

Attachment 5

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MEMO

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From: Sudhir D. Pardiwala

No. of Pages: 9

Date: 1/12/2010

Re: Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations –
Model I: Using City's Assumptions

Raftelis Financial Consultants, Inc. ("RFC") prepared this report for the Goleta West Sanitary District ("GWSD" or "District") to examine the financial implications to the District of the detachment proposal by the City of Goleta.

This memo, entitled "Model I," uses the assumptions offered by the City's financial analyst – Bartle Wells Associates ("BWA") – in its November 18 report to the City ("BWA Report"). A companion memo, entitled "Model II," uses the assumptions employed by RFC in its May 2009 Report to the District, updated with financial information made available following the close of Fiscal Year ("FY") 2008-09.

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Model I – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations



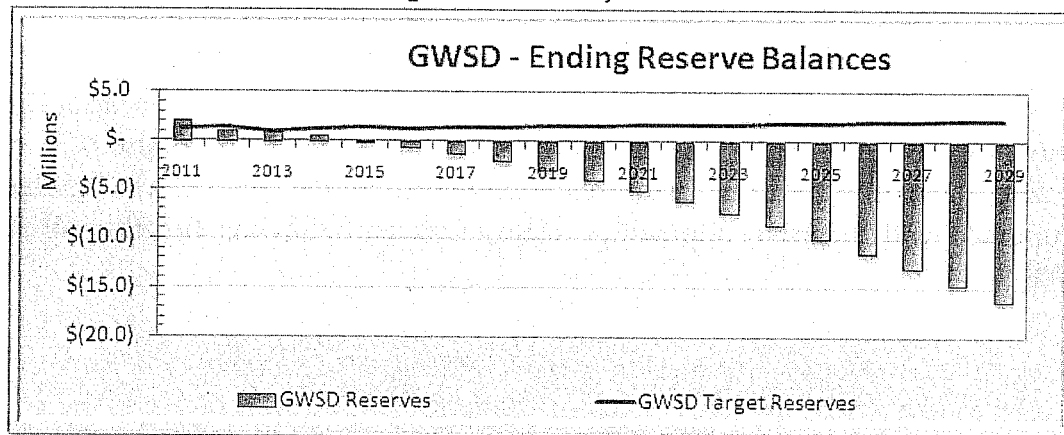
Executive Summary

Based on the City assumptions described in the next section, impacts on GWSD are as follows:

1. Single family residential sewer service charges must be increased by a single increase of 115%, from \$168/year to \$361/year, in FY 2011-12.
2. If sewer service charges are not increased as projected in paragraph 1 (perhaps because of a successful Prop 218 protest or voter approval of a ballot initiative reducing sewer charges), the District will face the following annual deficits:
 - ♦ 2011 – \$668,297
 - ♦ 2012 – \$984,470
 - ♦ 2013 – \$115,411
 - ♦ 2014 – \$415,395
 - ♦ 2015 – \$618,407

The cumulative deficit by 2028-29 will total \$19,131,552. The ending reserve balances by the end of FY 2028-29 will be a negative \$16,385,788 as shown in Figure 1 below.

Figure 1: GWSD – Projected Ending Reserve Balances after Detachment without BWA's Proposed Rate Adjustment



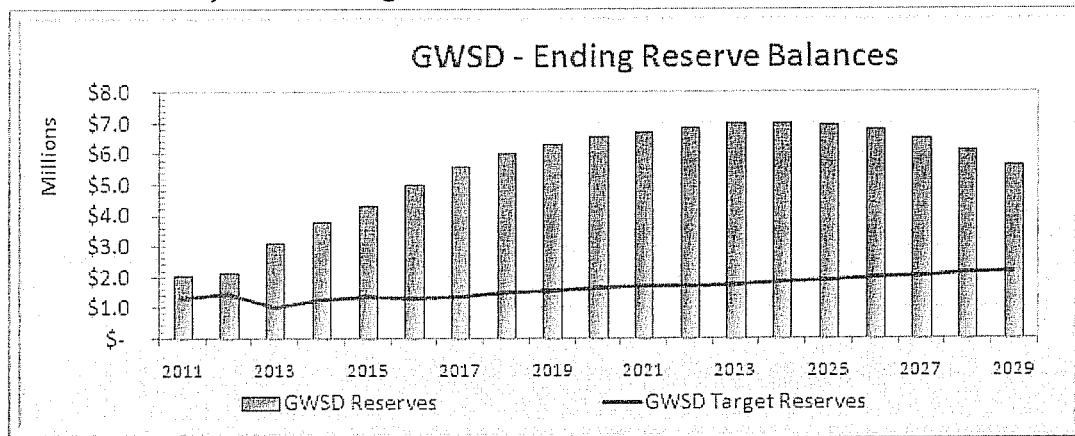
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Figure 2 projects GWSD ending reserve balances by utilizing the BWA Report.

Figure 2: GWSD – Projected Ending Reserve Balances with BWA's Proposed Rate Adjustment



Assumptions

This analysis is based on the following assumptions as stated in the BWA Report:

- ❖ GWSD pays 100% of its share of the treatment plant upgrade cost prior to the effective date of detachment. This payment is made from reserves attributable to property taxes and is \$20 million.
- ❖ GWSD retains 22% of reserves attributable to property taxes. GWSD continues to receive property taxes from properties outside the detachment area, which currently amounts to 22% of the property taxes it receives.
- ❖ GWSD retains 39% of reserves attributable to operating revenues, including connection fees. GWSD continues to receive sewer service charges, connection fees and other operating revenues attributable to properties outside the detachment area, and those revenues are estimated to be 39% of the revenues currently received.
- ❖ The City pays to GWSD a shared use charge for facilities owned by GWSD but used by the City to transmit wastewater to the treatment plant. The charge is based on (i) the pro-rata share of the actual flow attributable to City parcels as determined with a flow meter, (ii) actual O&M expenses and depreciation as determined by Goleta West.
- ❖ The O&M and capital costs for the GSD Treatment Plant will be shared 48% to GWSD and 52% to the City, based on the projected flows from each agency's properties.
- ❖ GWSD will continue to provide services to Embarcadero Municipal Improvement District ("EMID").

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Analysis

The District O&M expenses after detachment are projected as follows:

- ◆ Administration expenses are reduced by 52%;
- ◆ Pump station expenses are reduced by 52%, however O&M for pump station is not included in shared use charge;
- ◆ Collection system expenses are reduced by 64%;
- ◆ Treatment expenses are reduced by 52%; and
- ◆ Other Activities expenses are reduced to \$102,300 at the end of FY 2010-11.¹

Based on the BWA Report – Appendix II, the cumulative wastewater finances for both GWSD and the City are summarized in Table 1 below (refer to Appendix A and B of this Report for detailed wastewater finances). After detachment GWSD needs to collect at least \$16.2 million² more from its sewer rates to eliminate deficits over the 19-year study period.

Table 1: Cumulative Wastewater Finances based on BWA Report-Appendix II

Cumulative Wastewater Finances		
From beginning FY 2011 to end FY 2029	GWSD No Rate Adjustment	GWSD With Rate Adjustment
Total Sewer Revenues	\$ 17,563,612	\$ 36,694,389
Total Other Operating Revenues	\$ 1,802,032	\$ 1,802,032
Total Operating Revenues	\$ 19,365,645	\$ 38,496,421
Total Property Tax	\$ 7,910,594	\$ 7,910,594
Total Non-Operating Revenues	\$ 10,751,031	\$ 13,672,925
Total Revenues	\$ 30,116,675	\$ 52,169,347
Total O&M Expenses	\$ 41,521,518	\$ 41,521,518
Total Capital Expenses	\$ 7,726,709	\$ 7,726,709
Total Expenses	\$ 49,248,227	\$ 49,248,227
Total Net Revenues	\$ (19,131,552)	\$ 2,921,119

¹ BWA did not specify this number, thus RFC's estimates are used here.

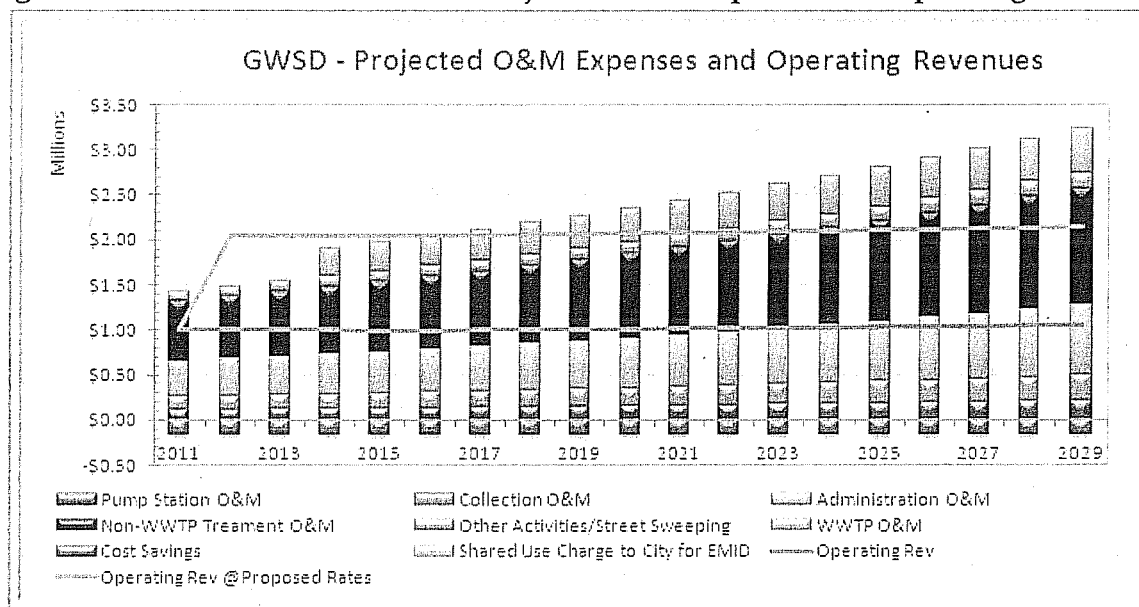
² (\$36,694,389-\$17,563,612-\$2,921,119) = \$ 16.2 million



Model I – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

Figure 3 below summarizes the projected O&M expenses for post-detachment GWSD from FY 2010-11 to FY 2028-29 based on the BWA Report. As indicated by the red line, the current operating revenues are inadequate for GWSD's projected operating expenses. The green line, which represents the operating revenues under proposed rate adjustments, exceeds the operating expenses in the first few years then starts to fall below the operating revenue requirements in the later years.

Figure 3: GWSD – Post-Detachment Projected O&M Expenses and Operating Revenues³



The District's Capital Improvement Program ("CIP") expenses are summarized below based on BWA's projections as specified in its Report. After detachment, the CIP⁴ for the remaining GWSD will be distributed as follows (see Figure 4 below):

- ◆ Treatment: 48%
- ◆ Administration: 48%
- ◆ Collection System: 36%
- ◆ Pump Station: 48%
- ◆ Other Activities/ Street Sweeping: The same as no-detachment

³ Treatment cost in FY 2013-14 is sharply increased after the new WWTP goes online FY 2012-13

⁴ The CIP schedule does not include the upfront cost for the WWTP Upgrade Project

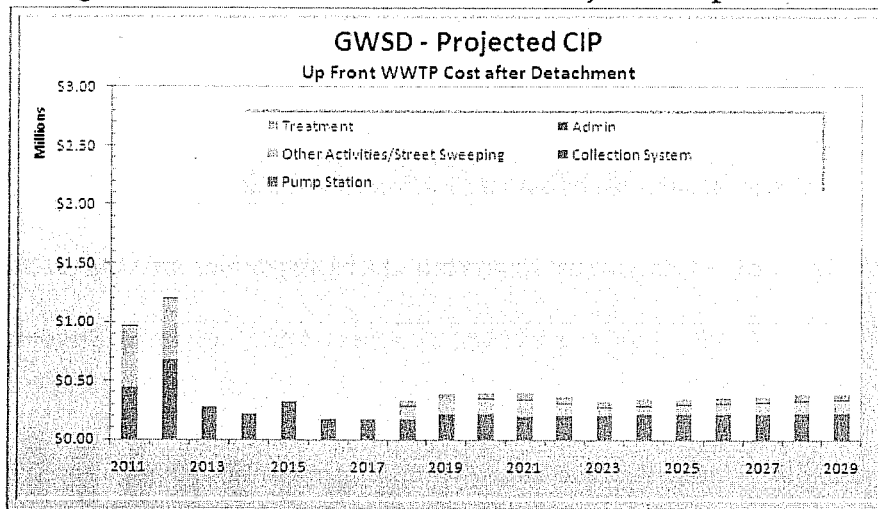
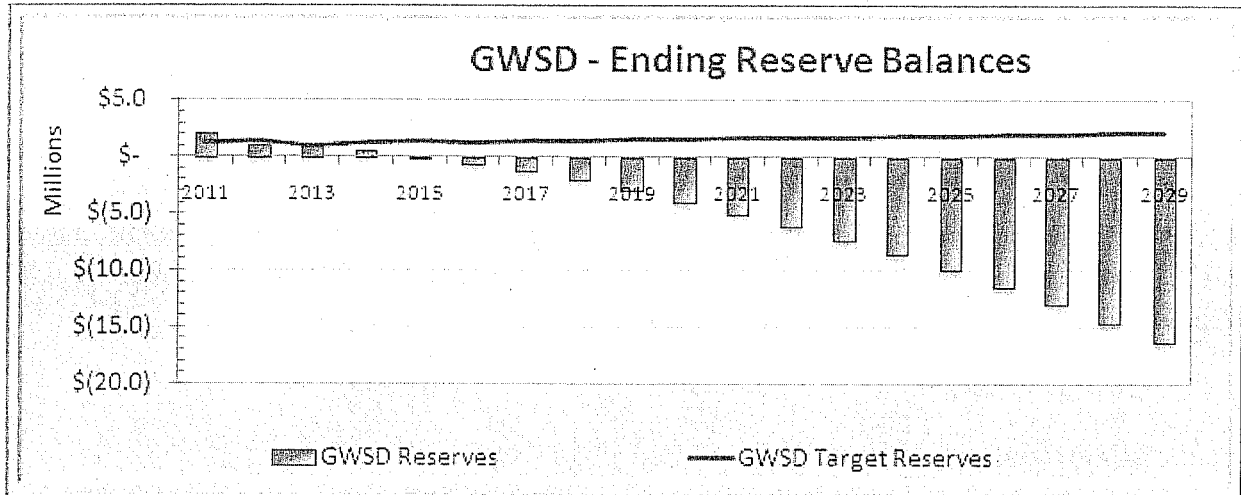
**Figure 4: GWSD – Post-Detachment Projected Capital Costs**

Figure 5 projects the total ending reserve balances of the remaining GWSD after detachment assuming no rate adjustments are made.

Figure 5: GWSD – Projected Ending Reserve Balances after Detachment without BWA's Proposed Rate Adjustment

Without detachment, the District has more property tax revenues to fund capital projects and other services, thus the District can afford to keep the sewer rates at affordable levels. However, the detachment takes away 78% of future property tax revenues from GWSD's financial sources; the BWA Report suggests that GWSD will be deeply in deficit as shown by the red line in Figure 6. In order to maintain sound financial health, the BWA Report suggested that the District increase its annual sewer user fees by 115% from its current rates of \$168 per EDU to \$361 per EDU in FY 2011-12. With the adjusted rates, the total revenues (green line in Figure 6) provide adequate funding for



Model I – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

the operating and capital expenses and still provide for reserve funding. However, in the later years (from FY 2024-25 to FY 2028-29), the proposed rates are not sufficient to recover GWSD total expenses, thus the reserves are depleting as shown by the dark brown column below horizontal axis in Figure 6.

Figure 6: GWSD – Post-Detachment Financial Plan

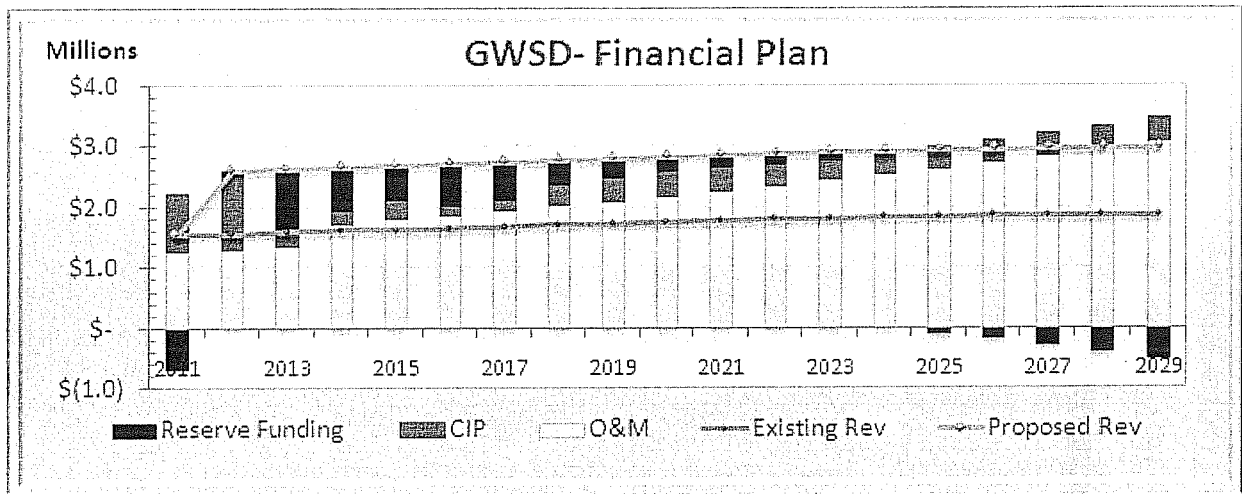
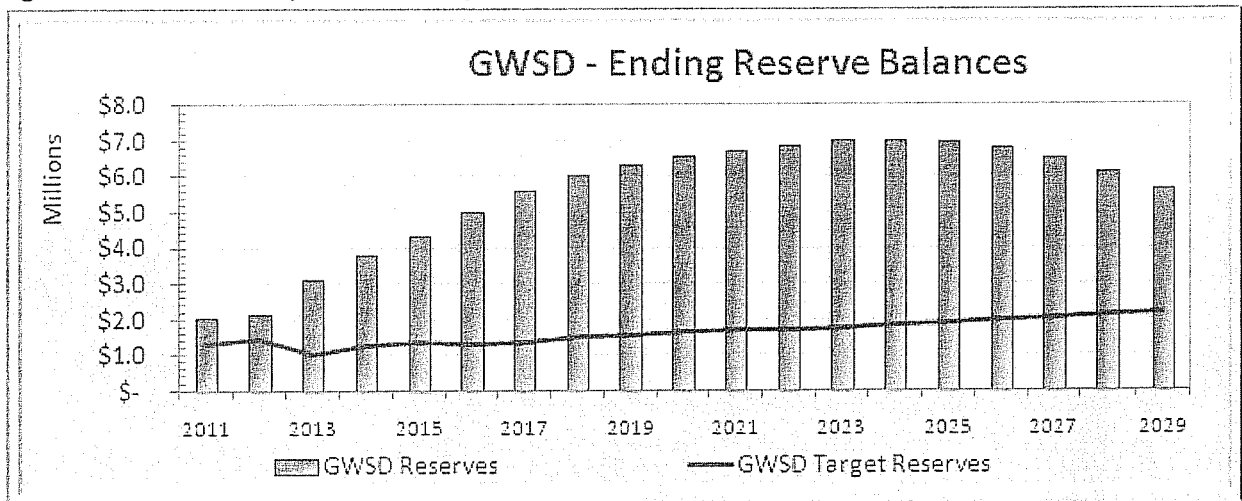


Figure 7 below shows the projected GWSD's ending reserve balances with BWA's proposed rate adjustment. The red line in Figure 7 indicates the target balances recommended for GWSD to maintain.

Figure 7: GWSD – Projected Ending Reserve Balances with BWA's Proposed Rate Adjustment



Model I – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

Appendix B – Projected GWSD Finances, Upfront WWTP Costs

Based on: BWA Report titled "Goleta West Sanitary District Financial Review" dated November 18, 2009 – Appendix II

GWSD WASTEWATER FINANCES, UPFRONT WWTP COSTS

1 REVENUES		2 OPERATING REVENUES		3 SEWER REVENUES, UNDER EXISTING RATES		4 REVENUE ADJUSTMENTS (%) EFFECTIVE MONTHS		5		6		7		8		9		10		11		12		13		14		15		16		17		18		19		20		21		22		23		24		25		26		27		28		29		30		31		32		33		34		35		36		37		38		39		40		41		42		43		44		45		46		47		48		49		50		51		52		53		54		55		56		57		58		59		60		61		62		63		64		65		66		67		68		69		70		71		72		73		74		75		76		77		78		79		80		81		82		83		84		85		86		87		88		89		90		91		92		93		94		95		96		97		98		99		100		101		102		103		104		105		106		107		108		109		110		111		112		113		114		115		116		117		118		119		120		121		122		123		124		125		126		127		128		129		130		131		132		133		134		135		136		137		138		139		140		141		142		143		144		145		146		147		148		149		150		151		152		153		154		155		156		157		158		159		160		161		162		163		164		165		166		167		168		169		170		171		172		173		174		175		176		177		178		179		180		181		182		183		184		185		186		187		188		189		190		191		192		193		194		195		196		197		198		199		200		201		202		203		204		205		206		207		208		209		210		211		212		213		214		215		216		217		218		219		220		221		222		223		224		225		226		227		228		229		230		231		232		233		234		235		236		237		238		239		240		241		242		243		244		245		246		247		248		249		250		251		252		253		254		255		256		257		258		259		260		261		262		263		264		265		266		267		268		269		270		271		272		273		274		275		276		277		278		279		280		281		282		283		284		285		286		287		288		289		290		291		292		293		294		295		296		297		298		299		300		301		302		303		304		305		306		307		308		309		310		311		312		313		314		315		316		317		318		319		320		321		322		323		324		325		326		327		328		329		330		331		332		333		334		335		336		337		338		339		340		341		342		343		344		345		346		347		348		349		350		351		352		353		354		355		356		357		358		359		360		361		362		363		364		365		366		367		368		369		370		371		372		373		374		375		376		377		378		379		380		381		382		383		384		385		386		387		388		389		390		391		392		393		394		395		396		397		398		399		400		401		402		403		404		405		406		407		408		409		410		411		412		413		414		415		416		417		418		419		420		421		422		423		424		425		426		427		428		429		430		431		432		433		434		435		436		437		438		439		440		441		442		443		444		445		446		447		448		449		450		451		452		453		454		455		456		457		458		459		460		461		462		463		464		465		466		467		468		469		470		471		472		473		474		475		476		477		478		479		480		481		482		483		484		485		486		487		488		489		490		491		492		493		494		495		496		497		498		499		500		501		502		503		504		505		506		507		508		509		510		511		512		513		514		515		516		517		518		519		520		521		522		523		524		525		526		527		528		529		530		531		532		533		534		535		536		537		538		539		540		541		542		543		544		545		546		547		548		549		550		551		552		553		554		555		556		557		558		559		560		561		562		563		564		565		566		567		568		569		570		571		572		573		574		575		576		577		578		579		580		581		582		583		584		585		586		587		588		589		590		591		592		593		594		595		596		597		598		599		600		601		602		603		604		605		606		607		608		609		610		611		612		613		614		615		616		617		618		619		620		621		622		623		624		625		626		627		628		629		630		631		632		633		634		635		636		637		638		639		640		641		642		643		644		645		646		647		648		649		650		651		652		653		654		655		656		657		658		659		660		661		662		663		664		665		666		667		668		669		670		671		672		673		674		675		676		677		678		679		680		681		682		683		684		685		686		687		688		689		690		691		692		693		694		695		696		697		698		699		700		701		702		703		704		705		706		707		708		709		710		711		712		713		714		715		716		717		718		719		720		721		722		723		724		725		726		727		728		729		730		731		732		733		734		735		736		737		738		739		740		741		742		743		744		745		746		747		748		749		750		751		752		753		754		755		756		757		758		759		760		761		762		763		764		765		766		767		768		769		770		771		772		773		774		775		776		777		778		779		780		781		782		783		784		785		786		787		788		789		790		791		792		793		794		795		796		797		798		799		800		801		802		803		804		805		806		807		808		809		810		811		812		813		814		815		816		817		818		819		820		821		822		823		824		825		826		827		828		829		830		831		832		833		834		835		836		837		838		839		840		841		842		843		844		845		846		847		848		849		850		851		852		853		854		855		856		857		858		859		860		861		862		863		864		865		866		867		868		869		870		871		872		873		874		875		876		877		878		879		880		881		882		883		884		885		886		887		888		889		890		891		892		893		894		895		896		897		898		899		900		901		902		903		904		905		906		907		908		909		910		911		912		913		914		915		916		917		918		919		920		921		922		923		924		925		926		927		928		929		930		931		932		933		934		935		936		937		938		939		940		941		942		943		944		945		946		947		948		949		950		951		952		953		954		955		956		957		958		959		960		961		962		963		964		965		966		967		968		969		970		971		972		973		974		975		976		977		978		979		980		981		982		983		984		985		986		987		988		989		990		991		992		993		994		995		996		997		998		999		1000		1001		1002		1003		1004		1005		1006		1007		1008		1009		1010		1011		1012		1013		1014		1015		1016		1017		1018		101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RAFTELIS FINANCIAL CONSULTANTS, INC.

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MEMO

To: Mark Nation
General Manager
Goleta West Sanitary District
P.O. Box 4
Goleta, CA 93116-0004

From: Sudhir D. Pardiwala

No. of Pages: 9

Date: 1/12/2010

Re: Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations –
Model II: Using GWSD's Assumptions

Raftelis Financial Consultants, Inc. ("RFC") prepared this report for the Goleta West Sanitary District ("GWSD" or "District") to examine the financial implications to the District of the detachment proposal by the City of Goleta.

This memo, entitled "Model II," uses the assumptions employed by RFC in its May 2009 Report to the District ("RFC Report"), updated with financial information made available following the close of Fiscal Year ("FY") 2008-09. A companion memo, entitled "Model I," uses the assumptions offered by the City's financial consultant – Bartle Wells Associates ("BWA") – in its November 18 report to the City.

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Model II – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations



Executive Summary

Using GWSD assumptions described in the next section, impacts on GWSD are as follows:

1. Single family residential sewer service charges at GWSD must be cumulatively increased by 241% to \$572 by FY 2028-29 to cover the system costs. The rate increase schedule is as follows:

♦ 2011	30%	\$218
♦ 2012	30%	\$284
♦ 2013	20%	\$341
♦ 2014	8%	\$368
♦ 2015	8%	\$397
♦ 2016	4%	\$413
♦ 2017-2027	3% per year	\$572
♦ 2027-2029	0%	\$572

2. If sewer service charges are not increased as projected in paragraph 1 (perhaps because of a successful Prop 218 protest or voter approval of a ballot initiative reducing sewer charges), the District will face the following annual deficits:

♦ FY 2010-11	– \$156,409
♦ FY 2011-12	– \$238,384
♦ FY 2012-13	– \$565,529
♦ FY 2013-14	– \$662,627
♦ FY 2014-15	– \$682,065

The cumulative deficit by FY 2028-29 will total \$19,621,724. The ending reserve balance by the end of FY 2028-29 will be a negative \$29,698,333 as shown in Figure 1.



Figure 1: GWSD – Projected Ending Reserve Balances after Detachment without Rate Adjustments

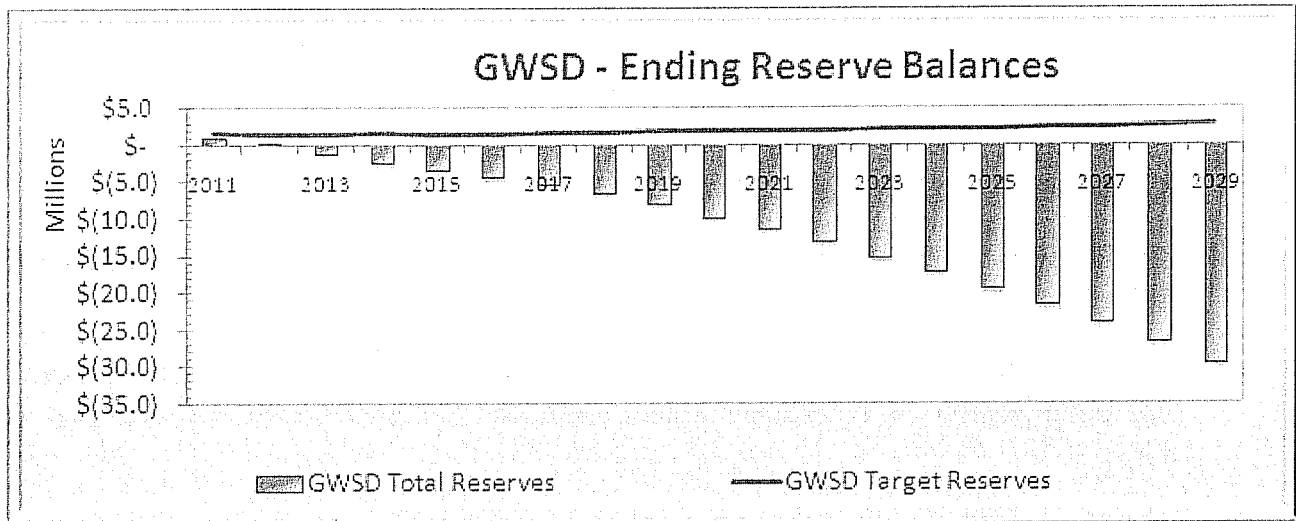
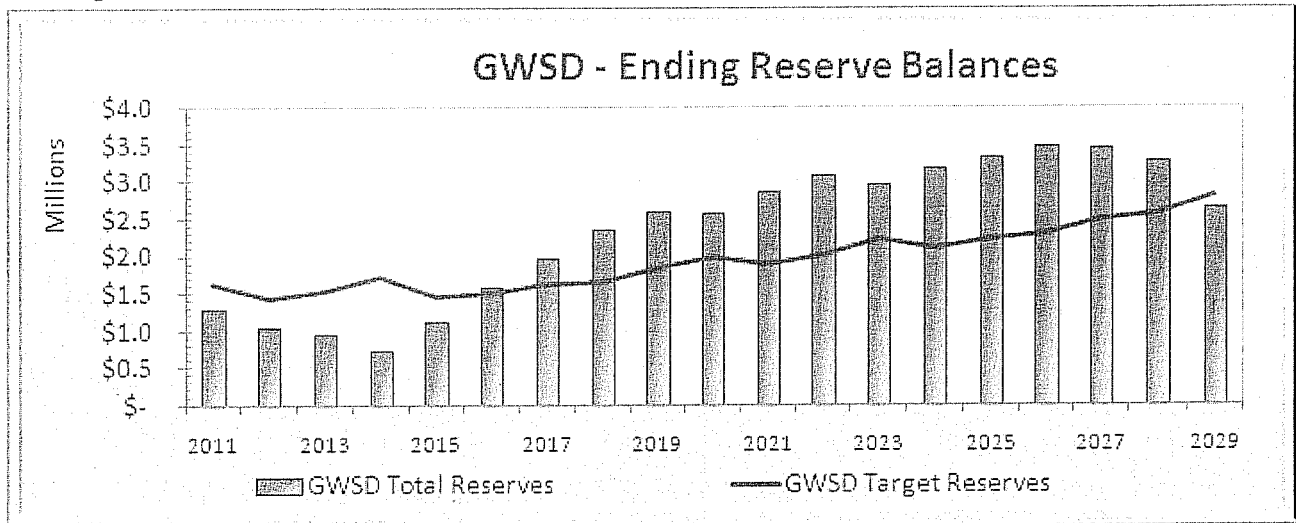


Figure 2 projects GWSD ending reserve balances using the proposed rate adjustments specified in paragraph 1 above

Figure 2: GWSD – Projected Ending Reserve Balances with Proposed Rate Adjustments



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Model II – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations



Assumptions

This analysis is based on the following assumptions as stated in the RFC Report:

- ◆ The Wastewater Treatment Plant ("WWTP") Upgrade Project will be funded up front using GWSD's property tax reserves;
- ◆ GWSD will retain 22% of property tax reserves and future property tax revenues;
- ◆ GWSD will retain 39% of operations and connection fee reserves and future sewer revenues;
- ◆ GWSD will receive wheeling charges from the City for the O&M and capital expenses of the pump stations and collection system owned by GWSD but used and shared by the City;
- ◆ The City of Goleta will provide services to Embarcadero Municipal Improvement District ("EMID"); and
- ◆ The O&M and capital costs for the GSD Treatment Plant will be allocated 48% to GWSD and 52% to the City, based on the projected flows from each agency's properties.

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Model II – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

Analysis

The District O&M expenses are projected as follows:

- ◆ Administration expenses are reduced by 33%;
- ◆ Pump stations expenses have no reduction but O&M costs will be partially recovered from wheeling charges based on actual utilization;
- ◆ Collection system expenses are reduced 33% for personnel, and have no reduction in operating expenses;
- ◆ Treatment expenses are reduced by 52%; and
- ◆ Other Activities expenses are reduced to \$102,300 at the end of FY 2010-11.

In 2009, the District incurred some unusually high expenses from non recurring activities, such as professional services due to the detachment process. Using Budget FY 2009-10 as the base year for projections will result in overestimated O&M costs in future years. Thus, RFC continues to use the Budget FY 2008-09 as the basis of the O&M projections as shown in Figure 3 below. The detachment will reduce GWSD O&M expenses from \$3.1 million in FY 2009-10 to \$1.7 million in FY 2010-11 (or 44% reduction), yet the operating revenues are projected to be reduced from \$2.4 million to \$1.2 million¹ (or 51% reduction). If all property tax revenues are used to pay for capital expenses, the District will need to raise \$26.9 million in operating revenues through sewer rates during the 19-year study period (FY 2010-11 to FY 2028-29) after detachment to recover the operating deficit.

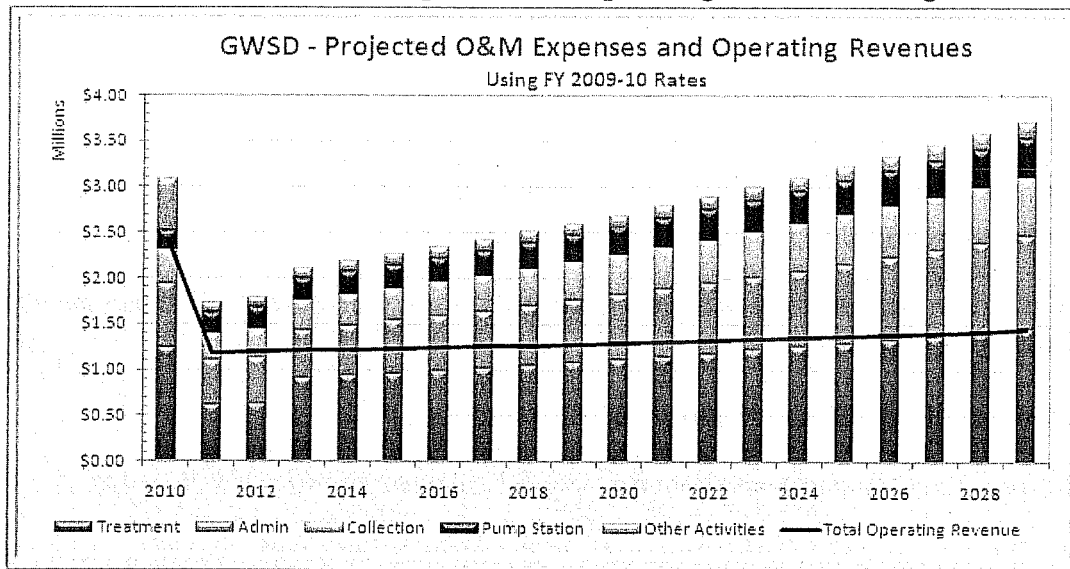
¹ Includes estimated O&M wheeling charges in FY 2010-11 of \$212,000

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Model II – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

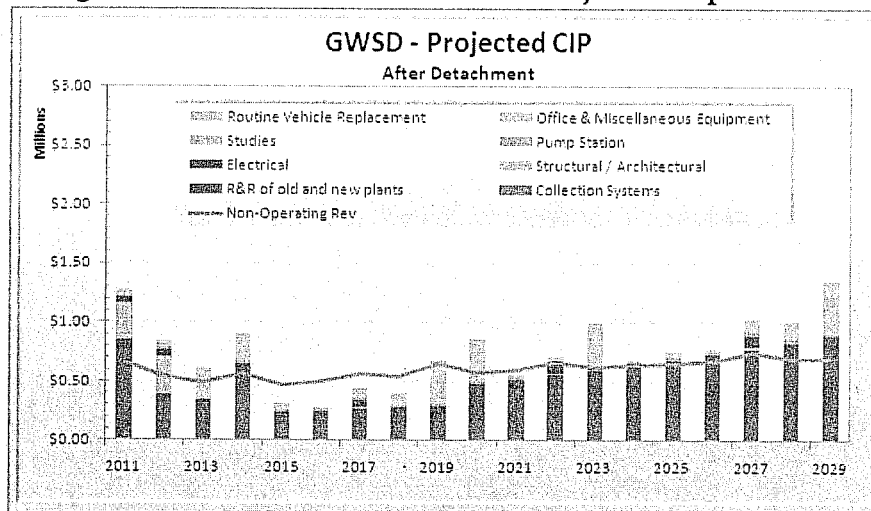


Figure 3: GWSD – Projected O&M Expenses and Operating Revenues using FY 2009-10 Rates²



The District's Capital Improvement Program ("CIP") expenses are projected based on the 2007 Wastewater Master Plan and historical replacement and refurbishment ("R&R") shared costs of the GSD WWTP. After detachment, based on certain parameters, such as flows for treatment capital costs, by pipe lengths and locations for the collection system, a portion of the CIP will be GWSD's responsibility. The projected GWSD CIP³ for the 19-year study period after detachment is shown in Figure 4 below.

Figure 4: GWSD – Post Detachment Projected Capital Costs



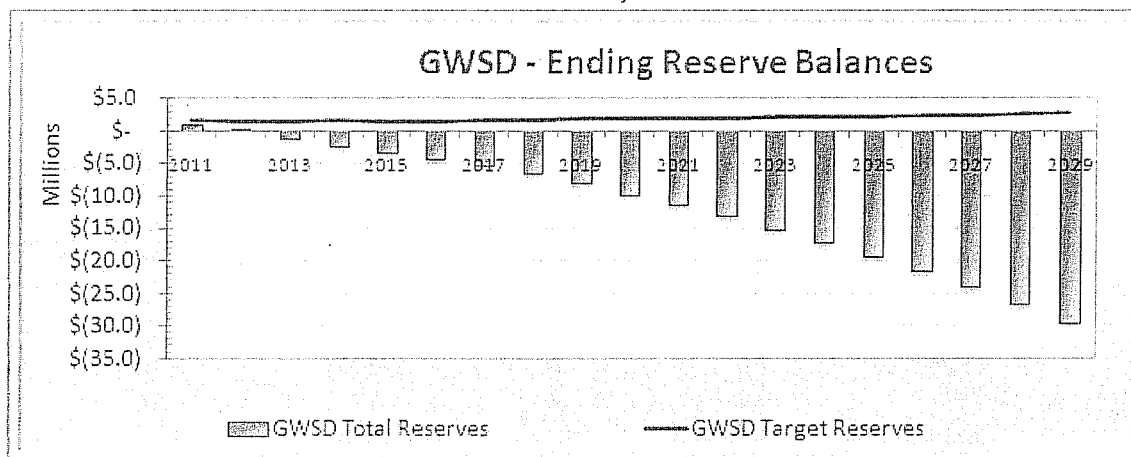
² Treatment Cost in FY 2012-13 is sharply increased after the new WWTP goes online that year

³ The CIP schedule does not include the upfront cost for the WWTP Upgrade Project



The non-operating revenues after detachment will be reduced from \$2.37 million in FY 2009-10 to \$400,460⁴ in FY 2010-11 (or 83% reduction⁵). The red line in Figure 4 represents the projected non-operating revenues of post-detachment GWSD. The non-operating revenues alone are inadequate to cover the annual capital expenditures for the remaining GWSD. Thus, the capital reserves will be depleted very quickly without rate adjustments or debt issues. Figure 5 projects the total ending reserve balances of the remaining GWSD after detachment assuming no rate adjustments are made.

Figure 5: GWSD – Projected Ending Reserve Balances after Detachment without Rate Adjustments



Without detachment, the District has more property tax revenues to fund capital projects and other services, thus the District can afford to keep the sewer rates at affordable levels. However, the detachment takes away 78% of future property tax revenues from GWSD's financial sources. GWSD will be deeply in deficit for capital financing as shown in Figure 5 above. The detachment also takes away 61% of sewer revenues, while the total operating and maintenance expenses are only reduced by 44%, thus the operating finances will be in deficit as well. In order to operate in a financially sound manner, the District will have to raise its sewer rates significantly to adequately cover operating deficits and to start funding capital costs keeping the reserves at recommended levels.

After revising the GWSD financial plan with updated data, RFC proposes a rate adjustment schedule as shown in Table 1 below that will ensure financial sufficiency and smooth out the customer impacts for post-detachment GWSD. The higher rate adjustments in earlier years help to rebuild the reserve levels, thus lowering rate adjustments in later years are required.

⁴ Includes property tax, interest income and capital wheeling charges (pump station CIP & collection system CIP)

⁵ Due to losses of 78% property tax revenues and smaller interest incomes from lower reserves

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Model II – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

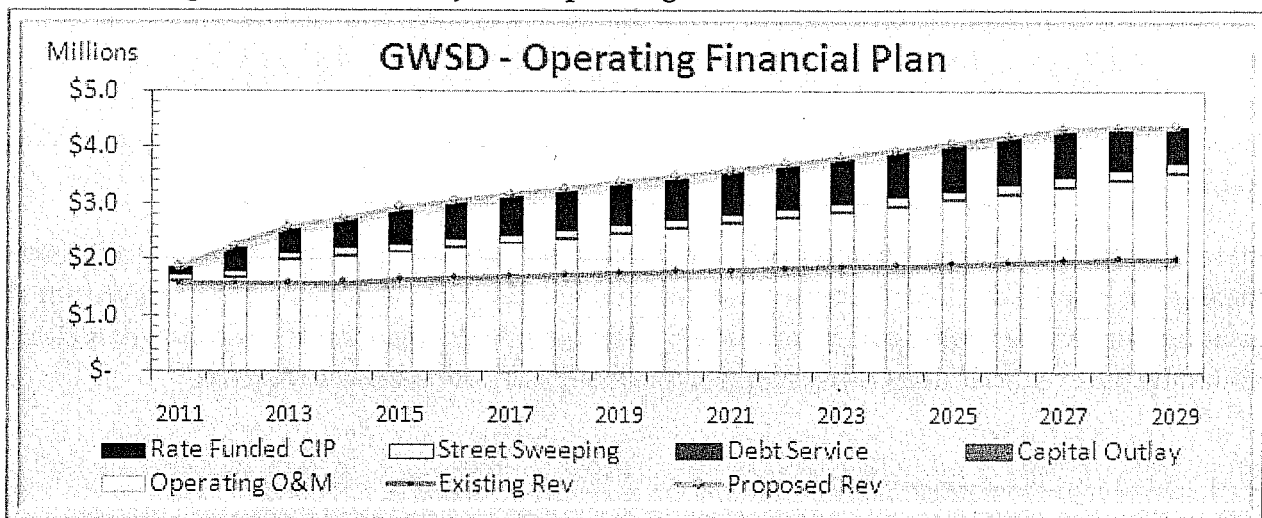


Table 1: GWSD – Proposed Rate Adjustments and Sewer Rates with and without Detachment

Fiscal Year	GWSD Rate adjustments		GWSD Sewer Rates	
	Proposed	No Detachment	Proposed	No Detachment
2010	0%	0%	\$168	\$168
2011	30%	0%	\$218	\$168
2012	30%	0%	\$284	\$168
2013	20%	4%	\$341	\$175
2014	8%	4%	\$368	\$182
2015	8%	4%	\$397	\$189
2016	4%	4%	\$413	\$197
2017	3%	4%	\$426	\$204
2018	3%	4%	\$438	\$213
2019	3%	4%	\$452	\$221
2020	3%	4%	\$465	\$230
2021	3%	4%	\$479	\$239
2022	3%	4%	\$493	\$249
2023	3%	4%	\$508	\$259
2024	3%	4%	\$524	\$269
2025	3%	4%	\$539	\$280
2026	3%	4%	\$555	\$291
2027	3%	4%	\$572	\$303
2028	0%	4%	\$572	\$315
2029	0%	4%	\$572	\$327

Figure 6 shows that under proposed rates (green line), GWSD will adequately recover its operating costs and start funding its capital projects as indicated by the positive dark brown columns.

Figure 6: GWSD – Projected Operating Financial Plan Post-Detachment

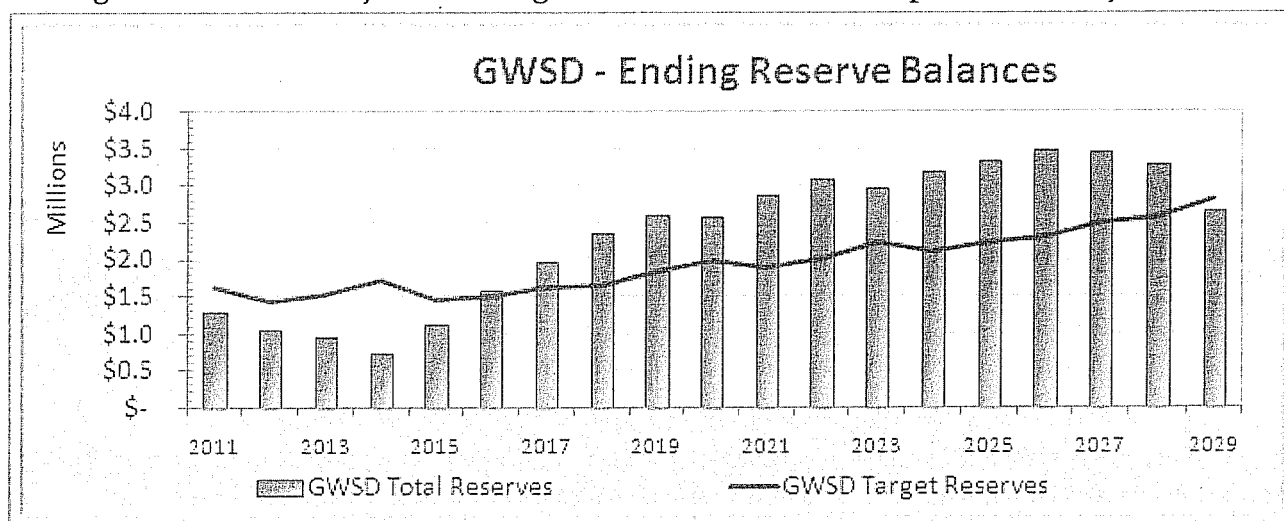




Model II – Goleta West Sanitary District: Financial Outlook for Post-Detachment Operations

The ending reserve balances with the proposed rate adjustments are shown in Figure 7. The red line indicates the recommended target levels, where the red column is the projected ending balance. The ending balances are not required to meet target levels in all years, but it is recommended to be reasonably close to target levels to maintain sound financial health. The updated reserve balances are lower than those projected in the previous study⁶, thus the rate adjustments are higher in earlier years where most of the major capital expenditures occur. By FY 2028-29, the proposed sewer rate will be \$572 per EDU, same as the results from the detachment Study Report submitted by RFC in May 2009. The rates after Detachment are significantly higher than the adjusted rates under No Detachment Scenario projected by the Reserve Policy Study Report submitted by RFC in November 17, 2008.

Figure 7: GWSD – Projected Ending Reserve Balances with Proposed Rate Adjustments



⁶ Detachment Study Report submitted by RFC in May 2009

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MEMO

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From: Sudhir D. Pardiwala

No. of Pages: 17

Date: 1/18/2010

Re: Comments on Goleta West Sanitary District Financial Review Report Submitted by Bartle Wells Associates

The Goleta West Sanitary District ("Goleta West" or "GWSD") engaged Raftelis Financial Consultants, Inc ("Raftelis") to review the Report to the City of Goleta ("City") dated November 18, 2009 from Bartle Wells Associates ("Bartle Wells") entitled "DRAFT Goleta West Sanitary District Financial Review" ("Bartle Wells Report"). The purpose of this analysis is to compare the conclusions reached by Bartle Wells to those reached by Raftelis in its report to GWSD dated May 6, 2009 ("Raftelis May Report").

Our analysis finds that the Bartle Wells Report includes a number of conclusions which are based on erroneous or unsupportable assumptions. The most significant of these questionable conclusions are the following:

1. **Rate Increases for City Residents.** The Bartle Wells Report predicts no rate increases for City customers currently served by GWSD. The Raftelis May Report predicts a rate increase for single family customers in the City from \$168 per year to \$353 per year over a five-year period. The difference between these predictions reflects the fact that different assumptions are used by the two reports.

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Comments on Goleta West Sanitary District Financial Review Report Submitted by BWA



- a. Use of Property Taxes. The Raftelis May Report assumes that the City will use reallocated property taxes for general city services such as police and parks. That assumption was based on official city statements. The Bartle Wells Report uses a diametrically opposite assumption: that reallocated property taxes would be used for sewer system operations, as is the case with GWSD's current operations. If the Bartle Wells assumption is correct, then one of the major justifications publicly offered by the City for the detachment disappears. On the other hand, if the City's public statements are taken at face value, and the property tax revenues are used for other City services, this factor alone will cause sewer charges for City customers to increase by 75% over the study period (2011-2029).
- b. Amount of Property Taxes Gained by City. The Bartle Wells Report assumes that the City would receive 100% of the property taxes currently paid to Goleta West by parcels in the detachment area. This assumption is unsupportable given the fact that the 2002 Revenue Neutrality Agreement between the City and the County includes a provision that transfers 70% of any reallocated property taxes to the County.

If the County receives 70% of the reallocated taxes, sewer rates for City residents will certainly increase after detachment.

2. Cost Savings. Bartle Wells estimates that \$960,000 in O&M costs could be saved if detachment occurs. We have found that this savings projection is significantly overstated. It was determined by erroneously treating short-term costs as recurring expenses, and by overstating other project cost savings strategies. As a result of these errors, the Bartle Wells Report understates the costs to be incurred by the City and finds "savings" where there are none.
3. Pump Station Cost Allocations. Bartle Wells erroneously allocated the costs of the Emily Pump Station. As a result of the error, the Bartle Wells Report understates the costs to be incurred by the City.
4. Future Capital Costs. There are two significant differences between the Bartle Wells and the Raftelis analysis of future capital costs:
 - a. Use of Wastewater Master Plan. Bartle Wells developed its 20-year *pro forma* assuming that future capital expenditures will mirror past capital expenditures. This assumption is unsupportable because it ignores the fact that much of the Goleta West infrastructure is nearly 50 years old, and thus future capital replacement and rehabilitation costs are likely to be significantly higher than past expenditures. The assumption also fails to consider Goleta West's 2007 Wastewater Master Plan which examined the hydraulic

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capacity and condition of various capital facilities and presented a prudent plan for maintenance and upgrade of those facilities.

The Raftelis May Report was based on Goleta West's 2007 Wastewater Master Plan. In our judgment, this is a more reliable basis for projecting future capital needs.

- b. Pipeline Replacement Costs. Bartle Wells assumes that sewer lines can be replaced at a cost of approximately \$3.00 per linear foot for each inch of pipeline diameter. Raftelis uses \$11.00 for the same calculation. The Raftelis cost is based on actual replacement costs and reflects the fact that Goleta West will continue to carry the responsibility for maintenance of the system's largest lines, which cost more to operate, maintain and replace than smaller lines.
5. Reserve Fund Issues. The Bartle Wells Report overestimates the reserves which are available for allocation to the City. The error is the result of an underestimation of the amounts still owed by Goleta West for the WWTP upgrade project.
6. EMID¹'s Collection System. Bartle Wells points out that EMID will continue to function as an independent special district, and from this fact assumes that the City will not be responsible for service to EMID, including O&M of the EMID collection system. Given LAFCO²'s guiding principles, we think this assumption is ill-founded. And, if this assumption turns out to be wrong, the City will be required to assume significant responsibilities and expenses which are not analyzed in the Bartle Wells Report.
7. Rate Increases: Isla Vista Residents. The Bartle Wells Report predicts a rate increase for Isla Vista customers. Single family residential rates are predicted to increase from \$168/year to \$360/year in one year. The Raftelis May Report predicts a more gradual and smaller but still significant rate increase from \$168/year to \$309/year over a five-year period.

¹ EMID – Embarcadero Municipal Improvement District

² LAFCO – Local Agency Formation Commission



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Comparisons of Fundamental Assumptions used by Raftelis and Bartle Wells

Table 1 below summarizes the differences in fundamental assumptions used in Raftelis and Bartle Wells reports.

Table 1: Summary of differences in fundamental assumptions used by Raftelis and Bartle Wells

No	Assumptions used by Raftelis	Assumptions used by Bartle Wells
1	Property tax revenues from detachment area are reallocated from Goleta West to City and are used by City for general purposes (not sewer system O&M or capital).	Property tax revenues from detachment area are reallocated from Goleta West to City and are used for sewer system O&M and capital. Also assumes no split of taxes with County.
2	Uses 2008-09 budget which is more typical of normal operations because does not include one-time or short term O&M expenses	Uses 2009-2010 budget despite the fact that it includes one-time or short term O&M expenses attributable to detachment or Underground Storage Tank ("UST") issues.
3	Uses GWSD's CIP ³ proposed in the 2007 Wastewater Master Plan to project capital expenditures	Uses Bartle Wells' estimates based on historical spending in each category of capital projects to project capital expenditures
4	EMID service is assumed by City in order to promote orderly utility service per LAFCO policies.	EMID service continues to be provided by GWSD.
5	GSD ⁴ WWTP ⁵ Upgrade Project Total Cost of \$20 million is assumed to be paid upfront by end of Fiscal Year ("FY") 2009/10	GSD WWTP Upgrade Project Cost of \$16 million is assumed to be paid upfront by end of Fiscal Year 2009/10
6	GWSD's reserve balances as of 6/30/2008 provided by GWSD are used to project 6/30/2010 reserve balances.	GWSD's reserve balances provided by BP&W ⁶ as of 6/30/2009 are used to project 6/30/2010 reserve balances.
7	O&M and capital costs for "Emily" and "Main" pump stations are allocated between GWSD and City based on actual utilization.	O&M and capital costs for "Emily" and "Main" pump stations are allocated between GWSD and City based on 52% - 48% formula, irrespective of actual usage of those facilities.

³ CIP – Capital Improvement Plan

⁴ GSD – Goleta Sanitary District

⁵ WWTP – Wastewater Treatment Plant

⁶ BP&W – Bartlett, Pringle & Wolf, LLP

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Detailed Discussion

1. Rate Increase for City Residents

The Bartle Wells Report predicts no rate increases for City customers currently served by Goleta West. The Raftelis May Report predicts a rate increase for single family customers in the City from \$168 per year to \$353 per year over a five-year period (2010-2015). The Bartle Wells Report makes two critical assumptions concerning property taxes in reaching its conclusion that detachment will not result in a rate increase for City residents:

- ◆ It assumes that 100% of the property tax revenues generated by parcels in the detachment area and currently received by Goleta West would be reallocated to the City, with no share going to the County under the Revenue Neutrality Agreement.
- ◆ It assumes that 100% of those tax revenues would be used to support sewer system O&M and capital needs.

These two assumptions are reflected in the two spreadsheets attached to the Bartle Wells Report titled "Appendix II" and Appendix III."

The Raftelis May Report is built on a different assumption: that the City intends to cover 100% of the sewer system costs through user fees and will not use property taxes for the purpose. This assumption is based on the City Council Resolution adopted Feb. 3, 2009 and the staff report which accompanied it.

The two assumptions in the Bartle Wells Report concerning property tax revenues are questionable for at least two reasons:

- ◆ First, the existing 2002 Revenue Neutrality Agreement provides that any property taxes reallocated from Goleta West to the City be shared with the County, with 70% of the taxes going to the County and 30% to the City. The Bartle Wells Report does not discuss the Revenue Neutrality Agreement nor does it explain how this 70%/30% provision will be avoided.

If the 70%/30% split is implemented, then the City will receive \$380,000 in property taxes annually, not the \$1.28 million assumed in the Bartle Wells Report. Making just this one adjustment will make it impossible for the City to avoid a rate increase for City customers if detachment occurs.

- ◆ Second, if 100% of the property tax revenues are used for sewer system O&M and capital needs, then no revenues will be left for other city services such as parks and police. This

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Comments on Goleta West Sanitary District Financial Review Report Submitted by BWA



result contradicts one of the major reasons given by the City for pursuing detachment, i.e., that property taxes should be used for "general city services" and not utility services.

2. Projected Cost Savings are Overstated

In reaching its conclusion that no rate increase would be needed for City residents, the Bartle Wells Report calculates that the City can realize annual O&M savings of \$960,000 compared to Goleta West's operations. We believe that this savings calculation is substantially overstated, for the following reasons.

First, the Bartle Wells Report projects future O&M expenses by erroneously including the following non-recurring expenses occurring in 2009-10:

- ♦ Legal: In recent years, the District has incurred approximately \$125,000⁷ per year in legal expenses (FY 06/07 and FY 07/08) and budgeted \$469,000 in FY 2009/10⁸, which is \$344,000 above the "normal" level. It is not surprising that the legal services budget in FY 2009/10 is significantly higher than the FY 06/07 and FY 07/08 budgets due to the numerous legal issues pertaining to detachment. Sound budgeting practice requires exclusion of these short-term expenses in developing long-term expense projections.⁹ Bartle Wells Report overstates the projected annual O&M expenses by approximately \$344,000. These legal fees are embedded in the Administration and Other line items in Table 2 below.
- ♦ Underground Storage Tank Removal Program: The District is incurring extraordinary expenses in FY 2009/10 related to removal of underground storage tanks. These expenses will not recur. Bartle Wells Report overstated the projected annual contractual expenses by approximately \$166,000.

Table 2 below shows the O&M expenses in FY 2010/11 with and without non-recurring expenses using GWSD Budget FY 2009/10. Including the non-recurring expenses results in overstating the O&M expenses by approximately \$510,000 per year (rounded from \$509,874).

⁷ \$90,000 (in Administration) + \$35,000 (in Other Activities) = \$125,000

⁸ \$206,000 (in Administration) + \$262,650 (in Other Activities) = \$468,650, rounded to \$469,000

⁹ The Bartle Wells Report acknowledges that the budget for these items in Fiscal 2009/10 is "abnormally high" (see page 10 of Bartle Wells Report), yet does not exclude them from the projections of future expenses. No explanation is offered in the report for assuming these expenses will continue into the future.

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Comments on Goleta West Sanitary District Financial Review Report Submitted by BWA

**Table 2: Projected FY 2010/11 O&M Expenses with and without Non-Recurring Expenses**

	Projected FY 2010/11 O&M Expenses based on FY 2009/10 Budget		Overstated Expenses
	Excludes non- recurring Expenses	Includes non- recurring Expenses	
Administration excluding Legal Fees	\$ 646,488	\$ 646,488	\$ -
Legal Fees in Administration	\$ 90,000	\$ 206,000	\$ 116,000
Collection	\$ 403,464	\$ 403,464	\$ -
Pump Station ¹	\$ 231,621	\$ 231,621	\$ -
Treatment	\$ 1,381,493	\$ 1,381,493	\$ -
Other Activities excluding Prof Services	\$ 282,825	\$ 449,049	\$ 166,224
Prof Services in Other Activities	\$ 35,000	\$ 262,650	\$ 227,650
Total	\$ 3,070,891	\$ 3,580,765	\$ 509,874

Second, Bartle Wells projects FY 2010/11 Administration and Other Activities expenses of \$848,700¹⁰ and \$711,699, respectively. Based on these expenses, Bartle Wells projected cost savings of \$600,000 (rounded from \$599,690). However, these expenses include professional services (including Legal) expenses on which the savings were already computed separately (see page 23 of the Bartle Wells Report). Bartle Wells double counts the savings on these professional services expenses shown in the Table 3 below.

¹⁰ On page 23 of the Bartle Wells Report, Administration Expenses are projected to be \$848,700 in FY 2010/11. However, Raftelis projects Administration cost of \$852,488 using GWSD Budget FY 2009/10 and the same cost escalation factors as specified in Bartle Wells Report.

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Comments on Goleta West Sanitary District Financial Review Report Submitted by BWA



Table 3: BWA Overstated Cost Savings in "Administration" and "Other Activities"

	FY 2010/11 Expenses	RFC Estimated Cost Savings ⁽¹⁾	Cost Savings in Bartle Wells Report	Overstated Savings
Total Administration ⁽²⁾	\$ 848,700	\$ 83,551	\$ 110,331	\$ 26,780
Administration excluding Legal Fees	\$ 642,700	\$ 83,551	\$ 83,551	\$ -
Legal Fees	\$ 206,000	already accounted	\$ 26,780	\$ 26,780
Total Other Activities ⁽³⁾	\$ 711,699	\$ 279,239	\$ 489,359	\$ 210,120
Other Activities	\$ 449,049	\$ 279,239	\$ 279,239	\$ -
Prof Services	\$ 262,650	already accounted	\$ 210,120	\$ 210,120
Total Admin & Other Activities	\$ 1,560,399	\$ 362,790	\$ 599,690	\$ 236,900

¹ Estimated using the assumptions on cost savings specified in Bartle Wells Report as stated in notes 2 and 3

² Administration = \$848,700 (from Bartle Wells Report) = Legal Fees (\$206,000) + Other Admin (\$642,700)
 Using City's share of 52% and Bartle Wells' assumed savings of 25% of the City's share, RFC estimates savings as follows:
 Estimated Cost Savings: $\$642,700 \times 52\% \times 25\% = \$83,551$
 Cost Savings in Bartle Wells Report : $\$848,700 \times 52\% \times 25\% = \$110,331$ or rounded to \$110,000

³ Other Activities = \$711,699 (from Bartle Wells Report) = Professional Services (\$262,650) + Other Activities (\$449,049)
 Bartle Wells assumes savings = 80% of the current Other Activities O&M Expenses for an estimated cost savings:
 $\$449,049 \times 80\% = \$359,239$.
 These savings are reduced by \$80,000 in street sweeping expenses incurred by the City, resulting in net savings of
 $\$359,239 - \$80,000 = \$279,239$
 Cost Savings in Bartle Wells Report: $\$711,699 \times 80\% - \$80,000 = \$489,359$ or rounded to \$490,000

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Comments on Goleta West Sanitary District Financial Review Report Submitted by BWA



Third, the Bartle Wells Report overstates the O&M savings to be realized by staff reductions. The following table summarizes the different assumptions made by Bartle Wells and Raftelis:

Table 4: Different Assumptions for O&M Expenses after Detachment

	Raftelis		Bartle Wells	
	GWSD	City	GWSD	City
Admin – Personnel / Operating	Incurs: 67% of FY 2009-10 Costs	Incurs: 52% of FY 2009-10 Costs	Incurs: 48% of FY 2009-2010 Costs	Incurs: 52% of FY 2009-10 Costs with 25% synergy
Collection – Personnel / Operating	Incurs: 67% - Personnel 100% - Operating	Incurs: 68% - Personnel 68% - Operating	Incurs: 36% of FY 2009-10 Costs	Incurs: 64% of FY 2009-10 Costs
Pump Station – Personnel / Operating	Incurs: 100% - Personnel 100% - Operating Some of the Pumping O&M Expenses to be recovered via Shared Use Charges	Incurs: 100% of Emily and 52% of Main Pump Station Costs via Shared Use Charges	Incurs: 48% of FY 2009-10 Costs	Incurs: 52% of FY 2009-10 Costs
Treatment – Personnel / Operating	Incurs: 48% - Personnel 48% - Operating	Incurs: 52% - Personnel 52% - Operating	Same as Raftelis	
Other Activities	Incurs: \$102,000	Incurs: \$128,000	Reduces: 80% of FY 2009-10 costs	Incurs: \$70,000 – \$80,000

Raftelis' assumptions are more realistic than Bartle Wells' for the following reasons:

- Most administrative costs are fixed costs, thus cost reduction will not be proportional to reduction in amount of provided service.
- Currently, Goleta West only has three persons working in the collection department. It is more practical to retain two persons to maintain the collection system. The operating cost of collection department has more fixed components than variable, thus reduction of pipe lengths will not reduce the operating cost of the collection department.
- Pump station costs should be allocated based on actual utilizations.
- The City will provide service to EMID to promote orderly utility services.

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If the Raftelis "Administration" and "Collection" savings assumptions are used, the projected savings are reduced to \$259,736 as shown in Table 5 below.

Table 5: Cost Savings using Raftelis' Assumptions (including Non-Recurring Expenses¹¹)

FY 2010/11	O&M Expenses Including Non-Recurring Expenses	O&M Expenses Using Raftelis' Assumptions			
Based on Budget FY 2009/10		GWSD	City	Total	Cost Savings
Administration	\$ 646,488	\$ 433,147	\$ 252,130	\$ 685,277	\$ (38,789)
Legal Fees in Administration	\$ 206,000	\$ 138,020	\$ 80,340	\$ 218,360	\$ (12,360)
Collection	\$ 403,464	\$ 307,582	\$ 274,356	\$ 581,938	\$ (178,474)
Pump Station ¹	\$ 231,621	\$ 83,384	\$ 148,237	\$ 231,621	\$ -
Treatment	\$ 1,381,493	\$ 663,117	\$ 718,376	\$ 1,381,493	\$ -
Other Activities excluding Prof Services	\$ 449,049	\$ 89,810	\$ 80,000	\$ 169,810	\$ 279,239
Prof Services in Other Activities	\$ 262,650	\$ 52,530	\$ -	\$ 52,530	\$ 210,120
Total	\$ 3,580,765	\$ 1,767,589	\$ 1,553,440	\$ 3,321,029	\$ 259,736

* Using Raftelis assumptions as specified in Table 4 except 25% cost savings in City's Administration due to redundancy in personnel and \$80,000 Street Sweeping Expenses

1 - Pump Station:

City Shared Use Charge for Pump Station = 100% * 25%*\$231,621(for Emily) + 52% *75%*\$231,621(for Main) = \$148,237

GWSD = \$231,621 - \$148,237(Shared Use Charge from City)

Cost Savings Adjustments: If all of the corrections outlined above are made, the savings to be realized by detachment are reduced from \$960,000 to negative \$48,403 as shown in Table 6 below. In other words, detachment will not bring any cost savings.

Table 6: Cost Savings using Raftelis' Assumptions (excluding Non-Recurring Expenses)

FY 2010-2011	O&M Expenses Excluding Non-Recurring Expenses	O&M Expenses Using Raftelis' Assumptions			
Based on Budget FY 2009/10		GWSD	City	Total	Cost Savings
Administration excluding Legal Fees	\$ 646,488	\$ 433,147	\$ 252,130	\$ 685,277	\$ (38,789)
Legal Fees in Administration	\$ 90,000	\$ 60,300	\$ 35,100	\$ 95,400	\$ (5,400)
Collection	\$ 403,464	\$ 307,582	\$ 274,356	\$ 581,938	\$ (178,474)
Pump Station ¹	\$ 231,621	\$ 83,384	\$ 148,237	\$ 231,621	\$ -
Treatment	\$ 1,381,493	\$ 663,117	\$ 718,376	\$ 1,381,493	\$ -
Other Activities excluding Prof Services	\$ 282,825	\$ 56,565	\$ 80,000	\$ 136,565	\$ 146,260
Prof Services in Other Activities	\$ 35,000	\$ 7,000	\$ -	\$ 7,000	\$ 28,000
Total	\$ 3,070,891	\$ 1,611,095	\$ 1,508,200	\$ 3,119,294	\$ (48,403)

* Using Raftelis assumptions as specified in Table 4 except 25% cost savings in City's Administration due to redundancy in personnel and \$80,000 Street Sweeping Expenses

1 - Pump Station:

City Shared Use Charge for Pump Station = 100% * 25%*\$231,621(for Emily) + 52% *75%*\$231,621(for Main) = \$148,237

GWSD = \$231,621 - \$148,237(Shared Use Charge from City)

¹¹ Non-recurring expenses: Legal fees related to detachment and Underground Storage Tank ("UST") removal

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3. Pump Station Cost Allocations

Raftelis developed a "wheeling charge" (also referred to as a "shared use charge") that the City should pay for post-detachment use of facilities owned and operated by Goleta West. Two of those facilities – the Emily Pump Station and the Main Pump Station are located outside the City limits. Raftelis assumed that both would remain under Goleta West ownership and that the City and Goleta West would agree that the most equitable way to allocate the costs of those pump facilities would be based on actual usage.

- ◆ Emily Pump Station. Since the Emily Pump Station provides service solely for properties within the City and EMID, Raftelis allocated 100% of the costs of that facility to the City on the assumption that the City would assume responsibility for service to EMID. Bartle Wells used a different allocation assumption of 52% for the Emily Pump Station. In our judgment, this allocation is improper because it is not based on actual usage.
- ◆ Main Pump Station. The Main Pump Station conveys all of the wastewater from the entire current Goleta West service area, of which 52% is estimated to be generated from City parcels. Thus, Raftelis allocated 52% of the Main Pump Station cost (O&M and capital) to the City. Bartle Wells used the same number.
- ◆ Capital Replacement Costs. Raftelis allocates the projected pump station CIP to the City the same manner as the O&M Expenses. The City will be responsible for 100% of Emily capital costs and 52% of Main capital costs.

4. Future Capital Costs

- ◆ Use of Wastewater Master Plan. The Raftelis Report projected future capital needs and expenses based on Goleta West's 2007 Wastewater Master Plan. By contrast, Bartle Wells developed its projections on the assumption that future capital expenditures will mirror past capital expenditures (Bartle Wells Report, page 13). This assumption is unsupportable because it ignores the fact that much of the Goleta West infrastructure is nearly 50 years old, and thus future capital replacement and rehabilitation costs are likely to be significantly higher than past expenditures. The assumption also fails to consider Goleta West's 2007 Wastewater Master Plan which examined the hydraulic capacity and condition of various capital facilities and presented a prudent plan for maintenance and upgrade of those facilities. In our judgment, this is a more reliable basis for projecting future capital needs.

Using the erroneous assumption described above results in the Bartle Wells finding that future capital needs will be \$32.9 mm from FY 2011 to FY 2029, compared to the Raftelis projection of \$48.6 mm over that same period. This difference is shown on the following table:

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Table 7: Comparison of CIP Projections by Raftelis and Bartle Wells

CIP (FY 2011 - FY 2029)	Raftelis Estimate			Bartle Wells Estimates
	GWSD	City	Total	
Treatment Plant Upgrade	\$ 9,600,000	\$ 10,400,000	\$ 20,000,000	
Treatment Plant R&R	\$ 5,742,069	\$ 6,220,574	\$ 11,962,643	\$ 17,238,000
Collection System	\$ 4,454,685	\$ 7,495,273	\$ 11,949,959	\$ 12,711,000
Pump Station	\$ 431,671	\$ -	\$ 431,671	\$ 432,000
Other (Electrical, Admin, etc)	\$ 1,763,092	\$ 145,080	\$ 1,908,171	\$ 2,509,000
Routine Vehicle Replacement	\$ 2,053,377	\$ 243,323	\$ 2,296,700	
Total	\$ 24,044,893	\$ 24,504,251	\$ 48,549,144	\$ 32,890,000

Table 7 shows that the Bartle Wells Report projects "Treatment" capital expenses at \$17.2 mm. It is unclear whether this number includes Goleta West's share of the treatment plant upgrade. If it does include the \$16 mm that Bartle Wells assumes will be paid from FY 2010-11 and later, then only \$1.128 mm is left over for 18 years of treatment plant Replacement and Refurbishment (R&R). This number is too low, whether compared to historic expenses (average \$160,000 per year) or projected future expenses including inflation and a larger and more complex treatment facility. On the other hand, if the Bartle Wells projection of "Treatment" capital expenses of \$17.2 mm does not include the plant upgrade expenses, then the capital budget is severely understated.

- ◆ Pipeline Replacement Costs. Bartle Wells assumed that sewer lines can be replaced at a cost of \$3.00 per linear foot for each inch of pipeline diameter in its shared use charge calculations. Raftelis used \$11.00 for the same calculation. The Raftelis cost is based on actual replacement costs from the District's engineer.

5. Reserve Fund Issues

The Bartle Wells projection of the City's future finances heavily depends on the accuracy of three numbers that appear in the spreadsheet titled "Appendix II: City of Goleta Wastewater Finances, Upfront WWTP Costs." Those three numbers are in the first column and appeared under "Revenue." The three numbers represents the three classes of reserve fund that Bartle Wells believes will be transferred to the City in connection with approval of the proposed detachment. Those numbers are as follows:

GWSD Property Tax Reserves (after paying for GSD WWTP Upgrade Project)	\$1,101,023
GWSD Connection Fee Reserves	\$1,938,697
GWSD Operating Reserves	\$1,870,235
Total	\$4,909,955

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Our analysis indicates that those numbers are inaccurate.

- ♦ 2007-2009 Payments. Bartle Wells assumes that, as of July 1, 2010, Goleta West will have paid \$4 million to GSD for the WWTP Upgrade Project, including \$1.6 million in 2006-09. This assumption is incorrect. Of the \$1,648,795 paid by Goleta West to GSD during FY 2006/07 to FY 2008/09, \$735,515 was credited to Goleta West's obligations for the WWTP Upgrade Project (see Table 8). The balance of \$913,280 was credited to Goleta West's obligations for a share of the GSD annual capital Refurbishment & Replacement ("R&R") costs of the existing WWTP.

Table 8: GWSD Payments (2006-09) to GSD

Fiscal Year	Payment for GSD Capacity Rights	GSD WWTP Upgrade Project ¹	GSD Capital R&R
FY 2006/07	549,726	75,653	474,073
FY 2007/08	149,069	47,918	101,151
FY 2008/09	950,000	611,944	338,056
Total	\$ 1,648,795	\$ 735,515	\$ 913,280

1 - According to GWSD breakdown costs for GSD Capacity Rights between existing GSD WWTP capital R&R and GSD WWTP Upgrade Project

- ♦ 2009-10 Payments. Goleta West has budgeted to pay \$2,863,193 to GSD of which \$2.4 million is for the WWTP Upgrade Project and the balance of \$463,193 is for the GSD annual capital R&R costs of the existing WWTP
- ♦ Balance Owed. Goleta West will set aside the balance of the treatment plant upgrade cost (\$16,864,485) and expects to remit it prior to July 1, 2010 (see Table 9). This set-aside is in accordance with the terms of the Tax Allocation Agreement between the City and Santa Barbara County approved in April 2009.¹²

¹² For unexplained reasons, the Bartle Wells Report also includes a so-called "Ongoing" payment scenario under which the remaining payment of the WWTP Upgrade Project would be made in future years (through 2013). This scenario is not authorized by the Tax Allocation Agreement signed by the City and it is difficult to understand why it was included in the analysis.

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Table 9: GWSD Balance Owed to GSD for WWTP Upgrade Project

GWSD's Shares of GSD WWTP Capital Costs	Amount (\$)
Total GSD WWTP upgrade cost	\$ 20,000,000
GSD WWTP upgrade cost paid in FY 2006/07 ¹	\$ 75,653
GSD WWTP upgrade cost paid in FY 2007/08 ¹	\$ 47,918
GSD WWTP upgrade cost paid in FY 2008/09 ¹	\$ 611,944
GSD WWTP upgrade cost budgeted in FY 2009/10 ¹	\$ 2,400,000
FY 2006-2010 Payments to GSD WWTP Upgrade Project	\$ 3,135,515
Remaining GSD WWTP upgrade cost in FY 2010/11	\$ 16,864,485
Remaining GSD WWTP upgrade cost assumed by Bartle Wells Report	\$ 16,000,000
Bartle Wells underestimates GSD WWTP upgrade cost by	\$ 864,485
<i>1 - According to GWSD breakdown costs for GSD Capacity Rights between existing GSD WWTP capital R&R and GSD WWTP Upgrade Project</i>	

According to the FY 2009/10 GWSD Budget, and after deducting the payments made to GSD as described above, Goleta West will have the following reserves on 6/30/2010:

Table 10: GWSD Ending Reserve Balances on 6/30/2010

Projected Ending Reserve Balances on 6/30/2010 ²	Total	Connection Fee Reserves	Property Tax Reserves	Operation Reserves
4900 Running Expense	\$ 552,456			\$ 552,456
4930 Operating Reserve	\$ 2,523,346			\$ 2,523,346
4932 Capacity Fees for Collection System/Plant Reserve	\$ 786,340	\$ 786,340		
4933 Devereux Creek Project Reserve	\$ 71,849	\$ 71,849		
4935 Capital and Treatment Plant Upgrade Reserve	\$ 16,238,310		\$ 16,238,310	
4910 Property Taxes	\$ 249,475		\$ 249,475	
4960 Equipment/Vehicle Replacement Reserve	\$ 612,813		\$ 612,813	
4965 Building Replacement Reserve	\$ 1,321,313		\$ 1,321,313	
Projected Total Ending Reserve Balances on 6/30/2010	\$ 22,355,903	\$ 858,189	\$ 18,421,912	\$ 3,075,802
Remaining GSD WWTP upgrade cost	\$ 16,864,485		\$ 16,864,485	
Projected Total Ending Reserve Balances on 7/1/2010	\$ 5,491,418	\$ 858,189	\$ 1,557,427	\$ 3,075,802

2 - According to GWSD Budget FY 2009/10

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Table 11 shows these reserve funds allocated between Goleta West and the City using the allocation formulas used in the Bartle Wells Report, and compares those numbers to the reserve fund numbers used by Bartle Wells to build its analysis. The total reserve overestimated in the Bartle Wells Report is \$1,295,427.

Table 11: Overestimated Reserve Funds

Reserves	Correct Allocations					Bartle Wells	Difference	
	GWSD		City			City Only	(Overestimate)	
Connection Fees	\$	334,694	39%	\$	523,495	61%	\$ 1,938,697	\$ 1,415,202
Property Taxes	\$	342,634	22%	\$	1,214,793	78%	\$ 1,101,023	\$ (113,770)
Operations	\$	1,199,563	39%	\$	1,876,239	61%	\$ 1,870,235	\$ (6,004)
Total	\$	1,876,891		\$	3,614,528		\$ 4,909,955	\$ 1,295,427

6. EMID

EMID is an independent special district. There is an existing "Settlement Agreement" from 1984 under which Goleta West transports and treats wastewater generated by EMID properties through the Goleta West system, and Goleta West is entitled to receive service charges from EMID residents identical to those paid by other Goleta West customers. (The Bartle Wells Report erroneously describes this agreement as a "Joint Powers Agreement.")

The Bartle Wells Report touches on a number of issues that deserve comment:

- ◆ Status as an Independent Special District. Raftelis assumes that EMID's status as an independent special district would not change as a result of detachment. Bartle Wells makes the same assumption.
- ◆ Service to EMID. Raftelis assumes that LAFCO would require the City to take over Goleta West's responsibilities under the 1984 Settlement Agreement and thus provide service to EMID, including O&M of the EMID collection system. This assumption is based on the geographical separation between EMID and Isla Vista, which will constitute the main portion of the post-detachment Goleta West service area. LAFCO principles disfavor reorganizations that leave fragmented service areas, and these principles would appear to favor an arrangement under which the City would step into Goleta West's shoes with respect to EMID. Bartle Wells did not discuss these LAFCO principles and simply assumed that EMID would continue to be served by Goleta West, despite the fact that this will result in a fragmented service area.
- ◆ O&M of EMID Collection System. If the City assumes Goleta West's duties under the 1984 Settlement Agreement, it will (i) collect service charges from EMID residents; (ii) transport

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EMID's wastewater through the system owned and operated by the City; (iii) pay to treat EMID's wastewater at the treatment plant, and (iv) be responsible for O&M of the EMID collection system, including future capital expenses. These duties are spelled out in the Settlement Agreement. The Bartle Wells Report assumes that Goleta West will continue to serve EMID. If this assumption is not borne out by the LAFCO decision, the City will be required to assume obligations – and their attendant costs – that have not been analyzed in the Bartle Wells Report.

7. Rate Increases for Isla Vista Residents

Goleta West currently uses property tax revenues to fund reserves, pay for capital expenditures and fund non-wastewater related services. This keeps the sewer rates at affordable levels. The loss of property tax reserves and revenues due to detachment will cause Goleta West to significantly increase its current sewer rates for the remaining District customers to avoid deficits.

Upon detachment, Goleta West's revenues and expenses will not be reduced in the same proportions. Property tax revenues will be reduced by 78% while the capital expenditures over the 19-year study period will only be reduced by approximately 55-60%. Sewer revenues will be reduced by 61%, however, the total operation and maintenance expenses are assumed to be reduced by approximately only 44%. Thus, the current sewer rates will be unsustainable for post- detachment Goleta West. Significant rate increase in post-detachment Goleta West is required to restore its financial health.

The Bartle Wells Report predicts a rate increase for Isla Vista customers. Single family residential rates are predicted to increase from \$168/year to \$360/year in one year. The Raftelis May Report predicts a more gradual and smaller but still significant rate increase from \$168/year to \$309/year over a five-year period.

