



Agenda Item No. _____

File Code No.

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

Item 10

AGENDA DATE: July 29, 2014

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Contract For Drought Related Water Rate Modeling Services

RECOMMENDATION:

That Council authorize the Public Works Director to execute a City Professional Services contract with Raftelis Financial Consultants, Inc. in the amount of \$33,917 for design services for the Desalination Financing and Rate Model Study, and authorize the Public Works Director to approve expenditures of up to \$8,480 for extra services that may result from necessary changes in the scope of work.

DISCUSSION:

On May 20, 2014, the Council declared a Stage Two Drought Condition in response to ongoing drought and completion of the driest three-year period in local records. Stage Two is the second of three stages in the City's Water Shortage Contingency Plan. Among other things, Stage Two response measures included the development and adoption of a rate structure reflecting increased costs associated with responding to the drought and targeting a 20% reduction in customer water demand. Under the Stage Two rates, increases in customer bills have increased 3% for low water users, 16% for moderate users, and 67% or for high users. The Stage Two rates, as well as rates for Fiscal Year (FY) 2014 were developed by Raftelis Financial Consultants, Inc. (Raftelis), in compliance with the requirements of California's Proposition 218 approved by voters in 1996. Any adjustment in water rates must be done in compliance with Proposition 218 requirements, which is known as the *Right to Vote on Taxes Act* and includes the requirement that the rates may not exceed the estimated cost of providing the service and must be reasonable, fair, equitable, and proportional.

Upon adoption of the Stage Two Drought Condition, staff continued its planning for a potential Stage Three Drought Condition, which is to be expected in the event of another year of below average rainfall. A key feature of Stage Three would be reactivation of the City's Charles Meyer Desalination Facility, constructed in 1991-92 during the previous severe drought. The reactivation will be at substantial cost, currently estimated at \$30 million in capital costs, with annual operating costs of \$5 million. These substantial added costs require an update to the Water Fund Financial

Plan and a new rate structure sufficient to generate the revenues needed to cover these costs. The new rates will also increase the incentive for reduction in customer water user to ensure that the planned 20% demand reduction is achieved.

Staff has received a proposal from Raftelis to complete the modeling and analysis necessary to develop a recommended rate structure that incorporates the desalination reactivation costs. This will build on the water rate model developed by Raftelis under previous contracts. The work will be based on information currently being developed as a part of the preliminary design study for desalination reactivation. Costs for plant capacities of 3,125 acre-feet per year (AFY), 5,000 AFY, and 7,500 AFY will be analyzed. A revised ten-year Water Fund Financial Plan will be evaluated with particular attention to water rates for Fiscal Years 2016 and 2017. The work will be documented in a report including recommended rate structures for the three scenarios. Also included is the cost of attending local meetings and providing staff training on use of the rate model. Work is scheduled to be completed by early November 2014 to allow sufficient time for distributing required rate notices prior to moving ahead with financing the desalination facility reactivation.

Extra services authorization equal to 25% of base costs is recommended in this case due to the evolving nature of the desalination preliminary design study and the need to promptly address unanticipated issues that may arise.

BUDGET/FINANCIAL INFORMATION:

There are sufficient appropriated funds in the FY 2015 Water Fund Budget for the proposed financing and rate model study services. The Board of Water Commissioners heard this item at its July 14, 2014 meeting and the Board voted ___-___-___ to _____.

PREPARED BY: Joshua Haggmark, Acting Water Resources Manager KD/BF/

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office