

COUNCIL AGENDA BILL

PUBLIC WORKS STAFF REPORT

Subject: Water, Sewer and Stormwater Utility Rate ordinance—INTRODUCTION
Date: October 29, 2012
Staff Contact: Eric Johnston, Assistant Public Works Director
Attachments: Draft Powerpoint for November 5 Council meeting
FCSG Final draft report- Water & Sewer
FCSG Final draft report – Stormwater

SUMMARY STATEMENT:

Rate increases are needed to support the operations, maintenance and capital construction programs required by both State law and policies established by the City Council. If approved, the recommended rate increases would take effect on January 1st of each year, beginning in 2013 and continuing through 2018. Staff will provide a summary presentation on the changes and basis for the recommended increases at the November 5, 2012 council meeting.

The implementing ordinances are currently being drafted and will be made available prior to the public hearing scheduled for November 19th. Following the public hearing the council will have the first reading of the ordinances on December 3rd followed by consideration for passage on December 10th.

FISCAL IMPACT:

The recommended rate increases will adequately fund maintenance, operations and capital programs in the water, sewer and storm and surface water utilities. Without adoption of the proposed rates, reductions in level of service and changes to City policy will likely be needed to maintain basic State requirements for utility operations.

BACKGROUND:

Most recently, in 2007 and 2008 the City Council adopted changes to the water and sewer utility rates. These changes included codified annual rate increases through the end of 2013 for sewer and the end of 2012 for water. After these dates rates were indexed to the Consumer Price Index for the greater Seattle area. An additional surcharge for protection of the Lake Whatcom watershed was added to the water utility in 2012.

In 2003, the City Council adopted increases to the Surface and Storm Water Utility (SSWU) rates as currently reflected in BMC. From 2003 to 2007, the SSWU rates increased \$0.50 annually per Equivalent Residential Unit or Medium Footprint residential parcel to their current level of \$7.00 per month. However, since 2007 there has been no increase or change to the storm and surface water utility charge.

Since the last major utility rate increase in 2007 changes in state regulations and laws, permitting requirements and City policies have occurred. These changes include:

- Council policy adoption from 2010 Capital Facilities Task Force
- Council policy adoption from 2010 Financial management guidelines
- Council direction for focused capital and education programs in the Lake Whatcom watershed
- Statewide initiatives through Puget Sound Partnership for near shore cleanup projects
- Total maximum daily loading (TMDL) controls for Lake Whatcom
- NPDES Phase II municipal storm water permit implementation
- Implementation of the 2003 municipal water law, specifically metering and conservation
- NPDES industrial permit requirements for wastewater strength at the Post Point WWTP
- Court decision related to fire protection systems (*Lane v. City of Seattle*)

These changes, together with a volatile economic climate and increasing operating costs, necessitated a comprehensive review of the water, sewer and storm water utility rates.

DESCRIPTION:

After a standard selection process, the City retained FCS Group (FCSG) to study all three enterprise utilities. Key components of the rate study scope of work include:

- Revenue requirement analysis
- Capital Funding needs
- Lake Whatcom Watershed Funding
- Debt (low interest loans and revenue bonds) Funding
- System Development Charges
- Cost-of-Service rate analysis
- Consideration of unique issues and challenges
- Policy review - current and future with suggested alternatives

As part of the work, FCSG was tasked to perform a cost of service analysis rate study for each of the utilities, in an effort to bring rates charged to different customer classes in line with the cost of providing the service. A cost of service analysis is intended to align revenues for services with the cost required to provide service to the particular group of customers. For example, the cost of service analysis helps ensure that industrial type customers are not inappropriately subsidizing small single family customer and vice versa. This type of analysis is important for the City of Bellingham where the vast majority of customers are single family homes but where a few large industrial users have needs that affect the operations of the enterprise utility.

The Council has met and discussed rates, City policies and the rate study on several occasions. The dates of these meetings are listed below.

- March 26, 2012—Council Committee Briefing
- April 2, 2012 Council workshop

- September 4, 2012 Special Council Workshop –water and sewer
- September 24, 2012 Special Council Workshop –storm and surface water utility
- October 22, 2012 –Council committee – Lake Whatcom Capital funding

Of particular note, the April 2, 2012 workshop provided specific policy direction used in developing the recommended rate structure. While focus of the discussion during the April 2 workshop was on the water utility, the policy direction provided was generally applied to all three enterprise utilities.

Rates. The completed studies developed by FCSG for water, sewer and storm water are attached to this report. Staff has reviewed the reports and concurs with the recommended actions proposed by the consultant. In addition to the recommendations in the report, staff is recommending that all three utility rates continue to be keyed to an inflationary index such as the Seattle Consumer Price Index or the Seattle Engineering News Record (ENR) Construction Cost Inflation.

Lake Whatcom Capital Construction Program. As discussed with the Council on October 22nd, the budget proposal for 2013 through 2016 in the storm and surface water utility will be based on an \$850,000 lake Whatcom capital program. This \$850,000 program will use \$250,000 in storm water rate revenue with the balance of \$600,000 coming from the Lake Whatcom Watershed surcharge to the water utility bill. The funding will be used for capital storm water retrofits and water quality projects in the Lake Whatcom Watershed. As noted on October 22nd, funds from the storm and surface water utility must be spent on projects within City limits while surcharge funded projects can be either inside or outside the Bellingham jurisdictional boundary.

System Development Charges. Additional policy discussion with the Council is needed prior to developing a proposal for changes to the current water, sewer and storm drainage system development charges. Staff will continue to work with the FCS Group to develop recommendations and will seek Council policy direction early in 2013.

Future Actions. The City of Bellingham currently bills customers on a bi-monthly. Monthly billing can be of benefit to customers for personal budgeting, encouraging conservation, and helps control revenue and cash flow for the City. Staff are supportive of moving the City to a monthly billing system as a next step in improving the operations of the enterprise utilities and have researched the cost of conversion. There are significant challenges and costs related to the billing process, accounting and staffing needs that require careful planning prior to implementation. Based on the operational costs and logistic challenges, staff feel that while monthly billing will likely be of benefit, additional time is needed to plan for a smooth transition.

In the long term, additional changes to the utility rate structures to further promote drinking water conservation, encourage Low Impact Development in storm water controls and reducing the strength of wastewater at the source should be explored.

Timing: Multiple changes to a City of Bellingham utility bill in a single year can be confusing to customers. As currently codified, the Bellingham Municipal Code has programmed increases in water and sewer taking effect on January 1, 2013. In addition, as customers are converted away from the flat

rate billing and into a metered billing rate structure an additional change to the rate would occur. Staff are recommending that the necessary code changes be made for the increase to take effect on January 1, 2013 to avoid multiple changes to a customer's bill in a single year.

In addition to aligning rate changes to January, staff will also be changing the billing of customers for metered water to January 1 of the year after the meter has been installed. In other words, if a meter is installed on March 15, 2013 the customer will remain a flat rate customer through December 31, 2013 and be converted to a metered rate during the first billing cycle in 2014.

These two steps will help ensure that customers will not see multiple changes in a single year and help facilitate planning and personal budgeting and avoid unnecessary confusion

RECOMMENDED ACTION:

Staff recommends that the Council seek public input and consider increasing water, sewer and storm water rates as set forth in the attached studies.