GOLETA WATER DISTRICT

GOLETA, CALIFORNIA

Fiscal Year 2012-13

FINAL BUDGET

Mission

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

Cover photo: Lake Cachuma, the District's principal water source.

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
BMP	Best Management Practices
CalPERS	California Public Employees' Retirement System
CDPH	California Department of Public Health
CCRB	Cachuma Conservation and Release Board
CCWA	Central Coast Water Authority
CIP	Capital Improvement Projects
COMB	Cachuma Operation and Maintenance Board
COP	Certificates of Participation
CSDA	California Special Districts Association
CUWCC	California Urban Water Conservation Council
DWR	Department of Water Resources
EPA	Environmental Protection Agency
FTE	Full-Time Equivalent
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GIS	Geographic Information System
GSD	Goleta Sanitary District
GWC	Goleta West Conduit
GWD	Goleta Water District
HR	Human Resources
HCF	Hundred Cubic Feet
IIP	Infrastructure Improvement Plan
JPIA	Joint Powers Insurance Authority
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
MFR	Multi Family Residence
NWSC	New Water Supply Charge
O&M	Operation and Maintenance
OPEB	Other Post Employment Benefits
SFR	Single Family Residence
SEIU	Service Employees International Union
SWP	State Water Project
SWRCB	State Water Resources Control Board
T&D	Transmission & Distribution
USBR	United States Bureau of Reclamation
WS&C	Water Supply & Conservation Department

SECTION I

OVERVIEW

SECTION I – OVERVIEW

Introduction

The Goleta Water District (District) mission is to provide an adequate supply of quality water at the most reasonable cost to present and future customers. This Fiscal Year (FY) 2012-13 Operating Budget (Budget) outlines a spending plan consistent with the policy goals, operational priorities and critical infrastructure needs that were identified in three foundational District documents: the 2011 Cost of Service Study, the 5-year Financial Plan and the Infrastructure Improvement Plan (IIP). Implementing the plans detailed in these documents, the FY 2012-13 Budget frames the relationship between appropriate revenue forecasting, prudent expenditure management and necessary investment in District infrastructure.

Each year, the Board of Directors approves a cash-based Budget as the District's foundational spending plan. The Budget summarizes a projection of revenues and expenditures needed for operations, maintenance, administration, debt service and planned capital improvements that are associated with delivering high-quality service to customers throughout the year. In developing the Budget, staff considered both internal and external factors including the economy, weather, customer water use trends, as well as the condition and age of District infrastructure.

The FY 2012-13 Budget supports the District's long-term viability and ability to provide high quality service to the 87,000 residents it serves. Recognizing the public trust obligation of providing a lifeline service, the Budget allows best practices to be incorporated into operations, thereby protecting and preserving critical resources now and into the future. Specifically, a set of FY 2012-13 initiatives is proposed that will modernize customer service, protect water supplies and prepare for emergencies. Examples of these efforts include the launch of a modern online billing and payment system, contingency preparations for drought and updates to the emergency response plan.

Goleta Water District is committed to investing in critical infrastructure projects that ensure delivery of quality water now and into the future.

Over the last fiscal year, the District managed its expenditure plans in order to maintain a balanced budget and establish a capital reserve. In addition, staff successfully accomplished dozens of key initiatives that the Board of Directors identified as a priority, including:

- Completion of a new Urban Water Management Plan that identifies long range water supply and demand forecasts and complies with California's "20% by 2020" per capita water reduction targets;
- Completion of labor contract negotiations to reduce labor costs and provide long-term structural changes to wages and benefits, contributing to the District's long-term financial sustainability;
- Compliance with all new and more stringent Federal water quality standards;
- Replacement of key mainline valves throughout the system to minimize service interruptions during both routine and emergency repairs to the distribution system; and
- Successful completion of key capital projects identified in the Board of Directors' adopted Infrastructure Improvement Plan.

Budget Summary

As illustrated in Table 1.1, during FY 2012-13 the District will generate $29.4M (96%) of its $30.5M in total revenues from Water Sales and Monthly Service Charges. Total expenditures including Debt and CIP are $30.0M, largely comprised of $10.9M (36% of total expenditures) for Water Supply, $8.3M (28%) for Personnel and $5.0M (17%) for Operations & Maintenance. This Budget provides for $3.6M in scheduled debt service payments and will fund $2.2M of capital improvements. These revenue and expenditure levels were anticipated during the 2011 rates-reset process and identified in the 5-year financial plan, which also recognized the need to increase capital spending levels. The FY 2012-13 will contribute $468K to reserves in preparation for capital contingency events.

LEED Certification of the District's Corona Del Mar Water Treatment Plant (CDMWTP)

The District's CDMWTP office

Table 1.1 FY 2012-13 Budget Summary

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Water Sales	$ 19,008,640	$ 17,394,230	$ 20,540,843	$ 1,532,203	8%
Monthly Service Charges	8,137,296	7,977,042	8,811,840	674,544	8%
New Water Supply Charges	753,372	129,000	221,845	(531,527)	(71%)
Investment Revenue	75,387	67,017	68,722	(6,665)	(9%)
Conveyance Revenue	94,932	169,718	175,302	80,370	85%
Miscellaneous Fees & Charges	357,909	491,461	642,538	284,629	80%
Total Revenue	**$ 28,427,536**	**$ 26,228,468**	**$ 30,461,090**	**$ 2,033,554**	**7%**
Expenditures:					
Surface Water - COMB	$ 2,322,388	$ 2,318,125	$ 2,596,865	$ 274,477	12%
Surface Water - CCRB	200,356	246,356	296,220	95,864	48%
State Water - CCWA	7,407,597	6,635,218	7,506,554	98,957	1%
Recycled Water - GSD	484,932	389,533	487,542	2,610	1%
Cloud Seeding	-	1,200	-	-	
Subtotal	**$ 10,415,273**	**$ 9,590,432**	**$ 10,887,181**	**$ 471,908**	**5%**
Personnel:					
Wages, Benefits, and Taxes	8,265,703	7,646,295	7,883,992	(381,711)	(5%)
Other Post Employment Benefits	352,494	357,113	365,136	12,642	4%
Subtotal	**$ 8,618,197**	**$ 8,003,408**	**$ 8,249,128**	**$ (369,069)**	**(4%)**
Operations & Maintenance Costs:					
Water Treatment	$ 548,618	$ 418,594	$ 626,550	$ 77,932	14%
Water Testing	135,582	98,107	151,811	16,229	12%
Insurance, Accounting, & Auditing	179,200	192,778	197,700	18,500	10%
Maintenance & Equipment	753,691	569,459	1,182,544	428,853	57%
Legal	357,504	312,425	349,762	(7,742)	(2%)
Services & Supplies	1,682,427	1,509,283	2,255,264	572,837	34%
Utilities	235,972	180,678	281,256	45,284	19%
Subtotal	**$ 3,892,994**	**$ 3,281,324**	**$ 5,044,887**	**$ 1,151,893**	**30%**
Total Expenditures before Debt and CIP:	**$ 22,926,464**	**$ 20,875,164**	**$ 24,181,196**	**$ 1,254,732**	**5%**
Debt Service	**$ 3,626,303**	**$ 3,626,303**	**$ 3,566,466**	**$ (59,837)**	**(2%)**
Capital Improvement Projects (CIP):					
Contracted Services & Construction	$ 1,101,000	$ 687,000	$ 1,867,914	$ 766,914	70%
District Labor	-	109,839	377,086	377,086	
Subtotal	**$ 1,101,000**	**$ 796,839**	**$ 2,245,000**	**$ 1,144,000**	**104%**
Total Expenditures:	**$ 27,653,767**	**$ 25,298,306**	**$ 29,992,662**	**$ 2,338,895**	**8%**
Designation to Reserves:	**$ 773,769**	**$ 930,161**	**$ 468,428**	**$ (305,341)**	**(39%)**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Revenue

Approximately 96% of District revenue is derived from rates and charges. Section II of this Budget highlights and analyzes all sources of funds by incorporating scheduled rate adjustments, considering historical revenue trends and examining the influence of economic and weather factors on the annual revenue forecast.

Variable revenues, which primarily include Water Sales to customers, are determined by rates applied to both the quantity of water delivered to each customer as well as the allowed use for water. FY 2012-13 water deliveries are expected to be flat compared to the FY 2011-12 Budget adjusted for conveyance and overlap exchange activity. Water Sales revenue is projected to increase by 8% based on the scheduled rate increase as well as consideration of economic factors and weather conditions.

Monthly Service Charges, the second largest source of District revenues, are charged to all active water service accounts regardless of the amount of water used. The charge primarily depends on the size of the meter, although for 5/8-inch and 3/4-inch sized meters, it could vary depending on the average quantity of water used during a 12 month period. Similar to Water Sales revenue, FY 2012-13 Monthly Service Charge revenue will increase by 8%.

The District receives no taxes, generating all revenues from customer fees and charges. Given the volatility of the economy and climate, accurate and statistically sound revenue forecasting is critical to successful fiscal management.

New Water Supply Charges (NWSC) represents 0.7% of total revenue and applies to customers needing new or expanded water service beyond their historical usage, entitlement, or right. Notably, during FY 2011-12 the local economy continued its sluggish performance as is reflected by the nominal NWSC collections. After consideration of each known development project and measurement of which projects are expected to conclude in FY 2012-13, NWSC revenue for FY 2012-13 is estimated to be greater than those received in FY 2011-12.

The District has agreements to convey approximately 100 to 150 Acre Feet per Year (AFY) of water to three entities operating within its boundaries. The associated Conveyance revenue is determined by an established formula and reconciliation process. Conveyance revenue is expected to remain consistent with actual deliveries in FY 2011-12.

Miscellaneous Fees and Charges (MF&Cs) are derived from activity such as service initiations, disconnections, delinquent payments, temporary meter services and performance of contract revenue projects. Representing a nominal 2% of total District revenue, MF&C levels will be reset for the first time in fifteen years, effective July 1, 2012, to ensure general rate payers do not subsidize the cost of these particular services requested by individual customers.

Expenditures

Expenditures budgeted in FY 2012-13 are dedicated to maintaining service levels, ensuring water quality and investing in infrastructure. By building upon FY 2011-12, when previously-deferred critical programs and activities were reinstated, this Budget continues to prioritize projects that reduce the risk of system failure, avoid more costly future repairs and improve the efficiency of operations. This spending plan is complemented by an aggressive pursuit of cost-effective service delivery strategies. Accordingly, as described in Section III, this Budget places a strong emphasis on controlling costs through continuous improvement in how bids for

services, supplies and materials are conducted, how personnel costs are managed and how repairs are performed.

Beyond the core analysis of District-wide expenditures, the Budget also examines expenditures through two additional lenses. First, Section IV analyzes costs from the functional perspective of each department. Second, the Appendix provides additional cost center detail by department, helping the reader to understand the amount spent on specific programs. The capital planning portion of the Budget, described in Section V is the direct result of continued adaptive planning and project management used to implement the Board-adopted Infrastructure Improvement Plan.

As evident in Table 1.1, the largest category of expenditure proposed for FY 2012-13 is $10.9M for water supply. The primary source of District water is Lake Cachuma, which is supplemented with groundwater sources and District participation in the State Water Project. Additionally, recycled water is made available for certain landscaping needs. As defined in the District 2010 Water Supply Management Plan, careful consideration has been given to water supply and demand in order to produce this Budget. Notably, FY 2012-13 recognizes the low probability of a spill event occurrence at Lake Cachuma and provides for the cost of pumping approximately 1,200 AFY of groundwater via District wells.

Lake Cachuma provides the vast majority of the District's water supply.

The second largest category of proposed FY 2012-13 expenditures is $8.3M for personnel costs. The District has 60 full-time employees, unchanged since FY 2009-10. This small, capable group is well-equipped with the necessary education, certification, training and experience to operate the water treatment plant, maintain and repair over 270 miles of distribution lines, read 16,600 meters monthly, generate customer billing and professionally manage the District.

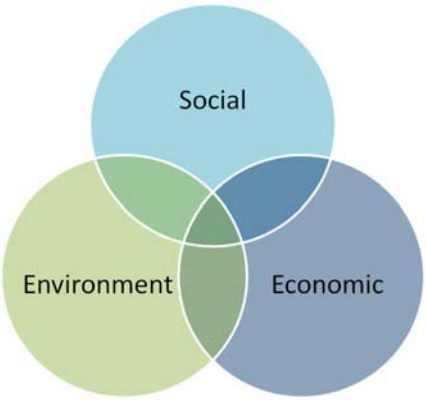
Operation and maintenance costs represent the third largest category of expenditures, at $5.0M and include water treatment, water testing, property and liability insurance, system maintenance, equipment, legal, technology, services and supplies, as well as utility costs. There were a number of previously-deferred projects that are now included in the FY 2012-13 Budget to upgrade technology, complete transfer title of mains from the Federal Government to the District and perform water system maintenance that will prevent deterioration and future costs. As has been noted, by properly maintaining infrastructure, the District provides for the long-term viability of its assets.

Key Initiatives in FY 2012-13

To ensure the long-term viability of water service, infrastructure and operations, several key initiatives are planned:

This FY 2012-13 Budget includes 9 initiatives designed to support a reliable water delivery system.

Sustainability Plan Implementation – Adoption and implementation of the District's inaugural Sustainability Plan will commence in FY 2012-13. The Plan places the District on a course to maximize economic performance and minimize natural resource impact, while upholding community values. This will be achieved by completing a comprehensive small-scale renewable energy feasibility study, building envelope-related energy efficiency improvements, water-wise community garden renewal and expansion, as well as an update to the District's Conservation Plan to identify cost-effective conservation priorities. Additionally, the District will develop an Annual Scorecard to track progress in achieving Sustainability Goals, as well as developing public outreach materials for display booths, the District Main Office Customer Service Area and District website. As part of this effort, the Water Distribution Audit (WDA) will be updated. Since it was last updated, in 2004, new standards and protocols for documenting and controlling water loss have been developed and implemented throughout the water industry. In addition to outlining the various ways to control and reduce water loss in the most cost-efficient manner, the WDA is required for compliance with Best Management Practices for water conservation activities.



Drought and Water Shortage Contingency Plan – Development of a Drought and Water Shortage Contingency Plan following the California Department of Water Resources (DWR) 2008 Urban Drought Guidebook is needed to clearly implement California Water Code Sections 350-359. This plan would enhance and add specificity to the foundation created by the SAFE Water Supplies Ordinance, the Water Supply Management Plan and the Urban Water Management Plan related to planning for and implementing actions to mitigate the impacts of a water shortage.

Integrated Regional Water Management Plan Update – During FY 2012-13, the District will participate in the update to the Santa Barbara County Integrated Regional Water Management Plan (IRWMP). This update will address new State requirements, and provides for a strategic opportunity to compete for and receive new Proposition 84 funding for District infrastructure projects. The District plans active engagement in the process, and is participating on three subcommittees for the IRWMP update: the Project Selection, Goals and Targets Subcommittee; the Climate Change Subcommittee; and the Recycled Water Feasibility Study Subcommittee.

Technology Improvement and Integration – Implementation of a Technology Improvement and Integration project would reinforce District-wide platforms and practices, strengthen decision-making analysis, improve document retention and record-keeping, as well as advance performance of water system maintenance. The District currently operates several technology platforms that include a financial and accounting system, a Geographic Information System (GIS) and historical data housed in a Customer Information System (CIS). Initial reviews of systems indicate a varied degree of age, condition and functionality which limit the ability to retrieve meaningful data in a timely way. As a practical example of technology improvements, the District will compare asset management software tools and assess the opportunity to develop a robust asset management program. By analyzing the condition of individual assets, their expected life span and determining an appropriate maintenance and eventual replacement program, this improvement would allow the District to predict peaks in asset failure rates, quantify the cost of deferred maintenance and prepare long-term financial strategies.

Electronic Billing System – Implementation of an electronic billing system would deliver state-of-the-art, web-based billing and payment capabilities to streamline and enrich information flows as well as strengthen the District's current billing system. Through access to new tools and technologies, the District could significantly improve customer relationships, maximize staff productivity through elimination of manual activity and strengthen internal controls. A robust electronic billing solution would meet increasing customer demands for online billing and payment access, while maintaining existing payment and billing options. Customer outreach would include development of website content, brochures and promotional pieces, including posters for the customer-service area of District offices, media and other outreach materials for use at promotional events such as the Lemon Festival and Earth Day.

The District will modernize administrative operations with delivery of online billing and payment functionality in FY 2012-13.

Injury and Illness Prevention Plan (IIPP) Update – Completion of an update to the IIPP would align documentation of safety regulations and procedures with other District regulations that are in place. The IIPP is required by Title 8 of the California Code of Regulations, Section 3203, and is the overall safety program designed to create an organized approach to employee accident prevention. It provides the documentation, communication, training and employee involvement necessary for an effective program to reduce employee injuries and associated costs as a result of these injuries. The IIPP was last updated in 2008 and will be revised to meet all regulatory requirements, comply with District index practices and ensure consistency with other District documents.

Emergency Response Plan (ERP) Update – During FY 2012-13, the District will update the ERP to be a comprehensive document for use in various emergencies. The current ERP was compiled in 2007 in response to a District Vulnerability Assessment. The update will document all aspects of the District's response to an emergency situation including financial, public relations, agency coordination and operating activities. It will also be designed for all levels of employees to be able to follow in situations where a limited amount of personnel are able to respond to an emergency situation.

Modified Upper Reach Reliability Project (MURRP) Preparation – In cooperation with Cachuma Operation & Maintenance Board (COMB) management, the District will prepare contingency plans to minimize the impact of potential shutdowns of the South Coast Conduit (SCC) that may interrupt water supply to the Corona Del Mar Water Treatment Plant for 12 hours and to parts of the Goleta West Conduit (GWC) for 24 hours. These shutdowns are conducted by COMB for the inspection of the Tecolote Tunnel and the construction of the MURRP, a COMB project. The MURRP will entail various shutdowns during the FY 2012-13 winter season. District staff will communicate with customers on the Goleta West Conduit and, depending upon the duration required for MURPP, coordinate with potable retail customers to reduce demands on the system.

Grant Application Readiness – Grant funding made available through various local, state and federal agencies has the potential to offset costs of infrastructure investment, studies and projects the District plans to undertake. Efforts associated with seeking out grant funding will include initial research to identify available funding the District would be eligible to receive, followed by preparation of studies needed for successful grant applications. During the first year of implementation of the Sustainability Plan, studies and potential funding will be reviewed for two specific projects:

- Glen Annie Reservoir – The United States Bureau of Reclamation (USBR) lowered the water level behind Glen Annie Dam when an engineering study revealed potential weaknesses that could adversely be affected by liquefaction during a seismic event. Once repaired, the reservoir can potentially serve as a storage facility for potable water for use during emergencies, storage for recycled water, or storage for

spill water from Lake Cachuma in wet years. Further studies are required to develop cost estimates and scope of work.

- Cathodic Protection Program – The District's recycled water line is approaching twenty years old and has developed significant leaks that frequently require immediate and costly repairs. The pipe, which is 10 miles long, traverses the Goleta Slough, which is an environmentally sensitive marsh habitat, adding to the urgency of addressing potential leaks and preventing significant failures. Cathodic protection of existing piping offers a means to address these issues.

In summary, the District remains committed to exercising strong fiscal leadership. This means ensuring that rate payer dollars are spent appropriately while providing a strong basis for making critical capital investments now and into the future. The District is proud to deliver a reliable supply of quality water and will continuously seek opportunities to further strengthen its core operations, consistent with a twenty-first century business strategy.

SECTION II

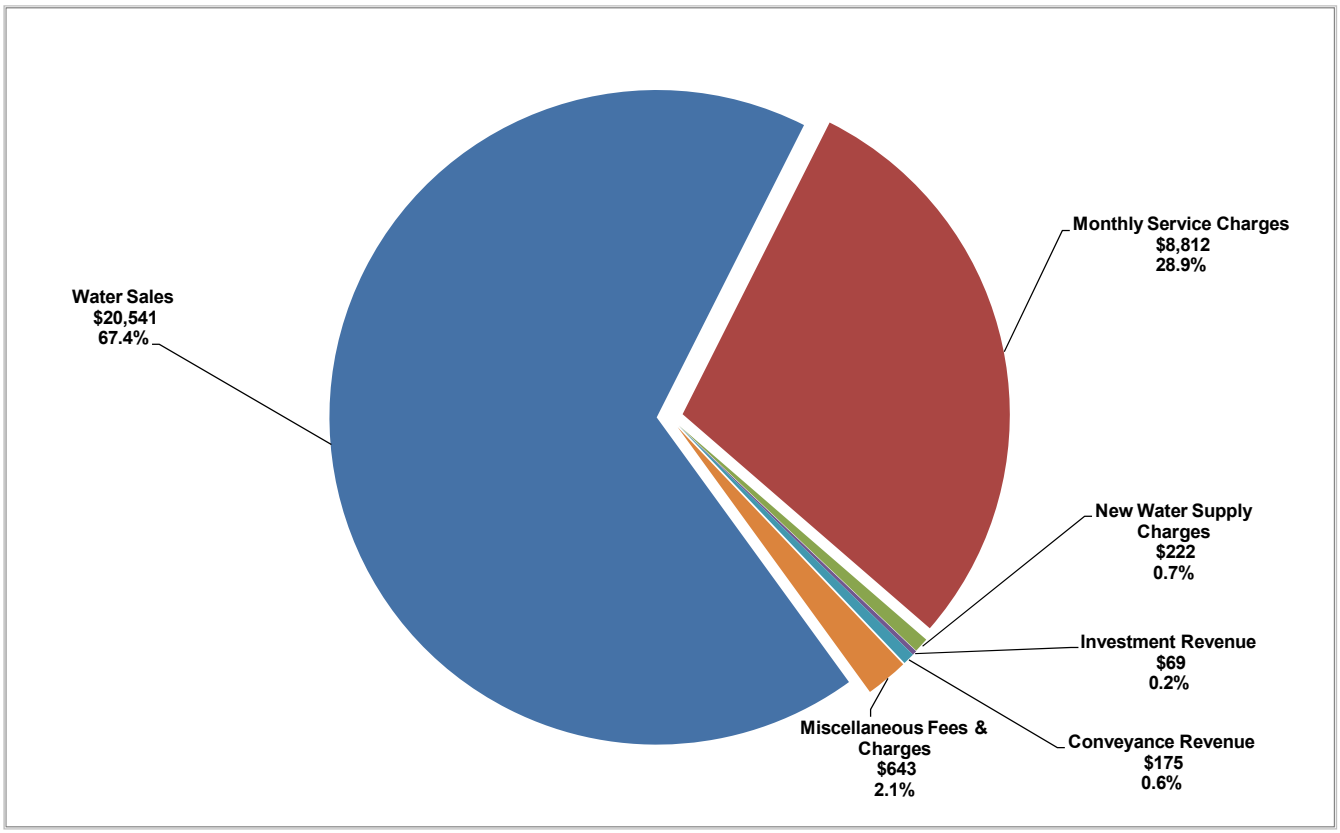
REVENUE

SECTION II – REVENUE

Summary

The District generates 96% of its revenue from Water Sales and Monthly Service Charges as can be seen in Figure 2.1. Water Sales are driven by customer water usage, which in recent years has fallen in response to economic and climatic conditions. Accordingly, it is vital that the District manage cash flow by crafting a long-term financial plan that minimizes the impacts of unforeseen events and externalities that adversely affect revenue. Over the past three years of steady revenue declines, the District proactively curtailed expenditures to balance its Budget. Following the completion of an extensive Cost of Service Study and corresponding 5-year financial plan in 2011, the District adopted a necessary schedule of rate increases to provide for much-needed capital improvements and to establish an operating reserve.

Figure 2.1 FY 2012-13 Budgeted Revenue Allocations ($000s)



As can be seen next, Table 2.1 summarizes FY 2012-13 budgeted revenue and shows that total revenue is projected to increase by $2.0M (7%) as compared to the FY 2011-12 Budget. The majority of this increase is in Water Sales and Monthly Service Charges, which are anticipated to rise by approximately $1.5M (8%) and $675K (8%) respectively as the result of a scheduled rate increase, offset by a correction of approximately $500K attributable to a misclassification of water exchanged between the District and the City of Santa Barbara.

Another significant variance between the FY 2012-13 Budget and the prior year is the revenue associated with the New Water Supply Charge. The FY 2012-13 Budget has identified specific projects for which water is expected to be allocated as opposed to using an estimated average allocation.

Conveyance revenue is estimated to increase by $80K (85%), reflecting how the District recently reconciled conveyance charges to reflect up-to-date costs.

Finally, Miscellaneous Fees and Charges is estimated to increase by $285K (80%), as the fees associated with service initiations, disconnections and delinquent payments were recently updated to ensure full cost recovery for these particular activities.

Table 2.1 FY 2012-13 Budget Revenue versus FY 2011-12 Budget

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Water Sales	$ 19,008,640	$ 17,394,230	$ 20,540,843	$ 1,532,203	8%
Monthly Service Charges	8,137,296	7,977,042	8,811,840	674,544	8%
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Investment Revenue	75,387	67,017	68,722	(6,665)	(9%)
Conveyance Revenue	94,932	169,718	175,302	80,370	85%
Miscellaneous Fees & Charges	357,909	491,461	642,538	284,629	80%
Total Revenue	**$ 28,427,536**	**$ 26,228,468**	**$ 30,461,090**	**$ 2,033,554**	**7%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Water Sales

The amount of Sales Revenue derived from each customer category varies based on the cost of providing service to that category. Similarly, the amount of water used by each customer category varies, given specific dynamics associated with each respective type of customer. For example, water usage patterns for Agricultural customers vary from Multi-family residential customers as customers with heavy outdoor use are able to respond to weather to a greater extent.

The monthly amount charged to a customer is determined by the volume of water used as measured in HCFs (1 HCF = 100 cubic feet or 748 gallons). For FY 2012-13, the rate per HCF ranges from $1.18 to $4.78 depending upon the type of customer receiving service. For example, the rate per HCF for Urban Agricultural customers on the potable water system is $1.29 per HCF, compared to $4.78 for residential customers.

To project Water Sales, two key factors must be considered: the economy and weather conditions.

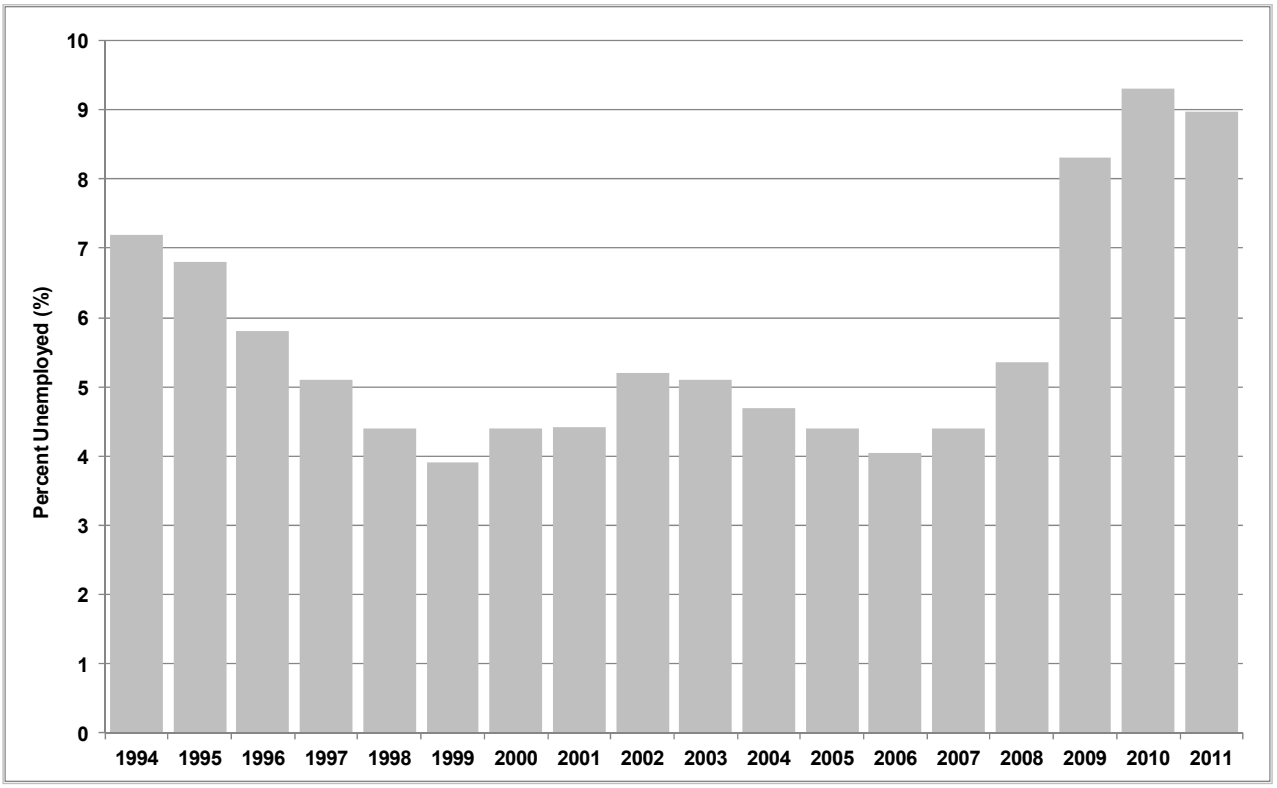
Economic Factors Affecting Water Sales

As with any business or governmental agency, prevailing economic conditions affect sales. As earning power and consumer confidence have declined over the past several years, District customers have reduced their monthly utility bills through conservation, which lowered corresponding revenue to the District.

The local economy exhibits signs of incremental improvement. In fact, there is evidence that declining water usage trends have stabilized. Over the past five years, the Santa Barbara County unemployment rate grew

steadily. As shown in Figure 2.2, the unemployment rate improved slightly in the past year though it remains historically high. Traditionally, unemployment shares a direct correlation with discretionary income, with higher unemployment leading to lower water consumption which, in turn, affects sales. Per the September 2011 *Santa Barbara County Real Estate & Economic Outlook*, there is increasing confidence as the fear of sudden loss of income declines. Nonetheless, the growth of wages and salaries is not likely to exceed the rate of inflation, thereby contributing significantly to a slow economy. The outlook also points to other positive indicators such as increased job creation, fewer foreclosures, increased leasing activity, a rebound in the visitor industry and increased spending in the retail sector of the South Coast economy. Based on this modest growth seen in the local economy, this Budget recognizes the potential for associated revenue growth.

Figure 2.2 Unemployment Rate in Santa Barbara County, 1994-2011



Source: Santa Barbara County Real Estate & Economic Outlook

In anticipation of a stronger economy, local developers have proceeded with specific land-use projects that are anticipated to be completed in FY 2012-13. These projects are expected to use approximately 15 AF of water in FY 2012-13, which represents an additional $64K in revenue. Of this increase, $54K is in the Multi-family Residential category and $9K is in the Commercial category.

In addition to the effects of these new projects, this Budget expects that the economic improvement will reduce the amount of vacant properties and allow for a return to moderate population growth as described in the District 2011 Urban Water Management Plan. This increased occupancy will use approximately 77 AF of additional water in FY 2012-13, valued at $152K across Single-family residential ($74K), Multi-family residential ($22K), Commercial ($28K) and Institutional ($28K) customer categories.

These economic growth related impacts to revenue are mitigated by continued conservation by customers. Revenue is expected to be offset as customers reduce water use by approximately 54 AF in FY 2012-13 based

upon the projected amount of increased conservation in each customer category as outlined in the District 2011 Urban Water Management Plan. Of the associated $112K revenue decrease, $92K is attributable to Single-family residential, $11K to Multi-family residential with modest reductions in other categories.

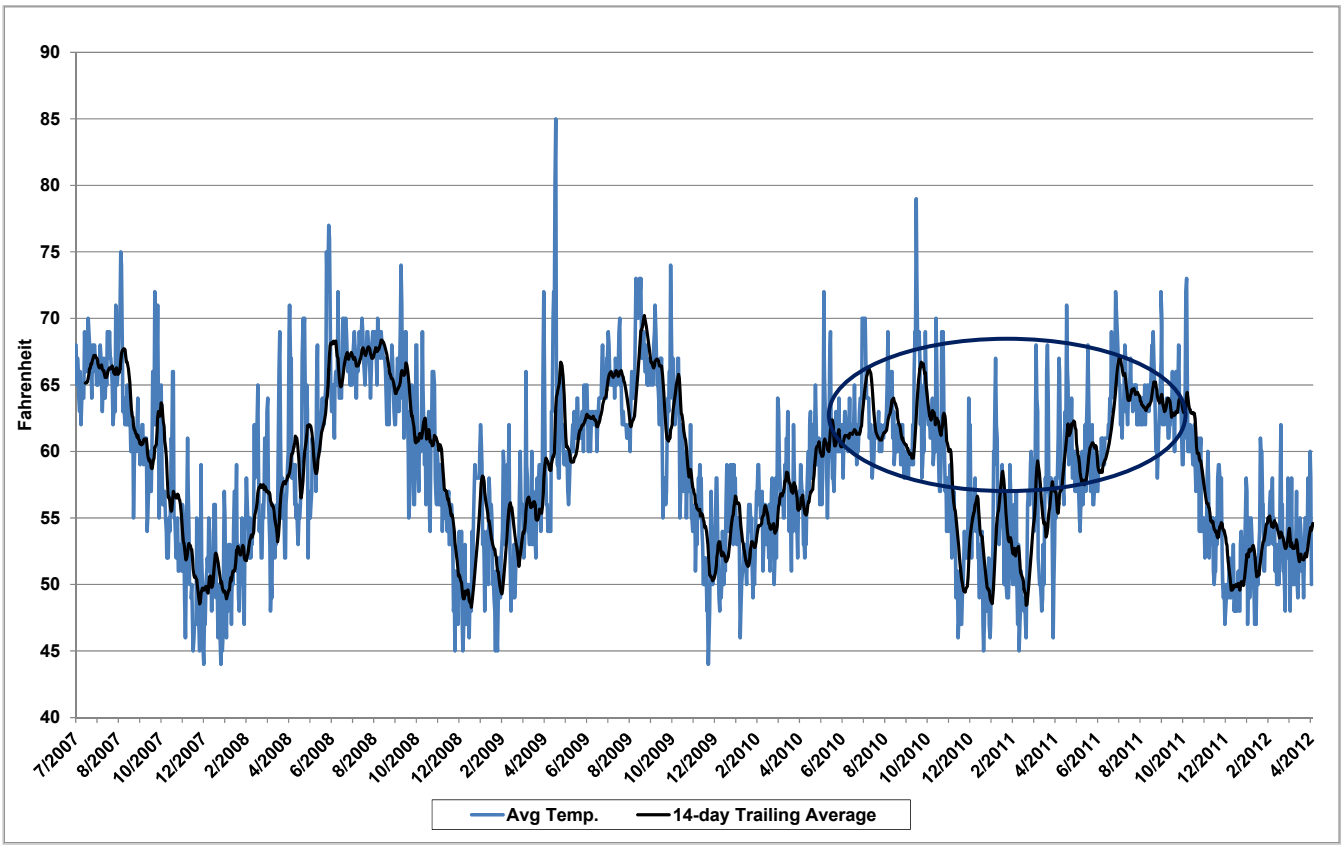
Weather Conditions Affecting Water Sales

Without question, weather patterns are the least predictable yet have the greatest influence on Water Sales. When considering the impact of weather on Water Sales, there are three primary factors: Temperature, Average Annual Rainfall and Seasonality, as well as the Frequency of Rain Events.

- *Temperature*

  Temperatures clearly influence District Water Sales. Figure 2.3 illustrates how the Goleta area experienced a second consecutive spring and summer of relatively cool weather in 2011. The 14-day trailing average temperature during this period was noticeably lower than previous years and lacked typical sustained summertime temperatures. Though not the only influencing factor, there is a correlation between Water Sales and temperatures. Notably, the two summers with the warmest temperatures (in FYs 2007-08 and 2008-09) are also the two highest years of Water Sales figures. As expected, Water Sales in subsequent years fell in a pattern consistent with declining summertime temperatures. Based on the expectations that the past two consecutive summers of relatively cool temperatures will continue, no revenue adjustments were made to the FY 2012-13 Budget for temperatures.

Figure 2.3 Average District Service Area Temperatures



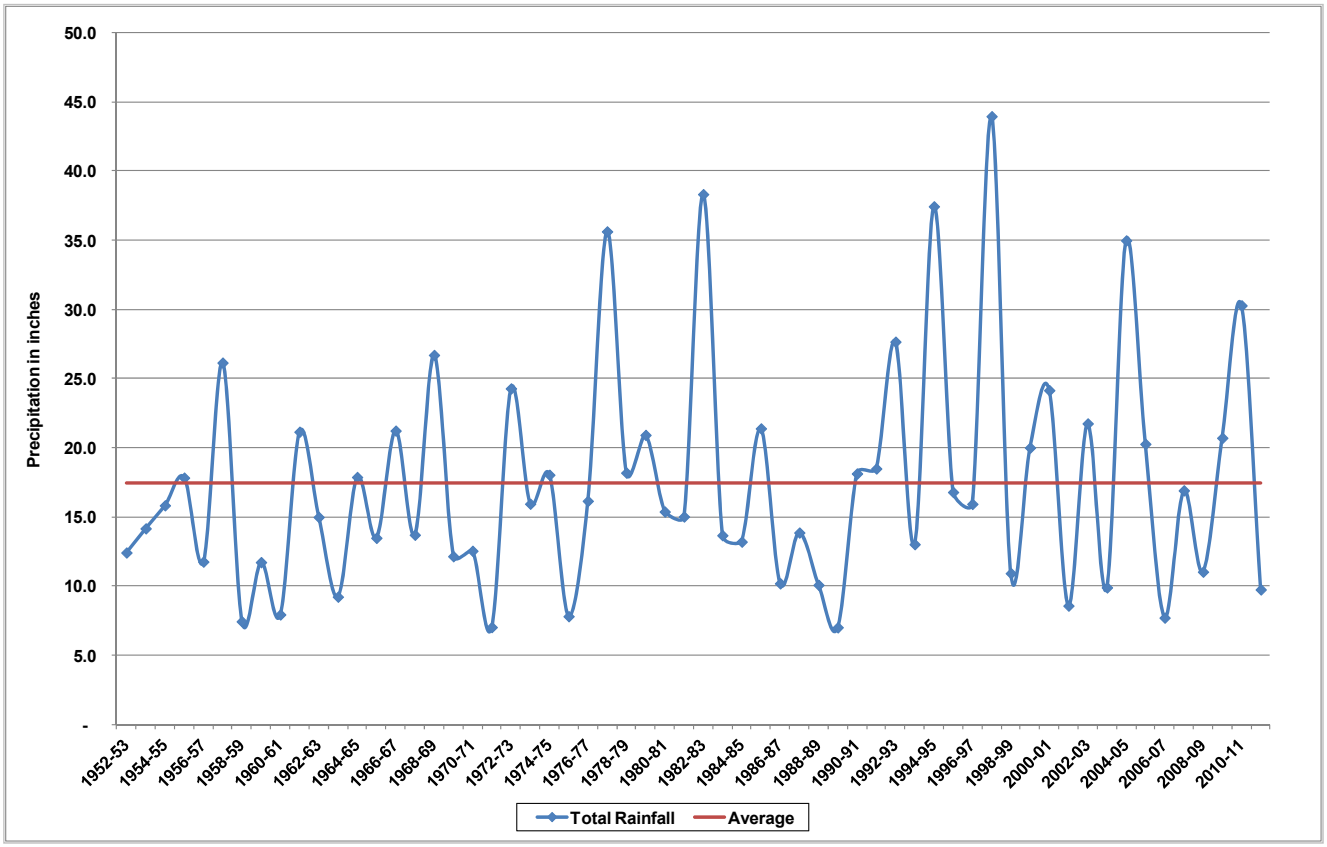
Source: Weather Underground Internet Weather Service

- *Average Annual Rainfall and Seasonality*

Rainfall is also a contributing factor to water deliveries. Figure 2.4 shows that the amount can vary widely from year to year. However, the overall amount of rainfall received is relatively unchanged at 17 inches annually. Accordingly, no revenue adjustments were made to the FY 2012-13 Budget for overall average rainfall.

The District service area receives amongst the highest average amount of precipitation in the entire Santa Barbara County.

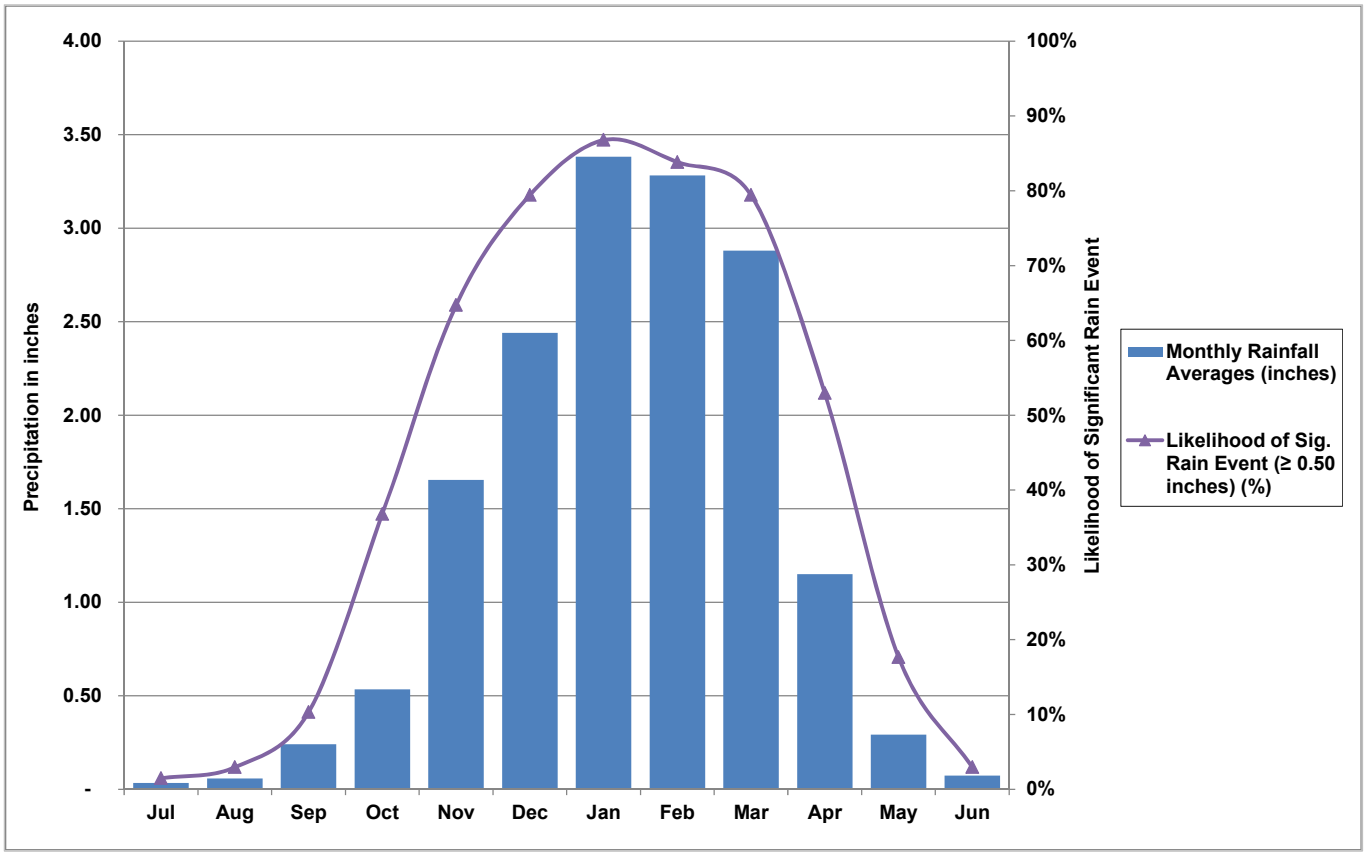
Figure 2.4 County-wide Rainfall in Inches, 60 Year History



Source: Santa Barbara County Public Works Water Resources Division

Figure 2.5 below illustrates a typical annual seasonal rainfall pattern based on the last 70 years. It identifies the likelihood of a significant rain event (0.5 inches of rain or greater in a day) occurring in each month of the year. This history was used in the FY 2012-13 Budget sales forecast. Similar to rainfall amounts discussed on the preceding page, rainfall can deviate from a normal year. Since there is a higher probability that rainfall will follow the typical annual seasonal pattern versus an outlier year, the FY 2012-13 Budget is based on the "Normal" 70-year seasonality. Accordingly, no revenue adjustments were made to the FY 2012-13 Budget for seasonality.

Figure 2.5 Average Monthly Seasonal Rainfall



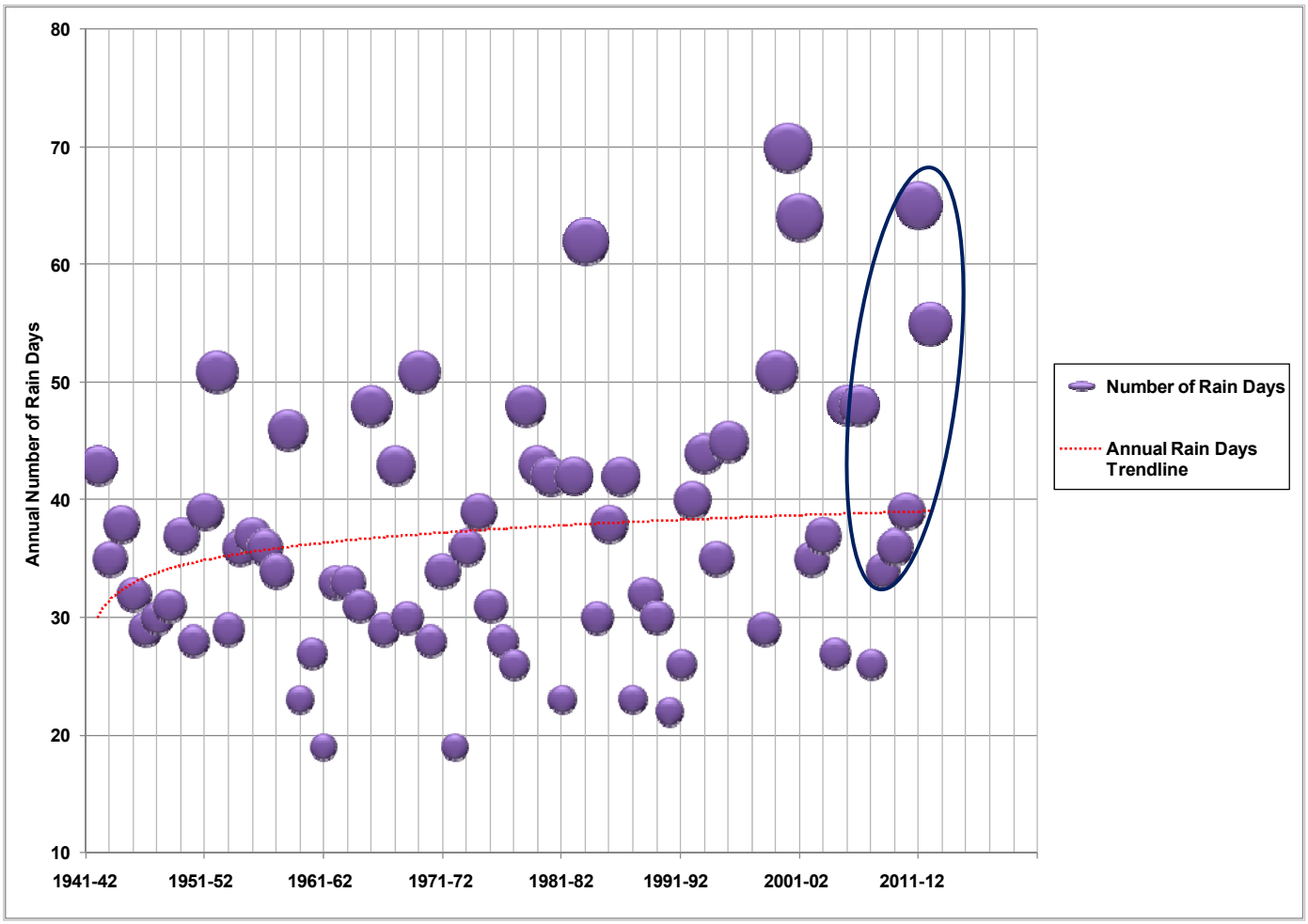
Source: Weather Source, LLC

- *Frequency of Rain Events*

To further validate District revenue budgeting methodologies, 70 years of daily and annual precipitation was examined for trends in the frequency of rain events. Figure 2.6 illustrates a key point: rain events are increasingly frequent as measured in the number of rain days per year. Over the past 5 years, the District experienced a 24% increase in rain days compared to the 70-year average.

The increasing frequency of (light) precipitation and the declining duration of dry periods (or the length of time in between rain events) are both key drivers of decreased water use.

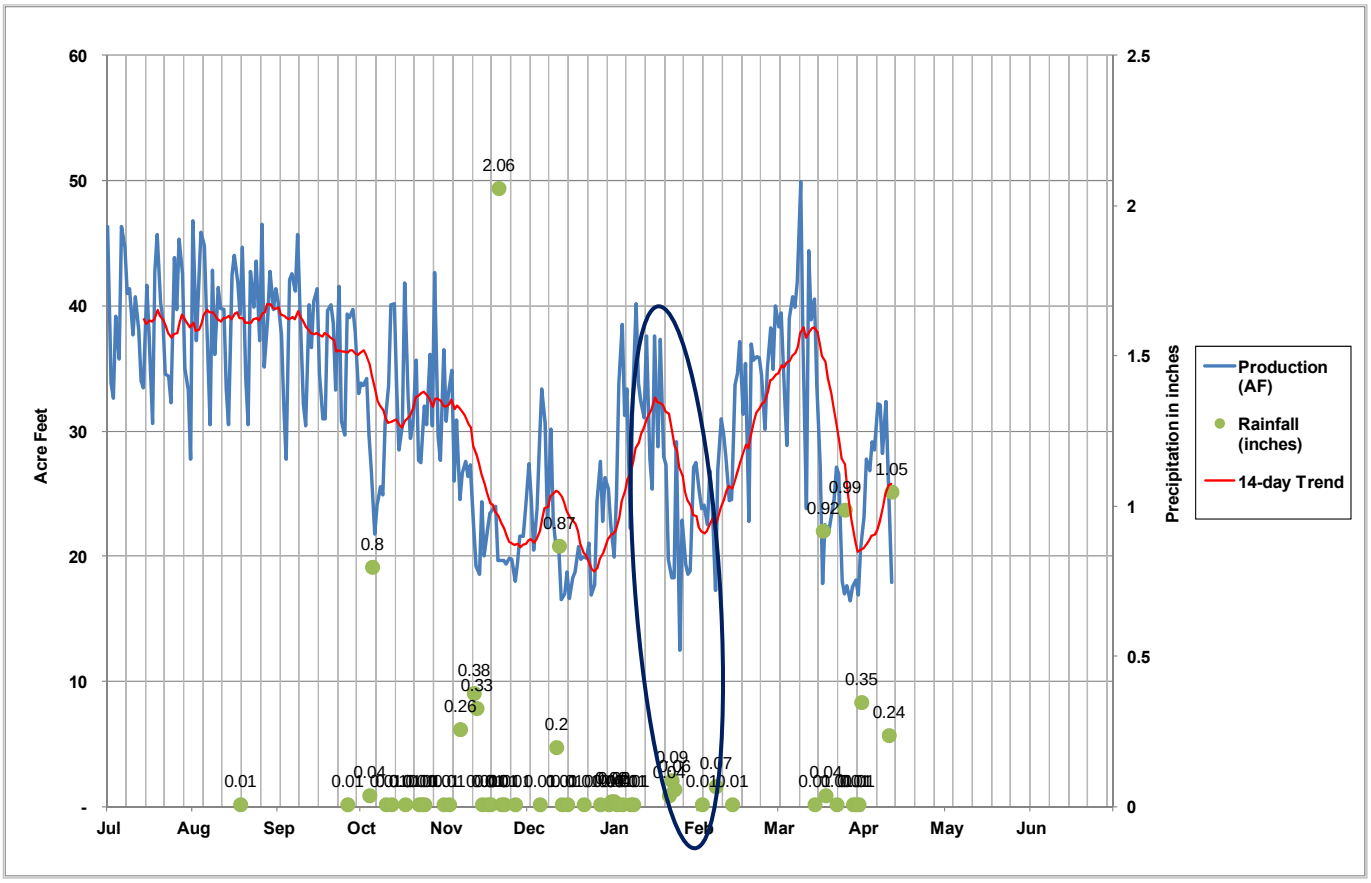
Figure 2.6 District Service Area Precipitation Frequency



Source: Weather Source, LLC

As customers recognize shortened periods of dry weather (or days between rain events), they reduce water usage. Figure 2.7 illustrates how Water Sales decline following rain events. Specifically, the FY 2012-13 Budget estimates that water usage will decline by 105 AF, decreasing revenues by $147K. This revenue decline affects each customer category differently based on their proportional water use. The largest impact is to customers with heavy outdoor use, namely Landscape irrigation by 32 AF ($43K), Agriculture by 32 AF ($15K), Single-family residential by 16 AF ($30K), Institutional by 16 AF ($30K), Multi-family residential by 5 AF ($10K), Commercial by 5 AF ($10K) and Recycled by 9 AF ($9K).

Figure 2.7 FY 2011-12 Daily Water Production



In the upcoming year, the District will continue to monitor how the frequency and duration of each rain event influences the rate at which production returns to expected seasonal levels in order to further refine future forecasts.

Forecasted Water Sales

After incorporating the preceding discussion regarding economic factors and weather conditions, overall water deliveries will increase by 0.4% as shown in Table 2.2. A discussion of the water use and revenues associated with each customer category is discussed next and shown in Figures 2.8 and 2.9.

Table 2.2 Water Use by Customer Category (in AFY)

Category	Adopted Budget FY 2011-12		Budget FY 2012-13	AF Higher (Lower)	% Higher / (Lower)
Single-family residential	4,350		4,407	57	1.3%
Multi-family residential	1,750		1,808	58	3.3%
Commercial	1,980	*	1,992	12	0.6%
Institutional	560		551	(9)	(1.6%)
Landscape irrigation	400		395	(5)	(1.3%)
Agricultural	2,521		2,485	(36)	(1.4%)
Recycled water	848		815	(33)	(3.9%)
Total Water Sales in AFY	12,409		12,453	44	0.4%

** Adjusted for conveyance reclassification and overlap exchange activity*

Single-family residential water use is projected to increase by 57 AF (1.3%) as the result of an overall improvement in the economy which contributes to an increase in occupancy rates as well as an increase in discretionary income. The increased demands will be partially offset by slight reductions associated with more frequent rainfall events, as well as continued water conservation through more efficient water use (i.e., installation of water efficient landscaping and fixtures associated with changes to the building code). Further, there is no expectation that customers will increase per-capita water use in the future, as 30 years of District water conservation efforts have introduced permanent water efficiency practices.

Multi-family residential water use will increase by 58 AF (3.3%) as a result of new construction that will be completed and occupied in FY 2012-13 as well as a decrease in overall vacancy rates. Since the vast majority of water use in this customer category is indoors, no measurable revenue impacts are expected due to weather.

Commercial water use is anticipated to increase by 12 AF (0.6%), reflective of how Goleta-area businesses are faring in the current economic environment. This is consistent with improving occupancy rates. Similar to the Multi-family residential category, the vast majority of water use in this customer category is indoors and no measurable revenue impacts are expected due to weather.

Institutional water use is expected to decline by 9 AF (1.6%), as a result of a combination of continued conservation programming efforts as well as a response to increasing frequency of rain events. This customer category is largely unaffected by the economy.

Landscape irrigation water use is predicted to decrease by 5 AF (1.3%), in recognition of how outdoor water demands are heavily influenced by weather conditions. Similar to the Institutional category, the impacts associated with the economy are expected to be minimal.

Agricultural water use is estimated to decrease by 36 AF (1.4%), as this customer category is highly dependent upon weather fluctuations. Water remains a critical input for agricultural businesses. Therefore, Agricultural water use is only adjusted for the increased frequency of rain events.

Recycled water use is expected to decline by 33 AF (3.9%), as it is exclusively used for irrigation purposes. Accordingly, similar to the Landscape irrigation category, demands are heavily influenced by weather conditions and the impacts associated with the economy are expected to be minimal.

Figure 2.8 FY 2012-13 Budgeted Water Use by Customer Category (in AFY)

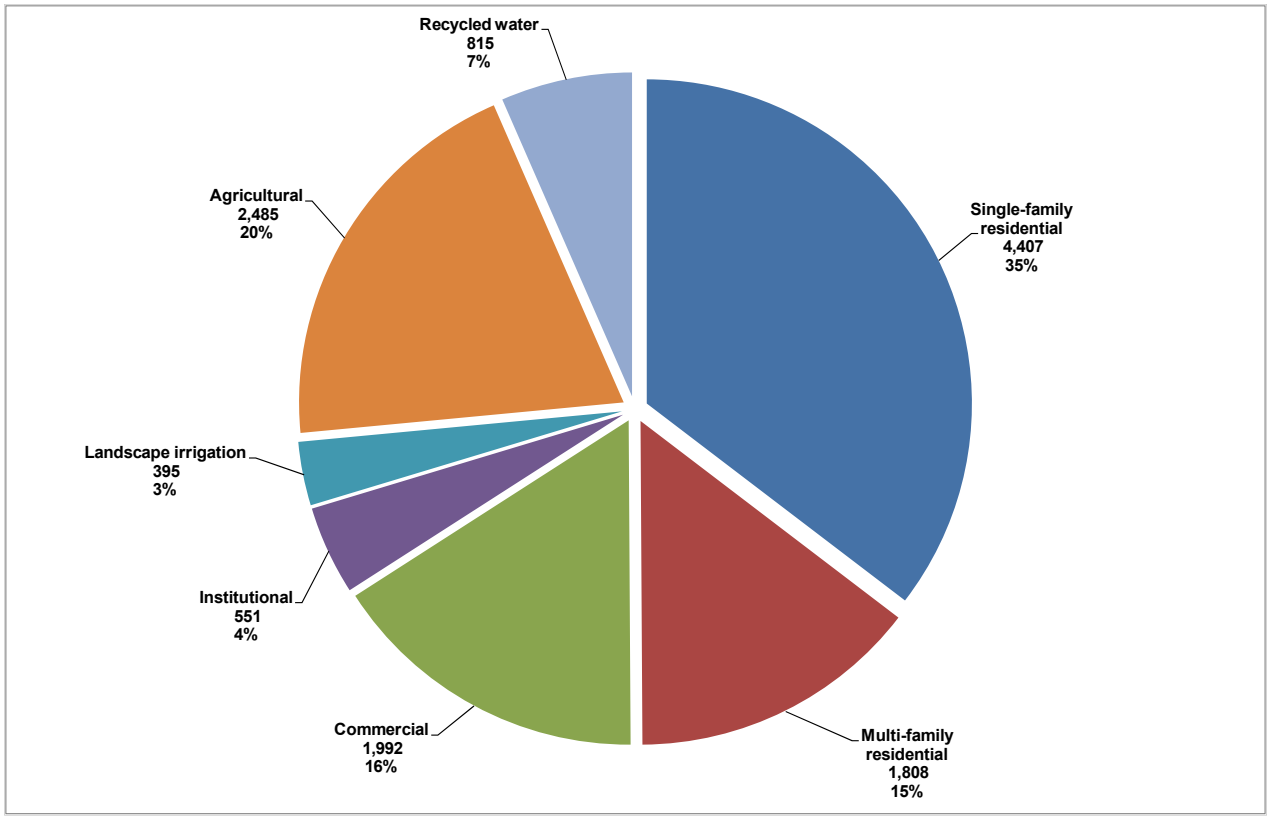
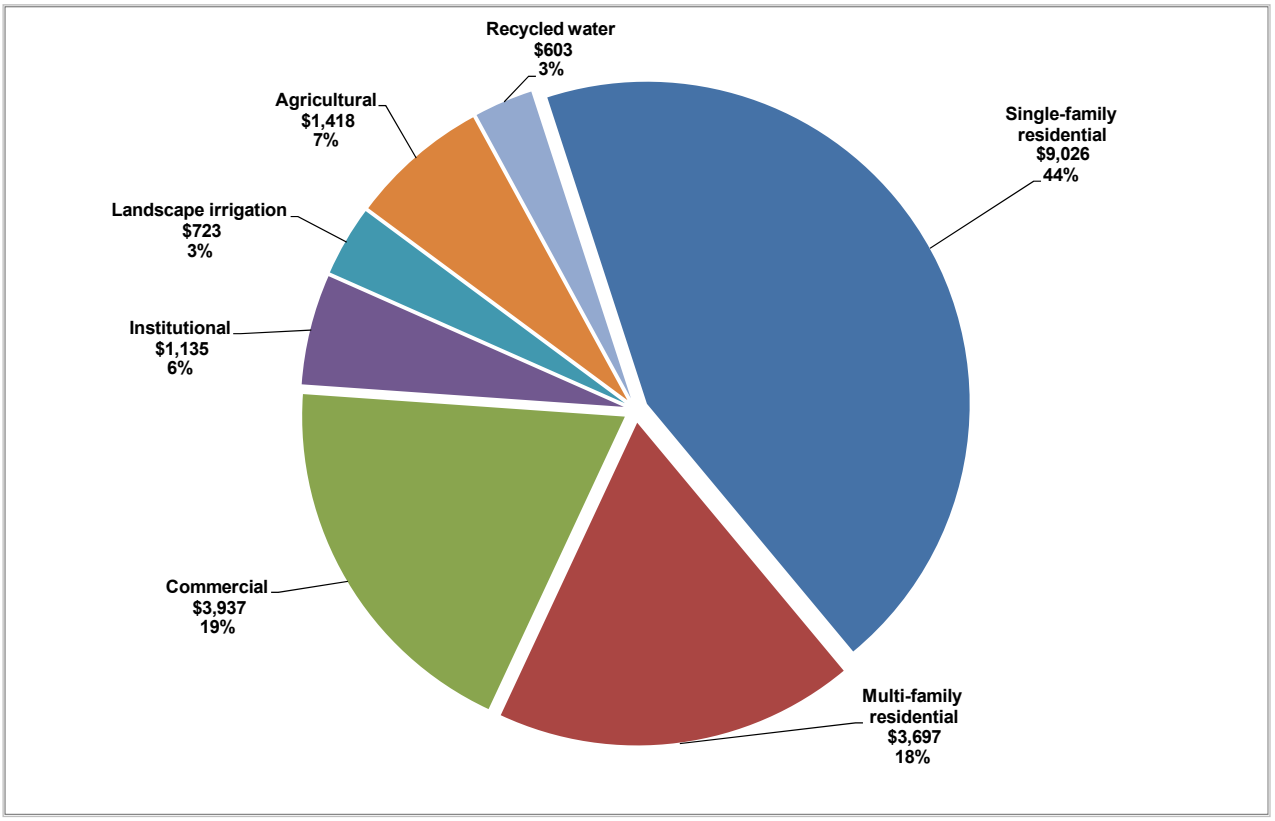


Figure 2.9 FY 2012-13 Budgeted Water Sales by Customer Category ($000s)



Other Sources of Revenue

While District revenue from Water Sales is 67% of total budgeted revenue, an additional $9.9M is derived from other sources of revenue including $8.8M in Monthly Service Charges, $222K in New Water Supply Charges, $69K in Investment Revenue, $175K in Conveyance Revenue and $643K in Miscellaneous Fees.

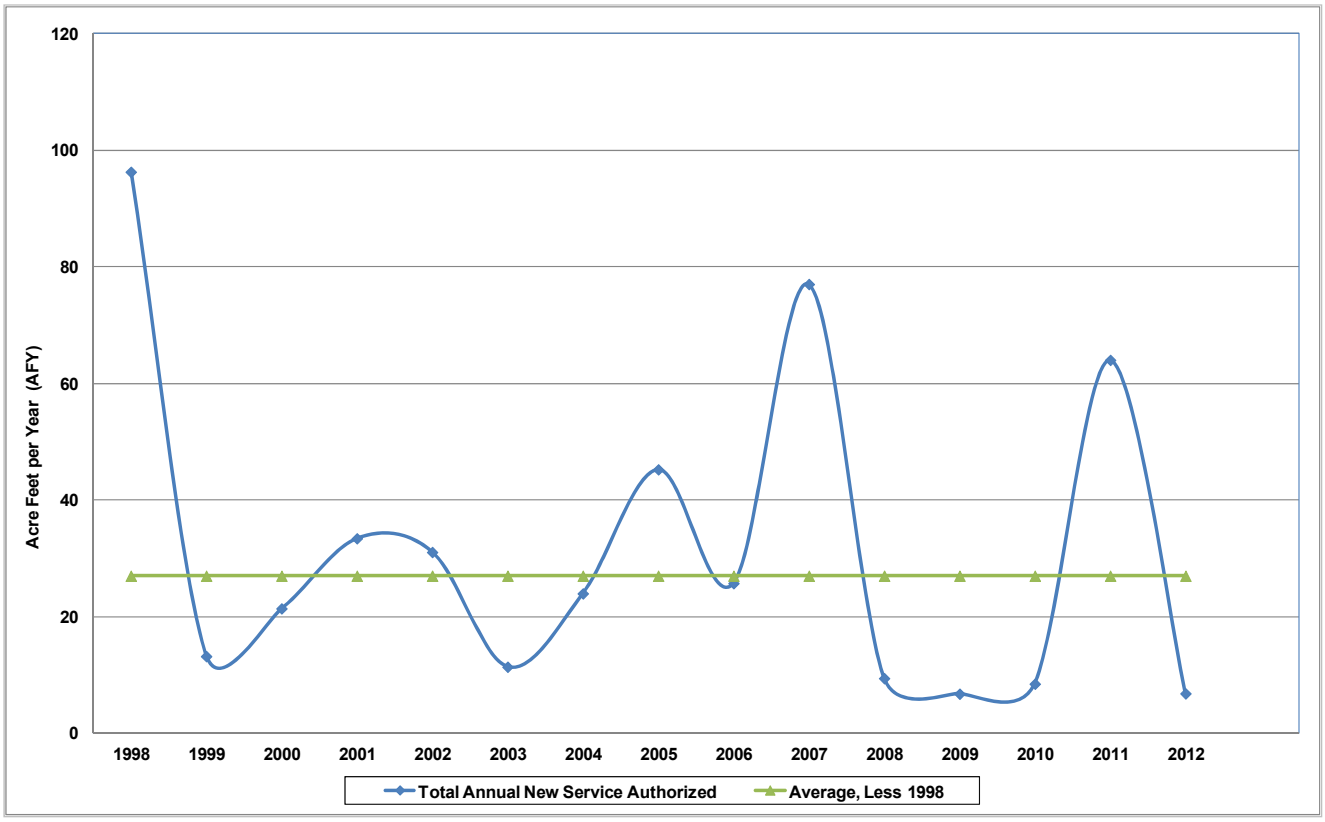
Monthly Service Charges

Monthly Service Charges, the second largest source of District revenues, are based upon fixed monthly fees associated with meter flow capacity. Monthly Service Charges are structured to encourage conservation whereby, for low-use customers with 5/8-inch or 3/4-inch meters, rates decline when averages fall below an established threshold. After application of a scheduled rate increase and in recognition of how a significant number of customers remain embedded in low-use tiers, Monthly Service Charges will increase by $675K (8%) as compared to the FY 2011-12 Budget.

New Water Supply Charges

The New Water Supply Charge applies to customers requesting new or expanded water service. The FY 2012-13 Budget forecasts $222K in revenue from NWSC payments, or 0.7% of total budgeted revenue. Notably, NWSC payments benefit existing customers by ensuring new or expanded development pays a fair share to join the pre-existing customer-funded infrastructure. As Figure 2.10 shows, the amount of new water required from year to year varies, depending upon economic factors and timing of development projects in the District service area. Last year, in response to a June 2011 increase to NWSC rates, certain applicants accelerated the project review process and paid the NWSC, which drew down the number of pending projects and increased NWSC revenues for FY 2011-12. Looking forward into FY 2012-13, the Budget considered specific projects currently in the application process, their historic water allocations, local economic factors and identified those projects likely to remit NWSC fees in FY 2012-13. The FY 2012-13 Budget projects NWSC revenue of $222K, or $532K less than budgeted in FY 2011-12.

Figure 2.10 New Water Supply Charge Water Allocation History by Calendar Year (in AFY)



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. In addition, Chapter 4.08 of the Goleta Water District Code establishes that investment objectives, in priority order, are Safety, Liquidity and Diversification. For FY 2012-13, cash balances will be invested in the California Local Agency Investment Fund (LAIF), a pooled money investment vehicle projected to yield 0.4% annually producing approximately $69K in investment revenue. As further illustrated in Table 2.1, Investment Revenue is projected to decrease by $7K (9%) in recognition that investment yields at LAIF have declined.

Miscellaneous Fees and Charges

The District receives revenue in the form of charges and fees from various sources, including delinquent accounts, backflow inspection, application and initiation fees, connection fees and cell tower site rentals. The anticipated revenue from these sources in FY 2012-13 is approximately $442K. Miscellaneous Fees and Charges revenue is estimated to increase by $285K as the District updated fees associated with service initiations, disconnections and delinquent fees for the first time in fifteen years to ensure full cost recovery for those activities. In addition, the District has budgeted for approximately $200K in contract revenue coming from the District's ability to competitively bid on and construct certain projects.

Summary of District Revenue Forecast for FY 2012-13

Total revenue for FY 2012-13 Budget is estimated at $30.5M which is an overall increase of $2.0M or 7% compared to FY 2011-12 Budget. Each of the six separate categories of revenue listed in Table 2.1 was analyzed individually by District staff, with detailed information reviewed and considered for the development of the revenue budget.

In summary, the amount of Water Sales forecasted FY 2012-13 includes the prediction that the three year trend of declining Water Sales has been arrested, but is not predicted to return to previously budgeted levels. This forecast is in recognition of a still-sluggish economy, continued water conservation and an increased understanding of how customers respond to weather events. Although historical weather data is valuable in projecting revenue forecasts, it is important to recognize that recent short-term weather patterns have been atypical. For these reasons, the District will continue to budget for normal weather patterns and adjust for known variables.

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SECTION III

EXPENDITURES

SECTION III – EXPENDITURES

Summary

In response to past years of declining revenues, expenditures were sharply reduced and maintenance programs were curtailed in a manner that minimized impacts to customer service. The District then introduced a long-term financial plan and completed a 2011 Cost of Service Study, subsequent to which the Board of Directors adopted a 5-year plan of scheduled rate adjustments. This Budget recognizes a return to business operations that include a level of operation and maintenance activities necessary to minimize the potential for water service interruptions.

As noted in Table 3.1 and Figure 3.1, District expenditures are projected to total $30.0M in FY 2012-13. Approximately 36% of total expenditures are required to secure water supplies through agreements related to Lake Cachuma water (COMB/CCRB), State Water (CCWA) and Recycled water (GSD). Combining these water supply costs with $3.6M of debt service and $2.2M of capital improvements, fixed costs constitute $16.7M (56%) of total proposed FY 2012-13 District expenditures. The remaining 44% or $13.3M of proposed FY 2012-13 expenditures include $8.3M (27%) for personnel, inclusive of $365K for Other Post Employment Benefits, as well as approximately $5.0M (17%) for critical materials and services needed to operate and maintain the integrity of the District's three water systems and related treatment facilities.

Given that approximately 56% of District expenditures are fixed (Water Supply Agreements, Debt Service and Capital Improvements), as illustrated in Figure 3.1, the District continues to control costs while providing for critical infrastructure investments. As an example and to the extent feasible, the District will use its own personnel rather than hiring outside service providers to perform capitalized project work and non-routine maintenance and repair of District assets.

As noted above, the FY 2012-13 Budget fully funds a number of programs and maintenance activities that had previously been deferred. Doing so will ensure dependable water service, avoid more expensive future repairs and improve the quality of operations. Figure 3.2 identifies the significant areas where costs will change from FY 2011-12 and illustrates that the largest item is an increase of $1.1M for necessary capital improvements (further described in Section V of this Budget). Additionally, the District will complete the sludge bed remediation project which began in FY 2011-12. It will also begin pumping water from the groundwater basin for the first time in three years at a cost of $201K. The Administration Department and the Water Supply Department have jointly proposed spending a combined $91K to develop an I.T. technology strategy, inclusive of upgrades to accounting systems and data accessibility. Additional details are presented in the variance descriptions of the Departmental Budget discussions (Section IV).

As previously discussed, the District, like other utilities, is affected by external factors including weather, economic conditions and changing customer preferences. While the District will exert efforts to control costs and mitigate known risks, it is important to note that this Budget 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. Most important, this Budget commits to a proactive maintenance and management program by investing in necessary maintenance, infrastructure replacements and construction projects that may no longer be deferred. Through completion of these and other strategic priorities, the District can continue to deliver a safe and dependable water supply to its customers now and into the future.

Table 3.1 FY 2012-13 Budget Expenditures versus FY 2011-12 Budget

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Expenditures:					
Surface Water - COMB	$ 2,322,388	$ 2,318,125	$ 2,596,865	$ 274,477	12%
Surface Water - CCRB	200,356	246,356	296,220	95,864	48%
State Water - CCWA	7,407,597	6,635,218	7,506,554	98,957	1%
Recycled Water - GSD	484,932	389,533	487,542	2,610	1%
Cloud Seeding	-	1,200	-	-	-
Subtotal	**$ 10,415,273**	**$ 9,590,432**	**$ 10,887,181**	**$ 471,908**	**5%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,265,703	$ 7,646,295	$ 7,883,992	$ (381,711)	(5%)
Other Post Employment Benefits	352,494	357,113	365,136	12,642	4%
Subtotal	**$ 8,618,197**	**$ 8,003,408**	**$ 8,249,128**	**$ (369,069)**	**(4%)**
Operations & Maintenance Costs:					
Water Treatment	$ 548,618	$ 418,594	$ 626,550	$ 77,932	14%
Water Testing	135,582	98,107	151,811	16,229	12%
Insurance, Accounting, & Auditing	179,200	192,778	197,700	18,500	10%
Maintenance & Equipment	753,691	569,459	1,182,544	428,853	57%
Legal	357,504	312,425	349,762	(7,742)	(2%)
Services & Supplies	1,682,427	1,509,283	2,255,264	572,837	34%
Utilities	235,972	180,678	281,256	45,284	19%
Subtotal	**$ 3,892,994**	**$ 3,281,324**	**$ 5,044,887**	**$ 1,151,893**	**30%**
Total Expenditures before Debt and CIP:	**$ 22,926,464**	**$ 20,875,164**	**$ 24,181,196**	**$ 1,254,732**	**5%**
Debt Service:	**3,626,303**	**3,626,303**	**3,566,466**	**(59,837)**	**(2%)**
Capital Improvement Projects (CIP):					
Contracted Services & Construction	1,101,000	687,000	1,867,914	766,914	70%
District Labor	-	109,839	377,086	377,086	-
Subtotal	**$ 1,101,000**	**$ 796,839**	**$ 2,245,000**	**$ 1,144,000**	**104%**
Total Expenditures:	**$ 27,653,767**	**$ 25,298,306**	**$ 29,992,662**	**$ 2,338,895**	**8%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Figure 3.1 FY 2012-13 Budgeted Expenditure Allocations ($000s)

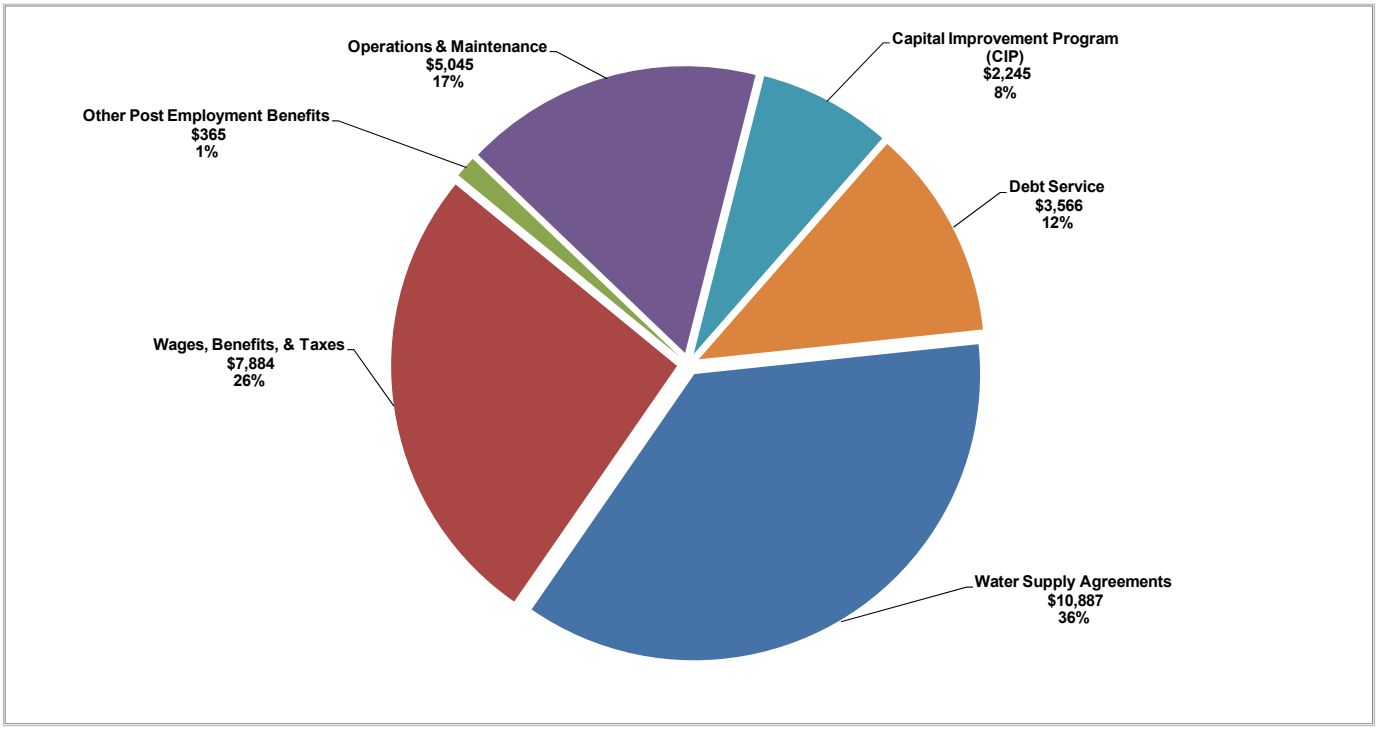
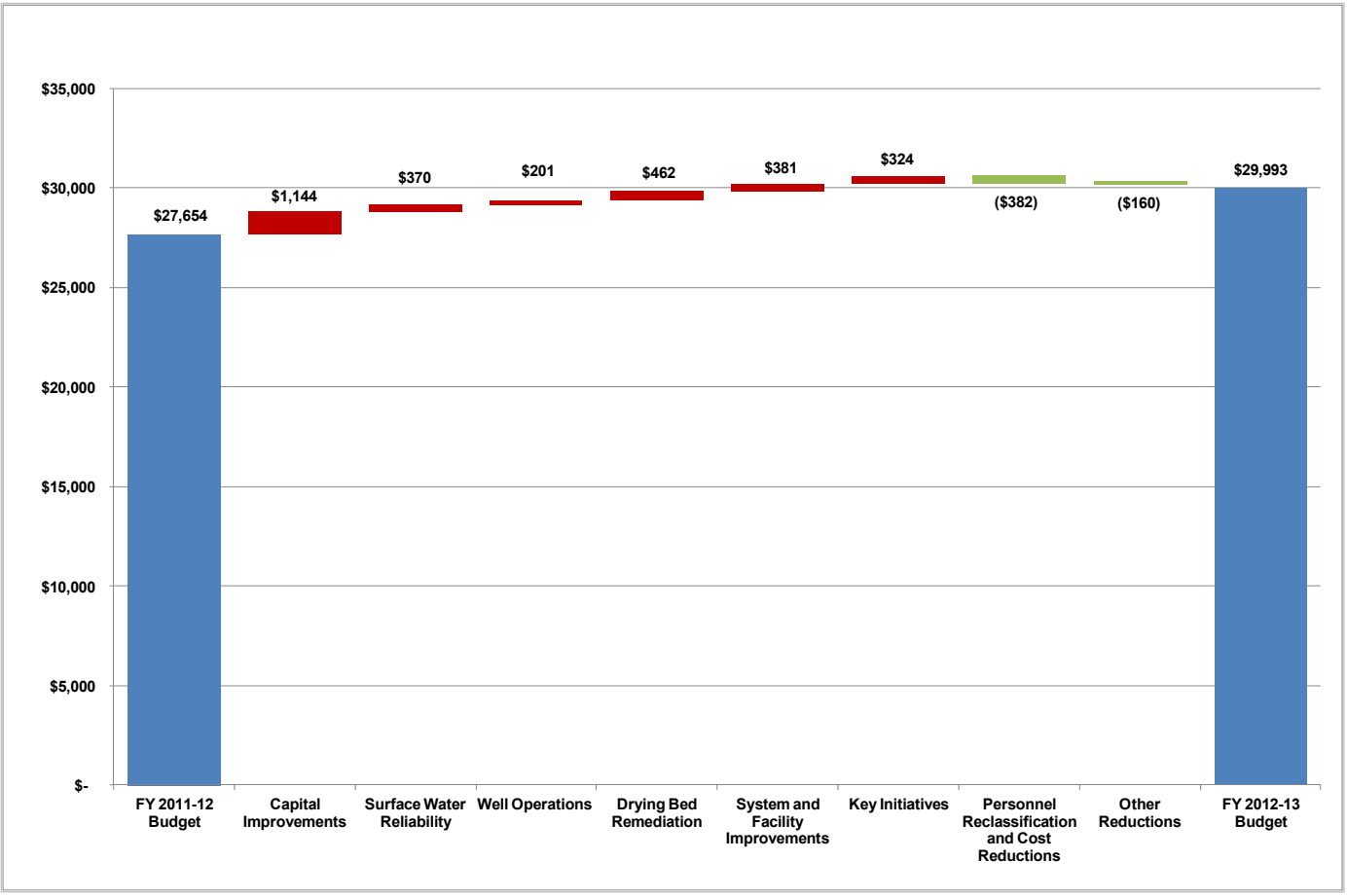


Figure 3.2 Year-over-Year Changes in Total Expenditures ($000s)



Water Supply Agreements

As illustrated in Figure 3.1, approximately $10.9M (36%) of proposed FY 2012-13 expenditures are for securing three distinct District water sources: surface water, State Water and recycled water. These expenditures are necessary for the District to maintain obligations under agreements with various agencies, thereby ensuring reliable and adequate water supplies for District customers, as explained in further detail below.

Surface Water

The District acquires the majority of its water through an agreement with the Cachuma Operation & Maintenance Board (COMB), which manages Lake Cachuma on behalf of the U.S. Bureau of Reclamation. Charges paid to COMB incorporate the operation and maintenance costs of COMB, capital payments for bonds issued by the USBR, costs to address conservation and release issues of the reservoir as well as payments for dam rehabilitation. Additionally, the District is a member of the Cachuma Conservation and Release Board (CCRB) which advocates for protection of the District's Water rights associated with Lake Cachuma. Table 3.2 below illustrates COMB and CCRB costs budgeted for FY 2012-13, established when final COMB and CCRB budgets are received. As presented in Table 3.2, the costs of COMB are projected to increase by $347K (28%) compared to FY 2011-12 Budget, the majority of which is caused by the Modified Upper Reach Reliability Project. This project, collectively funded by all member South Coast water agencies, will improve the overall reliability of water supplies. CCRB costs are anticipated to increase by $96K, primarily for legal and consulting fees associated with pending State Water Resources Control Board hearings to renew the Cachuma member units' surface water permit and ongoing re-consultation on the Federal Biological Opinion related to the Cachuma Project.

Table 3.2 FY 2012-13 Budgeted COMB and CCRB Water Supply Costs

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
USBR Payments - Water Entitlement (COMB)	$ 950,000	$ 947,737	$ 875,000	$ (75,000)	(8%)
COMB Operation & Maintenance (COMB)	1,222,340	1,222,340	1,569,092	346,752	28%
Cachuma Renewal Fund (COMB)	69,314	69,314	80,000	10,686	15%
Safety of Dam Act Costs (COMB)	80,734	72,734	72,773	(7,961)	(10%)
Conservation and Release Costs (CCRB)	200,356	252,356	296,220	95,864	48%
Subtotal	**$ 2,522,744**	**$ 2,564,481**	**$ 2,893,085**	**$ 370,341**	**15%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

State Water Project

In 1991, during an extensive drought, voters authorized the District to join the State Water Project via the Central Coast Water Authority (CCWA), whose mission is to increase water supply and reliability to the Central Coast. The FY 2012-13 Budget provides for CCWA principal and interest payments associated with a coastal aqueduct and treatment facility as well as California Department of Water Resources infrastructure maintenance and improvements incurred. Variable costs are incurred according to the amount of State Water delivered to the District. Notably, the District exchanges approximately 1,000 AFY of its State Water entitlement with the Santa Ynez Improvement District No. 1 (I.D. #1) every year. Beyond this recurring exchange, the District does

not anticipate taking State Water during FY 2012-13; accordingly, the Budget does not include variable costs associated with delivery of non-exchange water.

Per the CCWA adopted budget, the District's portion of total State Water costs is expected to increase by $99K (1%) compared to FY 2011-12 Budget. Per calculations consistent with the District 2010 Water Supply Management Plan, there will not be a need to draw from State Water resources in FY 2012-13. The expenditures reflected in Table 3.3 below illustrate the year-over-year budgeted State Water costs, which include $7.4M of fixed costs associated with CCWA bonds and operations, as well as a $127K to fund exchange water provisions.

Table 3.3 FY 2012-13 Budgeted CCWA Water Supply Costs

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Fixed CCWA Costs	$ 7,278,451	$ 6,533,818	$ 7,379,283	$ 100,832	1%
Variable CCWA Costs	129,146	101,400	127,271	(1,875)	(1%)
Subtotal	**$ 7,407,597**	**$ 6,635,218**	**$ 7,506,554**	**$ 98,957**	**1%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

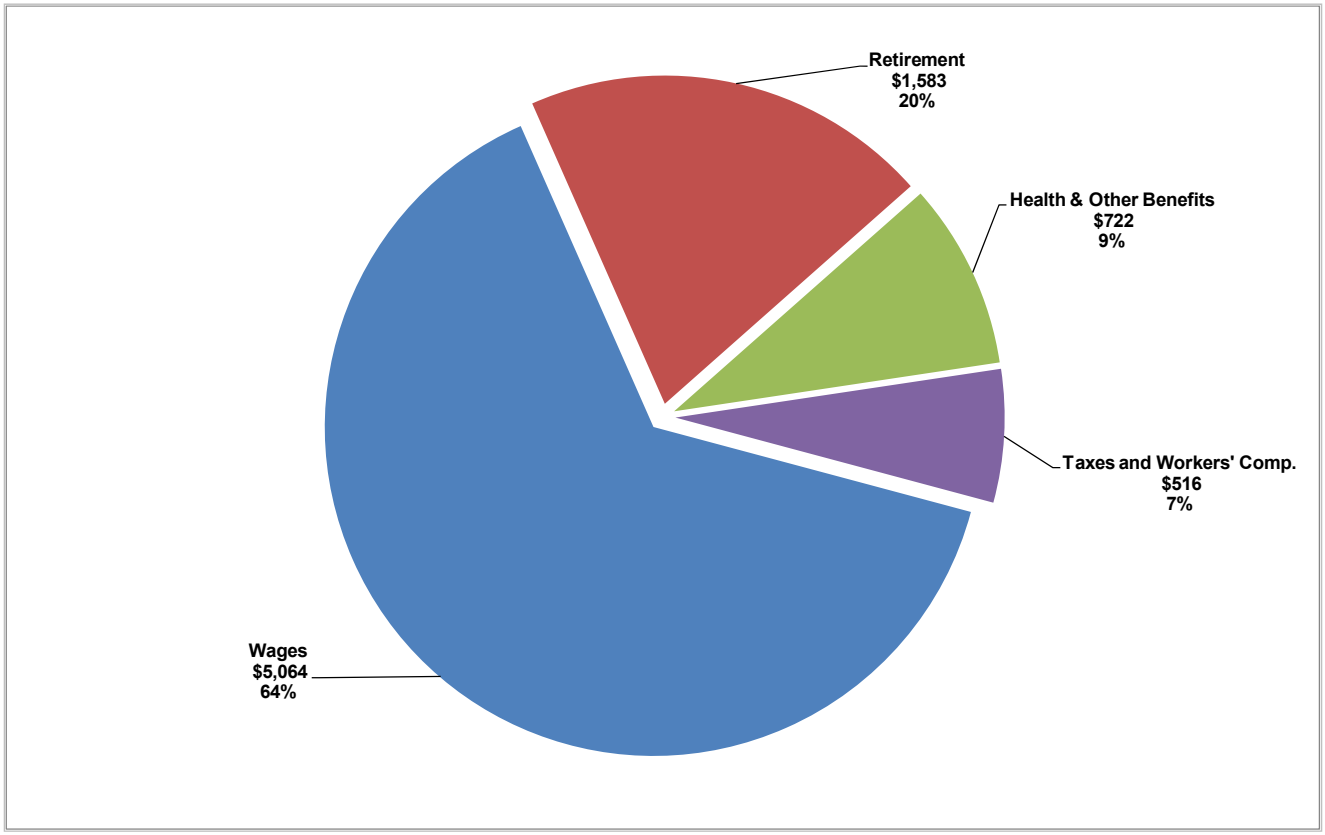
Recycled Water

In partnership with the Goleta Sanitary District, the District financed and constructed a facility in 1994 to provide recycled water for landscape irrigation use. The recycled water plant has historically produced up to 1,000 AFY of water. The largest customers include the University of California Santa Barbara and golf courses within the District service area. Since GSD owns and operates the plant, the District is charged for costs incurred, which are projected to be $488K or $3K (1%) more than the FY 2011-12 Budget.

Personnel

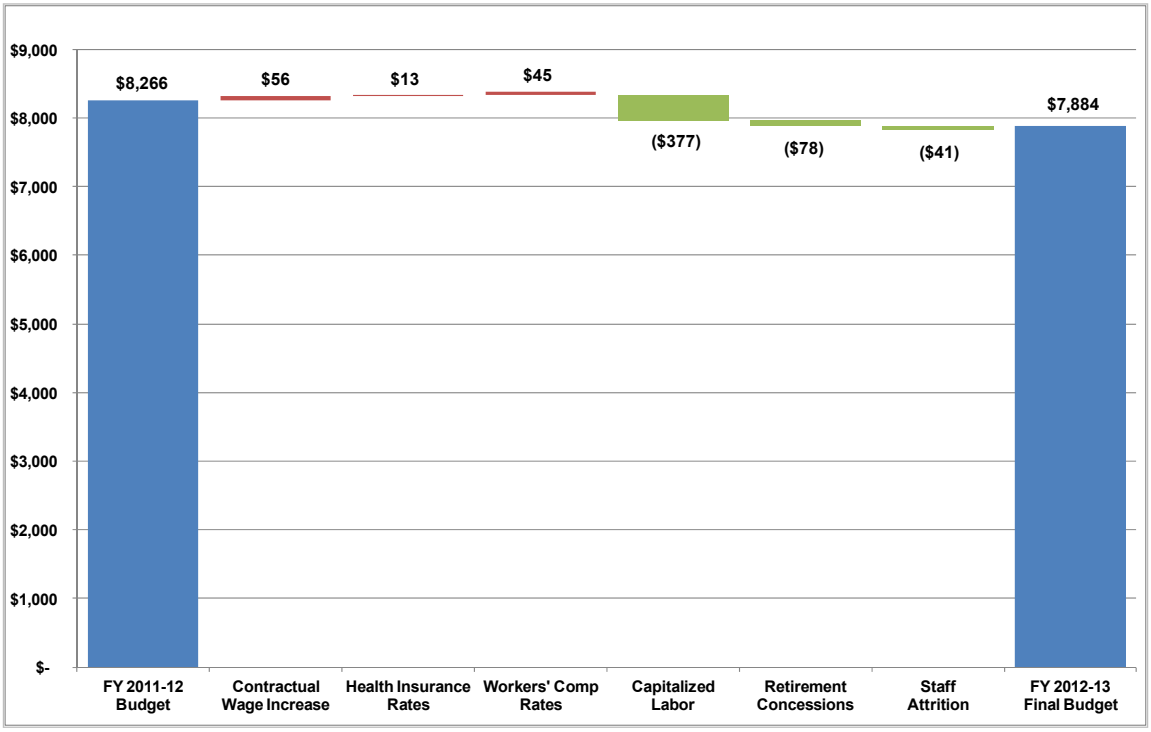
Recruiting, maintaining and fostering professional personnel resources is critical for meeting District objectives of protecting the water supply and ensuring dependable and high quality service to customers. Accordingly, the District employs licensed and professional staff to operate a surface water treatment plant, maintain and repair over 270 miles of distribution lines, read 16,600 meters monthly, generate all customer billings, manage District accounting, process applications for new water service, implement conservation programs and effectively manage District water supplies. Employees include engineers, plant operators, distribution specialists, skilled technicians, analysts, financial experts and experienced professional managers. Costs associated with this human capital portfolio are projected to be $7.9M (26%) of total FY 2012-13 budgeted expenditures. Personnel cost allocations are illustrated in Figure 3.3 below, which demonstrate that wages are $5.1M (64%), Retirement costs equal $1.6M (20%), Health Insurance/Other Benefits are $722K (9%) and Taxes/Workers' Compensation are $516K (7%).

Figure 3.3 FY 2012-13 Budgeted Personnel Costs ($000s)



Compared to FY 2011-12 Budget, Wages, Benefits and Taxes are projected to decrease $382K (5%). As detailed in Figure 3.4, $377K of this decrease reflects a reclassification of labor expenses to capitalized labor, as a portion of the District workforce works on asset construction projects to replace contracted capital services. As staff at all levels of the organization receive deeper training and build expertise, the District management team intends to continue efforts to replace outside contractors, thereby reclassifying labor expenditures into Capital Improvement Projects (CIP) and gaining personnel-related efficiencies. Other notable reductions in personnel costs include $41K associated with recent attrition, as well as a $78K reduction from a new retirement tier along with concessions negotiated during labor contract discussions that were ratified July 2011.

Figure 3.4 Year-over-Year Changes in Personnel ($000s)



As illustrated in Figure 3.5 below, there has been a trend over the past five years of retirement costs and health benefits costs representing a growing percentage of the total, while wages have fallen as a percentage of total personnel costs. To the extent that personnel costs are controllable, the District will continue to pursue ways to arrest increases. Examples of these efforts include establishing work plans that minimize overtime, developing GIS-based work orders to optimize routing and reduce use of resources, as well as promoting healthy workforce initiatives that minimize costs associated with sick time.

Figure 3.5 Wages, Retirement Benefits and Taxes as a % of Personnel Cost

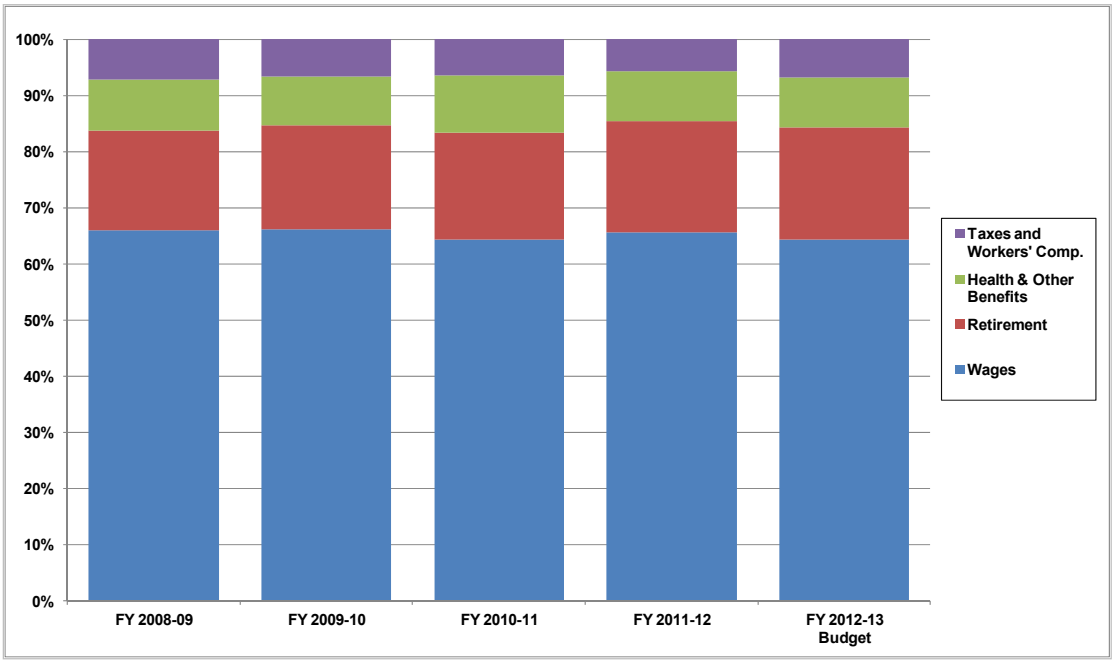


Table 3.4 provides additional analysis of the cost per Full-Time Equivalent (FTE) and shows that the largest increases in personnel cost have been the non-wage components. Since FY 2008-09, wages excluding overtime and premium pay increased by an average of 1.8% per year, while retirement costs rose by an average of 5.3% per year. In recognition of this issue, the District and representatives from the Service Employees International Union (SEIU) Local 620 held lengthy negotiations and reached agreement regarding the establishment of a new pooled retirement program for employees hired after January 1, 2012. Combined, the new retirement plan and other agreed-upon concessions contribute $78K in annual savings to the FY 2012-13 Budget, savings which will grow significantly going forward. Currently, the District estimates the new retirement program will save $2M over the next 10 years compared to existing program costs.

Table 3.4 Historical Personnel Costs per Full-Time Equivalent

Category	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13 Budget	% Increase over 5 yrs	Annualized % Increase
Wages	$ 77,390	$ 83,860	$ 83,834	$ 85,505	$ 84,392	9.0%	1.8%
Retirement	20,854	23,357	24,885	26,751	26,381	26.5%	5.3%
Health & Other Benefits	10,481	11,125	13,305	12,262	11,577	10.5%	2.1%
Taxes and Workers Comp.	8,470	8,364	8,336	7,700	9,035	6.7%	1.3%
Total	**$ 117,196**	**$ 126,707**	**$ 130,360**	**$ 132,219**	**$ 131,386**	**12.1%**	**2.4%**

District retirees currently receive health care insurance benefits which, per the Governmental Accounting Standards Board *Statement No. 45 Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (GASB 45), must be accounted for per established standards to measure, recognize and display the related assets and liabilities of post-employment benefits (referred to as Other Post Employment Benefits, or OPEB). The District implemented GASB 45 for the year ending June 30, 2009 and has included $365K as pay-as-you-go OPEB costs in this Budget.

The District will continue to control personnel costs via contract negotiations, judicious use of overtime and management of paid leave programs. Going forward, the District is committed to balancing the need to retain best-in-class employees with the costs associated with personnel.

Operations & Maintenance (O&M)

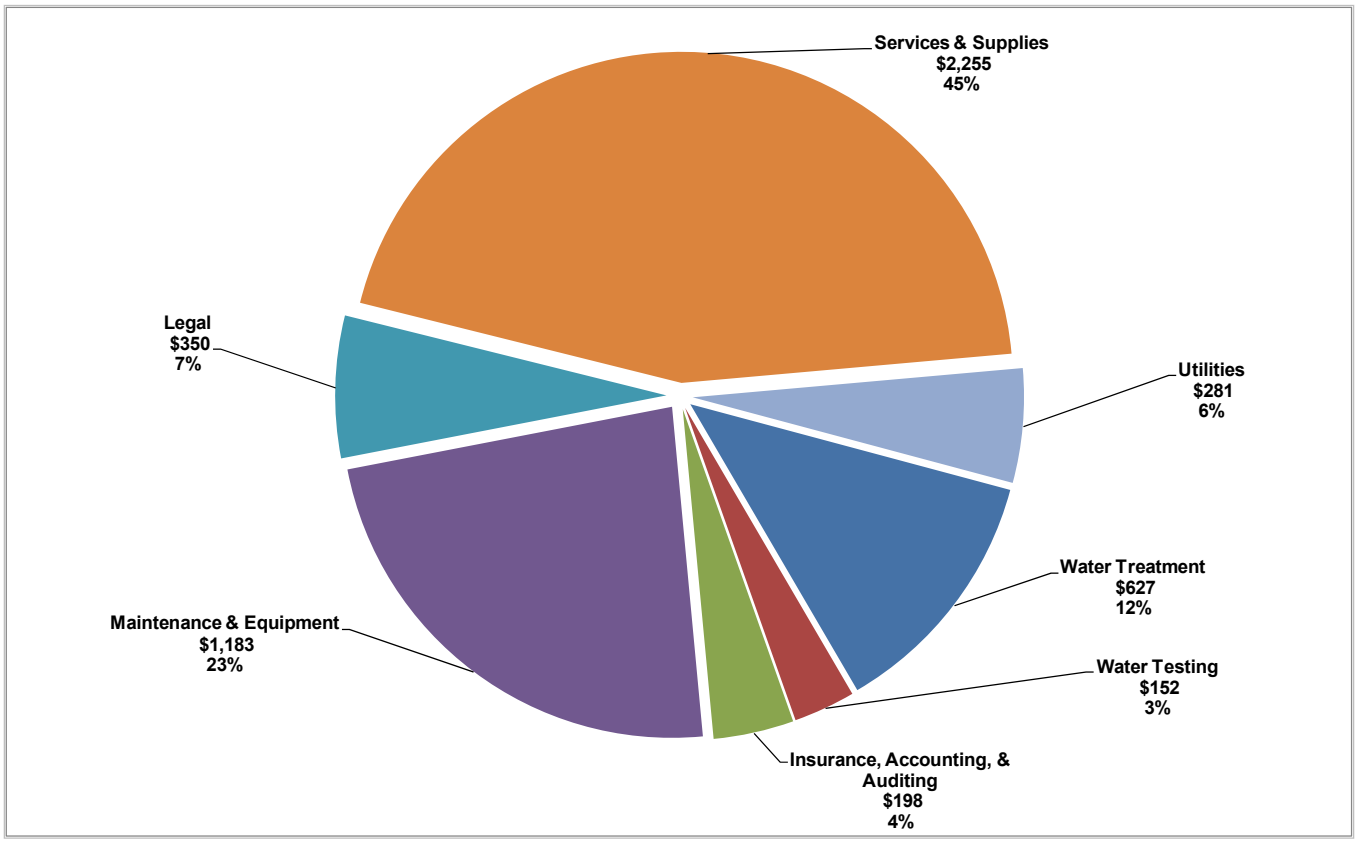
As previously illustrated in Table 3.1, O&M expenditures fund ongoing District operations, including purchases of materials and services. As evident in Figure 3.6, $2.3M (45%) of O&M is for services and supplies, $1.2M (23%) for maintenance and equipment and $627K (12%) for water treatment costs. Total O&M expenditures are projected to be $5.0M in FY 2012-13, a $1.2M (30%) increase versus FY 2011-12 Budget, as the result of the following:

- Water Treatment and Testing will increase by $78K and $16K, respectively, which reflects the amount of chemical use and testing to meet increasingly stringent Federal Drinking Water Standards.
- $201K has been budgeted for well operations as well as necessary repairs and maintenance of District Supervisory Control and Data Acquisition (SCADA) system. This expenditure is in response to recent weather conditions which have depleted carryover water reserves. With no Lake Cachuma spill event

anticipated to occur during FY 2012-13, the District will require operational wells to pump approximately 1,200 AFY from the groundwater basin to meet customer demand.

- Approximately $462K is needed to remove an accumulation of organic material from a settling basin at the water treatment plant. By removing this material, a byproduct of the water treatment process, the treatment plant will be better equipped to respond to high turbidity events.
- $381K is planned for certain improvements to District systems and facilities to meet OSHA requirements, identify and remedy system water losses and complete title transfer of USBR mains.
- This budget includes $324K to deliver key initiatives that will improve technology, enhance emergency response readiness and prepare for the impacts of a water shortage.

Figure 3.6 FY 2012-13 Budgeted O&M Costs



Debt Service

In August, 2010, the District refinanced its debt by issuing approximately $34M in Certificates of Participation (COPs) secured by a pledge of District revenues. This 2010A COP issuance was used to refund the Series 2003A COPs as well as loans outstanding with the State and a local bank. Within this refinancing, the District also raised an additional $5M in proceeds needed to fund certain improvements to the District's water supply, treatment and distribution systems. Interest is payable semi-annually with rates ranging from 4.25% to 5.00%. In FY 2012-13, required payments are $3.6M.

Capital Improvement Program

The District will fund $2.2M of Capital Improvement Projects from this FY 2012-13 Budget, consistent with the Board-adopted Infrastructure Improvement Plan. The IIP is a prioritized approach to the rehabilitation or replacement of facilities that, if not addressed, will not meet current standards or regulations that are in place to ensure a reliable water distribution system.

The FY 2012-13 capital spending plan is comprised of 26 projects across the District designed to improve the water treatment plant overflow basin, complete electrical upgrades to improve pumping reliability of recycled water, replace portions of an aging distribution system, comply with electrical system protection requirements and rehabilitate a groundwater well. Notably, 9 of 26 projects contain sustainability components and are included in the District's inaugural Sustainability Plan. Additional details are presented in Section V (Infrastructure and Improvement Plan) of this Budget.

SECTION IV

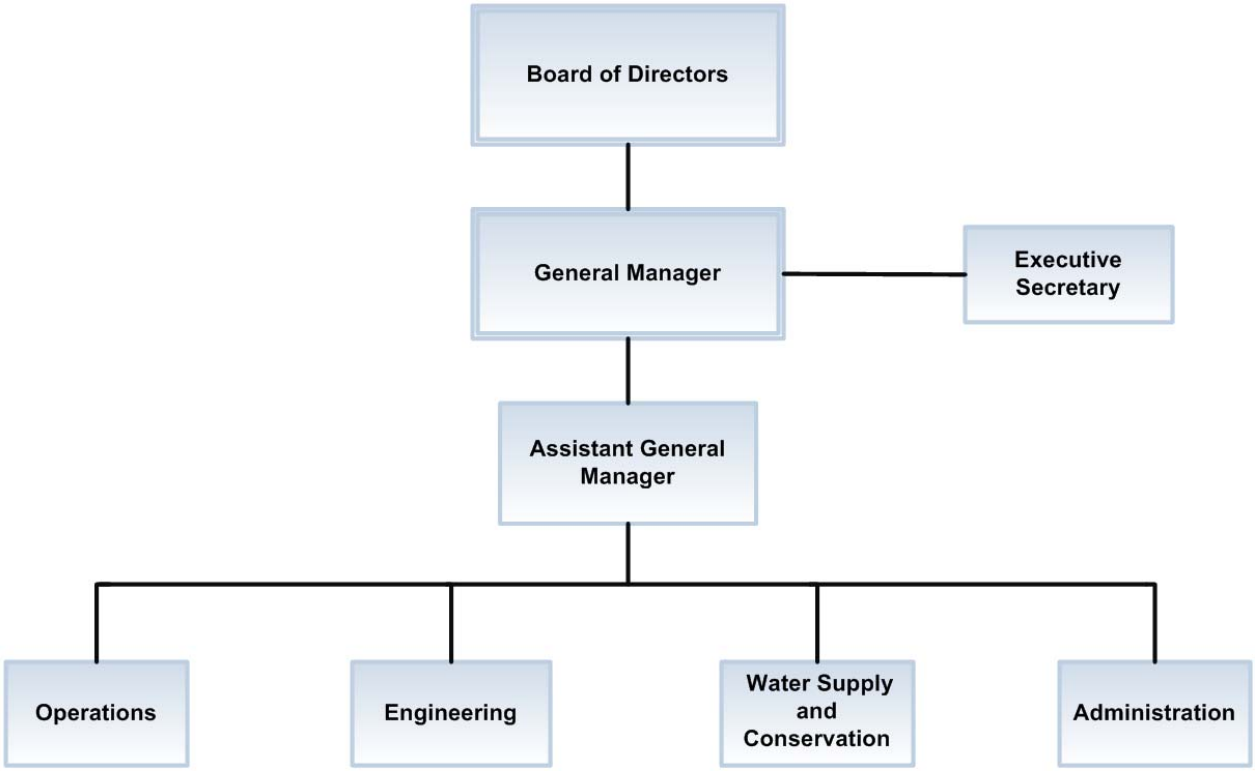
DEPARTMENTAL BUDGETS

SECTION IV – DEPARTMENTAL BUDGETS

Organizational Overview

As illustrated in Figure 4.1 below, the District General Manager reports to an elected Board of Directors. At the direction of the General Manager, the Assistant General Manager serves as chief-of-staff, directing activities of four departments including Operations, Engineering, Water Supply and Conservation and Administration. Each department is responsible for specific programmatic functions that implement District goals to ensure the daily operating integrity of the District. These functions are described in detail in the departmental section of this Budget.

Figure 4.1 Goleta Water District Departments / Programmatic Functions



A total of sixty (60) employees work to support District activities and responsibilities, including the operation of the Corona Del Mar Water Treatment Plant and 270 miles of distribution pipeline. Beyond maintenance of the water distribution grid, the District reads 16,600 meters monthly, generates customer billing, processes applications for new service, implements conservation programs, manages District water supplies and oversees a $30M operating and capital budget to serve water to a diverse population of over 87,000 residents.

Total staffing has remained constant over the last four years (see Figure 4.2), though management has shifted personnel resources between departments to build analytical resources where needed, pinpoint expertise and develop organizational efficiencies. In addition to personnel costs, operation and maintenance expenditures are also reported at the department level. Department heads are responsible for managing their specific programs within Board-authorized appropriation levels. An overview of spending by department / programmatic function is found in Table 4.1. Detailed discussions of these expenditures follow.

Figure 4.2 Ten Year Trend of District Staff by Department

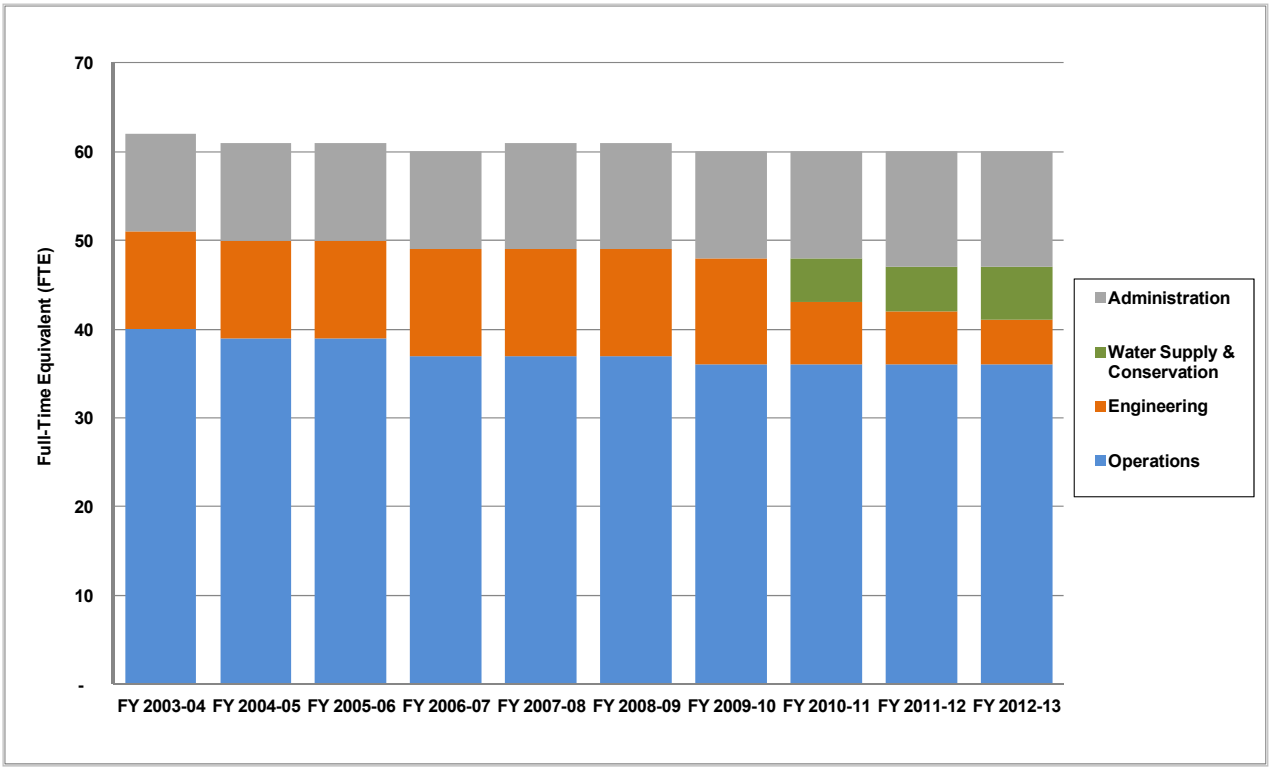


Table 4.1 FY 2012-13 Budgeted Expenditures by Department

Category	Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 7,079,171	$ 6,470,672	$ 7,767,783	$ 688,612	10%
Engineering	991,287	680,987	732,020	(259,267)	(26%)
Water Supply & Conservation	11,532,971	10,493,164	12,108,608	575,637	5%
Administration	3,323,030	3,230,341	3,572,785	249,755	8%
Total Expenditures	**$ 22,926,464**	**$ 20,875,164**	**$ 24,181,196**	**$ 1,254,732**	**5%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Departmental/program-related expenditures are tracked using "cost centers." Cost centers represent detailed levels of expenditures focused around specific measurable activities. As with any performance-driven organization, certain cost centers are occasionally added or reassigned between departments to better align management oversight with prevailing business practices. Accordingly, two positions are being reassigned in the FY 2012-13 Budget. First, a vacant inspector position will be suspended from the Engineering Department and assigned to the Water Supply and Conservation Department. Second, an Operations Department administrative assistant position will report to the Administration Department to produce inter-organizational synergies that will enhance Customer Service. All funding associated with these two positions has been transferred to the receiving department.

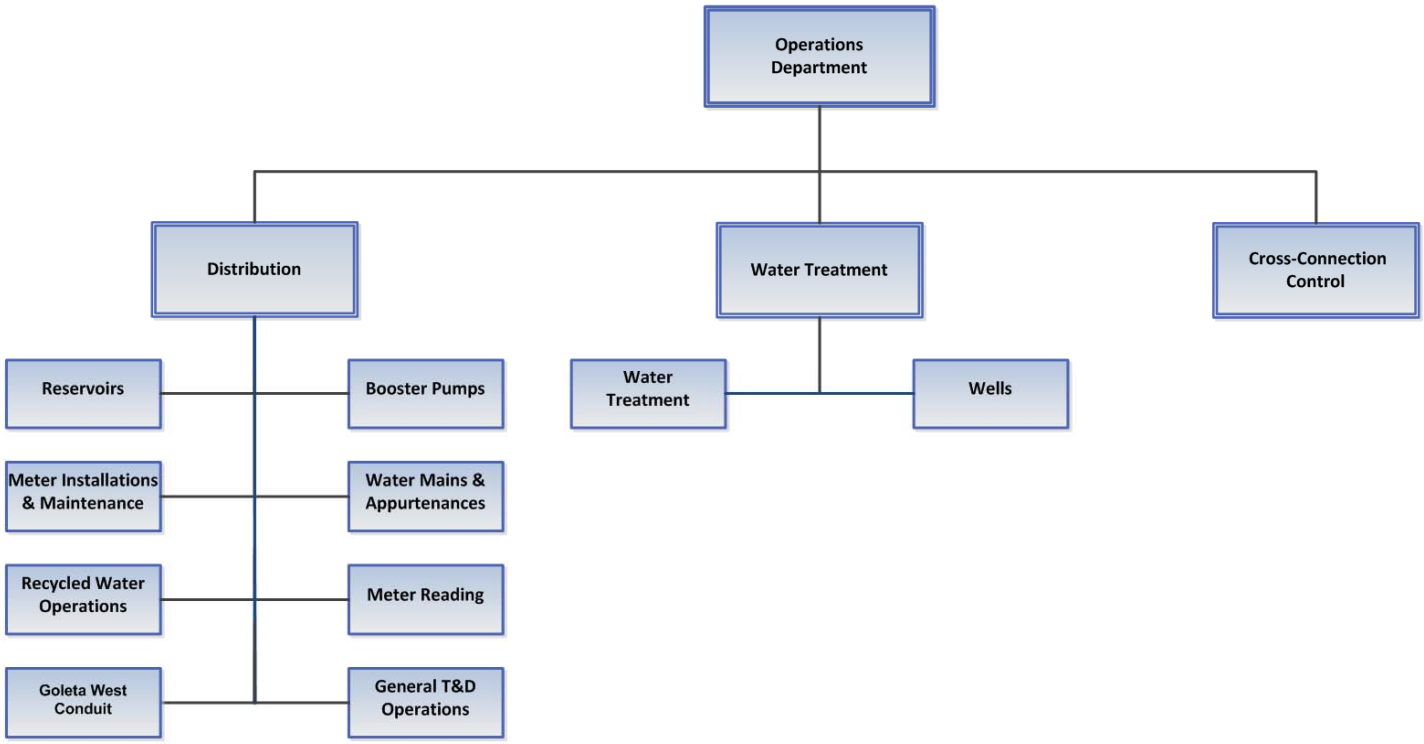
Operations Department

Description

The Operations Department is responsible for the operation, maintenance and improvement of three water systems and the related facilities of the District: the Potable Water System, the Goleta West Conduit System and the Recycled Water System. In total, the District's water systems produce and deliver approximately 4 billion gallons of water annually to over 87,000 people living in the District. The specific functions of the Operations Department are organized under three distinct areas of responsibility: Distribution, Water Treatment and Cross-Connection Control. Each area has specific responsibilities for District assets and related functions as depicted in Figure 4.3 and further explained below.

Each year, nearly 200,000 meter readings are obtained by visiting each customer's meter location.

Figure 4.3 Operations Department Programmatic Functions



Distribution

This area consists of the facilities and responsibility for delivering water from the various treatment sources of the three water systems. These systems consist of over 270 miles of water mains and appurtenances (i.e. valves, regulating stations, fire hydrants), reservoirs and booster pumping stations that control the flow and pressure required to maintain high quality, reliable service to 16,600 customer accounts. Each customer is connected to the distribution system of pipelines through individual service lines that supply water through a meter located at the final point of service. Meter installation and maintenance is a primary customer service task for the Operations Department. Every month, meters for the District's customers must be read and the usage recorded to ensure accurate and timely billing. These meters must also be maintained and replaced as needed to maintain accurate measurement of each customer's water usage for fair and accurate monthly billings. The

department also provides regular and emergency service disconnections and water service quality checks where necessary. For FY 2012-13, focus will be on two areas:

- An aggressive valve replacement program to ensure the District is able to adequately isolate portions of the system for required maintenance, thereby minimizing interruptions to water service.
- Coordinated support to implement a number of District-wide initiatives including the green fleet replacement study, energy efficient lighting replacement analysis for the District Headquarters, solar energy feasibility study and renewal of the demonstration garden to improve customer awareness on various water-wise landscape options.

Water Treatment

This area consists of 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 regulation. The Potable water system consists of the Corona Del Mar Water Treatment Plant, which treats water from Lake Cachuma, the District's groundwater wells and two chlorination stations for the Goleta West Conduit, which obtains its water supply from Lake Cachuma. The GWC system is unfiltered water and is used for agricultural irrigation.

Over 1,500 water quality samples are conducted throughout the distribution system annually for water quality monitoring and regulatory compliance.

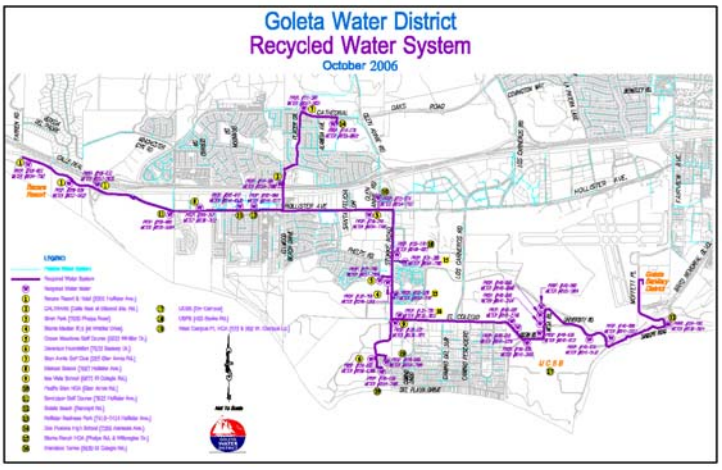
These facilities treat the water to the standards required by the California Department of Public Health and Federal Environmental Protection Agency (EPA) for drinking water. The Recycled system water is treated by the Goleta Sanitary District to the standards required for recycled water and is used for irrigation and restroom facilities. For FY 2012-13, there will be a focus on the following:

- Complete Arc Flash and electrical facility evaluation to ensure all electrical facilities have the proper electrical safeguards in place and are reliable.
- Ensure new treatment regimen meets heightened regulatory requirements that began in January 2012.
- Complete the cleaning of the final basin at the water treatment plant to facilitate future improvement projects.
- Continue to operate groundwater well production to supplement Lake Cachuma water in anticipation that spill water will not be available in FY 2012–13.

Testing in the District's lab

Cross-Connection Control

This area administers the District Cross-Connection Control Program on the potable and Recycled Water systems. The program ensures that all customer backflow devices that are owned, operated and maintained by the customer are tested annually by a certified backflow tester. The District is required to maintain on file the results of each device's annual test and is responsible that records are kept current. In addition, this area is also responsible for ensuring that the potable and Recycled Water systems do not become connected.

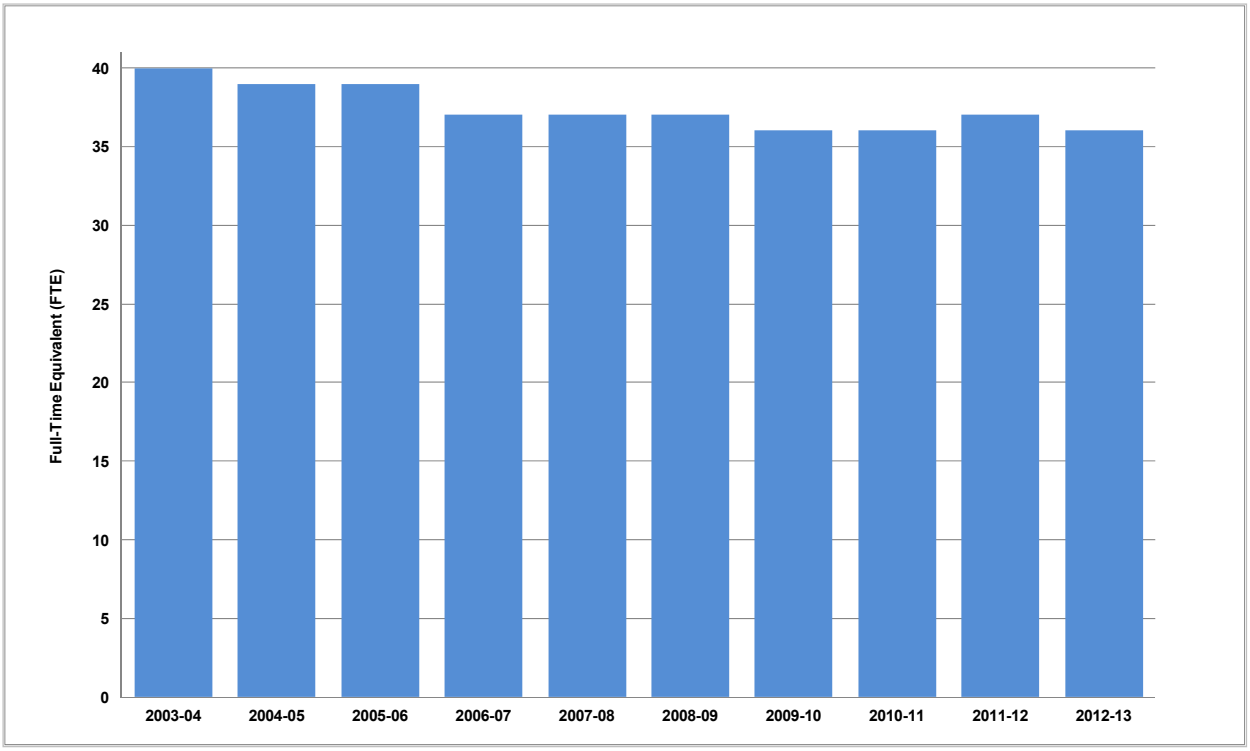


District staff conducts annual physical inspections as well as periodic inspections of customer plumbing systems to ensure that the potable and Recycled Water systems remain separate. For FY 2012-13, there will be a focus on:

- Increased periodic visits to businesses with backflow devices and observations of the testing regimen.
- Improvements to current notification procedures to ensure the timely submittal of annual required test results.

Figure 4.4 shows the historical staffing trend in the Operations Department from FY 2003-04 through the FY 2012-13 Budget. The number of Operations staff in FY 2012-13 decreased by one FTE as the result of transferring an administrative assistant position to the Administration Department. This position will continue to support Operations, but will be performed from the front office to improve coordination with Customer Service staff. Continued focus on building internal process efficiencies has allowed Operations to take on additional responsibilities serving additional customers as well as a more stringent regulatory oversight environment. Appendix Figure 6.3 provides a detailed organizational chart.

Figure 4.4 Staffing Trend – Operations



Accomplishments FY 2011-2012

Throughout FY 2011-12, the Operations Department sought to evaluate current practices and adopt procedural changes reflective of industry best practices. Several key projects were delivered during FY 2011-12 that seized upon opportunities to demonstrate leadership in the areas of environmental and financial sustainability, as follows:

- Installed Lateral 14 which eliminated a temporary line that was susceptible to failure, thereby improving the reliability of the water system in this area of the system.
- Successfully implemented a new treatment regimen to comply with increased regulatory requirements for water quality.
- Effectively removed accumulated organic material from three of the four settling basins at the water treatment plant, inclusive of regrading for future improvement projects.
- Successfully completed a planned shutdown of the GWC system, with no customer issues, to facilitate replacement of various valves necessary for future maintenance.

- Commenced water production from the groundwater wells on a monthly basis to facilitate future South Coast Conduit shutdowns for the Cachuma Operation and Maintenance Board projects scheduled in FY 2012-13 and to ensure system integrity during unanticipated emergencies.
- Completed system-wide flushing of the distribution system over an eight week period to improve water quality and test the operation of fire hydrants and distribution systems. The operation was conducted at night to minimize customer water service fluctuations.
- Completed GWC Alternative Treatment Study to analyze the options available for bringing potable water to GWC customers.

Table 4.2 below details the primary Operations expenditure categories and describes significant variances between FY 2011-12 Budget and FY 2012-13 expenditures.

Table 4.2 FY 2012-13 Operations Department Budget Summary

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Departmental Expenses - Operations					
Water Treatment	$ 548,618	$ 418,594	$ 626,550	$ 77,932	14%
Water Testing	135,582	98,107	151,811	16,229	12%
Subtotal	**684,200**	**516,701**	**778,361**	**94,161**	**14%**
Personnel Costs:	**4,709,604**	**4,504,644**	**4,465,362**	**(244,242)**	**(5%)**
Operations & Maintenance Costs:					
Maintenance & Equipment	750,203	567,195	1,180,756	430,553	57%
Services & Supplies	699,197	701,454	1,062,048	362,851	52%
Utilities	235,972	180,678	281,256	45,284	19%
Subtotal	1,685,372	1,449,327	2,524,060	838,688	50%
Total Expenditures	**$ 7,079,171**	**$ 6,470,672**	**$ 7,767,783**	**$ 688,607**	**10%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

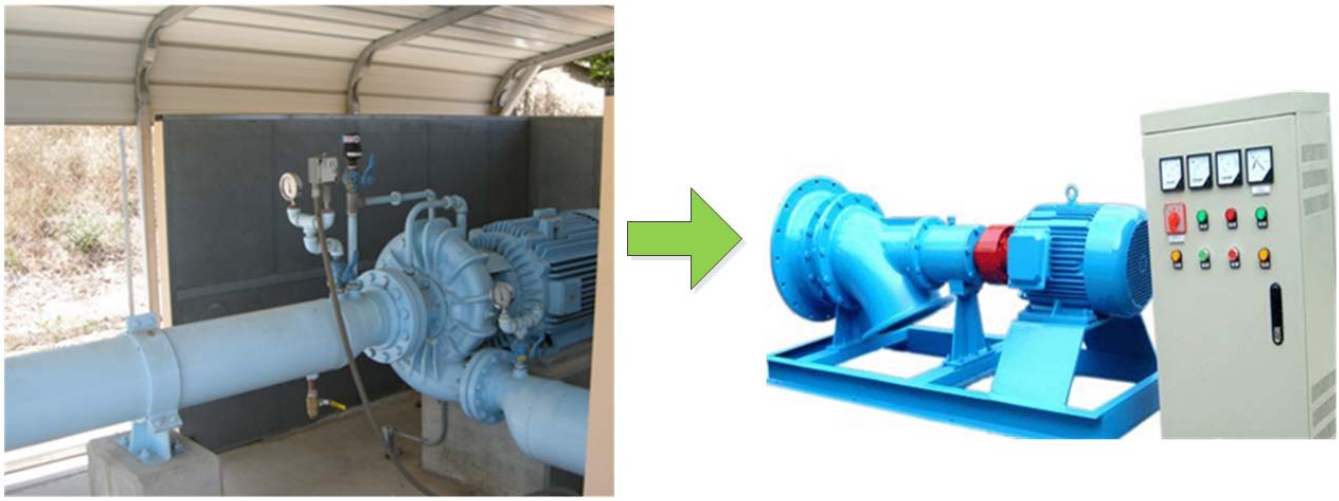
Significant changes from FY 2011-12 Budget to the FY 2012-13 Budget include:

- Water Treatment costs will increase by $78K as the result of chemical usage associated with enhanced treatment processes to meet new regulatory standards.
- Water Testing costs will increase by $16K as a result of additional monitoring of well production as well as evaluation of compliance with new 2012 Federal regulatory standards.
- Personnel costs associated with Operations will decline by $244K or 5%, as the result of internal staff being utilized on Capital Improvement Projects, which replaces contracted capital services with in-house expertise. This reclassification in personnel operating costs reflects deeper training and subsequent utilization of District staff rather than using outside contractors.

- Maintenance & Equipment costs will increase by $431K as the result of scheduled cleaning of the final basin at the CDMWTP, whereby ongoing material produced on a yearly basis during the treatment process is removed and disposed of in a licensed landfill.
- Services & Supplies will increase by $363K as the result of expanded well operations necessary to supplement Lake Cachuma water in anticipation that no spill water will be available in FY 2012-13. The resultant pumping of 1,200 AFY from the groundwater basin is consistent with the 2010 Water Supply Management Plan. In addition to well operation costs, the Operations Department will incur costs to evaluate District storage tank conditions, update an emergency response plan and implement recommended safety improvements.

With a low probability of a Lake Cachuma spill event occurring in FY 2012-13, the District will operate wells to produce 1,200 AFY. Costs associated with well operation will be offset by savings realized from a hydroelectric generator project.

- Utility costs have increased by $45K as the result of increased well operations to supplement Lake Cachuma water in anticipation that no spill water will be available in FY 2012-13, net of a $40K reduction in power costs from activation of a new hydroelectric generator project.

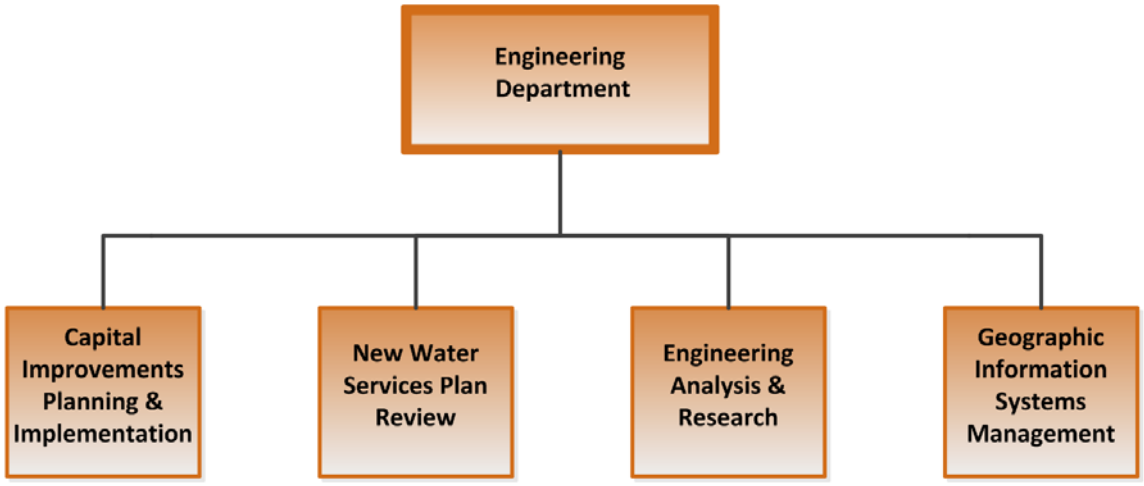


Engineering Department

Description

The Engineering Department provides oversight and assistance to ensure that water facilities are installed to the latest industry standards and regulations as well as proper records are kept and maintained. The specific services provided by the Engineering Department (as shown in Figure 4.5 below) include Capital Improvements Planning and Implementation, New Water Services Plan Review, Engineering Analysis and Research and Geographic Information Systems Management.

Figure 4.5 Engineering Department Programmatic Functions



Capital Improvements Planning & Implementation

Construction management for capital projects is now included within this area, which focuses on the development and formal documentation of the District 5-Year Infrastructure Improvement Plan. Specific efforts include developing project budgets, cost estimates and prioritization schedules to meet the needs of the District over the 5-year planning horizon. Strong attention is also placed on maintaining, upgrading and replacing the infrastructure needed to ensure long-term capital asset integrity. This area also implements IIP projects within schedule and budget approved by the Board of Directors. As part of its construction management responsibilities, this area solicits, selects and oversees engineering design firms and subsequent construction contractors hired to design and install facilities. For FY 2012-13, there will be a focus on activities that improve system reliability in a cost-effective and well-prioritized manner. Capital improvements include the completion of a design engineering study for CDMWTP to inform a systems-based approach for necessary process improvements that are scheduled to commence in FY 2013-14. In addition, the San Ricardo Well pump station project will conclude with the activation of the pump and renovation of its treatment facilities. The department will also manage the installation of new Variable Frequency Drives at the recycled booster station to reduce costs and improve reliability of the recycled distribution system. Additionally, by working with the City of Goleta, staff will ensure District assets are protected during the replacement of the Los Carneros railroad bridge.

New Water Services Plan Review

This area reviews, analyzes and approves the specific water infrastructure plans of developers for the expansion of the water facilities to serve new customers. Working in coordination with the Water Supply and Conservation Department, this service area approves cost estimates, evaluates the adequacy of the facilities proposed and determines whether the District facilities can adequately serve the proposed new customers. Services provided also include the onsite inspection of all new facilities being constructed throughout the District by private parties to ensure that the facilities are being properly installed per the District's Engineering Standards and Specifications.

Engineering Analysis and Research

This area is responsible for ensuring that District Engineering Standards and Specifications are current with the latest industry standards for construction, materials utilized and design criteria. Engineering Standards and Specifications also address operational integrity and efficiencies, as well as 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. This service area also provides the engineering support needed throughout District operations. Going forward, engineering analysis and research efforts will initiate a new cathodic protection program to increase the lifespan of 65 miles of steel pipeline as well as other District assets. For FY 2012-13, staff will also work to complete final paperwork regarding title transfer of mains from the U.S. Bureau of Reclamation.

Geographic Information Systems Management

This area is responsible for the records and drawings associated with all District assets. These records and drawings have been converted into a Geographic Information System that requires routine maintenance, upgrades and revisions to keep current with the facilities being installed. In addition, this functional area is responsible for the District's hydraulic model, which analyzes the flow capabilities of the miles of pipes that move water from the source of supply to the customer's service connection. Finally, GIS management also provides the analysis, technical research and recordkeeping process to ensure the integrity and operational capacity of the District's water systems.

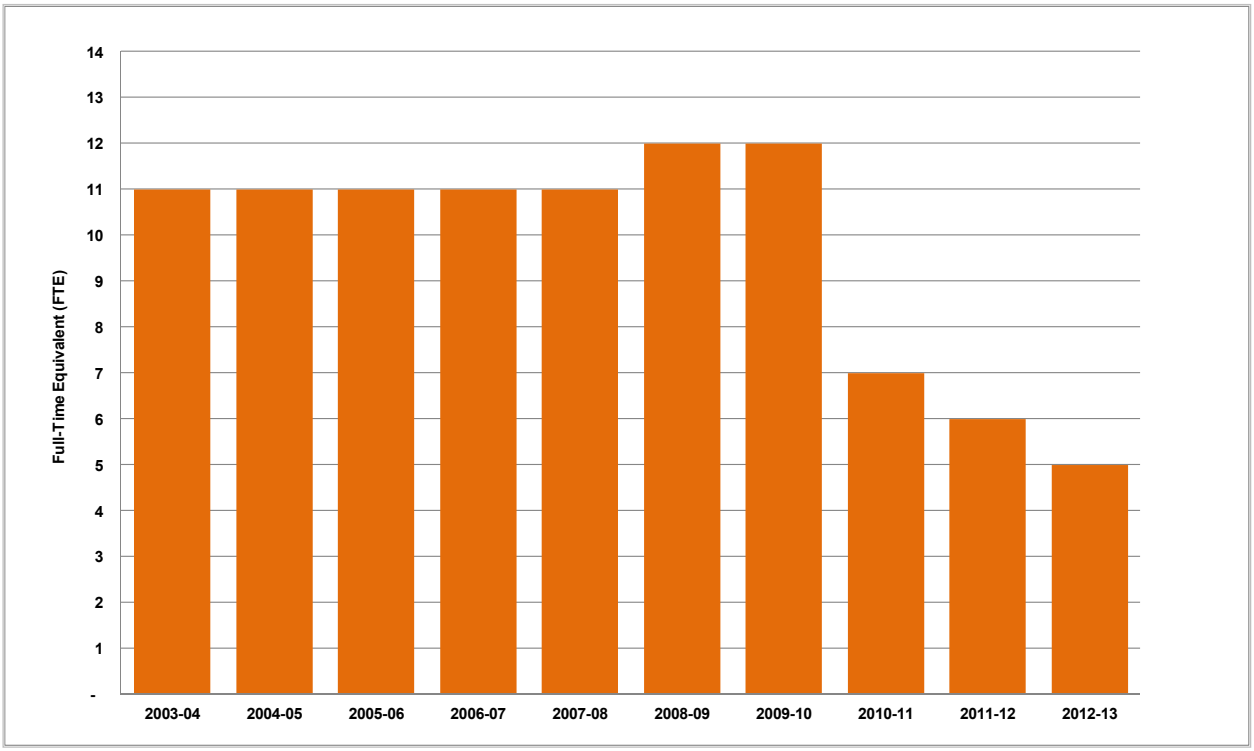
Through increased utilization of staff expertise, the District reduces the amount paid for contracted services.

Tied to the GIS is a state-of-the-art hydraulic model for the District's system. This software is capable of providing valuable information needed to fully inform operational decisions as well as long-term strategies. It ensures that adequate fire flows and pressures are maintained during peak customer demand periods.

Figure 4.6 shows the historical staffing trend in the Engineering Department from FY 2003-04 through the FY 2012-13 Budget. In FY 2010-11, certain functions and personnel were moved from the Engineering Department to the Water Supply and Conservation Department (WS&C), accounting for the decline in personnel. With review from the chief engineer, Engineering FY 2012-13 staff levels will be further adjusted to augment the

analytical resources in WS&C. For FY 2012-13, the number of personnel is therefore proposed to decline by one FTE, following the transfer of a vacant inspector position to the Water Supply and Conservation Department. See Appendix Figure 6.3 for a detailed organizational chart.

Figure 4.6 Staffing Trend – Engineering



In FY 2010-11, the Water Supply and Conservation Department was established, resulting in a shifting of Engineering personnel to the new department.

Accomplishments FY 2011-2012

This year began the implementation of the first Infrastructure Improvement Plan. Several key projects were delivered during FY 2011-12 that seized upon opportunities to demonstrate leadership in the areas of environmental and financial sustainability, as follows:

- Updated hydraulic modeling software to reestablish functionality and better equip District engineers with a decision-making tool.
- Replaced hydroelectric turbine generator at the Van Horne Reservoir to harness power-generating pressures and lower power costs.
- Completed the rehabilitation phase of San Ricardo Well to expand District groundwater pumping capacity.
- Initiated the replacement of the recycled booster pump station Variable Frequency Drive System to reduce power costs and increase system reliability.

- Established the existence of prior District rights for two pipeline relocation projects to achieve $600K in savings.
- Successfully installed two pipe casings across the 101 Freeway at Winchester Canyon to improve future system performance, and replaced 400 linear feet of water mains in Isla Vista to improve reliability and performance.
- Collaborated with the City of Goleta to replace water main across San Jose Creek. Developed design plans for San Antonio Creek Bridge and the Calle Real Bridge projects, in cooperation with regional agencies. Destroyed 8 Leaking Underground Fuel Tank monitor wells to remain in compliance with regulatory requirements.
- Developed an action plan for sustainable sewage disposal at the Corona Del Mar Water Treatment Plant.
- Developed a program to ensure the long-term sustainability of the District Cathodic Protection Program.
- Amended the Infrastructure Improvement Plan addendum consistent with the District 5-year financial plan, to continue transparent prioritization of capital project expenditures.

Table 4.3 below illustrates categories of Engineering expenditures and describes significant variances between FY 2011-12 Budget and FY 2012-13 budgeted expenditures.

Table 4.3 FY 2012-13 Engineering Department Budget Summary

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Departmental Expenses - Engineering					
Personnel Costs:	**$ 851,761**	**$ 597,232**	**$ 564,076**	**$ (287,685)**	**(34%)**
Operations & Maintenance Costs:					
Maintenance & Equipment	2,196	732	1,092	(1,104)	(50%)
Services & Supplies	137,330	83,023	166,852	29,522	21%
Subtotal	139,526	83,755	167,944	28,418	20%
Total Expenditures	**$ 991,287**	**$ 680,987**	**$ 732,020**	**$ (259,267)**	**(26%)**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Significant changes from the FY 2011-12 Budget to the FY 2012-13 Budget include:

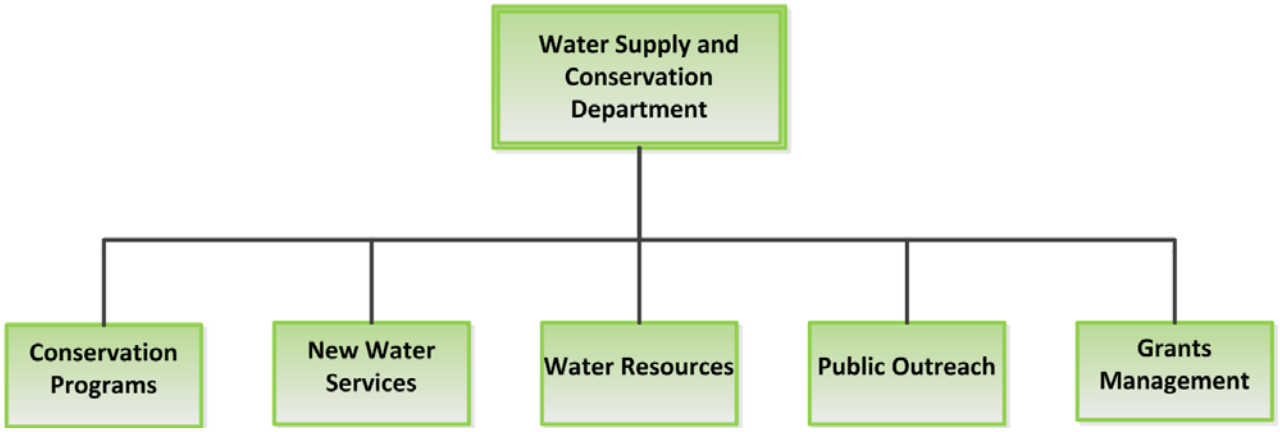
- Personnel costs associated with Engineering declined by $288K or 34%, partially as the result of the transfer of one position from the Engineering Department to the WS&C Department, made possible by cross-training staff to perform inspections. Additional year-over-year reductions in personnel costs charged to the operations budget were the result of labor costs being reclassified to Capital Improvement Projects.
- Services & Supplies costs increased by $30K as the result of estimated costs associated with title transfer of U.S. Bureau of Reclamation mains.

Water Supply and Conservation Department

Description

The Water Supply and Conservation (WS&C) Department oversees programs and functions related to Conservation Programs, New Water Services, Water Resources, Public Outreach and Grants Management, as shown in Figure 4.7 below.

Figure 4.7 Water Supply and Conservation Department Programmatic Functions



Conservation

This program implements innovative measures to help District customers save water. As a long-time leader in conservation practices and a signatory to the California Urban Water Conservation Council (CUWCC) Memorandum of Understanding (MOU), the District works in partnership with agencies and organizations across the region to educate the public on the benefits of conservation and offer incentives driving efficient water use across all of our customer categories.

The District completed participation in the Smart Landscape Rebate Program, issuing grant-funded rebates to approximately 80 customers totaling $70K through FY 2011-12.

The District made over 500 customer conservation contacts at outreach events during FY 2011-12.

New Water Services

This program focuses on the relationship with new customers and businesses through the District's water service application process. New real estate development projects and other expansions of water use are reviewed and coordinated with District departments, as well as surrounding local governments and agencies, to ensure that the District provides safe, reliable and efficient service to new customers. We also work to ensure that new water use meets all State and local conservation requirements. The work of the New Water Services program often involves complex research into existing water rights, entitlements, agreements and monitoring against available supplies. For FY 2012-13, continued focus on refining policies for new water service for development projects will assist in protecting remaining District water supplies and providing effective processes for establishing and maintaining service to new customers.

Water Resources

This program coordinates the development of, and updates to, the District's resource plans, including the Groundwater Management, the Water Supply Management Plan, the Urban Water Management Plan and the Sustainability Plan. In addition, this function provides overarching analytical support, special studies and reports needed to implement policy as established in the SAFE Water Supplies Ordinance, the District Code and District regulations. For FY 2012-13, participation in the State Water Resources Control Board water rights hearings and Federal Biological Opinion update related to Lake Cachuma will be a central area of focus to ensure the District's access to this critical water supply source. As another example of managing water resources, the department will issue a Water Use Demand Forecasting Report which includes fine-tuning "water demand factors" for the District's service area, based on Board policy regarding water allocations and Water Supply Charges for real estate development and Agricultural project applicants. This analysis and report will provide refined and precise data to forecast the amount of water used by proposed projects.

Public Outreach

This program is responsible for media relations and press releases, special outreach initiatives, publication of the District's newsletter and oversight of the District's website and internet presence. Through these venues, the Public Outreach program communicates District activities to ensure that customers are equipped with reliable, timely and objective information, enabling a clear understanding of District issues and topics.

The District website homepage averaged approximately 1,500 unique visits per month during FY 2011-12.

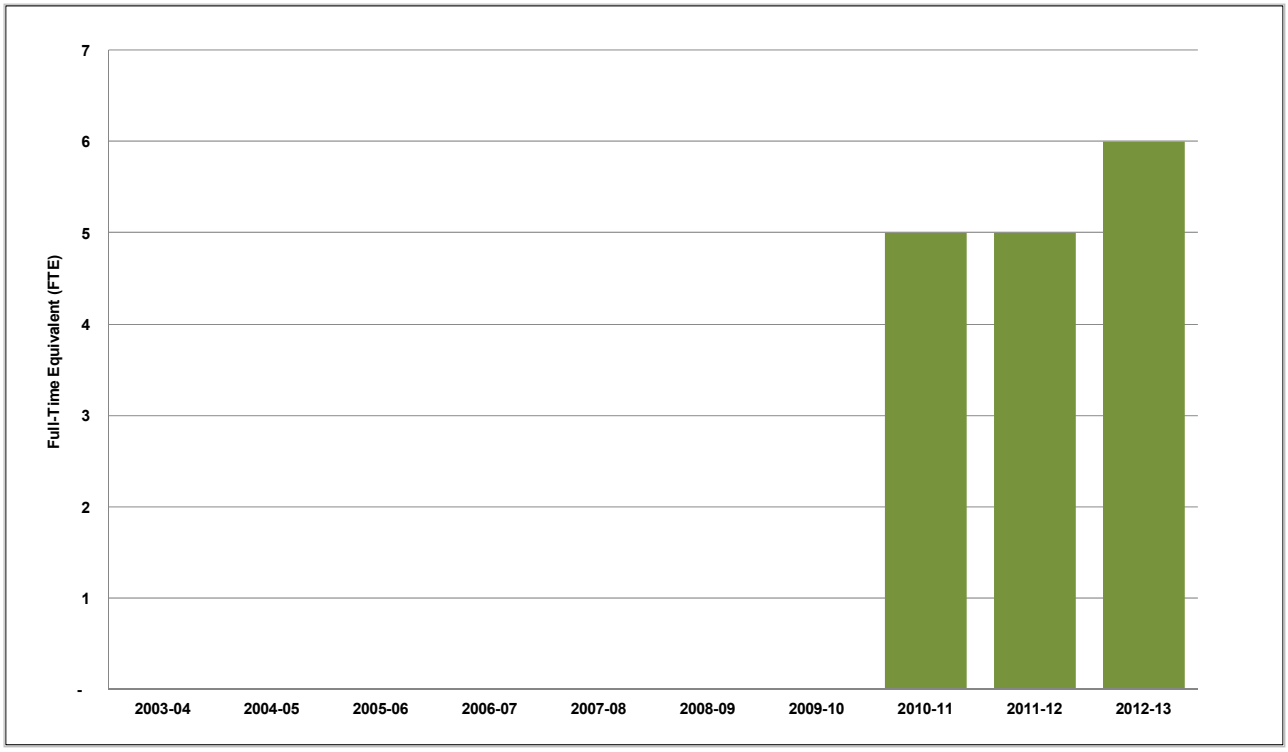
Conservation outreach at Earth Day

Grants Management

This program is responsible for managing existing grants and seeking new grant opportunities. Currently, the District is partnering with water providers across the County to manage and implement Propositions 50 and 84 grant resources and projects. The District was awarded a $400K Proposition 50 grant for rehabilitation of the San Ricardo Well. For FY 2012-13, the District will focus on participation in the update of the Integrated Regional Management Plan (IRWMP), as a mechanism for taking part in a second round of Proposition 84 grant funds for infrastructure projects. The District will also aim to apply for a U.S. Bureau of Reclamation Water Smart Grant to fund projects or studies identified in the Infrastructure Improvement Plan or Sustainability Plan.

As illustrated in Figure 4.8, the WS&C Department was created in FY 2010-11, when staff was shifted from the Engineering Department to enable increased District focus on the programmatic functions described above. By reassigning resources between departments, staffing levels are aligned with current needs. Accordingly, the FY 2012-13 Budget proposes to shift the inspector position from the Engineering Department to the WS&C Department, along with the funding associated with the position. Appendix Figure 6.3 provides a detailed organizational chart.

Figure 4.8 Staffing Trend - Water Supply and Conservation



Accomplishments in FY 2011-2012

The Water Supply and Conservation Department sought to evaluate current practices and adopt procedural changes reflective of industry best practices. Several key projects were delivered during FY 2011-12 that seized upon opportunities to demonstrate leadership in the areas of environmental and financial sustainability, as follows:

- Completed Urban Water Management Plan update to identify long range water supply and demand forecasts and comply with the State's per capita water reduction targets (i.e., "20% by 2020").
- Designed and implemented Board-directed meter downsizing program to assist customers in response to new water rates and Monthly Service charges. Downsized meters also register water more accurately, limiting water loss as the result of oversized or aged meters.
- Facilitated Board adoption of policy regarding water allocations for large real estate development projects to mitigate the disruptive effects such projects may have on remaining District water supplies.
- Completed final draft of inaugural District Sustainability Plan to embed sustainability principles into the District's business strategy, thereby ensuring long-term service viability and value for customers.

In 2011, the District provided 32 Preliminary Conditions Letters and 23 Can & Will Serve Letters to customers requesting new or expanded water service.

The table below illustrates categories of WS&C expenditures. Narrative following Table 4.4 describes significant variances between FY 2011-12 Budget and the FY 2012-13 Budget.

Table 4.4 FY 2012-13 Water Supply and Conservation Budget Summary

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Departmental Expenses - WS&C					
Water Supply Agreements Costs:					
COMB Cachuma Water Expenses	$ 2,322,388	$ 2,318,125	$ 2,596,865	274,477	12%
Cachuma Conservation & Release Board	200,356	246,356	296,220	95,864	48%
CCWA State Water Expenses	7,407,597	6,635,218	7,506,554	98,957	1%
GSD Recycled Water	484,932	389,533	487,542	2,610	1%
Cloud Seeding	-	1,200	-	-	-
Subtotal	**10,415,273**	**9,590,432**	**10,887,181**	**471,908**	**5%**
Personnel Costs:	**$ 810,897**	**$ 700,236**	**$ 898,531**	**$ 87,634**	**11%**
Operations & Maintenance Costs:					
Maintenance & Equipment	1,292	1,532	696	(596)	(46%)
Services & Supplies	305,509	200,964	322,200	16,691	5%
Subtotal	**306,801**	**202,496**	**322,896**	**16,095**	**5%**
Total Expenditures	**$ 11,532,971**	**$ 10,493,164**	**$ 12,108,608**	**$ 575,637**	**5%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Significant changes from the FY 2011-12 Budget to FY 2012-13 Budget include:

- Water Supply Agreement costs have increased by $472K due primarily to payments related to the Modified Upper Reach Reliability Project for the COMB/Cachuma Water Expenses, as well as costs associated with protecting the District surface water operating permit.
- CCWA State Water costs have increased by $99K, consistent with the CCWA-adopted budget to fund the District's share of CCWA bond payments as well as the fixed operating costs of CCWA and the DWR.
- Personnel Costs have increased by $88K as the result of shifting one position from the Engineering Department to the Water Supply and Conservation Department.
- Services and Supplies costs have increased by $17K (5%), primarily for costs associated with water use demand forecasts.

Administration Department

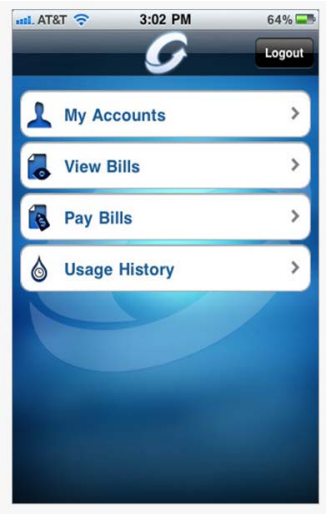
Description

As seen in Figure 4.9 below, the Administration Department oversees functions related to Financial Management, Reporting and IT; Customer Service; and Human Resources.

Figure 4.9 Administration Department Programmatic Functions

Financial Management, Reporting & IT

This functional group performs all financial and accounting services for the District to ensure that proper controls and processes are in place to accurately charge and collect for Water Sales as well as disburse payments. Routine transaction 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 and annual audit report preparation. In addition, the department implements governmental accounting standards in order to provide timely, accurate and meaningful financial information to the public, the Board of Directors and District management. Finally, the department ensures District technology needs are met by retaining vendor expertise to support network services, customer information systems and an advanced billing system. During FY 2012-13, the District will introduce online billing and payment functionality, bolster database tools and seek to improve document management technology.



Customer Service

This group is the initial point of contact for customers. This staff handles incoming calls, receives visitors, collects and processes 200,000 annual payments and reacts to the daily requests originating from 16,600 customer accounts over a population of 87,000 people. In FY 2012-13, customer service will support the migration to an online billing system, utilize Interactive Voice Response (IVR) phone automation tools to expand customer communication options and pursue improvements to the current phone system.

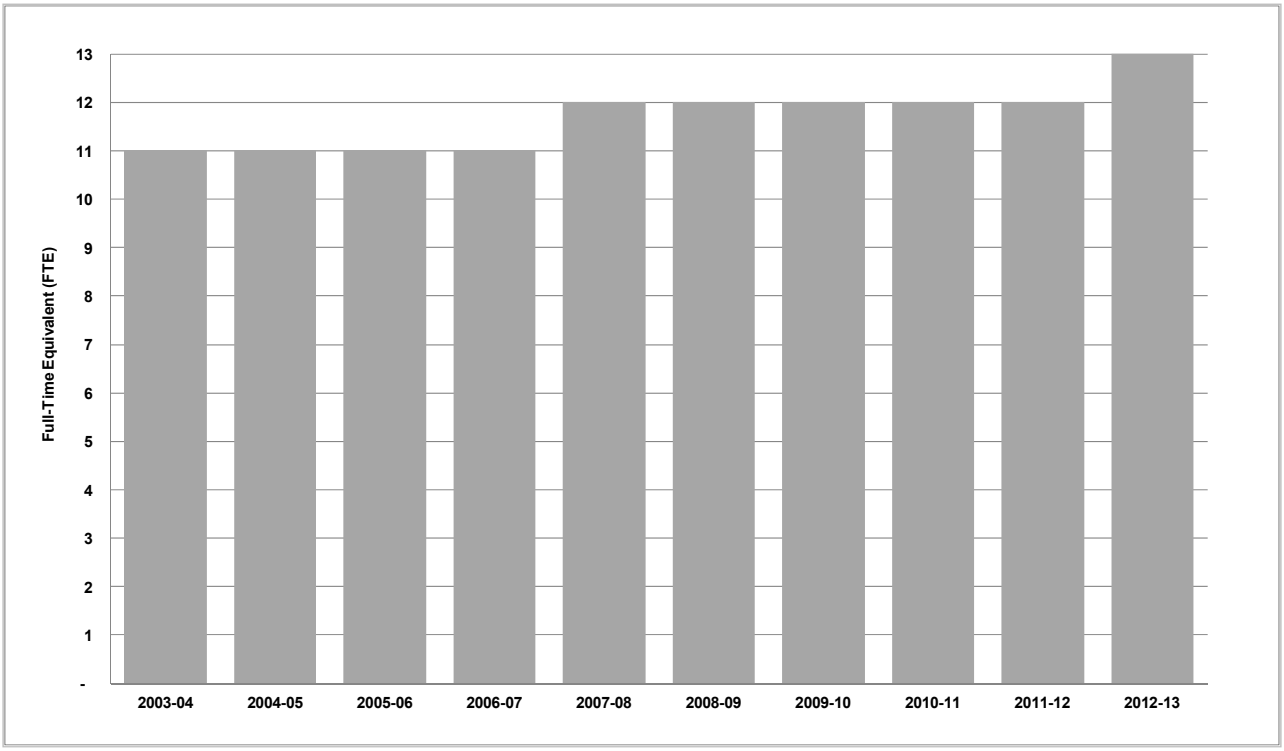
As part of an online billing and payments project, the District will offer 24/7 access to usage, billing and payment history both online and via a Smartphone application.

Human Resources (HR)

This functional area focuses on recruiting, training and retaining the best qualified individuals for the District. The staff works closely with department heads as well as union representatives of the SEIU. The Human Resources function also coordinates District risk management activity to ensure the District's 60 employees have a safe and healthy work environment. Additionally, staff analyzes and coordinates insurance matters in cooperation with the District insurance provider, ACWA/JPIA. In FY 2012-13, HR will revise employee performance evaluation formats as well as automate other paper-based personnel forms.

The functional orientation and related staffing trend are illustrated in Figures 4.9 and 4.10. For FY 2012-13, the Administration Department staff levels will increase by one position, reflecting the transfer of an administrative assistant position from the Operations Department. Appendix Figure 6.3 provides a detailed organizational chart.

Figure 4.10 Staffing Trend - Administration



Accomplishments in FY 2011-2012

During the year, the Administration Department was restructured to improve productivity and expand analytical resources, as evidenced by the departmental focus on initiatives that produced several foundational improvements. Several key projects were delivered during FY 2011-12 that seized upon opportunities to demonstrate leadership in the areas of environmental and financial sustainability, as follows:

- Performed detailed analyses of financial progress, water deliveries and performance indicators. Developed stronger reporting tools to inform the decision-making process, allowing management to gauge District financial performance, identify trends and draw conclusions before taking action.

- Completed labor contract negotiations to reduce labor costs and provide long-term structural changes to wages and benefits, contributing to the District's long-term financial sustainability.
- Satisfactorily concluded the FY 2010-11 financial audit to address each recommended action identified by the independent auditor in the prior year.
- Revised miscellaneous fees and service charges to ensure costs associated with those activities are appropriately calculated and recovered.
- Delivered a comprehensive administrative manual to document existing and new policies and procedures as well as further improve internal customer service.
- Restructured the Administration Department, inclusive of personnel and facilities, to increase communication, streamline workflows and improve analytical resources.
- Completed a study and selected a vendor that will provide online billing and online payments, as well as allow improvements in administrative productivity and strengthen internal controls.

Table 4.5 FY 2012-13 Administration Budget Summary

Category	Adopted Budget FY 2011-12	Estimated Actual FY 2011-12	Final Budget FY 2012-13	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Departmental Expenses - Administration					
Personnel Costs:	**$ 1,893,441**	**$ 1,844,183**	**$ 1,956,023**	**$ 62,582**	**3%**
Other Post Employment Benefits:	**352,494**	**357,113**	**365,136**	**12,642**	**4%**
Operations & Maintenance Costs:					
Insurance, Accounting & Auditing	179,200	192,778	197,700	18,500	10%
Legal	357,504	312,425	349,762	(7,742)	(2%)
Services & Supplies	540,391	523,842	704,164	163,773	30%
Subtotal	**1,077,095**	**1,029,045**	**1,251,626**	**174,531**	**16%**
Total Expenditures	**$ 3,323,030**	**$ 3,230,341**	**$ 3,572,785**	**$ 249,755**	**8%**

** Compares FY 2012-13 Final Budget to FY 2011-12 Adopted Budget*

Significant changes from FY 2011-12 Budget to the FY 2012-13 Budget include:

- Personnel costs will increase by $63K (3%) as the result of a contractual increase in labor cost, coupled with the net impact of changes in personnel that included a reduction in a customer service position and the transfer of an administrative assistant position from the Operations Department.
- District-wide, Other Post Employment Benefits will increase by $13K (4%), caused by an increase in retirees. There are no material increases in health care rates.
- Insurance, Accounting & Auditing costs will increase by $19K (10%), largely the result of a $12K increase in property and liability insurance rates.
- Legal fees, including general and special counsel, are projected to decrease by $8K (2%) to recognize a reduction in the amount budgeted for litigation.

- Services and Supplies will increase by $164K (30%) primarily as the result of $51K in support of developing technology strategies, $50K for 2012 election expenses and $30K for project accounting system upgrades.

SECTION V

INFRASTRUCTURE IMPROVEMENT PLAN

SECTION V – INFRASTRUCTURE IMPROVEMENT PLAN

Description

Portions of the District's infrastructure were constructed 50 to 60 years ago. Rehabilitation or replacement of assets and facilities is necessary in order to maintain a reliable water distribution system. The District recognizes the need to assess and evaluate its infrastructure to prioritize and plan for improvements, maintenance and replacement of specific components across the system. Completion of the 2011 Infrastructure Improvement Plan, which identified key infrastructure needs of the District, informs each year's financial requirements to support capital projects.

Table 5.1 illustrates categories of FY 2012-13 IIP costs, which will be funded through a combination of operating revenues as well as proceeds raised from a 2010 issuance of Certificates of Participation. The IIP provides for the completion of 26 separately-tracked projects that will allow the District to accomplish its goals of maintaining reliable water delivery treatment and delivery systems. Figure 5.1 further demonstrates the percentage of capital expenditures by type.

Table 5.1 Capital Improvement Projects Summary

Category	IIP Adopted Budget FY 2011-12	IIP Final Budget FY 2012-13	Variance Analysis $ Higher / (Lower)	Variance Analysis $ Higher / (Lower)
Regulatory or Critical	$ 2,917,250	$ 1,632,000	$(1,285,250)	(44%)
Water Supply or Production Reliability	535,000	1,467,000	932,000	174%
Infrastructure - New, Replace, or Maintain	470,000	524,000	54,000	11%
Financial Benefit	225,000	208,000	(17,000)	(8%)
TOTAL Capital Projects	**4,147,250**	**3,831,000**	**(316,250)**	**(8%)**
COP Funded	3,046,250	1,586,000	(1,460,250)	(48%)
Net Operating Budget Funded Projects	**$ 1,101,000**	**$ 2,245,000**	**$ 1,144,000**	**104%**

Figure 5.1 FY 2012-13 Capital Spending Allocation

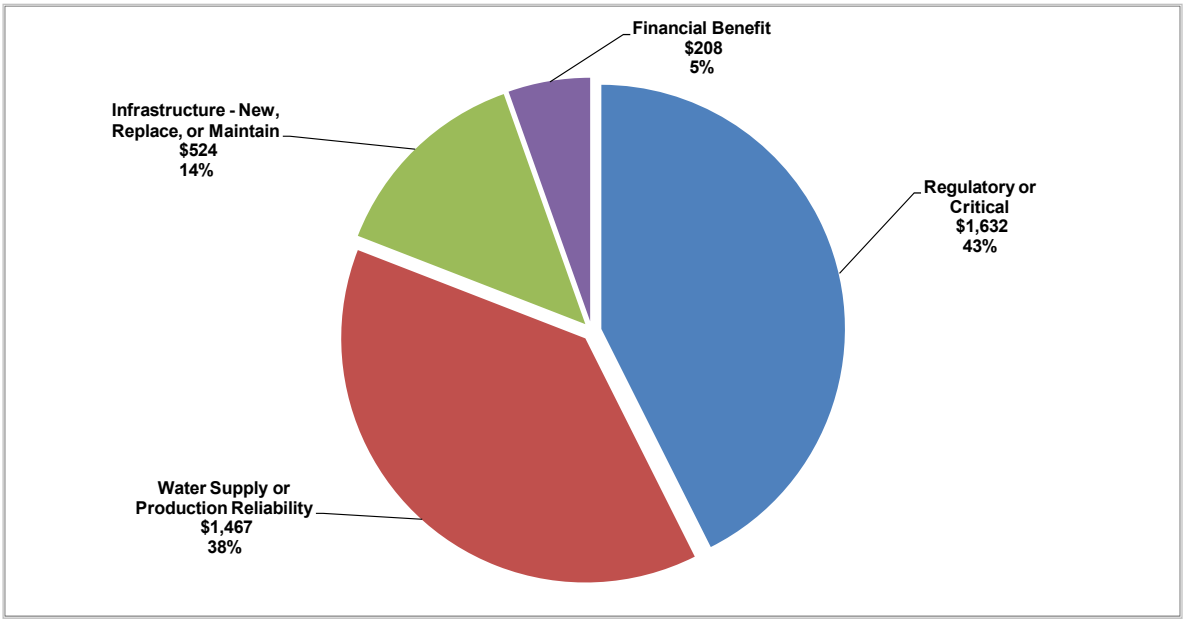


Table 5.2 lists each IIP project and its FY 2012-13 funding requirements as adopted. As illustrated, total spending is $3.8M, of which $1.6M is funded by COP proceeds and $2.2M from this Operating Budget. Throughout the year, District staff will continue to receive the training and develop the expertise needed to deliver these projects on time and within the amount budgeted. It is important to also note that in developing such internal expertise, the District is poised to eliminate or reduce the costs of contracting with outside service providers.

Table 5.2 Infrastructure Improvement Plan Projects

Ref.	Project Name	Funding Source	FY 2012-13
Regulatory Requirement and/or Critical Need			
G1-1.1	CDMWTP Backwash Basin Improvement Project	Cap Fund	$ 53,000
G1-1.2	CDMWTP Sludge Drying Beds 1 and 2 Construction Project	Cap Fund	50,000
G1-1.3a	CDMWTP Sludge Drying Bed 3 Construction Project	COP	50,000
G1-1.4a	CDMWTP Overflow Basin Construction Project	COP	50,000
G1-15a	Copper Service Line Replacement Program	COP	250,000
G1-2a	Arc Flash Protection Improvements - COP funded	COP	200,000
02-3415	Caltrans - Calle Real Waterline Relocation Project	COP	5,000
09-3915	Recycled Water Booster Station Electrical Upgrades (at GSD)	COP	525,000
10-4004	CDMWTP Leach Field Replacement	COP	125,000
10-4009	Valve Replacement Program	COP	155,000
10-4010	Polybutylene Service Line Replacement Program	COP	78,000
10-4013	Pressure Reducing Valve & Combination Air Valve Repair & Replacement Program - COP Funded	COP	11,000
10-4022	City-San Jose Creek Waterline Relocation for Creek Widening	Cap Fund	10,000
11-4028	City-Los Carneros Waterline Relocation for Bridge Replacement	Cap Fund	70,000
Water Supply / Production Reliability Projects			
08-3857	San Ricardo Well Rehab Project (Prop 50)	Cap Fund	1,147,000
11-4032	Distribution System Hydraulic Model Update	COP	10,000
	Purchase of San Antonio Well Site	Cap Fund	310,000
Infrastructure and Equipment - Replacement, New, and Maintenance Projects			
11-4031	Corrosion Protection Project	Cap Fund	142,000
11-4033	Essential Software (GIS,CADD,CIS) and Network Updates	Cap Fund	57,000
11-4035	CDMWTP Filter Media Replacement (1 Filter)	Cap Fund	50,000
11-4040	Upsizing of Pipelines for Fire Flows	Cap Fund	86,000
11-4040	Digital Read Meters	Cap Fund	51,000
G3-2	Fleet Replacement Program	Cap Fund	80,500
G3-3	Construction Equipment Replacement Program	Cap Fund	57,500
Financial Benefit Projects			
11-4036	Van Horne Turbine Generator Replacement & Hydro-Electric Study	COP	127,000
G4-1	Meter Replacement Program	Cap Fund	81,000
TOTAL SPENDING - All Projects			**$ 3,831,000**
Less COP Funded Projects:			**$ 1,586,000**
Net Funding from Operating Budget:			**$ 2,245,000**
		District Labor	**$ 377,086**
		Contracted Services & Construction	**$ 1,867,914**

SECTION VI

APPENDIX

SECTION VI – APPENDIX

Cost Center Description

The District tracks disbursements by charging each expenditure to an accounting code associated with a specific function. Functions are categorized together into "cost centers." The purpose of this Appendix is to provide an overview of each cost center to show where District revenue is spent and the relationship of spending to each functional area of District operations. In aggregate, the District has 24 cost centers across four departments.

Figure 6.1 below shows the cost centers within each department, followed by an informative analysis of spending in FY 2012-13 for each department by individual cost center.

Figures 6.2 and 6.3 illustrate the programs of each department and how District personnel resources are aligned. The cost of the District's 60 FTEs are allocated by cost center, according to their work assignments.

Figure 6.1 Departmental Cost Centers

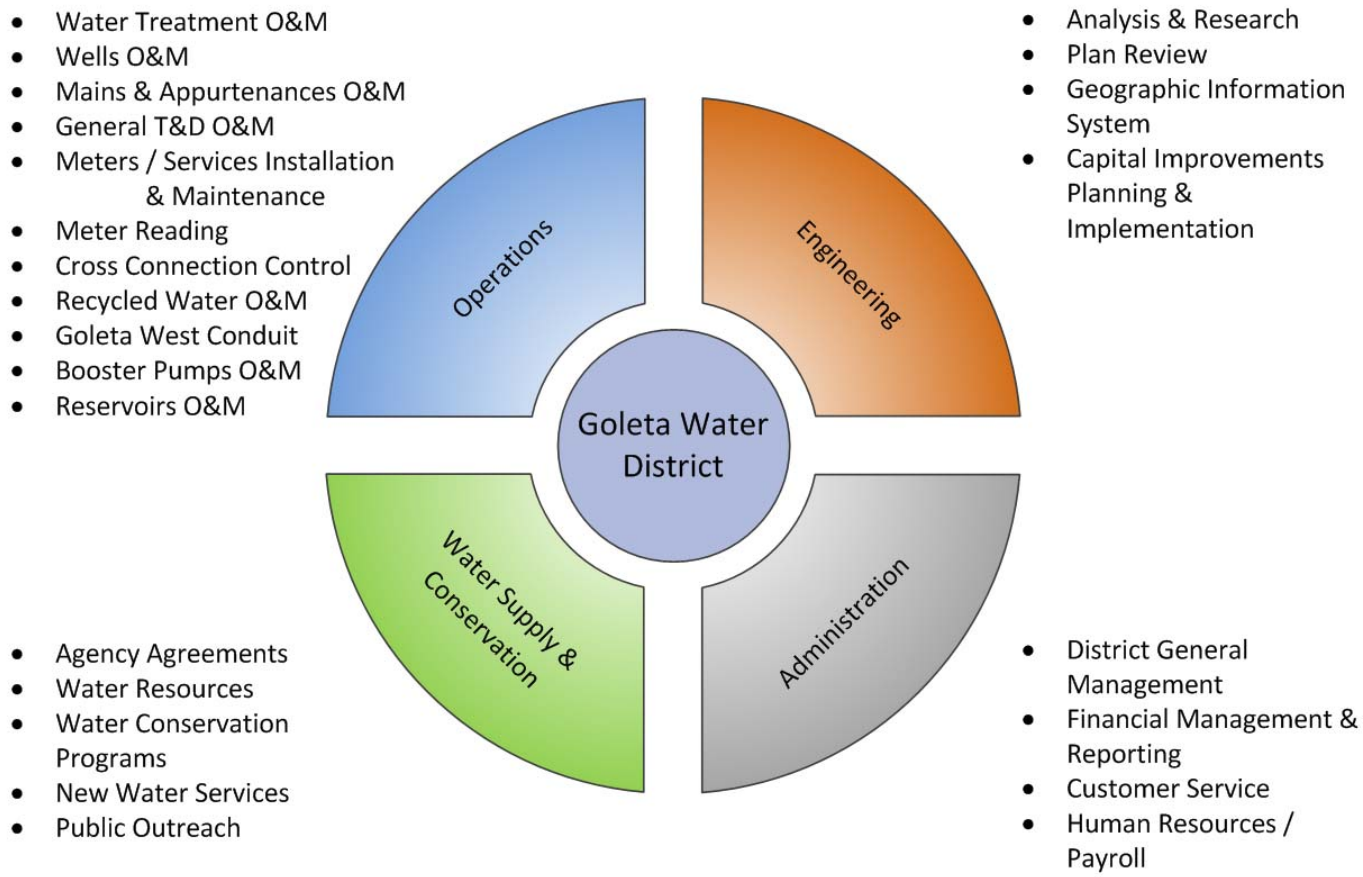


FIGURE 6.2

Figure 6.2 District Programmatic Functions

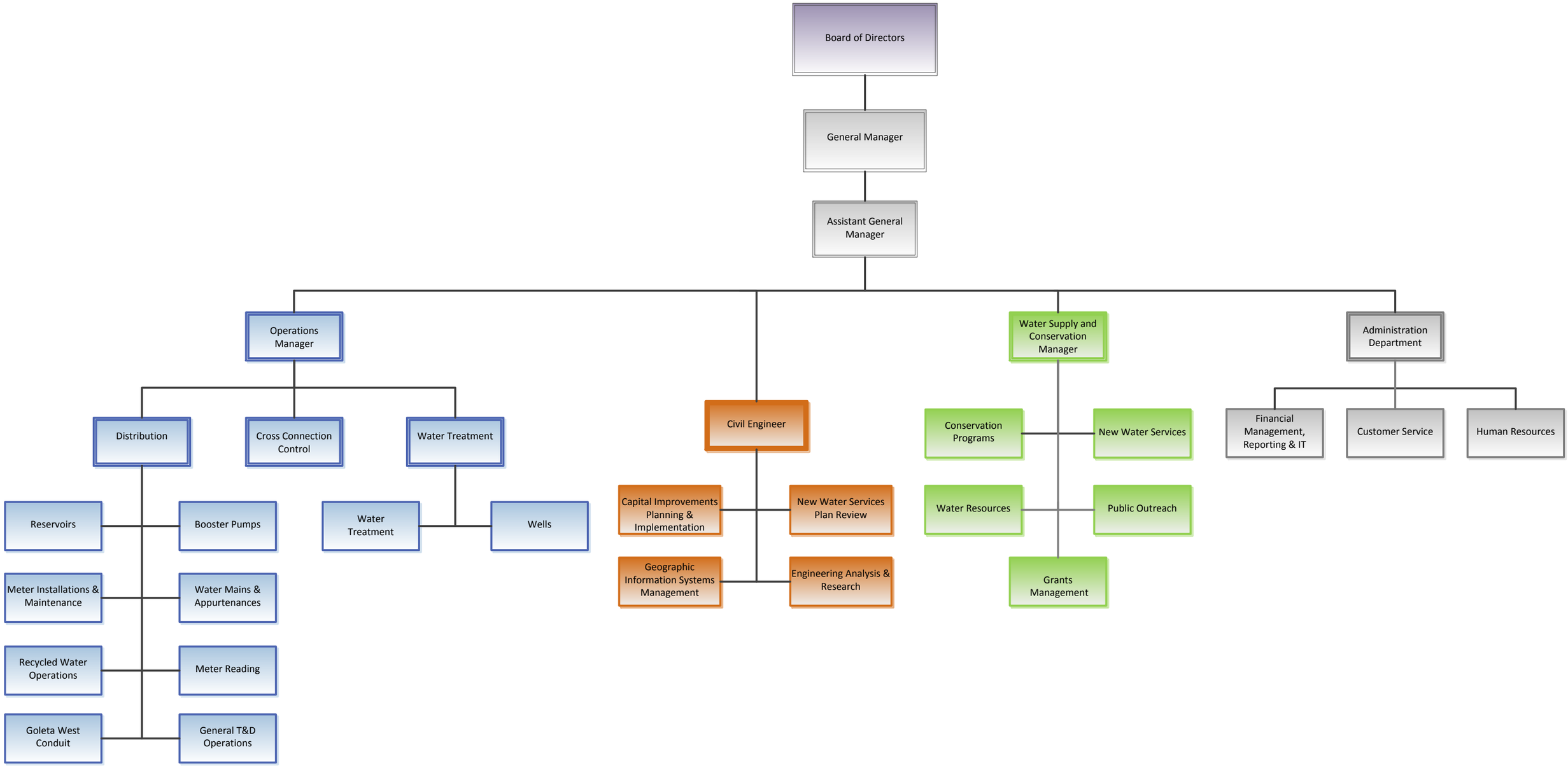


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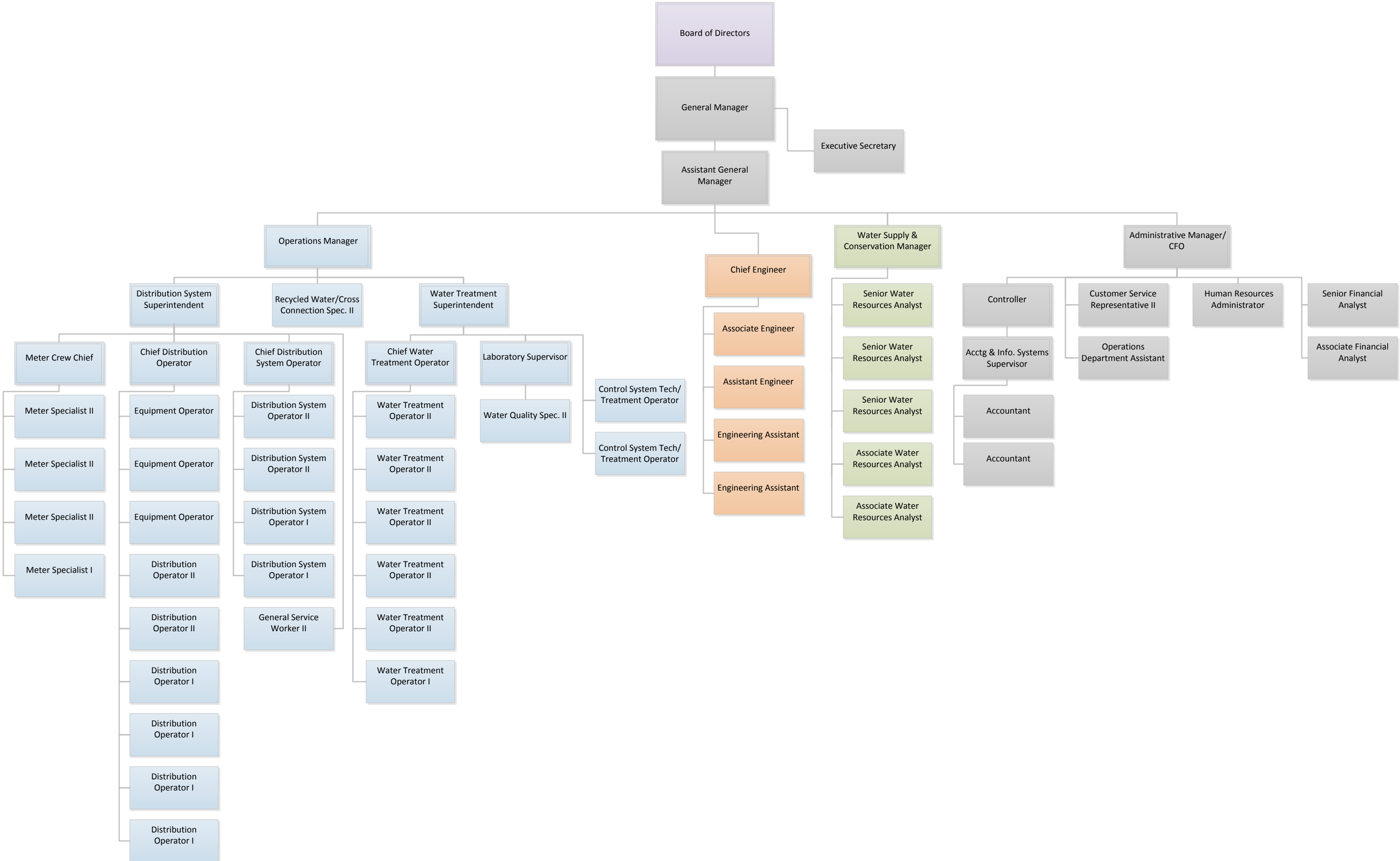
FIGURE 6.3

Figure 6.3 Organizational Chart by Department and Position



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OPERATIONS

Table 6.1 FY 2012-13 Budgeted Expenditures by Cost Center – Operations

Description	Water Treatment	Wells	Mains & Appurtenances	General T & D	Meters / Services Installation	Meter Reading	Cross-connection Control	Recycled Water	Goleta West Conduit	Booster Pumps	Reservoirs	Total Operations
Water treatment costs	$ 577,475	$ 26,975	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,800	$ -	$ 300	$ 626,550
Water treatment testing	135,989	13,662	-	-	-	-	-	-	2,160	-	-	151,811
Personnel - Wages	1,210,740	-	567,128	247,689	322,020	376,752	87,804	7,176	2,871	2,871	2,871	2,827,920
Personnel - Benefits	479,504	-	338,153	109,352	150,925	184,452	36,185	2,816	1,126	1,126	1,126	1,304,764
Personnel - Taxes & W.C.	133,782	-	89,314	25,260	40,154	32,227	10,883	480	192	192	192	332,677
Maintenance & Equipment	658,124	92,360	223,292	87,600	21,504	13,180	4,824	11,256	42,660	13,704	12,252	1,180,756
Services & Supplies	199,616	103,837	95,016	402,048	21,000	9,300	-	74,272	36,683	1,152	119,124	1,062,048
Power	44,338	148,977	5,124	26,304	-	-	-	31,937	4,824	14,784	4,968	281,256
Total	**$ 3,439,568**	**$ 385,811**	**$ 1,318,027**	**$ 898,253**	**$ 555,602**	**$ 615,911**	**$ 139,696**	**$ 127,937**	**$ 112,316**	**$ 33,829**	**$ 140,833**	**$ 7,767,783**

Figure 6.4 FY 2012-13 Budgeted Expenditures by Cost Center – Operations ($000s)

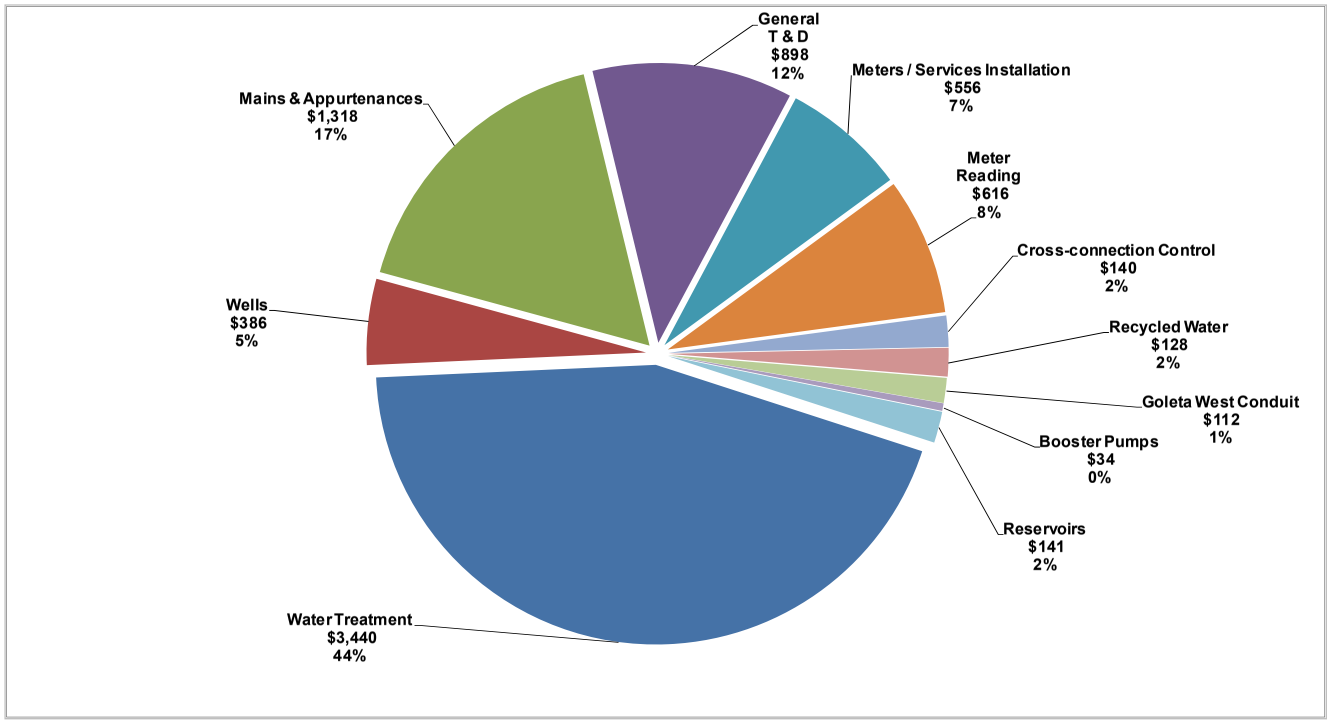
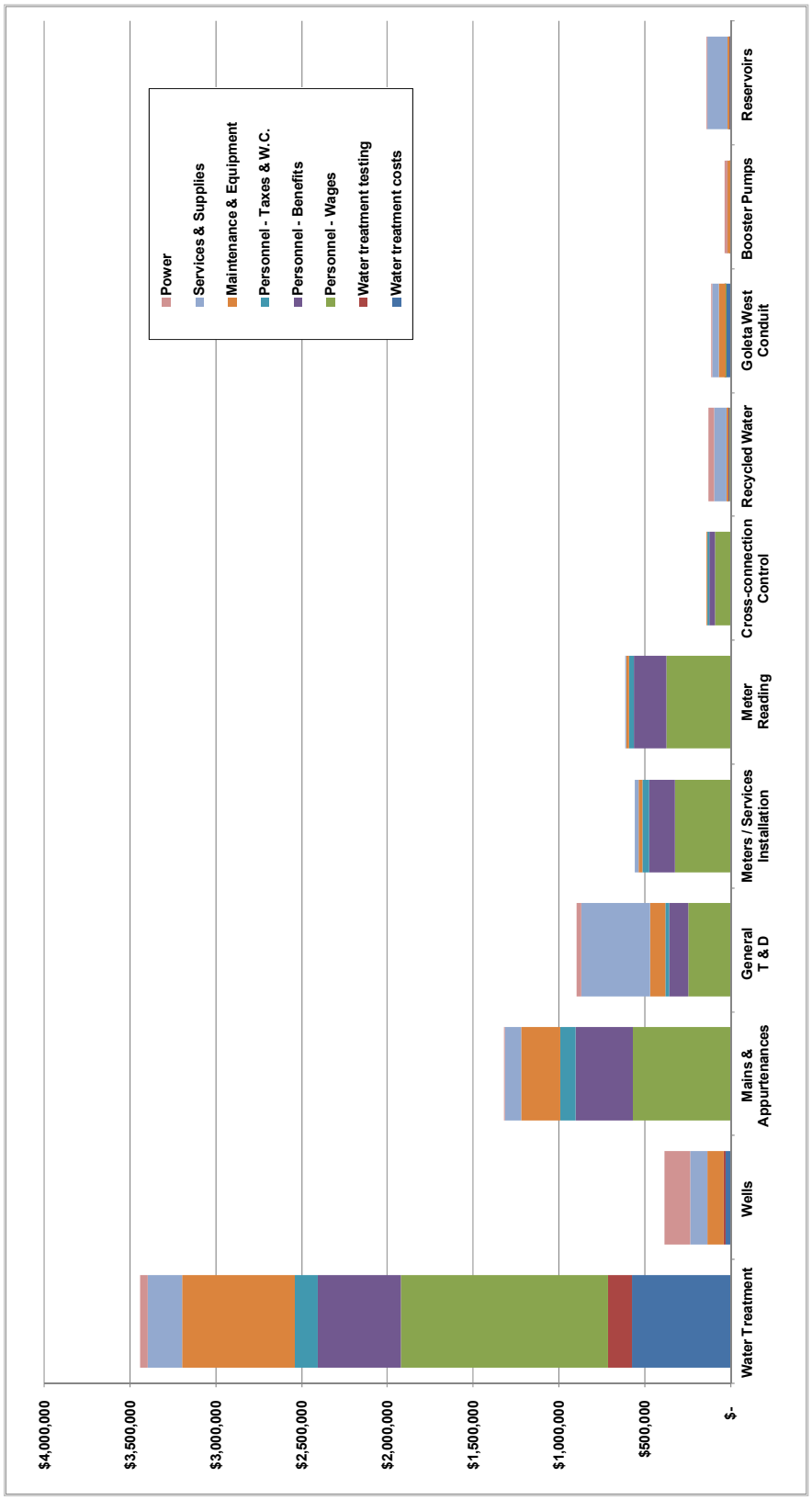


Figure 6.5 FY 2012-13 Budgeted Expenditure by Cost Center – Operations



ENGINEERING

Table 6.2 FY 2012-13 Budgeted Expenditures by Cost Center – Engineering

Description	Analysis and Research	Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 148,819	$ 116,205	$ 68,613	$ 29,661	$ 363,297
Personnel - Benefits	48,472	47,117	41,264	27,052	163,905
Personnel - Taxes & W.C.	8,850	14,870	7,313	5,840	36,874
Maintenance & Equipment	-	1,092	-	-	1,092
Services & Supplies	118,892	6,280	36,980	4,700	166,852
Total	**$ 325,033**	**$ 185,564**	**$ 154,170**	**$ 67,253**	**$ 732,020**

Figure 6.6 FY 2012-13 Budgeted Expenditures by Cost Center – Engineering ($000s)

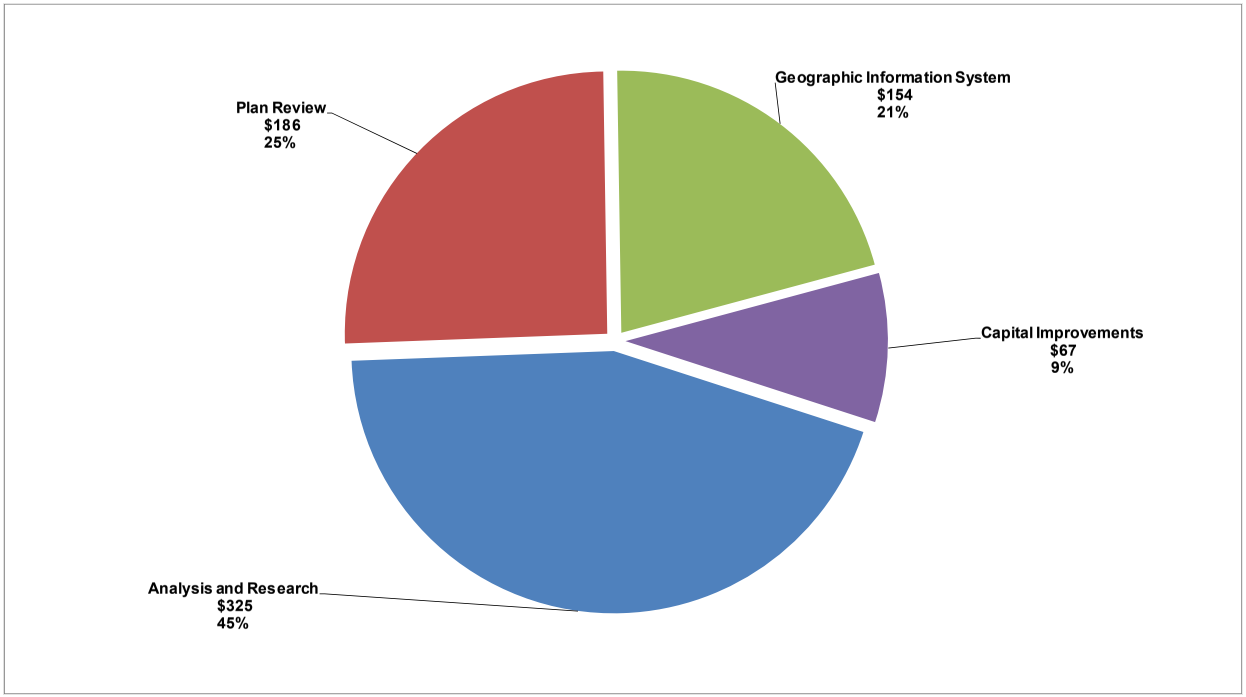


Figure 6.7 FY 2012-13 Budgeted Expenditures by Cost Center – Engineering

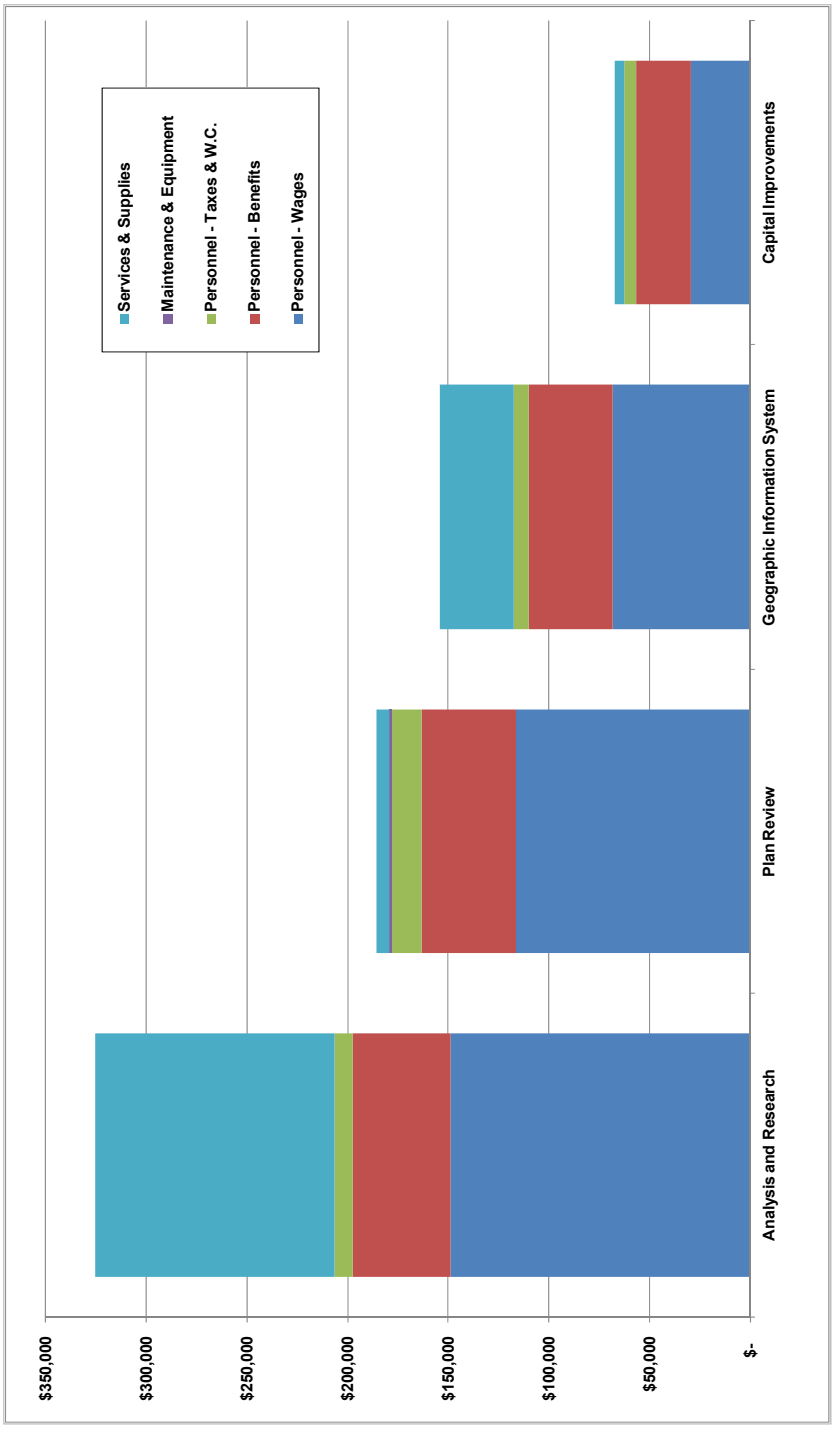


Table 6.3 FY 2012-13 Budgeted Expenditures by Cost Center – Water Supply & Conservation

Description	Water Supply	Water Resources	Water Conservation Programs	New Water Services	Public Outreach	Total WS&C
CCWA State water expense	$ 7,506,554	$ -	$ -	$ -	$ -	$ 7,506,554
CCRB	296,220	-	-	-	-	296,220
COMB Cachuma water expenses	2,596,865	-	-	-	-	2,596,865
GSD Recycled water	487,542	-	-	-	-	487,542
Personnel - Wages	-	136,643	171,151	264,486	35,882	608,162
Personnel - Benefits	-	56,537	65,502	106,290	14,760	243,088
Personnel - Taxes & W.C.	-	11,115	10,889	22,876	2,401	47,281
Maintenance & Equipment	-	-	-	696	-	696
Services & Supplies	-	50,818	159,508	8,628	103,246	322,200
Total	**$ 10,887,181**	**$ 255,112**	**$ 407,050**	**$ 402,976**	**$ 156,288**	**$ 12,108,608**

Figure 6.8 FY 2012-13 Budgeted Expenditures by Cost Center – Water Supply & Conservation ($000s)

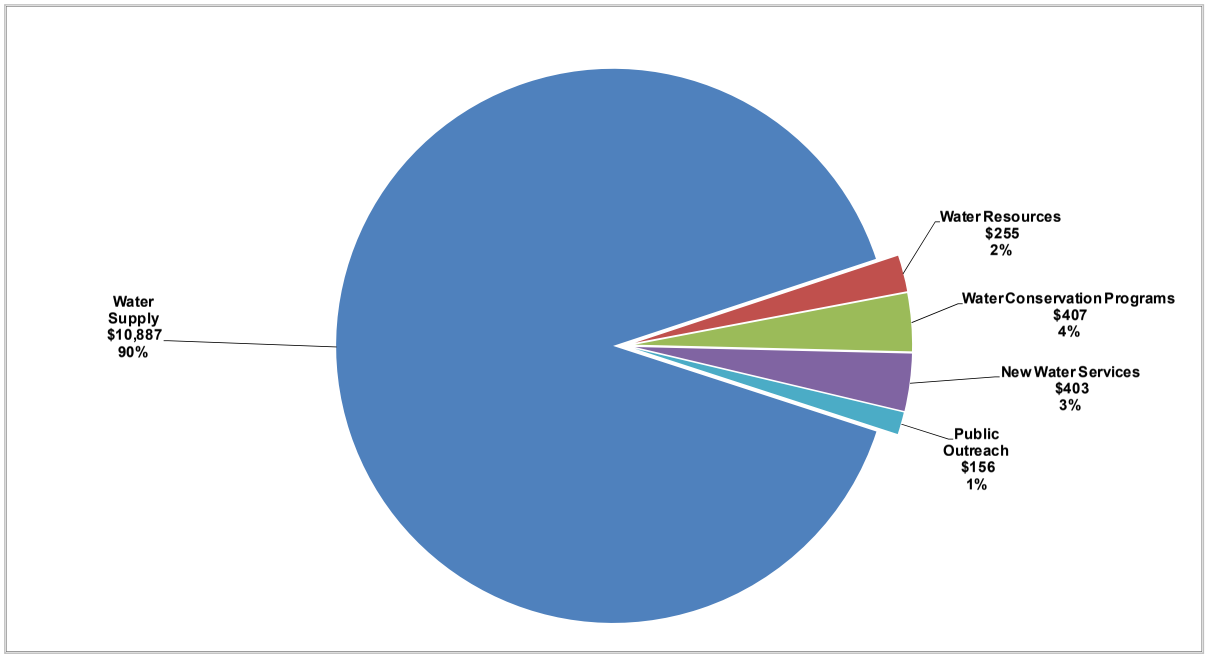


Figure 6.9 FY 2012-13 Budgeted Expenditures by Cost Center – Water Supply & Conservation

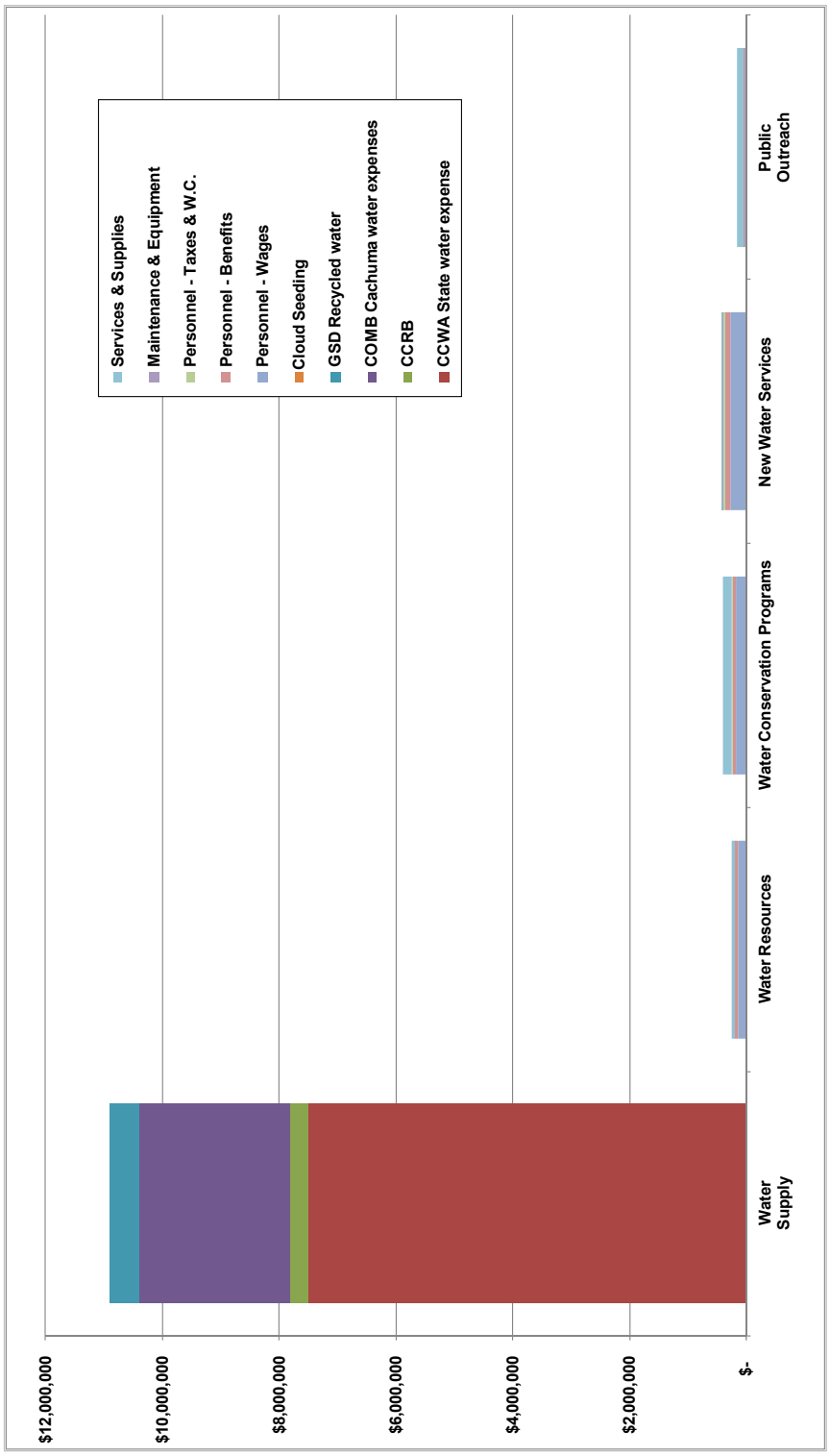


Table 6.4 FY 2012-13 Budgeted Expenditures by Cost Center – Administration

Description	District General Management	Reporting and Management	Customer Service	Human Resources / Payroll	Total Administration
Insurance, Accounting & Auditing	$ 23,700	$ 174,000	$ -	$ -	$ 197,700
Personnel - Wages	296,248	748,035	89,286	130,596	1,264,165
Personnel - Benefits	205,559	296,709	38,395	52,323	592,986
Personnel expenses - Post Retirem.	-	365,136	-	-	365,136
Personnel - Taxes & W.C.	22,834	58,320	6,975	10,743	98,872
Legal	349,762	-	-	-	349,762
Services & Supplies	147,202	278,013	246,423	32,526	704,164
Total	**$ 1,045,305**	**$ 1,920,213**	**$ 381,079**	**$ 226,188**	**$ 3,572,785**

Figure 6.10 FY 2012-13 Budgeted Expenditures by Cost Center – Administration ($000s)

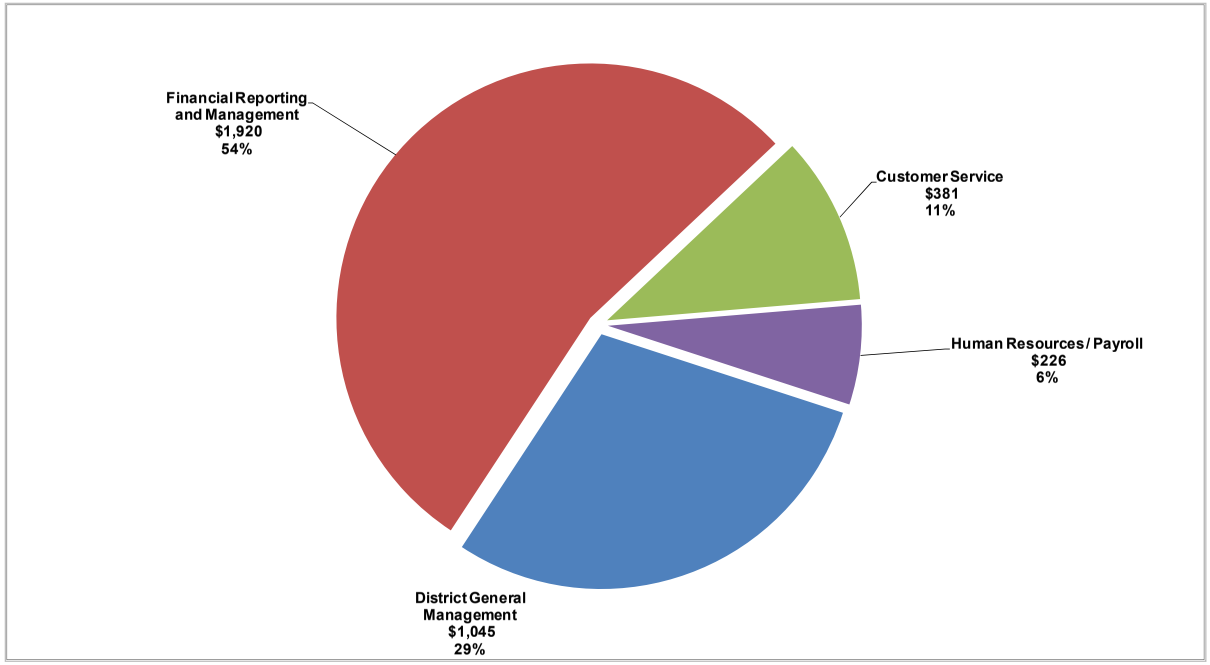


Figure 6.11 FY 2012-13 Budgeted Expenditures by Cost Center – Administration