



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

### ITEM 6A

**AGENDA DATE:** March 1, 2016

**TO:** Mayor and Councilmembers

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

**SUBJECT:** Proposed Wastewater Rate Changes For Fiscal Year 2017

**RECOMMENDATION:**

That Council provide policy input on proposed changes to the wastewater rate structure for Fiscal Year 2017.

**DISCUSSION:**

Over the past few years, wastewater revenues have been significantly impacted by reductions in water usage, largely due to the current rate structure. This reduction in revenue has delayed critical capital improvement projects. In an effort to help stabilize wastewater revenues, staff is looking for policy input from Council before finalizing Fiscal Year 2017 (FY17) rates.

Staff is proposing an increase of 5.5 percent in wastewater revenues for FY17. This is a half of percent increase over the ten-year financial plan developed to support ongoing operation, maintenance, rehabilitation, and improvement of the wastewater system. The principle goals of the financial plan are to ensure required maintenance is performed to maximize equipment lifecycles, replace capital facilities as needed for the protection of the environment and permit compliance, and to avoid higher costs and other impacts associated with deferred maintenance.

### **Proposed Changes to Rate Structure**

As a result of the drought, wastewater revenues have been decreasing despite planned annual increases to rates. Single-family (SFR) and multi-family residential (MFR) wastewater rates have two components, a monthly fixed rate and a variable usage rate, which caps out between 7 and 10 hundred cubic feet (HCF) per month of water use. The reduced revenues are attributed to reductions in the variable usage rate from water conservation. Therefore, staff proposes changes to the current SFR and MFR rate structure to stabilize wastewater revenues from drought impacts and to move to a rate structure that distributes rates proportionally based on level of service provided.

Approximately 75 percent of annual wastewater revenues are from residential customers, with approximately 54 percent collected in the monthly fixed rate. The remaining 46 percent is collected as part of the variable usage rate and subject to fluctuations in water use. The fixed costs of operating the wastewater system average between 80-90 percent, which means changes in wastewater flows do not have a significant impact on expenses. Furthermore, despite reductions in wastewater flows, the volume of solids conveyed to and treated at El Estero Wastewater Treatment Plant remains constant. Therefore, staff proposes to increase the monthly fixed rate for residential customers to closer match actual fixed costs to collect and treat wastewater. This will provide a stable revenue source for the Wastewater Fund and ensure adequate financial resources are available to perform required operation, maintenance and replacement of capital facilities.

Staff proposes to transition to a rate structure where 80 percent of fixed costs are captured in the monthly fixed rate. This transition is recommended to occur over several years to reduce the financial hardships that may occur on lower water users, which would be most impacted by this change.

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