MONTECITO WATER DISTRICT

FISCAL YEAR 2019/20 BUDGET

Adopted: June 25, 2019

OUR MISSION

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.

MONTECITO WATER DISTRICT

Board of Directors

Floyd Wicks, President

Tobe Plough, Vice President

Brian Goebel

Cori Hayman

Ken Coates

This budget was prepared under the direction of:

General Manager/Board Secretary

Nicholas Turner

Staff Contributors

Daryl Smith, Business Manager

Adam Kanold, Engineering Manager

Chad Hurshman, Treatment Superintendent

Danny Rodriguez, Distribution Superintendent

Marla Perez, Financial Analyst

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EXECUTIVE SUMMARY

The financial projections in this document describe the annual fiscal year (FY) budget beginning July 1, 2019 and ending June 30, 2020. This budget is a foundational financial document that projects revenues and expenditures including capital improvements and debt service for the upcoming fiscal year. It represents a short-term financial plan consistent with Montecito Water District's (District) combined *Five Year Financial Plan*, *Cost of Service Analysis and Updated Rate* Structure that was adopted in August 2013*,* the *5-Year Capital Improvement Program* dated December 2012 and the 2015 *Urban Water Management Plan Update* that was adopted in May 2017.

This FY 2019/20 budget forecasts $20.52M in Revenue, $17.48M in Operational Expenditures, $2.15M in Debt Service (non-operating) and $2,332,850 in Capital Improvements. The total net cash impact is forecasted to be a $0.19M deficit which include $1.26M of carryover expenses from FY 2018/19. Table 3 provides a summary of the FY 2019/20 budget including FY 2018/19 forecasted actuals.

Highlights from the FY 2019/20 budget include:

1. Water sales projected to increase by approximately 5.6% over FY 2018/19 to 3,900 acre feet; Customer Demands are projected to be in full compliance with Senate Bill X7-7.
2. The average unit cost of water paid by customers remains the same as prior year;
3. District Ordinance 96 was adopted establishing updated water use restrictions including permitting the issuance of new water meters;
4. Water Shortage Emergency (WSE) surcharge remains in place. A declared Stage 1 Water Shortage Emergency continues, as water supplies have not fully recovered from the 7-year historic drought; The rate study, currently underway will consider the current level of water sales and will therefore obviate the need for a water shortage emergency surcharge once new rates are adopted by the Board;
5. Joint Powers Agency (JPA) related expenses are projected to increase by 7.3% primarily as a result of the increased State Water Project costs;
6. District expenses are projected to increase by approximately 4.0% primarily as a result of the District's recent water supply reliability initiatives such as groundwater banking, Sustainable Groundwater Management Act Compliance and recycled water development, and increased regulatory requirements;
7. Continued emphasis is placed on the replacement of aging infrastructure including 1920s pipelines. The budget includes $1.98M in capital improvement projects and $0.35M in equipment purchases.
8. FY 2019/20 budget is projecting a net cash deficit of $0.19M, of which $1.1M is carryover from FY2018/19;
9. Reserves remain at $8.87M. This includes $3.47M in debt reserves and $5.40M in Board-designated reserves in compliance with District's Reserve Policy adopted on December 18, 2018.

Drought Update & Water Supply Outlook

This past winter brought above average rainfall across the State, including in Santa Barbara County, filling reservoirs and resulting in the State becoming nearly drought free for the first time since 2011. The District's Jameson Lake filled and spilled on February 3, 2019 and, despite the entire watershed burning in the 2017 Thomas Fire, water quality has improved. Cachuma Reservoir filled to 80% of its full storage capacity providing for a full allocation for the first time since 2014. Above average snowpack in Northern California resulted in a State Water Project (SWP) allocation for 2019 of 70%. The change in hydrologic conditions has resulted in the District projecting sufficient water supplies to meet projected demands over the 3-year planning period (thru 2021). In addition, water supply projections indicate an opportunity to store water in a regional groundwater bank, i.e. Semitropic Groundwater Banking and Exchange Program thereby bolstering the District's available water supplies during future droughts or periods of below-average rainfall.

While conditions have significantly improved, the District's water supplies have not fully recovered from the cumulative impacts of the historic seven-year drought spanning 2012 to 2018. Groundwater levels remain near historic lows and although the basin is showing signs of recovery, it is expected to take several consecutive years of above-average rainfall to fully recover. The District's reliance on supplemental water through the drought culminated in water debt, which remains to be repaid. Jameson Lake water quality remains impacted by the drought and deliveries are limited and required enhanced treatment. It is projected to take several more years of above-average rainfall for the District's water supplies to fully recover.

Recognizing the significant improvement in water supply conditions, but also the water supply challenges that remain, in April 2019 the Board continued the declared water shortage emergency pursuant to Water Code Section 350 and the District's Urban Water Management Plan 2015 Update, and reduced the declared drought stage from a Stage 2 to Stage 1 condition. D

Water Supply Reliability

Recognizing the importance of long-term water supply reliability, the District's Board of Directors is placing significant emphasis on enhancing the reliability of its water supplies in an effort to lessen the impact of future droughts on the District's ability to deliver a continuous supply of high-quality water to its customers regardless of hydrologic conditions. In 2017, the District effectuated the acquisition of regional groundwater storage in the Semitropic Groundwater Banking and Exchange Program to improve the reliability of future State Water Project deliveries. The District is complying with the Sustainable Groundwater Management Act for the Montecito Groundwater Basin to ensure this local and reliable supply is protected for the all Stakeholders. In addition, the District is considering several local, reliable and drought-proof long-term water supply partnership opportunities, including a water supply arrangement with the City of Santa Barbara and local and regional recycled water partnerships. Diversification is a key component of long-term water supply reliability.

DISTRICT OVERVIEW

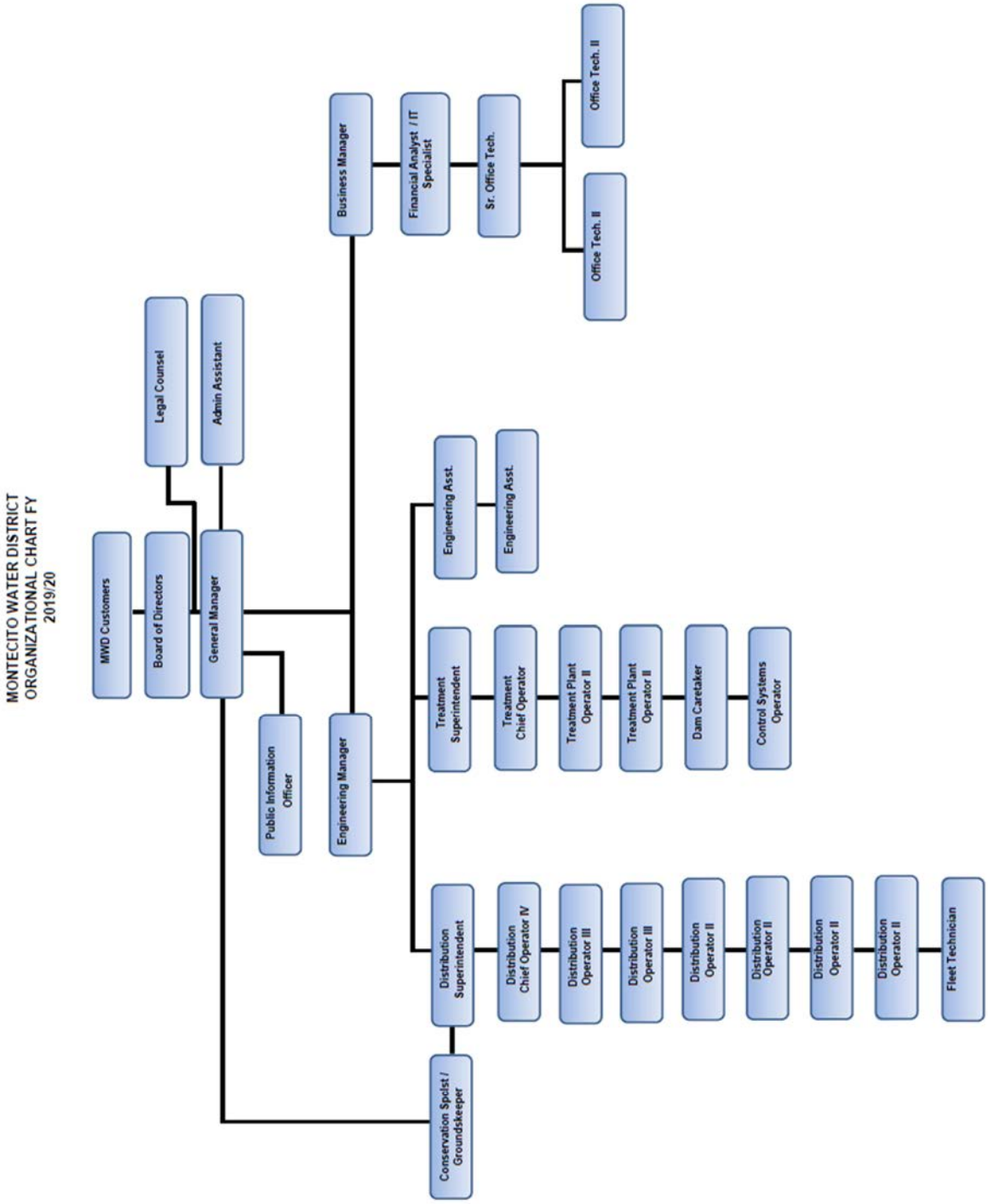
Montecito Water District (District) provides safe and reliable water supplies to approximately 11,370 residents in the Montecito and Summerland communities. The District was incorporated on November 10, 1921 as Montecito County Water District under the provisions of Chapter 387, Statutes of 1913 of the 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 its service area.

The District is governed by a five-member Board of Directors ("Board") elected by the registered voters of the District to four-year terms. The Board is responsible for setting District policy related to water supply and financial planning, infrastructure investment, water rates and the like. The current Directors and their respective terms are as follows:

Director	Term Expiration
Floyd E. Wicks, President	December 2020
Tobe Plough, Vice President	December 2020
Brian Goebel, Director	December 2022
Cori Hayman, Director	December 2022
Ken Coates, Director	December 2022

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. The General Manager oversees day-to-day operations of the different departments which include Water Treatment, Distribution, Engineering and Business. The District has a staff of 27 full time employees, including engineers, certified treatment and distribution operators, water conservation experts, finance and administrative staff. The District's organizational chart is shown in Figure 1.

Figure 1


MONTECITO WATER DISTRICT
ORGANIZATIONAL CHART FY
2019/20
MWD Customers
Board of Directors
Legal Counsel
Admin Assistant
General Manager
Public Information Officer
Business Manager
Financial Analyst / IT Specialist
Sr. Office Tech.
Office Tech. II
Office Tech. II
Engineering Manager
Engineering Asst.
Engineering Asst.
Treatment Superintendent
Treatment Chief Operator
Treatment Plant Operator II
Treatment Plant Operator II
Dam Caretaker
Control Systems Operator
Distribution Superintendent
Distribution Chief Operator IV
Distribution Operator III
Distribution Operator III
Distribution Operator II
Distribution Operator II
Distribution Operator II
Distribution Operator II
Fleet Technician
Conservation Spclst / Groundskeeper

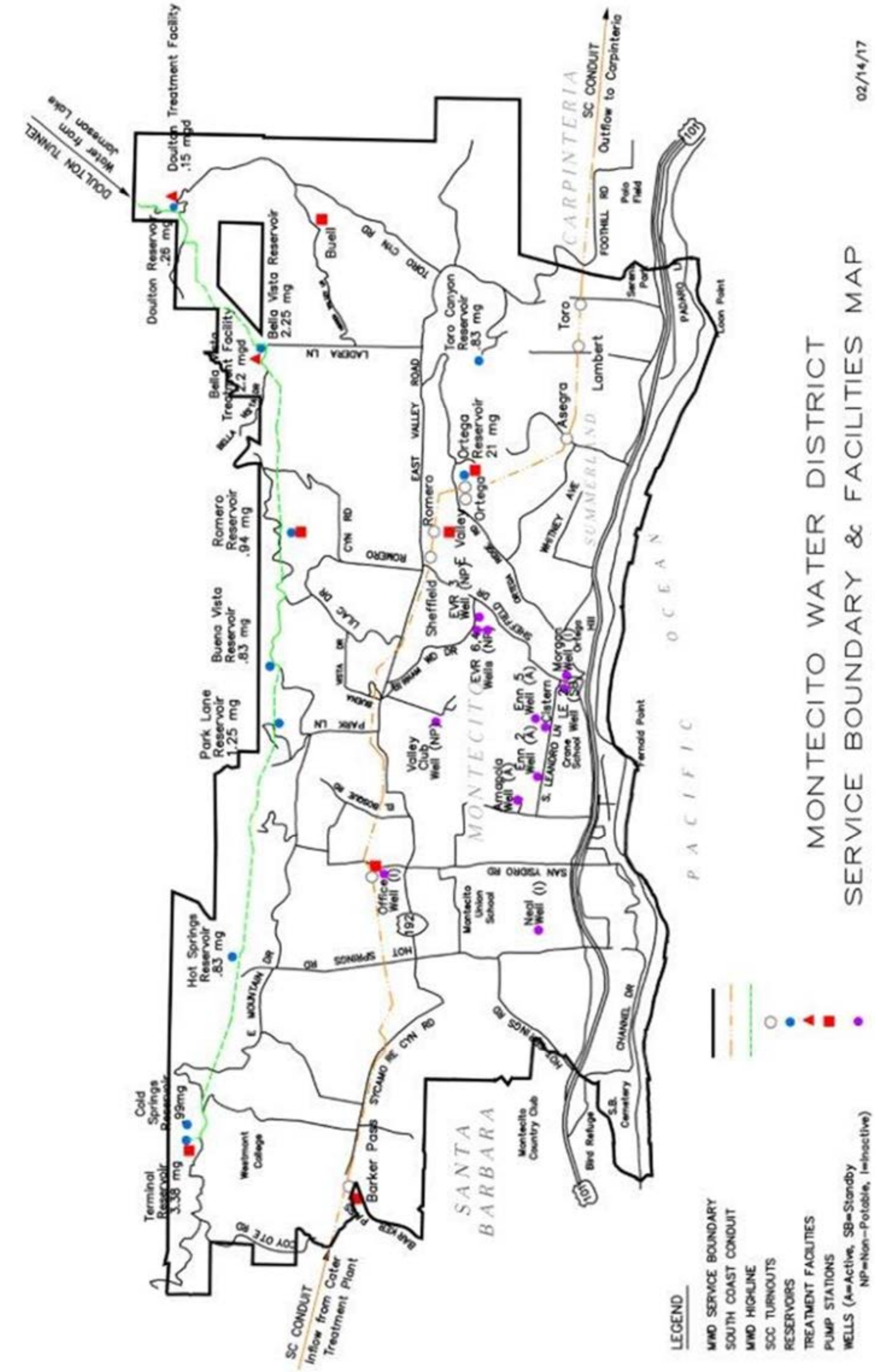
The District is located in the southern coastal portion of Santa Barbara County bounded by the Santa Ynez Mountains coastal range and the Pacific Ocean to the north and south and the City of Santa Barbara and the Carpinteria Valley to the west and east. The District includes the unincorporated communities of Montecito and Summerland, a small portion of the Carpinteria Valley on its eastern boundary and a small 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.

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 ten reservoirs with numerous pressure zones controlled by pressure regulating stations, with water delivered from Jameson Lake, Doulton Tunnel, groundwater wells and lateral turnouts along the Cachuma Project South Coast Conduit (SCC) delivering water from the Cachuma Project, the State Water Project and supplemental water.

The major activities of the District include acquisition, treatment and delivery of water from multiple sources including Jameson Lake, Cachuma Water Project, State Water Project, Doulton Tunnel and Montecito Groundwater Basin. The District also acquires supplemental water on an as-needed basis from various water agencies throughout the State. The District owns, operates and maintains two water treatment facilities, nine pump stations, a surface water reservoir (Jameson Lake) and an associated State registered dam (Juncal Dam) on the upper Santa Ynez River, and over 114 miles of pipelines, valves and pressure regulators necessary to deliver water to its customers. Treated water is delivered and sold to approx. 4,615 domestic, agricultural and commercial customers.

The District Service Area map is shown in Figure 2.

Figure 2


MONTECITO WATER DISTRICT
SERVICE BOUNDARY & FACILITIES MAP
02/14/17
LEGEND
MWD SERVICE BOUNDARY
SOUTH COAST CONDUIT
MWD HIGHLINE
SCC TURNOUTS
RESERVOIRS
TREATMENT FACILITIES
PUMP STATIONS
WELLS (A=Active, SB=Standby NP=Non-Potable, I=Inactive)
SC CONDUIT Inflow from Cater Treatment Plant
SC CONDUIT Outflow to Carpinteria
DOULTON TUNNEL Water from Jameson Lake
Doulton Treatment Facility .15 mgd
Doulton Reservoir .26 mg
Bella Vista Reservoir 2.25 mg
Toro Canyon Reservoir .83 mg
Ortega Reservoir 21 mg
Romero Reservoir .94 mg
Buena Vista Reservoir .83 mg
Park Lane Reservoir 1.25 mg
Hot Springs Reservoir .83 mg
Terminal Reservoir 3.38 mg
Barker Pass
Buell
Toro
Lambert
Asegra
Ortega
Romero
Valley
Sheffield
PACIFIC OCEAN
SANTA BARBARA
MONTECITO
SUMMERLAND
CARPINTERIA

CURRENT WATER SUPPLY

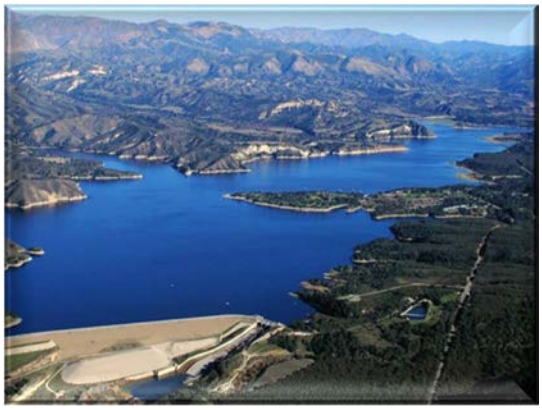
GENERAL

The District has a diverse water supply portfolio consisting of a variety of local, regional and imported water supplies. Actual water availability varies from year to year based on weather conditions, environmental, hydrological and regulatory constraints and is subject to hydraulic constraints. The State-mandated urban water use regulation outlined in Senate Bill X7-7, limits the District's maximum annual urban water use to approx. 4,800 acre feet (AF). This determination is detailed in the District's 2015 Urban Water Management Plan Update, adopted by the District in May 2017. The District's FY 2019/20 budget reflects an anticipated water production of approx. 4,440 AF, which equates to approximately 3,900 AF in sales. This projection in based on historical customer usage trends and increased water availability but is highly variable depending on many factors such as customer water use behaviors and hydrologic conditions both regionally and statewide.

LOCAL/REGIONAL SOURCES OF WATER SUPPLY

The District's local and regional water supply sources consist of Lake Cachuma, Jameson Lake, infiltration into Doulton Tunnel and groundwater. Due to above average rainfall and snowpack across the State during the 2018/19 winter, local water supplies have significantly improved but have yet to fully recover from the 7-year historic drought that plagued Santa Barbara County between 2012 and 2018. The District projects a water supply more representative of "normal" or average conditions with approx. 40% being supplied from Lake Cachuma, 25% from Jameson Lake and the remaining from a combination of SWP, groundwater and Doulton Tunnel.

Lake Cachuma received significant inflow during winter 2018/19, recovering to just above 80% of full storage capacity. The United States Bureau of Reclamation (USBR) issued a 100% Cachuma Project allocation for 2018 Water Year equating to 2,651 AF. It is anticipated, based on current lake level that a 100% allocation will be issued by USBR for the 2020 water year beginning on October 1, 2019.



Lake Cachuma - 2019

District-owned Jameson Lake received over 2,000AF of inflow during winter 2018/19, spilling the reservoir for the first time since 2011. Jameson Lake is 100% of its full storage

capacity, or 5,144 AF. Increase deliveries from Jameson Lake began in May 2019 following completion of treatment enhancements at the District's Bella Vista Treatment Plant to address increased containments in the supply following the December 2017 Thomas Fire and subsequent January 9, 2018 storm. The Thomas Fire burned the entire Jameson Lake watershed, resulting in runoff bringing an increased level of organics into the lake, requiring higher levels of treatment. During normal conditions, annual diversions from Jameson Lake are limited to a maximum of 2,000 AF as a result of the 1933 Gin Chow decision by the California Supreme Court. The operational rule curve for the reservoir recommends annual diversions of up to approximately 2,000 AF based on the current lake level. Deliveries from Jameson Lake are expected to provide approximately 1,200-1,500 AF of water in FY 2019/20.

Jameson Lake - 2019

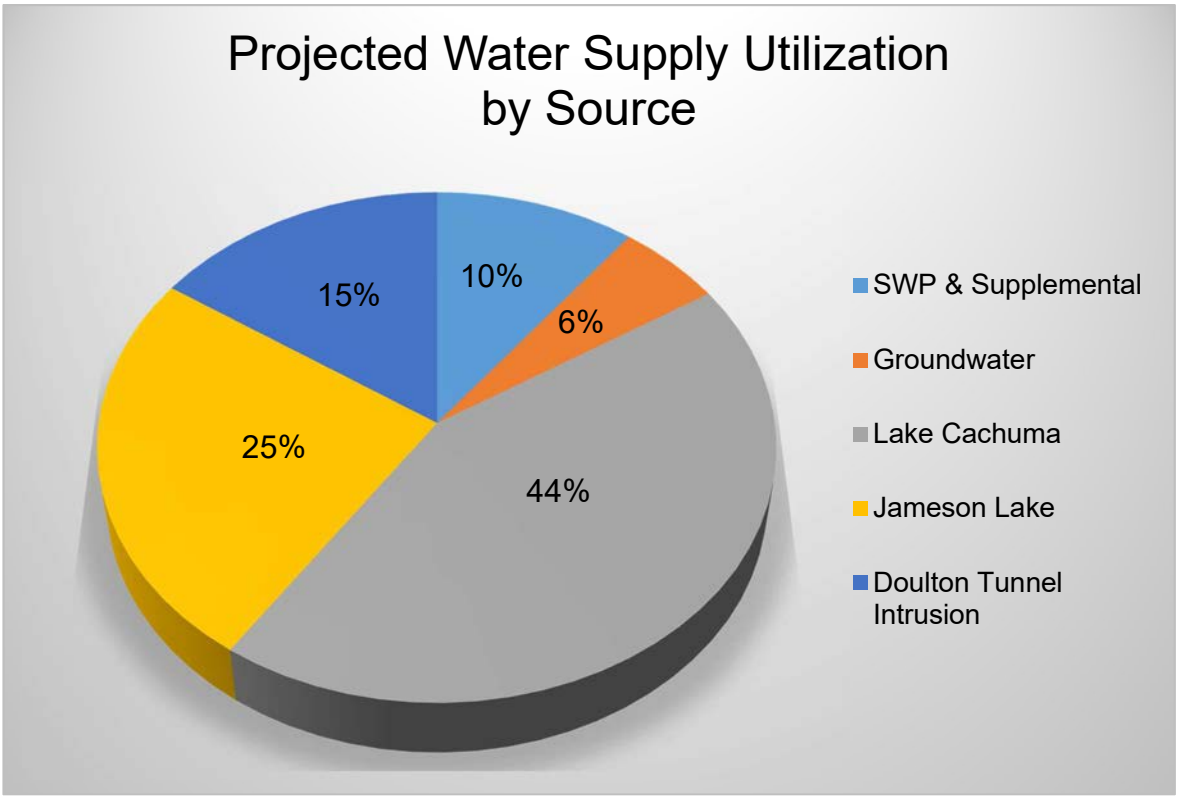
The Montecito Groundwater Basin is a locally-controlled and reliable water source for the District. Diversions from the basin make up approximately 10-15% of the District's annual water supply under normal water supply conditions. The District has a total of 12 active groundwater wells, of which 6 are potable and 6 are non-potable. The drought put a strain on the basin. Recent measurements continue to indicate signs of a slow recovery since early 2017, when groundwater was at or near record low levels. Deliveries from groundwater sources in FY 2019/20 are anticipated to be reduced to a minimum to allow for basin recharge.

IMPORTED SOURCES OF WATER SUPPLY

In addition to local and regional water supplies, the District imports Table A and Supplemental water through the State Water Project (SWP). The SWP provides the District with a supplemental water supply source which can be used to offset reductions in local and regional supplies and 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. The District's annual deliveries utilizing these facilities are limited to a combined total of approximately 3,300 AFY. Additional capacity may be available depending on other South Coast agencies' use of the pumping and transmission facilities.

The above-average rainfall and snowpack in Northern California this past winter resulted in an increase in the State Water Project (SWP) Table A allocation. The SWP Table A allocation for 2019, as determined by DWR, is 70% of annual entitlement (or 2,310 AF). The District does not project a need for supplemental water in FY 2019/20 to meet its customer's needs. But the District is considering purchasing supplemental water from another CCWA member agency to repay some or all of its current water debt (700AF).

The District projects having approximately 1,100AF of surplus water stored in San Luis Reservoir at the end of 2019, which may be at risk of spill or loss if winter weather conditions result in inflow to the reservoir. To mitigate this risk, the District is moving this water to Semitropic Water Storage District Groundwater Banking and Exchange Program for protection against future droughts. Banking surplus water during wet periods in Semitropic for use during future periods of drought will helps improve the reliability of the State Water Project. The District continues to analyze its need for additional supplemental water purchases.



WATER SALES

The FY 2019/20 budget projects water sales at 3,900 AF, a 3.1% increase over FY 2017/18 actuals and a 5.6% increase over FY 2018/19 projected sales. The total water production needed to meet this level of water sales is approximately 4,440 AF. Non-revenue water, which is calculated as the difference between total annual water supply production, less projected water sales, is estimated at 542 AF. Non-revenue water is a function of real losses (i.e. leakage, system flushing, fire related use) and apparent losses (i.e. meter inaccuracies and/or theft). With the implementation of Automated Metering Infrastructure (AMI) planned for mid FY 2019/20, the District anticipates a reduction in non-revenue water resulting from the installation of new and more accurate customer meters.

In addition to 3,900 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. This transfer typically takes place in September of each year and is an accounting involving a debit of water from the District's water in Lake Cachuma and an equivalent credit of the City's water in Lake Cachuma.

POTENTIAL SOURCES OF WATER SUPPY (NEW INITIATIVES)

The District is focusing its efforts on the development of new local and rainfall independent water supplies such as desalination and recycled water, as well as the use of groundwater storage facilities to help offset the impacts of future prolonged periods of drought.

The District continues with discussions/negotiations with the City of Santa Barbara on a long-term water supply agreement in connection with the 2017 restart of the City's Charles E. Meyer desalination facility. In January 2019, the governing bodies of both the City of Santa Barbara and the District approved the term sheet for a 50 year water supply arrangement whereby the City would make available and the District would purchase approx. 1,250 AF of water irrespective of hydrologic conditions. The parties are targeting late summer 2019 to finalize a water supply agreement. If approved, water deliveries wouldn't begin until 2021. This long term water supply agreement would significantly improve water supply reliability and security, providing a water supply that is drought proof and nearly 100% reliable.

MWD is also in discussions with Montecito Sanitary District (MSD) on the development of a recycled water project. The District completed a Recycled Water Feasibility Study in January 2019, that recommended partnering with MSD on a non-potable reuse project for irrigation of large commercial and institutional properties including two golf courses, a cemetery, and other potential end users,. The recommended project involves the installation of treatment and distribution of up to approx. 367 AF of recycled water. The District and MSD are meeting regularly (joint committee meetings) to discuss the topic.

AVAILABLE WATER SUPPLY

As of the end of FY 2018/19, the District is projected to have sufficient water supplies to meet project customer demands through 2021 under varying water supply conditions with customer conservation continuing at or above 30% and customer demand (sales) of approximately 3,900 AF per year. This supply projection is consistent with Senate Bill X7-7 requiring a 20% reduction in urban water use by 2020. Table 1 below indicates the District's available water supplies by source as of the beginning of FY 2019/20.

Table 1

AVAILABLE WATER SUPPLY (AF)

	Source	Projected Use FY2019/20 (AF)	Water Supply Available Stored (As of July 1, 2019) (AF)
1	Cachuma Project (100%)	2,300	4,300[C]
2	Jameson Lake	1,400	4,900
3	SWP Table A (75%)	0	2,200[A]
4	Supplemental Water	0	0
5	Groundwater[B]	200	55 AF/mo
6	Doulton Tunnel[B]	500	50 AF/mo
	Total	**4,400**	**13,650**

[A] Stored SWP Water to be used to comply with the SYRWCD ID1 exchange. Remaining scheduled to be placed in the Semitropic Groundwater Banking and Exchange Program and repay a portion of the District's outstanding water debt.
[B] Additional water supply produced and available for use on a monthly basis.
[C] Excludes WY2020 allocation, anticipated to be 100% or 2,651AF, issued October 1, 2019.

Certain supplemental water purchases carry a return water liability component wherein 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. Table 2 below reflects outstanding water exchange liabilities (AF) as of June 30, 2019.

Table 2

WATER EXHANGE LIABILITY

Purchase Date	Seller	Purchased (AF)	Return Liability (AF)	Amount Returned	Remaining Return Liability	Timing of Return
Mar 8, 2018	Mojave Water Agency	2,800	700	0	700	10 yrs

WATER TREATMENT / DISTRIBUTION SYSTEMS

District's potable water treatment and distribution system is comprised of two water treatment plants, Bella Vista and Doulton, nine potable water reservoirs totaling 11.56 million gallon (MG), over 114 miles of pipeline, 12 groundwater wells, and 9 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 water, is treated at the City of Santa Barbara's Cater Water Treatment Plant and subsequently delivered to the District through nine turnouts on the Cachuma Project South Coast Conduit (SCC) water transmission pipeline.

The District's Bella Vista Treatment plant is a 2.2 million gallon (MG) per day (6.7 AF per day) treatment facility that is used to treat water received from Jameson Lake and Doulton Tunnel infiltration. 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 supply conditions.

Bella Vista Treatment Plant

Doulton Treatment Plant, a secondary 0.15 MG 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 Treatment Plant. This treatment plant is used to deliver treated water to a small, isolated section of the District's upper Toro Canyon Road.

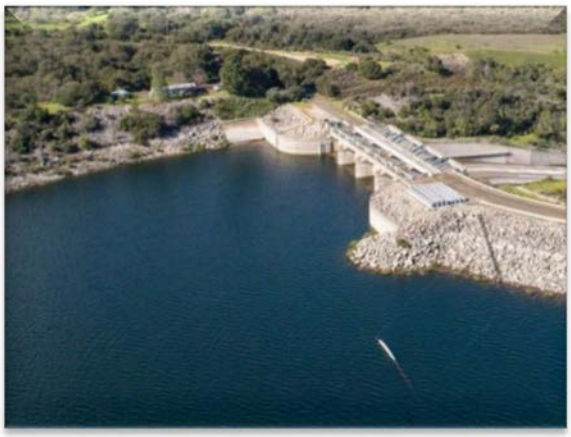
District groundwater production includes six potable groundwater wells capable of producing up to approximately 75 AF per month. Each potable groundwater well has well head treatment which includes disinfection and in some cases Iron and Manganese removal.

JOINT POWERS AGENCIES

The District is a member of four Joint Power Authorities (JPAs) for the purchase, management, treatment and delivery of water. These JPAs including the Cachuma Operations & Maintenance Board (COMB), Cachuma Conservation & Release Board (CCRB), Central Coast Water Authority (CCWA) and Cater Treatment Plant. Budget items associated with these JPAs are determined and controlled by the individual JPAs. For FY 2019/20, the District's combined JPA budgets make up approximately 55% of its total operating expenses.

Cachuma Operation and Maintenance Board (COMB)

The Cachuma Operation and Maintenance Board (COMB) is a Joint Powers Agency formed in 1956 pursuant to an agreement with the United States Bureau of Reclamation (USBR). The agreement transferred to COMB the responsibility to operate, repair and maintain all Cachuma Project facilities, except Bradbury Dam, which the USBR has continued to operate. COMB's member agencies (Cachuma Member Units) include City of Santa Barbara, Goleta Water District, Montecito Water District, Carpinteria Valley Water District, and formerly Santa Ynez River Water Conservation District-Improvement District No. 1. COMB's Board of Directors is made up of elected representatives from each of its member agencies.



Lake Cachuma - March 2019

COMB is responsible for diversion of water to the South Coast through the Tecolote Tunnel, and the operation and maintenance of the South Coast Conduit pipeline, flow control valves, meters, and instrumentation at control stations, and turnouts along the South Coast Conduit (SCC) and at four regulating reservoirs.

The District's percentage of participation for this JPA was 10.31% but has increased to 11.50% following Santa Ynez River Water Conservation District-Improvement District No. 1 separation from COMB. This 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. The budget also covers fish passage obligations in the Santa Ynez River and its tributaries located downstream of Bradbury dam at Lake Cachuma.

The JPA expense identified as US Bureau of Reclamation (USBR) in the COMB budget 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. The District entered into a separate agreement with the County to purchase water from those facilities. The agreement is to operate and maintain the Cachuma Project facilities at Lake Cachuma, including Bradbury Dam. The current Cachuma Project contract with USBR was most recently renewed in 1995, and is set to expire in 2020. The County, USBR and Cachuma Member Units have begun the process of negotiating a new contract, which is expected to take up to 1-2 years to complete.

Cachuma Conservation Release Board (CCRB)

The Cachuma Conservation Release Board (CCRB) is a Joint Powers Agency formed in January 1973 between Montecito Water District (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. In 2011, CVWD withdrew from CCRB, increasing the percentage of participation for the remaining member agencies. The District's current percentage of expenses for this JPA is 13.09%.

The withdrawal of CVWD from CCRB in 2011 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 transferred to COMB. CCRB's Board of Directors is made up of an elected representative from each of the three remaining member agencies.

CCRB does not have any contractual water rights. 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 to 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 process that results in the development of a 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)

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 SWP Table “A” and drought buffer water supplies to Santa Barbara County. 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 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 supplies to the eight Central and South Coast SWP 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. SWP Table “A” water is water made available to SWP contractors on a calendar year basis as established by the California Department of Water Resources (DWR). Annual Table “A” allocations vary from year to year due to climate and environmental conditions and have ranged from 5 to 100% allocation. According to DWR, the long-range reliability of the SWP, excluding any potential delta conveyance project is 48%, but have averaged 65% since deliveries to Santa Barbara County began in 1997.

CCWA water treatment and conveyance facilities include the 43 MGD Polonio Pass Water Treatment Plant, 143 miles of transmission pipelines, pump stations, five storage tanks, ten turnouts and the CCWA office and maintenance facility in Buellton, CA. CCWA currently has a staff of 31 full time employees. MWD has a voting percentage of 9.5% in CCWA;

which is based on MWD's allocated percentage of SWP Table "A" water under the governing rules and obligations of CCWA. The District's full SWP Table "A" allocation is 3,000 AF, including a 300 AF drought buffer. For the 2019 calendar year, DWR has issued an SWP allocation of 70%, which for the District translates to 2,310 AF.

The District 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 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, 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.

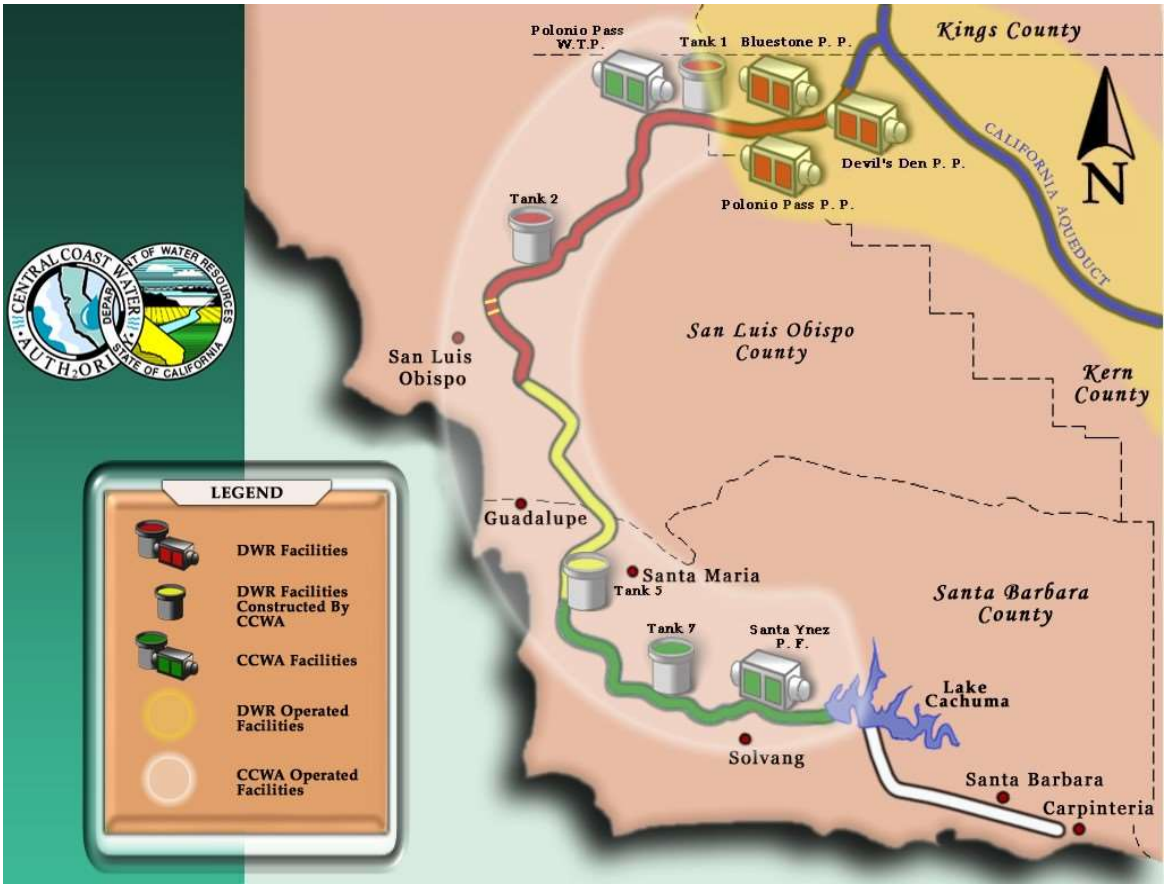
On June 28, 2016, CCWA completed a refinancing of its refunding revenue bonds at a true interest cost of 1.355% resulting in a total interest savings to the CCWA participants of approximately $5.6 million, or around $1.1 million per year for the next five years when the bonds will be fully paid. The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

Each Santa Barbara County SWP 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 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.

Figure 3



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

All water delivered from Lake Cachuma, which includes Cachuma Project, SWP and supplemental water, is treated at the City of Santa Barbara's Cater Treatment Plant located at the northerly terminus of San Roque Road in the City of Santa Barbara.

The District entered into a JPA with the City of Santa Barbara and CVWD on July 5, 1978 followed by contract amendments for

City of Santa Barbara Cater Treatment Plant

payment of the capital cost and debt service for treatment plant construction and all future capital improvements needed to remain in compliance with state and federal water quality standards. 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 treat this water supply. Under the JPA, neither Montecito nor Carpinteria Valley Water Districts have any ownership in the Cater Treatment facility.

The District signed another agreement with the City, effective November 1, 2003, for participation in a California Drinking Water State Revolving Fund loan 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, 2019 is $1,344,031. The District's payments for its share of the debt service are $225,416 per year thru 2025. In December 2004, the Cater Water 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 regulations regarding post-treatment of total trihalomethanes levels which, at times, are at or 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 24.63% 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 of $4.3M. The District's payments for its share of debt service are $276,346 per year thru July 2035.

FY 2019/20 BUDGET SUMMARY

GENERAL

The FY 2019/20 budget is consistent with the policy and operational goals of the district. The FY 2019/20 budget anticipates $20.5M in revenue and $20.7M In operational and capital expenditures. The spending plan reflects the expenses necessary to provide an adequate supply of water to customers, address changing water quality conditions resulting from recent fires/debris flows in both Cachuma and Jameson Lakes, continued pursuit for local and rainfall independent sources of water and the replacement of aging infrastructure.

The current rate structure and accompanying Water Shortage Emergency (WSE) surcharge adopted in 2014 are sufficient to meet the District's operational requirements including lingering costs associated with the recent historic seven-year drought. The WSE surcharge is assessed regularly and will be adjusted in accordance with District Resolution 2124 based on water sales trends. Although the hydrologic drought may have ended, the financial impacts of the recent drought remain.

The FY 2019/20 budget is the second year following completion of the latest five years financial cycle (2013-2017). The District is in the process of completing it an updated five-

year financial plan and cost of service study which incorporates various board initiatives to improve water supply reliability. The study will consider the current level of water sales and therefore will obviate the need for a water shortage emergency surcharge. This is expected to be completed in the first half of FY 2019/20.

Table 3 is a budget summary which provides an overview of the District's anticipated revenues and expenditures for FY 2019/20.

Table 3
2019/20 BUDGET SUMMARY

	FY 2018/19 BUDGET	FY 2018/19 Forecast	FY 2019/20 BUDGET
REVENUE			
WATER SALES	9,482,932	8,967,524	**9,482,843**
WSE SURCHARGE	4,996,976	5,309,465	**5,667,868**
SERVICE CHARGES	4,245,447	4,263,892	**4,265,070**
WATER AVAILABILITY CHARGE	296,945	303,662	**305,676**
PRIVATE FIRE LINES	71,162	71,742	**71,162**
LATE CHARGES	67,272	67,454	**71,272**
SERVICE CONNECTION FEES	30,816	27,775	**31,018**
CAPITAL COST RECOVERY FEES	56,904	271,480	**308,230**
INTEREST REVENUE - GENERAL	200,000	242,617	**200,000**
OTHER REVENUE (LOSS)	71,000	241,959	**123,947**
REIMBURSEMENTS	24,000	22,758	**2,400**
TOTAL REVENUE	**$ 19,543,454**	**$ 19,790,327**	**$ 20,529,486**
OPERATING EXPENSE			
DIRECT EXPENSE			
JPA OPERATING EXPENSE			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	(583,935)	(588,336)	**(634,525)**
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	(139,062)	(139,062)	**(200,801)**
US BUREAU OF RECLAMATION (USBR)	(306,908)	(351,477)	**(257,750)**
CATER WATER TREATMENT PLANT O&M	(1,260,000)	(1,290,440)	**(1,379,099)**
CATER WATER TREATMENT PLANT CAPITAL		(194,066)	**(317,840)**
CENTRAL COAST WATER AUTH. (CCWA) (SWP) - FIXED	(2,284,573)	(2,284,560)	**(2,182,208)**
DWR (SWP) - FIXED	(2,875,565)	(2,875,565)	**(3,568,581)**
CENTRAL COAST WATER AUTH.(CCWA) (SWP) - VARIABLE	(452,788)	(524,759)	**(459,626)**
DWR (SWP) - VARIABLE	(545,258)	(675,416)	**(237,529)**
SUPPLEMENTAL WATER PURCHASE	(700,000)	-	**(315,000)**
TOTAL JPA OPERATING EXPENSE	**$ (9,148,089)**	**$ (8,923,682)**	**$ (9,552,959)**
MWD DIRECT EXPENSE			
JAMESON	(168,156)	(102,607)	**(210,771)**
TRANSMISSION & DISTRIBUTION	(1,427,642)	(1,444,306)	**(1,521,803)**
TREATMENT	(1,146,065)	(1,226,782)	**(1,277,869)**
TOTAL MWD DIRECT EXPENSE	**$ (2,741,863)**	**$ (2,773,694)**	**$ (3,010,442)**
TOTAL DIRECT EXPENSES	**(11,889,951)**	**(11,697,376)**	**(12,563,401)**
MWD INDIRECT EXPENSE			
ENGINEERING	(922,433)	(397,184)	**(651,912)**
CUSTOMER SERVICE	(363,749)	(384,375)	**(405,576)**
PUBLIC INFORMATION / CONSERVATION	(130,339)	(122,129)	**(151,919)**
FLEET	(206,027)	(213,226)	**(225,529)**
ADMINISTRATION	(1,943,140)	(2,045,188)	**(1,529,681)**
SEMITROPIC MGMT/MAINT/BANKING FEES	(22,500)	(33,079)	**(86,314)**
SGMA	(200,000)	(45,481)	**(250,000)**
RECYCLED WATER DEVELOPMENT	(11,420)	(100,224)	**(135,744)**
LEGAL - ALL	(250,000)	(280,448)	**(212,280)**
DEPRECIATION	(1,275,771)	(1,209,336)	**(1,247,404)**
TOTAL MWD INDIRECT EXPENSE	**$ (5,325,380)**	**$ (4,830,670)**	**$ (4,896,357)**
TOTAL MWD EXPENSES	**$ (8,067,243)**	**$ (7,604,364)**	**$ (7,906,799)**
TOTAL OPERATING EXPENSE	**$ (17,215,332)**	**$ (16,528,046)**	**$ (17,459,758)**
NET OPERATING SURPLUS / (DEFICIT)	**$ 2,328,123**	**$ 3,262,281**	**$ 3,069,729**

Table 3 cont'd
2019/20 BUDGET SUMMARY

	FY 2018/19 BUDGET	FY 2018/19 Forecast	FY 2019/20 BUDGET
NON OPERATING EXPENSE			
2004 DWR ORTEGA LOAN	(590,400)	(590,400)	**(590,400)**
BOND INTEREST EXPENSE	(690,463)	(690,462)	**(690,463)**
AMI METER FINANCING	(167,000)	-	**(366,056)**
CATER DWR LOAN	(231,649)	(231,648)	**(231,649)**
CATER OZONE	(276,346)	(276,323)	**(276,346)**
TOTAL NON OPERATING EXPENSE	**$ (2,088,157)**	**$ (1,788,833)**	**$ (2,154,912)**
NET OPERATING SURPLUS / (DEFICIT)	**$ 239,966**	**$ 1,473,448**	**$ 914,816**
CAPITAL EXPENDITURE			
EQUIPMENT (FIXED ASSETS)	(221,000)	(354,481)	**(351,600)**
WATER STORAGE PURCHASE	(1,260,000)	(1,294,510)	**-**
MWD SYSTEM PROJECTS (CAPITAL PROJECTS)	(1,231,570)	(624,889)	**(1,981,250)**
TOTAL MWD CAPITAL EXPENDITURE	**$ (2,712,570)**	**$ (2,273,880)**	**$ (2,332,850)**
ADD BACK DEPRECIATION EXPENSE (NON-CASH)	**$ 1,275,771**	**$ 1,209,336**	**$ 1,247,404**
NET CASH IMPACT	**$ (1,196,833)**	**$ 408,904**	**$ (170,630)**

REPORTING BASIS

The District utilizes the accrual basis for budgeting purposes, and for accounting and financial reporting. 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 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 costs (including replacement of existing assets) of providing water and services to its customers on a continuing basis should be financed or recovered primarily through user charges, and the costs should be borne by the customers who are receiving the benefit of the assets.

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 a Water Shortage Emergency Surcharge, meter connection fees, capital cost recovery fees, interest revenue, the Water Availability Charge and other miscellaneous sources.

District staff estimates the quantity of water that is anticipated to be sold to meet projected customer demand based on historical water use trends. Service charges are estimated based on the quantity and size of meters installed. Details regarding how each of the

revenue sources are estimated for the budget are described in the Budget Highlights 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 department managers and superintendents for their estimated operating expenditures and capital programs. A zero-based budget model was used. Every expense item and capital request was reviewed independent of what expenses may or may not have been in a prior period. The purpose of this was to identify and eliminate extraordinary expenses. Several planning meetings were held to discuss and prioritize capital and operating expenditures which then became part of the draft FY budget. The draft budget or portions thereof were then presented to both the Operations Committee and the Finance Committee for further consideration.

Staff then conducted a budget workshop with the full Board on May 22, 2019 to review projected results and the assumptions contained therein. A final budget and budget package was then prepared and presented to the Board at its regular Board meeting of June 25, 2019 for final review and approval.

Cost of Living Adjustment (2.66%)

Consistent with the past practice of determining the Cost of Living Adjustment (COLA), the District used the Social Security Method which is based on the FY third quarter average Consumer Price Index (CPI)[1]change. Data reflected Urban Wage Earners and Clerical Workers for Los Angeles-Long Beach-Anaheim CA.

Under this method, the approved COLA increase for FY 2019/20 is 2.66%. This COLA applies to all positions excluding the General Manager.

[1]Datasource:
https://www.bls.gov/regions/west/data/consumerpriceindex_losangeles_table.pdf

Cost of Electricity (4%)

Increase in electricity costs are based on information received from Southern California Edison Rate Manager.

Interest Revenue (2%)

Interest Revenue for the FY2019/20 is estimated to be 2%. This estimate was provided by our investment advisor, Charles Schwab and is thought to be conservative based on short-term rates at the time this budget was prepared.

BUDGET HIGHLIGHTS

Total Revenue $20,529,486

- Water Sales revenue of $9,482,843 (46.2% of total revenue) which is based on an estimated demand of 3,900 AF. Water sales are budgeted at a 5.8% increase over prior year as a percent of total projected revenue.
- Water Shortage Emergency (WSE) surcharge of $5,667,868 (27.6% of total revenue) is based on an estimated demand of 3,900 AF at the current WSE rate of $3.45/HCF for the full year. The surcharge is temporary and will remain in effect until water supply conditions have returned to normal and drought related costs have been recovered. Under the Resolution, the Board can take action to adjust the WSE Rate as it deems necessary. It is also anticipated that the WSE will no longer be included with the new rates, which are anticipated to be implemented in the first half of FY 2019/20.
- Meter Service Charge revenue of $4,265,070 (20.8% of total revenue) assumes the number of District meters increase over the prior year as a result of the homes that were damaged or destroyed in the January 9 disaster resuming service and new meters being issued following the Board's May 2019 repeal of its 2014 meter moratorium with adoption of Ordinance 96.
- Water Availability Charge (WAC) is budgeted at $305,676 (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 $808,029 (3.9% of total revenue) includes connection fees, capital cost recovery fees, Interest revenue, late charges, and other miscellaneous income. The budget for these items is based on recent trends in these areas.

Total Operating Expenses $17,481,268

Joint Powers Agencies' (JPA) Operating Expenses are estimated to be $9,574,469 and comprise about 54.8% of the total operating expenses. JPA expenses in total have increased by 7.29% compared to FY 2018/19 projected amount.

- CCWA – Central Coast Water Authority – Includes State Water Project costs (fixed and variable) of $6,447,944 that comprise 36.9% of the District's total operating expenses (and 67.3% of total JPA expenses) and are approximately $87,643 higher than the projected results of FY 2018/19.
- COMB - Cachuma Operation and Maintenance Board - Includes fixed and variable costs of $913,785 which include annual water purchases from the United States Bureau of Reclamation (USBR) and the District's annual COMB budget obligation.

- Cachuma Conservation & Release Board (CCRB) costs of $200,801.
- Cater Treatment Plant – is budgeted for $1,696,939 and includes $1,379,099 for operations and maintenance and variable water treatment costs related to all water delivered from Lake Cachuma. Also included is $317,840 to cover the District's share of capital projects at the Cater Treatment plant.

MWD Operating Expenses $7,906,799

Includes salaries and benefits of District employees which are budgeted to receive a 2.66% COLA increase, electricity costs that are budgeted with a 4.0% increase as well as all of the other costs necessary to keep the District delivering potable water to its customers. Additionally, there are many new initiatives in this year's budget to improve the reliability of water supplies including Sustainable Groundwater Management Agency development, recycled water development and groundwater banking. Overall, MWD Operating Expenses have increased 3.98%

Non-Operating Expense (MWD Debt Service) $2,154,912

Includes principal and interest payments for the District's long-term debt including bonds and loans. The slight increase over prior year projected costs is the result of anticipated financing costs associated with the Automated Metering Infrastructure (AMI) and the reallocation of the Cater Capital Cost which is a JPA expense.

Capital Expenditures $2,332,850

Includes $1,981,250 for capital improvement projects and $351,600 for equipment purchases

BUDGETED OPERATIONS RESULTS

Summary of budgeted operations including revenues and expenses, debt service and capital expenditures result in a budget deficit (after adding back depreciation expense) of $192,140 of which approximately $1.1M is carryover from FY2018/19.

Total revenue and expense analysis is performed to ensure compliance with bond covenant requirements. The Debt Coverage Ratio calculation is an important indicator of the District's financial condition.

Debt Coverage Ratio: In 2010, the District issued the 2010A Revenue Refunding bonds to refinance bonds issued in 1998. The 1998 bonds were issued to provide funds for the replacement of aging infrastructure, primarily consisting of the replacement of 80 to 100 year old distribution pipelines. The bond covenants require a 1.25 debt coverage ratio. The FY 2019/20 budget shows sufficient net operating revenue to meet the required debt service ratio. As shown below, the debt coverage ratio is estimated to be 1.85.

EST. DEBT SERVICE COVERAGE RATIO CALCULATION

Debt Service Payment	$	1,646,919
Debt Service Requirement	$	2,058,649
Total Revenue	$	20,529,486
Total Expense	$	17,481,268
Net Operating Surplus	$	3,048,218
Debt Service Coverage	$	989,569
Debt Service Coverage Ratio		1.85

REVENUE DISCUSSION

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

Table 4

OPERATING REVENUES

	FY 2018/19 BUDGET	FY 2018/19 Forecast	FY 2019/20 BUDGET	FAVORABLE (UNFAVORABLE)
REVENUE				
WATER SALES	9,482,932	8,967,524	**9,482,843**	515,319
WSE SURCHARGE	4,996,976	5,309,465	**5,667,868**	358,402
SERVICE CHARGES	4,245,447	4,263,892	**4,265,070**	1,178
WATER AVAILABILITY CHARGE	296,945	303,662	**305,676**	2,014
PRIVATE FIRE LINES	71,162	71,742	**71,162**	(580)
LATE CHARGES	67,272	67,454	**71,272**	3,818
SERVICE CONNECTION FEES	30,816	27,775	**31,018**	3,243
CAPITAL COST RECOVERY FEES	56,904	271,480	**308,230**	36,751
INTEREST REVENUE - GENERAL	200,000	242,617	**200,000**	(42,617)
OTHER REVENUE (LOSS)	71,000	241,959	**123,947**	(118,012)
REIMBURSEMENTS	24,000	22,758	**2,400**	(20,358)
TOTAL REVENUE	**$ 19,543,454**	**$ 19,790,327**	**$ 20,529,486**	**$ 739,159**

Water Sales $9,482,843

Budgeted water sales of $9,482,843 are based on a projected consumption of 3,900 AF of water. The budgeted amount of water sales is 5.8% higher than the projected amount for FY 2018/19 and is based on budgeted production demands of approx. 4,440. The anticipated increase is associated with both the implementation of an Automated Metering Program in late 2019 and anticipated decrease in conservation following this past wet winter. District staff will continue to monitor sales and report trends to the Board on a monthly basis.

Water Shortage Emergency Surcharge $5,667,868

On March 24, 2015 the Board adopted Resolution No. 2124 authorizing the implementation of a Water Shortage Emergency (WSE) surcharge as a direct result of a combination of the following: 1) a 2013 rate study which did not anticipate extended extraordinary drought conditions, 2) the 2014 implementation of monthly customer water use allocations and penalties for water use in excess of allocations which significantly reduced overall customer water usage and 3) extraordinary water conservation achieved by District customers. The combination of all of the above have resulted in reduced water sales ranging monthly from 35-50% of predrought usage. In addition to a decline in water sales, the District purchased substantial amounts of supplemental water from various suppliers around the state to offset the loss of its surface water supplies including Jameson Lake, Lake Cachuma and the State Water Project of which most contain water debt, a requirement to return a specified amount of water within a certain time period.

Resolution 2124 states that the WSE surcharge is temporary in nature and will apply until water conditions return to normal and the drought-related expenses incurred by the District are recovered. As of April 2019, the District remains in a declared Stage 1 water shortage emergency condition. Despite improved hydrologic conditions, the District's water supplies have not fully recovered. Deliveries from Jameson Lake are limited until treatment enhancements are complete and testing proves them effective. Based on a partially full Lake Cachuma, Cachuma Project allocations moving into the next several water years is uncertain. Existing water debt resulting from past supplemental water purchases must be repaid, both monetary and with water. The Montecito groundwater basin is expected to take from several years to a decade to recover from the historic low levels reached during the drought. For these reasons and others, the current WSE surcharge will remain at $3.45/HCF for FY 2019/20. District staff will monitor water sales and request that the Board adjust this amount as needed to comply with Resolution No. 2124. It is assumed that the WSE will be removed from the new rates that are expected to be implemented during the first half of FY2019/20.

Service Charges $4,265,070

The monthly service charge is paid by all customers with an installed water meter. This charge varies based on the size of the water meter. Table 4 below provides a breakdown of the unit monthly service charges and total service charge revenue collected by meter size.

Table 5

Service Charge Revenue

METER SIZE	METERS BILLED	MONTHLY CHARGE	TOTAL CHARGES
3/4	2235	$ 45	1,195,904
1	1586	$ 74	1,414,839
1 1/2	514	$ 134	825,217
2	218	$ 238	622,189
3	15	$ 535	96,325
4	2	$ 892	21,406
6	5	$ 1,487	89,191
TOTAL	4575		4,265,070

Water Availability Charge $305,676

Subject to an annual public hearing and approval by the Board, the Budget includes the Water Availability Charge, assessed annually on the tax roll, for the sole purpose of funding needed capital improvements. In general, the Water Availability Charge assesses a $30/per acre charge 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 not served by the District. The charge is used solely to pay the cost of replacing and enhancing the water distribution and treatment systems. The District collects the charge on the County tax rolls. To continue this charge, the District must hold a public hearing each year. The District plans to hold the annual public hearing for the Water Availability Charge at its regular Board meeting of July 23, 2019.

Other Revenue $808,029

Additional revenue classified as *Other Revenue* includes the following:

- Capital Cost Recovery and Connection Fees anticipated to be $339,248

  The capital cost recovery fee represents a "share" of the existing water distribution system and facilities, which have been designed for a limited number of service connections. This system has been paid in part by the existing customer base. A capital cost fee is charged for additions to this system in order to have all customers equally invested, thereby ensuring proper maintenance and improvements. Connection fees are charges imposed by the District on new customers for the installation of a new water service and meter and represents the actual costs incurred by the District to make such installation. The District estimates 13 new meters/connections in FY 2019/20.

- Interest Revenue anticipated to be $200,000

  In accordance with the District Investment Policy, unrestricted cash is deposited with Charles Schwab which facilitates safety, liquidity, and a return on investment, meeting the objectives of the current District investment policy. The District has a primary checking account with American Riviera Bank for normal operations. Additionally, the District holds a Money Market account with American Riviera Bank,

which has been guaranteed to earn 2.42% return on deposited funds. This allows the District to keep a lower balance in the checking account and easily transfer between the two accounts to maximize interest earnings.

- Picay Hydroelectric Plant anticipated revenue is $45,000.

  The Picay Hydroelectric Plant, which went into service and began producing electrical power for Southern California Edison in January 1989, uses water deliveries from Jameson Lake to turn a turbine to produce electrical power, which is fed into the Southern California Edison electrical grid. Revenues generated by Picay are a direct function of water deliveries from Jameson Lake and Doulton Tunnel. Anticipated increased deliveries from Jameson Lake in FY 2019/20 will result in an increase in revenue from the Picay Hydroelectric Plant.

- Rent Revenue is anticipated to be $44,000.

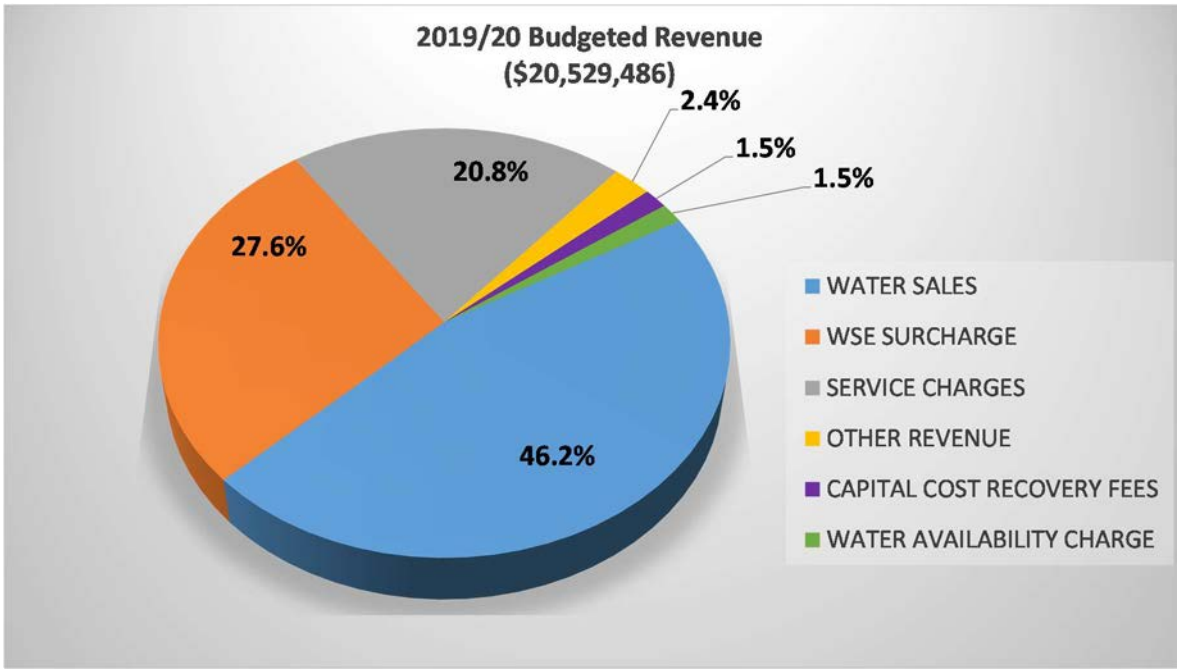
  Revenues from rent include the two rental properties available to qualified employees, as well as the cellular site owned by Crown Castle located at the District's Bella Vista Treatment Plant.

- Private fire line revenue anticipated to be $71,162 based on the current number of private fire lines. As of the beginning of FY 2019/20, the District has 106 private fire lines.

- Miscellaneous income anticipated to be $108,619.

  Includes late charges, service connection fees, gain on the sale of assets and reimbursements.

Figure 4



OPERATING EXPENSE DISCUSSION

Total Operating Expenses for the various departments and categories are summarized in Table 6. Operating expenses are broken into two categories, Joint Power Agencies (JPA) expenses and those directly incurred by the District.

Table 6

OPERATING EXPENSES

	FY 2018/19 Forecast	FY 2019/20 BUDGET	FAVORABLE (UNFAVORABLE)
OPERATING EXPENSE			
DIRECT EXPENSE			
JPA OPERATING EXPENSE			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	(588,336)	**(656,035)**	(67,699)
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	(139,062)	**(200,801)**	(61,739)
US BUREAU OF RECLAMATION (USBR)	(351,477)	**(257,750)**	93,727
CATER WATER TREATMENT PLANT O&M	(1,290,440)	**(1,379,099)**	(88,659)
CATER WATER TREATMENT PLANT CAPITAL	(194,066)	**(317,840)**	(123,774)
CENTRAL COAST WATER AUTH. (CCWA) (SWP) - FIXED	(2,284,560)	**(2,182,208)**	102,352
DWR (SWP) - FIXED	(2,875,565)	**(3,568,581)**	(693,016)
CENTRAL COAST WATER AUTH.(CCWA) (SWP) - VARIABLE	(524,759)	**(459,626)**	65,133
DWR (SWP) - VARIABLE	(675,416)	**(237,529)**	437,887
SUPPLEMENTAL WATER PURCHASE	-	**(315,000)**	(315,000)
TOTAL JPA OPERATING EXPENSE	**$ (8,923,682)**	**$ (9,574,469)**	**$ (650,787)**
MWD DIRECT EXPENSE			
JAMESON	(102,607)	**(210,771)**	(108,164)
TRANSMISSION & DISTRIBUTION	(1,444,306)	**(1,521,803)**	(77,497)
TREATMENT	(1,226,782)	**(1,277,869)**	(51,087)
ENGINEERING	(397,184)	**(651,912)**	(254,728)
CUSTOMER SERVICE	(384,375)	**(405,576)**	(21,201)
PUBLIC INFORMATION / CONSERVATION	(122,129)	**(151,919)**	(29,789)
FLEET	(213,226)	**(225,529)**	(12,303)
ADMINISTRATION	(2,045,188)	**(1,529,681)**	515,508
SEMITROPIC MGMT/MAINT/BANKING FEES	(33,079)	**(86,314)**	(53,235)
SGMA	(45,481)	**(250,000)**	(204,519)
RECYCLED WATER DEVELOPMENT	(100,224)	**(135,744)**	(35,520)
LEGAL - ALL	(280,448)	**(212,280)**	68,168
DEPRECIATION	(1,209,336)	**(1,247,404)**	(38,068)
TOTAL MWD EXPENSES	**$ (7,604,364)**	**$ (7,906,799)**	**$ (302,435)**
TOTAL OPERATING EXPENSE	**$ (16,528,046)**	**$(17,481,268)**	**$ (953,222)**

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 JPA members.

For FY 2019/20, State Water Project expenses comprise nearly 67.3% of the District's total JPA operating expenses and 36.9% 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) $656,035

This is the District's share of the COMB FY 2019/20 budget and represents the District's 11.45% share of the COMB operating costs including the management of the South Coast Conduit and fish passage projects. These amounts are based on the COMB budget approved by the COMB Board on May 20, 2019.

Cachuma Conservation and Release Board (CCRB) $200,801

This represents the District's share of the Cachuma Conservation and Release Board's (CCRB) FY 2019/20 budget. The majority of this fiscal year's cost is for professional consulting and legal services relating to the Biological Opinion Reconsultation and the SWRCB Water Right Order. The CCRB budget requires ratification by the District's Board of Directors.

US Bureau of Reclamation (USBR) $257,750

This is the District's share of the U.S. Bureau of Reclamation's annual costs for the operation and maintenance of Bradbury dam and associated facilities. This budget represents a decrease of $93,727 over prior year as a result of paying the FY 2015-17 deficits which are not included in the current budget., These amounts are based on the COMB budget approved by the COMB Board on May 20, 2019.

Cater Treatment Plant $1,696,939

This amount includes Cater Treatment Plant operations and maintenance costs, the variable water treatment costs related to all water delivered from Lake Cachuma ($1,379,099), as well as the City of Santa Barbara's anticipated Cater Treatment Plant capital projects ($317,840). Excluding capital costs, the remaining costs are shared with the City of Santa Barbara and the Carpinteria Valley Water District and are allocated as a percentage of water deliveries to each agency. The current amount is based on the City of Santa Barbara's FY 2019/20 proposed budget.

CCWA/State Water Project: Fixed Cost Component $5,750,789

The District pays an annual fixed costs payment to the Central Coast Water Authority for its proportionate share of construction loan costs for the SWP 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 CCWA in its approved FY 2019/20 Budget. It should be noted that CCWA operates on a fiscal year schedule with the fixed payment due on or before June 1 of each year. This budget was approved by the CCWA board on April 25, 2019.

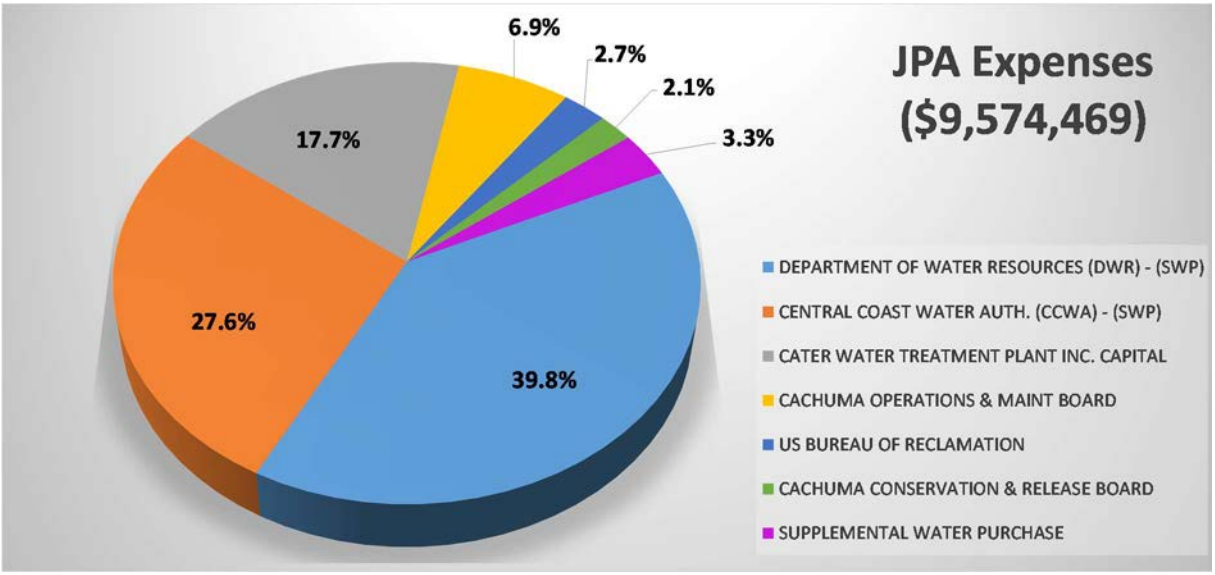
CCWA/State Water Project: Variable Cost Component $697,155

CCWA variable costs include the treatment and delivery of State Water into Lake Cachuma. For FY 2019/20, the variable cost to treat water from the State Water Project, according the CCWA include the following: CCWA's estimated variable cost ($112/AF), DWR variable cost ($174/AF) and Warren Act and Trust Funds Payments ($58/AF). This budget was approved by the CCWA board on April 25, 2019.

Supplemental Water Purchase **$315,000**

Although Supplemental water purchases are considered as prepaid water (inventory) and expensed when used, the District anticipates purchasing supplemental water in FY 2019/20 to repay water debt acquired with the purchase of supplemental water from Mojave Water Agency in FY 2017/18 and therefore includes it in expense for the FY 2019/20 budget.

Figure 5



MWD OPERATING EXPENSES

MWD operating expenses comprise about 38% (excluding depreciation) of the District's total operating expense. MWD operating expenses consist of costs attributed to delivering local water supplies owned by the District, operating and maintaining the water treatment facilities, the transmission and distribution system pipelines, pump stations and storage reservoirs and general and administrative costs necessary for District operations.

Jameson Lake **$210,771**

Jameson Lake Operations & Maintenance expenses includes supplies, contracting services, Division of Safety of Dams (DSOD) Dam fees and labor for the District's Jameson Lake and Doulton Tunnel facilities.

Transmission and Distribution **$1,521,803**

The Transmission and Distribution 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.

Treatment $1,277,869

Treatment Operations and Maintenance budget includes the costs to operate and maintain the District's Bella Vista and Doulton water treatment plants. This item also includes the cost of operating and maintaining the District's groundwater wells and consists of labor, supplies, and electricity.

Engineering $651,912

The Engineering department plans, organizes, manages, and provides administrative direction and oversight for all functions and activities related to the District's water supply infrastructure. The Engineering department performs long-term and short-term project planning, environmental programs/planning and compliance, and design, construction, permitting, and construction management of facility improvements. The Engineering department also coordinates assigned activities with other District departments and outside agencies and provides administrative and technical support to the General Manager, Business Manager and Board of Directors. Engineering projects in FY 2018/19 include several water main replacement projects, pump station upgrades, and groundwater well improvements, and regulatory reporting and compliance requirements.

Customer Service $405,576

This budget item includes costs for outside contracting to read the customer meters, bill printing service, and payroll for customer service personnel and customer utility billing.

Public Information / Conservation $151,919

Includes costs for public outreach events, website development, conservation efforts and legal services.

Fleet $225,529

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

Administration $1,529,681

General and Administrative costs include the following:

- The District is enrolled with ACWA/JPIA for the District's insurance needs. The amount included in the FY 2019/20 budget is $90,540 and includes the following policies: General Liability, Property and Fidelity Insurance.
- The District's accounting and billing software license fee and network IT services of $25,675.

- Bank charges and lockbox fees of $50,000.
- Audit expense of $23,650 which is based on contracted price and confirmed with our auditor.
- Local water supply negotiations of $100,000 to cover the costs to finalize the WSA
- Completion of the current rate study and initiate a fire protection study $57,000.

- **Semitropic Groundwater Banking $86,314**
  These costs include fees associated with management, maintenance and banking water stored in Semitropic. It includes an estimated 1,500AF banked in FY 2019/20.
- **Sustainable Groundwater Management Agency (SGMA) $250,000**
  This item includes costs associated with the District's implementation of the SGMA for the Montecito Groundwater Basin. Includes a portion of the consultants costs to prepare a Groundwater Sustainability Plan, legal fees related to SGMA and any other costs that the District may incur as a result of SGMA.
- **Recycled Water Development $135,744**
  Included in the FY 2019/20 budget are costs associated with the phase 1 technical studies as outline in the Recycled Water Facilities Plan, excluding Outfall/NPDES Evaluation. It is assumed that the District will receive 50% grant funding for the Groundwater Augmentation Feasibility Analysis, and is budgeted accordingly.
- **Legal – All $212,280**
  This item includes general legal counsel and extraordinary legal counsel services related to the Thomas Fire/Debris Flow litigation.
- **Depreciation $1,247,404**
  The district has depreciable assets including buildings, treatment facilities, pipelines and other equipment. The budgeted depreciation expense takes into account the existing depreciable assets as well as planned purchases for the upcoming year.

NON-OPERATING EXPENSE

The District has issued debt, which includes bonds and loans, to assist in the financing of its capital improvement program. The District currently has the following outstanding debt shown in Table 7.

Table 7

NON-OPERATING EXPENSES

	FY 2018/19 Forecast	FY 2019/20 BUDGET	FAVORABLE (UNFAVORABLE)
NON OPERATING EXPENSE			
2004 DWR ORTEGA LOAN	(590,400)	**(590,400)**	-
BOND INTEREST EXPENSE	(690,462)	**(690,463)**	(0)
AMI METER FINANCING	-	**(366,056)**	(366,056)
CATER DWR LOAN	(231,648)	**(231,649)**	(0)
CATER OZONE	(276,323)	**(276,346)**	(23)
TOTAL NON OPERATING EXPENSE	**$ (1,788,833)**	**$ (2,154,912)**	**$ (366,079)**

Note: Cater DWR Loan and Cater Ozone debt service is held by the City of Santa Barbara and is therefore not included on the District's calculation of debt coverage, nor is the liability carried on the District's financials.

2004 DWR Ortega Reservoir Improvement Loan

Increasingly stringent water quality regulations from the California Department of Health required the covering of the four acre, 21.2 MG Ortega Reservoir. This reservoir is owned by USBR with all water quality obligations being the responsibility of the District and Carpinteria Valley Water District. In December 2003, the District and Carpinteria Valley Water District, entered into a funding agreement with DWR for a loan in the amount 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 2.5132%. 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.

Bond Interest Expense (2010A Refunding Revenue COPs)

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. The 1998 bonds were issued to finance the replacement of aging infrastructure. Scheduled annual interest payments are $690,462 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.

AMI Installment Purchase Agreement

In 2019, the district entered an Installment Purchase Agreement (IPA) to fund the acquisition and installation of the "Smart Meter Program." The IPA is for $3,000,000 over a ten-year period and was acquired to purchase the meters, radios, collectors, repeaters and software as well as the installation by a third-party vendor. The District is responsible for annual payments of $366,055, paying both principle and interest.

DEBT SERVICE PAYMENTS FOR DWR ORTEGA, COPs and AMI

The District's Debt Service is based on bond and loan amortization schedules. The District currently has one bond issue, one low interest DWR loan and one modest interest rate loan from Holman Capital Corporation that is carried by American River Bank 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 7% of the District's total proposed budget expenditures, not including capital expenditures.

Table 8

DEBT SERVICE

FY 2019/20 Debt Service	Principal	Interest	Total
2004 DWR Ortega Loan	$ 457,078	$ 133,341	$ 590,419
Bond Interest Expense (COPs)	$ -	$ 690,462	$ 690,462
AMI Meter Financing	$ 250,000	$ 116,055	$ 366,056
Total Debt Service	$ 707,078	$ 939,858	$ 1,646,937

Bonds & Loan Balances	Maturity	Original Amount	Balance @ 6/30/19	Interest Rate	Custodian
2004 DWR Ortega Loan	FY 2030	$ 9,950,000	$ 5,643,479	2.51%	California Bank And Trust
Bond Interest Expense COPs	FY 2030	$ 13,360,000	$ 13,360,000	5.25%	Bank of New York Mellon
AMI Meter Financing	FY 2029	$ 3,000,000	$ 3,000,000	3.95%	American River Bank
Total Debt Service		$ 26,310,000	$ 22,003,479		

Cater DWR Loan (JPA Debt)

Surface water supplies received from and through Lake Cachuma are treated at the City of Santa Barbara's Cater Water Treatment 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 completed and principal payments

on the loan began January 1, 2006. The District's share is 19.7% or $3.8 million to be financed over 20 years. Principal and interest are paid semiannually at a fixed rate of 2.42% per annum. The District's payments for its share of the obligation are $225,400 per year.

Cater Ozone (JPA Debt)

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 $138,150 are paid semiannually thru the year 2035.

CAPITAL EXPENDITURE BUDGET

Table 9
TOTAL CAPITAL EXPENDITURES

	FY 2018/19 Forecast	FY 2019/20 BUDGET	FAVORABLE (UNFAVORABLE)
CAPITAL EXPENDITURE			
EQUIPMENT (FIXED ASSETS)	(354,481)	**(351,600)**	2,881
WATER STORAGE PURCHASE	(1,294,510)	**-**	1,294,510
MWD SYSTEM PROJECTS (CAPITAL PROJECTS)	(624,889)	**(1,981,250)**	(1,356,361)
TOTAL MWD CAPITAL EXPENDITURE	**$ (2,273,880)**	**$ (2,332,850)**	**$ (58,970)**

Capital Improvement Program

Infrastructure planning and investment is critical to the ongoing reliability of the District's distribution and treatment systems. The capital improvement projects and equipment purchases included in the FY 2019/20 budget are critical to the District's operations and, more importantly, improve the financial certainty and reliability of operating and maintaining District facilities.

The District's Capital Improvement Program includes those components described in Table 10 and 11.

Table 10
EQUIPMENT (FIXED ASSETS)

Item Description	Total Proposed Budget
TRANSMISSION & DISTRIBUTION - Truck Replacement (Vehicle #156), 109k mi, 2004	$ 44,600
TRANSMISSION & DISTRIBUTION- Shop Generator	$ 75,000
TRANSMISSION & DISTRIBUTION - Backhoe Replacement (Vehicle #170) 1998	$ 105,000
TREATMENT - Jeep Replacement (Vehicle #142), 53K mi, 2008	$ 37,000
TREATMENT - Skip Loader	$ 90,000
TOTAL EQUIPMENT	**$ 351,600**

Table 11
CAPITAL IMIPROVEMENT PROJECTS

Item Description	2018/19 Carryover	2019/20 Requests	Total Proposed Budget
PIPELINE REPLACEMENT			
ENGINEERING - Santa Rosa (Phase 1 CIP Project)	$ 1,200,000	$ (100,000)	$ 1,100,000
ENGINEERING - Small (2") Main Replacements (4 locations)	$ -	$ 600,000	$ 300,000
PIPELINE REPLACEMENT	**$ 1,100,000**	**$ 500,000**	**$ 1,400,000**
PUMPING/WELLS/VALVING/TREATMENT			
TREATMENT -Well Pump and Motor Replacement - Ennisbrook 5	$ -	$ 25,000	$ 25,000
TREATMENT - Doulton Treatment Plant ATS	$ 31,150	$ -	$ 10,000
ENGINEERING - Juncal Dam Emergency Release Valve Modifications (Design)	$ -	$ 100,000	$ 100,000
ENGINEERING - Ortega Pump Station Hydro Tank	$ -	$ 120,000	$ 120,000
TOTAL PUMPING/WELLS/VALVING/TREATMENT	**$ 31,150**	**$ 295,000**	**$ 255,000**
Water Meter Enhancements			
TREATMENT - Well Production Meter Replacement & BVTP Effluent Meter/Vault	$ -	$ 50,000	$ 50,000
TOTAL WATER METER ENHANCEMENTS	**$ -**	**$ 50,000**	**$ 50,000**
Other			
ADMIN - Shop/Admin building Rehab (Design)		$ 300,000	$ 100,000
ENGINEERING - MWD 6.25% FEMA/CalOES Match - Thomas Incident	$ 31,250	$ -	$ 31,250
ENGINEERING - Alder Creek Dam Repairs		$ 30,000	$ 30,000
ENGINEERING - Fox Creek Dam Repairs		$ 15,000	$ 15,000
ENGINEERING - Jameson Lake Safety Improvements (Ladders, Safety Climb etc)	$ -	$ 100,000	$ 100,000
TOTAL OTHERS	**$ 31,250**	**$ 545,000**	**$ 276,250**
TOTAL CAPITAL IMPROVMENTS	**$ 1,162,400**	**$ 1,390,000**	**$ 1,981,250**

The FY 2019/20 Capital Improvement Projects Budget includes the following infrastructure improvements and equipment purchases.

Equipment

- **Distribution/Treatment Truck & Heavy Equipment Replacements $276,600**

  For the FY 2019/20 Budget, the District will replace one Distribution Vehicle, one Treatment Vehicle, one backhoe and purchase one new skip loader. The Distribution Truck #156 is 15 years old with 109,000 miles and will be replaced with a similar vehicle. The Treatment Truck #142 (Jeep Wrangler) is 11 years old with 53,000 miles and is experiencing significant mechanical issues due to heavy wear and tear from driving to and from Jameson Lake each week for the last 11 years. This vehicle will be replaced with a similar Jeep vehicle with off road capabilities. The District's John Deere 310 Backhoe (Vehicle #170) will be replaced due to its age. The backhoe is 20 years old and does not have the modern controls or safety features. A John Deere 210 Skip Loader will be purchased for the Jameson Lake property. Currently, staff drive a backhoe from the office to the lake (3 hours each way) with steep roads which is extremely hard on the backhoe tire tread

and hydraulic braking system. The skip loader will allow staff to complete lake projects more quickly and also maintain the roadway using the Skip Loader's Gannon box.

- **Shop Generator** **$75,000**

  The Shop Building is located at the back of the office property and contains the Distribution Department materials storage, personnel break room and restroom facilities. The Shop does not have a source of backup power. The current office generator is on a separate Edison meter from the Shop and cannot be connected to the Shop. This project will implement a small backup generator for the Shop building.

Pipeline Replacement:

- **Santa Rosa Lane Water Main Replacement** **$1,100,000**

  This project is a high priority project of the District's CIP program and was approved as part of the FY17/18 budget but was delayed due to the Thomas Fire and Debris Flows. The project will replace approximately 4,330 feet of existing 8-inch cast iron transmission main originally installed in 1923 with new 8-inch ductile iron pipe on Santa Rosa Lane from San Ysidro Road to San Leandro Lane. This 96-year old pipeline is an important transmission main that conveys water to several distribution mains that serve a large customer base in the area. This section of transmission main has been very susceptible to main breaks in recent years.

- **Small (2") Main Replacements (various locations)** **$300,000**

  This project is a continuation of the FY18/19 2" main replacement project. The FY18/19 project successfully replaced 5 of the 18 locations with 2" galvanized water mains throughout the District. The proposed budget will continue the replacement of 2-inch galvanized water mains throughout the District. Galvanized water mains are very problematic, causing frequent main breaks and temporary water outages in key locations around the District. An estimated $300,000 in future funding will be needed to complete this project.

Pumping / Wells / Valving / Treatment:

- **Well Pump and Motor Replacement** **$25,000**

  The District operates 12 groundwater wells to meet potable and non-potable demands in the system. Groundwater well pumps and motors have a useful life of 10-15 years depending on usage. This project budget will be used for replacement of one groundwater well pump and motor in FY19/20 only if a pump/motor fails during that time period. The exact location of the pump and motor replacement is to be determined.

- **Doulton Treatment Plant ATS** **$10,000**

  The District backup generators power pump stations, treatment plants, and structures. Several of the backup generators are manually transferred from Edison power to backup generator power. This project would install an Automatic Transfer Switch (ATS) at the Doulton Treatment Plant.

- **Juncal Dam Emergency Release Valve Modifications (Design)** **$100,000**

  The District owned Juncal Dam has two 36" gate valves near the base of the dam capable of releasing up to 600 GPM of Jameson Lake water if dam levels need to be lowered in an emergency. The State Division of Safety of Dams requires safe and successful operation of these valves during their annual inspection of the dam. The Juncal Dam valves are original, installed in 1930, and having significant maintenance over the years to keep them operational. However, the function of the valves is not guaranteed given their age with the ultimate risk being complete loss of Jameson Lake due to a valve stuck open during operation. This project will identify a design consultant to develop a redundant valve system for the two 36" emergency release gate valves. The design will be used for a future construction project at the dam.

- **Ortega Pump Station Hydro Tank** **$120,000**

  The Ortega Pump Station feeds several hundred District customers in the Summerland area. The current hydropneumatic tank is too small for the service area and requires an upgrade. This project will replace the existing 1,800-gallon tank with a proposed 25,000-gallon hydropneumatic tank. The budget includes engineering, tank, footings, installation and commissioning of the tank. The existing 1,800-gallon tank will be relocated to the Doulton Treatment Plant for use in the Doulton hydropneumatic zone.

Water Meter Enhancements

- **BVTP Effluent Meter/Vault** **$50,000**

  Accurate measurement and recording of production volumes is critical for understanding system leaks and losses. This project will install a finish water meter on the outlet of the Bella Vista Treatment Plant before the water enters the reservoir. The new meter will require a new meter vault in the driveway at the treatment plant. This project includes a new vault, piping, meter and SCADA (water system monitoring software) incorporation.

Other Capital Improvements

- **Shop/Admin Building Rehab (Design)** **$100,000**

  The District "Shop" building, mechanic shed, and field office building are located in the back of the office property. These three buildings were likely constructed in the 1950s and are dilapidated. This project will hire a consultant to provide conceptual

designs for reconfiguring and reconstructing the Shop/Admin buildings. The goal of this project is to determine the layout, functionality, features, and costs associated with reconstructing these facilities in future fiscal years.

- **Various Highline and Bridge-crossings at 6.25% $31,250**

  The District will likely finish all Thomas Fire and Debris Flow repairs eligible for FEMA reimbursement in FY19/20. This includes an estimated $500,000 in pipeline projects (Highline and two Caltrans bridges) and Alder flume repair. The District's cost share for FEMA eligible projects is 6.25% of the total project cost.

- **Alder Creek Dam Repairs $30,000**

  The Alder Creek dam was damaged by debris flow during rains after the Thomas Fire. This project will replace the stilling well and structure that diverts creek flow into the Alder Creek flume.

- **Fox Creek Dam Repairs $15,000**

  The Fox Creek dam was damaged by debris flow during rains after the Thomas Fire. This project will replace the dam and piping that diverts creek flow into the District's 18-inch highline pipeline.

- **Jameson Lake Safety Improvements $100,000**

  This project will implement safety improvements at the District owned Juncal Dam and Jameson Lake. Specific areas to be analyzed and improved are ladders, stairways, handrails, kickplates, and other items identified by a safety consultant during a site visit with District staff.

Water Availability Charge (WAC)

A key source of revenue to fund ongoing capital infrastructure upgrades is 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 the District's Water Availability Charge (WAC), and is used exclusively to finance water system improvements.

Table 12
MWD CAPITAL PROJECTS FUNDING SOURCES

Total Capital Projects	$1,981,250
WAC	$305,676
Unfunded Balance (to be paid by District revenues and reserves)	$1,675,574

RESERVES

In June 2017, the District adopted Resolution 2155 defining reserves to be held by the District. In December 2018, the District reaffirmed the existing reserve policy and corresponding reserve levels. The following outlines the various reserves and their current balances.

RESTRICTED RESERVES

As of June 30, 2019, the District is projected to have a total $9,558,991 in cash and investments in various financial institutions. Required Debt Reserves of $3,518,011, as shown below in Table 12, 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 $6,040,979 is available for District operating, capital needs and reserve balances.

Table 13
RESTRICTED RESERVES

RESTRICTED RESERVES	Current Balance
CALIFORNIA BANK & TRUST - DWR Loan Reserve	590,665
CCWA - Rate Credit Reserve Fund	1,458,498
BNY MELLON - 2010A COP Reserve Fund	1,468,849
TOTAL RESTRICTED RESERVES	**$3,518,011**

UNRESTRICTED RESERVES

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

Table 14
BOARD DESIGNATED UNRESTRICTED RESERVES (AS OF 6/30/19)

BOARD DESIGNATED RESERVES	Current Balance
Reserve for Operations (3 months)	3,400,000
Reserve for Emergencies	1,000,000
Reserve for Unanticipated Capital Projects	1,000,000
Reserve for Litigation	0
TOTAL BOARD DESIGNATED RESERVES	**$5,400,000**

Table 15
ANTICIPATED UNRESTRICTED RESERVES (AS OF 6/30/19)

UNRESTRICTED RESERVES	Current Balance
American Riviera Bank - Checking	803,062
American Riviera Bank - MM	740,000
CCWA Credit Fund	1,500
Charles Schwab	4,496,417
TOTAL UNRESTRICTED RESERVES	**$6,040,979**

*Note: Unrestricted Reserves includes Board Designated Reserves

In accordance with the District's Reserve policy, adopted June 2017 and re-adopted December 2018 the Board designated the following reserves. Maintaining adequate available reserve balances is important to the financial wellbeing of the District.

The following provides a description of the Board Designated Reserve Funds as of June 30, 2019. 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.

Reserve for Operations (3 months) $3,400,000

The Reserve for Operations targets three months of total operating expenses, which is $3,400,000 for FY 2018/19. This target was established as part of the 2013 Five-Year Financial Plan and will be updated with the new rate study. Based on current operating expenses, this amount will cover approximately two and one half months of average operating expenses.

As an unrestricted reserve, the Reserve for Operations 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. Operating reserves are also to be used to cover timing differences for periodic expenses paid in advance of collected revenues. The amount of the reserve is based upon 90 days of operational expenses (excluding depreciation). This reserve may be invested with other District funds in an interest bearing account.

On February 20, 2018, the Board authorized the use of the Reserve for Operations fund in response to the increased cash outflows as a result of emergency repairs needed following the January 9, 2018 disaster. In May 2018, District staff made use of approximately $1,400,000 of these funds to pay for repairs. In June 2018, the District received reimbursement of these funds from Federal Emergency Management Agency in the amount of $1,700,000, restoring the reserve balance to $3,400,000.

Reserve for Emergencies $1,000,000

The Reserve for Emergencies targets $1,000,000 was also established in the 2013 Five Year Financial Plan. This reserve was established to provide protection for losses in the

event of a hydrological, meteorological or man-made emergency in which the District infrastructure is severely damaged. This reserve provides cash for gap funding to cover the time period from the loss to the time of the insurance payout, as well as the deductible. This reserve may be invested with other District funds in an interest bearing account.

On February 20, 2018, the Board also authorized the use of the Reserve for Emergencies funds as a result of the Thomas event. In May 2018, this reserve was depleted to $700,000 and then restored to $1,000,000 in June 2018 with the funds received from FEMA.

Reserve for Unplanned Capital Projects $1,000,000

The Reserve for Unplanned Capital Projects targets $1,800,000, established in the 2013 Five Year Financial Plan. The Board elected to reduce the amount of this reserve to $1,000,000. This reserve provides cash necessary to construct, procure or repair new and existing infrastructure that was not planned for at the time of the adoption of the budget. This would include costs associated with the transmission and distribution assets, buildings, pumping facilities, equipment, the potential Oroville Dam liability, etc. This reserve may be invested with other District funds in an interest bearing account.