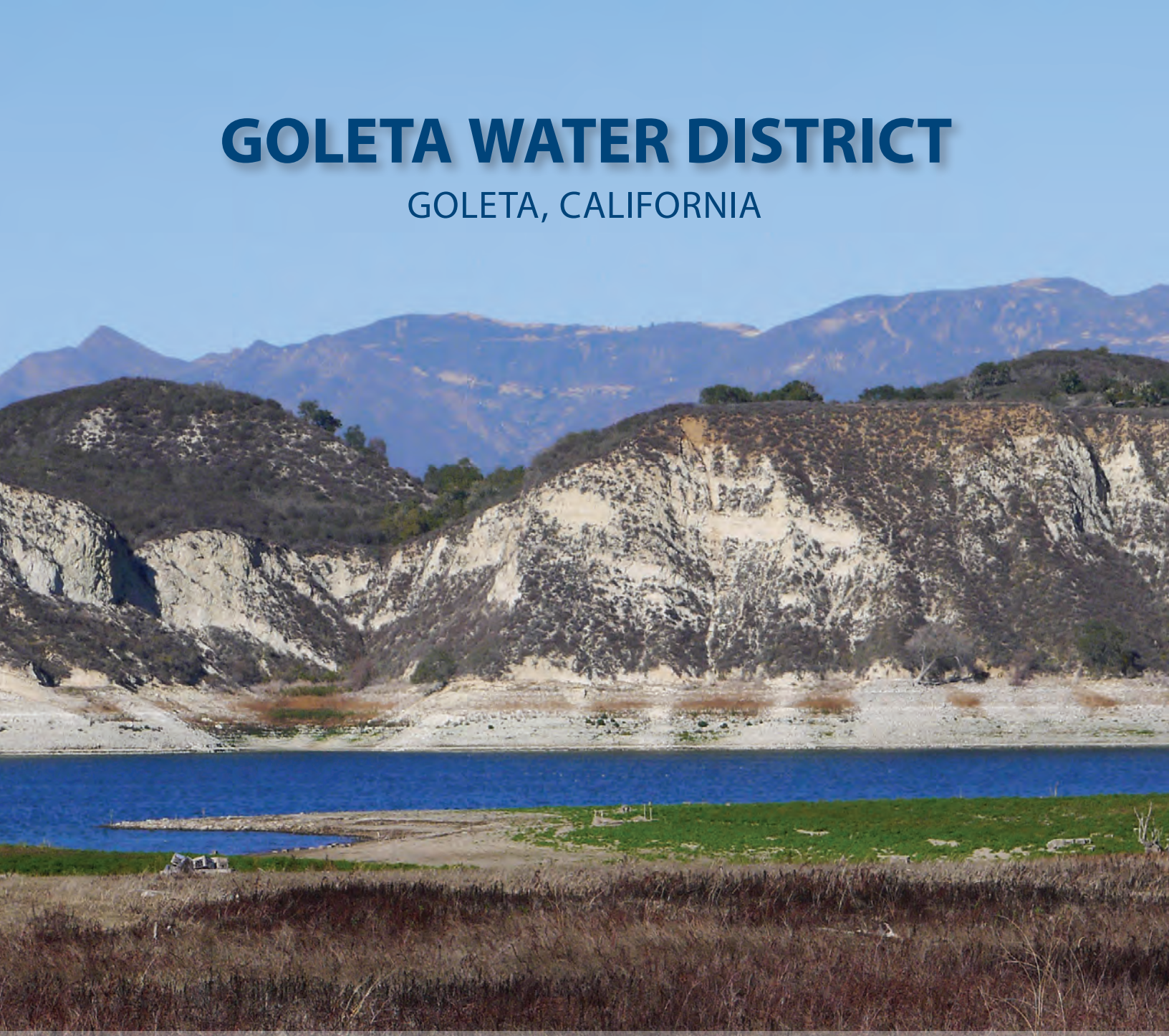
GOLETA WATER DISTRICT

GOLETA, CALIFORNIA



Fiscal Year 2015–16

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: The severe drought has dramatically reduced Lake Cachuma, traditionally the District's principal water source.

GOLETA WATER DISTRICT

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List of Acronyms and Abbreviations

ACWA	Association of California Water Agencies
AF	Acre Feet
AFY	Acre Feet per Year
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
GSD	Goleta Sanitary District
GWC	Goleta West Conduit
GWD	Goleta Water District
HCF	Hundred Cubic Feet
ID #1	Santa Ynez River Water Conservation District, Improvement District #1
IIP	Infrastructure Improvement Plan
JPIA	Joint Powers Insurance Authority
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
MURRP	Modified Upper Reach Reliability Project
NMFS	National Marine Fisheries Service
NWSC	New Water Supply Charge
O&M	Operations and Maintenance
OPEB	Other Post-Employment Benefits
PEPRA	Public Employees' Pension Reform Act
SCADA	Supervisory Control and Data Acquisition
SBCWA	Santa Barbara County Water Agency
SEIU	Service Employees International Union
SWP	State Water Project
SWRCB	State Water Resources Control Board
T&D	Transmission & Distribution
USBR	United States Bureau of Reclamation
WS&C	Water Supply & Conservation Department

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SECTION I – OVERVIEW

About Goleta Water District

The Goleta Water District provides safe and reliable water supplies to 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 with 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, among others. Day-to-day operations are run by the General Manager who oversees a staff responsible for executing ongoing operational and administrative functions. The District employees include engineers, certified treatment and distribution operators, water quality scientists, policy and financial analysts and administrative staff.

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

As we enter the fourth year of a historic drought ongoing conditions will significantly alter District supply in FY 2015-16. The use of groundwater will increase to ensure reliable supplies for customers. Available water sources are anticipated to include:

- 3,950 AFY of local surface water from Lake Cachuma
- 6,065 AFY of groundwater from the Goleta Basin
- 2,235 AFY of imported water from the California SWP
- 1,000 AFY of recycled water

The climate in the service area is generally characterized as Mediterranean coastal with mild, dry summers and cool winters. High temperatures average about 70 degrees while low temperatures rarely fall below 40 degrees. The area is semi-arid with average rainfall of 17 inches per year, primarily occurring between October and April. Historic rainfall has fluctuated significantly with the area seeing only 5.6 inches in 1990 and more than 40 inches in 1983. Calendar years 2012, 2013, and 2014 were relatively dry years, with the Goleta area seeing ten, five, and eight inches of rain, respectively. Another year of below average rain in early 2015 exacerbated the drought situation further.

Given continued minimal rainfall and record low snowpack, on January 17, 2014, California Governor Jerry Brown declared a state of emergency caused by drought, and asked all Californians to reduce their water use by

20%. On April 1, 2015 the Governor issued an unprecedented Executive Order with the first ever statewide mandatory water use reductions, underscoring the critical nature of the drought. On September 9, 2014 the District declared a Stage II drought condition, with a targeted 25% reduction and mandatory water use restrictions. As drought conditions worsened, the District declared a Stage III drought condition on May 12, 2015, raising the targeted reduction to 35% and further restricting outdoor irrigation.

In the fourth year of a historic drought the District's water supply portfolio has been significantly impacted, with the anticipated allocation for Lake Cachuma in Water Year 2015-16 reduced to zero percent for the first time in the lake's history. Even with some carryover water from the lake, the groundwater basin is the key to continuing to meet the water needs of the Goleta Valley in FY 2015-16, necessitating ongoing significant investment in the District's wells and distribution system to prevent service interruptions to customers in the future. The diversity of the District's supply provides an advantage in responding to the current drought, but conservation by customers remains essential. Proactive supply and demand management practices will help mitigate the effect of the drought on the local community, economy and environment.

Water Supply Portfolio

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. 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 the past four dry years caused an uptick in sales in FY 2012-13, when the District sold approximately 13,900 AF of water. The upward trend continued with 14,690 AF sold in FY 2013-14. Estimated FY 2014-15 water deliveries are 12,811 AF. As the drought has deepened, the quantity of water the District receives from the lake has declined from 9,322 AFY under normal conditions, to 5,691 acre feet in FY 2014-15, and an anticipated 3,950 acre feet in FY 2015-16. This dramatic decline for FY 2015-16 is the result of a zero percent allocation in Water Year (WY) 2015-16, which runs from October 1 to September 30. While a small amount of carryover water will be available in WY 15-16, for the remainder of the drought the District cannot count on water being available from Lake Cachuma, traditionally the primary source of water for the community.

The District's water treatment and distribution system were designed for use under normal conditions when local supplies from Lake Cachuma and the Goleta Groundwater Basin constitute the bulk of the District water supply portfolio, with imported supplies from the SWP and recycled water rounding out the balance. All water supplies are secured through collaborative agreements with federal, state, and local partners. The loss of Lake Cachuma as a primary source of water for the District positions groundwater as a de facto primary source of supply. Increased groundwater production and the energy and infrastructure needed to distribute it throughout the system have increased costs significantly. Without question the drought has fundamentally changed how the District's water supply portfolio is managed.

Local Surface Water – Lake Cachuma

Under normal conditions, approximately 75 percent of the average annual planned demand would be met with supplies from Lake Cachuma. In non-drought years the District is entitled to 9,322 AFY of Cachuma supplies through coordinated agreements with the United States Bureau of Reclamation (USBR), the Santa Barbara County Water Agency (SBCWA) and the other Cachuma Member Units: City of Santa Barbara, Montecito Water District, Carpinteria Valley Water District and Santa Ynez River Conservation District, Improvement District Number 1 (ID #1). The availability of Cachuma water varies from year to year as a result of weather and drought conditions, runoff, and the success of the County Cloud Seeding Program. The amount of Cachuma water the community uses can vary annually due to exchange agreements, availability of other supplies and customer demand. As previously noted, Cachuma entitlements are expected to be reduced to zero in Water Year 2015-16 (October 1, 2015 to September 30, 2016) for all Cachuma Member Agencies due to ongoing drought conditions that has caused low lake levels. 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.

The loss of water from Lake Cachuma reduces the amount of water available for customers, and impacts the budget for FY 2015-16. A number of well maintenance and distribution projects are needed to prevent service interruptions.

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 eight active groundwater wells. In response to current drought conditions, the District is actively investing in increased groundwater production capabilities, with spending totaling over $13M in the next five years and $3.1M in FY 15-16. Plans are underway to rehabilitate four additional wells, enhance capacity at another, and build two new wells to increase pumping capacity and 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 Cachuma supplies as a result of unscheduled maintenance needs, natural disasters or drought conditions. In FY 2015-16, the District plans to utilize 6,065 AFY of groundwater to meet customer demand.

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 2014-15, the District took delivery of 2,235 AFY of State Water. The District is currently projected to receive a 30% allocation of its full State Water entitlement or approximately 2,050 AFY for FY 2015-16, based on the Department of Water Resources (DWR) December 2014 Delivery Reliability Report. An exchange agreement with ID #1 will continue in FY 2015-16 to the extent that State Water supplies are made available by 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. There is no state water carryover for FY 2015-16.

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 2015-16 Budget anticipates delivering 1,000 AF of recycled water in the coming year.

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

Our Customers

Approximately 16,800 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. Additionally, dedicated fire service lines make up a small portion of individual connections.

Residential customers make up approximately 89 percent of customer connections, with single-family homes comprising 79 percent of customer connections and multi-family dwellings accounting for the balance. The 22,000 UCSB students, many of whom live in Isla Vista dormitories and apartments, represent a large portion of

the area's multi-family residential customers. Residential water use is approximately 45% of overall water demand. This proportionally low use is largely due to customers' receptiveness to conservation programs. Residential per capita water use in the District averaged 66 gallons per person per day, or 50 percent lower than the statewide average before the drought. Between June 2014 and Feb 2015 the residential per capita use declined further to an average of 54 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.

As part of District drought response actions, District crews are actively identifying and fixing distribution system leaks. Additionally, District crews help customers identify leaks on the customer side of the meter.

The remaining half of demand is attributed to non-residential water use with agricultural use accounting for 24 percent and the remainder comprised of commercial, institutional and landscape irrigation use. These customers also form the diverse economic base of the service area. The District is home to UCSB, a substantial agriculture industry specializing in crops such as avocados and lemons, and a thriving industrial and high-tech commercial industry that includes regional health providers, aerospace, electronics, telecommunications, biomedical and national security sectors.

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

The District has approximately 380 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 has been a member of the California Urban Water Conservation Council (CUWCC) since 1994 and is committed to the shared goal of integrating urban water conservation Best Management Practices into the planning and management of California's water resources.

The 2010 Water Conservation Plan and 2012 Sustainability Plan provide the foundation for efficient water resource management, along with the District's 2014 Drought Preparedness and Water Shortage Contingency Plan.

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 audits, and an interactive Community Demonstration Garden at District headquarters.
- Four substantial rebate programs for all customer classes to improve water use efficiency, including the Water Saving Incentive Program (WSIP), Smart Landscape Rebate Program (SLRP), Water Budget and Survey Program, and the Cash for Crops Program.

Customer 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 maintaining low costs and predictable customer rates. Each year, the Board of Directors approves the Budget for the following fiscal year, which runs from July 1 through June 30. The Budget couples advanced revenue forecasting and effective expenditure management with the infrastructure investment needed to deliver safe, cost-effective and sustainable water supplies to the community.

The Budget also represents a short-term financial plan consistent with the mid-term goals outlined in the 2015-2020 Expenditure Forecast and 2015 Cost of Service Study. This replaces the 2011 plan a year early due to the drought, and a number of new critical and regulatory projects. 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 newly adopted 2015-2020 Infrastructure Improvement Plan (IIP) and 2012 Sustainability Plan, these documents provide the financial and management strategies for meeting the water and resource needs of the District today and into the future.

During FY 2014-15, the well connection pipeline between the San Ricardo and Anita well was completed. This project will allow excess capacity out of Anita to be treated using San Ricardo's State-of-the-Art facilities.

The District continues to make significant advances in addressing critical water resources infrastructure needs. FY 2014-15 included investment in vital infrastructure replacement and repairs and plans were developed for future infrastructure needs. The FY 2014-15 Budget Year saw estimated actual revenues of $33.4M and expenditures of $32.4M with $962K being available for reserve designation. The unanticipated revenue during FY 2014-15 was a direct result of increased applications for new water supply charges in advance of the temporary denial of new service applications that went into effect on October 1, 2014 as a result of the SAFE Water Supplies Ordinance.

Key accomplishments in the areas of water supply sustainability, resource management and infrastructure improvement in FY 2014-15 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 2014-15. Highlights include:

- Critical well rehabilitation projects were implemented at four well sites, including a new well liner at San Ricardo, and new pumps, motors, column piping, and rebuilt filters at San Marcos, Airport, and San Antonio. These well improvements were necessary to rehabilitate the wells so they are capable of delivering the District's groundwater. The District's wells had not been used regularly since the last drought during the early 1990s. As a result of the projects, well capacity increased to 6 million gallons per day, or 18 acre feet per day.

- An enhanced water loss control program with a leak detection survey was conducted on the entire distribution system. As a result of the survey, the District began the planned installation of sub-meters in the Distribution system to monitor water production by sub-areas.

- All 2" and larger customer meters were replaced with like-size ultrasonic meters and digital registers that record water use electronically. The new electronic meters measure volumetric flow accurately at both high and low flow rates, allowing the District to account for all water use while preventing water loss among the largest customers.

- Pumps were re-designed and replaced at the Goleta Sanitary District Recycled Water Pump Station to increase the reliability of the recycled water system. The use of recycled water for outdoor irrigation preserves potable water for drinking, health and human safety, and is especially critical during drought.

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

- Water treatment improvements were made at the Corona Del Mar Water Treatment Plant (CDMWTP) treatment facilities. Specifically, a baffle separation wall was installed in the backwash basin to meet DDW standards on the quality of the water that gets returned to the head end of a plant. Sludge Drying Bed #1 was rebuilt with minor piping changes, and the sand media were restored to the depth in the original design.

- The San Ricardo and Anita well connection pipeline was completed, allowing water from Anita to be transferred to treatment facilities at San Ricardo, providing for operational efficiencies and cost savings.

- Ongoing updates were made to the District's Geographic Information Systems used for projects and asset management.

- Improvements were made to the District's Supervisory Control and Data Acquisition system at three pump stations and three interconnections, providing for remote monitoring and greater system efficiency.

- The Van Horne Turbine Generator was placed into continuous operation and is producing power on a daily basis. This improvement is part of the District's Sustainability Plan, and offsets energy costs while reducing greenhouse gas emissions.

- A website redesign featuring Responsive Web Design (RWD) was completed which optimized the website for viewing on mobile and non-mobile devices. The redesign was intended to make the website more user-friendly for customers, and allow greater customization, with features to integrate video, photo, and social media plug-ins.

- Signage was installed in the District Demonstration Garden, and supporting materials including brochures and a new website section were created. The garden plays an important role during the

drought in encouraging and supporting customers interested in choosing waterwise landscaping, and provides examples of eligible expenses that could be funded within the District's Smart Landscape Rebate Program.

- A number of new rebate and incentive programs were devised to drive conservation. Programs were created to assist all customer classes, and included: Smart Landscape Rebate Program; Water Saving Incentive Program for Large Customers; Water Saving Devices Distribution Program; Cash for Crops.

FY 2015-16 Budget and Key Initiatives

The FY 2015-16 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 2015-16 Budget presents a balanced budget with an anticipated $39.1M in revenue and transfers, and about $39.1M in capital and operational expenditures. The spending plan reflects the increased expenses of supplying an adequate supply of water to customers during a drought, with a significant but necessary investment in the Districts wells and distribution system. A new cost of service study was completed with new rates and temporary drought surcharges scheduled to go into effect July 1, 2015. The rate structure and accompanying drought surcharges are designed to generate sufficient revenue to meet the district's operating requirements regardless of the level of drought emergency, and increase conservation. Due to changes in capital priorities as a result of the drought the District anticipates having COP proceeds available during FY 2015-16 of approximately $2.3M. This funding allows the District to have a balanced budget despite significant onetime costs attributable to DWR and legal expenses associated with protecting the Goleta Groundwater Basin. Table 1.1 provides an overview of the FY 2015-16 Budget. The balance of this document provides detailed analysis of projected revenues and expenditures.

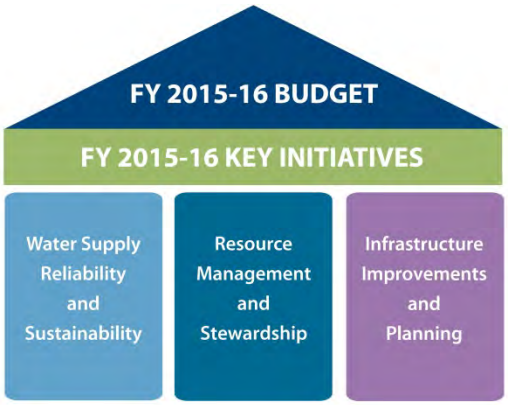
Table 1.1 FY 2015-16 Budget Overview and Comparison to FY 2014-15

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue and Transfers:					
Rate-Based Revenue	$ 30,598,746	$ 30,266,227	$ 36,574,818	$ 5,976,072	20%
New Water Supply Charges	1,079,142	2,388,754	0	(1,079,142)	(100%)
Other	929,261	700,995	2,568,827	1,639,566	176%
Total Revenue and Transfers:	**$ 32,607,149**	**$ 33,355,976**	**$ 39,143,644**	**$ 6,536,495**	**20%**
Expenditures:					
Water Supply Agreements	$ 11,884,634	$ 11,377,032	$ 13,583,194	$ 1,698,560	14%
Personnel	8,626,828	8,512,786	8,851,417	224,589	3%
Operations & Maintenance Costs	5,509,325	5,403,624	7,382,370	1,873,045	34%
Debt Service	3,561,589	3,561,589	3,555,163	(6,427)	(0%)
Capital Improvement Projects (CIP)	2,428,000	3,539,276	5,771,501	3,343,501	138%
Total Expenditures:	**$ 32,010,376**	**$ 32,394,307**	**$ 39,143,644**	**$ 7,133,268**	**22%**
Designation to Reserves:	**$ 596,773**	**$ 961,669**	**$ 0**	**$ (596,773)**	**(100%)**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

FY 2015-16 Budget Key Initiatives

The FY 2015-16 Budget includes a portfolio of ongoing and new initiatives that, in combination, will meet the 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 the fourth year of a historic drought, the FY 2015-16 Budget includes continued drought planning, including water supply and demand modeling, demand management activities, and water shortage contingency planning and implementation. This Budget provides for critical investment in the District's wells, which for the first time in twenty years will constitute the primary source of water for customers, to restore and enhance groundwater pumping capacity. Money is also budgeted to cover the increased energy costs of delivering water during a drought, and in the five year capital plan to adapt the current distribution system with the upgrades necessary to ensure groundwater can be reliably delivered to customers with minimal service interruptions. Enhanced public outreach activities will also seek to help customers understand the current water supply situation and how they can further reduce water use to ensure the District can continue to provide adequate water to the Goleta Valley community for drinking, health and human safety.

Cachuma Project Supply and Water Rights

The District continues to work with 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 executing 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.

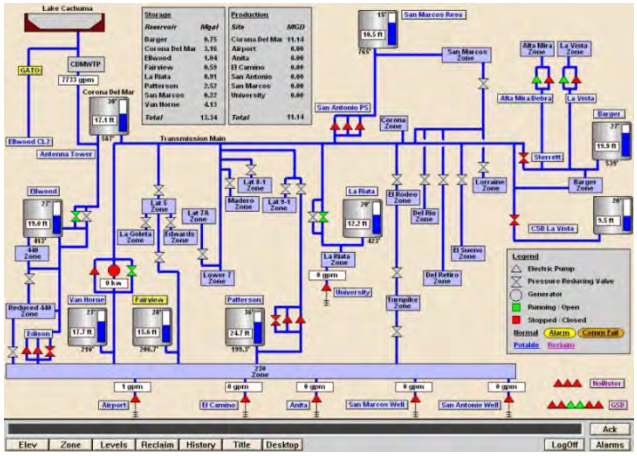
Sustainability Plan Implementation

Several projects budgeted for the FY 2015-16 Budget are directly tied to the guiding principles adopted by the Board of Directors as part of the 2012 Sustainability Plan. Projects include: the installation of new energy efficient well motors and pump stations; fleet vehicle replacements to improve efficiency and reduce the fleet's carbon footprint; storm water improvements such as a bio-swale at the District Headquarters to improve water quality. These projects will provide improvements needed to meet new regulatory requirements, while providing economic benefits in the form of reduced energy costs, minimizing impacts to natural resources, and supporting a healthy community.

The District's gravity fed water system is a model of sustainable and cost-effective design. By using gravity to transport water, District energy bills are traditionally significantly lower than those of other similarly sized water agencies. However, the increased use of groundwater will necessitate greater energy usage and cost to pump and deliver water to customers in FY 2015-16. Replacing pumps that are older than 20 years with more energy efficient models will enhance reliability and control costs.

Coordinated Energy Management

The drought has resulted in increased pumping of groundwater, and power costs 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 automatic controls and coordinate energy-related projects across District operations. Doing so will ensure the District has the tools necessary to minimize costs and overall energy usage, and enhance resource independence, particularly during periods of peak demand. This initiative will implement software and management processes necessary to ensure that project decision-making and operations can fully capture the benefits identified in the District Sustainability Plan regarding District energy use.



Technology Infrastructure Improvement

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

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 eight 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 system. Projects in this category are critical during the drought, and also improve the financial certainty and predictability of operating and maintaining District facilities.

Distribution and Treatment System Improvements

The District distribution system includes approximately 270 miles of pipelines, 6,000 valves, 1,400 fire hydrants, 16,900 meters and more than 30,000 appurtenances. The ages and materials of District facilities vary greatly and, in turn, the current condition and failure risk associated with these facilities varies as well. Additionally, the District distribution and treatment system was designed and built to serve water from Lake Cachuma using gravity fed systems: as the use of groundwater increases a number of modifications and facility upgrades are necessary. The FY 2015-16 Budget includes five well rehabilitation projects, and several distribution system upgrades on the potable system to ensure an adequate supply of potable water for drinking, health and human safety. Additionally, the FY 2015-16 Budget anticipates investment in system repair and replacement projects in response to equipment failures, consistent with the age and condition of the District's assets. These investments minimize the financial and water supply impacts of infrastructure failures.

Infrastructure Improvement Projects include:

- Rehabilitation of four wells, and enhancement of a fifth well to maintain and maximize groundwater production capabilities.
- Preliminary work on two new wells including analysis of potential sites using groundwater modeling and hydraulic monitoring to determine optimum locations for both extraction and distribution. Once several sites have been identified, the District will review available property.
- Replacement of six booster pumps that have exceeded their expected service life and that are critical to moving water to customers through the distribution line.
- Valve installations and replacements for pressure regulation, system isolation and monitoring.
- CDMWTP facility improvements including Sludge Drying Bed #2, low-flow process improvements to facilitate water treatment during drought, and a Chemical Tank Safety Platform to improve efficiency of inspection and maintenance.
- Upgrades to the recycled water system to support distribution, improve operational efficiency, and extend asset life.

- Installation of bio-swales in the District Operations yard to comply with new State storm water regulations by capturing, filtering, and reducing runoff.
- Replacement of small meters, water mains, valves and hydrants, polybutylene service lines and copper service lines.

A Look to the Future

The FY 2015-16 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 2015-16 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 2015-16 Budget maximizes the ability to respond to external circumstances while minimizing impacts to customers.

Examples of externalities facing the District include:

- Due to declining lake levels COMB installed a pumping barge to move water into the intake tower that feeds both Cachuma and State water to the South Coast. The cost to put the necessary emergency pumping apparatus in place in FY 2014-15 was approximately $6M, which was apportioned to each of the COMB Member Agencies. Grants from the State Water Resources Control Board and the Department of Water Resources covered part of the cost. If and when the emergency pump project becomes fully operational over the summer in FY 2015-16, the District will continue to incur operating costs related to this project. Lake Cachuma also serves as the transit system for the State Water Project, 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. The District expects to receive a zero percent allocation from Lake Cachuma for the next water year starting October 1, 2015. The District will make up this reduction with water from the Goleta Groundwater Basin, but the District's annual operating cost to extract water from the basin has increased proportionally to the amount of water needed from the wells to balance the overall supply with customer demand. The ability to extract and distribute enough groundwater to meet customer needs is dependent on key infrastructure investment to enhance reliability.
- The planned rehabilitation of five District wells will provide greater redundancy in case a well needs to be taken offline for service. Unlike water from Lake Cachuma, which flows downhill, groundwater must be pumped through 19 pressure zones, and even uphill to many customers. Maintenance and

replacement of aging distribution equipment is needed to ensure system reliability. Finally, the District will continue to focus strongly on conservation outreach, and incentive based programs to reduce customer demand in response to drought conditions as they develop in the coming months, dedicating over $590K to these critical activities in FY 2015-16.

- Anticipated action on the Cachuma Project State Water Rights Order and Federal Biological Opinion Reconsultation during FY 2015-16 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 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. 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 2015-16 Budget includes the minimum funding necessary to allow the District to respond to system failures and minimize the impacts of such events.

- The Goleta Groundwater Basin faces potential threats to water quality similar to many urbanized basins throughout California. Seawater intrusion, agriculture and urban runoff, salts and nutrients, and over-pumping are examples which 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 time 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.

- 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.

The FY 2015-16 Budget is the first year of the new five year financial cycle, and shows how the District will adeptly build, maintain and manage the assets needed to produce, treat and distribute water during the historic drought all while keeping costs as low as feasible. By identifying, understanding and planning for these external risks, the District can limit its exposure, exert its power to influence outcomes and effectively prepare for the ongoing water resources needs of the region while managing future costs and providing reliable services. The FY 2015-16 Budget, shown in Table 1.2, provides the foundation for the innovative leadership to meet water supply, regulatory and infrastructure needs and provide customers with exceptional service and sustainable rates for years to come.

Table 1.2 FY 2015-16 Budget Summary

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue and Transfers:					
Monthly Service Charges	$ 9,681,249	$ 9,641,575	$ 9,133,715	$ (547,534)	(6%)
Water Sales	20,917,497	20,624,652	27,441,103	6,523,606	31%
New Water Supply Charges	1,079,142	2,388,754	0	(1,079,142)	(100%)
Investment Revenue	41,664	34,840	23,517	(18,147)	(44%)
Conveyance Revenue	131,561	122,139	124,582	(6,979)	(5%)
Miscellaneous Fees & Charges	756,036	544,016	808,460	52,424	7%
Subtotal:	**$ 32,607,149**	**$ 33,355,976**	**$ 37,531,376**	**$ 4,924,227**	**15%**
Transfers:					
Designation from Reserves	$ 0	$ 0	$ 1,612,268	$ 1,612,268	100%
Total Revenue and Transfers:	**$ 32,607,149**	**$ 33,355,976**	**$ 39,143,644**	**$ 6,536,495**	**20%**
Expenditures:					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 2,696,805	$ 2,547,335	$ 3,120,807	$ 424,002	16%
CCRB (Water Rights)	796,068	507,610	425,000	(371,068)	(47%)
SB County (Cloud Seeding)	30,086	47,311	40,000	9,914	33%
CCWA (State Water Deliveries)	7,718,875	7,696,384	9,320,757	1,601,882	21%
GSD (Recycled Water Production)	642,800	578,392	676,630	33,830	5%
Subtotal:	**$ 11,884,634**	**$ 11,377,032**	**$ 13,583,194**	**$ 1,698,560**	**14%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,221,848	$ 8,117,243	$ 8,462,071	240,223	3%
Other Post Employment Benefits	404,980	395,542	389,346	(15,634)	(4%)
Subtotal:	**$ 8,626,828**	**$ 8,512,786**	**$ 8,851,417**	**$ 224,589**	**3%**
Operations & Maintenance:					
Water Treatment	$ 369,935	$ 407,996	$ 304,225	$ (65,710)	(18%)
Water Testing	229,781	166,744	198,649	(31,132)	(14%)
Insurance, Accounting, & Auditing	222,120	209,692	308,322	86,202	39%
Maintenance & Equipment	636,130	643,213	669,938	33,808	5%
Legal	290,004	320,884	1,012,400	722,396	249%
Services & Supplies	3,017,019	2,952,870	4,078,437	1,061,418	35%
Utilities	744,336	702,226	810,399	66,063	9%
Subtotal:	**$ 5,509,325**	**$ 5,403,624**	**$ 7,382,370**	**$ 1,873,045**	**34%**
Total Expenditures before Debt and CIP:	**$ 26,020,787**	**$ 25,293,442**	**$ 29,816,981**	**$ 3,796,194**	**15%**
Debt Service	3,561,589	3,561,589	3,555,163	(6,427)	(0%)
Capital Improvement Projects (CIP)	2,428,000	3,539,276	5,771,501	3,343,501	138%
Total Expenditures:	**$ 32,010,376**	**$ 32,394,307**	**$ 39,143,644**	**$ 7,133,268**	**22%**
Designation to Reserves:	**$ 596,773**	**$ 961,669**	**$ 0**	**$ (596,773)**	**(100%)**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

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SECTION II – REVENUE and TRANSFERS

Introduction

The District provides water to approximately 16,800 customers in several customer categories: Single-family residential, Urban (Multi-family residential, Commercial, Institutional, and Landscape Irrigation), Agricultural and Recycled. Other connections include fire service lines, which are not used for the normal delivery of potable water.

The District receives 97% of its revenue from regular monthly charges for water service consisting of fixed Monthly Service Charges (24%) and Water Sales (73%). Monthly Service Charges represent the customer's portion of the fixed costs of operating and maintaining the distribution system, and providing customer service. These charges are assessed on a monthly basis depending on the size of the meter, which can range from 3/4 inch or 5/8 inch to ten inches. Water Sales, or consumption-based charges, are based on the actual amount of water delivered to each customer, measured in increments of one hundred cubic feet (HCF) or 748 gallons.

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

In addition to the rates associated with each customer type, historical sales data are used to project the amount of water supplied to customers by the District each year, and in turn, the projected sales revenue. In the past the District averaged sales of approximately 12,400 AFY of water, which is equivalent to 5.4 million HCF or four billion gallons. Sales trended upward noticeably in Fiscal Years 2012-13 and 2013-14 in response to persistent drought conditions and the improving economic environment, with an average increase in overall water sales of approximately 13 percent or 1,600 AFY (illustrated in Figure 2.1). That trend reversed in 2014 with the statewide drought declaration, and subsequent Stage I and Stage II Water Shortage Emergencies by the District. Both the state and the District declarations also included mandatory water use restrictions. Further declines in water usage by District customers are anticipated as a result of the Stage III declaration, and the implementation of drought surcharges in FY 2015-16.

This Budget uses a baseline of 10,445 AF to forecast Water Sales and revenue in the coming year. That number was calculated using a drought model that incorporates projected water supply and demand data. In addition to the baseline, key factors that may influence projected sales-based revenue were taken into account, including new development and drought-related behavioral changes in water use. Although the impact of these factors will vary considerably across customer categories, each factor contributes to the year-over-year change in water use, and subsequent revenue projections. The remaining three percent of Budgeted Revenue results from Investment Revenue, Conveyance Revenue and Miscellaneous Fees and Charges. Table 2.1 describes the components used to develop the FY 2015-16 Revenue forecast.

Figure 2.1 District Five-Year Water Sales

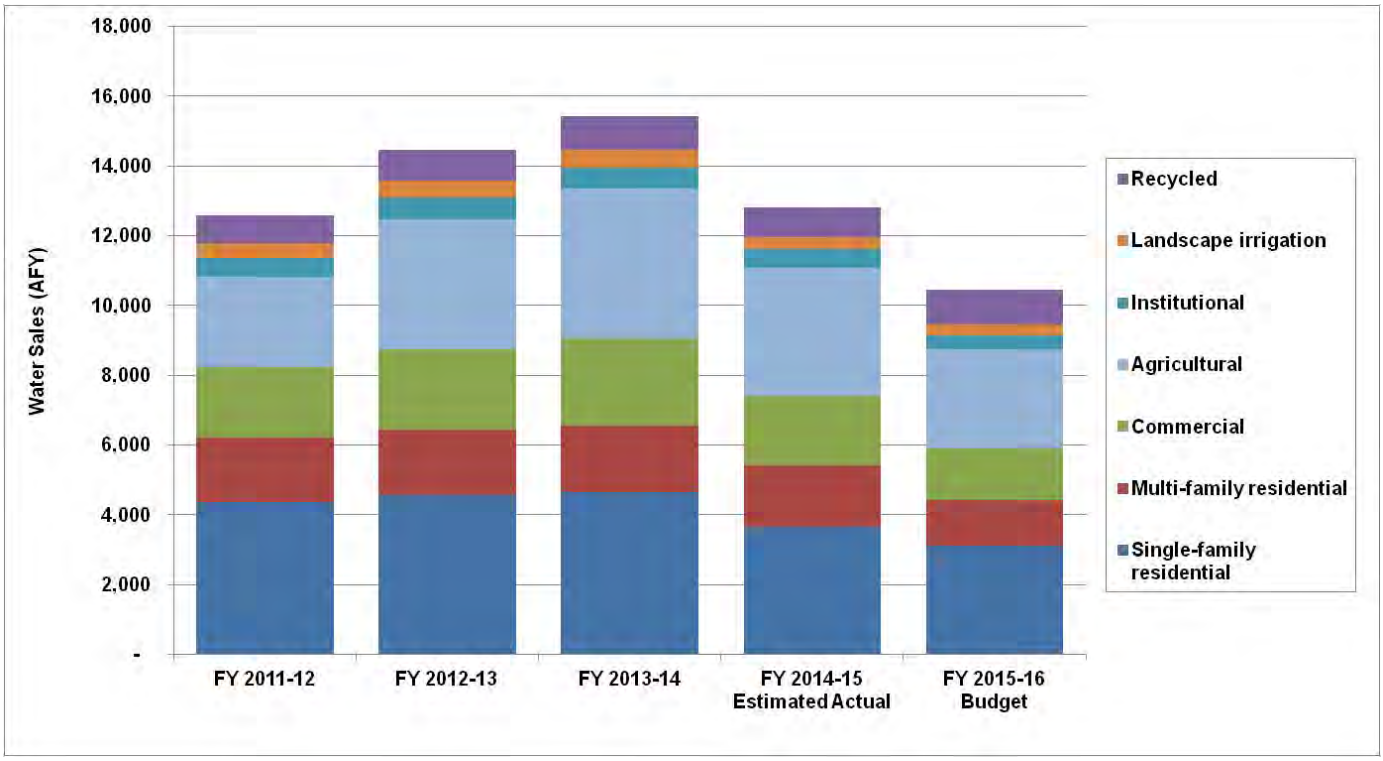


Table 2.1 FY 2015-16 Budget Methodology

Description	Definition
Baseline Revenue	FY 2015-16 Budgeted Monthly Service Charges and Water Sales Revenue includes revenue structures in the 5-year Cost of Service Study done in the Spring of 2015. Water rates have assumed a Stage III Drought declaration for the entire budgeted year.
Influencing Factor:	
New Development	Value of new residential and commercial development projects scheduled for completion in FY 2015-16.
Meter Changes	Value adjustment based on projected removed meters and changes in meter size on existing developed properties.
Vacancy Rates	Predicted changes in residential and commercial vacancy rates based on economic trends in the region.
Drought Behavioral Changes	Anticipated impact of customer water use behaviors and conservation measures during dry weather conditions, reaction to water and fixed-charges rates modifications, and reacton to drought surcharges.

RATES-BASED REVENUE

Revenue derived from rates is comprised of two categories: the fixed Monthly Service Charge and Water Sales. The amount of revenue the District receives from water service is primarily based on the number of customers by customer category, size of each connection, and the rates associated with each customer category. Additionally, the projected FY 2015-16 Revenue from water service is influenced by several key factors affecting water use in the region, including new development, meter changes, participation in conservation, vacancy rates and behavioral changes in water use during drought conditions. Table 2.2 provides a summary of the types and number of District connections by customer category, by which base revenue is derived.

Table 2.2 Types and Number of District Customer Connections

	Meter Size		
Customer Category	3/4 or 5/8-inch	1-inch to 10-inch	Total
Single-family residential	12,088	1,197	13,285
Multi-family residential	1,002	664	1,666
Commercial	399	608	1,007
Agriculture	2	160	162
Institutional	-	7	7
Landscape irrigation	95	134	229
Recycled	5	36	41
Fire	333	45	378
Total Connections:	**13,924**	**2,851**	**16,775**

Monthly Service Charge

With the change in rates for FY 2015-16, approximately 24% of total District revenue will come from the Monthly Service Charge. All active water service connections pay a Monthly Service Charge based on the size of the connection. About 83% of District connections are 3/4 inch or 5/8 inch meters which carry the lowest volume of water and are charged the lowest set of monthly rates. Other meter sizes range from one to ten inches according to the customer's actual water needs. For example, large agricultural and commercial customers consume significantly more water than single-family residences, and in turn, require larger meters.

Designed to encourage conservation, price incentives are provided for all customers with 5/8" or 3/4" meters who demonstrate conservation in water use. Tier 1 applies to customers using between zero (0) and six (6) HCF per month. Customers using seven (7) to sixteen (16) HCF per month are eligible for Tier 2. Those consuming over sixteen (16) HCF of water per month are charged the Tier 3 rate. This is a change from the current rate structure that provides 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.

As part of its drought response actions in FY 2015-16, the District will continue to support commercial water use efficiency by offering extensive information resources and incentive programs. By reducing non-essential outdoor water use, supplies can be preserved for essential commercial functions.

A number of factors influencing the District's base revenue from the Monthly Service Charge are taken into consideration in this Budget. For example, new construction projects ranging from single-family residential connections to lot splits and other commercial developments are projected to provide approximately 131 new connections resulting in an increase to revenue. Various meter changes such as the removal or replacement of existing meters will also have an effect on the amount of revenue the District receives. Another measurable influencing factor to revenue is customers' participation in conservation. A final influencing factor is the current drought, which has resulted in increasingly higher water use through FY 2013-14 due to four consecutive years of abnormally dry weather conditions.

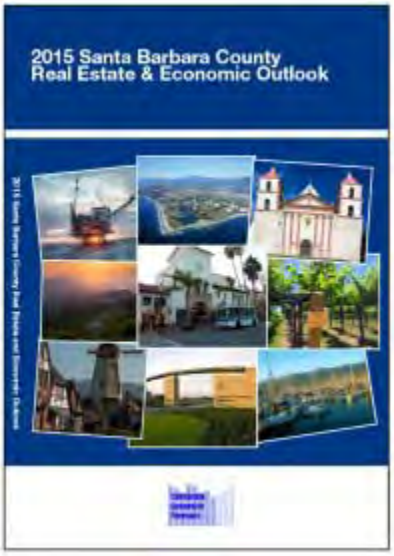
Single-Family Residential

With approximately 13,300 Single-family residential meters ranging in size from 3/4 or 5/8 inch to two inches, this customer category accounts for nearly 80 percent of the District's total connections. About 87 percent of Single-family residential meters are standard 3/4 or 5/8 inch, whereas large parcels are served by larger, one or two inch meters.

Factors influencing Single-family residential revenue include new development, meter changes, conservation, and vacancy rates. Seventy percent of total new connections in FY 2015-16 are expected to be in the Single-family-residential sector. Approximately 92 new 3/4 inch connections for Single-family residential lots and small residential subdivisions and their associated fire service lines are projected to increase overall revenues by $25K.

Of the population eligible for conservation incentives, 87 percent are Single-family residential customers. Analysis shows that over 45 percent of Single-family customers with 3/4 or 5/8 inch meters are currently receiving reduced rates at various consumption levels. About 32 percent of bills will be at the Tier 1 rate, 46 percent will be at Tier 2, and 22 percent of bills will include charges under the Tier 3 rate.

To measure the revenue impact of increased conservation, 2014 water use data was examined to identify trends, including the number of customers on the edge of moving into a lower priced tier in the Monthly Service Charge. In each of the months reviewed, 250 customers are close to qualifying for the Tier 2 conservation tier, which would reduce their Monthly Service Charge by 34%. Another 950 on average are close to qualifying for the Tier 1 conservation tier, with a 52 percent reduction in fixed charges in a given month. This indicates with a small reduction in monthly water use nearly 1,200 Single-family residential water customers would realize a significant costs savings, providing significant financial incentive for conservation. Contrary to prior pricing structures, which used a rolling twelve month average, the fixed charges reduction would be experienced the next month, and can be earned on a month-by-month basis. The structuring of the conservation tier on a monthly rather than a yearly basis makes the reduction impact more immediate, as well as more responsive to customer water use reductions.



According to the 2015 Santa Barbara Real Estate and Economic Outlook (Economic Outlook), the Single-family residential market is continuing to experience a steady increase in conventional sales and median home prices, a direct result of fewer foreclosures and distressed properties. As the economy further stabilizes, the FY 2015-16 Budget forecasts a continued decrease in Single-Family residential vacancies at slightly less than half a percent. Based on the current low vacancy rates, this continued modest improvement should not significantly influence the Monthly Service Charge revenue in FY 2015-16.

Other than new customer installations, traditional influencing factors are unlikely to have a significant impact on baseline revenue in FY 2015-16; and, material influencing factors are difficult to assess in light of the new pricing structure being implemented in 2015. The FY 2015-16 Budget anticipates $4.6M in Monthly Service Charge revenue from Single-family residential customers.

Multi-Family Residential

The Multi-family residential customer category is the second largest customer base, representing approximately 10 percent of District connections, with over 1,660 meters. Meter sizes vary considerably from 3/4 or 5/8 inch meters to eight inch meters. While 60 percent of customers have 3/4 or 5/8 inch meters, a greater percentage of Multi-family residential customers have much larger meter sizes compared to Single-family residential. Depending on the size of the development, a single meter can serve complexes with many units; some as few as three or four units, and some exceeding 20 units. In the concentrated community of Isla Vista, directly adjacent to the UCSB campus, more than 86 percent of the total housing units are attached structures with two or more units. The largest percentage of these housing complexes has 20 or more units, according to the 2010 U.S. Census Bureau's American Community Survey.

New multi-family residential projects in FY 2015-16 include a resident hotel, two large apartment developments, and a smaller new apartment complex, Cortona Corner Apartments with 176 units, Westar Apartment buildings with 275 units, and the Citrus Village apartment complex with 10 units. Together, these projects are expected to increase revenue from fixed charges by $33K in FY 2015-16 based on their projected completion dates. This translates to a $62K annual increase to Multi-family residential Monthly Service Charge revenue in the future.

Approximately 80 percent of Multi-family customers with 3/4 or 5/8 inch meters now use water at a conservation level, and receive a reduced Monthly Service Charge: 34 percent use water eligible for the Tier 1 rate; and 46 percent use at the Tier 2 rate. Six additional Multi-family residential customers are expected to move into the Tier 1 conservation rate in FY 2015-16, with a projected decrease in Monthly Service Charge revenue of $1K.

According to the Economic Outlook, Multi-Family vacancy rates on the South Coast have decreased to around 0.5 percent compared to 2 percent a year earlier. The City of Goleta has returned to under a one percent vacancy rate. The improved economic outlook and constrained market (fewer units on the market) has caused not just the vacancy rates to decline, but also the per-unit monthly rental rates have increased and are forecasted to continue to rise. Based on these indicators, Multi-family fixed revenue is estimated to increase over FY 2014-15 for 3/4 inch meters. In total, the influencing factors are estimated to add $62K to baseline Monthly Service Charge revenue, resulting in a total of $1.6M in revenue from Multi-family residential customers.

Commercial

The Commercial customer category is comprised of just over 1,000 meters, representing 6 percent of total connections in the District. Commercial customers are the only service category to include active meters of

every size available as demands for this customer type vary considerably among different-sized businesses and diverse industries. Meter sizes range from smaller-volume 3/4 or 5/8 inch meters to the largest, high-volume 10 inch meters. Of the 1,000 Commercial meters, over 600 are one inch or greater.

New commercial development in FY 2015-16 includes a professional medical office building and a 90,000 square foot commercial space in 13 units. The addition of 13 3/4-inch meters, a 1.5 inch meter and a 2 inch meter as part of these commercial projects in FY 2015-16 is estimated to add $9K to Monthly Service Charge revenue.

Approximately 96 percent of Commercial customers with 3/4 or 5/8 inch meters use water at a conservation level; 70 percent receive a reduced Monthly Service Charge at the Tier 1 rate and 26 percent receive a reduced Tier 2 rate. Although the majority of smaller-sized Commercial customers are already using water at levels eligible for the conservation tiers, 13 new Commercial customer connections are expected to be eligible in FY 2015-16 resulting in a nominal decrease to revenue of under $1K.

Historically high vacancy rates in the Commercial sector have begun to decrease in the City of Goleta, according to the Economic Outlook. The office vacancy rate has dropped to approximately 7 percent, a decrease of nearly 5 percent from the prior year. Industrial vacancies on the South Coast are below four percent, the lowest levels since the onset of the economic downturn in the winter of 2008. The industrial market vacancy rate in the City of Goleta is under 2 percent.

Agricultural

Agricultural customers represent approximately one percent of District connections, or 162 meters. This is split between the 91 Urban Agriculture customers with a combined 138 meters, and 19 agricultural customers on the Goleta West Conduit with a combined 24 meters. This customer category is mostly comprised of meters at least two inches in size, but range from as small as 3/4 or 5/8 inch to as large as six inches. The Agricultural industry generally does not experience changes to its customer base, and there are no new meter connections expected during FY 2015-16. Total Monthly Service Charge revenue in FY 2015-16 from Agricultural customers is estimated to be $409K.

Institutional

Institutional customer connections are master meters that provide water to multiple facilities. All seven of the institutional connections are UCSB master meters providing water for various campus operations. While four of the seven meters are two inch meters, the other three are six, eight and ten inches, respectively. There are no known factors influencing revenue for this customer category. Total Monthly Service Charge revenue in FY 2015-16 from the Institutional customer category is projected to be $118K, with the number and size of meters expected to remain the same.

Landscape Irrigation

With about 230 meters ranging in size from 3/4 or 5/8 to four inches, Landscape irrigation customers represent less than 1.5 percent of total District connections. New development involving dedicated landscape irrigation meters include single-family and commercial projects, contributing ten new 3/4 inch meter connections and $3.4K in fixed revenue. Total Monthly Service Charge revenue in FY 2015-16 from Landscape irrigation is estimated to increase by $22K to a total of $271K.

Recycled

The District has 41 Recycled meters. Meter sizes range from 3/4 or 5/8 inch to eight inches. Four new Recycled meter connections at Multi-family residences will contribute to a $80K increase in Monthly Service Charge revenue in FY 2015-16. Total Monthly Service Charge revenue in FY 2015-16 from the Recycled customer category is estimated to be $436K.

Summary – Monthly Service Charges

In conclusion, the $9.1M of projected FY 2015-16 Monthly Service Charge Revenue is established based on a $9.7M FY 2014-15 Adopted Budget serving as a baseline from which a total of $548K in influencing factors is deducted; inclusive of changes resulting from the new rate structure. Table 2.3 provides an itemization of the FY 2015-16 Budgeted Monthly Service Charge Revenue by customer category, inclusive of the values associated with the main influencing factors.

Table 2.3 Budgeted Fixed Revenue and Influencing Factors

		Influencing Factor				
Customer Category	FY 2014-15 Budget Baseline Revenue	New Development	Rate Structure Change	Drought Behavioral Changes	Net Incr. / (Decr.)	FY 2015-16 Budgeted Fixed Revenue
Single-family residential	$ 5,592,549	$ 20,197	$ (993,690)	$ -	$ (973,493)	$ 4,619,056
Multi-family residential	1,441,366	62,125	96,379	-	158,504	1,599,870
Commercial	1,581,935	8,889	38,321	-	47,210	1,629,145
Agriculture	389,658	-	19,112	-	19,112	408,770
Institutional	106,896	-	11,249	-	11,249	118,145
Landscape irrigation	249,416	4,128	17,076	-	21,204	270,620
Recycled	279,600	80,213	75,762	-	155,975	435,575
Fire	39,829	4,503	8,202	-	12,705	52,534
Total:	**$ 9,681,249**	**$ 180,055**	**$ (727,590)**	**$ -**	**$ (547,534)**	**$ 9,133,715**

Water Sales

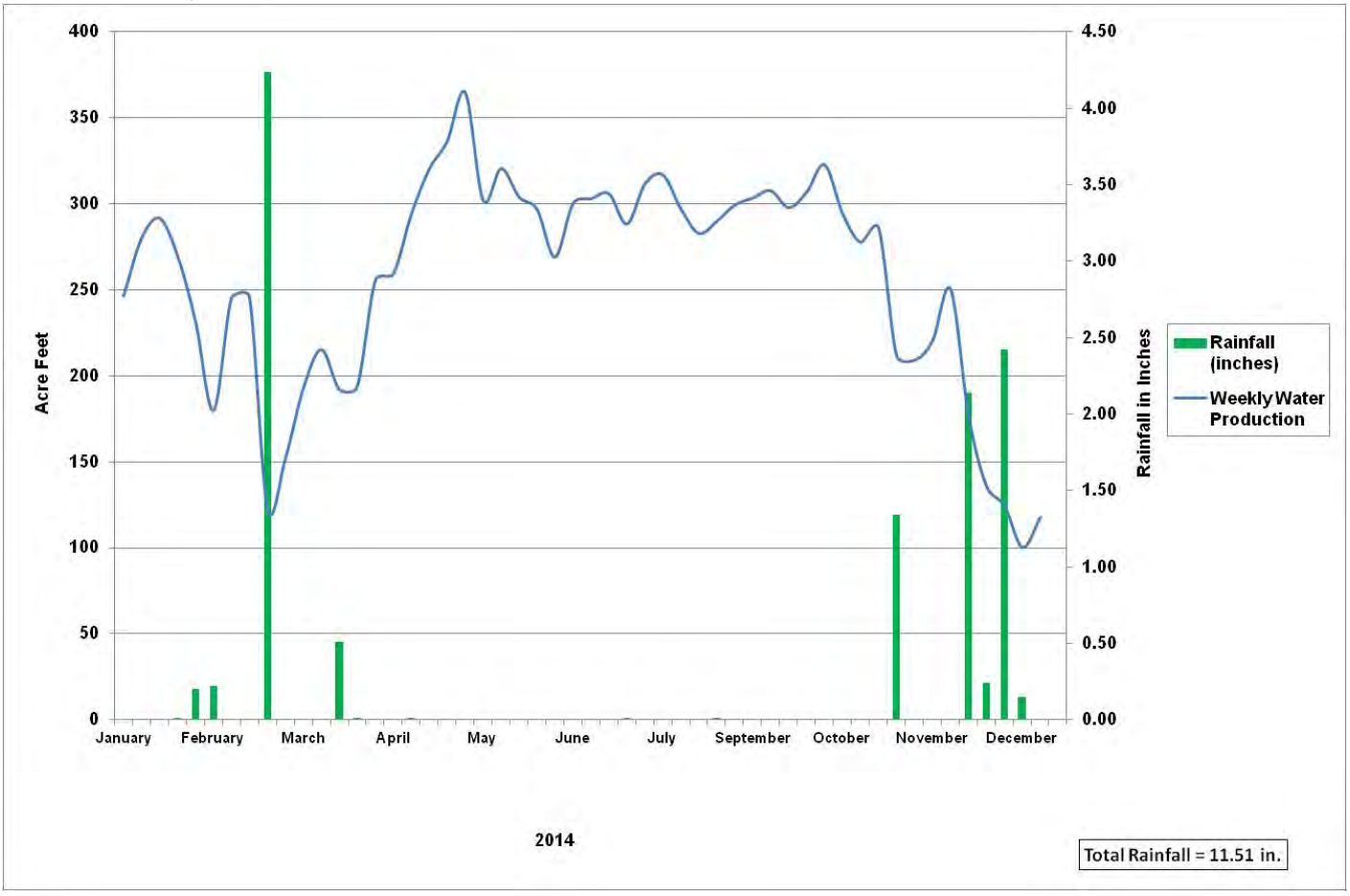
The largest source of District revenue is Water Sales, billed according to the actual volume of water consumed by the customer. Water rates are structured based on the customer type and unique water needs of that category. The amount and type of water use across categories can vary significantly given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

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

Following one of the driest two-year periods on record in 2013 and 2014, below normal rainfall has continued into 2015. Rainfall in the Goleta Valley in calendar year 2014 was only 65% of normal rainfall, and declined to 62% in 2015. Due to the ongoing dry conditions, the District has formally endorsed Governor Jerry Brown's statewide request for conservation and subsequent drought emergency declarations by encouraging customers to reduce water use by 25 percent through targeted outreach, the declaration of a Stage II Drought emergency effective September 1, 2014, and by the adoption of a Stage III Drought emergency effective July 1, 2015. If conditions remain dry, the Budget anticipates a decrease in Water Sales revenue of $5.7M dollars associated with drought-related conservation measures by residents of the Goleta Valley community. Due to the projected water supply, the District will likely remain in a Stage III Drought condition for most or all of FY 2015-16. Conservation is critical to continue to provide safe and reliable water to Customers for drinking, health, and safety.

As Figure 2.2 displays, parched, summer-like conditions in any given month of 2015 resulted in higher overall water production volumes throughout the year as compared to prior years with more rainfall.

Figure 2.2 Daily Water Production and Rainfall in 2014



In forecasting the amount of revenue received from Water Sales, consideration is also given to the number of residential customers able to sustain a conservative level of water use. The District's new rate structure provides a lower rate for the first 6 HCF of water use each month. This covers basic indoor use for the average District household. A mid-tier rate applies for the next 10 HCF of use each month and provides for a low or mid-tier rate up to average summer use of 16 HCF per month. The highest rate applies to all use above 16 HCF per month. It is anticipated that on average 42% of Single-family residential customers will have water use wholly within Tier 1; 43% will have usage in Tier 2, with the first 6 HCF billed at the Tier 1 rate; and 15% will be in Tier 3, with the first 6 HCF billed at the Tier 1 rate, the next 10 HCF billed at the Tier 2 rate.

Understanding water use across customer categories is vital to projecting annual and monthly revenue which, in turn, influences the timing and levels of project and program expenditures. Customer water use behaviors vary across categories and throughout the year. These behaviors have a direct impact on fluctuations in Water Sales and revenue. The FY 2015-16 Budget incorporates analysis of water use by customer category to anticipate critical cash flow timing to better meet the needs of the community.

Single-Family Residential

Single-family residential customers are forecasted to use 3,079 AFY of water in FY 2015-16, representing approximately 29 percent of water use and 40 percent of total Water Sales revenue. Water Sales vary significantly within this customer category depending on a number of factors including lot size, age of housing stock, household size and type of plumbing fixtures. For example, 80 percent of single-family customers reside on lots that are a quarter acre or less and, on average, use significantly less water than larger lots averaging eight to nine HCF per month. Those on lots greater than a quarter acre have historically averaged 20 to 30 HCF per month.

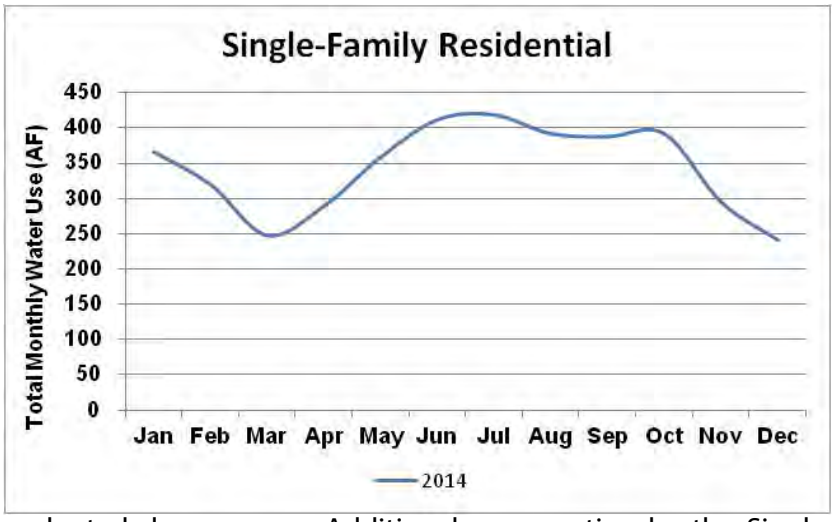
According to the Census Bureau, 90 percent of the housing stock in the region was built prior to 1994 with a significant portion of housing units built in the 1960s or earlier. These homes were built prior to the federal Energy Policy Act of 1992, which requires the installation of low-flow devices in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

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

Water usage in excess of this base indoor amount is attributed to outdoor use, which fluctuates throughout the year with weather patterns. Due to the variability in lot sizes, efficiency of irrigation systems, and irrigation habits, outdoor water use can vary significantly across households. In semi-arid Southern California, an average

of 50 to 70 percent of total water use is attributed to residential outdoor water use. It is estimated that District customers are on the low end of the spectrum, using approximately 52 percent of their total consumption outdoors.

Figure 2.3 Water Use for Single-Family Residential Connections



Like all customers with outdoor water use, this customer category is influenced by varying temperatures and rainfall during different times of the year. Usage in 2014, shown in Figure 2.3, indicates that consumption increases by 70 percent in the warm, dry summer months of June through October as compared to the cooler and typically rainy months from December to April.

Drought-related conservation activities for the over 13,285 customers in the Single-family residential population will be critical to maintaining District supplies during unprecedented dry seasons. Additional conservation by the Single-family residential customer category will be required to reach Governor Brown's mandated Statewide water use reduction of 25 percent, as the water restrictions primarily target residential usage. Heightened conservation measures in response to the ongoing drought are anticipated to result in an 800 AFY reduction in Single-Family water use, with associated revenue shortfalls being made up by drought surcharges.

New development in FY 2015-16 includes Single-family residential lots which will add approximately 15 AFY in water usage, yielding an additional $27K in water sales.

According to the 2015 Economic Outlook, several key measures of the housing market show promise of recovery, including the continual increase in the number of conventional home sales, markedly rising median sales prices, and a continued decrease in foreclosures on the market.

The FY 2015-16 Budget anticipates $10.9M in revenue from Single-family residential customer use, or 3,079 AF. Conventional single-family Water Sales revenues are estimated to decrease, but will be offset by rate structure changes and drought surcharges.

Multi-Family Residential

Multi-family residential customers are forecasted to use 1,630 AFY of water in FY 2015-16, representing approximately 16 percent of water use and 19 percent of total Water Sales revenue. Multi-family residential customers include: high-density student housing in the Isla Vista community, UCSB dormitories and residence halls, retirement communities, apartment buildings, condominiums, manufactured housing and homeowner associations. Consumption behaviors within this category can vary significantly due to varying population densities and lot sizes. The largest indicators of Multi-family residential water use are the number of units within a complex and the number of people per household.

Figure 2.4 Water Use for Multi-Family Residential Connections

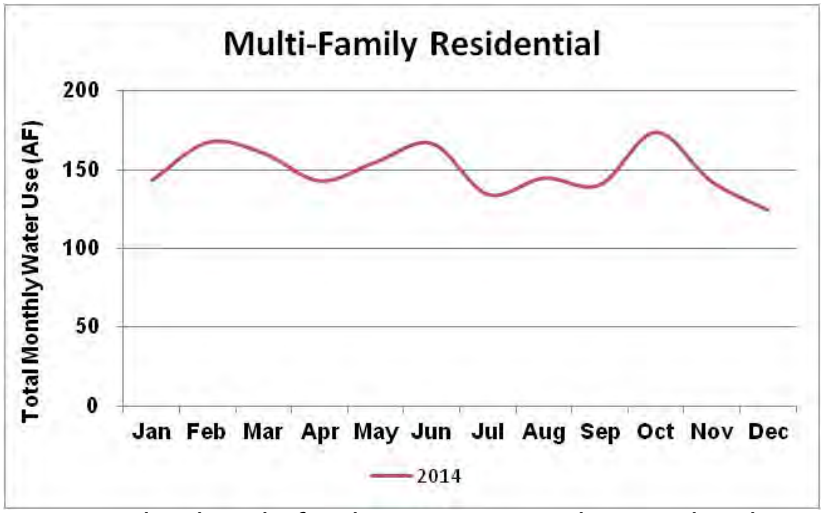


Figure 2.4 illustrates the annual consumption trend for Multi-family residential. The vast majority of Multi-family residential water use is indoors and as a result, weather impacts this customer category to a much smaller degree. As such, water use is relatively steady throughout the year and exhibits only modest seasonal variation. Variability in water usage between winter and summer months is only 38 percent compared to the 70 percent variability typical of Single-family residential customers.

The FY 2015-16 Budget includes a $187K revenue increase in water consumption charges associated with Multi-family connections to be completed in FY 2015-16. The Cortona Corner Apartments, Westar Apartment buildings, and Citrus Village will add 93 AFY of water deliveries in FY 2015-16.

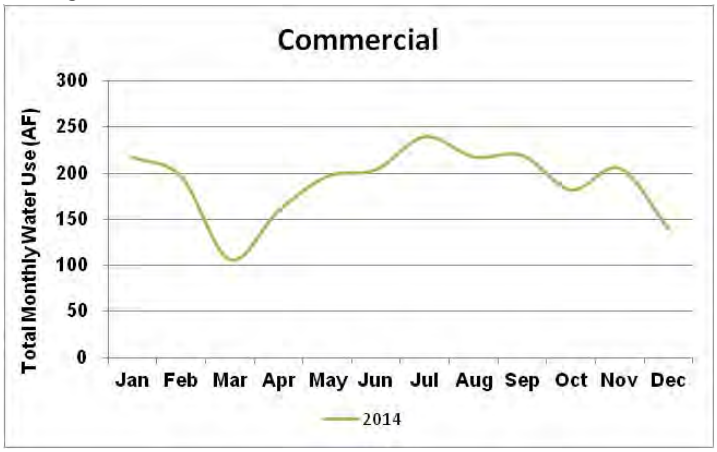
As of April 2015, apartment vacancy rates in the City of Goleta had decreased to 4 percent, a continuation of the reduction from the high of nearly 7 percent experienced in 2011. Isla Vista is also experiencing lower vacancy levels, bringing the vacancy rate in the UCSB-adjacent community to less than 4 percent as well. The water usage and revenues will remain relatively flat because the continued drought-related downward pressure on usage will be offset the strong rental market upward pressure.

In response to the ongoing drought, heightened conservation activities for Multi-family residential is forecasted to reduce usage, but will not significantly impact revenues in FY 2015-16 because of the revised rate structure and drought surcharges projected under the Stage III declaration. Although water use in the Multi-family residential customer category is mostly comprised of indoor usage, increased conservation activities both indoors and outdoors will help the State and District achieve greater conservation.

Projected Multi-family residential Water Sales are $5.3M in FY 2015-16, or 1,630 AF.

Commercial

Figure 2.5 Water Use for Commercial Connections



Commercial customers are projected to use 1,409 AFY of water in FY 2015-16, representing approximately 13 percent of total water use and 17 percent of budgeted Water Sales revenue. Water use needs for this category vary widely due to the diverse range of businesses and organizations, and their unique consumption behaviors. Examples of customers in this category include: office buildings, health care providers, high-tech businesses, schools, food services, shopping centers, churches, public buildings, light manufacturing, construction, and small businesses.
While water use for different types of commercial

buildings is primarily indoors, this customer category also experiences some seasonal variability in water use. Based on 2014 data, Figure 2.5 illustrates that Commercial water use varies by over 100 percent between the winter and summer months.

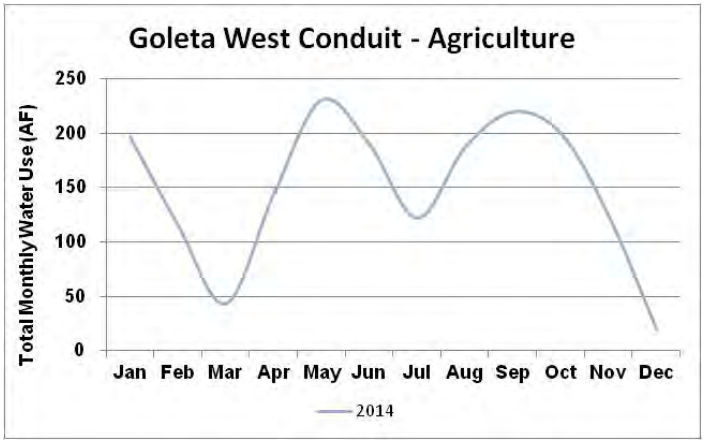
Pending commercial projects in the pipeline for FY 2015-16 will require an estimated 5 AFY of water, yielding $9K in Water Sales revenue.

According to the Economic Outlook, the industrial sector of the City of Goleta Commercial market has shown the lowest vacancy levels recorded. Based upon a continued decline in vacancies, more additional Commercial connections are projected to be occupied in FY 2015-16 resulting in an increase to Water Sales revenue of around $9K.

Similar to the Single-family and Multi-family residential sectors, conservation in the Commercial category will be relied upon to reduce overall water use during the ongoing drought. The three categories, combined, account for over 50 percent of total water use in the District. This Budget forecasts approximately 200 AFY of increased conservation, but anticipates lost revenue will be fully offset by rate structure changes and the implementation of drought surcharges under Stage III. Total Commercial Water Sales revenue for FY 2015-16 is projected to be $4.6M, or 1,409 AF.

Agricultural

Figure 2.6a Water Use for GWC Connections



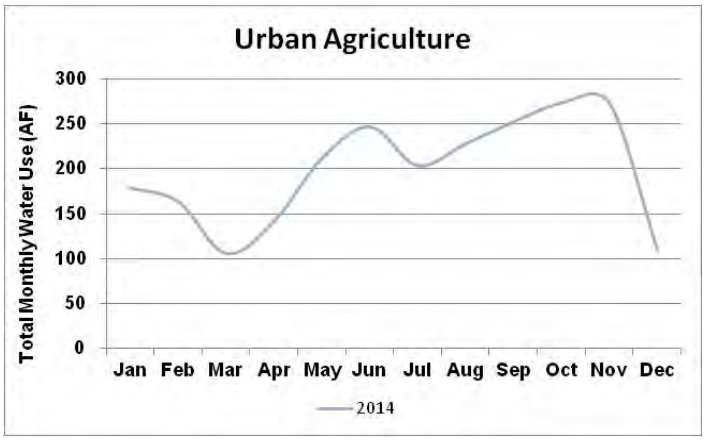
Agricultural customers are forecasted to use 2,500 AFY of water in FY 2015-16, representing approximately 24 percent of total water use. This usage is made up of Urban Agriculture (1,521 AF or 14.6%) and Goleta West Conduit Agriculture (non-potable water at 979 AF or 9.4%). About nine percent of total Water Sales revenue (6.2% Urban Ag and 3.0% Goleta West Ag) comes from Agricultural use. The Urban Agriculture and Goleta West Conduit customers utilize different systems, and pay different rates. Goleta West Conduit users pay a lower rate and the service they receive is for untreated water that can be interrupted when Lake Cachuma supplies are constrained. Urban Agriculture users receive potable water, and are scheduled to begin receiving groundwater reserves in FY 2015-16. Annual water use is projected using customer crop report data including information on crops produced, farmed acreage and the water demands associated with each crop type. According to this data, there are more than 4,000 total farmed acres irrigated in the service area. Approximately 2,600 acres of agricultural land produces avocados, followed by lemons at 840 acres, and nurseries at 212 acres. Farmed land on the remaining 480 acres produces various fruits and vegetables including tangerines, apples and tomatoes.

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

For example, avocado crops require an average of 27 inches of water annually. In any given year, only a portion of this watering requirement is delivered by the District. In an average annual rainfall year, 17 inches of rain will

offset irrigation needs and District supplies are only needed to make up the balance. In a drought-stricken year with rainfall levels at well below normal, however, Agricultural customers are much more reliant on water provided by the District.

Figure 2.6b Water Use for Urban Agricultural Connections



As another example, lemon crops need an average of 20 inches of water per year. Lemon lots that normally require only three inches of water from the District will require more than four times that in an extremely dry year. The revenue impact of the extended dry conditions is difficult to gauge because of several factors: availability of water for agriculture use in the potable and non-potable systems, new agriculture rates structures that take into account costs of delivery in lessened production years (drought), behavior modification, and the impact of drought surcharges. Dry seasons with warm temperatures drive increases in water sales, particularly for Agricultural customers. Agricultural customer consumption varies by 270 percent between the winter and summer months, as illustrated in Figure 2.6a.

No new connections are scheduled for FY 2015-16, and so no new revenue stream is forecasted. The influencing factors, combined, have a total impact of $487K, bringing FY 2015-16 total Agricultural Water Sales to 2,500 AFY or $2.5M in revenue for FY 2015-16.

Part of the reason for the increased revenue on declining usage is due to two factors. Urban Agriculture has been completely reliant on water delivered through the Lake Cachuma system. To allow for groundwater usage Urban Agriculture now bears the burden of groundwater costs to retain an uninterrupted source until later stages of drought conditions. In addition to the above, Urban Agriculture and Goleta West Conduit Agriculture (non-potable system) share the burden with other rate classes for a Stage III Drought condition surcharge. However, the Goleta West Conduit cannot share in the groundwater because of a lack of connection to that portion of the District's delivery infrastructure.

Overall, due to the drought agricultural use has continued to increase, particularly among Urban Agricultural users. The expectation is that with the implementation of the new rates and drought surcharges, Agricultural use will decline.

Institutional

Institutional customers are forecasted to use 470 AFY of water in FY 2015-16. Representing a portion of UCSB's connections, this category accounts for 4.5 percent of total District water use and 5.5 percent of Water Sales revenue.

Figure 2.7 Water Use for Institutional Connections

The average seasonal variability in water use between winter and summer is about 50 percent (see Figure 2.7).

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

Institutional water use is predicted to decline by 50 AFY in FY 2015-16 as compared to the FY 2014-15. FY 2015-16 Water Sales is projected to be 470 AF, resulting in $1.5M in revenue.

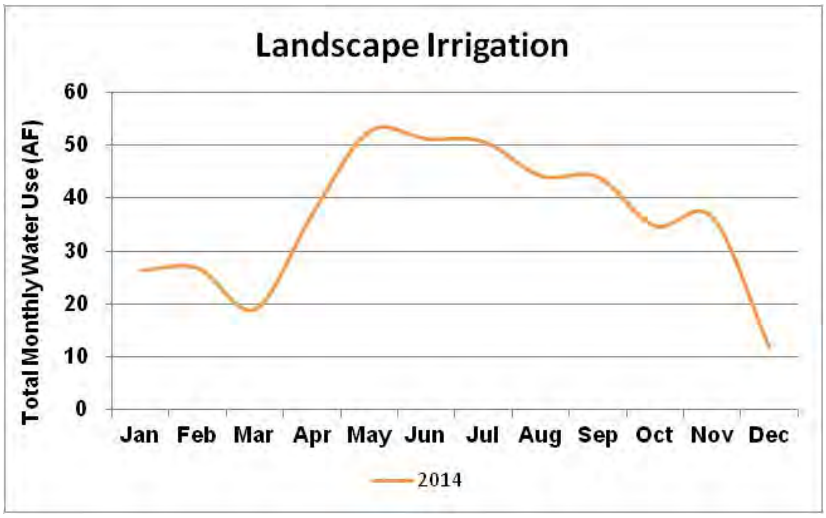
Landscape Irrigation

Landscape irrigation is estimated to use 356 AFY of water in FY 2015-16, accounting for 3.4 percent of total water use and 4.2 percent of Water Sales revenue. Landscape irrigation includes water used for irrigating and maintaining outdoor areas such as golf courses, community parks and common areas in homeowner associations. Other customer types with dedicated outdoor-use meters include resorts, municipalities, churches, retirement communities and commercial businesses.

Similar to Agricultural customers, water demands for this customer category are also heavily influenced by rain and weather conditions. In anticipation of an extended period of dry conditions such as those experienced during 2013, 2014 and 2015, there will be an increased reliance on water provided by the District in the coming fiscal year. The estimated decrease in water use of 67 AFY in FY 2015-16 due to conservation initiatives will still see an increase in revenue of $279K, due to pricing structure changes and drought surcharges.

Seasonally, consumption for Landscape irrigation increases by as much as double during the summer months as compared to winter months when watering demands are largely met through rainfall. Figure 2.8 illustrates the annual consumption trends.

Figure 2.8 Water Use for Landscape Irrigation Connections



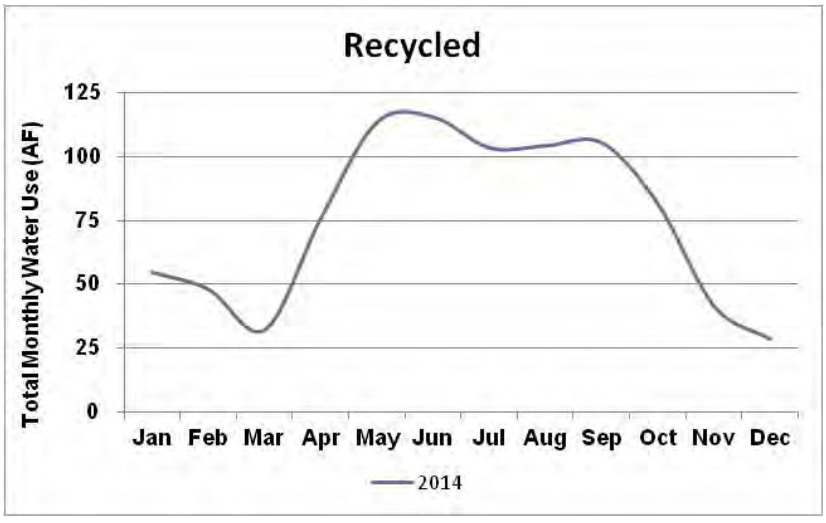
New development projects including commercial buildings and businesses, single-family housing tracts, a church, and apartment complexes in FY 2015-16 will require dedicated Landscape Irrigation meters, contributing $17K of the increase to revenue.

Overall, Landscape Irrigation use will decrease by 58 AFY but increase revenues by $279K due mainly to water rate structure changes. Total FY 2015-16 Landscape irrigation water use is estimated to be 356 AFY, equating to $1,153K in revenue.

Recycled Water

Recycled water customers are projected to use 1,000 AFY of water in FY 2015-16, making up 9.6 percent of total water use, and 5.5 percent of budgeted Water Sales revenue. Recycled water is primarily used outdoors for landscape irrigation including common areas in homeowner associations, school grounds and golf courses. Customers include UCSB, school districts, golf courses, resorts, businesses and municipalities. Recycled customers are highly responsive to weather patterns, and as such, the seasonal variation in water use between winter and summer months is substantial. Consumption during the summer months significantly increases by fourfold as compared to usage during the winter months. Figure 2.9 illustrates this significant seasonal volatility in Recycled water use.

Figure 2.9 Water Use for Recycled Connections



A new mixed use (residential & commercial) development with 90,000 square-foot commercial space and 274 residential units will require delivery of recycled water for its landscaping, increasing Recycled use by 34 AF or $46K in the coming fiscal year. Reclaimed water supply exceeds usage for the immediate future, largely as a result of the limited nature of the distribution system. As the cost per HCF is lower than the potable urban rate, a strong incentive exists to use recycled water in commercial settings where aesthetics are important and water supply is reliable, even in drought scenarios. The District remains committed to exploring options for expanding the recycled water system in the future.

During extended periods with little to no rainfall, water demands from the District increase substantially for customers with outdoor irrigation needs. During the current drought a large increase is not expected in Recycled water use due to the use patterns of existing customers and significant barriers to entry. Those barriers are most commonly use compatibility with recycled water, regulations, and access to the District's limited recycled water distribution system.

Overall, Water Sales are estimated to increase by $817K in FY 2015-16 on 50 AFY increase (5%) compared to the FY 2014-15 Adopted Budget. This is due mainly to rate structure changes. Total Recycled Water Sales revenue in FY 2015-16 is projected to be $1,511K or 1,000 AFY.

Summary – Water Sales

In conclusion, the $27.4M of projected Water Sales Revenue for FY 2015-16 is established by using the FY 2014-15 Adopted Budget as a baseline and adding the value of forecasted revenue derived from the influencing factors of new service connections, new rates, and conservation-based behavioral changes. The water sales increase is an estimated $6.5M for the upcoming fiscal year over FY 2014-15. Since the District adopted a temporary denial of new service applications in September 2014 and a new rate structure in June 2015 that includes drought surcharges, a high volatility in operating revenues is not anticipated in FY 2015-16 or in future fiscal years. The aforementioned temporary new water service denial resulted in a FY 2014-15 increase in application fees for new service, which will not recur in the future. Under the new water service denial, fewer new service connections are anticipated in the short-term, as only projects with historical water credits can move forward. The new rate structure incentivizes water conservation, especially under progressive Water Shortage Emergency declarations with the escalating drought surcharges. Together with the value of new development, total water sales revenue is projected to increase by 31% over FY 2014-15. Tables 2.4 and 2.5 provide a full itemization of the FY 2015-16 budgeted water use and Water Sales Revenue in AFY by customer category.

Table 2.4 FY 2015-16 Budgeted Water Use by Customer Category (in AFY)

		Influencing Factor			
Customer Category	FY 2014-15 Budget Baseline Water Use	New Development	Drought Behavioral Changes	Net Incr. / (Decr.)	FY 2015-16 Budgeted Water Use
Single-family residential	3,883	15	(820)	(804)	3,079
Multi-family residential	1,632	99	(101)	(2)	1,630
Commercial	1,611	5	(207)	(202)	1,409
Agriculture-Urban	2,063	-	(542)	(542)	1,521
Agriculture-Goleta West Conduit	1,328	-	(349)	(349)	979
Institutional	520	-	(50)	(50)	470
Landscape irrigation	414	9	(67)	(58)	356
Recycled	950	34	16	50	1,000
Fire	-	0	(0)	-	-
Total:	**12,401**	**163**	**(2,119)**	**(1,956)**	**10,445**

Table 2.5 FY 2015-16 Budgeted Water Sales Revenue and Influencing Factors

Customer Category	FY 2014-15 Budget Baseline Revenue	Influencing Factors: New Development	Rate Structure Changes	Drought Surcharge	Drought Behavioral Changes	Net Incr. / (Decr.)	FY 2015-16 Budgeted Water Sales Revenue
Single-family residential	$ 8,849,861	$ 26,650	$ 75,242	$ 3,487,059	$ (1,538,645)	$ 2,050,306	$ 10,900,167
Multi-family residential	3,699,290	187,249	14,064	1,846,724	(467,866)	1,580,171	5,279,461
Commercial	3,625,793	9,366	33,323	1,595,569	(702,600)	935,659	4,561,452
Agriculture-Urban	1,233,091	-	251,844	1,723,141	(1,512,648)	462,337	1,695,427
Agriculture-GWC	793,770	-	21,331	1,109,228	(1,105,789)	24,770	818,541
Institutional	1,147,154	-	(8,192)	532,448	(149,236)	375,021	1,522,175
Landscape irrigation	874,394	17,457	107,054	403,390	(249,072)	278,828	1,153,222
Recycled	694,144	45,643	748,150	-	22,722	816,515	1,510,659
Fire	-	568		-	(568)	-	-
Total:	**$ 20,917,497**	**$ 286,933**	**$ 1,242,815**	**$ 10,697,560**	**$ (5,703,702)**	**$ 6,523,606**	**$ 27,441,103**

Figures 2.10 and 2.11 provide a breakdown of the budgeted water use in AFY and associated Water Sales Revenue by customer category.

Figure 2.10 FY 2015-16 Budgeted Water Use by Customer Category (in AFY)

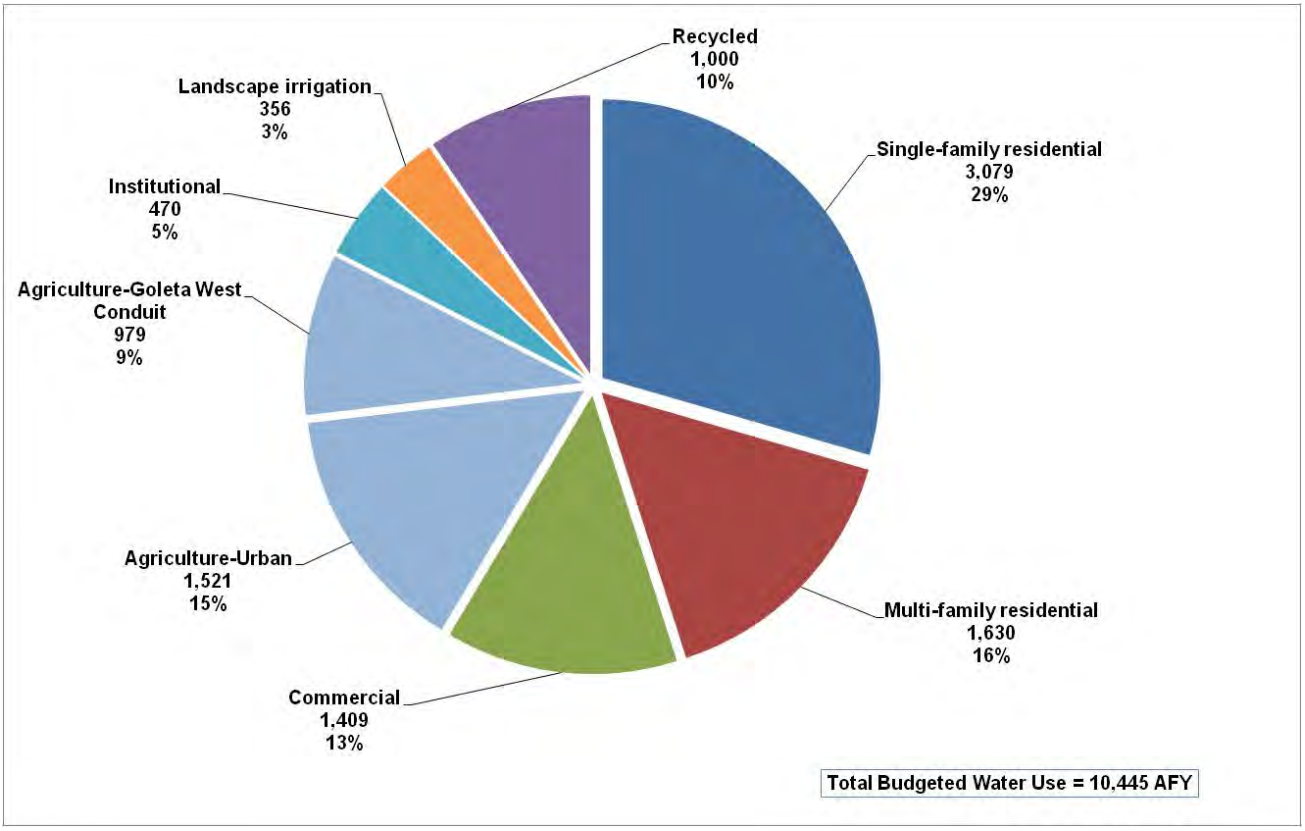


Figure 2.11 FY 2015-16 Budgeted Water Sales by Customer Category ($000s)

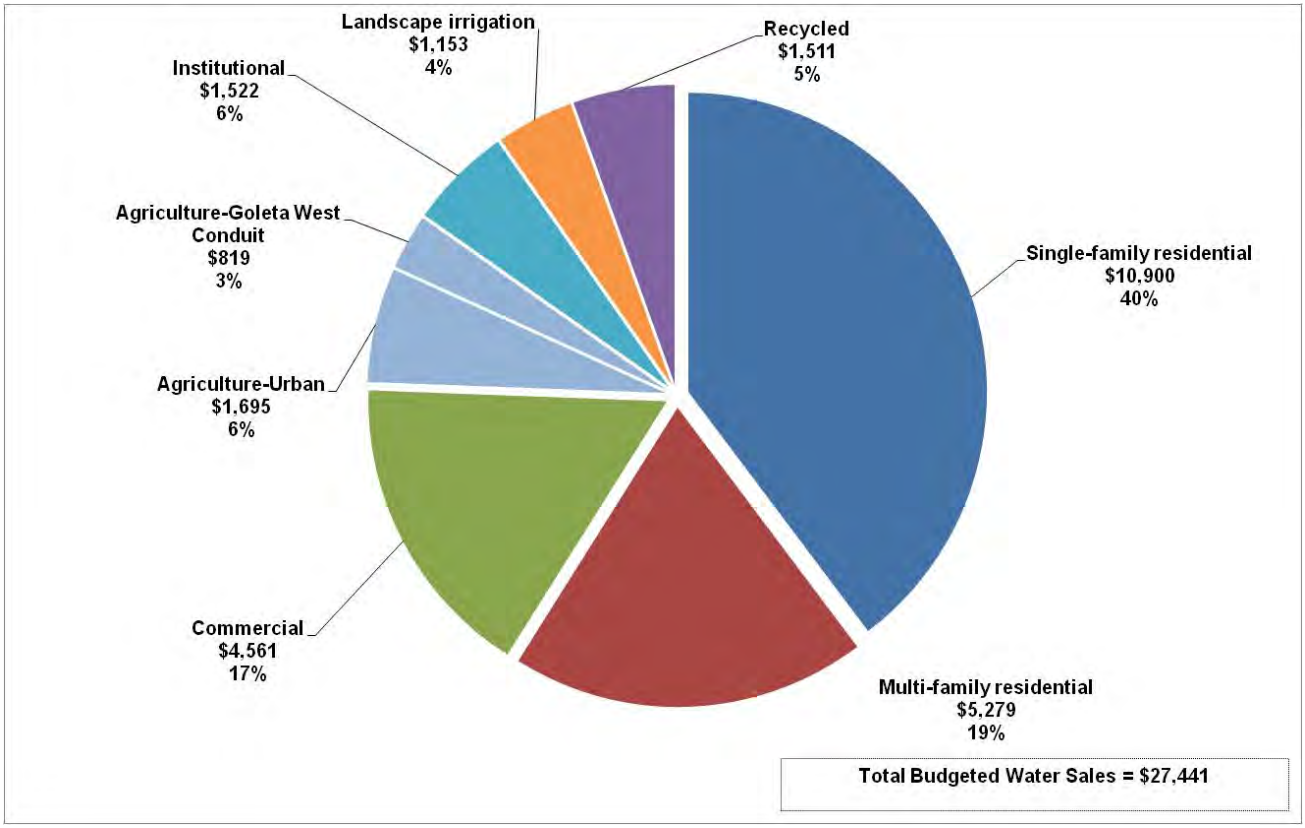


Table 2.6 outlines the year-over-year changes in projected water use for the FY 2015-16 Budget as compared to the baseline. Overall water deliveries to customers in FY 2015-16 are estimated to be 10,445 AF, a decrease of 1,957 AF (16%) from FY 2014-15 Adopted Budget.

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

Category	Adopted Budget FY 2014-15	Estimated Actual	Draft Budget FY 2015-16	Variance Analysis * AF Higher / (Lower)	% Higher / (Lower)
Single-family residential	3,883	3,647	3,079	(804)	(21%)
Multi-family residential	1,632	1,773	1,630	(2)	(0%)
Commercial	1,611	1,994	1,409	(203)	(13%)
Agriculture-Urban	2,063	2,221	1,521	(542)	(26%)
Agriculture-Goleta West Conduit	1,328	1,447	979	(349)	(26%)
Institutional	520	543	470	(50)	(10%)
Landscape irrigation	414	325	356	(58)	(14%)
Recycled	950	860	1,000	50	5%
Total Water Use in AFY:	12,402	12,811	10,445	(1,957)	(16%)

**Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

Other Sources of Revenue

The remaining $957K (2.5%) of expected FY 2015-16 revenue will include $24K in Investment Revenue, $125K in Conveyance Revenue and $808K in Miscellaneous Fees.

New Water Supply Charges

The NWSC applies to customers requesting new or expanded water service. The Budget considers specific projects currently in the application process, their historic water allocations and local economic factors to identify projects likely to remit NWSC fees in FY 2015-16. The FY 2015-16 Budget forecasts $0K in revenue from NWSC payments, or 0 percent of total budgeted revenue, because of the temporary denial of new service applications under the SAFE Water Supplies Ordinance effective October 1, 2014. NWSC payments benefit existing customers by ensuring new or expanded development pays a fair share to join the pre-existing customer-funded infrastructure. Although the amount of new water required from year to year varies depending upon economic factors and project completion schedules, the historical 15 year average allocation is 26 AFY.

Investment Revenue

The investment policies and practices of the District are based on California Government Code provisions that regulate the investment of public funds and prudent portfolio management. Chapter 4.08 of the Goleta Water District Code establishes investment objectives as being, in priority order, Safety, Liquidity and Diversification. For FY 2015-16, District cash balances will be invested in the California Local Agency Investment Fund (LAIF), a pooled money investment vehicle projected to yield approximately 0.25 percent annually, producing approximately $24K in investment revenue. Investment Revenue is projected to decrease by $18K (43%) in FY 2015-16 resulting from the completion of capital projects that depleted a construction fund and a decline in 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 this 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 2015-16 will remain relatively flat at $125K, reflective of no material changes to water requirements as their entitlements are unaffected by the drought and are exempt from the current state and local restrictions.

Miscellaneous Fees and Charges

The District receives revenue in the form of fees and charges from various sources, including delinquent accounts, backflow inspection, application and initiation fees, connection fees, cell tower site rentals and customer reimbursable projects. The anticipated revenue from these sources in FY 2015-16 is approximately $808K.

Transfers

The District maintains a prudent financial reserve to ensure adequate cash flow for operational needs and capital emergencies. From time to time these funds are employed for infrastructure requirements. The budget

includes a $1.6 million transfer from reserves to accelerate the small meter replacement program, which is a critical water-saving capital project. The reserve balance will be restored during the 2015-2020 financial planning period due to lower out-year expenditures.

Summary of District Revenue Forecast for FY 2015-16

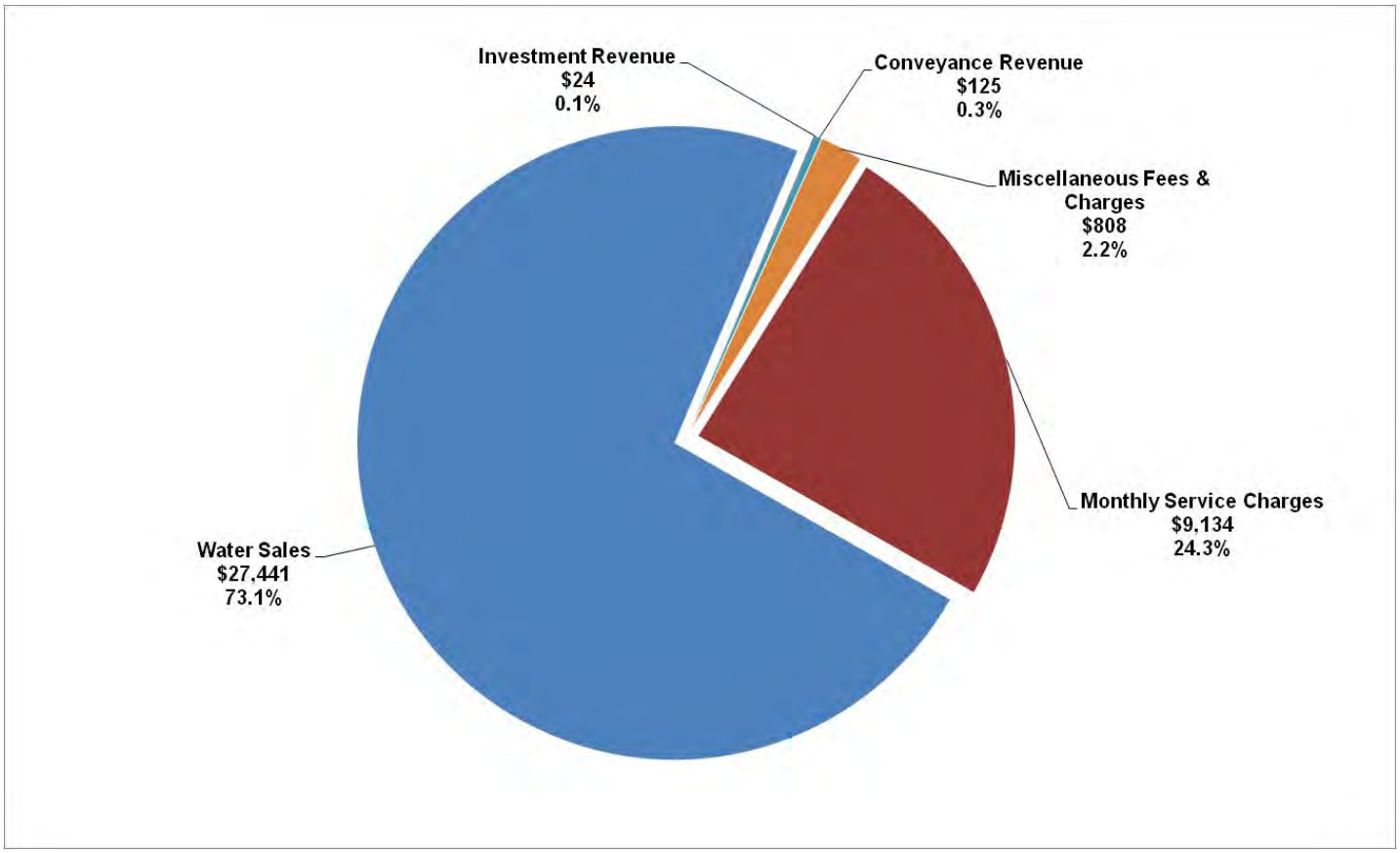
Table 2.7 and Figure 2.12 provide a summary of FY 2015-16 Budgeted Revenue. Rates-based revenues allow the District to cover costs associated with operations to consistently provide customers quality water and address critical infrastructure needs. The combination of Monthly Service Charges and Water Sales for FY 2015-16 is projected at $36.6M, a 20 percent increase from the Adopted FY 2014-15 Budget of $30.6M, resulting from changes in the rates, including the drought surcharges. Non-rates-based revenues such as New Water Supply Charges are projected to be $0K due to the temporary denial of new service applications under the SAFE Water Supplies Ordinance effective October 1, 2014. Other sources of revenue from Investments and Conveyance are projected to remain relatively stable compared to FY 2014-15. Miscellaneous Fees and Charges revenue is estimated to increase by $52K, primarily a result of increased District customer account collection efforts. Total Budgeted Revenue in FY 2015-16 is forecasted to be $37.5M, an increase of $4.9M (15%) from FY 2014-15 Adopted Budget.

Table 2.7 FY 2015-16 Budgeted Revenue versus FY 2014-15 Budget

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 9,681,249	$ 9,641,575	$ 9,133,715	$ (547,534)	(6%)
Water Sales	20,917,497	20,624,652	27,441,103	6,523,606	31%
New Water Supply Charges	1,079,142	2,388,754	-	(1,079,142)	(100%)
Investment Revenue	41,664	34,840	23,517	(18,147)	(44%)
Conveyance Revenue	131,561	122,139	124,582	(6,979)	(5%)
Miscellaneous Fees & Charges	756,036	544,016	808,460	52,424	7%
Total Revenue	**$ 32,607,149**	**$ 33,355,976**	**$ 37,531,376**	**$ 4,924,227**	**15%**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

Figure 2.12 FY 2015-16 Budgeted Revenue Allocations ($000s)



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SECTION III – EXPENDITURES

SUMMARY

FY 2015-16 expenditures are consistent with continued implementation of the Five-Year Expenditure Forecast and other foundational policy documents adopted by the Board of Directors. These expenditures allow the District to continue to deliver safe and reliable water, offer excellent customer service and invest in critical capital projects needed to secure future sustainability.

District expenditures are comprised of costs associated with Water Supply Agreements, Personnel, Operations and Maintenance (O&M), Debt Service and Capital Improvement Projects. Water supply portfolio-related costs have risen to 35 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 23 percent of total expenditures, comprised of wages, benefits and taxes as well as Other Post-Employment Benefits. Employees of the District are responsible for managing day-to-day operations, including maintenance of the treatment and distribution system, capital infrastructure planning, development of water use efficiency and conservation programs, and providing quality customer service. Representing 19 percent of total expenditures, O&M expenses include costs related to water treatment and testing, maintenance and equipment, as well as services and supplies. Expenses associated with debt service and Capital Improvement Projects in the Infrastructure Improvement Plan make up the balance of total expenditures at 9 and 15 percent respectively.

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

The prolonged drought has significantly impacted the District's water supply. The District anticipates a zero percent allocation from Lake Cachuma for the first time in the lake's history. Accordingly, utilizing the District's groundwater reserves will necessitate investment to expand the District's well pumping capacity, as well as improvements to the distribution system to deliver water to customers. The cost to put the necessary well upgrades in place is expected to be $3M in FY 2015-16. This is in addition to the increased annual operating cost to extract water from the Goleta Groundwater Basin, which increases proportionally to the amount of water needed from the wells to balance the overall supply with customer demand. Finally, the District will focus

strongly on conservation outreach and incentive-based programs to reduce customer demand in response to drought conditions as they develop in the coming months.

Water Supply Agreements

In an average year, approximately 86 percent of District water supply entitlements are secured through water supply agreements with federal, state and local partners. The balance of supply is secured from the Goleta Groundwater Basin. Consistent with the current WSMP, the District employs a strategy of drawing from available water sources in a prioritized manner to maximize supplies and minimize costs. While typically under the WSMP the District draws on Cachuma water supplies as its primary supply source, due to the reduced availability of Cachuma water, the District has heavily relied upon groundwater as a supplemental source of supply in order to extend the availability of Cachuma supplies throughout the water year and maximize the pumping capacity of groundwater wells. Based on CA Department of Water Resources (DWR) projections, State Water deliveries are expected to remain available to meet customer demand.

As illustrated in Table 3.1, FY 2015-16 total water supply costs will increase by $1.7M, or 14 percent, largely the result of previous under-billing by DWR for the State Water Project. Many of the expenses incurred from COMB will continue even with a zero percent water allocation due to ongoing infrastructure investment and repair, and the fixed-nature of long-term water supply agreements. The cost of pumping and treating groundwater is included in O&M and capital costs.

Table 3.1 FY 2015-16 Budgeted Water Supply Agreement Costs

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
COMB (Lake Cachuma Deliveries):					
Water Entitlement	$ 895,622	$ 895,622	$ 895,622	$ -	0%
Operations & Maintenance	1,648,782	1,499,312	2,072,784	424,002	26%
Cachuma Renewal Fund	79,667	79,667	79,667	-	0%
Safety of Dam Act	72,734	72,734	72,734	-	0%
Subtotal - COMB	$ 2,696,805	$ 2,547,335	$ 3,120,807	$ 424,002	16%
CCRB (Water Rights):	$ 796,068	$ 507,610	$ 425,000	$ (371,068)	(47%)
SB County (Cloud Seeding):	$ 30,086	$ 47,311	$ 40,000	$ 9,914	33%
CCWA (State Water Deliveries):					
Fixed Costs	$ 7,598,129	$ 7,597,308	$ 8,398,141	$ 800,012	11%
Variable Costs	120,746	99,076	922,616	801,870	664%
Subtotal - CCWA	$ 7,718,875	$ 7,696,384	$ 9,320,757	$ 1,601,882	21%
GSD (Recycled Water Production):	$ 642,800	$ 578,392	$ 676,630	$ 33,830	5%
Total:	**$ 11,884,634**	**$ 11,377,032**	**$ 13,583,194**	**$ 1,698,560**	**14%**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

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

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

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

By agreement, the District share of COMB expenditures is 39 percent. This amounts to $3.1M in FY 2015-16. This is an increase of $424K, or 16%, compared to FY 2014-15. COMB assessments are increasing due to planned projects to ensure water supply reliability as Lake Cachuma drops to historic low levels.

CCRB works to protect Cachuma Water Rights and supplies for the South Coast water purveyors. The District share of CCRB costs is 46 percent. This percentage amounts to $425K in FY 2015-16. This is a decrease of $371K, or 47% as compared to FY 2014-15. FY 2015-16 CCRB costs allow for the continued expansion of scientific, legal and advocacy efforts to minimize the financial and supply impacts of pending action on State Water Rights and the Federal Biological Opinion for the Cachuma Project.

CCWA (State Water Deliveries)

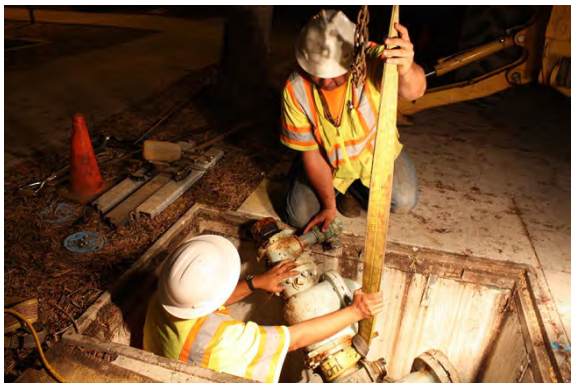
As a member of CCWA, the District is entitled to annual State Water deliveries. The costs associated with this entitlement are $9.3M in FY 2015-16 and include the cost to finance, build and operate the infrastructure that transports the water. Based on DWR projections, the District plans on taking deliveries of approximately 2,235 acre feet of State Water in FY 2015-16, 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 for exchange. This agreement saves both agencies water delivery and infrastructure costs and assists in securing regional water supplies. Given the impact of ongoing drought conditions on available State Water supplies, the District will monitor DWR allocations closely throughout the year and make adjustments as necessary.

Goleta Sanitary District (Recycled Water Production)

By providing recycled water for irrigation purposes, the District conserves drinking water for potable purposes improving its water supply reliability. Per agreement, the District pays GSD for their O+M costs to produce recycled water. For FY 2015-16 costs are estimated at $676K. The District then delivers recycled water supplies to 41 customers.

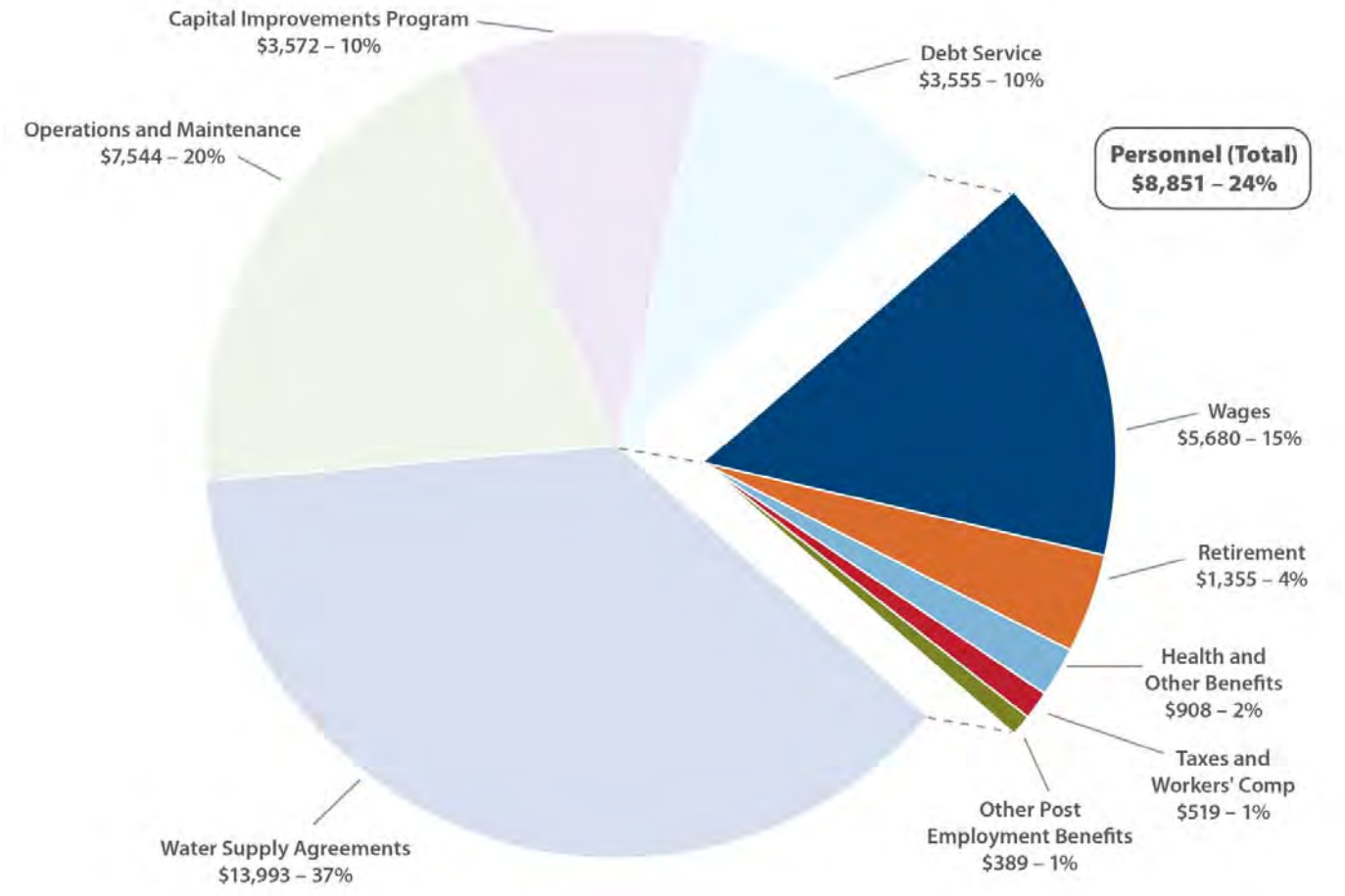
PERSONNEL

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 2015-16 will be $8.9M, a 3% increase as compared to FY 2014-15. Figure 3.1 provides an overview of the individual components of Personnel costs.

Figure 3.1 FY 2015-16 Budgeted Personnel Costs ($000s)



Wage increases year-over-year total $61K, or 1% and are associated with the contractual obligations described in the Memorandum of Understanding with the Service Employees International Union (SEIU) Local 620. Health Insurance premiums will increase by 6% resulting from increases to premium costs.

Retirement expenditures make up 4% of budgeted Personnel costs, as the District continues to realize the financial benefits of the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA was signed into law in 2012 limiting pension benefits offered to new employees and increasing cost sharing between new employees and public employers. Employees began contributing to their retirement plans in FY 2011-12. As PEPRA is designed to realize mid-term to long-term savings, District financial benefits will continue to grow in the future.

The District is dedicated to developing and retaining the highly skilled employees needed to deliver safe and reliable water supplies to the community while keeping costs predictable and at a minimum. Personnel costs are controlled by limiting the use of overtime and managing employee benefit programs.

Operations & Maintenance

The District service area spans 29,000 acres and includes more than 270 miles of pipeline, 16,800 connections, eight storage reservoirs, eight wells and the Corona Del Mar Water Treatment Plant. To operate these facilities and deliver water to customers, more than 30,000 appurtenances are maintained, including over 6,000 valves and 1,400 fire hydrants. O&M costs include a variety of day-to-day functions from water treatment and testing to insurance, auditing, legal services, as well as the purchase of energy, materials, supplies and equipment needed to run water delivery and treatment systems.

The District will treat and distribute approximately 3.4 billion gallons of water in FY 2015-16. This water moves through reservoirs and pipelines that must be continually maintained to ensure safe and reliable delivery. Valve maintenance also plays a particularly important role in controlling the system and is critical to maintaining proper distribution system operations. Figure 3.2 displays O&M expenditures across seven primary categories.

Figure 3.2 FY 2015-16 Budgeted O&M Costs ($000s)

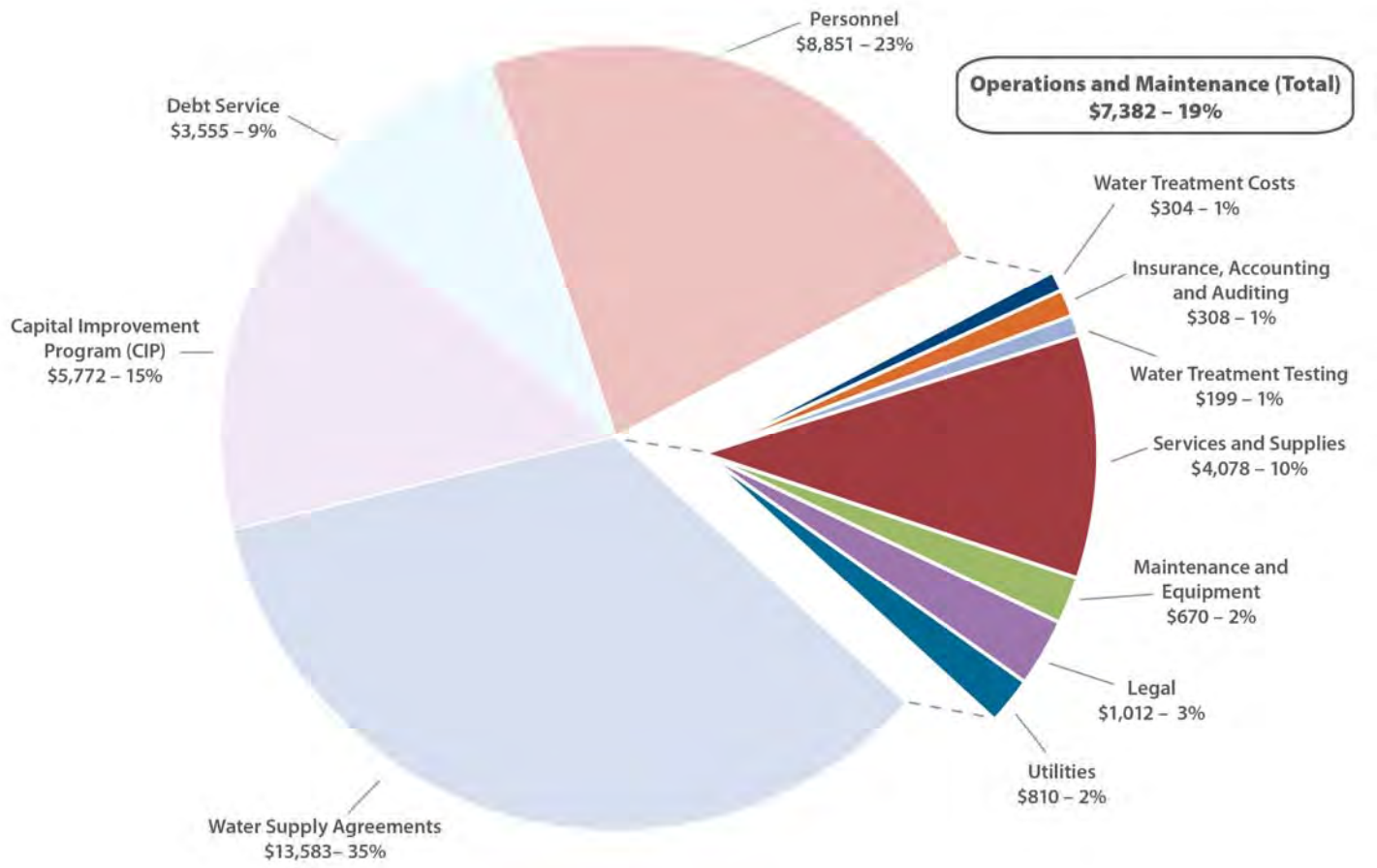


Table 3.2 provides additional detail of FY 2015-16 O&M expenditures. The total O&M expenditures of $7.4M are up 34 percent from FY 2014-15 as a result of increased supplies and services costs and projected legal costs. Notable variances within expenditure categories include:

- Water Treatment costs will decrease by $65K as a result of treating less surface water at CDMWTP. However, costs associated with groundwater pumping will increase due to maximization of this supply source during drought conditions.
- Insurance, Accounting and Auditing will increase by $86K in FY 2015-16, as a result of increased insurance costs.
- Services and Supplies costs will increase by $1.1M or 35 percent to fund well rehabilitations, and other drought-related expenditures.
- Utility costs will increase by $66K due to increased drought-related groundwater pumping, transmission costs, as well as higher time-of-use tariffs implemented in FY 2014-15 by Southern California Edison.

Table 3.2 FY 2015-16 Budgeted O&M Costs

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations & Maintenance Costs:					
Water Treatment	$ 369,935	$ 407,996	$ 304,225	$ (65,710)	(18%)
Water Testing	229,781	166,744	198,649	(31,132)	(14%)
Insurance, Accounting, & Auditing	222,120	209,692	308,322	86,202	39%
Maintenance & Equipment	636,130	643,213	669,938	33,808	5%
Legal	290,004	320,884	1,012,400	722,396	249%
Services & Supplies	3,017,019	2,952,870	4,078,437	1,061,418	35%
Utilities	744,336	702,226	810,399	66,063	9%
Total:	**$ 5,509,325**	**$ 5,403,624**	**$ 7,382,370**	**$ 1,873,045**	**34%**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

Debt Service

Debt service costs reflect payments associated with approximately $53M of outstanding Certificates of Participation (COPs) that are secured by a pledge of District revenues. These COPs are comprised of issuances in 2010 and 2014, with interest payable semi-annually. The current Five-Year Expenditures Forecast provides sufficient revenues to satisfy debt coverage requirements.

Infrastructure Improvement Plan

In March 2015, the Board of Directors adopted a new 2015-2020 Infrastructure Improvement Plan (IIP). The plan was accelerated by one year due to the drought and a number of upcoming regulatory and critical projects. The IIP is designed to show how the District will 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 additional significant investment in the distribution and treatment system. These investments are needed to ensure reliable groundwater supplies for the community adequate for health and safety. The FY 2015-16 Budget includes $8.1 million to fund 29 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. Specific projects include well rehabilitation to bring the Oak Grove #2, SB Corp, Shirrell, and Berkeley wells back into production, and enhance capacity at San Antonio; continued improvements to processes at the Corona Del Mar Water Treatment Plant; distribution system improvements to replace critical valve, hydrants and mains; and installation of bio-swales in the Operations Yard to meet storm-water runoff regulations. 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 3.4A shows IIP spending by infrastructure type. Totaling $8.1M in capital improvement spending, 38% or $3.1M is dedicated to the groundwater production program in FY 2015-16. The groundwater basin will play a critical role in meeting customer demand in FY 2015-16, and beyond. Critical investments are planned to expand capacity and enhance reliability of the District's wells. In FY 15-16 this includes the restoration of four wells that have been out of production since the 1990s to active service, and planned enhancements at the San Antonio well.

Approximately $3.8 million in spending will go to strengthening the distribution system, particularly the pumping stations the District increasingly relies on to deliver groundwater to customers across various pressure zones and elevations, as well as replacing older and inefficient small service connection meters. Treatment accounts for 10%, reflecting the need for changes in the treatment system as the supply portfolio shifts.

Figure 3.4 FY 2015-16 Capital Improvement Plan by Infrastructure Type ($000s)

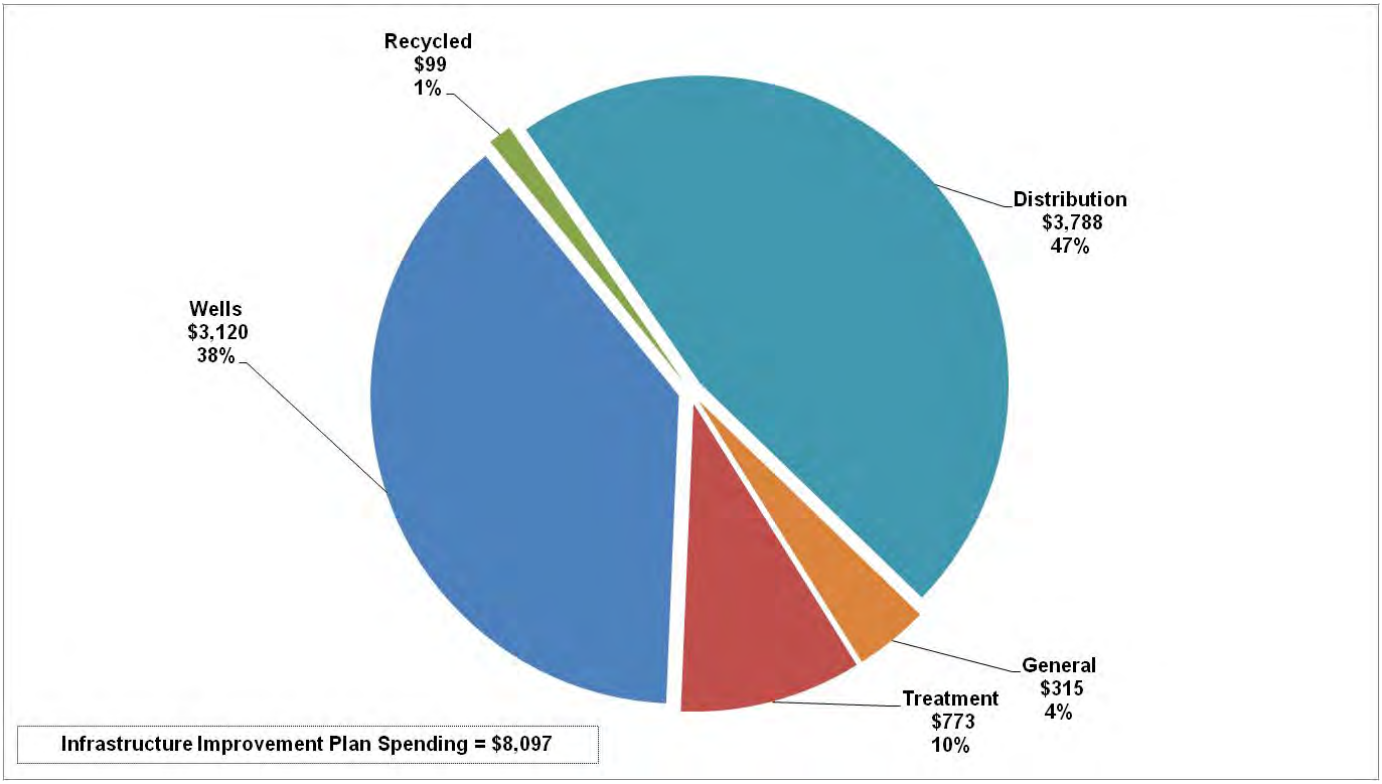


Table 3.3 illustrates categories of FY 2015-16 IIP projects, which will be funded through a combination of operating revenues as well as remaining proceeds realized from the refinancing of District debt in 2014.

Table 3.3 Capital Improvement Projects Summary

Category	IIP Adopted Budget FY 2014-15	IIP Final Budget FY 2015-16	Variance Analysis $ Higher / (Lower)	Variance Analysis $ Higher / (Lower)
Regulatory or Critical	$ 3,818,000	$ 5,504,268	$ 1,686,268	44%
Water Supply or Production Reliability	1,150,000	-	(1,150,000)	(100)%
Infrastructure - New, Replace, or Maintain	670,000	2,592,233	1,922,233	287%
Financial Benefit	2,030,000	-	(2,030,000)	(100)%
Total Capital Projects:	**$ 7,668,000**	**$ 8,096,501**	**$ 428,501**	**6%**
COP Funded	5,240,000	2,325,000	(2,915,000)	(56)%
Net Operating Budget Funded Projects:	**$ 2,428,000**	**$ 5,771,501**	**$ 3,343,501**	**138%**

Table 3.4 Infrastructure Improvement Plan Projects Summary

Ref.	Project Name	Final FY 2015-16
Regulatory Requirement and/or Critical Need		
1	CDMWTP Sand Replacement in SDBs #2	$ 281,075
2	CDMWTP Low Flow Process Improvements	262,200
3	CDMWTP Chemical Tanks Safety Platform	230,000
4	San Antonio Well Rehabilitation Project	576,000
5	Berkeley Well Rehabilitation Project	1,042,132
6	Shirrell Well Rehabilitation Project	500,728
7	Oak Grove #2 Well Rehabilitation Project	500,728
8	Santa Barbara Corporation Well Rehabilitation Project	500,728
9	Goleta Sanitary RW Pump Replacement	63,890
10	Hollister Booster Station Pump Replacements	35,524
11	Patterson Emergency Pump Replacement	68,048
12	Edison Emergency Pump Replacement	52,448
13	Pump & Motor Replacements	39,230
14	Electrical Replacements	64,998
15	SCADA Replacements & Upgrades	49,100
16	Water Treatment Equipment Replacements	30,622
17	Emergency Main Replacements	202,410
18	City, County, Caltrans Relocation Required Projects	320,080
19	Polybutylene Service Replacements	80,150
20	Copper Service Line Replacements	64,116
21	Valve & Hydrant Replacements	391,996
22	PRV Replacements	39,766
23	Stormwater Headquarters Master Plan	108,300
Projects Vital to Sustain Infrastructure		
24	Small Meter Replacements	2,200,000
25	Upsizing of Mains	85,780
26	Cathodic Protection Upgrades	99,540
27	Fleet Replacements	85,500
28	Equipment Replacements	48,453
29	Information Technology Upgrades	72,960
Total Infrastructure Improvement Projects		**$ 8,096,501**
	COP-Funding in FY 2015-16	$ 2,325,000
	Operating-Funded Projects, FY 2015-16	**$ 5,771,501**

Summary of District Expenditure Forecast for FY 2015-16

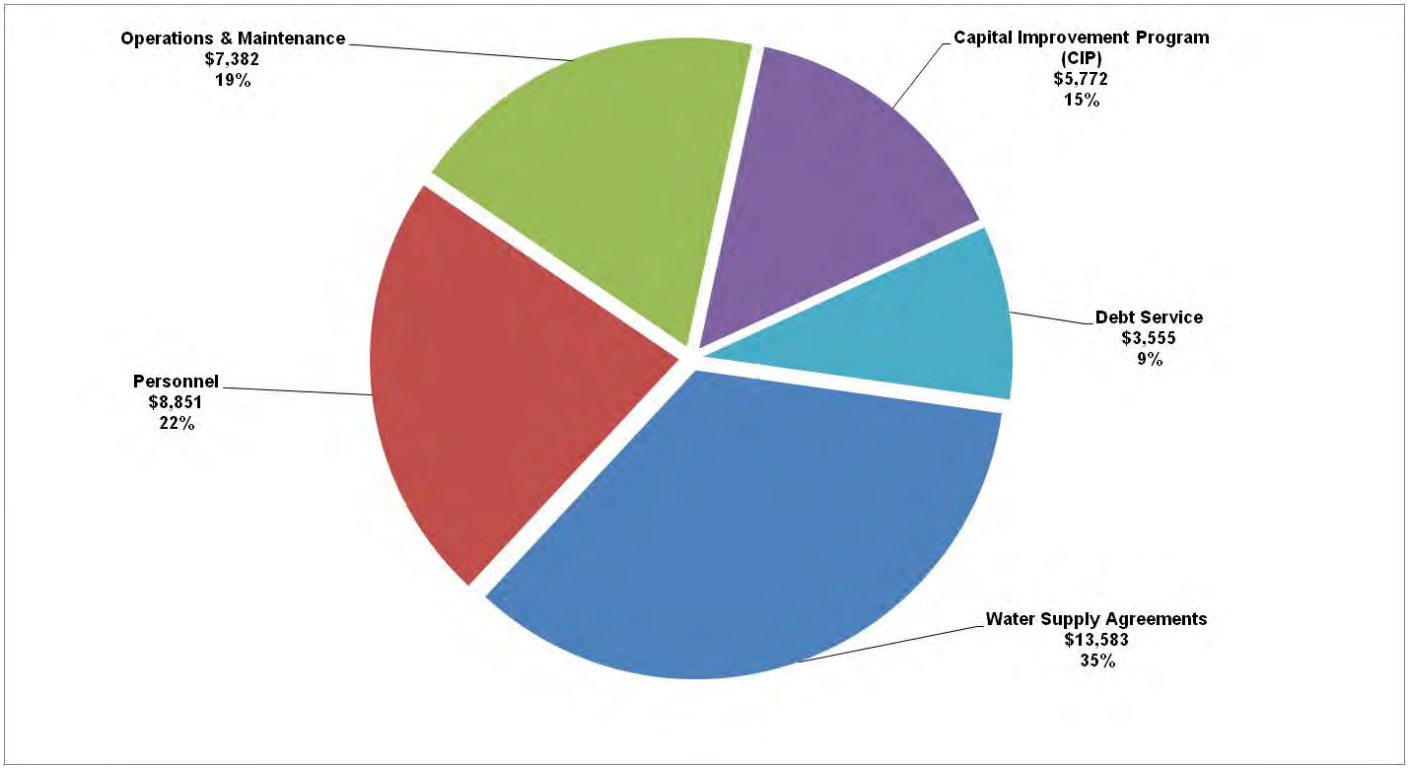
Table 3.5 and Figure 3.3 summarize FY 2015-16 total expenditures of $39.1M. A key component of the annual Budget is to prepare for cash flow variables throughout the year and pace program and project expenditures accordingly. FY 2015-16 expenditures have incorporated customer behaviors and the accompanying seasonality of revenue as described in Section II.

Table 3.5 FY 2015-16 Budget Expenditures Compared to FY 2014-15 Budget Expenditures

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 2,696,805	$ 2,547,335	$ 3,120,807	$ 424,002	16%
CCRB (Water Rights)	796,068	507,610	425,000	(371,068)	(47%)
SB County (Cloud Seeding)	30,086	47,311	40,000	9,914	33%
CCWA (State Water Deliveries)	7,718,875	7,696,384	9,320,757	1,601,882	21%
GSD (Recycled Water Production)	642,800	578,392	676,630	33,830	5%
Subtotal:	**$ 11,884,634**	**$ 11,377,032**	**$ 13,583,194**	**$ 1,698,560**	**14%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,221,848	$ 8,117,243	$ 8,462,071	$ 240,223	3%
Other Post Employment Benefits	404,980	395,542	389,346	(15,634)	(4%)
Subtotal:	**$ 8,626,828**	**$ 8,512,786**	**$ 8,851,417**	**$ 224,589**	**3%**
Operations & Maintenance:					
Water Treatment	$ 369,935	$ 407,996	$ 304,225	$ (65,710)	(18%)
Water Testing	229,781	166,744	198,649	(31,132)	(14%)
Insurance, Accounting, & Auditing	222,120	209,692	308,322	86,202	39%
Maintenance & Equipment	636,130	643,213	669,938	33,808	5%
Legal	290,004	320,884	1,012,400	722,396	249%
Services & Supplies	3,017,019	2,952,870	4,078,437	1,061,418	35%
Utilities	744,336	702,226	810,399	66,063	9%
Subtotal:	**$ 5,509,325**	**$ 5,403,624**	**$ 7,382,370**	**$ 1,873,045**	**34%**
Total Expenditures before Debt and CIP:	**$ 26,020,787**	**$ 25,293,442**	**$ 29,816,981**	**$ 3,796,194**	**15%**
Debt Service:	**3,561,589**	**3,561,589**	**3,555,163**	**(6,427)**	**(0%)**
Capital Improvement Projects (CIP):	**2,428,000**	**3,539,276**	**5,771,501**	**3,343,501**	**138%**
Total Expenditures:	**$ 32,010,376**	**$ 32,394,307**	**$ 39,143,644**	**$ 7,133,268**	**22%**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

Figure 3.3 FY 2015-16 Budgeted Expenditure Allocations ($000s)



The FY 2015-16 expenditures are $39.1M, an increase of $7.1M compared to FY 2014-15. The bulk of the increase is attributable to five main factors:

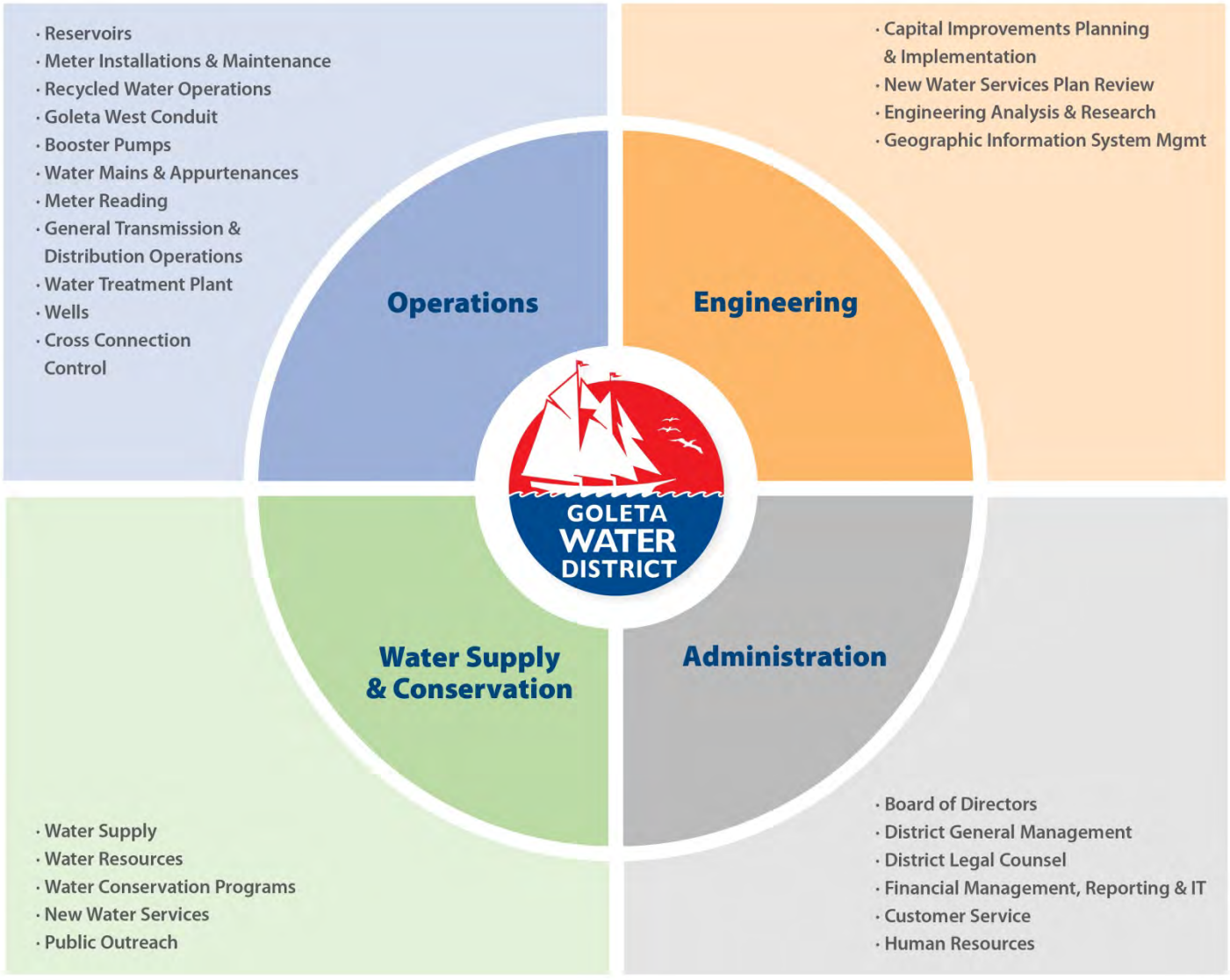
- CCWA - This year's CCWA budget includes back-billing from the Department of Water Resources to cover State Water Project expenses that were undercharged in past years.
- Other water supply agreement expenditures have also increased with the drought, such as costs associated with COMB and the Santa Barbara County cloud seeding program.
- Drought Planning and Response - Operations and maintenance costs associated with groundwater pumping contributed to an overall increase in expenditures.
- Capital Improvement Projects - The District will continue to use operating revenues as well as remaining proceeds realized from the refinancing of District debt in 2014 to fund critical capital improvement projects to access, manage, and distribute a changing water supply portfolio.
- Legal expenses associated with protecting the Goleta Groundwater Basin.

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 the Department heads are responsible for managing specific programs within Board-authorized appropriation levels. Detailed discussions of each departmental cost center budget are included in the balance of this section and summarized in Table 4.1 below.

Table 4.1 FY 2015-16 Budgeted Expenditures by Departmental Cost Center

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 7,657,931	$ 7,897,779	$ 8,826,850	$ 1,168,919	15%
Engineering	380,787	329,941	293,777	(87,010)	(23%)
Water Supply & Conservation	13,973,561	12,982,811	15,763,334	1,789,773	13%
General Administration	4,008,508	4,082,911	4,933,020	924,512	23%
Total Expenditures:	**$ 26,020,787**	**$ 25,293,442**	**$ 29,816,981**	**$ 3,796,194**	**15%**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

Total FY 2015-16 cost center expenditures will be $29.8M which is an increase of $3.8M, or 15 percent, from FY 2014-15, including:

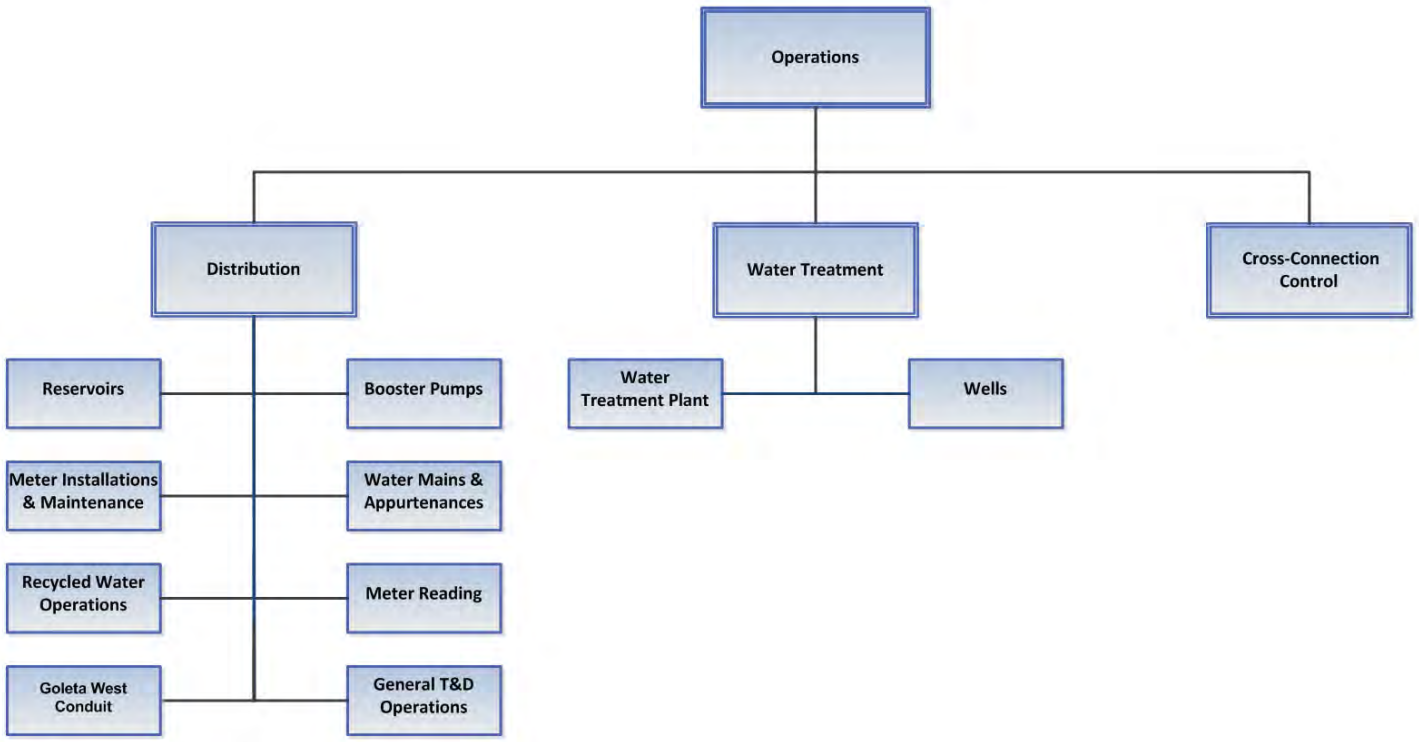
- A $1.2M increase in Operations primarily due to increased costs associated with the drought, including operations and maintenance for the District wells and distribution systems, and accelerated leak response times.
- An $87K decrease in Engineering costs as more staff resources are charged to District capital projects as well as developer driven projects.
- A $1.8M or 13% increase in Water Supply & Conservation expenditures due to increased costs associated with water supply agreements with CCWA and COMB. A significant portion of this increase is for underbilling associated with the State Water Project by the Department of Water Resources in previous years.
- A $924K increase in General Administration costs is the result of increased legal fees associated with protecting the Goleta Groundwater Basin, and increased insurance and auditing costs.

Operations Cost Center

The Operations Department is responsible for the operation, maintenance and improvement of three water systems and associated facilities: the Potable Water System, the Goleta West Conduit System and the Recycled Water System. Under normal water supply conditions, the District water systems typically treat and deliver approximately four billion gallons of water annually to more than 87,000 people living in the region. The specific functions of the Operations Department are organized under three distinct areas of responsibility: Distribution, Water Treatment and Cross-Connection Control, outlined in Figure 4.2.

Each year, over 200,000 meter readings are obtained 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. These systems consist of over 270 miles of water mains and appurtenances (i.e. valves, regulating stations and fire hydrants), reservoirs and booster pumping stations that control the flow and pressure required to maintain high quality, reliable 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 Operations team maintains customer meters, conducts monthly readings to ensure accurate and timely billing, provides regular and emergency service, and performs water service quality checks where necessary.

Distribution Operations priorities in FY 2015-16 include:

- Improvements to enhance reliability and expand capacity of the Districts groundwater wells. In order for groundwater to serve as the primary supply source in FY 2015-16, increased outside services and temporary staffing will bring 4 additional wells into operation, enhance capacity at a fifth well, and provide support for the existing 7 wells and the CDMWTP.
- Targeted investment in the District's distribution system, including emergency pumps, booster stations, and other improvements vital to minimizing service disruptions. The District distribution system was built with Lake Cachuma as the primary supply source, and utilizes gravity to move water down from the foothills. Delivering groundwater involves moving water across pressure zones to higher elevations, and creates pressure fluctuations in the system that need to be managed.
- Maintenance of distribution assets associated with recycled system, as recycled water supply becomes a more critical resource, supplanting 1,000 AF of potable water.
- Ongoing implementation of the valve replacement program to ensure the District is able to isolate portions of the system for required maintenance. This improvement program assists in minimizing interruptions to water service.
- Condition assessment and evaluation of the 42" transmission main to guard against the potential for leaks, and proactively manage the main to prevent a catastrophic loss of property and water.
- Continuing the condition assessment and evaluation of the storage reservoirs. Current plans call for the assessment of one reservoir per year.
- System wide leak detection survey to continue proactive monitoring of any water loss during the drought. An initial survey was conducted in FY 2014-15 year, and will be repeated annually.
- Storm water management upgrades to meet regulatory guidelines for enhanced control of runoff at the District Headquarters. This project is also included as part of the District's Sustainability Plan.
- Upgrades to the Cathodic Protection System to proactively manage and protect the steel mains from corrosion and extends their useful life. A third of the District's pipes are steel mains with many installed as part of the Lake Cachuma project in 1954.
- Completion of the sludge bed rehabilitation project at CDMWTP with the restoration of sand and improvements at sludge bed #2, as well as the refurbishment of both basins. This enhances water quality, keeps the plant in compliance and improves the natural drying process of the organic material for more cost effective disposal.

Each year, licensed District operators collect and test approximately 7,000 water quality samples from throughout the service area to ensure the highest possible water quality and safety. District potable water supplies meet all state and federal water quality regulatory requirements.

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 Corona Del Mar Water Treatment Plant, which treats water from Lake Cachuma, and treatment facilities at the various groundwater wells. The Goleta West Conduit system provides unfiltered Cachuma water for agricultural irrigation and receives chlorination treatment from two chlorination facilities. Recycled water is treated to meet regulatory standards and used for irrigation and restroom facilities.

Water Treatment priorities in FY 2015-16 are:

- Continued rehabilitation work on District wells to maximize groundwater pumping capacity. These projects build on work done the previous year, and serve to rebalance the supply portfolio and meet customer demand as groundwater becomes the primary supply source during the drought. Even as customers conserve water, the ability to fully utilize the groundwater basin is critical to meet demand, and ensure that public health and safety is maintained.
- Projects scheduled for FY 2015-16 will increase groundwater well production to approximately 6,065 AF, the highest amount of groundwater production since 1990. Groundwater supplies will replace water traditionally sourced from Lake Cachuma as only 3,950 AF of lake water is anticipated for FY 2015-16.
- Construction of needed low flow process improvements at CDMWTP to allow for efficient treatment at reduced flow rates associated with the drought, as well as the building of a safety platform for the chemical storage tanks to facilitate increased maintenance and testing to continue to meet regulatory requirements.

Cross-Connection Control

The Cross-Connection Control cost center ensures that cross-connections between the potable and recycled water systems do not occur, and a certified backflow tester conducts annual tests on all customer backflow devices. These devices are owned, operated and maintained by the customer; however, the District is responsible for maintaining current records of annual test results. District staff conducts annual physical inspections as well as periodic inspections of customer plumbing systems to ensure that the potable and recycled water systems remain separate.

Cross-Connection Control priorities in FY 2015-16 include:

- Continue a proactive customer outreach campaign to minimize the number of delayed backflow device test results submitted by customers.
- Increase on-site inspections of testing contractors to ensure industry compliance.

- Continue aggressive on-site inspections of construction sites to reduce potential cross-connection hazards.

Operations Accomplishments FY 2014-15

During FY 2014-15, Operations completed a number of projects and priorities to enhance water supply, improve water treatment, and increase energy and operational efficiency, including:

- Rehabilitation of seven wells with various improvements (i.e. Anita pipeline, San Ricardo well liner, new pumps, motors, column piping, rebuilt filters) greatly increasing the District's well capacity to 6.0 MGD or 18 AF per day.
- Goleta Sanitary District Recycled Pump Station pumps were re-designed and replaced increasing the reliability of the recycled system.
- The Van Horne Turbine Generator was placed into continuous operation, and is producing power on a daily basis.
- The installation of a baffle (separation) wall in the Backwash Basin at CDMWTP.
- Sludge Basin #1 was rebuilt with minor piping changes and restored the sand media depth back to the original design.
- All 2" and larger customer meters were replaced with ultrasonic meters and digital registers that record water use electronically, even at low-flow, preventing water loss.
- Enhanced water loss control with a Leak Detection survey conducted on the entire distribution system, and the initiation of sub-meter installation in the Distribution system to monitor water production by sub-areas
- Three main line creek crossings were completed with the replacement of the water mains either placing the new pipe inside the bridge or under the new bridge (San Antonio, San Jose, Calle Real) across the creek.
- Improvements to the District's Supervisory Control and Data Acquisition (SCADA) system were completed at six locations including three pump stations and three interconnections to improve system monitoring and control capacity.
- The District's Geographic Information System (GIS) was replaced.

FY 2015-16 Operations Cost Center Budget

In response to ongoing drought conditions, the District plans to maximize groundwater use within the parameters set by the Wright Judgment and the SAFE Ordinance. Current groundwater well capacity projects will allow the District to produce approximately 6,065 AF of groundwater in FY 2015-16 to meet customer demands.

Table 4.2 details the primary Operations expenditure categories and describes variances between FY 2014-15 Budget and FY 2015-16 budgeted expenditures.

Table 4.2 FY 2015-16 Operations Cost Center Budget Summary

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Operations					
Personnel:	**$ 4,452,048**	**$ 4,385,452**	**$ 4,775,923**	**$ 323,875**	**7%**
Operations & Maintenance:					
Water Treatment	369,935	407,996	304,225	(65,710)	(18%)
Water Testing	229,781	166,744	198,649	(31,132)	(14%)
Insurance, Accounting, & Auditing	105,852	39,791	107,969	2,117	2%
Maintenance & Equipment	635,434	642,865	669,938	34,504	5%
Services & Supplies	1,120,545	673,649	1,959,746	839,201	75%
Utilities	744,336	698,364	810,399	66,063	9%
Subtotal:	3,205,883	2,629,409	4,050,927	845,044	26%
Total Expenditures:	**$ 7,657,931**	**$ 7,014,861**	**$ 8,826,850**	**$ 1,168,919**	**15%**

** Compares FY 2015-16 Final Budget to FY 2014-15 Adopted Budget*

The Operations budget will increase in FY 2015-16 by 15 percent, or $1.17M. Notable changes from FY 2014-15 Operations Budget to the FY 2015-16 Budget include:

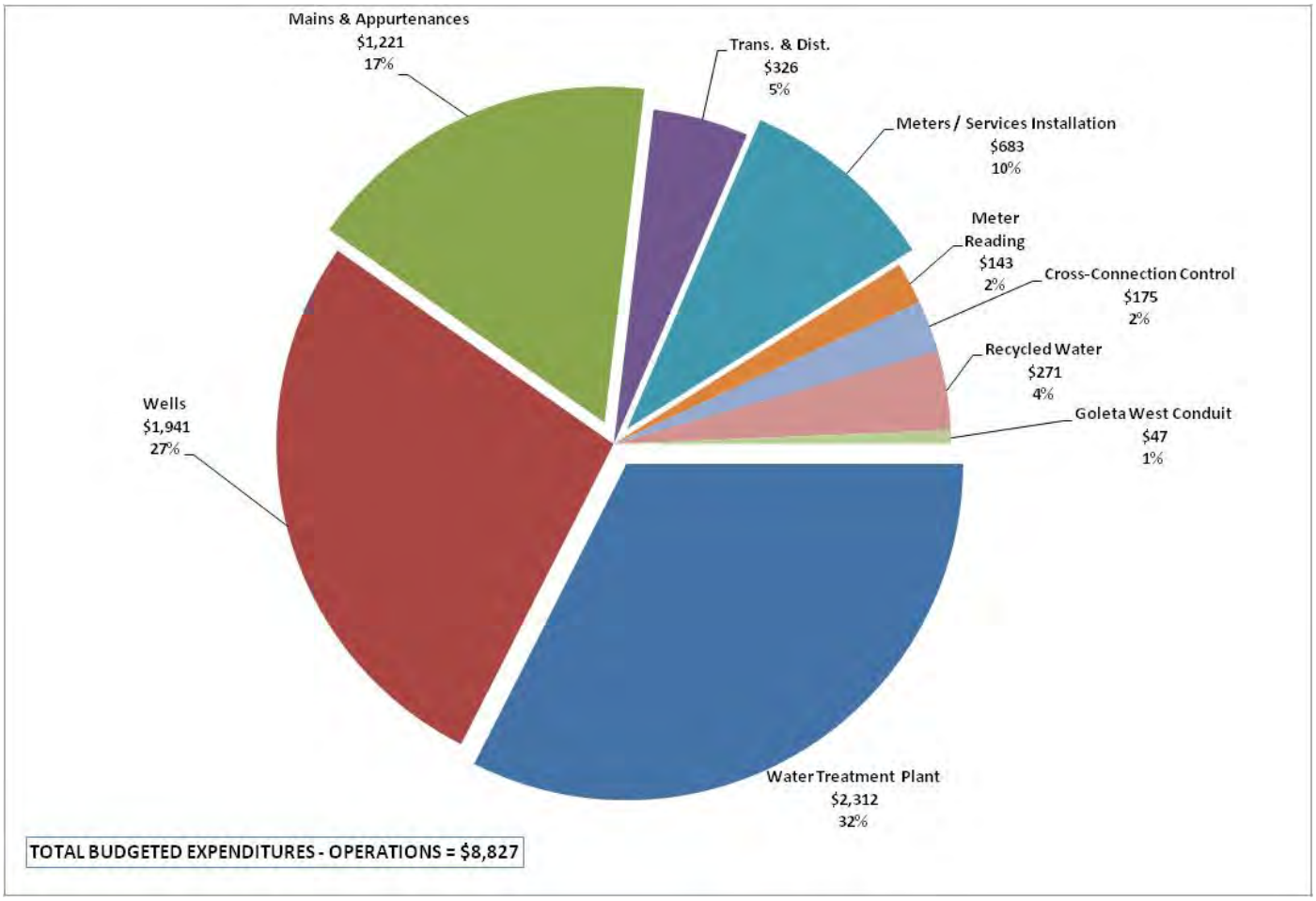
- Operations personnel costs will increase 7% in FY 2015-16 due to drought related costs associated with the well operations, and the more aggressive response to leaks.
- Water Treatment costs will decrease by $66K due to the decreased anount of surface water treated at CDMWTP.
- Services and Supplies includes costs to fund well rehabilitations, groundwater modeling work, overal hydraulic flow characteristics in the system, and other drought-related expenditures. These projects and the review of the 42" transmission main's structural integrity to pinpoint any weaknesses in the pipe to prevent sudden loss during the drought account for the increase of $839K year-over-year.
- Utility costs will rise by $66K compared to FY 2014-15 as the result of increased groundwater well operations in response to the drought, including the use of booster stations to pump water to higher elevations, and to balance supplies throughout the District's19 pressure zones.

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

Table 4.3 FY 2015-16 Operations Budgeted Expenditures by Programmatic Cost Center

Description	Water Treatment Plant	Wells	Mains & Appurtenances	Trans. & Dist.	Meters / Services Installation	Meter Reading	Cross-Connection Control	Recycled Water	Goleta West Conduit	Booster Pumps	Reservoirs	Total Operations
Water Treatment	$ 153,288	$ 106,411	$ -	$ -	$ -	$ -	$ -	$ -	$ 44,251	$ -	$ 275	$ 304,225
Water Testing	158,751	37,916	-	-	-	-	-	-	1,983	-	-	198,649
Personnel - Wages	1,047,372	291,743	632,478	355,590	105,379	429,127	72,307	76,149	34,048	53,183	9,321	3,106,696
Personnel - Benefits	418,891	109,249	296,702	156,462	54,180	207,289	32,778	34,214	12,248	24,983	3,355	1,350,351
Personnel - Taxes & W.C.	108,159	30,871	70,846	34,830	11,360	35,555	8,694	7,943	3,597	5,979	1,042	318,876
Insurance, Accounting, & Auditing	-	-	-	107,969	-	-	-	-	-	-	-	107,969
Maintenance & Equipment	97,107	23,022	253,323	106,953	139,989	2,118	22,701	3,905	3,501	13,868	3,452	669,938
Services & Supplies	300,265	797,825	332,734	416,680	15,239	8,996	6,340	29,519	12,153	16,918	23,077	1,959,746
Utilities	27,967	543,763	5,067	42,742	-	-	-	23,746	4,774	155,920	6,420	810,399
Total:	**$2,311,799**	**$1,940,800**	**$ 1,591,150**	**$1,221,225**	**$ 326,147**	**$683,086**	**$ 142,819**	**$175,475**	**$116,554**	**$ 270,852**	**$ 46,943**	**$ 8,826,850**

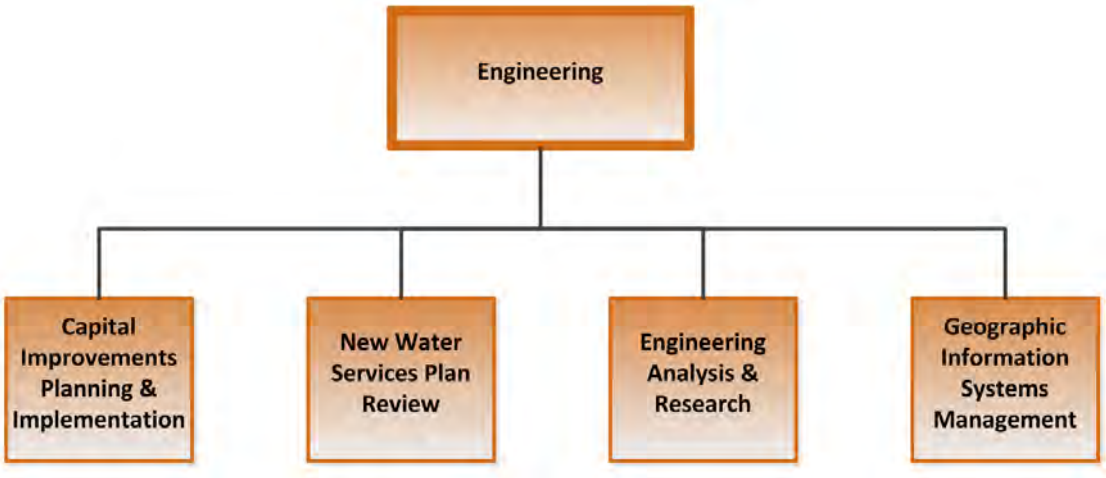
Figure 4.3 FY 2015-16 Operations Budgeted Expenditures by Programmatic Cost Center ($000s)



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 as well as water supply needs of the community. Figure 4.4 below illustrates the specific programmatic cost centers within Engineering. A majority of expenditures associated with the engineering function are recovered through the capital budget, or reimbursed through developer and related fees and charges.

Figure 4.4 Engineering Programmatic Functions



Capital Improvements Planning & Implementation

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

FY 2015-16 represents a critical year for investment in the District's well program. Engineering will handle five well rehabilitation projects, and upgrades to the distribution system that are necessary to deliver the groundwater customers will rely on.

During FY 2015-16, capital projects will focus critical investment in the District's well program as groundwater becomes the primary source of water for customers during the drought. Four rehabilitation projects are planned to bring Berkeley, Shirrell, Oak Grove #2, and the Santa Barbara Corporation wells back online. A well enhancement project to increase groundwater extraction capacity is planned for the San Antonio well. Pumps at the Patterson and Edison emergency pump stations will also be replaced to ensure well water can be reliably delivered to 40% of the system at higher elevations. Additional investments are needed to meet regulatory requirements and address critical system needs. Projects at the Corona Del Mar Water Treatment Plant include the construction of Sludge Drying Bed #2,

low flow process improvements to facilitate water treatment during the drought, and construction of a safety platform to improve access to the chemical storage tanks for maintenance.

New Water Services Plan Review

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

Engineering Analysis and Research

Ongoing efforts to utilize staff expertise and experience rather than outside consultants for engineering projects have reduced costs.

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, as well as value-engineering techniques to ensure the least-cost methods and materials are used to bring efficient water services to all customers, while meeting regulatory standards and operational goals of the District. In FY 2015-16, engineering analysis and research efforts will continue 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.

Geographic Information Systems Management

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

A state-of-the-art hydraulic model of the distribution system is linked with GIS. This model provides valuable information related to water flow, system capacity and impacts of changes to the system and is used to inform operational decisions for long-term planning. The model also enables the District to ensure that adequate fire flows and pressures are maintained during peak customer demand periods.

Engineering Accomplishments FY 2014-15

Key Engineering FY 2014-15 projects included:

- Completion of the Anita well to San Ricardo well pipeline connection to centralize water treatment and maximize distribution efficiency.
- Start-up of the hydroelectric turbine generator at the Van Horne Reservoir to capture energy produced by the unused pressure in the distribution system and offset District energy costs.

- Replacement of a section of water main under the San Jose Creek, associated with the channelization project, at City of Goleta's expense.
- Initiated the replacement of a water main associated with the San Antonio Creek Bridge replacement project, with the expense covered by Santa Barbara County.
- Completion of a comprehensive Design Process Review at the CDMWTP.
- Replacement of the carbon and sand in the filters at CDMWTP.
- Design and procurement of a baffle wall in the backwash basin at CDMWTP.
- Development of a treatment process and pipeline project to bring Anita well into full-time production.
- Initiated prior rights discussions with the City of Goleta regarding the Ekwill Road and Fowler Road Extension Project.
- Conducted numerous staff analyses, plan checks and inspections on private development projects.

FY 2015-16 Engineering Budget

Table 4.4 outlines Engineering expenditures and describes variances between FY 2014-15 Budget and FY 2015-16 budgeted expenditures.

Table 4.4 FY 2015-16 Engineering Cost Center Budget Summary

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Engineering					
Personnel:	**$ 340,371**	**$ 288,218**	**$ 211,563**	**$ (128,808)**	**(38%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	12,384	4,128	12,384	-	-
Maintenance & Equipment	-		-	-	-
Services & Supplies	28,032	37,595	69,830	41,798	149%
Subtotal:	40,416	41,723	82,214	41,798	103%
Total Expenditures:	**$ 380,787**	**$ 329,941**	**$ 293,777**	**$ (87,010)**	**(23%)**

** Compares FY 2015-16 Final Budget to FY 2014-15 Adopted Budget*

Engineering expenses will decrease by $87,010, or 23 percent, in FY 2015-16. Notable changes from the FY 2014-15 Budget to the FY 2015-16 Budget include:

- Engineering staff levels will remain constant in FY 2014-15; however, Personnel costs will decrease by $128,808, or 38 percent. This is primarily a result of greater capitalization of staff time, and staff time increasingly being allocated to reimbursable projects, drawing from the operating budget.

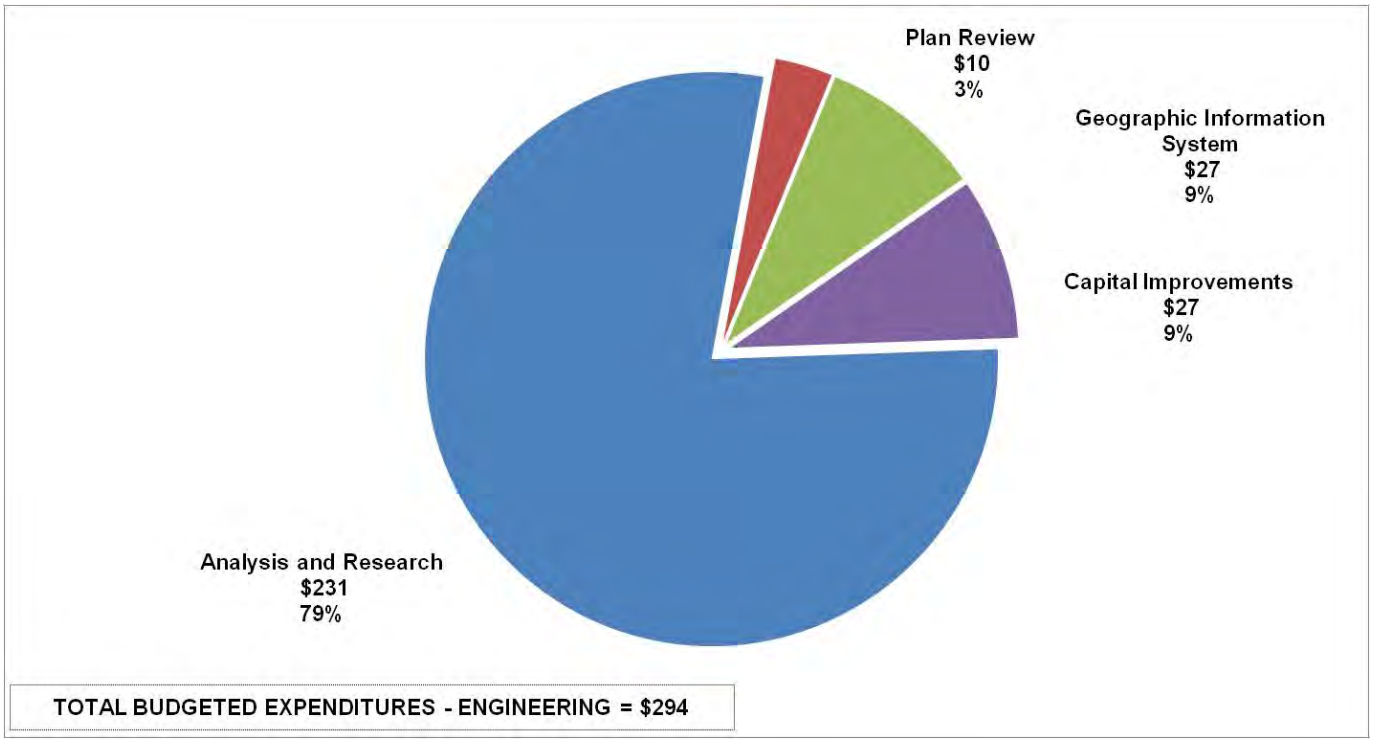
- Services & Supplies costs will increase by $42K due to a number of significant software updates including for the District's GIS system, hydraulic modeling, and AutoCAD, as well as training for some of the new programs.
- Maintenance and Equipment costs will remain flat at zero as no office equipment purchases are planned in FY 2015-16.

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

Table 4.5 FY 2015-16 Engineering Budgeted Expenditures by Programmatic Cost Center

Description	Analysis and Research	Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 132,409	$ 2,670	$ 12	$ 15,973	$ 151,064
Personnel - Benefits	45,805	577	6	3,443	49,831
Personnel - Taxes & W.C.	9,100	224	1	1,342	10,668
Insurance, Accounting, & Auditing	12,384	-	-	-	12,384
Maintenance & Equipment	-	-	-	-	-
Services & Supplies	30,813	6,105	26,912	6,000	69,830
Total:	**$ 230,511**	**$ 9,577**	**$ 26,931**	**$ 26,759**	**$ 293,777**

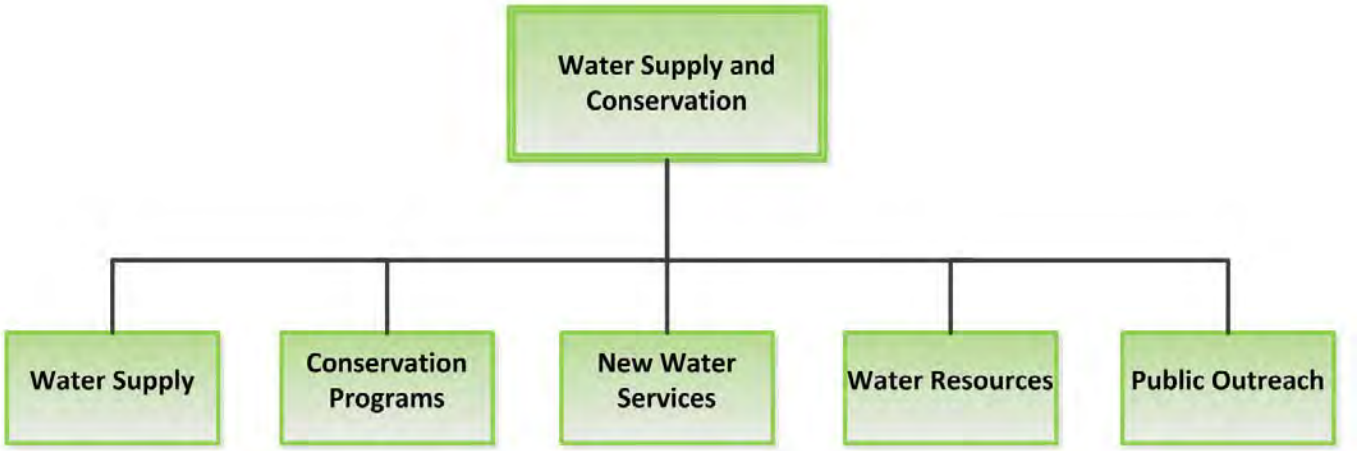
Figure 4.5 FY 2015-16 Engineering Budgeted Expenditures by Programmatic Cost Center ($000s)



Water Supply & Conservation Cost Center

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

Figure 4.6 Water Supply and Conservation Programmatic Functions



Conservation Programs

Conservation and efficient water use helps preserve and extend water supplies for all District customers. As a long-time leader in conservation practices and a signatory to the CUWCC and the 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 exceptional drought conditions, expanded FY 2015-16 conservation program elements will continue to be offered to targeted customer classes to further reduce outdoor and indoor water use. Ongoing drought response conservation efforts will also support ongoing District efforts to meet State-mandated conservation targets.

Let's Save Together
waterwise
Goleta Water District

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 Division 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 SAFE Water Supplies Ordinance, District Code and regulations, water supply agreements, and state and federal laws and regulations. FY 2015-16 priorities include continued work with CCRB and other regional partners to protect surface water rights; ongoing implementation and reporting related to the Sustainability Plan; an update of the Groundwater Management Plan and Water Supply Management Plan; an update of the Urban Water Management Plan; investigation of water supply development and drought supply augmentation; and research, policy development and contingency planning related to potential water shortage stage declarations in drought conditions.

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

The Water Resources cost center includes a grants management function and is responsible for seeking out and applying for new grant opportunities. During FY 2014-15, grant activities focused on collaborating with CRCD to implement the Water Use Efficiency grant secured through the state, and seeking and applying for drought-relief funding approved by the Governor to fund water supply reliability projects identified in the IIP. During FY 2015-16, grant activities will be focused on securing grant funding for additional Smart Landscape Rebate Program funding through DWR, securing water-energy efficiency grant funding for pump upgrades from the US Bureau of Reclamation, and securing additional recycled water feasibility study and capital improvements funding from the State Water Resources Control Board.

Public Outreach

The Public Outreach program includes all District communications, media relations, press releases, special outreach initiatives, newsletters, and oversight of the website and internet presence. The Public Outreach cost center ensures customers are equipped with reliable, timely, and objective information, enabling a clear understanding of District issues and activities. FY 2015-16 public outreach will focus on drought and water shortage customer outreach and will continue to identify and utilize innovative and effective communication methods to engage with and understand the District customer base, ensuring District services align with customer needs and values.

Water Supply and Conservation Accomplishments FY 2014-15

Key WS&C accomplishments during FY 2014-15, include:

- Development and implemention of Board-adopted District Code modifications in response to the ongoing drought, including water use restrictions related to District water shortage stages II-V, and adoption of a Stage II Water Shortage Emergency by the Board in September of 2014.

- Development and implementation of a detailed Drought Outreach Plan related to the Stage II Water Shortage Emergency declaration, including giving 20 presentations to community groups and organizations regarding the drought, developing and distributing over 1750 water shortage-related signs to 5 local gyms, 40 restaurants, and 24 recycled water irrigation customers, and making extensive and ongoing improvements to the District website to address current water supply situation and related restrictions.
- Implementation of Board-adopted Stage II water use restrictions, including processing 91 applications for exemptions to water use restrictions, issuing 57 written warnings and notices of violation, responding to 275 public complaints of water waste, violations, and leaks, and investigating 5 reports of water theft.
- Implementing statewide emergency regulations for water conservation mandated by the State Water Resources Control Board that became effective in July 2014, and submitting monthly water production and customer demand data to the State.
- Development and submittal of two applications for Federal and State grant funding for District IIP projects and drought-related water conservation programs.
- Connecting with more than 1650 customers at conservation outreach events and 450 students via school presentations during FY 2014-15 to educate the community on the drought, local and statewide water use restrictions, and ways to eliminate water waste and conserve water,
- Implementation of revised temporary water meter program rules and regulations during a drought emergency.
- Developed and implemented new water service application processes in response to the Board's Resolution 2014-32, directing a temporary prohibition on new water service allocations.
- Implementation of the Smart Landscape Rebate Program, including over 150 applicant site visits for rebate qualification.
- Development and implementation of the Water Saving Incentive Program to offer rebates for water-saving projects on larger landscapes and landscape irrigation accounts.

- Development and implementation of the Water Budget and Survey Program to offer customers individual water budgets and surveys with irrigation improvement recommendations.
- Development of a Recycled Water Hauling Program to offer customers delivery of recycled water from GSD to qualifying properties.
- Participation in the County of Santa Barbara's Long Range Water Supply Alternatives Study to identify opportunities for regional collaboration and solutions to meet water supply challenges.

FY 2015-16 Water Supply and Conservation Budget

Table 4.6 details the primary FY 2015-16 WS&C budgeted expenditures and variances from the FY 2014-15 Budget.

Table 4.6 FY 2015-16 Water Supply and Conservation Cost Center Budget Summary

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - WS&C					
Water Supply Agreements:					
COMB (Lake Cachume Deliveries)	$ 2,696,805	$ 2,547,335	$ 3,120,807	$ 424,002	16%
CCRB (Water Rights)	796,068	507,610	425,000	(371,068)	(47%)
SB County (Cload Seeding)	30,086	47,311	40,000	9,914	33%
CCWA (State Water Deliveries)	7,718,875	7,696,384	9,320,757	1,601,882	21%
GSD (Recycled Water Production)	642,800	578,392	676,630	33,830	5%
Subtotal:	**11,884,634**	**11,377,032**	**13,583,194**	**1,698,560**	**14%**
Personnel:	**1,143,132**	**1,065,583**	**1,157,150**	**14,018**	**1%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	20,244	7,268	18,684	(1,560)	(8%)
Maintenance & Equipment	696	348	-	(696)	(100%)
Services & Supplies	924,855	532,580	1,004,306	79,451	9%
Subtotal:	**945,795**	**540,196**	**1,022,990**	**77,195**	**8%**
Total Expenditures:	**$ 13,973,561**	**$ 12,982,811**	**$ 15,763,334**	**$ 1,789,773**	**13%**

** Compares FY 2015-16 Final Budget to FY 2014-15 Adopted Budget*

The WS&C cost center Budget will increase by $1.8M, or 13 percent, in FY 2015-16. Notable changes from the FY 2014-15 Budget to FY 2015-16 Budget include:

- Overall costs associated with Water Supply Agreements have increased by about $1.7M as a result of the drought and a billing adjustment by the Department of Water Resources through CCWA for underbilling in previous years. Additionally, COMB costs have increased by $424K to cover delivery and infrastructure investment. Costs associated with CCRB declined by $371K.

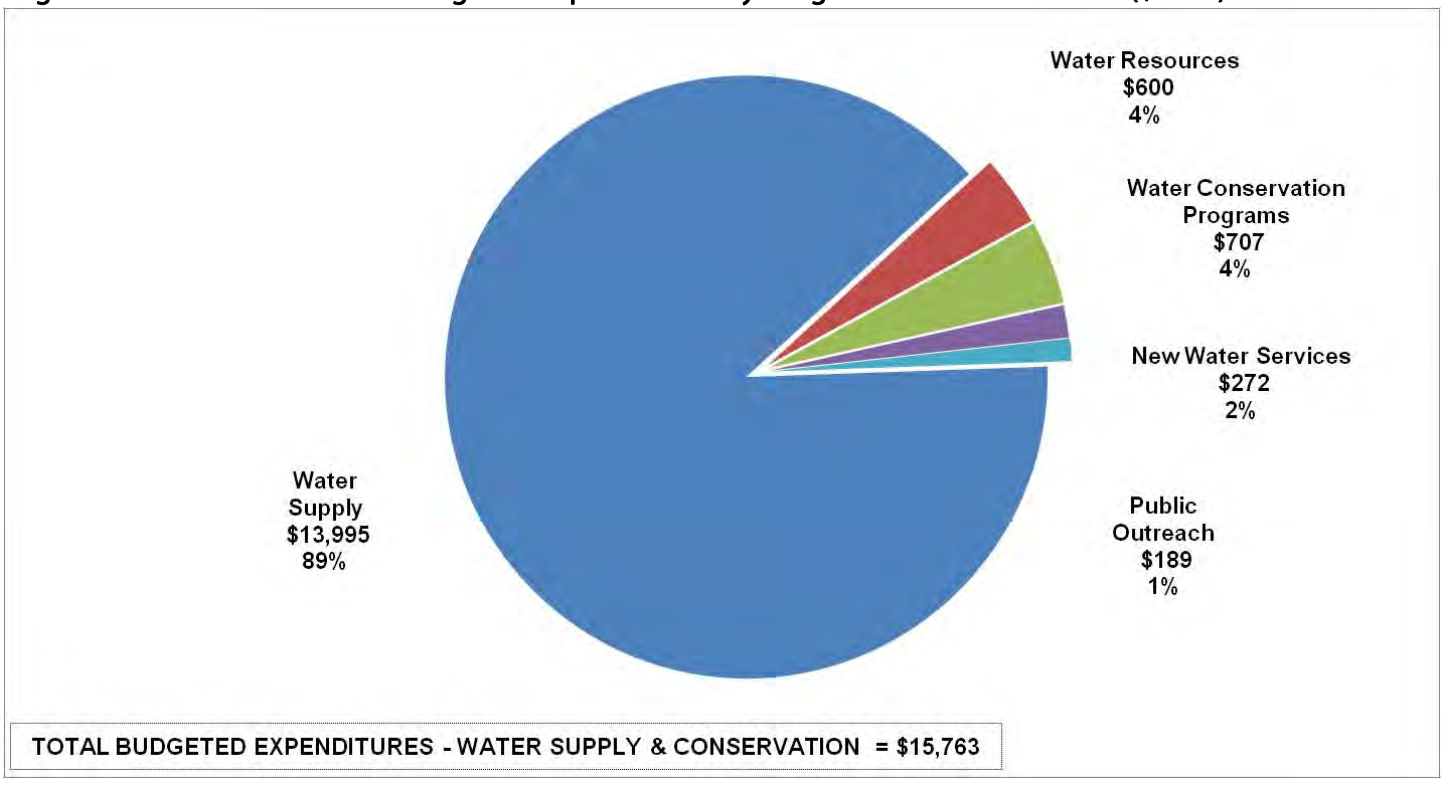
- In FY 2015-16, the District will continue implementing the Drought Outreach Plan that includes an extensive public outreach campaign to increase community awareness of the water supply shortage and importance of water use efficiency. Augmented water conservation programs, including smart landscape rebates and incentives for efficient fixture retrofits and agriculture irrigation upgrades, will continue to be implemented to assist the community in reducing water use and extending water supplies during the drought.

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

Table 4.7 FY 2015-16 WS&C Budgeted Expenditures by Programmatic Cost Center

Description	Water Supply	Water Resources	Water Conservation Programs	New Water Services	Public Outreach	Total WS&C
COMB (Lake Cachume Deliveries)	$ 3,120,807	$ -	$ -	$ -	$ -	$ 3,120,807
CCRB (Water Rights)	425,000	-	-	-	-	425,000
SB County (Cload Seeding)	40,000	-	-	-	-	40,000
CCWA (State Water Deliveries)	9,320,757	-	-	-	-	9,320,757
GSD (Recycled Water Production)	676,630	-	-	-	-	676,630
Personnel - Wages	301,026	162,267	156,375	185,341	-	805,008
Personnel - Benefits	88,515	62,810	74,287	63,878	-	289,491
Personnel - Taxes & W.C.	22,016	12,718	12,948	14,969	-	62,651
Insurance, Accounting, & Auditing	-	18,684	-	-	-	18,684
Maintenance & Equipment	-	-	-	-	-	-
Services & Supplies	-	343,274	463,768	8,078	189,185	1,004,306
Total:	**$ 13,994,751**	**$ 599,753**	**$ 707,378**	**$ 272,267**	**$ 189,185**	**$ 15,763,334**

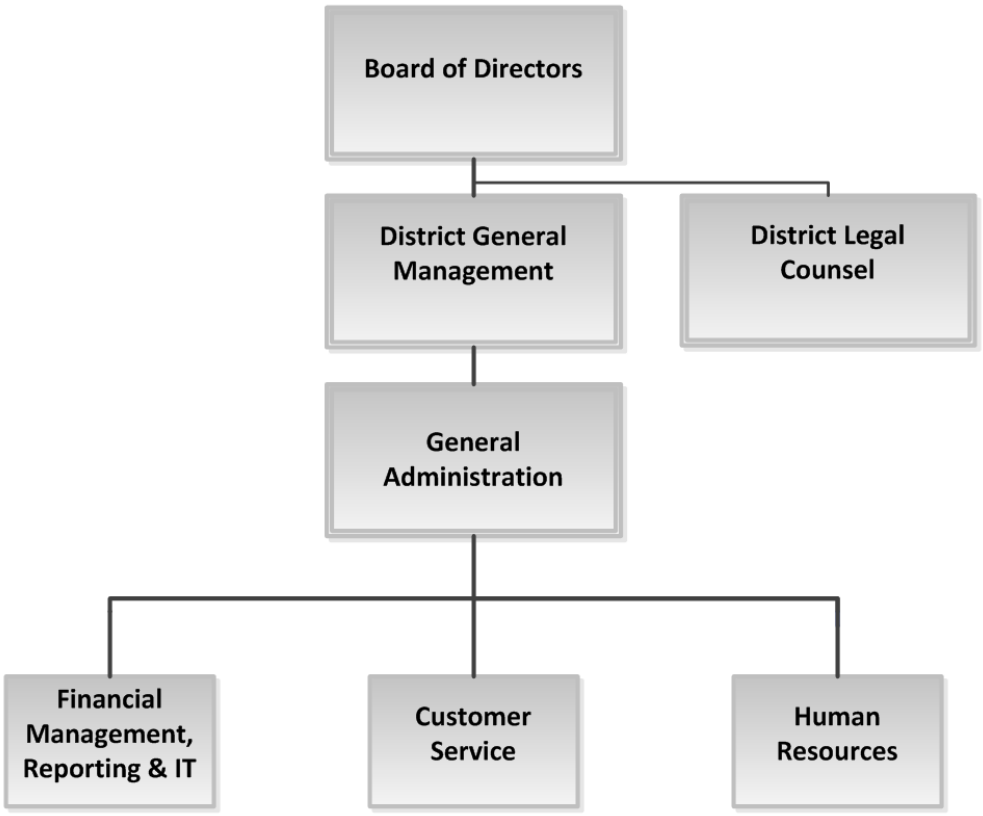
Figure 4.7 FY 2015-16 WS&C Budgeted Expenditures by Programmatic Cost Center ($000s)



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, Customer Service, and Human Resources, as outlined in Figure 4.8.

Figure 4.8 General Administration Programmatic Functions



Financial Management, Reporting, & Information Technology

The Finanicial 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 2015-16, the District will update its budgeting process to better align with the recently completed 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.

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 16,800 customer connections. In FY 2015-16, 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, 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 2014-15

The General Administration cost center completed several key projects during FY 2014-15 including:

- Completing a Cost of Service Study that establishes a strong financial foundation for the District over the next five years. Through the proposed rates, during the next five years the District will fund capital on a pay-as-you-go basis, fund operating expenses, meet debt coverage requirements, and comply with the reserve policy. The proposed drought surcharges ensure continued delivery of safe, reliable water adequate to meet health and safety needs. All of this is achieved while reducing base rates for a majority of customers in 2015-16 and limiting future rate increases to 3% in FY 2016-17, and 4% annually thereafter.
- Negotiating a three-year extension to the labor contract with SEIU that phases-in full employee participation in pension contributions and revises post-employment health care benefits for new hires. These changes are expected to provide significant long-term savings to the District.
- Establishment of a data warehouse to link critical District technology systems related to billing, customer information and workflow, and location-based services.
- Completion of the annual audit of the District Comprehensive Annual Financial Report, achieving a "clean" audit opinion from the District's external auditor.

FY 2015-16 General Administration Budget

Table 4.8 illustrates General Administration expenditure categories and describes variances between FY 2014-15 Budget and FY 2015-16 budgeted expenditures.

Table 4.8 FY 2015-16 General Administration Cost Center Budget Summary

Category	Adopted Budget FY 2014-15	Estimated Actual FY 2014-15	Draft Budget FY 2015-16	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - General Admin.					
Personnel:	**$ 2,286,297**	**$ 2,370,056**	**$ 2,317,486**	**$ 31,189**	**1%**
Other Post Employment Benefits:	**404,980**	**395,542**	**389,346**	**(15,634)**	**(4%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	83,640	162,633	169,285	85,645	102%
Legal	290,004	320,884	1,012,400	722,396	249%
Services & Supplies	943,587	833,796	1,044,503	100,916	11%
Subtotal:	**1,317,231**	**1,317,313**	**2,226,188**	**908,957**	**69%**
Total Expenditures:	**$ 4,008,508**	**$ 4,082,911**	**$ 4,933,020**	**$ 924,512**	**23%**

** Compares FY 2015-16 Draft Budget to FY 2014-15 Adopted Budget*

The General Administration Budget will increase by $924K, or 23 percent in FY 2015-16. Notable General Administration changes from FY 2014-15 to FY 2015-16 Budget include:

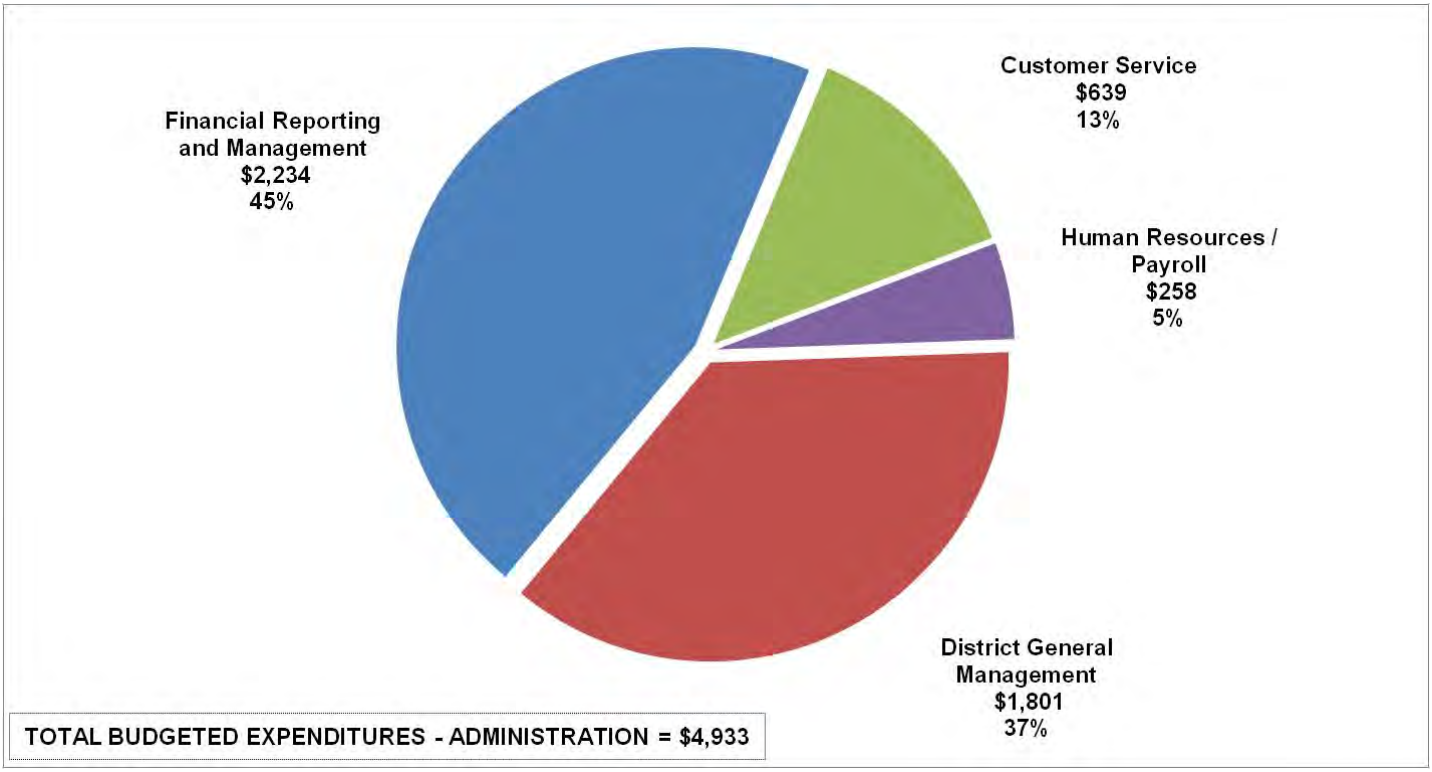
- Personnel costs will increase by $31K to fulfill standard contractual obligations.
- District-wide OPEB costs will decrease by $16K (4%) resulting from changes in the retiree pool.
- Insurance, Accounting, & Auditing costs will increase by $86K (102%) due to an increase in property and liability insurance rates and increased auditor fees and auditing costs.
- Budgeted Legal fees, including general and special counsel, will increase by $722K (249%). The increase is due to ongoing litigation costs associated with protecting District water rights.

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

Table 4.9 FY 2015-16 General Administration Budgeted Expenditures by Programmatic Cost Center

Description	District General Management	Reporting and Management	Customer Service	Human Resources / Payroll	Total Administration
Personnel - Wages	$ 390,109	$ 938,477	$ 113,463	$ 139,625	$ 1,581,674
Personnel - Benefits	168,125	341,418	45,553	60,645	615,740
Personnel - Taxes & W.C.	26,184	73,731	8,986	11,171	120,071
Personnel - Post Retirem. Med.	-	389,346	-	-	389,346
Insurance, Accounting, & Auditing	35,000	134,285	-	-	169,285
Legal	992,396	-	-	20,004	1,012,400
Services & Supplies	189,566	357,231	471,046	26,659	1,044,503
Total:	**$ 1,801,380**	**$ 2,234,487**	**$ 639,048**	**$ 258,105**	**$ 4,933,020**

Figure 4.9 FY 2015-16 General Administration Budgeted Expenditures by Programmatic Cost Center ($000s)

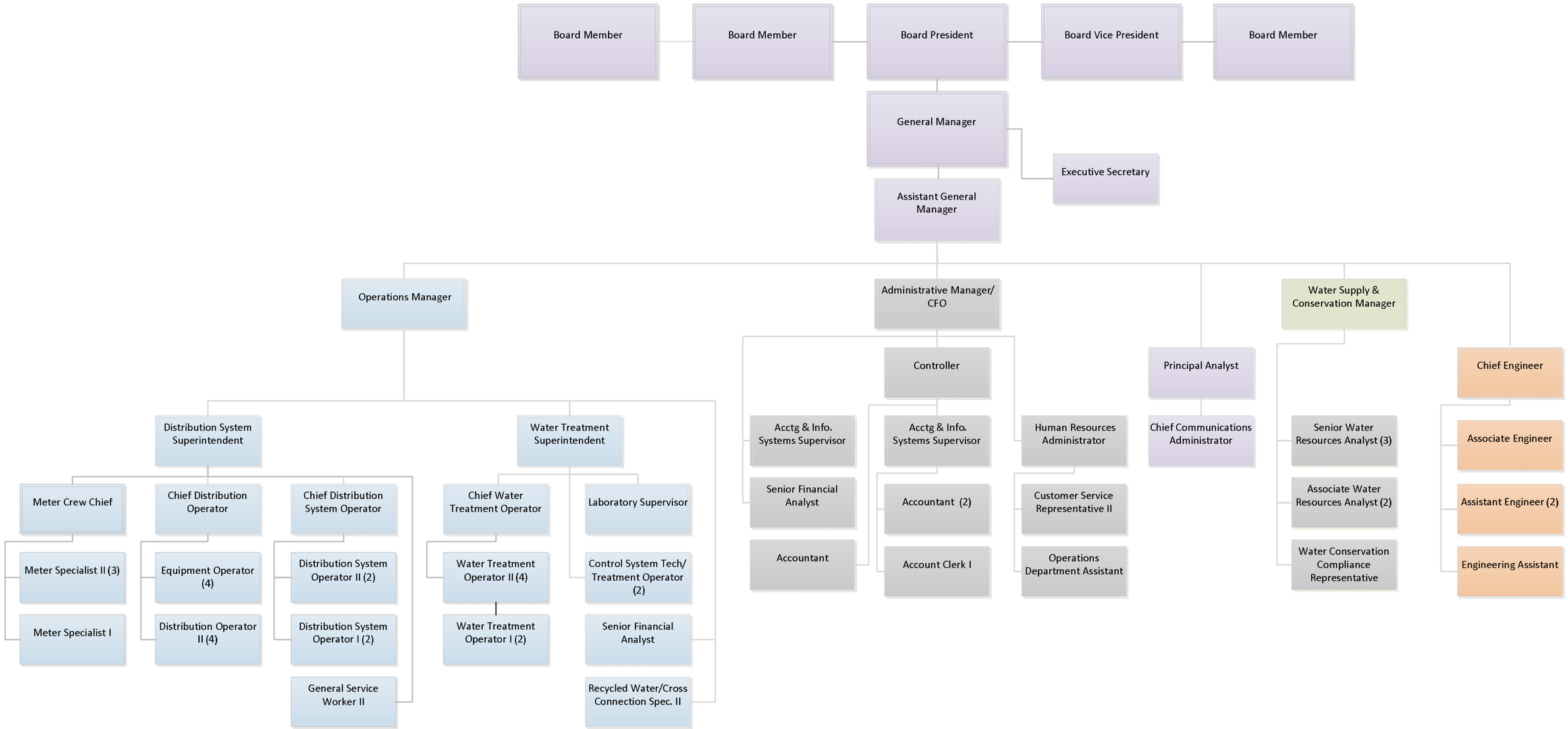


District Organization

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

Figure 4.10 Organizational Chart by Department and Position

Figure 4.10 Organizational Chart by Department and Position



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GOLETA WATER DISTRICT

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