

COUNCIL ACTION FORM

SUBJECT: OPTIONS FOR WATER REVENUE ADJUSTMENT

BACKGROUND:

A long-standing practice for the Water Fund has been to look forward 10 to 15 years at the anticipated fund balance and to make rate adjustments pro-actively in order to avoid rate increases of an exceptional magnitude. Previous guidance from Council has indicated a preference for more frequent increases of a smaller percentage as opposed to less frequent but larger percentage increases. The past practice has been to try to keep rate increases to no more than 15 percent where possible.

The last across-the-board rate adjustment made to the Water Fund took place in July 2000 when a 10 percent increase was enacted. Last summer, Council implemented a seasonal inclined block rate structure but did not adjust the underlying base water rate. The implementation of the seasonal rate structure did not result in an increased water cost for a large percentage of Ames residents. For those who were impacted, the increase was only experienced during the summer.

The Water and Pollution Control Department is in the process of developing a long-range master plan for the Water Treatment Plant. While specific conclusions and recommendations have yet to be made, it is clear that a significant re-investment in the treatment plant infrastructure will be necessary within the next five years. Whether the ultimate course involves a rehabilitation and modernization of the existing facility, beginning anew with a new treatment plant, or some hybrid option, the cost of the project will exceed the funding capability of the current rate structure.

During last month's budget overview, Council was informed that it is likely that revenue increases will be necessary in the Water Fund in each of the next four fiscal years. Spreading the increases over multiple fiscal years should allow the magnitude of the individual adjustments to be kept in the 10 to 15 percent range. A revenue increase of 10 percent is recommended effective July 1, 2009. The magnitude of future rate increases will be better known when the on-going Infrastructure and Capacity Needs Assessment Study is completed later this spring.

The attached staff report outlines three possible options for implementing the 10 percent revenue increase. All three options generate approximately the same level of revenue. The options vary in how the additional revenue is spread among the seasonal inclining blocks established last summer. Council's guidance on the preferred option is requested. Staff will then prepare ordinance language for Council approval in April.

ALTERNATIVES:

1. Implement a \$0.0018 per cubic foot increase to the winter rate, the summer Block 1 rates for Residential and Irrigation accounts, and the summer Non-Residential and Non-peaking Industrial rates. Do not increase the Residential and Irrigation Block 2 and Block 3 rates. (Option 3 from the staff report)
2. Implement a uniform \$0.0017 per cubic foot increase for all rate blocks. (Option 2 from the staff report)
3. Implement a uniform 10 percent increase for all rate blocks. Individual block increases will range from \$0.0014 to \$0.0070 per cubic foot. (Option 1 from the staff report)

MANAGER'S RECOMMENDED ACTION:

The seasonal inclining block rate structure was designed to recover the cost of providing additional treatment capacity from those customers whose pattern of use was leading to the need for additional capacity. The rate increases that will be necessary over the next four years will be to cover the cost to rehabilitate or replace the existing treatment capacity, as well as to cover general cost increases in the operations and maintenance budget. These are expenses that are attributable to all water customers.

Option 3 from the staff report outlines a method to adjust the minimum bill charges by ten percent, and to generate a ten percent increase in revenue from consumption by adjusting the unit rates from all blocks except the summer Block 2 and Block 3 rates for Residential and Irrigation accounts. Assigning the necessary revenue increase to the winter rates and to the summer Residential and Irrigation Block 1 rates, Non-Residential rates, and Non-Peaking Industrial rates allows the costs to be shared equitably by all customers. **Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby identifying Option 3 from the staff report as the preferred method of generating a ten percent increase in water revenues. Staff will then prepare the appropriate ordinance revisions for City Council approval.**