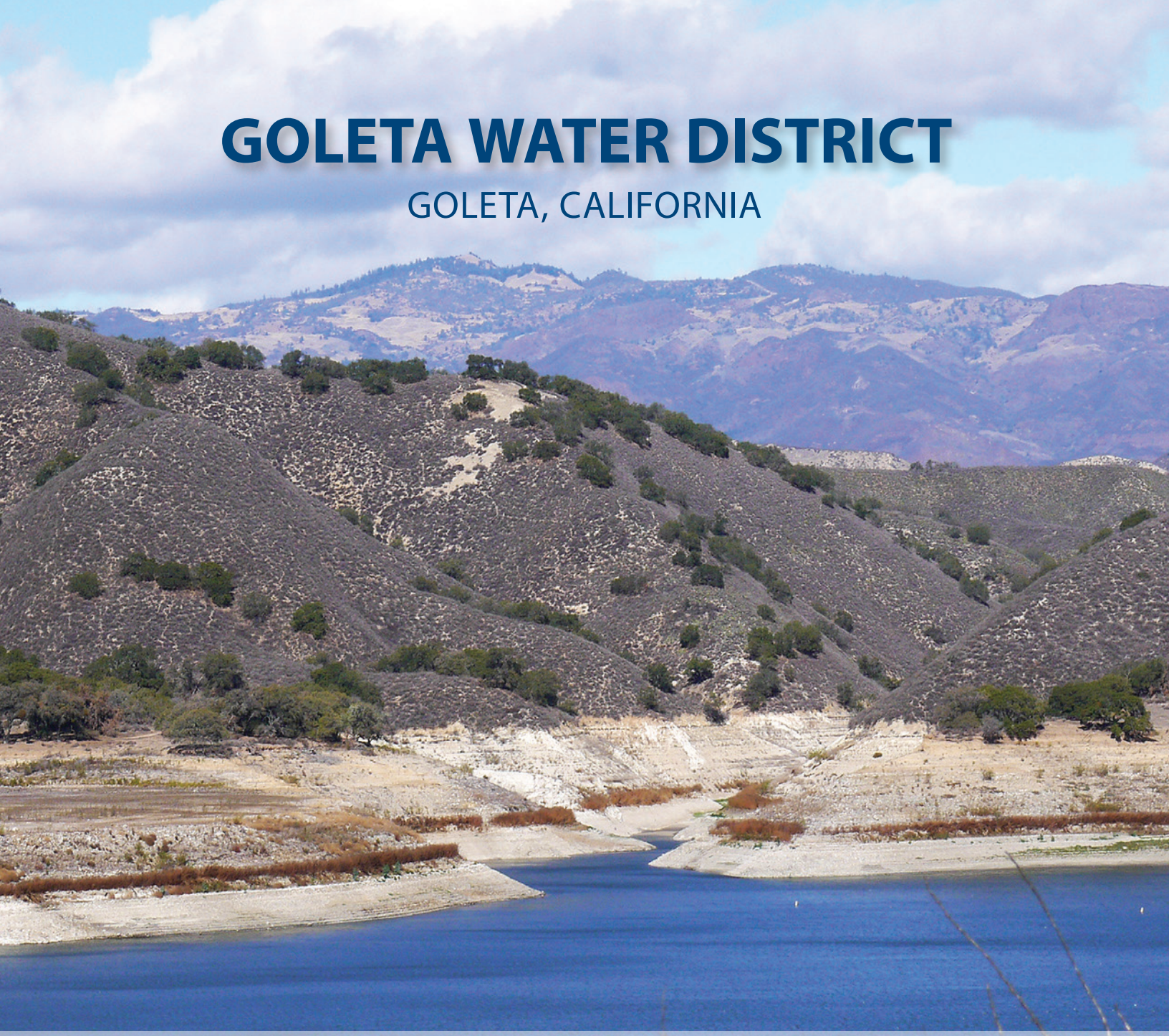
GOLETA WATER DISTRICT

GOLETA, CALIFORNIA



Fiscal Year 2017–18

FINAL BUDGET

GOLETA WATER DISTRICT

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 first time in two years Lake Cachuma will be a significant 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

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

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

The District delivers water to its customers through a complex treatment and distribution system that includes over 270 miles of pipeline, nine active groundwater wells, a state-of-the-art water treatment plant, eight reservoirs and a host of other critical water transmission and distribution facilities. The 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.

Even with above average rainfall, the District is entering the sixth year of a historic drought, which will further alter District supplies in FY 2017-18. Available water sources are anticipated to include:

- 7,886 AFY of local surface water from Lake Cachuma
- 1,500 AFY of groundwater from the Goleta Basin
- 4,500 AFY of imported water from the California SWP
- 1,000 AFY of recycled water

This year the District is reducing the use of groundwater to rest the basin as it approaches historic lows.

The climate in the service area is generally characterized as Mediterranean coastal with mild, dry summers and cool winters. High temperatures average about 70 degrees while low temperatures rarely fall below 40 degrees. The area is semi-arid with average rainfall of approximately 18 inches per year, primarily occurring between November and March. Historic rainfall has fluctuated significantly with the area seeing just under 6 inches in 1990 and more than 40 inches in 1983. During the state's historic drought, calendar years 2012 through 2016 were relatively dry years, with the Goleta area receiving between 7 and 14 inches of rain. This year's above average rainfall of 25 inches

was in stark contrast to the five previous dry years. However, Lake Cachuma remains only half-full and another year of above average rainfall, or several years of normal rainfall, are likely needed to end the drought.

California Governor Jerry Brown declared a state of emergency due to drought on January 17, 2014, and issued an unprecedented Executive Order with the first-ever statewide mandatory water use reductions on April 1, 2015. The District declared a Stage II Water Shortage Emergency on September 9, 2014, with a targeted 25% reduction and mandatory water use restrictions. As drought conditions worsened, the District declared Stage III on May 12, 2015, raising the targeted reduction to 35% and further restricting outdoor irrigation. On April 7, 2017 after a year of record storms and flooding in Northern California, and a historical snowpack measurement this spring, the Governor declared the drought over for most of the state. However, Southern Santa Barbara County remains one of the few areas of the State still in drought, and the County of Santa Barbara has continued to extend the Emergency Drought Declaration. Due to forecast water supply deficiencies of 26-35% over the next year, the District expects to remain in a Stage III Water Shortage Emergency for FY 2017-18.

The resulting increase in surface water supplies from winter rains will alleviate pressure on the groundwater basin, which provided the majority of water served to customers in FY 16-17. As a result of this shift in the supply portfolio, the District has been able to reallocate some of the significant investment in the District's wells and distribution system away from increasing production, and toward maintaining water quality at the lake and in the groundwater basin. Proactive supply and demand management practices will continue to help mitigate the ongoing impacts of the continuing drought on the local community, economy and environment.

Water Supply Portfolio

As runoff flowed into Lake Cachuma this winter, it re-submerged previously dry areas of lakebed covered with vegetation. As this vegetation breaks down, additional water treatment will be required, impacting the budget for FY 2017-18.

The diverse water supply portfolio of the District is made up of supplies from four distinct sources with availability averaging 16,472 acre-feet per year (AFY) under normal conditions. All water supplies are secured through collaborative agreements with Federal, State, and local partners. Actual water availability varies from year to year based on weather, exchange agreements, availability of Lake Cachuma carry-over water, spill water and State water. Annual water sales in Fiscal Year (FY) 2008-09 were approximately 14,000 AFY, and declined for several years thereafter due to effective conservation and efficiency programs, and regional economic factors. Water sales are frequently driven by weather, increasing demand at a time of decreasing water supplies, and conditions over dry years. For example, dry conditions caused an uptick in sales in FY 2012-13, when the District sold approximately 13,900 AF of water, and rose to 14,690 AF in FY 2013-14. After the declaration of the water shortage emergency in 2014, sales declined to 12,500 in FY 2014-15, and 10,739 AF in FY 2015-16. As the drought deepened, the quantity of water the District received from Lake Cachuma declined from 9,322 AF under normal conditions, to zero AF in Water Year (WY) 2015-16, and 2016-17, which runs from October 1 to September 30. However, the unusual mid-year allocation in April of 2017 of 40%, combined with a projected 40% allocation for WY 2017-18, has provided much needed portfolio augmentation, which reduces the likelihood that a Stage IV Water Shortage Emergency will be necessary.

With the reduced Cachuma allocation and reductions in the use of groundwater to rest the Goleta Groundwater Basin, imported supplies from the SWP will make up nearly half of the overall drinking water supply for FY 2017-18.

Local Surface Water – Lake Cachuma

Under normal conditions, approximately 75 percent of the average annual planned demand can be met with supplies from Lake Cachuma. In non-drought years, the District is entitled to 9,322 AFY of Cachuma supplies through coordinated agreements with the United States Bureau of Reclamation (USBR), the Santa Barbara County Water Agency (SBCWA) and the other Cachuma Member Units: City of Santa Barbara, Montecito Water District, Carpinteria Valley Water District 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, runoff, and drought conditions. The amount of Cachuma water the community uses can vary annually due to exchange agreements, availability of other supplies and customer demand. Cachuma entitlements are anticipated to be 40% of normal in Water Year 2017-18 (October 1, 2017 to September 30, 2018) for all Cachuma Member Agencies due to ongoing drought conditions. This is in addition to the mid-year allocation of 40% provided in April of 2017. USBR owns the Cachuma Project and is responsible for operating Bradbury Dam. The Cachuma Operation and Maintenance Board (COMB), a Joint Powers Authority comprised of the Cachuma Member Units, is responsible for the operations and maintenance of the balance of the Cachuma facilities, including the Tecolote Tunnel, South Coast Conduit, regulating reservoirs and appurtenances. Working with its Member Agencies and USBR, COMB delivers water to the South Coast and maintains project infrastructure to ensure ongoing sustainability.

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 level and to ensure the implementation of Water Rights Orders and agreements related to downstream water rights and public trust resources.

Local Groundwater – Goleta Groundwater Basin

The Goleta Groundwater Basin is a critical component of the District's water supply portfolio, especially during times of drought. The District pumps and treats groundwater supplies from the Goleta Groundwater Basin through its nine active groundwater wells. In response to drought conditions, the District has actively invested in increased groundwater production capabilities, with spending totaling over $13 million between 2015 and 2020, with $1.2 million dedicated for FY 2017-18. Four wells were recently rehabilitated, and downhole construction and testing for a new replacement well is planned for FY 2017-18 to increase groundwater reliability. The terms of the 1989 Wright Judgment, and the voter-approved 1991 SAFE Ordinance and subsequent 1994 amendments establish the basin yield and set the basin management parameters including pumping limits, storage requirements, how supplies are used, and the establishment and maintenance of a drought buffer. The groundwater basin is integral to the District supply portfolio and management strategy as it provides a locally controlled source of supply in the event of an interruption or reduction to Lake Cachuma supplies as a result of

unscheduled maintenance needs, natural disasters or drought conditions. In FY 2017-18, the District plans to significantly reduce the use of groundwater to 1,500 AFY to allow the basin to begin replenishing, and preserve the remaining supplies should drought conditions continue beyond FY 2017-18.

During periods of extended drought the groundwater basin serves as the lifeline for the Goleta Valley. The process of recharging the basin occurs naturally through the rain and runoff that percolates into the soil, and water from rivers and streams that infiltrate below ground, but it typically takes many years for the basin to return to normal levels after drought periods. Recognizing the critical role of the groundwater basin, the District is preparing a Stormwater Resources Plan to explore potential projects that could assist in managing the basin to ensure it remains available during drought emergencies. The plan will explore how much additional water potential stormwater capture projects could provide, and identify opportunities to accelerate recharge to increase the resiliency of the basin.

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 2016-17, the District took delivery of 2,043 AFY of State water. The District received an 85% allocation of its full State water entitlement or approximately 6,333 AFY for FY 2017-18. Deliveries of State water are limited to 4,500 AFY, which is the District's share of pipeline capacity, and excess water will be carried over. An exchange agreement with ID #1 will continue in FY 2017-18 to the extent that State water supplies are made available by the Department of Water Resources (DWR). Under this agreement, the District provides approximately 1,000 AFY of its State water entitlement to ID #1 in exchange for the same amount of Cachuma entitlement supplies from ID #1, to the extent water is available for exchange. This agreement saves both agencies significant energy costs and assists in ensuring sustainable service by reducing the pumping needed to deliver water to each community.

Recycled Water

The District has delivered recycled water for irrigation use and restroom facilities through a partnership with the Goleta Sanitary District (GSD) since 1995. The University of California, Santa Barbara (UCSB) and several golf courses throughout the service area are the largest recycled water customers. The FY 2017-18 Budget anticipates delivering 1,000 AF of recycled water in the coming year.

The District recently completed a feasibility study that identifies options to develop additional alternative water supplies. By purifying recycled water, the District would have an opportunity to further diversify its supply portfolio, improve supply reliability, and reduce dependence on imported water. The study specifically looks at the use of highly treated water to replenish the groundwater basin, and the District will be evaluating the

results to determine project feasibility. Partial funding is included in the FY 2017-18 budget if the Board choses to move forward with a pilot project.

Our Customers

Approximately 16,900 customer connections fall into eight types of customers: Single Family Residential, Multi-Family Residential, Commercial, Institutional, Landscape Irrigation, Urban Agricultural, Goleta West Conduit, and Recycled.

Residential customers make up approximately 89% of customer connections, with single-family homes comprising almost 79% of customer connections and multi-family dwellings accounting for the balance. The over 23,000 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 44% of overall water demand. This proportionally low use is largely due to customers' receptiveness to conservation programs. Before the drought, residential per capita water use in the District averaged 66 gallons per person per day, or 50 percent lower than the statewide average. Between February 2016 and March 2017, the residential per capita use declined further to an average of 47 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.

District customers are consistently among the most efficient water users in California. Residential per capita use averaged 47 gallons per person per day, well below the State target of 55 gallons.

The remaining 56% of demand is attributed to non-residential water use with agricultural use accounting for 28% and the remainder comprised of commercial, institutional and landscape irrigation use. These customers also form the diverse economic base of the service area. The District is home to the university, a substantial agriculture industry specializing in crops such as avocados and lemons, and a thriving industrial and high-tech commercial industry that includes regional health providers, aerospace, electronics, telecommunications, biomedical and national security sectors.

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

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

Conservation and Efficiency Programs

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

The 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 Urban Water Management Plan, The Water Supply Management Plan, and the Groundwater Management Plan were all updated in FY 2016-17.

Conservation programs include:

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

Customer Service

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

Customers are encouraged to call and report water service problems at any time. Crews can be dispatched throughout the service area to repair leaks, fix damaged or broken meters, and investigate other water-related issues. Additionally, crews are available to respond to water-related emergencies 24 hours a day, seven days a week as they respond to more than 200 after-hours service calls each year.

Staff is available during business hours to provide assistance and support to District customers in person or on the phone. Customers can also access their accounts and make payments online at any time. Members of the community are encouraged to visit District Headquarters and tour the Community Demonstration Garden

featuring examples of water wise gardening techniques and practices, aesthetically pleasing plant palettes, and 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 ensuring reasonable costs and predictable customer rates. Each year, the Board of Directors approves the District's Budget (Budget) for the following fiscal year, which runs from July 1 through June 30. The Budget 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 externalities that are beyond the District's control. Together with the 2015-2020 Infrastructure Improvement Plan (IIP) and 2012 Sustainability Plan, these documents provide the financial and management strategies for meeting the water and resource needs of the District today and into the future.

As a result of the investments made in our wells in FY 2016-17, the District is now able to meet the minimum health and public safety needs of the community solely with groundwater.

The District continues to make significant advances in addressing critical infrastructure needs. FY 2016-17 included investments for vital infrastructure replacement and repairs and plans to address future infrastructure needs. FY 2016-17 saw estimated actual revenues of $40.0 million and expenditures of $40.1 million, with $122K being a designation from reserve.

Key FY 2016-17 accomplishments in the areas of water supply sustainability, resource management and infrastructure improvement enhanced both water reliability and rate stability for the community. The District 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 also completed in FY 2016-17. Highlights include:

- Completion of rehabilitation work at the Berkeley and Shirrell wells, which had not been used since the early 1990s, and San Marcos, San Antonio, El Camino, and Airport wells. As a result of the projects, total well capacity increased to 7 million gallons per day, or 21 acre-feet per day.
- Implementation of software to monitor for leaks on accounts with Advanced Metering Infrastructure. A number of large leaks on the customer side of the meter were identified that would have otherwise gone undetected.
- Completion of a sub-metering project that included installation of flow meters on main lines in the distribution system to measure and monitor distinct water use in specific geographic areas.

Water treatment projects, operational efficiency upgrades, and sustainability projects were also competed. Highlights include:

- Water treatment improvements at the Corona Del Mar Water Treatment Plant (CDMWTP) to allow for successful operation at a low volume. These improvements were critical as total well production surpassed the total production of the CDMWTP for the second consecutive year.
- Completed inspection with detailed documentation of the first installation of a large dual-plumbed facility using both potable and recycled water at the University of California Santa Barbara's San Joaquin Towers.
- Use of existing infrastructure at nine well sites to increase monitoring of discharge pressures through SCADA. This allows the District to more efficiently monitor and log system pressures to help troubleshoot pressure variations and well performance.
- Ongoing updates to the District's Geographic Information Systems used for projects and asset management.
- A new Work and Service Order process was installed internally to improve the efficiency of work order flows, and capture the data for the District's data warehouse, GIS system, and our billing partner database.
- A number of new rebate and incentive programs were devised to drive conservation, including rebates for mulch deliveries and a $150 rebate for efficient washing machines.
- Completion and adoption of the update to the District's Groundwater Management Plan.
- Completion of the District's draft Potable Reuse Facilities Plan to study further expanded use of recycled water.
- Completion and adoption of the District's updated Water Supply Management Plan.
- Update to the Urban Water Management Plan to reflect changed water supply conditions and plan for future demand.

FY 2017-18 Budget and Key Initiatives

The FY 2017-18 Budget is consistent with policy goals established by the Board of Directors, operational and infrastructure priorities, and other foundational management documents. The Budget reflects an ongoing progression of the District's management and budgeting approach to control costs, minimize unplanned expenditures, limit risk exposure and expand investment in proactive projects and programs that provide for the long-term resources needs of the community.

The FY 2017-18 Budget is balanced with an anticipated $41.0 million in revenue, $40.1 million in operational and capital expenditures, and an $927K reserve designation. The spending plan reflects the expenses necessary to provide an adequate supply of water to customers and address changing water quality conditions that continue to be observed as lake and groundwater levels have fluctuated during the drought. The rate structure and accompanying drought surcharges adopted July 1, 2015 are sufficient to meet the district's operating requirements. The FY 2017-18 Budget is the third year of the current five-year financial cycle, and shows how the District will adeptly build, maintain and manage the assets needed to produce, treat and distribute water to the Goleta Valley. Table 1.1 provides an overview of how the District will meet water supply, regulatory and infrastructure needs, while meeting the challenges and uncertainties of the ongoing historic drought. The balance of this document provides detailed analysis of projected revenues and expenditures.

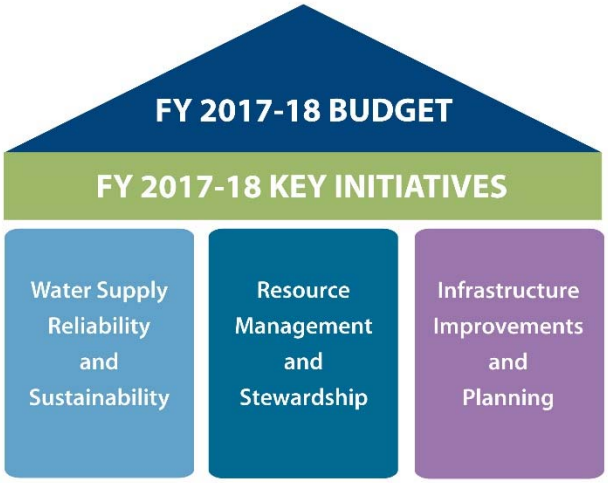
Table 1.1 FY 2017-18 Budget Summary

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue and Transfers:					
Monthly Service Charges	$ 9,106,773	$ 8,946,037	$ 8,445,196	$ (661,577)	(7%)
Water Sales	29,963,312	29,622,438	31,202,136	1,238,824	4%
New Water Supply Charges	0	3,246	0	0	0%
Investment Revenue	60,000	56,596	62,500	2,500	4%
Conveyance Revenue	120,991	126,836	136,470	15,479	13%
Miscellaneous Fees & Charges	1,044,420	1,263,004	1,193,946	149,526	14%
Subtotal:	**$ 40,295,496**	**$ 40,018,157**	**$ 41,040,248**	**$ 744,752**	**2%**
Transfers:					
Designation from Reserves	$ 3,918,570	$ 122,305	$ 0	$ (3,918,570)	
Total Revenue and Transfers:	**$ 44,214,066**	**$ 40,140,462**	**$ 41,040,248**	**$ (3,173,818)**	**(7%)**
Expenditures:					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,197,321	$ 3,125,662	$ 3,133,516	$ (63,805)	(2%)
CCRB (Water Rights)	500,000	313,206	360,000	(140,000)	(28%)
SB County (Cloud Seeding)	27,000	27,061	32,000	5,000	19%
CCWA (State Water Deliveries)	8,311,551	9,801,558	9,078,465	766,914	9%
GSD (Recycled Water Production)	676,630	556,294	604,630	(72,000)	(11%)
Subtotal:	**$ 12,712,502**	**$ 13,823,781**	**$ 13,208,611**	**$ 496,109**	**4%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,809,808	$ 8,975,743	$ 9,507,504	697,696	8%
Other Post Employment Benefits	404,028	407,437	463,178	59,151	15%
Subtotal:	**$ 9,213,836**	**$ 9,383,179**	**$ 9,970,682**	**$ 756,846**	**8%**
Operations & Maintenance:					
Water treatment costs	$ 427,088	$ 459,888	$ 568,326	$ 141,238	33%
Water treatment testing	263,300	264,312	300,140	36,840	14%
Insurance, Accounting & Auditing	260,624	235,780	253,235	(7,389)	(3%)
Maintenance & Equipment	898,183	1,059,273	680,200	(217,983)	(24%)
Legal	1,336,501	2,354,903	1,015,200	(321,301)	(24%)
Services & Supplies	4,405,763	3,549,837	4,825,013	419,250	10%
Utilities	873,833	789,783	429,499	(444,334)	(51%)
Subtotal:	**$ 8,465,292**	**$ 8,713,776**	**$ 8,071,614**	**$ (393,678)**	**(5%)**
Total Expenditures before Debt and CIP:	**$ 30,391,630**	**$ 31,920,737**	**$ 31,250,907**	**$ 859,277**	**3%**
Debt service	3,557,088	3,551,718	3,556,988	(101)	(0%)
Capital Improvement Projects (CIP)	10,265,348	4,668,007	5,305,192	(4,960,156)	(48%)
Total Expenditures:	**$ 44,214,066**	**$ 40,140,462**	**$ 40,113,087**	**$ (4,100,979)**	**(9%)**
Designation to Reserves:	**$ 0**	**$ 0**	**$ 927,161**	**$ 927,161**	

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

FY 2017-18 Budget Key Initiatives

The FY 2017-18 Budget includes a portfolio of ongoing and new initiatives that, in combination, will meet District regulatory and critical needs while providing reliable water supplies at predictable costs. Together, these initiatives work to control factors within the District's discretion, while also planning and preparing for externalities beyond its control.



Key initiatives fall into three umbrella categories:

- Water supply reliability and sustainability
- Resource management and stewardship
- Infrastructure improvements and planning

Water Supply Reliability and Sustainability

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

Drought Planning

As the District enters a sixth year of a historic drought, the FY 2017-18 Budget includes continued drought planning, with water supply and demand modeling, demand management activities, and water shortage contingency planning and implementation. This Budget provides for critical water quality monitoring and enhanced treatment to address a shifting balance of sources and flow rates from Lake Cachuma and SWP, as well as challenges presented by the inflow of debris into Lake Cachuma due to 2016's Rey Fire. Funds are also budgeted to maintain water quality at the District's nine groundwater wells. 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 for drinking, health and public safety.

Cachuma Project Supply and Water Rights

The District continues to work with CCRB, ID #1, and USBR, 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 partners are performing extensive biologic and hydrologic modeling to inform the development of the Biological Opinion and continue to engage an advocacy strategy to protect Cachuma water supplies. Concurrently, the District is working with COMB to implement the existing Biological Opinion and Fish Management Plan for ongoing protection of public trust resources while also protecting vital water

supplies. While the ultimate decision rests with the federal government, the District is doing everything possible to make local concerns known.

Resource Management and Stewardship

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

Sustainability Plan Implementation

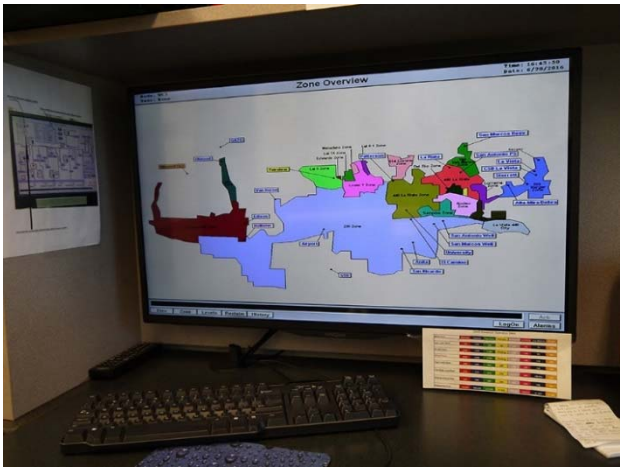
Several projects planned for the FY 2017-18 Budget are directly tied to the guiding principles adopted by the Board of Directors as part of the 2012 Sustainability Plan. Projects completed this year include: the installation of new energy efficient well motors and pump stations; the integration of electric vehicles into the District's fleet as part of scheduled replacement; and storm water improvements at the District Headquarters to improve water quality. These projects will provide improvements needed to meet new regulatory requirements, while offering economic benefits in the form of reduced energy costs, minimizing impacts to natural resources, and supporting a healthy community.

Coordinated Energy Management

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

Technology Infrastructure Improvement

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



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

Infrastructure Improvements and Planning

Comprehensive infrastructure planning and investment is critical to the ongoing reliability of the distribution and treatment systems. 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, 1,500 fire hydrants, 16,900 meters and more than 30,000 appurtenances. The ages and materials of District facilities vary greatly and, in turn, so does the current condition and failure risk associated with these facilities. The FY 2017-18 Budget includes distribution improvement projects that will support continued reliability and increased monitoring and treatment to address changing conditions in the groundwater basin and at Lake Cachuma. Additionally, the FY 2017-18 Budget anticipates costs associated with several projects in the City of Goleta that will require the District to relocate existing infrastructure.

Some of the Infrastructure Improvement Projects for FY 2017-18 include:

- Water quality maintenance work at the CDMWTP, including a study to analyze historical, current, and future surface water quality for corrosivity, trihalomethanes (THMs), organic content, and other chemical parameters to determine the compatibility of the existing treatment processes and identify additional treatment processes or modifications necessary to comply with all state and federal drinking water standards.
- Design and construction of aeration systems at District reservoirs for THM reduction to continue to meet all regulatory standards for THMs in potable water. THMs are produced when chlorine used for disinfection reacts with organic material in the water.
- Water quality monitoring and treatment at District groundwater wells, including a study to analyze and model historic, current, and future water quality at District wells.
- Funding for a pilot program to expand the use of recycled water and support development of long-term sustainable water supplies.

- Relocation of waterlines, hydrants, valve cans, service lines, backflow preventers, meters, and other infrastructure to accommodate the City of Goleta's planned road improvements at Ekwill Street, Fowler Road, and Hollister Avenue.
- Relocation of the Hollister Avenue recycled-water booster pump station beneath the sidewalk at Hollister Avenue and Glen Annie Road to accommodate the City of Goleta's planned road widening along Hollister Avenue.
- Drilling of the new Puente Well at District Headquarters to replace the existing San Marcos well.
- Valve installations and replacements for pressure regulation, system isolation and monitoring.
- Planning for CDMWTP facility improvements to Sludge Drying Bed #3, and other solids handling improvements to facilitate water treatment for higher surface water flows.
- Upgrades to the recycled water system to support distribution, improve operational efficiency, and extend asset life.
- Ongoing replacement of water mains, valves and hydrants, polybutylene service lines and copper service lines.

Developing drought-proof water supplies is critical for the long-term sustainability of the Goleta Valley. The District recently completed a Stormwater Resources Plan, and a Potable Reuse Facilities Plan, and funding is included in the FY 2017-18 Budget for a pilot demonstration project.

A Look to the Future

The FY 2017-18 Budget recommends expenditures based on prioritized District needs, goals and objectives and anticipated external costs. By building on comprehensive analyses of factors such as the economy, weather, customer use trends and infrastructure needs, the Budget provides 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 and 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 2017-18 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 2017-18 Budget maximizes the ability to respond to external circumstances while minimizing impacts to customers.

Examples of externalities facing the District include:

- Despite higher lake levels, uncertainty around Lake Cachuma operations remains. While the temporary barge is no longer needed to pump water to elevation for delivery through the Tecolote Tunnel, it is not known when it might be needed in the future. COMB exercised an option to put the emergency pumping apparatus into storage. This allows COMB to quickly place the barge back into service without having to incur new startup costs. If and when lake levels drop low enough to require its use, the project will incur additional ongoing operational expenses. Lake Cachuma also serves as the transit system for SWP and any supplemental water purchases, so maintaining delivery capabilities via the pumping station provides an important lifeline to the community.

- The prolonged drought continues to present significant challenges to the District's water supply. Next winter's rains have the ability to significantly affect whether the District can move to a Stage II or Stage I, or in the event of additional dry years whether the focus will shift to further conservation. This is especially critical for the drought buffer, which needs to be replenished to remain available for future drought years. As the Goleta Groundwater Basin approaches historic lows, conditions in the basin are dynamic and changing. The potential for impacts associated with climate change can only further exacerbate these issues.

- The Goleta Groundwater Basin also faces potential threats to water quality similar to many urbanized basins throughout California. Seawater intrusion, agricultural and urban runoff, salts and nutrients, and over-pumping are examples that can have detrimental impacts to the quality and quantity of water available from an underground basin. The provisions of the 1989 Wright Judgment and 1991 SAFE Ordinance provide a framework for maintaining reliable groundwater supplies from the Goleta Basin. The increased reliance on groundwater during this period of drought has made the stewardship and management of the groundwater basin a major priority. The District has responded by investing in its groundwater model and monitoring program to better inform daily well operations and basin-related capital planning.
- Release of the Cachuma Project State Water Rights Draft Order and anticipated action on the Federal Biological Opinion Reconsultation during FY 2017-18 may significantly affect available Cachuma Project water supplies for the Cachuma Member Agencies. Curtailment of supplies would constrain the ability to meet customer demand and would necessitate substantial investment in both demand management and supply development measures. The District will continue its ongoing partnership with Cachuma Member Agencies to implement proactive scientific, advocacy, and legal strategies to protect Cachuma water supplies and plan for all potential outcomes.
- SWP supplies continue to face threats from a variety of sources, potentially resulting in increased costs and reduced availability. Damage to the Oroville facilities resulting from this year's storms in Northern California do not appear to directly impact deliveries to the District, and assessments to pay for repairs will be made in future years. Ongoing state and federal negotiations related to the SWP and the Bay Delta Conservation Plan (BDCP) may result in significant additional pass-through costs for State Water supplies as the Water Contractors fund the costs associated with a 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 aging Cachuma Project infrastructure, including Bradbury Dam, the Tecolote Tunnel, and the South Coast Conduit, poses significant financial and water supply risks to the Cachuma Member Agencies. Collectively, the Cachuma Member Agencies are financially responsible for the costs associated with Cachuma infrastructure investment and any investment needed in response to unexpected infrastructure failure.
- Having provided water service to the community for over 70 years, the risk that aging infrastructure will fail increases. The condition of facilities varies widely based on their age, materials, and exposure to

environmental conditions, leaving the system vulnerable to failures and inefficiencies. For example, the recycled water distribution system has experienced significant pipe corrosion, leaving the recycled water lines vulnerable to leaks, breaks and failures. The FY 2017-18 Budget includes the minimum funding necessary to allow the District to respond to system failures and minimize the impacts of such events.

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

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

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SECTION II – REVENUE and TRANSFERS

Introduction

The District provides water service to approximately 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 normal delivery of potable water.

The District receives 97% of its revenue from monthly charges for water service consisting of Water Sales (76%) and Fixed Meter Service Charges (21%). Water Sales, or consumption-based charges, are based on the actual water delivered to each customer, measured in increments of one hundred cubic feet (HCF) or 748 gallons. Fixed Meter Service Charges represent a percentage of the customer's portion of the fixed costs of operating and maintaining the distribution system, and providing customer service. These charges are assessed monthly 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.

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 category and how much water each customer category uses. Conservation by customers is also considered when forecasting revenue. 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.

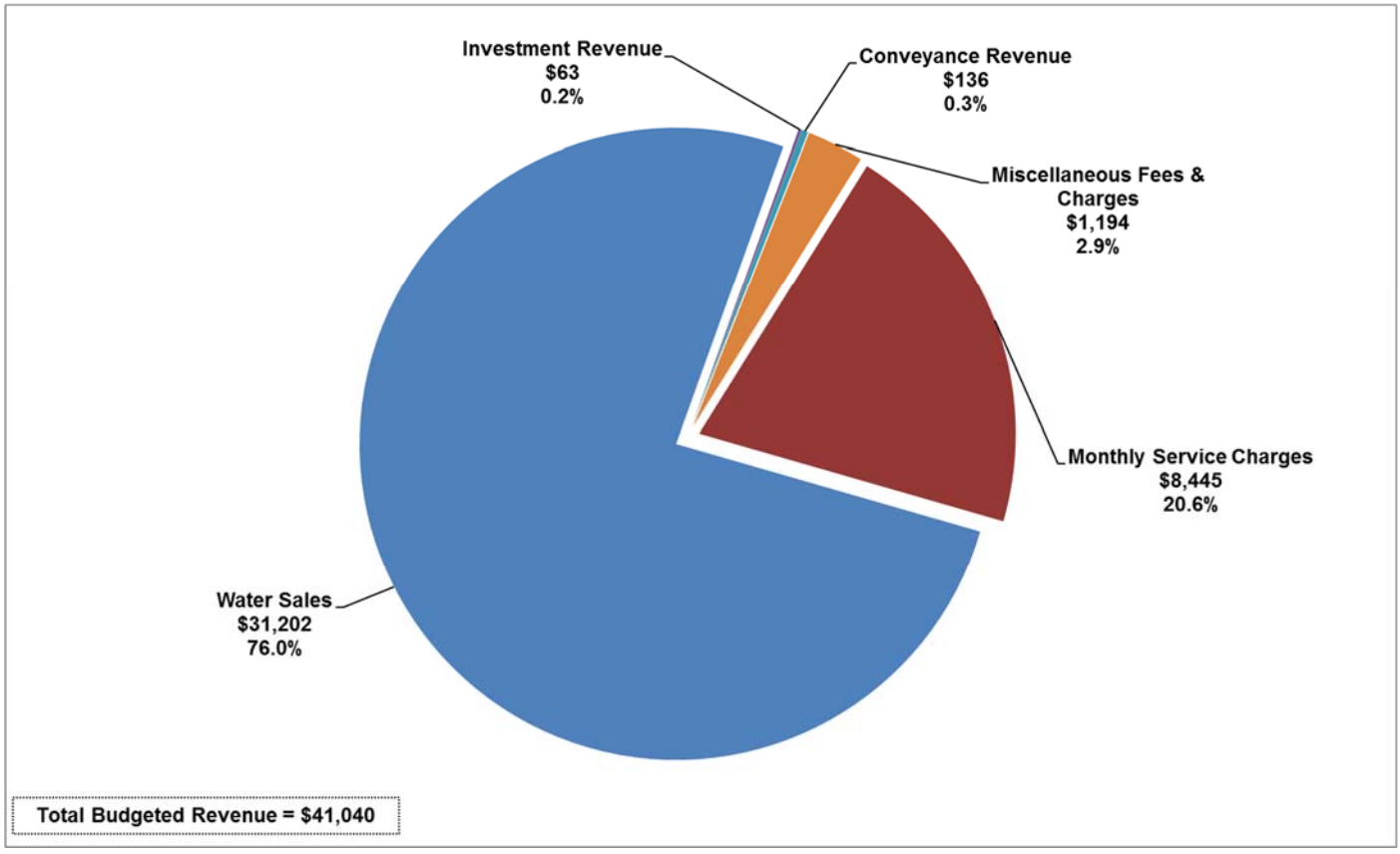
Table 2.1 provides a summary of FY 2017-18 Budgeted Revenue. Figure 2.1 depicts the relative contribution of the various revenue components. Rates-based revenues allow the District to cover costs associated with operations to consistently provide customers quality water and address critical infrastructure needs. Combined Water Sales and Monthly Service Charge revenue for FY 2017-18 is projected at $39.6 million, a 1.5 percent increase over last year. This increase results from rate changes and updated projections of customer demand under continued drought restrictions. New Water Supply Charges are not projected to provide any revenue due to the current moratorium on new service applications under the SAFE Water Supplies Ordinance, in effect since October 1, 2014. Changes in revenue from Investments and Conveyance are not expected to have a material effect on District finances. Revenue from Miscellaneous Fees and Charges is estimated to increase by $150K, bringing total Budgeted Revenue in FY 2017-18 to $41.0 million, an increase of $745K (1.9%) from the FY 2016-17 adopted Budget.

Table 2.1 FY 2017-18 Budgeted Revenue versus FY 2016-17 Budget

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 9,106,773	$ 8,946,037	$ 8,445,196	$ (661,577)	(7%)
Water Sales	29,963,312	29,622,438	31,202,136	1,238,824	4%
New Water Supply Charges	0	3,246	0	0	0%
Investment Revenue	60,000	56,596	62,500	2,500	4%
Conveyance Revenue	120,991	126,836	136,470	15,479	13%
Miscellaneous Fees & Charges	1,044,420	1,263,004	1,193,946	149,526	14%
Total Revenue	**$ 40,295,496**	**$ 40,018,157**	**$ 41,040,248**	**$ 744,752**	**2%**

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

Figure 2.1 FY 2017-18 Budgeted Revenue Allocations ($000s)

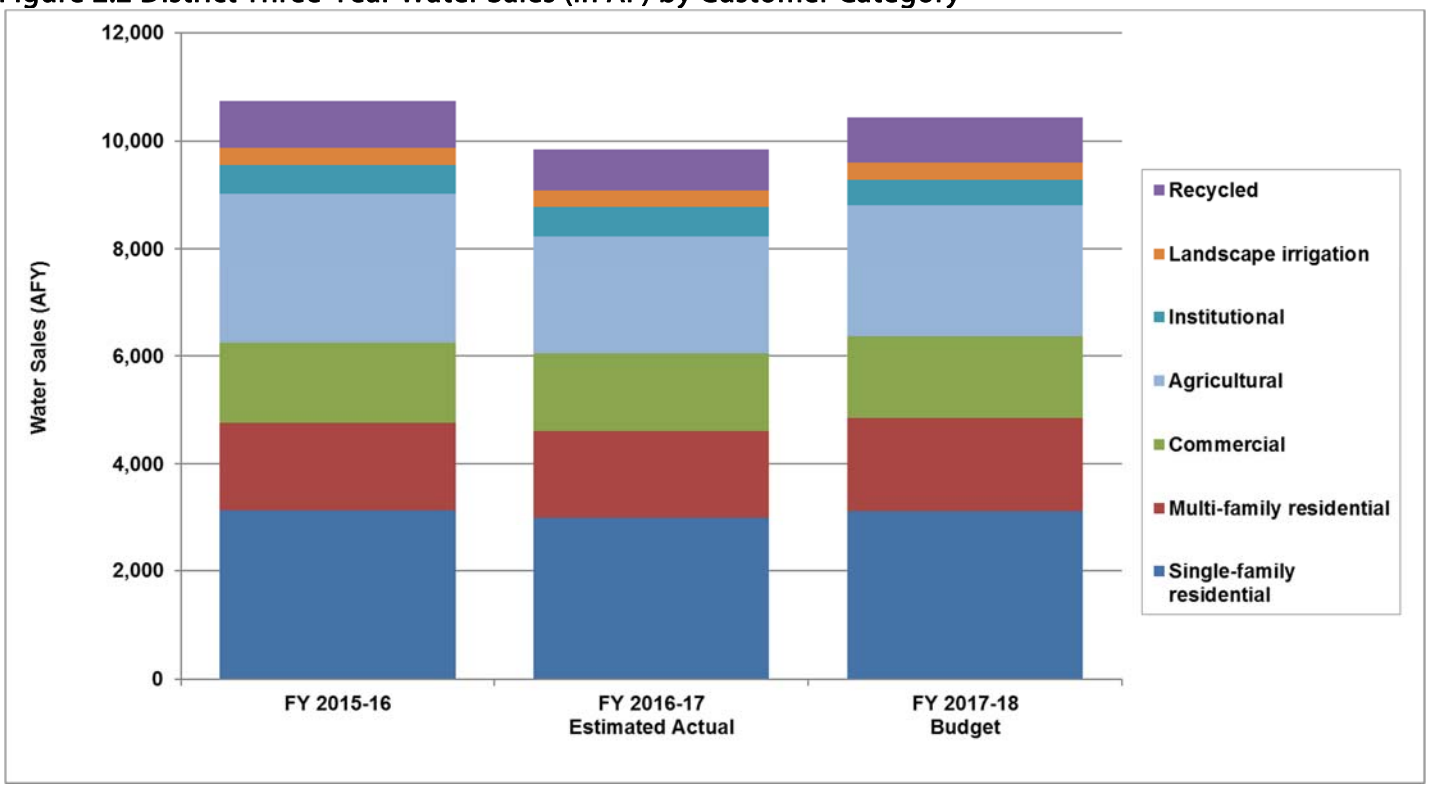


Revenue-Influencing Factors

District Water Sales and Fixed Meter Service Charge Revenues are a function of total water sales volume, the number of active service connections at each meter size, and rates. Revenues of $38.3 million in FY2015-16 increased to $39.1 million in Fiscal Year 2016-17, and will be an estimated $39.6 million in FY 2017-18. The year-to-year variation demonstrates how sensitive revenues can be to several key influencing factors.

Forecasts are developed with the most recent information on how the influencing factors might affect revenues in the coming year, but there is still a degree of uncertainty. For comparison to the actual revenues cited, initial budget revenue projections were $37.5 million in Fiscal Year 2015-16 and $40.3 million for Fiscal Year 2016-17. Variances of actual revenue from budget range from 0.6% to 6.4% over this three-year period with an average variance of 3.5%. Key influencing factors include 1) weather conditions, 2) customer behavior, 3) rate adjustments, and 4) new service connections. The combined effect of these factors explains the year-over-year change in water use shown in Figure 2.2. These factors are described in more detail in this section.

Figure 2.2 District Three-Year Water Sales (in AF) by Customer Category

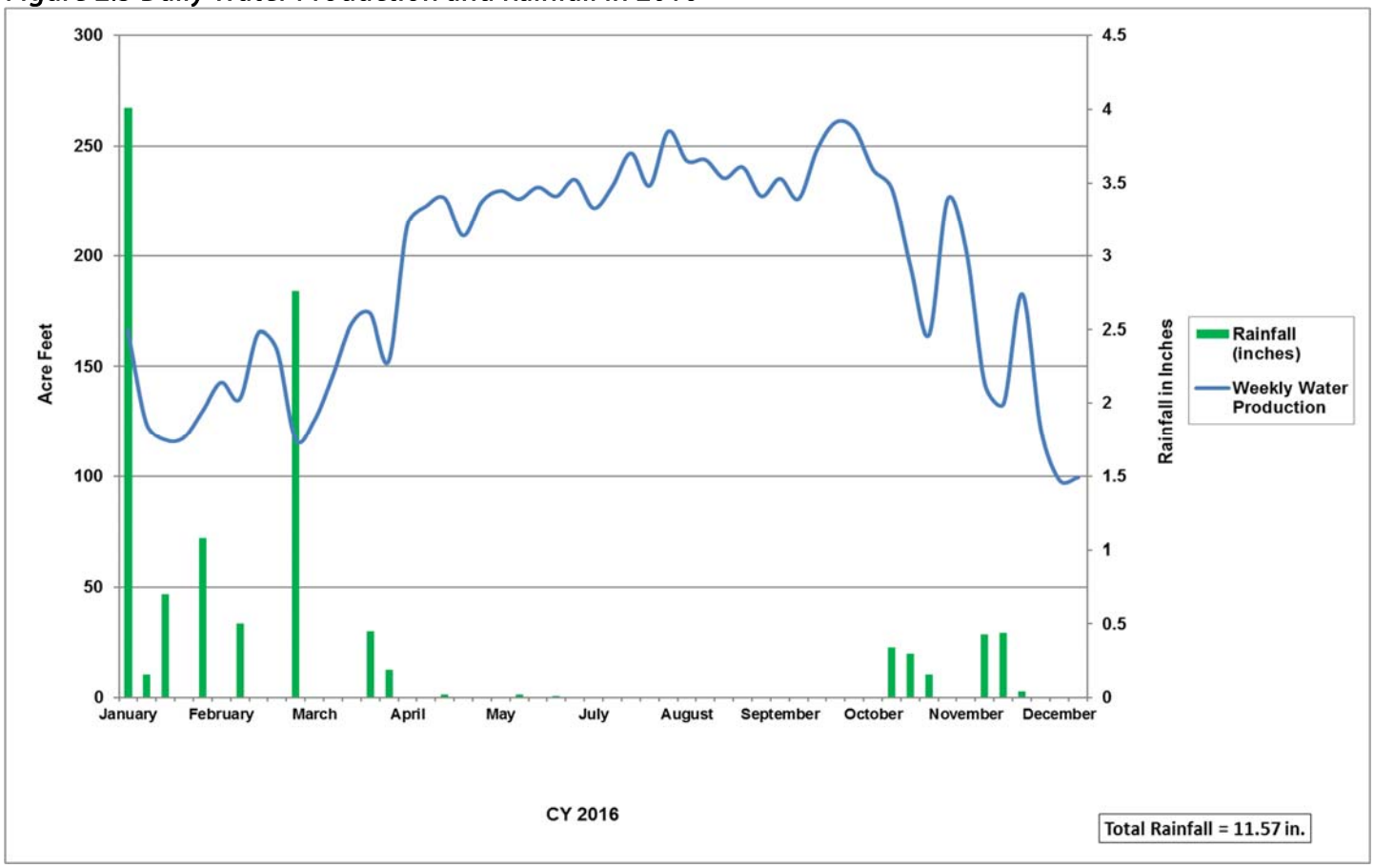


Weather Conditions

In a typical year, total District-wide water demand, including recycled water, is approximately 14,400 AF. Of this amount, 5,300 AF is estimated to be used indoors with the remaining 9,100 AF, representing 63% of total water demand, used for agriculture and other outdoor irrigation. Weather conditions substantially affect outdoor irrigation and are traditionally the biggest influencing factor for water use. Dry hot periods drive higher use, while rain and cooler weather result in decreased consumption. For example, January of 2014 was unseasonably warm and dry and total water use that month was 1,164 AF. By contrast, weather conditions were closer to normal in

January of 2015 and total water use was 542 AF. Figure 2.3 overlays District water production with rain events. As the figure shows, water production declines noticeably after each rain event and that decline is particularly noticeable after rain events in the cooler months. In forcasting revenue for FY 2017-18 the District used a model based on seasonal patterns, weather data, and demand experienced in FY 2016-17. The District projects the same monthly distribution of usage by customers as observed in FY 2016-17.

Figure 2.3 Daily Water Production and Rainfall in 2016



Customer Behavior

The drought has significantly affected customer demand. At the beginning of the drought, customers responded to ongoing warm and dry conditions with higher water use. As the drought persisted and water supplies diminished, customers reduced water use in compliance with District-adopted water use restrictions. With the declaration of a Stage II Water Shortage Emergency by the District in September of 2014, water demand dropped between January of 2014 to January of 2015 and revenues fell short of projections as customers responded to calls for conservation and limits on outdoor irrigation faster than anticipated. When a Stage III drought was declared in May of 2015, revenues outpaced projections in Fiscal Year 2015-16 as customers did not conserve at the higher level anticipated under a Stage III. However, in FY 2016-17 consumption has dropped further as a result of continued drought restrictions, and increased rainfall this winter.

Customer water conservation generally falls into one of two broad categories. The first category is baseline conservation, or permanent conservation which leads to demand hardening by permanently reducing water use.

This type of conservation results when customers install water-efficient fixtures and appliances, replace turf with drought-tolerant landscapes, or put in greywater systems. The second category is compliance with mandatory water-use restrictions and other conservation measures taken in response to the drought. Examples of this category include reductions in outdoor irrigation due to assigned watering days and times, or shorter showers. This type of conservation may be reversed when the drought ends. However, because of baseline conservation, historically, post-drought, water demand is typically less than pre-drought demand.

Customer behavior also has a direct impact on revenues. As an incentive to conserve water, the District implemented a tiered rate program that provides discounts for lower usage. The discounts can affect both the monthly service charge as well as water consumption related charges. For example, 13,673 customers with 5/8" or 3/4" meters are able to qualify for lower monthly service charges and water rates by reducing water use. Over the past year, approximately 56% of customers qualified for the lowest tier, 37% qualified for the middle tier, and the remaining 7% were at the top tier.

The District's customers have been very responsive to the District's conservation program in FY 2016-17 and are expected to continue their efforts in FY 2017-18. As a result, the District predicts water use will further decrease as shown in Table 2.2.

Rate Adjustments

District rates are scheduled to increase 4% July 1, 2017 consistent the Five Year Financial Plan. These new rates will help offset the projected decrease in customer water use. See further analysis in Table 2.3.

New Service Connections

The District instituted a temporary moratorium on new water allocations effective October 1, 2014. That moratorium will remain in effect until the necessary conditions are met to lift the restrictions on new water entitlements under the voter approved SAFE Water Supplies Ordinance. However, some new connections result from projects with existing water credits or projects that obtained a water allocation before the moratorium. By law, the District cannot take these rights away, nor can it prevent property owners from exercising water entitlements that were approved and paid for prior to the drought. Additional Water Sales and Fixed Meter Service Charge revenue is forecast based on projects expected to be completed in the coming fiscal year. Largely because of new Multi-Family developments being served in FY 2017-18 New Water Sales are projected to increase by about 1% of water usage. Similarly New Monthly Service charges are projected to increase by about 1% of meter charges.

WATER SALES

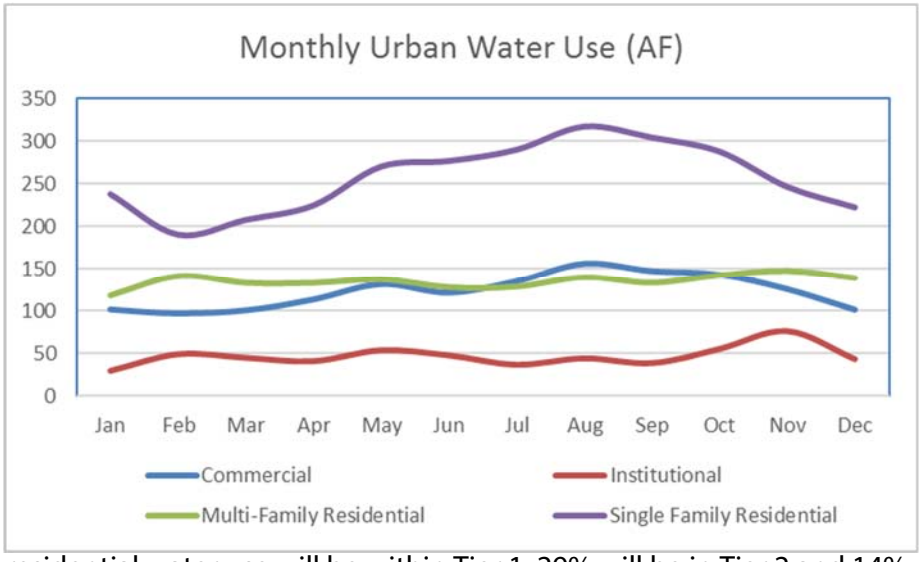
The largest source of District revenue is Water Sales (76%), billed according to the actual volume of water consumed by the customer. The District has distinct water rates for each customer category based on the unique factors involved with their service. The amount and type of water use across categories 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 highly responsive to weather conditions (see Figure 2.3), especially those customer categories with significant outdoor irrigation, which can significantly influence water sales. Water production increases significantly with warm dry weather conditions as customers rely on water provided by the District in the absence of rain. During the fall, winter, and spring months with cooler temperatures and appreciable rainfall, the amount of water provided by the District is significantly reduced as landscapes and

agriculture need less irrigation. This variability in customer water demand throughout the year produces similar cashflow patterns from Water Sales, the timing of which must be incorporated into expenditure plans. Conservation, weather patterns, seasonal variability, rate tiers and the amount of indoor versus outdoor landscaping are all considered in forecasting water sales for the coming year.

Understanding the behavioral characteristics of water use across customer categories is critical to accurately projecting monthly revenue which, in turn, influences the timing and levels of project and program expenditures during the fiscal year. Customer behavior varies across categories and seasons; however, less variability is observed now that many customers have significantly reduced outdoor watering as a result of the prolonged drought. These behaviors have a direct impact on fluctuations in Water Sales and corresponding revenue, but are most noticable in the summer months. Water Sales volume projections were developed based on an analysis of conservation for each customer category, seasonal variability, and expected conservation projected under contining drought conditions.

The above average rainfall received in winter of 2017 was helpful, but not sufficient to significantly alter drought conditions following one of the driest two-year periods on record in 2013 and 2014, and below normal rainfall through 2016. Due to the ongoing dry conditions, the District expects to remain in a Stage III Water Shortage Emergency and is encouraging customers to reduce water use by 35 percent through targeted outreach, mandatory water use restrictions and the continued application of a temporary drought surcharge. A significant decrease in base water revenues occurred over the last three years and a similar decrease is projected for FY 2017-18 compared to normal conditions as customers continue to conserve in response to the ongoing drought. In FY 2016-17 and FY 2017-18, these base revenue losses are offset by the drought surcharge, which is a subset of total Water Sales. Conservation is critical to continue to provide safe and reliable water to customers for drinking, health, and safety. A short discussion about the expected water use characteristics of each customer category is included below, followed by a summary of water use projections.

Figure 2.4 2016 Urban Water Use

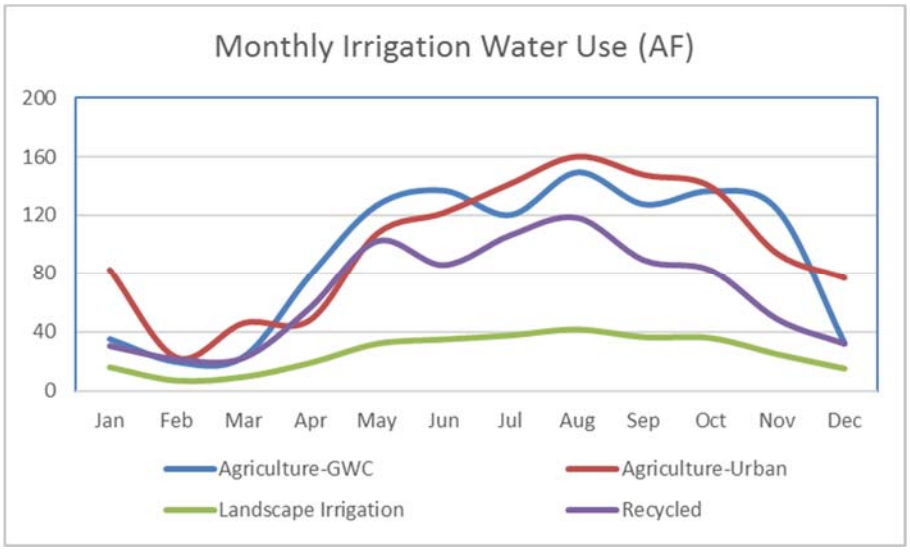


In forecasting the amount of revenue received from Water Sales for Single-Family Residential customers, the District's tiered rates must be considered. The District's rate structure provides a lower rate for the first 6 HCF of water use each month to cover basic indoor use for the average District household. 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 normal 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 2016 water use, that 57% of Single Family residential water use will be within Tier 1, 29% will be in Tier 2 and 14% will be in Tier 3.

Rates for all other urban customers are uniform with the same charge applying to each unit of water consumption. Rates for Agricultural, Recycled, and Landscape Irrigation customers all vary based on the unique characteristics of serving the respective customer category. To recover increased costs associated with the drought, a uniform temporary drought surcharge is applied to each unit of water used across all customer categories, with the exception of recycled water.

The level of indoor versus outdoor water use also significantly influences water sales in each customer category. Figures 2.4 and 2.5 show seasonal variations in water use across customer categories that use water for baseline indoor requirements compared to those for whom use is exclusively for outdoor irrigation, which is highly seasonal and weather driven. This pattern is evident when comparing water consumption data for Single-Family Residential customers, which varies moderately throughout the year due primarily to changes in outdoor irrigation, to the more uniform usage of Commercial and Multi-Family Residential customers who tend to have lower levels of landscape watering. Multi-family Residential and Institutional water use are more affected by the academic calendar and move out schedules than weather patterns. Total consumption for customers with baseline indoor use varied only 27% between the lowest use month (477 AF in February) and the highest use month (657 AF in August). Baseline indoor water use in these customer categories reduces seasonal variability, and revenue forecasts for these categories are more reliable.

Figure 2.5 2016 Irrigation Water Use



For the customer categories that use water exclusively for outdoor irrigation, seasonal water consumption varies substantially. For example, potable, non-potable and recycled water use by agriculture and landscape irrigation totaled 470 AF in August, more than six times the water use of 70 AF in February. Usage by these categories is driven to a much greater degree by weather conditions. An above average year of rain, an unusually dry year, or rain events in months that are typically dry can influence water sales significantly for these categories. Conversely, as use is not for health and safety needs, there is a greater capacity for changes in irrigation practices that can significantly reduce usage.

Tables 2.2 and 2.3 summarize water use and revenue projections that have been developed for FY 2017-18. Water Sales are projected to increase by $1.2 million primarily due to the scheduled 4% rate increase. Other influencing factors include an additional $324K in revenues derived from projected new service connections partially offset by a decrease of $284K in revenues due to the expected continuation of conservation efforts by customers in response to the ongoing drought.

Table 2.2 FY 2017-18 Budgeted Water Use by Customer Category (in AF)

Customer Category	FY 2016-17 Budgeted Water Use	Influencing Factor: New Development	Influencing Factor: Behavioral Changes	Net Incr. / (Decr.)	FY 2017-18 Budgeted Water Use
Single-family residential	3,264	12	(151)	(139)	3,125
Multi-family residential	1,697	55	(30)	26	1,723
Commercial	1,594	2	(78)	(76)	1,518
Agriculture-Urban	1,399	-	(70)	(70)	1,330
Agriculture-Goleta West Conduit	1,248	-	(127)	(127)	1,121
Institutional	491	-	(25)	(25)	466
Landscape irrigation	299	19	4	23	322
Recycled	946	31	(151)	(120)	826
Fire	-	-	-	-	-
Total:	**10,938**	**119**	**(628)**	**(509)**	**10,429**

Table 2.3 FY 2017-18 Budgeted Water Sales Revenue and Influencing Factors

Customer Category	FY 2016-17 Budget Baseline Revenue	Influencing Factor: New Development	Influencing Factor: Rate Change	Influencing Factor: Behavioral Changes	Net Incr. / (Decr.)	FY 2017-18 Budgeted Water Sales Revenue
Single-family residential	$ 10,685,199	$ 34,759	$ 427,408	$ 638,141	$ 1,100,308	$ 11,785,507
Multi-family residential	5,681,191	175,572	227,248	32,387	435,207	6,116,397
Commercial	5,336,098	5,782	213,444	(1,444,975)	(1,225,748)	4,110,349
Agriculture-Urban	2,629,192	-	105,168	5,115	110,283	2,739,474
Agriculture-Goleta West Conduit	2,107,283	-	84,291	614,629	698,920	2,806,203
Institutional	1,642,822	-	65,713	1,130	66,842	1,709,664
Landscape irrigation	1,002,200	60,505	40,088	9,329	109,922	1,112,122
Recycled	879,329	47,320	35,173	(160,086)	(77,593)	801,735
Fire	-	-	-	20,683	20,683	20,683
Total:	**$ 29,963,312**	**$ 323,938**	**$ 1,198,532**	**$ (283,647)**	**$ 1,238,824**	**$ 31,202,136**

Monthly Service Charge Revenue

Based on the current rate structure and projected water demand under a Stage III drought, approximately 21% of total District revenue will come from the Fixed Meter Service Charge. All active water service connections pay this monthly charge based on the size of the connection. Approximately 83% of District connections are 3/4 inch or 5/8 inch meters, which carry the lowest volume of water and are charged the lowest 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.

Tiered Monthly Service Charges based on total monthly consumption and it applies to all customers with 5/8 inch or 3/4 inch meters, providing a price incentive for conservation. A similar tiered rate structure that applies to

water consumption also applies to the Monthly Service Charge. Customers who use up to 6 HCF in a month pay the Tier 1 meter charge. Customers who use a total between 7 and 16 HCF in a month pay the Tier 2 meter charge, and customers who use over 16 HCF in a month pay the Tier 3 meter charge. The charge can vary month-to-month for each customer based on consumption. 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. Customers with one inch or larger meters are not eligible for tiered pricing for their Fixed Meter Service Charge.

Table 2.4 shows the number of connections by size within each customer category and Table 2.5 shows how many customers with small meters qualify for each tier, on average. Since there is no rate differential between 5/8 inch and 3/4 inch meters, they are both included in the 3/4 inch category (Table 2.5 is limited to 5/8 inch and 3/4 inch meters). Based on actual monthly water use in 2016 for these accounts, it is anticipated that 57% of meter charges for these customers will qualify for Tier 1, 36% will qualify for Tier 2, and 7% will qualify for Tier 3 – with residential customers more likely to qualify for conservation pricing than commercial customers. These tables only show totals for meters expected to be active July 1, 2017; excluding vacant accounts and new service connections expected to come online during the year.

Table 2.4 Types and Number of District Customer Connections

	Meter Size									
Customer Category	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"	Total
Single-family residential	12,108	1,098	51	49	-	-	-	-	-	13,306
Multi-family residential	1,055	290	214	134	6	9	12	2	-	1,722
Commercial	403	204	125	218	26	8	9	2	2	997
Agriculture	2	20	19	116	4	4	1	-	-	166
Institutional	-	-	-	2	-	-	1	1	1	5
Landscape irrigation	101	62	54	32	3	3	-	-	-	255
Recycled	8	4	5	9	6	4	10	2	-	48
Fire	360	28	46	4	-	-	-	-	-	438
Total Connections:	**14,037**	**1,706**	**514**	**564**	**45**	**28**	**33**	**7**	**3**	**16,937**

Table 2.5 Monthly Service Charge by Tier for Small (5/8 inch and 3/4 inch) Meters

	TIER			
Customer Category	Tier 1	Tier 2	Tier 3	Total
Single Family Residential	6,842	4,510	755	12,107
Multi-Family Residential	569	346	141	1,056
Commercial	248	83	69	400
Landscape Irrigation	70	12	18	100
Recycled Water	4	1	2	7
Agriculture	1	0	2	3
Institutional	0	0	0	0
Total Connections:	**7,734**	**4,952**	**987**	**13,673**

Table 2.6 shows Monthly Service Charge revenue by customer category and influencing factors. The Behavioral & Size Changes category includes revenue adjustments based on changes in meter size and the impact of more customers with small meters qualifying for lower tiers. The revenue adjustments in the Single-Family Residential, Multi-Family Residential, and Commercial categories are based on customer qualification for lower or higher tiers while the adjustments for other categories are generally based on changes to meter size.

About 46% of estimated Fixed Monthly Service Charge revenue is derived from small meters eligible for conservation pricing. Each customer who is able to reduce consumption and lower their meter tier by one level saves approximately $16 a month. About two-thirds of charges for small meters are estimated to be in Tier 2 or Tier 3. If Tier 3 customers are able to lower their tier by one level compared to budget projections, the resulting revenue loss would be about $190K.

Other influencing factors include a 4% rate increase and a 0.6% increase for new service connections. New service connections are primarily concentrated in the Multi-Family Residential category for new student housing in Isla Vista and master-metered residential projects that have come online, including Cavaletto Tree Farm and the Village at Los Carneros. The next largest category for new service connections is the Landscape Irrigation category– mostly to provide landscape irrigation at new multi-family residences.

Total Fixed Meter Service Charge revenue is forecast to decline by $662K, or 7.3% despite the planned 4% rate increase and a 0.6% increase associated with new service connections. This is largely the result of more customers qualifying for conservation or middle tier pricing. Total Fixed Meter Service Charge revenue is projected to be $8.4 million in Fiscal Year 2017-18.

Table 2.6 FY 2017-18 Budgeted Monthly Service Charge and Influencing Factors

		Influencing Factor				
Customer Category	FY 2016-17 Budget Baseline Revenue	New Development	Rate Change	Behavioral & Size Changes	Net Incr. / (Decr.)	FY 2017-18 Budgeted Fixed Revenue
Single-family residential	$ 4,526,673	$ 9,788	$ 135,800	$ (409,290)	$ (263,702)	$4,262,971
Multi-family residential	1,615,561	40,149	48,467	(178,846)	(90,230)	1,525,331
Commercial	1,723,951	235	51,719	(308,412)	(256,458)	1,467,493
Agriculture-Urban	309,395	-	9,282	(11,738)	(2,456)	306,939
Agriculture-Goleta West Conduit	94,423	-	2,833	(10,442)	(7,609)	86,814
Institutional	120,179	-	3,605	(9,346)	(5,740)	114,439
Landscape irrigation	288,895	10,358	8,667	(37,747)	(18,722)	270,173
Recycled	373,081	949	11,192	(21,475)	(9,333)	363,748
Fire	54,615	481	1,638	(9,446)	(7,326)	47,289
Total:	**$ 9,106,773**	**$ 61,961**	**$ 273,203**	**$ (996,741)**	**$ (661,577)**	**$ 8,445,196**

Other Revenues & Transfers

The remaining $1.4 million (3.4%) of expected FY 2017-18 revenue includes $63K in Investment Revenue, $136K in Conveyance Revenue and $1.2 million 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 2017-18 Budget forecasts no revenue from NWSC payments because of the morotorium on new service applications under the SAFE Water Supplies Ordinance. 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 years has been 26 AF.

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 2017-18, 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 $63K in investment revenue. Investment Revenue is projected to increase by $3K (4%) in FY 2017-18 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 2017-18 is $136K.

Miscellaneous Fees and Charges

The District receives revenue in the form of fees and charges from various sources, including delinquent accounts, backflow inspection, application and initiation fees, connection fees, cell tower site rentals, hydroelectric power generation sales, and customer reimbursable projects. The anticipated revenue from these sources in FY 2017-18 is approximately $1.2 million. This is an increase of $150K (14%) over FY 2016-17 primarily due to an expected increase in customer reimbursable projects and the new source of hydroelectric power sales. 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 $350K in FY 2017-18.

Transfers

The District maintains a prudent financial reserve to ensure adequate cash flow for operational needs and capital emergencies and strives to adhere to the 2015-2020 Financial Plan (Five-Year Financial Plan). The FY 2016-17 Estimated Actual indicates a $122K designation from reserves based on updated projections for the current fiscal year. The FY 2017-18 budget estimates a $927K designation to reserves after meeting operating and capital needs.

The District's estimated reserve balance is ahead of the financial plan through FY 2017-18 which will provide a buffer against unexpected capital expenditures and the volatility in revenues. The District is well positioned to reach the Board policy of an $8.9 million reserve by 2020 through the management of expenditures and by operating within the 2015-2020 IIP.

SECTION III – EXPENDITURES

SUMMARY

FY 2017-18 expenditures are consistent with continued implementation of the Five-Year Financial Plan and other foundational policy documents adopted by the Board of Directors. These expenditures allow the District to continue to deliver safe and reliable water, offer excellent customer service and invest in critical capital projects needed to secure future sustainability.

District expenditures are comprised of costs associated with Water Supply Agreements, Personnel, Operations and Maintenance (O&M), Debt Service and Capital Improvement Projects. Expenses are broken down in Table 3.1, Figure 3.1, Figure 3.2 and Figure 3.3, and followed by a full summary of costs in Figure 3.4. Water supply portfolio-related costs have risen to 33 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 25 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. Operations & Maintenance represent 20 percent of total expenditures, and include costs related to water treatment and testing, general insurance, legal, maintenance and equipment, as well as services and supplies. Expenses associated with debt service and Capital Improvement Projects in the Infrastructure Improvement Plan make up the balance of total expenditures at 9 and 13 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. This Budget commits to funding the minimum level of critical maintenance and infrastructure investments needed, but does not provide for proactive replacement. The District strategically prioritizes critical needs for the delivery of safe, cost-effective and dependable water supply to customers now and into the future.

This year the District will increase the use of surface water to allow the groundwater basin to rest. However, the shifting water supply balance introduces higher costs to treat the challenging water quality conditions currently present at Lake Cachuma. Even as the District is able to reduce reliance on groundwater, conditions in the basin are changing and dynamic, and a sixth year of drought has necessitated increased monitoring of ground water conditions to maintain water quality. Finally, the District will support significant conservation outreach and incentive-based programs to reduce customer demand in response to drought conditions as they persist through the summer and fall, and into 2018.

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 WSMP, the District employs a strategy of drawing from available water sources in a prioritized manner to maximize supplies and minimize costs. This year the District will once again be able to draw on Cachuma water supplies, reducing the use of groundwater to rest the basin as it approaches historic lows. Based on CA Department of Water Resources (DWR) projections, State Water deliveries will be available to meet customer demand, and will exceed delivery capacity.

As illustrated in Table 3.1, FY 2017-18 total water supply costs will increase by $496K, or 4%, largely the result of the increased State Water delivery costs. Expenses incurred from COMB will continue even with a reduced forty percent water allocation due to ongoing infrastructure investment and repair, and the fixed nature of long-term water supply agreements. The cost of pumping and treating groundwater is included in O&M and capital costs.

Table 3.1 FY 2017-18 Budgeted Water Supply Agreement Costs

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
COMB (Lake Cachuma Deliveries):					
Water Entitlement	$ 354,179	$ 368,076	$ 471,250	$ 117,071	33%
Operations & Maintenance	2,690,741	2,605,185	2,532,875	(157,866)	(6%)
Cachuma Renewal Fund	79,667	79,667	-	(79,667)	(100%)
Safety of Dam Act	72,734	72,734	129,392	56,658	78%
Subtotal - COMB	$ 3,197,321	$ 3,125,662	$ 3,133,516	$ (63,805)	(2%)
CCRB (Water Rights):	$ 500,000	$ 313,206	$ 360,000	$ (140,000)	(28%)
SB County (Cloud Seeding):	$ 27,000	$ 27,061	$ 32,000	$ 5,000	19%
CCWA (State Water Deliveries):					
Fixed Costs	$ 7,594,231	$ 7,594,231	$ 7,559,988	$ (34,243)	(0%)
Variable Costs	717,320	2,207,327	1,518,477	801,157	112%
Subtotal - CCWA	$ 8,311,551	$ 9,801,558	$ 9,078,465	$ 766,914	9%
GSD (Recycled Water Production):	$ 676,630	$ 556,294	$ 604,630	$ (72,000)	(11%)
Total:	**$ 12,712,502**	**$ 13,823,781**	**$ 13,208,611**	**$ 496,109**	**4%**

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

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

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

By agreement, the District share of COMB expenditures is 39 percent. This amounts to $3.1 million in FY 2017-18, which is a minor decrease of $64K, or 2%, compared to FY 2016-17.

CCRB works to protect Cachuma Water Rights and supplies for the South Coast water purveyors. The District share of CCRB costs is 46 percent, or $360K in FY 2017-18 which is a decrease of $140K, or 28% as compared to FY 2016-17. FY 2017-18 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.

The Federal Government is anticipated to release a new draft Biological Opinion that could impact the amount of water available to customers from Lake Cachuma. CCRB enlists scientists, attorneys and environmental consultants to protect Lake Cachuma water supplies while minimizing impacts on fish populations and habitat.

CCWA (State Water Deliveries)

The District accesses the State Water entitlement via its membership in CCWA. The costs associated with this entitlement are $9.1 million for FY 2017-18, inclusive of the cost to finance, build and operate the infrastructure necessary to transport the water. Based on DWR projections, the District plans on taking deliveries of approximately 4,500 acre-feet of State Water in FY 2017-18, in addition to the exchange agreement with ID #1. Under this agreement the District exchanges approximately 1,000 AF of its State Water Entitlement for 1,000 AF of Cachuma supplies from ID #1 in a normal water year, to the extent water is available. This agreement saves both agencies water delivery and infrastructure costs and assists in securing regional water supplies.

GSD (Recycled Water Production)

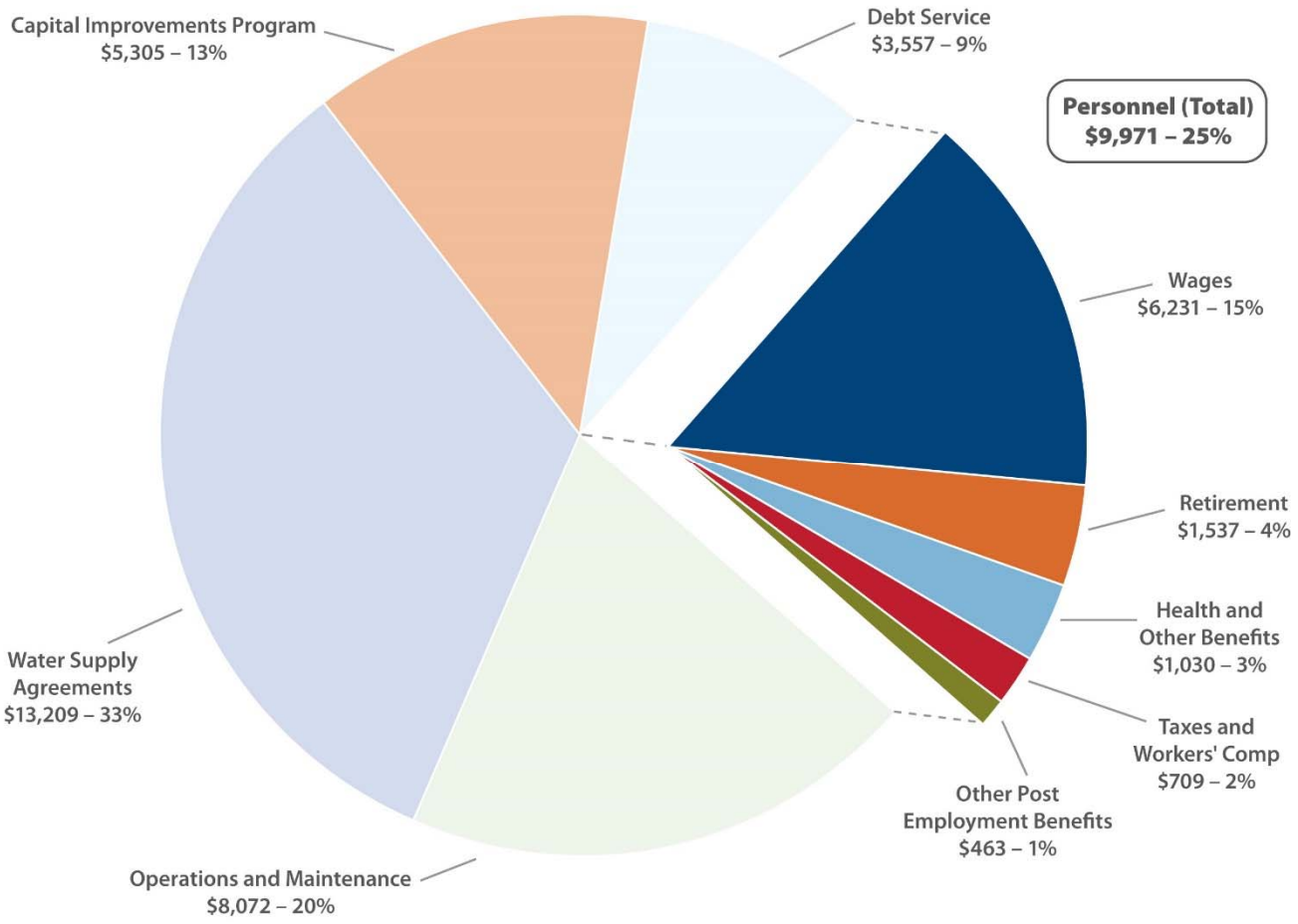
By providing recycled water to 41 customers for irrigation purposes, the District conserves drinking water for potable purposes improving its water supply reliability. Per agreement, the District pays GSD for all O&M costs necessary to produce recycled water. For FY 2017-18 costs are estimated at $605K.

PERSONNEL

Recruiting, training and retaining professional employees is critical to meeting District objectives of protecting water supplies and ensuring dependable and high quality service to customers for generations to come. The workforce includes licensed and professional staff to perform a wide variety of activities including operating the state-of-the-art Corona Del Mar Water Treatment Plant, maintaining 270 miles of distribution lines and reading approximately 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 2017-18 will be $10.0 million, an 8% increase as compared to FY 2016-17. Figure 3.1 provides an overview of the individual components of Personnel costs, as a portion of overall costs.

Figure 3.1 FY 2017-18 District Costs, Featuring Details of Budgeted Personnel Costs ($000s)



Personnel increases year-over-year total $757K, or 8%, and are attributable to contractual obligations described in the Memorandum of Understanding with the Service Employees International Union (SEIU) Local 620. Of note, health insurance premiums will rise 18% as a result of continued increases to premium costs.

Retirement expenditures make up 15% of Personnel costs, as the District continues to realize the financial benefits of the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA was signed into law in 2012 limiting pension benefits offered to new employees and increasing cost sharing between new employees and public employers. Employees are now contributing 100% to their retirement plans as of FY 2017-18. As PEPRA is designed to realize mid-term to long-term savings, District financial savings will continue to grow in the future.

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

Operations & Maintenance

The District service area spans 29,000 acres and includes more than 270 miles of pipeline, about 16,900 connections, 8 storage reservoirs, 9 wells, and the Corona Del Mar Water Treatment Plant. To operate these facilities and deliver water to customers, more than 30,000 appurtenances are maintained, including over 6,000 valves and 1,500 fire hydrants. O&M costs include a variety of day-to-day functions from water treatment and testing to insurance, auditing, legal services, as well as the purchase of energy, materials, supplies and equipment needed to run water delivery and treatment systems.

The District will treat and distribute approximately 3.6 billion gallons of water in FY 2017-18. This water moves through reservoirs and pipelines that must be continually maintained to ensure safe and reliable delivery. Valve maintenance also plays a particularly important role in controlling the system and is critical to maintaining proper distribution system operations.

Table 3.2 provides additional detail of FY 2017-18 O&M expenditures. The total O&M expenditures of $8.1 million are down five percent from FY 2016-17 as a result of decreased utility costs and projected legal costs. Notable variances within expenditure categories include:

- Water Treatment costs will increase by $141K and Water Testing costs will increase by $37K as a result of treating more surface water at CDMWTP.
- Services and Supplies costs will increase by $419K to fund well rehabilitations, and other drought-related expenditures, but offset by a decrease of $218K in maintenance and equipment costs.
- Utility costs will decrease by $444K due to declines in groundwater pumping and transmission costs.

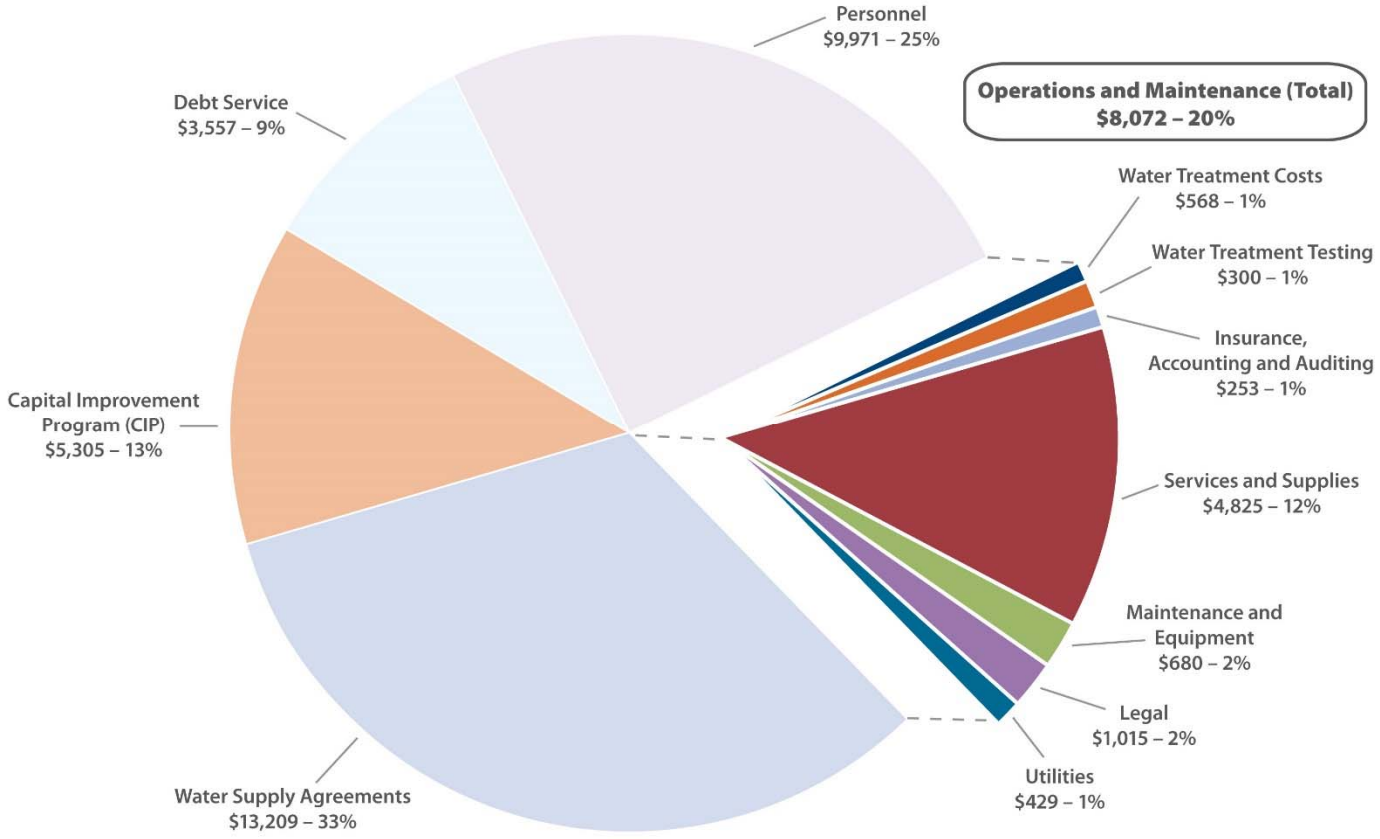
Table 3.2 FY 2017-18 Budgeted O&M Costs

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations & Maintenance Costs:					
Water Treatment	$ 427,088	$ 459,888	$ 568,326	$ 141,238	33%
Water Testing	263,300	264,312	300,140	36,840	14%
Insurance, Accounting, & Auditing	260,624	235,780	253,235	(7,389)	(3%)
Maintenance & Equipment	898,183	1,059,273	680,200	(217,983)	(24%)
Legal	1,336,501	2,354,903	1,015,200	(321,301)	(24%)
Services & Supplies	4,405,763	3,549,837	4,825,013	419,250	10%
Utilities	873,833	789,783	429,499	(444,334)	(51%)
Total:	**$ 8,465,292**	**$ 8,713,776**	**$ 8,071,614**	**$ (393,678)**	**(5%)**

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

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

Figure 3.2 FY 2017-18 District Costs, Featuring Budgeted O&M Costs ($000s)



Debt Service

Debt service costs reflect payments associated with approximately $50 million of outstanding Certificates of Participation (COPs) that are secured by a pledge of District revenues. These COPs are comprised of issuances in 2010 and 2014, with interest payable semi-annually. The current Five-Year Expenditures Forecast provides sufficient revenues to satisfy debt coverage requirements. The FY 2017-18 debt services is $3.6 million based on scheduled principal and interest payments.

Infrastructure Improvement Plan

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

A critical goal of an IIP is to ensure that the District's infrastructure is capable of producing and delivering water to customers as the supply portfolio changes during the drought. Over half of the IIP funds go toward enhancing the reliability and capacity of the District's well system, with significant investment in the distribution and treatment systems. These investments are needed to ensure reliable water supplies for the community adequate to meet health and safety needs. The FY 2017-18 Budget includes $5.3 million to fund 24 capital projects split between two categories:

- Regulatory Requirement and/or Critical Need: Projects in this category fall into two sub-categories: 1) planning for and response to unscheduled system infrastructure failures and, 2) projects needed to meet and maintain rigorous state and federal regulatory requirements. To address unplanned failures funding is budgeted each year for common issues such as pump and motor replacements, emergency main replacements, and hydrants and valves. Specific projects include enhanced monitoring and treatment to maintain water quality at groundwater wells and the CDMWTP; aeration at reservoirs to reduce THMs as organic loads increase in Lake Cachuma; the forced relocation of vital infrastructure due to roadway improvements in the City of Goleta; and the design of solids handling improvements at the CDMWTP to meet discharge requirements. These, as well as general replacement of pipes and safety upgrades, will allow the District to provide an adequate supply of water that meets and maintains compliance with rigorous state and federal regulatory requirements.
- Vital to Sustain Infrastructure: These projects are considered vital to the sustained operations of the District, and include the small meter replacement program, the upsizing of mains, upgrades to the District's Cathodic Protection system to prevent corrosion and the potential for catastrophic water loss, vital equipment replacements, and information technology upgrades.

Figure 3.3 shows IIP spending by infrastructure type. Reflective of the shifts in water supply away from groundwater production toward surface water, investment in the District's well program has been considerably reduced, while water treatment has more than doubled. $1.5 million or 28% is dedicated to improvements in the distribution system. $1.2 million or 22% is planned for the well program, including the drilling and downhole testing and construction of a new replacement well. $846K or 16% is dedicated to water treatment.

Figure 3.3 FY 2017-18 Capital Improvement Plan by Infrastructure Type ($000s)

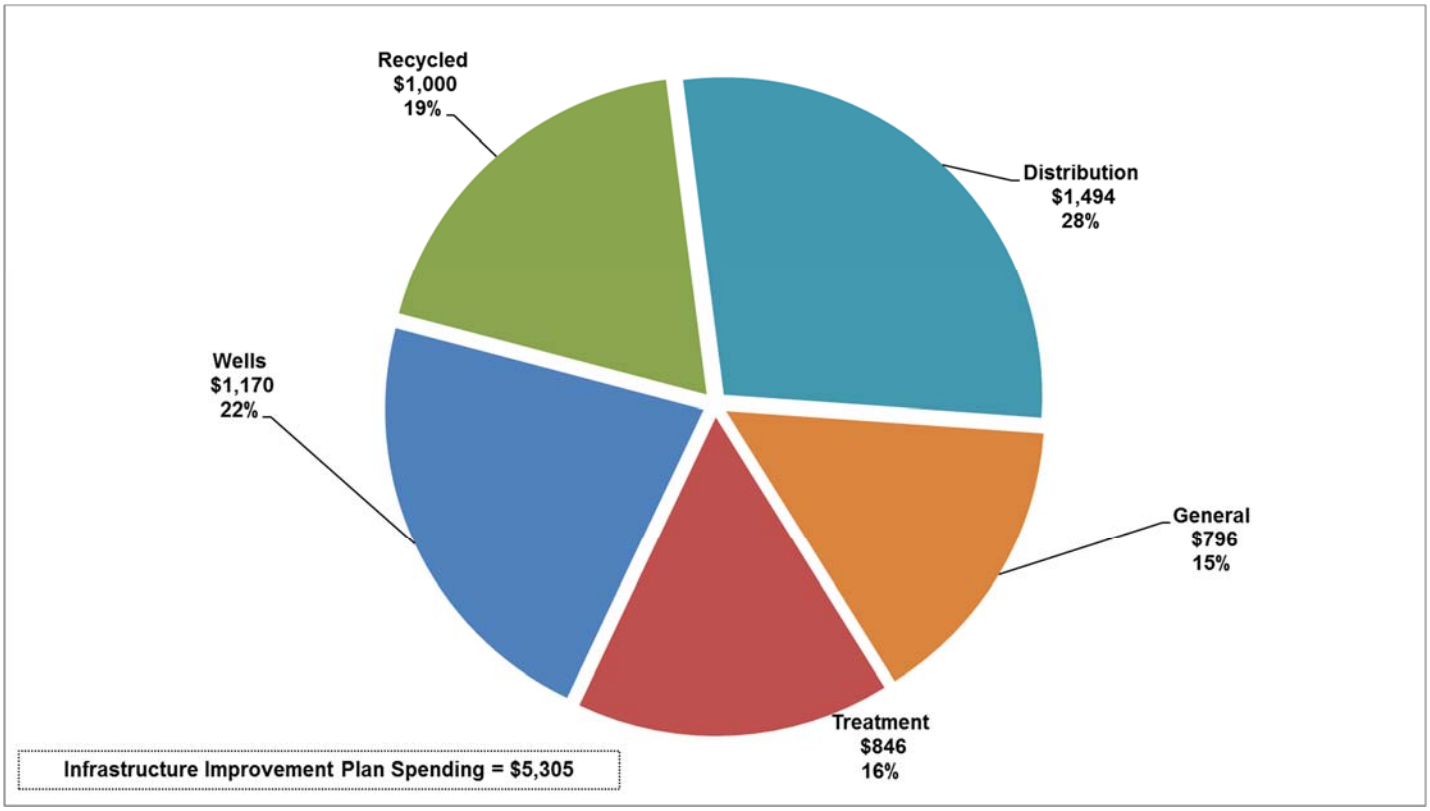


Table 3.3 Infrastructure Improvement Plan Projects Summary

Ref.	Project Name	Final FY 2017-18
1	Direct/Indirect Potable Reuse Pilot Project	500,000
2	Aeration Systems at Reservoirs for THM Reduction	540,000
3	Ekwill Street, Fowler Road, and Hollister Avenue Infrastructure Relocation	400,000
4	CDMWTP Solids Handling Improvements	50,000
5	Existing Well Treatment & Facilities Upgrades	50,000
6	Hollister Avenue Recycled Water Booster Pump Station Relocation	500,000
7	Patterson Pump Station Replacement	220,000
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	99,400
19	New Replacement Wells	1,170,000
20	Upsizing of Mains	85,780
21	Cathodic Protection Upgrades	175,000
22	Fleet Replacements	95,000
23	Equipment Replacements	94,000
24	Information Technology Upgrades	72,960
Infrastructure Improvement Projects Total		**$ 5,305,192**

SUMMARY OF DISTRICT EXPENDITURE FORECAST FOR FY 2017-18

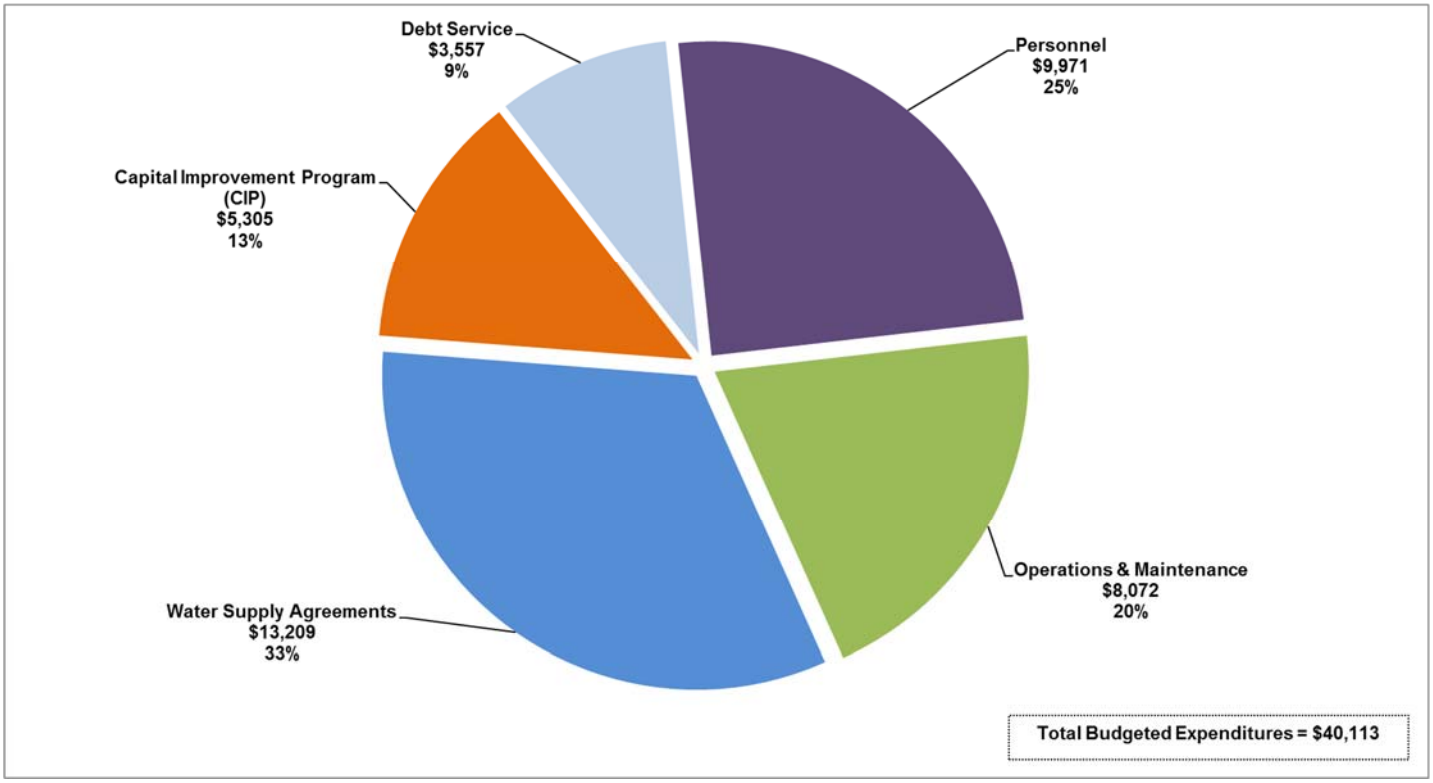
Table 3.4 and Figure 3.4 summarize FY 2017-18 total expenditures of $40.1 million. A key component of the annual Budget is to prepare for cash flow variables throughout the year and pace program and project expenditures accordingly. FY 2017-18 expenditures have incorporated customer behaviors and the accompanying seasonality of revenue as described in Section II.

Table 3.4 FY 2017-18 Budget Expenditures Compared to FY 2016-17 Budget Expenditures

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 3,197,321	$ 3,125,662	$ 3,133,516	$ (63,805)	(2%)
CCRB (Water Rights)	500,000	313,206	360,000	(140,000)	(28%)
SB County (Cloud Seeding)	27,000	27,061	32,000	5,000	19%
CCWA (State Water Deliveries)	8,311,551	9,801,558	9,078,465	766,914	9%
GSD (Recycled Water Production)	676,630	556,294	604,630	(72,000)	(11%)
Subtotal:	**$ 12,712,502**	**$ 13,823,781**	**$ 13,208,611**	**$ 496,109**	**4%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,809,808	$ 8,975,743	$ 9,507,504	$ 697,696	8%
Other Post Employment Benefits	404,028	407,437	463,178	59,151	15%
Subtotal:	**$ 9,213,836**	**$ 9,383,179**	**$ 9,970,682**	**$ 756,846**	**8%**
Operations & Maintenance:					
Water treatment costs	$ 427,088	$ 459,888	$ 568,326	$ 141,238	33%
Water treatment testing	263,300	264,312	$ 300,140	36,840	14%
Insurance, Accounting & Auditing	260,624	235,780	$ 253,235	(7,389)	(3%)
Maintenance & Equipment	898,183	1,059,273	$ 680,200	(217,983)	(24%)
Legal	1,336,501	2,354,903	$ 1,015,200	(321,301)	(24%)
Services & Supplies	4,405,763	3,549,837	$ 4,825,013	419,250	10%
Utilities	873,833	789,783	$ 429,499	(444,334)	(51%)
Subtotal:	**$ 8,465,292**	**$ 8,713,776**	**$ 8,071,614**	**$ (393,678)**	**(5%)**
Total Expenditures before Debt and CIP:	**$ 30,391,630**	**$ 31,920,737**	**$ 31,250,907**	**$ 859,277**	**3%**
Debt Service:	**3,557,088**	**3,551,718**	**3,556,988**	**(101)**	**(0%)**
Capital Improvement Projects (CIP):	**10,265,348**	**4,668,007**	**5,305,192**	**(4,960,156)**	**(48%)**
Total Expenditures:	**$ 44,214,067**	**$ 40,140,462**	**$ 40,113,087**	**$ (4,100,979)**	**(9%)**

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

Figure 3.4 FY 2017-18 Budgeted Expenditure Allocations ($000s)



The FY 2017-18 expenditures are $40.1 million, a decrease of $4.1 million compared to FY 2016-17. The following are contributing factors resulting in the net decrease:

- Capital Improvement Projects - The District decreased funding for capital improvement projects, to focus on targeted areas for improvement related to water quality and improvements to the transmission system.
- Costs to Operate Wells - With additional surface water and State water supplies available, the District has decreased its dependence on groundwater significantly, reducing power costs and well-related operation and maintenance costs.
- CCWA - This year's CCWA budget includes an increase in DWR Variable costs for the increased actual deliveries in the prior calendar year, as compared to requested deliveries.
- Water Treatment and Testing – the increased use of surface water and state water will result in higher costs related to water treatment and testing.

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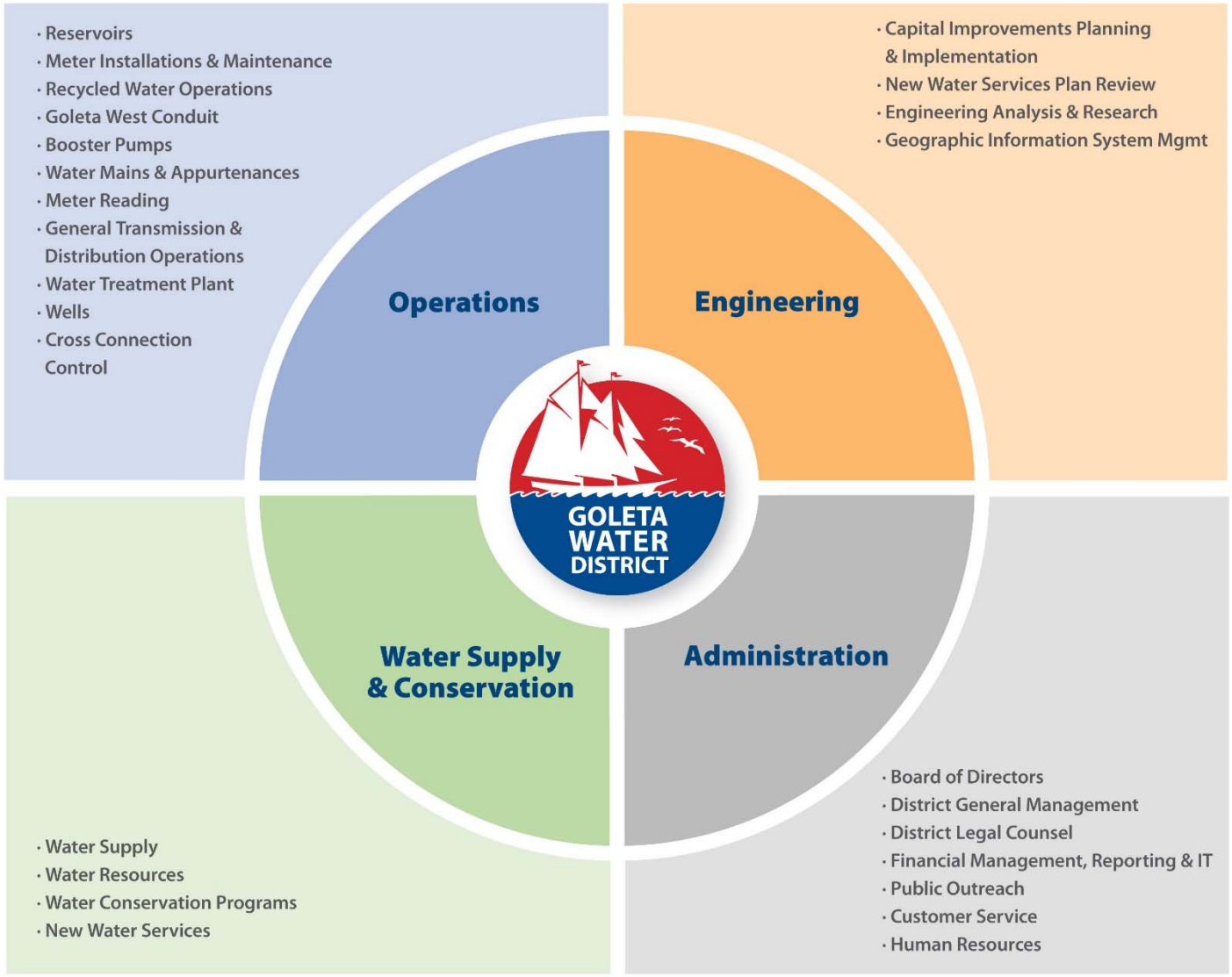
APPENDIX

Cost Center Overview

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

Figure 4.1 Programmatic Functions by Cost Center



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

Table 4.1 FY 2017-18 Budgeted Expenditures by Departmental Cost Center

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 9,759,243	$ 9,261,955	$ 9,856,161	$ 96,918	1%
Engineering	526,591	489,534	904,896	378,305	72%
Water Supply & Conservation	15,086,317	15,985,557	15,371,781	285,464	2%
General Administration	5,019,479	6,183,691	5,118,069	98,590	2%
Total Expenditures:	**$ 30,391,630**	**$ 31,920,737**	**$ 31,250,907**	**$ 859,277**	**3%**

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

Total FY 2017-18 cost center budgeted expenditures will be $31.3 million, which is an increase of $859K, or 3 percent, from FY 2016-17 budget, including:

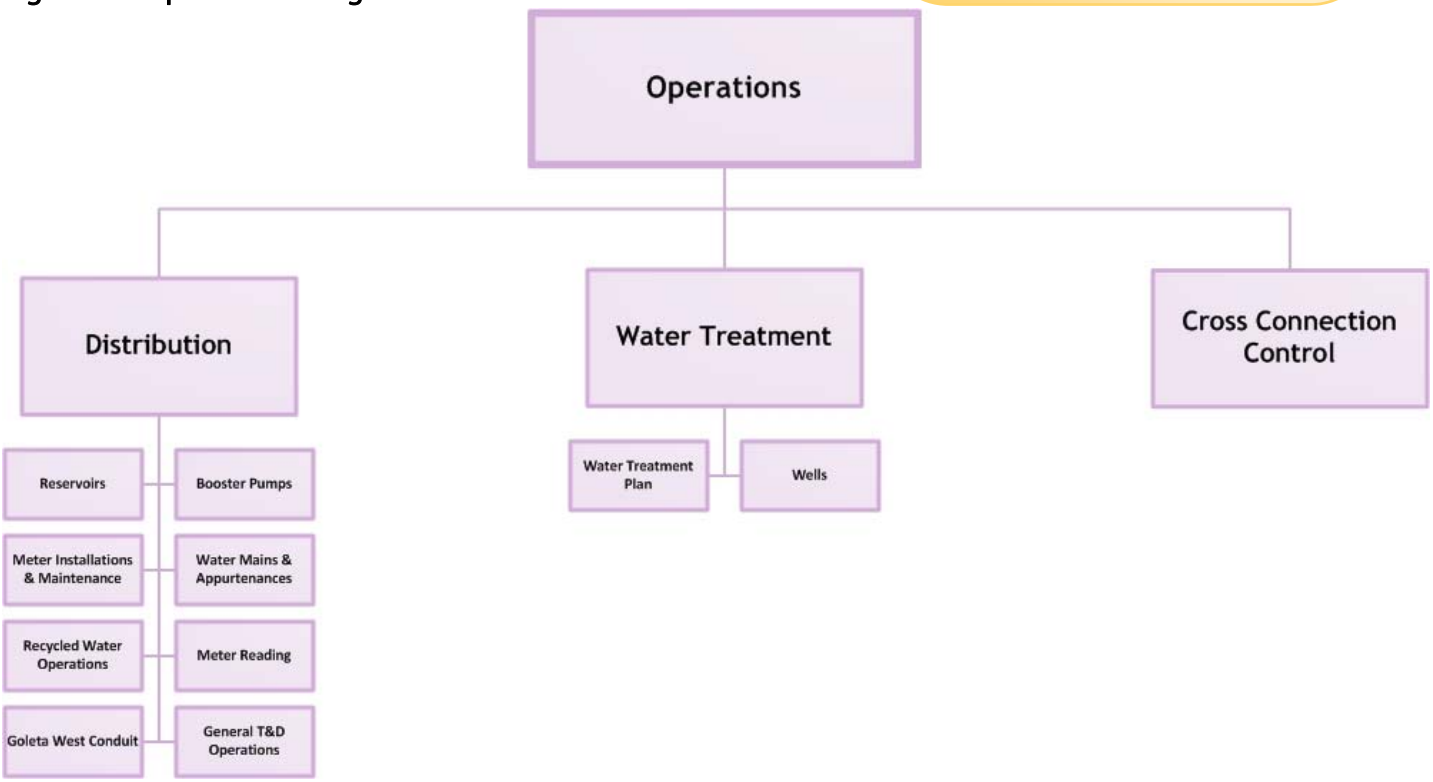
- A $97K increase in Operations primarily due to increased personnel costs, water treatment costs, services to improve water quality, and CDMWTP efficiencies offset against lower maintenance and utility costs from reduced groundwater production.
- A $378K increase in Engineering is the result of the use of specialized outside services on several capital projects required by the IIP.
- A $285K increase in Water Supply & Conservation expenditures is due to increased costs associated with higher State water deliveries by CCWA. These increased costs are offset by the transfer in FY 2017-18 of Public Outreach costs of $256K to General Administration.
- A $99K increase in General Administration is primarily the result of the transfer in of $256K Public Outreach costs for FY 2017-18 partially offset by decrease in legal fees.

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 2.67 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, as 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 2017-18 include:

- Conduct a system-wide flushing program to enhance water quality throughout the distribution system. This program is typically conducted every three to five years, a range that has been extended to six years due to the drought.
- Completion of a system-wide leak detection survey to continue proactive monitoring of water loss as started in FY 2014-15 and repeated every three years.
- Continuation of the Storm Water Management Program with Phase II improvements at District Headquarters to ensure compliance with regulatory guidelines for enhanced control of runoff.
- Installation of aeration equipment at various District Reservoirs to improve water quality throughout the system.
- Work at various District reservoirs to remove accumulated sediments from the extended well operations during the drought, and continuation of the structural and sanitary inspection program.
- Various road repairs to fix damage from winter storms. These repairs are necessary to maintain access to remote facilities, including the CDMWTP.

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.

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 non-potable 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 2017-18 include:

- Operational and treatment changes as needed to address water quality as the District transitions back to surface water supplies as the primary source of water, and places well operations into standby maintenance mode to allow the groundwater basin to rest.
- Removal of excess sediment in the CDMWTP intake structures and lines due to the low flow conditions prevalent during the drought.
- Development of a long term operational plan to place well operations into standby mode, while insuring they can be instantly activated in case of emergencies or supply interuptions at Lake Cachuma.
- Implement the fourth phase of the USEPA Unregulated Contaminant Monitoring Rule requiring various unregulated constituents to be tested every quarter.

Cross-Connection Control

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

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

Cross-Connection Control priorities in FY 2017-18 include:

- Increasing efficiencies in the backflow prevention management program by allowing independent certified testers to submit the required inspection forms electronically. This change will increase the efficiency of the program, which typically handles over 2,500 annual inspection forms per year.
- Implementation of an annual inspection program of one of the largest dual-plumbed residential facilities in California, UCSB's San Joaquin Towers, to insure separation is maintained between the recycled water and potable water lines.
- Continuation of on-site inspections of contractors and construction sites to reduce potential cross-connection hazards for both the recycled water system and the existing potable water system.

Operations Accomplishments FY 2016-17

During FY 2016-17, Operations completed a number of projects to enhance water supply, improve water treatment, and increase energy and operational efficiency, including:

- Successful operation of the CDMWTP under low volume conditions, which included shutting down and restarting the plant when production from the wells supplied the majority of potable water to meet customer demand. The previously completed low-flow by-pass line project at CDMWTP proved essential in efficiently treating water at reduced volumes.
- Completion of a sub-metering project that included installation of flow meters on main lines in the distribution system to measure and monitor distinct water use in specific geographic areas.
- Bringing the Berkeley and Shirrell wells into operation.
- Increasing well production to over 65% of the total potable water supply, surpassing total production of the CDMWTP for the second consecutive year.
- Used existing infrastructure at the District's well sites to increase measurements of discharge pressures for troubleshooting pressure variations and enhancing well performance.

- Completed inspection and prepared detailed documentation for the first installation of a large dual-plumbed residential facility in the District using both potable and recycled water.
- Replaced major transmission and pressure valves as part of the lateral nine improvement projects, increasing the District's ability to isolate lines while minimizing customer interruptions.
- Identified and repaired a number of District facilities impacted by winter storms that exposed pipelines and eroded various hillsides around reservoirs.
- Continued deliveries through the Recycled Water Hauling Program to qualifying properties for uses such as landscape irrigation and dust control at construction sites.

To preserve the drought buffer as the basin approaches historic lows, the District plans to minimize groundwater use while taking advantage of available surface water supplies to allow the basin to replenish.

FY 2017-18 Operations Cost Center Budget

Table 4.2 details the primary Operations expenditure categories and describes variances between FY 2016-17 Budget and FY 2017-18 budgeted expenditures.

Table 4.2 FY 2017-18 Operations Cost Center Budget Summary

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Operations					
Personnel:	**$ 4,972,553**	**$ 5,031,489**	**$ 5,398,033**	**$ 425,480**	**9%**
Operations & Maintenance:					
Water Treatment	427,088	459,888	568,326	141,238	33%
Water Testing	263,300	264,312	300,140	36,840	14%
Insurance, Accounting, & Auditing	100,132	97,945	97,239	(2,893)	(3%)
Maintenance & Equipment	947,683	1,058,765	702,809	(244,874)	(26%)
Services & Supplies	2,174,654	1,559,773	2,360,114	185,460	9%
Utilities	873,833	789,783	429,499	(444,334)	(51%)
Subtotal:	4,786,690	4,230,466	4,458,128	(328,562)	(7%)
Total Expenditures:	**$ 9,759,243**	**$ 9,261,955**	**$ 9,856,161**	**$ 96,918**	**1%**

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

The Operations budget will increase in FY 2017-18 by $97K, or 1 percent. Notable changes from FY 2016-17 Operations Budget to the FY 2017-18 Budget include:

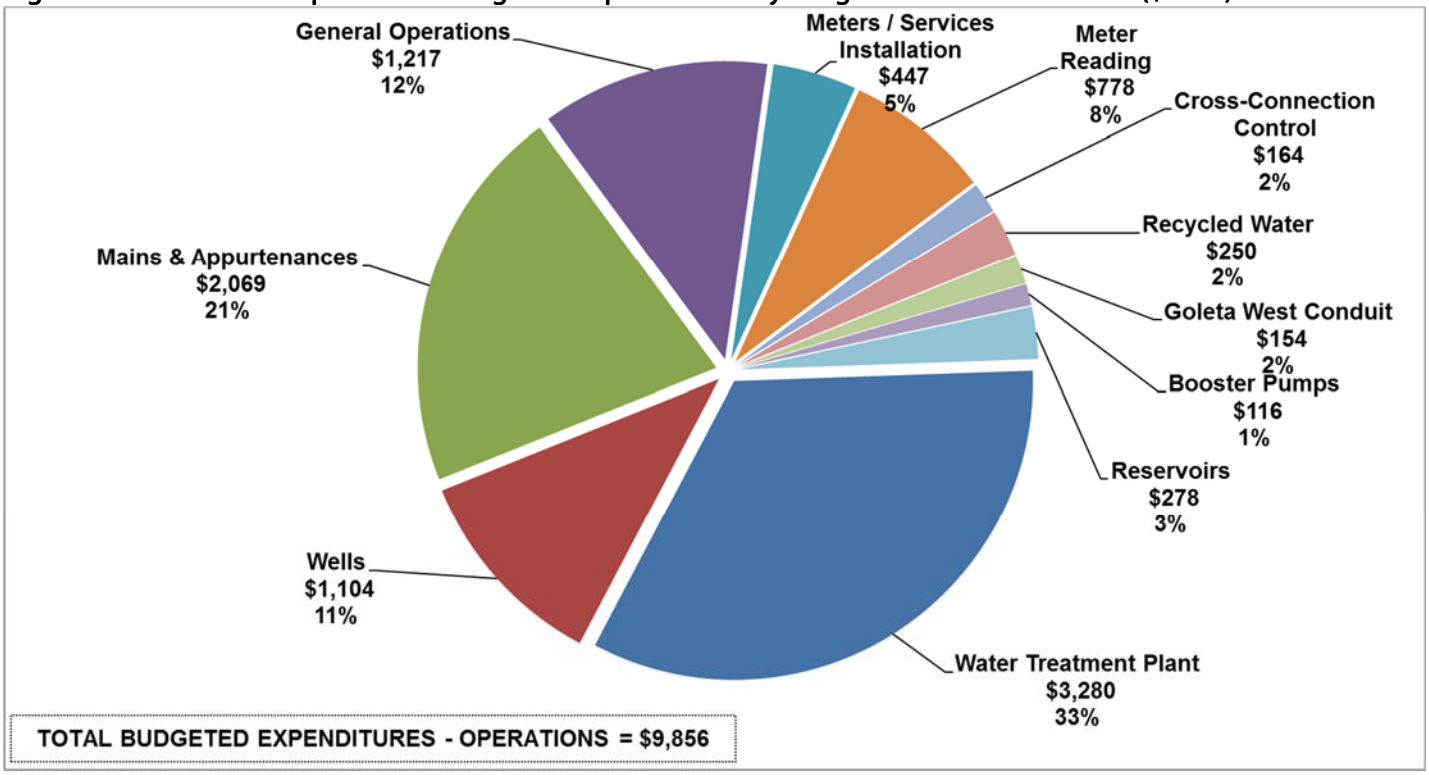
- Operations personnel costs will be $5.4 million in FY 2017-18 consistent with the current SEIU MOU provisions.
- Water Treatment costs will increase by $141K to address changing treatment conditions at Lake Cachuma.
- Maintenance & Equipment costs will decrease by $245K as the result of reduced repair, replacement, and general maintenance needs associated with decreased groundwater well production in FY 2017-18.

- Services and Supplies will increase by $185K primarily to fund capital infrastructure improvements. These improvements will provide critical data that will be used to address the following challenges: dealing with the increased organic materials in in local surface water supplies at Lake Cachuma from the Rey Fire and winter storm flows; removing low-flow caused sedimentation in the CDWMTP intake pipe; and conducting an analysis of data for input into a hydraulic model to improve the flushing plan.
- Utility costs will decrease by $444K as the result of decreased groundwater production and decreased use of booster stations as the wells are placed into stand by mode.

Table 4.3 FY 2017-18 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	$ 521,504	$ 11,856	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,966	$ -	$ -	$ 568,326
Water Testing	226,624	71,316	-	-	-	-	-	-	2,200	-	-	300,140
Personnel - Wages	992,936	213,280	813,105	453,928	175,609	491,784	79,993	105,164	58,107	26,783	31,671	3,442,359
Personnel - Benefits	428,280	91,994	350,714	195,792	75,745	212,120	34,503	45,360	25,063	11,552	13,661	1,484,784
Personnel - Taxes & W.C.	149,555	32,813	122,454	51,612	25,314	43,838	11,750	16,105	8,790	3,956	4,705	470,891
Insurance and Accounting	21,388	-	23,339	27,223	7,785	13,620	3,884	-	-	-	-	97,239
Maintenance & Equipment	127,104	74,300	138,335	233,576	87,880	7,114	5,001	4,800	700	15,700	8,300	702,809
Services & Supplies	698,521	372,024	611,306	228,732	74,677	9,378	28,456	53,580	17,840	48,100	217,500	2,360,114
Utilities	114,212	236,454	9,586	26,447	-	-	-	24,512	6,300	9,500	2,488	429,499
Total:	**$3,280,123**	**$1,104,037**	**$ 2,068,839**	**$1,217,310**	**$ 447,009**	**$777,853**	**$ 163,587**	**$249,520**	**$153,965**	**$115,592**	**$ 278,325**	**$9,856,161**

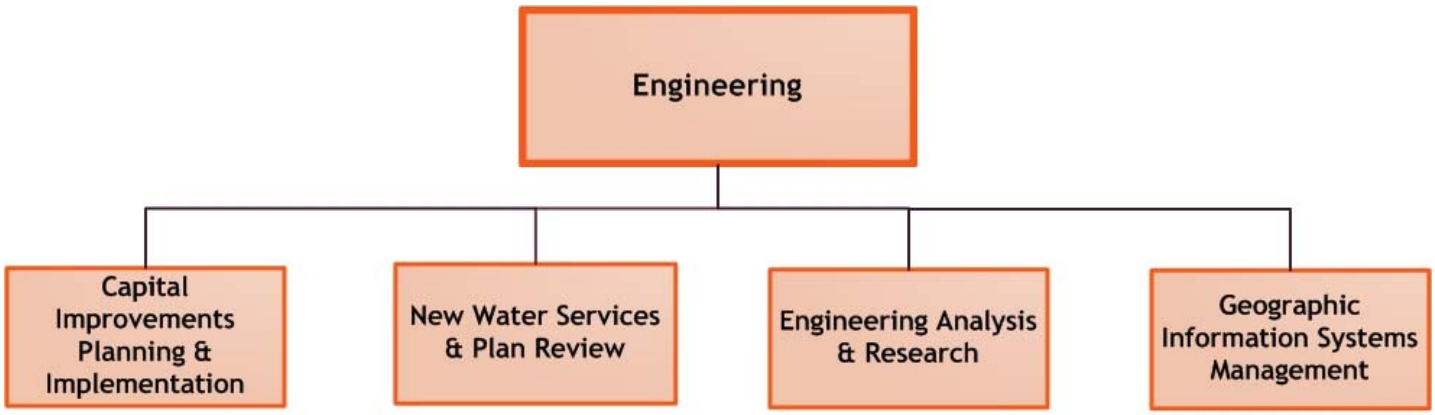
Figure 4.3 FY 2017-18 Operations Budgeted Expenditures by Programmatic Cost Center ($000s)



Engineering Cost Center

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

Figure 4.4 Engineering Programmatic Functions



Capital Improvements Planning & Implementation

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

FY 2017-18 represents a critical year for investment in maintaining the District's water quality; maintaining the reliability of its water production, treatment, and distribution systems; and working toward developing a long-term sustainable water supply.

During FY 2017-18, capital projects will focus critical investment on maintaining water quality at the District's CDMWTP and wells; maintaining the reliability of the production, treatment, and distribution systems; and developing a long-term sustainable water supply. Water quality projects include reducing trihalomethanes in District reservoirs and upgrading treatment operations at CDMWTP to adapt to changing surface water conditions at Lake Cachuma. Water production and distribution reliability projects include drilling and constructing a new replacement well, and upgrading the electrical system at Patterson Booster Station. Funding for a pilot project to develop a sustainable water supply project for direct or indirect potable reuse is also included. Additionally, road improvements by the City of Goleta will require two significant capital projects to relocate infrastructure at Ekwill Street, Fowler Road, and Hollister Avenue, and move the Hollister Avenue Recycled Water Booster Pump Station.

New Water Services & Plan Review

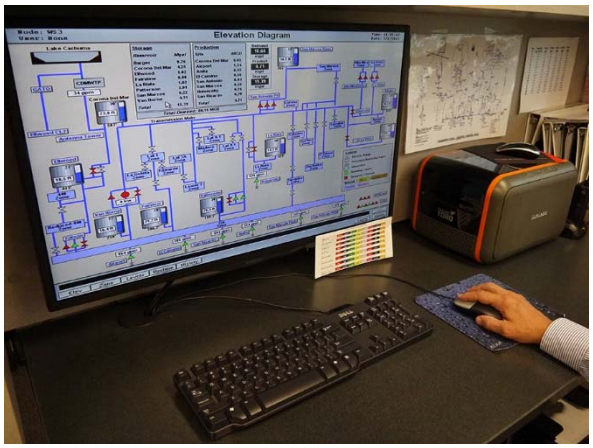
This cost center is responsible for review and approval of cost estimates, facility proposals and determination as to whether modifications are needed to system capacity. Services provided also include the on-site construction inspection of new facilities to ensure compliance with District Engineering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

Engineering Analysis & Research

Increased capital spending during the drought to deliver critical projects and ensure continued water deliveries has also increased Engineering staff needs.

The Engineering Analysis and Research cost center is responsible for ensuring that District Engineering Standards and Specifications are consistent with the latest industry standards for construction methods, materials utilized and design criteria. Engineering Standards and Specifications also address operational integrity and efficiencies and value-engineering techniques to ensure the least-cost methods and materials are used to bring efficient water services to all customers, while meeting regulatory standards and operational goals of the District. In FY 2017-18, engineering analysis and research efforts will continue to develop an asset management program to support the ongoing process of completing the USBR Title Transfer Project, transferring the federally-owned portions of the Goleta distribution system to the District, and to complete the first major overhaul of the Standards and Specifications in five years.

Geographic Information Systems Management (GIS)



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

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

Engineering Accomplishments FY 2016-17

Key Engineering FY 2016-17 projects included:

- Completed Berkeley and Shirrell well rehabilitation projects to increase groundwater production.
- Completed San Marcos well rehabilitation and production expansion project, with electrical upgrades, variable frequency drive (VFD), and larger pump installation to increase groundwater production.
- Completed Airport, Anita, El Camino, and San Antonio well electrical upgrades and variable frequency drive (VFD) installations and well rehabilitations to increase groundwater production.
- Completed San Ricardo and Anita wells blending project to provide treatment for groundwater from Anita well for regulatory compliance.
- Completed Phase I of the Operations Yard Stormwater Improvements for regulatory compliance.
- Completed construction of the platform at the CDMWTP chemical building for improved worker safety.
- Completed electrical upgrades at District Headquarters for improved worker safety.
- Completed design for Solids Handling Improvements at CDMWTP.
- Completed Van Horne Reservoir access road repairs to preserve a critical asset.
- Completed assessment of cathodic protection system for 42-inch transmission main from CDMWTP and initiated design of repair project.
- Completed site evaluation of potential well sites and selection and procurement for drilling, construction, and testing of one new replacement well to preserve critical groundwater production reliability.
- Developed a hydraulic model for the District's recycled water distribution system.
- Completed preliminary design reports for Edison and Van Horne Booster Pump Stations.
- Completed designs and initiated construction for repairs to storm-damaged infrastructure.
- Commissioned Van Horne hydrokinetic electrical generator and completed operator training.

- Initiated water quality studies for treatability and corrosion control for District's water supplies.
- Initiated design of infrastructure relocation for the City of Goleta's road improvement project at Ekwill Street, Fowler Road, and Hollister Avenue.
- Initiated evaluation of Hollister Booster Pump Station relocation compelled by the City of Goleta's planned widening of Hollister Avenue.
- Initiated construction of electrical upgrades at Patterson Booster Pump Station.
- Initiated conditions assessment for the District's entire cathodic protection system.
- Initiated the update to District's Technical Specifications and Standard Details.
- Conducted numerous staff analyses, plan checks and inspections on private development projects.
- Conducted inspections on outside agency projects.

FY 2017-18 Engineering Budget

Table 4.4 outlines Engineering expenditures and variances between the FY 2016-17 and FY 2017-18 budgeted expenditures.

Table 4.4 FY 2017-18 Engineering Cost Center Budget Summary

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Engineering					
Personnel:	**$ 367,975**	**$ 387,135**	**$ 384,863**	**$ 16,888**	**5%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	12,034	12,065	9,735	(2,299)	(19%)
Maintenance & Equipment	500	250	12,216	11,716	2,343%
Services & Supplies	146,082	90,083	498,082	352,000	241%
Subtotal:	158,616	102,399	520,033	361,417	228%
Total Expenditures:	**$ 526,591**	**$ 489,534**	**$ 904,896**	**$ 378,305**	**72%**

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

Engineering budgeted expenses will increase by $378K, or 72 percent, in FY 2017-18. Notable changes from the FY 2016-17 Budget to the FY 2017-18 Budget include:

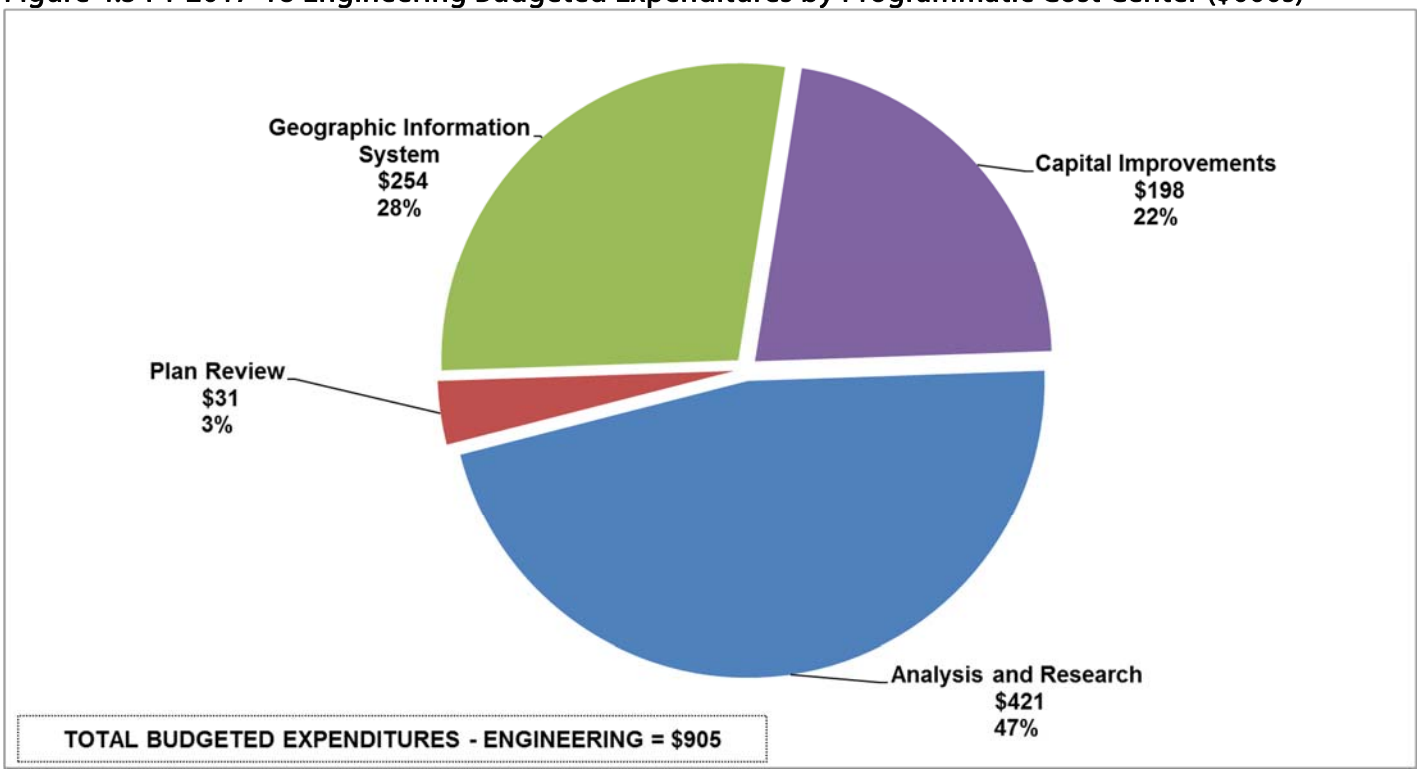
- Services & Supplies costs will increase by $352K to fund professional services for the expanded use of hydraulic modeling to optimize operations of the potable and recycled water distribution systems, as well as a new project to analyze existing wells for injection optimization, and upgrades to computer systems.
- Maintenance and Equipment costs will increase $12K primarily due to planned annual computer software license and related maintenance on computers.

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

Table 4.5 FY 2017-18 Engineering Budgeted Expenditures by Programmatic Cost Center

Description	Analysis and Research	Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 157,610	$ 19,759	$ 98,112	$ 35,092	$ 310,573
Personnel - Benefits	23,969	3,005	14,921	5,337	47,231
Personnel - Taxes & W.C.	13,056	1,875	8,955	3,172	27,058
Insurance, Accounting, & Auditing	5,835	1,950	-	1,950	9,736
Maintenance & Equipment	4,895	1,636	4,048	1,636	12,216
Services & Supplies	215,958	3,055	127,952	151,116	498,082
Total:	**$ 421,323**	**$ 31,280**	**$ 253,988**	**$ 198,305**	**$ 904,897**

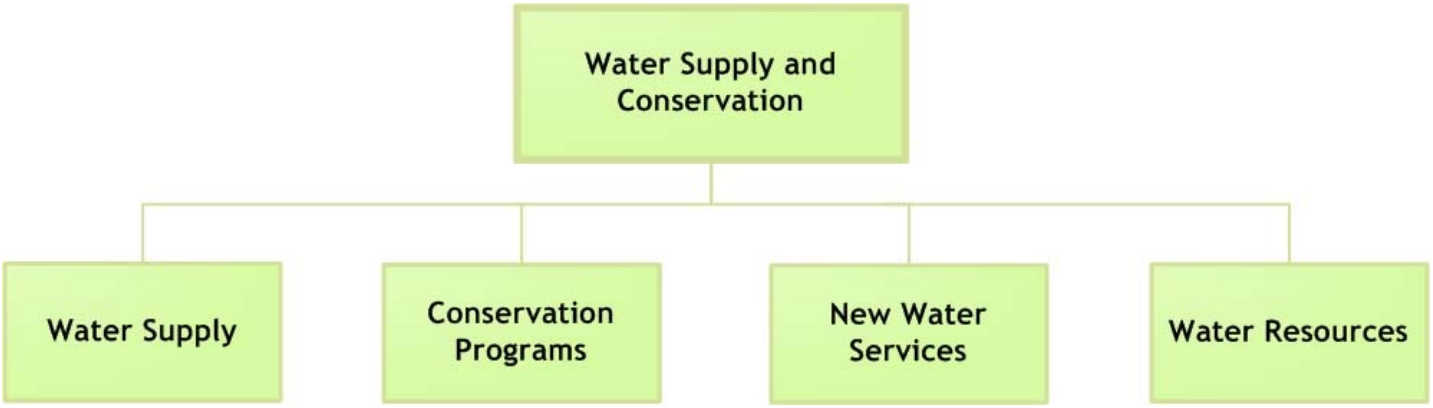
Figure 4.5 FY 2017-18 Engineering Budgeted Expenditures by Programmatic Cost Center ($000s)



Water Supply & Conservation Cost Center

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

Figure 4.6 Water Supply and Conservation Programmatic Functions



Conservation Programs

Conservation and efficient water use helps preserve and extend water supplies for all District customers. As a long-time leader in conservation practices and a signatory to the CUWCC and the Memorandum of Understanding, the District works in partnership with agencies and organizations across the region to support customers' ability to use water as efficiently as possible. In anticipation of continued drought response, expanded FY 2017-18 conservation program elements will continue to be offered to targeted customer categories to continue to reduce outdoor and indoor water use.

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 will take 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, WSMP, Urban Water Management Plan and the Sustainability Plan. The Water Resources team provides analytical support as well as special research needed to implement the policies established by the voter-approved S.A.F.E. Water Supplies

Ordinance, District Code and regulations, water supply agreements, and state and federal laws and regulations. FY 2017-18 priorities include continued work with CCRB and other regional partners to protect surface water rights; ongoing implementation and reporting related to the 2012 Sustainability Plan; investigation of water supply development and supply augmentation, including potable reuse feasibility and storm water capture; and research, policy development and contingency planning related to potential water shortage stage declarations in drought conditions.

The Water Resources cost center includes a grants management function and is responsible for seeking out and applying for new grant opportunities. During FY 2017-18, grant activities will be focused on securing funding for projects identified in the District's Sustainability Plan, including water-energy efficiency grant funding for pump upgrades from the US Bureau of Reclamation, and securing additional capital improvements funding from the State and Federal agencies for potential stormwater capture projects and a potable reuse pilot demonstration project.

Under the voter-approved S.A.F.E. Ordinance, the District stopped issuing new water service as of October 1, 2014. The ordinance remains in effect as the District allocation for FY 2017-18 from Lake Cachuma is below 100%.

Water Supply and Conservation (WS&C) Accomplishments FY 2016-17

Key WS&C accomplishments during FY 2016-17, include:

- Acquisition of 2,000 acre-feet (AF) of supplemental water supplies to meet District customer demand.
- 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 Emergency Stages III-V.
- Continued implementation of Board-adopted Stage III water use restrictions, including watering day and time enforcement, as well as prohibitions on water waste.
- Continued compliance with statewide emergency regulations for water conservation mandated by the State Water Resources Control Board that became effective in July 2014, and submission of monthly water production and customer demand data to the State.
- Connecting with more than 2,000 customers at conservation outreach events and 450 students via school presentations during FY 2016-17 to educate the community on the drought, local and statewide water use restrictions, and ways to eliminate water waste and conserve water.

A number of plans were updated in FY 2016-17 that are instrumental to sustainably managing the District's water supply portfolio now and into the future.

- Completion and adoption of the update to the District's Groundwater Management Plan.
- Completion of the District's draft Potable Reuse Facilities Plan to study further expanded use of recycled water.
- Completion and adoption of the District's updated Water Supply Management Plan.

- Completion of the 2015 Urban Water Management Plan to reflect changed water supply conditions and to plan for future demand.
- Adoption of updates to the District's USBB Agriculture Water Management Plan.
- Distribution of over 175 rebates through the Smart Landscape Rebate Program.
- Development and implementation of the Water Efficient Washing Machine Rebate Program.
- Implemented a free mulch delivery program.
- Administration of the Water Saving Incentive Program to offer rebates for water-saving projects on larger landscapes and landscape irrigation accounts.

FY 2017-18 Water Supply and Conservation Budget

Table 4.6 details the primary FY 2017-18 WS&C budgeted expenditures and variances from the FY 2016-17 Budget.

Table 4.6 FY 2017-18 Water Supply and Conservation Cost Center Budget Summary

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2016-17	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - WS&C					
Water Supply Agreements:					
COMB (Lake Cachume Deliveries)	$ 3,197,321	$ 3,125,662	$ 3,133,516	$ (63,805)	(2%)
CCRB (Water Rights)	500,000	313,206	360,000	(140,000)	(28%)
SB County (Cloud Seeding)	27,000	27,061	32,000	5,000	19%
CCWA (State Water Deliveries)	8,311,551	9,801,558	9,078,465	766,914	9%
GSD (Recycled Water Production)	676,630	556,294	604,630	(72,000)	(11%)
Subtotal:	**12,712,502**	**13,823,781**	**13,208,611**	**496,109**	**4%**
Personnel:	**1,274,842**	**1,217,616**	**1,243,310**	**(31,532)**	**(2%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	40,709	38,695	34,418	(6,291)	(15%)
Maintenance & Equipment	-	150	29,260	29,260	-
Services & Supplies	1,058,264	905,315	856,182	(202,082)	(19%)
Subtotal:	**1,098,973**	**944,161**	**919,860**	**(179,113)**	**(16%)**
Total Expenditures:	**$ 15,086,317**	**$ 15,985,557**	**$ 15,371,781**	**$ 285,464**	**2%**

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

The WS&C cost center Budget will increase by $285K, or 2 percent, in FY 2017-18. Notable changes from the FY 2016-17 Budget to FY 2017-18 Budget include:

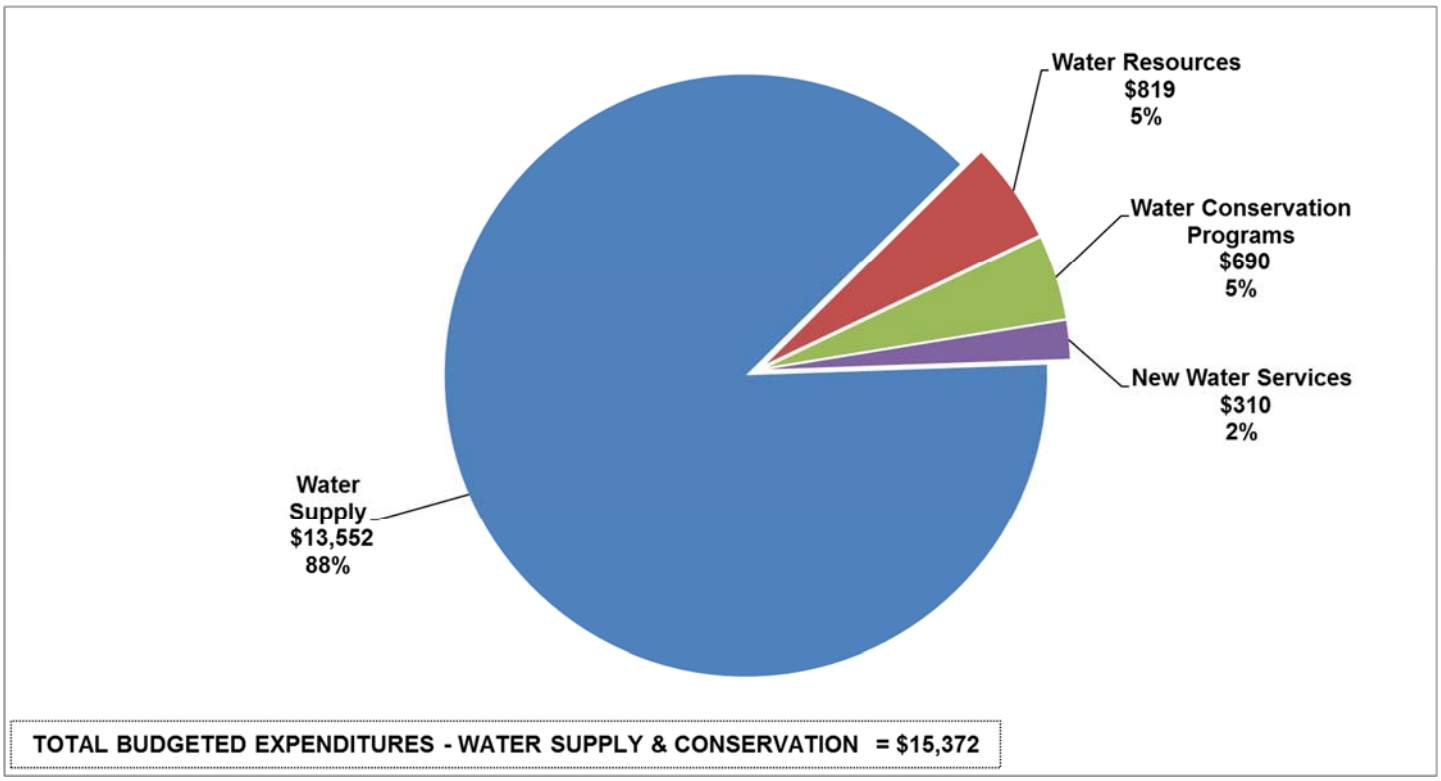
- Overall costs associated with Water Supply Agreements have increased by approximately $496K, mainly due to increased fixed costs from the Department of Water Resources for State Water Project costs through CCWA. COMB, CCRB and GSD costs have decreased in proportion to their respective budgetary changes for FY 2017-18.
- Costs associated with Public Outreach activities totaling $256K have been transferred to General Administration for FY 2017-18.
- Although Services and Supplies will decrease overall by $202K in FY 2017-18, the effective comparative amount is a decrease of $78K because $124K related to Public Outreach was transferred to General Administration. The District will continue with public outreach with the Drought Outreach Plan to maintain community awareness of the continued water supply shortage and the importance of conservation even with the limited drought relief observed in early 2017. Augmented water conservation programs, including the Smart Landscape Rebate Program and incentives for efficient fixture retrofits, sub-metering, and agriculture irrigation upgrades, will continue to be offered to assist the community in reducing water use and extending water supplies during the drought.

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

Table 4.7 FY 2017-18 WS&C Budgeted Expenditures by Programmatic Cost Center

Description	Water Supply	Water Resources	Water Conservation Programs	New Water Services	Total WS&C
COMB (Lake Cachume Deliveries)	$ 3,133,516	$ -	$ -	$ -	$ 3,133,516
CCRB (Water Rights)	360,000	-	-	-	360,000
SB County (Cloud Seeding)	32,000	-	-	-	32,000
CCWA (State Water Deliveries)	9,078,465	-	-	-	9,078,465
GSD (Recycled Water Production)	604,630	-	-	-	604,630
Personnel - Wages	172,177	279,227	218,387	203,030	872,821
Personnel - Benefits	56,447	91,542	71,596	66,562	286,147
Personnel - Taxes & W.C.	13,585	32,242	20,205	18,311	84,342
Insurance, Accounting, & Auditing	-	27,908	675	5,835	34,418
Maintenance & Equipment	-	14,815	4,571	9,874	29,260
Services & Supplies	101,433	372,982	374,894	6,873	856,182
Total:	**$ 13,552,252**	**$ 818,716**	**$ 690,329**	**$ 310,484**	**$ 15,371,781**

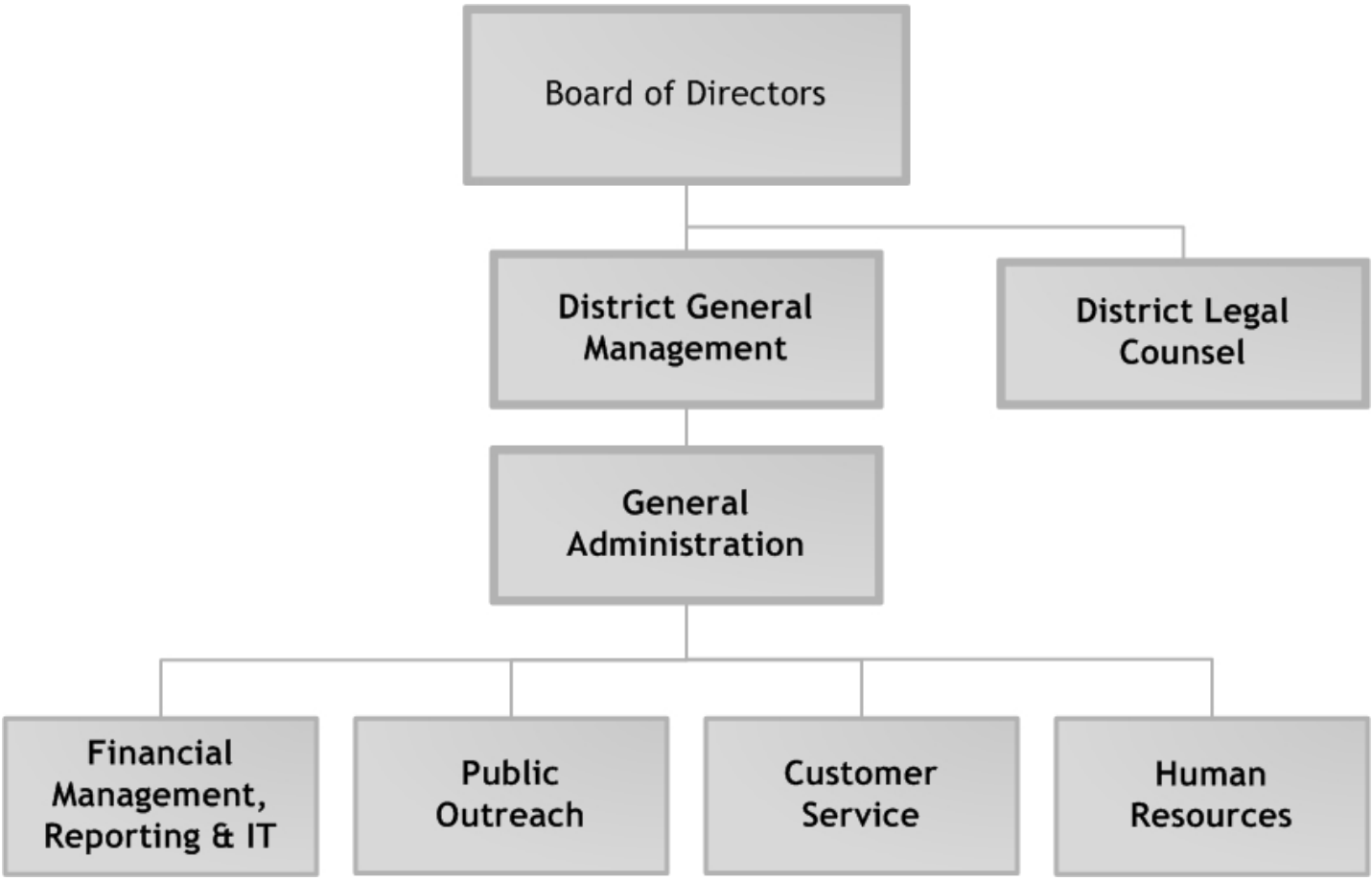
Figure 4.7 FY 2017-18 WS&C Budgeted Expenditures by Programmatic Cost Center ($000s)



General Administration Cost Center

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

Figure 4.8 General Administration Programmatic Functions

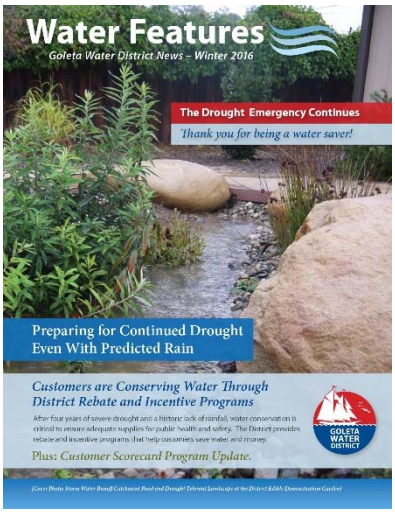


Financial Management, Reporting, & Information Technology (IT)

The Financial Management, Reporting, & Information Technology cost center includes all financial and accounting services to ensure proper controls and processes are in place to accurately collect revenue and disburse expenditures. Routine administration services include accounts payable, accounts receivable, investment and cash management, annual budget preparation, monthly budget tracking, cash flow analysis, payroll and benefit processing, rate analysis, 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 2017-18, the District will update its budgeting process to better align with its Cost of Service Analysis, revise its procurement process as outlined in Ordinance 2014-02, continue to upgrade financial software to improve operational efficiencies, and implement other critical technology systems.

Public Outreach



The Public Outreach function includes all District communications, media relations, press releases, special outreach initiatives, newsletters, oversight of the District's website, social media, and internet presence. This effort ensures customers are equipped with reliable, timely, and objective information, enabling a clear understanding of District issues and activities. FY 2017-18 public outreach will continue to focus on the importance of conservation in light of continued drought conditions. The District will continue to identify innovative and effective communication methods to engage with and understand the District's customer base, ensuring District services align with customer needs and values.

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 2017-18, Customer Service will support outreach activities to encourage paperless billing enrollment.

Human Resources

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

General Administration Accomplishments FY 2016-17

The General Administration cost center completed several key projects during FY 2016-17 including:

- Installed the Business Objects reporting tool on the now fully functional data warehouse and successfully trained 15 staff members on its use and operation. This reporting tool allows District staff to generate reports and analyze data relative to service connections, historical water use, asset identification, transactions history, and customer account and billing information.

- Engaged a new external auditor and completed the annual audit of the District's Comprehensive Annual Financial Report, achieving a "clean" audit opinion.
- Integrated accounting for capital and operational projects into the District's general ledger.
- Issued over 200,000 customer bills on a timely basis through our billing vendor, Global Water Management, LLC.

FY 2017-18 General Administration Budget

Table 4.8 compares General Administration budget variances between FY 2016-17 and FY 2017-18.

Table 4.8 FY 2017-18 General Administration Cost Center Budget Summary

Category	Adopted Budget FY 2016-17	Estimated Actual FY 2017-18	Adopted Budget FY 2017-18	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - General Admin.					
Personnel:	**$ 2,194,438**	**$ 2,339,503**	**$ 2,481,298**	**$ 286,860**	**13%**
Other Post Employment Benefits:	**404,028**	**407,437**	**463,178**	**59,150**	**15%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	107,750	87,075	111,843	4,093	4%
Legal	1,336,501	2,354,903	1,015,200	(321,301)	(24%)
Services & Supplies	976,762	994,773	1,046,550	69,788	7%
Subtotal:	**2,421,013**	**3,436,751**	**2,173,593**	**(247,420)**	**(10%)**
Total Expenditures:	**$ 5,019,479**	**$ 6,183,691**	**$ 5,118,069**	**$ 98,590**	**2%**

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

The General Administration Budget will increase by $99K, or 2 percent in FY 2017-18. Notable General Administration changes from FY 2016-17 to FY 2017-18 Budget include:

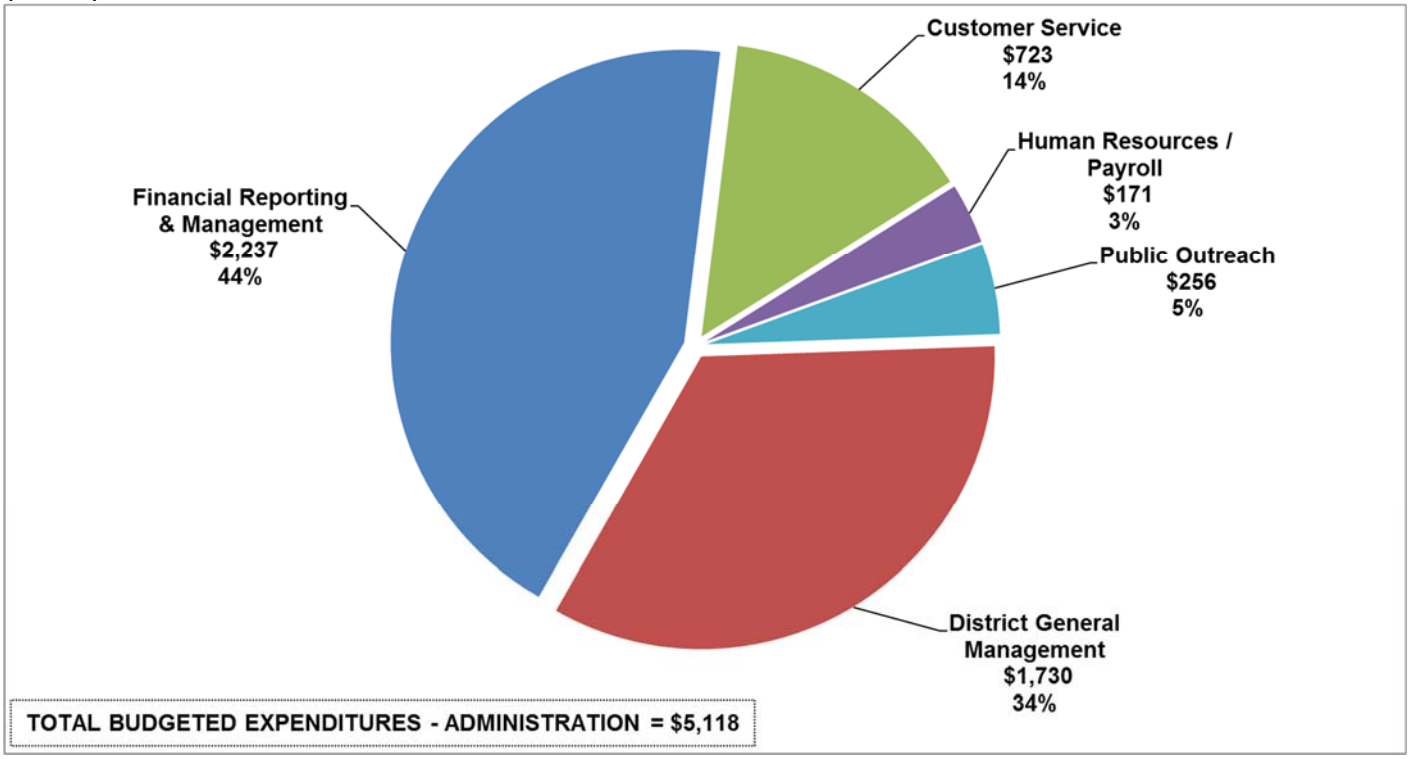
- The Public Outreach cost center has been moved to Administration from Water Supply and Conservation for FY 2017-18, for a total increase of $256K. This transfer affected variances in Personnel and Services & Supplies categories.
- Excluding the Public Outreach cost center transfer, Personnel costs will increase by $156K to fulfill current SEIU MOU obligations.
- District-wide OPEB costs will increase by $59K resulting from changes in the retiree pool and health insurance costs.
- Budgeted Legal fees, including general and special counsel, will decrease by $321K. The decrease is due to successful litigation during FY 2016-17, but partially offset by appellate costs associated with protecting District water rights.
- Excluding the Public Outreach cost center transfer, Service & Supplies will decrease by $54K.

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

Table 4.9 FY 2017-18 General Administration Budgeted Expenditures by Programmatic Cost Center

Description	District General Management	Financial Reporting & Management	Customer Service	Human Resources / Payroll	Public Outreach	Total Administration
Personnel - Wages	$ 359,620	$ 968,169	$ 168,588	$ 85,635	$ 87,870	$ 1,669,883
Personnel - Benefits	144,509	389,047	67,745	34,411	35,310	671,022
Personnel - Taxes & W.C.	25,683	84,487	14,940	7,904	7,379	140,393
Other Post Employment Benefits	-	463,178	-	-	-	463,178
Insurance, Accounting, & Auditing	44,719	61,273	1,950	1,950	1,950	111,843
Legal	1,000,000	-	-	15,200	-	1,015,200
Services & Supplies	155,568	271,173	470,201	25,631	123,977	1,046,550
Total:	**$ 1,730,100**	**$ 2,237,327**	**$ 723,425**	**$ 170,732**	**$ 256,485**	**$ 5,118,069**

Figure 4.9 FY 2017-18 General Administration Budgeted Expenditures by Programmatic Cost Center ($000s)



District Organization

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

Figure 4.10 Organizational Chart by Department and Position

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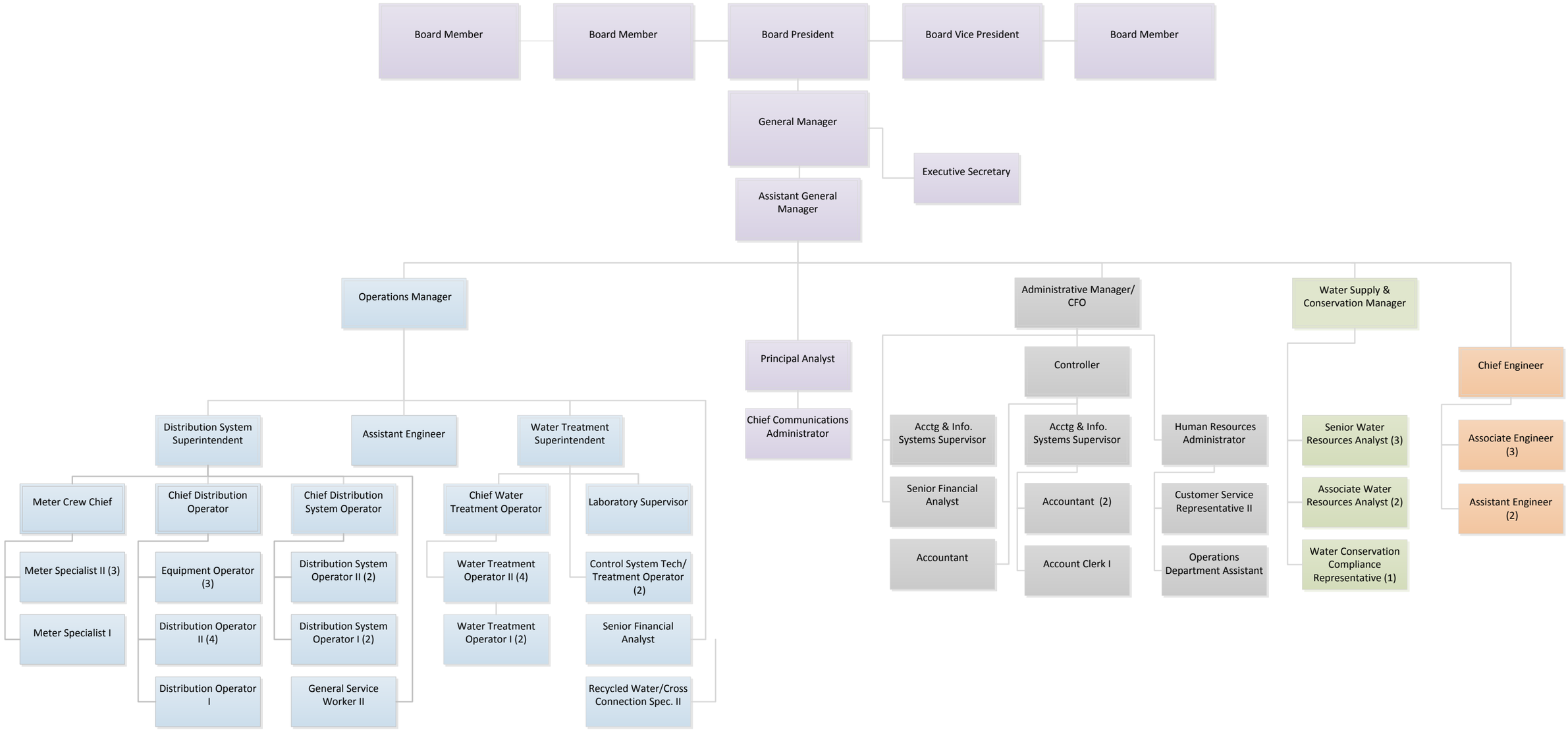
Figure 4.10 Organizational Chart by Department and Position



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GOLETA WATER DISTRICT

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