



**Date:** April 19, 2011  
**To:** Thomas J. Bonfield, City Manager  
**Through:** Theodore L. Voorhees, Deputy City Manager  
**From:** Donald F. Greeley, Director, Water Management

**Subject:** Adoption of Proposed Water and Sewer Rates for FY 2011-2012

**Executive Summary**

The City Council first adopted a tiered rate structure for water volume charges applicable to single family residential customers in FY 2008-2009. The tiered rate structure continues to be effective in reinforcing the conservation ethic with customers. Fortunately, this change in customer behavior persists - with heightened awareness during extended dry periods. The City Council has approved modest rate increases over the past several years to cover increasing operating costs and debt service. The rate increases also supports Durham's large capital program which focuses on replacement of our aging infrastructure and meeting new regulatory requirements and system growth. Staff approached this year's budget cycle with a desire to keep the adopted tiered rate structure in place, while refining the fixed costs to reflect not only the departmental needs – operational and capital – but the current economic climate and its effect on Durham's water and sewer customers. To meet these needs, the department proposes that the water volume charges remain flat (no increase in tiered rates) for FY 2011-2012. However, minor increases for the water and sewer service charges and a moderate increase in the sewer volume charge are proposed. The administration recommends the proposed rates be adopted effective July 1, 2011, with implementation in the August and September billings.

Changes have also been incorporated to address charges for Durham County's customers (wastewater discharges flow through County owned collection system to the County wastewater treatment facility). The City acts as the billing contractor for these customers, applying consumption and sewer service charges as determined and adopted by the Durham County Commissioners.

Changes to the City Code were inadvertently made to Section 70-51 during the most recent update by the publisher. At the recommendation of the City Attorney's Office, the appropriate changes have been made to correct this issue in the City Code in the attached ordinance.

**Recommendation**

The department recommends that City Council adopt an ordinance amending Durham City Code Section 70-51, Monthly Rates for Water Service, Sewer Service, and Water and Sewer Service and adopting revised fees in the City's fee schedule effective July 1, 2011. Rates shall

be applied to all bills beginning in August of 2011. The department further recommends that City Council adopt the Ordinance to correct section 70-51 of the City Code.

### **Background**

During FY 2008-2009 budget preparation cycle, Department of Water Management staff worked closely with Raftelis Financial Consulting, Inc. (RFC) to develop a tiered rate structure for water consumption. RFC recommended focusing the tiered structure on individually metered residential customers that comprise the bulk of seasonal elective water use, such as irrigation and car washing, noting that in future years the City could evaluate a tiered structure for non-residential customers. The rate structure recommended by RFC contained five tiers for single-family residential water users, set rates for all non-residential customers at Tier 3 and set rates for all irrigation-only customers at Tier 5. RFC also proposed increases in both water and sewer service charges to more accurately reflect the fixed costs of water treatment and delivery and wastewater collection and treatment and keep up with inflationary operating costs. Service charges had not been adequately increased in prior years so large increases were needed to provide necessary funding to cover the fixed costs, i.e. the cost of doing business regardless of the amount of water used by a customer. Based on information used to run the rate model, staff anticipated that service charge increases in following years would be very modest, but would need to be consistently increased to maintain appropriate funding of fixed costs of providing services.

The City Council approved rate structure for FY 2009 - 2010 kept both water and sewer service charges flat (no increase), with no increase for the sewer volume rate or for the Tier 1 rate. The rate structure also included modest increases in Tiers two through five of the water rates. The Council approved rate structure for FY 2010 – 2011 increased the water and sewer service charges, with no increase to the water or sewer volume charges. City Council has recognized the need to cover the increasing operating costs, debt service and the large capital program by supporting and approving modest rate increases.

The tiered rate structure has been an effective means of keeping the conservation ethic in place among customers despite the abundant rain helping to keep the water supply lakes full. Additionally, recent drought legislation promotes the utilization of tier rate structures in North Carolina cities and utilities. Staff approached this year's budget cycle with a desire to keep the adopted tiered rate structure in place, while refining the rates within the structure to reflect not only the departmental needs – operational and capital – but the current economic climate and its effect on Durham's water and sewer customers.

The department proposes that the rate structure for FY 2011-2012 maintain the current water volume charges through all tiers (no increase), a moderate increase in the sewer volume charge and minor increases for the water and sewer service charges. The administration recommends the proposed rates be adopted at the June 6<sup>th</sup> Council meeting to become effective July 1, 2011, with implementation in the August and September billings.

**Issues/Analysis**

The proposed rates for individually metered single family residential accounts inside the City are shown in the table. Staff also recommends continuing to bill all non-residential customers (multi-family, industrial, commercial and institutional) at the Tier 3 rate and all Irrigation-only customers at the Tier 5 rate. No increase is recommended for volume charges for water; however a moderate increase is recommended for sewer volume charges to cover increasing operating costs due to nutrient removal requirements.

The proposed rates support the FY 2011-2012 water and sewer operating costs, capital needs and debt service. The debt coverage ratio is forecast to be met with the proposed rates.

The rates for outside the City would continue at two times the inside the City rates, as per current policy except for those outside –city customers whose discharges flow directly into the County wastewater treatment facility through the County owned collection system.

	FY 11 Rates	FY 12 Rates
<b><u>Monthly Water Rates (inside)</u></b>		
Service Charge	\$5.35	\$5.56
Volume Charge - Tiered Rates (per 100 cubic foot - ccf)		
Tier 1 (0 - 2 ccf)	\$1.72	\$1.72
Tier 2 (>2 - 5 ccf)	\$2.59	\$2.59
Tier 3 (>5 - 8 ccf)	\$2.84	\$2.84
Tier 4 (>8 - 15 ccf)	\$3.71	\$3.71
Tier 5 (>15 ccf)	\$5.56	\$5.56
<b><u>Monthly Sewer Rates (inside)</u></b>		
Service Charge	\$6.24	\$6.49
Volume Charge (per ccf)	\$3.28	\$3.56

**Alternatives**

**Alternative 1: Do not raise rates.** The water and sewer operating costs will be covered with existing rates; however, many of the capital needs will not be funded. A number of the capital needs are regulatory-driven and failure to fund these projects will expose the City to compliance in issues in a number of areas. The City may also be subject to fines from the State within 1 to 2 budget cycles if projects are not completed and facilities are not on line by compliance deadlines. The City Council’s approach over the past several years has been the approval of steady reasonable rate increases designed to minimize the impact of sudden rate spikes; these programmed increases are necessary to meet capital funding needs within the 5 year planning horizon. The strategy of not adopting a rate increase this year would be inconsistent with the Council’s approach and the City’s needs.

**Financial Impact**

The proposed rates support the FY 2011-2012 water and sewer operating costs, capital needs

and debt service. The debt coverage ratio is met with the proposed rates.

**SDBE Summary**

No contracting is proposed, so the Ordinance to Promote Equal Opportunity in City Contracting is not applicable to this item.