



Montecito Sanitary District

1042 Monte Cristo Lane
Santa Barbara, CA 93108

A Public Service Agency

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

BOARD PACKET

For the Regular Board Meeting of

Thursday, October 12, 2023

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AGENDA

For the General Meeting of the Board on:

October 12, 2023

The regular meeting of the Governing Board will begin at **12:00 p.m. on October 12, 2023** in the District's Board Room at 1042 Monte Cristo Lane, Santa Barbara, CA 93108.

The public may attend the meeting in person or participate remotely via Zoom using the following virtual meeting details:

By visiting: <https://us02web.zoom.us/j/86118975917>

Or by calling: 1-669-900-6833

Meeting ID: 861 1897 5917

1. CALL TO ORDER

A. ROLL CALL

B. PLEDGE OF ALLEGIANCE

C. PRESIDENT'S REPORT

D. AGENDA CHANGES/DELETIONS

2. PUBLIC COMMENT

Public comment on items not on the agenda is **limited to 3 minutes** and is at the discretion of the Board President. For further instructions, please see [Instructions for Public Comment](#) on the District's website.

3. CONSENT CALENDAR

A. Retroactively authorize Director Johnson to attend the CSDA Annual Conference from August 28th – 31st, 2023 on behalf of the Board.

B. Authorize Director Hogan to attend the CSDA Special District Leadership Academy Conference on October 22nd – 25th, 2023 on behalf of the Board.

4. COMMITTEE REPORTS

It is recommended that the Board receive and file a report provided by the following committee(s):

A. Joint Strategic Committee (MSD Directors Johnson and Hogan, MWD Directors Coates and Plough) related to their meeting on September 27, 2023.

5. REGULAR BUSINESS

A. SEWER RATE STUDY

It is recommended that the Board:

- i) Receive a presentation from Robert D. Niehaus, Inc. on the District's Sewer Rate Study; and
- ii) Take any such additional, related action that may be desirable.

B. DISCUSSION AND CONSIDERATION TO INCREASE THE GENERAL MANAGER'S APPROVAL AUTHORITY FOR EXPENDITURES - HIGHWAY 101 SEWER CROSSING LINING PROJECT

It is recommended that the Board discuss and consider:

- i) Authorizing the General Manager to approve expenditures of up to twenty-five percent (25%) to cover any cost increases that may result from contract change orders for extra work or other scope changes as part of the District's Highway 101 Sewer Crossing Lining Project (Lining Project).

C. MONTECITO SANITARY DISTRICT CONSOLIDATION WITH THE MONTECITO WATER DISTRICT

It is recommended that the Board:

- ii) Approve the Raftelis Special District Collaboration and Consolidation Report; and
- iii) Take a vote on Consolidation with the Montecito Water District; and
- iv) Take any such additional, related action that may be desirable.

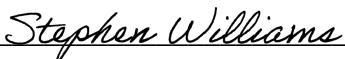
6. ITEMS FOR FUTURE AGENDAS

The next regularly scheduled Board meeting will be held on November 9, 2023 at 12:00 pm.

7. ADJOURNMENT

The Montecito Sanitary District has resumed in-person meetings in accordance with the Brown Act. In accordance with the State of Emergency declaration issued on March 4, 2020 by the Governor of the State of California in response to COVID-19 and Government Code 54953(e), the District also provides alternative methods of remote participation which permit members of the public to observe and address public meetings remotely via telephone or Zoom. These methods of participation can be accessed through the internet link provided at the top of this agenda.

This agenda was posted on the District website, and at the Montecito Sanitary District Bulletin Board in accordance with the requirements of the Brown Act. Attested by:



Stephen Williams
District Administrator/Clerk of the Board

ADA – The Americans with Disabilities Act provides that no qualified individual with a disability shall be excluded from participation in, or denied the benefits of, the District's programs, services or activities because of any disability. If you need special assistance to participate in this meeting, please contact the District Office at 969-4200. Notification at least twenty-four (24) hours prior to the meeting will enable the District to make appropriate arrangements.



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MONTECITO SANITARY DISTRICT STAFF REPORT – 3A

DATE: October 12, 2023
TO: Board of Directors
FROM: John Weigold, General Manager
SUBJECT: Retroactive Conference Authorization

RECOMMENDATION

It is recommended that the Board:

- i) Retroactively authorize Director Johnson to attend the CSDA Annual Conference from August 28th – August 31st, 2023 on behalf of the Board.

BACKGROUND

Per the District’s Board Compensation Ordinance (Ordinance No. 20), as well as Health and Safety Code section 6489, compensation to a director can only be paid “for each day's service rendered as a director by request of the board.” If the Board did not approve, authorize, or direct attendance at a conference, then a director cannot be compensated for attending the conference at the per diem rate.

This action would retroactively authorize Director Johnson to attend the conference at the request of the board and trigger the \$231 per diem rate per day of attendance to be paid out at the next payroll cycle.

FISCAL IMPACT

Retroactive authorization to attend the CSDA Annual Conference would cost \$924. There is budget in the Board Training Line Item and would not necessitate a Budget Revision.

ATTACHMENTS: None



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MONTECITO SANITARY DISTRICT STAFF REPORT – 3B

DATE: October 12, 2023
TO: Board of Directors
FROM: John Weigold, General Manager
SUBJECT: Conference Authorization

RECOMMENDATION

It is recommended that the Board:

- i) Authorize Director Hogan to attend the CSDA Special District Leadership Academy Conference from October 22nd – October 25th, 2023 on behalf of the Board.

BACKGROUND

Per the District’s Board Compensation Ordinance (Ordinance No. 20), as well as Health and Safety Code section 6489, compensation to a director can only be paid “for each day's service rendered as a director by request of the board.” If the Board did not approve, authorize, or direct attendance at a conference, then a director cannot be compensated for attending the conference at the per diem rate.

This action would authorize Director Hogan to attend the conference at the request of the board and trigger the \$231 per diem rate per day of attendance to be paid out at the first pay period ending in November.

FISCAL IMPACT

Authorization to attend the CSDA Special District Leadership Academy Conference would cost \$924. There is budget in the Board Training Line Item and would not necessitate a Budget Revision.

ATTACHMENTS: None



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MONTECITO SANITARY DISTRICT STAFF REPORT – 5A

DATE: October 12, 2023
TO: Board of Directors
FROM: John Weigold, General Manager
SUBJECT: Sewer Rate Study

RECOMMENDATION

It is recommended that the Board:

- i) Receive a presentation from Robert D. Niehaus, Inc. on the District's Sewer Rate Study; and
- ii) Take any such additional, related action that may be desirable.

BACKGROUND

At the June 8, 2023 Regular Board Meeting the Board of Directors approved the Fiscal Year 2023-24 Operating Budget. Within that budget was the District's Sewer Rate Study contract with Robert D. Niehaus, Inc. to conduct a salary study for implementation in Fiscal Year 2024-25. The last time rates were adjusted was July 1, 2018, so the District is conducting this rate study in alignment with industry best practices.

Robert D. Niehaus gathered current and past financial information from the District and have put together a presentation on the current and forecasted financial position with the current rates. This is the first step in a multi-step process wherein the Board will discuss and consider assumptions that affect the District's rate model.

ATTACHMENTS

1. RDN Presentation



Sewer Rate Study

Montecito Sanitary District

ROBERT D. NIEHAUS, INC.

OCTOBER 12, 2023

Agenda

- Re-introduce project team
- Discuss reserve policies
- Discuss rates
- Discuss initial financial plan findings
- Review preliminary recommendations
- Board discussion and direction



RDN Overview

- Economic consulting firm established in 1983 in Santa Barbara
- Specialize in rate- and fee- setting services for California water and sewer agencies
- Leverage economic and financial expertise in data-driven approach



RDN's California Experience



Project Team



Robert Niehaus, Ph.D.
Project Director,
Principal Economist



Zachary VanDinther, B.S.
Economist



Anthony Elowsky, M.A.
Project Manager, Financial Analyst



Bjorn Kallerud, M.Sc.
Economist



Sanjay Gaur, M.P.A., M.S.
Senior Advisor
Water Resources Economics



Ichiko Kido, M.B.A.
Senior Financial Analyst



Current Reserve Policy

- Operating Reserve –3 months operating with a minimum of \$1.5 million
- CIP Reserves – \$750,000
- Emergency – None
- Joining investment fund to increase interest income



Healthy Reserves

- Operating Reserve – results from positive cash flow
 - › Cash flow approach: Examine the timing of revenue and expense
 - The District bill all annual service charges on the property roll
 - › Benchmarks: % of operating expense or days of O&M (0-180 days)
- CIP Reserves – Can award contracts quickly and speed up projects if necessary
 - › 2-3% of fixed assets or net book value; or
 - › Based on years of capital projects or depreciation expense
- Emergency – funds available in case of asset failure
 - › Critical asset replacement analysis used to set reserve level



Reserve Policy Comparison

Reserve Type	Current Policy	Recommended	July 1, 2024 Beginning Balance
Operating Reserve	3 – Months: \$ 1.5 million	6 – Months: \$2.8 million	
CIP Reserves	\$750,000	~\$3.4 million	
Emergency	\$0	~\$3.0 million	
Total	\$2.25 million	~\$9.2 million	\$13.4 million

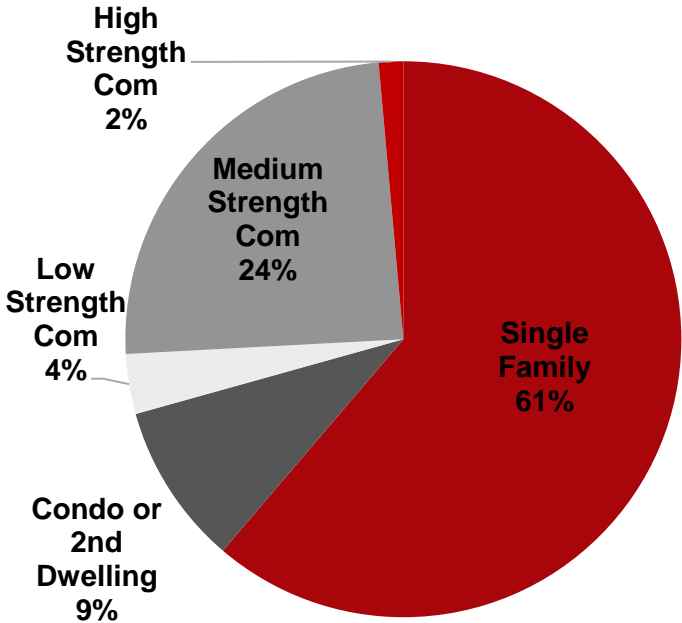


Rate Structure/Revenue

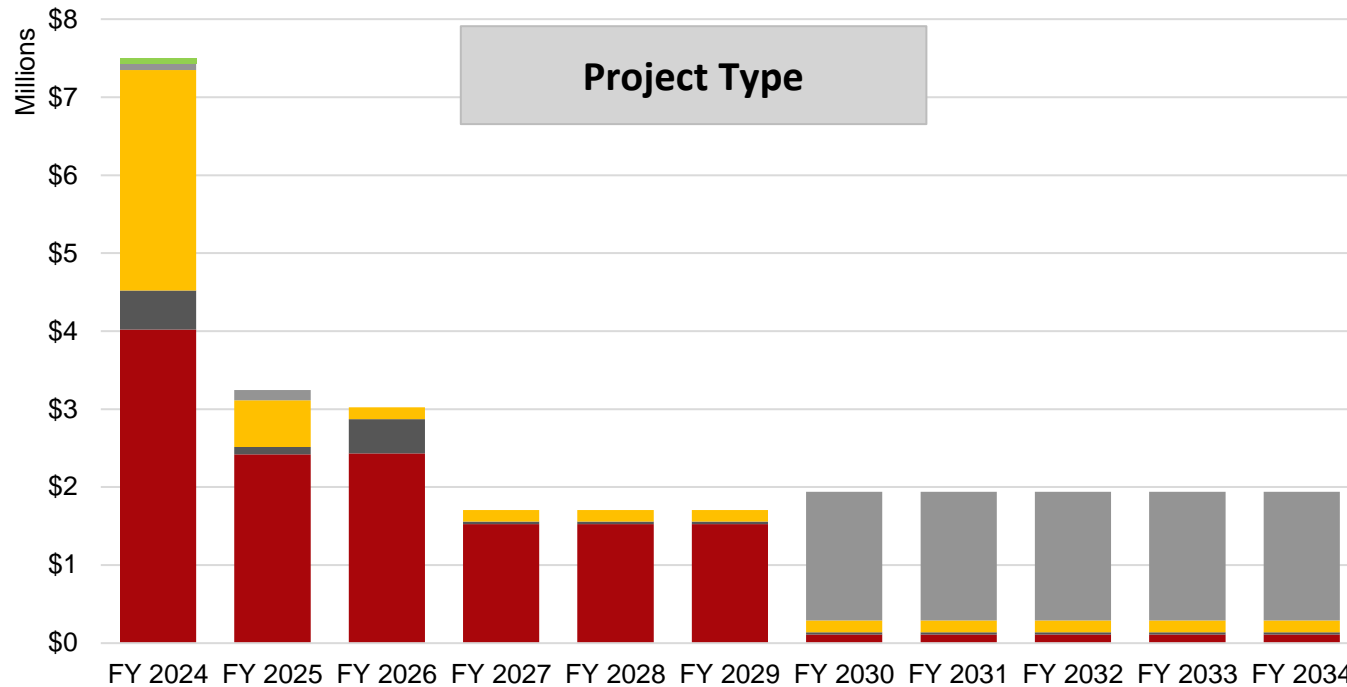
Residential	
Fixed Charge	Annual
Single Family Dwelling	\$1,480
Condo or 2nd Dwelling	\$696
Commercial	
Capacity Allocation Charge	Per HCF
Low Strength Sewage	\$4.33
Medium Strength Sewage	\$10.32
High Strength Sewage	\$12.59
Variable Charge	Per HCF
Low Strength Sewage	\$2.88
Medium Strength Sewage	\$3.96
High Strength Sewage	\$5.57

Historical maximum annual water use (5 years)

Water used in previous calendar year



Proposed Capital

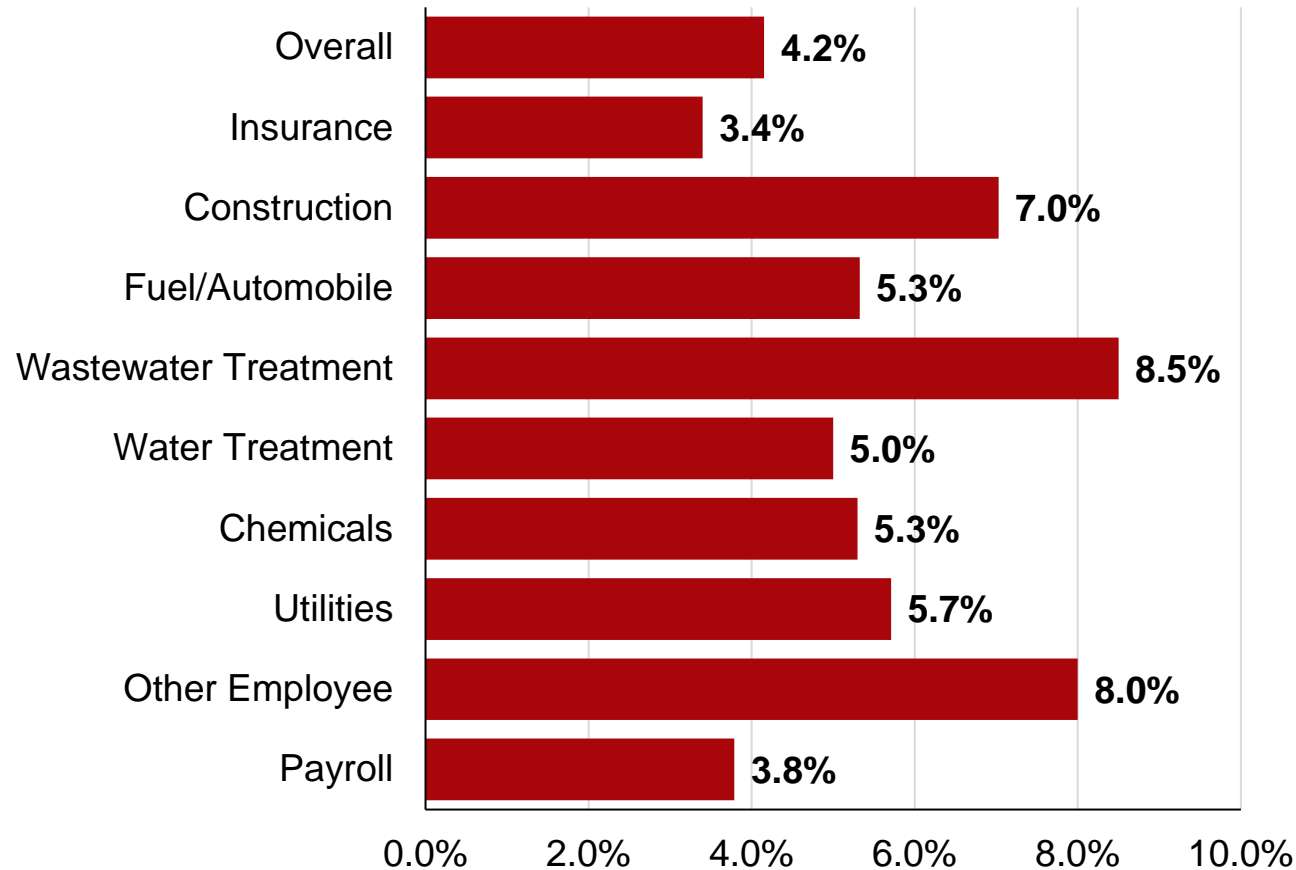


Future unscheduled CIP based on annual depreciation estimate

- Unscheduled
- Sewer Mains
- Facilities
- Treatment and Laboratory
- Lift Stations
- Collection System



Expense Inflation (sources)

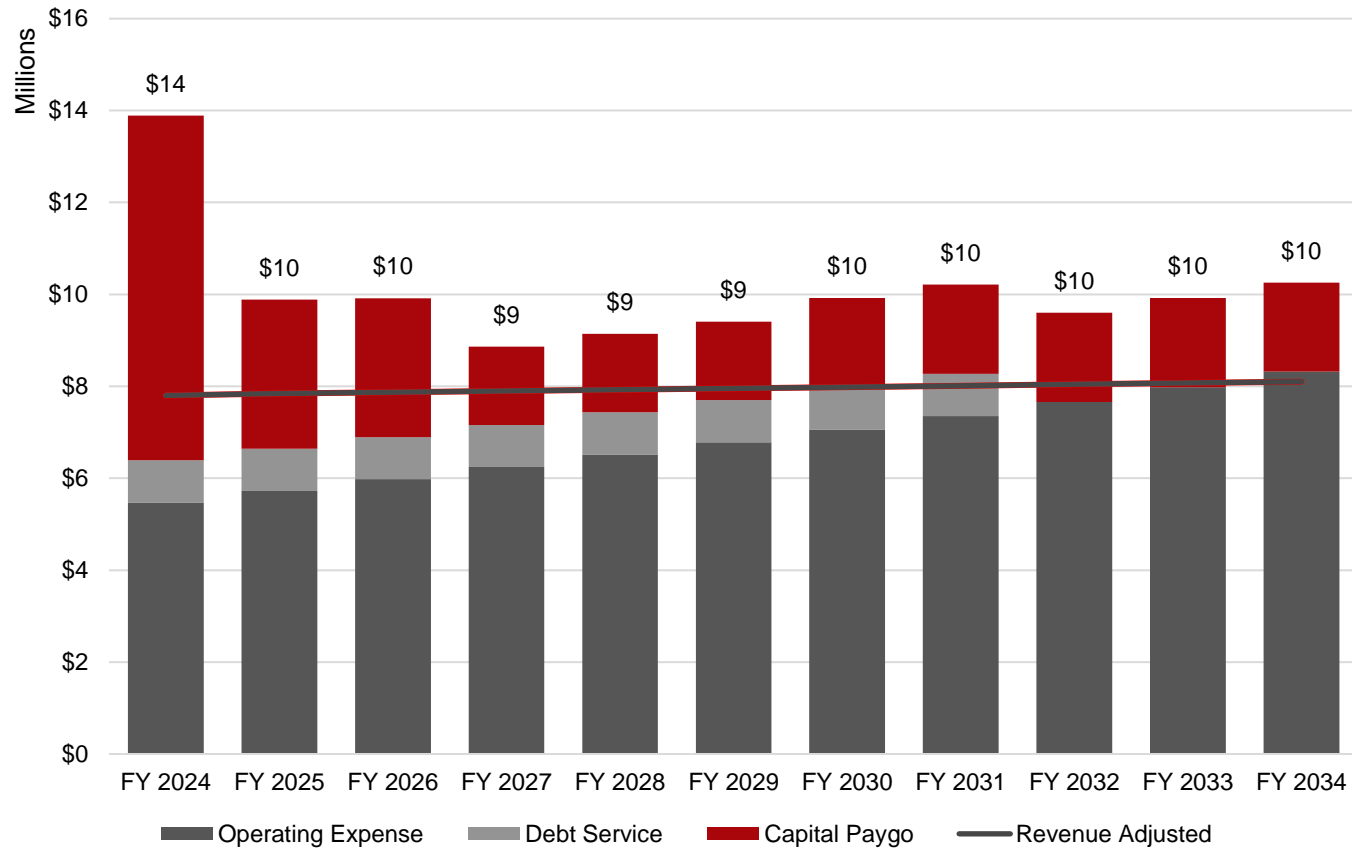


Sources include: Bureau of Labor Statistics, California Department of Finance, California Department of Transportation, Engineering News Record, US Census.

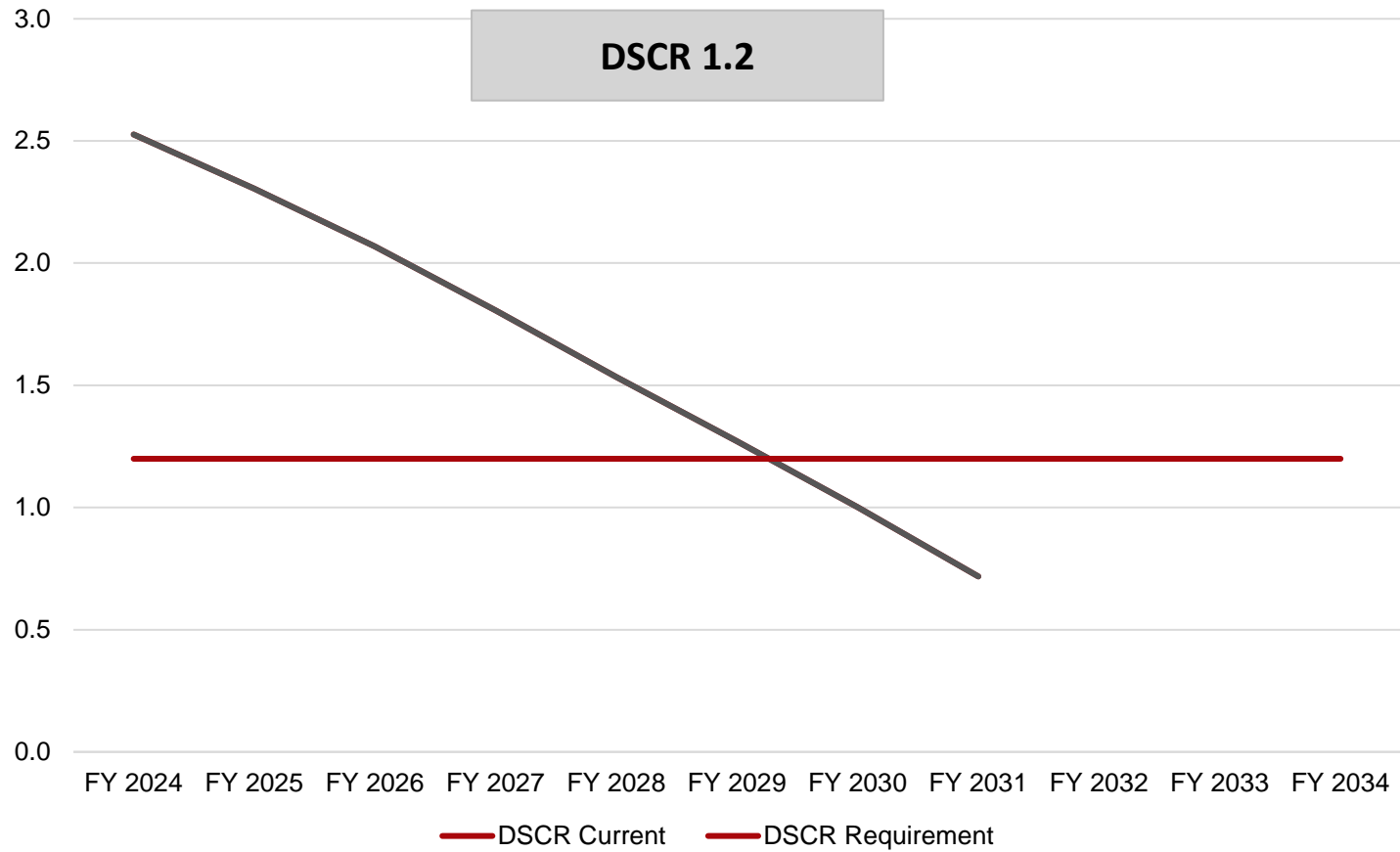
Staff will provide outcome of labor negotiations



Cash Flow Analysis



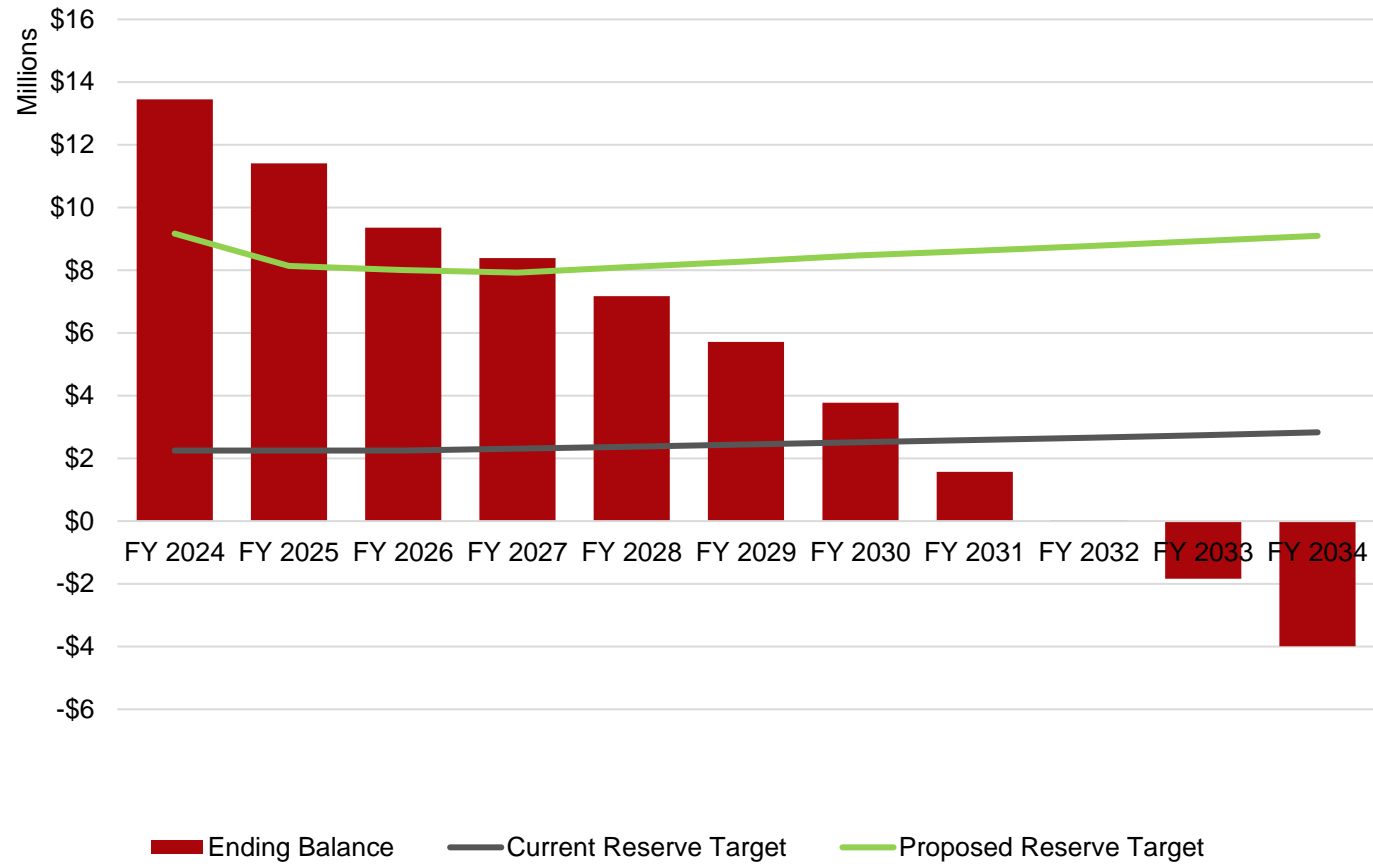
Debt Service Coverage



Requires positive cash flow



Cash Balance



Recommendations

- Review reserve targets
- Minor revenue adjustments to ensure maintaining reserve balances and DSCR
- Evaluate rate equitability (Prop 218 compliance)

County, State	# of Tracts	Population of Service Area	Single Family HHS	Multi-Family HHS
Santa Barbara County, CA	5	10,980	2.45	2.18

Source: US Census ACS Data



Questions?



District Priorities

1. Evaluate the District's current customer classes, rate structure, and connection fees.
2. Recommend rate structure revisions that are consistent with industry standards, best management practices, and all applicable laws.
3. Develop a sewer cost of service and rate model for the District covering a six - year study period for both ongoing operations and planned capital improvements.
4. Project revenue requirements which include increasing wastewater treatment costs and maintaining debt service coverage and cash levels.
5. If available, incorporate the results of the Septic-to-Sewer Strategic Plan and collection system and lift station condition assessment and replacement plan.
6. Recommend appropriate reserve levels for operating and capital needs based on industry standards.





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MONTECITO SANITARY DISTRICT STAFF REPORT – 5B

DATE: October 12, 2023
TO: Board of Directors
FROM: John Weigold, General Manager
Bryce Swetek, Engineering Manager
SUBJECT: Discussion and Consideration to Increase the General Manager’s Approval Authority for Expenditures- Highway 101 Sewer Crossing Lining Project

RECOMMENDATION:

Staff recommends that the Board discuss and consider:

1. Authorizing the General Manager (GM) to approve expenditures of up to twenty-five percent (25%) of the Utility Agreement, amounting to \$275,491.50, to cover any cost increases that may result from contract change orders for extra work or other scope changes as part of the District’s Highway 101 Sewer Crossing Lining Project (Lining Project).

DISCUSSION:

Background – On October 5, 2023, Staff received a change order request from our general contractor, Tierra Contracting (Tierra), in the amount of \$167,475 (Attachment 1) which would customize a shoring plan to compensate for a newly installed utility. As of late September, Lumen, a telecommunications utility, installed a duct bank which crosses over our designed pit required for the Lining Project. Prior to Lumen’s construction, Staff attempted to have Lumen construct after the Lining Project’s construction or modify their design to limit impact on the Lining Project. However, the Caltrans Design Team directed Lumen to proceed with their project. Staff discussed options with Tierra and their subconsultant, Insituform, to attempt to shift the pit location and/or modify the pit size to avoid the Lumen project. However, all parties determined the pit size and location needed to remain as designed for a successful project.

This change order amount exceeds the GM’s authority, given by the Board during a Special Meeting on June 1, 2023, which approved expenditures of up to \$97,378 or 10% of Tierra’s

bid. Staff is requesting the Board to authorize the GM to approve increased expenditures to execute this change order in addition to potential additional change orders.

On September 29, 2023, the GM executed a Utility Agreement (Attachment 2) with Santa Barbara County Association of Governments (SBCAG) to receive reimbursement for the Lining Project. Within the Agreement, it states “if the final bill exceeds 125% of the estimated cost of this Agreement, an Amended Agreement shall be executed by the parties to this Agreement prior to the payment of the OWNER’S final bill”. Essentially, expenditures of up to 25% will be authorized for reimbursement with appropriate documentation. This 25% is the basis for the revised GM expenditure amount. Anything over 25% would have to be brought back to SBCAG’s Board for approval.

Fiscal Impact – This change order is subject to reimbursement through the Utility Agreement and thus does not represent a significant fiscal impact to the District. Upon Board approval of the revised expenditure amount, there would be \$108,016.50 remaining for potential change order work, which may be subject to reimbursement.

Analysis – Justifications – The change order amount of \$167,475 is above expectations and Staff will review this change order thoroughly to ensure the cost is fair. Staff believes matching the allowance within the Utility Agreement would expedite future changes, if deemed appropriate by the GM.

DEPARTMENTS INVOLVED: Engineering and Collections

CEQA: No Impact.

ATTACHMENTS:

1. Change Order
2. Utility Agreement

Tierra Contracting, Inc.
5484 Overpass Rd
Santa Barbara, CA 93111

PROPOSAL



LIC# 416114
DIR# 1000008320

Phone: (805) 964-8747

Fax: (805)964-4438

Proposal: 2023 103

Date: 10/5/2023

To:	Project:
Montecito Sanitary District Attn. Bryce Swetek 1042 Montec Cristo Lane Santa Barbara, CA 93101	Highway 101 Sewer Crossing Lining Project Excavation Under Lumen Fiber Optic Cables

This duly licensed company or individual **TIERRA CONTRACTING, INC. (License No. 416114)** Hereinafter called Contractor, agrees to construct in a good and workmanlike manner for Owner, furnishing all labor, material, tools and equipment therefore, the work as noted herein for the unit prices as set for the below:

SCOPE OF WORK

Extra Excavation & Shoring - Lumen Fiber Line Conflict

Work includes all labor, materials, equipment, and temporary traffic control necessary for additional work and excavation to install site specific, custom trench shoring boxes to accommodate reduced and restricted area due to recently installed Lumen Fiber Lines now running through the designed and quoted project excavation zone on North Jameson Ln. All work, temporary traffic control utilizing flagman, and trench protection to be done per latest Montecito Sanitary District and County of Santa Barbara specifications & standards.

Total Cost = \$167,475.00

General Bid Excludes: Fees, Plans, Permits, Staking, Landscaping, Soil Testing, Additional Move-ins, Responsibility for damage to all unknown/unmarked existing onsite utilities, Winterization of Project (Sediment Control-Strawbale Barriers around Catchbasins), Storm Water Protection Plan, all costs associated with contaminated soil or ground water.

Note: Due to fluctuating material cost our bids are good for 30 days after submission

Acceptance:

Tierra Contracting is hereby authorized to furnish and install the above equipment and materials at the price and under the terms and conditions as set forth above:

Owner

Date

TIERRA CONTRACTING, INC.

By 

DUSTIN KOR

UTILITY AGREEMENT

RW 13-05 (REV 12/2016)

05-UT-1816.482

DISTRICT: 05	COUNTY: SB	ROUTE: 101	POST MILE(S): 9.7	PROJECT ID/ EA: 0520000031 / 05-0N70B
FEDERAL AID NUMBER:			OWNER'S FILE NUMBER: Highway 101 Sewer Crossing Lining Project	
FEDERAL PARTICIPATION/ FEDERALLY ELIGIBLE/NEPA DOCUMENT: On the Project: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No On the Utilities: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
OWNER PAYEE DATA NO. VC: AD: _____ or Form STD 204 is attached <input type="checkbox"/>				

UTILITY AGREEMENT NO.: 05-UT-1816.482 DATE: September 21, 2023

The Santa Barbara County Association of Governments hereinafter called "SBCAG" is the right of way implementing agency, including utility relocation, for the California Department of Transportation ("STATE") construction of the Hwy 101 HOV Widening Project Segment 4DS (EA 05-0N70B) ("PROJECT") through Santa Barbara County, California.

And: Montecito Sanitary District
1042 Monte Cristo Lane
Santa Barbara, CA 93108

hereinafter called "OWNER", owns and maintains two 6-inch steel force main sewer lines and one 12-inch vitrified clay gravity sewer line all within a 60-inch steel casing located within the limits of the PROJECT that requires protection in-place of said facilities to accommodate the PROJECT.

It is hereby mutually agreed that:

I. WORK TO BE DONE

In accordance with Notice to Owner No. 05-1816.482, dated June 6, 2023, OWNER shall protect in-place the OWNER's FACILITY. All work shall be performed substantially in accordance with OWNER's Plan named HIGHWAY 101 SEWER CROSSING LINING PROJECT Dated May 20, 2023, and consisting of sheets G1, G2, G-3, C-1, C-2, TC-1, TC-2, TC-3, TC-4, and TC-5, a copy of which is on file at the SBCAG office at 260 N San Antonio Rd # B, Santa Barbara, CA 93110. Deviations from the OWNER's plan described above initiated by either the SBCAG or the OWNER, shall be agreed upon by both parties hereto under a Revised Notice to Owner. Such Revised Notices to Owner, approved by the SBCAG and agreed to/acknowledged by the OWNER, will constitute an approved revision of the OWNER's plan described above and are hereby made a part hereof. No work under said deviation shall commence prior to written execution by the OWNER of the Revised Notice to Owner. Changes in the scope of the work will require an amendment to this Agreement in addition to the revised Notice to Owner.

II. LIABILITY FOR WORK

The existing facilities are lawfully maintained in their present location and qualify for relocation at STATE expense under the provisions of Section 703 of the Streets and Highways Code.

ADA Notice: For individuals with disabilities, this document is available in alternate formats. For information call (916) 654-5413, Voice, CRS: 1-800-735-2929, or write Right of Way, 1120 N Street, MS-37, Sacramento, CA 95814

III. PERFORMANCE OF WORK

OWNER agrees to cause the herein described work to be performed by a contract with the lowest qualified bidder, selected pursuant to a valid competitive bidding procedure, and to furnish or cause to be furnished all necessary labor, materials, tools, and equipment required therefore, and to prosecute said work diligently to completion.

Use of personnel requiring lodging and meal 'per diem' expenses shall not exceed the per diem expense amounts allowed under the California Department of Human Resources travel expense guidelines. Accounting Form FA-1301 is to be completed and submitted for all non- State personnel travel per diem. Owner shall also include an explanation why local employee or contract labor is not considered adequate for the work proposed.

Work performed by OWNER's contractor is a public work under the definition of Labor Code Section 1720(a) and is therefore subject to prevailing wage requirements.

Work performed directly by Owner's employees falls within the exception of Labor Code Section 1720(a)(1) and does not constitute a public work under Section 1720(a)(2) and is not subject to prevailing wages. OWNER shall verify compliance with this requirement in the administration of its contracts referenced above.

IV. PAYMENT FOR WORK

SBCAG shall pay its share of the actual and necessary cost of the herein described work within 45 days after receipt of OWNER's itemized bill, signed by a responsible official of OWNER's organization and prepared on OWNER's letterhead, compiled on the basis of the actual and necessary cost and expense. The OWNER shall maintain records of the actual costs incurred and charged or allocated to the project in accordance with recognized accounting principles.

It is understood and agreed that the SBCAG will not pay for any betterment or increase in capacity of OWNER's facilities and that OWNER shall give credit to the SBCAG for the accrued depreciation and for the salvage value of any material or parts salvaged and retained or sold by OWNER.

Not more frequently than once a month, but at least quarterly, OWNER will prepare and submit detailed itemized progress bills for costs incurred not to exceed OWNER's recorded costs as of the billing date less estimated credits applicable to completed work performed under this Agreement. Payment of progress bills not to exceed the amount of this Agreement may be made under the terms of this Agreement. Payment of progress bills which exceed the amount of this Agreement may be made after receipt and approval by SBCAG of documentation supporting the cost increase and after an Amendment to this Agreement has been executed by the parties to this Agreement.

The OWNER shall submit a final bill to the SBCAG within 360 days after the completion of the work described in Section I above. If SBCAG has not received a final bill within 360 days after notification of completion of OWNER's work described in Section I of this Agreement, and SBCAG has delivered to OWNER fully executed Director's Deeds, Consents to Common Use or Joint Use Agreements for

OWNER's facilities (if required), SBCAG will provide written notification to OWNER of its intent to close its file within 30 days. OWNER hereby acknowledges, to the extent allowed by law, that all remaining costs will be deemed to have been abandoned. If the SBCAG processes a final bill for payment more than 360 days after notification of completion of OWNER's work, payment of the late bill may be subject to allocation and/or approval by the California Transportation Commission.

The final billing shall be in the form of a detailed itemized statement of the total costs charged to the project, less the credits provided for in this Agreement, and less any amounts covered by progress billings. However, the SBCAG shall not pay final bills which exceed the estimated cost of this Agreement without documentation of the reason for the increase of said cost from the OWNER and approval of documentation by SBCAG. Except, if the final bill exceeds the OWNER's estimated costs solely as the result of a revised Notice to Owner as provided for in Section I, a copy of said revised Notice to Owner shall suffice as documentation. In either case, payment of the amount over the estimated cost of this Agreement may be subject to allocation and/or approval by the California Transportation Commission.

In any event if the final bill exceeds 125% of the estimated cost of this Agreement, an Amended Agreement shall be executed by the parties to this Agreement prior to the payment of the OWNER'S final bill. Any and all increases in costs that are the direct result of deviations from the work described in Section I of this Agreement shall have the prior concurrence of SBCAG.

Detailed records from which the billing is compiled shall be retained by the OWNER for a period of three years from the date of the final payment and will be available for audit by State and/or Federal auditors. In performing work under this Agreement, OWNER agrees to comply with the Uniform System of Accounts for Public Utilities found at 18 CFR, Parts 101, 201, et al., to the extent they are applicable to OWNER doing work on the project that is the subject of this Agreement, the contract cost principles and procedures as set forth in 48 CFR, Chapter 1, Subpart E, Part 31, et seq., 23 CFR, Chapter 1, Part 645 and 2 CFR, Part 200, et al. If a subsequent State and/or Federal audit determines payments to be unallowable, OWNER agrees to reimburse SBCAG upon receipt of SBCAG billing. If OWNER is subject to repayment due to failure by SBCAG to comply with applicable laws, regulations, and ordinances, then SBCAG will ensure that OWNER is compensated for actual cost in performing work under this agreement.

V. GENERAL CONDITIONS

All costs accrued by OWNER as a result of SBCAG's request of May 16, 2022, to review, study and/or prepare relocation plans and estimates for the project associated with this Agreement may be billed pursuant to the terms and conditions of this Agreement.

If the PROJECT which precipitated this Agreement is canceled or modified so as to eliminate the necessity of work by OWNER, SBCAG will notify OWNER in writing and SBCAG reserves the right to terminate this Agreement by Amendment. The Amendment shall provide mutually acceptable terms and conditions for terminating the Agreement.

All obligations of SBCAG under the terms of this Agreement are subject to the acceptance of the Agreement by SBCAG Board of Directors or the Delegated Authority (as applicable), the Board of Directors of OWNER, the passage of the annual Budget Act by the State Legislature, and the allocation of those funds by the California Transportation Commission.

ADA Notice: For individuals with disabilities, this document is available in alternate formats. For information call (916) 654-5413, Voice, CRS: 1-800-735-2929, or write Right of Way, 1120 N Street, MS-37, Sacramento, CA 95814

OWNER shall submit a Notice of Completion to the SBCAG within 30 days of the completion of the work described herein.

It is understood that said highway is a Federal aid highway and accordingly, 23 CFR, Chapter 1, Part 645 is hereby incorporated into this Agreement.

In addition, the provisions of 23 CFR section 635.410, Buy America, are also incorporated into this agreement. The Buy America requirements are further specified in Moving Ahead for Progress in the 21st Century (MAP-21), section 1518; 23 CFR section 635.410 requires that all manufacturing processes have occurred in the United States for steel and iron products (including the application of coatings) installed on a project receiving funding from the FHWA.

OWNER understands and acknowledges that this project is subject to the requirements of the Buy America law (23 U.S.C., Section 313) and applicable regulations, including 23 CFR 635.410 and FHWA guidance. OWNER hereby certifies that in the performance of this Agreement, for products where Buy America requirements apply, it shall use only such products for which it has received a certification from its supplier, or provider of construction services that procures the product certifying Buy America compliance. This does not include products for which waivers have been granted under 23 CFR 635.410 or other applicable provisions or excluded material cited in the Department's guidelines for the implementation of Buy America requirements for utility relocations issued on December 3, 2013.

If, in connection with OWNER's performance of the Work hereunder, SBCAG provides to OWNER any materials that are subject to the Buy America Rule, SBCAG acknowledges and agrees that SBCAG, shall be solely responsible for satisfying any and all requirements relative to the Buy America Rule concerning the materials thus provided (including, but not limited to, ensuring and certifying that said materials comply with the requirements of the Buy America Rule).

SBCAG further acknowledges that OWNER, in complying with the Buy America Rule, is expressly relying upon the instructions and guidance (collectively, "Guidance") issued by STATE and its representatives concerning the Buy America Rule requirements for utility relocations within the State of California. Notwithstanding any provision herein to the contrary, OWNER shall not be deemed in breach of this Agreement for any violations of the Buy America Rule if OWNER's actions are in compliance with the Guidance.

The estimated cost to SBCAG for the work being performed by the OWNER's contractor is \$1,101,966.

[This area intentionally left blank. Signatures on following page.]


05-UT-1816.482

IN WITNESS WHEREOF, the above parties have executed this Agreement the day and year above written.

SBCAG

MONTECITO SANITARY DISTRICT


By: 
Marjie Kirn
Executive Director

By: 
John Weigold
General Manager

Date: 9.28.23

Date: 9-29-2023

APPROVED AS TO FORM:
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By: 
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Counsel for SBCAG

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Montecito Sanitary District

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Santa Barbara, CA 93108

A Public Service Agency

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MONTECITO SANITARY DISTRICT STAFF REPORT – 5C

DATE: October 12, 2023
TO: Board of Directors
FROM: John Weigold, General Manager
SUBJECT: Montecito Sanitary District Consolidation with the Montecito Water District

RECOMMENDATION

It is recommended that the Board:

- 1) Approve the Raftelis Special District Collaboration and Consolidation Report; and
- 2) Take a vote on Consolidation with the Montecito Water District; and
- 3) Take any such additional, related action that may be desirable.

BACKGROUND

At the July 26, 2023 Special Board Meeting the Board received a presentation from Raftelis related to their report on the Special District Collaboration and Consolidation Study. Several discussions on the topic, as well as Recycled Water, have occurred since that time, both with the Montecito Sanitary District and the Montecito Water District, along with the Joint Strategic Planning Committee.

FISCAL IMPACT

None.

ATTACHMENTS:

1. Raftelis Special District Collaboration and Consolidation Report dated September 2023

Montecito Water and Sanitary Districts

Special District Collaboration and Consolidation Study

Project Report / September 2023



September 29, 2023

Mr. Nick Turner, P.E.
General Manager
Montecito Water District
583 San Ysidro Road
Santa Barbara, CA 93108

Mr. John F. Weigold, IV
General Manager/District Engineer
Montecito Sanitary District
1042 Monte Cristo Lane
Santa Barbara, CA 93108

Subject: Special District Collaboration and Consolidation Study

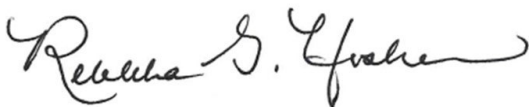
Dear Mr. Turner and Mr. Weigold:

We are pleased to present this project report summarizing our analysis of a potential consolidation of the Montecito Water District and the Montecito Sanitary Districts. This report reflects input received from both Districts as a result of the Joint Committee meeting on February 24, 2023, and comments provided afterward by both general managers, the Montecito Water District Board at its meeting on May 2, 2023, and the Montecito Sanitary District at its meeting on July 26, 2023.

This report includes a review of how a potential consolidation would impact areas of governance and staffing, financial position, and operations and efficiencies. Raftelis reviewed the pros and cons of consolidation and considered the associated costs from an objective perspective.

It has been our pleasure to assist with this important work. Thank you for the opportunity to work with the Montecito Water District and the Montecito Sanitary District.

Sincerely,



Rebekka G. Hosken
Project Manager



Jim Armstrong
Principal Consultant

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Executive Summary

The Montecito Water District (MWD) and the Montecito Sanitary District (MSD) formed as special districts under State of California law to provide water and wastewater services, respectively. Each is governed by a five-member Board of Directors, which appoints a General Manager to manage the operations of each district. Each serves largely the same service area and customers with the exception of Summerland (MSD) and a few minor boundary differences. MWD and MSD engaged Raftelis in April 2022 to study the feasibility of consolidating the two districts.

The districts have expressed interest in evaluating consolidation for several reasons. First, there is a desire by both organizations and their elected Boards of Directors to optimize the use of resources. As drought conditions become more frequent and severe in California, both Boards have expressed strong interest in using Montecito Sanitary District's effluent wisely through a variety of possible strategies, including beneficial reuse, greater use in irrigation, and recharging regional groundwater basins. This approach is also consistent with recent policy changes advocated at the State level to encourage greater use of treated wastewater and to reduce or eliminate ocean discharge of treated wastewater. The current evaluation of recycled water options by the districts is an example of the commitment to using resources wisely and a proactive response to State initiatives. Second, there is interest in providing customers with the best level of service in the most cost-effective manner. Each district has pursued this on their own, but the economies of scale of a combined entity may create additional opportunities. Third, the State of California, as stated in various versions of the Cortese-Knox-Hertzberg Local Government Reorganization Act, has encouraged reviews of special districts in California to ensure the "logical formation and determination of local agency boundaries..."¹ in order to ensure constituents are getting the best service at the lowest practical cost. Evaluating consolidation aligns with this statewide initiative. Consolidation, however, must be weighed against a potential perceived loss of local control and dilution of services that could result from combining formerly separate organizations. Consolidation costs and impacts on staff time, focus, and delays for other projects during any transition must also be considered.

A consolidation or reorganization of MWD and MSD is feasible and can be achieved, resulting in one organization managing potable water and wastewater services for the community. This organizational approach is not unique, and there are many examples of consolidated operations in California, both as special districts and within municipal organizations. In fact, the City of Santa Barbara uses this approach in its management of its water resources. While these programs can also be implemented through other mechanisms such as forming a JPA, utilizing a single organization to move forward on these endeavors ensures a unified approach and helps to avoid potential future organizational conflicts that can arise due to conflicting missions and priorities, and as Boards and management changes over time.

There are benefits and drawbacks to consolidation of the two districts, as shown in the table below and discussed later in this report.

¹ California Government Code, Division 3. Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, §56001

Pros	Cons
<ul style="list-style-type: none"> • Better integrated water policies and approach • Unified governing board • Some savings through potential elimination of one position • Greater staff specialization • Some economies of scale through shared contracting, shared resources (tools, chemicals), and coordination 	<ul style="list-style-type: none"> • Costs of remodeling and physical co-location • Cost of new shared systems such as financial management software • Staff time to review policies and procedures and to merge operations (especially administrative) • Impacts on staff morale and retention • Diverts staff capacity from other initiatives • Perceived or real loss of local control and dilution of services

The greatest benefit that would accrue from consolidation would be a unified governing body that could ensure integrated water policies. This would be especially helpful should there be a decision to move forward with a large, recycled water program that would involve significant capital expenditures, changes in water use policies, and allocation of costs to users through rate increases. Other potential benefits include some limited potential financial savings, the possibility of having greater staff specialization at the administrative level, and some savings through shared contracts and software systems.

Potential drawbacks to consolidation include the costs of aligning staff salaries and benefits, physical moves and co-location, and new shared systems such as financial management software. Significant staff time would be dedicated to managing the efforts needed to merge the two districts and it is unclear how time-sensitive projects could also be accomplished. Administrative facilities would need to be combined and perhaps expanded, resulting in additional costs. Existing staff could be disenfranchised and morale negatively impacted; in any significant restructuring, it is expected some subset of staff could choose to move elsewhere rather than deal with the uncertainty of major change. Internal staff outreach would be important during the process, and the legality of offering staff retention agreements can be explored. The combined entity could lose some talent in a job market where competition for skilled utility operators is stiff. This risk must be purposefully acknowledged and planned for due to its potential to delay or eliminate many of the potential benefits that might be achieved by consolidation.

As a percentage of total operating costs, the potential for cost savings is limited and in itself probably does not justify consolidation. Both Districts are currently managed well and appropriately staffed; if anything, current staffing is lean and there are already some areas of unmet need due to a lack of staffing, particularly in human resources, conservation, and recycled water. There would be some one-time costs associated with the transition, but these may be offset by potential long-term savings. Costs associated with consolidation include preparation of an application to the Santa Barbara County Local Agency Formation Commission (LAFCO), new or expanded software/licensing, legal fees, potential facility renovations and/or expansions, and the time associated with staff merging the two organizations. Over the first 10 years, the financial impact of consolidation is a savings between \$370,000 and \$655,640, with the biggest variables being the cost of potential salary and benefits parity, retention or elimination of the second General Manager position as a second Assistant General Manager, and potential addition of two new positions, a Human Resources Specialist and Control System Technician, as recommended. Costs are also dependent on the level of any renovations made to facilities; while costs may be contained in the near-term, some expansion to accommodate staff growth may be necessary over time and such costs have not been included here. A combined district may experience increased costs in the long term, particularly with implementation of recycled water, which would require additional FTEs for the treatment, distribution, management and use of this new water source. Other operational changes associated with expansion of in-house laboratory services and water conservation could improve service levels but might require increased staffing; this is the case whether or not the two agencies consolidate.

Operational efficiencies resulting from consolidation are primarily limited to the administrative and engineering functions. Because the primary operations and maintenance activities associated with water and sewer provision would remain relatively unaffected by consolidation, little impact would occur in the bulk of either district's treatment or field operations. Combining the districts could potentially streamline administration and engineering activities and may realize some savings in the future if the consolidated entity adopted a leaner staffing arrangement which, while financially attractive, is not recommended. Should all the current positions be retained in the long term with some reclassifications, the consolidated district may be able to enhance current service levels by allowing administrative staff to focus on specific subject areas rather than wearing "multiple hats" as is now done in each utility individually, and by allowing water and sewer engineering staff to collaborate. While MWD has a communications specialist on staff, MSD does not and could benefit from access to this expertise. Service levels can also be improved by adding expertise that was not economical in one utility.

Raftelis suggests that the consolidation, if desired, be implemented in a phased manner. The first phase, the interim period, would simply merge the two organizations without any significant changes in staffing and largely maintain status quo activities. The Santa Barbara County LAFCO would work with the districts to either merge MSD into MWD, a process known as "reorganization" (as defined in Government Code §56073), given that water districts in California have an existing option to provide wastewater services and MWD is a larger organization, or create a new Community Services District, which is referred to as "consolidation" (as defined in Government Code §56030). There are pros and cons to each approach. The interim period is expected to take 3-5 years. During this interim transition period financial, governance, and other areas would need to be aligned to develop a deeper understanding of the strengths and weaknesses of various options. Decisions could then be made about long-term staffing, combined facilities, and streamlining policies and procedures to assure the best chance for success.

Introduction

Background and Methodology

The MWD and the MSD, collectively referred to as “districts” were formed as special districts under State of California law. MWD was formed in 1921 and its 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.”² MWD is governed by a five-member Board of Directors who appoint a General Manager to run the day-to-day operations of the District. MSD was formed in 1947 and its mission statement is, “a community service commitment to protect public health and safety and to preserve the natural environment through the collection, treatment and disposal of wastewater in the most cost-effective way possible.”³ MSD is also governed by a five-member Board of Directors, which appoints a General Manager to manage the operations of the District.

Collaboration with other entities has been a longstanding value at MWD and part of their history dating back to its formation in 1921. The MWD collaborated with the City of Santa Barbara on Jameson Lake in the late 1920s, with all water purveyors on the south coast for construction and operation of the Cachuma Project in the 1950s, and with many water purveyors in the County on the State Water Project in the 1990s. In 1995, MWD took over water service for the community of Summerland when the Summerland Water District was dissolved. The service area was annexed by MWD. Wastewater services in Summerland are provided by the Summerland Sanitary District. In 2018, MWD became the agency responsible for managing the area’s groundwater resources and operates the Montecito Groundwater Basin Groundwater Sustainability Agency (GSA).⁴ In 2020, MWD entered into a water supply agreement with the City of Santa Barbara to share capacity of the City’s desalination plant, which ensures a long term rainfall independent water supply for the communities of Montecito and Summerland. Currently both districts are actively collaborating on the evaluation of recycled water services and have hired Carollo Engineers to study the options.

In April 2022, MWD and MSD collaborated to jointly engage Raftelis to study the potential consolidation of the two districts with knowledge that State regulatory changes and a push toward a “OneWater” concept (the entire process from water sourcing to wastewater treatment to recycled use) will require increased collaboration in the future. The goals of this study included:

- Articulating the pros and cons of consolidation
- Assessing the anticipated costs and cost savings of consolidation
- Assessing and quantifying operational efficiencies of consolidation, if any
- Evaluating the advantages, disadvantages, opportunities, and limitations of consolidation
- Determining if there is a business case to affirm the two districts can and should consolidate.

In order to do so, Raftelis has simulated the likely steps and results of a consolidation effort in order to determine its impacts on both current agencies and a new consolidated one. Where possible, estimated costs and potential cost savings associated with the creation of a single entity are quantified.

The project team reviewed background information and data provided by both districts including services, finances, organizational charts, staffing history, job responsibilities, and other relevant information. The project team interviewed the General Managers and several Board of Directors members, as well as the LAFCO in Santa Barbara County and the districts’ legal firm retained for this evaluation, Colantuono, Highsmith & Whatley, PC. The

² Montecito Water District, Mission & History, <https://www.montecitowater.com/about-the-district/mission-and-history/>

³ Montecito Sewer District, About the District, <https://www.montsan.org/about-the-district>

⁴ Montecito Groundwater Basin GSA, Mission & Purpose, <https://montecitogsa.com/about/mission-purpose/>

interviews and review of data helped the project team understand the history and context for the current operations and structure, and assess the likely benefits and challenges associated with potential consolidation.

About the Montecito Water District

The MWD manages water resources and delivers water to customers in the communities of Montecito and Summerland with a population served of approximately 11,817.⁵ The water treatment and distribution system includes approximately 4,630 service connections, 114 miles of water main, nine pump stations, 12 groundwater wells, and two water treatment plants.⁶ The MWD is also responsible for Juncal Dam, which was built in 1930 and created Jameson Lake, one of the water sources for MWD.⁷ MWD bills customers monthly for water service based on metered usage.

The MWD service area is approximately 15.4 square miles in the southeast portion of Santa Barbara County. The MWD service area encompasses all but a small portion of the MSD's service area in addition to the community of Summerland to the southeast and portions of unincorporated Santa Barbara County east of Ladera Lane to the south of the Los Padres National Forest boundary, as well as a section west of Westmont Road up to the Los Padres National Forest Boundary. Figure 1 shows a map from the Santa Barbara County Surveyor of MWD's service area shaded in blue. A larger version is provided as Appendix B to this report.

⁵ Montecito Water District, FY2022 Adopted Budget, Page 5

⁶ Montecito Water District (MWD), District Facilities Overview, <https://www.montecitowater.com/about-the-district/service-facilities/>

⁷ Montecito Water District (MWD), FY2022 Adopted Budget, Pages 2 and 7.

Figure 1: MWD Boundaries Map

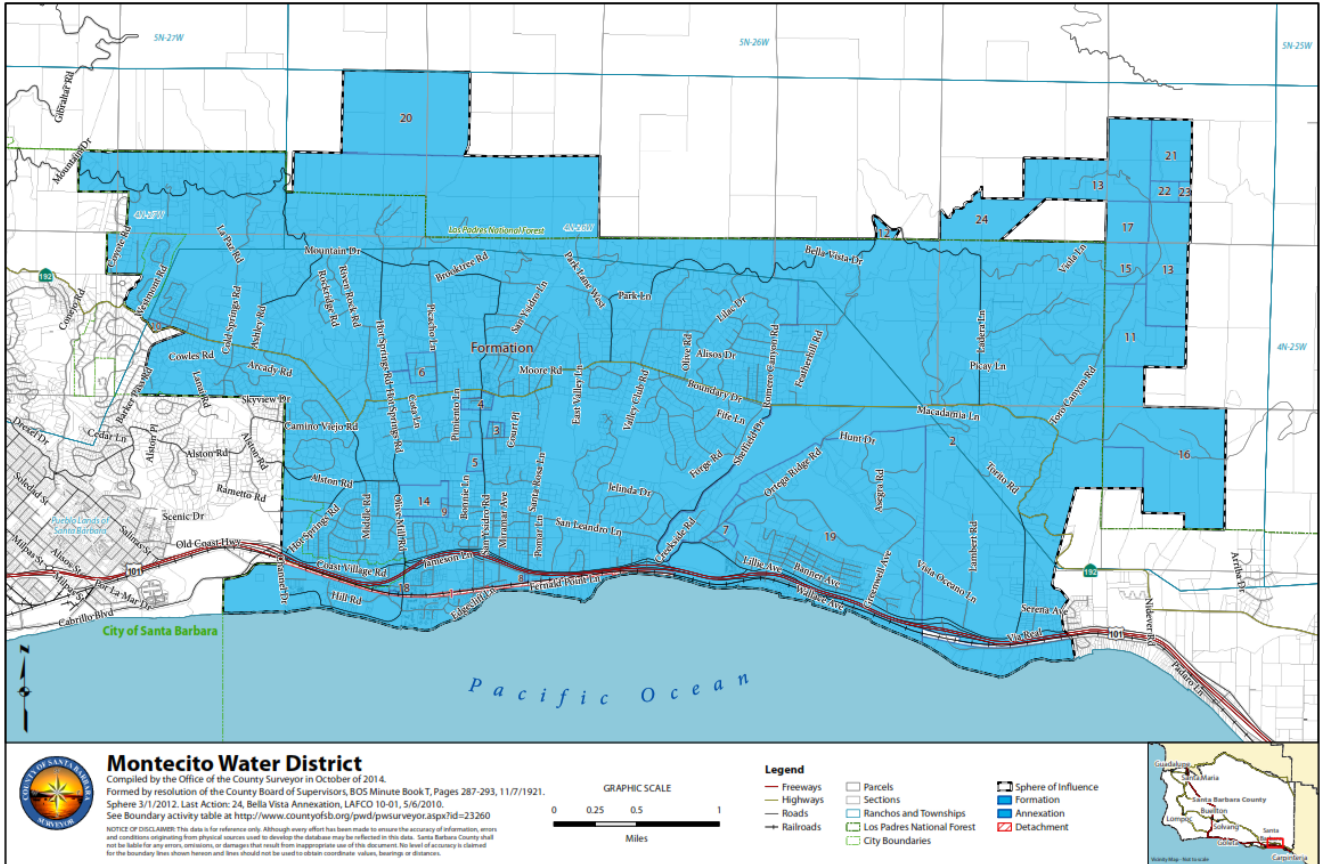


Table 1 below provides an overview of the primary activities of MWD staff, associated with treating and supplying water. It is not intended to be all-inclusive, but rather a summary of the general activities performed by MWD staff.

Table 1: MWD Core Services

Department Function/Division	Program Area	Activities and Service Levels
Administration	Management/ Administration	<ul style="list-style-type: none"> • Manage and direct MWD staff to meet the Board of Director’s goals and objectives • Ensure compliance with regulatory and reporting requirements • Advertise, recruit, and hire staff • Prepare board packets and agendas • Maintain records
	Communication	<ul style="list-style-type: none"> • Provide public information to customers and the community • Respond to questions from customers • Provide education for conservation issues, techniques, and strategies
	Engineering	<ul style="list-style-type: none"> • Provide engineering expertise and support to District capital projects • Develop growth and renewal schedules and plans for horizontal and vertical infrastructure
	Finance and Customer Service	<ul style="list-style-type: none"> • Develop and monitor an annual budget • Maintain general ledger, A/P, A/R, and purchasing • Provide Payroll
	Public Information	<ul style="list-style-type: none"> • Provide education and outreach on MWD to the public • Assist MWD staff with formatting and content of communications • Develop relationship with local press
Water Distribution	System Maintenance	<ul style="list-style-type: none"> • Conduct regular proactive maintenance of water mains, valves, hydrants, and other appurtenances • Respond to water line breaks and leaks • Perform flushing of water mains to ensure water quality
	Fleet Maintenance	<ul style="list-style-type: none"> • Perform maintenance on District owned vehicles and equipment
Water Treatment and Production	Treatment Plant Operations	<ul style="list-style-type: none"> • Operate the Bella Vista and Doulton Water Treatment Plants • Monitor the Doulton Tunnel, Jameson Lake, groundwater wells, and other water sources • Conduct regular water quality tests to ensure water meets acceptable drinking standards • Inspect and maintain wellhouses, treatment plants, and pump stations
	Dam Maintenance	<ul style="list-style-type: none"> • Inspect and maintain the Juncal Dam • Report inspections to the State of California • Perform routine preventative maintenance

STRUCTURE

The Board of Directors appoints a General Manager to run the day-to-day operations of the MWD. The General Manager also serves as the Board Secretary. The MWD consists of three workgroups all reporting to the General Manager: water production and treatment, water distribution, and administrative support. Additionally, MWD General Manager serves as the General Manager for the Montecito Groundwater Basin Groundwater Sustainability Agency (GSA), which consists of a fourth and separate workgroup for groundwater. As of the FY2022 adopted budget, the MWD has a total of 28 employees. The following figure shows MWD’s organizational structure based on 2022 staffing levels.

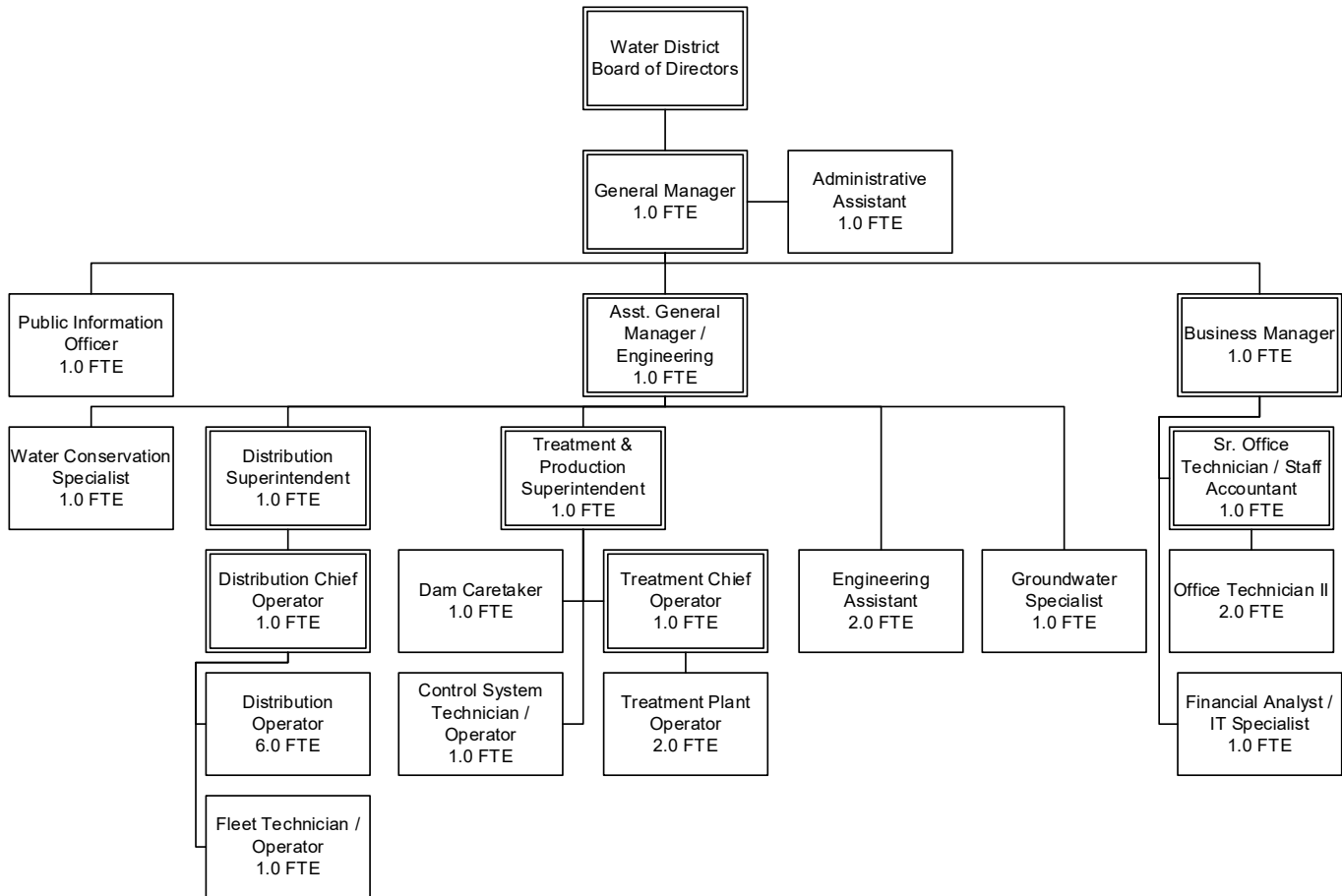


Figure 2: MWD Organizational Chart, FY2022

The Treatment and Production Department is led by the Treatment & Production Superintendent with oversight and support from the Assistant General Manager/Engineering Manager. The Treatment & Production Superintendent supervises three full time operators along with a Control System Technician/Operator which support the operation of two treatment plants: the Bella Vista Treatment Plant and the Doulton Treatment Plant, including the operation of twelve groundwater wells and associated localized treatment systems, and ten water storage reservoirs. The Dam Caretaker is responsible for maintenance and upkeep of the Juncal Dam which forms Jameson Lake, one of the primary water sources for the District.

The Distribution Department is led by the Distribution Superintendent with oversight and support from the Assistant General Manager/Engineering Manager. The Distribution Superintendent supervises a full time Distribution Chief Operator, six Distribution Operators and a Fleet Technician/Distribution Operator. The seven full time operators maintain and repair MWD’s water mains, valves, pump stations, hydrants, pressure reducing stations, and other infrastructure. Fleet maintenance is also part of this workgroup, which is supported by a Fleet Technician/Distribution Operator who is cross trained to perform some Operator duties.

Administrative support includes a Public Information Officer (PIO) responsible for communications with customers and the public. A Water Conservation Specialist is responsible for educating the public on water conservation issues. Clerical, financial, and information technology related tasks are led by a Business Manager and supported by four full time employees who provide finance and accounting, human resources, and board agenda and packets services to the District.

STAFFING

Between FY2018 and FY2022, MWD staffing has increased by two full time equivalents (FTEs). The additional positions include an Assistant Engineer, and subsequent to the GSA formation, a Groundwater Specialist. These positions were needed to improve responsiveness and customer communications, and respond to new groundwater regulations. The following table shows MWD staffing between FY2018 and FY2022.

Table 2: MWD Authorized Staffing Level, FY2018 to FY2022⁸

Staffing	FY2018	FY2019	FY2020	FY2021	FY2022	Percent Change FY2018 to FY2022
Full Time Equivalents	26.0	26.0	28.0	28.0	28.0	12%

BUDGET

The MWD adopted budget has increased by approximately 32% between FY2018 and FY2022. This is in part driven by the cost of a long-term water supply agreement (WSA) with the City of Santa Barbara to receive an allotment of drinking water from their Charles E. Meyer Desalination Facility.⁹ This agreement provides 1,430 acre-feet of water annually for 50 years. The following table shows the adopted budget by expenditure category for FY2018 to FY2022.

Table 3: MWD Expenditures by Category, FY2019 to FY2022¹⁰

Category	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Projected	FY2023 Budget	Percent Change FY2019 to FY2023
Operating Expenditures	\$15,553,982	\$15,633,053	\$15,721,945	\$17,717,256	\$19,833,249	27.5%
Depreciation Expense	1,183,710	1,198,312	1,088,741	1,156,535	1,152,000	-2.7%
Non-Operating Expenditures	1,411,401	1,549,850	1,082,134	1,203,196	667,427	-52.7%
Total Expenditures	\$18,149,093	\$18,381,215	\$17,892,820	\$20,076,987	\$21,652,676	19.3%

About the Montecito Sanitary District

The MSD provides collection, treatment, and disposal of wastewater to residents within the Montecito community with an approximate population served of approx. 9,000.¹¹ The wastewater collection system includes five pump stations, 75.2 miles of sewer main, and a wastewater treatment plant with a rated capacity of 1.5 million gallons per day (MGD). There has been significant support over recent years by property owners and the Board of Directors (BoD) to extend the MSD sewer system to allow for septic to sewer conversions. Even with expansion of more connections, the District's flows at the treatment plant are at lows not seen for multiple decades.

The MSD is governed by a five-member Board of Directors elected to four-year terms. MSD serves 3,185 properties.¹² Billing for wastewater services is done through an annual fee that is levied as part of each parcels' property tax bill; this is processed and collected by Santa Barbara County on behalf of the District.

⁸ Montecito Water District, FY2018 to FY2022 Adopted Budgets, <https://www.montecitowater.com/about-the-district/financials/>

⁹ Montecito Water District, FY2022 Adopted Budget, Page 7

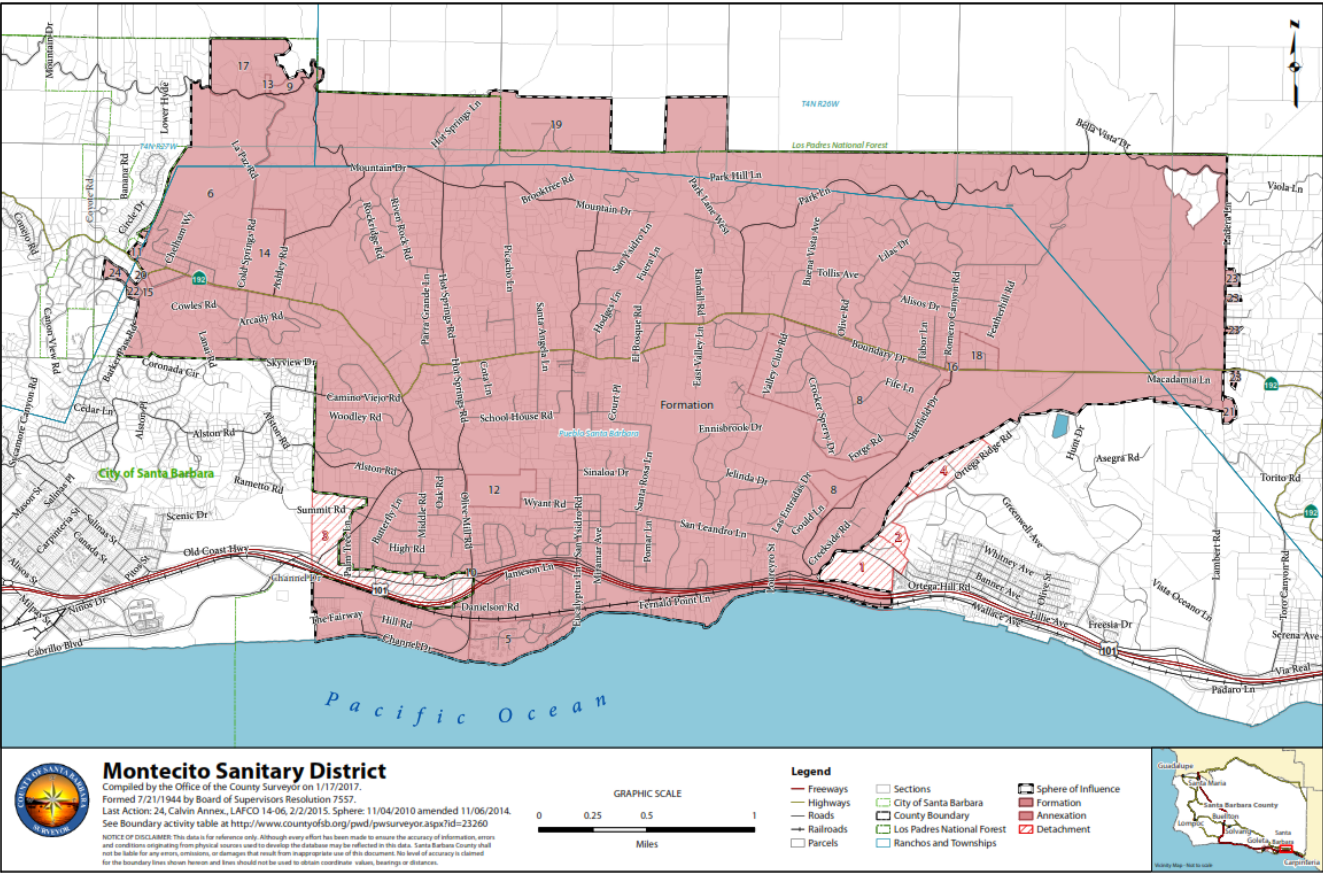
¹⁰ Montecito Water District, FY2018 to FY2022 Adopted Budgets, <https://www.montecitowater.com/about-the-district/financials/>

¹¹ Montecito Sanitary District, About the District, <https://www.montsan.org/about-the-district>

¹² Montecito Sanitary District (MSD), About the District, <https://www.montsan.org/about-the-district>

The MSD service area covers approximately 9.3 square miles in southeast Santa Barbara County. MSD's service area is mostly coterminous with MWD's boundaries except for the community of Summerland to the southeast and portions of unincorporated Santa Barbara County east of Ladera Lane and north of the Los Padres National Forest boundary, as well as a section west of Westmont Road up to the Los Padres National Forest Boundary. Figure 3 shows a map from the Santa Barbara County Surveyor of MSD's service area shaded in pink. A larger version is provided as Appendix B to this report.

Figure 3: MSD Boundary Map



The following table provides an overview of core services provided by MSD. This table is not intended to be all-inclusive, but rather a summary of the core services provided by MSD staff.

Table 4: MSD Core Services

Department Function/Division	Program Area	Activities and Service Levels
Administration	Management/ Administration	<ul style="list-style-type: none"> • Manage and direct MSD staff to meet the Board of Directors goals and objectives • Develop and monitor an annual budget • Ensure compliance with regulatory and reporting requirements • Permit development in accordance with District policies
	Engineering	<ul style="list-style-type: none"> • Provide engineering expertise and support to District capital projects • Develop growth and renewal schedules and plans for horizontal and vertical infrastructure
Wastewater Treatment	Treatment Plant Operations	<ul style="list-style-type: none"> • Operate the Wastewater Treatment Plant to meet all regulatory requirements of the District's National Pollutant Discharge Elimination System • Monitor the treatment plant effluent into the Pacific Ocean • Perform maintenance and repairs as needed • Operate District's recycled water pilot plant
	Facilities Maintenance	<ul style="list-style-type: none"> • Perform routine and proactive facility maintenance • Complete specialized HVAC, electrical, and plumbing maintenance
	Lab and Pretreatment	<ul style="list-style-type: none"> • Conduct regular water quality tests to comply with State treatment standards • Manage pretreatment program with applicable customers
Wastewater Collection	Collection System Maintenance	<ul style="list-style-type: none"> • Comply with Waste Discharge Requirements General Order • Conduct regular maintenance of sewer mains including televising and cleaning • Provide routine inspection and maintenance of lift stations • Oversee lateral inspection program to comply with state requirements to prevent private sewer lateral discharges (PLSDs) • Respond to blockages and report sanitary sewer overflows per regulatory requirements

STRUCTURE

The Board of Directors appoints a General Manager to run the day-to-day operations of the MSD. The MSD consists of five workgroups all reporting to the General Manager: collections, treatment, engineering, lab and pretreatment, and administrative support. The MSD has a total of 18 employees. The following figure shows MSD’s organizational structure based on 2022 staffing levels.

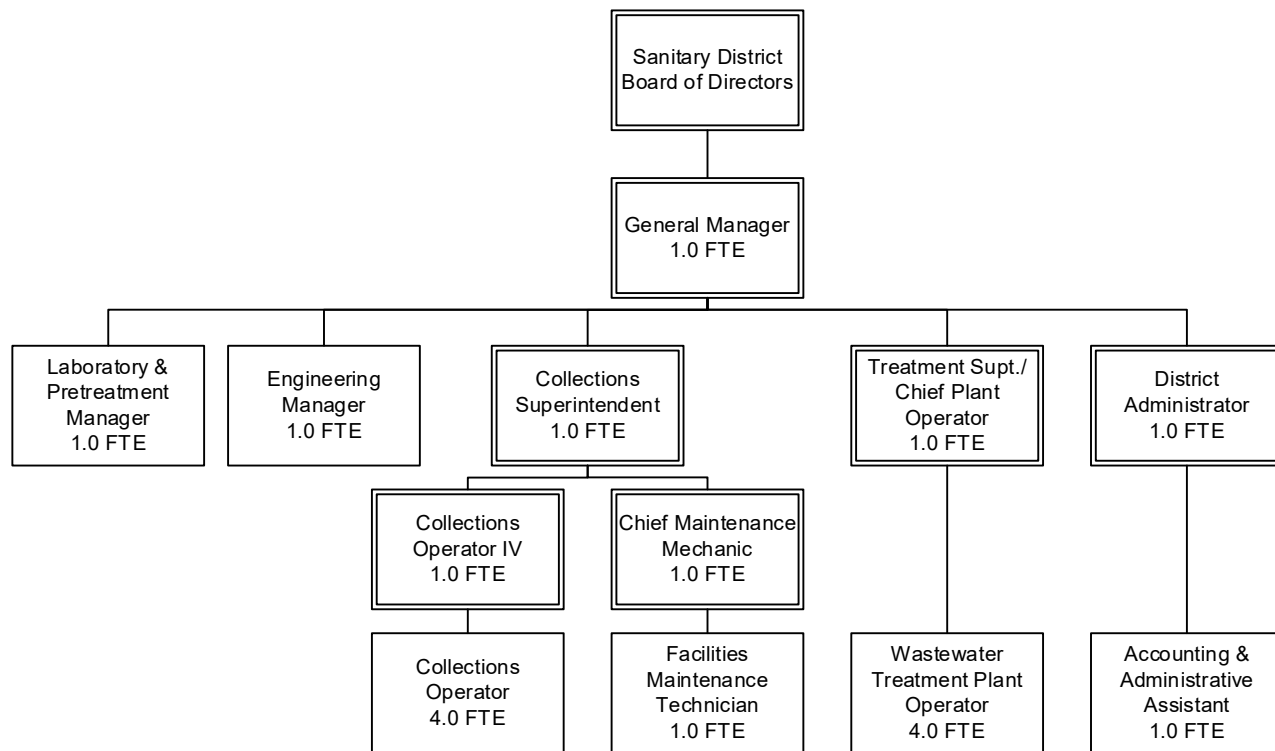


Figure 4: MSD Organizational Chart

MSD operations is split into three workgroups: Collections, Treatment Plant, and Maintenance. Collection staff maintain the wastewater mains and lift stations that collect wastewater from customers to the treatment plant; a total of six FTEs support this work. Treatment plant staff operate the District’s wastewater treatment plant and perform maintenance as needed; a total of five FTEs support this work. The Chief Maintenance Mechanic and Facilities Maintenance Technician, two FTEs, support the Collection and Treatment Superintendents with more complex maintenance at the treatment plant and lift stations, as well as maintain the facilities.

Engineering support is provided by the Engineering Manager, who provides engineering expertise for planning and execution of capital projects including new construction, rehabilitation, and replacement.

The Lab and Pretreatment Manager is responsible for conducting testing to support the regulatory monitoring and process control analysis for the wastewater treatment plant and ensure the MSD is complying with its National Pollution Discharge Elimination System (NPDES) permit requirements and State regulations. This also includes managing the District’s source control program for Fats, Oils and Grease (FOG).

Administrative support includes a District Administrator and Clerk of the Board as well as an Accounting and Administrative Assistant. These positions are responsible for clerical, financial, human resources, clerk of the board duties, permit review and coordination, and information technology related tasks.

STAFFING

Since 2017, staffing for MSD has only increased by one FTE. In 2018 an additional Collection System Operator was created to support the maintenance needed on the pipelines and lift stations. The following table shows the District’s authorized staffing level from 2017 to 2021 according to data reported to the California State Controller.

Table 5: MSD Authorized Staffing Level, 2017 to 2021¹³

Staffing	2017	2018	2019	2020	2021	2022	Percent Change
Full Time Equivalents	17.0	18.0	18.0	18.0	18.0	18.0	6%

BUDGET

The annual budget for MSD has increased by 24% between FY 2018 and FY2022. In addition, input costs like the cost of fuel and electricity have risen by 41% over the last five fiscal years. The following table shows the expenditures by category according to adopted budget documents and annual audited financial statements.

Table 6: MSD Expenditures by Category, FY2019 to FY2023¹⁴

Category	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Actual (unaudited)	FY2023 Budget	Percent Change FY2019 to FY2023
Operating Expenditures	\$5,386,384	\$5,832,724	\$5,897,097	\$4,201,370	\$5,160,763	-4.2%
Non-Operating Expenditures	245,318	245,012	866,091	674,780	251,500	2.5%
Capital Contributions ¹⁵	6,979,983	42,479	154,807	123,068	4,980,500	-28.7%
Total Expenditures	\$12,611,685	\$6,120,215	\$6,051,904	\$4,325,113	\$10,392,763	-17.6%

¹³ California State Controller, Government Compensation in California, Montecito Sanitary District, <https://publicpay.ca.gov/Reports/SpecialDistricts/SpecialDistrict.aspx?entityid=2017>

¹⁴ Montecito Sanitary District, FY2018 to FY2022 Adopted Budgets and FY18 to FY2021 Annual Financial Reports.

¹⁵ FY2018-19 MSD capital contributions included the Miramar Lift Station and Force Main and sewer main extension reimbursements.

About Consolidation

Any potential consolidation of the Districts would require approval by the Santa Barbara County LAFCO. LAFCOs were created by the State of California in response to rapid growth experienced in the 20th century and the urban sprawl that resulted.¹⁶ Each LAFCO works with residents, the County, and any cities and special districts in their region on jurisdictional issues to discourage urban sprawl and encourage the orderly formation of local agencies.¹⁷ A regular part of a LAFCO's duties is to review special districts to ensure services are being provided in a cost effective and efficient manner. LAFCOs have the authority to approve and manage consolidation efforts. Applications for consolidation or collaboration need to be submitted to the local LAFCO for review, public engagement, and approval. LAFCOs are able to work with agencies to provide guidance and temporary rules to facilitate consolidation. This can include arrangements for transitioning Board of Directors seats and finances between agencies, or consolidating them in the case of a combination of two or more entities. As part of a consolidation or collaboration process, local agencies would work closely with their County LAFCO.

Municipal Service Reviews (MSRs) are prepared by LAFCOs for a variety of purposes, most often as a precursor to a review of a sphere of influence. California Government Code Section 56430 states that an MSR should include a review of seven factors with regard to service provision:

1. Growth and population projections for the affected area
2. Location and characteristics of any disadvantaged unincorporated communities within or contiguous to affected spheres of influence
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies
4. Financial ability of agencies to provides services
5. Status and opportunities for shared facilities
6. Accountability for community service needs, including structure and operational efficiencies
7. Matters relating to effective or efficient service delivery as required by policy

Raftelis has consulted with Santa Barbara County LAFCO and other LAFCO agencies in California on utility consolidation matters. The Raftelis project team interviewed Santa Barbara County LAFCO staff to discuss and review consolidation procedures and steps that would be necessary to achieve consolidation within Santa Barbara County. Ultimately, a formal application by both agencies would need to be submitted to the Santa Barbara County LAFCO for review and approval. In addition, before an application is submitted, agencies desiring consolidation would need to conduct public outreach and meetings with stakeholders.

The Sacramento LAFCO also provided information, which has been included and summarized below:

While the terms “merger,” “combination” and “consolidation” are often used colloquially, in the LAFCO context there are a number of terms that have specific definitions. The words “combination” or “combined” do not have a legal definition under LAFCO Law. This stands in contrast to the terms “consolidation” (as defined in Government Code §56030) and “reorganization” (as defined in Government Code §56073),” which have specific meanings. Technically, consolidation is when two like agencies – two cities or two special districts -- join together into a single agency. Reorganization is when one agency is dissolved and annexed by the other. The end results are essentially the same: one agency assumes the rights, responsibilities, assets, and liabilities from others. For the purposes of simplicity, this study uses the term “consolidation.”

¹⁶ Santa Barbara Local Agency Formation Commission, History, <http://www.sblafco.org/history.sbc>

¹⁷ Santa Barbara Local Agency Formation Commission, <http://www.sblafco.org/>

In a consolidation, all existing agencies are dissolved and a new one is created in their place with a service area that encompasses the previous districts' service areas. The new agency is the successor entity. The process is initiated when both agencies file an application to LAFCO for consolidation. In a reorganization, one or more districts are dissolved and one agency annexes all or a portion of their former service areas. An existing agency is the successor entity. The process initiates when one or more districts applies to dissolve, and the remaining district applies to annex the service area of the dissolved district(s).

Either district, as well as the County which includes both, can initiate these processes by adopting a resolution of application and going through the "normal" LAFCO process (which, in reality, can vary across counties). There is also one provision of State Law that may also be applicable: Government Code §56853(a) states that if the combining agencies adopt *substantially similar* resolutions of application, LAFCO must either approve or conditionally approve the proposal (in other words, LAFCO cannot deny the application). If LAFCO approves a consolidation under this section, Government Code §57077.2 provides that it will be subject to voter approval only if, at a second hearing called a "protest hearing," between 25% and 50% of the registered voters protest the change. (See page 18 for a more detailed explanation of the protest thresholds.)

Before reviewing consolidation of the two entities, it is helpful to review other alternative cooperative structures short of full consolidation.

Alternative Cooperative Structures Short of Consolidation

State law also provides for other structures short of consolidation that the districts could utilize to implement specific projects or programs, such as the creation of a recycled water program. As discussed in a report issued by the California State Legislature Local Government Committee in 2007¹⁸, these structures can generally be described as follows:

Joint Powers Agreement – A joint powers agreement is a formal, legal agreement between two or more public agencies that share a common power and want to jointly implement programs, build facilities or deliver services. Under a joint powers agreement, one of the member agencies agrees to be responsible for delivering the program or constructing facilities. The agreement spells out how the programs will be administered and how the costs will be allocated to the member agencies. Each joint powers agreement is unique, and can be amended by the mutual consent of the agencies.

The benefits of a joint powers agreement are as follows:

- Relatively simple to create and operate
- Does not require a separate set of financial statements or independent audit
- One agency provides the staff to implement the programs and projects
- Key components of the financial responsibilities of the parties is spelled out in the joint powers agreement

Negative aspects of a joint powers agreement are as follows:

- One agency administers the terms of the agreement, limiting the involvement of staff from other agencies
- No independent ability to secure long term financing through instruments such as revenue bonds.
- May be difficult to utilize for complex, multi-year projects and programs that have a lot of uncertainty.

¹⁸ California State Legislature Local Government Committee, *Governments Working Together: A Citizen's Guide to Joint Power Agreements*, August 2007, <https://sgf.senate.ca.gov/sites/sgf.senate.ca.gov/files/GWTFinalversion2.pdf>

Joint Powers Agencies – A joint powers agency or joint powers authority (JPA) is a new, separate government agency created by the member agencies, but legally independent from them. Like a joint powers agreement, in which one agency administers the terms of the agreement, a joint powers agency shares powers common to the member agencies. The governance structure of the new agency is determined by the agency members and can vary depending upon the needs of the agencies. Typically, member agencies appoint the individuals who will sit on the governing board. Members of the governing boards can be staff members, board members, or separately selected members from the community.

The formation of a joint powers agency is done through the creation of a formal agreement that spells out the powers of the new agency, financial responsibilities, and the governance structure. Each agency's governing body must approve the joint powers agreement. Once the agency is created, a notice must be filed with the Secretary of State.

Joint powers agencies are legally separate public agencies that can hire staff, obtain financing to build public facilities, and usually protect member agencies from the agency's debts or other liabilities. JPAs are frequently used for financing purposes, since they are able to issue revenue bonds without voter approval.

As a separate agency, the JPA must appoint a treasurer and an auditor. Annual audits must be conducted and filed with the County Auditor. Additionally, Board of Directors meetings must be conducted in accordance with the Brown Act.

Benefits of creating a joint powers agency are as follows:

- Can be used to implement very specific projects and programs that benefit a number of agencies
- Separate financing authority to issue bonds and ability to apply for grants
- Separate staff dedicated to authority projects and programs, and independent of the member agencies

Negative aspects include the following:

- Confusing governance structure that is difficult to understand by the public
- Higher costs due to the need to create separate administrative structure, maintain separate financial records, conduct audits, etc.
- Appointed members of the Board of Directors may have conflicting loyalties when disputes arise

Consolidation

Governance is a key component of any effort toward consolidation. Organizationally, there are two avenues to combine the services of MSD and MWD, consolidation or reorganization. The end result is essentially the same, with one agency assuming the rights, responsibilities, assets, and liabilities from the current organizations. Below are more details on the reorganization and consolidation scenarios:

- **Reorganization: Dissolution of MSD and annexation by MWD** – One district is dissolved, and one agency annexes their former service area. Under California Water Code, water districts can also perform the services of a wastewater utility, including constructing, operating, and maintaining wastewater collection, treatment, and disposal infrastructure.¹⁹ Merging water and wastewater services would require the restructuring of MWD by adding in MSD staff and operations, and result in dissolving MSD. The MWD Board of Directors would remain intact at five members and the current MSD Board would be dissolved.

¹⁹ State of California, California Water Code, Division 13 California Water Districts, Article 5. Sewers

- **Consolidation: Creation of a new Community Services District** – All agencies are dissolved and a new Community Services Agency is created in their place with a service area that encompasses the previous districts’ service areas. Under California State Code, Community Services Districts can provide several municipal services including treating and supplying drinking water and collection and treatment of wastewater.²⁰ A new Community Services District would require dissolving both MWD and MSD. LAFCO can approve a larger temporary Board of Directors which would include members of both existing Boards of Directors. The Board of Directors would become smaller over time as member terms expire.

To initiate the process, the Districts would need to submit resolutions of application to LAFCO which should include: the actions requested from LAFCO, designated contact person(s), map of the service area(s) affected, what should be done with zones of benefit or benefit assessments, fiscal considerations, governing considerations, and any other conditions of approval requested of LAFCO. The Districts would work with LAFCO to review the consolidation plans and engage with the community to review the proposed organizational structure, impact upon service delivery, and financial implications. LAFCO would also do an environmental assessment of the proposed consolidation. Based upon our discussions with LAFCO, it is believed that the project would either be Categorical Exempt or receive a Negative Declaration.

As a part of the consolidation process, State Law requires that LAFCO send formal notices to all landowners and registered voters within the boundaries of the district(s) being considered for dissolution or consolidation. The formal notice would provide landowners and registered voters an opportunity to object to the proposed organizational change. After objections are received and tabulated, LAFCO would move forward as follows:

- If less than 25% of voters or owners by land value object to change, the dissolution/consolidation would go forward after approval by LAFCO
- If between 25-50% of registered voters or owners by land value object to the change, LAFCO would call an election to approve the dissolution/consolidation
- If more than 50% of registered voters or owners by land value object to the change, the dissolution/consolidation would not go forward and the status quo situation would remain.

Both of the organizational options eventually result in the same outcome, a consolidated organization with a five member elected Board of Directors overseeing operations. Creating a new Community Services District does allow for an interim governing structure that allows members from both Boards of Directors to participate in the transition process until their terms expire.

MWD and MSD would need to consider potential impacts to the Groundwater Sustainability Agency (GSA) and the Summerland Sanitary District (SSD). For example, if a decision is made to create a new Community Services District, the duties of the GSA would need to be assigned to the new agency. We expect that LAFCO and the State Department of Water Resources would readily approve the new organization taking over the responsibilities of managing the GSA.

With respect to the SSD, the new agency – whether consolidated entity or CSD -- would need to either exclude the SSD from its boundaries for purposes of sanitary services, or develop an appropriate services agreement with SSD to continue to provide these services. Santa Barbara County LAFCO can assist in this process. For simplicity purposes,

²⁰ State of California, Government Code, Division 3 Community Services Districts, Part 3 Purposes Services and Facilities, Chapter 1 Authorized Services and Facilities, Section 61100(a) and Section 61100(b), https://calafco.org/sites/default/files/resources/sb_135_bill_20050922_chaptered.pdf

the consulting team does not recommend including any consideration of annexing or consolidating with SSD into the process at this stage.

It would be important for both organizations to communicate regularly about the consolidation process and potential options being considered. Developing resources like a fact sheet, infographics, or short videos, which can be used in different communications channels can help proactively address potential questions and drive people to learn more. It may be appropriate to conduct a survey to gather information and gain insights on the topics that need to be communicated or methods of communication that would work best. Holding in-person or virtual open houses can be a good method to humanize the agencies and provide an opportunity for stakeholders to learn more about the process. In addition, communications around the formation of the Montecito GSA may be helpful in informing communications for this process.

This report assesses the potential impacts of consolidation by reviewing the likely many changes that would occur should the two districts consolidate into one. These impacts are evaluated in two scenarios, a short-term, interim scenario which highlights immediate changes through three years immediately following consolidation, and a long-term scenario with changes beyond the three years. The next sections will evaluate potential consolidation impacts in three areas: Governance and Staffing, Financial Position, and Operations.

Should the Districts decide to move forward with consolidation, Raftelis recommends it be accomplished in a phased approach. This would include an interim phase, of approximately three to five years, and a long term phase, where full consolidation would be completed.

In the next sections of this report, we discuss the recommended interim and long term organizational structures. This includes new governance, administrative, and operational structures. From an operational standpoint, there is little to no impact on day to day operations or on the services provided to customers. In the long term, there will be some changes to administrative and support functions, as the consolidation is completed. These changes should provide management with additional “bandwidth” to address future projects such as enhanced recycling programs, and to improve personnel management and outreach to the community.

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Governance and Staffing

MWD and MSD have separate, although complementary, purposes and missions. Operationally, MSD is focused on wastewater collection and treatment and MWD is focused on drinking water acquisition, treatment and distribution. Each organization acts as a separate utility. However, in many communities and jurisdictions water and wastewater services are provided by a single utility. The benefit of this approach is that it can align CIP planning and construction, provide some economies of scale for administrative and engineering functions, and provide customers with a single service provider and bill to pay.

This section will review the potential impacts of consolidation on governance and staffing for each agency.

Governance and Organizational Structure

One key area of consideration is the organizational structure of any consolidated organization and the process to combine staff of the previously separate organizations. As discussed earlier, the two organizations have separate operations with little overlap in terms of core water and wastewater activities, but there is opportunity to potentially improve water resource management, customer service, service levels, and efficiency through creating a combined utility.

In order to align the two organizations in the least disruptive manner, there would be a need for an interim structure that aligns similar work groups and begins melding staff together as the formal steps of consolidation are worked through. The interim alignment may provide some redundancy and would provide management with an opportunity to assess the actual needs of the newly formed agency before implementing operational changes, for example to reduce, retain the same or increase staffing. The full efficiency of combining the organization in the interim period may not be captured initially but it does allow the combined organization to leverage natural staff attrition, allay staff concerns about job security, and engage in transition activities more effectively.

GOVERNANCE

MWD and MSD are both governed by separate five-member Boards of Directors. Directors are elected at-large from the District services areas to serve four-year terms with staggered elections occurring every two years in line with the Statewide General Elections. Prior to the most recent drought, the number of candidates for the elected boards of both districts was limited. In fact, over several elections cycles from 2008 through 2016, elections were cancelled due to the lack of competitive contests. However, as drought restrictions were implemented, interest in serving on both boards increased. As a result, elections to both boards have been more competitive, and interest by community members in district operations and policies has increased.

Each Board of Directors sets the policy of the organization including approving the annual budget and setting fees and rates. The Board of Directors for each organization appoints the General Manager to oversee day-to-day operations while the Board provides policy direction.

If the Districts decide to pursue the creation of a community services district, the Districts will need to work with LAFCO to determine a transitional arrangement for governance. This might include combining both current Boards of Directors into one temporarily and reducing the numbers of Directors over time through future election cycles.

The consolidated new agency would ultimately have a single five member Board of Directors providing policy directly over both water and wastewater operations. In the short term, creating a single Board of Directors may mean additional monthly meetings to cover all topics in a timely manner, but in the long term streamlines governance by requiring only one agenda, one board packet, and fewer elections, potentially resulting in greater efficiency and some cost savings for ratepayers.

Creating a new community services district might provide a better transition for the two Boards of Directors to merge over time because members of both Boards would be involved in decision making in the initial years of the new organization. However, how this new community district is presented to the community is very important. Because community service districts can legally provide most municipal services, including public safety and parks and recreation, there could be the perception in the community that a new community services district is a precursor to a large organization providing more services, or even possible cityhood. In order to allay these concerns, the Districts will need to have a strong public outreach campaign to explain that the new District intends to only provide water and wastewater services.

Probably the most important reason to consider consolidation is that the new governing Board of Directors would provide unified direction to management concerning overall water supply and treatment policies, including the use of recycled water. This could be especially important should the districts decide to utilize recycled water as a major water supply. Specific decisions such as where to locate new facilities and how to allocate costs to ratepayers would be easier to make with a single Board of Directors.

The concept of OneWater and recycled water is enhanced by having a single vision and policymaking body. A single policy making body would control all facets of water, from sourcing, treatment of drinking water to treatment of wastewater and potentially reuse. Because these components naturally inter-relate, having a singular governing body would enhance planning and coordination. While coordination by separate entities is certainly achievable, it requires additional work.

One potential negative aspect of this change to a single governing body is the reduction in the number of directly elected members of the Board of Directors in the community by half which, some could argue, reduces the level of local governance and stakeholder input. We do not concur with this assessment and have seen many combined water and wastewater utilities operate well nationwide with no known impacts to local governance or community participation.

Montecito Groundwater Sustainability Agency (GSA)

To comply with the State of California Sustainable Groundwater Management Act, MWD became the Groundwater Sustainability Agency for the Montecito Groundwater Basin. The Montecito Groundwater Basin Groundwater Sustainability Agency was established in 2018 to comply with the State of California Sustainable Groundwater Management Act, which required all groundwater basins designated as medium or high priority to form local GSAs to assess conditions in their local groundwater basins and adopt management plans based on those assessments.²¹ MWD initiated formation of the GSA. The MWD Board of Directors serves as the GSA Board of Directors and MWD staff serve as GSA staff. Only one employee is dedicated to GSA work, the Groundwater Specialist, who assists with the development and implementation of the GSA's Groundwater Sustainability Plan. The GSA budget and accounting is separate from the MWD budget.

²¹ Montecito Groundwater Sustainability Agency, Mission and Purpose, <https://montecitogsa.com/about/mission-purpose/>

The GSA would be impacted by any organizational or structural change to MWD. As part of any consolidation, staff would need to contact the State Department of Water Resources to transfer responsibility for the GSA to the new agency, including a new Community Services District if created²². Notification would not be necessary if the MWD consolidates with the MSD and preserves current GSA activities. The consultant team believes that both LAFCO and the State Department of Water Resources would readily approve the inclusion of GSA responsibilities in the new organization.

Summerland Sanitary District

The boundaries of MWD and MSD are generally aligned except for the area encompassing the community of Summerland. Summerland receives water services from MWD, but an independent special district provides wastewater collection, treatment, and disposal services. The SSD operates a treatment plant with a design capacity of 0.3 MGD, maintains eight miles of sewer main and three pumping stations, and a lab to ensure compliance with State and Federal laws.²³ The SSD has held recent discussions during regular Board of Directors meetings concerning its future including possible dissolution of the SSD due to infrastructure challenges and financial pressures.²⁴ Conceivably, MSD or the neighboring Carpinteria Sanitary District could absorb SSD if desired by SSD.

The boundary of any new consolidated agency serving MWD customers would encompass the SSD service area posing an opportunity to adjust services for MWD customers within the SSD Boundaries. This could be addressed in one of three ways. First, if a new Community Services District is created, it could exclude wastewater services to the area served by the SSD in the application to LAFCO, specifically noting that sanitary services will be provided by SSD, not the new Community Services District.

Secondly, if MWD combines with the MSD, the combined agency could work with the SSD to establish an out of area service agreement that would specify that SSD would continue to provide sanitary services within the existing boundaries of the SSD.

Thirdly, MWD and MSD could work with SSD to absorb responsibility for wastewater services in that area. This would result in the dissolution of the SSD and would likely require more time to evaluate the integration of the current staff, facilities, and finances.

The consultant team recommends that the possible dissolution of SSD and incorporation into a new entity formed by MWD and MSD be viewed as a follow up potential action and not be included in this analysis unless specifically requested by LAFCO.

ORGANIZATION STRUCTURE

The project team reviewed the organizational structure for MWD and MSD as well as position descriptions, job duties, and expectations for each employee in the two districts. The two operational areas of water operations and wastewater operations are distinct and have little opportunity for overlap. However, there may be an opportunity to align administrative, engineering, and maintenance staff where appropriate.

²² California Water Code, Chapter 4, §10723

²³ Summerland Sanitary District, Who We Are, <http://summerlandsd.org/about-us/>

²⁴ Summerland Sanitary District, Agendas and Minutes, <http://summerlandsd.org/agendas-and-minutes/>

Table 7 shows current MWD and MSD staffing by functional area and the total if all staff were retained under a consolidated agency.

Table 7: MWD, MSD, and Consolidated Personnel by Function

Function	Current MWD Staffing	Current MSD Staffing	Consolidated Organization
Administration	2.50	2.50	5.00
Finance	1.25	0.50	1.75
Billing & Customer Service	2.50	0.00	2.50
Human Resources	0.50	0.00	0.50
Information Technology	0.25	0.00	0.25
Communications	1.00	0.00	1.00
Total Administration	8.00	3.00	11.00
Water Treatment	4.33	0.00	4.33
Water Distribution	8.33	0.00	8.33
Environmental Compliance	1.00	0.00	1.00
Total Water Operations	13.66	0.00	13.66
Wastewater Treatment	0.00	4.33	4.33
Wastewater Collection	0.00	5.33	5.33
Environmental Compliance	0.00	1.00	1.00
Total Wastewater Operations	0.00	10.66	10.66
Grounds Maintenance	1.00	0.33	1.33
Facilities Maintenance	2.00	2.66	4.66
Fleet Maintenance	1.00	0.34	1.34
Total Maintenance	4.00	3.33	7.33
Engineering	2.34	1.00	3.34
Total Engineering	2.34	1.00	3.34
Total All Staff	28.00	18.00	46.00

Generally, fewer management and administrative support staff are necessary in combined utilities. According to the 2020 American Water Works Association (AWWA) Utility Benchmarking survey, the median combined utility has 43.5% of overall staffing used for management, engineering, and customer service positions compared to 49.1% for water only utilities.²⁵

A detailed assessment of the impacts of potential consolidation on management and administration, treatment and field operations, and engineering and capital improvements is provided below. For each area, an interim and long term scenario is provided showing the impacts of consolidation on staffing levels and organization structure.

²⁵ American Water Works Association (AWWA), 2020 AWWA Utility Benchmarking, Page 31.

Management and Administration

MWD and MSD, as standalone special districts, have management and administration staff to operate and provide valuable enterprise-wide services such as human resources (HR), finance, risk, and information technology that support the core function of water and sewer operations. This section will review the management and administration implications of consolidation in each district.

SERVICES AND POSITIONS

Within MWD, administrative activities, including general management, finance, HR, communications, and customer service, are currently provided by 9.0 FTEs: the General Manager, an Administrative/Human Resources Assistant, the Public Information Officer, the Business Manager, a Finance Analyst/IT Specialist, a Senior Office Technician, two Office Technician II positions, and the Groundwater Specialist.

Current MWD Administration staffing and reporting relationships are shown in Figure 6 below.

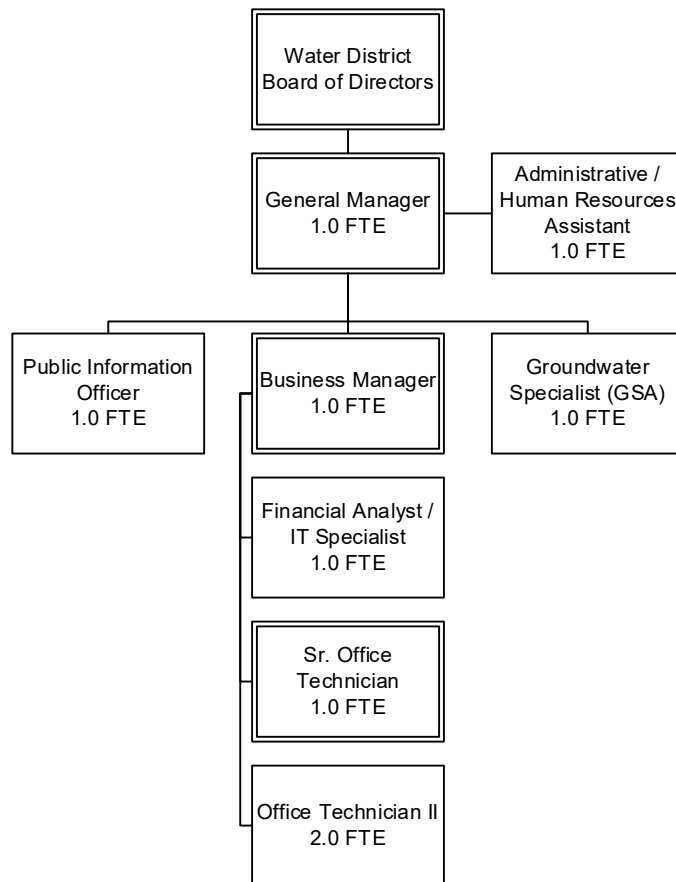


Figure 5: Current MWD Administrative Support Structure

According to the job description, the MWD General Manager is responsible for operations and policy guidance for the entire utility under approval of the Board of Directors and manages all aspects of operations and staffing, as well as fostering external relationships with intergovernmental and regulatory agencies and other groups in the community. The General Manager is directly supported by the Administrative Assistant who provides office

administrative and secretarial support to the General Manager, Board of Directors, and other management personnel. In addition, the General Manager acts as the Board Secretary and prepares Board agendas, minutes, actions, ordinances and resolutions, maintains official documents and records, and conducts District elections. The Administrative Assistant/Human Resources Assistant acts as an HR assistant for recruitments, training, compensation and benefits, labor relations, and more. The Administrative Assistant is also a point of contact for the General Manager, Board of Directors, and other departments with the public to resolve issues and provide customer service.

The MWD Public Information Officer (PIO) plans, coordinates, and participates in a variety of communications, public information, marketing, community relations and outreach activities and initiatives. The PIO is responsible for developing original content including communications, media, website content, and other materials, and ensures positive interactions and collaboration with the Board of Directors, Committees, management and staff, constituencies, and media outlets. The position serves as a critical resource and liaison for the Emergency Response Plan, providing public notification responsibilities.

The Business Manager directs and manages the administrative activities and operations of the MWD including budget and accounting, information technology, human resources, and general office management. The position is responsible for preparation and management of annual budget, oversight of customer service and billing functions, and management of human resources issues.

The Business Manager supervises a Finance Analyst/IT Specialist position. This position performs complex financial accounting and administrative duties, provides budgetary, grant, and work-flow support to projects and programs, analyzes utility practices and procedures to recommend improvements, and supports development and implementation of accounting, financial, and related systems, and trains staff on them.

The Business Manager also supervises Senior Office Technician who provides general accounting, customer service, and payroll functions, maintains financial records, and assists in preparation of financial reports and analyses. The Senior Office Technician serves as lead of the customer service office support team, provides direct customer service associated with utility payments, requests for service, maintains centralized payroll functions, and provides assistance for a wide variety of assignments.

The Business Manager also supervises two Office Technician II personnel, who perform a variety of administrative and office support duties. The Office Technicians establish and maintain customer service accounts, provide direct customer service associated with utility payments, requests for service, and respond to complaints and information requests. They provide assistance for a wide variety of assignments.

The Groundwater Specialist reports to the General Manager, and is responsible for assisting with the implementation the GSA's groundwater sustainability plan to comply with State regulations.

At MSD, administrative activities, including general management, finance, human resources, and customer service, are provided by 3.0 FTEs: the General Manager, the District Administrator/Clerk of the Board, and the Accounting/Administrative Assistant. MSD Administration staffing and reporting relationships are shown in Figure 7 below.

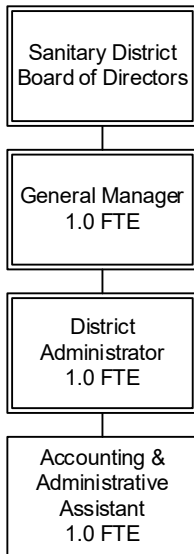


Figure 6: Current MSD Administrative Support Structure

The MSD General Manager serves as the chief executive and management official for the District and reports to the Board of Directors. The General Manager manages and organizes MSD operation and is supported by a District Administrator and Accounting and Administrative Assistant, as shown in Figure 7.

The District Administrator serves a variety of roles including Clerk of the Board, HR manager, accountant and finance manager, payroll administrator, information technology manager, and safety and staff training officer.

The District Administrator supervises an Accounting/Administrative Assistant whose role is to provide general clerical and administrative support as well as customer service, plan checking and review, permit preparation, GIS data entry, accounts payable invoicing, and payment processing.

CONSOLIDATED ADMINISTRATION – INTERIM

Administrative operations within MWD and MSD could be consolidated. While duties would be similar for several positions, the workload for each utility would remain and there would be no apparent need for immediate staff reductions or additions; indeed, current staff express high stress and believe the existing operational structure is lean. Temporary staff or contract assistance may be required during consolidation. The ability to have additional staff dedicated to focus upon individual subject areas, rather than single positions that are split between human resources and information technology, for example, is beneficial; better focus and economies of scale would result for each subject area, service levels would likely improve as a result, and current staff would be unburdened from having to work in multiple areas at once.

However, in a few positions there is some redundancy that would occur. A consolidation would result in two General Manager positions. In the proposed interim structure, one General Manager could be retitled as a second Assistant General Manager to oversee the operations functions of Wastewater functions within the combined entity. In this way, the General Manager would be free to focus upon inter-governmental and community relations, as well as the possible implementation of a new recycled water program, leaving internal operational concerns to the two Assistant General Managers over Water and Wastewater operations.

There would also be overlap in duties between the MWD Administrative/HR Assistant and the MSD District Administrator/Clerk of the Board position, both of whom prepare Board of Directors agendas and packets, oversee

elections, and provide human resources services. These duties could be split, with one position focused solely on providing assistance with Board agendas and packets and elections, and the other focused solely on human resources in the interim. Other possible workload assignments could ensure duties are not duplicated across staff.

There would also be some overlap in duties between the MWD Business Manager and MSD District Administrator/Clerk of the Board positions as both currently supervise the finance operations of their respective districts. As an example, the MSD District Administrator/Clerk of the Board could focus on Board agendas, packets, and elections for the new district, allowing the MWD Business Manager to be responsible for supervision of all administrative functions.

Because of the larger scope of the MWD financial operation, including regular billing cycles and larger staffing, it would be beneficial for the MWD and MSD finance staff to report to the Business Manager position. Both staffs can continue operating mostly independently for now but over time, the finance function can begin to consolidate and specialize by operational area versus water and wastewater business line, e.g., rather than having separate payrolls, a single staff member may be able to provide payroll for both water and sewer staff once systems are combined and automated. Information Technology (IT) would continue to be the focus of a Financial Analyst/IT Specialist who supervises outsourced assistance and uses additional capacity to assist the financial function, as is done now.

A proposed new interim organizational structure consolidating the two administrative functions is shown in Figure 8 below. Positions in blue represent current MWD positions and positions in orange represent current MSD positions. The second General Manager position, which would either have a new role overseeing operations or be eliminated, is not shown. The result is a new combined Management and Administration Division with 11 employees, including the General Manager.

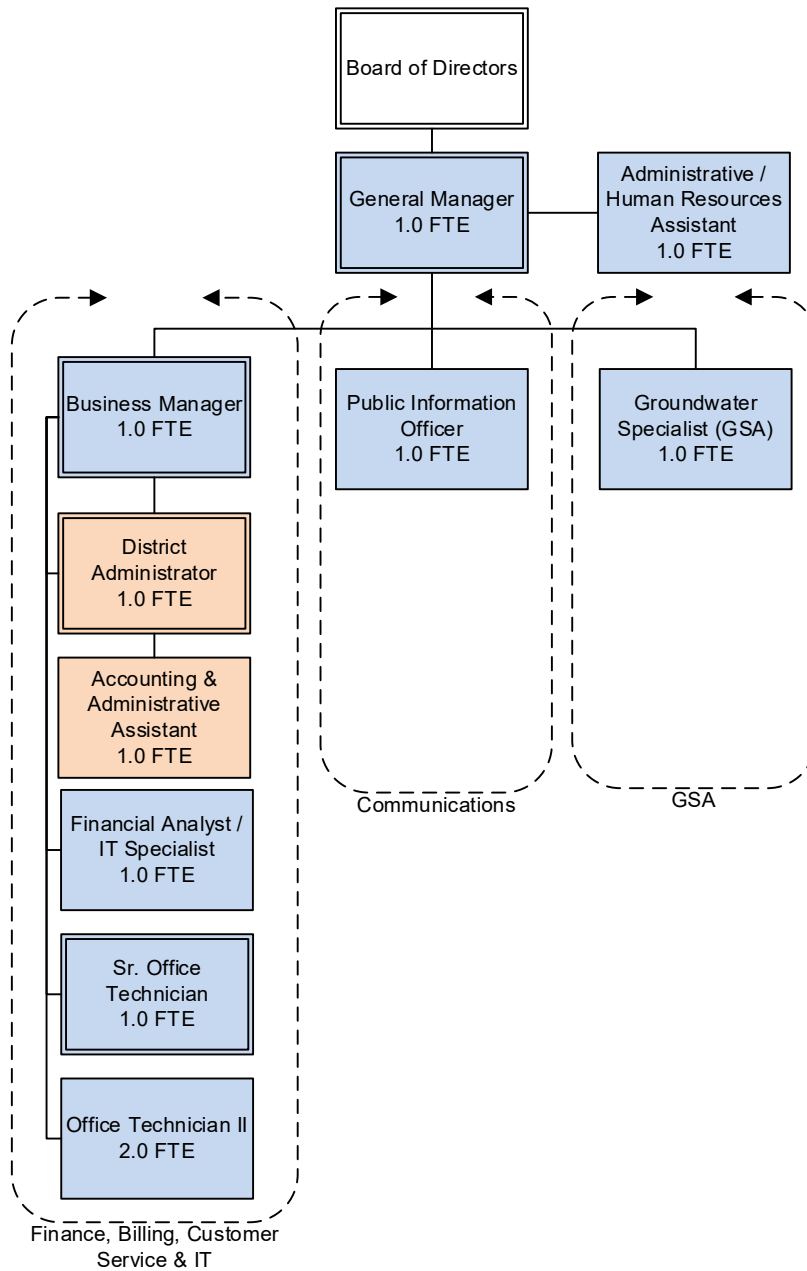


Figure 7: Potential Interim Consolidated Administrative Support Structure

In the interim period, there is little potential for collective savings related to Administrative staffing. As noted above, this structure would require minor retitling and reassignment of job duties across positions to ensure a minimum of overlap. Since all 11 FTE positions are currently budgeted, there would be negligible short-term financial impacts.

The focus should be on facilitating the consolidation and integrating services, rather than cost savings. The consolidated entity would still require roughly the same number of administrative staff to continue operations on both the water and wastewater sides. While there is immediate overlap in duties, several roles such as the District Administrator and Administrative Assistant positions currently wear multiple hats; several positions are currently responsible for multiple unrelated tasks, such as HR, information technology, and finance, all of which require focus in order to perform at a best practices level.

By consolidating, the new entity could be able to divide work between the combined staff so that individual staff members can focus on fewer areas and work with greater efficiency and enhance the level of service provided. We would anticipate more comprehensive human resources services, for example, by having a single staff member fully devoted to these functions.

CONSOLIDATED ADMINISTRATION – LONG TERM

Over the next three to five years, the administrative function could continue to consolidate and become more cohesive, structuring by functional areas such as finance and accounting or billing and customer service across the entire enterprise rather than continuing by water or sanitary business lines. In particular, an opportunity exists to move some Finance staff capacity to assist with Human Resources needs. A potential long-term structure for a new Administrative Services function including finance and human resources, which would require changing job classifications and moving staff over time, is shown in Figure 9 below.

Should the District choose to enhance levels of service, the combined Administrative Assistant/Human Resources position currently at MWD could be split into two, adding one new Human Resources specialist FTE devoted to HR functions for a larger organization. This split also increases administrative support to the new General Manager by 0.5 FTE (from 0.5 FTE now to 1.0). The result is 12 FTEs, one more than the interim 11. The estimated loaded cost of a Human Resource Specialist (salary and benefits) is \$80,791 at midpoint.

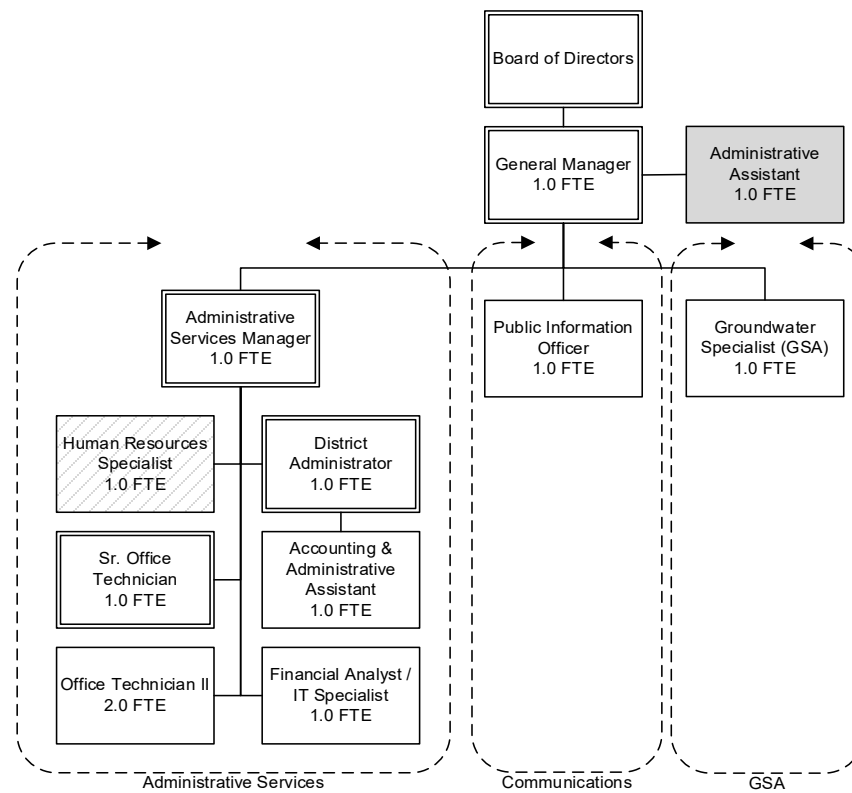


Figure 8: Potential Long Term Consolidated Administrative Support Structure

It is difficult to predict the level of day-to-day administrative support that would be necessary to support a consolidated organization. As the organization works towards consolidation, it should evaluate administrative

workload and determine if staffing levels are appropriate for needs. We do not see any immediate or obvious opportunities to reduce staff because, in the interim in particular, this workgroup would bear the brunt of consolidation efforts in combining policies and procedures for finance, Board of Directors procedures, human resources, and more. Once consolidation is fully implemented several years out, there could potentially be opportunities to reduce staff depending upon operations and workload at that time.

Initially, both finance operations would be operating independently. Over time there would be some efficiencies by combining banking, payroll, investing, and accounts payable and receivable operations. Because of the differing methods of billing customers, with MWD billing customers and sewer levying an annual fee on the property tax bill, there is not a great deal of opportunity for savings. In the interim period, the workload in administration and finance are expected to increase as the group begins to take many detailed steps to consolidate, including moving to combined Board packets and agendas and to a single financial software and chart of accounts.

The new agency would be able to achieve savings estimated between \$50,000 and \$100,000 per year by eliminating redundant professional services contracts such as financial auditors or contract attorneys, streamlining from two to one provider. Over time, there may also be minor materials and supplies savings such as elimination of redundant telephone licenses/purchases, larger contracts, etc. The magnitude of these savings is estimated to be between \$5,000 and \$25,000 per year.

There are also likely to be some accompanying one-time additional costs associated with the consolidation effort. These include direct costs such as legal fees, consultant studies, communications costs, data conversion, as well as incidentals such as new uniforms, rebranding efforts to consolidate logos, new signage, and more. Raftelis estimates these one-time transition costs at roughly \$50,000 - \$250,000.

It is important to note that in the short term, there will be significant amounts of staff time devoted to implementing any form of consolidation of agencies. It is estimated that several hundred hours of staff time would be needed in the administrative and management areas to execute a consolidation, particularly for the General Managers. This could impact their ability to address other strategic initiatives such as implementing a new recycled water program or addressing drought related issues.

Another potential barrier would be an unwillingness for staff to change or take on new duties. If both groups were open to consolidation as an opportunity to provide a higher level of service and improve practices by taking the good from each District's current system to create a more refined operation, the administrative function could successfully consolidate and potentially provide a higher level of service than at present. The magnitude is hard to quantify, but would likely be incremental. An additional hurdle to progress could be a lack of allocated financial resources for necessary changes such as potential new software or equipment. MSD is already planning to replace its financial system as the current version is reaching obsolescence, while MWD's Tyler Incode financial system is quite new but may require additional modules or features for a combined organization. Should the Districts choose to implement an entirely new financial system, this can cost up to \$600,000 or more depending upon modules and level of staff training included. For the purposes of this review, we will assume both entities would use the Tyler system. A few new annual licenses to add MSD staff could cost under \$5,000 per year while additional modules could cost up to \$30,000 each as a one-time cost depending upon specific needs and training included.

The primary risk of Consolidating administrative functions is an unplanned and rushed approach. The administrative function is critical for ensuring legal and audit compliance, staff satisfaction through human resources and payroll functions, customer service satisfaction, and more. A breakdown in customer billing or financial systems would be highly problematic, particularly if it were to impact billing and, thus, revenues needed for operations. A carefully planned and phased approach over time would be the best approach to ensure that operations can continue

as consolidation moves forward. Full implementation of a consolidation of the management and administration units could take two to three years.

Over time, the consolidated district should undertake a comprehensive analysis of staff workloads, performance, and service levels to determine the required workload to meet service expectations and the associated correct number of staff positions.

Treatment and Field Operations

MWD and MSD provide related but separate services to their respective service areas. They are similar in terms of the type of work done by employees, but the work is not identical. Both organizations operate treatment plants, perform maintenance on horizontal infrastructure, and maintain equipment, grounds, and facilities. They also have administrative and support people that ensure non-core operations activities are addressed. The following section examines the treatment and field operations staffing in each district and potential consolidation opportunities.

SERVICES AND POSITIONS

At MSD, treatment and field operations staff are broken up into two divisions, Wastewater Treatment and Collections, with the head of each reporting to the General Manager. The Collections Superintendent is in charge of the wastewater collection system as well as facilities and equipment maintenance staff. The Treatment Superintendent/Chief Plant Operator runs the day-to-day operations of the plant. The Laboratory and Pretreatment Manager, who ensures that MSD complies with Federal and State environmental and water quality regulations, reports directly to the General Manager but also works closely with the Treatment Plant Superintendent and other operations staff. Figure 10 shows the organizational structure for the current 14 FTE operations staff in MSD.

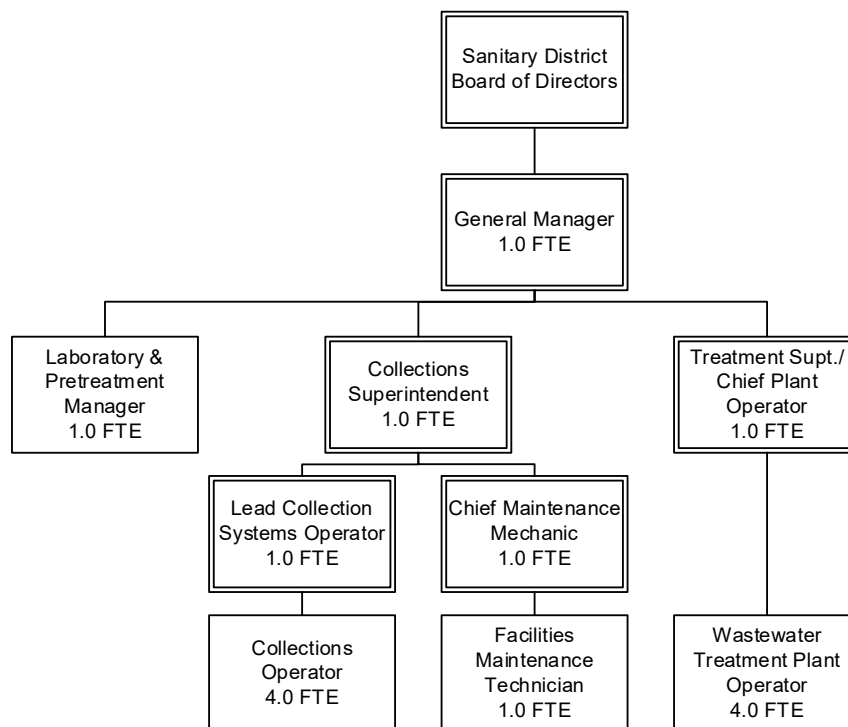


Figure 9: Current MSD Operations Structure

The wastewater treatment plant owned and operated by MSD has a rated capacity of 1.5 MGD but currently is operating at approximately 0.5 MGD for average dry weather flow. The treatment team is comprised of four

Operators and a Treatment Plant Superintendent/Chief Plant Operator. The Treatment Plant Superintendent/Chief Plant Operator acts as the District's Legally Responsible Official, responsible for operating the plant and reporting discharge in compliance with the terms set forth in the District's National Pollution Discharge Elimination System permit. Treatment plant staff support operations and maintenance of the facility.

The Collections System Superintendent, acts as the District's Legally Responsible Official for the collection system, ensuring operation and maintenance practices minimize spills and reporting is in accordance with the State Water Resources Control Board's Sanitary Sewer System General Order. The Collection System Superintendent oversees five collection operators and two maintenance personnel. The Five collection system maintenance FTEs are responsible for maintaining MSD's wastewater collection system, which encompasses 73 miles of gravity main, 2.2 miles of force main, and five pump stations.²⁶ In addition, staff respond to sewer main breaks, leaks, and sanitary sewer overflows (SSOs) when they occur. In addition, they perform Preventative Maintenance on lateral infrastructure including flushing and televising sewer mains.

A Chief Maintenance Mechanic and a Facilities Maintenance Technician perform other maintenance for the MSD. According to the job description for the Chief Maintenance Mechanic this includes Preventative Maintenance and repair of equipment at the Wastewater Treatment Plant and pumping stations as well as maintenance of MSD vehicles and portable equipment. The Facilities Maintenance Technician is responsible for grounds maintenance in addition to support for fleet, equipment, and facilities maintenance.

At MWD, there are 17 FTE operations staff divided into two divisions, each overseen by a Superintendent position that reports to the Assistant General Manager/Engineering Manager. In addition to the Assistant General Manager/Engineering Manager position, the General Manager also supervises the Groundskeeper/Conservation Coordinator, who works closely with Operations staff on conservation efforts. The following figure shows the current organizational structure for the MWD operations staff.

²⁶ Montecito Sanitary District, About the District, <https://www.montsan.org/about-the-district>

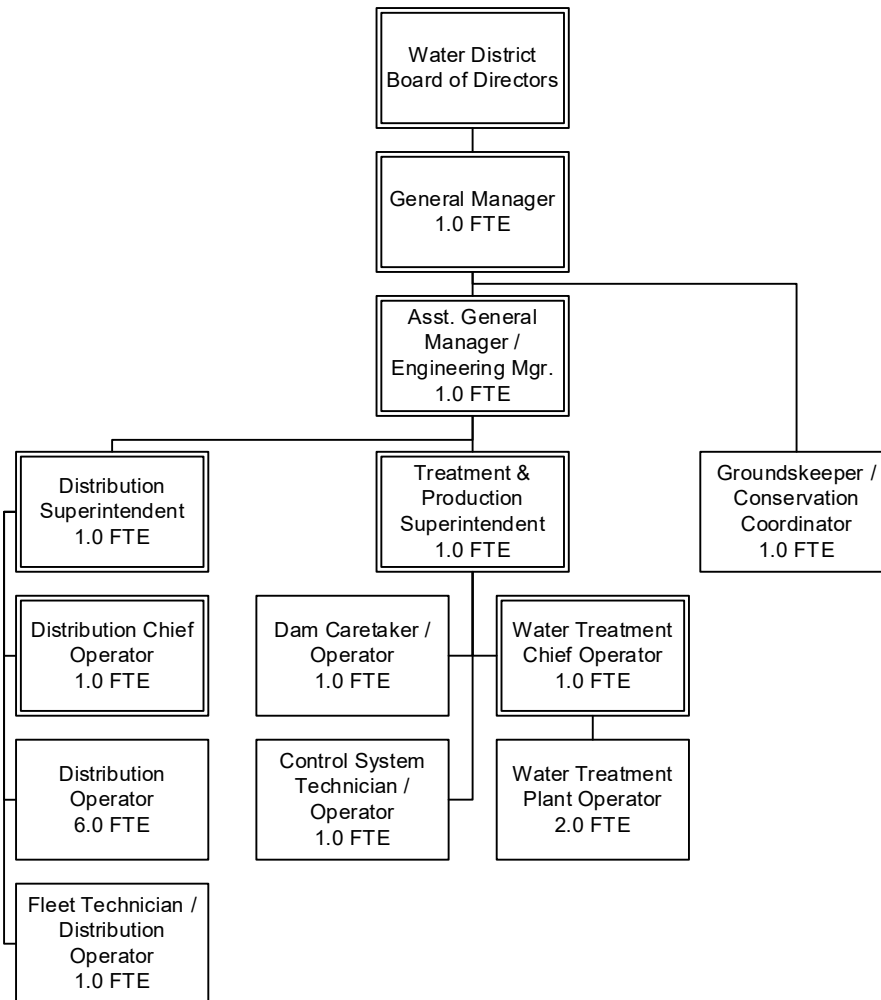


Figure 10: Current MWD Operations Structure

The Distribution Division is responsible for 114 miles of water mains, nine pump stations, 10 reservoirs, 2,800 isolation valves, 1,000 fire hydrants and 52 pressure resulting stations.²⁷ This work is led by a Distribution Superintendent. There are seven operator FTEs that support the maintenance, repair, and installation/replacement of the water distribution systems. In addition to reactive and Preventative Maintenance on the distribution system, the Division is also responsible for fleet maintenance and grounds maintenance. One FTE, a Fleet Technician, supports fleet maintenance work for the MWD.

The Treatment and Production Division is responsible for two surface water treatment plants, 12 groundwater wells some with localized water treatment. MWD deliveries on average between approximately 1.5 to 4.5 MGD of drinking water to customers depending on the time of year. The Division has two Operator FTEs and a Chief Operator to operate and maintain the two water treatment plants. The Control System Technician is responsible for maintenance and repair of technology and monitoring equipment used by the District, as well as being a Treatment Operation FTE. The Dam Caretaker is responsible for facility maintenance and grounds maintenance at the Juncal Dam, which includes living onsite at the facility at Jameson Lake.

²⁷ Montecito Water District, Service and Facilities, <https://www.montecitowater.com/about-the-district/service-facilities/>

CONSOLIDATED TREATMENT AND FIELD OPERATIONS - INTERIM

Because consolidation of the two agencies would not change the nature of utility operations, we do not project any changes to Operations staff and service to customers will not suffer. Figure 12 below illustrates a potential consolidated structure for Operations in the interim period. This includes reclassifying the second General Manager and the current Assistant General Manager/Engineering Manager as Assistant General Manager for Wastewater and Assistant General Manager for Water, respectively. The Groundskeeper/Conservation Coordinator would no longer report to the General Manager but to the Assistant General Manager – Water. This organizational arrangement would provide adequate administrative support for the consolidation, two Assistant General Managers to oversee daily operations, and allow the General Manager to focus on inter-governmental partnerships and financial oversight. This increases Operations staff from 31 to 32 by moving the former MSD General Manager into Operations as Assistant General Manager for Wastewater.

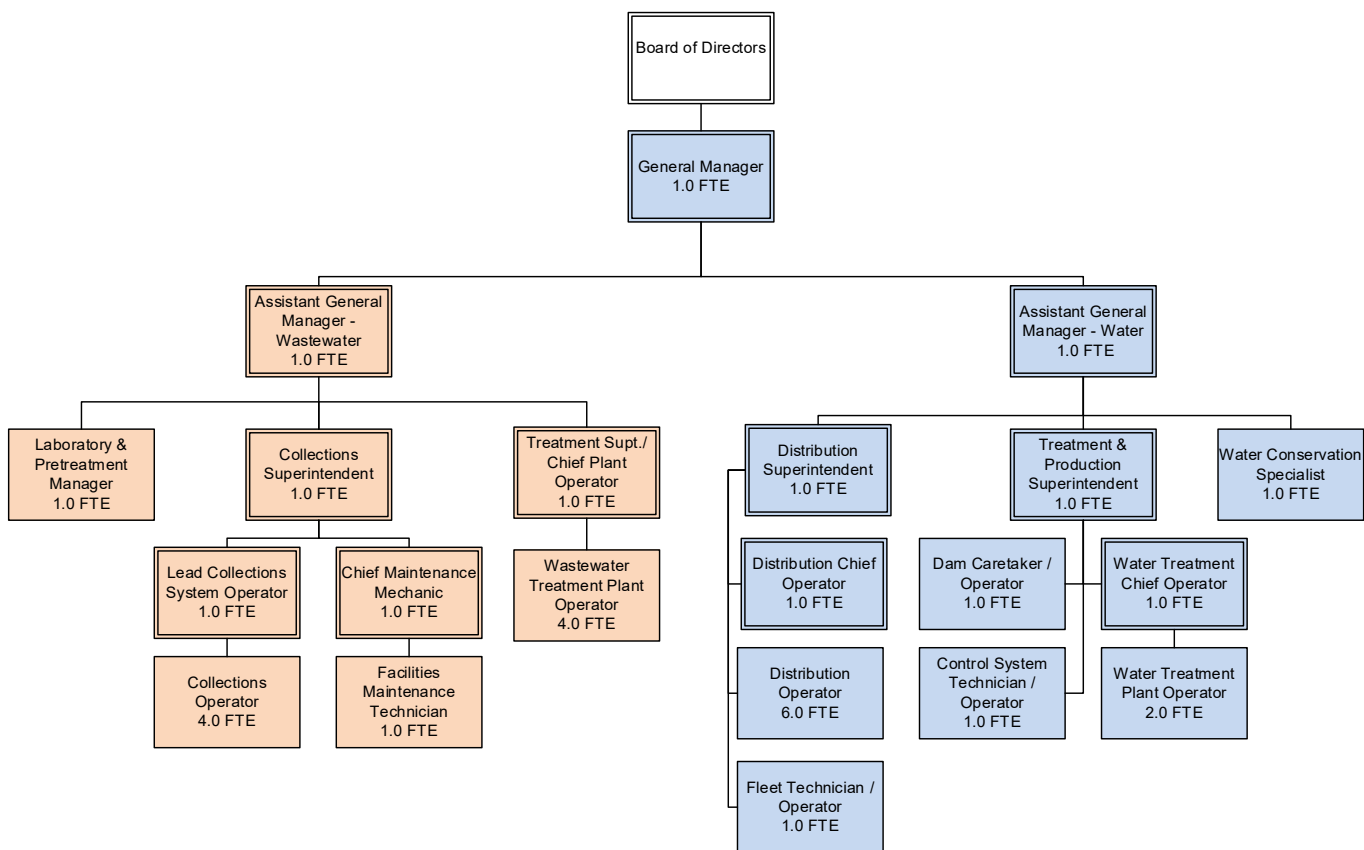


Figure 11: Interim Treatment and Operations Structure

Because utility operations would continue as they do currently, consolidation would not result in specific operational efficiencies.

CONSOLIDATED TREATMENT AND FIELD OPERATIONS – LONG TERM

Over the next three to five years, operations staff could work toward a structure with three divisions reporting to the General Manager: Water Operations, Wastewater Operations, and Maintenance. A proposed long-term structure for operations is shown in Figure 13 with changes made to positions to align titles and clarify roles.

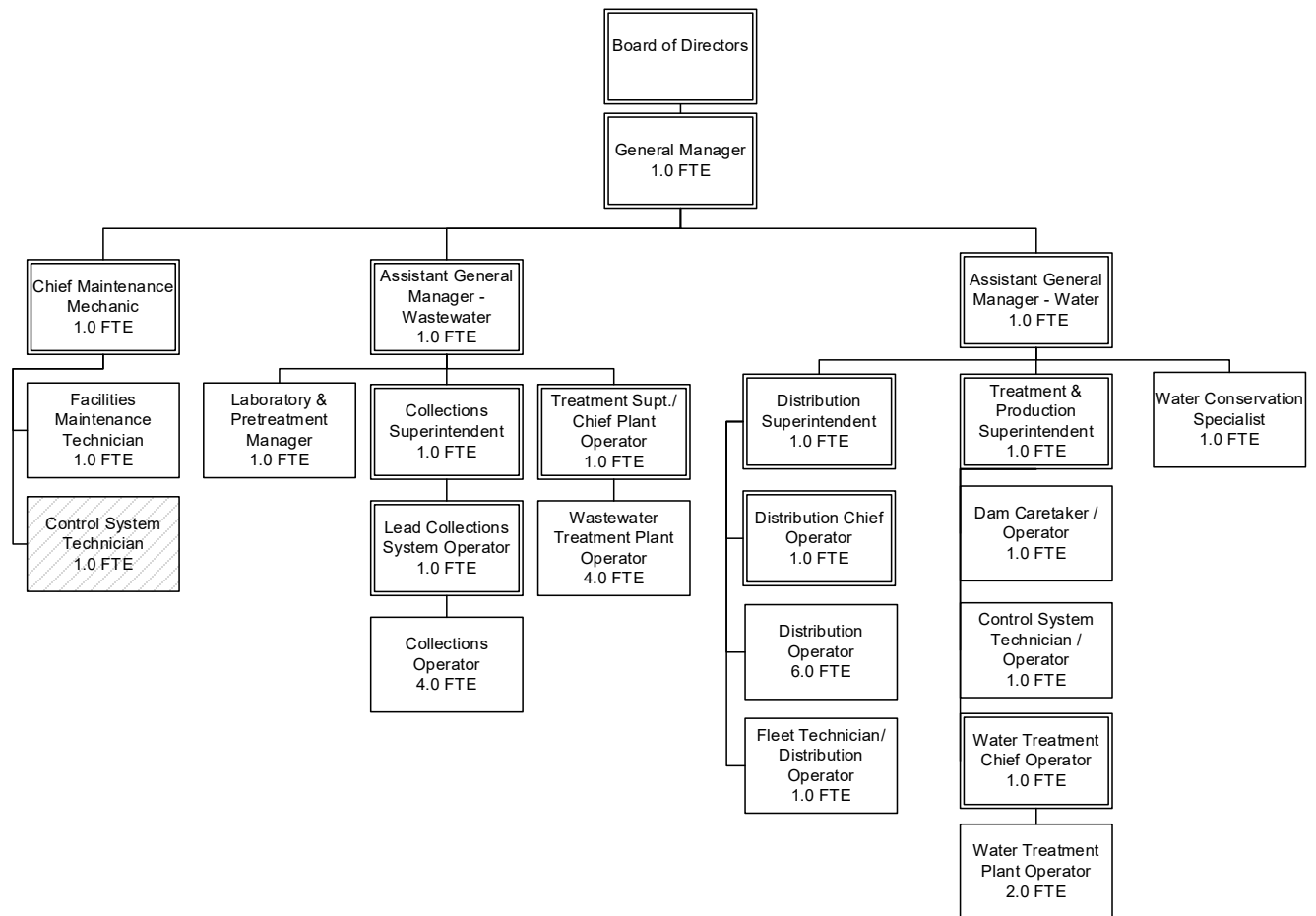


Figure 12: Long Term Operations Structure

Should the District choose to enhance levels of service for maintenance of fleet and facilities, staff that perform grounds, facilities, vehicle, and equipment maintenance could be consolidated in a new Maintenance Division, reporting to the Chief Maintenance Mechanic position. This allows the two Assistant General Managers to focus on the treatment and distribution/collection, as well as engineering needs for those utilities. The new Maintenance Division would be responsible for operational support functions including maintenance at facilities, treatment plants, and properties and work with the existing split Fleet Technician/Operator position within Operations. One additional Control System Technician position should be considered as well, in order to provide dedicated staff capacity for control systems maintenance. This increases Operations FTEs from 32 to 34 with the addition of the Assistant General Manager for Wastewater and a new Control System Technician position. An additional Control System Technician position would cost \$103,657 which equates to approximately \$134,754 with benefits. Over time it would be important to monitor the workload of this Division to ensure they have the appropriate staff to support the combined utility.

Engineering and Capital Improvement

Engineering services for MWD and MSD are provided by a mix of dedicated staffing resources and management with specific engineering certification and training. Consultant engineers are used to augment in-house staff when specialized system knowledge is required. MSD contracts for all construction inspection. Both organizations are responsible for developing and implementing a capital improvement plan (CIP) that invests in the utility to ensure the appropriate water resources for the service area, rehabilitates and repairs current infrastructure, and takes advantage of the latest industry trends in technology and treatment.

SERVICES AND POSITIONS

MWD has two Assistant Engineers that are focused on various engineering related tasks including design and construction phase work for capital improvement projects. Outside engineering and environmental consultants are used as needed for specialty design and construction related services. These Assistant Engineers are also involved in the monitoring of construction and consultant contracts and help to prepare requests for proposals and process bid solicitations. Additionally, the Assistant Engineers attend to public requests for services including construction plan reviews, new water service requests, water leak investigations, etc. Approximately 80% of engineering design is performed in-house such as for pipeline replacements, with the remaining 20% outsourced for specialties like reservoirs or SCADA design. Figure 14 shows the current structure for the three FTE engineering staff in MWD.

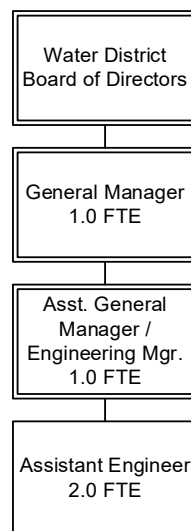


Figure 13: Current MWD Engineering Structure

The Assistant Engineers report to the Assistant General Manager/Engineering Manager, a licensed professional engineer who provides the administrative direction and oversight for engineering functions as well as supervising operations functions. The Assistant Engineers are encouraged to acquire a professional engineering license but it is not required of the position.

At MSD there is one employee dedicated to engineering, who reports to the General Manager. The Engineering Manager manages and performs technical engineering work including planning, design, and construction of projects with the significant assistance of outside consultants. They also review and prepare plans, specifications for requests for proposals, and manage contracts. The General Manager estimates that approximately 50% of engineering workload is not in MSD’s control but the result of Caltrans and County projects. The following figure shows the current structure for MSD engineering staff.



Figure 14: Current MSD Engineering Structure

Engineering staffing across MWD and MSD consists of 3.00 dedicated engineering FTEs, supplemented by a portion of the MWD Assistant General Manager/Engineering Manager and MSD General Manager positions. It would be important to ensure that the engineering function has enough capacity to manage the capital plans for both the water utility and wastewater utility as well as support asset management needs with operations staff.

CONSOLIDATED ENGINEERING - INTERIM

In the short-term interim period, all engineering staff should be retained but restructured to align their work and begin consolidation of the workgroups. Because licensing and qualifications for each engineering staff incumbent varies, and because the knowledge of both water and wastewater staff would be necessary for any management position, we recommend an interim structure having all three engineering staff under the direct supervision of the General Manager. In this manner, the General Manager can mediate any disagreements among staff and provide direction for the unit as a whole.

Figure 16 shows the potential interim structure for Engineering; because the experience and technical knowledge of incumbents in the Engineering Manager and Assistant Engineer positions is unknown, all three positions are added at the same job classification level, reporting to the General Manager. In the long term, management will need to determine who is best qualified to lead the unit.

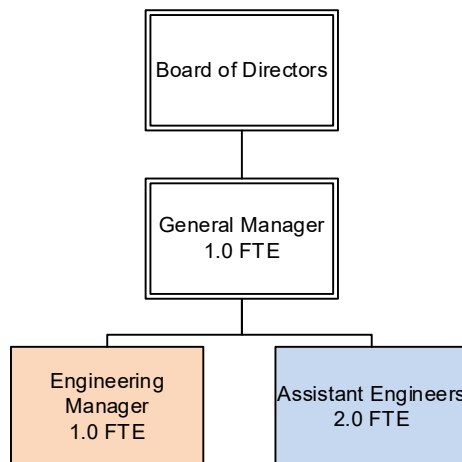


Figure 15: Potential Interim Engineering and Capital Improvement Structure

Over time the two engineering workgroups can align their work plans and capital investment, and managers can determine the best use of 3.0 FTE engineering capacity to address both water and wastewater needs.

Engineering staff should review the current CIPs for MWD and MSD, capital needs for both organizations, and any planned rehabilitation or replacement projects. It may be important to keep the CIP for water and wastewater utilities separate due to the distinct funding sources and separate accounting structure. The nature of projects varies, with renewal and replacement of water and sewer infrastructure handled differently; while water involves dig and replace, sewer renewal at this time is largely trenchless lining projects (which do not require digging up pipes). Additionally, the age of water and wastewater assets typically drive capital replacement/renewal schedules and therefore, significant planning and coordination of future capital projects will be needed to geographically group capital projects in order to realize synergies in the capital program.

However, aligning this work to ensure there is appropriate capacity to manage projects and ensure continued operations would be important. The two groups could utilize best practices to enhance asset management and find synergies with procurement, contracting, and GIS. As part of a consolidated budgeting and financial reporting process, the combined organization should also present a combined CIP to the Boards of Directors even if funding remains separate. In order to align all capital planning and engineering work into one workgroup and continue separate enterprise funds, a cost allocation plan would be needed to estimate the cost of personnel assigned to water and wastewater projects or tasks.

CONSOLIDATED ENGINEERING – LONG TERM

Over the next three to five years, the engineering staffing and structure should not change significantly unless a new service like recycled water is added. Working under the direction of the General Manager, the engineering staff would need to work with oversight from the two Assistant General Managers to align the types of projects designed in-house using District staff versus what should be contracted. In addition, the organization would need to create the appropriate level of expertise and continuity of knowledge. It would be important to maintain an expertise in both water and wastewater specialties within the Engineering workgroup.

The organization should retain the Engineering Manager title as a position to manage and lead the engineering workgroup across all utility functions, and who should report directly to the General Manager. While MSD has an existing Engineering Manager position and incumbent in the position, all three current engineers from both MWD and MSD could be evaluated for the potential to serve as Engineering Manager over the entire unit. This would build a career ladder for staff and promote retention. Figure 17 represents the potential long term consolidated structure for engineering.

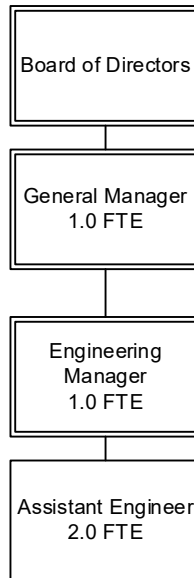


Figure 16: Potential Long Term Engineering and Capital Improvement Structure

The potential for collective savings in engineering is limited. It is necessary to have appropriate levels of staff in to support both water and wastewater expertise as well as to recruit staff with the necessary training and certification, and to ensure staff historical knowledge of infrastructure and ensure in-house staff continuity. Both districts have growing capital project needs which increases the workload of the Engineering workgroup. Given future planned capital improvement project needs, it would be difficult to keep the costs of contracting below the cost of an in-house staff member.

The potential for service level enhancements in engineering is also somewhat limited. By consolidating engineering staff, there is some potential for additional backup and cross-training compared to operating separate engineering functions.

The foreseeable hurdles to progress include change management, collective bargaining, updated rate studies, recruitment, and retention. Any amount of organizational change can be difficult for employees and these changes could have an impact on staff. It would be important for the leadership of MWD and MSD to communicate honestly, frequently, and in a variety of ways to ensure all staff understand planned changes and how they would impact them. The project team has worked with clients across the country who are having difficulty hiring and retaining engineering staff. The skillsets needed by utilities are in high demand and recruiting qualified engineers can take time. Insufficient expertise or project management capacity could delay the implementation of the consolidated organization's capital plan.

The potential staffing and structural changes to engineering are intended to align resources and create capacity by providing additional backup and skillset compared to the current, separate approach by MWD and MSD. As the organization works toward long term consolidation, it would be important to engage with staff and communicate frequently to help with retention. It may also be appropriate to evaluate compensation for engineering staff to ensure pay ranges are in line with the market. In addition, implementing the capital program would require project management capacity and any turnover or vacancies would delay that implementation.

Impact of Potential Consolidation on Organizational Structure and Staffing

The summary of the organization structure and staffing level impacts of consolidation for the three areas is summarized organization-wide below for both the interim and long term scenarios.

CONSOLIDATED AGENCY – INTERIM

Should the districts pursue a consolidation/reorganization and LAFCO approve it, the new Board of Directors would need to immediately appoint a General Manager of the consolidated organization who will be responsible for organizing the staff. This decision would need to be carefully considered by the new Board of Directors, as this role could be filled by the existing staffs or recruited from outside the organization. The proposed interim organizational structure reclassifies the existing MWD General Manager position to the General Manager role, and the MSD General Manager and MWD Assistant General Manager/Engineering Manager positions could be reclassified as Assistant General Manager for Wastewater and Assistant General Manager for Water, respectively. All these positions play critical roles to implement all of the many steps required for consolidation/reorganization.

The administrative support staff for the two organizations could be restructured to report to the MWD Business Manager, retitled as Administrative Services Manager in the long term. This workgroup would be responsible for all financial, customer service, billing, human resources, and administrative support functions. The MSD District Administrator would be responsible for finance and accounting duties with support from the MSD Accounting & Administrative Assistant and the MWD Financial Analyst/IT Specialist. This structure would retain all current administrative staff to support the interim period workload that would result from consolidation efforts, such as aligning financial practices, policies and financial management systems, updating human resources policies, and supporting the General Manager and Board of Directors. Staffing in both districts is currently lean and both General Managers noted having existing unmet needs due to a lack of staffing, particularly in the areas of human resources, conservation, and recycled water.

The three Engineering positions would report to the General Manager. Based on historic workloads, the current three FTEs should be sufficient capacity for the combined organization but adjustments to job requirements and credentialing needs may be necessary over time.

This proposed interim structure retains all current employees at MWD and MSD and continues most of their current job responsibilities. This should provide additional administrative and management capacity to allow the combined organization to work toward a long term structure. This interim structure does not represent short-term savings on personnel. Potential opportunities for efficiencies with specialized administrative, finance, and maintenance staff may be present in the long-term consolidated structure and could be more fully understood during the interim period. The interim consolidated structure is necessary to begin melding staff together as the organizations work through the steps to complete consolidation.

Figure 5 below represents a conceptual interim organizational structure should the districts combine. Positions from MSD are shaded in orange and positions from MWD are shaded in blue; combined units including both MSD and MWD staff are not shaded (white).

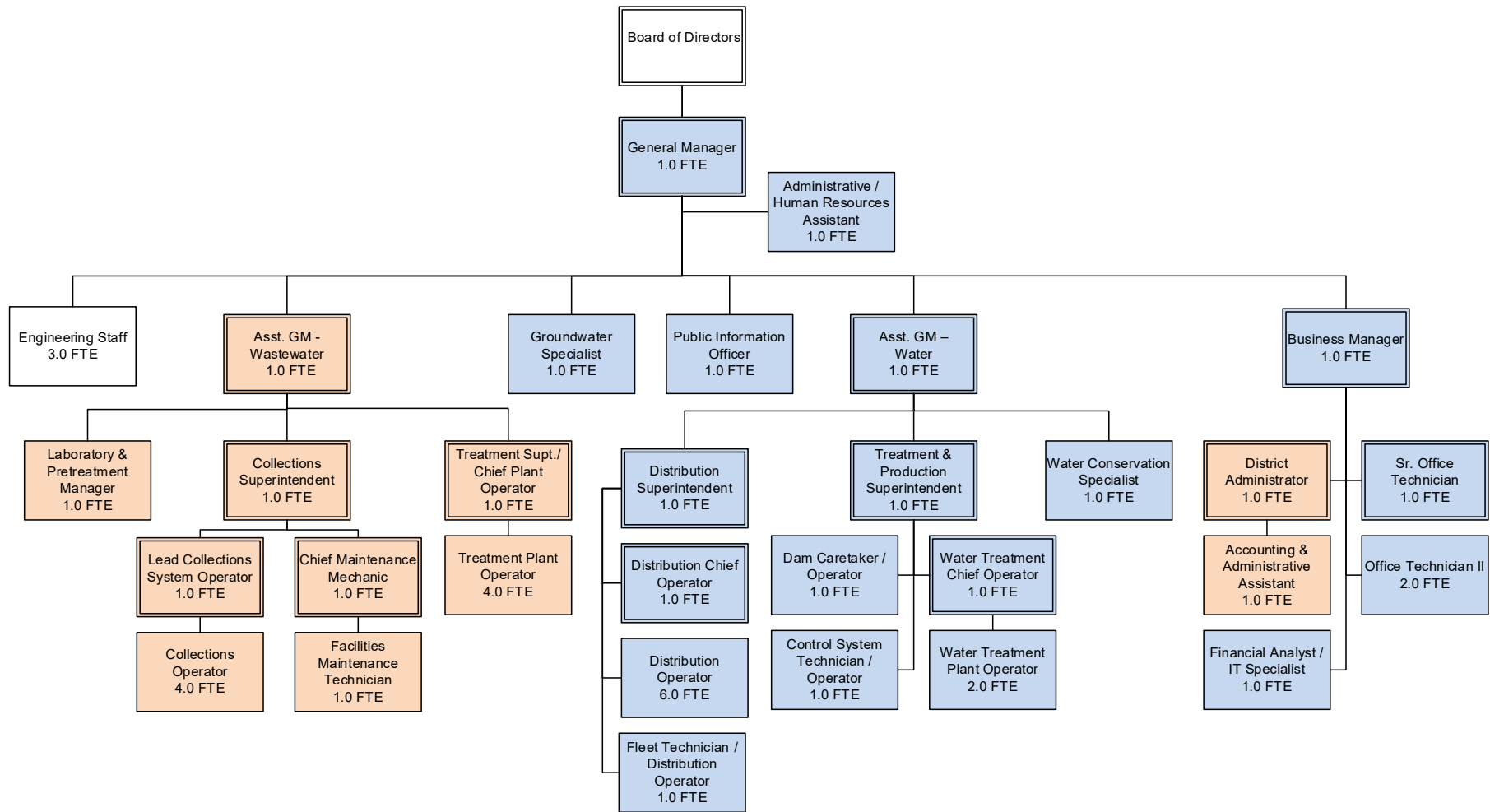


Figure 17: Potential Interim Consolidated Structure

Placements were made in general work unit structure but additional changes might be required in specific cases. The second General Manager position is reclassified to become an Assistant General Manager – Wastewater so as to manage all wastewater and engineering functions. The three Engineering staff (one in MSD and two in MWD) would be combined into one unit and report to the General Manager, who is a licensed engineer and can provide management guidance. The current MWD Assistant General Manager/Engineering would be reclassified as Assistant General Manager – Water and oversee treatment and distribution. The potential impacts of a reorganization on engineering, administrative, and operations staff are discussed in more detail later in this report and can be assessed over time post-consolidation as needed.

This interim structure includes 46 FTEs and retains all positions currently funded by both districts but changes reporting relationships to align similar staff. At an organization-wide level, the interim consolidated structure keeps the same reporting relationships for most staff, especially in operations.

CONSOLIDATED AGENCY – LONG TERM

The structure above may not be ideal for a long term, combined utility. The project team further refined the potential structure and reviewed the appropriate staffing, managerial support, and roles necessary for a fully consolidated organization. The potential long-term consolidated structure creates seven functions reporting to the General Manager including Maintenance, Wastewater, Water, Engineering, Business Operations, Public Information Officer and Groundwater Specialist.

One proposed long-term organizational structure is provided below in Figure 18 below with potential staffing options shaded in gray and potential additional new staff positions to enhance levels of service shaded with a diagonal pattern.

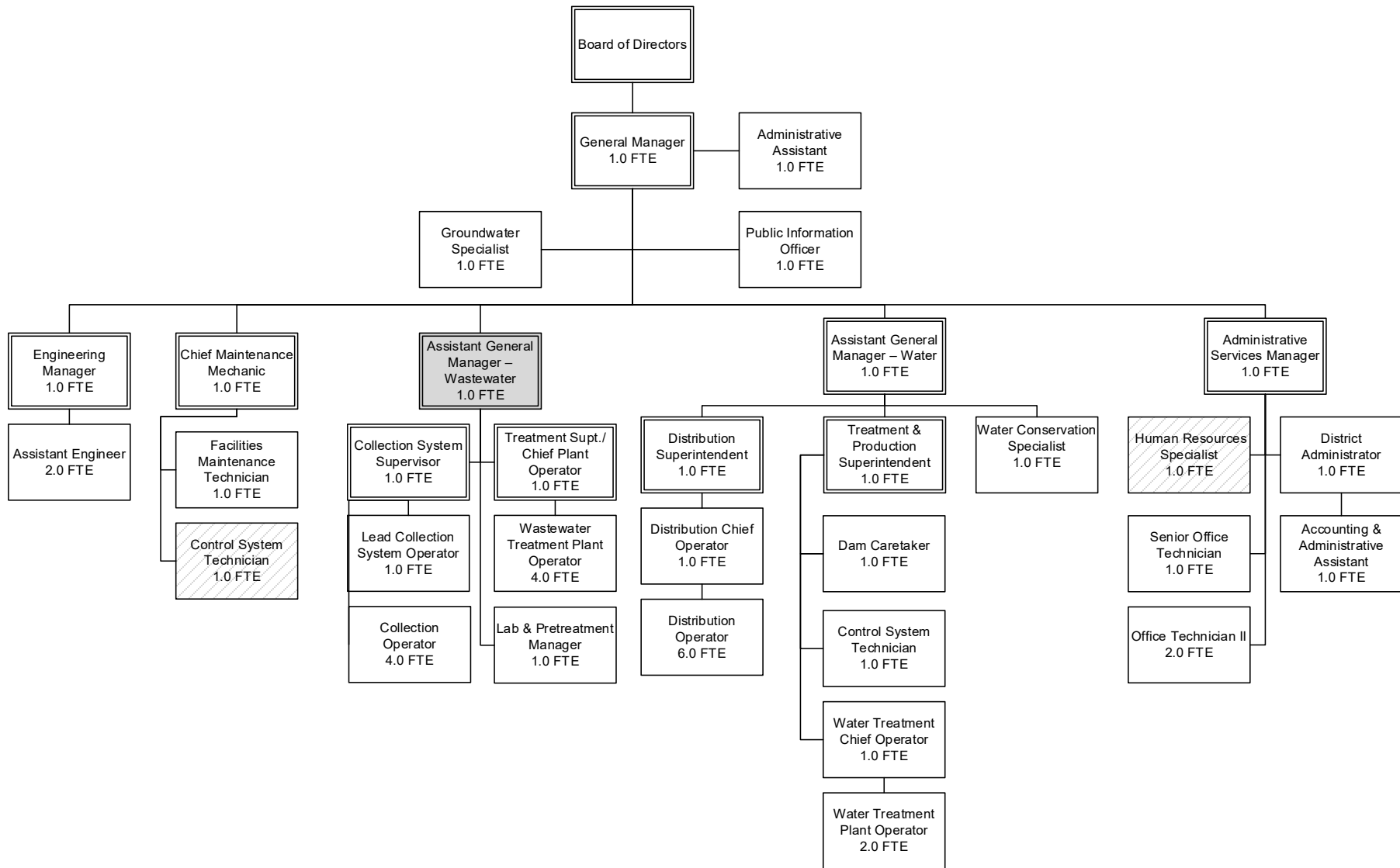


Figure 18: Potential Long-Term Organizational Structure

There is a potential to eliminate the second General Manager position (potentially the Assistant General Manager for Wastewater), with Wastewater Supervisors reporting directly to the General Manager. This would reflect the level of current wastewater operations staffing in which the MSD General Manager is not a part. This is not recommended as the result would be a lean organization with too large a span of control for the new General Manager and less supervision for the wastewater treatment operations than for water. Elimination of this position could save the District approximately \$234,000 (salary plus an estimated 30% benefits).

The Maintenance Division would be responsible for facilities maintenance and grounds maintenance at all MSD and MWD facilities, as well as fleet and equipment maintenance for all assets, supported by one supervisor and one technician. They would be assisted by the existing Fleet Technician/Operator position reporting to the Distribution Superintendent. The potential addition of a new Control System Technician position would cost an estimated \$134,754 with benefits.

The Wastewater Operations Division would be responsible for wastewater treatment, wastewater collection, and laboratory operations. The Wastewater Division would include Laboratory/Pretreatment. This Division would include an Assistant General Manager–Wastewater supported by 14 total FTEs. There may be an opportunity for the wastewater lab to provide lab services for water operations in the future but in order to do so, it may be necessary to add an FTE(s) considering lab services for water operations are currently outsourced. At many organizations, lab functions are combined. This may result in savings on outsourced samples, and the additional FTE could provide succession planning and operational redundancy.

The Water Operations Division would be responsible for water production, treatment, distribution, and management of a water source. This structure focuses all staff on water utility operations by moving primary responsibility for fleet maintenance and facilities maintenance to the Maintenance Division, assisted by the Fleet Technician/Distribution Operator. The Water Operations Division is led by the Assistant General Manager – Water, who is supported by 16 total FTEs. The workgroup includes the Dam Caretaker, who lives and works at the Juncal Dam located in the Santa Ynez Mountains about 1.5 hours of drive time from the current MWD main office. This group also includes the full-time Water Conservation Specialist position, which would report to the Assistant General Manager – Water. The Water Conservation Specialist manages MWD’s water conservation program including rebates and provides hands-on customer service, helping to identify leaks and inform/encourage customers to reduce water use.

The Business Operations Division could be retitled Administrative Services and be responsible for all administrative support functions including Billing and Customer Service, Finance and Accounting, and Human Resources. The Administrative Services Manager would also be responsible for the administrative support necessary for Board of Directors meetings and other administrative needs for management, including information technology support. Notably, this structure creates a full time Human Resources Specialist to dedicate toward human resources tasks and responsibilities, rather than relying on several positions that do those tasks on a part-time basis. The Administrative Services Manager would be supported by seven FTEs.

The Public Information function is supported by one FTE and is responsible for external communications and educational campaigns for customers and the community. This position would report directly to the General Manager to ensure involvement with key District initiatives and issues.

The Groundwater Specialist, who is responsible for assisting the General Manager and other staff with GSA-related business and its related requirements, would report directly to the General Manager, illustrating the importance of the GSA as a separate entity.

The Engineering Division is responsible for capital planning and investment for all water and wastewater facilities and infrastructure. This would require working with contractors, managing projects, reviewing plans, and performing design work as needed. Additionally, this division provides customer service related to new utility services, development plan review, system leaks and other tasks. This function is supported by three FTEs which would, in the long-term structure, include an Engineering Manager position to supervise the remaining two engineers and work with upper management. While this division would report directly to the General Manager (a licensed engineer), it would also work under the shared direction of the two Assistant General Managers.

In summary, the short-term and long-term consolidation scenarios proposed here represent the potential elimination of a single position, the second General Manager, at a net potential savings of approximately \$234,000 (salary and benefits). If, however, the position is retained as recommended and reclassified as an Assistant General Manager for Wastewater at a level equivalent to the existing MWD Assistant General Manager/Engineering Manager position at approximately \$244,125 per year, it would result in a cost increase of approximately \$10,125 per year. Two optional additional positions, a Human Resources Specialist and Control System Technician are included at a combined cost of \$215,545 per year.

Note that the potential structure and positions laid out in this section are designed to provide costs savings, where determined feasible over the long-term under a consolidated model. Given current lean staffing levels in both organizations, it should again be stressed that the elimination of any FTEs is not recommended; the consideration of reclassification has potential. Administrative and managerial staff positions in a larger organization may require higher compensation levels commensurate with the duties, which can be assessed in a few years post-consolidation. Additional functions such as recycled water services may require the addition of more positions.

Financial Position

Below is a summary of the primary financial topics related to a potential consolidation of the two districts. In each section, we discuss the current situation for the MWD, MSD, and impacts should the two be consolidated.

Bookkeeping

MWD books have two enterprise funds, one for water and one for the GSA, and MSD has one enterprise fund for wastewater. An enterprise fund is defined by the Governmental Finance Officers Association (GFOA) and the Governmental Accounting Standard Board (GASB), who set the guidelines for governmental accounting standards, as a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services (akin to a business). Because utilities charge rates to ratepayers for their services, utilities operate as enterprise funds.

Consolidating MWD and MSD books would require three enterprise funds, one for water operations, one for wastewater and one for the GSA. In essence, the current accounting structures could continue as-is but brought together into a single set of books with three enterprise funds. In this way, charges for water services would remain separate for use to cover the costs of water service provision and charges for sewer service would remain separate for use to cover those associated costs. The purpose is to ensure that users are paying rates to cover the services provided and the consolidated district complies with all accounting standards and California laws. Should recycled water become a service of the new district, a potential fourth enterprise fund could be set up to track related revenues and expenditures.

The most difficult aspect of consolidating finances into one utility would be to merge into a single chart of accounts to govern the coding of financial transactions. The consolidated utility would require three enterprise funds with fund numbers (so that water and sewer transactions can be properly allocated), and a full chart of accounts with codes for all necessary transactions. At first, the two charts of accounts could be merged, and duplicative entries removed. The financial staff in the two utilities would need to meet and agree upon a new chart of accounts for implementation over time and make the associated changes to setup in their respective financial software systems. Alternatively, the consolidated utility could add a new field to identify transactions as either water or sanitary and continue to use the existing charts of accounts. Ideally, the chart of accounts would be fully merged and streamlined. The effort to create a unified chart of accounts and implement it into the systems could take six to 12 months.

Financial staff would need to examine and determine which financial software system is most beneficial for use in the consolidated utility. Currently, MWD uses ERP Pro 10 financial software from Tyler Technologies, which was recently upgraded, and MSD is using MAS90 by Sage. MSD staff are already evaluating the Sage system for upgrade and/or replacement. With a new system While in the interim period the likelihood is that both systems would be needed to run concurrently, in the longer-term a determination would need to be made whether one of the current systems or an entirely new system would best meet the agency's needs. An evaluation of the pros and cons of current and other potential systems should occur, a selection made, data transferred, and staff trained. This could be a two to three year process from start to finish which is why having concurrent systems running in the meantime is necessary. The consolidated utility might retain one of the two current systems and simply add licenses for new staff, or may choose to go out to identify an entirely new solution. Costs of this could range from \$10,000 for a few new licenses to \$600,000 for a new ERP system, including vendor training and consulting. Any system would require the implementation of multiple modules including fund accounting, purchasing/contracting, accounts receivable, and accounts payable at a minimum. Other modules such as capital projects and payroll can be evaluated.

Finally, a consolidated entity would need to perform an allocation of staff across its enterprise funds to ensure ample justification and separate finances for each. To ensure compliance with California’s Proposition 218 that requires property related fees and charges cannot exceed the cost of providing the service, and also for best accounting principles, the consolidated entity would want to allocate costs separately to each enterprise fund. For example, the salary of a shared finance staff member, performing work for both utilities, would need to be partially allocated to water and partially to sanitary sewer. The same allocation would need to be made for other shared positions such as the General Manager, Business Manager and PIO.

Revenues and Expenses

Revenues for each agency are unlikely to be greatly affected by a consolidation and would remain largely unchanged.

As shown in Table 8, MWD has FY2022 projected actuals of \$26.5 million, which is over the \$24.1 million budgeted, due to water sales exceeding budget. The three largest revenue sources are water sales (70.2% of revenues), water service charges (17.6%), and Groundwater Sustainability Authority (GSA) revenues (5.3%). The following table shows a breakdown of MWD revenues since FY2020.

Table 8: MWD Revenues FY2020-FY2022

MWD Revenues	FY2020 Actuals	FY2021 Actuals	FY2022 Unaudited Actuals	Percent Change FY2020 to FY2022
Water Sales	\$9,317,500	\$19,065,915	\$18,542,822	99.0%
Water Service Charges	\$4,276,307	\$4,486,101	\$4,627,950	8.2%
Water Surcharges	\$5,753,179	\$306,330	\$307,458	-94.7%
Other Operating Revenues	\$135,111	\$334,142	\$445,719	229.9%
Subtotal -Operating	\$19,482,097	\$24,192,488	\$23,923,949	22.8%
Capital Cost Recovery Fees	\$0	\$0	\$455,018	100.0%
Rental Revenue	\$42,785	\$43,905	\$0	-100.0%
Investment Earnings	\$192,392	\$31,515	\$13,332	-93.1%
Grant Funding	\$0	\$286,330	\$409,820	100.0%
Other Non-Operating Revenues	\$209,752	\$347,972	\$312,504	49.0%
Subtotal – Non-Operating	\$444,929	\$709,722	\$1,190,674	167.6%
Groundwater Sustainability Agency	\$0	\$1,002,486	\$1,398,217	100.0%
TOTAL REVENUES	\$19,927,026	\$25,904,696	\$26,512,840	33.1%

In its most recent rate study, the MWD changed its methodology, resulting in an increase in Water Sales revenues and decrease in Water Surcharges, with the prior Water Shortage Emergency Surcharge eliminated. The increase in total Operating Revenues from \$19.5 million in FY2020 to \$24.2 million in FY2021 is a combination of the rate increase as well as significant water sales above budget due to ongoing drought conditions. In FY2021, the GSA began receiving revenues through a property fee assessed through the Santa Barbara County tax roll. These revenues are for a specific and segregated purpose, however, and should not be included in consideration of general operations.

As shown in Table 9, MSD has FY22 budgeted revenues of \$7.0 million, of which 94.3% is operating. Sewer service charges contributed between 87.6% and 94.3% of total revenues since FY2020. The balance includes investment

earnings (loss) and property tax revenue. While revenues show a decrease of 5.3% from FY2020 to FY2022, this is the result of conservative budgeting practices, with FY2022 revenues budgeted, not actual. Unaudited actual revenues as of November 2022 totaled \$7,474,860, an increase of 1.1% over FY2020. The District saw a decrease in Commercial Sewer Service Charge as a result of less water usage after the Debris Flow, which resulted in many businesses experiencing far less customers or ceasing operations altogether. Since water usage data lags a year for current year revenues there is an anticipated uptick in revenue beginning FY2023-24.

Table 9: MSD Revenues FY2020 – FY2022

MSD Revenues	FY2020 Actual	FY2021 Actual	FY2022 Unaudited Actuals	Percent Change FY2020 to FY2022
Sewer service charges	\$6,256,696	\$6,533,184	\$6,543,285	4.58%
Connection fees	\$119,564	\$203,860	\$191,597	60.25%
Other	\$100,843	\$104,248	\$75,538	-25.09%
Operating Revenue	\$6,477,103	\$6,841,292	\$6,810,420	5.15%
Property Tax	\$603,497	\$633,568	\$676,670	12.12%
Investment Income (loss)	\$309,612	(\$14,911)	\$0	-100.00%
Non-Operating Revenue	\$913,109	\$618,657	\$676,670	-25.89%
TOTAL MSD REVENUES	\$7,390,212	\$7,459,949	\$7,487,090	1.31%

MSD adopted the Teeter Plan in the California Revenue and Tax Code with the County of Santa Barbara, which guarantees 99.6% of secured property tax apportionment and 95% of unsecured. The remaining 5% is placed in a Tax Loss Reserve Fund used to offset County tax sale losses. The MSD is assured of receiving 100% of its sewer service charges each fiscal year. This mechanism would need to continue in a combined entity unless a different mechanism such as basing wastewater billing on water consumption were employed. This would be a significant change. Table 9 shows a breakdown of MSD revenues since FY2020. It should be noted that the MSD received over \$1.3 million in grant revenues in FY2018 to offset prior disaster costs, a large one-year anomaly.

Any increases to sewer service charges would come from a rate increase or increase in number of connections. Sewer connection fees are set per MSD Board resolution and reimburse existing customers for past investment in collection and capacity of the system. The MSD connection fee is \$8,400 per equivalent residential unit. Other Services includes miscellaneous revenue sources such as engineering review and inspections, plan check, and processing agreements.

MSD receives one-half of 1% of total property tax revenue collected by the County of Santa Barbara which increases or decreases based upon assessed value of property within the District. Because its tax rate was below 12.5 cents per \$100 in assessed value in 1978, the MSD is exempt from Proposition 13 appropriation limits. Because the boundaries of MWD and MSD are different, a consolidated district would need to carefully track property tax revenues and expenses to ensure they are allocated only within the appropriate geographic areas. These revenues would not be available on parcels outside of MSD’s boundaries unless a change is approved by LAFCO.

If the two districts were combined, revenues would total \$33.5 million including \$1.4 million of GSA revenues based on FY2022 projected actuals. The majority of revenues are fairly stable, with water sales having the greatest variability based upon usage and environmental factors such as drought impacts.

MWD had a positive operating income (the difference between operating revenues and expenses) before depreciation of \$3.9 million in FY2020 and \$8.5 million in FY2021. The increase in FY2021 was due to an increase in water sales and FEMA funding and legal settlements from prior emergencies. MSD similarly had a positive operating income before depreciation of \$644,379 in FY2020 and \$944,195 in FY2021.

Net position for both, inclusive of depreciation, non-operating revenues and expenses, and capital contributions, was also positive, with MWD showing a positive change of \$11.3 million in FY2020 and \$8.7 million in FY2021. MSD showed a positive change of \$1.5 million in FY2020 and \$851,568 in FY2021. In summary, both are contributing positively to their bottom lines and adding to reserves.

Table 10 below shows MWD expenses from FY2020 to FY2022 based upon information from the annual audits and other financial reports.

Table 10: MWD Expenses FY2020 to FY2022

Expenses	FY2020 Actuals	FY2021 Projected	FY2022 Unaudited Actuals	Percent Change FY2020 to FY2022
Cachuma Ops & Maint Board	\$666,821	\$708,492	\$762,259	14.31%
Cachuma Cons & Release Board	\$183,348	\$159,960	\$127,044	-30.71%
US Bureau of Reclamation	\$243,495	\$259,495	\$89,133	-63.39%
Cater WTP O&M	\$914,418	\$1,070,577	\$1,152,423	26.03%
Cater WTP Capital	\$262,896	\$198,189	\$147,616	-43.85%
Central Coast Water Auth – Fixed	\$2,334,847	\$2,302,008	\$1,899,198	-18.66%
DWR – Fixed	\$3,568,581	\$3,107,780	\$2,344,746	-34.29%
State Water Project (SWP) - Variable (DWR)	\$95,843	\$32,605	\$17,143	-82.11%
Supplemental Water Purchase	\$0	\$0	\$1,021,020	100.00%
JPA Operating Expense	\$6,128,291	\$7,839,106	\$7,560,582	23.37%
Jameson	\$200,710	\$200,710	\$315,660	57.27%
Transmission & Distribution	\$1,651,408	\$1,651,408	\$1,666,451	0.91%
Treatment	\$1,323,015	\$1,323,015	\$1,386,986	4.84%
Direct Expense	\$3,175,133	\$3,175,133	\$3,369,097	6.11%
Engineering	\$541,781	\$894,046	\$707,573	30.60%
Customer Service	\$416,408	\$412,002	\$409,344	-1.70%
Public Info/Conservation	\$132,789	\$121,743	\$179,073	34.86%

Expenses	FY2020 Actuals	FY2021 Projected	FY2022 Unaudited Actuals	Percent Change FY2020 to FY2022
Fleet	\$220,158	\$226,855	\$246,205	11.83%
Administration	\$1,918,026	\$2,174,539	\$1,722,732	-10.18%
Semitropic Mgmt./ Maintenance/ Banking Fees	\$22,854	\$22,411	\$27,003	18.15%
MWD 218 Payment to GSA	\$422,200	\$1,003,072	\$235,925	-44.12%
Recycled Water Development	\$7,561	(\$21,549)	\$397,452	5156.61%
Legal – All	\$152,992	\$233,191	\$336,009	119.63%
2020 WSA w/ Santa Barbara (Desal)	\$0	\$0	\$2,526,261	100.00%
Extraordinary	\$0	\$118,527	\$199,447	100.00%
Depreciation	\$1,224,820	\$1,070,814	\$1,156,535	-5.58%
Indirect Expense	\$5,059,589	\$6,255,651	\$8,143,559	60.95%
Operating Expenses	\$14,363,013	\$17,269,890	\$19,073,238	32.79%
2004 DWR Ortega Loan	\$590,400	\$23,556	\$0	-100.00%
2010 Bond Interest Expense	\$690,462	\$130,426	\$0	-100.00%
AMI Meter Financing	\$163,993	\$0	\$0	-100.00%
Cater DWR Loan	\$231,648	\$231,648	\$231,647	0.00%
Cater Ozone	\$276,323	\$276,323	\$276,902	0.21%
2020 Bond Interest Expense	\$0	\$160,222	\$495,200	100.00%
2020 Bond Principal	\$0	\$160,000	\$0	0.00%
Non-Operating Expenses	\$1,952,826	\$982,175	\$1,003,749	-48.60%
Capital Expenses	\$5,651,777	\$3,831,281	\$5,029,021	-11.02%
TOTAL EXPENSES	\$21,967,616	\$22,083,346	\$25,106,008	14.83%

Table 11 below shows MSD expenditures from FY2020 to FY2022.

Table 11: MSD Expenditures FY2020 to FY2022

Expenses	FY2020 Actuals	FY2021 Actuals	FY2022 Actuals (unaudited)	Percent Change FY2020 to FY2022
Salaries & Benefits	\$2,995,138	\$2,932,359	\$2,614,724	-12.70%
Insurance	\$67,965	\$66,844	\$103,557	52.40%
Maintenance & Repairs	\$138,627	\$183,068	\$256,297	84.90%
Goods & Supplies	\$84,252	\$87,107	\$89,444	6.20%
Professional Services	\$131,273	\$298,690	\$197,618	50.50%
Administrative Costs	\$166,181	\$132,478	\$100,527	-39.50%
Plant & Lab Operating Costs	\$508,683	\$508,027	\$462,308	-9.10%
Safety, Training, and Travel	\$24,274	\$12,617	\$14,624	-39.80%
Utilities	\$203,618	\$228,227	\$223,421	9.70%
Debt Service Payment/ Interest Expense	\$0	(\$82,288)	\$138,850	100.00%
Total Operating Expenses	\$4,320,011	\$4,367,129	\$4,201,370	-2.75%
Covid-19 Expenses	\$135,604	\$140,104	\$0	-100.00%
MSD Debt Service Payment	\$327,300	\$303,100	\$277,700	-15.20%
MSD Bond Principal Payment	\$605,000	\$635,000	\$655,000	8.30%
Total Non-Operating Expenses	\$1,067,904	\$1,078,204	\$932,700	-12.70%
Capital Expenses	\$787,184	\$984,707	\$1,811,463	100.00%
TOTAL EXPENSES	\$6,175,099	\$6,430,040	\$6,945,533	12.50%

Based upon FY2022 financials, the districts would have combined expenses, including capital and debt service, of approximately \$32 million per year. This amount is below the approximate \$34 million in revenues noted earlier.

Total MWD Operating Expenses were 75% of the total in FY2022. Excluding the JPA, which is a separate entity, and depreciation, MWD Operating Expenses are 44% of total expenses. MSD Operating Expenses in FY2022 were 41.2% of the total. A large portion of expenditures is comprised of non-operating costs such as capital projects. We assume for the purpose of this review that capital projects would remain the same as those already in their respective capital improvement plans, as each district would need the same or similar investment in future infrastructure. Currently, MSD and MWD each have capital spending budgets averaging between \$2 and \$5 million per year.

There may be some minor overlap in administrative costs like office supplies and other areas under a consolidated utility. In the interim period (two to five years) there would likely be an increase in expenses as the consolidated utility implements a single financial software and other systems, contracts for various studies such as a classification and compensation review, and other costs of consolidation such as rebranding, new uniforms, website development,

and more. Over time, these costs may return to baseline (pre-consolidation) as the newly consolidated entity moves forward, and could decline slightly in relative terms because of minor economies of scale.

Salaries and Benefits

Salaries and benefits would be of particular interest for a potential consolidation. This section compares salary ranges and benefits offerings between the two agencies and review how they might be impacted by consolidation.

GOVERNING BOARD COMPENSATION

Compensation for the Board of Directors of each agency was reviewed with the knowledge that any consolidated entity would likely merge boards and require new compensation policies for the Directors.

Per MWD's *Directors' Benefits, Compensation, and Expense Reimbursement policy* dated August 21, 2007, Directors are compensated at a day rate for attendance at MWD and other authorized meetings, and is limited to one meeting per day and no more than 10 meetings per month. By policy, Directors are not to receive medical, dental, vision, or retirement benefits unless elected prior to January 1, 1995.

Per MSD's Ordinance 20, adopted in October 2022, Board members are paid "\$231.00 per day for each day of attendance at a regular or special meeting of the Board, a meeting of a standing or ad hoc committee of the Board, or for each day's service rendered as a Director by request of the Board, not exceeding a total of six days in any calendar month." In addition, per diems are provided for attendance at conferences or seminars and reimburses costs of travel, lodging, and meals. No mention of other benefits are included in the Manual, and it is assumed that Board members are not eligible.

Both Boards have a day-rate pay mechanism to include meetings and committees, and neither are offered other benefits such as medical, dental, or retirement. While the day rate of reimbursement may be different, it would be fairly straightforward to agree upon one policy to govern a combined Board of Directors as the differences are minor and cost impacts minimal.

Consolidation would result in the elimination of compensation for five Board members. While compensation varies depending on attendance, a rough estimate based upon FY2020 average annual compensation of \$7,000 each yields a total estimated savings of \$35,000.

STAFF COMPENSATION

In 2020, MWD performed an employee compensation comparison to provide information and recommendations to assist in ensuring its ability to attract and retain qualified staff and ensure staff are compensated fairly and commensurate with job duties and responsibilities. This study found that MWD's salaries were broadly in line with surveyed peers and the 2019 American Water Works Association (AWWA) salary survey, based upon the high cost of living in Santa Barbara County.

MWD has a Bi-Weekly Salary Range and Position Control Schedule with five steps. Employees may move to the next steps based upon performance, conducted annually on or around their anniversary date. Increases are recommended by their supervisor and must be approved by the General Manager. Any increase above one step requires approval by the Board of Directors. In addition to the salary ranges, MWD offers a longevity pay program that adds 2.5% after 8, 14, 20, and 26 continuous years of service as an incentive to retain staff. The Board considers

a Cost of Living Adjustment annually for all employee with the exception of the General Manager and adjustments to the salary schedule is updated accordingly.

MSD has a five-step salary table for operations and administrative staff with increases that are available to staff each year based upon merit; in this way, MSD staff receive increases through a combination of performance and time on the job. Compensation for collection and treatment operators at the MSD are directly connected to their certification levels as issued by the California Water Environment Association or State Water Resources Control Board, respectively. They are evaluated annually on or around their anniversary date. This salary table is considered for adjustment annually based on a cost-of-living adjustment (COLA). The table also provides hourly minimum and maximum rates for the District Administrator, Engineering Manager, Collection System Superintendent, Treatment Superintendent/Chief Plant Operator, and Lab and Pretreatment Manager positions. The General Manager's compensation is established through a contract.

For both entities, the approved FY2023 salary ranges were reviewed. MWD's salary ranges were provided with bi-weekly pay minimums and maximums, which were multiplied by 26 to arrive at an annualized amount. The MSD salary ranges were provided with hourly minimum and maximums for each classification, which were multiplied by 2,080 hours to arrive at an annualized amount. By converting both salary range tables to annual amounts and adding a midpoint for each range, it is possible to quickly sort and analyze the results to determine whether there is similarity in pay for positions with similar job duties and responsibilities, where the biggest differences might be, and steps that would need to be taken to consolidate pay across a unified single agency. The results, sorted from smallest to largest midpoint salary, are shown in Appendix C. It should be noted that MWD recently adopted an increase to the salary range maximum for its 20 union represented and 8 non-represented employees, effective June 28, 2022. MSD has recently adopted its first memorandum of understanding with its union-represented employees, while negotiations are pending for non-represented employees.

This analysis shows some disparities in pay ranges between the two agencies, as might be expected. For example, a Distribution Operator I in MWD has a midpoint of \$66,602 while a Collections Operator I in MSD has a midpoint of \$66,102 which is 1% less. The Distribution Operator II in MWD makes \$78,803 while the Collections Operator II in MSD makes \$74,069, which is 6% less. There are minor variabilities between the two entities for many similar positions which could require minor class and compensation adjustments to equalize salaries and to ensure equity across staff and reduce negative impacts on morale and workplace culture.

The disparities in some positions are more significant. The MSD Collection & Maintenance Supervisor, with a midpoint at \$124,571, is 5.3% below the Treatment & Production Superintendent at MWD. As one example, the Treatment Chief Operator and Distribution Chief Operator IV in MWD has a midpoint of \$108,104 while the Chief Wastewater Treatment Plant Operator in MSD has a midpoint of \$139,932, over 29% above MWD.

To consolidate the districts, a comprehensive class and compensation study would need to occur to analyze job functions and responsibilities and to consider equalizing pay ranges for similar positions were appropriate. This would result in some cost impacts as those positions paid at the lower level would likely require upward adjustment. In our experience, having similar positions paid at different rates results in serious morale and retention issues for an organization. The estimated cost of a parity adjustment across all positions, based upon the current differential between similar positions and raising the lower paid position to match the higher, is approximately \$150,000 but is obviously variable and dependent upon collective bargaining and internal negotiations. It is important to recognize that this is not a one-time cost but a permanent increase to the base budget for the combined entity.

COLLECTIVE BARGAINING

Until recently both MWD and MSD did not have employees represented by collective bargaining agreements (unions). However, in the last year both organizations have begun the process of recognizing and negotiating their first union contract. MSD has recently completed the process of negotiating its first agreement with 15 represented employees; discussions are continuing for non-represented staff. The MWD Board of Directors approved a Memorandum of Understanding (MOU) with the Service Employees International Union (SEIU) Local 620 at their regular Board meeting on June 28, 2022.

MWD’s MOU with SEIU discusses benefits, leave, rules of conduct, disciplinary guidelines, and employment practices. Twenty of the twenty eight full-time employees employed by MWD are members of the union, all of which are non-exempt members.²⁸ The agreement allows for periodic reviews of employee classifications and job duties in preparation of a compensation study by the MWD as well as the ability for employees to submit a request for review if they think their position is misclassified. The MOU also details the process for disciplinary action, appeal, and grievance procedure.

Should the Districts pursue consolidation, partnering with any union(s) representing employees would be important. Union representatives would be important to include in the decision making process and in discussions about the implementation of any changes. Their inclusion would be essential both in providing the employee perspective to MWD and MSD management and elected officials as well as in helping to communicate the reasons for changes to union-represented employees.

STAFF BENEFITS

A comparison of benefits offered to staff in MWD and MSD shows many points of similarity with some minor differences. Table 12 below summarizes benefits information provided in the *Montecito Water District Employee Handbook* and *MOU*, both dated June 28, 2022, and *Montecito Sanitary District Employee Handbook* dated December 1, 2019 with updates from the negotiated February 2023 SEIU Local 620 Memorandum of Understanding (MOU).

Table 12: Staff Benefits Comparison

Benefit Type	MWD	MSD
Medical	Provided to all regular Full Time, Part Time, and eligible retired employees. New employees eligible on first of month after their hire date. District pays premium for eligible employees and a portion for dependent or family coverage if elected by the employee.	Regular Full and Part Time employees working 30 hours/week or more are eligible on 1st day of month after 30 days worked for medical and dental. Casual, temp, or contract staff not eligible. If hired prior to 1/1/18, District contributes up to Employee Plus 1 level. If hired after 1/1/18, District contributes up to \$1,400 per represented employee per month, \$1,000 per unrepresented employee. Employee pays any amount beyond this.
Dental	District pays dental premium for all eligible employees. Dependent/spousal coverage is at employee's cost.	Delta Dental PPO. If hired prior to 1/1/18, District contributes up to Employee Plus 1 level. If hired after 1/1/18, District contributes up to \$1,000 per employee per month. Employee pays any amount beyond this.
Vision	District pays vision premium for all eligible employees. Dependent/spousal coverage is at employee's cost.	Not offered

²⁸ Montecito Water District, Memorandum of Understanding Between MWD and SEIU Local 620, Draft June 28, 2022

Benefit Type	MWD	MSD
Basic Life and AD&D	District pays premium for \$50K for all eligible active employees while employed at the District. Dependent/spousal coverage is at employee's cost.	District pays 1.5 times salary, up to \$50K
Short Term Disability	District pays premium for employee.	District pays premium for all Full Time employees.
Long Term Disability	District pays premium for employee.	District pays premium for all Full Time employees
Deferred Compensation	Voluntary IRS 457 plan available to employees, eligible on first day of employment. District makes no contribution or match.	Voluntary plan, two separate IRS 457 plans available. Employee eligible to enroll upon date of hire and may change contribution amounts of percentage at end of any pay period. District makes no contribution or match.
Retirement	CalPERS defined benefit plan. All Classic members enrolled on or before 12/31/12 in 2% at 55 plan and District pays a portion of employee's contribution. If enrolled on or after 7/1/12, District pays employer's portion only and employees pay their portion. PEPRA employees enrolled on or after 1/1/13 participate in the 2% at 62 plan and pay their own portion.	CalPERS defined benefit plan. If hired prior to 1/1/13 or reciprocal, based on 2% at age 55 highest single year plan. If Classic hired prior to 1/1/18, District pays both District and employee monthly contribution. For Classic hired on or after 1/1/18, employee required to pay employee portion through payroll deduction. Employees hired after 12/31/12 are PEPRA plan based on 2% at age 62, final three year formula plan. The District does not pay employee contribution.
Retiree Health Coverage	Provided if hired on or before 6/30/13, at/after age 60, and completed 12 years of service with District. District will pay premium for a designated Medicare supplement for employee only (if of Medicare-eligible age) or amount up to one-party coverage on District's current HMO plan if under Medicare age. No coverage offered for employees hired after 7/1/13.	Provided if hired prior to 7/1/10, 55+ years old at retirement, who have worked at least 10 consecutive years with District are eligible. District will pay premium for up to "Employee + 1" level until employee reaches age 65. No coverage offered for employees hired after 6/30/10.
Holidays	8 holidays plus four personal leave days	10 holidays plus four personal leave days. Part Time employees eligible on pro-rata basis.
Vacation	Full-time employees accrue time each pay period based on length of service to District, earning from 12 to 27 days per year. Part-time employees working at least 20 hours/week earn vacation on a pro-rata basis. An employee may cash out up to a maximum of 120 hours once per calendar year, provided they have no less than 80 hours remaining following cash out.	Full-time accrue vacation per bi-weekly pay period from hire date to anniversary of succeeding year based on length of service to District. GM discretion on prior years of service. Full and Part Time employees may begin taking paid vacation after accruing vacation benefits. Employees can earn 80-200 hours per year depending on years of service.
Sick leave	All employees eligible. Full Time earn up to 96 hours per year. Part Time accrue at pro-rata rate based upon number of hours worked. Temporary staff accrue at rate of one hour for every 30 hours worked. Upon departure, staff who have worked six continuous years of service are compensated for unused sick leave from 50-100%	All employees eligible. Full Time accrue up to 96 hours/year from date of hire. Part Time accrue pro-rated to number of regularly scheduled hours. Sick leave not accrued when employee on leave. Upon departure, staff reimbursed for unused sick leave from 50-100% depending upon years of service.
Longevity Pay	Increase of 2.5% based on performance evaluation after 8, 14, 20 and 26 years of continuous service with District	Regular employees who have been at top step of classification for one year or more are eligible to be considered for incentive awards earned by exceptional performance.
Bereavement Leave	Up to three days for immediate family.	Up to three days for immediate family.

In general, benefits are fairly comparable. Both districts offer general medical, dental, and retirement offerings plus vacation, sick, and holiday time. Both offer some form of retiree health care for eligible employees. Both offer retirement through CalPERS, the public retirement system, which makes consolidation easier in that employees would not have to convert to a new retirement system. Both offer most benefits on a pro-rata basis for part-time staff.

Minor differences exist with regard to eligibility requirements for retirement, vision insurance (offered by MWD but not MSD) and longevity pay. A consolidated utility would need to redefine eligibility for all benefit types and determine a single consistent offering to staff. Cost impacts of these changes is roughly estimated at \$50,000 to work through parity issues and would continue each year thereafter as an addition to the consolidated entity’s base budget.

Investments

Also important to financial condition and operations is investment of available cash. Most public organizations utilize investments to provide interest income as an additional non-operating revenue sources. According to the annual audited financials for period ending June 30, 2021, MWD held the following investments in accordance with its Investment Policy (Resolution 2233) dated June 28, 2022. All investments have a maturity of 12 months or less, providing reasonable liquidity and the ability to draw upon funds if needed.

Table 13: MWD Investment Portfolio

Description	Amount
Central Coast Water Authority Investment Pool	\$1,495,584
Semitropic Stored Water Recovery Units	\$1,924,510
Money-Market Mutual Funds (Schwab)	\$5,676,938
ARB Money Market	\$7,451,833
TOTAL	\$16,548,865

The MWD received \$32,242 in interest revenues in FY2021 and \$13,332 in FY2022. Average total annual investment earnings since FY2018 have been \$145,246 per year, for an average return of 1.6% based upon the FY2021 portfolio of \$9.1 million. Investment income rose in FY2019 and FY2020, dropping significantly during FY2021 and FY2022 as a result of economic conditions. At the time of this review, the District also held over \$6.5 million in a checking account, some of which may be invested in the future.

In addition, the MWD has liquid cash in check and money market accounts. The City of Santa Barbara holds over \$777,000 of MWD funds as debt service coverage and reserve for the Water Supply Agreement.

Though by budget the MSD is only one fourth of the size of MWD, the MSD has almost the same amount of invested cash assets. The MSD has distributed its investable monies in two vehicles: 1) the Santa Barbara County Investment Pool, and 2) the Local Agency Investment Fund (LAIF) which is a State of California controlled investment pool. Funds are readily available from either pool. As of June 30, 2021, MSD held the following investments.

Table 14: MSD Investment Portfolio

Description	Amount
Local Agency Investment Fund (LAIF)	\$2,016,534
Santa Barbara County Investment Pool	\$14,626,965
TOTAL	\$16,643,499

The MSD investment policy, Resolution No. 2013-883, states that it shall be its policy to invest funds, with maximum security through diversification and prudence, in a manner that would provide the highest investment return while meeting the daily cash flow demands of the entity and conforming to all statutes governing investment of public funds.

MSD received \$31,515 in interest revenues in FY2021. Average annual investment earnings since FY2018 is \$193,756 per year, for an average return of 1.2% based upon the FY2021 portfolio of \$16.6 million. Investment income rose in FY2019 and FY2020, dropping significantly during FY2021 as a result of economic conditions.

According to the annual audit, MSD investments lost \$14,911 in FY 2021. The MSD has adopted a more conservative investing approach than MWD, with 100% of its assets put into municipal investment pools. MWD has over 62% of its assets in money market mutual funds.

Information on individual rates of return for specific investment vehicles was not available for this review. If consolidated, the new district would need to review which investment vehicles have performed well, are easiest to administer, and provide the most security and return at the lowest cost. The consolidated district could transfer funds between them accordingly as part of active treasury management to maximize interest earnings, but be careful not to improperly mix enterprise funds. Over time, the consolidated district can eliminate specific investment vehicles deemed to be underperforming in comparison to others. Some investment vehicles may offer enhanced interest rates for larger deposits, which may be possible in a consolidated district. Since predicting interest returns is highly speculative and dependent upon market conditions, and because the amount is not likely to be material, no change is predicted as a result of consolidation.

Debt and Debt Service

At the time of this review, MWD had three outstanding debts. The largest is the 2020A Refunding Revenue Bonds, used to refund two prior debts, the DWR-Ortega Loan and 2010A Refunding Revenue Certificates of Participation, taking advantage of favorable rates with a savings valued at over \$3.3 million. The 2020A Refunding Revenue Bonds have variable rates from 4-5% and will mature through July 1, 2029. The total outstanding balance of principal and interest as of June 30, 2021, was \$13,938,700. Annual debt service payments average \$1.64 million beginning in FY23.

MWD participated in two debt financings as part of a Joint Powers Agreement (JPA) with the City of Santa Barbara. MWD receives a portion of its water supplies from or through the Cachuma Project, and these supplies are treated by the City of Santa Barbara’s Cater Water Treatment Plant. MWD has a JPA with the City of Santa Barbara as of November 1, 2003, to participate in a California Drinking Water State Revolving Fund (DWSRF) financing of \$19.2 million to fund general plant improvements. A second JPA with the City, also entered into on November 1, 2003, and for a DWSRF financing, was for ozone treatment improvements at the plant. The following table summarizes MWD outstanding debt obligations.

Table 15: MWD Debt Obligations

Title	Balance June 30, 2021	Average Annual Debt Service	Payoff Year
2020A Refunding Revenue Bonds	\$13,938,700	\$1,640,000	FY2030
Cater DWR Loan (JPA)	\$3,782,400	\$235,000	FY2026
Cater Ozone Loan (JPA)	\$4,300,000	\$275,000	FY2035

In addition to this direct debt, MWD also pays annual debt service to the Central Coast Water Authority (CCWA), a JPA within Santa Barbara County, toward its State Water Project debt. While not on the District's books, it is a required annual debt service payment. In FY2022 unaudited actual expense was \$4,243,945.

At the time of this review, MSD had one active debt, revenue bonds used in 2017 to refund prior 2007 Certificates of Participation in order to take advantage of favorable interest rates. According to the ACFR, the total issue amount was \$10,020,000 with a principal and interest balance of \$9,194,600 as of June 30, 2021. Debt service has a variable rate with annual debt service averaging approximately \$915,000 per fiscal year. If taken to full term, this debt will be retired in 2031. The following table summarizes MSD outstanding debt obligations.

Table 16: MSD Debt Obligations

Title	Balance June 30, 2021	Average Annual Debt Service	Payoff Year
2017 Sewer Refunding Revenue Bonds	\$9,194,600	\$915,000	FY2031

A consolidated debt service schedule for both MWD and MSD for the next 10 years is provided in the following table. As can be seen, debt service totals just over \$3 million per year through FY2026, dropping to \$2.83 million through FY2030 and then dropping again to \$1.2 million in FY2031.

Table 17: Consolidated MWD and MSD Debt Obligations

Loan Title	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
2020A Refunding Revenue Bonds	\$1,640,000	\$1,640,000	\$1,640,000	\$1,640,000	\$1,640,000	\$1,640,000	\$1,640,000	\$1,640,000	\$1,640,000	-
Cater DWR Loan (JPA)	\$235,000	\$235,000	\$235,000	\$235,000	\$235,000	-	-	-	-	-
Cater Ozone Loan (JPA)	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000
2017 Sewer Refunding Revenue Bonds	\$915,000	\$915,000	\$915,000	\$915,000	\$915,000	\$915,000	\$915,000	\$915,000	\$915,000	\$915,000
Total Debt Service	\$3,065,000	\$3,065,000	\$3,065,000	\$3,065,000	\$3,065,000	\$2,830,000	\$2,830,000	\$2,830,000	\$2,830,000	\$1,190,000

Given that both entities have incorporated these obligations and the annual debt service payments into their budgets already, we do not see any impact on a consolidated utility. There may be opportunity to further reduce costs by further consolidating and refunding the debts, depending upon interest rates at the time and the ability to allocate costs between enterprise funds.

Working Capital and Reserves

Working capital (reserves) for utilities are the accumulated difference over time between revenues and expenditures. When a utility's revenues exceed its expenditures, the difference is added to its working capital which builds over time with a goal of having funds available to help manage risk. Conversely, should a utility expend more than its revenues, this overspend in a single year is drawn from the accumulations of working capital from prior positive years. Having funds available to mitigate risk is critical for utilities due to the uncertainty that can impact them, such as unforeseen breaks in extremely high cost capital assets, lower than budgeted usage, extreme weather events, and

source supply and energy costs that are not in the utility’s control, among other factors. The level of working capital can be measured as the available buffer or margin for an enterprise fund.

According to its Reserve Policy adopted via Resolution 2237 dated June 28, 2022, MWD has established five unrestricted Board Committed reserves, as shown in the following table. Committed reserves, as defined by GASB 54, is a classification including amounts that can only be used for the specific purposes determined by a formal action of the government’s highest decision-making authority (in this case, the MWD Board). These reserves can only be used for these purposes and can only be repurposed if the Board approves such an action.

Table 18: MWD FY2022 Committed Reserves

Reserve Category	Description	June 28, 2022 Balance (unaudited)
Operations Reserve	Approximately three months of total operating expenditures. Can be used as an alternate short-term or immediate-purpose funding source.	\$3,400,000
Emergencies	To provide protection for losses in the event of hydrological, meteorological, or man-made emergency in which MWD infrastructure is severely damaged. Can be used as gap funding to cover time from loss until insurance payout, as well as deductible.	\$500,000
Unplanned Capital Projects	Provides cash necessary to construct, procure, or repair new/existing infrastructure that wasn’t planned at budget adoption.	\$500,000
Water Supply Agreement	Established in FY21 to fund pay-go capital expense associated with the Santa Barbara Desalination Plant. As a condition, MWD must fund a portion of maintenance costs; this reserve to be funded annually.	\$600,000
Supplemental Water	Provides cash for the acquisition of supplemental water	\$3,000,000
Total		\$8,000,000

Unlike MWD, MSD has no committed or restricted reserve types but instead has four designated reserves as shown in the following table. Per GASB 54, designated reserves are included as unrestricted reserves, which are set at levels established by either formal or informal policies of the utility and can either be committed for specific uses (as with MSD) or available for a variety of uses. Their use is subject to Board approval.

Table 19: MSD FY2021 Designated Reserves

Reserve Category	Description	June 30, 2021 Balance
Designated for Retirement Benefits Obligation	Funds set aside in the County Retirement Benefits Fund that pays for the post-retirement benefits available to a finite number of employees (those employed prior to July 1, 2010, and who retire from the District).	\$184,072
Designated for Capital Replacement	Funds set aside in the County Capital Infrastructure Fund to fund the District’s Capital Improvement Program. The amount typically contributed is equal to the prior year’s audited depreciation expense.	\$7,622,671
Designated for Reserves	Funds set aside in the State LAIF Investment Fund to be utilized when unforeseen project/operational needs arise but for which there is no budget in the normal Operations & Maintenance and Capital Improvement Program funds.	\$2,016,534

Reserve Category	Description	June 30, 2021 Balance
Designated for Recycled Water	Funds set aside in the MBT Recycled Water Checking Account specifically for the purpose of studying the feasibility of recycled water. The District received a small grant to start the project and funded the fund with two years of its typical ½ of 1% of property tax revenues.	\$1,096,679
Total		\$10,919,956

In summary, the MSD reserves are unrestricted and available for any use by Board vote; MWD reserves are committed to more specific categories of use. In both cases, reserves can be changed by action of the respective Board.

GFOA recommends that local governments take numerous local factors into account in establishing the level of working capital in a formalized reserve policy, including:

- Strength of collection practices
- Historical consumption of inventories and prepaids
- Transfers out (if applicable)
- Cash cycles
- Customer concentration
- Demand for service
- Control over rates and revenues
- Asset age and condition
- Volatility of expenses
- Control over expenses
- Management plans for working capital (restrictions, designations)
- Debt position

GFOA recommends a target level of working capital in enterprise funds to be between 45 and 90 days of annual operating expenses. This is typically for unrestricted working capital that can be used for any operational purpose. Based upon combined Operating Expenses of \$23.3 million in FY22, the consolidated utility would require between \$2.9 million (45 days) and \$5.7 million (90 days) as an Operating Reserve. The combined current MWD Operating Reserve and MSD Designated for Reserves amount is \$5.4 million, which is slightly below 90 days of operating reserves. When the Districts are combined, the unified board should revisit reserve level policies to assess whether they are appropriate or could be adjusted. However, it's important to note, that in order to maintain compliance with Proposition 218, enterprise fund reserves cannot be commingled or combined, and each separate fund should have a specific reserve target based upon the nature of the utility, potential variability due to drought or natural disasters, and other conditions.

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Operations and Efficiencies

This section will review the potential impacts of consolidation on operations and identify potential efficiencies that could result from consolidation.

Economies of Scale

As noted earlier in this report, a combined utility can present efficiencies in terms of administrative and engineering staffing. Generally, fewer management and administrative support staff are necessary in combined utilities. According to the 2020 American Water Works Association (AWWA) Utility Benchmarking survey, the median combined utility has 43.5% of overall staffing used for management, engineering, and customer service positions compared to 49.1% for water only utilities.²⁹ As noted earlier in the staffing section, combining district administrative groups would result in additional staff to focus on each business area; for example, while Human Resources may be the focus of one person half-time now, the combined agency would have a single employee fully devoted to nothing but Human Resources.

Operational economies of scale are harder to envision but there is potential in areas such as fleet and facility maintenance due to the addition of more vehicles and more facilities over which costs and staff time can be spread. There is some potential savings through joint contracting on some chemicals, materials, or parts. Operations staff may see some savings through sharing of resources and learning of best practices between MWD and MSD staff.

Because there would be few changes to current operating methods and organizational structure in the short-term, cost savings as a result of operational efficiencies are limited and would depend greatly on the interactivity between MWD and MSD operations staff. There is greater potential for savings due to economies of scale in the administrative and engineering functions.

Provision of Recycled Water

One operational area that combined utilities can readily collaborate on is using water resources wisely, which includes conservation, water reclamation, and water reuse. This is advocated in the industry as part of a “One Water” approach where water resources are managed through the entire water cycle, from sourcing to reclamation to recycling. Reclaimed water is non-potable but can be used to augment water supplies for irrigation, industrial, ecological, aquifer recharge (limited), and municipal uses.³⁰

In areas prone to drought or with restricted water supplies, like California, the use of reclaimed water can increase water supply as long it is done in a regulatory compliant and environmentally sound way that is protective of downstream users. In some cases, water reuse is also a possibility. Water reuse involves additional treatment of treated wastewater, brackish, or saline supplies (ocean water) to at least drinking water standards. Utilities with scarce water supplies often consider a combination of conservation, water reclamation, and water reuse that is appropriate for their circumstance. Because of the long-term drought in California and groundwater depletion throughout the State, most water experts expect the State will broaden the allowed use of recycled water over the next few years. The State will likely consider curtailing ocean discharge from sanitation districts in the near future.

²⁹ American Water Works Association (AWWA), 2020 AWWA Utility Benchmarking, Page 31.

³⁰ American Water Works Association (AWWA), Reclaimed Water for Public Water Supply Purposes,

<https://www.awwa.org/Policy-Advocacy/AWWA-Policy-Statements/Reclaimed-Water-for-Public-Water-Supply-Purposes>

The two Districts are partnering on an Enhanced Recycled Water Feasibility Study and on this assessment of the feasibility of Special District consolidation. The Recycled Water study focuses on potable reuse options and evaluates the potential for greater collaboration with other agencies in the region, including the Carpinteria Valley Water and Carpinteria Sanitary Districts, as well as the City of Santa Barbara.

As noted earlier in this report, one of the benefits of consolidation is to have a single governing board to oversee projects like recycled water, which intersects with both water and wastewater operations. While the two separate districts can certainly collaborate as they do now, a single Board of Directors would ensure a unified approach in the long term.

Facilities

This section reviews administrative and other general facilities for potential consolidation opportunities. Our assumption is that operational facilities, such as treatment plants, pipelines, and pump stations, would be largely unaffected by consolidation and continue as-is to ensure ongoing water and sewer operations to customers.

MWD FACILITIES

The main office for the MWD is located at 583 San Ysidro Road, on a major arterial in Montecito. According to the Santa Barbara County Assessor's Office, it is a 3.03-acre site with residential properties to the east, commercial properties to the west and south, and government (Montecito Fire District) and residential uses to the north. A satellite image of the site is provided in the following figure.



Figure 19: Aerial Photo of MWD Administrative Office

The site encompasses several buildings, including:

- Administrative Office Building that includes offices for the General Manager, Assistant General Manager/ Engineering Manager, Administrative/HR Assistant, Public Information Officer, 2 Assistant Engineers, Business Manager, Financial Analyst/IT Specialist, Senior Office Technician, two Office Technician II, and a GSA Groundwater Specialist, as well as a Board meeting room
- Modular building with office space for the Distribution Superintendent and Water Conservation Specialist
- A residential unit for one employee who also serves as site caretaker after business hours
- Shop offices for Distribution employees, including restrooms, a break room, and equipment storage
- Storage buildings for files, meters, valves, and more
- Repair facilities for vehicles and minor equipment
- A large storage area for sand, gravel, large pipes, and more
- A pumping station and emergency generator
- A groundwater well and associated appurtenances

The Administration building is approx. 100 years old and appears to be well maintained but at maximum capacity for staff of 12. If administrative staff were added to the site from MSD, a small addition to the building or additional modular facilities would likely be required. There is adequate room on the site for another minor structure or an addition to the Administration building and some increase to parking. There may be other code or zoning requirements in effect that could impact site expansion which would need to be investigated.

The Board meeting room is small and, while sufficiently sized to accommodate the Board's routine business, cannot handle significant numbers of public such as when considering a water rate increases. In this case, MWD staff secure the use of other locations for larger crowds, such as nearby schools or churches.

MSD FACILITIES

The main offices for the MSD are located at 1042 Monte Cristo and 910 Channel Drive in Montecito (this single site spans both addresses). This is a quiet and exclusive property; according to the Santa Barbara Assessor's Office, the site is approximately 6.3 acres, adjacent to residential properties to the south, parking for the Music Academy of the West on the east, Southern Pacific Railroad track and Highway 101 on the north, and the Santa Barbara Cemetery on the west. A satellite image of the site is provided in the following figure.



Figure 20: Aerial Photo of MSD Administrative Office

The site includes the following:

- Administrative offices for the MSD for the following:
 - Board meeting room
 - General Manager
 - District Administrator
 - Reception area and office for Accounting/Admin Assistant
 - Engineering Manager
- All treatment facilities necessary for conventional secondary treatment and disinfection
- Equipment for a small, recycled water demonstration project
- Drying beds for use in emergencies
- A modular office for Lab and Pretreatment Manager
- An office for Chief Treatment Plant Operator
- Modular restrooms
- Large locker facilities for collection and treatment plant employees
- Maintenance shop and Garage facilities for maintaining equipment such as the District's vacuum truck, CCTV van, lift station pump and other mechanical equipment

All administrative and operational staff for the MSD are based at this location. The site is well maintained with space for future growth, including possible expansion of the existing treatment plant, as well as addition of new recycled water facilities. In 2020, prior management was planning to construct new offices, a community meeting room and a small residential housing/caretaker unit on site; however, in 2020, the MSD Board of Directors chose not to implement this plan.

The administrative office area is adequate, but at maximum capacity for staff, with no room for additional staff unless additional offices are added. Recent improvements have been made to the Board room which is nearly equivalent size to the MWD Board meeting room. As with MWD, it is small and sufficiently sized to accommodate the Board's routine business, but cannot handle significant numbers of public and, in these cases, another location must be utilized.

CONSOLIDATED FACILITIES

Upon initial review, the pros and cons of each site are summarized in the following table.

Table 20: Pros and Cons of MWD and MSD Facilities

Site	Pros	Cons
MWD: 583 San Ysidro Road	<ul style="list-style-type: none"> • Aesthetically pleasing site near commercial area and residences • Caretaker residence onsite • Office for Water Conservation Specialist • Vehicle/equipment repair facility • Offices, restrooms, and break room for operations staff • Materials storage area • Adequate room available for additional administrative office space • 	<ul style="list-style-type: none"> • No room within existing admin building for additional 4 staff without minor modification • Board meeting room of insufficient size on infrequent occasions • 100 years old • Board meeting room of insufficient size on infrequent occasions
MSD: 1042 Monte Cristo Lane	<ul style="list-style-type: none"> • More industrial site with less impact on neighbors (including freeway and cemetery) • Past plans for expansion already complete but will require reworking • Updated and slightly larger Board room • Sewer treatment facilities onsite • Offices for Lab/Pretreatment Manager and Chief Treatment Plant Operator onsite • Locker facilities for operations staff 	<ul style="list-style-type: none"> • No room within existing administrative building for additional 12 staff without significant modification to the existing building • No offices or break rooms for operations staff • No caretaker unit onsite • Board meeting room of insufficient size on infrequent occasions • The vacant space on MSD property is reserved for both replacement of the existing treatment process as well as a potential recycled water facility.

The high cost of local real estate in the area makes purchasing a new site impractical and, given the existing assets in place, expansion and consolidation is the more prudent approach. Either site, if expanded, could be used to house the consolidated administration and management functions, which would provide the benefit of a single, centrally located site for customer contacts. Both Districts are currently lacking sufficient administrative space. Based upon this initial review, the MWD site is more suitable to accommodate a combined management and administrative staff as it has sufficient available land space, is more centrally located, and because moving in the MSD administrative staff of four is far fewer than moving 12 from MWD. The existing materials storage space and vehicle/equipment repair facilities at MWD could remain on the site and used for the benefit of a consolidated entity.

Relocating the four MSD administrative staff to the MWD site is preferred from a cost and staffing perspective. The former MSD Board Room and office spaces could be reconfigured to incorporate plans for additional offices, restrooms, breakrooms, and lockers for staff. Some staff now based at MWD might be moved to MSD and vice versa. While the size of the MWD Board meeting room is insufficient to meet the needs of every meeting, offsite meetings with high public interest can be scheduled in local community facilities.

An expansion and renovation plan would likely take 1-2 years in order to prepare architectural drawings and plans to remodel one or both sites and to provide funding for the project, and then another year or more to construct. By utilizing a combination of the existing sites in the most cost-effective way, the consolidated district should have sufficient space for management and administrative staff and improved facilities for operations staff. A very conservative cost estimate would be between \$50,000 and \$250,000 to provide minimal renovations to existing spaces and purchase some modular trailers to put onsite if needed. One-time relocation and moving costs are estimated to be between \$5,000 and \$30,000.

In the interim, management and administrative staff would remain in their existing facilities but should make a concerted effort to meet regularly at a single location in order to begin to know each other, clarify roles, and share

information. As an alternative, certain groups could move and consolidate, allowing functions like customer service and engineering to be unified. By remaining physically separated, it would be difficult to truly feel like a consolidated utility, and every effort should be made to break through this barrier until physical co-location is possible.

The Feasibility of Consolidation

Based upon an analysis of the impacts of potential consolidation on governance and staffing, financial position, and efficiencies and operations, it seems that consolidation offers modest potential benefits but at a cost.

Interim Consolidation

Due to the distinct services and regulatory environments for water and wastewater operations, the opportunities for consolidation among operations staff are limited. Generally, operators in each type of utility require different certifications and training. Consolidation presents an opportunity to align maintenance staff that support these operators and, as the organization works toward consolidation, align policies and procedures where appropriate. Some dual-certifications (water and wastewater) may also be possible in the future. This may become helpful if a recycled water facility is constructed.

In the interim period, reporting relationships for frontline operations staff could remain relatively unchanged. Alignment should begin at the management and supervisor levels, and the General Manager should be responsible for organizing the consolidated staff. In the interim period, MWD and MSD could align operations staff under two Assistant General Managers who can assist with day-to-day operations for water and wastewater, manage policies, and align service level expectations. These positions would report to the General Manager. It would be helpful to have both current General Manager positions available for the interim period to apply their knowledge of the water and wastewater specialties. In the potential organizational structure shown below, the MSD General Manager position is reclassified as the Assistant General Manager for Wastewater, but the Board should decide who would become the General Manager of the consolidated entity.

The organizational structure for water operations could remain unchanged, with the MWD Assistant General Manager/Engineering Manager serving as the Assistant General Manager for Water and supervising both distribution and water treatment & production superintendents and managing the associated CIP and related engineering.

The organizational structure for wastewater operations could also remain unchanged, with the reclassified General Manager position serving as the Assistant General Manager for Wastewater and supervising both the Treatment Superintendent/Chief Operator and Collections Superintendent.

Figure 21 shows a potential interim consolidated structure with MSD positions shaded in orange and MWD positions shaded in blue.

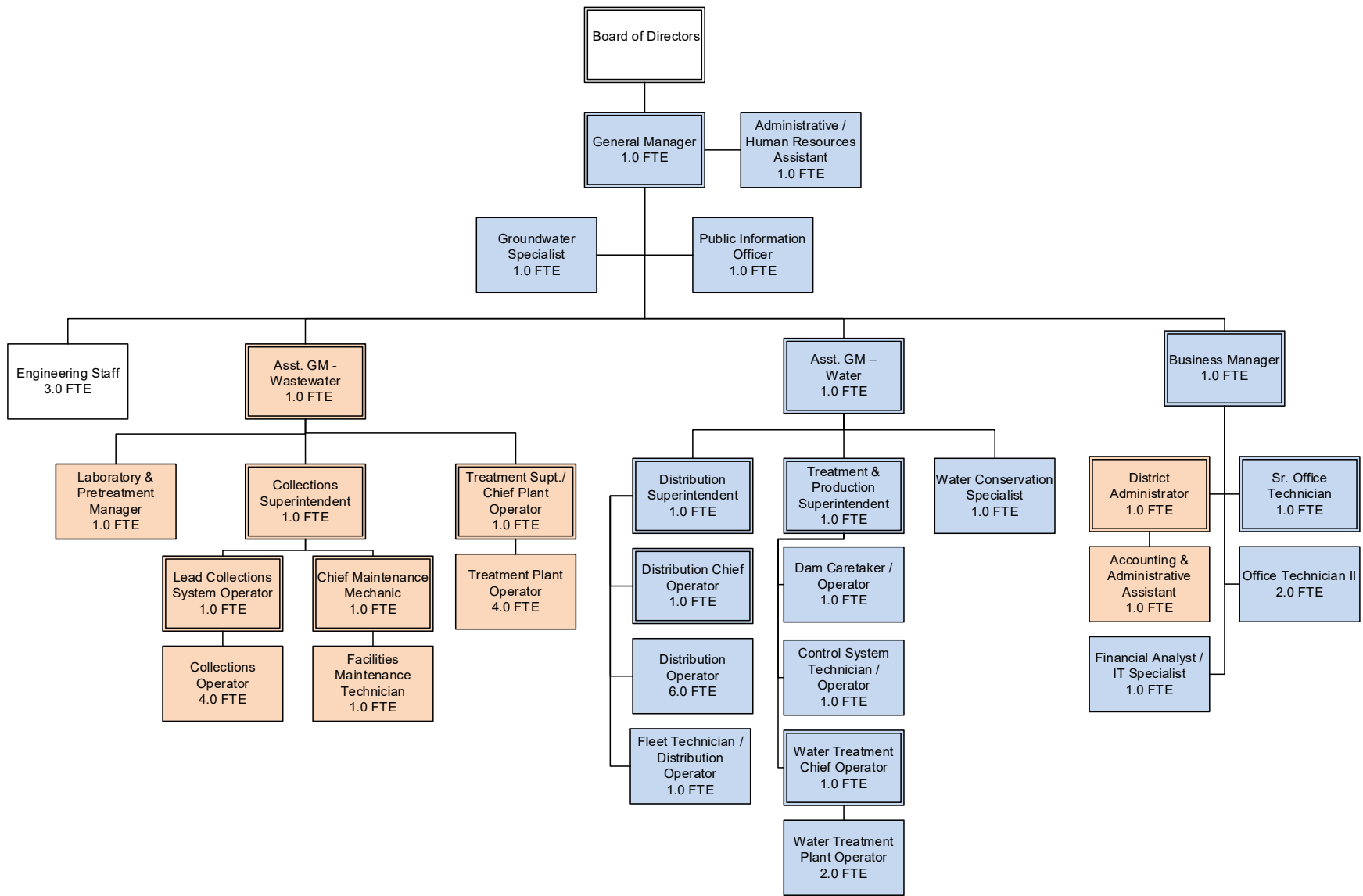


Figure 21: Potential Interim Agency Structure

This potential structure maintains current staffing and preserves many current reporting relationships. However, should the organization move toward long term consolidation it will be important for the staff responsible for grounds maintenance, fleet maintenance, and facilities maintenance to coordinate and align their work. This includes the Chief Maintenance Mechanic, Facilities Maintenance Technician, Groundskeeper, Fleet Technician, Dam Caretaker, and Control System Technician. Even though they are not aligned structurally in the interim period they need to work together to ensure they can support the needs of the combined utility.

Long Term Consolidation

Over the first three to five years, operations staff could work toward a structure with three divisions reporting to the General Manager: Water Operations, Wastewater Operations, and Maintenance. While other options are available, a proposed long-term structure for operations is shown in the following figure with changes made to positions to align titles and clarify roles.

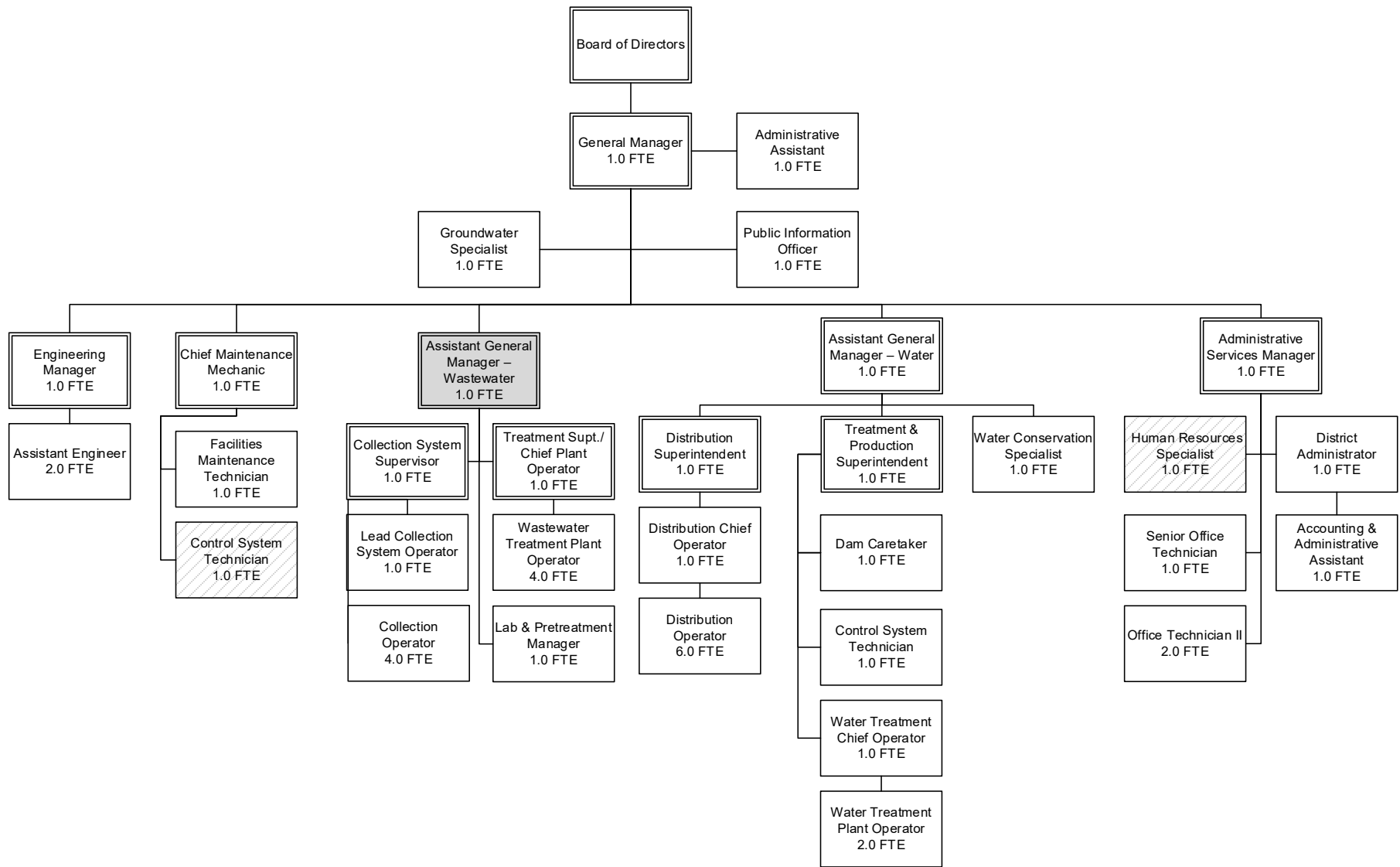


Figure 22: Potential Long Term Agency Structure

While the option exists to eliminate the second General Manager position, for reasons noted above, we recommend reclassifying the position to Assistant General Manager for Wastewater. The MWD Assistant General Manager/Engineering Manager position would similarly be converted to an Assistant General Manager for Water, responsible for the water distribution and treatment. It is recommended that the Assistant General Manager title remain in use in order to support succession planning for the agency.

Staff that perform grounds, facilities, vehicle, and equipment maintenance are restructured to report to the Chief Maintenance Mechanic, and the position could later be retitled to a Maintenance Supervisor or similar position. This allows the two Assistant General Managers to focus on the needs for those utilities. The Maintenance Division would be responsible for all operational support functions including maintenance at all facilities, plants, and properties. Over time it would be important to monitor the workload of this Division to ensure they have the appropriate staff to support the combined utility.

Table 21 below summarizes the pros and cons of potential consolidation of the two districts:

Table 21: Pros and Cons of Consolidation

Pros	Cons
<ul style="list-style-type: none"> • Better integrated water policies and approach • Unified governing board • Some savings through potential elimination of one position • Greater staff specialization • Some economies of scale through shared contracting, shared resources (tools, chemicals), and coordination 	<ul style="list-style-type: none"> • Costs of remodeling and physical co-location • Cost of new shared systems such as financial management software • Staff time to review policies and procedures and to merge operations (especially administrative) • Impacts on staff morale and retention • Diverts staff capacity from other initiatives • Perceived or real loss of local control and dilution of services

The primary benefit of consolidation is not financial. Potential cost savings are relatively minimal compared to the combined \$32 million budgets of the two organizations. Instead, the primary benefit is a single Board making determinations on water policies, especially if the decision is made to go forward with a recycled water program. This is especially important in how costs are allocated to ratepayers. Under the current governance structure, or even if a new joint powers arrangement is utilized, there will be an inherent conflict between how to allocate costs and responsibilities. A single unified board would eliminate this potential for conflict.

It is important to note that consolidation is a time-intensive effort requiring large amounts of general manager and administrative staff capacity for two to three years. During this interim period, it will be critical to make sure that resources dedicated to ensuring a smooth transition do not detract from other important priorities for the new district. This would include advancing recycled water projects and acquiring state and federal grants funds that have been included in recent federal legislation.

Potential for Collective Savings

Both in the short term and the long term, the potential for savings from consolidation/reorganization are limited. Due to the distinct regulatory environment and operating needs, water and wastewater operations are generally separate functions even in combined utilities. However, there is opportunity to align service levels, policies, and management structures. Over time there is also potential for cross training and investment in additional licensing or

certification to allow operators to backup one another and assist with large projects or in the event of an emergency, but this would likely also require additional incentives such as those non-required certifications that could benefit the district in emergencies.

As the organization aligns administrative functions like purchasing and materials management, there may also be a potential savings in pursuing larger contracts compared to what MWD or MSD could pursue alone. While water and wastewater operations are quite different, there may be the potential for the combined utility to pursue larger contracts for some chemicals, materials, or parts compared, which could reduce the overall cost paid by MWD and MSD separately. Similarly, by pooling tools, equipment, and vehicles the combined organization can maximize the utilization of these items, potentially reducing the need for duplicative equipment. The accredited MSD laboratory could possibly assist in processing water samples to reduce costs and delays of contracting these out, but these savings would be offset by the cost of an additional FTE, and equipment/supplies needed to perform the work. MSD's SCADA system, the software that provides live data on plant operations and can alarm staff when there are issues, could potentially be improved through collaboration with MWD's in-house controls specialists.

There would be potential for service level enhancements by allowing operational staff to specialize and focus upon their specific area of expertise. For example, rather than requiring the Distribution Supervisor to also oversee fleet maintenance needs for the organization (though a small percentage of overall job duties), the position could now focus 100% on water system maintenance and repair. This specialization should improve service levels over time, compared to operations staff that were responsible for multiple maintenance or operating areas. This is similar to administrative staff currently performing multiple roles such as human resources and information technology and now being able to specialize and focus on one.

Based upon this study, the net financial impact of consolidation over the next 10 years (long term) is a savings between \$370,000 and \$655,640. This assumes the immediate implementation of salary savings by eliminating the former MSD General Manager position, eliminating pay for five Board members, professional services and materials and supplies savings, and additional interest income. This also includes one-time consolidation costs of potential facility renovation and/or expansion, transition costs, new financial software, and the ongoing cost of providing parity across staff salary and benefits, as well as adding two new positions, a Human Resource Specialist and a Control System Technician, to enhance service levels and are recommended. The largest cost driver is the cost of salary and benefits parity and whether or not the second General Manager position is eliminated and the two new positions added, as well as costs of any renovation work to facilities. Actual net impacts would vary depending upon the actions taken by the districts and combined utility, if approved.

Table 22: Net Savings (Costs) of Consolidation over 10 Years

Description	Type	One Year		Over 10 Year Horizon	
		Low Estimate	High Estimate	Low Estimate	High Estimate
Elimination of second General Manager position	Ongoing	\$0	\$234,000	\$0	\$2,340,000
Add Human Resources Specialist (years 3-10)	Ongoing	\$0	(\$80,791)	\$0	(\$646,328)
Add Control System Technician (years 3-10)	Ongoing	\$0	(\$134,754)	\$0	(\$1,078,032)
Eliminate pay for five Board members	Ongoing	\$35,000	\$35,000	\$350,000	\$350,000
Professional services savings	Ongoing	\$50,000	\$150,000	\$500,000	\$1,500,000
Annual materials and supplies savings	Ongoing	\$5,000	\$25,000	\$50,000	\$250,000
Additional interest income (Implemented Years 5-10)	Ongoing	\$5,000	\$10,000	\$25,000	\$50,000
Cost of providing salary parity (Implemented Years 3-10)	Ongoing	(\$25,000)	(\$150,000)	(\$200,000)	(\$1,200,000)
Cost of providing benefits parity (Implemented Years 3-10)	Ongoing	(\$25,000)	(\$50,000)	(\$200,000)	(\$400,000)
Financial software/ IT costs	Ongoing/ One-Time	(\$5,000)	(\$30,000)	(\$50,000)	(\$30,000)
Office remodeling/ expansion costs	One-Time	(\$50,000)	(\$250,000)	(\$50,000)	(\$250,000)
Relocation costs	One-Time	(\$5,000)	(\$30,000)	(\$5,000)	(\$30,000)
Consolidation costs (studies, legal, uniforms, etc.)	One-Time	(\$50,000)	(\$250,000)	(\$50,000)	(\$200,000)
NET SAVINGS (COSTS) OF CONSOLIDATION		(\$65,000)	(\$521,545)	\$370,000	\$655,640

Hurdles to Progress

The potential hurdles to progress include change management, collective bargaining, communication, and training. Any amount of organizational change can be difficult on employees. It would be important for the leadership of MWD and MSD to communicate honestly, frequently, and in a variety of ways to ensure all staff understand planned changes and how it would impact them.

To support ongoing operations, it would be important for the Maintenance Division, Water Operations Division, and Wastewater Operations Division to communicate regularly and align their work. This would be a new practice for the staff in all three workgroups and a change in how facilities, grounds, and equipment maintenance was done previously. To ensure excellent service to customers, the communication between maintenance staff and treatment staff would be particularly important.

Risks

The potential structural changes to treatment and field operations functions are intended to limit risk by limiting the disruption to the core functions of the utilities. There is still the potential for risk, particularly in facilities and equipment maintenance support, aligning policies and procedures, and retaining talented staff. The most significant change for treatment and field operations is to the grounds, equipment, and facilities maintenance functions. Previously, in MWD, these tasks were under the direct supervision of plant or distribution supervisors. This creates natural alignment in work planning but separating these functions into their own Division would require proactive

coordination. The potential structure is similar to how MSD operates currently, so should have limited impact on wastewater operations.

Another potential risk is aligning policies and procedures among operating areas; this is particularly important for the safety of frontline staff. All staff need to have a clear understanding of the proper protocols for different tasks and especially tasks that are dangerous. In the interim period it would be important for supervisory staff to align their policies and procedures and ensure staff are trained on the updated protocols.

Lastly, the potential loss of talented staff is a very real risk for the organization. Organizational change creates uncertainty, which can lead employees to look for new jobs. Utility Operators in particular are in high demand across the country and may be able to easily find employment at nearby utilities. A reduction in potential career ladders and promotional opportunities can also result in the loss of staff who must go elsewhere to move up in their careers. Proactive communication and clear planning can help address the uncertainty associated with change, but other retention strategies may be necessary to ensure the combined organization has appropriate staffing through the transition.

Data Gaps

This assessment was limited to the data provided by MWD and MSD as well as publicly available information and best practices from industry resources like AWWA. Interviews with staff and observation of staff were not part of this study. In some cases, information for the same fiscal years was unavailable for both entities. As part of implementation, it would be important to engage with staff to understand nuances, communicate plans, and ask for feedback.

Should the two districts choose to consolidate, it would require a thoughtful, deliberate, and phased process to ensure concerns of all stakeholders – Board, staff, and public – are addressed. A proposed timeline showing steps toward immediate consolidation is provided in Table 23 below.

Table 23: Phased Consolidation Plan

Step No.	Description	Cost/ Resources Needed	Estimated Timeline
1	Undertake public outreach campaign to educate Montecito stakeholders about study and reasons the districts are evaluating consolidation.	Staff time, newspaper ads	January 2023 - June 2023
2	Governing Boards review study and vote upon whether or not to move forward with consolidation.	Staff Time	April – June 2023
3	LAFCO application and CEQA review process	\$25K (consultant)	July 2023 – March 2024
4	If approved, establish staff work teams to work on key issue areas of A) Human Resources including staffing, salaries, and benefits, B) Information Technology, C) Facilities, and D) Finance. Work teams to present recommendations to GMs and Boards on how to operate following consolidation.	Staff Time and/or Consultant Cost	March – December 2024
5	Implement work team outcomes in preparation for official consolidation	Staff Time Consultant Costs	June 2024 – July 2025
6	Utilities officially begin consolidation operations at start of new fiscal year	None	July 1, 2025

Figure 23 below shows the same Phased Consolidation Plan in graphic form as a Gantt chart. This timeline presumes ongoing public outreach throughout the process and an approximate nine-month review time for LAFCO. It also presumes that California Environmental Quality Act (CEQA) review would result in an exemption or negative declaration; a full environmental impact review would require additional time.

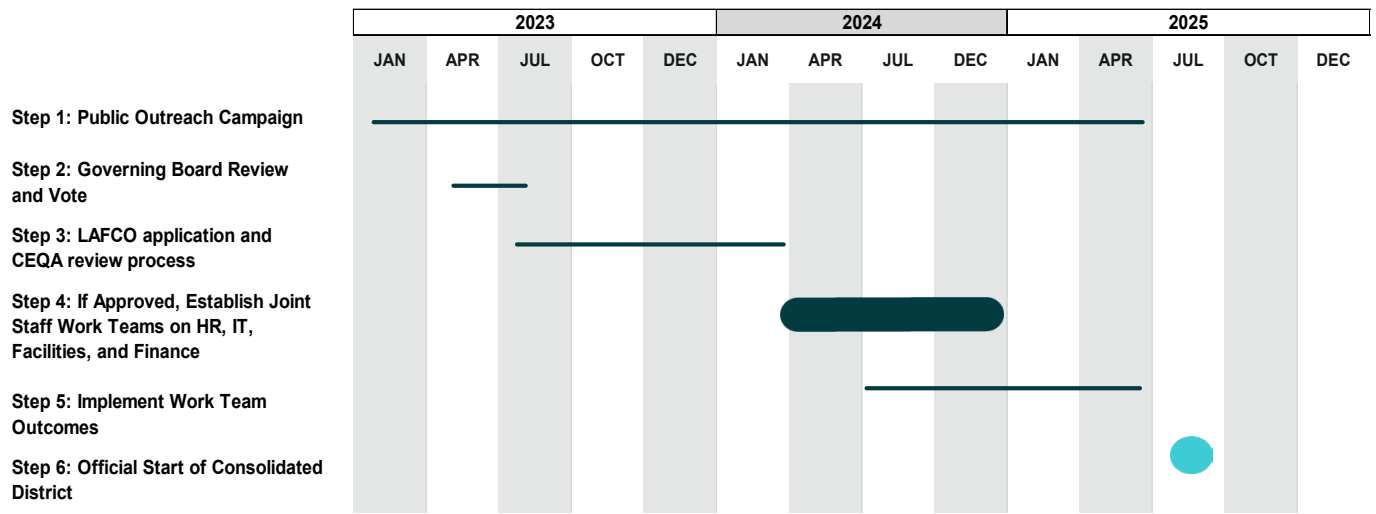


Figure 23: Phased Consolidation Plan in Graphic Form

Conclusion

The proposed consolidation or reorganization of MWD and MSD is feasible and can be achieved, resulting in one organization managing potable water and wastewater services for the community. This organizational approach is not unique, and there are many examples of consolidated operations in California, both as special districts and within municipal organizations.

The Montecito Water District (MWD) and the Montecito Sanitary District (MSD) have expressed interest in evaluating consolidation for several reasons. First, there is a collaborative desire by both organizations and their elected Boards of Directors to optimize the use of resources for the betterment of the community. Second, there is interest in providing customers with the best level of service in the most cost-effective manner. Third, the State of California has encouraged reviews of special districts in California to ensure constituents are getting the best service at the lowest practical cost and evaluating consolidation aligns with this statewide initiative.

This review shows that, while consolidation could legally and functionally occur, it would provide limited benefits in terms of cost savings and improved levels of service to customers. There are benefits and drawbacks to consolidation of the two districts. The greatest benefit to consolidation would be the ability to implement activities of joint interest such as recycled water more easily with the approval of a single governing body. By combining the two separate districts, the new district can cohesively address local recycled water needs within a single agency with unified policy direction on important considerations such as how to allocate project costs and develop appropriate rate structures. While these programs can also be implemented through other mechanisms such as forming a JPA, utilizing a single organization to move forward on these endeavors ensures a unified approach and helps to avoid potential future organizational conflicts that can arise due to conflicting missions and priorities, and as Boards and district management changes over time. Other potential benefits of consolidation include the ability to have greater levels of specialization among staff who now must wear multiple hats and some economies of scale through shared contracting, resources, and coordination.

Potential drawbacks to consolidation include the costs of aligning staff salaries and benefits, physical moves and co-location, and new shared software and other office needs. Significant staff time would be dedicated to managing the efforts needed to merge the two districts and it is unclear how other time-sensitive projects could also be accomplished. Administrative facilities would need to be combined and perhaps expanded, resulting in additional costs. Existing staff could be disenfranchised and morale negatively impacted; in any significant restructuring, it is expected some subset of staff could choose to move elsewhere rather than deal with the uncertainty of major change. The combined entity could lose some talent in a job market where competition for skilled utility operators is stiff. This risk must be purposefully acknowledged and planned for due to its potential to delay or eliminate many of the potential benefits that might be achieved by consolidation.

It is recommended that consolidation, if desired, be implemented in a phased manner. The first phase, the interim period of 3-5 years, would simply merge the two organizations without any significant changes in staffing and largely maintain status quo activities. The Santa Barbara County LAFCO would work with the districts to either merge MSD into MWD, or create a new Community Services District. There are pros and cons to each approach. During this interim transition period financial, governance, and other areas would need to be aligned to develop a deeper understanding of the strengths and weaknesses of various options. Decisions could then be made about long-term staffing, combined facilities, and streamlining policies and procedures to assure the best chance for success.

In conclusion, consolidation presents possible benefits to both utilities, but they must be considered within the context of the drawbacks that may occur. If a complete consolidation is not possible or not desired, other alternatives, such as the creation of a JPA or simple contractual agreements on key issues, are a possible alternative approach. While the past relationship between MWD and MSD has not always been collegial, both districts are under newer management and boards and are now working together on common interests. This gives both utilities an opportunity to successfully consider and move toward the best outcomes for their customers.

APPENDIX A:
Current MWD & MSD Positions

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Table 24: Detailed Personnel Information MWD and MSD Positions

Organization	Position Title	Essential Functions	Function	Supervisory	FTE
MWD	Administrative / Human Resources Assistant	<p>Provides varied, complex, and confidential office administrative and secretarial support to the General Manager, Board of Directors, and management personnel</p> <p>Assists in the preparation of District Board agendas, minutes, actions, ordinances, and resolutions</p> <p>Acts as a human resources assistant assisting with personnel recruitment, training, compensation and benefits, employee relations, labor relations, and personnel information systems</p>	Administration; Human Resources	No	1.0
MWD	Assistant Engineer	<p>Participates in the planning, design, and construction phases of engineering projects</p> <p>Prepares and monitors construction and consultant service contracts and assists in the preparation of requests for proposals</p> <p>Administers the cross-connection control program including maintaining a comprehensive database of known hazards</p>	Engineering	No	2.0
MWD	Assistant General Manager / Engineering Manager	<p>Plans, organizes, manages and provides administrative direction and oversight for all functions and activities of the Engineering Department and assists the General Manager with similar duties related to all District functions and activities</p> <p>Assists the General Manager in providing policy guidance and program evaluation to the Board of Directors and management staff</p>	Administration; Engineering; Water Treatment; Water Distribution	Yes	1.0
MWD	Business Manager	<p>Plans, organizes, directs, manages and reviews the administrative activities and operations of the District including budget and accounting, information technology, human resources, and general office management functions</p> <p>Management of the overall annual budget, oversight of the customer service and billing function, and management of human resources issues</p>	Administration; Finance; Human Resources; Customer Service	Yes	1.0
MWD	Control Systems Technician / Operator	<p>Operation, installation, repair and maintenance of electrical, pneumatic and electronic instrumentation equipment, including Programmable Logic Controllers (PLC's), Remote Terminal Units (RTU'S), Variable Frequency Drives (VFD's), and Supervisory Control and Data Acquisition (SCADA) for water treatment and distribution facilities</p>	Water Treatment/ Facilities Maintenance	No	1.0

Organization	Position Title	Essential Functions	Function	Supervisory	FTE
		Performs complex maintenance work in the upkeep of the treatment plants and other related facilities			
MWD	Dam Caretaker/Operator I	Construction, modification, maintenance, repair, and operation of District infrastructure, including the Juncal Dam and related facilities, systems, grounds, buildings, and equipment Patrols Dam facilities; inspecting grounds for maintenance and repair needs and makes recommendations regarding improvements	Water Treatment/ Facilities Maintenance	No	1.0
MWD	Distribution Chief Operator	Leads, trains, oversees, directs, and participates in the work of a crew responsible for providing the maintenance, repair, and installation of District water distribution system and related facilities and equipment; Directs the work of assigned staff; coordinates, monitors, and provides technical input for assigned distribution system maintenance, operations, and related projects and programs; Prepares reports including time and material records, rolling stock, and equipment usage, and facilities breakdowns	Water Distribution	Yes	1.0
MWD	Distribution Operator	Participates in a crew responsible for providing the maintenance, repair, and installation of District water distribution systems and related facilities and equipment performs routine to complex maintenance and repair work of potable water distribution main and lateral pipeline systems	Water Distribution	No	6.0
MWD	Distribution Superintendent	Plans, organizes, manages and provides administrative direction and oversight for all functions and activities of the District's water distribution system, fleet maintenance, and grounds keeping functions Long- and short-term project planning, record keeping, inventory control, training of water distribution employees, conducting safety meetings, and review of employee performance	Water Distribution	Yes	1.0
MWD	Financial Analyst / IT Specialist	Performs complex financial accounting and administrative activities; prepares a variety of comprehensive financial reports, including those related to the general ledger, accounts payable, cash collections, accounts receivable, payroll, project accounting, inventory, and fixed assets. Performs comprehensive staff analysis work supporting the development and implementation of a variety of accounting, financial, and related systems; trains staff in the requirements of various systems; and performs a variety of technical tasks relative to assigned area of responsibility	Finance; Information Technology	No	1.0

Organization	Position Title	Essential Functions	Function	Supervisory	FTE
MWD	Fleet Technician / Distribution Operator	Repairs, services, and performs semi-skilled and skilled repair duties in order to ensure that District automobiles, trucks, backhoes, and other power-driven equipment are operating in a safe and efficient manner	Fleet Maintenance; Water Distribution	No	1.0
MWD	General Manager	Plans, organizes, and provides administrative direction and oversight for all District functions and activities; Provides policy guidance and program evaluation to the Board of Directors and management staff; Encourages and facilitates provision of services to District customers; Fosters cooperative working relationships with intergovernmental and regulatory agencies and various public and private groups	Administration	Yes	1.0
MWD	Water Conservation Specialist	Coordinating and implementing the District's water conservation programs and projects, including inspecting homes and providing customers with recommendations for improved conservation, preparing and presenting information to the public, and assisting in the administration of program budgets	Water Conservation	No	1.0
MWD	Groundwater Specialist	Assists with the development and implementation of the Groundwater Sustainability Plan (GSP) for the Montecito Groundwater Basin Groundwater Sustainability Agency (GSA) Oversees and guides technical aspects of Agency programs and projects including but not limited to groundwater quality monitoring, water level monitoring, well metering, basin monitoring, and groundwater modeling Oversees and directs Agency projects including budgets, invoices, contracts, and other tasks as required. Prepares and monitors requests for proposals and contracts for the Agency. Ensures environmental compliance for Agency projects	Engineering; Environmental Compliance	No	1.0
MWD	Office Technician II	Performs a wide variety of administrative and office support duties for an assigned department and/or program, requiring full knowledge of its policies, procedures, and operational details; Establishes and maintains customer accounts for water services; Provides direct customer service associated with utility	Billing & Customer Service	No	2.0

Organization	Position Title	Essential Functions	Function	Supervisory	FTE
		payments, requests for service, responding to complaints and providing information			
MWD	Public Information Officer	Plans, coordinates, and participates in a variety of communications, public information, marketing, community relations, and outreach activities and initiatives Responsible for the development of original content including communications, media, website content, and other related materials	Communications	No	1.0
MWD	Senior Office Technician	Performs complex and difficult duties related to the general accounting, customer service, and payroll functions; Maintains District financial accounts and records and assists in the preparation of financial reports and analyses; Functions as the lead of the customer service office support team; provides direct customer service associated with utility payments, requests for service, responding to complaints and providing information; Maintains centralized payroll operations; prepares, maintains, and distributes a variety of payroll records and reports	Finance; Billing & Customer Service	No	1.0
MWD	Treatment & Production Superintendent	Plans, organizes, manages and provides administrative direction and oversight for all functions and activities of the District's two (2) surface water treatment plants, reservoirs, pump stations, and groundwater well sites Long- and short-term project planning, record keeping, inventory control, training of water treatment employees, conducting safety meetings, and reviewing employee performance	Water Treatment	Yes	1.0
MWD	Treatment Chief Operator	Oversees, directs, and reviews the work of a crew responsible for providing the maintenance, repair, and operation of the District's water treatment and related facilities and equipment; Directs the work of assigned staff; coordinates, monitors, and provides technical input for assigned water treatment plant maintenance, operations, and related projects and programs; Prepares reports including time and material records, rolling stock, and equipment usage, and facilities breakdowns	Water Treatment	Yes	1.0
MWD	Water Treatment Plant Operator	Operates and maintains the District's two (2) surface water treatment plants, reservoirs, pump stations, and system well sites; Performs complex maintenance work in the upkeep of the	Water Treatment	No	2.0

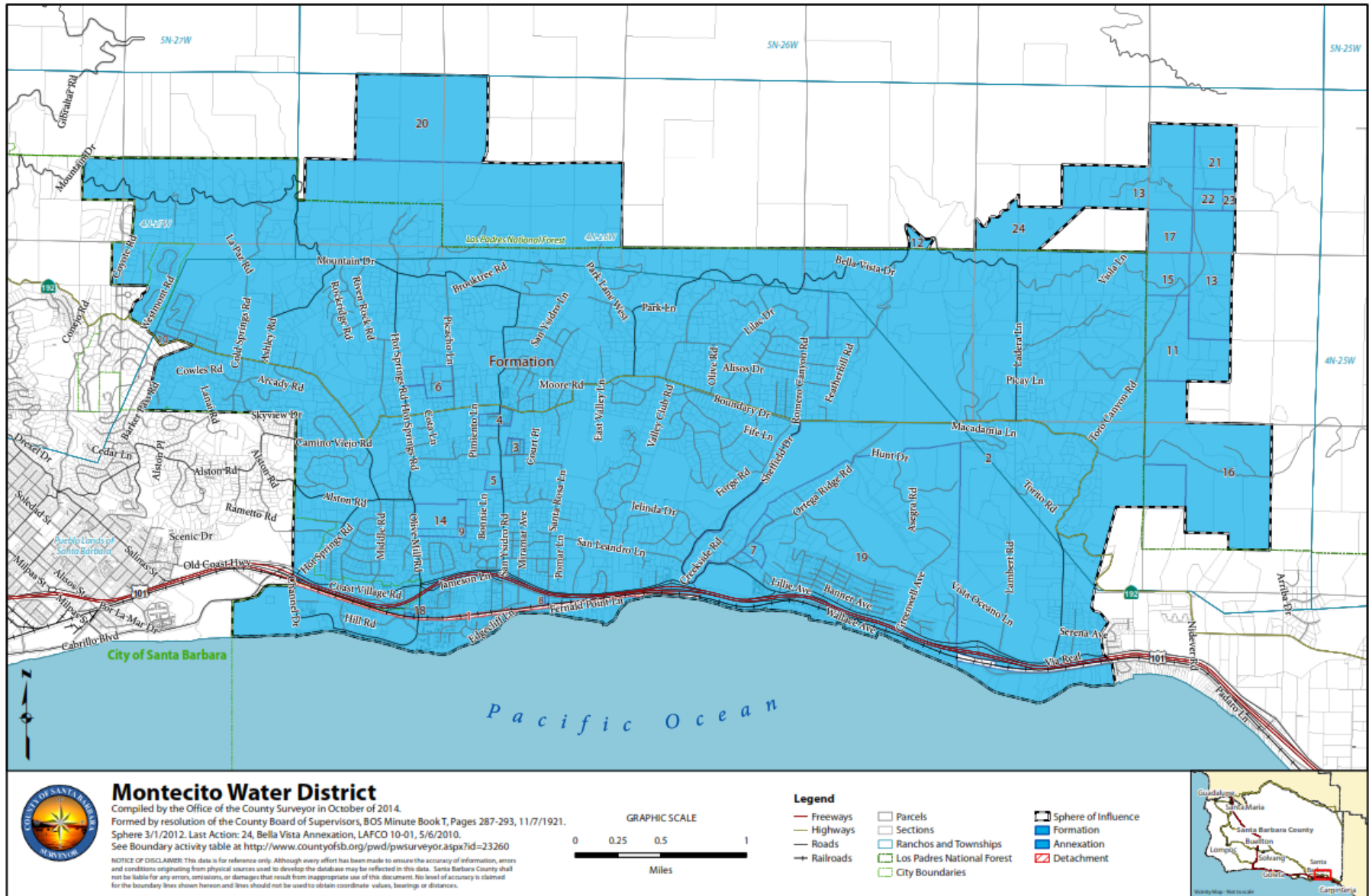
Organization	Position Title	Essential Functions	Function	Supervisory	FTE
		treatment plants and other related facilities; uses and operates a variety of manual and power tools and light to heavy power driven equipment			
MSD	Accounting & Administrative Assistant	Clerical and administrative support duties as well as customer service, plan checking and review, permit preparation and processing of payments. Independent handling of incoming calls, preparation of correspondence and standard agreements, front counter customer interaction, data entry into the GIS database and preparing invoices for accounts payable	Administration; Finance	No	1.0
MSD	Chief Maintenance Mechanic	Responsible for all maintenance, including preventive maintenance, troubleshooting, repair and replacement of all equipment at the Waste Water Treatment Plant, five Collections System Pumping Stations in the field, and all District Emergency Equipment, Vehicles, and portable equipment.	Facilities Maintenance; Fleet Maintenance	Yes	1.0
MSD	Collections System Superintendent	Supervising, planning and coordinating the services, maintenance and operations of the wastewater collection system. Ensuring that all the wastewater equipment, lift stations, collection lines and manholes are maintained correctly to prevent sewage spills and to minimize Inflow & Infiltration	Wastewater Collection	Yes	1.0
MSD	Collections Operator	Ensuring that all the lift stations, collection lines and manholes are maintained correctly to prevent sewage spills, and to minimize Inflow and Infiltration	Wastewater Collection	No	5.0
MSD	District Administrator	Clerk of the Board, Accountant & Finance, Human Resources Manager, and Payroll Administrator, Information Technology management, joint safety and staff training officer, insurance and risk management officer	Administration	Yes	1.0
MSD	Engineering Manager	Manage and perform engineering and technical work involving the investigation, planning, design, and construction of projects in the wastewater field including pipelines, lift stations, wastewater treatment plant processes, recycled water, and rehabilitation and improvement projects Review and prepare plans, specifications, and contracts	Engineering	No	1.0
MSD	Facilities Maintenance Technician	Provides maintenance support for District Buildings and Grounds, Vehicles, Equipment and Facilities including the Wastewater Treatment Plant, the Collection System, and Lift Stations	Facilities Maintenance; Fleet Maintenance; Grounds Maintenance	No	1.0
MSD	General Manager/District Engineer	Serves as chief executive and management official of the MSD Works with the Board to carry out the statutory authorities and	Administration	Yes	1.0

Organization	Position Title	Essential Functions	Function	Supervisory	FTE
		responsibilities of the District, as it updates, refines or expands the District's mission. Responsible for all business operations, oversees implementation of the Board's policies and programs, and manages District staff			
MSD	Laboratory & Pretreatment Manager	Ensuring compliance with all federal, state, and local regulating agency requirements Supervising the Laboratory's Quality Control and Quality Assurance programs to meet the Environmental Laboratory Accreditation Program requirements for laboratory certification and accreditation, supervising laboratory operations to ensure compliance with District standard operating procedures and policies Provide the Operations & Maintenance Manager with accurate and complete reports and other information	Environmental Compliance	No	1.0
MSD	Wastewater Treatment Superintendent/ Chief Plant Operator	Maintains Wastewater Treatment facility operations and works closely with senior operators and the Operations & Maintenance Manager to develop and maintain procedures to ensure compliance with all federal, state, and local regulating agency requirements.	Wastewater Treatment	No	3.0
MSD	Wastewater Treatment Plant Operator (I/II/III/OIT)	Maintains Wastewater Treatment facility operations and works closely with senior operators and the Operations & Maintenance Manager to develop and maintain procedures to ensure compliance with all federal, state, and local regulating agency requirements	Wastewater Treatment	No	4.0

APPENDIX B:
Map of MWD & MSD Boundaries

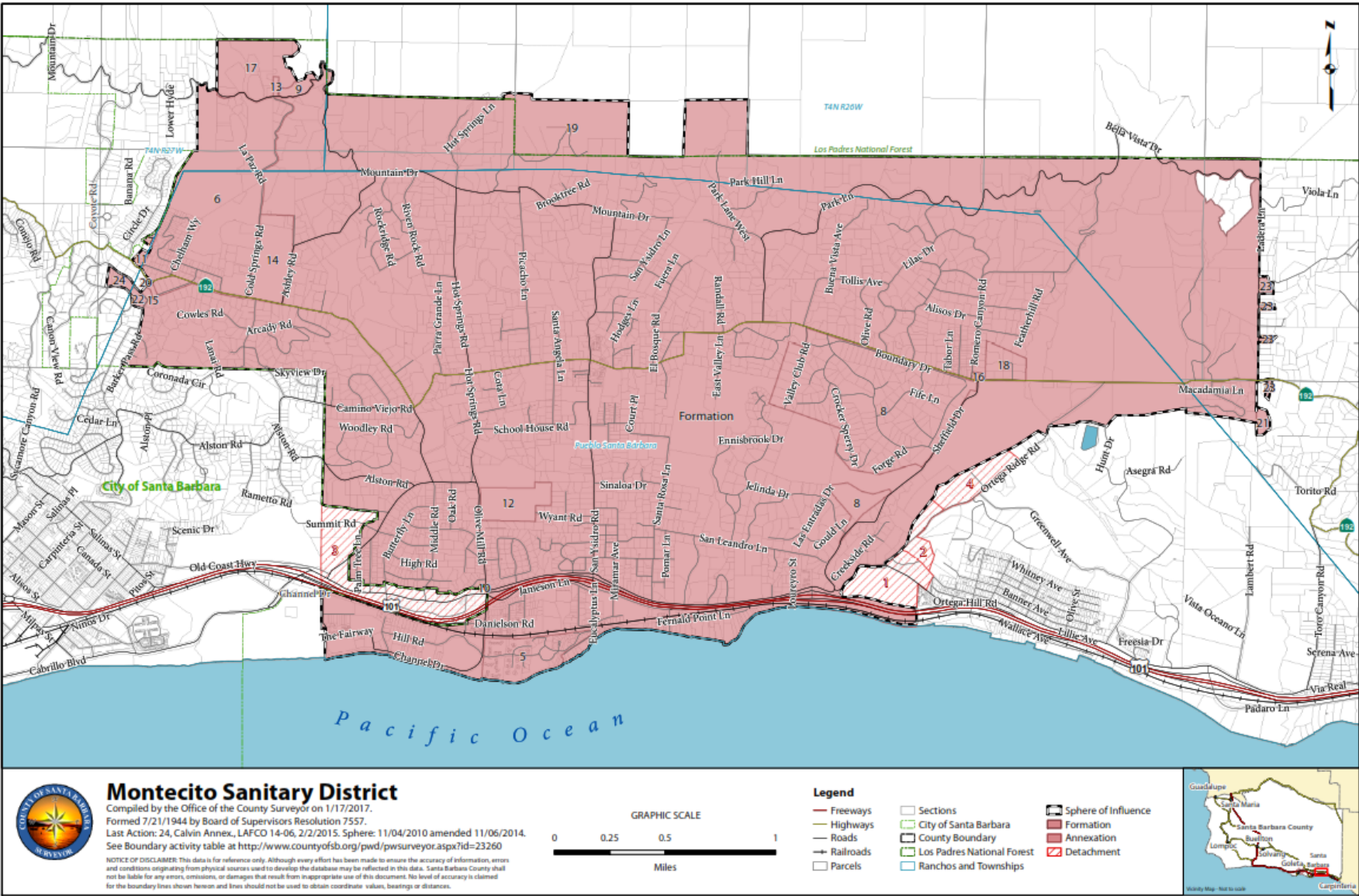
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Figure 24: MWD Boundary Map



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Figure 25: MSD Boundary Map



APPENDIX C:
Salary Ranges

The table below shows minimum, midpoint, and maximum salaries at the time of this report, in increasing order of the midpoint. Those MSD classifications noted with an asterisk were in process of being re-evaluated for potential pay adjustments at the time of this writing.

Position Title/Job Classification	Agency	Annualized Salaries		
		Minimum	Midpoint	Maximum
Collections Operator in Training (OIT)	MSD	51,584	57,148	62,712
Operations Operator in Training (OIT)	MSD	56,534	62,618	68,702
Dam Caretaker	MWD	55,139	64,559	73,980
Distribution Operator I	MWD	56,884	66,602	76,320
Office Technician II	MWD	57,597	67,437	77,277
Collections I	MSD	62,962	69,742	76,523
Operator I	MSD	63,877	70,762	77,646
Operator II	MSD	70,387	77,990	85,592
Collections II	MSD	70,554	78,146	85,738
Facilities Maintenance	MSD	70,554	78,146	85,738
Distribution Operator II	MWD	67,304	78,803	90,301
Administrative Assistant/Office Technician	MWD	69,868	80,661	91,455
Water Conservation Specialist	MWD	69,003	80,791	92,580
Mechanic/Distribution Operator I	MWD	70,744	82,830	94,917
Public Information Officer	MWD	73,898	85,313	96,729
Operator III	MSD	77,646	86,018	94,390
Distribution Operator III	MWD	74,824	87,608	100,391
Senior Office Technician/Staff Accountant	MWD	74,824	87,608	100,391
Treatment Plant Operator	MWD	74,824	87,608	100,391
Collections III	MSD	79,082	87,610	96,138
Engineering Assistant	MWD	76,712	89,818	102,924
Operator IV	MSD	85,613	94,827	104,042
Collections IV	MSD	87,152	96,554	105,955
Accounting/Admin. Assistant	MSD	90,813	100,589	110,365
Control System Technician/Treatment Operator	MWD	88,532	103,657	118,783
Chief Maintenance Mechanic	MSD	98,904	109,564	120,224
Distribution Chief Operator IV	MWD	93,638	109,636	125,634
Treatment Chief Operator	MWD	93,638	109,636	125,634
Collections Supervisor	MSD	100,901	111,769	122,637
Lab & Pretreatment Manager*	MSD	97,094	112,081	127,067
Financial Analyst/IT Specialist	MWD	96,001	112,403	128,804
Operator V	MSD	104,437	115,679	126,922
Distribution Superintendent	MWD	113,588	131,136	148,683
Treatment & Production Superintendent	MWD	113,588	131,136	148,683
Groundwater Specialist	MWD	117,183	135,285	153,388
District Administrator*	MSD	118,248	136,510	154,773
Operations Manager*	MSD	119,371	137,800	156,229

Position Title/Job Classification	Agency	Annualized Salaries		
		Minimum	Midpoint	Maximum
Chief Plant Operator*	MSD	126,318	139,932	153,546
Engineering Manager*	MSD	123,510	142,584	161,658
Collections & Maintenance Superintendent*	MSD	130,187	144,217	158,246
Business Manager & Assistant Secretary	MWD	128,662	148,539	168,415
Engineering Manager	MWD	134,398	155,160	175,922
Assistant General Manager/ Engineering Manager	MWD	162,662	187,790	212,919