

OAK RIDGE CITY COUNCIL
WORK SESSION

Central Services Complex Multi-Purpose Room

Tuesday, September 20, 2016
6:00 pm

AGENDA

1. Discussion and review of City/Department of Energy relations, local hiring for Department of Energy projects, housing, and other related issues with Kenneth R. Tarcza, Manager, Department of Energy Oak Ridge Operations
2. Overview of water rate analysis - Chris Mitchell, Utility Rate Consultant

FINANCE DEPARTMENT MEMORANDUM

16-14

DATE: September 6, 2016
TO: Mark S. Watson, City Manager
FROM: Janice E. McGinnis, Finance Director
SUBJECT: ORDINANCE AMENDMENT TO WATER AND WASTEWATER RATES

Introduction

An item for City Council's consideration is an ordinance amendment to water and wastewater rates. For both water and wastewater, the ordinance amendment includes a rate structure effective January 1, 2017 and a rate structure effective January 1, 2018. The applicable water and wastewater rate increase percentages are the same across all customers, excluding water sold to the US Department of Energy (DOE) for the ORNL and Y-12 facilities.

At the August 26, 2013 City Council work session, Chris Mitchell, Management Consultant, presented a water and wastewater rate study based on a long-term view of those systems through 2019. The study anticipated rate increases on January 1 of each calendar year through fiscal 2019 based on the funding parameters contained in the study (e.g. capital and debt service requirements, operating expenses, inflation, etc.). The projected rate increases were spread across the years of the study with a goal of building much needed cash reserve levels and funding the anticipated capital and ongoing operations of the water and wastewater activities. At that time it was anticipated that annual rate increases, beginning in January 2014, would be necessary for both water and wastewater services through the study time frame of 2019. Mr. Mitchell conducted an updated review of the study in mid-2015 which indicated the continuing need for annual rate increases to both water and wastewater services at the same levels as originally projected. It was however determined that due to delays in major capital renovations to the water plant and the delay in the beginning of over \$1 million in annual principal repayment on wastewater State Revolving Loans, rate increases planned for January 2016 could be delayed to January 2017. The overall plan outlined in the rate study remains the same with anticipated rate increases from 2016 to 2019 being extended by one year to 2017 through 2020.

Water Rate Analysis

The water rates incorporated in the ordinance amendment include a 6% increase effective January 1, 2017 and a 4% increase effective January 1, 2018. The water rate ordinance amendment retains the per gallon tier structure that is incorporated in the current rate structure, with the exception of an additional tier for a major customer such as DOE. Listed below is the summary of the rate changes for the minimum rate bill for the 5/8" meter size and the per thousand gallon rate structure. 94% of all water billings are for the 5/8" meter size. The minimum bill rate for meter sizes larger than 5/8" all increase at the same percentage as the 5/8" meter.

An additional rate tier has been added for usages above 20,000,000 gallons per month. This rate would only be applicable to DOE for monthly water usage at ORNL and Y-12 if water billing rates were established under City ordinances rather than by contract. There are currently no other water customers that would be impacted by the addition of this new rate tier. The rate tier was structured to generate revenues that were estimated to be required from DOE during contract negotiations in late 2015 to early 2016. The 25% increase in the over 20,000,000 per gallon rate from 2017 to 2018 is related to funding of debt for capital improvements in the water plant. The City's current contract with DOE is through March 31, 2017.

	Current Rates	Proposed Rates January 1, 2017	Proposed Rates January 1, 2018
Minimum Bill 2,000 Gallons 5/8" Meter	\$16.04	\$17.00	\$17.68
3,000 - 10,000 Per Thousand Gallons	\$6.65	\$7.05	\$7.33
11,000 - 50,000 Per Thousand Gallon	\$6.06	\$6.42	\$6.68
51,000 - 20,000,000 Per Thousand Gallon	\$4.94	\$5.24	\$5.45
Over 20,000,000 Per Thousand Gallon	\$4.94	\$1.08	\$1.35

As shown above, the monthly bill increase for the residential minimum bill user is \$.96 effective January 1, 2017 and an additional \$.68 per month effective January 1, 2018. A residential customer using 5,000 gallons per month would see a \$2.16 per month increase in January 1, 2017 and a \$1.52 per month increase in January 1, 2018.

Wastewater Rate Analysis

The wastewater rates incorporated in the ordinance amendment include a 6% increase effective January 1, 2017 and a 6% increase effective January 1, 2018. The wastewater rate ordinance amendment retains the per gallon tier structure that is incorporated in the current rate structure. Listed below is the summary of the rate changes for the minimum rate bill for the 5/8" meter size and the per thousand gallon rate structure. 95% of all wastewater billings are for the 5/8" meter size. The minimum bill rate for meter sizes larger than 5/8" all increase at the same percentage as the 5/8" meter.

	Current Rates	Proposed Rates January 1, 2017	Proposed Rates January 1, 2018
Minimum Bill 2,000 Gallons 5/8" Meter	\$23.41	\$24.81	\$26.30
Over 2,000 Per Thousand Gallon	\$9.80	\$10.39	\$11.01

As shown above, the monthly bill increase for the residential minimum bill user is \$1.40 effective January 1, 2017 and an additional \$1.49 per month effective January 1, 2018. A residential customer using 5,000 gallons per month would see a \$3.17 per month increase in January 1, 2017 and a \$3.35 per month increase in January 1, 2018.

Recommendation

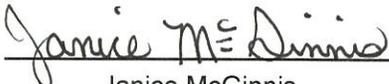
Staff recommends adoption of the attached water and wastewater ordinance amendments. The attached ordinance amendments include the recommended rates for the next two calendar years. Both the water and wastewater rate increases are required to continue to operate and maintain these systems, perform necessary capital improvements and meet our contractual and debt service obligations.

The water and sewer rate increases are necessary to continue with the operation and maintenance and capital costs required for these systems to function. Water and sewer rates provide funding to operate and maintain over 251 miles of water and 262 miles of sewer lines along with related pumping systems and operation of the water and wastewater treatment plants. In order to continue to meet EPA requirements, annual sewer line replacement and/or system improvements will be required. An annual water line replacement plan is being developed by the Public Works Department that may require additional annual capital funding requirements above that level anticipated in the rate study.

An updated rate review status will be conducted in the summer of 2017 and if any adjustments are necessary for the January 2018 rate they will be brought forward for amendment at that time. The two year rate adoption schedule provides customers with the adopted rate for a two-year period for planning purposes. As with any study, actual results will vary from estimates and longer range estimates are less accurate than those in the near term time frames. Low volume customer usage and declining consumption levels due to conservation and technology efficiencies continue to impact rates. Approximately 40% of our customer base is billed at only the minimum bill rate, 70% is billed for only 4,000 gallons usage or less per month and 93% of water and 95% of wastewater billings are for only 10,000 gallons or less usage per month.

Attachment(s)

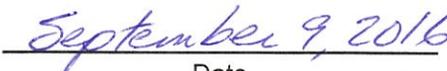
Water Rate Ordinance
Wastewater Rate Ordinance


Janice McGinnis

City Manager's Comments:

I have reviewed the above issue and recommend Council action as outlined in this document.


Mark S. Watson


Date

TITLE

AN ORDINANCE TO AMEND ORDINANCE NO. 19-82, AS AMENDED, BY DELETING THE PROVISION OF SECTION 2 PERTAINING TO THE SCHEDULE OF WATER RATES FOR COMMODITY CHARGES AND MINIMUM MONTHLY BILLING IN ITS ENTIRETY, AND SUBSTITUTING THEREFOR A NEW SCHEDULE OF WATER RATES.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF OAK RIDGE, TENNESSEE:

Section 1. Ordinance No. 19-82, as amended, is hereby amended by deleting the provisions of Section 2 pertaining to the schedule of water rates for commodity charges and minimum monthly billing in their entirety, as of midnight December 31, 2016, and substituting therefor a new Section 2 which shall read as follows:

Section 2 – Water Rate Schedule – Effective January 1, 2017

The following schedule of rates for metered billing of water furnished to consumers by the water system of the City of Oak Ridge is hereby established and adopted, effective with January 1, 2017 water billings.

1. Commodity Charge

First 2,000 gallons or any part thereof, minimum billing as outlined in subsection 2 below.			
Next	8,000 gallons	@	\$7.05 per thousand
Next	40,000 gallons	@	\$6.42 per thousand
Next	19,950,000 gallons	@	\$5.24 per thousand
Over	20,000,000 gallons	@	\$3.00 1.08 per thousand

2. Minimum Monthly Billing includes first 2,000 gallons or any part thereof

For customers using 5/8" meter	\$ 17.00 per month
For customers using 3/4" meter	21.41 per month
For customers using 1" meter	37.78 per month
For customers using 1-1/2" meter	81.85 per month
For customers using 2" meter	157.41 per month
For customers using 3" meter	277.04 per month
For customers using 4" meter	365.19 per month
For customers using 6" meter	525.46 per month
For customers using 8" meter	685.74 per month
For customers using 10" meter	846.01 per month

For customers using meters sizes not specifically listed above, the minimum billing monthly amount will be determined by the City at the time the service is established.

The above rates are net, the gross rates being five percent higher.

Section 2 – Water Rate Schedule – Effective January 1, 2018

The following schedule of rates for metered billing of water furnished to consumers by the water system of the City of Oak Ridge is hereby established and adopted, effective with January 1, 2018 water billings

1. Commodity Charge

First 2,000 gallons or any part thereof, minimum billing as outlined in subsection 2 below.			
Next	8,000 gallons	@	\$7.33 per thousand
Next	40,000 gallons	@	\$6.68 per thousand
Next	19,950,000 gallons	@	\$5.45 per thousand
Over	20,000,000 gallons	@	\$1.35 per thousand

2. Minimum Monthly Billing includes first 2,000 gallons or any part thereof

For customers using 5/8" meter	\$ 17.68 per month
For customers using 3/4" meter	22.27 per month
For customers using 1" meter	39.29 per month
For customers using 1-1/2" meter	85.12 per month
For customers using 2" meter	163.71 per month
For customers using 3" meter	288.12 per month
For customers using 4" meter	379.80 per month
For customers using 6" meter	546.48 per month
For customers using 8" meter	713.17 per month
For customers using 10" meter	879.85 per month

For customers using meters sizes not specifically listed above, the minimum billing monthly amount will be determined by the City at the time the service is established.

The above rates are net, the gross rates being five percent higher.

Section 2. This ordinance shall become effective ten (10) days after adoption on second reading, the welfare of the City of Oak Ridge requiring it.

APPROVED AS TO FORM AND LEGALITY:

Kenneth R. Krushenski, City Attorney

Warren L. Gooch, Mayor

Mary Beth Hickman, City Clerk

First Reading: 9/12/2016
Publication Date: 9/15/2016
Second Reading: _____
Publication Date: _____
Effective Date: _____