



Board of Commissioners

Meeting Cycle: April 2017

Subject: Ordinance Establishing Sewer User Rates and Sewer Charge Adjustments

Staff Contact: Emily Harrell, P.E., City Engineer

STAFF RECOMMENDATION

Staff recommends the Board of Commissioners, by ordinance, establish sewer user rates and sewer charge adjustments.

BUDGET IMPACT

The Sewer Fund currently operates at a net profit; however, capital improvement projects are unable to be funded without incurring additional debt. The City is interested in implementing “pay as you go” financing for capital projects, which would require the City to generate additional revenue in the Sewer Fund.

Current revenue sources are residential and commercial user rates, connection fees, and development fees. The residential rate has the largest number of users which provides additional revenues with minimal impact. The commercial user rate has a limited number of users (37) requiring drastic increases in rates to generate needed revenue. The City’s connection fees and development fees are comparable to other municipalities and the amount of revenue generated from these fees are highly unpredictable as they are dependent on residential and commercial development.

The proposed rate change would increase the annual revenue in the Sewer Fund by approximately \$290,000 (28%). These monies will be used for upcoming capital improvement projects including the Clear Creek Interceptor Project and acquisition of Stonebridge Sewer Assets from City of Memphis.

BACKGROUND

In July 2016, the Residential Sewer Rate was adjusted to generate additional revenue for upcoming capital improvement projects. The minimum usage was decreased from 6,000 gallons (8.03 ccf) to 4,000 gallons (5.35 ccf) and volumetric rate increased from \$1.27/ccf to \$2.50/ccf. In addition, the \$46.00 cap was removed as it was determined to be unjust and unequitable. With the removal of the cap, users with irrigation systems experienced exceptionally high sewer charges. Irrigation meters are typically installed to avoid sewer

charges on irrigation water, but the cost of meter installation through MLGW made it unfeasible.

DISCUSSION

Over the last several months, City staff has re-evaluated the sewer rate structure in an effort to provide a more equitable rate to its users while generating the revenue needed to fund upcoming capital improvement projects. Two methods of calculating rates were considered: (1) winter averaging and (2) a tiered system.

Winter averaging uses the average consumption during off-peak winter months and applies it to summer months. While the concept seems simple, the process of averaging each user's off-peak consumption annually would be labor intensive. MLGW would not be able to provide this level of support, requiring the City to establish its own billing department.

In a tiered system, levels of consumption are created with associated volumetric rates. Advantages of a tiered system include consistent rates not restricted to summer months and eliminating the base rate providing a more equitable rate structure. MLGW will support the proposed tiered system and continue to provide our billing service.

The proposed tiered sewer rate is as follows:

Tier Level	Consumption (ccf)	Rate (per ccf)
1	0-5	\$7.00
2	6-20	\$3.15
3	21+	\$0.50

Based on the proposed sewer rate, users will be charged for actual usage. Conservative users (4ccf and under) will see a reduction in their sewer charge due to the removal of the base rate. Likewise, users with irrigation systems will be charged a substantially reduced rate over 20ccf. Overall, the proposed tiered rate will provide a more equitable rate for all users while generating the needed revenue for capital improvement projects.

At the request of the Board of Commissioners, staff evaluated implementing the new rate structure in phases. Two phasing plans were considered; a two-year plan and a three-year plan. Below is a table which provides a breakdown of revenue by year:

