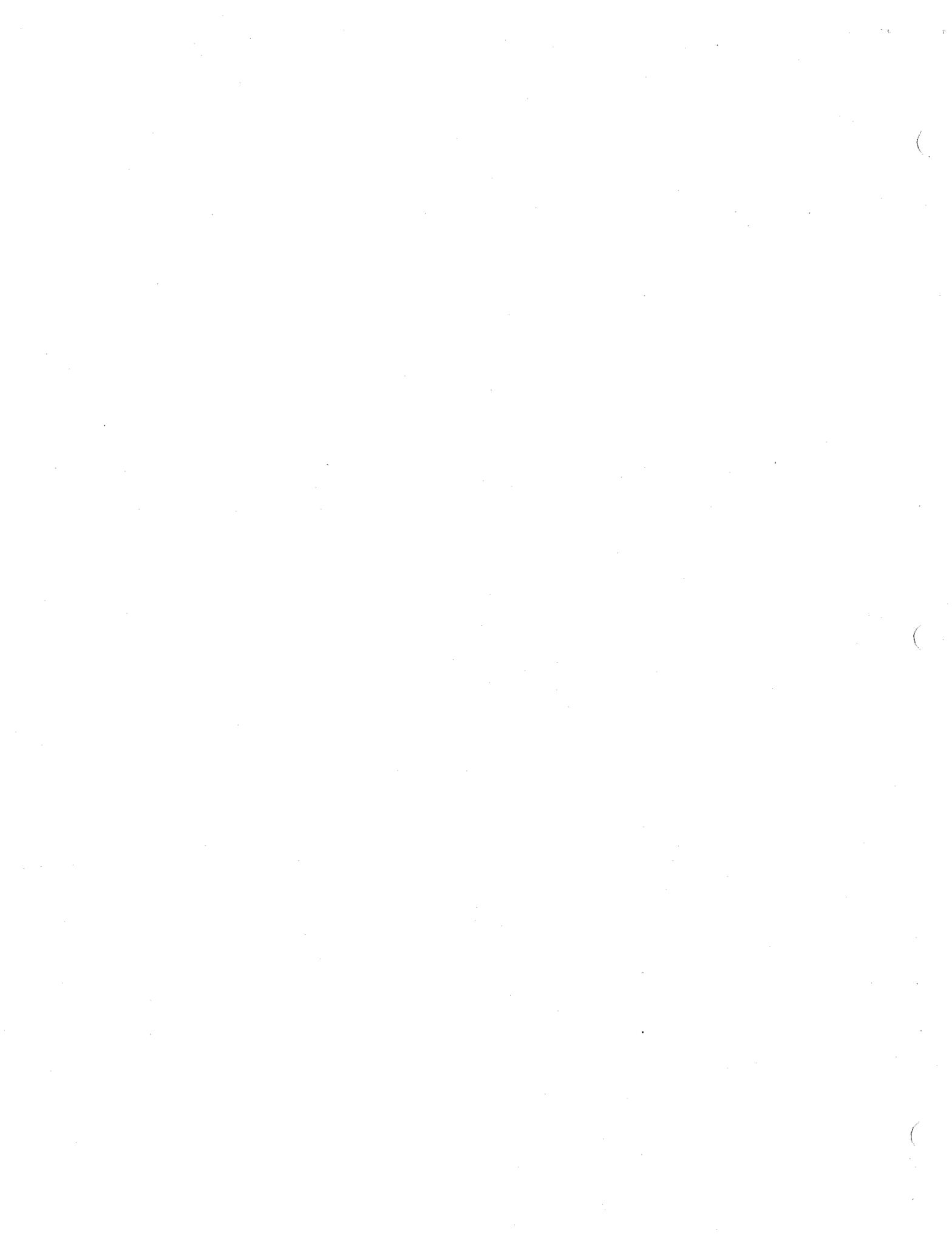


## **Attachment 3**





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**TO:** Dan Singer  
Tina Rivera  
Tim Giles

**FROM:** Tom Gaffney  
Ernie Tedeschi

**DATE:** November 18, 2009

**SUBJ:** **DRAFT Goleta West Sanitary District Financial Review**

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Bartle Wells Associates (“BWA”) was retained by the City of Goleta (“the City”) for the purposes of reviewing financial documentation from Goleta West Sanitary District (“the District”), Raftelis Financial Consultants, Inc. (“Raftelis”), and Bartlett, Pringle, & Wolf, LLP (“BP&W”). The scope of BWA’s work included the following:

1. Review and comment on the District’s FY2008/09 and FY2009/10 budgets;
2. Review and comment on the Wastewater Financing Plan, prepared for the District by Raftelis and dated February 5, 2008;
3. Review and comment on the Reserve Study Report, prepared for the District by Raftelis and dated November 17, 2008;
4. Review and comment on the Detachment Study Report, prepared for the District by Raftelis and dated April 27, 2009; and,
5. Develop a 10-year projection of wastewater rates for the City, including recommendations for reserve fund policies.



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## EXECUTIVE SUMMARY

The City of Goleta has applied to LAFCO for detachment of wastewater and street sweeping services from Goleta West Sanitary District. Detachment would require the transfer of some resources currently held by GWSD to the City. It would also leave each agency in an uncertain financial situation. This analysis looks at the following 7 issues:

### 1. Present-trend finances for GWSD

BWA found that GWSD's current sewer usage fees of \$168.00/year for a single-family residential home do not reflect the cost of service and are unsustainable, even in the event detachment does not happen. Under the non-detachment scenario, by FY2028/29, single-family residential fees would have to reach between \$324.39 (with operations subsidized by property taxes) and \$439.22 (operating expenses fully financed by operating revenues). Had GWSD been meeting their cost of service, operating reserves would have been higher in FY2009/10.

### 2. Status of EMID

Given EMID's Joint Powers agreement with GWSD, we assume that the District would continue to charge sewer user fees to EMID residents, even those within the City. In the event of detachment, EMID would exclusively use approximately 5,000 linear feet of sewer pipes within the City limits.

### 3. Appropriate revenue and cost allocations between GWSD and the City

Outlined in the table below:

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#### Cost and Revenue Allocations, City of Goleta and GWSD

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	<u>City of Goleta*</u>	<u>GWSD + EMID</u>	<u>Applies to...</u>
Flow	52%	48%	Admin & Treatment O&M & Capital, Share of WWTP Costs
Assessed Valuation	78%	22%	Property Tax Revenues & Reserves
Connection Fee Revenues	61%	39%	Connection Fee Revenues & Reserves
Sewer Usage Service Fees	61%	39%	Operating Revenues & Reserves
<u>Sewer Pipes</u>			
Length (ft)	217,109	122,982	
Length (%)	64%	36%	Collection O&M & Capital

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Source: BWA, Raftelis, BP&W, GWSD.

#### **4. "Wheeling"/Shared Use Charges**

BWA found Raftelis' estimates of wheeling charges in the \$500,000 - \$700,000 range to be excessive. This demonstrates that projected revenues from GWSD in the absence of detachment have been over-estimated. Instead, we calculated a shared use charge payable by the City to the District of \$45,000 - \$70,000, with EMID owing the City \$8,000 - \$12,000.

#### **5. Cost savings from detachment**

BWA calculated net efficiency gains of \$960,000 per year in O&M costs resulting from detachment. About \$490,000 is due to street sweeping net savings. Another \$360,000 results from professional services currently contracted by GWSD which are performed in-house by the City. Finally, \$110,000 results from administrative redundancy.

#### **6. Timing of GSD WWTP payment**

There are approximately \$16 million of WWTP costs remaining. In the event of detachment, these may either be paid upfront using GWSD reserve monies, or on an ongoing basis with the City and GWSD splitting the cost based on flow. On the one hand, upfront payment leaves significantly less money for other uses once the treatment plant is paid off; however, it dramatically reduces ongoing capital costs over the next three years. Ongoing payment leaves more money available for other uses in FY2010/11, but requires larger capital payments later.

#### **7. Finances under various detachment scenarios.**

Current GWSD sewer user fees are \$168.00/year for a single-family residential home. BWA found that sewer user fees paid by City customers would likely not need to increase beyond this amount over the next five years post-detachment, regardless of WWTP timing. By contrast, the minimum sewer user fee for customers still in GWSD post-detachment would be \$360.87/year with upfront treatment payments and \$459.06/year for on-going treatment plant payments, which BWA interprets as evidence that City customers have been subsidizing the rates of unincorporated users. Both of these forecast GWSD annual fees would rank in the middle among Santa Barbara County sewer agencies despite the increase over the status quo.

## PRESENT-TREND FINANCES FOR GWSD (NO DETACHMENT)

BWA reviewed the FY2008/09 and FY2009/10 budgets for GWSD, as well as the District's response to the detachment proposal, dated 4 August 2009, and three reports from Raftelis: the Wastewater Financing Plan (5 February 2008), the Reserve Study Report (17 November 2008), and the Detachment Study Report (27 April 2009). BWA also reviewed a memo from Bartlett, Pringle & Wolf, LLP dated 10 July 2009.

### *Current Operating Budget, FY2009/10*

Table 1 shows a summary of GWSD's operating budget for FY2009/10. Sewer user fees are billed on the property tax rolls and currently stand at \$168 for a single-family residential user. They account for over 90% of GWSD's operating revenues this year. GWSD is running an operating deficit this year of about \$255,000 or 9% of wastewater operating expenditures, an indication that user fees are not covering the cost of service.

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**Table 1: Goleta West Sanitary District FY2009/10 Operating Budget Summary**

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	\$	%
<b>Operating Revenues</b>	<b>\$ 2,513,691</b>	
<i>Sewer User Fees</i>	2,300,000	91%
<i>Other</i>	213,691	9%
<b>Wastewater Operating Expenses</b>	<b>\$ 2,767,889</b>	
<b>Net Operating Revenues</b>	<b>\$ (254,198)</b>	

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Source: GWSD.

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### *Projected Operating Budgets, FY2010/11 – FY2028/29*

Raftelis arrived at two different rate recommendations in two separate studies. The first recommendation, in the Wastewater Financing Plan, was a single 10%

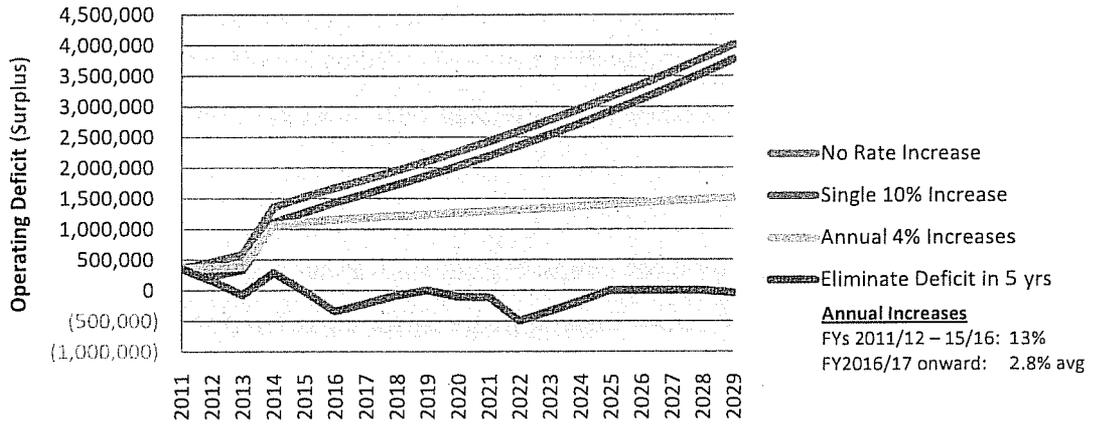
rate increase in FY2011/12. The second, from the Reserve Study Report, was instead to enact annual increases of 4% for the scope of the analysis.

BWA projected GWSD's future non-detachment operating budget through FY2028/29 using the same assumptions Raftelis did, including annual escalators of 5% for salaries and benefits, 5% for energy, and 3% for other O&M expenses. Once the GSD treatment plant comes online in FY2013/14, we assumed an additional \$650,000 per year in O&M expenses. We assumed a constant interest rate of 3%. Finally, since no user fee increases are on the horizon for FY2010/11, we also assumed no hikes for that year. BWA projected four scenarios: no rate increases, a single 10% rate increase in FY2011/12, constant 4% annual rate increases beginning FY2011/12, and rate increases necessary to eliminate the operating deficit by FY2014/15 and every year thereafter while maintaining an operating reserve<sup>1</sup> of 65% of annual O&M. The underlying assumption is that the District's operating budget ought to be self-financing, with no backfill or "subsidy" from property taxes or other non-operating revenues. Figure 1 shows the annual operating deficits under each scenario. Figure 2 shows the resulting single-family residential sewer user fees.

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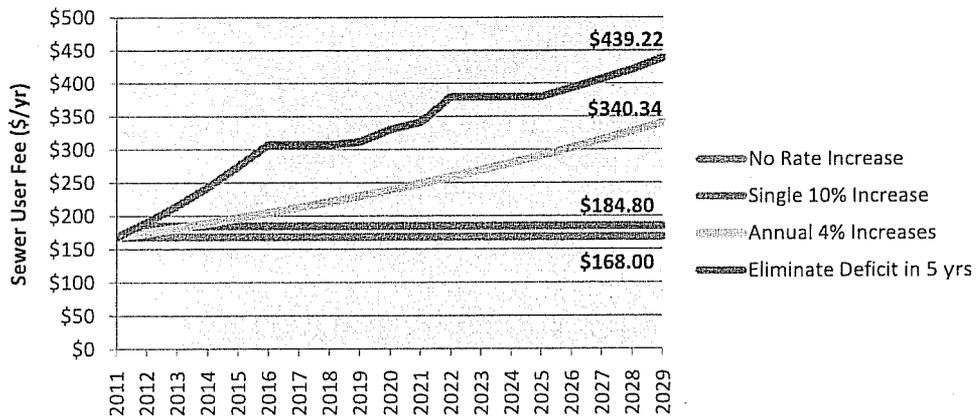
<sup>1</sup> BWA defines GWSD's "operating reserve" to be the combination of its Running Expense Fund (4900) and its Operations Reserve Fund (4930).

**Figure 1: GWSD Operating Deficits (Surpluses), FYs 2010/11 – 2028/29**



Source: Raftelis, GWSD, BWA.

**Figure 2: GWSD Single-Family Residential Sewer User Fee, FYs 2010/11 – 2028/29**



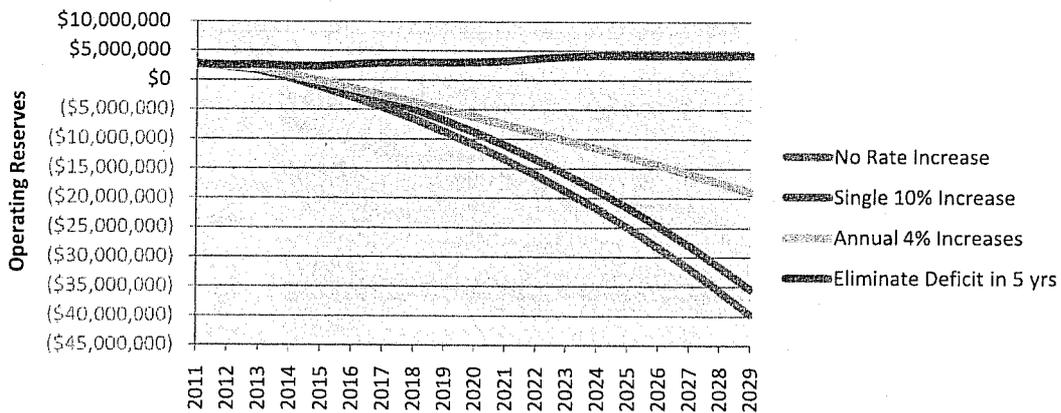
Source: Raftelis, GWSD, BWA.

Without any rate increases, single-family residential sewer user fees stay constant at \$168 per year (and commercial and industrial rates stay fixed as well), but the annual operating deficit exceeds \$4 million by FY2028/29. A single 10% fee increase in FY2011/12 raises single-family residential bills to \$184.80 per year, but operating deficits only fall to \$3.8 million by FY2028/29. Constant 4% annual increases work better at reigning in the deficit: residential fees rise to

\$340.34 by FY2028/29 and the deficit only rises to about \$1.5 million by that year. Eliminating the deficit within five years, by the time the treatment plant goes online, would require 13% annual increases through FY2015/16 – bringing residential fees to \$274.22 for that year – as well as subsequent increases of 2.8% on average to bring FY2028/29 residential fees to \$439.22 per year, or \$36.60 per month.

The Bartlett, Pringle, & Wolff memo found that operating reserves stood at \$3,320,157 on 31 May 2009. Based on the different rates presented in Figure 2, Figure 3 shows these reserves over time under each of BWA’s four scenarios. This is essentially the cumulative surplus/deficit of the operating fund over time.

**Figure 3: GWSD Operating Reserves, FYs 2010/11 – 2028/29**



Source: Raftelis, GWSD, BWA.

**Current Non-Operating Budget, FY2009/10**

Table 2 shows the District’s non-operating budget for FY2009/10. More than half of GWSD’s non-operating revenues come from property taxes. Connection fees, which are restricted under Government Code §66000 *et seq.*, amount to 14% of such revenues this year, though connections fee monies have varied widely in the past. Among expenses, less than a tenth of the District’s non-operating budget is spent on street sweeping services; instead, the vast majority of revenues go

towards capital projects. Over half of the budget is allocated to collection system upgrades, including \$2.4 million to complete the Devereux Creek Project. Another third goes to the GSD wastewater treatment plant. The resulting non-operating deficit of \$6 million is due to these various capital projects and is less problematic than the current operating deficit due to fact that the District has been building up reserves over time for these projects.

In addition, over the past two years, the District has not in actuality spent as much as it has budgeted for capital: in FY2008/09, for instance, it budgeted over \$6 million, but the projected actual expense for the year only reached \$1.4 million. This discrepancy may be due to project delays or changes in the CIP. Since the District has a fixed share of the treatment plant costs, and since the plant is slated to go online in FY2013/14, we do not expect differences in the budgeted v. actual capital spending to be as great in future years.

Finally, BWA observes that the FY2009/10 legal and contractual services components of the streetsweeping budget are atypically high. In FY2007/08, GWSD expended \$36,673 and \$27,804 on legal and contractual services, respectively. In two years, both amounts have increased by a factor of 7.

**Table 2: Goleta West Sanitary District FY2009/10 Non-Operating Budget Summary**

<b>Non-Operating Revenues</b>	<b>\$2,636,309</b>	
Property Taxes	1,495,000	57%
Connection Fees	370,000	14%
Other	771,309	29%
<b>Non-Operating Expenses</b>	<b>\$8,686,209</b>	
Streetsweeping Expenses	688,016	8%
Legal Services	250,000	3%
Contractual Services	195,000	3%
Salaries, Benefits, & Other	243,016	3%
Capital Projects	7,998,193	92%
Pump Station	390,000	4%
Collection System	4,645,000	53%
Admin	100,000	1%
Treatment	2,863,193	33%
<b>Net Non-Operating Revenues</b>	<b>(\$6,049,900)</b>	

Source: GWSD.

***Projected Non-Operating Reserves, FYs 2011/12 – 2028/29***

BWA reviewed two estimates of GWSD reserves. The first comes from GWSD's own FY2009/10 budget, and is summarized in Table 3, which provides an overview of GWSD's eight different reserve funds, their funding sources, any applicable policies or minimum funding levels, and the District's estimates of each fund's end-of-year balance for FYs 2008/09 and 2009/10.

**Table 3: Summary of GWSD Reserves, FY2009/10**

<u>Fund type</u>	<u>Fund name</u>	<u>Source of funds</u>	<u>Fund purpose/policy</u>	<u>Est. fund balance 06/30/2009</u>	<u>Est. fund balance 06/30/2010</u>
Unrestricted	Running Expense	Operating revenues & Interest	O&M expenses	\$880,000	\$552,456
	Operating Reserve	Transfers & interest	65% of O&M	2,450,000	2,523,346
	Capacity Fees for Collection System/Plant Reserve	Capacity fees & interest	Capacity-related capital	2,550,000	786,340
Restricted	Devereux Creek Project Reserve	Interest	Project-specific	2,400,000	71,849
	Capital & Treatment Plant Upgrade Reserve	Property taxes & interest	Treatment plant, 100% of 5-yr annual average capital outlays	18,255,000	16,238,310
	Property Taxes	Property taxes & interest	Street sweeping, some capital, transfers to Capital & Treatment Plant Upgrade Reserve	150,000	249,475
Dedicated	Equipment/Vehicle Replacement Reserve	Interest & transfers	Vehicle & equipment replacement	595,000	612,813
	Building Replacement Reserve	Interest & transfers	Upgrade of District admin bldg	1,380,000	1,321,313
<b>TOTAL</b>				<b>\$28,660,000</b>	<b>\$22,355,902</b>

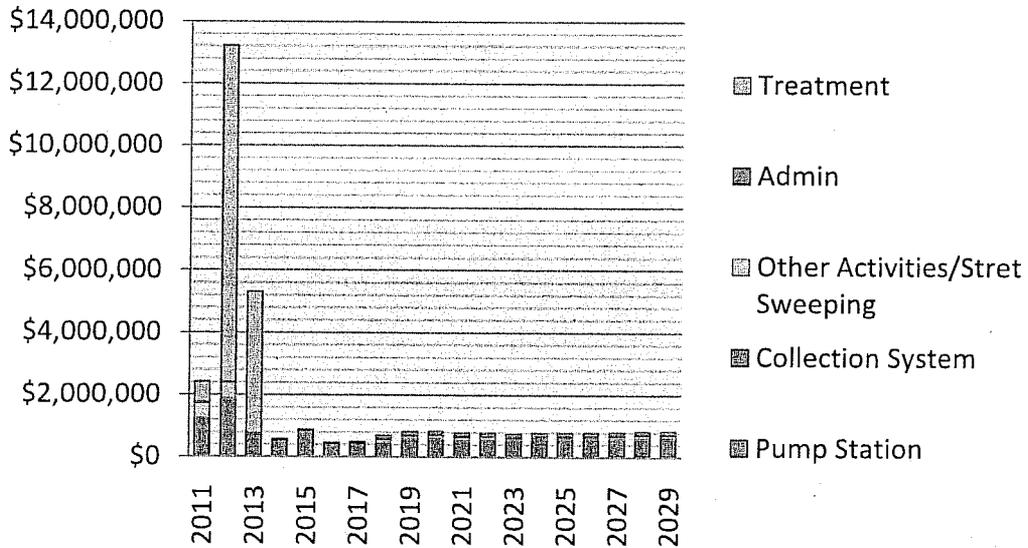
Source: GWSD.

The source of the second estimate is Bartlett, Pringle, and Wolff, who provided a more accurate spot balance of District reserves for 31 May 2009 (a month prior to the end of the fiscal year), but without a detailed breakdown by specific reserve fund. Bartlett, Pringle, and Wolff determined that as of 31 May 2009, property tax reserves stood at \$21,609,340 and connection fee reserves at \$5,063,346. BWA's conservative assumption is that the District will not have the ability to reliably alter non-operating revenues in any significant way. Its property tax allocation is fixed, and connection fee revenues are unpredictable. Therefore, future non-operating reserves will be driven by four factors: annual population growth (assumed to be 0.3%), annual growth in assessed value (2% assumption), growth in street sweeping expenses, and the capital improvement plan (CIP) schedule.

Raftelis submitted two significantly different CIP estimates to the District. The first, in the Wastewater Financing Plan, projected capital spending totaling \$24.5 million between FYs 2010/11 and 2016/17. The second, in the Detachment Study Report, is based on the capital Master Plan. It lengthened the scope to FY2028/29 and estimated CIP costs totaling \$48.4 million, double the shorter-term amount. Since the \$24.5 million estimate includes the bulk of the District's share of the treatment plant costs, and since it is likely not every project in the District's Master Plan will be funded, \$48.4 million over eighteen years is in BWA's view too high a forecast. Using the short-term estimate as a starting point,

BWA looked at historical spending in each category of capital projects and arrived at an estimate of \$32.9 million between next year and FY2028/29. The distribution of spending is illustrated in Figure 4, and Table 4 shows total spending over 19 years.

**Figure 4: GWSD Estimated CIP Spending, FYs 2010/11 – 2028/29**



Source: Raftelis, GWSD, BWA.

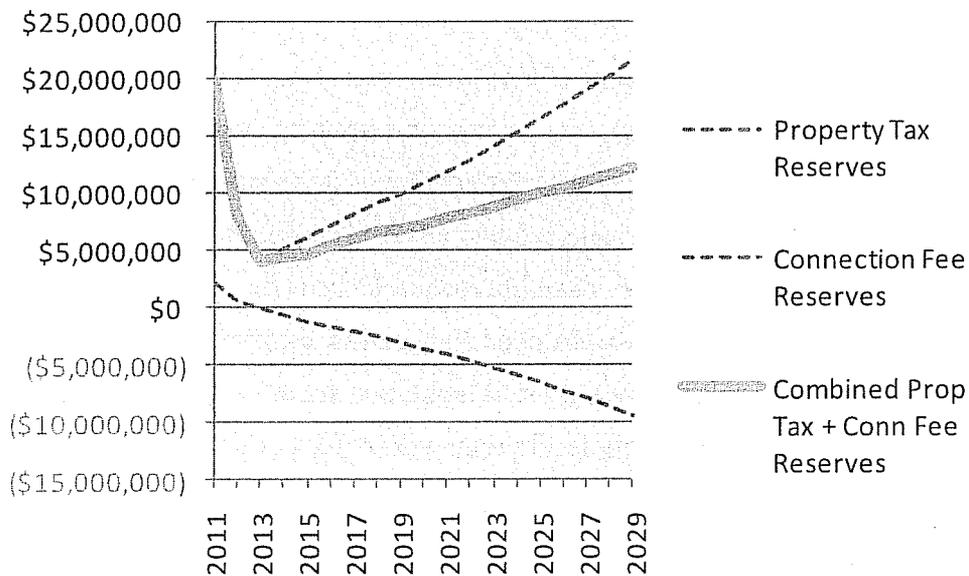
**Table 4: GWSD Total Capital Outlays, FYs 2010/11 – 2028/29**

	FYs 2010/11 - 2028/29
Pump Station	432,000
Collection System	12,711,000
Other Activities/Stret Sweeping	2,236,000
Admin	273,000
Treatment	17,238,000
<b>TOTAL</b>	<b>\$32,890,000</b>

Source: BWA.

Using the BP&W reserve fund balances, and BWA’s estimated long-term CIP schedule, BWA projected out non-operating reserve levels for the next eighteen years. We made a rough estimate of the on-going separate fund balances of the connection fee and property tax reserve funds; however, since the breakdown between growth-related and current-user-related projects is not clear from the CIP, and since the District Board can ease restrictions on the property tax reserve fund, the individual balances are less important than the net reserve fund. All three are presented in Figure 5, which shows that total non-operating reserves will fall until the completion of the wastewater treatment plant, at which point non-operating reserves will continue to grow again, reaching over \$12 million by FY2028/29. This post-treatment plant build-up will be driven by property tax revenues, which will cover not only street sweeping, repairs, and replacements as they do now, but will also likely supplement connection fees in funding growth and upgrade costs.

**Figure 5: GWSD Non-Operating Reserves, FYs 2010/11 – 2028/29**



Source: Raftelis, GWSD, BWA.

### *Using Property Tax Surpluses to “Subsidize” Sewer User Fees*

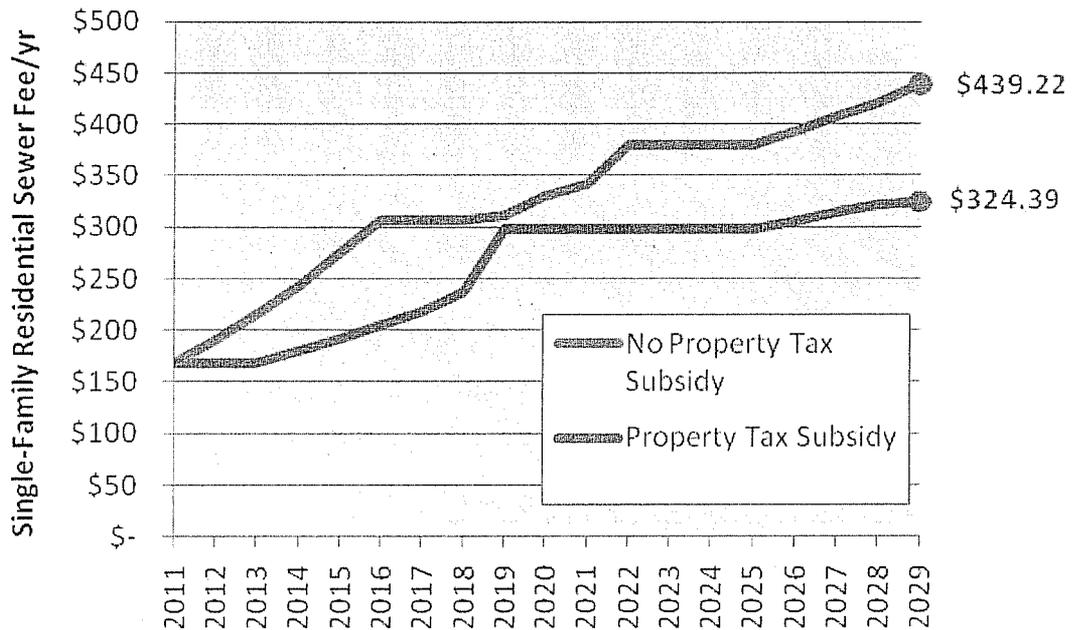
In previous analysis, we estimated that annual sewer user fees would have to rise to about \$440 to eliminate long-term operating deficits. This conclusion assumed that District wastewater operations would be self-financed through operating revenues. However, if the District were to continue off-setting operating shortages through the use of property tax revenues, then sewer user fees would be lower than \$440/year, albeit at the expense of non-operating reserves.

BWA adopted the Raftelis assumption that if the District were to use property taxes for rate relief, then each year it would choose to maintain the minimum adequate reserve of 65% of annual operating expenses plus 100% of average annual projected capital expenses over the next five years. We also assumed political constraints would preclude annual fee increases of more than 10%, and that the goal would be the lowest possible long-term (FY2028/29) sewer user fees. In reality, the District may set up additional reserves, but these restrictions helped BWA arrive at a plausible fee “floor” to complement the \$440/year “ceiling.”

The results presented in Figure 6 show the lowest possible sewer user fees each year that GWSD could charge by drawing on property tax revenues, still meeting our conditions every year through FY2028/29. It is important to note, however, that these rates are not a single scenario. GWSD could, for example, keep rates constant at \$168, the lowest possible rate in FY2011/12, for three years; the trade-off of this choice is that it would need to accelerate rate increases faster than those shown (though they would still be below the non-subsidized fee ceiling). Alternatively, it could immediately raise yearly fees at an annual rate of 10% until they reached \$324.39 in FY2019/20, much faster than the fee floor, but then could leave rates constant for the remainder of the study scope and, thanks to accrued interest, end up with the lowest possible rate in FY2028/29. Therefore, the range of probable long-term single-family residential sewer user fees for GWSD in lieu of detachment is between \$324.39 and \$439.39, with a narrower

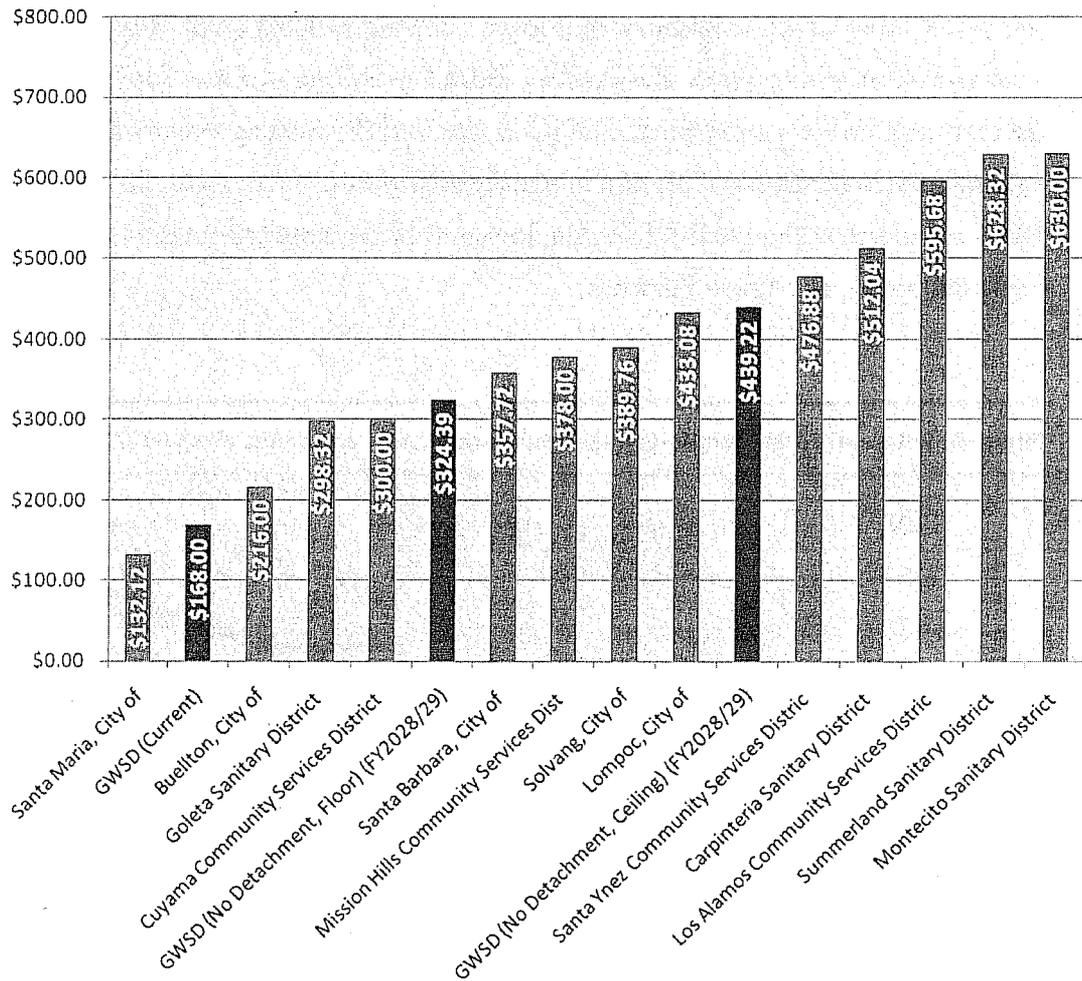
gap in the short-term. Put into perspective: far from making GWSD's user fees extraordinarily high, either long-term fee level would bring GWSD's charges in line with those of its neighbors, as Figure 7 shows. GWSD as of May 2008 had the second lowest sewer fee in the County. Both the ceiling and the floor rates determined above would place GWSD in the middle among wastewater agencies in Santa Barbara County. In fact, since these are long-term rates, in 20 years BWA anticipates they will fall on the low-end of the spectrum again compared to regional peers, as Figure 8 shows.

**Figure 6: Range of GWSD Single-Family Residential Sewer User Fees, FYs 2010/11 – 2028/29**



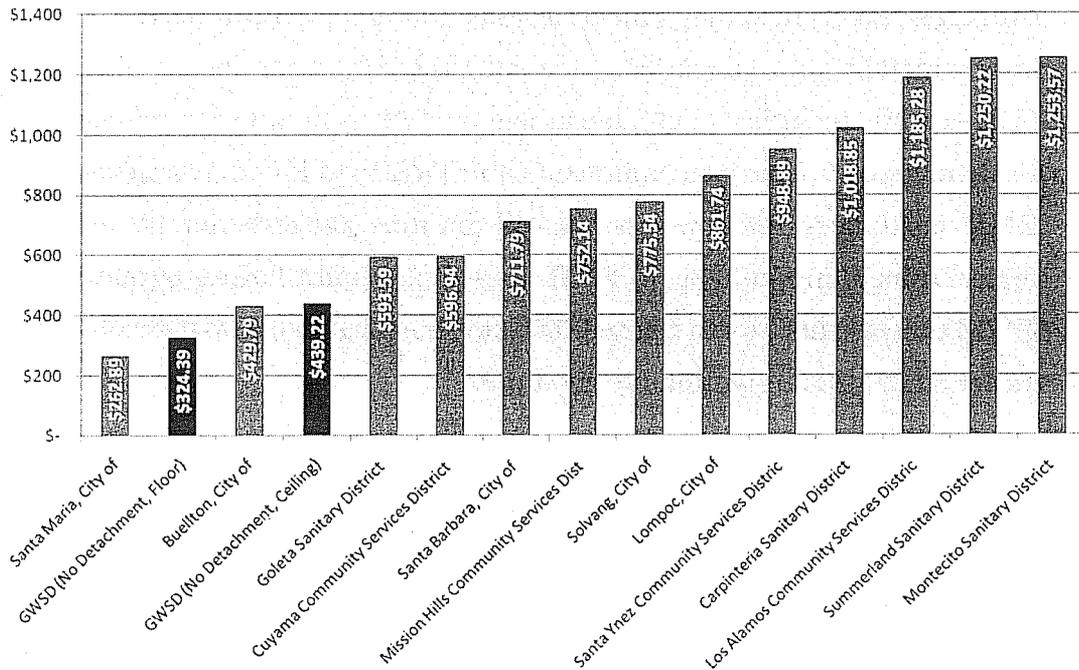
Source: Raftelis, GWSD, BWA.

Figure 7: Annual Sewer Fees, Santa Barbara County, May 2008



Source: BWA, SWRCB.

Figure 8: Projected Annual Sewer Fees\*, Santa Barbara County, FY2028/29



\* Assumes 3.5% annual increase.

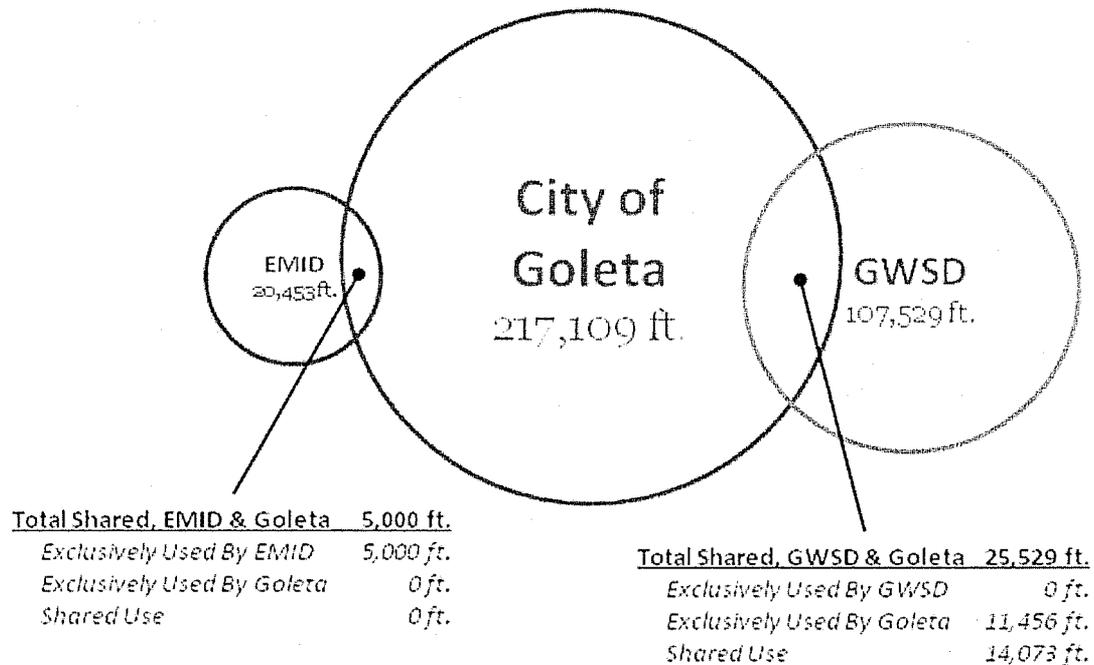
Source: BWA, SWRCB.

## STATUS OF EMID

The Embarcadero Municipal Improvement District (“EMID”) is a state-chartered municipal government entity, covering 1,100 acres to the west of the City of Goleta along Tecolote Creek. The population is about 500 among 155 households. Unique among such improvement districts, EMID has powers approximating that of a city, with authority over covenants, conditions, and restrictions. Responsibilities include refuse collection, parks and recreation, flood abatement, and animal control. EMID’s main funding source is a portion of local property tax revenues reallocated from the County, though it also levies user fees for some services. Currently, EMID contracts for wastewater service with GWSD through a Joint Powers agreement. EMID residents pay user fees to GWSD in return for sewer service and collection system repairs.

In the Detachment Study Report, Raftelis assumed that in the event of detachment, EMID's system will be the responsibility of the City. However, BWA estimates that of the 20,453 linear feet of sewer pipes within EMID, approximately 5,000 linear feet, or about 24%, lies within the city limits of Goleta, while the other 15,453 linear feet, or 76%, is in unincorporated Santa Barbara County. This fact, combined with GWSD's ability to charge user fees to EMID customers, which we assume will continue, suggests that the easiest, most logical transition would be for EMID to retain its Joint Powers agreement with GWSD and for the City to charge EMID for the portion of EMID's collection system that also falls within the city limits.

**Figure 9: Share of Collection System Post-Detachment**



Source: Raftelis, GWSD, BWA.

## APPROPRIATE REVENUE AND COST ALLOCATIONS

Table 5 shows the cost allocations between the City and the District, and how each entity's share of flow, assessed valuation, fee revenue, and pipe length influences the transfer of revenues, reserves, and expenditure responsibilities after detachment.

**Table 5: Cost and Revenue Allocations, City of Goleta and GWSD**

	City of Goleta*	GWSD + EMID	Applies to...
Flow	52%	48%	Admin & Treatment O&M & Capital, Share of WWTP Costs
Assessed Valuation	78%	22%	Property Tax Revenues & Reserves
Connection Fee Revenues	61%	39%	Connection Fee Revenues & Reserves
Sewer Usage Service Fees	61%	39%	Operating Revenues & Reserves
<u>Sewer Pipes</u>			
Length (ft)	217,109	122,982	
Length (%)	64%	36%	Collection O&M & Capital

\* includes Rancho Embarcadero and Bacara Resort  
Source: BWA, Raftelis, BP&W, GWSD.

## “WHEELING”/SHARED USE CHARGES

A “wheeling” charge is a term typically used in water and energy sales, denoting the price paid by one entity for a commodity (water or energy) purchased from another and transported in the seller’s system. Raftelis uses the term to describe the fees to be paid by the City for usage of part of GWSD’s collection system post-detachment. Since no commodity is being exchanged, and the fee is based on the marginal cost of maintenance and repair, we do not think wheeling charges as a concept apply here, and know of no wastewater agency that employs them. Rather, we believe that a shared use charge, made up of O&M and replacement components, is more appropriate.

As Figure 9 showed earlier, after detachment significant shared usage of sewer pipes would still exist. The City would use 25,529 ft. of GWSD pipes, while EMID would use 5,000 ft. of City pipes. Since such shared usage accelerates maintenance and replacement costs, allocation of these costs among the City, GWSD, and EMID is the equitable solution.

Raftelis calculates a net wheeling charge to the City, collected by GWSD, totaling between \$500,000 and \$700,000 annually. They arrive at this figure through allocating capital and O&M costs for the pump stations and collection system, as well as depreciation of the collection system. There are three problems with their approach. The first is that this calculation ignores the fact that Rancho Embarcadero customers will be using City pipes but will be charged user fees by GWSD. The second is that Raftelis folds in 100% of the O&M of Emily Pump station and 52% of the main pump station's O&M into this calculation. Since, as Table 5 showed, the City accounts for 52% of flow system-wide, we think it fairer to simply allocate 52% of total annual pump station O&M responsibility to the City and not include it in a shared-use charge. Third and most significant is that Raftelis includes both depreciation costs and capital replacement costs in their wheeling charge calculation; however, since both are measures of system deterioration over time, including both double-counts system maintenance costs.

BWA calculated the shared use charge as a sum of two components: O&M and depreciation. O&M was based on the proportion of shared pipes in each system. In this case, the GWSD pipes that the City uses make up approximately 21% of the GWSD system; therefore, the O&M component of the City's shared use charge would be about 21% of GWSD's collection system O&M. Likewise, since EMID uses 5,000 linear feet, or 2%, of the City's system exclusively, it would reimburse the City 2% of the City's collection system O&M. For the depreciation component, BWA estimated the replacement cost new (RCN) of the total collection system, assumed a conservative 50 year life cycle, then calculated the annual depreciation per linear foot using straight line methodology, Table 6 shows the assumptions in more detail, and Figure 10 illustrates the results.

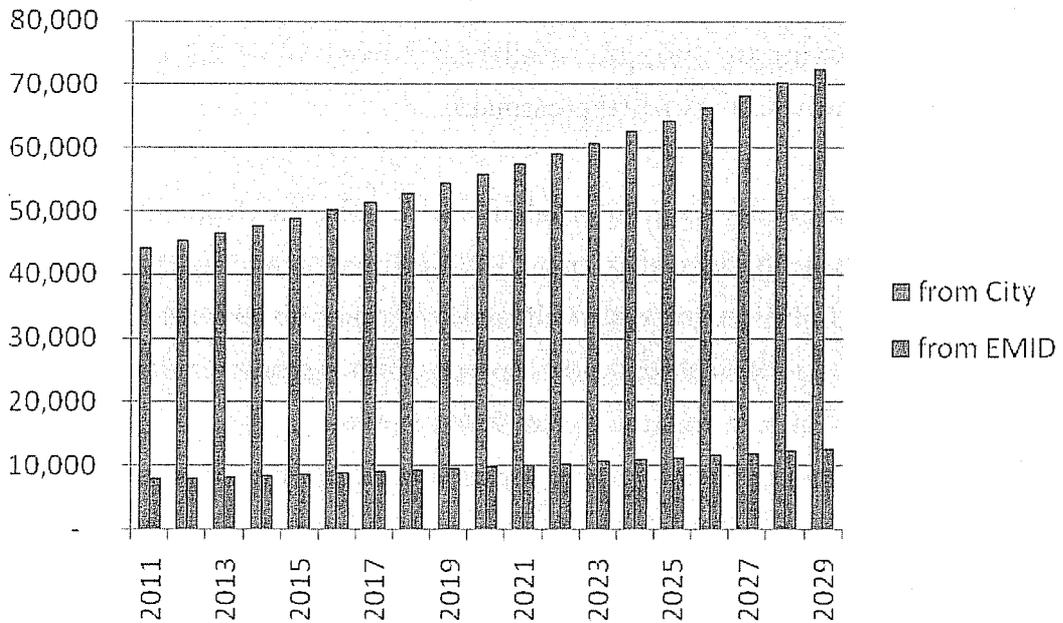
**Table 6: Shared Use Charges, O&M and Depreciation Components**

Collection System, RCN Estimate, 6/30/09	\$9,238,289
<u>Life cycle, years</u>	<u>50</u>
Straight-line Depreciation per foot per year	\$0.54

	<u>Length of Pipes</u>	<u>% of Owner Total</u>	<u>Depreciation Share</u>
City Use of GWSD Pipes			
Exclusively by City	11,456	9%	\$6,224
99% of 3,448 ft.	3,414	3%	\$1,855
52% of 20,499 ft.	10,659	9%	\$5,791
<b>Total</b>	<b>25,529</b>	<b>21%</b>	<b>\$13,869</b>
EMID Use of City Pipes	5,000	2%	\$2,716
<b>Net Annual City Obligation to GWSD</b>	<b>20,529</b>		<b>\$11,153</b>

Source: BWA, Raftelis, BP&W, GWSD.

**Figure 10: Estimated Shared Use Charges, City & EMID**



Source: BWA.

## **COST SAVINGS FROM DETACHMENT**

Detachment would lead to three significant sources of cost efficiencies. First, since GWSD would have significantly less area to cover, street sweeping costs for the District would drop by 80%, or about \$570,000 in O&M in FY2010/11. The City, meanwhile, contracts out street sweeping services, and the added area would raise its costs by considerably less, possibly only \$70,000 - \$80,000.

The second source of cost savings is the fact that the City already does in-house some of the professional services the District currently contracts out for. In the event of detachment, then, the City would not to adopt all District contracts and could plausibly take on some additional workload with no additional cost. BWA found that, for the year between June 2008 and May 2009, the District spent \$694,931 on professional services the City could perform with existing staff. Since most of these services are administrative, BWA assumed that the City would be able to realize 52% of these savings based on flow, bringing estimated annual cost savings to \$361,364. A full year's review of GWSD contracts would be necessary, however, to verify this estimate.

Finally, administrative overlap would likely free the City from incurring the District's entire administrative costs. BWA estimates that the District's FY2010/11 administration costs will come to approximately \$848,700 absent detachment. Our detachment model assigns administrative costs based on flow, which leads to an administrative cost forecast of \$441,339 (52%) for the City post-detachment in FY2010/11. Based on BWA's analysis of potential redundancies between District and City staffs, we reduced the forecast of post-detachment City administrative costs by 25%, which we consider to be a lower-bound estimate of the salary and benefits cost savings due to overlap. This savings totals \$110,000 in FY2010/11.

All told, compared with the status quo, BWA estimates cost efficiencies of about \$960,000 per year in O&M costs resulting from detachment.

## **TIMING OF TREATMENT PLANT PAYMENT**

GWSD's share of the GSD wastewater treatment plant costs will total \$20 million upon completion. BWA estimates that the District will have spent approximately \$4 million on WWTP planning, design, and construction by the end of FY2009/10, leaving about \$16 million to expend between FY2010/11 and completion in FY2013/14. The timing and allocation of this remaining expenditure is a question that remains to be resolved.

BWA developed cash flows for both the City and GWSD under two different scenarios: one in which the remaining capital expense for the WWTP remains ongoing, and is simply split between the City and the District 52%-48%, and another in which before property tax reserves are divided, they are used to pay off the outstanding District WWTP balance. Since BWA projects a property tax reserve balance of about \$17.5 million at the end of FY2009/10, we believe there will be sufficient funds to more than cover an upfront payment to complete the WWTP. The primary trade-off is that an upfront payment would relieve both agencies of WWTP capital expenditures in FYs 2010/11 – 2013/14 while ongoing payments would allow both agencies to retain larger reserves.

## **WASTEWATER FINANCES UNDER DETACHMENT**

Using each of the cost assumptions previously outlined, and also assuming that both the City and the District would aim to restore operating and non-operating reserves to their previous levels (65% of O&M and 5-year average annual cost, respectively), BWA forecast finances for both the City and District under upfront and ongoing WWTP scenarios.

### ***City of Goleta***

BWA's results show that, regardless of WWTP timing, the City's sewer user fees would remain constant, with single-family residential fees staying at \$168/year. This is because under the cost and revenue allocations, the City ends up with a larger share of GWSD's income than it does expenditures. In fact, BWA projects

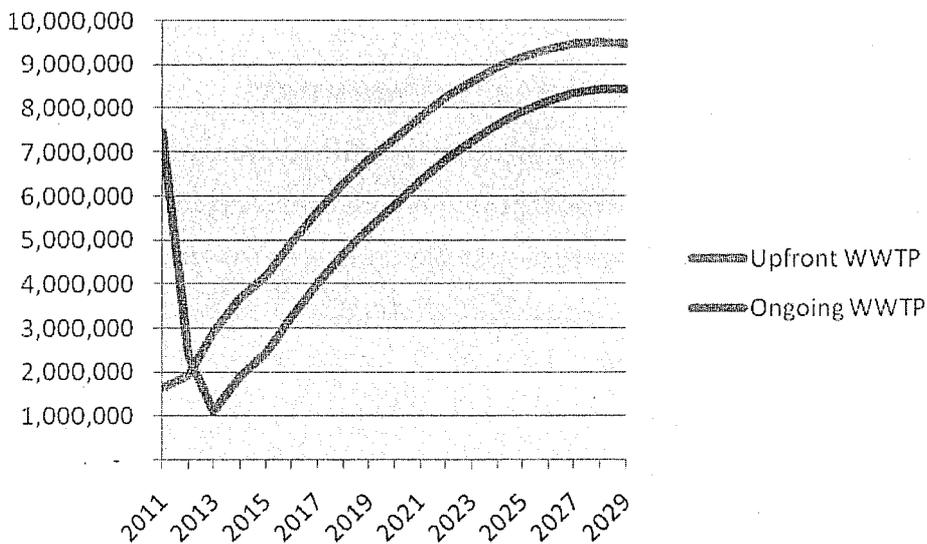
**Table 7: Post-Detachment City of Goleta Fees and Fund Usage**

	WWTP	
	Upfront	Ongoing
Max SFR Fee/Year	\$168	\$168
Available for Other Uses	4,101,788	10,402,964
Necessary Initial Reserves	1,579,243	7,439,707

Source: BWA.

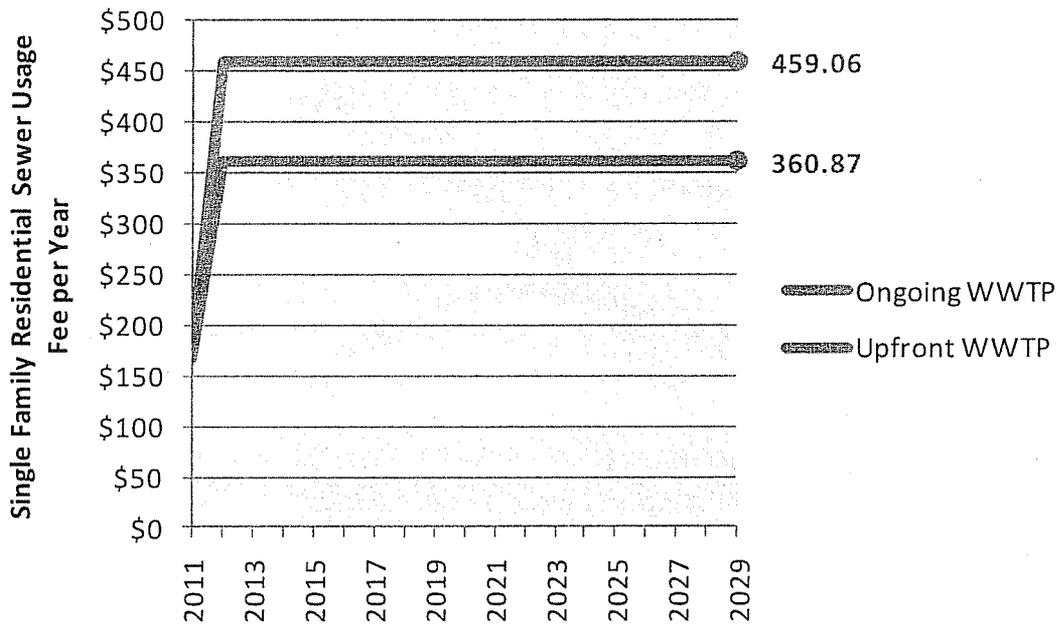
that this fee level would be sufficient to self-finance the operating budget with no transfer from property tax revenues. The only differences, therefore, are the amount of GWSD reserves available for other uses, as shown in Table 7, and the total operating and non-operating reserves the City would need, illustrated in Figure 11. Upfront WWTP payment would leave \$4.1 million left for other uses after the reserve funds were filled. Ongoing WWTP costs would require a larger initial capital reserve, but \$10.2 million would still be leftover for other uses.

**Figure 11: Total Reserve Fund, City of Goleta, Upfront v. Ongoing WWTP**



Source: BWA.

Figure 12: Minimum GWSD Single-Family Residential Rates, Upfront v. Ongoing WWTP



Source: BWA.

### GWSD

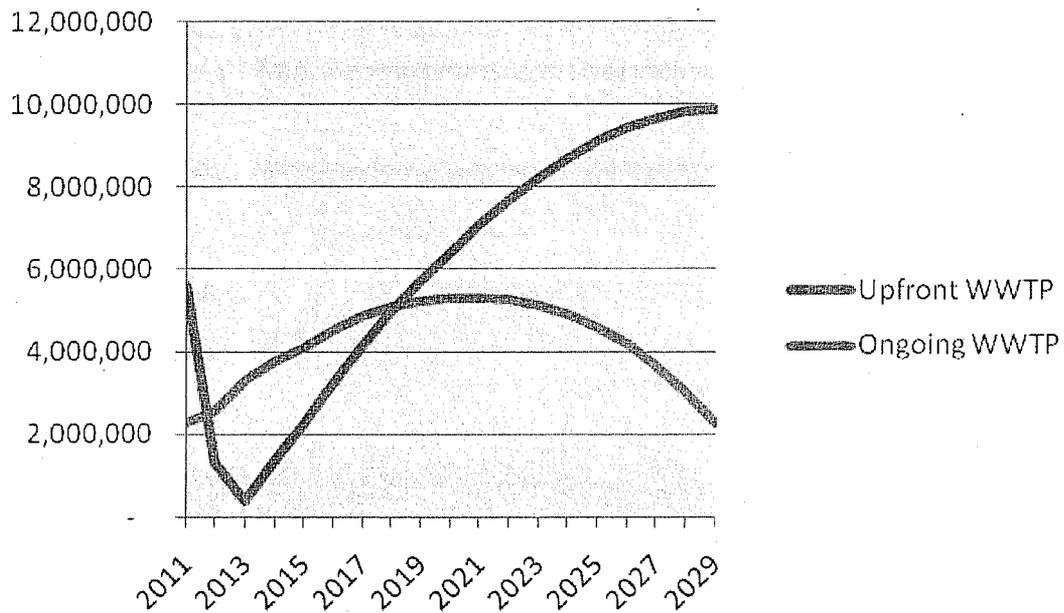
The District, meanwhile, would be under considerable financial pressure to bring fees in line with cost of service after detachment. The minimum solvent sewer user fee is achieved by front-loading all fee increases in the first year after detachment, as illustrated in Figure 12. Keeping WWTP costs ongoing requires an annual GWSD single-family residential sewer user fee of \$459.06, or \$38.26 per month. This is because GWSD would only be left with 22% of its property tax reserves but would still be responsible for 48% of the WWTP costs. Upfront payment of the WWTP would be a far better scenario for the District fee-wise, involving a fee hike to \$360.87/year, or \$30.07/month.

Figure 13 shows GWSD's total reserves under both scenarios, assuming the immediate minimum fee hikes mentioned before. What is interesting is that ongoing WWTP costs require a significantly higher fee to cover capital expenses, but this fee later pays dividends in the form of higher total reserves. Reserves

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Figure 13: Total Reserves, GWSD, Upfront v. Ongoing WWTP

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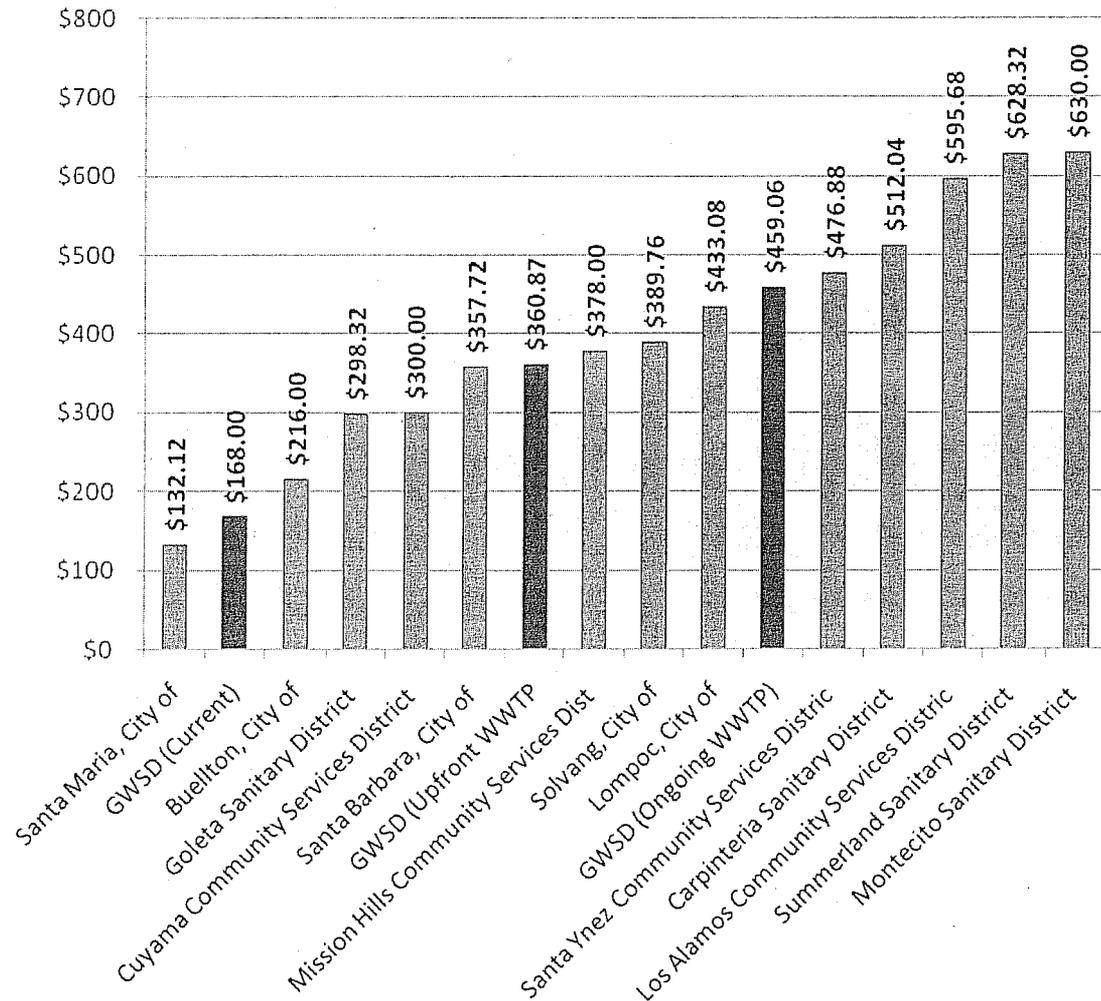
Source: BWA.

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peak around FY2019/20 with an upfront WWTP payment, then begin subsidizing operations and capital costs, reaching the bare minimum by FY2028/29.

Revisiting regional sewer fees, Figure 14 shows where the minimum GWSD sewer user fees fall among nearby agencies. Neither fee is inconsistent with those charged by GWSD's neighbors, and in fact the fee levels set by the other Santa Barbara County agencies support the argument that the fees set out in Figure 12 are reasonable estimates of the cost of service.

Figure 14: Annual Sewer Fees, Santa Barbara County, May 2008



Source: BWA, SWRCB.



# APPENDIX II: CITY OF GOLETA WASTEWATER FINANCES, UPFRONT WWTP COSTS

	FY2020/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	
Interest rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	
Salary/benefit cost escalator	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
O&M cost escalator	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	
Capital cost escalator	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Customer growth	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	
Property tax growth	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	
Rate increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
SF Residential Rate/Month	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	
<b>REVENUES</b>																				
78% GWSD Property Tax Reserves (after paying for WWTP)	1,101,023	1,208,615	1,277,439	1,306,897	1,337,034	1,367,866	1,399,469	1,431,679	1,464,694	1,498,470	1,533,024	1,568,376	1,604,543	1,641,543	1,679,397	1,718,124	1,757,744	1,798,278		
61% GWSD Connection Fee Reserves	1,938,697	1,411,431	1,419,912	1,424,172	1,428,444	1,432,729	1,437,028	1,441,339	1,445,663	1,450,000	1,454,350	1,458,713	1,463,089	1,467,478	1,471,881	1,476,296	1,480,725	1,485,167		
61% GWSD Operating Reserves	1,870,235	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000		
78% Property Tax Revenues	1,192,990	1,208,615	1,277,439	1,306,897	1,337,034	1,367,866	1,399,469	1,431,679	1,464,694	1,498,470	1,533,024	1,568,376	1,604,543	1,641,543	1,679,397	1,718,124	1,757,744	1,798,278		
61% Sewer user fees	1,407,229	1,411,431	1,419,912	1,424,172	1,428,444	1,432,729	1,437,028	1,441,339	1,445,663	1,450,000	1,454,350	1,458,713	1,463,089	1,467,478	1,471,881	1,476,296	1,480,725	1,485,167		
61% Connection fees	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000		
51% Other operating revenues	125,856	111,865	100,857	76,292	70,801	71,034	71,227	71,410	71,655	71,970	72,365	72,845	73,413	74,073	74,829	75,687	76,549	77,518	78,595	
61% Other non-operating revenues	155,847	156,134	156,325	156,521	156,727	157,000	157,351	157,795	158,324	158,940	159,644	160,438	161,324	162,305	163,385	164,567	165,855	167,252	168,761	
2% Shared Use Charge from EMD	7,940	8,028	8,223	8,425	8,635	8,855	9,082	9,319	9,565	9,821	10,088	10,363	10,651	10,950	11,261	11,584	11,921	12,272	12,636	
Interest	47,377	58,678	91,034	116,832	135,287	160,941	185,646	208,034	227,437	245,712	263,995	282,750	295,946	309,690	320,698	330,543	338,236	343,636		
Total Revenues	7,860,797	3,024,023	3,069,801	3,115,188	3,150,550	3,199,348	3,259,788	3,330,980	3,403,627	3,498,063	3,553,078	3,610,292	3,666,694	3,722,109	3,776,773	3,830,500	3,883,162	3,934,389	75%	
% of Old GWSD Revenues	59%	63%	65%	68%	68%	69%	69%	69%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	75%	
<b>EXPENSES</b>																				
52% Pump Station O&M	119,490	128,868	128,417	133,144	138,057	143,163	148,470	153,987	159,713	165,687	171,888	178,337	185,044	192,019	199,276	206,825	214,679	222,851	231,354	
64% Collection O&M	256,169	265,555	275,307	285,441	295,973	306,920	318,298	330,026	342,113	354,568	367,338	380,338	393,595	407,138	420,979	435,126	449,589	464,374	479,500	
52% Administration O&M	401,339	407,510	414,311	421,749	429,836	438,587	447,999	458,071	468,802	479,292	490,542	502,561	515,358	528,943	543,326	558,517	574,525	591,360	609,032	
52% WWTP O&M	721,847	749,435	776,958	805,558	835,281	866,173	898,284	931,664	966,342	1,002,350	1,039,699	1,078,386	1,118,413	1,160,789	1,205,514	1,253,597	1,304,048	1,356,985	1,412,428	
52% Cost Savings	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	(188,294)	
21% Shared Use Charge to GWSD	30,260	31,369	32,521	33,718	34,962	36,255	37,599	38,996	40,449	41,959	43,529	45,162	46,861	48,628	50,465	52,377	54,366	56,435	58,589	
Subtotal O&M	1,381,942	1,439,473	1,499,250	1,569,368	1,641,605	1,715,106	1,790,105	1,866,687	1,944,873	2,034,957	2,137,488	2,253,488	2,384,488	2,531,288	2,695,288	2,878,288	3,071,288	3,275,288	3,490,288	
CIP	8,113	8,436	8,774	9,125	9,490	9,869	10,264	10,675	11,102	11,546	12,008	12,488	12,988	13,507	14,047	14,609	15,194	15,801	16,433	
52% Pump Station	782,848	1,180,184	471,580	340,064	547,456	273,792	281,984	290,432	301,447	305,063	317,125	332,219	349,916	362,288	362,463	369,160	375,586	380,937	386,317	
0% Other Activities/Street Sweeping	6,864	10,244	1,872	2,704	4,368	7,956	11,856	5,981	6,836	7,695	8,388	8,477	7,775	8,148	8,220	8,571	8,609	8,637	8,616	
52% Treatment	797,874	1,207,864	482,006	355,893	561,314	291,617	304,104	309,088	313,385	318,304	323,821	329,931	336,643	343,963	351,893	360,431	369,576	379,333	389,703	
Subtotal CIP	2,175,766	2,607,337	1,961,256	2,255,761	2,535,379	2,343,223	2,436,210	2,574,775	2,733,659	2,828,902	2,994,583	3,107,065	3,235,231	3,335,402	3,408,609	3,574,134	3,708,483	3,866,720	4,044,444	
Total Expenses	1,381,942	1,439,473	1,499,250	1,569,368	1,641,605	1,715,106	1,790,105	1,866,687	1,944,873	2,034,957	2,137,488	2,253,488	2,384,488	2,531,288	2,695,288	2,878,288	3,071,288	3,275,288	3,490,288	
% of Old GWSD Expenses	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	
<b>NET REVENUES</b>	\$5,500,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	
Transfer to General Fund	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	4,101,728	
1.00 Operating Reserve	898,262	1,376,190	2,635,486	3,519,997	4,120,070	5,005,197	5,805,534	6,525,534	7,147,384	7,754,066	8,381,923	8,944,128	9,444,128	9,881,887	10,266,417	10,592,417	10,846,451	11,023,468	11,118,392	
Capital Reserve	680,980	579,739	398,987	374,403	364,500	384,721	408,926	433,304	458,845	485,645	513,810	543,330	574,216	606,466	641,700	680,824	724,844	770,874	819,928	
TOTAL	1,579,243	1,955,929	3,034,473	3,894,400	4,509,672	5,384,667	6,184,255	6,984,460	7,681,229	8,190,391	8,799,837	9,359,323	9,861,549	10,308,013	10,689,920	11,018,084	11,274,529	11,454,208	11,551,877	

# APPENDIX III: CITY OF GOLETA WASTEWATER FINANCES, ONGOING WWTP COSTS

Account #	Projected																		
	FY2011/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29
Interest rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Salary/benefit cost escalator	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
O&M cost escalator	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Energy cost escalator	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Capital escalator	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Customer growth	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
Property tax growth	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rate increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
SF Residential Rate/Month	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00
REVENUES	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00	168.00
78% GWSO Property Tax Reserves	13,610,658																		
61% GWSO Connection Fee Reserves	1,936,697																		
61% GWSO Operating Reserves	1,870,235																		
78% Property Tax Revenues	1,194,990	1,220,501	1,248,645	1,277,439	1,306,897	1,337,034	1,367,866	1,399,409	1,431,679	1,464,694	1,498,470	1,533,024	1,568,276	1,604,543	1,641,543	1,679,397	1,718,124	1,757,744	1,798,278
61% Sewer user fees	1,407,209	1,411,431	1,415,665	1,419,912	1,424,174	1,428,444	1,432,729	1,437,028	1,441,339	1,445,663	1,450,000	1,454,350	1,458,713	1,463,089	1,467,478	1,471,881	1,476,296	1,480,725	1,485,167
61% Connection fees	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000
61% Other operating revenues	125,856	119,559	111,265	100,857	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292	76,292
61% Other non-operating revenues	155,947	156,134	156,235	156,321	156,402	156,478	156,551	156,621	156,688	156,752	156,813	156,871	156,926	156,979	157,029	157,076	157,121	157,164	157,205
2% Shared Use Charge from EMID	7,840	8,028	8,223	8,425	8,636	8,855	9,082	9,319	9,565	9,821	10,086	10,363	10,651	10,950	11,261	11,584	11,921	12,272	12,636
Interest	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191	223,191
Total Revenues	20,370,232	20,399,837	20,429,472	20,459,137	20,488,822	20,518,527	20,548,252	20,577,997	20,607,762	20,637,547	20,667,352	20,697,177	20,727,022	20,756,887	20,786,772	20,816,677	20,846,602	20,876,547	20,906,512
EXPENSES																			
52% Pump Station O&M	119,490	123,868	128,417	133,144	138,057	143,163	148,470	153,987	159,723	165,687	171,888	178,337	185,044	192,019	199,276	206,825	214,679	222,851	231,354
64% Collection System	256,169	265,555	275,009	284,641	294,461	304,470	314,677	325,091	335,713	346,543	357,581	368,836	380,318	392,029	403,976	416,169	428,606	441,287	454,212
52% Administration O&M	441,339	457,510	474,311	491,771	509,916	528,775	548,377	568,751	589,911	611,868	634,742	658,556	683,321	709,059	735,789	763,531	792,304	822,128	853,013
52% Non-WWTP Treatment O&M	772,947	799,435	826,558	854,339	882,794	911,941	941,797	972,371	1,003,671	1,035,704	1,068,478	1,101,991	1,136,243	1,171,234	1,206,972	1,244,466	1,282,724	1,321,754	1,361,565
52% WWTP O&M	1,198,294	1,224,294	1,250,294	1,276,294	1,302,294	1,328,294	1,354,294	1,380,294	1,406,294	1,432,294	1,458,294	1,484,294	1,510,294	1,536,294	1,562,294	1,588,294	1,614,294	1,640,294	1,666,294
52% Cost Savings	30,260	31,369	32,521	33,718	34,962	36,255	37,599	38,996	40,449	41,959	43,529	45,162	46,861	48,628	50,465	52,377	54,366	56,435	58,589
21% Shared Use Charge to GWSO	1,381,942	1,439,473	1,499,250	1,561,368	1,625,825	1,692,732	1,762,097	1,833,930	1,907,351	1,983,372	2,061,004	2,141,257	2,223,142	2,306,669	2,391,848	2,488,689	2,587,202	2,687,397	2,789,184
Subtotal O&M	8,112	8,436	8,774	9,125	9,490	9,869	10,264	10,675	11,102	11,546	12,008	12,488	12,988	13,507	14,047	14,609	15,194	15,801	16,433
CIP	782,848	1,189,184	471,960	344,064	547,456	273,792	281,984	290,432	361,447	365,063	377,125	388,219	399,916	362,288	367,463	369,922	369,160	375,596	380,937
52% Admin	6,864	10,244	1,872	2,704	4,368	7,956	11,856	5,981	6,836	7,695	8,388	8,477	7,775	8,148	8,420	8,571	8,609	8,637	8,616
52% Treatment	347,296	5,620,692	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200	2,371,200
Subtotal CIP	1,145,020	6,828,428	2,853,200	355,893	561,314	291,617	304,104	359,088	431,385	436,304	399,521	411,184	422,678	435,943	436,931	437,103	444,963	452,034	458,187
Total Expenses	2,572,562	8,267,965	4,352,456	2,255,261	2,538,379	2,349,223	2,496,210	2,574,775	2,733,859	2,828,902	2,885,715	2,994,593	3,107,065	3,225,231	3,355,202	3,448,609	3,574,134	3,703,483	3,836,720
NET REVENUES	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271	\$17,840,271
Transfer to General Fund	10,402,964																		
1.00 Operating Reserve	896,262	1,024,749	1,091,393	1,518,655	2,058,657	2,876,941	3,618,580	4,272,972	4,827,245	5,364,343	5,920,489	6,407,374	6,833,790	7,192,210	7,495,792	7,738,939	7,907,368	7,996,212	8,000,319
Capital Reserve	6,541,465	1,346,830	374,403	369,502	364,500	382,711	409,926	433,845	436,304	436,304	417,913	415,670	417,422	421,126	423,760	425,666	428,078	430,740	433,485
TOTAL	7,439,707	2,371,579	1,091,393	1,893,028	2,448,158	3,241,441	4,001,301	4,681,898	5,261,089	5,800,647	6,338,402	6,823,044	7,250,212	7,613,336	7,919,553	8,164,605	8,335,446	8,426,952	8,438,803