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CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

Agenda Item No. _____

File Code No. _____

AGENDA DATE: November 8, 2016

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Contracts for Water Rates And Capacity Buy-in Fee Study

RECOMMENDATION: That Council authorize the Public Works Director to execute a City Professional Services contract with Bartle Wells Associates in the amount of \$89,540 for development of proposed Fiscal Year 2018 water rates and capacity buy-in fee, and authorize the Public Works Director to approve expenditures of up to \$10,000 for extra services that may result from necessary changes in the scope of work, for a total not-to-exceed amount of \$99,540.

DISCUSSION:

Staff has received a proposal from Bartle Wells Associates to undertake the modeling and analysis necessary to develop proposed Fiscal Year 2018 water rates, and also develop updated capacity fees. A copy of the draft contract for is available for public review in the City Clerk's Office.

Fiscal Year 2018 Water Rates Development

The City of Santa Barbara is currently in a Stage Three Drought Emergency Condition, requiring a 35 percent reduction in overall water demands. Current water rates, which when into effect in August 2016, account for increased costs associated with responding to the drought, as well as a 35 percent demand reduction. With forecasted challenges in meeting summer 2017 water demands and diminished storage at Cachuma reservoir, the City is considering increasing its conservation target to 40 percent.

The City has designed its water rates in compliance with California Urban Water Conservation Council policies to encourage conservation, with 70 percent or more of revenue coming from volumetric rates that vary based on water use. This water rates design gives customers more control over their water bill in that lower water use results in a lower bill, and higher water use results in a higher water bill. However, this can be challenging for financial management, given that the majority of water system costs are fixed and are independent of water use. If drought conditions worsen and increased conservation targets are necessary, this could negatively impact revenues from volumetric rates, and the City would be at risk of not meeting fixed financial obligations (e.g. debt service, required maintenance, etc.)

Given the uncertainty of whether the current level of water demands will continue, and the possibility of an increased conservation target for next year, the proposed water rate scenarios for Fiscal Year 2018 will consider a conservation range up to 50 percent. A temporary drought impact fee will be considered in the water rate design that stabilizes revenue under various levels of demand reduction. This temporary fee is intended to address revenue loss that occurs when community conservation exceeds the projections for water use used to develop base water rates, and would be removed once water usage stabilizes and the annually adopted rates are sufficient to cover the cost of service.

Any adjustment in the water rates must be made in compliance with Proposition 218 requirements, known as the Right to Vote on Taxes Act, approved by voters in 1996. It includes the requirement that the rates may not exceed the estimated cost of providing the service, and it must be reasonable, fair, equitable, and proportional.

Bartle Wells is a well-known financial expert for water rate consulting services. Bartle Wells assisted in development of the City's water rate model in support of the FY17 Water Rate Study in compliance with the requirements of California's Proposition 218. Staff has received a proposal from Bartle Wells to undertake the modeling and analysis necessary to develop a recommended rate structure for various water supply and demand conditions, with recommendations on a potential drought impact fee. The analysis will include a full analysis of the City's rate structure and proposed modifications, including unincorporated area costs.

Capacity Fees

Capacity fees are one-time fees paid for new or expanded connections to the water and wastewater systems. The buy-in fee reimburses existing customers for a proportionate share of the assets of the water infrastructure system, which existing customers have funded through payment of monthly service charges and their own buy-in fee paid at the time of connection. Upon payment of the buy-in fee, new customers are considered to have an equal equity position as compared to existing customers and can appropriately be charged in accordance with the City's rate schedule as it applies to existing customers. Capacity fees are not subject to Proposition 218 requirements, although they are subject to other requirements of the California Government Code.

The City last updated its capacity fee in 2013. Staff is planning to update the capacity fees in 2017. The scope of work proposed by Bartle Wells includes review of the City's current capacity fee methodology, evaluation of alternate capacity fee methodologies, and development of proposed capacity fee recommendations.

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SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office