

**MONTECITO WATER
DISTRICT**

**FISCAL YEAR
2021 BUDGET**

Adopted: June 23, 2020



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

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EXECUTIVE SUMMARY

The financial projections in this document describe the annual fiscal year (FY) budget beginning July 1, 2020 and ending June 30, 2021. 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) new water rates presented in the *Water Cost of Service and Rate Study* prepared by Raftelis, dated May 7, 2020 which are projected to be adopted on June 25, 2020, and the 2015 *Urban Water Management Plan Update* that was adopted in May 2017.

This FY 2021 budget forecasts \$20.92M in Revenue, \$19.37M in Operational Expenditures, \$1.78M in Debt Service (non-operating) and \$2.42M in Capital Improvements. The total net cash impact is forecasted to be a \$1.36M deficit which includes \$1.41M of carryover expenses from FY2020/21. The projected deficit is consistent with the referenced financial plan and *Water Cost of Service and Rate Study*. Table 3 provides a summary of the FY 2021 budget including FY 2020 forecasted actuals.

Highlights from the FY 2021 budget include:

1. This budget includes new costs associated with the District's participation in a long term Water Supply Agreement (WSA) with the City of Santa Barbara for delivery of 1430 acre-feet of water annually, which is projected to be approved by the Board of Directors on June 25, 2020 and subsequently by the City in July 2020.
2. Water sales are projected to decrease by approximately 0.8% from FY 2020 to 3,750 acre feet; Customer Demands are projected to be in full compliance with Senate Bill X7-7;
3. This budget includes new water rates as referenced above. Single Family Residential and Multi Family Residential customer classes have been combined into a single Residential class. The rate structure for Residential customers has been modified from a four tier to a three-tier structure. In addition, Commercial, Institutional and Agricultural customers now have uniform rates instead of a tiered rate structure.
4. With the new water rates aligned with currently customer consumption and ongoing drought related expenses included as an FY 2021 budgeted expense, the Water Shortage Emergency (WSE) surcharge is no longer necessary and is therefore not included in this budget;
5. Joint Powers Agency (JPA) related expenses are projected to decrease by 5.6% primarily a result of the decreased State Water Project deliveries;
6. District expenses are projected to increase by approximately 43.4% as a result of the District's prefunding of the WSA. The referenced financial plan funds 3.5 years of WSA expenses over the 5-year rate setting period (prefunding). Without the WSA prefunding, the District expenses would have decreased by 1.4%;
7. Continued emphasis is placed on the replacement of aging infrastructure including 1920s pipelines. The budget includes \$2.2M in capital improvement projects and \$0.16M in equipment purchases.
8. FY 2021 budget is projecting a net cash deficit of \$1.37M, of which \$1.41M is carryover from FY2020;
9. The Board of Directors decreased its Board Assigned Reserves (Unrestricted) by \$0.5M as part of the referenced *Water Cost of Service and Rate Study*. In accordance with Resolution



No. 2199 and the adopted Reserve policy adopted June 23, 2020, the District's Restricted Reserves total \$3.47M and the Board Assigned Reserved total \$5M.

Drought Update & Water Supply Outlook

The 2019/20 winter has brought near average rainfall across Santa Barbara County. Jameson Lake received approx. 1,000 AF of inflow and spilled on April 6, 2020. Cachuma Reservoir is approx. 80% of its full storage capacity providing for a 100% allocation for the current water year (WY2020) and it is anticipated a 100% Cachuma Project allocation will be received for Water Year 2021 beginning on October 1, 2020. Although rainfall locally has been near average, rainfall across the State and in particular northern California has been well below average. The final State Water Project (SWP) allocation for 2020 is 20%, far below the 20-year historical average of approx. 60%. The above-average 2018/19 winter coupled with the average 2019/20 winter has averted the need to purchase supplemental water to meet projected annual water demands for 2020 through 2022. The District projects adequate water supplies to meet projected demands over the 3-year planning period (thru 2022).

The District's customer demands are trending at about 3,750AFY, a slight decrease from FY2020. The District's 12-month running average water conservation is 40% as compared to the baseline usage for 2013, which continues to exceed the conservation target of 30%. Continued conservation helps to ensure water supply availability in future years and compliance with State regulations relating to maximum per capita water use.

The District's water supplies continue to show improvements from the cumulative impacts of the historic seven-year drought spanning 2012 to 2018. Groundwater levels remain at near historic lows and although the basin is showing continuing 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 resulted in water debt, which has yet to be fully repaid. Jameson Lake water quality remains affected by the drought and Thomas Fire, and deliveries continue to be limited to maintain compliance with water quality standards. It is expected to take several more years of above-average rainfall for the District's water supplies to fully recover.

The District's April 23, 2019 declared Stage 1 water shortage emergency continues pursuant to Water Code Section 350 and the District's Urban Water Management Plan 2015 Update. In May, 2019, the Board adopted Ordinance 96 establishing updated water use restrictions consistent with the declared Stage 1 water shortage emergency and current water supply conditions.

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 acquired regional groundwater storage in the Semitropic Groundwater Banking and Exchange Program to improve the reliability of the District's imported supplies, and as such the District has banked 2,000 acre feet to date. The District, through



the Montecito Groundwater Basin Groundwater Sustainability Agency 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, and is targeting completion of a Groundwater Sustainability Plan in 2022. In addition, the District is considering several local, reliable and rainfall independent long-term water supply partnership opportunities, that being desalination and recycled water. At its meeting of June 25, 2020, the District's Board of Director will be considering approval of a long term Water Supply Agreement (WSA) with the City of Santa Barbara for 1,430 acre feet of water per year for 50 years irrespective of hydrologic conditions, of which said terms have been incorporated into the proposed budget for FY 2021. Diversification is a key component of long-term water supply reliability, and to that end, the District is also continuing to pursue a recycled water opportunity with Montecito Sanitary District.



DISTRICT OVERVIEW

Montecito Water District (District) provides safe and reliable water supplies to approximately 11,440 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.

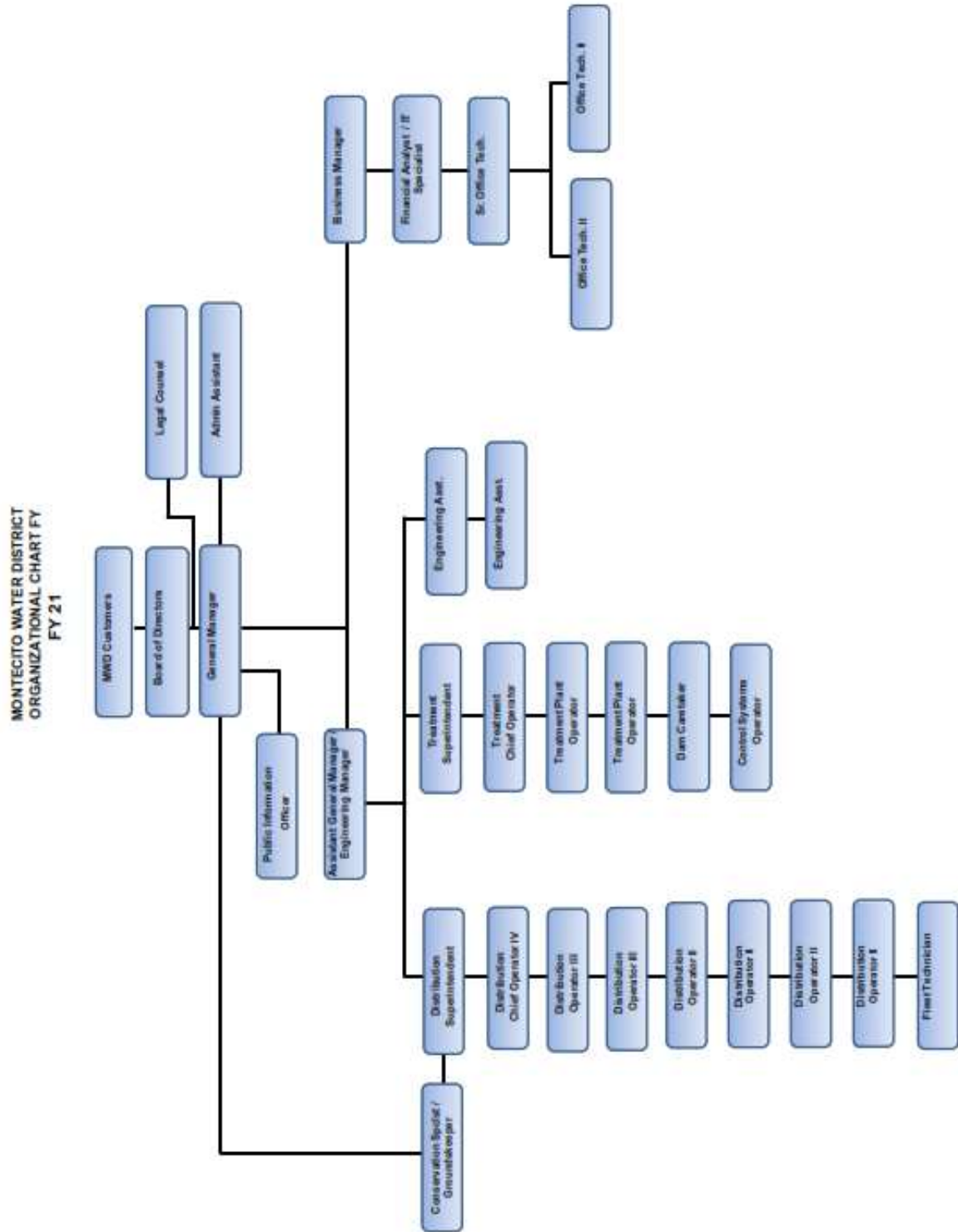
The District is governed by a five-member Board of Directors ("Board") elected by the registered voters of the District to four-year terms. The Board is responsible for setting District policy related to water supply and financial planning, infrastructure investment, water rates and the like. The current 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 28 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





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 nine reservoirs with numerous pressure zones controlled by pumps and 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.

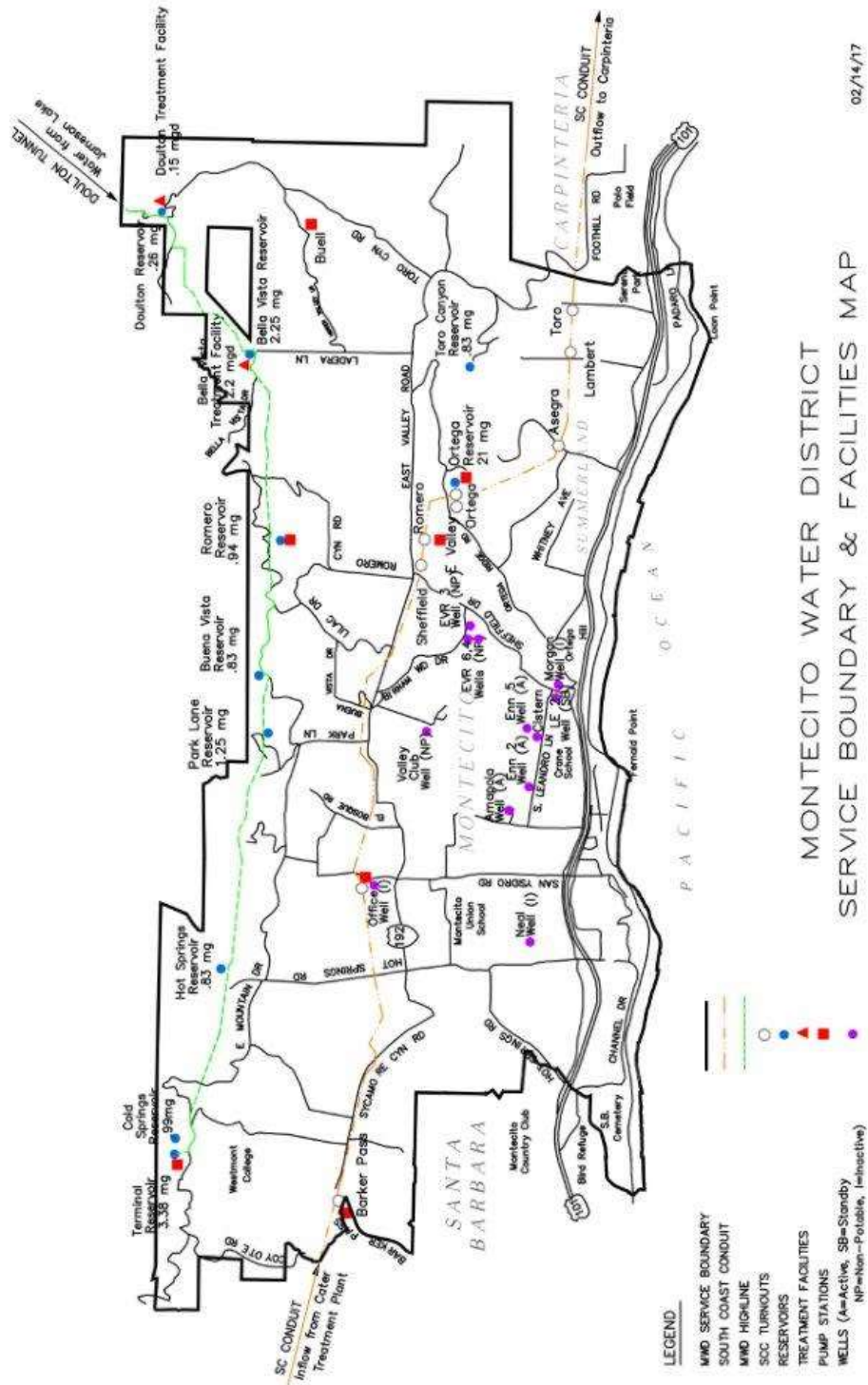
The major activities of the District include acquisition, treatment and delivery of water from multiple sources including Jameson Lake, Cachuma Water Project, State Water Project, Doulton Tunnel and Montecito Groundwater Basin. The District also acquires supplemental water on an as-needed basis from various water agencies throughout the State. The District owns, operates and maintains two water treatment facilities (BellaVista and Doulton Treatment Plants), 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, institutional and commercial customers.

The District Service Area map is shown in Figure 2.





Figure 2





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 approximately 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 2021 budget reflects an anticipated water production of approximately 4,166 AF, which equates to approximately 3,750 AF in sales. This excludes the 300AF transfer to the City of Santa Barbara in accordance with the 1928 Juncal Dam Transfer Agreement. This projection is based on historical customer usage trends and increased water availability but is highly variable depending on 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. While local water supplies significantly improved after several recent winters of average rainfall, supplies have yet to fully recover from the historic drought that plagued Santa Barbara County between 2012 and 2018. For FY 2021, the District projects a water supply more representative of “normal” or average conditions with approx. 50% being supplied from Lake Cachuma, 30% from Jameson Lake and the remaining from a combination of groundwater and Doulton Tunnel. No imported supplies are projected to be needed in FY 2021.

Lake Cachuma received significant inflow during winter 2018/19 but little inflow in winter 2019/20, remaining at 80% of full storage capacity after the recent winter. The United States Bureau of Reclamation (USBR) issued a 100% Cachuma Project allocation for 2019 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, 2020.



Lake Cachuma - 2019

District-owned Jameson Lake received enough inflow during winter 2019/20 to offset approximately 1,000 AF of supply used in the previous year, spilling on April 6, 2020. Jameson



Lake is at full storage capacity of 4,847 AF according to latest bathymetric survey completed in 2019. The current total storage capacity is approximately 70% of the original capacity of nearly 7,000 AF. Increased deliveries from Jameson Lake have been made possible following completion of treatment enhancements at the District's Bella Vista Treatment Plant in 2019 to address increased organics 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, updated as part of the *Future Water Demands & Water Supply Options Update 2020* completed by Dr. Steve Bachman in May 2020 recommends annual diversion of up to approximately 1,800 AF based on the current lake level. Deliveries from Jameson Lake are expected to provide approximately 1,500 AF of water in FY 2021.



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 5 to 10% 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 Montecito 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 2021 are anticipated to be reduced to a minimum to allow for basin recharge.

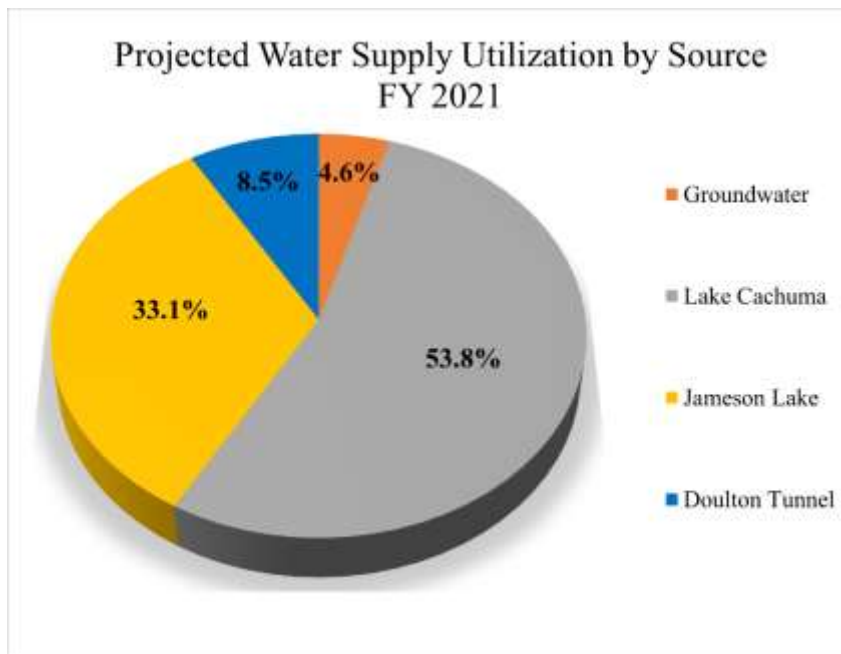
IMPORTED SOURCES OF WATER SUPPLY

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 to meet increasing customer water demand levels when they occur. Water deliveries utilizing these facilities are limited due to a capacity restriction in the Coastal Branch of the SWP between the Santa Ynez Pumping Facility and Lake Cachuma. The District's annual deliveries utilizing these facilities are currently limited to a combined total of approximately 2,000 AFY, through delivery over the top of the Bradbury Dam. If or when deliveries resume through the spill way gates or the penstock of the dam, District deliveries increase to approx. 3,000AFY. Additional capacity may be available depending on other South Coast agencies' use of the pumping and transmission facilities.

The below-average rainfall and snowpack in Northern California this past winter resulted in a decrease in the State Water Project (SWP) Table A allocation. The final SWP Table A allocation for 2020, as determined by DWR, is 20% of annual entitlement (or 660 AF). The District does not project a need for imported water, including SWP Table A and supplemental water in FY 2021 to meet its customer's needs.



The District projects having between 600 to 700 AF of surplus water stored in San Luis Reservoir at the beginning of FY 2021. A portion of this water will be used to satisfy the District’s obligation under the *Santa Ynez River/State Water Project Exchange Agreement* (“Exchange Agreement”) dated February 1, 1993. Any remaining SWP Table A supply not used to satisfy the Exchange Agreement will either be banked in Semitropic Water Storage District Groundwater Banking and Exchange Program, used to repay the District’s remaining water debt of 192 AF owed to Mojave Water Agency, or marketed in accordance with the District surplus SWP marketing strategy preparing by WestWater Research.



WATER SALES

The FY 2021 budget projects water sales at 3,750 AF, a 0.8% decrease over FY 2020 projected actuals and a 10.55% increase over FY 2019 sales. The total water production needed to meet this level of water sales is approximately 4,166 AF. Non-revenue water, which is calculated as the difference between total annual water supply production, less projected water sales, is estimated at 417 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 2021, the District anticipates a reduction in non-revenue water resulting from the installation of new and more accurate customer meters.

In addition to 3,750 AF of water sales or 4,166 AF of production, 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 SUPPLY

The District continues 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.

For several years, the District has been in negotiations with the City of Santa Barbara on a potential 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 agencies approved a term sheet involving a 50-year water supply partnership whereby the City would make available and the District would purchase 1,430 AF of water per year irrespective of hydrologic conditions. On May 26, 2020, a draft water supply agreement, consistent with the approved term sheet was release publicly. The District Board of Directors and City Council will be considering approval of a Water Supply Agreement on June 25, 2020 and July 21, 2020 respectively. If approved, water deliveries and the associated payments would begin on January 1, 2022; therefore, there would be no deliveries from this source in the FY 2021 budget period. However, prefunding of the Water Supply Agreement expenses would begin during FY 2021, funding 3.5 years of associated expenses over a 5-year period to help smooth water rates. 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.

The District also continues 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 considering a phased approach whereby Phase I could consist of a project sized to supply recycled water to the Santa Barbara Cemetery.

AVAILABLE WATER SUPPLY

As of the end of FY 2020, the District is projected to have sufficient water supplies to meet projected customer demands through 2022 under varying water supply conditions with customer conservation continuing at or above 30% and customer demand (sales) of approximately 3,750 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 2021.



Table 1

AVAILABLE WATER SUPPLY (AF)

	Source	Projected Use FY2021 (AF)	Water Supply Available Stored (As of July 1, 2020) (AF)
1	Cachuma Project (100%)	2,250	5,000 ^C
2	Jameson Lake	1,400	4,550
3	SWP Table A	0	580 ^A
4	Supplemental Water	0	0
5	Groundwater ^B	180	55 AF/mo
6	Doulton Tunnel ^B	350	30 AF/mo
	Total	4,180^D	10,215

^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 WY2021 allocation, anticipated to be 100% or 2,651AF, issued October 1, 2020.

^D Excludes 300AF annual Juncal transfer to City of Santa Barbara.

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 EXCHANGE LIABILITY

Purchase Date	Seller	Purchased (AF)	Return Liability (AF)	Amount Returned (AF)	Remaining Return Liability (AF)	Timing of Return (years)
Mar 8, 2018	Mojave Water Agency	2,800	700	507	193	8

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 active groundwater wells, and 9 pump 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, and/or 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 filtration of iron and manganese from the groundwater.

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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 2021, the District's combined JPA budgets make up approximately 34.8% 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.



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 September 2020. The USBR has indicated that it intends to issue a 3-year contract extension to allow additional time for the contract renewal process between USBR, the County and Cachuma Member Units.

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%. CCRB's Board of Directors is made up of an elected representative from each of the three remaining member agencies.

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 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 as low as 41%, but have averaged approx. 63% since deliveries to Santa Barbara County began in 1997.

CCWA was organized and exists under a joint exercise of powers agreement among the various participating public agencies. CCWA is composed of eight voting State Water Project participants including the Cities of Santa Maria, Santa Barbara, Guadalupe, and Buellton and the Montecito Water District, Carpinteria Valley Water District, Goleta Water District and Santa Ynez River Water Conservation District (ID#1). The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned based on an allocated percentage of SWP Table "A" water under the governing rules and obligations of CCWA. MWD has a voting percentage of 9.5% in CCWA.

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 has a staff of approx. 31 full time employees. The District’s full SWP Table “A” allocation is 3,000 AF, including a 300 AF



drought buffer. For the 2020 calendar year, DWR has issued an SWP allocation of 20%, which for the District translates to 660 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.

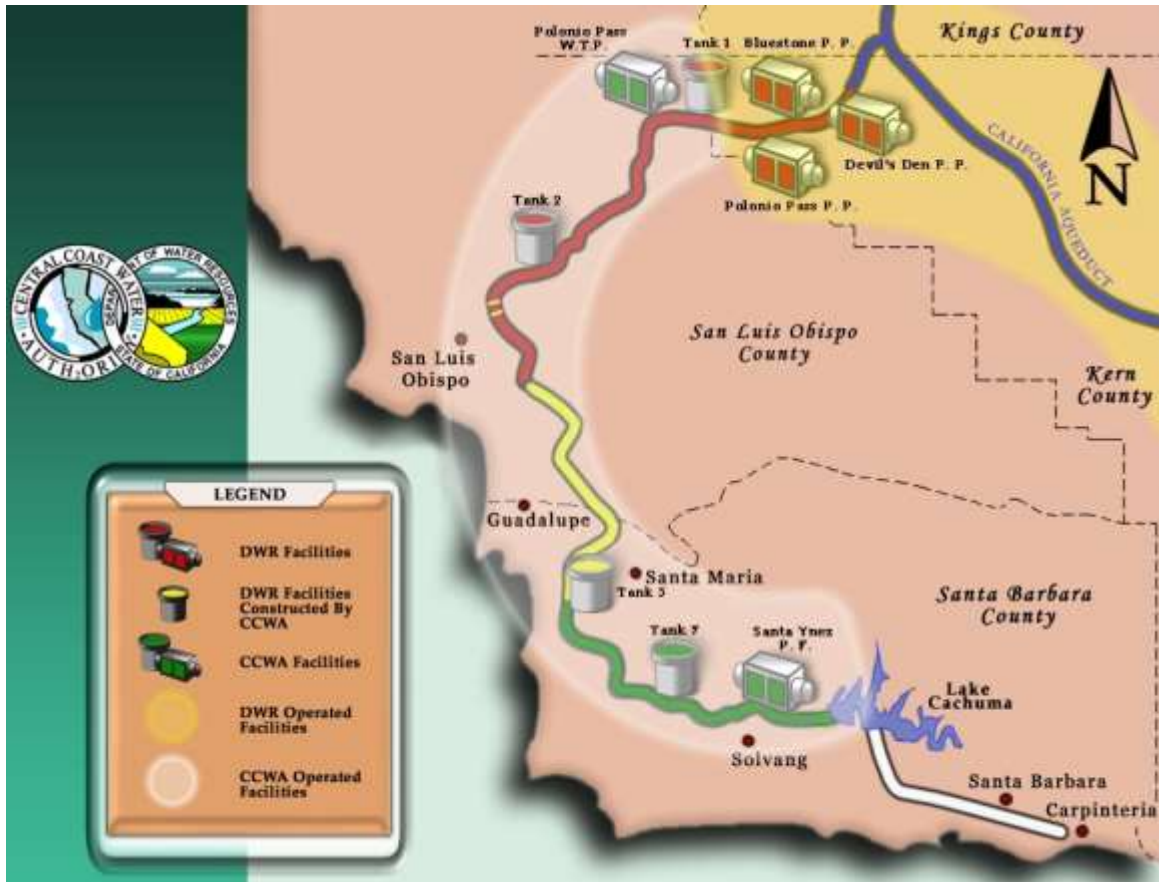
On June 28, 2016, CCWA completed a refinancing of its refunding revenue bonds at a true interest cost of 1.355% resulting in a total interest savings to the CCWA participants of approximately \$5.6 million, or around \$1.1 million per year for the next five years when the bonds will be fully paid. The District's projected annual savings are estimated to be approximately \$185,000 through FY2022.

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



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.



**City of Santa Barbara
Cater Treatment Plant**

The District entered into a JPA with the City of Santa Barbara and CVWD on July 5, 1978 followed by contract amendments for 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 Treatment facility. 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, 2012 is \$1,151,189. 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, were at or in excess of the EPA Stage II disinfection byproducts rule maximum contaminant level. This project is 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 2021 BUDGET SUMMARY

GENERAL

The FY 2021 budget is consistent with the policy and operational goals of the District and is consistent with the recently prepared 5-year financial plan and 2020 *Water Cost of Service and Rate Study*, which is being considered for adoption by the Board of Directors on June 25, 2020. The FY 2021 budget anticipates \$20.92M in revenue and \$21.46M 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 at both the Cachuma Project and Jameson Lake, participation in long-term water supply agreement with the City of Santa Barbara, continued pursuit of other local and rainfall independent sources of water and the replacement of aging infrastructure.

The FY 2021 budget is the first year of the new 5-five year financial plan and 2020 *Water Cost of Service and Rate Study* spanning FY2021 through FY 2025.

Table 3 is a budget summary which provides an overview of the District's anticipated revenues and expenditures for FY 2021.



Table 3
FY 2021 BUDGET SUMMARY

	FY 2020 BUDGET	FY 2020 Forecast	FY 2021 BUDGET
REVENUE			
WATER SALES	9,482,843	9,239,217	15,528,344
WSE SURCHARGE	5,667,868	5,456,990	0
ORDINANCE 94 PENALTIES	0	0	0
MONTHLY METER CHARGES	4,265,070	4,273,204	4,521,601
WATER AVAILABILITY CHARGE	305,676	298,721	298,780
PRIVATE FIRE LINES	71,162	72,125	243,566
LATE CHARGES	71,272	62,309	66,015
SERVICE CONNECTION FEES	31,018	48,218	22,470
CAPITAL COST RECOVERY FEES	308,230	507,394	142,260
INTEREST REVENUE - GENERAL	200,000	215,190	13,500
OTHER REVENUE (LOSS)	123,947	8,127,272	82,124
REIMBURSEMENTS	2,400	11,610	2,400
TOTAL REVENUE	\$ 20,529,486	\$ 28,312,250	\$ 20,921,061
OPERATING EXPENSE			
DIRECT EXPENSE			
JPA OPERATING EXPENSE			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	(634,525)	(666,821)	(708,494)
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	(200,015)	(183,348)	(159,960)
US BUREAU OF RECLAMATION (USBR)	(257,750)	(243,495)	(257,750)
CATER WATER TREATMENT PLANT O&M	(1,379,099)	(914,418)	(1,067,410)
CATER WATER TREATMENT PLANT CAPITAL	(317,840)	(262,896)	(228,425)
CENTRAL COAST WATER AUTH. (CCWA) (SWP) - FIXED	(2,182,208)	(2,334,848)	(2,302,004)
DWR (SWP) - FIXED	(3,568,581)	(3,568,581)	(3,271,714)
CENTRAL COAST WATER AUTH.(CCWA) (SWP) - VARIABLE	(459,626)	(192,889)	0
DWR (SWP) - VARIABLE	(237,529)	(95,843)	(88,452)
SB WATER PURCHASE AGREEMENT	-	-	0
SUPPLEMENTAL WATER PURCHASE	(315,000)	(104,158)	0
TOTAL JPA OPERATING EXPENSE	\$ (9,552,173)	\$ (8,567,297)	\$ (8,084,209)
MWD DIRECT EXPENSE			
JAMESON	(210,771)	(153,939)	(234,238)
TRANSMISSION & DISTRIBUTION	(1,521,803)	(1,420,163)	(1,546,851)
TREATMENT	(1,277,869)	(1,244,571)	(1,272,833)
TOTAL MWD DIRECT EXPENSE	\$ (3,010,442)	\$ (2,818,673)	\$ (3,053,923)
TOTAL DIRECT EXPENSES	(12,562,615)	(11,385,970)	(11,138,132)
MWD INDIRECT EXPENSE			
ENGINEERING	(651,912)	(541,781)	(709,362)
CUSTOMER SERVICE	(405,576)	(416,408)	(409,338)
PUBLIC INFORMATION / CONSERVATION	(151,919)	(132,789)	(132,854)
FLEET	(225,529)	(220,158)	(222,076)
ADMINISTRATION	(1,529,681)	(1,918,026)	(1,366,037)
SEMITROPIC MGMT/MAINT/BANKING FEES	(86,314)	(22,854)	(36,776)
SGMA	(250,000)	(422,200)	(230,410)
RECYCLED WATER DEVELOPMENT	(135,744)	(7,561)	(74,000)
LEGAL - ALL	(212,280)	(152,992)	(236,660)
WSA PREFUNDING	-	-	(3,525,199)
DEPRECIATION	(1,247,404)	(1,224,820)	(1,291,530)
TOTAL MWD INDIRECT EXPENSE	\$ (4,896,357)	\$ (5,059,589)	\$ (8,234,241)
TOTAL MWD EXPENSES	\$ (7,906,799)	\$ (7,878,262)	\$(11,288,164)
TOTAL OPERATING EXPENSE	\$(17,458,972)	\$ (16,445,559)	\$(19,372,373)
NET OPERATING SURPLUS / (DEFICIT)	\$ 3,070,515	\$ 11,866,691	\$ 1,548,688



Table 3 cont'd
FY 2020/21 BUDGET SUMMARY

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	(366,056)	(163,993)	-
CATER DWR LOAN	(231,649)	(231,648)	(231,647)
CATER OZONE	(276,346)	(276,323)	(276,346)
TOTAL NON OPERATING EXPENSE	\$ (2,154,912)	\$ (1,952,826)	\$ (1,788,855)
NET OPERATING SURPLUS / (DEFICIT)	\$ 915,602	\$ 9,913,865	\$ (240,167)
CAPITAL EXPENDITURE			
EQUIPMENT (FIXED ASSETS)	(351,600)	(155,250)	(166,000)
MWD SYSTEM PROJECTS (CAPITAL PROJECTS)	(1,981,250)	(5,496,527)	(1,924,583)
TOTAL MWD CAPITAL EXPENDITURE	\$ (2,332,850)	\$ (5,651,777)	\$ (2,090,583)
ADD BACK DEPRECIATION EXPENSE (NON-CASH)	\$ 1,247,404	\$ 1,224,820	\$ 1,291,530
NET CASH IMPACT	\$ (169,844)	\$ 5,486,908	\$ (1,039,220)

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 charges. Additional revenues are generated by meter connection fees, capital cost recovery fees, interest earnings, the Water Availability Charge and other miscellaneous sources.

District staff projected the quantity of water that is anticipated to be sold to meet projected customer demand based on historical water use trends. Monthly meter charges are based on the quantity and size of meters installed. Details regarding how each of the revenue sources are determined 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 respective operating expenditures and capital programs for FY 2021. 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 Board of Directors on May 26, 2020 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 23, 2020 for final review and approval.

Cost of Living Adjustment (2.96%)

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 2021 is 2.96%. 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 (0.15%)

Interest Revenue for the FY2021 is estimated to be 0.15%. 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 **\$20,921,061**

- Water Sales revenue of \$15,528,344 (74.2% of total revenue) which is based on an estimated demand of 3,750 AF. Water sales are budgeted at a 0.8% decrease over prior year as a percent of total projected revenue.
- Monthly Meter Charges revenue of \$4,521,601 (21.6% of total revenue) assumes the number of District meters increase as a result of the homes that were damaged or destroyed in the January 9, 2018 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 \$298,7806 (1.4% 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 \$572,336 (2.7% 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 **\$19,372,373**

Joint Powers Agencies' (JPA) Operating Expenses are estimated to be \$8,084,209 and comprise about 41.7% of the total operating expenses. JPA expenses in total have decreased by 5.64% compared to FY 2020 projected amount.

- CCWA – Central Coast Water Authority – Includes State Water Project costs (fixed and variable) of \$5,662,170 that comprise 29.2% of the District's total operating expenses (and 70.0% of total JPA expenses) and are approximately \$529,991 lower than the projected results of FY 2020.
- COMB - Cachuma Operation and Maintenance Board - Includes fixed and variable costs of \$966,244 which includes United States Bureau of Reclamation (USBR) costs and the District's annual COMB budget obligation.
- Cachuma Conservation & Release Board (CCRB) costs of \$159,960.
- Cater Treatment Plant – is budgeted for \$1,295,835 and includes \$1,067,410 for operations and maintenance and variable water treatment costs related to all water delivered from Lake Cachuma. Also included is \$228,425 to cover the District's share of capital projects associated with the Cater Treatment plant.

MWD Operating Expenses **\$11,288,164**

Includes salaries and benefits of District employees which are budgeted to receive a 2.96% 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



continued initiatives in this year's budget to improve the reliability of water supplies including the District's portion of the planned prefunding for a Water Supply Agreement, Sustainable Groundwater Management Agency development and implementation, groundwater banking and continued recycled water development. Overall, MWD Operating Expenses have increased 43.28%, however, excluding the WSA prefunding, MWD Operating Expenses have decreased by 1.82%.

Non-Operating Expense (MWD Debt Service) \$1,788,855

Includes principal and interest payments for the District's long-term debt including bonds and loans. The slight decrease over prior year projected costs is the result of paying down the debt associated with the Automated Metering Infrastructure (AMI).

Capital Expenditures (CIP) \$3,470,810

Includes \$3,304,810 for capital improvement projects and \$166,000 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 \$1,039,220 of which approximately \$1.3M is carryover from FY 2020. The amount of carryover is consistent with the CIP included in the 5 year Financial Plan.

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 2021 budget shows sufficient net operating revenue to meet the required debt service ratio. As shown below, the debt coverage ratio is estimated to be 3.96.



EST. DEBT SERVICE COVERAGE RATIO CALCULATION

Debt Service Payment	\$ 1,280,863
Debt Service Requirement	\$ 1,601,079
Total Revenue	\$ 20,921,061
Total Expense*	\$ 15,847,174
Net Operating Surplus	\$ 5,073,887
Debt Service Coverage	\$ 3,472,808
Debt Service Coverage Ratio	3.96

*Does not include the WSA prefunding amount

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 2020 BUDGET	FY 2020 Forecast	FY 2021 BUDGET	FAVORABLE (UNFAVORABLE)
REVENUE				
WATER SALES	9,482,843	9,239,217	15,528,344	6,289,127
WSE SURCHARGE	5,667,868	5,456,990	0	(5,456,990)
ORDINANCE 94 PENALTIES	0	0	0	-
MONTHLY METER CHARGES	4,265,070	4,273,204	4,521,601	248,397
WATER AVAILABILITY CHARGE	305,676	298,721	298,780	59
PRIVATE FIRE LINES	71,162	72,125	243,566	171,441
LATE CHARGES	71,272	62,309	66,015	3,706
SERVICE CONNECTION FEES	31,018	48,218	22,470	(25,748)
CAPITAL COST RECOVERY FEES	308,230	507,394	142,260	(365,134)
INTEREST REVENUE - GENERAL	200,000	215,190	13,500	(201,690)
OTHER REVENUE (LOSS)	123,947	8,127,272	82,124	(8,045,148)
REIMBURSEMENTS	2,400	11,610	2,400	(9,210)
TOTAL REVENUE	\$ 20,529,486	\$ 28,312,250	\$ 20,921,061	\$ (7,391,190)

*Other Income for FY 2020 includes \$7,865,852 of SCE settlement funds and is the majority of the year-over-year variance.

Water Sales \$15,528,344

Budgeted water sales of \$15,528,344 are based on a projected consumption of 3,750 AF of water. The budgeted amount of water sales is 0.8% lower than the projected amount for FY 2020 and is based on budgeted production demands of approx. 4,166 AF. The anticipated decrease is based on the average total water production over the past three fiscal years. District staff will continue to monitor sales and report trends to the Board on a monthly basis.



Monthly Meter Charges **\$4,521,601**

The monthly meter charge is paid by all customers with an installed water meter. This charge varies based on the size of the water meter. Meter charges are the same each month and help cover costs such as system capacity costs to meet peak demands, meter reading, meter servicing, billing and other customer service functions. Table 5 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	2259	\$ 47	1,270,281
1	1593	\$ 77	1,466,006
1 1/2	506	\$ 135	819,963
2	218	\$ 213	556,763
3	16	\$ 731	140,446
4	2	\$ 1,432	34,360
6	6	\$ 3,247	233,782
TOTAL	4600		4,521,601

Water Availability Charge **\$298,780**

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 of Santa Barbara 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 28, 2020.

Other Revenue **\$572,336**

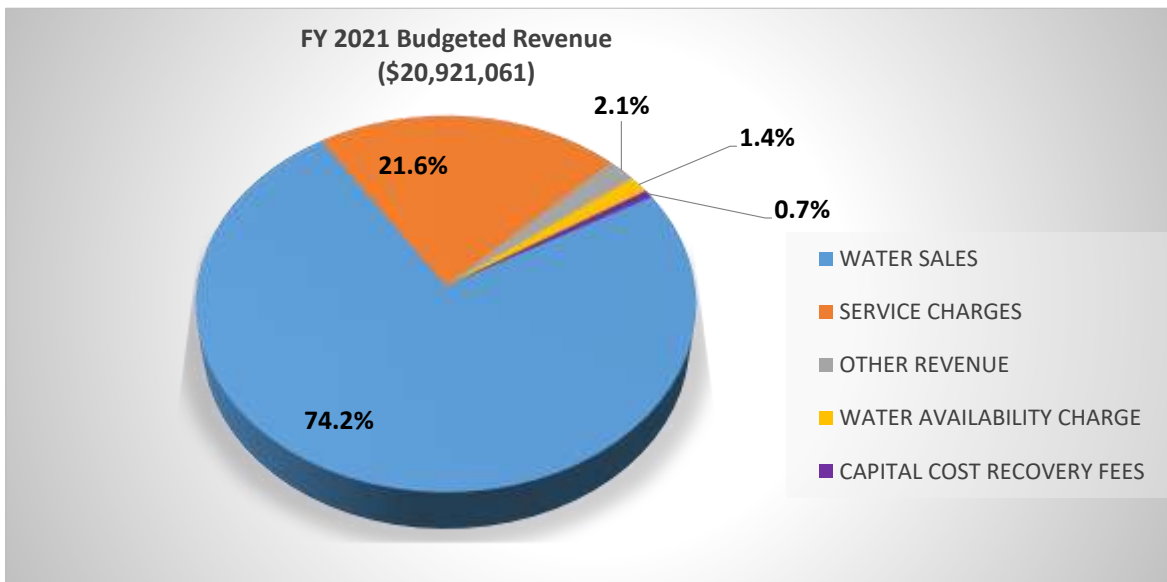
Additional revenue classified as “Other Revenue” includes the following:

- Capital Cost Recovery and Connection Fees anticipated to be \$142,260
 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 10 new meters/connections in FY 2021.



- Interest Revenue anticipated to be \$13,500
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
The current budget does not include revenue from operation of the Picay Hydroelectric Plant. The existing agreement with Southern California Edison (SCE) as expired and the District is working with SCE to reestablish the Power Purchase Agreement. The estimated time for completion is unknown.
- 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 is anticipated to be \$243,566 based on the current number of private fire lines. As of the beginning of FY 21, the District has 107 private fire lines.
- Miscellaneous income is anticipated to be \$129,009., which 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 2020 Forecast	FY 2021 BUDGET	FAVORABLE (UNFAVORABLE)
OPERATING EXPENSE			
DIRECT EXPENSE			
JPA OPERATING EXPENSE			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	(666,821)	(708,494)	(41,673)
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	(183,348)	(159,960)	23,388
US BUREAU OF RECLAMATION (USBR)	(243,495)	(257,750)	(14,255)
CATER WATER TREATMENT PLANT O&M	(914,418)	(1,067,410)	(152,992)
CATER WATER TREATMENT PLANT CAPITAL	(262,896)	(228,425)	34,471
CENTRAL COAST WATER AUTH. (CCWA) (SWP) - FIXED	(2,334,848)	(2,302,004)	32,844
DWR (SWP) - FIXED	(3,568,581)	(3,271,714)	296,867
CENTRAL COAST WATER AUTH.(CCWA) (SWP) - VARIABLE	(192,889)	0	192,889
DWR (SWP) - VARIABLE	(95,843)	(88,452)	7,391
SB WATER PURCHASE AGREEMENT	-	0	-
SUPPLEMENTAL WATER PURCHASE	(104,158)	0	104,158
TOTAL JPA OPERATING EXPENSE	\$ (8,567,297)	\$ (8,084,209)	\$ 483,088
MWD EXPENSES			
JAMESON	(153,939)	(234,238)	(80,299)
TRANSMISSION & DISTRIBUTION	(1,420,163)	(1,546,851)	(126,689)
TREATMENT	(1,244,571)	(1,272,833)	(28,262)
ENGINEERING	(541,781)	(709,362)	(167,581)
CUSTOMER SERVICE	(416,408)	(409,338)	7,070
PUBLIC INFORMATION / CONSERVATION	(132,789)	(132,854)	(65)
FLEET	(220,158)	(222,076)	(1,918)
ADMINISTRATION	(1,918,026)	(1,366,037)	551,989
SEMITROPIC MGMT/MAINT/BANKING FEES	(22,854)	(36,776)	(13,922)
SGMA	(422,200)	(230,410)	191,790
RECYCLED WATER DEVELOPMENT	(7,561)	(74,000)	(66,439)
LEGAL - ALL	(152,992)	(236,660)	(83,668)
WSA PREFUNDING	-	(3,525,199)	(3,525,199)
DEPRECIATION	(1,224,820)	(1,291,530)	(66,710)
TOTAL MWD EXPENSES	\$ (7,878,262)	\$ (11,288,164)	\$ (3,409,902)
TOTAL OPERATING EXPENSE	\$ (16,445,559)	\$ (19,372,373)	\$ (2,926,814)

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 2021, State Water Project expenses comprise nearly 70% of the District’s total JPA operating expenses and 29.3% 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) \$708,494

This is the District’s share of the COMB FY 2021 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 adopted by the COMB Board on May 18, 2020.

Cachuma Conservation and Release Board (CCRB) \$159,960

This represents the District’s share of the Cachuma Conservation and Release Board’s (CCRB) FY 2021 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 which occurred on May 26, 2020.

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 is consistent with prior years. These amounts are based on the COMB budget approved by the COMB Board on May 18, 2020.

Cater Treatment Plant \$1,295,835

This amount includes Cater Treatment Plant operations and maintenance costs, the variable water treatment costs related to all water delivered from Lake Cachuma (\$1,067,410), as well as the City of Santa Barbara’s anticipated Cater Treatment Plant capital projects (\$228,425). The operations and maintenance 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 2021 proposed budget.

CCWA/State Water Project: Fixed Cost Component \$5,573,718

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 2021 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. Due to the financial impact the 2020 COVID-19 pandemic is having on rate revenue, CCWA has provided an alternative payment arrangement whereby participant agencies may make the annual payment due in May 2020 in two installments; three fifths due on June 1, 2020 and two fifths due on December 1, 2020. The District has opted to participate in this alternative payment arrangement. The CCWA budget was adopted by its board on April 23, 2020.

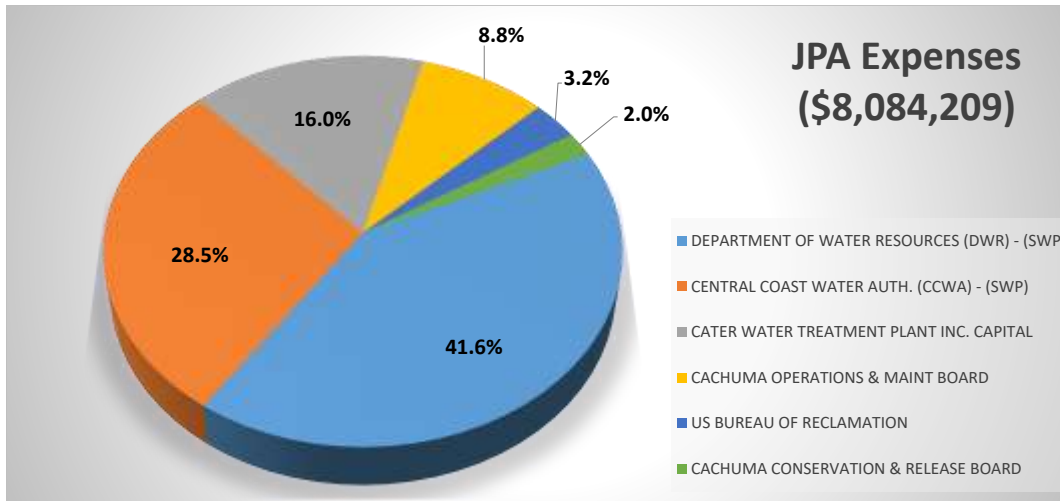
CCWA/State Water Project: Variable Cost Component \$88,452

CCWA variable costs include the treatment and delivery of State Water into Lake Cachuma. For FY 2021, the variable cost to treat water from the State Water Project, according the CCWA include the following: CCWA’s estimated variable cost (\$104/AF), DWR variable cost (\$197/AF) and Warren



Act and Trust Funds Payments (\$58/AF). This budget was adopted by the CCWA Board of Directors on April 23, 2020.

Figure 5



MWD OPERATING EXPENSES

MWD operating expenses comprise about 51.6% (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 \$234,238

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

Transmission and Distribution \$1,546,841

The Transmission and Distribution Operations & Maintenance budget includes maintenance of the District’s 114 miles of pipelines, approximately 4,600 service laterals and water meters, reservoirs, valves and fire hydrants. The budgeted amount includes an estimate of labor, supplies, contracted services, and training.



Treatment **\$1,272,833**

Treatment Operations and Maintenance budget includes the costs to operate and maintain the District's Bella Vista and Doulton water treatment plants. This item consists of labor, supplies, contracted services, training, and electricity.

Engineering (Includes SGMA and Recycled Water Development) **\$1,013,772**

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. The Engineering department will provide oversight on projects in FY 2021 including two significant water main replacement projects replacing over 2 miles of 1920s pipelines, a jack and bore project under the US101 highway, and pump station and groundwater well improvements projects. Studies to be completed in FY 2021 include a Risk Assessment and Emergency Response Plan, Climate Change Study, and 2020 Urban Water Management Plan (UWMP) Update.

The Engineering budget also includes the District's portion of costs related to compliance with Sustainable Groundwater Management Act (SGMA) for the Montecito Basin and costs for performing additional technical services related for a recycled water project.

Customer Service **\$409,338**

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 **\$132,854**

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

Fleet **\$222,076**

This item includes the costs to maintain and repair District equipment, including vehicles and heavy machinery such as backhoes and dump trucks. This includes labor for one employee (mechanic), materials and outside services to maintain the District's fleet.

Administration (including Semitropic MGMT and Legal) **\$1,639,473**

This item includes general and administrative costs necessary to keep the District functioning on a day-to-day basis.

Water Supply Agreement (WSA) Prefunding **\$3,525,199**

Subject to the Board's adoption of Resolution Nos. 2200 and 2201, adopting new water rates and approving a Water Supply Agreement with the City of Santa Barbara on June 25, 2020, the District will prefund four years of expenses over the five year rate setting period amounting to an annual



expense of \$3,525,199. Actual expenses will not become due until January 2022 and will extend through the end of Fiscal Year 2025.

Depreciation \$1,291,530

The District has depreciable assets including buildings, treatment facilities, pipelines and other equipment, of which its annual depreciation totals \$1,291,530. 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 2020 Forecast	FY 2021 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	(163,993)	-	163,993
CATER DWR LOAN	(231,648)	(231,647)	1
CATER OZONE	(276,323)	(276,346)	(23)
TOTAL NON OPERATING EXPENSE	\$ (1,952,826)	\$ (1,788,855)	\$ 163,971

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. In 2022 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 was 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 annual payment was \$366,055, which included paying both principle and interest. In FY 2020, the District received settlement funds from Southern California Edison as a result of the Thomas Fire and subsequent January 2018 Debris Flow event totaling approx. \$8M. A portion of these funds were used to pay off the debt associated with the IPA, therefore no non-operating expenses related to the Smart Meter Program are included in FY 2021.

DEBT SERVICE PAYMENTS FOR DWR ORTEGA, and COPs

The District’s Debt Service is based on bond and loan amortization schedules. The District currently has one bond issue, and one low interest Department of Water Resources loan 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 21 Debt Service	Principal	Interest	Total
2004 DWR Ortega Loan	\$ 457,078	\$ 133,322	\$ 590,400
Bond Interest Expense (COPs)	\$ -	\$ 690,462	\$ 690,462
Total Debt Service	\$ 457,078	\$ 823,784	\$ 1,280,862



Bonds & Loan Balances	Maturity	Original Amount	Balance @ 6/30/20	Interest Rate	Custodian
2004 DWR Ortega Loan	FY 2030	\$ 9,950,000	\$ 5,192,073	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
Total Debt Service		\$ 23,310,000	\$ 18,552,073		

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 2020 Forecast	FY 2021 BUDGET	FAVORABLE (UNFAVORABLE)
CAPITAL EXPENDITURE			
EQUIPMENT (FIXED ASSETS)	(155,250)	(166,000)	(10,750)
MWD SYSTEM PROJECTS (CAPITAL PROJECTS)	(5,496,527)	(1,924,583)	3,571,945
TOTAL MWD CAPITAL EXPENDITURE	\$ (5,651,777)	\$ (2,090,583)	\$ 3,561,195

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 2021 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 - Saw Cutter& Trailer Upgrades	\$ 16,000
TRANSMISSION & DISTRIBUTION - Service Truck #152 3/4 ton	\$ 55,000
TRANSMISSION & DISTRIBUTION - Work Truck #151 1/2 ton	\$ 40,000
TREATMENT - Service Truck #143 3/4 ton	\$ 55,000
TOTAL EQUIPMENT	\$ 166,000

**Table 11
CAPITAL IMPROVEMENT PROJECTS**

CAPITAL IMPROVEMENTS
MWD SYSTEM PROJECTS

Item Description	FY 2020 Carryover	FY 2021 Requests	Total Proposed Budget
PIPELINE REPLACEMENT			
ENGINEERING - Santa Rosa (San Ysidro to North Jameson Lane)	\$ 1,098,169	\$ -	\$ 1,098,169
ENGINEERING -US 101 Crossing @ Sheffield (Caltrans HWY101 widening proj)	\$ -	\$ 70,583	\$ 70,583
ENGINEERING - Fernald Point Bridge Pipeline Replacement	\$ -	\$ 100,000	\$ 100,000
ENGINEERING - East Valley Road (Orchard to Freehaven)	\$ -	\$ 1,000,000	\$ 1,000,000
ENGINEERING - Highline Transmission Main (Romero Cnyn and Bella Vista)		\$ 100,000	\$ 100,000
ENGINEERING - Fernald Point Lane Water Main Replacement		\$ 160,000	\$ 160,000
ENGINEERING - County Paving Valve Can Adjustments		\$ 140,000	\$ 140,000
PIPELINE REPLACEMENT	\$ 1,098,169	\$ 1,570,583	\$ 2,668,752
PUMPING/WELLS/VALVING/TREATMENT			
TREATMENT -Well Pump and Motor Replacement	\$ -	\$ 25,000	\$ 25,000
TREATMENT - Ortega PS Hydro Tank Replacement	\$ 114,090	\$ -	\$ 114,090
TREATMENT - BVTP Improvements (pump, electronics,coatings)	\$ -	\$ 31,000	\$ 31,000
TREATMENT - Well Improvements (EB5 elec panel, Amap SCADA, EB2 PLC)	\$ -	\$ 16,000	\$ 16,000
TREATMENT - Romero PS AC unit	\$ -	\$ 12,000	\$ 12,000
TREATMENT - Bella Vista Finish Water Meter Vault	\$ 25,000	\$ -	\$ 25,000
ENGINEERING - Juncal Dam Emergency Release Valve Modifications (Design)	\$ 42,968	\$ 85,000	\$ 127,968
ENGINEERING - Well Backwash Water Recycling Systems (to avoid discharge to sewer)	\$ -	\$ 60,000	\$ 60,000
TOTAL PUMPING/WELLS/VALVING/TREATMENT	\$ 182,058	\$ 229,000	\$ 411,058
Water Meter Enhancements			
TREATMENT - Production Meters - Repair and Replace	\$ -	\$ 15,000	\$ 15,000
TOTAL WATER METER ENHANCEMENTS	\$ -	\$ 15,000	\$ 15,000
Other			
ENGINEERING - Highway 192 Paving Rehabilitation (from MWD Main Breaks)		\$ 40,000	\$ 40,000
ENGINEERING - Jameson Lake Safety Improvements (Ladders, Safety Climb etc)	\$ 100,000	\$ -	\$ 100,000
ENGINEERING - Jameson Lake Solar Power & SCADA Improvments	\$ -	\$ 70,000	\$ 70,000
TOTAL OTHERS	\$ 100,000	\$ 110,000	\$ 210,000
TOTAL CAPITAL IMPROVEMENTS	\$ 1,380,228	\$ 1,924,583	\$ 3,304,810



The FY 2021 Capital Improvement Projects Budget includes the following infrastructure improvements and equipment purchases.

Equipment

- **Distribution/Treatment Truck & Equipment Replacements** **\$150,000**

In FY 2020/21, the District will replace two distribution utility vehicles (truck #151 and truck #152) and one Treatment utility vehicle (truck #143). All three vehicles have high mileage, making them prone to expensive engine, power train, and other costly repair issues.

- **Saw Cutter & Trailer** **\$16,000**

Distribution uses a saw cutter for asphalt and concrete work and the current saw cutter is 20 plus years old and past its useful life. The saw cutter will be replaced and the District mechanic will purchase parts to update the saw cutter trailer to avoid the high cost of purchasing a replacement trailer which has a water tank, air compressor, and hoses used during the cutting work.

Pipeline Replacement

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

This project includes \$1.1M in carryover from the previous budget year. This project is a high priority project of the District's CIP program and has been delayed several years due to disasters in 2018 and COVID-19 pandemic. 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 has been susceptible to main breaks over the last decade.

- **US101 Crossing at Romero Creek (Segment 4C Widening Project)** **\$400,000**

This project replaces a 100-year old 4-inch water main underneath the US101 between North Jameson Lane and Fernald Point Lane near Romero Creek with a new 8-inch water main inside a 36-inch steel casing. This expense represents 45% of a total project cost share with the Santa Barbara County Association of Governments (SBCAG).

- **Fernald Point Bridge Pipeline Replacement** **\$150,000**

This project is a carryover project from the previous fiscal year and is being completed in coordination with the County of Santa Barbara. The District will replace approximately 220 feet of 6-inch 1955 water main at the same time the County contractor replaces the bridge over Romero Creek at Fernald Point Lane. The project will be completed in two phase. Phase 1 is a temporary 6-inch pipe across the temporary bridge and Phase 2 is the construction of a permanent pipe spanning the creek crossing south of the new County bridge.



- **Fernald Point Lane Water Main Replacement** **\$160,000**

This project will replace 500 feet of 100-year old 4-inch main on Fernald Point Lane with a new 6-inch water main, new service lines, hydrants and valves. The existing water main has significant tuberculation, restricting flows to customers in the area. This project is required in FY 2020/21 due to the US101 crossing in this area requiring abandonment of the US101 crossing by October 31, 2020, reducing flows to customers in the area. This project will upsize and restore water main capacity along Fernald Point Lane prior to the US101 crossing abandonment. Note the US101 crossing is being relocated. Abandonment refers only to the old pipe being abandoned.

- **East Valley Road Water Main Replacement Project** **\$1,000,000**

This water main replacement is high priority given the age, criticality, and high frequency of main breaks in the last decade. The project will replace approximately 6,000 feet of 1923 10-inch cast iron water main with a new 12-inch ductile iron water main. The project includes 10 new hydrants, 14 service lines, and one creek crossing. The project will tie into either side of the new water main at the Romero Creek crossing repaired during the 2018 disaster recovery effort. This project is expected to span into FY2021/22 with another \$500,000 budgeted for the next fiscal year.

- **Romero Canyon Road Highline Relocation** **\$100,000**

The District's 14-inch transmission main or "highline" is in conflict with an upcoming County of Santa Barbara roads project to widen the road at Romero Canyon and Bella Vista Drive. The County is planning to construct a new and larger retaining wall in this area. This project will lower the water main under the retaining wall and relocate two water meters and one hydrant to avoid conflict with the retaining wall.

- **County Right of Way Valve Can Adjustments** **\$140,000**

The County Board of Supervisors dedicated \$10.1 million toward restoring haul routes and roads within the Montecito community and surrounding area that were damaged due to the 2018 debris flow. The work includes grinding down then building up new asphalt on several miles of roadways in Montecito. The District owns approximately 180 water valves in the County Right of Way in conflict with the initial 'lowering' and subsequent 'raising' of the roadway. The project will be performed by the County paving contractor as they complete the paving 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 FY 2020/21 only if a pump/motor fails during that time period. The exact location of the pump and motor replacement is to be determined.



-
- **Ortega Pump Station Hydro Tank** **\$100,000**

This project is a carryover from the previous fiscal year. 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.
 - **Bella Vista Treatment Plant Improvements** **\$31,000**

This project will make improvements at Bella Vista Treatment Plant to replace outdated electronics, sound attenuation padding inside the pump station, two chemical pumps, and recoat the reclaim basins to prevent corrosion.
 - **Groundwater Well Improvements** **\$16,000**

This project will make improvements to outdated electronics Ennisbrook #2, Ennisbrook #5 and Amapola groundwater well sites. The project will replace logic controllers at Ennisbrook #2 and Amapola, install a variable frequency drive at Amapola, and the electrical panel at Ennisbrook #5.
 - **Romero Pump Station Air Conditioning Unit** **\$12,000**

The pump station is subject to significant heat in the hot summer months, causing malfunctions of expansive assets including the large pumps, variable frequency drives and pump controllers. After attempts to cool the building using cheaper methods such as fans, the solution is to install a small air conditioning unit at the pump station. The project includes installation and testing by a certified installer.
 - **BVTP Effluent Meter/Vault** **\$25,000**

This project includes \$25,000 in carryover from the previous fiscal year. Accurate measurement and recording of production volumes is critical for understanding system leaks and losses. The Bella Vista Treatment Plant does not currently have a meter to measure finish water produced by the plant. This results in difficulty balancing production and sales quantities and estimating lost water each month. This project will install a finish water meter on the outlet of the Bella Vista Treatment Plant before the water enters the reservoir. This project includes a new vault, piping, meter and SCADA (water system monitoring software) incorporation.
 - **Juncal Dam Emergency Release Valve Modifications (Design)** **\$125,000**

This project includes \$40,000 of carryover from the previous fiscal year. 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. Phase 1 of this project occurred in the previous fiscal year and resulted in a thorough analysis of the existing valves, dam structure, and challenges with redesigning the valves. Phase 2 will perform an alternatives analysis of potential solutions, select a preferred alternative and complete a 60% design of the valves, in coordination with DSOD. Phase 3 will be construction and inspection of the DSOD approved valve redesign alternative and will likely occur in the next fiscal year depending on project progress.

• **Groundwater Well Backwash Water Recycling Systems** **\$60,000**

The groundwater wells Ennisbrook 2 and Paden currently discharge filter backwash water into the sanitary sewer, costing the District over \$110,000 the last 5 years in sewer service charges. This project will install backwash tanks, recycling pumps, and piping at both well sites to allow the water to settle out solids, recycle the water into the filters, and avoid sanitary sewer discharges in the future.

Water Meter Enhancements

• **Production Meters** **\$15,000**

This project is part of a larger multi-year effort to replace all propeller production meters (18) in the District with magnetic flow meters which are more accurate and less susceptible to wear and tear. This project is the final step in the production meter replacements and will replace two production meters. The first is the existing propeller production meter at Doulton south portal and the second is the reclaim water meter at Bella Vista Treatment Plant.

Other Capital Improvements

• **Highway 192 Paving Rehabilitation** **\$40,000**

A recent water main break at Hot Springs Road and East Valley Road caused uplift and settling in a large area of the roadway, creating a severe drop on the northern road shoulder and ultimately a traffic hazard. Caltrans has requested the District repair this area of roadway in FY 2020/21. Additionally, numerous water main breaks on District pipelines on Highway 192 over the last several years has left asphalt patches in several areas which are made with cold mix asphalt that has broken down over time. These areas will also be repaved with hot mix asphalt.

• **Jameson Lake Solar Power & SCADA Improvements** **\$70,000**

The Jameson Lake property is not connected to the power grid, requiring the District to operate an off-grid solar power system to power the buildings, maintenance tools, water quality and quantity data analyzers, and outdoor lighting. The current solar panel and battery system is outdated and undersized. This project will upgrade the solar system to



accommodate all expected uses for the buildings and site lighting. This project will also upgrade SCADA communication with Jameson Lake by adding production meter, arch drain meter, and flow control actuator in the weir house.

• **Jameson Lake Safety Improvements** **\$100,000**

This project is a carryover from the previous fiscal year. 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	\$1,924,583
WAC	\$298,780
Unfunded Balance (to be paid by District revenues and reserves)	\$1,625,803

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. At its meeting of June 23, 2020, the Board of Director adopted an updated Reserve Policy, District Resolution No. 2199, reflecting modifications incorporated in the referenced *2020 Water Cost of Service and Rate Study*.

The following outlines the various reserves and their current balances.

RESTRICTED RESERVES

As of June 30, 2020, the District is projected to have a total \$18,040,656 in cash and investments in various financial institutions. Restricted Reserves total \$3,563,704, 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 improvement projects. The remaining \$14,476,952 is available for District operating, capital needs and reserve balances and consists of Board Assigned Reserves, an accumulation of revenue for the District’s annual State Water Project payment and the remaining



proceeds from a 2019 settlement with Southern California Edison regarding a Thomas Fire litigation. The District is planning to use the remaining proceeds from the 2019 settlement, approximately \$4.3M to pay down outstanding debt in FY 2021.

**Table 13
RESTRICTED RESERVES**

RESTRICTED RESERVES	Current Balance
CALIFORNIA BANK & TRUST - DWR Loan Reserve	590,971
CCWA - Rate Credit Reserve Fund	1,489,238
BNY MELLON - 2010A COP Reserve Fund	1,483,495
TOTAL RESTRICTED RESERVES	\$3,563,704

UNRESTRICTED RESERVES

The Board desires to maintain a total Unrestricted Reserve balance of \$5,000,000, as detailed in the District’s Reserve Policy adopt via Resolution No. 2199 on June 23, 2020. These funds are legally accessible for use to fund operations and are held in various identified financial accounts shown below.

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

BOARD DESIGNATED RESERVES	Current Balance
Reserve for Operations (3 months)	3,700,000
Reserve for Emergencies	500,000
Reserve for Unanticipated Capital Projects	500,000
Reserve for Desal Capital Expenses	300,000
TOTAL BOARD DESIGNATED RESERVES	\$5,000,000

In accordance with the District’s Reserve policy, adopted June 23, 2020, the Board Assigned Reserves, as determined by the Board of Directors are detailed below. Maintaining adequate available reserve balances is important to the financial health of the District.

The following provides a description of the Board Assigned Reserve funds as of June 30, 2020. 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 (Approx. 3 months) \$3,700,000

The District’s *Reserve for Operations* targets approximately three months of total operating expenses. This reserve has a fund balance for FY 2021 of \$3,700,000. This target was established as part of the FY 2020 five-year financial plan and is being updated with the Board’s adoption of new water rates on June 25, 2020.



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.

Reserve for Water Supply Agreement \$300,000

The District's Reserve for Water Supply Agreement was established in FY 2021 and has a fund balance of \$300,000. This reserve is to be used to fund pay-go capital expenses associated with the City of Santa Barbara's Desalination Plant, which is central to the District's participation in a Water Supply Agreement (WSA) with the City of Santa Barbara. As a condition of the WSA, the District must fund a portion of the costs of maintaining the City's Desalination Plant.

Reserve for Emergencies \$500,000

The Reserve for Emergencies has a fund balance of \$500,000 was also established in the FY 20 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.

Reserve for Unplanned Capital Projects \$500,000

The Reserve for Unplanned Capital Projects has a fund balance of \$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.