

**Metropolitan Domestic Water Improvement District
Board of Directors Meeting**

October 28, 2013

**Resolution 2013-8
Proposed Rate Structure and Fees**

Synopsis

The Board of Directors is requested to review the information presented by staff and consider comments from the public regarding the proposed adjustments to the rate structure and fees before taking possible action to adopt Resolution 2013-8.

Background

At the September 9, 2013 meeting, the Board approved the scheduling of a public hearing for October 28, 2013 to discuss a rate adjustment for the purpose of ensuring that the District could address increases to non-controllable expenses (CAP water, electricity, health insurance), have a strong financial foundation, and avoid impacting operation and maintenance of existing facilities and reduce customer service.

At separate meetings, the Board of Directors and Finance Oversight Committee have reviewed and discussed the August 12, 2013 Water Rate & Revenue Analysis. That analysis outlined the current status of the District's revenue situation and shows that the District is in a better place financially this year compared to last year; however, financial projections show that the District must remain proactive regarding generating revenue and monitoring expenses. A primary challenge facing the District is the need to address current and projected increases to its expenditures, including Central Arizona Project rates being higher than anticipated, Tucson Electric Power Company's rate increase, and the impact of the Affordable Health Care Act. In addition, the District, as well as other water providers, must deal with the uncertainty regarding metered water sales, which has been on a decline over the last few years. Staff is projecting a 2.1% annual decrease in water consumption, which will need to be reviewed annually to determine if that trend continues, worsens, or starts to level out.

At the September 9, 2013 meeting, the Board agreed to present to customers a rate adjustment that would include a \$2.00 increase to the Water Availability Rate and a 10¢ increase to the Water Resources Utilization Fee.

The Finance Oversight Committee discussed the proposed rate adjustments at its September 16, 2013

meeting and met again on October 21, 2013 to further discuss the rates. The Committee did formally recommend support for the \$2.00 increase to the Water Availability Rate and the 10¢ increase to the Water Resources Utilization Fee.

Public Hearing

At the public hearing, staff will provide an overview of the proposed adjustment and then the public will have an opportunity to comment. The Board will then be able to discuss the proposed rate adjustments and determine whether to approve it or not. If approved, the adjustment is intended to become effective November 1, 2013.

A brochure describing the rate increase was sent to all customers to tell them about the October 28, 2013 hearing. The insert describes the proposed rate adjustment and the reasons for and impact of such an adjustment. Additionally, all necessary notices for the October 28, 2013 public hearing have taken place.

The following is the proposed rate adjustment per the Board’s direction at the September 9, 2013 meeting, which was presented in the billing insert to customers.

Residential – 5/8” Meter	Proposed Rate	Current
Water Availability Rate	\$22.00	\$20.00
Water Consumption Charges	No Changes	
1 st Tier – 0 – 4,000 gallons	\$2.00	\$2.00
2 nd Tier – 4,001 – 11,000 gallons	\$2.70	\$2.70
3 rd Tier – 11,001 – 18,000 gallons	\$4.21	\$4.21
4 th Tier - 18,001 – 25,000 gallons	\$5.62	\$5.62
5 th Tier – 25,001 gallons and above	\$7.02	\$7.02
Water Resources Development Fee (per 1,000 gallons)	20¢	10¢

Water Availability Rate

The 2013 Water Rates & Revenue Analysis concluded that if no further rate adjustment occurred and the 2.1% water usage decline continues, the District would be in a deficit by the end of FY 2016-17. While monitoring expenditures closely remains important, the analysis showed the need for a rate adjustment to generate more revenue and for the District to remain financially strong. The proposed

rate adjustment is to increase the Water Availability Rate by \$2.00 per month with no changes to the Water Consumption Charges. The \$2.00 increase to the Water Availability Rate would generate a 4% increase in revenue.

This proposed adjustment for the Water Availability Rate is based on the following reasons: First, the District does have a balanced budget but expenses are increasing, especially with CAP charges, energy costs, and health care increases. Also, the District has not been able to keep up with capital projects and equipment acquisition. Historically, the District has had at least \$1 million annually for capital projects and equipment. Since all bond funding has been utilized for completed capital projects, we need to continue to fund the remainder of our capital needs to ensure the productive longevity of the overall system. While expenses are projected to increase, the District continues to find ways to keep the operation and maintenance budget as lean as possible. In the last two years, the District has gone from 52 full-time employees to 46 full-time employees. Also, three more well sites have been added under the interruptible rate to help keep energy costs down as Tucson Electric Power Company has raised its rates.

Second, the decline in metered water sales has created an uncertainty that the District needs to respond to proactively. If the metered water sales continue to decrease by the 2.1% (the current historic decline) and with continued expense increases, the District will be in a deficit by the end of FY 2016-17. That deficit will be worse if the decline is greater than projected. If the decline in metered water sales starts to flatten out or starts to rise, then the District will be in a better financial position.

Third, based on the Analysis, the District continues to have fixed costs that are more than what the water availability rate generates. These fixed costs must be paid whether any water is sold or not; therefore, it is important to have the water availability rate capture more of those costs rather than from the water consumption charges. Therefore, the focus is on increasing specifically the water availability rate, not the water consumption charges that are tied to how much water customers use.

Fourth, it would be better for the District to pursue modest increases now to avoid a future deficit and to be forced to have significant rate increases in the future.

Water Consumption Charges

No change is proposed for the 1st, 2nd, 3rd, 4th, and 5th tiers of the water consumption charges.

Water Resourced Utilization Fee

The Board of Directors and the Finance Oversight Committee have both emphasized the importance of having a designated fee for putting to use CAP water and effluent, particularly related to capital projects. The water resources utilization fee was implement last March to ensure the District is financially able to continue its water resource planning efforts, specifically for the CAP Utilization Project and the CMID Effluent Study. The fee is set at 10¢ for every 1,000 gallons used, with the revenue generated targeted for capital projects related to renewable supplies. The revenue generated

by this fee is set aside and only can be expended upon direction by the Board of Directors. In the second half of FY 2012-13, the Board selected HDR Engineering to perform a pipeline route analysis for a CAP Recharge/Recovery System from Avra Valley Recharge Project to the Herb Johnson Reservoir, location citing for pumping station(s) and possible future treatment facility, cost estimates, and most importantly, financing options for the needed improvements. The District needs to continue moving forward with its CAP Utilization Program because of its long-term importance of using directly a renewable water supply and minimizing future groundwater depletion. In addition, CAP water rates are projected to continue to increase, probably often more than the 5% increase projected by the District, due to growing power costs that CAP must deal with. Also, the District is working on a project with Cortaro-Marana Irrigation District (CMID) to be able to gain 100% credit for the District's effluent.

By increasing the fee an additional 10¢, the District will be able to generate an additional 1.47% in revenue that is specifically designated for the utilization of the District's water resources.

Comparisons

A rate adjustment is always seriously considered before being implemented. While trying to ensure that customers have a reliable, efficient water system, a water utility also must be sensitive to the impact that a rate increase will have on its customers. This proposed rate adjustment has generated more than the usual interest and comments from customers including a news story on television. It is understandable that some customers perceive that water rates are being raised because they have conserved. It has been said that one benefit from water conservation is to lower individual water bills, which differs from the District needing to balance its finances based on water sales and expenses. Therefore, the proposed rate adjustment focuses on the water availability rate as a way to cover more of the District's fixed costs, which are increasing. The water consumption charges are proposed to have no change.

The District's situation is similar to other water utilities in the region, statewide and even nationwide. The District has been progressive in having the focus of rate increases on the water availability rate or base rate.

The following shows how the District compares with recent revenue increases at Tucson Water and Pima County Wastewater.

	Metro Water	Tucson Water	Pima WWM
FY 2007-08	6.32%	6.2%	9.0%
FY 2008-09	4.07%	8.0%	19.4%
FY 2009-10	3.83%	10.0%	27.1%
FY 2010-11	8.23%	9.7%	24.0%
FY 2011-12	NONE	8.2%	9.0%
FY 2012-13	6.2%	8.3%	9.0%
FY 2013-14	5.42% (proposed)	8.3%	9.0%

Regarding the Water Resources Utilization Fee, the District is proposing a 10¢ increase so that it will be 20¢ per 1,000 gallon. Others have comparable fees:

Town of Marana - Groundwater Resource/Acquisition Fee - 40¢ per 1,000 gallons

Town of Oro Valley - Groundwater Preservation Fee - 95¢ per 1,000 gallons

City of Tucson - CAP Charge - 64¢ per 1,000 gallons

Staff Recommendation

It is recommended that the Board ask any questions it may have of staff regarding the proposed rates and fees. More importantly, it is recommended that the Board consider any comments that the public may present at the public hearing.

It is recommended that the Board of Directors discuss each proposed adjustment to the rates and fees and make a decision regarding each component. Following discussions of the water availability rate, the water consumption charges, and the water resource utilization fee, it is recommended that the Board of Directors approve Resolution 2013-8, which would adopt and approve the individual changes made to the rate and fee structure. The effective date for these changes would be November 1, 2013.

The Finance Oversight Committee recommends approval of the \$2.00 increase to the Water Availability Rate and the 10¢ increase to the Water Resources Utilization Fee.

Suggested Motions

I move to approve the Water Availability Rate for 5/8" meters to be \$22.00 and the rate for larger meter sizes would be equated to this rate per the AWWA capacity factor.

I move to approve the Water Resources Utilization Fee to be 20¢ per 1,000 gallons.

I move the approval and adoption of Resolution 2013-8 to make an adjustment to the established water rates and fees for the Metropolitan Domestic Water Improvement District effective November 1, 2013 per the direction given by the approval of the above noted motions.

Respectively submitted,

Mark R. Stratton, P.E.
General Manager