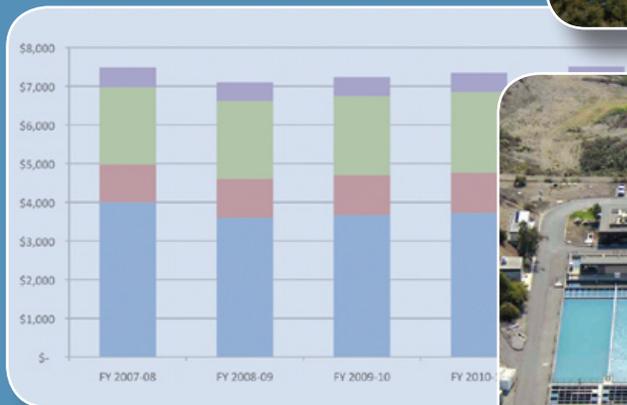




# Goleta Water District

Goleta, California

## Fiscal Year 2011-12 FINAL BUDGET



Adopted by the Board of Directors on June 28, 2011



### **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.



# **GOLETA WATER DISTRICT**

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John D. Cunningham, Vice President

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## List of Acronyms and Abbreviations

<b>ACWA</b>	Association of California Water Agencies
<b>AFY</b>	Acre Feet per Year
<b>AWWA</b>	American Water Works Association
<b>BMP</b>	Best Management Practices
<b>CBPH</b>	California Bureau of Public Health
<b>CCRB</b>	Cachuma Conservation and Release Board
<b>CCWA</b>	Central Coast Water Authority
<b>CIP</b>	Capital Improvement Projects
<b>COMB</b>	Cachuma Operations and Maintenance Board
<b>COP</b>	Certificates of Participation
<b>CDPHS</b>	California Department of Public Health Services
<b>CSDA</b>	California Special District Association
<b>CUCWCC</b>	California Urban Water Conservation Council
<b>DWR</b>	Department of Water Resources
<b>EPA</b>	Environmental Protection Agency
<b>EWMPs</b>	Efficient Water Management Practices
<b>FTE</b>	Full time equivalent
<b>FY</b>	Fiscal Year
<b>G&amp;A</b>	General and Administrative
<b>GASB</b>	Governmental Accounting Standards Board
<b>GIS</b>	Geographic Information System
<b>GSD</b>	Goleta Sanitary District
<b>GWC</b>	Goleta West Conduit
<b>GWD</b>	Goleta Water District
<b>HR</b>	Human Resources
<b>HCF</b>	Hundred Cubic Feet
<b>IIP</b>	Infrastructure Improvement Plan
<b>JPIA</b>	Joint Powers Insurance Authority
<b>LAIF</b>	Local Agency Investment Fund
<b>MFR</b>	Multi Family Residence
<b>NWSC</b>	New Water Supply Charge
<b>O&amp;M</b>	Operations and Maintenance
<b>OPEB</b>	Other Post-Employment Benefits
<b>SFR</b>	Single Family Residence
<b>SWRCB</b>	State Water Resources Control Board
<b>T&amp;D</b>	Transmission and Distribution
<b>WS&amp;C</b>	Water Supply & Conservation



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## OVERVIEW

### Message

The Goleta Water District (District) mission is to provide an adequate supply of quality water at the most reasonable cost to present and future customers. The recommended Fiscal Year (FY) 2011-12 Operating Budget (Budget) identifies the financial resources that will enable the District to accomplish its goals through generation of adequate revenues, prudent expenditure management, and smart infrastructure investment.

Each year, the Board of Directors approves the Budget as the District's foundational financial plan. It is a cash-based projection of revenues and expenditures needed for operations, maintenance, administration, debt service and capital improvements associated with delivering high-quality service to customers throughout the year. Specifically, the Budget incorporates conservative revenue estimates, prudent spending plans, and a thorough review of necessary capital improvements to ensure the long-term sustainability of the District. In developing the budget, staff considered both internal and external factors including the economy, weather, regulatory requirements, and the condition and age of District infrastructure.

Like many water agencies across California, the economic downturn, coupled with the cool and wet weather experienced last summer, contributed to a significant decline in annual water use. While important from a conservation perspective, lower water sales caused FY 2010-11 revenues to fall by nearly \$1.5M (8%). Early in FY 2010-11, the District anticipated, monitored, and responded to these conditions by sharply curtailing expenditures to manage its bottom line. This included refinancing debt and temporarily deferring non-critical spending of all types to the extent possible while still delivering reliable water service. A significant portion of these deferred expenditures were for infrastructure improvement projects, including:

- Valve, hydrant, and pump replacements across the distribution system;
- San Ricardo Well rehabilitation;
- Pipeline replacements, including Lateral 14; and
- Water Treatment Plant filter media replacement.

While these cost deferrals enabled the District to endure declining revenue, long term structural solutions were still needed. Accordingly, beginning in the summer of 2010, the District launched a Cost of Service Study and 5-Year Financial Plan. After completing the study and sharing its results with the public, the Board of Directors voted on April 7, 2011 to increase water rates and meter charges on a sliding scale over 5 years, not to exceed 16% in the first year. This increase in rates takes effect July 1, 2011 and was used to estimate FY 2010-11 Budgeted revenues.

Amidst the challenging revenue environment with less resources, the District accomplished a number of key initiatives during FY 2010-11. For example, the District:

- Managed a Lake Cachuma spill water event to improve supply reliability by injecting into the groundwater basin;
- Installed new surface water collector pumps to maintain control of water runoff near the Water Treatment Plant;

- Completed the District's first comprehensive 5-year Infrastructure Improvement Plan, prioritizing the District's system wide capital needs and allowing better forecasting;
- Completed the Water Supply Management Plan, providing a roadmap for long term management of District water resources;
- Updated District website to establish a user-friendly and modern interface; and
- Automated accounting systems to increase administrative efficiency and provide new fixed asset tracking solution.

### **Budget Summary**

As illustrated in Table 1.1, the District generates \$27.3M (96%) of its \$28.4M in total revenues from Water Sales and Monthly Meter Charges. Total expenditures including Debt and CIP are \$27.7M, largely comprised of \$10.4M (38% of total expenditures) for Water Supply, \$8.2M (30%) for Personnel, and \$3.9M (14%) for Operations & Maintenance. This Budget provides for \$3.6M in scheduled debt service payments and will fund \$1.1M of FY 2011-12 capital improvements. The net results of \$774K will be designated to District Operating and Capital Reserves.

Table 1.1 FY 2011-12 Budget Summary

Category	Adopted	Estimated	Recommended	Variance Analysis*	
	Budget FY 2010-11	Actual FY 2010-11	Budget FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
<b>Revenue:</b>					
Water Sales	\$17,580,000	\$16,132,889	\$19,103,572	\$1,523,572	9%
Monthly Meter Charges	7,046,000	6,901,767	8,137,296	1,091,296	15%
New Water Supply Charges	910,000	1,582,894	753,372	(156,628)	(17%)
Investment Revenue	120,000	32,045	75,387	(44,613)	(37%)
Miscellaneous Fees & Charges	286,500	427,006	357,909	71,409	25%
<b>Total revenues</b>	<b>\$25,942,500</b>	<b>\$25,076,601</b>	<b>\$28,427,536</b>	<b>\$2,485,036</b>	<b>10%</b>
<b>Expenditures:</b>					
<b>Water Supply Agreements:</b>					
COMB/CCRB Cachuma Water	3,023,516	2,351,256	2,522,744	(500,772)	(17%)
CCWA State Water	7,050,555	7,394,593	7,407,597	357,042	5%
GSD Recycled Water	405,000	357,402	484,932	79,932	20%
<b>Subtotal</b>	<b>\$10,479,071</b>	<b>\$10,103,252</b>	<b>\$10,415,273</b>	<b>\$(63,798)</b>	<b>(1%)</b>
<b>Personnel:</b>					
Wages, Benefits, and Taxes	7,739,809	7,698,431	8,265,698	525,889	7%
Other Post Employment Benefits	269,283	291,893	352,494	83,211	31%
<b>Subtotal</b>	<b>\$8,009,092</b>	<b>\$7,990,324</b>	<b>\$8,618,192</b>	<b>\$609,100</b>	<b>8%</b>
<b>Operations &amp; Maintenance Costs</b>					
Water Treatment	637,000	368,624	548,618	(88,382)	(14%)
Water Testing	188,200	104,588	135,582	(52,618)	(28%)
Insurance, Accounting & Auditing	196,000	91,504	179,200	(16,800)	(9%)
Maintenance & Equipment	483,640	326,862	1,154,178	670,538	139%
Legal	257,800	220,566	357,504	99,704	39%
Services & Supplies	1,031,111	1,104,677	1,281,940	250,829	24%
Utilities	217,040	202,409	235,972	18,932	9%
<b>Subtotal</b>	<b>\$3,010,792</b>	<b>\$2,419,231</b>	<b>\$3,892,894</b>	<b>\$882,202</b>	<b>29%</b>
<b>Total Expenditures, before Debt and CIP:</b>	<b>\$21,498,955</b>	<b>\$20,512,807</b>	<b>\$22,926,459</b>	<b>\$1,427,504</b>	<b>7%</b>
Debt Service	3,400,000	2,906,535	3,626,303	226,303	7%
Capital Improvement Projects (CIP)	500,000	-	1,101,000	601,000	120%
<b>Total Expenditures</b>	<b>\$25,398,955</b>	<b>\$23,419,342</b>	<b>\$27,653,762</b>	<b>\$2,254,807</b>	<b>9%</b>
<b>Designation into Reserves</b>	<b>\$543,545</b>	<b>\$1,657,260</b>	<b>\$773,774</b>	<b>\$230,229</b>	<b>42%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

### Revenue

The District receives no taxes. 96% of revenue is derived from rates and charges paid by customers. Section II of the Budget focuses on District revenues by highlighting and analyzing sources of funds, rate increases, historical sales metrics, the impacts of weather, and prevailing economic factors.

Variable revenues primarily include water sales to customers and are determined by rates applied to both the quantity of water delivered to each customer as well as the intended purpose of the water. Water deliveries are expected to remain relatively flat compared to FY 2011-12, with an overall increase of 1.6%. Meter charges, the second largest source of revenues to the District, are based upon a fixed monthly fee associated with the size of a customer meter and, for low-use residential customers, the average amount of water used per month. Subsequent to approval by the Board of Directors, rates are proposed to increase by 16% in FY 2011-12. Revenue forecasts in the budget assumed full implementation of this new rate structure.

Another source of variable revenue (2% of total budgeted revenues), is the New Water Supply Charge (NWSC). The NWSC applies to customers needing new or expanded water service beyond their historical usage, entitlement, or right. Notably, during FY 2011-12 the Board changed the NWSC to properly reflect costs associated with the District's water supply contracts and distinct water systems. In predicting a 52% decrease in NWSC, this budget considered economic forecasts as well as the status of known development projects.

### Expenditures

As revenues declined over the past three years and reserves were depleted, the District responded by immediately reducing expenditures to ensure operational integrity and financial solvency. Where possible, costs were eliminated permanently without compromising the District's ability to deliver core services to its 85,000 customers. Examples of such permanent cost reductions include reduced use of supplies and elimination of contracted services such as janitorial and maintenance at the Corona del Mar Water Treatment Plant. However, as previously stated, the FY 2011-12 Budget proposes to reinstate critical programs and activities that were deferred in FY 2010-11. Doing so will ensure dependable water service, avoid more expensive future repairs, and improve the quality of operations.

Nonetheless, long-term structural solutions are needed to reduce expenditures into the future. For example, the District will pursue fiscally sustainable options for service delivery. Accordingly, this Budget places strong emphasis on continued competitive bidding for supplies and materials, reduced contracting for services, controlling personnel costs, and self-performance of work historically outsourced to private firms.

This Budget document examines expenditures through two separate lenses. First, Section III displays and analyzes costs from the functional perspective of each department. Second, Section IV provides additional detail of departments, helping the reader understand the amount spent on specific programs from a cost center perspective.

Table 1.1 provides an overview of the District FY 2011-12 Budget. Of note, the largest category of expenditure proposed for FY 2011-12 is \$10.4M in water supply agreements. The District's primary source is Lake Cachuma, which is supplemented with recycled water and ground water sources. In addition, the District participates in the State Water Project. The second largest category of expenditures is \$8.6M proposed in FY 2011-12 for personnel costs. The District employs 60 staff who have the necessary education, certification, training, and experience to operate a water treatment plant, maintain and repair over 270 miles of distribution lines, read 16,600 meters monthly, generate customer billing, and manage District resources. Operations and Maintenance

costs represent the third largest category of expenditures at \$3.9M. Notably, most of the expenditure deferrals experienced in prior years are included in this category to reinstate critical programs and projects. As such, investment is prudent to ensure that previously deferred items do not have a lasting impact on the long-term sustainability on District operations.

**Key Initiatives in FY 2011-12:**

Prospectively, the revenues and expenditures identified in this FY 2011-12 Budget will focus on advancing the following three themes:

- Enhancing the productivity and efficiency of District operations and activities;
- Investing in the future; and
- Ensuring quality customer service.

To improve productivity and efficiency, the District will examine the water distribution system to detect and minimize leaks and losses, develop systems for better coordination with local agency utility projects, and streamline the water systems application process. Additional projects include introducing automated real-time reporting and analytical tools that can diagnose and support cost-effective decision making.

To make smart investments in the future, the District will implement identified projects in the Infrastructure Improvement Plan (IIP), complete an engineering analysis of the Barger Reservoir, implement conservation best management practices to encourage customers to efficiently use water resources, and identify new state and federal grant opportunities.

Customer service is a top priority of the District. Accordingly, the District will implement initiatives to meet all state and federal water quality compliance standards, update and improve District engineering standards and specifications, continue with improvements to the website, emphasize customer service training, and offer online payment services to customers.

In closing, these key initiatives, in addition to District daily operations, will enable continued high quality and reliable water service to our customers. Without question, employees of Goleta Water District are focused on earning the confidence and trust of the 85,000 people who depend upon the secure delivery of water on a daily basis. The District remains steadfast in its commitment to continuous service improvements, even during the economic downturn. In the coming year, the District will reestablish appropriate levels of infrastructure expenditures while remaining committed to strategic management of water resources and finances to meet customer needs.



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## REVENUE

### Summary

The District generates 96% of its revenue from Water Sales and Monthly Meter Charges as can be seen in Table 2.1 below. Water Sales are driven by customer water usage, which in recent years has fallen in response to economic and climatic conditions. Accordingly it is important that the District closely manage cash flow by crafting a long-term financial plan that minimizes the impact of revenue declines or other unforeseen events. During the past three years of revenue declines, the District sharply curtailed expenditures to manage its bottom line, while concurrently analyzing its Cost-of-Service and completing a 5-year Financial Plan. This analysis resulted in a proposal to increase customer rates over the five year period to allow the District to invest in infrastructure, ensure adequate operating cash flow, and build operating reserves.

A summary of all FY 2011-12 Budget revenue can be seen in Table 2.1 below. Total revenue is projected to increase by \$2.5M (10%), as compared to FY 2010-11 Adopted Budget. Of the total increase in revenue, Water Sales are anticipated to rise by approximately \$1.5M (9%), due to an increase in the commodity rates and meter charges across all customer classes. Each customer class will experience a different percentage increase, based on the cost of providing service to the specific customer class. Similarly, the amount of water used by each customer class varies, given specific dynamics associated with each respective type of customer. For example, agricultural customers have different water usage trends than single family residential customers due to their ability to respond and make decisions in relation to externalities such as weather and economic conditions.

This FY 2011-12 Budget concludes that total water consumption will increase slightly (1.6%) compared to estimate actual FY 2011-12 water usage, reversing the recent three year decline in overall water use across customer classes. This reversal of the declining trend does not, however, return consumption to the previous FY 10-11 budgeted levels. This is due to recognition that conservation activities are increasingly prevalent, particularly given new California laws requiring conservation. In addition, residential and commercial water consumption patterns are expected to remain flat amidst the uncertain economic climate. Monthly Meter Charges are proposed to increase by \$1.1M versus FY 2010-11 Budget, due to the 16% rate increase. Monthly Meter Charges are based on the size and number of meters in the system. These fixed charges do not vary with water consumption. Therefore, Monthly Meter Charges are more predictable than Water Sales, and variances from year to year are minimal. The above rate increase and forecasted growth figures were informed by the District's completion of a full Cost-of-Service Study and 5-year Financial Plan.

Another notable source of District revenue (2.6% of total revenue) comes from the New Water Supply Charge (NWSC), which applies to customers needing new or expanded water service above and beyond their historic use, entitlement, or right. The NWSC is based on the estimated annual water demand associated with a project, and is used to offset the costs of District facilities and water supply contracts, pursuant to State law. In response to an engineering cost study, the Board of Directors approved changes to the NWSC, effective June 6, 2011. In response to these changes, certain applicants expressed interest in accelerating project review and related payment of charges, thereby increasing the NWSC revenue collected in FY 2010-11 to a total of over \$1.6M. In forecasting FY 2011-12 NWSC revenue, staff considered the impacts of this temporary acceleration of projects, along with historic water allocations, local economic factors, and remaining projects requesting new water allocations from the District. Accordingly, the FY 2011-12 Budget proposes NWSC revenue of \$753K, or \$157K less than FY 2010-11 Budgeted NWSC revenue.

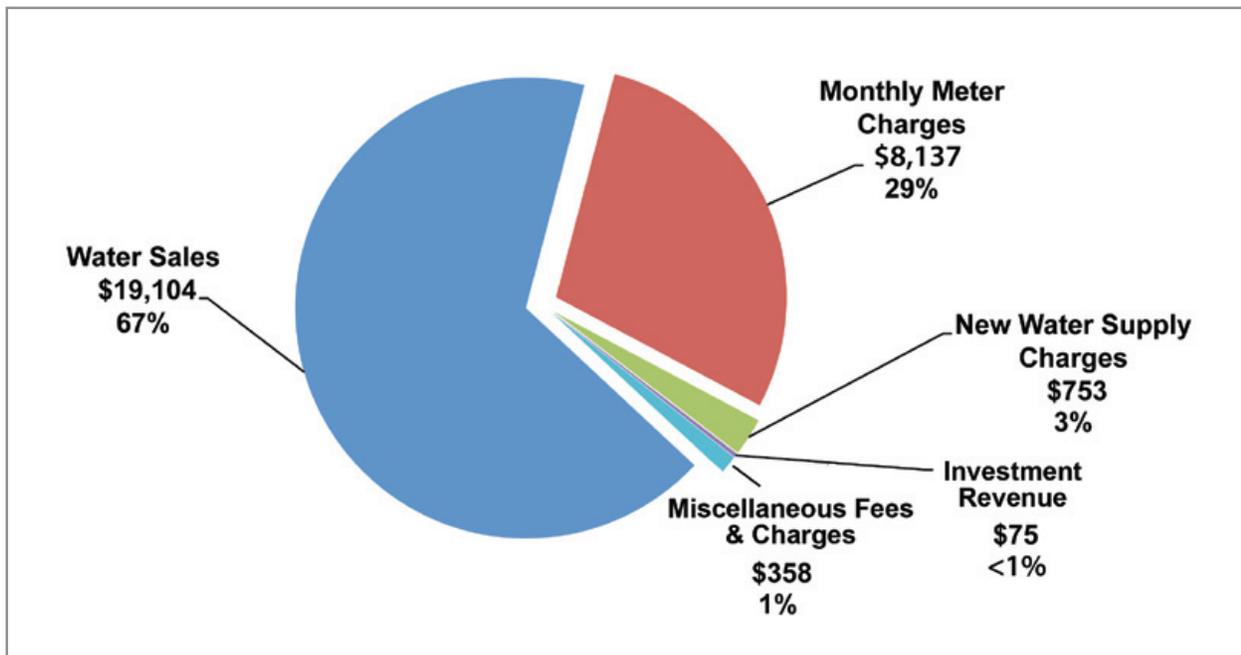
As illustrated in Table 2.1, Investment Revenue is projected to decrease by \$45k (36%) as a result of continued low returns on District investments and the Local Agency Investment Fund (LAIF). Miscellaneous Fees and Charges are estimated to increase by \$71K from the FY 2010-11 Budget as a result of anticipated modifications following a review of current charges for service such as late fees, reconnection charges, and service initiation charges in order to ensure appropriate cost recovery of actual District expenses.

**Table 2.1 FY 2011-12 Budget Revenue versus FY 2010-11 Budget**

Category	Adopted	Estimated	Recommended	Variance Analysis*	
	Budget FY 2010-11	Actual FY 2010-11	Budget FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
<b>Revenue:</b>					
Water Sales	\$17,580,000	\$16,132,889	\$19,103,572	\$1,523,572	9%
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Investment Revenue	120,000	32,045	75,387	(44,613)	(37%)
Miscellaneous Fees and Charges	286,500	427,006	357,909	71,409	25%
<b>Total revenues</b>	<b>\$25,942,500</b>	<b>\$25,076,601</b>	<b>\$28,427,536</b>	<b>\$2,485,036</b>	<b>10%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

**Figure 2.1 FY 2011-12 Budgeted Revenue Allocations (\$000)**



## Water Sales

The District's primary source of revenue (67% of total revenue, see Figure 2.1) is from Water Sales, which are derived from monthly commodity rates charged per unit of water delivered to District customers. Water sales are charged according to the amount of water delivered to customers measured in HCF's (1 HCF = 100 cubic feet or 748 gallons). For FY 2011-12, the rate per HCF ranges from \$1.06 to \$4.30 depending upon the type of customer receiving service. For example, the rate per HCF for agricultural customers on the potable water system is \$1.12 per HCF, compared to \$4.30 for residential customers.

It is critical to recognize that Water Sales vary dramatically from year to year, and are impacted by four key external factors:

- Historic trends;
- Economic conditions;
- Weather patterns such as rainfall and temperature; and,
- Conservation activities.

These factors illustrate the difficulty of forecasting revenue from Water Sales. Without question, weather patterns are least predictable, but have the most significant influence on Water Sales. For example, a single significant rainfall event has the ability to drastically impact monthly District revenue. When analyzing recent Water Sales and usage trends, as indicated in Figure 2.2, Water Sales and usage have declined each of the past three years. This has been due to the recent economic conditions, and particularly lower than normal temperatures, coupled with higher than normal rainfall. The FY 2011-12 Budget projects that the declining trend in Water Sales usage will flatten overall, but corresponding water sales will increase slightly among the agricultural, institutional, and landscape irrigation customer bases when compared to FY 2010-11 estimated usage and sales. This forecast is based on key economic indicators and an anticipated return to a more normalized weather pattern.

### *Historic Water Sales Trends*

As demonstrated in Figure 2.2 below, water demand has fallen for three consecutive years. Low water sales in FY 2010-11 were a consistent theme among utilities across California. This trend of declining demand is largely due to cooler and wetter weather patterns, but is also influenced by the slow economy, and continued water conservation efforts. District water demand mirrors these statewide trends. Over the last five years, District water demand reached a peak in FY 2007-08, and is estimated to decline by 16% by the end of FY 2010-11. Figure 2.2 highlights this overall drop in customer demand, already discussed above in Figure 2.2, by indicating that water deliveries to the District's top ten customers declined even more dramatically, at 21% from the peak. Agriculture and irrigation customers (for example, golf courses and parks) represent eight of the top ten District customers. These customers are most readily impacted by weather variability and economic conditions, meaning that a slight change in these externalities can produce significant changes in customer water usage and District Water Sales.

Figure 2.2 Water Sales (in AFY)

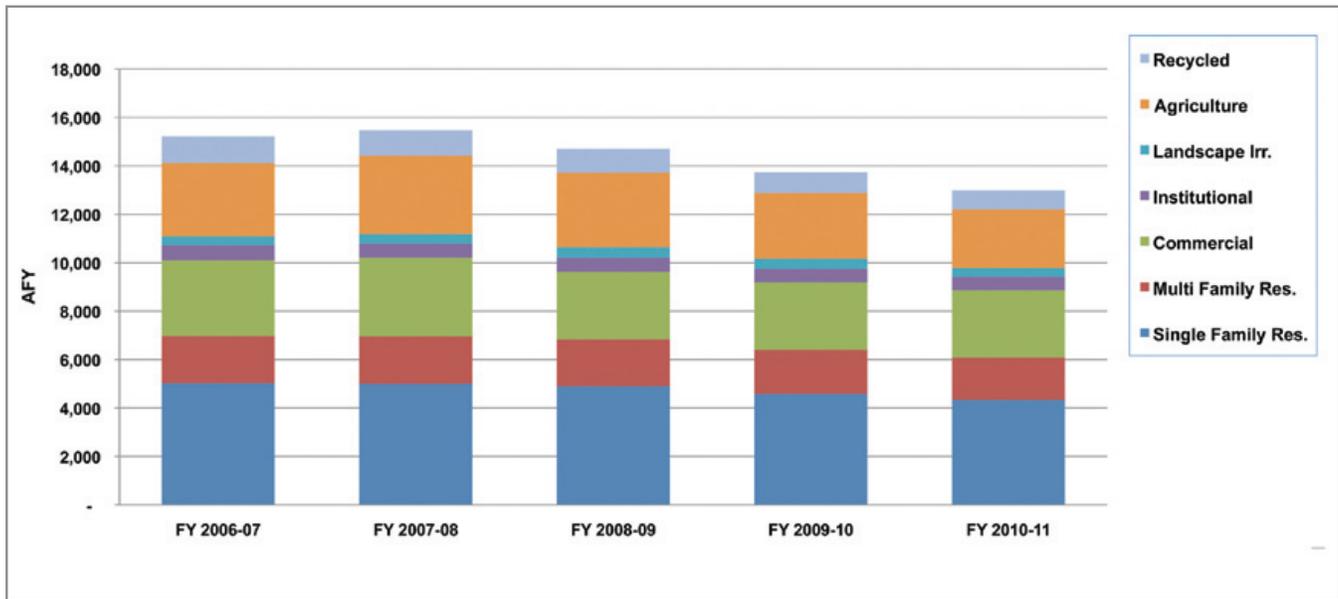
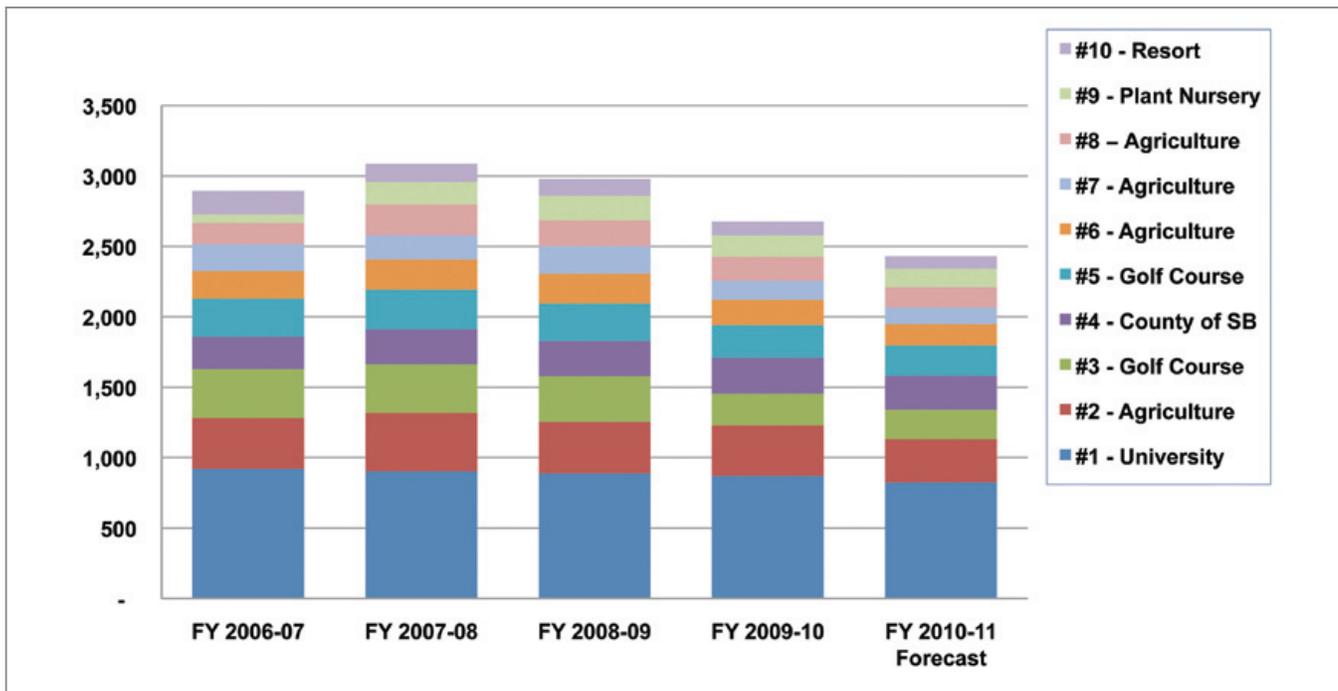


Figure 2.3 Water Sales to Top Ten Customers (in AFY)

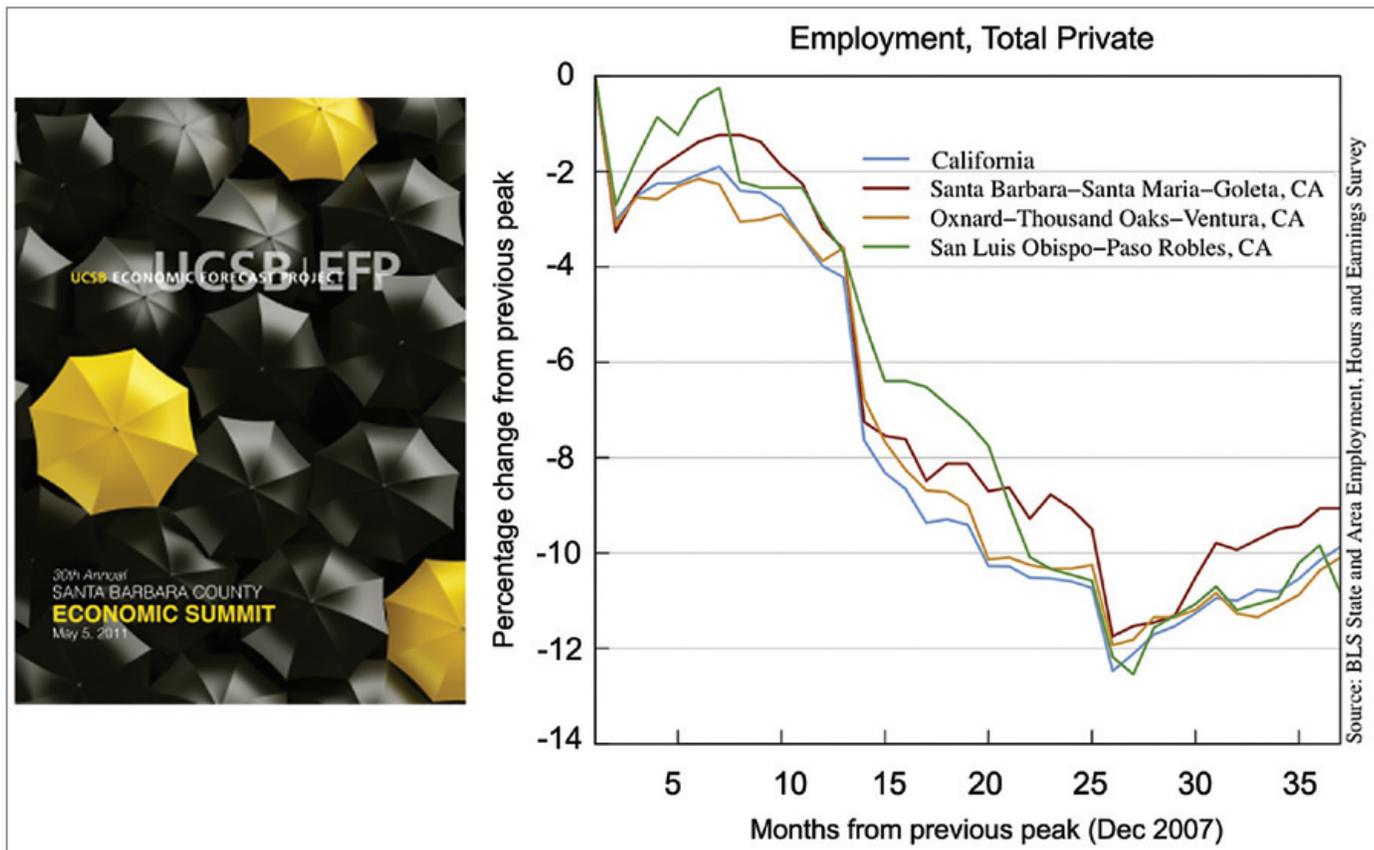


*Economic Factors Impacting Water Sales*

Like any business or governmental agency, local, statewide, and national economic factors impact District Water Sales. As earning power and consumer confidence have declined over the past several years, District customers reduced their monthly utility bills through conservation, which lowered Water Sales levels.

Notably, the local economy is showing signs of incremental improvement, providing evidence that declining water usage trends could stabilize. An example includes Santa Barbara County unemployment. As seen in Figure 2.4 below, unemployment figures have stabilized since early 2010 and are slowly improving. Unemployment shares a direct correlation with discretionary income, with higher unemployment leading to lower water consumption which, in turn, reduces District Water Sales.

**Figure 2.4 Central Coast Employment Trends**



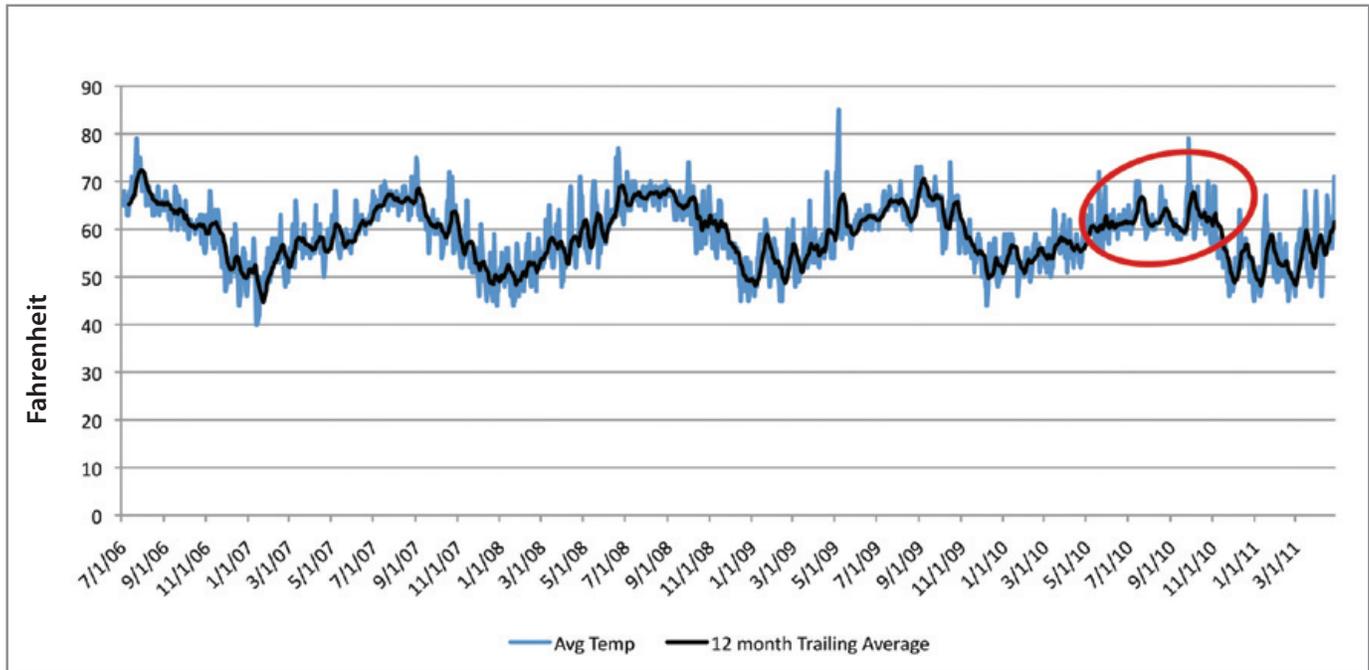
Other current economic indicators point to Santa Barbara’s relatively low foreclosure rate and improving sentiment among local businesses regarding the health of the economy. In fact, two thirds of respondents to a recent UC Santa Barbara Business Sentiment survey expect business to improve over the next 6 months. Broadly speaking, these factors suggest recent incremental improvement in the local economy will continue into FY 2011-12, but growth will remain slow. Since District Water Sales are influenced by economic performance in the area, the proposed budget has included a slight overall increase in Water Sales, which is supported by this economic outlook for the area. These factors, however, do not point toward growth that will return District Water Sales to pre-recession levels within the foreseeable future. There is no question that lingering uncertainty regarding the speed and rate of economic recovery and inflation produce a forecasting climate marked by unpredictability.

*Weather Conditions Impacting Water Sales*

Water utilities are heavily affected by climate conditions which, when weather varies from season to season, have the potential to significantly change Water Sales levels. As expected, the demand for water is highest during warm, dry months and lowest during colder, wet months. Figure 2.5 below illustrates how the Goleta area experienced relatively cool weather during the spring and summer of 2010. The 12-month

trailing average temperature during this period was noticeably lower than the last five years, and lacked the sustained peak temperatures of a typical summer which has contributed to the decline in Water Sales over the last three years. As expected, Water Sales fell in a pattern consistent with these abnormal temperatures.

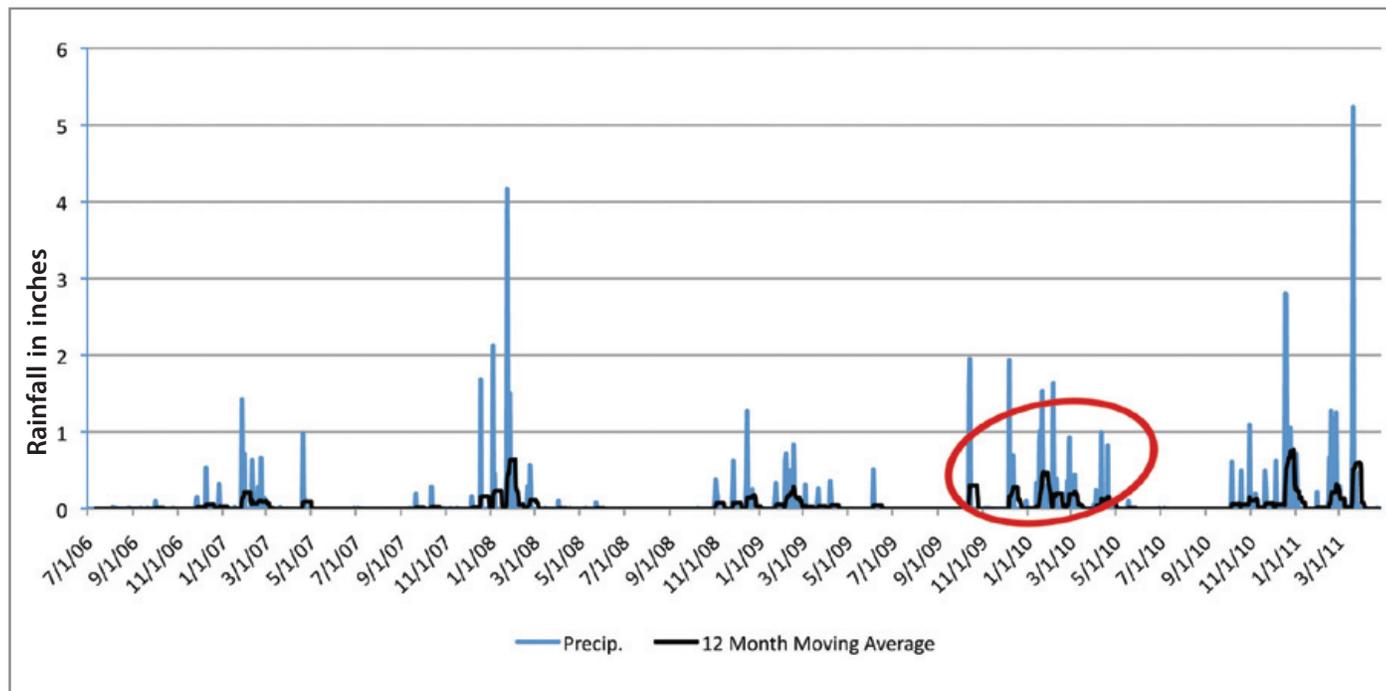
**Figure 2.5 - Average District Service Area Temperatures**



Source: Weather Underground Internet Weather Service

Rainfall is also a contributing factor to lower water deliveries and, as can be seen in Figure 2.6 below, FY 2010-11 received frequent and large rain events. Perhaps more impactful than the total amount of precipitation was the frequency of these events, since recurring rain events reduce the need to irrigate. As expected, revenues in FY 2010-11 declined consistent with the above-mentioned wet weather patterns. Looking forward into FY 2011-12, the Budget recognizes that the District’s service area received a significant amount of rainfall this spring, but must also consider that these rain events were less frequent than in the prior year.

**Figure 2.6 District Service Area Precipitation**

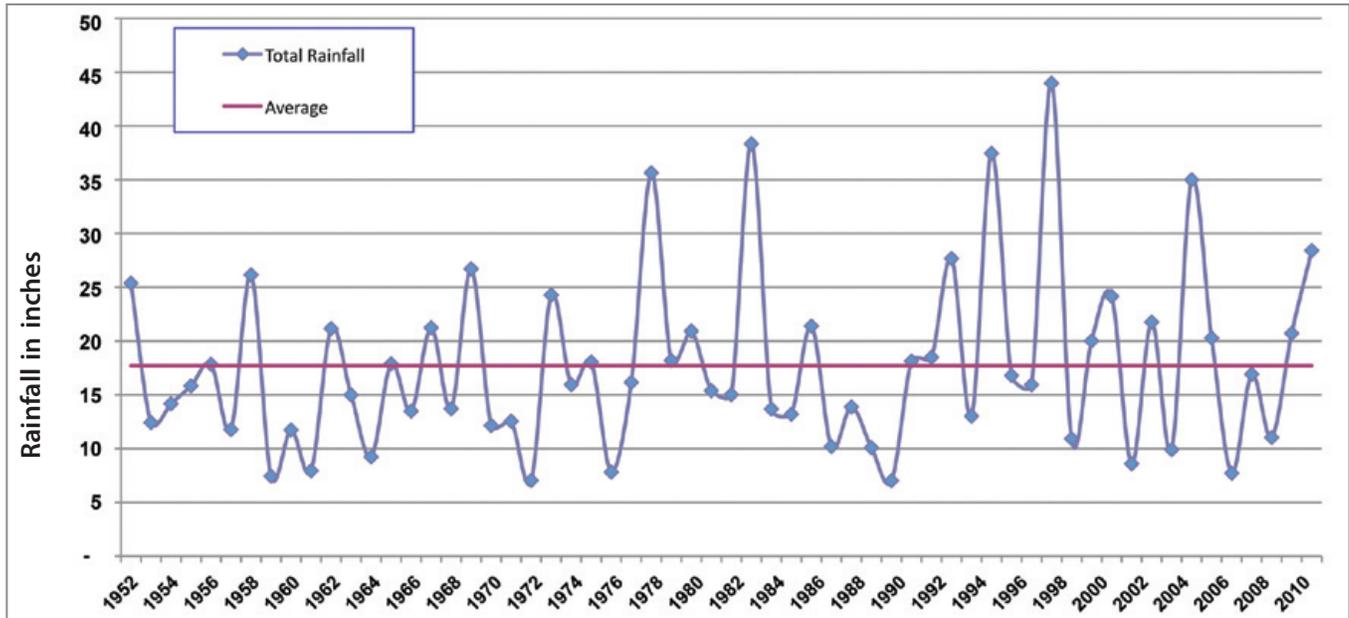


*Source: Weather Underground Internet Weather Service*

As noted previously, many of the District's large customers are agriculture and landscape irrigation customers. Water Sales to these customers are significantly impacted by weather conditions. As expected, Water Sales in FY 2010-11 continued to decline, consistent with the above-mentioned wet weather patterns.

Looking forward into FY 2011-12, the Budget recognizes that the District's service area received a significantly abnormal amount of rainfall, coupled with cooler than normal temperatures during FY 2010-11. Moreover, Figure 2.7 illustrates how over the past 60 years there has not been a period whereby rainfall was above average for 3 consecutive years. As such, this Budget projects a more normal weather pattern for FY 2011-12, marking the end of the three year decline in Water Sales. Given the uncertainty of weather, the Budget remains conservative in forecasting a rise in Sales as discussed below.

**Figure 2.7 District Rainfall, 60-Year History**



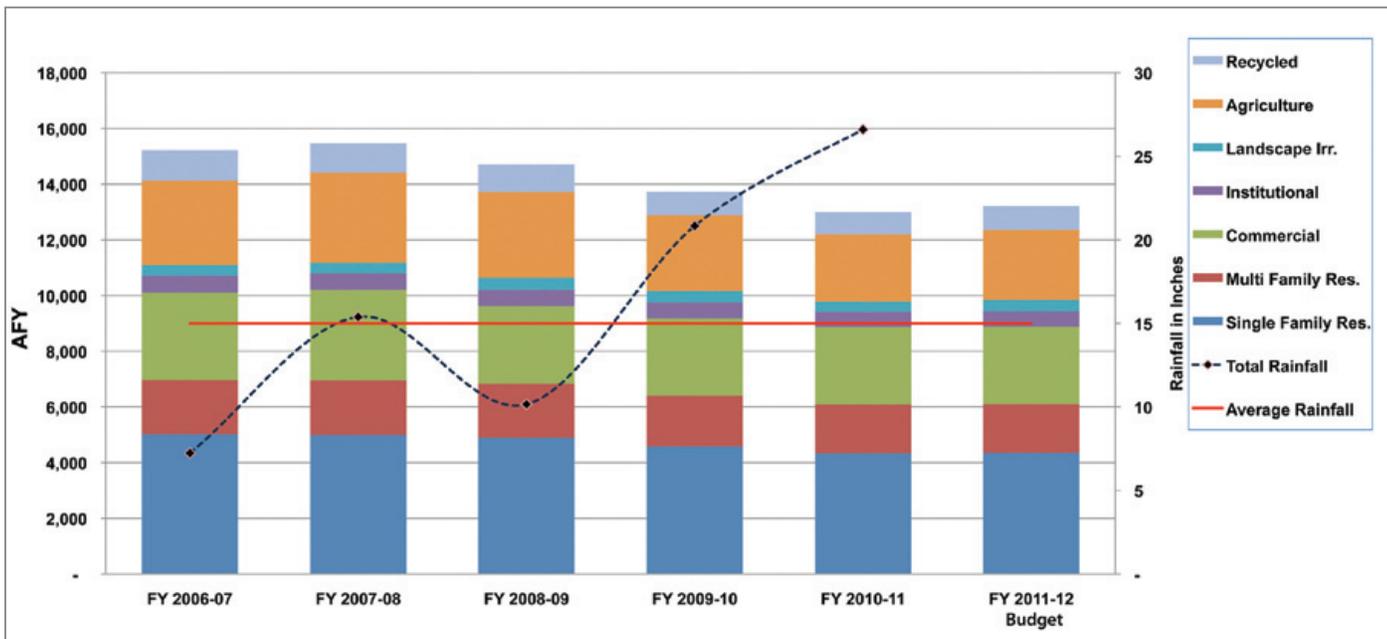
Source: Santa Barbara County Public Works Water Resources Division

**Projected Water Sales**

After taking into account historical customer behaviors and trends in water use, local economic factors, various customer classes, and weather conditions, this Budget predicts a slight overall increase in Water Sales (1.6%) when compared to FY 2010-11 Estimated Actual levels. Important to note, this level of sales is conservative and still below levels budgeted for FY 2010-11.

Figure 2.8 below overlays five years of actual water sales with the amount of rainfall in a year. Without question, rainfall is the single most influential indicator of Water Sales levels, impacting various customer classes to different degrees. As shown, when rainfall is above average, there is typically an inverse relationship between Water Sales and total rainfall. As rainfall over the past two fiscal years has significantly increased, Water Sales predictably deteriorated. The figure below also compares historic Water Sales to the Water Sales projected in FY 2011-12 Budget.

**Figure 2.8 Water Sales by Class of Customer, Overlaid with Rainfall Statistics (in AFY)**



The Single Family residential category of customers is the largest class of water users, accounting for 4,337 AF of water sold in FY 2010-11. As seen in Figure 2.10, Single Family Residential customers are predicted to generate nearly \$8M (or 42%) of total District revenue. Referring to the Table 2.2, other customer class water use and rates remain proportional to volume used, with the exceptions of Agriculture (19% of the water demand versus 6% of the revenue) and Recycled (6% of water used, 4% of revenue). Therefore changes in Water Sales levels have varying impacts on District revenues. This is due to the fact that different rates are charged to different classes of customers (rates range from \$1.06/HCF to \$4.30/HCF). It is important to note that these rates are consistent with the District Cost-of-Service Study and California law, which requires rates to be proportionate to the cost of providing services to each class of customer.

**Table 2.2 FY 2011-12 Water Deliveries and Revenue as a % of total, by Class of Customer**

Category	% of Water Deliveries	% of Water & Service Revenues
Single Family Residential	33%	42%
Multi Family Residential	13%	17%
Commercial	21%	23%
Institutional	4%	5%
Landscape Irr.	3%	3%
Agriculture	19%	6%
Recycled & Other	6%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Figure 2.9 FY 2011-12 Budgeted Water Use by Class of Customer (AFY)

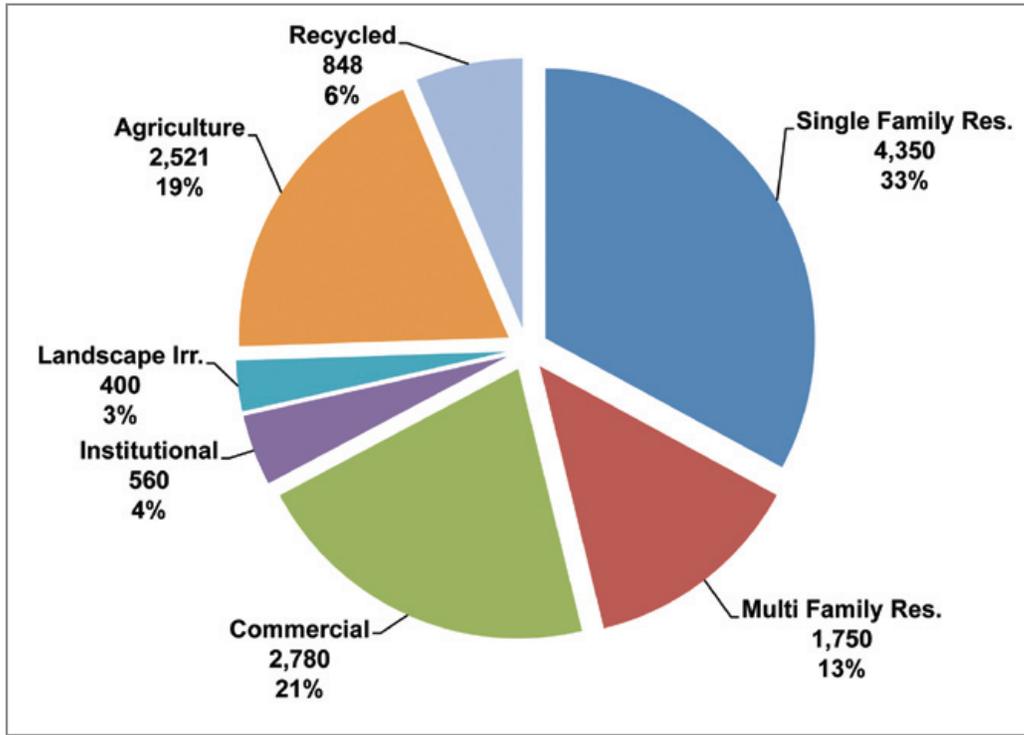
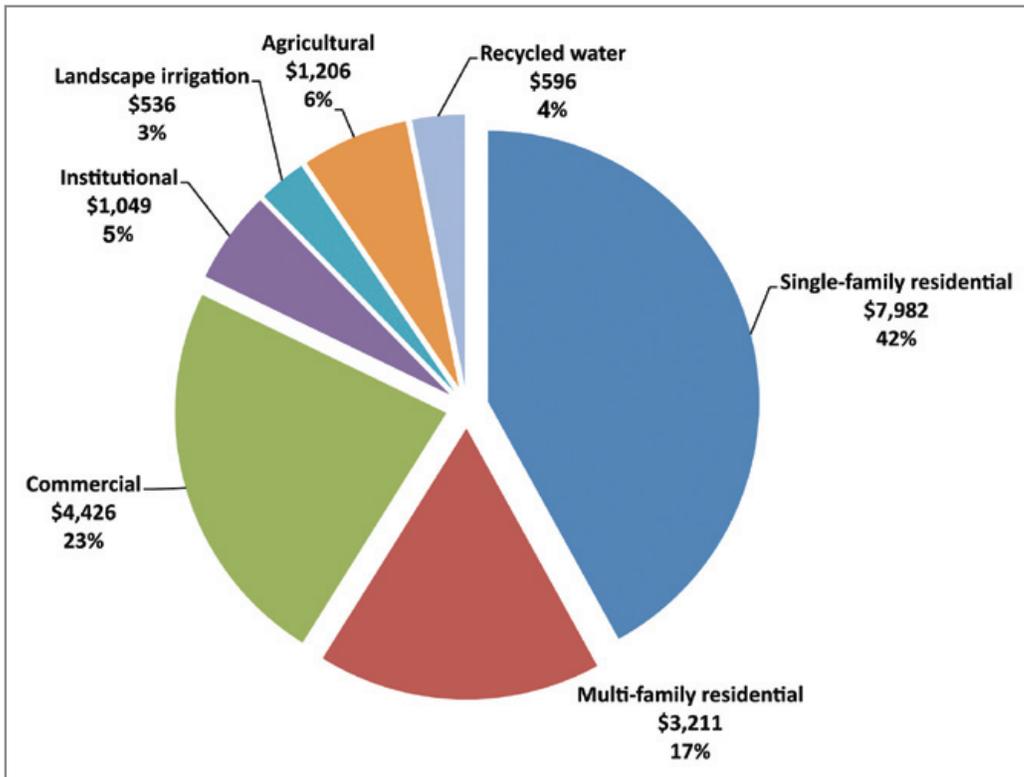


Figure 2.10 FY 2011-12 Budgeted Water Sales by Class of Customer (\$000s)



As illustrated in Table 2.3, Water Sales are projected to increase by 1.6% overall when compared to the FY 2010-11 Estimated Actuals. This projected level of Water Sales is consistent with the recently completed 5-year Financial Plan. It is important to note that even though the overall increase forecasted for FY 2011-12 is 1.6%, changes differ among customer classes, given the varying impacts of economic and weather conditions on these customers.

**Table 2.3 Water Sales by Class of Customer (in AFY)**

Category	Estimated Actual FY 2010-11	Recommended Budget FY 2011-12	AF Higher (Lower)	% Higher / (Lower)
Single Family Residential	4,337	4,350	13	0.3%
Multi Family Residential	1,754	1,750	(4)	(0.3%)
Commercial	2,782	2,780	(2)	(0.1%)
Institutional	544	560	16	2.9%
Landscape Irr.	370	400	30	8.1%
Agriculture	2,422	2,521	98	4.1%
Recycled	786	848	62	7.9%
<b>Total Water Sales in AFY</b>	12,996	13,209	213	1.6%

For example, single family residential, multifamily residential, and commercial uses are projected to be relatively flat, growing or declining by only 0.3%. These small percentage changes are the result of projecting total Water Sales by each customer class based on various external factors discussed in this Budget and comparing to the Estimated Actual levels for FY 2010-11. These levels of change are considered immaterial or flat, due to rounding and the recognizable difficulty of predicting precise Water Sales levels. Further declines in these three customer classes are not expected to continue, given prevailing economic and weather conditions. Where increases may be expected, conservation behaviors are likely to further mitigate large scale increases in water usage.

Institutional Water Sales are anticipated to be influenced by the return to a more normal weather pattern due to the amount of external irrigation water that is used by these customers for large landscape areas (parks, recreational areas, etc). Therefore, it is estimated that the three year decline will not only end in FY 2011-12 but when compared to FY 2010-11 Estimated Actual, usage will increase slightly by 2.9%. This FY 2011-12 Budgeted level of Water Sales closely approximates the last two-year Water Sales level average for this customer class.

Landscape Irrigation and Recycled Water Sales levels are predicted to increase by 8.1% and 7.9% respectively when compared to FY 2010-11 Estimated Actual. The difference of 0.2% between the two classes is largely immaterial. These larger increases are a result of the fact that landscape water demands are heavily influenced by weather conditions. The FY 2011-12 Budget estimates that wet and cool weather conditions experienced during prior years will start to transition to a more normal weather pattern. The forecasted level of Water Sales in these customer classes is expected to closely align with prevailing three-year averages.

Agriculture Water Sales are estimated to increase by 4.1% when compared to the FY 2010-11 Estimated Actual levels. Agriculture water use is highly dependent upon weather fluctuations and the economy, but remains a critical input for agricultural businesses. Therefore, while a return to a more normal weather pattern is anticipated to increase Water Sales for Agricultural customers, this increase is mitigated by rate changes effective July 1, 2011. Accordingly, Agricultural water use is not predicted to increase at the same level as Landscape Irrigation and Recycled customers. The forecasted increase for Agricultural Water Sales is determined by identifying the midpoint of the larger 8.0% increase predicted for Landscape Irrigation and Recycled customers, and the flat growth predicted for Residential and Commercial customers.

Overall, this Budget incorporates historical trends of water usage, the local economy, weather patterns, specific customer class usage patterns, and develops a customer class-based Water Sales forecast. The forecast also acknowledges that the recent increase in rates may cause certain price-sensitive customers to reduce or continue using less water. Given these factors, the Budget projects a slight 1.6% increase in Water Sales when compared to FY 2010-11 Estimated Actuals. This ends the three year declining trend in overall Water Sales, but does not bring Water Sales back to previous budgeted levels.

If water usage remains flat from FY 2010-11 Estimated Actual levels, and does not in fact experience a 1.6% increase, the overall potential impact to District revenue is approximately \$200K. Therefore, while the 1.6% increase anticipates an end to declining Water Sales, it remains a conservative estimate based upon the best available information and the sensitivity of using relatively conservative predictions of weather patterns and its impact on water usage.

### **Other Sources of Revenue**

While District revenue from Water Sales is 67% of total budgeted revenue, an additional \$9.3M is derived from other sources of revenue including \$8.2M in Monthly Meter Charges, \$753K in New Water Supply Charges, \$75K in Investment Revenue, and \$358K in Miscellaneous Fees.

#### *Monthly Meter Charges*

The District charges each customer a Monthly Meter Charge based on the respective meter size. In the Single Family Residential customer class, the District's rate structure encourages conservation by reducing monthly Meter Charges if customers establish a low 12 month trailing average of water consumption. Revenue from Monthly Meter Charges have recently experienced declines of less than 1% per year, as certain customers reduced usage to become eligible for low or ultra-low consumption Meter Charges. Monthly Meter Charge ranges from a low of \$10.68 per month for a 5/8-inch meter measuring an average of 4 HCFs or less, to a high of \$4,060 per month for a 10-inch meter.

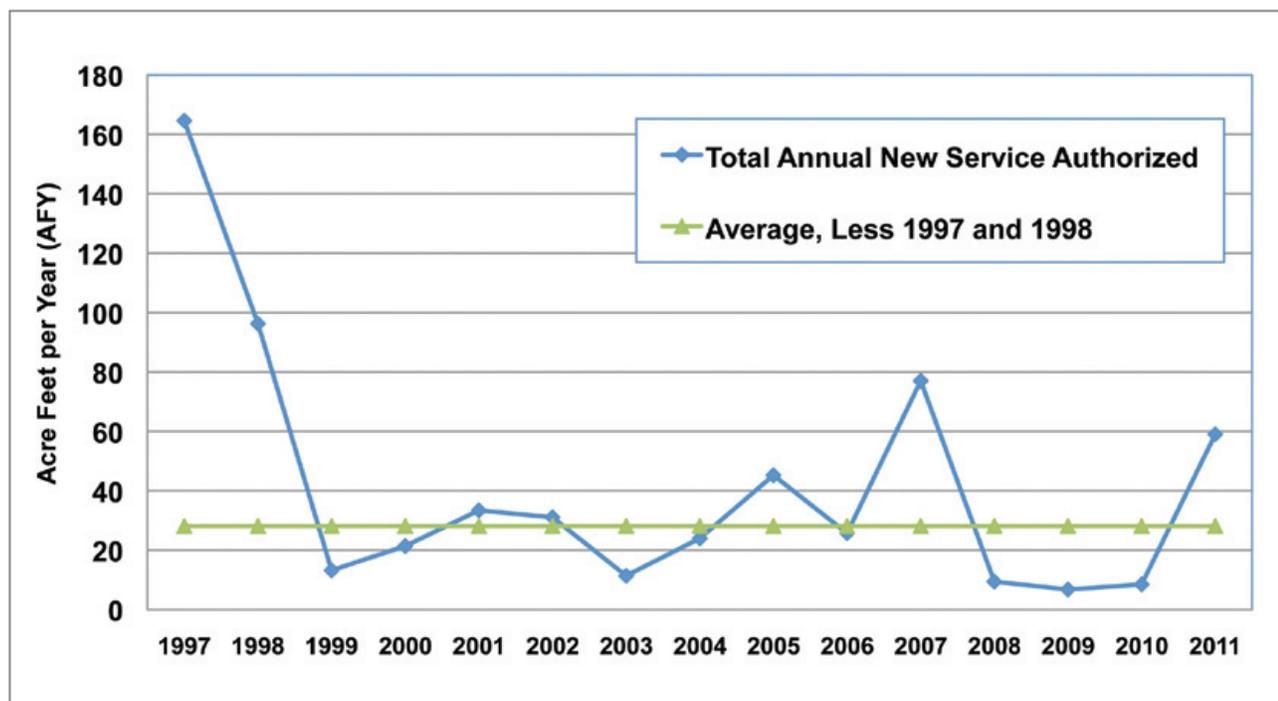
Monthly Meter Charge revenue is projected to be \$8.1M (29%) of total revenue for FY 2011-12, based on an application of newly-adopted Meter Charges to the number of active accounts associated with each respective meter size. The revenue forecast further assumes that a portion of single-family residences will remain in the low-use or ultra-low use levels. The revenue estimate for monthly meter charges is stable from year to year, as is evidenced by the 2% fluctuation from the FY 2010-11 Budget as compared to the FY 2010-11 Estimated Actual.

#### *New Water Supply Charges*

As mentioned previously, the New Water Supply Charge (NWSC) applies to customers requesting new or expanded water service. The FY 2011-12 Budget forecasts \$753K in revenue from NWSC payments, or 2.6%

of total budgeted revenue. Notably, NWSC payments benefit existing customers by ensuring new or expanded development pays a fair share to join the pre-existing customer-funded infrastructure. As evident in Figure 2.11 below, the amount of new water required from year to year varies, depending upon economic factors and timing of development projects in the District service area. To predict NWSC revenue, staff considered economic forecasts and projects known to be in various stages of development and arrived at a conservative demand for 26 AFY of water. This correlates to growth projections provided in the Cost-of-Service Study and the 5-year Financial Plan. Furthermore, these projections are consistent with the historic average for NWSC allocations, at 28 AFY, when the impacts of large entitlement years (1997 and 1998) are removed.

**Figure 2.11 New Water Supply Charge Water Allocation History (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. In addition, Chapter 4.08 of the Goleta Water District Code establishes that investment objectives, in priority order, are Safety, Liquidity, and Diversification. The largest cash balance is \$6.9M of debt reserves held by the Bank of New York Mellon, as Trustee associated with the District's outstanding Certificates of Participation (COPs). Other significant cash balances include a \$4.5M construction fund that will be drawn upon for infrastructure projects. For FY 2011-12, these funds are invested in the California Local Agency Investment Fund (LAIF), a pooled money investment vehicle projected to yield 0.6% annually producing approximately \$75K in investment revenue.

#### *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, and cell tower site rentals. The anticipated revenue from these sources in FY 2011-12 is approximately \$357K.

The District is planning to complete a study of miscellaneous fees and charges in FY 2011-12. The study will ensure that the District recovers costs associated with certain activities such as late fees, reconnection charges, service initiation charges, etc.

### **Summary of District Revenue Forecast for FY 2011-12**

The total revenue for FY 2011-12 Budget is estimated at \$28.4M which is an overall increase of \$2.4M or 10% when compared to FY 2010-11 Budget. This is driven primarily from the rate increase that is anticipated to be effective July 1, 2011. Each of the five separate categories of revenue listed in Table 2.1 were analyzed individually by District staff, with detailed information reviewed and considered for the development of the respective revenue budget.

Major highlights of the revenue forecast include the prediction that the three year trend of declining Water Sales will end in FY 2011-12, with a slight increase (1.6%) anticipated when compared to the FY 2010-11 Estimated Actual levels. However, Water Sales are not predicted to return to previous budgeted levels. This is the result of anticipating an improved economy and a return to a more normal weather pattern; however, continued conservation and price sensitivities will temper the return to previous Water Sales levels. Other highlights are that Monthly Meter Charges are stable and only adjusted for the impact of the rate increase. Also, New Water Supply Charges are reduced from the unusually high level experienced in FY 2010-11 due to the accelerated payment of New Water Supply Charges in anticipation of these charges increasing in FY 2010-11.

## EXPENDITURES

### Summary

In response to declining revenues, over the past three years expenditures have been closely managed and non-critical programs have been deferred to maintain the overarching fiscal and operational integrity of the District without impacting core customer service. While addressing immediate revenue challenges through cost-controlling actions, the District has also placed strong attention on setting a course for long-term structural sustainability through the completion of a Cost-of-Service Study and 5-year Financial Plan. Now, subsequent to increasing water rates, and establishing reasonable goals for capital and operating reserves, the District must reinstate critical infrastructure and maintenance programs that can no longer be deferred.

As evident in Table 3.1 and Figure 3.1, District expenditures are projected to total approximately \$27.8M in FY 2011-12. Notably, \$10.4M (38%) secures water supplies through agreements related to Lake Cachuma water (COMB/CCRB), State Water (CCWA), and Recycled Water (GSD). Combining these water supply costs with \$3.6M of debt service and \$1.1M of capital improvements, fixed costs constitute \$15.2M (55%) of total proposed FY 2011-12 District expenditures. The remaining 45% or \$12.5M of proposed FY 2011-12 expenditures include \$8.6M (30%) for personnel, and approximately \$3.9M (14%) for critical materials and services needed to operate and maintain the ongoing reliability of the District's three water systems and related treatment facilities.

As revenues declined over the past three years, and reserves were depleted, the District responded by reducing spending. Given that approximately 55% of District expenditures are fixed, as illustrated in Figure 3.1 (Water Supply Agreements, Debt Service, and Capital Improvements), meticulous review of controllable costs was undertaken for the purpose of yielding lasting savings. Where possible, costs were eliminated permanently. Examples of such permanent cost reductions have included competitive bidding of chemicals, reduced use of supplies, and elimination of contracted services such as landscape maintenance and janitorial services at the Corona del Mar water treatment plant. During the period of low revenues and prior to completing the Cost-of-Service Study, the District further protected cash flow by deferring certain programs. These cuts, or program deferrals, included temporary expenditure suspensions that would be reinstated when overall financial conditions improved. Examples of such deferrals included postponed maintenance, suspension of valve exercise and maintenance programs, temporary removal of equipment from service, and delaying the replacement of failed, but non-critical equipment.

The FY 2011-12 Budget proposes to reinstate all critical deferred programs and maintenance activities to ensure dependable water service, avoid more expensive future repairs, and improve the quality of operations. Figure 3.2 identifies the costs and categories of programs that are proposed to return in FY 2011-12, and illustrates that the largest item is \$1.1M in needed capital improvements (further described in Section V of this Budget). Additionally, the Operations Department has proposed to reinstate two preventative maintenance and pipeline replacement projects that have been recently suspended at an aggregate cost of \$824K. The Administration Department and the Water Supply Department have jointly proposed spending \$108K on system upgrades needed to improve accounting systems and data accessibility. More details are in the variance descriptions of the Departmental budget discussions (Section IV).

As previously discussed, the District, like other utilities, is impacted by externalities including weather, economic conditions, and changing customer preferences. The District will exert efforts to control costs and mitigate known risks; however, it is important to note that this budget does not include broad cost increases for unknown inflationary factors, economic changes, or unanticipated events. Where specific price

increases are expected, appropriate adjustments to the budget have been made. Most importantly, after two consecutive years of deferring projects, and cutting costs to address revenue shortfalls, this budget proposes a transition to proactive maintenance and strategic management of the business by funding proactive programs such as valve exercises and maintenance, pipeline replacements, and other projects that should no longer be deferred. Completing these and other strategic priorities will ensure the District can continue to deliver a safe and dependable water supply to its customers now and into the future.

**Table 3.1 FY 2011-12 Budget Expenditures versus FY 2010-11 Budget**

Category	Adopted	Estimated	Recommended	Variance Analysis*	
	Budget FY 2010-11	Actual FY 2010-11	Budget FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
<b>Water Supply Agreements:</b>					
COMB/CCRB Cachuma Water	3,023,516	2,351,256	2,522,744	(500,772)	(17%)
CCWA State Water	7,050,555	7,394,593	7,407,597	357,042	5%
GSD Recycled Water	405,000	357,402	484,932	79,932	20%
<b>Subtotal</b>	<b>\$10,479,071</b>	<b>\$10,103,252</b>	<b>\$10,415,273</b>	<b>\$(63,798)</b>	<b>(1%)</b>
<b>Personnel:</b>					
Wages, Benefits, & Taxes	7,739,809	7,698,431	8,265,698	525,889	7%
Other Post Employment Benefits	269,283	291,893	352,494	83,211	31%
<b>Subtotal</b>	<b>\$8,009,092</b>	<b>\$7,990,324</b>	<b>\$8,618,192</b>	<b>\$609,100</b>	<b>8%</b>
<b>Operations &amp; Maintenance Costs</b>					
Water treatment costs	637,000	368,624	548,618	(88,382)	(14%)
Water treatment testing	188,200	104,588	135,582	(52,618)	(28%)
Insurance, Accounting & Auditing	196,000	91,504	179,200	(16,800)	(9%)
Maintenance & Equipment	483,640	326,862	1,154,178	670,538	139%
Legal	257,800	220,566	357,504	99,704	39%
Services & Supplies	1,031,111	1,104,677	1,281,940	250,829	24%
Utilities	217,040	202,409	235,972	18,932	9%
<b>Subtotal</b>	<b>\$3,010,792</b>	<b>\$2,419,231</b>	<b>\$3,892,994</b>	<b>\$882,202</b>	<b>29%</b>
<b>Total Expenditures, before Debt and CIP:</b>	<b>\$21,498,955</b>	<b>\$20,512,807</b>	<b>\$22,926,459</b>	<b>\$1,427,504</b>	<b>7%</b>
Debt Service	3,400,000	2,906,535	3,626,303	226,303	7%
Capital Improvement Program (CIP)	500,000	-	1,101,000	601,000	120%
<b>Total Expenditures</b>	<b>\$25,398,955</b>	<b>\$23,419,342</b>	<b>\$27,653,762</b>	<b>\$2,254,807</b>	<b>9%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

Figure 3.1 FY 2011-12 Budgeted Expenditure Allocations (\$000s)

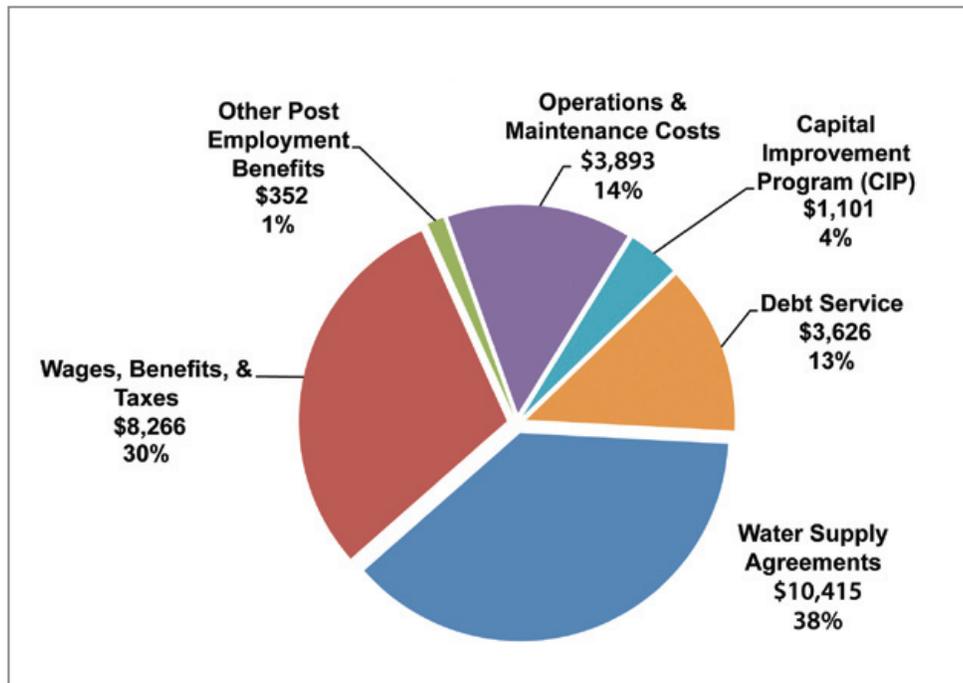
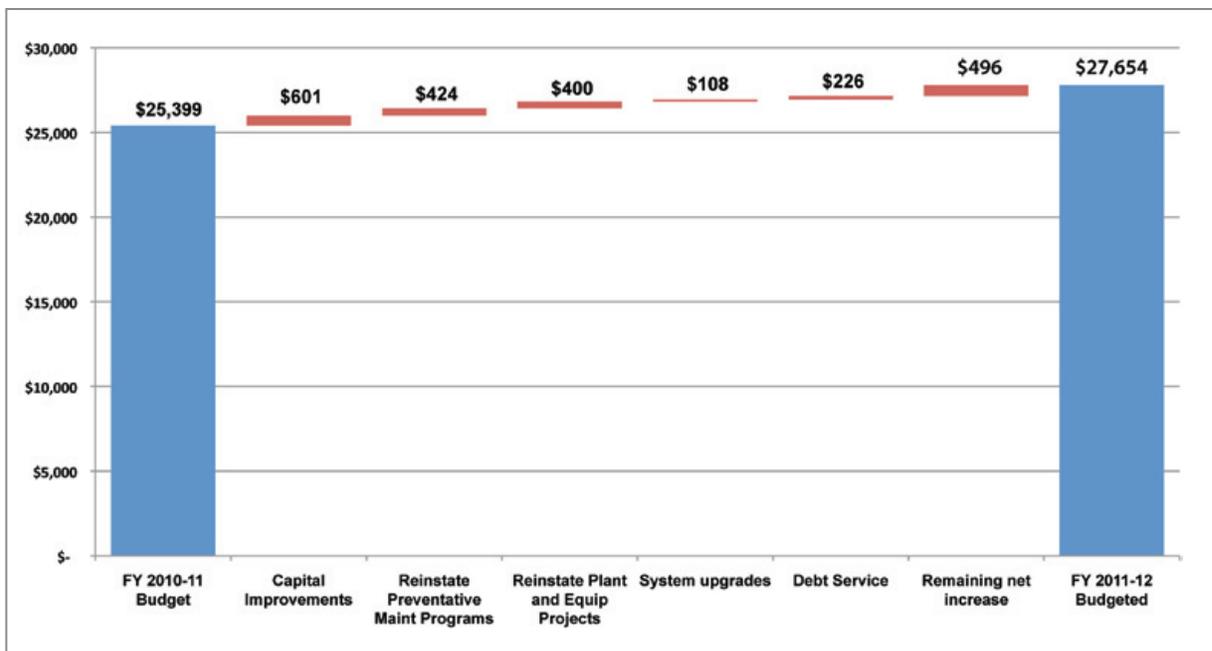


Figure 3.2 Reinstated Costs of Deferred Programs (\$000s)



After recognizing the above items and the timing of the debt service payments, remaining expenditures increase by \$496K (2%) as compared to the FY 2010-11 Budget. This is due to increased water supply costs, inflationary factors, and new projects, as further explained through the remainder of this section.

## Water Supply Agreements

As illustrated in Figure 3.1, approximately \$10.4M (38%) of proposed FY 2011-12 expenditures are for securing three distinct District water sources: surface water, State water, and recycled water. These expenditures are necessary for the District to maintain obligations under agreements with various agencies, thereby ensuring reliable and adequate water supplies for District customers, as explained in further detail below.

### Surface Water

The District acquires the majority of its water through an agreement with the Cachuma Operation & Maintenance Board (COMB), which manages Lake Cachuma on behalf of the U.S. Bureau of Reclamation (USBR). Charges paid to COMB incorporate the operations and maintenance costs of COMB, capital payments for bonds issued by the USBR, costs to address conservation and release issues of the reservoir, and payments for dam rehabilitation. Additionally, the District is a member of the Cachuma Conservation and Release Board (CCRB) which advocates for protection of the District's Water rights associated with Lake Cachuma. Table 3.2 below illustrates COMB and CCRB costs budgeted for FY 2011-12, established when final COMB and CCRB budgets are received. As seen in Table 3.1, the combined costs of COMB and CCRB are projected to decrease by \$501K (17%) compared to FY 2010-11 Budget, which is due to improved forecasting information regarding USBR payments.

**Table 3.2 FY 2011-12 Budgeted COMB Water Supply Costs**

Category	Budget FY 2011-12
USBR Payments - Water Entitlement	\$950,000
COMB Operation & Maintenance	1,222,340
Cachuma Renewal Fund	\$69,314
Safety of Dam Act Costs	80,734
Conservation and Release Costs	200,356
<b>Total</b>	<b>\$2,522,744</b>

### State Water Project

In 1991, during an extensive drought, voters authorized the District to join the State Water Project via the Central Coast Water Authority (CCWA), whose mission is to increase water supply and reliability to the Central Coast. CCWA issued bonds to build a coastal aqueduct and treatment facility, and these bonds are repaid by the District and other water agency participants. Participants also pay other fixed charges for California Department of Water Resources (DWR) infrastructure maintenance and improvements incurred. Variable costs are incurred according to the amount of State water delivered to the District. Notably, the District exchanges approximately 1,000 AFY of its State Water entitlement with the Santa Ynez Improvement District

#1 every year. Beyond this recurring exchange, the District does not anticipate taking State Water during FY 2011-12; accordingly, the Budget does not include related variable costs.

Per the CCWA adopted budget, the District's portion of State water costs are expected to increase by \$476K (7%) compared to FY 2010-11 Budget, due to revisions made to reflect cash-based provisions. Table 3.3 below illustrates the budgeted State water costs.

**Table 3.3 FY 2011-12 Budgeted CCWA Water Supply Costs**

Category	Budget FY 2011-12
Fixed CCWA Costs	\$7,278,451
Variable Costs	129,146
<b>Total</b>	<b>\$7,407,597</b>

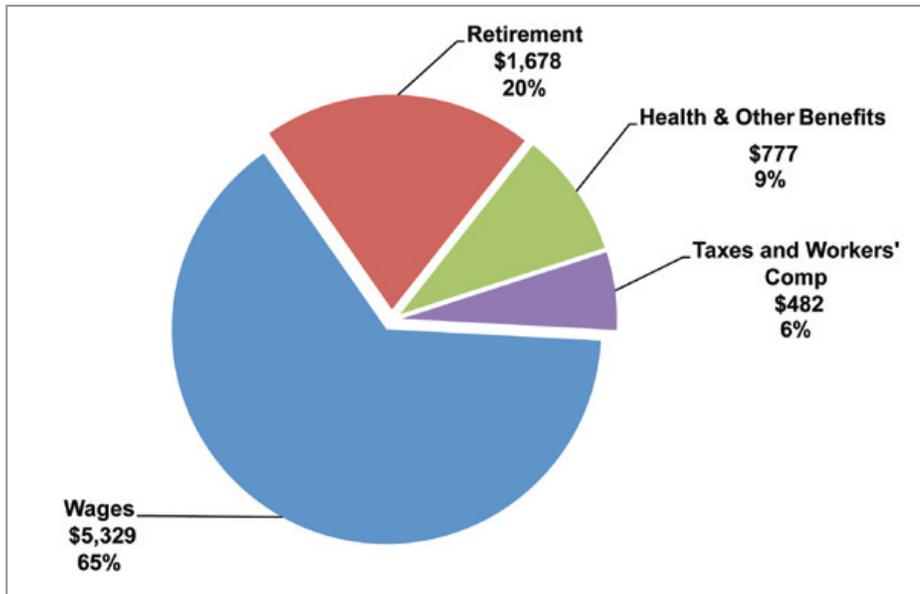
### ***Recycled Water***

In partnership with the Goleta Sanitary District (GSD), the District financed and constructed a facility to provide recycled water for landscape irrigation use. The recycled water plant has historically produced approximately one thousand AFY of water. The largest customers include the University of California Santa Barbara and golf courses within the District service area. GSD owns and operates the plant, and charges the District for costs incurred, which are projected to be \$484K or \$79K (20%) more than the FY 2010-11 Budget. This increase is attributable to certain maintenance projects that were deferred, and are now scheduled to occur in FY 2011-12. In addition, the FY 2011-12 Budget recognizes a GSD administrative fee equal to 10% of all GSD operations and maintenance expenditures.

### **Personnel**

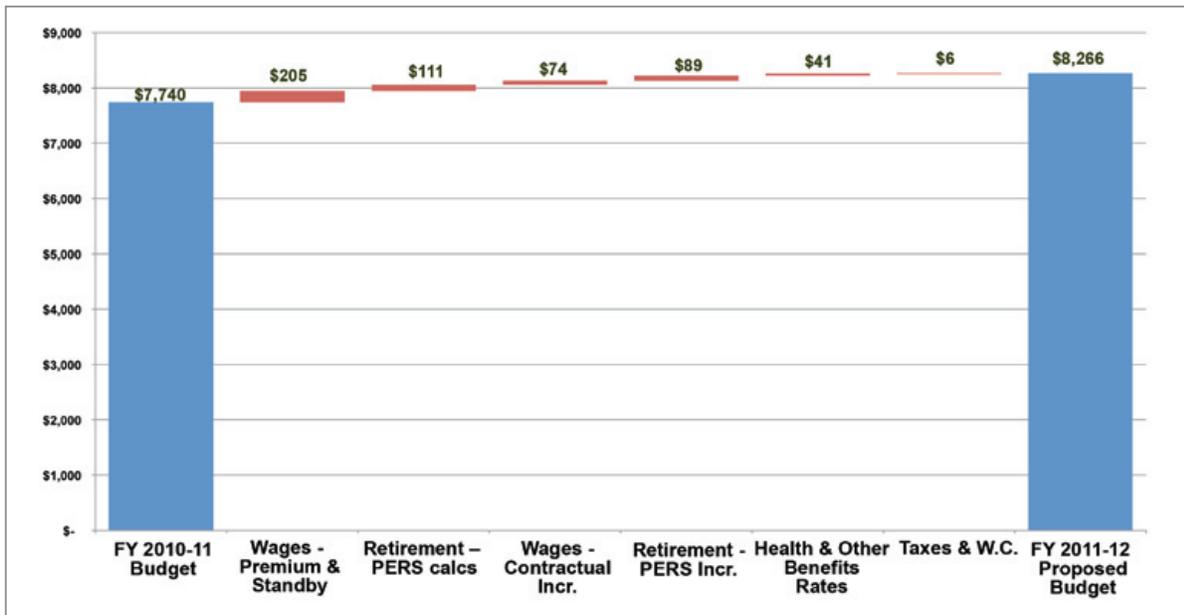
Recruiting, maintaining, and fostering top-notch personnel resources is critical for meeting District objectives such as protecting the water supply and ensuring dependable and high quality service to customers. Accordingly, the District employs licensed and professional staff to operate a surface water treatment plant, maintain and repair over 270 miles of distribution lines, read 16,600 meters monthly, generate all customer billings, manage District accounting, process applications for new water service, implement conservation programs, and effectively manage District water supplies. Employees include engineers, plant operators, distribution specialists, skilled technicians, analysts, financial experts, and experienced professional managers. Costs associated with this human capital portfolio are projected to be \$8.3M (30%) of total FY 2011-12 budgeted expenditures. Personnel cost allocations are illustrated in Figure 3.3 below, which demonstrate that wages are \$5.3M (65%), Retirement costs equal \$1.7M (20%), Health Insurance / Other Benefits are \$777K (9%), and Taxes / Worker's Compensation costs are \$482K (6%).

Figure 3.3 FY 2011-12 Budgeted Personnel Costs (\$000s)



Compared to FY 2010-11 Budget, Personnel costs are projected to increase \$526K (7%), \$205K of which is due to contractual premium shift and standby time unbudgeted in the previous year. While every effort is made to control overtime, the round-the-clock nature of District business requires personnel contingency budgeting to account for contractual shift premiums, unforeseen events, holidays, and out-of-normal-business-hour repairs and maintenance. As seen in Figure 3.4 below, the remaining increase in personnel costs are to recognize a a PERS calculation correction, contractual wage increases, and increased rates for health insurance and retirement. District employees are enrolled in the California Public Employee Retirement System (CalPERS), and CalPERS advises that the employer portion of the retirement contribution will increase by 11% on July 1, 2011. The level of future expenditures for CalPERS is subject to market performance.

Figure 3.4 Personnel Increase Categories (\$000s)



As further illustrated in Figure 3.5 below, there has been a marked trend over the past five years, showing retirement costs and health benefits costs as a growing percentage of the total, while wages have fallen as a percentage of total personnel costs.

**Figure 3.5 Wages, Retirement Benefits, and Taxes as a % of Personnel Cost**

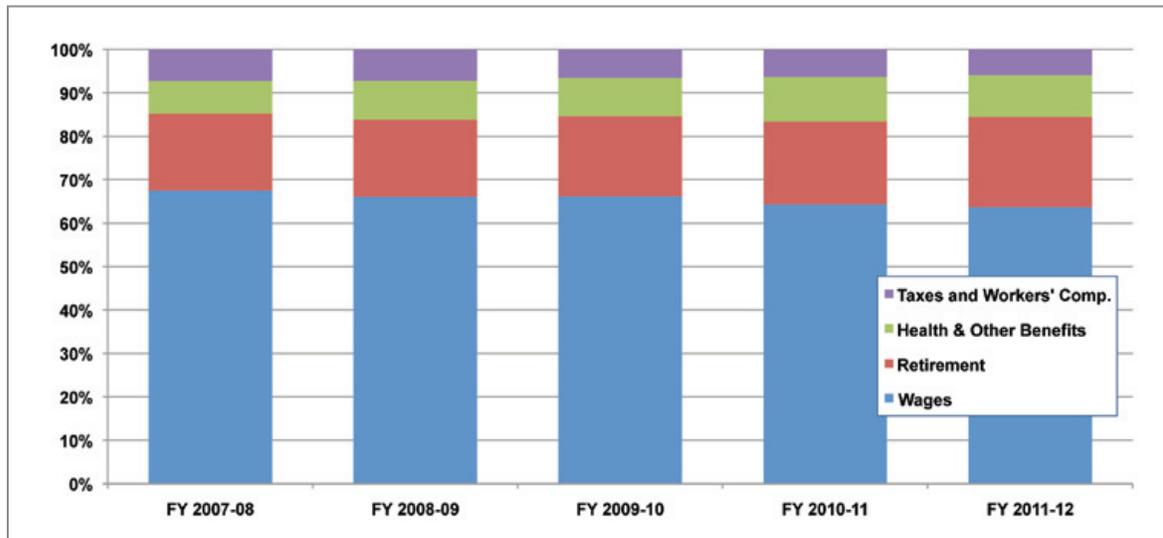


Table 3.4 provides additional analysis of the cost per Full-Time Equivalent (FTE), and shows that since FY 2007-08, wages excluding overtime and premium pay increased by an average of 2% per year, while retirement and medical insurance costs rose by an average of 7% and 10% per year, respectively. This issue is common nationwide in the public sector, and remains a critical matter for the District to solve. Continued increases in retirement and health insurance costs, more so than in wages, are placing significant pressure on the District to find alternative ongoing cost-saving solutions.

**Table 3.4 Historical Personnel Cost per Full Time Equivalent**

Category	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Increase over 5 yrs	Annual Increase
Wages	\$78,052	77,390	83,860	83,834	85,901	10%	2%
Retirement	20,516	20,854	23,357	24,885	27,960	36%	7%
Health & Other Benefits	8,663	10,481	11,125	13,305	12,954	50%	10%
Taxes and Workers' Comp	8,385	8,470	8,364	8,336	8,030	(4%)	(1%)
<b>Total</b>	<b>\$115,616</b>	<b>117,196</b>	<b>126,707</b>	<b>130,360</b>	<b>\$134,845</b>	<b>17%</b>	<b>3%</b>

In June 2004, the Governmental Accounting Standards Board issued Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement established standards for the measurement, recognition and display of post-employment benefits (referred to as Other Post-Employment Benefits, or OPEB) and related assets and liabilities, note disclosures, and

required supplementary information in the District's financial reports. Post-employment benefits include retiree healthcare and other non-pension benefits, which the District currently offers to eligible retirees. The District implemented GASB 45 for the year ending June 30, 2009. Funding for year ending June 30, 2011 is included in this budget.

The District will continue to control personnel costs via contract negotiations, judicious use of overtime, and management of paid leave programs. The District is committed to balancing the need to retain best-in-class employees with the costs associated with such personnel.

### **Operations & Maintenance (O&M)**

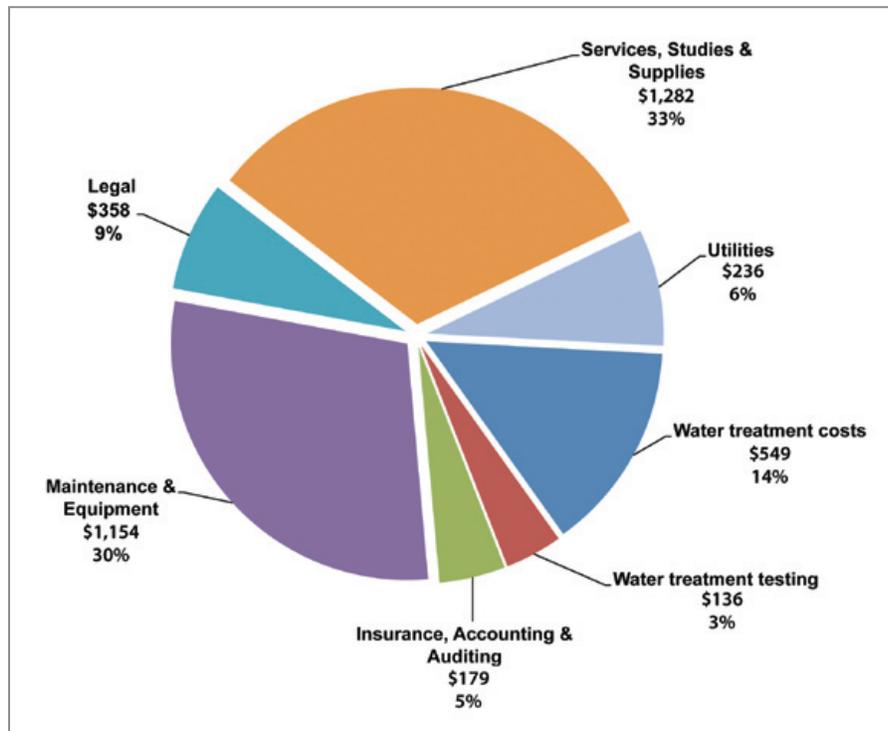
As previously illustrated in Table 3.1, O&M expenditures fund ongoing District operations, including purchases of materials and services. As evident in Figure 3.6 below, \$1.3M (33%) of O&M is for services and supplies, \$1.2M (30%) for maintenance and equipment, and \$549K (14%) for water treatment costs. Total O&M expenditures are projected to be \$3.9M in FY 2011-12, a \$882K (29%) increase versus FY 2010-11 Budget. The majority of this increase is due to a reinstatement of deferred system maintenance and equipment costs, as described in further detail below. These costs were minimized to address revenue shortfalls; however, a return to healthier levels of maintenance activity is prudently proposed in the FY 2011-12 Budget. Specific details regarding changes in operation and maintenance expenses from FY 2010-11 Budget to FY 2011-12 Budget are as follows:

- Water treatment and testing costs are estimated to decrease by \$140K due to not operating wells, as well as improved management oversight of the water treatment and testing processes, offsetting the unit costs associated with these functions. It is important to recognize that this approach to best management practices allows the District to meet California and federal water quality standards, while realizing simultaneous cost-savings.
- Insurance, Accounting and Auditing costs are projected to increase by a net \$17K (9%) to fund administrative system improvements. Specifically the District will implement a project accounting system to better categorize and manage constructed assets. Further refinement to existing system query capacity will allow fiscal staff to perform real-time analysis and enhance reporting of financial and performance data
- Maintenance and equipment costs are projected to be nearly \$1.2M, an increase of \$671K (139%) compared to FY 2010-11 Budget. This increase is largely due to the District plan to return to a sustainable program of managing its infrastructure and system maintenance. Whereas cash was preserved over the past two years by delaying certain tasks and activities, it is important that the District reintroduce these preventative programs to avoid more costly service disruptions in the future. Examples of such cost increases include: valve exercise and maintenance programs; replacement of failure prone service pipes; leak detection and repairs; and rehabilitation of aging pumps and treatment equipment.
- Legal fees, including general and special counsel, are projected to increase by \$100K (39%) to recognize the support needed for public records act requests, collective bargaining, and to establish a litigation contingency fund.
- Services and supplies costs are projected to increase by \$251K (24%) compared to FY 2010-11 Budget, in order to support the development and planning of District systems and information. Specific projects needed in FY 2011-12 include: an engineering analysis of the Goleta West Conduit as required every three years to comply with DPH requirements; an updated water audit to ensure

accurate readings; reservoir spill analysis to better control and implement measures to reduce water loss throughout the system; a study of water demand factors; an update to the District emergency response plan; and a study of the feasibility of blocked tier rates that will assist in meeting conservation goals.

- Utilities are projected to increase by \$19K (9%) as compared to FY 2010-11 Budget, due to a 5% rate increase from Southern California Edison (SCE).

**Figure 3.6 FY 2011-12 Budgeted O&M Costs**



### Debt Service

In August, 2010, the District refinanced its debt by issuing approximately \$34M in Certificates of Participation (COPs), which are secured by a pledge of District revenues. This 2010A COP issuance was used to refund a series 2003A COPs, loans outstanding with the state and with a local bank. It also raised an additional \$5M in proceeds needed to fund certain improvements to the District's water supply, treatment, and distribution systems. Interest is payable semi-annually, and interest rates range from 4.25% to 5.00%. In FY 2011-12, required payments are \$3.6M, which is \$226K more than Budgeted in FY 2010-11 due to the rescheduled timing of the first payment after issuance.

### Capital Improvement Program

The District will fund \$1.1M of capital improvement projects (CIP) from this budget in FY 2011-12, based upon the Board-adopted Infrastructure Improvement Plan. Spending will be comprised of 21 projects across the District to improve the water treatment plant, address an aging distribution system, upgrade the recycled water electrical system, and rehabilitate a well. See additional details in Section V of this Budget.



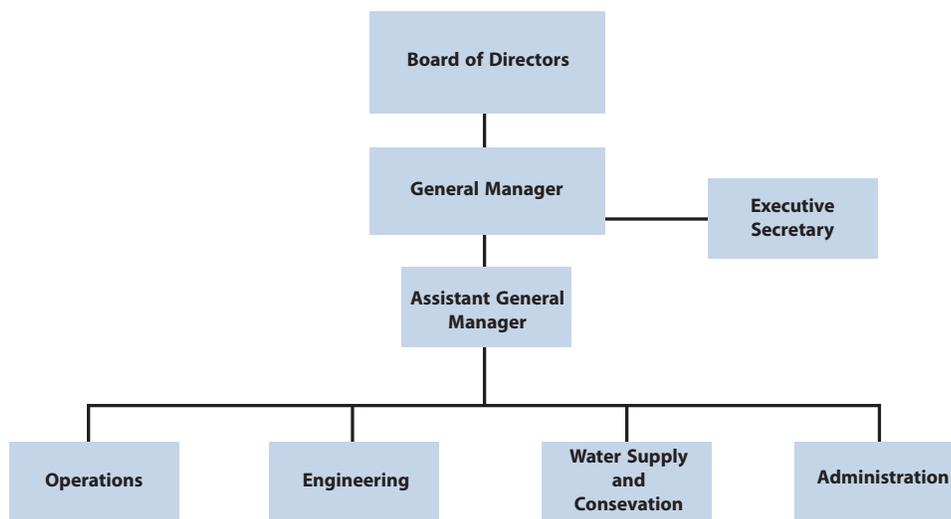
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## DEPARTMENTAL BUDGETS

### Organizational Overview

As illustrated in Figure 4.1 below, the District General Manager reports to an elected Board of Directors. At the direction of the General Manager, the Assistant General Manager serves as chief-of-staff, directing activities of four departments including Operations, Engineering, Water Supply & Conservation, and Administration. Each department is responsible for specific programmatic functions that implement District goals to ensure the daily operating integrity of the District. These functions are described in detail in the departmental section of this Budget.

**Figure 4.1 Goleta Water District Departments / Programmatic Functions**



Sixty (60) employees work within these departments to support the District’s activities and responsibilities, including the operation of the Corona del Mar Water Treatment Plant and 270 miles of distribution pipeline. Beyond maintenance of the water distribution grid, the District reads 16,600 meters monthly, generates customer billing, processes applications for new service, implements conservation programs, manages District water supplies, and oversees a \$28M operating and capital budget to serve water to a diverse population of over 85,000 people.

Total staffing has remained constant over the last three years (see Figure 4.2). Recently, by strategically holding open vacancies, accrued salary savings have allowed the District to control costs and address revenue shortfalls. Going forward, the filling of three critical vacant positions will ensure that sufficient resources are available to meet departmental goals and objectives. Each vacant position and related responsibilities are described in detail in the respective departmental area of this Budget. By filling vacancies, strong focus will be placed on building operational efficiency, fiscal accountability, and performance-driven management oversight.

District expenditures, excluding debt service and capital improvement program expenditures, are accounted for and reported through each department. Department managers are responsible for leading programmatic functions and ensuring that expenditures remain within Board-authorized appropriation levels. An overview of spending by department/programmatic function is found in Table 4.1 below. Detailed discussions of these expenditures are included within this area of the Budget.

Figure 4.2 Ten Year Trend of District Staff by Department

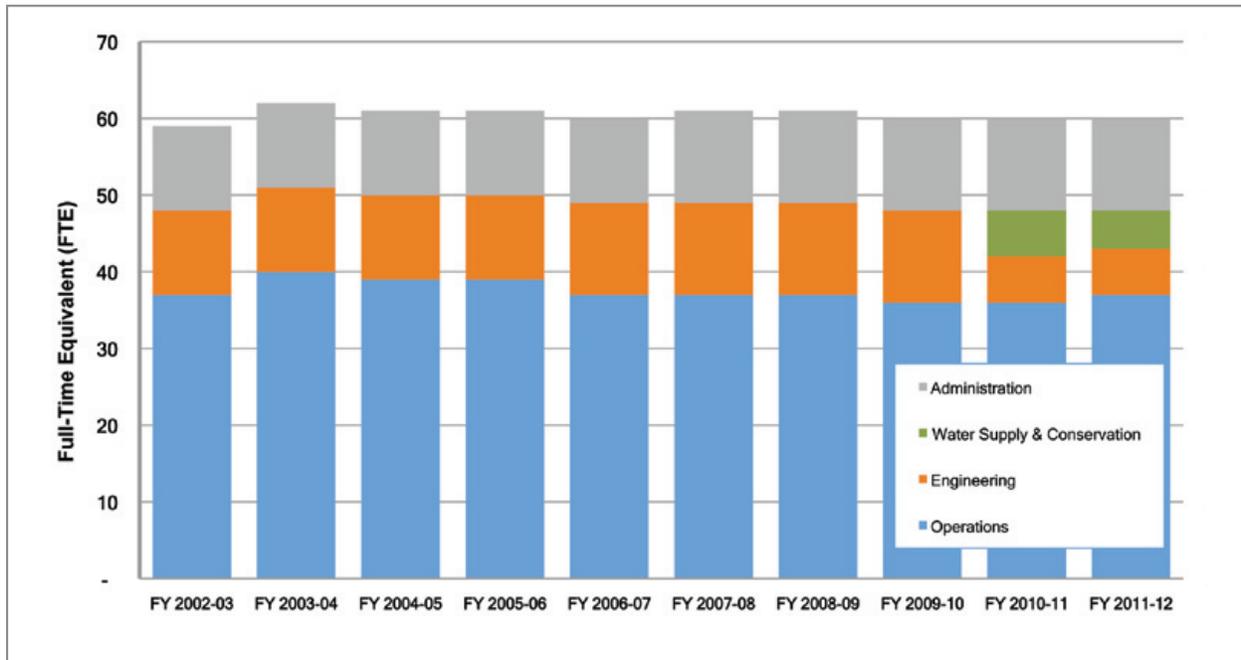


Table 4.1 FY 2011-12 Budgeted Expenditures by Department

Category	Adopted Budget	Estimated Actual	Recommended Budget	Variance Analysis*	
	FY 2010-11	FY 2010-11	FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
Operations	\$6,044,127	5,686,390	7,214,171	\$1,170,044	19%
Engineering	1,066,635	904,085	1,067,109	474	0%
Water Supply & Conservation	11,400,225	10,832,351	11,457,149	56,924	0%
Administration	2,987,967	3,089,980	3,188,030	200,063	7%
<b>Total Expenditures</b>	<b>\$21,498,955</b>	<b>20,512,807</b>	<b>22,926,459</b>	<b>\$1,427,504</b>	<b>7%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

Departmental/programmatic function expenditures are tracked using “cost centers.” Cost centers represent detailed levels of expenditures focused around specific measurable activities. As with any performance-driven organization, certain cost centers are occasionally added or reassigned between departments to better align management oversight with prevailing business practices. Accordingly, the FY 2011-12 Budget proposes to shift the cross-connection cost center from the Engineering Department to the Operations Department. The funding associated with this cost center has been transferred from the Engineering Department to the Operations Department. Additionally, the following new costs centers have been added:

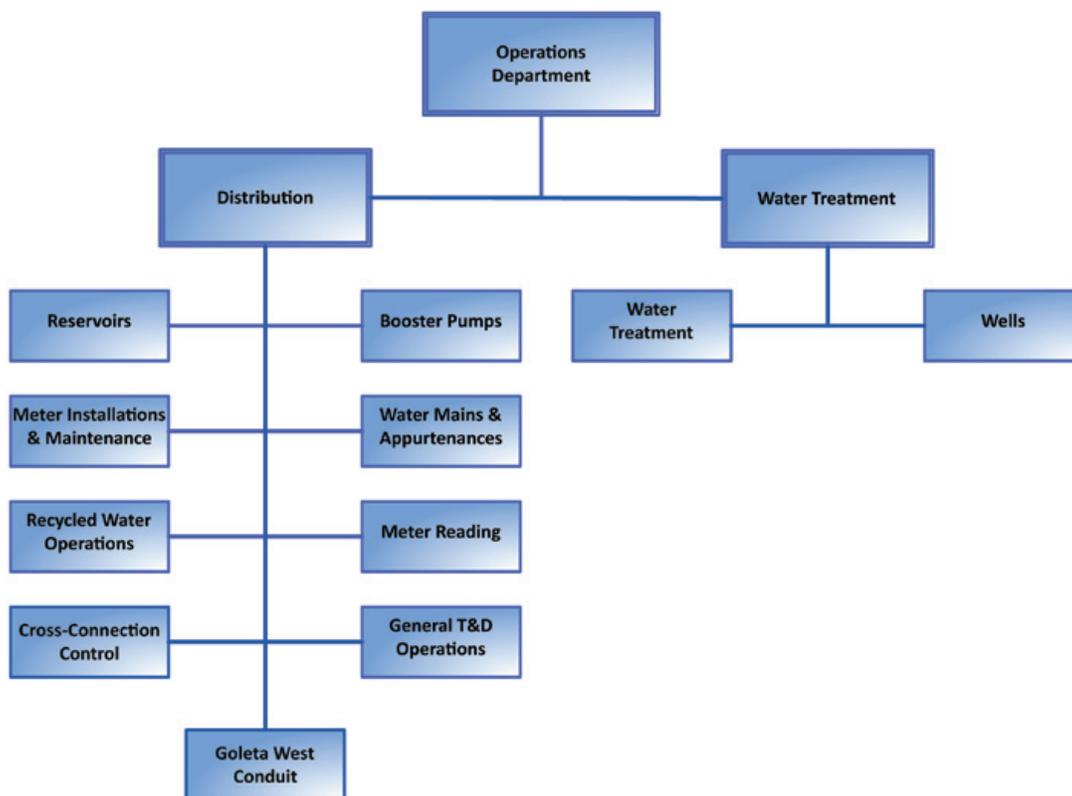
- A Public Information cost center to the Water Supply & Conservation Department to uniformly account for and track budgeted public outreach activities.
- A Goleta West Conduit cost center to the Operations Department to account for and track expenditures associated with this separate water system.

## Operations Department

### Description

The Operations Department is responsible for the operation, maintenance, and improvement of three water systems and the related facilities of the District: the Potable Water System, the Goleta West Conduit, and the Recycled Water System. In total, the District’s water systems produce and deliver over 3.5 billion gallons of water annually to over 85,000 people living in the District. The specific functions of the Operations Department are organized under two distinct areas of responsibility: Distribution and Water Treatment. Each area has specific responsibilities for District assets and related functions as depicted in Figure 4.3 and further explained below.

**Figure 4.3 Operations Department Programmatic Functions**



### *Distribution*

This area consists of the facilities and responsibility for delivering the water from the various treatment sources of the three water systems to the customer. These systems consist of over 270 miles of water mains and appurtenances (i.e. valves, regulating stations, fire hydrants), reservoirs and booster pumping stations that control the flow and pressure required to maintain high quality, reliable service to 16,600 customer accounts. Each customer is connected to the distribution system of pipelines through individual service lines that supply water through a meter located at the final point of service. Meter installations and maintenance is a primary customer service task for the Operations Department. Every month, meters for the District’s customers must be read and the usage recorded to ensure accurate and timely billing. These meters must also be maintained and replaced as needed to maintain accurate measurement of each customer’s water usage for fair and accurate monthly billings. The department also provides regular and

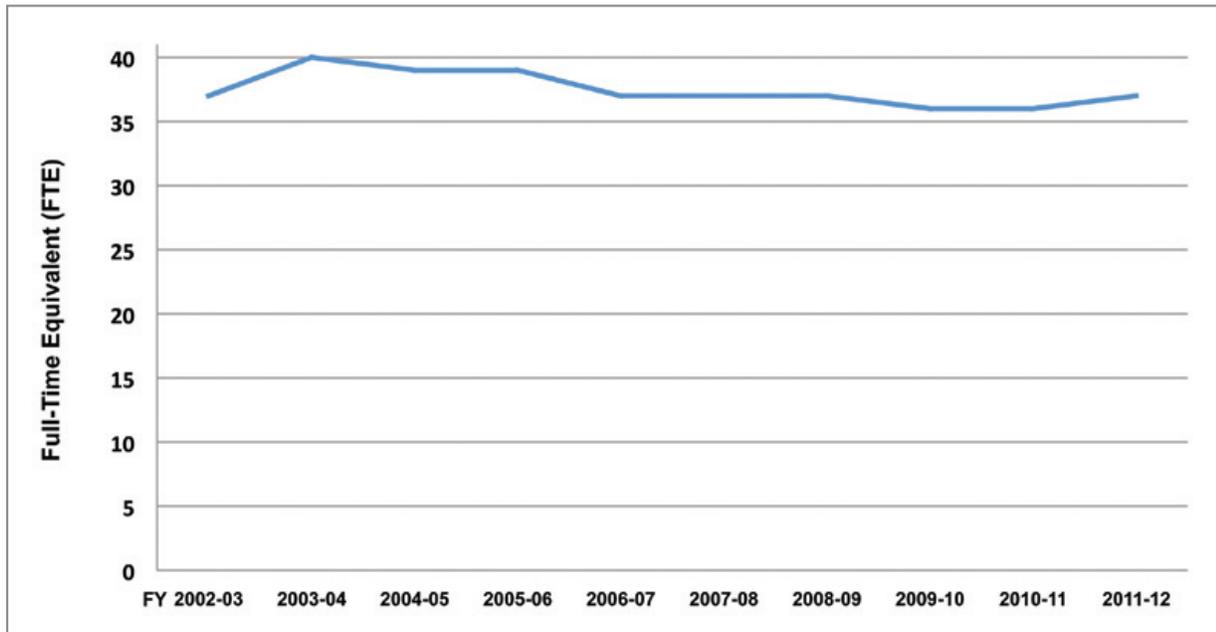
emergency service disconnections and water service quality checks where necessary. Finally, Distribution administers the customer Cross-Connection Control program both on the Potable and Recycled water systems.

*Water Treatment*

This area consists of the facilities necessary to produce, treat, test, and insure that the water delivered into the distribution system meets all regulatory standards for water quality set by State and Federal regulation. Water Treatment consists of two chlorination stations for the Goleta West Conduit, which obtains its water supply from Lake Cachuma. The Goleta West Conduit system is unfiltered water and is used for agricultural irrigation. The Potable water system consists of the Corona del Mar Water Treatment Plant, which treats water from Lake Cachuma, and the District’s groundwater wells. These facilities treat the water to the standards required by the California Department of Public Health and Federal Environmental Protection Agency (EPA) for drinking water. The Recycled system water is treated by the Goleta Sanitary District to the standards required for recycled water and is used for irrigation and restroom facilities.

Figure 4.4 shows the historical staffing trend in the Operations Department from 2002 through the 2011-12 Budget. The number of personnel in FY 2011-12 will increase by one FTE due to transferring the Backflow and Cross-Connections position from the Engineering Department into the Operations Department. Net of this, no increases in personnel are proposed in the department from the 2007 levels, yet additional responsibilities resulting from increased regulations, additional customers, and more stringent regulatory oversight have been accommodated through enhanced productivity and process efficiency improvements. See Appendix Figure 6.3 for detailed Operations Department organizational chart.

**Figure 4.4 Staffing Trend – Operations**



## Accomplishments FY 2010-2011

### ***Enhancing Productivity and Efficiencies:***

Costs were controlled via strategic management in all operations while regulatory standards were met and a continuous supply of water to customers was maintained. Examples of specific actions implemented are listed below.

- Continued to support aggressive collection measures (i.e., door tagging, shut offs) resulting in a very high collection rate from customers, thereby ensuring maximum revenue recovery.
- Conducted repairs or maintenance only when necessary to maintain service.
- Reduced the use of outside contractors to install District facilities.
- Deferred proactive maintenance and operational procedures that would have resulted in additional expenditures, and instead performed work that was normally done by contracted services (i.e. janitorial cleaning, landscape maintenance, minor vehicle repairs). This significantly reduced overall District expenses to address ongoing revenue short falls; however, these expenditure levels cannot be sustained without increasing the risk of facility failures above acceptable standards for public water systems.

### ***Investing in the Future:***

Continued to manage the water resources in an effective manner to maximize the use of the lowest cost water now and into the future by the following activities.

- Managed the water supplies to avoid losing any stored water when Lake Cachuma spilled during heavy 2010-11 winter rains.
- During the Lake Cachuma spill event, maximized the use of the spill water through injection into the groundwater basin, increasing the water available for customers during future drought events.
- Assisted with the development of the Water Supply Management Plan, the Cost of Service Study and 5 Year Financial Plan, and the Infrastructure Improvement Plan by providing detailed operational data and cost projections to adequately project future expenditure and revenue needs to adequately maintain and improve the water system.
- Informed Interactions with COMB to develop realistic alternatives to the "Second Barrel" project.

### ***Ensuring Quality Customer Service:***

Continued to supply potable water that met all regulatory standards for water quality throughout the year, while also preparing for future regulatory changes related to water quality and testing requirements. This consistent delivery of water, and billing for water usage, throughout the year was accomplished through the diligent actions of the employee responsible for the operations on a 24-hour basis. Key actions included: proactive response to customer requests, minimize service interruptions to customers through strategic planning activities, noticing customers in advance, and immediate response to any emergency situations. Specific activities included:

- Installed two new surface water collector pumps at the Corona del Mar Water Treatment Plant to maintain proper controls on water runoff around the sludge holding basins.

- Evaluated alternatives for treatment techniques to maximize the efficiency of chemical treatment.
- Prepared for EPA compliance with the new Trihalomethane (THM) standards, effective January 1, 2012.
- Received fewer than 50 water quality complaints for the year representing .05% of the population served by the District or 1 complaint per 70 million gallons of water delivered.
- Cleaned and inspected the interior of two storage reservoirs using District employees to maintain water quality standards.
- Successfully repaired the main transmission pipeline, which required a complete shutdown for a short duration to make the necessary repairs without impacting the levels of service.
- Instituted a new customer outreach program to increase installation quality controls and reduce costs.
- Continued to read all customer meters monthly without estimating readings, ensuring accuracy of customer bills and eliminating follow-up activities necessary with estimated readings for billing purposes.

### **Key Issues for FY 2011-2012**

The FY 2010-11 budget was austere, as non-critical maintenance was deferred. Notably, cost control mechanisms were implemented during FY 2010-11 that are not sustainable over the long term. In particular, deferred maintenance must be addressed in FY 2011-12. Accordingly, the FY 2011-12 budget includes a number of deferred maintenance and replacement projects that are now necessary to maintain the facilities in proper operating condition for long term reliability. In addition, several key issues will be addressed that enhance the quality of service provided to the customers, increase the reliability of providing water on a 24 hour basis, ensure immediate response to emergency situations, and ensure compliance with all regulatory requirements.

#### ***Enhancing Productivity and Efficiencies:***

*Update the Emergency Response Plan:* The Emergency Response Plan was last updated in 2007. The Emergency Response Plan provides the detailed operational guidelines to implement during major disasters and interruptions of service. It also outlines the coordination protocols and communication plans with the various outside agencies that could be involved in a given emergency.

*Update the Water Distribution Audit:* The last Audit was completed in 2004 and is customary to update every 5 years to evaluate the effectiveness of the water loss control techniques and customer metering systems that are used throughout the water system. In addition, additional leak detection equipment is proposed to be purchased to improve the techniques of locating water leaks that do not surface and therefore are unable to find. Notably, this audit of the District water system is also required for compliance with the CUWCC Best Management Practices.

*Recycled Water Meter Evaluation:* Evaluate the various metering systems available for customer water meters on the recycled water system to increase the irrigation efficiencies of customers using the water. The use of recycled water for irrigation purposes is best when used during night time periods to minimize contact with

people. Therefore, metering controls and specific watering schedules must be adhered to, thereby increasing the efficiencies of the system to avoid demands outpacing the system production rates during peak hourly demand periods.

***Investing in the Future:***

*Engineering Evaluation of the Structural Integrity of the Barger Reservoir:* The Barger reservoir is a 1.5 Million Gallon concrete reservoir that was last evaluated in 1997. The reservoir was constructed in 1965 and was impacted by the Jesusita fire in 2009. The reservoir has shown additional cracks in the concrete since the fire and needs to be evaluated to determine if any structural damage exists.

*Replacement of Valves Throughout the Distribution System Previously Deferred:* These valves are necessary to isolate pipelines for repairs that minimize service interruptions to customers. Through the ongoing inspection program, valves found to be inoperable must be replaced so they can be shut off when performing maintenance activities.

*Replace Lateral 14:* Lateral 14 is a pipeline that supplies homes with a backup supply of water. The pipeline failed, and an above ground temporary water line was installed. The project replaces the above ground temporary line with a buried pipeline to eliminate any hazards. The replacement is proposed in the Infrastructure Improvement Plan.

***Ensuring Quality Customer Service:***

*Chemical Feed Rate Evaluations:* Chemical dosage rates will be evaluated so that new regulatory requirements for Trihalomethane standards going into effect on January 1, 2012 can be met.

*Flush the Entire Distribution System:* This is conducted every three years to maintain water quality throughout the network of pipes. The entire distribution system is flushed by flowing large volumes of water through the various fire hydrants which increases the water velocity in the pipes to remove any mineral particles that may have settled in the pipes over time.

*Shutdowns of the South Coast Conduit:* Coordinate with the Cachuma Operations Maintenance Board during required shutdowns of the South Coast Conduit, the outflow source of water for the District. Coordinate with the Water Supply and Conservation Department to implement a communication plan to obtain necessary conservation levels during this temporary service interruption.

Table 4.2 below illustrates categories of Operations expenditures and describes significant variances between FY 2010-11 Budget and Budgeted FY 2011-12 recommended expenditures.

**Table 4.2 FY 2011-12 Operations Department Budget Summary**

Category	Adopted	Estimated	Recommended	Variance Analysis*	
	Budget FY 2010-11	Actual FY 2010-11	Budget FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
<b>Departmental Expenses - Operations</b>					
<b>Water Treatment &amp; Testing Costs:</b>					
Water Treatment	\$ 637,000	\$ 368,624	548,618	(88,382)	(14%)
Water Testing	188,200	104,588	135,582	(52,618)	(28%)
<b>Subtotal</b>	<b>\$825,200</b>	<b>\$473,212</b>	<b>\$684,200</b>	<b>(102,185)</b>	<b>(17%)</b>
<b>Personnel Costs:</b>	<b>4,346,897</b>	<b>4,441,622</b>	<b>4,844,599</b>	<b>497,702</b>	<b>11%</b>
<b>Operations and Maintenance Costs:</b>					
Maintenance & Equipment	442,600	311,732	1,150,690	708,090	160%
Services & Supplies	215,630	261,208	298,710	83,080	39%
Utilities	213,800	198,617	235,972	22,172	10%
<b>Subtotal</b>	<b>872,030</b>	<b>\$771,556</b>	<b>\$1,685,372</b>	<b>813,342</b>	<b>93%</b>
<b>Total Expenditures</b>	<b>\$6,044,127</b>	<b>\$5,686,390</b>	<b>\$7,214,171</b>	<b>\$1,170,044</b>	<b>14%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

Significant changes from FY 2010-11 Budget to the FY 2011-12 Budget include:

- Water Treatment costs decrease of \$88K is due to improved management oversight of the treatment processes that has produced operational efficiencies able to react quickly to changes in source water quality. This enables less chemical usage to achieve the same results. Efficiencies and improved management oversight has offset the increase in unit costs of chemicals, the costs associated with the reconciliation of the overlap water, chemicals used to treat spill water, use of the wells, and the increased use of chemicals needed to meet the new regulatory requirements for Trihalomethanes which begin in January 2012.
- Water Testing costs decrease by \$53K due to the reduced frequency of certain tests, which did not produce any additional quality control parameters or information for the treatment processes or compliance with regulatory standards. These savings offset cost increases associated with the testing requirements when the wells are in use, the additional testing planned for anticipated future contaminants, the additional testing to meet the new regulations for Trihalomethanes, and general price increases in laboratory costs.
- Personnel costs increase by \$498K as a result of several issues. One is the return to normal operations and maintenance procedures, reflecting the "24/7" utility operations that requires personnel to be on standby overtime to react to issues that occur after normal business hours. Examples include water leaks, emergency underground service alert utility markings, emergency shut-offs, and operational

requirements of the water treatment plant or well operations. A second item is the reassignment of the Recycled Water/Cross Control Specialist position from the Engineering Department to the Operations Department. This reassignment adds one FTE and associated costs. Another item is the overall increase in wages, retirement, and medical health care benefit rates associated with existing personnel. While no additional positions are being added to the Operations Department (excluding the transfer of the one position from the Engineering Department), a vacancy will be filled. The vacancy was held throughout FY 2010-11 (Distribution System Operator II) resulting in some reduction in costs. This is a State Department of Public Health licensed position, which assists in operation and maintenance of the District's three water distribution systems including the eight reservoirs, five pump stations, and thousands of valves and fire hydrants.

- Maintenance and Equipment costs increases by \$708K to fund reactive and preventative maintenance programs that had been deferred on the valves, services, hydrants, pumps, meters, vehicles, and small equipment used throughout the system. The balance of the increase will fund various programs and purchases that have also been delayed such as the cleaning of the sludge beds at the treatment plant; retrofitting the diesel motors to meet current regulatory requirements on five large trucks; conducting various analyses including the evaluation of the Barger Reservoir; the alternative treatment study for the Goleta West Conduit system; a distribution audit update for water loss control; further evaluation of measures to meet new regulations; as well as, the update of the Emergency Response Plan. Also proposed are new items consisting of implementing a large meter testing program; purchasing equipment to improve the operations of the water systems; update records and maps through the use of summer interns; and upgrades at the office to improve security and operating efficiencies.
- Services and Supplies will increase by \$83K is due to the increased cost of fuel, the return to supporting educational enhancements of employees through attendance at various seminars and classes in the utility industry, and a general increase in overall cost of supplies.
- Utilities will increase by \$22K due to a Southern CA Edison rate increase.



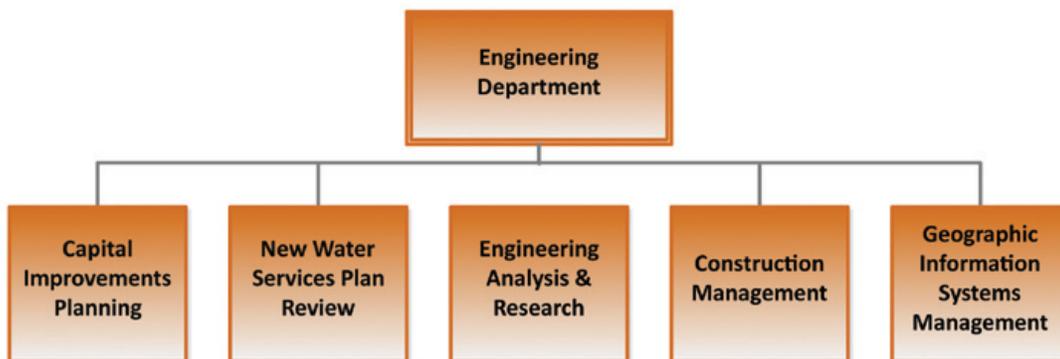
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## Engineering Department

### Description

The Engineering Department provides oversight and assistance to ensure that water facilities are installed to the latest industry standards and regulations, and that proper records are kept and maintained. The specific services provided by the Engineering Department (as shown in Figure 4.5 below) include Capital Improvements Planning, New Water Services Plan Review, Engineering Analysis and Research, Construction Management, and the Geographic Information Systems Management.

**Figure 4.5 Engineering Department Programmatic Functions**



#### *Capital Improvements Planning*

This area focuses on the development and formal documentation of the District 5-Year Infrastructure Improvement Plan (IIP). The first comprehensive IIP was developed and adopted by the Board of Directors in January 2011. Specific efforts include developing project justifications, cost estimation, and prioritization schedules to meet the needs of the District over the 5-year planning horizon. Strong attention is also placed on maintaining, upgrading, and replacing the infrastructure needed to ensure long-term capital asset integrity.

#### *New Water Services Plan Review*

This area reviews, analyzes, and approves the specific water infrastructure plans of developers for the expansion of the water facilities to serve new customers. Working in coordination with the Water Supply and Conservation Department, this service area approves cost estimates, evaluates the adequacy of the facilities and conservation measures proposed, and determines whether the District facilities can adequately serve the proposed new customers.

#### *Engineering Analysis and Research*

This area is responsible for ensuring that District Engineering Standards and Specifications are current with the latest industry standards for construction, 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 cost water services to all customers, while meeting regulatory standards and operational goals of the District. This service area also provides the engineering support needed throughout District operations.

*Construction Management*

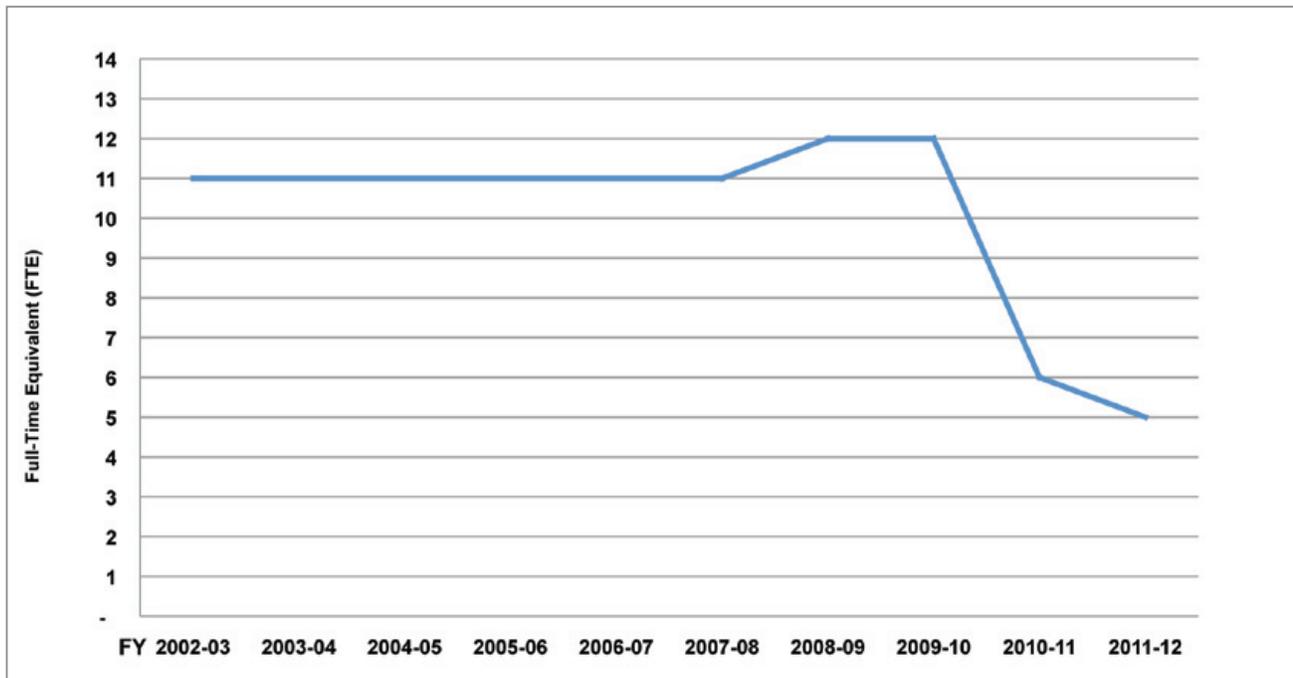
This area provides the expertise to implement the IIP projects within schedule and budget approved by the Board of Directors. Construction Management facilitates the solicitation, selection, and oversight of the engineering design firms and subsequent construction contractors hired to design and install facilities. Services provided also include the onsite inspection of all new facilities being constructed throughout the District to ensure that the facilities are being properly installed per the District’s Engineering Standards and Specifications.

*Geographic Information Systems Management*

This area is responsible for the records and drawings associated with all District assets. These records and drawings have been converted into a Geographic Information System that requires routine maintenance, upgrades, and revisions to keep current with the facilities being installed. In addition, GIS management is also responsible for the District’s hydraulic model, which analyzes the flow capabilities of the miles of pipes that move water from the source of supply to the customer’s service connection and ensures adequate fire flows and pressures are maintained during peak customer demand periods. Finally GIS management also provides the analysis, technical research, and recordkeeping regarding the integrity and operational capacity of the District’s water systems.

Figure 4.6 shows the historical staffing trend in the Engineering Department from 2002 through the FY 2011-12 Budget. In 2010, the Water Supply and Conservation Department was formed, accounting for the decline in personnel. The number of personnel in the FY 2011-12 Budget is proposed to decline by 1 FTE, due to transferring the Backflow and Cross-Connections position to the Operations department. See Appendix Figure 6.5, for detailed Engineering Department organizational chart.

**Figure 4.6 Staffing Trend – Engineering**



## Accomplishments FY 2010-2011

### ***Enhancing Productivity and Efficiencies:***

The Engineering department instituted various projects throughout the year that focused on fiscal responsibility and cost reduction without a loss of efficiency. Specific actions implemented are listed below:

- Monitored expenditures of infrastructure improvement projects to ensure efficient use of limited capital construction funds.
- Began reviewing all open projects in the District for completeness, status, and funding mechanisms.
- Coordinated with Water Supply and Conservation Department to initiate new application processing procedures.
- Deferred non-critical expenditures when possible to control costs and achieve one-time savings.

### ***Investing in the Future:***

This area was the major focus of the department for the year. With a low level of construction activities occurring, and expenditures minimal and deferred, emphasis was placed on developing the District's major planning documents for future use including:

- Completion of the first comprehensive 5-Year Infrastructure Improvement Plan, which became a key component of the District Cost-of-Services Study and 5-year Financial Plan.
- Providing critical technical information necessary to complete the District Water Supply Management Plan.
- Assisting in the completion of the Goleta Groundwater Basin Computer Model that will be used to monitor and plan for use of groundwater wells, consistent with the SAFE Ordinance and Wright Judgment.

### ***Ensuring Quality Customer Service:***

The Engineering department interacts with existing customers, potential customers, project developers, and contractors installing facilities that will ultimately be the responsibility of the District. These relationships require quality customer service to insure plans, specifications, and facilities are all designed and installed per industry and District standards. Below are the specific accomplishments:

- Completed plan reviews, plan checks, and developed preliminary conditions letters for projects within the schedules established to continue to improve customer relations with current customers and with developers planning new projects to serve future customers.
- Provided construction management and inspection services for the Cathedral Oaks at Hwy 101 Waterline Relocation Project, completing the installation of the casing pipes necessary for the future installation of the potable and recycled water lines.
- Inspected and provided the oversight necessary for the installation of various storm drains and sanitary sewers located in the Isla Vista area to avoid interruptions of service to customers.

- Provided engineering assistance during the Lake Cachuma spill event to maximize the capture of spill water during the 2011 spill event for use in the future.

### **Key Issues for FY 2011-2012**

#### ***Enhancing Productivity and Efficiencies:***

- Develop advanced project tracking for capital projects to insure that COP Bond covenants are met.
- Evaluate current mitigation efforts on the Leaking Underground Fuel Tank (LUFT) facilities at the District operations yard to determine the efficacy of the current LUFT program.
- Develop tracking mechanism of regional public works and utility projects to ascertain potential impacts on District facilities and improve coordination with ongoing implementation of the Infrastructure Improvement Plan.

#### ***Investing in the Future:***

- Update the 5 Year Infrastructure Improvement Plan to:
  - Update cost estimates for all projects listed in the plan.
  - Update the project descriptions and related data for each project in the plan.
  - Establish an evaluation methodology for long-term pipe network replacement program.
  - Establish a comprehensive information technology master plan for the replacement and needed upgrades of all related hardware and software needed.
  - Update and revise the documents necessary for the solicitation of bids on engineering related studies, design and construction services, and design build arrangements.
- Implement the various projects contained in the Infrastructure Improvement Plan within the time schedule established and budgeted amounts.
- Update the Water Distribution Audit (last completed in 2005) to review and analyze District performance and make recommendations to improve the water loss control programs in compliance with the CCWCC Best Management Practices for water conservation.

#### ***Ensuring Quality Customer Service:***

- Develop and prepare an analysis of alternatives to providing treated water to the current customers of the Goleta West Conduit system per the California Department of Public Health Water Supply Permit.
- Develop a schedule for the future revision of the District Engineering Standards and Specifications.

Table 4.3 below illustrates categories of Engineering expenditures and describes significant variances between FY 2010-11 Budget and Budgeted FY 2011-12 recommended expenditures.

**Table 4.3 FY 2011-12 Engineering Department Budget Summary**

Category	Adopted	Estimated	Recommended	Variance Analysis*	
	Budget FY 2010-11	Actual FY 2010-11	Budget FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
<b>Departmental Expenses - Engineering</b>					
<b>Personnel Costs:</b>	<b>\$ 942,825</b>	<b>\$ 810,429</b>	<b>\$ 927,583</b>	<b>\$ (15,242)</b>	<b>(2%)</b>
<b>Operations and Maintenance Costs:</b>					
Maintenance & Equipment	3,500	1,040	2,196	(1,304)	(37%)
Services & Supplies	120,310	92,616	137,330	17,020	14%
<b>Subtotal</b>	<b>123,810</b>	<b>93,656</b>	<b>139,526</b>	<b>15,716</b>	<b>13%</b>
<b>Total Expenditures</b>	<b>\$1,066,635</b>	<b>\$904,085</b>	<b>\$1,067,109</b>	<b>\$ 474</b>	<b>0%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

Significant changes from the FY 2010-11 Budget to the FY 2011-12 recommended Budget include:

- Personnel – The decrease of \$15K is attributable to filling the vacant Civil Engineer position later in the Fiscal Year. The position oversees and supervises services provided by the Engineering Department consisting of Capital Improvements Planning, New Developments Plan Review, Engineering Analysis and Research, Construction Management, and the Geographic Information Systems Management.
- Services and Supplies will increase by \$17K versus the FY 2010-11 Budget, due to a planned periodic update of the Water Distribution Audit.

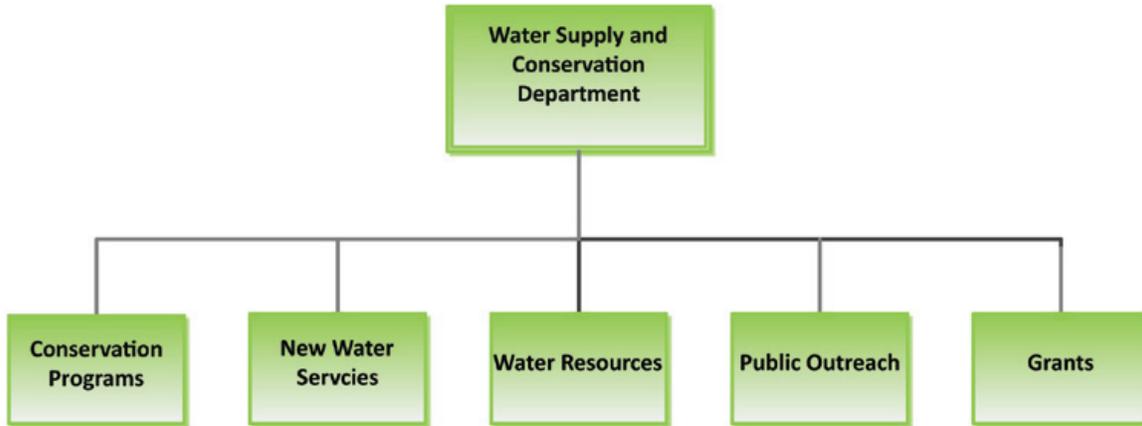


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## Water Supply and Conservation Department

### Description

The Water Supply & Conservation (WS&C) Department oversees programs and functions related to Conservation, New Water Services, Public Outreach, Water Resources analysis, and Grants, as shown in Figure 4.7 below.



#### *Conservation*

This program implements innovative measures aimed at helping District customers to save water. As a long-time leader in conservation practices and a signatory to the California Urban Water Conservation Council (CUWCC) Memorandum of Understanding (MOU), the District works in partnership with agencies and organizations across the region to educate the public on the benefits of conservation and offer incentives driving efficient water use across all of our customer classes.

#### *New Water Services*

This program focuses on the relationship with new customers and business through the District's water service application process. New development projects and expansions of water use are reviewed and coordinated with other District departments, as well as surrounding local governments and agencies, to ensure that the District provides safe, reliable, and conservation-minded service to new customers. The work of the New Water Services program often involves complex research into existing water entitlements and agreements, establishment of new agreements, and monitoring against available supplies.

#### *Water Resources*

This program coordinates the development of, and updates to, the District's water resource plans, including the Groundwater Management, the Water Supply Management Plan, and the Urban Water Management Plan. In addition, this function provides analytical support, special studies, and reports needed to implement the SAFE Water Supplies Ordinance and review the District's Code and regulations for ongoing effectiveness. The Water Resources program was established through combining the "Reports and Studies" cost center with the "Code and Regulations" cost center. These two cost centers were separately included in the FY 2010-11 WS&C departmental budget, and were combined for this FY 2011-12 budget to provide an overarching program capable of more completely addressing the District's water policy issues and related analysis.

*Public Outreach*

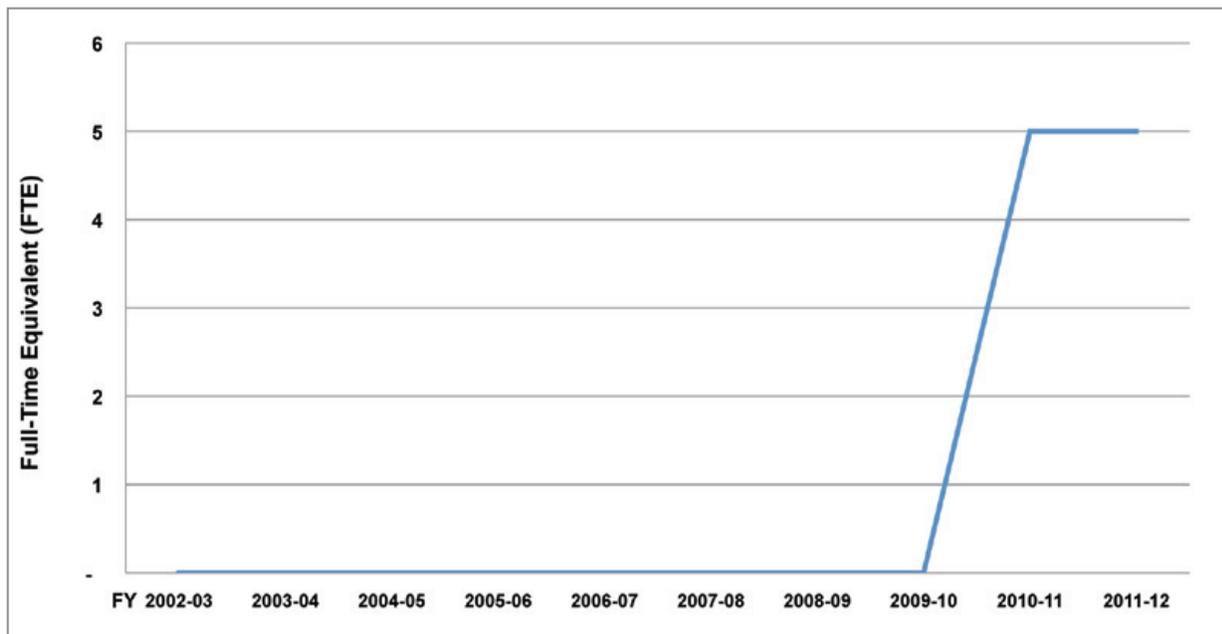
This program is responsible for media relations and press releases, special outreach initiatives, publication of the District’s newsletter, and oversight of the District’s website and internet presence. Through these venues, the Public Outreach program communicates District activities to ensure that our customers are equipped with reliable, timely, and objective information, enabling a clear understanding of District issues and topics.

*Grants Management*

This program is responsible for managing existing grants and seeking new grant opportunities. Currently, the District is partnering with water providers across the County to manage and implement Proposition 50 and 84 grant resources and projects. The District was awarded a \$400K Proposition 50 grant for rehabilitation of the San Ricardo Well.

As illustrated in Figure 4.8, the WS&C Department was created in FY 2010-11, whereby staff was shifted from the Engineering Department to enable increased District focus on the programmatic functions described above. See Appendix Figure 6.7 for detailed WS&C Department organizational chart.

**Figure 4.8 Staffing Trend - Water Supply and Conservation**



**Accomplishments in FY 2010-2011**

During its first full year as a department, WS&C has made substantial progress in realizing the accomplishments detailed below.

***Productivity and Efficiency:***

With a focus on improving the speed and accuracy of processing applications for new service, WS&C accomplished the following initiatives to increase the District’s productivity and efficiency:

- Implemented a departmental reorganization and initiated new processes to streamline project applications and Preliminary Conditions Letters, resulting in increased consistency in the application of the District's Code for the over 20 applications processed during FY 2010-11.
- Facilitated training and skill-building to enable efficient updates to the District's enhanced website. This enabled more control over web content, as well automated information to District customers and the public.
- Improved tracking and forecasting systems and reports for new and expanded water uses. These updated reports enable the District to readily gauge potential demand for new service, compared to available supplies.

***Investing in the Future:***

By focusing on objective analysis and prudent planning, WS&C helped ensure availability and reliability of water supplies for customers, thereby investing in the future, through the following notable accomplishments:

- Secured over \$1.5M in New Water Supply Charges, providing resources to offset the District's water supply costs.
- Updated historic water agreements to specify and clarify water entitlements for customers and District service obligations (i.e., the Village at Los Carneros).
- Developed the District's first Water Supply Management Plan (WSMP).
- Initiated the state-mandated update to the District's Urban Water Management Plan (UWMP), enabling the District to set a course for achieving required conservation targets, analyzing strategies to reduce water use in times of drought, and forecasting water demand and supplies through a variety of conditions.
- Provided ongoing analysis and monitoring of annual water allocations, pursuant to the SAFE Water Supplies Ordinance, to ensure compliance with local policy and drought protection measures.

***Ensuring Quality Customer Service:***

Through its primary public contact programs (Public Outreach, New Water Services, and Conservation) WS&C drove effective and quality service to existing and potential new customers through the following key accomplishments:

- Updated the District's website to establish a user-friendly and modern interface.
- Developed and implemented a comprehensive public outreach plan for the Cost of Service Study and 5-year Financial Plan.
- Developed, published, and mailed two newsletters to all District customers communicating current events and issues. Significant effort was placed on refreshing the format and design of the Newsletter to increase its readability and approachability, while presenting a professional District image.
- Provided over 25 residential water checkups and 50 landscape surveys to help customers identify methods for reducing interior and exterior water use.
- Processed 57 Smart Landscape Rebate Program applications and checks worth a total of \$29,400, providing an economic incentive for customers converting to water efficient landscapes.

### Key Issues for the FY 2011-2012 Budget

#### ***Productivity and Efficiency:***

The following key issues for FY 2011-12 will improve District productivity and efficiency practices:

- *Water Demand Forecasting:* This effort would include updating the “water demand factors” for the District’s service area to enable accurate forecasting regarding development of New Water Supply Charges (NWSC) for project applicants. In some cases, applicants currently use outdated source documents to forecast water demand information; this new analysis will enable updated, accurate, and efficient forecasting of water use by proposed projects.
- *Water Use Database:* This project would convert the District’s customer water use records into a comprehensive database from which reports, analysis, and search queries can easily be performed to streamline the determination of past water use associated with applications. As an efficiency measure, this new tool would expedite the project application process by reducing staff time needed for analysis and increase the utility of reports generated from District datasets.

#### ***Investing in the Future:***

The following key issues for FY 2011-12 will enable smart investments in the District’s future:

- *BMP Implementation:* Continued implementation of CUWCC Conservation BMPs will be required to maintain eligibility with State grants and loans. In addition, BMP achievement will be a foundational component of implementing the District’s 2010 Urban Water Management Plan. New resources to implement water check-ups, modest financial incentive programs such as rebates, and conservation policy analyses will help ensure the District remains on track for complying with State requirements.
- *District Sustainability Plan:* Completion and implementation of a District Sustainability Plan will ensure District operations and facilities are as “green” as possible. These efforts will help the District “lead by example” through its work with local agencies, community organizations, and businesses to bring new water footprint reduction programming, workshops, techniques, and technologies to our customers.
- *Drought Preparedness Plan:* Development of a District Drought Preparedness Plan following the California Department of Water Resources 2008 Urban Drought Guidebook is needed to clearly implement Water Code Sections 350-359. This plan would enhance and add specificity to the foundation created by the SAFE Water Supplies Ordinance, the Water Supply Management Plan, and the Urban Water Management Plan related to planning for and implementing actions to mitigate the impacts of a water shortage.
- *Urban Water Management Plan:* During FY 2011-12, staff will complete the Urban Water Management Plan, providing robust documentation and analysis of the District’s water supplies, demands, and a framework for achieving state-mandated conservation levels.

#### ***Ensuring Quality Customer Service:***

As customer service is a top District priority, the following initiatives will improve elements of service to new and existing District customers:

- *Targeted Outreach: COMB Shutdown:* COMB is proposing a shutdown of the Goleta West Conduit for repairs. Coordination of a tailored outreach program including specific materials, workshops,

advertising or other outreach strategies will ensure that District customers are well-informed and served regarding the project.

- *Website Updates:* Following a successful update to the District’s website, additional opportunities will be sought to make more robust use of the internet and virtual resources as part of the District’s unified outreach platform. This includes the additional of pages to the website, and new information enabling transparent access to information by the public.
- *New Water Services Process Improvements:* This effort will focus on improving and streamlining the project application process, facilitating efficient and consistent handling of real estate development projects, projects where expansions in water use are required, and agricultural projects. To accomplish this key priority, tasks to proceed throughout FY 2011-12 include development of an applications procedures manual, updating application forms and templates, fully cataloguing and clarifying District water entitlements, and increasing the use of analytical tools and technology in daily business practices.
- *District Code Revisions:* To ensure consistency with prevailing best-practices, State law, and District policy, this effort aims update the District’s Code to clarify local regulatory expectations applicable to District customers.

The table below illustrates categories of WS&C expenditures. Narrative following Table 4.4 describes significant variances between FY 2010-11 Budget and the recommended FY 2011-12 Budget.

**Table 4.4 FY 2011-12 Water Supply and Conservation Budget Summary**

Category	Adopted Budget FY 2010-11	Estimated Actual FY 2010-11	Recommended Budget FY 2011-12	Variance Analysis* \$ Higher / % Higher / (Lower) (Lower)	
<b>Departmental Expenses - WS&amp;C</b>					
<b>Water Supply Agreements Costs:</b>					
COMB Cachuma water expenses	3,023,516	2,351,256	2,522,744	(500,772)	(17%)
CCWA State water expense	\$ 7,050,555	\$ 7,394,593	\$ 7,407,597	\$ 357,042	5%
GSD Recycled water	405,000	357,402	484,932	79,932	20%
<b>Subtotal</b>	<b>10,479,071</b>	<b>10,103,252</b>	<b>10,415,273</b>	<b>(63,798)</b>	<b>(1%)</b>
<b>Personnel Costs:</b>	<b>722,819</b>	<b>554,014</b>	<b>735,075</b>	<b>12,256</b>	<b>2%</b>
<b>Operations and Maintenance Costs:</b>					
Maintenance & Equipment	2,400	1,878	1,292	(1,108)	(46%)
Services & Supplies	195,935	173,207	305,509	109,574	56%
<b>Subtotal</b>	<b>198,335</b>	<b>175,086</b>	<b>306,801</b>	<b>108,466</b>	<b>55%</b>
<b>Total Expenditures</b>	<b>\$11,400,225</b>	<b>\$10,832,351</b>	<b>\$11,457,149</b>	<b>\$ 56,924</b>	<b>0%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

Significant changes from the FY 2010-11 Budget to FY 2010-12 Recommended Budget include:

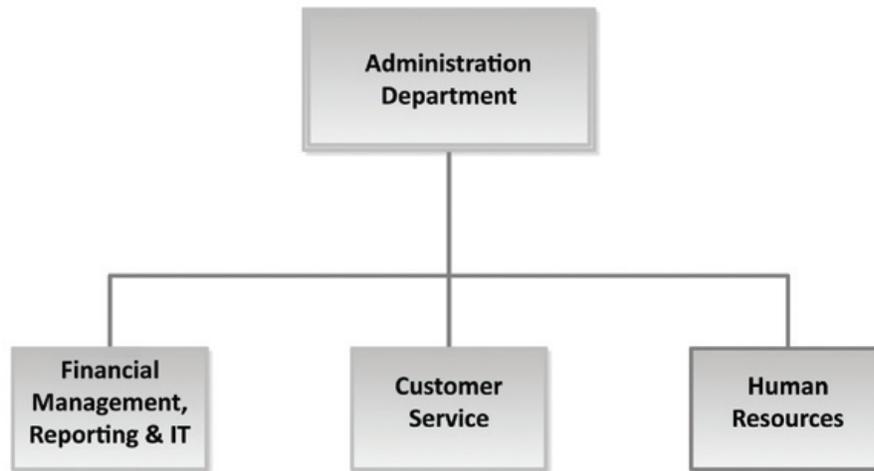
- Water Supply Agreement expenditures decreasing by \$64K, illustrating pass-through costs to CCWA, COMB, and GSD. Variances between FY 2010-11 and FY 2011-12 are due to changing information from the State Department of Water Resources regarding CCWA costs and the US Bureau of Reclamation regarding COMB costs throughout the year. The GSD variance reflects deferred maintenance costs that must be addressed in FY 2011-12.
- Personnel Costs increasing by \$12K, due to scheduled increases in wage, retirement, and healthcare benefit rates.
  - An existing Engineering Technician position is proposed for conversion to a Water Resource Analyst position. This would not result in any change in District full-time-equivalent (FTE) employees; however, the conversion would enable additional focus on key analytical and policy issues. For example, this position would be tasked with research and analysis regarding the development of policies to implement SAFE, conservation studies and reports, water resource planning documents, and grant applications.
- Services & Supplies increasing by \$110K, as a result of shifting costs from the Administration Department to the WS&C Department in order to consolidate the District's public outreach and information budget into one comprehensive cost center. This includes postage and printing expenditures related to outreach publications such as the District Newsletter and Consumer Confidence report, as well as website expenditures, which were budgeted in the Administration Department.

## ADMINISTRATION DEPARTMENT

### Description

As seen in Figure 4.9 below, the Administration Department oversees functions related to Finance, Human Resources, and Customer Service.

**Figure 4.9 Administration Department Programmatic Functions**



#### *Finance*

This team performs all financial and accounting services for the District to ensure that proper controls and processes are in place to accurately charge and collect for water sales as well as disburse payments. Routine transaction services include payroll and benefit processing, accounts payable, accounts receivable, investment and cash management, annual budget preparation, monthly budget tracking, cash flow analysis, rate analysis, and annual audit report preparation. The department implements governmental accounting standards to provide timely, accurate and meaningful financial information to the public, the Board of Directors, and District management. Finally, the department ensures District technology needs are met by retaining vendor expertise to support network services, customer information systems, and an advanced billing system.

#### *Customer Service*

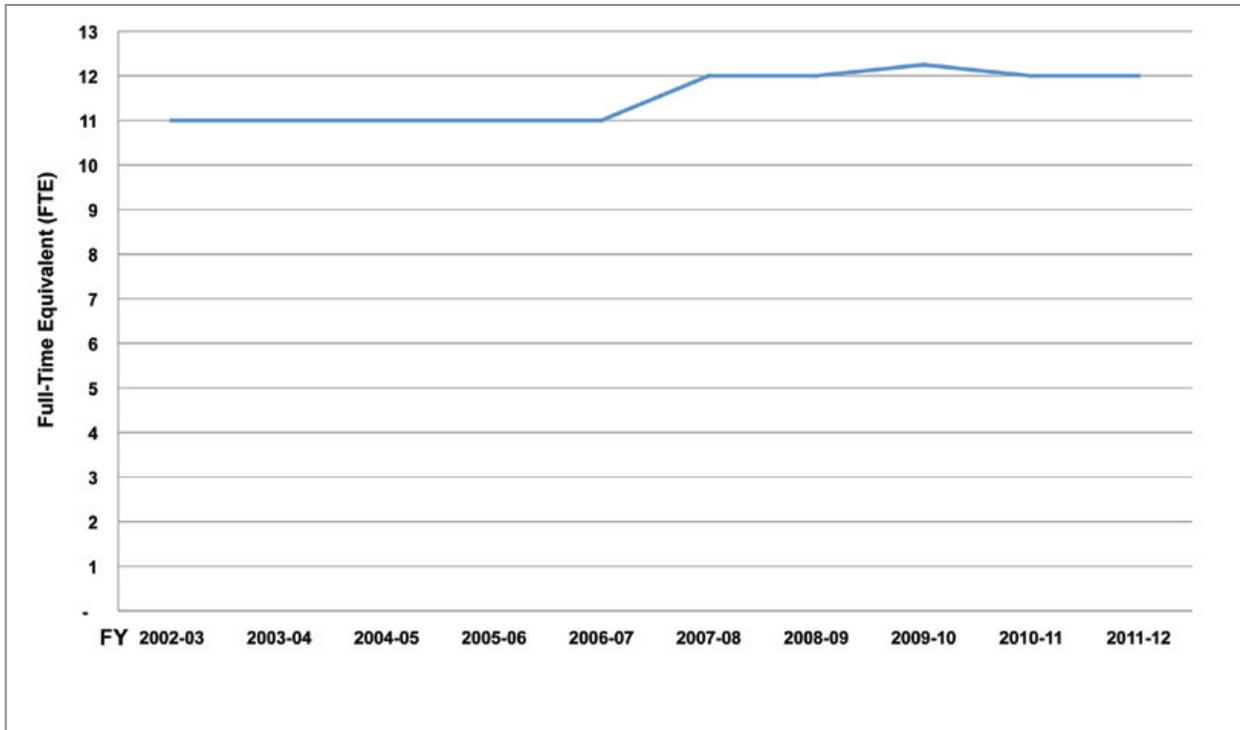
This group is the initial point of contact for customers. This staff handles incoming calls, receive visitors, collect counter payments, process mailed payments, and react to daily requests coming from the District's 16,600 customer accounts, servicing a population of approximately 85,000.

#### *Human Resources*

This function focuses on recruiting, hiring and retaining the best qualified individuals for the District. The staff works closely with department heads as well as union representatives of the Service Employees International Union (SEIU). Human Resources is also responsible for the District Risk Management Committee to ensure the District's 60 employees have a safe and healthy work environment. Additionally, staff analyzes and coordinates insurance and risk management matters, working with ACWA/JPIA on a routine basis.

The functional orientation and related staffing trend are illustrated in Figures 4.9 and 4.10 below. Appendix Figure 6.9 provides a detailed Administration Department organizational chart.

**Figure 4.10 Staffing Trend - Administration**



**Accomplishments in FY 2010-2011**

The Administration department made substantial improvements to address historical deficiencies in accounting practices.

***Enhance Productivity and Efficiency:***

Over the past several years, significant turnover of personnel and systems resulted in the need to improve its financial procedures as well as management oversight mechanisms. During FY 2010-11, the following key issues were completed:

- *Improved Monthly Close Procedures:* Documentation of the accounting close process has been made more formal, with redundant review and authorization. Accounting staff established and continues to improve a monthly close checklist to ensure general ledger accounts are reconciled. Additional checklists were developed to ensure the reconciliation of payroll accounts. Each material ledger account is reviewed and reconciled monthly, including cash, fixed assets, Capital Improvements, Accounts Receivable, Payroll and related expenditures, Cost of Supply, and Debt Service.
- *Implemented Fixed Asset Accounting Software:* Staff worked with its system partner to implement a fixed asset accounting module.
- *Reconciled Project Accounting:* Staff has updated and reconciled project accounting records for over 310 projects. Each month, records are gathered from accounts payable, payroll, and equipment logs

to update project status. Staff participates in weekly meetings with operations and Engineering, and expense projects are closed out monthly.

- *Introduced Fraud Detection:* Implemented sophisticated banking functionality to detect fraudulent payment requests and reduce risk of losses. With the transition to Wells Fargo banking services, the District was provided with WF's state-of-the-art fraud detection system. In addition to providing a higher level of third party financial loss, the "safe transmission" system provides the District with increased levels of authorization on transactions for user authorization, wire transfer, clearing house transfer, and accounts payable payments/deposits.
- *Past Due Collection:* Increased the frequency of reviewing past due accounts and assigning to collections to successfully reduce the amount of past due accounts greater than one period from \$54K to \$15K. Less than one-tenth of one percent of all District accounts are past due.

### ***Investing in the Future:***

In response to financial challenges, during FY 2010-11 staff accomplished certain projects to improve financial performance:

- *Reduced Spending:* To enable strategic decision-making regarding spending, staff provided monthly financial performance reports to management and the Board of Directors. As revenues declined during the fiscal year, the District responded by reducing expenditures and closely monitoring projected cash balances.
- *Restructured Debt:* In the prior year, annual debt service expenditures were over \$4.2M and not sustainable during the recent economic downturn and reduced revenue environment. The Board of Directors authorized a debt restructuring to reduce the annual debt expenditures by over \$1M, while simultaneously raising an additional \$5M in proceeds for immediate critical capital requirements.
- *Completed a Rates Analysis:* In March, 2011 the District concluded an extensive analysis of costs and concluded that rates are appropriate balanced between customer classes but that overall, rates must increase over the next several years to balance its budget. Doing so provided assurance that the District could continue to provide high-quality and reliable water service by addressing its capital needs and meeting its financial obligations in a sustainable manner.

### ***Ensure Quality of Customer Service:***

The department sought to reduce time spent on routine activities, thus increasing attention on value-added services, by successfully implemented the following:

- *Automated Payroll Accounting:* The accounting team successfully eliminated the practice of manually calculating labor costs across projects, by instead utilizing payroll data to automate these calculations and prepare journal entries.
- *Introduced HR self-service functionality:* Human Resources worked with the payroll partner to set up, test, and implement online HR functionality. Employees can now check personnel records, make changes, and request certain information 24/7 via the vendor website.
- *Automated Bank Reconciliations:* The accounting team implemented an accounting software module to improve speed and maintain accuracy when reconciling bank accounts.

### Key Issues for FY 2011-2012 Budget

#### ***Productivity and Efficiency:***

The following will improve District productivity and efficiency practices:

- *Budget tracking:* The Administration Department will conduct quarterly variance analysis by securing robust data management solutions, and the technology available appropriate to District business processes.
- *Performance reporting:* The District has robust data systems that contain extensive amounts of useful information, which historically was not routinely analyzed. The District will recruit and train staff to increase the ability to retrieve and analyze this data for decision-making.
- *Audit Deficiencies:* Administration will complete recommended actions that were identified by the District independent auditing firm, including implementation of a robust project accounting system, and by recruiting effective personnel to fill a vacant position.
- *Labor Contract:* In pursuit of cost-effective labor terms, Administration will conduct the in-depth analysis needed, participate in bargaining sessions, and support labor counsel through conclusion of labor negotiations.
- *Administrative manual:* To formalize internal accounting policies and procedures of the District, staff will document existing practices, introduce new policies to ensure completeness, and compare across the industry and with other agencies. Moreover, individual desk manuals will be created to provide reference materials needed when staff transitions occur.

#### ***Investing in the Future:***

Smart investment of resources remain key to a sustainable fiscal environment:

- *Implement the new rates:* Staff will ensure rate adjustments are fully and accurately implemented. The Billing system will be updated and programming logic tested prior to implementation to ensure projected revenues are captured.
- *Revise miscellaneous service charges:* For chargeable activities, including delinquent payment follow-up, service initiations, after-hours turn-ons, and cross-connection support, staff will review the volume of activity and the resources required to complete this work. Doing so will compensate the District for unique services required by specific customers.
- *Cost savings:* Staff will pursue cost improvements by competitively bidding contracts, supporting the labor contract renewal process, and measuring spending to ensure it remains within budgeted levels.
- *Study of tiered rates:* Coordinating with the Water Supply & Conservation Department to conduct a study of water demand characteristics amongst single family residential customers, using the data to propose a tiered water rate structure. Successful implementation of this proposal would provide a revenue-neutral tool to encourage conservation.

#### ***Ensuring Quality Customer Service:***

As customer service is a top District priority, the following initiatives will improve elements of service to new and existing District customers:

- *Online payments:* Upon successful changing banking partners, the District is poised to utilize automation and new functionality that will offer convenient online payments to customers as well as reduce the administrative burden of collecting and depositing payments.
- *Customer Service Reorganization:* Customer Service will be refocused, and training will be introduced to create a team more focused on providing a customer-friendly and efficient service. Concurrently, resources will be refocused on performance reporting, providing decision-making data to the District.

Table 4.5 below illustrates categories of Administration expenditures and describes significant variances between FY 2010-11 Budget and the recommended FY 2011-12 Budget.

**Table 4.5 FY 2011-12 Administration Budget Summary**

Category	Adopted Budget FY 2010-11	Estimated Actual FY 2010-11	Recommended Budget FY 2011-12	\$ Higher / (Lower)	% Higher / (Lower)
<b>Departmental Expenses - Administration</b>					
<b>Personnel Costs:</b>	<b>\$ 1,727,268</b>	<b>\$ 1,892,365</b>	<b>\$ 1,758,441</b>	<b>\$ 31,173</b>	<b>2%</b>
<b>Other Post Employment Benefits</b>	<b>269,283</b>	<b>291,893</b>	<b>352,494</b>	<b>83,211</b>	<b>31%</b>
<b>Operations and Maintenance Costs:</b>					
Insurance, Accounting & Auditing	196,000	91,231	179,200	(16,800)	(9%)
Maintenance & Equipment	35,140	12,212	-	(35,140)	(100%)
Legal	257,800	220,566	357,504	99,704	39%
Services & Supplies	499,236	577,919	540,391	41,155	8%
Utilities	3,240	3,793	-	(3,240)	(100%)
<b>Subtotal</b>	<b>991,416</b>	<b>905,721</b>	<b>1,077,095</b>	<b>85,679</b>	<b>9%</b>
<b>Total Expenditures</b>	<b>\$ 2,987,967</b>	<b>\$ 3,089,980</b>	<b>\$ 3,188,030</b>	<b>\$ 200,063</b>	<b>7%</b>

\* Compares FY 2011-12 Recommended Budget to FY 2010-11 Adopted Budget

Significant changes from FY 2010-11 Budget to the FY 2011-12 Budget include:

- Personnel costs will increase by \$31K (2%) due to scheduled increases in wages, retirement, and benefit rates.
- Although there were no long-term vacant administration positions during FY 2010-11, one administrative assistant / purchase position became vacant at the end of the fiscal year. This budget repurposes this position into a fiscal analyst. The District must build analytical resources that can improve processes, deepen the department’s data mining skills, and introduce performance reporting; all of which facilitate more informed decision making. The position is proposed to be filled in July 2011.

- District wide, Other Post Employment Benefits will increase by \$83K (31%), caused by a combination of the recently-increased number of retirees plus the rising cost of retiree health insurance.
- Insurance, Accounting & Auditing costs will decrease by \$17K (9%), as the FY 2011-12 Budget does not include the prior year costs associated with the engineering/cost-of-service study. The budget does, however, propose the acquisition of a project accounting module and secure the training needed to satisfy auditor recommendations.
- Maintenance and Equipment expenditures historically charged within the Administration Department have been recategorized to Services and Supplies. See corresponding comments in the Services and Supplies explanation below.
- Legal fees, including general and special counsel, are projected to increase by \$100K (39%) to recognize the support needed for public records act requests, collective bargaining, and to establish a litigation contingency fund.
- Services and Supplies will increase by \$41K, primarily due to the recategorization of Maintenance and Equipment expenditures for I.T. support. In addition to this adjustment, the FY 2011-12 Budget proposes to fund a study of blocked-tiered rates for the District and acquire technology to strengthen data querying and reporting capabilities.

## INFRASTRUCTURE IMPROVEMENT PLAN

Portions of the District’s infrastructure were constructed 50-60 years ago, making it necessary to rehabilitate or replace certain assets and facilities in order to maintain a reliable and sustainable water distribution system. The District recognizes the need to assess and evaluate its infrastructure to prioritize and plan for improvements, maintenance and replacement of specific components across the system. Therefore, in FY 2010-11, staff completed the Infrastructure Improvement Plan (IIP) which identifies the key infrastructure needs over the next 5 years and beyond. The Board of Directors adopted the IIP in January, 2011.

Table 5.1 illustrates that the District must fund \$12.4M of the IIP cost from operating revenues. The IIP provides the annual expenditures to be funded through revenues derived from customer rates and charges over the next 5 years. Figure 5.1 further delineates projected expenditures by type of project and schedule.

Table 5.2 lists all projects and total funding requirements as adopted in the IIP, illustrating that total spending over the 5 year period will be approximately \$16.7 million, of which \$5 million is funded by debt proceeds raised in August, 2010. Staff continues to evaluate the timing of each project and, based on this evaluation, proposes to spend \$4.1 million on infrastructure improvements in FY 2011-12. The District will draw \$3M from the Certificates of Participation (COP) debt proceeds, leaving \$1.1 million to be budgeted in FY 2011-12.

**Table 5.1 Capital Improvement Projects Summary**

Group Description	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	TOTAL
Regulatory or Critical	-	550,000	958,000	3,675,250	3,297,250	\$8,480,500
Water Supply or Production Reliability	-	-	1,147,000	108,000	50,000	\$1,305,000
Infrastructure - New, Replacement, or Maintenance	-	390,000	349,000	423,000	761,000	\$1,923,000
Financial Benefit	-	161,000	189,000	201,000	177,000	\$728,000
<b>TOTAL</b>	-	<b>1,101,000</b>	<b>2,643,000</b>	<b>4,407,250</b>	<b>4,285,250</b>	<b>\$12,436,500</b>

**Figure 5.1 5-year Capital Spending Schedule**

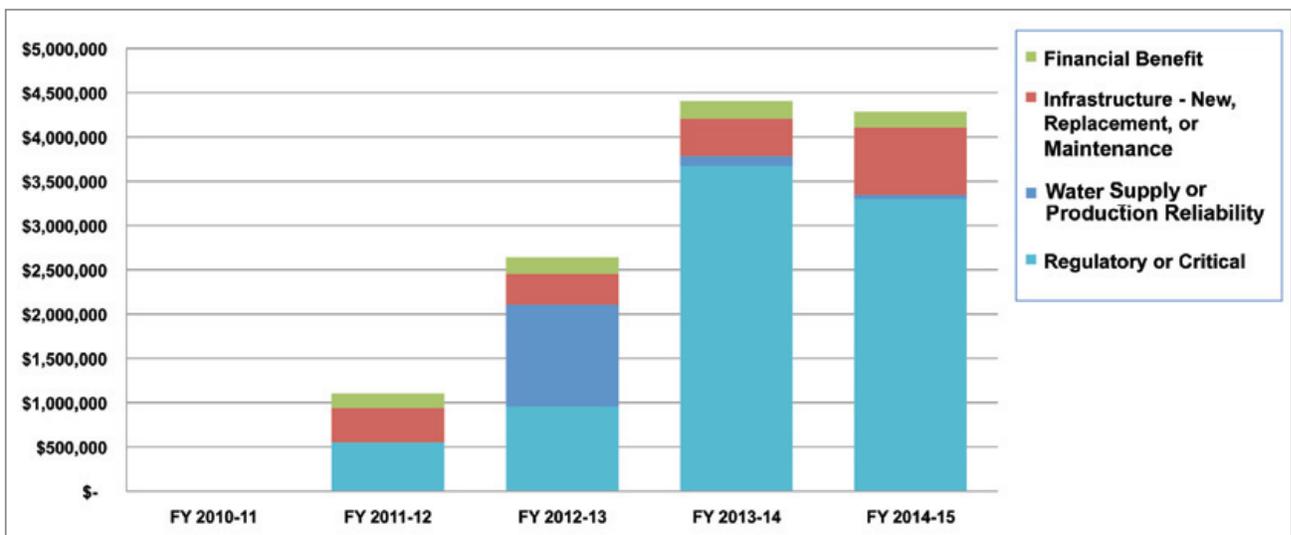


Table 5.2 5-Year Infrastructure Improvement Plan

Ref.	Project Name	Funding Source	2010-11	2011-12	2012-13	2013-14	2014-15	TOTAL 5 year spend
<b>Regulatory Requirement and/or Critical Need</b>								
G1-1.1	CDMWTP Backwash Basin Improvement Project	Cap Fund	\$-	-	53,000	150,000	-	203,000
G1-1.2	CDMWTP Sludge Drying Beds 1 and 2 Construction Project	Cap Fund	-	-	-	-	2,077,000	2,077,000
G1-1.3a	CDMWTP Sludge Drying Bed 3 Construction Project	COP	50,000	550,000	-	-	-	600,000
G1-1.3b	CDMWTP Sludge Drying Bed 3 Construction Project	Cap Fund	-	-	-	1,334,000	-	1,334,000
G1-1.4a	CDMWTP Overflow Basin Construction Project	COP	50,000	500,000	-	-	-	550,000
G1-1.4b	CDMWTP Overflow Basin Construction Project	Cap Fund	-	-	-	1,101,000	-	1,101,000
G1-2a	Arc Flash Protection Improvements - COP funded	COP	176,000	127,250	127,250	-	-	430,500
G1-2b	Arc Flash Protection Improvements - Capital Fund	Cap Fund	-	-	-	127,250	127,250	254,500
G1-3	Recycled Water Booster Station Electrical Upgrades (at GSD)	COP	-	474,000	-	-	-	474,000
G1-4	CDMWTP Leach Field Replacement	COP	30,000	138,000	-	-	-	168,000
G1-5	LUFT Seal and Cap Monitoring Wells	COP	-	57,000	-	-	-	57,000
G1-6	Caltrans - Calle Real Waterline Relocation Project	COP	2,000	10,000	70,000	-	-	82,000
G1-7	SB County El Embarcadero Improvements Project	COP	47,000	75,000	-	-	-	122,000
G1-8	City-SanJose Creek Waterline Relocation for Creek Widening	Cap Fund	-	300,000	-	-	-	300,000
G1-9	City-Los Carneros Waterline Relocation for Bridge Replacement	Cap Fund	-	250,000	750,000	-	-	1,000,000
G1-10	City-SanJose Creek Waterline Relocation for Hollister Bridge Replacement	Cap Fund	-	-	-	300,000	-	300,000
G1-11	Recycled Waterline Relocation Project at Goleta Beach	Cap Fund	-	-	-	100,000	530,000	630,000
G1-12	Lateral 14 - Waterline Replacement Project	COP	-	99,000	-	-	-	99,000
G1-13a	Valve Replacement Program	COP	-	297,000	-	-	-	297,000
G1-13b	Valve Replacement Program	Cap Fund	-	-	155,000	155,000	155,000	465,000
G1-14a	Polybutylene Service Line Replacement Program	COP	-	-	78,000	-	-	78,000
G1-14b	Polybutylene Service Line Replacement Program	Cap Fund	-	-	-	78,000	78,000	156,000
G1-15a	Copper Service Line Replacement Program	COP	-	-	319,000	-	-	319,000
G1-15b	Copper Service Line Replacement Program	Cap Fund	-	-	-	319,000	319,000	638,000
G1-16a	Pressure Reducing Valve & Combination Air Valve Repair & Replacement Program	COP	-	40,000	11,000	-	-	51,000
G1-16b	Pressure Reducing Valve & Combination Air Valve Repair & Replacement Program	Cap Fund	-	-	-	11,000	11,000	22,000
Subtotal			\$355,000	2,917,250	1,563,250	3,675,250	3,297,250	11,808,000
<b>Projects Vital to Sustain Infrastructure</b>								
<b>Water Supply/Production Reliability Projects</b>								
G2-1	Transmission Main Valve Installation at Patterson	Cap Fund	-	-	-	108,000	-	108,000
G2-2	Recycled Water GSD Booster Station Pump Rebuild Project	COP	-	35,000	-	-	-	35,000
G2-3	Distribution System Hydraulic Model Update	Cap Fund	-	-	-	-	50,000	50,000
G2-4a	San Ricardo Well Rehab Project (Prop 50)	COP	-	500,000	-	-	-	500,000
G2-4b	San Ricardo Well Rehab Project (Prop 50)	Cap Fund	-	-	1,147,000	-	-	1,147,000
<b>Infrastructure and Equipment – Replacement, New &amp; Maintenance Projects</b>								
G3-1	Corrosion Protection Project	Cap Fund	-	152,000	125,000	125,000	125,000	527,000
G3-2	Fleet Replacement Program	Cap Fund	-	-	80,500	80,500	80,500	241,500
G3-3	Construction Equipment Replacement Program	Cap Fund	-	-	57,500	57,500	57,500	172,500
G3-4	Essential Software (GIS,CADD,CIS) and Network Updates	Cap Fund	-	57,000	57,000	57,000	57,000	228,000
G3-5	Upsizing of Pipelines	Cap Fund	-	86,000	86,000	86,000	86,000	344,000
G3-6	Radio Read Meters in Difficult Access Routes	Cap Fund	-	23,000	51,000	63,000	39,000	176,000
G3-7	CDMWTP Modicon Compact PLC Replacement	Cap Fund	-	-	-	74,000	-	74,000
G3-8	CDMWTP Filter Media Replacement (1 Filter)	Cap Fund	-	152,000	-	-	-	152,000
G3-9	CDMWTP Access Road Improvements	Cap Fund	-	-	-	-	412,000	412,000
G3-10	Cathedral Oaks-Hwy 101 Overcrossing Project (Phase 1)	COP	245,000	-	-	-	-	245,000
G3-11	Equipment for Fire Flow Testing and Flushing	COP	10,000	-	-	-	-	10,000
<b>Financial Benefit Projects</b>								
G4-1	Meter Replacement Program	Cap Fund	-	81,000	81,000	81,000	81,000	324,000
G4-2	Van Horne Turbine Generator Replacement & Hydro-Electric Study	COP	-	144,000	-	-	-	144,000
<b>TOTAL SPENDING - ALL PROJECTS</b>			<b>\$610,000</b>	<b>4,147,250</b>	<b>3,248,250</b>	<b>4,407,250</b>	<b>4,285,250</b>	<b>16,698,000</b>
<b>COP Funded:</b>			<b>\$610,000</b>	<b>\$3,046,250</b>	<b>\$605,250</b>	<b>\$-</b>	<b>\$-</b>	<b>\$4,261,500</b>
<b>Operating Budget Funded:</b>			<b>\$-</b>	<b>\$1,101,000</b>	<b>\$2,643,000</b>	<b>\$4,407,250</b>	<b>\$4,285,250</b>	<b>\$12,436,500</b>

## APPENDIX A

### Cost Center Description

The District tracks disbursements by charging each expenditure to an accounting code associated with a specific function, and can be categorized together into a “cost center.” The purpose of this Appendix is to provide an overview of each cost center to show where District revenue is spent and the relationship of spending to each functional area of District operations. In aggregate, the District has 25 cost centers across four departments.

Figure 6.1 (see insert) illustrates the programs of each department and how District resources are aligned.

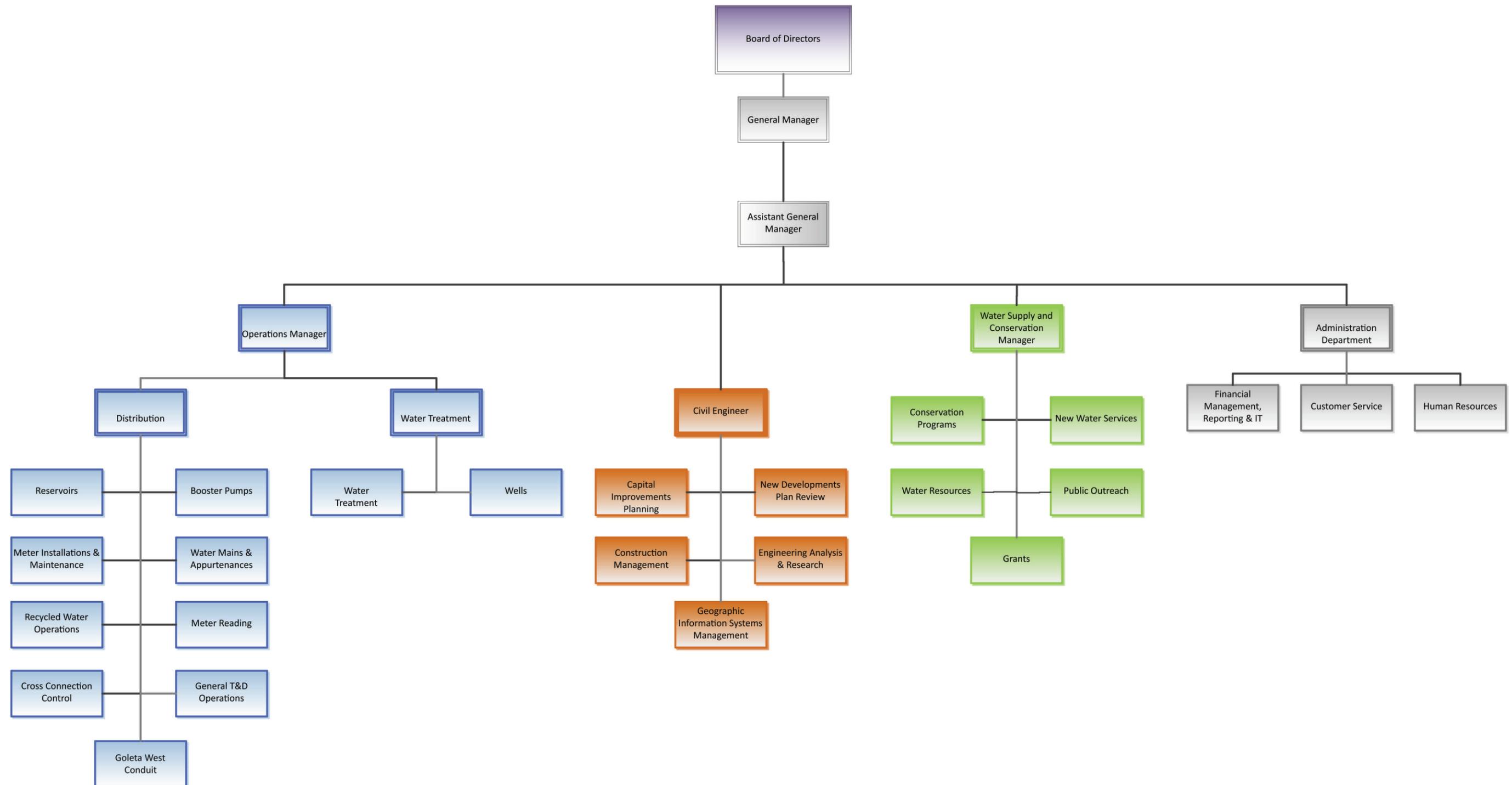
Table 6.1 below shows the cost centers within each department. Following Table 6.1 is an informative analysis of spending in FY 2011-12 for each department by individual cost center.

**Table 6.1 Departmental Cost Centers**

Operations	Engineering	Water Supply & Conservation	Administration
Water Treatment Operation & Maintenance	Analysis & Research	Agency Agreements	Board of Directors
Wells Operation & Maintenance	Plan Review	Reports and Studies	Financial Management & Reporting
T&D Mains & Appurtenances O&M	Geographic Information System	Water Conservation Programs	Customer Service
General T&D Operation & Maintenance	Capital Improvements	New Water Services	Human Resources / Payroll
Meters / Services Installation & Maintenance	Construction Inspection	Public Relations	
Meter Reading			
Cross Connection Control			
Recycled Water Operation & Maintenance			
Goleta West Conduit			
Booster Pumps Operation & Maintenance			
Reservoirs Operation & Maintenance			

FIGURE 6.1 INSERT

Figure 6.1 District Programmatic Functions





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**OPERATIONS**

**Table 6.2 FY 2011-12 Budgeted Expenditures by Cost Center – Operations**

Description	Water Treatment Operation & Maintenance	Wells Operation & Maintenance	T&D Mains & Appurtenances O&M	General T&D Operation & Maintenance	Meters/ Services Installation & Maintenance	Meter Reading	Cross-connection Control	Recycled Water Operation & Maintenance	Goleta West Conduit	Booster Pumps Operation & Maintenance	Reservoirs Operation & Maintenance	Total Operations
Water treatment costs	\$529,282	-	-	-	-	-	-	-	19,211	-	125	\$548,618
Water treatment testing	125,295	8,402	-	-	-	-	-	-	1,885	-	-	135,582
Personnel expenses - Wages	1,139,121	2,623	759,248	322,407	414,877	360,820	78,412	6,557	2,623	2,623	2,623	3,091,932
Personnel expenses - Benefits	482,518	1,052	370,939	164,774	199,111	182,585	33,867	2,630	1,052	1,052	1,052	1,440,631
Personnel expenses - Taxes & W.C.	119,377	192	84,349	30,909	40,404	29,196	6,552	480	192	192	192	312,036
Maintenance & Equipment	98,646	-	384,096	331,752	128,352	3,300	839	67,796	65,561	40,552	29,796	1,150,690
Services, Studies & Supplies	124,418	3,520	11,100	149,212	-	4,100	811	1,296	1,853	1,200	1,200	298,710
Power	100,923	44,443	6,936	26,004	-	-	-	29,034	4,968	19,260	4,404	235,972
<b>Total</b>	<b>\$2,719,580</b>	<b>60,232</b>	<b>1,616,667</b>	<b>1,025,057</b>	<b>782,744</b>	<b>580,001</b>	<b>120,481</b>	<b>107,793</b>	<b>97,345</b>	<b>64,879</b>	<b>39,392</b>	<b>\$7,214,171</b>

The **Operations Department** is responsible for the operation, maintenance, and improvement of three water systems and the related facilities of the District (Potable, Goleta West Conduit, and Recycled). In total, the District's water systems produce and deliver over 3.5 billion gallons of water annually to over 85,000 people living in the District. The specific Cost Centers in Table 6.2 account for the expenditures of the Operations Department based on various functional responsibilities. Examples from Cost Centers having specific programs proposed in FY 2011-12 are summarized below.

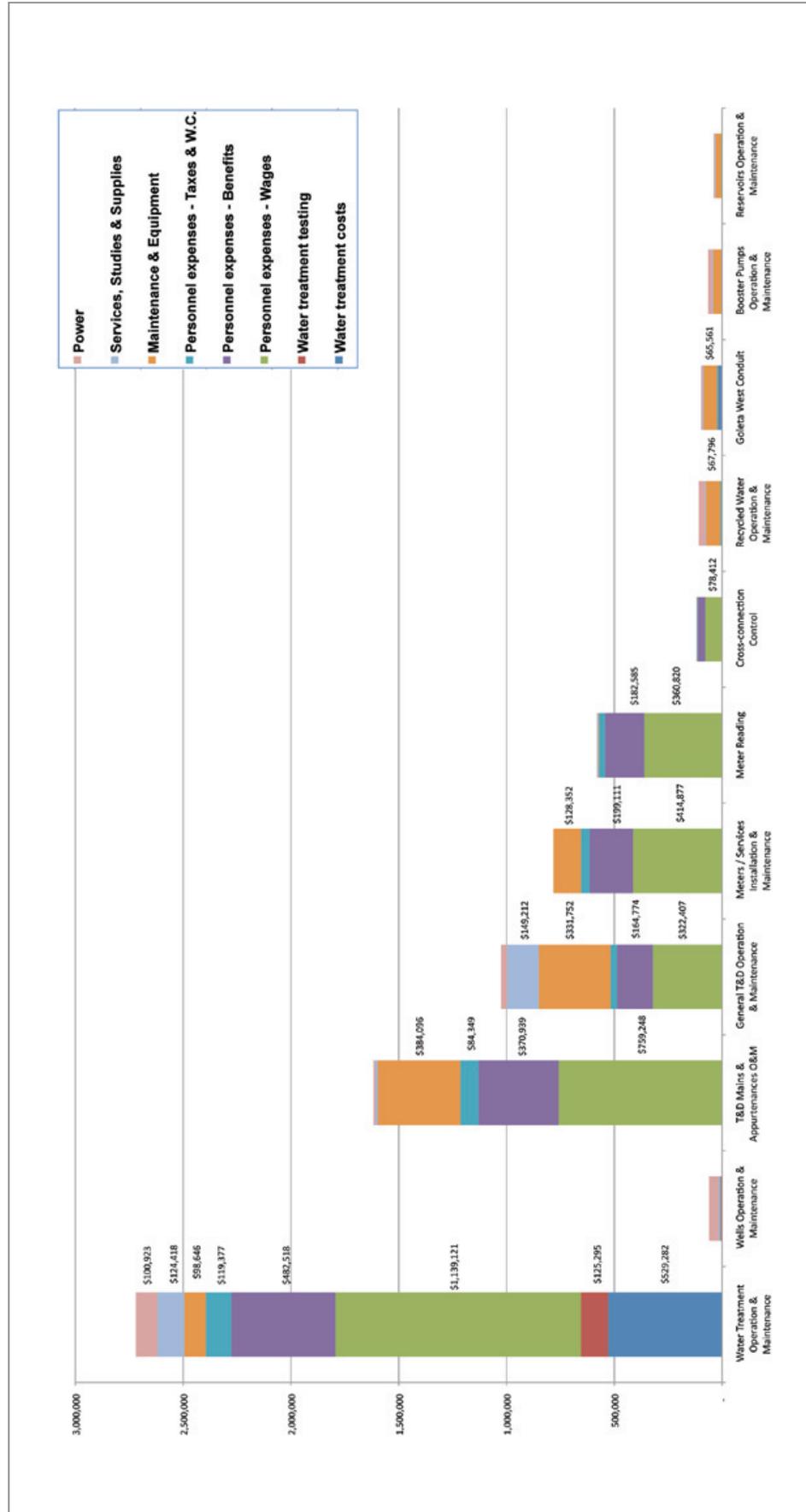
**Water Treatment Operation & Maintenance** costs of \$2,720K are for producing and treating the water delivered into the potable water supply system. It includes the costs associated with the chemicals used, water quality testing expenses, electricity to operate the water treatment plant, and equipment maintenance costs. Of note, maintenance costs have increased as a result of deferral of non-critical items in FY 2011-12. This cost center also includes costs associated with security services at the water treatment plant as well as annual maintenance and support for the SCADA system.

Wells Operation & Maintenance costs of \$60K are for maintaining the groundwater potable water system. In FY 2011-12 it is estimated that District wells will not be operated.

**T & D Operation & Maintenance** costs of \$1,617K are for the operation, maintenance, repairs of 270 miles of pipes and related valves and fire hydrants located on those pipes. Parts and supplies are also included in this cost center. In addition, costs for vehicles and equipment including fuel and maintenance are included. These costs have increased due to the deferral of maintenance and repairs from FY 2010-11 to FY 2011-12. Rising fuel and commodity prices have also contributed to the year-over-year increase in the T&D Operation & Maintenance budget.

The remaining Cost Centers include regular operations and general oversight costs associated with meter reading, offices, as well as costs associated with the ongoing engineering evaluation of alternatives to supply treated water to customers on the Goleta West Conduit water system.

**Figure 6.2 FY 2011-12 Budgeted Expenditure by Cost Center – Operations**



Please refer to Table 6.2 for line items costing less than \$50K annually.

Figure 6.3 Department Organizational Chart – Operations



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## ENGINEERING

Table 6.3 FY 2011-12 Budgeted Expenditures by Cost Center - Engineering

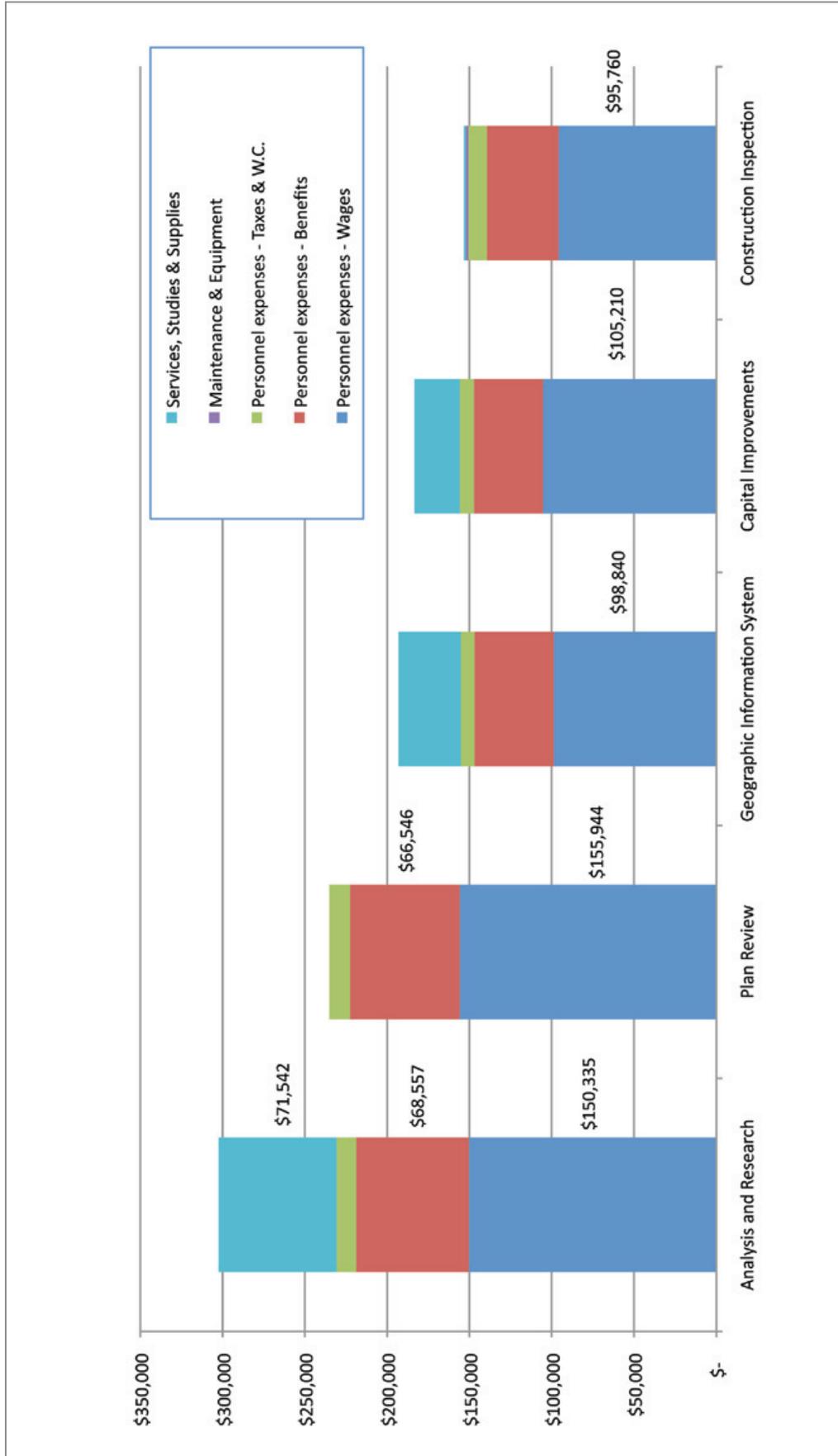
Description	Analysis and Research	Plan Review	Geographic Information System			Capital Improvements	Construction Inspection	Total Engineering
			System	Improvements	Inspection			
Personnel expenses - Wages	\$150,335	155,944	98,840	105,210	95,760		\$606,089	
Personnel expenses - Benefits	68,557	66,546	48,134	41,976	43,709		268,922	
Personnel expenses - Taxes & W.C.	11,940	12,648	8,244	8,652	11,088		52,572	
Maintenance & Equipment	-	-	-	-	2,196		2,196	
Services, Studies & Supplies	71,542	-	37,700	27,488	600		137,330	
<b>Total</b>	<b>\$302,374</b>	<b>235,138</b>	<b>192,918</b>	<b>183,326</b>	<b>153,353</b>		<b>\$1,067,109</b>	

The **Engineering Department** provides oversight and assistance to ensure that water facilities are installed to the latest industry and District standards and regulations and proper records are kept and maintained. The specific Cost Centers in Table 6.3 account for the expenditures of the Department based on the various functions involved in these tasks. The Cost Centers that have specific programs proposed in FY 2011-12 are summarized below.

**Analysis and Research** costs of \$302K are for ensuring that District Engineering Standards and Specifications meet the latest industry standards for construction, materials utilized, and design criteria both for District installed facilities and facilities installed by private contractors for new customers. This cost center also includes engineering support provided across District departments. Examples of costs included are: Services, Studies, and Supplies associated with United States Geological Survey program of obtaining water levels two times per year on the 48 monitoring wells in the Goleta Groundwater Basin. In addition to the monitoring, one transducer installation is proposed on one of the monitoring wells to obtain continuous well level data versus the two times per year data that is obtained currently. Also included are the costs associated with updating the District's Water Distribution Audit (last updated in 2005), which analyzes the District distribution system for water loss control techniques and programs.

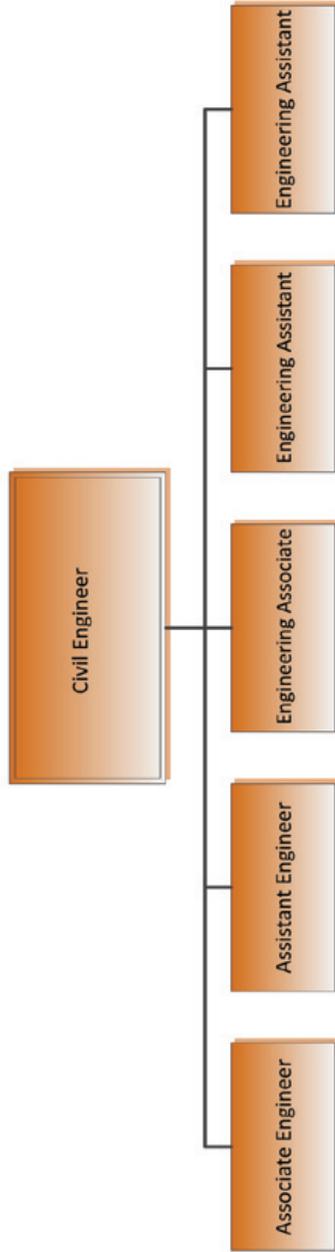
**Geographic Information System** costs of \$193K cover the budget needed to develop engineering records and technical drawings of all District assets. These records and drawings have been converted into a Geographic Information System that requires routine maintenance, upgrades, and revisions to keep current with the facilities being installed as well as to ensure that all records and drawings accurately reflect field conditions. Included in the Services, Studies, & Supplies area are the costs associated with the annual maintenance and software support for the Geographic Information Systems, Computer Aided Design, and H2O Net field software.

Figure 6.4 FY 2011-12 Budgeted Expenditure by Cost Center – Engineering



Please refer to Table 6.3 for line items costing less than \$50K annually.

Figure 6.5 Department Organizational Chart - Engineering



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## WATER SUPPLY & CONSERVATION

**Table 6.4 FY 2011-12 Budgeted Expenditures by Cost Center – Water Supply and Conservation**

Description	Water				Public Relations	Total WS&C
	Agency Agreements	Reports and Studies	Conservation Programs	New Water Services		
CCWA State water expense	\$7,407,597	-	-	-	-	\$7,407,597
COMB Cachuma water expenses	2,522,744	-	-	-	-	2,522,744
GSD Recycled water	484,932	-	-	-	-	484,932
Personnel expenses - Wages	26,228	76,616	181,723	166,126	26,228	476,920
Personnel expenses - Benefits	11,065	41,416	82,106	74,885	11,065	220,535
Personnel expenses - Taxes & W.C.	1,921	4,809	15,361	13,609	1,921	37,620
Maintenance & Equipment	-	-	-	1,292	-	1,292
Services, Studies & Supplies	-	137,492	55,623	4,394	108,000	305,509
<b>Total</b>	<b>\$10,454,487</b>	<b>260,332</b>	<b>334,812</b>	<b>260,305</b>	<b>147,213</b>	<b>\$11,457,179</b>

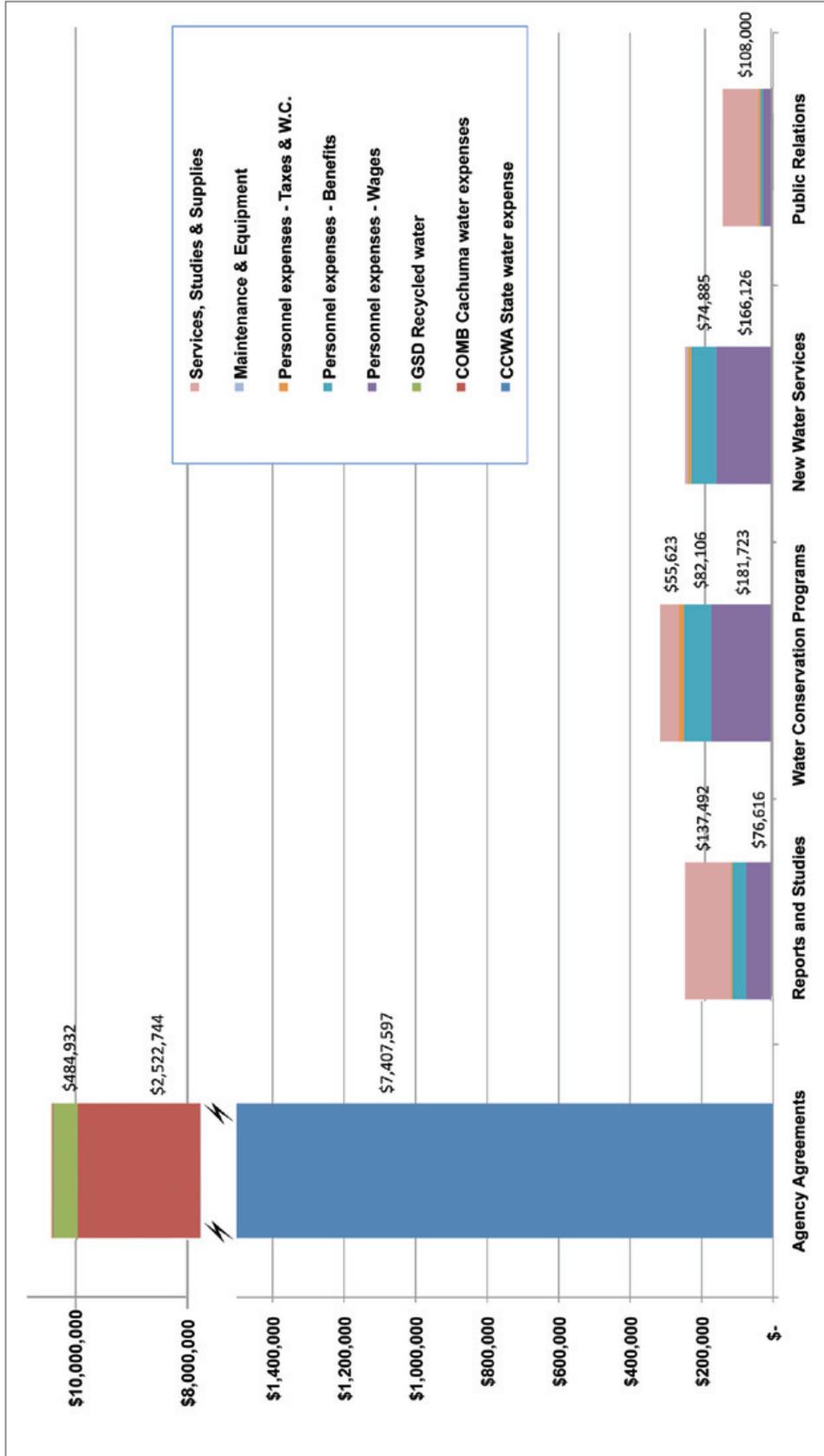
**Agency Agreements** costs of \$10.5M reflect CCWA, COMB, and GSD Recycled Water expenditures. The FY 11-12 Budget proposes shifting these costs into the Water Supply & Conservation Department; accordingly they constitute the majority of departmental expenditures.

**Reports and Studies** costs of \$137K in Services and Supplies are driven by analytical tools and plans necessary for accurately and objectively supporting the management of water resources, as described below. Notably, this cost center will be merged into the Water Resources Program, along with the Codes and Regulations cost center.

- A study on water demand factors for consistently forecast water demands for projects and implementing Board-adopted changes to the New Water Supply Charge. This includes the development of a database capable of storing, analyzing, and reporting customer water histories.
- Resources for the analysis of groundwater levels that may arise through the year, including the impact of spillwater injection on the basin.
- Analytical support for completion of the District's Sustainability Plan and special studies arising throughout the year.

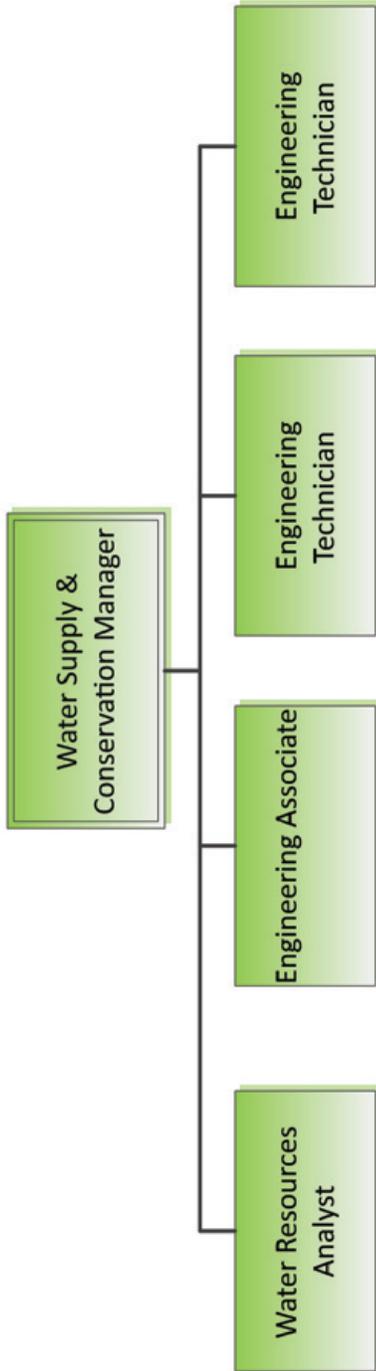
**Public Relations/Outreach** costs of \$108K in Services and Supplies reflect the cost of communicating with and informing our customers on District activities and initiatives. This includes professional services to support public relations, production of the District newsletters and the Consumer Confidence Report, focused outreach necessary for proposed COMB inspection shutdowns during the year, publication of Board ordinances in newspapers per State law, advertising, and necessary updates to the District's website.

Figure 6.6 FY 2011-12 Budgeted Expenditures by Cost Center – Water Supply and Conservation



Note: Agency Agreements cost scale modified to allow greater visibility of other cost center expenditures. Please refer to Table 6.4 for line items costing less than \$50K annually.

Figure 6.7 Department Organizational Chart – Water Supply and Conservation



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## ADMINISTRATION

Table 6.5 FY 2011-12 Budgeted Expenditures by Cost Center – Administration

Description	District General Management	Financial Management and Reporting	Customer Service	Human Resources / Payroll	Total Administration
Insurance, Accounting & Auditing	\$15,000	164,200	-	-	\$179,200
Personnel expenses - Wages	283,870	559,699	185,471	125,068	1,154,108
Personnel expenses - Post Retirem. Med	-	352,494	-	-	352,494
Personnel expenses - Benefits	140,952	253,388	78,807	51,603	524,749
Personnel expenses - Taxes & W.C.	18,912	35,470	14,989	10,213	79,584
Legal	350,004	-	-	7,500	357,504
Services, Studies & Supplies	68,384	336,565	105,330	30,112	540,391
<b>Total</b>	<b>\$877,122</b>	<b>1,701,817</b>	<b>384,596</b>	<b>224,495</b>	<b>\$3,188,030</b>

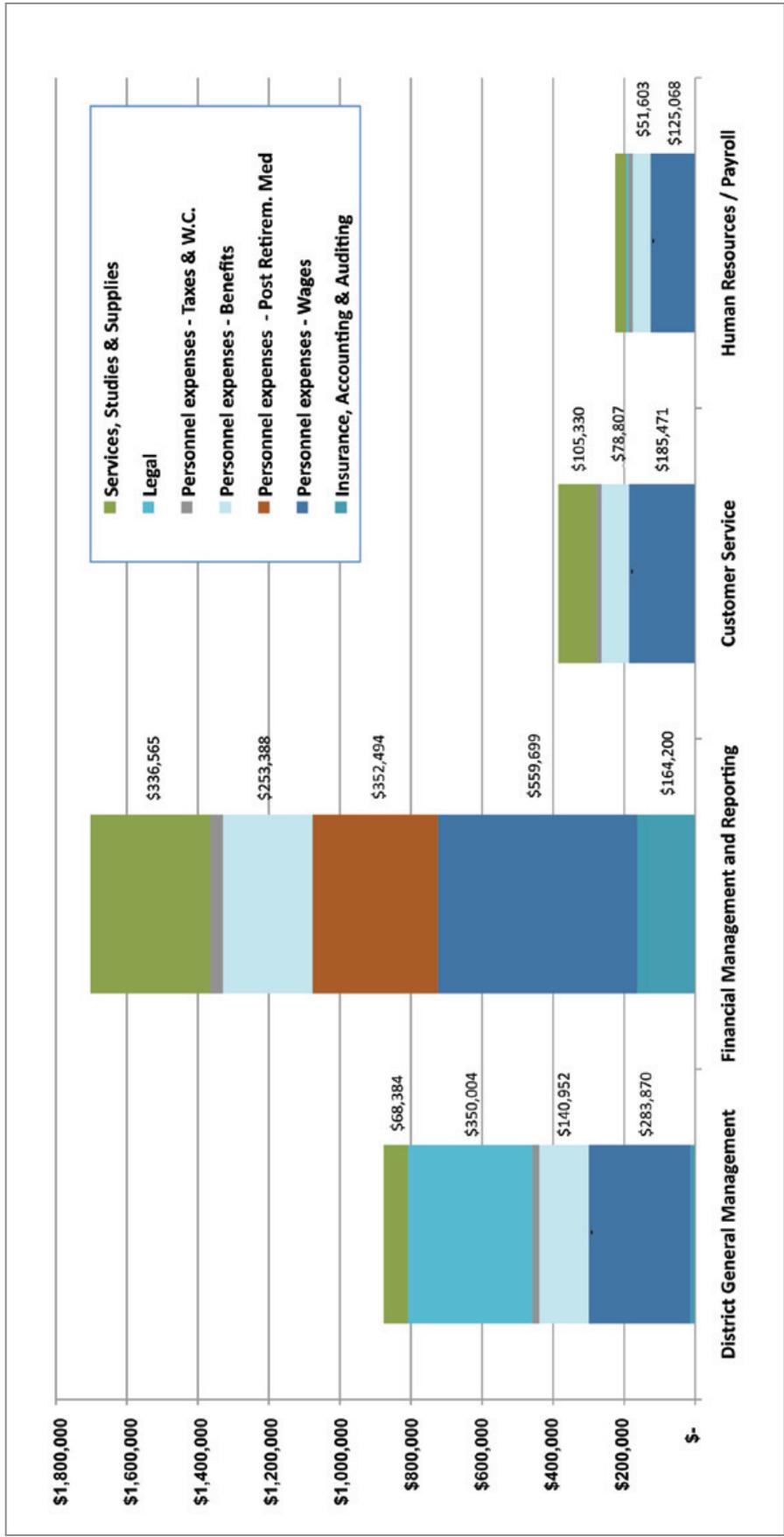
The **General Management** department budgets for costs associated with General Management oversight, as well as internal support functions. The proposed \$877K includes Auditor costs, Personnel costs for Board stipends, General Manager and Board Secretary compensation, legal fees for general counsel matters as well as funds needed to respond to public record requests, and District memberships in ACWA and CSDA.

**Financial Management and Reporting** is the largest administration cost center at \$1.7M and includes liability and property insurance plus accounting services such as banking, system support, and personnel costs associated with 5.85 FTE positions. The \$336K budgeted for specific services provides for I.T. support, telecommunication, postage, record keeping, and Local Agency Formation Committee (LAFCO) fees. Projects included in the proposed FY 2011-12 Budget include funds to complete an analysis of introducing block tier rates to the District, and to enhance the querying ability of the department.

**Customer Service** costs include the staffing and services associated with account initiation, maintenance, call handling, and payment receipt. Personnel costs include 2.2 FTE positions. Billing service costs are also budgeted here.

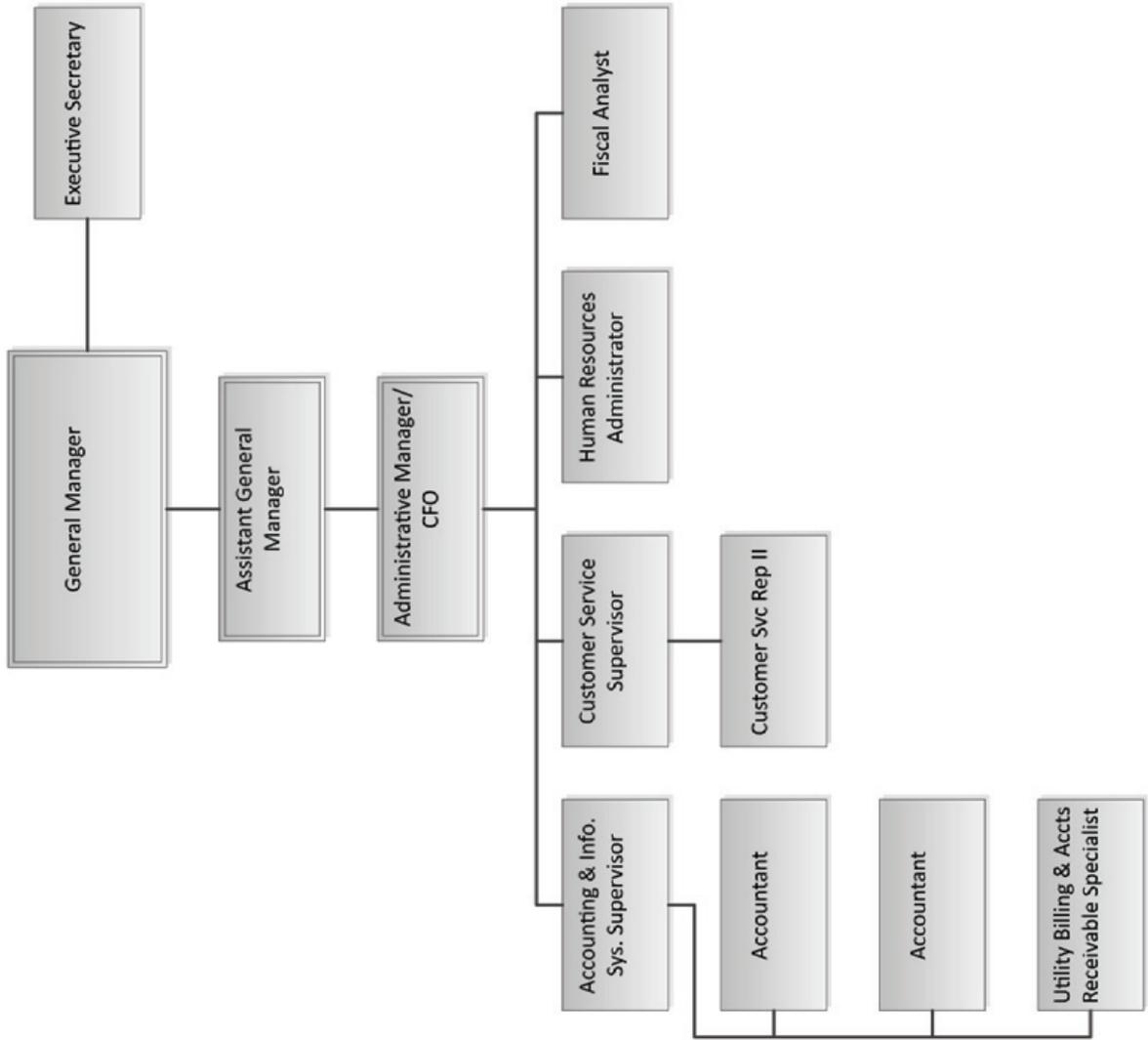
**The Human Resources** cost center includes personnel costs associated with 1.2 FTEs, a legal retainer to assist with HR matters, necessary training costs, and recruiting costs incurred when filling vacant positions.

Figure 6.8 FY 2011-12 Budgeted Expenditures by Cost Center – Administration



Please refer to Table 6.5 for line items costing less than \$50K annually.

Figure 6.9 Department Organizational Chart – Administration



## APPENDIX B

To illustrate the relationship between District personnel and the four departmental programmatic functions, a full organization chart is provided in Appendix B (Figure 6.10). Each of the current 60 District FTE are represented within their respective department and in context with executive management and reporting responsibilities to the Board of Directors.

FIGURE 6.10 INSERT

Figure 6.10 Organizational Chart by Department and Position

