



City of Ferndale

CITY COUNCIL STAFF REPORT

MEETING DATE: October 30, 2019 AGENDA BILL #_____

SUBJECT: Utility Rate Design

DATE: October 28, 2019

FROM: Danielle Ingham, Senior Accountant

PRESENTATION BY: Sirke Salminen, Finance Director and Kevin Renz, Public Works Director

EXHIBITS:

Exhibit 1: Revenue Requirements Analysis, shows future rate increases that include CPI.

RECOMMENDATIONS:

Discuss utility rate design options provided by City staff and FCS Group and provide staff with a preferred rate structure which would inform drafting of a rate ordinance for Council consideration.

BACKGROUND:

City staff has been working with FCS Group over the past several months to analyze the different options for rates and funding levels within the three utility funds. In order to fund the operations, capital needs, and required maintenance for all three funds, the utility rates will require adjusting.

ANALYSIS:

FCS Group has presented findings on both the revenue requirements as well as the rate design at both Committee and Council meetings. FCS Group has been successful in formulating different rate options for consideration, whereas each provide the necessary funding for the Water and Sewer Utilities.

Three options were presented for the Water utility, including:

1. Across the board increase which would maintain the existing rate structure for various customer classes as well as the tiered block structure.
2. Option A – Single family customers, new 4 block tier structure with blocks set based of average seasonal use trends. Multifamily and commercial rates adjusted to a single block structure.
3. Option B – Single family customers, new 3 block tier structure. Multifamily and commercial same as Option A.

Three options were presented for the Sewer utility, including:

1. Across the board increase which would maintain the existing rate structure for various customer classes as well as the tiered block structure.
2. Option A – Single family customers, flat base fee only. Multifamily and commercial, base rate and non-tiered use charge.
3. Option B – Single family customers, flat base fee and use fee calculated from winter use average. Multifamily and commercial, base rate and non-tiered use charge

With regards to the average utility customer, the various rate options differ very little. Whereas the customers with high consumption will likely see a larger increase due to the reformulated tiered block structure. It's important to note that Option A may result in the high use customers altering their consumption habits to use less water, which is an obvious benefit to the Water utility.

The rate options presented for the Sewer utility will vary more notably than those rates for the Water utility. While Option A has a flat rate for single family residential customers which would result in an inequitable distribution of costs between the high and low users, Option B would result in a more equitable distribution. Option B represents a rate structure that does not penalize customers for summer water use increases. City staff would recommend Option B as a suitable alternative to our current rate structure.

ALTERNATIVES CONSIDERED:

Direct staff to investigate other options.

FISCAL REVIEW:

Each of the rate options are designed to fully fund the utility.

LEGAL REVIEW:

N/A

CONCLUSION:

Staff will draft a rate ordinance for consideration based on Council feedback.

Exhibit 1:

