



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** January 13, 2015

**TO:** Mayor and Councilmembers

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

**SUBJECT:** Proposed Water Rate Increases For Fiscal Year 2016

**RECOMMENDATION:** That Council:

- A. Provide final direction to staff on the water rates that may be required to address costs associated with the drought, including reactivation of the Charles Meyer Desalination Plant;
- B. Set a Public Hearing date for March 10, 2015, at 2:00 PM, in the Council Chambers for Council consideration of increases in the City water rates for Fiscal Year 2016;
- C. Direct staff to release the Notice of Public Hearing to customers, informing them of the hearing date and the proposed changes to the water rates; and
- D. Authorize the Public Works Director to amend and increase a City Professional Services Contract, subject to approval as to form by the City Attorney, with Raftelis Financial Consultants, by \$35,000, bringing the total amount of the contract to \$77,397, for support services related to water rates modeling.

**DISCUSSION:**

On July 29, 2014, Council authorized the Public Works Director to execute a City Professional Services contract with Raftelis Financial Consultants, Inc. (Raftelis), in the total amount of \$42,397, for the Stage Three Water Rate Model Study (Study). The Study has been developed in preparation for continued drought conditions, and the possible need for reactivation of the City's Charles Meyer Desalination Plant (Desalination Plant). The scope of the Study included updating the Water Fund Financial Plan, and developing a rate structure sufficient to generate revenues needed to cover the cost of reactivating the Desalination Plant, along with other expected drought-related costs. While governed by cost of service principles pursuant to Proposition 218, the proposed rates are nonetheless structured to increase the incentive for reduction in customer water use to ensure the planned 20-percent water demand reduction is achieved. The proposed rates would go into effect for Fiscal Year 2016 which begins on July 1, 2015.

The Study assumes that the Desalination Plant will produce 3,125 acre-feet per year (AFY) of water beginning in summer 2016, and then be put in standby mode, producing

a minimal amount of water sufficient to keep the Desalination Plant in a ready state. Annual operating costs are estimated at approximately \$5 million per year for full plant production, and approximately \$2.5 million per year for standby mode. Continuation of the drought would trigger the need for an extended Desalination Plant operation, and possibly for increased production. If additional water production is indeed necessary, additional revenues would be needed and, therefore, a subsequent rate study.

The capital cost for reactivating the Desalination Plant for a water supply of 3,125 AFY is approximately \$32 million; however, there are significant unknown potential costs. Final project costs will be unknown until a few weeks prior to the award of the contract to design, build, and operate the Desalination Plant, scheduled for May 2015. Staff recommends that the rate notice provide the flexibility to generate sufficient revenues to cover up to \$40 million in capital costs for the Desalination Plant, should proposals to design and build the Desalination Plant come in at that range. In compliance with Proposition 218, the City must notice the maximum rates that could be adopted, but the actual rates implemented on July 2015 will reflect the actual costs to be incurred.

The City will require water rate modeling support associated with adjusting the water rates in spring 2015, to reflect actual Desalination Plant project costs and loan terms, to evaluate water rate scenarios with varying capital funding, and to update the City's connection charges for new water connections. These services require support from Raftelis, who are expert financial consultants and who were originally chosen to work on the City's water rates through a competitive Request for Proposals process. The City has an existing Agreement No. 24,936 with Raftelis. The agreement entered into was for a total amount of \$42,397. Staff requests authorization to increase the agreement with Raftelis by \$35,000, for a total not to exceed amount of \$77,397. There are sufficient appropriated funds in the Water Fund for this request.

## **Drought Water Rate Study**

### *Revenues*

On a long-term basis, revenues must be sufficient to meet the costs of operating the water system, which includes water purchases, treatment, operations and maintenance expenses, capital improvements, and principle and interest payments on existing debt. Short-term differences between revenues and expenses are balanced by the use of reserves. Increased water rates and some use of reserves will be required for Fiscal Year 2016 to fund the cost of the Desalination Plant and to achieve the 20-percent City-wide water demand reduction target. Rate increases are recommended for all rate tiers in order to cover the full cost of service and maintain the reserve balance at or above Council policy levels.

With drought-related costs, including costs for reactivating the Desalination Plant, total revenues generated from water rates in Fiscal Year 2016 are expected to increase by 30 to 39 percent over Fiscal Year 2015. The range stems from two options, subject to Council direction, regarding funding for the Water Main Replacement Program. One

option would postpone funding of the Main Replacement Program until after the drought is over; the other option would continue the funding during the drought. Planned water main replacements are currently on hold due to funding being diverted to drought-related projects. Emergency water main repair work has continued as needed. Council policy is to fund annual replacement of one percent of the water system, or approximately three miles of main replacements per year, at an average cost of \$4.2 million. Under Option 1 (Attachment 1), there would need to be another rate increase in Fiscal Year 2018, when the drought ends, to fund a multi-year accelerated Main Replacement Program to catch up to the 1% replacement goal. Under Option 2 (Attachment 2), the Fiscal Year 2016 rates would include continued funding for the Main Replacement Program, with construction to begin when the drought ends. Staff is requesting Council's direction on whether funding for the Water Main Replacement Program should be accelerated after the drought (Option 1) or continue during the drought (Option 2).

#### *Rates Based on Cost of Service*

Total revenue requirements, less revenue from other sources such as interest earnings and payments from other agencies that are provided services by City's Water Treatment Plant, are defined as the "cost of service." This cost is the basis for allocating costs to various customer classes by considering both the average and peak quantity of 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 cost associated with each of the City's diverse water sources differs. To provide affordable water for basic health and sanitation, and to sustain residential, parks and agricultural services, Tier 1 is allocated the least expensive water. The remaining, more expensive water is allocated to Tiers 2 and 3 because water use in these tiers is more discretionary, and is generally for outdoor water use, such as irrigating landscapes.

Pursuant to State law established by Proposition 218, a state constitutional amendment sometimes referred to as 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. Customers may protest the proposed increase. Staff is recommending that Council direct staff to mail the Proposition 218 rate notices to customers during the week of January 19, 2015, in preparation for a March 10, 2015 public hearing. The version to be mailed is pending Council's direction on funding for the Water Main Replacement Program (Option 1 vs. Option 2). Staff is also seeking Council's input on the content of the rate notice; specifically, on how the cost of the Desalination Plant is communicated. Additionally, staff is looking for any input the Council might have on the Drought Frequently Asked Questions (Attachment 3) document that will accompany the Rate Notice.

**BUDGET/FINANCIAL INFORMATION:**

The proposed drought water rates have been developed to meet the 20 percent 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, debt service margin, and operating costs. Additional funding will be needed to cover the cost of necessary drought-related capital projects. It is expected that reserves will be used for Capital Program expenses. As the drought condition changes, staff will re-assess the financial plan and water rates at that time.

**ATTACHMENT:** Attachment 1 – Draft Rate Notice  
(Option 1 - Delayed Funding for Main Replacement)  
Attachment 2 - Draft Rate Notice  
(Option 2 - Full Funding for Main Replacement)  
Attachment 3 – Frequently Asked Questions

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

**SUBMITTED BY:** Rebecca J. Bjork, Public Works Director

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



**NOTICE OF PUBLIC HEARING  
PROPOSED INCREASES IN CITY OF SANTA BARBARA WATER RATES FOR  
FISCAL YEAR 2016**

**Date:** **Tuesday, March 10, 2015, 2:00 p.m.**  
**Place:** **City of Santa Barbara Council Chambers, City Hall  
735 Anacapa Street, Santa Barbara**

**PARA INFORMACIÓN EN  
ESPAÑOL, LLAME AL  
(805) 564-5343.**

## PROPOSED CITY DROUGHT WATER RATES

You are receiving this Notice because our records indicate that you are a City of Santa Barbara water customer. This Notice describes the proposed water rate increases and explains how you can participate in the process.

During a drought, the City relies on its customers to conserve remaining water supplies through extraordinary measures. At the same time, the City faces increased costs to maintain essential water service, including more expensive capital and operating costs to increase water supplies from groundwater, water purchases and, potentially, desalination.

The City is proposing increased water rates to provide revenue needed to fund the costs of providing safe and reliable water service, even in times of drought.

### ***How were drought water rates determined?***

In 2013 the City’s water rate structure was revised based on a Rate Study that used a rate model to evaluate water rates. To account for financial impacts from the drought, the City has been working with an expert rate consultant to update the rate model. The 2015 updated model:

- Promotes extraordinary water conservation to reach at least a 20% City-wide reduction;
- Ensures revenue stability;
- Is fair and equitable; and
- Reflects the actual cost of service, as required by Proposition 218.

The rate model has been updated to reflect the cost of reactivating and operating the City’s Charles Meyer Desalination Facility (Desal). The final costs of reactivating Desal may be lower than the costs the City estimated for this rate notice. Actual water rates may be imposed at a lower rate than described in this notice, pending receipt of final project costs.

### ***How will the proposed changes impact my water bill?***

The water bill is made up of two key components: a volumetric charge (based on tiered water usage) and a fixed meter charge. The table below shows the maximum rate impacts for single-family homes with various levels of usage and a 5/8” meter. The next page shows maximum rates for all tiers of usage and meter sizes. Customers are encouraged to use the online water rate calculator to see how the new rates could impact their bill.

Usage Level	Monthly Usage (HCF)	Existing Bill	Proposed Bill	Difference
Low	4	\$27.34	\$36.93	\$9.59
Moderate	12	\$78.46	\$99.33	\$20.87
High	32	\$319.06	\$421.41	\$102.35

### Drought Update

Due to an extreme drought, with the driest three consecutive years in recorded history, City Council declared a Stage 2 Drought condition on May 20, 2014. This enacted mandatory water use restrictions and required a City-wide 20% reduction in water use.

Without significantly above average rainfall the winter of 2014/15 water shortages are expected. City Council is therefore considering additional mandatory restrictions and reactivation of the City’s Charles Meyer Desalination Facility in order to meet the City’s water supply needs (see enclosed Drought FAQs for more information).

The City continues to ask residents and businesses to reduce water use through extraordinary water conservation. Water Conservation Program staff is here to help. For assistance identifying water conservation opportunities, schedule a free water checkup by calling (805) 564-5460.

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

**TABLE 1 – PROPOSED MAXIMUM WATER RATE CHANGES (1 HCF (Hundred Cubic Feet) = 748 gallons.**

Customer Class	Tiers	Current (\$/HCF)	Proposed (\$/HCF)
<b>Single Family Residential</b>	First 4 HCF	\$3.28	\$3.38
	Next 12 HCF	\$6.39	\$7.80
	All other HCF	\$13.44	\$18.18
<b>Multi-Family Residential</b>	First 4 HCF (per dwelling unit)	\$3.28	\$3.38
	Next 4 HCF (per dwelling unit)	\$6.39	\$7.80
	All other HCF	\$13.44	\$18.18
<b>Commercial / Industrial</b>	100% of base allotment	\$5.32	\$5.72
	All other HCF	\$11.61	\$15.27
<b>Irrigation – Residential &amp; Commercial</b>	100% of monthly water budget*	\$6.39	\$7.80
	All other HCF	\$13.44	\$18.18
<b>Irrigation - Recreation/Parks/Schools</b>	100% of monthly water budget*	\$2.79	\$2.88
	All other HCF	\$13.44	\$18.18
<b>Irrigation – Agriculture</b>	100% of monthly water budget*	\$1.56	\$1.61
	All other HCF	\$13.44	\$18.18
<b>Recycled Water</b>	All HCF	\$2.24	\$2.31
<b>Outside City Limits</b>	Percentage of corresponding in-City rates	130%	

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

The monthly water budget for irrigation accounts is a calculation of Tier 1 allotment based on the property’s irrigated landscape area and the monthly watering needs of plants. Please call (805)564-5460 for further details.

**TABLE 2 – PROPOSED MAXIMUM MONTHLY METER CHARGES**

	5/8"	3/4"	1"	1 ½"	2"	3"	4"	6"	8"	10"
<b>Current</b>	\$14.22	\$20.23	\$32.23	\$62.24	\$98.25	\$212.28	\$380.32	\$782.43	\$1,442.60	\$2,282.82
<b>Proposed</b>	\$23.41	\$34.04	\$55.32	\$108.51	\$172.33	\$374.45	\$672.30	\$1,385.02	\$2,555.16	\$4,044.42

**How do I protest?**

If you wish to protest any of the above increases, please deliver your protest **signed and 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 March 10, 2015. (If you wish to submit your protest during the public hearing, please deliver it to City Staff in the Council Chambers). Protests are public records.

**When do the drought rates take effect?**

City Council will consider adopting drought rates on March 17, 2015 (one week after the public hearing). The new rates will be effective starting July 1, 2015. See enclosed Drought FAQs for more information.

**How do I stay informed?**

- **Attend** Public Meetings on February 18 & 26, 2015 at 6:00 PM, City of Santa Barbara Council Chambers
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# NOTICE OF PUBLIC HEARING PROPOSED INCREASES IN CITY OF SANTA BARBARA WATER RATES FOR FISCAL YEAR 2016

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**Place:** City of Santa Barbara Council Chambers, City Hall  
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<b>Proposed</b>	\$23.49	\$34.19	\$55.61	\$109.14	\$173.38	\$376.82	\$676.61	\$1,393.98	\$2,571.74	\$4,070.71

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## CITY OF SANTA BARBARA DROUGHT FAQs

### **When would the City declare a Stage 3 Drought condition?**

The City is currently experiencing its 4<sup>th</sup> year of a historic drought with record low rainfall. On May 20, 2014 the Santa Barbara City Council declared a Stage 2 Drought Condition. If drought conditions persist through the winter, the City will be prepared to declare a Stage 3 Drought condition in spring 2015.

### **What changes in a Stage 3 Drought?**

A Stage 3 Drought condition is the highest level of drought response, and includes consideration of increased drought water rates as justified by increased costs of service, additional regulations for water use during drought, and potential re-activation of the desalination facility.

### **How much does desalination cost?**

The capital costs to reactivate the plant capacity of 3,125 AFY are estimated to cost up to \$40 million. Annual operating costs are estimated to be about \$5 million at full production and about \$2.5 million in standby ready-state mode.

### **How will the desalination costs be financed?**

The City plans to take out a loan to finance reactivation of the desalination plant. Proposed drought water rates assume a loan (or bond) with 6 percent interest and 10 year payback period, which results in annual payments of approximately \$5.3 million. This is a conservative estimate in order to ensure that revenues will cover the cost of the loan. The City continues to pursue State loans to reduce impacts to ratepayers. If State funding is secured with a lower interest rate, the proposed City water rates will be reassessed to reflect actual terms of the loan.

### **Will the proposed water rates take effect if desalination is not reactivated?**

No, the proposed drought water rates are based on the need to reactivate the desalination facility, in preparation for continued drought conditions. Should the City receive sufficient rainfall to alleviate the drought condition and delay the need for desalination at this time, water rates will be reassessed prior to taking affect on July 1, 2015.

### **How much rain do we need to postpone the decision on desalination?**

Average rainfall in the Santa Ynez River watershed providing runoff to Lake Cachuma is approximately 25 inches. To postpone the decision on desalination, above average rainfall would be needed. As a frame of reference, Gibraltar Reservoir, also located along the Santa Ynez River, would need to fill and spill in order to postpone the decision on desalination by another year. For the City's drought condition to be considered over, Cachuma Reservoir would need to fill and spill.

### **Why isn't the City currently requiring more than 20 percent demand reduction?**

During periods of drought, the City's adopted 2011 Long-Term Water Supply Plan calls for planned immediate demand reductions of no more than 10-15 percent. Due to the current historic State-wide drought, the City has increased the requirement for immediate demand reduction to 20 percent. Given that the duration of the drought is unknown, the City aims to limit the level of extended water shortage to no more than 20 percent annually due to potential unknown impacts to community assets, such as trees and other established landscaping, and the health of the local economy.

While the City is aiming to limit the level of extended water shortage in its drought water supply planning, additional demand reductions beyond 20 percent may be necessary. These higher levels of required demand reductions are typically reserved for shorter duration emergency periods and may be necessary if the supply outlook worsens (e.g. planned supplies are not available), or if the community does not consistently meet the 20 percent demand reduction, requiring additional monthly savings to achieve the annual goal. The City currently has sufficient supplies for 2015 as long as the community continues to meet the requirement of 20 percent demand reduction.

### **What percentage of the City's water supply will the desalination plant provide?**

Based on the City's 2011 Long-Term Water Supply Plan, the City would use the facility as a drought relief measure at a capacity of 3,125 acre feet per year (AFY), which is approximately 20 percent of average annual demands

under normal weather conditions. If the desalination plant is reactivated, extraordinary water conservation from residents and businesses will remain critical to meeting water demands.

**When could we start receiving water supply from desalination?**

While the core infrastructure has been maintained, the desalination facility has been inactive for 22 years. Since desalination technology has changed considerably over the past two decades, it is currently estimated that it will take a little over one year to reactivate the plant (for design and construction). If a contract to reactivate the plant is awarded in April 2015, water supply from the desalination plant is anticipated by summer of 2016.

**Can the desalination plant be expanded?**

Yes. The City’s permits and the basic infrastructure of the facility allow for up to 10,000 AFY of water production capacity. The original plant constructed in 1991 had 7,500 AFY of treatment capacity. Current proposed water rates assume reactivation at a plant capacity of 3,125 AFY. An expanded plant capacity for the City’s water supply would require additional water rate increases.

**Is the desalination plant a regional facility?**

When the temporary desalination plant was constructed in 1991, Montecito Water District and Goleta Water District were partners in the project. In order to make the facility a permanent water supply, an extensive environmental review and permitting process was required. At that time, Goleta and Montecito declined to participate. The City of Santa Barbara completed the permitting process in the 1990s. The City is the sole owner of the plant and has continued to renew its permits over the years. If other agencies participate in the reactivation process, it could require additional permitting and possibly delay reactivation beyond City needs in the current drought.

**What would be the alternative if the desalination plant is not reactivated?**

Severe drought is a recurring issue for the Santa Barbara area. Knowing this, the City’s 1994 Long-Term Water Supply Program included conversion of the temporary emergency facility to a permanent part of our water supply. This was accomplished in 1996 with approvals by the City’s Planning Commission and the California Coastal Commission, as well as continuing inclusion of the desalination facility’s brine discharge as a component of the City’s El Estero Wastewater Treatment Plant discharge permit. Accordingly, the City expects that reactivation of the plant can be accomplished. If, for some reason, this does not occur and the drought continues, the City would make efforts to increase supplemental imported water purchases; however, the availability and price of water purchase opportunities is uncertain, and there are environmental and capacity constraints that could limit actual delivery of imported water. Further demand reductions would likely also be required, with potential significant impacts to the City’s permanent landscape resources and the local economy.

**Will the desalination plant be operated after the drought?**

Over the years, treatment technology has significantly improved requiring less energy and allowing longer periods of inactivity without deterioration. Therefore, the City does not expect to put the reactivated facility back into long-term storage mode after the current drought. Instead, the plant would be minimally operated to keep it in a ready-state standby mode for future droughts or other supply emergencies.

**What can I do to make sure I am doing my part to reduce my water usage?**

The City can help you evaluate water usage both indoor and out with a free Water Checkup. Make sure you only water your garden when needed and use drip irrigation or high-efficiency nozzles. Use your water meter to check for leaks on a regular basis and make sure you have high-efficiency appliances and plumbing fixtures. For more information on conservation programs visit [www.SantaBarbaraCA.gov/WaterWise](http://www.SantaBarbaraCA.gov/WaterWise) or call (805) 564-5460.

**THE CITY WILL BE HOSTING TWO PUBLIC MEETINGS TO DISCUSS DROUGHT ISSUES:**

**WEDNESDAY, FEBRUARY 18, 2015 AT 6:00 PM AND THURSDAY, FEBRUARY 26, 2015 AT 6:00 PM**

**BOTH MEETINGS WILL BE HELD AT:**

**CITY OF SANTA BARBARA COUNCIL CHAMBERS  
735 ANACAPA STREET, SANTA BARBARA, CA 93101**

**FOR MORE INFO ABOUT THE CITY’S WATER SUPPLY AND DESALINATION VISIT:**

**[WWW.SANTABARBARACA.GOV/WATER](http://WWW.SANTABARBARACA.GOV/WATER)**



# Drought Water Rates

Council  
January 13, 2015

# Outline

- ◆ Goals of Rate Study
- ◆ Desal Expenses and Financial Plan
- ◆ Projected Water Use
- ◆ Proposed Rates
- ◆ Public Outreach
- ◆ Additional Study Scope
- ◆ Council Action

# Goals of Rate Study

- ◆ Provide sufficient revenue for:
  - Water Operating & Capital needs
  - Drought-related projects
  - Desalination Plant
- ◆ Distribute costs consistent with Prop 218 requirements
- ◆ Incentivize Water Conservation

# Schedule

- Aug 2014: Initiate Rate Study & Preliminary Input from Water Commission (WC)
- Sep-Jan: WC and Council Policy Input
-  Jan 2015: Present Proposed Rates; Prop 218 Noticing
- Mar 2015: Tentative Adoption of Rates
- May 2015: Consider Stage 3 Declaration and Reactivation of the Desal Plant
- July 2015: Rates Take Effect

# Rate Study Policy Input

- ✓ ◆ Loan payback period
- ✓ ◆ Length of time operating at production capacity
- ✓ ◆ Reserves management
- ✓ ◆ Portion of revenue in monthly fixed charges
- ✓ ◆ Single Family Tier 2 allotment
- ◆ Main Replacement funding during drought?
- ◆ How to advise customers of desal rate impacts?

# Cost of Desalination

- ◆ Plant Capacity: 3,125 AFY
- ◆ Rate Study Assumptions:
  - \$40 M capital cost
    - 10 year payback at ~6% interest
    - \$5.3 million per year
  - \$5.2 M operating cost (full production)
  - \$2.5 M operating cost (standby mode)

# Main Replacement Funding

- ◆ Council policy is to replace an average of 1% of water system annually
  - \$4.7 million per year
- ◆ Options:
  - Defer funding during drought and increase funding later to “catch up”
  - Maintain full funding for program but defer project work

# Financial Plan with Deferred Funding

Parameter	Projected				
	FY15	FY16	FY17	FY18	FY19
Capital	7.7	11.5	6.3	10.0	9.1
Operating	33.4	34.2	35.4	35.5	37.0
Debt Service	5.1	5.1	10.4	10.4	10.4
<b>Total Expenditures</b>	<b>46.2</b>	<b>50.8</b>	<b>52.1</b>	<b>55.9</b>	<b>56.5</b>
<b>Total Revenue</b>	<b>39.0</b>	<b>50.6</b>	<b>52.9</b>	<b>57.8</b>	<b>61.3</b>
Reserves Funding	(7.2)	(0.2)	0.8	1.9	4.9
Revenue Increase	6%	30%	5%	9%	6%

All values in million of dollars, except as noted (%).

\*Average FY20-22 capital expenditures ~ \$9.6 million

# Financial Plan with Full Funding

Parameter	Projected				
	FY15	FY16	FY17	FY18	FY19
Capital	7.7	15.0	8.9	10.6	7.3
Operating	33.4	34.2	35.4	35.5	37.0
Debt Service	5.1	5.1	10.4	10.4	10.4
<b>Total Expenditures</b>	<b>46.2</b>	<b>54.3</b>	<b>54.7</b>	<b>56.5</b>	<b>54.7</b>
<b>Total Revenue</b>	<b>39.0</b>	<b>54.3</b>	<b>55.5</b>	<b>58.4</b>	<b>59.6</b>
Reserves Funding	(7.2)	(0.0)	0.8	1.9	4.9
Revenue Increase	6%	39%	2%	5%	2%

All values in million of dollars, except as noted (%).

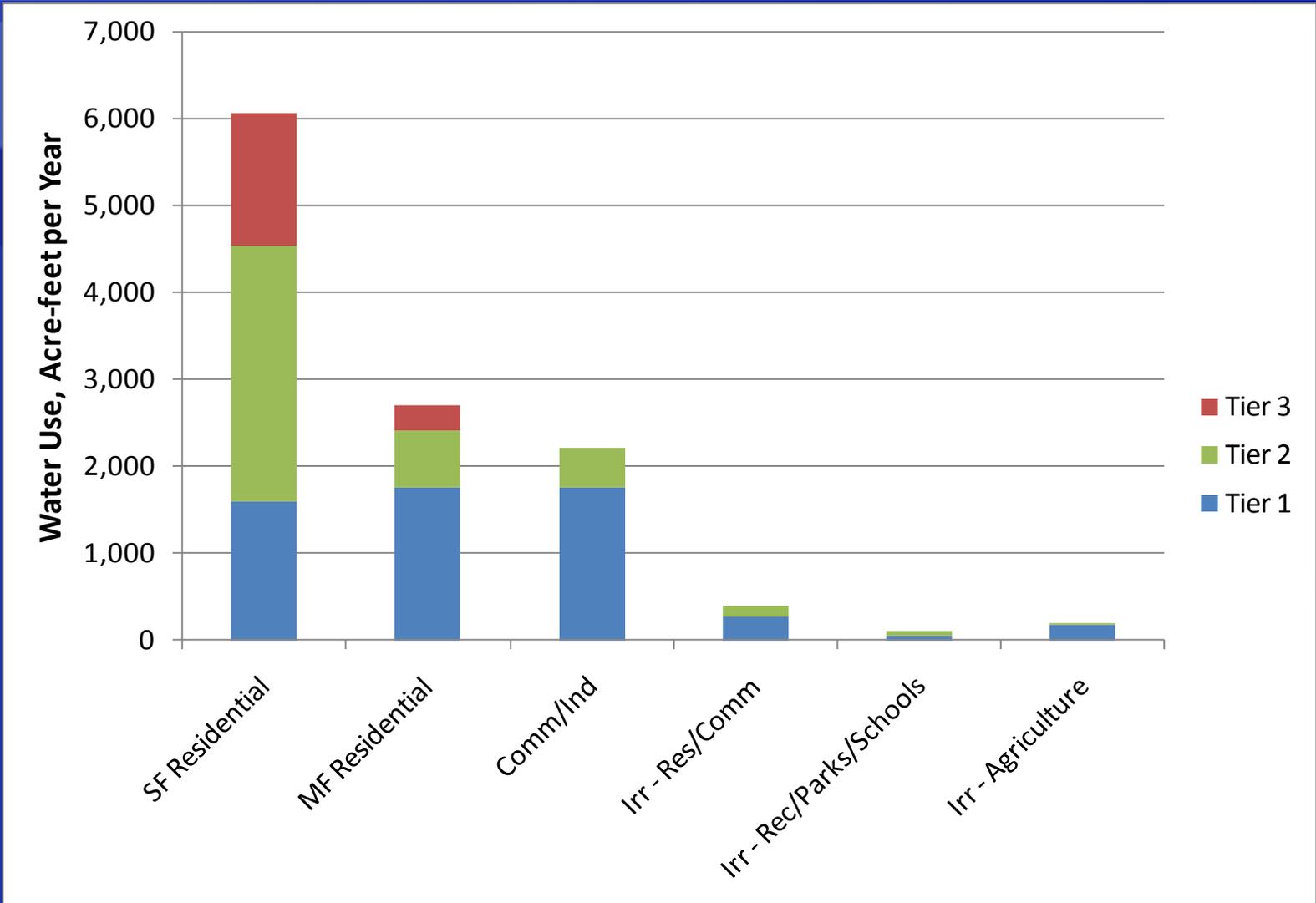
\*Average FY20-22 capital expenditures ~ \$7.2 million

# Reserve Balance

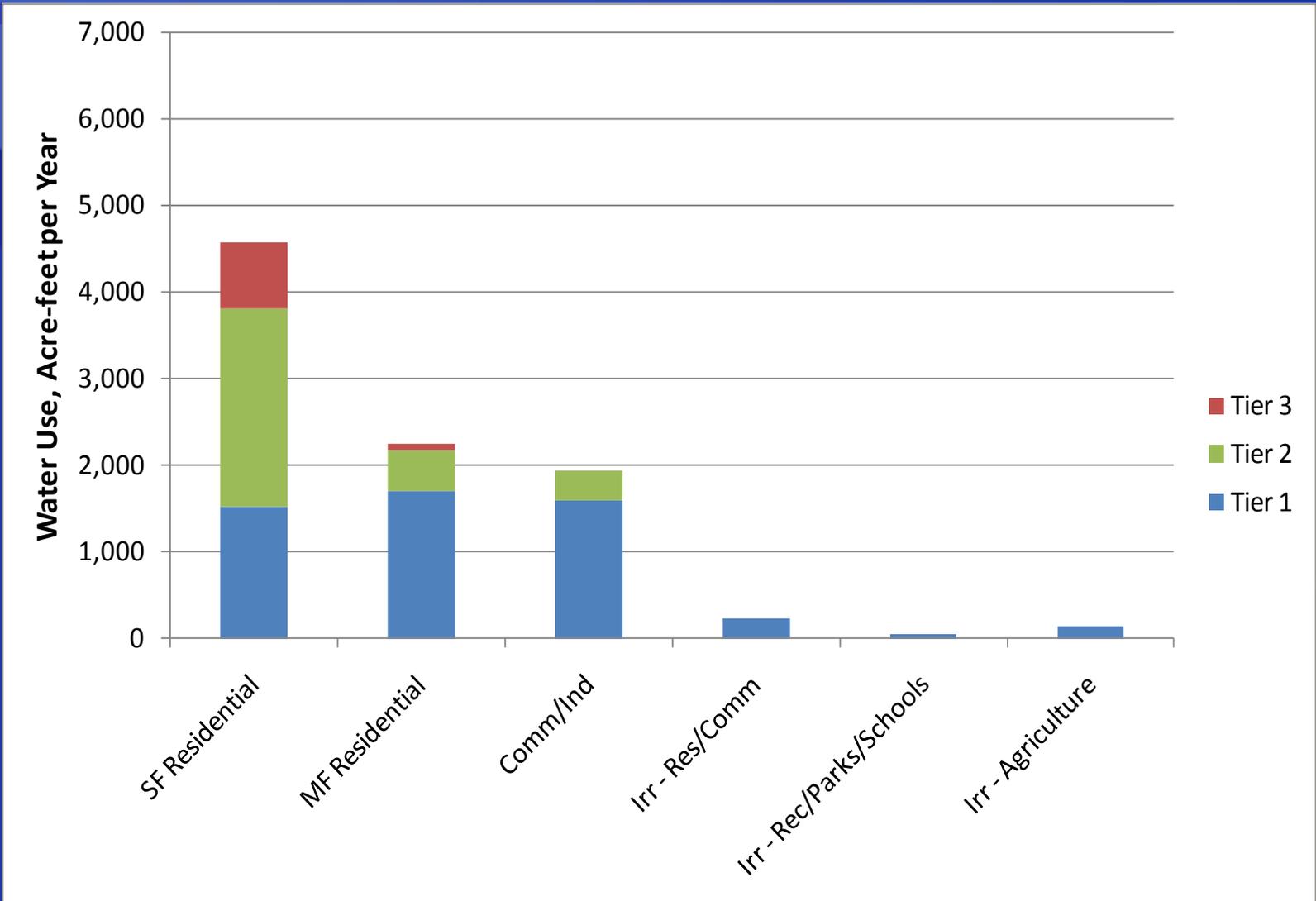
Parameter	Projected			
	FY15	FY16	FY17	FY18
Reserve Balance (Ending Balance)	19.5	19.3	20.1	22.0
Reserve Policy Requirements	16.8	18.9	17.6	18.6
Surplus/Deficit	2.7	0.4	2.5	3.4

\*All values in million of dollars.

# Projected Water Use (Normal)



# Projected Water Use (20% reduction)



# Proposed Rates with Deferred Main Replacement Funding

Meter Size	Current	Proposed			Difference from Current
		Non-Desal	Desal	Total	
5/8"	\$14.22	\$14.22	\$9.19	\$23.41	\$9.19
3/4"	\$20.23	\$20.27	\$13.77	\$34.04	\$13.81
1"	\$32.23	\$32.38	\$22.94	\$55.32	\$23.09
1 1/2"	\$62.24	\$62.63	\$45.88	\$108.51	\$46.27
2"	\$98.25	\$98.92	\$73.41	\$172.33	\$74.08

# Proposed Water Rates with Deferred Main Replacement Funding

Volumetric Water Rates		Current	July 2015	Change
<b>SFR</b>				
Tier 1	First 4 hcf	\$3.28	\$3.38	+\$0.10
Tier 2	Next 12 hcf	\$6.39	\$7.80	+\$1.14
Tier 3	All other hcf	\$13.44	\$18.18	+\$4.74
<b>MFR</b>				
Tier 1	First 4 hcf	\$3.28	\$3.38	+\$0.10
Tier 2	Next 4 hcf	\$6.39	\$7.80	+\$1.14
Tier 3	All other hcf	\$13.44	\$18.18	+\$4.74
<b>Commercial/Industrial</b>				
Tier 1	Base allotment	\$5.32	\$5.72	+\$0.40
Tier 2	All other hcf	\$11.61	\$15.27	+\$3.66

hcf: hundred cubic feet

# Proposed Water Rates with Deferred Main Replacement Funding

Volumetric Water Rates		Current	July 2015	Change
<b>Irrigation – Residential/Commercial</b>				
Tier 1	100% of allocation	\$6.39	\$7.80	+\$1.41
Tier 2	All other hcf	\$13.44	\$18.18	+\$4.74
<b>Irrigation – Recreation/Parks/Schools</b>				
Tier 1	100% of allocation	\$2.79	\$2.88	+\$0.09
Tier 2	All other hcf	\$13.44	\$18.18	+\$4.74
<b>Irrigation – Agriculture</b>				
Tier 1	100% of allocation	\$1.56	\$1.61	+\$0.05
Tier 2	All other hcf	\$13.44	\$18.18	+\$4.74
<b>Recycled Water</b>		\$2.24	\$2.31	+\$0.07
<b>Outside City Limits</b>		130%	130%	

hcf: hundred cubic feet

# Proposed Water Rates with Full Main Replacement Funding

- ◆ Main replacement funded through fixed meter charge, subject to constraints
- ◆ Compliance with California Urban Water Conservation Council (CUWCC) Best Management Practices (BMPs)
  - No more than 30% of revenue in fixed meter charge

# Proposed Rates with Full Main Replacement Funding

Meter Size	Current	Proposed			Difference from Current
		Non-Desal	Desal	Total	
5/8"	\$14.22	\$14.31	\$9.18	\$23.49	\$9.27
3/4"	\$20.23	\$20.42	\$13.77	\$34.19	\$13.96
1"	\$32.23	\$32.67	\$22.94	\$55.61	\$23.38
1 1/2"	\$62.24	\$63.26	\$45.88	\$109.14	\$46.90
2"	\$98.25	\$99.97	\$73.41	\$173.38	\$75.13

# Proposed Water Rates with Full Main Replacement Funding

Volumetric Water Rates		Current	July 2015	Change
<b>SFR</b>				
Tier 1	First 4 hcf	\$3.28	\$4.20	+\$0.92
Tier 2	Next 12 hcf	\$6.39	\$8.51	+\$2.12
Tier 3	All other hcf	\$13.44	\$18.59	+\$5.15
<b>MFR</b>				
Tier 1	First 4 hcf	\$3.28	\$4.20	+\$0.92
Tier 2	Next 4 hcf	\$6.39	\$8.51	+\$2.12
Tier 3	All other hcf	\$13.44	\$18.59	+\$5.15
<b>Commercial/Industrial</b>				
Tier 1	Base allotment	\$5.32	\$6.53	+\$1.21
Tier 2	All other hcf	\$11.61	\$15.24	+\$3.63

hcf: hundred cubic feet

# Proposed Water Rates with Full Main Replacement Funding

Volumetric Water Rates		Current	July 2015	Change
<b>Irrigation – Residential/Commercial</b>				
Tier 1	100% of allocation	\$6.39	\$8.51	+\$2.12
Tier 2	All other hcf	\$13.44	\$18.59	+\$5.15
<b>Irrigation – Recreation/Parks/Schools</b>				
Tier 1	100% of allocation	\$2.79	\$3.70	+\$0.91
Tier 2	All other hcf	\$13.44	\$18.59	+\$5.15
<b>Irrigation – Agriculture</b>				
Tier 1	100% of allocation	\$1.56	\$2.43	+\$0.87
Tier 2	All other hcf	\$13.44	\$18.59	+\$5.15
<b>Recycled Water</b>		\$2.24	\$2.96	+\$0.72
<b>Outside City Limits</b>		130%	130%	

hcf: hundred cubic feet

# Summary of SFR Monthly Bill

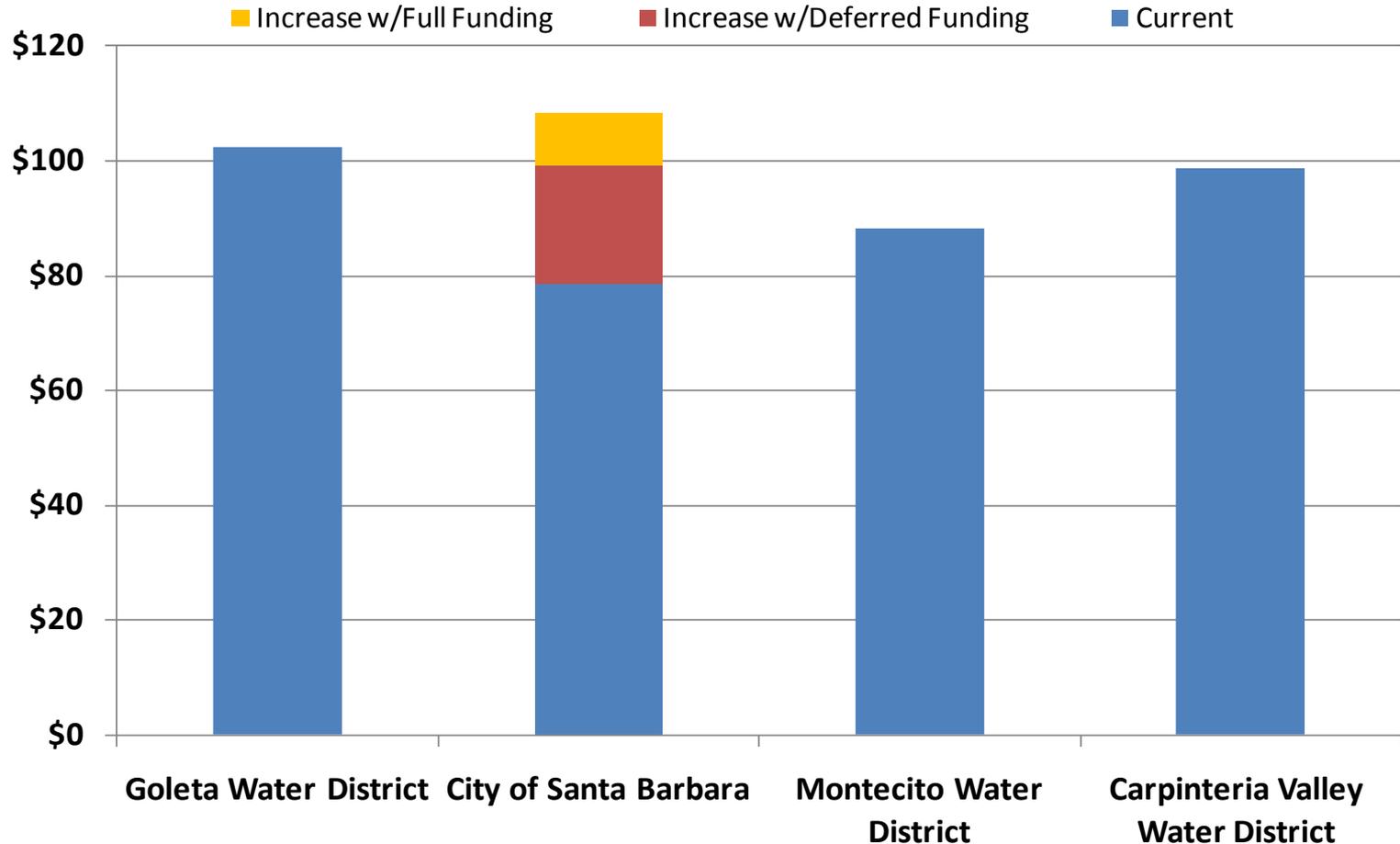
Usage Level	Monthly Usage, HCF	Existing	Proposed: Deferred Main Replacement Funding	Proposed: Full Main Replacement Funding
Low	4	\$27.34	\$36.93	\$40.29
Average	12	\$78.46	\$99.33	\$108.37
High	32	\$319.06	\$421.41	\$439.85

HCF: hundred cubic feet

# Rate Comparison

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

Calculated based on July 2015 rates posted on agency websites



# Communicating Rate Increases

- ◆ Considered showing desal separately
- ◆ Example:

Volumetric Water Rates		Current	July 2015			Change
			Non Desal	Desal	Total	
<b>SFR</b>						
Tier 1	First 4 hcf	\$3.28	\$4.20	\$0.00	\$4.20	+\$0.92
Tier 2	Next 12 hcf	\$6.39	\$7.36	\$1.15	\$8.51	+\$2.12
Tier 3	All other hcf	\$13.44	\$16.30	\$2.29	\$18.59	+\$5.15

# Communicating Rate Increases

- ◆ Rate notice shows total rate increase, with explanation the rates include desal
- ◆ Example:

Volumetric Water Rates		Current	July 2015	Change
<b>SFR</b>				
Tier 1	First 4 hcf	\$3.28	\$4.20	+\$0.92
Tier 2	Next 12 hcf	\$6.39	\$8.51	+\$2.12
Tier 3	All other hcf	\$13.44	\$18.59	+\$5.15

# Communicating Rate Increases

- ◆ Rate Notice
- ◆ Website
  - Proposed rates, and detailed information on desal component of rates
- ◆ Public Information Meetings:
  - February 18<sup>th</sup> at 6:00 pm, Council Chambers
  - February 26<sup>th</sup> at 6:00 pm, Council Chambers
- ◆ Monthly billing
  - Include messaging about desal component in rates

# Additional Consultant Scope

- ◆ Rate Study
  - Main Replacement Funding Scenarios
  - Adjust rates to reflect actual cost of desalination
  - Assess rates based on projected FY16 budget and reserves
- ◆ Connection Fees
  - Review multi-family residential fees

# Council Action

- ◆ Provide direction on water rates
- ◆ Set public hearing date for March 10, 2015
- ◆ Direct staff to send water rate increase notices
- ◆ Authorize Public Works Director and City Attorney to increase in Raftelis Contract by \$35,000

# End of Presentation