GOLETA WATER DISTRICT

GOLETA, CALIFORNIA

Fiscal Year 2018–19

FINAL BUDGET

GOLETA WATER DISTRICT

Mission

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

Cover photo: Recent fires in the Cachuma watershed have contributed to changing water quality conditions.

GOLETA WATER DISTRICT

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List of Acronyms and Abbreviations

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

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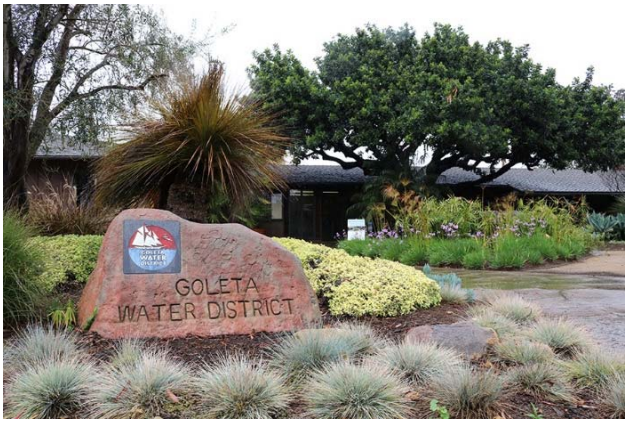
SECTION I – OVERVIEW

About Goleta Water District



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

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

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

With another below average year of rainfall the District is entering the seventh year of a historic drought, which will further alter District supplies in FY 2018-19. Available water sources are anticipated to include:

- 4,630 AFY of local surface water from Lake Cachuma
- 3,600 AFY of groundwater from the Goleta Basin
- 4,500 AFY of imported water from the California SWP
- 1,000 AFY of recycled water

Note that not all of these supplies may be available due to changing water quality conditions and treatment challenges.

The climate in the service area is generally characterized as Mediterranean coastal with mild, dry summers and cool winters. High temperatures average about 70 degrees while low temperatures rarely fall below 40 degrees. The area is semi-arid with average rainfall of approximately 18 inches per year, primarily occurring between November and March. Historic rainfall has fluctuated significantly with the area, seeing just under 6 inches in 1990 and more than 40 inches in 1983. During the current drought, now entering its seventh year, below average rainfall in the Goleta area ranged as low as 7 to 14 inches. Despite last year's above average rainfall of 25 inches, the South Coast

remains in drought conditions and Lake Cachuma is below 40% capacity. Drought conditions are unlikely to improve without successive years of above average rainfall, and could worsen if dry weather continues.

The current drought now matches the 1985-1992 drought in terms of total length, but has surpassed it in severity. The region has now experienced drought conditions for 7 of the past ten years, and more than half (55%) of the past two decades. California Governor Jerry Brown declared a state of emergency due to drought on January 17, 2014, and issued an unprecedented Executive Order with the first-ever statewide mandatory water use reductions on April 1, 2015. The District declared a Stage II Water Shortage Emergency on September 9, 2014, with a targeted 25% reduction and mandatory water use restrictions. As drought conditions worsened, the District declared Stage III on May 12, 2015, raising the targeted reduction to 35% and further restricting outdoor irrigation. Southern Santa Barbara County remains one of the few areas of the State still in severe drought. Given forecasted water supply deficiencies of at least 35% over the next 24 months, the District expects to remain in a Stage III Water Shortage Emergency for FY 2018-19, consistent with the District's Drought Preparedness and Water Shortage Contingency Plan.

Exacerbating already challenging water supply conditions are the changing water quality conditions driven by a combination of drought and several recent fires in the Lake Cachuma watershed. Winter rains in 2016-17 submerged areas of the dry lake bed, increasing organic vegetation in the lake that began to break down. The Rey Fire in 2016, and the Whittier Fire in 2017 burned across significant areas of the watershed, leaving behind ash and charred vegetation that have been washed from the steep terrain into the lake. In December 2017 the Thomas Fire then deposited significant airborne ash. These changing water quality conditions have made it increasingly difficult for the District and neighboring water agencies to rely on water from the lake during winter months when the inflow of debris is highest. Instead, the District turned to water stored in the groundwater basin to provide nearly 30% of all potable water served to customers in FY 2017-18. As a result of this shift in the supply portfolio, the District has experienced rising treatment and operational costs. Challenging water quality conditions are anticipated to remain an issue for all South Coast agencies over the next decade, and will continue to affect the costs to supply water to the local community.

Water Supply Portfolio

The District's diverse water supply portfolio is comprised of supplies from four distinct sources (local surface water, local groundwater, imported water, and recycled water) with availability averaging 16,472 acre-feet per year (AFY). All water supplies are secured through collaborative agreements with Federal, State, and local partners. Actual water availability varies from year to year based on weather, lake volume, exchange agreements, spill water and State water. Demand also fluctuates, driven by conservation, economic conditions and weather. For example, annual water sales in Fiscal Year (FY) 2008-09 reached a high of approximately 14,000 AFY, before declining for several years due to the recession, as well as conservation and efficiency programs. Weather driven demand occurs most noticeably when conditions are dry and water supplies are under the greatest pressure. Dry conditions caused an uptick in demand to 14,690 AF in FY 2013-14. After the declaration of the water shortage emergency in 2014, sales declined to 12,500 AF in FY 2014-15, and 10,739 AF in FY 2015-16.

As the drought deepened, the quantity of water the District received from Lake Cachuma declined from 9,322 AF under normal conditions, to zero AF in Water Year (WY) 2015-16, and 2016-17, which runs from October 1 to September 30. However, the unusual mid-year allocation in April of 2017 of 40%, combined with a 40% allocation for WY 2017-18, has provided much needed portfolio augmentation, which reduces the likelihood that a Stage IV Water Shortage Emergency will be necessary in the near future.

The prolonged drought and recent fires in the Cachuma watershed have created challenging water quality conditions for South Coast water agencies that will be costly to treat.

Local Surface Water – Lake Cachuma

Under normal conditions, approximately 75% of the average annual planned demand can be met with supplies from Lake Cachuma. In non-drought years, the District is entitled to 9,322 AFY of Cachuma supplies through coordinated agreements with the United States Bureau of Reclamation (USBR), the Santa Barbara County Water Agency (SBCWA) and the other Cachuma Member Units: City of Santa Barbara, Montecito Water District, Carpinteria Valley Water District, Santa Ynez River Conservation District, and Improvement District Number 1 (ID #1). The availability of Cachuma water varies from year to year as a result of weather, runoff, and drought conditions. The amount of Cachuma water the community uses can vary annually due to exchange agreements, availability of other supplies and customer demand. With no additional Cachuma allocations projected in the District's 24 month supply forecast, the District will utilize Cachuma "carryover" water remaining from its 2018 allocations to serve customers. Given ongoing water quality conditions at Lake Cachuma, there is a possibility that not all of this water will be useable. The USBR owns the Cachuma Project and is responsible for operating Bradbury Dam. The Cachuma Operation and Maintenance Board (COMB), a Joint Powers Authority comprised of the Cachuma Member Units, is responsible for the operations and maintenance of the balance of the Cachuma facilities, including the Tecolote Tunnel, South Coast Conduit, regulating reservoirs and appurtenances. Working with its Member Agencies and USBR, COMB delivers water to the South Coast and maintains project infrastructure to ensure ongoing sustainability of the Cachuma Project.

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

Local Groundwater – Goleta Groundwater Basin

The Goleta Groundwater Basin is a critical component of the District's water supply portfolio, especially during times of drought and emergencies. The District pumps and treats groundwater supplies from the Goleta Groundwater Basin through its nine active groundwater wells. In response to drought conditions, the District has invested significantly in increased groundwater production capabilities, with spending totaling over $13 million between 2015 and 2020. The terms of the 1989 Wright Judgment and the voter-approved 1991 SAFE Ordinance and subsequent 1994 amendments establish the basin yield and set the basin management parameters including pumping limits, storage requirements, how supplies are used, and the establishment and maintenance of a drought buffer. The groundwater basin is integral to the District supply portfolio and management strategy as it provides a locally controlled source of supply in the event of an interruption or reduction in Lake Cachuma supplies as a result of unscheduled maintenance needs, natural disasters, drought, or water quality conditions. In FY 2018-19, the District plans to use groundwater as an alternative to surface water supplies to address water quality issues. Groundwater is expected to make up nearly 30% of overall drinking water supplies for FY 2018-19.

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

Imported Water – State Water Project

Voters authorized the District to join the State Water Project (SWP) in 1991. The District purchases State water as a member of the Central Coast Water Authority (CCWA), a Joint Powers Authority with responsibility for the ownership and operations of the treatment and distribution systems delivering SWP supplies in Santa Barbara and San Luis Obispo Counties. Annual State water deliveries vary year-to-year based on water demand, availability of State water and local supplies, and exchange and sales agreements. The District stores any undelivered portion of its annual entitlement in San Luis Reservoir; this supply is available as a drought buffer and emergency contingency supply. In FY 2017-18, the District took delivery of 4,650 AF of State water. The District received a 20% allocation of its full State water entitlement, or approximately 1,490 AF for FY 2018-19. Deliveries of State water are limited to 4,500 AFY, which is the District's share of pipeline capacity, and any remaining excess water will be carried over for use in future years. As State water is delivered through the lake, it will present the same challenging water quality conditions and treatment issues as local surface water supplies. An exchange agreement with ID #1 will continue in FY 2018-19 to the extent that State water supplies are made available by the Department of Water Resources (DWR). Under this agreement, the District provides approximately 1,000 AFY of its State water entitlement to ID #1 in exchange for the same amount of Cachuma entitlement supplies from ID #1, to the extent water is available for exchange. This agreement saves both agencies significant energy costs and assists in ensuring sustainable service by reducing the pumping needed to deliver water to each community.

Recycled Water

The District has delivered recycled water for irrigation use and restroom facilities through a partnership with the Goleta Sanitary District (GSD) since 1995. The University of California, Santa Barbara (UCSB) and several golf courses throughout the service area are the District's largest recycled water customers. The District anticipates delivering 754 AF of recycled water in the coming year.

In 2017, the District completed a feasibility study that identifies options to develop additional alternative water supplies to further diversify its supply portfolio, improve supply reliability, and reduce dependence on imported water. The study specifically looks at the use of highly treated water to replenish the groundwater basin.

Our Customers

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

Residential customers make up approximately 89% of customer connections, with single-family homes comprising almost 79% of customer connections and multi-family dwellings accounting for the balance. The over 25,000 UCSB students, many of whom live in Isla Vista dormitories and apartments, represent a large portion of the area's multi-family residential customers. Residential water use is approximately 45% of overall water demand. This proportionally low use is largely due to these customers' exceptional conservation over the past many years. Before the drought, residential per capita water use in the District averaged 62 gallons per person per day, or 50 percent lower than the statewide average. Between February 2017 and March 2018, the residential per capita use declined further to an average of 55 gallons per person per day due to additional conservation activities. District customers are highly responsive to changing weather patterns. For every significant rain event in the area, there is a corresponding drop in water demand as customers adjust their irrigation practices and systems accordingly. Other factors contributing to year-over-year fluctuations in residential customer demand include new residential development and connections, economic trends, weather patterns, vacancy rates, drought declarations and heightened conservation programs.

Water thrifty District customers are consistently among the most efficient water users in California. Residential per capita use averaged 55 gallons per person per day, well below the State's per capita target of 110 gallons for indoor and outdoor water use.

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

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

The District has about 453 customer connections that are dedicated fire service lines. Fire lines are designated water lines connected to the main distribution system to provide fire protection service to a single customer – residential or commercial. Fire service lines are not used for normal delivery of potable water and therefore no water use or sales from these accounts are budgeted.

Conservation and Efficiency Programs

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

The District's Water Conservation Plan and Sustainability Plan (as updated each year) provide the foundation for efficient water resource management, along with the 2014 Drought Preparedness and Water Shortage Contingency Plan. The Urban Water Management Plan, The Water Supply Management Plan, and the Groundwater Management Plan were all updated in FY 2016-17.

Conservation programs include:

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

Customer Service

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

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

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

Goleta Water District Budget

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

The Budget also represents a short-term financial plan consistent with the goals outlined in the 2015-2020 Expenditure Forecast and 2015 Cost of Service Study. A vital component of the Expenditure Forecast is the District's commitment to managing controllable costs while planning for and mitigating exposure to the externalities that are beyond the District's control. Together with the 2015-2020 Infrastructure Improvement Plan (IIP) and 2012 Sustainability Plan, these documents provide the financial and management strategies for meeting the water and resource needs of the District today and into the future.

This year's budget reflects the significant increase in water treatment costs driven by recent fires and the prolonged drought.

The District continues to make significant advances in addressing critical infrastructure needs. FY 2017-18 included investments for vital infrastructure replacement and repairs and plans to address future infrastructure needs. FY 2017-18 saw estimated actual revenues of $42.2 million and expenditures of $38.9 million, with $3.3 million being a designation to reserve.

Key FY 2017-18 accomplishments in the areas of water supply sustainability, resource management and infrastructure improvement enhanced both water reliability and rate stability for the community. The District

completed a number of Board-identified initiatives during the fiscal year to modernize District operations and lay the groundwork for providing sustainable water resources to the community for decades to come.

A number of critical projects related to water quality, infrastructure and operational efficiency upgrades were completed in FY 2017-18.

Highlights include:

- Water quality maintenance work at the CDMWTP, including a study to analyze historical, current, and future surface water quality for corrosivity, trihalomethanes (THMs), organic content, and other chemical parameters.
- Design and construction of aeration systems at District reservoirs for THM reduction to continue to meet all regulatory standards for THMs in potable water. THMs are produced when chlorine used for disinfection reacts with organic material in the water.
- Water quality monitoring and treatment at District groundwater wells.
- Design work for the relocation of waterlines, hydrants, valves, service lines, backflow preventers, meters, and other infrastructure to accommodate the City of Goleta's planned road improvements at Ekwill Street, Fowler Road, and Hollister Avenue.
- Continued evaluation for the relocation of the Hollister Avenue recycled-water booster pump station beneath the sidewalk at Hollister Avenue and Glen Annie Road to accommodate the City of Goleta's planned road widening along Hollister Avenue.
- Valve installations and replacements for pressure regulation, system isolation and monitoring.
- Planning for CDMWTP facility improvements to Sludge Drying Bed #3 to allow for the processing of more solids.

- Upgrades to the recycled water system to support distribution, improve operational efficiency, and extend asset life.
- Ongoing replacement of water mains, valves and hydrants, polybutylene service lines and copper service lines.
- System-wide electrical upgrades for worker safety and code compliance.
- Design work for the Patterson Booster Pump Station upgrade, and the University Well treatment upgrade.

FY 2018-19 Budget and Key Initiatives

The FY 2018-19 Budget is consistent with policy goals established by the Board of Directors, operational and infrastructure priorities, and other foundational management documents. The Budget reflects an ongoing progression of the District's management and budgeting approach to control costs, minimize unplanned expenditures, limit risk exposure and expand investment in proactive projects and programs that provide for the long-term water resources needs of the community.

The FY 2018-19 Budget is balanced with an anticipated $44.7 million in revenue, $43.3 million in operational and capital expenditures, and a $1.4 million reserve designation. The spending plan reflects the expenses necessary to provide an adequate supply of water to customers and address changing water quality conditions that continue to be observed as lake and groundwater levels have fluctuated during the drought, and recent fires have burned in the Cachuma watershed. The rate structure and accompanying drought surcharges adopted July 1, 2015 are sufficient to meet the District's operating requirements. The FY 2018-19 Budget is the fourth year of the current five-year financial cycle, and shows how the District will adeptly build, maintain and manage the assets needed to produce, treat and distribute water to the Goleta Valley. Table 1.1 provides an overview of how the District will meet water supply, regulatory and infrastructure needs, while meeting the challenges and uncertainties of the ongoing historic drought. The balance of this document provides detailed analysis of projected revenues and expenditures.

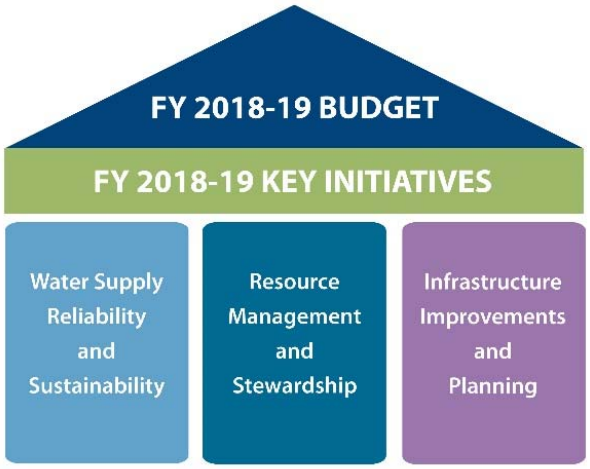
Table 1.1 FY 2018-19 Budget Summary

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenues:					
Monthly Service Charges	$ 8,445,196	$ 8,907,259	$ 9,968,069	$ 1,522,873	18%
Water Sales	31,202,136	31,991,545	33,569,324	2,367,189	8%
New Water Supply Charges	0	5,467	0	0	0%
Investment Revenue	62,500	60,762	82,500	20,000	32%
Conveyance Revenue	136,470	159,256	144,033	7,563	6%
Miscellaneous Fees & Charges	1,193,946	1,030,962	972,559	(221,387)	(19%)
Total Revenues:	**$ 41,040,248**	**$ 42,155,250**	**$ 44,736,486**	**$ 3,696,238**	**9%**
Expenditures:					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,133,516	$ 2,676,001	$ 3,461,001	$ 327,485	10%
CCRB (Water Rights)	360,000	296,068	539,633	179,633	50%
SB County (Cloud Seeding)	32,000	0	32,000	0	0%
CCWA (State Water Deliveries)	9,078,465	8,999,095	9,308,569	230,104	3%
GSD (Recycled Water Production)	604,630	554,058	604,630	0	0%
Subtotal:	**$ 13,208,611**	**$ 12,525,223**	**$ 13,945,833**	**$ 737,222**	**6%**
Personnel:					
Wages, Benefits, and Taxes	$ 9,507,504	$ 10,152,260	$ 9,908,235	400,731	4%
Other Post Employment Benefits	463,178	468,131	503,176	39,998	9%
Subtotal:	**$ 9,970,682**	**$ 10,620,391**	**$ 10,411,411**	**$ 440,729**	**4%**
Operations & Maintenance:					
Water Treatment Costs	$ 568,326	$ 569,934	$ 562,281	$ (6,045)	(1%)
Water Treatment Testing	300,140	280,150	340,950	40,810	14%
Insurance, Accounting & Auditing	253,235	236,059	249,451	(3,785)	(1%)
Maintenance & Equipment	680,200	983,295	717,700	37,500	6%
Legal	1,015,200	725,737	1,015,200	0	0%
Services & Supplies	4,825,013	4,051,604	4,997,048	172,035	4%
Utilities	429,499	470,001	395,018	(34,481)	(8%)
Subtotal:	**$ 8,071,614**	**$ 7,316,781**	**$ 8,277,648**	**$ 206,034**	**3%**
Total Expenditures before Debt and CIP:	**$ 31,250,907**	**$ 30,462,395**	**$ 32,634,892**	**$ 1,383,984**	**4%**
Debt service	3,556,988	3,556,988	3,553,988	(3,001)	(0%)
Capital Improvement Projects (CIP)	5,305,192	4,838,010	7,147,552	1,842,360	35%
Total Expenditures:	**$ 40,113,087**	**$ 38,857,392**	**$ 43,336,431**	**$ 3,223,344**	**8%**
Designation to Reserves:	**$ 927,161**	**$ 3,297,858**	**$ 1,400,055**	**$ 472,894**	**51%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

FY 2018-19 Budget Key Initiatives

The FY 2018-19 Budget includes a portfolio of ongoing and new initiatives that, in combination, will meet District regulatory and critical needs while providing reliable water supplies at predictable costs. Together, these initiatives work to control factors within the District's discretion, while also planning and preparing for externalities beyond its control.



Key initiatives fall into three umbrella categories:

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

Water Supply Reliability and Sustainability

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

Drought Planning

As the District enters a seventh year of a historic drought, the FY 2018-19 Budget includes continued drought planning, with water supply and demand modeling, demand management activities, and water shortage contingency planning and implementation. This Budget provides for critical water quality monitoring and enhanced treatment to address a shifting balance of supply sources and flow rates from Lake Cachuma and SWP, as well as challenges presented by the inflow of debris into Lake Cachuma from the 2016 Rey Fire, and the Whittier and Thomas fires in 2017. Public outreach activities will continue to help customers understand the current water supply and treatment situation and how they can further reduce water use to ensure the District can continue to provide adequate water to the Goleta Valley for drinking, health and public safety.

Cachuma Project Supply and Water Rights

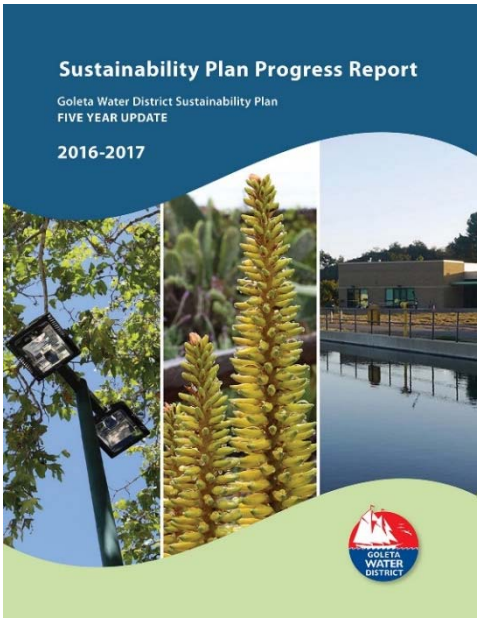
The District continues to work with CCRB and USBR on issues related to the issuance of a Cachuma Project Water Rights Order and the National Marine Fisheries Service (NMFS) Biological Opinion Re-consultation. The District and its partners are performing extensive biologic and hydrologic modeling to inform the development of the Biological Opinion and continue to engage an advocacy strategy to protect Cachuma water supplies. Concurrently, the District is working with COMB to implement the existing Biological Opinion and Fish Management Plan for ongoing protection of public trust resources while also protecting vital water supplies. The USBR began the contract renegotiation in 2017, and the process remains ongoing. While the ultimate decision rests with the federal government, the District is doing everything possible to make local concerns known.

Resource Management and Stewardship

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

Sustainability Plan Implementation

A Five Year Update and progress report was completed for the District's 2012 Sustainability Plan, highlighting the sustainability gains made by the District to date. Projects completed this past budget year include: the installation of a grant funded electric vehicle charging station; new energy efficient LED lighting upgrades at the District Headquarters; and Stormwater Improvements to the District Operations Yard to relocate material storage bins, install a trench drain, and add permeable ground surfaces where appropriate to reduce, temporarily detain, and remove pollutants from stormwater runoff. Several projects planned for the FY 2018-19 Budget are directly tied to the Sustainability Plan guiding principles, and will provide improvements needed to meet new regulatory requirements, while offering economic benefits in the form of reduced energy costs, minimizing impacts to natural resources, and supporting a healthy community.



Coordinated Energy Management

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

Technology Infrastructure Improvement

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

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

Infrastructure Improvements and Planning

The District distribution system includes approximately 270 miles of pipelines, 6,000 valves, 1,500 fire hydrants, 17,000 meters and more than 30,000 appurtenances. The ages and materials of District facilities vary greatly and, in turn, so does the current condition and failure risk associated with these facilities. The FY 2018-19 Budget anticipates costs associated with maintaining water quality and system reliability for treatment and distribution amidst ongoing drought emergency. This includes operations and maintenance costs associated with increased chemical treatment, and the rising energy costs associated with groundwater production.

Some of the Infrastructure Improvement Projects for FY 2018-19 include:

Changes in the use of the District water supply sources and fluctuations in water quality conditions will require modifications of operations and treatment protocols. Key studies and pilot projects to address known challenges are planned for FY 2018-19.

- Continued analysis of historical, current, and future surface water quality for THMs, organic content, corrosivity, and other chemical parameters, and screening of treatment upgrades at CDMWTP necessary to comply with all State and Federal drinking water standards.
- Design of treatment upgrades at CDMWTP.
- Design and construction of additional reservoir aeration systems to maintain water quality in the distribution system.
- Treatment upgrades at two existing wells to increase groundwater production capacity.
- Alternatives analysis and preliminary design for replacing a recycled water pipeline crossing at Goleta Slough.
- Construction of Patterson Booster Pump station upgrades for use at higher throughputs.
- Begin conditions assessment of critical transmission main to reduce risk of unanticipated failures on critical pipelines.

A Look to the Future

The FY 2018-19 Budget recommends expenditures based on prioritized District needs, goals and objectives, and anticipated external costs. By building on comprehensive analyses of factors such as the economy, weather, customer use trends, and infrastructure needs, the Budget provides a roadmap for preparing and addressing the ongoing needs of the community in the coming fiscal year.

Even the most effective forecasting cannot anticipate the effect of uncontrollable circumstances on revenues and expenditures and the ability to provide safe, cost-effective, sustainable water supplies to the community. There are a number of externalities that may have significant impacts on the District in FY 2018-19 and beyond. These externalities are, in fact, likely to drive increases in expenditures for the foreseeable future. By managing expenditures within the District's control, mitigating risk from external sources, influencing external outcomes that affect the District, and planning for the impacts of uncontrollable costs, the FY 2018-19 Budget maximizes the ability to respond to external circumstances while minimizing impacts to customers.

Examples of externalities facing the District include:

- Despite higher lake levels, uncertainty around Lake Cachuma operations remains. While the temporary barge is not currently needed to pump water to elevation for delivery through the Tecolote Tunnel, continued dry weather conditions will likely require its reinstallation sometime in 2019. The specific timing of reinstallation will depend on a number of factors, including rainfall next winter. For now, the emergency pumping apparatus remains in storage, which allows COMB to quickly place the barge back into service. Maintaining delivery capabilities via the pumping station is critical to ensuring surface water supplies are available to the community when they are most needed.

- The prolonged drought continues to present significant challenges to the District's water supply. The next few years' winter rains have the ability to significantly affect whether the District will require more conservation under a Stage IV, or can relax restrictions and move to Stage II or Stage I.
- As the Goleta Groundwater Basin begins to approach historic lows, conditions in the basin are dynamic and changing. The basin also faces potential threats to water quality similar to many urbanized basins throughout California. Seawater intrusion, agricultural and urban runoff, salts and nutrients, and over-pumping are examples that can have detrimental impacts to the quality and quantity of water available from an underground basin. The potential for impacts associated with climate change can only further exacerbate these issues. The provisions of the 1989 Wright Judgment and 1991 SAFE Ordinance, together with the District Groundwater Management Plan, provide a framework for maintaining reliable groundwater supplies from the Goleta Basin. The increased reliance on groundwater during this period of drought has made the stewardship and management of the groundwater basin a major priority. The District has responded by investing in its groundwater model and monitoring program to better inform daily well operations and basin-related capital planning.
- Release of the Cachuma Project State Water Rights Draft Order and anticipated action on the Federal Biological Opinion Reconsultation during FY 2018-19 may significantly affect availability of Cachuma Project water supplies for the Cachuma Member Agencies. Curtailment of supplies would constrain the ability to meet customer demand and would necessitate substantial investment in both demand management and supply development measures. The District will continue its ongoing partnership with Cachuma Member

Agencies to implement proactive scientific, advocacy, and legal strategies to protect Cachuma water supplies and plan for all potential outcomes.

- SWP supplies continue to face threats from a variety of sources, potentially resulting in increased costs and reduced availability and reliability. Damage to the Oroville facilities resulting from the 2017 storms in Northern California do not appear to directly impact deliveries to the District, and assessments to pay for repairs will be made in future years. Ongoing state and federal negotiations related to the SWP and the Bay Delta Conservation Plan (BDCP) may result in significant additional pass-through costs for State Water supplies as the Water Contractors fund the costs associated with a BDCP supply reliability project. Additionally, the loss of supplies due to drought, regulatory requirements, or a considerable failure of the Delta or conveyance infrastructure as a result of a natural disaster, could appreciably curtail supplies available to the region. Ongoing efforts to secure local supplies and encourage efficient water use within the service area help reduce the District's dependence on expensive imported supplies.
- The aging Cachuma Project infrastructure, including Bradbury Dam, the Tecolote Tunnel, and the South Coast Conduit, poses significant financial and water supply risks to the Cachuma Member Agencies. Collectively, the Cachuma Member Agencies are financially responsible for the costs associated with Cachuma infrastructure investment and any investment needed in response to unexpected infrastructure failure.

- Having provided water service to the community for nearly 75 years, the risk that aging infrastructure will fail increases. The condition of facilities varies widely based on their age, materials, and exposure to environmental conditions, leaving the system vulnerable to failures and inefficiencies. For example, the recycled water distribution system has experienced significant pipe corrosion, leaving the recycled water lines vulnerable to leaks, breaks and failures. The FY 2018-19 Budget includes the minimum funding necessary to allow the District to respond to system failures and minimize the impacts of such events.
- The District is firmly committed to meeting and exceeding state and federal regulatory requirements including water quality, environmental review and habitat mitigation, workplace safety, and electrical safety standards, among many others. These requirements change as state and federal legislators and regulators enact new requirements, and become more difficult to meet in the face of changing environmental and climate conditions. In order to ensure ongoing compliance and minimize the impact of costly regulatory changes, the District works with its state and federal partners to monitor regulatory and legislative action and adjusts operations, projects and programs accordingly.

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

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SECTION II – REVENUE and TRANSFERS

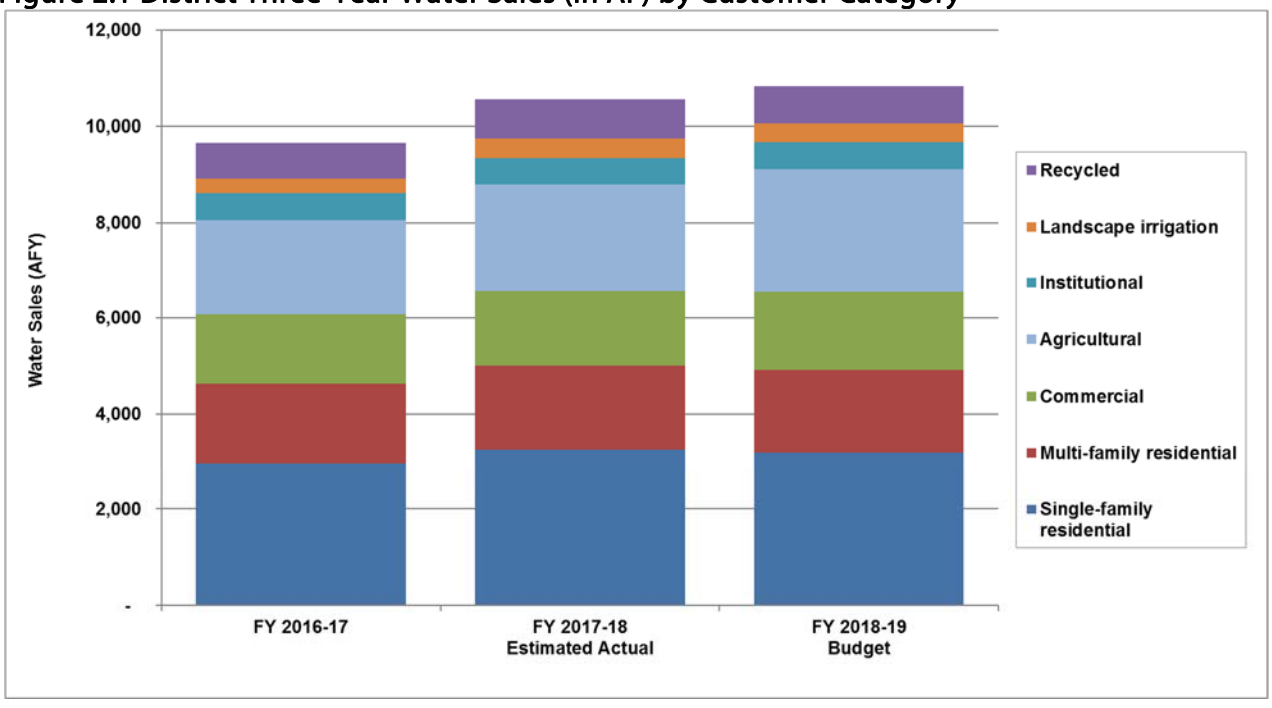
INTRODUCTION

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

The District receives 97% of its revenue from monthly charges for water service consisting of Water Sales (75%) and Fixed Meter Service Charges (22%). Water Sales, or consumption-based charges, are based on the actual water delivered to each customer, measured in increments of one hundred cubic feet (HCF) or 748 gallons. Fixed Meter Service Charges, or monthly service charges, represent a percentage of the customer's portion of the fixed costs associated with operating and maintaining the water distribution system. These charges are assessed monthly and are based on the size of the water meter, which can range from 5/8 inch to ten inches. For customers with 5/8 inch or 3/4 inch meters, these charges also depend on monthly water consumption.

Revenue from Water Sales and Fixed Meter Service Charges are a function of total water sales volume, the number of active service connections at each meter size, and water rates. The rates for each customer category are based on the cost of providing service to that customer category and how much water each customer category uses. The District offers tiered rates to Single Family Residential customers to incentivize conservation (discussed further in Water Supply & Conservation Section in the Appendix), therefore, conservation by Single Family Residential customers determines the rate they will be charged. Rates for Agricultural, Recycled, and Landscape Irrigation customers all vary based on the unique characteristics of serving the respective customer category. To recover increased costs associated with the drought, a uniform temporary drought surcharge is applied to each unit of water used across all customer categories, with the exception of recycled water. Water use behaviors among customer classes can vary significantly, but generally, the prevailing weather is the primary factor affecting water usage throughout the District. Figure 2.1 illustrates the proportion of total water used by each customer category and how it has changed over the last three years.

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



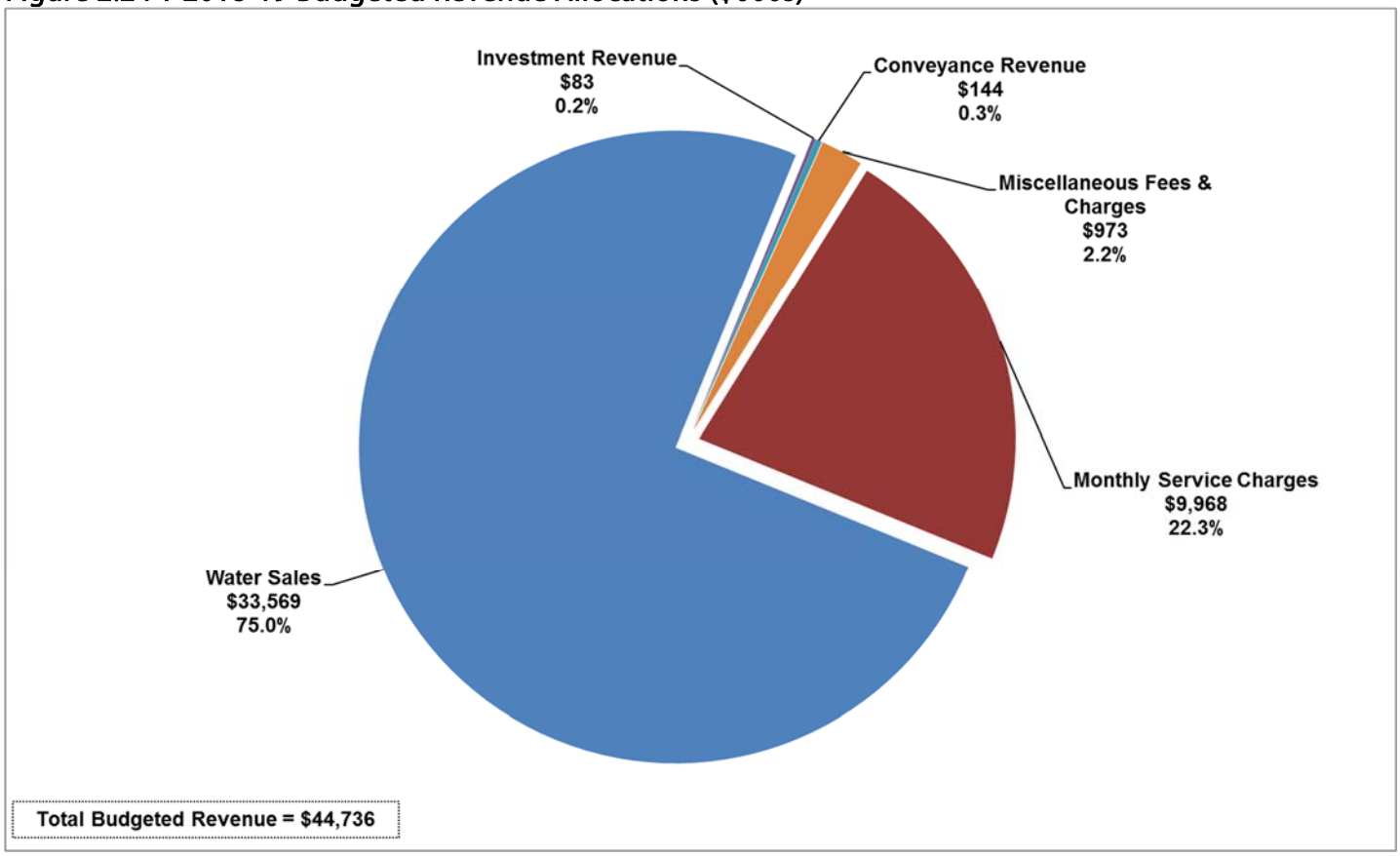
The amount of revenue the District receives from Water Sales varies from year to year, and for each customer category. While District demand analyses are ongoing and periodically updated with the latest data, this year-to-year variation demonstrates the inherrent degree of uncertainty in making projections.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

Table 2.1 FY 2018-19 Budgeted Revenue versus FY 2017-18 Budget

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 8,445,196	$ 8,907,259	$ 9,968,069	$ 1,522,873	18%
Water Sales	31,202,136	31,991,545	33,569,324	2,367,189	8%
New Water Supply Charges	0	5,467	0	0	0%
Investment Revenue	62,500	60,762	82,500	20,000	32%
Conveyance Revenue	136,470	159,256	144,033	7,563	6%
Miscellaneous Fees & Charges	1,193,946	1,030,962	972,559	(221,387)	(19%)
Total Revenue	**$ 41,040,248**	**$ 42,155,250**	**$ 44,736,486**	**$ 3,696,238**	**9%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

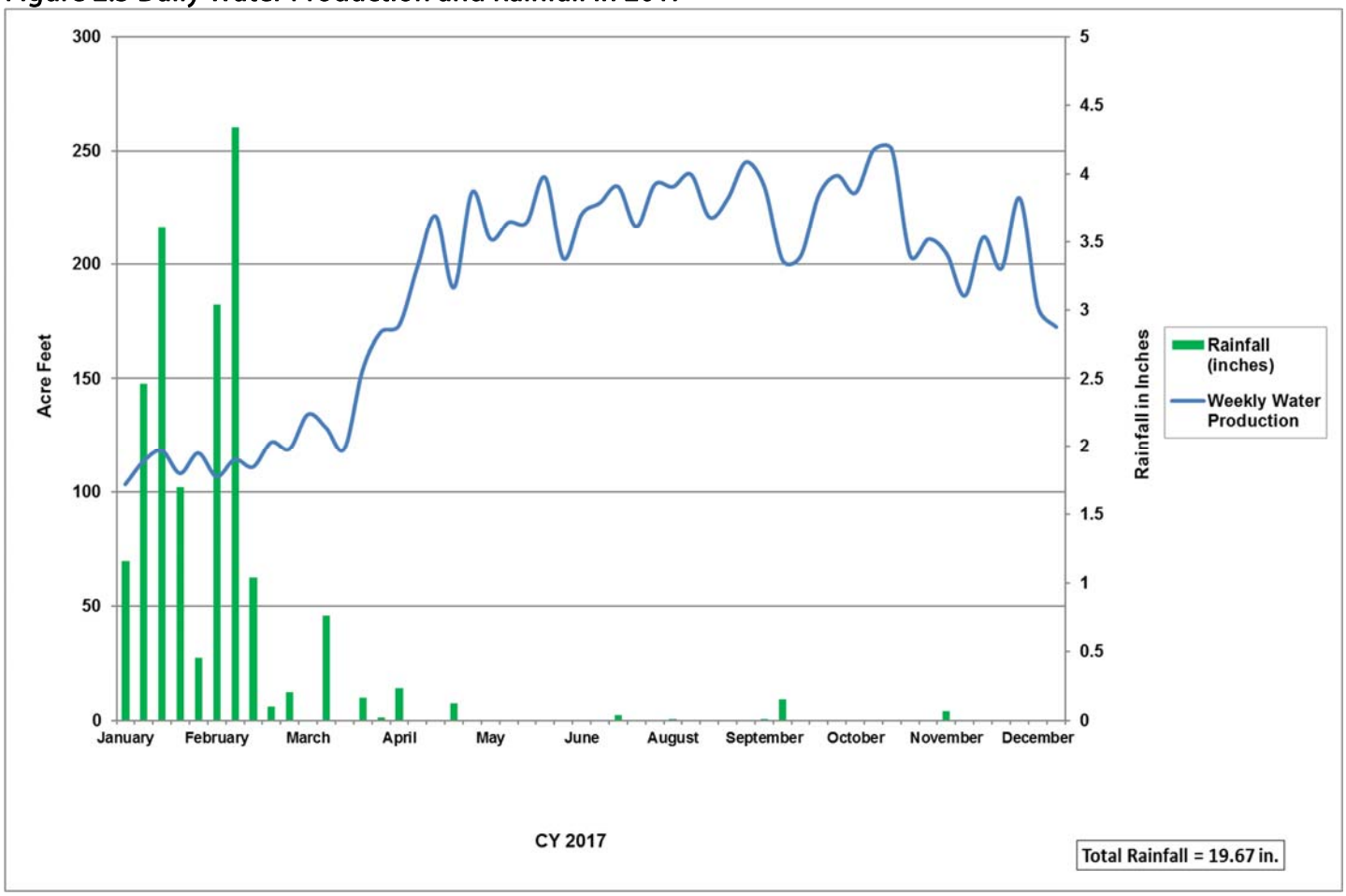
Figure 2.2 FY 2018-19 Budgeted Revenue Allocations ($000s)



District revenue forecasts are developed using recent data about how several key factors will likely influence customer demand in the upcoming year. The primary influencing factors include: 1) weather; 2) observed customer behavior; 3) rate adjustments; and 4) new service connections. The combined effect of these four factors explains the year-over-year change in water use shown in Figure 2.1, as well as the proportion of total water used by each customer category.

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

Figure 2.3 Daily Water Production and Rainfall in 2017



Understanding the behavioral water use characteristics of each customer category is also critical to accurately projecting monthly revenue projections. Behavior varies across categories and seasons; however, less variability has been observed system-wide over the last three years due to significant reductions in outdoor irrigation and

hightened water conservation as a result of the prolonged drought. Illustrating the relationship between weather conditions and customer water use, drought conditions have significantly altered water use patterns across all customer categories over the last seven years. At the start of the drought, ongoing warm and dry conditions drove customer demand higher, particularly among Single-Family Residential and Agricutural customers using water to irrigate crops and landscaping. However, in response to escalating drought conditions and the declaration of a Stage II Water Shortage Emergency by the District in September of 2014, system-wide demand dropped by 22% compared to the previous year, as did corresponding District revenue.

The ongoing drought is expected to continue to guide water use behaviors in FY 18-19, as customers continue to comply with mandatory water-use restrictions and take other conservation measures in response to the drought. Examples include reductions in outdoor irrigation due to assigned watering days and times, changes in indoor water use behaviors, and reduced use of water for non-essential purposes such as hardscape cleaning and vehicle washing. This type of conservation behavior may wane as the drought ends and water use restrictions are lifted. Many customers, however, have taken measures to permanently reduce water use, including installing water-efficient fixtures and appliances, replacing turf with drought-tolerant landscapes, or incorporating greywater systems on their properies. This kind of baseline conservation leads to demand hardening by permanently reducing water use, which has historically resulted in lower post-drought water demand compared to pre-drought demand. As such, rates must be adjusted to offset the permanent conservation when the drought ends, while drought surcharges offset losses from temporary, drought-related conservation behavior.

Rates-based revenue allows the District to cover costs associated with operations to consistently provide customers quality water and reliable service, while addressing critical infrastructure needs. Timing of revenue influences the schedules and levels of project and program expenditures throughout the fiscal year. District rates are scheduled to increase by 4% July 1, 2018 consistent with the Five Year Financial Plan, which may further influence customer water use. These rates will help offset the projected decrease in customer water use due to the ongoing drought conditions and water shortage emergency. Total Water Sales and Monthly Service Charge revenue for FY 2018-19 is projected at $43.5 million, a 9.8% increase over last year. This increase results from rate changes and updated projections of customer demand under continued drought restrictions.

New service connections projected to be completed in the coming fiscal year also affect revenue forecasts. However, New Water Supply Charges are not expected to have a significant influence on revenue in FY 2018-19 due to the current temporary prohibition on new water allocations under the voter-approved SAFE Water Supplies Ordinance. This temporary prohibition became effective October 1, 2014, and will remain in effect until the necessary conditions identified in the SAFE Ordinance are met to lift the restrictions on new water entitlements. Some new connections are permitted for projects on properties with past or existing water use (water credits) or projects that obtained a water allocation before the moratorium.

Projected changes in revenue from Investments and Conveyance are not expected to materially impact District finances in FY 2018-19. Revenue from Miscellaneous Fees and Charges is estimated to be $973K, bringing total Budgeted Revenue in FY 2018-19 to $44.7 million, an increase of $3.7 million (9%) from the FY 2017-18 adopted Budget.

Monthly Service Charge Revenue

Fixed Meter Service Charges are monthly service charges that represent a percentage of the customer's portion of the fixed costs of operating and maintaining the water distribution system. All active water service connections pay a Monthly Service Charge based on the size of the connection. With the current rate structure and customer demand projections in FY 2018-19, approximately 22% of total District revenue will come from the Fixed Meter Service Charge. Approximately 83% of District connections are 3/4 inch or 5/8 inch meters, which carry the lowest volume of water and are charged the lowest monthly rates. Other meter sizes range from one to ten inches according to the customer's actual water needs. For example, large agricultural and commercial customers consume significantly more water than Single Family residences, and as such, require larger meters.

Tiered Monthly Service Charges based on total monthly consumption apply to all District customers with 5/8 inch or 3/4 inch meters, providing a price incentive for conservation. Customers who use up to 6 HCF in a month pay the Tier 1 meter charge; customers who use between 7 and 16 HCF in a month pay the Tier 2 meter charge, and customers who use over 16 HCF in a month pay the Tier 3 meter charge. The charge can vary month-to-month for each customer based on consumption. The conservation tiers can affect both the monthly service charge as well as water consumption related charges. For example, 14,077 customers with 5/8" or 3/4" meters can qualify for lower monthly service charges by reducing water use. Based on actual monthly water use in 2017 for these accounts, it is anticipated that 52% of meter charges for these customers will qualify for Tier 1, 39% will qualify for Tier 2, and 9% will qualify for Tier 3 – with residential customers more likely to qualify for conservation pricing than commercial customers. Table 2.3 shows how many customers with small meters qualify for each tier, on average. Customers with one inch or larger meters are not eligible for tiered pricing for their Fixed Meter Service Charge.

Table 2.2 shows the number of connections by size within each customer category and expected to be active by July 1, 2018, excluding vacant accounts and new service connections expected to come online during the year.

Table 2.2 Types and Number of District Customer Connections

	Meter Size									
Customer Category	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"	Total
Single-family residential	12,150	1,089	55	40	-	-	-	-	-	13,334
Multi-family residential	1,057	294	214	134	6	11	12	2	-	1,730
Commercial	393	196	125	210	30	9	9	2	2	976
Agriculture	2	19	20	115	4	4	1	-	-	165
Institutional	-	-	-	2	-	-	1	1	1	5
Landscape irrigation	115	66	54	33	3	3	-	-	-	274
Recycled	7	3	3	8	6	4	10	2	-	43
Fire	360	43	45	5	-	-	-	-	-	453
Total Connections:	**14,084**	**1,710**	**516**	**547**	**49**	**31**	**33**	**7**	**3**	**16,980**

Table 2.3 Monthly Service Charge by Tier for Small (5/8 inch and 3/4 inch) Meters

	TIER			
Customer Category	Tier 1	Tier 2	Tier 3	Total
Single Family Residential	6,276	4,924	972	12,172
Multi-Family Residential	556	340	162	1,058
Commercial	241	83	79	403
Landscape Irrigation	77	13	24	114
Recycled Water	5	1	3	9
Total Connections:	**7,155**	**5,361**	**1,240**	**13,756**

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

About 41% of estimated Monthly Service Charge revenue is derived from small meters (3/4" or smaller) that are eligible for conservation pricing. Each customer who is able to further reduce consumption and move down one meter tier saves approximately $16 a month. About two-thirds of charges for small meters are estimated to be in Tier 2 or Tier 3.

Total Fixed Meter Service Charge revenue is forecast to increase by $1.5 million, or 18% including the planned 4% rate increase and a 0.4% increase associated with new service connections. The remaining difference is primarily due to higher forecasted usage, which is based on recent usage trends, especially for customers with small meters. Total Fixed Meter Service Charge revenue is projected to be $10.0 million in Fiscal Year 2018-19.

Table 2.4 FY 2018-19 Budgeted Monthly Service Charge and Influencing Factors

		Influencing Factor				
Customer Category	FY 2017-18 Budget Baseline Revenue	New Development	Rate Change	Behavioral / Tiering Changes	Net Incr. / (Decr.)	FY 2018-19 Budgeted Fixed Revenue
Single-family residential	$ 4,262,970	$ 6,367	$ 170,519	$ 592,578	$ 769,464	$5,032,435
Multi-family residential	1,525,330	17,819	61,013	235,736	314,569	1,839,899
Commercial	1,467,493	8,767	58,700	110,087	177,553	1,645,046
Agriculture-Urban	306,939	-	12,278	43,321	55,599	362,538
Agriculture-Goleta West Conduit	86,814	-	3,473	14,417	17,890	104,704
Institutional	114,439	-	4,578	15,581	20,158	134,597
Landscape irrigation	270,173	861	10,807	74,230	85,898	356,071
Recycled	363,748	-	14,550	55,253	69,802	433,550
Fire	47,289	126	1,892	9,922	11,940	59,229
Total:	**$ 8,445,196**	**$ 33,940**	**$ 337,808**	**$ 1,151,125**	**$ 1,522,874**	**$ 9,968,069**

Water Sales

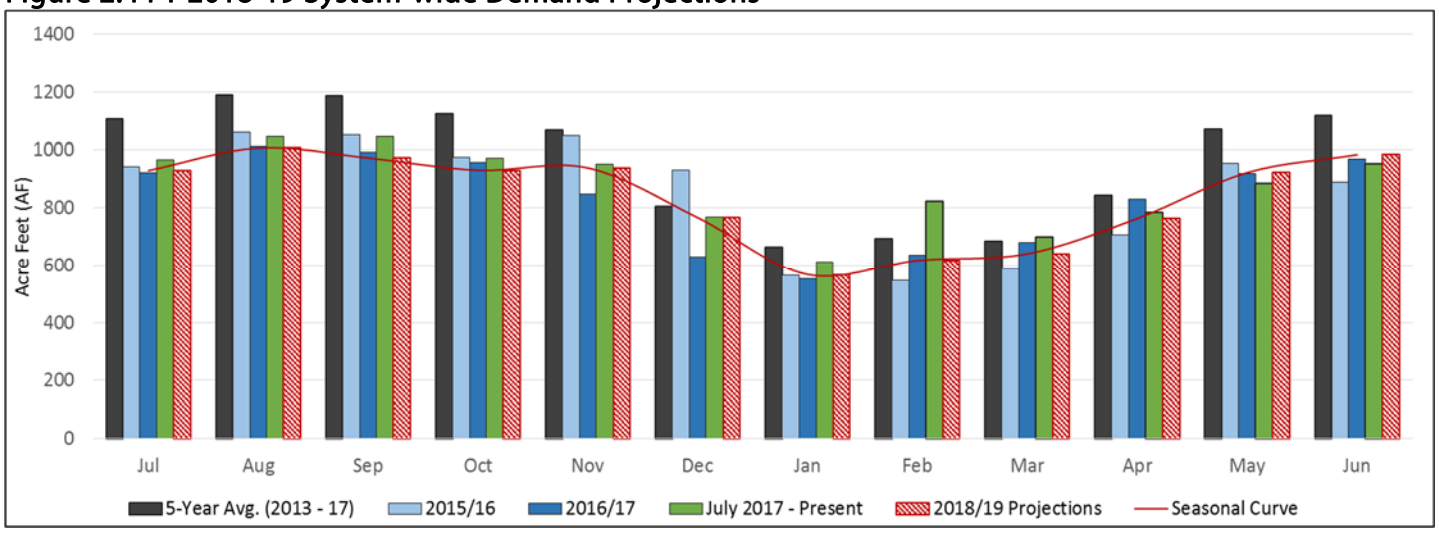
The largest source of District revenue is Water Sales (75%), billed according to the actual volume of water consumed by the customer. The District has distinct water rates for each customer category, which account for the unique factors and costs involved in providing their water service. The volume of water used across customer categories can vary significantly given the widely divergent dynamics associated with each type of customer. For example, historic water production data provides evidence that some District customers are highly responsive to weather conditions, as discussed above (see Figure 2.3). Large swings in usage are particularly common among customers with significant outdoor agricultural or landscape irrigation, and can influence District water sales considerably. This variability in customer water demand throughout the year produces similar cashflow patterns in Water Sales, the timing of which must be incorporated into expenditure plans. Conservation, weather patterns, seasonal variability, rate tiers, and the amount of indoor versus outdoor landscaping or agricutlure must all be considered in forecasting water sales for the coming year.

After receiving above average rainfall in winter of 2017 for the first time in six years, rainfall totals for 2018 have again fallen to well below average, at 31% of normal. While rainfall in 2017 was helpful for District water supplies, it proved insufficient to significantly offset drought conditions following one of the driest two-year periods on record in 2013 and 2014, and below normal rainfall through 2016. Due to ongoing dry conditions in the Goleta Valley, the District expects to remain in a Stage III Water Shortage Emergency for the foreseeable future and continues to encourage customers to maintain conservation efforts. This is achieved through targeted outreach, mandatory water use restrictions, and the continued application of a temporary drought surcharge. An increase in base water revenue is projected for FY 2018-19 compared to normal conditions, consistent with the previous two years, as customers continue to conserve in response to the unchanged water shortage conditions. In FY 2017-18 and FY 2018-19, these base revenue losses are offset by a uniform temporary drought surcharge, which is applied to each unit of water used across all customer categories, with the exception of recycled water.

Water Sales volume projections for FY 2018-19 were developed based on a customer demand analysis that analyzed recent usage trends for each customer category. A five-year average benchmark was included for comparison purposes, then seasonal variability and ongoing conservation expected under continuing drought conditions were layered over usage trends to refine projections and account for any observed demand anomolies. This kind of detailed and ongoing analysis allows the District to forecast otherwise unpredictable demand as accurately as possible.

Figure 2.4 shows seasonal system-wide potable and west conduit water usage variations for recent years and the 2018-19 budget year.

Figure 2.4 FY 2018-19 System-wide Demand Projections

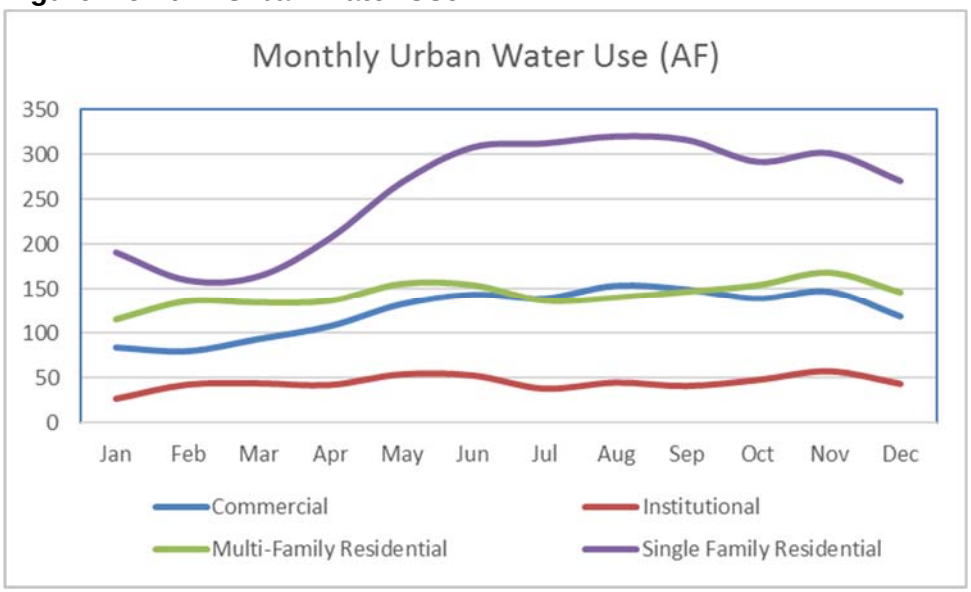


A short discussion about the water use characteristics of each customer category and how they inform water sales projections is included below.

Urban Water Use

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

Figure 2.5 2017 Urban Water Use



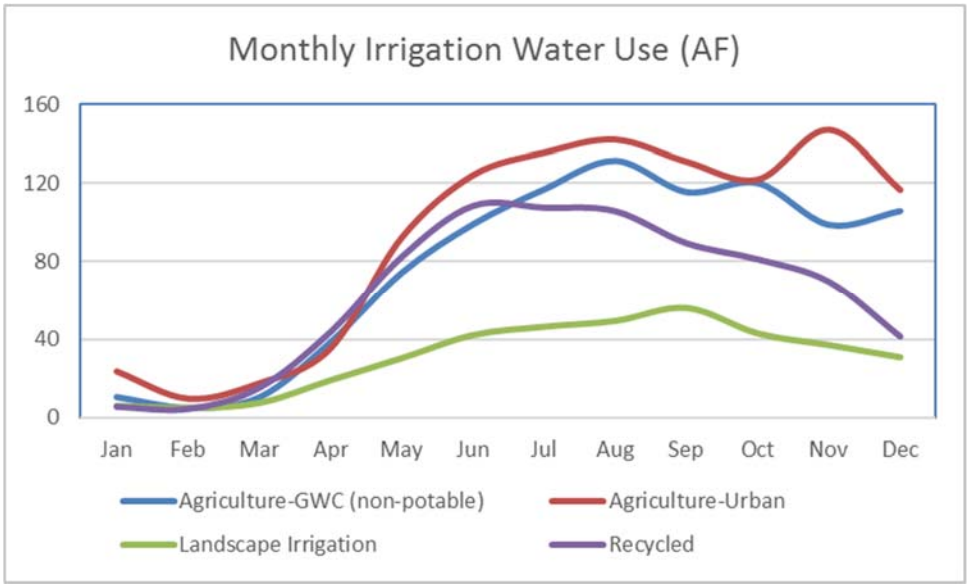
In forecasting the amount of revenue attributable to Water Sales for Single-Family Residential customers, the District's tiered rates must also be considered. Pursuant to the District's rate structure, the first six (6) HCF of Single Family Residential water use each month bills at the low-tier, as it serves to cover basic indoor use for the average District household. A mid-tier rate applies for the next 10 HCF of use each month. This means that customers using the average summer use of 16 HCF per month pay either a low or mid-tier rate throughout the year. The highest rate applies to all use above 16 HCF per month. The differing tiers affect both water consumption-related charges as well as the monthly service charge. As a result of the tiering rate structure, an incremental usage change in Tier 3 will have a larger revenue impact. For example, the District will net a decrease in revenues with higher usage when six Tier 1 customers each increase usage by 1 HCF (at $5.05/HCF) offset against one Tier 3 customer using 5 HCF less (at $6.84/HCF). It is anticipated, based on FY 2017-18 consumption, that 56% of Single Family residential water use will be within Tier 1, 36% will be in Tier 2 and 8% will be in Tier 3.

Rates for all other urban customers are uniform with the same charge applying to each unit of water consumption. Multi-family Residential customers include high-density student housing in the Isla Vista community, retirement communities, and apartment buildings, and consumption behaviors within this category can vary significantly from customer to customer. The largest indicators of Multi-Family Residential water use are the number of units within a complex and the number of people per household. Multi-Family Residential, Commercial and Institutional water use is less driven by weather and more affected by the academic calendar and move-in/move-out schedules associated with the local colleges. Since the vast majority of use among Multi-Family Residential, Commercial, and Institutional water use is indoors, water use is relatively steady throughout the year and exhibits only modest seasonal variation. For example, total consumption for Multi-Family Residential customers with high baseline indoor use varied only 45% between the lowest use month (116 AF in January) and the highest use month (168 AF in November) in 2017. In comparison, the variance for Single Family Residential customers was 100% between the lowest and highest months in 2017. The primarily indoor water use reduces seasonal variability, thereby increasing the predictability of usage patterns and reliability of revenue forecasts for these customer categories.

Irrigation Water Use

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

Figure 2.6 2017 Irrigation Water Use



Influencing agricultural demand are the climate, the timing and amount of rainfall, temperature fluctuations, humidity, sunshine, wind, and individual farming practices, leading to highly variable water use. Illustrating this fact in Figure 2.6, water use by these customer classes totaled 429 AF in August, almost 18 times the water use of 24 AF in February. Furthermore, dry warm temperatures and lack of significant rainfall for an extended period drive up water demand annually. For example, in 2014, a year in which the Goleta Valley experienced record warm temperatures and dry conditions, agricultural water use in the District was 4,400 AFY, which represented over 32% of total District water use, compared with 2011 (a wet year), in which agricultural water use was 2,150 AFY, or 18% of total demand. This represents a 100% swing in year-over-year water use, influenced primarily by prevailing weather conditions. A slight increase in the number of acres reported as being under production also helped account for this difference.

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

conservation among irrigation customers through changes in irrigation practices that can significantly reduce usage.

Water Sales Summary

The District is projecting similar monthly distribution of usage by customers as was observed in FY 2017-18, with minor adjustments to account for extreme weather events and consumption anomolies, as reflected in Table 2.5. Tables 2.5 and 2.6 summarize water use and revenue projections that have been developed for FY 2018-19. Water Sales are projected to increase by $1.2 million as a result of the scheduled 4% rate increase. Other influencing factors include an additional $128K in revenues derived from projected new service connections, and a $992K increase in revenues due to higher water consumption.

Table 2.5 FY 2018-19 Budgeted Water Use by Customer Category (in AF)

		Influencing Factor			
Customer Category	FY 2017-18 Budgeted Water Use	New Development	Behavioral / Tiering Changes	Net Incr. / (Decr.)	FY 2018-19 Budgeted Water Use
Single-family residential	3,125	5	65	70	3,195
Multi-family residential	1,723	7	(11)	(4)	1,718
Commercial	1,518	8	100	108	1,625
Agriculture-Urban	1,330	-	43	43	1,373
Agriculture-Goleta West Conduit	1,121	-	93	93	1,214
Institutional	466	-	83	83	549
Landscape irrigation	322	2	63	65	387
Recycled	826	18	(72)	(54)	772
Fire	-	-	-	-	-
Total:	**10,429**	**39**	**364**	**404**	**10,833**

Table 2.6 FY 2018-19 Budgeted Water Sales Revenue and Influencing Factors

		Influencing Factor				
Customer Category	FY 2017-18 Budget Baseline Revenue	New Development	Rate Change	Behavioral / Tiering Changes	Net Incr. / (Decr.)	FY 2018-19 Budgeted Water Sales Revenue
Single-family residential	$ 11,585,508	$ 13,903	$ 463,420	$ (188,605)	$ 288,719	$ 11,874,227
Multi-family residential	6,316,397	24,874	252,656	(40,794)	236,735	6,553,132
Commercial	4,110,349	29,031	164,414	372,733	566,178	4,676,527
Agriculture-Urban	2,739,474	-	109,579	92,659	202,238	2,941,712
Agriculture-Goleta West Conduit	2,806,203	-	112,248	196,067	308,315	3,114,518
Institutional	1,709,664	-	68,387	318,217	386,604	2,096,268
Landscape irrigation	1,112,122	7,350	44,485	311,187	363,022	1,475,144
Recycled	801,735	52,431	32,069	(68,511)	15,990	817,725
Fire	20,683	-	827	(1,439)	(611)	20,072
Total:	**$ 31,202,136**	**$ 127,589**	**$ 1,248,085**	**$ 991,515**	**$ 2,367,189**	**$ 33,569,324**

Other Revenues & Transfers

New Water Supply Charges (NWSC)

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

The FY 2018-19 Budget forecasts no revenue from NWSC payments for new water allocations because of the moratorium on new service applications under the SAFE Water Supplies Ordinance. However, the SAFE Water Supplies Ordinance does not apply to new connections for recycled water.

Investment Revenue

The investment policies and practices of the District are based on California Government Code provisions that regulate the investment of public funds and prudent portfolio management. Chapter 4.08 of the Goleta Water District Code establishes investment objectives as being, in priority order, Safety, Liquidity and Diversification. For FY 2018-19, District cash balances will be invested in the California Local Agency Investment Fund (LAIF), a pooled money investment vehicle projected to yield about 1.2% annually, producing approximately $83K in investment revenue. Investment Revenue is projected to increase by $20K (32%) in FY 2018-19 resulting from higher LAIF investment yields.

Conveyance Revenue

Conveyance revenue is collected from several local businesses and developments that own water rights but not the treatment or distribution facilities needed to deliver their water. The District entered into agreements with these customers to convey these water supplies at a per-acre-foot rate. Conveyance Revenue budgeted in FY 2018-19 is $144K.

Miscellaneous Fees and Charges

The District receives revenue in the form of fees and charges from various sources, including delinquent accounts, backflow inspection, application and initiation fees, connection fees, cell tower site rentals, hydroelectric power generation sales, and customer reimbursable projects. The anticipated revenue from these sources in FY 2018-19 is approximately $973K, which is a decrease of $221K from FY 2017-18, resulting from lower estimated customer-funded capital projects and capital dedications.

Transfers

The District maintains a prudent financial reserve to ensure adequate cash flow for operational needs and capital emergencies, and strives to adhere to the 2015-2020 Financial Plan (Five-Year Financial Plan). The FY 2017-18 Estimated Actual indicates a $3.3 million designation to reserves based on updated projections for the current fiscal year. The FY 2018-19 budget estimates a $1.4 million designation to reserves after meeting operating and capital needs.

The District's estimated reserve balance is ahead of the financial plan through FY 2018-19 which will provide a buffer against unexpected capital expenditures and revenue volatility.

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SECTION III – EXPENDITURES

SUMMARY

FY 2018-19 expenditures are consistent with continued implementation of the Five-Year Financial Plan and other foundational policy documents adopted by the Board of Directors. These expenditures allow the District to continue to deliver safe and reliable water, offer excellent customer service, and invest in critical capital projects needed to secure future sustainability.

District expenditures are comprised of costs associated with Water Supply Agreements, Personnel, Operations and Maintenance (O&M), Debt Service, and Capital Improvement Projects. Expenses are broken down in Table 3.1, Table 3.2 and Table 3.3, and followed by a full summary of costs in Table 3.4. Water supply portfolio-related costs have decreased slightly to 32% of total District expenditures and include fixed costs associated with District agreements with COMB, CCRB and Santa Barbara County for surface water; CCWA for State Water; and GSD for recycled water. Personnel costs represent 24% of total expenditures, comprised of wages, benefits, and taxes, as well as Other Post-Employment Benefits. Employees of the District are responsible for managing day-to-day operations, including maintenance of the treatment and distribution system, capital infrastructure planning, development of water use efficiency and conservation programs, and providing quality customer service. Operations & Maintenance represent 19% of total expenditures, and include costs related to water treatment and testing, general insurance, legal, maintenance and equipment, as well as services and supplies. Expenses associated with Capital Improvement Projects in the Infrastructure Improvement Plan and debt service make up the balance of total expenditures at 17% and 8% respectively.

The District, like other utilities, is affected by external factors including weather, economic conditions, changing customer preferences, costs of water supplies, and evolving regulatory requirements. While this Budget provides the tools to exert influence over external costs and mitigate known risks, it is important to note that it does not include broad cost increases for unknown inflationary factors, economic changes, or unanticipated events. Where specific price increases are known, appropriate adjustments to the Budget have been made. The District will continue to manage costs within its control and plan for uncontrollable externalities. This Budget commits to funding the minimum level of critical maintenance and infrastructure investments needed, but does not provide for proactive replacement. The District strategically prioritizes critical needs for the delivery of safe, cost-effective and dependable water supply to customers now and into the future.

Due to changing water quality conditions at Lake Cachuma this year the District will rely on a mix of groundwater and surface water. Water Treatment costs at CDMWTP will decline as a result of treating less surface water volume, but will be offset by additional regulatory water quality testing, investment in the mechanical maintenance of wells to maintain high production, and increased repair, replacement, and general maintenance needs associated with alternating supply sources as planned groundwater production increases. The District plans to upgrade critical pumps and motors on the aging recycled water system to reduce the risk of a potential interruption of recycled water delivery. Conservation outreach and incentive-based programs to reduce customer demand in response to drought conditions will continue through 2019.

Water Supply Agreements

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

As illustrated in Table 3.1, FY 2018-19 total water supply costs will increase by $737K, or 6%, largely the result of the increased Lake Cachuma delivery costs. The cost of pumping and treating groundwater is included in O&M and capital costs.

Table 3.1 FY 2018-19 Budgeted Water Supply Agreement Costs

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
COMB (Lake Cachuma Deliveries):					
Water Entitlement	$ 471,250	$ 368,076	$ 906,250	$ 435,001	92%
Operations & Maintenance	2,532,875	2,155,524	2,425,359	(107,515)	(4%)
Cachuma Renewal Fund	0	79,667	0	0	0%
Safety of Dam Act	129,392	72,734	129,392	0	0%
Subtotal - COMB	3,133,516	2,676,001	3,461,001	327,485	10%
CCRB (Water Rights):	360,000	296,068	539,633	179,633	50%
SB County (Cloud Seeding):	32,000	0	32,000	0	0%
CCWA (State Water Deliveries):					
Fixed Costs	7,559,988	7,594,231	7,559,988	0	0%
Variable Costs	1,518,477	1,404,864	1,748,581	230,104	15%
Subtotal - CCWA	9,078,465	8,999,095	9,308,569	230,104	3%
GSD (Recycled Water Production):	604,630	554,058	604,630	0	0%
Total:	**$ 13,208,611**	**$ 12,525,223**	**$ 13,945,833**	**$ 737,222**	**6%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

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

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

Future State and Federal Regulations may significantly affect the amount of water available to customers from Lake Cachuma.

By agreement, the District share of COMB expenditures is 39%. This amounts to $3.5 million in FY 2018-19, which is an increase of $327K, or 10%, compared to FY 2017-18, largely as a result of increased pass through of USBR's drought operations costs to local agencies.

CCRB works to protect Cachuma Water Rights and supplies for the South Coast water purveyors. The District share of CCRB costs is 46%, or $540K in FY 2018-19 which is an increase of $180K, or 50% as compared to FY 2017-18. The increase is the result of increased activity due to the pending action on State Water Rights and the Federal Biological Opinion for the Cachuma Project. FY 2018-19 CCRB costs allow for the continued expansion of scientific, legal, and advocacy efforts to minimize the potential financial and supply impacts of these decisions.

CCWA (State Water Deliveries)

The District accesses the State Water entitlement via its membership in CCWA. The costs associated with this entitlement are $9.3 million for FY 2018-19, inclusive of the cost to finance, build and operate the infrastructure necessary to transport the water. Based on DWR projections, the District plans on taking deliveries of approximately 4,500 acre-feet of State Water in FY 2018-19, in addition to the exchange agreement with ID #1. Under this agreement the District exchanges approximately 1,000 AF of its State Water Entitlement for 1,000 AF of Cachuma supplies from ID #1 in a normal water year, to the extent water is available. This agreement saves both agencies water delivery and infrastructure costs and assists in securing regional water supplies.

GSD (Recycled Water Production)

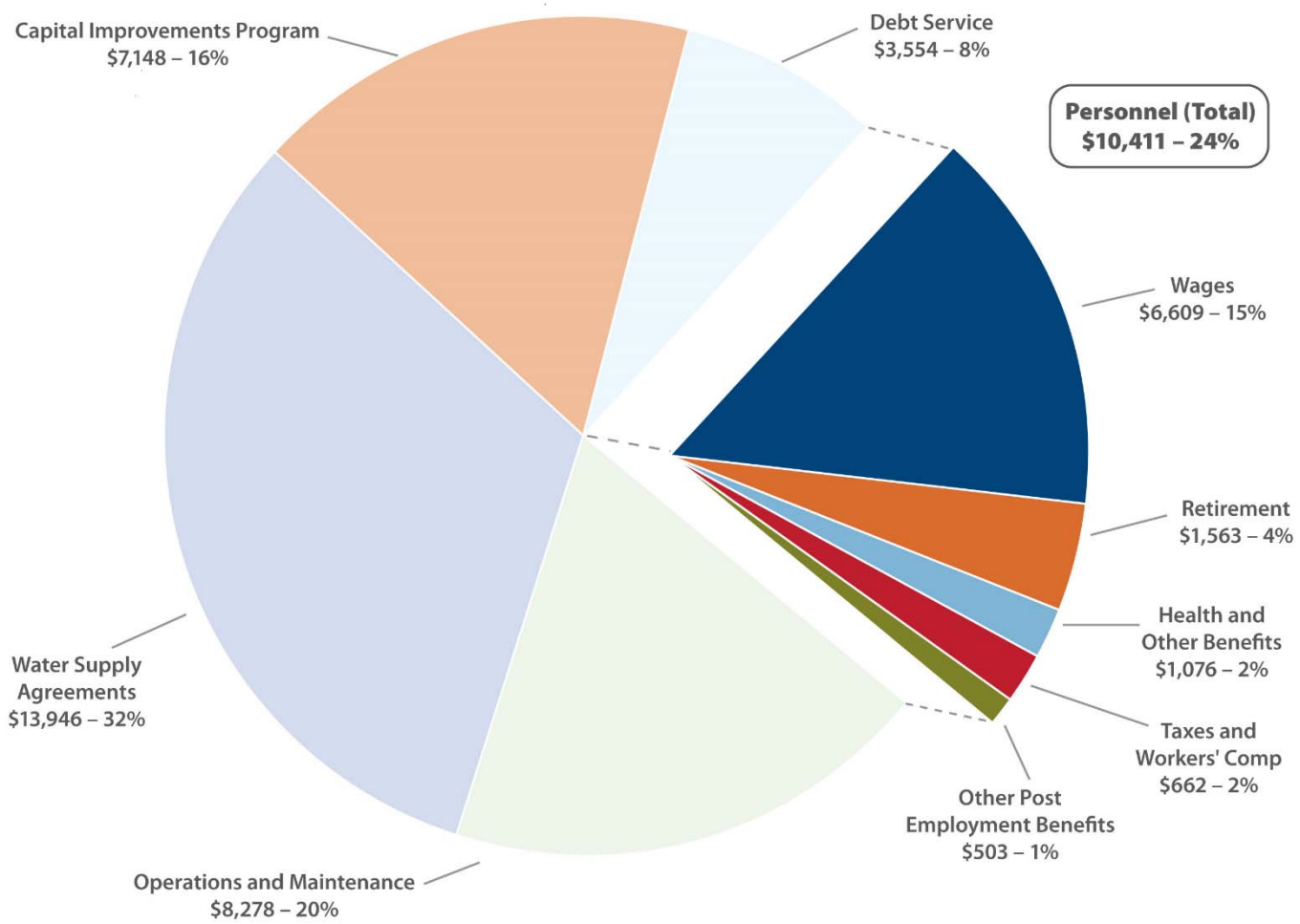
Providing recycled water to 43 customers in the District for irrigation purposes conserves drinking water for potable purposes, improving water supply reliability. Per agreement, the District pays GSD for all O&M costs necessary to produce recycled water. For FY 2018-19 costs are estimated at $605K.

Personnel

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

Personnel costs in FY 2018-19 will be $10.4 million, a 4% increase as compared to FY 2017-18. Figure 3.1 provides an overview of the individual components of Personnel costs, as a portion of overall costs.

Figure 3.1 FY 2018-19 District Costs, Featuring Budgeted Personnel Costs ($000s)



Personnel increases year-over-year total $401K and are attributable to contractual obligations described in the Memorandum of Understanding with the Service Employees International Union (SEIU) Local 620. Of note, health insurance premiums has risen significantly in the last several years and this increase is projected to continue.

Retirement expenditures make up 15% of Personnel costs, as the District continues to realize the financial benefits of the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA was signed into law in 2012 limiting pension benefits offered to new employees and increasing cost sharing between new employees and public employers. Employees are now contributing 100% to their retirement plans as of FY 2018-19. As PEPRA is designed to realize mid-term to long-term savings, District financial savings will continue to grow in the future.

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

Operations & Maintenance

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

The District will treat and distribute approximately 3.2 billion gallons of water in FY 2018-19. This water moves through reservoirs and pipelines that must be continually maintained to ensure safe and reliable delivery. Valve maintenance also plays a particularly important role in controlling the system and is critical to maintaining proper distribution system operations.

Table 3.2 provides additional detail of FY 2018-19 O&M expenditures. The total O&M expenditures of $8.3 million are up 3% from FY 2017-18. Notable variances within expenditure categories include:

- Water Testing costs will increase by $41K as a result of more water testing to ensure continued quality and compliance.
- Maintenance and equipment will increase by $38K primarily due to higher projected motor vehicle maintenance and repair.
- Services and Supplies costs will increase by $172K to fund well rehabilitations, and other drought-related expenditures.
- Utility expenditures will decrease by $34K from last year's adopted budget due to the District having more accurate data about time-of-use (TOU) power costs for blending groundwater and surface water operations.

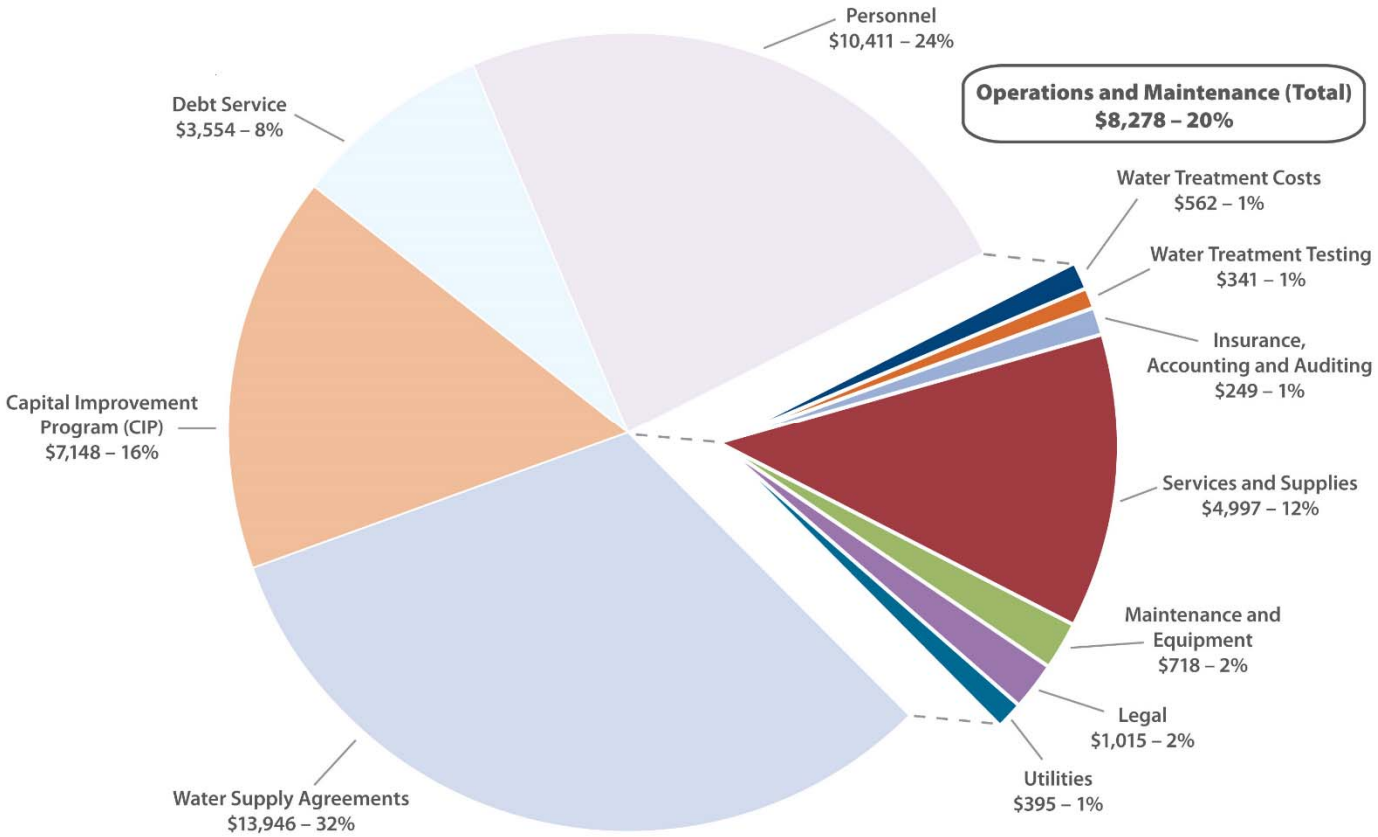
Table 3.2 FY 2018-19 Budgeted O&M Costs

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations & Maintenance Costs:					
Water Treatment	$ 568,326	$ 569,934	$ 562,281	$ (6,045)	(1%)
Water Testing	300,140	280,150	340,950	40,810	14%
Insurance, Accounting, & Auditing	253,235	236,059	249,451	(3,785)	(1%)
Maintenance & Equipment	680,200	983,295	717,700	37,500	6%
Legal	1,015,200	725,737	1,015,200	0	0%
Services & Supplies	4,825,013	4,051,604	4,997,048	172,035	4%
Utilities	429,499	470,001	395,018	(34,481)	(8%)
Total:	**$ 8,071,614**	**$ 7,316,781**	**$ 8,277,648**	**$ 206,034**	**3%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

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

Figure 3.2 FY 2018-19 District Costs, Featuring Budgeted O&M Costs ($000s)



Debt Service

Debt service costs reflect payments associated with approximately $50 million of outstanding Certificates of Participation (COPs) that are secured by a pledge of District revenues. These COPs are comprised of issuances in 2010 and 2014, with interest payable semi-annually. The current Five-Year Expenditures Forecast provides sufficient revenues to satisfy debt coverage requirements. The FY 2018-19 debt services is $3.6 million based on scheduled principal and interest payments.

Infrastructure Improvement Plan

In March 2015, the Board of Directors adopted the 2015-2020 Infrastructure Improvement Plan (IIP). Subsequent annual updates have occurred with the most recent in 2017. The IIP is designed to show how the District will adeptly build, maintain, and manage the assets needed to produce, treat, and distribute water while keeping costs as low as possible. This planning tool provides the framework for District investments over a five-year horizon, while providing the flexibility to adapt to changing infrastructure needs and opportunities throughout the lifespan of the IIP.

A critical goal of an IIP is to ensure that the District's infrastructure is capable of producing and delivering water to customers as the supply portfolio changes during the drought. Over half of the IIP funds go toward enhancing the reliability and capacity of the District's well system, with significant investment in the distribution and treatment systems. These investments are needed to ensure reliable delivery of water supplies for the community, at levels adequate to meet health and safety needs. The FY 2018-19 Budget includes $7.1 million to fund 28 capital projects split between two categories:

- Regulatory Requirement and/or Critical Need: Projects in this category fall into two sub-categories: 1) planning for and response to unscheduled system infrastructure failures and, 2) projects needed to meet and maintain rigorous state and federal regulatory requirements. To address unplanned failures, funding is budgeted each year for common issues such as pump and motor replacements, emergency main replacements, and hydrants and valves. Specific projects include: the design of treatment upgrades at CDMWTP; treatment upgrades at two existing wells to increase well production; alternatives analysis and preliminary design for replacing a recycled water pipeline crossing at Goleta Slough; and pump station upgrades to improve the reliability of the distribution system. These, as well as general replacement of pipes and safety upgrades, will allow the District to provide an adequate supply of water that meets and maintains compliance with rigorous state and federal regulatory requirements.
- Vital to Sustain Infrastructure: These projects are considered vital to the sustained operations of the District, and include the upsizing of mains, upgrades to the District's Cathodic Protection System to prevent corrosion and the potential for catastrophic water loss, vital equipment replacements, and information technology upgrades.

Figure 3.3 shows IIP spending by infrastructure type. 44% of capital improvement funds are re-dedicated to water treatment, due to worsening water quality conditions brought on by the drought and fires in the Cachuma watershed. $2.9 million or 41% are earmarked for improvements in the distribution system. Table 3.3 provides a summary of IIP projects planned for FY 2018-19.

Figure 3.3 FY 2018-19 Capital Improvement Plan by Infrastructure Type ($000s)

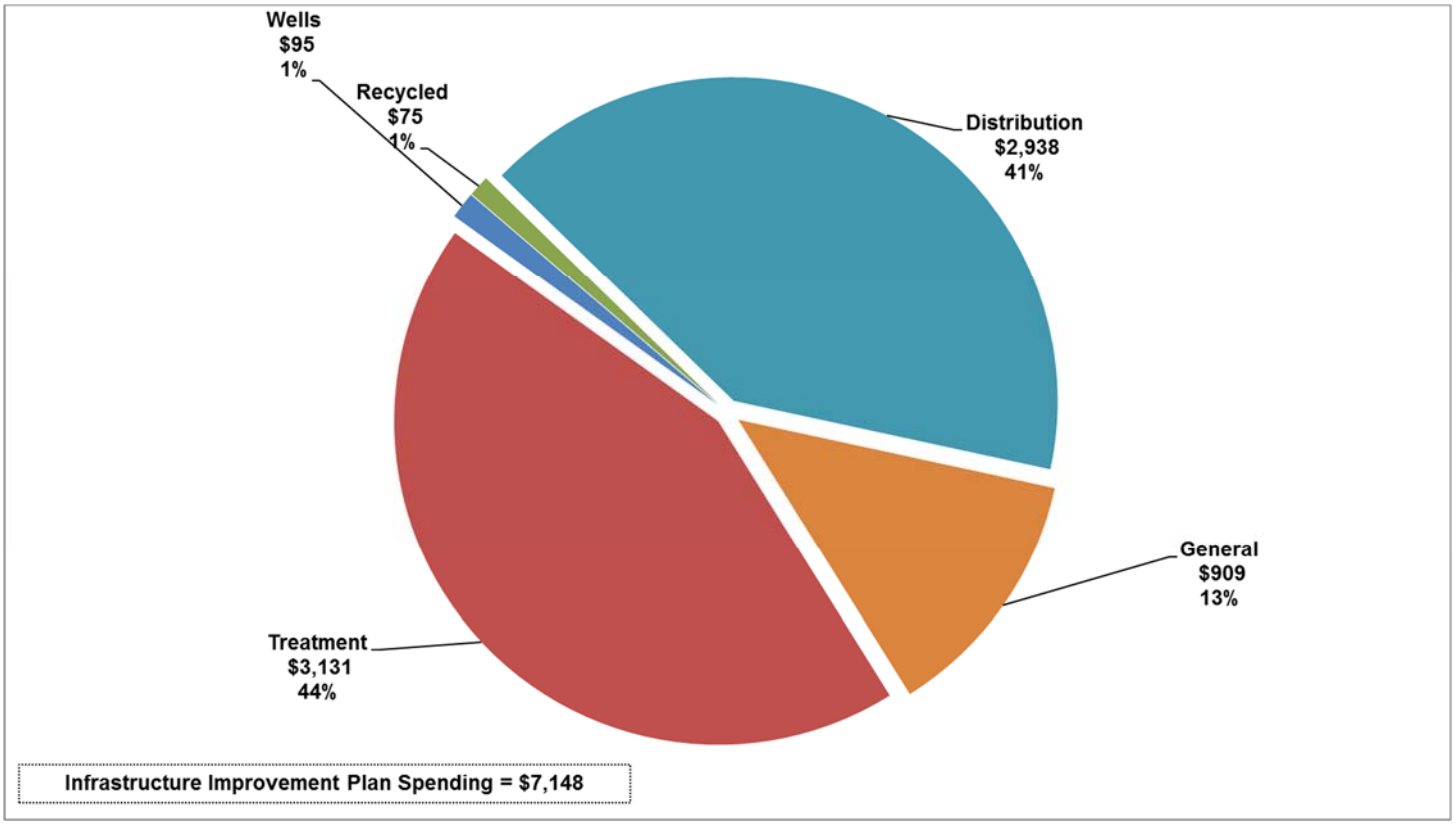


Table 3.3 Infrastructure Improvement Plan Projects Summary

Ref.	Project Name	Final FY 2018-19
1	Water Quality Maintenance at Wells	50,000
2	Water Quality Maintenance at CDMWTP	750,000
3	Aeration Systems at Reservoirs for THM Reduction	2,300,000
4	Ekwill Street, Fowler Road, and Hollister Avenue Infrastructure Relocation	400,000
5	Conditions Assessment of 14 miles of Critical Transmission Mains	150,000
6	RW Slough Crossing Alternative Study and Design	75,000
7	CDMWTP Low Flow Process Improvements	140,000
8	Existing Well Treatment & Facilities Upgrades	95,000
9	Patterson Emergency Pump Station Replacement	1,100,000
10	Edison Emergency Pump Station Improvements	125,000
11	Van Horne Emergency Pump Station Improvements	75,000
12	Pump & Motor Replacements	39,230
13	Electrical Replacements & Upgrades	64,998
14	SCADA Replacements & Upgrades	49,100
15	Water Treatment Equipment Replacements	30,622
16	Emergency Main Replacements	202,410
17	City, County, Caltrans Relocation Required Projects	230,000
18	Polybutylene Service Replacements	80,150
19	Copper Service Line Replacements	64,116
20	Valve & Hydrant Replacements	391,996
21	PRV Replacements	10,350
22	Stormwater Headquarters Master Plan	315,700
23	Small Meter Replacements	50,000
24	Upsizing of Mains	85,780
25	Cathodic Protection Upgrades	99,540
26	Fleet Replacements	95,000
27	Equipment Replacements	5,600
28	Information Technology Upgrades	72,960
Infrastructure Improvement Projects Total		**$ 7,147,552**

Summary of District Expenditure Forecast for FY 2018-19

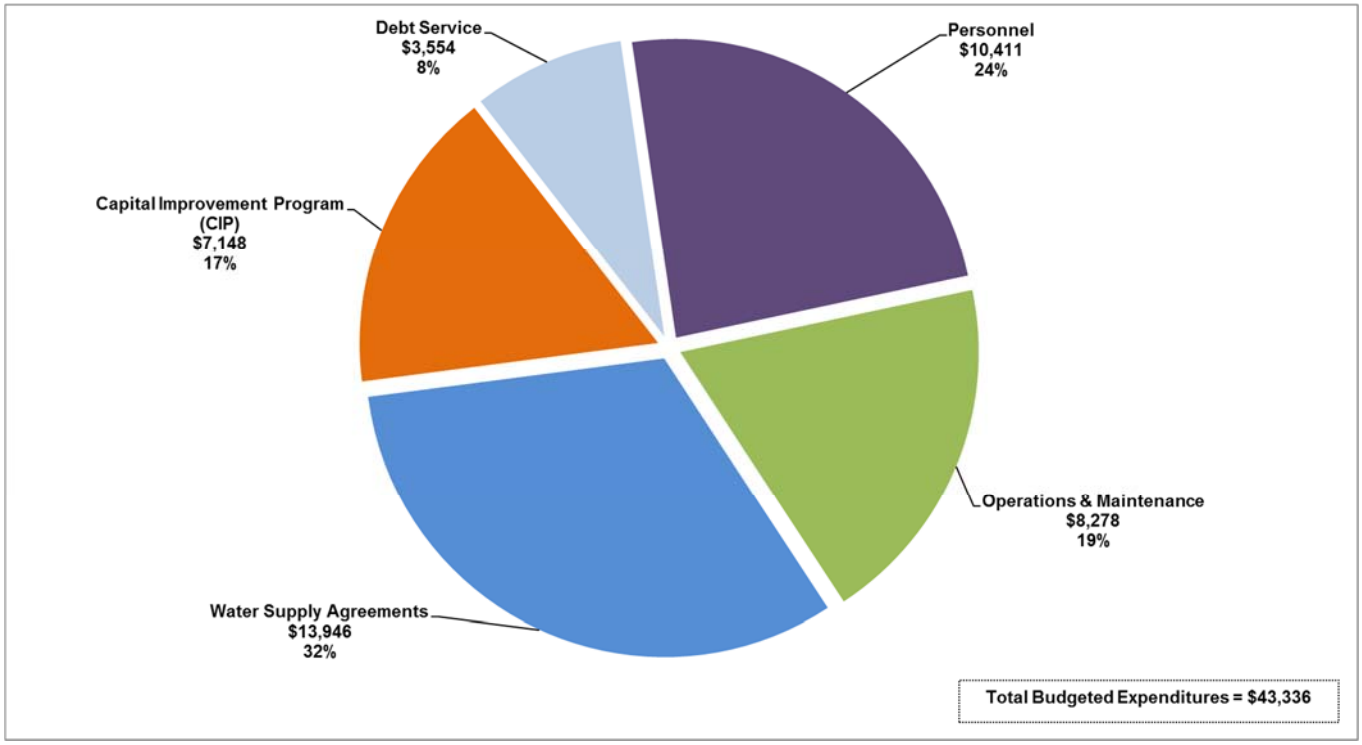
Table 3.4 and Figure 3.4 summarize FY 2018-19 total expenditures of $43.3 million. A key component of the annual Budget is to prepare for cash flow variables throughout the year and pace program and project expenditures accordingly. FY 2018-19 expenditures have incorporated customer behaviors and the accompanying seasonality of revenue as described in Section II.

Table 3.4 FY 2018-19 Budget Expenditures Compared to FY 2017-18 Budget Expenditures

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,133,516	$ 2,676,001	$ 3,461,001	$ 327,485	10%
CCRB (Water Rights)	360,000	296,068	539,633	179,633	50%
SB County (Cloud Seeding)	32,000	0	32,000	0	0%
CCWA (State Water Deliveries)	9,078,465	8,999,095	9,308,569	230,104	3%
GSD (Recycled Water Production)	604,630	554,058	604,630	0	0%
Subtotal:	**$ 13,208,611**	**$ 12,525,223**	**$ 13,945,833**	**$ 737,222**	**6%**
Personnel:					
Wages, Benefits, and Taxes	$ 9,507,504	$ 10,152,260	$ 9,908,235	$ 400,731	4%
Other Post Employment Benefits	463,178	468,131	503,176	39,998	9%
Subtotal:	**$ 9,970,682**	**$ 10,620,391**	**$ 10,411,411**	**$ 440,729**	**4%**
Operations & Maintenance:					
Water Treatment Costs	$ 568,326	$ 569,934	$ 562,281	$ (6,045)	(1%)
Water Treatment Testing	300,140	280,150	340,950	40,810	14%
Insurance, Accounting & Auditing	253,235	236,059	249,451	(3,785)	(1%)
Maintenance & Equipment	680,200	983,295	717,700	37,500	6%
Legal	1,015,200	725,737	1,015,200	0	0%
Services & Supplies	4,825,013	4,051,604	4,997,048	172,035	4%
Utilities	429,499	470,001	395,018	(34,481)	(8%)
Subtotal:	**$ 8,071,614**	**$ 7,316,781**	**$ 8,277,648**	**$ 206,034**	**3%**
Total Expenditures before Debt and CIP:	**$ 31,250,907**	**$ 30,462,395**	**$ 32,634,892**	**$ 1,383,984**	**4%**
Debt Service:	**3,556,988**	**3,556,988**	**3,553,988**	**(3,001)**	**(0%)**
Capital Improvement Projects (CIP):	**5,305,192**	**4,838,010**	**7,147,552**	**1,842,360**	**35%**
Total Expenditures:	**$ 40,113,088**	**$ 38,857,392**	**$ 43,336,431**	**$ 3,223,344**	**8%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

Figure 3.4 FY 2018-19 Budgeted Expenditure Allocations ($000s)



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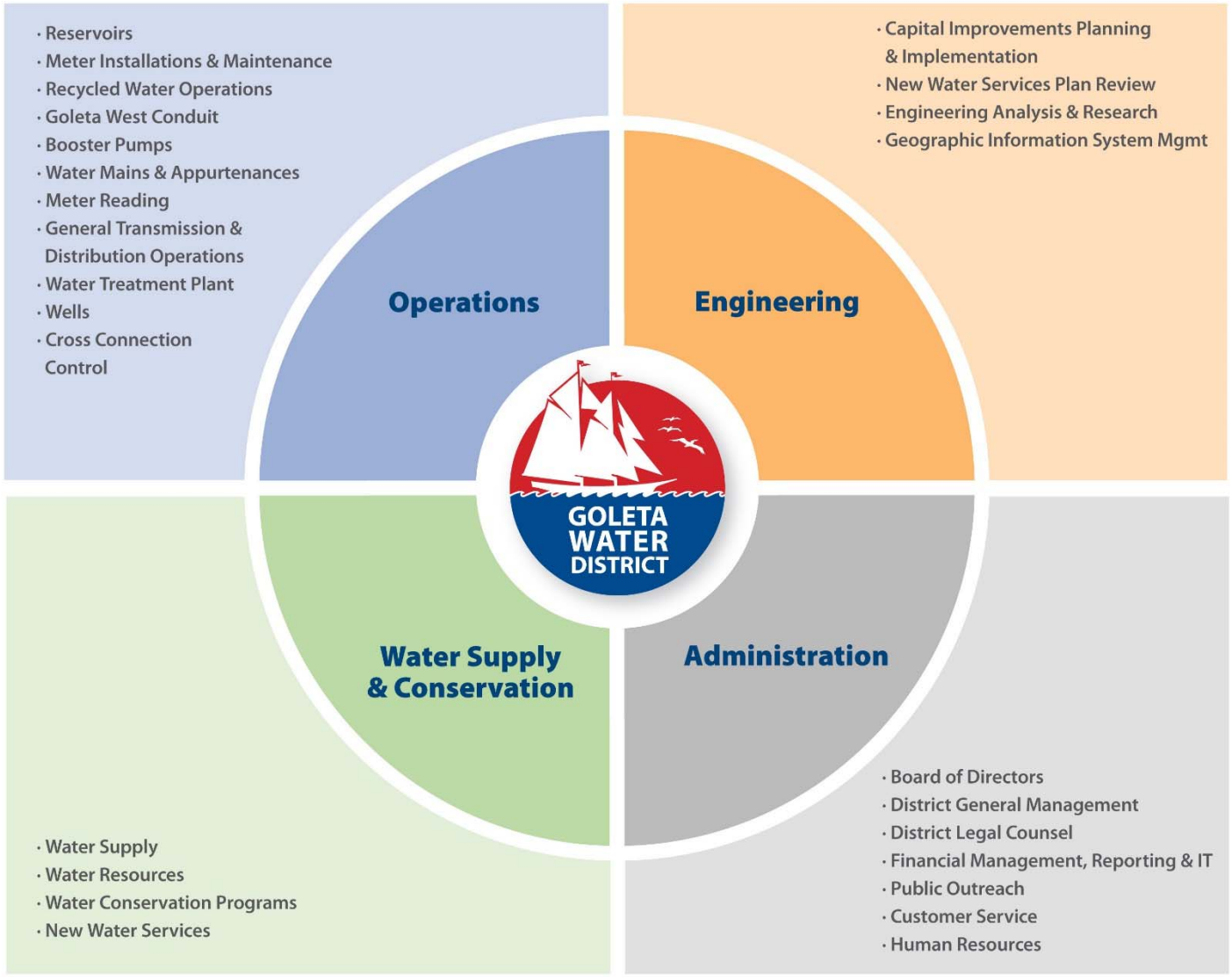
APPENDIX

Cost Center Overview

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

Figure 4.1 Programmatic Functions by Cost Center



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

Table 4.1 FY 2018-19 Budgeted Expenditures by Departmental Cost Center

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 9,856,161	$ 10,532,992	$ 10,803,816	$ 947,655	10%
Engineering	904,896	934,002	818,710	(86,186)	(10%)
Water Supply & Conservation	15,371,781	14,439,644	15,747,177	375,396	2%
General Administration	5,118,069	4,555,757	5,265,189	147,120	3%
Total Expenditures:	**$ 31,250,907**	**$ 30,462,395**	**$ 32,634,892**	**$ 1,383,985**	**4%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

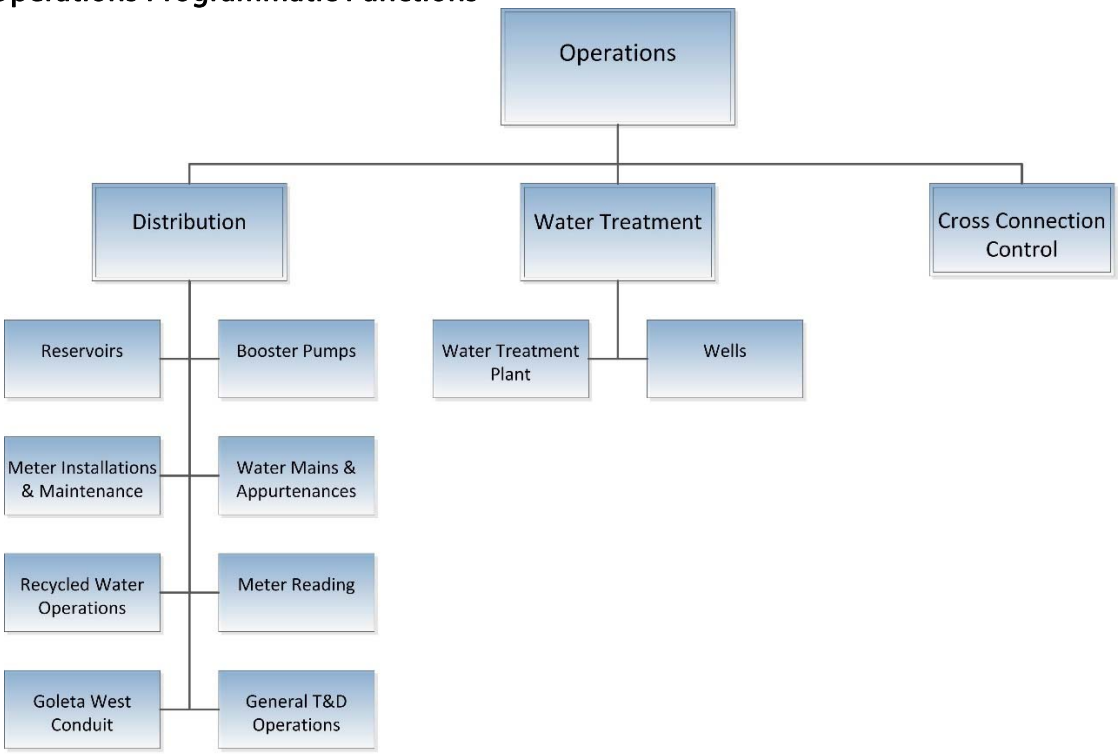
Total FY 2018-19 cost center budgeted expenditures will be $32.6 million, which is an increase of $1.4 million or 4%, from FY 2017-18 budget, including:

- A $948K increase in Operations is primarily due to increased personnel costs, water treatment costs, services to improve water quality, and costs associated with maintaining groundwater production and alternating supply sources.
- A $86K decrease in Engineering resulting from certain efforts shifting from operational studies to IIP-related capital projects.
- A $375K increase in Water Supply & Conservation expenditures due to increased costs associated with COMB, CCWA, and CCRB.
- A $147K increase in General Administration is the result of SEIU negotiated provisions for cost of living inceases and rising healthcare and retirement costs.

Operations Cost Center

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

Figure 4.2 Operations Programmatic Functions



Distribution

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

Installation of high-efficiency motors, pumps, and variable frequency drives has allowed the District to streamline the sequencing of key distribution facilities to save energy, emissions, and reduce costs.

Distribution Operations priorities in FY 2018-19 include:

- Upgrades to the recycled water pump station with additional variable frequency drive units to increase operational efficiency and electrical reliability.
- Additional monitoring of water quality for disinfection by-products throughout the distribution system due to increasing levels of organic matter in the surface water at Lake Cachuma.
- Optimization of reservoir storage levels during surface water operations to improve water quality throughout the distribution system.
- Routine system flushing to reduce chlorine levels to the minimal amount necessary to maintain water quality.
- Complete the inspection of the District's 42" transmission main to assess the condition and long-term sustainability of the largest and most vulnerable pipeline in the District's distribution system.
- Perform a conditions assessment and engineering analysis of two reservoirs to identify any structural or engineering deficiencies.
- Completion of a system-wide leak detection survey to continue proactive monitoring of water loss in accordance with Senate Bill (SB) 555.
- Conduct routine periodic sampling for lead at all qualifying schools in compliance with new laws passed in 2017.
- Implement further improvements to the Storm Water Management Program as necessary to return to baseline status for oils and grease to ensure compliance with regulatory guidelines for enhanced control of runoff.

Water Treatment

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

The District conducts thousands of tests each year to monitor the quality of the water served to the community and employs automated test equipment that continually analyzes water at different steps in the treatment process around the clock.

Water Treatment priorities in FY 2018-19 include:

- Reduction of pre- and post- chlorination at CDMWTP to minimal amount necessary to reduce the impact of disinfection by-products on water quality.

- Completion of 1,2,3-Trichloropropane (1,2,3-TCP) testing, a new State of California regulatory requirement at CDMWTP and District wells on a quarterly basis.
- Completion of the fourth phase of the US EPA Unregulated Contaminant Monitoring Rule where various unregulated constituents are required to be tested every quarter.
- Rehabilitation of three groundwater production wells as part of ongoing scheduled preventative maintenance plan to maintain peak production capacity.
- Integrate the newly constructed Corona Reservoir pump station into the operating plan to enable more efficient blending of groundwater and surface water throughout the distribution system.
- Completion of the 2019 Public Health Goals Report and holding of a public hearing to receive and file the report in compliance with SB 1307, as required every three years. The report provides supplemental information to customers on the quality of water delivered to customers over the last three years.
- Completion of various improvements needed to the Barger and La Riata reservoirs.
- Completion of a conditions assessment of the aged SCADA network to begin planning for a total system replacement.
- Update the arc flash vulnerability assessment of all electrical facilities in the District.
- Completion of an updated distributions bacteriological sampling plan for submission to State Water Resources Control Board Division of Drinking Water (DDW).
- Completion of the second phase of the removal of excess sediment in the CDMWTP intake structures and lines due to the low flow conditions experienced over the past few years while groundwater was the primary source of supply.

Cross-Connection Control

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

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

Operations crews perform maintenance at over 7,000 meter locations each year.

Cross-Connection Control priorities in FY 2018-19 include:

- Implementation of a web-based system for independent certified backflow testers to enter the required annual backflow inspection forms directly into the District's system, thereby eliminating the manual data entry of approximately 3,000 inspection forms received per year.
- Continuation of annual and ad hoc on-site inspections of both the recycled water system and the existing backflow prevention devices on potable water service connections to reduce potential cross-connection hazards.

- Development of a recycled water operational plan for UCSB's on- and off- campus facilities for approval by DDW.
- Formalization of a training program for site supervisors responsible for the 33 distinct areas of recycled water use.
- Redesign of the quarterly reports submitted by the site supervisors to better reflect operating conditions for improved communication to the Regional Water Quality Control Board and DDW.

Operations Accomplishments FY 2017-18

During FY 2017-18, Operations completed a number of projects to enhance water supply, improve water treatment, and increase energy and operational efficiency, including:

- Completed a system-wide flushing program to enhance water quality throughout the distribution system. This program is typically conducted every three years, but was delayed five years due to the drought.
- Completed cleaning and sediment removal in District reservoirs.
- Replaced hydrants and conducted follow-up maintenance discovered during the flushing program.
- Implemented further improvements included in the Storm Water Management Program, including paving of the unpaved portion of the yard, placement of oil-containing booms throughout the yard, and decontamination of all sampling devices and equipment prior to all sampling events. These improvements resulted in total suspended solids returning to baseline levels.

- Completed the first phase of the removal of excess sediment in the CDMWTP intake structures and lines due to the low flow conditions experienced over the past few years.
- Implemented the fourth phase of the USEPA Unregulated Contaminant Monitoring Rule where various unregulated constituents are required to be tested every quarter.
- Completed installation of an aeration system at Fairview reservoir to help meet regulatory water quality standards for disinfection by-products.
- Successful managed blending operations to serve groundwater and surface water.
- Completed Corona Pump Station construction to improve well and surface water blending operations.
- Coordination with local and state officials associated with handling of emergencies that arose and mitigation efforts for ash cleanup during the Thomas Fire and Montecito Mudslides.
- Completed implementation, testing, and initial evaluation phase of the Advanced Metering Infrastructure (AMI) pilot program on approximately 1,600 meters to allow for remote access to hourly reads for operational efficiencies, and commenced the maintenance and monitoring phase of the pilot program.

- Selected to present the District's Water Loss Control Program at the annual national American Water Works Association (AWWA) conference.
- Performed video inspection for the replacement of High-Density Polyethylene (HDPE) pipeline inside Tecolote & Bell Canyon bridges on Hollister Avenue.

FY 2018-19 Operations Cost Center Budget

Table 4.2 details the primary Operations expenditure categories and describes variances between FY 2017-18 Budget and FY 2018-19 budgeted expenditures.

Table 4.2 FY 2018-19 Operations Cost Center Budget Summary

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Operations					
Personnel:	**$ 5,398,033**	**$ 6,011,861**	**$ 5,658,914**	**$ 260,881**	**5%**
Operations & Maintenance:					
Water Treatment	568,326	569,934	562,281	(6,045)	(1%)
Water Testing	300,140	280,150	340,950	40,810	14%
Insurance, Accounting, & Auditing	97,239	96,752	97,347	108	0%
Maintenance & Equipment	702,809	982,379	716,900	14,091	2%
Services & Supplies	2,360,114	2,121,915	3,032,406	672,292	28%
Utilities	429,499	470,001	395,018	(34,481)	(8%)
Subtotal:	4,458,128	4,521,131	5,144,902	686,774	15%
Total Expenditures:	**$ 9,856,161**	**$ 10,532,992**	**$ 10,803,816**	**$ 947,655**	**10%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

The Operations budget will increase in FY 2018-19 by 10%, or $948K. Notable changes from FY 2017-18 Operations Budget to the FY 2018-19 Budget include:

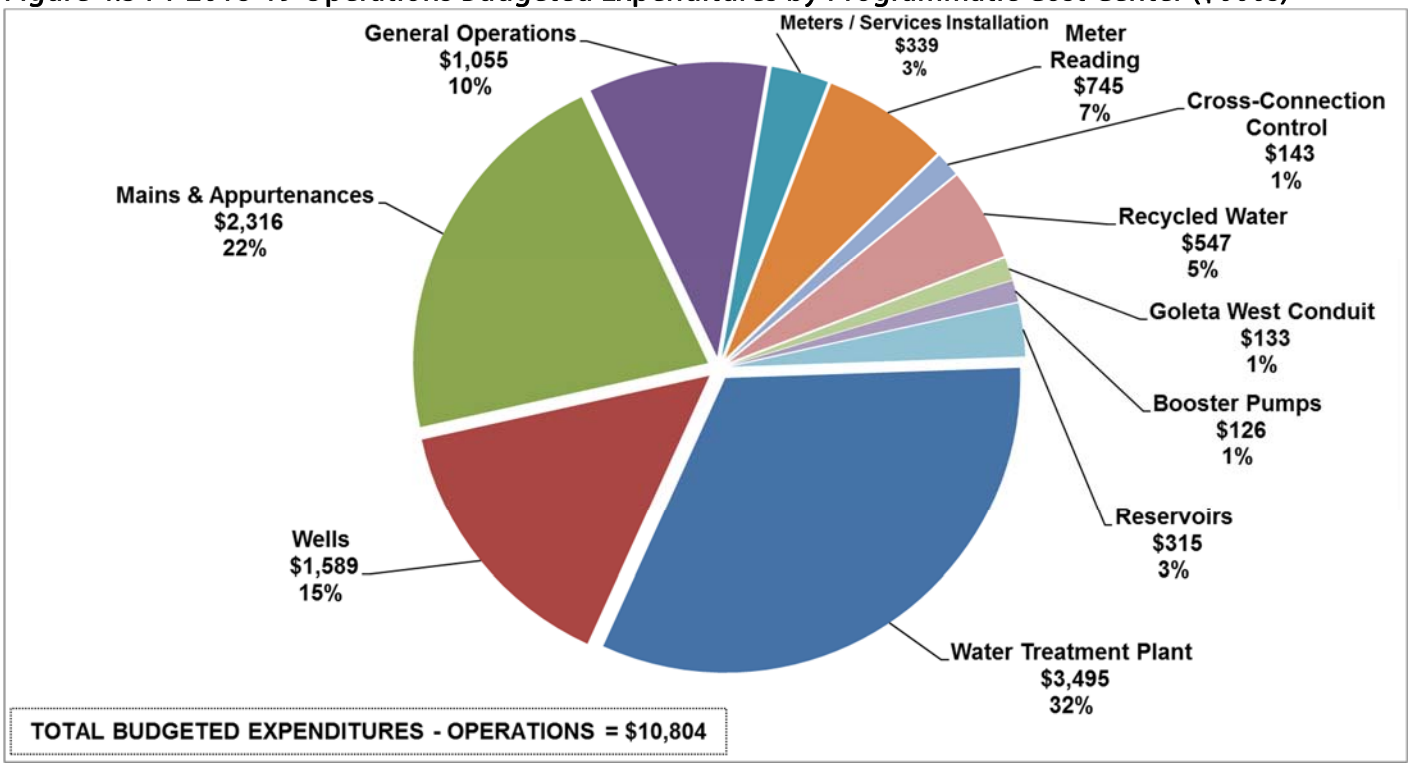
- Operations personnel costs will increase by $261K or 5% in FY 2018-19 consistent with overall SEIU negotiated provisions.
- Services and Supplies will increase by $672K primarily to fund preventative mechanical maintenance of District wells to maintain peak production capacity, critical to addressing the changing conditions in Lake Cachuma; upgrades to District-owned pumps at the Goleta Sanitary District recycled water reservoir to reduce the risk of a potential interruption of the recycled water system; SCADA programming upgrades and conditions assessment to inform improvements to or replacement of the aging SCADA infrastructure. Other notable Services and Supplies costs include an evaluation of and repairs to the District's 42" transmission main, upgrades to maintain the long-term sustainability of District reservoirs, and capital infrastructure planning to develop the next 5-year IIP.

- Maintenance & Equipment costs will increase by $14K as the result of increased vehicle maintenance costs due to the aging fleet, as well as increased repair, replacement, and general maintenance needs associated with operating the water treatment systems at CDMWTP and wells on an alternating basis, with a total of nine pump stations used to deliver water throughout the distribution system.

Table 4.3 FY 2018-19 Operations Budgeted Expenditures by Programmatic Cost Center

Description	Water Treatment Plant	Wells	Mains & Appurtenances	General Operations	Meters / Services Installation	Meter Reading	Cross-Connection Control	Recycled Water	Goleta West Conduit	Booster Pumps	Reservoirs	Total Operations
Water Treatment	$ 437,134	$ 80,677	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 44,470	$ 0	$ 0	$ 562,281
Water Testing	236,550	102,000	0	0	0	0	0	0	2,400	0	0	340,950
Personnel - Wages	1,128,611	204,327	1,011,952	558,655	141,515	446,293	63,532	79,578	34,062	0	0	3,668,525
Personnel - Benefits	447,073	71,531	479,368	228,322	49,277	225,760	25,803	27,605	9,473	0	0	1,564,212
Personnel - Taxes & W.C.	139,513	26,109	129,633	54,658	16,937	38,964	6,394	9,477	4,492	0	0	426,177
Insurance and Accounting	21,400	0	23,339	27,223	7,785	13,700	3,900	0	0	0	0	97,347
Maintenance & Equipment	296,600	145,800	141,800	0	53,600	1,900	3,400	21,600	4,800	16,000	31,400	716,900
Services & Supplies	704,520	760,040	518,400	186,446	69,900	18,400	39,500	382,200	27,200	44,600	281,200	3,032,406
Utilities	84,026	198,960	11,105	0	0	0	0	26,170	6,560	65,597	2,600	395,018
Total:	**$3,495,427**	**$1,589,444**	**$ 2,315,597**	**$1,055,305**	**$ 339,014**	**$745,017**	**$ 142,528**	**$546,630**	**$133,457**	**$126,197**	**$ 315,200**	**$10,803,816**

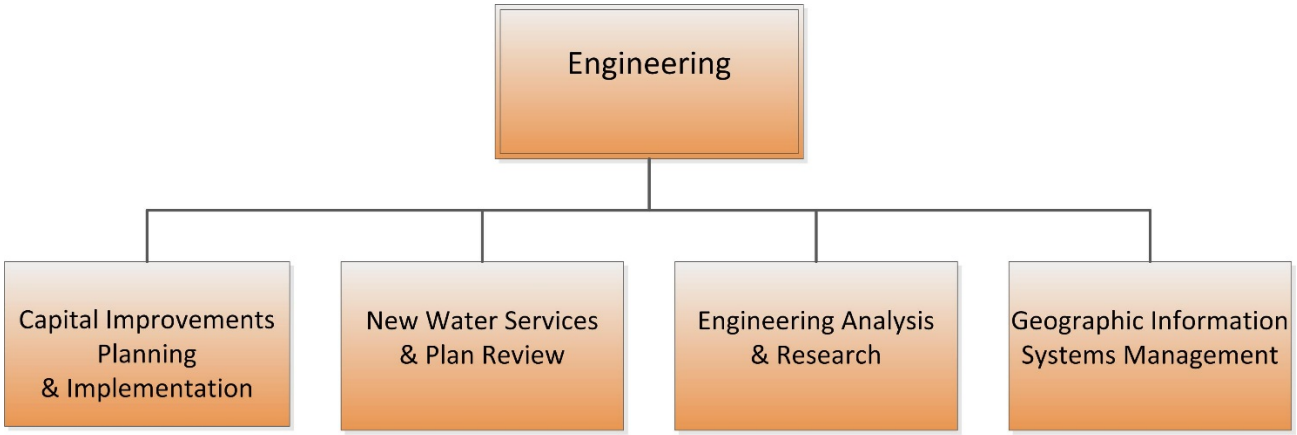
Figure 4.3 FY 2018-19 Operations Budgeted Expenditures by Programmatic Cost Center ($000s)



Engineering Cost Center

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

Figure 4.4 Engineering Programmatic Functions



Capital Improvements Planning & Implementation

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

Water quality studies will analyze historical, current, and projected future water quality and evaluate treatment to meet State and Federal standards.

During FY 2018-19, capital projects will focus critical investment on maintaining water quality at the District's CDMWTP and groundwater wells, while maintaining the reliability of the production, treatment, and distribution systems. Water quality projects include reducing trihalomethanes in District reservoirs and upgrading treatment operations at CDMWTP to adapt to changing surface water conditions at Lake Cachuma. Water treatment and distribution reliability projects include designing and constructing upgrades to booster stations, performing the initial phase of conditions assessment of the District's critical 42-inch transmission main, and developing a preliminary design for replacing the recycled water main beneath the Goleta Slough. Additionally, two capital projects are compelled by the City of Goleta's planned road improvement projects: relocating infrastructure at Ekwill Street, Fowler Road, and Hollister Avenue and relocating the Hollister Avenue Recycled Water Booster Pump Station.

New Water Services & Plan Review

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

Engineering Analysis & Research

The Engineering Analysis and Research cost center is responsible for ensuring that District Engineering Standards and Specifications are consistent with the latest industry standards for construction methods, materials utilized and design criteria. Engineering Standards and Specifications also address operational integrity and efficiencies and value-engineering techniques to ensure the least-cost methods and materials are used to bring efficient water services to all customers, while meeting regulatory standards and operational goals of the District. In FY 2018-19, engineering analysis and research efforts will continue to develop an asset management program; to support the ongoing process of completing the USBR Title Transfer Project, transferring the federally-owned portions of the Goleta distribution system to the District; and to complete the first major overhaul of the Standards and Specifications in nine years.

Engineering has screened more than a dozen treatment technologies to address the long term impacts presented by changing water quality conditions.

Geographic Information Systems Management

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

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

Engineering Accomplishments FY 2017-18

Key Engineering projects completed in FY 2017-18 included:

- Completed designs for the aeration systems at Fairview Reservoir, Ellwood Reservoir and Corona Reservoir.

- Completed water quality studies for corrosivity of District's water supplies, and performed jar testing, bench scale testing, pilot testing, and full-scale plant testing for trihalomethane reduction technologies.

- Completed electrical upgrades throughout the system for improved worker safety and code compliance.
- Completed design and construction of upsized access vaults in advance of conditions assessment of 42-inch transmission main from CDMWTP.
- Completed design and construction of replacement of a major high-density polyethylene (HDPE) water main in two bridges.
- Completed study and upgrades of backup generator connections at upgraded well facilities.
- Completed design and construction of storm-damaged pipeline in Barger Canyon.
- Completed Van Horne Reservoir access road and drainage repairs to preserve a critical asset.
- Initiated permitting process with Regional Water Quality Control Board for Aquifer Storage and Recovery.
- Completed Standard Operating Procedures for well facilities to maximize life and sustained production and to maintain readiness for emergency use after periods of non-operation.
- Completed validation of the hydraulic model following the collection of data during the distribution system flushing program.
- Completed the design of infrastructure relocation for the City of Goleta's road improvement project at Ekwill Street, Fowler Road, and Hollister Avenue.
- Continued evaluation of Hollister Booster Pump Station relocation compelled by the City of Goleta's planned widening of Hollister Avenue.
- Completed design work for the upgrade of Patterson Booster Pump Station.
- Continued conditions assessment for the District's entire cathodic protection system and completed repairs and equipment replacements.
- Continued the update to District Technical Specifications and Standard Details.

- Conducted numerous staff analyses, plan checks and inspections on private development projects.
- Conducted inspections on outside agency projects.

FY 2018-18 Engineering Budget

Table 4.4 outlines Engineering expenditures and describes variances between FY 2017-18 Budget and FY 2018-19 budgeted expenditures.

Table 4.4 FY 2018-19 Engineering Cost Center Budget Summary

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Engineering					
Personnel:	**$ 384,863**	**$ 502,689**	**$ 388,299**	**$ 3,436**	**1%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	9,735	9,650	9,735	0	0%
Maintenance & Equipment	600	565	600	0	0%
Services & Supplies	509,698	421,097	420,076	(89,622)	(18%)
Subtotal:	520,033	431,312	430,411	(89,622)	(17%)
Total Expenditures:	**$ 904,896**	**$ 934,002**	**$ 818,710**	**$ (86,186)**	**(10%)**

** Compares FY 2017-18 Adopted Budget to FY 2016-17 Adopted Budget*

Engineering expenses will decrease by $86K, or 10%, in FY 2018-19. Notable changes from the FY 2017-18 Budget to the FY 2018-19 Budget include:

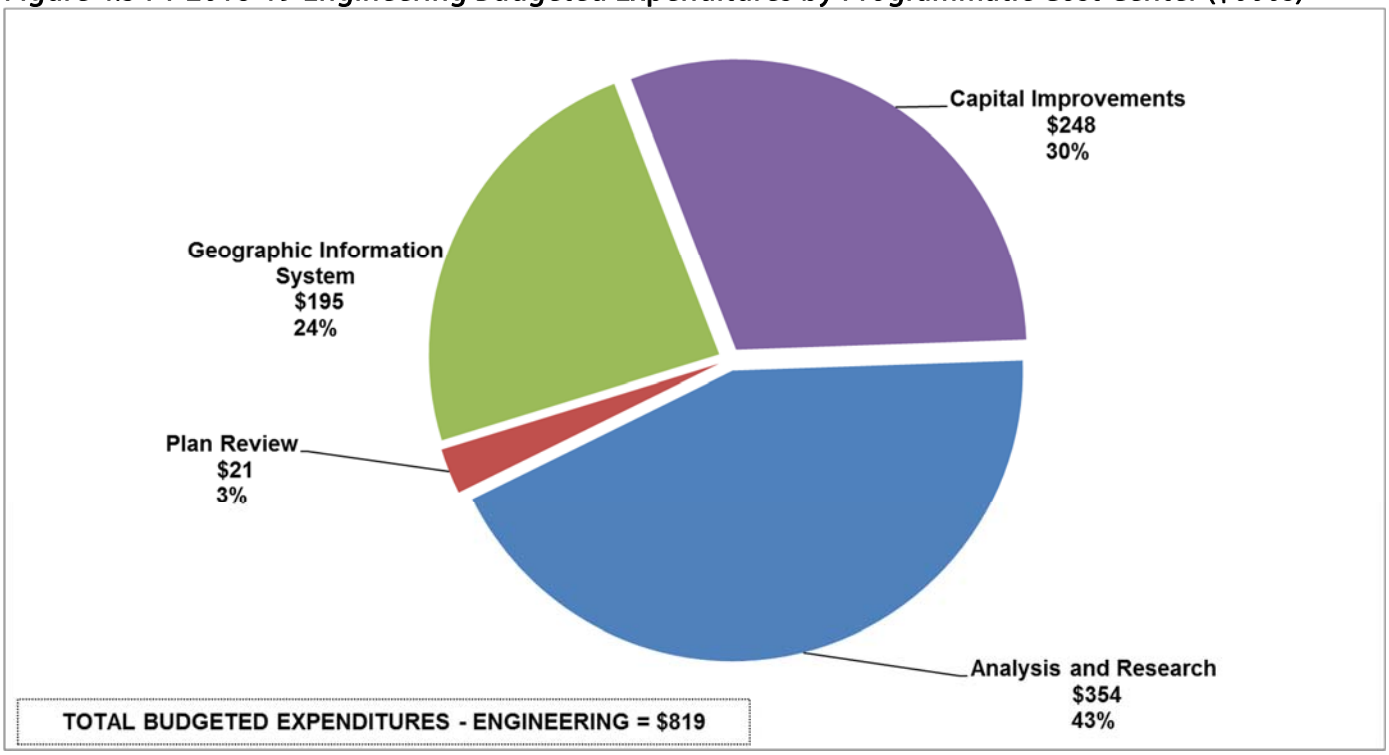
- Services & Supplies costs will decrease by $90K due to certain efforts shifting from operational studies to IIP-related capital projects.

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

Table 4.5 FY 2018-18 Engineering Budgeted Expenditures by Programmatic Cost Center

Description	Analysis & Research	New Water Supply & Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 137,857	$ 9,661	$ 61,051	$ 61,655	$ 270,223
Personnel - Benefits	42,454	3,217	30,812	18,805	95,289
Personnel - Taxes & W.C.	11,108	852	5,216	5,612	22,787
Insurance, Accounting, & Auditing	5,835	1,950	0	1,950	9,735
Maintenance & Equipment	0	600	0	0	600
Services & Supplies	156,854	4,552	98,319	160,352	420,076
Total:	**$ 354,107**	**$ 20,831**	**$ 195,397**	**$ 248,374**	**$ 818,710**

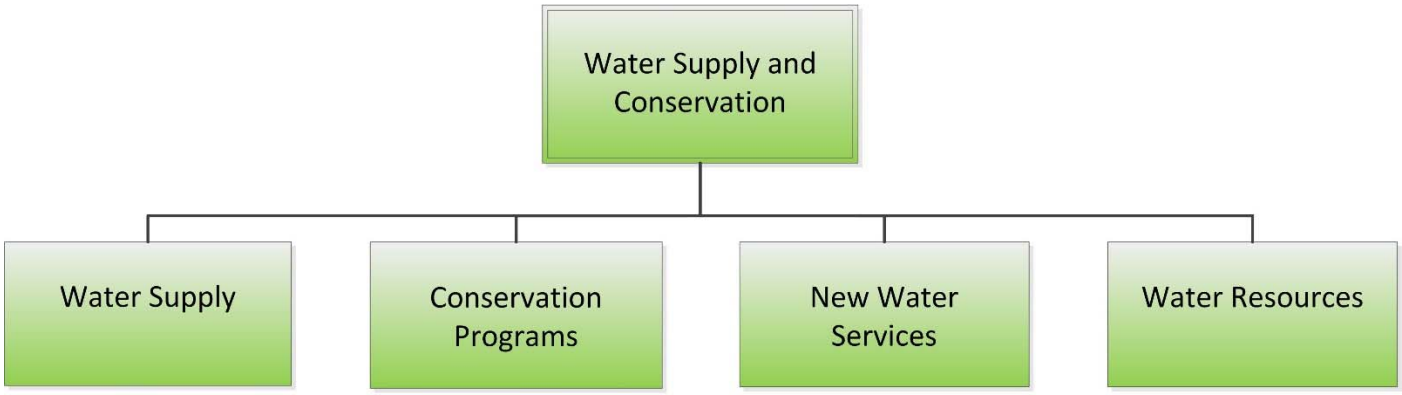
Figure 4.5 FY 2018-19 Engineering Budgeted Expenditures by Programmatic Cost Center ($000s)



Water Supply & Conservation Cost Center

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

Figure 4.6 Water Supply and Conservation Programmatic Functions



Water Supply

The District's diverse water supply portfolio, coupled with the community's commitment to conservation allows the District to meet the needs of 87,000 residential, commercial, and agricultural customers in the Goleta Valley. The Water supply cost center covers costs related to District water supply entitlements, including significant expenses associated with the State Water Project water through CCWA, and Cachuma Project water through COMB. CCWA costs include fixed and variable costs from DWR for State Water supplies and transportation-related expenses. Cachuma Project expenses include the costs of supplying and conveying water from Lake Cachuma, including O&M costs passed through by USBR. Water Supply costs also include water rights and public trust resources protection and advocacy through CCRB. FY 2018-19 priorities include continued work with CCRB and other regional partners to protect surface water rights given pending state and federal orders.

Conservation Programs

Conservation and efficient water use helps preserve and extend water supplies for all District customers. As a long-time leader in conservation practices and a signatory to the CUWCC and the Memorandum of Understanding, the District works in partnership with agencies and organizations across the region to support customers to use water as efficiently as possible. In anticipation of continued drought response, existing conservation program elements will continue to be offered to targeted customer categories in FY 2018-19 to further reduce outdoor and indoor water use.

New Water Services

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

Under the voter-approved SAFE Ordinance, the District stopped issuing new water service as of October 1, 2014. The ordinance remains in effect as the District allocation for FY 2018-19 from Lake Cachuma is below 100%.

Water Resources

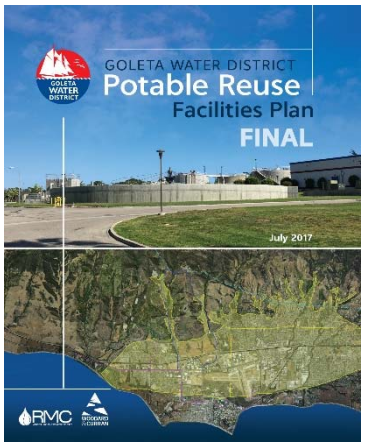
The Water Resources program supports the ongoing management of water supply agreements and coordinates updates to the District foundational resource plans, including the Groundwater Management Plan, Water Supply Management Plan, Urban Water Management Plan and the Sustainability Plan. The Water Resources team provides analytical support as well as special research needed to implement the policies established by the voter-approved SAFE Water Supplies Ordinance, District Code and regulations, water supply agreements, and state and federal laws and regulations. FY 2018-19 priorities include: ongoing implementation and reporting related to the 2012 Sustainability Plan; investigation of water supply development and supply augmentation; and research, policy development and contingency planning related to potential water shortage stage declarations in drought conditions. The Water Resources cost center also includes a grant management function and is responsible for seeking out and applying for new grant opportunities. During FY 2018-19, grant activities will be focused on securing funding for projects identified in the District's Sustainability Plan, and securing additional capital improvements funding from State and Federal agencies to maintain water quality.

Water Supply and Conservation (WS&C) Accomplishments FY 2017-18

Key WS&C accomplishments during FY 2017-18, include:

- Continued implementation of Board-adopted Stage III water use restrictions, including watering day and time enforcement, as well as prohibitions on water waste.
- Continued compliance with statewide emergency regulations for water conservation mandated by the State Water Resources Control Board, and submission of monthly water production and customer demand data to the State.
- Interacted with more than 2,000 customers at conservation outreach events and 450 students via school presentations to educate the community on the drought, local and statewide water use restrictions, and ways to eliminate water waste and conserve water.

- Completed the District's Potable Reuse Facilities Plan to study opportunities for expanded use of advanced treated recycled water.
- Completed the District's Stormwater Resource Plan to identify potential opportunities for stormwater capture and groundwater infiltration projects within the District service area.
- Updated the District's USBR Agricultural Water Management Plan.
- Distributed approximately 200 rebates through the Smart Landscape Rebate Program, the Water Saving Incentive Program for water-saving projects on larger landscapes and landscape irrigation accounts, and the mulch rebate program.



FY 2018-19 Water Supply and Conservation Budget

Table 4.6 details the primary FY 2018-19 WS&C budgeted expenditures and variances from the FY 2017-18 Budget.

Table 4.6 FY 2018-19 Water Supply and Conservation Cost Center Budget Summary

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - WS&C					
Water Supply Agreements:					
COMB (Lake Cachume Deliveries)	$ 3,133,516	$ 2,676,001	$ 3,461,001	$ 327,485	10%
CCRB (Water Rights)	360,000	296,068	539,633	179,633	50%
SB County (Cloud Seeding)	32,000	0	32,000	0	0%
CCWA (State Water Deliveries)	9,078,465	8,999,095	9,308,569	230,104	3%
GSD (Recycled Water Production)	604,630	554,058	604,630	0	0%
Subtotal:	**13,208,611**	**12,525,223**	**13,945,833**	**737,222**	**6%**
Personnel:	**1,243,310**	**1,300,595**	**1,181,827**	**(61,483)**	**(5%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	34,418	34,134	34,418	0	0%
Maintenance & Equipment	200	348	200	0	0%
Services & Supplies	885,242	579,343	584,900	(300,342)	(34%)
Subtotal:	**919,860**	**613,826**	**619,518**	**(300,342)**	**(33%)**
Total Expenditures:	**$ 15,371,781**	**$ 14,439,644**	**$ 15,747,177**	**$ 375,396**	**2%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

The WS&C cost center Budget will increase by $375K in FY 2018-19. Notable changes from the FY 2017-18 Budget to FY 2018-19 Budget include:

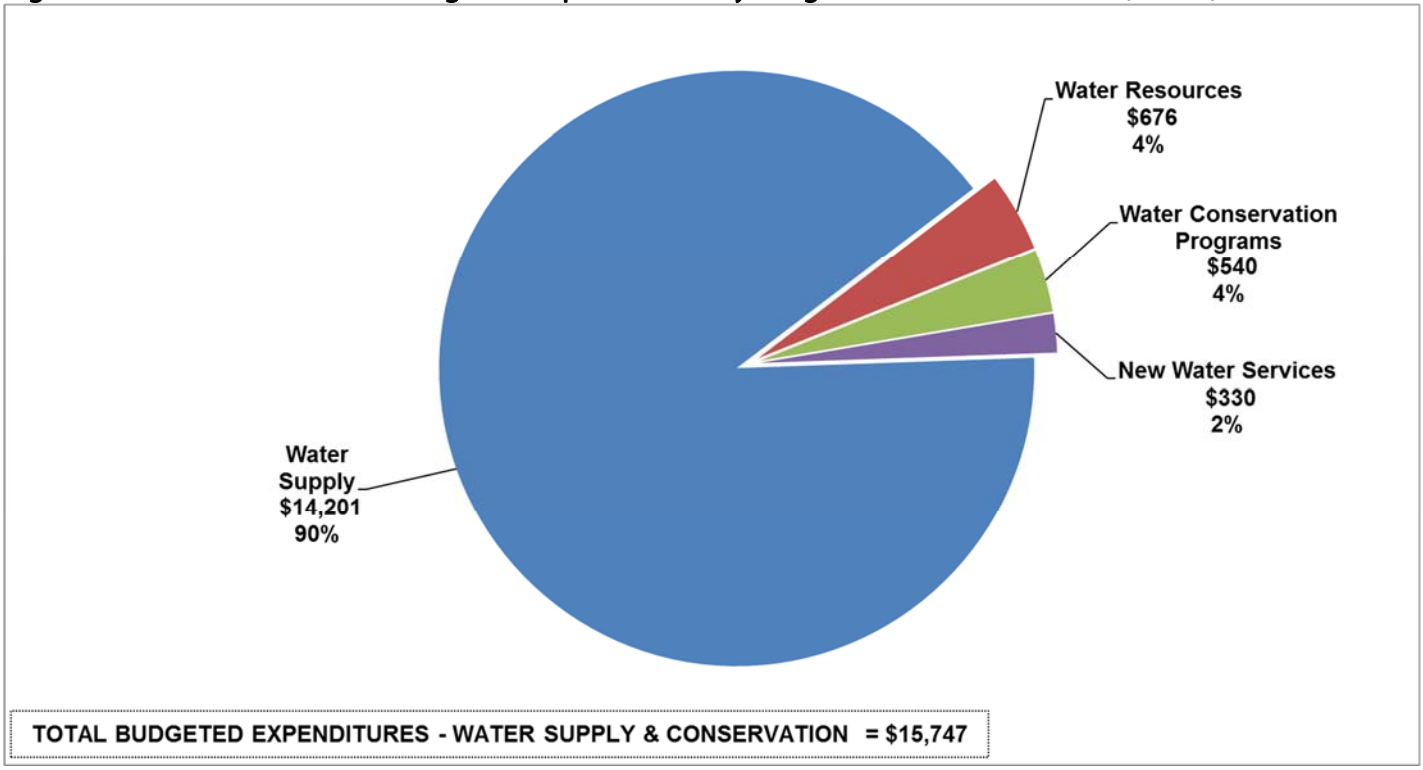
- Overall costs associated with Water Supply Agreements have increased by approximately $737K due to the pass through of higher than expected USBR related drought response costs, higher DWR variable costs, and increased activity related to protecting water rights through CCRB.
- Services and Supplies costs will decrease overall by $300K in FY 2018-19 due to the high number of plans and reports completed during the previous year.

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

Table 4.7 FY 2018-19 WS&C Budgeted Expenditures by Programmatic Cost Center

Description	Water Supply	Water Resources	Water Conservation Programs	New Water Services	Total WS&C
COMB (Lake Cachume Deliveries)	$ 3,461,001	$ 0	$ 0	$ 0	$ 3,461,001
CCRB (Water Rights)	539,633	0	0	0	539,633
SB County (Cloud Seeding)	32,000	0	0	0	32,000
CCWA (State Water Deliveries)	9,308,569	0	0	0	9,308,569
GSD (Recycled Water Production)	604,630	0	0	0	604,630
Personnel - Wages	181,300	301,140	122,031	206,849	811,320
Personnel - Benefits	59,395	103,508	56,242	85,981	305,126
Personnel - Taxes & W.C.	13,497	23,321	10,782	17,781	65,381
Insurance, Accounting, & Auditing	0	27,908	675	5,835	34,418
Maintenance & Equipment	0	0	200	0	200
Services & Supplies	1,333	219,636	350,383	13,548	584,900
Total:	**$ 14,201,358**	**$ 675,512**	**$ 540,313**	**$ 329,994**	**$ 15,747,177**

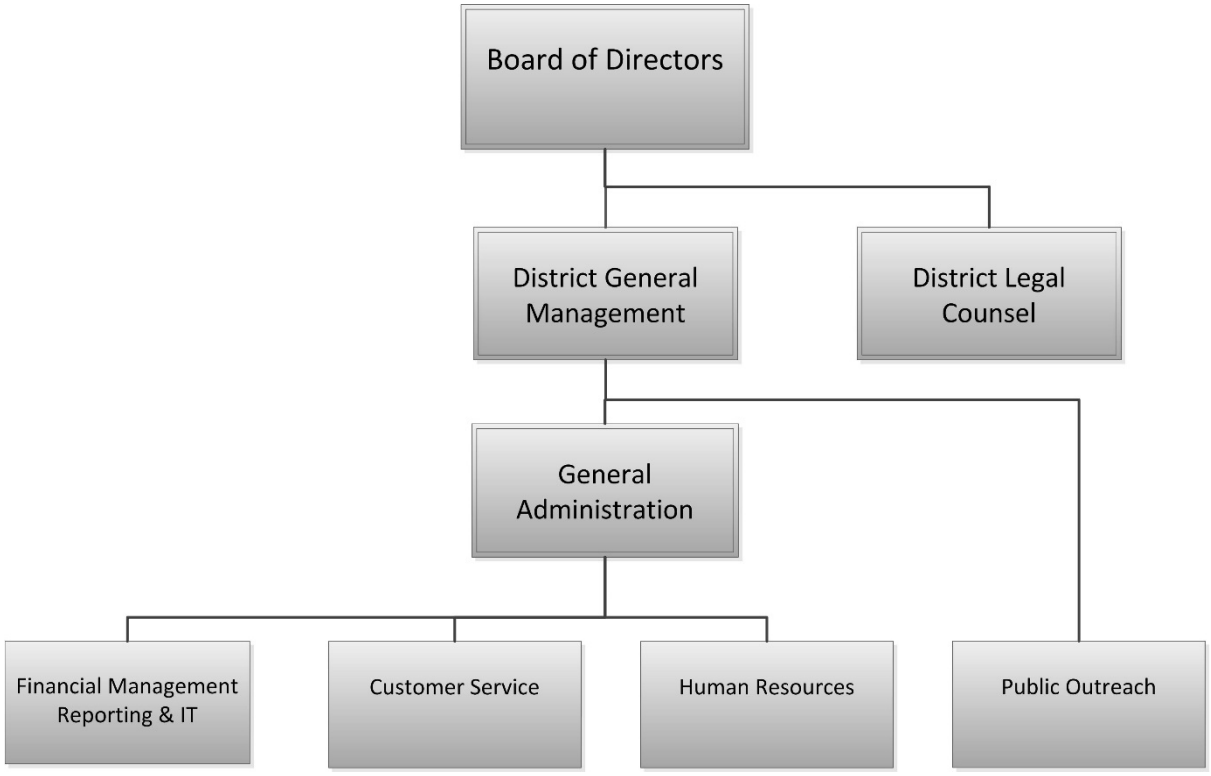
Figure 4.7 FY 2018-19 WS&C Budgeted Expenditures by Programmatic Cost Center ($000s)



General Administration Cost Center

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

Figure 4.8 General Administration Programmatic Functions

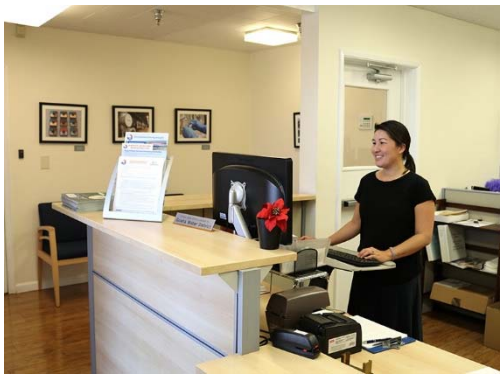


Financial Management, Reporting, & Information Technology (IT)

The Financial Management, Reporting, & Information Technology cost center includes all financial and accounting services to ensure proper controls and processes are in place to accurately collect revenue and disburse expenditures. Routine administration services include accounts payable, accounts receivable, investment and cash management, annual budget preparation, monthly budget tracking, cash flow analysis, payroll and benefit processing, rate analysis, procurement and contract management, and annual audit report preparation. This cost center is responsible for implementing governmental accounting standards to provide timely, accurate and meaningful financial information to the public and the Board of Directors. Finally, this cost center provides and supports technology tools for internal District operations, as well as District customers. These include network support services, customer information systems, and billing support services, among others. During FY 2018-19, the District will further automate the budgeting process with the primary accounting system, and continue to upgrade financial software to improve operational efficiencies, and implement other critical technology systems.

Customer Service

The Customer Service cost center is the initial point of contact for the community, handling incoming calls, receiving visitors at District Headquarters, and managing the billing and collection process for about 17,000 customer connections. In FY 2018-19, Customer Service will continue to support outreach activities to encourage paperless billing enrollment and new online tools.

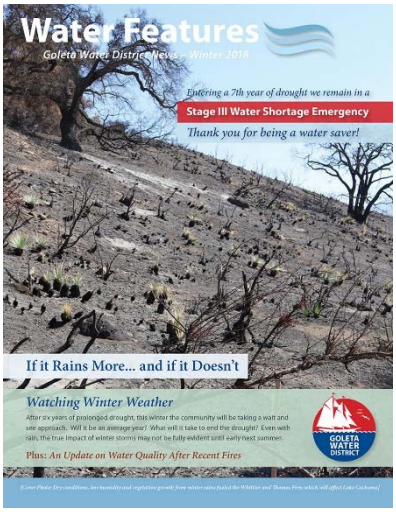


Human Resources

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

Public Outreach

The Public Outreach function includes all District communications, media relations, press releases, special outreach initiatives, newsletters, oversight of the District's website, social media, and internet presence. This effort ensures customers are equipped with reliable, timely, and objective information, enabling a clear understanding of District issues and activities. FY 2018-19 public outreach will remain focused on the importance of conservation in light of ongoing drought conditions. The District will continue to identify innovative and effective communication methods to engage with and understand the District's customer base, ensuring District services align with customer needs and values.

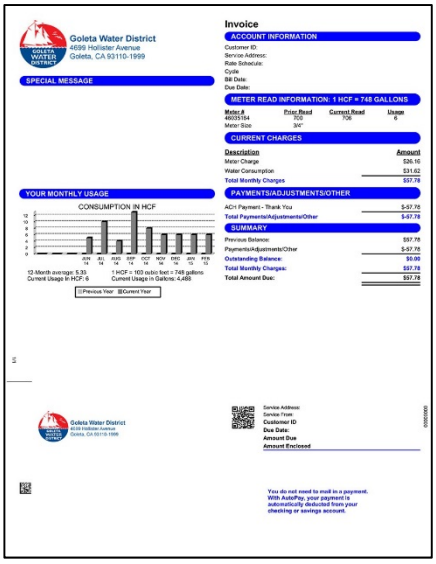


General Administration Accomplishments FY 2017-18

The General Administration cost center completed several key projects during FY 2017-18 including:

- Completed the District's comprehensive Annual Financial Report and received an unmodified ("clean") opinion on the audited financial statements.
- Successfully launched the Project Accounting Module in the District's accounting system. All project related expenditures are captured, tracked and reported on in Great Plains. This allows real time visibility of expenditures and immediate access to project related reporting by various individuals and functions throughout the organization.
- Upgraded the District payroll system to improve the efficiency of recordkeeping and timecard management tools.

- Began the multi-year plan to transition to a paperless review and approval process for District-wide accounting transactions.
- Integrated accounting for capital and operational projects into the District's general ledger.
- Received two ACWA JPIA President's Special Recognition awards for achieving a low loss ratio in both the Liability and Property Insurance programs.
- Designed a series of web based customer service tools to automate work orders and address changes, reducing paperwork, data entry, and potential for mistakes while improving convenience to customers. Once completed, these improvements will reduce customer wait times during high volume months associated with move in and move out. These web based tools will be rolled out to District customers in late 2018.
- Issued over 200,000 customer bills on a timely basis through our billing vendor, Global Water Management, LLC.
- Received approximately 100,000 page views on the website, with online bill pay and conservation ranking as the most popular items.



FY 2018-19 General Administration Budget

Table 4.8 compares General Administration budget variances between FY 2017-18 and FY 2018-19.

Table 4.8 FY 2018-19 General Administration Cost Center Budget Summary

Category	Adopted Budget FY 2017-18	Estimated Actual FY 2017-18	Adopted Budget FY 2018-19	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - General Admin.					
Personnel:	**$ 2,481,298**	**$ 2,337,115**	**$ 2,679,196**	**$ 197,898**	**8%**
Other Post Employment Benefits:	**463,178**	**468,131**	**503,176**	**39,998**	**9%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	111,843	95,523	107,950	(3,893)	(3%)
Legal	1,015,200	725,692	1,015,200	0	0%
Services & Supplies	1,046,550	929,296	959,667	(86,883)	(8%)
Subtotal:	**2,173,593**	**1,750,511**	**2,082,817**	**(90,776)**	**(4%)**
Total Expenditures:	**$ 5,118,069**	**$ 4,555,757**	**$ 5,265,189**	**$ 147,120**	**3%**

** Compares FY 2018-19 Adopted Budget to FY 2017-18 Adopted Budget*

The General Administration Budget will increase by $147K, or 3% in FY 2018-19. Notable General Administration changes from FY 2017-18 to FY 2018-19 Budget include:

- Personnel costs will increase by $197K to fulfill current SEIU MOU obligations.

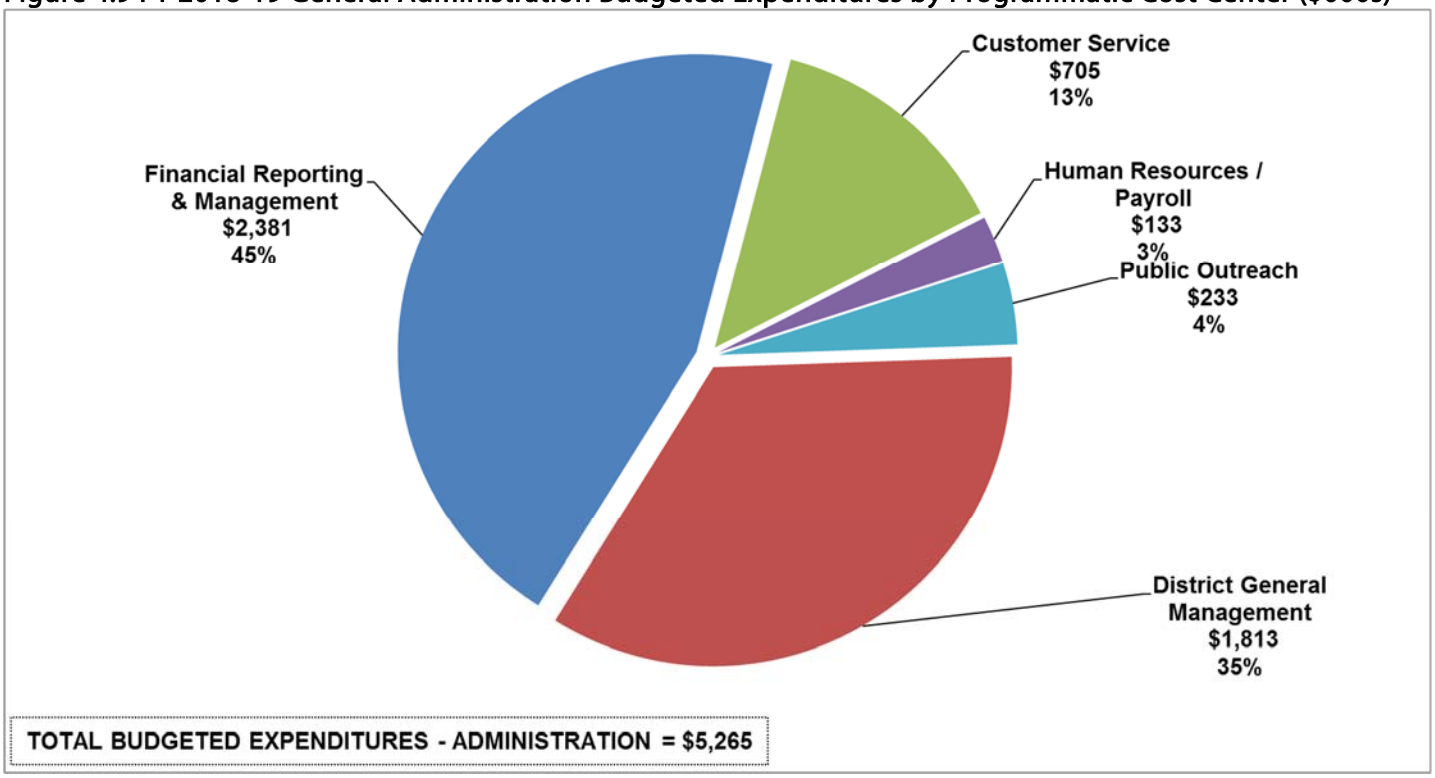
- District-wide OPEB costs will increase by $40K resulting from changes in the retiree pool and health insurance costs.
- Service & Supplies will decrease by $87K due to the completion of the Project Accounting Module implementation during FY 2018, and lower outsourced services.

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

Table 4.9 FY 2018-19 General Administration Budgeted Expenditures by Programmatic Cost Center

Description	District General Management	Financial Reporting & Management	Customer Service	Human Resources / Payroll	Public Outreach	Total Administration
Personnel - Wages	$ 390,799	$ 1,099,921	$ 159,555	$ 64,360	$ 92,593	$ 1,807,228
Personnel - Benefits	199,936	392,665	84,537	29,069	25,003	731,209
Personnel - Taxes & W.C.	25,095	89,472	13,194	5,670	7,328	140,759
Other Post Employment Benefits	0	503,176	0	0	0	503,176
Insurance, Accounting, & Auditing	43,000	61,000	2,000	0	1,950	107,950
Legal	1,005,600	0	0	9,600	0	1,015,200
Services & Supplies	148,900	234,300	445,920	24,070	106,477	959,667
Total:	**$ 1,813,330**	**$ 2,380,535**	**$ 705,205**	**$ 132,768**	**$ 233,351**	**$ 5,265,189**

Figure 4.9 FY 2018-19 General Administration Budgeted Expenditures by Programmatic Cost Center ($000s)



District Organization

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

Figure 4.10 Organizational Chart by Department and Position

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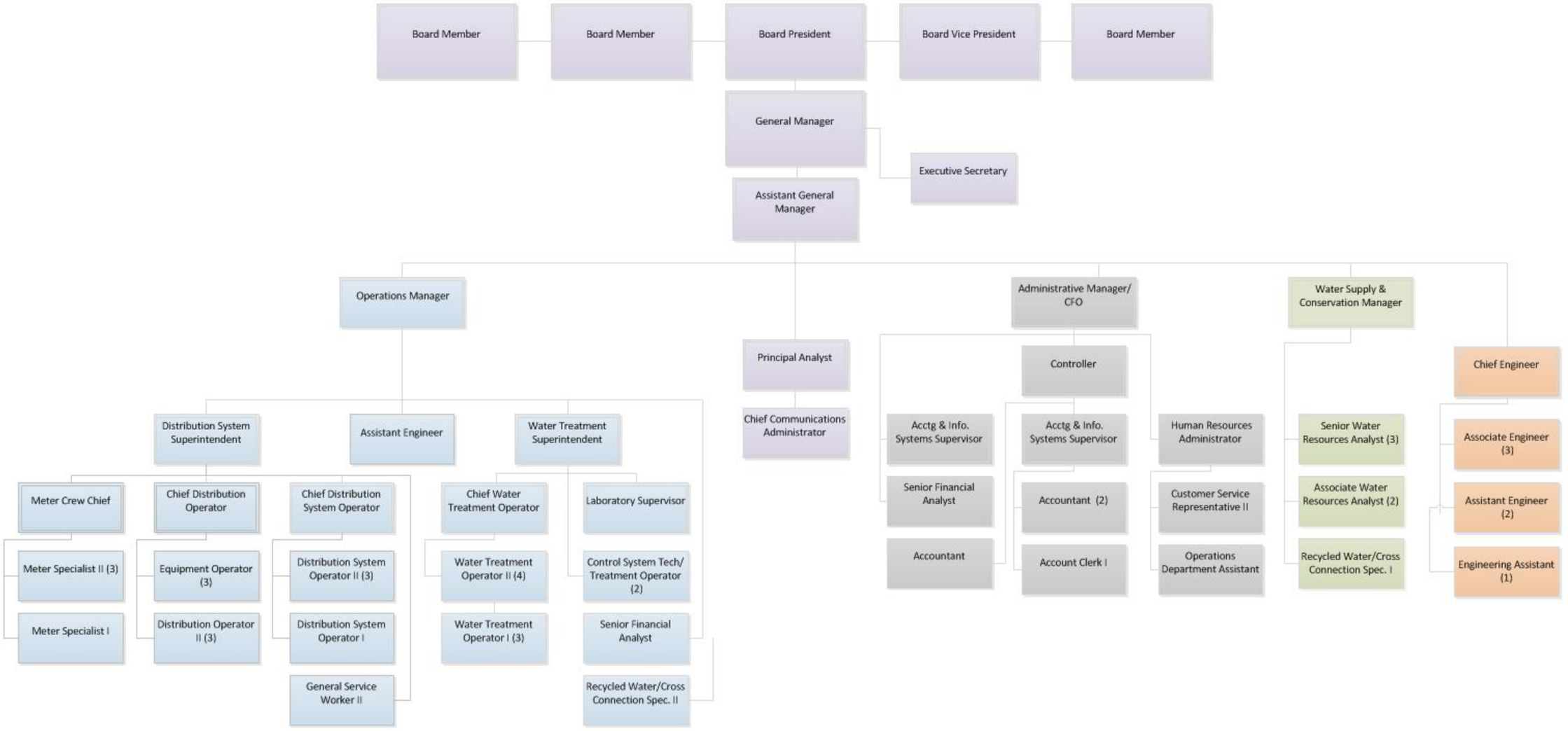
Figure 4.10 Organizational Chart by Department and Position



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DISTRICT

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