



# MONTECITO WATER DISTRICT

## FISCAL YEAR 2022-2023 BUDGET NARRATIVE

ADOPTED: 6/28/22



## CONTENTS

BUDGET MESSAGE .....	1
LETTER OF TRANSMITTAL .....	3
BUDGET ASSUMPTIONS.....	3
FISCAL YEAR 2021-2022 IN REVIEW.....	3
FISCAL YEAR 2023 PRIORITIES & ISSUES .....	5
CUSTOMER DEMAND & CONSERVATION .....	6
WATER SUPPLY OUTLOOK .....	7
BUDGET IN BRIEF .....	9
A CENTURY OF WATER SERVICE.....	13
HISTORIC MILESTONES .....	15
STRATEGIC GOALS & STRATEGIES.....	16
A PLAN FOR THE FUTURE .....	16
THE DISTRICT’S OBJECTIVES.....	16
ACTION PLAN FOR FISCAL YEAR 2023.....	17
DISTRICT OVERVIEW .....	18
HISTORY & FORM OF GOVERNMENT.....	19
RESPONSIBILITY.....	19
MISSION STATEMENT .....	19
VISION STATEMENT .....	19
GOVERNANCE .....	20
SERVICE AREA.....	21
ORGANIZATION STRUCTURE.....	24
WATER OPERATIONS: SOURCES OF REVENUE.....	28
WATER SUPPLY PORTFOLIO .....	28
WATER SUPPLIES FACILITIES.....	32

WATER OPERATIONS: COST OF SERVICE.....	33
DIRECT & INDIRECT COST OF SERVICE .....	33
JOINT POWERS AUTHORITIES (JPA) .....	33
WSA WATER PURCHASE.....	39
RESERVES & FUNDS.....	41
RESERVE SUMMARY .....	42
BASIS OF BUDGET AND ACCOUNTING .....	44
BUDGET CALENDAR .....	45
DESCRIPTION OF MAJOR FUNDS .....	45
REVENUE ASSUMPTIONS .....	46
EXPENSE ASSUMPTIONS .....	49
BUDGET SUMMARY .....	50
DIRECT OPERATING EXPENSES SUMMARY .....	52
NON-OPERATING REVENUE & EXPENDITURES SUMMARY.....	54
CAPITAL EXPENDITURE & NET CASH IMPACT SUMMARY.....	55
WATER SALES & RELATED FEES.....	57
WATER SUPPLY DIRECT & INDIRECT EXPENDITURES .....	65
JPA OPERATING EXPENSE .....	65
MWD DIRECT EXPENSES .....	66
INDIRECT EXPENSES (DEPARTMENTS) .....	67
DEBT SERVICE .....	69
REFUNDING REVENUE BONDS, SERIES 2020A.....	69
CAPITAL IMPROVEMENT PROGRAM .....	70
PLANNED EQUIPMENT ACQUISITION .....	72
PLANNED CAPITAL PROJECTS.....	72
FINANCIAL POLICIES.....	80
GLOSSARY.....	82
APPENDIX A .....	88



# BUDGET MESSAGE





### LETTER OF TRANSMITTAL

#### To our Ratepayers, Board of Directors and Stakeholders of the Montecito Water District:

We are pleased to present for your consideration, the Fiscal Year 2022-2023 (FY2023) Operating and Capital Improvement Budget for the Montecito Water District (District). Since January 2022, department heads, managers and board members have collaborated on this budget. Together with the Board, Staff has gone through an extensive review and analysis of the operational and capital improvement project needs that support the replacement and development of infrastructure and dependable water delivery.

The budget identifies and estimates financial revenues and expenditures including capital improvements and debt service. It is also a policy document that serves to guide management actions during the fiscal year in alignment with the Strategic Plan. The newly completed Strategic Plan defines the priorities, and guides the development of the FY2023 budget. The budget provides focus on sound financial management, dependable service to rate payers, efficient operations, achievable goals and objectives and transparent reporting.

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#### BUDGET ASSUMPTIONS

Zero-based budgeting methodology was used in preparing the budget. Zero-based budgeting requires that all expenses be justified for each new period. Every department within the District partakes in an extensive review and analysis of the operational and capital improvement project needs during the proposed budget period.

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#### FISCAL YEAR 2021-2022 IN REVIEW

##### THE DISTRICT TURNED 100 YEARS OLD

For the past century, Montecito Water District has reliably delivered water that meets the highest of standards while striving to be a good steward of water resources and customer relationships.

Founded in 1921, Montecito Water District was established by public vote to ensure long term availability of quality water to a rapidly growing community. By 1930, Juncal Dam and Jameson Lake were completed, and this resource continues to be a mainstay of the District's water supply portfolio. The District has capably and methodically enhanced its services with independent achievements and vital regional partnerships and projects over a century. Through its involvement with such important initiatives such as the Cachuma Project, State Water Project, Cater Treatment Plant, Bella Vista Water Treatment Plant, and Desalination, the District has

backed its reputation with the real assets needed to provide a reliable supply of water to the communities it serves day in and day out.

#### **5-year Strategic Plan was completed...**

To mark the District's 100<sup>th</sup> year, the District completed a strategic plan to best identify priorities and focus resources. Building on its tradition of sound preparation, prudent fiscal management, community focus, and a culture of facing new challenges, the District's intent is to be well positioned to ensure a future of ongoing reliability and resilience.

#### **Charles E. Meyer Desalination Plant agreement water deliveries began...**

In 2020, the District approved a 50-year water supply agreement with the City of Santa Barbara, backed by the City's Charles E. Meyer Desalination Plant. This agreement provides the District with 1,430 acre-feet of water annually and is nearly 100% reliable. Deliveries commenced in January of 2022 and will dramatically enhance the District's long-term water supply outlook — providing around 35% of its current annual supply.

#### **A Financial Enterprise Resource Planning System (ERP) migration was completed...**

The District's financial and billing software had reached the end of its useful life and was technologically unreliable. The upgraded financial and billing software, ERP 10 Pro, is creating innovative and efficient operations in the Finance department as well as more transparent and accurate reporting which may lead to greater community engagement in District finances.

#### **\$3M grant and 0% loan application submitted...**

The District pursued design and funding for a capital project involving the retrofit and/or replacement of its nine existing water storage reservoirs. An application for \$3M in grant funding and a 0% loan was submitted to the Additional Supplemental Appropriation for Disaster Relief Act (ASADRA) program. Project funding approval is expected in late 2022 or early 2023. When completed, the project will bring all nine reservoirs into full compliance with current seismic design codes and regulations.

#### **Enhanced Recycled Water Feasibility Study...**

The District initiated development of an Enhanced Recycled Water Feasibility Study in conjunction with Montecito Sanitary District. The study expands upon the District's 2018 Recycled Water Feasibility study and further evaluates potable water reuse options including regional partnerships with neighboring agencies. Completion is targeted for September 2022.



### **A Water Use Efficiency Plan...**

Water Conservation is a critical component of the District's water supplies. Water conserved is water available for future use, improving future water security. This plan is a long-term plan targeting changing the way customers view water use, consistent with the State's goal of Making Conservation a Way of Life.

### **Homer LLC Option Agreement completed...**

As drought conditions continue statewide, the District secured an option to purchase up to 2,000-acre feet of water from Homer LLC in 2022 and/or 2023. With supplemental water availability extremely low due to consecutive years of below average rainfall statewide, this option agreement supplies the District with additional water security through 2023.

### **Memorandum of Understanding negotiated...**

Negotiated a Memorandum of Understanding with SEIU local 620.

### **The District also:**

- Initiated a joint study with Montecito Sanitary District to evaluate the feasibility of Special District consolidation.
- Participated in the CCWA 2022 Supplemental Water Purchase Program.
- Achieved a clean financial audit for fiscal year 2020-2021.
- Paid off the CCWA debt service for the Coastal Branch portion of the SWP facilities.
- Completed over \$4M of Capital Improvement Projects, of which nearly \$3M involved the replacement of approximately two miles of aging pipelines.

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### **FISCAL YEAR 2023 PRIORITIES & ISSUES**

The budget as presented is consistent with the District's 5-year Financial Plan and Water Cost of Service and Rate Study. Raftelis Financial Consultants, Inc., prepared the study, which was finalized on May 7, 2020, and adopted by the Board of Directors on June 25, 2020.

In preparing this budget, management and the Board take into consideration customer demand, the effect of voluntary and mandated conservation, as well as the current state-wide Stage 2 water shortage conditions as provided in urban water suppliers' Water Shortage Contingency Plans.

The budget reflects the District's continuing commitment to reliably deliver water that meets the highest of standards, while striving to be a good steward of water resources, the environment and customer relationships. As stated in the District's Strategic Plan: "The intent as we embark on a new century in 2022 is to be well positioned to ensure a future of ongoing dependability and resilience."



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## CUSTOMER DEMAND & CONSERVATION

Customer water use (sales) is driven by several factors including weather, conservation, and economic conditions. For example, in FY2019, above average rainfall was received locally, and water use decreased to 3,442 AF. In contrast, in FY2021, extreme drought conditions existed with approximately 31% of average rainfall received and water use increased to 4,575 AF. With the institution of the District conservation campaign over the last decade, involving mandatory water use reductions such as customer water use allocations and penalties between 2014 and 2018, and more recently voluntary water use reductions, much of the water use behaviors and efficiencies have become permanent such as drought tolerant landscaping and reduced waste from water leaks resulting in less overall water use District-wide. In general, customer water use remains relatively stable at between 3,400 AFY and 4,000 AFY, which is consistently 30% less water used than pre-drought levels.

The District's April 23, 2019, declared Stage 1 Water Shortage Emergency continues pursuant to Water Code Section 350 and the District's Urban Water Management Plan 2015 Update. On May 28, 2019, the Board adopted Ordinance 96, an updated drought ordinance establishing updated water use restrictions consistent with the declared Stage 1 Water Shortage Emergency. In June 2021, the District adopted its 2020 Urban Water Management Plan which includes an updated Water Shortage Contingency Plan.

In July 2021, the District established a water use reduction target of 20% due to elevated customer water use to ensure water availability over a 3-year planning horizon. This reduction, if achieved would realign water use with the District's water supply planning efforts. Since July 2021, little progress has been achieved with water use having been over budget through April 2022 by 11%. Voluntary conservation actions include heavy emphasis on customer outreach through messaging and the increased frequency of onsite water use audits. Further reductions

in water use to align consumption with budget is needed to ensure water supply availability in future years.

On July 8, 2021, Governor Newsom requested a 15% voluntary reduction in water use statewide. Due to the lack of progress statewide achieving the State's requested 15% voluntary reduction in urban water use, on March 28, 2022, Governor Newsom signed Executive Order N-7-22 directing the State Water Resources Control Board (SWRCB) to consider adopting an emergency regulation aimed at reducing water demand and increasing water conservation through mandated actions, regardless of local water supply conditions. Among other provisions, the Executive Order requested that the SWRCB require urban water suppliers implement the water use reduction measures included under a Stage 2 water shortage condition as provided in urban water suppliers' Water Shortage Contingency Plans and to establish a ban on the irrigation of non-functional turf in the commercial, industrial, and institutional sectors. On May 24, 2022, the SWRCB adopted Resolution 2022-0018, an emergency regulation to reduce water demand and improve water conservation among urban water suppliers, which is consistent with Executive Order N-7-22. On June 8, 2022, the District adopted Ordinance 97, an updated drought ordinance, declaring a Stage 2 Water Shortage Emergency Condition and instituting additional water use reduction measures, including limiting irrigation of landscapes to every other day and enhancing public outreach. This action, mandated by the SWRCB, is anticipated to achieve up to a 20% reduction of overall water use.

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## WATER SUPPLY OUTLOOK

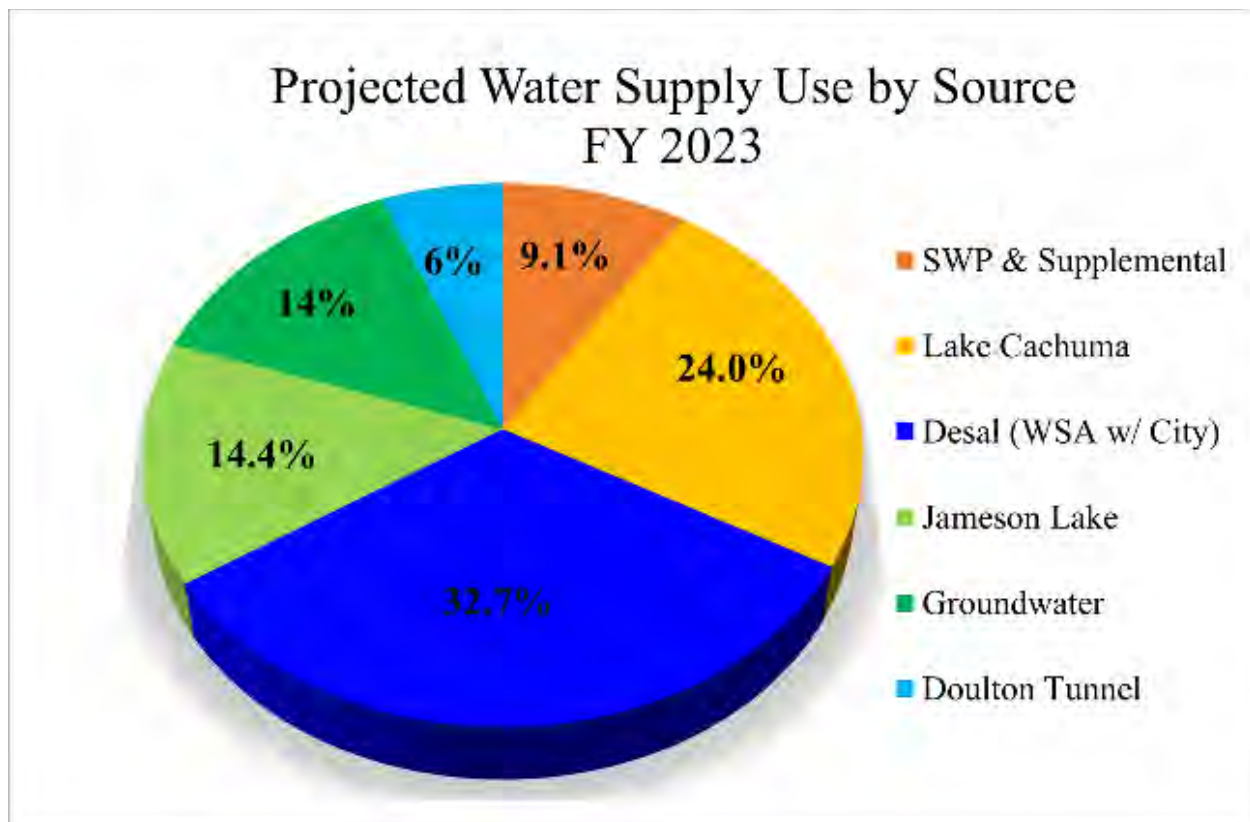
Despite the ongoing severe drought conditions impacting water supply availability across the State, the District remains well positioned to respond. Recent District action, such as the Water Supply Agreement with the City of Santa Barbara for desalination and groundwater banking, have significantly improved the District's water supply outlook as compared to prior drought years. The District has 1,800 AF of water banked in Semitropic and has secured an option to purchase up to 2,000 AF of supplemental water in 2022 and/or 2023 depending on need.

Based on available information, including forecasted drought conditions through 2024, the District's three-year water projections indicate the potential need for up to about 3,000 AF of supplemental water to meet projected demands over a three-year planning period.

Sources of water supplies used to meet customer demands in FY2023 are primarily local, including the Water Supply Agreement with the City of Santa Barbara (desalination), the Cachuma Project, and Jameson Lake. The ongoing extreme drought conditions may require the purchase of supplemental water in FY2023 from Homer LLC or others and/or the use of water banked in Semitropic.

The District continuously evaluates water supply conditions and the need for additional demand-management measures to ensure water supply availability over a three-year planning period and beyond.

The table below shows projected water supply use by source for FY2023. Desalinated water is the greatest use at 32.7% of total supply followed closely by Lake Cachuma at 24%. It is notable that local water sources, Jameson Lake, Groundwater and Doulton Tunnel, collectively account for 34.4% of water supply use.



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## BUDGET IN BRIEF

<b>BUDGET IN BREIF</b>	<b>FY 21-22 FORECAST</b>	<b>FY 22-23 BUDGET</b>	<b>% OF TOTAL REVENUE</b>	<b>% Change from FY21-22</b>
TOTAL REVENUE	24,825,669	24,102,530	100%	-3%
TOTAL EXPENSES	(19,348,760)	(21,652,676)	-90%	12%
<b>NET OPERATING SURPLUS</b>	<b>5,476,909</b>	<b>2,449,854</b>	<b>10%</b>	<b>-55%</b>
DEBT PRINCIPAL PAYMENTS	(1,165,000)	(1,215,000)	-5%	4%
CAPITAL EXPENDIUTRES (Net)	(2,848,192)	(3,663,500)	-20%	29%
INTEREST AMORTIZATION	(288,666)	(288,666)	1%	0%
<b>TOTAL IN/(OUT)FLOWS</b>	<b>1,175,051</b>	<b>(2,717,312)</b>	<b>-11%</b>	<b>-331%</b>
RESERVE TRANSFER IN/(OUT) (Net)	(1,762,600)	2,717,312	11%	-254%
<b>NET CASH IMPACT ON FUND BALANCE</b>	<b>(587,549)</b>	<b>(0)</b>	<b>0%</b>	<b>-100%</b>

## HIGHLIGHTS

Water consumption rates were increased by 2.8% in accord with the District's 5-year Financial Plan and Water Cost of Service and Rate Study.

Expenditures are projected to be 12% greater than the prior year. Inflationary pressure on electricity, fuel and labor is driving the increase.

Debt service is consistent with the 2020 Bond schedules.

Net Capital expenditures are projected to increase 29% over the prior year. The increase is due to more reimbursable projects and inflationary pressure.

Reserve transfers are projected to offset costs anticipated and planned for in prior years.

<b>SURPLUS BEFORE DEBT &amp; CAPITAL EXPEDITURES (Detail)</b>	<b>FY 21-22 FORECAST</b>	<b>FY 22-23 BUDGET</b>	<b>% OF TOTAL REVENUE</b>
<b>OPERATING REVENUE:</b>			
SINGLE FAMILY RESIDENTIAL	13,915,331	13,238,451	55%
OTHER WATER SALES	3,454,901	3,769,970	14%
<b>WATER SALES</b>	<b>17,370,232</b>	<b>17,008,421</b>	<b>69%</b>
MONTHLY METER CHARGES	4,629,900	4,665,871	19%
OTHER CHAREGES & FEES	705,624	712,234	3%
<b>CHARGES &amp; FEES</b>	<b>5,335,524</b>	<b>5,378,106</b>	<b>22%</b>
<b>TOTAL OPERATING REVENUE</b>	<b>22,705,756</b>	<b>22,386,526</b>	<b>91%</b>
<b>OPERATING EXPENSES:</b>			
JPA EXPENSES	(7,378,197)	(6,214,608)	-26%
WSA WATER PURCHASE	(2,578,887)	(5,416,496)	-22%
SUPPLEMENTAL WATER PURCHASE	-	(210,000)	-1%
<b>WATER SUPPLY EXPENSES</b>	<b>(9,957,084)</b>	<b>(11,841,104)</b>	<b>-49%</b>
JAMESON LAKE	(318,485)	(338,871)	-1%
TRANSMISSION & DISTRIBUTION	(1,617,758)	(1,694,854)	-7%
TREATMENT	(1,378,233)	(1,449,790)	-6%
<b>DIRECT EXPENSES</b>	<b>(3,314,476)</b>	<b>(3,483,516)</b>	<b>-14%</b>
ENGINEERING	(904,286)	(917,304)	-4%
CUSTOMER SERVICE	(372,282)	(387,819)	-2%
PUBLIC INFORMATION / CONSERVATION	(188,611)	(190,581)	-1%
FLEET	(233,071)	(284,337)	-1%
ADMINISTRATION	(2,338,575)	(2,489,823)	-8%
BUDGET CONTINGENCY	-	(238,766)	-1%
DEPRECIATION	(1,149,345)	(1,152,000)	-5%
<b>TOTAL INDIRECT EXPENSES</b>	<b>(5,186,169)</b>	<b>(5,660,629)</b>	<b>-23%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>(18,457,730)</b>	<b>(20,985,249.05)</b>	<b>-87%</b>
<b>OPERATING SURPLUS</b>	<b>4,248,026</b>	<b>1,401,277.45</b>	<b>6%</b>



## **RESOLUTION NO. 2241**

### **RESOLUTION OF THE BOARD OF DIRECTORS OF THE MONTECITO WATER DISTRICT ADOPTING A BUDGET FOR FISCAL YEAR 2022-2023**

**WHEREAS**, the Montecito Water District (“District”) is a County Water District organized and existing under and by virtue of Water Code §§30000 – 33901; and

**WHEREAS**, the District manages water resources to deliver a safe and reliable supply of high-quality water to over 4,600 residential, commercial, institutional, agricultural and non-potable customers in the Montecito and Summerland communities; and

**WHEREAS**, the District prepares and adopts an annual budget that provides a financial plan to assist with the implementation of the District’s necessary programs, projects and work plan for the fiscal year; and

**WHEREAS**, District management prepared a budget for Fiscal Year 2022-2023 that estimates expenses required for funding operations, maintenance, capital improvements, debt service, prudent reserve requirements, and other expenses of the District; and the revenues from all sources to fund those expenses; and

**WHEREAS**, District management has determined that the Fiscal Year 2022-2023 budget is consistent with the operative June 2020 *Financial Plan* and *Cost of Service Study* and proposes a balanced budget, and if implemented will ensure that the District’s revenue will be sufficient to fund all of the District’s planned expenses; and

**WHEREAS**, the proposed Fiscal Year 2022-2023 budget has been reviewed and considered by the Finance Committee, and by the Board of Directors at a Board workshop held on May 24, 2022, and feedback received has been incorporated herein; and

**WHEREAS**, it has been determined to be in the best interest of the District to adopt the Fiscal Year 2022-2023 budget for the continued sound financial operation of the District;

**NOW THEREFORE BE IT RESOLVED** by the Board of Directors of Montecito Water District as follows:

1. The certain documents referred to as the “Montecito Water District Fiscal Year 2022-2022 Budget” and all schedules, exhibits, and policies contained therein which are incorporated herein by this reference, are hereby adopted as the annual budget of the District for the fiscal year beginning on July 1, 2022, and ending June 30, 2023
2. That the amounts stated in the proposed budget shall become and thereafter be assigned to the departments, activities, and purposes stated therein and said monies are hereby authorized to be expended for the purposes and objects specific in said budget.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Water District this 28<sup>th</sup> day of June, 2022, by the following roll call vote:

AYES: Ken Coates, Brian Goebel, Floyd Wicks

NOES:

ABSENT: Cori Hayman, Tobe Plough

ABSTAIN:

APPROVED:

A handwritten signature in black ink, appearing to read "K Coates", written over a horizontal line.

Ken Coates, Vice President

ATTEST:

A handwritten signature in blue ink, appearing to read "Nicholas Turner", written over a horizontal line.

Nicholas Turner, Secretary

# A CENTURY OF WATER SERVICE





## A CENTURY OF WATER SERVICE

For the past century, the District has reliably delivered water that meets the highest of standards, while striving to be a good steward of water resources, the environment and customer relationships.

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### HISTORIC MILESTONES

The District was formed in 1921 to address the challenge of providing sufficient water to a growing community in a semi-arid region. Over the past century, the District's ability to achieve its mission has required relentless foresight and action. A myriad of variable factors including population, climate, environment, and regulations have prompted responsive and pro-active historic achievements.



The creation of Jameson Lake, participation in the Cachuma Project, and investment in the State Water Project are amongst the District's most noteworthy accomplishments.

While drought reached unprecedented levels in the past decade, the District found itself in a vulnerable position and has since mobilized to maximize its current investments and introduce more local and reliable water supplies. Recent advancements include (1) Groundwater Banking to allow for the storing of excess water when available and saving it for use when needed most, (2) a 50-year Water Supply Agreement with the City of Santa Barbara to provide the security of desalination, (3) establishment of a GSA and the development of a GSP to ensure the long term health of the Montecito Groundwater Basin, and (4) an extensive reservoir retrofit and replacement project to improve resilience and increase the longevity of the District's water storage tanks.

### A PLAN FOR THE FUTURE

In March 2022, the District finalized its first **5-year Strategic Plan** outlining the actions it intends to take through 2027 to ensure it continues to achieve its mission and vision over the next century.

The plan identifies strategic goals and objectives to be pursued over the next 5 years in support of the District's mission to provide an adequate and reliable supply of high-quality water to the residents of Montecito and Summerland, at the most reasonable cost. Through numerous public workshops, priorities goals and specific initiatives were identified to address various anticipated future challenges including a projected water shortage, aging infrastructure/facilities and workforce, the need for employee development, impacts of water policy, efficient management of water supplies and implementing water reuse.



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### THE DISTRICT'S OBJECTIVES

The objectives of the District over the next 5 years are:

1. Bolster water supply reliability through additional diversification.
2. Enhance infrastructure dependability through enhanced replacement/ rehabilitation.
3. Achieve operational excellence through improved planning and investment in qualified personnel.
4. Be included in development of water policy at all levels to ensure representation of the community's unique needs by continued involvement with community organizations and joint agency ventures.



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## ACTION PLAN FOR FISCAL YEAR 2023

1. Completion of the *Enhanced Recycled Water Feasibility Study*
2. Completion of an evaluation on potential expansion of the District's regional groundwater banking operations
3. Completion of a *Water Use Efficiency Plan*, designed to build upon the District's ongoing water conservation efforts
4. Distribution new office/shop
5. Development of a *Succession Plan*

# DISTRICT & BUDGET OVERVIEW



## DISTRICT OVERVIEW

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### HISTORY & FORM OF GOVERNMENT

Montecito Water District (District) is an Independent Special District. It is a local, nonprofit, government agency overseen by an elected Board of Directors. Since 1921, the District has reliably delivered safe drinking water supplies to approximately 11,500 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. In 1995, the Summerland County Water District, contiguous with the Montecito Water District service boundary, merged with the Montecito Water District.

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### RESPONSIBILITY

County Water District Act found in Division 12 of the State of California Water Code (*Division 12 added by Stats. 1949, Ch. 274.*)

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### MISSION STATEMENT

The mission of Montecito Water District is to provide an adequate and reliable supply of high-quality water to the residents of Montecito and Summerland 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.

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### VISION STATEMENT

The District's vision is to ensure long term sustainability through further development of local water resources and to be recognized in the community for our transparency, integrity, and dedication in providing high-quality drinking water to our customers.

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## GOVERNANCE

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. Policies include water supply policy, financial planning, infrastructure investment, and adopting water rates.

Terms begin and end in December of the applicable year. Current Directors and their respective terms are as follows:

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### BOARD OF DIRECTORS

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**Charles T. Plough**  
President  
2020-2024



**Ken Coates**  
Vice President  
2018-2022



**Cori Hayman**  
Director  
2018-2022



**Floyd Wicks**  
Director  
2020-2024



**Brian Goebel**  
Director  
2018-2022

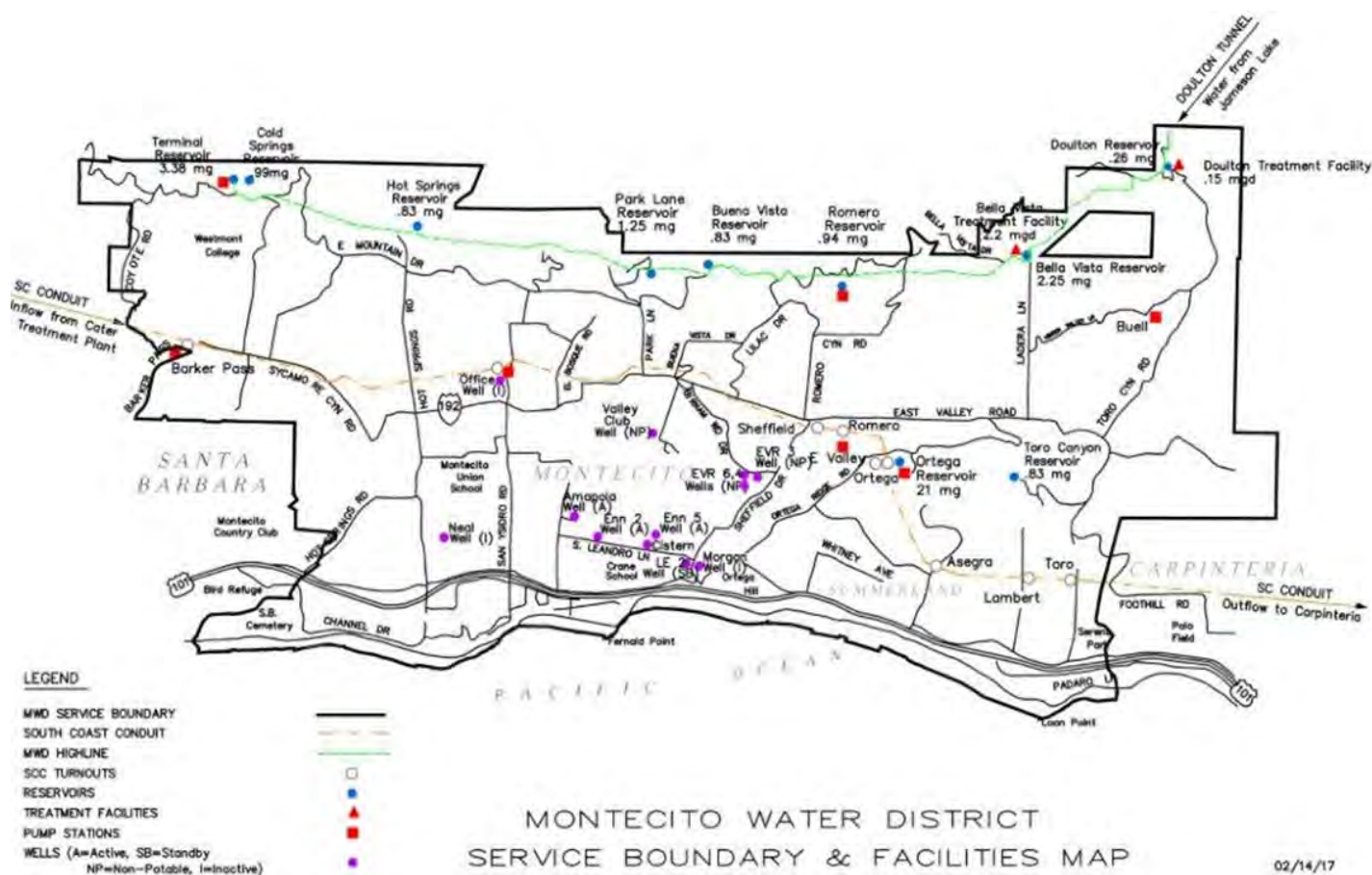


## SERVICE AREA

The District is located in the southern coastal portion of Santa Barbara County and provides service to approximately 9,888 acres (15.5 Square Miles) 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.

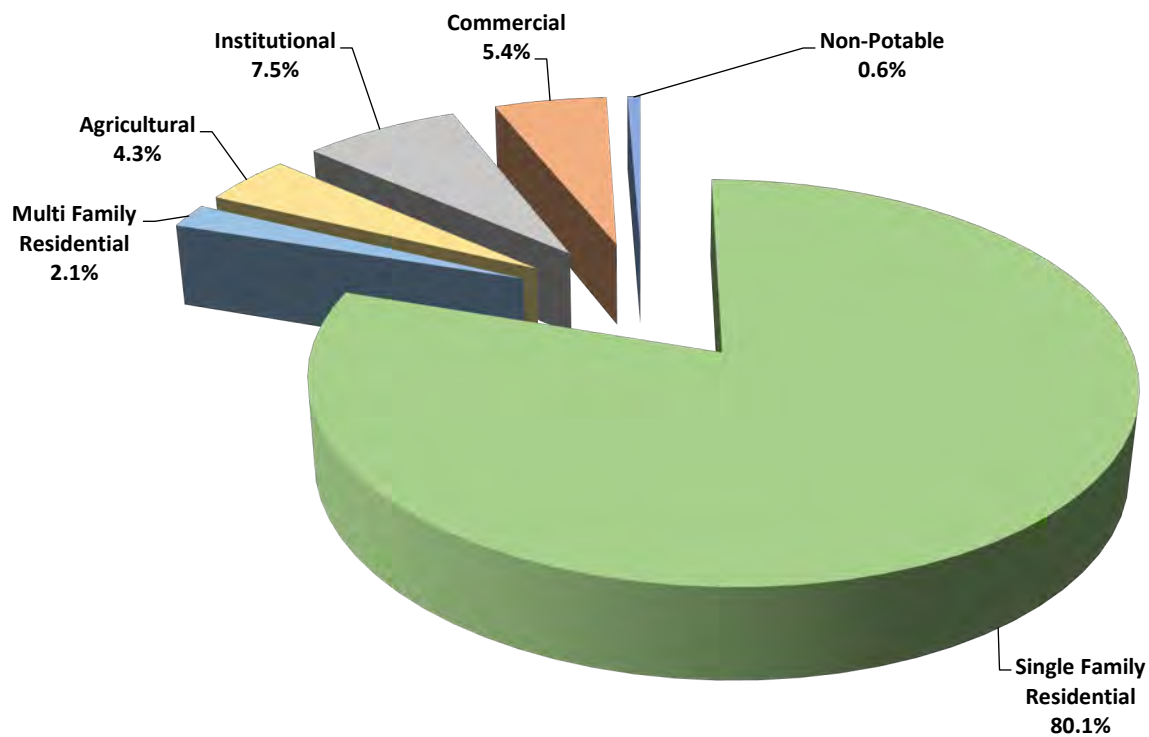
The District serves the unincorporated communities of Montecito and Summerland, a small portion of the Carpinteria Valley on its eastern boundary, and a small portion of the City of Santa Barbara on its western boundary.

The map below shows the District's service area.



Approximately 4,630 residential, commercial, institutional, and agricultural service connections are served by the District. About 92% of the service connections are low density, residential housing, with commercial/institutional and agriculture making up approximately 6% and 1% respectively. Consumption in the community can vary depending on annual rainfall and currently averages about 3,900-acre feet per Fiscal Year. Water sales are based on the actual water delivered through a District issued water meter, measured in increments of one hundred cubic feet (HCF) or 748 gallons.

The chart below shows Average Consumption by class with residential customers consuming about 80% of the total water supplied. Most of the water use in the community, estimated as high as 85%, is used outdoors for irrigation of landscapes.







District terrain is relatively steep, varying in elevation from sea level to 1,800 feet in the coastal foothills in the northern part of the service area. The water system is primarily gravity-fed from a series of reservoirs with numerous pressure zones, controlled by pumps and pressure regulating stations, with water delivered from Jameson Lake, Doulton Tunnel, groundwater wells and turnouts along the Cachuma Project South Coast Conduit (SCC) delivering water from the Cachuma Project, the State Water Project, supplemental water and desalinated water from the City of Santa Barbara.

The local climate is generally characterized as Mediterranean coastal with mild, dry summers and cool winters. High temperatures average about 80 degrees while low temperatures rarely fall below 40 degrees. The area is semi-arid with average rainfall of approximately 18 inches per year, primarily occurring between November and March.

The major activities of the District encompass acquisition, treatment and delivery of water from multiple sources including surface water from Jameson Lake, Cachuma Project, and State Water Project, groundwater from Doulton Tunnel and the Montecito Groundwater Basin and desalination from the City of Santa Barbara.

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## ORGANIZATION STRUCTURE

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 Counsel and District Auditors also report directly to the Board.

The General Manager oversees day-to-day operations. Four departments report directly to the General Manager: Water Treatment, Distribution, Engineering, and Business.

The Treatment Department is responsible for the operation and maintenance of groundwater wells, pump stations, one dam, one lake, nine reservoirs and the water treatment facilities of the District.

The Distribution Department is responsible for the operation and maintenance of more than 114 miles of water distribution mains and approximately 4,630 service connections.

The Engineering Department is responsible for planning, organizing, managing, and providing administrative direction and oversight for all functions and activities related to the District's water supply infrastructure.

The Business Department is responsible for the District's accounting and personnel functions, and financial reporting to the Board of Directors and public.

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### MANAGEMENT

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**Nick Turner**  
General Manager  
& Board Secretary



**Adam Kanold**  
Assistant General  
Manager and  
Engineering  
Manager



**Olivia Rojas**  
Business Manager



**Chad Hurshman**  
Treatment and  
Production  
Superintendent

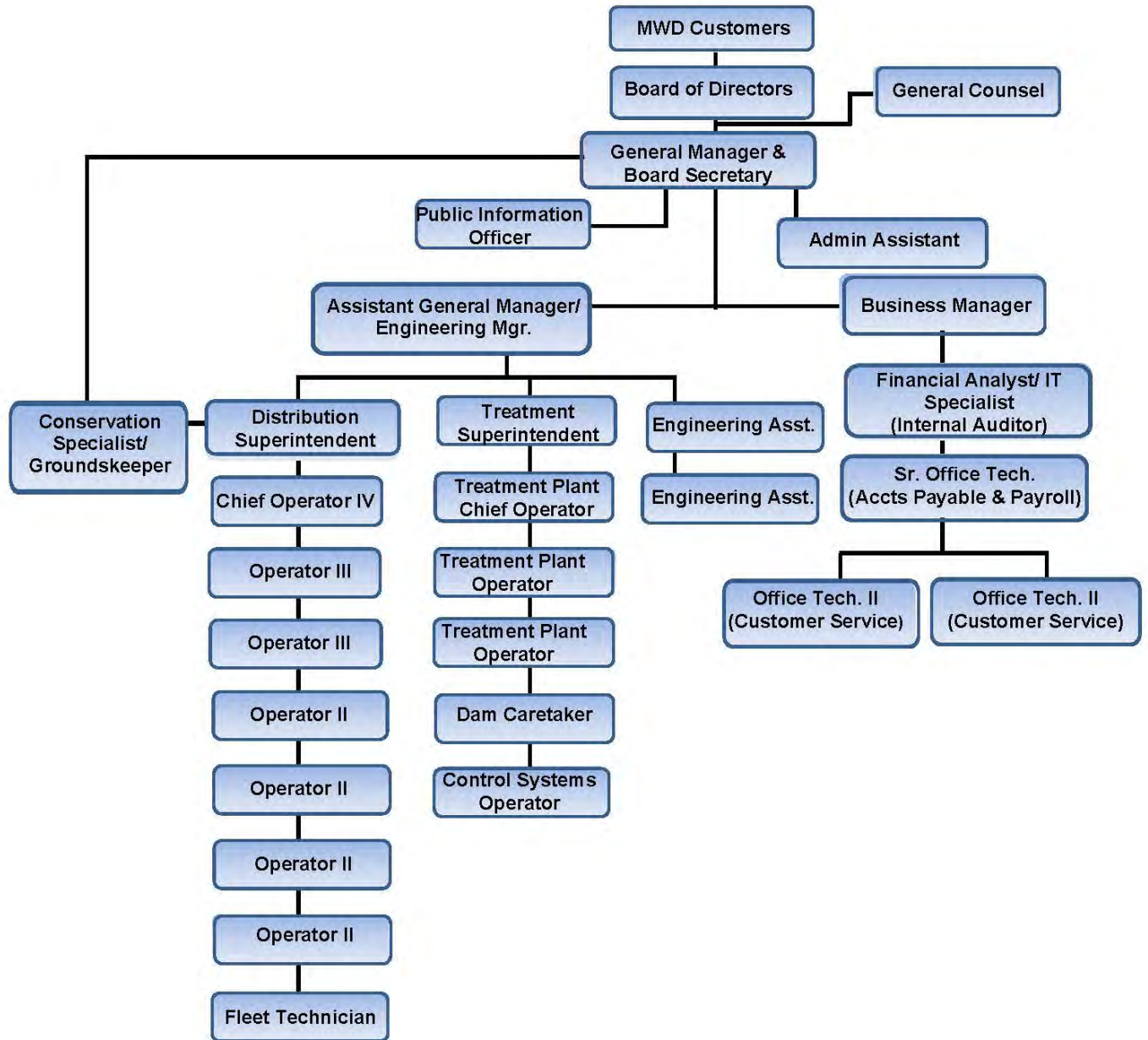


**Richie Romero**  
Distribution  
Superintendent

Management oversees a staff of 28 full time employees, including engineers, certified treatment and distribution operators, water conservation experts, and finance and administrative staff.

The Budget is prepared under the direction of General Manager and adopted by the Board of Directors.

## ORGANIZATIONAL CHART





# WATER OPERATIONS





## **WATER OPERATIONS: SOURCES OF REVENUE**

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### **WATER SUPPLY PORTFOLIO**

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. All water supplies are secured through collaborative agreements with Federal, State, and local partners.

The District's foundational water resource management documents, which include the Urban Water Management Plan (UWMP) and the Future Demand and Water Supply Options Analysis, were last updated in 2021 and 2020, respectively. The GSP for the groundwater supply is under development by the Montecito Groundwater Basin Groundwater Sustainability Agency and completion is anticipated in 2023.

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), which includes agricultural deliveries and unaccounted-for water. This determination is detailed in the District's 2015 UWMP. On June 22, 2021, the District adopted its 2020 UWMP, which demonstrates full compliance with Senate Bill X7-7. The District's FY2023 budget reflects an anticipated annual water production of 4,254 AF, which equates to approximately 3,947 AF in sales, consistent with the 3-year average water sales (2019-2021 CY). This projection is based on historical customer usage trends and increased water availability but is highly variable depending on customer water use behaviors and hydrologic conditions both regionally and statewide.

### **CACHUMA PROJECT**

The Cachuma Project (Lake Cachuma) is used to meet approximately 40% of annual demand under normal conditions. In accordance with water supply agreements with United States Bureau of Reclamation (USBR), Santa Barbara County Water Agency (SBCWA) and other Cachuma Member Units (CMUs), the District is



entitled to 2,651 AF of Cachuma supplies annually under normal conditions. The USBR owns the Cachuma Project and is responsible for the operations of Bradbury Dam. The Cachuma Operation and Maintenance Board (COMB) is responsible for the operations and maintenance of the balance of the Cachuma Project facilities, including the Tecolote Tunnel, the South Coast Conduit (SCC), and regulating reservoirs and appurtenances. COMB delivers water to the CMUs on the



south coast and maintains project infrastructure to ensure ongoing sustainability of the Cachuma Project.

Over the last decade, availability of water from the Cachuma Project has diminished due to ongoing drought conditions, in some years providing a 0% allocation. As of June 2022, the Cachuma Project is at 43% of full storage capacity. The United States Bureau of Reclamation (USBR) issued a 100% Cachuma Project allocation for Water Year 2022, which began October 1, 2021, equating to 2,651 AF. Due to the reduced lake level and limited available water, the Water Year 2023 allocation remains uncertain and is expected to be significantly reduced, if not 0%. Cachuma Project supplies not used in the water year allocated become carryover water and are stored in the Lake until used. The District anticipates utilizing about 1,100 AF of carryover Cachuma supplies in FY2023.

### **JAMESON LAKE**

Jameson Lake is a District-owned surface water reservoir on the upper Santa Ynez River. Ownership and diversion rights were transferred from the City of Santa Barbara to the District in 1928 pursuant to the 1928 Juncal Dam Transfer Agreement. The current total storage capacity is approximately 4,848 AF, 70% of the original capacity of nearly 7,000 AF. As of June 2022, Jameson Lake is at 65% of full storage capacity.



During normal conditions, annual diversions from Jameson Lake average about 1,500 AFY and are limited to a maximum of 2,000 AF because 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 Analysis*, recommends reduced annual diversion based on the current lake level. Deliveries from Jameson Lake are expected to provide approximately 650 AF of water in FY2022.

## GROUND WATER



The Montecito Groundwater Basin is a locally controlled and reliable water source for the District.

Since 2018, management of the Montecito Groundwater Basin is the responsibility of the Montecito Groundwater Basin Groundwater Sustainability Agency (GSA) in accordance with the 2014 Sustainable Groundwater Management Act (SGMS). The District formed the GSA in 2018 as a single agency GSA and is tasked with developing a Groundwater Sustainability Plan (GSP) for the basin by 2024. The District has twelve active groundwater wells, six potable and six non-potable wells.

Diversions from the basin have historically ranged from 5% to 15% of the District's annual water supply depending on hydrologic conditions. The basin reached a historic low level in 2016 following four consecutive years of drought conditions, of which the basin has not recovered.

## DOULTON TUNNEL

A 2.3-mile-long tunnel through the Santa Ynez Mountains connecting Jameson Lake and the District's service area, the Doulton Tunnel serves as a conduit for Jameson Lake deliveries and acts as a horizontal well collection tunnel for intrusion water or groundwater. This water is collected and conveyed, along with water delivered from Jameson Lake, to the District for treatment. Annual intrusion 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 be approximately 250 AF for FY2023.



## DESALINATION



Pursuant to a long-term Water Supply Agreement (WSA) between the District and the City of Santa Barbara, the District receives 1,430 AF annually supported by the City's desalination facility. The September 2020 agreement guarantees the District approximately 119 AF of water monthly for a term of 50 years irrespective of hydrologic conditions. Water deliveries and the associated payments began on January 1, 2022. Deliveries are

made through the District's various turnouts on the SCC. Approximately 35% of the District's annual water supply needs are met with this local reliable water supply.

## STATE WATER PROJECT (AND SUPPLEMENTAL WATER)

The District participates in the State Water Project through the Central Coast Water Authority (CCWA), a Joint Powers Authority with responsibility for the ownership and operations of the treatment and distribution of SWP supplies in Santa Barbara and San Luis Obispo Counties. In accordance with water supply agreements between California Department of Water



Resources (DWR), Santa Barbara County Flood Control and Water Conservation District and the District, the District is entitled to 3,300 AF of SWP supplies annually under normal conditions. SWP water provides the District with a drought buffer which is used to offset reductions in local and regional surface water supplies. The availability of SWP water varies year-to-year based on hydrologic condition primarily in northern California. The District stores undelivered portions of its annual entitlement either in San Luis Reservoir, Cachuma Project or in Semitropic. The District projects having little to no stored water in DWR's San Luis Reservoir at the beginning of FY2023. 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.

SWP and supplemental water deliveries are limited due to a capacity limitation in infrastructure used for delivery to Cachuma Project. The District's annual deliveries utilizing these facilities vary depending of the delivery point at Cachuma Project up to a maximum of about 3,800 AF. Additional capacity may be available depending on other South Coast agencies' use of the pumping and transmission facilities.

When needed, the District purchases supplemental water through the Central Coast Water Authority's (CCWA) Supplemental Water Purchase Program. Between 2014 and 2021, the District purchased nearly 18,000 AF of supplemental water. The District has secured an option to purchase up to 2,000 AF of supplemental water from Homer LLC in CY 2022 and CY 2023. The District anticipates the potential need to exercise the option in Spring 2023 depending on rainfall during the 2022-2023 winter.

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## WATER SUPPLIES FACILITIES

The District's water supply 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, 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. 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.



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.



## WATER OPERATIONS: COST OF SERVICE

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### DIRECT & INDIRECT COST OF SERVICE

Planned FY2023 expenditures are consistent with the 5-year Financial Plan and Water Cost of Service and Rate Study (2020 Rate Study) prepared by Raftelis, dated May 7, 2020 and adopted by the Board of Directors on June 25, 2020. Planned operating expenditures are separated in to three categories consisting of Joint Powers Agency (JPA) operating expenses, and direct and indirect expenditures associated with providing water service. Operating expenditures are described and shown below.

Water Operations Expenses, which include JPA operating expenses (fixed and variable costs associated with COMB, CCRB, CATER, and CCWA) and the WSA with the City of Santa Barbara, account for 26% of total District expenditures. Direct expenses, which include operations & maintenance expenses directly associated with providing water service to District customers, represent 14% of total expenditures and include costs related to management of District owned Jameson Lake, water treatment, testing, and distribution. Indirect expenses, which includes operations & maintenance expenses indirectly associated with providing water service to District customers, represent 25% of total expenditures, and include costs related to engineering services, finance, public information, fleet, administrative services, groundwater banking, liability insurance, legal and others. Of Direct and Indirect expenses, personnel costs represent 27% of total expenditures, which consist of wages, benefits other post-employment benefits.

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### JOINT POWERS AUTHORITIES (JPA)

The District is a member of Joint Power Authorities (JPAs) for the purchase, management, treatment and delivery of water. These JPAs include the Cachuma Operations & Maintenance Board (COMB), Cachuma Conservation & Release Board (CCRB), Cater Treatment Plant (Cater), and Central Coast Water Authority (CCWA). Additionally, the JPA category of expenditures includes the Water Supply Agreement (WSA) with the City of Santa Barbara. Budget items associated with these JPAs are determined and controlled by the individual JPAs and/or pursuant to agreements.



COMB



CATER



STATE WATER  
PROJECT



DESALINATION  
PLANT

For FY2023, planned expenditures by individual JPA are shown in the table below.

<b>MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY</b>	<b>FY 2021-2022 ADOPTED BUDGET</b>	<b>FY 2021-2022 FORECAST</b>	<b>FY 2022-2023 DRAFT BUDGET</b>	<b>BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)</b>	<b>Draft to Forecast Variance</b>
<b>WATER SUPPLY EXPENSES</b>					
<b>JPA OPERATING EXPENSE:</b>					
CACHUMA OPER & MAINT BOARD (COMB)	(576,324)	(753,677)	(729,514)	24,163	-3%
CACHUMA CONSERV & RELEASE BRD (CCRB)	(149,881)	(164,515)	(160,876)	3,639	-2%
US BUREAU OF RECLAMATION (USBR)	(226,820)	(145,838)	(226,820)	(80,982)	56%
CATER WATER TREATMENT PLANT O&M	(1,227,300)	(1,029,672)	(756,048)	273,624	-27%
CATER WATER TREATMENT PLANT CAPITAL	(158,920)	(63,156)	(103,298)	(40,142)	64%
STATE WATER PROJ (SWP) -FIXED (CCWA)	(2,279,037)	(2,279,038)	(699,547)	1,579,490	-69%
STATE WATER PROJ (SWP) - VARIABLE (CCWA)	(30,000)	(30,000)	-	30,000	-100%
STATE WATER PROJ (SWP) - FIXED (DWR)	(2,912,301)	(2,912,303)	(2,836,471)	75,832	-3%
STATE WATER PROJ (SWP) - VARIABLE (DWR)	-	-	(126,514)	(126,514)	0%
SUPPLEMENTAL WATER DELIVERIES (HOMER LLC)	-	-	(575,520)	(575,520)	0%
<b>TOTAL JPA OPERATING EXPENSE</b>	<b>(7,560,583)</b>	<b>(7,378,197)</b>	<b>(6,214,608)</b>	<b>1,187,752</b>	<b>-16%</b>
WSA WATER PURCHASE	(2,631,240)	(2,578,887)	(5,416,496)	(2,837,609)	110%
SUPPLEMENTAL WATER PURCHASE	-	-	(210,000)	(210,000)	0%
<b>TOTAL WATER SUPPLY EXPENSES</b>	<b>(10,191,823)</b>	<b>(9,957,084)</b>	<b>(11,841,104)</b>	<b>(1,859,857)</b>	<b>19%</b>
<b>MWD DIRECT EXPENSE</b>					
JAMESON	(263,007)	(318,485)	(338,871)	(20,387)	6%
TRANSMISSION & DISTRIBUTION	(1,644,753)	(1,617,758)	(1,694,854)	(77,096)	5%
TREATMENT	(1,362,454)	(1,378,233)	(1,449,790)	(71,557)	5%
<b>TOTAL MWD DIRECT EXPENSE</b>	<b>(3,270,214)</b>	<b>(3,314,476)</b>	<b>(3,483,516)</b>	<b>(169,039)</b>	<b>5%</b>
<b>TOTAL DIRECT EXPENSES</b>	<b>(13,462,037)</b>	<b>(13,271,561)</b>	<b>(15,324,620)</b>	<b>(2,028,897)</b>	<b>15%</b>

### **CACHUMA OPERATION AND MAINTENANCE BOARD (COMB)**

The Cachuma Operation and Maintenance Board ("COMB") is a Joint Powers Agency formed in 1956 pursuant to an agreement with the United States Bureau of Reclamation (USBR). The agreement transferred to COMB the responsibility to operate, repair and maintain all Cachuma Project facilities, except Bradbury Dam, which the United States Bureau of Reclamation continues to operate. 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. 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 ("SYRWCD ID#1"). COMB's Board of Directors is made up of elected representatives from each of its member agencies.

The District's percentage of participation for this JPA is 11.50%. 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 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 "SBCWA") 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 CMUs.

#### **CACHUMA CONSERVATION RELEASE BOARD (CCRB)**

The Cachuma Conservation Release Board (CCRB) is a Joint Powers Agency formed in January 1973 between Montecito Water District (MWD), Carpinteria Valley Water District (CVWD), Goleta Water District (GWD), and the City of Santa Barbara (City). CCRB was established to jointly represent the water agencies in protecting the Cachuma Project water rights and interests. In 2011, CVWD withdrew from CCRB, increasing the percentage of participation for the remaining member agencies. The District's current percentage of expenses for CCRB is 13.09%. CCRB's Board of Directors is made up of an elected representative from each of the three remaining member agencies.

The withdrawal of CVWD from CCRB in 2011 also caused a fundamental change in the organization's purpose to focus its activities on water rights advocacy and the Cachuma Project Biological Opinion (BO) Re-consultation. All extraneous CCRB programs, not having to do with water rights, including fish passage projects and related studies of the Santa Ynez River and its tributaries, were transferred to COMB.

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

(FMP) is a comprehensive plan to provide fish passage and management strategies to protect, restore and create new habitat for the spawning and rearing of endangered steelhead.

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

### **CENTRAL COAST WATER AUTHORITY (CCWA)**

On June 4, 1991, District voters approved participation in the California State Water Project (SWP) allowing the District to participate in the formation of the Central Coast Water Authority (CCWA). The CCWA was formed on August 1, 1991 as a JPA under Government Code Section 6500, Article 1, Chapter 5, Division 7, Title 1 providing for a total of 45,486 AF of SWP Table “A” and drought buffer water supplies to Santa Barbara County. The



actual right to the 45,486 AF of State Water is held by the Santa Barbara County Flood Control District, which acquired the State Water Project supply in 1963. CCWA, by way of a transfer agreement, is the agency responsible for managing the financing, construction, operation and maintenance of the SWP facilities necessary for the delivery of SWP water and other supplemental supplies to the eight Central and South Coast SWP contractors, which include the Cities of Buellton, Guadalupe, Santa Barbara and Santa Maria; Carpinteria Valley Water District; Goleta Water District; Montecito Water District and 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 SYRWCD 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. The District 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 2022 calendar year, DWR has issued an SWP allocation of 5%, which for the District translates to 165 AF.



The District is responsible for paying two fixed capital cost components for its share of the construction loan costs for the pipeline and facilities built by the DWR and those facilities built by CCWA. The DWR capital cost debt service payment is for the 101-mile-long Coastal Branch Phase 2 water transmission pipeline. The CCWA capital payment, which was for the 42-mile-long Mission Hills pipeline extension, treatment plants, water storage tanks and pump stations was fully repaid in mid-2021. The District also pays a variable water treatment and delivery cost to DWR and CCWA for all State Water ordered.

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) 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.

### **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 a subsequent agreement with the City of Santa Barbara, 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.

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## WSA WATER PURCHASE

### WATER SUPPLY AGREEMENT WITH CITY OF SANTA BARBARA

In September 2020, the District and the City of Santa Barbara 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, if expanded to 5,000 AFY capacity, 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.

Based on WSA cost projections for FY2023, the WSA unit price for water has increased by about 9% due to increased City staffing needs for managing the Desalination facility and increased electrical and chemical costs.



# RESERVES & BUDGET ASSUMPTIONS





## RESERVES & FUNDS

### RESERVE SUMMARY

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 October 26, 2021, the Board of Directors adopted an updated Reserve Policy, District Resolution No. 2224, reflecting modifications incorporated in the referenced 2020 Water Cost of Service and Rate Study and other District needs.

### RESTRICTED RESERVES

As of June 30, 2022, the District is projected to have a total \$24,055,619 in cash and investments in various financial institutions. Restricted Reserves totaling \$3,978,986, 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 \$20,141,484 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 the Thomas Fire litigation. The table below shows the restricted reserves.

<b>RESTRICTED RESERVES</b>	<b>BALANCE 06/30/22</b>
CCWA – Rate Credit Reserve Fund	\$1,497,493
WSA Debt Service Coverage	\$240,792
WSA Debt Service Reserve	\$148,449
SCE Hold Back	\$2,092,252
<b>TOTAL RESTRICTED RESERVES</b>	<b>\$3,978,986</b>

### UNRESTRICTED RESERVES

The Board desires to maintain a total Unrestricted Reserve balance of \$8,000,000, as detailed in the District's Reserve Policy adopted via Resolution No. 2224 on October 26, 2021. These funds are legally accessible for use to fund operations and are held in various identified financial accounts.

Maintaining adequate available reserve balances is important to the financial health of the District. The Board Committed Reserves, as determined by the Board of Directors are detailed below.

<b>BOARD COMMITTED RESERVES</b>	<b>BALANCE 06/30/22</b>
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
Reserve for Supplemental Water	\$3,000,000
<b>TOTAL BOARD COMMITTED RESERVES</b>	<b>\$8,000,000</b>

The following provides a description of the Board Committed Reserve funds. 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.

#### **WATER SUPPLY AGREEMENT RESERVE**

The District's Reserve for Water Supply Agreement was established in FY2021. 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 the Water Supply Agreement (WSA). 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 to a current maximum of \$1.2M. As the District funds this reserve annually, the "Reserve for Operations" will be reduced by an equal amount.

#### **OPERATING RESERVE**

The District's Reserve for Operations targets approximately three months of total operating expenses. This target was established as part of the FY2020 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.

## **EMERGENCY RESERVE**

The Reserve for Emergencies has a fund balance of \$500,000 and was also established in the FY2021 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 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.

## **UNPLANNED CAPITAL RESERVE**

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.

## **SUPPLEMENTAL WATER RESERVE**

The Reserve for purchasing water to supplement available water supplies.

## **DEBT SERVICE COVERAGE RATIO (DSCR)**

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The debt service coverage ratio is a measurement of the District's available cash flow to pay current debt obligations. It is equal to Net Operational Surplus/(Deficit) less interest payments and non-cash adjustments, such as depreciation, divided by Total Debt Service.

The District must maintain a debt service coverage ratio of 1.25 or above to meet debt service covenant requirements. The District's most recent ratio, calculated by Fieldman, Rolapp & Associates, is 2.6, appreciably higher than the minimum 1.25.

The DSCR is a dynamic component which is updated throughout the year as economic conditions, cashflow and District debt service needs change.

## **BASIS OF BUDGET AND ACCOUNTING**

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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.

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#### BUDGET CALENDAR

1. FEBRUARY: Supervisors developed proposed departmental budgets (Feb/March)
2. MARCH: Departmental budgets reviewed by management (March/early April)
3. APRIL: Finance Committee – Review of overall draft budget (April 28, 2022)
4. MAY: Budget Workshop w/ Board (May 24, 2022); Staff incorporate Board input
5. JUNE: Finance Committee – Final review, if necessary (June 21, 2022) and
6. JUNE: Board considers budget adoption (June 28, 2022)

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#### DESCRIPTION OF MAJOR FUNDS

The District manages three funds of which one, the GSA, is a separate agency with a separate Board of Directors and directive.

The two other funds are an Enterprise Fund and a Reserve Fund.

The Enterprise Fund manages the day-to-day Water operations, carries debt to fund Capital Improvements and maintains Fixed Assets.

The Reserve Fund is primarily to segregate reserves such as: Restricted funds; Board-committed funds; Debt Service and Capital Expenditure reserves and Working Capital reserves and any other Board designated reserves.

The table below lists the three Funds:

FUND NAME	FUND	TYPE	DESCRIPTION
Montecito Water District	01	Enterprise	The purpose of this fund is to track receipt of water revenues and expenditures for day-to-day operations. This includes customer billing, water purchases and funding in case of water-related operating emergencies and unforeseen circumstances.
Ground Water Sustainability Agency	02	Governmental	The purpose of this fund is to track day-to-day operations, grant funding and fund GSA related operating emergencies and unforeseen circumstances. <a href="#">The GSA is a separate agency with a Board and separate set of records.</a>
Reserve Fund	03	Reserve	The purpose of this fund is to segregate Restricted; Designated, SRF, Debt Service and Capital Expenditure monies from the Enterprise Fund. It may be funded through Grants, surplus revenue and other charges.

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## REVENUE ASSUMPTIONS

**Water rate increases** of 2.8% are consistent with Resolution No. 2200. On June 25, 2020, the Board of Directors adopted Resolution No. 2200 adopting water rates and charges based on the May 7, 2020, Raftelis Rate Study. The study spans FY2021 through FY2025 and assumes a 2.8% annual increase in water rates.

Resolution No. 2200 also sets monthly Meter Charges as well as monthly Private Fire Line Charges.

The resolution has an Inflation clause which reads:

“Section 3: Inflation Adjustment. The Board may elect to allow the annual adjustment of the rates and monthly service charges set forth in Section 2 by a percentage no greater than the percentage of change in excess of 3% in the Consumer Price Index ("CPI") for Los Angeles-Anaheim Riverside for all Urban Consumers over the previous twelve-month period. For example, if the CPI increases by 4.5% over a twelve-month period during which no other CPI adjustment has occurred, the Board may elect to increase the charges set forth in Section 2 by 1.5%. An action to allow any such adjustment shall not constitute an increase requiring additional notice and hearing pursuant to Section 6 of Article XIID of the California Constitution.”

The Table below delineates adopted Water, Meter, and Private Fire line rates through FY2025:

Section 2.1: Water Rates: The water usage rates per hundred cubic feet ("HCF") by customer classification are as follows:

Water Usage Rates (\$/hcf <sup>2</sup> )						
Customer Classification	Monthly Tiers (hcf)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Residential <sup>4</sup> (per DU <sup>1</sup> )						
Tier 1	9	\$6.56	\$6.75	\$6.94	\$7.14	\$7.34
Tier 2	35	\$11.14	\$11.46	\$11.79	\$12.13	\$12.47
Tier 3	35+	\$12.31	\$12.66	\$13.02	\$13.39	\$13.77
Commercial		\$9.63	\$9.90	\$10.18	\$10.47	\$10.77
Institutional		\$10.58	\$10.88	\$11.19	\$11.51	\$11.84
Agriculture <sup>3</sup>		\$5.50	\$5.66	\$5.82	\$5.99	\$6.16
Non-Potable		\$1.80	\$1.86	\$1.92	\$1.98	\$2.04

1. "DU" – dwelling unit
2. "hcf" – hundred cubic feet (1hcf = 748.05 gallons)
3. Agricultural customers are allocated 9 hcf per month at Tier 1 residential rates for each DU. Water use above 9 hcf multiplied by the number of DUs is then billed at the Agriculture rate shown above.
4. "Residential" customer classification includes Single Family and Multi Family Residential uses as defined in Ordinance 90.

Section 2.2: Monthly Meter Charge: The monthly meter charge for each meter size is as follows:

Monthly Meter Charge (\$/hcf)					
Meter Size	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
3/4-inch	\$46.86	\$48.18	\$49.53	\$50.92	\$52.35
1-inch	\$76.69	\$78.84	\$81.05	\$83.32	\$85.66
1 1/2-inch	\$135.04	\$138.83	\$142.72	\$146.72	\$150.83
2-inch	\$212.83	\$218.79	\$224.92	\$231.22	\$237.70
3-inch	\$731.49	\$751.98	\$773.04	\$794.69	\$816.95
4-inch	\$1,431.67	\$1,471.76	\$1,512.97	\$1,555.34	\$1,598.89
6-inch	\$3,246.97	\$3,337.89	\$3,431.36	\$3,527.44	\$3,626.21

Section 2.3: Monthly Private Fire Charge: The monthly private fire charge for each fire line size is as follows:

Monthly Private Fire Charge (\$)					
Fire Line Size	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
2-inch	\$19.35	\$19.90	\$20.46	\$21.04	\$21.63
4-inch	\$91.89	\$94.47	\$97.12	\$99.84	\$102.64
6-inch	\$256.70	\$263.89	\$271.28	\$278.88	\$286.69
8-inch	\$540.96	\$556.11	\$571.69	\$587.70	\$604.16

Note: The monthly private fire charge applies to customers with dedicated fire lines serving their property and are based on fire line capacities.



**Water consumption is estimated at 3,947 Acre Feet (AF) or Revenues of \$17,008,421.** Estimates for FY2023 are based on averaged actual consumption beginning April 2019 and ending March 2022. This time-period has a mix of wet, dry, and average years. The District's demand projections are periodically updated with the latest data, but inherently there is a high degree of uncertainty due to significant changes in the weather.

This budget assumes continuing drought conditions but also allows for conservation mandates. The FY2023 water sales projection is 2% under the water sales projection for FY2022, and 3% over FY2022 budget.

The table below shows projected consumption in HCF and AF and projected Revenues by Tier and Class. Tier 1 includes Residential consumption and Agricultural dwelling consumption. Tiers 2 and 3 apply only to Residential.

<b>3-Year Consumption Data 04.2019-03.2022</b>				
<b>Water Usage Rates (\$/hundred cubice feet or hcf)</b>		<b>7/1/2022</b>		
<b>Class/Tier</b>	<b>Rate</b>	<b>HCF</b>	<b>AF</b>	<b>Revenue</b>
Tier 1: 9 hcf	\$ 6.94	432,547	993	\$ 3,001,876
Tier 2: 10-35 hcf	\$ 11.79	528,340	1,213	6,229,125
Tier 3: 36 +hcf	\$ 13.02	360,499	828	4,693,693
Commercial	\$ 10.18	97,902	225	996,642
Institutional	\$ 11.19	105,007	241	1,175,028
Agriculture	\$ 5.82	131,384	302	764,655
Non-Potable	\$ 1.92	63,751	146	\$ 122,402
		1,719,429	3,947	\$ 16,983,421
Construction (Based on historical usage)				25,000
<b>Total Projected FY22/23 Revenue</b>				<b>\$ 17,008,421</b>

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## EXPENSE ASSUMPTIONS

Water Operations Expenses are projected to increase by approximately 19%, primarily as a result of the District taking receipt of and paying for water deliveries 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.

The WSA prefunded reserve, which began in July 2020 and was fully funded December 31, 2021 with the estimated cost 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.

Joint Powers Agreement (JPA) expenditures are projected to decrease by 18% because of less water deliveries projected through CCWA and CCWA debt payoff.

Treatment and Distribution expenses are projected to increase 5% due to inflationary pressure.

Most Indirect Expenses before the Cost-of-Living Adjustments (COLA) have remained consistent from previous years. Increases are expected in fuel and electricity, 40% and 15% respectively.

A 3% Contingency line item is included in FY2023. The purpose of the contingency line item is to compensate for the uncertainty inherent in cost and time estimates.

Total Indirect Expenses including the COLA are projected to be 16% greater than FY2021/2022 expenses.

Capital equipment purchases are \$306,500 of which \$249,000 is for Vehicle replacements approved by the Board in FY2022. Delays are due to a global microchip shortage. An additional vehicle purchase is proposed for FY2023.

Additionally, approximately \$4.5M of capital improvement projects are included in this year's proposed capital budget of which \$950,000 is approved but non-expended funds from FY2022.

# FY2023 BUDGET SUMMARY



## BUDGET SUMMARY

### OPERATING REVENUE SUMMARY

MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY	FY 2021-2022 ADOPTED BUDGET	FY 2021-2022 FORECAST	FY 2022-2023 DRAFT BUDGET	BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)	Draft to Forecast Variance
<b>REVENUE</b>					
<b>OPERATING REVENUE</b>					
Water Sales - Single Family	12,800,694	13,915,331	13,238,451	(676,881)	-5%
Water Sales - Multi Family	289,551	337,867	308,859	(29,008)	-9%
Water Sales - Commercial	974,883	932,859	996,642	63,784	7%
Water Sales - Institu / Public	1,098,282	1,290,052	1,175,028	(115,024)	-9%
Water Sales - Agricultural	739,809	758,174	1,142,038	383,864	51%
Water Sales - Non Potable	106,822	112,902	122,402	9,500	8%
Water Sales - Construction	-	23,046	25,000	1,954	8%
<b>WATER SALES</b>	<b>16,010,040</b>	<b>17,370,232</b>	<b>17,008,421</b>	<b>(361,811)</b>	<b>-2%</b>
MONTHLY METER CHARGES	4,632,855	4,629,900	4,665,871	35,971	1%
WATER AVAILABILITY CHARGE	297,971	299,405	297,933	(1,472)	0%
PRIVATE FIRE LINES	250,372	252,159	272,301	20,143	8%
LATE CHARGES	69,493	69,108	70,000	892	1%
SERVICE CONNECTION FEES	28,588	84,952	72,000	(12,952)	-15%
<b>OPERATING REVENUE</b>	<b>21,289,319</b>	<b>22,705,756</b>	<b>22,386,526</b>	<b>(319,230)</b>	<b>-1%</b>

## DIRECT OPERATING EXPENSES SUMMARY

MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY	FY 2021-2022 ADOPTED BUDGET	FY 2021-2022 FORECAST	FY 2022-2023 DRAFT BUDGET	BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)	Draft to Forecast Variance
<b>EXPENDITURES</b>					
<b>DIRECT EXPENSE</b>					
<b>WATER SUPPLY EXPENSES</b>					
<b>JPA OPERATING EXPENSE:</b>					
CACHUMA OPER & MAINT BOARD (COMB)	(576,324)	(753,677)	(729,514)	24,163	-3%
CACHUMA CONSERV & RELEASE BRD (CCRE)	(149,881)	(164,515)	(160,876)	3,639	-2%
US BUREAU OF RECLAMATION (USBR)	(226,820)	(145,838)	(226,820)	(80,982)	56%
CATER WATER TREATMENT PLANT O&M	(1,227,300)	(1,029,672)	(756,048)	273,624	-27%
CATER WATER TREATMENT PLANT CAPITAL	(158,920)	(63,156)	(103,298)	(40,142)	64%
STATE WATER PROJ (SWP) -FIXED (CCWA)	(2,279,037)	(2,279,038)	(699,547)	1,579,490	-69%
STATE WATER PROJ (SWP) - VARIABLE (CCV)	(30,000)	(30,000)	-	30,000	-100%
STATE WATER PROJ (SWP) - FIXED (DWR)	(2,912,301)	(2,912,303)	(2,836,471)	75,832	-3%
STATE WATER PROJ (SWP) - VARIABLE (DWR)	-	-	(126,514)	(126,514)	0%
SUPPLEMENTAL WATER DELIVERIES (HOMER)	-	-	(575,520)	(575,520)	0%
<b>TOTAL JPA OPERATING EXPENSE</b>	<b>(7,560,583)</b>	<b>(7,378,197)</b>	<b>(6,214,608)</b>	<b>1,187,752</b>	<b>-16%</b>
WSA WATER PURCHASE	(2,631,240)	(2,578,887)	(5,416,496)	(2,837,609)	110%
SUPPLEMENTAL WATER PURCHASE	-	-	(210,000)	(210,000)	0%
<b>TOTAL WATER SUPPLY EXPENSES</b>	<b>(10,191,823)</b>	<b>(9,957,084)</b>	<b>(11,841,104)</b>	<b>(1,859,857)</b>	<b>19%</b>
<b>MWD DIRECT EXPENSE</b>					
JAMESON	(263,007)	(318,485)	(338,871)	(20,387)	6%
TRANSMISSION & DISTRIBUTION	(1,644,753)	(1,617,758)	(1,694,854)	(77,096)	5%
BELLA VISTA TRTMNT PLANT	(1,362,454)	(1,340,233)	(1,434,740)	(94,507)	7%
ORTEGA CHLORINATION	-	(38,000)	(15,050)	22,950	-60%
TREATMENT	(1,362,454)	(1,378,233)	(1,449,790)	(71,557)	5%
<b>TOTAL MWD DIRECT EXPENSE</b>	<b>(3,270,214)</b>	<b>(3,314,476)</b>	<b>(3,483,516)</b>	<b>(169,039)</b>	<b>5%</b>
<b>TOTAL DIRECT EXPENSES</b>	<b>(13,462,037)</b>	<b>(13,271,561)</b>	<b>(15,324,620)</b>	<b>(2,028,897)</b>	<b>15%</b>



## INDIRECT OPERATING EXPENSES SUMMARY

MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY	FY 2021-2022 ADOPTED BUDGET	FY 2021-2022 FORECAST	FY 2022-2023 DRAFT BUDGET	BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)	Draft to Forecast Variance
<b>MWD INDIRECT EXPENSE</b>					
ENGINEERING	(679,179)	(904,286)	(917,304)	(13,018)	1%
CUSTOMER SERVICE	(389,362)	(372,282)	(387,819)	(15,537)	4%
PUBLIC INFORMATION / CONSERVATION	(167,611)	(188,611)	(190,581)	(1,970)	1%
FLEET	(239,646)	(233,071)	(284,337)	(51,267)	22%
ADMINISTRATION	(1,709,553)	(1,791,632)	(1,909,459)	(117,826)	7%
MWD 218 PMT TO GSA	(235,925)	(235,925)	(219,364)	16,561	-7%
LEGAL-ALL	(288,000)	(311,018)	(361,000)	(49,982)	16%
BUDGET CONTINGENCY	-	-	(238,766)	(238,766)	0%
DEPRECIATION	(1,140,000)	(1,149,345)	(1,152,000)	(2,655)	0%
<b>TOTAL INDIRECT EXPENSES</b>	<b>(4,849,277)</b>	<b>(5,186,169)</b>	<b>(5,660,629)</b>	<b>(474,460)</b>	<b>9%</b>
<b>OPERATING EXPENSES</b>	<b>(18,311,314)</b>	<b>(18,457,730)</b>	<b>(20,985,249)</b>	<b>(2,503,357)</b>	<b>14%</b>
<b>TOTAL MWD EXPENSE (JPA EXCLUDED)</b>	<b>(8,119,491)</b>	<b>(8,500,646)</b>	<b>(9,144,145)</b>	<b>(643,499)</b>	<b>8%</b>
<b>OPERATING SURPLUS/DEFECIT</b>	<b>2,978,005</b>	<b>4,248,026</b>	<b>1,401,277</b>	<b>(2,822,586)</b>	<b>-66%</b>



## NON-OPERATING REVENUE & EXPENDITURES SUMMARY

MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY	FY 2021-2022 ADOPTED BUDGET	FY 2021-2022 FORECAST	FY 2022-2023 DRAFT BUDGET	BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)	Draft to Forecast Variance
<b>NON-OPERATING EXPENSE</b>					
<b>INTEREST EXPENSE</b>					
INTEREST 2020 COP BONDS	(501,900)	(501,900)	(448,100)	53,800	-11%
INTEREST 2020 BOND AMORTIZATION	-	288,666	288,666	-	0%
<b>DEBT SERVICE INTEREST</b>	<b>(501,900)</b>	<b>(213,234)</b>	<b>(159,434)</b>	<b>53,800</b>	<b>-25%</b>
<b>PASSTHROUGH COMMITMENTS</b>					
CATER DWR LOAN	(225,416)	(228,532)	(231,647)	(3,115)	1%
CATER OZONE	(276,739)	(276,542)	(276,346)	196	0%
<b>PASSTHROUGH ACTIVITY</b>	<b>(502,155)</b>	<b>(505,074)</b>	<b>(507,993)</b>	<b>(2,919)</b>	<b>1%</b>
<b>TOTAL NON-OPERATING EXPENSE</b>	<b>(1,004,055)</b>	<b>(718,308)</b>	<b>(667,427)</b>	<b>50,881</b>	<b>-7%</b>
<b>EXTRAORDINARY EXPENSES</b>	<b>-</b>	<b>(172,722)</b>	<b>-</b>	<b>172,722</b>	<b>-100%</b>
<b>TOTAL EXPENDITURES</b>	<b>(19,315,369)</b>	<b>(19,348,760)</b>	<b>(21,652,676)</b>	<b>(2,279,753)</b>	<b>12%</b>
<b>SURPLUS BEFORE DEBT &amp; CAPITAL</b>	<b>2,515,227</b>	<b>5,476,909</b>	<b>2,449,854</b>	<b>(3,002,892)</b>	<b>-55%</b>

MWD FY2022 BUDGET SUMMARY	ADOPTED BUDGET	FAVORABLE (UNFAVORABLE) E)	FY 2022-2023 DRAFT BUDGET*		
<b>DEBT SERVICE</b>					
2020 COP REFUNDING BONDS PRINCIPAL	(335,000)	(1,165,000)	(1,215,000)	(50,000)	0%
<b>TOTAL DEBT SERVICE</b>	<b>(335,000)</b>	<b>(1,165,000)</b>	<b>(1,215,000)</b>	<b>(50,000)</b>	<b>0%</b>

## CAPITAL EXPENDITURE & NET CASH IMPACT SUMMARY

MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY	FY 2021-2022 ADOPTED BUDGET	FY 2021-2022 FORECAST	FY 2022-2023 DRAFT BUDGET	BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)	Draft to Forecast Variance
<b>CAPITAL EXPENDITURES</b>					
EQUIPMENT-CARRY OVER	(249,000)	(99,000)	(249,000)	(150,000)	152%
EQUIPMENT-CURRENT FISCAL YEAR	-	-	(57,500)	(57,500)	0%
<b>EQUIPMENT</b>	<b>(249,000)</b>	<b>(99,000)</b>	<b>(306,500)</b>	<b>(207,500)</b>	<b>210%</b>
<b>WATER STORAGE PURCHASE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
MWD SYSTEM PROJECTS-CARRY OVER	(2,235,000)	(2,295,193)	(950,000)	1,345,193	-59%
<b>PIPELINE REPLACEMENT</b>	<b>(1,835,000)</b>	<b>(1,111,819)</b>	<b>(1,925,000)</b>	<b>(813,181)</b>	<b>73%</b>
<b>RESERVOIR REHABILITATION / REPLACEMENT</b>	<b>(46,000)</b>	<b>(21,572)</b>	<b>(176,000)</b>	<b>(154,429)</b>	<b>716%</b>
<b>PUMPING/WELLS/VALVING/TREATMENT</b>	<b>(299,240)</b>	<b>(259,672)</b>	<b>(1,223,000)</b>	<b>(963,328)</b>	<b>371%</b>
<b>OTHER</b>	<b>(50,000)</b>	<b>(210,281)</b>	<b>(235,000)</b>	<b>(24,719)</b>	<b>12%</b>
MWD SYSTEM PROJECTS-CURRENT FY	(2,230,240)	(1,603,344)	(3,559,000)	(1,955,656)	122%
<b>CAPITAL PROJECTS</b>	<b>(4,465,240)</b>	<b>(3,898,537)</b>	<b>(4,509,000)</b>	<b>(610,463)</b>	<b>16%</b>
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>(4,714,240)</b>	<b>(3,997,537)</b>	<b>(4,815,500)</b>	<b>(817,963)</b>	<b>20%</b>
<b>ADD BACK NON-CASH ITEMS</b>					
INTEREST 2020 BOND AMORTIZATION	-	(288,666)	(288,666)	-	0%
DEPRECIATION	1,140,000	1,149,345	1,152,000	2,655	0%
<b>TOTAL NON-CASH ITEMS</b>	<b>1,140,000</b>	<b>860,679</b>	<b>863,334</b>	<b>2,655</b>	<b>0%</b>
<b>TOTAL OUTFLOWS LESS DEPRECIATION &amp; IN</b>	<b>(23,224,609)</b>	<b>(23,650,618)</b>	<b>(26,819,842)</b>	<b>(3,145,061)</b>	<b>13%</b>
<b>CASH IMPACT BEFORE RESERVE TRANSFER</b>	<b>(1,394,013)</b>	<b>1,175,051</b>	<b>(2,717,312)</b>	<b>(3,868,200)</b>	<b>-329%</b>
<b>WSA PREFUNDING (TRANSFER TO RESERVE)</b>	<b>(1,762,600)</b>	<b>(1,762,600)</b>	<b>-</b>	<b>1,762,600</b>	<b>-100%</b>
<b>OTHER RESERVE TRANSFERS IN/(OUT)</b>	<b>-</b>	<b>-</b>	<b>2,717,312</b>	<b>2,717,312</b>	<b>0%</b>
<b>NET CASH IMPACT ON FUND BALANCE</b>	<b>(3,156,612)</b>	<b>(587,549)</b>	<b>(0)</b>	<b>611,712</b>	<b>-104%</b>

# OPERATING REVENUE



## WATER SALES & RELATED FEES

### FY22/23 WATER RATES & MISCELLANEOUS FEES

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Water Sales are 76% of the District's total annual revenue and are billed according to each customers' metered usage. The District has distinct water rates for each customer class, which are updated periodically based on an updated financial plan and cost of service study. The current financial plan, cost of service study and associated water rates were developed and adopted by the Board of Directors in June 2020, with the latest rate increase scheduled to occur on July 1, 2022.

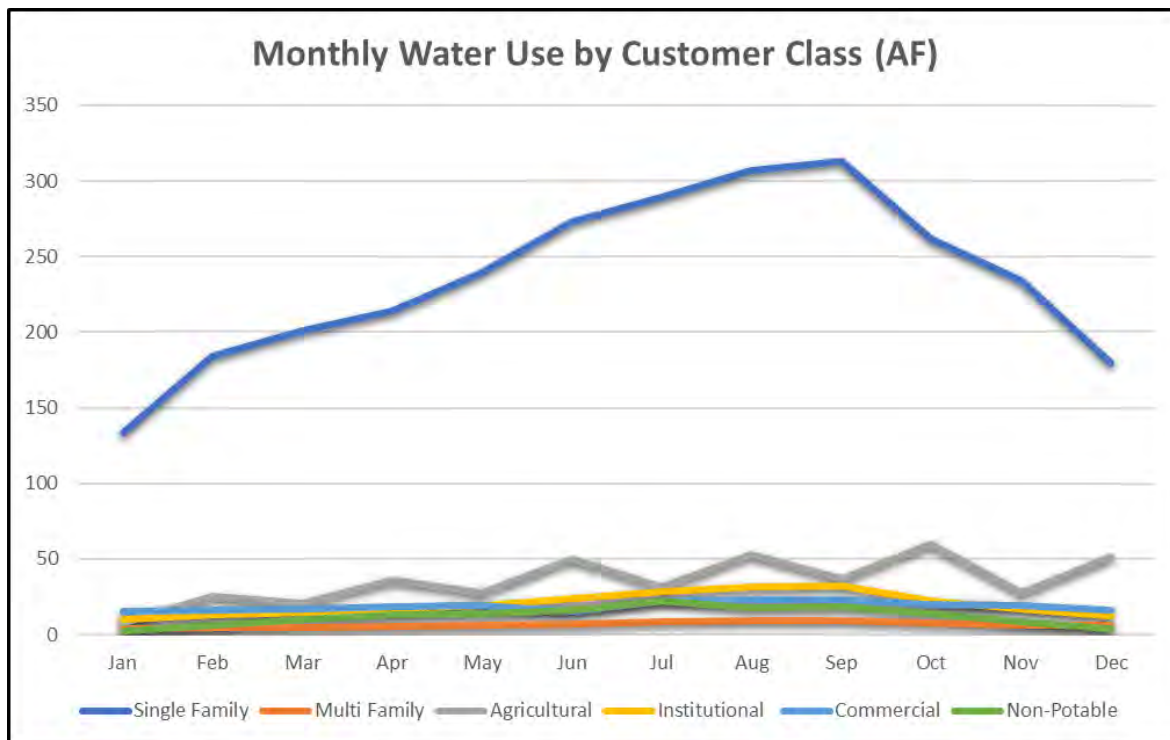
**Projected water sales for FY2022/23 are 3,947 AF (or 4,302 AF total production).** The FY2022/2023 water sales projections are 2% under FY2021/2022 water sales projections, and 3% over FY2021/2022 budget. Projections of water sales for FY2022/2023 were developed using a customer demand analysis of water use trends for the period of April 2019 through March 2022. The analysis considers 3-year average water use by customer by water use tier, where applicable. The demand analysis is limited to a 3-year average to avoid impacts from water use allocations and penalties that were in place between 2014 and 2018. The April 2019 through March 2022 period encompasses one year of near average rainfall conditions followed by two years of below average rainfall or dry conditions.

The demand analysis uses the latest available data concerning several key factors including recent water use trends, the weather, water rates, new connections, and conservation. Understanding these factors can help determine the projected change year over year in water use.

- *Weather Variability:* FY2021/2022 ended with below average rainfall, with the first quarter of 2022 being the driest on record. Following another consecutive dry year, most of the State remains under drought conditions, with the majority of Santa Barbara County in extreme drought conditions. With assumed ongoing dry conditions, water use in FY2022/2023 is expected to remain elevated.
- *Mandated Conservation:* State Water Board mandated conservation, which became effective June 10, 2022, and is targeting between 10% and 20% reduction in water use, is expected to suppress some of the elevated customer demand resulting from dry conditions.

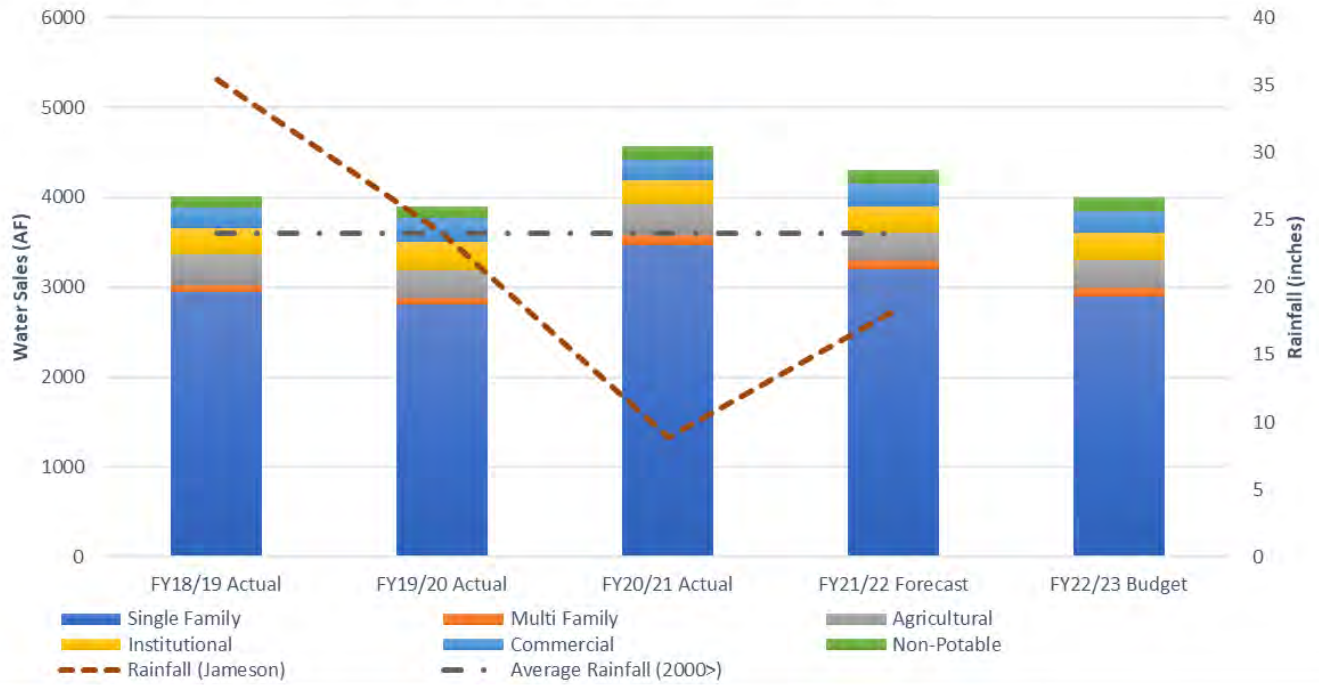
Water sales vary widely across customer classes and can significantly vary month to month depending upon weather conditions. Residential customers, which includes single- and multi-family residential customers make up approximately 92% of District's customer base and are responsible for about 80% of total water sales. Of this use, approximately 80% is used for outdoor irrigation with the remaining being indoor use, such as: showering, toilet flushing, clothes-

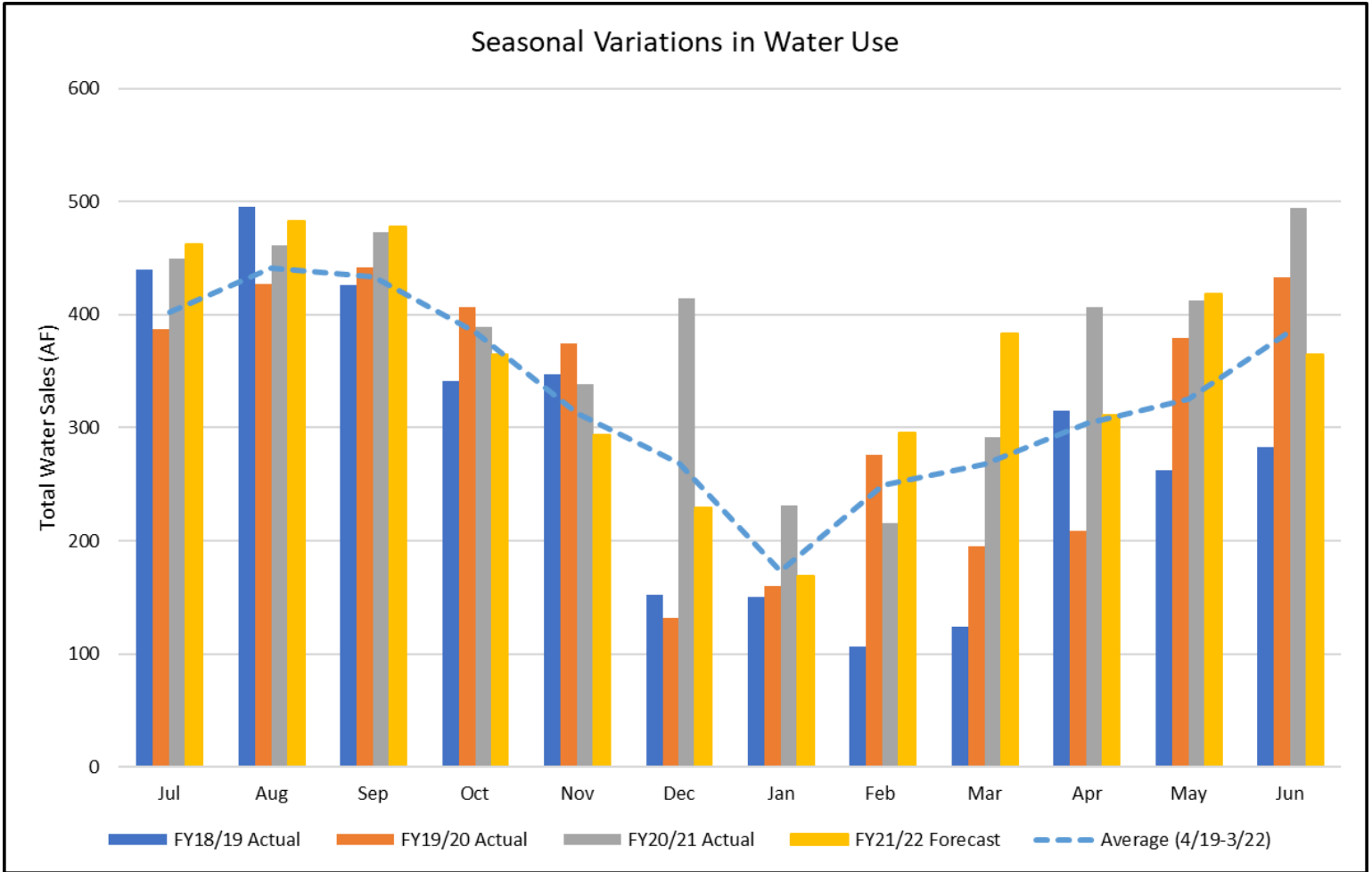
washing, and dishwashing. As a result, water sales often increase significantly during warm and/or dry periods and decrease significantly during cooler and/or wet periods consistent with irrigation needs. Monthly water use can vary by about five times between summer and winter months. Additionally, water use in a particular month can vary by as much as four times depending upon rainfall conditions. This variability can make projecting customer water demand challenging.





## Water Sales (AF) by Customer Class





Given the continued trend of dry conditions resulting in elevated water use, coupled with the District’s need to align actual water use with budget and the State’s mandated water use reduction actions, forecasted revenue from water sales remains conservative and relatively consistent with prior year. The District is projecting similar monthly distribution of usage by customers as was observed in FY2021/2022, with adjustments to account for unpredictable changes in weather and water use anomalies.

## MONTHLY METER CHARGES

All active water service connections pay a Monthly Meter Charge, irrespective of water use based on the size of the meter. Meter charges do not change month to month and help cover costs such as system capacity costs to meet peak demands, meter reading, meter servicing, billing, and other customer service functions. Based on the District's 2020 Rate Study and water use projections for FY2023, approximately 21% of total District revenue will come from the fixed Monthly Meter Charge. Approximately 83% of District connections are ¾ inch or 1-inch meters, which have the smallest capacities and are charged the lowest Monthly Meter Charges. The District offers water meters ranging from ¾-inch to 6-inch in size which are selected based on the customer's actual water needs.

In accordance with 2020 Rate Study adopted by the Board of Directors on June 25, 2020, the Monthly Meter Charges for FY2023 are shown below.

### Meter Service Charge Revenue

Monthly Meter Charge (\$/hcf)					
Meter Size	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
3/4-inch	\$46.86	\$48.18	\$49.53	\$50.92	\$52.35
1-inch	\$76.69	\$78.84	\$81.05	\$83.32	\$85.66
1 1/2-inch	\$135.04	\$138.83	\$142.72	\$146.72	\$150.83
2-inch	\$212.83	\$218.79	\$224.92	\$231.22	\$237.70
3-inch	\$731.49	\$751.98	\$773.04	\$794.69	\$816.95
4-inch	\$1,431.67	\$1,471.76	\$1,512.97	\$1,555.34	\$1,598.89
6-inch	\$3,246.97	\$3,337.89	\$3,431.36	\$3,527.44	\$3,626.21

## **WATER AVAILABILITY CHARGE**

Subject to an annual public hearing and approval by the Board, the Budget includes the Water Availability Charge (WAC), assessed annually on the tax roll, for the sole purpose of funding needed capital improvements. In general, the WAC is a \$30/acre charge for the first five acres or fraction of an acre 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 this revenue on the County of Santa Barbara tax rolls.

The District held the annual public hearing for the WAC at its regular Board meeting on June 28, 2022, and the charge was continued for FY2023 via resolution 2031 and is expected to provide approximately \$300,000.

## **PRIVATE FIRE LINES**

Private fire line revenue is anticipated to be \$272,301 based on the current number of private fire lines. The District has approximately 154 private fire lines.

The monthly private fire line charges for FY2023 are shown below.

Monthly Private Fire Charge (\$)					
Fire Line Size	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
2-inch	\$19.35	\$19.90	\$20.46	\$21.04	\$21.63
4-inch	\$91.89	\$94.47	\$97.12	\$99.84	\$102.64
6-inch	\$256.70	\$263.89	\$271.28	\$278.88	\$286.69
8-inch	\$540.96	\$556.11	\$571.69	\$587.70	\$604.16

Note: The monthly private fire charge applies to customers with dedicated fire lines serving their property and is based on fire line capacities.

## **LATE CHARGES**

Per Resolution No. 2235, a late charge is included on the past due amount of a monthly bill. The late charge will amount to 6% of the first month's past due bill, followed by an additional 1.5% fee for each month thereafter. It covers the District's actual costs of financing late payments from delinquent customers.

## SERVICE CONNECTION FEES

New District customers desiring to receive potable water service are responsible for the actual cost including direct labor, materials and equipment necessary for physically connecting to the District's water system, referred to as the Connection Fee. Connection fees are a one-time charge paid prior to receiving potable water service.

The Connection Fees for new water services are adjusted annually at the beginning of each fiscal year and were last updated in June 2022 with adoption of Resolution No. 2236. The updated Connection Fees become effective on July 1 each year.

The Connection Fees for FY2023 are shown below. The FY2023 budget includes a projected six new ¾-inch and six new 1-inch water services connections.

<b>Meter Size</b>	<b>FY 2023 Connection Fee</b>	<b>Capital Cost Recovery Fee</b>
3/4"	\$7,309	\$17,789
1"	\$7,395	\$30,575
1.5"	\$8,949	\$55,591
2"	\$9,908	\$88,946
3"-6"	*	**
* Conditions typically vary widely for larger size meters. Connection fee is determined on a case by case basis based on time & materials including (1) actual cost of direct labor and (2) actual cost of materials and equipment usage.		
** Contract the District for a determination of Capital Cost Recovery Fees for 3-inch and larger		



# FY2023 OPERATING EXPENSES





## WATER SUPPLY DIRECT & INDIRECT EXPENDITURES

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### JPA OPERATING EXPENSE

The Joint Power Agencies (JPA) are each responsible for preparing their own fiscal year budgets which are then passed on to the participating JPA members.

For FY2022/2023, State Water Project expenses comprise nearly 31% of the District's total JPA operating expense and 26% of total District operating expense. The District's control of these costs is limited, as it is one of many agency participants with minority voting rights.

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### CACHUMA OPERATION AND MAINTENANCE BOARD (COMB) \$729,514

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This is the District's share of the COMB FY22/23 budget and is the District's 11.45% share of COMB operating costs. Costs include 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 23, 2022.

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### CACHUMA CONSERVATION AND RELEASE BOARD (CCRB) \$160,876

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This is the District's share of the Cachuma Conservation and Release Board's (CCRB) FY22/23 budget. The CCRB budget is ratified annually the District's Board of Directors which occurred on May 24, 2022.

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### US BUREAU OF RECLAMATION (USBR) \$226,820

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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 23, 2022.

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### CATER TREATMENT PLANT O&M \$756,048 & CAPITAL \$103,298 \$859,346

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This amount includes Cater Treatment Plant operations and maintenance costs, the variable water treatment costs related to all water delivered from Lake Cachuma (\$756,048), as well as the City of Santa Barbara's anticipated Cater Treatment Plant capital projects (\$103,298). 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 FY2023 draft budget received in March 2022.

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### CCWA/STATE WATER PROJECT: FIXED COST \$3,536,018

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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 FY2022 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 28, 2022.

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CCWA/STATE WATER PROJECT: VARIABLE COST	\$126,514
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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.

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2020 WSA W/ SANTA BARBARA (DESAL)	\$5,416,496
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This item includes the costs to take 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 commenced on January 1, 2022.

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SUPPLEMENTAL WATER DELIVERIES	\$210,000
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This item includes the cost of taking receipt of supplemental water deliveries.

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MWD DIRECT EXPENSES	
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MWD Direct Expenses comprises about 64% (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.

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JAMESON LAKE	\$338,871
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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.

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TRANSMISSION AND DISTRIBUTION	\$1,694,854
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The Transmission and Distribution Operations & Maintenance budget includes maintenance of the District's 114 miles of pipelines, approximately 4,630 service laterals and water meters, reservoirs, valves and fire hydrants. The budgeted amount includes an estimate of labor, supplies, contracted services, and training.

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## TREATMENT

\$1,449,790

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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.

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## INDIRECT EXPENSES (DEPARTMENTS)

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### ENGINEERING

\$917,304

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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 provides oversight on projects including several water main replacement projects, and the reservoir retrofit/replacement project.

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### CUSTOMER SERVICE

\$387,819

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This budget item includes costs for outside contracting to read customer meters (which will be eliminated around November 2022 with full implementation of the Smart Metering Program), bill printing service, and payroll for customer service personnel and customer utility billing.

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### PUBLIC INFORMATION / CONSERVATION

\$190,581

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This item includes costs for public outreach events, website development, conservation efforts and legal services.

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### FLEET

\$284,337

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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.

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### ADMINISTRATION (INCLUDING SEMITROPIC MGMT AND LEGAL)

\$2,270,459

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

## 218 PMT TO GSA (GROUNDWATER SUSTAINABILITY AGENCY)

\$219,364

This item includes the District's portion of all expense anticipated to be incurred by the Montecito Groundwater Sustainability Agency in FY2023 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 FY2023 budget for the Montecito Groundwater Basin Groundwater Sustainability Agency, adopted by its Board of Directors on June 28, 2022.

## BUDGET CONTINGENCY

\$238,766

This item is intended to cover unforeseen expenditures with Board oversight.

## DEPRECIATION

\$863,334

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 considers the existing depreciable assets as well as planned purchases for the upcoming year.

## DEBT SERVICE

### 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 commenced 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%.

The table below lists the principal and interest due to the bond holders per fiscal year:

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



# CAPTIAL IMPROVEMENT PROGRAM





## CAPITAL IMPROVEMENT PROGRAM

The District owns and operates over 114 miles of pipelines, 9 pump stations, 9 reservoirs, one concrete arch dam and reservoir, two treatment plants, one 2-mile long tunnel, 12 groundwater wells, 34 vehicles, and various equipment. Each asset and their smaller components (in the case of Juncal Dam) must be replaced or repaired at the end of their useful life.



The District Capital Improvement Program (CIP) was created to ensure the reliable delivery of high-quality water to customers now and into the future. The 20-year CIP program prioritizes the repair or replacement of assets over a 20-year planning horizon using criteria such as age, criticality and condition. The program is reviewed annually by District staff and revised when appropriate. Given limited annual resources that can be dedicated to infrastructure replacement and repairs, the program ensures annual budgets include projects with the greatest need.

The FY2023 CIP budget is shown in the table below and includes \$4,815,500 for the acquisition of equipment and planned capital projects. The FY2023 budget includes several equipment and infrastructure projects from FY2022 that were not complete during FY2022. These projects are categorized as “carryover” in the FY2023 CIP budget.

MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY	FY 2021-2022 ADOPTED BUDGET	FY 2021-2022 FORECAST	FY 2022-2023 DRAFT BUDGET	BUDGET TO FORCAST FAVORABLE/ (UNFAVORABLE)	Draft to Forecast Variance
<b>CAPITAL EXPENDITURES</b>					
EQUIPMENT-CARRY OVER	(249,000)	(99,000)	(249,000)	(150,000)	152%
EQUIPMENT-CURRENT FISCAL YEAR	-	-	(57,500)	(57,500)	0%
<b>EQUIPMENT</b>	<b>(249,000)</b>	<b>(99,000)</b>	<b>(306,500)</b>	<b>(207,500)</b>	<b>210%</b>
MWD SYSTEM PROJECTS-CARRY OVER	(2,235,000)	(2,295,193)	(950,000)	1,345,193	-59%
MWD SYSTEM PROJECTS-CURRENT FY	(2,230,240)	(1,603,344)	(3,559,000)	(1,955,656)	122%
<b>CAPITAL PROJECTS</b>	<b>(4,465,240)</b>	<b>(3,898,537)</b>	<b>(4,509,000)</b>	<b>(610,463)</b>	<b>16%</b>
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>(4,714,240)</b>	<b>(3,997,537)</b>	<b>(4,815,500)</b>	<b>(817,963)</b>	<b>20%</b>

## PLANNED EQUIPMENT ACQUISITION

As shown in the table below, the FY2023 budget includes \$306,500 for large equipment capital expenditures. The budgeted equipment includes utility trucks to replace aging and high mileage vehicles used by District staff to perform critical daily operations. The current year budget includes one new vehicle for \$57,500 and five vehicles as carryover from FY2022 for \$249,000, delayed by the global microchip shortage.



<b>MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY</b>		<b>FY 2022-2023 DRAFT BUDGET</b>
<b>CAPITAL EXPENDITURES</b>		
TRANSMISSION & DISTRIBUTION - Service Truck #152 3/4 ton		(55,000)
TRANSMISSION & DISTRIBUTION - Work Truck #151 1/2 ton		(40,000)
TREATMENT - Service Truck #143 3/4 ton		(55,000)
TRANSMISSION & DISTRIBUTION - Vehicle #177 Replacement		(44,000)
TRANSMISSION & DISTRIBUTION - Vehicle #158 Replacement		(55,000)
<b>EQUIPMENT-CARRY OVER</b>		<b>(249,000)</b>
TRANSMISSION & DISTRIBUTION - Vehicle #144 Replacement		(57,500)
<b>EQUIPMENT-CURRENT FISCAL YEAR</b>		<b>(57,500)</b>
<b>EQUIPMENT</b>		<b>(306,500)</b>

## PLANNED CAPITAL PROJECTS

The FY2023 budget includes \$4,509,000 for infrastructure improvements, as shown in the table below. The total budget includes \$950,000 in carryover projects from FY2022. Carryover projects were generally a result of pandemic related global shipping delays (generators and smart meter microchips) or permitting delays. The planned FY2023 projects include \$3,559,000 in replacement and repairs of critical District assets such as replacement of approximately one mile of 100-year old pipelines, reservoir improvements, treatment plant improvements, Juncal Dam valve replacements, and generator and pump replacements.

<b>MONTECITO WATER DISTRICT 2022-2023 BUDGET SUMMARY</b>		<b>FY 2022-2023 DRAFT BUDGET</b>
<b>CAPITAL EXPENDITURES</b>		
Ennisbrook 5 Updates (VFD, storage, cl analyzer)		(20,000)
Barker Pass Generator Grant Match (25%)		(150,000)
Emergency Operations Center/Shop Area Design		(150,000)
Bella Vista Storage Building		(50,000)
Replace Office Generator (requesting additional budget of \$27k)		(110,000)
Alder Creek Flume (FEMA 6.25% match) (Approved 12/15/20)		(100,000)
Smart Metering Program Implementation (Approved 8/25/20)		(280,000)
ASADRA Reservoir Replacement/Retrofit Project (Approved 3/23/21)		(90,000)
<b>MWD SYSTEM PROJECTS-CARRY OVER</b>		<b>(950,000)</b>
Monte Cristo and Channel Drive Water Main Replacements		(480,000)
Buena Vista Water Main Replacement		(500,000)
San Ysidro Roundabout Water Main Replacement		(170,000)
US101 Crossing Abandonments (Miramar and Olive Mill)		(75,000)
US101 Segment 4C Crossing Construction Phase		(700,000)
<b>PIPELINE REPLACEMENT</b>		<b>(1,925,000)</b>
Ortega Reservoir Cleaning & Repairs (CVWD split 50%)		(140,000)
Reservoir Mixers Doulton and Cold Springs		(36,000)
<b>RESERVOIR REHABILITATION / REPLACEMENT</b>		<b>(176,000)</b>
Doulton Pump and Motor Replacements		(120,000)
Bella Vista Treatment Plant Improvements		(250,000)
Doulton Treatment Plant Improvements		(115,000)
Office and Romero PLC Replacements		(28,000)
Doulton Generator Site Work		(40,000)
Ennisbrook 2 Backwash Recycling System		(90,000)
Juncal Dam Emergency Release Valve Rehabilitation Project		(500,000)
Barker Pass Pump Station Improvements (meter, vault, site)		(80,000)
<b>PUMPING/WELLS/VALVING/TREATMENT</b>		<b>(1,223,000)</b>
Asphalt and Valve Repairs in County Roadways		(50,000)
Pressure Regulator Repairs		(50,000)
Alder Creek Modeling		(70,000)
Office Servers Replacement		(35,000)
Office Demonstration Garden		(30,000)
<b>OTHER</b>		<b>(235,000)</b>
<b>MWD SYSTEM PROJECTS-CURRENT FY</b>		<b>(3,559,000)</b>
<b>CAPITAL PROJECTS</b>		<b>(4,509,000)</b>

**Ennisbrook 5 Updates (\$20,000 - Carryover)**

The Ennisbrook 5 well site is exposed to the elements and has not had any updates in many years. This project will install a new variable frequency drive (VFD), replace the existing chlorine storage cabinets, and install a new chlorine analyzer.

**Barker Pass Generator Grant Match (25%) (\$150,000 - Carryover)**

The District was awarded a FEMA grant to install a backup generator at the Barker Pass Pump Station. The work was started in the previous fiscal year and will be finished in FY2023 including the delivery and installation of the generator and completion of the electrical connections and commissioning of the generator.

**Emergency Operations Center/Shop Area Design (\$150,000 - Carryover)**

The District does not currently have a room or area dedicated as a central location 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 complete design and permitting for a new emergency operations center and shop area including a meeting room, offices, and break room. Construction would be pursued in subsequent fiscal years.

**Bella Vista Storage Building (\$50,000 - Carryover)**

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.

**Replace Office Generator (\$110,000 - Carryover)**

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 and is required to be replaced by the Air Pollution Control District. 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.

**Alder Creek Flume (FEMA 6.25% match) (\$100,000 - Carryover)**

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 consultant’s efforts to complete the permitting process. Construction is expected in the next fiscal year.

**Smart Metering Program Implementation (\$280,000 - Carryover)**

The District Smart Metering Program will allow staff and customers access to near real time water use data at each customer’s meter. The program will reduce water loss by identifying leaks earlier and avoiding wasted water. The FY2023 budget includes the cost to purchase and install

the long-awaited collector devices that will be installed throughout the community to collect water usage data.

**ASADRA Reservoir Replacement/Retrofit Project (\$90,000 - Carryover)**

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 FY2023 includes project management during the grant agreement and pre-construction preparation stage. Construction is expected to begin in early 2024.

**Monte Cristo and Channel Drive Water Main Replacement Project (\$480,000 - Current FY)**

This project will replace approximately 1,400 feet of 6-inch 1920s cast iron water main with 8-inch ductile iron water main. The project also includes replacement of six fire hydrants and 30 service lines. This project will replace an aging main with frequent main breaks and known hydraulic deficiencies.

**Buena Vista Water Main Replacement (\$500,000 - Current FY)**

This project will replace approximately 1,500 feet of existing 1924 6-inch cast iron water mains with new 8-inch ductile iron water main. The project also includes the replacement of all service lines with new copper service lines, one pressure regulator and several fire hydrants.

**San Ysidro Roundabout Water Main Replacement (\$170,000 - Current FY)**

This project includes the replacement of approximately 400 feet of water main through the San Ysidro US101 overpass and through the intersection with North Jameson where a future roundabout will be installed in Spring 2023. The project will replace a 1950s water main and ensure the District does not have main breaks underneath the new County and Caltrans highway widening and roundabout projects.

**US101 Crossing Abandonments (Miramar and Olive Mill) (\$75,000 - Current FY)**

This project is being required due to the County of Santa Barbara roundabout project at Olive Mill and US101 highway widening project by Caltrans. The project will abandon and relocate one fire hydrant from the Olive Mill area and will abandon one US101 crossing near San Ysidro and South Jameson Lane intersection.

**US101 Segment 4C Crossing Construction Phase (\$700,000 - Current FY)**

This project includes construction of a 36-inch casing using jack and bore technology underneath the US101 and Union Pacific railroad for the installation of a new 8-inch pipe within the new casing. The project is 55% reimbursable by the Santa Barbara Association of Governments (SBCAG).

**Ortega Reservoir Cleaning & Repairs (CVWD split 50%) (\$140,000 - Current FY)**

Ortega Reservoir is owned by the United States Bureau of Reclamation (USBR) and operated by the Cachuma Operations and Maintenance Board. All maintenance activities are paid for by the two agencies that benefit from the reservoir, the District and the Carpinteria Valley Water District (CVWD). The reservoir has known leaks in the concrete floor joints and leak rates have increased to historic high levels. USBR has required the agencies to pursue a project to repair the leaking floor joints. The project will drain the reservoir, clean the floor, and use a specialty contractor to inject new sealant into known leak locations. The leak locations have been determined by a dive investigation in 2021. This project is 50% reimbursable by CVWD.

**Reservoir Mixers Doulton and Cold Springs (\$36,000 - Current FY)**

This project will install a mixing device in Cold Springs and Doulton reservoirs to improve water quality by circulating water stored in each reservoir.

**Doulton Pump and Motor Replacements (\$120,000 - Current FY)**

The Doulton Pump Station is located at the Doulton Treatment Plant and serves customers above the treatment plant. The existing pumps are at the end of their useful life and require replacement. This project will install and test two new vertical turbine booster pumps and motors and associated piping.

**Bella Vista Treatment Plant Improvements (\$250,000 - Current FY)**

The Bella Vista Treatment Plant is the largest treatment plant owned by the District and was constructed in 1992. Many of the plant facilities have reached their useful life. This project will replace the rooftop of the treatment plant, and replace interior lab room facilities. The project will also replace water quality equipment and add video security to the treatment plant premises.

**Doulton Treatment Plant Improvements (\$115,000 - Current FY)**

The Doulton Treatment Plant is the smaller of the two District treatment plants, but is critical to providing water to customers in the Toro Canyon area. This project will update the building to prevent from rodent intrusion including new windows and doors, replacing the drywall, and sealing off the buildings from the outside elements. The project will also replace water quality equipment.

**Office and Romero PLC Replacements (\$28,000 - Current FY)**

This project will replace aging equipment that is no longer supported by current technology. The project will replace the existing Programmable Logic Controllers (PLC) with new technology to ensure proper communication of SCADA information from the operators at the treatment plant to each site.



**Doulton Generator Site Work (\$40,000 - Current FY)**

The District capital program has a ten-year generator replacement schedule. The Doulton Treatment Plant generator is the next generator on the list, and this project will prepare for eventual generator procurement by installing the concrete pad and electrical wiring at the site.

**Ennisbrook 2 Backwash Recycling System (\$90,000 - Current FY)**

The groundwater well at Ennisbrook 2 currently discharges filter backwash water into the sanitary sewer, costing the District over \$10,000 annually in fixed sewer service charges plus variable charges which have been as high as \$5,000. This project will install backwash tanks, recycling pumps, and piping at the well site to allow the water to settle out solids, recycle the water into the filters, and avoid sanitary sewer discharges in the future.

**Juncal Dam Emergency Release Valve Rehabilitation Project (\$500,000 - Current FY)**

The Juncal Dam has two 36-inch emergency release valves that are operated when lake levels are high and may exceed the dam spillway capacity. The valve and valve controls are 90 years old and require rehabilitation. The Division of Safety of Dams is requiring this project. The project will rehabilitate one of the two existing valves and will update the electrical and controls systems to the valve. The project requires divers to assist with installing a plug on the upstream side of the valves so the valves can be removed without concern of flooding the valve tower. The valve internal components will be shipped back to the manufacturer for repair before being reinstalled in place.

**Barker Pass Pump Station Improvements (meter, vault, site) (\$80,000 - Current FY)**

This project will replace a failing concrete vault and will install a new meter at the District boundary with the City of Santa Barbara so the District can accurately measure water shared with the City of Santa Barbara, instead of relying solely on the City of Santa Barbara meter readout. The American Water Works Association water loss audit has recommended this project since 2017.

**Asphalt and Valve Repairs in County Roadways (\$50,000 - Current FY)**

The County of Santa Barbara replaces certain asphalt roadways in the District service area each year. This project includes the cost for a contractor to lower and raise valve lids and/or meter boxes in conflict with the paving projects.

**Pressure Regulator Repairs (\$50,000 - Current FY)**

The District operates over 50 pressure regulators which all exist within concrete vaults underground around the District. Many vaults are 90 years old and have wood boards for covers. This project will update pressure regulator vault lids to locking steel hatches and update regulator components at pre-identified locations throughout the District.

**Alder Creek Modeling (\$70,000 - Current FY)**

This project is a Board approved project that will model the diversions from Alder Creek Flume.

**Office Servers Replacement (\$35,000 - Current FY)**

The District's email and non-email servers are aging and currently running on Microsoft software that will be at end-of-life at various points in 2023. The District's Information Technology

Consultant has recommended the District replace non-email server hardware to coincide with the required software upgrades and that the District moves email to the Microsoft 365 cloud to improve productivity and cybersecurity.

**Office Demonstration Garden (\$30,000 - Current FY)**

This project will revamp the existing demonstration garden in front of the office and install a new real time weather gauge at the office. The demonstration garden will have drought tolerant plants, and educational materials to inform customers of water saving landscaping features.

# FINANCIAL POLICIES



## FINANCIAL POLICIES

The following policies are collected in Appendix A.

CAPITALIZATION POLICY - Resolution 2239

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DEBT MANAGEMENT POLICY - Resolution 2238

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DEBT DISCLOSURE POLICY - Included in the Debt Management Policy

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FIXED ASSET DISPOSAL POLICY - Resolution 2240

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INVESTMENT POLICY - Resolution 2233

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PURCHASING POLICY

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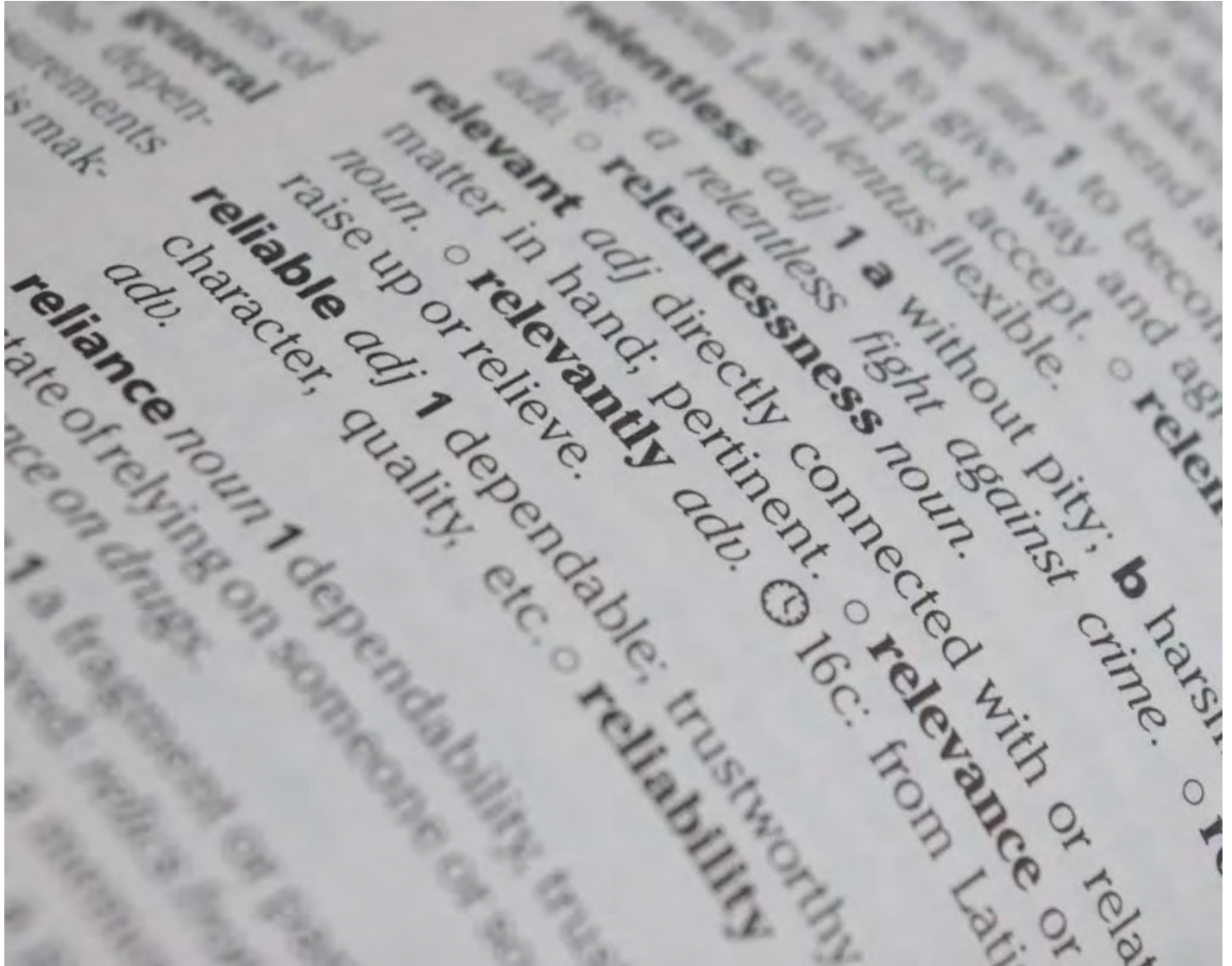
PROCUREMENT POLICY

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RESERVES POLICY - Resolution 2237

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# GLOSSARY





## GLOSSARY

### TERMINOLOGY & DEFINITIONS

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**ACRE-FOOT (AF):** A unit of measure equivalent to one acre covered by one foot of water (equal to 325,851 gallons or 435.6 hundred cubic feet of water).

**ACCOUNT:** A financial tool for tracking revenues, expenditures and other financial transactions.

**ACCRUAL BASIS:** The method of accounting that recognizes income when earned and expenses when incurred regardless of when cash is received or disbursed.

**APPROPRIATION:** a sum of money or total of assets devoted to a special purpose.

**ARBITRAGE:** the simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of differing prices for the same asset.

**AUDIT:** an official inspection of an individual's or organization's accounts, typically by an independent body.

**BALANCED BUDGET:** A budget in which the expenditures incurred during a given period are matched by revenues.

**BOND:** A certificate of debt issued by an entity, guaranteeing payment of the original investment, plus interest, by a specified future date.

**REVENUE BOND:** A bond backed by either the revenue produced by the capital improvement or by commitment of a specific revenue source.

**BUDGET:** A financial plan that identifies anticipated revenues, projected expenses, and establishes the amount of funding allocated for each.

**CAPITAL IMPROVEMENT:** Construction of facilities in accordance with the District's water master plans that have a cost of \$35,000 or more.

**CAPITAL PROJECTS FUND:** Utilized to account for financial resources used in the acquisition or construction of major capital facilities.

**CAPITAL OUTLAY:** Individual item purchases of furniture, fixtures, machinery, vehicles, and equipment with an individual cost of at least \$2,500 and having a useful life of two years or more.

**CERTIFICATES OF PARTICIPATION (COP):** A form of lease-purchase financing used to construct or acquire capital facilities and equipment.

**DEBT COVERAGE:** A margin of safety for payment of debt service, reflecting the number of times by which earnings for a period of time exceed debt service payable in such a period.

**DEBT SERVICE:** The payment of principal and interest on borrowed funds such as bonds and other debt instruments according to a pre-determined schedule.

**DEBT SERVICE RESERVES:** Reserves required by the District's bond covenants, usually 10% of the initial bond issue amount.

**DEFICIT:** The excess of expenditures over revenues during an accounting period.

**DEPRECIATION:** a reduction in the value of an asset with the passage of time, due in particular to wear and tear

**ENTERPRISE FUND:** Utilized to account for operations that are financed and operated in a manner similar to private sector enterprises where the cost of providing services to the general public is recovered primarily through user charges.

**EXPENDITURE:** Decrease in net financial resources. Represents the actual payment for goods and services or the accrual thereof.

**FISCAL YEAR:** A twelve-month time period signifying the beginning and ending period for recording financial transactions. The District's fiscal year begins July 1 and ends June 30.

**FUND:** An accounting entity with a set of self-balancing accounts for recording the financial resources and transactions of specific activities for a governmental organization.

**HCF:** A unit of measurement equivalent to one Hundred Cubic Feet; the unit in which water is billed to customers.

**OPERATING EXPENDITURES:** Costs relating to labor, materials, repairs, equipment, and other costs required for daily operation of a department or fund.

**OPERATING RESERVES:** Reserve funds equal to 20% of the budgeted operating expenditures as stipulated in the District's water and sewer Master Resolution.

**PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS):** An agent, multiple employer, public retirement system to which the District contributes that acts as a common investment and administrative agent for participating public entities within the State of California.

**PROGRAM:** An activity or group of similar activities organized as a subunit of a department for planning and performance measurement purposes.

RESTRICTED FUNDS: Funds set aside or restricted for a specific purpose by legal commitment, by law, or by Board action.

REVENUE: Income received through such sources as taxes, fines, fees, grants or service charges which can be used to finance operations or capital assets.

SURPLUS: The excess of revenues over expenditures during an accounting period.

## ACRONYMS AND ABBREVIATIONS

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ACWA:	Association of California Water Agencies
AF:	Acre Feet
AFY:	Acre Feet per Year
AWWA:	American Water Works Association
BMP:	Best Management Practices
HCF or CCF:	Hundreds of Cubic Feet (1 CCF = 748 Gallons)
CCRB:	Cachuma Conservation and Release Board
CCWA:	Central Coast Water Authority
CIP:	Capital Improvement Project
CMU:	Cachuma Member Units
COLA:	Cost of Living Adjustment
COMB:	Cachuma Operation and Maintenance Board
COP:	Certificate of Participation
CY:	Calendar Year
DISTRICT:	Montecito Water District
DWR:	California Department of Water Resources
FY:	Fiscal Year
GFOA:	Government Finance Officers Association
GSP:	Groundwater Sustainability Plan
GSA:	Groundwater Sustainability Agency
HCF:	Hundred Cubic Feet
JPA:	Joint Powers Agency
MG:	Million Gallons
MOU:	Memorandum of Understanding
MSD:	Montecito Sanitary District
MWD	Montecito Water District
PEPRA:	Public Employees' Pension Reform Act
O&M:	Operation & Maintenance
CalPERS:	California Public Employees' Retirement System
SEMITROPIC:	Semitropic Groundwater Banking and Exchange Program
SBCWA:	Santa Barbara County Water Agency
SBCFCWC:	Santa Barbara County Flood Control and Water Conservation District
SCC:	South Coast Conduit
SEIU:	Service Employees International Union, Local 620
SGMA:	Sustainable Groundwater Management Act
SWP:	State Water Project

SWRCB:	California State Water Resource Control Board
WAC:	Water Availability Charge
WSA:	Water Supply Agreement
WY:	Water Year
USBR:	United States Bureau of Reclamation





# APPENDIX A



**RESOLUTION NO. 2239**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE MONTECITO WATER DISTRICT  
ADOPTING A CAPITALIZATION POLICY**

**WHEREAS**, the Montecito Water District ("District") is a County Water District organized and existing under and by virtue of Water Code §§30000 – 33901; and

**WHEREAS**, for over a century the District has acquired, maintained and replaced assets including infrastructure, equipment, and appurtenances necessary to carry out its mission to supply safe and reliable high-quality water to the communities of Montecito and Summerland; and

**WHEREAS**, to effectively manage District finances, these assets are expensed, or capitalized and depreciated, based on useful life of the assets and recorded accordingly in District financial statements; and

**WHEREAS**, a capitalization policy provides guidance for the capitalization and depreciation of capital assets in accordance with the requirements of Governmental Accounting Standard Board (GASB) *Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; and

**WHEREAS**, a capitalization policy includes capital asset descriptions, capitalization threshold levels, estimated useful lives, methods of depreciation, and the procedures to be used in effectively identifying, recording and reporting capital assets; and

**WHEREAS**, the District desires to follow a uniform policy with respect to the acquisition, capitalization, management, and disposition of capital expenditures and other capital assets for financial statement purposes and for compliance with applicable state and/or federal requirements.

**NOW THEREFORE BE IT RESOLVED** by the Board of Directors of Montecito Water District that the Capitalization Policy as documented in Attachment A, attached hereto and incorporated herein by this reference, is hereby approved as the Capitalization Policy for the District.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Water District this 28<sup>th</sup> day of June, 2022, by the following roll call vote:

AYES: Coates, Goebel, Wicks

NOES:

ABSENT:

ABSTAIN: Hayman, Plough

ATTEST:



Nicholas Turner, Secretary

APPROVED:

  
Ken Coates, Vice President

**ATTACHMENT “A”  
TO  
RESOLUTION NO. 2239**

**CAPITALIZATION POLICY**

**A. Purpose of the Policy**

The purpose of this policy is to establish guidelines in identifying, capitalizing, depreciating, and accounting for District fixed assets.

**B. General Definitions**

A fixed asset (a.k.a. capital asset) is defined under this Policy as an asset owned by the District that 1) is acquired for use in District operations, 2) possesses physical substance, and 3) is long-term in nature (i.e., useful life exceeds 2 years), and 4) is subject to depreciation.

**Specific Capital Asset Definitions**

1. *Capital Assets* – tangible assets of significant value having a utility which extends beyond the 2 years that are broadly classified as land, buildings, building improvements, vehicles and equipment.
  2. *Land* – The investment in real estate other than buildings and building improvements. This asset does not depreciate
  3. *Buildings* – Physical property of a permanent nature.
  4. *Building Improvements* – Physical property of a permanent nature that is not a physical Building. Building Improvements such as fences, retaining walls, park equipment, asphalt paving, concrete paving, fences, sidewalks, street lights, tunnels and manholes.
  5. *Equipment* – moveable property of a relatively permanent nature with a significant value. “Significant value” is defined as a cost of \$10,000 or more. “Relatively permanent” is defined as a useful life that exceeds 2 years.
  6. *Vehicles* – must be relatively permanent and have a significant value.
  7. *Infrastructure*– Construction on street, road, site improvements, and water storage and/or delivery projects of a permanent nature.
  8. *Maintenance and Alterations* – Expenditures which neither materially add to the value of the property nor appreciably prolong its life, but merely keep it in an ordinary, efficient operating condition. Maintenance and Alteration costs are not capitalized.
  9. *Capitalized Expenditures (Betterments)* – Expenditures which materially add to the value of the property or appreciably extend its life. This amount should be added to the current book value of the asset where the original cost of a component being improved can be specifically identified. IF a component is being replaced, the cost of the old component should be disposed and the new cost capitalized. Capitalized expenditures are on occasion referred to as betterments.
- C. *Controlled Equipment*** – Items which by their value, nature, and variety of uses should be specifically accounted for and inventoried periodically. These items are not capitalized. Examples of such items include cameras, calculators, small office equipment, furniture, and small tools or construction equipment. As a general rule, these are items with an individual cost of less than \$10,000.

**D. Statement of the Policy**

It is the policy of the District that the following types of assets will be considered Fixed Assets of the District:

1. Land
2. Land improvements with a limited life, such as driveways, walks, fences, landscaping, and parking lots
3. Buildings
4. Building improvements, such as HVAC equipment, remodeling costs, and landscaping
5. Hydrants, PRV stations, valves and similar facilities
6. Transmission & distribution pipelines
7. Treatment facilities
8. Storage facilities, such as reservoirs
9. Pumps and wells
10. Water meters
11. Machinery and equipment, such as generators, compressors, jackhammers, tools, trimmers, etc.
12. Fleet equipment, such as cars, trucks, trailers and backhoes
13. Office equipment, such as furniture and fixtures
14. Computer systems, purchased software, and telephones
15. Planning documents, system modeling reports, and other documents directly related to capital improvements

**E. Capitalization Thresholds**

Fixed assets eligible for capitalization must have an estimated life of at least two years. The following capitalization thresholds shall be followed and such criteria shall be applied to individual assets and not to groups of individual assets.

1. Land – All acquisition costs
2. Office Equipment - \$10,000
3. Field Equipment - \$10,000
4. Infrastructure - \$10,000
5. Buildings & Building Improvements - \$10000

**F. Valuation Of Fixed Assets**

The actual cost of acquiring capital assets is recorded on the financial statements. Therefore, assets are reported at historical cost in accordance with Generally Accepted Accounting Practices. The value assigned to fixed assets shall be determined as follows:

**1. Purchased Fixed Assets**

The capitalized value of purchased fixed assets shall be determined using the historical cost of the asset. Specific costs eligible for capitalization are identified under section 3.3 below. If the

historical cost of an asset is not available or cannot be reasonably determined, an estimated cost may be utilized based upon the best available information.

**2. Self-Constructed Fixed Assets**

Only self-constructed water system infrastructure assets intended to be used in District operations are eligible for capitalization. The capitalized value of such self-constructed assets shall be determined using only direct costs associated with the construction up until the time the asset is complete and the infrastructure is ready for its intended use.

**3. Donated Fixed Assets**

The capitalized value of donated assets shall be determined using the fair market value at the time of donation. If the fair market value of the asset is not available or cannot be reasonably determined, an estimated cost may be determined using the best available information. The value of donated intangible assets shall be accounted for separate from donated tangible fixed assets.

**G. Capitalizable Costs**

Costs eligible for capitalization under this policy are as follows:

**Land:**

1. Purchase price or appraised value, whichever is more readily determinable;
2. Closing costs, such as title fees, attorneys fees, environmental assessments, appraisals, taxes and recording fees;
3. Costs necessary to get the land ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
4. Assumptions of liens, encumbrances or mortgages;

**Purchased assets other than land:**

1. Purchase price
2. Sales tax
3. Freight and handling charges
4. Insurance costs while in transit
5. Assembling and installation charges
6. Professional fees of engineers, inspectors, attorneys, consultants, etc.;
7. Discounts or rebates shall be accounted for as a reduction to the purchase price;
8. Costs necessary to accommodate the equipment in its new location

**Self-constructed assets:**

1. Direct labor costs (to include wages and benefits);
2. Direct materials cost;
3. Professional fees of engineers, inspectors, attorneys, consultants, etc.;
4. Insurance premiums and related costs incurred during construction;



5. Costs necessary to get the site ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
6. Fair market or appraised value at date of donation;
7. Installation costs;
8. Professional fees of engineers, inspectors, attorneys, consultants, etc.;
9. Other normal or necessary costs required to place the asset in its intended location and
10. location and condition for use.

**Donated fixed assets:**

1. Fair market or appraised value at date of donation;
2. Installation costs;
3. Professional fees of engineers, inspectors, attorneys, consultants, etc.;
4. Other normal or necessary costs required to place the asset in its intended location and condition for use.

**H. Capitalization of Costs Subsequent to Acquisition**

Additional costs incurred after a fixed asset is placed in use shall be accounted for as follows:

**1. Additions**

An “Addition” is defined as an expenditure that either significantly extends the useful life or productivity of the existing fixed asset or creates a new fixed asset. All “Additions” to existing fixed assets should be capitalized as long as the asset meets the criteria of section F above.

**2. Improvements and Replacements**

“Improvements and Replacements” are defined as expenditures that involve substituting a similar fixed asset, or portion thereof, for an existing one. All “Improvements and Replacements” to existing fixed assets should be capitalized as long as the asset meets the criteria of section G above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books at the time the replacement is recorded. If the existing asset is not separately identifiable, then the replacement should still be capitalized as the existing asset’s book value is assumed to be negligible.

**3. Rearrangement or Reinstallation**

“Rearrangement or Reinstallation” costs are defined as expenditures that involve moving an existing asset to a new location or reinstalling a similar asset in place of an existing asset. All “Rearrangement or Reinstallation” costs should be expensed in the period incurred.

**4. Repairs and Maintenance**

“Repairs and Maintenance” costs are defined as expenditures that involve maintaining the asset in good or ordinary repair. All “Repairs and Maintenance” costs should be expensed in the period incurred.

**I. Depreciation of Fixed Assets**

Fixed assets shall be depreciated on a straight-line basis beginning the first day of the month following acquisition in accordance with the following schedule (Note, management may determine a useful life

other than these listed below if a determination is made that the useful lives listed below are not appropriate for the asset):

## **LAND**

<b>Capitalization Threshold</b>	<b>All Acquisition Costs</b>
Non Depreciable	

## **OFFICE EQUIPMENT**

<b>Capitalization Threshold</b>	<b>\$10,000</b>
Computers	4 Years
Computer Software	3 Years
Phone & Telecommunications Equipment	4 Years
Office Furniture & Fixtures	7 Years
Network Servers	5 Years
Copy Machines	5 Years
Printers	5 Years

## **FIELD EQUIPMENT**

<b>Capitalization Threshold</b>	<b>\$10,000</b>
Vehicles	5 Years
Heavy equipment, Backhoes, Forklifts, etc.	10 Years
Machinery & Equipment	10 Years
Generators	10 Years

## **INFRASTRUCTURE**

<b>Capitalization Threshold</b>	<b>\$10,000</b>
Transmission and Distribution Pipelines	60 Years
Reservoirs	60 Years
Pumps	25 Years
Pump Stations	25 Years
Wells	25 Years
Hydrants	30 Years
Valves	30 Years
Treatment Facilities	30 Years

## **BUILDINGS & BUILDING IMPROVEMENTS**

<b>Capitalization Threshold</b>	<b>\$10,000</b>
Buildings	30 Years
Building Improvements	10 Years
Air Conditioners	15 Years
Plumbing Fixtures	15 Years
Shop Building	30 Years

J. **PHYSICAL INVENTORY**

A physical inventory of the following categories of fixed assets shall be performed annually:

1. Inventory items
2. Machinery and equipment
3. Fleet equipment
4. Office furniture and fixtures
5. Computer equipment, purchased software and telephones

The results of the physical inventory shall be reconciled with the District's asset inventory system.

K. **DISPOSAL OF FIXED ASSETS**

Fixed assets that have become obsolete or impaired or no longer of used to the District shall be disposed in accordance with District's Resolution 2240, *Fixed Asset Disposal Policy*.

**RESOLUTION NO. 2238**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE MONTECITO WATER DISTRICT  
ADOPTING A DEBT MANAGEMENT POLICY**

**WHEREAS**, the Montecito Water District ("District") is a County Water District organized and existing under and by virtue of Water Code §§30000 – 33901; and

**WHEREAS**, the Montecito Water District ("District") has outstanding debt and may issue additional debt in the future; and

**WHEREAS**, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning; and

**WHEREAS**, Government Code §8855 requires the District to have a Debt Management Policy before issuing debt, and establishes the elements that must be included in a Debt Management Policy; and

**WHEREAS**, on February 26, 2019, the Board of Directors adopted a Debt Management Policy, which sets forth parameters within which debt may be issued and administered by the District; and

**NOW THEREFORE BE IT RESOLVED** by the Board of Directors of Montecito Water District that the Debt Management Policy as documented in Exhibit A, attached hereto and incorporated herein is hereby approved as the Debt Management Policy for the District.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Water District this 28<sup>th</sup> day of June, 2022, by the following roll call vote:

AYES: Coates, Goebel, Wicks

NOES:

ABSENT:

ABSTAIN: Hayman, Plough

APPROVED:



Ken Coates, Vice President

ATTEST:



Nicholas Turner, Secretary

**ATTACHMENT “A”**  
**TO**  
**RESOLUTION NO. 2238**

**DEBT MANAGEMENT POLICY  
FOR THE FISCAL YEAR 2022/23**

**Purpose and Scope**

This Debt Management Policy (the "Debt Policy") establishes the parameters within which debt may be issued and administered by the Montecito Water District (the “District”). This Debt Policy shall also apply to the Montecito Water District Financing Corporation.

This Debt Policy is intended to comply with Government Code Section 8855(i), and shall govern debt undertaken by the District.

The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future revenue levels, construction, maintenance and operating expenses, and the fluctuating cost of water supplies necessary to ensure effective accomplishment of the District's mission. Protect the District's credit-worthiness.
- Ensure that debt is structured in order to protect both current and future District customers.
- Ensure that the District's debt is consistent with its planning goals and objectives and the District's project or budget, as applicable.

**Purposes for Which Debt May Be Issued**

1. Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and improvement of facilities, equipment, land and property (including water supplies) to be owned and/or operated by the District.
  - 1.1 Long-term debt financings are appropriate when the following conditions exist:
    - When the action to be financed is necessary and useful to the District's purpose.
    - When the action to be financed will provide benefit to District customers over multiple years.
    - When total debt does not constitute an unreasonable burden to the District's customers.
    - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
  - 1.2 Long-term debt financings will not generally be considered appropriate for current operating expenses and annual routine maintenance expenses.
  - 1.3 The District may use long-term debt financings subject to the following conditions:
    - The project to be financed must be approved by the District Board of Directors after reserves and cash flow have been discussed before incurring long-term debt.
    - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more



than 20%.

- The District estimates that sufficient revenues will be available to service the debt through its maturity.
- The District determines that the issuance of the debt will comply with applicable state and federal laws.

2. Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance and other purposes as permitted by California law. Short term debt may also be used to finance short-lived capital, or water acquisition projects, or to provide interim financing for long-lived projects.

### **Types of Debt**

The following types of debt are allowable under this Debt Policy:

- Bond or grant anticipation notes (BANs);
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions;
- Other revenue bonds and COPs;
- Installment purchase agreements as allowed by law;
- State Water Resources Control Board Loans and other government sponsored loans;
- Short-term notes authorized by the Water Code.

The District Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt through an action of the District Board without an amendment of this Debt Policy.

### **Relationship of Debt to Capital Improvements and Budget**

The District is committed to long-term planning. The District intends to issue debt for the purposes stated in this Debt Policy, and to implement policy decisions regarding capital improvements, and acquisitions of land and water, that are necessary and useful to the successful operation of the District.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues, including the collection of assessments from District customers. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment.

### **Policy Goals Related to Planning Goals and Objectives**

The District is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the annual budget.

It is a policy goal of the District to utilize conservative financing methods and techniques so as to obtain the highest practical credit ratings and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related assessments, rates and charges.

The General Manager will periodically review existing District debt in order to identify refinancing opportunities. Refinancing will be considered by the Board if and when there is a net benefit of refinancing. Non-economic refinancing may be considered to achieve the District's goals relating to changes in covenants, call provisions, operational flexibility, tax status, or the District's debt service profile.

### **State Reporting Requirements**

Pursuant to Government Code section 8855(k), the District will submit annual debt transparency reports for any debt for which has submitted a report of final sale on or after January 21, 2017 every year until the later date on which the debt is no longer outstanding and the proceeds have been fully spent. The District shall also comply with Government Code Section 5852.1 by disclosing specified good faith estimates in a public meeting prior to the authorization of the issuance of bonds.

### **Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable laws and policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

Without limiting the foregoing, the District will periodically review the requirements of, and will remain in compliance with, the following:

- Any continuing disclosure undertakings entered into by the District in accordance with SEC Rule 15c2-12.
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- Investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the General Manager, or his or her written designee; or (b) by the District, to be held and accounted for in a separate fund, general account or project account, the expenditure of which will be carefully documented by the District.

On an as needed basis, the Finance Manager will be responsible for reviewing and updating and/or revising this Policy which shall be reviewed at a Board meeting and adopted by the Board of Directors.

**RESOLUTION NO. 2240**  
**RESOLUTION OF THE BOARD OF DIRECTORS OF**  
**MONTECITO WATER DISTRICT ADOPTING A**  
**FIXED ASSET DISPOSAL POLICY**

**WHEREAS**, the Montecito Water District ("District") is a County Water District organized and existing under and by virtue of Water Code §§30000 – 33901; and

**WHEREAS**, the District continually acquires, maintains and replaces assets including infrastructure, equipment, and appurtenances necessary to carry out its mission to supply safe and reliable high-quality water to the communities of Montecito and Summerland; and

**WHEREAS**, it is the District's responsibility to properly account for, safeguard, and dispose of assets purchased with public funds; and

**WHEREAS**, the District's Capitalization Policy provides guidance for the capitalization and depreciation of capital assets including the estimated useful life of each in accordance with the requirements of Governmental Accounting Standard Board (GASB) Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; and

**WHEREAS**, as an asset reaches the end of its useful life and/or it is determined that an asset, such as a vehicle or large equipment no longer meets the needs of daily, emergency and/or future operations, it is the policy of the District Board of Directors to make such a determination and to dispose of the asset in a manner that returns the appropriate value of that property to the District and its customers; and

**WHEREAS**, the District wishes to adopt a policy regarding determinations to dispose of publicly purchased assets and to obtain appropriate value for those publicly purchased assets at the time of disposal;

**NOW THEREFORE BE IT RESOLVED** by the Board of Directors of Montecito Water District that the Fixed Asset Disposal Policy as documented in Exhibit A, attached hereto and incorporated herein is hereby approved as the Fixed Asset Disposal Policy for the District.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Water District this 28<sup>th</sup> day of June, 2022, by the following roll call vote:

AYES: Coates, Goebel, Wicks

NOES:

ABSENT:

ABSTAIN: Hayman, Plough

ATTEST:



Nicholas Turner, Secretary

APPROVED:



Ken Coates, Vice President

**ATTACHMENT “A”  
TO  
RESOLUTION NO. 2240**

**FIXED ASSET DISPOSAL POLICY**

The primary purpose of this policy is to allow management staff to determine if Montecito Water District vehicles, large equipment and other personal property no longer meet the needs of daily, emergency and/or future operations. It is the policy of the Board of Directors of the District to dispose of Surplus Personal Property in a manner that returns the value of that property to the associated rate payers in a way that is simple to administer. The disposal of surplus personal property shall be handled according to this policy.

**1. Determination of Surplus Personal Property**

The term “Surplus Personal Property” shall mean any vehicles, large equipment and other personal property owned by the District that no longer has a business purpose but is still usable. The General Manager has the authority to deem property Surplus Personal Property.

**2. Prohibited Director, Officer and Employee Transactions**

In accordance with Government Code Section 1090, all members of the District Board of Directors and District employees are prohibited from purchasing Surplus Personal Property.

**3. Disposal of Vehicles, Large Equipment and other Surplus Personal Property**

- a. At least once each fiscal year, the District General Manager will prepare a list of District vehicles, equipment and other personal property that are deemed Surplus Personal Property based on age, mileage and cost effectiveness to keep the asset in service.
- b. District management staff will establish values and set minimum bid prices for each vehicle or item of large equipment to be sold by public auction. If staff, during the process of establishing value for a vehicle or piece of large equipment, determines that the particular vehicle or equipment has nominal or no value or the costs of preparation for sale and sale are greater than the value of the vehicle or equipment, then the General Manager is authorized to dispose of the property.
- c. The General Manager may authorize the sale of Surplus Personal Property with an estimated value of \$10,000 or less. Surplus Personal Property with an estimated value greater than \$10,000 will be sold as surplus following authorization by the Board of Directors at a public meeting.
- d. Vehicles or large equipment are to be sold at public auction.

**4. Guidelines Concerning the Sale of Surplus Vehicles, Large Equipment, and Other Personal Equipment**

Prior to the sale of surplus vehicles or large equipment, the District General Manager will direct staff to assist in the following:

- a. Remove all District equipment from the vehicle or large equipment (radio, decals, etc.).
- b. Clean and if necessary, repair the vehicle or large equipment if it is an immediate safety issue.
- c. Vehicle or large equipment will be sold at public auction.
- d. Establish vehicle or large equipment value using an appropriate, publicly available valuation tool such as trade in value. Staff will prepare a written report concerning the valuation of the item and attach appropriate documentation.
- e. Arrange for the delivery and consignment of the item and in consultation with the General Manager and auctioneer, determine an appropriate reserve or minimum price for the item.
- f. When the vehicle or large equipment is sold, the General Manager or his/her designee will sign the “pink slip”, bill of sale and any other documents required to complete the sale.
- g. After the vehicle or large equipment is sold, the General Manager or his/her designee will complete paperwork as required by DMV to report the sale of the vehicle or large equipment, and return all completed forms and vehicle license plates to DMV.

All Surplus Personal Property offered for sale shall be “as is” and “where is”, with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility or usability or the property offered for sale.

For Surplus Personal Property not sold, the General Manager has the authority to donate such items to another government agency or any non-discriminatory, tax exempt non-profit organization qualified under Internal Revenue Code section 501(c)(3).

## **5. Revenue from Disposal of Surplus Personal Property**

Revenue from the sale or trade-in of Surplus Personal Property shall be returned to the District’s operating reserves unless otherwise specified by the Board of Directors. All sales shall be paid to the District by certified check, money order, or in a manner agreeable to the General Manager. The General Manager is authorized to sign bills of sale and any other documents evidencing the transfer of title to such Surplus Personal Property by and on behalf of the District.

**RESOLUTION NO. 2233**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE MONTECITO WATER DISTRICT  
ADOPTING THE INVESTMENT POLICY FOR THE FISCAL YEAR 2023**

**WHEREAS**, the Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code "CGC" §53600.6 and §53630.1); and

**WHEREAS**, the legislative body of a local agency may invest surplus moneys not required for the immediate necessities of the local agency in accordance with the provisions of CGC §53600 et seq. and §§5920 et seq.

**NOW THEREFORE BE IT RESOLVED THAT:**

1. It shall be the goals of the Montecito Water District (District) to invest funds in a manner that will not impair principal, will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District, and will conform to all statutes governing the investment of District funds.
2. The Treasurer (or designated fiscal officer of the District) shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the District Board of Directors at a public meeting (CGC §53646(a)(2))
3. The specifics of the District investment policy for the fiscal year 2023 are set forth on Attachment A to this Resolution, which attachment is incorporated into this Resolution by reference as though fully set forth herein.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Water District this 28<sup>th</sup> day of June, 2022, by the following roll call vote:

AYES: Coates, Goebel, Wicks

NOES:


ABSENT:

ABSTAIN: Hayman, Plough

APPROVED:

  
Ken Coates, Vice President

ATTEST:

  
Nicholas Turner, Secretary



**ATTACHMENT “A”**  
**TO**  
**RESOLUTION NO. 2233**  
**RESOLUTION OF THE BOARD OF DIRECTORS OF**  
**MONTECITO WATER DISTRICT CONCERNING THE**  
**INVESTMENT POLICY FOR THE FISCAL YEAR 2023**

**1. SCOPE**

This investment policy applies to all financial assets of the Montecito Water District (“District”). These funds are accounted for in the Annual Financial Report and include reserves, and operational and savings accounts. Funds not included in the policy include deferred compensation funds.

**2. PRUDENCE**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. The Board of Directors, Treasurer, and any other persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the “prudent investor” standard (CGC §53600.3). When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of CGC §53600.3 and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law.

**3. OBJECTIVES**

As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities of the District shall be: (1) **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio; (2) **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated; and (3) **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

#### **4. DELEGATION OF AUTHORITY**

Authority to manage the investment program is derived from CGC §§53600, et seq. Management responsibility for the investment program is hereby delegated to the Treasurer pursuant to CGC §53607, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code Section 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

#### **5. ETHICS AND CONFLICTS OF INTEREST**

All persons authorized to make investment decisions on behalf of the District shall refrain from personal business activity that could cause a conflict of interest which could impair their ability to make impartial investment decisions and which would impair, impede, or interfere with the proper execution of this Investment Policy.

#### **6. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS**

The Treasurer will maintain a list of financial institutions, selected on the basis of creditworthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the District's account with that firm has reviewed the District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the District that are appropriate under the terms and conditions of the Investment Policy.

#### **7. AUTHORIZED AND SUITABLE INVESTMENTS**

The District is empowered by CGC §53601 et seq. to invest in the following:

- A. Bonds issued by the District.
- B. United States Treasury notes, bonds, bills, or certificates of indebtedness.

- C. Registered state warrants or treasury notes or bonds issued by the State of California.
- D. Bonds, notes, warrants or other evidence of indebtedness of a local agency within the State of California.
- E. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments.
- F. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association. Not more than 30% of surplus funds can be invested in certificates of deposit.
- G. Any other investment security not specifically set forth above, but which is authorized under the provisions of CGC §5922 and §53601.

*Prohibited Investments.* Under the provisions of CGC §53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero-interest accrual if held to maturity.

## **8. COLLATERALIZATION**

All certificates of deposit must be collateralized by U.S. Treasury obligations. Collateral must be held by a third-party trustee and valued on a monthly basis

## **9. SAFEKEEPING AND CUSTODY**

All security transactions entered into by the District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery or by third party custodial agreement as required by CGC §53601.

## **10. DIVERSIFICATION**

The District will diversify its investments by security type and institution. It is the policy of the District to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- A. Portfolio maturities are matched versus liabilities to avoid undue concentration in a specific maturity sector.
- B. Maturities selected shall provide for stability of income and liquidity.
- C. Disbursement and payroll dates shall be covered through maturing investments, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

## **11. REPORTING**

In accordance with CGC §53646(b) (1), the Treasurer shall submit to each member of the Board of Directors a quarterly investment report. The report shall include a complete description

of the portfolio, and the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for District by third party contracted managers. The report will also include the source of the portfolio valuation. As specified in CGC §53646 (e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy, and (2) the District will meet its expenditure obligations for the next six months as required by CGC §53646 (b) (2) and (3), respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

**12. ANNUAL INVESTMENT POLICY REVIEW**

This Investment Policy shall be reviewed on an annual basis, and modifications will be approved by the District Board of Directors.

## **MONTECITO WATER DISTRICT PURCHASING POLICY**

- 1) It will be everyone's responsibility to become aware of item costs.
- 2) Shopping for the best price and obtaining quotes from several vendors should be done to obtain the best price, particularly for larger items and those which are frequently used. Three competitive bids will be obtained when a formal bidding process is required.
- 3) Employees should be instructed to use equipment, tools, and supplies in a manner which will preserve their usefulness.
- 4) A single purchase from one vendor greater than \$500, or a purchase from a new vendor which is not on the existing list, will require a purchase order.
- 5) A purchase order must be signed by one of the following: Engineering Manager, Distribution Superintendent, Water Treatment and Production Superintendent, Business Manager or General Manager. Purchase orders exceeding \$2,500 will need to be reviewed, approved and signed by the Engineering Manager, Business Manager or General Manager prior to the order of services, materials or equipment.
- 6) A purchase order will require a job cost or general ledger number and a description of what the purchase is for. An approximation of costs will need to be indicated on the purchase order.
- 7) The individual receiving purchases will sign the invoice or packing slip, inspect the purchase to assure it is good working order and it meets the intended specifications of its reported purpose which will then be submitted to the office administrator for processing.
- 8) When a purchase order is required, a copy of the purchase order is given to the vendor and the purchase order number is to be indicated on the invoice, together with a description of what the purchase is for.
- 9) When submitting an invoice for payment, or when a purchase order is not required, a job cost or general ledger number and a description of what the purchase is for is to be indicated on the invoice.

Non-budget items costing less than \$20,000 and budget items less than \$50,000 do not require prior Board approval. Budget items costing less than \$50,000, have already been approved by the Board during the annual budget process. It

is the intent of staff that all new items will be purchased through the budget whenever possible.

For non-budget items costing more than \$20,000 and budget items more than \$50,000, these items must be purchased in accordance with the following:

- 1) No item of supplies or equipment costing more than \$20,000 may be purchased without prior approval of the District Board of Directors.
- 2) Purchase of supplies or equipment costing \$50,000 or less for approved budgeted items may be made without the necessity of calling for bids; however receiving competitive bids or quotes from qualified vendors is recommended.
- 3) Purchase of any item of supplies or equipment for approved budgeted items costing more than \$50,000 shall be let by contract to the lowest responsible bidder in the manner prescribed in the resolution. All contract purchases greater than \$50,000 shall be brought before the Board of Directors for approval and authorization prior to purchase.
- 4) The Board of Directors may reject any and all bids and authorize the General Manager to purchase the necessary equipment and supplies on the open market.
- 5) In an emergency, the General Manager may purchase supplies or equipment without calling for bids after obtaining approval from the Finance Committee or the Board President. The General Manager shall make a complete report of circumstances constituting an emergency to the Board of Directors at its next meeting.



## Procurement Policy

**Introduction:** This procurement policy is established to ensure efficiency and effectiveness in procuring materials and services for the Montecito Water District. It establishes sound business practices and ensures the District receives the highest quality and best value for money expended. It provides that the District operate in a fair, open, transparent and non-discriminatory manner in the marketplace and requires conscious management of the risk inherent in all procurements. Finally, it requires everyone in the procurement process to operate at the highest ethical standard.

**Purchase Approval Authority:** Purchase approval authority for procurements made on behalf of the Montecito Water District shall be delegated in relation to the value of the procurement, the nature of the material or service procured and term of the agreement or contract.

**Materials and Services:** The General Manager is responsible for approving all purchases, and purchase orders, for services and supplies, including Fixed Assets, totaling less than \$100,000 (including installation, tax and shipping) except as otherwise noted herein.

The Board of Directors shall approve all purchases of services and supplies for non-budgeted items totaling \$25,000 or more, except that the General Manager may make emergency procurements of supplies and services in excess of \$25,000 without bids to protect the health, safety or property of private individuals and public entities. Prior to emergency procurement of supplies and services in excess of \$25,000 due to an emergency, the General Manager or his/her designee executing the contract or instrument must contact the District President, or Vice President, and obtain their assent prior to executing the instrument. In the event that the President or Vice President is unavailable, the General Manager or his/her designee must contact two other Board members, and obtain their unanimous assent. Subsequent to executing any contract or instrument for construction services, or the lease or purchase of materials, supplies and equipment due to an emergency, the Board must be notified as soon as possible of any emergency contract or instrument and must ratify the contract or instrument at the next regular Board meeting.

Budget items costing less than \$100,000 do not require additional Board approval if they have already been approved by the Board during the annual budget process.

**Property:** The Board of Directors shall approve all purchases of real property regardless of value.

**Professional Services:** The Board of Directors shall approve all budgeted professional services totaling \$100,000 or more and all non-budgeted professional services totaling \$25,000 or more. The General Manager shall approve budgeted

professional services totaling \$100,000 or less and all non-budgeted professional services totaling \$25,000 or less.

**Long-term Agreements:** The Board of Directors shall approve all contracts and agreements with a term longer than 12 months, including those for legal services.

**Other Utilities:** No purchase order or bidding is required for other budgeted utility services such as gas or electric.

The General Manager may delegate authority for approving purchases as necessary in the absence of the General Manager to ensure efficiency and effectiveness of District Operations.

**Requirements for Advance Price Quotations:** Purchases made on behalf of the District should minimize cost to the extent practicable, but the final decision to award to a particular vendor must be carried out on the basis of obtaining best possible value for the District.

**Items with a value less than \$10,000:** A single purchase from one vendor with a value less than \$10,000 but greater than \$500 shall only be made with a purchase order that is approved by the General Manager or Business Manager prior to the order of order of services, materials or equipment. A single purchase from one vendor with a value \$500 does not require a purchase order. The quotations must be received in writing and become part of the purchase documentation.

**Items with a value greater than \$10,000:** A single purchase from one vendor with a value greater \$10,000 for a single line item or service shall be made after soliciting two or more written price quotations. The price quotations shall accompany a purchase order and become part of the purchase documentation.

**Sole Source procurements:** In exceptional circumstances, the requirement to obtain a purchase order and to secure a minimum of two bids may be waived. An example of such a circumstance could be an urgent need for an emergency main line repair beyond the capabilities of existing District staff. Procurement of proprietary materials, inventory and office supplies would require a purchase order, but not two bids.

When a purchase order is required, a copy of the purchase order is given to the vendor and the purchase order number is to be indicated on the invoice, together with a description of what the purchase is for.

A purchase order will not be required prior to a procurement in the event of an emergency as determined by the General Manager or his delegate. Post emergency, a purchase order shall be prepared and become part of the record.

**Split procurements:** Under no circumstances may a procurement be artificially split in order to change the approving authority or the procedures required in documenting the purchase price.

**Use of Contractors:** While not required to do so under the Water Code and/or Public Contract Code, District will use its best efforts to bid construction projects and award projects to the lowest responsible and responsive bidder where feasible as determined by the District in its sole discretion. No contractor or subcontractor may be awarded for public work on a public works project unless registered with the California Department of Industrial Relations (DIR) pursuant to Labor Code section 1725.5. Bidders and their subcontractors must provide an extract (pdf) with bid showing active registration. By registering with the DIR, the contractor will need to establish the following:

(A) Workers' Compensation coverage that meets the requirements of Division 4 (commencing with Section 3200) and includes sufficient coverage for any worker whom the contractor employs to perform work that is subject to prevailing wage requirements other than a contractor who is separately registered under this section. Coverage may be evidenced by a current and valid certificate of workers' compensation Insurance or certification of self-insurance required under Section 7125 of the Business and Professions Code.

(B) If applicable, the contractor is licensed in accordance with Chapter 9 (commencing with Section 7000) of the Business and Professions Code.

(C) The contractor does not have any delinquent liability to an employee or the state for any assessment of back wages or related damages, interest, fines, or penalties pursuant to any final judgment, order, or determination by a court or any federal, state, or local administrative agency, including a confirmed arbitration award. However, for purposes of this paragraph, the contractor shall not be disqualified for any judgment, order, or determination that is under appeal, provided that the contractor has secured the payment of any amount eventually found due through a bond or other appropriate means.

(D) The contractor is not currently debarred under Section 1777.1 or under any other federal or state law providing for the debarment of contractors from public works.

(E) The contractor has not bid on a public works contract, been listed in a bid proposal, or engaged in the performance of a contract for public works without being lawfully registered in accordance with this section, within the preceding 12 months or since the effective date of the requirements set forth in subdivision (e), whichever is earlier.

**Risk Transfer:** In order to minimize the potential liability exposure of the District, Contracts and Agreements with vendors for supplies and services shall include appropriate risk transfer clauses as recommended by the District's liability insurance provider. Contractors and suppliers must, at a minimum have adequate liability and workers compensation insurance. An order should not be made effective with a contractor until the relevant insurance documents, including a performance bond as necessary, have been approved.

**Requirements for Emergency Contracting:** The General Manager will annually request bids for emergency contract services and recommend up to three contractors for Board

approval. Once approved, the General Manager may contract with any of the approved contractors for emergency repair services throughout the given year.

**Internal Controls:** The General Manager shall establish a system of internal controls that provide an audit trail for all purchase and provide transparency in the procurement process including the following controls:

- more than one person to be involved in each transaction, end-to-end,
- provide for prior approval of purchases with a purchase order,
- require certification of receipt of the material, and
- result in reconciliation of the purchase order with the invoice and final payment.

**Procurement from Other Than Lowest Cost Vendor:** While it is the desire of the Board of Directors to purchase supplies and services at the least cost to the District, there may be instances when the award of a purchase to other than the lowest cost vendor produces greatest value and is in the best interests of the District. District Staff should strive to:

- maximize the value received,
- use sources which will be responsive to the needs and timelines of District,
- seek commonality in major equipment to minimize inventory and training costs.

**Procurement through Negotiation:** While competitive solicitation is the preferred procedure to be used to purchase supplies and services, negotiation by the General Manager or his designee with a single vendor may be beneficial in some instances. Circumstances that might indicate negotiation include situations where competition does not exist (i.e. only one vendor is interested in providing the product or service) or where special economies may exist outside the competitive process (i.e. as when a contractor is already mobilized for another purpose).

**Encouragement of Local Procurement:** In meeting the criteria outlined above, staff is encouraged to use local vendors in meeting the District's needs for supplies and services.

**Internet Procurements:** The above notwithstanding, the General Manager may authorize staff to make procurements through internet commerce in instances when such procurement results in minimizing the cost to the Montecito Water District or ensuring responsiveness to the needs and timelines of the District.

**Petty Cash:** A Petty Cash Fund of no more than \$200 shall be maintained in the Business Department under the control of the Business Manager for the purpose of providing ready cash for small expenditures such as parking fees, food items for employee relations and meetings. Petty cash shall be disbursed in accordance with the District procedures for expense reimbursements.

**Code of Ethics:** In exercising procurement authority, it is essential that each individual maintain an unimpeachable standard of integrity and foster the highest possible standard of professional competence. Complying with both the letter and the spirit of the principles of ethical behavior is essential. In doing so, each individual must declare any personal interest that may impinge, or might reasonably be deemed by others to impinge, upon a person's impartiality in any procurement decision.

**Counsel Review:** Where practicable, all contracts for procurements are to be reviewed by District Counsel, and approved as to form prior to their execution. Approval as to form means that the contract for the procurement accurately embodies the agreement made between the parties concerning the duties that are the subject of the contract for procurement. Approval as to form can occur either through a signature on the Contract as to form, or transmittal of the approval of District counsel via mail or email.

**RESOLUTION NO. 2237**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE MONTECITO WATER DISTRICT  
ADOPTING A RESERVE POLICY UPDATE FOR FISCAL YEAR 2023**

**WHEREAS**, the mission of Montecito Water District ("District") is to provide an adequate and reliable supply of high-quality water to the residents of the Montecito and Summerland communities at the most reasonable cost; and

**WHEREAS**, California Water Code Section 31000 grants the District express and implied powers to carry out its mission; and

**WHEREAS**, California Water Code Section 31001 authorizes the District generally to perform all acts necessary to carry out its mission; and

**WHEREAS**, California Water Code Section 31007 requires that rates and charges be collected and fixed so as to yield an amount sufficient to: pay operating expenses; provide for repairs and depreciation of works owned or operated by the District; pay the interest on bonded debt; and pay principal of the bonded debt as it becomes due; and

**WHEREAS**, the adoption of an updated reserve policy will assist the District in accomplishing its general mission, and fulfilling the requirements of the Water Code;

**NOW THEREFORE BE IT RESOLVED** that the Board of Directors of Montecito Water District hereby adopts the Fiscal Year 2023 update to the "Montecito Water District Reserve Policy" that is attached to this Resolution as Exhibit "A", and incorporated herein by this reference.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Water District this 28<sup>th</sup> of June 2022 by the following roll call vote:

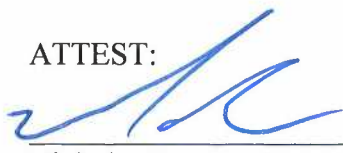
AYES: Coates, Goebel, Wicks

NOES:

ABSENT:

ABSTAIN: Hayman, Plough

ATTEST:

  
\_\_\_\_\_  
Nicholas Turner, Secretary

APPROVED:

  
\_\_\_\_\_  
Ken Coates, Vice President



Exhibit “A”  
To Resolution No. 2237



# MONTECITO WATER DISTRICT RESERVE POLICY

Adopted by the  
Board of Directors  
June 28, 2022

# Montecito Water District

## STATEMENT OF RESERVE POLICY

The mission of Montecito Water District is to provide an adequate and reliable supply of high-quality water to the residents of the Montecito and Summerland communities at the most reasonable cost. In addition to supplying high-quality water, the Board is also charged with responsibility for the construction, operation, maintenance, repair and replacement of facilities to transport and deliver that water to District customers, and for the collection and accumulation of revenues necessary to accomplish these purposes. The reserve amounts stated in this document reflect the projected activity as of October 26, 2021 June 28, 2022 for FY 2023 and will be updated annually or as appropriate.

### POLICY STATEMENT

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Montecito Water District (District) desires to identify, and provide a calculation methodology to maintain, an appropriate level of reserve funds to meet the necessary existing and future needs of the District. The District's Board of Directors realize the importance of reserves in providing reliable service to its customers, financing unanticipated capital projects, and funding responses to emergencies, should they arise. To this extent, the District will at all times strive to have sufficient funding available to meet its operating, unanticipated capital, emergency, and debt service obligations, as well as to avoid significant rate fluctuations due to changes in cash flow requirements.

The Board may designate specific reserve funds and maintain minimum reserve balances consistent with statutory obligations that it has determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure that the District has sufficient funds to meet current and future needs. The Board reviews the types, as well as the amounts, of reserve funds annually. Determinations to continue existing reserve funds, or establish new reserve funds, are based on the following criteria:

- ◆ Purpose of the reserve.
- ◆ Availability and source of funds to continue, replenish or establish the reserve.
- ◆ Operating expenditure levels approved within the annual budget process.
- ◆ Future capital expenditure and debt service requirements of the District.
- ◆ Board approval of the reserve policy.

The District recognizes the importance of operating the District with a sound business plan in place that provides for unanticipated or emergency costs should they arise within a budgeted fiscal year.

It is the Board's intent through this Policy to describe how and why specific reserves are established and maintained by the District, and to provide the District's customers with assurance that reserve balances will be maintained at prudent and fiscally responsible levels.

## **DEFINITIONS**

This Policy describes the reserve funds to be maintained in connection with:

- I. **RESTRICTED FUNDS:** Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use. These funds are specifically governed by a written contract with the District or outlined within the debt covenants of a debt financing.
- II. **UNRESTRICTED FUNDS:** These funds have no externally imposed use restrictions. The use of Unrestricted Funds is at the discretion of the District's Board of Directors. Unrestricted Funds may be designated for a specific purpose, which would be determined by the Board. The Board also has the authority to redirect the use of these funds as the District's needs change.

The Unrestricted funds can further be subdivided into "Committed", "Assigned" and "Unassigned" funds. Committed funds refer to the fund balance amounts that have constraints imposed by formal action of the District's Board of Directors. Once adopted, the limitation imposed remains in effect until additional action is taken (the adoption of a new resolution) to remove or reverse the limitation. Assigned funds refer to fund balance amounts that are constrained by the Board's intent to be used for a specific purpose, but are neither restricted nor committed. Unassigned funds refer to fund balances that are not restricted, committed, or assigned.

**To summarize:**

- ♦ **Restricted Fund Balance Amounts** – Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use. The Central Coast Water Authority (CCWA) Rate Coverage Reserve funds are restricted.
- ♦ **Board Committed Fund Balance Amounts** - Fund balance amounts that have constraints imposed by formal action of the District's Board of Directors. The following reserves were established by formal action by the Board: "Reserve for Water Supply Agreement", "Reserve for Operations", "Reserve for Emergencies", "Reserve for Unanticipated or Unplanned Capital Repair and/or Replacement" and "Reserve for Supplemental Water".
- ♦ **Board Assigned Fund Balance Amounts** – Fund balance amounts that are constrained by the Board's intent to be used for a specific purpose. There are currently no Board assigned fund amounts.
- ♦ **Unassigned Fund Balance Amounts** – Fund balance that is not restricted, committed, nor assigned.

## **GENERAL PROVISIONS**

The District will maintain its operating and capital funds in designated accounts in a manner that ensures its financial soundness and provides transparency to its customers. The fund balances are considered the minimum necessary to maintain the District's fiscal strength and flexibility and adequately provide for:

- ♦ Compliance with applicable statutory requirements.

- ◆ Financing of unanticipated or unplanned capital projects.
- ◆ Cash flow requirements.
- ◆ Economic uncertainties and other financial hardships or downturns in the economy.
- ◆ Contingencies arising from hydrological, meteorological or man-made changes or emergencies.

Through a variety of policy documents and plans, the Board of Directors has set forth a number of long-term goals for the District. The fundamental purpose of the District's policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so. The Board will continually evaluate the implementation of these policy documents and plans to ascertain adequate reserve fund balances are meeting the goals outlined in this Policy.

The District has established and will maintain the reserve funds outlined in the following sections. A principal tenet of the District's Reserve Policy shall be the generation of interest income on accumulated cash balances. Unless otherwise stated in this Reserve Policy, interest derived from reserve balances will be considered unrestricted and unassigned in nature. Reserve balances will be reviewed by the Business Manager on a monthly basis, as well as annually during the budget review process, in order to determine how reserve fund balances, compare with the budgeted projections and how they measure against the goals outlined in this Policy. The minimum established for each reserve fund represents the baseline financial condition that is acceptable to the District from risk and long-range financial planning perspectives. Maintaining reserve funds at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various funding alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to: rates, loans and grants, debt financing, investment of funds, and levels of capital expenditures.

The Board shall approve any reallocation of funds or any transfers among reserve funds.

### **SPECIFIC PROVISIONS**

The District will maintain the following reserve funds and respective target levels:

#### **1. Restricted Reserves.**

(a) CCWA Rate Coverage Reserve – These are reserve funds held by CCWA that approximate 25% of the annual charge by CCWA to the District for the fixed and variable charges from the State Water Project, in addition to the proportionate share of CCWA's administrative costs. The CCWA Rate Coverage Reserve is established in the amount of **\$1,498,350**

#### **2. Unrestricted Reserves.**

##### **Board Committed Fund Balance Amounts**

The Board desires to maintain a total Unrestricted Reserve Amount of \$8,000,000 as established by formal action by the Board. The total Unrestricted Reserves are composed of the following:

(a) **Reserve for Water Supply Agreement.** This reserve is created 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. The reserve will be capped at \$1,200,000. For FY 2023, consistent with the *Water Cost of Service and Rate Study*, prepared by Raftelis dated May 7, 2020, the Reserve for Water Supply Agreement is established in the amount of **\$900,000**

(b) **Reserve for Operations.** The Board may at its discretion appropriate additional Unassigned Funds to the Reserve for Operations. The Reserve for Operations may be utilized to pay the cost of operating the District's system, including unanticipated costs associated with operations. This reserve is designated by the Board to maintain working capital for operations and to meet routine cash flow needs. The District shall endeavor to maintain in the "Reserve for Operations" an amount sufficient to pay for approximately 90 days of normal operations of the District, excluding depreciation expense and payments to DWR, as reflected in the annual audit of the District presented to the Board each year. However, the funds appropriated to the "Reserve for Operations" may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to the "Reserve for Operations" may be invested in the same manner as other District funds, and the earnings thereon shall be credited to the Unrestricted Fund balance. The District's 5-year financial plan and *Water Cost of Service and Rate Study* produced by Raftelis, dated May 7, 2020 suggests a reserve balance of \$3.4 million. Per the FY 2023 budget, the Board of Directors establishes a Reserve for Operations in the amount of **\$3,100,000**

(c) **Reserve for Emergencies.** The "Reserve for Emergencies" may be utilized in the event of a hydrological, meteorological or man-made emergency in which the District's infrastructure is severely damaged. While the District strives to have adequate insurance coverage and protection for events of this nature, it may be necessary for the District to have cash available in the interim. The funds appropriated to the "Reserve for Emergencies" may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to the "Reserve for Emergencies" may be invested in the same manner as other District funds, and the earnings thereon shall be credited to the District's Unrestricted Fund balance. The 5-year financial plan and *Water Cost of Service and Rate Study* produced by Raftelis, dated May 7, 2020 suggests a reserve amount of \$0.5 million. Per the FY 2023 budget, the Board of Directors establishes a Reserve for Emergencies in the amount of **\$500,000**

(d) **Reserve for Unanticipated or Unplanned Capital Repair & Replacement.** The "Reserve for Unanticipated or Unplanned Capital Repair & Replacement" may be utilized to construct or procure new infrastructure for the District; expenditures include but are not limited to transmission and distribution capital assets, buildings, pumping equipment, technical equipment, and transportation equipment. The District's 5-year financial plan and *Water Cost of Service and Rate Study* produced by Raftelis, dated May 7, 2020 suggests a reserve balance of \$0.5 million. Per the FY 2023 budget, the Board of Directors establishes a Reserve for Unanticipated or Unplanned Capital Repair & Replacement in the amount of **\$500,000**

(e) **Reserve for Supplemental Water.** The "Reserve for Supplemental Water" may be utilized to acquire supplemental water for the District; expenditures include but are not limited to the

purchase, treatment and delivery of supplemental water to the District's service territory, including the purchase of an option to purchase supplemental water in a future period. The District's 5-year financial plan and *Water Cost of Service and Rate Study* produced by Raftelis, dated May 7, 2020 does not consider this reserve. Funds for this committed reserve are from surplus revenue attributable to increased water sales to customers above budget in Fiscal Year 2021. The Board of Directors establishes a Reserve for Supplemental Water in the amount of **\$3,000,000**

### **3. Additional Reserves**

In addition to the reserves identified above, the Board may approve the creation of such additional reserve accounts, whether temporary or permanent, as the Board deems necessary or appropriate, by amendment to this resolution or by simple motion. In such event, the Board will identify the purposes for which such additional reserve accounts are created, provide guidance as to the amount which the District should endeavor to maintain in each such fund or account and establish the limits and restrictions pertaining thereto.

### **ANNUAL REPORTS**

Each year the District's General Manager or Business Manager shall provide the Board of Directors with a report indicating the beginning and ending balance for each of the reserve funds or accounts created pursuant to this policy and the purposes for which expenditures have been made therefrom, and shall make recommendations to replenish or augment fund or account balances as appropriate.