



09-23-14

ITEM #9
WRKS

MEMORANDUM

DATE: September 5, 2014

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Russell Truell, Assistant City Administrator
Mark Hilty, Water Management Director

SUBJECT: Discussion Regarding Water and Sanitary Sewer Rate Design

Purpose

The purpose of this memorandum is to introduce the discussion of water and sanitary sewer rate design based on Resolution 2014-57 as adopted by the Board of Mayor and Aldermen on August 26, 2014.

Background

The City of Franklin Water Management Department, through a cost of service analysis, has developed a five year financial plan to establish the necessary expenditures and revenues for operations. The plan considers the long term effect of capital projects and upgrades of facilities, and operational costs including projected increases in personnel, utilities, and other expenses that scale with changes in system size or customer base. Also, the plan incorporates the estimated effects of inflation and customer growth on revenues and expenses to allow the Board and staff to better plan for future system needs.

On August 26, 2014, the Board of Mayor and Aldermen adopted the plan (Resolution 2014-57), indicating that rate designs should reflect consistent rate adjustments over a five-year period to achieve required revenues. A consistent five year approach include adjustments of 3.5% annually for water and 6.75% annually for sanitary sewer.

A key goal for this discussion item is to gain feedback from the BOMA in order to develop a rate design for Fiscal Years 2015 and FY 2016, consistent with the Board's vision.

Options

The options that will be presented were developed as a starting point for the discussion. In general the options include the following:

- Option A: Adjustments to the consumption charges per thousand gallons for FY 2015 and 2016 to achieve 3.5% and 6.75% increases in revenues for water and sanitary sewer respectively.
- Option B: Adjustment to the consumption charges per thousand gallons for FY 2015 and adjustment to the consumption charges and reducing the amount of water included in the minimum monthly charge for FY 2016.

Recommendation

Staff looks forward to the Board's feedback in order to develop a recommendation for consideration in the future.



City of Franklin, TN

Water Rate Recommendations

Presented: September 11, 2014

Sarah Chandler/Jim Marshall | Jackson Thornton Utilities Consultants



JACKSON THORNTON UTILITIES

UTILITIES CONSULTANTS

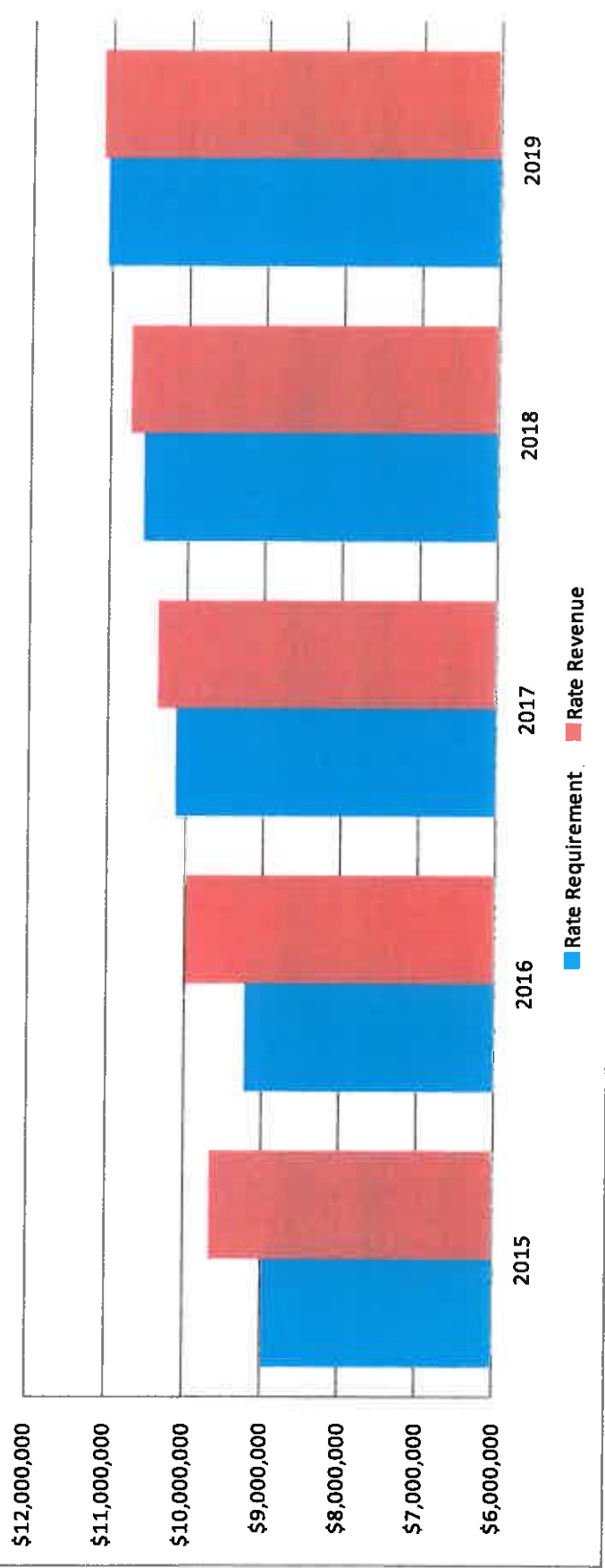
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Water – Adopted Five Year Approach

| | Rate Requirement | % Change | \$ Change | Rate Revenue | Proposed Rate Change | Additional Revenue | Revenue - Requirement |
|-------------|------------------|----------|--------------|---------------|----------------------|--------------------|-----------------------|
| Actual 2013 | \$ 9,200,339 | | | \$ 9,319,189 | | | |
| Budget 2015 | \$ 8,960,197 | -2.6% | \$ (240,142) | \$ 9,645,361 | 3.50% | \$ 326,172 | \$ 685,164 |
| Budget 2016 | \$ 9,191,988 | 2.6% | \$ 231,791 | \$ 9,982,948 | 3.50% | \$ 337,588 | \$ 790,960 |
| Budget 2017 | \$ 10,110,411 | 10.0% | \$ 918,423 | \$ 10,332,352 | 3.50% | \$ 349,403 | \$ 221,941 |
| Budget 2018 | \$ 10,538,044 | 4.2% | \$ 427,633 | \$ 10,693,984 | 3.50% | \$ 361,632 | \$ 155,940 |
| Budget 2019 | \$ 11,020,720 | 4.6% | \$ 482,676 | \$ 11,068,273 | 3.50% | \$ 374,289 | \$ 47,553 |

Rate Requirement Timeline



Water Rate Option A – Consumption Only Increase

Option A

Years One and Two:

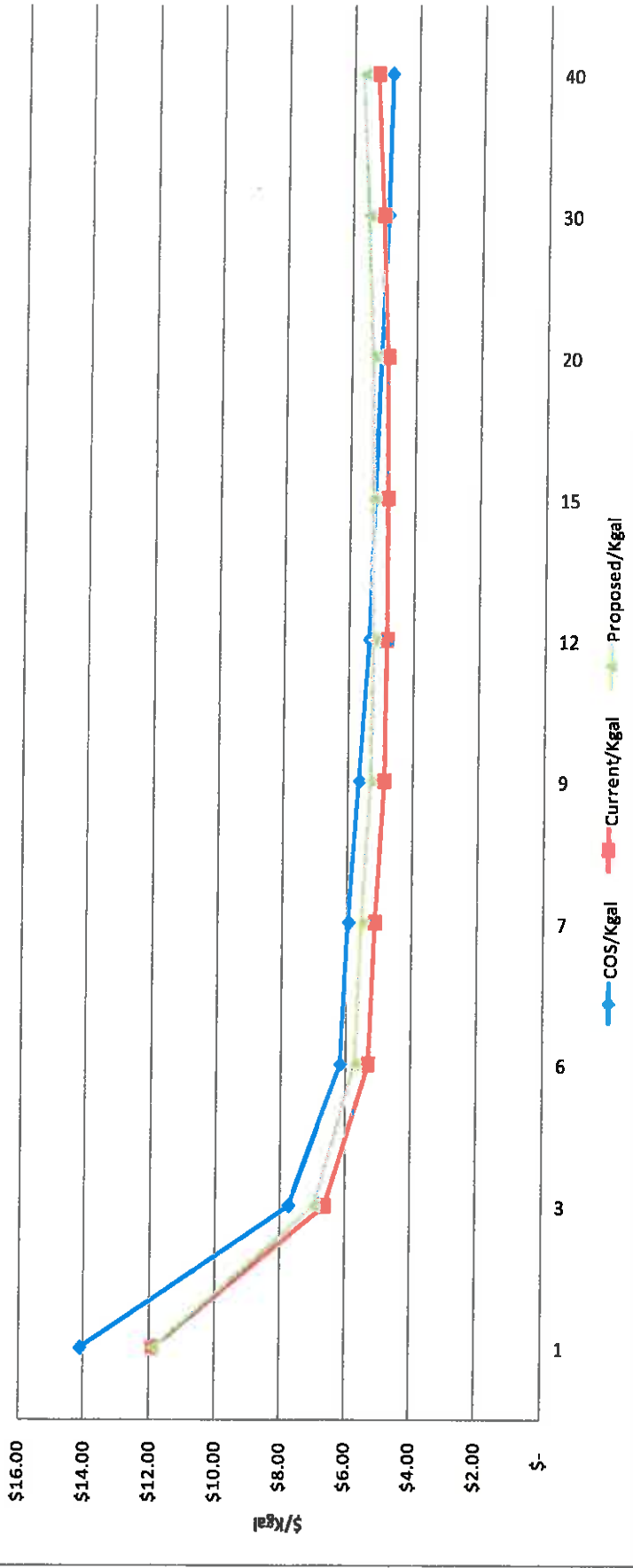
- \$0.24 Annual increase in Consumption Charge per kGal for Inside Customers
- \$0.37 Annual increase in Consumption Charge per kGal for Outside Customers

Option A would generate approximately \$711,000 in additional revenue over the two year period.

Water – Option A Residential Inside

| | Cost of Service | | Current | Proposed | Difference |
|---------------------------------|-----------------|------|---------|----------|------------|
| Availability Charge (1,000 Gal) | \$ | 9.51 | \$ | 11.86 | \$ 11.86 |
| Next 9,000 Gallons | \$ | 4.58 | \$ | 3.98 | \$ 4.46 |
| Next 15,000 Gallons | \$ | | \$ | 4.91 | \$ 5.39 |
| All Additional | \$ | | \$ | 5.84 | \$ 6.32 |

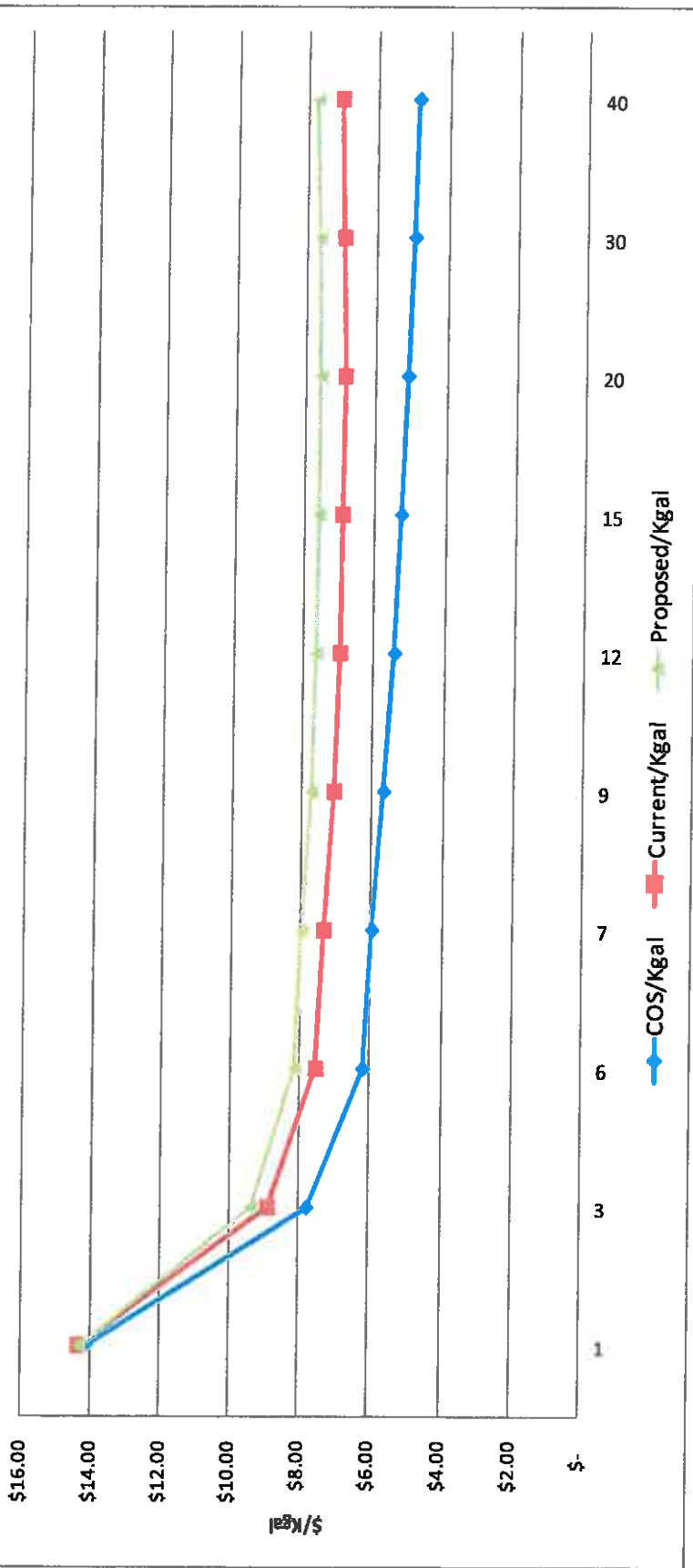
Res Inside - Cost Curve/Kgal



Water – Option A Residential Outside

| | Cost of Service | | Current | Proposed | Difference |
|---------------------------------|-----------------|------|---------|----------|------------|
| Availability Charge (1,000 Gal) | \$ | 9.50 | \$ | 14.30 | \$ |
| Next 9,000 Gallons | \$ | 4.60 | \$ | 6.90 | \$ |
| Next 15,000 Gallons | \$ | | \$ | 7.48 | \$ |
| All Additional | \$ | | \$ | 8.06 | \$ |

Res Outside Cost Curve/Kgal



Water Rate Option B

Option B

Year One:

- \$0.16 Increase in Consumption Charge per kGal for Inside Customers
- \$0.25 Increase in Consumption Charge per kGal for Outside Customers

Year Two:

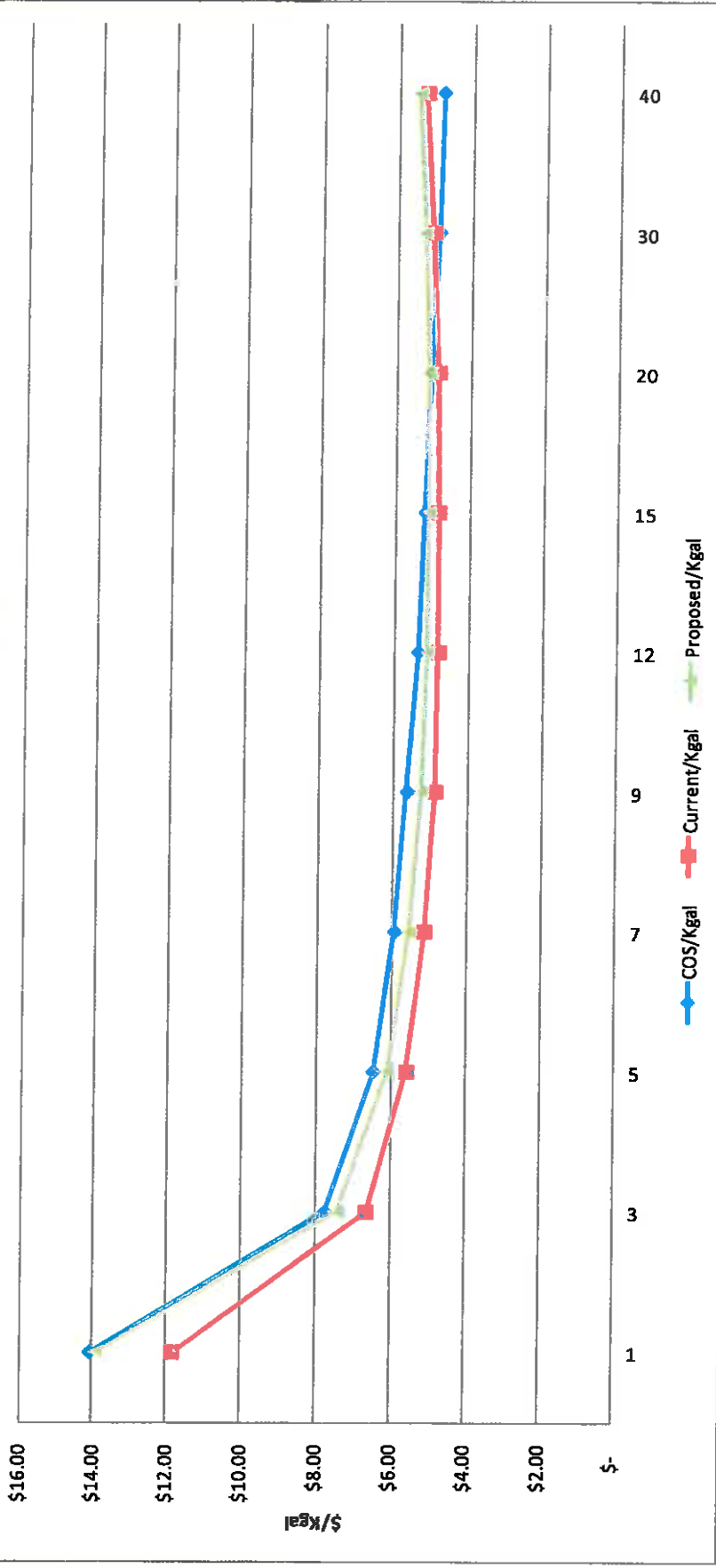
- Eliminate 500 gallons from the amount included in the monthly minimum charge.

Option B would generate approximately \$690,000 in additional revenue over the two year period; \$237,000 in year one and \$453,000 in year two.

Water – Option B Residential Inside

| | Cost of Service | | Current | Proposed | Difference |
|-------------------------------|-----------------|------|---------|----------|------------|
| Availability Charge (500 Gal) | \$ | 9.51 | \$ | 11.86 | \$ 11.86 |
| Next 9,500 Gallons | \$ | 4.58 | \$ | 3.98 | \$ 4.14 |
| Next 15,000 Gallons | \$ | | \$ | 4.91 | \$ 5.07 |
| All Additional | \$ | | \$ | 5.84 | \$ 6.00 |

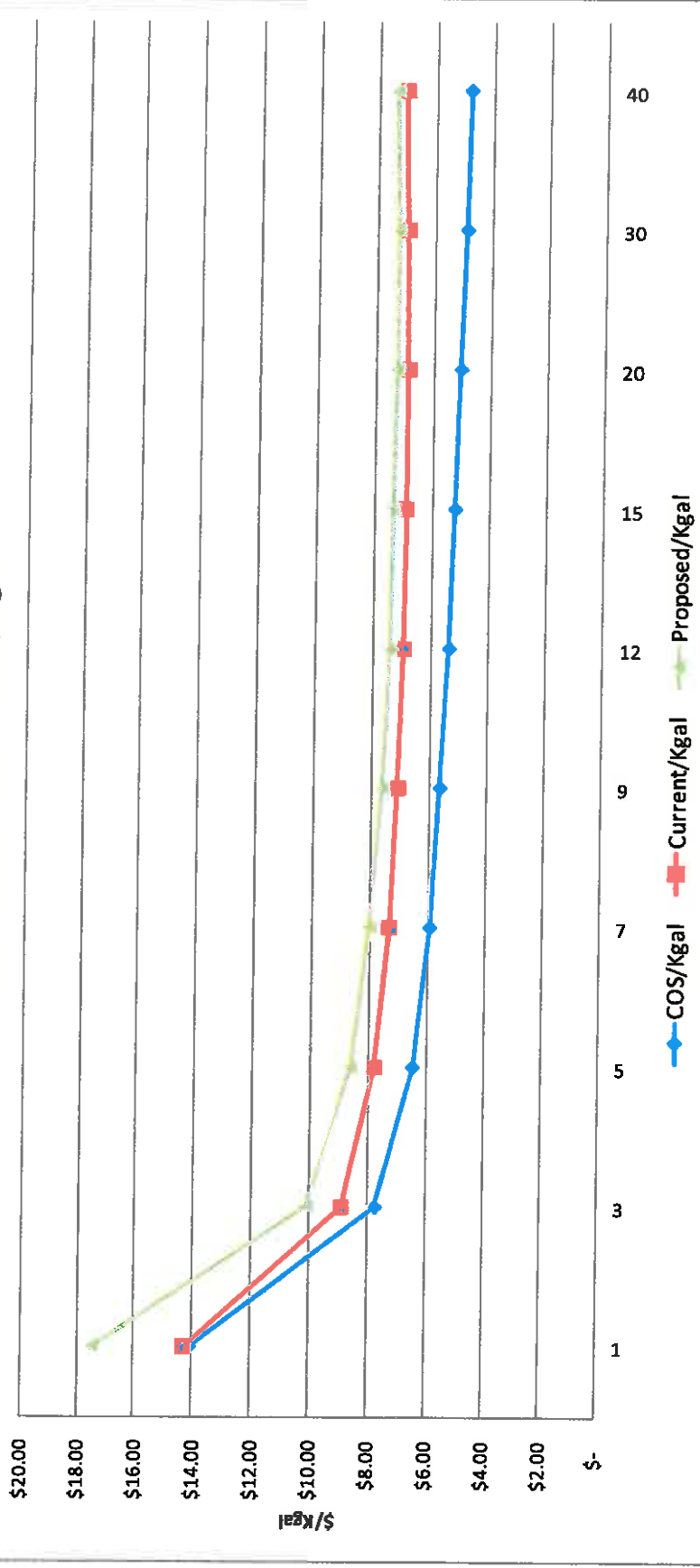
Res Inside - Cost Curve/Kgal



Water – Option B Residential Outside

| | Cost of Service | | Current | Proposed | Difference |
|-------------------------------|-----------------|------|---------|----------|------------|
| Availability Charge (500 Gal) | \$ | 9.50 | \$ | 14.30 | \$ |
| Next 9,500 Gallons | \$ | 4.60 | \$ | 6.41 | \$ |
| Next 15,000 Gallons | \$ | | \$ | 6.99 | \$ |
| All Additional | \$ | | \$ | 7.57 | \$ |

Res Outside Cost Curve/Kgal



Water – Summary of Rate Options

| 3.5% Increase in Revenue Generated | | Option A | | Option B | |
|---|----|-----------------|-------------------|-----------------|-------------------|
| | | Rate Adjustment | Revenue Generated | Rate Adjustment | Revenue Generated |
| Consumption Charge Adjustment Residential In | | | | | |
| Year One | \$ | 0.24 | \$ 220,153 | \$ | \$ 146,768 |
| Year Two | \$ | 0.24 | \$ 220,153 | \$ | \$ 333,467 |
| Residential Out | | | | | |
| Year One | \$ | 0.37 | \$ 60,173 | \$ | \$ 40,115 |
| Year Two | \$ | 0.37 | \$ 60,173 | \$ | \$ 91,859 |
| Comm In | | | | | |
| Year One | \$ | 0.24 | \$ 67,170 | \$ | \$ 44,780 |
| Year Two | \$ | 0.24 | \$ 67,170 | \$ | \$ 25,359 |
| Comm Out | | | | | |
| Year One | \$ | 0.37 | \$ 8,033 | \$ | \$ 5,356 |
| Year Two | \$ | 0.37 | \$ 8,033 | \$ | \$ 2,506 |
| Total Additional Revenue - Two Years | | | \$ 711,057 | | \$ 690,209 |

*Option B Year Two drops 500 gallons from monthly minimum



City of Franklin, TN

Sewer Rate Recommendations

Presented: September 11, 2014

Sarah Chandler/Jim Marshall | Jackson Thornton Utilities Consultants



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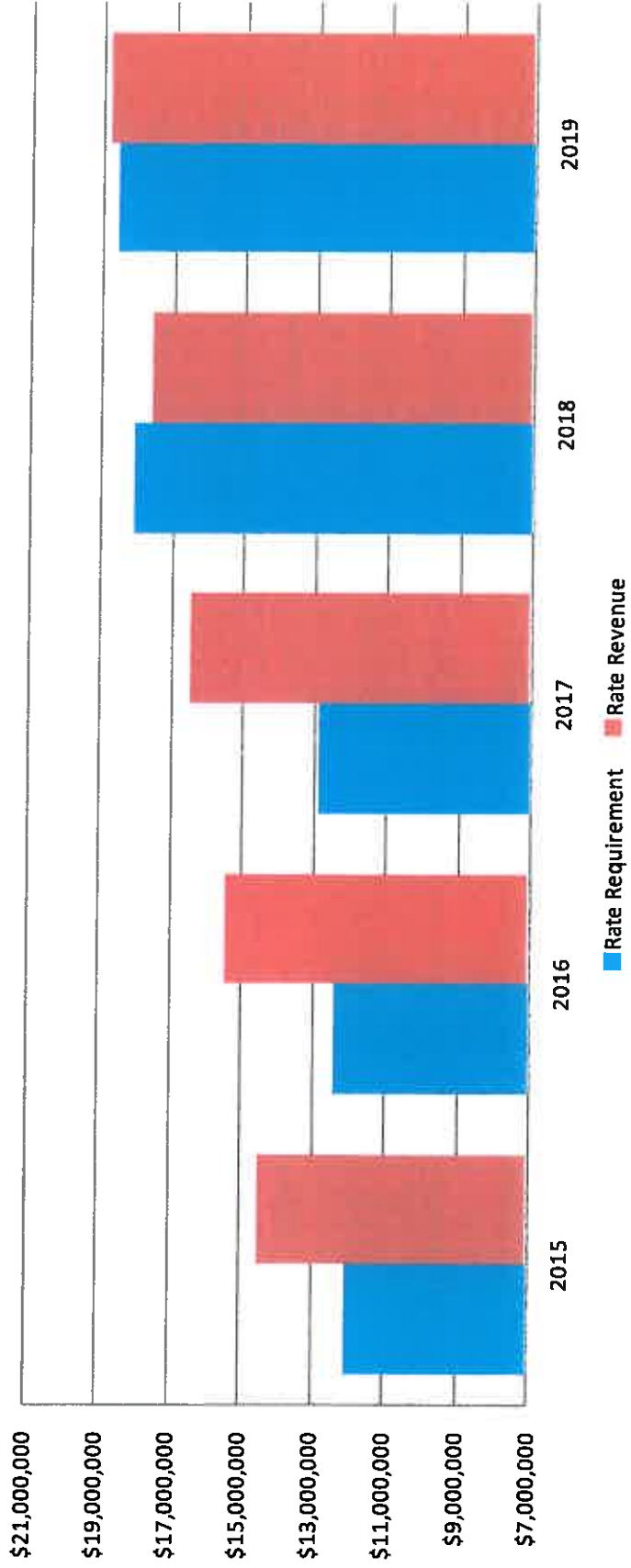
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Sewer – Adopted Five Year Approach

| | Rate Requirement | % Change | \$ Change | Rate Revenue | Proposed Rate Change | Additional Revenue | Revenue - Requirement |
|-------------|------------------|----------|--------------|---------------|----------------------|--------------------|-----------------------|
| Actual 2013 | \$11,200,848 | | | \$ 13,536,361 | | | |
| Budget 2015 | \$12,047,735 | 7.6% | \$ 846,887 | \$ 14,450,065 | 6.75% | \$ 913,704 | \$ 2,402,331 |
| Budget 2016 | \$12,405,874 | 3.0% | \$ 358,139 | \$ 15,425,445 | 6.75% | \$ 975,379 | \$ 3,019,571 |
| Budget 2017 | \$12,858,683 | 3.6% | \$ 452,809 | \$ 16,466,662 | 6.75% | \$ 1,041,218 | \$ 3,607,980 |
| Budget 2018 | \$18,084,857 | 40.6% | \$ 5,226,174 | \$ 17,578,162 | 6.75% | \$ 1,111,500 | \$ (506,695) |
| Budget 2019 | \$18,582,881 | 2.8% | \$ 498,024 | \$ 18,764,688 | 6.75% | \$ 1,186,526 | \$ 181,807 |

5 Year Rate Requirement Timeline



Sewer Rate Option A – Consumption Only Increase

Option A

Years One and Two:

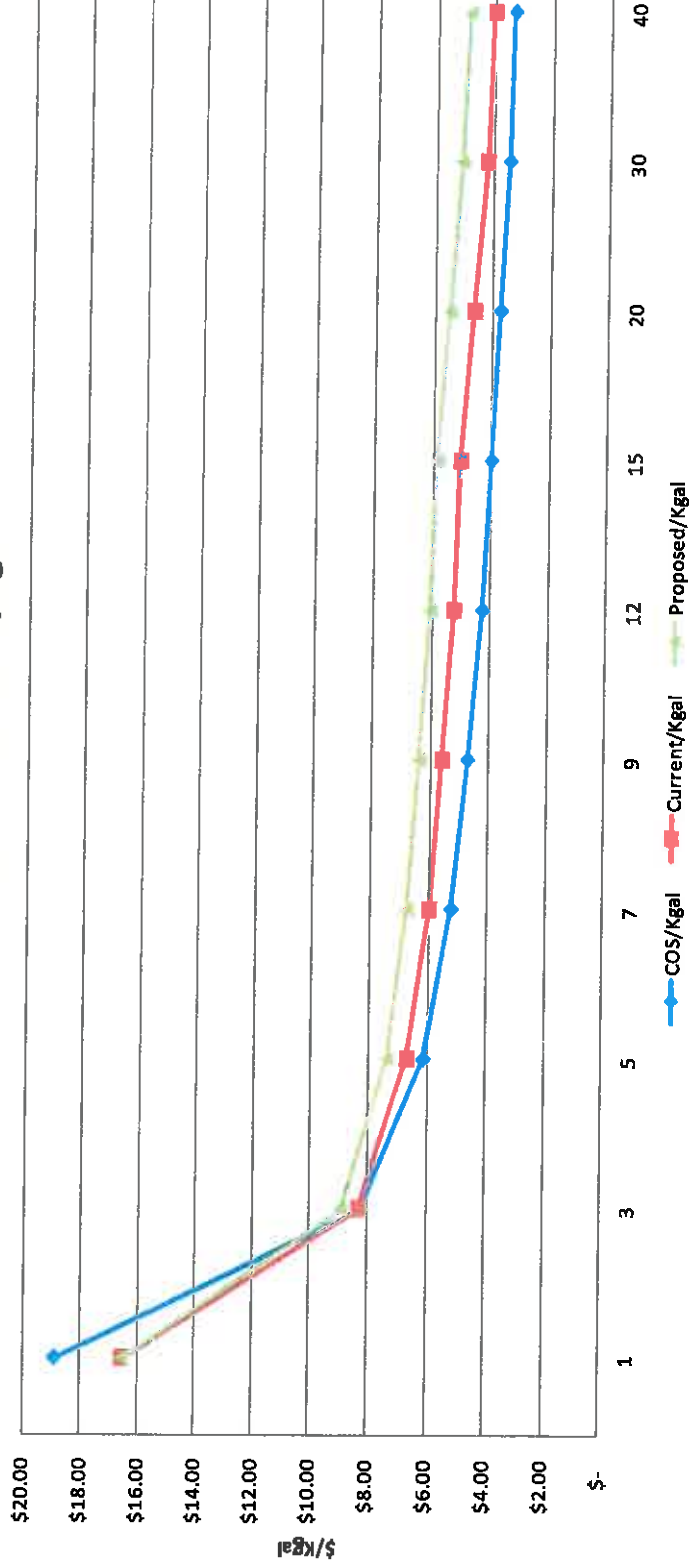
- \$0.46 Annual increase in Consumption Charge per kGal for Inside Customers
- \$0.72 Annual increase in Consumption Charge per kGal for Outside Customers

Option A would generate approximately \$1,938,000 in additional revenue over the two year period.

Sewer – Option A Residential Inside

| | Cost of Service | | Current | Proposed | Difference |
|---------------------------------|-----------------|-------|----------|----------|------------|
| Availability Charge (1,000 Gal) | \$ | 15.96 | \$ 16.55 | \$ 16.55 | \$ - |
| Next 14,000 Gallons | \$ | 2.95 | \$ 4.17 | \$ 5.09 | \$ 0.92 |
| All Additional | \$ | | \$ 3.38 | \$ 4.30 | \$ 0.92 |

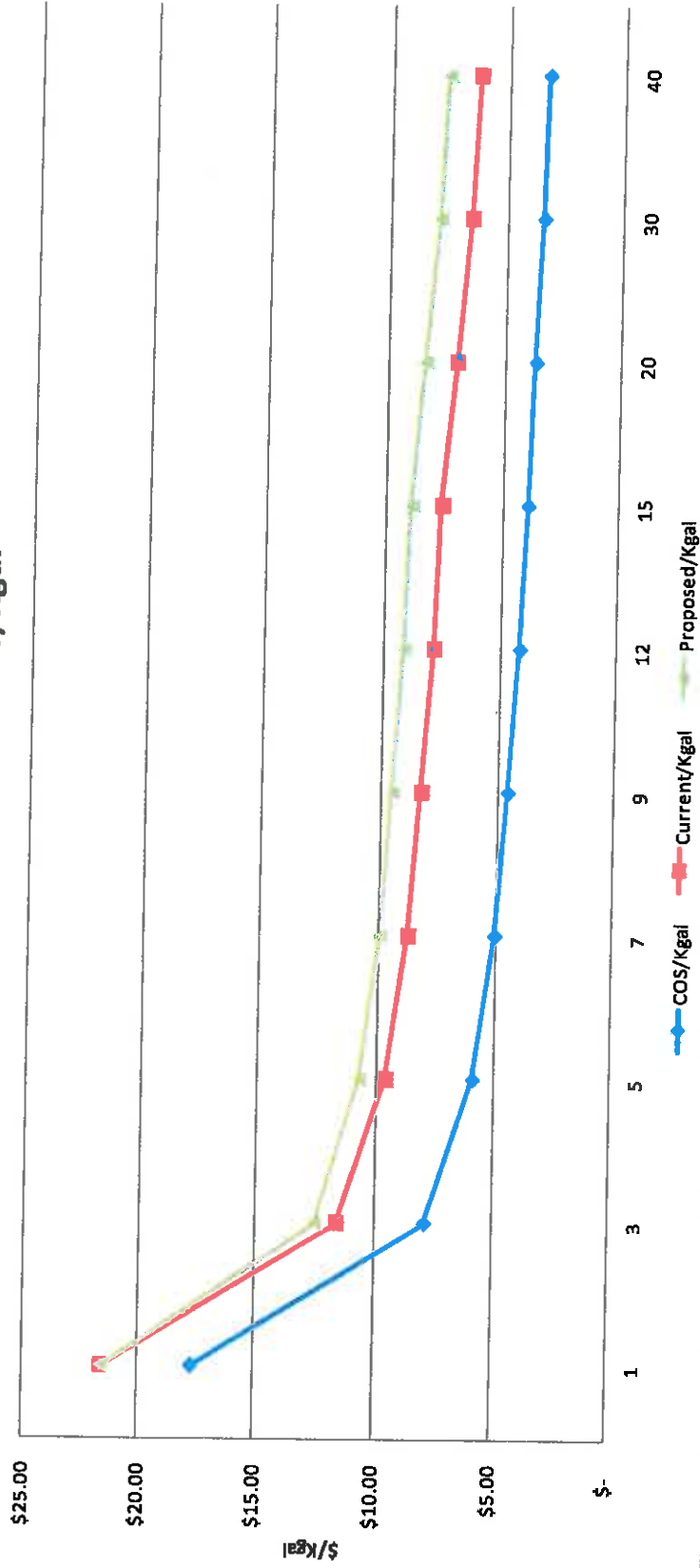
Res Inside Cost Curve/Kgal



Sewer – Option A Residential Outside

| | Cost of Service | | Current | Proposed | Difference |
|---------------------------------|-----------------|-------|---------|----------|------------|
| Availability Charge (1,000 Gal) | \$ | 14.81 | \$ | 21.63 | \$ |
| Next 14,000 Gallons | \$ | 2.95 | \$ | 7.98 | \$ |
| All Additional | \$ | | \$ | 6.83 | \$ |

Res Outside Cost Curve/Kgal



Sewer Rate Option B

Option B

Year One:

- \$0.46 Increase in Consumption Charge per kGal for Inside Customers
- \$0.72 Increase in Consumption Charge per kGal for Outside Customers

Year Two:

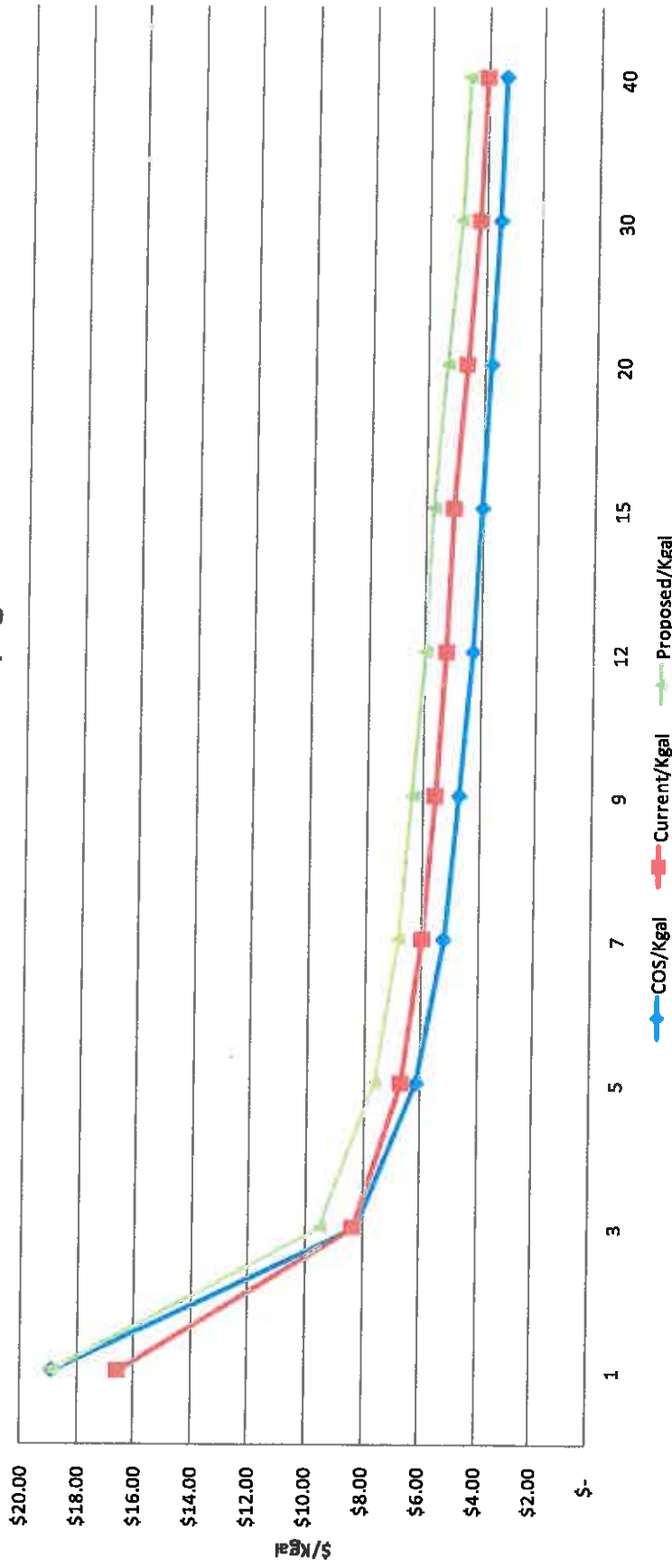
- \$0.15 Increase in Consumption Charge per kGal for Inside Customers
- \$0.23 Increase in Consumption Charge per kGal for Outside Customers
- Eliminate 500 gallons from the amount included in the monthly minimum charge.

Option B would generate approximately \$1,924,000 in additional revenue over the two year period.

Sewer – Option B Residential Inside

| | Cost of Service | | Difference |
|-------------------------------|-----------------|----------|------------|
| | Current | Proposed | |
| Availability Charge (500 Gal) | \$ 15.96 | \$ 16.55 | \$ - |
| Next 14,500 Gallons | \$ 2.95 | \$ 4.78 | \$ 0.61 |
| All Additional | \$ - | \$ 3.99 | \$ 0.61 |

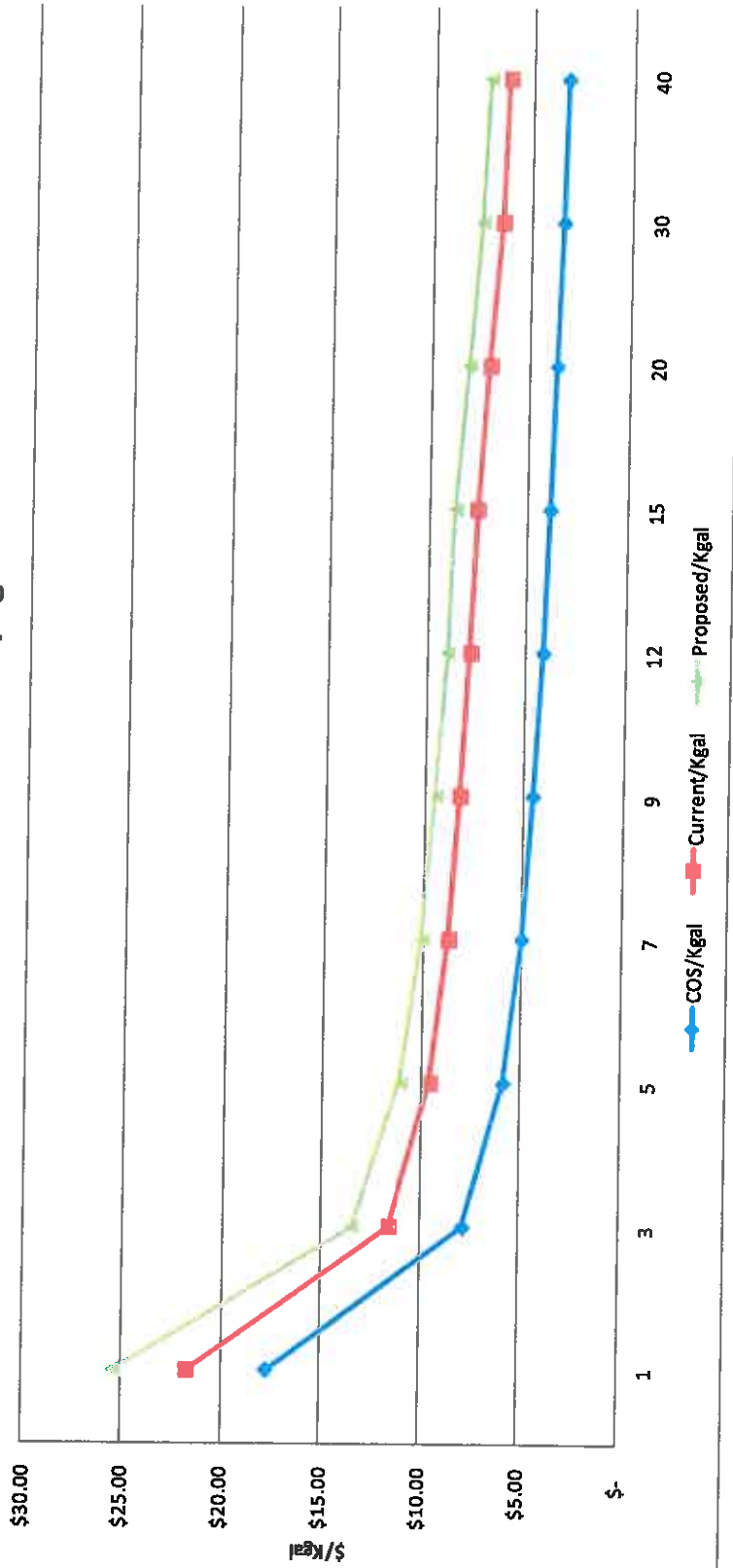
Res Inside Cost Curve/Kgal



Sewer – Option B Residential Outside

| | Cost of Service | | Current | Proposed | Difference |
|-------------------------------|-----------------|-------|---------|----------|------------|
| Availability Charge (500 Gal) | \$ | 14.81 | \$ | 21.63 | \$ |
| Next 14,500 Gallons | \$ | 2.95 | \$ | 7.49 | \$ |
| All Additional | \$ | | \$ | 6.34 | \$ |
| | | | | | 0.95 |
| | | | | | 0.95 |

Res Outside Cost Curve/Kgal



Sewer – Summary of Rate Options

| 6.75% Increase in Revenue Generated | | Option A | | Option B | |
|---|----|-----------------|-------------------|-----------------|-------------------|
| | | Rate Adjustment | Revenue Generated | Rate Adjustment | Revenue Generated |
| Consumption Charge Adjustment Residential In | | | | | |
| Year One | \$ | 0.46 | \$ 596,994 | \$ | \$ 596,994 |
| Year Two | \$ | 0.46 | \$ 596,994 | \$ | \$ 552,004 |
| Residential Out | | | | | |
| Year One | \$ | 0.72 | \$ 10,871 | \$ | \$ 10,871 |
| Year Two | \$ | 0.72 | \$ 10,871 | \$ | \$ 19,684 |
| Comm In | | | | | |
| Year One | \$ | 0.46 | \$ 337,070 | \$ | \$ 337,070 |
| Year Two | \$ | 0.46 | \$ 337,070 | \$ | \$ 25,359 |
| Comm Out | | | | | |
| Year One | \$ | 0.72 | \$ 24,038 | \$ | \$ 24,038 |
| Year Two | \$ | 0.72 | \$ 24,038 | \$ | \$ 3,820 |
| Total Additional Revenue - Two Years | | | \$ 1,937,947 | | \$ 1,924,262 |

*Option B Year Two drops 500 gallons from monthly minimum