MONTECITO WATER DISTRICT

FISCAL YEAR 2022 BUDGET

Adopted: June 22, 2021

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

Charles T. Plough, President

Ken Coates, Vice President

Brian Goebel

Cori Hayman

Floyd Wicks

This budget was prepared under the direction of:

General Manager/Board Secretary

Nicholas Turner

Staff Contributors

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EXECUTIVE SUMMARY

The financial projections in this document describe the annual fiscal year (FY) budget beginning July 1, 2021 and ending June 30, 2022. 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) *5-year Financial Plan* and *Water Cost of Service and Rate Study* (2020 Rate Study) prepared by Raftelis, dated May 7, 2020 and adopted on June 25, 2020.

This FY 2022 budget forecasts $24.05M in Revenue, $20.09M in Operational Expenditures, $1.34M in Debt Service (non-operating) and $4.54M in Capital Improvements. The total net cash impact is forecast to be a $2.54M deficit which includes approved capital expenditures of $0.71M from FY2021 and of $1.23M of ongoing projects authorized prior to FY2021. 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 2022 budget including FY 2021 forecasted actuals.

Highlights from the FY 2022 budget include:

1. This budget incorporates water rates consistent with the *5-year Financial Plan* and *Water Cost of Service and Rate Study* prepared by Raftelis, dated May 7, 2020 and adopted on June 25, 2020.
2. Water sales for FY2022 are projected at 3,815 acre-feet, a decrease of approximately 18.4% from the FY 2021 forecast; FY2021 water sales increased above budget by approximately 700 acre-feet due to ongoing severe drought conditions; Through enhanced conservation efforts, FY2022 water sales are budgeted to be aligned with the 3-year average water sales;
3. Operating expenses are projected to increase by approximately 16.3%, primarily as result of the District beginning to take receipt of and pay for water deliveries beginning January 1, 2022 in accordance with the Water Supply Agreement (2020 WSA) with the City of Santa Barbara, dated September 2, 2020. The 2020 WSA provides 1,430 acre-feet of reliable water annually for 50 years;
4. Prefunding the 2020 WSA, which began in July 2020 continues through December 31, 2021; The revenue needed to fund 3.5 years of water deliveries is spread over 5 years to smooth the impact on water rates in accordance with the 2020 Rate Study;
5. Joint Powers Agency (JPA) related expenses are projected to decrease by 3.5%;
6. Continued emphasis is placed on the replacement of aging infrastructure including reservoirs and 1920s pipelines. The budget includes $4.54M in capital improvement projects and equipment purchases.
7. FY 2022 budget projects a net cash deficit of $2.54M, which is consistent with the 2020 Rate Study;
8. In accordance with Resolution No. 2218 and the adopted Reserve policy adopted June 22, 2021, the District's Restricted Reserves total $1.52M and the Unrestricted Board Committed Reserves total $5M.
9. Revenue and expense for the Montecito Groundwater Basin Groundwater Sustainability Agency is incorporated as GSA Revenue and GSA Expense in the Revenue and MWD Indirect Expense sections of this budget. Detail on GSA revenue and expense is provided as part of the FY 2022 budget for the Agency, adopted by its Board of Directors on June 22, 2021.

Water Supply Outlook

Strategic planning efforts undertaken by the District since 2016 have better-positioned it to manage the return of drought conditions. In 2017, the District acquired regional groundwater storage rights in the Semitropic Groundwater Banking and Exchange Program and currently has approximately half of a one-year supply banked for future use. In 2019, the District formed the Montecito Groundwater Basin Groundwater Sustainability Agency to comply with the Sustainable Groundwater Management Act for the Montecito Groundwater Basin and to ensure this local and reliable supply is protected for the all Stakeholders. Most recently, the District effectuated a 50-year agreement with the City of Santa Barbara for 1,430-acre feet of water (or 35% of the District's annual water supply needs) annually irrespective of hydrologic conditions, the agreement backed by the City's desalination facility, with deliveries beginning on January 1, 2022. In addition, the District continues discussions with Montecito Sanitary District on the development of a feasible recycled water project, with the current effort being the preparation of an Enhanced Recycled Water Feasibility Study focusing on maximizing the use of available wastewater through Indirect and Direct Potable Reuse options. These actions are projected to significantly improve water supply reliability for the community during future water supply shortages and droughts.

Water supply conditions across the State of California are grim with near-historic dry conditions in many areas. Drought conditions continue to worsen statewide, including in Santa Barbara County where, according to the US Drought Monitor as of June 10, 2021 extreme drought conditions exist. The 2020/21 winter delivered far below average rainfall locally, receiving approximately 30% of average according to District records, also being nearly the driest year on record locally. With the Santa Ynez River watershed producing little inflow to Jameson and Cachuma Lakes this past winter, storage has decreased to approximately 70% and 58% respectively of full storage capacity reducing the available annual yield from these two primary local surface water supplies. The State Water Project, a source of imported supply used to supplement a shortage locally, is allocating only 5% of the 3,300AFY entitlement, due to a second consecutive dry year in Northern California. These shortfalls will be partially offset by the commencement of deliveries of desalinated water from the City of Santa Barbara in January 2022. The District is expecting to increase groundwater pumping in late 2021 and beyond, should drought conditions continue. Supplemental water is not projected to be needed in WY2021 but could be in 2022 and beyond if severe drought conditions continue. Should drought conditions continue into 2022, the District will reassess the use of banked water supplies as well as the need to purchase supplemental water.

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. 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. As conditions change, the District will reassess the declared water shortage and make adjustment as necessary to ensure customer water use is aligned with available water supplies.

Customer Demands and Conservation

The District has approximately 4,620 customer water service connections, which are identified by one of the following customer classifications: Residential (Single Family and Multi-Family Residential), Commercial, Institutional, Agricultural and Non-Potable. Residential customers,

which make up approximately 92% of the water service connections, typically use approximately 80% of the District's total water use.

Water demand varies widely and is influenced by many factors including economic and market trends, hydrologic conditions, drought declarations and conservation programs. Before the 2012-18 drought, total annual demand reached a high of nearly 6,900 acre-feet per year (AFY). Subsequently, demands decreased to 3,500 AFY following implementation of mandatory water use restrictions including customer water use allocations and penalties from 2014 to 2018. Water use over the past three years has average near 4,200 AFY, increasing some in 2021 to approximately 4,500AFY due to worsening drought conditions both locally and statewide. While the District has taken extraordinary steps since 2016 to improve water supply reliability including regional groundwater banking, local groundwater management and partnering with the City of Santa Barbara on desalination, ensuring demands remain as planned will ensure the District's limited water supply extends into the future should drought conditions continue.

Voluntary conservation is critical to extending available water supplies. The District targets 30% conservation as compared to 2013 usage, which helps ensure water supply availability in future years and achieves compliance with State-mandated urban water use limits. While conservation reached a high of over 50% during the past drought, it has gradually decreased since 2018 as drought conditions lessened, reaching a 12-month rolling average of about 30% in 2020. But, with severe drought conditions returning, water use since late 2020 has increased significantly reaching a low of 25% conservation. Increased focus will be placed on the District's conservation program in FY 2022 to decrease demands to align with the District's water supply plans.

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 planned in FY 2022 are critical to the District's operations and, more important, improve the financial certainty and reliability of operating and maintaining District facilities. Among the many planned projects in FY 2022 include replacement of 1-2 miles of aging distribution pipelines and design of the retrofit/replacement of the District's water storage tanks.

Water Supply Reliability

Recognizing the importance of long-term water supply reliability, the District's Board of Directors continues to place 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 rights 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 all Stakeholders, and is targeting completion of a Groundwater Sustainability Plan in 2022. Most recently, on September 2, 2020, the District effectuated a 50-year agreement with the City of Santa Barbara for 1,430 acre-feet of water annually irrespective of hydrologic conditions, the agreement being backed by the City's desalination facility. Collaboration continues with Montecito Sanitary

District on the development of a recycled water project, which would further enhance the District's local and reliable water supplies. Diversification is the key component to long-term water supply reliability.

DISTRICT OVERVIEW

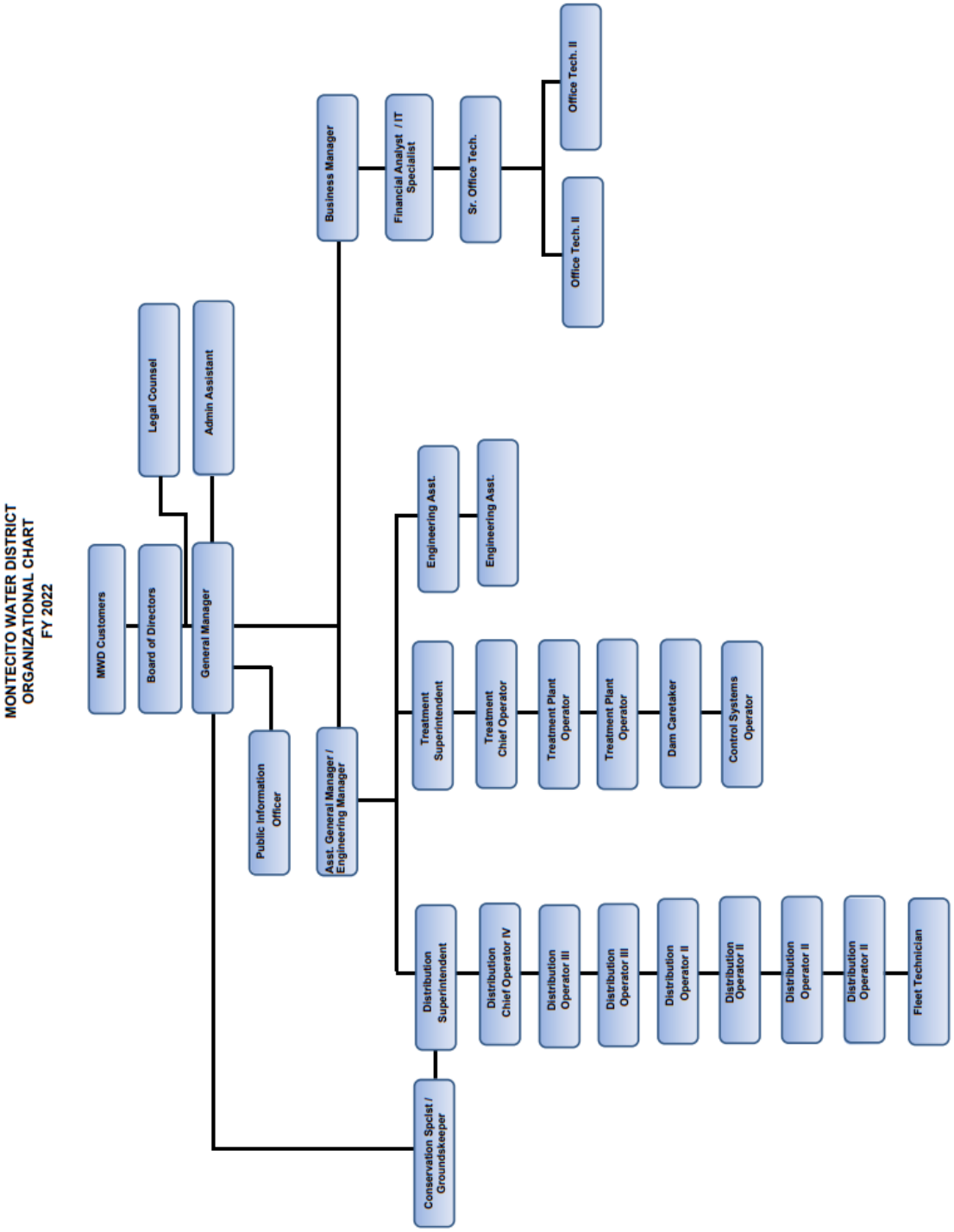
Montecito Water District (District) provides safe and reliable water supplies to approximately 11,817 residents in the Montecito and Summerland communities. The District was incorporated on November 10, 1921 as Montecito County Water District under the provisions of Chapter 387, Statutes of 1913 of the 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
Tobe Plough, President	December 2024
Ken Coates, Vice President	December 2022
Brian Goebel, Director	December 2022
Cori Hayman, Director	December 2022
Floyd E. Wicks, Director	December 2024

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


MONTECITO WATER DISTRICT
ORGANIZATIONAL CHART
FY 2022
MWD Customers
Board of Directors
General Manager
Legal Counsel
Admin Assistant
Public Information Officer
Business Manager
Financial Analyst / IT Specialist
Sr. Office Tech.
Office Tech. II
Office Tech. II
Asst. General Manager / Engineering Manager
Engineering Asst.
Engineering Asst.
Treatment Superintendent
Treatment Chief Operator
Treatment Plant Operator
Treatment Plant Operator
Dam Caretaker
Control Systems Operator
Distribution Superintendent
Distribution Chief Operator IV
Distribution Operator III
Distribution Operator III
Distribution Operator II
Distribution Operator II
Distribution Operator II
Distribution Operator II
Fleet Technician
Conservation Spclst / Groundskeeper

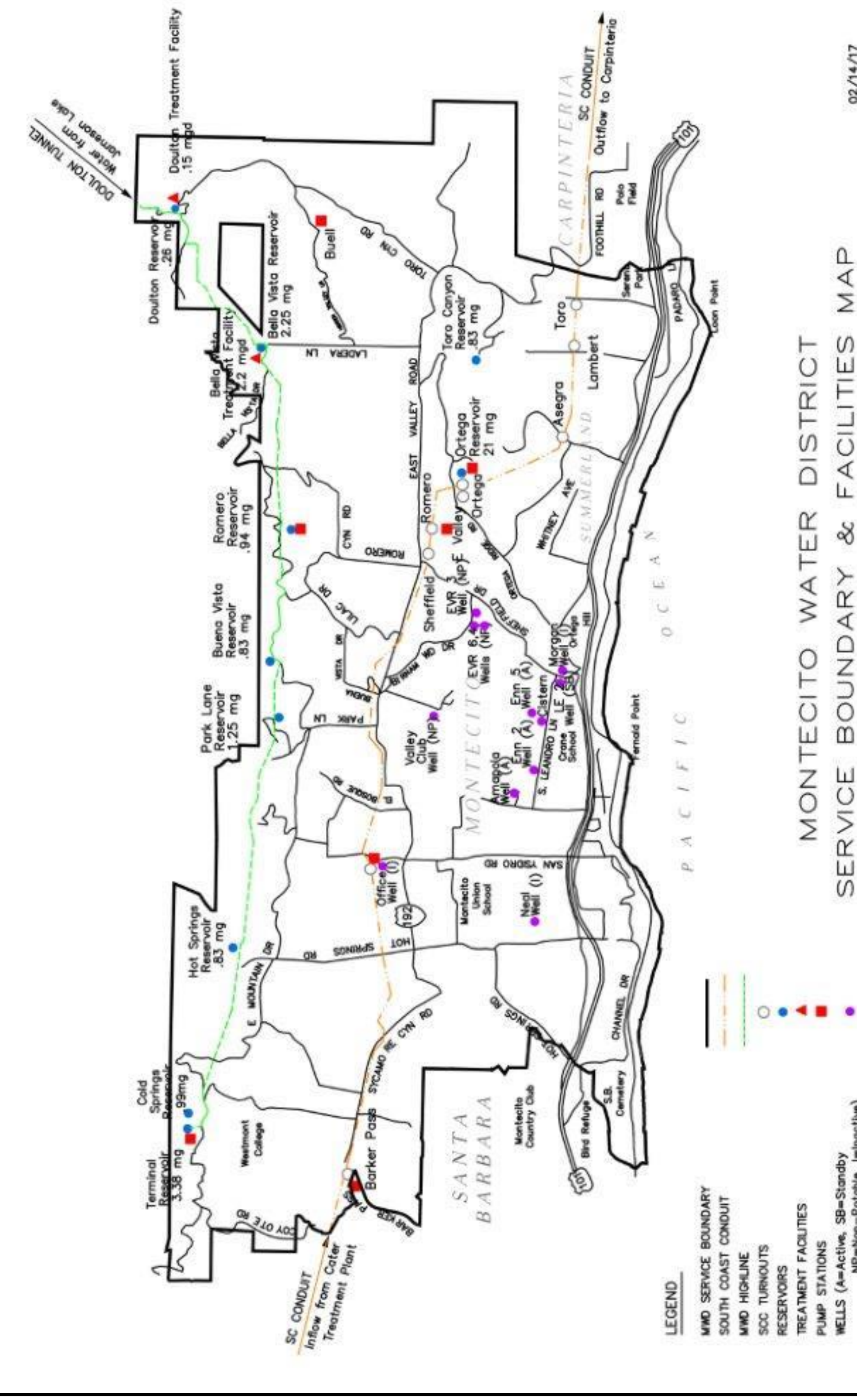
The District is located in the southern coastal portion of Santa Barbara County bounded by the Santa Ynez Mountains coastal range and the Pacific Ocean to the north and south and the City of Santa Barbara and the Carpinteria Valley to the west and east. The District includes the unincorporated communities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

District terrain is relatively steep, varying in elevation from sea level to 1,800 feet. The water system is primarily 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 Project, State Water Project, Doulton Tunnel, Montecito Groundwater Basin and the City of Santa Barbara. In September 2020, the District effectuated a long-term Water Supply Agreement with the City of Santa Barbara in connection with its Charles E. Meyer Desalination Facility for delivery of 1,430 acre-feet of water annually for 50 years. This new source, which commences delivery on January 1, 2020 will provide approximately 35% of District's annual water supply needs and will significantly improve the District's overall water supply reliability. In addition, 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 (Bella Vista 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, nine water storage tanks and over 114 miles of pipelines, valves and pressure regulators necessary to deliver water to its customers. Treated water is delivered and sold to approximately 4,620 domestic, agricultural, institutional and commercial customers.

The District Service Area map is shown in Figure 2.

Figure 2


MONTECITO WATER DISTRICT
SERVICE BOUNDARY & FACILITIES MAP
02/14/17
LEGEND
MWD SERVICE BOUNDARY
SOUTH COAST CONDUIT
MWD HIGHLINE
SCC TURNOUTS
RESERVOIRS
TREATMENT FACILITIES
PUMP STATIONS
WELLS (A=Active, SB=Standby NP=Non-Potable, I=Inactive)
DOULTON TUNNEL Water from Jameson Lake
Doulton Treatment Facility .15 mgd
Doulton Reservoir .26 mg
Bella Vista Reservoir 2.25 mg
Bella Vista Treatment Facility 2.2 mgd
Romero Reservoir .94 mg
Buena Vista Reservoir .83 mg
Park Lane Reservoir 1.25 mg
Hot Springs Reservoir .83 mg
Cold Springs Reservoir .99mg
Terminal Reservoir 3.38 mg
Toro Canyon Reservoir .83 mg
Ortega Reservoir 21 mg
SC CONDUIT Outflow to Carpinteria
SC CONDUIT Inflow from Cater Treatment Plant
Barker Pass
Office Well (I)
Valley Club Well (NP)
Amapola Well (A)
Enn 2 Well (A)
Enn 5 Well (A)
EVR 6,4 Wells (NP)
EVR 5 Well (NP)
Sheffield
Romero
Valley
Ortega
Asegra
Lambert
Toro
Buell
Westmont College
Montecito Union School
Montecito Country Club
Bird Refuge
S.B. Cemetery
Crane School Well
Morgan Well (I)
Cistern
Nesl Well (I)
MONTECITO
SANTA BARBARA
CARPINTERIA
SUMMERLAND
PACIFIC OCEAN
Fernald Point
Loon Point
Polo Field

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 (UWMP), adopted by the District in May 2017. On June 22, 2021, the District adopted its 2020 Urban Water Management Plan Update, which demonstrates full compliance with Senate Bill X7-7. The District's FY 2022 budget reflects an anticipated water production of approximately 4,200 AF, which equates to approximately 3,815 AF in sales, consistent with the 3-year average water sales. This excludes the 300 AF transfer to the City of Santa Barbara in accordance with the 1928 Juncal Dam Transfer Agreement. This projection in 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. In addition to the maximum annual urban water use determination, the 2015 UWMP set the District on course to pursue strategic actions to improve overall water supply reliability for the community. Actions taken to date include acquiring groundwater banking rights in a regional groundwater bank (Semitropic Groundwater Banking and Exchange Program), acquiring a new, local and nearly 100% reliable water supply through a partnership with the City of Santa Barbara in connection with its desalination facility, and continued pursuit of a feasible recycled water project. These actions and future actions will ensure improved water security for Montecito and Summerland into the future.

LOCAL/REGIONAL SOURCES OF WATER SUPPLY

The District's local and regional water supply sources consist of the Cachuma Project, Jameson Lake, infiltration into Doulton Tunnel and groundwater. While local water supplies improved in recent years, supplies did not fully recover from the historic drought that plagued Santa Barbara County between 2012 and 2018. To compound this condition, the 2020/21 winter was nearly the driest on record, placing added strain on these already challenged sources. The District projects drought conditions will continue through the 2021/22 winter with approximately 50% of demand for FY 2022 being supplied from Lake Cachuma, 17% from desalination (WSA with City of Santa Barbara), 17% from Jameson Lake and the remaining from a combination of groundwater and Doulton Tunnel. No imported supplies, including State Water Project water, banked water and supplemental water, are projected to be needed in FY 2022.

Lake Cachuma - 2019

The **Cachuma Project** (Lake Cachuma) received only minimal inflow during the 2020/21 winter and as of June 1, 2021 is at 58% of full storage capacity. The United States Bureau of Reclamation (USBR) issued a 100% Cachuma Project allocation for Water Year 2021, which began October 1, 2020 equating to 2,651 AF.

Due to the reduced lake level and limited available water, the Water Year 2022 allocation remains uncertain. The District's water supply planning projects a minimum 40% allocation (1,060 acre-feet), which will be utilized along with other stored water from prior years to help meet customer demands during FY2022.

Jameson Lake - 2019

District-owned **Jameson Lake** also received minimal inflow, less than 200 AF during the 2020/21 winter. Jameson Lake last spilled on April 6, 2020 and as of June 1, 2021 is at 70% (3,500 AF) of its current 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. 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 Modified Operational Rule Curve for the reservoir, updated as part of the *Future Water Demands & Water Supply Options Update 2020* prepared by Dr. Steve Bachman in May 2020, recommends reduced annual diversion of up to approximately 750 AF based on the current lake level. Deliveries from Jameson Lake are expected to provide approximately 700 AF of water in FY 2022.

The **Montecito Groundwater Basin** is a locally-controlled and reliable water source for the District. Diversions from the basin make up approximately 5 to 15% of the District's annual water supply. The District has a total of 12 active groundwater wells, of which 6 are potable and 6 are non-potable. The 2012-2018 drought put a strain on the Montecito Groundwater Basin. Recent measurements have indicated a leveling-off of basin recovery, which had experienced gradual recovery since early 2017, when groundwater was at or near record low levels. After having reduced pumping since late 2019 and allowing for basin recovery, it is anticipated that deliveries from groundwater will increase in FY 2022 to approximately 400 AF due to worsening drought conditions.

Doulton Tunnel, a 2.3-mile-long tunnel through the Santa Ynez Mountains connecting Jameson Lake and the District's service area, collects tunnel intrusion water (groundwater). This water is collected and conveyed along with water delivered from Jameson Lake through the Doulton Tunnel to the District for treatment. The intrusion rate has historically varied widely depending on the hydrology and can range from above 1,000 AFY to the low hundreds. Due to the ongoing severe drought conditions, deliveries from Doulton Tunnel are projected to continue to decline at approximately 200 AF for FY 2022.

IMPORTED SOURCES OF WATER SUPPLY

In addition to local and regional water supplies, the District imports **State Water Project** 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 vary depending of the delivery point but are anticipated to be approximately 3,400 AFY in FY 2022, with deliveries anticipated through the spillway of Bradbury Dam. 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 during the 2020/21 winter resulted in an extraordinarily low State Water Project (SWP) Table A allocation. The final SWP Table A allocation for 2021, as determined by the California Department of Water Resources (DWR), is 5% of annual entitlement (or 165 AF). The District does not project a need for imported water, including SWP Table A and supplemental water in FY 2022 to meet its customer's needs.

The District projects having approximately 250 AF of water stored in DWR's San Luis Reservoir at the beginning of FY 2022. Nearly all 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.

When a need is projected, the District purchases supplemental water through the Central Coast Water Authority's (CCWA) Supplemental Water Purchase Program. Between 2014 and 2018, the District purchased nearly 18,000 AF of supplemental water. Many of these water purchase arrangements contained obligations to return a specific amount of water within a specified time period (water debt). In late 2020, the District repaid its last remaining water debt to the Mojave Water Agency. Currently, the District has no water debt. In the future, following DWR's adoption of State Water Project Contract Amendment No. 21 in early- to mid-2021, most supplemental water purchases will not incorporate provisions involving the incurrence of water debt. This benefit may be affected by special conditions being imposed by Santa Barbara County on CCWA members, including the District.

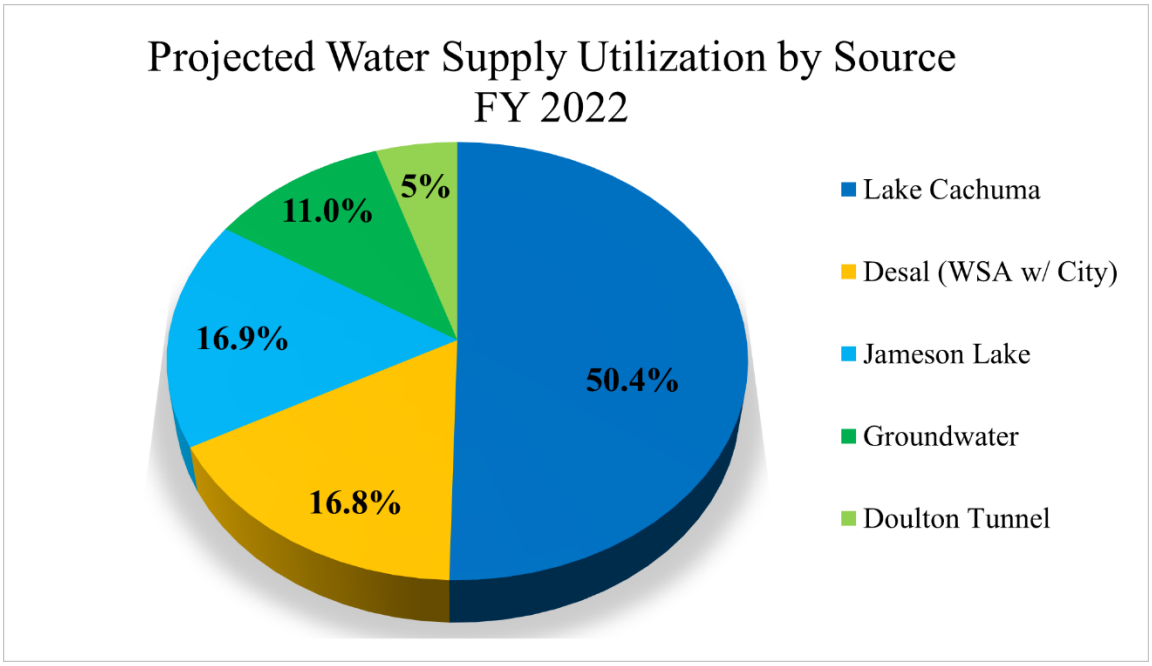
NEW WATER SOURCE

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.

The District Board of Directors and City of Santa Barbara City Council approved a long-term Water Supply Agreement (**WSA or Desalination**) on June 25, 2020 and July 21, 2020 respectively. This agreement supplies the District with 1,430 AFY of reliable water for a term of 50 years irrespective of hydrologic conditions. Water deliveries and the associated payments begin on January 1, 2022. Prefunding of the WSA expenses began in July 2020 and will fund 3.5 years of associated expenses over a 5-year period to help smooth water rates. The WSA will significantly improve water supply reliability and security, providing a water supply that is drought-proof and nearly 100% reliable.

POTENTIAL SOURCES OF NEW WATER SUPPLY

The District continues discussions with Montecito Sanitary District (MSD) on the development of a **Recycled Water** project. In FY 2022, it is anticipated that the District and MSD will jointly pursue an *Enhanced Recycled Water Feasibility Study*, expanding upon the 2019 *Recycled Water Facilities Plan* placing particular focus on Indirect and Direct Potable Reuse options.



WATER SALES

The FY 2022 budget projects water sales at 3,815 AF consistent with the 3-year-average water sales. This is a 1.7% increase over FY 2021 budget and 18.4% decrease over FY 2021 forecast. FY 2021 forecasted water sales of 4,441 AF is extraordinary and a result of the dry 2020/21winter. With drought conditions expected to worsen, the District anticipates increased voluntary conservation in FY2022, targeting sales that align with urban water use limitation and its forecasted available water supplies. The total water production needed to meet water sales at 3,815 AF is approximately 4,200 AF. Non-revenue water, which is calculated as the difference between total annual water supply production less projected water sales is estimated at 385 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 replacement of all water meters in September 2020 as part of District's implementation of a Smart Metering Program, the District is realizing a reduction in non-revenue water resulting from the more accurate customer meters.

In addition to 3,815 AF of water sales or 4,200 AF of production, the District is required under a contractual obligation as part of the 1928 Juncal Dam Transfer Agreement to transfer 300 AF per year of water to the City of Santa Barbara. This transfer typically takes place in September 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.

WATER SUPPLY OUTLOOK

As of the end of FY 2021, the District is projected to have sufficient water supplies to meet projected customer demands through FY 2022 under varying water supply conditions and customer demand (sales) of approximately 3,815 AFY. The District will place particular emphasis on voluntary customer conservation throughout FY 2022 with the intent of returning to and maintaining overall conservation at or above 30% of the District's 2013 water use. This supply projection is consistent

with Senate Bill X7-7 requiring a 20% reduction in urban water use by 2020. Updated urban water use regulations are under development by DWR and therefore the 2025 compliance requirement is unknown at this time.

Table 1 below indicates the District's available water supplies by source as of the beginning of FY 2022.

Table 1

AVAILABLE WATER SUPPLY (AF)

	Source	Projected Use FY 2022 (AF)	Water Supply Available Stored (As of July 1, 2021) (AF)
1	Cachuma Project	2,117	4,135[C]
2	Desal (WSA w/ SB)	704	117 AF/mo
2	Jameson Lake	709	3,406
3	Groundwater[B]	461	38 AF/mo
4	Doulton Intrusion	209	17 AF/mo
5	SWP Table A[A]	0	248[A]
6	Supplemental Water	0	0
	Total Projected Water Production	**4,200**[D]	
	Unaccounted for Water Loss	(385)	
	Total Projected Water Sales	**3,815**	

[A] Stored SWP Water to be used to comply with the SYRWCD ID1 exchange during FY2022.
[B] Additional water supply produced and available for use on a monthly basis.
[C] Excludes WY 2022 allocation, anticipated to be 40% or 1,060AF, issued October 1, 2021.
[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. As of June 2021, the District has no outstanding water exchange liabilities.

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 gallons (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 MG per day (6.7 AF per day) treatment facility that is used to treat water received from Jameson Lake and Doulton Tunnel intrusion. 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 AF 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 customers located on 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.

JOINT POWERS AGENCIES (JPA)

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 2022, the District's combined JPA budgets make up approximately 38% of its total operating expenses.

Cachuma Operation and Maintenance Board (COMB) JPA

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 (ID#1). COMB's Board of Directors is made up of elected representatives from each of its member agencies.

Lake Cachuma – April 2021

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 ID#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 1995 Cachuma Project contract with USBR expired in September 2020. USBR and COMB entered into a 3-year interim contract in September 2020 to allow additional time for the contract renewal process between USBR, the County and Cachuma Member Units.

Cachuma Conservation Release Board (CCRB) JPA

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) JPA

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 ID#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 has averaged approximately 61% 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 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 approximately 30 full time employees. The District's full SWP Table "A" allocation is 3,000 AF, including a 300 AF drought buffer. For the 2021 calendar year, DWR has issued an SWP allocation of 5%, which for the District translates to 165 AF. Due to the ongoing drought conditions plaguing the entire state, DWR's projections for water availability in 2022 are grim.

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.

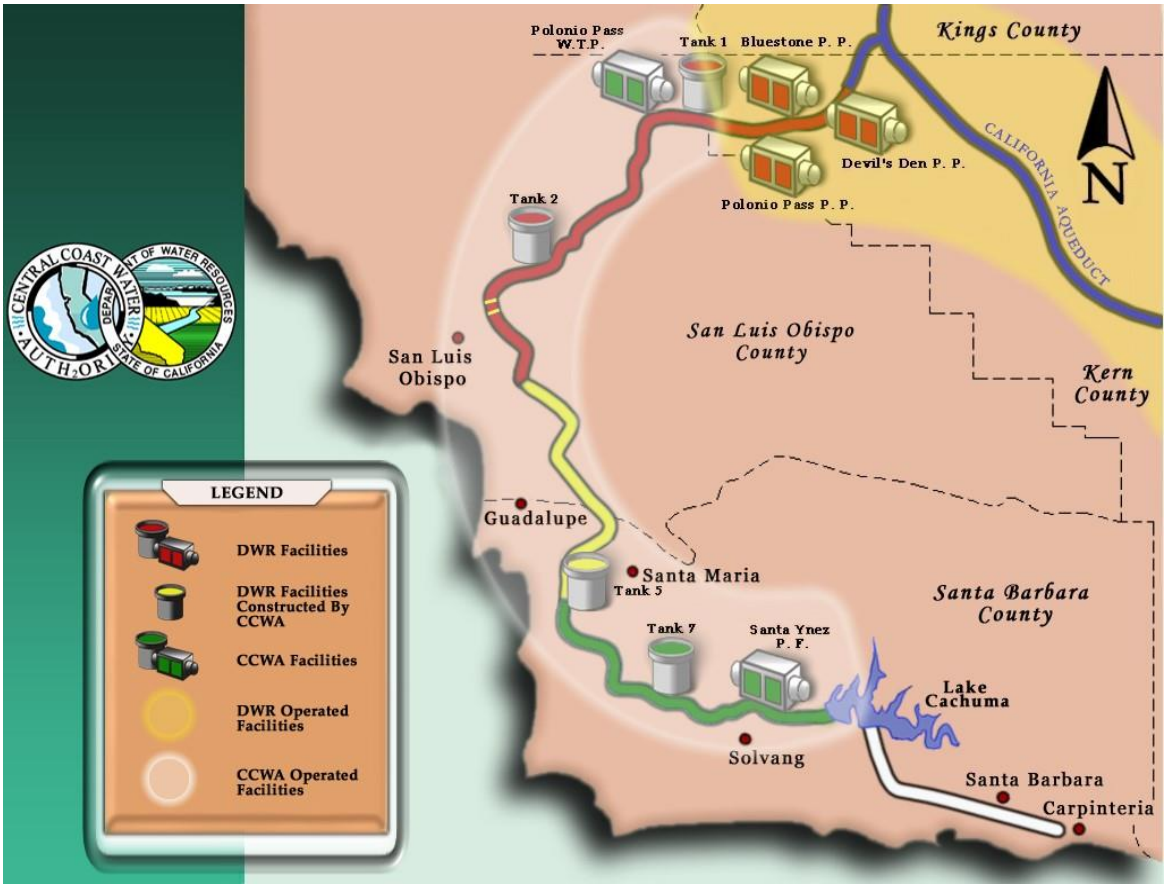
On June 28, 2016, CCWA completed a refinancing of its refunding revenue bonds at a true interest cost of 1.355% resulting in a total interest savings to the CCWA participants of approximately $5.6 million, or around $1.1 million per year for the next five years when the bonds will be fully paid. The 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 – SWP Coastal Branch Facilities



Cater Treatment Plant JPA

City of Santa Barbara
Cater Treatment Plant

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

The District entered into a JPA with the City of Santa Barbara and CVWD on July 5, 1978 followed by contract amendments for 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, 2020 is $953,470. 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 $276,738 per year thru July 2035.

Water Supply Agreement

In September 2020, the District and the City of Santa Barbara (City) effectuated a 50-year Water Supply Agreement (WSA) whereby the City is obligated to supply, and the District is obligated to accept, 1,430 AF of water annually irrespective of hydrologic conditions. The WSA was pursued by the District because its current water supply sources are increasingly affected by changing regulations, environmental, and climatic challenges. The District's acquisition of this new reliable water source is supported by its *Future Water Demand and Water Supply Options 2020 Update* analysis prepared by Dr. Steve Bachman in May 2020 indicating moderate to extensive shortages experienced under certain anticipated future conditions. Despite the District having a diverse water supply portfolio, history has shown that its supplies are insufficient to meet customer needs during extended periods of below-normal rainfall and droughts, which are projected by experts to be of increased intensity, longer duration and more frequent in the future. This agreement provides the District with a new local water supply that is nearly 100% reliable and will help protect against ongoing and future droughts and climate change.

The water unit pricing is based on the financing and operational costs of the City's Charles E. Meyer Desalination Plant and the Conveyance Pipeline, including additional payments in consideration of the City's past investments and risks. The estimated unit cost of water in accordance with the WSA is $3,194 per AF based on the current production capacity of the Desalination Plant. Desalination Plant financing and operational costs are the basis for the water unit pricing because it is the water produced by the Desalination Plant that creates the surplus water supply enabling the City to enter into the agreement. As the Desalination Plant increases in capacity, the District will benefit from economies of scale. The City has indicated it currently has no plans to expand the Desalination Plant. Although the water pricing is based on the Desalination Plant costs, the District has no ownership

rights in the Desalination Plant or other City water facilities, and does not have control over its operations. The City is required to maintain the Desalination Plant's ability to produce water, which, at a minimum, means that the Plant will be able to promptly resume operation in event of a shut-down if resumption of operations is necessary to meet City's delivery obligation under the WSA.

FY 2022 BUDGET SUMMARY

GENERAL

The FY 2022 budget is consistent with the policy and operational goals of the District and is consistent with the 5-year financial plan and 2020 *Water Cost of Service and Rate Study*, which was adopted by the Board of Directors on June 25, 2020. The FY 2022 budget anticipates $24.05M in revenue, $24.6M in operational and capital expenditures and $837K in 2020A debt service. 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 2022 budget is the second year of the 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 2022.

Table 3

FY 2022 BUDGET SUMMARY

	FY 2021 BUDGET	FY 2021 FORECAST	FY 2022 BUDGET
REVENUE			
WATER SALES	15,528,344	17,533,181	**16,010,040**
MONTHLY METER CHARGES	4,521,601	4,492,671	**4,632,855**
WATER AVAILABILITY CHARGE	298,780	297,971	**297,971**
PRIVATE FIRE LINES	243,566	238,469	**250,372**
LATE CHARGES	66,015	68,138	**69,493**
SERVICE CONNECTION FEES	22,470	16,353	**28,588**
CAPITAL COST RECOVERY FEES	142,260	77,950	**127,448**
INTEREST REVENUE - GENERAL	13,500	32,242	**14,400**
OTHER REVENUE (LOSS)	82,124	290,814	**82,124**
REIMBURSEMENTS	2,400	1,386	**280,638**
GSA	0	1,503,460	**2,259,234**
TOTAL REVENUE	**$ 20,921,060**	**$ 24,552,635**	**$ 24,053,164**
OPERATING EXPENSE			
DIRECT EXPENSE			
JPA OPERATING EXPENSE			
CACHUMA OPERATIONS & MAINT BOARD (COMB)	(708,494)	(708,492)	**(576,324)**
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	(159,960)	(159,960)	**(149,881)**
US BUREAU OF RECLAMATION (USBR)	(257,750)	(259,495)	**(226,820)**
CATER WATER TREATMENT PLANT O&M	(1,067,410)	(1,070,577)	**(1,227,300)**
CATER WATER TREATMENT PLANT CAPITAL	(228,425)	(198,189)	**(158,920)**
CENTRAL COAST WATER AUTH. (CCWA) (SWP) - FIXED	(2,302,004)	(2,302,008)	**(2,279,037)**
DWR (SWP) - FIXED	(3,271,714)	(3,107,780)	**(2,912,301)**
CENTRAL COAST WATER AUTH.(CCWA) (SWP) - VARIABL	-	-	**0**
DWR (SWP) - VARIABLE	(88,452)	(32,605)	**(30,000)**
SUPPLEMENTAL WATER PURCHASE	-	-	**0**
TOTAL JPA OPERATING EXPENSE	**$ (8,084,209)**	**$ (7,839,106)**	**$ (7,560,583)**
MWD DIRECT EXPENSE			
JAMESON	**(234,238)**	(200,710)	**(263,007)**
TRANSMISSION & DISTRIBUTION	**(1,546,851)**	(1,651,408)	**(1,644,753)**
TREATMENT	**(1,272,833)**	(1,323,015)	**(1,362,454)**
TOTAL MWD DIRECT EXPENSE	**$ (3,053,923)**	**$ (3,175,133)**	**$ (3,270,214)**
TOTAL DIRECT EXPENSES	**(11,138,132)**	**(11,014,239)**	**(10,830,797)**
MWD INDIRECT EXPENSE			
ENGINEERING	**(709,362)**	(894,046)	**(840,104)**
CUSTOMER SERVICE	**(409,338)**	(412,002)	**(389,362)**
PUBLIC INFORMATION / CONSERVATION	**(132,854)**	(121,743)	**(167,611)**
FLEET	**(222,076)**	(226,855)	**(239,646)**
ADMINISTRATION (Excl Dep,Legal & Semitropic)	**(1,366,037)**	(2,174,539)	**(1,686,701)**
SEMITROPIC MGMT/MAINT/BANKING FEES	**(36,776)**	(22,411)	**(22,852)**
GSA	**(230,410)**	(1,003,072)	**(1,781,602)**
RECYCLED WATER DEVELOPMENT	**(74,000)**	21,549	**(75,000)**
LEGAL - ALL	**(236,660)**	(233,191)	**(288,000)**
2020 WSA W/ SANTA BARBARA (DESAL)	-	-	**(2,631,240)**
EXTRAORDINARY	-	(118,527)	**0**
DEPRECIATION	**(1,291,530)**	(1,070,814)	**(1,140,000)**
TOTAL MWD INDIRECT EXPENSE	**$ (4,709,042)**	**$ (6,255,651)**	**$ (9,262,118)**
TOTAL OPERATING EXPENSE	**$ (15,847,174)**	**$ (17,269,889)**	**$ (20,092,915)**
NET OPERATING SURPLUS / (DEFICIT)	**$ 5,073,886**	**$ 7,282,745**	**$ 3,960,248**

Table 3 cont'd

FY 2022 BUDGET SUMMARY

	FY 2021 BUDGET	FY 2021 FORECAST	FY 2022 BUDGET
NON OPERATING EXPENSE			
2004 DWR ORTEGA LOAN	(590,400)	(23,556)	-
2010 BOND INTEREST EXPENSE	(690,463)	(130,426)	-
AMI METER FINANCING	-	-	-
CATER DWR LOAN	(231,647)	(231,648)	**(225,416)**
CATER OZONE	(276,346)	(276,323)	**(276,739)**
2020 BOND INTEREST EXPENSE	-	(160,222)	**(501,900)**
2020 BOND PRINCIPAL	-	(160,000)	**(335,000)**
TOTAL NON OPERATING EXPENSE	**$ (1,788,855)**	**$ (982,175)**	**$ (1,339,055)**
NET OPERATING SURPLUS / (DEFICIT)	**$ 3,285,031**	**$ 6,300,570**	**$ 2,621,193**
CAPITAL EXPENDITURE			
EQUIPMENT (FIXED ASSETS)	**(166,000)**	(212,473)	**(249,000)**
WATER STORAGE PURCHASE	-		-
MWD SYSTEM PROJECTS (CAPITAL PROJECTS)	**(1,924,583)**	(3,618,808)	**(4,291,000)**
TOTAL MWD CAPITAL EXPENDITURE	**$ (2,090,583)**	**$ (3,831,281)**	**$ (4,540,000)**
PREFUNDING			
2020 WSA W/ SANTA BARBARA (DESAL)	**(3,525,204)**	(3,525,204)	**(1,762,600)**
TOTAL PREFUNDING	**$ (3,525,204)**	**$ (3,525,204)**	**$ (1,762,600)**
ADD BACK DEPRECIATION EXPENSE (NON-CASH)	**$ 1,291,530**	**$ 1,070,814**	**$ 1,140,000**
NET CASH IMPACT	**$ (1,039,226)**	**$ 14,899**	**$ (2,541,406)**

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 conforms with Generally Accepted Accounting Principles (GAAP) as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principals.

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. The enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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 revenue source is 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, Assistant General Manager/Engineering Manager and the Business Manager received budget requests from department managers and superintendents for their respective operating expenditures and capital programs for FY 2022. 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 2022 budget. The draft budget or portions thereof were then presented to both the Operations & Customer Relations and the Finance Committees for further consideration.

Staff then conducted a budget workshop with the Board of Directors on May 25, 2021 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 22, 2021 for final review and approval.

Cost of Living Adjustment (1.74%)

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 2022 is 1.74%. 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 (15%)

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

Interest Revenue (0.15%)

Interest Revenue for FY2022 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.

District Contribution toward Employee Dependent Health Care Premium ($640/$1060)

The District Contribution towards premiums for Employee dependent health care increased to $640 for employee + dependent plans and $1,060 for employee + family plans to be more in line

with prior policy objectives, whereby the employee would be responsible for 15% of the premium for dependents. This increase is based on 15% of the premium of the lowest cost medical plan offered to Employees by the District.

BUDGET HIGHLIGHTS

Total Revenue $24,053,164

- Water Sales revenue of $16,010,040 (67% of total revenue) which is based on an estimated demand of 3,815 AF. Water sales are budgeted at a 7% decrease over prior year as a percent of total projected revenue.
- Monthly Meter Charges revenue of $4,632,855 (19% of total revenue) is based on 4,620 total water meters varying in size from ¾-inch to 6-inch and assumes six new meters being issued during FY 2022.
- Water Availability Charge (WAC) is budgeted at $297,971 (1% of total revenue) which is based on a sliding scale charge of $30 per acre or 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. This fee has not changed since being established in 1996.
- GSA (Groundwater Sustainability Agency) revenue of $2,259,234 received from a combination of Fee proceeds collected from the County of Santa Barbara Tax Collector, Proposition 68 Grant Funding and District's cost share.
- Other operating revenues of $853,064 (3.5% of total revenue) includes connection fees, capital cost recovery fees, interest revenue, late charges, reimbursements and other miscellaneous income. The budget for these items is based on recent trends in these areas.

Total Operating Expense $20,092,915

Joint Powers Agencies' (JPA) Operating Expense is estimated to be $7,560,583 and comprise about 38% of the total operating expenses. JPA expenses in total have decreased by 7.8% compared to FY 2021 Forecast.

- CCWA – Central Coast Water Authority – Includes State Water Project costs (fixed and variable) of $5,221,338 that comprise 26% of the District's total operating expenses (and 69% of total JPA expenses) and are approximately $221,055 lower than the FY 2021 forecast.
- COMB – Cachuma Operation and Maintenance Board - Includes fixed and variable costs of $803,144 which includes United States Bureau of Reclamation (USBR) costs and the District's annual COMB budget obligation.
- CCRB – Cachuma Conservation & Release Board is budgeted for $149,881.
- Cater Treatment Plant – is budgeted for $1,386,220, which includes $1,227,300 for operations and maintenance and variable water treatment costs related to all water delivered

from Lake Cachuma. Also included is $158,920 to cover the District's share of capital projects associated with the Cater Treatment plant.

MWD Direct and Indirect Expenses is estimated to be $12,532,333. MWD Direct and Indirect Expenses include expenses necessary to reliably provide potable water to the District's customers. Additionally, MWD Operating Expenses also include Board initiatives to improve the water supply reliability including payment for deliveries of water in accordance with the WSA, SGMA compliance, groundwater banking and continued recycled water development. Overall, MWD Operating Expenses for FY 2022 have increased 33% over FY 2021 Forecast, primarily due to the purchase of water in accordance with the WSA and an increase in the GSA's implementation of grant projects. Excluding these expenses, MWD Operating Expenses have decreased by 3.27%.

Total Non-Operating Expense (MWD Debt Service) $1,339,055

Includes principal and interest payments for the District's long-term debt including bonds and loans. When comparing FY 2022 Budget to FY 2021 Budget, the District will experience a favorable decrease of $443,981.78 in non-operating expenses resulting from refinancing of the District 2010 COP Bonds and 2004 DWR Ortega loan.

Total Capital Expenditure (CIP) $4,540,000

Includes $4,291,000 for capital improvement projects and $249,000 for equipment purchases. Of the total capital improvement projects, $710,000 is carryover from FY 2021 and $1,230,000 is carry over of projects approved by the Board of Directors in a prior fiscal year.

Total Prefunding $1,762,600

Includes six months of prefunding, totaling $1,762,600 for the 2020 Water Supply Agreement with the City of Santa Barbara, which began in July 2020 and will continue through December 31, 2021. The revenue needed to fund 3.5 years of water deliveries beginning on January 1, 2022 is spread over 5 years to smooth the impact on water rates in accordance with the District's June 2020 5-year Financial Plan and *Water Cost of Service and Rate Study*;

BUDGETED OPERATIONS RESULTS

Summary of budgeted operations including revenues and expenses, debt service, capital expenditures and prefunding result in a budget deficit (after adding back depreciation expense) of $2,541,406 of which approximately $1,940,000 is carryover from FY 2021 and approved projects from a prior fiscal year. The projected deficit is consistent with the referenced financial plan and Water Cost of Service and Rate Study.

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: On September 9, 2020, the District refinanced the 2010A Revenue Refunding bonds and the 2004 DWR Ortega Loan with the Refunding Revenue Bonds, Series 2020A. The 2020A bonds were issued to provide an estimated net present value savings from cashflow of $3,302,335 over the life of the bonds. The bond covenants require a 1.25 debt coverage ratio. The FY 2022 budget shows sufficient net operating revenue to meet the required debt service ratio. As shown below, the debt coverage ratio is estimated to be 7.88.

EST. DEBT SERVICE COVERAGE RATIO CALCULATION

Debt Service Payment	$ 836,900.00
Debt Service Requirement	$ 1,046,125.00
Total Revenue	$ 24,053,164.00
Total Expense*	$(17,461,675.00)
Net Operating Surplus	$ 6,591,489.00
Debt Service Coverage	$ 5,754,589.00
Debt Service Coverage Ratio	7.88

*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 2021 BUDGET	FY 2021 FORECAST	FY 2022 BUDGET	VARIANCE FAVORABLE/ (UNFAVORABLE)
REVENUE				
WATER SALES	15,528,344	17,533,181	**16,010,040**	(1,523,141)
MONTHLY METER CHARGES	4,521,601	4,492,671	**4,632,855**	140,184
WATER AVAILABILITY CHARGE	298,780	297,971	**297,971**	-
PRIVATE FIRE LINES	243,566	238,469	**250,372**	11,903
LATE CHARGES	66,015	68,138	**69,493**	1,355
SERVICE CONNECTION FEES	22,470	16,353	**28,588**	12,235
CAPITAL COST RECOVERY FEES	142,260	77,950	**127,448**	49,498
INTEREST REVENUE - GENERAL	13,500	32,242	**14,400**	(17,842)
OTHER REVENUE (LOSS)	82,124	290,814	**82,124**	(208,690)
REIMBURSEMENTS	2,400	1,386	**280,638**	279,252
GSA	0	1,503,460	**2,259,234**	755,774
TOTAL REVENUE	**$ 20,921,060**	**$ 24,552,635**	**$ 24,053,164**	**$ (499,471)**

Water Sales **$16,010,040**

The FY 2022 budget projects water sales at 3,815 AF consistent with the 3-year average water sales. This is a 1.7% increase over FY 2021 budget and 18% decrease over FY 2021 forecast. FY 2021 forecasted water sales of 4,441 AF is extraordinary and a result of the dry 2020/21winter. With drought conditions expected to worsen, the District anticipates increased voluntary conservation in FY2022, targeting sales that are more aligned with the urban water use limitation and the District's forecasted available water supplies. The total water production needed to meet water sales of 3,815 AF is approximately 4,204 acre feet.

Meter Service Charges **$4,632,855**

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

Meter Service Charge Revenue

METER SIZE	METERS BILLED	MONTHLY CHARGE	TOTAL CHARGES
3/4	2265	$ 48.18	$ 1,309,532
1	1596	$ 78.84	$ 1,509,944
1 1/2	520	$ 138.83	$ 866,299
2	216	$ 218.79	$ 567,104
3	16	$ 751.98	$ 144,380
4	2	$ 1,471.76	$ 35,322
6	5	$ 3,337.89	$ 200,273
TOTAL	**4,620**		**$ 4,632,855**

Water Availability Charge **$297,971**

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/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 27, 2021.

GSA (Groundwater Sustainability Agency) $2,259,234

Montecito Groundwater Basin Groundwater Sustainability Agency exists for compliance with the Sustainable Groundwater Management Act (SGMA). Agency's revenue is received from several sources including Fee proceeds collected from the County of Santa Barbara Tax Collector, Proposition 68 Grant Funding and the District's cost share. Detail on GSA revenue is provided as part of the FY 2022 budget for the Montecito Groundwater Basin Groundwater Sustainability Agency, adopted by its Board of Directors on June 22, 2021.

Other Revenue $853,064

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

- Capital Cost Recovery and Connection Fees anticipated to be $156,036

  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 6 new meters/connections in FY 2022.

- Interest Revenue anticipated to be $14,400

  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 is projected to earn 0.15% 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) has 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 $250,372 based on the current number of private fire lines. As of the beginning of FY 21, the District has 121 private fire lines.

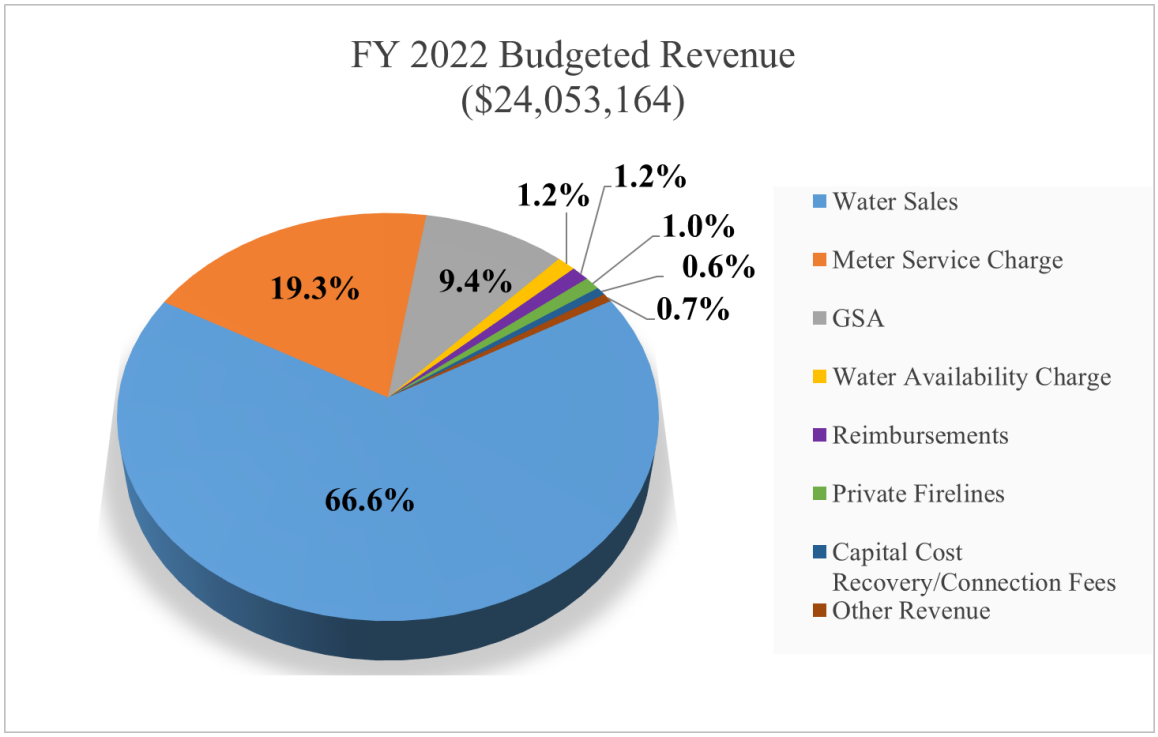
- Reimbursements revenue anticipated to be $280,638

  Revenue from reimbursements includes an annual reimbursement from the GSA to the District for past SGMA-related costs incurred by the District between 2016 and 2019 totaling $841,914. In accordance with the District and the GSA's 5-year financial plans and rate

studies, adopted by their respective Boards in June, 2020, the total reimbursement is being spread over 3 years between FY 2021 and FY 2023;

- Miscellaneous income is anticipated to be $107,618, which includes late charges, service connection fees, gain on the sale of assets and reimbursements.

Figure 4



OPERATING EXPENSE DISCUSSION

Total Operating Expense for the various departments and categories are summarized in Table 6. Operating expense is broken into two categories, Direct Expense, which includes Joint Power Agencies (JPA) expense and MWD Direct Expense, and Indirect Expense which includes MWD Indirect Expense.

Table 6

OPERATING EXPENSE

	FY 2021 BUDGET	FY 2021 FORECAST	FY 2022 BUDGET	VARIANCE FAVORABLE/ (UNFAVORABLE)
OPERATING EXPENSE				
DIRECT EXPENSE				
JPA OPERATING EXPENSE				
CACHUMA OPERATIONS & MAINT BOARD (COMB)	(708,494)	(708,492)	**(576,324)**	132,168
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	(159,960)	(159,960)	**(149,881)**	10,079
US BUREAU OF RECLAMATION (USBR)	(257,750)	(259,495)	**(226,820)**	32,675
CATER WATER TREATMENT PLANT O&M	(1,067,410)	(1,070,577)	**(1,227,300)**	(156,723)
CATER WATER TREATMENT PLANT CAPITAL	(228,425)	(198,189)	**(158,920)**	39,269
CENTRAL COAST WATER AUTH. (CCWA) (SWP) - FIXED	(2,302,004)	(2,302,008)	**(2,279,037)**	22,971
DWR (SWP) - FIXED	(3,271,714)	(3,107,780)	**(2,912,301)**	195,479
CENTRAL COAST WATER AUTH.(CCWA) (SWP) - VARIABLE	-	-	**0**	-
DWR (SWP) - VARIABLE	(88,452)	(32,605)	**(30,000)**	2,605
SUPPLEMENTAL WATER PURCHASE	-	-	**0**	-
TOTAL JPA OPERATING EXPENSE	**$ (8,084,209)**	**$ (7,839,106)**	**$ (7,560,583)**	**$ 278,523**
MWD DIRECT EXPENSE				
JAMESON	**(234,238)**	(200,710)	**(263,007)**	(62,297)
TRANSMISSION & DISTRIBUTION	**(1,546,851)**	(1,651,408)	**(1,644,753)**	6,655
TREATMENT	**(1,272,833)**	(1,323,015)	**(1,362,454)**	(39,439)
TOTAL MWD DIRECT EXPENSE	**$ (3,053,923)**	**$ (3,175,133)**	**$ (3,270,214)**	**$ (95,081)**
TOTAL DIRECT EXPENSES	**(11,138,132)**	**(11,014,239)**	**(10,830,797)**	**183,442**
MWD INDIRECT EXPENSE				
ENGINEERING	**(709,362)**	(894,046)	**(840,104)**	53,942
CUSTOMER SERVICE	**(409,338)**	(412,002)	**(389,362)**	22,639
PUBLIC INFORMATION / CONSERVATION	**(132,854)**	(121,743)	**(167,611)**	(45,868)
FLEET	**(222,076)**	(226,855)	**(239,646)**	(12,791)
ADMINISTRATION (Excl Dep,Legal & Semitropic)	**(1,366,037)**	(2,174,539)	**(1,686,701)**	487,838
SEMITROPIC MGMT/MAINT/BANKING FEES	**(36,776)**	(22,411)	**(22,852)**	(441)
GSA	**(230,410)**	(1,003,072)	**(1,781,602)**	(778,529)
RECYCLED WATER DEVELOPMENT	**(74,000)**	21,549	**(75,000)**	(96,549)
LEGAL - ALL	**(236,660)**	(233,191)	**(288,000)**	(54,809)
2020 WSA W/ SANTA BARBARA (DESAL)	-	-	**(2,631,240)**	(2,631,240)
EXTRAORDINARY	-	(118,527)	**0**	118,527
DEPRECIATION	**(1,291,530)**	(1,070,814)	**(1,140,000)**	(69,186)
TOTAL MWD INDIRECT EXPENSE	**$ (4,709,042)**	**$ (6,255,651)**	**$ (9,262,118)**	**$ (3,006,468)**
TOTAL OPERATING EXPENSE	**$ (15,847,174)**	**$ (17,269,889)**	**$ (20,092,915)**	**$ (2,823,026)**

JPA OPERATING EXPENSE

Joint Powers Agencies (JPA) Operating Expense

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 2022, State Water Project expenses comprise nearly 69% of the District's total JPA operating expense and 26% of total District operating expense. The District's control of these costs are limited, as it is one of many agency participants with minority voting rights.

Cachuma Operation and Maintenance Board (COMB) $576,324

This is the District's share of the COMB FY 2022 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 24, 2021.

Cachuma Conservation and Release Board (CCRB) $149,881

This represents the District's share of the Cachuma Conservation and Release Board's (CCRB) FY 2022 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 25, 2021.

US Bureau of Reclamation (USBR) $226,820

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 25, 2021.

Cater Treatment Plant $1,386,220

This amount includes Cater Treatment Plant operations and maintenance costs, the variable water treatment costs related to all water delivered from Lake Cachuma ($1,227,300), as well as the City of Santa Barbara's anticipated Cater Treatment Plant capital projects ($158,920). 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 2022 draft budget received in March 2021.

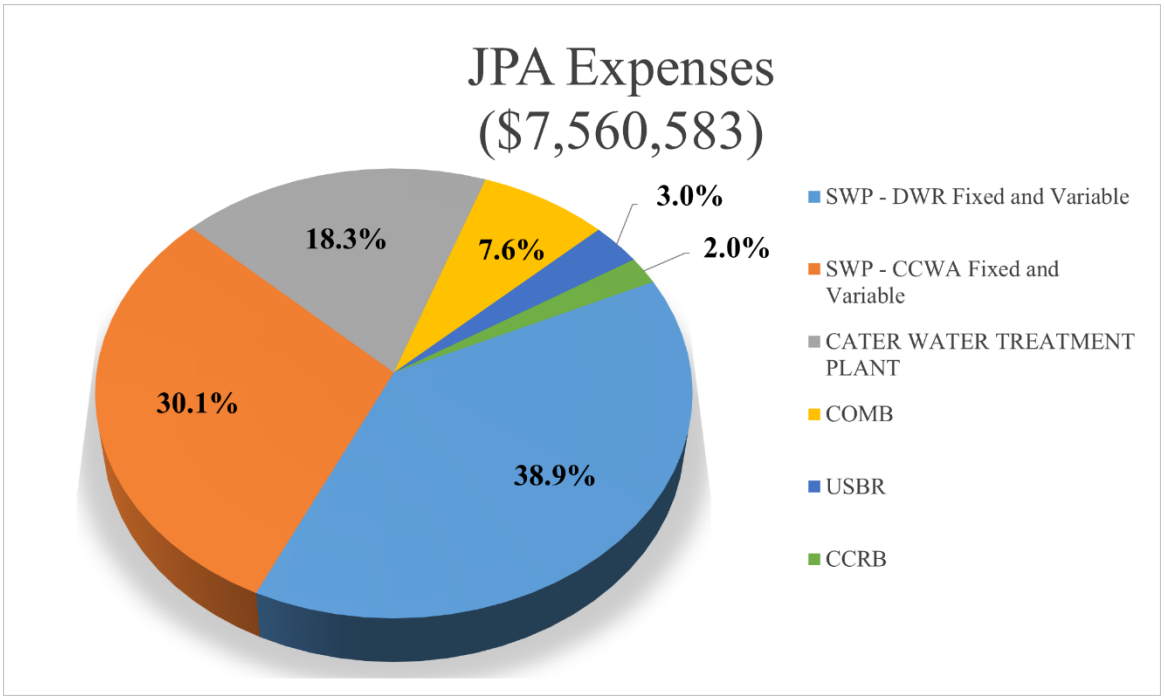
CCWA/State Water Project: Fixed Cost $5,191,338

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 2022 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. The CCWA budget was adopted by the CCWA Board of Directors on April 22, 2021.

CCWA/State Water Project: Variable Cost $30,000

CCWA variable costs include the treatment and delivery of State Water into Lake Cachuma. This budget was adopted by the CCWA Board of Directors on April 22, 2021.

Figure 5



MWD OPERATING EXPENSE (Direct and Indirect)

MWD Operating Expense comprises about 60% (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.

Total MWD Direct Expense $3,270,214

Jameson Lake $263,007

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 $1,644,753

The Transmission and Distribution Operations & Maintenance budget includes maintenance of the District's 114 miles of pipelines, approximately 4,620 service laterals and water meters, reservoirs, valves and fire hydrants. The budgeted amount includes an estimate of labor, supplies, contracted services, and training.

Treatment $1,362,454

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

Total MWD Indirect Expense $9,262,118

Engineering $840,104

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 2022 including several water main replacement projects, and the reservoir retrofit/replacement project.

Customer Service $389,362

This budget item includes costs for outside contracting to read the customer meters (which will be eliminated around November 2021 with full implementation of the Smart Metering Program) bill printing service, and payroll for customer service personnel and customer utility billing.

Public Information / Conservation $167,611

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

Fleet $239,646

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) $1,997,553

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

GSA (Groundwater Sustainability Agency $1,781,602

This item includes all expense anticipated to be incurred by the Montecito Groundwater Sustainability Agency in FY 2022 including continued development of Groundwater

Sustainability Plan and implementation of grant funded projects to inform the plan development. Detail on GSA expense is provided as part of the FY 2022 budget for the Montecito Groundwater Basin Groundwater Sustainability Agency, adopted by its Board of Directors on June 22, 2021.

Recycled Water Development $75,000

This item includes the costs to prepare an Enhanced Recycled Water Feasibility Study focusing on Indirect and Direct Potable reuse options

2020 WSA w/ Santa Barbara (Desal) $2,631,240

This item includes the costs to begin taking receipt of 1,430 AF of water annually from the City of Santa Barbara in accordance with the September 2, 2020 Water Supply Agreement. Water deliveries commence on January 1, 2022.

Depreciation $1,140,000

The District has depreciable assets including buildings, treatment facilities, pipelines and other equipment, of which its annual depreciation totals $1,140,000. 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 2021 BUDGET	FY 2021 FORECAST	FY 2022 BUDGET	VARIANCE FAVORABLE/ (UNFAVORABLE)
NON OPERATING EXPENSE				
2004 DWR ORTEGA LOAN	(590,400)	(23,556)	-	23,556
2010 BOND INTEREST EXPENSE	(690,463)	(130,426)	-	130,426
AMI METER FINANCING	-	-	-	-
CATER DWR LOAN	(231,647)	(231,648)	**(225,416)**	6,232
CATER OZONE	(276,346)	(276,323)	**(276,739)**	(416)
2020 BOND INTEREST EXPENSE	-	(160,222)	**(501,900)**	
2020 BOND PRINCIPAL	-	(160,000)	**(335,000)**	
TOTAL NON OPERATING EXPENSE	**$ (1,788,855)**	**$ (982,175)**	**$ (1,339,055)**	**$ (356,880)**

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

The 2004 DWR Ortega Reservoir Improvement Loan was refinanced on September 9, 2020. 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 was 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 was required to fund its share of a reserve fund equal to two semiannual payments. The funds were to be accumulated within a ten-year period and be held by a trustee.

Bond Interest Expense (2010A Refunding Revenue COPs)

The 2010A Refunding Revenue COPs were refinanced on September 9, 2020. 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 were $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, were to begin 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 extended the bond payments and is aligned with the retirement of the other debt and contractual obligations of the District. The District would pay interest-only until 2022 after which it would have begun paying principal and interest.

REFUNDING REVENUE BONDS, SERIES 2020A

On September 9, 2020, the District refinanced the 2010A Revenue Refunding bonds and the 2004 DWR Ortega Loan with the Refunding Revenue Bonds, Series 2020A. The 2020A bonds were issued to provide an estimated net present value savings from cashflow of 3,302,335 over the life of the bonds. The bond covenants require a 1.25 debt coverage ratio. Principal payments commence FY2022 and continue through the life of the bonds ending during FY2030. The combination of the coupon rate of 4% for FY2021 through FY2026 and 5% for FY2027 through FY2030, borrowing costs and the investor yield is a true overall borrowing cost of 1.21%.

Savings				
MONTECITO WATER DISTRICT				
REFUNDING REVENUE BONDS, SERIES 2020A				
Final Pricing				
Date	Prior Debt Service	Refunding Debt Service	Savings	Present Value to 09/09/2020 @ 0.8824152%
6/30/2021	640,440.89	320,222.23	320,218.66	319,342.70
6/30/2022	1,280,881.78	836,900.00	443,981.78	439,108.97
6/30/2023	2,631,256.78	1,636,900.00	994,356.78	976,976.79
6/30/2024	2,635,131.78	1,639,300.00	995,831.78	969,903.74
6/30/2025	2,630,381.78	1,634,800.00	995,581.78	961,215.15
6/30/2026	2,634,738.03	1,638,300.00	996,438.03	953,677.55
6/30/2027	2,632,719.28	1,637,625.00	995,094.28	944,083.58
6/30/2028	2,631,106.78	1,637,125.00	993,981.78	934,804.84
6/30/2029	2,634,506.78	1,642,875.00	991,631.78	924,463.55
6/30/2030	2,632,656.71	1,634,875.00	997,781.71	922,100.73
	22,983,820.59	14,258,922.23	8,724,898.36	8,345,677.61
Savings Summary				
PV of savings from cash flow			8,345,677.61	
Less: Prior funds on hand			-5,044,346.91	
Plus: Refunding funds on hand			1,004.87	

Net PV Savings			3,302,335.57	

MWD Series 202A Final Cash Flow (2020.08.31)

REFUNDING REVENUE BONDS, SERIES 2020A Interest Expense

Scheduled coupon rate is 4% of outstanding principal for the years ending June 30, 2021 through June 30, 2026. Scheduled coupon rate is 5% of outstanding principal for the years ending June 30, 2027 through June 30, 2030. Annual principal payments of $160,000 to $1,595,000 plus the coupon rate, began in FY 2021 and end in FY 2030 with an average coupon rate of 4.40% over the life of the bonds.

Bond Debt Service				
MONTECITO WATER DISTRICT				
REFUNDING REVENUE BONDS, SERIES 2020A				
Final Pricing				
	Dated Date	9/9/2020		
	Delivery Date	9/9/2020		
Period Ending	**Principal**	**Coupon**	**Interest**	**Debt Service**
6/30/2021	160,000	4.000%	160,222.23	320,222.23
6/30/2022	335,000	4.000%	501,900.00	836,900.00
6/30/2023	1,165,000	4.000%	471,900.00	1,636,900.00
6/30/2024	1,215,000	4.000%	424,300.00	1,639,300.00
6/30/2025	1,260,000	4.000%	374,800.00	1,634,800.00
6/30/2026	1,315,000	4.000%	323,300.00	1,638,300.00
6/30/2027	1,375,000	5.000%	262,625.00	1,637,625.00
6/30/2028	1,445,000	5.000%	192,125.00	1,637,125.00
6/30/2029	1,525,000	5.000%	117,875.00	1,642,875.00
6/30/2030	1,595,000	5.000%	39,875.00	1,634,875.00
	11,390,000		2,868,922.23	14,258,922.23

MWD Series 202A Final Cash Flow (2020.08.31)

DEBT SERVICE PAYMENTS FOR 2020A Bonds

The District's Debt Service is based on bond and loan amortization schedules. As of July 1, 2021, the District has one bond issue 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 6% of the District's total proposed budget expenditures, not including capital expenditures.

Table 8

DEBT SERVICE

FY 22 Debt Service	Principal	Interest	Total
REFUNDING REVENUE BONDS, SERIES 2020A	$335,000.00	$501,900.00	$836,900.00
Total Debt Service	$335,000.00	$501,900.00	$836,900.00

Bonds & Loan Balances	Maturity	Original Amount	Balance@ 6/30/21	Interest Rate	Custodian
REFUNDING REVENUE BONDS, SERIES 2020A	FY 2030	$ 11,390,000.00	$ 11,230,000.00	4.00%	Bank of New York Mellon
Total Debt Service		$ 11,390,000.00	$ 11,230,000.00		

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 2021 BUDGET	FY 2021 FORECAST	FY 2022 BUDGET	VARIANCE FAVORABLE/ (UNFAVORABLE)
CAPITAL EXPENDITURE				
EQUIPMENT (FIXED ASSETS)	**(166,000)**	(212,473)	**(249,000)**	(36,527)
WATER STORAGE PURCHASE	-		-	-
MWD SYSTEM PROJECTS (CAPITAL PROJECTS)	**(1,924,583)**	(3,618,808)	**(4,291,000)**	(672,192)
TOTAL MWD CAPITAL EXPENDITURE	**$ (2,090,583)**	**$ (3,831,281)**	**$ (4,540,000)**	**$ (708,719)**

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 2022 budget are critical to the District's operations and, more important, 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	FY 2021 Carryover	FY 2022 Requests	Total Proposed Budget
EQUIPMENT			
TRANSMISSION & DISTRIBUTION - Vehicle #177 Replacement	$ -	$ 44,000	$ 44,000
TRANSMISSION & DISTRIBUTION - Vehicle #158 Replacement	$ -	$ 55,000	$ 55,000
TRANSMISSION & DISTRIBUTION - Service Truck #152 3/4 ton	$ 55,000	$ -	$ 55,000
TRANSMISSION & DISTRIBUTION - Work Truck #151 1/2 ton	$ 40,000	$ -	$ 40,000
TREATMENT - Service Truck #143 3/4 ton	$ 55,000	$ -	$ 55,000
TOTAL EQUIPMENT	**$ 150,000**	**$ 99,000**	**$ 249,000**

Table 11

CAPITAL IMIPROVEMENT PROJECTS

Item Description	FY 2021 Carryover	FY 2022 Requests	Total Proposed Budget
PIPELINE REPLACEMENT			
ENGINEERING - East Valley Road Water Main Replacement Project (Orchard to Freehaven)	$ -	$ 1,500,000	$ 1,500,000
ENGINEERING - Hot Springs Road Water Main Replacement Project	$ 300,000	$ -	$ 300,000
ENGINEERING - Fernald Point Bridge Pipeline Replacement	$ 100,000	$ 20,000	$ 120,000
ENGINEERING - US101 Segment 4C Crossing Design Phase	$ -	$ 45,000	$ 45,000
ENGINEERING - US101 Butterfly Lane Pipe Relocation	$ -	$ 70,000	$ 70,000
ENGINEERING - HWY 192 Water Main Replacement at Cota Lane	$ -	$ 200,000	$ 200,000
TOTAL PIPELINE REPLACEMENT	**$ 400,000**	**$ 1,835,000**	**$ 2,235,000**
RESERVOIR REHABILITATION / REPLACEMENT			
TREATMENT - Reservoir Cleaning at Terminal, Buena Vista and Hot Springs	$ -	$ 10,000	$ 10,000
TREATMENT - Reservoir Mixers at Buena Vista and Hot Springs	$ -	$ 36,000	$ 36,000
TOTAL RESERVOIR REHABILITATION / REPLACEMENT	**$ -**	**$ 46,000**	**$ 46,000**
PUMPING/WELLS/VALVING/TREATMENT			
TREATMENT - Pump Station Pump and Motor Replacement	$ -	$ 10,000	$ 10,000
TREATMENT - Replace Office Generator	$ -	$ 75,000	$ 75,000
TREATMENT - Bella Vista Treatment Plant Improvements (hypogen, cl pump, loader)	$ -	$ 75,000	$ 75,000
TREATMENT - Doulton Treatment Plant Improvements	$ -	$ 40,000	$ 40,000
TREATMENT - Ennisbrook 5 Updates (VFD, storage, cl analyzer)	$ -	$ 10,000	$ 10,000
TREATMENT - Ortega Chlorine Pump Replacement (50% share w/ CVWD)	$ -	$ 10,000	$ 10,000
TREATMENT - Bella Vista Treatment Plant PLC Upgrade	$ -	$ 100,000	$ 100,000
TRANSMISSION & DISTRIBUTION - Pressure Regulator Repairs	$ -	$ 20,000	$ 20,000
ENGINEERING - Juncal Dam Emergency Release Valve Modifications (Design)	$ 100,000		$ 100,000
ENGINEERING - Well Backwash Water Recycling Systems	$ 60,000		$ 60,000
TOTAL PUMPING/WELLS/VALVING/TREATMENT	**$ 160,000**	**$ 340,000**	**$ 500,000**
Water Meter Enhancements			
TREATMENT -New Meters @ Production Facilities (Wells & TP)	$ -	$ -	$ -
TREATMENT - Well Production Meter Replacement & BVTP Effluent Meter/Vault	$ -	$ -	$ -
TREATMENT - Production Meters - Repair and Replace	$ -		
TOTAL WATER METER ENHANCEMENTS	**$ -**	**$ -**	**$ -**
OTHER			
DISTRIBUTION - Emergency Operations Center/Shop Area Design	$ -	$ 150,000	$ 150,000
ENGINEERING - Barker Pass Generator Grant Match (25%)	$ -	$ 30,000	$ 30,000
ENGINEERING - Right of Way Asphalt Repairs (from MWD Main Breaks)	$ -	$ 50,000	$ 50,000
TREATMENT - Bella Vista Storage Building	$ -	$ 50,000	$ 50,000
TOTAL OTHER	**$ -**	**$ 280,000**	**$ 280,000**
APPROVED PROJECTS			
ENGINEERING - Alder Creek Flume (FEMA 6.25% match) (Approved 12/15/20)	$ -	$ 100,000	$ 100,000
ENGINEERING - Smart Metering Program Implementation (Approved 8/25/20)	$ -	$ 280,000	$ 280,000
ENGINEERING - ASADRA Reservoir Replacement/Retrofit Project (Approved 3/23/21)	$ -	$ 850,000	$ 850,000
TOTAL APPROVED PROJECTS	**$ -**	**$ 1,230,000**	**$ 1,230,000**
TOTAL CAPITAL IMPROVMENTS	**$ 560,000**	**$ 3,731,000**	**$ 4,291,000**

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

Pipeline Replacement

- **East Valley Road Water Main Replacement Project $1,500,000**
  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.

- **Hot Springs Road Water Main Replacement Project $300,000**
  The water main replacement on Hot Springs Road is critical given the age and high frequency of main breaks in the last decade. The project will replace approximately 4,100 feet of 1924, 8-inch cast iron water main with a new 8-inch ductile iron water main. The project includes new hydrants, service lines, and valves.

- **Fernald Point Bridge Pipeline Replacement $120,000**
  This project is a carryover project from FY 2021 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 phases. 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.

- **US101 Crossing at Romero Creek (Segment 4C Widening Project) 45,000**
  This multi-year 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. The expenses for this budget include planning costs only such as permitting and design and represent 45% of a cost share with the Santa Barbara County Association of Governments (SBCAG).

- **US101 Butterfly Lane Pipe Relocation $70,000**
  The District operates a 6-inch water main underneath the US101 just east of the Butterfly Lane pedestrian underpass. This pipeline is in conflict with a Caltrans pedestrian ramp project slated for construction in December 2021. The District has been required by Caltrans to relocate or abandon this water main by October 2021. The District has developed design plans in-house and obtained a permit for relocating the water main deeper to avoid the pedestrian ramp. This water main is not currently in conflict with the 65% design plans for the upcoming Caltrans US101 widening project.

- **Highway 192 Water Main Replacement at Cota Lane $200,000**
  This project has been identified during the previous fiscal year as a critical pipe replacement due to the high frequency of water main breaks on the 700-foot stretch of 1920s water main in recent years. This is Caltrans right-of-way with heavy traffic. The project will replace the existing 8-inch 1920s cast iron pipe with new 8-inch ductile iron pipe.

Reservoir Retrofit / Replacement:

- **Reservoir Cleaning at Terminal, Buena Vista and Hot Springs $10,000**

  This project will use a diving company to clean sediment and buildup from the floor and walls of the reservoirs while they remain in service. The reservoirs to be cleaned in FY 2022 are Buena Vista, Hot Springs and Terminal. Reservoir cleaning is required every 5 years per the Division of Drinking Water.

- **Reservoir Mixers at Buena Vista and Hot Springs $36,000**

  This project will install a mixing device in Buena Vista and Hot Springs reservoirs to improve water quality.

Pumping / Wells / Valving / Treatment:

- **Pump Station Pump and Motor Replacement $10,000**

  The District operates 9 pump stations to meet potable and non-potable demands in the system. Pump station pumps and motors have a useful life of 10-15 years depending on use. This project will replace one pump and motor in FY2022. The exact location of the pump and motor replacement is to be determined.

- **Replace Office Generator $75,000**

  The District operates backup generators at critical facilities. The backup generator at the Office Pump Station is the oldest generator with frequent startup/shutdown issues in recent years. This project would replace this generator with a newer, more efficient generator. This project also includes the cost of permitting the new generator with the Air Pollution Control District.

- **Bella Vista Treatment Plant Improvements $75,000**
  This project will make improvements at Bella Vista Treatment Plant to replace the second of two chlorine pumps, turbidity and chlorine analyzers, and lab equipment. This project will also purchase a backup chlorine generating unit for emergency use if the primary generating unit fails. Lastly, this project will purchase a small used mini-loader for moving materials on site and removing sediment from the reclaim basins.

- **Doulton Treatment Plant Improvements $40,000**
  This project will make improvements at Doulton Treatment Plant to replace aging laboratory cabinets, storage cabinets and shelves, ceiling, and hydro-pneumatic system piping and pumps.

- **Ennisbrook 2 Improvements $10,000**
  This project will add a variable frequency drive to the pump motor, replace a storage cabinet, and replace a chlorine analyzer at Ennisbrook 2 groundwater well.

- **Ortega Chlorine Pump Replacement $10,000**
  The Ortega Reservoir is operated by Cachuma Operations and Maintenance Bord (COMB) and the District pumps water from the reservoir to customers in Summerland. The District and COMB add chlorine as water leaves the reservoir and is conveyed to District customers or to Carpinteria via the South Coast Conduit. This project will replace two chlorine injection pumps and controllers.

- **Bella Vista Treatment Plant PLC Upgrade $100,000**
  The programmable logic controller (PLC) monitors and controls all functions of the Bella Vista Treatment Plant from chlorination to coagulation, filtration and storage. The existing PLC is the original from 1995 and is outdated and incompatible with the SCADA network.

This project will update all components of the PLC cabinet, the master control panel, and program new PLC process controls.

- **Pressure Regulator Repairs $20,000**
  The District maintains 52 pressure regulating stations, often with two or three pressure regulating valves inside each station (vault). The regulator valves were originally installed with pilot tubing made from copper pipe which is highly susceptible to failure given the softness of copper. This project will replace all copper pilot tubing with new stainless-steel tubing which has proven effective in several test scenarios.

- **Juncal Dam Emergency Release Valve Modifications (Design) $100,000**
  This project is carryover from the previous fiscal year. This project will redesign the twin 36-inch emergency release valves at Juncal Dam. The work will include a survey, site visit, engineering design, approvals and permit from the Division of Safety of Dams, and construction bidding. Construction of this project will occur in subsequent fiscal years.

- **Groundwater Well Backwash Water Recycling Systems $60,000**
  This project is carryover from the previous fiscal year. The groundwater wells Ennisbrook 2 and Paden currently discharge filter backwash water into the sanitary sewer, costing the District over $20,000 annually in fixed sewer service charges plus variable charges which have been as high as $10,000. 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.

Other Capital Improvements

- **Emergency Operations Center / Shop Area Redesign $150,000**
  The District does not currently have a room or area dedicated as a central hub for emergency operations. Additionally, the existing "shop area" is made up of aging and outdated buildings that could include an emergency operations center. This project will hire a consultant to develop renderings and drawings for a new emergency operations center and shop area including a meeting room, offices, inventory room, and break room. Construction would be pursued in subsequent fiscal years.

- **Barker Pass Generator Grant Match (25%) $30,000**
  The District was awarded a FEMA grant to install a backup generator at the Barker Pass Pump Station. This project includes the foundation, electrical work, and generator.

- **Right of Way Asphalt Repairs $50,000**

  This project is a continuation of work performed in FY 2021 to repair asphalt patches around the District service area resulting from ongoing maintenance work. Tierra Contracting will continue this work in FY 2022 to complete the list of asphalt patches.

- **Bella Vista Storage Building $50,000**
  The project includes the permitting and construction of a small storage building at the Bella Vista Treatment Plant to store treatment materials, equipment and records.

Equipment

- **Distribution/Treatment Truck & Equipment Replacements $249,000**

  This equipment includes three carryover vehicles from the previous fiscal year that were not able to be manufactured due to global microchip shortages. This fiscal year proposes to replace four distribution utility vehicles (truck #151, #152, #177 and #158) and one Treatment utility vehicle (truck #143). All vehicles have high mileage making them prone to expensive engine and power train repairs.

Approved Projects

- **Alder Creek Flume (FEMA 6.25% match) (Approved 12/15/20) $100,000**
  The Alder Creek Flume Repair is an ongoing project using 94% FEMA funding to repair damaged portions of the Alder Creek Flume following the 2017 Thomas Fire and subsequent debris flow. The fiscal year budget includes the District's 6.25% match on the construction effort which is expected to cost approximately $1.6M.

- **Smart Metering Program Implementation (Approved 8/25/20) $280,000**
  This fiscal year includes permitting and construction of the smart meter collector devices and rollout of the District's Smart Meter Program. This program will be completed in FY 2022.

- **ASADRA Reservoir Replacement/Retrofit Project (Approved 3/23/21) $850,000**
  The Additional Supplemental Appropriations for Disaster Relief Act (ASADRA provides funding for water and wastewater resiliency projects in California communities impacted by the 2017/18 wildfires. This project will replace or retrofit 8 District storage tanks (reservoirs) over the next several years. The work for FY 2022 includes design, environmental, and permitting for the project which will start construction in subsequent fiscal years.

Water Availability Charge (WAC)

A key source of revenue to fund ongoing capital infrastructure upgrades is the Water Availability Charge, 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. For FY 2022, WAC is estimated to provide $297,971 to be used to fund capital improvements.

RESERVES

In June 2017, the District adopted Resolution 2155 defining reserves to be held by the District. Since then, the District reserve policy has been updated annually. At its meeting of June 22, 2021, the Board of Director adopted an updated Reserve Policy, District Resolution No. 2218, 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, 2021, the District is projected to have a total $17,561,878 in cash and investments in various financial institutions. Restricted Reserves totaling $1,524,417, as shown below in Table 13, 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 $16,037461.88 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.

Table 13

RESTRICTED RESERVES

RESTRICTED RESERVES	CURRENT BALANCE
CCWA – Rate Credit Reserve Fund	$1,524,417
TOTAL RESTRICTED RESERVES	**$1,524,417**

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. 2218 on June 22, 2021. These funds are legally accessible for use to fund operations and are held in various identified financial accounts shown below.

The Board Committed 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.

Table 14

BOARD COMMITTED RESERVES (UNRESTRICTED)

BOARD COMMITTED RESERVES	CURRENT BALANCE
Reserve for Water Supply Agreement	$600,000
Reserve for Operations	$3,400,000
Reserve for Emergencies	$500,000
Reserve for Unanticipated or Unplanned Capital Repair & Replacement	$500,000
TOTAL BOARD COMMITTED RESERVES	**$5,000,000**

The following provides a description of the Board Committed Reserve funds detailed in **Table 14**. 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 Water Supply Agreement $600,000

The District's Reserve for Water Supply Agreement was established in FY 2021 and has a fund balance of $600,000. 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. This reserve will be funded annually by $300,000. As the District funds this reserve annually, the "Reserve for Operations" will be reduced by an equal amount.

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

The District's *Reserve for Operations* targets approximately three months of total operating expenses. This reserve has a fund balance for FY 2021 of $3,400,000. This target was established as part of the FY 2020 *5-year Financial Plan* and *Water Cost of Service and Rate Study* adopted by the Board 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 Emergencies $500,000

The Reserve for Emergencies has a fund balance of $500,000 and was also established in the FY 2021 *5-year Financial Plan* and *Water Cost of Service and Rate Study*. 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 $500,000. 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.