



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 12, 2013

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Multi-Year Rate And Revenue Study And Revisions To Water Rates

RECOMMENDATION: That Council:

- A. Hear a presentation on the Multi-Year Rate and Revenue Plan, proposed modifications to water rate structure for the Water Fund, and proposed changes to capacity fees for new customers;
- B. Adopt the Multi-Year Rate and Revenue Plan for the Water Fund; and
- C. Authorize staff to send notices to customers informing them of changes to the water rate structure and proposed adjustment to water rates and wastewater rates.

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. On November 5, 1996, Proposition 218, a State ballot initiative known as the Right to Vote on Taxes Act, was approved by the voters. 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 fees and taxes, including water rates.

In June 2012, the City hired Raftelis, Inc., (Raftelis) through a competitive Request for Proposal process to perform a comprehensive study of the revenue needs and associated rates 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 of the Water Fund to meet financial obligations of operations, debt requirements, and capital needs, while also ensuring that the proposed rates comply with Proposition 218. Proposition 218 imposes procedural requirements (notice and majority protest) and substantive

limitations, which include the requirement that the rates may not exceed the estimated cost of providing the service and must be reasonable, fair, equitable and proportional.

Raftelis' draft Water Financial Plan & Rate Study Report is available for Council review in the Council reading file and available for public review in the City Clerk's office.

RATE STUDY

The rate study is comprised of an evaluation of revenue requirements, a cost of service analysis, and a rate structure that results in a water rate schedule that meets the revenue needs and ensures that customers pay their proportionate share of costs.

Revenues

Revenue must be sufficient to meet the needs of the water system including costs for water purchase and production including treatment, O&M expenses, capital improvement program expenditures, principal and interest payments on existing debt and other obligations. In order to meet the need, revenue must be increased in FY 2014 by 3%. Raftelis has developed a revenue plan through FY 2022, which shows the increased revenue need shown below:

2015	2016	2017	2018	2019	2000	2021	2022
3%	3.5%	3.5%	3.5%	3.5%	4%	4%	4%

Cost of Service

Total revenue requirements, less revenue from other sources, such as payments made by other agencies that utilize the City's water treatment plant and interest earnings, are defined as the "cost of service". This cost is used as the basis to allocate costs to various customer classes taking into account not only average quantity of water use but also peak usage. The total FY 2014 cost of service to be recovered from rates is estimated at \$31.5 million, of which approximately \$25.3 million is operating costs and \$6.2 million is capital costs. These total costs are broken into cost components which are then allocated to customer classes.

The report indicates that the total cost of service for the residential class is 72%, the commercial class is 19%, and the irrigation, recycled and others customer classes comprise 9% of the total cost. Rates are designed to recover the revenue required from each customer class based upon the cost of service of that class.

Rate Structure

Rates are designed to ensure that customers pay their proportionate share of costs based on the cost of service to supply water to that customer class. Additionally, the water supply costs associated with each of the City's five water sources differs. In order

to provide affordable water for basic health and safety and to sustain agricultural use, agricultural, parks and residential Tier 1 customers are allocated the least expensive sources of water. Remaining water supply sources are allocated to other customer classes so as to provide incentives for conservation.

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

- Residential water customers are currently allocated water in three rate blocks. As increased water use moves a customer from one rate block to the next, the amount charged for each unit of water increases. The lowest cost rate block is set to meet lifeline needs, the next block is designed to meet household needs where water is efficiently used, and the third and most costly block is considered to be discretionary. Because water efficient fixtures, appliances, and irrigation equipment and water wise gardens have reduced the amount of water necessary to meet household needs, the amount of water allocated to the second tier has been reduced slightly. Residential users of Block 2 water will pay the same rate as residential/commercial Block 1 Irrigation users. Thus, whether the residential user has a separate irrigation meter or not, the cost of service is the same and therefore the rate is the same.
- Instead of the current three blocks, irrigation users (split into residential/commercial, recreational/parks/schools and agriculture) will have two blocks. The first block is sized to provide adequate supply for irrigation (100% of base allotment based on acreage, weather and plant factor). The second block encompasses all irrigation water use above 100% of base allotment.
- Commercial/industrial rates will decrease slightly for Block 1 and increase slightly for Block 2 from current rates. Block 1 is allocated 100% of base allotment (average use during Jan-Jun). Block 1 and 2 rates are higher to accommodate the higher cost of service due to peaking.
- The difference in rates between Block 2 and Block 3 residential water rates, and Block 1 and Block 2 commercial and irrigation water rates is greater in an effort to send a stronger water conservation signal to very high water users.

Customers must be notified of any proposed changes to rates at least 45 days prior to the date of the public hearing for Council's determination to modify rates. Staff is preparing to distribute the Proposition 218 rate notices to customers with their April water bills. At this time, staff is seeking authorization to provide notice to customers of the proposed rate changes. A copy of a draft Proposition 218 rate notice is attached.

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' preliminary results indicate the need for further study.

Given the mandatory Proposition 218 noticing for any proposed rate changes, as well as a desire to conduct public outreach regarding wastewater rate modifications, staff is recommending that proposed revisions to the wastewater rate structure be deferred until further investigation is completed.

In order to meet Fiscal Year 2013-2014 Wastewater Fund operating and capital needs, staff is recommending a 4-percent across-the-board rate increase, consistent with the existing ten-year rate revenue 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 2014-2015.

BUDGET/FINANCIAL INFORMATION:

New rates and rate increases are being recommended to meet the needs of the Water Fund. The multiyear rate plan has been developed to fund necessary capital improvements that are reasonably foreseeable. The wastewater rate increase will meet the immediate Fiscal Year 2013-2014 needs of the Wastewater Fund. Staff will return to Council next fiscal year to recommend a multi-year rate revenue plan for the Wastewater Fund for Fiscal Year 2014-2015.

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: 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: June 11, 2013, 2:00 p.m.

Place: City Council Chambers, City Hall, 735 Anacapa Street, Santa Barbara

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

CITY WATER RATES HAVE BEEN REVIEWED AND REVISED

How were Water Rates Determined?

The City completed a Rate Study to develop a multi-Year Financial Plan that ensures financial stability and sufficiency and to develop a water rate structure that:

- Promotes water conservation,
- Ensures revenue stability
- Is fair and equitable, and
- Is based on cost of service principles, as required by Proposition 218 (initiative that oversees utility rate regulations).

How will the proposed changes impact my water bill?

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

What are the Proposed Changes?

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

Proposed changes include:

- Reduction in allocation of amount of water in Single Family Residential Tier 2 from 16 hcf to 14 hcf and reduction of Multi-Family Residential Tier 2 from 8 hcf to 4 hcf to reflect average need 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.
- Slight reduction in the cost of Tier 1 commercial rates.
- The Tier 3 residential water rates, and Tier 2 commercial and irrigation water rates are higher to send a stronger water conservation signal to very high water users.

[CHECK OUT RESIDENTIAL RATE CALCULATOR AT: WWW.SANTABARBARACA.GOV/WATER](http://WWW.SANTABARBARACA.GOV/WATER)

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 (see other side). 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.

TABLE 1 – PROPOSED PER UNIT WATER RATE CHANGES

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

TABLE 2 – PROPOSED MONTHLY METER CHARGES

	5/8"	3/4"	1"	1½"	2"	3"	4"	6"	8"	10"
Current:	\$ 13.19	\$ 19.82	\$ 33.00	\$ 65.97	\$ 105.58	\$ 211.14	\$ 329.91	\$ 659.81	\$1,054.84	\$1,517.56
Proposed:	\$ 13.81	\$ 19.57	\$ 31.09	\$ 59.89	\$ 94.44	\$ 203.87	\$ 365.14	\$ 751.02	\$1,384.55	\$2,190.86

TABLE 3 – PROPOSED WASTEWATER RATE CHANGES

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

** Go to www.santabarbaraca.gov/water to see all minimum charges

DRAFT



Water Rates and Revenue Plan

City Council
March 12, 2013

Overview

- ◆ Water Financial Plan
- ◆ Water Rates Calculation
 - Design Objectives
 - Proposed Changes
- ◆ Water/Wastewater Connection Fees
- ◆ Wastewater
 - Additional Review Needed
- ◆ Council Action



WATER FINANCIAL PLAN

Key Assumptions

- ◆ Inflation – 3.0% per year
- ◆ Growth assumptions per the City's General Plan
- ◆ Capital Program to meet critical system needs
- ◆ Conservation – 1.0% total demand reduction per year
- ◆ Reserve Interest Rates – average 1.8% per year

Water Revenue Plan*

Fiscal Year	Rate Adjustments
2014	3.0%**
2015	3.0%
2016	3.5%
2017	3.5%
2018	3.5%
2019	3.5%
2020	4.0%
2021	4.0%
2022	4.0%

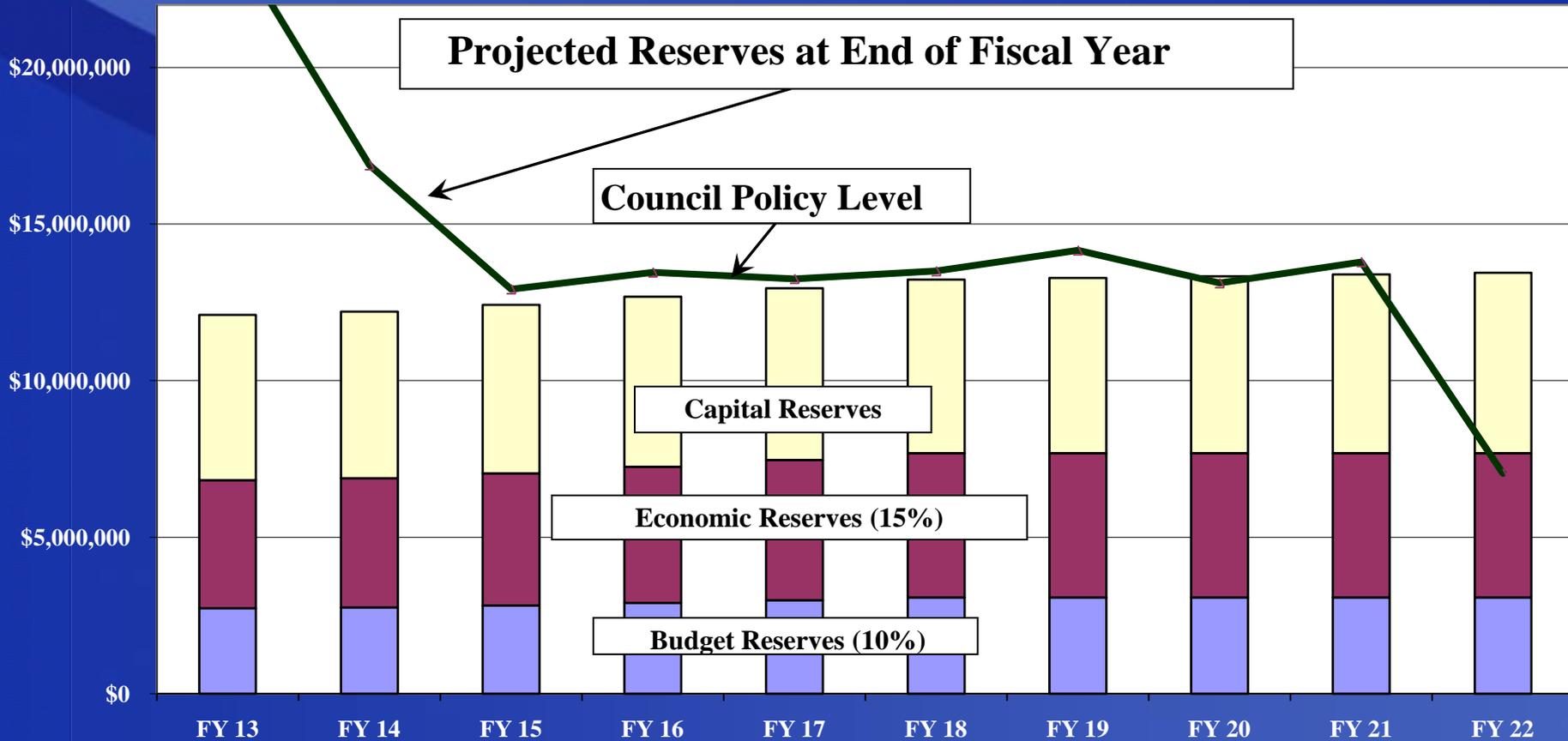
*Annual percentage rate increases needed to fund operating, debt, capital projects, and to maintain reserve targets.

** FY 14 Rate restructuring – not across the board increase.

Water Capital Program

PROGRAM	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22
Distribution System Replacement Program	5,025,000	4,100,000	3,100,000	2,600,000	2,600,000	3,100,000	4,500,000	4,960,000	4,960,000
Groundwater Supply Program Total		1,580,000	210,000	2,225,000	75,000	740,000	1,550,000	50,000	50,000
Distribution Pump Station Program	50,000	370,000	1,585,000	570,000	1,065,000	120,000	750,000	750,000	1,000,000
Distribution Reservoir Program			540,000	1,090,000	190,000	650,000	200,000	200,000	8,140,000
Water Reclamation Program	125,000	135,000	125,000	225,000	875,000	125,000	125,000	125,000	125,000
Cater Treatment Plant Equipment Maintenance			300,000	305,000	310,000	355,000	350,000	350,000	300,000
Recycle Water Plant Replacement	6,800,000	1,000,000	0	0	0	0	0	0	0
Gibraltar Dam	0	0	25,000	25,000	40,000	100,000	25,000	25,000	25,000
Gibraltar Dam Equipment Rehabilitation	50,000		25,000	25,000			25,000	25,000	25,000
Total Funded Projects	11,000,000	7,185,000	4,025,000	5,180,000	5,155,000	5,190,000	7,500,000	6,460,000	14,600,000
Total Unfunded Projects	1,000,000	0	1,860,000	1,860,000	0	0	0	0	0
Total Funding Need	12,000,000	7,185,000	5,885,000	7,040,000	5,155,000	5,190,000	7,500,000	6,460,000	14,600,000

Water Fund Financial Plan





WATER RATE CALCULATION

Rate Design Objectives

- ◆ Continue to provide basic needs for residential customers at lowest rate.
- ◆ Continue to support local agriculture.
- ◆ Continue to incentivize water conservation.
- ◆ Structure irrigation allocations based on actual weather and landscape data.
- ◆ Include in commercial rates the impact of drought, which would give cause for the purchase of water on the spot market.
- ◆ Assure compliance with Proposition 218.

Proposed Monthly Meter Charges

Meter Size	Current	July 2013	Difference
5/8"	\$13.19	\$13.81	\$0.62
3/4"	\$19.82	\$19.57	(\$0.25)
1"	\$33.00	\$31.09	(\$1.91)
1 1/2"	\$65.97	\$59.89	(\$6.08)
2"	\$105.58	\$94.44	(\$11.14)
3"	\$211.14	\$203.87	(\$7.27)
4"	\$329.91	\$365.14	\$35.23
6"	\$659.81	\$751.02	\$91.21
8"	\$1,054.84	\$1,384.55	\$329.71
10"	\$1,517.56	\$2,190.86	\$673.30

Proposed Changes – Residential

- ◆ Proposed Changes
 - SFR: Reduce Tier 2 from 16 hcf to 14 hcf
 - MFR: Reduce Tier 2 from 8 hcf to 4 hcf
 - Tier 3 rates increased \$1.09/hcf to send a stronger signal for conservation

Tiers	Current Rates \$/hcf	Proposed Rates \$/hcf	Difference \$/hcf
Tier 1	\$3.14	\$3.18	\$0.04
Tier 2	\$5.25	\$5.16	(\$0.09)
Tier 3	\$5.53	\$6.62	\$1.09

Proposed Water Service Rates

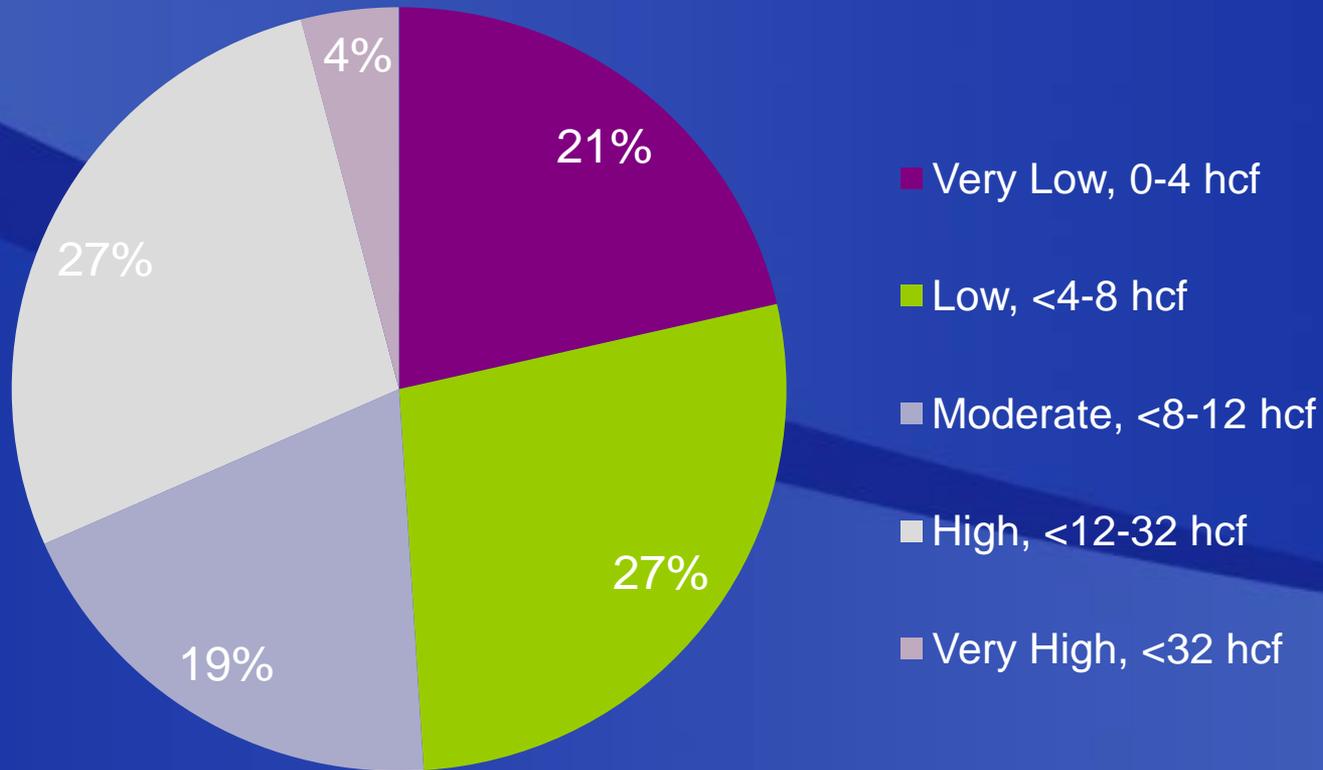
		Current	July 2013	Difference
Water Service Rates, \$/hcf				
SFR				
Tier 1	First 4 hcf	\$3.14	\$3.18	\$0.04
Tier 2	Next 14 hcf	\$5.25	\$5.16	(\$0.09)
Tier 3	All other hcf	\$5.53	\$6.62	\$1.09
MFR				
Tier 1	First 4 hcf	\$3.14	\$3.18	\$0.04
Tier 2	Next 4 hcf	\$5.25	\$5.16	(\$0.09)
Tier 3	All other hcf	\$5.53	\$6.62	\$1.09
Commercial/Industrial				
Tier 1	100% of base allotment	\$5.25	\$5.16	(\$0.09)
Tier 2	All other hcf	\$5.53	\$5.91	\$0.38

Note: Base allotment = average monthly consumption during the most recent Jan-Jun period

Customer Impacts - SFR

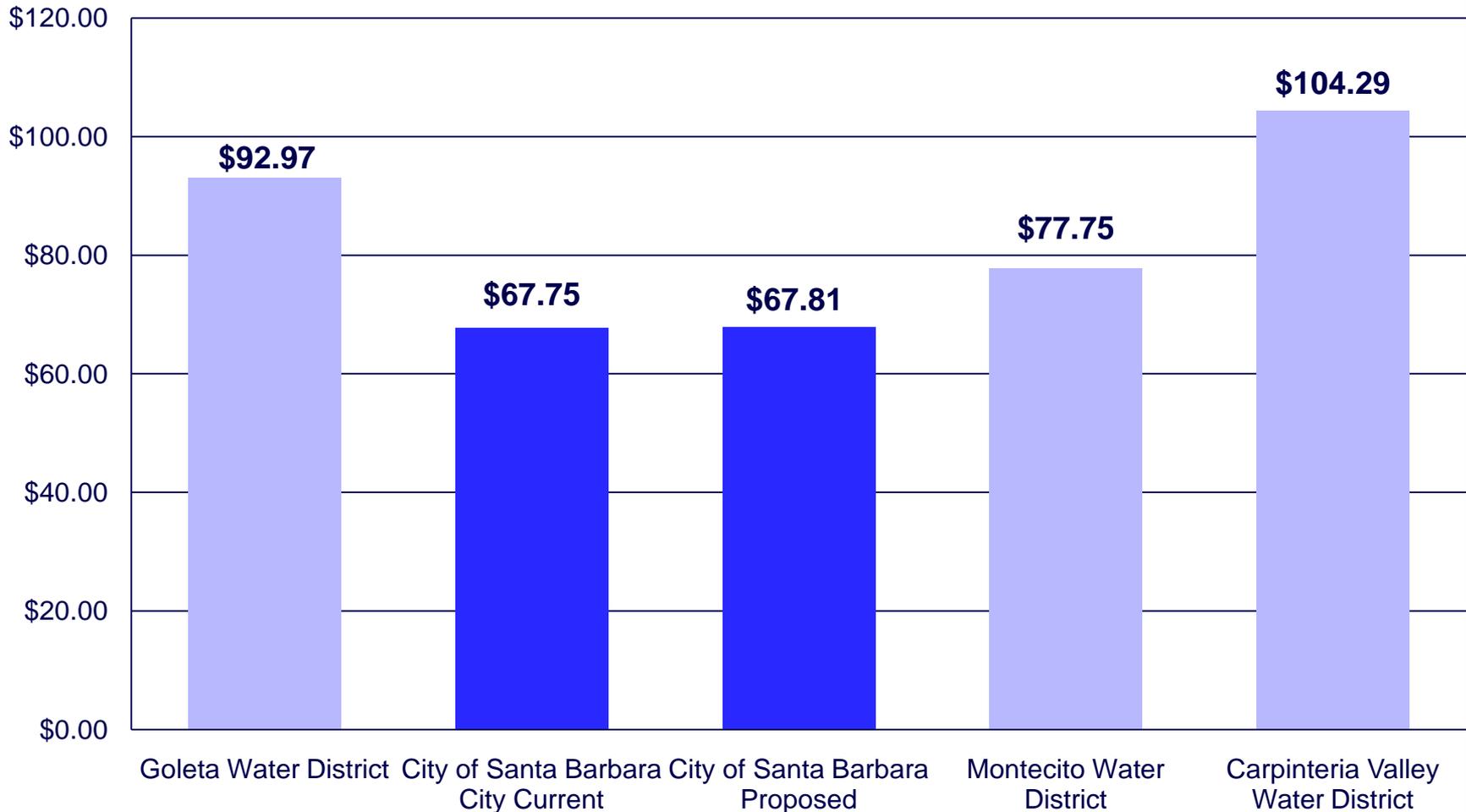
Usage Level (5/8" meters)	Monthly Usage (hcf)	Existing Bill	Proposed Bill	Difference	Percent Change
Very Low	4	\$25.75	\$26.53	\$0.78	3.03%
Low	8	\$46.75	\$47.17	\$0.42	0.90%
Moderate	12	\$67.75	\$67.81	\$0.06	0.09%
High	32	\$176.11	\$191.45	\$15.34	8.71%
Very High	64	\$353.07	\$403.29	\$50.22	14.22%

SFR Percent Bills by Usage



Single Family Residential Monthly Water Service Charges

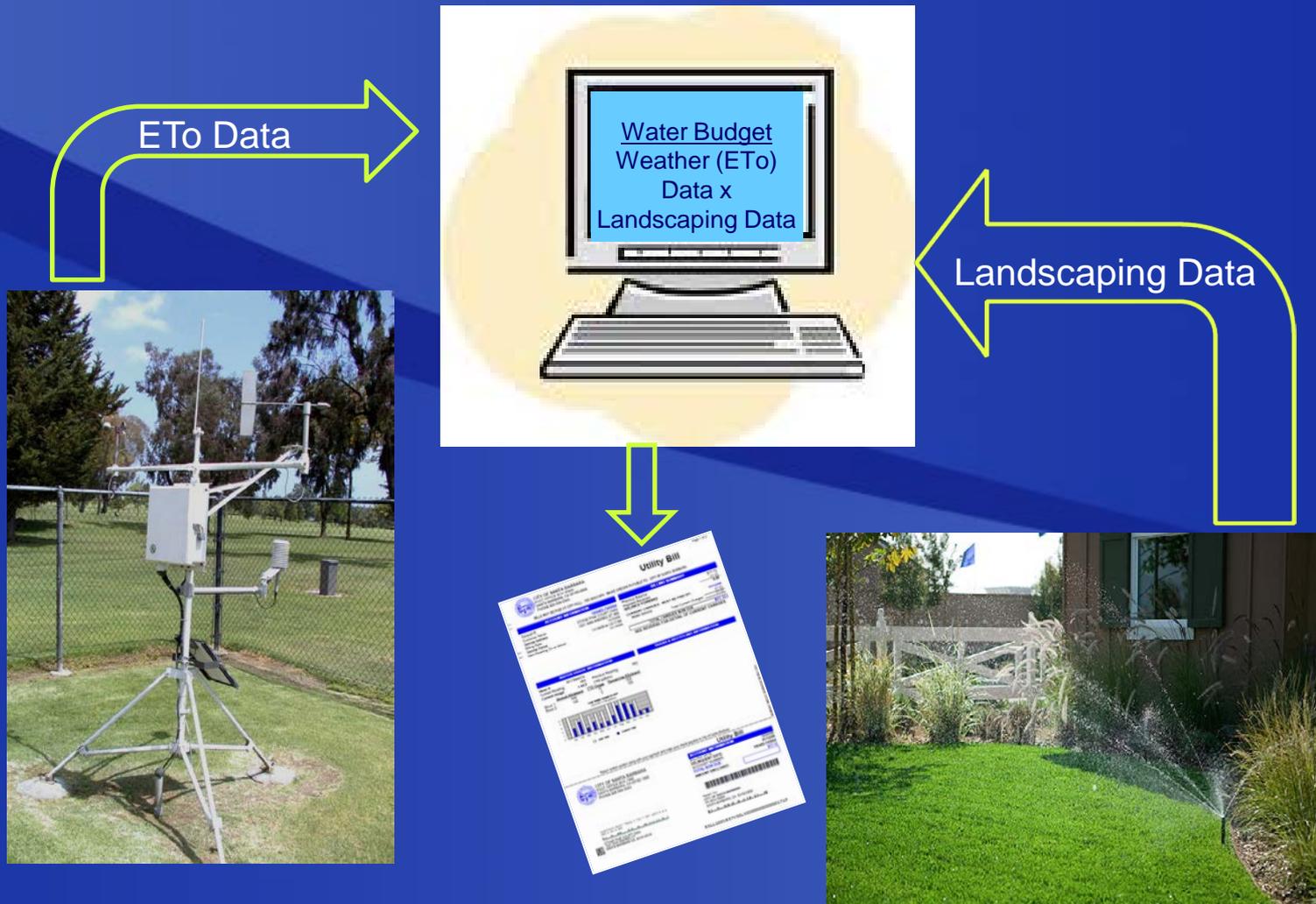
Based on a 5/8" meter and 12 hcf consumption



Proposed Irrigation Rate Changes

- ◆ All irrigation allocation will be based on actual acreage and weather data.
- ◆ Combine existing irrigation rates into Irrigation – Residential/Commercial category.
- ◆ Remove carryover policy for Agricultural customers, since allocation is based on actual weather data.

Water Budget Based Irrigation Bill



Irrigation Allocation Comparison

Water Budgets, hcf per acre Customer Class	Calculated Monthly Budget	Calculated Annual Budget	Current Annual Budget
Irrigation – Residential/Commercial	68	810	654
Irrigation – Recreation/Parks/Schools	119	1,417	1,404
Irrigation – Agriculture	127	1,519	1,080*

*Does not include Block 1 Carryover amount.

Note: Water allocation calculation includes weather data based on average annual ET_0 from CIMIS Station 107 in Santa Barbara.

Proposed Irrigation Rates

Water Service Rates, \$/hcf		Current Rates	July 2013 Rates	Difference
Irrigation - Residential/Commercial				
Tier 1	100% of allocation	\$5.25	\$5.16	(\$0.09)
Tier 2	All other hcf	\$5.53	\$6.62	\$1.09
Irrigation - Recreation/Parks/Schools				
Tier 1	100% of allocation	\$2.47	\$2.70	\$0.23
Tier 2	All other hcf	\$5.53	\$6.62	\$1.09
Irrigation - Agriculture				
Tier 1	100% of allocation	\$1.45	\$1.51	\$0.06
Tier 2	All other hcf	\$5.53	\$6.62	\$1.09
Recycled Water		\$1.98	\$2.16	\$0.18
Outside City Limits		130%	130%	--

Note: Proposed rates combine classes and eliminate tiers, so do not directly correspond to current rates.

Outside City Surcharge

- ◆ 11% of rate payers are outside the City.
- ◆ It costs slightly more than 130% to serve those outside the City, as compared to the cost of serving those inside the City.
- ◆ Recommend retaining the 130% surcharge on City rates for Outside City rate payers.
- ◆ Recommend creating a State Institutional Rate for State customers in the unincorporated area that is equal to the inside City commercial rate.

Proposed Monthly Fire Line Rates

Meter Size	Current Rates	July 2013 Rates	Difference
1"	\$2.51	\$2.67	\$0.16
1 1/2"	\$3.58	\$3.39	(\$0.19)
2"	\$5.12	\$4.63	(\$0.49)
4"	\$9.20	\$16.73	\$7.53
6"	\$14.32	\$44.22	\$29.90
8"	\$20.47	\$91.63	\$71.16
10"	\$28.63	\$162.96	\$134.33
12"	\$40.91	\$261.81	\$220.90



CONNECTION/BUY-IN FEES

Water Connection Fees Calculation

Connection Fee Calculation	RCLD
Total Assets Value	\$236,464,427
Reserves	\$21,811,512
Outstanding Debt Principal	(\$44,326,679)
Net Assets Value	\$213,949,260
Current Average Production (mgd)	10.75
Unit Cost (\$/gpd)	\$19.90
ERU Definition (gpd)*	305
Proposed Connection Fee (\$/ERU)	\$6,070
Current Connection Fee	\$5,691
Difference	\$379
*ERU – Equivalent Residential Unit	

Wastewater Connection Fees Calculation

Connection Fee Calculation	RCLD
Total Assets Value	\$158,932,832
Reserves	\$3,720,593
Outstanding Debt Principal	(\$16,315,000)
Net Assets Value	\$146,338,425
Current Average Flow (mgd)	7.35
Unit Cost (\$/gpd)	\$19.91
ERU Definition (gpd)	250
Proposed Connection Fee (\$/ERU)	\$4,977
Current Connection Fee	\$4,118
Difference	\$859

Proposed Connection/Buy-in Fees

Meter Size	5/8" & 3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"
Water Connection/Buy-in Fees									
Current Fees	\$5,691	\$14,227	\$28,455	\$45,528	\$91,056	\$142,275	\$284,549	\$455,279	\$654,463
Proposed Fees	\$6,070	\$15,174	\$30,350	\$48,560	\$97,120	\$151,750	\$303,499	\$485,599	\$698,048
Difference	\$379	\$947	\$1,895	\$3,032	\$6,064	\$9,475	\$18,950	\$30,320	\$43,585
Wastewater Connection/Buy-in Fees									
Current Fees	\$4,118	\$10,294	\$20,588	\$32,941	\$65,882	\$102,941	\$205,882	\$329,411	\$473,528
Proposed Fees	\$4,977	\$12,441	\$24,883	\$39,812	\$79,625	\$124,414	\$248,828	\$398,125	\$572,304
Difference	\$859	\$2,147	\$4,295	\$6,871	\$13,743	\$21,473	\$42,946	\$68,714	\$98,776



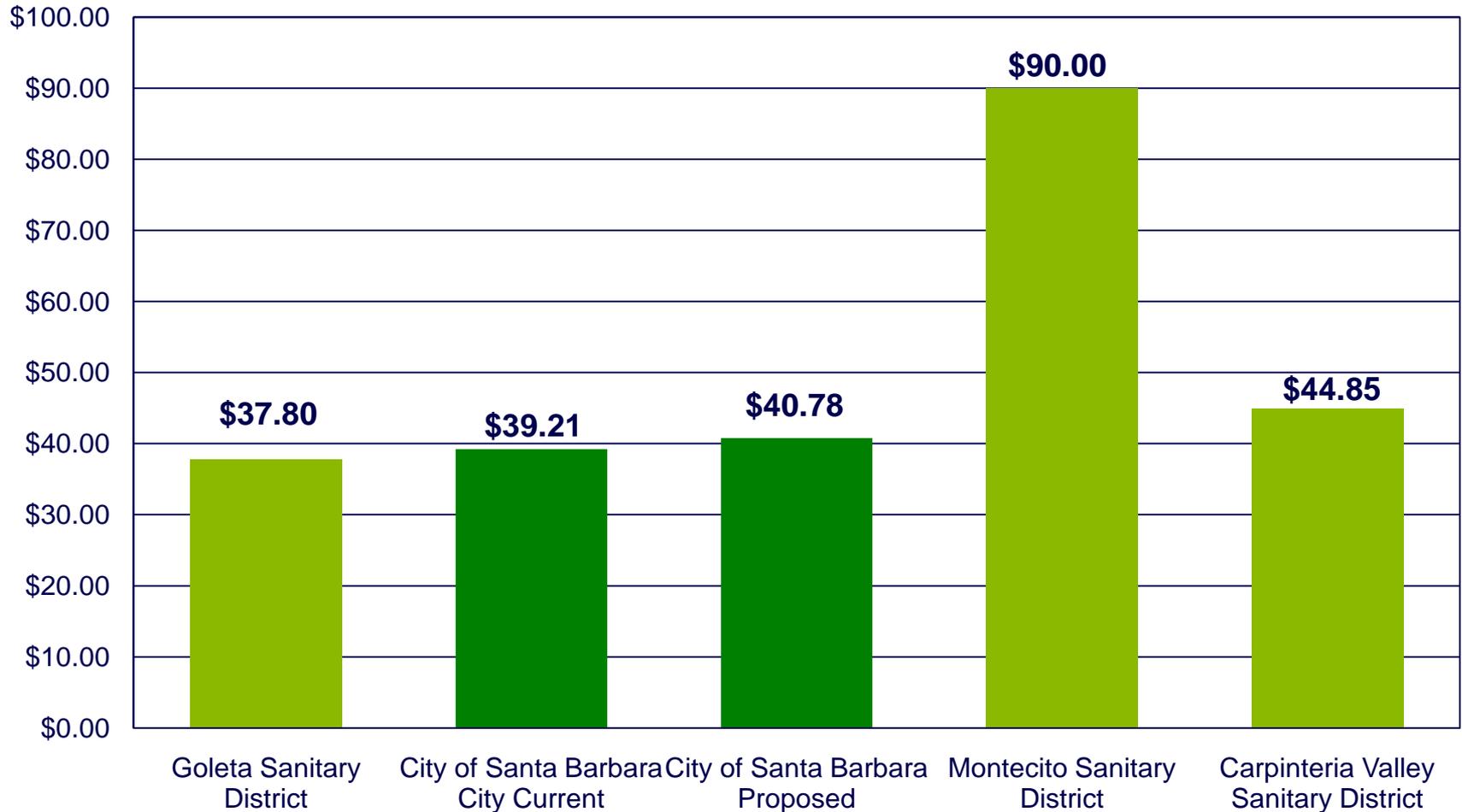
WASTEWATER

Wastewater Proposed Approach

- ◆ Additional Review and Evaluation of Wastewater Rate Design
- ◆ Revise Wastewater Rates and 10-year Financial Plan for FY 2015
- ◆ Recommend 4% Rate Increase FY 2014 for all classes
- ◆ Public Outreach

Single Family Residential Monthly Wastewater Service Charges

Based on a 10 hcf (max) consumption



Recommendation

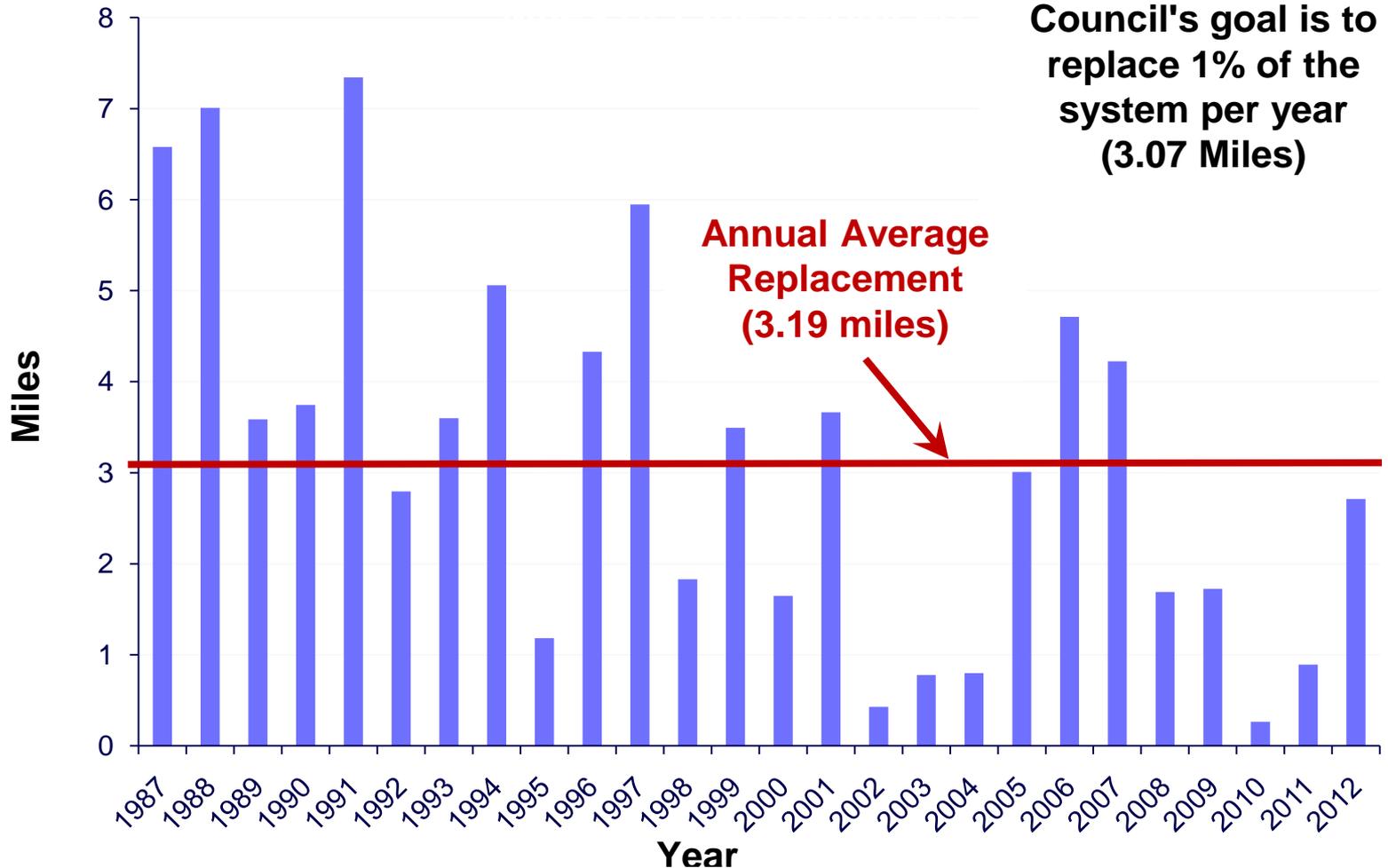
Approve:

- A. Noticing of Proposed Water Rate Changes
- B. Water Revenue Plan
- C. Noticing Wastewater Rate Increase of 4% in FY 2014 for all Rate Classes

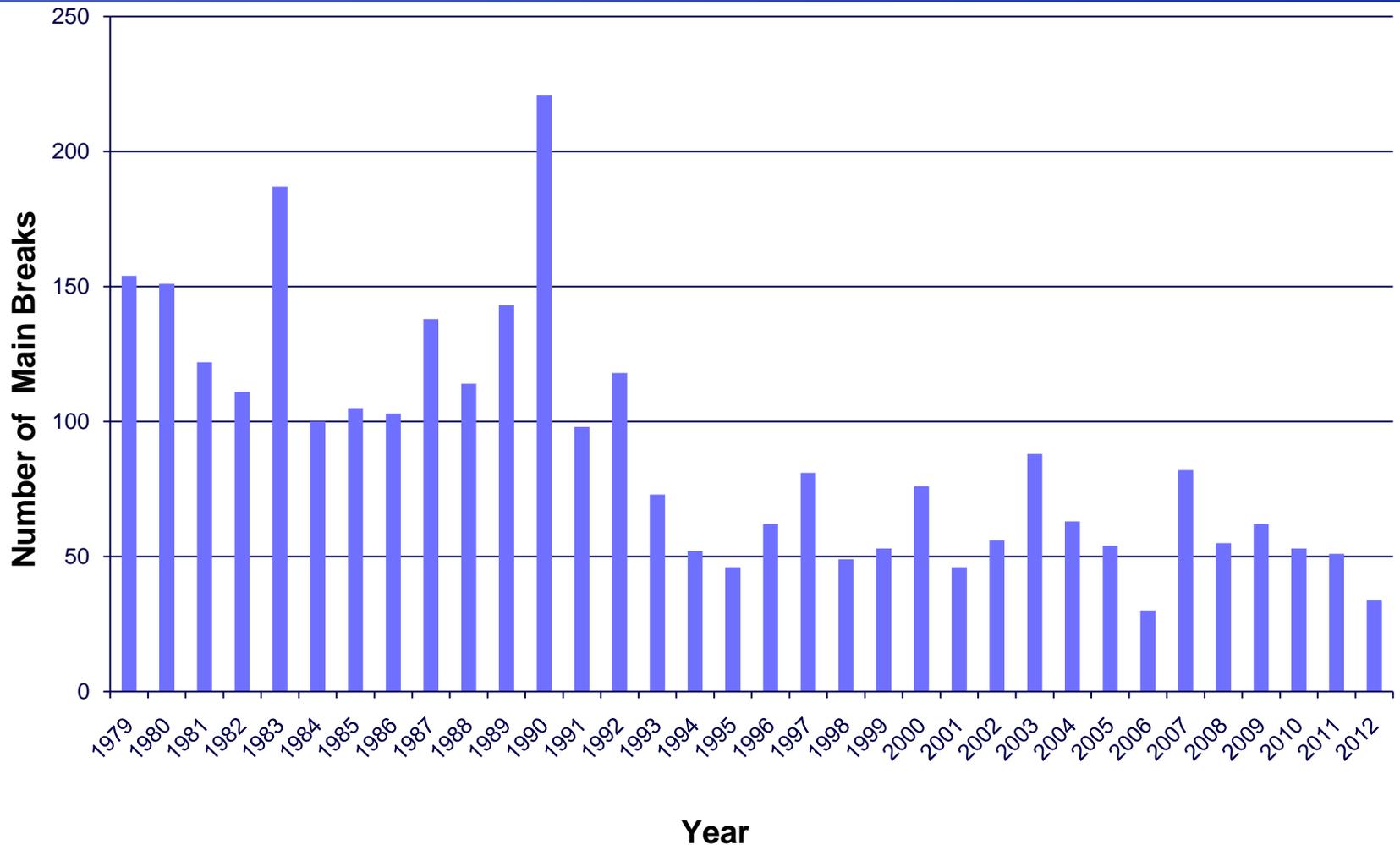
Connection Fees will be included with Fee Resolution adopted by Council with FY14 budget.



Water Main Replacement History



Main Breaks Per Year



Proposed Changes – Residential

Tiers	hcf	Current Rates \$/hcf	Proposed Rates \$/hcf	Difference \$/hcf
Tier 1 SRF MRF	0- 4 0- 4	\$3.14	\$3.18	\$0.04
Tier 2 SFR MRF	next 14 next 4	\$5.25	\$5.16	(\$0.09)
Tier 3 SRF MRF	18+ 8+	\$5.53	\$6.62	\$1.09