

Memorandum



City of Tempe

Date: June 10, 2010

To: Mayor and City Council

From: Don Hawkes, Water Utilities Manager (ext. 2660)
John Osgood, Interim Public Works Manager (ext. 8949)
Jerry L. Hart, Financial Services Manager (ext. 8505)

Through: Charles W. Meyer, City Manager (ext. 8884)
Jeff Kulaga, Assistant City Manager (ext. 8844)

Subject: Water and Wastewater Rate Study Review; Solid Waste Rate Recommendation

Water and Wastewater

The Water Utilities Department (WUD), with assistance from the Financial Services Department, has completed the water and wastewater rate study led by Red Oak Consulting. Two years ago the City Council was presented with a three-year phased approach to the cost of service rate structure, and this rate adjustment would be the final year of the three year program. This approach smoothes the impact of significant rate fluctuations across the different customer classifications (residential, commercial, and industrial customers).

Consistent with the prior year's rate analysis, the attached Executive Summary indicates that both water and wastewater rate adjustments are necessary to ensure full recovery of operating costs, financing of capital projects and maintenance of the unreserved fund balance. The analysis shows that over the study period the fund balance will be reduced to approximately 47% of revenue, well below the policy level of 100% of total annual fund revenue.

The total recommended rate adjustments for water and wastewater will increase a median single family residential utility bill by \$3.93 a month, or 10%.

Highlights of the rate analysis are as follows:

- Each customer class would pay its fair share of costs by the end of the 3-year period.
- Tempe's combined water and wastewater rates would remain among the lowest of the comparison cities.
- Due to accumulating adequate fund balances, the existing fund balance can be utilized to mitigate the impact of rate increases.
- The cost of funding Other Post Employment Benefits (OPEB) is estimated at \$500,000 per year beginning in FY 2010-11.
- Expenses associated with certain non-utility services and irrigation services are estimated at \$1.33 million and \$312,000, respectively.
- The study anticipates similar rate adjustments would be required in each of the subsequent three fiscal years. Smaller annual rate adjustments will be needed for the remainder of the 10-year study period.

Solid Waste

Public Works and Financial Services staff completed a projected six-year analysis of the solid waste operations. Based on current projections, neither residential nor commercial solid waste rate increases are necessary in FY 2010-11. This is due primarily to the following factors:

- The June 30, 2010 unreserved fund balance is projected to be 21% of revenues and grow to 25% of revenues at June 30, 2011, assuming no rate adjustment. The current policy level is 10%.
- Costs are projected to be lower than previous estimates due to employee furloughs, health care savings, and reduced internal service charges from the General Fund due to budget balancing efforts.
- This also assumes costs for a) the Hazardous Material Safety operations (which include the Household Products Collection Center) of \$370,000 and b) transportation infrastructure maintenance contributions of \$350,000 are absorbed into the solid waste operations.

It is anticipated that modest annual rate increases ranging from 2% to 4% are necessary starting in FY 2011-12. A full cost of service rate analysis will be conducted next year for both residential and commercial solid waste operations led by an independent consultant.

The total recommended rate adjustments for water, wastewater, and solid waste will increase a median single family residential utility bill by \$3.93 a month, or 6.7%.

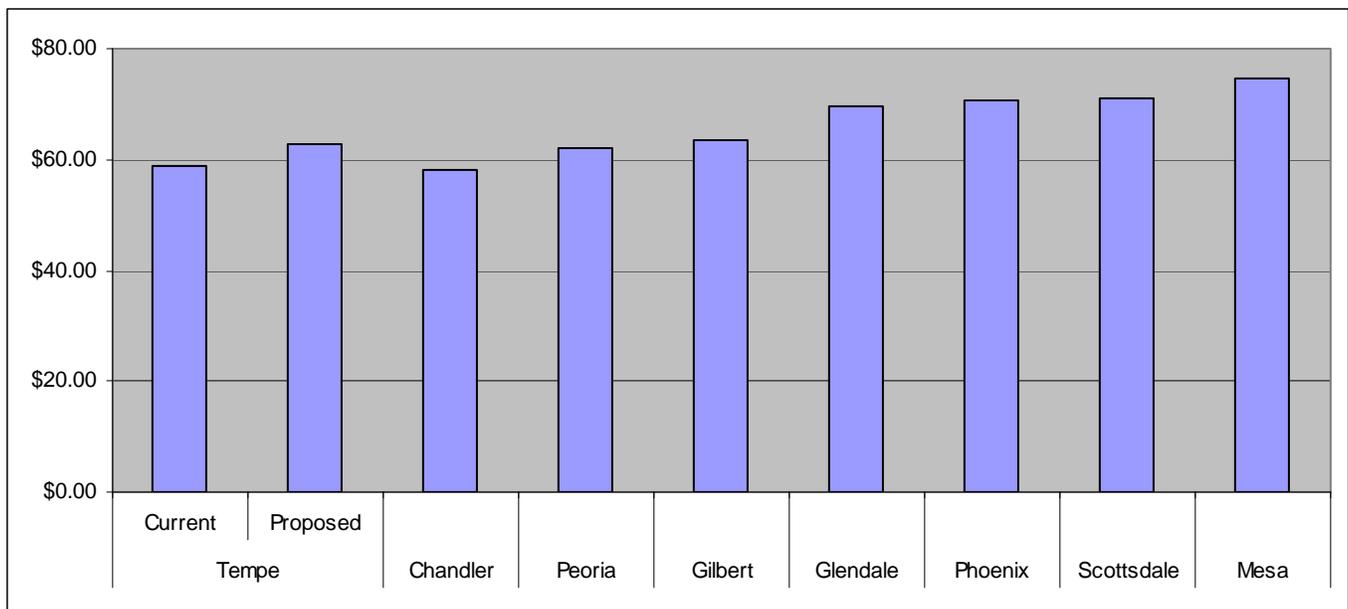
City staff and Red Oak Consulting will be available at the June 10, 2010 Issue Review Session for questions. The following table and graph illustrate the rate increases and compare them to other valley cities.

The following table and graph illustrate the rate increases and compare them to other valley cities.

Monthly Water / Wastewater Cost Comparison

Comparative Cost of Services Report As of January 2010 Median Single Family Household - 10,000 gallons water / 5,000 Sewer

	Tempe			Chandler	Peoria	Gilbert	Glendale	Phoenix	Scottsdale	Mesa
	Current	Proposed	%							
Water	\$22.74	\$25.58	12.5%	\$23.01	\$33.57	\$25.43	\$29.34	\$25.89	\$33.13	\$34.48
Wastewater	\$16.01	\$17.10	6.8%	\$19.97	\$13.56	\$20.72	\$24.10	\$18.03	\$22.26	\$16.19
Sanitation	\$19.98	\$19.98	0.0%	\$15.07	\$15.06	\$17.30	\$16.30	\$26.80	\$15.65	\$23.88
Total	\$58.73	\$62.66	6.7%	\$58.05	\$62.19	\$63.45	\$69.74	\$70.72	\$71.04	\$74.55



Tentative Schedule for Water/Wastewater Rate Adjustments

- June 10, 2010 Council Issue Review Session – Review of proposed water/wastewater rates with City Council.
- July 1, 2010 Supply written report of data supporting rate increase to the City Clerk (at least 30 days prior to the September 16, 2010 Public Hearing).
- July 1, 2010 **Adopt Notice of Intention** to set time and date of the Public Hearing (at least 30 days prior to the September 16, 2010 Public Hearing).
- August 23, 2010 **Publish Notice of Intention** in newspaper (not less than 20 days prior to the Public Hearing).
- September 16, 2010 **Hold Public Hearing and Adopt Rate Adjustments.**
- November 1, 2010 Effective date of rate adjustments (at least 30 days after the rate resolution is adopted).