GOLETA WATER DISTRICT

GOLETA, CALIFORNIA

Fiscal Year 2014–15

FINAL BUDGET

GOLETA WATER DISTRICT

Mission

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

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

GOLETA WATER DISTRICT

Board of Directors

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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
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 an administrative staff.

The District delivers water to its customers through a complex treatment and distribution system that includes over 270 miles of pipeline, six 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 robust water conservation program to extend available supplies in a cost-effective and sustainable manner. The ability to draw from a variety of water supply sources insulates customers from supply and financial volatility associated with drought conditions, natural disasters and changing state and federal regulatory requirements.

Ongoing drought conditions will affect District supply availability in FY 2014-15 as the District implements water management strategies to ensure reliable supplies for customers. If current drought conditions persist, available water sources are anticipated to include:

- 5,691 AFY of local surface water from Lake Cachuma
- 4,590 AFY of groundwater from the Goleta Basin
- 1,589 AFY of imported water from the California SWP
- 950 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 year 2012 was a relatively dry year, with the Goleta area seeing ten inches of rain. 2013 brought the third consecutive year of dry weather, with rainfall totals a mere five inches of rain, one of the driest years on record.

Given continued minimal rainfall and 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%. The

diversity of the District water supply portfolio provides a critical advantage in responding to the current drought and enabling continued service to customers. As a result, the District anticipates increasing the use of groundwater and State Water to the extent practicable through the current dry period. Such 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). Actual water availability varies from year to year based on weather, exchange agreements, availability of Cachuma carry-over water, spill water and State Water. Annual water sales around Fiscal Year (FY) 2008-09 averaged approximately 14,000 AFY. Since that time, the District experienced a downward trend in water sales, largely due to effective conservation and efficiency programs and regional economic factors. That trend reversed in FY 2012-13, when the District sold approximately 13,900 AF of water to its customers due to dry weather conditions, bringing water sales back to levels experienced before the economic downturn.

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. The 2011 Water Supply Management Plan (WSMP) prioritizes the use of these distinct supplies to maximize supply availability, minimize costs and ensure reliability of future supplies. In an average non-drought year, the District first utilizes Cachuma Project supplies, initially exhausting carry-over and spill entitlements, then drawing on its annual Cachuma entitlement. The next source of supply for customer delivery is groundwater, followed by deliveries of the more expensive State Water, if needed. The District provides recycled water to 34 large institutional customers, primarily for landscape irrigation. Cachuma, State Water and recycled water supplies are secured through collaborative agreements with federal, state and local partners.

Local Surface Water – Lake Cachuma

Approximately 75 percent of average annual planned demand is met with supplies from Lake Cachuma. 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. Available Cachuma supplies are expected to be reduced in Water Year 2014-15 (October 1, 2014 to September 30, 2015) for all Cachuma Member Agencies due to ongoing drought conditions resulting in 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.

Approximately one half of water used in the District service area is used outside for irrigation. Drought-related conservation and public outreach programs in FY 2014-15 will focus on providing customers with information and resources to reduce outdoor use.

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 District pumps and treats groundwater supplies from the Goleta Groundwater Basin through its six groundwater wells. The terms of the 1989 Wright Judgment and the voter-approved 1991 SAFE Ordinance and subsequent 1994 amendments establish the basin yield and set the basin management parameters including pumping limits, storage requirements, 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 response to current drought conditions, the District is actively investing in increased groundwater production capabilities. In FY 2014-15, the District plans to utilize approximately 4,600 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 2013-14, the District took delivery on approximately two-thirds of its 4,033 AFY of stored State Water. The remainder of this stored water plus any additional available State Water entitlement made available by the Department of Water Resources (DWR) will be utilized by the District, as needed, to meet customer

demand in FY 2014-15. An exchange agreement with ID #1 will continue in FY 2014-15 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. This agreement saves both agencies significant energy costs and assists in ensuring sustainable service by reducing the pumping needed to deliver water to each community.

Recycled Water

The District has served 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 2014-15 Budget anticipates delivering 950 AFY of recycled water in the coming year.

Every gallon of recycled water used to irrigate landscape or flush toilets conserves the District's precious potable water supplies. Recycled water is critical to extending water supplies during ongoing drought conditions.

Our Customers

Approximately 16,600 customer connections fall into seven categories: single-family residential, multi-family residential, commercial, institutional, landscape irrigation, agricultural, and recycled. Additionally, dedicated fire service lines make up a small portion of individual connections.

Residential customers make up approximately 90 percent of customer connections, with single-family homes comprising 80 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 half 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 averages 66 gallons per person per day, or 50 percent lower than the statewide average. 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 and vacancy rates.

The remaining half of demand is attributed to non-residential water use with agricultural use accounting for 28 percent and the remainder comprised of commercial, industrial, 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 heavily influenced by weather patterns while demand fluctuations in the commercial and institutional categories largely follow economic and market trends.

The District has approximately 331 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. Customers' 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.

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

The 2010 Water Conservation Plan and 2012 Sustainability Plan provide the foundation for efficient water resource management.

Conservation programs include:

- Rate incentives for eligible residential and commercial customers.
- 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, landscape water surveys and an interactive Community Demonstration Garden at District headquarters.

Customer Service

Ongoing dedication to customer service is exemplified throughout 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 2011 Cost of Service Study and Five-Year Financial Plan. A vital component of the Five-Year Financial Plan 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 2011 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 for generations to come.

The District continues to make significant advances in addressing critical water resources infrastructure needs. FY 2013-14 was the third year of the Five-Year Financial Plan. The District successfully implemented a scheduled rate increase to secure financial resources, invest in vital infrastructure replacement and repairs and plan for future infrastructure needs. Development of a District reserve fund is a key component of the Five-Year Financial plan to fund unforeseen emergencies while keeping customer rates stable.

The FY 2013-14 Budget saw actual revenues of $35.9M and expenditures of $30.9M with $5.1M being available for reserve designation. The unanticipated revenue during FY 2013-14 was a direct result of much stronger than expected water sales from the abnormally dry and warm winter and little rainfall throughout the year.

Key accomplishments in the areas of water supply sustainability, resource management and infrastructure improvement in FY 2013-14 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.

During FY 2013-14, the final phase of the San Ricardo Rehabilitation Project was completed. This phase included architectural improvements, water-wise landscaping, and installation of a solar energy system.

Highlights include:

- The San Ricardo Well was rehabilitated, upgraded and put back into permanent service after being dormant since 1992. The well facility has been reintegrated into the District's groundwater portfolio to extract, treat and disinfect up to 400 gallons of groundwater per minute. The San Ricardo Well is also capable of injecting water into the basin at a rate of 150 gallons per minute. San Ricardo will enhance water supply reliability during periods of drought, peak demand and emergencies and provides an additional tool for recharging and protecting the Goleta Groundwater Basin. The State of California awarded the District a Proposition 50 Grant for this project. In addition to returning the well to permanent service, the final phase of site upgrades including architectural improvements, water-wise landscaping and the preparation for solar energy system installation were completed. The District received a Goleta Valley Beautiful Award for Best Neighborhood Improvement in the Community for the significant remodeling and landscape improvement of the well site.

- Completion of Phase I of the Advanced Infrastructure Management (AIM) Program, which is designed to systematically identify and prioritize necessary investments throughout the District water system, ahead of development of the next Five-Year IIP. Phase I specifically focused on completion of a high-level risk assessment, as well as a project inventory for investments needed to ensure the reliability of the District recycled water system. Phase II, which will proceed through FY 2014-15 will focus on the entire District water system including all treatment and distribution facilities.

- The 2012 Sustainability Plan continues to be implemented to build economic, environmental and social considerations into decision-making frameworks for meeting customer needs today and in the future. Sustainability Plan project highlights include:

    - Completion of a Corona Del Mar Water Treatment Plant (CDMWTP) Process Design Review to identify needed infrastructure investments for improving the effectiveness and efficiency of treatment operations.

    - Completion and preparation for the start-up of the Van Horne Hydro-turbine Generator to capture the energy produced from pressure in the distribution system and offset ongoing energy needs and costs. This pilot project sets the stage for wider use of turbine generators throughout the service area.

- Coordination with Southern California Edison to perform an energy audit of the buildings located at the District headquarters to identify opportunities for improved energy efficiency and potential incentives and programs that may be available to the District.
- Completion of the District Edible Garden, including graphic design materials, site signage and maps, other public outreach materials and information, and a segment on the Garden Wise television program.

District Edible Garden

- In keeping with the District's commitment to meet all state and federal regulatory requirements and provide water that is of higher quality than state and federal requirements, the District successfully implemented the second year of enhanced testing requirements for Trihalomethanes, a by-product of the water treatment process. Water supplies met the new regulatory standards. Additionally, the District completed Tracer Studies on the chlorination procedures and practices at the Corona Del Mar Water Treatment Plant and the GSD reclamation facility to ensure chlorination facilities are operating as designed to meet California Department of Public Health regulatory requirements.
- Replacement and installation of more than 40 mainline valves for the second consecutive year, thereby protecting the distribution system and customer infrastructure as the District works to repair and replace aging pipelines and appurtenances.
- Refinancing of approximately $20 million in outstanding District debt. Through this process, the District achieved a credit upgrade by Standard & Poors as a result of improved financial stability and market conditions. In total, the refinancing produced approximately $5.5M in proceeds for capital projects, while keeping debt service payments level. The debt proceeds are being re-invested into the District infrastructure beginning this year.

FY 2014-15 Budget and Key Initiatives

The FY 2014-15 Budget is consistent with policy goals established by the Board of Directors, operational and infrastructure priorities, and other foundational management documents. As the District moves into the fourth year of the current Five-Year Financial Plan, the FY 2014-15 Budget reflects an ongoing progression of its 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 2014-15 Budget anticipates approximately $32.6M in revenue, almost $32.0M in capital and operational expenditures, and designates approximately $597K to District reserves. The net decrease in projected water sales revenue compared to the prior fiscal year is a result of several influencing factors. The scheduled rate increase and higher than normal seasonal water sales due to the persistent dry weather are offset by reduced water sales as customers respond to District calls for drought conservation. Year to year changes to the expenditure plan are primarily the result of the increased use of COP proceeds to fund the Capital Improvement Projects (CIP) identified in the IIP and increased costs of well operations. The upcoming additional legal, scientific and advocacy costs of protecting Cachuma water supplies will also increase FY 2014-15 expenditures as compared to FY 2013-14. Table 1.1 provides an overview of the FY 2014-15 Budget. The balance of this document provides detailed analysis of projected revenues and expenditures.

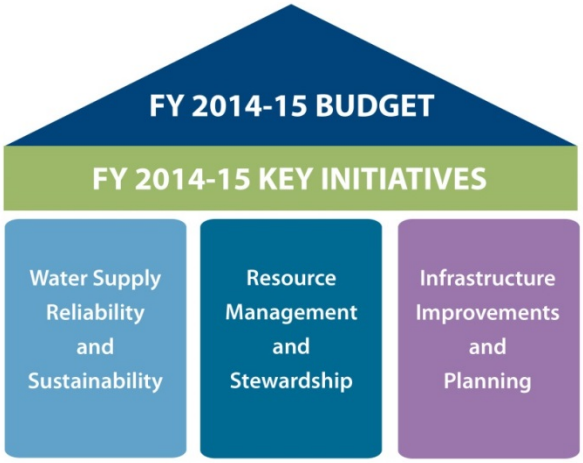
Table 1.1 FY 2014-15 Budget Overview versus FY 2013-14 Budget

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Rate-Based Revenue	$ 32,234,609	$ 34,496,146	$ 31,354,782	$ (879,827)	(3%)
New Water Supply Charges	489,000	1,266,488	1,079,142	590,142	121%
Other	184,245	169,161	173,228	(11,017)	(6%)
Total Revenue:	**$ 32,907,854**	**$ 35,931,794**	**$ 32,607,152**	**$ (300,702)**	**(1%)**
Expenditures:					
Water Supply Agreements	$ 11,332,939	$ 11,865,864	$ 11,884,634	$ 551,695	5%
Personnel	8,527,102	8,449,683	8,626,828	99,726	1%
Operations & Maintenance Costs	5,266,060	3,986,328	5,509,325	243,265	5%
Debt Service	3,562,366	3,562,365	3,561,589	(777)	(0%)
Capital Improvement Projects (CIP)	3,816,347	3,005,809	2,428,000	(1,388,347)	(36%)
Total Expenditures:	**$ 32,504,814**	**$ 30,870,049**	**$ 32,010,376**	**$ (494,438)**	**(2%)**
Designation to Reserves:	**$ 403,041**	**$ 5,061,745**	**$ 596,776**	**$ 193,736**	**48%**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

FY 2014-15 Budget Key Initiatives

The FY 2014-15 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

The South Coast is known for its cycles of drought and the impact those cycles can have on available water supplies. In addition, natural disasters including earthquakes and wildfires can have a considerable and unexpected impact on available supplies. While the District has worked conscientiously to secure a diverse supply portfolio, effective long-term supply reliability planning must also include water shortage contingency planning. The FY 2014-15 Budget includes enhanced customer awareness outreach to communicate to our customers how they can reduce their demand and answer the Governor's call for a 20 percent reduction in water use statewide. This Budget provides for flexible operations in response to necessary drought mitigation measures and builds reserves that may be needed to respond to the impacts of a sustained multi-year drought.

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 robust biologic and hydrologic modeling to inform the development of the Biological Opinion and have initiated an advocacy strategy to protect Cachuma water supplies. Concurrently, the District continues to work 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.

Resource Management and Stewardship

Successfully providing for the water and resources 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

Nineteen budgeted capital projects in the FY 2014-15 Budget are directly tied to the guiding principles adopted by the Board of Directors as part of the 2012 Sustainability Plan. Projects include: increased investment in renewable energy to offset escalating energy costs; fleet vehicle replacements to improve efficiency and reduce the fleet's carbon footprint; and electrical upgrades and efficiency improvements at District facilities to reduce energy use. These projects will go far to maximize economic performance, minimize natural resource impact and support a healthy community.

Coordinated Energy Management

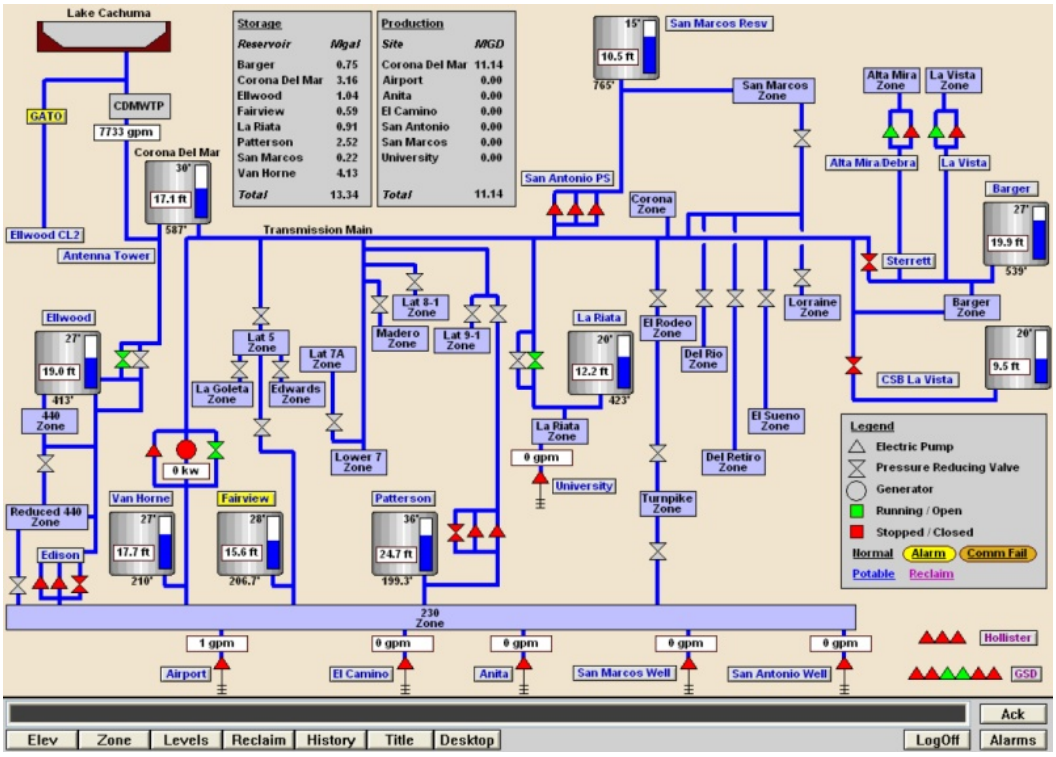
As the District embarks on a variety of energy efficiency and renewable energy projects, a dedicated effort is needed to enhance data tracking, identify specific performance metrics, implement appropriate automatic controls and coordinate energy-related projects across District operations. Doing so will 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. As the dry conditions have resulted in increasing pumping of groundwater, power costs are rising significantly, creating an opportunity to re-evaluate how the District is using power and how that cost can be offset through the installation of renewable energy facilities.

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 substantially lower than those of other similarly sized water agencies.

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.

District SCADA Program



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 improve the financial certainty and predictability of operating and maintaining District facilities and are the foundation upon which the District is able to provide customers with safe and reliable water supplies at predictable costs.

Distribution and Treatment System Improvements

The District distribution system includes approximately 270 miles of pipelines, 6,000 valves, 1,400 fire hydrants, 16,600 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. The FY 2014-15 Budget includes several infrastructure upgrades and improvement projects to protect and extend the life of District distribution and treatment system facilities. Additionally, the FY 2014-15 Budget anticipates investment in system repair and replacement projects in response to equipment failures. The programs protect both District and customers' property while minimizing the financial and water supply impacts of infrastructure failures. Distribution and Treatment System Improvement projects enhance water quality and reliability while meeting ongoing regulatory requirements.

Distribution and Treatment System Improvement Projects include:

- Valve installations and replacements for pressure regulation, system isolation and monitoring.
- Corona Del Mar Water Treatment Plant facility improvements including Sludge Bed #3 and Overflow Basin Construction and upgrades to the Backwash Basin and Bulk Chemical Tank to improve effectiveness and efficiency.

- Upgrades to the recycled water system to extend asset life and improve operational efficiency.
- Installation of bio-swales in the District Operations yard to comply with storm water regulations by capturing, filtering, and reducing storm water runoff.
- Replacement of water mains, valves and hydrants, polybutylene service lines and copper service lines.
- Addition of new infrastructure to connect the Anita and San Ricardo Well treatment facilities as well as upgrades to the University Well, thereby maximizing groundwater production capabilities.

District-wide Meter Replacement Project

By utilizing new technology in water metering, the District expects to reduce expenses and more accurately measure water use for billing purposes. Given the current drought conditions, this project will assist the District in identifying options for demand management programs and assessing the impact of those programs. Currently, a majority of the District's meters have reached the end of their useful twenty year life and are beginning to fail at a higher than expected rate. For FY 2014-15, the District will focus on replacement of approximately 800 large meters, which represent over 50% of the water used by our customers. The payback period for this project is estimated to be three years, at which time the new meters are expected to generate between $800K and $1.3M annually in revenue.

Advanced Infrastructure Management Program – Phase 2

The FY 2014-15 Budget includes the second phase of developing an advanced infrastructure management, or AIM, program. The initial phase of the AIM program included a high-level risk analysis and review of all District assets, along with a detailed management analysis of the recycled water system. AIM Phase 1 laid the groundwork for Phase 2, which includes implementation of asset registries, more detailed risk analyses and identification of ongoing replacement and repair needs and costs, thereby providing the foundation for sustainable long-term infrastructure planning. This proposed project continues the AIM Program initiated in FY 2013-14 by performing detailed analysis of the potable water system. Focus in 2014 will be on the District's transmission and distribution facilities, inclusive of the groundwater wells and existing storage facilities.

A Look to the Future

The FY 2014-15 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 2014-15 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 2014-15 Budget maximizes the ability to respond to external circumstances while minimizing impacts to customers.

Examples of externalities facing the District include:

- The prolonged drought has presented challenges related to the District's water supply. As the water level in Lake Cachuma continues to drop, the need will arise this coming year to install 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 2013-14 is expected to approach $5M, which will be apportioned to each of the COMB Member Agencies. In addition, the District's annual operating cost to extract water from the Goleta Groundwater Basin will increase 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, dedicating over $600K to these critical activities in FY 2014-15.

- Anticipated action on the Cachuma Project State Water Rights Order and Federal Biological Opinion Reconsultation 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.

- As the District approaches its 70th anniversary, 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 2014-15 Budget includes funding to allow the District to respond to system failures and minimize the impacts of such events. Additionally, the AIM Program will provide a roadmap for needed infrastructure investment, with particular emphasis on the recycled water system, to minimize future system failures and plan for repair and replacement needs.

- 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 increased the relative risk to the groundwater basin. The District has responded to this threat 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 are continually in flux as state and federal legislators and regulators enact new and updated 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 2014-15 Budget is the fourth year of the Five-Year Financial Plan. These externalities will drive the development of next Five-Year Financial Plan and Cost of Service Study. 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 2014-15 Budget, shown in Table 1.2, provides the foundation for the innovative leadership to meet regulatory and infrastructure needs and provide customers with exceptional service and sustainable rates for years to come.

Table 1.2 FY 2014-15 Budget Summary

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 9,552,023	$ 9,505,830	$ 9,681,249	$ 129,226	1%
Water Sales	22,081,602	24,493,317	20,917,497	(1,164,105)	(5%)
New Water Supply Charges	489,000	1,266,488	1,079,142	590,142	121%
Investment Revenue	55,213	41,747	41,667	(13,546)	(25%)
Conveyance Revenue	129,032	127,414	131,561	2,529	2%
Miscellaneous Fees & Charges	600,984	496,999	756,036	155,052	26%
Total Revenue:	**$ 32,907,854**	**$ 35,931,794**	**$ 32,607,152**	**$ (300,702)**	**(1%)**
Expenditures:					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 2,397,168	$ 2,396,786	$ 2,696,805	$ 299,637	12%
CCRB (Water Rights)	853,632	746,959	796,068	(57,564)	(7%)
SB County (Cloud Seeding)	30,000	27,564	30,086	86	0%
CCWA (State Water Deliveries)	7,551,639	8,252,273	7,718,875	167,236	2%
GSD (Recycled Water Production)	500,500	442,282	642,800	142,300	28%
Subtotal:	**$ 11,332,939**	**$ 11,865,864**	**$ 11,884,634**	**$ 551,695**	**5%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,152,192	$ 8,077,034	$ 8,221,848	69,656	1%
Other Post Employment Benefits	374,910	372,649	404,980	30,070	8%
Subtotal:	**$ 8,527,102**	**$ 8,449,683**	**$ 8,626,828**	**$ 99,726**	**1%**
Operations & Maintenance:					
Water Treatment	$ 646,396	$ 552,501	$ 369,935	$ (276,461)	(43%)
Water Testing	184,508	137,045	229,781	45,273	25%
Insurance, Accounting, & Auditing	197,864	210,849	222,120	24,256	12%
Maintenance & Equipment	1,051,009	672,139	636,130	(414,879)	(39%)
Legal	318,500	258,292	290,004	(28,496)	(9%)
Services & Supplies	2,507,365	1,750,000	3,017,019	509,654	20%
Utilities	360,418	405,502	744,336	383,918	107%
Subtotal:	**$ 5,266,060**	**$ 3,986,328**	**$ 5,509,325**	**$ 243,265**	**5%**
Total Expenditures before Debt and CIP:	**$ 25,126,101**	**$ 24,301,875**	**$ 26,020,787**	**$ 894,686**	**4%**
Debt Service	3,562,366	3,562,365	3,561,589	(777)	(0%)
Capital Improvement Projects (CIP)	3,816,347	3,005,809	2,428,000	(1,388,347)	(36%)
Total Expenditures:	**$ 32,504,814**	**$ 30,870,049**	**$ 32,010,376**	**$ (494,438)**	**(2%)**
Designation to Reserves:	**$ 403,041**	**$ 5,061,745**	**$ 596,776**	**$ 193,736**	**48%**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

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SECTION II – REVENUE

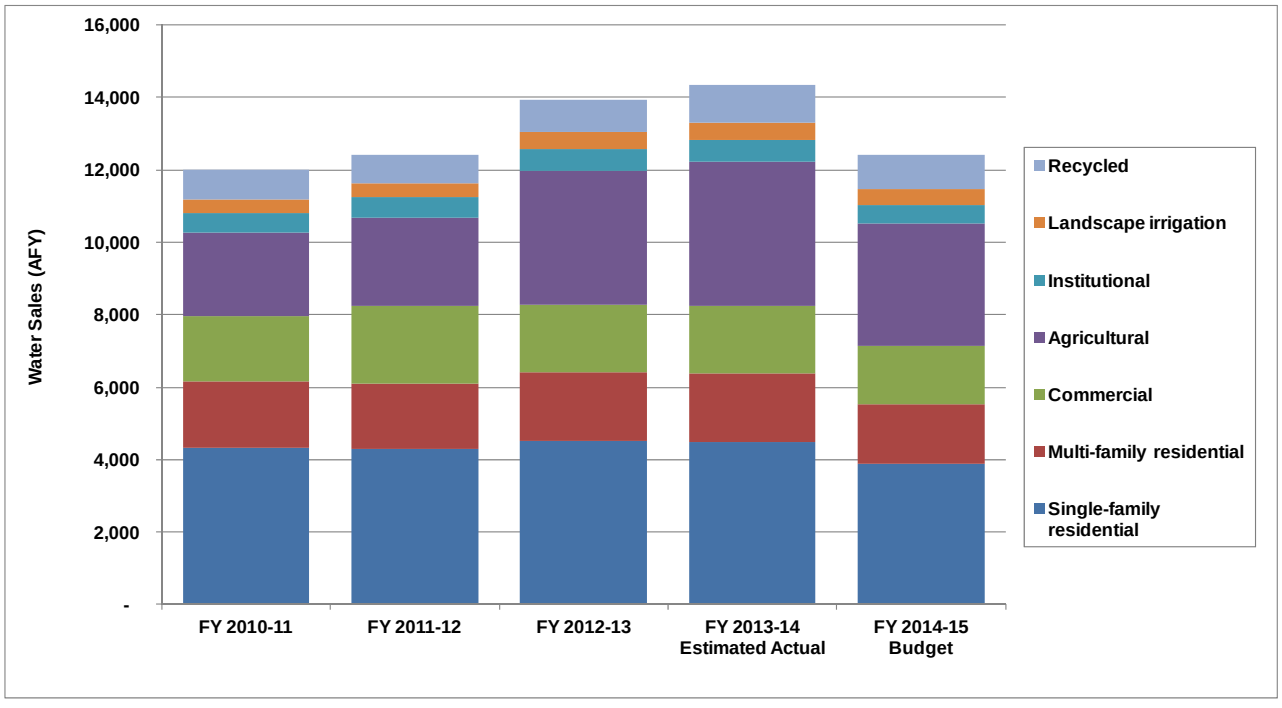
INTRODUCTION

The District provides water to approximately 16,600 customers in seven main customer categories: Single-family residential, Multi-family residential, Commercial, Agricultural, Institutional, Landscape irrigation and Recycled. Other connections include Fire service lines, which are not used for the normal delivery of potable water.

The District receives the vast majority (94%) of its revenue from regular monthly charges for water service consisting of fixed Monthly Service Charges (30%) and Water Sales (64%). Monthly Service Charges represent the customer's portion of the fixed costs of operating and maintaining the treatment and distribution system. 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 category. Also taken into consideration in forecasting revenue is the number of customers consuming water at a conservation level. The District offers a tiered conservation rate structure to residential and commercial customers with standard 3/4 inch or 5/8 inch sized meters, in which customers' trailing 12-month average determines the tier and resulting billing rate.

In addition to the rates associated with the customer type, historical sales are used to project the amount of water that would be supplied to customers by the District each year, and in turn, the projected revenue derived from sales. Over the past several years, the District averaged sales of approximately 12,400 AFY of water, which is equivalent to 5.4 million HCF or four billion gallons. This trend changed in FY 2012-13 and sales have continued to trend upward, given the persistent dry conditions and improved economic environment. Due to three consecutive years of warm and dry weather, the District recently experienced an average increase in overall water sales of approximately 13 percent or 1,600 AFY, as illustrated in Figure 2.1.

Figure 2.1 District Five-Year Water Sales



This Budget uses the FY 2013-14 Adopted Budget of 12,515 AF as a baseline for forecasting Water Sales and revenue in the coming year. In addition to the baseline, key factors were identified as influences on the projection of FY 2014-15 sales-based revenue, including: new development, new and existing meter changes, conservation, vacancy rates and behavioral changes to water use during the existing drought. Although the impact of these factors will vary considerably across customer categories, each factor contributes to the year-over-year change in water use.

Table 2.1 describes the formulaic components used to develop the FY 2014-15 Budgeted Monthly Service Charges and Water Sales Revenue.

Table 2.1 FY 2014-15 Budget Methodology

Description	Definition
Baseline Revenue	FY 2013-14 Budgeted Monthly Service Charges and Water Sales Revenue, plus the scheduled three percent rate increase effective July 1, 2014. Prorated to reflect meter read dates. Assumes a normal weather year.
Influencing Factor:	
New Development	Value of new residential and commercial development projects scheduled for completion in FY 2014-15.
Meter Changes	Value adjustment based on projected removed meters and changes in meter size on existing developed properties.
Conservation	Projected percentage of customers moving from standard tiers into conservation tiers (based upon historical regression analytics).
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.

The remaining six percent of Budgeted Revenue results from New Water Supply Charges (NWSC), Investment Revenue, Conveyance Revenue and Miscellaneous Fees and Charges.

RATES-BASED REVENUE

Revenue derived from rates is comprised of two categories: fixed Monthly Service Charges 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 2014-15 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 to 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	12,041	1,213	13,254
Multi-family residential	942	669	1,611
Commercial	382	602	984
Agricultural	2	164	166
Institutional	-	7	7
Landscape irrigation	96	133	229
Recycled	5	38	43
Fire	314	17	331
Total Connections:	**13,782**	**2,843**	**16,625**

Monthly Service Charges

Approximately 30 percent of total District revenue is derived from Monthly Service Charges. These charges are assessed as a fixed monthly amount, and provide the District with predictable revenue that is not influenced by externalities such as weather patterns or customer behavior. All active water service connections pay a Monthly Service Charge based on the size of the connection. Over 80 percent, or the majority, 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 unique water needs. For example, large agricultural or multi-family residential customers consume significantly more water than single-family residences, and in turn, require larger meters. Commercial businesses also use water in differing ways, requiring a variety of meter sizes.

Designed to encourage conservation, incentives are provided to residential and commercial customers with 3/4 or 5/8 inch meters who demonstrate a sustained level of conservation in water use. The "Low Flow" tier applies to customers averaging eight HCF or less, but more than four HCF per month. These customers receive a 33

As part of its drought response actions in FY 2014-15, the District will support commercial water use efficiency by offering extensive information resources and incentive programs, including opportunities to assist commercial customers in reducing non-essential outdoor water use in order to preserve supplies for essential commercial functions.

percent reduction in Monthly Service Charges. Customers averaging four HCF or less per month are eligible for further reduced rates in the "Ultra-Low Flow" tier and receive a 66 percent reduction. All others consuming over eight HCF of water per month are charged the standard rate. Since the program was introduced in 2007, approximately 39 percent of those customers eligible participate in the conservation tiers.

A number of factors influencing the District's base revenue from Monthly Service Charges 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 160 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. As an additional indicator of the current economic climate, vacancy rates in the region are also evaluated for changes and the associated effect on revenue. A continued predicted decline in overall vacancy rates is projected to provide a nominal increase to revenue. A final influencing factor is the current drought, which has resulted in increasingly higher water use due to three consecutive years of abnormally dry weather conditions.

Single-Family Residential

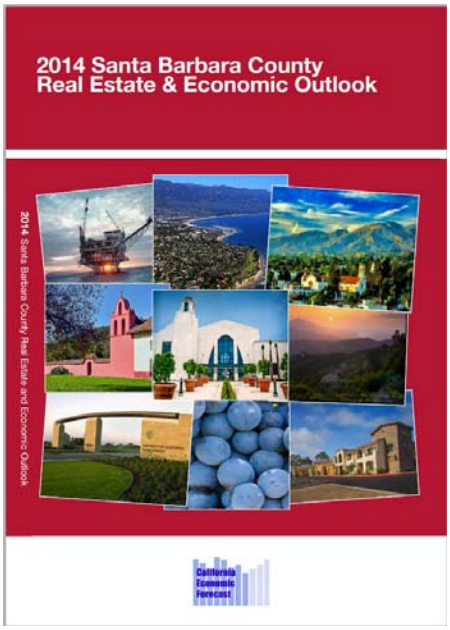
With more than 13,250 Single-family residential meters ranging in size from 3/4 or 5/8 inch to two inches, this customer category accounts for 80 percent of the District's total connections. Over 90 percent of Single-family residential meters are standard 3/4 or 5/8 inch, whereas large parcels are served by larger, one or two inch meters.

Factors influencing Single-family residential revenue include new development, meter changes, conservation, and vacancy rates. Nearly half of total new connections in FY 2014-15 are expected to be in the Single-family residential sector. Approximately 70 new 3/4 inch connections for Single-family residential lots and small residential subdivisions are projected to increase Monthly Service Charges revenue by $19K. Additional residential meter changes include the removal of a one inch meter, resulting in an approximate $1K revenue decrease. Finally, the annualized value of meters installed in FY 2013-14 will add nearly $3K to a combined $21K revenue increase associated with new development.

Of the population eligible for conservation incentives, 90 percent are Single-family residential customers. Analysis shows that nearly 40 percent of Single-family customers with 3/4 or 5/8 inch meters are currently receiving reduced rates at various consumption levels. Over 25 percent of customers consume at a rate eligible for the "Low Flow" tier, and another 12 percent consume at a rate eligible for a further reduced rate at the "Ultra-Low Flow" tier.

To measure the revenue impact of participation in conservation efforts, 2013 water use data was examined to identify trends, targeting the number of customers on the cusp of triggering a 33% reduction in Monthly Service Charges. In other words, these customers have a twelve-month average of below 8.5 HCF, but over 8 HCF. Analysis has shown that in any given month of the year, there are approximately 300 customers on the brink of

qualifying for the Low Flow conservation tier. An estimated $12K decrease to fixed revenue is budgeted to account for additional users entering the "Low Flow" conservation tier in FY 2014-15.



According to the 2014 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 2014-15 Budget forecasts a continued decrease in Single-Family residential vacancies at slightly less than half a percent. Based on the standard monthly meter rates, this continued improvement will increase Monthly Service Charges revenue by $16K in FY 2014-15.

Combined, the influencing factors are forecasted to add $26K to baseline revenue. The FY 2014-15 Budget anticipates $5.6M in Monthly Service Charges 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 1,610 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 three or four units or more than 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.

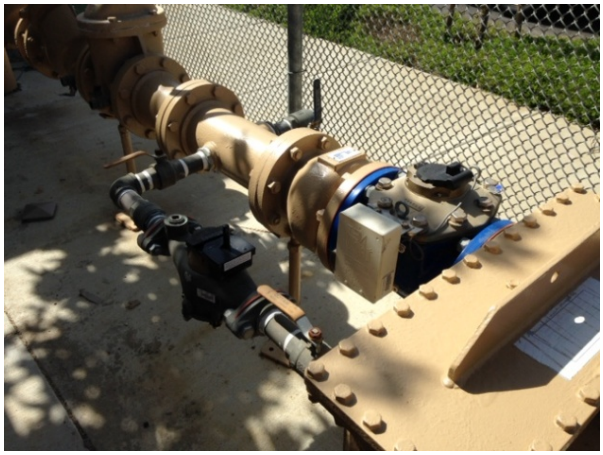
New multi-family residential projects in FY 2014-15 include conversions of two duplexes into a single multi-family complex, expected to increase fixed revenue by $1K. A notable increase to revenue stems from the annualized value of multi-family development projects that came to fruition in FY 2013-14, estimated to generate $88K in additional revenue. Examples of these projects include three connections at Sierra Madre Apartments and 11 connections at Willow Springs Phase II. Together, new development is expected to produce an $89K increase to Multi-family residential Monthly Service Charges revenue.

Approximately 47 percent of Multi-family customers with 3/4 or 5/8 inch meters use water at a conservation level and receive a reduced Monthly Service Charge; 26 percent use water eligible for the "Ultra-Low Flow" rate and 21 percent at the "Low Flow" rate. Six additional Multi-family residential customers moving into the "Low Flow" conservation tier in FY 2014-15 is projected to decrease Monthly Service Charges revenue by $1K.

According to the Economic Outlook, Multi-Family vacancy rates on the South Coast have increased to almost 2 percent compared to 1.3 percent a year earlier. Where the City of Goleta was under one percent vacant, it experienced a slight rise to almost 1.5 percent vacant over the past year. The largest surge in vacancies, however, is concentrated in the Isla Vista market, which experienced three times the amount of vacancies year over year. Based on these indicators, Multi-family fixed revenue is estimated to decrease by $9K, based on the standard monthly rate for 3/4 inch meters.

In total, the influencing factors are estimated to add $79K to baseline Monthly Service Charges revenue, resulting in a total of $1.4M in revenue from Multi-family residential customers.

Commercial



The Commercial customer category is comprised of approximately 1,000 meters, representing six 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. Meters sizes range from smaller-volume 3/4 or 5/8 inch meters to those carrying the largest volume, 10 inch meters. Of the 1,000 Commercial meters, over 600 are one inch or greater.

New commercial development in FY 2014-15 includes a professional medical office building and a 6,000 square foot community center. The addition of a 1.5 inch meter and a 2 inch meter as part of these commercial projects in FY 2014-15 is estimated to add $2K to Monthly Service Charges revenue. The value of three commercial meters that were placed in service in FY 2013-14 will add $1K in revenue. Additionally, changes to existing meters include the removal of a one inch meter that has been de-annexed out of the service area. In absence of this meter in FY 2014-15, a $1K decrease to fixed revenue is expected. Together, new Commercial development is forecasted to yield a $3K increase to fixed revenue.

Approximately 59 percent of Commercial customers with 3/4 or 5/8 inch meters use water at a conservation level; 41 percent receive a reduced Monthly Service Charge at the "Ultra-Low Flow" rate and 17 percent receive a reduced "Low Flow" rate. Although the majority of smaller-sized Commercial customers are already using water at levels eligible for the conservation tiers, three new Commercial customer connections are expected to be eligible in FY 2014-15 resulting in a nominal decrease to revenue of under $1K.

Historically high vacancy rates in the Commercial sector have continued to increase in the City of Goleta, according to the Economic Outlook. The office vacancy rate remains high at 12 percent, an increase of two percent from the prior year. However, 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, specifically, is 1.4 percent. Based on the net improvement in office and industrial vacancies, two previously vacant Commercial connections are projected to see occupancy in FY 2014-15, equating to an increase of $1K to fixed revenue.

Collectively, the influencing factors are forecasted to add $3K to the baseline. Total FY 2014-15 Monthly Service Charges revenue is estimated to be $1.6M from Commercial customers.

Agricultural

Agricultural customers represent approximately one percent of District connections, or 166 meters. This customer category is mostly comprised of meters that are at least two inches in size, but range from as small as 3/4 or 5/8 inch to as large as six inches. Although the Agricultural industry generally does not experience changes to its customer base, there was a new meter connection in FY 2013-14, the annualized value of which,

will contribute $3K to baseline revenue. Total Monthly Service Charges revenue in FY 2014-15 from the Agricultural customer category is estimated to be $390K.

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 range in size from six to ten inches. There are no known factors influencing revenue for this customer category. Total Monthly Service Charges revenue in FY 2014-15 from the Institutional customer category is projected to be $107K in recognition that the number and size of meters will remain the same as compared to the baseline.

Landscape Irrigation

With over 225 meters ranging in size from 3/4 or 5/8 to four inches, Landscape irrigation customers represent less than two percent of total District connections. New development involving dedicated landscape irrigation meters include single-family and commercial projects, contributing five new 3/4 inch meter connections and $1K in fixed revenue. Additionally, the value of eight meters installed in FY 2013-14 will contribute a $7K increase to revenue. Total Monthly Service Charges revenue in FY 2014-15 from Landscape irrigation is estimated to increase by $8K to a total of $249K.

Recycled

The District has approximately 43 Recycled meters, representing less than one percent of total connections. Meter sizes range from 3/4 or 5/8 inch to eight inches. One new Recycled meter connection at an assisted living facility will contribute to an increase in Monthly Service Charges revenue in FY 2014-15 of under $1K. Additionally, the annualized value of six connections installed at various residential and commercial developments in FY 2013-14 will contribute approximately $4.5K to baseline Monthly Service Charges revenue in FY 2014-15. Together, these factors will provide an increase to baseline revenue of $5K. Total Monthly Service Charges revenue in FY 2014-15 from the Recycled customer category is estimated to be $280K.

Summary – Monthly Service Charges

In conclusion, the $9.7M of projected FY 2014-15 Monthly Service Charges Revenue is established based on a $9.6M FY 2013-14 Adopted Budget as a baseline to which a total of $129K in influencing factors is added. Table 2.3 provides an itemization of the FY 2014-15 Budgeted Monthly Service Charges Revenue by customer category, inclusive of the values associated with each influencing factor.

Table 2.3 Budgeted Fixed Revenue and Influencing Factors

		Influencing Factor						
Customer Category	FY 2013-14 Budget Baseline Revenue	New Development	Meter Changes	Conservation	Vacancy Rates	Drought Behavioral Changes	Net Incr. / (Decr.)	FY 2014-15 Budgeted Fixed Revenue
Single-family residential	$ 5,566,895	$ 21,150	$ 1,070	$ (12,086)	$ 15,520	-	$ 25,654	$ 5,592,549
Multi-family residential	1,362,074	89,404	-	(942)	(9,171)	-	79,292	1,441,366
Commercial	1,578,589	3,218	(341)	(471)	941	-	3,347	1,581,935
Agricultural	388,088	2,512	(942)	-	-	-	1,570	389,658
Institutional	106,896	-	-	-	-	-	-	106,896
Landscape irrigation	241,253	8,163	-	-	-	-	8,163	249,416
Recycled	274,616	4,984	-	-	-	-	4,984	279,600
Fire	33,613	6,216	-	-	-	-	6,216	39,829
Total:	**$ 9,552,023**	**$ 135,648**	**$ (214)**	**$ (13,499)**	**$ 7,290**	**$ -**	**$ 129,226**	**$ 9,681,249**

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 cooler temperatures and appreciable rainfall, 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 years on record in 2013, below normal rainfall has continued into 2014. Rainfall in the Goleta Valley to date is only 30% of average. Notably, the area received more rainfall in two winter months of November and December 2012 than it did in a full year in 2013. Due to the ongoing dry conditions, the District has formally endorsed Governor Jerry Brown's statewide request for conservation, encouraging customers to reduce water use by 20 percent through targeted outreach. If conditions remain dry, the Budget anticipates a loss of Water Sales revenue of over $1M associated with drought-related conservation measures by residents of the Goleta Valley community.

As Figure 2.2 displays, parched, summer-like conditions in any given month of 2013 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 2013

In forecasting the amount of revenue received from Water Sales, consideration is also given to the number of residential or commercial customers able to sustain a conservative level of water use. The District provides a reduced Urban Conservation rate to residential and commercial customers with 3/4 inch or 5/8 inch meters that average four HCF or less per month over a trailing 12-month period. Approximately 12 percent of Single-family residential customers, 27 percent of Multi-family residential customers, and 41 percent of Commercial customers achieve water use eligible for this conservation tier.

The average residential customer in the District uses 66 gallons of water per day, which is 60% less water per day than the average residential customer on the South Coast and 50% less water per day than the average residential customer statewide.

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 2014-15 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

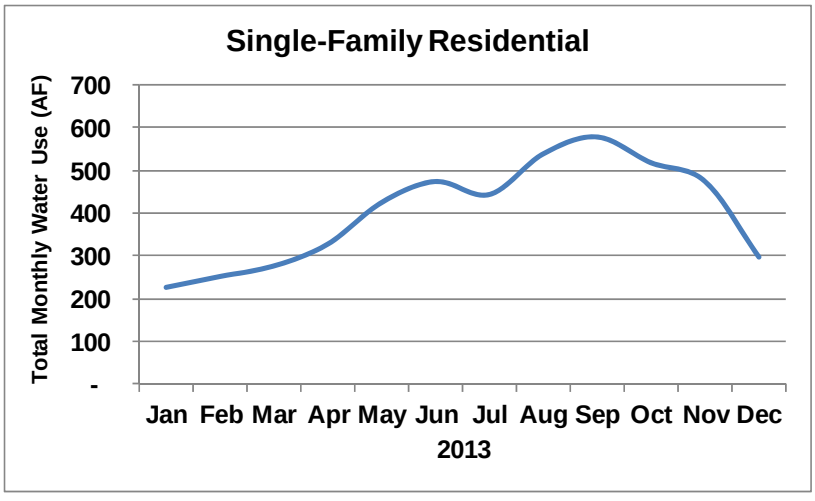
Single-family residential customers are forecasted to use 3,883 AFY of water in FY 2014-15, representing approximately 31 percent of water use and 42 percent of total Water Sales revenue. Water Sales vary significantly within this customer category depending on a number of factors including lot size, age of housing stock, household size and type of water-using fixtures. For example, eighty percent of single-family customers

reside on lots that are a quarter acre or less and, on average, use significantly less water averaging eight to nine HCF per month as compared to those on lots greater than a quarter acre who average 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 water devices 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 determined to be 2.0 gallons per minute. Assuming the average person takes five showers a week at eight minutes each, the average household uses 1,267 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. 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 2013, shown in Figure 2.3, indicates that consumption increases by 85 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 13,250 customers in the Single-family residential population will be critical to maintaining District supplies during unprecedented dry seasons. Representative of 80% of total District connections, additional steps taken to conserve water among the Single-family residential customer category will help reach Governor Brown's goal of a statewide water use reduction of 20 percent. Heightened conservation measures in response to the ongoing drought are anticipated to result in a 555 AFY reduction in Single-Family water use or $883K decrease to revenue.

New development in FY 2014-15 include Single-family residential lots which will add approximately 10 AFY in Water Sales, yielding an additional $23K in revenue. Moreover, two new meter installations in FY 2013-14 will contribute an additional $3K increase to baseline revenue, equating to a total revenue increase of approximately $26K associated with new development.

According to the 2014 Economic Outlook, several key measures of the housing market show promise of recovery, including the increase in number of conventional home sales, rising median sales prices, and continued decrease in foreclosures on the market. This Budget forecasts a continued decrease in residential vacancies, resulting in a projected $24K increase to Water Sales revenue in FY 2014-15.

The FY 2014-15 Budget anticipates $8.8M in revenue from Single-family residential customer use, or 3,883 AF. Single-family Water Sales revenues are estimated to decrease by $832K, in total, primarily as a result of conservation efforts related to the drought.

Multi-Family Residential

Multi-family residential customers are forecasted to use 1,632 AFY of water in FY 2014-15, representing approximately 13 percent of water use and 18 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. For example, multi-family housing units in retirement communities with one or two occupants per unit use an average of 2.5 HCF per month, while densely-packed housing complexes in Isla Vista average over 70 HCF per month.

Figure 2.4 Water Use for Multi-Family Residential Connections

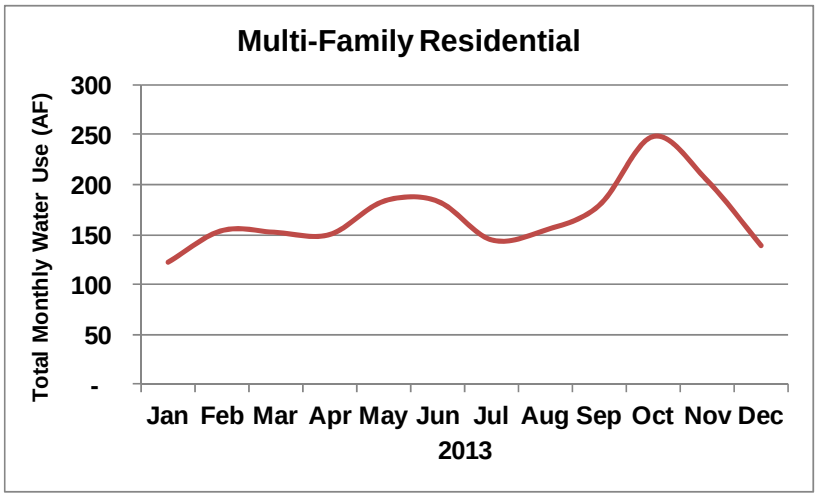


Figure 2.4 illustrates the annual consumption trend for Multi-family residential. The vast majority of Multi-family residential water use is indoors and as a result, weather impacts this customer category to a much smaller degree. As such, water use is relatively steady throughout the year and exhibits only modest seasonal variation. Variability in water usage between winter and summer months is only 27 percent compared to the 85 percent variability typical of Single-family residential customers.

The FY 2014-15 Budget includes a $30K revenue increase associated with Multi-family connections completed in FY 2013-14. Projects that added new meters in FY 2013-14 include Sierra Madre Apartments and Willow Springs Phase II, which collectively, will add 12 AFY of water to be delivered in FY 2014-15.

As of April 2013, apartment vacancy rates in the City of Goleta increased to nearly two percent, approximately doubled that of last year. Despite the recent uptick, vacancy levels in the City of Goleta, excluding Isla Vista, have not yet exceeded the nearly three percent evidenced in 2011. Isla Vista, on the other hand, is experiencing substantially higher vacancy levels, bringing the vacancy rate in the UCSB-adjacent community to nearly 4.5

percent, up three times from 1.5 percent a year earlier. Based on the rise in apartment vacancy rates in the region, a decrease of $15K to Water Sales revenue is projected as a result.

In response to the ongoing drought, heightened conservation activities for Multi-family residential is forecasted to result in a loss of revenue in the amount of $371K in FY 2014-15. 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 the greatest level of conservation.

Projected Multi-family residential Water Sales are $3.7M in FY 2014-15, or 1,632 AF. Water Sales are expected to decrease by $355K or 212 AFY primarily resulting from anticipated drought-related water use reductions.

Commercial

Commercial customers are projected to use 1,611 AFY of water in FY 2014-15, 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 types of businesses and organizations and their associated 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 and other small businesses.

Figure 2.5 Water Use for Commercial Connections

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 2013 data, Figure 2.5 illustrates that Commercial water use varies by approximately 89 percent between the winter and summer months.

Pending commercial projects in the pipeline for FY 2014-15 will require an estimated 14 AFY of water, yielding $30K in Water Sales revenue. With an additional 1 AFY and $2K of revenue coming from a new commercial connection in FY 2013-14, new development is projected to increase Water Sales revenue by a total of $32K.

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, two additional Commercial connections are projected to be occupied in FY 2014-15 resulting in an increase to Water Sales revenue of $8K.

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 predicts a loss of $684K in Commercial revenue associated with an estimated 419 AFY drought-related reduction in water use.

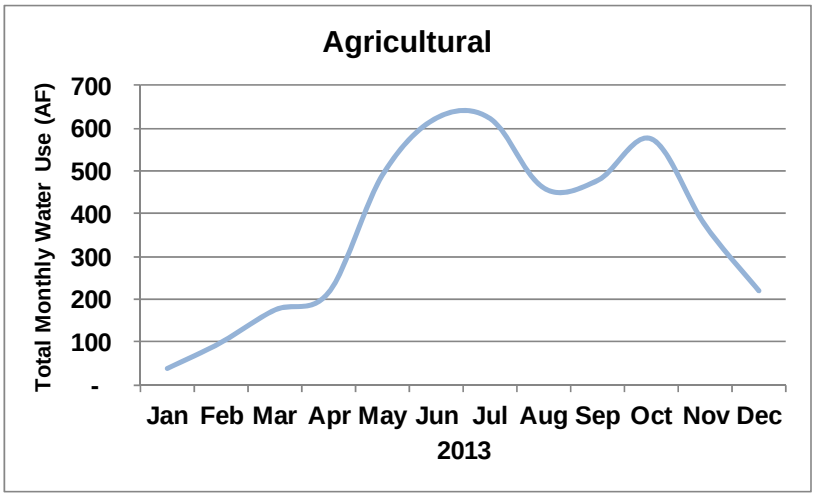
Total Commercial Water Sales revenue for FY 2014-15 is projected to be $3.6M, or 1,611 AF. Water Sales are expected to decrease by 404 AF (20%), largely due to anticipated conservation efforts directly related to the drought.

Agricultural

Agricultural customers are forecasted to use 3,391 AFY of water in FY 2014-15, representing approximately 28 percent of total water use. Ten percent of total Water Sales revenue comes from Agricultural use. 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 30% of normal, however, Agricultural customers are much more reliant on water provided by the District. 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 a bleak water year. The revenue impact of the extended dry conditions is estimated to result in an increase of $471K to revenue.

Figure 2.6 Water Use for Agricultural Connections



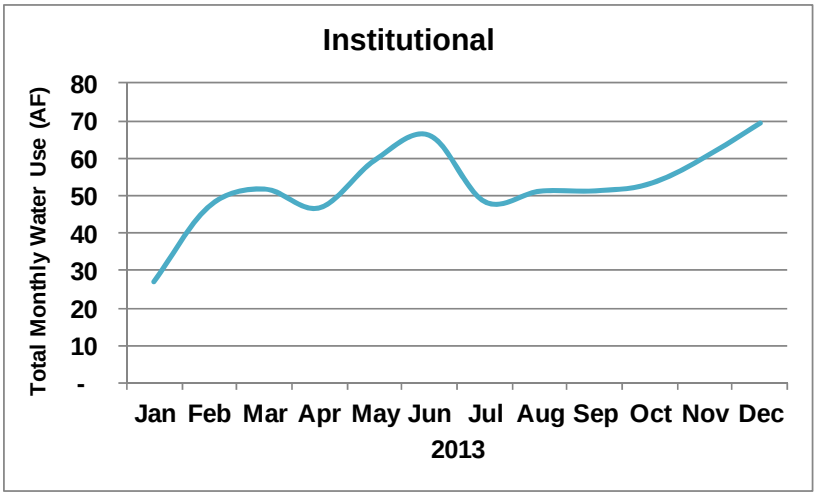
Dry seasons with warm temperatures drive increases in water sales, particularly for Agricultural customers with a heavy emphasis on outdoor water use. Agricultural customer consumption varies by 270 percent between the winter and summer months, as illustrated in Figure 2.6.

The addition of one connection in FY 2013-14 is expected to increase Water Sales revenue by $2K. The influencing factors, combined, have a total impact of $473K, bringing FY 2014-15 total Agricultural Water Sales to 3,391 AFY or $2M in revenue.

Institutional

Institutional customers are forecasted to use 520 AFY of water in FY 2014-15. Representing a portion of UCSB's connections, this category accounts for four percent of total District water use and five 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 minimal at 12 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 District applauds the University's efforts to meet the State and local conservation targets.

Institutional water use is predicted to decline by 31 AFY in FY 2014-15 as compared to the baseline. FY 2014-15 Water Sales is projected to be 520 AF, resulting in $1.1M in revenue.

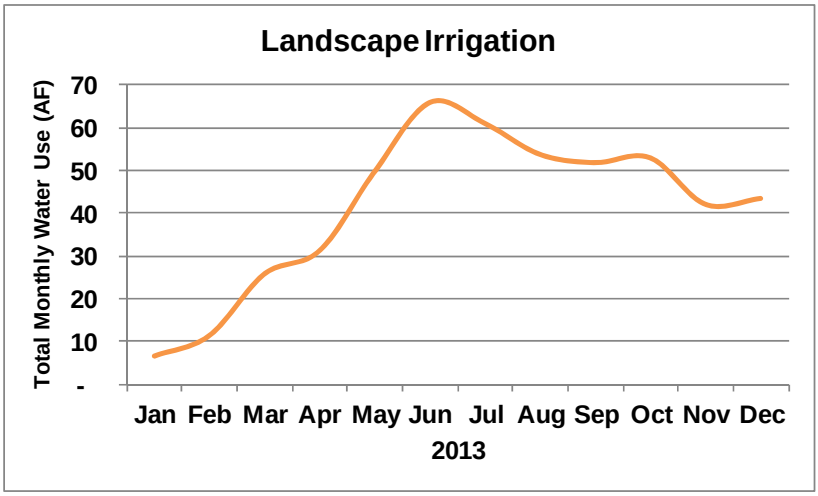
Landscape Irrigation

Landscape irrigation is estimated to use 414 AFY of water in FY 2014-15, accounting for three percent of total water use and four 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 the fall and winter of 2013, there will be an increased reliance on water provided by the District in the coming fiscal year. If the drought persists, the estimated increase in water use of 27 AFY in FY 2014-15 will increase revenue by $113K.

Seasonally, consumption for Landscape irrigation increases by an average of 156 percent during the summer months as compared to winter months when watering demands are largely met through rainfall. Figure 2.8 illustrates the annual consumption trend.

Figure 2.8 Water Use for Landscape Irrigation Connections



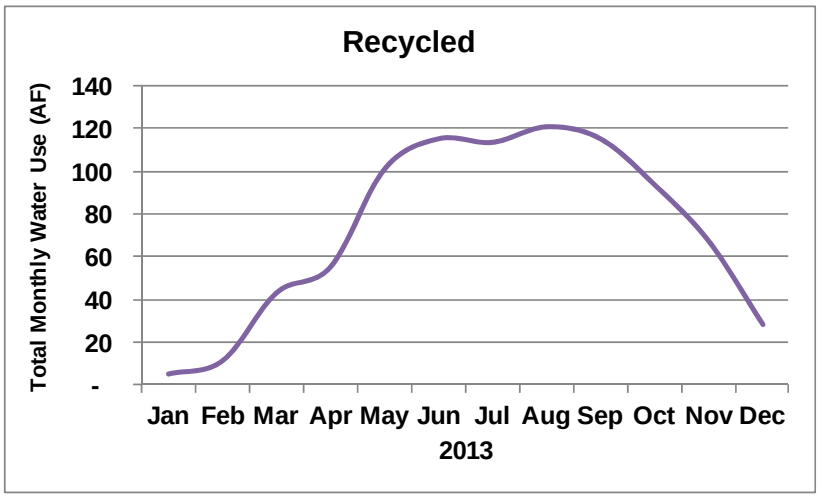
New development projects including commercial buildings and businesses, a single-family housing tract, community center, and habitat restoration in FY 2014-15 will require dedicated Landscape irrigation meters, contributing a $5K increase to revenue or two AFY. The annualized value of irrigation water use for projects installed in FY 2013-14, such as Willow Springs Phase II and Haskell's Landing Phase I, will add another $8K or four AFY to baseline water sales and use, respectively.

Overall, Landscape irrigation use will increase by 33 AFY or $126K. Total FY 2014-15 Landscape irrigation water use is estimated to be 414 AFY, equating to $874K in revenue.

Recycled Water

Recycled water customers are projected to use 950 AFY of water in FY 2014-15, making up eight percent of total water use, and three 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.

Figure 2.9 Water Use for Recycled Connections



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 290 percent as compared to usage during the winter months. Figure 2.9 illustrates this significant seasonal volatility in Recycled water use.

A new, 70,000 square-foot assisted living facility will require delivery of recycled water, increasing Recycled use by one AFY or $1.5K in the coming fiscal year. The remaining portion includes $3.5K or three AFY coming from FY 2013-14 Recycled connections. In addition to new development, the recent replacement of dated six inch and eight inch meters at two golf courses in FY 2013-14 is anticipated to generate an additional $13K in revenue or 15 AFY due to the improved accuracy of the new meters.

During extended periods with little to no rainfall, water demands from the District increase substantially for customers with outdoor irrigation needs. If the current drought persists, an estimated $113K increase to revenue or 180 AFY is anticipated in FY 2014-15 as compared to FY 2013-14 levels.

Overall, Water Sales are estimated to increase by $131K in FY 2014-15 or 198 AFY (23%) compared to the FY 2013-14 Adopted Budget. Total Recycled Water Sales revenue in FY 2014-15 is projected to be $694K or 950 AFY.

Summary – Water Sales

In conclusion, the $20.9M of projected Water Sales Revenue for FY 2014-15 is established utilizing FY 2013-14 Adopted Budget as a baseline to which the value of influencing factors to revenue is added. The drought-related budget shortfall is estimated at $1.3M for the upcoming fiscal year when compared to FY 2013-14 Adopted Budget. Together with the value of new development, meter changes, and vacancy rates, the total revenue decline is estimated to be $1.2M compared to FY 2013-14 Adopted Budget, a five percent decrease year-over-year. Tables 2.4 and 2.5 provide a full itemization of the FY 2014-15 budgeted water use and Water Sales Revenue in AFY by customer category.

Table 2.4 FY 2014-15 Budgeted Water Use by Customer Category (in AFY)

		Influencing Factor						
Customer Category	FY 2013-14 Budget Baseline Water Use	New Development	Meter Changes	Conservation	Vacancy Rates	Drought Behavioral Changes	Net Incr. / (Decr.)	FY 2014-15 Budgeted Water Use
Single-family residential	4,416	11	-	-	11	(555)	(533)	3,883
Multi-family residential	1,844	12	-	-	(6)	(217)	(212)	1,632
Commercial	2,015	14	-	-	1	(419)	(404)	1,611
Agricultural	2,557	4	-	-	-	831	834	3,391
Institutional	551	-	-	-	-	(31)	(31)	520
Landscape irrigation	381	6	-	-	-	27	33	414
Recycled	752	4	15	-	-	180	198	950
Fire	-	-	-	-	-	-	-	-
Total:	**12,515**	**51**	**15**	**-**	**5**	**(184)**	**(114)**	**12,402**

Table 2.5 FY 2014-15 Budgeted Water Sales Revenue and Influencing Factors

		Influencing Factor						
Customer Category	FY 2013-14 Budget Baseline Revenue	New Development	Meter Changes	Conservation	Vacancy Rates	Drought Behavioral Changes	Net Incr. / (Decr.)	FY 2014-15 Budgeted Water Sales Revenue
Single-family residential	$ 9,682,314	$ 25,792	$ -	$ -	$ 24,263	$ (882,507)	$ (832,452)	$ 8,849,861
Multi-family residential	4,054,695	29,723	-	-	(14,503)	(370,625)	(355,405)	3,699,290
Commercial	4,268,966	32,364	-	-	8,385	(683,922)	(643,173)	3,625,793
Agricultural	1,554,037	2,352	-	-	-	470,472	472,824	2,026,861
Institutional	1,210,784	-	-	-	-	(63,630)	(63,630)	1,147,154
Landscape irrigation	748,157	13,195	-	-	-	113,042	126,237	874,394
Recycled	562,649	4,938	13,097	-	-	113,459	131,494	694,144
Fire	-	-	-	-	-	-	-	-
Total:	**$ 22,081,602**	**$ 108,363**	**$ 13,097**	**$ -**	**$ 18,145**	**$ (1,303,711)**	**$ (1,164,105)**	**$ 20,917,497**

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 2014-15 Budgeted Water Use by Customer Category (in AFY)

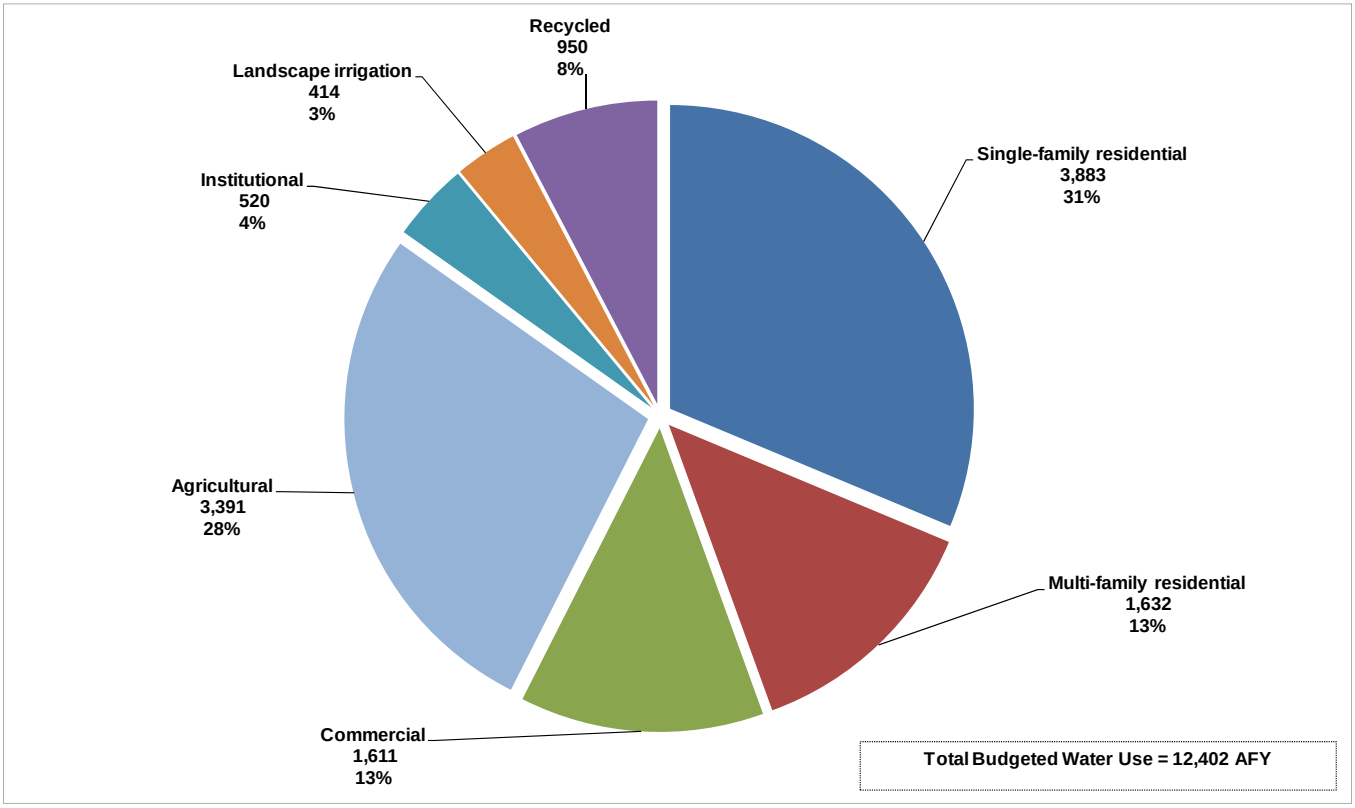


Figure 2.11 FY 2014-15 Budgeted Water Sales by Customer Category ($000s)

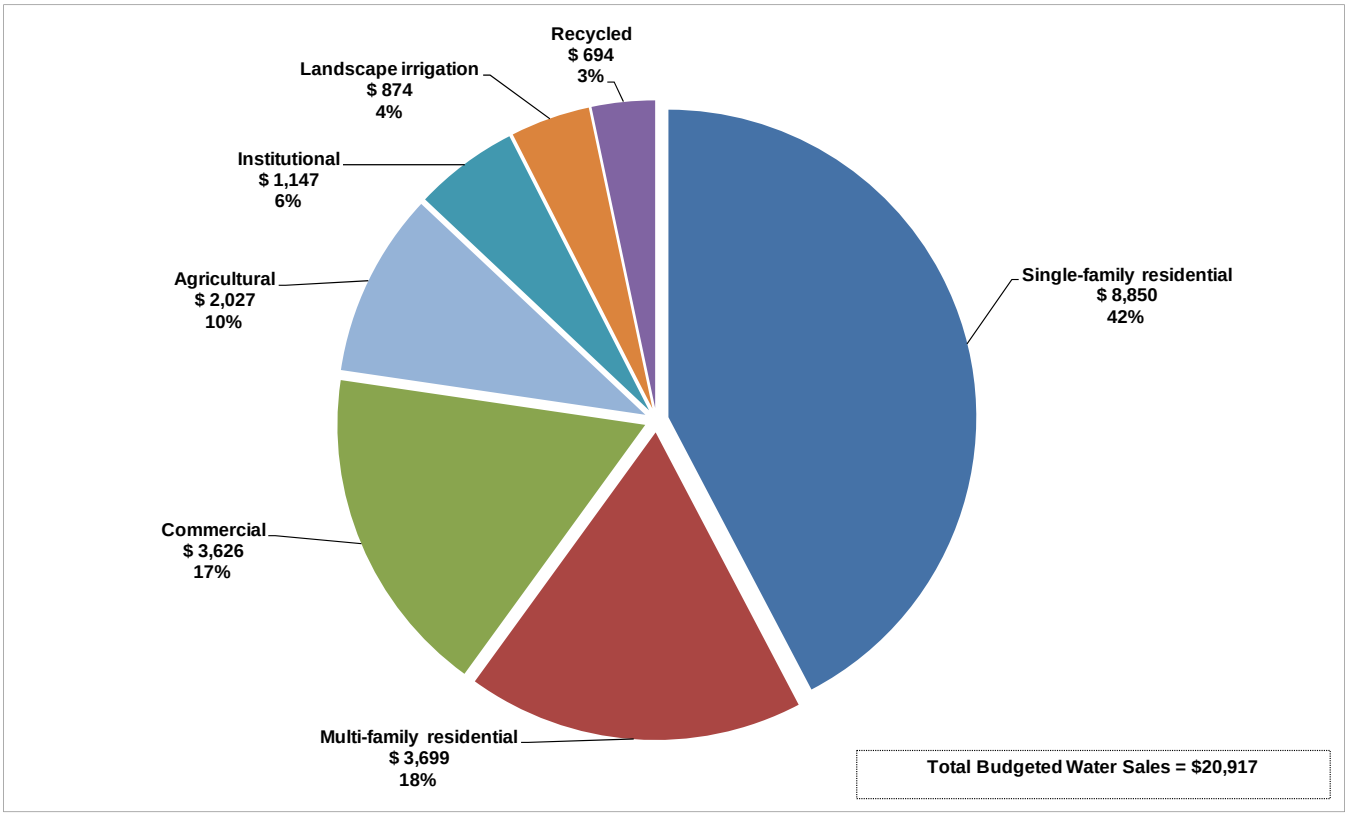


Table 2.6 outlines the year-over-year changes in projected water use for the FY 2014-15 Budget as compared to the baseline. Overall water deliveries to customers in FY 2014-15 are estimated to be 12,402 AF, a decrease of 114 AF (1%) from FY 2013-14 Adopted Budget.

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

Category	Adopted Budget FY 2013-14	Final Budget FY 2014-15	Variance Analysis * AF Higher / (Lower)	% Higher / (Lower)
Single-family residential	4,416	3,883	(533)	(12%)
Multi-family residential	1,844	1,632	(212)	(11%)
Commercial	2,015	1,611	(404)	(20%)
Agricultural	2,557	3,391	834	33%
Institutional	551	520	(31)	(6%)
Landscape irrigation	381	414	33	9%
Recycled	752	950	198	26%
Total Water Use in AFY:	12,515	12,402	(114)	(1%)

**Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

Other Sources of Revenue

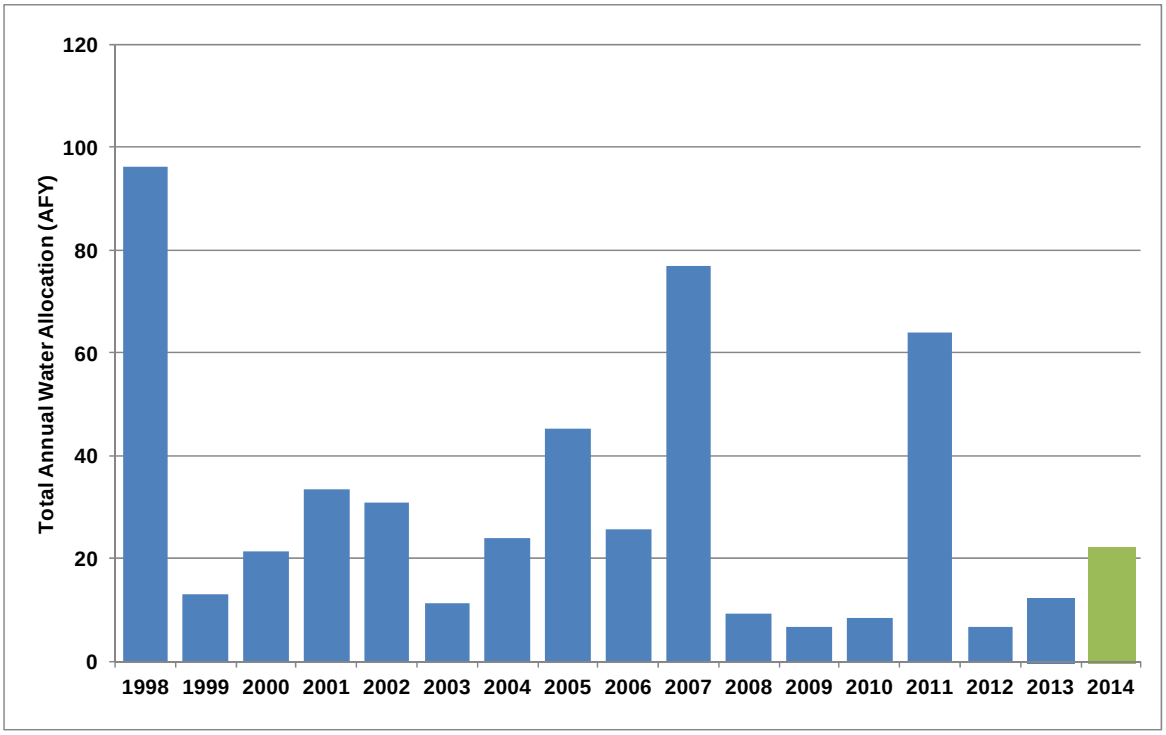
The remaining $2.0M or six percent of District revenue is collected through $1.1M in NWSC, $42K in Investment Revenue, $132K in Conveyance Revenue and $756K in Miscellaneous Fees.

New Water Supply Charges

The NWSC applies to customers requesting new or expanded water service. The FY 2014-15 Budget forecasts $1.1M in revenue from NWSC payments, or 3.3 percent of total budgeted revenue. 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. 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 2014-15.

New projects expected to be completed in FY 2014-15 and remit NWSC fees include several commercial developments, a new medical office building, as well as residential units. The FY 2014-15 Budget projects new water allocation of 22.4 AFY, resulting in NWSC revenue of $1.1M. Figure 2.12 shows new water allocation history by calendar year since 1998.

Figure 2.12 Water Allocation History for New Water Supply Charge (in AFY)



Investment Revenue

The investment policies and practices of the District are based on California Government Code provisions that regulate the investment of public funds and prudent portfolio management. Chapter 4.08 of the Goleta Water District Code establishes investment objectives as being, in priority order, Safety, Liquidity and Diversification. For FY 2014-15, 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 $42K in investment revenue. Investment Revenue is projected to decrease by $14K (25%) in FY 2014-15 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 2014-15 will remain relatively flat at $132K, reflective of no material changes to water requirements.

Miscellaneous Fees and Charges

The District receives revenue in the form of charges and fees from various sources, including delinquent accounts, backflow inspection, application and initiation fees, connection fees, cell tower site rentals and customer reimbursable projects. The anticipated revenue from these sources in FY 2014-15 is approximately $756K. The increase in Miscellaneous Fees and Charges revenue of $155K (26%) is attributed to a scheduled rate increase and the continued fruition of upcoming development and reimbursable projects.

Summary of District Revenue Forecast for FY 2014-15

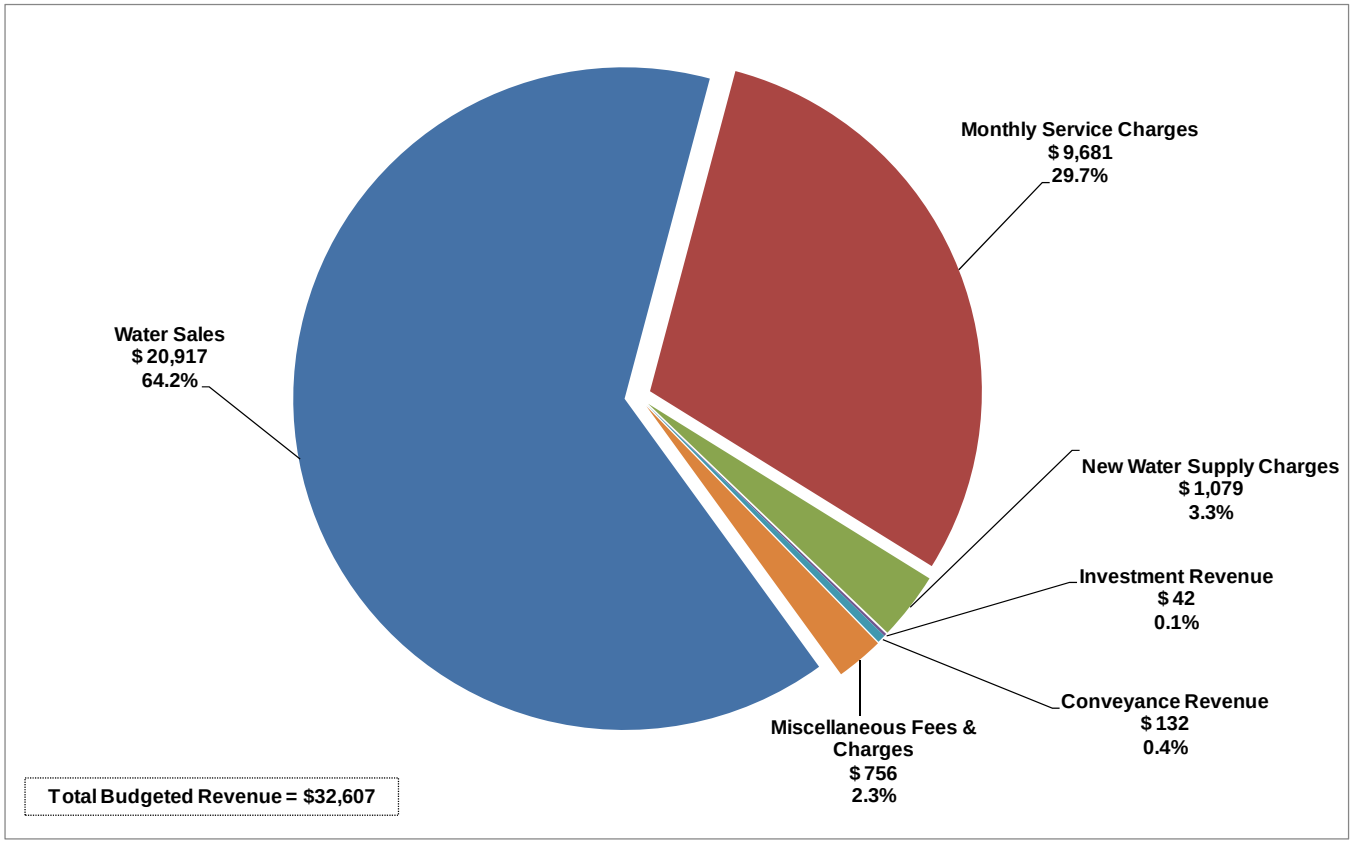
Table 2.7 and Figure 2.13 provide a summary of FY 2014-15 Budgeted Revenue. Rates-based revenues allow the District to cover costs associated with operations to consistently provide customers quality water and address critical infrastructure needs. The combination of Monthly Service Charges and Water Sales for FY 2014-15 is projected at $30.6M, a three percent decrease from the Adopted FY 2013-14 Budget of $31.6M, primarily attributed to the anticipated reductions in water use and sales associated with the ongoing drought. Non-rates-based revenues such as New Water Supply Charges are projected to increase by $590K due to continued development in the region as approved by City councils and the County Board of Supervisors. Other sources of revenue from Investments and Conveyance are projected to remain relatively stable compared to FY 2013-14. Miscellaneous Fees and Charges revenue is estimated to increase by $155K, primarily a result of increased District work on customer reimbursable projects. Total Budgeted Revenue in FY 2014-15 is forecasted to be $32.6M, a decrease of $301K (1%) from FY 2013-14 Adopted Budget.

Table 2.7 FY 2014-15 Budgeted Revenue versus FY 2013-14 Budget

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Revenue:					
Monthly Service Charges	$ 9,552,023	$ 9,505,830	$ 9,681,249	$ 129,226	1%
Water Sales	22,081,602	24,493,317	20,917,497	(1,164,105)	(5%)
New Water Supply Charges	489,000	1,266,488	1,079,142	590,142	121%
Investment Revenue	55,213	41,747	41,667	(13,546)	(25%)
Conveyance Revenue	129,032	127,414	131,561	2,529	2%
Miscellaneous Fees & Charges	600,984	496,999	756,036	155,052	26%
Total Revenue:	**$ 32,907,854**	**$ 35,931,794**	**$ 32,607,152**	**$ (300,702)**	**(1%)**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

Figure 2.13 FY 2014-15 Budgeted Revenue Allocations ($000s)



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SECTION III – EXPENDITURES

SUMMARY

FY 2014-15 expenditures are consistent with continued implementation of the Five-Year Financial Plan and other foundational policy documents adopted by the Board of Directors. These expenditures allow the District to continue to deliver safe and reliable water, offer excellent customer service and invest in critical capital projects needed to secure future sustainability.

District expenditures are primarily 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 represent 37 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 27 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 17 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 11 and 8 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 important, this Budget commits to a proactive maintenance and management program by investing in necessary infrastructure repairs, replacements and construction projects. Through these strategic priorities, the District can continue to deliver a safe, cost-effective and dependable water supply to its customers now and into the future.

The prolonged drought has presented challenges related to the District's water supply. As the water level in Lake Cachuma continues to drop, the need will arise this coming year to install 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 is expected to approach $5M, which will be apportioned to each of the COMB Member Agencies. In addition, the District's annual operating cost to extract water from the Goleta Groundwater Basin will increase 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 2011 WSMP, the District employs a strategy of drawing from available water sources in a prioritized manner to maximize supplies and minimize costs. The District therefore draws on Cachuma water supplies as its primary supply source. Groundwater supplements Cachuma water in order to extend the availability of Cachuma throughout the water year and maximize the pumping capacity of groundwater wells. State Water deliveries are also available if they are needed to meet customer demand. FY 2014-15 total water supply costs will increase by $552K, or five percent, largely the result of increased State water deliveries and increased COMB costs due to ongoing drought conditions, as illustrated in Table 3.1. The cost of pumping and treating groundwater is included in O&M costs.

Table 3.1 FY 2014-15 Budgeted Water Supply Agreement Costs

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
COMB (Lake Cachuma Deliveries):					
Water Entitlement	$ 893,053	$ 884,982	$ 895,622	$ 2,569	0%
Operations & Maintenance	1,351,714	1,351,014	1,648,782	297,068	22%
Cachuma Renewal Fund	79,667	88,056	79,667	-	0%
Safety of Dam Act	72,734	72,734	72,734	-	0%
Subtotal - COMB	$ 2,397,168	$ 2,396,786	$ 2,696,805	$ 299,637	12%
CCRB (Water Rights):	$ 853,632	$ 746,959	$ 796,068	$ (57,564)	(7%)
SB County (Cloud Seeding):	$ 30,000	$ 27,564	$ 30,086	$ 86	0%
CCWA (State Water Deliveries):					
Fixed Costs	$ 7,411,554	$ 7,549,084	$ 7,598,129	$ 186,575	3%
Variable Costs	140,085	703,189	120,746	(19,339)	(14%)
Subtotal - CCWA	$ 7,551,639	$ 8,252,273	$ 7,718,875	$ 167,236	2%
GSD (Recycled Water Production):	$ 500,500	$ 442,282	$ 642,800	$ 142,300	28%
Total:	**$ 11,332,939**	**$ 11,865,864**	**$ 11,884,634**	**$ 551,695**	**5%**

** Compares FY 2014-15 Final Budget to FY 2013-14 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.

By agreement, the District share of COMB expenditures is 39 percent. This amounts to $2.7M in FY 2014-15. This is an increase of $300K, or 12 percent, compared to FY 2013-14. 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 amounts to $796K in FY 2014-15. This is a decrease of $58K, or seven percent as compared to FY 2013-14. FY 2014-15 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.

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

CCWA (State Water Deliveries)

As a member of CCWA, the District is entitled to annual State Water deliveries. The fixed costs associated with this entitlement are $7.6M in FY 2014-15 and include the cost to finance, build and operate the infrastructure that transports the water. The District plans on taking deliveries of approximately 1,000 acre feet of State Water in FY 2014-15, 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. 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 anticipates exchanging approximately 500 AF in FY 2014-15.

Goleta Sanitary District (Recycled Water Production)

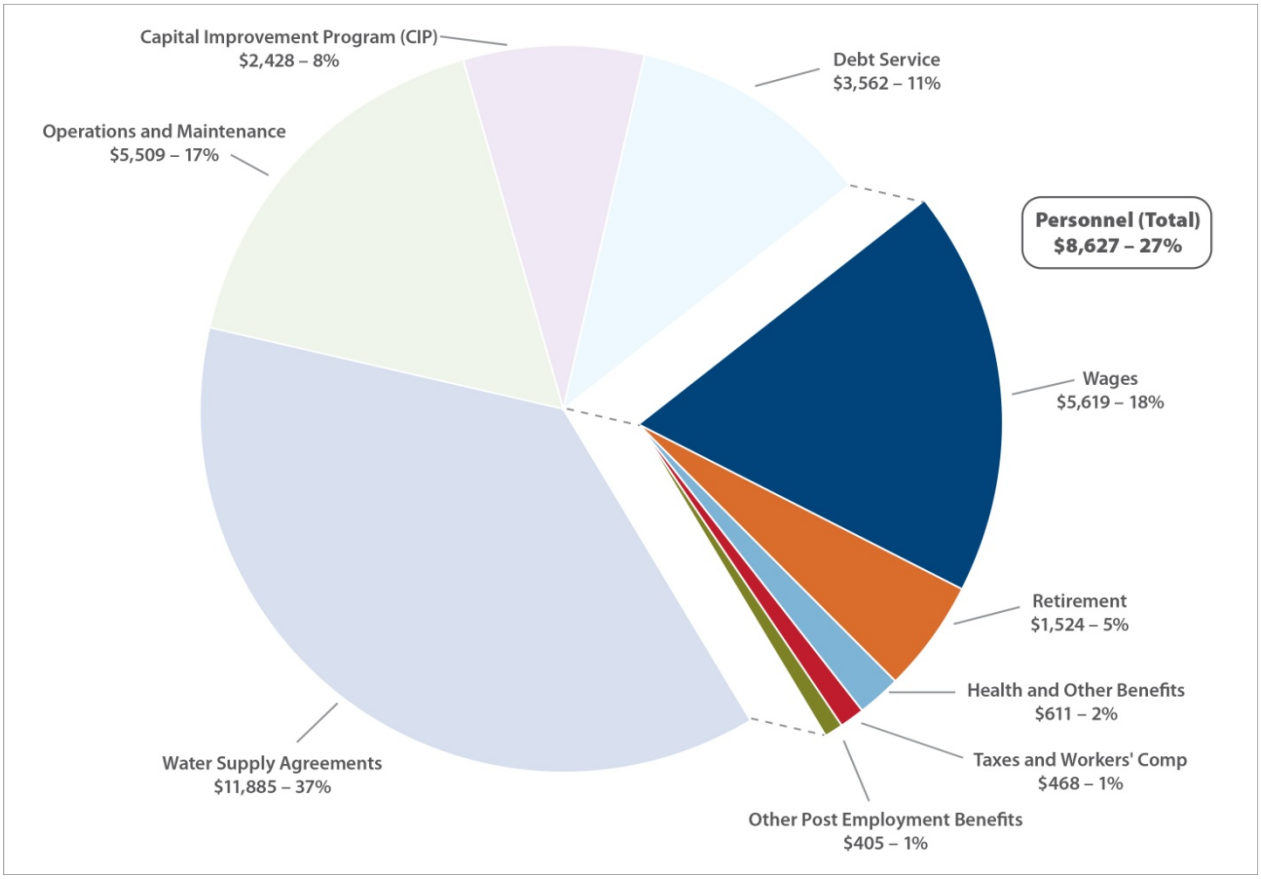
By providing recycled water for irrigation purposes, the District conserves drinking water for potable purposes improving its water supply reliability and keeping costs low. Per agreement, recycled water is purchased from GSD at a rate of approximately $650 per AF to cover costs associated with the operation of the recycled water plant. The District then delivers recycled water supplies to 43 irrigation customers. FY 2014-15 operational costs will increase by $142K because of increased expenses due to California DPH required plant improvements.

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 16,600 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, distribution specialists, electricians, technicians, analysts, accountants and experienced professional managers.

Personnel costs in FY 2014-15 will be $8.6M, a one percent increase as compared to FY 2013-14. This increase is primarily due to a shift in staff time allocations to reimbursable projects, offsetting contractual obligations as well as increases to benefit and retirement costs associated with inflation. Figure 3.1 provides an overview of the individual components of Personnel costs.

Figure 3.1 FY 2014-15 Budgeted Personnel Costs ($000s)



Wage increases year-over-year total $318K and, along with the accompanying $21K increase in payroll taxes, are associated with the contractual obligations described in the Memorandum of Understanding with the Service Employees International Union (SEIU) Local 620. Workers' Compensation insurance premiums will decrease by $2K, as a result of the declining number of claims. Health Insurance premiums and Other Post-Employment Benefits (OPEB) will increase by $17K and $30K, resulting from increases to premium costs.

Retirement expenditures, the largest increase in Personnel costs a year earlier, will go up by a nominal $10K in FY 2014-15 as the District begins realizing 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. As the District approaches contract renewal discussions with SEIU, it remains committed to balancing the need to retain expert employees while minimizing the costs associated with personnel.

Operations & Maintenance

The District service area spans 29,000 acres and includes more than 270 miles of pipeline, 16,600 connections, eight storage reservoirs, seven 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 3.5 billion gallons of water in FY 2014-15. 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 2014-15 Budgeted O&M Costs ($000s)

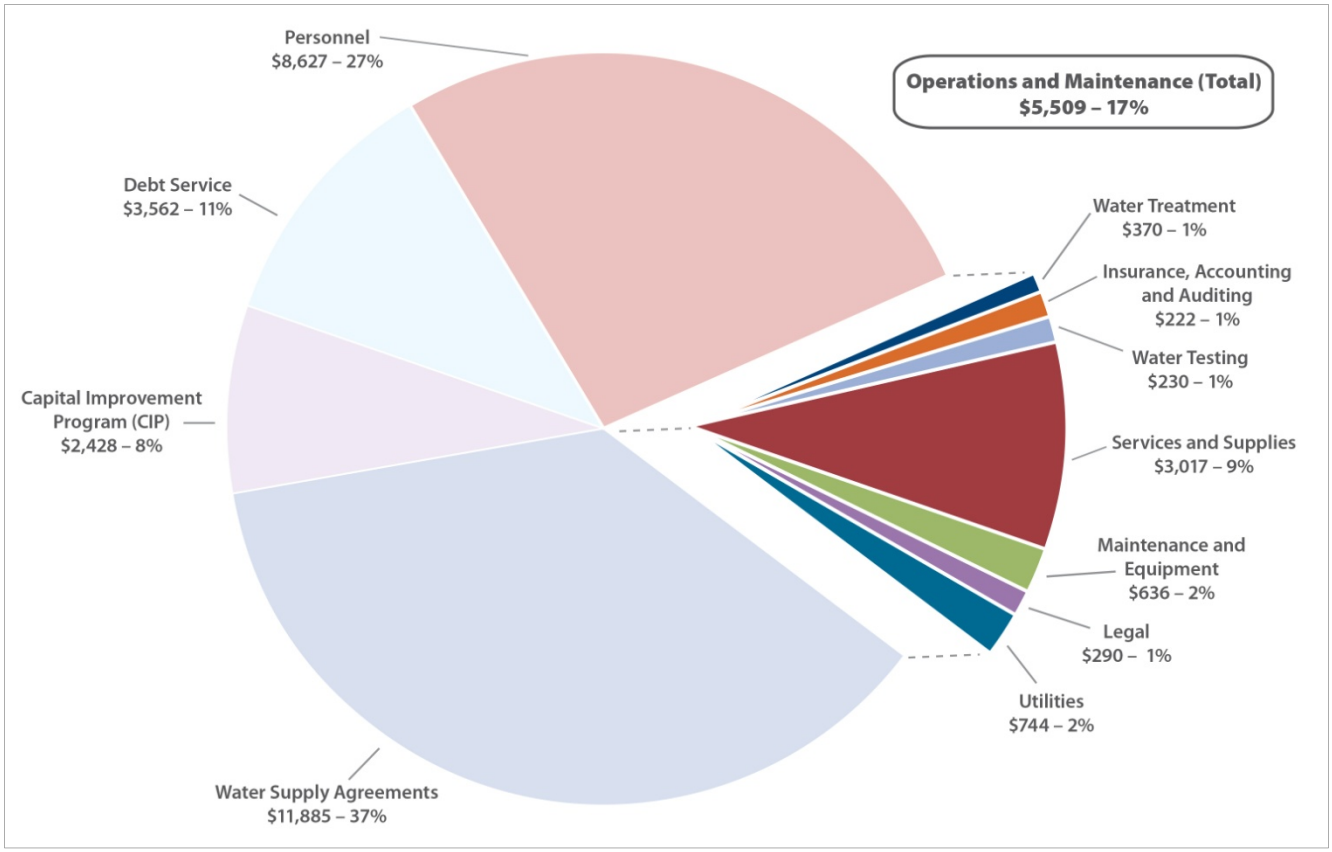


Table 3.2 provides additional detail of FY 2014-15 O&M expenditures. The total O&M expenditures of $5.5M are up five percent from FY 2013-14 as a result of increased pumping from the groundwater basin. Notable variances within expenditure categories include:

- Water Treatment costs will decrease by $276K as a result of decreased treatment of surface water at CDMWTP. However, costs associated with groundwater pumping will increase due to maximization of this supply source during drought conditions.
- Maintenance and Equipment costs will decrease by $415K in FY 2014-15. FY 2013-14 included a one-time District-funded connectivity cost for a new hydroelectric turbine.
- Services and Supplies costs will increase by $510K to fund well rehabilitations, a leak survey and other drought-related expenditures.
- Utility costs will increase by $384K due to increased drought-related groundwater pumping and new time-of-use tariffs implemented by Southern California Edison.

Table 3.2 FY 2014-15 Budgeted O&M Costs

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations & Maintenance Costs:					
Water Treatment	$ 646,396	$ 552,501	$ 369,935	$ (276,461)	(43%)
Water Testing	184,508	137,045	229,781	45,273	25%
Insurance, Accounting, & Auditing	197,864	210,849	222,120	24,256	12%
Maintenance & Equipment	1,051,009	672,139	636,130	(414,879)	(39%)
Legal	318,500	258,292	290,004	(28,496)	(9%)
Services & Supplies	2,507,365	1,750,000	3,017,019	509,654	20%
Utilities	360,418	405,502	744,336	383,918	107%
Total:	**$ 5,266,060**	**$ 3,986,328**	**$ 5,509,325**	**$ 243,265**	**5%**

** Compares FY 2014-15 Final Budget to FY 2013-14 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. As the District continues to adhere to the Five-Year Financial Plan through the alignment of net operating revenues and debt payments, the FY 2014-15 debt service ratio is budgeted at 1.85, an indication of the continued improved financial health of the District.

Infrastructure Improvement Plan

In January 2011, the Board of Directors adopted the inaugural long-term Infrastructure Improvement Plan. 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. As the District enters the fourth year of steady capital infrastructure improvements, it is shifting from reactive and mandated investments to forward-thinking improvements that provide cost-effective, reliable and sustainable services to the community. The FY 2014-15 Budget includes $7.6M in capital projects among four 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 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 meet and maintain compliance with rigorous state and federal regulatory requirements.

- Water Supply/Production Reliability: Projects in this category provide for ongoing investment in a secure water supply portfolio for the community today and into the future. Specific projects are included to mitigate the impacts of the current drought including the installation of approximately 5,000 feet of pipe to connect the Anita and San Ricardo Wells, and make use of operational efficiencies to produce more groundwater.
- Infrastructure and Equipment: These projects make up the planned investments in new and replacement equipment and infrastructure and its ongoing maintenance. By investing in timely replacement and repairs to both the distribution system and the equipment used to support that system, the District provides for the ongoing system infrastructure needs of the community. Specific projects include upgrades to recycled water booster pumps, upgrades to the District SCADA system and fleet vehicle replacements.
- Financial Benefit: These projects provide opportunities to take advantage of new cost-effective approaches, technologies and programs that will result in long-term financial and resource sustainability. Specific projects include implementation of the Advanced Infrastructure Management Phase II program and replacement of large meters throughout the District service area to minimize water loss.

Table 3.3 illustrates categories of FY 2014-15 IIP costs, which will be funded through a combination of operating revenues as well as proceeds raised from a 2010 issuance of COPs. The IIP provides for the completion of 40 separately-tracked projects that will allow the District to accomplish its goals of maintaining reliable water treatment and delivery systems.

Table 3.3 Capital Improvement Projects Summary

Category	IIP Adopted Budget FY 2013-14	IIP Final Budget FY 2014-15	Variance Analysis $ Higher / (Lower)	Variance Analysis $ Higher / (Lower)
Regulatory or Critical	$ 3,165,847	$ 3,818,000	$ 652,153	21%
Water Supply or Production Reliability	50,000	1,150,000	1,100,000	2,200%
Infrastructure - New, Replace, or Maintain	925,500	670,000	(255,500)	(28%)
Financial Benefit	570,000	2,030,000	1,460,000	256%
Total Capital Projects:	**$ 4,711,347**	**$ 7,668,000**	**$ 2,956,653**	**63%**
COP Funded	895,000	5,240,000	4,345,000	485%
Net Operating Budget Funded Projects:	**$ 3,816,347**	**$ 2,428,000**	**$(1,388,347)**	**(36%)**

Table 3.4, on the following page, lists each IIP project and its FY 2014-15 funding requirements as adopted. The proposed changes are being made to reflect changing priorities related to the drought since the 2014 IIP was originally adopted by the Board in March. A summary of the specific changes is provided below.

The revisions consist of shifting of $1M from the upcoming improvements at the Corona Del Mar Water Treatment Plant (Project 5 – CDMWTP Sludge Bed #3 and Overflow Basin) to Groundwater Well Augmentation Projects (Project 19) that are required to augment the District's current groundwater pumping capability to meet drought demands while surface water supplies are constrained. The improvements to the CDMWTP will be postponed until FY 2015-16.

The $1M assigned to Well Projects will be utilized primarily at the University Well ($500K) for a new storage tank, pumps and treatment equipment. Preliminary engineering estimates for the Airport Well pump, column and motor replacement are expected to be $100K. As this estimate represents the typical cost per well, an additional $200K has been set aside to fund similar rehabilitation projects on two additional wells if needed. An additional $50K has been set aside to address potential treatment upgrades at the Anita well and $150K for a new casing liner at San Ricardo to ensure continuous operation of these critical groundwater assets.

Finally, funding for Cathodic Protection Upgrades (Project 2) will be postponed to FY 2015-16. The $100K cost of this project will be allocated to pay the remaining balance of the contract for the Filter Media Replacement at Corona Del Mar Water Treatment Plant (Project 4).

As illustrated, total spending is $7.6M, of which $5.2M is funded by COP proceeds and $2.4M from this Operating Budget. Throughout the year, District staff will continue to receive the training and develop the expertise needed to deliver these projects on time and within the amount budgeted.

Table 3.4 Infrastructure Improvement Plan Projects

Ref.	Project Name	Previously Adopted IIP FY 2014-15	Final FY 2014-15
Regulatory Requirement and / or Critical Need			
1.	USBR Title Transfer	$ -	$ -
2.	Cathodic Protection Upgrades	100,000	0
3.	Van Horne Reservoir Slope Protection	Complete	
4.	CDMWTP Filter Media Replacement	-	100,000
5.	CDMWTP Sludge Bed #3 and Overflow Basin Construction	1,940,000	940,000
6.	CDMWTP Backwash Basin Construction	360,000	360,000
7.	CDMWTP Sand Replacement in Sludge Beds	200,000	200,000
8.	CDMWTP Bulk Chemical Tank Safety Platform	200,000	200,000
9.	Valve and Hydrant Replacements	350,000	350,000
10.	Main Replacements	150,000	150,000
11.	Safety and Sanitary Upgrades to Storage Tanks	100,000	100,000
12.	Polybutylene Service Line Replacements	78,000	78,000
13.	Goleta West Conduit Alternatives Implementation	Postponed	
14.	Copper Service Line Replacements	40,000	40,000
15.	Arc Flash and Electrical Code Compliance	100,000	100,000
16.	Storm Water Regulation Compliance (Design study)	Complete	
17.	Bio Swales Installation and Truck Wash Area- Operations Yard	150,000	150,000
18.	Other Relocation Projects (City, County, Caltrans)	50,000	50,000
19.	Groundwater Well Augmentation Projects - Airport Pump Replacement, University & Anita Treatment Systems, San Ricardo Liner	Not Included	1,000,000
Water Supply / Production Reliability Projects			
20.	Rebuild of Airport Well Filter	50,000	50,000
21.	GWD/City of Santa Barbara Interconnect	Postponed	
22.	Anita Well - Pipeline Connection to San Ricardo Treatment	1,100,000	1,100,000
Infrastructure & Equipment - Replacement, New, and Maintenance Projects			
23.	Replacement and Upgrades of Technology Systems	100,000	100,000
24.	Site Rehabilitation and Sustainability Demonstration (San Ricardo)	Complete	
25.	Transmission Main Valve at Patterson	Complete	
26.	Pressure Regulating Valves for system	50,000	50,000
27.	Construction Equipment Replacement	50,000	50,000
28.	Fleet Vehicle Replacements	70,000	70,000
29.	Anticipated Upsizing of Mains	Postponed	
30.	SCADA Upgrades	100,000	100,000
31.	Replace Various Pumps and Motors	100,000	100,000
32.	Various Treatment Equipment Replacements	50,000	50,000
33.	Recycled Booster Pump Redesign and Replacement	150,000	150,000
Financial Benefit Projects			
34.	AIM Program Phase II (Asset Management)	400,000	400,000
35.	Continued Hydro Turbine Installations - Patterson	90,000	90,000
36.	Material & Equipment Protection - Solar Trellis Systems	50,000	50,000
37.	Meter Replacements - Ongoing	Postponed	
38.	Water System Submetering for Conservation and Monitoring	150,000	150,000
39.	Lighting upgrades - Main office	40,000	40,000
40.	District Wide Meter Replacement Project - Large Meters	1,300,000	1,300,000
Total Infrastructure Improvement Projects		**$ 7,668,000**	**$ 7,668,000**
	COP-Funding in FY 2014-15		$ 5,240,000
	Operating-Funded Projects, FY 2014-15		**$ 2,428,000**

Summary of District Expenditure Forecast for FY 2014-15

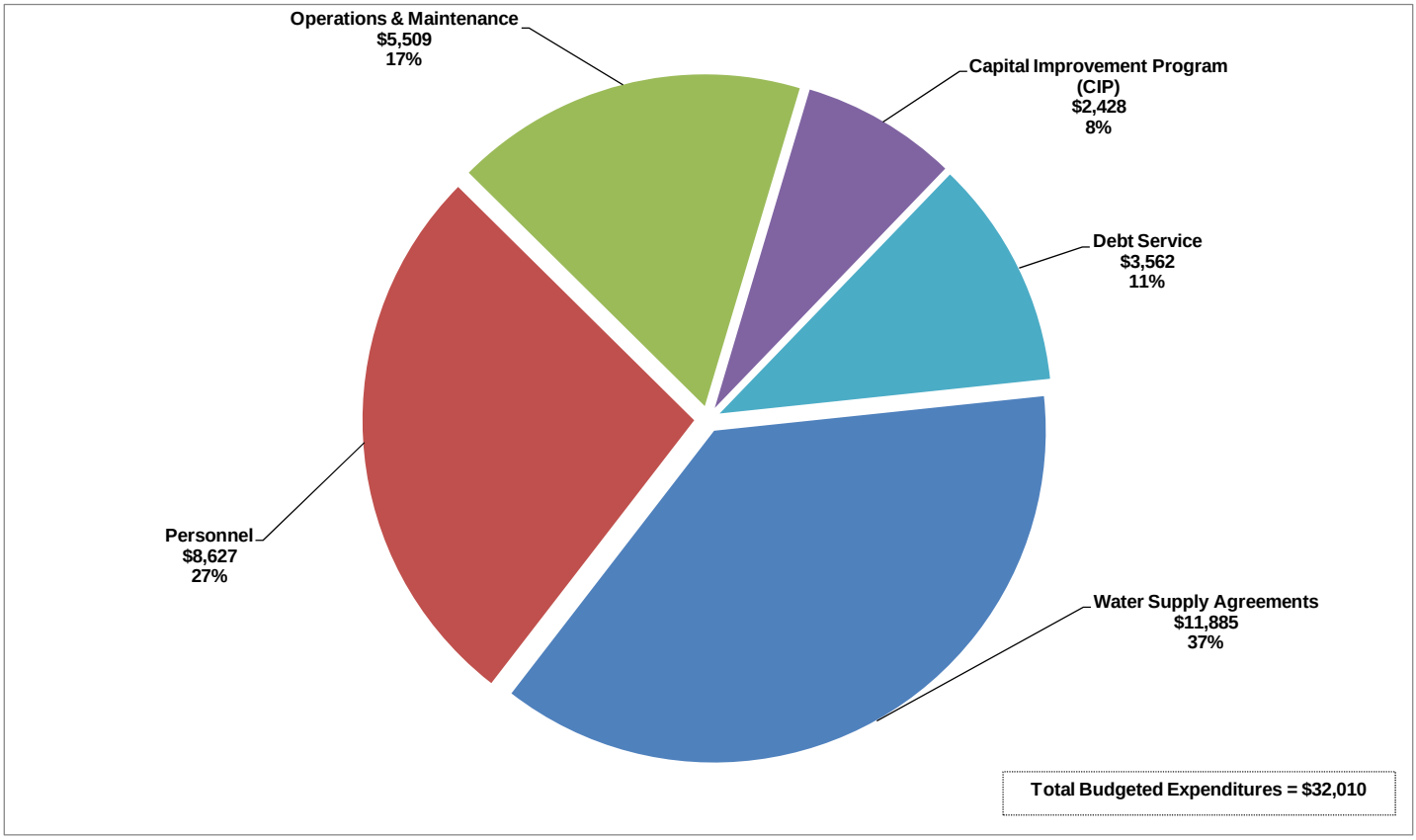
Table 3.5 and Figure 3.3 summarize FY 2014-15 total expenditures of $32M. A key component of the annual Budget is to prepare for cash flow variables throughout the year and pace program and project expenditures accordingly. FY 2014-15 expenditures have incorporated customer behaviors and the accompanying seasonality of revenue as described in Section II.

Table 3.5 FY 2014-15 Budget Expenditures Compared to FY 2013-14 Budget Expenditures

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 2,397,168	$ 2,396,786	$ 2,696,805	$ 299,637	12%
CCRB (Water Rights)	853,632	746,959	796,068	(57,564)	(7%)
SB County (Cloud Seeding)	30,000	27,564	30,086	86	-
CCWA (State Water Deliveries)	7,551,639	8,252,273	7,718,875	167,236	2%
GSD (Recycled Water Production)	500,500	442,282	642,800	142,300	28%
Subtotal:	**$ 11,332,939**	**$ 11,865,864**	**$ 11,884,634**	**$ 551,695**	**5%**
Personnel:					
Wages, Benefits, and Taxes	$ 8,152,192	$ 8,077,034	$ 8,221,848	$ 69,656	1%
Other Post Employment Benefits	374,910	372,649	404,980	30,070	8%
Subtotal:	**$ 8,527,102**	**$ 8,449,683**	**$ 8,626,828**	**$ 99,726**	**1%**
Operations & Maintenance:					
Water Treatment	$ 646,396	$ 552,501	$ 369,935	$ (276,461)	(43%)
Water Testing	184,508	137,045	229,781	45,273	25%
Insurance, Accounting, & Auditing	197,864	210,849	222,120	24,256	12%
Maintenance & Equipment	1,051,009	672,139	636,130	(414,879)	(39%)
Legal	318,500	258,292	290,004	(28,496)	(9%)
Services & Supplies	2,507,365	1,750,000	3,017,019	509,654	20%
Utilities	360,418	405,502	744,336	383,918	107%
Subtotal:	**$ 5,266,060**	**$ 3,986,328**	**$ 5,509,325**	**$ 243,265**	**5%**
Total Expenditures before Debt and CIP:	**$ 25,126,101**	**$ 24,301,875**	**$ 26,020,787**	**$ 894,686**	**4%**
Debt Service:	**3,562,366**	**3,562,365**	**3,561,589**	**(777)**	**(0%)**
Capital Improvement Projects (CIP):	**3,816,347**	**3,005,809**	**2,428,000**	**(1,388,347)**	**(36%)**
Total Expenditures:	**$ 32,504,814**	**$ 30,870,049**	**$ 32,010,376**	**$ (494,438)**	**(2%)**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

Figure 3.3 FY 2014-15 Budgeted Expenditure Allocations ($000s)



The FY 2014-15 expenditures are $32M, a decrease of $494K compared to FY 2013-14. The total $494K expenditure decrease is primarily driven by three main factors:

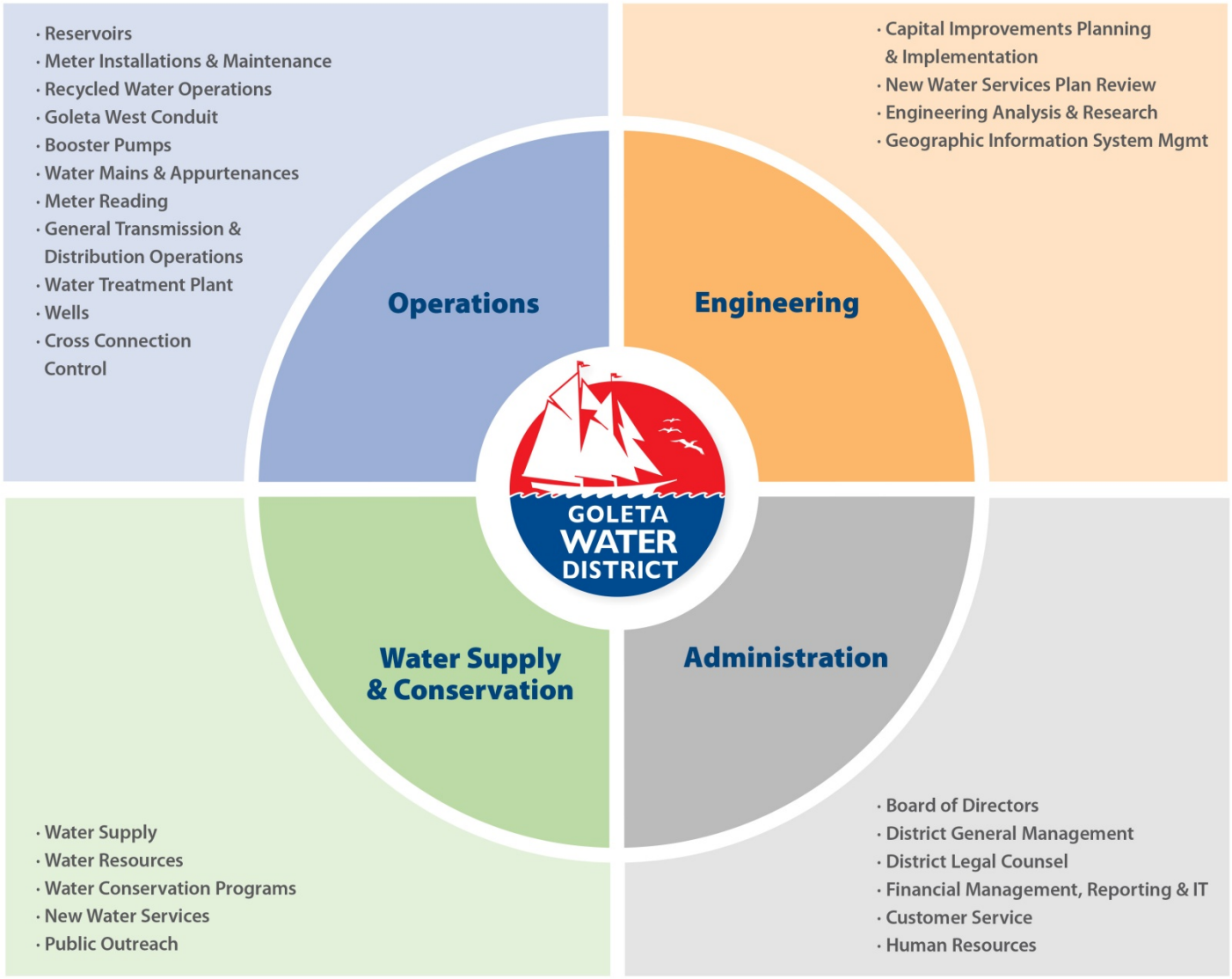
- COMB – This year's COMB budget includes costs to install a pumping barge to move water into the intake tower that feeds both Cachuma and State water to the South Coast as the water level in Lake Cachuma continues to drop. The FY 2014-15 Budget includes a $300K increase associated with principal and interest payments to pay for the District's financed portion. Other water supply agreement expenditures include increased CCWA and GSD costs associated with protecting surface water rights and regulatory plant improvements, respectively.
- Drought Planning – Increased operations and maintenance costs associated with groundwater pumping as well as increased costs associated with public outreach and incentive-based conservation programs related to the drought are additional factors contributing to an overall $895K increase in expenditures.
- Capital Improvement Projects – The District achieved a credit upgrade by S&P during a refinancing of approximately $20M in outstanding debt in FY 2013-14, enabling the District to generate approximately $5.5M in additional proceeds to be used for system-wide capital projects beginning in FY 2014-15. The new proceeds allow for a $1.4M decrease in funding for capital projects out of the operating budget.

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 2014-15 Budgeted Expenditures by Departmental Cost Center

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Operations	$ 8,191,370	$ 7,309,686	$ 7,657,931	$ (533,439)	(7%)
Engineering	432,769	391,178	380,787	(51,982)	(12%)
Water Supply & Conservation	12,911,260	13,242,817	13,973,561	1,062,301	8%
General Administration	3,590,702	3,358,194	4,008,508	417,806	12%
Total Expenditures:	**$ 25,126,101**	**$ 24,301,875**	**$ 26,020,787**	**$ 894,686**	**4%**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

Total FY 2014-15 cost center expenditures will be $26M which is an increase of $895K, or four percent, from FY 2013-14, including:

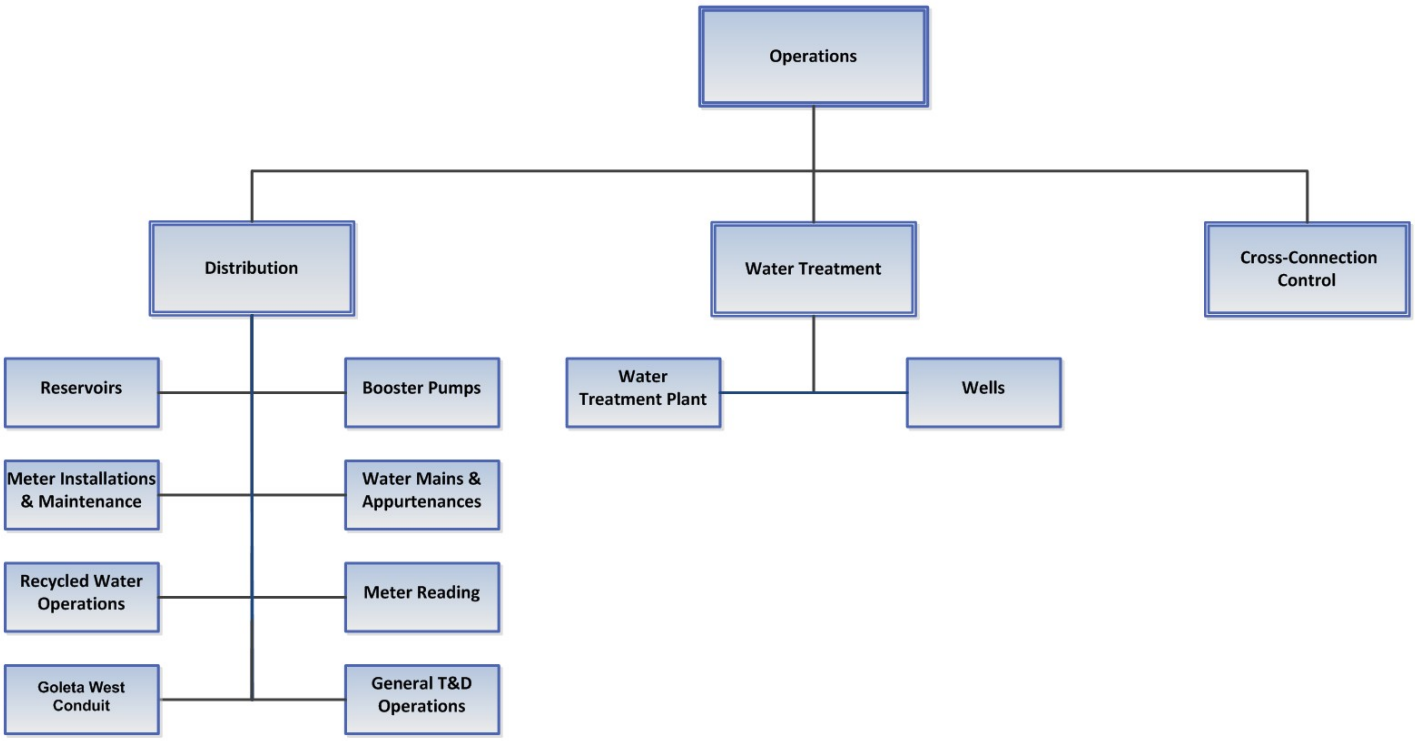
- A $533K decrease in Operations primarily due to the decreased treatment of surface water and lower maintenance and equipment costs in the absence of the one-time cost for a hydroelectric turbine included in the FY 2013-14 Adopted Budget.
- A $52K decrease in Engineering costs as staff resources are shifted to capital and reimbursable projects during FY 2014-15.
- A $1.1M increase in Water Supply & Conservation expenditures due to increased public information costs associated with the drought, including conservation programming, as well as increased CCWA and COMB capital improvement costs.
- A $418K increase in General Administration costs as a result of costs associated with accounting system enhancements, preparation for a new Cost of Service Study and anticipated contractual payments to a billing service provider.

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. In total, District water systems 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 2014-15 are:

- Ensure reliability of assets associated with recycled water system, as recycled water supply becomes a more critical resource, supplanting 950 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.
- Install equipment to centrally monitor pressure reducing stations and high priority meters throughout the distribution system ensuring adequate pressures and flows are being delivered to customers at all times.
- Install distribution system equipment to enhance monitoring of system water loss throughout the distribution system.
- Implement Phase 1 of the Meter Replacement Program with replacement of approximately 800 existing 2 inch and larger meters.

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 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.

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 priorities in FY 2014-15 are:

- Rehabilitate District wells to rebalance supply portfolio and meet customer demand. This is critical even as customers conserve water.
- Increase groundwater well production to approximately 4,600 AF, the highest amount of groundwater production since 1990. Groundwater supplies will supplement Cachuma supplies as Cachuma spill water is not expected to be available in FY 2014-15.
- Assist in construction of needed improvements to the CDMWTP as a result of the CDMWTP process study 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 that 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 2014-15 are:

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

Operations Accomplishments FY 2013-14

During FY 2013-14, Operations evaluated current practices and adopted procedural changes to reflect industry best practices, including:

- Completion of more than 25 planned shutdowns throughout the distribution system. These planned shutdowns allow for critical improvements to District mainline valve infrastructure increasing the longevity of the distribution system.
- Implementation of the District's Storm Water Sampling Program at the headquarters building.
- Completion of all recommendations of the California Department of Public Health Sanitary Survey.
- Replacement and installation of more than 40 aging mainline valves for the second consecutive year. The valve replacement program, which will continue in FY 2014-15, protects distribution system and customer infrastructure as the District works to repair and replace aging pipelines and appurtenances.
- Successful completion of two consecutive years of the more stringent Trihalomethanes testing requirements. The District met the new water quality regulatory standards.
- Submittal of updates to the Goleta West Conduit Alternative Analysis Report to the California Department of Public Health.
- Completion of Phase 1 of the Comprehensive Emergency Response Plan to produce a working document to address general and specific disaster scenarios.
- Updates, submittal and approval of the Bacteriological Sampling Plan to meet California Department of Public Health regulatory requirements.

- Production of approximately 3,000 AFY of groundwater to supplement District water supplies.
- Completion of Tracer Studies on the chlorination procedures and practices at the CDMWTP and the GSD reclamation facility to ensure chlorination facilities are operating as designed to meet California Department of Public Health regulatory requirements.
- Successful implementation of abbreviated meter reading schedules to facilitate the billing system conversion by continuing to read more than 99 percent of all meters in the system each month.
- Completion of the Ellwood Reservoir structural analysis, safety review and sanitary inspection.

FY 2014-15 Operations Cost Center Budget

Table 4.2 details the primary Operations expenditure categories and describes variances between FY 2013-14 Budget and FY 2014-15 budgeted expenditures.

Table 4.2 FY 2014-15 Operations Cost Center Budget Summary

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Operations					
Personnel:	**$ 4,484,418**	**$ 4,503,063**	**$ 4,452,048**	**$ (32,370)**	**(1%)**
Operations & Maintenance:					
Water Treatment	646,396	552,501	369,935	(276,461)	(43%)
Water Testing	184,508	137,045	229,781	45,273	25%
Insurance, Accounting, & Auditing	96,720	121,630	105,852	9,132	9%
Maintenance & Equipment	1,050,313	671,418	635,434	(414,879)	(40%)
Services & Supplies	1,368,597	918,527	1,120,545	(248,052)	(18%)
Utilities	360,418	405,502	744,336	383,918	107%
Subtotal:	3,706,952	2,806,623	3,205,883	(501,069)	(14%)
Total Expenditures:	**$ 8,191,370**	**$ 7,309,686**	**$ 7,657,931**	**$ (533,439)**	**(7%)**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

The Operations budget will decrease in FY 2014-15 by seven percent, or $533K. Notable changes from FY 2013-14 Operations Budget to the FY 2014-15 Budget include:

- Operations Personnel costs will remain relatively flat in FY 2014-15. Operations staff efficiencies have improved thereby providing opportunities for the Operations team to improve customer service and provide a more stringent regulatory oversight environment. Additionally, a portion of internal Operations work will shift to Capital and reimbursable projects, which also reduces the need for services from outside contractors.

- Water Treatment costs will decrease by $276K due to decreased treatment of surface water at CDMWTP.

- Maintenance and Equipment costs will decrease by $415K since FY 2013-14 included a District-funded connectivity cost for a larger hydroelectric turbine.

- Services and Supplies includes costs to fund well rehabilitations, a leak survey and other drought-related expenditures. A decrease of $248K year-over-year is primarily due to the inclusion of funding for the Emergency Response Plan in the FY 2013-14 Adopted Budget and not included in the current FY 2014-15 Budget.

- Utility costs will increase by $384K as the result of increased groundwater well operations in response to the drought.

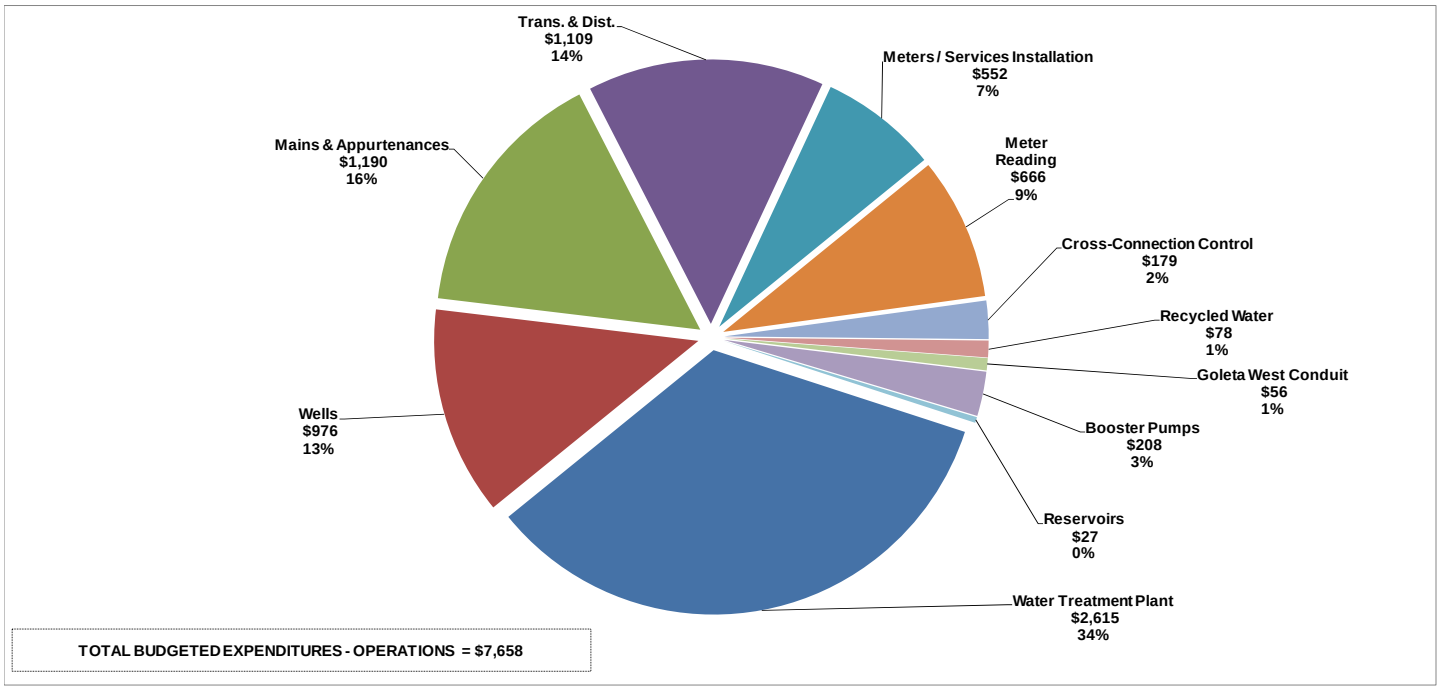
In response to ongoing drought conditions, the District plans to maximize groundwater use in FY 2014-15 within the parameters set by the Wright Judgment and the SAFE Ordinance. Current groundwater well capacity projects will allow the District to produce approximately 4,600 AF of groundwater in FY 2014-15 to meet customer demands.

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

Table 4.3 FY 2014-15 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	$ 268,732	$ 69,098	$ -	$ -	$ -	$ -	$ -	$ -	$ 31,835	$ -	$ 270	$ 369,935
Water Testing	156,847	70,990	-	-	-	-	-	-	1,944	-	-	229,781
Personnel - Wages	1,219,076	-	524,783	361,145	324,164	426,366	101,747	9,184	3,674	3,674	3,674	2,977,485
Personnel - Benefits	452,626	-	206,248	163,168	126,081	195,209	37,998	3,202	1,281	1,281	1,281	1,188,375
Personnel - Taxes & W.C.	118,871	-	55,089	35,231	31,648	33,401	10,755	543	217	217	217	286,188
Insurance, Accounting, & Auditing	-	-	-	105,852	-	-	-	-	-	-	-	105,852
Maintenance & Equipment	95,203	45,611	259,648	122,856	55,356	2,076	22,344	3,828	3,432	13,596	11,484	635,434
Services & Supplies	221,427	384,936	139,596	279,042	14,940	8,820	6,216	38,052	9,420	14,040	4,056	1,120,545
Utilities	82,256	405,793	4,968	41,904	-	-	-	23,280	4,680	175,176	6,279	744,336
Total:	**$2,615,037**	**$ 976,428**	**$ 1,190,332**	**$ 1,109,197**	**$ 552,189**	**$ 665,871**	**$ 179,059**	**$ 78,089**	**$ 56,483**	**$ 207,984**	**$ 27,261**	**$ 7,657,931**

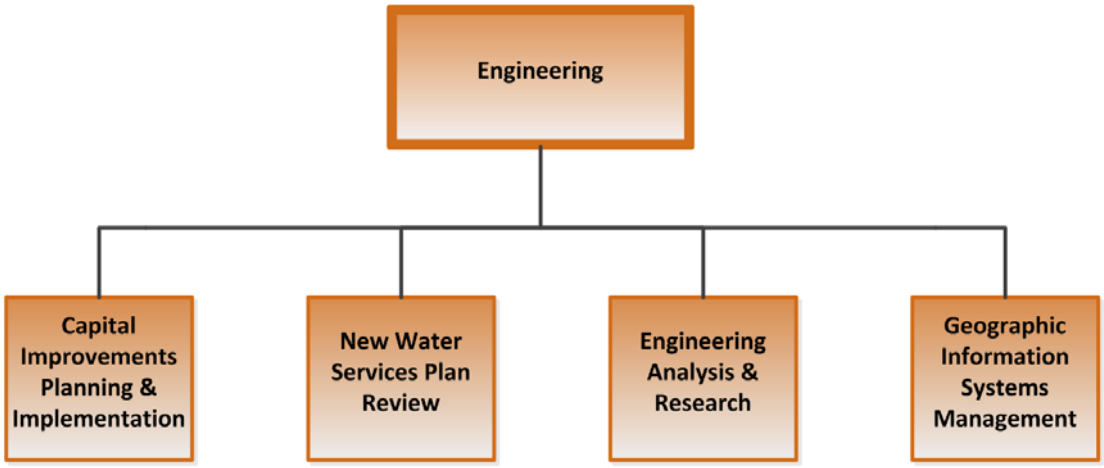
Figure 4.3 FY 2014-15 Operations Budgeted Expenditures by Programmatic Cost Center ($000s)



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.

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.

During FY 2014-15, capital projects will focus on meeting regulatory requirements and addressing critical system needs. Projects include construction of the third sludge bed and the overflow basin at the CDMWTP as well as sand replacement in the existing basins. Safety improvements for access to the chemical tanks and the addition of a baffle wall in the Backwash Basin will be accomplished. The Anita Well will be brought into production to augment water supplies by treating the water it produces at the site of the new filtration plant at the San Ricardo site. The development of the Advanced Infrastructure Management Program will continue to be advanced with its focus on the details of the water supply and distribution system.

The state-of-the-art Corona Del Mar Water Treatment Plant includes a LEED-certified administrative building and treatment facilities that can process up to 24 million gallons of drinking water per day. The Process Design Review, now complete, will be the basis for plant operations and improvements well into the next decade.

New Water Services Plan Review

New Water Services Plan Review staff review, analyze, and approve developer water infrastructure plans for the expansion of the water facilities to serve new customers. 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.

Engineering Analysis and Research

Ongoing efforts to utilize staff expertise and experience rather than outside consultants for engineering projects have reduced District reliance on costly contracted services.

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 2014-15, engineering analysis and research efforts will support the completion of 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 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 2013-14

Key Engineering FY 2013-14 projects include:

- Completion of the San Ricardo Architectural Enhancement Project providing a substantial upgrade to the site appearance, as well as installation of a solar panel array.
- Preparation for the 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, at Santa Barbara County's expense.
- Development of the Advanced Infrastructure Management program to assist in the development of the next Five-Year IIP.
- 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.
- Updated and revised the Infrastructure Improvement Plan.
- Conducted staff analyses, plan checks and inspections on private development projects.

FY 2014-15 Engineering Budget

Table 4.4 outlines Engineering expenditures and describes variances between FY 2013-14 Budget and FY 2014-15 budgeted expenditures.

Table 4.4 FY 2014-15 Engineering Cost Center Budget Summary

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - Engineering					
Personnel:	**$ 371,917**	**$ 321,522**	**$ 340,371**	**$ (31,546)**	**(8%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	11,988	14,224	12,384	396	3%
Maintenance & Equipment	-	311	-	-	-
Services & Supplies	48,864	55,121	28,032	(20,832)	(43%)
Subtotal:	60,852	69,656	40,416	(20,436)	(34%)
Total Expenditures:	**$ 432,769**	**$ 391,178**	**$ 380,787**	**$ (51,982)**	**(12%)**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

The Engineering budget will decrease by $52K, or 12 percent, in FY 2014-15. Notable changes from the FY 2013-14 Budget to the FY 2014-15 Budget include:

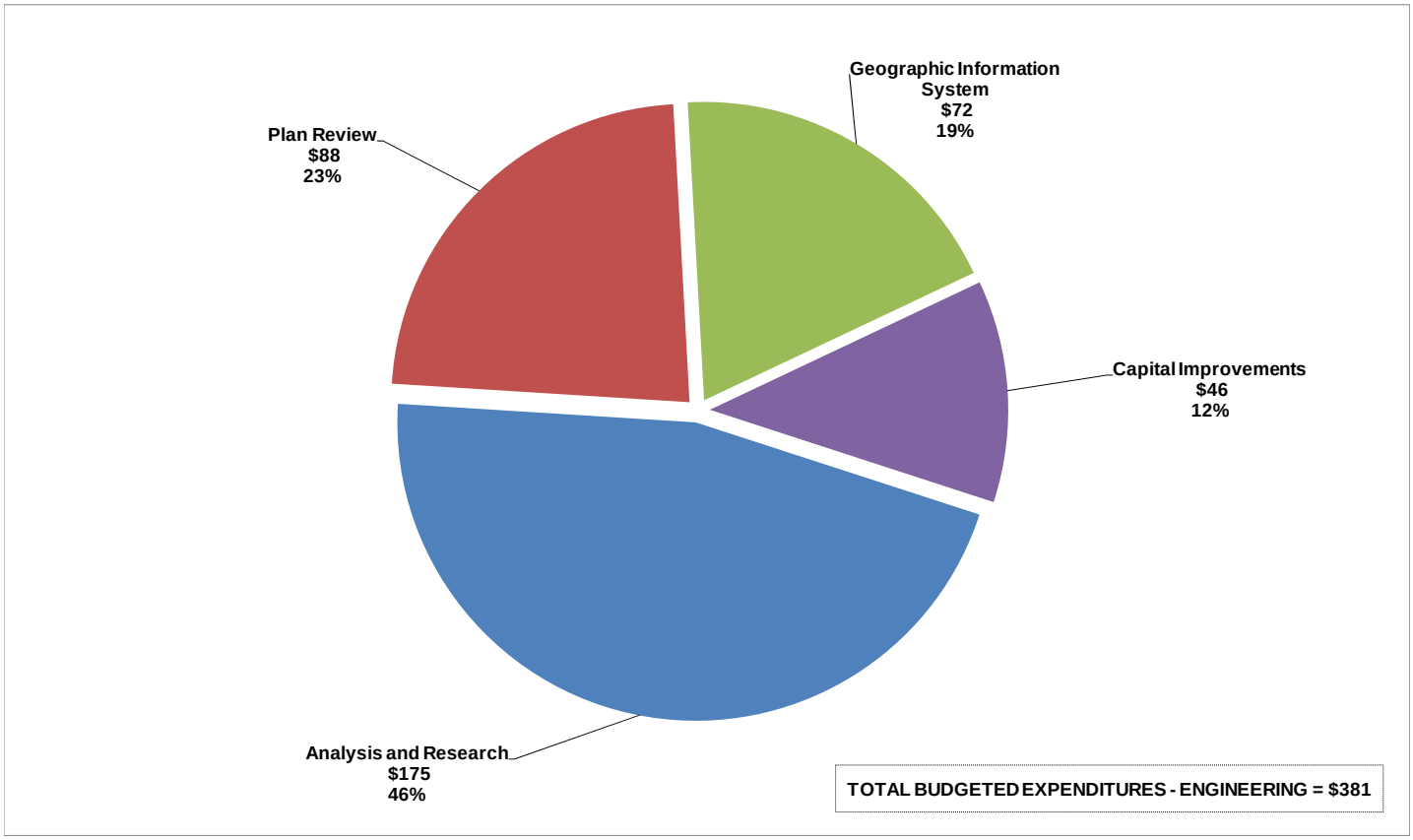
- Engineering staff levels will remain constant in FY 2014-15; however, Personnel costs will decrease by $32K, or eight percent. This is primarily caused by staff time increasingly allocated to reimbursable projects, drawing from the operating budget.
- Services & Supplies costs will decrease by $21K due to the reallocation of the USBR Title Transfer Project to the capital budget.
- Maintenance and Equipment costs will remain flat at zero as no equipment purchases are planned in FY 2014-15.

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

Table 4.5 FY 2014-15 Engineering Budgeted Expenditures by Programmatic Cost Center

Description	Analysis and Research	Plan Review	Geographic Information System	Capital Improvements	Total Engineering
Personnel - Wages	$ 105,242	$ 76,079	$ 48,743	$ 34,605	$ 264,669
Personnel - Benefits	37,588	3,531	19,173	4,714	65,005
Personnel - Taxes & W.C.	5,008	2,729	2,356	604	10,697
Insurance, Accounting, & Auditing	12,384	-	-	-	12,384
Maintenance & Equipment	-	-	-	-	-
Services & Supplies	14,892	5,760	1,500	5,880	28,032
Total:	**$ 175,114**	**$ 88,099**	**$ 71,772**	**$ 45,802**	**$ 380,787**

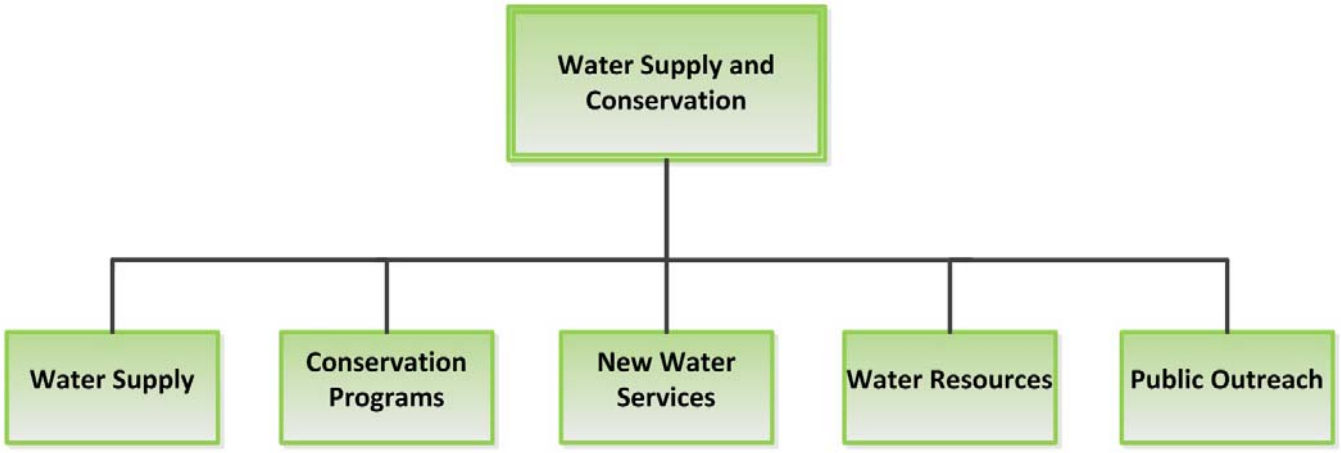
Figure 4.5 FY 2014-15 Engineering Budgeted Expenditures by Programmatic Cost Center ($000s)



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 extended drought conditions, expanded FY 2014-15 conservation program elements will be optimized to enhance services by targeting programs and incentives to specific customer classes with the potential for additional water efficiently gains. Ongoing drought response conservation efforts will also support ongoing District efforts to meet State-mandated conservation targets.

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waterwise
Goleta Water District

New Water Services

The New Water Services cost center focuses on establishing relationships with new 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 the New Water Services Division 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. The 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 2014-15 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; investigation of water supply development and drought supply augmentation; and research, policy development and contingency planning related to potential water shortage stage declarations in drought conditions.

The Water Resources cost center includes a grants management function and is responsible for seeking out and applying for new grant opportunities. During FY 2013-14, the District worked with the Cachuma Resource Conservation District (CRCD) to successfully secure state grant funding through the Agricultural Water Use Efficiency Program. The project will involve surveying agricultural customers in the District service area, developing mobile tools and resources for farm irrigation management and developing a Strategic Action Plan that will position the area for future grant funding. During FY 2014-15, grant activities will focus on collaborating with CRCD to implement the Water Use Efficiency grant, working with regional Integrated Regional Water Management Plan partners to apply for Proposition 84 Round 3 funds as well as seeking and applying for drought-relief funding approved by the Governor to fund water supply reliability projects identified in the IIP.

Through April of FY 2013-14, the District processed 98 New Water Services projects including providing 19 Preliminary Conditions Letters, completing 9 utility construction plan sets, issuing 10 Conditional Can & Will Serve Letters, and 7 Final Can & Will Serve Letters to customers requesting new or expanded water service.

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 2014-15 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 2013-14

Key WS&C accomplishments during FY 2013-14, include:

- Implemention of Board-adopted District Code modifications refining water allocation procedures New Water Services projects, clarifying policy provisions and definitions and enhancing implementation of the SAFE Ordinance.
- Oversaw and processed more than 97 development project applications, enhancing District revenues and facility assets, while ensuring customer water demands align with available supplies.
- Enhanced review of District normal and drought water use efficiency measures to ensure cost-effective targeting and implementation of services for customers and compliance with State laws.

- Development and implemention of the District Temporary Meter Program to continue providing temporary service to customers for construction and other approved temporary uses, consistent with District Code and regulations.
- Development of a Drought Preparedness and Water Shortage Contingency Plan to plan for and mitigate the community impacts of a water supply shortage.
- Performance of a comprehensive review of the State Water Resources Control Board 2009 Recycled Water Policy and District foundational planning documents to determine District compliance with Salt and Nutrient Management Planning requirements. Remaining analysis related to the Salt and Nutrient Management Plan will be integrated into the Groundwater Management Plan Update scheduled for FY 2014-15.
- Coordination with Southern California Edison to perform an energy audit of the buildings located at the District headquarters to identify opportunities for improved energy efficiency and potential incentives and programs that may be available to the District.
- Coordination with the Cachuma Resource Conservation District to successfully secure state grant funding to improve agriculture water use efficiency in the District service area.
- Continued participation in the 2013 Santa Barbara County Integrated Regional Water Management Plan update, which is a prerequisite for securing many State infrastructure grant funds. District projects included in this plan will be eligible and highly competitive for future State funding opportunities.
- Redesign of the District newsletter and expansion of the format to provide for more in-depth articles on key District issues.
- Developed, produced and implemented a comprehensive Drought Outreach Program to encourage customers to reduce water use by 20% as called for in the District Stage I Water Shortage declaration.

District conservation experts connected with more than 1,750 customers at conservation outreach events and 1,600 students via school presentations during FY 2013-14, helping the community identify ways to eliminate water waste and save money. Additionally, District staff provided personalized conservation site visits, surveys, and customer reports for more than 157 residential and commercial customers.

- Completed District website improvements including enhanced features on the home page, new sections and increased content management system (CMS) functionality.
- Completed the installation of the new District Edible Garden accompanied by graphic design materials, site signage and maps, other informational materials and a segment on the Garden Wise television program.

FY 2014-15 Water Supply and Conservation Budget

Table 4.6 details the primary FY 2014-15 WS&C budgeted expenditures and variances from the FY 2013-14 Budget.

Table 4.6 FY 2014-15 Water Supply and Conservation Cost Center Budget Summary

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - WS&C					
Water Supply Agreements:					
COMB (Lake Cachuma Deliveries)	$ 2,397,168	$ 2,396,786	$ 2,696,805	$ 299,637	12%
CCRB (Water Rights)	853,632	746,959	796,068	(57,564)	(7%)
SB County (Cloud Seeding)	30,000	27,564	30,086	86	0%
CCWA (State Water Deliveries)	7,551,639	8,252,273	7,718,875	167,236	2%
GSD (Recycled Water Production)	500,500	442,282	642,800	142,300	28%
Subtotal:	**11,332,939**	**11,865,864**	**11,884,634**	**551,695**	**5%**
Personnel:	**1,192,337**	**1,099,891**	**1,143,132**	**(49,205)**	**(4%)**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	18,264	19,676	20,244	1,980	11%
Maintenance & Equipment	696	410	696	-	-
Services & Supplies	367,024	256,977	924,855	557,831	152%
Subtotal:	**385,984**	**277,063**	**945,795**	**559,811**	**145%**
Total Expenditures:	**$ 12,911,260**	**$ 13,242,817**	**$ 13,973,561**	**$ 1,062,301**	**8%**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

The WS&C cost center Budget will increase by $1.1M, or eight percent, in FY 2014-15. Notable changes from the FY 2013-14 Budget to FY 2014-15 Budget include:

- Overall costs associated with Water Supply Agreements have increased by $552K primarily due to increased CCRB expenses associated with protecting the District surface water rights. Additionally, fixed State Water costs have increased by $187K, which includes CCWA bond payments as well as fixed operating costs of CCWA and DWR.

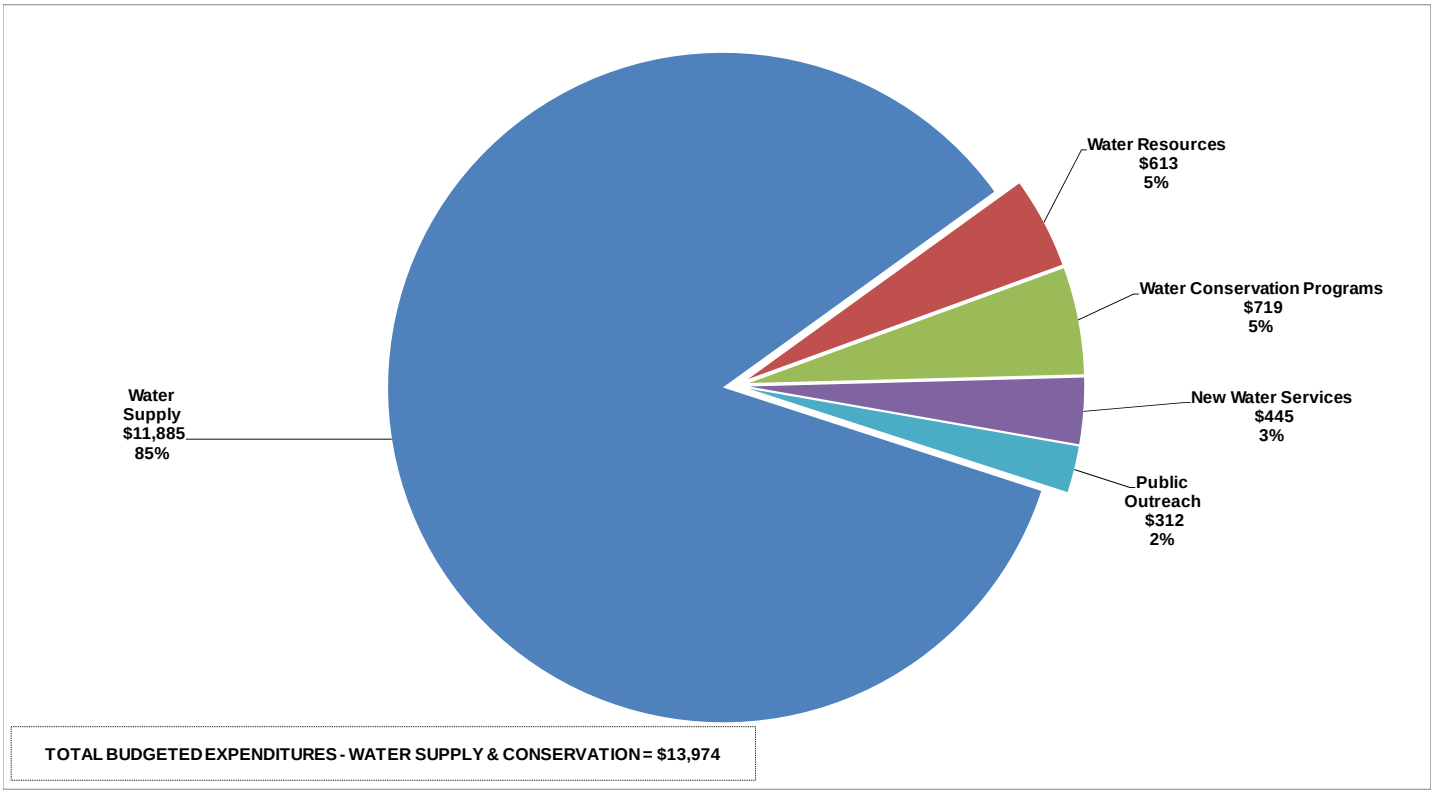
- Costs associated with public outreach and conservation programs have collectively increased by $613K due to the planned increase in activities related to ongoing drought conditions. In FY 2014-15, the District will continue implementing the Drought Outreach Plan that includes an extensive public outreach 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 also 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 2014-15 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 Cachuma Deliveries)	$ 2,696,805	$ -	$ -	$ -	$ -	$ 2,696,805
CCRB (Water Rights)	796,068	-	-	-	-	796,068
SB County (Cloud Seeding)	30,086	-	-	-	-	30,086
CCWA (State Water Deliveries)	7,718,875	-	-	-	-	7,718,875
GSD (Recycled Water Production)	642,800	-	-	-	-	642,800
Personnel - Wages	-	297,137	153,993	306,132	47,134	804,396
Personnel - Benefits	-	94,117	59,636	102,279	23,422	279,454
Personnel - Taxes & W.C.	-	22,283	11,657	22,670	2,672	59,282
Insurance, Accounting, & Auditing	-	20,244	-	-	-	20,244
Maintenance & Equipment	-	-	-	696	-	696
Services & Supplies	-	179,076	493,351	13,424	239,004	924,855
Total:	**$ 11,884,634**	**$ 612,857**	**$ 718,637**	**$ 445,200**	**$ 312,232**	**$ 13,973,561**

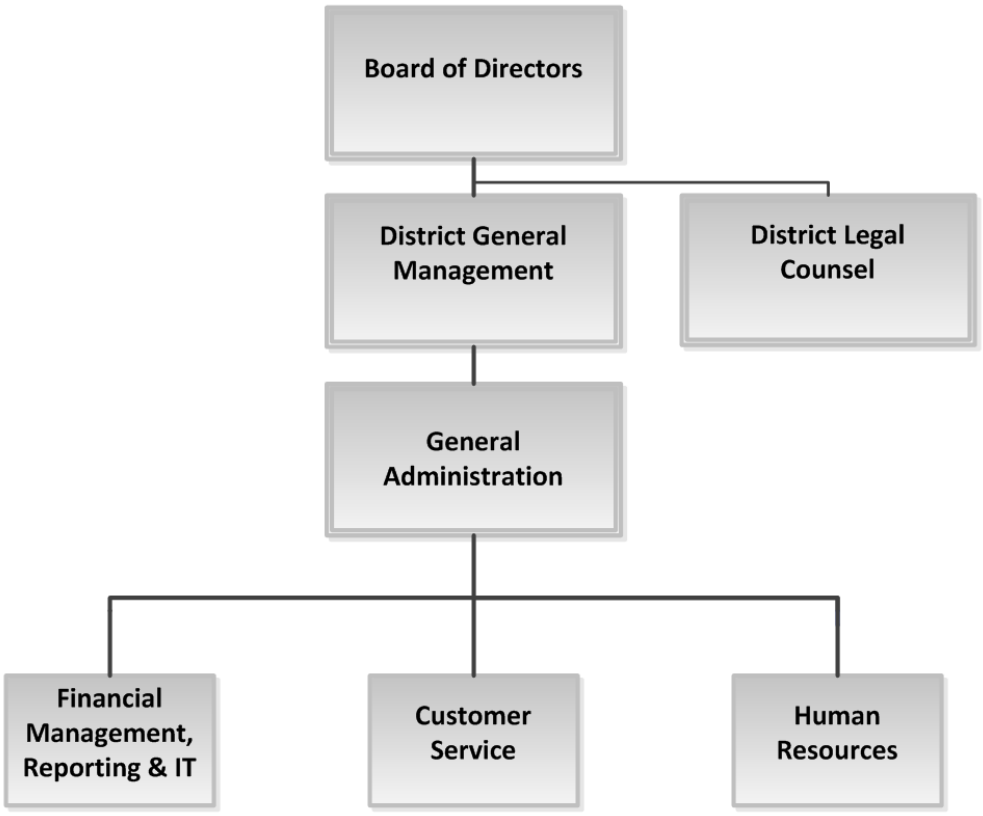
Figure 4.7 FY 2014-15 WS&C Budgeted Expenditures by Programmatic Cost Center



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 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 2014-15, the District will begin to evaluate its Cost of Service and Five-Year Financial Plan for potential updates, continue to upgrade financial software to improve operational efficiencies, and implement other critical technology systems including reporting tools and a robust data warehouse.

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 16,600 customer connections. In FY 2014-15, 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). In FY 2014-15, Human Resources will complete labor contract negotiations in order to balance costs with the need to retain qualified and well-trained staff.

General Administration Accomplishments FY 2013-14

In FY 2013-14, the District refinanced $20M in outstanding debt to generate more than $5.5M in additional proceeds to invest in system-wide capital improvements and infrastructure.

The General Administration cost center completed several key projects during FY 2013-14 including:

- Refinancing of approximately $20M in 2003A Certificates of Participation. Through this process, the District achieved a credit upgrade by Standard & Poors, and secured a premium worth over $2.5M as a result. In total, the refinancing produced approximately $5.5M for capital projects, while keeping debt service payments level.
- Establishment of a data warehouse to link critical District technology systems related to billing, customer information and workflow, and location-based services.
- Conversion to a functional billing platform managed by Global Water Management, Inc., capable of remedying issues with the vendor's previous system and providing regular, consistent billing service to customers.
- Completion of the annual audit of the District Comprehensive Annual Financial Report, achieving a "clean" audit opinion from the District's new outside auditor.

FY 2014-15 General Administration Budget

Table 4.8 illustrates General Administration expenditure categories and describes variances between FY 2013-14 Budget and FY 2014-15 budgeted expenditures.

Table 4.8 FY 2014-15 General Administration Cost Center Budget Summary

Category	Adopted Budget FY 2013-14	Estimated Actual FY 2013-14	Final Budget FY 2014-15	Variance Analysis * $ Higher / (Lower)	Variance Analysis * % Higher / (Lower)
Cost Center Expenses - General Admin.					
Personnel:	**$ 2,103,520**	**$ 2,152,558**	**$ 2,286,297**	**$ 182,777**	**9%**
Other Post Employment Benefits:	**374,910**	**372,649**	**404,980**	**30,070**	**8%**
Operations & Maintenance:					
Insurance, Accounting, & Auditing	70,892	55,320	83,640	12,748	18%
Legal	318,500	258,292	290,004	(28,496)	(9%)
Services & Supplies	722,880	519,375	943,587	220,707	31%
Subtotal:	**1,112,272**	**832,987**	**1,317,231**	**204,959**	**18%**
Total Expenditures:	**$ 3,590,702**	**$ 3,358,194**	**$ 4,008,508**	**$ 417,806**	**12%**

** Compares FY 2014-15 Final Budget to FY 2013-14 Adopted Budget*

The General Administration Budget will increase by $418K, or 12 percent in FY 2014-15. Notable General Administration changes from FY 2013-14 to FY 2014-15 Budget include:

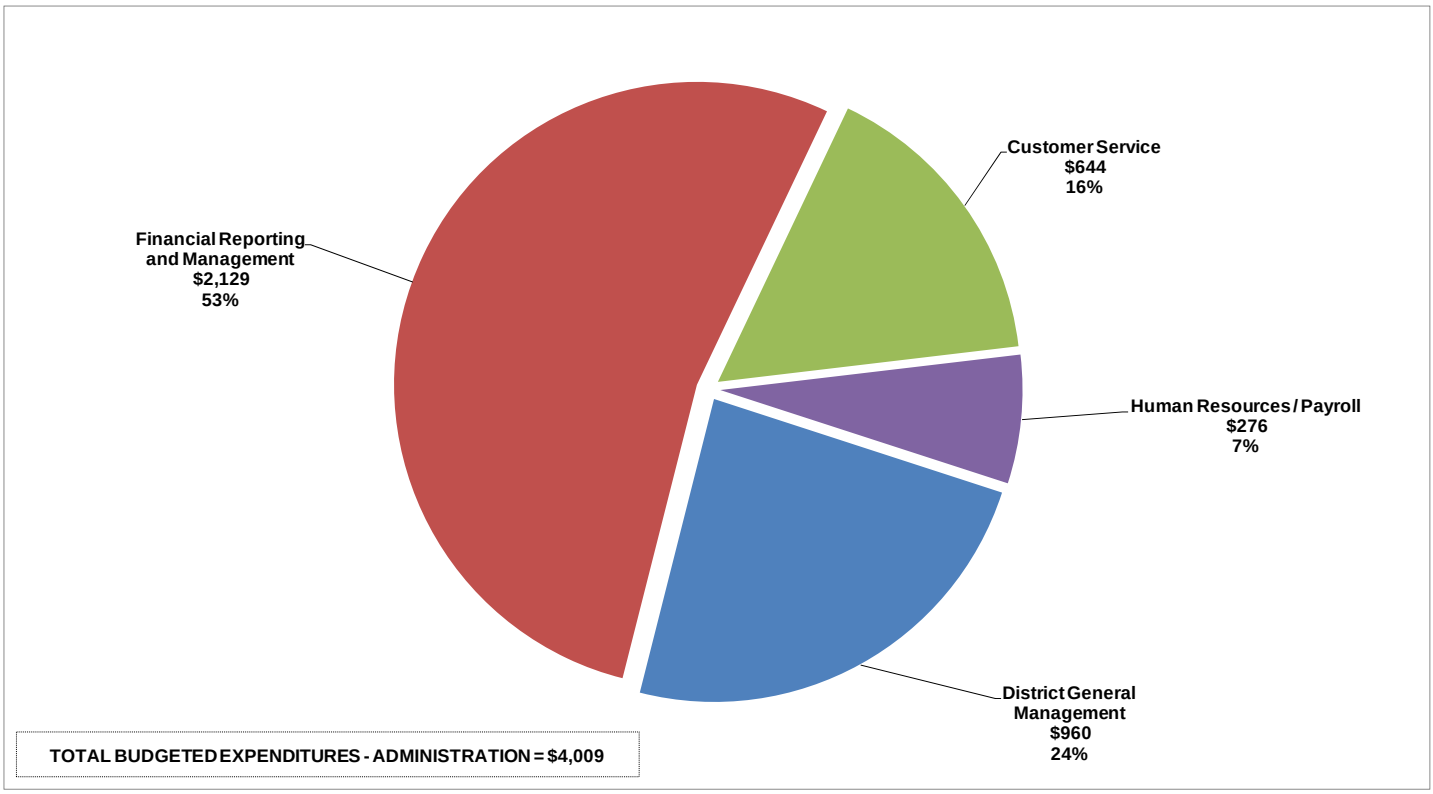
- Personnel costs will increase by $183K as the result of standard contractual increases in labor costs and an increase in the General Administration staff by one position.
- District-wide OPEB costs will increase by $30K (8%) resulting from inflationary increases in health insurance rates.
- Insurance, Accounting, & Auditing costs will increase by $13K (18%) due to a five percent increase in property and liability insurance rates. These insurance increases are offset by the lower fees associated with the new independent auditor.
- Budgeted Legal fees, including general and special counsel, will decrease by $28K (9%). This decrease is largely due to savings associated with new general counsel.
- Services and Supplies will increase by $221K (31%) to fund the establishment of a data warehouse to increase the efficiency of control systems and facilitate improved management oversight of District activities, as well as make anticipated contractual payments to a billing service provider.

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

Table 4.9 FY 2014-15 General Administration Budgeted Expenditures by Programmatic Cost Center

Description	District General Management	Reporting and Management	Customer Service	Human Resources / Payroll	Total Administration
Personnel - Wages	$ 313,597	$ 994,154	$ 106,260	$ 158,569	$ 1,572,580
Personnel - Benefits	147,440	356,051	41,138	57,350	601,979
Personnel - Taxes & W.C.	20,955	71,781	7,381	11,621	111,738
Personnel - Post Retirem. Med.	-	404,980	-	-	404,980
Insurance, Accounting, & Auditing	25,000	58,640	-	-	83,640
Legal	270,000	-	-	20,004	290,004
Services & Supplies	182,988	243,750	488,808	28,041	943,587
Total:	**$ 959,980**	**$ 2,129,357**	**$ 643,586**	**$ 275,585**	**$ 4,008,508**

Figure 4.9 FY 2014-15 General Administration Budgeted Expenditures by Programmatic Cost Center



District Organization

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

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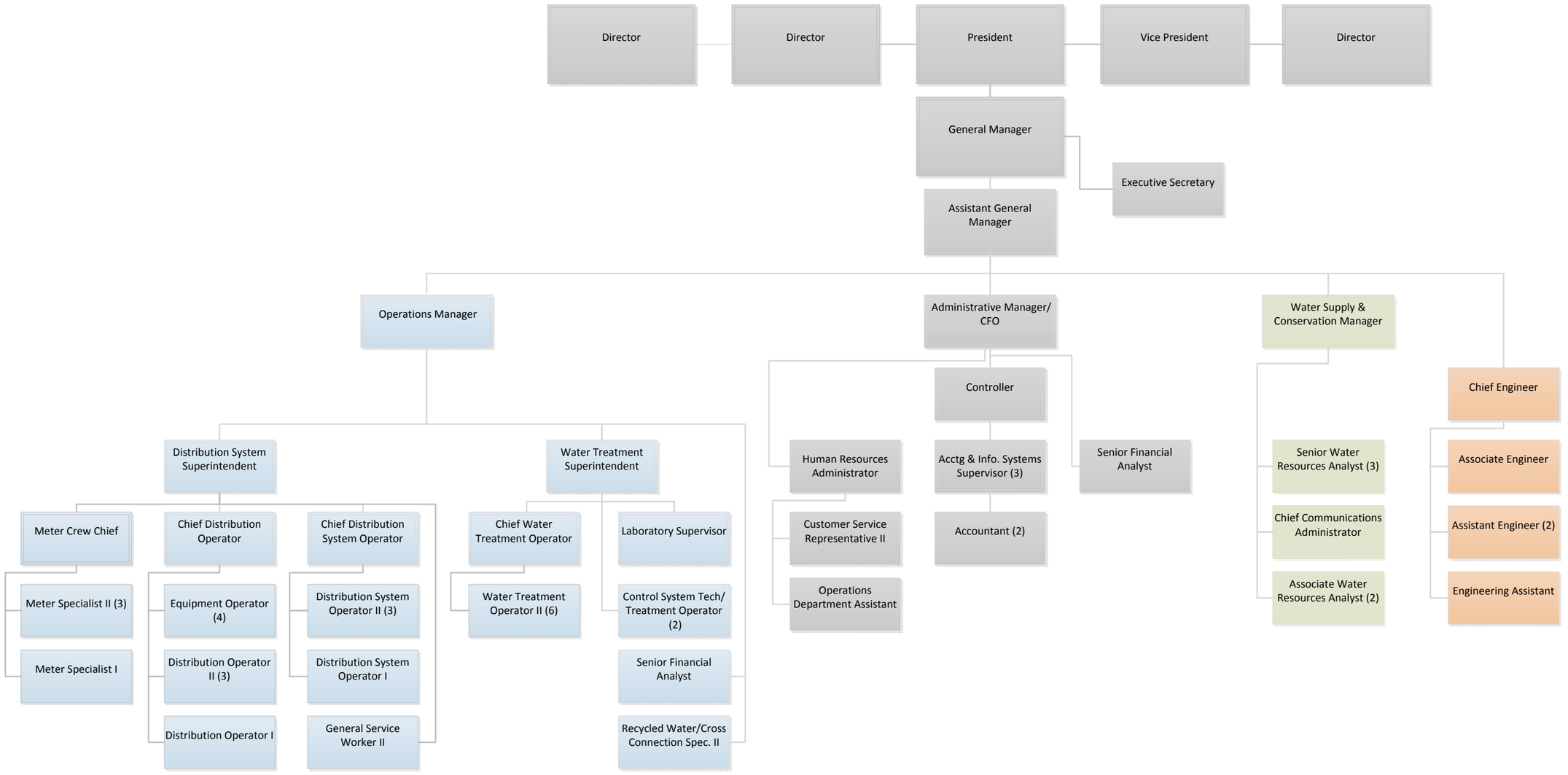
Figure 4.10 Organizational Chart by Department and Position



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GOLETA
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