

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

May 23, 2016

**Resolution 2016-2
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 2016-2.

Background

At its March 21, 2016 meeting, the Finance Oversight Committee voted 8-0 to recommend to the Board of Directors adoption of the proposed adjustments to the rate structure, building on prior years' balancing of the rate structure to better cover fixed costs. Included in the proposed rate schedules are adjustments to the Water Availability Rate, Water Consumption Charges, Water Resource Utilization Fee, Meter Re-read Fee, Meter Testing Fees, and Dual Metering Fees, as presented by staff.

At the March 28, 2016 study session, the Board of Directors approved the scheduling of a public hearing on May 23, 2016 for the purpose of discussing and possibly adopting adjustments to the District's rate schedules as had been recommended by the Finance Oversight Committee and discussed by the Board at the study session.

The focus continues to be revenue stability. By balancing the water availability rate and the water consumption charges, the District would be able to capture nearly 90% of its fixed costs while the average customer would have less than a \$2.45 increase to their monthly water bill. Adjustment to the Water Resource Utilization fee ensures the District is able to invest in strengthening its water resources portfolio through projects like the CAP Recharge, Recovery and Delivery System (CAP RRDS). Changes to the various fees ensure the costs of service are captured.

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 or not. If approved, the adjustment is intended to become effective July 1, 2016.

Inserts outlining the proposed rate and the fee adjustments for each service area were sent to all customers to invite them to the May 23, 2016 hearing. The insert describes the proposed rate schedule for their area. All required notices for the May 23, 2016 public hearing have taken place.

Proposed Rate Adjustment to Balance the Rate Structure

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, the District needed to consider how best to stabilize its revenue. For the last few 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 as consumption is declining.

The Water Availability Rate presently covers about 83% of the District's fixed costs. The proposed rate structure would have the Water Availability Rate capture nearly 90% of fixed costs with the average customer in Metro Main & Metro Hub having a \$2.45 increase to their water bill.

This year, proposed adjustments include the first 3,000 gallons of consumption within the Water Availability Rate, acknowledging those who conserve water while still protecting revenue stability. Under this proposed structure, some customers who use less than 3,000 gallons of water could experience cost savings.

The Water Resources Utilization Fee (WRUF) is earmarked for such items as the CAP RRDS, wheeling, effluent utilization, and other projects designed to maximize the District's water resource portfolio. Two years ago, the FOC discussed the need for three additional 10¢ increases to the WRUF. Proposed rate adjustments for Fiscal Year 2017 include a 10¢ increase, bringing the WRUF to 50¢ per thousand gallons. Partnerships are developing on the CAP RRDS that could potentially reduce the need to get the WRUF to the projected 70¢.

The proposed rate plan is structured so that staff can recommend a 0% increase next fiscal year.

The following table shows proposed adjustments to the Metro Main and Metro Hub rate schedule.

Metro Main & Metro Hub
Proposed Rate Schedule – Residential 5/8” Meter Effective July 1, 2016
Water Availability Rate \$29.50 (<i>currently \$27.00</i>) (to include the first 3,000 gallons)
Water Consumption Charges (3,001 - 10,000 gallons) \$2.75 per 1,000 gallons (<i>currently \$2.66</i>) (10,001 - 17,000 gallons) \$4.60 per 1,000 gallons (<i>currently \$4.30</i>) (17,001 - 24,000 gallons) \$6.10 per 1,000 gallons (<i>currently \$5.70</i>) (over 24,001 gallons) \$7.10 per 1,000 gallons (<i>currently \$7.02</i>)
Water Resource Utilization Fee 50¢ per 1,000 gallons (<i>currently 40¢</i>)

Similar adjustments are proposed for the Metro Southwest - Diablo Village and Metro Southwest - E&T service areas to ensure revenue stability. The following tables show the proposed adjustments for these two service areas, where the average customer would have a \$1.53 and \$2.28 increase to their monthly bills, respectively.

Metro Southwest – Diablo Village
Proposed Rate Schedule – Residential 5/8” Meter Effective July 1, 2016
Water Availability Rate \$31.00 (<i>currently \$27.00</i>) (to include the first 3,000 gallons)
Water Consumption Charges (3,001 - 10,000 gallons) \$3.00 per 1,000 gallons (<i>currently \$2.66</i>) (10,001 - 17,000 gallons) \$4.60 per 1,000 gallons (<i>currently \$4.30</i>) (17,001 - 24,000 gallons) \$6.10 per 1,000 gallons (<i>currently \$5.70</i>) (over 24,001 gallons) \$7.10 per 1,000 gallons (<i>currently \$7.02</i>)
Water Resource Utilization Fee 50¢ per 1,000 gallons (<i>currently 40¢</i>)

Metro Southwest – E&T
Proposed Rate Schedule – Residential 5/8” Meter Effective July 1, 2016
Water Availability Rate \$24.75 (<i>currently \$22.00</i>) (to include the first 3,000 gallons)
Water Consumption Charges (3,001 - 10,000 gallons) \$2.67 per 1,000 gallons (<i>currently \$2.60</i>) (10,001 - 17,000 gallons) \$4.60 per 1,000 gallons (<i>currently \$4.30</i>) (17,001 - 24,000 gallons) \$6.10 per 1,000 gallons (<i>currently \$5.70</i>) (over 24,001 gallons) \$7.10 per 1,000 gallons (<i>currently \$7.02</i>)
Water Resource Utilization Fee 50¢ per 1,000 gallons (<i>currently 40¢</i>)

For the Metro Southwest – Lazy B service area, only a 10¢ increase to the Water Resource Utilization fee is proposed, bringing it to 50¢ per thousand gallons. This fee generates revenue to develop, design, and construct projects that will put to use the District’s CAP water and effluent. The District recently constructed a connection with Tucson Water as part of an agreement to deliver CAP water to Metro Southwest – Lazy B to provide greater redundancy and reliability for the area. By using revenue from this fee, the District avoids additional debt and reduces the financial impact of these initiatives. The proposed change results in only a 64¢ increase to the average customer in Lazy B.

Metro Southwest – Lazy B
Proposed Rate Schedule – Residential 5/8” Meter Effective July 1, 2016
Water Availability Rate \$30.00 <i>No Change</i>
Water Consumption Charges \$3.90 per 1,000 gallons <i>No Change</i>
Water Resource Utilization Fee 50¢ per 1,000 gallons (<i>currently 40¢</i>)

Other Proposed Fee Adjustments

The Board of Directors is also requested to consider the following proposed adjustments to fees at the public hearing. The proposed fees would bring them into alignment with the costs of service.

Meter Testing Fee

The proposed adjustments include new Meter Testing Fees for small and large meters. This fee would be charged when customers request a meter test but does not apply to periodic testing initiated by staff. The proposed charge for testing small meters (5/8" to 1 1/2") is \$150.00 and testing large meters (2" and greater) is \$325.00. The proposed Meter Testing Fee is the same for all service areas.

Meter Re-Read Fee

The proposed adjustments include an increase to the Meter Re-Read Fee. This fee would be charged when customers request meter re-reads. The proposed Meter Re-Read Fee is \$15.00. This fee would also be consistent throughout all service areas.

Effect on Dual Metering Fee

The Dual Metering Fee is calculated as one-third of the Water Availability Rate, or base rate, so if it is adjusted, it affects the Dual Metering Fee. For example, if the Water Availability Rate for Metro Main and Metro Hub becomes \$29.50, the Dual Metering Fee will then be \$9.83. The base rate varies by service area so the effect on the Dual Metering Fee would also vary.

Bulk Water Rates

The proposed rate schedules reflect the bulk rate of \$4.80 per thousand gallons in all service areas, which the Board of Directors passed by resolution on June 6, 2011. Previous versions of rate schedules had incorrectly shown outdated rates for other service areas though all bulk water sales throughout the District's service areas have been billed correctly.

Information Meeting Held on May 18, 2016

A public Information Meeting was held on Wednesday, May 18, 2016 to give the public a preview of the proposed adjustments to the rates and fees, as well as provide an opportunity for customers to ask questions about their water district in an informal setting. Customers who attended had positive comments about the proposed financial plan and had a couple of questions.

There was a question about how potential Central Arizona Project (CAP) shortages or cuts would affect the District. Mr. Olsen explained the District is in a very stable position with regards to its water resources. For many years, the District has been banking water to ensure that water resources

are available regardless of how much CAP water is being used or delivered. The District currently has a 20 year supply of water stored and banks the equivalent of a one year supply of water every two years. If CAP shortages occurred, lower priority users would be affected first and the District is classified as a municipal & industrial (M&I) user, which has a higher priority. The District does have a strong partnership with some agricultural users, such as BKW Farms, Kai Farms, and Cortaro-Marana Irrigation District, which leverages CAP and effluent resources in mutually beneficial agreements.

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 2016-2, which would put in effect the proposed rates and fees as presented in this report and at the public hearing to be effective July 1, 2016.

Suggested Motion

I move to approve and adopt Resolution 2016-2 to make adjustments to the established water rates and fees effective July 1, 2016.

Respectfully submitted,

Joseph Olsen, P.E.
General Manager