



Agenda Item No. _____

File Code No. 540.11

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 12, 2012

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Contract For Water And Wastewater Rate Review And Revenue Plans

RECOMMENDATION:

That Council authorize the Public Works Director to negotiate and execute a contract, in a form acceptable to the City Attorney, with Raftelis Financial Consultants, Inc., in an amount not to exceed \$100,000 to provide a cost of service analysis for the City of Santa Barbara water and wastewater rates and to develop a ten-year revenue plan.

DISCUSSION:

The water and wastewater utilities are dependent on user rates to fund most of the operations, maintenance and capital improvements needed to keep the utilities functioning reliably and in compliance with federal and state regulations. Water rates were last reviewed in 1994 and wastewater rates in 2004. Cost of service evaluations should be conducted at least every ten years. Cost of service analysis and rate review will ensure that City water rates are compliant with state law governing the manner in which rates can be charged.

Both the water and wastewater utilities have infrastructure dating back to the late 1800s. The City has a long standing approach of developing multi-year capital planning to identify and prioritize infrastructure needs. Using the projected capital needs, staff can develop an understanding of what level of revenues is needed to accomplish the required work.

Water and wastewater funding is challenging because the infrastructure is aging and requires increasing levels of investment. Added to that are increased costs from new regulations. For example, the Water Fund has invested over \$50 million in the last decade alone to comply with the Disinfection By-Products Rule for drinking water. Additionally, water use and wastewater production are declining, which means that, fortunately, the City does not have to spend significant capital funds to develop new water supplies or add capacity at the wastewater treatment plant. This allows the City to avoid significant costs. However, because most of the costs of operating the water

and wastewater utilities are fixed costs and increase with inflation, rate payers will see increasing bills, even if their use is declining.

The work to be performed under the recommended contract is to evaluate the City's water rate study for compliance with state law, as well as for its performance in helping the City meet water conservation goals and in fairly allocating costs between user categories. A comprehensive wastewater rate review was recently completed, so the scope of work for wastewater rates will be a review to confirm that they are still compliant with state law. For both, water and wastewater, the consultant will be asked to recommend a revenue plan that minimizes impacts on rate payers and provides sufficient revenue to accomplish the required capital work.

A Request For Proposals was issued to eight firms. Five proposals were received. Staff reviewed the proposals interviewed the two top rated firms and selected Raftelis Financial Consultants as the most responsive to the City's Request For Proposals. Raftelis has extensive experience providing rate review and recommendations for water utilities in Southern California. Given the importance of rate setting to water conservation, this local expertise is important. Additionally, Raftelis will develop a comprehensive financial model that the City will be able to use for financial planning of the water and wastewater utilities going forward.

BUDGET/FINANCIAL INFORMATION:

Funding for this study was included in the Fiscal Year 2012 budget.

SUSTAINABILITY IMPACT:

Properly designed rates and revenue plans are critical to developing the funds necessary to continue to adequately treat and deliver water and wastewater and maintain critical infrastructure that protects human health and the environment.

PREPARED BY: Rebecca Bjork, Water Resources Manager/mh

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator's Office