



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 29, 2014

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Contract For Drought Related Water Rate Modeling Services

RECOMMENDATION: That Council:

- A. Appropriate \$42,397 from the Water Fund reserves to the Water Drought Fund for expenses related to the Desalination Financing and Water Rate Modeling Study; and
- B. Authorize the Public Works Director to execute a Professional Services contract with Raftelis Financial Consultants, Inc., in the amount of \$33,917 for services related to the Desalination Financing and Water Rate Modeling Study, and authorize the Public Works Director to approve expenditures of up to \$8,480 for extra services that may result from necessary changes in the scope of work.

DISCUSSION:

On May 20, 2014, Council declared a Stage Two Drought Condition (Stage Two) in response to the ongoing drought and upon conclusion of the driest three-year period in local records. Stage Two is the second of three stages in the City's Water Shortage Contingency Plan. Among other things, Stage Two response measures include the development and adoption of a rate structure reflecting increased costs associated with responding to the drought and targeting a 20 percent reduction in customer water demand. Under the Stage Two water rates, customer bills have increased 3 percent for low water users, 16 percent for moderate users, and 67 percent or more for high users. The Stage Two water rates, as well as the water rates for Fiscal Year (FY) 2014, were developed by Raftelis Financial Consultants, Inc., (Raftelis) in compliance with California's Proposition 218, which was approved by voters in 1996. 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* and includes the requirement that the rates may not exceed the estimated cost of providing the service and must be reasonable, fair, equitable, and proportional.

Upon adoption of Stage Two, staff has continued planning for a potential Stage Three Drought Condition, which may occur in the event of another year of below average rainfall. A key feature of the Stage Three Drought Condition would be the reactivation

of the City's Charles Meyer Desalination Facility, constructed in 1991-92, during the previous severe drought. The reactivation will be at a substantial cost, currently estimated at \$28.5 million in capital costs, with annual operating costs of at least \$5 million. These substantial added costs require an update to the Water Fund Financial Plan and a new rate structure sufficient to generate the revenues needed to cover these costs. The new rates will also increase the incentive for a reduction in customer water use to ensure that the planned 20 percent demand reduction is achieved.

Staff has received a proposal from Raftelis to complete the modeling and analysis necessary to develop a recommended rate structure that incorporates the desalination facility's reactivation costs. This will build upon the water rate model developed by Raftelis under previous contracts. The work will be based on information currently being developed as a part of the preliminary design study for the reactivation of the desalination facility. A Water Fund Financial Plan will be evaluated, with particular attention to water rates for Fiscal Years 2016 and 2017. The work will be documented in a report that will include a recommended rate structure. Also included is the cost of attending local meetings and providing staff training on the use of the rate model. Work is scheduled to be completed by early November 2014, to allow sufficient time for distributing required rate notices prior to moving ahead with financing the desalination facility reactivation.

An extra services authorization equal to 25 percent of the base costs is recommended due to the evolving nature of the Desalination Preliminary Design Study and the need to promptly address unanticipated issues that may arise. The Board of Water Commissioners heard this item at its July 14, 2014 meeting, and the Board voted 5-0-0 in support of the recommendation.

BUDGET/FINANCIAL INFORMATION:

The recommended appropriation will make funds available for the recommended Professional Services contract. In a companion report, staff is presenting an updated overall tabulation of projected drought costs based on recent information regarding desalination reactivation.

PREPARED BY: Joshua Haggmark, Acting Water Resources Manager KD/BF/mh

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office

City Council
July 29, 2014

Outline

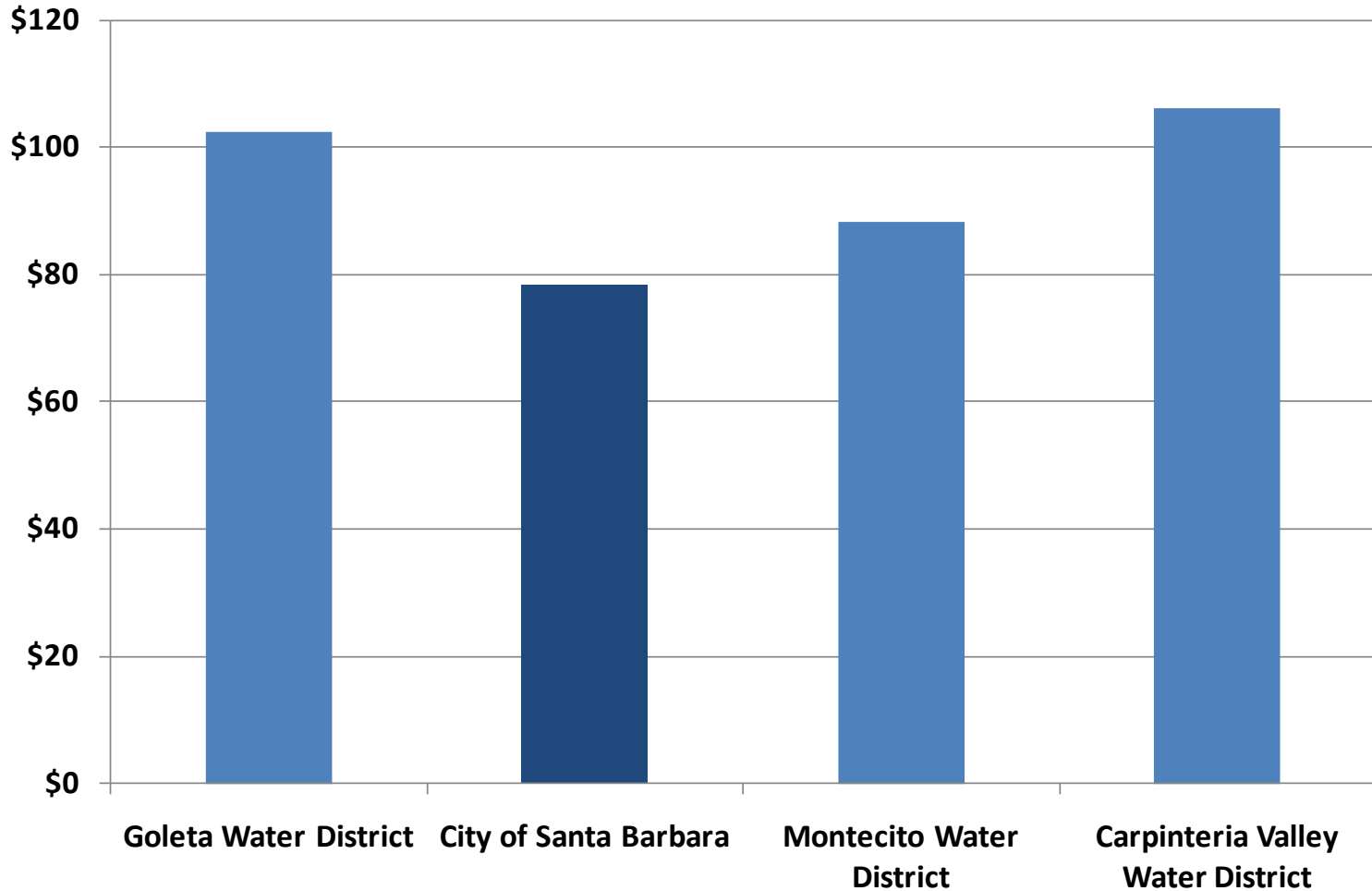
- ◆ Background
- ◆ Purpose of Rate Study
- ◆ Proposed Schedule
- ◆ Introduction of Policy Issues
- ◆ Council Action

Background

- ◆ Stage Two Drought Condition declared on May 20, 2014
- ◆ 20% City-wide reduction in water use required
- ◆ Drought rate structure adopted on June 17, 2014; effective on bills starting July 1

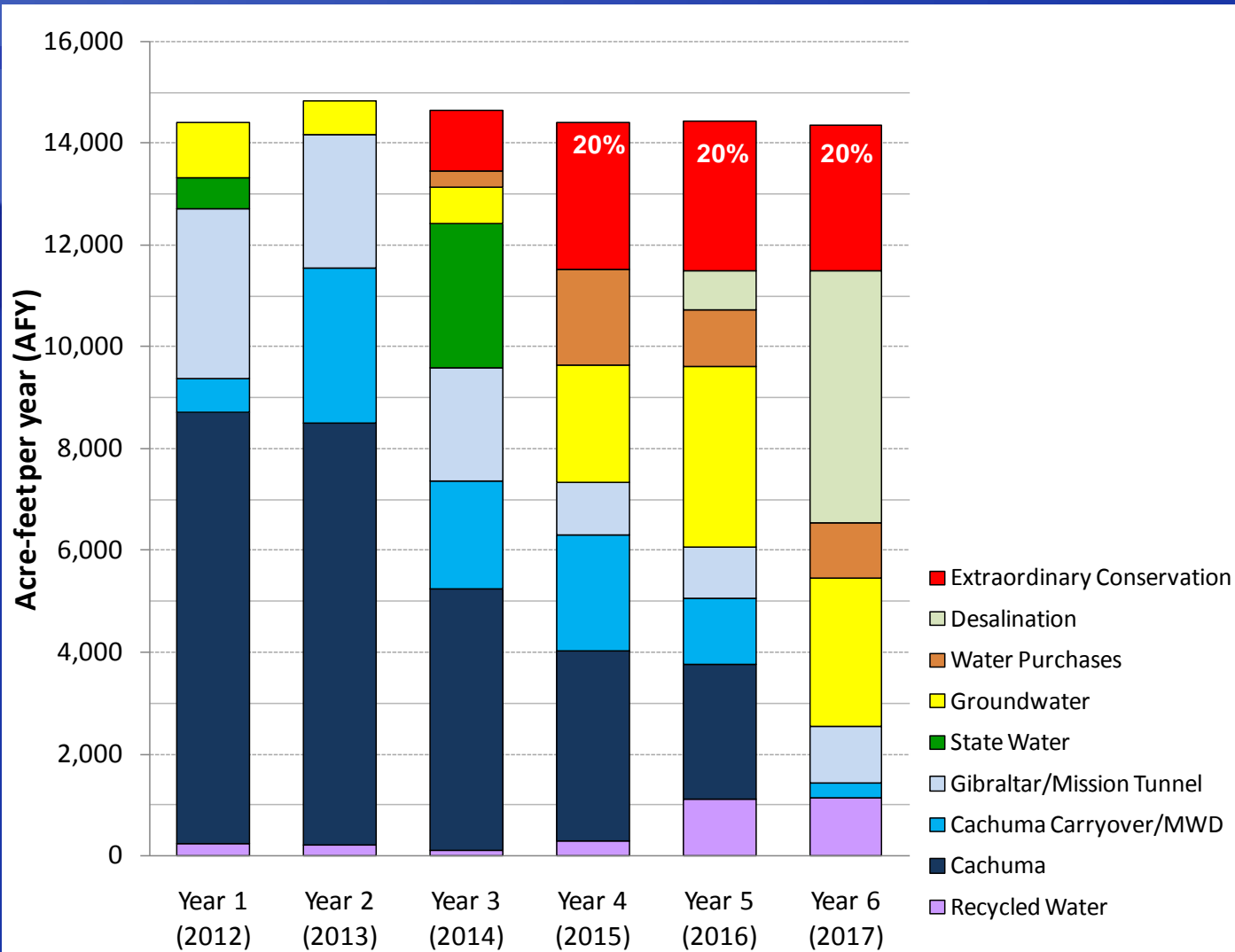
South Coast Water Rates

FY 15 South Coast Monthly Charges for 12 HCF Use
Single Family Residential Customer with 5/8" meter



Water Supply Outlook

(assumes on no reservoir inflows, no State Water)



Goals of Rate Study

- ◆ Build on previous rate model developed by Raftelis
- ◆ Incorporate cost of reactivation of desalination facility
 - Capital Cost: Pay with a loan
 - Operating Cost: Pay as we go
- ◆ Develop proposed water rates for potential Stage 3

Desalination Scenarios

◆ Phase 1 Only:

- Dry winter in Water Year 2015
- Award contract in April 2015 for 3,125 AFY (online by Summer 2016)

◆ Phase 1 & 2:

- Phase 1 initiated as above
- Dry winter in Water Year 2016
- Authorize additional scope in April 2016 for up to 7,500 AFY (online by Spring 2017)

Proposed Schedule

- Aug 2014: Initiate Rate Study
- Sep 2014: Council Policy Input
- Nov 2014: Present Proposed Rates;
Request authorization for
Noticing (Prop 218)
- Jan-Mar 2015: Tentative adoption of rates
- April 2015: Award contract for desal

Rate Study Policy Issues

- ◆ How low to take reserves?
- ◆ What should loan payback period be?
- ◆ How much should burden be covered in monthly fixed charges?
- ◆ How much should burden be covered by top tier versus all tiers?
- ◆ How to advise customers of the rate impacts of desalination?

Council Action

- ◆ Appropriate \$42,397 from the Water Fund reserves to the Water Drought Fund
- ◆ Authorize Contract with Raftelis Financial Consultants for up to \$42,397 for Rate Modeling Study

**For information & assistance on
water conservation:**

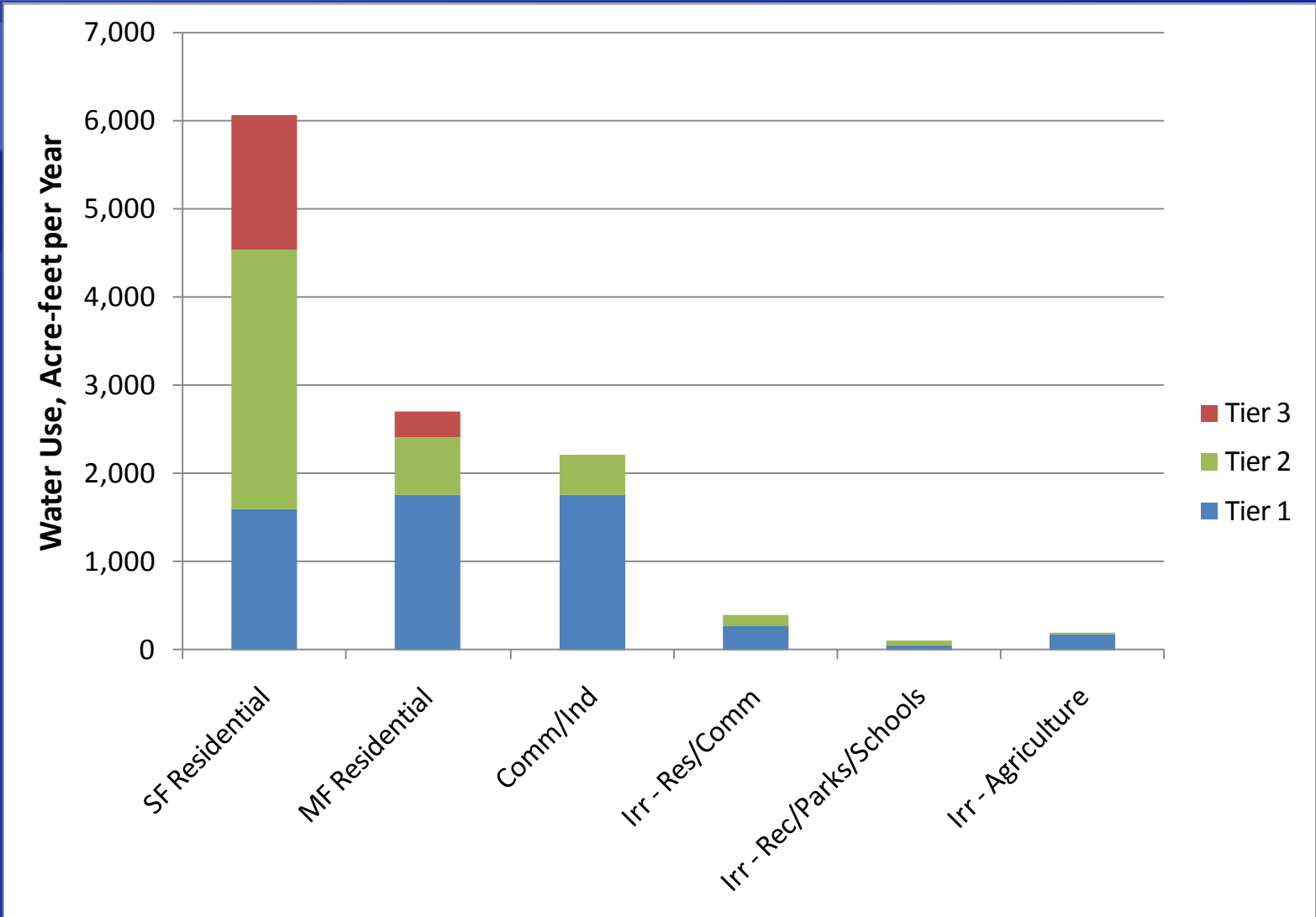
www.SantaBarbaraCA.gov/WaterWise

Call: 564-5460





Projected FY15 Water Use (Normal)



Projected Water Use (20% reduction)

