



DISTRICT OVERVIEW

The Montecito Sanitary District (the District) is an Independent Special District voted into existence in 1947 by the residents of Montecito to provide for the collection, treatment and disposal of wastewater (water used inside the home and going down the drain to the sanitary sewer system). Montecito is fortunate to be served by two outstanding utility districts, the Montecito Water District and the Montecito Sanitary District. The Montecito Water District's mission is "to provide an adequate and reliable supply of high quality water to the residents of Montecito and Summerland, at the most reasonable cost". The Montecito Sanitary District's mission has always been and continues to be **"to protect public health and safety and to preserve the natural environment through the collection, treatment and disposal of wastewater."**

In 1961, the District constructed a wastewater treatment plant capable of processing 750,000 gallons per day. The infrastructure includes an ocean outfall pipeline (located 1,500 feet offshore) and sewer collection system pipeline and pumping system. In 1981 the voters approved \$3.1 million in revenue bonds to incorporate new technology, and double the plant's capacity to 1.5 million gallons per day. Today, the treatment plant capacity remains at 1.5 million gallons per day (mgd). The average daily flow for July 2017 – June 2018 was approximately 486,000 gallons per day (gpd).

The District currently serves 3027 residential connections and 44 commercial/institutional connections.

MANAGEMENT AND GOVERNANCE

The District is governed by a five-member Board of Directors. The District's policies, mission, goals and programs are established by a majority of the Board of Directors at public meetings. The Board does not direct management on how to implement policy but holds management responsible if the policies of the District are not implemented. The Board and individual Board Members shall have no authority over day-to-day operations of the District. The Directors are elected on an at-large basis for four-year terms. In 2001, the Board voted to align its elections with the Statewide General Elections to increase voter turnout and achieve a substantial cost savings. At the Board's discretion an Organizational Meeting is held at least every other year to assign officers' duties and to appoint the standing Committee Representatives. This process generally results in a rotation of duties among the Board members. The established Committees meet on an as-needed basis. If necessary, Ad Hoc Committees are formed for special projects. The Board of Directors approves the annual operating and capital budgets and authorizes expenditures of the District's funds.

The District employs a General Manager as the chief executive. The General Manager reports directly to the Board of Directors and is responsible for the overall operation and administration of the District. The District's Management Staff also includes a District Administrator, an Operations Manager, an Engineering Manager and a Lab and Pretreatment Manager. The District currently has 16 full-time employees.

CASH ASSETS

LAIF Reserve – The Board established a reserve in a minimum amount of \$1.5 million be invested with the State of California Local Investment Agency (LAIF). The balance in this reserve at the beginning of FY 2017-18 was \$1,667,788. In March of 2018 \$1.5 million was transferred to Montecito Bank & Trust Operating account to pay for Thomas Fire Debris Flow disaster expenses. Board has directed staff to deposit all disaster related FEMA reimbursement funds back to LAIF to reestablish the minimum reserve amount.

Capital Replacement Reserve – On May 26, 2009 the Board authorized the creation of a separate fund for capital projects. Effective July 1, 2009, the County Auditor-Controller's office established the Capital Replacement Fund, and the Board directed staff to fund this reserve with the amount of the prior year audited depreciation amount, thus ensuring replacement reserves for aging assets. At Board direction, these reserves are invested in the County of Santa Barbara's pooled investment plan.

CIP Cash – This account is used for payments for Capital Replacements and Projects. Funds are transferred from the Capital Replacement Reserve at the time capital expenditures are due to be paid. The District uses Montecito Bank & Trust for capital expenditure payables.

Retiree Medical Benefits Reserve – This reserve was established by the Board for future retiree medical benefit expenses. The retiree medical benefit was discontinued in 2010, and the plan currently is only available to one retiree and 3 active employees. At Board direction, these reserves are invested in the County of Santa Barbara's pooled investment plan.

Miramar Infrastructure Reserve – Beginning in 2016 the owners of the Miramar Beach Resort (Caruso) began depositing funds at Montecito Bank & Trust to be used for building infrastructure to serve the Miramar Beach Resort. This is a restricted cash account, as these funds can only be used for building sewer infrastructure to serve the Miramar Beach Resort. The account is reviewed regularly by Caruso. There is an offsetting current liability reflected on the financial statements for the same amount.

Cash with County

All sewer service charge and property tax revenue are deposited into an interest earning fund with the County of Santa Barbara. Money is transferred as needed out of the County Fund into the District's Montecito Bank and Trust account for payroll and accounts payable.

Operating Cash

The District currently uses Montecito Bank and Trust for payroll and accounts payable. Receipts for permit fees paid by residents, such as connection fees, are deposited into this account. This account is also funded on an as needed basis with money from the District's operating fund at the County.

Bond Delivery Costs - BNY – This reserve account is at Bank of New York Mellon and holds current debt service payment amounts that are payable on January 1st and July 1st. This account is only funded in advance of debt payment due dates. This account was funded the end of June to ensure prompt payment of the July 1st debt service.

Revolving Fund Checking

The District has a small checking account with Union Bank, used for small emergency purposes. This account never exceeds \$2,500.

Petty Cash

The District maintains a minimal amount of cash on hand for small purchases or reimbursements. This account never exceeds \$250, and is used infrequently for incidental minor purchases/fees.

REVENUE SOURCES

Sewer Service Charge (SSC)

The major source of revenue for the District is the Sewer Service Charges (SSC). Service Charge Rates are reviewed annually.

Sewer Service Charges are placed and collected by means of the County Tax Roll. The District maintains a Teeter Plan agreement with the County of Santa Barbara. Under this agreement, the District receives the total guaranteed amounts of SSC revenue reported to the County each year and the County collects these funds from the District's customers on their bi-annual property tax statements.

After four years with no SSC increase, on May 9, 2016 the Board of Directors approved a 3-year planned rate increase structure that went into effect beginning in FY 2016-17 and will run through FY 2018-19. All rate increases were validated and approved by following the procedures and requirements of Proposition 218. The rate increases were necessary to keep up with the rising operations and maintenance costs, debt service payments and depreciation funding of the District's capital assets. The current annual sewer service charge is \$1,480 a year for a single family home.

Connection Fees

The connection fees are charges for connection to the District's sanitary sewer system and are collected on District permits. These fees are necessary to cover or recoup infrastructure costs incurred to provide service.

The District's Governing Board of Directors voted to set the connection fees at \$8,400 per dwelling unit effective January 1, 2018 with Resolution No. 2017-906.

Other Services

Other services include inspection, administrative, and engineering review fees, all of which are collected on District permits and are based on permitted project parameters. The District also charges an Agreement fee for License agreements, Dedication agreements, and Sewer Service agreements for auxiliary structures and accessory dwelling units (ADUs). These fees are explained in Resolution No. 2017-906, effective January 1, 2018.

Investment Income

The District's current approved investment policy, under Resolution No. 2013-883, states that it shall be the policy of the District to invest funds, with maximum security through diversification and prudence, in a manner which will provide the highest investment return, while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investment of District funds.

In keeping with that policy, the District Board chose to distribute the District's monies between two investment vehicles: the Santa Barbara County Investment Pool, and the Local Agency Investment Fund (LAIF) which is a State of California controlled investment pool. Funds are readily available from either pool. All Sewer Service Charge and Property Tax Revenue are deposited into the Santa Barbara County Pool. District practice has been to draw from the Santa Barbara County Pool for operating funds.

Interest revenues received and Fair Market Value adjustments for both LAIF and County investments are reflected on the District's financial statements.

Property Tax

The District receives one half of 1% of the total property tax revenue that is collected by the County of Santa Barbara for parcels within its service area. The property tax revenue is inclusive of secure, unsecured, unitary, and supplemental property taxes.

Other Non Operating Revenue

This includes discounts earned, miscellaneous income, and gain or loss on disposal of assets.

EXPENDITURES

The annual operating and capital budgets are prepared by staff and reviewed by the Finance Committee. Annual salary and benefit information is reviewed by the Personnel Committee. The Board approves the salary range table and the annual operating budget prior to the beginning of the fiscal year. There is an annual Capital Project Budget, wherein individual capital projects are identified and budgeted. The Capital Project Budget is also approved by the Board prior to the beginning of the fiscal year.

The Board reviews all payables at each meeting. The Board also receives quarterly updates from staff regarding year to date performance against budget for both operating and capital expenditures. Expenditures greater than \$500 require a purchase order approved by the General Manager prior to purchase. The General Manager has purchasing authority up to \$10,000. Any purchases exceeding this amount need Board approval, and are brought before the Board in a public meeting. The District follows Public Contracting Code, and projects that require it are advertised for bids. The Board awards contracts to the lowest qualifying bid. All contracts are approved by the Board of Directors at a public meeting and signed by the Board President.

BONDS

Certificates of Participation (COPs) – California Special Districts Association (CSDA) Finance Corporation – 2007 Series UU

Due to an urgent need for capital improvement project funds in FY 2006-07 the District worked with CSDA to seek funding through the issuance of COPs. The Board and General Manager saw this as a means to ensure the District would have the funds necessary to complete a list of capital projects deemed to be mission critical to the District's efforts to provide the kind of service expected by the community and mandated by federal and state regulations, and to ensure the environmental health and safety of the community in which the District serves. On March 1, 2007 the CSDA Finance Corporation issued Certificates of Participation (COPs) in the amount of \$14.765 million. The Acquisition Fund was established from these funds in 2007 with a beginning balance of \$10.533 million. These funds were used for capital replacement/improvement projects including new laboratory and collection maintenance buildings, over 25 miles of sewer main rehabilitation, lift station refurbishment and a new sewer force main.

All of these funds were spent by June 30, 2016.

2017 Sewer Refunding Revenue Bonds – California Special Districts Association (CSDA) Finance Corporation

The 2007 Certificates of Participation (COPs) used for capital improvement projects became eligible for "Current Refunding" after the initial call date in April 2017. The District hired Fieldman, Rolapp & Associates, independent financial advisors, to analyze the opportunity for refunding the 2007 COPs at that time. The analysis showed the District could decrease the maturity term by seven years, remove the requirement for a reserve fund, and take advantage of lower interest rates, resulting in savings of approximately \$4 million. In May 2017 the District refunded the COPs by using \$1,121,862 available cash, \$957,824 reserve funds, and issuing new 2017 Sewer Refunding Revenue Bonds in the amount of \$10,020,000. These bonds will be paid off by 2030. The District's current Standard & Poor's rating is AA+.

FINANCIAL REPORTING

At the end of each fiscal year, the District is audited by an independent certified public accounting firm qualified to perform government accounting audits. The audit also reviews the District's internal controls. The financial statements consist of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, an entire operating entity. These statements then proceed to provide a detailed look at specific financial activities. This annual report consists of two parts –management's discussion and analysis and a series of basic financial statements.

The annual financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows, followed by various and specific notes to those financial statements.

Additionally, the financial report includes required supplementary information, as well as other supplemental information as noted in the table of contents.

These audited financial statements are available on the District's website for review.