



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 25, 2024

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department;
Clean Community Division, Sustainability & Resilience Department

SUBJECT: Public Hearing on Proposed Changes to Water, Wastewater, and Solid Waste Rates

RECOMMENDATION: That Council:

- A. Hold a public hearing, consider all written protests, and determine if there is a majority protest regarding proposed increases to water and wastewater rates for Fiscal Years 2025-2028 and solid waste rates for Fiscal Year 2025, as required by California Constitution article XIII D, § 6; and
- B. If there is no majority written protest, direct staff to prepare a rate schedule setting the water and wastewater rates for Fiscal Years 2025-2028, and solid waste rates for Fiscal Year 2025, and update the schedules within the City of Santa Barbara Schedule of Penalties, Fees, Rates, and Service Charges resolution for adoption on July 2, 2024.

EXECUTIVE SUMMARY:

The City operates water and wastewater utilities and administers a solid waste contract with MarBorg Industries. The City recovers the costs for operating water, wastewater, and solid waste services through a monthly utility bill. The revenues from these services must be sufficient to meet the ongoing costs of operating each utility. The water and wastewater enterprises are full-service operations, which includes all necessary staffing to operate and maintain the utilities, ongoing investments in capital improvements, servicing long-term debt obligations, and maintaining adequate policy reserves to provide safe and reliable drinking water and discharge of wastewater effluent, while meeting strict State and Federal requirements.

To evaluate the water and wastewater utilities' revenue sufficiency, the City's rate consultant analyzed a 10-year planning period and a four-year rate setting period (Fiscal Years 2025-2028). Over the rate setting period, the total revenue requirements for the Water and

Wastewater Funds are increasing due to: inflation outpacing assumptions in previous water and wastewater rate models for both operations and maintenance and capital costs; significant increases in allocated costs, including property and liability insurance; and increased policy reserve minimums due to increases in operating and capital costs. As a result, the City's rate consultant is recommending increases in the City's water and wastewater rates to sufficiently meet the needs of the water and wastewater utilities over the next four years.

Under California Constitution article XIII D, § 6, (often referred to as Proposition 218) Council is required to consider all written protests against the proposed rates submitted at or before the Public Hearing. If written protests against the proposed rates are presented by a majority of parcel owners, or other eligible City utility customers, at or before the hearing, the City may not impose the rates as proposed. Only one written protest per parcel or service address may be counted. Oral protests are not counted towards a majority protest but may be considered by Council in its deliberations. The Notice of Public Hearing was mailed on April 24, 2024, to all active account holders who receive water, wastewater, or solid waste service from the City. The notices were mailed to the addresses where active account holders regularly receive their paper bills. Additionally, on April 30, 2024, City staff emailed a digital copy of the mailed notice to all active account holders with an email address associated with their City utility billing account. The notice advised customers of the proposed rate changes; the date, time, and location of the Public Hearing; and, how to protest the proposed rate changes.

As of June 5, 2024, the City has received 9 protests of the water rate changes (3 written protests and 6 pieces of returned mail, which were counted as protests), 8 protests of the wastewater rate changes (2 written protests and 6 pieces of returned mail) and 6 protests of the solid waste rate changes (0 written protests and 6 pieces of returned mail). The City has also received comments emailed from 8 individuals relating to the proposed rate changes.

DISCUSSION:

Water and Wastewater Rate Change Background

On October 3, 2023, Council approved a contract with HDR Engineering Inc., (HDR) to conduct comprehensive water and wastewater rate studies and 10-year financial plans for the water and wastewater utilities. The City regularly conducts water and wastewater rate studies, which include rate revenue projections for the next 10 years. The last water rate study was completed in 2021, and the last wastewater rate study was completed in 2022. HDR and staff have been presenting regularly to the Water Commission, Finance Committee, and Council to receive feedback and policy direction on the proposed rates. Included below is a summary of the public meetings:

Meeting Date	Meeting Body	Meeting Summary
September 21, 2023	Water Commission	Recommended that Council authorize staff to execute a contract with HDR for a rate study.

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October 3, 2023	Council	Authorized staff to execute a contract with HDR for a rate study.
October 19, 2023	Water Commission	Staff and HDR introduced the governing principles and goals of the water and wastewater rate study.
January 18, 2024	Water Commission	Staff and HDR presented revenue requirement options for water and wastewater. The options for each utility included varying levels of capital funding and use of reserves below policy level. Received input from the Commission on which option to pursue.
February 15, 2024	Water Commission	Staff and HDR presented updated revenue requirement options for water and wastewater. Received input from the Commission on which option to pursue.
February 27, 2024	Finance Committee	Staff and HDR presented revenue requirement options for water and wastewater. The options for each utility included varying levels of capital funding and use of capital reserves below policy level. The Committee recommended that Council direct staff to complete a cost of service analysis and return with a final rate notice.
February 27, 2024	Council	Staff and HDR presented revenue requirement options for water and wastewater. The options for each utility included varying levels of capital funding and use of capital reserves below policy level. Council directed staff to complete a cost of service analysis and return with a final rate notice.
March 21, 2024	Water Commission	Staff and HDR presented the proposed water and wastewater rates. Water Commission approved the staff recommendation 4:0:1 to set a public hearing date and notice the proposed rates, and forwarded the item on to Finance Committee and Council.
April 9, 2024	Finance Committee	Staff and HDR presented the proposed rates. Finance Committee approved the staff recommendation 2:1:0 to set a public hearing date and notice the proposed rates to customers.
April 9, 2024	Council	Staff and HDR presented the proposed rates. Council approved the staff recommendation 6:1:0 to set a public hearing date and notice the proposed rates to customers.

May 22, 2024	Public Webinar	Staff held an informational public webinar for members of the public to learn more about the proposed water and wastewater rates.
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Recordings of all the above meetings are available on the City’s website.

Full reports compiled by HDR on the proposed water and wastewater rates are available for review online at www.SantaBarbaraCA.gov/RateChanges or in person at the City Clerk’s office in City Hall.

Wastewater Rate Changes for Fiscal Years 2025 - 2028

The City’s wastewater system plays an essential role in protecting public health and the environment. Maintaining the City’s wastewater 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 a year. The City’s complex wastewater system includes 256 miles of sewer mains, 7 lift stations, 25 creek crossings, over 7,000 access structures (manholes and cleanouts), 2 miles of pressurized force mains, and the El Estero Water Resource Center (El Estero) – all of which must operate seamlessly to process approximately 2 billion gallons of wastewater annually.

Revenue Requirement and Cost of Service Analysis

During the rate setting period, revenues must be sufficient to meet the costs 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. In addition, recent inflation has outpaced the assumptions in previous wastewater models for both operations and maintenance and capital costs. The wastewater utility is also experiencing significant increases in allocated costs including property and liability insurance, and increased reserve minimums due to increased operating and capital costs¹. The sum of these factors contributes to the need for an average annual revenue increase² of 9.5% for Fiscal Year 2025 – Fiscal Year 2028.

To help mitigate rate impacts to customers, capital reserves are being drawn down below minimum policy levels. This results in capital reserves dropping below City policy in multiple years, with a maximum of \$1.3M (~10%) below Council policy in Fiscal Year 2028. Reserves are projected to return to City policy levels in Fiscal Year 2030 (outside of this 4-year rate setting period) based on the 10-year financial plan assumptions, which include future wastewater rate adjustments.

¹ Reserve minimums are calculated based on the planned operating and maintenance, and capital budgets. Therefore, reserve minimums increase as costs increase.

² It is important to note that rate revenue increases do not equate precisely to rate increases or bill impacts to individual customer classes of service. For example, a single-family residence with average wastewater use may see different impacts than a commercial customer.

The total revenue requirement less non-rate revenue from other sources is defined as the “cost of service” for any given fiscal year. 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 each customer class. A cost of service analysis is forward-looking and determines the proportional distribution of the revenue requirement to the City’s customer classes of service (i.e., residential, commercial, industrial).

Rate Structure and Proposed Rates

No changes to the City’s wastewater rate structure are proposed for this study. Residential wastewater bills are made up of two components: (1) a volumetric charge based on water usage, and (2) a fixed monthly base charge based on the number of dwelling units served by the account. For single-family customers, wastewater volumetric charges are capped at 8 hundred cubic feet (HCF) of water use. The purpose of capping the volumetric charges is to recognize that water use above this level is likely being used for outdoor watering, which does not enter the wastewater collection system or receive treatment at El Estero. The multi-family customer class does not exhibit a strong outdoor irrigation pattern, meaning most water usage is being used primarily indoors and discharged to the City’s wastewater system. Therefore, there is no volumetric cap for multi-family residential customers.

There are two commercial classes of service: Commercial, and Commercial High Strength/Industrial. Both classes are charged the greater of their volumetric charges or minimum monthly bill amount based on water meter size.

The City also has High Strength Surcharges that cover the additional treatment costs associated with high strength wastewater streams that exceed certain levels of Biochemical Oxygen Demand (BOD), Total Suspended Solids (TSS), and/or Ammonia. Discharges that fall in this category include, but are not limited to, domestic septic tank/portable restroom discharges, industrial laundry services, and alcoholic beverage manufacturing (e.g., breweries, wineries, and distilleries). The cost of service analysis has determined the proportional allocation of costs on a per pound basis for BOD, TSS, and Ammonia. The vast majority of commercial customers do not receive High Strength Surcharges.

Water Rate Changes for Fiscal Years 2025-2028

Revenue Sufficiency

On a long-term basis, revenues must be sufficient to meet the costs of the City’s water system, including operations and maintenance expenses, capital improvements, mandated standards of treatment, principal and interest payments on existing debt, Council policy reserves, and other obligations. Additional rate impacts are due to: inflation outpacing assumptions in previous water rate models for both operations and maintenance and capital costs; significant increases in allocated costs, including property and liability insurance; and increased reserve minimums due to increased operating and capital costs.

The sum of these factors contributes to an annual revenue increase³ of 10.5% for Fiscal Years 2025-2026 and 10% for Fiscal Years 2027-2028.

The proposed rate plan includes drawing down capital reserve funds to mitigate rate impacts to customers. This will result in capital reserves dropping below City policy in multiple years, with a maximum of \$6.3M (~20%) below Council policy in Fiscal Year 2026. Reserves are anticipated to return to City policy levels in Fiscal Year 2029 (outside of this 4-year rate setting period) based on the 10-year financial plan assumptions, which include future water rate adjustments.

Upcoming capital improvements include: replacing 6 miles of water main annually (2% of the system), transmission system upgrades, reservoir replacement, and water treatment facility upgrades. Continued investment in the water system is essential to providing safe and reliable drinking water to the City's customers. Additionally, the proposed rates will be sufficient to meet all financial obligations of the utility, including debt service and coverage requirements.

Rate Structure and Proposed Rates

Water bills are made up of two components: (1) a volumetric charge based on water usage, and (2) a fixed monthly service charge based on meter size. Even though the majority (~85%) of costs to maintain and operate the water system are fixed, the City's water rate structure is designed to minimize increases to fixed charges by collecting approximately 30% of revenues from fixed charges while collecting the majority (~70%) of revenue through volumetric charges, which are dependent on water usage. This gives customers an opportunity to reduce their water bill by decreasing water usage.

Council has established priorities for allocating water sources to the different customer classes and tiers within the customer classes. The lowest-cost water sources are allocated to Tier 1 customers, and the more expensive water sources are allocated to the highest tiers, as water supplies are limited, and higher water use is generally for discretionary purposes beyond efficient irrigation use and basic health and sanitation needs.

The City's tiered rate structure is supported by a diverse water supply portfolio, with different supply costs for each of the City's associated water sources. It is important to recognize that water used from the City's various water sources can change from year to year based on hydrology, availability, and operational and management objectives aimed at providing reliable water service. To improve stability in water rates, the City's rate consultant has calculated the volumetric water rates based on the total potential yield of each supply source, adjusted proportionally by the ratio of total yield of all sources versus actual customer consumption, ensuring all sources were within their

³ It is important to note that rate revenue increases do not equate precisely to rate increases or bill impacts to individual customer classes of service. For example, a single-family residence with average water use may see different impacts than a commercial customer.

sustainable yield. This approach reduces rate volatility resulting from year-to-year changes in supply sources.

Rates Based on Proposition 218 Cost of Service Analysis

The total revenue requirement, less non-rate revenue from other sources, such as interest earnings and payments made by other agencies that benefit from the City’s water treatment plant, is defined as the “cost of service.” This cost of service is used as the basis for proportionally distributing costs to the City’s customer classes. Rates, including tiers within each customer class, are designed in accordance with Proposition 218 so that each customer class pays a proportionate share of costs, based on the cost of service to supply water.

The tables below show examples of wastewater and water bills for single family homes based on various usage levels.

Wastewater

Usage Level	Monthly Usage (HCF)	Current Bill	Proposed FY 25 Bill	Proposed FY 26 Bill	Proposed FY 27 Bill	Proposed FY 28 Bill
Low	4	\$44.12	\$48.02	\$52.58	\$57.57	\$63.06
Moderate	10	\$61.24	\$66.14	\$72.42	\$79.29	\$86.86
High	20	\$61.24	\$66.14	\$72.42	\$79.29	\$86.86
HCF: Hundred Cubic Feet (1 HCF = 748 gallons)						

Water

Below example based on a 5/8” meter

Usage Level	Monthly Usage (HCF)	Current Bill	Proposed FY 25 Bill	Proposed FY 26 Bill	Proposed FY 27 Bill	Proposed FY 28 Bill
Low	4	\$53.00	\$58.17	\$64.25	\$70.69	\$77.77
Moderate	10	\$144.14	\$150.03	\$165.77	\$182.35	\$200.59
High	20	\$349.44	\$381.49	\$421.53	\$463.69	\$510.05
HCF: Hundred Cubic Feet (1 HCF = 748 gallons)						

Wastewater and Water Rate Outreach

The City has increased public outreach associated with the anticipated water and wastewater rate changes. Since potential bill increases are larger than have been experienced in recent years, staff implemented a heightened level of outreach to raise awareness and ensure customers understand the facts behind the rate study cost drivers.

Key messages and talking points were developed to guide communication efforts and touch on the most common questions.

In April, the Notice of Public Hearing that is required to be sent to customers (and is quite prescriptive in what information must be shared), also included a fact sheet that discussed the drivers behind the rate increases, what bills pay for, available customer resources, bill impacts to customers, and an invitation to join an informational webinar on the rates (see Attachment 1). The City also included this information in the monthly utility bill inserts, weekly City News in Brief email newsletters, and the quarterly Water Resources email newsletter. Staff created a webpage dedicated to the current rate changes that includes information on the need for the proposed increases, answers to frequently asked questions, the rate notices and fact sheet, links to recordings of all public meetings that discussed the proposed rates, and the full rate reports. The fact sheet, rate notices, and webpage were all translated into Spanish. Social media outreach was conducted on Facebook, Nextdoor, and X (formerly Twitter), as well as an announcement on the new WaterSmart customer portal. Staff also released a press release regarding the proposed rate changes. Additionally, staff presented a public webinar on May 22, 2024, to share information about the need for the rate changes and the rate creation process, and to answer questions from the public. The webinar was recorded and posted on the website. A Spanish translation of the webinar was also posted on the website.

The City is not alone in facing a significant jump in costs of service. Many agencies locally and around the state are taking actions to increase rates to match the cost of providing critical water and wastewater services.

Water Commission, Finance Committee, and Council

On March 21, 2024, Water Commission approved the staff recommendation 4:0:1 (4 in support, 1 abstention due to absence) to set a public hearing date and notice the proposed rates, and forwarded the item on to Finance Committee and Council. On April 9, 2024, Finance Committee approved the staff recommendation 2:1:0 and Council approved the staff recommendation 6:1:0 to notice the proposed rates to customers and set a public hearing.

Solid Waste Rate Change for Fiscal Year 2025

Several factors inform the proposed Fiscal Year 2025 rates, as outlined below.

Waste Processing and Disposal

In 2016, the County of Santa Barbara and the Cities of Santa Barbara, Goleta, Buellton, and Solvang worked together to develop and build the ReSource Center at the Tajiguas Landfill. The ReSource Center is a state-of-the-art resource management facility that significantly increases the diversion of trash from landfill disposal, thereby extending the life of Tajiguas, and providing a long-term waste management solution for the South Coast.

The ReSource Center consists of a Materials Recovery Facility (MRF) that sorts trash and recovers recyclable commodities, as well as an anaerobic digester that converts organics recovered from the MRF into compostable material and biogas. In December 2018, the City executed a 22-year Materials Delivery Agreement with the County that commits the City's waste and associated tipping fees for processing material at the ReSource Center. The County is increasing tipping fees from \$176 per ton in Fiscal Year 2024 to \$189 per ton in Fiscal Year 2025 to keep up with inflation and other cost increases.

Waste Collection and Hauling

The City adopted its current solid waste franchise hauler agreement with MarBorg Industries (MarBorg) on April 18, 2023, which went into effect on June 8, 2023. As part of this agreement, MarBorg's base compensation for curbside cart collection and other collection services remains flat in Fiscal Year 2025. In future years, increases to compensation will be based on inflation.

Franchise Fees

Franchise fees are paid by MarBorg to the City for the use of the City's rights-of-way and impact of the solid waste service on municipal infrastructure. These fees are part of the negotiated franchise agreement and represent costs the City incurs for the right of use of City infrastructure. Franchise fees are incorporated into the rates.

City Programs

In addition to paying for waste hauling and disposal, solid waste rate revenue also pays for various City programs managed by the Clean Community Division. These programs include abandoned waste removal in the public rights-of-way, maintenance of public containers (i.e., public trash cans), clean-up and abatement of encampments throughout the City, public education and outreach, compliance with City reserve policies, and other environmental programs that ensure the City complies with rapidly developing State regulations and maintains its status as an environmentally forward City.

Fiscal Year 2025 Rate Increase

Several factors inform the proposed Fiscal Year 2025 rates. As mentioned above, the increase of County tipping fees to \$189 per ton in Fiscal Year 2025 will increase overall solid waste rates by 2.8%. An adjustment to the Franchise Fee will reduce overall rates by 0.2%. Changes to Clean Community program fees will decrease overall rates by 0.7%.

The combination of these adjustments results in a 1.9% total increase for solid waste rates, as shown in the table below.

Santa Barbara Rate Increases Effective July 2, 2024	
Hauler (MarBorg) Compensation	0.0%
Tipping Fee Increase (County)	2.8%
Other City Programs	-0.9%
TOTAL Change to Customer Charges	1.9%

BUDGET/FINANCIAL INFORMATION:

The proposed rate schedules support the Water and Wastewater Funds budget submittals for Fiscal Year 2025, and align the funds with their 10-year financial plan. Over the four year rate setting period, the proposed water and wastewater rates will generate necessary rate revenue, which when combined with non-rate revenue and use of reserves, will be sufficient to support the costs of operating and maintaining the water and wastewater systems. Under the proposed water and wastewater rate structures, the City will utilize non-rate revenue and capital reserves below policy level to reduce, or “buy down”, the revenue requirement, which is the total amount of funding that needs to be generated from rate payers in any given year.

The City has executed two long-term water supply agreements: (1) a Recycled Water Agreement with the La Cumbre Mutual Water Company, and (2) a Water Supply Agreement (WSA) with Montecito Water District for the sale of potable water secured by the Charles E. Meyer Desalination Plant. Without these agreements, particularly the WSA, the City would need to either significantly increase rates above what is being proposed, reduce planned capital investments in aging infrastructure, or execute a combination of these actions. Continuous deferral of capital funding would lead to underinvestment in the water system, leading to more frequent emergency repairs and higher maintenance costs in the future.

Under the proposed solid waste rates, the City will fulfill its contractual obligations to the County for waste processing and to MarBorg for franchised waste hauling services. The proposed rates also enable compliance with State regulations and fund additional management of encampment and community clean-up.

ENVIRONMENTAL REVIEW:

The Public Hearing on Proposed Changes to Water, Wastewater, and Solid Waste Rates falls outside of the definition of a “Project” under California Environmental Quality Act (CEQA) Guidelines section 15378 (b)(5), as administrative activities of governments that will not result in direct physical changes in the environment are not subject to CEQA environmental review. Any future project that would come as a result of rate changes will be subject to CEQA environmental review.

ATTACHMENTS: 1. Water and Wastewater Rate Fact Sheet
2. Notices of Public Hearing on Utility Rates

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