



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Proposed Rate Adjustments – Amend and revise TMC Chapter 12.10 –
September 24, 2019
DATE: September 11, 2019

SUMMARY:

Tacoma Water requests approval by the Public Utility Board (PUB) and the City Council to amend and revise sections of Chapter 12.10 (Water Regulations and Rates) in Title 12 (Utilities) of the Tacoma Municipal Code (TMC). The requested changes are for wholesale rate adjustments effective January 1, 2020; System Development Charge adjustments effective January 1, 2020; and Fixed Fees adjustments effective each January 1st starting in 2020 through 2024.

STRATEGIC POLICY PRIORITY:

- Foster a vibrant and diverse economy with good jobs for all Tacoma residents.
- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

WHOLESALE RATE ADJUSTMENT

BACKGROUND:

Tacoma Water serves 15 wholesale customers in the region. We have contractually obligated about 18 million gallons per day (MGD) of supply to the wholesale class, but only 2.5 MGD are consumed annually. In 2018, the wholesale class generated approximately \$3.3 million in revenue, or 4% of total revenue, and 2.4 MGD of demand, or 5% of total demand.

In preparation for this request, Tacoma Water has sought input from wholesale customers through various wholesale group and individual meetings. A meeting for Public Utility Board consideration will be held on September 11, 2019 and the first reading by the City Council is scheduled for September 24, 2019.

ISSUE:

Wholesale revenue and demand have been declining while ongoing costs to maintain our supply obligation remain. Tacoma Water is proposing a revenue neutral wholesale rate design that would increase the fixed rate while decreasing the variable rate.

ALTERNATIVES:

An alternative would be taking no action and the current rate structure would remain intact.

RECOMMENDATION:

Tacoma Water requests approval by the Public Utility Board and the City Council for wholesale rate adjustments effective January 1, 2020. This updates the monthly ready to serve charge based on contracted peak capacity and variable winter and summer rates for the wholesale class in 12.10.400.



FISCAL IMPACT:

Without changes to our wholesale pricing and policy, we could experience a potential annual opportunity cost up to \$3.6 million.

SYSTEM DEVELOPMENT CHARGE ADJUSTMENT

BACKGROUND:

Tacoma Water assesses System Development Charges (SDCs) for water service connections. It is a one-time charge for connection to the water system, service upgrade that requires a larger meter, or existing service for larger meters that exceeds usage thresholds. The SDC is typically charged to new development, commercial and wholesale customers. From 2014 – 2018, the average annual SDC revenue was \$2.9 million.

In preparation for this request, Tacoma Water has sought input from developers, builders, and members of the public through various meetings and public information sessions. A meeting for Public Utility Board consideration will be held on September 11, 2019 and the first reading by the City Council is scheduled for September 24, 2019.

ISSUE:

SDCs were last updated in 2004. Since this time, changes have occurred in our system capacity, plant assets, capital projects, debt, and demand. Refreshing the charge to reflect these changes will provide us with an updated schedule with the goal of ensuring generational equity within our water system.

ALTERNATIVES:

An alternative would be taking no action and the current charge structure would remain intact.

RECOMMENDATION:

Tacoma Water requests approval by the Public Utility Board and the City Council for System Development Charge adjustments effective January 1, 2020. This updates the SDC schedules and removes references to “four day maximum” in the SDC methodology since it will be combined with “peak day” in 12.10.310.

FISCAL IMPACT:

Since we are requesting a reduction to this charge, we could see a decline in SDC revenue. However, Tacoma Water is a cost of service utility and this reduction aligns with our core ratemaking principles.

FIXED FEES ADJUSTMENT

BACKGROUND:

In addition to SDCs, Tacoma Water also assesses fixed charges for water service installations, commonly known as fixed fees. This is a one-time charge for water service installations in schools, shopping centers, restaurants, residential homes, and apartments. In circumstances where fixed fees are not adequate to cover the actual costs, charges are based upon actual costs, commonly referred to as Time & Materials (T&M). From June 2017 – May 2019, fixed fees and T&M generated approximately \$2.0 million in revenue.



In preparation for this request, Tacoma Water has sought input from developers, builders, and members of the public through various meetings and public information sessions. A meeting for Public Utility Board consideration will be held on September 11, 2019 and the first reading by the City Council is scheduled for September 24, 2019.

ISSUE:

Fixed fees were last updated in 2009. Since this time, our cost of service has become misaligned with our fixed fees. From June 2017 – May 2019, we under collected approximately \$385,000 in fixed fees. Refreshing the charge to reflect current costs will allow us to align our fees with actual expenses, reduce staff time, and shorten the time of quote delivery to our customers.

ALTERNATIVES:

An alternative would be taking no action and the current charge structure would remain intact.

RECOMMENDATION:

Tacoma Water requests approval by the Public Utility Board and the City Council for Fixed Fee adjustments effective each January 1st starting in 2020 through 2024. This updates the fixed fee schedules, removes references to “Automated Meter Reading (AMR),” and changes the installation of 3/4 inch service and 5/8 inch meter size for residential domestic service from being a requirement to being a standard in 12.10.250.

FISCAL IMPACT:

Since we are attempting to achieve full cost recovery, we anticipate a revenue increase of approximately \$200,000 annually. Otherwise, fixed fees are subsidized in order to achieve cost recovery.



EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: N/A

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? N/A

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED. N/A