

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 34

DATE: February 3, 2004

STAFF: Michael B. Smith
Wendy Williams

SUBJECT

Items Relating to 2004 Water Rates for Single Family and Duplex Water Customers.

RECOMMENDATION

Staff recommends adoption of the Ordinance (Option C) on First Reading.

EXECUTIVE SUMMARY

- A. Resolution 2004-018 Expressing the Council's Intent to Continue in Effect for 2004 the Existing User Rates and Charges for Water (Option A).

OR

- B. Resolution 2004-018 Directing the City Manager to Develop a Modified 5-Tiered Rate Structure for Residential Water Customers (Option B).

OR

- C. Resolution 2004-018 Directing the City Manager to Develop a Water Budget-Based Rate Structure for Residential Water Customers (Option C).

At the December 9, 2003 Study Session, Utilities staff presented City Council with four water rate options for single family and duplex customers. During the study session there were various levels of support expressed for two options: (1) retaining the current tiered rate structure (with or without modifications); and (2) the water budget rate structure.

Based on input from Council, this item presents three options for water rates in 2004.

Option A – Existing 5-Tiered Rate

Option A is a resolution to retain the current 5-tiered water rate for 2004.

Option B – Modified 5-Tiered Rate

Option B is a resolution directing staff to bring back to Council an Ordinance implementing a modified 5-tiered rate for residential single family and duplex customers.

Option C – Water Budget Rate Structure

Option C is a resolution directing staff to bring back to Council an ordinance implementing a water budget rate structure for residential single family and duplex customers.

If Option A is favored, the current rate ordinance would remain in effect for 2004 and no additional action would be required by Council.

If either Option B or C is approved, a rate ordinance implementing such would be scheduled for first reading at the March 2, 2004 Council meeting and second reading at the March 16, 2004 Council meeting, and would be effective for billings with meter readings on or after May 1, 2004.

BACKGROUND

At the December 9, 2003 Study Session, Utilities staff presented City Council with four water rate options for single family and duplex customers:

- Retain existing 2003 5-tiered rate
- Modified 3-tier rate
- Seasonal rate
- Water budget rate

Staff requested Council feedback and direction as to whether the current 5-tiered rate should be retained for 2004, and if not, which rate option would be preferred. The Council expressed interest in two of the options:

- Retaining the current 5 tiered rate with possible modifications of increasing the number of tiers to seven and/or reducing the impact of the upper tiers. (Note: The staff examined the idea of adding additional tiers to the 5-tier structure (expanding it to a 7-tier rate structure) but it is not recommended for two reasons. First, the addition of two tiers adds to the complexities of administering the rate and makes it more difficult to present tiered usage data on the customer's bill. Secondly, the additional tiers do not provide a significant advantage over the 5-tiered rate in mitigating the impacts to larger users.)
- The Water Budget rate with the possible modifications of lowering the fixed charge and dividing the excess water charge into a couple of tiers to spread out the impact.

Based on the input from Council, this item presents three options for Council consideration:

- (A) a resolution retaining the current 5-tiered water rates for single family and duplex customers.
- (B) a resolution directing staff to bring back to the Council an ordinance implementing a modified 5-tiered rate to mitigate the current rate impacts for larger users.
- (C) a resolution directing staff to bring back to the Council an ordinance implementing a Water Budget rate structure.

The three options are explained below in more detail.

Option A - Retain the Existing 5-Tiered Rate

The option retains the existing 5-tiered rate without any changes.

	Existing 5-Tiered Rate Structure
Fixed charge	\$12.72
0-7,000 gallons	\$1.78 per 1000 gal
7,001-13,000 gallons	\$2.37 per 1000 gal
13,001-20,000 gallons	\$2.97 per 1000 gal
20,001-33,000 gallons	\$3.56 per 1000 gal
Greater than 33,000 gallons	\$4.45 per 1000 gal

Pros:

- Continues to send a very strong price signal to all large water users.

Cons:

- Provides no relief to large users who currently pay 2.5 times more per gallon at the top tier of the rate than in the first tier.
- Revenue recovered through this rate may exceed revenue projections. This rate was part of the City's drought response in addition to the water restrictions that were in place in 2003. The rate was designed to recover adequate revenues with a 15% reduction in water use. Without mandated water restrictions in 2004, it is expected that customers may use more water than in 2003. The increase in water use may result in revenue in excess of projected revenue requirements.

Option B – Modify the Existing 5-Tiered Rate

This option modifies the existing 5-tiered rate by reducing the percentage increase between the tiers.

	Existing 5-Tier Rate Structure (Option A)	Option B
Fixed charge	\$12.72	\$12.72
0-7,000 gallons	\$1.78 per 1000 gal	\$ 1.78 per 1,000 gal.
7,001-13,000 gallons	\$2.37 per 1000 gal	\$ 2.14 per 1,000 gal.
13,001-20,000 gallons	\$2.97 per 1000 gal	\$ 2.56 per 1,000 gal.
20,001-33,000 gallons	\$3.56 per 1000 gal	\$ 3.08 per 1,000 gal.
Greater than 33,000 gallons	\$4.45 per 1000 gal	\$ 3.69 per 1,000 gal.

Pros:

- Meets, but does not exceed, projected revenue targets based on estimated customer water use.
- Provides some relief to larger users while continuing to send a strong price signal to encourage conservation. (Top tier is 2.07 times greater than first tier.)
- Does not increase rates for small users.

Cons:

- Lower “penalty” price signal for larger users.

Comparison of Option A and Option B			
Water Use (gallons)	Monthly Bill Option A	Monthly Bill Option B	% Reduction in Monthly Bill
7,000	\$25.18	\$25.18	0%
10,000	\$32.29	\$31.68	2.18%
20,000	\$60.19	\$55.94	7.60%
30,000	\$95.79	\$86.74	10.43%
40,000	\$137.62	\$121.81	12.98%
50,000	\$182.12	\$158.71	14.75%
60,000	\$226.62	\$195.61	15.85%
70,000	\$271.12	\$232.51	16.61%
80,000	\$315.62	\$269.41	17.15%
90,000	\$360.12	\$306.31	17.57%
100,000	\$404.62	\$343.21	17.89%

Option C - Develop new Water Budget Rate Structure

This option develops a new rate structure based on the water budget concept. More specifically, each residential single family and duplex customer would have a predetermined monthly water budget consisting of an indoor allotment and outdoor allotment. The indoor allotment would be based on the customer's average winter quarter (Dec-Feb) water consumption times a factor of 1.2 to allow for monthly fluctuations. The outdoor allotment would be based on 70% of the lot size and a predetermined irrigation component for each month of the year. The typical water budget would vary month to month with it being larger during the summer months and smaller during the winter months. Monthly water consumption in excess of the water budget would be billed at a higher variable rate to discourage excessive water use.

Pros:

- Promotes the perception of fairness by using an individualized water budget based on the customers estimated indoor water use (winter quarter water consumption) and estimated outdoor water use based on lot size.
- Maintains a high price penalty for excessive water use
- Could be easily adapted for drought conditions by proportionally reducing the outdoor water allotment.

Cons:

- Very complex to administer, explain and understand
- Monthly water bills for low water users will increase slightly as compared to both the existing and modified 5-tiered rate.

The rates for the water budget presented at the December 9, 2003 Council study session are as follows:

- Fixed Charge - \$16.50
- Water Budget Rate - \$1.65 per 1,000 gallons
- Excessive Water Use Rate - \$4.90 per 1,000 gallons

There was a suggestion by Council that the fixed charge be lowered to match the fixed charge of the present 5-tiered rate (\$12.76). Lowering the fixed charge will raise the water budget rate in order to compensate for the decrease. The water budget rate with the lowered fixed charge will increase to \$2.02 per 1,000 gallons.

Also, it was suggested that the excessive water use rate be separated into a couple of steps or tiers. Staff is recommending the following:

1. Water consumption which exceeds the water budget up to 20% would be charged at the rate of \$3.00 per 1,000 gallons.
2. Water consumption which exceeds the water budget by more than 20% would be charged at the rate of \$4.00 per 1,000 gallons.

The following is a summary of the proposed water budget rate with the changes suggested by Council:

Fixed Charge	\$12.72
Water consumption within the water budget allotment	\$2.02 per 1,000 gallons
Water consumption which exceeds the water budget allotment up to 20%	\$3.00 per 1,000 gallons
Water consumption which exceeds the water budget allotment by more than 20%.	\$4.00 per 1,000 gallons

RESOLUTION 2004-018
OF THE COUNCIL OF THE CITY OF FORT COLLINS
EXPRESSING THE COUNCIL'S INTENT TO
CONTINUE IN EFFECT FOR 2004 THE EXISTING USER RATES
AND CHARGES FOR WATER

WHEREAS, the City Council is empowered and directed by Article XII, Section 6, of the Charter of the City of Fort Collins, Colorado, to by ordinance from time to time fix, establish, maintain and provide for the collection of such rates, fees or charges for utility services furnished by the City as will produce revenues sufficient to pay the costs, expenses and other obligations of the water utility, as set forth therein; and

WHEREAS, on November 19, 2002, the City Council adopted on second reading Ordinance No. 166, 2002, approving a tiered water rate structure for 2003, and adopting City Code provisions in Chapter 26, Article III, Division 4, to implement that structure; and

WHEREAS, the City Council studied alternative rate options for residential and duplex customers at its December 9, 2003 study session and has determined that the tiered water rates that were put in place for 2003 should remain in effect for 2004; and

WHEREAS, the existing rates are currently set out in Chapter 26, Article III, Division 4 of the City Code and no changes are necessary in order to retain that rate structure.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the user rates and charges set forth in Chapter 26, Article III, Division 4 of the City Code shall remain in place and in effect for 2004.

Passed and adopted this 3rd day of February, A.D. 2004.

Mayor

ATTEST:

City Clerk

RESOLUTION 2004-018
OF THE COUNCIL OF THE CITY OF FORT COLLINS
DIRECTING THE CITY MANAGER TO DEVELOP
A MODIFIED 5-TIER RATE STRUCTURE
FOR RESIDENTIAL WATER CUSTOMERS

WHEREAS, the City Council is empowered and directed by Article XII, Section 6, of the Charter of the City of Fort Collins, Colorado, to by ordinance from time to time fix, establish, maintain and provide for the collection of such rates, fees or charges for utility services furnished by the City as will produce revenues sufficient to pay the costs, expenses and other obligations of the water utility, as set forth therein; and

WHEREAS, on November 19, 2002, the City Council adopted on second reading Ordinance No. 166, 2002, approving a tiered water rate structure for 2003, and adopting City Code provisions in Chapter 26, Article III, Division 4, to implement that structure; and

WHEREAS, the City Council studied alternative rate options for residential and duplex customers at its December 9, 2003 study session and has determined that it would like to consider the use of a 5-tier inclining rate structure for single family and duplex residential water customers modified from the current rates so as to reduce the percentage increase between tiers from the current structure; and

WHEREAS, pending the presentation of detailed information regarding such a rate structure and its implications, and City Council action to enact a revised rate structure, the tiered water rates that were put in place for 2003 as currently set out in Chapter 26, Article III, Division 4 of the City Code will remain in effect; and

WHEREAS, City staff anticipates that final details of such a rate structure will be available for Council consideration at its meeting on March 2, 2004, so that it would be practicable to implement new rates, if enacted in March, as of May 1, 2004.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the City Manager is hereby directed to develop and present to the City Council for consideration at its regular meeting on March 2, 2004, an ordinance providing for enactment of a 5-tier inclining rate structure for single family and duplex residential water customers modified from the current rates so as to reduce the percentage increase between tiers from the current structure.

Passed and adopted this 3rd day of February, A.D. 2004.

Mayor

ATTEST:

City Clerk

RESOLUTION 2004-018
OF THE COUNCIL OF THE CITY OF FORT COLLINS
DIRECTING THE CITY MANAGER TO DEVELOP
A WATER BUDGET-BASED RATE STRUCTURE
FOR RESIDENTIAL WATER CUSTOMERS

WHEREAS, the City Council is empowered and directed by Article XII, Section 6, of the Charter of the City of Fort Collins, Colorado, to by ordinance from time to time fix, establish, maintain and provide for the collection of such rates, fees or charges for utility services furnished by the City as will produce revenues sufficient to pay the costs, expenses and other obligations of the water utility, as set forth therein; and

WHEREAS, on November 19, 2002, the City Council adopted on second reading Ordinance No. 166, 2002, approving a tiered water rate structure for 2003, and adopting City Code provisions in Chapter 26, Article III, Division 4, to implement that structure; and

WHEREAS, the City Council studied alternative rate options for residential and duplex customers at its December 9, 2003 study session and has determined that it would like to consider the use of a water rate structure for single family and duplex residential water customers based on individual water budgets tied to customer winter water consumption and lot size; and

WHEREAS, pending the presentation of detailed information regarding such a rate structure and its implications, and City Council action to enact a revised rate structure, the tiered water rates that were put in place for 2003 as currently set out in Chapter 26, Article III, Division 4 of the City Code will remain in effect; and

WHEREAS, City staff anticipates that final details of such a rate structure will be available for Council consideration at its meeting on March 2, 2004, so that it would be practicable to implement new rates, if enacted in March, as of May 1, 2004.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the City Manager is hereby directed to develop and present to the City Council for consideration at its regular meeting on March 2, 2004, an ordinance providing for enactment of a water rate structure for single family and duplex residential water customers based on individual water budgets tied to customer winter water consumption and lot size.

Passed and adopted this 3rd day of February, A.D. 2004.

Mayor

ATTEST:

City Clerk