

RESOLUTION NO. 2124

A RESOLUTION OF THE BOARD OF DIRECTORS OF MONTECITO WATER DISTRICT ADOPTING WATER SHORTAGE EMERGENCY SURCHARGES

WHEREAS, The Montecito Water District (“District”) developed a Cost of Service Study (“Rate Study”) in fiscal year 2013-2014 and on August 29, 2013 adopted Resolution 2107, providing a five-year rate schedule through fiscal year 2017-2018; and

WHEREAS, the Rate Study assumed normal, non-drought conditions and did not include any expenditures related to drought; and

WHEREAS, after four consecutive years of below-normal rainfall, California is facing a severe drought emergency with Santa Barbara County in a second year, D4, exceptional drought condition; and

WHEREAS, in response to statewide drought conditions, the District declared a water shortage emergency (“WSE”) on February 11, 2014, and adopted Ordinance 93 on February 21, 2014, which establishes monthly water allocations for all customer classifications and penalties for consumption in excess of allocation; and

WHEREAS, the District’s water rates include two components: a fixed service charge and a charge based on the quantity of water consumed. The District receives approximately seventy-five percent of its water sales revenue from charges based on the quantity of water consumed; and

WHEREAS, water sales revenues have decreased substantially since the adoption of Ordinance 93 due to the WSE, with a forty-five percent decrease in consumption compared to 2013 consumption, and revenue from penalties established under Ordinance 93 does not offset the loss in sales revenue; and

WHEREAS, the District has incurred substantial costs to manage the drought, including \$1.5 million for the purchase of supplemental water, in addition to expenditures for public outreach, legal services, drought allocation program costs, pumping costs, and future water exchange obligations; and

WHEREAS, the high cost of managing the drought is expected to continue through 2016, as the District looks beyond short-term water purchases to secure long-term water supply through the development of desalinated water production, possible new groundwater opportunities, and other identified water supply solutions; and

WHEREAS, the forty-five percent decrease in consumption since the effective date of Ordinance 93 exceeds the District’s thirty percent conservation goal. Accordingly, the Board of Directors (“Board”) intends to amend Ordinance 93 to increase customer allocations due to its success in purchasing supplemental water, but the effect of such an allocation increase on future consumption is uncertain; and

WHEREAS, the District retained an independent financial consultant, Bartle Wells Associates, to analyze the District's fiscal condition and provide recommendations for meeting drought-related expenses. These recommendations were developed with the support of District staff and the Board of Directors; and

WHEREAS, Bartle Wells has submitted a WSE Surcharge Study dated January 15, 2015 ("WSE Study"), which is available on the District's website, under which it recommends a range of proposed surcharges ("Proposed WSE Surcharges"), depending on the level of future consumption. The Proposed WSE Surcharges are based upon eight scenarios of continuing reduced sales, ranging between five percent and forty percent reduction, and apply only until extraordinary drought-related expenses have been recovered; and

WHEREAS, the Board desires to authorize a maximum surcharge based on a forty percent sales reduction scenario, while monitoring actual sales and adjusting the surcharge as needed. At the present time, the Board desires to base the surcharge on a 20% sales reduction scenario; and

WHEREAS, on March 24, 2015, the Board held a full and fair public hearing on the Proposed WSE Surcharges. At the hearing, all interested persons had an opportunity to provide oral and written testimony regarding the Proposed WSE Surcharges; and

WHEREAS, in accordance with the requirements of section 6 of Article XIII D of the California Constitution and Government Code section 53755, the March 24, 2015 hearing was held not less than 45 days after mailing notice of the hearing to the addresses to which the District customarily mails its billing statements; and

WHEREAS, The District accepted and caused the tabulation of all written protests against the Proposed WSE Surcharges. Based upon the results of this tabulation, a majority protest against the Proposed WSE Surcharges does not exist; and

WHEREAS, based on the information presented at the March 24, 2015 hearing, including but not limited to the WSE Surcharge Study and oral and written testimony and protests from members of the public, the Board determines that:

- A. Revenues derived from the Proposed WSE Surcharges are not expected to exceed the funds required to provide water service.
- B. Revenues derived from the Proposed WSE Surcharges may not be used for any purpose other than to provide water service.
- C. The amount of the Proposed WSE Surcharges imposed upon any parcel or person as an incident of property ownership will not exceed the proportional cost of water service attributable to the parcel.
- D. The Proposed WSE Surcharges are imposed upon a parcel only where water service is actually used by, or immediately available to, the parcel.

WHEREAS, this resolution does not constitute a project under the California Environmental Quality Act ("CEQA") Guidelines as set forth in Title 14, section 15378 of the California Code of Regulations, because it amends a government funding mechanism that does not involve any

commitment to any specific project that may result in a potentially significant physical impact on the environment (§ 15378(b)(4)) and is an administrative activity of government that will not result in direct or indirect physical changes in the environment (§ 15378(b)(5)). Furthermore, if this resolution were a project, it would be categorically exempt from CEQA pursuant to Title 14, Section 15273(a) of the California Code of Regulations, because it establishes rates and charges to fund current operating expenses of the District; and

WHEREAS, the Board now finds it necessary to adopt the Proposed WSE Surcharges, until such time as water conditions have returned to normal and extraordinary drought-related costs have been recovered.

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE MONTECITO WATER DISTRICT AS FOLLOWS:

Section 1: Authorization of WSE Surcharges.

The Board authorizes the imposition of WSE Surcharges based upon the water sales reduction scenarios described in the WSE Surcharge Study. The WSE Surcharges are volumetric charges that apply uniformly to all customer classes and all tiers of consumption. The maximum WSE Surcharge of \$4.16 per HCF is based on a scenario of a forty percent sales reduction. While the Board retains authority to impose this maximum WSE Surcharge, the charge will be based upon actual sales, which will be evaluated regularly. The range of WSE Surcharges hereby authorized is as follows:

Water Shortage Emergency Surcharge

% of Water Sales Baseline of 5,200 AF	5%	10%	15%	20%	25%	30%	35%	40%
Water Consumption (AF)	4,940	4,680	4,420	4,160	3,900	3,640	3,380	3,120
Surcharge (HCF)	\$.79	\$1.11	\$1.47	\$1.87	\$2.33	\$2.85	\$3.45	\$4.16

Section 2: Initial WSE Surcharge.

A WSE Surcharge of \$1.87 per HCF, based on a twenty percent (20%) sales reduction scenario, is hereby adopted. Staff is directed to monitor actual sales on a regular basis, so that this surcharge can be adjusted as needed.

Section 3: Temporary Nature of Surcharge.

The WSE Surcharges shall apply only until water conditions have returned to normal and drought related costs, including but not limited to revenue loss resulting from sales reductions, have been recovered.

Section 4: Recitals.

Each of the matters set forth in the recitals of this Resolution is true and correct. All recitals constitute findings associated with the matters addressed in this Resolution.

Section 5: Severability.

If any subdivision, paragraph, sentence, clause, or phrase of this Resolution is, for any reason, held to be invalid or unenforceable by a court of competent jurisdiction, such invalidity or unenforceability shall not affect the validity or enforcement of the remaining portions of this Resolution. It is the District's express intent that each remaining portion would have been adopted irrespective of the fact that one or more subdivisions, paragraphs, sentences, clauses, or phrases be declared invalid or unenforceable.

Section 6: Effective Date.

The WSE Surcharges adopted in this Resolution shall become effective on the first day of the April monthly billing cycle, as defined under Ordinance 93, and shall remain in effect until changed by the Board.

PASSED, APPROVED AND ADOPTED by the Board of Directors of Montecito Water District this 24th day of March, 2015.

AYES:

NAYS:

ABSENT:

APPROVED:

ATTEST:

Darlene Bierig, President

Tom Mosby, Secretary