



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** February 26, 2013

**TO:** Finance Committee

**FROM:** Water Resources Division, Public Works Department

**SUBJECT:** Fiscal Year 2014-2015 Water Rates And Ten-Year Rate Revenue Plan And Fiscal Year 2014-2015 Wastewater Rates

### RECOMMENDATION:

That the Finance Committee hear a presentation on the development of water rates and recommend approval of the proposed water rates and ten-year rate revenue plan for Fiscal Year 2014-2015 to Council.

### DISCUSSION:

#### Water

The City manages the water supplies and utility that provides water to its customers. Revenue for the purchase of water supplies and management of the water utility is derived from rates and fees charged to water system customers, or rate payers. Proposition 218, a State ballot initiative known as the Right to Vote on Taxes Act, was approved by the voters on November 5, 1996. Among other things, the initiative requires water and wastewater rates to reflect the cost of providing service to different classes of customers. Over the past 17 years, numerous court decisions have defined how Proposition 218 governs the determination and implementation of water rates.

In June 2012, the City hired Raftelis, Inc., (Raftelis) through a competitive Request for Proposal process to perform a comprehensive rate study and a ten-year revenue needs assessment for the Water Fund. The City last completed such a comprehensive evaluation of the structure of its water rates and revenue requirements in July 1995. Raftelis' scope of work included evaluating the revenue needs for the Water Fund to meet financial obligations of operations, debt requirements and capital needs, while also ensuring that the proposed rates are in compliance with Proposition 218.

Although there are many minor changes to the proposed water rates, the significant changes are summarized below:

- Water customers are allocated a certain amount of water within rate tiers. As increased water use moves a customer from one rate tier to the next, the amount charged for each unit of water increases. Because water efficient fixtures and appliances have reduced the amount of water necessary to meet basic needs, the amount of water allocated to the second tier has been reduced slightly. All irrigation customers will have two blocks rather than the current three. The first block is sized to provide adequate supply for irrigation, in accordance with actual plant water needs.
- The increments between Block 2 and Block 3 residential water rates, and Block 1 and Block 2 commercial and irrigation water rates are higher to send a stronger water conservation signal to very high water users.

#### Wastewater

Raftelis conducted a comprehensive evaluation of wastewater rates using a cost of service for the collection and treatment of various classes of wastewater. Raftelis based the proposed wastewater rates on the strength of wastewater by class, which is the industry-standard approach to calculating wastewater rates, since higher-strength wastewater costs more to treat. Raftelis' preliminary results show a significant shifting of revenues from residential customers to commercial customers, because commercial wastewater is much higher in strength, and therefore more costly to treat than residential wastewater.

Based on the significant departure from past revenue distribution by sector, staff believes it is necessary to more thoroughly analyze wastewater rates, including clearly understanding how past rates were derived. Given the mandatory Proposition 218 noticing for any proposed rate changes, as well as a desire to conduct public outreach to potentially affected groups, staff is recommending that proposed revisions to the wastewater rate structure be deferred until further investigation is completed.

In order to meet Fiscal Year 2014-2015 Wastewater Fund operating and capital needs, staff is recommending a 4 percent across-the-board rate increase, consistent with the existing ten-year rate plan. Staff will be returning to Council seeking authorization to amend the scope of Raftelis' contract to complete the additional wastewater rate analysis. Proposed changes to the wastewater rate structure will be addressed for Fiscal Year 2015-2016.

**BUDGET/FINANCIAL INFORMATION:**

New rates and rate increases are being recommended to meet the needs of the Water Fund. The ten-year rate plan has been developed to fund necessary capital improvements that are reasonably foreseeable. The wastewater rate increase will meet the immediate Fiscal Year 2014-2015 needs of the Wastewater Fund. Staff will recommend a ten-year rate revenue plan for the Wastewater Fund for Fiscal Year 2015-2016.

**SUSTAINABILITY IMPACT:**

In addition to generating the revenues necessary for the operation and maintenance of the water utility, water rates are the most effective tool to encourage water conservation. Increasing the increment between Block 2 and Block 3 water rates will send a stronger conservation signal to high water using customers. Restructuring the irrigation rate classifications will encourage irrigation to be in accordance with actual plant water needs.

**ATTACHMENT(S):** Notice of Proposed Changes to City Utility Rates

**PREPARED BY:** Rebecca Bjork, Water Resources Manager/KD/mh

**SUBMITTED BY:** Christine F. Andersen, Public Works Director

**APPROVED BY:** City Administrator's Office



# NOTICE OF PUBLIC HEARING

## Proposed Changes to City of Santa Barbara Utility Rates

**Date:** Tuesday, June 11, 2013  
**Time:** 2:00 p.m.  
**Place:** City of Santa Barbara Council Chambers, City Hall  
 735 Anacapa Street, Santa Barbara

# DRAFT

### Water Rates (Applicable only to customers billed by the City for water service)

The City conducted a comprehensive study of water rates and is proposing adjustments to better align rates with the cost of providing water service and encouraging conservation.

#### ***How Will the Proposed Changes Impact My Water Bill?***

The water rate impact for the average in-City single family residential customer (12 hcf (hcf=hundred cubic feet) and a 5/8" meter) will be minimal, only increasing from \$67.75 to \$67.81 under the proposed rates increase.

#### ***What are the Proposed Changes?***

Overall, water rate structure is proposed to remain largely the same, with changes in the per unit costs outlined in Table 1 (see other side). Proposed fixed monthly capacity charges (formerly referred to as monthly meter charges) are summarized in Table 2 (see other side).

Proposed changes include:

- Reduction of Single Family Residential Tier 2 from 20 hcf to 18 hcf and reduction of Multi-Family Residential Tier 2 from 12 hcf to 8 hcf to reflect actual average demand considering household size, water efficient plumbing fixtures, and increased water wise landscaping.
- All irrigation customers will have two tiers, rather than three. The first tier is sized to provide adequate supply for irrigation, in accordance with actual plant water needs. See more on irrigation rates in "What is a Monthly Water Budget?" (see box on bottom right).
- The increment between Tier 2 and Tier 3 residential water rates, and Tier 1 and Tier 2 commercial and irrigation water rates is higher to send a stronger water conservation signal to very high water users.

#### ***How Were Water Rate Changes Determined?***

The last comprehensive rate study was completed in 1995. The City completed the Rate Study to develop a 10-Year Financial Plan that ensures financial stability and sufficiency and to develop a water rate structure that:

- Is based on cost of service principles,
- Is fair and equitable,
- Ensures revenue stability,
- Promotes water conservation, and
- Minimizes impacts.

The study concluded that both prior and proposed rates are in compliance with Proposition 218, which is the initiative requiring water and wastewater rates to reflect the cost of providing service to different classes of customers.

### Wastewater Rates

(Applicable only to customers billed by the City for sewer service)

The proposed wastewater rate increase is four percent (4%) of the City's current charges for all customer classes. Small variations above or below the 4% amount may occur due to rounding. The maximum monthly charge for a single family residential customer would increase from \$39.21 to \$40.78 under the proposed rates. Proposed wastewater rates are summarized in Table 3. The proposed increase will fund increasing wastewater system costs resulting from inflation and the ongoing need for rehabilitation of the City's wastewater treatment plant and collection system.

### What is a Monthly Water Budget?

(Applicable only to customers billed by the City for dedicated irrigation meters)

The monthly water budget is a calculation of tier 1 irrigated amount based on the property's irrigable area and plants' monthly watering needs. The purpose of providing a monthly allotment is to bill customers based on the water needs of their landscaping.

Please call (805) 564-5460 if you would like further details on water budgeting.

**TABLE 1 – PROPOSED PER UNIT WATER RATE CHANGES**

Customer Class	Tiers	Proposed Rates	Current Rates
<b>Single Family Residential</b>	First 4 hcf	\$3.18	\$3.14
	Next 14 hcf	\$5.16	\$5.25
	All other hcf	\$6.62	\$5.53
<b>Multi-Family Residential</b>	First 4 hcf (per dwelling unit)	\$3.18	\$3.14
	Next 4 hcf (per dwelling unit)	\$5.16	\$5.25
	All other hcf	\$6.62	\$5.53
<b>Commercial / Industrial</b>	100% of base allotment	\$5.16	\$5.25
	All other hcf	\$5.91	\$5.53
<b>Irrigation – Residential &amp; Commercial</b>	100% of monthly budget	\$5.16	\$5.25
	All other hcf	\$6.62	\$5.53
<b>Irrigation - Recreation/ Parks/Schools</b>	100% of monthly budget	\$2.70	\$2.47
	All other hcf	\$6.62	\$5.25/\$5.53
<b>Irrigation – Agriculture</b>	100% of monthly budget	\$1.51	\$1.45
	All other hcf	\$6.62	\$5.25/\$5.53
<b>Recycled Water</b>	All HCF	\$2.16	\$1.98
<b>Outside City Limits</b>	130% of corresponding in-City rates		

**TABLE 2 – PROPOSED CAPACITY TO SERVE CHARGES\***

	5/8"	3/4"	1"	1 ½"	2"	3"	4"	6"	8"	10"
<b>Current:</b>	\$13.19	\$19.82	\$33.00	\$65.97	\$105.58	\$211.14	\$329.91	\$659.81	\$1,054.84	\$1,517.56
<b>Proposed:</b>	\$13.81	\$19.57	\$31.09	\$59.89	\$94.44	\$203.87	\$365.14	\$751.02	\$1,384.55	\$2,190.86

\*Formerly referred to as Monthly Meter Charges

**TABLE 3 – PROPOSED WASTEWATER RATE CHANGES**

Customer Class	Tiers	Proposed Rates	Current Rates
<b>Single Family Residential</b>	Fixed Charge	\$14.88	\$14.31
	First 10 hcf	\$2.59	\$2.49
<b>Multi-Family Residential</b>	Fixed Charge (per dwelling unit)	\$14.88	\$14.31
	First 8 hcf (per dwelling unit)	\$2.59	\$2.49
<b>Commercial</b>	All hcf (Subject to minimum**)	\$2.93	\$2.82
<b>Industrial</b>	All hcf (Subject to minimum**)	\$3.55	\$3.41

\*\* Go to [www.SantaBarbaraCA.gov/Water](http://www.SantaBarbaraCA.gov/Water) to see all minimum charges

If you oppose any of the above increases, please deliver your protest **in writing** to the City Clerk of the City of Santa Barbara at 735 Anacapa Street, Santa Barbara, CA, 93101, prior to or during the City Council’s consideration of this item on June 11, 2013. (If you wish to submit your protest during the public hearing, please deliver it to City Staff in the Council Chamber.) Because multiple rates are being considered by City Council at the same hearing, please indicate the specific rate you are protesting.

**TO SEE ALL PROPOSED UTILITY RATES AND BUY-IN FEES GO TO: [WWW.SANTABARBARACA.GOV/WATER](http://WWW.SANTABARBARACA.GOV/WATER)**