

SD1 Residential Sanitary Rate Realignment

May 9, 2019
Public Input Meeting





Keys to Long-Term Rate Affordability & Stabilization

1. Extend consent decree deadline

2. Reduce costs:

Operations and Maintenance – LEAN SD1

Capital Costs – Watershed Plan Competition

 3. Balance rate structure to align fees with cost of service (fairness) and address consumption decline



Rate Structure vs. Rate Increases

- For transparency purposes, and to focus our attention on the rate structure, information in this presentation is based on a revenue-neutral scenario (who pays not how much).
- Revenue neutral means if we collected \$100 in total revenue in the previous Fiscal Year, we would be targeting a rate structure to collect the same amount (\$100) in the next Fiscal Year.
- At the end of the presentation, we will talk about rate increases.

Background

- SD1 rates have always been tied to **water consumption** – variable rate based on water usage. But the majority of SD1 costs – including the costs to meet our consent decree requirements – are fixed. Only a small percentage of our costs are affected by treatment volume.
- Our collection system treats both wastewater and storm water. Whether you flush once or 100 times, our plants and pumps still have to operate 24/7, 365 days per year.

Consumption Decline

- Water consumption continues to decline (average annual decline of 1.06% for past 5 years).
 - New account growth insufficient to offset decline.
- This situation requires automatic rate increases each year just to remain revenue neutral.
 - Historically, a 5% rate increase has only yielded just over 4% in additional revenues year-to-year.
- The base-rate structure will reduce the need to continuously raise rates ***to offset consumption declines.***

Causes of Consumption Decline

- Water Research Foundation study (2016):
 - High-efficiency fixtures and appliances
 - Toilets – 29% more efficient
 - Clothes washers – 36% more efficient
 - Dishwashers – 39% more efficient
 - Leaks - the average daily per capita leakage decreased 17%.
 - As older fixtures and appliances are replaced, this trend is expected to continue.



Cost of Providing Sanitary Service

- FY19 Fixed Operating Costs:
Approximately \$40/month per customer
- Overflow Mitigation Costs (Consent Decree):
Approximately \$10/month per customer
- Current Base Bill:
\$16.22/month
- High volume users are subsidizing low volume users. Low volume users are only covering about 30% of the fixed portion of their costs.

Balanced Rate Structure

- Transition to a base-rate charge that is more fair to all customers and more closely aligned with our cost of providing service.
- Base rate comprised of:
 - Base operations charge (includes first 2 HCF)
 - Base environmental charge to address SSO elimination and CSO reduction (Consent Decree)
 - This charge would be eliminated when overflow mitigation projects are completed.
- In addition to the base rate, there will still be a variable rate for consumption above 2 HCF per month.

4-Year Plan

- Historically, higher-volume users have been subsidizing lower-volume users. Over the next four years, we will reduce this volume subsidy by reducing the variable rate.
- New revenue generated by the base rate will be offset by reducing the variable rate.
- Over the next four years, higher-volume users will see their bills decrease while lower-volume users' bills will increase. Average-volume user rates will remain constant, **all else being equal.**

Revenue-Neutral Scenario

4-Year Plan

	2020	2021	2022	2023
Fixed Operating Charge	\$16	\$19	\$23	\$26
Fixed Environmental Charge	\$5	\$6	\$7	\$8
Minimum Base Rate	\$21	\$25	\$30	\$34
<i>Variable Rate \$8.11 to:</i>	<i>\$6.61</i>	<i>\$5.32</i>	<i>\$3.69</i>	<i>\$2.34</i>
<i>Var. Rate Reduction</i>	<i>(18.50%)</i>	<i>(19.50%)</i>	<i>(30.63%)</i>	<i>(36.54%)</i>

Peer Utility Fixed Charges

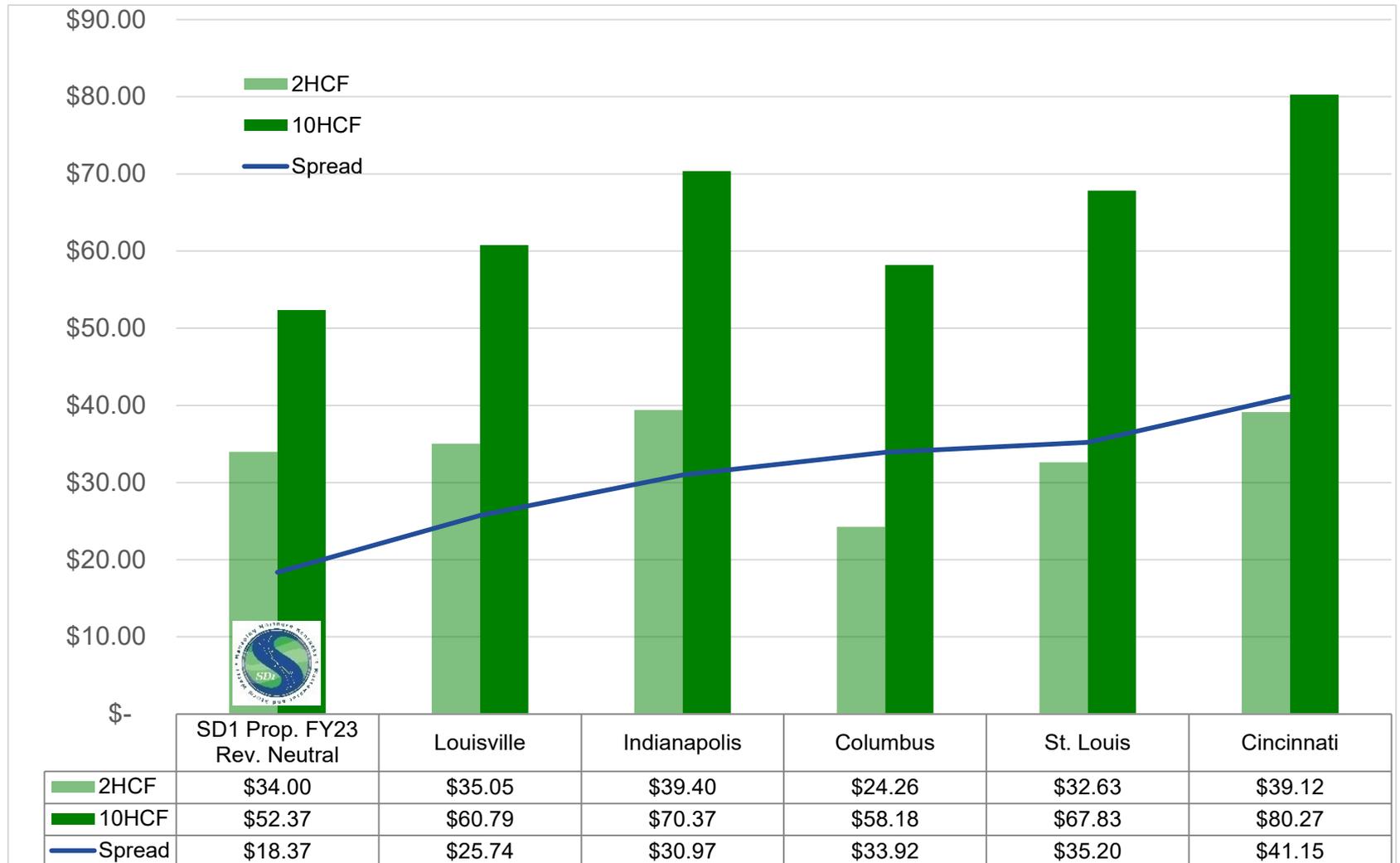
- Most all other utilities in our peer group utilize a base rate.
- SD1 does not currently use a base rate. The result is inequity among our customers.
 - Rates for low-usage SD1 customers are disproportionately lower than customers in peer cities
 - Rates for mid-to-high-usage SD1 customers are disproportionately higher than customers in peer cities
- The new base-rate structure will bring SD1 more in line with our peer utilities.

Current State

Peer Utility High/Low Usage Rates & Spread



After 4-Year Adjustment – Revenue Neutral Peer Utility High/Low Usage Rates & Spread





Why Now?

- Negotiating with EPA and the State of KY to extend consent decree, including 5-year ramp-up before first overflow mitigation deadline.
- Intensive technical competition in preparation for Watershed Management Plan update, which will significantly reduce long-term capital costs.
- This is the time to implement structural and process changes that will allow us to be as efficient as possible to meet our long-term financial plan, including the unfunded liability of the CD.



Water Usage & Income

- Analysis of our customer base does not indicate a direct correlation between usage and income.
- Characteristics of high- and low-income households vary, but we know for certain the top driver of water usage is the number of people living in a home.
- Therefore, those who will most benefit from a base-rate structure will be those with more people in the home (families), as they will see their sanitary sewer bills decrease.



Limiting Customer Impact

- To limit the immediate impact on lower-volume users, the plan calls for incremental adjustments over the next four years.
- **No customer tier will see their bill increase by more than \$5 per month in any of the four years.**
- Base-rate adjustments will be offset with corresponding decreases in the variable rate.



Partnership with Brighton Center

- Because of the shift from a variable to a base rate, we recognize that low-income/lower-volume use households may need assistance covering the ***incremental increase***.
- We are working with the Brighton Center to help low-income and fixed-income customers make the adjustment to the base rate structure.
- This would be different than other programs utilized by peer utilities, in that Brighton Center offers “hand up” programs rather than direct subsidies.



Summary of Change

- 1) Fundamental Fairness – New base rate structure will more closely align customer fees with SD1's cost of providing service.
- 2) Reduce (not eliminate) the need to raise rates due to consumption decline.
- 3) Provide rate transparency and accountability to SD1 long-term financial plan, including unfunded CD liability.

Year 1 – FY20 - \$21.00 – Flat-Rate Method Estimates

Fixed Operating Charge:	\$16.00	# Accounts:	54,407 Negative
Fixed Environmental Charge:	\$5.00	#Accounts:	42,270 Positive
Total Fixed Charges:	\$21.00	Total Accounts:	96,677
Variable Rate of \$8.11 reduced to:	\$6.61		

WF Tier	# Accounts	FY20 Est. Revenue	Current Monthly Bill	New Method +/-	New Method Monthly Bill
2	15,342	\$3,792,849	\$16.22	\$4.78	\$21.00
3	12,387	\$4,039,511	\$24.33	\$3.28	\$27.61
4	13,837	\$5,608,421	\$32.44	\$1.78	\$34.22
5	12,841	\$6,221,879	\$40.55	\$0.28	\$40.83
6	19,107	\$10,771,456	\$48.66	(\$1.22)	\$47.44
7	7,252	\$4,662,714	\$56.77	(\$2.72)	\$54.05
8	5,382	\$3,886,704	\$64.88	(\$4.22)	\$60.66
9	3,369	\$2,699,846	\$72.99	(\$5.72)	\$67.27
10	2,214	\$1,949,628	\$81.80	(\$7.22)	\$73.88



Future Rate Increases

- The information presented thus far is based upon a revenue-neutral scenario.
- However, we have structured the transition so that even when applying 5% revenue adjustments in each of the four years of the transition period, no customer tier would see their bill increase by more than \$5 per month.



Future Rate Increases

- During the transition period, revenue increases will be made by adjusting the variable rate rather than increasing the base rate.
- Revenue adjustments during the transition period will primarily affect higher-volume users who would still see their bills decrease, just by less than anticipated under the revenue-neutral scenario.

Year 1 – FY20 - \$21.00 – Flat-Rate Method Estimates

Fixed Operating Charge:	\$16.00	# Accounts:	80,766 Negative
Fixed Environmental Charge:	\$5.00	#Accounts:	15,911 Positive
Total Fixed Charges:	\$21.00	Total Accounts:	96,677
Variable Rate of \$8.11 reduced to:	\$7.25		

WF Tier	Current Monthly Bill	New Method Monthly Bill (Rev. Neutral)	New Method Monthly Bill (5% Increase)	Variance	Percent Variance
2	\$16.22	\$21.00	\$21.00	\$0.00	0.00%
3	\$24.33	\$27.61	\$28.25	\$.64	2.32%
4	\$32.44	\$34.22	\$35.50	\$1.28	3.74%
5	\$40.55	\$40.83	\$42.75	\$1.92	4.70%
6	\$48.66	\$47.44	\$50.00	\$2.56	5.39%
7	\$56.77	\$54.05	\$57.25	\$3.20	5.92%
8	\$64.88	\$60.66	\$64.50	\$3.84	6.33%
9	\$72.99	\$67.27	\$71.75	\$4.48	6.66%
10	\$81.80	\$73.88	\$79.00	\$5.12	6.93%



Future Rate Increases

- Any necessary rate adjustments over 5% shall be brought before the Fiscal Courts pursuant to KRS 220.542.
- Some rates will increase and other will decrease, but in order to ensure full transparency, total revenue from residential sanitary sewer rates will not increase by more than 5% without approval of the Fiscal Courts.

Commercial Rate Structure

- Commercial accounts are billed differently than residential accounts.
 - Billed on a “declining block” with 3 variable rate classes
 - Billed on actual use vs. winter factor
 - Consumption driven by different factors than residential
- Comparing residential and commercial billing is “apples and oranges.”
- SD1 staff and Board have spent 18 months evaluating the residential rates for fairness and equity across all user tiers. The same amount of time is needed to evaluate commercial billing and suggest changes *if needed*.
- ***While no structural changes are currently being recommended. Rate increases will be applied to commercial customers at the same percentage as residential.***



Questions?