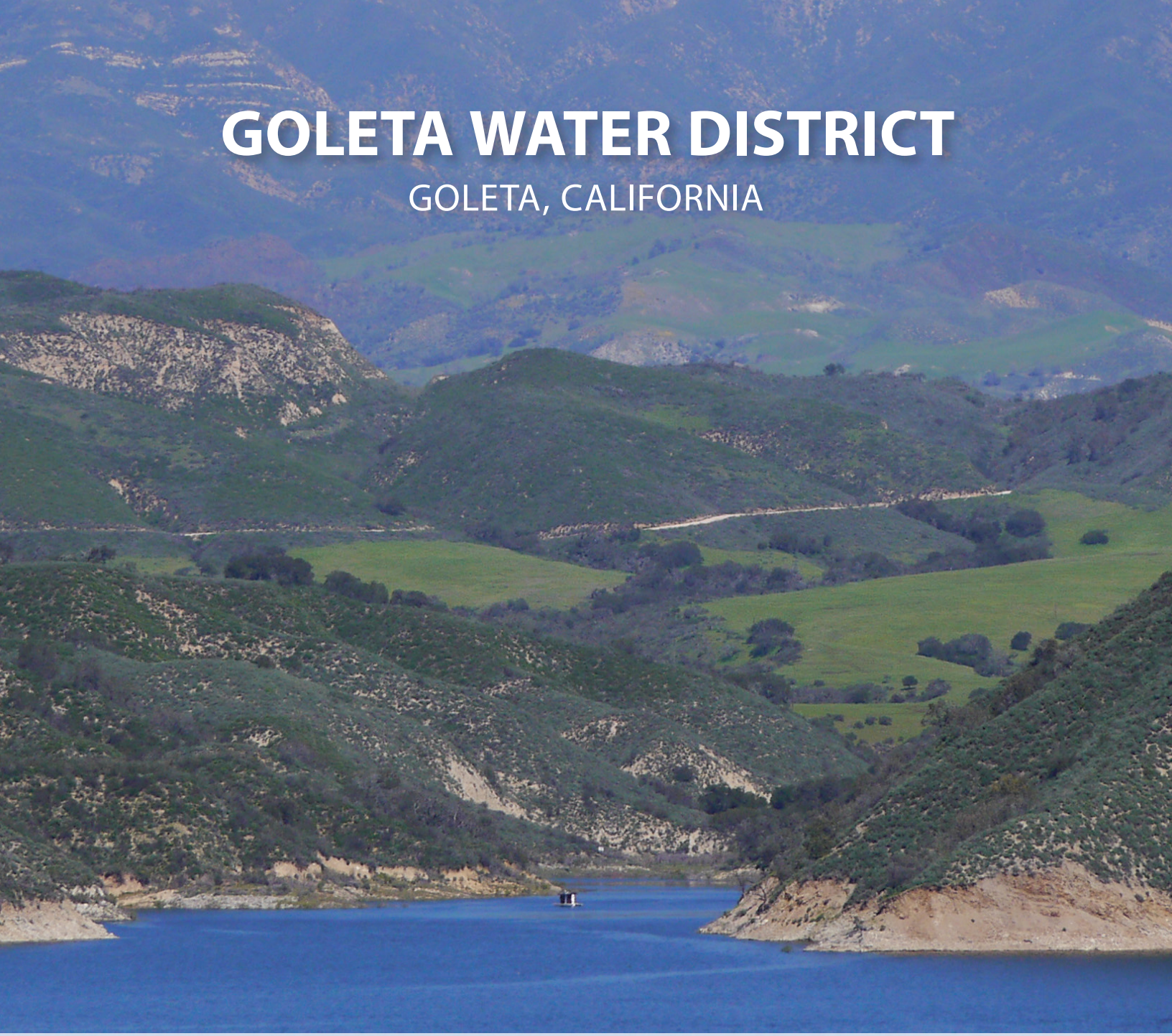

GOLETA WATER DISTRICT

GOLETA, CALIFORNIA

Fiscal Year 2019–20

FINAL BUDGET

1944 75 2019

GOLETA WATER DISTRICT

Mission

To provide a reliable supply of quality water at the most reasonable cost
to the present and future customers within the Goleta Water District

Cover photo: Winter rains brought visible drought relief to Lake Cachuma, and allowed the Board of Directors to reduce from a Stage III Water Shortage Emergency to a Stage I.

GOLETA WATER DISTRICT

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List of Acronyms and Abbreviations

ACWA	Association of California Water Agencies
AF	Acre Feet
AFY	Acre Feet per Year
AWWA	American Water Works Association
BDCP	Bay Delta Conservation Plan
CalPERS	California Public Employees' Retirement System
CDMWTP	Corona Del Mar Water Treatment Plant
CCRB	Cachuma Conservation and Release Board
CCWA	Central Coast Water Authority
COMB	Cachuma Operation and Maintenance Board
COP	Certificates of Participation
CUWCC	California Urban Water Conservation Council
DWR	Department of Water Resources
EPA	Environmental Protection Agency
FY	Fiscal Year
GIS	Geographic Information System
GPM	Gallons per Minute
GSD	Goleta Sanitary District
GWC	Goleta West Conduit
GWD	Goleta Water District
HCF	Hundred Cubic Feet
ID #1	Santa Ynez River Water Conservation District, Improvement District #1
IIP	Infrastructure Improvement Plan
JPIA	Joint Powers Insurance Authority
LAIF	Local Agency Investment Fund
NMFS	National Marine Fisheries Service
NWSC	New Water Supply Charge
O&M	Operations and Maintenance
OPEB	Other Post-Employment Benefits
PEPRA	Public Employees' Pension Reform Act
SCADA	Supervisory Control and Data Acquisition
SBCWA	Santa Barbara County Water Agency
SEIU	Service Employees International Union
SWP	State Water Project
USBR	United States Bureau of Reclamation
WS&C	Water Supply & Conservation Department

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SECTION I – OVERVIEW

About Goleta Water District

Goleta Water District (District) provides safe and reliable water supplies to over 87,000 residents in the Goleta Valley. Established in 1944 through a vote of the people, the District service area spans approximately 29,000 acres along the South Coast of Santa Barbara County between the ocean and the foothills, west from Santa Barbara to El Capitan. On November 17, 2019 the District will celebrate 75 years of service.

A publicly elected, five-member Board of Directors governs the District. Board members serve four-year terms, with elections held every two years and terms staggered to ensure continuity. The Board is responsible for setting District policy on a variety of issues including financial planning, infrastructure investment and water rates. Day-to-day operations are run by the General Manager who oversees a staff responsible for executing ongoing operational and administrative functions. The District employees include certified treatment and distribution operators, water quality scientists, engineers, policy and financial analysts, and administrative staff.

The District delivers water to its customers through a complex treatment and distribution system that includes over 270 miles of pipeline, nine active groundwater wells, a state-of-the-art water treatment plant, nine reservoirs and a host of other critical water transmission and distribution facilities. The District enjoys a diverse water supply portfolio comprised of local supplies from Lake Cachuma, the Goleta Groundwater Basin, and supplemental imported supplies from the California State Water Project (SWP). Additionally, the District provides recycled water for irrigation and has a multi-faceted water conservation program to extend available supplies in the most cost-effective manner possible. The ability to draw from a variety of water supply sources provides flexibility for dealing with supply challenges and financial volatility associated with drought conditions, natural disasters and changing state and federal regulatory requirements.

> This year the District will celebrate its 75 Year Anniversary. Founded on November 17, 1944 by a vote of the people, the District was formed to represent the water interests of the Goleta Valley.

The local climate is generally characterized as Mediterranean coastal with mild, dry summers and cool winters. High temperatures average about 70 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. Historically, rainfall fluctuates significantly ranging from just under 6 inches in 1990 to more than 40 inches in 1983. While this year's above average rainfall of approximately 23 inches brought needed drought relief, rainfall during the recent historic drought ranged from as low as 7 to a high of 14 inches in the Goleta area.

With increased water supplies locally and across the state, the Board was able to reduce the Water Shortage Emergency from a Stage III to a Stage I. Per the District's Drought Preparedness and Water Shortage Contingency Plan, the drought surcharge has been suspended, and watering time and day restrictions have been lifted. Under a Stage I there are no mandatory water use restrictions beyond the water waste provisions made permanent by the State of California, and consistent with the District Code. While conservation is now voluntary, water remains an important resource. Even though the severe and historic drought has ended, it has significantly altered how

the District operates. After nearly eight years of drought, it will be some time before water supplies recover fully. The vulnerability of the water supply portfolio to drought means that conjunctive use, by which the District relies on the coordinated use of surface and groundwater supplies, will continue to be the new normal. Sustainable access to stored groundwater reserves will require ongoing investment in the infrastructure necessary to access and replenish it. Accordingly, water will continue to be more costly in the future than was historically the case when Lake Cachuma served as the primary and most reliable supply source.

Even though water levels at Lake Cachuma have recovered, changing water quality conditions driven by a combination of drought and several recent fires in the Lake Cachuma watershed persist. Winter rains have submerged exposed areas of the lake bed covered with vegetation and brush, increasing organic material in the lake. The Rey Fire in 2016, and the Whittier Fire in 2017 burned across significant areas of the watershed, leaving behind ash and charred vegetation that have been washed from the steep terrain into the lake. In December 2017 the Thomas Fire deposited significant airborne ash on the lake surface and throughout the watershed. All of these materials have made it increasingly difficult for the District and neighboring water agencies to rely on water from the lake during winter months when the inflow of debris is highest. Instead, the District has relied on seasonal use of groundwater to balance water supply needs with emerging water quality challenges. Future operations to address changing water quality conditions are expected to look similar to recent drought operations, which will result in significant increased treatment and operational costs. However, unlike drought operations, which were funded in large part by the District's drought surcharge, these increased expenses come at a time of reduced revenue. Specifically, while customer demand is expected to increase under a Stage I, projected consumption at the base water rate will be insufficient to offset the loss of surcharge revenue. To make up for the shortfall, the District plans to make extraordinary cuts to the operational budget and defer capital projects. These cuts provide a one-time solution to balance the budget in the fifth year of the Five Year Financial Plan, but they are not sustainable in the long term. The District's strategic use of reserve funds along with strong fiscal management will allow it to mitigate operational risks for the upcoming year while the 2020-2025 financial and capital plans are drafted.

Water Supply Portfolio

The District's diverse water supply portfolio is comprised of supplies from four distinct sources (local surface water, local groundwater, imported water, and recycled water) with availability averaging 16,472 acre-feet per year (AFY). All water supplies are secured through collaborative agreements with Federal, State, and local partners. Actual water availability varies from year to year based on weather, lake volume, exchange agreements, spill water and State water. Demand also fluctuates, driven by conservation, economic conditions and weather. Weather driven demand occurs most noticeably when conditions are dry and water supplies are under the greatest pressure. Dry conditions caused an uptick in demand to 14,690 AF in FY 2013-14. After the declaration of the water shortage emergency in 2014, sales declined to 12,500 AF in FY 2014-15, and 10,739 AF in FY 2015-16 – a nearly 30% reduction in customer consumption. After making significant reductions in water use for several consecutive years, customer water use behavior changes and efficiency habits are likely to continue over the coming years, keeping demand below historical averages. Many households have made permanent changes that will reduce water use over the long-term, such as swapping out lawns for drought tolerant landscaping and installing efficient plumbing fixtures and irrigation systems.

Even though the drought has ended, the District must continue the coordinated use of surface water and groundwater supplies to address water quality challenges. This will result in higher treatment and operational costs.

Local Surface Water – Lake Cachuma

Under normal conditions, approximately 75% of the average annual planned demand can be met with supplies from Lake Cachuma. In non-drought years, the District is entitled to 9,322 AFY of Cachuma supplies through coordinated agreements with the United States Bureau of Reclamation (USBR), the Santa Barbara County Water Agency (SBCWA) and the other Cachuma Member Units: City of Santa Barbara, Montecito Water District, Carpinteria Valley Water District, Santa Ynez River Conservation District, and Improvement District Number 1 (ID #1). The availability of Cachuma water varies from year to year as a result of weather, runoff, and drought conditions. The amount of Cachuma water the community uses can vary annually due to exchange agreements, availability of other supplies, and customer demand. The USBR owns the Cachuma Project and is responsible for operating Bradbury Dam. The Cachuma Operation and Maintenance Board (COMB), a Joint Powers Authority comprised of the Cachuma Member Units, is responsible for the operations and maintenance of the balance of the Cachuma facilities, including the Tecolote Tunnel, South Coast Conduit, regulating reservoirs and appurtenances. Working with its Member Agencies and USBR, COMB delivers water to the South Coast and maintains project infrastructure to ensure ongoing sustainability of the Cachuma Project.

The USBR holds the California Water Rights Permits for water supply from the Cachuma Project on behalf of the Member Units. The Cachuma Conservation and Release Board (CCRB), a Joint Powers Authority comprised of the Goleta Water District, the City of Santa Barbara and the Montecito Water District, is responsible for protecting Cachuma Water Rights, supplies, and other related interests for the South Coast. CCRB works collectively with its members, USBR and ID #1 to advocate for Cachuma Water Rights at the state and federal level and to ensure the implementation of Water Rights Orders and agreements related to downstream water rights and public trust resources.

After four consecutive years of reduced Cachuma allocations ranging from 0% to 45%, on March 26, 2019 the District received an increase in its initial 20% allocation to a 100% allocation for WY 2018-19. This represents the District's first full allocation of Cachuma water since WY 2013-14.

Local Groundwater – Goleta Groundwater Basin

The Goleta Groundwater Basin is a critical component of the District's water supply portfolio, especially in times of drought and during emergencies. The District pumps and treats groundwater supplies from the Goleta Groundwater Basin through its nine active groundwater wells. In response to drought conditions, the District has invested significantly in increased groundwater production capabilities, with capital investments and maintenance expenses totaling over $14 million between 2015 and 2020. The terms of the 1989 Wright Judgment and the voter-approved 1991 SAFE Ordinance and subsequent 1994 amendments establish the basin yield and set the basin management parameters including pumping limits, storage requirements, how supplies are used, and the establishment and maintenance of a drought buffer. The groundwater basin is integral to the District supply portfolio and management strategy as it provides a locally controlled source of supply in the event of an

interruption or reduction in Lake Cachuma supplies as a result of unscheduled maintenance needs, natural disasters, drought, or water quality conditions. In FY 2019-20, the District plans to use groundwater in combination with surface water supplies to address water quality issues. Groundwater is expected to make up nearly 30% supply for the year. Maintaining the infrastructure necessary to access the basin is an increasingly important, yet expensive, capital priority. Notably the District's wells are approaching 50 years of age, which is the expected useful life for a groundwater production well. Significant renewal of the well field is anticipated over the next decade.

During emergencies and periods of extended drought, the groundwater basin serves as the lifeline for the Goleta Valley. Groundwater basin recharge occurs naturally through rain and runoff that percolates into the soil, and water from rivers and streams that infiltrate below ground. It typically takes many years for the basin to return to normal levels naturally after drought periods. Recognizing the critical role of the Goleta Groundwater Basin, the District completed two studies in 2017 that explore potential projects that could assist in managing the basin to ensure it remains available during drought emergencies. Specifically, the Stormwater Resources Plan and the Potable Reuse Facilities Plan explore potential projects that could accelerate groundwater recharge to increase the resiliency and long-term sustainability of the basin.

Imported Water – State Water Project

Voters authorized the District to join the State Water Project (SWP) in 1991. The District purchases State water as a member of the Central Coast Water Authority (CCWA), a Joint Powers Authority with responsibility for the ownership and operations of the treatment and distribution systems delivering SWP supplies in Santa Barbara and San Luis Obispo Counties. Annual State water deliveries vary year-to-year based on water demand, availability of State water and local supplies, and exchange and sales agreements. The District stores any undelivered portion of its annual entitlement in San Luis Reservoir; this supply is available as a drought buffer and emergency contingency supply. In FY 2018-19, the District took delivery of approximately 3,900 AF of State water. The District received a 70% allocation of its full State water entitlement, or approximately 5,215 AF for calendar year 2019. However, due to significant budget shortfalls and the high cost of delivery, the District plans to rely primarily on other supply sources in FY 2019-20 and carry over State Water for use in future years. Notably, since State Water is delivered through the lake, it presents the same challenging water quality conditions and treatment issues as local surface water supplies.

A long-standing exchange agreement with ID #1 will continue in FY 2019-20, under which the District provides a portion of its State water entitlement to ID #1 in exchange for the same amount of Cachuma entitlement supplies from ID #1, to the extent water is available for exchange. This agreement saves both agencies significant energy costs and assists in ensuring sustainable service by reducing the pumping needed to deliver water to each community.

Recycled Water

The District has delivered recycled water for irrigation use and restroom facilities through a partnership with the Goleta Sanitary District (GSD) since 1995. The University of California, Santa Barbara (UCSB) and several golf courses throughout the service area are the District's largest recycled water customers. The District anticipates delivering 994 AF of recycled water in the coming year.

In 2017, the District completed a potable reuse feasibility study to identify options for developing additional alternative water supplies to further diversify its supply portfolio, improve supply reliability, and reduce dependence on imported water. The study specifically evaluates the feasibility of using highly treated recycled water to replenish the groundwater basin.

Customers

Approximately 17,000 customer connections fall into eight types of customers: Single Family Residential, Multi-Family Residential, Commercial, Institutional, Landscape Irrigation, Urban Agricultural, Goleta West Conduit, and Recycled.

Residential customers make up approximately 89% of customer connections, with single-family homes comprising almost 79% of customer connections and multi-family dwellings accounting for the balance. The over 25,000 UCSB students, many of whom live in Isla Vista dormitories and apartments, represent a large portion of the area's multi-family residential customers. Residential water use is approximately 45% of overall water demand. This proportionally low use is largely due to these customers' exceptional conservation over the past many years. Before the drought, residential per capita water use in the District averaged 62 gallons per person per day. During the drought, the residential per capita use declined further to an average of 53 gallons per person per day due to additional conservation activities. District customers are highly responsive to changing weather patterns. For every significant rain event in the area, there is a corresponding drop in water demand as customers adjust their irrigation practices and systems accordingly. Other factors contributing to year-over-year fluctuations in residential customer demand include new residential development and connections, economic trends, weather patterns, vacancy rates, drought declarations and heightened conservation programs.

During the height of the drought, water thrifty District customers were consistently among the most efficient water users in California. Residential per capita use got as low as 35 gallons per person per day, well below half of the State's per capita target of 110 gallons for indoor and outdoor water use.

The remaining 55% of demand is attributed to non-residential water use, with agricultural use accounting for 28%, and the remainder comprised of commercial, institutional and landscape irrigation use. These customers also form the diverse economic base of the service area. The District is home to UCSB, a substantial agriculture industry specializing in crops such as avocados and lemons, and a thriving industrial and high-tech commercial industry that includes regional health providers, aerospace, electronics, telecommunications, biomedical, and national security sectors.

Fluctuations in year-over-year water demand for agricultural, landscape irrigation and recycled customers is heavily influenced by weather patterns, while demand changes in the commercial and institutional categories largely follow economic and market trends.

The District has approximately 450 customer connections that are dedicated fire service lines. Fire lines are designated water lines connected to the main distribution system to provide fire protection service to a single customer – residential or commercial. Fire service lines are not used for normal delivery of potable water and therefore no water use or sales from these accounts are budgeted.

Conservation and Efficiency Programs

The District has a long history of implementing successful conservation programs. Customer commitment to efficient water use helps to extend available water supplies as well as the lifespan of distribution and treatment facilities. The District is a longstanding member of the California Urban Water Conservation Council (CUWCC) since 1994 and is committed to the shared goal of integrating urban water conservation Best Management Practices into the planning and management of California's water resources.

Conservation programs include:

- Conservation rate incentives for eligible residential and commercial customers with decreased water consumption.
- Residential and commercial customer support for installing high-efficiency toilets, showerheads, irrigation systems, and other water saving devices, as well as general advice on water conservation principles and practices.
- Extensive customer conservation and efficiency tools including information on the District website, community and school education programs, water conservation checkups, and an interactive Community Demonstration Garden at District Headquarters.
- Substantial rebate programs for all customer categories to improve water use efficiency, including the Water Saving Incentive Program (WSIP), Smart Landscape Rebate Program (SLRP), Water Saving Devices Distribution Program (WSDDP), a Water Efficient Washing Machine Rebate, and free mulch deliveries.

As water remains a critical resource, the District continues to offer conservation rebates to support the community's wise use of water.

This year, due to improved drought conditions and projected budget shortfalls, the conservation rebate programs have been scaled back. However, all of the rebate programs will remain active.

Customer Service

Ongoing dedication to customer service is a significant part of day-to-day operations at the District. The District strives to be available and responsive to its customers, offering numerous ways to interact with staff and obtain valuable information and assistance.

Customers are encouraged to call and report water service problems at any time. Crews can be dispatched throughout the service area to repair leaks, fix damaged or broken meters, and investigate other water-related issues. Additionally, crews are available to respond to water-related emergencies 24 hours a day, seven days a week.

Staff is available during business hours to provide assistance and support to District customers in person or on the phone. Customers can also access their accounts and make payments online at any time. Members of the community are encouraged to visit the District Headquarters and tour the Community Demonstration Garden featuring examples of water wise gardening techniques and practices, aesthetically pleasing plant palettes, and edible garden options.

Goleta Water District Budget

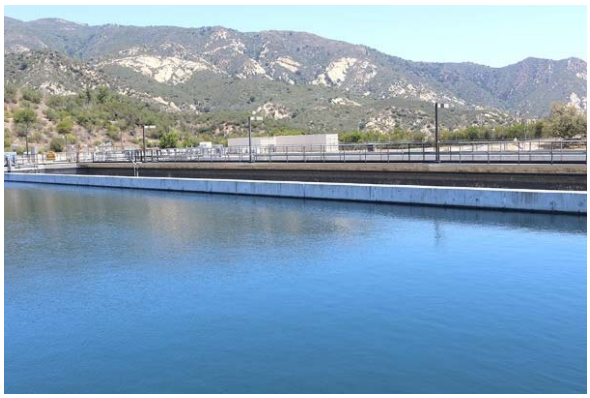
The development and adoption of an annual budget based on expected revenues and expenditures as well as identified projects and programs provides the financial foundation for District activities. The budget serves as a roadmap for ensuring reasonable costs and predictable customer rates. Each year, the Board of Directors approves the District's Budget (Budget) for the following fiscal year, which runs from July 1 through June 30. The Budget blends advanced revenue forecasting and effective expenditure management with the infrastructure investment needed to deliver safe, cost-effective and sustainable water supplies to the community.

The Budget also represents a short-term financial plan consistent with the goals outlined in the 2015-2020 Expenditure Forecast and 2015 Cost of Service Study. A vital component of the Expenditure Forecast is the District's commitment to managing controllable costs while planning for and mitigating exposure to the externalities that are beyond the District's control. Together with the 2015-2020 Infrastructure Improvement Plan (IIP) and District Sustainability Plan, these documents provide the financial and management strategies for meeting the water and resource needs of the District today and into the future.

FY 2018-19 Budget and Accomplishments

FY 2018-19 included investments for vital infrastructure replacement and repairs, and plans to address future infrastructure needs, which lead to accomplishments in the area of water quality, infrastructure and operational efficiency upgrades. FY 2018-19 saw estimated actual revenues of $42.4 million and expenditures of $41.8 million, and $0.5 million designated to reserves.

Highlights include:



- Installation of aerators at Ellwood Reservoir to enhance blending operations for the coordinated use of groundwater and surface water.
- Performed jar testing, bench scale testing, and pilot testing, and prepared for demonstration-scale plant testing for total organic carbon treatment and trihalomethane reduction technologies.
- Completed additional monitoring of water quality throughout the distribution system due to increasing levels of organic matter in the surface water at Lake Cachuma, and optimized reservoir storage levels during surface water operations to improve water quality.
- Rehabilitated four groundwater production wells as part of ongoing scheduled preventative maintenance plan to maintain peak production capacity. This is critical to support planned coordinated use of groundwater and surfacewater supplies as part of the District's ongoing water quality efforts.
- Compiled an inventory of all of District's physical assets, including specific asset age, expected remaining service life and estimated replacement costs. This inventory will inform planning for the next five year IIP, for which initial planning has already begun.
- Successfully returned to baseline status for oils and grease at the District Headquarters after implementation of further improvements to the Stormwater Management Program to ensure compliance with regulatory guidelines for enhanced control of runoff. This saves the District significant money as no additional stormwater projects are required.
- Transferred the meter reading input system from hand held devices to cell phones reducing the weight of the device, improving communications with real time data to the office, and improving the ability of the Meter Readers to document unusual readings or other system anomalies. The ability to take pictures in the field reduces the need for a follow-up site visit to reconcile read issues.
- Implemented a web-based system for independent certified backflow testers to enter the required annual backflow inspection forms directly into the District's system, eliminating the manual data entry of approximately 3,000 inspection forms received per year.
- Completed creation of GIS layers for services lines and seismic features, as well as initiated creation of GIS layers for customer water quality complaints, easements, and cathodic protection systems.
- Completed the second phase of the removal of excess sediment in the CDMWTP intake structures and lines due to the low flow conditions experienced over the past few years while groundwater was the primary source of supply.
- Launched a new customer service portal on the District website that provides customers more flexibility in managing their account, including initiating transactions or account changes without the need to call or walk into the District office.

FY 2019-20 Budget and Key Initiatives

The FY 2019-20 Budget is consistent with policy goals established by the Board of Directors, operational and infrastructure priorities, and other foundational management documents. The Budget reflects an ongoing progression of the District's management and budgeting approach to control costs, minimize unplanned expenditures, limit risk exposure and expand investment in proactive projects and programs that provide for the long-term water resources needs of the community.

This year as the District enters the fifth and final year of its current Five Year Financial Plan, it faces significantly altered conditions. With the end of the Stage III Water Shortage Emergency and the loss of the drought surcharge, significant cuts must be made to operations, and capital investments must be deferred in order to meet the projections of the five year plan. Even the most effective forecasting cannot anticipate the timing of events on revenue, and this year's dynamic changes will require more adjustment than normal.

The FY 2019-20 Budget anticipates $38.4 million in revenue, a 14% decline from the previous year. With significant cuts totaling 9%, a reduced $39.5 million in operational and capital expenditures are planned. This requires an additional $1.1 million from reserves to achieve a balanced budget as the current rate structure is not able to adequately support current operations with the loss of the drought surcharge. This serves as a one-time stop-gap until the District can evaluate and address future needs during the upcoming 2020-2025 rate-setting effort. Table 1.1 provides an overview of how the District will meet water supply, regulatory, and infrastructure needs, while meeting current challenges and uncertainties. The balance of this document provides detailed analysis of projected revenues and expenditures.

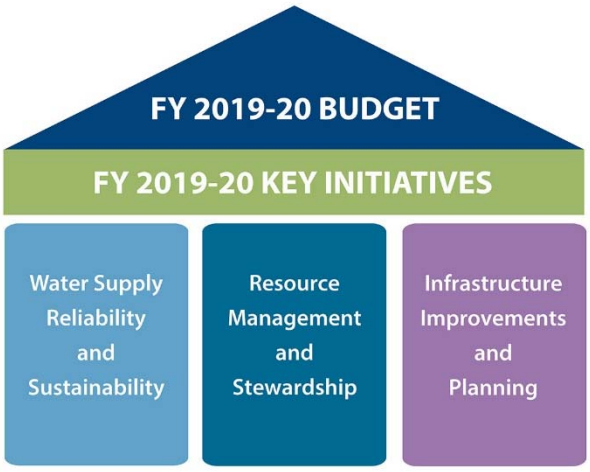
Table 1.1 FY 2019-20 Budget Summary

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenues and Transfers:					
Monthly Service Charges	$ 9,968,069	$ 9,812,194	$ 10,480,239	$ 512,170	5%
Water Sales	33,569,324	30,909,071	26,530,000	(7,039,324)	(21%)
Investment Revenue	82,500	125,118	185,200	102,700	124%
Conveyance Revenue	144,033	201,053	201,038	57,005	40%
Miscellaneous Fees & Charges	972,559	1,314,335	1,003,755	31,196	3%
Subtotal:	**$ 44,736,485**	**$ 42,361,771**	**$ 38,400,231**	**$ (6,336,254)**	**(14%)**
Transfers:					
Designation from Reserves	$ 0	$ 0	$ 1,131,498	$ 1,131,498	
Total Revenue and Transfers:	**$ 44,736,485**	**$ 42,361,771**	**$ 39,531,729**	**$ (5,204,756)**	**(12%)**
Expenditures:					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,461,001	$ 2,413,294	$ 3,528,721	$ 67,720	2%
CCRB (Water Rights)	539,633	487,351	706,100	166,467	31%
SB County (Cloud Seeding)	32,000	11,440	32,858	858	3%
CCWA (State Water Deliveries)	9,308,569	10,457,246	9,155,180	(153,389)	(2%)
GSD (Recycled Water Production)	604,630	491,392	964,630	360,000	60%
Subtotal:	**$ 13,945,833**	**$ 13,860,724**	**$ 14,387,489**	**$ 441,656**	**3%**
Personnel:					
Wages, Benefits, and Taxes	$ 9,908,235	$ 11,219,068	$ 10,483,136	574,901	6%
Other Post Employment Benefits	503,176	591,329	495,138	(8,038)	(2%)
Subtotal:	**$ 10,411,411**	**$ 11,810,397**	**$ 10,978,274**	**$ 566,863**	**5%**
Operations & Maintenance:					
Water Treatment Costs	$ 562,281	$ 498,812	$ 602,217	$ 39,936	7%
Water Treatment Testing	340,950	259,882	388,738	47,788	14%
Insurance, Accounting & Auditing	249,451	251,399	254,928	5,477	2%
Maintenance & Equipment	717,700	1,061,059	1,119,620	401,920	56%
Legal	1,015,200	738,709	1,014,600	(600)	(0%)
Services & Supplies	4,997,048	4,589,434	4,137,339	(859,709)	(17%)
Utilities	395,018	414,719	666,569	271,551	69%
Subtotal:	**$ 8,277,648**	**$ 7,814,013**	**$ 8,184,011**	**$ (93,637)**	**(1%)**
Total Expenditures before Debt and CIP:	**$ 32,634,892**	**$ 33,485,134**	**$ 33,549,773**	**$ 914,881**	**3%**
Debt service	3,553,988	3,551,583	3,552,488	(1,501)	(0%)
Capital Improvement Projects (CIP)	7,147,552	4,808,072	2,429,468	(4,718,084)	(66%)
Total Expenditures:	**$ 43,336,431**	**$ 41,844,789**	**$ 39,531,729**	**$ (3,804,703)**	**(9%)**
Designation to Reserves:	**$ 1,400,054**	**$ 516,982**	**$ 0**	**$ (1,400,053)**	**(100%)**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

FY 2019-20 Budget Key Initiatives

The FY 2019-20 Budget includes a portfolio of ongoing and new initiatives that, in combination, will meet District regulatory and critical needs while providing reliable water supplies. Together, these initiatives work to control factors within the District's discretion, while also planning and preparing for externalities beyond its control.



Key initiatives fall into three umbrella categories:

- Water Supply Reliability and Sustainability
- Resource Management and Stewardship
- Infrastructure Improvements and Planning

Water Supply Reliability and Sustainability

In addition to actively managing water supplies consistent with its foundational water management documents, the District partners with the Cachuma Member Units and other Santa Barbara County water agencies to ensure the South Coast is meeting ongoing supply and regulatory needs. Effective planning for water supply losses due to drought or regulatory requirements requires collaborative regional approaches and partnerships as well as effective internal District planning.

Changing Water Quality Conditions

This Budget provides for critical water quality monitoring and enhanced treatment and operational changes to address a shifting balance of supply sources and flow rates from Lake Cachuma and SWP, as well as challenges presented by the inflow of debris into Lake Cachuma from the 2016 Rey Fire, and the Whittier and Thomas fires in 2017. Public outreach activities will continue to educate customers on the challenges facing the District's water supply. Key initiatives necessary ensure the District can continue to provide adequate water to the Goleta Valley for drinking, health and public safety are also prioritized.

Cachuma Project Supply and Water Rights

The District continues to work with CCRB and USBR on issues related to the issuance of a Cachuma Project Water Rights Order and the National Marine Fisheries Service (NMFS) Biological Opinion Re-consultation. This issue is also informed by the most recent Revised Draft State Water Rights Order, which was released on March 27, 2019, and may be adopted as early as June 2019. The District and its partners have performed extensive biologic and hydrologic modeling to inform the development of the Biological Opinion and continue to engage an advocacy strategy to protect Cachuma water supplies. The USBR began the contract renegotiation in 2017, and the process remains ongoing. While the ultimate decision rests with the federal government, the District is doing everything possible to make local concerns

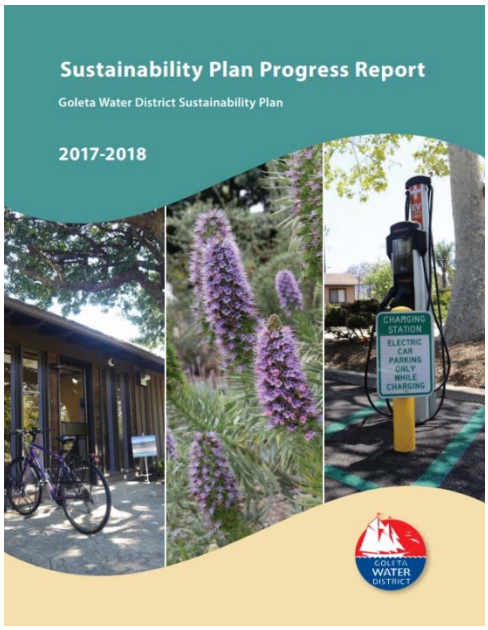
known. Concurrently, the District is working with COMB to implement the existing Biological Opinion and Fish Management Plan for ongoing protection of public trust resources while also protecting vital water supplies.

Resource Management and Stewardship

Successfully providing for the water and resource needs of the region requires coupling prudent financial management with innovative leadership. Investing in the most effective technology, appropriate financial programs, emergency response planning and sustainable practices enables the District to provide the highest possible value to the community at the lowest possible cost.

Sustainability Plan Implementation

In FY 2018-19 the District completed the 2018 Sustainability Plan Progress Report – the sixth update on implementation of the Sustainability Plan – highlighting the sustainability gains made by the District over the previous year. Projects highlighted in the report include: completion of a solar feasibility analysis that evaluates solar power project options throughout District facilities; replacement of aged recycled water pipelines embedded in two bridges within the District service area; and completion of water quality studies and related activities that will position the District to continue addressing the ongoing water quality challenges at Lake Cachuma. Several projects planned for the FY 2019-20 Budget are directly tied to the Sustainability Plan guiding principles, and will provide improvements needed to meet new regulatory requirements, while offering economic benefits in the form of reduced energy costs, minimizing impacts to natural resources, and supporting a healthy community.



Coordinated Energy Management

Increased energy usages due to the District's reliance on groundwater, and power costs associated with pumping create an opportunity to re-evaluate how the District is using power and how that cost can be offset. As the District embarks on a variety of energy efficiency and renewable energy projects, a dedicated effort is needed to enhance data tracking, identify specific performance metrics, implement appropriate automated controls and coordinate energy-related projects across District operations. Doing so will ensure the District has the tools necessary to minimize costs and overall energy usage, and enhance resource independence, particularly during periods of peak demand. This initiative will implement software and management processes necessary to ensure that project decision-making and operations can fully capture the benefits identified in the 2012 Sustainability Plan regarding District energy use.

Technology Infrastructure Improvement

Ongoing investment in maintaining and improving District technology is just as important to efficient service delivery as investing in water supply infrastructure. From finance, asset management, network security and data warehousing platforms to GIS and Supervisory Control and Data Acquisition (SCADA) programs, the District will continue to establish a robust technology backbone to ensure ongoing delivery of safe, reliable and cost-effective water supplies.

Investment in technology provides for the real-time system management needed to react to unanticipated supply and demand changes, especially in times of drought. The ability to monitor and control the system from a centralized location, and coordinate treatment and distribution across a complex system of assets that includes nine groundwater production wells, the CDMWTP, and the recycled water system, is critical. Sustaining continuous water system operations is highly dependent upon the ability to carefully and strategically coordinate sequencing of the numerous motors, pumps, valves and appurtenances that enable water delivery throughout the community as well as ensure increased energy efficiency, reduced maintenance costs, minimization of unanticipated interruptions and abnormal wear, and prevention of serious health and safety issues.

Infrastructure Improvements and Planning

Due to significant budget constraints, infrastructure spending on capital projects has been deferred when possible to future years. Only the most critical projects remain funded for FY 2019-20. While this serves as a short term fix to meet the needs of the final year of the Five Year Financial Plan, it is not sustainable in the long-term.

The District distribution system includes approximately 270 miles of pipelines, 6,000 valves, 1,500 fire hydrants, 17,000 meters and more than 30,000 appurtenances. The ages and materials of District facilities vary greatly and, in turn, so does the current condition and failure risk associated with these facilities. As the District celebrates its 75th year, aging infrastructure will continue to present an emerging issue in the form of increased maintenance and replacement cost. That said, the FY 2019-20 Budget continues to prioritize projects that maintain water quality despite changing water quality conditions at Lake Cachuma, and maintain system reliability for treatment and distribution. This includes operations and maintenance costs associated with increased chemical treatment and the increased energy costs associated with groundwater production.

Examples of the Infrastructure Improvement Projects planned for FY 2019-20 include:

- Continued research and modeling on the District's groundwater wells for water quality improvements, and water quality maintenance within the District's distribution system. This research will provide recommendations for cost-effective technologies and operational changes, including strategies such as mixing, flushing, the creation of new pressure zones, and in-line aeration.
- Continued pilot testing of treatment technologies at the Corona Del Mar Water Treatment Plant.
- Collection and further analysis on the aeration systems installed at Fairview and Ellwood reservoirs to guide future system design and upgrades.
- Completion of the Patterson Booster Pump Station Replacement, with upgrades to the pumping capacity, electrical systems, pipes and valves as well as the addition of SCADA capabilities for automated operation of pumps.

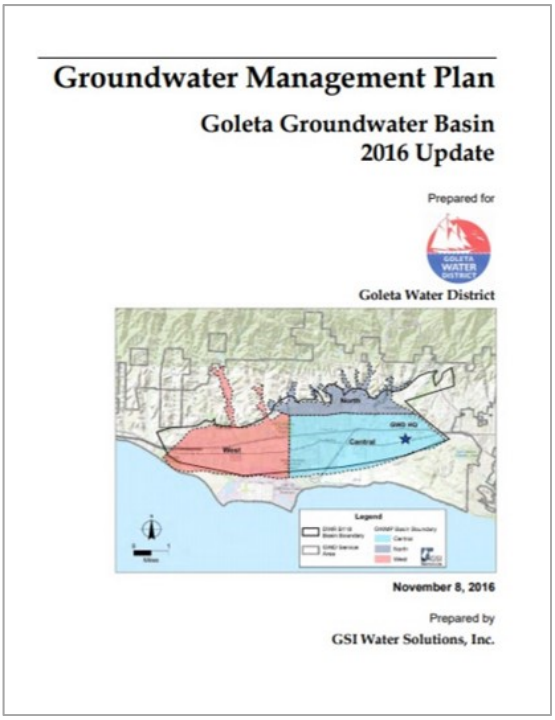
A Look to the Future

The FY 2019-20 Budget recommends expenditures based on prioritized District needs, goals and objectives, and anticipated external costs. By building on comprehensive analyses of factors such as the economy, weather, customer use trends, and infrastructure needs, the Budget provides a roadmap for preparing and addressing the ongoing needs of the community in the coming fiscal year.

Even the most effective forecasting cannot anticipate the effect of uncontrollable circumstances on revenues and expenditures and the ability to provide safe, cost-effective, sustainable water supplies to the community. There are a number of externalities that may have significant impacts on the District in FY 2019-20 and beyond, and whose timing cannot be anticipated with certainty. These externalities are, in fact, likely to drive increases in expenditures for the foreseeable future. By managing expenditures within the District's control, mitigating risk from external sources, influencing external outcomes that affect the District, and planning for the effects of uncontrollable costs, the FY 2019-20 Budget maximizes the ability to respond to external circumstances while minimizing effects to customers.

Examples of externalities facing the District include:

- Despite higher lake levels, uncertainty around Lake Cachuma operations remains. While the temporary barge is not currently needed to pump water to elevation for delivery through the Tecolote Tunnel, future drought conditions could require its reinstallation in the future. For now, the emergency pumping apparatus remains in storage, which allows COMB to quickly place the barge back into service. Maintaining delivery capabilities via the pumping station is critical to ensuring surface water supplies are available to the community when they are most needed.
- As the Goleta Groundwater Basin begins to approach historic lows, conditions in the basin are dynamic and changing. The basin also faces potential threats to water quality similar to many urbanized basins throughout California. Seawater intrusion, agricultural and urban runoff, salts and nutrients, and over-pumping are examples that can have detrimental effects on the quality and quantity of water available from an underground basin. The potential for impacts associated with climate change can only further exacerbate these issues. The provisions of the 1989 Wright Judgment and 1991 SAFE Ordinance, together with the District Groundwater Management Plan, provide a framework for maintaining reliable groundwater supplies from the Goleta Basin. The increased reliance on groundwater during this period of drought has made the stewardship and management of the groundwater basin a major priority. The District has responded by investing in its groundwater model and monitoring program to better inform daily well operations and basin-related capital planning.



- Finalization of the Cachuma Project State Water Rights Draft Order and anticipated action on the Federal Biological Opinion Reconsultation during FY 2019-20 may significantly affect availability of Cachuma Project water supplies for the Cachuma Member Agencies. The District will continue its ongoing partnership with Cachuma Member Agencies to implement proactive scientific, advocacy, and legal strategies to protect Cachuma water supplies and plan for all potential outcomes.

- SWP supplies continue to face threats from a variety of sources, potentially resulting in increased costs and reduced availability and reliability. Damage to the Oroville facilities resulting from the 2017 storms in Northern California will require assessments to pay for repairs that will be made in future years. Ongoing state and federal negotiations related to the SWP and the Bay Delta Conservation Plan (BDCP) may result in significant additional pass-through costs for State Water supplies as the water contractors fund the costs associated with a BDCP supply reliability project. Additionally, the loss of supplies due to drought, regulatory requirements, or a considerable failure of the Delta or conveyance infrastructure as a result of a natural disaster, could appreciably curtail supplies available to the region. Ongoing efforts to secure local supplies and encourage efficient water use within the service area help reduce the District's dependence on expensive imported supplies.

- The aging Cachuma Project infrastructure, including Bradbury Dam, the Tecolote Tunnel, and the South Coast Conduit, poses significant financial and water supply risks to the Cachuma Member Agencies. Collectively, the Cachuma Member Agencies are financially responsible for the costs associated with Cachuma infrastructure investment and any investment needed in response to unexpected infrastructure failure.
- Having provided water service to the community for nearly 75 years, the risk that aging infrastructure will fail increases. The condition of facilities varies widely based on their age, materials, and exposure to environmental conditions, leaving the system vulnerable to failures and inefficiencies. For example, the recycled water distribution system has experienced significant pipe corrosion, leaving the recycled water lines vulnerable to leaks, breaks and failures. The FY 2019-20 Budget includes the minimum funding necessary to allow the District to respond to system failures and minimize the effects of such events. It does not include funding for proactive replacement.

- The District is firmly committed to meeting and exceeding state and federal regulatory requirements including water quality, environmental review and habitat mitigation, workplace safety, and electrical safety standards, among many others. These requirements change as state and federal legislators and regulators enact new requirements, and become more difficult to meet in the face of changing environmental and climate conditions. In order to ensure ongoing compliance and minimize the impact of costly regulatory changes, the District works with its state and federal partners to monitor regulatory and legislative action and adjusts operations, projects and programs accordingly.

By identifying, understanding and planning for these external risks, the District can limit its exposure, exert authority to influence outcomes, and effectively prepare for the ongoing water resource needs of the region while managing future costs and providing reliable service.

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SECTION II – REVENUE and TRANSFERS

INTRODUCTION

The District provides water service to approximately 17,000 customer accounts in several customer categories: Single Family Residential, Urban (Multi-Family Residential, Commercial, Institutional, and Landscape Irrigation), Agricultural, and Recycled. Other connections include Fire Service Lines, which are not used for normal delivery of potable water.

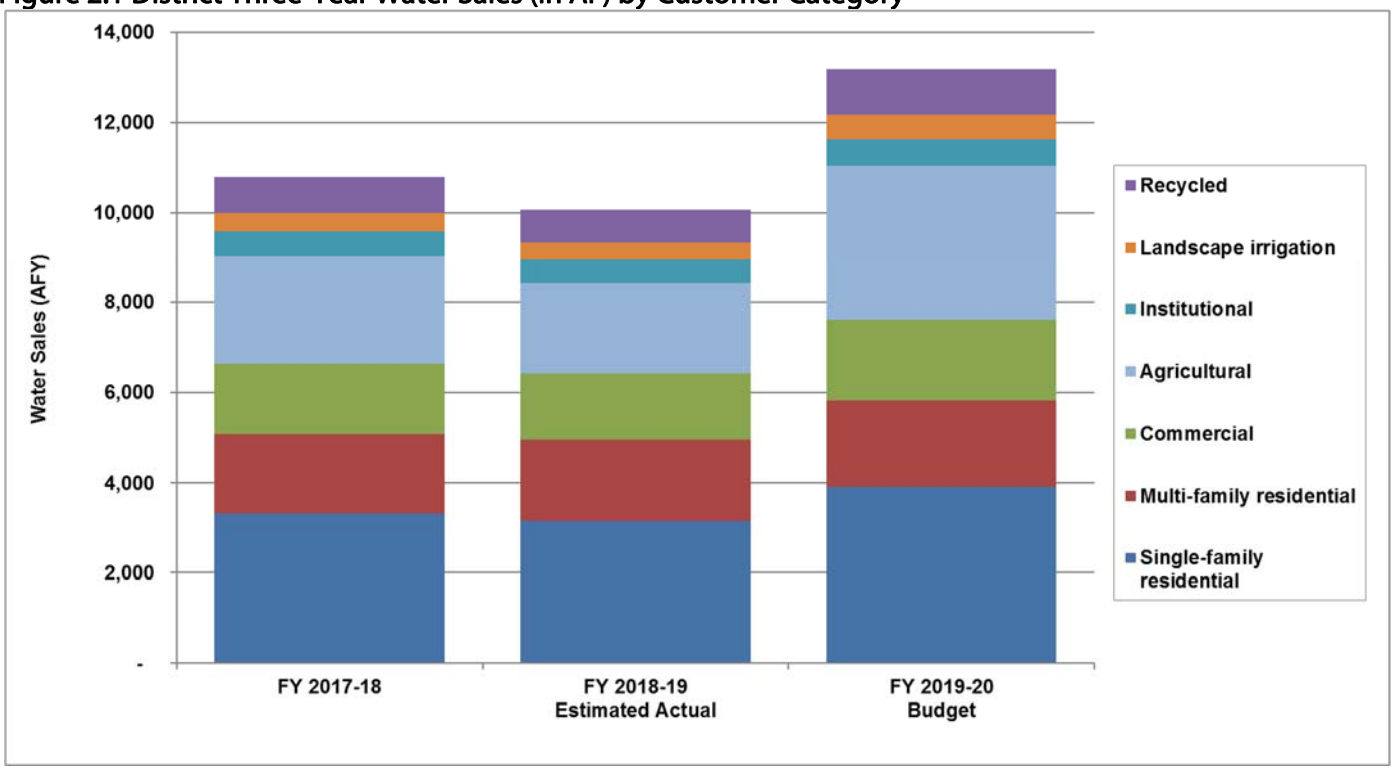
The District receives 96% of its revenue from monthly charges for water service consisting of Water Sales (69%) and Monthly Service Charges (27%). Water Sales, or consumption-based charges, are based on the actual water delivered to each customer, measured in increments of one hundred cubic feet (HCF) or 748 gallons. Monthly Service Charges, represent a percentage of the customer's portion of the fixed costs associated with operating and maintaining the water distribution system. These charges are assessed monthly and are based on the size of the water meter, which can range from 5/8 inch to ten inches. For customers with 5/8 inch or 3/4 inch meters, these charges also depend on monthly water consumption.

Revenue from Water Sales and Monthly Service Charges are a function of total water sales volume, the number of active service connections at each meter size, and water rates. The rates for each customer category are based on the cost of providing service to that customer category and how much water each customer category uses. The District offers tiered rates to Single Family Residential customers to incentivize conservation (discussed further in Water Supply & Conservation Section in the Appendix), therefore, conservation by Single Family Residential customers determines the rate they will be charged. Rates for Agricultural, Recycled, and Landscape Irrigation customers all vary based on the unique characteristics of serving the respective customer category.

To recover increased costs associated with the drought, a uniform temporary drought surcharge was applied to each unit of water used across all customer categories, with the exception of recycled water, under a Stage II and Stage III Water Shortage Emergency. The surcharge was lifted on May 1, 2019 after the Board declared a Stage I Water Shortage, and is not projected to be in effect during Fiscal Year 2019-20.

Water use behaviors among customer classes can vary significantly, but generally, the prevailing weather is the primary factor affecting water usage throughout the District. Figure 2.1 illustrates the proportion of total water used by each customer category and how it has changed over the three year period.

Figure 2.1 District Three-Year Water Sales (in AF) by Customer Category



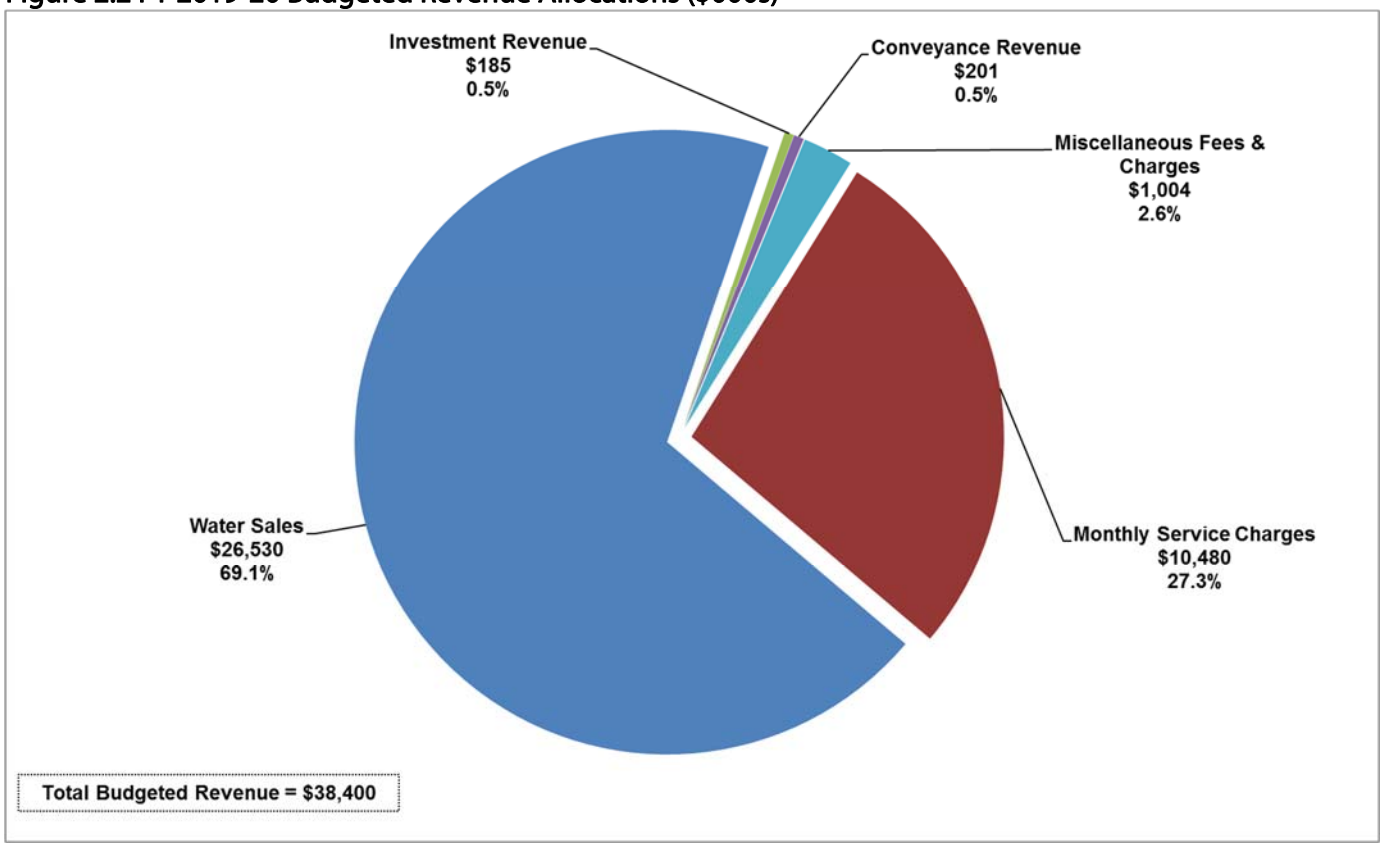
The amount of revenue the District receives from Water Sales varies from year to year, and for each customer category. While District demand analyses are ongoing and periodically updated with the latest data, year-to-year variation demonstrates the inherrent degree of uncertainty in making projections. Table 2.1 summarizes the year-over-year variance in budgeted revenue. Figure 2.2 shows the relative proportion of each source of revenue to the total annual Budget.

Table 2.1 FY 2019-20 Budgeted Revenue versus FY 2018-19 Budget

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 9,968,069	$ 9,812,194	$ 10,480,239	$ 512,170	5%
Water Sales	33,569,324	30,909,071	26,530,000	(7,039,324)	(21%)
Investment Revenue	82,500	125,118	185,200	102,700	124%
Conveyance Revenue	144,033	201,053	201,038	57,005	40%
Miscellaneous Fees & Charges	972,559	1,314,335	1,003,755	31,196	3%
Total Revenue	**$ 44,736,485**	**$ 42,361,771**	**$ 38,400,231**	**$ (6,336,254)**	**(14%)**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

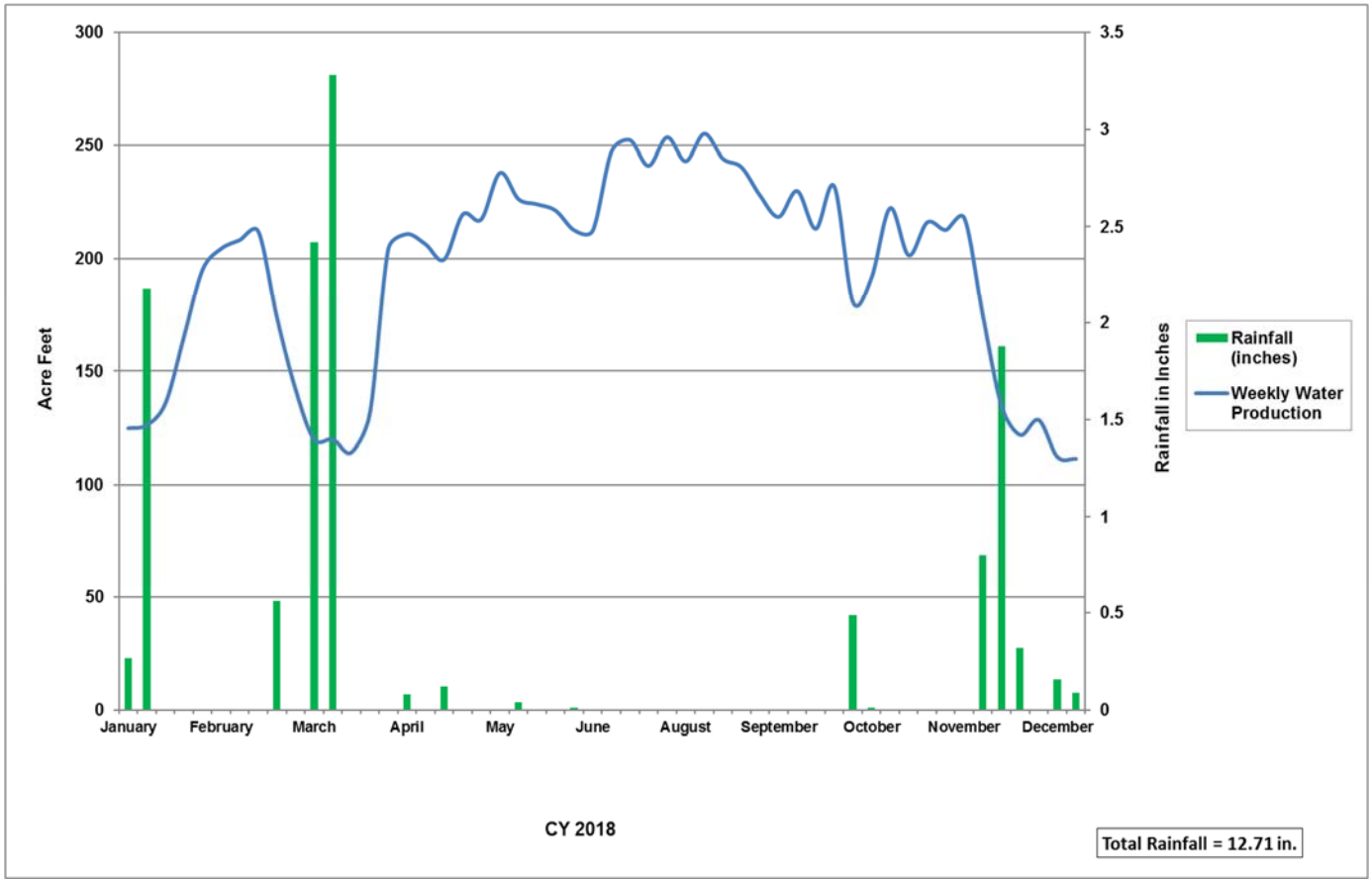
Figure 2.2 FY 2019-20 Budgeted Revenue Allocations ($000s)



District revenue forecasts are developed using recent data about how several key factors will likely influence customer demand in the upcoming year. The primary influencing factors include: 1) weather; 2) observed customer behavior; 3) rate adjustments; and 4) new service connections. The combined effect of these four factors explains the year-over-year change in water use shown in Figure 2.1, as well as the proportion of total water used by each customer category. The transition from a Stage III to Stage I Water Shortage Emergency and lifting of the associated mandatory water use restrictions and the drought surcharge, will add an additional layer of uncertainty to demand projections and revenue forecasts for FY 2019-20.

Weather is traditionally the biggest factor driving water use, as it has a significant effect on outdoor irrigation. District Data shows that low periods of demand strongly correlate with wet months, and increased demand correlates with dry hot periods. To increase the accuracy of revenue projenctions and weather's influence on water use, the District modeled and analyzed historical water production and customer usage data spanning a 25-year period (1990-2014). The analysis calculated the relative percentages of indoor and outdoor water uses among three customer customer classes: Single-Family Residential, Multi-Family Residential, and Commercial. The results showed that, on average, approximately 48% of total potable water in the District is for indoor use, and 52% is attributable to outdoor use. Illustrating this point, Figure 2.3 overlays District water production with rain events. As the figure shows, water production (blue line) declines noticeably after each rain event (green line), particularly in the cooler months.

Figure 2.3 Daily Water Production and Rainfall in 2018



Understanding the behavioral water use characteristics of each customer category is also critical to accurately projecting monthly revenue forecasts. Behavior varies across categories and seasons; however, less variability has been observed system-wide over the last four years due to significant and sustained reductions in outdoor irrigation and hightened water conservation as a result of the prolonged drought. Illustrating the relationship between weather conditions and customer water use, drought conditions have significantly altered water use patterns across all customer categories over the last eight years. At the start of the drought, ongoing warm and dry conditions drove customer demand higher, particularly among Single-Family Residential and Agricutural customers using water to irrigate crops and landscaping. However, in response to escalating drought conditions and the declaration of a Stage II and Stage III Water Shortage Emergency by the District in 2014 and 2015, system-wide demand dropped by nearly 30% compared to 2013, as did corresponding District revenue.

The elimination of mandatory water use restrictions and the drought surcharge associated with the Stage III Water Shortage Emergency will no doubt alter customer water use behaviors in FY 2019-20. While prohibitions on water waste will continue per the District Code and State law, compliance with the District's 20% conservation goal for Stage I will be strictly voluntary. As such, conservation behavior is expected to wane as the drought eases and water use restrictions are lifted. Many customers, however, have taken measures to permanently reduce water use, including installing water-efficient fixtures and appliances, replacing turf with drought-tolerant landscapes, or incorporating greywater systems on their properies. This kind of baseline conservation leads to demand hardening by permanently reducing water use, which has historically resulted in lower post-drought water demand compared to pre-drought demand. Whereas the drought surcharge helped offset losses from

temporary, drought-related conservation, base rates must be adjusted to offset the permanent conservation typically seen when a drought ends.

Rates-based revenue will not allow the District to cover FY 2019-20 costs associated with operations without significant budget cuts and the deferrment of capital projects. While District rates are scheduled to increase by 4% on July 1, 2019 consistent with the Five Year Financial Plan, they are not expected to significantly influence demand due to lower customer water bills associated with the elimination of the drought surcharge. Total Water Sales and Monthly Service Charge revenue for FY 2019-20 is projected at $37.0 million, a 15% decrease from last year. The magnitude of this decrease can be directly attributable to the elimination of the drought surcharge, with demand recovery not expected to be strong enough to offset the loss in associated revenue. The timing of the loss of the drought surcharge over the higher use summer months will also influence the schedules and levels of project and program expenditures throughout the fiscal year.

New service connections projected to be completed in the coming fiscal year also affect revenue forecasts. However, New Water Supply Charges are not expected to have a significant influence on revenue in FY 2019-20 due to the continued temporary prohibition on new water allocations under the voter-approved SAFE Water Supplies Ordinance. This temporary prohibition became effective October 1, 2014, and will remain in effect until the necessary conditions identified in the SAFE Ordinance are met to lift the restrictions on new water entitlements. Some new connections are permitted for projects on properties with past or existing water use (water credits) or projects that obtained a water allocation before the moratorium. The declaration of a Stage I Water Shortage Emergency will not affect the current prohibition on new water allocations.

Projected changes in revenue from Investments and Conveyance are not expected to materially impact District finances in FY 2019-20. Revenue from Miscellaneous Fees and Charges is estimated to be $1.0 million, bringing total Budgeted Revenue in FY 2019-20 to $38.4 million, a decrease of $6.3 million (14%) from the FY 2018-19 adopted Budget.

Monthly Service Charge Revenue

Monthly Service Charge represents a percentage of the customer's portion of the fixed costs of operating and maintaining the water distribution system. All active water service connections pay a Monthly Service Charge based on the size of the connection. With the current rate structure and customer demand projections in FY 2019-20, approximately 27% of total District revenues are attributable to the Monthly Service Charge. Approximately 83% of District connections are 3/4 inch or 5/8 inch meters, which carry the lowest volume of water and are charged the lowest monthly rates. Other meter sizes range from one to ten inches according to the customer's actual water needs. For example, large agricultural and commercial customers consume significantly more water than Single Family residences, and as such, require larger meters.

Tiered Monthly Service Charges based on total monthly consumption apply to all District customers with 5/8 inch or 3/4 inch meters, providing a price incentive for conservation. Customers who use up to 6 HCF in a month pay the Tier 1 meter charge; customers who use between 7 and 16 HCF in a month pay the Tier 2 meter charge, and customers who use over 16 HCF in a month pay the Tier 3 meter charge. The charge can vary month-to-month for each customer based on consumption. The conservation tiers can affect both the monthly service charge as well as water consumption related charges. For example, 14,136 customers with 5/8" or 3/4" meters can qualify for lower monthly service charges by reducing water use. Based on actual monthly water use in 2018 for these accounts, it is anticipated that 53% of meter charges for these customers will qualify for Tier 1, 38% will qualify for Tier 2, and 9% will qualify for Tier 3 – with residential customers more likely to qualify for conservation pricing than commercial customers. Table 2.2 shows how many customers with small meters qualify for each tier, on average. Each customer who is able to further reduce consumption and move down one meter tier saves approximately $17 a month. Customers with one inch or larger meters are not eligible for tiered pricing for their Monthly Service Charge.

Table 2.2 Monthly Service Charge by Tier for Small (5/8 inch and 3/4 inch) Meters

	TIER			
Customer Category	Tier 1	Tier 2	Tier 3	Total
Single Family Residential	6,419	4,836	915	12,170
Multi-Family Residential	585	342	163	1,090
Commercial	248	79	78	405
Landscape Irrigation	78	14	24	116
Recycled Water	4	1	3	8
Total Connections:	**7,334**	**5,272**	**1,183**	**13,789**

Table 2.3 shows the number of connections by size within each customer category that are expected to be active by July 1, 2019, excluding vacant accounts and new service connections expected to come online during the year.

Table 2.3 Types and Number of District Customer Connections

	Meter Size									
Customer Category	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"	Total
Single-family residential	12,141	1,134	55	44	-	-	-	-	-	13,374
Multi-family residential	1,107	333	214	135	7	12	12	2	-	1,822
Commercial	393	197	122	213	32	9	9	2	2	979
Agriculture	2	19	20	115	4	4	1	-	-	165
Institutional	-	-	-	2	-	-	1	1	1	5
Landscape irrigation	118	76	55	33	3	3	-	-	-	288
Recycled	7	3	3	8	5	4	10	2	-	42
Fire	368	42	45	14	-	-	-	-	-	469
Total Connections:	**14,136**	**1,804**	**514**	**564**	**51**	**32**	**33**	**7**	**3**	**17,144**

Table 2.4 shows Monthly Service Charge revenue by customer category and the key influencing factors previously discussed. The Behavioral & Tiering Changes category includes revenue adjustments stemming from changes in meter size, and the impact of customers with small meters qualifying for lower or higher tiers due to estimated monthly consumption.

Total Monthly Service Charge revenue is forecast to increase by $512K, or 5% including the planned 4% rate increase. The remaining difference is primarily due to higher forecasted usage, which is based on recent usage trends, and the elimination of mandatory water use restrictions and the drought surcharge. Total Monthly Service Charge revenue is projected to be $10.5 million in Fiscal Year 2019-20.

Table 2.4 FY 2019-20 Budgeted Monthly Service Charge and Influencing Factors

		Influencing Factor				
Customer Category	FY 2018-19 Budget Baseline Revenue	New Development	Rate Change	Behavioral / Tiering Changes	Net Incr. / (Decr.)	FY 2019-20 Budgeted Monthly Service Charge
Single-family residential	$ 5,032,435	$ -	$ 201,297	$ 19,869	$ 221,166	$5,253,601
Multi-family residential	1,839,899	-	73,596	39,670	113,266	1,953,165
Commercial	1,645,046	738	65,802	68,488	135,027	1,780,073
Agriculture-Urban	362,538	-	14,502	(5,329)	9,172	371,710
Agriculture-Goleta West Conduit	104,704	-	4,188	(1,308)	2,880	107,584
Institutional	134,597	-	5,384	(2,220)	3,164	137,761
Landscape irrigation	356,071	-	14,243	5,047	19,290	375,361
Recycled	433,550	-	17,342	(13,072)	4,270	437,820
Fire	59,229	121	2,369	1,444	3,933	63,162
Total:	**$ 9,968,069**	**$ 858**	**$ 398,723**	**$ 112,588**	**$ 512,170**	**$ 10,480,239**

Water Sales

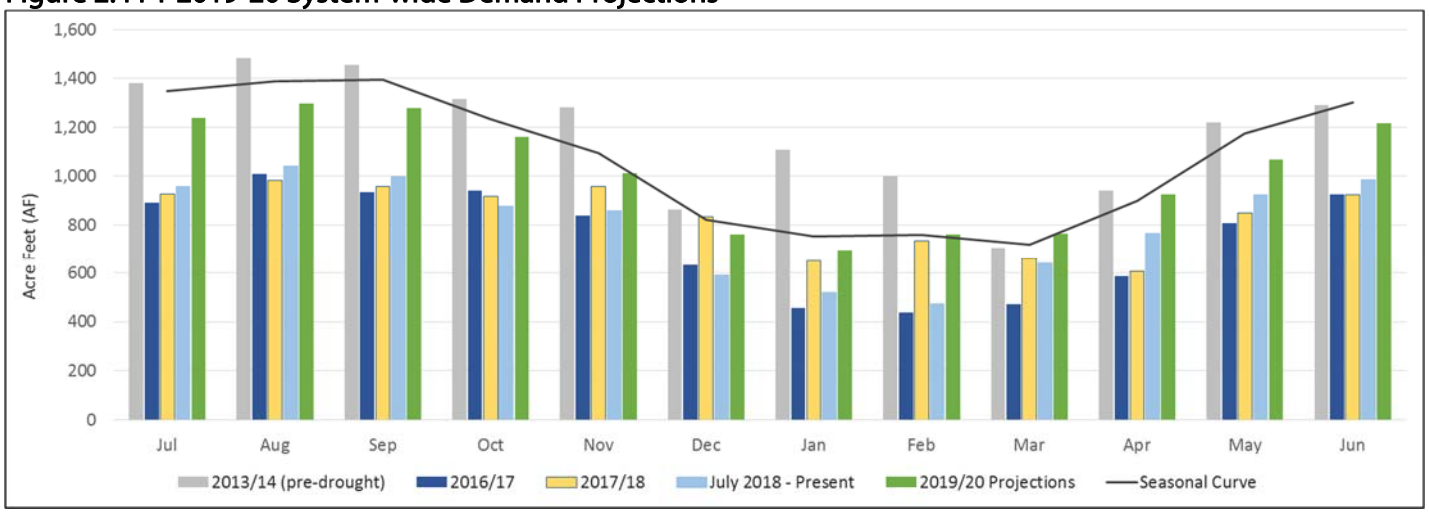
The largest source of District revenue is Water Sales (69%), billed according to the actual volume of water consumed by the customer. The District has distinct water rates for each customer category, which account for the unique factors and costs involved in providing their water service. The volume of water used across customer categories can vary significantly given the widely divergent dynamics associated with each type of customer. For example, historic water production data provides evidence that some District customers are highly responsive to weather conditions, as discussed above (see Figure 2.3). Large swings in usage are particularly common among customers with significant outdoor agricultural or landscape irrigation, and can influence District water sales considerably. This variability in customer water demand throughout the year produces similar cashflow patterns, the timing of which must be incorporated into expenditure plans. Conservation, weather patterns, seasonal variability, rate tiers, and the amount of indoor use versus outdoor use for landscaping or agriculture must all be considered in forecasting water sales for the coming year. The elimination of mandatory water use restrictions and the drought surcharge associated with the transition from a Stage III to a Stage I Water Shortage Emergency is expected to further influence water use patterns, with increased usage associated with landscape and crop irrigation projected to cause even larger swings in usage between seasons.

After nearly eight years of drought, supply conditions have improved signifiantly with above-average precipitation in the winter of 2018-19. Rising Lake Cachuma levels prompted the United States Bureau of Reclamation (USBR) to increase the District's annual Cachuma allocation to 100% for the rest of the 2018-19 Water Year (October 2018 – September 2019). The State Water Project also increased its annual allocation to 70%. The increased availability of surface water supplies allowed the Board to move from a Stage III to a Stage I, removing the drought surcharge, lifting water use restrictions, and making conservation voluntary. Due to the loss of the drought surcharge, even if usage increases slightly as forecast, a decrease in base water revenue is projected for FY 2019-20.

Water Sales volume projections for FY 2019-20 were developed based on a customer demand analysis that included evaluation of historical demand recovery following droughts or multiple dry years, while also accounting for recent usage trends for each customer category. Five demand scenarios were considered based on varying assumptions. A pre-drought year (WY 2013/14) benchmark was included for comparison purposes to account for "normal," non-drought usage. Seasonal variability and continuing conservation associated with demand hardening expected under a Stage I Water Shortage were layered over usage trends to refine projections and account for any observed demand anomolies. This kind of detailed and ongoing analysis allows the District to forecast otherwise unpredictable demand as accurately as possible.

Figure 2.4 shows seasonal system-wide potable and Goleta West Conduit water usage variations for recent years and the projected 2019-20 budget year.

Figure 2.4 FY 2019-20 System-wide Demand Projections



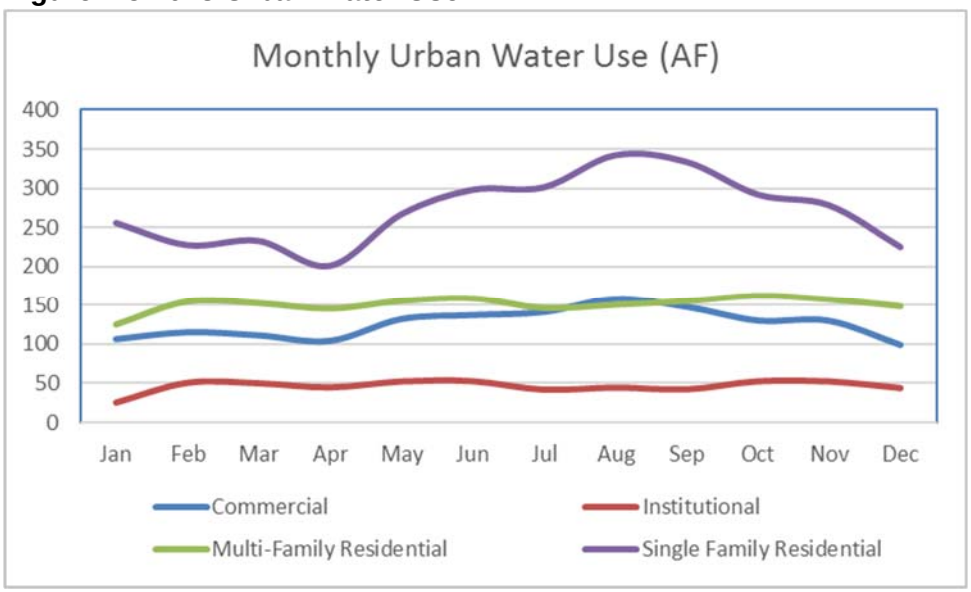
A short discussion about the water use characteristics of each customer category and how they inform water sales projections is included below.

Urban Water Use

Urban water use (see Figure 2.5) accounts for approximately 69% of total District demand, and urban users have a lower ratio of indoor to outdoor water use than irrigation customers. Residential indoor consumption can generally be characterized by routine water use indoors, including toilet flushing, showers, clothes-washing, and dishwashing. Factoring in the regional median household size of 2.64, the average single-family household in the District uses approximately 6 HCF (4,488 gallons) per month for basic health and sanitation, which includes the use of faucets, laundry, and dishwashing. Water usage in excess of this base indoor amount can reasonably be attributed to outdoor use, which fluctuates throughout the year based primarily on weather patterns. Due to the variation in lot sizes, types of landscaping, efficiency of irrigation systems, and irrigation habits, outdoor water use can also vary significantly across residential households. Single Family Residential consumption alone could vary as much as 100% during summer months compared to the cooler winter months. This larger variation in seasonal water use is evident when compared to other urban customer categories, and reflected in Figure 2.5.

In forecasting the amount of revenue attributable to Water Sales for Single-Family Residential customers, the District's tiered rates must also be considered. Pursuant to the District's rate structure, the first six (6) HCF of Single Family Residential water use each month bills at the low-tier, as it serves to cover basic indoor use for the average District household. A mid-tier rate applies for the next 10 HCF of use each month. This means that customers with the average summer use of 16 HCF per month pay either a low or mid-tier rate throughout the year. The highest rate applies to all use above 16 HCF per month. The differing tiers affect both water consumption-related charges as well as the monthly service charge. As a result of the tiering rate structure, an incremental usage change in Tier 3 will have the largest revenue impact.

Figure 2.5 2018 Urban Water Use



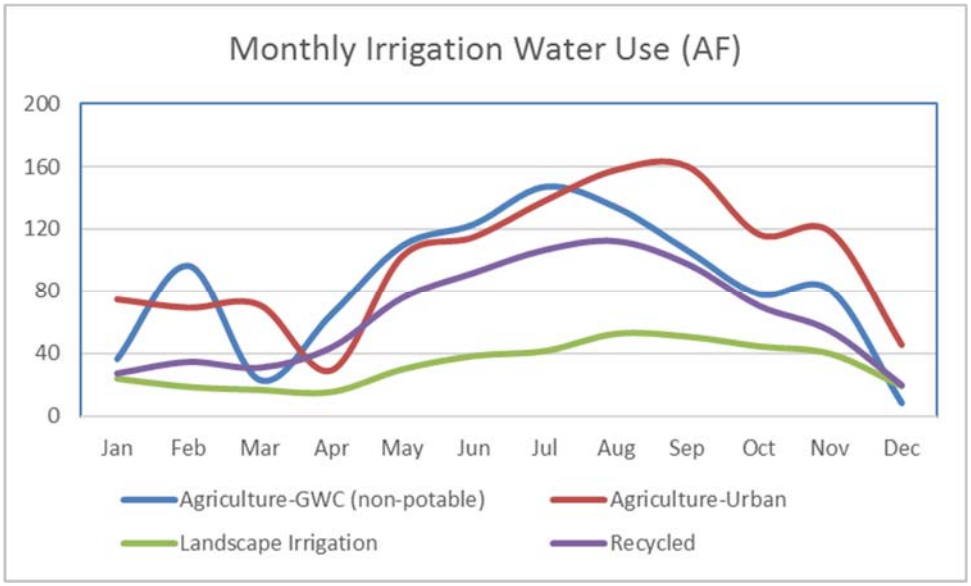
For example, the District will net a decrease in revenues with higher usage when six Tier 1 customers each increase usage by 1 HCF (at $5.25/HCF) offset against one Tier 3 customer using 5 HCF less (at $7.12/HCF). It is anticipated, based on 2018 consumption, that 53% of Single Family residential water use will be within Tier 1, 38% will be in Tier 2 and 9% will be in Tier 3.

Rates for all other urban customers are uniform with the same charge applying to each unit of water consumption. Multi-Family Residential customers include high-density student housing in the Isla Vista community, retirement communities, and apartment buildings. Consumption behaviors within this category can vary significantly from customer to customer. The largest indicators of Multi-Family Residential water use are the number of units within a complex and the number of people per household. Multi-Family Residential, Commercial and Institutional water use is less driven by weather and more affected by the academic calendar and move-in/move-out schedules associated with the local colleges. Since the vast majority of use among Multi-Family Residential, Commercial, and Institutional water use is indoors, water use is relatively steady throughout the year and exhibits only modest seasonal variation. For example, total consumption for Multi-Family Residential customers with high baseline indoor use varied only 30% between the lowest use month (125 AF in January) and the highest use month (163 AF in October) in 2018. In comparison, the variance for Single Family Residential customers was 69% between the lowest and highest months in 2018. Water use being primarily indoors reduces seasonal variability, thereby increasing the predictability of usage patterns and reliability of revenue forecasts for these customer categories.

Irrigation Water Use

For the customer categories that use water primarily or exclusively for outdoor irrigation, seasonal water consumption varies considerably. Water production generally increases with warm dry weather conditions as customers rely on water provided by the District. During the fall, winter, and spring months with cooler temperatures and appreciable rainfall, the amount of water provided by the District is significantly reduced as landscapes and agriculture need less irrigation, as reflected in Figure 2.6. Customer categories with high seasonal variability include potable, non-potable and recycled water use by agriculture and landscape irrigation customers. Rates for these customers all vary based on the unique characteristics of serving each respective customer category. Combined, these customer categories account for 31% of total annual District water use, with about 64% of that usage attributable to agricultural customer accounts. Approximately 4,000 acres in the District's 29,000 acre service area (14%) are used for agricultural activities. Irrigation of crops, nurseries, and pastures comprises 90-95% of total water for these customer classes, with a small portion used for domestic purposes. Water used to meet basic health and safety needs at residences on agricultural properties comprises approximately 5-10% of agricultural water use in a normal year. While Agricultural customers enjoy a lower rate for irrigation purposes, for each dwelling unit on the property the first 11 HCF of use are billed at the urban rate.

Figure 2.6 2018 Irrigation Water Use



Influencing agricultural demand are the climate, the timing and amount of rainfall, temperature fluctuations, humidity, sunshine, wind, and individual farming practices, leading to highly variable water use. Illustrating this fact in Figure 2.6, water use by these customer classes in 2018 totaled 292 AF in August, over 5 times the water use of 54 AF in December. Furthermore, dry warm temperatures and lack of significant rainfall for an extended period drive up water demand annually. For example, in 2014, a year in which the Goleta Valley experienced record warm temperatures and dry conditions, agricultural water use in the District was 4,400 AFY, which represented over 32% of total District water use, compared with 2011 (a wet year), in which agricultural water use was 2,150 AFY, or 18% of total demand. This represents a 100% swing in year-over-year water use, influenced primarily by prevailing weather conditions. A slight increase in the number of acres reported as being under production also helped account for this difference.

Since 1995, the District has served recycled water for irrigation and restroom facilities through a partnership with the Goleta Sanitary District. Using recycled water for irrigation and other non-potable uses helps to conserve the District's potable water supplies, improving supply reliability and keeping costs lower for customers. The District plans to serve approximately 994 AF to 30 customers in the Goleta Valley in FY 2019-20, representing approximately 8% of District supplies. Recycled water customer rates vary depending on when they were added to the system and the terms of any separate historic agreements.

Since outdoor irrigation is significantly affected by the climate (evapotranspiration, precipitation, etc.), usage by these categories is driven to a much greater degree by seasonal weather conditions, making demand difficult to predict and revenue projections challenging. An above average year of rain, an unusually dry year, or rain events in months that are typically dry can influence water sales significantly for these categories. For example, potable water use for irrigation decreased by approximately 40% in 2017, an above-average rain year, compared to an average year. Notably, as use is not primarily for health and safety needs, there is a greater opportunity for water conservation among irrigation customers through changes in irrigation practices that can significantly reduce usage.

Water Sales Summary

The District is projecting similar monthly distribution of usage by customers as was observed in FY 2018-19, with minor adjustments to account for extreme weather events and consumption anomalies, as reflected in Table 2.5. Tables 2.5 and 2.6 summarize water use and revenue projections that have been developed for FY 2019-20. Water Sales are projected to decrease by $15.4 million as a result of the discontinued drought surcharge under a Stage 1 Water Shortage declaration, partially offset by $834K from a scheduled 4% rate increase. Other influencing

factors include an additional $23K in revenues derived from projected new service connections, and a $7.5 million increase in revenues due to higher water consumption.

Table 2.5 FY 2019-20 Budgeted Water Use by Customer Category (in AF)

		Influencing Factor			
Customer Category	FY 2018-19 Budgeted Water Use	New Development	Behavioral / Tiering Changes	Net Incr. / (Decr.)	FY 2019-20 Budgeted Water Use
Single-family residential	3,195	1	721	722	3,917
Multi-family residential	1,718	2	195	197	1,915
Commercial	1,625	6	152	159	1,784
Agriculture-Urban	1,373	-	433	433	1,806
Agriculture-Goleta West Conduit	1,214	-	402	402	1,616
Institutional	549	-	46	46	595
Landscape irrigation	387	-	163	163	550
Recycled	772	0	221	222	994
Fire	-	-	-	-	-
Total:	**10,833**	**9**	**2,335**	**2,344**	**13,177**

Table 2.6 FY 2019-20 Budgeted Water Sales Revenue and Influencing Factors

		Influencing Factor				
Customer Category	FY 2018-19 Budget Baseline Revenue	New Development	Rate & Drought Surcharge Change	Behavioral / Tiering Changes	Net Incr. / (Decr.)	FY 2019-20 Budgeted Water Sales Revenue
Single-family residential	$ 11,874,227	$ 2,178	$ (4,635,193)	$ 2,842,223	$ (1,790,793)	$ 10,083,434
Multi-family residential	6,553,132	4,252	(2,243,846)	774,672	(1,464,923)	5,088,208
Commercial	4,676,527	16,238	(2,148,219)	1,798,346	(333,635)	4,342,892
Agriculture-Urban	2,941,712	-	(2,294,824)	1,013,328	(1,281,497)	1,660,215
Agriculture-Goleta West Conduit	3,114,518	-	(1,944,641)	61,245	(1,883,396)	1,231,122
Institutional	2,096,268	-	(668,128)	153,600	(514,528)	1,581,740
Landscape irrigation	1,475,144	-	(655,797)	643,066	(12,731)	1,462,413
Recycled	817,725	258	32,709	215,320	248,286	1,066,011
Fire	20,072	-	803	(6,912)	(6,109)	13,963
Total:	**$ 33,569,324**	**$ 22,925**	**$ (14,557,136)**	**$ 7,494,886**	**$ (7,039,324)**	**$ 26,530,000**

Other Revenues & Transfers

New Water Supply Charges (NWSC)

The NWSC applies to customers requesting new or expanded water service. The Budget typically considers specific projects currently in the application process, their historic water allocations, and local economic factors to identify projects likely to remit NWSC fees. NWSC payments benefit existing customers by ensuring new or expanded development pays a fair share to utilize the pre-existing customer-funded infrastructure. Although the amount of new water required from year to year varies depending upon economic factors and project completion schedules, the average annual allocation over the last 15 years has been 26 AF, which equates to less than .5% of normal annual demand.

The FY 2019-20 Budget forecasts no revenue from NWSC payments for new water allocations because of the moratorium on new service applications under the SAFE Water Supplies Ordinance. However, the SAFE Water Supplies Ordinance does not apply to new connections for recycled water.

Investment Revenue

The investment policies and practices of the District are based on California Government Code provisions that regulate the investment of public funds and prudent portfolio management. Chapter 4.08 of the Goleta Water District Code establishes investment objectives as being, in priority order, Safety, Liquidity and Diversification. For FY 2019-20, District cash balances will be invested in the California Local Agency Investment Fund (LAIF), a pooled money investment vehicle projected to yield about 2.4% annually, producing approximately $185K in investment revenue. Investment Revenue is projected to increase by $103K (124%) in FY 2019-20 resulting from higher yields.

Conveyance Revenue

Conveyance revenue is collected from several local businesses and developments that own water rights but not the treatment or distribution facilities needed to deliver their water. The District entered into agreements with these customers to convey these water supplies at a per-acre-foot rate. Conveyance Revenue budgeted in FY 2019-20 is $201K.

Miscellaneous Fees and Charges

The District receives revenue in the form of fees and charges from various sources, including delinquent accounts, backflow inspection, application and initiation fees, connection fees, cell tower site rentals, hydroelectric power generation sales, and customer reimbursable projects. The anticipated revenue from these sources in FY 2019-20 is approximately $1.0 million, which is an increase of $31K from FY 2018-19, resulting from a slight increase in anticipated customer-funded capital projects and capital dedications.

Transfers

The District maintains a prudent financial reserve to ensure adequate cash flow for operational needs and capital emergencies, and strives to adhere to the 2015-2020 Financial Plan (Five-Year Financial Plan). The FY 2018-19 Estimated Actual indicates a $0.5 million designation to reserves based on updated projections for the current fiscal year. The FY 2019-20 budget estimates a $1.1 million transfer from reserves to meet operating and capital needs. The District's estimated reserve balance is ahead of the financial plan through FY 2019-20 which will provide a buffer against unexpected capital expenditures and revenue volatility.

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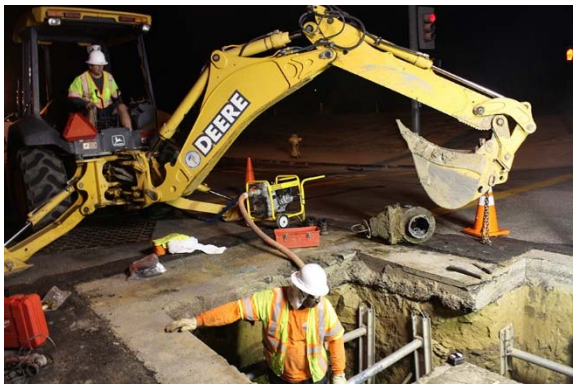
SECTION III – EXPENDITURES

INTRODUCTION



FY 2019-20 expenditures are consistent with continued implementation of the Five-Year Financial Plan and other foundational policy documents adopted by the Board of Directors. Given the reduced revenue forecast, expenditures have been severely restricted and limited to activities which are critical to the District's mission to deliver safe and reliable water.

District expenditures are comprised of costs associated with Water Supply Agreements, Personnel, Operations and Maintenance (O&M), Debt Service, and Capital Improvement Projects. Expenses are broken down in Table 3.1, Table 3.2 and Table 3.3, and followed by a full summary of costs in Table 3.4. Water supply portfolio-related costs have increased to 36% of total District expenditures and include fixed costs associated with District agreements with COMB, CCRB and Santa Barbara County for surface water; CCWA for State Water; and GSD for recycled water. Personnel costs represent 28% of total expenditures, comprised of wages, benefits, and taxes, as well as Other Post-Employment Benefits. Employees of the District are responsible for managing day-to-day operations, including maintenance of the treatment and distribution system, capital infrastructure planning, development of water use efficiency and conservation programs, and providing quality customer service. Operations & Maintenance represent 21% of total expenditures, and include costs related to water treatment and testing, general insurance, legal, maintenance and equipment, as well as services and supplies. Expenses associated with Capital Improvement Projects in the Infrastructure Improvement Plan and debt service make up the balance of total expenditures at 9% and 6% respectively.

The District, like other utilities, is affected by externalities including weather, economic conditions, changing customer preferences, costs of water supplies, and evolving regulatory requirements. While this Budget provides the tools to exert influence over external costs and mitigate known risks, it is important to note that it does not include broad cost increases for unknown inflationary factors, economic changes, or unanticipated events. Where specific price increases are known, appropriate adjustments to the Budget have been made. The District will continue to manage costs within its control and plan for uncontrollable externalities. This Budget commits to funding the minimum level of critical maintenance and infrastructure investments needed, but does not provide for proactive replacement. The significant deferments made in capital spending this year are not sustainable in the long term, but they help the District meet the short-term goal of matching spending levels in the final year of the Five Year Financial Plan by strategically prioritizing critical needs for the delivery of safe, cost-effective and dependable water.

Due to changing water quality conditions at Lake Cachuma this year the District will rely on a mix of groundwater and surface water. Water Treatment costs at CDMWTP will increase as a result of treating more surface water volume, along with increases related to additional regulatory water quality testing, investment in the mechanical maintenance of wells to maintain reliable production, and increased repair, replacement, and general maintenance needs associated with alternating supply sources as planned groundwater production increases. The District also plans to upgrade critical pumps and motors on the aging recycled water system to reduce the risk of a potential interruption of recycled water delivery. Conservation outreach and incentive-based programs to help customers achieve voluntary conservation will continue through FY 2019-20.

WATER SUPPLY AGREEMENTS

In an average year, approximately 86% of District water supply entitlements are secured through water supply agreements with federal, state and local partners. The balance of supply is secured from the Goleta Groundwater Basin. Consistent with the current Water Supple Management Plan (WSMP), the District employs a strategy of drawing from available water sources in a prioritized manner to maximize supplies and minimize costs.

As illustrated in Table 3.1, FY 2019-20 total water supply costs will increase by $442K, or 3%, largely the result of increased Lake Cachuma delivery costs, CCRB expenses, and planned upgrades to the recycled water system. The cost of pumping and treating groundwater is included in O&M and capital costs.

Table 3.1 FY 2019-20 Budgeted Water Supply Agreement Costs

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
COMB (Lake Cachuma Deliveries):					
Water Entitlement	$ 906,250	$ 906,250	$ 906,250	$ -	0%
Operations & Maintenance	2,425,359	1,297,985	2,413,412	(11,947)	(0%)
Cachuma Renewal Fund	0	79,667	79,667	79,667	0%
Safety of Dam Act	129,392	129,392	129,392	0	0%
Subtotal - COMB	3,461,001	2,413,294	3,528,721	67,720	2%
CCRB (Water Rights):	539,633	487,351	706,100	166,467	31%
SB County (Cloud Seeding):	32,000	11,440	32,858	858	3%
CCWA (State Water Deliveries):					
Fixed Costs	7,559,988	7,559,988	7,559,988	0	0%
Variable Costs	1,748,581	2,897,258	1,595,192	(153,389)	(9%)
Subtotal - CCWA	9,308,569	10,457,246	9,155,180	(153,389)	(2%)
GSD (Recycled Water Production):	604,630	491,392	964,630	360,000	60%
Total:	**$ 13,945,833**	**$ 13,860,724**	**$ 14,387,489**	**$ 441,656**	**3%**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

COMB (Lake Cachuma Deliveries) and CCRB (Water Rights)

The COMB and CCRB annual budgets are approved by their respective Boards of Directors. Budgeted costs include payments for supply entitlement, Cachuma Project O&M, payments for dam rehabilitation, protection of Cachuma water rights and public trust resources.

By agreement, the District share of COMB expenditures is 39%. This amounts to $3.5 million in FY 2019-20, which is an increase of $68K, or 2%, compared to FY 2018-19, largely as a result of increased pass through of USBR's drought operations costs to local agencies.

Pending action on the State Water Rights Order and the Cachuma Contract Renewal will increase the costs of defending the District's water rights in FY 2019-20 and beyond.

CCRB works to protect Cachuma Water Rights and supplies for the South Coast water purveyors. The District share of CCRB costs is 46%, or $706K in FY 2019-20 which is an increase of $166K, or 31% as compared to FY 2018-19. The increase is the result of increased activity due to the pending action on State Water Rights Order and the Federal Biological Opinion for the Cachuma Project. FY 2019-20 CCRB costs allow for the continued expansion of scientific, legal, and advocacy efforts to minimize the potential financial and supply impacts of these decisions.

CCWA (State Water Deliveries)

The District receives delivery of its State Water entitlement via its membership in CCWA. The costs associated with this entitlement are $9.2 million for FY 2019-20, inclusive of the cost to finance, build and operate the infrastructure necessary to transport the water. Based on the District's Water Supply Management Plan, the District plans to prioritize the use of Cachuma water (the District's cheapest supply source) and store state water for use in future years.

GSD (Recycled Water Production)

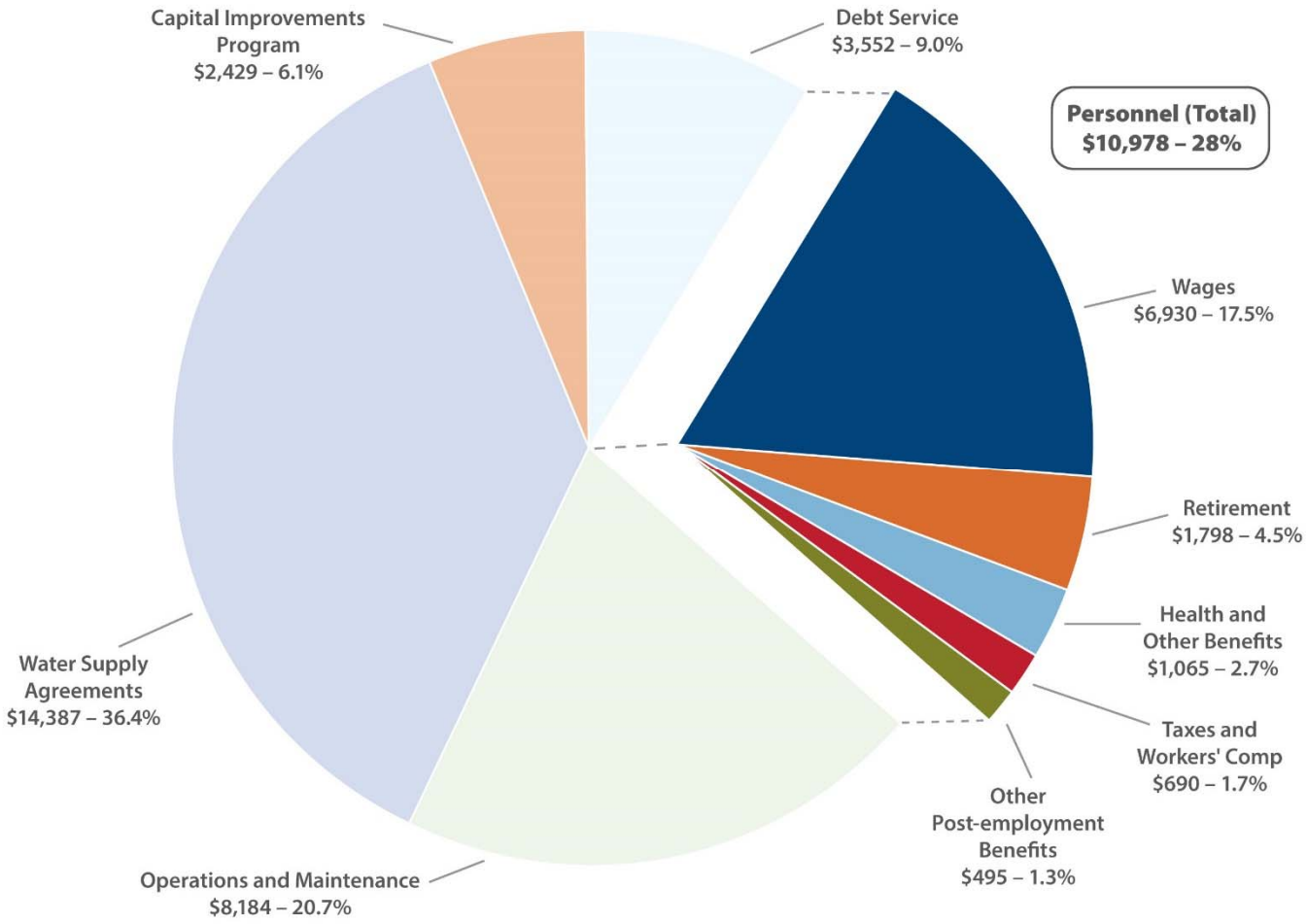
Providing recycled water to 43 customers in the District for irrigation purposes conserves drinking water for potable purposes, improving water supply reliability. Per agreement, the District pays GSD for all O&M costs necessary to produce recycled water. For FY 2019-20 costs are estimated at $965K, which is an increase of $360K, or 60% compared to FY 2018-19, primarily due to planned upgrades to critical pumps and motors.

PERSONNEL

Recruiting, training and retaining professional employees is critical to meeting District objectives of protecting water supplies and ensuring dependable and high quality service to customers for generations to come. The workforce includes licensed and professional staff to perform a wide variety of activities including operating the state-of-the-art Corona Del Mar Water Treatment Plant, maintaining 270 miles of distribution lines, and reading approximately 17,000 meters monthly. District staff also manage customer billing, provide engineering design services, ensure compliance with all state and federal regulatory requirements, implement conservation and sustainability programs, protect water supplies, and plan for the future needs of the community. The District employs engineers, certified plant operators and distribution specialists, electricians, technicians, analysts, accountants, and experienced professional managers.

Personnel costs in FY 2019-20 will be $11 million, a 5% increase as compared to FY 2018-19. The year-over-year increase of $567K is attributable to contractual obligations described in the Memorandum of Understanding with the Service Employees International Union (SEIU) Local 620. Of note, health insurance premiums have risen significantly in the last several years and this trend is projected to continue. Figure 3.1 provides an overview of the individual components of Personnel costs, as a portion of overall costs.

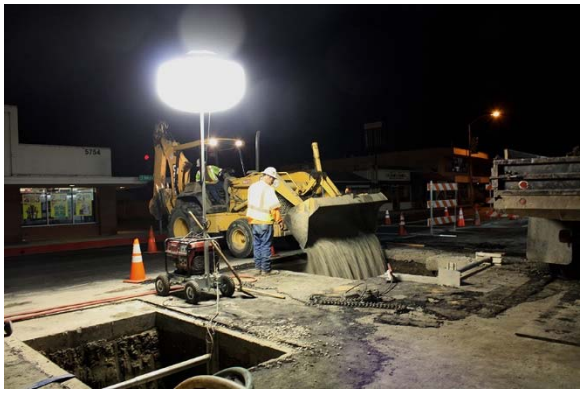
Figure 3.1 FY 2019-20 District Costs, Featuring Budgeted Personnel Costs ($000s)



Retirement expenditures make up 16% of Personnel costs, as the District continues to realize the financial benefits of the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA was signed into law in 2012 limiting pension benefits offered to new employees and increasing cost sharing between new employees and public employers. Employees are now contributing 100% to their retirement plans as of FY 2019-20. As PEPRA is designed to realize mid-term to long-term savings, District financial savings will continue to grow in the future.

The District is dedicated to developing and retaining the highly skilled employees needed to deliver safe and reliable water supplies to the community while keeping costs predictable.

Operations & Maintenance



The District service area spans 29,000 acres and includes more than 270 miles of pipeline, about 17,000 customer connections, 8 storage reservoirs, 9 wells, and the Corona Del Mar Water Treatment Plant. To operate these facilities and deliver water to customers, more than 30,000 appurtenances are maintained, including over 6,000 valves and 1,500 fire hydrants. O&M costs include a variety of day-to-day functions from water treatment and testing to insurance, auditing, legal services, as well as the purchase of energy, materials, supplies and equipment needed to run water delivery and treatment systems.

The District will treat and distribute approximately 3.4 billion gallons of potable water in FY 2019-20. This water moves through reservoirs and pipelines that must be continually maintained to ensure safe and reliable delivery. Valve maintenance also plays a particularly important role in controlling the system and is critical to maintaining proper distribution system operations.

Table 3.2 provides additional detail of FY 2019-20 O&M expenditures. The total O&M expenditures of $8.2 million are down 1% from FY 2018-19. Notable variances within expenditure categories include:

- Water Treatment and Testing costs will increase by $88K due to increased water production to meet higher projected demand, and increased water testing to ensure continued quality and compliance.
- Maintenance and Equipment will increase by $402K primarily due to additional expenditures previously miscategorized under the Services and Supplies line in FY 2018-19. Excluding this change, which accounts for $353K, expenditures for the FY 2019-20 are essentially flat when compared to last year.
- Services and Supplies costs will decrease by $860K as a result of deferring certain maintenance programs and assessments to balance the budget, as well as the recategorization of $353K to the Maintenance and Equipment line. Examples of deferred activities include an inventory and schematic documentation of SCADA systems used Districtwide, and the implementation of upgrades previously identified for Ellwood Reservoir.
- Utility expenditures will increase by $272K due to an increase in Southern California Edison (SCE) rates as well as increased water production, and the addition of aeration units to maintain water quality.

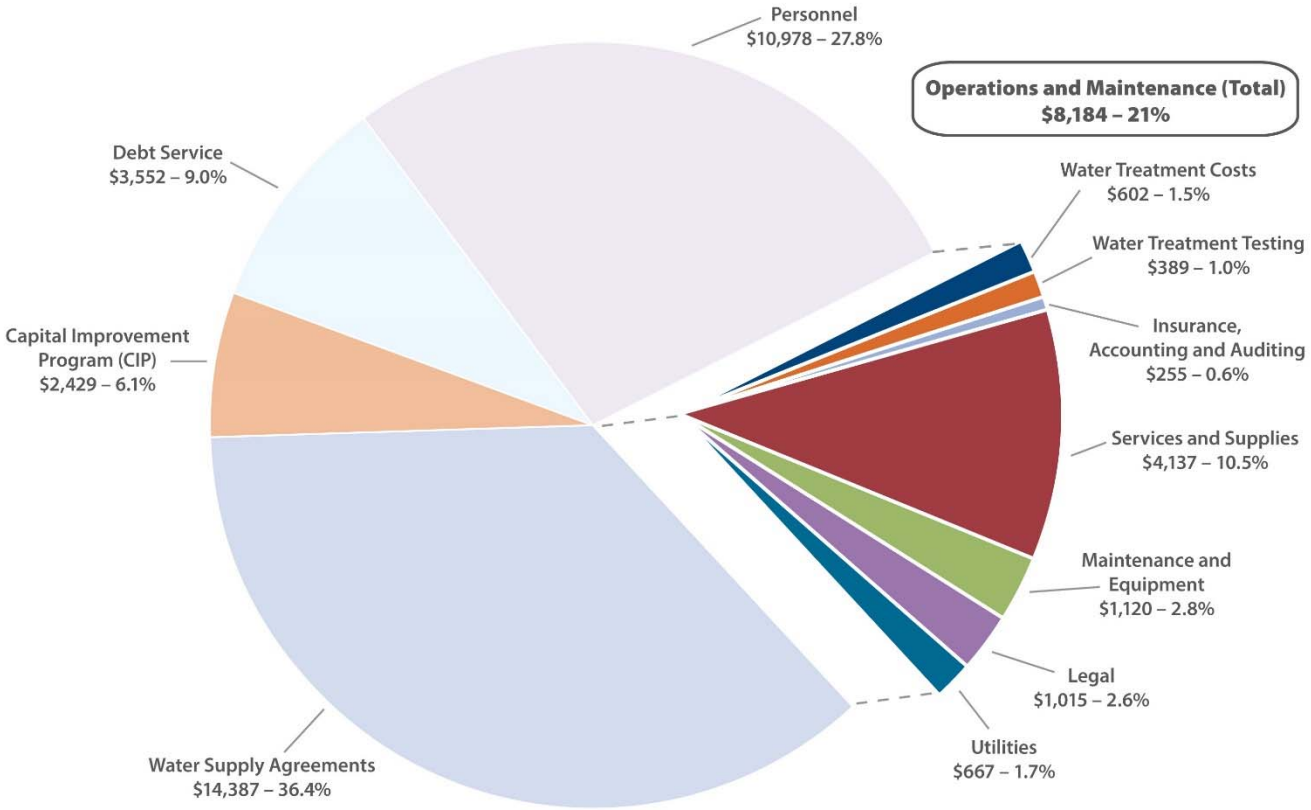
Table 3.2 FY 2019-20 Budgeted O&M Costs

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations & Maintenance Costs:					
Water Treatment	$ 562,281	$ 498,812	$ 602,217	$ 39,936	7%
Water Testing	340,950	259,882	388,738	47,788	14%
Insurance, Accounting, & Auditing	249,451	251,399	254,928	5,477	2%
Maintenance & Equipment	717,700	1,061,059	1,119,620	401,920	56%
Legal	1,015,200	738,709	1,014,600	(600)	(0%)
Services & Supplies	4,997,048	4,589,434	4,137,339	(859,709)	(17%)
Utilities	395,018	414,719	666,569	271,551	69%
Total:	**$ 8,277,648**	**$ 7,814,013**	**$ 8,184,011**	**$ (93,637)**	**(1%)**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

Figure 3.2 highlights O&M expenditures across seven primary categories.

Figure 3.2 FY 2019-20 District Costs, Featuring Budgeted O&M Costs ($000s)



Debt Service

Debt service costs reflect payments associated with approximately $49 million of outstanding Certificates of Participation (COPs) that are secured by a pledge of District revenues. These COPs are comprised of issuances in 2010 and 2014, with interest payable semi-annually. The current Five-Year Expenditures Forecast provides sufficient revenues to satisfy debt coverage requirements. The FY 2019-20 debt services is $3.6 million based on scheduled principal and interest payments.

Infrastructure Improvement Plan

In March 2015, the Board of Directors adopted the 2015-2020 Infrastructure Improvement Plan (IIP). Subsequent annual updates occur every winter. The IIP shows how the District will adeptly build, maintain, and manage the assets needed to produce, treat, and distribute water while balancing costs. This planning tool provides the framework for District infrastructure investments over a five-year horizon, while providing the flexibility to adapt to changing infrastructure needs and opportunities throughout the lifespan of the IIP.

A critical goal of the IIP is to ensure that the District's infrastructure is capable of producing and delivering quality water to customers. Over half of the IIP funds go toward enhancing the reliability and capacity of the District's well system, with significant investment in the distribution and treatment systems. These investments are needed to ensure reliable delivery of water supplies for the community, at levels adequate to meet health and safety needs.

Since the amendment was adopted on March 12, 2019, and in response to the increased allocation of surface water supplies from Lake Cachuma, the Board lowered the Water Shortage Emergency from a Stage III to a Stage I. Accordingly, given reduced revenue forecasts planned capital investment has been deferred to balance the budget. The FY 2019-20 Budget reduces spending from the $7.4 million previously adopted by the Board in March downward to $2.4 million to fund 17 capital projects split between two categories:

- Regulatory Requirement and/or Critical Need: Projects in this category fall into two sub-categories: 1) planning for and response to unscheduled system infrastructure failures and, 2) projects needed to meet and maintain rigorous state and federal regulatory requirements. To address unplanned failures, funding is budgeted each year for common issues such as pump and motor replacements, emergency main replacements, and hydrants and valves. Critical need projects include: maintaining water quality at wells and in the distribution system; pilot and demonstration scale testing of treatment upgrades at CDMWTP to help meet regulatory standards for THMs; adding SCADA capabilities to the Patterson Booster Pump Station for automated operation of the pumps, and completing the upgrade of electrical systems, aging pumps, and pipes to increase flow capacity. These, as well as general replacement of pipes and safety upgrades, will allow the District to provide an adequate supply of water that meets and maintains compliance with rigorous state and federal regulatory requirements.

- Vital to Sustain Infrastructure: These projects are considered vital to the sustained operations of the District, and include upgrades to existing wells, periodic equipment replacements, and replacements of valves, hydrants, and small meters.

Figure 3.3 shows IIP spending by infrastructure type. $1.5 million, or 63%, is earmarked for improvements in the distribution system. $631K, or 26% of capital improvement funds, is dedicated to water treatment, due to declining water quality conditions brought on by the drought and fires in the Cachuma watershed. Table 3.3 provides a summary of IIP projects planned for FY 2019-20.

Figure 3.3 FY 2019-20 Capital Improvement Plan by Infrastructure Type ($000s)

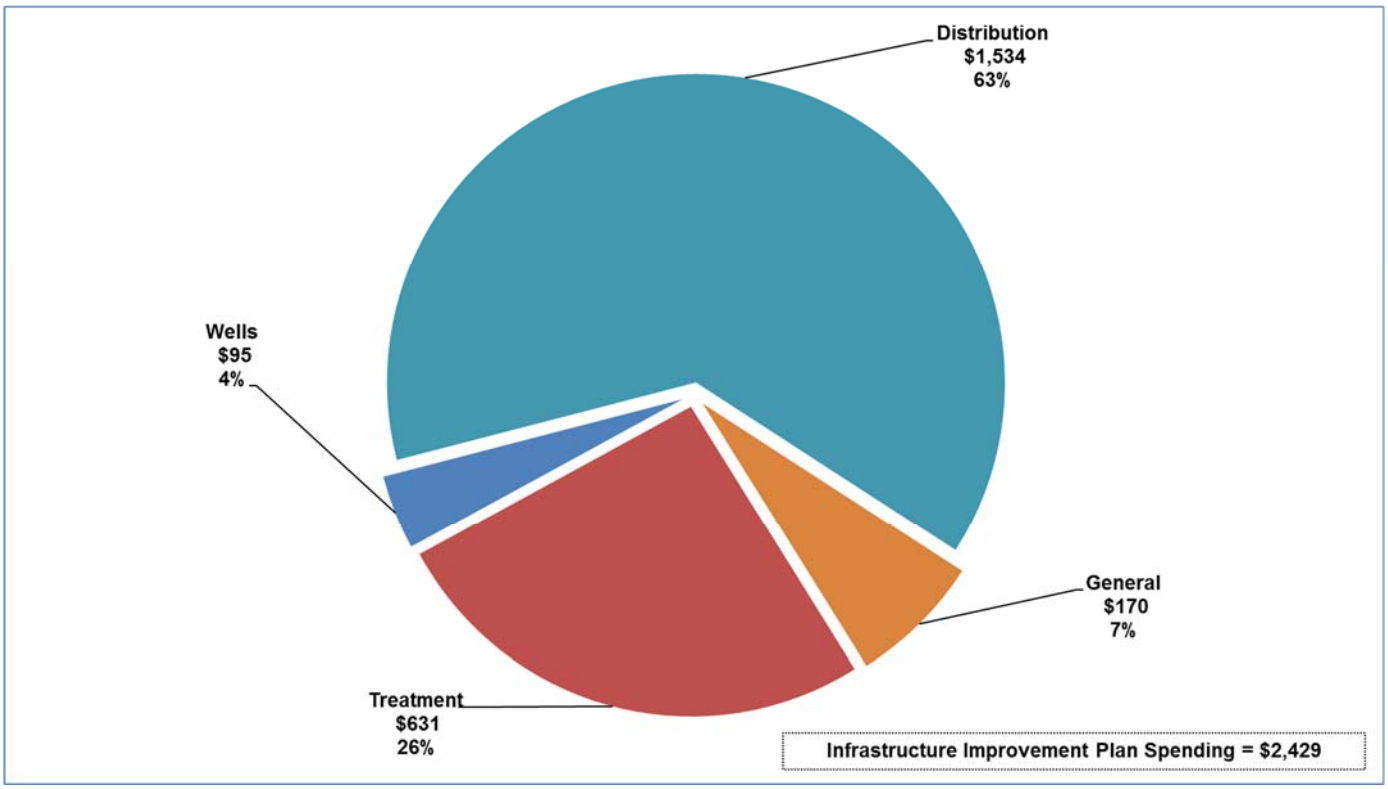


Table 3.3 Infrastructure Improvement Plan Projects Summary

Ref.	Project Name	Final FY 2019-20
1	Water Quality Maintenance at CDMWTP	600,000
2	Ekwill Street, Fowler Road, and Hollister Infrastructure Relocation	16,000
3	Existing Well Treatment & Facilities Upgrades	95,000
4	Patterson Emergency Pump Station Replacement	500,000
5	Pump & Motor Replacements	39,230
6	Electrical Replacements & Upgrades	44,994
7	SCADA Replacements & Upgrades	49,100
8	Water Treatment Equipment Replacements	30,622
9	Emergency Main Replacements	202,410
10	City, County, Caltrans Relocation Required Projects	230,000
11	Polybutylene Service Replacements	80,150
12	Copper Service Line Replacements	64,116
13	Valve & Hydrant Replacements	391,996
14	PRV Replacements	10,350
15	Stormwater Headquarters Master Plan	10,000
16	Small Meter Replacements	50,000
17	Equipment Replacements	15,500
Infrastructure Improvement Projects Total		**$ 2,429,468**

SUMMARY OF DISTRICT EXPENDITURE FORECAST FOR FY 2019-20

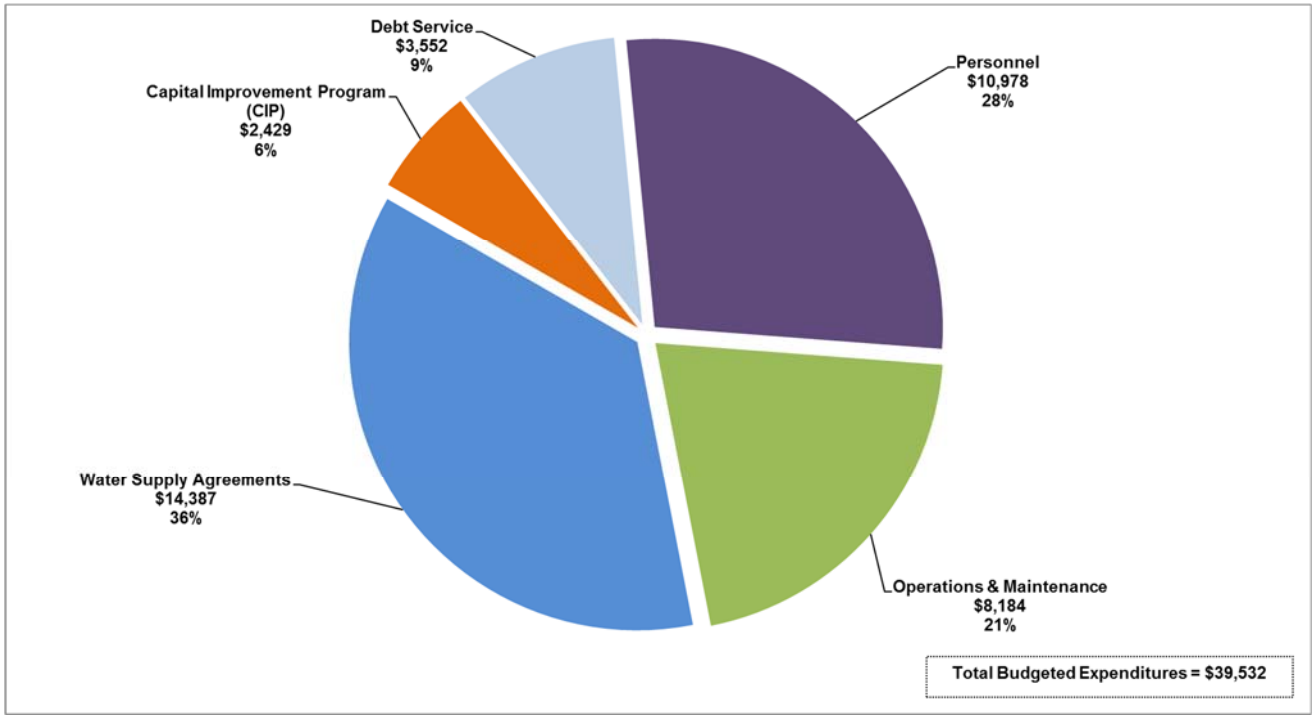
Table 3.4 and Figure 3.4 summarize FY 2019-20 total expenditures of $39.5 million. A key component of the annual Budget is to prepare for cash flow variables throughout the year and pace program and project expenditures accordingly. FY 2019-20 expenditures have incorporated customer behaviors and the accompanying seasonality of revenue as described in Section II.

Table 3.4 FY 2019-20 Budget Expenditures Compared to FY 2018-19 Budget Expenditures

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,461,001	$ 2,413,294	$ 3,528,721	$ 67,720	2%
CCRB (Water Rights)	539,633	487,351	706,100	166,467	31%
SB County (Cloud Seeding)	32,000	11,440	32,858	858	3%
CCWA (State Water Deliveries)	9,308,569	10,457,246	9,155,180	(153,389)	(2%)
GSD (Recycled Water Production)	604,630	491,392	964,630	360,000	60%
Subtotal:	**$ 13,945,833**	**$ 13,860,724**	**$ 14,387,489**	**$ 441,656**	**3%**
Personnel:					
Wages, Benefits, and Taxes	$ 9,908,235	$ 11,219,068	$ 10,483,136	$ 574,901	6%
Other Post Employment Benefits	503,176	591,329	495,138	(8,038)	(2%)
Subtotal:	**$ 10,411,411**	**$ 11,810,397**	**$ 10,978,274**	**$ 566,863**	**5%**
Operations & Maintenance:					
Water Treatment Costs	$ 562,281	$ 498,812	$ 602,217	$ 39,936	7%
Water Treatment Testing	340,950	259,882	388,738	47,788	14%
Insurance, Accounting & Auditing	249,451	251,399	254,928	5,477	2%
Maintenance & Equipment	717,700	1,061,059	1,119,620	401,920	56%
Legal	1,015,200	738,709	1,014,600	(600)	(0%)
Services & Supplies	4,997,048	4,589,434	4,137,339	(859,709)	(17%)
Utilities	395,018	414,719	666,569	271,551	69%
Subtotal:	**$ 8,277,648**	**$ 7,814,013**	**$ 8,184,011**	**$ (93,637)**	**(1%)**
Total Expenditures before Debt and CIP:	**$ 32,634,892**	**$ 33,485,134**	**$ 33,549,773**	**$ 914,881**	**3%**
Debt Service:	**3,553,988**	**3,551,583**	**3,552,488**	**(1,501)**	**(0%)**
Capital Improvement Projects (CIP):	**7,147,552**	**4,808,072**	**2,429,468**	**(4,718,084)**	**(66%)**
Total Expenditures:	**$ 43,336,432**	**$ 41,844,789**	**$ 39,531,729**	**$ (3,804,703)**	**(9%)**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

Figure 3.4 FY 2019-20 Budgeted Expenditure Allocations ($000s)



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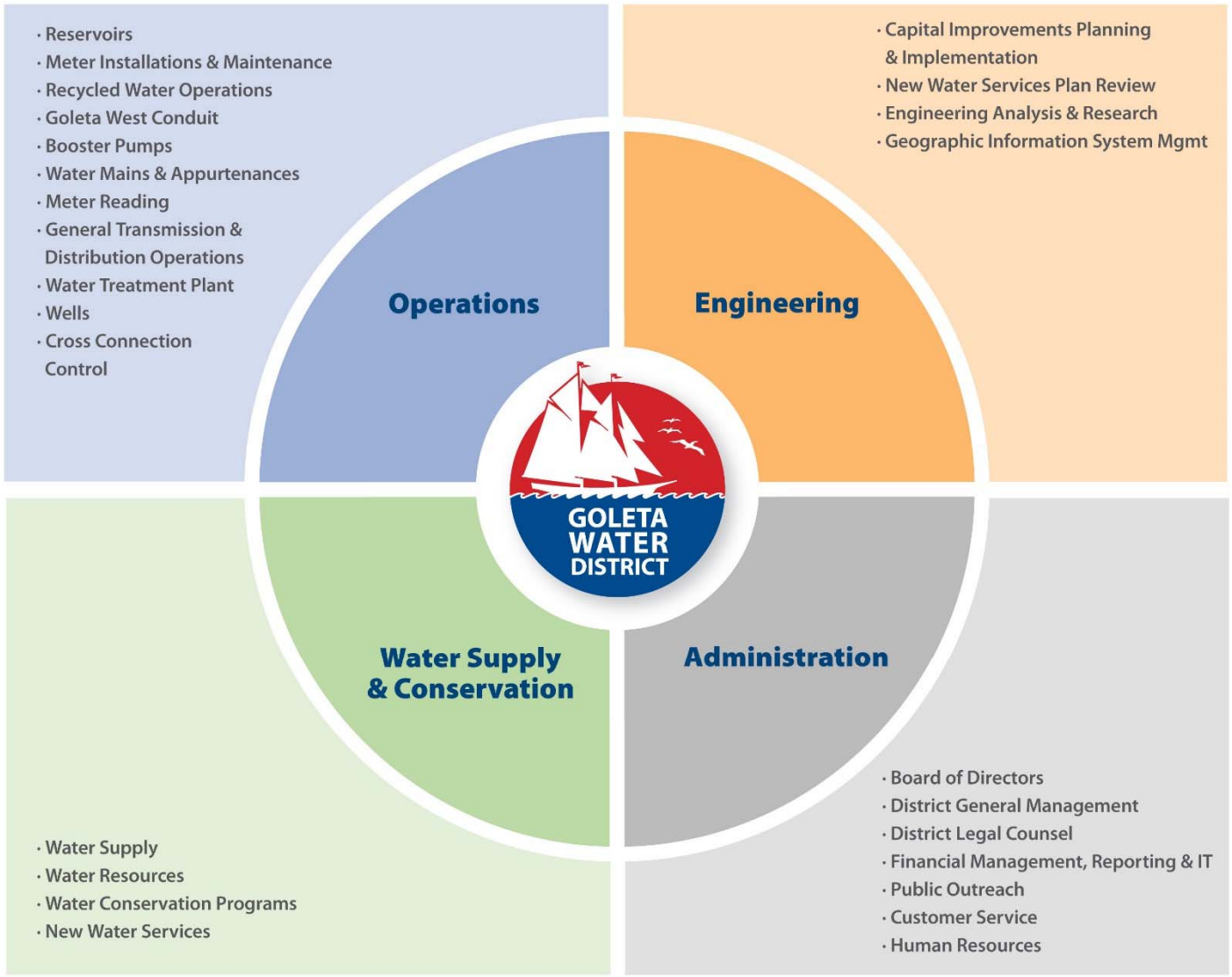
APPENDIX

Cost Center Overview

The District tracks disbursements by charging each expenditure to an accounting code associated with a specific function. The 26 programmatic cost centers of the District are categorized into four departmental cost centers: Operations, Engineering, Water Supply and Conservation (WS&C) and General Administration. The following provides an overview of each departmental cost center, outlining how District revenue is spent and the relationship of spending to each functional area of District operations. Figure 4.1 outlines the 26 programmatic cost centers by departmental cost center.

Figure 4.1 Programmatic Functions by Cost Center



Cost center expenditures include the operating and personnel costs associated with the programmatic functions in each category. The Office of the General Manager is responsible for managing specific programs within Board-authorized appropriation levels. Detailed discussions of each departmental cost center budget are included in the balance of this section and summarized in Table 4.1 below.

Table 4.1 FY 2019-20 Budgeted Expenditures by Departmental Cost Center

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 10,803,816	$ 11,629,286	$ 11,012,618	$ 208,802	2%
Engineering	818,710	960,971	1,068,560	249,850	31%
Water Supply & Conservation	15,747,178	15,625,507	16,020,884	273,706	2%
General Administration	5,265,189	5,269,370	5,447,710	182,521	3%
Total Expenditures:	**$ 32,634,893**	**$ 33,485,134**	**$ 33,549,773**	**$ 914,880**	**3%**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

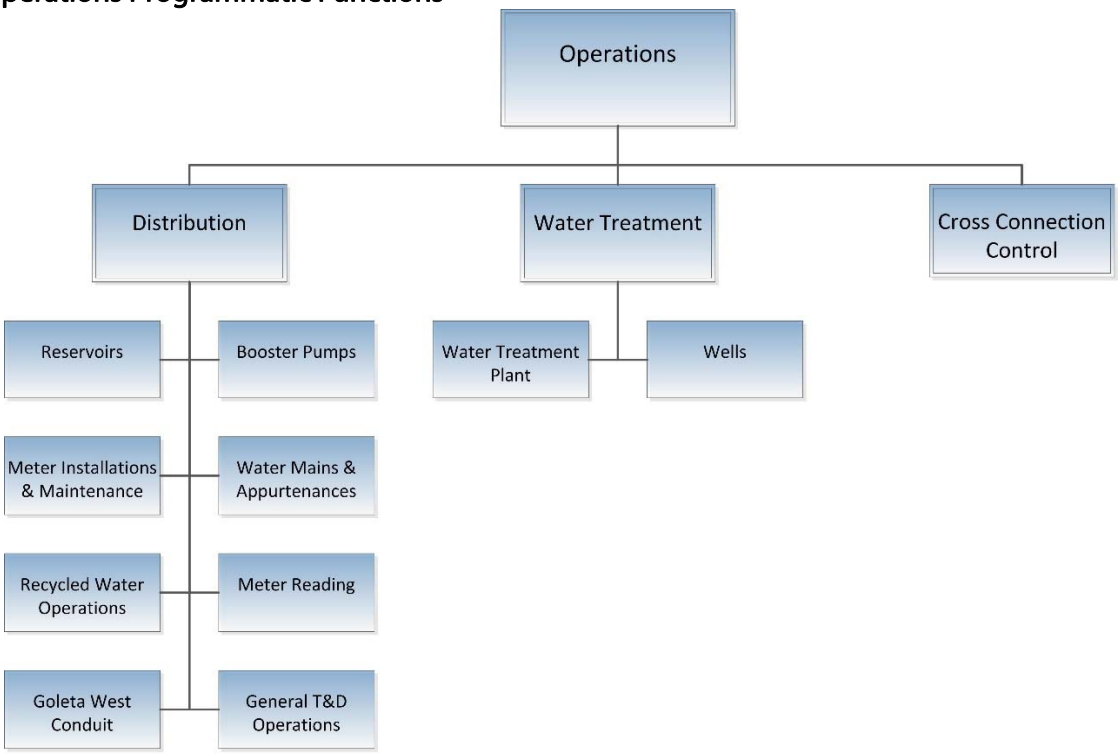
Total FY 2019-20 cost center budgeted expenditures will be $33.5 million, which is an increase of $915K or 3%, from the FY 2018-19 budget, including:

- A $209K increase in Operations is a result of increased personnel costs, water treatment and testing, services to improve water quality, and costs associated with maintaining groundwater production and alternating supply sources.
- A $250K increase in Engineering is primarily due to personnel efforts shifting to non-capital related projects such as water quality studies and analyses. Of note, no new staff have been added to the department.
- A $274K increase in Water Supply & Conservation expenditures due to increased costs associated with COMB, GSD, and CCRB.
- A $182K increase in General Administration primarily due to the inclusion of costs associated with the Five-Year Cost of Service Study (FY 2021-25).

Operations Cost Center

The Operations Department is responsible for the operation, maintenance and improvement of three water systems and associated facilities: the Potable Water System, the Goleta West Conduit System and the Recycled Water System. The District treats and delivers approximately 3.4 billion gallons of potable water annually to meet the demand of 87,000 people living in the region. The Department has three distinct functional areas of responsibility: Distribution, Water Treatment and Cross-Connection Control, outlined in Figure 4.2.

Figure 4.2 Operations Programmatic Functions



Distribution

Conversion of the Itron system to handheld meter reading units capable of taking pictures in the field have reduced the need for meter rereads.

The Distribution cost center is responsible for the facilities that deliver water to customers, including over 270 miles of water mains and appurtenances (i.e. valves, regulating stations and fire hydrants), water storage reservoirs and booster pumping stations, which control the flow and pressure required to maintain high quality service. Each customer is connected to the distribution system through individual service lines that supply water through a meter located at the final point of service. The Distribution team within Operations maintains customer meters, conducts monthly readings to ensure accurate and timely billing, provides regular and emergency service, and performs water service quality checks, as requested by customers.

Distribution Operations initiatives in FY 2019-20 include further optimization of surface water and groundwater blending operations to achieve water quality improvements throughout the distribution system, and continued water quality monitoring; incorporating the newly installed aeration systems and upgraded Patterson Pump Station into the routine operations of the District; and beginning implementation of Water Infrastructure Act requirements to identify and mitigate natural and human threats to public water supply systems.

Water Treatment

All regulatory testing is conducted using state-certified laboratories, under strict protocols for water quality sampling.

The Water Treatment cost center is responsible for the facilities and equipment necessary to produce, treat, test and ensure that the water delivered into the distribution system meets all regulatory standards for water quality set by State and Federal regulations. The potable water system consists of the CDMWTP, which treats water from Lake Cachuma, and treatment facilities at the various groundwater wells. The Goleta West Conduit system provides unfiltered Lake Cachuma water for agricultural irrigation and receives chlorination treatment from two chlorination facilities. Finally, recycled water is treated to meet regulatory standards for outdoor irrigation and restroom facilities.

Water Treatment initiatives in FY 2019-20 include:

- Perform downhole inspection and maintenance of two groundwater production wells.
- Upgrade the electric service, panel, and Variable Frequency Drive unit at the San Marcos well to comply with current electrical code requirements.
- Complete Arc Flash analysis on all District electrical components and label equipment with the proper warning labels to comply with current electrical standards. This is required every five years.
- Completion of the hauling of accumulated organic material at CDMWTP to a licensed disposal facility.
- Complete the Goleta West Conduit Alternative Analysis Study required by the SWRCB - DDW every three years to document the feasibility and costs required to convert the system to a potable supply under the District permit.
- Maximize the power generation capabilities of the Garrett Van Horne generator during surface water operations at CDMWTP to take full advantage of the SCE peak power payments for power generation while optimizing water quality.
- Document and develop a Supervisory Control and Data Acquisition (SCADA) Master Plan for all sites to prioritize the replacement of obsolete equipment and improve reliability of all automated equipment over the next 5 years and beyond.
- Maintain and operate the newly installed aeration equipment in the Ellwood reservoir to maintain water quality.

Cross-Connection Control

The Cross-Connection Control cost center ensures that cross-connections between the potable and recycled water systems do not occur by conducting annual physical inspections as well as periodic inspections of customer plumbing systems to ensure the potable and recycled water systems remain separate.

In addition, certified backflow testers conduct annual tests on the thousands of customer backflow devices installed throughout the potable water system. These devices are owned, operated and maintained by the customer; however, the District is responsible for ensuring each device is tested annually and maintains current records of annual test results.

Implementation of the paperless backflow program means the 3,100 test results received annually are now automated electronically. This saves time and reduces the potential for data entry errors.

Cross-Connection Control initiatives in FY 2019-20 include:

- Continuation of annual and ad hoc on-site inspections of both the recycled water system and the existing backflow prevention devices on potable water service connections to reduce potential cross-connection hazards.
- Formalization of a training program for site supervisors responsible for the 33 distinct areas of recycled water use.

Operations Accomplishments FY 2018-19

During FY 2018-19, Operations completed a number of projects to enhance water supply, improve water treatment, and increase energy and operational efficiency, including:

- Upgraded the recycled water pump station at the recycled water plant with additional variable frequency drive units to increase operational efficiency and electrical reliability.
- Completed additional water quality monitoring for disinfection by-products throughout the distribution system to address increasing levels of organic matter in surface water supplies at Lake Cachuma.
- Commenced inspection of a portion of the District's 42" transmission main to assess the condition and long-term sustainability of the largest and most vulnerable pipeline in the District's distribution system.

- Successfully returned to baseline status for oils and grease at the District Headquarters after implementation of further improvements to the Storm Water Management Program to ensure compliance with regulatory guidelines for enhanced control of runoff.

- Completed reduction of pre- and post- chlorination at CDMWTP to the minimal amount necessary to reduce the impact of disinfection by-products on water quality.
- Completed 1,2,3-Trichloropropane (1,2,3-TCP) testing, a new State of California regulatory requirement at CDMWTP and District wells on a quarterly basis.
- Completed the fourth phase of the US EPA Unregulated Contaminant Monitoring Rule where various unregulated constituents are required to be tested every quarter.
- Rehabilitated four groundwater production wells as part of an ongoing scheduled preventative maintenance plan to maintain peak production capacity.
- Completed the 2019 Public Health Goals Report and filed as required every three years.
- Completed an updated Bacteriological Sampling Plan identifying the various sampling sites throughout the distribution system for weekly monitoring. The plan was accepted by State Water Resources Control Board Division of Drinking Water (DDW) and will be effective until the next revision due in 2026.
- Installed aerators and commenced operations at Ellwood Reservoir to enhance the blending of groundwater and surface water supplies. Secured an amended permit from DDW approving the operation of aeration equipment at Ellwood and Fairview reservoirs.
- Implemented a web-based system for independent certified backflow testers to enter the required annual backflow inspection forms directly into the District's system. This eliminates the manual data entry of approximately 3,000 inspection forms received each year.
- Completed and filed the District's validated Water Loss Audit by the required submittal date.
- Transferred the meter reading input system from Itron hand held devices to cell phones reducing the weight of the device, providing real time data communications to the office, and allowing Meter Readers to document unusual readings or other system anomalies.

FY 2019-20 Operations Cost Center Budget

Table 4.2 details the primary Operations expenditure categories and describes variances between FY 2018-19 Budget and FY 2019-20 budgeted expenditures.

Table 4.2 FY 2019-20 Operations Cost Center Budget Summary

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Operations					
Personnel:	**$ 5,658,914**	**$ 6,414,637**	**$ 5,818,981**	**$ 160,067**	**3%**
Operations & Maintenance:					
Water Treatment	562,281	498,812	602,217	39,936	7%
Water Testing	340,950	259,882	388,738	47,788	14%
Insurance, Accounting, & Auditing	97,347	104,449	97,347	(0)	(0%)
Maintenance & Equipment	716,900	1,060,295	1,118,820	401,920	56%
Services & Supplies	3,032,406	2,876,492	2,319,946	(712,460)	(23%)
Utilities	395,018	414,719	666,569	271,551	69%
Subtotal:	**5,144,902**	**5,214,649**	**5,193,637**	**48,735**	**1%**
Total Expenditures:	**$ 10,803,816**	**$ 11,629,286**	**$ 11,012,618**	**$ 208,802**	**2%**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

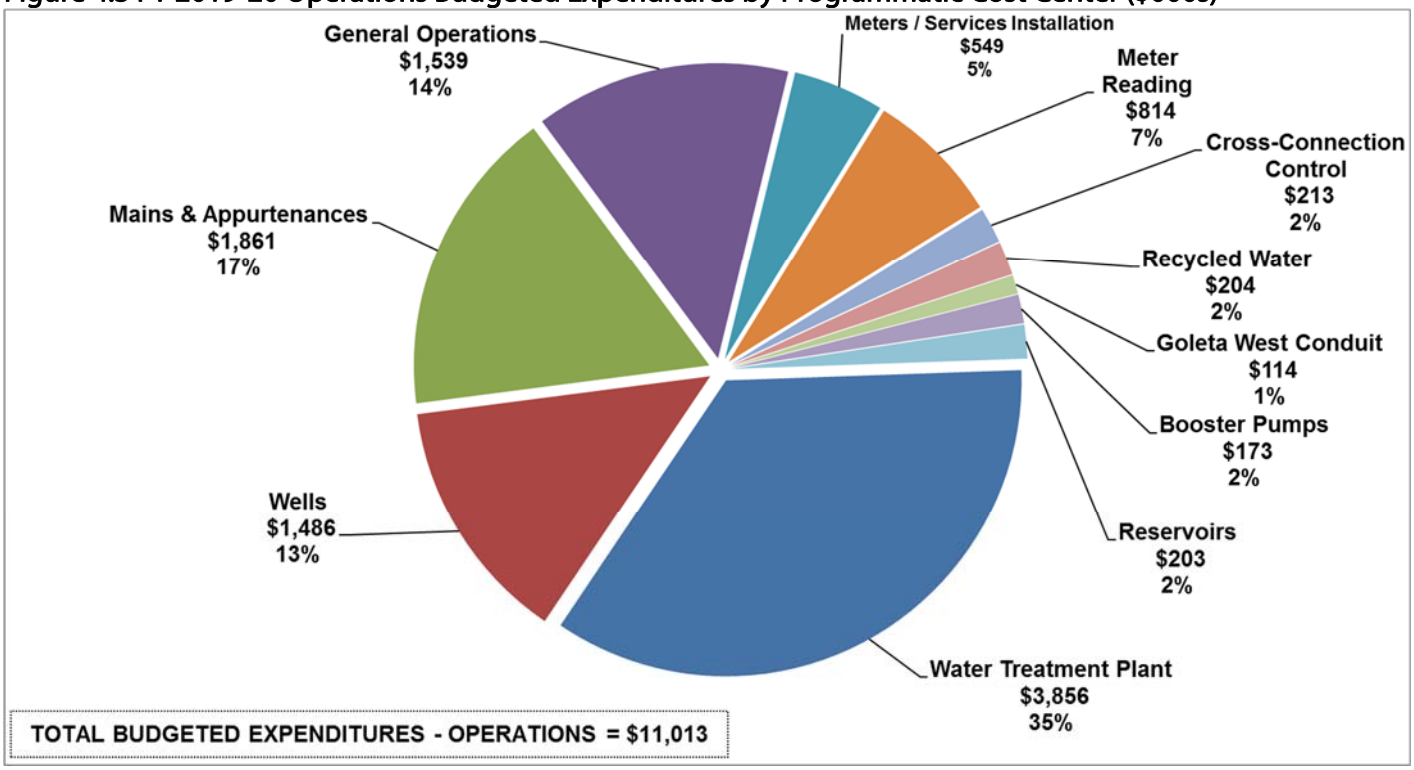
The Operations budget will increase in FY 2019-20 by 2%, or $209K. Notable changes from FY 2018-19 Operations Budget to the FY 2019-20 Budget include:

- Operations personnel costs will increase by $160K or 3% in FY 2019-20 consistent with overall SEIU negotiated provisions.
- Maintenance and Equipment costs will increase by $402K or 56% as a result of a reclassification of expenses formerly included in the Supplies and Services category in the previous fiscal year. Anticipated actual expenses are essentially flat when compared to last year.
- Services and Supplies will decrease by $712K or 23% due to the deferment of various analysis and studies to address budget cuts, and for the recategorization of expenses explained above. The remaining funds prioritize funding of a distribution water quality monitoring plan; a groundwater basin monitoring program; implementation of requirements outlined in Water Infrastructure Act recently signed into law; conditions assessments for transmission main valves and other critical facilities to assess long-term sustainability; and maintenance costs associated with operating the newly installed aerator equipment at reservoirs.
- Utilities costs will increase by $272K or 69% as the result of increased power costs associated with operating the newly installed aeration equipment at Ellwood and Corona reservoirs as well as enhanced surface water and groundwater blending operations.

Table 4.3 FY 2019-20 Operations Budgeted Expenditures by Programmatic Cost Center

Description	Water Treatment Plant	Wells	Mains & Appurtenances	General Operations	Meters / Services Installation	Meter Reading	Cross-Connection Control	Recycled Water	Goleta West Conduit	Booster Pumps	Reservoirs	Total Operations
Water Treatment	$ 511,034	$ 51,594	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 39,589	$ 0	$ 0	$ 602,217
Water Testing	292,638	93,500	0	0	0	0	0	0	2,600	0	0	388,738
Personnel - Wages	1,300,591	189,916	829,500	547,609	207,429	493,184	113,629	44,251	16,516	0	0	3,742,625
Personnel - Benefits	537,171	58,929	405,125	242,396	88,480	247,176	44,162	22,693	3,486	0	0	1,649,619
Personnel - Taxes & W.C.	165,708	24,828	101,713	52,834	23,967	41,650	10,174	3,775	2,088	0	0	426,738
Insurance and Accounting	21,400	0	23,339	27,223	7,785	13,700	3,900	0	0	0	0	97,347
Maintenance & Equipment	254,000	198,000	173,720	273,700	127,800	2,100	3,600	12,000	20,900	16,800	36,200	1,118,820
Services & Supplies	671,620	663,000	318,200	365,256	93,320	16,300	37,450	90,000	24,900	39,900	0	2,319,946
Utilities	102,218	205,821	9,333	29,906	0	0	0	31,263	4,162	116,774	167,091	666,569
Total:	**$3,856,380**	**$1,485,588**	**$ 1,860,930**	**$1,538,925**	**$ 548,781**	**$814,110**	**$ 212,915**	**$203,982**	**$114,241**	**$173,474**	**$ 203,291**	**$11,012,618**

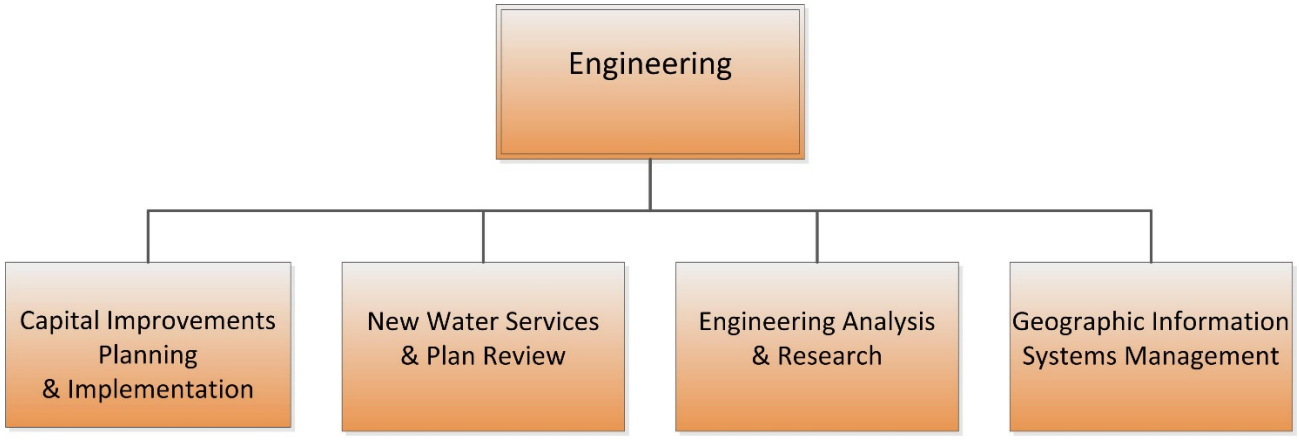
Figure 4.3 FY 2019-20 Operations Budgeted Expenditures by Programmatic Cost Center ($000s)



ENGINEERING COST CENTER

The Engineering cost center includes programs and functions related to capital infrastructure planning and implementation, review of new water services, engineering research and analysis, and management of GIS. This includes ensuring the water treatment and delivery systems are designed and installed to meet industry and regulatory standards and water supply needs of the community. Figure 4.4 below illustrates the specific programmatic cost centers within Engineering. A majority of expenditures associated with the engineering function are recovered through the capital budget or are reimbursed through developer and related fees and charges.

Figure 4.4 Engineering Programmatic Functions



Capital Improvements Planning & Implementation

The Capital Improvements Planning and Implementation cost center is responsible for capital project management consistent with the implementation of the District's Five-Year Infrastructure Improvement Plan (IIP) and Sustainability Plan. Specific efforts include developing project budgets, cost estimates and prioritization schedules to meet the needs of the District over the five-year planning horizon. To keep costs stable and prioritize investment, this cost center focuses on maintaining, upgrading and replacing vital infrastructure needed to ensure long-term capital asset integrity. Engineering oversees studies, designs and construction of all infrastructure projects.

During FY 2019-20, capital projects will focus critical investment on maintaining water quality at the District's CDMWTP and groundwater wells, while maintaining the reliability of the production, treatment, and distribution systems. Water quality projects include reducing trihalomethanes in District reservoirs and upgrading treatment operations at CDMWTP to adapt to changing surface water conditions at Lake Cachuma. Water treatment and distribution reliability projects include constructing upgrades to booster pump stations and work on the District's wells. Capital planning activities will include the preparation of the new 5-year Infrastructure Improvement Plan, developing protocols for conditions assessments, and performing conditions assessments.

As previously dry areas of the lake bed and burned portions of the watershed were submerged by winter storms, changing water quality conditions at Lake Cachuma continue to require additional treatment.

New Water Services & Plan Review

This cost center is responsible for review and approval of cost estimates, facility proposals and determination as to whether modifications are needed to system capacity. Services provided also include the on-site construction inspection of new facilities to ensure compliance with District Engineering Standards and Specifications. Even though the District temporarily halted the issuing of new water supply connections on October 1, 2014, projects require processing if the project will use the same or less water than the property's historical water credits or if projects have already paid the new water supply charge prior to current moratorium.

Engineering Analysis & Research

The Engineering Analysis and Research cost center is responsible for ensuring that District Engineering Standards and Specifications are consistent with the latest industry standards for construction methods, materials utilized and design criteria. Engineering Standards and Specifications also address operational integrity and efficiencies and value-engineering techniques to ensure the least-cost methods and materials are used to bring efficient water services to all customers, while meeting regulatory standards and operational goals of the District. In FY 2019-20, engineering analysis and research efforts will continue to develop an asset management program; develop an easement management and protection program; and to complete the first major overhaul of the Standards and Specifications in ten years.

Geographic Information Systems Management

The GIS cost center is responsible for maintaining the records and drawings associated with all District assets and their timely integration into GIS. This requires diligent maintenance, upgrades and document management to ensure infrastructure records are complete and accurate. GIS management also provides the analysis, technical research and recordkeeping process to ensure the integrity and operational capacity of District water systems.

State-of-the-art hydraulic models of the potable and recycled water distribution systems are linked with GIS. These models provide valuable information related to water flow, system capacity and impacts of changes to the system and are used to inform operational decisions for long-term planning and capital planning. The potable system model also enables the District to ensure that adequate fire flows and pressures are maintained during peak customer demand periods.

In FY 2019-20, GIS efforts will include creating new layers showing all easements, and completion of data update for hydrants, service lines, and customer water quality complaints.

Engineering Accomplishments FY 2018-19

Key Engineering projects completed in FY 2018-19 included:

- Compiled an inventory of all District's physical assets, including specific asset age, expected remaining service life and estimated replacement costs.
- Completed construction and performance testing of aeration systems at Fairview Reservoir and Ellwood Reservoir to improve water quality, and completed design work for an aeration system at Corona Reservoir.

- Performed jar testing, bench scale testing, and pilot testing to reduce total organic carbon levels and trihalomethanes, and prepared for demonstration-scale plant testing.
- Completed CEQA review and initiated the permitting process with Regional Water Quality Control Board for Aquifer Storage and Recovery within the Goleta Groundwater Basin.
- Completed Standard Operating Procedures for well facility operations during both production and injection to maximize life and sustained production, and to maintain readiness for emergency use after periods of non-operation.
- Completed conditions assessment for the District's entire cathodic protection system and completed subsequent repairs and equipment replacements.
- Completed a vulnerability assessment of pipeline creek crossings.
- Completed design and construction of a new radio antennae at CDMWTP to improve communications with remote facilities.
- Completed creation of GIS layers for service lines and seismic features, as well as initiated creation of GIS layers for customer water quality complaints, easements, and cathodic protection systems.

FY 2019-20 Engineering Budget

Table 4.4 outlines Engineering expenditures and describes variances between FY 2018-19 Budget and FY 2019-20 budgeted expenditures.

Table 4.4 FY 2019-20 Engineering Cost Center Budget Summary

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Engineering					
Personnel:	**$ 388,299**	**$ 523,113**	**$ 633,074**	**$ 244,775**	**63%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	9,735	9,669	7,785	(1,950)	(20%)
Maintenance & Equipment	600	764	600	0	0%
Services & Supplies	420,076	427,425	427,102	7,026	2%
Subtotal:	**430,411**	**437,858**	**435,487**	**5,076**	**1%**
Total Expenditures:	**$ 818,710**	**$ 960,971**	**$ 1,068,560**	**$ 249,850**	**31%**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

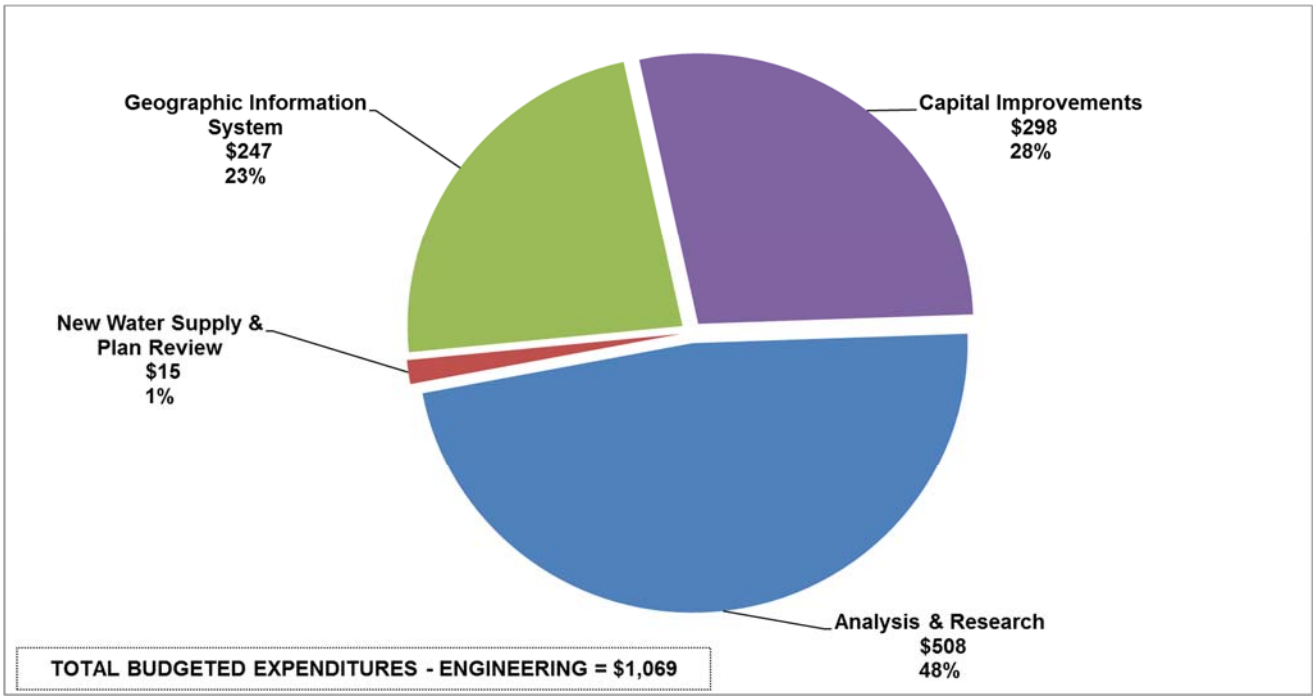
Engineering expenses will increase by $250K, or 31%, in FY 2019-20 primarily due to personnel efforts shifting to non-capital related projects such as water quality studies and analyses. Of note, no new staff have been added to the department.

Table 4.5 and Figure 4.5 provide a detailed breakdown of Engineering expenditures by programmatic cost center.

Table 4.5 FY 2019-20 Engineering Budgeted Expenditures by Programmatic Cost Center

Description	Analysis & Research	New Water Supply & Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 253,108	$ 4,966	$ 88,598	$ 95,998	$ 442,669
Personnel - Benefits	70,585	2,488	48,855	31,948	153,876
Personnel - Taxes & W.C.	19,883	443	7,647	8,555	36,529
Insurance, Accounting, & Auditing	5,835	1,950	0	0	7,785
Maintenance & Equipment	0	600	0	0	600
Services & Supplies	159,054	4,777	101,800	161,472	427,102
Total:	**$ 508,464**	**$ 15,224**	**$ 246,900**	**$ 297,972**	**$ 1,068,560**

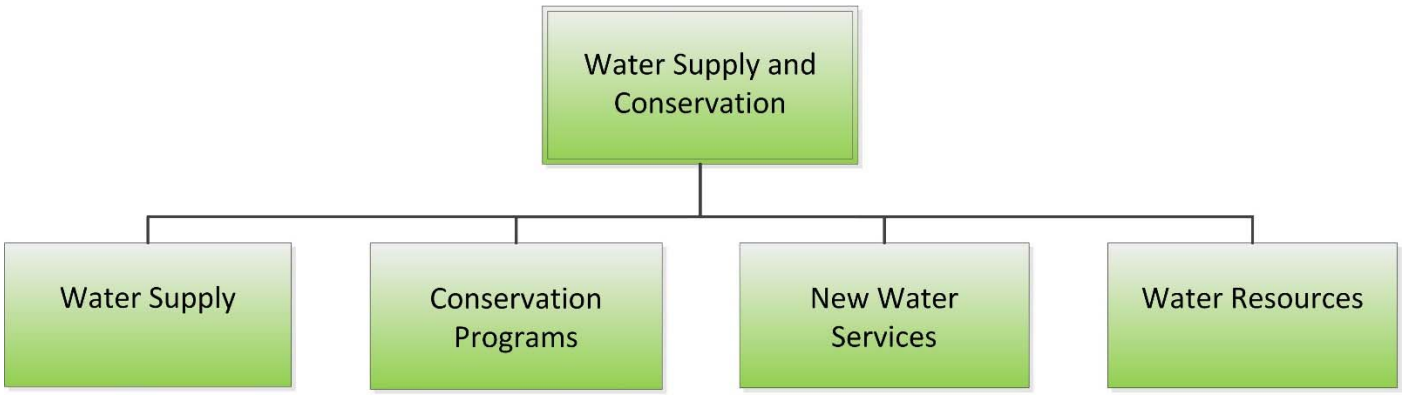
Figure 4.5 FY 2019-20 Engineering Budgeted Expenditures by Programmatic Cost Center ($000s)



WATER SUPPLY & CONSERVATION COST CENTER

The WS&C cost center includes the following programmatic cost centers: Water Supply, Conservation Programs, New Water Services, and Water Resources, as shown in Figure 4.6.

Figure 4.6 Water Supply and Conservation Programmatic Functions



Water Supply

The District's diverse water supply portfolio, coupled with the community's commitment to conservation allows the District to meet the needs of 87,000 residential, commercial, and agricultural customers in the Goleta Valley. The Water Supply cost center covers costs related to District water supply entitlements, including significant expenses associated with the State Water Project through CCWA, and Cachuma Project water through COMB. CCWA costs include fixed and variable costs from DWR for State Water supplies and transportation-related expenses. Cachuma Project expenses include the costs of supplying and conveying water from Lake Cachuma, including O&M costs passed through by USBR. Water Supply costs also include water rights and public trust resources protection and advocacy through CCRB.

Conservation Programs

Conservation and efficient water use helps preserve and extend water supplies for all District customers. As a long-time leader in conservation practices and partner to the California Water Efficiency Partnership (previously CUWCC), the District works in partnership with agencies and organizations across the region to support customers to use water as efficiently as possible. While District water supplies were augmented by 2018-19 winter storms, conservation remains a key element of demand management. Existing conservation program elements will continue to be offered to targeted customer categories in FY 2019-20 to continue to maintain indoor and outdoor water savings.

New Water Services

The New Water Services cost center focuses on assisting customers through the New Water Service application process. New real estate development projects and other expansions and modifications of potable and recycled water use are reviewed and coordinated within the District, as well as with surrounding local governments and agencies, to ensure safe, reliable and efficient service to customers. The work of New Water Services involves complex research related to water rights, entitlements and agreements, as well as internal and external coordination of utility construction and development, from start to finish, including project accounting and ultimate closeout. New Water Services conducts contingency planning and outreach to the development community on issues related to the drought and its impacts on new development.

Even though the Water Shortage Emergency has been lowered to a Stage I, the moratorium on new meters and new water allocations under the voter-approved SAFE Ordinance remains in effect.

Water Resources

The Water Resources program supports the ongoing management of water supply agreements and coordinates updates to the District foundational resource plans, including the Groundwater Management Plan, Water Supply Management Plan, Urban Water Management Plan and the Sustainability Plan. The Water Resources team provides analytical support as well as special research needed to implement the policies established by the voter-approved SAFE Water Supplies Ordinance, District Code and regulations, water supply agreements, and state and federal laws and regulations. FY 2019-20 priorities include: ongoing implementation and reporting related to the Sustainability Plan; groundwater management and replenishment; and research, policy development and contingency planning related to optimizing conjunctive use of the District's water resources. The Water Resources cost center also includes a grant management function and is responsible for seeking out and applying for new grant opportunities. During FY 2019-20, grant activities will be focused on securing funding for projects identified in the District's Sustainability Plan, and securing additional capital improvements funding from State and Federal agencies to maintain water quality.

Water Supply and Conservation (WS&C) Accomplishments FY 2018-19

Key WS&C accomplishments during FY 2018-19, include:

- Continued implementation of Board-adopted Stage III water use restrictions, including watering day and time enforcement, as well as prohibitions on water waste.
- Continued compliance with statewide emergency regulations for water conservation mandated by the State Water Resources Control Board, and submission of monthly water production and customer demand data to the State.
- Interacted with more than 2,500 customers at conservation outreach events and 450 students via school presentations to educate the community on the drought, local and statewide water use restrictions, and ways to eliminate water waste and conserve water.

- Completed the final transfer of previously federally owned Goleta Distribution System facilities and easements from the United States Bureau of Reclamation to the District, including approximately 59 miles of pipelines and appurtenances, approximately 1,000 easements and rights-of-way, the San Antonio Booster Pump Station, and the Glen Annie Pump House.
- Adopted the 2019 Integrated Regional Water Management Plan for Santa Barbara County.
- Updated the District's USBR Agricultural Water Management Plan.
- Completed yearly update to District's Sustainably Plan.
- Processed and activated two new recycled water connections saving additional portable water supplies.
- Worked extensively with CCRB to respond to a Draft Biological Opinion for endangered sheethead.
- Distributed approximately 200 rebates through the Smart Landscape Rebate Program, the Water Saving Incentive Program for water-saving projects on larger landscapes and landscape irrigation accounts, and the mulch rebate program.
- Continued ongoing negotiations related to the Cachuma Project Master Contract, which directly impacts the District's long-term water availability from Lake Cachuma.
- Assisted CCRB in response to a draft water rights order for the Cachuma Project.

FY 2019-20 Water Supply and Conservation Budget

Table 4.6 details the primary FY 2019-20 WS&C budgeted expenditures and variances from the FY 2018-19 Budget.

Table 4.6 FY 2019-20 Water Supply and Conservation Cost Center Budget Summary

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - WS&C					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,461,001	$ 2,413,294	$ 3,528,721	$ 67,720	2%
CCRB (Water Rights)	539,633	487,351	706,100	166,467	31%
SB County (Cloud Seeding)	32,000	11,440	32,858	858	3%
CCWA (State Water Deliveries)	9,308,569	10,457,246	9,155,180	(153,389)	(2%)
GSD (Recycled Water Production)	604,630	491,392	964,630	360,000	60%
Subtotal:	**13,945,833**	**13,860,724**	**14,387,489**	**441,656**	**3%**
Personnel:	**1,181,827**	**1,340,609**	**1,280,069**	**98,242**	**8%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	34,418	34,752	40,796	6,378	19%
Maintenance & Equipment	200	0	200	0	0%
Services & Supplies	584,900	389,423	312,331	(272,569)	(47%)
Subtotal:	**619,518**	**424,175**	**353,327**	**(266,191)**	**(43%)**
Total Expenditures:	**$ 15,747,178**	**$ 15,625,507**	**$ 16,020,884**	**$ 273,706**	**2%**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

The WS&C cost center Budget will increase by $274K in FY 2019-20. Notable changes from the FY 2018-19 Budget to FY 2019-20 Budget include:

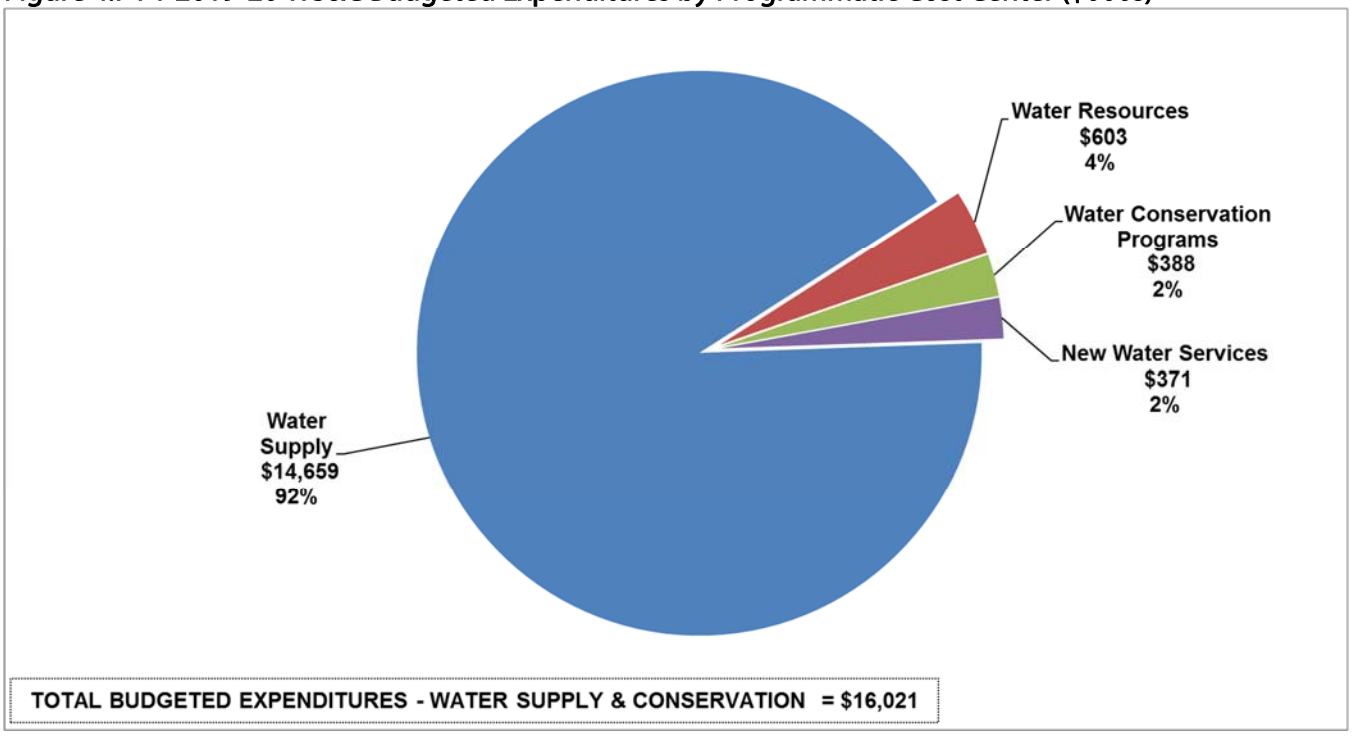
- Overall costs associated with Water Supply Agreements have increased by approximately $442K or 3% due to increased capital improvements for the Recycled Water System and increased activity related to protecting water rights through CCRB, offset against lower State Water deliveries.
- Services and Supplies costs will decrease overall by $273K or 47% in FY 2019-20 due to the high number of plans and reports completed during the previous two years.

Table 4.7 and Figure 4.7 provide a detailed breakdown of WS&C expenditures by programmatic cost center.

Table 4.7 FY 2019-20 WS&C Budgeted Expenditures by Programmatic Cost Center

Description	Water Supply	Water Resources	Water Conservation Programs	New Water Services	Total WS&C
COMB (Lake Cachume Deliveries)	$ 3,528,721	$ 0	$ 0	$ 0	$ 3,528,721
CCRB (Water Rights)	706,100	0	0	0	706,100
SB County (Cloud Seeding)	32,858	0	0	0	32,858
CCWA (State Water Deliveries)	9,155,180	0	0	0	9,155,180
GSD (Recycled Water Production)	964,630	0	0	0	964,630
Personnel - Wages	190,938	317,142	142,431	220,502	871,013
Personnel - Benefits	65,599	110,903	66,941	95,865	339,307
Personnel - Taxes & W.C.	13,669	24,952	12,177	18,951	69,748
Insurance, Accounting, & Auditing	0	27,908	1,218	11,669	40,796
Maintenance & Equipment	0	0	200	0	200
Services & Supplies	1,333	122,067	164,797	24,134	312,331
Total:	**$ 14,659,028**	**$ 602,972**	**$ 387,763**	**$ 371,122**	**$ 16,020,884**

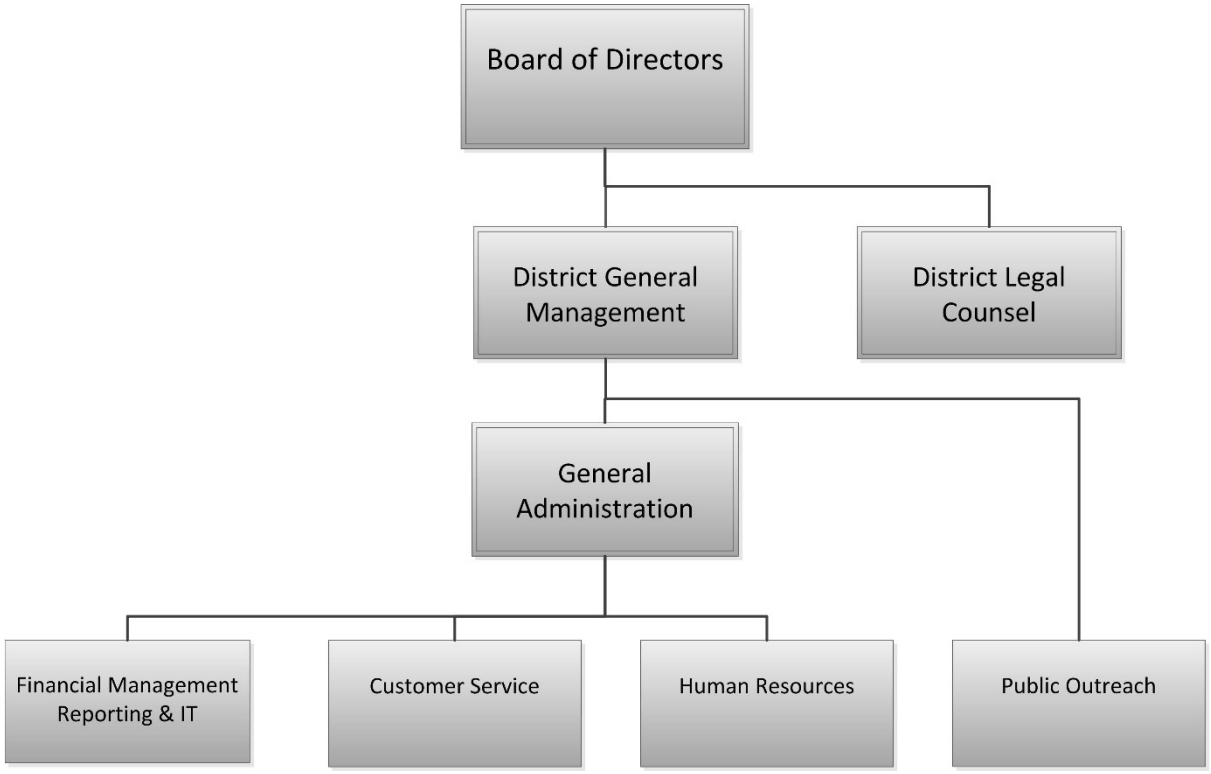
Figure 4.7 FY 2019-20 WS&C Budgeted Expenditures by Programmatic Cost Center ($000s)



General Administration Cost Center

The General Administration cost center includes the Board of Directors, District General Management, District Legal Counsel, and General Administration cost centers including Financial Management, Reporting, Information Technology, Public Outreach, Customer Service, and Human Resources, as outlined in Figure 4.8.

Figure 4.8 General Administration Programmatic Functions



Financial Management, Reporting, & Information Technology (IT)

The Financial Management, Reporting, & Information Technology cost center includes all financial and accounting services to ensure proper controls and processes are in place to accurately collect revenue and disburse expenditures. Routine administration services include accounts payable, accounts receivable, investment and cash management, annual budget preparation, monthly budget tracking, cash flow analysis, payroll and benefit processing, rate analysis, procurement and contract management, and annual audit report preparation. This cost center is responsible for implementing governmental accounting standards to provide timely, accurate and meaningful financial information to the public and the Board of Directors. Finally, this cost center provides and supports technology tools for internal District operations, as well as District customers. These include network support services, customer information systems, and billing support services, among others. During FY 2019-20, the District will continue to implement process and system improvements that will enhance operational efficiencies, and focus on the completion and implementation of the new Five-Year Financial Plan and Cost of Service Study.

Customer Service

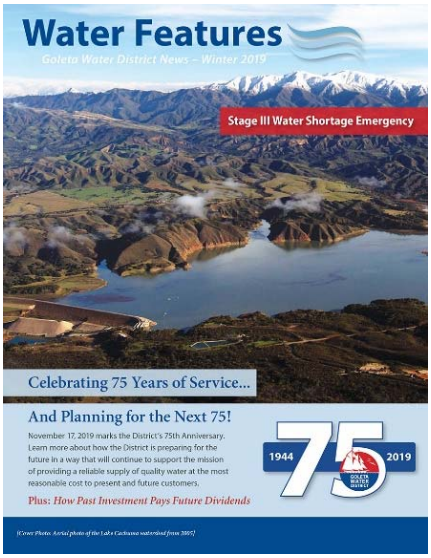
The Customer Service center is the initial point of contact for the community, handling incoming calls, receiving visitors at District Headquarters, and managing the billing and collection process for about 17,000 customer connections. In FY 2019-20, Customer Service will continue to focus on increasing customer participation in electronic and automatic payment, increasing paperless billing enrollment, and promoting the newly added internet-based service tools that supplement traditional walk-in and telephone service offerings.

Human Resources

Human Resources works closely with District management to recruit, train, and retain the most qualified personnel for the District. Human Resources also coordinates risk management activities, including the Workplace Safety Program and the Employee Wellness Program, to ensure a safe and healthy work environment for employees. Additionally, staff analyzes and coordinates insurance matters in cooperation with the District insurance provider, Association of California Water Agencies (ACWA)/Joint Points Insurance Authority (JPIA).

Public Outreach

The Public Outreach function includes all District communications, media relations, press releases, special outreach initiatives, newsletters, oversight of the District's website, social media, and internet presence. This effort ensures customers are equipped with reliable, timely, and objective information, enabling a clear understanding of District issues and activities. FY 2019-20 public outreach will celebrate the District's 75th Anniversary, support voluntary conservation, and educate customers on where their water comes from and the various challenges facing the District's water supply portfolio. The District will continue to identify innovative and effective communication methods to engage with and understand the District's customer base, ensuring District services align with customer needs and values.



General Administration Accomplishments FY 2018-19

The General Administration cost center completed several key projects during FY 2018-19 including:

- Completed the District's comprehensive Annual Financial Report and received an unmodified ("clean") opinion on the audited financial statements.
- Successfully launched the internet-based customer service web tools to automate work orders and customer profile changes, reducing paperwork, data entry, and potential for mistakes while improving convenience to customers. These improvements provide customers with the flexibility of submitting their requests at their convenience via any mobile or computer device that has internet connectivity and

will also reduce customer wait times during high volume months associated with move-in and move-out.
- Completed accounting system upgrade to Microsoft Great Plains 2018, which will provide new functionalities for future operational improvements including paperless approvals for purchases, attaching relevant supporting documentation to all entries, and other features.
- Replaced and expanded the capacity of the District's network servers to improve reliability and efficiency to enable the District to continue its shift towards paperless processing and reporting.
- Received two ACWA JPIA President's Special Recognition awards for achieving a low loss ratio in both the Liability and Property Insurance programs.
- Issued over 200,000 customer bills on a timely basis through our billing vendor, Global Water Management, LLC.
- Received approximately 80,000 page views on the website, with customer online access and customer service ranking as the most popular items.
- Implemented a paperless scanning inventory tracking system.
- Organized Spanish language resources into an easy to access resource page on the website.
- Expanded the District's social media and Conservation Video Series outreach.
- Awarded a $257K FEMA Grant to offset Thomas Fire related expenses.
- Received a JPIA Wellness Grant to fund the District's Healthy Work Place Program.

FY 2019-20 General Administration Budget

Table 4.8 compares General Administration budget variances between FY 2018-19 and FY 2019-20.

Table 4.8 FY 2019-20 General Administration Cost Center Budget Summary

Category	Adopted Budget FY 2018-19	Estimated Actual FY 2018-19	Adopted Budget FY 2019-20	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - General Admin.					
Personnel:	**$ 2,679,196**	**$ 2,940,709**	**$ 2,751,012**	**$ 71,816**	**3%**
Other Post Employment Benefits:	**503,176**	**591,329**	**495,138**	**(8,038)**	**(2%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	107,950	102,529	109,000	1,050	1%
Legal	1,015,200	738,709	1,014,600	(600)	(0%)
Services & Supplies	959,667	896,093	1,077,960	118,293	12%
Subtotal:	**2,082,817**	**1,737,332**	**2,201,560**	**118,743**	**6%**
Total Expenditures:	**$ 5,265,189**	**$ 5,269,370**	**$ 5,447,710**	**$ 182,521**	**3%**

** Compares FY 2019-20 Adopted Budget to FY 2018-19 Adopted Budget*

The General Administration Budget will increase by $183K, or 3% in FY 2019-20. Notable General Administration changes from FY 2018-19 to FY 2019-20 Budget include:
- Personnel costs will increase by $72K to fulfill current SEIU MOU obligations.

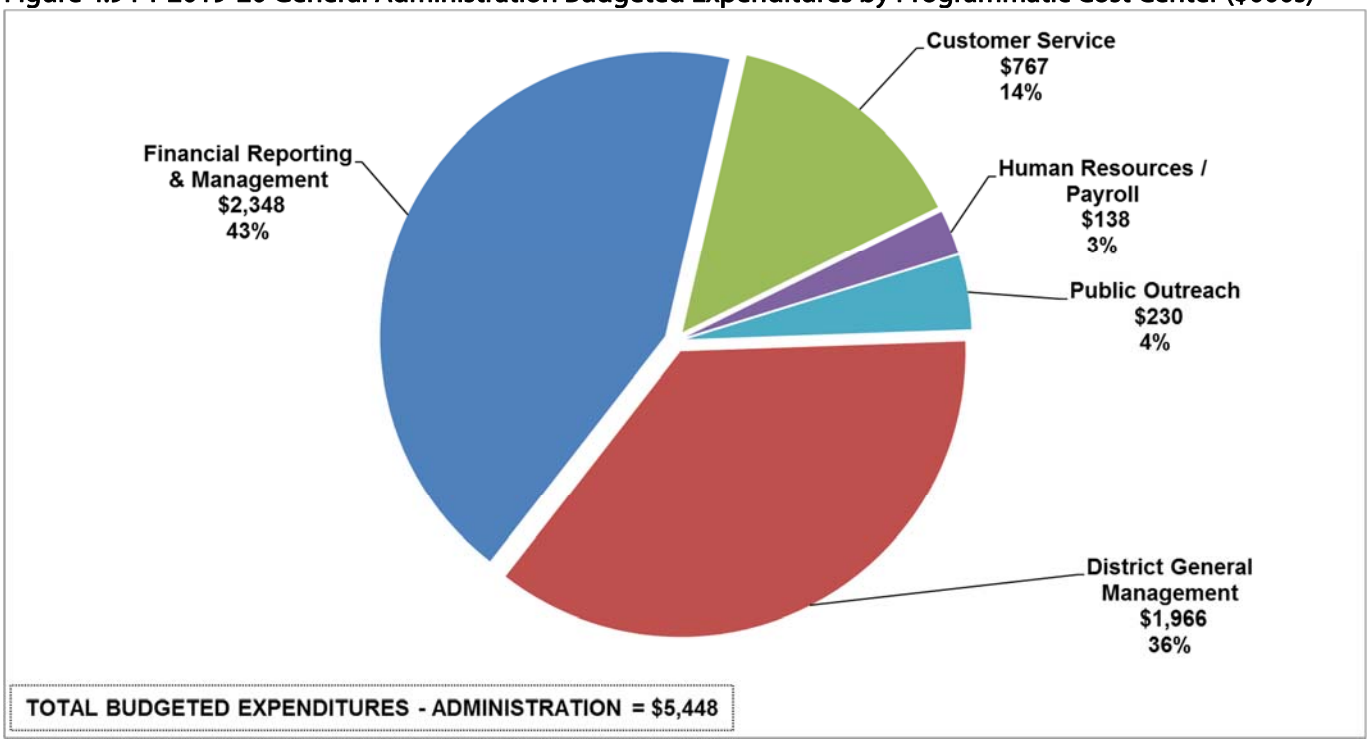
- Service & Supplies will increase by $118K primarily due to professional fees related to the development of the new Five-Year Financial Plan and the Cost of Service Study.

Table 4.9 and Figure 4.9 provide a detailed breakdown of General Administration expenditures by programmatic cost center.

Table 4.9 FY 2019-20 General Administration Budgeted Expenditures by Programmatic Cost Center

Description	District General Management	Financial Reporting & Management	Customer Service	Human Resources / Payroll	Public Outreach	Total Administration
Personnel - Wages	$ 406,033	$ 1,097,054	$ 180,989	$ 67,781	$ 97,516	$ 1,849,373
Personnel - Benefits	226,583	369,058	102,431	33,197	26,845	758,113
Personnel - Taxes & W.C.	26,522	88,710	15,034	5,756	7,503	143,526
Other Post Employment Benefits	0	495,138	0	0	0	495,138
Insurance, Accounting, & Auditing	46,000	61,000	0	0	2,000	109,000
Legal	1,005,000	0	0	9,600	0	1,014,600
Services & Supplies	255,500	236,950	468,600	21,250	95,660	1,077,960
Total:	**$ 1,965,637**	**$ 2,347,910**	**$ 767,054**	**$ 137,585**	**$ 229,524**	**$ 5,447,710**

Figure 4.9 FY 2019-20 General Administration Budgeted Expenditures by Programmatic Cost Center ($000s)



District Organization

The District is governed by a five-member, publicly elected Board of Directors that is responsible for the policy direction of the organization. Day-to-day policy implementation and operations of the District are led by the General Manager. The Assistant General Manager serves as Chief-of-Staff, directing activities of the four departments: Operations, Engineering, WS&C, and General Administration. Each department is responsible for specific programmatic functions to provide safe and reliable water supplies to the region at predictable rates. A detailed organizational chart is provided in Appendix Figure 4.10.

Figure 4.10 Organizational Chart by Department and Position

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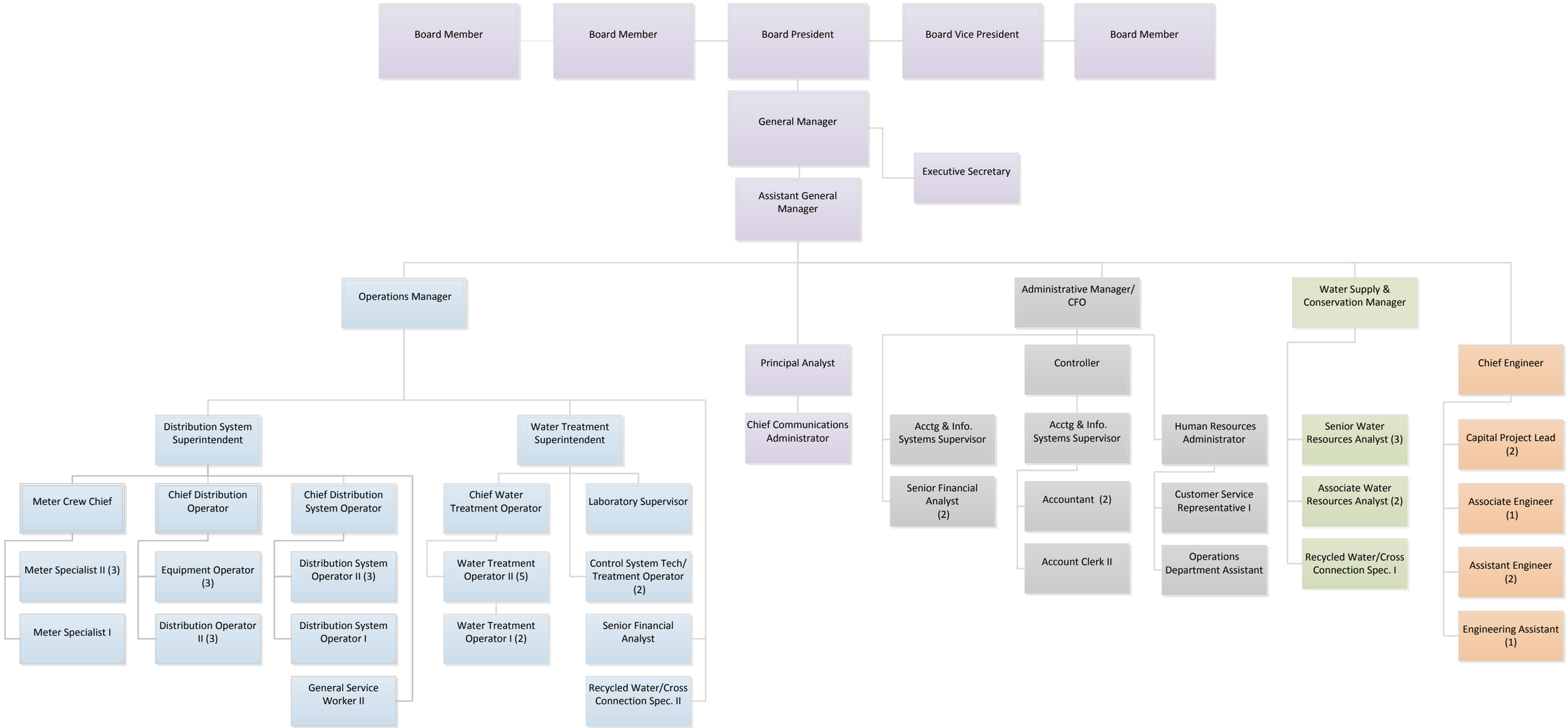
Figure 4.10 Organizational Chart by Department and Position



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GOLETA WATER DISTRICT

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