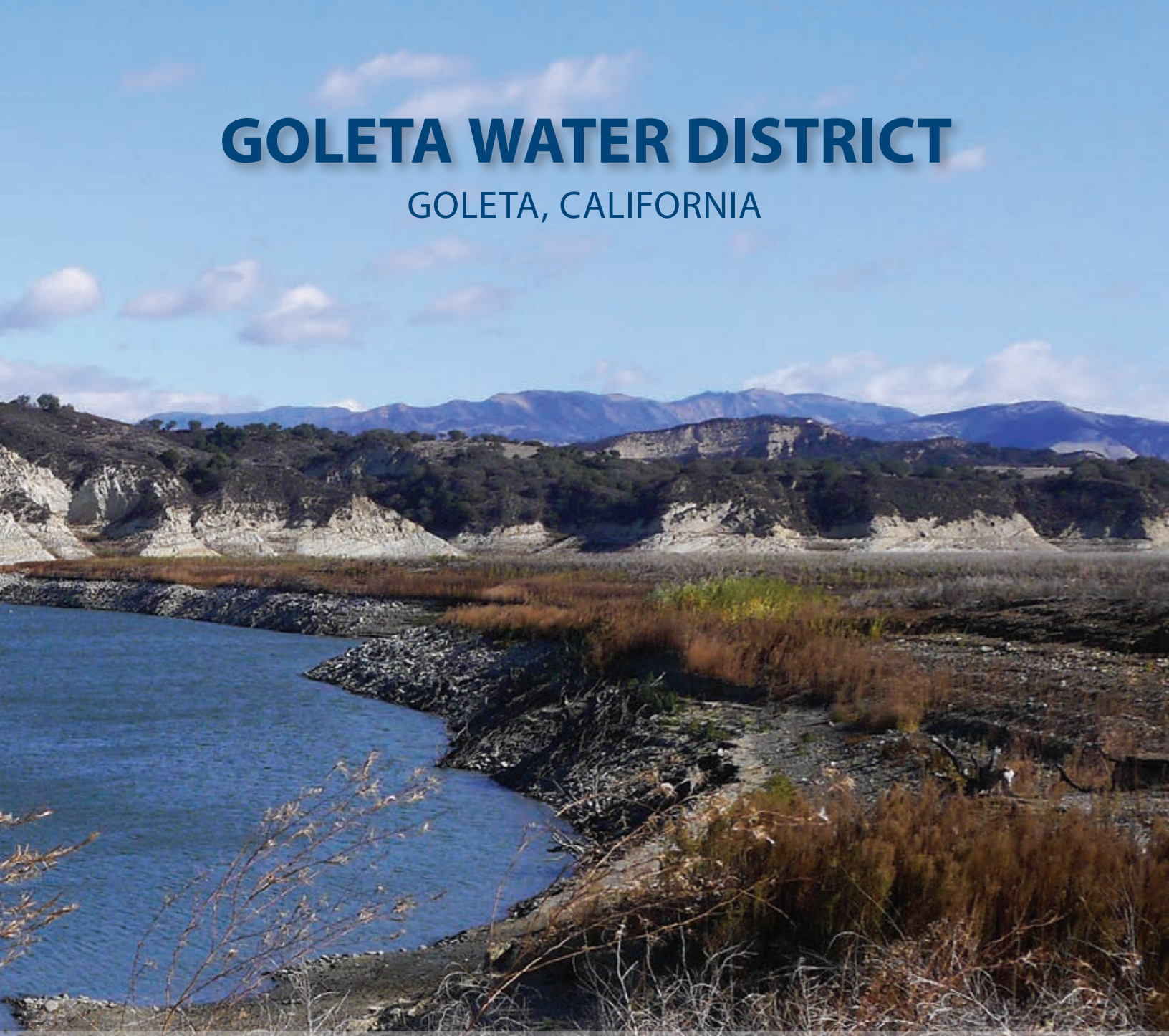
GOLETA WATER DISTRICT

GOLETA, CALIFORNIA



Fiscal Year 2016–17

FINAL BUDGET

GOLETA WATER DISTRICT

Mission

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

Cover photo: For the remainder of the drought the District cannot depend on Lake Cachuma, traditionally the primary source of water for the community.

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
AIM	Advanced Infrastructure Management
AWWA	American Water Works Association
BDCP	Bay Delta Conservation Plan
BMP	Best Management Practices
CalPERS	California Public Employees' Retirement System
CDPH	California Department of Public Health
CDMWTP	Corona Del Mar Water Treatment Plant
CCRB	Cachuma Conservation and Release Board
CCWA	Central Coast Water Authority
CIP	Capital Improvement Projects
COMB	Cachuma Operation and Maintenance Board
COP	Certificates of Participation
CRCD	Cachuma Resource Conservation District
CSDA	California Special Districts Association
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
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
MURRP	Modified Upper Reach Reliability Project
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
SWRCB	State Water Resources Control Board
T&D	Transmission & Distribution
USBR	United States Bureau of Reclamation
WS&C	Water Supply & Conservation Department

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SECTION I – OVERVIEW

About Goleta Water District

The Goleta Water District provides safe and reliable water supplies to approximately 87,000 residents in the Goleta Valley. Established in 1944 through a vote of the people, the District serves an area of 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; terms are 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, among others. 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 engineers, certified treatment and distribution operators, water quality scientists, policy and financial analysts and administrative staff.

As the District enters the fifth year of a severe drought, groundwater will continue to supply the majority of water to meet customer demand in FY 2016-17. Available water sources are anticipated to include:

- 720 AFY of local surface water from Lake Cachuma
- 6,800 AFY of groundwater from the Goleta Groundwater Basin
- 4,470 AFY of water from the CA State Water Project
- 1,770 AFY of supplemental water
- 946 AFY of recycled water

The District delivers water to its customers through a complex treatment and distribution system that includes over 270 miles of pipeline, eight 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 region 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.

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 17 inches per year, primarily occurring between October and April. Historic rainfall has fluctuated significantly with the area seeing only 5.6 inches in 1990 and more than 40 inches in 1983. Calendar years 2012 through 2015 were among the driest years on record, and the District is in the fifth year of a severe drought.

Given continued minimal rainfall and record low snowpack, on January 17, 2014, California Governor Jerry Brown declared a state of emergency caused by drought, and asked all Californians to reduce their water use by 20%. On April 1, 2015 the Governor issued an unprecedented Executive Order with the first ever statewide mandatory water use reductions, underscoring the critical nature of the drought. 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 a Stage III drought condition on May 12, 2015, raising the targeted system-wide demand reduction to 35% and further restricting outdoor irrigation. Despite hopes for significant winter rains as a result of El Niño, such storm events have only materialized in the northern part of the state. The Central and South Coast, including Santa Barbara County, have received below average rainfall as of the spring of 2016. While the high precipitation in Northern California is good news for the State Water Project, and has resulted in an increase to the District's 2016 allocation, local surface water conditions remain extremely stressed, with Lake Cachuma below 15% capacity.

The District's water supply portfolio continues to be significantly affected by the historic drought, and the Lake Cachuma allocation for South Coast water agencies will likely be zero in Water Year 2016-17. The 720 AF of remaining Cachuma water available to the District is carryover water from previous years. Even with an increased State Water allocation and the purchase of supplemental water in late 2015, the groundwater basin continues to be the key to meeting the water needs of the Goleta Valley in FY 2016-17. The diversity of the District's supply provides an advantage in responding to the current drought, but as the District has begun actively operating its wells over the past several years, the challenges inherent to moving large volumes of groundwater throughout the system have become more apparent. To gain access to this supply, the wells and distribution system need ongoing significant investment to meet demand and prevent service interruptions to customers. The comparative difficulty of delivering groundwater to customers has also underscored the importance of not only addressing supply, but also demand. Every gallon of water conserved by customers is a gallon saved for the future; reducing strain on both limited supplies and the District's distribution and treatment facilities. Proactive supply and demand management practices help mitigate the effect of the drought on District infrastructure, as well as on the local community, economy and environment.

Water Supply Portfolio

The District's diverse water supply portfolio is made up of supplies from four distinct sources with availability averaging 16,472 acre feet per year (AFY) under normal conditions. Actual water availability varies from year to year based on weather, exchange agreements, availability of Lake Cachuma carry-over water, spill water and State Water. All water supplies are secured through collaborative agreements with federal, state and local partners. Annual water sales in Fiscal Year (FY) 2008-09 were approximately 14,000 AFY, and declined for several years thereafter due to effective water conservation and efficiency programs, as well as regional economic factors. Water sales are frequently driven by weather, increasing demand at a time of decreasing water supplies, and conditions over the past four dry years caused an uptick in sales in FY 2012-13, when the District sold approximately 13,900 AF of water. The upward trend continued with 14,994 AF sold in FY 2013-14, prior to the District's declaration of a water shortage emergency and associated implementation of water use restrictions. Starting in FY 2014-15 when drought restrictions were implemented, water deliveries declined to 11,919 AF, and 11,778 AF in FY 15-16. The projected sales for FY 16-17 are 10,938 AF. As the drought has deepened, the quantity of water the District receives from the lake has declined from 9,322 AFY under normal conditions, to zero in Water Year 2015-16, which runs from October 1 to September 30. The District has been told to expect 0 acre feet in allocation again in FY 2016-17. For the remainder of the drought the District cannot count on water being available from Lake Cachuma.

Without question the drought has fundamentally changed the make-up and management of the District's water supply portfolio. The District's water treatment and distribution system facilities were designed to operate under a gravity-fed system. Local supplies from Lake Cachuma have historically constituted the bulk of the District water supply portfolio, with imported supplies from the SWP and recycled water rounding out the balance. Normal Lake Cachuma supplies are no longer available due to the drought. The loss of Lake Cachuma as a primary source of water for the District positions groundwater as a de facto primary source of supply. Entering the second year in which groundwater comprises the majority of water supplied to customers has highlighted the difficulty of balancing system demands against the dynamic changing conditions within the Goleta Groundwater Basin, and the District's wells and distribution infrastructure. Increased groundwater production and the energy and infrastructure needed to distribute it throughout the system have necessitated significant investment in the production and distribution system, while increasing costs significantly.

Local Surface Water – Lake Cachuma

Under normal conditions, approximately 75 percent of the average annual planned demand would 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 and Santa Ynez River Conservation District, Improvement District Number 1 (ID #1). The availability of Cachuma water varies from year to year as a result of weather and drought conditions, runoff, and the effectiveness of the County Cloud Seeding Program. The amount of Cachuma water the community uses can vary annually due to exchange agreements, availability of other supplies and customer demand.

The lack of water from Lake Cachuma reduces the amount of water available for customers, and continues to have an impact on the budget for FY 2016-17. Continued maintenance and investment in the District wells and distribution system are needed to prevent service interruptions, and the energy and financial cost to deliver groundwater is significantly higher.

As previously noted, Cachuma allocations are expected to remain at zero in Water Year 2016-17 (October 1, 2016 to September 30, 2017) for all Cachuma Member Agencies. 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 operation 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.

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 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 levels 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. While the North-Central portion of the Basin is adjudicated, the West portion of the Basin is not. The District intends to form and serve as a Groundwater Sustainability Agency for the unadjudicated portions of the Basin within the District. The District pumps and treats groundwater supplies from the Goleta Groundwater Basin through its eight active groundwater wells. 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, supply usage, 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 to Cachuma supplies as a result of unscheduled maintenance needs, natural disasters or drought conditions. In FY 2016-17, the District plans to utilize approximately 6,800 AFY of groundwater to meet customer demand. In response to current drought conditions, the District is actively investing in increased groundwater production capabilities, with spending expected to total over $13M during the current five-year planning period and $6.1M in FY 16-17. Groundwater augmentation projects are underway at San Marcos and Anita wells, with two small well rehabilitations at Berkeley and Shirrell wells. As a result of these projects an additional 1,350 AF in annual production will be made possible beginning June 2016. The District also plans to build two new wells to increase pumping capacity and groundwater reliability.

Imported Water – State Water Project

Voters authorized the District to join the 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 exchange and sales agreements. The District stores the undelivered portion of its annual entitlement in San Luis Reservoir; this supply is available as a drought buffer and emergency contingency supply. In FY 2015-16, the District took delivery of 1,500 AFY of State Water. The District is currently projecting to receive a 60% allocation of its full State Water entitlement, or approximately 4,470 AFY for FY 2016-17 based on the Department of Water Resources (DWR) December 2014 Delivery Reliability Report. The exchange agreement with ID #1 will likely not occur in FY 2016-17 due to the lack of available Cachuma water. Under this agreement, the District normally 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. 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 largest recycled water customers. The FY 2016-17 Budget anticipates delivering 946 AF of recycled water in the coming year.

Every gallon of recycled water used to irrigate landscaping or flush toilets preserves potable water for drinking, health, and human safety. Recycled water is critical to extending water supplies during the drought.

The District was awarded a $75,000 grant by the State of California in FY 15-16 for a feasibility study to examine opportunities to expand current recycled water use through additional treatment technologies. The study would determine relevant factors for an expanded recycled water use project proposal, while a risk analysis would determine if feasibility criteria conflict with potential project objectives, construction, or operations. Depending on results of the study, the District envisions construction of a potable reuse pilot project that includes a small-scale water treatment facility at GSD. Unutilized recycled water could potentially be treated via microfiltration, reverse osmosis, and ultra violet light with advanced oxidation. The project would determine if purified recycled water could be used for groundwater replenishment, as drinking water, or serve other high quality water uses, such as agricultural use. Programs such as these already exist and have been permitted in California.

This study will be completed by spring 2017 and is a key component in the District's efforts to continue developing sustainable alternative water supplies.

District Customers

Approximately 16,900 customer connections fall into eight categories of customers: Single Family Residential, Multi-Family Residential, Commercial, Institutional, Landscape Irrigation, Urban Agricultural, Goleta West Conduit, and Recycled. Additionally, dedicated fire service lines make up a small portion of individual connections.

Residential customers make up approximately 89 percent of customer connections, with Single Family homes comprising 79 percent of customer connections and Multi-Family dwellings accounting for the balance. The 22,000 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 40-50 percent of annual District water demand. This proportionally low use is largely due to customers' receptiveness to conservation programs. Residential per capita water use in the District averages 65 gallons per person per day under normal conditions, which is almost 50 percent lower than the statewide average. Between June 2015 and Feb 2016 the residential per capita use declined further to an average of 50 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.

Residential per capita use by District customers continues to consistently rank among the lowest on the Central Coast, and across the state.

The remaining half of demand is attributed to non-residential water use with agricultural use accounting for 20-30 percent 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 are heavily influenced by weather patterns while demand changes in the commercial and institutional categories largely follow economic and market trends.

The District has approximately 415 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 revenue from these accounts is budgeted.

The District adopted a moratorium on new water entitlements effective October 1, 2014 due to the ongoing drought. The District anticipates about 170 new connections in FY 2016-17 that are associated with projects that had pre-existing water rights or had secured entitlements in advance of the moratorium. These new connections are primarily multi-family residential, single family residential and dedicated fire line accounts.

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 has been a 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 2010 Water Conservation Plan and 2012 Sustainability Plan provide the foundation for efficient water resource management, along with the District's 2014 Drought Preparedness and Water Shortage Contingency Plan. The Sustainability Plan is updated annually to reflect progress toward the District's sustainability goals.

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, other water saving devices and 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 audits, and an interactive Community Demonstration Garden at District headquarters.
- Four substantial rebate programs for all customer classes to improve water use efficiency, including the Water Saving Incentive Program (WSIP), Smart Landscape Rebate Program (SLRP), Water Budget and Survey Program, and the Cash for Crops Program.
- Customer Scorecard Program with targeted monthly outreach to the largest users in each customer category in the form of letters, phone calls, postcards and free water conservation checkups.

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, and they responded to more than 812 after-hours service calls in 2015.

Staff is available during business hours to provide assistance and support to District customers in person or on the phone. Customers can also gain access to their accounts and make payments online at any time. Members of the community are encouraged to visit District headquarters and tour the Demonstration Garden featuring examples of waterwise gardening techniques and practices, aesthetically pleasing plant palettes and food-production 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 maintaining low costs and predictable customer rates. Each year, the Board of Directors approves the Budget for the following fiscal year, which runs from July 1 through June 30. The Budget couples 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 mid-term 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 outside factors that are beyond the District's control. Together with the adopted 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.

As water supply sources change due to drought, investment in the District's infrastructure has been targeted to support the groundwater wells and distribution system to ensure continued reliable service to customers.

The District continues to make significant advances in addressing critical water resource and infrastructure needs. FY 2015-16 included investments in replacement and repairs of vital groundwater production and distribution system infrastructure, and plans were developed to meet future infrastructure needs. The FY 2015-16 Budget Year saw estimated actual revenues of $39.9M and expenditures of $38.0M with $1.9 M being available for reserve designation. The unanticipated revenue during FY 2015-16 was a direct result of the dry weather conditions which continued to drive higher than anticipated customer water use during the drought.

Key accomplishments in the areas of water supply sustainability, resource management and infrastructure improvement in FY 2015-16 secured the District's ability to continue to reliably serve water to customers during the severe drought. The District successfully completed a number of Board-identified initiatives during the fiscal year to modernize District operations and lay the groundwork for providing water resources to the community for decades to come.

A number of water saving and drought related projects were completed in FY 2015-16. Highlights include:

- Rehabilitation of Berkeley and Shirrell, the two highest producing of the District's four small wells. These wells had not been in production since 1992 during the last drought. As a result of the projects, well capacity was increased by an additional 850 AFY. For the two smaller wells, Oak Grove #2 and Santa Barbara Corporation Well, initial pump and water

quality tests, as well as preliminary design and cost engineering, were completed to provide a plan for returning the wells to service. This will allow the District to determine whether resources should be dedicated to bringing these wells online, or redirected to other projects within the District well portfolio that can yield higher production and increase reliability at the same or lower cost.

- Upsizing of pumps and equipment at the San Marcos and Anita Wells has facilitated an increase in production capacity by 950 AFY. These improvements were part of a strategy developed to prioritize water-producing projects at current wells that could readily be modified to increase production. The increased production capacity is the equivalent of bringing a new well online two years sooner, and at a quarter of the cost of a new well.

- To handle the increased volume of water from the larger pump at Anita, a larger booster pump was installed at the San Ricardo Well site since water from Anita is sent to that well for treatment. The new pump, adjustable frequency drive, piping modifications, electrical power & controls, and instrumentation will allow both wells to simultaneously operate at maximum capacity.

- Installation of Advanced Metering Technology on 1,558 large and commercial meters (no Single Family residential meters), to provide for increased control and monitoring of operational and water quality issues in the distribution system that have arisen as a result of the drought. This program will cover 23 pressure zones within the District's potable system, 100% of the meters on the Goleta West Conduit, and 100% of the meters on the Recycled Water System, representing 65% of total usage in the District, and the highest variability in usage.

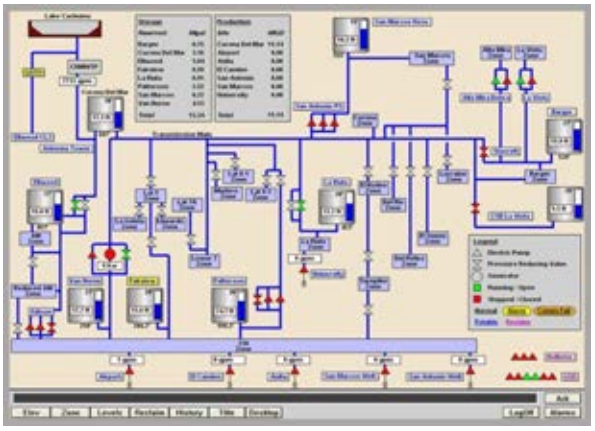
- Completion of the San Antonio Well upgrades, filtration system rehabilitation, and architectural site improvements.

Several key water treatment projects, operational efficiency upgrades, and sustainability projects were also competed. Highlights include:

- Low Flow Process Improvements at the Corona Del Mar Water Treatment Plant (CDMWTP) to allow the plant to handle reduced flows from Lake Cachuma typical under drought conditions. As the District has shifted to groundwater to meet customer needs a new operational plan and control logistics were needed to efficiently handle low volumes of water through the plant. The new 18 inch control valve and meter will provide controlled flow rates down to a minimum of 1 million gallons per day.

- The emergency booster station pumps at Edison and Patterson were upgraded with the addition of two new pumps and two refurbished pumps. These pumps are critical to moving large volumes of groundwater across the distribution system, and to serve customers at higher elevations.

- Cleaning of four storage reservoirs was completed using divers to minimize water loss and down time. Large mixers and aeration facilities were also installed at two of the District's storage reservoirs to maintain water quality.



- Ongoing updates were made to the District's Geographic Information System (GIS) used for projects and asset management.

- Improvements were made to the District's Supervisory Control and Data Acquisition (SCADA) system to enable continuous monitoring at the emergency interconnections and the booster stations that move water to the upper level zones.

- A comprehensive Customer Class Scorecard Program was developed to target outreach to the largest water users in each customer class. The program includes postcards to promote rebate programs and water conservation checkups, as well as monthly letters and phone outreach to the customers using more than five times their class average who also increased 5% or more that month. Drought Portals with information on customer class usage patterns, water savings to date, conservation tips, and rebate programs, are updated monthly for each customer class.

FY 2016-17 Budget and Key Initiatives

The FY 2016-17 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 approach to control costs, minimize unplanned expenditures, limit risk exposure and expand investment in projects and programs that provide for the long term resource needs of the community.

The FY 2016-17 Budget is balanced with an anticipated $44.2M in revenue and transfers, and about $44.2M in capital and operational expenditures. The spending plan reflects the increased expenses of supplying an adequate supply of water to customers during a drought, with a significant but necessary investment in the District's wells and distribution system. New rates reflecting the second year adjustment under the cost of service study completed in FY 14-15 went into effect July 1, 2015. The temporary drought surcharge remains in effect. The rate structure and accompanying drought surcharges are designed to generate sufficient revenue to meet the District's operating requirements regardless of the level of drought emergency. This funding allows the District to have a balanced budget despite significant onetime costs to purchase water and increased legal expenses associated with protecting the Goleta Groundwater Basin. Table 1.1 provides an overview of the FY 2016-17 Budget. The balance of this document provides detailed analysis of projected revenues and expenditures.

Table 1.1 FY 2016-17 Budget Overview versus FY 2015-16 Budget

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue and Transfers:					
Rate-Based Revenue	$ 36,574,818	$ 39,046,818	$ 39,070,086	$ 2,495,268	7%
New Water Supply Charges	0	0	0	0	0%
Other	2,568,827	893,559	5,143,981	2,575,154	100%
Total Revenue and Transfers:	**$ 39,143,644**	**$ 39,940,376**	**$ 44,214,066**	**$ 5,070,422**	**13%**
Expenditures:					
Water Supply Agreements	$ 13,583,194	$ 14,588,268	$ 12,735,502	$ (847,692)	(6%)
Personnel	8,851,417	9,063,107	9,213,836	362,419	4%
Operations & Maintenance Costs	7,382,370	7,425,774	8,442,292	1,059,922	14%
Debt Service	3,555,163	3,556,311	3,557,088	1,926	0%
Capital Improvement Projects (CIP)	5,771,501	3,360,617	10,265,348	4,493,848	78%
Total Expenditures:	**$ 39,143,644**	**$ 37,994,077**	**$ 44,214,066**	**$ 5,070,422**	**13%**
Designation to Reserves:	**$ 0**	**$ 1,946,299**	**$ 0**	**$ 0**	**0%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

FY 2016-17 Budget Key Initiatives

The FY 2016-17 Budget includes a portfolio of ongoing and new initiatives that, in combination, will meet the District's 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 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 the fifth year of a historic drought, the FY 2016-17 Budget includes continued drought planning, including water supply and demand modeling, demand management activities and water shortage contingency planning and implementation. This Budget provides for critical investment in the District's wells, which continue to serve as the primary source of water for customers. Gaining access to the water in the District's groundwater basin involves maintaining a complicated network of 9 active wells (as of July 2016), along with a distribution system, all of which contain a significant amount of mechanical equipment. Funding is also budgeted to cover the increased energy costs of delivering water during a drought, and in the five year capital plan to adapt the current distribution system with the upgrades necessary to ensure groundwater can be reliably delivered to customers with minimal service interruptions. Enhanced public outreach activities will continue to help customers understand the current water supply situation and how they can further reduce water use to ensure the District can continue to provide adequate water to the Goleta Valley community for drinking, health and human safety.

Cachuma Project Supply and Water Rights

The District continues to work with the Cachuma Conservation Release Board (CCRB) and the Cachuma Operation and Maintenance Board (COMB) on issues related to the issuance of a Cachuma Project Water Rights Order and the National Marine Fisheries Service (NMFS) Biological Opinion Reconsultation. The District and its partner agencies are conducting biologic studies 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. While the ultimate decision on how the Cachuma Project will be operated moving forward rests with the federal government, the District is doing everything possible to represent District customers' interests and protect the District's water supplies.

Resource Management and Stewardship

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

Sustainability Plan Implementation

Several projects budgeted for the FY 2016-17 Budget are directly tied to the guiding principles adopted by the Board of Directors as part of the 2012 Sustainability Plan. Projects include: the installation of new energy efficient well motors and pump stations; fleet vehicle replacements to improve efficiency and reduce the fleet's carbon footprint; storm water improvements such as a bio-swale at the District Headquarters to improve water quality. These projects will provide improvements needed to meet new regulatory requirements, while providing economic benefits in the form of reduced energy costs, minimizing impacts to natural resources, and supporting a healthy community.

Coordinated Energy Management

Power costs to move groundwater during the drought 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 performance metrics, implement appropriate automatic 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 District Sustainability Plan regarding energy use.

Technology Infrastructure Improvement

Ongoing investment in maintaining and improving the District technology infrastructure is just as important to efficient service delivery as investing in water supply infrastructure. From finance, asset management 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 delivery of safe, reliable and cost-effective water supplies.

With the District dependent on groundwater as the primary supply source for customers, technology upgrades provide critical tools for enhanced management of a dynamic and changing system.

Investment in technology provides for the real-time system management needed to react to unanticipated supply and demand changes, especially in times of drought. Given the criticality of moving groundwater throughout the system, the ability to monitor and control the system from a centralized location, and coordinate treatment and distribution across a complex system of assets that will ultimately include 11 total groundwater production wells, the CDWMTP, and the recycled water system is crucial. 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. These investments also provide for increased energy efficiency, reduced maintenance costs, minimization of unanticipated interruptions and abnormal wear, and prevention of serious health and safety issues.

Additionally, investment in technology is needed when software is no longer supported, or hardware becomes obsolete. In FY 15-16 the District completed the Upgrade of the GIS Server, including the existing ArcGIS Desktop 9.0, ArcGIS Spatial Database Engine 9.0 along with associated Microsoft SQL Server Database and ArcGIS Intranet Mapping System (IMS) 9.0. The transition allowed the District to create custom tools for conservation and daily operations across departments.

Infrastructure Improvements and Planning

Comprehensive infrastructure planning and investment is critical to the ongoing reliability of the distribution and treatment system. Projects in this category are critical during the drought, and also improve the financial certainty and predictability of operating and maintaining District facilities.

Distribution and Treatment System Improvements
The District distribution system includes approximately 270 miles of pipelines, 6,000 valves, 1,400 fire hydrants, 16,900 meters and more than 30,000 appurtenances. The ages and materials of District facilities vary greatly and, in turn, the current condition and failure risk associated with these facilities varies as well. As the use of groundwater increases a number of modifications and facility upgrades are necessary to adapt the existing system to changing water supply sources.

The FY 2016-17 Budget includes several distribution system upgrades to ensure an adequate supply of water for drinking, health and human safety. Additionally, the FY 2016-17 Budget anticipates investment in system repair and replacement projects in response to equipment failures consistent with the age and condition of the District's assets. These investments minimize the financial and water supply impacts of infrastructure failures.

Infrastructure Improvement Projects include:

- Completion of augmentation work at San Marcos to increase groundwater production and reliability. Remaining master plan improvements of above grade wellhead work will be addressed as part of a comprehensive design effort focused on the existing wells, and associated equipment to maintain and maximize groundwater production capabilities.
- Construction of a new Patterson pump to right-size a pumping station that originally served as an emergency backup to deliver groundwater when flows from Lake Cachuma were interrupted, but now operates full time to deliver groundwater to customers. This project will replace the existing emergency pumps with more efficient and reliable pumps, motors and electrical equipment adequate for their modern function and purpose.

- The District is in the process of working with property owners to acquire easements for two new wells on sites that were identified during the preliminary review completed in FY 2015-16.
- CDMWTP facility improvements including construction of Sludge Drying Bed #3, and a Chemical Tank Safety Platform to improve efficiency of inspection and maintenance.
- Upgrades to the recycled water system to support distribution, improve operational efficiency and extend asset life.
- Installation of bio-swales in the District Operations yard to comply with new State storm water regulations by capturing, filtering and reducing runoff.
- Continued replacement of small meters, water mains, valves and hydrants, polybutylene service lines and copper service lines.
- Valve installations and replacements for pressure regulation, system isolation and monitoring.

A Look to the Future

The FY 2016-17 Budget recommends expenditures based on prioritized District needs, goals, 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 the roadmap for preparing and addressing the ongoing needs of the community in the coming fiscal year.

Even the most effective forecasting cannot anticipate the impact of uncontrollable circumstances on revenues and expenditures as well as the ability to provide safe, cost-effective, sustainable water supplies to the community. There are a variety of externalities that may have significant impacts on the District in FY 2016-17 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 2016-17 Budget maximizes the ability to respond to external circumstances while minimizing impacts to customers.

Examples of externalities facing the District include:

- The prolonged drought continues to present significant challenges to the District's water supply. The District expects to receive a zero percent allocation from Lake Cachuma for the next water year starting October 1, 2016 for the second year in a row. The District will continue to make up this loss with water from the Goleta Groundwater Basin; however, keeping the wells operating requires significant maintenance and investment. District's annual operating cost to extract water from the basin has increased proportionally to the amount of water needed from the wells to balance the overall supply with customer demand. The

ability to extract and distribute enough groundwater to meet customer needs is dependent on key infrastructure investment to enhance reliability.

- Continued challenges of delivering water through the Tecolote tunnel. As Cachuma Lake levels have declined to below 15%, the pumping barge has already had to be relocated to continue to move water into the intake tower that delivers supplies to the South Coast. After several years of severe drought the lake no longer serves as a main source of supply, but as a conveyance facility for the State Water Project, carryover water and any supplemental water purchases. Thus, maintaining delivery capabilities via the pumping station provides an important lifeline to the community. The cost to relocate the pumping barge was $903,000, which was shared by each of the benefiting COMB Member Agencies. It is anticipated that in FY 2016-17, the District will continue to incur operating costs related to this project.

- The planned well and distribution system projects will improve the reliability with which the District can provide groundwater to customers. Groundwater is pumped through 23 pressure zones, and even uphill to many customers. Maintenance and replacement of aging distribution equipment is needed to ensure system reliability.

- The District will continue to focus strongly on conservation outreach, and incentive based programs to reduce customer demand in response to drought conditions as they develop in the coming months, dedicating over $160K to these critical activities in FY 2016-17.

- Anticipated action on the Cachuma Project State Water Rights Order and Federal Biological Opinion Reconsultation during FY 2016-17 may significantly affect available Cachuma Project water supplies for the Cachuma Member Agencies. Structural reductions in water entitlements 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 Member Agencies to implement proactive scientific advocacy and legal strategies to protect Cachuma water supplies and plan for all potential outcomes.

- State Water Project (SWP) supplies continue to face threats from a variety of sources, potentially resulting in increased costs and reduced availability. 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 BCDP 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 District is currently conducting a Recycled Water Feasibility Study to explore the expanded use of recycled water, and developing a Stormwater Master Plan to identify opportunities for large scale rainwater capture.

- 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.

- The District has provided water service to the community for over 70 years; with each passing year 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 2016-17 Budget includes the minimum funding necessary to allow the District to respond to system failures and minimize the impacts of such events.

- The provisions of the 1989 Wright Judgment and 1991 SAFE Ordinance provide a framework for maintaining reliable groundwater supplies from the Goleta Basin, but the Goleta Groundwater Basin faces potential threats similar to many urbanized basins throughout California. The increased reliance on groundwater during this time of drought has made the stewardship and management of the groundwater basin a priority. The District is currently in litigation to stop a private landowner's plans to export water from the watershed. That landowner action, if allowed to go forward, could negatively affect the District's groundwater resource into which ratepayers have invested millions of dollars. The District also invests in its groundwater modeling and monitoring program to better inform daily well operations and basin-related capital planning. Seawater intrusion, agricultural and urban runoff and over-pumping are examples of factors that could also adversely affect the quality and quantity of water available from an underground basin.

- 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 legislators and regulators enact new requirements. 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.

The FY 2016-17 Budget is the second year of the current five year financial cycle and shows how the District will build, maintain and manage the assets needed to produce, treat and distribute water during this historic drought while keeping costs as low as feasible. By identifying, understanding and planning for these external risks, the District can limit its exposure, exert its power to influence outcomes and effectively prepare for the ongoing water resource needs of the region while managing future costs and providing reliable services even as external conditions change. The FY 2016-17 Budget, shown in Table 1.2, provides the foundation for the innovative leadership to meet water supply, regulatory and infrastructure needs and provide customers with exceptional service and sustainable rates for years to come.

Table 1.2 FY 2016-17 Budget Summary

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue and Transfers:					
Monthly Service Charges	$ 9,133,715	$ 8,814,715	$ 9,106,773	$ (26,941)	(0%)
Water Sales	27,441,103	30,232,103	29,963,312	2,522,209	9%
New Water Supply Charges	0	0	0	0	0%
Investment Revenue	23,517	62,517	60,000	36,483	155%
Conveyance Revenue	124,582	116,582	120,991	(3,591)	(3%)
Miscellaneous Fees & Charges	808,460	714,460	1,044,420	235,960	29%
Subtotal:	**$ 37,531,376**	**$ 39,940,376**	**$ 40,295,496**	**$ 2,764,120**	**7%**
Transfers:					
Designation from Reserves	$ 1,612,268	$ 0	$ 3,918,570	$ 2,306,302	143%
Total Revenue and Transfers:	**$ 39,143,644**	**$ 39,940,376**	**$ 44,214,066**	**$ 5,070,422**	**13%**
Expenditures:					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,120,807	$ 2,639,019	$ 3,197,321	$ 76,514	2%
CCRB (Water Rights)	425,000	318,750	500,000	75,000	18%
SB County (Cloud Seeding)	40,000	51,855	50,000	10,000	25%
CCWA (State Water Deliveries)	9,320,757	10,996,962	8,311,551	(1,009,206)	(11%)
GSD (Recycled Water Production)	676,630	581,682	676,630	(0)	(0%)
Subtotal:	**$ 13,583,194**	**$ 14,588,268**	**$ 12,735,502**	**$ (847,692)**	**(6%)**
Personnel:					
Wages, Benefits, and Taxes	$ 8,462,071	$ 8,666,081	$ 8,809,808	347,738	4%
Other Post Employment Benefits	389,346	397,026	404,028	14,682	4%
Subtotal:	**$ 8,851,417**	**$ 9,063,107**	**$ 9,213,836**	**$ 362,419**	**4%**
Operations & Maintenance:					
Water treatment costs	$ 304,225	$ 414,552	$ 427,088	$ 122,863	40%
Water treatment testing	198,649	$ 208,506	263,300	64,651	33%
Insurance, Accounting & Auditing	308,322	$ 241,094	260,624	(47,698)	(15%)
Maintenance & Equipment	669,938	$ 871,172	898,183	228,245	34%
Legal	1,012,400	$ 1,611,039	1,336,501	324,101	32%
Services & Supplies	4,078,437	$ 3,234,816	4,382,763	304,326	7%
Utilities	810,399	$ 844,595	873,833	63,434	8%
Subtotal:	**$ 7,382,370**	**$ 7,425,774**	**$ 8,442,292**	**$ 1,059,922**	**14%**
Total Expenditures before Debt and CIP:	**$ 29,816,981**	**$ 31,077,149**	**$ 30,391,630**	**$ 574,649**	**2%**
Debt service	3,555,163	3,556,311	3,557,088	1,926	0%
Capital Improvement Projects (CIP)	5,771,501	3,360,617	10,265,348	4,493,848	78%
Total Expenditures:	**$ 39,143,644**	**$ 37,994,077**	**$ 44,214,066**	**$ 5,070,422**	**13%**
Designation to Reserves:	**$ 0**	**$ 1,946,299**	**$ 0**	**$ 0**	**0%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

SECTION II – REVENUE and TRANSFERS

Introduction

The District provides water service to approximately 16,900 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 the normal delivery of potable water.

The District receives 97% of its revenue from regular monthly charges for water service consisting of fixed Monthly Service Charges (23%) and Water Sales (74%). Monthly Service Charges represent the customer's portion of the fixed costs of operating and maintaining the distribution system, and providing customer service. These charges are assessed on a monthly basis depending on the size of the meter, which can range from 5/8 inch to ten inches. These charges also depend on monthly water consumption for customers with 5/8 inch or 3/4 inch meters. Water Sales, or consumption-based charges, are based on the actual amount of water delivered to each customer, measured in increments of one hundred cubic feet (HCF) or 748 gallons.

The amount of revenue the District receives from Water Sales varies for each customer category based on the cost of providing service to that customer class. Also taken into consideration in forecasting revenue is the number of customers consuming water at a conservation level. The District offers tiered rates to Single Family residential customers; this provides the first six HCF each month at a lower rate, the next 10 HCF at a mid-rate and all additional use at a higher rate.

In addition to the rates associated with each customer type, historical sales data are used to project the amount of water supplied to customers by the District each year, and in turn, the projected sales revenue. Over the past three years the District averaged sales of approximately 13,560 AFY of water, which is equivalent to 5.9 million HCF or 4.4 billion gallons. Sales trended upward noticeably from Fiscal Year 2012-13 to Fiscal Year 2013-14 in response to persistent drought conditions and the improving economic environment, with an increase in overall water sales of approximately 9 percent or 1,226 AFY (illustrated in Figure 2.1). That trend reversed in Fiscal Year 2014-15 with the statewide drought declaration, and Stage II and Stage III Water Shortage Emergencies declared by the District reducing total use by 21 percent. Both the state and the District declarations also included mandatory water use restrictions. Overall water use remained relatively flat from Fiscal Year 2014-15 to Fiscal year 2015-16; however, the District anticipates a 7 percent decrease in Fiscal year 2016-17 due to increased customer conservation as the drought continues and the drought surcharges remain in place.

This Budget uses a baseline of 10,938 AF to forecast Water Sales and revenue in the coming year. That number was calculated using the District's drought model that incorporates projected water supply and demand data. In addition to the baseline, key factors that may influence projected sales-based revenue were taken into account, including new development and drought-related behavioral changes in water use. Although the impact of these factors will vary considerably across customer categories, each factor contributes to the year-

over-year change in water use, and subsequent revenue projections. The remaining three percent of Budgeted Revenue results from Investment Revenue, Conveyance Revenue and Miscellaneous Fees and Charges. Table 2.1 describes the components used to develop the FY 2016-17 Revenue forecast for Monthly Service Charges and Water Sales.

Figure 2.1 District Five-Year Water Sales

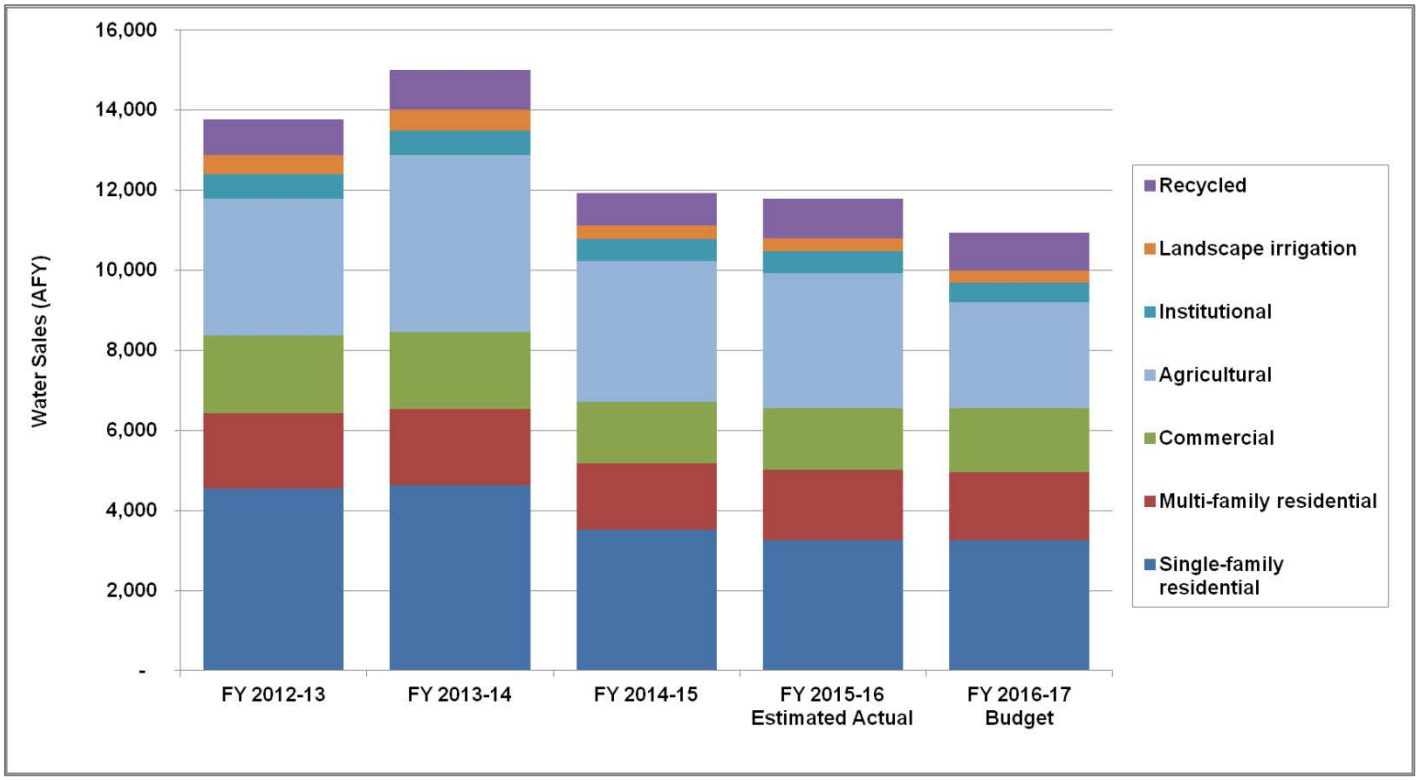


Table 2.1 FY 2016-17 Budget Methodology

Description	Definition
Baseline Revenue	FY 2016-17 Budgeted Monthly Service Charges and Water Sales Revenue includes the 3% rate increase authorized in the five-year financial plan. Water rates assume a Stage III Drought declaration for the entire budgeted year.
Influencing Factor:	
New Development	Value of new connections as projects are completed that had pre-existing water rights or secured water entitlements before the moratorium was instituted in 2014.
Meter Changes	Effect of meter downsizes resulting from the large meter replacement program and day-to-day operations. Also includes customers with 5/8" or 3/4" meters decreasing consumption to achieve a lower meter billing tier, which has a similar revenue impact as a meter downsize.
Behavioral Changes	Anticipated impact of customer water use behaviors and conservation measures during dry weather conditions, reaction to water and fixed-charges rates modifications, and reaction to drought surcharges. Total projected water use by customer classification is consistent with the District's Drought Model.

RATES-BASED REVENUE

Revenue derived from rates is comprised of two categories: the fixed Monthly Service Charge and Water Sales. The amount of revenue the District receives from water service is primarily based on the number of customers by customer category, size of each connection, and the rates associated with each customer category. Additionally, the projected FY 2016-17 Revenue from water service is influenced by several key factors affecting water use in the region, including new development, meter changes, participation in conservation, and behavioral changes in water use during drought conditions. Table 2.2 provides a summary of the types and number of District connections by customer category, by which base revenue is derived.

Table 2.2 Types and Number of District Customer Connections

	Meter Size		
Customer Category	3/4 or 5/8-inch	1-inch to 10-inch	Total
Single-family residential	12,098	1,198	13,296
Multi-family residential	1,055	665	1,720
Commercial	400	650	1,050
Agriculture	2	160	162
Institutional	-	7	7
Landscape irrigation	99	142	241
Recycled	6	36	42
Fire	338	76	414
Total Connections:	**13,998**	**2,934**	**16,932**

Monthly Service Charge

Based on the current rate structure and projected water demand during a Stage III drought, approximately 23% of total District revenue will come from the Monthly Service Charge. All active water service connections pay a Monthly Service Charge based on the size of the connection. About 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 set of 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 in turn, require larger meters.

As part of its drought response actions in FY 2016-17, the District will continue to support water use efficiency by offering extensive information resources and incentive programs. By reducing non-essential outdoor water use, supplies can be preserved for essential health and safety needs.

Designed to encourage conservation, price incentives are provided for all customers with 5/8" or 3/4" meters who demonstrate conservation in water use. Tier 1 applies to customers using between zero (0) and six (6) HCF in a month. Customers using seven (7) to sixteen (16) HCF in a given month are eligible for Tier 2. Those consuming over sixteen (16) HCF of water in a month are charged the Tier 3 rate. This is a change from the prior rate structure that provided tier one charges to customers with a twelve-month average usage below 5 HCF, tier two charges for customers with a twelve-month average from 5 to 8 HCF, and tier three charges to all other customers with 5/8" or 3/4" meters.

A number of factors influencing the District's base revenue from the Monthly Service Charge are taken into consideration in this Budget. For example, new construction projects ranging from Single Family residential connections to lot splits and other commercial developments are projected to provide approximately 372 new connections, including 114 dedicated fire service lines, resulting in an increase to revenue. Various meter changes such as the removal or replacement of existing meters will also have an effect on the amount of revenue the District receives. Another measurable influencing factor to revenue is customers' participation in conservation, particularly to the extent customers with 5/8" and 3/4" meters successfully lower their tiered meter charge.

Single Family Residential

With approximately 13,300 Single Family residential meters ranging in size from 3/4 or 5/8 inch to two inches, this customer category accounts for nearly 79 percent of the District's total connections. About 91 percent of Single Family residential meters are standard 3/4 or 5/8 inch, whereas large parcels are served by larger meters, typically one inch in size.

Factors influencing Single Family residential revenue include new connections from previously approved projects, meter changes and conservation. Nineteen percent of total new connections in FY 2016-17 are expected to be in the Single Family-residential sector. The connections for Single Family residential customers include new lots and small residential subdivisions, which are projected to increase overall revenues by $8K.

Of the population eligible for conservation incentives, 86 percent are Single Family residential customers. Analysis shows that based on monthly consumption for 2015 over 90 percent of Single Family monthly service charges for customers with 3/4 or 5/8 inch meters would have been eligible for either a Tier 1 or Tier 2 charge. Specifically, 51 percent would have been eligible for Tier 1 and 41 percent for Tier 2 (conservation pricing by monthly use did not apply until July of 2015; for the first six months of 2015 conservation pricing was based on the 12 month rolling average).

According to the 2015 Santa Barbara Real Estate and Economic Outlook (Economic Outlook), the Single Family residential market is continuing to experience a steady increase in conventional sales and median home prices, a direct result of fewer foreclosures and distressed properties. The FY 2016-17 Budget forecasts stable Single Family residential vacancies at slightly less than half a percent.

More customers have qualified for conservation pricing than projected in the FY 15-16 Budget, which is anticipated to reduce revenue by $238K in FY 2016-17. That will be partially offset by a $146K increase in revenue resulting from new connections and the scheduled 3 percent rate increase. The FY 2016-17 Budget anticipates $4.5M in Monthly Service Charge revenue from Single Family residential customers.

Multi-Family Residential

The Multi-Family residential customer category is the second largest customer type, representing about 10 percent of District connections, with over 1,700 meters. Meter sizes vary considerably from 3/4 or 5/8 inch meters to eight inch meters. While 61 percent of customers have 3/4 or 5/8 inch meters, a greater percentage of Multi-Family residential customers have much larger meter sizes compared to Single Family residential. Depending on the size of the development, a single meter can serve up to an entire complex with many units; while some Multi-Family residences are individually metered. In the concentrated community of Isla Vista, directly adjacent to the UCSB campus, more than 86 percent of the total housing units are attached structures with two or more units. A large percentage of these housing complexes have 20 or more units, according to the 2010 U.S. Census Bureau's American Community Survey.

New Multi-Family residential connections in FY 2016-17 include new student housing in Isla Vista and master-metered residential projects including the Cavaletto Tree Farm and Village at Los Carneros projects. New connections are expected to increase revenue from fixed charges by $28K in FY 2016-17 based on their projected completion dates. This translates to a $71K annual increase to Multi-Family residential Monthly Service Charge revenue in the future.

Approximately 85 percent of Multi-Family customers with 3/4 or 5/8 inch meters now use water at a conservation level, and receive a reduced Monthly Service Charge: 52 percent use water eligible for the Tier 1 rate; and 33 percent use water at the Tier 2 rate.

The Multi-Family vacancy rate is projected to remain constant as the housing market has returned to a steady state after years of post-recession growth. The City of Goleta has returned to under a one percent vacancy rate. Based on these indicators, the Budget does not project revenue growth based on lower vacancy rates. In total, the influencing factors of new connections, the 3 percent rate increase and higher levels of customers receiving conservation meter charges are estimated to add $16K to baseline Monthly Service Charge revenue, resulting in a total of $1.6M in revenue from Multi-Family residential customers.

Commercial

The Commercial customer category is comprised of 1,050 meters, representing 6 percent of total connections in the District. Commercial customers are the only service category to include active meters of every size available as demands for this customer type vary considerably among different-sized businesses and diverse industries. Meter sizes range from smaller-volume 3/4 or 5/8 inch meters to the largest, high-volume 10 inch meters. Of the 1,050 Commercial meters, 650 are one inch or greater.

New commercial connections in FY 2016-17 are limited to seven new meters that will increase revenue by an estimated $1K in Monthly Service Charges.

Approximately 81 percent of Commercial customers with 3/4 or 5/8 inch meters use water at a conservation level; 61 percent receive a reduced Monthly Service Charge at the Tier 1 rate and 20 percent receive a reduced Tier 2 rate. Although a majority of smaller-sized Commercial customers are projected to use water at a

conservation tier, this is a decrease from projections for FY 2015-16. This is estimated to increase revenue in FY 2016-17 by $45k.

Historically high vacancy rates in the Commercial sector have decreased the past several years in the City of Goleta, according to the Economic Outlook. The office vacancy rate has dropped to approximately 7 percent, a decrease of nearly 5 percent from two years ago. Industrial vacancies on the South Coast are below four percent, the lowest levels since the onset of the economic downturn in the winter of 2008. The industrial market vacancy rate in the City of Goleta is under 2 percent. The Budget does not project a change in revenues in FY 2016-17 based on vacancy rates.

In total, Monthly Service Charge revenue is expected to increase by $95K to $1.7M for Commercial customers. This includes a $1K increase for new connections, a $49K increase for the 3 percent rate increase and a $45K increase based on how many customers are expected to qualify for each conservation tier.

Urban Agriculture

The District has a total of 91 Urban Agricultural customers with 138 meters; representing about 0.8 percent of all District connections. This customer category is mostly comprised of meters two inches in size, but range from as small as 3/4 inch to as large as four inches. The Agricultural industry generally does not experience changes to its customer base, and there are no new meter connections expected during FY 2016-17. Total Monthly Service Charge revenue in FY 2016-17 from Urban Agricultural customers is estimated to be $309K.

Goleta West Conduit

The District has 19 agricultural customers on the Goleta West Conduit with a combined 24 meters; representing less than 0.2 percent of all District connections. This customer category is mostly comprised of meters two inches in size, but range from as small as one inch to as large as six inches. No new meter connections are expected on the Goleta West Conduit during FY 2016-17. Total Monthly Service Charge revenue in FY 2016-17 from Goleta West Conduit customers is estimated to be $94K.

Institutional

Institutional customer connections are master meters that provide water to multiple facilities. All seven of the institutional connections are UCSB master meters providing water for various campus operations. There are two 1 1/2 inch meters and two 2 inch meters. The other three meters are six, eight and ten inches, respectively. Two meters were recently downsized from 2 inches to 1 1/2 inches, resulting in a $2K reduction in revenue while the 3 percent rate increase will increase revenue by $4K. Total Monthly Service Charge revenue in FY 2016-17 from the Institutional customer category is projected to be $120K, with the number and size of meters expected to remain the same throughout the year.

Landscape Irrigation

With about 240 meters ranging in size from 3/4 or 5/8 to four inches, Landscape Irrigation customers represent less than 1.5 percent of total District connections. Construction of previously approved projects involving dedicated landscape irrigation meters include Single Family, Multi-Family and commercial projects, contributing 44 new meter connections and $12K in fixed revenue. Total Monthly Service Charge revenue in FY 2016-17 from Landscape Irrigation is estimated to increase by $18K to a total of $289K.

Recycled

The District has 42 Recycled meters. Meter sizes range from 3/4 or 5/8 inch to eight inches. Five new Recycled meter connections at Multi-Family residences will contribute to a $1K increase in Monthly Service Charge revenue in FY 2016-17. A significant decrease of $76K is expected due to meter downsizes that occurred primarily as part of the large meter replacement program. Total Monthly Service Charge revenue in FY 2016-17 from the Recycled customer category is estimated to be $373K.

Summary – Monthly Service Charges

In conclusion, the $9.1M of projected FY 2016-17 Monthly Service Charge Revenue is established based on the $9.1M estimated in the FY 2015-16 adopted Budget serving as a baseline from which the various influencing factors largely offset each other for a net decrease of $27K as shown in Table 2.3.

Table 2.3 Budgeted Fixed Revenue and Influencing Factors

		Influencing Factor				
Customer Category	FY 2015-16 Budget Baseline Revenue	New Development	Rate Change	Meter Changes	Net Incr. / (Decr.)	FY 2016-17 Budgeted Fixed Revenue
Single-family residential	$ 4,619,056	$ 7,530	$ 138,572	$ (238,485)	$ (92,383)	$ 4,526,673
Multi-family residential	1,599,870	28,267	$ 47,996	$ (60,572)	15,691	1,615,561
Commercial	1,629,145	1,144	$ 48,874	$ 44,788	94,806	1,723,951
Agriculture-Urban	313,189	-	$ 9,396	$ (13,190)	(3,794)	309,395
Agriculture-Goleta West Conduit	95,581	-	$ 2,867	$ (4,025)	(1,158)	94,423
Institutional	118,145	-	$ 3,544	$ (1,510)	2,034	120,179
Landscape irrigation	270,620	11,892	$ 8,119	$ (1,736)	18,275	288,895
Recycled	435,575	915	$ 13,067	$ (76,476)	(62,494)	373,081
Fire	52,534	6,159	$ 1,576	$ (5,654)	2,081	54,615
Total:	**$ 9,133,715**	**$ 55,907**	**$ 274,011**	**$ (356,860)**	**$ (26,942)**	**$ 9,106,773**

Water Sales

The largest source of District revenue is Water Sales, billed according to the actual volume of water consumed by the customer. Water rates are structured based on the customer type and unique water needs of that category. The amount and type of water use across categories can vary significantly given the widely divergent dynamics associated with each type of customer. For example, water production data provides evidence that District customers are generally very responsive to weather conditions. Water production increases significantly

during warm and dry weather conditions as customers are more reliant upon water provided by the District in the absence of rain. During the fall, winter, and spring months with their cooler temperatures and appreciable rainfall, the amount of water provided by the District is significantly reduced as landscapes need less irrigation. This variability in customer water demands throughout the year produces similar patterns of cash flow from Water Sales revenue, the timing of which must be incorporated into expenditure plans.

Following one of the driest two-year periods on record in 2013 and 2014, below normal rainfall continued through 2015. Rainfall in the Goleta Valley in calendar year 2015 was only 5.55 inches. Due to the ongoing dry conditions, the District formally declared a Stage III water shortage emergency in May 2015 and is encouraging customers to reduce water use by 35 percent through targeted outreach, mandatory water use restrictions and the updated rate structure. There was a significant decrease in base water revenues in FY 2014-15, FY 2015-16 and again projected for FY 2016-17 compared to normal conditions as customers have conserved in response to the drought. In FY 2015-16 and FY 2016-17, these base revenue losses are offset by drought surcharge revenue, which is a subset of total Water Sales. Based on the current projected water supply, the District is positioned to stay in a Stage III Drought condition for all of FY 2016-17. Conservation is critical to continue to provide safe and reliable water to customers for drinking, health, and safety.

As Figure 2.2 displays, there is a strong correlation between rainfall and water production. The amount of rain in FY 2016-17 will have a significant impact on overall Water Sales revenue; either positively or negatively.

Figure 2.2 Daily Water Production and Rainfall in 2015

In forecasting the amount of revenue received from Water Sales, consideration is also given to the number of residential customers able to sustain a conservative level of water use. The District's new rate structure provides a lower rate for the first 6 HCF of water use each month. This covers basic indoor use for the average District household. A mid-tier rate applies for the next 10 HCF of use each month and provides for a low or mid-tier rate up to average summer use of 16 HCF per month. The highest rate applies to all use above 16 HCF per month. It is anticipated, based on 2015 water use, that 55% of Single Family residential water use will be within Tier 1, 30% will be in Tier 2 and 15% will be in Tier 3.

Understanding water use across customer categories is vital to projecting annual and monthly revenue which, in turn, influences the timing and levels of project and program expenditures. Customer water use behaviors vary across categories and throughout the year; however, water use is more consistent throughout the year now that many customers have reduced outdoor watering during the summer months. These behaviors have a direct impact on fluctuations in Water Sales and revenue. The FY 2016-17 Budget incorporates analysis of water use by customer category to anticipate critical cash flow timing to better meet the needs of the community.

Single Family Residential

Single Family residential customers are forecasted to use 3,264 AFY of water in FY 2016-17, representing approximately 30 percent of water use and 36 percent of total Water Sales revenue. Water Sales vary significantly within this customer category depending on a number of factors including lot size, age of housing stock, household size and type of plumbing fixtures. For example, 80 percent of Single Family customers reside on lots that are a quarter acre or less and, on average, use significantly less water than larger lots averaging eight to nine HCF per month. Those on lots greater than a quarter acre have historically averaged 20 to 30 HCF per month.

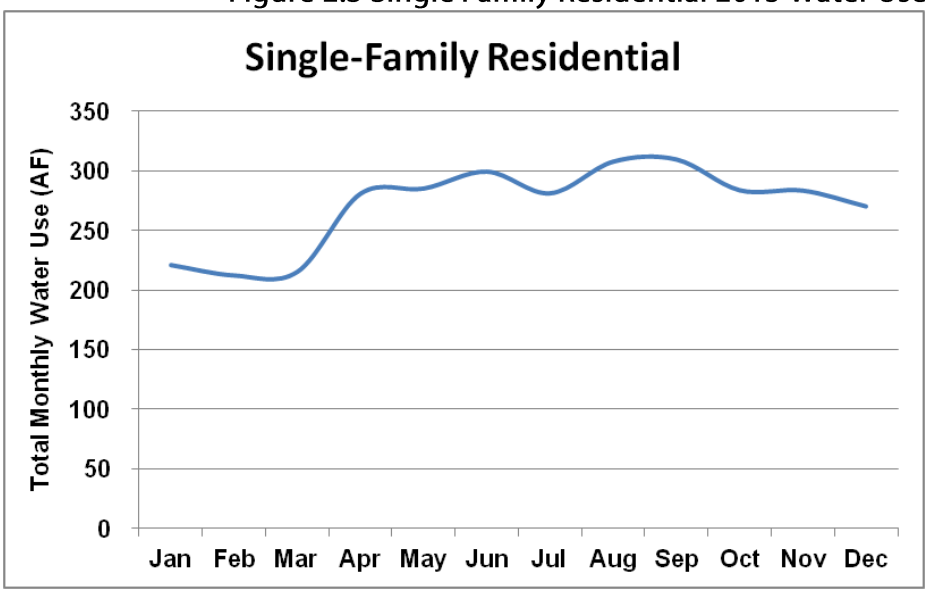
According to the Census Bureau, 90 percent of the housing stock in the region was built prior to 1994 with a significant portion of housing units built in the 1960s or earlier. These homes were built prior to the federal Energy Policy Act of 1992, which requires the installation of low-flow devices in place of older, water-intensive devices. As a result, Single Family residential water use can vary significantly depending on both the age of the residential dwelling and the efficiency of plumbing fixtures in the home.

As a customer category with both indoor and outdoor water use, consumption for Single Family residential customers varies throughout the year and year-to-year depending on weather conditions. Indoor consumption can generally be characterized by routine water use including toilet flushing, showers, clothes-washing and dishwashing. The flow rate for a standard showerhead is 2.0 gallons per minute. Assuming the average person takes seven showers a week at eight minutes each, the average household uses 1,280 gallons or 1.7 HCF per month in showers alone, based upon a median household size of 2.64 in the region. Standard toilets, usually the largest user of water in a home, could use as much as 1,386 gallons or 1.9 HCF per month. Factoring in the normal use of faucets, laundry, and dishwashing, the average Single Family customer in the District uses at least 3,975 gallons, or 5.3 HCF indoors per month, for basic health and sanitation.

Water usage in excess of this base indoor amount is attributed to outdoor use, which fluctuates throughout the year with weather patterns. Due to the variability in lot sizes, efficiency of irrigation systems, and irrigation

habits, outdoor water use can vary significantly across households. In semi-arid Southern California, an average of 50 to 70 percent of total residential water use is generally attributed to outdoor use. It is estimated that District customers are below the low end of the spectrum, using a projected 42 percent of their total consumption outdoors.

Figure 2.3 Single Family Residential 2015 Water Use



Like all customers with outdoor water use, this customer category is influenced by varying temperatures and rainfall during different times of the year. Usage in 2015, shown in Figure 2.3, indicates that consumption varies by 50 percent from the high consumption summer months to the low consumption winter months.

Drought-related conservation activities for the 13,296 customer accounts in the Single Family residential population will be critical to maintaining District supplies during unprecedented dry seasons. Heightened conservation measures in response to the ongoing drought have reduced Single Family residential water use to an estimated 3,264 AF in FY 2016-17, which is 30 percent less than normal demands of 4,619 AF. Associated revenue shortfalls are made up by drought surcharges.

New connections in FY 2016-17 include 69 Single Family residential lots which will add approximately 9 AFY in water usage, yielding an additional $19K in Water Sales.

The FY 2016-17 Budget anticipates $10.7M in revenue from Single Family residential customers based on use of 3,264 AF. Single Family Water Sales revenues are estimated to increase by $928K based on new connections, $19K, the scheduled 3 percent rate increase, $293K, and updated estimates of customer behavior in the District's drought model, $616K.

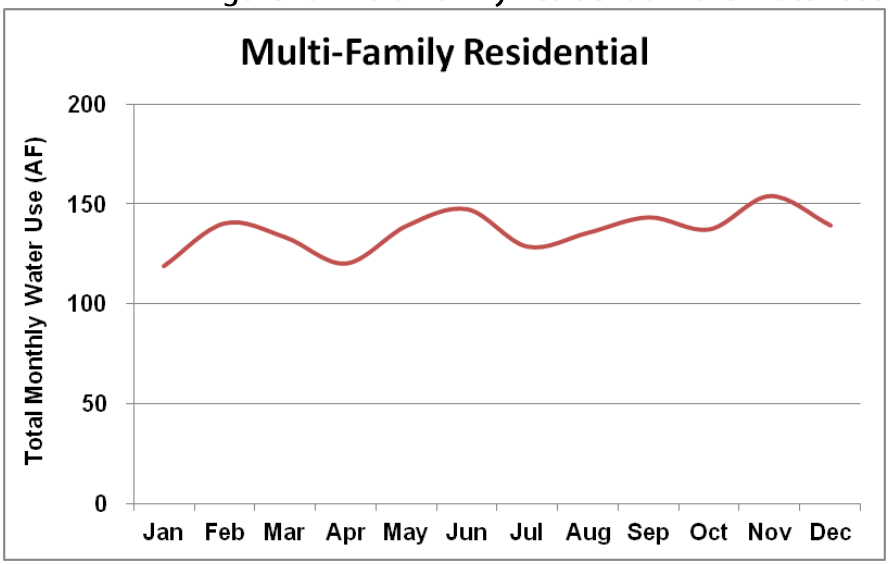
Multi-Family Residential

Multi-Family residential customers are forecasted to use 1,697 AFY of water in FY 2016-17, representing approximately 16 percent of water use and 19 percent of total Water Sales revenue. Multi-Family residential customers include: high-density student housing in the Isla Vista community, UCSB dormitories and residence halls, retirement communities, apartment buildings, condominiums, manufactured housing and homeowner associations. Consumption behaviors within this category can vary significantly due to varying population densities and lot sizes. The largest indicators of Multi-Family residential water use are the number of units within a complex and the number of people per household.

Figure 2.4 illustrates the annual consumption trend for Multi-Family residential customers in 2015. The vast majority of Multi-Family residential water use is indoors and as a result, weather affects this customer category to a much smaller degree. As such, water use is relatively steady throughout the year and exhibits only modest seasonal variation. Variability in water usage between the highest- and lowest-using months is only 23 percent

compared to the 50 percent variability of Single Family residential customers. Because water use in the Multi-Family residential customer category is mostly comprised of indoor usage, the District provides low-flow showerheads and other water efficient plumbing fixtures to help increase conservation in this customer class.

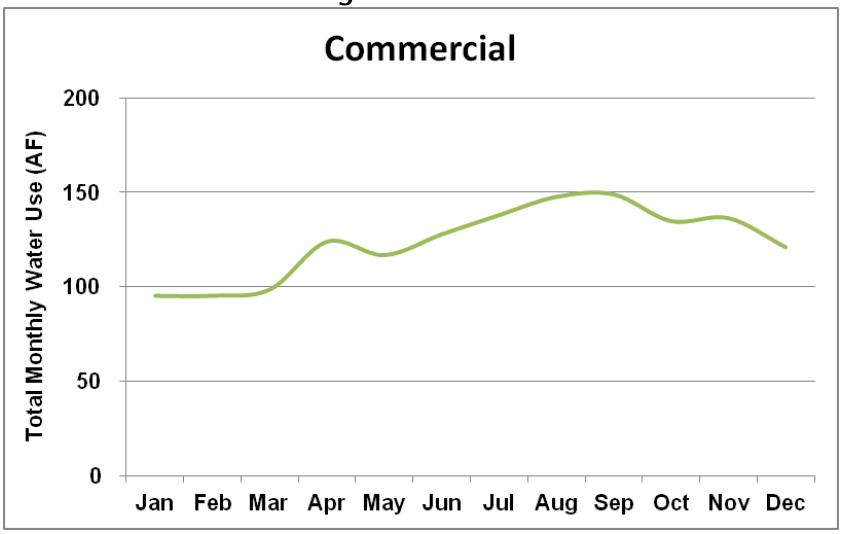
Figure 2.4 Multi-Family Residential 2015 Water Use



The FY 2016-17 Budget includes a $76K revenue increase in water consumption charges associated with new Multi-Family residential connections. The FY 2016-17 Budget also includes a $154K increase due to the 3 percent rate increase and a $311K increase based on updated estimates of conservation within this customer class, consistent with the District's drought model. This brings total projected Water Sales revenue to $5.7M; an increase of $542K from the $5.1M budgeted for FY 2015-16.

Commercial

Figure 2.5 Commercial 2015 Water Use



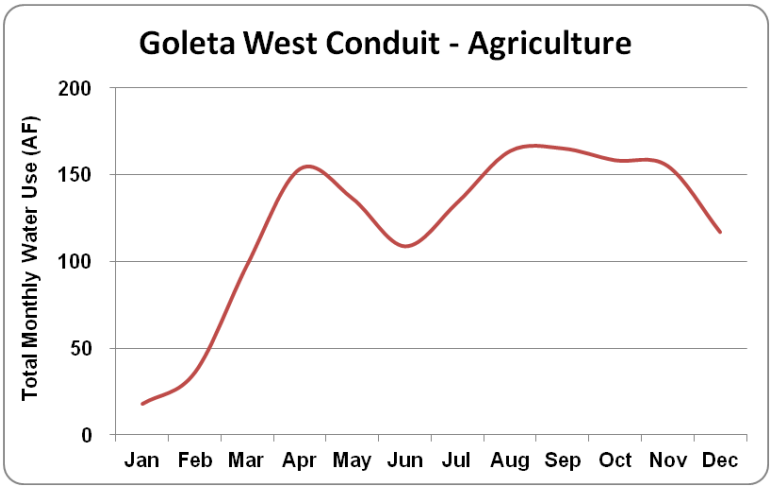
Commercial customers are projected to use 1,594 AF of water in FY 2016-17, representing approximately 15 percent of total water use and 18 percent of budgeted Water Sales revenue. Water use needs for this category vary widely due to the diverse range of businesses and organizations, and their unique consumption behaviors. Examples of customers in this category include: office buildings, health care providers, high-tech businesses, schools, food services, shopping centers, churches, public buildings, light manufacturing, construction, and small businesses.

While water use for different types of commercial buildings is primarily indoors, this customer category also experiences some seasonal variability in water use. Based on 2015 data, Figure 2.5 illustrates that Commercial water use varies by over 50 percent between the highest and lowest water use months.

Pending commercial projects in the pipeline for FY 2016-17 will require an estimated 9 AFY of water, yielding $22K in Water Sales revenue. Similar to the Single Family residential sector, estimates of Commercial water use during a Stage III drought have been revised upward by 176 AFY corresponding to a $738K increase in Water Sales. A revenue increase of $133K is also estimated based on the 3 percent rate increase. Total Commercial Water Sales are projected to be $5.3M in FY 2016-17, which is up from $4.4M in FY 2015-16.

Agricultural – Goleta West Conduit

Figure 2.6a GWC 2015 Water Use



Goleta West Conduit customers are forecasted to use 1,248 AF of water in FY 2016-17, representing approximately 11 percent of total water use. About $2.1M or 7 percent of total Water Sales revenue comes from Goleta West Conduit customers. This includes $47K from the scheduled rate increase and $507K for projected higher water use than budgeted for FY 2015-16 as their water use has remained above projections due to ongoing warm, dry weather. Goleta West Conduit users pay a lower base rate and the service they receive is provided through a separate distribution system for non-potable water that can be interrupted when Lake Cachuma supplies are constrained.

Annual water use is projected using customer crop report data including information on crops produced, farmed acreage and the water demands associated with each crop type. According to this data, there are 1,521 permanent farmed acres in the Goleta West Conduit service area. Approximately 1,255 acres produce avocados, followed by lemons at 215 acres, and 51 acres of other products.

Water use for this customer type is highly seasonal and can vary significantly depending on weather conditions, crop needs and crop growing periods. As a customer category with a heavy emphasis on outdoor use, Goleta West Conduit irrigation demand also varies depending on the amount of rainfall received each year. For example, avocado crops require an average of 27 inches of water annually. In any given year, only a portion of this watering requirement is delivered by the District. In an average annual rainfall year, 17 inches of rain will offset irrigation needs and District supplies are only needed to make up the balance. In a drought-stricken year with rainfall levels at well below normal, Goleta West Conduit customers are much more reliant on water provided by the District.

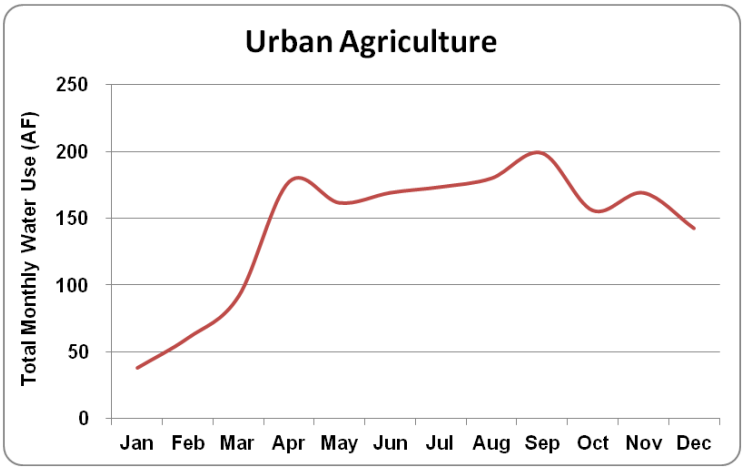
Agricultural – Urban

Urban Agriculture customers are forecasted to use 1,399 AF of water in FY 2016-17, representing approximately 13 percent of total water use. About $2.6M or 9 percent of total Water Sales revenue comes from Urban Agriculture customers. This includes $81K from the scheduled rate increase, but a $140K decrease for projected lower water use in FY 2016-17 as these customers have successfully reduced their consumption of District water. Urban Agriculture customers pay a higher base rate than Goleta West Conduit customers because they receive potable water through the urban distribution system and are entitled to groundwater in addition to Lake Cachuma supplies.

Annual water use is projected using customer crop report data including information on crops produced, farmed acreage and the water demands associated with each crop type. According to this data, there are 2,105 permanent farmed acres in the urban community. Approximately 1,380 acres produce avocados, followed by lemons at 630 acres and 95 acres of other products. There are also 226 acres of annual crops in which crops rotate and there might be multiple growing seasons each year.

Water use for this customer type is highly seasonal and can vary significantly depending on weather conditions, crop needs and crop growing periods. As a customer category with a heavy emphasis on outdoor use, Urban Agricultural irrigation demands also vary depending on the amount of rainfall received each year.

Figure 2.6b Urban Agricultural 2015 Water Use

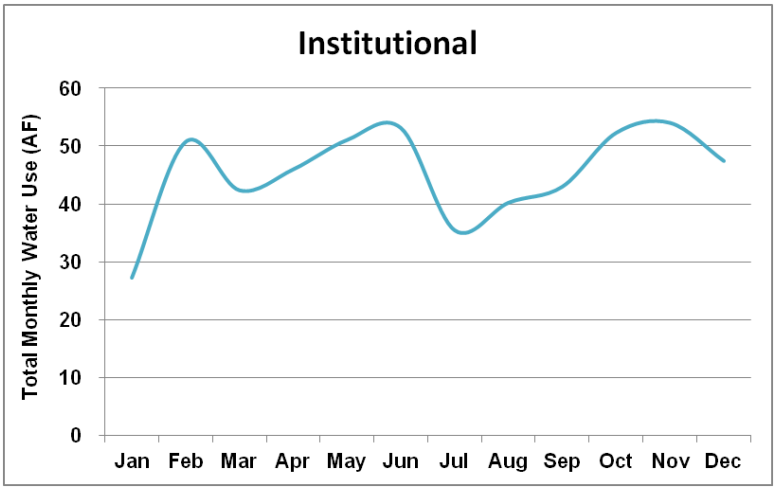


As another example, lemon crops need an average of 20 inches of water per year. Lemon lots that normally require only three inches of water from the District will require more than four times that in an extremely dry year. The revenue impact of the extended dry conditions is difficult to gauge because of several factors: availability of water for agriculture use in the potable and non-potable systems, customer behavior modification, and the impact of drought surcharges. Goleta West Conduit and Urban Agricultural customer consumption varies substantially between the winter and summer months, as illustrated in Figures 2.6a and 2.6b.

Institutional

Institutional customers are forecasted to use 491 AF of water in FY 2016-17. Representing a portion of UCSB's connections, this category accounts for 4.5 percent of total District water use and 5.5 percent of Water Sales revenue.

Figure 2.7 Institutional 2015 Water Use



The variability in water use between low and high consumption months is about 50 percent (see Figure 2.7) and largely driven by the academic calendar.

As a result of the drought, the University has taken aggressive measures to conserve both indoor and outdoor water use on campus. The University also uses recycled water for most landscaping and some restrooms. Recycled water preserves potable water for drinking, health, and safety. Through its own initiatives and in working with the District the University plays an important role in meeting State and local conservation targets.

Institutional water use is predicted to increase by 21 AF in FY 2016-17 as compared to the FY 2015-16 based on updated projections of water use during Stage III. FY 2016-17 Water Sales is projected to be 491 AF, resulting in $1.6M in revenue.

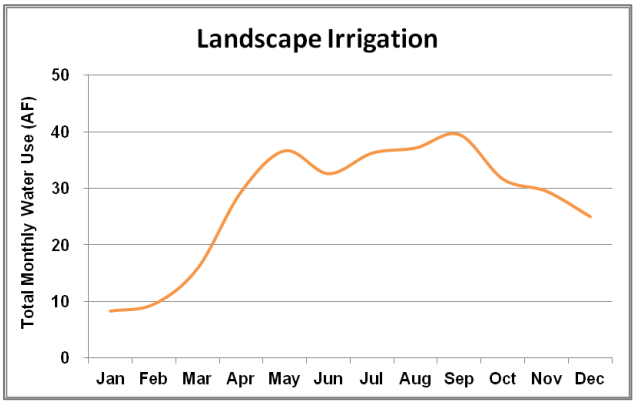
Landscape Irrigation

Landscape Irrigation customers are estimated to use 299 AF of water in FY 2016-17, accounting for 2.7 percent of total water use and 3.3 percent of Water Sales revenue. Landscape irrigation includes water used for irrigating and maintaining outdoor areas such as golf courses, community parks and common areas in homeowner associations. Other customer types with dedicated outdoor-use meters include resorts, municipalities, churches, retirement communities and commercial businesses.

Similar to Agricultural customers, water demands for this customer category are also heavily influenced by rain and weather conditions. However, despite the ongoing dry weather, customers in this class have conserved more than expected in response to Stage III water use restrictions and the drought surcharge. Overall water use in this classification is estimated to decline by 57 AF from FY 2015-16 to FY 2016-17.

Seasonally, consumption for Landscape irrigation increases by as much as double or more during the summer months as compared to winter months when watering demands are largely met through rainfall (see Figure 2.8).

Figure 2.8 Landscape Irrigation 2015 Water Use



Completed projects in FY 2016-17 including commercial buildings and businesses, Single Family housing tracts, and apartment complexes in FY 2016-17 will require dedicated Landscape Irrigation meters, contributing $14K of the increase to revenue.

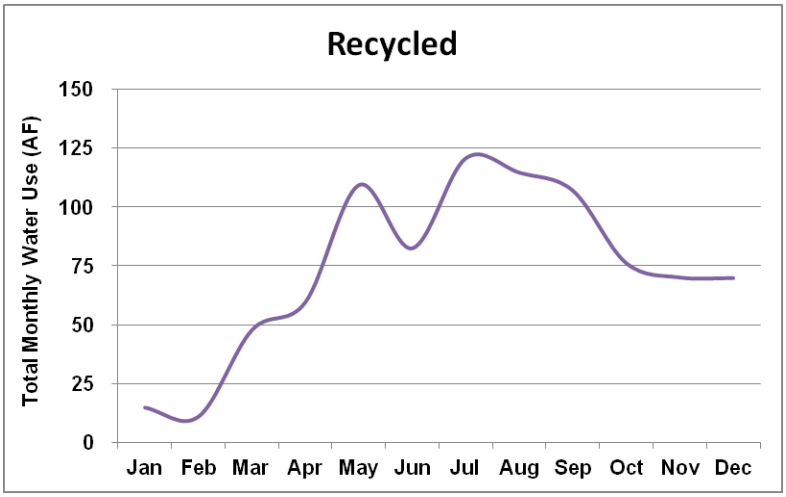
Overall, Landscape Irrigation use will decrease by 57 AF and revenues will decrease by $120K. Total FY 2016-17 Landscape Irrigation Water Sales revenue is estimated to be $1.0M.

Recycled Water

Recycled water customers are projected to use 946 AF of water in FY 2016-17, making up 8.6 percent of total water use, and 2.9 percent of budgeted Water Sales revenue. Recycled water is primarily used outdoors for landscape irrigation including common areas in homeowner associations, school grounds and golf courses. Customers include UCSB, school districts, golf courses, resorts, businesses and municipalities. Recycled customers are highly responsive to weather patterns, and as such, the seasonal variation in water use between winter and summer months is substantial. Consumption during the summer months significantly increases by fourfold or more as compared to usage during the winter months. Figure 2.9 illustrates this seasonal volatility.

New developments within reach of the recycled water distribution system commonly use recycled water for outdoor irrigation needs. This totals an estimated 35 AF of additional water sales or $51K in the coming fiscal year. Reclaimed water supply exceeds usage for the immediate future, largely as a result of the limited nature of the distribution system. As the cost per HCF is lower than the potable urban rate, a strong incentive exists to use recycled water in commercial settings where aesthetics and reliable water supply are important, even in drought scenarios. The District remains committed to exploring options for expanding the recycled water system in the future.

Figure 2.9 Recycled 2015 Water Use



Overall, Recycled Water Sales are estimated to decrease by $376K to $879K in FY 2016-17 on a 54 AF net decrease in water sales volume compared to the FY 2015-16 adopted Budget. This revenue decrease is a result of drought surcharge revenue being forecast in the FY 2015-16 Budget for a subset of recycled water customers. Subsequently it was determined that all recycled water use is exempt from the drought surcharge; therefore the revenue expected for FY 2016-17 from recycled water sales does not include drought surcharges.

Summary – Water Sales

In conclusion, the $30.0M of projected Water Sales Revenue for FY 2016-17 is established by using the District's FY 2015-16 budgeted revenue as a baseline and adding the value of forecasted revenue derived from the influencing factors of new service connections, new rates, and conservation-based behavioral changes. These factors are consistent with the demand forecasted for each customer class in the District's drought model.

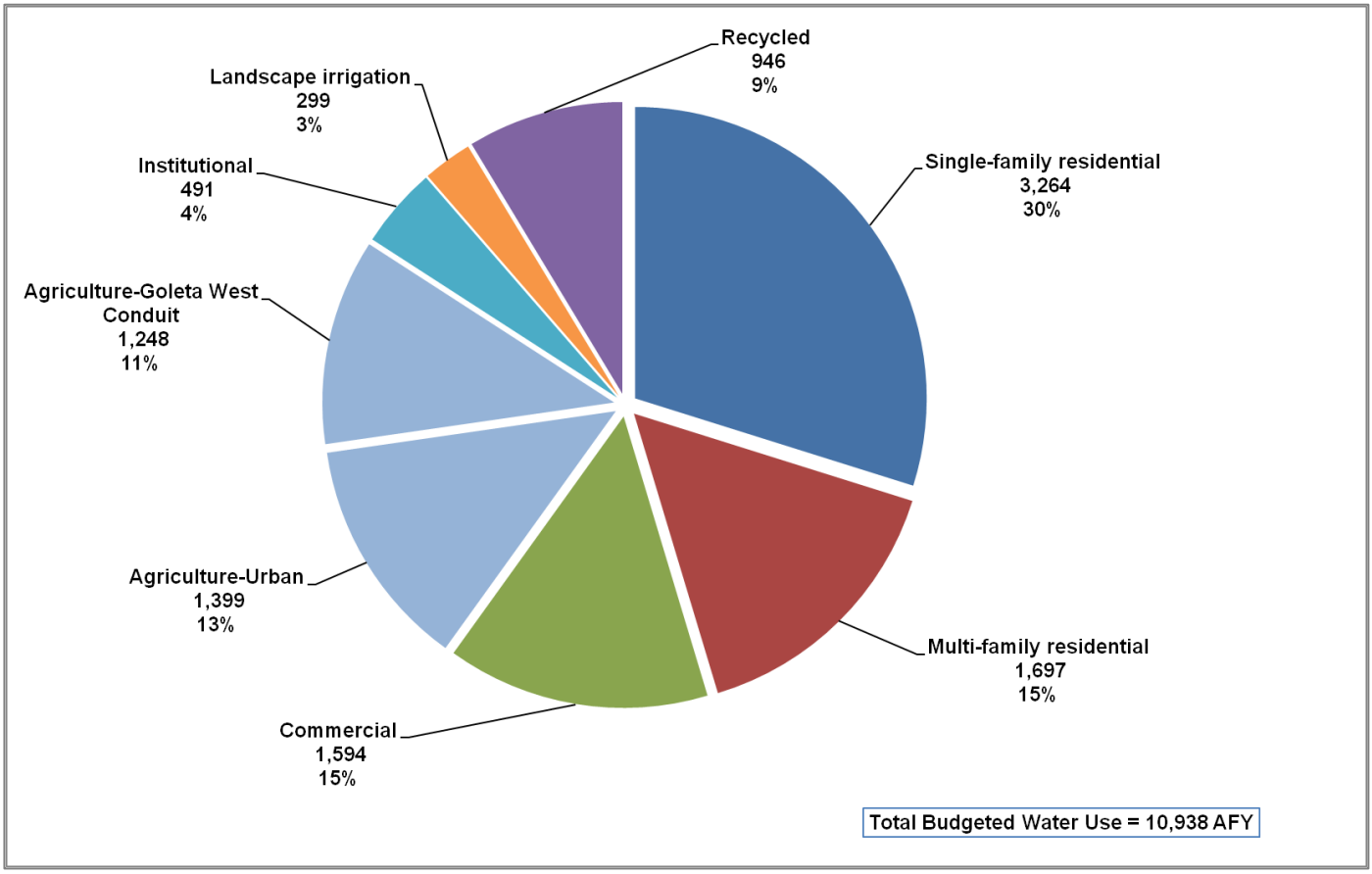
The total Water Sales increase is an estimated $2.5M for the upcoming fiscal year over FY 2015-16, which corresponds to 9 percent. Tables 2.4 and 2.5 provide a full itemization of the FY 2016-17 budgeted water use and Water Sales Revenue in AF by customer category.

Tables 2.6 and 2.7 show budgeted and estimated actual water use for FY 2015-16 and budgeted and estimated actual revenues. Due to the ongoing dry, warm weather, the District estimates that water sales will exceed the budgeted amount by 1,334 AF or 12.8 percent in FY 2015-16. This corresponds to revenue that is $2.8M or 10.2 percent above budget. Compared to estimated actual results for the current year, the District projects that water use will decline by 840 AF or 7 percent in FY 2016-17. The projected revenue decrease in FY 2016-17 compared to current year estimated actual results is only 1 percent because of the scheduled 3 percent rate increase. Furthermore, a significant percentage of the additional current year water use was in the agricultural customer classes and consequently the District projects that a significant amount of the water use reduction in FY 2016-17 will be in these customer classes, which have relatively lower base rates.

Table 2.4 FY 2016-17 Budgeted Water Use by Customer Category (in AF)

Customer Category	FY 2015-16 Budgeted Water Use	Influencing Factor: New Development	Influencing Factor: Behavioral Changes	Net Incr. / (Decr.)	FY 2016-17 Budgeted Water Use
Single-family residential	3,079	9	176	185	3,264
Multi-family residential	1,630	32	35	67	1,697
Commercial	1,409	9	176	185	1,594
Agriculture-Urban	1,521	-	(122)	(122)	1,399
Agriculture-Goleta West Conduit	979	-	269	269	1,248
Institutional	470	-	21	21	491
Landscape irrigation	356	6	(63)	(57)	299
Recycled	1,000	35	(89)	(54)	946
Fire	-	-	-	-	-
Total:	**10,444**	**91**	**403**	**494**	**10,938**

Figure 2.10 FY 2016-17 Budgeted Water Use by Customer Category (in AF)



The behavioral changes noted in Table 2.5 reflect the revenue impact associated with the difference between budgeted water use for FY 2015-16 and forecasted water use for FY 2016-17. This projected water use for FY 2016-17 is based on the District's drought model, which is regularly updated to reflect ongoing customer class demand trends.

Table 2.5 FY 2016-17 Budgeted Water Sales Revenue and Influencing Factors

Customer Category	FY 2015-16 Budget Baseline Revenue	Influencing Factor: New Development	Influencing Factor: Rate Change	Influencing Factor: Behavioral Changes	Net Incr. / (Decr.)	FY 2016-17 Budgeted Water Sales Revenue
Single-family residential	$ 9,757,694	$ 18,753	$ 292,731	$ 616,022	$ 927,505	$ 10,685,199
Multi-family residential	5,139,463	76,227	154,184	311,317	541,728	5,681,191
Commercial	4,442,640	21,985	133,279	738,193	893,458	5,336,098
Agriculture-Urban	2,688,081	-	80,642	(139,532)	(58,890)	2,629,192
Agriculture-Goleta West Conduit	1,553,246	-	46,597	507,439	554,037	2,107,283
Institutional	1,481,931	-	44,458	116,433	160,891	1,642,822
Landscape irrigation	1,122,484	13,819	33,675	(167,777)	(120,284)	1,002,200
Recycled	1,255,563	50,887	37,667	(464,789)	(376,235)	879,329
Fire	-	-	-	-	-	-
Total:	**$ 27,441,103**	**$ 181,670**	**$ 823,233**	**$ 1,517,306**	**$ 2,522,209**	**$ 29,963,312**

Figure 2.11 FY 2016-17 Budgeted Water Sales by Customer Category

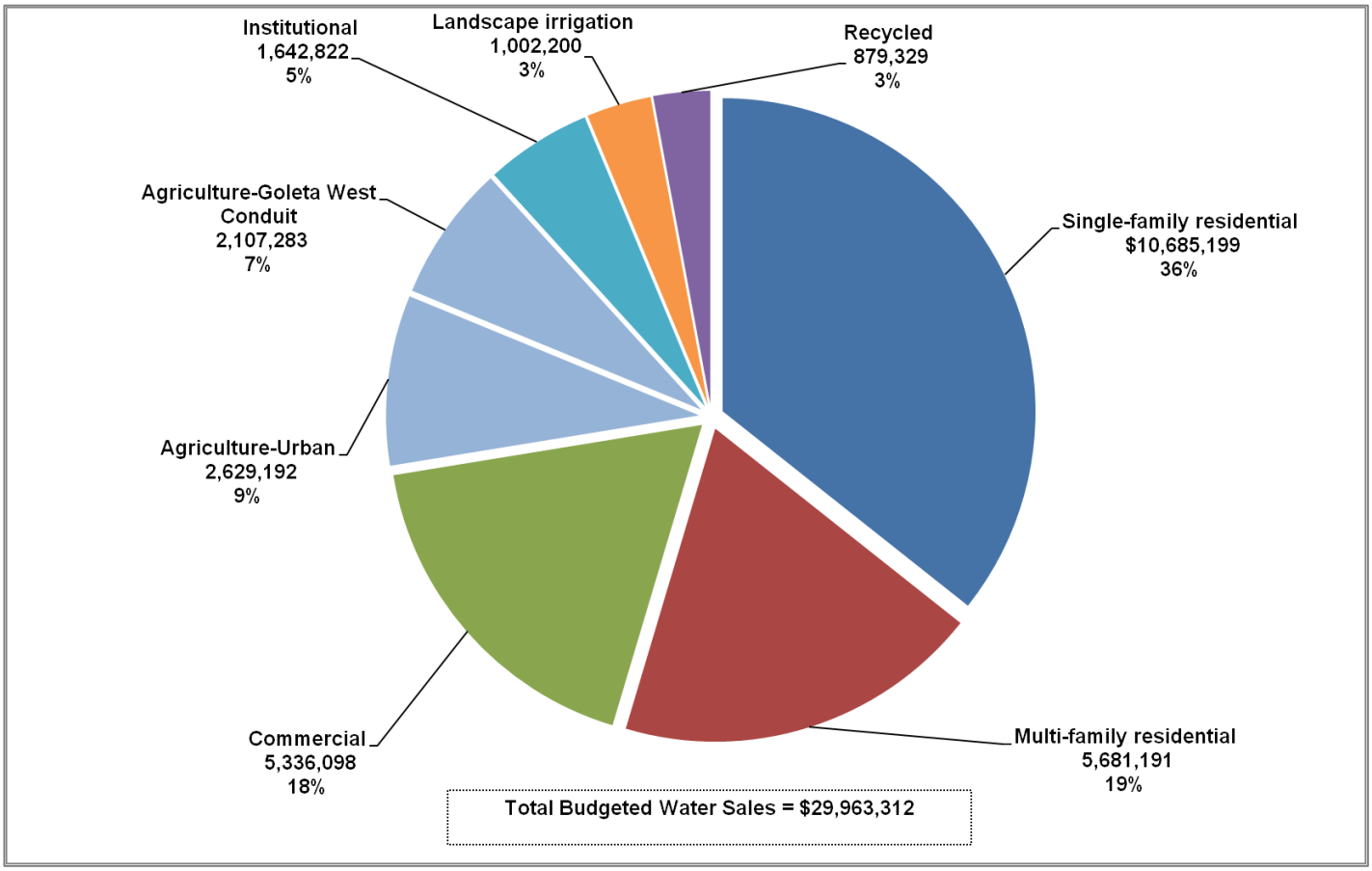


Table 2.6 Year-over-Year Changes in Water Use by Customer Category (in AFY)

Category	Adopted Budget FY 2015-16	Estimated Actual	Adopted Budget FY 2016-17	Variance Analysis * AF Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Single-family residential	3,079	3,256	3,264	185	6%
Multi-family residential	1,630	1,752	1,697	67	4%
Commercial	1,409	1,543	1,594	185	13%
Agriculture-Urban	1,521	1,905	1,399	(122)	(8%)
Agriculture-Goleta West Conduit	979	1,470	1,248	269	27%
Institutional	470	552	491	21	4%
Landscape irrigation	356	308	299	(57)	(16%)
Recycled	1,000	992	946	(54)	(5%)
Total Water Use in AFY:	10,444	11,778	10,938	494	5%

**Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

Other Sources of Revenue

The remaining $1.2M (3.0%) of expected FY 2016-17 revenue includes $60K in Investment Revenue, $121K in Conveyance Revenue and $1.0M in Miscellaneous Fees & Charges.

New Water Supply Charges

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. The FY 2016-17 Budget forecasts no revenue from NWSC payments because of the temporary denial of new service applications under the SAFE Water Supplies Ordinance, effective October 1, 2014. NWSC payments benefit existing customers by ensuring new or expanded development pays a fair share to join 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 year has been 26 AFY.

Investment Revenue

The investment policies and practices of the District are based on California Government Code provisions that regulate the investment of public funds and prudent portfolio management. Chapter 4.08 of the Goleta Water District Code establishes investment objectives as being, in priority order, Safety, Liquidity and Diversification. For FY 2016-17, District cash balances will be invested in the California Local Agency Investment Fund (LAIF), a pooled money investment vehicle projected to yield about 0.45 percent annually, producing approximately $60K in investment revenue. Investment Revenue is projected to increase by $36K (155%) in FY 2016-17 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 2016-17 will remain relatively flat at $121K, reflective of no material changes to water requirements as their entitlements, which are not part of the District's water supply, are exempt from the current state and local restrictions.

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 and customer reimbursable projects. The anticipated revenue from these sources in FY 2016-17 is approximately $1.0M. This is an increase of $236K over FY 2015-16 primarily due to an expected increase in customer reimbursable projects. Customer payments are considered revenue and corresponding expenditures are budgeted on the Capital Improvement Projects line (this line is reserved for IIP projects and customer reimbursable projects). Reimbursements are estimated to be $500K in FY 2016-17.

Transfers

The District maintains a prudent financial reserve to ensure adequate cash flow for operational needs and capital emergencies. From time to time these funds are employed for infrastructure requirements. The budget estimates a $1.9M designation to reserves in FY 2015-16 based on updated projections for the current fiscal year. The budget estimates a $3.9M transfer from reserves in FY 2016-17 to meet operating and capital needs. The cumulative two-year impact to reserves is consistent with the five-year financial plan, which estimated a net $1.9M designation from reserves over the first two years of the 2015-2020 financial planning cycle ($1.0M designation in FY 15-16 and a $0.9M designation in FY 16-17). Key variances from the five-year plan include:

- Deferral of $2.4M in capital expenditures from FY 15-16 to FY 16-17 per the revised Infrastructure Improvement Plan.
- Additional costs of approximately $1.4M in FY 15-16 and $0.5M in FY 16-17 to purchase and deliver supplemental water.
- Additional legal expenses of $1.3M in FY 15-16 and $1.0M in FY 16-17 to protect the District's water rights.
- Additional revenue of $2.4M in FY 15-16 and $1.7M in FY 16-17 based on higher consumption than anticipated during a Stage III drought.

The District's financial plan anticipated using $1.9M of reserve funds over the first two years due to the need to prioritize capital spending on water supply projects. The reserve balance will be restored beginning in 2017 and continuing until 2020 due to slightly declining capital spending and the compounding effect of scheduled rate increases.

Summary of District Revenue Forecast for FY 2016-17

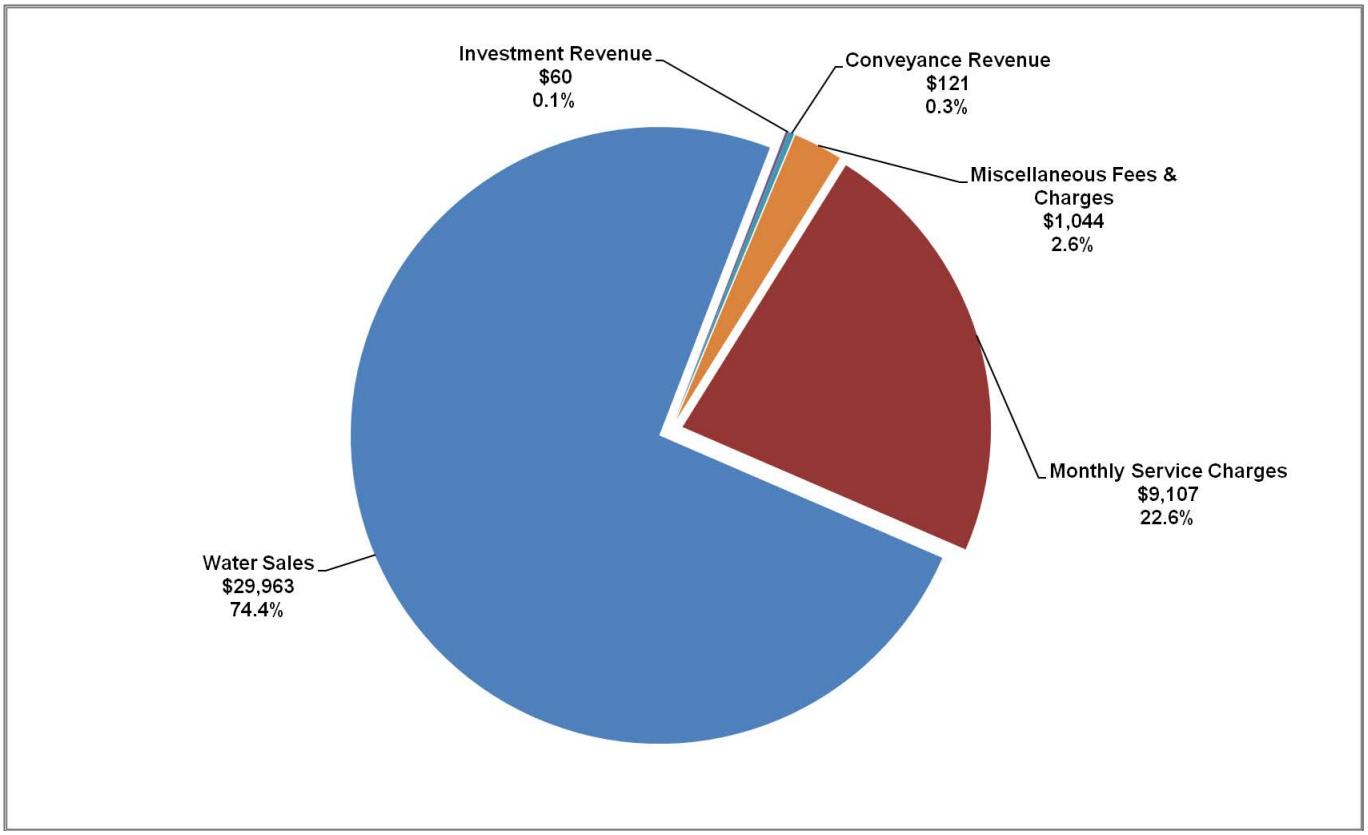
Table 2.7 and Figure 2.12 provide a summary of FY 2016-17 Budgeted Revenue. Rates-based revenues allow the District to cover costs associated with operations to consistently provide customers quality water and address critical infrastructure needs. The combination of Monthly Service Charges and Water Sales for FY 2016-17 is projected at $39.1M, a 7 percent increase from the adopted FY 2015-16 Budget of $36.6M, resulting from changes in the rates and updated estimates of customer behavior during the drought. New Water Supply Charges are not projected to provide revenue due to the temporary denial of new service applications under the SAFE Water Supplies Ordinance, effective October 1, 2014. Changes in revenue from Investments and Conveyance are not projected to have a material effect on District finances. Miscellaneous Fees and Charges revenue is estimated to increase by $236K, primarily a result of increased customer reimbursable projects. Total Budgeted Revenue in FY 2016-17 is forecasted to be $40.3M, an increase of $2.8M (7%) from the FY 2015-16 adopted Budget.

Table 2.7 FY 2016-17 Budgeted Revenue versus FY 2015-16 Budget

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 9,133,715	$ 8,814,715	$ 9,106,773	$ (26,941)	(0%)
Water Sales	27,441,103	30,232,103	29,963,312	2,522,209	9%
New Water Supply Charges	0	0	0	0	0%
Investment Revenue	23,517	62,517	60,000	36,483	155%
Conveyance Revenue	124,582	116,582	120,991	(3,591)	(3%)
Miscellaneous Fees & Charges	808,460	714,460	1,044,420	235,960	29%
Total Revenue	**$ 37,531,376**	**$ 39,940,376**	**$ 40,295,496**	**$ 2,764,120**	**7%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

Figure 2.12 FY 2016-17 Budgeted Revenue Allocations ($000s)



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SECTION III – EXPENDITURES

Summary

FY 2016-17 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. Water supply portfolio-related costs have declined to 29 percent 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 21 percent 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. Representing 19 percent of total expenditures, O&M expenses include costs related to water treatment and testing, maintenance and equipment, as well as services and supplies. Expenses associated with debt service and Capital Improvement Projects in the Infrastructure Improvement Plan make up the balance of total expenditures at 8 and 23 percent 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. Most importantly, to constrain costs 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 for now and into the future.

The prolonged drought has significantly affected the District's water supply. Accordingly, maintaining well production to gain access to the District's groundwater reserves as the primary source of supply will necessitate continued investment to expand the District's well pumping capacity, as well as improvements to the distribution system to deliver water to customers. The cost to put the necessary well upgrades in place is expected to be $6.1M in FY 2016-17. This is in addition to the increased annual operating cost to extract water from the Goleta Groundwater Basin, which increases proportionally to the amount of water needed from the wells to balance the overall supply with customer demand. Finally, the District will continue to focus strongly on conservation outreach and incentive-based programs to reduce customer demand in response to drought conditions as they develop in the coming months.

Water Supply Agreements

In an average year, approximately 86 percent 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 Supply Management Plan, the District employs a strategy of drawing from available water sources in a prioritized manner to maximize supplies and minimize costs. While typically under the Water Supply Management Plan the District draws on Cachuma water supplies as its primary supply source, due to the reduced availability of Cachuma water, the District has heavily relied upon groundwater in order to extend the availability of Cachuma supplies throughout the water year. Based on CA Department of Water Resources (DWR) projections, State Water deliveries are expected to remain available to meet customer demand.

As illustrated in Table 3.1, FY 2016-17 total water supply costs will decrease by $0.8M, or 6 percent, largely due to credits from less delivery in the current year than requested and prepaid. Many of the expenses incurred from COMB will continue even with a zero percent water allocation due to ongoing infrastructure investment and repair and the fixed-nature of long-term water supply agreements. COMB costs are increasing by $77K or 2 percent. Additionally, repayment of the loan for the COMB Emergency Pumping Facility Project begins in FY 16-17. The cost of pumping and treating groundwater is included in O&M and capital costs.

Table 3.1 FY 2016-17 Budgeted Water Supply Agreement Costs

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
COMB (Lake Cachuma Deliveries):					
Water Entitlement	$ 895,622	$ 354,179	$ 354,179	$ (541,443)	(60%)
Operations & Maintenance	2,072,784	2,132,439	2,690,741	617,957	30%
Cachuma Renewal Fund	79,667	79,667	79,667	-	0%
Safety of Dam Act	72,734	72,734	72,734	-	0%
Subtotal - COMB	$ 3,120,807	$ 2,639,019	$ 3,197,321	$ 76,514	2%
CCRB (Water Rights):	$ 425,000	$ 318,750	$ 500,000	$ 75,000	18%
SB County (Cloud Seeding):	$ 40,000	$ 51,855	$ 50,000	$ 10,000	25%
CCWA (State Water Deliveries):					
Fixed Costs	$ 8,398,141	$ 8,170,142	$ 7,594,231	$ (803,910)	(10%)
Variable Costs	922,616	2,826,820	717,320	(205,296)	(22%)
Subtotal - CCWA	$ 9,320,757	$ 10,996,962	$ 8,311,551	$ (1,009,206)	(11%)
GSD (Recycled Water Production):	$ 676,630	$ 581,682	$ 676,630	$ (0)	(0%)
Total:	**$ 13,583,194**	**$ 14,588,268**	**$ 12,735,502**	**$ (847,692)**	**(6%)**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

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

The COMB and CCRB annual budgets and assessments 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.

CCRB works with scientists, attorneys and environmental consultants to protect Lake Cachuma water supplies while minimizing impacts on fish populations and habitat.

By agreement, the District share of COMB expenditures is 39 percent. This amounts to $3.2M in FY 2016-17. This is an increase of $77K or 2 percent compared to FY 2015-16.

CCRB works to protect Cachuma Water Rights and supplies for the South Coast water purveyors. The District share of CCRB costs is 46 percent. This percentage amounts to $500K in FY 2016-17. This is an increase of $75K, or 18 percent as compared to FY 2015-16. FY 2016-17 CCRB costs allow for the continued expansion of scientific, legal and advocacy efforts to minimize the financial and supply impacts of pending action on State Water Rights and the Federal Biological Opinion for the Cachuma Project.

CCWA (State Water Deliveries)

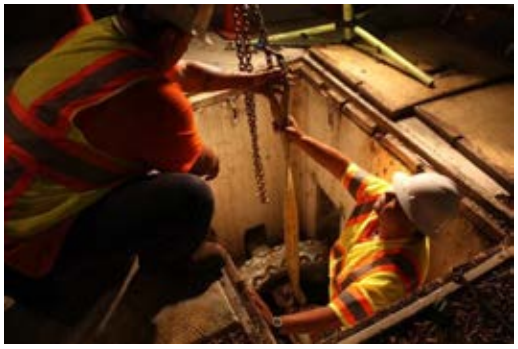
As a member of CCWA, the District is entitled to annual State Water deliveries. The costs associated with this entitlement are $8.3M in FY 2016-17 and include the cost to finance, build and operate the infrastructure that transports the water. Based on DWR projections the District plans on taking deliveries of approximately 4,470 acre feet of State Water in FY 2016-17. Due to the lack of available Cachuma water, the exchange agreement with ID #1, under which the District exchanges approximately 1,000 AF of its State Water Entitlement for 1,000 AF of Cachuma supplies from ID #1, is unlikely to occur. This agreement saves both agencies water delivery and infrastructure costs and assists in securing regional water supplies. Given the impact of ongoing drought conditions on available State Water supplies, the District will monitor DWR allocations closely throughout the year and make adjustments as necessary.

Goleta Sanitary District (Recycled Water Production)

By providing recycled water for irrigation purposes, the District conserves drinking water for potable purposes, improving its water supply reliability. Per agreement, the District pays GSD for their O&M costs to produce recycled water. For FY 2016-17 costs are estimated at $676K. The District then delivers recycled water supplies to 42 customer accounts.

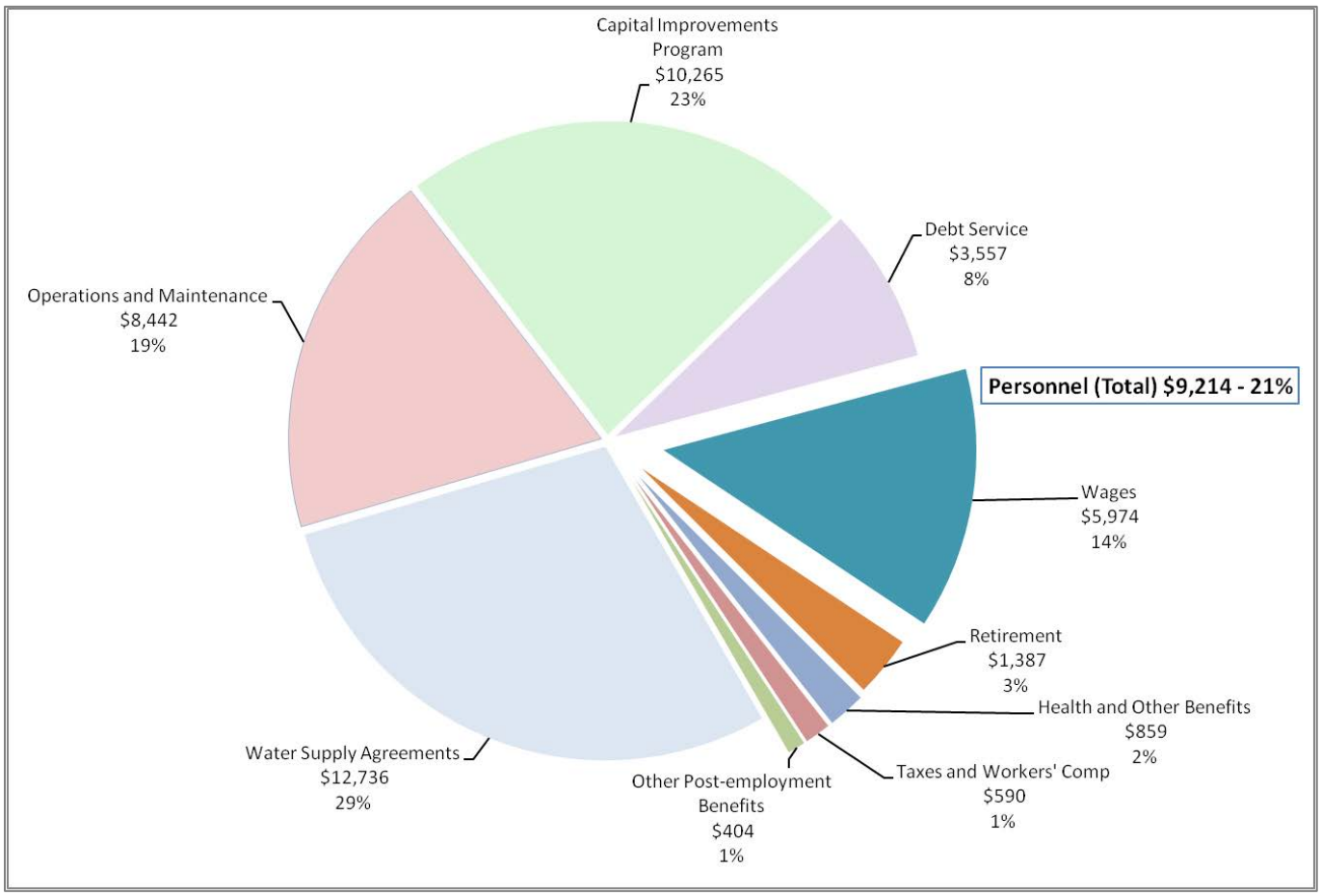
Personnel

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 16,900 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 2016-17 will be $9.2M, a 4 percent increase as compared to FY 2015-16. Figure 3.1 provides an overview of the individual components of Personnel costs.

Figure 3.1 FY 2016-17 Budgeted Personnel Costs ($000s)



Personnel increases year-over-year total $362K, or 4% and are associated with the contractual obligations described in the Memorandum of Understanding with the Service Employees International Union (SEIU) Local 620. Health and Other Benefits will decrease 5% due to a reduction in premiums effective January 1, 2016.

Retirement expenditures make up 15% of budgeted 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 began contributing to their retirement plans in FY 2011-12. As PEPRA is designed to realize mid-term to long-term savings, District financial benefits will continue to grow in the future. However, there will also be cost increases as CalPERS phases in changes to assumptions about investment earnings and life expectancy.

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. Personnel costs are controlled by limiting the use of overtime and managing employee benefit programs.

Operations & Maintenance

The District service area spans 29,000 acres and includes more than 270 miles of pipeline, 16,900 connections, eight storage reservoirs, eight 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 1,400 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 2.85 billion gallons of potable water in FY 2016-17. 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. Figure 3.2 displays O&M expenditures across seven primary categories.

Figure 3.2 FY 2016-17 Budgeted O&M Costs ($000s)

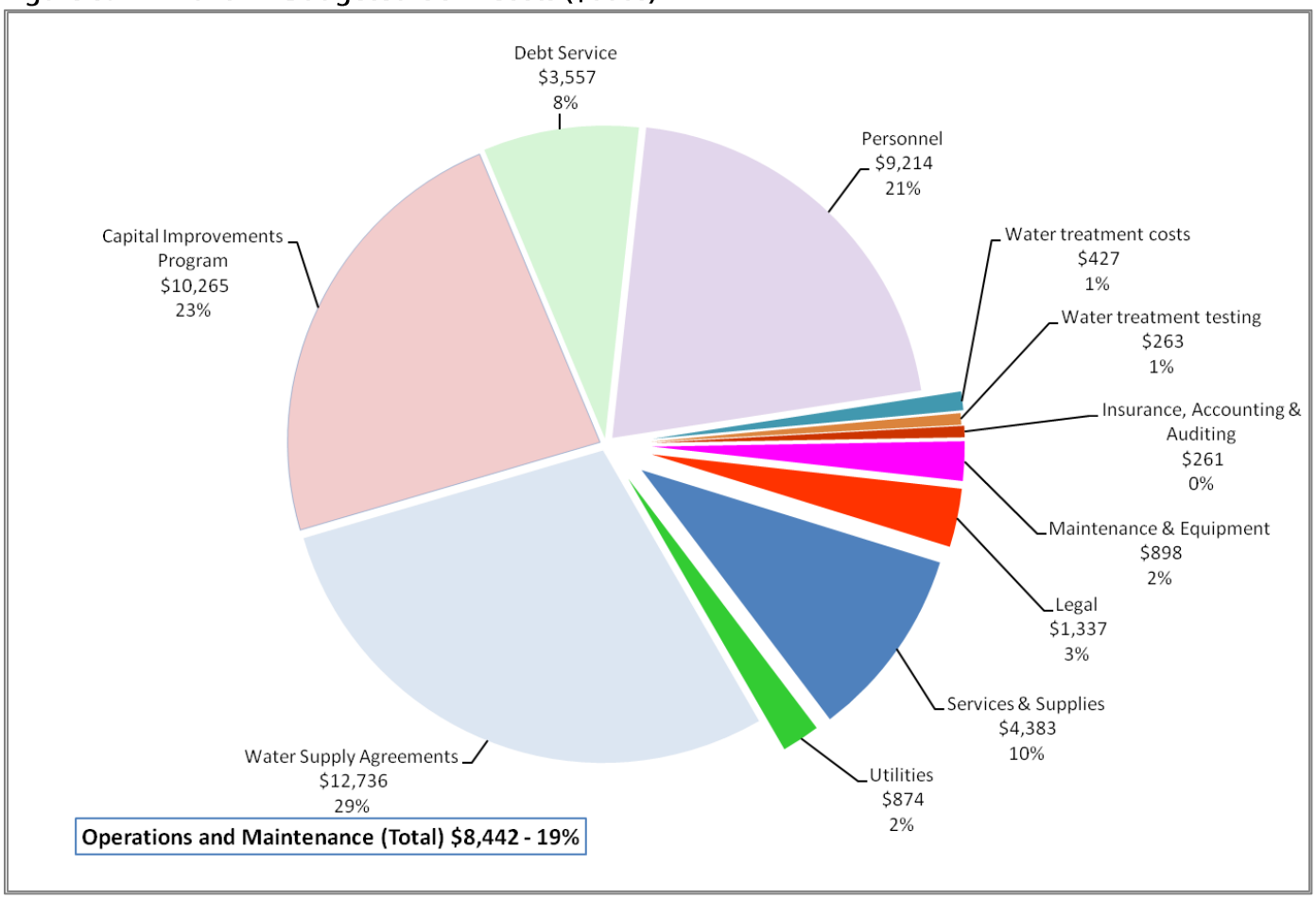


Table 3.2 provides additional detail of FY 2016-17 O&M expenditures. The total O&M expenditures of $8.4M are up 14 percent from FY 2015-16 as a result of increased supplies and services costs, projected legal costs, and maintenance and equipment needs. Notable variances within expenditure categories include:

- Water Treatment costs will increase by 40 percent due to the purchase of additional State and supplementary water, changing lake conditions and costs associated with analysis and treatment of water in the distribution system.
- Water Testing costs will increase 33 percent as a result of the water quality changes in Lake Cachuma, increased groundwater production, and the distibution system flow changes occurring as a result of distributing water from the lower elevations to higher elevations in the system.
- Insurance, Accounting and Auditing will decrease by $48K in FY 2016-17.
- Services and Supplies costs will increase by $304K or 7 percent to continue to address well rehabilitations and operations, and other drought-related expenditures.
- Utility costs will increase by $63K due to increased drought-related groundwater pumping and the transmission costs associated with moving the groundwater to higher elevations of the system.

Table 3.2 FY 2016-17 Budgeted O&M Costs

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations & Maintenance Costs:					
Water Treatment	$ 304,225	$ 414,552	$ 427,088	$ 122,863	40%
Water Testing	198,649	208,506	263,300	64,651	33%
Insurance, Accounting, & Auditing	308,322	241,094	260,624	(47,698)	(15%)
Maintenance & Equipment	669,938	871,172	898,183	228,245	34%
Legal	1,012,400	1,611,039	1,336,501	324,101	32%
Services & Supplies	4,078,437	3,234,816	4,382,763	304,326	7%
Utilities	810,399	844,595	873,833	63,434	8%
Total:	**$ 7,382,370**	**$ 7,425,774**	**$ 8,442,292**	**$ 1,059,922**	**14%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

Debt Service

Debt service costs reflect payments associated with approximately $50M 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.

Infrastructure Improvement Plan

In March 2015, the Board of Directors adopted a 2015-2020 Infrastructure Improvement Plan (IIP). The plan was accelerated by one year due to the drought and a number of upcoming regulatory and critical projects. The IIP is designed to show how the District will 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. An IIP amendment for FY 2015-16 and 2016-17 was subsequently adopted by the Board in February 2016.

A critical goal of the 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 additional significant investment in the distribution and treatment system. These investments are needed to ensure reliable groundwater supplies adequate to meet community health and safety needs. The FY 2016-17 Budget includes approximately $9.8 million to fund 26 IIP 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. Specific projects include existing well treatment and facility upgrades at San Marcos; rehabilitation of Berkeley and Shirrell wells; construction of Sludge Drying Bed #3 and a chemical tanks safety platform at the CDMWTP; and distribution system improvements to replace critical valves, hydrants and mains. 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 continuation of the small meter replacement program, upsizing 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.

Totaling $9.8M in IIP spending, 62 percent or $6.1M is dedicated to the groundwater production program in FY 2016-17, underscoring the importance of the basin to meeting customer demand. Critical investments are planned to expand capacity and enhance reliability of the District's wells. In FY 16-17 this includes the rehabilitation of Berkeley and Shirrell wells, which have been out of production since the 1990s, and completion of planned enhancements at the San Marcos well.

Approximately $2.4 million in spending will go to strengthening the distribution system, particularly the pumping stations the District increasingly relies on to deliver groundwater to customers across various pressure

zones and elevations, as well as replacing older and inefficient small service connection meters. Treatment accounts for 4 percent, reflecting the need for changes in the treatment system as the supply portfolio shifts.

In addition to IIP projects, the Budget includes $500K in expenses on the Capital Improvement Projects line for reimbursable, developer or customer-driven projects.

Figure 3.3 FY 2016-17 Capital Improvement Plan by Infrastructure Type ($000s)

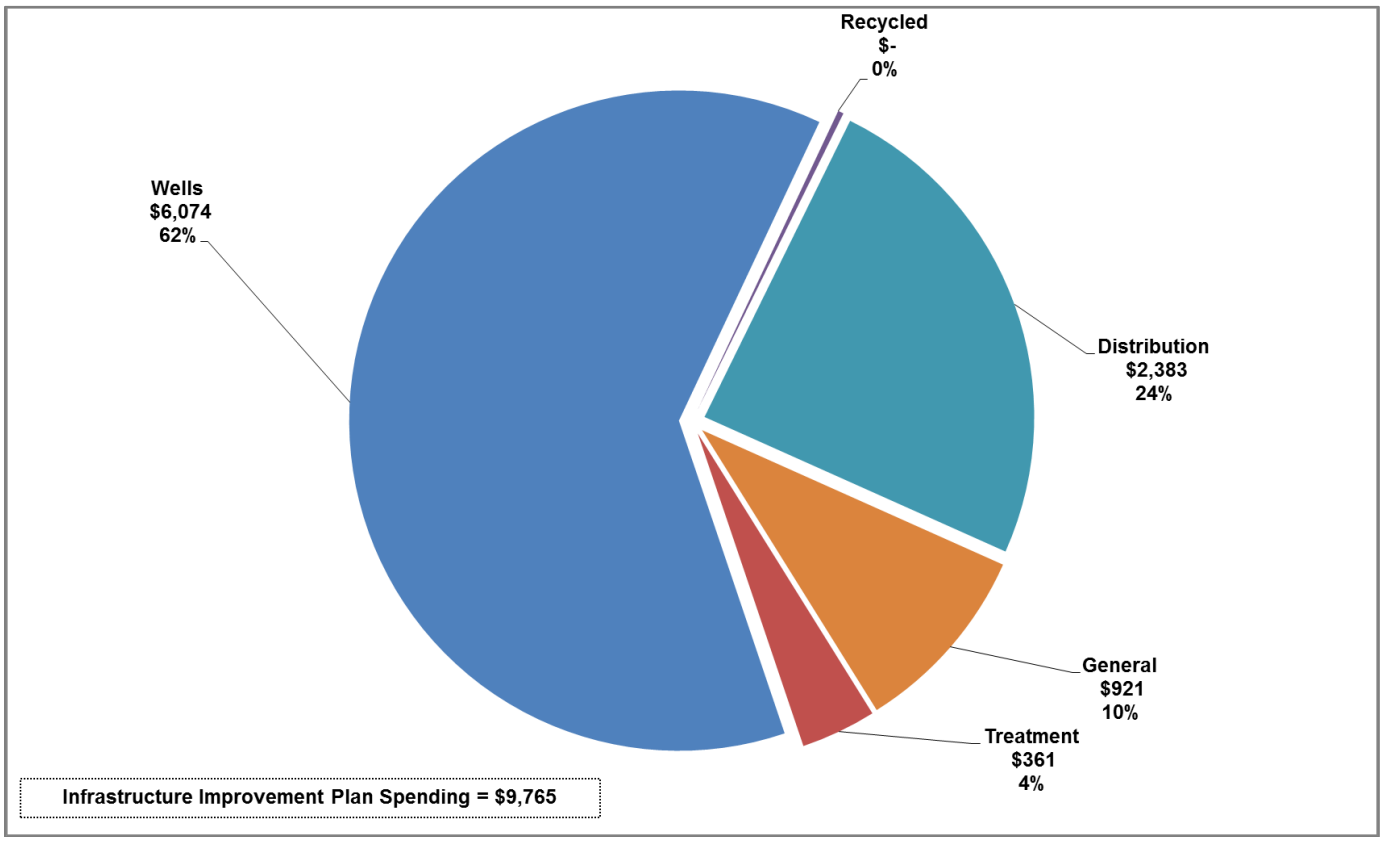


Table 3.3 Infrastructure Improvement Plan Projects Summary

Ref.	Project Name	Final FY 2016-17
1	CDMWTP SDB 3 Construction	$ 100,000
2	CDMWTP Chemical Tanks Safety Platform	230,000
3	Existing Well Treatment & Facilities Upgrades	1,100,000
4	Rehabilitation of Berkeley Well	1,500,000
5	Rehabilitation of Shirrell Well	1,150,000
6	RW Booster Station Process and Control Upgrades	72,000
7	Patterson Pump Station Replacement	350,000
8	Pump & Motor Replacements	39,230
9	Electrical Replacements	64,998
10	SCADA Replacements & Upgrades	49,100
11	Water Treatment Equipment Replacements	30,622
12	Emergency Main Replacements	202,410
13	City, County, Caltrans Relocation Required Projects	320,080
14	Polybutylene Service Replacements	80,150
15	Copper Service Line Replacements	64,116
16	Valve & Hydrant Replacements	391,996
17	PRV Replacements	10,350
18	Stormwater Headquarters Master Plan	216,700
19	New Wells	2,324,260
20	Reservoir Hatch Replacements	27,096
21	Small Meter Replacements	1,000,000
22	Upsizing of Mains	85,780
23	Cathodic Protection Upgrades	175,000
24	Fleet Replacements	85,500
25	Equipment Replacements	23,000
26	Information Technology Upgrades	72,960
Infrastructure Improvement Projects Total		**$ 9,765,348**

Summary of District Expenditure Forecast for FY 2016-17

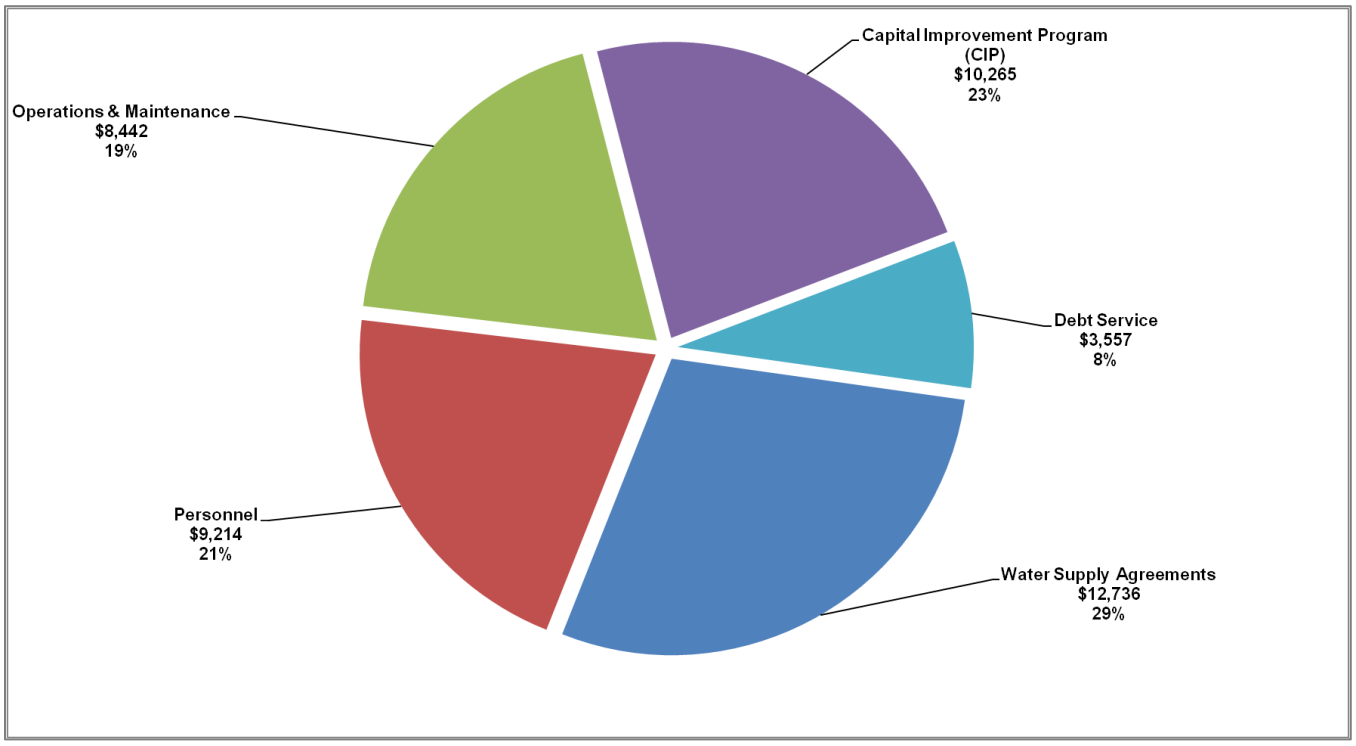
Table 3.4 and Figure 3.4 summarize FY 2016-17 total expenditures of $44.2M. A key component of the annual Budget is to prepare for cash flow variables throughout the year and pace program and project expenditures accordingly. FY 2016-17 expenditures have incorporated customer behaviors and the accompanying seasonality of revenue as described in Section II.

Table 3.4 FY 2016-17 Budget Expenditures Compared to FY 2015-16 Budget Expenditures

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,120,807	$ 2,639,019	$ 3,197,321	$ 76,514	2%
CCRB (Water Rights)	425,000	318,750	500,000	75,000	18%
SB County (Cloud Seeding)	40,000	51,855	50,000	10,000	25%
CCWA (State Water Deliveries)	9,320,757	10,996,962	8,311,551	(1,009,206)	(11%)
GSD (Recycled Water Production)	676,630	581,682	676,630	(0)	(0%)
Subtotal:	**$ 13,583,194**	**$ 14,588,268**	**$ 12,735,502**	**$ (847,692)**	**(6%)**
Personnel:					
Wages, Benefits, and Taxes	$ 8,462,071	$ 8,666,081	$ 8,809,808	$ 347,738	4%
Other Post Employment Benefits	389,346	397,026	404,028	14,682	4%
Subtotal:	**$ 8,851,417**	**$ 9,063,107**	**$ 9,213,836**	**$ 362,419**	**4%**
Operations & Maintenance:					
Water Treatment	$ 304,225	$ 414,552	$ 427,088	$ 122,863	40%
Water Testing	198,649	208,506	$ 263,300	64,651	33%
Insurance, Accounting, & Auditing	308,322	241,094	$ 260,624	(47,698)	(15%)
Maintenance & Equipment	669,938	871,172	$ 898,183	228,245	34%
Legal	1,012,400	1,611,039	$ 1,336,501	324,101	32%
Services & Supplies	4,078,437	3,234,816	$ 4,382,763	304,326	7%
Utilities	810,399	844,595	$ 873,833	63,434	8%
Subtotal:	**$ 7,382,370**	**$ 7,425,774**	**$ 8,442,292**	**$ 1,059,922**	**14%**
Total Expenditures before Debt and CIP:	**$ 29,816,981**	**$ 31,077,149**	**$ 30,391,630**	**$ 574,649**	**2%**
Debt Service:	**3,555,163**	**3,556,311**	**3,557,088**	**1,926**	**0%**
Capital Improvement Projects (CIP):	**5,771,501**	**3,360,617**	**10,265,348**	**4,493,848**	**78%**
Total Expenditures:	**$ 39,143,644**	**$ 37,994,077**	**$ 44,214,066**	**$ 5,070,422**	**13%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

Figure 3.4 FY 2016-17 Budgeted Expenditure Allocations ($000s)



The FY 2016-17 expenditures are $44.2M, an increase of $5.1M compared to FY 2015-16. The net increase is a combination of the following significant factors:

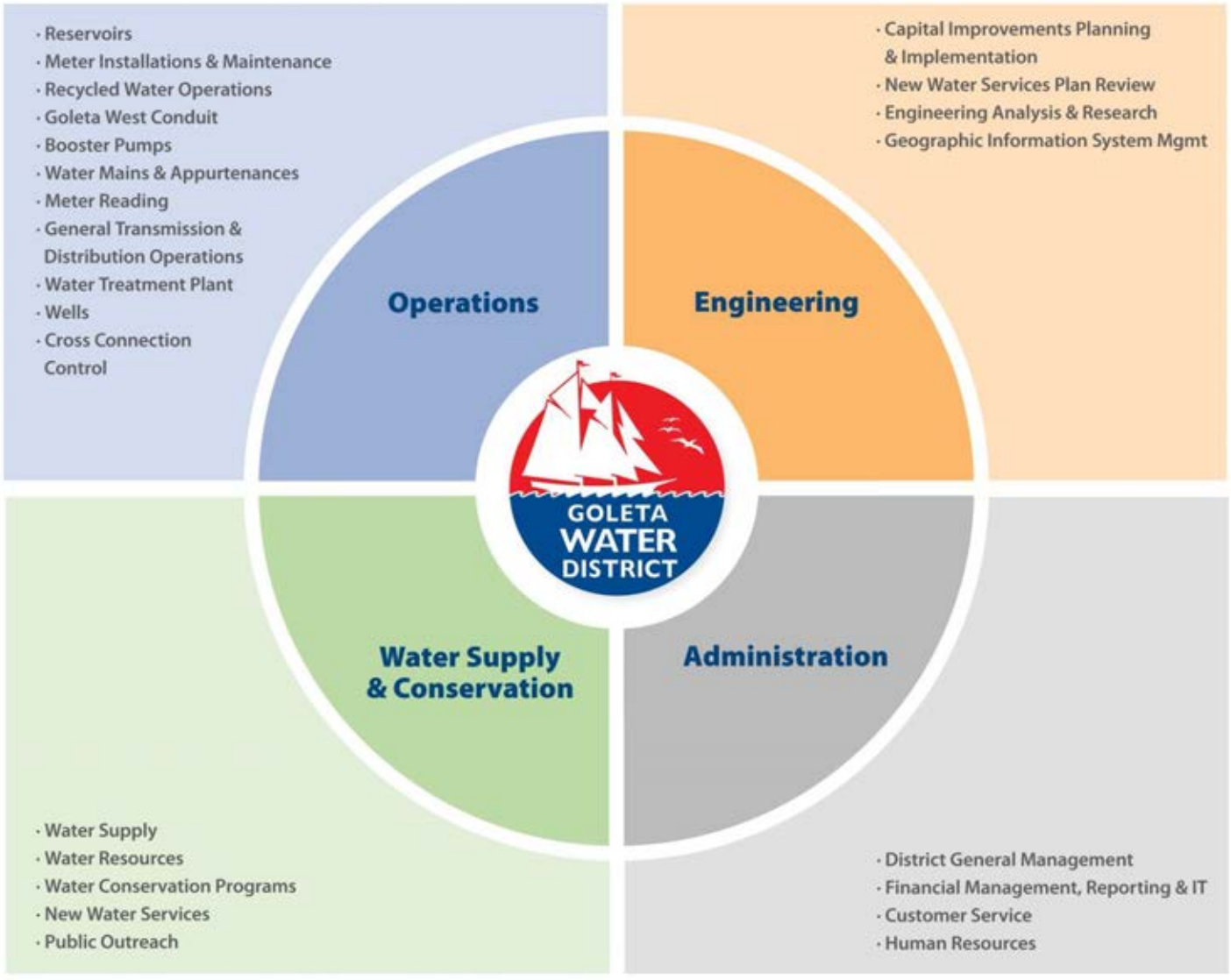
- Capital Improvement Projects – There are several factors influencing proposed capital expenditures, including the cost of drilling a new well and rehabilitating several existing wells to ensure sufficient groundwater production during the drought. Additionally, one-time proceeds made available when the District refinanced debt in 2014 have now been exhausted.
- Drought Planning and Response - Operations and maintenance costs associated with groundwater pumping contributed to an overall increase in expenditures.
- Legal expenses associated with protecting the Goleta Groundwater Basin have increased due to current litigation.

APPENDIX

Cost Center Overview

The District tracks disbursements by charging each expenditure to an accounting code associated with a specific function. The 24 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 24 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 the 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 2016-17 Budgeted Expenditures by Departmental Cost Center

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 8,826,850	$ 8,433,832	$ 9,759,243	$ 932,393	11%
Engineering	293,777	514,396	526,591	232,814	79%
Water Supply & Conservation	15,763,334	16,438,708	15,086,317	(677,017)	(4%)
General Administration	4,933,020	5,690,213	5,019,479	86,459	2%
Total Expenditures:	**$ 29,816,981**	**$ 31,077,149**	**$ 30,391,630**	**$ 574,649**	**2%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

Total FY 2016-17 cost center expenditures will be $30.4M which is an increase of $575K, or 2 percent, from FY 2015-16, including:

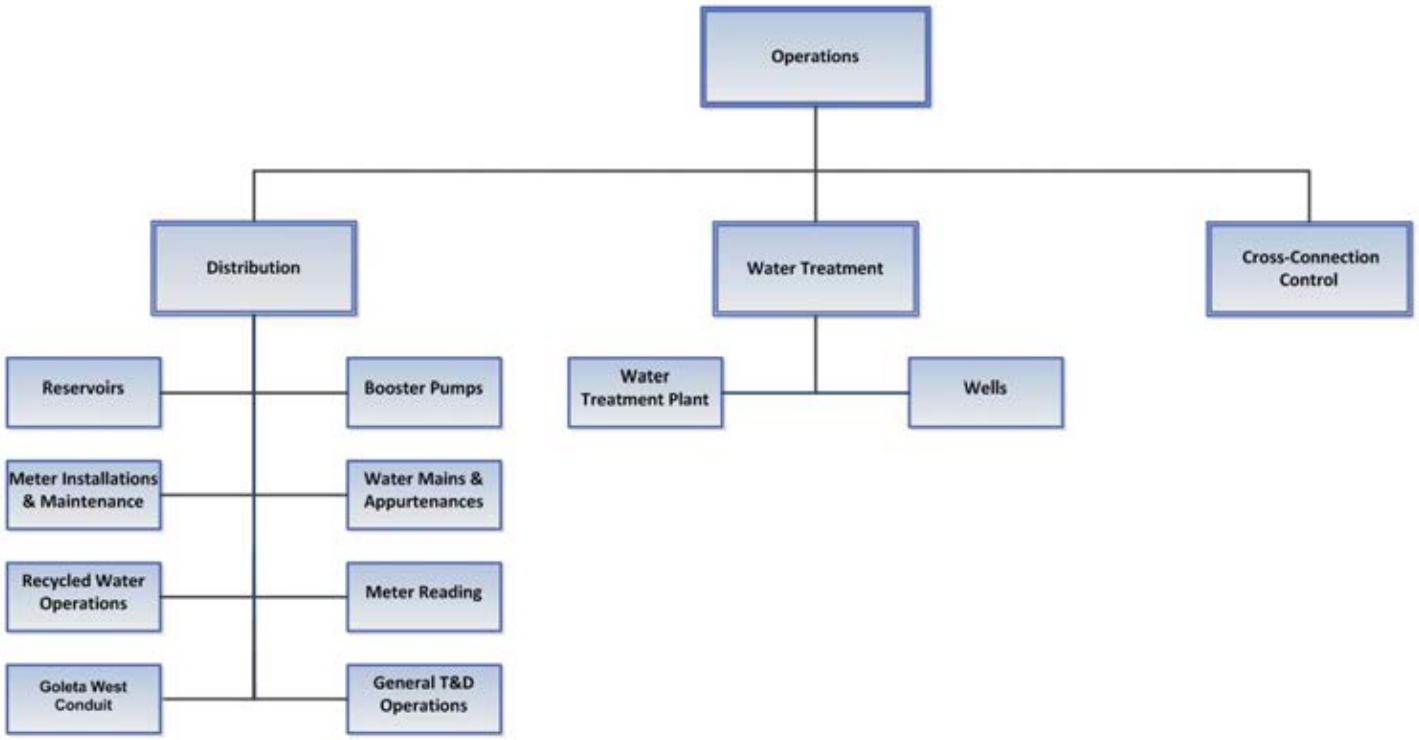
- A $932K increase in Operations is a result of the continuing elevated costs associated with meeting customer demand during the drought, including operations and maintenance for the District wells and distribution systems, and accelerated leak response and repair times.
- An $233K increase in Engineering costs as a result of the increased number of IIP projects currently being designed and constructed.
- An $677K or 5 percent decrease in Water Supply & Conservation expenditures due to credits from less State Water delivery in the current year than reqested and prepaid.
- An $86K increase in General Administration costs due to increased legal expenses.

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 2.85 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.

Over 200,000 meter readings are obtained yearly by visiting each customer's meter location. These reads ensure timely and accurate collection of water use information for customer service and billing.

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.

Distribution Operations priorities in FY 2016-17 include:

- Operational changes to accommodate increased groundwater production from the planned new wells and the expanded capacity of the existing wells. This includes active coordination of the various pumping facilities and pressure regulating stations in the distribution system to maintain adequate flows and pressures under changing conditions.
- Condition assessment and evaluation of the transmission system as a preventative measure to guard against the potential for leaks, and proactively manage District facilities to lower the risk of catastrophic loss of property and water.

Each year, licensed Goleta Water District operators go out into the field to collect and test approximately 7,000 water quality samples from all over the service area to ensure the highest possible water quality and customer safety.

- A continuation of condition assessments and evaluations of the District's storage reservoirs.
- Continuation of the Storm Water Management Program Upgrades at District Headquarters to ensure compliance with regulatory guidelines for enhanced control of runoff, and achieve water quality goals outlined in the District's Sustainability Plan.

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 Cachuma water for agricultural irrigation and receives chlorination treatment from two chlorination facilities. Finally, recycled water is treated to meet regulatory standards and distributed to outdoor irrigation and restroom facilities.

Water Treatment priorities in FY 2016-17 include:

- Operational and treatment changes as groundwater production increases and conditions at Lake Cachuma change.
- Integrating new groundwater well facilities into the daily operational routines of the water treatment staff as groundwater production increases.
- Improvements to the CDMWTP, including construction of a safety platform for the chemical storage tanks to facilitate increased maintenance and testing to meet regulatory requirements as well as improve safety.

- Operational changes using the newly installed by-pass line at the CDMWTP to operate at very low flow rates to minimize operational disruption associated with shutting down and restarting the CDMWTP.

- Expansion of the water quality sampling program beyond current regulatory requirements and best managenent practices to further enhance the District's ability to anticipate changing water quality conditions at various supply sources and throughout the distribution system that could lead to changes in constituent levels.

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 insuring each device is tested annually and maintains current records of annual test results.

Cross-Connection Control priorities in FY 2016-17 include:

- Institution of a new backflow prevention program that will improve record keeping and digitize test results for improved efficiency and accuracy.
- Implementation of dual plumbed facilities with proper cross connection controls at University of California Santa Barbara's new San Joaquin Towers construction site. This will be the first major installation of dual plumbed facilities in the District's distribution system.
- Proactive customer outreach campaign to minimize the number of delayed backflow device test results submitted by customers.
- Continuation of aggressive on-site inspections of contractors and construction sites to reduce potential cross-connection hazards.

Operations Accomplishments FY 2015-16

During FY 2015-16, Operations completed a number of projects to enhance water supply, improve water treatment, and increase energy and operational efficiency, including:

- Meeting groundwater production targets necessary for groundwater to supply the majority of potable water for the first time in 20 years. Groundwater production increased 16% from the previous fiscal year, and potable water production from wells surpassed total potable CDMTWP production for the majority of FY 2015-16.
- Preparation for El Niño to improve safety and emergency response during extreme weather events, including a review of all main line creek crossings and emergency response plans, and a verification of all external phone numbers along with other miscellaneous items to prepare for the possibility of unusual

flooding. The District incorporated satellite phones into the safety response system for emergency purposes, improving communication and quick response abilities.

- Rehabilitation of the CDMWTP sludge beds to improve water quality and enhance the natural drying process associated with cost effective removal of organic material.
- Four storage reservoirs were cleaned with divers to minimize the loss of water and minimize down time to maintain groundwater delivery during the drought.
- The District completed the construction of an 18" low flow by-pass line and equipment project at CDMWTP, which enables efficient treatment of water at reduced flow rates. With limited flow from the lake, this upgrade is essential as it allows CDMWTP to run at low volume as well production increases to serve District customers.
- The District completed an advanced metering infrastructure technology upgrade to achieve greater control and monitoring of operational and water quality issues in the distribution system that have arisen as a result of the drought. 1,558 non-residential meters in the District's potable, recycled water and Goleta West Conduit systems representing 65% of total usage in the system will now provide real-time usage data.
- Operations organized the installation of large mixers and aeration facilities at two of the District's storage reservoirs to decrease organic loading in the water and maintain water quality, despite the severe drought conditions.
- The Supervisory Control and Data Acquisition (SCADA) system was improved to enable continuous monitoring at the emergency interconnections and at the emergency booster stations that move water to the upper level zones.
- The District's emergency pumping stations were upgraded at Edison and Patterson with the addition of two new pumps and two refurbished pumps.
- As part of the ongoing valve replacement and installation program, a new 20" butterfly valve was installed at the outlet of Patterson Reservoir, two new 18" butterfly valves and a new tie in were installed at Hollister and Cremona Drive, a new 30" transmission valve at Cathedral Oaks and Patterson Ave and inoperable line valves were replaced throughout the system.

In response to ongoing drought conditions, the District plans to maximize groundwater use within the parameters set by the Wright Judgment and the SAFE Ordinance. Current groundwater well capacity projects will allow the District to produce approximately 7,200 AF of groundwater in FY 2016-17 to meet customer demands.

FY 2016-17 Operations Cost Center Budget

Table 4.2 details the primary Operations expenditure categories and describes variances between FY 2015-16 Budget and FY 2016-17 budgeted expenditures.

Table 4.2 FY 2016-17 Operations Cost Center Budget Summary

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Operations					
Personnel:	**$ 4,775,923**	**$ 4,628,989**	**$ 4,972,553**	**$ 196,630**	**4%**
Operations & Maintenance:					
Water Treatment	304,225	414,552	427,088	122,863	40%
Water Testing	198,649	208,506	263,300	64,651	33%
Insurance, Accounting, & Auditing	107,969	39,866	100,132	(7,837)	(7%)
Maintenance & Equipment	669,938	871,042	947,683	277,745	41%
Services & Supplies	1,959,746	1,426,282	2,174,654	214,908	11%
Utilities	810,399	844,595	873,833	63,434	8%
Subtotal:	4,050,927	3,804,843	4,786,690	735,763	18%
Total Expenditures:	**$ 8,826,850**	**$ 8,433,832**	**$ 9,759,243**	**$ 932,394**	**11%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

The Operations budget will increase in FY 2016-17 by 11 percent, or $932K. Notable changes from FY 2015-16 Operations Budget to the FY 2016-17 Budget include:

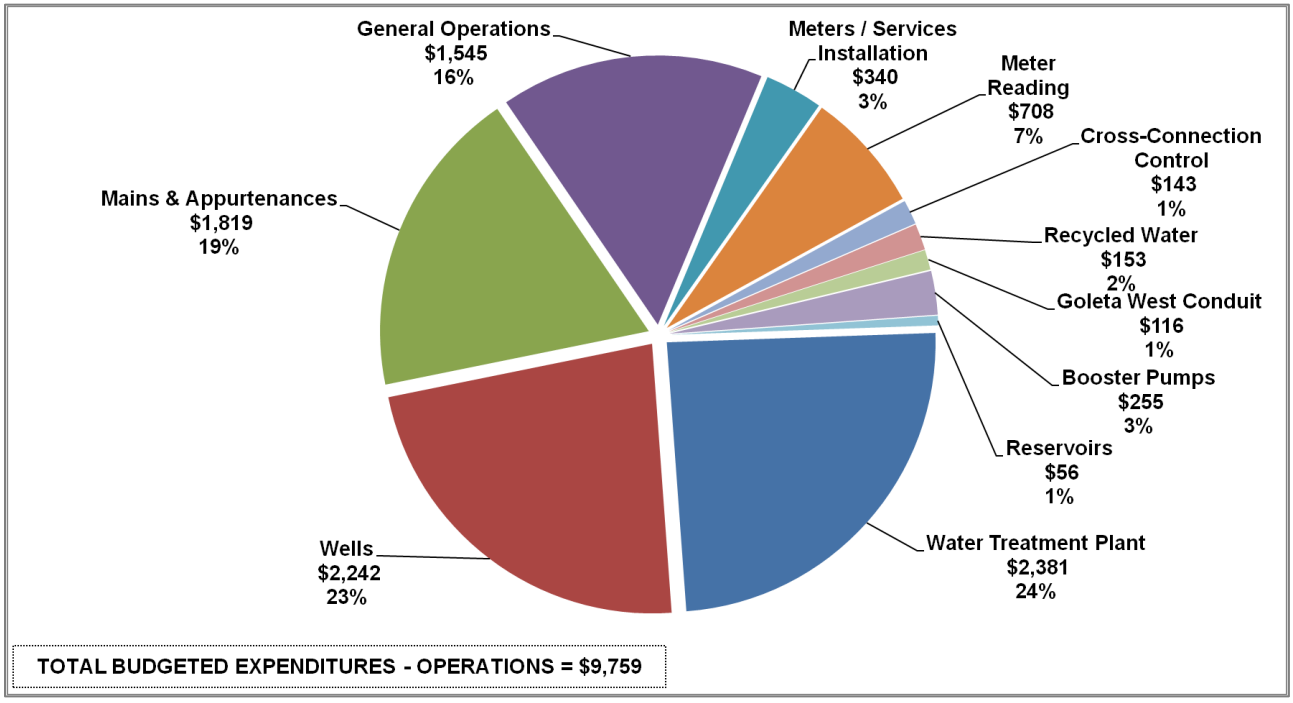
- Operations personnel costs will increase 4 percent in FY 2016-17 consistent with overall SEIU negotiated provisions.
- Water Treatment costs will increase by $123K due to the treatment of purchased water at CDMWTP, changing conditions at the lake and distribution system analysis and treatment resulting from changes in water supply sources.
- Services and Supplies includes costs to fund well rehabilitations, groundwater modeling work, overall hydraulic flow characteristics in the system and other drought-related expenditures. These projects and the review of the 42" transmission main's structural integrity to pinpoint any weaknesses in the pipe to prevent sudden loss during the drought account for the increase of $215K year-over-year.
- Utility costs will rise by $63K compared to FY 2015-16 as the result of increased groundwater well operations in response to the drought, including the use of booster stations to pump water to higher elevations, and to balance supplies throughout the District's 23 pressure zones.
- Maintenance & Equipment costs will increase by $278K based on current year experience with maintaining the District's seven operating wells and the anticipated two additional wells that will be online in FY 2016-17.

Table 4.3 and Figure 4.3 provide a detailed breakdown of Operations expenditures by programmatic cost center.

Table 4.3 FY 2016-17 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	$ 283,000	$ 104,088	$ -	$ -	$ -	$ -	$ -	$ -	$ 40,000	$ -	$ -	$ 427,088
Water Testing	164,000	97,300	-	-	-	-	-	-	2,000	-	-	263,300
Personnel - Wages	920,373	322,714	782,979	491,294	113,161	449,569	69,977	55,532	34,484	21,131	12,867	3,274,080
Personnel - Benefits	345,338	118,728	337,628	205,588	53,785	186,919	25,468	24,510	10,408	9,556	6,163	1,324,091
Personnel - Taxes & W.C.	108,923	38,388	95,507	48,429	13,480	42,446	12,500	6,540	4,120	2,497	1,553	374,383
Insurance, Accounting, & Auditing	22,025	-	24,033	28,033	8,017	14,025	4,000	-	-	-	-	100,132
Maintenance & Equipment	88,700	337,250	189,300	225,833	90,500	1,700	3,000	4,700	6,800	18,900	8,000	974,683
Services & Supplies	364,057	674,085	376,247	513,778	60,902	13,214	28,271	39,600	15,500	37,000	25,000	2,147,654
Utilities	84,594	549,941	13,317	32,432	-	-	-	21,841	3,100	166,065	2,544	873,833
Total:	**$2,381,010**	**$2,242,495**	**$ 1,819,009**	**$1,545,387**	**$ 339,844**	**$707,874**	**$ 143,216**	**$152,723**	**$116,411**	**$ 255,149**	**$ 56,127**	**$ 9,759,243**

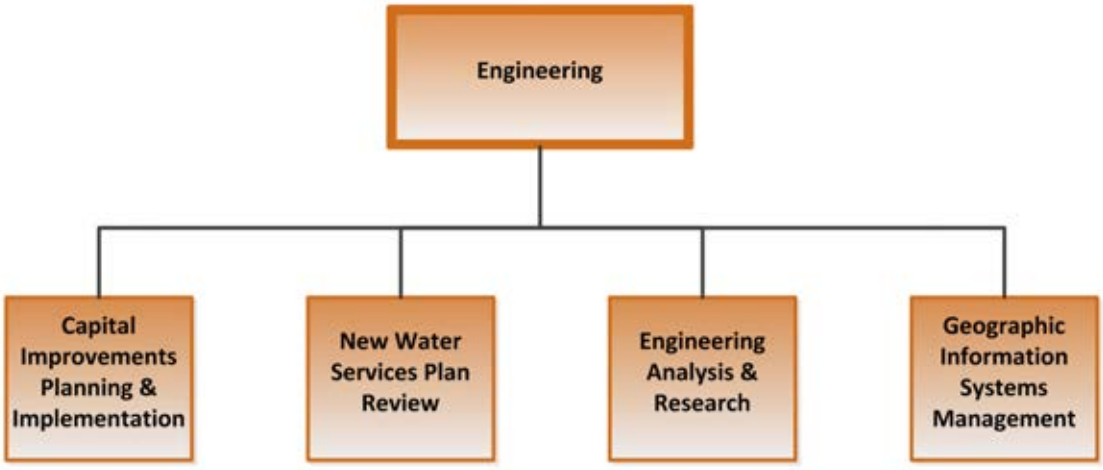
Figure 4.3 FY 2016-17 Operations Budgeted Expenditures by Programmatic Cost Center ($000s)



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 constructed to meet industry and regulatory standards as well as the 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 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 implementation of capital projects consistent with the District 2015-2020 IIP and 2012 Sustainability Plan. Specific efforts include developing project budgets, cost estimates, schedules and construction documents to meet the needs of the District over the five-year planning horizon. 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. Costs that can be capitalized are not included in the budget for this function, and are instead reflected on the Capital Improvement Projects line item.

Well projects continue to be the primary focus for Engineering in FY 2016-17 with eight significant construction projects related to groundwater production distribution planned for the fiscal year.

During FY 2016-17, capital projects will continue to focus critical investment in the District's well program as groundwater continues to serve as the primary source of water for customers during the drought. Planned well projects include improvements to the San Marcos Well treatment facilities, existing well treatments and facilities upgrades at the District's other wells, and completion of the rehabilitation work to bring two of the District's inactive small wells, Berkeley and Shirrell back into production. Pumps at the Patterson emergency pumping station will also be replaced and rightsized to ensure these pumps can reliably deliver groundwater to the 40% of the system at higher elevations fulltime, and not just under emergency conditions as originally designed. Additional investments are needed to meet regulatory requirements and address critical system needs. Projects at the Corona Del Mar

Water Treatment Plant include the construction of Sludge Drying Bed #3, and construction of a safety platform to improve access to the chemical storage tanks for maintenance.

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 onsite 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 with historical water credits for which the new proposed project will use the same or less water, and projects that have already paid their new water supply charge require processing.

Engineering Analysis and Research

The Engineering Analysis and Research cost center supports District operations with technical expertise and carries out other assignments such as updating the District Engineering Standards and Specifications to be consistent with the latest industry standards for construction materials, practices and design. Engineering Standards and Specifications also address operational integrity and efficiencies, as well as value-engineering techniques to ensure the least-cost methods and materials are used to bring efficient water services to all customers, while meeting regulatory standards and operational goals of the District. With the potential for variations in water quality due to the drought, the Engineering Analysis and Research cost center may also proactively investigate treatment options in order to prepare for future capital projects.

Geographic Information System Management

The GIS cost center is responsible for maintaining the records 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, accurate and available to field and office staff when needed. GIS management also provides the analysis, technical research and recordkeeping process to ensure the integrity and operational capacity of District water systems.

The GIS cost center also administers a hydraulic model of the distribution system, based on the GIS. This model provides valuable information related to water flow, pressure, water age and quality analysis, the need to upgrade system components and other impacts of proposed changes to the system. The model is used to inform capital and operational decisions for long-term planning. The model also enables the District to ensure that adequate fire flows and pressures are maintained during peak customer demand periods.

Engineering Accomplishments FY 2015-16

Key Engineering FY 2015-16 projects included:

- Completed construction of the CDMWTP Low Flow Bypass Valve Project.
- Rehabilitated and increased production of the Anita Well.

- Completed master plans and procured a design contract for improvements at seven District wells.
- Procured an annual well maintenance, repair, and cleaning contract for as-needed use by the Operations Department.
- Completed Phase 1 Design-Build work, including initial pumping and water quality tests at the Berkeley, Shirrell, SB Corp and Oak Grove wells in preparation to rehab Berkeley and Shirrell.
- Procured a design-build contract for the San Marcos Well Treatment & Facilities Upgrade Project.
- Procured and managed a design-build contract for capacity-increasing improvements to the San Ricardo Booster Well Booster Pump Station.
- Procured and managed a design contract for improvements of the Patterson, Van Horne, and Edison booster pump stations.
- Modeled and developed design criteria for Aquifer Storage Recharge (injection) well for future design and construction.
- Assisted with over twenty staff analyses and Preliminary Condition Letters and provided plan review and construction inspection for over twenty-six developer or agency-driven water system projects
- Entered more than 200 new attributes into the Geographic Information System (GIS), and created over 70 maps and exhibits using GIS data.

FY 2016-17 Engineering Budget

Table 4.4 outlines non-capital Engineering Department budget and estimated actual expenditures for FY 2015-16, the draft budget for FY 2016-17, and describes variances between FY 2015-16 and FY 2016-17 budgets.

Table 4.4 FY 2016-17 Engineering Cost Center Budget Summary

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Engineering					
Personnel:	**$ 211,563**	**$ 423,010**	**$ 367,975**	**$ 156,412**	**74%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	12,384	4,128	12,034	(350)	(3%)
Maintenance & Equipment	-	130	500	500	-
Services & Supplies	69,830	87,128	146,082	76,252	109%
Subtotal:	82,214	91,386	158,616	76,402	93%
Total Expenditures:	**$ 293,777**	**$ 514,396**	**$ 526,591**	**$ 232,814**	**79%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

Engineering expenses will increase by $233K or 79 percent, in FY 2016-17. Notable changes from the FY 2015-16 Budget to the FY 2016-17 Budget include:

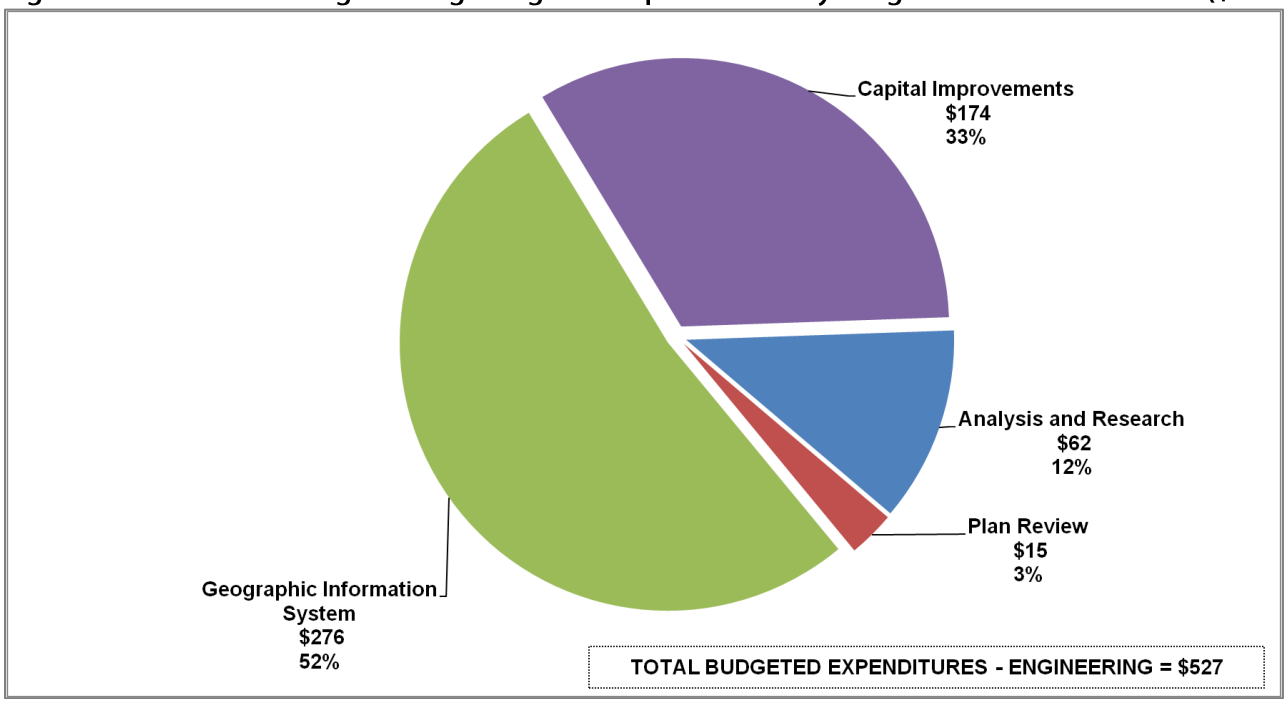
- Engineering staff levels will remain constant in FY 2016-17, but personnel costs will increase by $156K, or 74% percent primarily due to GIS system support related efforts that will be expensed now that the GIS upgrade project is complete. These staffing costs were previously included in the capital line item, but are now allocated to the personnel line item based on an accounting review of the activities.
- Capital Services & Supplies costs will increase by $76K mainly due to computer and software support needed to integrate the data warehouse and GIS system.

Table 4.5 and Figure 4.5 provide a detailed breakdown of Enginnering expenditures.

Table 4.5 FY 2016-17 Engineering Budgeted Expenditures by Programmatic Cost Center

Description	Analysis and Research	Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 12,464	$ 6,795	$ 150,082	$ 88,566	$ 257,907
Personnel - Benefits	2,433	1,981	45,047	40,470	89,930
Personnel - Taxes & W.C.	1,041	585	11,052	7,460	20,138
Insurance, Accounting, & Auditing	6,008	2,008	2,008	2,008	12,034
Maintenance & Equipment	-	500	-	-	500
Services & Supplies	39,939	2,890	67,363	35,890	146,082
Total:	**$ 61,883**	**$ 14,759**	**$ 275,552**	**$ 174,395**	**$ 526,591**

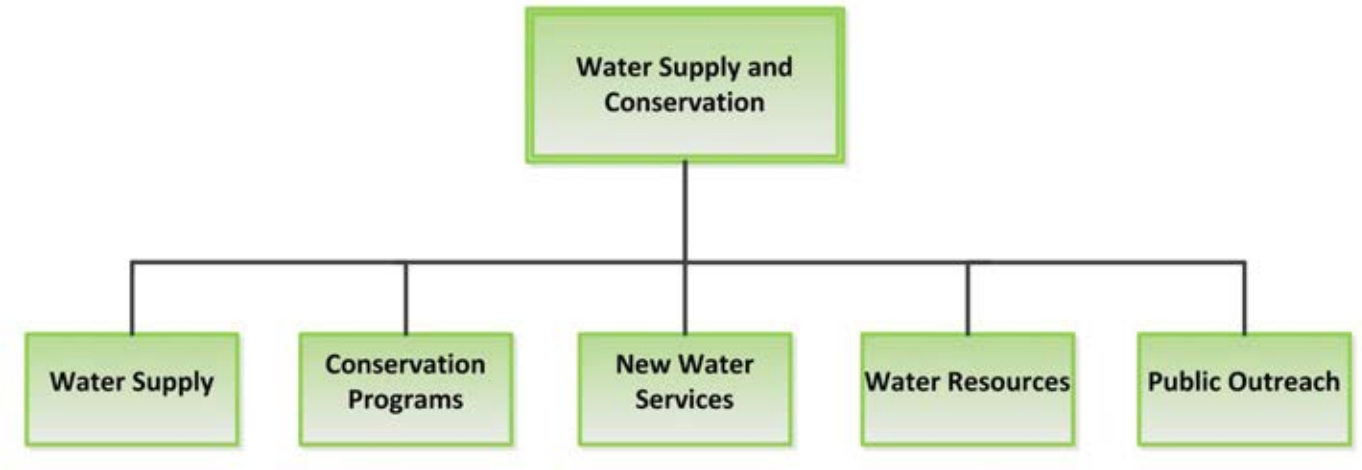
Figure 4.5 FY 2016-17 Engineering Budgeted Expenditures by Programmatic Cost Center ($000s)



WATER SUPPLY & CONSERVATION COST CENTER

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

Figure 4.6 Water Supply and Conservation Programmatic Functions



Conservation Programs

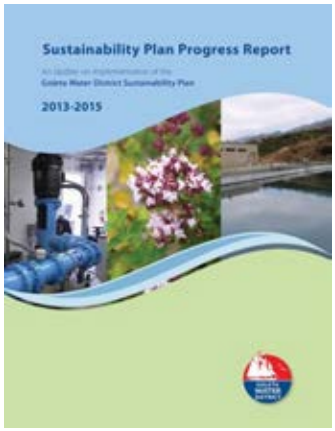
Conservation and efficient water use helps preserve and extend water supplies for all District customers. As a long-time leader in conservation practices and a signatory to the CUWCC and the CUWCC Memorandum of Understanding, the District works in partnership with agencies and organizations across the region to support customers' ability to use water as efficiently as possible. As the exceptional drought conditions continue, in FY 2016-17 conservation program elements will continue to be offered to targeted customer classes to further reduce outdoor and indoor water use. Ongoing drought response conservation efforts will also support ongoing District efforts to meet State conservation targets.

Under the voter approved S.A.F.E. Ordinance the District stopped issuing new water service as of October 1, 2014. The ordinance was triggered when District allocation for Water Year 14-15 from Lake Cachuma fell below 100%.

New Water Services

The New Water Services cost center focuses on establishing relationships with 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 takes the lead on contingency planning and outreach to the development community on issues related to the drought and its impacts on new development.

Water Resources



The Water Resources program supports the ongoing management of water supply agreements and coordinates the District foundational resource plans, including the Groundwater Management Plan, Water Supply Management Plan, Urban Water Management Plan and the Sustainability Plan, all of which will be updated in FY 16-17. 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 2016-17 priorities include continued work with CCRB and other regional partners to protect surface water rights; ongoing implementation and reporting related to the Sustainability Plan; an update of the Groundwater Management Plan and Water Supply Management Plan; an update of the Urban Water Management Plan; investigation of water supply development and drought supply augmentation; and research, policy development and contingency planning related to potential water shortage stage declarations in drought conditions. The District is also developing a Stormwater Resources Plan (SRP) that will (1) explore water quantity potentials of stormwater projects, (2) identify possible projects such as spreading basins, and (3) determine hydrologically optimal project locations. By developing a methodology for determining the most sensible projects, the District is well-positioned to take advantage of emerging state and federal funding programs designed to help communities create local sustainable drinking water sources.

The Water Resources cost center includes a grants management function and is responsible for seeking out and applying for new grant opportunities. During FY 2015-16 grant activities focused on securing a $75,000 grant from the State for a Recycled Water feasibility study to explore expanded use of recycled water. During FY 2016-17, grant activities will be focused on securing grant funding for additional Smart Landscape Rebate Program funding through DWR, securing water-energy efficiency grant funding for pump upgrades from the US Bureau of Reclamation, and securing additional capital improvements funding from the State Water Resources Control Board.

Public Outreach

The Public Outreach program includes all District communications, media relations, press releases, special outreach initiatives, newsletters, and oversight of the website and internet presence. The Public Outreach cost center ensures customers are equipped with reliable, timely and objective information, enabling a clear understanding of District issues and activities. FY 2016-17 public outreach will continue to focus on drought and water shortage customer outreach and will identify and utilize innovative and effective communication methods to engage with and understand the District customer base, ensuring District services align with customer needs and values.

Water Supply and Conservation Accomplishments FY 2015-16

Key WS&C accomplishments during FY 2015-16, include:

- Implementation of Board-adopted Stage III water use restrictions, adopted May 12, 2015, including 370 water waste violations reported, issuance of 43 written conservation notices, and 6 notices of violations with fines.

- Development and implementation of Board-adopted District Code modifications in response to the ongoing drought, including updating water use restrictions related to District water shortage stages II-V.
- Secured an additional 2,500 AF of supplemental water supply through an exchange agreement through the Central Coast Water Authority in December of 2015. This acquisition prevented the need for the District to declare a Stage IV Water Shortage Emergency pursuant to its Drought Water Shortage and Contingency Plan.
- Secured grant funding for a Potable Reuse Study to explore options for advanced treatment technologies to expand the use of recycled water and augment supply.
- Initiated formation of a Groundwater Sustainability Agency for the Goleta Groundwater Basin, to ensure the Basin is protected and managed sustainably for District customers.
- Connected with more than 2000 customers at conservation outreach events and 450 students via school presentations during FY 2015-16 to educate the community on the drought, local and statewide water use restrictions, and ways to eliminate water waste and conserve water.

- Continued implementation of the Drought Outreach Plan related to the Stage III Water Shortage Emergency declaration, including giving 10 presentations to community groups and organizations regarding the drought, developing and distributing over 2000 water shortage-related signs to 5 local gyms, 40 restaurants, and 24 recycled water irrigation customers, and making extensive and ongoing improvements to the District website to address current water supply situation and related restrictions.
- Implementation of the Customer Class Scorecard Program, with detailed analysis of top water users in each customer class. The program aims to achieve water savings by targeting large water uses with a multi-touch campaign featuring monthly letters, phone calls, and postcards promoting rebate programs and water conservation checkups.
- Development of drought portals for Goleta West Conduit, urban agriculture, and urban water use classes, with detailed updates on water supply scenarios and usage patterns of each class.
- Reauthorization of the Smart Landscape Rebate Program, including over 315 applicant site visits for rebate qualification.
- Reauthorization of the Water Saving Incentive Program to offer rebates for water-saving projects on larger landscapes and landscape irrigation accounts.

- Reauthorization of the Water Budget and Survey Program to offer customers individual water budgets and surveys with irrigation improvement recommendations.
- Participation in the County of Santa Barbara's Long Range Water Supply Alternatives Study to identify opportunities for regional collaboration and solutions to meet water supply challenges.

FY 2016-17 Water Supply and Conservation Budget

Table 4.6 details the primary FY 2016-17 WS&C budgeted expenditures and variances from the FY 2015-16 Budget.

Table 4.6 FY 2016-17 Water Supply and Conservation Cost Center Budget Summary

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - WS&C					
Water Supply Agreements:					
COMB (Lake Cachume Deliveries)	$ 3,120,807	$ 2,639,019	$ 3,197,321	$ 76,514	2%
CCRB (Water Rights)	425,000	318,750	500,000	75,000	18%
SB County (Cload Seeding)	40,000	51,855	50,000	10,000	25%
CCWA (State Water Deliveries)	9,320,757	10,996,962	8,311,551	(1,009,206)	(11%)
GSD (Recycled Water Production)	676,630	581,682	676,630	(0)	(0%)
Subtotal:	**13,583,194**	**14,588,268**	**12,735,502**	**(847,692)**	**(6%)**
Personnel:	**1,157,150**	**1,196,099**	**1,274,842**	**117,692**	**10%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	18,684	7,268	40,709	22,025	118%
Maintenance & Equipment	-	-	-	-	-
Services & Supplies	1,004,306	647,073	1,035,264	30,958	3%
Subtotal:	**1,022,990**	**654,341**	**1,075,972**	**52,982**	**5%**
Total Expenditures:	**$ 15,763,334**	**$ 16,438,708**	**$ 15,086,317**	**$ (677,017)**	**(4%)**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

The WS&C cost center Budget will decrease by $677K, or 4 percent, in FY 2016-17. Notable changes from the FY 2015-16 Budget to FY 2016-17 Budget include:

- Overall costs associated with Water Supply Agreements have decreased $848K compared to the previous year due to credits from less delivery in the current year than requested and prepaid.

- Services and Supplies costs are projected to increase $31K primarily for public outreach and planning efforts. The District will continue implementing the Drought Outreach Plan that includes a public outreach campaign to increase community awareness of the water supply shortage and importance of water use efficiency. Outreach efforts include $40K designated to address water rights issues;

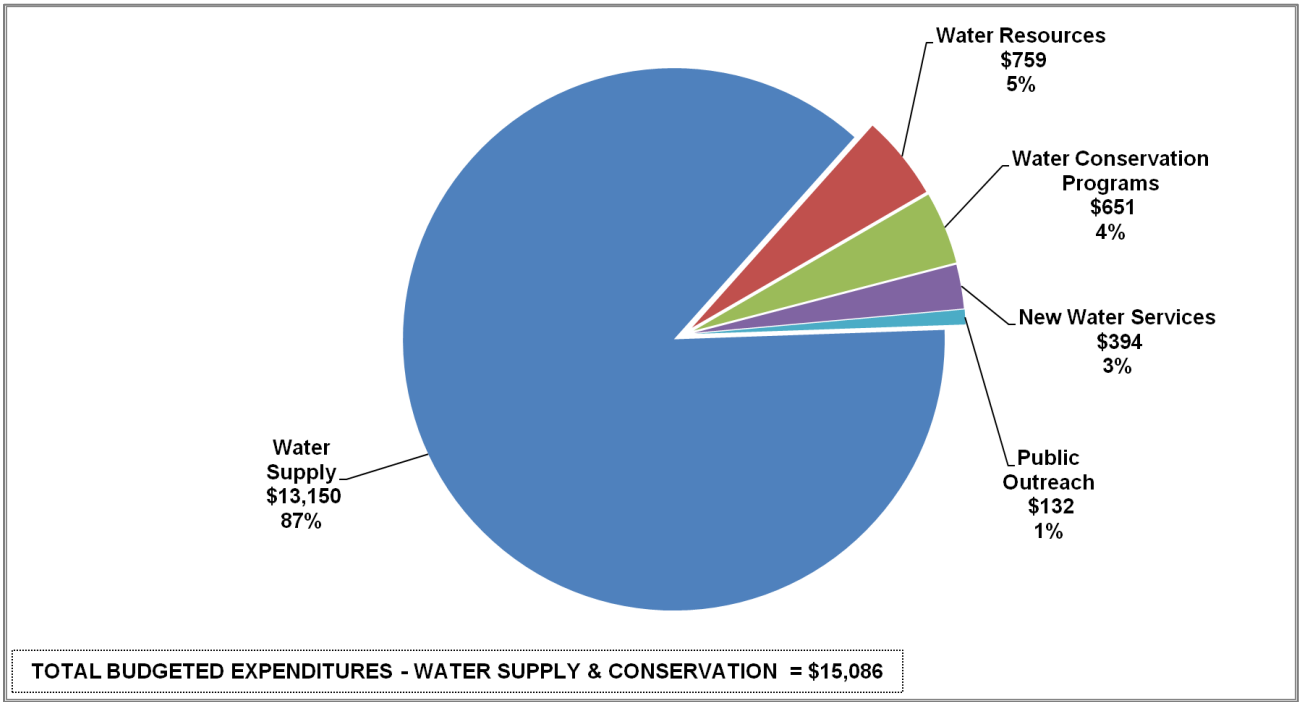
particularly in regard to Lake Cachuma and the Biological Opinion. Funds budgeted for various planning efforts will increase $100K as significant work for the Water Supply Management Plan and Groundwater Management Plan has been deferred to FY 2016-17 and new planning efforts for Stormwater Resources and Groundwater Sustainability will be initiated. District water conservation rebate programs, including smart landscape rebates and incentives for efficient fixture retrofits and agriculture irrigation upgrades, will continue to be implemented to assist the community in reducing water use and extending water supplies during the drought. Promotion of free water checkups will also continue to be offered to customers.

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

Table 4.7 FY 2016-17 WS&C Budgeted Expenditures by Programmatic Cost Center

Description	Water Supply	Water Resources	Water Conservation Programs	New Water Services	Public Outreach	Total WS&C
COMB (Lake Cachume Deliveries)	$ 3,197,321	$ -	$ -	$ -	$ -	$ 3,197,321
CCRB (Water Rights)	500,000	-	-	-	-	500,000
SB County (Cload Seeding)	50,000	-	-	-	-	50,000
CCWA (State Water Deliveries)	8,311,551	-	-	-	-	8,311,551
GSD (Recycled Water Production)	676,630	-	-	-	-	676,630
Personnel - Wages	307,864	161,514	173,508	265,664	-	908,550
Personnel - Benefits	83,967	61,045	62,806	83,934	-	291,751
Personnel - Taxes & W.C.	23,013	14,085	14,591	22,853	-	74,541
Insurance, Accounting, & Auditing	-	28,692	4,000	6,008	2,008	40,709
Maintenance & Equipment	-	-	-	-	-	-
Services & Supplies	-	493,737	395,734	15,517	130,275	1,035,264
Total:	**$ 13,150,346**	**$ 759,073**	**$ 650,639**	**$ 393,976**	**$ 132,284**	**$ 15,086,317**

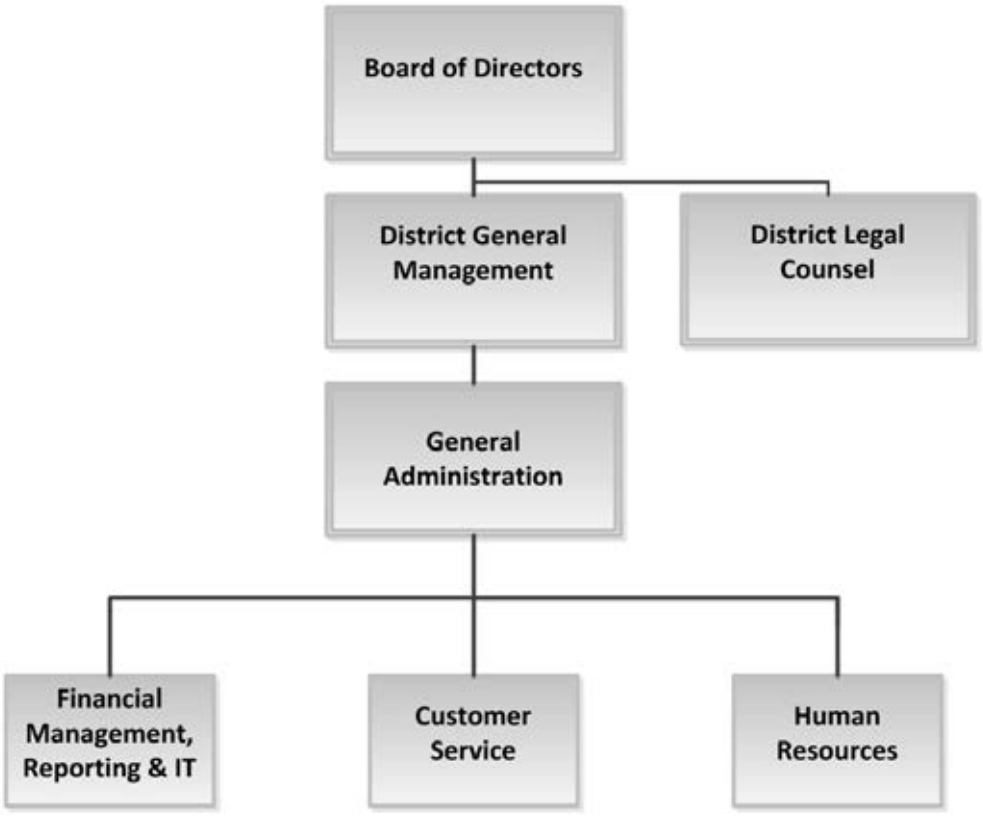
Figure 4.7 FY 2016-17 WS&C Budgeted Expenditures by Programmatic Cost Center ($000s)



General Administration Cost Center

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

Figure 4.8 General Administration Programmatic Functions



Financial Management, Reporting, & Information Technology

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, 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 2016-17, the District will upgrade financial software to improve operational efficiencies and implement other critical technology systems to improve contract management and detailed water use reporting.

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 16,900 customer connections. In FY 2016-17, Customer Service will support conservation and other outreach activities. Customer Service will also support implementation of the customer interface for customers in the advanced metering infrastructure program.

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, 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). In FY 2016-17, Human Resources will support negotiation of the next labor agreement with SEIU.

General Administration Accomplishments FY 2015-16

General Administration cost center accomplishments during FY 2015-16 include:

- Utilizing the data warehouse, which links critical District technology systems related to billing, customer information and workflow, and location-based services, to support the drought model, customer scorecard program, meter replacement program and other operational activities.
- Completion of the annual audit of the District Comprehensive Annual Financial Report, achieving a "clean" audit opinion from the District's external auditor. The report by the external auditor also shows that concerns noted in the prior year have been resolved.
- Successful implementation of Ordinance 2014-2 pertaining to procurement, which has provided for increased transparency in the procurement process and stronger internal controls.

FY 2016-17 General Administration Budget

Table 4.8 illustrates General Administration expenditure categories and describes variances between FY 2015-16 Budget and FY 2016-17 budgeted expenditures.

Table 4.8 FY 2016-17 General Administration Cost Center Budget Summary

Category	Adopted Budget FY 2015-16	Estimated Actual FY 2015-16	Adopted Budget FY 2016-17	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - General Admin.					
Personnel:	**$ 2,317,486**	**$ 2,417,983**	**$ 2,194,438**	**$ (123,048)**	**(5%)**
Other Post Employment Benefits:	**389,346**	**397,026**	**404,028**	**14,682**	**4%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	169,285	189,832	107,750	(61,535)	(36%)
Legal	1,012,400	1,611,039	1,336,501	324,101	32%
Services & Supplies	1,044,503	1,074,333	976,763	(67,740)	(6%)
Subtotal:	**2,226,188**	**2,875,204**	**2,421,013**	**194,825**	**9%**
Total Expenditures:	**$ 4,933,020**	**$ 5,690,213**	**$ 5,019,479**	**$ 86,459**	**2%**

** Compares FY 2016-17 Adopted Budget to FY 2015-16 Adopted Budget*

The General Administration Budget will increase by $86K, or 2 percent in FY 2016-17. Notable General Administration changes from FY 2015-16 to FY 2016-17 Budget include:

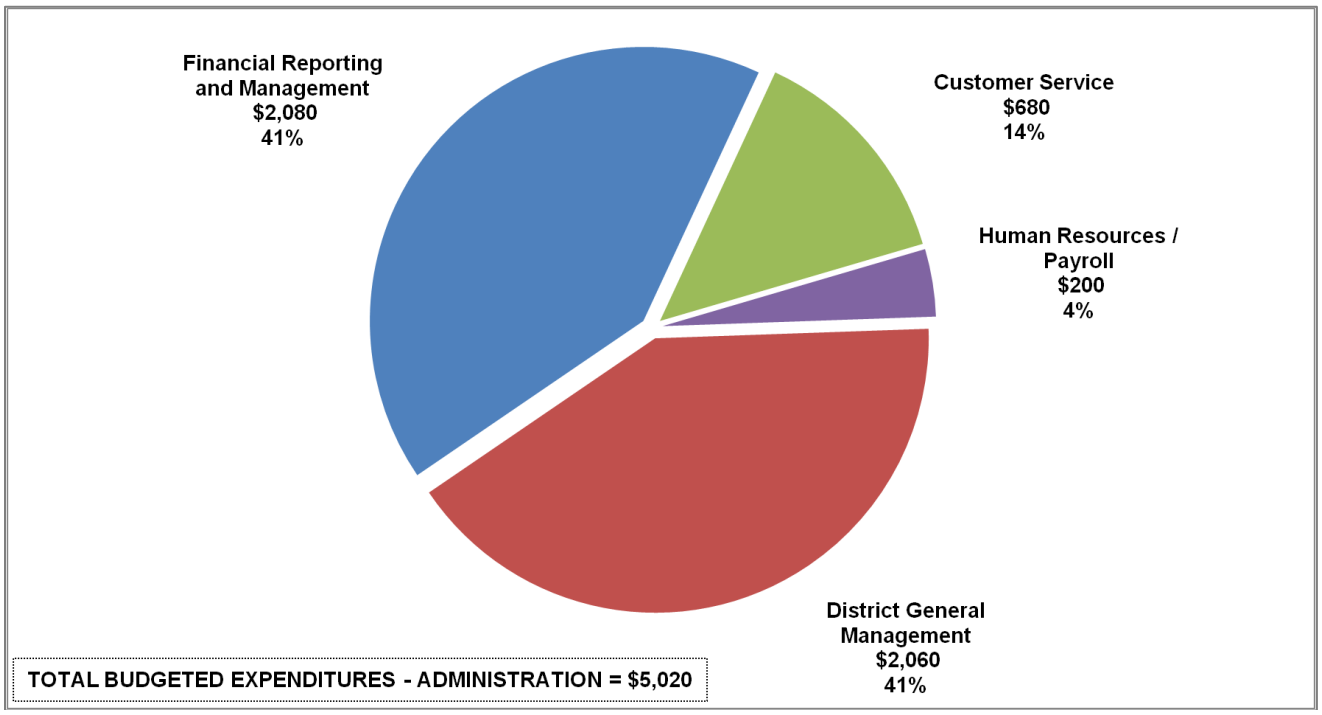
- Personnel costs will decrease by $123K based on a reallocation of staffing resources within the District.
- District-wide OPEB costs will increase by $15K (4%) resulting from changes in the retiree pool and projected health insurance costs.
- Insurance, Accounting, & Auditing costs will decrease by $62K (36%) within General Administration because general liability insurance costs have been allocated to all departments based on staffing levels.
- Budgeted Legal fees, including general and special counsel, will increase by $324K (32%). The increase is primarily due to ongoing litigation costs associated with protecting District water rights.

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

Table 4.9 FY 2016-17 General Administration Budgeted Expenditures by Programmatic Cost Center

Description	District General Management	Reporting and Management	Customer Service	Human Resources / Payroll	Total Administration
Personnel - Wages	$ 340,508	$ 944,813	$ 137,686	$ 83,003	$ 1,506,010
Personnel - Benefits	166,730	308,355	62,109	34,702	571,897
Personnel - Taxes & W.C.	21,983	76,101	11,287	7,160	116,531
Personnel - Post Retirem. Med.	-	404,028	-	-	404,028
Insurance, Accounting, & Auditing	45,708	58,025	2,008	2,008	107,750
Legal	1,286,500	-	-	50,001	1,336,501
Services & Supplies	198,791	288,507	466,469	22,997	976,763
Total:	**$ 2,060,221**	**$ 2,079,828**	**$ 679,559**	**$ 199,871**	**$ 5,019,478**

Figure 4.9 FY 2016-17 General Administration Expenditures by Programmatic Cost Center ($000s)

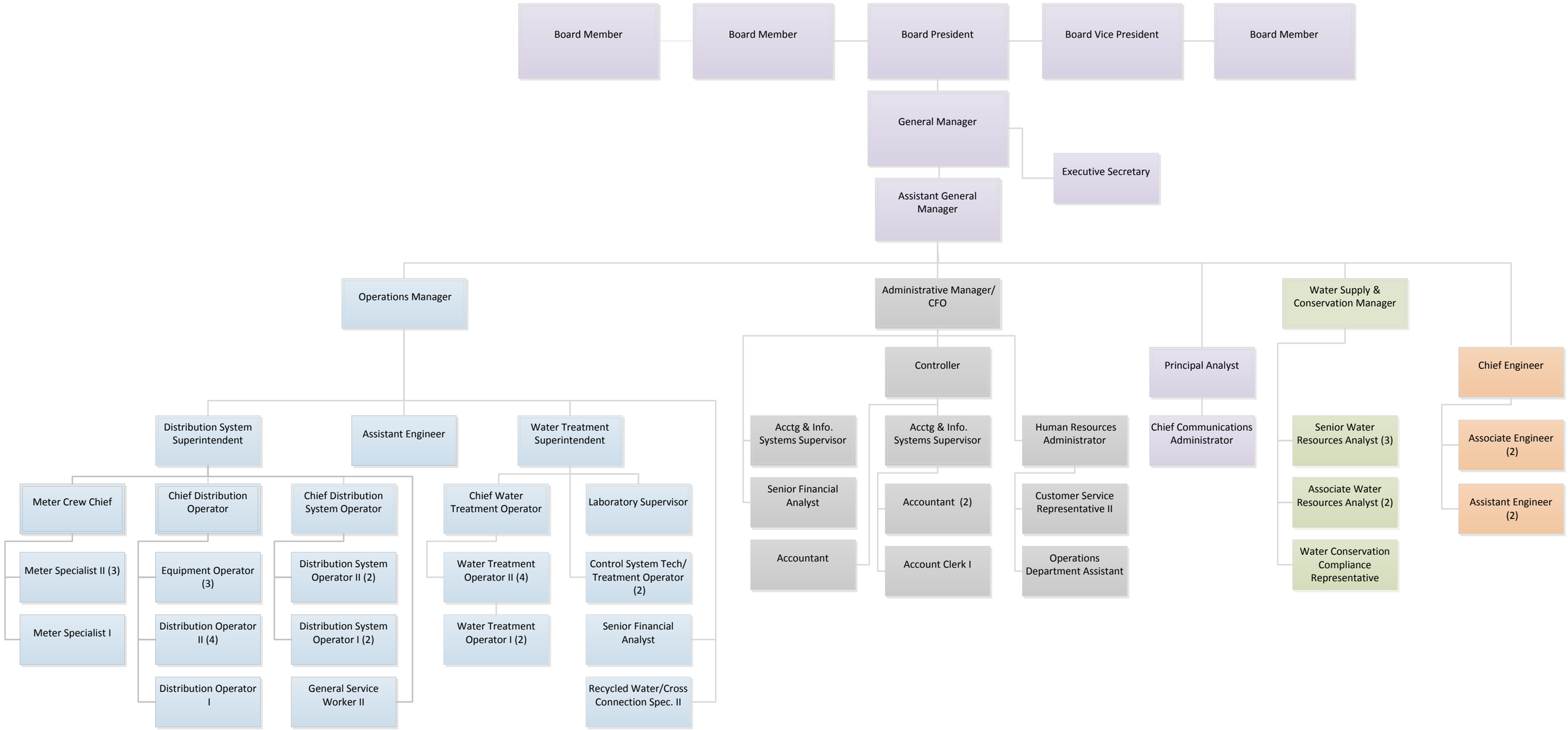


District Organization

The District is governed by a five-member, publicly elected Board of Directors which 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

Figure 4.10 Organizational Chart by Department and Position



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