



Montecito Sanitary District

1042 Monte Cristo Lane
Santa Barbara, CA 93108

A Public Service Agency

PHONE: (805) 969-4200
www.montsan.org

FISCAL YEAR 2022-23 PROPOSED BUDGET MEMO

MISSION STATEMENT

“To protect the public health and safety and to preserve the natural environment through the collection, treatment, and disposal of wastewater in the most cost-effective way possible.”

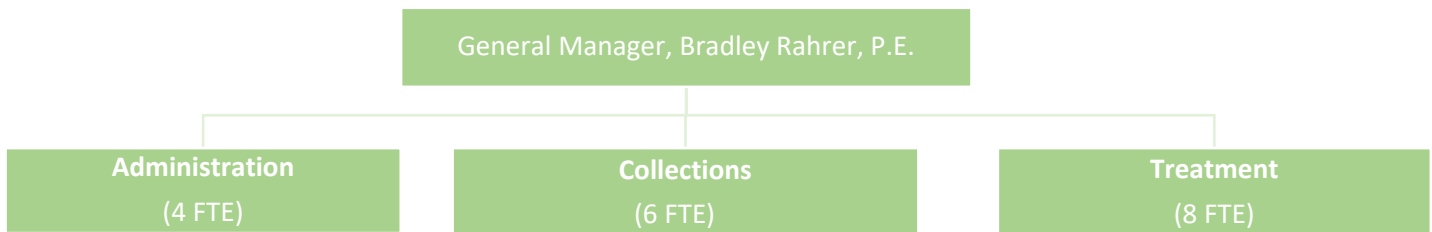
PURPOSE

The District was organized in 1947 pursuant to the Sanitary District Act of 1923 (Division 6 of the California Health and Safety Code) to provide for the collection, treatment and disposal of wastewater to residents within its service area. The District has a service area of approximately 8.9 square miles and an estimated population of approximately 9,000 people. The District currently serves 3,185 properties.

The wastewater collection system includes approximately 77 miles of gravity sewer mains, five lift stations and 2.2 miles of sewer forcemains. The collection system's underground network of pipes range in size from 6-inch to 21-inch in diameter. The majority of the facilities were installed between 1961 and 1969.

Wastewater is conveyed to the District's Wastewater Treatment Plant for treatment. The Treatment Plant, which has a capacity to treat an average of 1.5 million gallons per day, provides full secondary treatment that includes conventional activated sludge tanks, secondary clarification, and disinfection. In 2021, the wastewater treatment reliably treated approximately 539,000 gallons per day and discharged the effluent through the 1,500 foot long ocean outfall.

ORGANIZATION



BUDGET STRUCTURE

Montecito Sanitary District utilizes an Enterprise Fund accounting method, appropriate for the type of utility service business that the District operates. The budget is a non-appropriated budget which supports funding the District's critical operations and capital improvement program. The flexible budget varies according to system demands and level of activity within the District on a year to year basis.

**DISTRICT RECOMMENDED OPERATIONS AND MAINTENANCE
 BUDGET SUMMARY**

Source of Funds		Use of Funds	
Operating Revenues	\$ 6,775,000	Salaries and Benefits	\$ 3,143,763
Non-operating Revenues	\$ 665,000	Operating Expenses	\$ 2,017,000
Total Source of Funds	\$ 7,440,000	Total Use of Funds	\$ 5,160,763

OPERATION & MAINTENANCE REVENUES

The District has four main types of revenues, three of which are Operating and the other Non-Operating. A description of these revenues are as follows:

Operating Revenues:

- **Sewer Service Charges:** The District’s primary source of revenues comes from Sewer Service Charges. The County of Santa Barbara collects these funds from the District’s customers on their annual property tax statements, and the District receives the total amount of Sewer Service Charges revenue reported to the County each year. Sewer Service Charges constitute approximately 91% of total District revenues and 97% of its total operating revenue. This revenue source is relatively stable as any increases would come in the form of an increase to the number of connections or a rate increase. No rate increase is proposed for the upcoming Fiscal Year and amounts are allocated to the District twice during the fiscal year, typically in November and April.
- **Connection Fees:** Connection Fees are established to reimburse existing customers for their investment in the wastewater collection and treatment capacity. As new customers connect to the District facilities, their connection fees contribute to future capacity upgrades. The District’s current connection fee is \$8,400 per equivalent residential unit (per Resl No. 2022-944).
- **Other Services:** The District also receives revenue in the form of miscellaneous fees for services such as plan check, processing agreements, engineering review and inspections. Total fees received for Fiscal Year 2021-2022 are projected to be around \$75,000 and Staff expects a similar revenue for Fiscal Year 2022-2023.

Non-Operating Revenues:

- **Property Tax:** The District’s second highest form of revenue comes from one-half of the 1% of total property tax revenue that is collected by the County of Santa Barbara for parcels within its service area, whether or not they are a customer of the District. This revenue source is also relatively flat as it increases/decreases with the total assessed value of properties within District boundaries. Amounts are allocated to the District twice during the fiscal year along with the Sewer Service Charges, typically in November and April.

Montecito Sanitary District
 Fiscal Year 2022-2023 Proposed Budget Memo

	2022-23 Proposed Budget		2021-22 Approved Budget		Difference
Operating Revenues					
Service Charges	\$	6,600,000	\$	6,519,750	\$ 80,250
Connection Fees		100,000		50,000	50,000
Other Services		75,000		32,000	43,000
Total Operating Revenues	\$	6,775,000	\$	6,601,750	\$ 173,250
Nonoperating Revenues					
Property Taxes	\$	665,000	\$	400,000	\$ 265,000
Total Nonoperating Revenues	\$	665,000	\$	400,000	\$ 265,000
Total Revenues	\$	7,440,000	\$	7,001,750	\$ 438,250

REVENUE PROJECTIONS

Overall, Staff is projecting an increase in total revenues of approximately \$438,000 primarily attributed to the following:

- \$80,000 increase in Sewer Service Charges due to new connections established.
- \$50,000 increase in Connection Fees based on anticipated connection projects in the coming year
- \$43,000 increase in Other Services based on an analysis of average fees received over the past five fiscal years
- \$245,000 increase in Property Tax Revenue to align budgetary estimates with historic trends

Note: The District adopted Ordinance 19 in September 2021, which allows some homeowners to pay connection fees to the District over a 30-year payback period through their County tax bill. It is difficult to predict the adoption rate by homeowners, but the Ordinance could have an impact on the forecasted connection fee revenue in future years.

OPERATION & MAINTENANCE EXPENDITURES

The Districts’ Operations & Maintenance expenditures account for all the routine business expenses related to operating the treatment plant, including: Salaries and Benefits, Insurances, Maintenance and Repairs, Good and Supplies, Professional Services provided by external parties, Administrative Fees, Plant and Lab Operating Costs, Safety, Training, and Travel Costs, and Utilities.

EXPENDITURE PROJECTIONS

The District’s Operations & Maintenance costs, along with the District’s Capital Improvement Program, make up the vast majority of the District’s overall expenditures for the Fiscal Year. The following sections includes a discussion of Fiscal Year 2021-2022 year-end projections and Fiscal Year 2022-2023 anticipated expenditures.

Montecito Sanitary District
 Fiscal Year 2022-2023 Proposed Budget Memo

	2021-22 Approved Budget	2021-22 Projected Actuals	Difference	2022-23 Proposed Budget	2021-22 Variance
Operating Expenditures					
Salaries and Benefits	\$ 3,196,840	\$ 2,667,997	\$ (528,843)	\$ 3,243,700	46,860
Insurance	86,000	84,021	(1,979)	86,000	-
Maintenance & Repairs	205,000	178,101	(26,899)	180,000	(25,000)
Goods & Supplies	120,500	95,403	(25,097)	148,500	28,000
Professional Services	210,000	184,389	(25,611)	300,000	90,000
Administrative Costs	320,500	204,047	(116,453)	350,000	29,500
Plant & Lab Operating Costs	425,000	320,833	(104,167)	536,000	111,000
Safety, Training, & Travel	30,000	10,319	(19,681)	53,500	23,500
Utilities	259,500	204,049	(55,451)	266,000	6,500
Total Operating Expenditures	\$ 4,853,340	\$ 3,949,160	\$ (904,180)	\$ 5,163,700	\$ 310,360

Current Fiscal Year 2021-22

District staff is projecting the Fiscal Year End Operating and Maintenance Fund expenditures to be approximately \$3,949,160, or 81% of the budgeted amount.

Next Fiscal Year 2022-2023

Operating Expenditures: For Fiscal Year 2022-23, District staff is proposing an Operating Budget to cover anticipated expenditures of total operating expenditures of \$5,163,700 in FY 2022-23, an increase of 6.4%. A summary of the proposed operating budget and high-level discussion are as follows:

Salaries and Benefits Summary

- \$90,000 decrease from a staffing restructure within the Operations program. This restructuring eliminates the Operations Manager position and distributes the duties to a Collection Superintendent and Treatment Superintendent positions. Additionally, the District’s part-time Treatment Operator is converted to a full-time position.
- \$30,000 increase in regular salaries for the addition of an hourly Administrative position
- \$21,000 increase in Board salaries due to an increase in expected meetings during the fiscal year
- \$15,000 decrease in CalPERS contributions due to new staff being enrolled in PEPRAs plans in roles that used to be held by Classic members
- \$4,500 increase in uniform cleaning services with Cintas
- \$1,500 increase in Unemployment Tax

Net Result: These are the main factors that comprise the increase of approximately \$47,000 in Salaries and Benefits when compared to Fiscal Year 2021-22.

Note: For budget purposes, Salaries and Benefits have been increased by 3% pursuant to Board direction. The approval of this budget *does not* constitute an approved increase to the current salary rates, that is done on a separate action item after meeting and conferring with the collective bargaining unit.

Operating Expenditures Summary

- \$80,00 to implement a Computerized Maintenance Management System (CMMS)
- \$50,000 to conduct a rate study to align rates with District needs by Fiscal Year 2023-24
- \$45,00 increase in anticipated General Counsel legal fees
- \$35,000 for an SSMP Audit and Updates
- \$75,000 increase in Public Outreach/Education costs
- \$20,000 to implement a Document Management System
- \$20,000 increase in anticipated National Pollutant Discharge Elimination System (NPDES) permit fees
- \$20,000 increase in property maintenance costs due to contractors being utilized rather than District employees

Net Result: These are the main factors that comprise the increase of approximately \$365,000 in Operating Expenditures when compared to Fiscal Year 2021-22.

The full, detailed chart of the Operations and Maintenance Budget is provided in **Attachment A – FY2022-23 Operating Budget - Proposed**. Below are some of the notable line items with explanations of their amounts and inclusion in next years' budget:

- **7461 – Professional Services – Legal** – This line item will now only budget and track costs for the District's General Legal Counsel (Colantuono Highsmith & Whatley).
- **7466 – Professional Services – Human Resources** – This line budgets for and tracks costs for Human Resources legal support by Price, Postel and Parma for Human Resource Special under a retainer agreement.
- **7467 – Professional Services – Special Legal Counsel** – The Finance Committee requested a new line item be created to s budget for and track costs the legal fees associated with special projects, mainly negotiations with SEIU L620 and advising on the Feasibility of Special District Consolidation study.
- **7430 – Memberships** – In preparation for the budget, District Staff have reviewed all 13 professional memberships and their dues that constitute the budgeted amount for Fiscal Year 2022-23. Some of the organizations the District is a member of result in discounts for technical trainings, conferences or certification testing, while others support the District by lobbying and representing the Districts' interest in state legislation.
- **7645 – NPDES Permit Requirements** – Operations – From recent conversations with the Regional Water Quality Control Board, District Staff are expecting to receive a new National Pollution Discharge Elimination System (NPDES) permit within Fiscal Year 2022-23. With the pending renewal, District staff have added some additional budget to plan for adjustments to treatment operations and laboratory sampling for permit compliance.
- **7670 – Special Projects** – The Special Projects line includes some of the infrequent studies like the upcoming Rate Study (typically every 6 years) and Sewer System Management Plan Audit (once every two years by regulation), along with development of an Information Technology Strategic Plan and implementation of a document management system.
- **7671 – Asset Management** – This line item was added to the chart of accounts to fund the upgrade and consolidation of the District's Geographic Information Systems and begin implementing a computerized maintenance management system (CMMS) for the collection and treatment operations. The District has historically used a combination of in-house software systems and paper work orders to

track work completed and plan out future work. Implementing a CMMS for the District’s asset management program should increase efficiency by upgrading workflows and support record retention and succession planning.

CAPITAL IMPROVEMENT PROGRAM EXPENDITURES

Current Fiscal Year 2021-22

The District is projected to spend approximately \$1,429,020 of Capital Replacement (CIP) funds by June 30, 2022, well under the budgeted amount of \$6,628,404 for Fiscal Year 2021-22. The District’s CIP Collection System Projects in Fiscal Year 2021-22 included the Highway 192 Manhole Adjustments, the Lilac/Oak Grove Sewer Main Extension Project, the Brooktree Sewer Main Repair, and a segment of a sewer main replaced in coordination with the County of Santa Barbara’s Fernald Point Bridge Replacement. Facilities and Treatment Projects for the previous Fiscal Year included the board room renovation and roof repair, a forklift purchase, and an influent grinder replacement.

Next Fiscal Year 2022-23

The District is proposing an extensive CIP schedule for Fiscal Year 2022-23 as many of the projects budgeted for Fiscal Year 2021-22 were put on hold due to staffing transitions. Additionally, Staff are preparing to conduct condition assessment studies, develop strategic plans, and perform preliminary design in the upcoming Fiscal Year to prioritize future CIP projects.

The following summary table is a high-level breakdown of the proposed capital expenditures for the upcoming Fiscal Year. It is important to note that the figures in the summary table include both soft costs (planning, design, and construction management), as well as construction, equipment purchases and some contingency to account for minor changes in scope or purchasing factors such as inflation.

CIP Program	2022/2023
Collections	\$ 2,627,000
Lift Stations	\$ 140,000
Treatment & Laboratory	\$ 2,026,000
Facilities	\$ 117,500
Sewer Main Extensions	\$ 70,000
Recycled Water	\$ -
FY2022-23 Total	\$ 4,980,500

A brief description of each project included in the six CIP programs is provided below. A full breakdown of the proposed CIP Budget can be seen in **Attachment B – FY2022-23 CIP Budget – Proposed**.

Collections Program

- The Lilac/Oak Grove Sewer Main Extension Project is currently in construction and the Highway 101 Sewer Main Relocation Projects in final design will be both be carried over into the new Fiscal Year. Construction costs for both projects are expected to be incurred fully within the upcoming Fiscal Year.
- The San Ysidro and Olive Mill Roundabouts have District facilities located within the footprint of the new roundabout and District staff are finalizing design to relocate the facilities so that future maintenance and replacements will minimally impact the new roundabouts. Construction is expected to be completed by Fall 2022.
- District staff have identified structural issues with the District's main trunk main along the railroad tracks from Olive Mill to the treatment plant. This year's budget includes funds to hire a professional engineering firm to evaluate the condition and complete a design for the project. Construction would be in a future fiscal year.
- More manhole adjustments are anticipated and an "on-call" or as-needed manhole adjustment contract would be beneficial to the District and potential contractors by reducing the workload on executing small dollar purchase orders for the same type of work throughout the year. Based on prior year's workload and some work identified already, Staff has proposed approximately \$60,000 for this Fiscal Year.
- The District's large combination vacuum-jetter (Vac-Con) used for the majority of cleaning operations is reaching the end of its planned useful life and is due for replacement. The Collections Operators have started evaluating their future needs and researching available options for replacement. The budgeted replacement value for the Vac-Con is approximately \$459,000 although a replacement may be more expensive after Staff competitively selects a replacement.

Lift Station Program

- District staff have identified issues with the District's lift stations but the work needs to be organized and prioritized. The budget includes funds to conduct a condition assessment and develop a renewal prioritization plan for the five District-owned sewer lift stations and associated forcemains. Once the plan is developed, District staff can scope future repair projects and seek out funding to support the rehabilitation of the lift stations.

Treatment & Laboratory Program

- The Electrical Rehabilitation and Aeration Blower Replacement is a carryover from the prior Fiscal Year. Due to the complexity of the project and potential available funding sources, District staff anticipates requesting proposals from qualified firms to complete the design as it currently is scoped. Ideally, the construction work would be initiated in the latter half of Fiscal Year 2022-23 and a portion of the budgeted amount would be spent this fiscal year.
- Replacement of the skimmer trough in each of the four clarifiers are past the end of their useful life are in need of replacement. The budgetary number includes materials procured by the District for a contractor to use for replacement of the troughs.
- The District has a preliminary, "backbone" Supervisory Control and Data Acquisition (SCADA) system for some basic and critical treatment processes Staff are proposing to budget some money in the next two Fiscal Years to map out the existing system, develop the plan and then implement additional functionality when new equipment is installed. The first projects that will be critical to incorporate the SCADA upgrades in are the Electrical Rehabilitation and Aeration Blower Replacement Project.
- The "Mini-Master Plan" developed through the on-going Enhanced Recycled Water Feasibility Study has identified some safety and structural concerns in bottom floor of the influent pump station. Staff

Montecito Sanitary District
Fiscal Year 2022-2023 Proposed Budget Memo

agrees and therefor is proposing to include rehabilitation of the corroded concrete in the channels and replace the grating in Fiscal Year 2022-23.

- The District's tractor is due for replacement. District staff are evaluating the use of the tractor and are considering replacement with a Bobcat or similar track-mounted unit for a reduced cost but better meets the current and future needs of the District.

Facilities Maintenance Program

- The roof for the Admin/Operations Building is a carryover from the prior Fiscal Year because the Contractor discovered the sub-structure to the roof required a different repair method and therefore removed from the contract.
- The maintenance gate opener and controls is due for replacement.
- The main gate on Monte Cristo Lane is proposed to be upgraded to a motorized gate with lighting and remote controls.
- A bathroom remodel for the men's restroom in the maintenance building is being considered to eliminate the rented bathroom facilities. District Staff are scoping the project and have budgeted for the remodel to occur in the upcoming fiscal year.

Sewer Main Extension Program

- The Ashley Drive/E. Mountain Drive has been in the preliminary design stage for the past two years, with the Project being included on the Fiscal Year 2021-22 budget for finalizing an easement for a future lift station to serve the project. In December 2021, the District Board of Directors supported evaluating the Alisos Sewer Main Extension Project. In order to determine the scope, cost and approach to serving both areas, as well as the surround unserved areas, a Septic to Sewer Strategic Plan Development study is included in this year's budget.

Recycled Water Program

- Besides the on-going operating costs for the Pilot Recycled Water Plant, no additional significant CIP work is anticipated or budgeted for in Fiscal Year 2022-23.

**2017 SEWER REFUNDING REVENUE BONDS – CALIFORNIA SPECIAL DISTRICTS ASSOCIATION (CSDA)
FINANCE CORPORATION**

In May 2017 the District refunded its 2007 Certificates of Participation (COP) by using \$1,121,862 available cash, \$957,824 COP reserve funds, and issuing new 2017 Sewer Refunding Revenue Bonds in the amount of \$10,020,000. This refunding decreased the maturity term by seven years, removed the requirement for a reserve fund, and took advantage of lower interest rates resulting in savings of approximately \$4,000,000 over the term of the bond.

The District will make two payments on its bond during Fiscal Year 2022-23 totaling \$932,700. Of this total \$655,000 will be applied to principal, \$277,700 will be applied to interest. After payments are made, the remaining balance of the bond will be \$7,000,000 and the bond is expected to be paid off by July 1, 2030.

ANNUAL DEPRECIATION FUNDING

Annually, the Board considers contributing to the District’s Capital Replacement Fund. Typically, this contribution has been based on the prior fiscal year’s annual depreciation expense. The current year contribution based on the Fiscal Year 2020-21 Financial Audit would be \$1,228,291. It should be noted that the District may withdraw monies from the Capital Replacement Fund at any time to fund capital projects or to meet any operational needs of the District.

FY 2022-23 PROJECTED OPERATIONS & MAINTENANCE AND CIP CASH POSITION

Taking into account the projected remaining expenditures for Fiscal Year 2021-22 and the proposed budget for Fiscal Year 2022-23, the District’s projected cash position for its Operations and Maintenance fund and Capital Replacement fund are as follows:

Operations and Maintenance Funds

	<u>2021-22 Projected</u>	<u>2022-23 Projected</u>
Beginning Cash Balance	\$ 9,272,610	\$ 10,383,328
Plus: Revenues	7,215,000	7,440,000
Less: Expenditures	(3,949,160)	(5,163,700)
Less: Bond Payment	(936,500)	(932,700)
Less: Capital Replacement Fund Contribution	(1,218,622)	(1,230,000)
Projected Ending Cash Balance	<u>\$ 10,383,328</u>	<u>\$ 10,496,928</u>

Capital Replacement Funds

	<u>2021-22 Projected</u>	<u>2022-23 Projected</u>
Beginning Cash Balance	\$ 7,640,484	\$ 7,430,086
Plus: Revenues	1,218,622	1,230,000
Less: Expenditures	(1,429,020)	(4,980,500)
Projected Ending Cash Balance	<u>\$ 7,430,086</u>	<u>\$ 3,679,586</u>

The District anticipates a cash balance of approximately \$10,497,000 in its Operations and Maintenance funds and \$4,080,000 in its Capital Replacement funds at 6/30/2023, based on the proposed budgetary figures presented in Attachments A and B.

Attachments:

- Attachment A – FY2022-23 Operating Budget – Proposed
- Attachment B – FY2022-23 CIP Budget – Proposed