⁵ Additional water supply produced and available for use on a monthly basis.



Certain supplemental water purchases carry a return water liability component whereas the District is required to return an agreed-upon quantity of water at a certain time in the future generally between 5 and 10 years. The following table reflects outstanding water exchange liabilities (AF) as of June 30, 2016.

**Table 4
WATER EXCHANGE LIABILITY**

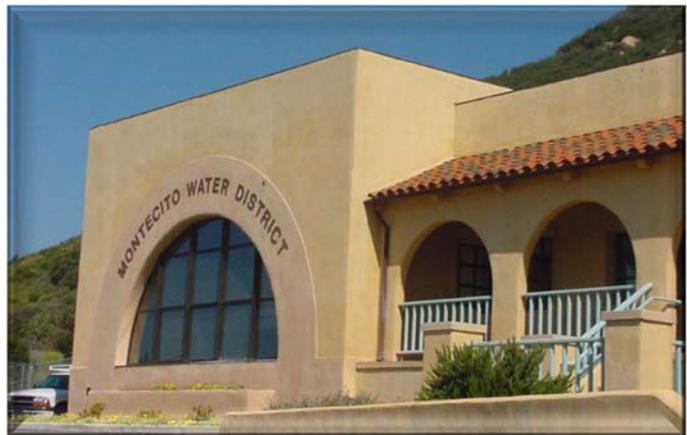
Date	Seller	Purchased (AF)	Return Liability (AF)	Timing
3/31/2014	Santa Ynez River Water Conservation District, Improvement District No. 1 (ID #1)	465	190	At ID1 Discretion, after Project Water stored in the Cachuma Projects reaches a quantity of at least 100,000 AF
2/24/2015	Antelope Valley East Kern Water District (AVEK)	2,531	2,531	12/31/25
Pending DWR Approval	Antelope Valley East Kern Water District (AVEK)	5,000	2,500	10 YEARS
	Total	7,996	5,221	



WATER TREATMENT / DISTRIBUTION SYSTEMS

MWD's potable water treatment and distribution system is comprised of the two water treatment plants at the Bella Vista and Doulton Reservoir sites, nine potable water reservoirs totaling 11.56 million gallon (MG), over 110 miles of pipeline, groundwater wells, and pumping stations. All District water is treated to meet all federal and state drinking water standards.

All water delivered from Lake Cachuma, whether SWP Table A, Supplemental, Cachuma Project or other water is treated at the City of Santa Barbara's Cater Water Treatment Plant (see Joint Powers Agencies and Cater Treatment Plant) and subsequently delivered to the District through nine turnouts on the Cachuma Project South Coast Conduit (SCC) water transmission pipeline.



Bella Vista Treatment Plant

MWD's Bella Vista Treatment plant is a 2.2 MG per day (6.7 AF per day) treatment facility that is used to treat water received from Jameson Lake and Doulton Tunnel infiltration water supplies. The Bella Vista Treatment Plant went into service in 1994 and provides up to 30% of the District's potable water supply during normal water years.

MWD's Doulton Treatment Plant, a secondary 0.15 million gallon per day (0.46 acre-feet per day) treatment facility, is located at the top of Toro Canyon Road. The Doulton Treatment Plant also went into service in 1994 and treats the same water supply as Bella Vista. This treatment plant is used to deliver treated water to a small, isolated section of the District's upper Toro Canyon Road service area.

District groundwater production includes potable and limited, non-potable supplies.



JOINT POWERS AGENCIES (JPAs)

The District currently participates in contractual agreements with other south coast and central coast water agencies for the purchase, delivery and treatment of water. Budget items relating to these agreements are determined and controlled according to the individual JPAs. Each year the District's Business Department requests copies of the JPA budgets in order to identify the District's financial liability which are then incorporated into the District's budget. For FY 2016/17, the individual JPAs' FY budgets comprise approximately 50.3% of the District's total operating expenses.

Cachuma Operation and Maintenance Board (COMB)

The District is one of five member units (MUs) of the Cachuma Project, constructed by the United States Bureau of Reclamation in the 1950s. The five member units include the water agencies of the Montecito Water District (MWD), the Carpinteria Valley Water District (CVWD), the City of Santa Barbara, the Goleta Water District (GWD) and the Santa Ynez River Water Conservation District Improvement District #1 (ID #1). COMB's Board of Directors is made up of elected representatives from each of its Member Units (MUs).



Lake Cachuma - January 2016

The participation of the five MUs in COMB has changed with the delivery of State Water to the central coast and south coast water agencies. ID#1 is no longer able to receive Cachuma Project water with the transfer of the original Cachuma Project pipeline serving ID#1 to the south coast MUs. The transfer of the pipeline was made to enable deliveries of State Water from

the central coast State Water Project aqueduct to Lake Cachuma. In exchange for the pipeline, ID#1 has entered into an exchange agreement with the four south coast water agencies where State Water delivered to ID#1 is credited in Cachuma Project water to the four south coast MUs. This change in water deliveries has reduced ID #1's percentage participation in COMB and, consequently, increased costs to the four south coast MUs. MWD's percentage of the Cachuma Project, based on entitlement (2,651 AF) equivalent to 10.3% of the project yield. MWD is responsible for 11.25% of the annual COMB expenditures due to restructuring of the MUs payment percentages with the completion of the State Water Project and the removal of ID#1's direct access to Cachuma Project water.



MWD's share of the COMB budget provides for the payment of the operation and maintenance of the Cachuma Project south coast facilities, including the Tecolote Tunnel, the SCC water transmission facilities and the COMB managing office and maintenance facility as well as fish passage obligations in the Santa Ynez River and its tributaries. The District's share of the COMB budget, shown in the line item identified as COMB Operations, varies according to the budget categories, which are Fisheries and Operations.

The JPA expense identified as US Bureau of Reclamation (USBR) is the District's proportionate share of costs stipulated in the September 12, 1949 agreement between the United States Department of the Interior, Bureau of Reclamation ("USBR") and the Santa Barbara County Water Agency (the "County") for the Cachuma Project construction and debt service. The District entered into an agreement with the County to purchase water from those facilities. The agreement has a fixed charge to repay the capital costs and to operate and maintain the Cachuma Project facilities at Lake Cachuma, including Bradbury Dam. The Cachuma Project contract with USBR was most recently renewed in 1995.

Cachuma Conservation Release Board (CCRB)

The Cachuma Conservation Release Board (CCRB) is a JPA formed in January 1973 between MWD, Carpinteria Valley Water District (CVWD), Goleta Water District (GWD), and the City of Santa Barbara (City). CCRB was established to jointly represent the water agencies in protecting the Cachuma Project water rights and interests. As of January 1, 2011, CVWD formally withdrew from CCRB, increasing the percentage of participation for the remaining Member Unit (MU) agencies (MWD, City and GWD). MWD's percentage in the budget participation for this JPA increased to 13.09% from the previous 11.5% with the withdrawal of CVWD.

The JPA organizational change also caused a fundamental change in the organization's purpose to focus its activities on water rights advocacy and the Cachuma Project Biological Opinion (BO) Re-consultation. All extraneous CCRB programs, not having to do with water rights, including fish passage projects and related studies of the Santa Ynez River and its tributaries, were moved into COMB. CCRB's Board of Directors is made up of elected representatives from each of the three remaining MUs. CCRB's primary function is to operate the Cachuma Project in accordance with the series of water rights orders issued by the State Water Resources Control Board.

CCRB does not have any contractual water rights but is the JPA responsible for implementing projects obligated under the water rights order. The actual Cachuma Project water rights are held by the United States Bureau of Reclamation (USBR). The water rights orders issued by the State Water Resources Control Board include provisions protecting the Santa Ynez River water interests and rights of certain Cachuma Lake downstream parties. In 1990 the State Board added additional provisions that now require the release of Cachuma Project water into the lower Santa Ynez River for fish restoration purposes. The Lower Santa Ynez River Fish Management Plan (FMP) is a comprehensive plan to provide



fish passage and management strategies that will protect, restore and create new habitat for the spawning and rearing of endangered steelhead.

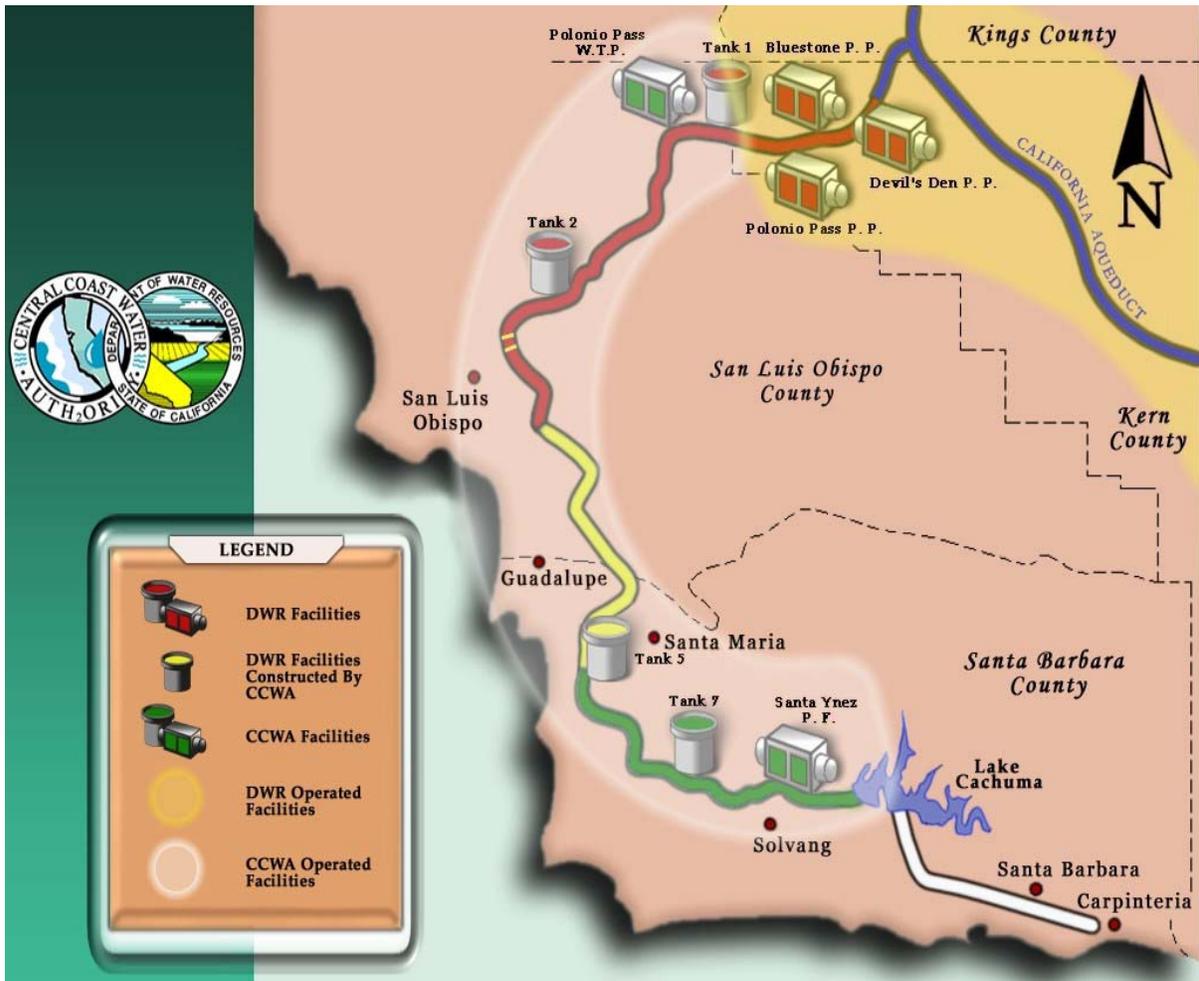
Currently the National Marine Fisheries Service (NMFS) and USBR are in re-consultation over the Cachuma Project and detailed studies and reports are being compiled to ascertain the status of fish passage and restoration activities funded by CCRB. Re-consultation is a very important process, with the results leading to a new Biological Opinion (BO). The new BO could adversely affect the Cachuma Project water supply by requiring more releases of water for fish passage purposes.

Central Coast Water Authority (CCWA) / State Water Project (SWP)

On June 4, 1991, District voters approved participation in the California State Water Project (SWP) allowing the District to participate in the formation of the Central Coast Water Authority (CCWA). The CCWA was formed on August 1, 1991 as a JPA under Government Code Section 6500, Article 1, Chapter 5, Division 7, Title 1 providing for a total of 45,486 AF of State Water Project Table "A" and drought buffer water supplies to the to the Central Coast. The actual right to the 45,486 AF of State Water is held by the Santa Barbara County Flood Control District, which acquired the State Water Project supply amount in 1963. CCWA, by way of a transfer agreement, is the agency responsible for managing the financing, construction, operation and maintenance of the SWP facilities necessary for the delivery of SWP water and other supplemental purchased supplies to the eight central and south coast State Water contractors which include the Cities of Buellton, Guadalupe, Santa Barbara and Santa Maria, Carpinteria Valley Water District, Goleta Water District, Montecito Water District and Santa Ynez River Water Conservation District, Improvement District No. 1. Table "A" water is the amount of State Water available to SWP contractors on a calendar year basis as established by the Department of Water Resources (DWR). Annual Table "A" allocations vary from year to year due to climate and environmental conditions.

CCWA water treatment and conveyance facilities include the 43 MGD Polonio Pass Water Treatment Plant, transmission pipelines totaling 143 miles, pump stations, five storage tanks, ten turnouts and the CCWA Buellton, CA office and maintenance facility. CCWA currently has a staff of 30 full time employees. MWD has a voting percentage of 9.5% in CCWA; which is based on MWD's allocated percentage of Table "A" water under the governing rules and obligations of CCWA. The District currently has a purchased 3,000 AF of Table "A" State Water with a 300 AF drought buffer. For the 2016 calendar year, DWR has provided to SWP contractors a 60% allocation which for MWD translates to 1,980 acre feet.

MWD is responsible for paying two fixed capital cost components for its share of the construction loan costs for the pipeline and facilities built by the California State Department of Water Resources (DWR) and those facilities built by CCWA. The DWR capital cost debt service payment is for the 101-mile-long Coastal Branch Phase 2 water transmission pipeline. The CCWA capital payment is for the 42-mile-long Mission Hills pipeline extension,



the treatment plants, water storage tanks and pump stations. The District also pays a variable water treatment and delivery cost to DWR and CCWA for all State Water ordered at the beginning of the calendar year.

On June 28, 2016, CCWA completed a refinancing of its refunding revenue bonds at a true interest cost of 1.355% resulting in a total interest savings to the CCWA participants of approximately \$5.6 million, or around \$1.1 million per year for the next five years when the bonds will be fully paid. The Districts projected savings is estimated to be approximately \$185,000 per year for the next five years.

Each Santa Barbara County State Water Project contractor, including the District, has entered into a Water Supply Agreement in order to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreement is to assist in carrying out the role of CCWA: (1) requiring CCWA to sell, and the Santa Barbara County SWP Contractors to buy, a specified amount of water from



CCWA (“take or pay”); and (2) assigning the Santa Barbara County SWP contractors entitlement rights in the SWP to CCWA. Although the District does have an ongoing financial responsibility pursuant to the Water Supply Agreement between the District and CCWA, the District does not have an equity interest as defined by GASB Code Sec. J50.105.

Each Santa Barbara County SWP participant is required to pay to CCWA an amount equal to its proportionate share of the “fixed project cost component” and certain other proportionate costs established in the Water Supply Agreement. These costs include the Santa Barbara County State Water Project participant’s share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs.

Each Santa Barbara County SWP participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payments required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight voting State Water Project participants. CCWA was organized and exists under a joint exercise of powers agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity’s pro-rata share of the water provided by the project.

Cater Treatment Plant

The Lake Cachuma surface water reservoir is the District’s primary water source. All water delivered from Lake Cachuma, which includes the District’s Cachuma Project water and State Water supplies, is treated at the City of Santa Barbara’s Cater Water Filtration Plant located at the northerly terminus of San Roque Road in the City of Santa Barbara.

The District and CVWD entered into a joint powers agreement (JPA) with the City of Santa Barbara on July 5, 1978 followed by a contract amendment No. 2 dated September 28, 1983 for payment of the capital cost and debt service for the treatment plant



Cater Treatment Plant



construction and all future capital improvements needed to remain in compliance with the water quality standards of the California Department of Public Health (CDPH). It was decided by MWD, CVWD and the City that the construction of a regional water treatment facility would be the most efficient and cost effective means to provide all south coast customers with potable, treated water versus the construction of individual water treatment facilities for each of the three water agencies. Under the JPA, neither Montecito nor the Carpinteria Valley Water Districts have any ownership in the Cater facility.

MWD signed another agreement with the City, effective November 1, 2003, for participation in a California Drinking Water State Revolving Fund contract totaling \$19.2 million to fund improvements required at the Cater plant. The District's proportionate share is 19.7% or about \$3.5 million to be financed over 20 years. Interest is payable semi-annually at a rate of 2.5132% per annum. The District's share of the outstanding balance at June 30, 2015 is \$2,068,993. The District's payments for its share of the debt service are \$225,416 per year. In December 2004, the Cater Treatment Plant project was completed and principal payments on the loan began on July 1, 2005.

The City entered into a \$20M Cater upgrade project, (Ozone Project) in 2011 to comply with the California Department of Health (CDPH) post-treatment total trihalomethanes levels which, at times, are in excess of the EPA Stage II disinfection byproducts rule maximum contaminant level. This project is being financed by a 2.5% State Revolving Fund loan held by the City of Santa Barbara. The District and the City entered into a contribution agreement on June 28, 2011, where the District is invoiced by the City for its 23% share of costs. The District has no ownership in the Cater Ozone treatment facilities. Construction of the Ozone Project was completed in June 2013 with MWD's final cost obligation is at \$4.3M. The District's payments for its share of debt service are \$276,298 per year thru July 2035.



Contingent Liability

The District is party to a class action claim that includes all customer classes under the District's Ordinance No. 90 except for the District's agriculture class. The class action is based on an administrative class claim for refund filed with the District on November 5, 2012. The class action seeks declaratory and injunctive relief, all alleges that the District violated Proposition 218 in adopting Ordinance No. 90 and the water rates imposed thereunder.

On December 10, 2013, the Court certified the class and later bifurcated the case into liability and remedies phases. On September 22, 2015, the liability phase concluded and the Court found the District's rates did not comply with Proposition 218, in part. Plaintiffs and MWD have entered into a Settlement Agreement that is subject to approval by the Court. A preliminary hearing is tentatively scheduled for July 5, 2016.

The projected impact on the District's financial position is estimated to be \$625,000 for the fiscal year 2016/17 and includes ongoing MWD legal and administrative costs. The projected cost for FY 2016/17 also includes a payment of the plaintiff's attorney fees in the amount of \$475,000 which is subject to court approval.

Additional amounts required to be paid under the proposed settlement are projected to be incurred in fiscal year 2017/18.



FISCAL YEAR 2016/17 BUDGET



**MONTECITO WATER DISTRICT
FISCAL YEAR 2016-17 BUDGET SUMMARY**

REVENUES	
WATER SALES	\$ 8,088,200
WSE SURCHARGE	\$ 4,956,600
ORDINANCE 94 PENALTIES	\$ 3,100,000
SERVICE CHARGES	\$ 4,265,800
FEES / OTHER REVENUE	\$ 698,900
TOTAL REVENUES	\$ 21,109,500
OPERATING EXPENSES	
JPA OPERATING EXPENSES	\$ 8,316,200
MWD OPERATING EXPENSES	\$ 5,538,400
DROUGHT RELATED EXPENSES	\$ 2,691,800
TOTAL OPERATING EXPENSE	\$ 16,546,400
NET OPERATING SURPLUS / (DEFICIT)	\$ 4,563,100
DEBT SERVICE	\$ 1,280,900
NET SURPLUS / (DEFICIT) BEFORE CAPEX & OTHER	\$ 3,282,200
MWD CAPITAL EXPENDITURES	\$ 2,349,000
TOTAL OTHER COMMITMENTS	\$ 708,700
TOTAL MWD CAPEX / OTHER JPA COMMITMENTS	\$ 3,057,700
BUDGET SURPLUS / (DEFICIT)	\$ 224,500



REPORTING BASIS

The District utilizes the cash basis for budgeting purposes and the accrual method for accounting and financial reporting. The cash basis recognizes revenues and expenditures as cash transactions occur. The Accrual method recognizes revenues and expenses in the period in which they are earned and incurred. The accrual method is the Generally Accepted Accounting Principal for financial reporting. The budget is prepared on a cash basis in order for the District to prepare for cash flow needs.

The District reports its activities as an enterprise fund. This method of reporting is used to account for operations that are financed and operated in a manner similar to a private business enterprise. The intent of the District is that the costs (including replacement of existing assets) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

BUDGET PROCESS

The mission of the District is to procure and deliver an adequate and reliable supply of high quality potable water to its customers at the most reasonable cost. To fund the purchase and delivery of water to customers, the District relies on water sales and the collection of monthly meter service charges. Additional revenues are generated by meter connection fees, capital cost recovery fees, interest revenue, the water availability charge and other miscellaneous sources.

District Staff estimates the quantity of water to be sold during the year in order to estimate the revenues from water sales. Service charges are estimated based on the number of meters installed and the size of each meter. Details regarding how each of the revenue sources are estimated for the budget are described in the Budget Summary section of this document.

To determine the annual operating and capital costs necessary to provide water service, the General Manager and the Business Manager received budget requests from District managers and superintendents for their estimated operating expenditures and capital programs. Several planning meetings were held to discuss and prioritize capital and operating expenditures which then became part of the draft FY budget. Financial information was then presented to both the Operations Committee and the Finance Committee for further consideration.

Staff then conducted a budget workshop with the full Board to review projected results and any assumptions contained therein. A final budget was then prepared and taken back to the Board for final review and approval.



INFLATION FACTORS

In order to project future expenditures for the budget period, an inflation factor was applied to various costs. While using historical inflation factors is a relevant and often relied upon methodology for projecting future inflation, it is not a 100% guarantee of future changes of inflation.

Given the uncertainty of the economy and future inflation, the District has taken a somewhat “conservative” approach by “rounding up” inflation values so that the risk underestimating future costs is minimized.

General Cost of Inflation (2%)

Based on the five-year average annual change of 1.61% ⁽¹⁾ in the Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County, CA area for the years 2010 thru 2015, inclusive. The general cost inflation factor that will be applied to general operating costs such as: services, supplies, maintenance, repairs, etc.

⁽¹⁾Data source: <http://data.bls.gov/cgi-bin/surveymost>. Bureau of Labor Statistics Data

Labor (3.28%)

Consistent with the past practice of determining the Cost of Living Adjustment (COLA), the District has used the Social Security Method which is based on the change in average CPI compared to the previous year for third quarter average (January – March). Data reflected Urban Wage Earners and Clerical Workers in Los Angeles-Riverside-Orange County, CA area.

Under this method, the approved COLA increase for FY 2016/17 is 2.28%. Additionally, the Board also approved an additional 1% salary adjustment at its meeting on May 27, 2016.

⁽¹⁾Data source: <http://data.bls.gov/cgi-bin/surveymost>. Bureau of Labor Statistics Data

Benefits (6%)

The District received estimated rate increases from its broker for Health, Dental, Vision Disability and Life insurance effective January 1, 2017. The projected increase also includes the impact on employer related taxes resulting from COLA Increase is 3.28%. Based on the foregoing, the District has used a 6% inflation factor.



Cost of Electricity (4%)

Based on the five-year average annual change of 3.4% [1] in the Average Price (Cents/kilowatt hour) of Electricity for the State of California. The District used a general cost inflation factor of 4% that to be applied to electricity costs.

[1] Data source: <http://www.eia.gov/electricity/state/>. US Energy Information Administration



BUDGET HIGHLIGHTS

Total Revenue of **\$21,109,500** are composed of:

- Water Sales revenue of \$8,088,200 (38.3% of total revenue) which is based on an estimated demand of 3,400 AF under Ordinance 94 monthly customer water allocations. Water sales reflect an annual 7.4% increase to customer rates and charges effective with the July billing period.
- Water Shortage Emergency (WSE) surcharge of \$4,956,600 (23.5%) of revenue is based on an estimated demand of 3,400 AF at the current WSE rate of \$3.45/HCF. The surcharge is temporary and will remain in effect until water conditions have returned to normal and drought related costs have been recovered. Under the Resolution, the Board can take action and adjust the WSE Rate, as it deems necessary.
- Ordinance 94 penalties, are estimated at \$3,100,000 (14.7% of total revenue). Assessed penalties under Ordinance 94 are subject to possible reduction upon an appeal that is approved by the Board.
- Meter Service Charge revenue of \$4,265,800 (20.2% of total revenue) assumes the number of meters remains consistent with previous years. Service charge revenue reflect a 7.4 increase (effective with the July billing period).
- Water Availability Charge (WAC) is budgeted at \$308,400 (1.5% of total revenue) which is based on a sliding scale charge of \$30 per acre or a portion thereof for each parcel within the District's service boundaries. This charge, collected as a special tax roll assessment, is subject to an annual public hearing and approval by the Board and can only be used for capital improvements and infrastructure replacements.
- Other operating revenues of \$390,500 (1.8% of total revenue) includes late charges, connection fees, Interest revenue and other miscellaneous income. The budget for these items is based on recent trends in these areas.



Total Operating Expenses of **\$16,546,330** and include the following:

Joint Powers Agencies' (JPA) Operating Expenses are estimated to be \$8,316,200 and comprise of about 50.3% of the total expenses which compares to a projected FY 2016/17 expense of \$7,986,000.

- **State Water Project costs (fixed and variable)** of \$6,098,100 comprise nearly 37% of total expenses (and 73% of total JPA operating expenses) and are approximately \$143,000 higher than the projected results of FY 2015/16. The State Water Project Costs can be further broken down as follows:
 - Fixed State Water Project Costs (\$5,051,700) relate to the Department of Water Resources (DWR) and the Central Coast Water Authority (CCWA) capital/fixed cost, as well as, variable costs for the operations, maintenance and the conveyance and treatment of water supplies from the State Water Project. Note for the 2016 calendar year, the District is assuming no State Water Project water allocation based on continuing drought conditions.
 - Variable State Water Project Costs (\$1,037,400) - For the treatment and delivery of MWD's Table A, as well as, supplemental water supplies purchased and delivered through the State Water Project conveyance facilities.
- **Cachuma Operation and Maintenance Board (COMB)** includes fixed and variable costs of **\$667,600** which include annual water purchases from the Bureau of Reclamation (USBR) and the District's annual COMB budget obligation. Note for the 2015/16 Water Year and again for the 2016/17 Water Year, beginning October 1st, the District (and the other 4 member unit water agencies) will pay the full cost for the normal annual allocation of the District's 2,561 AF with no actual water deliveries due to continuing drought conditions.
- **Cachuma Conservation & Release Board (CCRB)** costs of \$138,800.
- **Cater Treatment Plant** in the amount of \$1,320,000 includes operations and maintenance and variable water treatment costs related to all water delivered from Lake Cachuma, which includes the District's Cachuma Project water and State Water supplies.

MWD Operating Expenses are estimated at **\$5,538,400**. See Table 7 starting on page 29 for a detailed breakdown and description of Operating Expenses. Assumptions used to budget MWD Operating expenses include:

- A salary change of 3.28% is applied to employee wages and salaries (except the General Manager).



- CALPERS, the District's employee retirement plan recognizes the capping of the District's EPMC at 16.7% with all PERS increases after July 1, 2012 passed onto the employee. For FY 2014/15, the employee's contribution to PERS increased by 1.44%.

Drought Related Expenses estimated at **\$2,691,800** which includes consultant costs related to the purchase of supplemental water, the development of a desalinated water supply, as well as, other extraordinary expenses related to the current drought situation. These costs are further offset by estimated penalty revenue of collected under Ordinance 94.

MWD Debt Service of **\$1,280,900** includes principal and interest payments for the District's long-term debt including bonds and loans.

MWD Capital and Equipment Expenditures and Other JPA Commitments for this fiscal year are recommended by the Operations Committee and staff at **\$3,057,700**. This includes \$2,084,500 for MWD's capital projects, \$264,500 for equipment purchases and \$731,000 for other JPA commitments and obligations.



BUDGETED OPERATION RESULTS

Summary of budgeted operations including revenues and expenses, debt service and capital expenditures result in a budget surplus of \$225,000.

Total Revenue and Expense analysis is performed with the budget to ensure compliance with bond covenant requirements. The Debt Coverage Ratio calculation in Table 2 is an important indicator of the District's financial condition.

Debt Coverage Ratio: In 2010, the District issued the 2010A Revenue Refunding bonds. The bond covenants require a 1.25 debt coverage ratio. The FY 2016/17 budget shows sufficient net operating revenue to meet the required debt service ratio. As shown in Table 2, the debt coverage ratio is estimated to be 3.56.

Table 2
EST. DEBT SERVICE COVERAGE RATIO CALCULATION

1	Debt Service Payments		\$ 1,280,900
2	Debt Service Requirement	(1 x 1.25)	1,601,125
3	Total Revenues		21,109,500
4	Total Expenses		16,546,330
5	Revenue - Expenses	(3 - 4)	4,563,170
6	Debt Service Requirement	(1 x 1.25)	1,601,125
7	Debt Service Coverage Amount	(5 - 6)	\$ 2,962,045
8	Debt Coverage Ratio	(5 divided by 1)	3.56



REVENUE DISCUSSION

Operating Revenues are required to procure, deliver and maintain infrastructure for providing continuous, reliable water service to its customers. In arriving at projected revenue for FY 2016/17, the following factors were taken into consideration:

On February 11, 2014, the Board passed Ordinance No. 92 which declared a water shortage emergency and provided for restrictions on use of water, penalties for failure to comply with conservation measures and a moratorium of new water service connections.

On February 21, 2014, the Board passed Ordinance No. 93 which provided water allocations during the water shortage emergency along with penalty rates for consumption in excess of allocation.

On March 24, 2015 the Board adopted Ordinance No. 94 which repealed Ordinance No. 93 and increased the allocation of water during the water shortage emergency, as well as, provide for penalty rates for consumption in excess of allocation. As a result of water allocations under Ordinance No. 93/94, the District is projecting that 58.5% of revenues will be received from water sales and monthly meter service charges. In normal years, water sales and service charges provide over 93% of all revenue. Ordinance 93/94 penalties are estimated to comprise 14.7% of District revenues and will be used to offset lower water sales revenues and the extraordinary cost of the District's drought related expenditures.

On March 24, 2015, after a noticed public hearing, the District adopted Resolution No. 2124 which established a temporary Water Shortage Emergency Surcharge. The surcharge was in response to a substantial decrease in consumption and corresponding water sales revenue resulting from the adoption of Ordinance 93. Under the Resolution, the Board can take action and adjust the WSE Rate, as it deems necessary, based on actual water sales. The surcharge shall only apply until water conditions have returned to normal, and drought related costs have been recovered.

Based on historical trends, water sales for FY 2016/17 were projected based on FY 2015/16 actual results.



Details of the revenue sources are described in Table 5 and Chart 1 which follow.

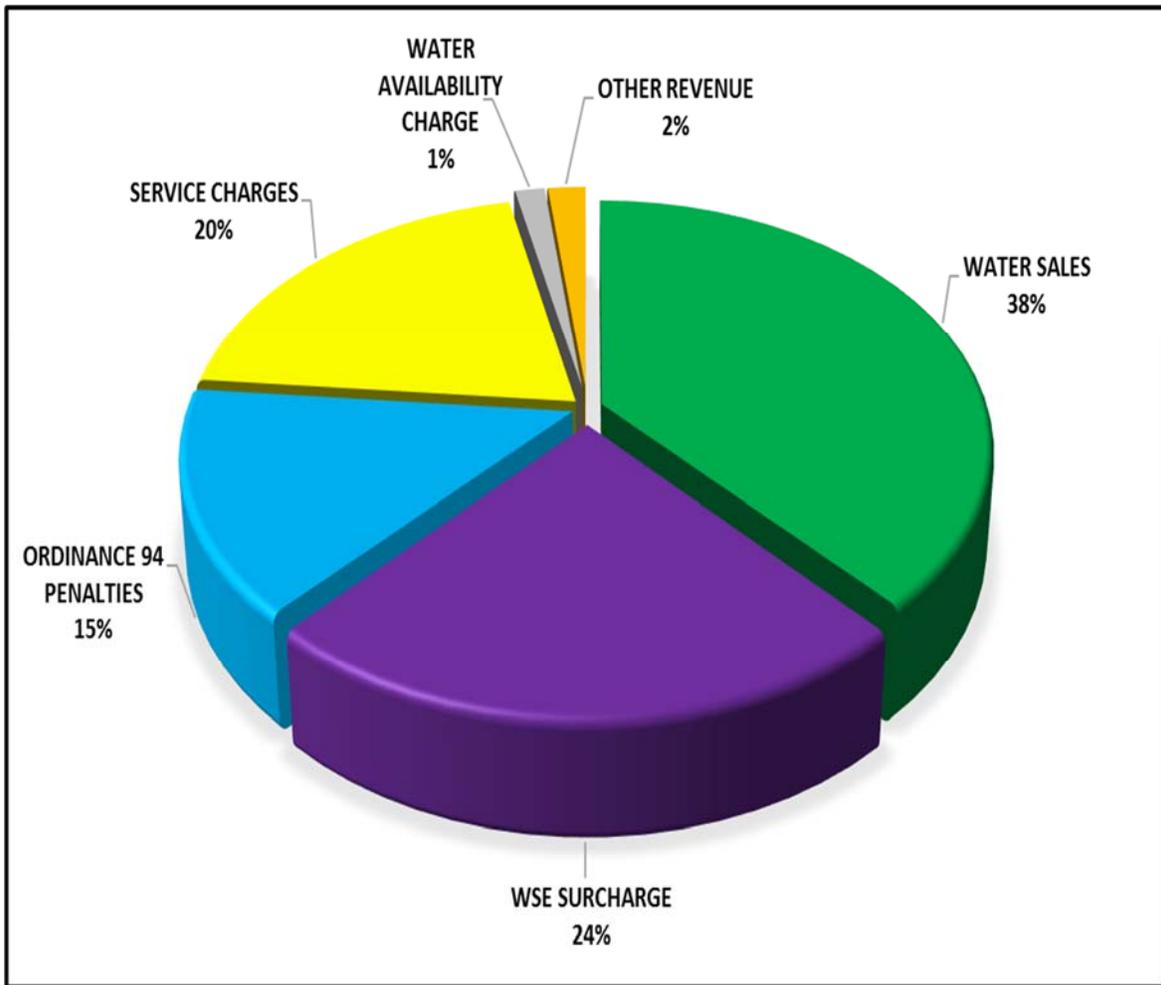
**Table 5
Operating Revenues**

REVENUES	FY 2015/16 BUDGET	FY 2015/16 PROJECTED	FY 2016/17 PROPOSED BUDGET
WATER SALES	7,768,000	7,530,900	8,088,200
WSE SURCHARGE	2,854,700	4,492,100	4,956,600
ORDINANCE 94 PENALTIES	2,000,000	3,483,319	3,100,000
SERVICE CHARGES	3,974,600	3,976,500	4,265,800
WATER AVAILABILITY CHARGE	307,000	308,400	308,400
PRIVATE FIRE HYDRANT	62,100	64,000	65,000
LATE CHARGES	38,100	49,400	49,900
SERVICE CONNECTION FEES	19,000	25,000	25,100
CAPITAL COST RECOVERY FEES	23,300	104,300	94,800
INTEREST REVENUE - GENERAL	25,000	47,100	47,100
OTHER REVENUE (LOSS)	70,000	86,400	86,400
REIMBURSEMENTS	25,000	24,500	22,200
TOTAL REVENUES	17,166,800	20,191,919	21,109,500

¹Includes the 7.4% increase in water rates and service charges, starting with the July billing period, per the 5 year financial plan prepared by Hoag Consulting and Resolution 2107.



Chart 1
FY 2015/16 BUDGETED REVENUES





Water Sales **\$8,088,200**

The budgeted water sales of \$8,088,200 is based on a projected consumption of 3,400 AF of water. The budgeted amount of water sales is 7.4% higher than that received in FY 2015/16 which is attributed to an annual rate increase of 7.4% starting with the July billing period.

Estimated water sales by classification are shown in Table 6:

**TABLE 6
Water Sales by Classification**

Classification	Sales (\$)	AF	% of Sales
Single Family Residential	\$ 6,010,650	2,400	74%
Institutional	\$ 804,070	305	10%
Commercial	\$ 638,570	233	8%
Agricultural	\$ 411,400	296	5%
Multi-Family Residential	\$ 154,070	65	2%
Non-Potable	\$ 69,430	101	1%
Total	\$ 8,088,190	3,400	100%

Water Shortage Emergency Surcharge **\$4,956,600**

After a noticed public hearing, the District passed Resolution No. 2124 on March 24, 2015 establishing a temporary Water Shortage Emergency Surcharge. The current surcharge is set at \$3.45/HCF. The surcharge is necessary as the District has incurred substantial costs to manage the drought, including the purchase of supplemental water, as well as, the costs for the development of desalinated water, groundwater and other long term water supply solutions. The surcharge is temporary and will remain in effect until water conditions have returned to normal and drought related costs have been recovered.

Ordinance 94 Penalties **\$3,100,000**

Under Ordinance 94, monthly water allocations are provided to each customer. Any water used over the allocation amount is billed at a penalty rate. For the first month overage, the penalty is \$30 per hundred cubic feet (HCF = 748 gallons), for each subsequent month of



water over use, the penalty rate is increased to \$45 per HCF. The penalty amount resets each water year which runs from October 1st to September 30th of the following year.

Ordinance 94 penalty revenues are used to offset lower water sales revenues and the extraordinary cost of the District's drought related expenditures.

Service Charges \$4,265,800

The monthly service charge is paid by all customers with an installed meter service. This charge is based on the size of the meter and includes the 7.4% increase. The projection assumes the number of meters remains consistent with previous years. Service charge revenue reflect a 7.4 increase (effective with the July billing period).

**TABLE 7
Service Charge Revenue**

METER SIZE	COUNT OF METERS BILLED	MONTHLY CHARGE	TOTAL CHARGES
¾	2,249	\$ 45	\$ 1,203,500
1	1,590	\$ 74	\$ 1,418,400
1 ½	512	\$ 134	\$ 822,000
2	228	\$ 238	\$ 650,700
3	15	\$ 535	\$ 96,300
4	2	\$ 892	\$ 21,400
6	3	\$ 1,487	\$ 53,500
Total	4,599		\$ 4,265,800

Capital Cost Recovery and Connection Fees \$23,200

Ordinance 92 placed a moratorium on all new water services within the District service boundary and ended any new service connections until at a time where water is more available. Projected Fees for FY 2016/17 include projected meter connections that were approved under the District's Certificate of Water Service Availability process prior to the Ordinance 93 moratorium.



Water Availability Charge

\$308,400

Subject to an annual public hearing and approval by the Board, the Budget shows that the Water Availability Charge, assessed annually on the tax roll for the sole purpose of capital improvements. In general, the Water Availability Charge assesses \$30/per acre for the first five acres or fraction of an acre. The charge is levied on all properties within the boundaries of the District service area, including those properties without a District meter. The charge is used solely to pay the cost of replacing and enhancing the water distribution and treatment systems. The District collects the charge from the County tax rolls. To continue this charge, the District must hold a public hearing each year in accordance with the requirements of Proposition 218. The annual public hearing for the Water Availability Charge is scheduled for July 19, 2016.

Interest Revenue

\$47,100

In accordance with the District Investment Policy, unrestricted cash is deposited with the State of California Local Agency Investment Fund (LAIF) which facilitates safety, liquidity, and a return on investment meeting the objectives of the current District Resolution. The District has a checking account with Wells Fargo Bank for normal operations.

The District has invested its restricted funds as follows:

- 2010A-Refunding COP on Deposit with Bank of NY Mellon
 - \$500,000 – 1YR Treasury Note @ 0.875%, Maturity Date 09/15/16
 - \$500,000 – 2YR Treasury Note @ 1.875%, Maturity Date 09/15/17
 - \$500,000 – 3YR Treasury Note @ 1.375%, Maturity Date 09/15/18

- Department of Water Resources Ortega Reservoir Loan Reserve on deposit with California Bank and Trust (CBT) per terms of the loan agreement.

- CCWA Rate Reserve Fund on deposit with Central Coast Water Authority pursuant to the CCWA the Water Supply Agreement. CCWA in turns deposits these funds with LAIF.



Other Revenue **\$86,400**

Other Revenues includes the following items:

Picay Hydroelectric Plant	\$17,000
Rent Revenue	38,000
Miscellaneous	<u>31,400</u>
Total Other Revenue	\$ 70,000

- Picay Hydroelectric Plant: \$17,000

The Picay Hydroelectric Plant went into service in January 1989 and began producing electrical power for Southern California Edison. In 2004, the Picay facility was turned over to the District along with all revenues and expenses. Revenues generated by Picay are a direct function of water deliveries from Jameson Lake and Doulton Tunnel. Due to the drought and reduced deliveries from Jameson Lake, there is a corresponding reduction in power generation and revenue. The District normally receives between \$56,000 and \$70,000 in gross revenue from the Picay Hydroelectric Plant.

- Rent Revenue: \$38,000

Revenues from rent include the two rental properties available to qualified employees, as well as, receipts from the cellular site at the District's Bella Vista Treatment Plant.

- Miscellaneous Income: \$31,400

Miscellaneous income includes returned check fees, sales of recycled metals and any other miscellaneous revenue.

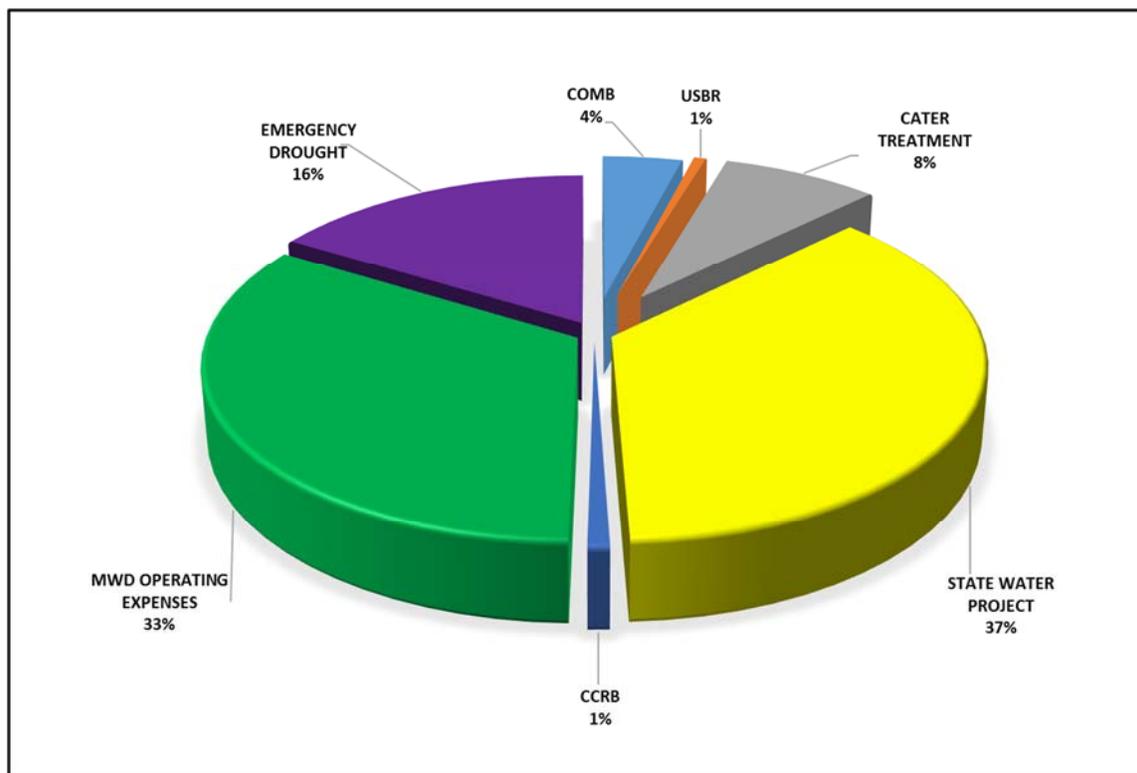


OPERATING EXPENSE DISCUSSION

Total Operating Expenses for the various departments and categories are summarized in Table 8. Reporting of operating expenses is broken down into the Joint Power Agencies (JPA) and those directly incurred by Montecito Water District (MWD). With the unprecedented dry years and the water shortage emergency many of the assumptions made with the adoption of the FY 2016/17 budget have changed. The changes have effected JPA Operating Expenses, due to the procurement and delivery of expensive supplemental water delivered through the State Water Project (SWP) conveyance system. This water is needed to replace the loss of less expensive owned and operated Jameson Lake water supplies.

Chart 2

FY 2015/16 OPERATING EXPENSES



As shown in Chart 2, State Water Project expenses comprise 37% of the District's total operating expenses. These costs include fixed State Water Project Costs related to the Department of Water Resources (DWR) and the Central Coast Water Authority (CCWA)



capital/fixed cost, as well as, variable costs for the operations, maintenance and the conveyance and treatment of water supplies from the State Water Project.

The District's total operating expenses include administrative, engineering and the costs of operating the District's treatment, production and distribution system represent 33% of the District's total operating expenses. The District has more control over its internal expenses in the day-to-day operation and maintenance of its water transmission and distribution system.

Drought Related Expenses represent 16% of the District's total operating expenses. These expenses are the most dynamic in the Budget and will be closely monitored on a monthly basis by the Finance Committee.

**Table 8
Operating Expenses**

CATEGORY	FY 2015/16 BUDGET	FY 2015/16 PROJECTED	FY 2016/17 PROPOSED BUDGET
OPERATING EXPENSES			
JPA OPERATING EXPENSES			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	739,600	700,300	667,600
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	62,300	181,800	138,800
US BUREAU OF RECLAMATION (USBR)	330,000	100,700	100,700
CATER WATER TREATMENT PLANT	649,600	1,057,900	1,320,000
STATE WATER PROJECT (SWP) - FIXED	5,329,300	5,329,300	5,051,700
STATE WATER PROJECT (SWP) - VARIABLE	1,378,700	616,000	1,037,400
TOTAL JPA OPERATING EXPENSES	8,489,500	7,986,000	8,316,200
MWD OPERATING EXPENSES			
JAMESON LAKE	110,900	130,900	134,900
PUMPING O&M	273,500	324,200	335,900
TREATMENT O&M	723,700	714,900	758,100
TRANSMISSION & DISTRIBUTION	747,300	716,600	743,800
VALVES & REGULATORS	143,100	142,600	147,500
FIRE HYDRANTS	6,200	10,600	10,900
METERS	151,400	134,500	138,700
ROADS	45,300	25,800	51,700
RESERVOIRS	32,600	33,000	34,200
WELLS	182,200	180,700	221,000
CUSTOMER SRV & METER READING	360,600	344,000	354,800
FLEET & EQUIPMENT	122,400	115,100	118,000
WATER RESOURCE MGMT	279,600	274,700	561,800
LEGAL - GENERAL	150,000	97,800	99,800
LEGAL - SPECIAL	175,000	129,400	624,400
ADMINISTRATIVE & GENERAL	959,700	1,101,200	1,202,900
TOTAL MWD OPERATING EXPENSES	4,463,500	4,476,000	5,538,400



JPA EXPENSE DISCUSSION

Joint Powers Agencies Operating Expenses

The Joint Power Agencies are each responsible for preparing their own fiscal year budgets which are then passed on to the participating water agencies. The JPA's provide the District with up to 83% of its annual water supply, delivered from the Cachuma and the State Water Project. All water delivered from Lake Cachuma is treated at the regional City of Santa Barbara Cater water treatment plant and delivered through the Cachuma Project 30-inch diameter South Coast Conduit.

For 2016/17, State Water comprises nearly 73% of the District's total JPA operating expenses and 50% of total District operating expenses. These costs are outside the control of the District as we are one of many agency participants with minority voting rights.

Cachuma Operation and Maintenance Board (COMB) \$667,600

This is the District's estimated share of COMB's 2015/16 FY budget and represents the District's 11.45% share of COMB's operating costs include the management of the South Coast Conduit and fish passage projects. In addition to the purchase of the District's annual full allocation, the District also pays the USBR annual Safety of Dam expense of \$20k and other miscellaneous charges.

Cachuma Conservation and Release Board \$138,800

This is the District's share of the Cachuma Conservation and Release Board's (CCRB) budget. The majority of this fiscal year's cost is for professional consulting and legal services relating to the renegotiation of Cachuma water rights between the Bureau of Reclamation and the National Marine Fisheries Service and in the preparation of a new Cachuma Project Biological Opinion.

US Bureau of Reclamation (USBR) \$100,700

The District will pay for the purchase of its full annual Cachuma Project water allocation of 2,651AF from the U.S. Bureau of Reclamation. It is important to note that due to the persistent drought conditions, the District along with the other member units will be receiving 0% of its total allocation for the upcoming 2016/17 Water Year. USBR does not release the cost per AF of Cachuma Water until October 1 of each year.



State Water Project: Fixed Cost Component **\$5,051,700**

The District pays an annual fixed costs payment to CCWA for its proportionate share of construction loan costs for the pipeline and facilities built by DWR and pipeline and facilities built by CCWA. The total DWR and CCWA fixed costs are budgeted based on estimates provided by the CCWA in its 2016/17 Budget. It should be noted that CCWA operates on a calendar year schedule with the fixed payment due on or before June 1 of each year.

State Water Project: Variable Cost Component **\$1,037,400**

CCWA variable costs include the retreatment of exchange and delivery of State Water into Lake Cachuma. For FY 2016/17, the variable cost to treat deliveries from the State Water Project include the following: CCWA variable cost (\$100/AF), DWR variable cost (\$172/AF) and Warren Act and Trust Funds Payments (\$58/AF).

Cater Treatment Plant **\$1,320,000**

This amount includes Cater Treatment Plan operations and maintenance costs, as well as, the variable water treatment costs related to all water delivered from Lake Cachuma, which includes the District's Cachuma Project water and State Water supplies. Cost are shared between the City of Santa Barbara and the Carpinteria Water District and are allocated as a percentage of water deliveries to each agency.

MWD OPERATING EXPENSES

MWD internal operating expenses comprise about 33% of the District's entire operating budget. MWD operating expenses consist of costs attributed to delivering local water supplies owned by the District, operating and maintaining the water treatment facilities at Bella Vista and Doulton Tunnel, the transmission and distribution system pipelines, pump stations and storage reservoirs and general and administrative costs necessary for District operations.

Jameson Lake and Doulton Tunnel **\$134,900**

Operations & Maintenance expenses includes supplies, contracting services and labor for the District's Jameson Lake and Doulton Tunnel facilities. Costs include \$24k paid to the Department of Water Resources related to Annual Dam Fees.



Pumping **\$335,900**

Pumping expense is associated with operation of the three South Coast Conduit pump stations which deliver about 70% of the District's water to the distribution system.

Treatment Operations **\$758,100**

Treatment Operations and Maintenance budget includes the costs to operate and maintain the District's two water treatment plants located at the Bella Vista and Doulton Reservoirs. Starting in FY 2016/17, the District will conduct Federal EPA mandated monthly sampling that evaluates surface water sources for spores that come from the intestines of young animals. Turbidity and E-Coli samples will be taken with the Cryptosporidium analysis

Transmission and Distribution O & M **\$1,126,800**

The Transmission and Distribution (T&D) Operations & Maintenance budget includes maintenance of the District's pipelines, meters, reservoirs, valves and fire hydrants. The budgeted amount includes an estimate of supplies and contracted services, as well as budgeted labor costs. Transmission and Distribution O&M includes the following:

System Pipelines	\$743,800
Valves & Regulators	\$147,500
Fire Hydrants	\$10,900
Meters	\$138,700
Roads	\$51,700
Reservoirs	\$34,200
Total	<u>\$1,126,800</u>

Wells **\$221,000**

This item includes the cost of operating and maintaining the District's groundwater wells and consists of labor, supplies, and electricity. FY 2016/17 includes a one-time expense to decommission Office Well #1 (\$30k)



Customer Service & Meter Reading **\$354,800**

This budget item includes costs for outside contracting to read the customer meters, bill printing service, and payroll for customer service and utility billing. The budgeted amount is similar to last year's budget.

Fleet & Equipment **\$118,000**

This item includes the costs to replace, maintain and repair District equipment, including vehicles and heavy machinery. This includes personnel costs, materials and outside services to maintain the District's fleet and heavy machinery such as backhoes and dump trucks.

Water Resource Management **\$561,800**

The Water Resources program supports the ongoing management of water supply agreements and coordinates the District water resource plans. Additionally, the department oversees water system infrastructure repairs, replacement and improvements. FY 2016/17 includes costs related to future water supply analysis (\$150k) including updates to the Urban Water Management Plan (UWMP), Development of a Groundwater Sustainability Agency (GSA) and a Reclaimed Water Feasibility Analysis.

Legal – General Costs **\$99,800**

This reflects the cost for ongoing general legal services for the District.

Legal – Special Costs **\$624,400**

This item includes MWD legal and claims and noticing costs associated with the class action claim as previously described under the Contingent Liability section. Additionally, subject to Court approval, the proposed Settlement Agreement requires the District to pay attorney's fees of Plaintiff's counsel in the amount of \$475,000.

General & Administrative **\$1,202,900**

Highlights of the G&A costs include the following:

- A salary change of 3.28% is applied to employee wages and salaries, except the General Manager.



- The District’s employee retirement plan (CalPERS) recognizes the capping of the District’s Employer’s Member Contribution Rate at 16.7% with all PERS increases after July 1, 2012 passed onto the employee. For FY 2015/16, the employee’s contribution to PERS will increase by 1.44%.
- The District is enrolled with ACWA/JPIA for the District’s insurance needs. The projected cost for FY 2016/17 is \$160k and includes the following policies: General Liability, Property, Fidelity and Workers Comp Insurance.
- The projected FY 2016/17 cost for the District’s Accounting and Billing Software License Fee and Network IT Services (\$75k)
- Bank Charges and Lockbox Fees (\$45k)
- Audit expense of \$25,000 which is based on prior year’s cost.
- FY 20116/17 includes a one-time expense (\$15k) related to Board election expenses to be held in November 2016.

Drought Related Expenses \$2,691,730

Includes costs for the purchase of supplemental water, public outreach, legal services and operation of the allocation program under Ordinance 94. FY 2016/17 also includes costs related to the development a desalinated water supply. These costs are offset by Ordinance 94 penalty revenue

Drought related expenses includes the following:

Conservation Program	\$61,900
Legal	130,000
Allocation Program Costs	114,830
Public Outreach	150,000
Emergency Desal Water Supply	735,000
Supplemental Water Purchases	<u>\$1,500,000</u>
Total Expense	\$2,691,730

Conservation Program: \$61,900

These are the costs associated with the District’s commitment to its ongoing customer water conservation programs. FY 2016/17 includes costs associated with developing a demonstration garden which will be partially fund through grant opportunities.



Legal: **\$130,000**

This reflects costs for ongoing drought related legal services, as well as, costs associated with a Prop 218 process.

Allocation Program Costs: **\$114,830**

Staff overtime and other miscellaneous costs associated with drought conditions.

Public Outreach: **\$150,000**

These costs include community outreach on conservation and information related to the water shortage emergency.

Emergency Desal Water Supply **\$735,000**

Includes legal and consultant costs related to negotiating a water purchase agreement with the City of Santa Barbara Regional Desalination facility, as well as, engineering costs related to developing a conveyance pipeline to deliver the water to Montecito.

Supplemental Water Purchase: **\$1,500,000**

The District has formed an Ad-hoc Supplemental Water Purchases committee with the mission of identifying and reviewing supplemental water purchase opportunities made available through the State Water Project or other sources. Opportunities are then presented to the full Board for consideration and approval.



LONG-TERM DEBT

The District has issued debt, which includes Bonds and Loans, to assist in the financing of its capital program. The District currently has the following outstanding Debt shown in Table 9.

DEBT SERVICE PAYMENTS

The District's Debt Service is based on bond and loan amortization schedules. The District currently has one bond issue and one low interest Department of Water Resource (DWR) loan from the State of California as shown in Table 9 below. Interest and principal payments for all debt are included in the budget in accordance with actual amortization schedules. Debt Service comprises approximately 7% of the District's total proposed budget expenditures, not including capital expenditures.

**Table 9
Debt Service**

FY 2016/17 Debt Service	Interest	Principal	Total
2003 Ortega Cover Loan	\$ 181,930	\$ 408,489	\$ 590,419
2010A Rev Refunding COPs	690,463	-	690,463
Total Debt Service	\$ 872,393	\$ 408,489	\$ 1,280,882

Bonds & Loans Balances	Maturity	Original Amount	Balance as of 6/30/2016	Interest Rate
2003 Ortega Cover Loan	FY 2030	\$ 9,236,658	\$ 6,931,982	2.5132%
2010A Rev Refunding COPs	FY 2030	\$ 13,360,000	\$ 13,360,000	5.2500%
TOTAL DEBT SERVICE		\$ 22,596,658	\$ 20,291,982	



Department of Water Resources – Ortega Reservoir Improvement Project Contract

Increasingly stringent water quality regulations from the California Department of Health required the covering of the 21.2 million gallon, four acre Ortega Reservoir. This reservoir is owned by USBR with all water quality obligations the responsibility of the two water agencies. In December 2003 MWD, along with Carpinteria Valley Water District, entered into a funding agreement, with the Department of Water Resources (DWR) for a loan of \$10,800,000, which was increased to \$19,900,000 in July of 2006. The District's share of this loan is 50% of the total amount, or \$9,950,000. The proceeds from this loan were used to finance the construction of a roof on the Ortega Reservoir to enable the District to meet safe drinking water standards established pursuant to Chapter 4, commencing with Section 116270, of Part 12, of Division 104 of the Health and Safety Code and California Code of Regulations. California Bank & Trust is the fiscal agent responsible for acting as trustee for the loan repayment with semi-annual payments of \$295,210 including principal and interest at an annual rate of 2.51%. The District is required to fund its share of a reserve fund equal to two semiannual payments. The funds are to be accumulated within a ten year period and be held by a trustee.

2010A Refunding Revenue Certificates of Participation (COP)

In 2010, \$13,360,000 in 2010A refunding revenue certificates of participation were issued for the purpose of refinancing the 1998A Revenue Certificates of Participation. Scheduled annual interest payments are \$690,463 for the years ending June 30, 2011 through June 30, 2022. Annual principal payments of \$1,385,000 to \$1,990,000 plus interest are due beginning in FY 2023 and end in FY 2030 with a true interest cost of 5.25% over the life of the bonds.

The 2010A Revenue Refunding COPs were issued in order to level the District's debt service payments in the future to alleviate substantial rate increases that would have begun in 2013 with the added principal repayment component to the 1998A Revenue Bonds. The refunding extends the bond payments and is aligned with the retirement of the other debt and contractual obligations of the District. The District will pay interest-only until 2022 after which it will begin paying principal and interest. The year 2022 is when other District debt and contractual obligations are scheduled to mature.

Discussions are ongoing at the Department of Water Resources regarding the construction of State Water Project Bay Delta Conservation Project (BDCP) that could encumber the District with additional debt service. The addition of future joint powers agency debt service obligations is a serious concern to the District.



CAPITAL & EQUIPMENT BUDGET

The Capital and Equipment Budget is developed by the General Manager, Engineering Manager, and Business Manager. The managers consider the budget requests from each department with respect to priority and revenue for the fiscal year. In addition to the MWD budget items, there are JPA obligations which are funded as part of the District's capital program.

A total of \$3,057,500 is budgeted for Equipment, MWD Capital Expenditures and the District's portion of JPA obligations.

**Table 10
Total MWD Capital Expenditures and JPA Obligations**

CAPITAL EXPENDITURES	
EQUIPMENT	264,500
MWD SYSTEM PROJECTS	2,084,500
TOTAL MWD CAPITAL EXPENDITURES	2,349,000
OTHER COMMITMENTS	
CATER DWR LOAN (2003)	225,400
CATER CAPITAL PROGRAM	132,300
CATER OZONE PROJECT LOAN	276,300
COMB EMERGENCY PUMPING FACILITY LOAN	74,700
TOTAL OTHER COMMITMENTS	708,700
TOTAL MWD CAPEX / OTHER JPA COMMITMENTS	3,057,700

MWD Capital Replacement and Improvement Program

Infrastructure planning and investment is critical to the ongoing reliability of the District's distribution and treatment systems. The capital projects and equipment purchases included in the FY 2016-17 Budget are critical during the drought and also improve the financial certainty and predictability of operating and maintaining District facilities.

The District facilities include approximately 113 miles of pipelines, two surface water treatment plants, 2,556 valves, 922 fire hydrants, 4,600 meters, 51 pressure regulating stations and 9 pump stations. The ages and materials of District facilities vary greatly and, in turn, the current condition and failure risk associated with these facilities varies as well



The MWD Capital Replacement and Improvement Program includes those components described in Table 11. Nearly 67% of the capital improvement and replacement program budget is dedicated to pipeline replacements.

**Table 11
MWD Capital Replacements and Improvements**

Item Description	2015/16 Carryover	2016/17 Requests	Total Proposed Budget
PIPELINE REPLACEMENT			
Sycamore Canyon Road Main Replacement Project	\$ 928,500	\$ 171,500	\$ 1,100,000
Ashley Road Main Replacement	\$ -	\$ 425,000	\$ 425,000
Fernald Point Bridge Replacement Project	\$ 39,500	\$ -	\$ 39,500
RESERVOIR REHABILITATION / REPLACEMENT			
Toro Canyon Reservoir Roof Replacement	\$ -	\$ 300,000	\$ 300,000
PUMPING/WELLS/VALVING/TREATMENT			
Ortega Pump Station / Fire Pump Replacement	\$ -	\$ 85,000	\$ 85,000
New Office Well #2	\$ 15,000	\$ 30,000	\$ 45,000
Pichacho Lane PRV Relocation and Water Main Abandonment	\$ 31,600	\$ 3,400	\$ 35,000
BVTP / Storage Tank Mixer	\$ -	\$ 20,000	\$ 20,000
BVTP / Valve Repair Replacement	\$ -	\$ 20,000	\$ 20,000
DTP / Flow Control Valve Replacement	\$ -	\$ 15,000	\$ 15,000
TOTAL CAPITAL IMPROVEMENTS	\$ 1,014,600	\$ 1,069,900	\$ 2,084,500
TOTAL EQUIPMENT AND CAPITAL IMPROVEMENTS			\$ 2,349,000



General System Improvement Projects

The FY 2016-17 Capital and Equipment Budget includes the following infrastructure improvements and equipment purchases.

Pipeline Replacement:

- **Sycamore Canyon Road Main Replacement (\$1,100,000) – Phase 1.** The replacement and up-sizing of 3,550 liner feet of 8-inch 1923 cast iron water main on Sycamore Canyon Road was identified as the top priority water main replacement project in the District's Five Year Capital Improvement Program (Total project is 4,875 liner feet) This pipeline has been determined to be deficient in capacity and is the primary pipeline conveying water from the Terminal Reservoir water storage zone
- **Ashley Road Main Replacement (\$425,000)-** This project will replace approx. 1,520 ft. of existing 6-inch 1924 cast iron transmission main with new 8-inch ductile iron pipe on Ashley Road from Ayala Lane to the Cold Springs Creek Bridge. The project will complete the on-going main replacement project on Ashley Road, connecting the new 8-inch ductile iron pipeline installed in 2008 from East Mountain Drive to the new 8-inch ductile iron pipe from Sycamore Canyon Road installed in 2011. The existing 6-inch pipeline has been identified as hydraulically deficient in the District's 2006 hydraulic model analysis report and District records indicate that this stretch of pipeline has experience five main breaks.
- **Fernald Point Bridge Water Main Relocation (\$39,500) –** It is a carryover project for FY 2015/16. The County of Santa Barbara Public Works Department is replacing the Fernald Point Bridge. This project will require the District to relocate its existing 6-inch cast iron water main originally installed in 1955. The County's schedule for implementation is anticipated to be during FY2016/17.

Reservoir Rehabilitation / Replacement:

- **Toro Canyon Reservoir Roof Replacement (\$300,000) –** This capital project involves the replacement of the reservoir roof at the Toro Canyon Reservoir including other necessary repairs. The existing reservoir roof has experienced significant corrosion and requires replacement. This reservoir, due to safety reasons, has been "red tagged" meaning that it is no longer accessible to District staff since access is obtained from the roof structure. Observations of the current condition of the reservoir roof were made and noted by Tetra Tech in a Comprehensive Engineering Report titled *Structural and Seismic Evaluation of District Storage Reservoirs* dated September 3, 2015. Tetra Tech notes "the roof



structure is significantly deteriorated and should be replaced.” In addition, the report notes “the deteriorated condition of the roof framing prevents the safe use of the hatch.” The proposed cost includes the removal and installation of a new reservoir roof, OSHA compliant ladder, and access hatch and pipe inlets.

Pumping / Wells / Valving / Treatment:

- **Ortega Pump Station Fire Pump Replacement/Upgrade (\$85,000)** – The project involves the replacement of a high volume pump for fire flows at the Ortega Pump Station with a new electrical motor & pump system. The diesel driven high pressure pump, installed in 1990 by the Summerland Water District was permanently removed from service due to engine failure in July 2015. That diesel engine was 25 years old and deemed non-repairable. The project would reconfigure the interior pump station building electrical system for installation of new electrical motor driven fire pump system. Included in the project is the installation of a larger hydropneumatic tank to reduce frequency of pump start up since new system will not include a bypass pressure relief system that was in place for the constant speed diesel driven pump system. This project will be constructed using both District staff and qualified licensed contractors.
- **New Office Well #2 (\$45,000)** – This project is a carryover project from FY15/16 and involves the reactivation of an existing well, Office Well #2, located at the District’s office on San Ysidro road. The reactivation includes the installation of a pump including the piping needed to connect it to the distribution system. The project also involves the destruction of Office Well #1 (\$30,000) located in close proximity to New Office Well #2. As a result of the ground water contamination from an underground storage tank in the 90s, which was remediated, the hydrogeologist is recommending a more involved method of destruction to maximize the protection of the aquifer from any possible future contamination that could take place by way of the abandoned casing from Office Well #1.
- **Picacho Lane / PRV Relocation and Water Main Abandonment (\$35,000)** – This project is a carryover project from FY 15/16 and involves the abandonment of 435 ft. of failing 2-inch galvanized pipe (GIP) that operates at pressures in excess of 190 psi. The project will consist of the relocation of an existing pressure reducing station to modify pressures in the area and allow for the connection of customer service lines presently served by the 2-inch GIP to the existing 8-inch ductile iron water main.
- **Bella Vista Treatment Plant / Storage Tank Mixer (\$20,000)** – This item involves the purchase and installation of a reservoir mixer to control Disinfection By-Products



(DBP) for State required maximum contaminant levels (MCL) in Bella Vista (BV) Reservoir. Jameson Lake outflow has been calculated and tested at levels nearly double the 80 ug/L MCL for Total Trihalomethanes, which is one of the required DBP water quality tests. When blending Jameson Lake water with water from the City of Santa Barbara's Cater Water Treatment Plant (30-40 ug/L), water is forced through the outlet of the BV Reservoir. This method does not properly mix the two source waters and makes it impossible to maintain stable sample results. Based on historical annual trending for DBP, it is anticipated that mixing will be needed in Bella Vista Reservoir by August 2016.

- **Bella Vista Treatment Plant / Process Valve Repair/Replacement (\$20,000)** – The pneumatically controlled influent and effluent valves at the Bella Vista treatment facility are aging (nearly 25 years in service) and becoming more difficult to operate, especially under low flow drought conditions that currently exist at the plant. These valves are required to modulate in a variable open and close position to accommodate and provide for controlled modular flow rate changes that maintain filter media stability. The project involves the replacement of two filter unit valve actuators and will also include maintenance of the butterfly valves that operate the Bella Vista Treatment Plant. An additional eight valve repairs/replacements will be necessary in FY 17/18 and 18/19.
- **Doulton Treatment Plant / Flow Control Valve Replacement (\$15,000)** – To replace failing flow control valves with improved equipment. Current design allows for water fluctuations which cause unstable effluent water quality. Labor hours attributed to maintenance of the current equipment has increased do to age and design.

To avoid incurring further debt, the District has informally adopted a “pay-as-you-go” policy, meaning collected annual revenues fund routine infrastructure replacement.

For large new projects and those mandated water quality projects such as the \$20 million Ortega Reservoir cover, or the recently completed construction of the \$20 million Cater Ozone facility, the District must look to long term financing either by the issuance of certificates of participation (COPs), or low interest DWR loans for paying project costs. This bond funding mechanism eventually doubles the cost of a project due to long-term interest payments (typically 20 year life) of the bond.

A key source of funds to pay for ongoing water distribution system upgrades has been an annual assessment of \$30 per acre or per parcel less than an acre within the District. The assessment is collected along with property taxes as a Water Availability Charge (WAC), and is used exclusively to finance water system improvements.



**Table 12
MWD Capital Projects Funding Sources**

Total Capital Projects	(\$2,084,500)
WAC	\$308,400
Unfunded Balance (to be paid by District revenues and reserves)	(\$1,776,100)

Equipment

As shown in Table 10, planned equipment purchases from operating revenues are estimated at \$264,500.

**Table 13
Equipment Purchases – 2015/16 Fiscal Year**

Item Description	Total Proposed Budget
Distribution / Customer Service Truck Replacement (Vehicle #166)	\$ 30,000
Treatment / Truck Replacement (Vehicle #147)	\$ 40,000
Treatment / Truck Replacement (Vehicle #145)	\$ 30,000
Romero Pumping Station / Emergency Generator	\$ 80,000
Jameson Lake / Emergency Generator Replacement	\$ 35,000
GIS Software Enhancements	\$ 35,000
File Server Expansion	\$ 9,500
Distribution Office / Replace Heating & Air Conditioning Unit	\$ 5,000
TOTAL EQUIPMENT	\$ 264,500

- 1. Distribution and Treatment Utility Truck Replacements (\$100,000)** – The District’s *Vehicle Replacement Policy* adopted in November 2004, establishes a replacement criteria of 8 years or 90,000 miles for all utility truck. The policy also recommends that physical condition, maintenance history, safety and functionality be considered when making a determination whether to replace a District vehicle. Several Distribution and Treatment Utility trucks have exceeded the replacement



criteria. Replacement of vehicles has been postponed during previous years due to more pressing items such as the drought. Continued postponement results in increase maintenance expenses, reduced reliability and increased risk.

2. **Emergency Generator for Romero Pump Station (\$80,000)** – The emergency backup power generator at Romero Pump Station was moved to Ortega Pump Station in September 2015 to be used with a newly Automatic Transfer Switch that operates the existing 5 potable water booster pumps. With the transfer of the generator to Ortega, there is currently there is no backup power at Romero Reservoir. Romero Reservoir Pump Station is a critical pumping facility that conveys South Coast Conduit water deliveries to the District's Highline that serves over 90% of the District service boundary. With water currently being unavailable from Jameson Lake, it is critical that electrical power at Romero Pump Station be available at all times. If power goes out for extended periods of time, Bella Vista Reservoir could drop below its serviceable level and customers may be without water service. This budgeted item consists of the purchase of a portable emergency backup generator for Romero Pump Station.
3. **Jameson Lake Generator Replacements (\$35,000)** – The two natural gas powered generators located at the Juncal dam are used to (1) operate the emergency release valves in the event the lake is expected to spill and for required annual maintenance and (2) as emergency backup power for the dam caretakers residence and associated facilities. The existing 30 kW Onan generator was installed with the emergency valve automation project in 1971 and is used to operate the emergency release valves is showing signs of failure requiring replacement to ensure reliability. The second smaller generator was installed prior to 1971 and is in need of replacement. Both generators are essential to operations, and the ability to maintain both operations and production at Juncal Dam. The inability to operate the 30KW generator during a severe weather event, could threaten all the surrounding area with a flood, and could put the dam as risk for failure. This budget item proposes to replace both the 30KW and 7KW generators.
4. **GIS Enhancements (\$35,000)** – The GIS project is a significant effort using a qualified consultant involving the linking of the digital distribution system mapping with a data base component to leverage available information in an efficient manner. The District cost shared in the purchase of GIS software in 2012/13 with the Carpinteria Valley Water District. The budget for FY 2016/17 includes an additional scope of work for advancing the District's GIS system to the next level, integrating GIS into other District operations, improving upon the positional accuracy of the GIS data, and creating access for the District field staff.



5. **File Server Expansion (\$9,500)** – In anticipation of additional server space due to paper files being scanned to server, staff will need to expand the District’s physical hard drive space on our server.
6. **Distribution Office / Replace Heating & Air Conditioning Unit (\$5,000)** – To replace the existing unit that was damaged by a power surge in the summer of 2015.

JPA Commitments

Table 13 recaps JPA obligations in the amount of \$708,700 related to various JPA projects and obligations.

**Table 14
JPA Commitments**

OTHER COMMITMENTS	
CATER DWR LOAN (2003)	225,400
CATER CAPITAL PROGRAM	132,300
CATER OZONE PROJECT LOAN	276,300
COMB EMERGENCY PUMPING FACILITY LOAN	74,700
TOTAL OTHER COMMITMENTS	708,700

Cater Treatment Contract / California Drinking Water State Revolving Fund

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara’s Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract financing totaling \$19.2 million to fund improvements required at the Cater Treatment plant. In December 2004, the Cater Treatment Plant project was complete and principal payments on the loan began on January 1, 2006. The District’s share is estimated to be 19.7% or \$3.8 million to be financed over 20 years. Interest is paid semiannually at a fixed rate of 2.42% per annum. The District’s payments for its share of the obligation are \$225,416 per year.



Cater Ongoing Capital Improvement Program

The District continues its JPA obligation with the City of Santa Barbara (the City) and Carpinteria Valley Water District for the City to treat water from Lake Cachuma at its Cater Treatment Plant. Under the agreement, the District pays 19.7% of the Plant's operating costs and capital costs. The District is billed for its share of the water treated at the Cater Treatment Plant which is reflected in the District's treatment costs. The City has an ongoing capital improvement program for the Cater Treatment Plant; the District pays a portion of those costs, which are charged to the District on a quarterly basis. Based on information from the City of Santa Barbara, the capital expenditures for the Plant are estimated to be \$666,000. The \$133,200 included in the budget represents the District's share of the Cater Treatment Plant's capital budget.

Cater Ozone Project

In June 2011, the District entered into a contribution funding agreement, with the City of Santa Barbara for the construction of the Cater Ozone Treatment Facility to comply with the California Department of Health Stage 2 disinfection byproducts rule. The District's share of the \$17.5 million project cost is \$4.3 million (or 24.63%). The City of Santa Barbara financed the obligation over a 20 year period. Principal and interested payments in the amount of \$138,148.76 are paid semiannually thru the year 2035

Ortega Loan Reserve Obligation

Increasingly stringent water quality regulations from the California Department of Health required the covering of the 21.2 million gallon, four acre Ortega Reservoir. This reservoir is owned by USBR with all water quality obligations the responsibility of the two water agencies. In December 2003 MWD, along with Carpinteria Valley Water District, entered into a funding agreement, with the Department of Water Resources (DWR). The proceeds from this loan were used to finance the construction of a roof on the Ortega Reservoir to enable the District to meet safe drinking water standards established pursuant to Chapter 4, commencing with Section 116270, of Part 12, of Division 104 of the Health and Safety Code and California Code of Regulations. California Bank & Trust is the fiscal agent responsible for acting as trustee for the loan repayment. As such, the District is required to fund its share of a reserve fund equal to two semiannual payments. The funds are to be accumulated within a ten year period and be held by a trustee.



COMB Emergency Pumping Facility Loan.

As a result of the current unprecedented drought condition, it became critical for the Cachuma Operation and Maintenance Board to construct an emergency pumping plant at the lake.

The Project provides access to a critical water supply stored in Lake Cachuma that would otherwise be inaccessible due to the low lake level. As this one-time expenditure was a direct result of the drought situation, the cost associated with this project was unforeseen and unplanned in the District's, and other member units, long term water management plan.

The Project itself is being managed and implemented by the Cachuma Operation and Maintenance Board (COMB), and directly benefits the communities served by the four Cachuma Project member agencies, including the District. While COMB managed the construction, implementation, and operation of the project, the four member agencies are responsible for payment of all project costs through COMB. As a result, each agency executed a separate Public Water System Drought Emergency Response Program funding agreement with the State Water Resource Control Board (SWRCB) and the Department of Water Resources (DWR) for assistance with the cost of this project.



RESERVES

As of June 30, 2016, the District is projected to have a total \$11,747,100 in cash and investments in various financial institutions. Required Debt Reserves of \$3,466,400 are held in trustee accounts to satisfy debt covenants and debt agreements and are not available for operations, debt service or capital projects. The remaining \$8,288,600 is available for District operating and capital needs and reserve balances.

**Table 15
Required Debt Reserves**

California Bank & Trust - DWR Loan Reserve	\$ 590,400.00
CCWA - Rate Credit Reserve Fund	1,421,600
BNY Mellon - 2010A COP Reserve Fund	1,446,500
Required Debt Reserves	\$ 3,458,500.00

Available Reserves

These funds are legally accessible for use to fund operations and are held in various identified financial accounts shown below.

**Table 16
Available Reserves at June 30, 2015**

Business Bank Account ¹	\$ 606,500.00
LAIF Investments	7,511,500
CCWA Credit Fund	170,600
Available Reserves	\$ 8,288,600

1. Bank funds are regularly transferred (at least once per month as available) from the bank to the LAIF Investment account.



Board Designated Reserves (as of 6/30/16)

For years of low water sales and low revenues, available reserves are used to balance the budget. This is readily apparent when you look at the beginning and ending reserve balance.

The Board is also able to change the reserve balance by allocating funds to/from a specific reserve. Maintaining adequate available reserve balances is important to the financial wellbeing of the District. Reserves perform the critical function of augmenting revenues when expenditures exceed revenues.

The following provides a description of the Board Designated Reserve Funds at June 30, 2016. The Finance Committee reviews any surplus in unrestricted cash at the end of each fiscal year and makes a recommendation to the Board on its application.

Rate Stabilization Reserve **\$1,135,238**

The Five Year Financial Plan prepared by Black and Veatch indicates that the District should create and maintain a reserve fund of \$1,800,000 identified specifically as a buffer for variations in water sales revenues.

Emergency/Contingency Reserve **\$1,000,000**

\$1,000,000 has been designated as an emergency reserve. This is cash available for emergency situations (infrastructure failure) which may arise and for which immediate cash is necessary. The Board of Directors has the authority to approve the use of these reserves upon the determination of an emergency situation.

Ortega Reservoir Repair Reserves **\$1,164,649**

This reserve has been designated by the Board to specifically address the construction defects resulting from the Ortega Reservoir Cover Project. This funding source is used to perform ongoing temporary repairs to stabilize a multitude of identified construction defects. Actual permanent repairs to Ortega Reservoir may range upward of \$8,000,000 and the District must begin to set aside additional funds to build this reserve.

Capital Program Reserve **\$560,328**

The Capital Program Reserve target of \$1.8M was established in the Five Year Financial Plan. Current reserve levels are low due to the insufficient revenues.



Operating and Maintenance Reserve **\$1,498,656**

The District in years past designated six months of O&M Budget expenditures as Operating Reserves. The Five Year Financial Plan prepared by Black and Veatch indicates that the District should create and maintain an Operating Reserve fund of two months of the current O&M Budgeted expenditures. As such, the target reserve for FY 2016/17 is \$2,760,000.

As an unrestricted reserve, the Operating Reserve serves as an alternate short-term or immediate purpose funding source. Operating reserves meet a variety of potentially competing purposes including paying operating expenses during temporary revenue shortfalls, to fund unplanned capital expenditures, and/or emergency projects. Operating reserves are also be used to cover timing differences for periodic expenses paid in advance of collected revenues.