

Memorandum

Date: July 15, 2009

To: Chris Jordan, City Manager

From: Gene Green, Public Works Director

Subject: Water Rate Study Presentation to City Council July 20, 2009

The City awarded the water rate study to Pioneer Consulting in April 2009. The Consultant has evaluated our system, adopted project lists, and analyzed several options for meeting the funding needs identified in the Water System Master Plan (WMP). The Consultant has also learned how other local agencies structure their water billing systems. Staff was aware that some members of the City Council attended an AWWA conference in San Diego at which they learned of a seven-tiered rate structure. The Consultant has included in his presentation various levels of billing complexity from a single-step up to a seven-step for City Council's consideration.

Staff and the Consultant will come to this meeting with the goal of ascertaining the City Council's wishes. As a result of this meeting, the Consultant and staff desire to return with a water rate structure that meets the Council's expectations and properly funds the water system, which is a critical service provided to our citizens.



Municipal and Utility Consultants

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July 16, 2009

Mr. Dennis Wright
Engineering Manager
City of West Linn, Oregon
City Hall, First Floor
22500 South Salamo Road
West Linn, Oregon 97068

Dear Mr. Wright,

This report is for discussion purposes. The accompanying forecasts of revenue requirements and rate scenarios were prepared for the City of West Linn Water Department to calculate a water rate structure for fiscal years 2010-2014.

The financial forecast of revenue requirements was based on the City's assumptions concerning future events and circumstances. The assumptions disclosed herein are those which the City believes are significant to the forecasts or are key factors upon which the financial results of the water department depends based on present circumstances and assumptions as of the date of this report.

We have compiled the water rates in accordance with applicable guidelines established by the American Water Works Association and are based on principals that are generally accepted and widely followed throughout the industry.

We look forward to meeting with you on July 20 and July 21 to discuss our findings and recommendations.

Very truly yours,

PIONEER CONSULTING GROUP, INC.

A handwritten signature in blue ink, appearing to read "D. Gardner", with a long horizontal line extending to the right.

Douglas W. Gardner
President

SUMMARY

The purpose of this study was to complete an analysis of the water rate methodology and recommend changes, which will equitably charge each class of customer, encourage conservation, and provide capital improvement funds.

FINDINGS AND RECOMMENDATIONS

1. The current Fiscal Year 2010 water rates will not generate sufficient revenue to cover expenses and capital items for FY 2010 and beyond.
2. The proposed water rates contain funds for more than \$15,000,000 in capital projects. The proposed rates include three (3) \$5,000,000 bond issues. The bonds will be issued in FY 2010, 2012 & 2014.
3. We do not believe that the SDC will generate sufficient funds to meet the revenue projections detailed in the Murray Smith and Associates Master Plan. Any shortfall of SDC revenues will result in higher rates or a delay in the project.
4. We recommend that the current water rate structure be revised. We recommend that all consumers be charged a monthly minimum charge and a separate charge for all consumption. The minimum charge is designed to recover the costs associated with the daily operation of the water department. The minimum charge includes meter reading, billing, meter service and administrative costs. The water rates proposed are designed to promote conservation.
5. The recommended monthly 5/8" x 3/4" and 3/4" minimum water charge is \$9.12. Meters in excess of 3/4" will be charged a larger amount based on meter size. The monthly charge per meter size is detailed below.

Minimum Charge - Monthly - Includes 0 CCF				
5/8" x 3/4"				\$9.12
3/4"				\$9.12
1"				\$22.80
1 1/2"				\$45.60
2"				\$72.96
3"				\$145.93
4"				\$228.01
6"				\$456.03
Multi-family rate per dwelling				\$9.12

6. The FY 2010-2014 water rates will generate approximately \$4,500,000 annually.
7. The water system has been designed to provide water at peak hourly flows and to provide sufficient fire protection to extinguish a fire over a three-hour period. The costs associated with fire protection should be charged to the customers who will benefit from the protection. Fire protection charges are a "readiness to serve charge".

The recommend annual private fire protection charge for sprinkler systems and private hydrants are as follows:

2"	\$	30.00 per year
3"	\$	60.00 per year
4"	\$	100.00 per year
6"	\$	200.00 per year
8"	\$	450.00 per year
10"	\$	740.00 per year

8. We have provided 4 rate scenarios for your review. We have calculated single-step, two-step, three-step and seven-step water rates. Each scenario will generate the same amount of revenue. Each scenario has its pros and cons.
9. Exhibit 1, "Current vs. Proposed Water Rates", presents the current and the proposed rates for fiscal years 2010 - 2014.

Exhibit 1

City of West Linn, OR

Current vs. Proposed Water Rates

MONTHLY

	Range	Current Rates	1Step	2 Step	3 Step	7 Step
Minimum Charge		\$14.54	\$9.12	\$9.12	\$9.12	\$9.12
Flow in Minimum		700 CF	0 CF	0 CF	0 CF	0 CF
1 Step Rate						
1st Step Rate per CCF	Above 7 CCF	\$1.67	n/a	n/a	n/a	n/a
1st Step Rate per CCF	All Consumption		\$2.32	n/a	n/a	n/a
2 Step Rate						
1st Step Rate per CCF	0 -20 CCF	n/a	n/a	\$1.76	n/a	n/a
2nd Step Rate per CCF	Above 20 CCF	n/a	n/a	\$3.39	n/a	n/a
3 Step Rate						
1st Step Rate per CCF	0-20 CCF	n/a	n/a	n/a	\$1.71	n/a
2nd Step Rate per CCF	20-50 CCF	n/a	n/a	n/a	\$2.38	n/a
3rd Step Rate per CCF	Above 50 CCF	n/a	n/a	n/a	\$4.58	n/a
7 Step Rate						
1st Step Rate per CCF	0-10 CCF	n/a	n/a	n/a	n/a	\$1.28
2nd Step Rate per CCF	11-20 CCF	n/a	n/a	n/a	n/a	\$1.85
3rd Step Rate per CCF	21-30 CCF	n/a	n/a	n/a	n/a	\$2.24
4th Step Rate per CCF	31-50 CCF	n/a	n/a	n/a	n/a	\$2.68
5th Step Rate per CCF	51-100 CCF	n/a	n/a	n/a	n/a	\$3.18
6th Step Rate per CCF	101-300 CCF	n/a	n/a	n/a	n/a	\$3.97
7th Step Rate per CCF	Above 300 CCF	n/a	n/a	n/a	n/a	\$5.92
Impact Analysis - Monthly - CCF						
	1	\$14.54	\$11.44	\$10.88	\$10.83	\$10.40
	3	\$14.54	\$16.08	\$14.40	\$14.25	\$12.96
	7	\$14.54	\$25.36	\$21.44	\$21.09	\$18.08
	10	\$19.55	\$32.32	\$26.72	\$26.22	\$21.92
	15	\$27.90	\$43.92	\$35.52	\$34.77	\$31.17
	20	\$36.25	\$55.52	\$44.32	\$43.32	\$40.42
	25	\$44.60	\$67.12	\$61.27	\$55.22	\$51.62
	30	\$52.95	\$78.72	\$78.22	\$67.12	\$62.82
	50	\$86.35	\$125.12	\$146.02	\$114.72	\$116.42

10. The City of West Linn Water Department currently provides services to their customers that are currently not charged for or should be increased to reflect the actual cost of service. These services include but are not limited to: private fire protection, cross connection testing, service calls, etc. Exhibit 2, Current vs. Proposed Rates and Charges details our recommend rates and charges.

Exhibit 2

CITY OF WEST LINN, OREGON
Current vs Proposed Rates & Charges

	Current Rates	Proposed Rates	Dollar Difference
Private Fire Protection - Annual Charge			
2"	\$0.00	\$30.00	\$30.00
3"	\$0.00	\$60.00	\$60.00
4"	\$0.00	\$100.00	\$100.00
6"	\$0.00	\$200.00	\$200.00
8"	\$0.00	\$450.00	\$450.00
10"	\$0.00	\$740.00	\$740.00
Fees and Charges			
Water Shut Off - Per Meter	\$0.00	\$50.00	\$50.00
Service Call	\$0.00	\$50.00	\$50.00
Turn on/off - regular hours - Per man	\$0.00	\$50.00	\$50.00
Turn on/off - after hours - Per man	\$0.00	\$150.00	\$150.00
Turn on/off non-payment - regular hours, per hour	\$35.00	\$100.00	\$65.00
Turn on/off non-payment - after regular hours- per man, per hour	\$35.00	\$150.00	\$115.00
Service call - regular hours, per hour	\$35.00	\$50.00	\$15.00
Service call - after hours, per man, per hour	\$35.00	\$150.00	\$115.00
Water Service Turn On - After Hours	\$0.00	\$200.00	\$200.00
Backhoe & Operator	\$0.00	\$75.00	\$75.00
Air Compressor & Operator	\$0.00	\$75.00	\$75.00
Meter Testing	\$0.00	\$50.00	\$50.00
Meter Damage/ Frozen Meter	\$0.00	\$150.00	\$150.00
Flow Test	\$0.00	\$200.00	\$200.00
Bulk Water Rate - At Hydrant - per CCF	\$2.77	n/a	
Bulk Water Rate - At Hydrant - per CCF + Hydrant \$100.00 meter rental fee	n/a	\$3.00	
Delinquent Water Account - Per Meter	\$3.00	\$3.00	\$0.00
Cross Connection Testing	\$0.00	\$22.00	\$22.00
Water Meter Installation Services - Dig In Service			
5/8" x 3/4"	\$1,850.00	\$1,850.00	\$0.00
3/4" x 3/4"	\$1,900.00	\$1,900.00	\$0.00
1"	\$1,950.00	\$1,950.00	\$0.00
1 1/2"	\$3,300.00	\$3,300.00	\$0.00
2"	\$3,500.00	\$3,500.00	\$0.00
Water Meter Installation Services - Drop In Service			
5/8" x 3/4"	\$225.00	\$225.00	\$0.00
3/4" x 3/4"	\$250.00	\$250.00	\$0.00
1"	\$300.00	\$300.00	\$0.00
1 1/2"	\$526.00	\$526.00	\$0.00
2"	\$850.00	\$850.00	\$0.00

11. We have surveyed the water rates for several surrounding communities. Exhibit 3 details the current water rates for Oregon City, Lake Oswego, Tualatin, Tigard, Wilsonville and Portland.

Exhibit 3

CITY OF WEST LINN, OREGON

Current Rates - Surrounding Communities

Oregon City - Monthly - Single Step Rate

Minimum Charge	\$12.31
1st Step Rate-all consumption	\$2.06
Multiple Dwelling	\$9.84
Low Income M/C	\$6.14
Low Income Rate	\$1.63

Lake Oswego - Monthly - Three Step Rate

Minimum Charge	\$26.96
1st Step Rate (0-16 CCF)	\$0.90
2nd Step Rate (17-32 CCF)	\$1.35
3rd Step Rate (over 32 CCF)	\$2.74
Multi-Family & Commercial	\$26.96
Multi-Family & Commercial Irrigation	\$1.21
	\$2.05

Tualatin - Monthly - Single Step Rate

Water Service Charge	\$3.40
Water Facility Charge	\$3.50
1st Step Rate - all consumption	\$2.29

Wilsonville - Monthly - Two Step Rate

Residential

Minimum Charge Includes 4 CCF	\$18.19
1st Step (5-12 CCF)	\$3.33
2nd Step (over 12 CCF)	\$5.14

Commercial

Minimum Charge Includes 4 CCF	\$18.19
1st Step - all consumption	\$3.38

Industrial

Minimum Charge Includes 4 CCF	\$18.19
1st Step - all consumption	\$3.59

Irrigation

Minimum Charge Includes 4 CCF	\$18.19
1st Step - all consumption	\$5.14

Portland - Monthly - Single Step Rate

Minimum Charge	\$18.51
1st Step - all consumption	\$2.07

Tigard - Bi-Monthly - Single Step Rate

Customer Charge	\$6.47
Booster Charge	\$5.72
Residential	\$2.51
Multi-Family	\$2.49
Commerical	\$2.93
Industrial	\$2.43



Water Rate Study
Findings and Recommendations

Presented By:

Douglas W. Gardner, President
Pioneer Consulting Group, Inc.

Water Rate Findings

- Current Water rates will not generate sufficient revenues for FY 2010 and beyond
 - Revenues are not growing at same rate as expenses
 - Adopted Master Plan is driving rates up
- Water department is not charging customers for many services provided
 - Private fire protection
 - Some service calls
 - Cross connection administration

All revenue generated from other services will result in lower metered water rate

- We recommend 0 Consumption in Minimum Charge (currently 700CF)
- 48.5% water users use 1,000CF per month or less
- Increased minimum charge as meter size increases
- Water Rates – looking at a large increase to fund adopted master plan
- SDC revenue projections will not be available when needed

Water Rates 2010-2014

- Must generate an average of approximately \$4,500,000 annually for the next 5 years
 - Rates include \$15,000,000 In Capital Improvements
 - Three separate \$5,000,000 bond issues
 - Rates maybe higher if SDC is not funded through debt
- Monthly Minimum Charge - No Consumption – same for all scenarios

Minimum Charge - Monthly - Includes 0 CCF			
5/8" x3/4"			\$9.12
3/4"			\$9.12
1"			\$22.80
1 1/2"			\$45.60
2"			\$72.96
3"			\$145.93
4"			\$228.01
6"			\$456.03
Multi-family rate per dwelling			\$9.12

5 Year Average Budget

CITY OF WEST LINN, OREGON
WATER DEPARTMENT
REVENUE REQUIREMENTS

Schedule 1

Account Description	Proposed 2010	Proposed 2011	Proposed 2012	Proposed 2013	Proposed 2014	5 Year Total	5 Year Average
DIRECT COSTS							
Personal Services Expenses	\$602,075	\$633,648	\$666,568	\$699,920	\$734,726	\$3,336,937	\$667,387
Personnel Related Expenses	\$6,667	\$6,867	\$7,210	\$7,571	\$7,949	\$36,265	\$7,253
General Office Expenses	\$26,034	\$26,816	\$28,157	\$29,565	\$31,043	\$141,614	\$28,323
Utility Type Expenses	\$150,988	\$155,518	\$163,294	\$171,459	\$180,032	\$821,290	\$164,258
Repairs and Maintenance	\$9,097	\$9,370	\$9,839	\$10,330	\$10,847	\$49,483	\$9,897
Facilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Professional and Tech Services	\$3,357	\$3,458	\$3,631	\$3,812	\$4,003	\$18,261	\$3,652
Other	\$6,506	\$6,701	\$7,036	\$7,388	\$7,757	\$35,388	\$7,078
Materials and Services	\$1,219,700	\$1,256,294	\$1,319,109	\$1,385,064	\$1,454,317	\$6,634,484	\$1,326,897
Total Expenses	\$1,422,349	\$1,465,024	\$1,538,275	\$1,615,189	\$1,695,948	\$7,736,786	\$1,547,357
TOTAL DIRECT COSTS	\$2,024,424	\$2,098,672	\$2,204,843	\$2,315,109	\$2,430,674	\$11,073,723	\$2,214,745
INDIRECT COSTS							
GF Administration	\$288,000	\$297,000	\$306,000	\$315,000	\$325,000	\$1,531,000	\$306,200
GF Information Systems	\$126,000	\$130,000	\$134,000	\$138,000	\$142,000	\$670,000	\$134,000
GF Facilities Services	\$37,000	\$38,000	\$39,000	\$40,000	\$41,000	\$195,000	\$39,000
GF Human Resources	\$23,000	\$24,000	\$25,000	\$26,000	\$27,000	\$125,000	\$25,000
Vehicle /Equipment Maintenance Charges	\$24,000	\$25,000	\$26,000	\$27,000	\$28,000	\$130,000	\$26,000
PW Ops	\$531,000	\$547,000	\$564,000	\$581,000	\$599,000	\$2,822,000	\$564,400
Transfer to Planning Fund	\$84,000	\$56,000	\$57,000	\$59,000	\$60,000	\$316,000	\$63,200
TOTAL INDIRECT COSTS	\$1,113,000	\$1,117,000	\$1,151,000	\$1,186,000	\$1,222,000	\$5,789,000	\$1,157,800
DEBT SERVICE							
Principal	\$80,000	\$80,000	\$85,000	\$90,000	\$95,000	\$430,000	\$86,000
Interest	\$74,188	\$69,728	\$65,044	\$60,013	\$54,694	\$323,665	\$64,733
BANS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proposed Principal	\$250,000	\$250,000	\$500,000	\$500,000	\$750,000	\$2,250,000	\$450,000
Proposed Interest	\$250,000	\$237,500	\$475,000	\$450,000	\$675,000	\$2,087,500	\$417,500
Total Debt Service	\$654,188	\$637,228	\$1,125,044	\$1,100,013	\$1,574,694	\$5,091,165	\$1,018,233
CAPITAL OUTLAY	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUNDS							
Reserve for Infrastructure	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$500,000	\$100,000
Reserve for Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL RESERVE FUNDS	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$500,000	\$100,000
TOTAL REVENUE REQUIREMENTS	\$3,891,612	\$3,952,900	\$4,580,887	\$4,701,121	\$5,327,368	\$22,453,888	\$4,490,778

7/20/2009

Pioneer Consulting Group, Inc.

Proposed Water Rates Monthly

4 Rate scenarios for your consideration

1. Single Step Rate
2. Two Step Rate
3. Three Step Rate
4. Seven Step Rate

Each scenario will generate the same amount of revenue**

Each scenario has its own pros and cons

CY 2008 metered consumption 1,400,000 cubic feet

Do you want conservation based rates?

Single Step Rate

Proposed \$2.32/CCF – All Consumption

Current \$1.67/CCF above 700CF

Pros

Easier to project revenue

Easy to understand rates

Cons

Not conservation based rate

Large users pay same as small users

Two Step Rate

\$1.76/CCF

0 – 20 CCF per month

\$ 3.39/CCF

Over 20 CCF per month

Pros

Conservation based rate

Smaller increase to lower users

Cons

More difficult to predict revenue

Large increase to larger users

Decreased billed consumption?

Three Step Rate

\$ 1.71/CCF

0 – 20 CCF per month

\$ 2.38/CCF

21 – 50 CCF per month

\$ 4.58/CCF

Over 50 CCF per month

Pros

Conservation based rate

Smaller increase to lower users

Cons

More difficult to predict revenue

More difficult for public to understand

Large increase to larger users

Decreased consumption?

Seven Step Rate

\$ 1.28/CCF	0 – 10 CCF per month
\$ 1.85/CCF	11 – 20 CCF per month
\$ 2.24/CCF	21 – 30 CCF per month
\$ 2.68/CCF	31 - 50 CCF per month
\$ 3.18/CCF	51 – 100 CCF per month
\$ 3.97/CCF	101 - 300 CCF per month
\$ 5.92/CCF	Over 300 CCF per month

Pros

Conservation based rate
Smaller increase to lower users

Cons

More difficult to predict revenue
More difficult for public to understand
Large increase to larger users
Difficult to implement

Exhibit 1						
City of West Linn, OR						
Current vs. Proposed Water Rates						
MONTHLY	Range	Current Rates	1 Step	2 Step	3 Step	7 Step
Minimum Charge		\$14.54	\$9.12	\$9.12	\$9.12	\$9.12
Flow in Minimum		700 CF	0 CF	0 CF	0 CF	0 CF
1 Step Rate						
1st Step Rate per CCF	Above 7 CCF	\$1.67	n/a	n/a	n/a	n/a
1st Step Rate per CCF	All Consumption		\$2.32	n/a	n/a	n/a
2 Step Rate						
1st Step Rate per CCF	0 -20 CCF	n/a	n/a	\$1.76	n/a	n/a
2nd Step Rate per CCF	Above 20 CCF	n/a	n/a	\$3.39	n/a	n/a
3 Step Rate						
1st Step Rate per CCF	0-20 CCF	n/a	n/a	n/a	\$1.71	n/a
2nd Step Rate per CCF	20-50 CCF	n/a	n/a	n/a	\$2.38	n/a
3rd Step Rate per CCF	Above 50 CCF	n/a	n/a	n/a	\$4.58	n/a
7 Step Rate						
1st Step Rate per CCF	0-10 CCF	n/a	n/a	n/a	n/a	\$1.28
2nd Step Rate per CCF	11-20 CCF	n/a	n/a	n/a	n/a	\$1.85
3rd Step Rate per CCF	21-30 CCF	n/a	n/a	n/a	n/a	\$2.24
4th Step Rate per CCF	31-50 CCF	n/a	n/a	n/a	n/a	\$2.68
5th Step Rate per CCF	51-100 CCF	n/a	n/a	n/a	n/a	\$3.18
6th Step Rate per CCF	101-300 CCF	n/a	n/a	n/a	n/a	\$3.97
7th Step Rate per CCF	Above 300 CCF	n/a	n/a	n/a	n/a	\$5.92
Impact Analysis - Monthly - CCF						
	1	\$14.54	\$11.44	\$10.88	\$10.83	\$10.40
	3	\$14.54	\$16.08	\$14.40	\$14.25	\$12.96
	7	\$14.54	\$25.36	\$21.44	\$21.09	\$18.08
	10	\$19.55	\$32.32	\$26.72	\$26.22	\$21.92
	15	\$27.90	\$43.92	\$35.52	\$34.77	\$31.17
	20	\$36.25	\$55.52	\$44.32	\$43.32	\$40.42
	25	\$44.60	\$67.12	\$61.27	\$55.22	\$51.62
	30	\$52.95	\$78.72	\$78.22	\$67.12	\$62.82
	50	\$86.35	\$125.12	\$146.02	\$114.72	\$116.42
	458	\$767.71	\$1,071.68	\$1,529.14	\$1,983.36	\$2,004.78
	715	\$1,196.90	\$1,667.92	\$2,400.37	\$3,160.42	\$3,526.22
	1,919	\$3,207.58	\$4,461.20	\$6,481.93	\$8,674.74	\$10,653.90

7/20/2009

Pioneer Consulting Group, Inc.

Other Fees and Charges

We recommend that fees and charges be increased

Private Fire Protection

- Based on connection size
- Not metered
- Readiness to Serve Charge
- AWWA M1 Manual(pages 218-220) - Utilities typically provide fire protection services in two distinct ways. The first level of service, public fire protection, is provided to all customers on a community wide basis through public fire hydrants located throughout the water system. The second level of service is provided to individual customers that receive additional fire protection service through private hydrants, standpipes or sprinkler connections. These connections provide a direct fire protection service to the individual customer's property that is not available to customers without such connections. Because utilities provide both public and private levels of fire protection service, they typically allocate the total costs associated with providing fire protection service to each level. Generally, costs associated with providing public fire protection are shared jointly by all customers (West Linn's public fire costs are built into the rate) and costs of private fire protection are directly allocated to the beneficiary of the private sector.

Surrounding Communities

- Single Step Rate
 - Oregon City, Tigard, Portland, Tualatin
- Two Step Rate
 - Wilsonville
- Three Step Rate
 - Lake Oswego
- Seven Step Rate
 - ?