



## **2015/16 BUDGET**

**Approved: 06/30/2015**

**Adopted: 10/20/2015**



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**FISCAL YEAR 2015/16 BUDGET**

CATEGORY	AMOUNT
<b>REVENUES</b>	
WATER SALES	\$7,768,000
WSE SURCHARGE	2,854,700
ORDINANCE 94 PENALTIES	2,000,000
SERVICE CHARGES	3,974,600
WATER AVAILABILITY CHARGE	307,000
FEES / OTHER REVENUE	262,500
<b>TOTAL REVENUES</b>	<b>17,166,800</b>
<b>EXPENSES</b>	
JPA OPERATING EXPENSES	8,489,500
MWD OPERATING EXPENSES	4,463,500
DROUGHT RELATED EXPENSES	2,180,600
<b>TOTAL EXPENSES</b>	<b>15,133,600</b>
<b>NET OPERATING SURPLUS / (DEFICIT)</b>	<b>2,033,200</b>
DEBT SERVICE	1,280,900
<b>SURPLUS / (DEFICIT) BEFORE CAPITAL EXP / OTHER</b>	<b>752,300</b>
MWD CAPITAL EXPENDITURES	1,777,600
OTHER JPA COMMITMENTS	559,200
<b>TOTAL MWD CAPEX / OTHER JPA COMMITMENTS</b>	<b>2,336,800</b>
<b>TOTAL BUDGET SURPLUS / (DEFICIT)</b>	<b>(\$1,584,500)</b>
<b>APPROPRIATION FROM AVAILABLE RESERVES</b>	<b>\$1,584,500</b>



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## **2015/16 BUDGET EXECUTIVE SUMMARY**

### **Introduction and Special Conditions**

The financial projections herein describe the proposed annual fiscal year (FY) budget beginning July 1, 2015 through June 30, 2016. For the 15/16 Fiscal Year, the Montecito Water District (MWD), along with many other water agencies statewide, continue to face a serious water supply shortage crisis with Santa Barbara County now in the second year of D4, “exceptional drought”. In February 2014, MWD declared a water shortage emergency by adopting Ordinance 93 establishing a mandatory water allocation/rationing program for all customer classifications and a new water service prohibition.

Ordinance 93 was adopted to reduce excessive customer water usage due to: (1) four consecutive years of rainfall less than 50% of the seasonal average, and (2) to protect and extend the remaining water supply for public health and safety purposes. Ordinance 93 also includes a financial penalty as a customer conservation provision for customer monthly water use in excess of the customer monthly water supply allocation.

The exceptional drought has significantly reduced available local and State Water supplies to the District. The District relies on rainfall dependent surface water for 95% of its water supply which include Jameson Lake, Lake Cachuma and the State Water Project. The four years of below seasonal rainfall has adversely affected annual water supply including only 20% of normal Jameson Lake deliveries, no allocation of Cachuma Project water in the 15/16 Water Year (the first time in the Cachuma Project history), no State Water Project allocations in 2016, and no supplemental water supply purchase opportunities. These extraordinary water supply shortages and the declaration of a District and Statewide water shortage emergency condition requires extraordinary measures including water rationing to protect/preserve public health and safety

At the end of the 2014/15 fiscal year (June 30, 2015) total water sales, under water allocations, was 3,331 acre feet (AF) compared to 5,779 AF sold in FY 2013/14. The reduction in customer water use from FY 13/14 to FY 14/15 is about 42%. The 15/16 FY budget projects less than a 10% increase in water sales of 3,620 AF compared to customer water usage in the 14/15 FY which is due to allocations and the available water supply as defined under Ordinance 94, adopted by the Board March 24, 2015.

The budget also incorporates a 7.4% increase to water rates and meter service charges as approved by Resolution 2107 (September 2013). In keeping with the District’s Five Year Financial Plan (prepared by Black and Veatch), the Cost of Service Analysis and Updated Rate Structure (prepared by Hoag Consulting), and the MWD Five Year Capital Improvement Program, this budget contains \$1,777,600 in direct MWD capital expenditures and \$559,200 in other JPA commitments for a total of \$2,336,800.



It must also be noted that the water rates and service charges adopted under Resolution 2107 did not include the cost of an exceptional D4 drought and water shortage emergency that has resulted in purchasing, importing, treating supplemental water supplies, and a variety of other drought relief measures being undertaken by the District; nor did it address the current and projected decrease in water sales revenue due to mandatory water rationing and conservation by District customers.

As a result of decreasing water sales revenues, 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 pay the unanticipated costs attributed to the ongoing drought emergency cost, including supplemental water supply purchases and in response to the implementation of customer monthly water allocations under Ordinance 93. Under Resolution 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 drought related costs have been recovered.

Moving forward, diminished water sales due to the Water Shortage Emergency and Water Rationing Ordinance will adversely affect water sales revenue for the FY 15/16. In normal years, water sales comprise over 70% of the District's total revenue. For the 15/16 fiscal year, water sales are anticipated to account for 45% of the District's total revenue. At the same time, the District is anticipating a continuation in 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.



## **Budget Summary**

In summary, the proposed budget shows a **net deficit of \$1,584,500**, before appropriations from reserves, due to: (1) lower water sales, (2) an increase in expenses associated with the District's drought relief efforts including the development of an emergency desalination water supply, and (3) funding of the FY 15/16 capital improvement program.

**Total Revenue** of **\$17,166,800** are composed of:

- Water Sales revenue of **\$7,768,000** (45.3% of total revenue) which is based on an estimated demand of 3,620 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 surcharge of **\$2,854,700** (16.6%) of revenue is based on an estimated demand of 3,620 AF. 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 **\$2,000,000** (11.7% of total revenue). Assessed penalties under Ordinance 94 are subject to adjustments and appeals.
- Meter Service Charge revenue of **\$3,974,600** (23.2% 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 **\$307,000** (1.8% 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 **\$262,500** (1.5% 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 \$15,133,600** and include the following:

**Joint Powers Agencies (JPA) Operating expenses** are estimated to be **\$8,489,500** and comprise of about 56% of the total expenses which compares to \$ 7,782,900 in FY 14/15.

- State Water Project costs (fixed and variable) of \$6,708,000 comprise nearly 44% of total expenses (and 79% of total JPA operating expenses) and are about \$289,700 higher than last fiscal year results.
  - \$5,329,300 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. Note for the 2016 calendar year, the District is assuming no State Water Project water allocation based on continuing drought conditions.
  - \$1,378,700 for the treatment and delivery of MWD's 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 \$739,600 which include annual water purchases from the Bureau of Reclamation (USBR) and the District's annual COMB budget obligation. Note for the 15/16 Water Year, beginning October 1, 2015, 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 \$62,300.
- Cater Treatment Plant in the amount of \$649,600 includes capital 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 \$4,463,500. This is a slight increase of 1.4% compared to the projected 2014/15 actual results. See Table 7 starting on page 29 for a detailed breakdown and description of Operating Expenses. Assumptions used to budget MWD Operating expenses include:

- Legal expenses are projected to be 7% higher than FY 2014/15 due to ongoing litigation and drought relief incurred costs.
- Improvements/redesign of the District website are projected to be \$20,000.





- 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 2.48%.
- A salary change of 2.48% is applied to employee wages and salaries, except the General Manager.

**Drought Related Expenses** estimated at \$2,180,600 which includes consultant costs related to the development of a desalinated water supply, as well as, a pilot sub sea floor test drain project. These costs are offset by estimated penalty revenue of \$2,000,000 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** for this fiscal year are recommended by staff at \$2,336,800. This includes \$1,738,600 for MWD's capital projects, \$39,600 for equipment purchases and \$559,200 for other JPA commitments.





**Budgeted Operations Results**

Summary of budgeted operations including revenues and expenses, debt service and capital expenditures result in a **net deficit of \$1,584,500** before appropriations from reserves, due to: (1) lower water sales, (2) an increase in expenses associated with the District’s drought relief efforts including emergency desal water supply, and (3) funding of MWD and JPA capital programs.

**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 2015/16 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 1.59.

**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		17,166,800
4	Total Expenses		15,133,600
5	<b>Revenues - Expenses</b>	(3-4)	<b>2,033,200</b>
6	Debt Service Requirement	(1 x 1.25)	1,601,125
7	<b>Debt Service Coverage Amount</b>	(5-6)	<b>\$432,075</b>
8	<b>Debt Coverage Ratio</b>	(5 divided by 1)	<b>1.59</b>



## **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.



**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.

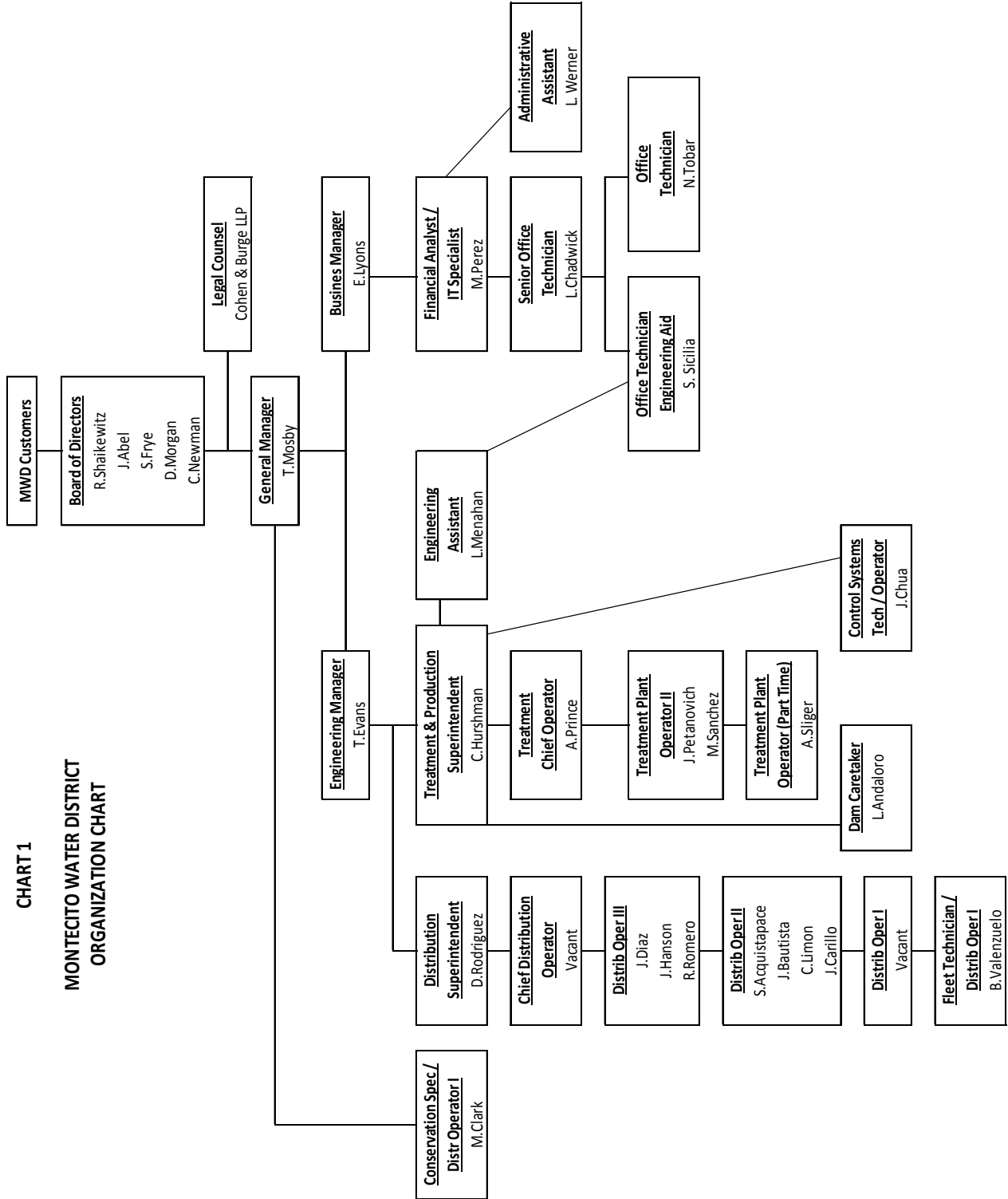
The District is governed by a five member Board of Directors ("the Board") the members of which are elected by the registered voters of the District to four year terms. The current Directors, their respective terms and occupations are set forth below:

<b>Director</b>	<b>Term Expiration</b>	<b>Occupation</b>
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	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 2015/16 fiscal year, the District will have a staff of 25 full time employees under the leadership of the General Manager.



CHART 1  
MONTECITO WATER DISTRICT  
ORGANIZATION CHART





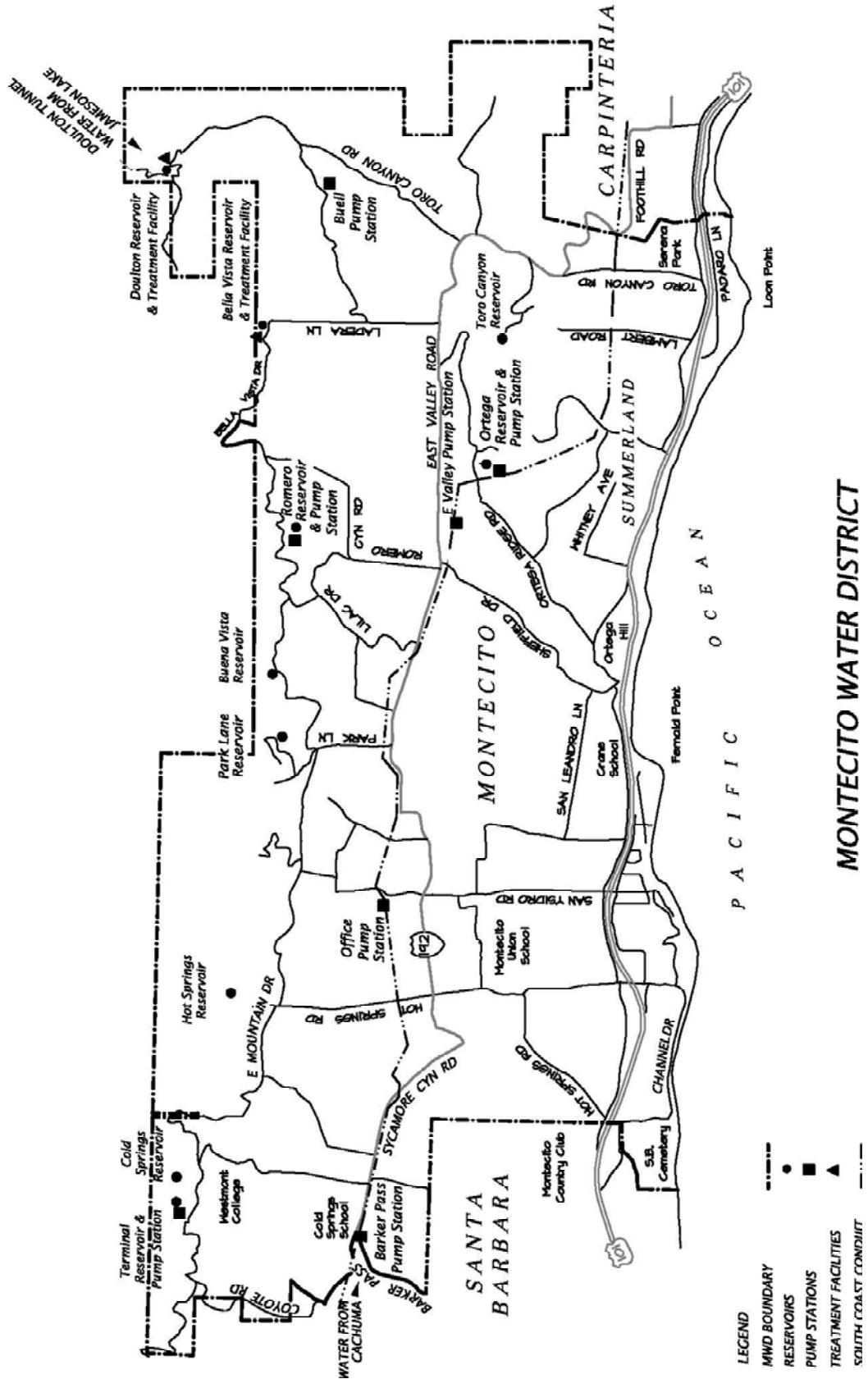
### **WATER SERVICE BOUNDARY AND PURPOSE**

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.

Of the 9,888 acres of land within the District, approximately 6,883 acres are developed with about 86% designated residential, 2% commercial and approximately 485 acres (7%) in agricultural use. 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 District assumes that the undeveloped land within its boundaries will continue to be developed and that the District's estimated build out and development of all acreage is expected by the year 2020.

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.



MONTECITO WATER DISTRICT

- LEGEND
- MWD BOUNDARY
- RESERVOIRS
- PUMP STATIONS
- ▲ TREATMENT FACILITIES
- SOUTH COAST CONDUIT



## WATER SUPPLY

MWD has a variety of local and imported water supplies available to meet customers' needs. Primary local water supplies include the local surface water reservoirs of Lake Cachuma and Jameson Lake, with secondary local supplies consisting of the District's Santa Ynez River tributary diversions at Alder and Fox Creeks, groundwater infiltration water in Doulton Tunnel and water wells. The State Water Project provides the District with a supplemental water supply which is used to offset reductions in local water supplies and meet increasing customer water demand levels when they occur.

For the fiscal year ending June 30, 2016 the District is expecting to sell approximately 3,620 AF of water. This does not include the annual transfer of 300 AF of Cachuma water to the City of Santa Barbara (contractual obligation as part of the 1920s Juncal Dam site purchase agreement) and non-revenue water. Non-revenue water is calculated at 360 AF and is the difference between water sales and water production. For this Water Year, non-revenue water is estimated at 10% which is a function of recent monthly recording accuracy differences between the larger water production meters and the smaller customer meters.

Total water supply needed to meet 3,620 AF demand is estimated at about 4,280 AF for the fiscal year ending June 30, 2016 (sales, City Juncal transfer plus non-revenue). Not included in the 4,280 AF is the necessary carryover component of the water supply into the next fiscal year to supplement the possible effects of recurring water supply shortages due to adverse weather and environmental conditions. MWD's current water supply management plan attempts to provide a minimum of 1,000 AF of Cachuma Project carryover plus additional water delivered through the State Water Project.

**Important:** Water sales projections of 3,620 AF are due to customer behavioral changes under Ordinance 93 and 94. Ordinance 93 established water allocations following the water shortage emergency declaration with conservation incentive penalty rates for monthly customer consumption in excess of allocation. In March 2015, the Board passed 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. Water sales for FY 2015/16 were adjusted for the Ordinance 94 increase in allocations assuming the full use of the allocation increase by the Agriculture, Commercial and Institutional water use classifications. The estimated water sales for Single Family Residential and Multi-Family Residential were based on FY 2014/15 actual consumption.

Recognizing the severity of the drought and the impact to water supplies, the District has focused its efforts on supplemental water supply purchase opportunities and new water supply development. As of June 30, 2015, the District has an available water supply of approximately 7,377 AF (6,767 net). The 7,377 AF is the gross water supply includes water that has been purchased, as well as, the carryover supply from the 14/15 FY. The 7,377 AF assumes no other supplemental or JPA water supplies will be available for the





next water year beginning October 1, 2015. This water supply also assumes customer water usage will remain under current water shortage emergency conditions with customer monthly water allocations.

The estimated available water supply level is projected to meet customer demand for the 15/16 FY and a portion of the 16/17 FY under the worst case scenario with the District continuing its efforts to develop an emergency desalination water supply for 2017.

**Table 3  
AVAILABLE WATER SUPPLY (AF)**

Source	Acre-Feet
Cachuma Project	3,696
Jameson Lake	375
Doulton Tunnel	80
Groundwater Basin	425
State Water in Cachuma	507
Supplemental Water Purchased	2,294
Est. Water Supply *	7,377
City of SB Transfer	-300
Est. Non Revenue Water	-310
Est. Available	6,767

<sup>1</sup> The Cachuma Project available water supply assumes delivery of 0 AF from its annual allocation plus 3,696 AF of carryover water from FY 2014/2015.

<sup>2</sup> The State Water Project assumes Table “A” allocation delivery of 0 AF for 2015, but includes supplemental water acquired by the District from the CCWA supplemental water purchase program.

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 as on June 30, 2015. The liability amount is comprised of variable costs to treat and return the water.



**Table  
WATER EXCHANGE LIABILITY**

<b>Water Purchase</b>	<b>AF</b>	<b>RATIO</b>	<b>TIMING</b>	<b>LIABILITY</b>
ID1	465	1.5 : 1	5 YEARS	\$76,725
MOJAVE	208	1 : 1	5 YEARS	\$50,544
MOJAVE	209	2.25 : 1	10 YEARS	\$114,271
AVEK	2531	1 : 1	10 YEARS	\$632,750
				<u>\$874,290</u>

## **WATER TREATMENT**

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) per day, over 110 miles of pipeline, groundwater wells, and pumping stations. All District water is treated to meet all federal and state drinking water standards. The Lake Cachuma water supply and the imported State Water (delivered to Lake Cachuma) are treated at the City of Santa Barbara's Cater Water Treatment Plant (see Joint Powers Agencies and Cater Treatment Plant) and pumped to the District through the Cachuma Project South Coast Conduit (SCC) water transmission pipeline.

The District's Bella Vista Treatment plant is a 2.2 MG per day (6.7 AF per day) capacity treatment facility that is used to treat Jameson Lake surface 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. A secondary 0.15 million gallon per day (0.46 acre-feet per day) treatment facility, the Doulton Treatment Plant, 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 for 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 2015/16, the individual JPAs' FY budgets comprise approximately 56% 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).

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, CVWD, GWD, and the City of Santa Barbara. 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) and the District joined in the formation of the Central Coast Water Authority (CCWA) in September 1991. The CCWA is a JPA formed under Government Code Section 6500, Article 1, Chapter 5, Division 7, Title 1 and brought a total of 45,486 AF of Table "A" and drought buffer State Water 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 to the eight central and south coast State Water contractors. Table "A" water is the deliverable allocation of State Water by the Department of Water Resources (DWR) to State Water contractors each calendar year. 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 28 full time employees. Our District has a voting percentage of 9.5% in CCWA; this is a function of the purchased Table "A" amount. The District purchased 3,000 AF of Table "A" State Water with a 300 AF drought buffer. Actual available deliveries will not be 100% of the Table "A" amount and vary depending on weather conditions and environmental restrictions in the Delta. The DWR percentage allocation, for FY 2015, is assumed to be 0%.

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.

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 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 estimated at \$4M.





## FISCAL YEAR 2015-16 BUDGET

### GENERAL OVERVIEW

The Fiscal Year Budget shows **\$17,166,800** in total revenues. Water sales, based on 3,620 AF, are estimated to generate \$7,768,000 (45.3% of total revenue). Total operating expenses of **\$15,133,600** are comprised of operating expenses for both the Joint Power Agencies (JPA) and Montecito Water District (MWD), as well as drought related expenditures. Total operating expenses are approximately 1.5% lower than the 2014/15 adjusted budget.

Total **Debt Service** related to the 2004 DWR Ortega Loan and the 2010A Revenue Refunding Certificates of Participation is projected at **\$1,280,900**.

**Total Capital Expenditures and JPA Commitments** of **\$2,336,800** are proposed for needed MWD and JPA system improvements and replacements. Capital expenditures include equipment purchases, the District's capital program, and payment of the District's share of funding for JPA project obligations.

**A Budget Deficit** of **\$1,584,500** is estimated after debt service and capital expenditures prior to appropriations from reserves. As a result, nearly all capital expenditures are funded through reserves, even with the 7.4% increase to rates and charges.



## **REVENUE DISCUSSION**

**Operating Revenues** are required to procure, deliver and maintain infrastructure for providing continuous, reliable water service to its customers.

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. As a result of water allocations under Ordinance No. 93, the District is projecting that 68% 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 penalties are estimated to comprise 11.7% 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.

Additionally, on March 24, 2015 the Board passed 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. In an effort to be conservative, water sales for FY 2015/16 were adjusted for the increase in allocation allowed, under Ordinance No. 94, for the following classifications (only): Agriculture, Commercial and Institutional. Water sales for Single Family Residential and Multi-Family Residential were estimated based on FY 2014/15 actual results.



Details of the revenue sources are described in Table 4 and Chart 2 which follow.

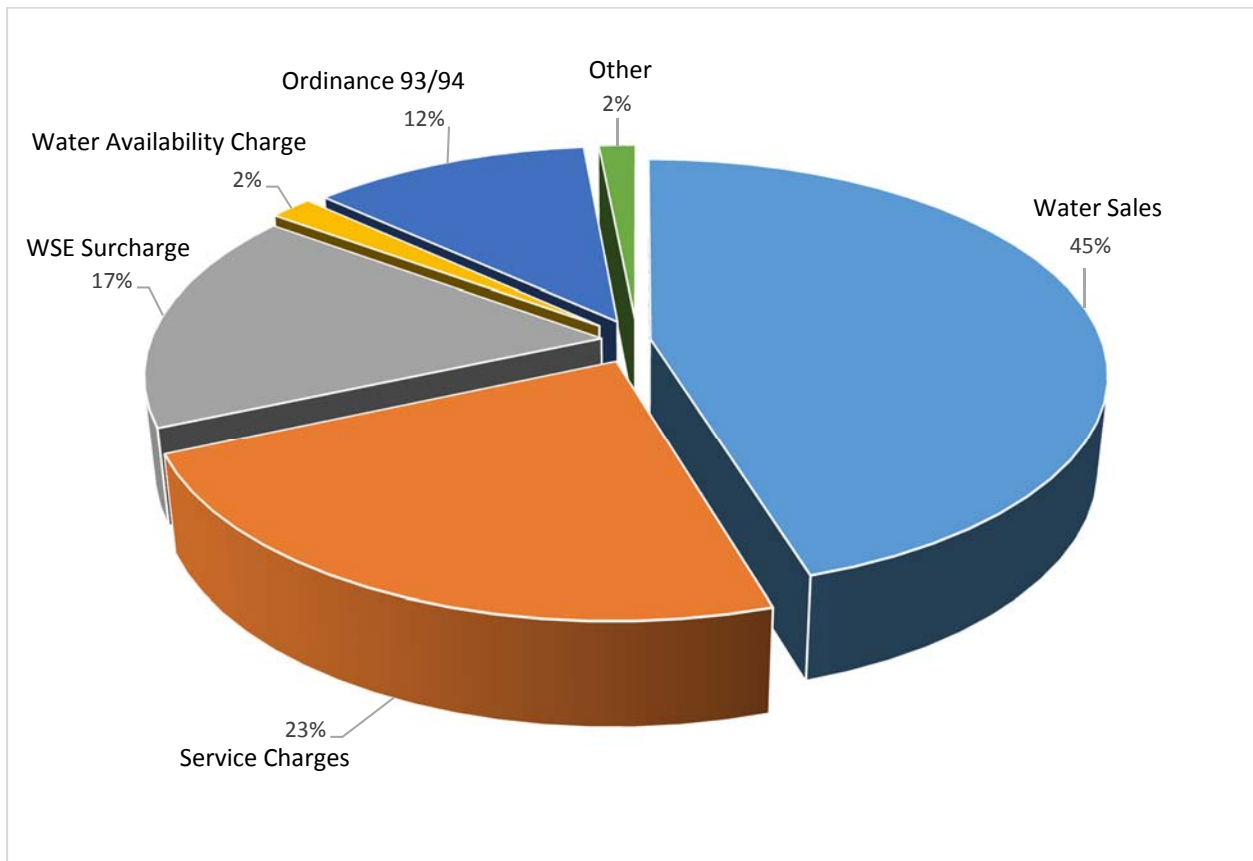
**Table 4  
Operating Revenues**

REVENUES	FY 2014/15 BUDGET	FY 2014/15 PROJECTED	FY 2015/16 PROPOSED BUDGET
WATER SALES <sup>1</sup>	7,550,100	6,797,400	7,768,000
WSE SURCHARGE	0	760,400	2,854,700
ORDINANCE 93/94 PENALTIES	3,675,100	3,398,700	2,000,000
SERVICE CHARGES <sup>1</sup>	3,860,900	3,682,000	3,974,600
WATER AVAILABILITY CHARGE	310,500	307,000	307,000
PRIVATE FIRE HYDRANT	60,800	62,600	62,100
LATE CHARGES	56,000	42,800	38,100
SERVICE CONNECTION FEES	8,700	18,200	19,000
CAPITAL COST RECOVERY FEES	37,900	52,200	23,300
INTEREST REVENUE - GENERAL	27,600	27,500	25,000
OTHER REVENUE (LOSS)	56,000	69,900	70,000
REIMBURSEMENTS	0	25,000	25,000
<b>TOTAL REVENUES</b>	<b>15,643,600</b>	<b>15,243,700</b>	<b>17,166,800</b>

<sup>1</sup>Includes 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 2**  
**FY 2015/16 BUDGETED REVENUES**





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**Water Sales** **\$7,768,000**

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The budgeted water sales of \$7,768,000 is based on a projected consumption of 3,620 AF of water. The budgeted amount of water sales is 14.3% higher than that received in FY 14/15 which is attributed to an annual rate increase of 7.4% starting with the July billing period, as well as, an increase in water allocation under Ordinance No. 94.

Estimated water sales by classification are shown in Table 5:

**TABLE 5**  
**Water Sales by Classification**

<b>Classification</b>	<b>Sales (\$)</b>	<b>AF</b>	<b>% of Sales</b>
Single-Family Residential	\$5,324,500	2,342	69%
Multi-Family Residential	177,100	82	2%
Institutional	925,600	385	12%
Commercial	754,000	301	10%
Agriculture	511,700	396	7%
Non-Potable	75,100	115	1%
<b>Total</b>	<b>\$7,768,000</b>	<b>3,620</b>	<b>100%</b>

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**Water Shortage Emergency Surcharge** **\$2,854,700**

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After a noticed public hearing, the District passed Resolution No. 2124 on March 24, 2015 establishing a temporary Water Shortage Emergency Surcharge. The initial surcharge was set at \$1.87/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.

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**Ordinance 94 Penalties** **\$2,000,000**

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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 1<sup>st</sup> to September 30<sup>th</sup> 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 \$3,974,600**

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. This revenue source accounts for about 23% of total revenues. In accordance with the American Water Works Association (AWWA) and the State of California urban water best management practice (BMP 1.4), service charges are normally set to account for about 30% of total revenues. Due to varying water sales on an annual basis, there may be some years in the next five-year planning period where service charges make up nearly 30% of revenues.

**TABLE 6  
Service Charge Revenue**

METER SIZE	TOTAL METERS	MONTHLY CHARGE	TOTAL CHARGES
3/4"	2,244	\$41.52	\$1,118,000
1"	1,585	\$69.22	\$1,316,500
1-1/2"	516	\$124.57	\$771,200
2"	229	\$221.45	\$608,500
3"	15	\$498.27	\$90,700
4"	2	\$830.45	\$19,900
6"	3	\$1,384.08	\$49,800
Total	<b>4,594</b>		<b>\$3,974,600</b>

**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 2015/16 are for those meters that were approved under the District's Certificate of Water Service Availability process prior to the Ordinance 93 moratorium.



**Water Availability Charge \$307,000**

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 will be continued for its twentieth year at the current rate. 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 August 4, 2015.

**Interest Revenue \$25,000**

Due to lower reserves, estimated interest revenues of \$25,000 are \$2,500 lower than those received in the FY 2014/15. The Budget assumes that investment income interest rates will average .27 percent based on the current interest rate environment. Interest earned in the DWR reserve account for the Ortega Loan is also included.

**Other Revenue \$70,000**

Other Revenues includes the following items:

Picay Hydroelectric Plant	\$17,000
Rent Revenue	38,000
Miscellaneous	<u>15,000</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.





**Other Revenue – Cont'd**

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- Rent Revenue: \$38,000  
Revenues from rent include the two rental properties available to qualified employees and have increased by .74% (applying the CPI calculated adjustment) and receipts from the cellular site at the District's Bella Vista Treatment Plant.
- Miscellaneous Income: \$15,000  
Miscellaneous income includes returned check fees, sales of recycled metals and any other miscellaneous revenue.

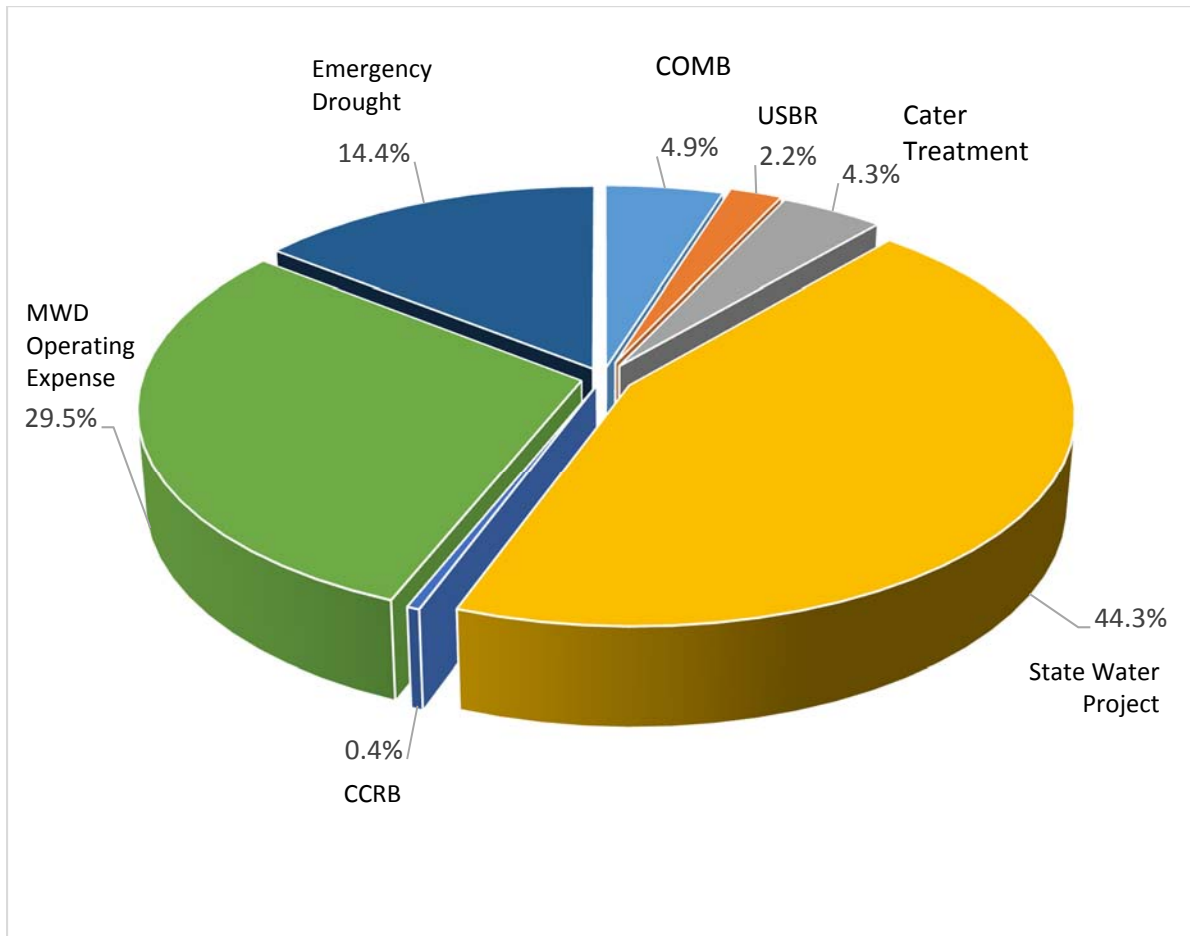


**OPERATING EXPENSE DISCUSSION**

**Total Operating Expenses** for the various departments and categories are summarized in Table 7. 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 15/16 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 3**

**FY 2015/16 OPERATING EXPENSES**





As shown in Chart 3, State Water Project JPA expenses comprise 44.3% 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.

29.5% of the District's total operating expenses include administrative, engineering and the costs of operating the District's treatment, production and distribution system. 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 as shown in Table 7, represent 14.4% 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.

For FY 2015/16, the District does not anticipate any additional supplemental water to be purchased from the State Water Project.



**Table 7  
Operating Expenses**

<b>OPERATING EXPENSES</b>	<b>FY 2014/15 BUDGET</b>	<b>FY 2014/15 PROJECTED</b>	<b>FY 2015/16 PROPOSED BUDGET</b>
<b>JOINT POWER AGENCIES</b>			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	396,300	396,300	739,600
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	183,200	62,300	62,300
US BUREAU OF RECLAMATION (USBR)	331,600	288,900	330,000
CATER WATER TREATMENT PLANT	757,300	617,100	649,600
STATE WATER PROJECT (SWP) - FIXED	5,354,565	4,997,700	5,329,300
STATE WATER PROJECT (SWP) - VARIABLE	630,200	1,420,600	1,378,700
<b>SUBTOTAL JPA OBLIGATIONS</b>	<b>7,653,165</b>	<b>7,782,900</b>	<b>8,489,500</b>
<b>MONTECITO WATER DISTRICT</b>			
JAMESON LAKE	120,500	109,500	110,900
PUMPING O&M	291,500	268,500	273,500
TREATMENT O&M	764,700	708,500	723,700
TRANSMISSION & DISTRIBUTION	682,400	729,700	747,300
VALVES & REGULATORS	202,700	140,600	143,100
FIRE HYDRANTS	23,600	6,100	6,200
METERS	141,400	149,100	151,400
ROADS	8,900	88,400	45,300
RESERVOIRS	64,100	32,000	32,600
WELLS	167,100	179,300	182,200
CUSTOMER SRV & METER READING	315,500	355,300	360,600
FLEET & EQUIPMENT	128,700	121,700	122,400
ENGINEERING	229,200	278,300	279,600
LEGAL - GENERAL	102,000	168,500	150,000
LEGAL - SPECIAL	312,000	135,000	175,000
ADMINISTRATIVE & GENERAL	1,540,800	933,200	959,700
<b>TOTAL MWD OPERATING EXPENSES</b>	<b>5,095,100</b>	<b>4,403,700</b>	<b>4,463,500</b>



## **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 2015/16, State Water comprises nearly 79% of the District's total JPA operating expenses and 44% 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) 739,600**

This is the District's estimated share of COMB's 2015/16 FY budget. The District's costs include \$739,600 for its 11.45% share of COMB's operating costs include the management of the South Coast Conduit and fish passage projects. Please note that COMB has obtained a line of credit for the Emergency Pump Facility Project from the Bank of Santa Barbara with MWD's share of \$576,000. MWD will pay interest only in the amount of \$18,000 for FY 2015/16. This line of credit will be converted to a five year loan with monthly interest and principal payments.

### **Cachuma Conservation and Release Board \$62,300**

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) \$330,000**

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 2015/16 Water Year. USBR does not



release the cost per AF of Cachuma Water until October 1 of each year. In addition to the purchase of the District's annual full allocation, the District also pays the USBR annual Safety of Dam expense of \$20,668 and other miscellaneous charges in the amount of \$20,775.

**State Water Project: Fixed Cost Component \$5,329,300**

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 2015/16 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 \$1,378,300**

CCWA variable costs include the retreatment of exchange and delivery of State Water into Lake Cachuma. For FY 2015/16, the cost for exchange water is \$161.49/AF which is 3.7% higher than cost paid in 2014/15 FY. The delivery cost of State Water to Lake Cachuma is \$318.27 compared to 342.11/AF in FY 2014/15.

**MWD OPERATING EXPENSES**

MWD internal operating expenses comprise about 29.5% 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 \$110,900**

Operations & Maintenance expenses includes supplies, contracting services and labor for the District's Jameson Lake and Doulton Tunnel facilities.



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**Pumping** **\$273,500**

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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** **\$723,700**

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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.

**Transmission and Distribution O & M** **\$1,125,900**

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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	\$747,300
Valves & Regulators	143,100
Fire Hydrants	6,200
Meters	151,400
Roads	45,300
Reservoirs	<u>32,600</u>
Total	\$1,125,900

**Wells** **\$182,200**

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This item includes the cost of operating and maintaining the District's groundwater wells and consists of labor, supplies, and electricity.

**Customer Service & Meter Reading** **\$360,600**

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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.



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**Fleet & Equipment** **\$122,400**

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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.

**Engineering** **\$279,600**

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There is an ongoing need for water system infrastructure repairs, replacement and improvements in our 92-year-old District. These are overseen by the engineering department. This line item includes salaries and supplies for ongoing operations oversight and planning.

**Legal – General Costs** **\$150,000**

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This reflects the cost for ongoing general legal services.

**Legal – Special Costs** **\$175,000**

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This reflects costs for special ongoing litigation.

**General & Administrative** **\$959,700**

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Highlights of the G&A costs include the following:

- CALPERS, the District's employee retirement plan 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 2.48%.
- A salary change of 2.48% is applied to employee wages and salaries, except the General Manager.
- Legal expenses are projected to be 7% higher than FY 2014/15 due to ongoing litigation matters that are expected to continue into FY 2015/16.
- Audit expense is \$25,000 and is based on the auditor's three year proposal.
- \$20,000 allocated to Website design to enhance the District's website functionality for improved community outreach.





- Post-Employment benefits are the estimated health insurance premiums paid on behalf of retired District employees. \$13,000 has been estimated based on the actual premiums paid for currently retired employees who qualify for the benefit.

**Drought Related Expenses \$2,180,600**

Includes costs for the purchase of supplemental water, public outreach, legal services and operation of the allocation program under Ordinance 94. FY 2015/16 also includes consultant costs related to the development a desalinated water supply, as well as, a pilot sub sea floor test drain project. These costs are offset by Ordinance 94 penalty revenue of \$2,000,000.

Drought related expenses includes the following:

Conservation Program	\$56,600
Legal	60,000
Allocation Program Costs	240,000
Public Outreach	90,000
Emergency Desal Water Supply	1,734,000
Supplemental Water Purchases	<u>0</u>
	\$2,180,600

**Conservation Program: \$56,600**

These are the costs associated with the District's commitment to its ongoing customer water conservation programs. Costs related to this program are expected to remain consistent with FY 2014/15 activity.

**Legal: \$60,000**

This reflects costs for ongoing drought related legal services.

**Allocation Program Costs: \$240,000**

Staff overtime and other miscellaneous costs associated with drought conditions.



**Public Outreach: \$90,000**

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

**Emergency Desal Water Supply \$1,734,000**

Includes consultant costs related to the development a desalinated water supply, as well as, a pilot sub sea floor test drain project.

**Supplemental Water Purchase: \$0**

With continuing statewide drought conditions anticipated for the 15/16 FY, MWD does not expect the availability of supplemental water supplies for purchase.



**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 8.

**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 8 below. Interest and principal payments for all debt are included in the budget in accordance with actual amortization schedules. Debt Service comprises approximately 10% of the District's total proposed budget expenditures, not including capital expenditures.

**Table 8  
Debt Service**

<b>Debt Service</b>	<b>Interest</b>	<b>Principal</b>	<b>Reserves</b>	<b>Total</b>
2003 Ortega Cover Loan	\$ 181,930	\$ 408,489	\$ -	\$ 590,419
2010A Rev Refunding COPs	690,463	-	-	690,463
<b>Total Debt Service</b>	<b>\$ 872,393</b>	<b>\$ 408,489</b>	<b>\$ -</b>	<b>\$ 1,280,882</b>
Reserve Fund for Ortega Loan	\$ -	\$ -	\$ 63,600	\$ 63,600
<b>Bonds &amp; Loans Balances</b>	<b>Maturity</b>	<b>Original Amount</b>	<b>Balance as of 6/30/2015</b>	<b>Interest Rate</b>
2003 Ortega Cover Loan	2030	\$ 9,236,658	\$ 7,340,471	2.5132%
2010A Rev Refunding COPs	2030	\$ 13,360,000	\$ 13,360,000	5.2500%
<b>TOTAL DEBT SERVICE</b>		<b>\$ 22,596,658</b>	<b>\$ 20,700,471</b>	



## **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 (BDGP) 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 \$2,336,800 is budgeted for Equipment, MWD Capital Expenditures and the District's portion of JPA obligations.

**Table 9  
Total MWD Capital Expenditures and JPA Obligations**

<b>CAPITAL EXPENDITURES</b>	
EQUIPMENT	\$ 39,600
MWD SYSTEM PROJECTS	1,738,000
<b>TOTAL MWD CAPITAL EXPENDITURES</b>	<b>\$ 1,777,600</b>
<b>OTHER JPA COMMITMENTS</b>	
CATER/CA DRINKING WATER STATE REVOLVING FUND	\$ 225,400
CATER ONGOING CAPITAL PROGRAM	133,200
CATER OZONE PROJECT LOAN (PRIN / INT)	73,500
COMB EPF LOAN (INT ONLY)	13,500
ORTEGA DWR LOAN - RESERVE (2004)	63,600
ORTEGA RESERVOIR REPAIRS/STUDIES	50,000
<b>TOTAL OTHER JPA COMMITMENTS</b>	<b>\$ 559,200</b>

**MWD Capital Replacement and Improvement Program**

The MWD Capital Replacement and Improvement Program includes those components described in Table 10. Nearly 67% of the capital improvement and replacement program budget is dedicated to pipeline replacements. Over 23 miles of the District's aging pipelines date back to the 1920s. These 90-plus-year-old pipelines are nearing the end of their expected service life.



**Table 10  
MWD Capital Replacements and Improvements**

PROJECT		2014/15 CARRYOVER	2015/16 REQUESTS	TOTAL BUDGET
<b>GENERAL WATER SYSTEM IMPROVEMENT PROJECTS</b>				
1	Customer Meter Replacement Project (1-1/2")	\$ 363,742	\$ -	\$ 363,742
2	GIS System	-	15,000	15,000
3	UWMP Update	45,000	-	45,000
<b>JAMESON LAKE/JUNCAL DAM IMPROVEMENT PROJECTS</b>				
4	Juncal Dam Expanded Deflection Survey	5,000	-	5,000
5	Jameson Lake Storage Recovery Project - Plans	-	35,000	35,000
<b>DISTRIBUTION SYSTEM IMPROVEMENT PROJECTS</b>				
6	Sycamore Canyon Road Main Replacement Project	928,470	-	928,470
7	Fernald Point Bridge Water Main Relocation	39,380	-	39,380
8	Picacho Lane PRV Relocation and Water Main Abandonment	31,600	-	31,600
9	San Ysidro Main Replacement		200,000	200,000
<b>STORAGE FACILITY IMPROVEMENT PROJECTS</b>				
10	Evaluation of District Storage Reservoirs - Planning	-	35,000	35,000
<b>WELL IMPROVEMENT PROJECTS</b>				
11	Office Well Project	-	40,000	40,000
<b>TOTAL CAPITAL IMPROVEMENTS</b>		<b>\$ 1,413,192</b>	<b>\$ 325,000</b>	<b>\$ 1,738,192</b>

**General System Improvement Projects**

1. **Customer Meter Replacement Project** - The customer meter replacement program is a carryover from FY 2014/15. District staff have been evaluating meter manufacturers to select a long term replacement meter for recently discontinued models. For FY 15/16, the intent is to replace the 1 -1/2" customer water meters, of which there are approximately 515 meters.



2. **GIS System Update** - The GIS project is a significant effort using a qualified consultant to complete 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 2015/16 includes an additional scope of work for updating and ongoing maintenance of the various databases that comprise this system.

3. **UWMP Update** - This project is a carryover from 2014/15 by which the District will update its Urban Water Management Plan.

### **Jameson Lake / Juncal Dam Improvement Projects**

4. **Juncal Dam Expanded Deflection Survey** - The District contracts with a licensed land surveyor to survey all three sections of Juncal Dam to monitor dam deflection/deformation and to gauge the performance of this structure. This information is required by the State Division of Dam Safety.

5. **Jameson Lake Storage Recovery Project** – This project is in its initial stages of design development. The project will start with defined field mapping of the property lines that define the District’s property. Following the mapping stage, a grading plan will be developed with the intent of implementing a recovery of storage at the lake that has been lost over the years. Accumulated sediment would be transported by conventional grading equipment and relocated on District property.

### **Distribution System Improvement Projects**

6. **Sycamore Canyon Road Main Replacement** - The replacement and up-sizing of this 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. This pipeline has been determined to be deficient in capacity and is the primary pipeline conveying water from the Terminal Reservoir water storage zone.

7. **Fernald Point Bridge Water Main Relocation** - 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 unknown at this time.





**8. Picacho Lane PRV Relocation and Water Main Abandonment** - This project will abandon in place 435-ft of failing 2-inch galvanized pipe that has 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 to the existing 8-inch ductile iron water main.

**9. San Ysidro Main Replacement** – This project will replace a section of 90 year old, cast iron water main located on San Ysidro Road. The proposed project will connect to a 10-inch water main that was installed in 1971 extending north from a point just south of intersection with East Valley Road. From there, about 910 linear feet of pipe will be installed southerly to School House Road, replacing the existing main.

### **Storage Facility Improvement Projects**

**10. Evaluation of District Storage Reservoirs** –The next step in the long term process of upgrading the District storage reservoirs will be the development of a specific project design. This will entail the engagement of a consultant to produce plans and specifications for bidding purposes.

### **Well Improvement Projects**

**11. Office Well Project** – An existing well, located at the office on San Ysidro road will be cleaned and inspected to ascertain the availability of a supply of water from the well. The well will be pump tested and the water quality will be analyzed for its use with or without further treatment. If the well provides adequate supplies, a pump will be installed and as well as the piping needed to connect to the distribution system.

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 11  
MWD Capital Projects Funding Sources**

Total Capital Projects	(\$1,738,192)
WAC	\$307,000
Unfunded Balance (to be paid by District reserves)	(\$1,431,192)

**Equipment**

As shown in Table 12, planned equipment purchases from operating revenues are estimated at \$39,600. Equipment purchases and repair include upgrades to equipment to comply with California Air Resources Board regulations, 10-Year planned maintenance for both plants and other equipment items as noted.

**Table 12  
Equipment Purchases – 2015/16 Fiscal Year**

1	Hypchlorite Generator Salt Tank Upgrade	\$ 13,700
2	Reclaim Maintenance Trailer	8,400
3	Generator ATS Improvements	11,000
4	ArcFlash Analysis	6,500
<b>Total Equipment Purchases</b>		<b>\$ 39,600</b>

- Hypochlorite Generator Salt Tank Upgrade** - This budget item will allow for the storage and direct filling of bulk solar salt purchases at the Bella Vista Plant without the need for special equipment or staff assistance.
- Reclaim Maintenance Trailer** – This budget item will include the purchase of a 500 gallon trailer to transport hazardous water collection from the Doulton



Treatment Plant to an approved collection facility. The cost to use an outside vendor is approximately (\$4300-\$7700) and can vary depending on the location of the transport. The District expects to recoup its cost within two years.

3. **Generator ATS Improvements** – To replace/upgrade an aging Ortega Pump Station fire pump to provide effective support during power outages with the reservoir off line
4. **ArcFlash Analysis** - JPIA and OSHA are requiring the District to do electrical panel analysis throughout the District. Training is required for the Control System Technician to properly fulfill these requirements. A certified contractor will be brought in to complete one location and provide training for the additional locations.

**JPA Commitments**

Table 13 recaps JPA obligations in the amount of \$559,200 related to various JPA projects and obligations.

**Table 13  
JPA Commitments**

Description	FY 2015/16
Cater/CA Drinking Water State Revolving Fund	\$ 225,400
Cater Ongoing Capital Program	133,200
Cater Ozone Project	73,500
COMB Emergency Pump Facility	13,500
Ortega Loan Reserve Obligation	63,600
Ortega Reservoir Repairs/Studies	50,000
<b>Total JPA Commitments</b>	<b>\$ 559,200</b>

**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 estimated \$20.7 million project cost is approximately \$4 million. The District is reporting this annual cost over a 20 year period as a capital expenditure. The City of Santa Barbara will invoice the District on an annual basis for its share of costs similar to the ongoing Cater capital improvement program payment discussed above.

### **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.

### **Ortega Reservoir**

Due to continuing work on the construction defects discovered following the completion of the Ortega Reservoir Cover Project in 2008, there will be funding of \$50,000 for further interim temporary repairs, studies and reports.



## RESERVES

As of June 30, 2015, the District held a total \$8,465,038 cash and investments in various financial institutions. Required Debt Reserves of \$3,108,465 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 \$5,356,573 is available for District use.

**Table 14**  
**Required Debt Reserves**

DWR Contract - Ortega Reservoir Cover	\$569,787
CCWA Rate Coverage Reserve	1,091,658
2010A COP Reserves	1,447,020
<b>Required Debt Reserves</b>	<b>\$3,108,465</b>

### **Available Reserves**

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

**Table 15**  
**Available Reserves at June 30, 2015**

Business Bank Accounts <sup>1</sup>	\$412,512
LAIF Investments	4,796,094
CCWA Credit Fund	147,968
<b>Available Reserves</b>	<b>\$5,356,573</b>

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 6/30/15)**

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.

**Table 16  
Reserve Roll Forward  
FY 2014/15**

Reserves	Beginning Balance 07/01/14	Reserve Transfers In/Out	Addition	Deduction	Ending Balance 6/30/2015
Rate Stabilization <sup>(1)</sup>	\$1,135,238	(\$596,045)	\$0	\$0	\$539,193
Emergency/Contingency <sup>(2)</sup>	1,000,000	(718,655)	0	0	281,345
Ortega Reservoir Repairs	1,164,649	0	0	0	1,164,649
Capital Program <sup>(3), (4), (5)</sup>	560,328	1,718,655	308,401	(1,210,593)	1,376,791
Operating & Maintenance <sup>(6), (7)</sup>	2,995,119	0	11,548,966	(12,685,975)	1,858,110
Supplemental Water Purchase <sup>(8), (9), (10)</sup>	0	(403,955)	3,402,310	(2,861,870)	136,485
<b>Reserves</b>	<b>\$6,855,334</b>	<b>\$0</b>	<b>\$15,259,677</b>	<b>(\$16,758,438)</b>	<b>\$5,356,573</b>

**1. Rate Stabilization Reserve (Transfer In/Out)** - Includes a repayment in the amount of \$403,955 that was transferred out during FY 13-14 and into the Supplemental Water Purchase Reserve for: (1) the purchase of additional supplemental water, and (2) pay for extraordinary drought related expenses. This amount was offset by a transfer out, in the amount of \$1M, to fund the FY 14/15 Capital Program.

**2. Emergency/Contingency Reserve (Transfer In/Out)** - Includes a transfer out, in the amount of \$718,655, to fund the FY 14/15 Capital funding program.

**3. Capital Program Reserve (Transfer In/Out)** - Includes a transfer in from the Emergency/Contingency Reserve Account, in the amount \$718,655, and also from the Rate Stabilization Reserve, in the amount of \$1M, to fund the FY 14/15 Capital Program.

**4. Capital Program Reserve (Revenue)** - Includes revenue collected under the Water Availability Charge program.

**5. Capital Program Reserve (Expense)** - Includes outflow related to MWD Capital Projects in the amount of \$766,480 and Other JPA Commitments in the amount of \$444,113 that occurred during FY 14/15.

**6. Operating & Maintenance (Revenue)** - This amount represents total revenue for FY 2014/15 less revenue collected from the Water Availability Charge and from Ordinance 93/94 Penalty revenue.

**7. Operating & Maintenance (Expense)** - This amount represents the total expenses for FY 2014/15 less Drought Related expenses, MWD Capital Expenditures and Other JPA Commitments.

**8. Supplemental Water Purchase (Transfers In/Out)** - The transfer out, in the amount of \$403,955, represents a repayment to the Rate Stabilization Reserve account that occurred during FY 2013/14 to cover the purchase of additional supplemental water and to pay for extraordinary drought related expenses.

**9. Supplemental Water Purchase (Revenue)** - Represents inflow related to Ordinance 93/94 Penalty Revenue.

**10. Supplemental Water Purchase (Expenses)** - Represents outflow related to the purchase of additional supplemental water and to pay for extraordinary drought related expenses.





The following provides a description of the Board Designated Reserve Funds at June 30, 2015.

**Rate Stabilization Reserve \$539,193**

The Five Year Financial Plan prepared by Black and Veatch indicates that the District should create and maintain a reserve fund of \$1,700,000 identified specifically as a buffer for variations in water sales revenues.

**Emergency/Contingency Reserve \$281,345**

\$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. The District received a \$1,450,000 litigation settlement in June, 2010. 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 \$1,376,791**

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 \$1,858,110**

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 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.



## Summary

The District's available operating reserve balances remained steady over the past few years and are projected to decrease due to the water shortage emergency which has led to declining water sales and extra-ordinary expenses.