Montecito Sanitary District

1042 Monte Cristo Lane
Santa Barbara, CA 93108

A Public Service Agency

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FISCAL YEAR 2026-27 PROPOSED BUDGET MEMO

MISSION STATEMENT

"To protect the 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."

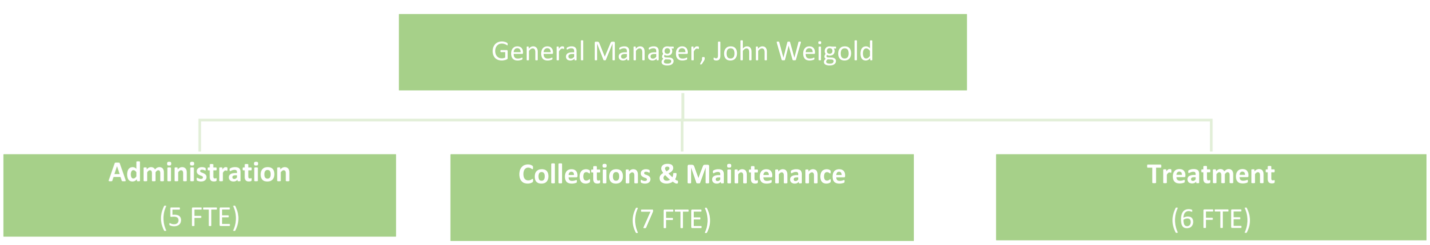
PURPOSE

The District was organized in 1947 pursuant to the Sanitary District Act of 1923 (Division 6 of the California Health and Safety Code) to provide for the collection, treatment and disposal of wastewater to residents within its service area. The District has a service area of approximately 8.9 square miles and an estimated population of approximately 9,000 people. The District currently serves approximately 3,132 residential and commercial properties.

The wastewater collection system includes approximately 77 miles of gravity sewer mains, five lift stations and 2.2 miles of sewer force mains. The collection system's underground network of pipes range in size from 6-inch to 21-inch in diameter. The majority of the facilities were installed between 1961 and 1969.

Wastewater is conveyed to the District's Wastewater Treatment Plant for treatment. The Treatment Plant, which has a capacity to treat an average of 1.5 million gallons per day, provides full secondary treatment that includes conventional activated sludge tanks, secondary clarification, and disinfection. In 2025, the wastewater treatment reliably treated approximately 556,000 gallons per day and discharged the effluent through the 1,500 foot long ocean outfall.

ORGANIZATION



BUDGET STRUCTURE

Montecito Sanitary District utilizes an Enterprise Fund accounting method, appropriate for the type of utility service business that the District operates. The budget is a non-appropriated budget which supports funding the Districts' critical operations and capital improvement program. The flexible budget varies according to system demands and level of activity within the District on a year-to-year basis.

DISTRICT RECOMMENDED OPERATIONS AND MAINTENANCE BUDGET SUMMARY

Source of Funds			Use of Funds		
Operating Revenues	$	7,661,774	Salaries and Benefits	$	4,066,042
Non-Operating Revenues	$	1,250,000	Operating Expenses	$	2,313,150
Reimbursements	$	1,614,297	Capital Improvement	$	6,550,000
Total Source of Funds	**$**	**10,526,071**	**Total Use of Funds**	**$**	**12,929,192**

OPERATION & MAINTENANCE REVENUES

The District has five main types of revenues, three Operating and two Non-Operating. A description of these revenues are as follows:

Operating Revenues

- **Sewer Service Charges:** The District's primary source of revenues comes from Sewer Service Charges. The County of Santa Barbara collects these funds from the District's customers on their annual property tax statements, and the District receives the total amount of Sewer Service Charges revenue reported to the County each year. Sewer Service Charges constitute approximately 91% of total District revenues and 97% of its total operating revenue. This revenue source is relatively stable as any increases would come in the form of an increase to the number of connections or a rate increase. This fiscal year is the first fiscal year in which the District's rate increases are implemented.
- **Connection Fees:** Connection Fees are established to reimburse existing customers for their investment in the wastewater collection and treatment capacity. As new customers connect to the District facilities, their connection fees contribute to future capacity upgrades. The District's current connection fee is $8,400 per equivalent residential unit (per Resolution 2022-944) and is currently being reviewed by Robert D. Niehaus as a part of its Sewer Rates and Fees contract.
- **Other Services:** The District also receives revenue in the form of miscellaneous fees for services such as plan check, processing agreements, engineering review, administrative review, and inspections.

Non-Operating Revenues

- **Property Tax:** The District's second highest form of revenue comes from one-half of the 1% of total property tax revenue that is collected by the County of Santa Barbara for parcels within its service area, whether or not they are a customer of the District. This revenue source is also relatively flat as it increases/decreases with the total assessed value of properties within District boundaries. Amounts are allocated to the District twice during the fiscal year along with the Sewer Service Charges, typically in November and April.
- **Reimbursements:** The District went through the FEMA/CalOES Reimbursement process for damages incurred during the January 2023 Winter Storms. The project was obligated on April 15, 2025 and the District is awaiting receipt of the reimbursement checks. The initial amount obligated would equate to approximately **$1,614,297** in reimbursements, however a reconciliation process will take place that will most likely lead to increased reimbursements as actual project costs came in higher than the estimates that were used in the initial project proposal by FEMA. The District anticipates receipt in **Fiscal Year 2026-27**.

- **Interest Income:** The District has two main investment accounts with Charles Schwab and California Class that produce higher yields than other low-interest bearing and non-interest bearing accounts.

REVENUE PROJECTIONS

	2025-26 Approved	2025-26 Projected	Difference	2026-27 Proposed
Operating Revenues				
Service Charges	$ 6,550,000	$ 6,565,084	$ 15,084	$ 7,371,774
Connection Fees	225,000	269,213	44,213	225,000
Other Services	55,000	96,955	41,955	65,000
Total Operating Revenues	$ 6,830,000	$ 6,931,251	$ 101,251	$ 7,661,774
Nonoperating Revenues				
Property Taxes	$ 828,500	$ 834,727	$ 6,227	$ 865,000
Reimbursements	1,614,297	18,216	(1,596,081)	1,614,297
Sale of Assets	-	-	-	-
Interest Income	415,000	483,230	68,230	385,000
Total Nonoperating Revenues	$ 2,857,797	$ 1,336,173	$ (1,521,624)	$ 2,864,297
Total Revenues	$ 9,687,797	$ 8,267,424	$ (1,420,373)	$ 10,526,071

Overall, Staff is projecting an increase in total budgeted revenues of approximately **$838,274** in **Fiscal Year 2026-27** when compared to **Fiscal Year 2025-26** primarily attributed to the following:

- **$806,690** increase in Sewer Service Charges due to the implementation of a rate increase pursuant to the rate study performed during **Fiscal Year 2025-26**.
- **$36,500** increase in ½ of 1% property tax revenues.
- **$10,000** increase in Other Services charges.
- **$30,000** decrease in interest income as a result of lower interest bearing cash balances when compared to the prior fiscal year.

OPERATION & MAINTENANCE EXPENDITURES

The Districts' Operations & Maintenance expenditures account for all the routine business expenses related to operating the treatment plant and normal maintenance of the collections system. The major cost categories include: Salaries and Benefits, Insurances, Maintenance and Repairs, Goods and Supplies, Professional Services provided by external parties, Administrative Fees, Plant and Lab Operating Costs, Safety, Training, and Travel Costs, and Utilities.

EXPENDITURE PROJECTIONS

	2025-26 Approved Budget	2025-26 Projected Actuals	Difference	2026-27 Proposed Budget	2026-27 Increase or (Decrease)
Operating Expenditures					
Salaries and Benefits	$ 3,778,172	$ 3,719,442	$ 58,730	$ 4,066,042	$ 287,870
Insurance	160,500	139,405	21,095	178,000	17,500
Maintenance & Repairs	196,500	133,384	63,116	180,500	(16,000)
Goods & Supplies	148,000	107,329	40,671	155,400	7,400
Professional Services	355,000	326,448	28,552	279,500	(75,500)
Administrative Costs	441,600	269,091	172,509	480,500	38,900
Plant & Lab Operating Costs	680,000	477,537	202,463	643,750	(36,250)
Safety, Training, & Travel	63,500	48,928	14,572	76,000	12,500
Utilities	321,500	297,996	23,504	319,500	(2,000)
Total Operating Expenditures	$ 6,144,772	$ 5,519,561	$ 625,211	$ 6,379,192	$ 234,420

The District's Operations & Maintenance costs, along with the District's Capital Improvement Program, make up the vast majority of the District's overall expenditures for the Fiscal Year. The following sections includes a discussion of **Fiscal Year 2025-26** year-end projections and **Fiscal Year 2026-27** estimated expenditures.

CURRENT FISCAL YEAR ESTIMATED ACTUALS - FY 2025-26

District staff is projecting the Fiscal Year End Operating and Maintenance Fund expenditures to be approximately **$5,519,561**, or **90%** of the budgeted amount. Below are a few key reasons expenditures were less than anticipated:

- **7645- NPDES Permit Requirements – Operations –** The District held off on starting Phase III of the required Climate Adaptation Plan as the State Water Resources Control Board have not yet officially signed off on the Phase I and Phase II submitted reports. This resulted in the line item being under budget by approximately **$178,000**.
- **7671 – Asset Management –** This line item was under budget by approximately **$78,000**, primarily due to the postponing of easement survey work.
- **7463 – Professional Services – Engineering –** The District was under budget by approximately **$75,000** as a result of professional engineering services being concentrated on the District's Capital Improvement Program rather than on operational needs.
- **7657 – Plant Maintenance Materials –** The District didn't require utilization of these funds as a result of Wastewater Treatment Plant assets that didn't require attention. As a result this line item was under budget by approximately **$57,000**.
- **7681 – 2023 Winter Storm –** As part of FEMA reimbursement requirements the District is required to do a five-year vegetative restoration of one of the damage sites. Staff anticipated higher first year costs as a result of initial costs of trees/vegetation but actuals came in lower. As such this line item is under budget by approximately **$27,000**.
- **7121 – Property Maintenance –** The District was under budget by approximately **$32,000** as a result of less than anticipated maintenance needed on the District's Wastewater Treatment Plant property.

NEXT FISCAL YEAR PROPOSED BUDGET – FY 2026-27

For **Fiscal Year 2026-27**, District to cover anticipated expenditures of total operating expenditures of **$6,379,192,** an increase of **3.8%**. A summary of the proposed operating budget and high-level discussion are as follows:

Salaries and Benefits Summary

Below is a high level summary of the main reasons for the **$287,870** increase in Salaries and Benefits budget:

- **6100 – Regular Salaries - $155,870** increase in regular salaries based on the District being fully staffed and is primarily attributable to the implementation of a 3.4% COLA pursuant to SEIU Local 620 and Management terms. The remaining amount is due to anticipated step/merit increases for those employees who are not at the top of their salary ranges.
- **6600 – Group Medical Insurance - $62,000** increase as a result of implementation of a new benefits structure during **Fiscal Year 2025-26**.
- **6605 – Retirement Medical Benefits - $27,100** increase as a result of the addition of one eligible employee who retired during the prior fiscal year. There are currently no active employees eligible for this benefit in the future at the District.
- **6400 – CalPERS Contribution - $25,000** increase to CalPERS contributions based on estimates that the Unfunded Actuarial Liability will be lower than the prior fiscal year due to favorable investment returns in the CalPERS portfolio. The prior fiscal year UAL was approximately **$75,000** more than anticipated.

Operations & Maintenance Expenditures Summary

Below is a high level summary of the main reasons for the **$63,500** decrease in Operations and Maintenance Expenditures:

- **7463 – Professional Service – Engineering –** The District anticipates the trend of utilizing professional engineering consulting services on the District's CIP program rather than operational, so this line item is **$55,000** less than the prior fiscal year.
- **7464 – Professional Services – IT Consulting –** The District completed several IT related projects during the current fiscal year that won't be needed in the future, so this line item was decreased by **$38,000**.
- **7671 – Asset Management –** Staff completed work on its GIS and SCADA upgrade projects during Fiscal Year 2025-26 leading to less efforts in this area moving forward. As a result of those projects a couple recurring vendors will no longer be providing consistent services to the District. These combine to result in a **$36,000** decrease compared to last year.
- **7657 – Plant Maintenance Materials –** This line item is being decreased by **$30,000** to be more in line with what was done prior to **Fiscal Year 2025-26**.
- **7681 – 2023 Winter Storm –** The District estimated the prior fiscal year budget prior to receiving bids on the restorative efforts. Now that a contract has been approved the appropriate amount will be budgeted in each of the next four fiscal years based on the proposed cost schedule. As a result this years budget is **$22,500** less than last year.
- **7645 – NPDES Permit Requirements: Operations -** The District will be undergoing Phase III of the required Climate Change Adaptation Program pursuant to new requirements of the District's NPDES permit. This project is expected to cost around **$175,000**.

While the previous highlights detail reasons for line items being less than last year, the following are line items that staff anticipates being higher:

- **7610 – Furniture & Fixtures –** The District's administration office is in need of refurbishment as many of the furniture, cubicles, and flooring materials, are in need of updating. As such this years budget was increased by **$40,000**.
- **7510 – Contract Services/Labor –** This line item is budgeted for **$34,400** higher than the previous year largely due to an increase in Legislative Advocacy services with Rojas Public Affairs to pursue Federal and State grants and loans.
- **7461 – Legal Counsel –** This line item is being increased by **$25,000** based on the number of important matters the District will be pursuing during the next Fiscal Year and as such increased guidance from Legal Counsel will likely be necessary.
- **7722/7723 – Board Training and Travel –** These line items are being increased by **$16,500** combined to account for increased Board training and travel anticipated in the coming fiscal year.
- **7500 – Public Outreach/Education –** This line item is being increased by **$15,000** as a result of an anticipated increase in need for public outreach services as the District gets closer to a substantial Wastewater Treatment Plant improvement project.

The full, detailed chart of the Operations and Maintenance Budget is provided in **Attachment A – FY2026-27 Operating Budget - Proposed**. Below are some notable line items that consistently come up during budget discussions with some background on what costs are incorporated into them:

- **7461 – Professional Services – Legal –** This line item budgets for and tracks expenditures incurred by our General Legal Counsel.
- **7466 – Professional Services – Human Resources –** This line budgets for and tracks expenditures for Human Resources legal support by Price, Postel and Parma for Human Resource Special under a retainer agreement.
- **7430 – Memberships –** In preparation for the budget, District Staff have reviewed all professional memberships and their dues that constitute the budgeted amount for **Fiscal Year 2026-27**. This years budget includes memberships for the Association of California Water Agencies (**$21,000**), the California Water Environment Association (**$2,000**), the California Association of Sanitation Agencies (CASA) and CASA Education Foundation (**$12,500**), and the California and Santa Barbara Branches of the California Special Districts Association (**$11,500**). All other membership expenditures are to pay for required licenses for out Treatment and Collections Operators pursuant to our NPDES Permit.

CAPITAL IMPROVEMENT PROGRAM EXPENDITURES

CURRENT FISCAL YEAR ESTIMATED ACTUALS – FY 2025-26

The District is projected to spend approximately **$6,419,377** in Capital Replacement (CIP) funds in **Fiscal Year 2025-26**. This is under the budgeted amount of **$11,207,000**. This is primarily due to the following:

- **C007 – South Jameson Relocation – Design and Construction –** This project, which was put on hold by the County of Santa Barbara, is a requirement placed on the District by the County of Santa Barbara as they are planning to reconstruct the South Jameson bridge. Two 8-inch force mains are currently affixed to the structure, and as such the District will be required to temporarily move, and permanently to accommodate the new bridge, and **$575,000** was budgeted in **Fiscal Year 2025-26**. This project has been put on hold
- **L001 - Channel Lift Station Improvement –Construction –** Design work is ongoing and as such the construction budget of **$1,000,000** will now carryforward into the next fiscal year.
- **T001 – Wastewater Treatment Plant Project – Design and Engineering –** The IGA design contract came in **$125,000** less than budgeted, and that, coupled with anticipated carryover into **Fiscal Year 2026-27** of approximately **$1,150,000**.
- **Various –** Several emergency and maintenance items are budgeted for in the CIP so that the District can tackle items that require attention. Total budget for those line items were **$660,000**, of which only **$11,657** has been spent.

NEXT FISCAL YEAR PROPOSED BUDGET - FY 2026-27

The District is proposing a CIP schedule for **Fiscal Year 2026-27** that focuses on design work, both on the infrastructure of the Wastewater Treatment Plant as well as the Collection System.

The following summary table is a high-level breakdown of the proposed capital expenditures. It is important to note that the figures in the summary table include both soft costs (planning, design, and construction management), as well as construction, equipment purchases and some contingency to account for minor changes in scope or purchasing factors such as inflation. It is also important to note that these projects include any outsourcing of engineering services needed to ensure these projects move forward. As the District has placed a greater emphasis on CIP projects in the past couple fiscal years, available CIP funds have decreased. This years CIP budget only includes projects that staff determine address higher risk areas to District infrastructure:

Program	2026/2027 Budget
Collections	$ 1,585,000
Lift Stations	$ 3,975,000
Treatment & Laboratory	$ 1,350,000
Facilities	$ 750,000
Total	**$ 7,660,000**

A full breakdown of the proposed CIP Budget can be seen in **Attachment B – FY2026-27 CIP Budget – Proposed**.

Collections Program

- **C004 – Channel Drive Force Main - CARRYFORWARD -** Staff anticipates construction to begin in the first quarter of the Fiscal Year.
- **C007 – Toyota Tacoma –** This vehicle will replace the current 2015 Toyota Tacoma that is past its useful life.
- **C008 – San Ysidro Upsizing – Design -** This project will address issues in the collection system that could lead to overspills during heavy rain incidents.
- **C009 – Olive Mill/Middle Road Upsizing – Design -** This project will address issues in the collection system that could lead to overspills during heavy rain incidents.
- **S001 – Septic to Sewer Strategic Plan – CARRYFORWARD –** This project started in the previous fiscal year and is projected to wrap up in July of 2026.
- **CINI –** This project will help identify possible areas of INI in the District's collection system.

Lift Station Program

- **L002 – Eucalyptus Lift Station Relocation - Design – CARRYFORWARD -** This project will finalize design work for the relocation of one of the District's Lift Stations that began in **Fiscal Year 2025-26**.
- **L008 – Channel Lift Station Generator – CARRYFORWARD -** This project is a carryforward from the prior fiscal year. The District anticipates receipt of the generator in early July with work performed to install shortly thereafter.

Treatment & Laboratory Program

- **T001 - Wastewater Treatment Plant Project – Design and Engineering – CARRYFORWARD -** This project is a carryforward from the prior fiscal year and will continue the design work for the Wastewater Treatment Plan Improvement Project.

Facilities Maintenance Program

- **F010 – Monte Cristo Improvements – CARRYFORWARD -** This project is a carryforward from the prior year. Staff is actively working to partner with residents of Monte Cristo Lane to repave the road leading to the Administrative office of the Wastewater Treatment plant.

District Infrastructure Emergency

- **CEME/CMAIN/LEME/TEME –** These line items are budgeted to address any unforeseen emergencies that occur to District infrastructure. Staff needs the budget to be able to address them as soon as possible, but in many cases these budgets aren't utilized. They have been parsed out this fiscal year from the main CIP projects so that it can be easier to analyze the execution of planned CIP projects.

2017 SEWER REFUNDING REVENUE BONDS – CALIFORNIA SPECIAL DISTRICTS ASSOCIATION (CSDA) FINANCE CORPORATION

In May 2017 the District refunded its 2007 Certificates of Participation (COP). This refunding decreased the maturity term by seven years, removed the requirement for a reserve fund, and took advantage of lower interest rates.

The District will make two payments on its bond during **Fiscal Year 2026-27** totaling **$912,325**. Of this total **$775,000** will be applied to principal and **$158,950** will be applied to interest. After all **Fiscal Year 2026-27** payments are made the remaining balance of the bond will be **$3,460,000** and the bond is expected to be paid off by July 1, 2030, with the option to prepay with no penalty available July 1, 2027.

ANNUAL DEPRECIATION FUNDING

Annually, the Board considers contributing to the District's Capital Replacement Fund. Typically, this contribution has been based on the prior fiscal year's annual depreciation expense. The **Fiscal Year 2026-27** contribution will be based on the Fiscal Year 2025-26 Financial Audit and is anticipated to be around **$1,295,000**. It should be noted that the District may withdraw monies from the Capital Replacement Fund at any time to fund capital projects or to meet any operational needs of the District.

FY 2026-27 PROJECTED OPERATIONS & MAINTENANCE AND CIP CASH POSITIONS

Taking into account the projected remaining expenditures for **Fiscal Year 2025-26** and the proposed budget for **Fiscal Year 2026-27**, the District's projected cash position for its Operations and Maintenance fund and Capital Replacement fund are as follows:

	Operations and Maintenance Funds		
	2025-26 Projected	2026-27 Projected	Difference
Beginning Cash Balance	$ 15,900,554	$ 12,950,319	$ (2,950,235)
Plus: Transfers From O&M	8,267,424	10,526,071	2,258,647
Less: Expenditures	(5,519,561)	(6,379,192)	(859,632)
Less: Bond Payments	(930,700)	(933,950)	(3,250)
Less: Capital Replacement Fund Contribution	(4,767,399)	(5,795,000)	(1,027,601)
Projected Ending Cash Balance	$ 12,950,319	$ 10,368,247	$ (2,582,071)

	Capital Replacement Funds		
	2025-26 Projected Balance	2026-27 Projected Balance	Difference
Beginning Cash Balance	$ 1,940,526	$ 288,548	$ (1,651,978)
Plus: Revenues	4,767,399	5,795,000	1,027,601
Plus: Reimbursements	-	1,614,297	1,614,297
Less: Expendiutres	(6,419,377)	(7,660,000)	(1,240,623)
Projected Ending Cash Balance	$ 288,548	$ 37,845	$ (250,703)

The District anticipates a cash balance of approximately **$10,368,247** in its Operations and Maintenance funds and Capital Replacement funds at **6/30/2027**, based on the proposed budgetary figures presented in **Attachments A** and **B**. It should be noted that the Operations and Maintenance funds are supporting the

District's CIP efforts far greater than the annual depreciation amount it has done in years past. If the District wishes to execute on its CIP plan then funds from the Districts' investment accounts, expected to be approximately **$10,226,279** at **6/30/2026**, will need to be diverted to CIP accounts. This leaves cash balances in excess of the District's Reserve Funds target of **$3,250,000**.

In summary, the District will head into, and end **Fiscal Year 2026-27** in sound financial shape. The timing and execution of the District's Capital Improvement Program have a significant impact on the District's finances, and we will continue to report during the Fiscal Year with updated estimates and recommendations.

At each quarterly financial update staff will continue to inform the Finance Committee and the Board of Directors of any significant variations, both positive and negative to the fiscal condition of the District, that arise during the year and seek guidance on how to address such items.

Attachments:

Attachment A – FY 2026-27 Operating Budget – Proposed
Attachment B – FY 2026-27 CIP Budget – Proposed
Attachment C – FY 2026-27 Salary Schedules