



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: April 12, 2016

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Proposed Fiscal Year 2017 Water Rates

RECOMMENDATION: That Council:

- A. Hear a presentation on the proposed Fiscal Year 2017 Water Rates;
- B. Set a Public Hearing date for June 14, 2016, at 2:00 PM, in the Council Chambers for Council's consideration of increases in City water rates for Fiscal Year 2017; 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 November 24, 2015, Council authorized the Public Works Director to execute a City Professional Services contract with Raftelis Financial Consultants, Inc. (Raftelis), for the development of proposed Fiscal Year (FY) 2017 Water Rates.

Pursuant to California Proposition 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 a public hearing. Staff is recommending mailing the Proposition 218 rate notices to customers by April 18, 2016, in preparation for a June 14, 2016 public hearing.

The proposed FY 2017 Water Rates have been developed in preparation for continued extreme drought conditions. Continued drought conditions will result in drought related expenses for supplemental water purchases, conveyance of State Water through Lake Cachuma, and extended full-production operation of the Charles E. Meyer Desalination Facility. In addition, the proposed FY 2017 Water Rates are have been developed based on a projected Citywide 35 percent conservation level from pre-drought water use.

Revenues

On a long-term basis, revenues must be sufficient to meet the cost of the water system, including 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 2017 with the drought-related costs, increased water rates and some use of reserves will be needed.

Staff recommends rates be increased sufficient to generate 21% more revenues from water sales compared to revenues generated from current rates to meet most of the ongoing costs, including capital, of the Water Fund. In addition, in order to reduce the impacts to ratepayers, staff recommends the use of approximately \$4.7 million of reserves for FY 2017 to cover the balance of expected costs. The Council policy reserves target for FY 2018 is \$18.7 million; at the end of FY 2017, it is expected that the Water Fund reserve balance will be \$5.8 million below Council policy.

However, since the drought was declared in 2014, the City has postponed water system capital projects to reduce cost impacts of the drought to customers. Prior to FY 2017 Water Rates adoption, staff will again return to Council to identify any additional projects or programs that can be cut during the drought emergency, if possible, to minimize use of reserves and still provide safe and reliable water service.

Rates Based on Proposition 218 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 of service is used as the basis for allocating costs to various customer classes by considering both the average quantity of water usage and peak capacity for water usage. Rates are designed to ensure that customers pay their proportionate share of costs, based on the cost of service to supply water. The water supply costs associated with each of the City's diverse water sources differ. The lowest-cost water sources are allocated to Tier 1 customers, and the more expensive water sources are allocated to Tier 2 and 3 customers, as water supplies are limited and higher water use is generally for discretionary purposes beyond basic health and sanitation needs.

The table below shows an example water bill for single-family homes based on various levels of usage and a 5/8" meter. The table represents the total monthly bill, which is made up of separate fixed and volumetric components.

Usage Level	Monthly Usage (HCF)	Existing Bill	Proposed Bill	Difference
Low	4	\$40.29	\$44.06	\$3.77
Moderate	10	\$91.35	\$121.88	\$30.53
High	20	\$216.77	\$296.78	\$80.01

HCF: Hundred Cubic Feet (1 HCF = 748 gallons)

California Urban Water Conservation Council Guidelines

The City is a leader in water conservation and has designed its rate structure in accordance with State guidelines. The California Urban Water Conservation Council requires that 30 percent or less of total revenue be recovered from fixed charges. Most water bills are made up of two key components: (1) a volumetric charge, based on water usage, and (2) a fixed monthly service charge, based on meter capacity. Even though the majority of costs to maintain and operate the water system infrastructure are fixed expenses, the City's water rate structure is designed in accordance with State guidelines to minimize increases to fixed charges and collect the majority (70 percent or more) of revenue through volumetric charges, which are dependent on water usage. This gives customers the most opportunity to reduce their water bill by decreasing water usage.

The City encourages customers to reduce their water use during the historic drought, and preserve limited remaining water supplies. However, should actual water use be significantly lower than the 35 percent reduction from normal (pre-drought) water use, which would result in lower revenue from volumetric rates than required to meet obligations, the City will need to make adjustments in order to ensure the Water Fund meets fixed financial obligations (e.g. debt service, required maintenance, etc.), which are incurred regardless of how much water is used.

Debt Coverage Ratio

The City's Water Fund parity debt obligations contain a covenant that rates must be set at a level which is sufficient to generate revenue to maintain a debt coverage ratio of 125 percent of total debt service on all parity obligations. The debt coverage ratio is calculated by dividing the net operating revenue by the total debt service. The proposed FY 2017 Water Rates have been developed with a rate model that shows the City will meet its debt coverage requirements based on projected water use, revenues, and operating expenses.

Should actual water usage and revenues be significantly lower than projections used in the rate model, the City could be at risk of not meeting its debt coverage ratio. Staff will be monitoring revenue and operating expenses closely in FY 2017 to ensure that all debt coverage requirements are met.

It should be noted that the community conservation has been approximately 34 percent, cumulatively, since the Stage Three Emergency Declaration in May 2015. This extraordinary conservation has helped to preserve remaining water supplies and avoid more costly drought supplies, such as expansion of the desalination facility, for at least one more year. It is important that current conservation levels of 35 percent continue to be achieved should extreme drought conditions continue.

BUDGET/FINANCIAL INFORMATION:

The proposed FY 2017 Water Rates have been developed assuming a 35 percent City-wide demand reduction from pre-drought water use, 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. Staff will be closely monitoring actual water use, revenues, and debt coverage projections to ensure the City meets its debt coverage obligations in FY 2017. If the drought condition changes (either improves or worsens), staff will re-assess the financial plan and water rates at that time.

ATTACHMENT: Proposed Fiscal Year 2017 Water Rate Notice

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 CHANGES TO CITY OF SANTA BARBARA WATER RATES FOR FISCAL YEAR 2017

Date: Tuesday, June 14, 2016, 2:00 p.m.
Place: City of Santa Barbara Council Chambers, City Hall
 735 Anacapa Street, Santa Barbara

PROPOSED CITY FISCAL YEAR 2017 WATER RATES

You are receiving this Notice because our records indicate that you are a City of Santa Barbara utility customer.
 If you are *not* a City water customer, please disregard this Notice.

This Notice describes proposed water rate increases and explains how you can participate in the process. The City’s water rate structure is based on a comprehensive rate study that used a rate model to evaluate cost of service, as required by Proposition 218.

Why are water rates increasing?

- This winter’s rainfall brought very little water to local reservoirs and the City remains in an extreme and historic drought condition.
- Due to the drought, the City faces increased costs to provide additional water supplied from desalination, ground-water, and supplemental water purchases conveyed through the State Water Project and Lake Cachuma.
- The City relies on its customers to practice extraordinary conservation to preserve remaining water supplies. The proposed rates assume a 35% reduction from normal water use.
- Adjustments to water rates are necessary to generate revenue to pay for increased costs and financial impacts incurred due to extreme drought conditions.

Will the new water rates cover projected costs?

The proposed water rates are not anticipated to cover all projected costs. The City plans to use reserves to make up the difference between revenue generated and the cost for service, and will postpone capital projects that can be delayed.

How will the proposed changes impact my water bill?

Customers are encouraged to use the online water rate calculator to see how the new rates could impact their bill. The table below shows the maximum water bill for single-family homes based on various levels of usage and a 5/8” meter. The table represents the total bill, which is made up of separate components shown on the next page.

Usage Level	Monthly Usage (HCF)	Existing Bill	Proposed Bill	Difference
Low	4	\$40.29	\$44.06	\$3.77
Moderate	10	\$91.35	\$121.88	\$30.53
High	20	\$216.77	\$296.78	\$80.01

The average single family home uses 9 HCF per month and would see their water bill increase from \$82.84 to \$108.91, reflecting a difference of \$26.07 and an increase of 31%.

Please note, the rates included in this Notice are the highest possible rates that could go into effect July 1, 2016.

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

Most water bills are made up of two key components: (1) a volumetric charge based on water usage, and (2) a fixed monthly service charge based on meter size. The City's rate structure is designed in accordance with California Urban Water Conservation Council Best Management Practices, which incentivize conservation by limiting the amount of revenue recovered from fixed charges.

TABLE 1 – PROPOSED MAXIMUM VOLUMETRIC CHARGES
All rates are in \$/HCF. (1 HCF [Hundred Cubic Feet]= 748 gallons)

Customer Class	Tiers	Current	Proposed
Single Family Residential	First 4 HCF	\$4.20	\$4.89
	Next 12 HCF	\$8.51	\$12.97
	All other HCF	\$18.59	\$24.27
Multi-Family Residential	First 4 HCF (per dwelling unit)	\$4.20	\$4.89
	Next 4 HCF (per dwelling unit)	\$8.51	\$12.97
	All other HCF	\$18.59	\$24.27
Commercial/ Industrial	100% of base allotment	\$6.53	\$7.88
	All other HCF	\$15.24	\$23.94
Irrigation – Residential & Commercial	100% of monthly water budget*	\$8.51	\$12.97
	All other HCF	\$18.59	\$24.27
Irrigation - Recreation/Parks/Schools	100% of monthly water budget*	\$3.70	\$3.77
	All other HCF	\$18.59	\$24.27
Irrigation – Agriculture	100% of monthly water budget*	\$2.43	\$3.42
	All other HCF	\$18.59	\$24.27
Recycled Water	All HCF	\$2.96	\$3.02
Outside City Limits	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.

TABLE 2—PROPOSED MAXIMUM FIXED MONTHLY SERVICE CHARGES

	5/8"	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"
Current	\$23.49	\$34.19	\$55.61	\$109.14	\$173.38	\$376.82	\$676.61	\$1,393.98	\$2,571.74	\$4,070.71
Proposed	\$24.50	\$35.60	\$57.80	\$113.29	\$179.89	\$390.77	\$701.54	\$1,445.18	\$2,666.07	\$4,219.93
Outside City Limits - 130% of corresponding in-City rates										

TABLE 3—PROPOSED MAXIMUM FIXED MONTHLY PRIVATE FIRE SERVICE CHARGES (IF REQUIRED AND APPLICABLE)

	1"	1 1/2"	2"	4"	6"	8"	10"	12"
Current	NA	NA	\$4.67	\$17.31	\$46.06	\$95.59	\$170.12	\$273.42
Proposed	\$2.76	\$3.64	\$5.16	\$19.99	\$53.67	\$111.77	\$199.17	\$320.29
Outside City Limits - 130% of corresponding in-City rates								

How do I protest?

If you wish to protest any of the above increases, please deliver your protest **in writing and signed**, 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 14, 2016**. (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 **June 21, 2016** (one week after the public hearing). The new rates will be **effective starting July 1, 2016**.

How do I stay informed?

- **Watch** City Council meetings live online at SantaBarbaraCA.gov/CityTV or tune in to City-TV Channel 18
- **Explore** updated information on drought conditions, conservation, and rates at SantaBarbaraCA.gov/Water
- **Contact** City staff at (805) 564-5460. Para información en Español, llame al (805) 564-5342.
- **Attend** City Council meetings; City of Santa Barbara Council Chambers, City Hall, 735 Anacapa St., Santa Barbara