



# Montecito Sanitary District

1042 Monte Cristo Lane  
Santa Barbara, CA 93108

*A Public Service Agency*

**General Manager: Diane M. Gabriel, P.E.**

PHONE: (805) 969-4200

FAX: (805) 969-9049

E-MAIL: [dgabriel@montsan.org](mailto:dgabriel@montsan.org)

## MEMO

January 29, 2020

To: Board of Directors  
Montecito Sanitary District

From: Diane M. Gabriel, P.E.   
General Manager/District Engineer

Re: Anonymous Memo emailed to Bartlett, Pringle, and Wolf, CPAs

This memo is in response to an anonymous December 2, 2019 memo from "A Concerned Rate Payer" emailed to Bartlett, Pringle & Wolf. Although Bartlett, Pringle & Wolf reviewed the memo and concluded the questions did not affect their audit opinion for fiscal year 2018-19, we are providing the MSD Board members with information that may be useful in responding to rate payer questions.

The first question raised by the Concerned Rate Payer is in regards to the Montecito Sanitary District's annual sewer services charges. The Governing Board of Directors of the Montecito Sanitary District funded Sewer Service Charge Rate Studies in 2003, 2008 and 2015.

As required under Proposition 218, public notices were mailed to all Montecito Sanitary District customers in April 2004, April 2009 and March 2016. The District also held public hearings regarding the proposed rate increases in 2004, 2010 and 2016. From our 3,000 customers, the District received fewer than ten protests.

The Montecito Sanitary District Finance Committee was involved in the most recent (2016) Rate Study. The Finance Committee provided the Rate Study consultant with direction at meetings held on December 1, 2015, January 16, 2016, January 25, 2016, February 4, 2016 and March 4, 2016.

Here are some of the basic facts:

The District's Annual Sewer Service charges have been set at the following amounts:

<b>YEAR</b>	<b>ANNUAL RATE</b>
FY2009-10	\$890
FY2010-11	\$960
FY2011-12	\$1,080
FY2012-13	\$1,080
FY2013-14	\$1,080
FY2014-15	\$1,080
FY2015-16	\$1,080
FY2016-17	\$1,280
FY2017-18	\$1,380
FY2018-19	\$1,480
FY2019-20	\$1,480

After thorough review, the MSD Board of Directors approved the rate increases at a Public Hearing on May 9, 2016.

In June 2019 the current Finance Committee (Director Barrett and Director Kern) developed, reviewed and accepted a cash flow analysis of the District's projected revenues and expenses through 2030. This cash flow analysis exhibited that the District will be able to continue to meet the covenants of the debt service and at this time is not considering a rate increase until July of 2023 at the earliest.

The current annual sewer service charge for a single-family residence served by the Montecito Sanitary District is \$1,480. This equates to approximately \$4 per day.

Sanitary district rates differ greatly at different agencies based upon population density, the length of pipeline per customer along with different expected levels of service. To compare rates in urban denser areas with rates in rural areas is not meaningful.

The number of customers per mile of pipeline is the primary driver of costs and therefore rates. Because the miles of pipeline per customer for rural areas is much higher than urban areas, the cost per customer is higher in rural areas.

To illustrate, here is a comparison of local jurisdiction's number of customers served per mile:

Montecito has 112 customers/mile of pipeline  
Goleta has 615 customers/mile of pipeline  
Carpinteria has 324 customers/mile of pipeline  
Summerland has 181 customers/mile of pipeline

This difference is what accounts for the cost of servicing Montecito Sanitary District customers. The Concerned Rate Payer's comparison of urban rates misses this important point.

Moreover, it is not meaningful to compare Montecito to Goleta, Summerland or Carpinteria, where the size of the average residential parcel is much smaller, and the locations of the sewer pipelines are primarily within paved roadways that provide ease of access for maintenance activities.

The rural nature of Montecito makes access to sewer pipelines more difficult than in urban areas. In Montecito, sewer pipelines are often located in easements in back or side yards of large residential properties, requiring crews to manually pull hoses over fences and walls to perform maintenance.

If one wants to compare Montecito Sanitary District rates, it would be more meaningful to compare them to communities that are more similar to Montecito. However, even that is not a fair comparison as these communities have their own unique characteristics that affect costs. Yet for information sake, here are annual costs at some more rural communities:

Montecito – \$1,480  
Malibu – \$2,258  
Lake Berryessa – \$2,130  
Belvedere – \$1,985  
Scenic Heights – \$1,895  
Burlingame Hills – \$1,675  
Russian River – \$1,555

Another driver of the cost in a community such as Montecito relates to the level of service expected and provided to protect public health as well as the environment. The District provides more comprehensive customer service in Montecito than neighboring sanitary agencies and most sanitary agencies in the state.

Some examples of superior levels of service provided by the Montecito Sanitary District are:

- A private lateral rebate program. This program provides property owners with half the cost up to \$2,000 when they make necessary repairs to their private lateral.
- Management of a capital replacement program that has included the rehabilitation of the District's original 1960s installed pipelines. To date, more than 26 miles of the District's 60 miles of VCP (clay pipe) have been rehabilitated, giving it 80 years of additional life.
- Full redundancy of the collection system and treatment facility and pump stations. This means if there is a need for one pump to move the flow, Montecito Sanitary has a minimum of two installed and fully operational at all times. And in some cases, Montecito Sanitary has three pumps installed where one is needed. At a minimum, Montecito Sanitary has a third replacement on hand and ready to be installed if necessary. Montecito Sanitary does this to ensure we fulfill the State requirement and our rate payers' expectations to ensure that there are no sanitary sewer overflows. Montecito Sanitary takes these requirements more seriously than most.
- Montecito Sanitary District has diesel powered generators with auto-transfer switches that will automatically start and power the entire District operation in the event of an SCE power outage. The District's generators meet all APCD air quality regulations, are routinely serviced and meticulously maintained.
- In the event of an emergency, Montecito Sanitary has maintained adequate emergency reserve funds. This was evidenced following the Thomas Fire Debris Flow on January 9th, 2018. Montecito Sanitary did not have to wait to receive advance funding from FEMA to hire contractors to assist with repairs. Montecito Sanitary was able to use emergency reserve funds to hire contractors immediately. Montecito Sanitary provided approximately \$1.6 million dollars to immediately begin repairs and was later reimbursed by FEMA. This allowed Montecito Sanitary to complete permanent repairs to the sewer infrastructure prior to the repopulation of the community.

To conclude on the Sewer Service Charge rate questions, here are some important financial facts to note about the Montecito Sanitary District:

- Consistently meet all debt covenant requirements such as Debt Service Ratio, Continuing Disclosure reporting

- AA+ Credit Rating by Standard & Poor's
- Clean, unmodified audits
- Fully funded Capital Improvement Program by Board designation of annual depreciation

The Montecito Sanitary District works to be prudent with rate payer funds while always planning ahead to ensure needed improvements and repairs can be made in a timely manner.

The Concerned Rate Payer refers to the need for revenues to match expenses in any given year and questions whether any unspent funds should be returned to rate payers. Unfortunately, this is called the "use it or lose it" approach and it has led many public agencies to expend all available budget amounts as they near the end of their fiscal year, regardless of necessity. This practice would lead to necessary inflationary annual rate increases rather than the "normalization" of rates over time. The Montecito Sanitary District management has ensured a "use it or lose it" practice would not occur. Only purchases and maintenance expenses that are truly necessary are authorized. Even if an expenditure was anticipated in the current fiscal year, yet can be delayed into the future, then funds are carried over to that fiscal year.

On the topic of Santa Barbara County and Coastal Commission regulations, the District received a letter dated September 26, 2019 from the County of Santa Barbara Planning and Development Department requiring the District to prepare a Coastal Development Plan (CDP). This is a new requirement from the County, and the District intends to fully comply.

At the Montecito Sanitary District Board meeting on October 31, 2019 the Board of Directors approved the hiring of a consulting firm, Dudek and Associates, in the amount of \$160,000 to complete the CDP application and process the plan through the County. At the December 12, 2019 meeting the Board of Directors approved the elements and projects to be included in the CDP.

Montecito Sanitary District has made environmental sustainability a goal and therefore has made recycling a priority. Over the past two years the Board has taken action to work with other agencies and at the same time began a pilot project.

In August of 2018 the MSD Board of Directors passed Resolution No. 2018-912, which clearly states the intention of the Montecito Sanitary District with regards to recycled water and the distribution of such water by the Montecito Water District.

The MSD Board of Directors at meetings on June 11 and July 30, 2018 approved the expenditures of \$160,000 to fund a recycled water pilot project to accomplish the following goals and objectives:

- To better design a full-scale recycled water treatment process by evaluating the ultrafiltration and pulse flow reverse osmosis membrane process
- Optimize the product water quality, product water quantity, and discharge concentrate
- Find efficiencies in electrical usage, chemical usage, backwashing timing and overall operational needs

The MSD pilot recycled water facility has been up-and-running since September 2019 and the above stated goals and objectives are being accomplished.

Montecito Sanitary District is actively participating in Joint Committee meetings with the Montecito Water District. There is full agreement that the first phase of a recycled water project should be a project to serve the Santa Barbara Cemetery.

Following is a copy of the memo from the Concerned Rate Payer sent to Bartlett, Pringle, & Wolf on December 2, 2019.

Should you or others have any further questions, please feel free to contact me.

# memo

To: Bartlett, Pringle & Wolf  
PIC Montecito Sanitary District Audit

From: A Concerned Rate Payer

Date: December 2, 2019

Re: June 30, 2019 Audit

---

I am concerned the management at the MSD has failed to disclose to you all pertinent facts about the operations in FYE 2019 and subsequent events, which is why I have chosen to write this memo.

Single family sewer rates (SFSR) were \$1,048 in 2015 and increased to \$1,248 in 2016, an increase of 19%. In the two subsequent years they were increased \$100 each year representing increases of 8% and 7%. The SFSR of MSD is more than double those of these districts: Carpentaria, Summerland, and Goleta.

These increases more than offset the increases in operating expenses for those years.

Queries: Did management purposely mislead the consultant, who was employed to perform the rate study, with unrealistic expected expense increases in order to build up a large cash balances to be used for capital projects? Was this action approved by the Finance Committee (FC) and/or the Board (BOD)? Or was this done without the approval either entity? Under the laws governing Special Districts, is MSD able to keep this cash and use it for other uses or should it be returned to Rate Payers (RP)? If the answer is it should be returned to the RP then MSD should recognize the liability as of June 30, 2019.

Over the years the MSD has taken the position it is exempt from Santa Barbara County (SBC) permitting requirements. Subsequent to June 30 the MSD was notified by SBC, in a letter from Lisa Plowman, they are not exempt from permitting requirements and will have to comply with existing laws of both SBC and the Coastal Commission (CC). In fact the MSD is now required to prepare a Coastal Development Plan (CDP).

Queries: Will requirements to comply with SBC and CC regulations, which requirements MSD disregarded on the advice of Janet McGinnis, create a subsequent event that needs to be disclosed in the financial statements? Will a liability for the costs to be incurred create a need to be included in the financial statements or in a footnote? Does this requirement impair the value of any of the work in progress carried on the balance sheet?

# memo

MSD has been incurring costs to install a water recycling operation on their property. The MSD has stated it is their intent to sell recycled water to the Santa Barbara Cemetery, an entity which is not within the MSD's operating district. The MSD was advised in a letter from the Montecito Water District (MWD) within the last thirty days that MWD is the only entity permitted to sell water within the boundaries of the MWD and MSD falls within those boundaries.

Queries: Are the expenditures for the recycling project legal if the MSD cannot sell water? How are the RP benefitting if these costs cannot be recovered by water sales by the MSD? Shouldn't MSD negotiated with MWD to recover the costs of the recycling plant before starting work on it? Is the cost of the recycling equipment improperly listed as an asset when there may be no way to recover the costs? Should you require a new legal reorientation letter?