



WATER DISTRICT UPDATE

March 10, 2015

As of March 1, 2015, Montecito has recorded its fourth driest year on record with no change to our current D4, "Exceptional Drought", expected for the remainder of 2015. The below average rainfall has resulted in no recharge to our local surface water reservoirs, Lake Cachuma and Jameson Lake, or our groundwater basins. Although Northern California's surface water supplies have improved due to a series of warm rainfall, snow pack condition in the Sierra Nevada Mountains continues to deteriorate.

Yet, even with this dismal local water supply outlook, MWD has been able to increase its water supply for this and the following water year through a number of supplemental water purchases. At the same time, rain in Northern California has improved the State Water Project's (SWP) ability to meet its supply obligation to our community. We have just been notified that SWP will provide us with 20% of our annual water allocation. While this only amounts to 660 acre feet of water, it is an improvement over the 5% allocation we received in 2014.

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SHORT TERM WATER SUPPLY SOLUTIONS

The District is near achieving its 2015 goal of acquiring 2,700 acre feet of supplemental water needed to offset the reduction in our local water supplies. Supplemental water purchases are an expensive short-term water supply solution while the District continues to develop long-term, locally controlled and reliable water supplies. Since May 2014, the District has purchased over 5,200 acre feet of supplemental water!

These recent water purchases have increased water supplies to a level where District staff and the Board's Finance Committee are recommending to the Board of Directors a 26% increase in water allocations to District customers. This increase in customer monthly water allocations is only possible due to the successful acquisition and purchases of supplemental water throughout the State.

PROPOSED WATER SHORTAGE EMERGENCY SURCHARGE

A study of Montecito Water District's finances by an independent consultant has determined that the District must implement a Water Shortage Emergency Surcharge on all water consumption if it is to continue to provide safe, reliable water service to its customers.

583 San Ysidro Road
Santa Barbara, CA
93108-2124

Ph 805.969.2271
Fax 805.969.7261

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webmaster@montecitowater.com
<http://www.montecitowater.com>

All District customers have received in the mail a public hearing notice for the possible adoption of this water shortage emergency surcharge. The exceptional drought of the past four years has caused MWD to incur extraordinary drought related costs. This temporary surcharge is necessary to fund the purchase of expensive supplemental water, to cover extraordinary drought-related expenses, and to offset the District's reduced sales revenues caused by the water shortage. As shown in the table below, the proposed surcharge is adjustable, based on the level of annual water sales ranging from 40% to 5% below that projected in the District's 5-Year Financial Plan. The surcharge will be added to the current cost of each unit (HCF or 748 gallons) of water used by all District customers.

| Annual Water Sales (AF) | % Reduction in Water Sales from MWD 5 year Financial Plan | Surcharge per Unit (HCF) |
|-------------------------|---|--------------------------|
| 4,940 | 5% | \$0.79 |
| 4,680 | 10% | \$1.11 |
| 4,160 | 20% | \$1.87 |
| 3,640 | 30% | \$2.85 |
| 3,120 | 40% | \$4.16 |

With the proposed 26% increase in water allocations to customers, we anticipate selling 4,200 acre feet of water for this and the next water year, therefore the initial surcharge will be pegged at a 20% sales reduction or \$1.87 per HCF.

Some customers have questioned why penalties continue to be assessed. The answer is that there continues to be a very serious drought condition on the Central Coast and we have to closely manage both our water supply and water demand. Those who exceed their fair share water allocation force the District incur additional costs (including expensive water purchases) that would not otherwise be necessary; therefore, the penalty offsets some of MWD's extraordinary drought related expenses. If the penalties were not assessed on those exceeding their allocations, the proposed surcharge would be higher for all customers including those who are staying within their water allocation.

The proposed surcharge is temporary and will be evaluated on a frequent basis and phased out when expenses and revenue reductions have recovered and water supplies are normalized.

The District has scheduled a town hall meeting on March 12, 2015 in the Montecito Union School Auditorium from 6:30-8:30 pm to discuss the proposed surcharge. The public hearing for the Water Shortage Emergency Surcharge will be held at the same location on March 24, 2015 at 6:30 PM.