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# MEMO

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**From:** Sudhir D. Pardiwala

**No. of Pages:** 17

**Date:** 1/18/2010

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

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

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

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



- a. Use of Property Taxes. The Raftelis May Report assumes that the City will use reallocated property taxes for general city services such as police and parks. That assumption was based on official city statements. The Bartle Wells Report uses a diametrically opposite assumption: that reallocated property taxes would be used for sewer system operations, as is the case with GWSD's current operations. If the Bartle Wells assumption is correct, then one of the major justifications publicly offered by the City for the detachment disappears. On the other hand, if the City's public statements are taken at face value, and the property tax revenues are used for other City services, this factor alone will cause sewer charges for City customers to increase by 75% over the study period (2011-2029).
  - b. Amount of Property Taxes Gained by City. The Bartle Wells Report assumes that the City would receive 100% of the property taxes currently paid to Goleta West by parcels in the detachment area. This assumption is unsupported given the fact that the 2002 Revenue Neutrality Agreement between the City and the County includes a provision that transfers 70% of any reallocated property taxes to the County.  
  
If the County receives 70% of the reallocated taxes, sewer rates for City residents will certainly increase after detachment.
2. Cost Savings. Bartle Wells estimates that \$960,000 in O&M costs could be saved if detachment occurs. We have found that this savings projection is significantly overstated. It was determined by erroneously treating short-term costs as recurring expenses, and by overstating other project cost savings strategies. As a result of these errors, the Bartle Wells Report understates the costs to be incurred by the City and finds "savings" where there are none.
  3. Pump Station Cost Allocations. Bartle Wells erroneously allocated the costs of the Emily Pump Station. As a result of the error, the Bartle Wells Report understates the costs to be incurred by the City.
  4. Future Capital Costs. There are two significant differences between the Bartle Wells and the Raftelis analysis of future capital costs:
    - a. Use of Wastewater Master Plan. Bartle Wells developed its 20-year *pro forma* assuming that future capital expenditures will mirror past capital expenditures. This assumption is unsupported because it ignores the fact that much of the Goleta West infrastructure is nearly 50 years old, and thus future capital replacement and rehabilitation costs are likely to be significantly higher than past expenditures. The assumption also fails to consider Goleta West's 2007 Wastewater Master Plan which examined the hydraulic



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

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

- b. **Pipeline Replacement Costs.** Bartle Wells assumes that sewer lines can be replaced at a cost of approximately \$3.00 per linear foot for each inch of pipeline diameter. Raftelis uses \$11.00 for the same calculation. The Raftelis cost is based on actual replacement costs and reflects the fact that Goleta West will continue to carry the responsibility for maintenance of the system's largest lines, which cost more to operate, maintain and replace than smaller lines.
5. **Reserve Fund Issues.** The Bartle Wells Report overestimates the reserves which are available for allocation to the City. The error is the result of an underestimation of the amounts still owed by Goleta West for the WWTP upgrade project.
6. **EMID's Collection System.** Bartle Wells points out that EMID will continue to function as an independent special district, and from this fact assumes that the City will not be responsible for service to EMID, including O&M of the EMID collection system. Given LAFCO<sup>2</sup>'s guiding principles, we think this assumption is ill-founded. And, if this assumption turns out to be wrong, the City will be required to assume significant responsibilities and expenses which are not analyzed in the Bartle Wells Report.
7. **Rate Increases: Isla Vista Residents.** The Bartle Wells Report predicts a rate increase for Isla Vista customers. Single family residential rates are predicted to increase from \$168/year to \$360/year in one year. The Raftelis May Report predicts a more gradual and smaller but still significant rate increase from \$168/year to \$309/year over a five-year period.

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<sup>1</sup> EMID – Embarcadero Municipal Improvement District

<sup>2</sup> LAFCO – Local Agency Formation Commission



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## Comparisons of Fundamental Assumptions used by Raftelis and Bartle Wells

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

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

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

<sup>3</sup> CIP – Capital Improvement Plan

<sup>4</sup> GSD – Goleta Sanitary District

<sup>5</sup> WWTP – Wastewater Treatment Plant

<sup>6</sup> BP&W – Bartlett, Pringle & Wolf, LLP



## Detailed Discussion

### 1. Rate Increase for City Residents

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

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

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

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

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

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

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

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



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

## 2. Projected Cost Savings are Overstated

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

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

- ◆ Legal: In recent years, the District has incurred approximately \$125,000<sup>7</sup> per year in legal expenses (FY 06/07 and FY 07/08) and budgeted \$469,000 in FY 2009/10<sup>8</sup>, which is \$344,000 above the “normal” level. It is not surprising that the legal services budget in FY 2009/10 is significantly higher than the FY 06/07 and FY 07/08 budgets due to the numerous legal issues pertaining to detachment. Sound budgeting practice requires exclusion of these short-term expenses in developing long-term expense projections.<sup>9</sup> Bartle Wells Report overstates the projected annual O&M expenses by approximately \$344,000. These legal fees are embedded in the Administration and Other line items in Table 2 below.
- ◆ Underground Storage Tank Removal Program: The District is incurring extraordinary expenses in FY 2009/10 related to removal of underground storage tanks. These expenses will not recur. Bartle Wells Report overstated the projected annual contractual expenses by approximately \$166,000.

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

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

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

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

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

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

Second, Bartle Wells projects FY 2010/11 Administration and Other Activities expenses of \$848,700<sup>10</sup> and \$711,699, respectively. Based on these expenses, Bartle Wells projected cost savings of \$600,000 (rounded from \$599,690). However, these expenses include professional services (including Legal) expenses on which the savings were already computed separately (see page 23 of the Bartle Wells Report). Bartle Wells double counts the savings on these professional services expenses shown in the Table 3 below.

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



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

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

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

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

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



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

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

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

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

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

## MEMO

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



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

**Table 5: Cost Savings using Raftelis' Assumptions (including Non-Recurring Expenses<sup>11</sup>)**

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

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

1 - Pump Station:

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

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

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

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

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

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

1 - Pump Station:

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

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

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



### 3. Pump Station Cost Allocations

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

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

### 4. Future Capital Costs

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

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

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

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

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

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

## 5. Reserve Fund Issues

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

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



Our analysis indicates that those numbers are inaccurate.

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

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

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

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

- ◆ 2009-10 Payments. Goleta West has budgeted to pay \$2,863,193 to GSD of which \$2.4 million is for the WWTP Upgrade Project and the balance of \$463,193 is for the GSD annual capital R&R costs of the existing WWTP
- ◆ Balance Owed. Goleta West will set aside the balance of the treatment plant upgrade cost (\$16,864,485) and expects to remit it prior to July 1, 2010 (see Table 9). This set-aside is in accordance with the terms of the Tax Allocation Agreement between the City and Santa Barbara County approved in April 2009.<sup>12</sup>

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

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

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

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

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

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

*2 - According to GWSD Budget FY 2009/10*



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

**Table 11: Overestimated Reserve Funds**

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

## 6. EMID

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

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

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



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

## 7. Rate Increases for Isla Vista Residents

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

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

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