



City of Santa Barbara
Public Works Department

Memorandum

ITEM 6C

DATE: December 7, 2015
TO: Joshua Hagmark, Water Resources Manager
FROM: Kelley Dyer, Water Supply Manager
SUBJECT: Water Rate Study Status Update

On November 24, 2015, City Council approved a contract with Raftelis Financial Consultants, Inc. (Raftelis) for development of Fiscal Year (FY) 2017 water rates, for a not-to-exceed amount of \$62,776. The following is an update on the status of that work effort.

During the December 14, 2015 Water Commission meeting, the status update will review:

- Previous water rate development efforts,
- Preliminary schedule for FY 2017 water rates development, and
- Conceptual options for a proposed temporary fee.

Previous Water Rate Development Efforts

Given the substantial amount of policy input received to date on previous water rate modeling analyses, this memorandum provides a brief summary of previous reports and public meetings available for reference. The information from these previous efforts is planned to be carried forward in the current work effort underway to develop FY 2017 water rates.

Current financial planning and water rates design are based on the two following reports (attached):

- **Attachment 1:** August 2013 *Water Financial Plan & Rate Study Report*: This study involved a comprehensive review the City's water rate structure and cost of service principles.
- **Attachment 2:** March 2015 *Memorandum on Water Drought Rates Development for Fiscal Year 2016*: This analysis included water rate model updates in response to drought condition for purposes of developing FY 2015 water rates.

For both studies, several Water Commission and City Council meetings were held. City Council meetings for development of FY 2016 water rates, specifically, were held on dates summarized in **Table 1**. All items discussed with Council were first discussed with Water Commission, and Council policy was consistent with the recommendation from Water Commission.

Meeting Date	Policy Direction
Sep 23, 2014	Policy direction on Reserves Management
Dec 9, 2014	Policy direction on 1) the level of desalination debt service to recover in fixed revenues, and 2) the size of the Tier 2 allotment for Single Family Residential customers
Jan 13, 2015	Direction on Main Replacement Program Funding during Drought
Mar 10, 2015	Public Hearing for Proposed FY 2016 Water Rates
Apr 7, 2015	Adoption of FY 2016 Water Rates, which took effect on July 1, 2015

To learn more about the policy direction received, recordings of City Council meetings are available at the website below, as well as the Council Agenda Packets and Minutes.

<http://www.santabarbaraca.gov/gov/cityhall/council/meetings/videos.asp>

Preliminary Schedule for FY 2017 Water Rates Development

Below is a preliminary schedule for the current study underway. All dates are in year 2015.

- Nov 24: Council authorization for rate study contract
- Dec: Data Collection
- Jan: Raftelis Modeling
- Feb 18: Presentation of Proposed Water Rates to Water Commission
- Mar 1: Presentation of Proposed Water Rates to Finance Committee and City Council
- Mar 7-11: Mail Prop 218 Notices
- Apr 26: Council Rate Hearing
- May 3: Council Adoption of Rates to take effect July 1
- Jul 1: Rates Take Effect with other City Service Increases

Conceptual Options for a Proposed Temporary Fee

While the City strongly encourages conservation, the success in exceeding conservation goals is presenting a financial challenge given the current water rates design. The City has designed its water rates to incentivize conservation in compliance with California Urban Water Conservation Council policies. As such, 70 percent or more of revenue comes from volumetric rates that vary based on water use. Conversely, the majority of the water system costs are fixed and are independent of water use. If water demands continue to be low and negatively impact revenues from volumetric rates, the City could be at risk of having insufficient funds for fixed financial obligations (e.g., debt service, required maintenance, etc.). The City is working with Raftelis to develop a proposed temporary fee intended to address revenue loss that occurs when conservation exceeds our target, and would be removed once water usage stabilized and the annually adopted rates were sufficient to cover the cost of service. A similar temporary fee has been adopted by many of our neighboring water agencies to address this situation.

The status update will discuss several options that are being considered for the design of the temporary fee. The discussion will be at a very conceptual level; results of modeling analyses with proposed fees for each option will be presented at a later date.