



INDIAN RIVER COUNTY, FLORIDA DEPARTMENT OF UTILITY SERVICES

Date: October 29, 2018

To: Jason E. Brown, County Administrator

From: Vincent Burke, P.E., Director of Utility Services

Prepared By: Cindy Corrente, Utility Finance Manager

Subject: Comprehensive Water, Wastewater, and Reclaimed (Reuse) Water Rate Study, and Water and Sewer Impact Fee Study Recommendations

BACKGROUND

On July 18, 2017, the Board of County Commissioners (BCC) approved the award of two professional Services Agreements with Raftelis Financial Consultants, Inc. The first agreement provided for conducting a Comprehensive Water, Wastewater, and Reclaimed Water Rate Study. The second agreement provided for conducting a Water and Wastewater Impact Fee Study.

On October 2, 2018, staff presented initial findings from both studies to the BCC. The scenario presented was a revenue neutral proposal. However, after discussion during the meeting, staff was directed to bring back more rate scenarios that would encourage water conservation and penalize the high-volume users. Staff was also asked to present the details of the rate study in a more basic format in order to easily compare existing rates with those proposed.

ANALYSIS

Fundamental concepts

There are some fundamental principles in the rate structure that are being proposed for modification. They are depicted in Attachment 5. Key points are:

- Incorporate the billing charge into the monthly service availability fee. This will result in the simplification of the bill presentation.
- Bill to the nearest 100 gallons rather than 1,000. This change will help equalize the customer's bill from month to month as well as have revenues more closely reflect actual expenses.
- Adopt a provision to index the user rates by the lesser of 3%, or the annual difference between the Consumer Price Index (CPI) for All Urban Consumers for the twelve months prior to April of the current year. Increasing the rates in this manner would require BCC approval. Staff suggests that any such request be presented with the annual budget package. Funds from a CPI index will

likely be necessary to keep pace with expenses. The three largest expenses in the utility budget are personnel, chemicals and electricity. None of these expenses decrease from year to year.

- Adopt the rate modifications for an effective date of March 1, 2019

Rate Tiers

Three proposed scenarios are presented on Attachment 1. Attachment 2 depicts some typical bills for each scenario. Attachment 3 depicts the number of annual events (bills) that fell into each category for the period of October 1, 2016, to September 30, 2017.

The first water/sewer rate scenario was proposed by the rate consultant and presented to the BCC on October 2, 2018. It is a revenue neutral proposal. The main differences between Scenario 1 and the current rates are a reduction in tiers from four to three and all usage over 10,000 is billed at the highest tier. Currently all usage over 13,000 is billed at the highest tier. This proposal does not encourage water conservation as much as the other scenarios.

The second rate scenario reflects four tiers, per BCC direction. The difference in rates per thousand is not very significant until you are billed at the fourth tier at \$9.84 per thousand gallons. When compared to our existing rates, this one encourages water conservation slightly.

The third rate scenario further encourages water conservation over scenario two by setting the cap for the second tier at 7,000 gallons rather than 8,000. This scenario would generate almost \$1,000,000 over current rates, and those funds would be reinvested into the utility system in the form of Renewal and Replacement projects.

High Volume Users Identified

Attachment 4 depicts the percentage of customers billed in each tier, broken out by user type.

Only 14% of all customers use 8,000 or more gallons per ERU. Included in the 14% are users that used 8,000 or more gallons only for a month or two during the year. This is typically for situations where a leak or other anomaly occurred. The utility currently has a leak adjustment policy in place for these occurrences wherein usage falling into the higher tiers, due to a leak or other anomaly, is adjusted to a lower tiered rate. This policy allows the utility to recover costs for the service while not penalizing the customer for an isolated or unpreventable situation such as a pipe break.

Eighty-six percent of our customers are identified as single-family homes. In that category, only 3% of the customers used 12,000 or more gallons per month. Nine percent of our customers are mobile home or multi-family residences. Only 1% of the customers in this category used over 12,000 gallons per month. Five percent of our customers fall into a commercial category. This category includes businesses in the county such as storefronts and office fronts, restaurants, clubhouses affiliated with residential and mobile home communities, and medical facilities. In this category, 9% of the commercial customers used over 12,000 gallons per ERU. However, in reviewing the accounts that are consistently falling into this high usage tier, many factors could be rectified if the customers had the appropriate number of ERUs as defined by their usage type. There have been many changes in use for various commercial establishments. For example, an office space that previously only had employee restrooms now houses a dialysis center. There is no provision in County Code to require a review and modification to ERUs

whenever there is a change in use for a facility unless that change requires a building permit or certificate of occupancy. Many such changes require neither one. This has resulted in a few hundred commercial properties not having the appropriate number of ERUs based on the type of business. This is something that should be reviewed as part of a comprehensive review of the utility related sections of County Code.

Miscellaneous Charges

For simplicity purposes, the miscellaneous charges are depicted on Attachment 6. For some of the charges listed, staff is not recommending the rate as was calculated by the consultant. In these situations, the calculated rate is significantly higher than the current rate. Staff feels some of the costs of services should be considered as the cost of doing business as a utility and should be partially absorbed in the overall overhead rather than passed onto customers on an actual cost basis. Examples include plan reviews and disconnect/reconnect services.

Impact Fees

Although the rate consultant calculated and recommended utility fees that are significantly higher than those being proposed, staff is not recommending an increase in impact fees. Cash reserves in the impact fee fund are currently sufficient to cover the five-year Capital Improvements Program. The impact fees are depicted on Attachment 7.

RECOMMENDATIONS

Staff recommends the Board of County Commissioners (BCC) authorize the following:

1. Implement changes to go into effect on March 1, 2019
2. Modify the billing to reflect usage to the nearest 100 gallons rather than 1,000 gallons
3. Adopt rate scenario 3
4. Adopt the rates and fees as depicted in Attachment 5
5. Adopt the miscellaneous charges as reflected on Attachment 6
6. Adopt the impact fees as depicted in Attachment 7
7. Provide an allowance for an annual Consumer Price Index increase contingent upon BCC approval each year

ATTACHMENTS

Attachment 1 – Water and Sewer Rate Scenarios
Attachment 2 – Comparison of Bills Using Current and Proposed Rates
Attachment 3 – Comparison of Billing Events Between Existing and Alternative Rate Structures
Attachment 4 – Percentage of Events by Tier
Attachment 5 – Fundamental Rate Modifications
Attachment 6 – Miscellaneous Charges
Attachment 7 – Impact Fees
Comprehensive Water, Wastewater, and Reclaimed (Reuse) Water Rate Study
Water and Wastewater Impact Fee Study