



Board Action Memorandum

TO: Jackie Flowers, Director of Utilities
COPY: Charleen Jacobs, Director and Board Offices
Scott Dewhirst, Tacoma Water Superintendent
FROM: Sean Senescall, Tacoma Water Finance and Analytics Manager
MEETING DATE: September 11, 2019
DATE: August 30, 2019

SUMMARY:

Tacoma Water requests approval by the Public Utility Board (PUB) 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.

BACKGROUND:

Wholesale Rate Structure. 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.

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 based on contracted peak capacity that would increase the fixed charge while decreasing the variable rate.

The requested change in 12.10.400 updates the monthly ready to serve charge based on contracted peak capacity and variable winter and summer rates for the wholesale class.

System Development Charge. 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.

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.

The requested change in 12.10.310 updates the SDC schedules and removes references to “four day maximum” in the SDC methodology since it will be combined with “peak day.”

Fixed Fees. 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



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to as Time & Materials (T&M). From June 2017 – May 2019, fixed fees and T&M generated approximately \$2.0 million in revenue.

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.

The requested change in 12.10.250 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.

Outreach. In preparation for these requests, Tacoma Water has sought input from wholesale customers, developers, builders, and members of the public through various meetings and public information sessions.

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

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

IF THE ACTION REQUESTED IS APPROVAL OF A CONTRACT, INCLUDE LANGUAGE IN RESOLUTION AUTHORIZING \$200,000 INCREASE IN ADMINISTRATIVE AUTHORITY TO DIRECTOR? N/A

ATTACHMENTS:

- City Council Action Memorandum (CAM)
- TMC
- TMC (redline)

CONTACT:

- Primary Contact: Lyna Vo, Utilities Economist, (253) 441-4942
- Supervisor: Jodi Collins, Financial Stewardship Manager
- Presenter: Sean Senescall, Finance and Analytics Manager