

# City of Bend

## Infrastructure Advisory Committee (IAC)

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### **November 7, 2012 IAC recommendation regarding the Water Rate Structure:**

The IAC believes the following is a fiscally responsible water rate structure that supports fairness and is equitable for all users. The IAC supports the current City policy to keep water rates “revenue neutral”, meaning the rates should generate revenue sufficient to support the operation, maintenance and repair of the water system.

On September 15, 2011 the IAC recommended the Council to shift more revenue to the volume component of the water rate, and unanimously supported the council decision to move from a 400 cf allowance to a zero allowance. At that time the IAC requested the council table this decision and allow the IAC time to study the fixed and variable component of the water rates. The goal was to allow the IAC to prepare a recommendation of the water rate structure, based on a technical analysis, that incorporates appropriate cost items in the fixed and variable components of the Bend water rate structure.

On January 18, 2012 the IAC recommended the following water rate policy objectives to Council:

1. Rates should provide Sufficient and Stable Revenue
2. Establish predictable rates
3. Equity for all water users
4. Promote water conservation
5. Administratively manageable

Subsequently, the IAC analyzed the water rate budget components for several months and had detailed presentations from City staff. This allowed the IAC to develop the following recommendations for Council to consider. These recommendations were unanimously supported at the October 29, 2012 IAC meeting.

**400 cf Allowance Policy:** The IAC supports the Council decision to change the current the 400 cf allowance policy to a zero allowance policy. The IAC agrees that customers should not have to pay for water that they do not use.

**Service Availability Policy:** Currently the city allows the option for users to suspend water service. This occurs during extended absences (snowbirds), or foreclosed properties. Thus, these customers receive no monthly water bills. However, the city has an obligation to maintain the water system to meet all water demands at all times, to meet all State and Federal requirements and to provide adequate services such as fire flow throughout the water distribution network. These obligations must be met if the customer uses 10mgd, 5mgd, or none, as the costs are the same. Fire flow is at the ready for all citizens and does not differentiate the suspended water service accounts.

The IAC recommends the council adopt a policy that bills all customers for the monthly fixed rate component even if the water service is suspended or if no water is used. The IAC believes this is financially prudent and necessary to allow the City to recover the costs of water service beyond usage. It also helps meet the goal of rate equity.

**Proposed Water Rate:** The IAC recommends Council establish a water rate structure using the fixed and variable cost allocations based on the division of fixed and variable expenditures developed by City staff and the IAC. The IAC believes this rate structure will be sufficient to generate stable revenues required to support

operations and maintenance and support necessary capital infrastructure and conform to the city financial policies. The IAC acknowledges the importance of water conservation but agree that revenue stability and user equity should be the greater focus.

**Meter Change Out Policy:** Customers may want to change out meters to smaller size because they may feel it will save them money. The City needs to adopt a policy regarding meter change out to define the cost recovery for such actions.

**Proposed Cost Allocation Summary**

Based on FY12/13 Budget				
	<u>Current</u>		<u>Proposed</u>	
Revenue Generation from:				
Fixed Meter/Service Charge	7.7	56%	8.5	62%
Volume Charge	<u>6.0</u>	44%	<u>5.2</u>	38%
Total Revenue Requirements	<u>13.7</u>		<u>13.7</u>	