



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: August 9, 2016

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Fiscal Year 2017 Water Rates Public Hearing And Adoption of Resolution Amending a Portion of Resolution No. 16-044 Establishing Water Rates and Fees

RECOMMENDATION: That Council:

- A. Hold the continued public hearing for Fiscal Year 2017 water rates from June 14, 2016; and
- B. Adopt, by reading of title only, a Resolution of the Council of the City of Santa Barbara Amending a Portion of Resolution No. 16-044 Adopted by the City Council on June 21, 2016, and Establishing Certain Water Service Rates, Fixed Monthly Charges and Metered Volumetric Charges.

DISCUSSION:

As presented to Council during the Fiscal Year 2017 budget development, staff is recommending increases in water rates for Fiscal Year 2017. Proposition 218, approved by California voters in 1996, requires that customers of a utility be notified of proposed rate increases through the agency's regular billing statement or by direct mail sent to the billing address, and that a public hearing be held prior to the adoption of the rate increases. A rate increase can be adopted unless a majority of the customers submit a written protest. Accordingly, the notices for the public hearing were mailed to water customers in April 2016 (See Attachment 1). The notices were also posted on the City's website and emailed to e-bill customers. A copy of the proposed changes to water rates was provided to the City Clerk's office on July 28, 2016, for public review. As of August 4, 2016, one (1) written protest has been received. Adopted rates may be lower than proposed rates noticed to customers, but cannot be higher than noticed rates.

On June 14, 2016, Council opened the public hearing and decided to continue the public hearing to August 9, 2016, for further refinement of the water rates model.

Water Rate Model Refinements

Fiscal Year 2017 includes the start of the sixth year of what is the new drought of record. Water supplies this fiscal year are planned to be dramatically different than past years, with the absence of key local supplies such as Cachuma and Gibraltar reservoirs.

The public hearing was moved to August 9, 2016, to allow sufficient time to confirm that the proposed rates are in alignment with Proposition 218, and consistent with the priorities established by Council in previously adopted water rates. Water rates for metered volumetric charges consist of several components. One of the components is the supply unit cost, which is established for tiered water rates by allocating the City's potable water sources to customer classes and tiers, based on priorities. The priority levels summarized in Attachment 2 have been used for the development of revised Fiscal Year 2017 water rates, which are consistent with water rates previously adopted by Council.

Water rate notices, required by Proposition 218, were mailed in April 2016. The proposed water rates have been revised to reflect the supply allocation priorities. The revised rates proposed for adoption are the same as the noticed rates (Attachment 1), except that the proposed volumetric rate per hundred cubic feet (HCF) for Residential Tier 1 has been lowered from \$4.89/HCF to \$4.56/HCF, and the Commercial Tier 1 rate has been lowered from \$7.88/HCF to \$6.28/HCF.

Upon adoption of revised Fiscal Year 2017 water rates on August 9, 2016, customers would begin to see the changes on their water bill starting as early as September 10, 2016. An example water bill for single-family customers with low, moderate, and high water use is illustrated below:

Usage Level	Monthly Usage (HCF)	Existing Bill	Proposed Bill	Difference
Low	4	\$40.29	\$42.74	\$2.45
Moderate	10	\$91.35	\$120.56	\$29.21
High	20	\$216.77	\$295.46	\$78.69

Unincorporated Area Customers

Historically, City and unincorporated area county customers have been treated as separate customer classes. This distinction has been made because the cost of providing service to the customer class located in the unincorporated area is greater than the cost of providing the same service to customer classes located inside the City. The cost differences are due to the added expenses associated with topography (more hills and required pumping), density (larger parcels mean more pipe length per parcel), Santa Barbara County regulations, and the fact that approximately five percent of the City's water rate customers reside in the unincorporated area, yet a disproportionate amount of infrastructure, facilities, and staff resources are required to serve them. The infrastructure and resources needed to serve the unincorporated area makes up 11 percent of the City's water mains and fire lines, 19 percent of the City's reservoirs, 30

percent of the City's pump stations, and 12 percent of the City's Water Distribution staff resources.

While the additional cost of service to customers in unincorporated areas is justified, further review of the water rates is needed to determine how these costs can be recovered. Therefore, it is recommended that the 30% additional cost increment for the unincorporated areas water rates be temporarily suspended. It is anticipated that the additional cost of service to serve unincorporated areas will be reflected in future rate adjustments.

Revenues, Reserves, and Debt Coverage

Projected annual revenue from the revised Fiscal Year 2017 water rates is \$43 million. The annual revenue from the revised rates is about \$2.7 million lower than the originally noticed rates, which will be covered through earned interest income in Water Fund reserves that has accumulated since Fiscal Year 2011 and totals approximately \$3.1 million.

In addition, there is an estimated \$500,000 revenue loss caused by delaying the adoption of increased water rates by approximately one month. This revenue loss will be covered through Water Fund reserves that have been funded through previous water rates.

At the close of Fiscal Year 2016, the reserve balance for the Water Fund is estimated to be \$23.3 million, compared with the policy target of about \$19 million. The noticed rates assumed planned use of reserves to minimize the financial impacts of the drought on customer water bills. Approximately \$7.3 million of reserves are planned to be used in Fiscal Year 2017. The ending reserve balance in Fiscal Year 2017 is projected to be approximately \$16 million, which is \$3 million below the current policy target.

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 debt obligations. The debt coverage ratio is calculated by dividing the net operating revenue by the total debt service. Should actual revenue in any fiscal year be lower than expected, or actual operating expenses be higher than projected, the City has \$5 million in the Water Fund Rate Stabilization Fund to help meet debt coverage requirements. It is currently projected that approximately \$2 million of the Water Fund Rate Stabilization Fund will be used to meet debt coverage requirements in Fiscal Year 2017.

The record of proceedings in this matter includes the following:

- Raftelis ("RFC"), 2013. City of Santa Barbara *Water Financial Plan & Rate Study Report*, August 2013.
- RFC, 2014. City of Santa Barbara *Water Drought Rates Development for Fiscal Year 2015*. Memorandum from Sudhir Pardiwala/Hannah Phan to Cathy Taylor dated May 5, 2014.
- RFC, 2015a. City of Santa Barbara *Water Rates Development for Fiscal Year*

2016. Memorandum from Sudhir Pardiwala/Hannah Phan to Kelley Dyer dated March 30, 2015.

- RFC, 2015b. *Debt Coverage Ratio Report for Water Utility*. Letter from Sudhir Pardiwala/Hannah Phan to Kelley Dyer dated July 24, 2015.
- RFC City of Santa Barbara *Water Rates Development for Fiscal Year 2017. DRAFT* Memorandum from Sudhir Pardiwala/Hannah Phan to Kelley Dyer dated May 31, 2016.
- Bartle Wells Associates, 2016. City of Santa Barbara *Fiscal Year 2016/17 Water Rate Model Analysis*. Memorandum from Douglas Dove/Michael DeGroot to City of Santa Barbara City Council, July 27, 2016.
- Statement of Interest Income 2011-2015 dated July 25, 2016 (source- City of Santa Barbara Finance Director)
- Any new evidence or testimony presented at the hearing.

All documents listed above are available for review by the public in the City Clerk's Office and by the City Council in the City Council reading file.

Public Meetings

Water Commission discussed proposed changes to Fiscal Year 2017 water rates on February 18, 2016 and May 19, 2016. Proposed Fiscal Year 2017 water rates were discussed with Council on March 18, 2016, April 12, 2016, and May 23, 2016.

- ATTACHMENT(S):**
1. Fiscal Year 2017 Water Rate Notice, mailed in April 2016
 2. Policies for Water Supply Cost Allocation to Customer Classes/Tiers

PREPARED BY: Joshua N. 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 for extraordinary conservation measures 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. To minimize water bill increases, the City plans to use approximately \$5 million in 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 at SantaBarbaraCA.gov/Water to see how the new rates could impact their bill. The table below shows sample water bills for single family homes based on various levels of usage and a 5/8” meter. The table represents the water portion of a utility bill including fixed monthly service charges and volumetric charges which are 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. Should the City’s water supply outlook improve or financial situation change, water rates will be re-assessed downward prior to taking effect.

**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 encourage 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	\$46.04	\$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.

Policies for Water Supply Cost Allocation to Customer Classes/Tiers

City policy governs the allocation of supplies to customer classes and tiers. Consistent with the 2013 Rate Study, the lower cost supplies (Groundwater and Groundwater – OGTP) are provided to Tier 1 Agriculture, Tier 1 Recreation, and Tier 1 Residential (SFR and MFR).

Priority 1

- **Tier 1 Agriculture:** efficient irrigation use for agricultural purposes is given first priority for lowest cost water (groundwater) given the General Plan policies and because this use historically existed before other uses in the area.

Priority 2

- **Tier 1 Residential:** basic health and safety needs for residential customers.
- **Tier 1 Recreation:** efficient irrigation of parks and public spaces. Recreation Tier 1 receives lower cost water given General Plan policies to promote and sustain parks and public safety.

Priority 3

- **Tier 1 Commercial/Industrial:** efficient water use for commercial or industrial purposes. Tier 1 Commercial/Industrial priorities reflect the higher costs of providing uninterrupted service to these customers (e.g. the City will schedule work on repairs outside of normal working hours to minimize service interruption) and reduced flexibility by this customer class to reduce water usage during water shortages.

Priority 4

- **Tier 2 Residential:** considered efficient use, based on characteristics of average residential customers and normal weather conditions. Those customers that regularly cannot stay within Tier 2 (e.g., due to larger-lot sizes) are encouraged to evaluate installation of a dedicated irrigation meter.
- **Tier 1 Irrigation for Residential/Commercial** – efficient irrigation use for residential/commercial customers with dedicated irrigation meters.

Priority 5

- **Tier 2 Agriculture** – inefficient irrigation for agricultural customers.
- **Tier 2 Recreation** – inefficient irrigation for recreation customers.
- **Tier 3 Residential** – inefficient irrigation for residential customers.
- **Tier 2 Commercial/Industrial** - inefficient use for commercial or industrial customers.
- **Tier 2 Irrigation for Residential/Commercial** - inefficient irrigation for those residential/commercial customers with dedicated irrigation meters.



PUBLIC WORKS DEPARTMENT

WATER RESOURCES DIVISION

FISCAL YEAR 2017 WATER RATES

City Council – August 9, 2016

Outline

- Key Drivers & FY17 Rate Study Background
- Schedule
- Model Refinements
- Example Customer Impacts
- Unincorporated Area Costs
- FY17 Financial Plan
- Public Hearing

Key Reasons for Proposed Rate Increases

- Adjustments are necessary to generate revenue for financial impacts of drought
 - Increased costs for drought water supplies:
 - *Desalination*
 - *Groundwater Pumping/Treatment*
 - *Supplemental Water Purchases*
 - *Cachuma Emergency Pump Project*
 - 35% water use reduction

FY17 Rate Study

- Build on 2013 Rate Study
- Update financial impacts of drought
- Rates that meet Prop 218 requirements (cost of service analysis)
- Rates that meet California Urban Water Conservation Council MOU requirements
 - *At least 70% of revenue must be generated from volumetric charges*

Schedule for Water Rate Increases

- Apr 12: Presented Proposed Rates to City Council
- Apr 18: Mail Prop 218 Notice
- May-Jul: Further Review of Water Rates Model
- Jun 14: Rate Hearing: Opened & Continued
- Aug 9: Hearing & Proposed Rates Effective Upon Adoption
- Sep 10: New Rates Begin to Appear on Water Bills

Model Refinements

- Additional time needed for rate model review given changes in water supply mix
- Confirm volumetric water rates are consistent with Council priorities
 - City has several potable water sources
 - Allocate to customer types/tiers based on priorities

Model Refinements: Allocation of Water Sources based on Priority

Priority	Customer/Tier	Description
1	Tier 1 Agriculture	Efficient irrigation for ag use; Existed before other types of use
2	Tier 1 Residential Tier 1 Recreation	Basic health and sanitation for residential Efficient irrigation of parks/public spaces
3	Tier 1 Commercial/ Industrial	Base needs for commercial/industrial use Higher cost for minimizing service interruptions Less flexibility/discretion to reduce water use

Continued on next slide



Model Refinements: Allocation of Water Sources based on Priority

Priority	Customer/Tier	Description
4	Tier 2 Residential	Based on characteristics of average customers & normal weather
	Tier 1 Irrigation for Res/Comm	Efficient irrigation use with dedicated irrigation meter
5	Tier 2 Agriculture	Considered more discretionary use
	Tier 3 Residential	
	Tier 2 Recreation	
	Tier 2 Irrigation for Res/Comm	
	Tier 2 Commercial /Industrial	

FY17 Supply Unit Rates

- Most costs of service are fixed
- Unit cost highly dependent on amount of water available
 - \$2.37/HCF – Groundwater
 - \$2.73/HCF – Groundwater w/Ortega GWTP
 - \$5.02/HCF – Desalinated Water
 - \$5.49/HCF – Gibraltar/Mission Tunnel
 - \$13.65/HCF – Lake Cachuma
 - \$16.90/HCF – State Water/Purchased Water

HCF = hundred cubic feet



Allocation of Supplies

Priority	Usage (hcf)	Groundwater - Desalinated				SWP/Purchased			TOTAL	Weighted Avg Unit Cost ¹
		Groundwater	Ortega GWTP	Water	Gibraltar	Lake Cachuma	Water			
1 Tier 1 Ag	47,687	47,687						47,687	\$2.37	
2 Tier 1 Rec	40,083	2,000	24,205	13,877				40,083	\$3.50	
2 Tier 1 SFR	722,017	36,032	436,013	249,971				722,017	\$3.50	
2 Tier 1 MFR	795,654	39,707	480,481	275,465				795,654	\$3.50	
3 Tier 1 Commercial	748,999			440,581	308,418			748,999	\$5.21	
4 Tier 2 SFR	689,923				89,747	290,815	309,361	689,923	\$14.04	
4 Tier 2 MFR	85,234				11,088	35,928	38,219	85,234	\$14.04	
4 Tier 1 Irrig	67,927				8,836	28,632	30,458	67,927	\$14.04	
5 Tier 2 Commercial	88,165						88,165	88,165	\$16.90	
5 Tier 3 SFR	147,924						147,924	147,924	\$16.90	
5 Tier 3 MFR	3,730						3,730	3,730	\$16.90	
5 Tier 2 Ag	268						268	268	\$16.90	
5 Tier 2 Rec	779						779	779	\$16.90	
5 Tier 2 Irrig	8,229						8,229	8,229	\$16.90	
	3,446,619	125,427	940,700	979,895	418,089	355,375	627,133	3,446,619		

Allocation of Supplies

Priority	Usage (hcf)	Groundwater - Desalinated			SWP/Purchased			TOTAL	Weighted Avg Unit Cost ¹
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Proposed Volumetric Rates

Water Service Rates		Current	Aug 2016	Change
SFR				
Tier 1	First 4 HCF	\$ 4.20	\$ 4.56	\$0.36
Tier 2	Next 12 HCF	\$ 8.51	\$12.97	\$4.46
Tier 3	All other HCF	\$18.59	\$24.27	\$5.68
MFR				
Tier 1	First 4 HCF per dwelling unit	\$ 4.20	\$ 4.56	\$0.36
Tier 2	Next 4 HCF per dwelling unit	\$ 8.51	\$12.97	\$4.46
Tier 3	All other HCF	\$18.59	\$24.27	\$5.68
Commercial/Industrial				
Tier 1	Base allotment	\$ 6.53	\$ 6.28	(\$0.25)
Tier 2	All other HCF	\$15.24	\$23.94	\$8.70

HCF (Hundred Cubic Feet) equates to 748 gallons

Proposed Volumetric Rates

Water Service Rates		Current	Aug 2016	Change
Irrigation – Residential/Commercial				
Tier 1	100% of allocation	\$8.51	\$12.97	\$4.46
Tier 2	All other HCF	\$18.59	\$24.27	\$5.68
Irrigation – Recreation/Parks/Schools				
Tier 1	100% of allocation	\$3.70	\$3.77	\$0.07
Tier 2	All other HCF	\$18.59	\$24.27	\$5.68
Irrigation – Agriculture				
Tier 1	100% of allocation	\$2.43	\$3.42	\$0.99
Tier 2	All other HCF	\$18.59	\$24.27	\$5.68
Recycled Water		\$2.96	\$3.02	\$0.06
Outside City Limits		130%	100%	

Summary of Changes from Noticed Rates

- Tier 1 Residential Rate Lowered from Noticed Rate of \$4.89/HCF to Revised Rate of \$4.56/HCF
- Tier 1 Commercial Rate Lowered from Noticed Rate of \$7.88/HCF to Revised Rate of \$6.28/HCF



Proposed Fixed Rates

Meter Size	Current	Aug 2016	Change
5/8"	\$23.49	\$24.50	\$1.01
3/4"	\$34.19	\$35.60	\$1.41
1"	\$55.61	\$57.80	\$2.19
1 1/2"	\$109.14	\$113.29	\$4.15
2"	\$173.38	\$179.89	\$6.51
Outside City Limits	130%	100%	

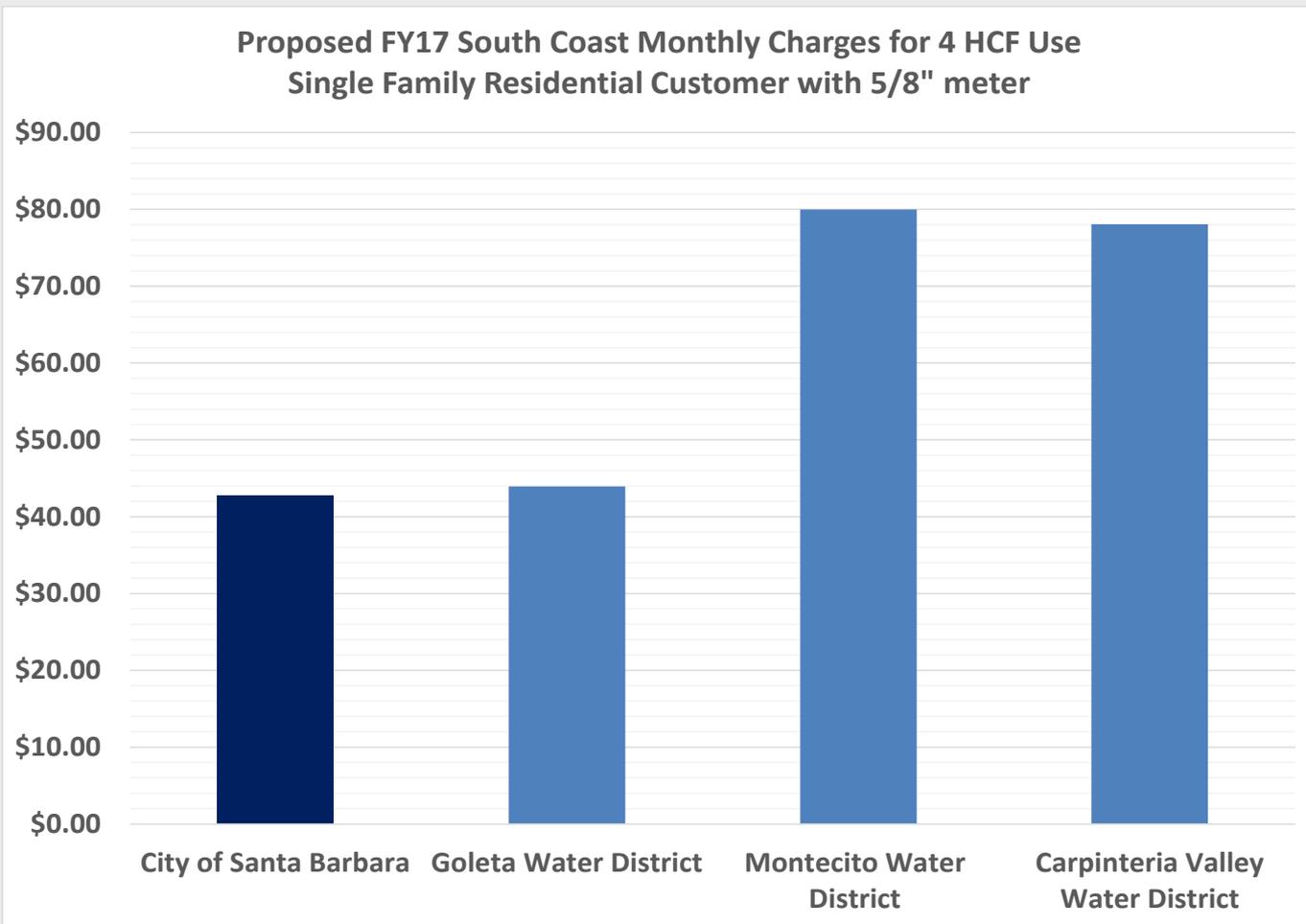


Example Bill – Single Family Residential

Usage Level	Monthly Usage (HCF)	Existing Bill	Proposed Bill	Difference
Low	4	\$40.29	\$42.74	\$2.45
Moderate	10	\$91.35	\$120.56	\$29.21
High	20	\$216.77	\$295.46	\$78.69

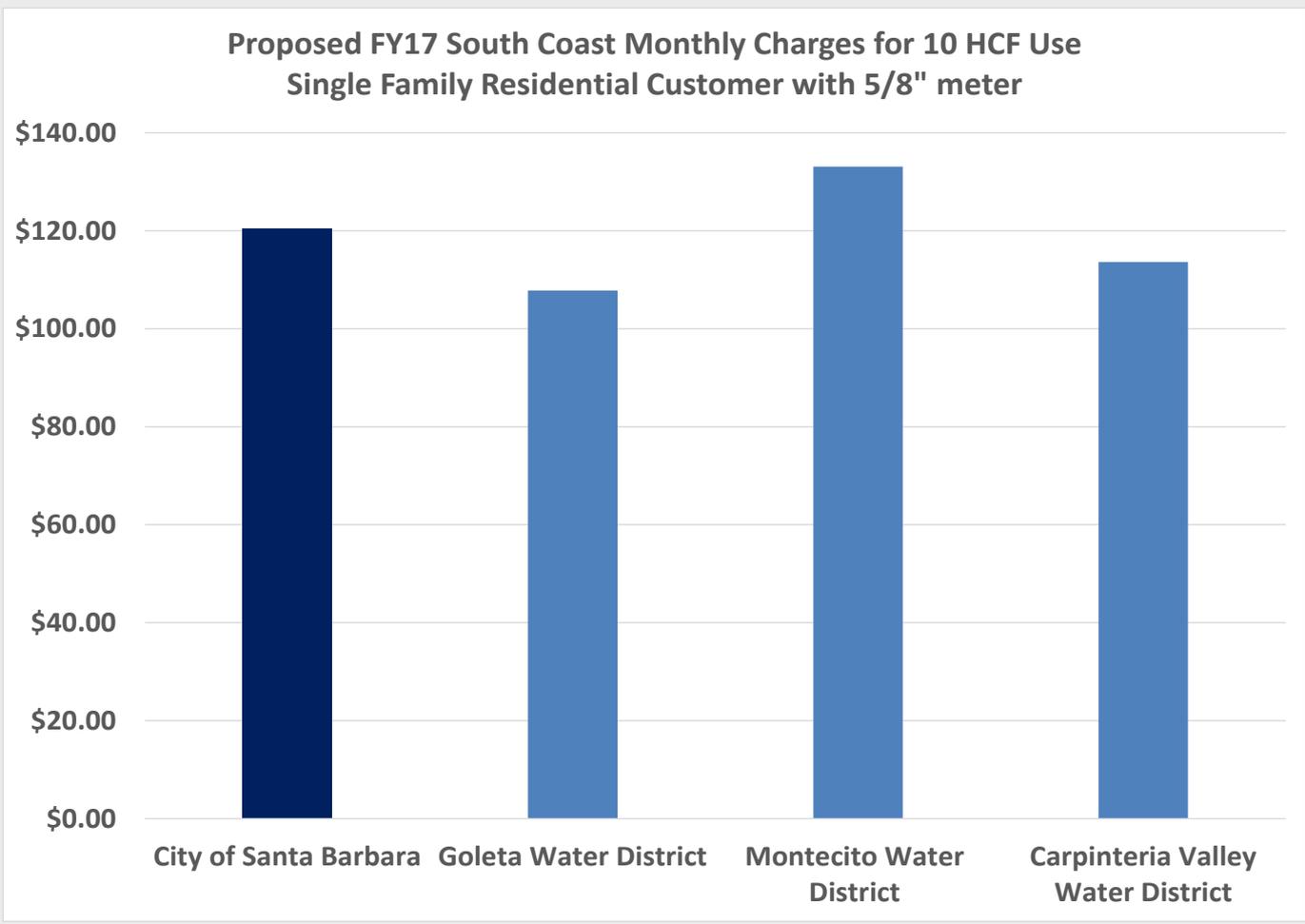


Rate Comparison – Low Water Use



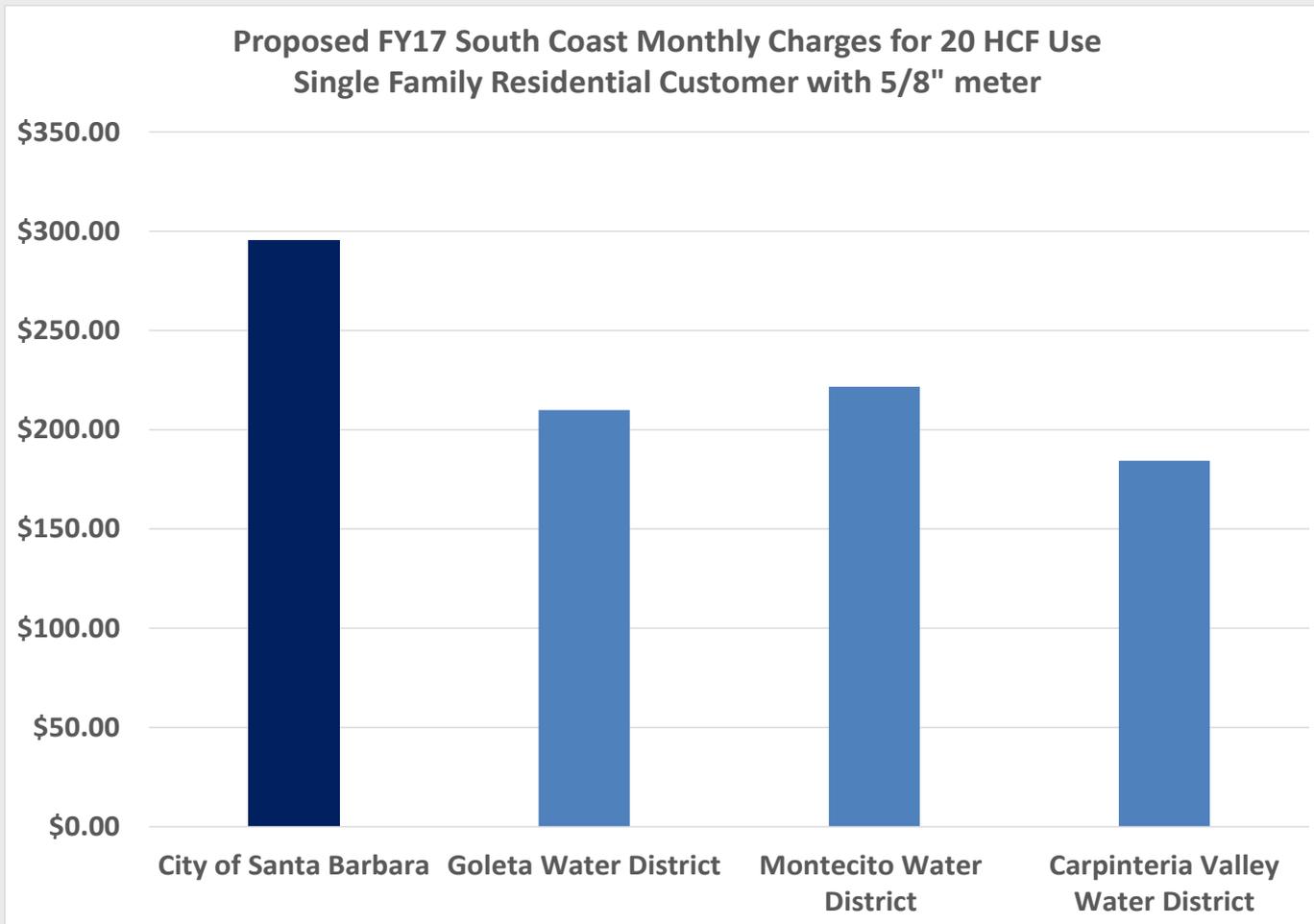


Rate Comparison – Moderate Water Use





Rate Comparison – High Water Use



Unincorporated Area

- 5% of City water customers in this area
- Topography and lot characteristics require:
 - *11% of water mains & firelines*
 - *19% of reservoirs*
 - *30% of pump stations*
 - *12% of distribution staff resources*
- 30% Additional Cost of Service is Justified
- Application in Rates Needs Further Review
- Expect Returning to Council before FY18 Regarding Additional Cost Increment

Projected FY 2017 Total Revenue

- \$45.7M: Annual Revenue from Noticed Rates
- (\$2.7M): Reduction with Revised Rates;
*-Funded with earned interest income
accumulated in reserves*
- (\$0.5M): Revenue loss from 1-month delay
- \$42.5M: Projected FY17 Revenue from Rates
- \$46.0M: Projected FY17 Total Revenue (includes
non-rate revenue)

Projected FY2017 Expenses

- \$53.2M Total Expenses
 - *\$34.6M Operating*
 - *\$10.6M Debt Service*
 - *\$8.0M Capital*
- Expenses Higher than Projected \$46.0M Revenue
- Will Require \$7.2M from reserves

Reserves

- \$19.0M Current Policy Requirement
- \$23.3M Projected FY16 Reserves
~\$4.3M Above Policy at end of FY16
- \$16.1M Projected FY17 Reserves
~\$3.0M Below Policy at end of FY17

Debt Coverage Ratio

- Parity Debt Requires 1.25 Coverage
- Proposed FY17 Rates projected to provide 1.07 coverage ratio
- Anticipate using ~\$2-3M from Rate Stabilization Fund to meet debt coverage requirements

Financial Planning Next Steps

- Initiate Development of FY18 Water Rates
 - Evaluate Financial Impacts of a continued Drought conditions

Council Action

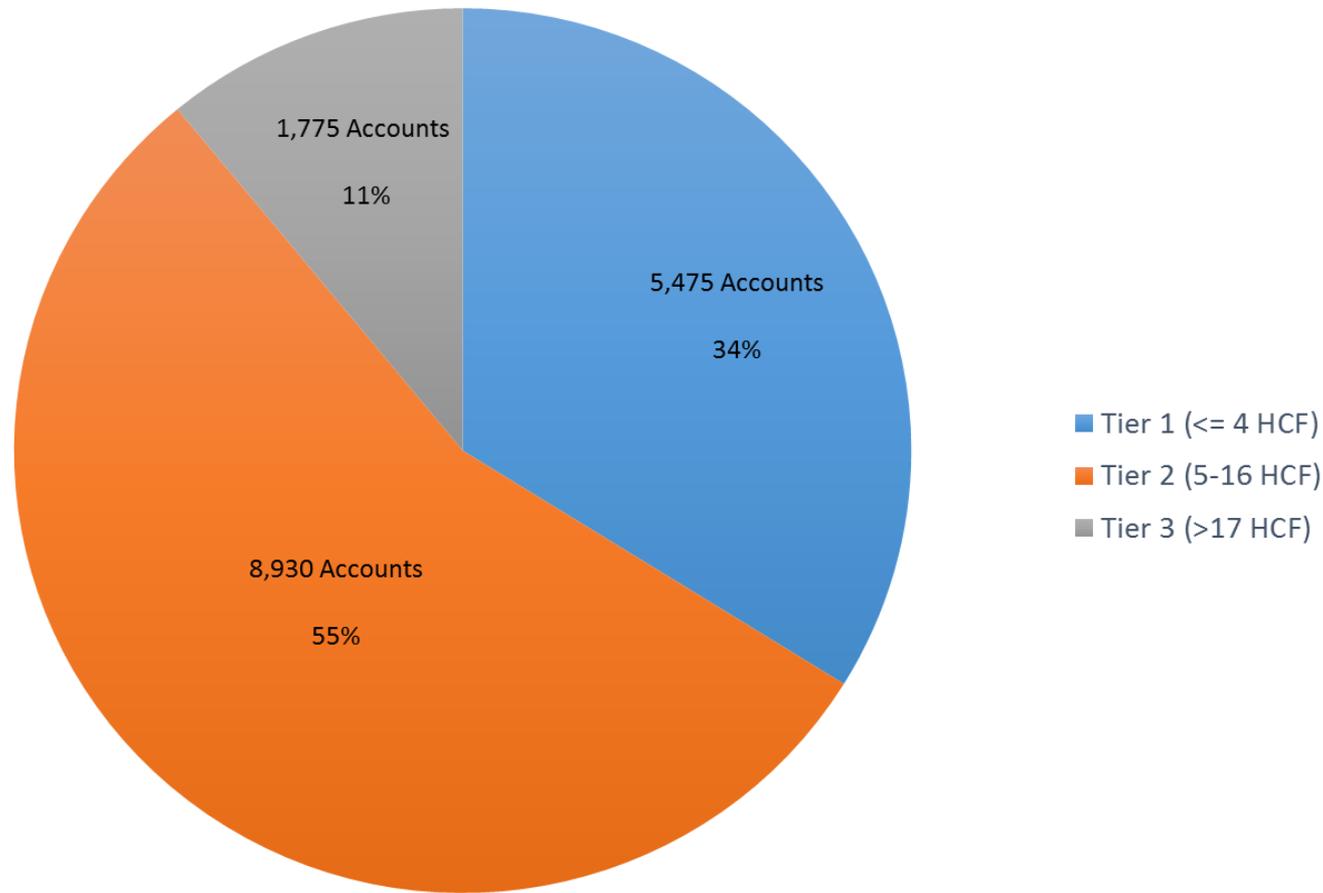
- Hold public hearing
- Adopt Fiscal Year 2017 water rates



END OF PRESENTATION

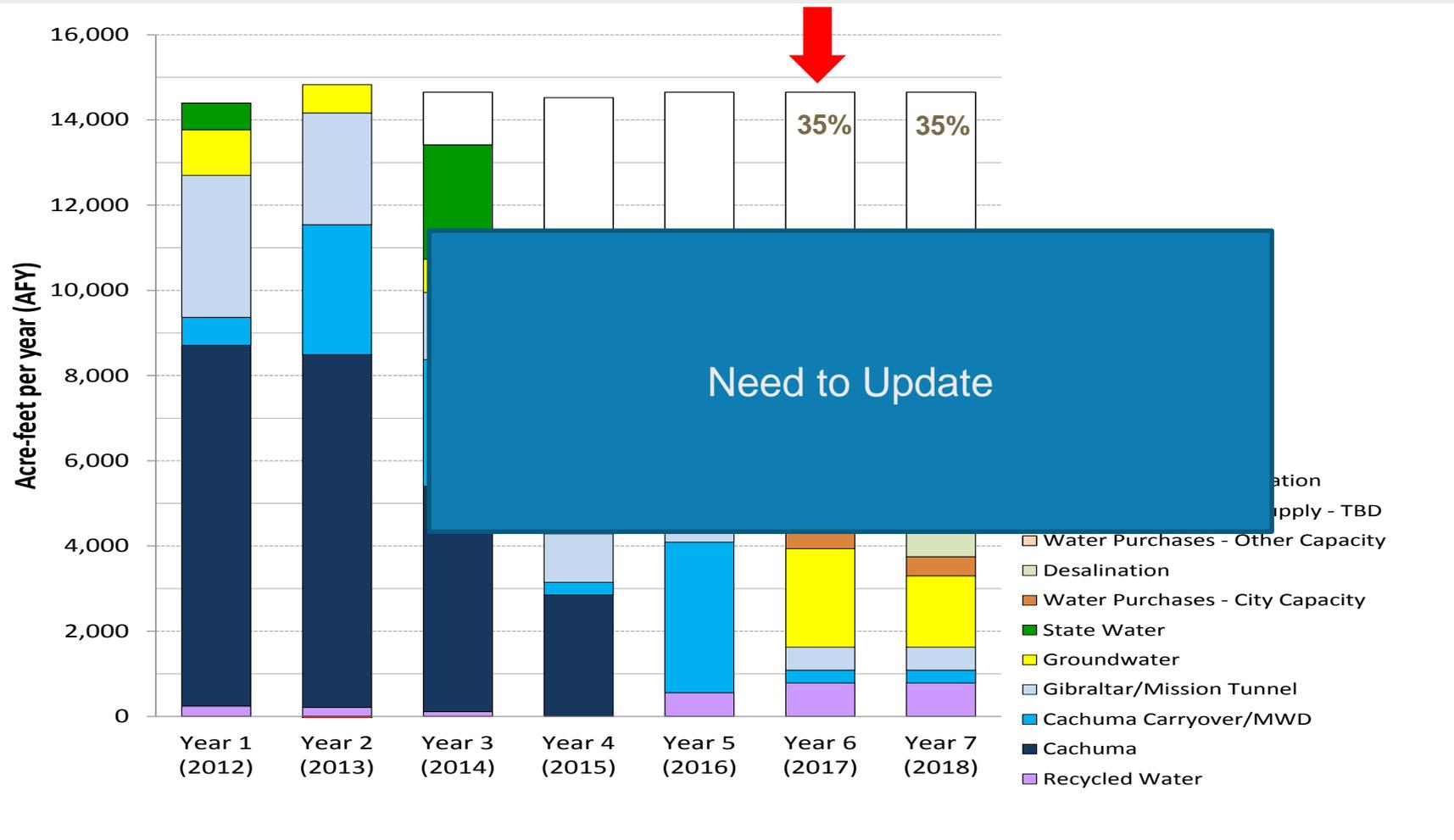


Average Monthly Number of SFR Customers Within Each Tier



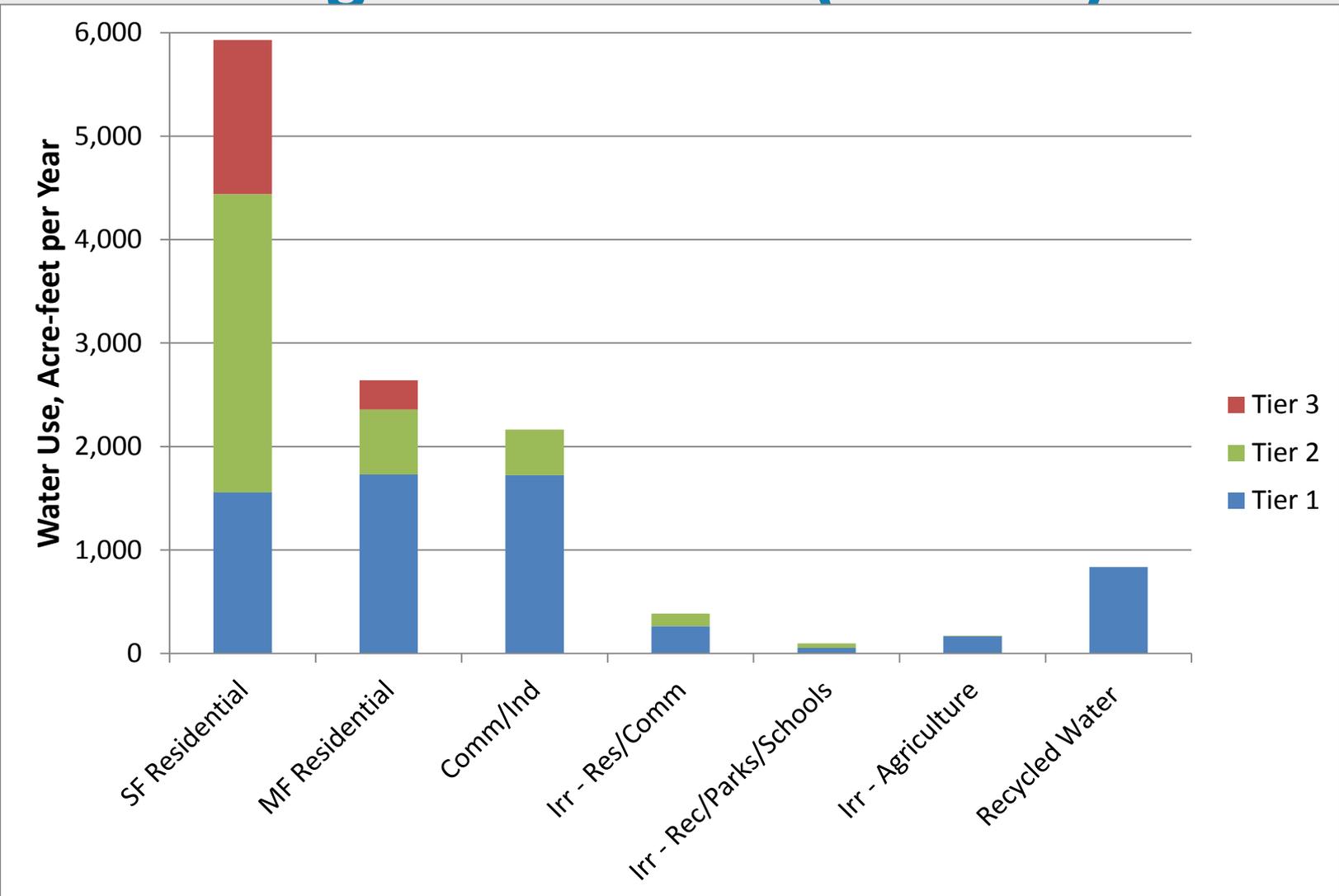
Water Supply Outlook

(assumes on no reservoir inflows, no State Water)



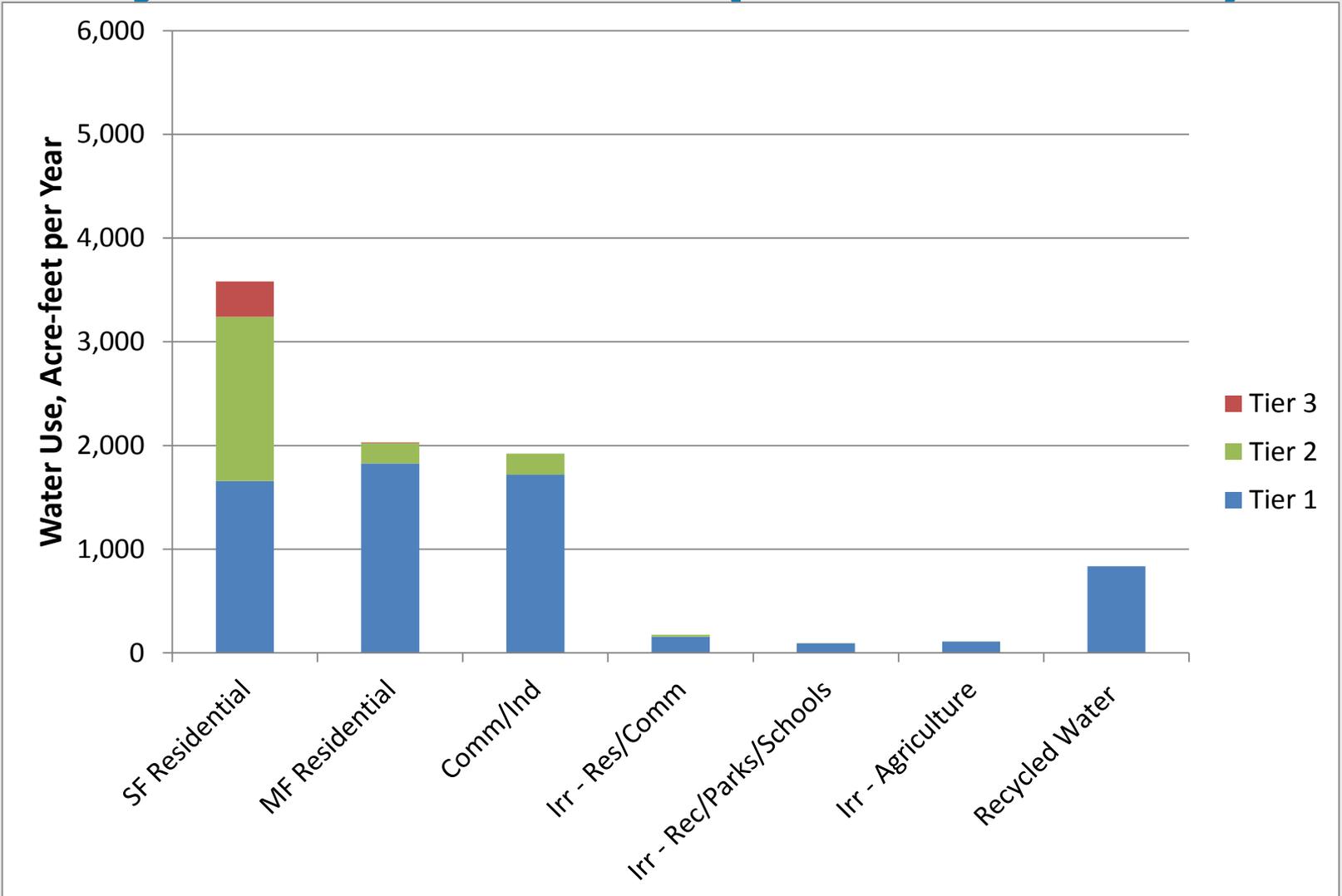


Pre-Drought Water Use (Normal)





Projected Water Use (35% reduction)



Single Family Residential Water Bill

Example of Changing Rates and Usage

Usage	FY16			FY17
12 HCF	Need to update			\$147.82
10 HCF	Need to update			\$121.88
9 HCF	Need to update			\$108.91
8 HCF	\$47.17	\$52.90	\$74.33	\$95.94

No reduction in water use (12 HCF) – \$80 increase from FY14 to FY17

With a 4 HCF (35%) reduction in water use – \$28 increase from FY14 to FY17

Single Family Residential Water Bill

Example of Changing Rates and Usage

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12 HCF	Need to update			\$147.82
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Water Fund Financial Projections

	Projected, \$ Millions		
	FY16	FY17	FY18
Desal	\$0.6	\$5.3	\$7.8
Capital	\$8.2		\$8.9
Operating	\$36.2		\$35.8
Debt Service	\$4.2		\$5.0
Total Expenditures	\$49.2		\$57.5
Revenue	\$45.7		
Revenue Imbalance	\$3.5		
Reimbursements	\$3.5**		
Reserves Funding	(0.0)		

Need to Update

\$3.5M revenue imbalance in FY16

*FY16 budgeted revenue of \$45.7M assumes 25% conservation, versus projected revenue of \$54M with 20% conservation.

**One time reimbursements from grants and desal loan reimbursements.

Water Fund Financial Projections

	Projected, \$ Millions		
	FY16	FY17	FY18
Desal	\$0.6	\$5.3	\$7.8
Capital	\$8.2		\$8.9
Operating	\$36.2		\$35.8
Debt Service	\$4.1		\$5.0
Total Expenditures	\$49.2		\$57.5
Revenue	\$45.7		
Revenue Imbalance	\$3.5		
Reimbursements	\$3.5**		
Reserves Funding	(0.0)		

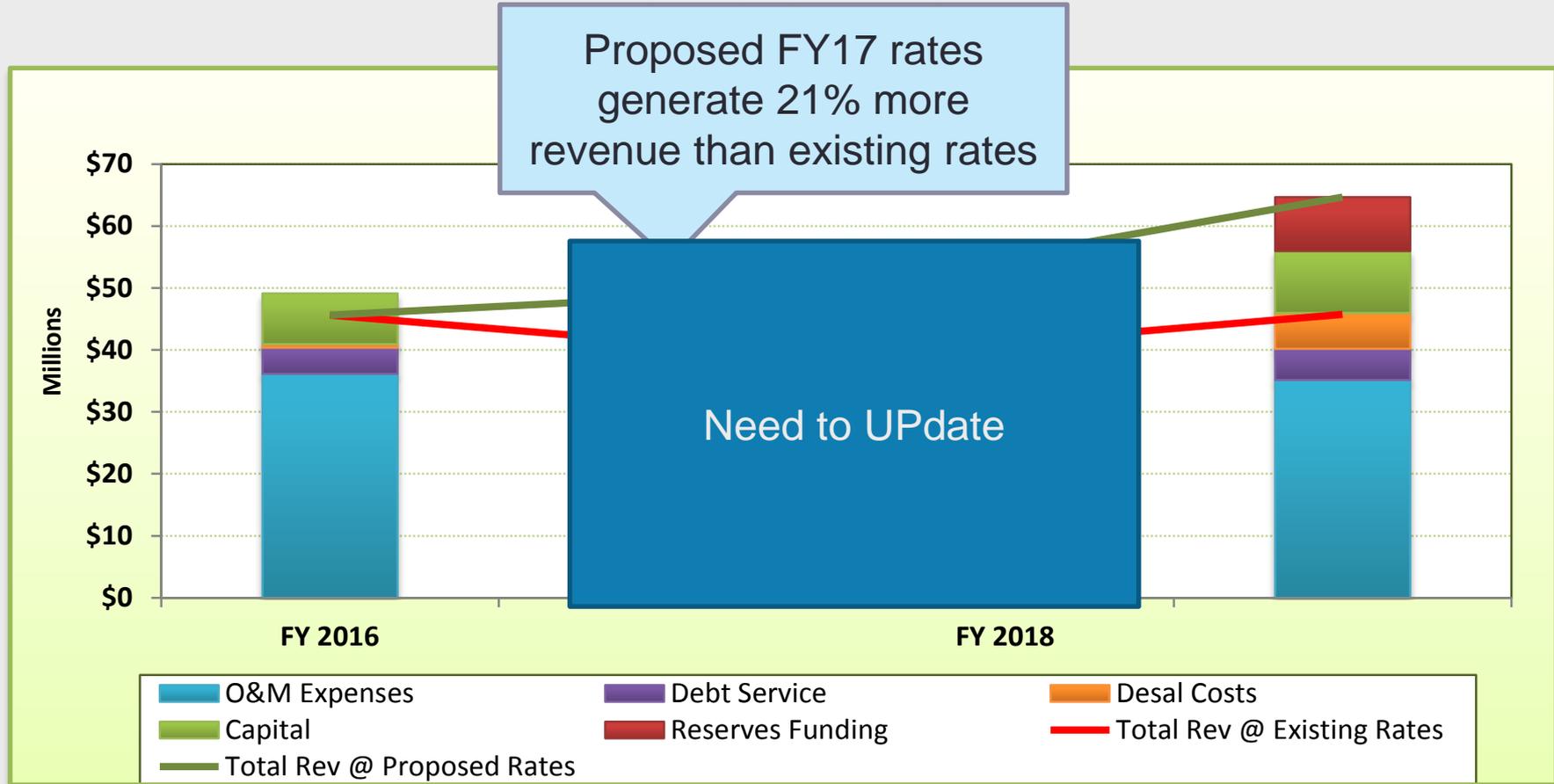
Need to UPdate

\$4M increase in drought related expenses

*FY16 budgeted revenue of \$45.7M assumes 25% conservation, versus projected revenue of \$54M with 20% conservation.

**One time reimbursements from grants and desal loan reimbursements.

Water Fund Financial Plan



Reserve Balance

