



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** March 18, 2014

**TO:** Mayor and Councilmembers

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

**SUBJECT:** Contract For Modeling Services For Drought Water Rates

**RECOMMENDATION:** That Council:

- A. Authorize the Public Works Director to execute a Contract for Modeling Services for Drought Water Rates in the amount of \$36,798 to Raftelis Financial Consultants, Inc. (RFC); and
- B. Authorize the Public Works Director to approve expenditures up to \$10,000 to cover cost increases that may result from necessary change orders for additional unforeseen modeling work by Raftelis Financial Consultants, Inc.

### **DISCUSSION:**

The City manages the water supplies and the utility that provides water to its customers under the Water Fund. 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 February 11, 2014, Council declared a Stage One Drought Condition, which called for a voluntary 20 percent reduction in water use by rate payers.

While the area recently had a significant rainstorm, the rainfall was not enough to end the area's persistent drought condition. Staff is currently planning for a possible declaration of a Stage Two Drought Condition. This declaration would include instituting temporary drought water rates to: 1) use pricing that encourages extraordinary water conservation, 2) ensure the City's Water Fund has adequate revenues associated with projected lower water sales, and 3) provide sufficient funds to finance necessary capital projects and possible water purchases.

The intent of drought rates is to incentivize customers to conserve water while also ensuring the Water Fund remains revenue neutral. Staff will present this item to the Board of Water Commissioners at their March 10, 2014 meeting to receive input for creating drought rates.

In June 2012, the City hired RFC through a competitive Request for Proposal process to perform a comprehensive study of the revenue needs and associated rates for the Water Fund. RFC's scope of work included evaluating the revenue needs of the Water Fund for meeting financial obligations of operations, debt requirements, and capital needs, while also ensuring that the proposed rates comply with Proposition 218. Any adjustment in water rates must be done in compliance with Proposition 218 requirements, which is known as the *Right to Vote on Taxes Act* that voters approved in 1996. 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.

As RFC recently successfully provided the City with water rate modeling services and the Water Fund is currently operating under the water rates and rate structure created by RFC, staff recommends contracting with RFC to perform drought water rate modeling services. Staff has received an acceptable proposal from RFC in the amount of \$36,798 to provide such services. Staff recommends authorizing change order authority of \$10,000 for additional unforeseen modeling work that may need to be performed by RFC. The scope of RFC's work includes performing drought water rate analysis, considering different water demand reduction scenarios, providing drought rate alternatives, and updating the water model to reflect the final drought water rate structure.

**FINANCIAL INFORMATION:**

RFC's 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. There are sufficient appropriated funds in the Water Fund for the proposed drought water rate modeling services. The Board of Water Commissioners heard this item at their March 10, 2014 meeting and the Board voted 4-0-0 in support staff's recommendations.

**SUSTAINABILITY IMPACT:**

In addition to generating the revenues necessary for operating and maintaining the water utility, water rates are an effective tool for encouraging water conservation. Creating and instituting drought water rates will send a stronger message for extraordinary water conservation, and will help to preserve the City's remaining limited water supplies through this critically dry period.

**PREPARED BY:** Catherine Taylor, PE, Water System Manager/mh

**SUBMITTED BY:** Rebecca Bjork, Acting Public Works Director

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