



Office of the City Finance Director/Treasurer

To: Mayor Welch, Common Council Members
From: Dan Nelson, City Finance Director/Treasurer
Date: August 2, 2016
Subject: Discussion and Possible Action Regarding the Water Rate Study

Background

On October 20, 2015, the Common Council engaged with Hawkins Ash CPAs to provide assistance in filing a water rate application to potentially increase water rates.

The last water rate study was conducted in 2012. In order to complete the new water rate study, there are some policy decisions the Council will need to make regarding the rate structure. These are outlined below.

Public Fire Protection Charge

This charge is intended to help maintain the fire hydrants and make proper funding is available for appropriate water pressure in the event of a fire emergency. This charge is currently apportioned to all residents/businesses who have water service within the City and is based on their meter size.

- Q1. Does the Council wish to bill non-customers (those that don't have water service and a vacant parcel)?
- i. If so, does the Council wish to count contiguous undeveloped parcels owned by the person/entity as a single charge or a charge to each individual parcel?

Metered Water Usage

Declining Rate Structure

Currently, the City utilizes a declining rate structure for it's rate structure as shown below:

First 22,000 gallons used bimonthly - \$2.27/1,000 gallons
Next 88,000 gallons used bimonthly - \$2.01/1,000 gallons
Next 5,890,000 gallons used bimonthly - \$1.77/1,000 gallons
Over 6,000,000 gallons used bimonthly - \$1.12/1,000 gallons

We can continue to follow the same basic structure, the more water that is used, the lower the rate.

Uniform Rate Structure

Applicable only to residential and multifamily residential, where the cost is the same per 1,000 gallons regardless of bimonthly usage. This would not affect commercial, industrial, or public authority customers.

Inclining Rate Structure

Applicable only to residential and multifamily residential, where the cost increases at various intervals per 1,000 gallons. This would not affect commercial, industrial, or public authority customers.



Recommendation

Staff does not have any recommendations for the Council regarding the rate structure or public fire protection charges. The questions below need to be answered to fully complete the rate application:

1. Does the Council wish to bill non-customers (those that don't have water service or a vacant parcel) for public fire protection charges?
2. If yes, does the Council wish to count contiguous undeveloped parcels owned by the person/entity as a single charge or a charge to each individual parcel?
3. For residential and multifamily residential rates, does the council prefer a declining, uniform, or inclining rate structure?

When the PSC examines the City's rate application, they will consider these recommendations but there is no guarantee they will create the rates in the preferred methodology. Although, questions stated above are not "ground breaking," there are other municipalities that have these various types of rate structures.

RATE APPLICATION STATUS (Discussion only)

The PSC has not vetted/analyzed the information we provided to them and it could take another 3 – 6 months. Based on the PSC's recommended rate of return on assets, increases in expenses, and anticipated water usage the Milton Water Utility is requesting an increase in annual revenues of \$247,000 which is 22% over the anticipated revenues. **Until the PSC completes the cost of service study, we cannot estimate or predict what this will mean for water base, public fire protection, or volume charges.**

It is important to note that this is **NOT** an operating cash flow deficit. There is an expectation that the utility be able to cover annual maintenance and replacement of assets. In some years, this amount could be very little and other years it could be significant. It is important for the utility to ensure the rates account for the "smoothing" effect of these variables (which is reflected in the \$247,000 amount).

The four major water projects occurring this summer is the driving force behind this increase. We need to make sure rates are sufficient to continue to maintain the new equipment in the system and cover the debt service on the \$2.50 million in projects.