CITY OF SANTA BARBARA
COUNCIL AGENDA REPORT

AGENDA DATE: October 29, 2019

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Contract Services For Water Rate Study

RECOMMENDATION:

That Council authorize the Public Works Director to execute a City Professional Services contract with HDR Engineering, Inc. in the amount of $125,000 for a Water Rate Study, and authorize the Public Works Director to approve expenditures of up to $12,500 for extra services of HDR Engineering, Inc. that may result from necessary changes in the scope of work.

DISCUSSION:

Water utilities are dependent on user rates to fund most of the operations, maintenance, and capital improvement costs required to keep the utilities functioning reliably and in compliance with federal and state regulations. A key component of a water rate study is a cost-of-service analysis to ensure that City water rates are compliant with Article XIII D, Section 6 of the California Constitution, provisions commonly referred to as Proposition 218. Proposition 218 includes the requirement that rates may not exceed the estimated cost of providing the service, and that rates must be reasonable, fair, equitable, and proportional.

The current rate structure was adopted in 2018 and remains in effect through June 30, 2020. Staff intends to adopt rates for a three- to five-year period. However, the planning horizon will be largely dependent on modeling several dynamic factors, including the potential for a Water Sales Agreement with Montecito Water District (MWD), a soon-to-be completed water infrastructure study, and customer water demand. The Water Sales Agreement with MWD, as contemplated in the Council-approved Term Sheet, will reduce the overall cost burden to City customers in the long term but may require upfront capital expenditures in the short term. Additionally, the water infrastructure study will produce recommendations for asset management and capital project planning, which must be factored into rates. Lastly, customers continue to conserve water at high levels, which is critical to preserving our surface water supplies and resting the groundwater basins, but can put upward pressure on water rates. All of these factors need to be weighed against rate affordability. In light of this, the consultant’s scope of work includes an optional task
to provide a preliminary report on implementing a rate assistance program for the City's water customers.

The Water Rate Study will assess existing user rates, develop fair and equitable rates that are based on cost-of-service analysis, and ensure there are sufficient revenues to meet the water operations, maintenance, and capital needs. The Water Rate Study will propose needed revenue adjustments to fully fund planned capital projects for the next 10 years and maintain water reserve funds at a healthy level.

HDR Engineering, Inc. (HDR) was selected as the most qualified firm through a competitive Request for Proposal and interview process. Given the qualifications and experience of HDR’s team members, particularly the project manager, staff is confident in HDR’s ability to effectively and efficiently perform the work as described in the contract scope of work. Based on recent rate study services performed for the City and the other proposals received, staff determined that HDR’s costs and scope of work for the Water Rate Study are appropriate.

This item was presented to the Water Commission at its meeting on October 17, 2019, and the Water Commission voted X-X in support of staff’s recommendation.

A copy of the contract is available for public review at the City Clerk’s Office.

**BUDGET/FINANCIAL INFORMATION:**

There are sufficient funds in the Water Operating Fund to provide for the cost of this contract.

**PREPARED BY:** Joshua Haggmark, Water Resources Manager/MBH/js

**SUBMITTED BY:** Rebecca J. Bjork, Public Works Director

**APPROVED BY:** City Administrator's Office
PUBLIC WORKS DEPARTMENT
WATER RESOURCES DIVISION

CONTRACT SERVICES FOR WATER RATE STUDY

Water Commission – October 17, 2019

SantaBarbaraCA.gov/Water
Selection Process

Request For Proposals
July 2019 – Received 5 proposals

Interviews
September 2019 - Chose top 3 proposals

Ranking & Selection
October 2019 – composite ranking and selection of HDR Engineering
Contract Scope of Services

• Rate Study
  - Propose 3 Year Rate Schedule
  - Revenue Requirement, Cost-of-service Analysis, Rate Design
  - Final Report
  - Public Outreach – 5 Public Presentations
• 10-year Financial Plan
• Study of Rate Relief Programs
Key Focus Areas

- Water Demand/Conservation Levels
- Water Distribution Infrastructure
- Water Supply Agreement
- Commercial Customer Class
- Financial Health
## City of Santa Barbara

### Water Rate Study

#### Preliminary Work Schedule

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Recommendation

- Authorize Public Works Director to execute contract with HDR Engineering, Inc.
  - Base contract: $129,855
  - Extra Services: $12,985