



City of Santa Barbara
Public Works Department

Memorandum

DATE: February 21, 2019

TO: Water Commissioners

FROM: Joshua Haggmark, Water Resources Manager/MBH

SUBJECT: Policy Input on Wastewater Rate Development

RECOMMENDATION:

That the Water Commission receive an update on the status of proposed changes to the City's Wastewater rates, and provide input prior to finalizing the proposed rates.

BACKGROUND:

The City's Wastewater System plays an essential role in the protection of public health and the environment. This complex system includes 273 miles of sewer mains, 7 lift stations, 25 creek crossings, over 7,000 access structures (manholes and cleanouts), 2 miles of force main, and the El Estero Wastewater Treatment Plant. Maintaining this system requires a proactive commitment to investing in the capital infrastructure and resources necessary to keep this vital system operating 24 hours a day, 365 days per year. Additionally, the Wastewater System will need to maintain rates that support the projects included in the El Estero Facility Plan, which identifies over \$95 million in capital improvements over the next 25 years.

On December 20, 2018, staff and the City's consultant, HDR, presented to the Water Commission on Wastewater rate development and requested policy input on various aspects of the rate study. As noted in the draft December 20, 2018 meeting minutes, the list below summarizes the input received from the Commission regarding residential rate design:

- Support for the general direction of the rate design.
- Support for reducing the single-family usage threshold.
- Support for removing the multi-family usage threshold.
- Working within the legal bounds of Prop. 218, wastewater rates should promote water conservation.
- Support for a rate structure that collects approximately 50 percent of revenue in fixed charges and 50 percent in volumetric charges.
- The financial decisions we make should be transparent.

After meeting with the Commission in December 2018, staff has been working with HDR on finishing the cost-of-service analysis and designing rates for each class of customer. At this time, staff is requesting input on HDR's recommendations for residential rate design.

DISCUSSION:

Revenue Requirement and Cost-of-Service Analysis

On a long-term basis, revenues must be sufficient to meet the cost of the City's Wastewater System, including operations and maintenance expenses, capital improvements, mandated standards of treatment, principal and interest payments on existing debt, reserves, and other obligations. The total revenue requirement, less non-rate revenue from other sources such as fees collected for Fats, Oils, and Grease delivery services, is defined as the "cost of service" for any given fiscal year. Preliminary analysis by HDR indicates that annual revenue increases of five percent will be sufficient to meet the cost-of-service needs of the Wastewater System over the span of the rate study analysis. Additionally, HDR recommends continuing with a rate structure that collects approximately 50 percent of revenues from fixed charges and 50 percent from volumetric charges. Under this rate structure, a basic level of rate stability is retained and customers will continue to receive clear economic benefits for conservation, which provides them the opportunity to reasonably manage the costs of their water and wastewater bills.

After determining the cost of service, rates are then designed to apportion the cost of service among the customer classes, according to the proportionate share of costs of service attributable to the classes and tiers within classes. A cost-of-service analysis is forward-looking and determines the equitable allocation of the revenue requirement to the various customer classes of service (i.e., residential, commercial). To briefly summarize, a cost-of-service analysis functionalizes the revenue requirement into cost components, which are then assigned to the various customer classes based on appropriate allocation factors. The allocated expenses are then aggregated for each customer class to determine the appropriate share of the total cost of service for each class.

Residential Customer Class

Wastewater volumetric charges are assessed on single- and multi-family residential units for only a portion of their water use. The purpose of limiting the applicable billing units is to recognize that water use above a certain level is likely being used for outdoor watering, which does not flow into the wastewater collection system or receive treatment at El Estero. In this memorandum, the word "cap" refers to the quantity of water, in hundred cubic feet (HCF), after which single family customers are not charged Wastewater fees for volumetric use. The Commission supported staff in analyzing the impacts from lowering the single family cap and removing the cap on multi-family customers.

Single Family Residences

Single-family rates include a fixed charge and a volumetric charge based on metered water consumption with a cap at 10 HCF. In looking at the single-family class, HDR studied the rate impacts from lowering the cap. Having a cap lower than 10 HCF results in fewer billing units (HCF) to spread the cost of service, and produces disproportionate increases in the monthly bill for low water users. In addition, on an individual account bases, HDR finds a wide range of monthly water use that is above and below the 10 HCF cap, indicating that the 10 HCF limit continues to be a reasonable approximation of the point at which water use becomes discretionary for outdoor purposes. Lastly, eight years of drought have made it difficult to estimate the “new-normal” for water use and the resulting impacts on flows through the wastewater collection system and treatment plant. For the above reasons, HDR is not recommending changing the 10 HCF cap for single-family residences.

Multi-Family Residences

Similar to single family, the multi-family residential rates include a fixed component and a volumetric component based on potable water use. If a single water meter serves one, two, three, or four attached dwelling units, or two or more detached dwelling units, the billing cap is set at 8 HCF. If a single meter serves five or more dwelling units, any of which are attached, the cap is set at 7 HCF.

The rate structure described above intends to use the relationship between the number of units served by a single meter as a means to differentiate between multi-family units with water use patterns similar to single-family residences, and more dense multi-family units with little to no outdoor watering areas. Multi-family residential units have less discretionary water use because they typically do not have sizable outdoor watering areas, if any at all. Additionally, the City’s Fee Resolution requires multi-family developments with five or more units to separately meter domestic and irrigation uses, which further compartmentalizes water use to the individual meters.

HDR has completed a preliminary review of the multi-family residential class and is contemplating removing, or raising, the cap for all groupings of multi-family residences to better reflect the amount of wastewater being discharged into the collections system and treated at El Estero.

Commercial and High Strength Dischargers

Commercial

Currently, there are four commercial classes in the adopted wastewater rate structure. HDR is continuing to analyze these commercial classes to confirm or adjust classifications and rates based on waste strength.

High Strength Dischargers

HDR is continuing to refine the recommendation for a new commercial class to cover high strength discharges, which would include septic and portable restroom waste haulers. Currently, these customers are charged the commercial high strength/industrial waste rate for this service. The cost-of-service analysis will determine the equitable and proportional allocation of costs to high strength waste. At this time, Marborg Industries would be the only business in this category. Staff has reached out to Marborg Industries requesting a meeting to discuss the cost-of-service study.

Schedule of Adoption

After receiving policy input from the Water Commission, HDR will complete the cost-of-service analysis and rate design. Staff is tentatively planning to present the proposed wastewater rates at the regularly scheduled Water Commission meeting on March 21, 2019, followed by the Finance Committee on April 9, 2019. If approved, the proposed rates would be noticed in compliance with Proposition 218 and a public hearing would be scheduled before City Council in June 2019, prior to adoption of the Fiscal Year 2020 budget.