

Staff Report

DATE: January 22, 2008

TO: City Council

FROM: Bob Weir, Public Works Director
Sue Gedestad, Operations Administrator

SUBJECT: Residential Sewer Rate Methodology that Reflects Water Usage as a Component

Recommendation

Support changing the rate methodology for residential sewer rate customers from a flat rate to one that uses winter water consumption as a factor. If the methodology is approved, actual fiscal year 2008/09 rates would return to Council during the normal rate setting process.

Fiscal Impact

This rate methodology change would continue to allow rate setting that collects sufficient revenue to cover operations, maintenance, and replacement costs.

Background

There has been an interest by several groups, including the Natural Resources (NRC) and Senior Citizen Commissions, to assess changing the City's sewer rate methodology to one that uses winter water consumption as a factor. The main benefit in using a water consumption based sewer rate is that it eliminates the inequity of the flat rate. The flat rate does not differentiate for number of people/actual usage. The consumption based rate will do that.

In any rate setting process the key elements are:

1. Revenue Sufficiency –Charges should be predictable and generate the necessary revenues to recover the operations and maintenance and capital expenses;
2. Equitable –The charge structure should fairly apportioned the costs of providing the service such that each customer pays a rate commensurate with the service provided;
3. Implementable –Data upon which the rates are based are available to the City for billing purposes, and the rate structure is feasible for the City to administer;
4. Understandable –Easy for the customers to understand.

Staff believes that the consumption based rate accomplishes all of the above. However, depending on how the consumption rate is developed, revenue sufficiency is of concern. The sewer system has activities and infrastructure that are in place to provide the service regardless of the volume of an individual customer. One example of this infrastructure is the collection system that collects then carries the waste to the wastewater treatment plant. Another element is the billing and debt service costs.

Residential Sewer Rate Methodology that Reflects Water Usage as a Component

Fundamental to multi-year planning for replacement projects as well as operations and maintenance, is having revenue stability. Staff feels that a consumption based rate is warranted to eliminate the equity concern, and recommends that the base rate incorporate significant portions of fixed costs, thus providing more revenue stability.

The NRC reviewed the methodology and supports the use of winter water usage as a component. There was considerable discussion about the base rate and interest in keeping the base rate smaller to encourage water conservation. While the NRC supports any effort that encourages water conservation, they understand that any water conservation that occurs as a result of the sewer rate is a peripheral benefit, not the goal. With the goal of rate equity in mind, the NRC supports the winter water usage methodology with an “equitable base rate.” The Senior Commission has reviewed and supports the proposed methodology.

The recommended methodology allocates the costs of billing, collection system and debt service to the base rate and the remainder to the variable charge. This equates to approximately 25% of total revenue needs allocated to the fixed charge and 75% to the variable charge. The chart below shows the fixed and commodity charge for each residential customer class.

Residential Rates: Summary of Winter Water Use Variable Rate Alternatives (FY 07-08)				
<u>Residential Rates</u>	Current/ Adopted Flat Rates (\$/mo./acct.)	Rates Based on Winter Water Use		
		Fixed Charge (\$/mo./acct.)	Commod. (\$/hcf)	Typical Mo. Bill
Single Family	\$39.65	\$11.12	\$3.43	\$39.74
Single-Family Condo	\$30.80	\$9.08	\$3.43	\$30.86
M2 Duplex	\$29.92	\$7.88	\$3.43	\$29.99
M3 Multi-Family Triplex	\$31.02	\$7.80	\$3.43	\$31.09
M4 Quadplex	\$31.33	\$7.70	\$3.43	\$31.41
M5 5+ units	\$21.43	\$4.97	\$3.43	\$21.48
MH Mobile Homes	\$21.93	\$5.06	\$3.43	\$21.98
Total Residential Revenue Collected		\$9,636,500		

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The chart below gives an indication of how single family residential customers will be affected by the change in methodology. Approximately half the customers see a rate benefit while the other half will see rate increases. Of note, approximately 1,098 will experience rates that are 2 1/2 times more.

Single-Family Sewer Rates Based on Average Winter Water Use						
<u>% of Avg</u>	<u>Water Use^(a)</u>		<u>Monthly Sewer Bill^(b)</u>			<u>Number of Customers</u>
	<u>Mid-Point</u>	<u>Hcf</u>	<u>Flat Charge</u>	<u>Commodity</u>	<u>Total</u>	
0-20%	10%	0.83	\$11.12	\$2.86	\$13.98	272
20-40%	30%	2.50	\$11.12	\$8.59	\$19.70	829
40-60%	50%	4.17	\$11.12	14.31	\$25.43	1,561
60-80%	70%	5.84	\$11.12	\$20.04	\$31.15	1,751
80-100%	90%	7.51	\$11.12	\$25.76	\$36.88	2,032
Winter Avg.	100%	8.34	\$11.12	\$28.63	\$39.74	--
100-120%	110%	9.18	\$11.12	\$31.49	\$42.60	1,700
120-140%	130%	10.85	\$11.12	\$37.21	\$48.33	1,047
140-160%	150%	12.51	\$11.12	\$42.94	\$54.05	878
160-180%	170%	14.18	\$11.12	\$48.66	\$59.78	606
180-200%	190%	15.85	\$11.12	\$54.39	\$65.50	324
200-400%	300%	25.03	\$11.12	\$85.88	\$96.99	1,098
<i>Remainder</i>	--	--	--	--	--	<u>174</u>
Total						12,272

a. Based on winter consumption for No. 05-Feb. 06, from City billing records.

b. Commodity charges reflect the mid-point of the consumption range and commodity rates in Table 1.

The action being requested tonight is approval of the change in methodology from a flat rate to commodity based sewer rate that uses water commodity as a component. The actual rates for fiscal year 2008/09, which will be different, will return to Council at another time.