



Date: April 21, 2015

To: Thomas J. Bonfield, City Manager
Through: W. Bowman Ferguson, Deputy City Manager
From: Donald F. Greeley, Director, Water Management
Subject: Adoption of Proposed Water and Sewer Rates for FY 2015 - 2016

Executive Summary

In FY 2008 - 2009, Durham’s City Council first adopted a tiered rate structure for water volume charges applicable to single family residential customers. The tiered rate structure effectively introduced the concept of “the less you use, the less you pay.” Durham’s customers have continued to embrace a water efficient ethic during normal times and extended dry periods. Over the past several years, City Council has supported the administration’s requests for modest rate increases to cover increasing operating costs and debt service. The rate increases also support Durham’s large capital program which focuses on replacement of our aging infrastructure and meeting new regulatory requirements and system growth. Water Management staff have coordinated with Finance Department staff to develop a fiscal strategy providing sufficient funding for operating and capital needs while maintaining favorable debt coverage. This collaboration, including input from the bond advisors, has ensured that Durham’s bond rating remains very high.

Staff approached this year’s budget cycle with a desire to keep the tiered rate structure in place, while refining costs to reflect not only the departmental needs – operational and capital – but the current economic climate and its impact on Durham’s water and sewer customers. To meet these needs, the department proposes modest increases for the water and sewer service and volume charges for FY 2015-2016. The result is an approximate 3% overall increase in the monthly water/sewer bill for the average inside City customer. This proposal also continues the one penny per hundred cubic feet dedicated to watershed protection efforts.

Staff also worked with Durham County officials to develop changes for service and sewer usage charges for customers in the Triangle basin who are served by the County owned and operated Triangle Wastewater Plant (WWTP). These changes are consistent with a negotiated agreement between the City and County to more accurately reflect the County’s cost of providing the service.

Recommendation

The department recommends that City Council adopt an ordinance to change rates for water and sewer service, Section 1, Part 15-104 of the City’s fee schedule, effective July 1, 2015. Rates shall be applied to all bills rendered after August 1, 2015.

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 that the tiered structure be applied to individually-metered residential customers because this group comprises the bulk of seasonal elective water use, such as irrigation and car washing. 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 continuing modest 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 while keeping up with inflation.

The tiered rate structure has been an effective means of encouraging a water efficiency ethic among customers despite variation in rainfall and levels of water supply lakes. Additionally, the 2008 drought legislation promotes the utilization of tier rate structures in North Carolina cities and utilities. Staff approached this year's budget cycle with the intent to keep the established 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 impact on Durham's water and sewer customers. The proposed rates, developed with the assistance of RFC, continue the one penny per tier fee dedicated to watershed protection efforts as initially adopted in the FY 2011-2012 budget.

For FY 2015 - 16, staff recommends modest increases in water and sewer service charges and volume rates resulting in an approximate 3% overall increase in water/sewer bills for inside City customers. This level of funding will meet increasing operational expenses and identified capital improvements while maintaining prudent reserves in keeping with the fiscal strategy developed by Water Management and Finance Department staff. Significant capital improvements to water reclamation facilities, which will address nutrient reductions required by the Falls Lake and Jordan Lake rules, are planned in several phases over a 20-year planning horizon.

Staff also recommends changes for service and sewer usage charges for customers in the Triangle basin who are served by the County owned and operated Triangle Wastewater Plant (WWTP). These changes are consistent with a negotiated agreement between the City and County to more accurately reflect the County's cost of providing the service. The administration recommends the proposed rates be adopted at the May 18, 2015 Council meeting to become effective July 1, 2015 and applied to all bills rendered on and after August 1, 2015.

Issues and Analysis

The proposed rates for individually metered single family residential accounts inside the City are shown in the table. Staff 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. Moderate increases are recommended for water and sewer volume charges to cover increasing operating costs due to nutrient removal requirements. Sewer charges will continue to be billed at a flat usage rate based on water consumption.

The proposed rates support the FY 2015 - 2016 water and sewer operating costs, capital needs and debt service. The recommended minimum debt coverage ratio is forecast to be met or exceeded with the proposed rates.

	FY 15 Rates	FY 16 Rates
<u>Monthly Water Rates (inside)</u>		
Service Charge	\$6.36	\$6.72
Volume Charge - Tiered Rates (per 100 cubic foot - ccf)		
Tier 1 (0 - 2 ccf)	\$1.77	\$1.82
Tier 2 (>2 - 5 ccf)	\$2.67	\$2.74
Tier 3 (>5 - 8 ccf)	\$2.92	\$3.00
Tier 4 (>8 - 15 ccf)	\$3.82	\$3.91
Tier 5 (>15 ccf)	\$5.72	\$5.86
<u>Monthly Sewer Rates (inside)</u>		
Service Charge	\$7.26	\$7.49
Volume Charge (per ccf)	\$3.89	\$3.99

The rates for customers outside the City limits (for North, Eno, Lick Creek and South Durham Basins) would continue at two times the inside the City rates, as per current policy.

Triangle Basin Customers

The City has always served as the “billing agent” for the county, billing customers’ tributary to the Triangle WWTP for sewer usage charges based on their water consumption. Customers tributary to the Triangle WWTP are differentiated as “Triangle Basin City Customers or “TB City Customers” if their waste travels through City owned and maintained lines into the County’s collection system and WWTP. “County Customers” are those whose waste travels directly through County owned and maintained lines into the WWTP. In prior years, Triangle Basin City customers were charged the same rates (usage and service charges) as those in other City basins except the “TB City Customers” outside of the City limits. These customers were charged sewer usage rates established by the County but were assessed service charges according to the City’s fee schedule.

In return for processing the wastewater for the TB City Customers, the City reimburses the County at their consumption rates but retains the service charges. Historically, the County’s usage rates – which include a capital component - have been higher than the City’s usage rates. This has created gap between monies collected from customers and monies reimbursed to the County. In order to correct this issue, staff are recommending that City customers in the Triangle basin be assessed the County’s sewer volume charges. The proposed consumption and sewer service fees for customers in the Triangle basin are below.

	FY 15 Rates	FY 16 Rates
City Customers in Triangle Basin		
<u>Monthly Sewer Rates (inside)</u>		
Service Charge	\$7.26	\$7.49
Volume Charge Triangle Basin (per ccf)	\$3.89*	\$4.05

The rates for City customers outside the City limits would continue at two times the inside the City rates, as per current policy.

*Customers assessed at City sewer volume rates prior years

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 risk of noncompliance in numerous 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 imposed deadlines. The City Council's approach over the past several years has been the approval of consistent, reasonable rate increases designed to minimize the shock of sporadic 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, the City's needs and the City's desire to support increased and enhanced regional watershed protection efforts. Moreover, making up any postponed revenue by larger rate increases in the future could have an unnecessarily severe impact on customers.

Alternative 2: Do not adopt proposed sewer fee changes for City Triangle Basin Customers. The gap between monies collected and monies reimbursed to the County will continue to increase.

Financial Impact

The proposed rates support the FY 2015 - 2016 water and sewer operating costs, capital needs and debt service. The targeted debt coverage ratio will be met with the proposed rates.

SDBE Summary

The Ordinance to Promote Equal Opportunity in City Contracting is not applicable to this item.

Attachments

Ordinance to Change Rates for Water and Sewer Service
Presentation