

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

May 18, 2015

**Resolution 2015-2
Proposed Adjustments to Rates and Fees**

Synopsis

The Board of Directors is requested to review the information presented by staff at the public hearing and consider comments from the public regarding the proposed rate and fee adjustments before taking possible action to adopt Resolution 2015-2.

Background

At its March 23, 2015 meeting, the Finance Oversight Committee voted 8-0 to recommend to the Board of Directors to adjust the rate structure to better balance revenue generated for fixed and variable expenditures. The Finance Oversight Committee also voted 8-0 to recommend to the Board of Directors to adopt the adjustments to the water service connection fee, private fire service line monthly fee, inspection fees, and plan review fees as presented by staff at the Committee's March 23, 2015 meeting.

At the March 30, 2015 study session, the Board of Directors approved the scheduling of a public hearing on May 18, 2015 for the purpose of discussing and possibly adopting an adjustment to the District's water rates, water service connection fee, private fire service line monthly fee, inspection fees, and plan review fees as had been recommended by the Finance Oversight Committee and discussed by the Board at the study session.

The focus for this rate cycle is revenue stability. Specifically, by balancing the Water Availability Rate and the Water Consumption Charges, the District is able to capture up to 83% of its fixed costs while the average customer would have less than a \$1.00 increase to their monthly water bill. The changes to the various fees ensure that the fees capture the cost of service.

Public Hearing

At the public hearing, staff will provide an overview of the proposed adjustments and then the public will have an opportunity to comment. The Board will then be able to discuss the proposed adjustments to rates and fees and determine whether to approve it or not. If approved, the adjustment is intended to become effective July 1, 2015.

An insert outlining the proposed rate and the fee adjustments was sent to all customers to invite

them to the May 18, 2015 hearing. The insert describes the proposed balancing of the rate schedule to ensure greater revenue stability for the District. All necessary notices for the May 18, 2015 public hearing have taken place.

Proposed Rate Adjustment to Balance Revenue for Fixed & Variable Expenditures

The proposed rate adjustment is more to balance the rates rather than increase them. The objective has been to balance revenue for fixed and variable costs by restructuring the rate schedule with minimal impact to the average customer. Fixed costs can be defined as those expenses that are incurred regardless of the amount of water used. Variable costs are those more closely tied to the amount of water pumped and delivered.

With the decline in water usage appearing to continue into the future, the District needs to consider how best to stabilize its revenue. Revenue could be further exasperated by weather or economic downturns, which adds to the need for a more stable revenue structure. For the last couple of years, the Board of Directors has supported the concept of having the Water Availability Rate (base rate) capture more of the District's fixed costs, which has helped to increase financial stability. The 2012 and 2013 rate adjustments were focused on raising the Water Availability Rate, which is not dependent upon water usage.

The larger the percentage of fixed costs that is covered by the Water Availability Rate, the more financial stability is achieved for the District and its customers. While increases to the Water Availability Rate have been made, the Water Availability Rate presently covers about 69% of the District's fixed costs. The proposed balancing of the rate structure would have the Water Availability Rate capture the significant majority of fixed costs, up to 83%, while balancing the Water Consumption Charges so that the average customer has less than a \$1.00 increase to their water bill. This overall restructuring of the rate schedule would provide the most expeditious way to achieve additional revenue stability.

The restructuring is achieved by balancing both the Water Availability Rate and the Water Consumption Charges. For Metro Main and Hub, the Water Availability Rate would be increased from \$22.00 to \$27.00 but the first tier for the Consumption Charges would decrease from \$2.00 to 99¢ per 1,000 gallons and the second tier would be lowered from \$2.70 to \$2.66 per 1,000 gallons. This means that an average customer using 8,000 gallons would only have a difference of 80¢ for their monthly bill.

It should be noted while balancing the rate structure was designed to minimize the impact to the average customer, customers who use less than the average customer will see a larger increase to their monthly bill than the average customer. This is due to the increase to the Water Availability Rate in an effort to cover up to 83% of the District's expenses that must be paid whether water is used or not. In other words, customers who consume less water are impacted more by the rate that is to ensure water is available to all customers. On the opposite end of the spectrum, customer who use more water than the average customer will also see a higher increase to their monthly water bill. This is due modifications to the 3rd and 4th Tiers that continue to promote the efficient use of water by charging more for higher water consumption.

The following is the proposed adjustments per the Board's direction at the March 30, 2015 study session, which was presented in the billing insert to customers.

<p style="text-align: center;">Proposed Rate Schedule – Residential 5/8” Meter Metro Main & Metro Hub Effective July 1, 2015</p>
<p style="text-align: center;">Water Availability Rate \$27.00 (currently \$22.00)</p>
<p style="text-align: center;">Water Consumption Charges</p> <p style="text-align: center;">1st Tier (0 - 4,000 gallons) 99¢ per 1,000 gallons (<i>currently \$2.00</i>)</p> <p style="text-align: center;">2nd Tier (4,001 - 11,000 gallons) \$2.66 per 1,000 gallons (<i>currently \$2.70</i>)</p> <p style="text-align: center;">3rd Tier (11,001 - 18,000 gallons) \$4.30 per 1,000 gallons (<i>currently \$4.21</i>)</p> <p style="text-align: center;">4th Tier (18,001 - 25,000 gallons) \$5.70 per 1,000 gallons (<i>currently \$5.62</i>)</p> <p style="text-align: center;">5th Tier (over 25,001 gallons) \$7.02 per 1,000 gallons (<i>currently \$7.02</i>)</p>

Per the schedules attached to Resolution 2015-2, similar adjustments are proposed for the Metro Southwest - Diablo Village and Metro Southwest - E&T service areas. Both service areas have had different rate structures since they were acquired in December 2009. To ensure revenue stability for each of these service areas, rate adjustments are also proposed. In addition, it is proposed that both services areas have the same five tiers for Water Consumption Charges as the other District service areas in order to promote the efficient use of water. Metro Southwest - Diablo Village currently has no tiers and Metro Southwest - E&T has three tiers. Their respective Water Availability Rate and Water Consumption Charges including the addition of tiers were adjusted so the average customer in those service areas would also have less than \$1.00 change to their monthly bills.

No change is proposed for Metro Southwest - Lazy B service area since its current Water Availability Rate is \$30, which is higher than the proposed rate adjustments for all other service areas.

Other Proposed Adjustments

The Board of Directors is also requested to consider the following adjustments to various fees at the public hearing.

Water Service Connection Fee

The District charges a water service connection fee to new customers purchasing a meter and connecting to the system. The water service connection fee is actually the total of three fees

including a meter fee, a water resource fee, and a system development fee. These fees have not been adjusted for a number of years. Staff revisited each one to ensure that they capture their associated costs.

The meter fee reflects the actual cost for the meter and parts needed for installation, along with labor and overhead rates, and also includes administration costs associated with issuing that meter.

The water resource fee is intended to have new development contribute to the acquisition of the District's renewable water resources to meet its existing and future needs.

The system development fee is calculated using an equity (buy-in) method based upon original cost. Each new connection is buying into the existing water infrastructure, which was constructed by previous ratepayer infrastructure investments, based upon the 5/8" meter equivalent capacity. This ensures that development pays proportionally for the system capacity that it will utilize.

In addition, all customer categories listed for the water service connection fee have been grouped together so that the water service connection fee is based on the appropriate meter size and not customer class.

The water connection fee would be the same for each of the District's service areas.

Water Service Connection Fee (proposed to be effective July 1, 2015)				
	Meter Fee	Water Resource Fee	System Development Fee	Total Fee
Proposed - 5/8" Meters	\$439.53	\$170.66	\$1,761.86	\$2,372.05
Current - 5/8" Meters	\$450.00	\$541.00	\$1,356.00	\$2,356.00

Private Fire Service Line Monthly Fee

The private fire service line monthly fee was adopted in November 2010 to cover non-metered lines used to ensure water is available for fighting fires. The private fire service line is generally associated with commercial and multi-family customers and is an additional fee those customers with a private fire service line have on their water bill. The fee was established using Tucson Water's rates and so this fee has been updated accordingly to remain consistent with Tucson Water derived methodology. In addition, 8" lines have been included for the private fire service line monthly fee.

Inspection Fees

The District has two inspection fees: an infrastructure inspection fee and a backflow inspection fee.

The infrastructure inspection fee is 2.5% of the construction costs for the public system (water mains, fire hydrants, water services up to the meter, etc.). The 2.5% would remain for the infrastructure inspection fee; however, a minimum of two hours of inspection would be applied.

The backflow inspection fee proposed increased to match the actual cost to provide the service. It is proposed to be \$95 per backflow device from the current \$25 that was established over 20 years ago.

Plan Review Fees

The District charges fees for design review, plan approval and plan revision or re-approval. These fees have been in place since the 1990s and have never been updated. Per the attachment, the fees are updated to cover the actual time and labor staff utilize to complete these reviews.

Staff Recommendation

It is recommended that Board members ask any questions it may have of staff regarding the each of the proposed rate and fee adjustments. More importantly, it is recommended that the Board consider any comments that the public may present at the public hearing.

After discussing the rate and fee adjustments, it is recommended that the Board of Directors approve Resolution 2015-2, which would put in effect the proposed rates and fees as presented in this report and at the hearing to be effective July 1, 2015.

Suggested Motion

I move to approve and adopt Resolution 2015-2 to make adjustments to the established water rates and fees effective July 1, 2015.

Respectively submitted,

Joseph Olsen, P.E.
General Manager