



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: April 15, 2014

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Stage Two Drought Water Rates

RECOMMENDATION: That Council:

- A. Hear a presentation on proposed Stage Two Drought Water Rates;
- B. Set a Public Hearing date for June 10, 2014, at 2:00 PM in the Council Chambers for Council consideration of increases in City water rates for Fiscal Year 2015; and
- C. Direct staff to send a Notice of Public Hearing to customers informing them of the hearing and proposed changes to water rates.

DISCUSSION:

On February 11, 2014, City Council declared a Stage One Drought Condition, which called for a voluntary 20% reduction in water usage by rate payers. While the Santa Barbara area has had some recent rainstorms, the rainfall has not been enough to end the area's persistent drought condition. Extraordinary conservation to meet the 20% demand reduction is needed. Staff anticipates the need to declare a Stage Two Drought Condition in May 2014.

On March 25, 2014, City Council authorized the execution of a contract with Raftelis Financial Consultants, Incorporated, (RFC) to provide drought water rate modeling services. RFC's work included performing drought water rate analyses, considering different water demand reduction scenarios, and investigating various drought rate alternatives. RFC focused on designing Stage Two Drought Water Rates that would best incentivize extraordinary water conservation by customers, while also ensuring sufficient revenues to meet operating and debt service requirements in order to maintain compliance with obligations to holders of City bonds. However, the proposed water rates will not generate enough revenue to cover the full cost of necessary drought-related capital projects. Therefore, it is expected that a combination of reserves and a reprogramming of existing capital projects already funded will be used to fund the additional drought-related capital costs in Fiscal Year (FY) 2015.

The proposed Stage Two Drought Rates are intended to address our current situation as of the end of the City's typical rainy season. Any changes in the level of drought condition would result in staff re-assessing the water rates and returning to Council.

Drought Water Rate Study

Revenues

On a long-term basis, revenue must be sufficient to meet the costs of operating the water system which includes costs for water purchases, treatment, operations and maintenance expenses, capital improvements, principal and interest payments on existing debt, and other obligations. Short-term differences between revenues and costs result in the use of, or contribution to, reserves. To generate sufficient funds for FY 2015, and achieve extraordinary conservation to meet the 20% demand reduction target, a more steeply inclined block rate structure and some use of reserves are needed.

The total revenues generated from rates for FY 2015 is expected to increase by 7 percent, compared with FY 2014, due to drought related costs associated with increasing available groundwater supplies and imported water purchases. Rates are recommended to be increased for all rate tiers, with the lowest increase (3%) being assigned to first-tier usage. However, the revenue generated from rates will not cover the full cost for necessary drought-related capital projects. Therefore, the additional costs will be funded from a combination of reserves, the reprogramming of already funded FY 2014 capital projects, and the postponement of planned FY 2015 capital projects, including main replacements, pump station improvements, and other maintenance projects.

Rates based on Cost of Service

Total revenue requirements, less revenue from other sources, such as payments made by other agencies that use the City's water treatment plant and interest earnings, are defined as the "cost of service". This cost is used as the basis for allocating costs to various customer classes by considering both the average quantity of water usage and peak water usage.

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. The water supply costs associated with each of the City's five water sources differ. In order to provide affordable water for basic health and sanitation and to sustain agricultural use, residential, parks and agricultural Tier 1 customers are allocated the least expensive sources of water. Remaining water supply sources are allocated to other customer classes, with more expensive water costs being assigned to the higher tiers in the block structure, because this usage is more discretionary water use, often for irrigating landscapes.

The changes to the proposed water rates are summarized below:

- Residential water customers are currently allocated water in three rate tiers. As increased usage moves a customer from one rate tier to the next, the amount charged per unit of water increases. The lowest cost rate tier (Tier 1) is set to meet basic health and sanitation needs; the next tier (Tier 2) is designed to meet the needs for an average-sized water wise landscape; and the third and most costly tier is considered to be discretionary use. Based on analysis in the recent 2012 Rate Study, approximately 16 hcf per month is sufficient for both indoor and outdoor needs of an average Single Family Residence household with water wise landscaping. With an additional 2 hcf allowance, the total combined allotment within Tier 1 and Tier 2 is currently 18 hcf (comprised of 4 hcf at Tier 1 rate and 14 hcf at the Tier 2 rate). Due to the drought condition, it is recommended that the additional 2 hcf allowance be removed, reducing the Tier 2 allotment from 14 HCF to 12 HCF.
- To send a message to high water users that extraordinary conservation is needed, the difference in rates between Tier 2 and Tier 3 residential water rates, Tier 1 and Tier 2 commercial/industrial rates, and Tier 1 and Tier 2 irrigation water rates is significantly increased.

Pursuant to State law established by Prop 218, the Right to Vote on Taxes Act, customers must be notified of any proposed increases to rates at least 45 days prior to the date of the public hearing for Council's consideration of the rate increases. Staff is recommending Council direction to mail the Proposition 218 rate notices to customers by April 24, 2014, in preparation for a June 10, 2014 public hearing. A copy of a draft Proposition 218 rate notice is attached.

BUDGET/FINANCIAL INFORMATION:

The proposed drought water rates have been developed to meet the 20% demand reduction target, while also meeting the revenue needs of the Water Fund, along with some use of reserves. The projected revenue from water sales has been set to maintain adequate debt service coverage, including sufficient revenue to cover debt service payments, debit service margin, and operating costs. Additional funding will be needed to cover the cost of necessary drought-related capital projects. Therefore, it is expected that the reserves will be used for Capital Program expenses. If the drought condition changes (either improves or worsens), staff will re-assess the financial plan and water rates at that time.

SUSTAINABILITY IMPACT:

Meeting the 20% demand reduction will assist the City in offsetting or delaying possible additional drought related water supply purchases and expenses.

ATTACHMENT: Notice of Proposed Changes to City Utility Rates

PREPARED BY: Catherine Taylor, Water System Manager/CT/KD/mh

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office



NOTICE OF PUBLIC HEARING PROPOSED CHANGES TO CITY OF SANTA BARBARA WATER RATES

Date: Tuesday, June 10, 2014, 2:00 p.m.
Place: City of Santa Barbara Council Chambers, City Hall
735 Anacapa Street, Santa Barbara

PROPOSED CITY DROUGHT WATER RATES

(Applicable only to customers billed by the City of Santa Barbara for water service)

During a drought, the City relies on its customers to reduce water usage to preserve remaining water supplies with extraordinary water conservation. At the same time, the City faces increased costs to maintain essential water service, including more expensive capital and operating costs to increase drought water supplies from groundwater and imported water transfers.

The City is considering temporary drought water rates to provide a portion of the revenue needed for the City's cost of water service, and to help encourage extraordinary water conservation to reach at least 20% water use reductions necessary to ensure a safe water supply for all customers.

How were drought water rates determined?

Last year, the City's water rate structure was revised based on a Rate Study that evaluated water rates using a rate model. To cover normal operating expenses, the City's water rates were expected to increase by 3% overall next year. To account for financial impacts from the drought, the City worked with an expert rate consultant to update the rate model and develop drought pricing that:

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

Rate consultants and staff evaluated the City's budgets and financial risks associated with the drought, and developed rates to help encourage customers to meet at least 20% reduction in water use.

How will the proposed changes impact my water bill?

Included in this notice is a table showing the proposed drought rates for all customers. The water rate impact will depend on the amount of water used. Examples of impacts are shown below depending on amount of water use. Customers are encouraged to visit the City's residential water rate calculator to review how the new rates would impact their bill.

- Very Low Water Use (4 HCF): Increase of \$0.40
- Low Water Use (8 HCF): Increase of \$5.32
- Average Water Use (13 HCF): Increase of \$10.24
- High Water Use (32 HCF): Increase of \$127.20

Will the drought water rates generate additional revenue?

The revenues generated from drought water rates will partially offset the cost of service to customers during the drought. Because the revenues will not cover the full cost of service, the City plans to use a portion of available reserves to make up the difference.

Drought Update

On February 11, 2014, the Santa Barbara City Council declared a Stage 1 Drought Condition, asking customers to reduce water use by at least 20 percent.

The rainfall this spring have not been sufficient for water supply. Therefore, water shortages are projected within the next year. The Santa Barbara City Council will consider a Stage 2 Drought Condition before June 2014, which requires mandatory water use reductions.

To help achieve reduction in water use, the City offers water conservation assistance, including free indoor and outdoor water check-ups for residents and businesses, and rebate programs. Visit www.SantaBarbaraCA.gov/WaterWise or call 805-564-5460 for more information.

CHECK OUT THE RESIDENTIAL WATER RATE CALCULATOR AT:
WWW.SANTABARBARACA.GOV/WATER

TABLE 1 – PROPOSED WATER RATE CHANGES (1 HCF = 748 GALLONS)

Customer Class	Tiers	Current Rates	Proposed Rates	% Increase
Single Family Residential	First 4 HCF	\$3.18	\$3.28	+3%
	Next 14 HCF (Current)/ 12 HCF (Proposed)	\$5.16	\$6.39	+24%
	All other HCF	\$6.62	\$13.44	+103%
Multi-Family Residential	First 4 HCF (per dwelling unit)	\$3.18	\$3.28	+3%
	Next 4 HCF (per dwelling unit)	\$5.16	\$6.39	+24%
	All other HCF	\$6.62	\$13.44	+103%
Commercial / Industrial	100% of base allotment	\$5.16	\$5.32	+3%
	All other HCF	\$5.91	\$11.61	+96%
Irrigation – Residential & Commercial	100% of monthly water budget*	\$5.16	\$6.39	+24%
	All other HCF	\$6.62	\$13.44	+103%
Irrigation - Recreation/ Parks/Schools	100% of monthly water budget*	\$2.70	\$2.79	+3%
	All other HCF	\$6.62	\$13.44	+103%
Irrigation – Agriculture	100% of monthly water budget*	\$1.51	\$1.56	+3%
	All other HCF	\$6.62	\$13.44	+103%
Recycled Water	All HCF	\$2.16	\$2.24	+4%
Outside City Limits	130% of corresponding in-City rates			

***What is a Monthly Water Budget?**

The monthly water budget is a calculation of Tier 1 allotment based on the property’s irrigated landscape area and the 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 564-5460 if you would like further details on water budgeting.

TABLE 2 – PROPOSED MONTHLY METER CHARGES

	5/8"	3/4"	1"	1 ½"	2"	3"	4"	6"	8"	10"
Current:	\$13.81	\$19.57	\$31.09	\$59.89	\$94.44	\$203.87	\$365.14	\$751.02	\$1,384.55	\$2,190.86
Proposed:	\$14.22	\$20.23	\$32.23	\$62.24	\$98.25	\$212.28	\$380.32	\$782.43	\$1,442.60	\$2,282.82
% Increase:	+3%	+3%	+4%	+4%	+4%	+4%	+4%	+4%	+4%	+4%

When will the drought rates take effect?

City Council will consider adopting Stage 2 drought rates on June 17th, 2014. New rates will appear on bills dated July 1st or later, effective for usage starting as early as June 1st, 2014.

If you oppose any of the above increases, please deliver your protest **in writing**, including your name and service address, 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 10, 2014. (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.

How do I stay informed?

- **Explore** updated information on drought conditions, conservation, and rates at www.SantaBarbaraCA.gov/Water
- **Share** social media posts at www.Facebook.com/SaveWaterSB and www.Twitter.com/SaveWaterSB
- **Contact** City staff at WConservation@santabarbaraca.gov or 805-564-5460
- **Attend** the Public Hearing on June 10th at 2 PM, City Council Chambers, 735 Anacapa Street, Santa Barbara
- **Watch** City Council meetings live online at www.CityTV18.com, or tune into City-TV Channel 18.

Go to WWW.SANTABARBARACA.GOV/WATER to see all proposed changes