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MEMORANDUM

Management Services Memo No. 07-129

DATE: MAY 21, 2007

TO: MAYOR AND COUNCIL

THRU: W. MARK PENTZ, CITY MANAGER *WMP*
RICH DLUGAS, ASSISTANT CITY MANAGER *RD*

FROM: O.D. BURR, ACTING MANAGEMENT SERVICES DIRECTOR *ODB*
DAVE SIEGEL, MUNICIPAL UTILITIES DIRECTOR *DS*

SUBJECT: ACCEPTANCE OF WATER/WASTEWATER RATE DESIGN
COMMITTEE RECOMMENDATIONS

RECOMMENDATION: Staff recommends acceptance of the Water/Wastewater Rate Design Committee recommendations.

BACKGROUND/DISCUSSION: During the last several years' budget presentations, staff has been briefing Mayor and Council that a water and wastewater rate increase would be needed in FY07/08. Two distinct and separate actions will be required to increase these rates. The first action is acceptance of the rate structure recommendation. The second action is preparing a rate increase using the Council recommended rate structure. It is anticipated that the notice of intention to increase rates would be brought to Council for approval at the June 14, 2007 Council Meeting, and that the rate increase would be effective for all billings on and after October 1, 2007.

On November 16, 2006, the Council approved the formation of a Water/Wastewater Rate Design Committee and appointed eight citizens to serve on the committee. Their responsibilities as a committee member were to:

- Become familiar with the Utility's financial and rate structures;
- Examine proposed rate design alternatives;
- Identify issues and concerns likely to be raised by affected community interests;
- Ensure that community values and concerns are reflected in developing recommended water and wastewater rate structures; and
- Make a recommendation to Mayor and Council on rate design.

The Committee met four times from December 2006 to March 2007 to examine and discuss rate design alternatives and formulate recommendations. Red Oak Consulting presented information and facilitated each of the meetings and Management Services and Municipal Utilities staff were present to address specific questions and concerns raised by the Committee. Please refer to the attached Committee report for an in-depth report on their water and wastewater rate structure recommendations.

The current water rate structure has been in place since November 1, 1984, and the current rates within that structure have been in place since October 1, 1994. The current wastewater rate structure has been in place since November 1, 1983 with the exception of the differential between the flat fee for single and multi family dwelling units, and the current rates within that structure have been in place since October 1, 1997.

FINANCIAL IMPLICATIONS: The proposed water and wastewater rate designs were prepared assuming that the proposed water and wastewater rates would recover the same revenues as expected to be generated using the current water and wastewater rates – the structures are revenue neutral overall to the City. The proposed rate designs are intended to result in varying impacts to individual customers.

PROPOSED MOTION: Move to accept the Water/Wastewater Rate Design Committee recommendations.

cc: Pat McDermott, Assistant City Manager
Rick Giardina, Red Oak Consulting

Attachment: Water/Wastewater Rate Design Committee Report

Date: May 21, 2007

To: Honorable Mayor and City Council

From: Water/Wastewater Rate Design Committee:

Joseph Acuna 

Rob Barney 

Bil Bruno 

Rudy Bustamante 

Jeanne Forbis 

Corley Haggarton 

Gary Manton 

Mike Palermo 

Re: New Rate Structures for Water and Wastewater

On November 16, 2006, the City Council appointed the following individuals to the Water/Wastewater Rate Design Committee to make recommendations regarding water and wastewater rate structure design:

- | | |
|-------------------|--------------------|
| ■ Joseph Acuna | ■ Jeanne Forbis |
| ■ Rob Barney | ■ Corley Haggarton |
| ■ Bil Bruno | ■ Gary Manton |
| ■ Rudy Bustamante | ■ Mike Palermo |

The Committee met on four separate occasions between December 5, 2006 and March 13, 2007 to review rate design alternatives and formulate recommendations to Council regarding changes to the current rate structures. This document summarizes the recommendations, the criteria for reaching the recommendations and the estimated impacts on customers.

I. Recommended Changes to the Current Rate Structures

Water Rate Structure:

- A lower monthly fixed charge is recommended. This change will benefit low volume users and send a stronger conservation signal as more costs are recovered through the volume charge and each customer is able to more directly influence his or her bill.
- Lower usage block thresholds are recommended for residential customers and a separate, distinct rate schedule for multi-family customers. This will be more equitable for multi-family customers since their usage is different from one family customers and will allow for a stronger conservation signal to be sent to the one family customers.

-
- Non-Residential customers will be moved from the current increasing block structure to a new uniform rate structure which charges the same rate for all usage during the winter and a higher rate in the summer. Different rates will be charged to each class – industrial, landscape and all other non-residential – to reflect class usage or peaking differences. While this structure will charge the same rate (within a class) for all usage according to the season, it will maintain the current winter-summer pricing differential. This will send a conservation signal during the summer months while not penalizing industrial customers whose usage does not peak as much as residential.

Wastewater Rate Structure:

- No change to the current rate structure for one family and multi-family accounts, however, the flat rates for each of these classes have been recalculated to reflect the appropriate cost of service.
- The 20,000 gallon minimum charge for non-residential customers will be eliminated. This will result in a lower fixed monthly charge and customers will pay for what they use.
- A uniform fixed and volume rate for non-residential wastewater customers will be implemented. This will eliminate the current class differences among non-residential customers.

II. Criteria for Recommendations

In order to evaluate the alternative rate designs under consideration, the following pricing objectives were the top ranked factors to consider in evaluating various rate design alternatives and developing the recommendations:

1. **Cost of Service** – Pay for what you use
2. **Revenue Stability** – Maintain a reliable revenue stream
3. **Water Conservation** – Promote efficient use of resources
4. **Peak Usage Reduction** – Discourage use during periods of peak demand

These factors applied to the review of both water and wastewater rate alternatives.

Other factors, such as impact on large volume industrial customers and customer acceptance were considered in the decision-making process, but most of the time was focused on the four “top rated” objectives.

In addition to the previously noted pricing objectives, the Committee considered additional information provided by the City and Red Oak Consulting including the following:

- Overview of the water and wastewater system;
- Customer accounts by meter size;
- Accounts and usage by class;
- Percent of use at various consumption levels;
- Consumption and bills for each thousand gallons of use – in total and for winter versus summer – by class of customer;
- Overview of the rate setting process;
- Discussion of alternative rate structures;
- Impacts on customers under each rate alternative considered; and
- Impact on the top 10 largest customers (based on water use).

Water Rate Structure:

In evaluating rate design alternatives, a “green light” indicates the rate alternative was meeting the pricing objective and a “red light” indicates it was not meeting the pricing objective as well. The current rate structure was ranked with the other rate alternatives; below is a summary of the current rate structure versus the recommended structure for water:

Comparison of Current vs. Water Rate Structure Recommended

Pricing Objectives	Current Water Rate Structure	Recommended Water Rate Structure
Cost of Service – Pay for what you use	Yellow	Green
Revenue Stability – Reliable revenues	Green	Yellow
Water Conservation – Use water efficiently	Yellow	Green
Peak Usage Reduction – Lower peak use	Yellow	Green

Water Rate Structure Comparison:

1. Cost of Service – The current rate structure treats all classes of customers the same. Under the recommended rate structure, classes with similar usage and demand characteristics are grouped together: one family, multi-family, industrial, landscape and all other non-residential. As such, each class pays for what they use.
2. Revenue Stability – The current rate structure produces the most stable revenues because the fixed charge is higher than the proposed alternative. However, the recommended rate structure also has a high enough fixed charge to maintain revenue reliability. Based on the recommended approach, the City will not be compromising its ability to pay its bills or the financial integrity of the water fund.
3. Water Conservation – With the lowering of the residential block thresholds so that more usage is billed at the highest block, the recommended rate structure will promote efficient water use. Non-residential customer classes will be charged a uniform rate structure that is higher in the summer and as such will also have a conservation incentive.
4. Peak Usage Reduction – The recommended rate structure promotes peak use (water used during the highest demand period of the year – the summer) reduction with the combination of lower block thresholds for residential and seasonal rates by class for the non-residential customers.

The current and proposed water rate structures are shown on Attachment A for inside City customers. The Committee did not review the outside city rate calculation, which is addressed in the cost of service study. The proposed rate structure reflects rates without the effect of any potential revenue increases.

Wastewater Rate Structure:

In evaluating rate design alternatives, a “green light” indicates the rate alternative was meeting the pricing objective and a “red light” indicates it was not meeting the pricing objective as well. The current rate structure was ranked with the other rate alternatives; below is a summary of the current rate structure versus the recommended structure for wastewater:

Comparison of Current vs. Wastewater Rate Structure Recommended

Pricing Objectives	Current Wastewater Rate Structure	Recommended Wastewater Structure
Cost of Service – Pay for what you use	Yellow	Green
Revenue Stability – Reliable revenues	Green	Green
Water Conservation – Use water efficiently	Red	Yellow
Peak Usage Reduction – Lower peak use	Not Applicable to Wastewater	Not Applicable to Wastewater

Wastewater Rate Structure Comparison:

1. Cost of Service – Under the current rate structure all non-residential customers pay for 20,000 gallons of flow regardless of how much water is actually used or discharged to the wastewater system. The new structure eliminates this minimum charge so that customers only pay for what they use/dischARGE.
2. Revenue Stability – The current rate structure produces more stable revenues compared to the recommended alternative because of the higher fixed charge for non-residential customers. However, the recommended rate structure also provides an acceptable, fiscally prudent revenue stream.
3. Water Conservation – The recommended non-residential rate structure eliminates the 20,000 gallon minimum charge. As such, non-residential customers pay for what they use through both water and wastewater rates – a concept that promotes efficient water use.
4. Peak Usage Reduction – This is not an applicable pricing objective for wastewater service and therefore was not considered.

The current and proposed wastewater rate structures are shown in Attachment B for inside City customers. The Committee did not review the outside city rate calculation, which is addressed in the cost of service study. The proposed rate structure reflects rates without the effect of any potential revenue increases.

III. Estimated Customer Impacts

The Committee did not evaluate the revenues needed to cover current and projected expenses, i.e., necessary revenue increases. Instead, they evaluated the rate structures and customer impacts assuming that the proposed rates would recover the same revenues as expected to be generated using the current rates – the structures are revenue neutral.

The proposed water and wastewater rate structures result in lower volume users paying less than they are today and the higher volume users paying more. This is primarily a result of lowering of the fixed charges (for both water and wastewater).

The customer impacts of the recommended rate structures are shown below for one family and commercial customers with a 5/8-inch meter – winter versus summer – at various usage levels: Low, Moderate, High, and Very High:

One Family Monthly Water and Wastewater Bill Combined WINTER

Type of User	Current	Proposed	Change
Low – 6,000 gallons	\$30.88	\$28.27	(\$2.61)
Moderate – 12,000 gallons	37.10	35.55	(1.55)
High – 25,000 gallons	53.47	57.25	3.78
Very High – 60,000 gallons	101.42	162.15	60.73

One Family Monthly Water and Wastewater Bill Combined SUMMER

Type of User	Current	Proposed	Change
Low – 6,000 gallons	\$30.88	\$28.27	(\$2.61)
Moderate – 12,000 gallons	37.26	36.11	(1.15)
High – 25,000 gallons	56.72	64.25	7.53
Very High – 60,000 gallons	121.82	225.95	104.13

Commercial Monthly Water and Wastewater Bill Combined WINTER

Type of User	Current	Proposed	Change
Low – 6,000 gallons	\$46.31	\$29.49	(\$16.82)
Moderate – 25,000 gallons	76.30	91.43	(15.13)
High – 40,000 gallons	119.05	140.33	21.28
Very High – 60,000 gallons	176.05	205.53	29.48

Commercial Monthly Water and Wastewater Bill Combined SUMMER

Type of User	Current	Proposed	Change
Low – 6,000 gallons	\$46.31	\$32.61	(\$13.70)
Moderate – 25,000 gallons	79.55	104.43	24.88
High – 40,000 gallons	129.65	161.13	31.48
Very High – 60,000 gallons	196.45	236.73	40.28

ATTACHMENT A

**Current and Proposed Water Rate Structure
Fixed Charge per Account per Month
Residential and Non-Residential Inside City Customers**

Meter Size	Current	Proposed
5/8"	\$ 10.86	\$ 5.78
3/4"	16.28	6.60
1"*	23.85	8.43
1 1/2"	34.69	13.27
2"	54.21	18.68
3"	108.47	39.39
4"	173.52	55.59
6"	347.02	105.56
8"	582.74	159.94
10"	785.99	272.53
12"	785.99	385.12

*Current approach only, 1" residential fixed charge is the same as 3/4".

**Current Water Rate Structure
Volume Rate
Residential and Non-Residential Inside City Customers
(\$ per 1,000 gallons)**

Usage Block (in gallons)	Winter	Summer
First 10,000	\$0.96	\$0.96
Next 10,000	1.19	1.27
Next 80,000	1.37	1.86
Over 100,000	1.19	1.86

Proposed Water Rate Structure
Volume Rate
Inside City Customers
(\$ per 1,000 gallons)

Usage Block (in gallons)	Winter	Summer
<i>One Family:</i>		
First 10,000	\$1.12	\$1.12
Next 10,000	1.40	1.68
Next 20,000	2.10	2.94
Over 40,000	3.67	5.88
<i>Multi-Family:</i>		
First 10,000	\$0.69	\$0.69
Next 10,000	0.86	0.86
Next 20,000	1.08	1.29
Over 40,000	1.35	2.26
<i>Non-Residential*:</i>		
All Usage	\$1.38	\$1.90
<i>Industrial:</i>		
All Usage	\$1.48	\$1.89
<i>Landscape:</i>		
All Usage	\$1.45	\$2.32

*Non-Residential includes all other non-residential customer classes with the exception of Industrial and Landscape.

ATTACHMENT B
**Current and Proposed Wastewater Rate Structure
Fixed Charge and Volume Rate
Inside City Customers**

Type of Service	Monthly Charges*	Current	Proposed
Single Family Dwelling Unit	Fixed charge only	\$14.26	\$15.77
Multi-Family Dwelling Unit	Fixed charge only	8.47	4.81
Commercial	First 20,000 gals. / Fixed Charge	29.69	4.15
	Over 20,000 gals. / Per 1,000 gals.	1.48	1.88
Commercial Processing & Manufacturing	First 20,000 gals. / Fixed Charge	34.92	4.15
	Over 20,000 gals. / Per 1,000 gals.	1.74	1.88
Medical Institutions	First 20,000 gals. / Fixed Charge	24.44	4.15
	Over 20,000 gals. / Per 1,000 gals.	1.22	1.88
Educational Institutions	First 20,000 gals. / Fixed Charge	24.50	4.15
	Over 20,000 gals. / Per 1,000 gals.	1.22	1.88
Large Volume Industrial	First 20,000 gals. / Fixed Charge	34.92	4.15
	Over 20,000 gals. / Per 1,000 gals.	1.74	1.88

*In the current approach only, 20,000 gallons are included in the fixed charge for non-residential customers. Under the proposed approach, there is no usage included in the fixed charge.