

DRAFT

Agenda Item No. _____

File Code No.



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 25, 2013

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Contract For Cost Of Service Wastewater Rate Study

RECOMMENDATION:

That Council authorize the Public Works Director to negotiate and execute a professional services agreement with Raftelis Financial Consultants, Inc., in the amount of \$55,671 and in a form of agreement acceptable to the City Attorney, to provide a cost-of-service analysis for the City of Santa Barbara wastewater rates, and approve expenditures of \$5,567 for extra services that may result from necessary changes in the scope of work, for a total of \$61,238.

DISCUSSION:

Wastewater utilities are dependent on user rates to fund most of the operations, maintenance and capital improvements needed to keep the utilities functioning reliably and in compliance with federal and state regulations. Wastewater rates were last reviewed in 2004. Cost-of-service evaluations should be conducted at least every ten years. Cost-of-service analysis and rate review will ensure that City wastewater rates are compliant with state law governing the manner in which rates can be charged.

The wastewater utility has infrastructure dating back to the late 1800s. The City has a long standing approach of developing 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, wastewater flow generation is 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 and assist the City in reviewing and updating its current cost allocation between user categories. As a part of this review, the Consultant will be asked to recommend a revenue plan that minimizes impacts on rate payers and provides sufficient revenues to accomplish the required capital work.

Last year a Request for Proposals was issued to eight firms. Five proposals were received. Staff reviewed the proposals, interviewed the two top-rated firms, and selected Raftelis Financial Consultants, Inc. (Raftelis) as the most responsive to the City's Request for Proposals. Raftelis has extensive experience providing rate review and recommendations for water utilities in Southern California. Given the importance of rate setting to proper cost allocation between user categories and ultimate water conservation, this local expertise is important. This work also will be integrated into the comprehensive financial modeling software that Raftelis has provided to the City under a previous contract. With updated 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 2013 budget.

SUSTAINABILTIY IMPACT:

Properly designed rates and revenue plans are critical to developing the funds necessary to continue to adequately treat and deliver wastewater and maintain critical infrastructure that protects human health and the environment.

PREPARED BY: Rebecca Bjork, Water Resources Manager/avb

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator's Office