



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** July 14, 2015

**TO:** Mayor and Councilmembers

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

**SUBJECT:** Contract For Wastewater Rate Study

### **RECOMMENDATION:**

That Council authorize the Public Works Director to execute a Professional Services contract with Raftelis Financial Consultants, Inc., in the amount of \$38,451, to provide a wastewater rate study for the City of Santa Barbara, and approve expenditures of \$3,845 for extra services that may result from necessary changes in the scope of work, for a total of \$42,296.

### **DISCUSSION:**

Wastewater utilities are dependent on user rates to fund most of the operations, maintenance, and capital improvements needed to keep utilities functioning reliably and in compliance with federal and state regulations. Wastewater rates were last reviewed by Raftelis Financial Consultants, Inc., (Raftelis) in 2013. Rate studies are recommended to be conducted at least every ten years. Due to drought-related revenue impacts to the Wastewater Fund, it is important to develop a rate structure now, providing a more stable source of revenues to maintain the fiscal health of the wastewater utility.

The City has a long standing approach of multi-year capital planning to identify and prioritize infrastructure needs. Using the projected capital needs, staff can develop an understanding of what level of revenues is needed to accomplish the required work.

Wastewater funding is challenging because the infrastructure is aging and requires increasing levels of investment. Additionally, due to increased conservation, wastewater flows are declining, which means that, for the near future, the City does not have to spend significant capital funds to add capacity at the El Estero Wastewater Treatment Plant. Because most of the operating costs of wastewater utilities are fixed costs and increase with inflation, rate payers will see increasing bills, even if their system usage is declining.

The work to be performed under the recommended contract is to evaluate the City's current wastewater rate structure based upon recent drought-related revenue losses, develop an updated rate structure, and assist the City in reviewing and updating its current cost allocation between user categories. As a part of this review, Raftelis will be asked to recommend a revenue plan that minimizes impacts on rate payers and provides sufficient revenues to accomplish the required capital work.

Raftelis was originally selected through a competitive Request for Proposal process. It has extensive experience providing rate review and recommendations for water utilities in Southern California. Given the importance of rate setting for proper cost allocation between user categories and ultimate water conservation, this local expertise is important. This work will also be integrated into a comprehensive financial modeling software that Raftelis has provided to the City under a previous contract. With updated wastewater rate analysis and wastewater user category cost allocation information, the City will be able to use this financial modeling software for wastewater utility financial planning going forward.

**BUDGET/FINANCIAL INFORMATION:**

Funding for this study was included in the Fiscal Year 2016 budget.

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

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

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