




MEMORANDUM

Date: October 22, 2018

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Sewer User Fee Billing Methodology for Non-residential Customer Change**

The Regional Wastewater Reclamation Department (RWRD) and the RWRD Advisory Committee have been considering a new rate structure that would shift costs between classes of users where commercial users would pay more and residential users would pay less. The proposed rate change has been somewhat controversial. The rate change methodology would cause, in some cases, significant increases for commercial users, including public schools. This cost transfer would also result in residential customers paying marginally less. Because of this, I have instructed the RWRD to table the rate change initiative.

Please note the RWRD Advisory Committee has recommended this change to the Board of Supervisors by a 6 to 3 vote and has asked the proposed billing methodology modification be considered at the December 18, 2018 Board of Supervisors meeting.

I will not place this matter on the Board's Agenda, unless so requested by the Board.

CHH/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation



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October 18, 2018

TO: C.H. Huckelberry, County Administrator

THRU: Carmine DeBonis, Jr., Deputy County Administrator for Public Works

FROM: Jackson Jenkins, Director – RWRD 

SUBJECT: Sewer User Fee Billing Methodology for Non-Residential Customers

Purpose

The billing fee methodology has been mostly unchanged since its original adoption in 1979. As such, aspects of it are outdated and present challenges for the utility and customers. The purpose of this memorandum is to outline some of the challenges of the current rate structure, the steps the Department and the Regional Wastewater Reclamation Advisory Committee (RWRAC) have taken over the past year to review, analyze, and present recommendations, and to seek your direction on how to proceed.

Current Billing Methodology

Under the current rate structure, all customers are billed a flat service charge plus a volume charge based on Winter Quarter Averaging as outlined in Pima County Code Chapter 13.24, *Sewer User Fees*. Winter Quarter Averaging is a wastewater billing methodology which takes place during the billing months of December, January, and February. Typically, outdoor watering is minimal during the late fall and winter; therefore, it could be assumed that most of the water utilized during this time goes directly into the sanitary sewerage system versus being used for outdoor watering. This billing methodology determines a cap on the volume charge a customer is billed each month for the next fiscal year. Customers are billed sewer user fees at their Winter Quarter Average or actual water volume, whichever is lower.

Challenges Presented by the Current Billing Methodology

Residential water usage varies seasonally due to greenscape irrigation, the filling of swimming pools, and the number of people in the household. In the case for Multi-Family, Commercial, and Industrial customers, Winter Quarter Averaging is often not indicative of the actual cost of providing service to these customer classes. Some of the challenges associated with billing for Non-Residential users include:

1. *Winter Quarter Average May Not Be Reflective of Actual Usage*

There may be accounts that experience a drop in water usage during the Winter Quarter, resulting in sewer user fees throughout the year not reflective of their actual usage of the system. Since schools may be out of session during portions of November, December, and January, the Winter Quarter Average may not be reflective of actual usage throughout the remainder of the year.

2. *Class Average May Not Be Not Reflective of Actual Usage*

Typically, Non-Residential accounts turn on and off more frequently than Residential accounts. When a new account is opened, or when an account is turned on under a different customer class, there is no known water

usage to base billing on and the account is set at the class average until a Winter Quarter Average is identified. Depending on when this occurs, an account could be under billed for up to 18 months. For example, a new car wash that opened in March 2016 was placed at the Class Average for a Car Wash customer, which is currently 122 Hundred Cubic Feet (CCFs)¹, despite actual water volume ranging from 700 to 800 CCFs each month. This account was billed at the lower class average for nearly 18 months.

3. Zero Usage During the Winter Quarter

If a customer has zero usage during one of the three months in the Averaging period, this data would be utilized, thereby reducing the average for billing purposes. This situation could occur due to an apartment being vacant or a business closing during some of the winter months. Despite discharge throughout the year when the apartment is rented or the business is open, the customer would be billed at a Winter Quarter Average based on the zero usage month(s).

Potential Financial Impacts for Customers

To understand the possible financial impacts a customer may experience due to this billing methodology change, the County reviewed 10 months of data from Tucson Water for approximately 10,000 customers for the months of August 2017 through May 2018. Based on this review, it is estimated that approximately 6,000, or 60%, of Non-Residential customers would experience an increase ranging from \$0 to \$41 per month when billed on actual water usage versus Winter Quarter Average. Approximately 600 accounts, or 6%, are estimated to experience an increase between \$350 to \$56,000 per month, when billed on actual water usage versus Winter Quarter Average. The remaining 3,500 accounts would be impacted by the proposed change at varying levels, in accordance with their water usage, ranging from \$13 to \$705 per month.

Revenue Impacts to the Utility

Based on the County's preliminary review of the sample data, it is currently estimated the revenue impact to the utility could be an increase of revenue between \$10 million and \$13 million. However, it is anticipated that customer water usage would decrease to some extent as customers take steps to conserve water and reduce their sewer bill.

Since the Department is in a good financial position, the goal of the proposed billing methodology change was to be revenue neutral. This was expected to be accomplished through one of two ways:

1. A reduction in the monthly bill for Residential users in accordance with the increased revenue received from the Non-Residential customer classes.
2. A reduction in the strength factor portion of the billing calculation applied to Non-Residential customers, thereby not resulting in a net billing increase, and no offset to Residential customers.

Regional Wastewater Reclamation Advisory Committee (RWRAC) Action

After nearly a year-long review and analysis, the Financial Subcommittee of the RWRAC voted on Wednesday, August 15, 2018, unanimously in favor of replacing the County's current rate calculation methodology for Non-Residential customers with a combination of the existing fixed monthly charge per account plus a new variable rate based on actual monthly water consumption.

¹ Assuming it is known to be doing business as a car wash. Often times, a business account is under a name or generic LLC name and placed as a Commercial class at 46 CCFs. 1 CCF equals 748 gallons.

C.H. Huckelberry, County Administrator
SUBJECT: Sewer User Fee Billing Methodology for Non-Residential Customers
October 18, 2018
Page 3 of 3

On Thursday, August 23, 2018, the full RWRAC voted 10 to 1 in favor of this change and hosted two public meetings. The public meetings took place on Monday, September 24, 2018, at 6:00 p.m. at the Pima County Natural Resources, Parks and Recreation Department and on Thursday, September 27, 2018, at 8:00 a.m. at the Pima County Board of Supervisors Hearing Room.

Immediately following the second public meeting, the regularly scheduled RWRAC meeting was held. Based on the input received at the two billing methodology public meetings, the RWRAC moved to exclude multi-family sewer users from the proposed modifications to change billing for Non-Residential users from Winter Quarter Average to actual water usage. This motion passed 6 to 3 with the RWRAC indicating they would like this modified motion to be considered by the Board of Supervisors at their regularly scheduled meeting of December 18, 2018.

Regional Wastewater Reclamation Department (RWRD) Recommendation

The steps the Department and the RWRAC took to gather feedback on this topic from the community were of paramount importance in understanding the various challenges with the current billing methodology for Non-Residential users. Valuable feedback from small business owners, small and large Multi-Family complexes owners and other stakeholders was received that require continued review and analysis of this topic.

Given the large public turnout and public comments received, delaying this topic to allow for further review prior to determining whether to present any changes to the Board of Supervisors for consideration seems reasonable and prudent. Therefore, I am recommending not moving this initiative forward at this time.

Due to the differing recommendations from Department and the RWRAC on this issue, I am requesting your concurrence on my recommendation to not proceed with billing methodology changes at this time.

- c: Eric Wieduwilt, Deputy Director - TS&E
- Jaime Rivera-Ortiz, Deputy Director - Conveyance
- Jeff Prevatt, Deputy Director - Treatment
- Jennifer C. Coyle, Special Assistant to the Director
- Barbara Escobar, Program Manager
- Richard Miranda, Program Manager
- Marla Berry, Program Manager, Sr.
- Caroline Vargas, Program Manager
- Michelle Campagne, Director – F&RM
- Meredith Litton, Deputy Director – F&RM
- Michelle Hamilton, Admin Suppt Svs Manager – F&RM
- Melody Burton, Admin Services Manager – F&RM