

Brentwood City Commission Agenda

Meeting Date: 06/27/2016

Ordinance 2016-06 - Amending the Municipal Code In Regard to Water and Sewer Rates and Fees

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Information

Subject

Ordinance 2016-06 - Amending the Municipal Code In Regard to Water and Sewer Rates and Fees

Background

In 2015, the City Commission authorized an agreement with Willdan Financial Services to conduct an update to the Water and Sewer Fund long range financial model and make recommendations regarding utility rate structures. Prior to this, the last financial review of water and sewer rates occurred in 2008. At that time, base sewer rates were increased 25% due to planned capital expenses related to the sewer rehabilitation program. Also, a new system of surcharges was implemented for both water purchased and wastewater treatment to account for future increases in the cost of water purchased and sewer treatment above the then current contractual costs. Base water rates were not adjusted in 2008. The last adjustment in base water rates was in 1996 and that was actually a 5% decrease from the prior existing rates. Note that there have been other increases in the water and sewer tap fees at various times over the past twenty years.

There are several issues impacting the Water and Sewer Fund today that necessitate this update to the Fund's financial model and associated rate adjustments. These issues include the following:

1. The desire to adjust the accounting methodology for one-time water and sewer tap fees.

Tap fees, which have averaged slightly more than \$2.4 million annually over the past five years, are one-time revenues paid by new development as "buy-in" to the system capacity needed to serve the new development. For the past three fiscal years, the Water and Sewer Fund would have shown a net operating loss without

annual tap fee revenue being included in the calculation. Prudent, long-term financial management of the system requires that positive net annual operating income of the fund not be dependent upon collection of these one-time capacity related fees. Instead, tap fee revenue should be segregated in dedicated accounts and with the use being restricted only for capacity related capital projects.

2. The financial impact of a minimum bill adjustment from Harpeth Valley Utility District (HVUD), the City's primary water supplier.

Based on water demand projections, the City has requested future capacity necessary to meet the projected peak summer day demands on the system due to irrigation at full build out. To meet future system capacity needs for Brentwood and all other HVUD wholesale customers and direct HVUD customers, HVUD has recently completed a roughly \$33 million expansion of its water treatment facility. Brentwood's share of this capital cost is allocated via the monthly bill amount, and specifically via adjustment to the City's minimum bill. With this adjustment, the City's monthly minimum bill from HVUD has increased from approximately 140 million gallons per month to 213 million gallons per month. In the near term as shown in the attached graph, this new minimum bill amount will significantly increase the volume of water the City must pay for but not use during approximately seven months of the year when water demand is lowest. The estimated additional cost due to this minimum bill adjustment is \$1.5 million.

3. Establishment of long-term Water and Sewer Fund financial policies related to minimum reserve levels and debt service coverage levels.

While the City has long established financial policies related to the General Fund and Debt Service Fund minimum fund balance levels, no similar policies exist for the Water and Sewer Fund. With guidance from Willdan and their extensive experience in working with numerous utility systems across the country, staff is recommending establishment of policies setting minimum operating reserves equal to six months (50%) of Water and Sewer Fund operating expenditures and a minimum debt service coverage level equal to 1.0 times annual debt service obligations, not including tap fee revenue as discussed above. Additional information regarding these two policy proposals and associated resolutions to adopt these proposals are included within separate agenda items on the June 14, 2016 agenda.

In completing its financial model, Willdan factored in the three issues discussed above, the Water Services Department's proposed FY 2017-2022 capital improvements plan, and the Department's proposed FY 2017 operating budget trended out over the next five years. The results of this analysis and the subsequent proposed recommended rate adjustments are summarized below:

1. Base sewer rates calculated on winter average water use require only minor adjustments of 3% in FY 2017 and 2% annual adjustments in FY's 2018-2021 (See attachment A). These relatively small adjustments are to account for increased City costs associated with operation and maintenance of the sewer collection. The sewer treatment surcharge (currently \$0.94/1,000 gallons based on winter average) was reset in 2014 following the five-year adjustment to the Metro Nashville treatment rate, so no further adjustment to the sewer treatment surcharge is needed at this time. This surcharge automatically adjusts in October of each year based upon the change in the cost index provided in the Metro Sewer Treatment contract.
2. Base water rates for the minimum bill (first 2,000 gallons of usage) and the first tier of usage (next 8,000 gallons) are proposed to increase the same as base sewer rates – 3% in FY 2017 and 2% annually in FY's 2018-2021. As with sewer, these relatively small adjustments are to account for increased City costs associated with operation and maintenance of the water storage and distribution system and should be shared equally by all users.
3. An increase in the second tier water usage rate for all usage in excess of 10,000 gallons per month from \$4.65/1,000 gallons to \$6.08/1,000 gallons (See attachment B). This significant increase (30.7%) in second tier rates is targeted at higher usage customers who are the primary driver for the peak summer demand that necessitates the increased capacity required from HVUD and the resulting adjustment to the minimum bill. The change also creates a true conservation based rate structure which provides a stronger financial incentive for these higher usage customers to implement water conservation strategies. Note that approximately 35% of residential water customers and 60% of commercial and institutional water customers exceed the 10,000 gallon usage level during peak months.
4. An adjustment to the water purchased surcharge from \$0.84/1,000 gallons to \$1.20/1,000 gallons to account for the remaining revenue needed to offset the HVUD minimum bill adjustment and keep the financial model in line with the new policies discussed above. While this increase will impact users at all usage levels since it is applied to all water usage, the impact is reduced from what it would otherwise be under the existing surcharge calculation methodology due to the increase in the second tier rates discussed in #3 above. Future adjustments to this water purchased surcharge amount will be determined automatically based on increases from HVUD above the current wholesale purchase rate of \$2.55/1,000 gallons.

The three tables below show the impact of the proposed FY 2017 changes for the

water and sewer portion of a bill for varying usage levels and customer types. In looking at these tables, note that the annual average residential water bill usage is 9,800 gallons per month, and the annual residential winter average based sewer bill is 5,500 gallons per month. Note that water rates are the same for residential and commercial users while sewer rates are different, with base commercial sewer rates being 25% higher than residential in recognition of the greater impact from commercial users.

WATER (Residential and Commercial)			
Gallons	Current Rates	Proposed FY 17 Rates	Monthly Increase
0	\$ 12.69	\$ 13.08	\$ 0.38
2,000	14.53	15.70	1.17
5,000	30.62	33.36	2.74
7,000	41.35	45.14	3.79
10,000	57.44	62.81	5.36
15,000	87.43	102.57	15.14
25,000	147.41	182.11	34.70
50,000	297.36	380.94	83.59
60,000	357.33	460.48	103.14
100,000	597.25	778.61	181.37
500,000	2,996.38	3,959.97	963.60

RESIDENTIAL SEWER			
Gallons	Current Rates	Proposed FY 17 Rates	Monthly Increase
0	\$ 14.53	\$ 14.97	\$ 0.44
2,000	16.41	16.85	0.44
5,500 *	37.52	38.48	0.97
7,000	46.56	47.75	1.19
10,000	64.65	66.29	1.64
15,000	98.40	100.89	2.49
25,000	165.90	170.09	4.19
* = Current average residential winter usage			

COMMERCIAL SEWER			
Gallons	Current Rates	Proposed FY 17 Rates	Monthly Increase
5,000	\$ 41.94	\$ 43.05	\$ 1.11
10,000	78.44	80.50	2.06
15,000	119.44	122.60	3.16
35,000 *	283.44	291.00	7.56
60,000	488.44	501.50	13.06
100,000	816.44	838.30	21.86
500,000	4,096.44	4,206.30	109.86
* = Current average commercial winter usage = 36,400			

Another important factor to consider is how the proposed Brentwood water and sewer rates compare to surrounding jurisdictions. The following tables show the combined bill (water and sewer) plus sales tax on water for three different scenarios as described for each table. Note that only Brentwood and Harpeth Valley provide a winter averaging rate system for sewer. All of the other entities charge sewer based on actual monthly water usage. The sewer portion of the Mallory Valley bill is based on Franklin's sewer rates and the sewer portion of the Nolensville/College Grove bill is based on Metro Nashville's sewer rates.

1. Assumptions: Average Residential customer 10,000 gallons water usage, 5,000 gallons winter water average.

Utility Provider	Water	Sewer	Total
Brentwood Existing	\$ 57.44	\$ 34.50	\$ 91.94
Brentwood FY2017	\$ 62.81	\$ 35.39	\$ 98.20
Metro Nashville	\$ 32.36	\$ 67.66	\$ 100.02
Harpeth Valley UD	\$ 49.68	\$ 53.61	\$ 103.29
Murfreesboro, City of	\$ 49.22	\$ 66.90	\$ 116.13
Mallory Valley Water District	\$ 54.63	\$ 62.36	\$ 116.99
Franklin, City of	\$ 56.81	\$ 62.36	\$ 119.17
Nolensville/College Grove	\$ 73.32	\$ 67.66	\$ 140.98
Average of Comparable	\$ 52.67	\$ 63.43	\$ 116.09

2. Assumptions: High Residential customer 50,000 gallons water usage, 5,000 gallons winter water average.

Utility Provider	Water	Sewer	Total
Brentwood Existing	\$ 297.36	\$ 34.50	\$ 331.86
Brentwood FY2017	\$ 380.94	\$ 35.39	\$ 416.33
Harpeth Valley UD	\$ 237.46	\$ 53.61	\$ 291.07
Murfreesboro, City of	\$ 210.03	\$ 293.64	\$ 503.68
Metro Nashville	\$ 168.48	\$ 346.48	\$ 514.97
Mallory Valley Water District	\$ 305.90	\$ 238.31	\$ 544.21
Franklin, City of	\$ 317.75	\$ 238.31	\$ 556.06
Nolensville/College Grove	\$ 383.15	\$ 346.48	\$ 729.63
Average of Comparable	\$ 270.46	\$ 252.81	\$ 523.27

3. Assumptions: Average Commercial customer, 1.5” meter size, 60,000 gallons water usage, 43,000 gallons winter water average.

Utility Provider	Water	Sewer	Total
Brentwood Existing	\$ 357.33	\$ 349.04	\$ 706.37
Brentwood FY2017	\$ 460.48	\$ 358.36	\$ 818.84
Metro Nashville	\$ 212.04	\$ 430.86	\$ 642.90
Murfreesboro, City of	\$ 273.09	\$ 387.31	\$ 660.40
Harpeth Valley UD	\$ 232.43	\$ 467.45	\$ 699.88
Mallory Valley Water District	\$ 371.45	\$ 330.19	\$ 701.64
Franklin, City of	\$ 392.75	\$ 330.19	\$ 722.94
Nolensville/College Grove	\$ 494.04	\$ 430.86	\$ 924.90
Average of Comparable	\$ 329.30	\$ 396.14	\$ 725.45

One other proposed change included in the attached ordinance is an amendment to Section 70-132 related to sewer tap fees to provide for the addition of the existing \$1,900 grinder pump fee as part of the Municipal Code. This \$1,900 fee is charged at the time of platting for any new lot being created that requires grinder pump sewer service. This fee has been part of the adopted grinder pump sewer service program policy for many years, but was never formally included within the list of fees in the Municipal Code. Staff believes it is appropriate to do so at this time.

If the attached ordinance and associated rate adjustment are approved on first reading, second reading of the ordinance would be scheduled for the June 27, 2016 meeting. If approved on final reading, implementation of the new rates would begin with the August billing cycle which would be reflective of July's water usage and the existing winter average amounts for sewer.

Staff Recommendation

Staff recommends approval of Ordinance 2016-06 on first reading.

Previous Commission Action

Ordinance 2016-06 was approved unanimously on first reading at the June 14, 2016 meeting of the Board of Commissioners.

Fiscal Impact

Attachments

Ordinance 2016-06

Attachment A - Proposed Sewer Rates

Attachment B - Proposed Water Rates

Financial Model

HVUD Minimum Bill Impact Graph

Bill Comparison Other Jurisdictions Graph
