



201 S. Lake Avenue
Suite 301
Pasadena, CA 91101

Phone 626 . 583 . 1894
Fax 626 . 583 . 1411

www.raftelis.com

November 3, 2015

ITEM 6-B

Ms. Kelley Dyer, P.E.
Water Supply Manager
City of Santa Barbara
630 Garden Street
Santa Barbara, CA 93101

Subject: Proposal to Update Water Rate Model for FY 2017

Dear Ms. Dyer:

Raftelis Financial Consultants, Inc. (RFC) is pleased to submit this letter proposal to assist the City of Santa Barbara (City) with updating the water rate model. The objective of this project is to update the latest model with the most up to date data and develop proposed fiscal year (FY) 2017 water rates for a range of demand reduction scenarios. The scenarios include options for desalination expansion and demand reduction surcharges to address continued water shortage conditions. The sections below outline our proposed scope of services for this engagement.

Scope of Work

Task 1: Project Management

Consistent and competent project management is required to ensure project success and adherence to timelines and budgets. Management responsibilities extend to general administrative duties such as client correspondence, billing, project documentation, and administration of the study control plan.

RFC will schedule meetings to discuss project progress and present preliminary results via web conference utilizing GoToMeeting™, a web conferencing tool that enables clients and consultants to simultaneously view any application on a PC in real time over the Internet, to conduct the project more efficiently and minimize costs.

Deliverable(s): None

On-site Meeting(s): None

Task 2: Update Usage and Financial Data

As part of this task, RFC will send a data request list to City staff; the data requested will include, but not be limited to, the following:

- Updated water usage and accounts by customer type for the current fiscal year in the format shown in the existing model
- Current financial information such as budgets, capital improvement program, existing debt service, reserves balance, etc. in the format shown in the existing model

- Updated water demand and costs by supply source
- Updated capital and operating cost for the desalination plant and associated funding plan
- Projected new revenue from Montecito Water District (MWD); should the City decide to sell water from the Desalination Facility to MWD in the future

RFC will review the data requested and update the water financial plan to incorporate the most up-to-date rate structure, budget, CIP, reserves balances, etc. to determine the revenue adjustments necessary in the planning period. This task includes one demand scenario for financial plan development. Additional demand scenarios will be provided on a time and materials basis.

Deliverable(s): Updated Financial Plan Model in Excel® 2010 or 2013

Meeting(s): Up to two (2) conference calls/web meetings with City staff

Task 3: Develop FY 2017 Water Rates

Based on the updated financial plan, RFC will then update the cost of service (COS) analysis to properly allocate costs to different functional components. RFC will follow industry guidelines specified by the American Water Works Association (AWWA) to ensure fairness and equity. Following the COS analysis, RFC will work with City staff to develop the water rates for FY 2017 that meet City's goals and objectives as well as Proposition 218 requirements and associated court rulings.

In preparation for continued water shortage conditions, two scenarios be evaluated for proposed FY 2017 water rates: 1) no expansion of desal, and 2) expansion of desalination. A decision on whether to expand desalination will depend on whether water shortage conditions continue, and a decision will not be made until Spring 2016 at the earliest. For financial planning purposes, impacts to water rates for a desalination expansion scenario will be evaluated should the City decide to pursue that option.

Deliverable(s): Updated Water Rate Model in Excel® 2010 or 2013

Meeting(s): Up to two (2) conference calls/web meetings with City staff

Task 4: Water Demand Reduction Surcharges Update

Based on the proposed water rates for FY 2017, RFC will update the demand reduction surcharges developed in FY 2016 to reflect the most current data. Under both FY 2017 water rates scenarios, demand reduction surcharges will be calculated for three levels of demand reduction: 30% reduction, 40% reduction, and 50% reduction. Implementation of these surcharges will depend on the level of water supply shortage should water shortage conditions continue.

Deliverable(s): Updated demand reduction surcharges schedule

Meeting(s): Up to two (2) conference calls/web meetings with City staff

Task 5: Water Rate Memo

RFC will draft a memo detailing the methodology and results of the proposed water rates. The memo will be submitted to City staff for review and any comments will be incorporated into the final memo as appropriate.

Deliverable(s): Water Rate Memo

Meeting(s): One (1) conference call/web meeting with City staff

Task 6: Council Meetings

RFC will prepare presentation and attend two (2) City Council meetings to present the results of the study.

Deliverable(s): Presentation materials

Meeting(s): Two (2) meetings with City Council

Task 7: Re-assessment of Water Rates

Due to the City's timeline required for potential desalination expansion, it is anticipated that Prop 218 notices will need to be mailed by the end of February. At that time, the actual costs of expanded desal will be preliminary estimates and there will still be a potential for rainfall to alleviate the drought condition. This task provides for re-assessment of water rates in Spring 2016 (prior to FY17 water rates taking effect on July 1, 2016) based on actual cost of desalination expansion and actual level of required demand reduction, once more information is known. It is anticipated that this information will be known by May 2016. RFC will update the model with the actual cost of desalination expansion to evaluate the impacts on proposed water rates.

Deliverable(s): Model results

Meeting(s): Two (2) web meetings with City staff

Project Fees and Schedule

RFC proposes to complete the scope of services for a not-to-exceed fee as shown below. The estimated fees are based on the Scope of Work included in this proposal, and our preliminary understanding of the City's needs and objectives.

The table below details the estimated hours and billing rates for each consultant and administrative support related to each task of the scope of work. Expenses include a \$10 per hour technology charge covering computers, networks, telephones, postage, etc.

**UPDATE WATER RATE MODEL
PROPOSED HOURS and FEES**

Task No	Task Descriptions	No of Meetings	Hours Requirements				Total Fees & Expenses
			SP	FC	Admin	Total	
1	<i>Project Management</i>		8		8	16	\$ 3,120
2	<i>Update Usage and Financial Data</i>		4	24		28	\$ 6,040
3	<i>Develop FY 2017 Water Rates</i>		16	36		52	\$ 12,160
4	<i>Water Demand Reduction Surcharges Update</i>		8	12		20	\$ 4,880
5	<i>Water Rate Memo</i>		8	20		28	\$ 7,055
6	<i>Council Meetings</i>	2	16	16		32	\$ 9,066
7	<i>Re-assessment of Water Rates</i>		10	24		34	\$ 7,900
TOTAL ESTIMATED MEETINGS / HOURS		2	70	132	8	210	
HOURLY RATES			\$300	\$190	\$70		
PROFESSIONAL FEES			\$21,000	\$25,080	\$560	\$46,640	
SP = Sudhir Pardiwala			Total Professional Fees				\$46,640
FC = Hannah Phan			Estimated Expenses				\$3,581
						TOTAL FEES & EXPENSES	\$50,221

Assuming a notice to proceed in November 2015 and that RFC will receive requested data in the first week of November, it is expected the project would be completed in time for the City to:

- Present proposed FY 2017 water rates to Water Commission and City Council in February 2016
- Distribute Prop 218 notices by end of February 2016
- Adopt FY 2017 water rates in May 2016, which would take effect July 1, 2016

We appreciate the opportunity to provide assistance to the City and look forward to working with you. You may use this letter proposal to form an agreement by signing below and returning one copy for our files.

Should you have any questions, please do not hesitate to contact me at (626) 583-1894.

Sincerely,

RAFTELIS FINANCIAL CONSULTANTS, INC.

CITY OF SANTA BARBARA

By: 
Sudhir Pardiwala, PE
Exec Vice President

By: _____
Title: _____

Date: _____