



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** April 25, 2017

**TO:** Mayor and Councilmembers

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

**SUBJECT:** Policy Discussion On Water Rate Development And Customer Classes

### **RECOMMENDATION:**

That Council hear a presentation on water rate development and customer classes, and provide policy direction to staff for cost allocation between In-City and Out-of-City customers.

### **DISCUSSION:**

#### Water Rate Development Update

On November 8, 2016, Council authorized the Public Works Director to execute a Professional Services Agreement with Bartle Wells Associates (BWA) to complete a comprehensive study of water rates. BWA has been meeting with staff regularly to plan the water rate adoption schedule, collect the necessary data and information, and review the existing rate structure. Staff will provide an update on the adoption schedule, estimated revenue requirement for the Water Fund, multiyear rate development, and Council Policy Reserves.

In addition to the above, staff will give a presentation to Council on potential approaches to in-City and out-of-City customer classes. BWA has described three potential approaches to developing customer classes for residential consumers residing inside the City and for those residing outside the City. As part of BWA's contract, BWA is working with staff to analyze these different approaches. Staff is seeking Council direction to work with BWA on further rate development.

#### Customer Classes

At the August 9, 2016, Public Hearing on Fiscal Year 2017 Water Rates, Council suspended the 30 percent cost increment charged to out-of-City customers to give staff time to study the supporting methodology with a rate consultant.

The California Constitution allows the City Council to allocate water system costs to different customer classes. Among the different residential classes, historically the City treated out-of-City customers as a separate class. This practice was justified by the added infrastructure costs associated with serving these customers residing further away. The City Council was not legally required to do that. It could treat all single family, or multi-family, residential customers as a single class. Another way to classify customer classes would be based on elevation, or topographic, differences between classes. Under this approach, customers at greater elevation, or with greater topographic change, generally cost more to serve.

Approaches to address Out-of-City customers are outlined below:

1. **Service Area Average (Staff Recommendation)** – Establishing rates without distinguishing between in-City and out-of-City customer classes. Under this approach, cost of service is allocated over the entire service area regardless of location, topography, pumping, and infrastructure;
2. **Cost Increment for Out-of-City Customers** – Reinstating a customer class similar to the prior cost increment for out-of-City customers based upon the increased infrastructure costs and estimating the proportional share of resources that service these customers; or,
3. **Pumped Versus Non-Pumped** – Developing two new customer classes based on whether the parcel is located at an elevation, or topography, that requires pumped water service or non-pumped water service. Development of these classes will take approximately one year to complete the analysis of pumped versus non-pumped classes. At this time, staff does not have an estimate of the impact to water rates and monthly bills.

While either of the above approaches for defining customer classes is constitutionally acceptable, water rates for each class must comply with Proposition 218 requirements. This includes the requirement that the rates may not exceed the estimated cost of providing the service for each class, and the rates must be reasonable, fair, equitable, and proportional.

#### **BUDGET/FINANCIAL INFORMATION:**

Choosing one approach to classifying customers over another does not change the total revenue requirement and cost of service basis for the Water Fund.

#### **SUSTAINABILITY IMPACT:**

The City will continue to design its water rates in compliance with California Urban Water Conservation Council policies to encourage conservation, with 70 percent or more of revenue coming from volumetric rates that vary based on water use. This water rate design gives customers more control over water bills in that lower water use results in a lower bill and higher water use results in a higher water bill. City staff will work with BWA to develop water rates that continue to encourage conservation, recover the cost of service, and maintain compliance with CUWCC requirements.

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