



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Amend and revise TMC Chapter 12.10 and Repeal Ordinance No. 28614 – December 10, 2019
DATE: November 20, 2019

SUMMARY:

Tacoma Water requests approval by 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; fixed fees adjustments effective each January 1st starting in 2020 through 2024; and repealing Ordinance No. 28614 in its entirety.

Ordinance No. 28614 was adopted on October 1, 2019 for the requested rate adjustments. However, changes were not made to the most recent version of the TMC. This request repeals and replaces Ordinance No. 28614 to incorporate changes to the most recent version of the TMC while addressing additional errors in the Ordinance.

STRATEGIC POLICY PRIORITY:

- 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 sought input from wholesale customers through various wholesale group and individual meetings. A meeting for Public Utility Board consideration will be held on December 4, 2019 and the first reading by the City Council is scheduled for December 10, 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.

Ordinance No. 28614 updated the ready to service charge based on contracted peak capacity for the wholesale class. However, the annual rate was listed instead of the monthly rate. To ensure consistency with other ready to serve charges, the requested change in 12.10.400 will also update the ready to serve charge from an annual rate to a monthly rate for the wholesale class.

ALTERNATIVES:



The Council could choose not to repeal Ordinance No. 28614. However, if this ordinance is not repealed, the monthly rate would be referenced as an annual rate, which could cause customer confusion.

RECOMMENDATION:

Tacoma Water requests approval by 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 (SDC) 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 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 December 4, 2019 and the first reading by the City Council is scheduled for December 10, 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.

Ordinance No. 28614 updated the system development charge for all customers. However, the inside city of Tacoma charges were listed instead of the outside city of Tacoma charges for wholesale customers. To correct and mitigate this error in the future, the requested change in 12.10.310 will also remove charges listed in 6.F. and cross-reference the system development charge table for 3” meter size or larger.

ALTERNATIVES:

The Council could choose not to repeal Ordinance No. 28614. However, if this ordinance is not repealed, reference to SDCs for wholesale customers would be incorrect.

RECOMMENDATION:

Tacoma Water requests approval by the City Council for system development charge adjustments effective January 1, 2020. This updates the SDC schedules, removes references to “four-day maximum” in the SDC methodology since it will be combined with “peak day” in 12.10.310, and correctly references the SDC calculation for wholesale customers.

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 December 4, 2019 and the first reading by the City Council is scheduled for December 10, 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:

The Council could choose not to repeal Ordinance No. 28614 and the previously approved fee schedule would remain intact.

RECOMMENDATION:

Tacoma Water requests approval by 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.

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Wholesale	581100	4343224	\$0
System Development Charge	587600	6371105	-\$1,300,000
Fixed Fees	587800	6371105	\$200,000
TOTAL			-\$1,100,00

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$1.1 million.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes.