

CITIZENS' WATER ADVISORY COMMITTEE (CWAC)

Finance Subcommittee

Tuesday, February 3, 2014, 11:30 a.m.
Tucson Water La Entrada Building
3rd Floor Director's Conference Room
310 W. Alameda Street, Tucson, Arizona



Legal Action Report

1. Roll Call

The meeting was called to order by Finance Subcommittee Chair Bruce Billings at 11:30 a.m. Those present and absent were:

Members Present:

Bruce Billings (Chair)	Representative, Ward 3
Alan Tonelson	Representative, Ward 1
Brian Wong	Representative, City Manager
Catlow Shipek	Representative, City Manager
Chuck Freitas	Representative, City Manager

Members Absent:

Mark Taylor	Representative, City Manager
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Tucson Water Staff Members:

Belinda Oden	Business Services Administrator
Pat Eisenberg	Chief Engineer
Theresa Bourne	Lead Financial Accountant
Shane Oman	Finance Manager
Kris LaFleur	Staff Assistant
Suzanna Snyder	Staff Assistant

Others Present:

Deb Galardi	Galardi Rothstein Group
George White	CWAC / Ventana Canyon Alliance

2. Announcements – There were no announcements.

3. Call to Audience – George White, member of CWAC and CEO of Ventana Canyon Alliance, addressed the Subcommittee. Mr. White expressed concern about reclaimed water rates and explained that revenues for Tucson-area golf courses are declining, while water costs are increasing. Mr. White pointed out that home values within gated golf communities are tied to the viability of the courses. If courses go out of business, he indicated, real estate values within those communities will plummet. Mr. White offered to act on behalf of golf course interests to answer Finance Subcommittee questions during the reclaimed water rate setting process.

4. Review of December 22, 2014, Legal Action Report and approval of Meeting Minutes – Subcommittee Members reviewed the Legal Action Report from the

Citizens' Water Advisory Committee (CWAC) Finance Subcommittee

Legal Action Report and Minutes

February 3, 2015

December 22, 2014, CWAC Finance Subcommittee meeting. Member Tonelson moved to approve the Meeting Minutes; Member Freitas seconded the motion. The motion was carried by a vote of 5 to 0.

5. **Review Preliminary Summary Cost-of-Service Results** – Tucson Water Business Services Administrator Belinda Oden and Deb Galardi of Galardi Rothstein Group presented a FY2016 Preliminary Summary of Cost of Services & Revenue Targets. Five scenarios were presented for dividing Tucson Water service costs among rate classes. Discussion ensued, with Ms. Oden and Ms. Galardi fielding and answering Members' questions about cost-of-service allocation across various water-user classes. Further discussion included an explanation of the distinction between Reclaimed Standard Rates and Reclaimed Contract Rates.

Member Wong moved to recommend "Scenario 2C," modified to hold the Reclaimed Contract Rate increase to 3.5%. Member Tonelson seconded the motion, which was carried on a voice vote of 5-0.

Following the vote, Ms. Galardi distributed handouts demonstrating average potable use for single family residential accounts, compared to use for duplex/triplex accounts. An additional handout demonstrated potential modifications to rate block thresholds for residential and duplex/triplex classes. The handouts were intended for informational purposes, for discussion at a later subcommittee meeting.

6. **Preliminary Discussion, Reclaimed Pricing** – There was no discussion on this item.
7. **Future Meetings / Agenda Items** –
 - Rate design, block options
 - Utility bill redesign
8. **Adjournment** – The meeting was adjourned at 12:57 p.m.

Test Year 2016 Cost of Service Highlights

Revenue Targets

1. Increase in Reclaimed cost, but not increase in % of total revenue responsibility (about 8% of total)
2. Decrease in industrial/school differential
 - a. True industrial peaking factor increased most of all classes
 - b. No change in TUSD peaking factor
3. Increase in Public Fire Protection cost of service
 - a. Increased portion of distribution maintenance
4. Baseline cost of service changes
 - a. Increase in industrial due to peaking factors
 - b. Larger increase for residential (compared to MF and Commercial) due to increase in monthly service charge related costs (fire protection, meters & services, and billing)
5. Increase for Fire Sprinkler charge
 - i. Prior year COS capped
 - ii. Some increase in actual COS due to increase in billing and meter charges

Rate Design

1. CAP Charge increases 7.2%
2. Monthly Service Charge cost components about 25% of total revenue requirements
3. Reclaimed revenue increases due to:
 - a. Increase in contract rates (equal to standard rates)
 - b. Increase in Pima Co. rates (environmental rate)
 - c. Increase in service charges

TUCSON WATER

FY 2016 Summary Cost of Service & Revenue Targets

**February 3, 2015
CWAC
Finance Sub-Committee Meeting**



Cost of Service Principles: *Slicing the Revenue Pie*



Theoretical framework for cost of service analysis:

- Utility is to be self-supporting
- Utility incurs costs to provide service

Costs are dependent upon or driven by:

- The nature of the water product delivered to customers (***system functions and service characteristics***)
- The water usage/demand of customers (***usage characteristics***)
- The number of customers in each class

Cost of service analysis attempts to assign an appropriate share of costs to customer groups based on:

- The water product the group is receiving (potable/reclaimed)
 - The total amount/average daily amount of water the group uses
 - The water usage pattern of the group (constant versus peaking)
 - The number of customer connections and equivalent meters to the water system within each group
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FY 2016

BASELINE : RECLAIMED WATER, ALL POTABLE CLASSES AT 100% OF ADJUSTED COST OF SERVICE

		Prior Year	
Reclaimed COS	\$14,106,148	\$13,259,860	7.9%
Potable COS	\$158,499,956	\$150,673,892	
Potable difference in schools peaking costs to be allocated	\$270,000	\$380,000	
Fire Protection COS to be allocated	\$5,784,000	\$5,223,000	
Total	\$178,660,104		

Customer Class	(1) FY 2016 % Potable COS, Less Pvt Hyd & Public FP	(2) Allocated Cost of Service (\$1,000)	(3) Equivalent Meter Allocation	(4) Allocate Fire Protection to Potable Classes (\$1,000)	(5) Allocate Diff in Schools/ Indust Peaking Costs to Potable Classes (\$1,000)	(6) Adjusted Cost of Service (\$1,000)	(7) Revenue Under Existing Rates (\$1,000)	(8) Revenue, Existing Rates Minus Adj Cost of Service (\$1,000)	(9) % Revenue Increase Required
Residential	59.6%	94,465	66.31%	3,835	161	98,461	92,860	(5,601)	6.0%
Multifamily	15.6%	24,720	7.96%	460	42	25,222	24,106	(1,116)	4.6%
Commercial	21.3%	33,711	17.16%	993	57	34,761	33,725	(1,036)	3.1%
Industrial	1.3%	2,125	0.73%	42	4	2,171	1,943	(228)	11.7%
Construction Water	1.0%	1,506	1.20%	70	3	1,579	1,522	(57)	3.7%
Private Fire Protection:									
Fire Sprinkler Service	1.2%	1,973	6.64%	384	3	2,360	1,945	(415)	21.4%
Sub-Total Potable (Billable Customers)	100.00%	158,500	100.00%	5,784	270	164,554	156,101	(8,452)	5.4%
Potable Difference in schools peaking costs		270							
Potable Fire Protection (Hydrants)		5,784							
Total Potable		164,554				164,554	156,101	(8,452)	5.4%
Reclaimed		14,106				14,106	10,404	(3,702)	35.6%
Utility Total		178,660				178,660	166,505	(12,155)	7.3%

FY 2016

Scenario 1 : RECLAIMED WATER TO RECOVER APPROX:
POTABLE USERS RECOVER % OF RECLAIMED

100.0%
0%

No Class Over 10% Increase

Reclaimed COS to be recovered from reclaimed rate payers	\$14,106,148
Reclaimed to be Allocated	\$0
Potable COS	\$158,499,956
Potable difference in schools peaking costs to be allocated	\$270,000
Fire Protection COS to be allocated	\$5,784,000
	\$178,660,104

Customer Class	(1) FY 2016 % Potable COS, Less Pvt Hyd & Public FP	(2) Allocated COS (\$1,000)	(3) Equivalent Meter Allocation	(4) Allocate Fire Protection to Potable Classes (\$1,000)	(5) Allocate TUSD/ Ind Peaking Diff to Potable Classes (\$1,000)	(6) Allocate Reclaimed (Subsidy) (\$1,000)	(7) Class Adjustments	(8) Adjusted COS (\$1,000)	(9) Revenue Under Existing Rates (\$1,000)	(10) Change in Revenue Target (\$1,000)	(11) % Revenue Increase Required
Residential	59.60%	94,465	66.3%	3,835	161	0	157	98,619	92,860	(5,758)	6.2%
Multifamily	15.60%	24,720	8.0%	460	42	0	41	25,263	24,106	(1,157)	4.8%
Commercial	21.27%	33,711	17.2%	993	57	0	56	34,817	33,725	(1,092)	3.2%
Industrial	1.34%	2,125	0.7%	42	4	0	(35)	2,136	1,943	(193)	9.9%
Construction Water	0.95%	1,506	1.2%	70	3	0	3	1,581	1,522	(59)	3.9%
Private Fire Protection:											
Fire Sprinkler Service	1.24%	1,973	6.6%	384	3	0	(222)	2,138	1,945	(193)	10.0%
Sub-Total Potable	100.00%	158,500	100%	5,784	270	0	0	164,554	156,101	(8,452)	5.4%
Potable Difference in schools peaking costs		270									
Potable Fire Protection (Hydrants)		5,784									
Total Potable		164,554						164,554	156,101	(8,452)	5.4%
Reclaimed		14,106				0		14,106	10,404	(3,702)	35.6%
Utility Total		178,660						178,660	166,505	(12,155)	7.3%

FY 2016

Scenario 2C : RECLAIMED WATER TO RECOVER APPROX:
 POTABLE USERS RECOVER % OF RECLAIMED

77%
 23%

No Class Over 10% Increase; No Increase in Reclaimed Std. Rate

Reclaimed COS to be recovered from reclaimed rate payers	\$10,885,515	Reclaimed Contract Customer Cost	\$2,130,467
Reclaimed Benefit to be Allocated	\$3,220,633	(Difference between Avg. Reclaimed Rate & Contract rates)	
Potable COS	\$158,499,956	From Standard Rates (Based on current rates)	-\$1,090,166
Potable difference in schools peaking costs to be allocated	\$270,000	From Potable Rates	\$3,220,633
Fire Protection COS to be allocated	\$5,784,000	Total	\$2,130,467
	\$178,660,104		

Customer Class	(1) FY 2016 % Potable COS, Less Pvt Hyd & Public FP	(2) Allocated COS (\$1,000)	(3) Equivalent Meter Allocation	(4) Allocate Fire Protection to Potable Classes (\$1,000)	(5) Allocate TUSD/ Ind Peaking Diff to Potable Classes (\$1,000)	(6) Allocate Reclaimed Benefit (\$1,000)	(7) Class Adjustments	(8) Adjusted COS (\$1,000)	(9) Revenue Under Existing Rates (\$1,000)	(10) Change in Revenue Target (\$1,000)	(11) % Revenue Increase Required
Residential	59.60%	94,465	66.31%	3,835	161	1,778	187	100,426	92,860	(7,565)	8.2%
Multifamily	15.60%	24,720	7.96%	460	42	630	49	25,901	24,106	(1,794)	7.4%
Commercial	21.27%	33,711	17.16%	993	57	736	67	35,563	33,725	(1,838)	5.5%
Industrial	1.34%	2,125	0.73%	42	4	47	(83)	2,135	1,943	(192)	9.9%
Construction Water	0.95%	1,506	1.20%	70	3	30	3	1,612	1,522	(90)	5.9%
Private Fire Protection:											
Fire Sprinkler Service	1.24%	1,973	6.64%	384	3		(222)	2,138	1,945	(193)	10.0%
Sub-Total Potable	100.00%	158,500	100.00%	5,784	270	3,221	0	167,775	156,101	(11,673)	7.5%
Potable Difference in schools peaking costs		270									
Potable Fire Protection (Hydrants)		5,784									
Total Potable		164,554						167,775	156,101	(11,673)	7.5%
Reclaimed		14,106				(3,221)		10,886	10,404	(482)	4.6%
Utility Total		178,660						178,660	166,505	(12,155)	7.3%

FY 2016

Scenario 3b : RECLAIMED WATER TO RECOVER APPROX:
 POTABLE USERS RECOVER % OF RECLAIMED

79%
 21%

No Class Over 10% Increase; No Class Decrease; 2% increase in Reclaimed Std. Rate; Increase in Fixed Charge

Reclaimed COS to be recovered from reclaimed rate payers	\$11,075,471	Reclaimed Contract Customer Cost	\$2,130,467
Reclaimed Benefit to be Allocated	\$3,030,677	(Difference between Avg. Reclaimed Rate & Contract rates)	
Potable COS	\$158,499,956	From Standard Rates (Based on current rates)	-\$900,210
Potable difference in schools peaking costs to be allocated	\$270,000	From Potable Rates	\$3,030,677
Fire Protection COS to be allocated	\$5,784,000	Total	\$2,130,467
	\$178,660,104		

Customer Class	(1) FY 2016 % Potable COS, Less Pvt Hyd & Public FP	(2) Allocated COS (\$1,000)	(3) Equivalent Meter Allocation	(4) Allocate Fire Protection to Potable Classes (\$1,000)	(5) Allocate TUSD/ Ind Peaking Diff to Potable Classes (\$1,000)	(6) Allocate Reclaimed Benefit (\$1,000)	(7) Class Adjustments	(8) Adjusted COS (\$1,000)	(9) Revenue Under Existing Rates (\$1,000)	(10) Change in Revenue Target (\$1,000)	(11) % Revenue Increase Required
Residential	59.60%	94,465	66.31%	3,835	161	1,673	185	100,319	92,860	(7,459)	8.0%
Multifamily	15.60%	24,720	7.96%	460	42	593	48	25,863	24,106	(1,757)	7.3%
Commercial	21.27%	33,711	17.16%	993	57	692	66	35,519	33,725	(1,794)	5.3%
Industrial	1.34%	2,125	0.73%	42	4	44	(80)	2,135	1,943	(192)	9.9%
Construction Water	0.95%	1,506	1.20%	70	3	28	3	1,610	1,522	(88)	5.8%
Private Fire Protection:											
Fire Sprinkler Service	1.24%	1,973	6.64%	384	3		(222)	2,138	1,945	(193)	10.0%
Sub-Total Potable	100.00%	158,500	100.00%	5,784	270	3,031	0	167,585	156,101	(11,483)	7.4%
Potable Difference in schools peaking costs		270									
Potable Fire Protection (Hydrants)		5,784									
Total Potable		164,554						167,585	156,101	(11,483)	7.4%
Reclaimed		14,106				(3,031)		11,075	10,404	(672)	6.5%
Utility Total		178,660						178,660	166,505	(12,155)	7.3%

Tucson Water

Single Family Residential Avg. Monthly Use/Acct

ccf			
FY	Summer	Winter	Annual
2008	12.8	8.6	10.7
2009	12.0	8.5	10.4
2010	12.4	7.8	10.2
2011	11.7	8.2	9.9
2012	11.2	7.8	9.4
2013	10.6	7.3	9.0
2014	10.4	7.3	8.7
Change from 20	-17%	-8.6%	-14%

Duplex/Triplex Avg. Monthly Use/Acct

ccf			
FY	Summer	Winter	Annual
2014	12.7	9.7	11.0

Tucson Water <i>FY2014 Bill Data: Single Family</i>		Block Thresholds					Total
		10	15	30			
		Block (Ccf)					
		0-7	8-10	11-15	16-30	>30	
Annual Avg. Accounts Ending							
Number		115,456	34,852	30,818	22,848	4,802	208,776
Percent		55%	17%	15%	11%	2%	100%
			72%				
Usage Passing Through							
Amount		13,034,173	2,899,442	2,643,478	2,370,417	824,040	21,771,550
Percent		60%	13%	12.1%	10.9%	3.8%	100%
			73.2%				

Tucson Water <i>FY2014 Bill Data: Duplex Triplex</i>		Block Thresholds					Total
		15	20	35			
		Block (Ccf)					
		0-10	10-15	15-20	20-35	>35	
Annual Avg. Accounts Ending							
Number		2,600	842	470	420	88	4,420
Percent		59%	19%	11%	10%	2%	100%
			78%				
Usage Passing Through							
Amount		390,746	86,789	50,428	39,880	15,689	583,532
Percent		67%	15%	8.6%	6.8%	2.7%	100%
			81.8%				