



MEMORANDUM

Date: December 19, 2017

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Commercial Billing Class Adjustment for Wastewater Users**

Based on Board of Supervisors direction, the item on the December 12, 2017 agenda to increase the strength factor for commercial users by 16 percent was continued to February 6, 2018.

Attached is information provided by the Regional Wastewater Reclamation Department regarding this adjustment. The primary purpose of this adjustment is to create equity between commercial and residential users. Today, a commercial user pays the same strength multiplier as a residential user even though their sewage strength is more than a typical residential user.

The Board expressed concern regarding what this increase would mean to small commercial users that may only have a single bathroom in an office environment. It should be remembered that this type of user typically has a much lower volume component to their wastewater bill than a residential user who has direct metered water use. The attached memorandum analyzes the difference in monthly bill between a low and high volume commercial user as compared to a residential user. Staff will also provide additional details regarding low volume commercial users and their actual bill increase impact associated with this strength adjustment.

CHH/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation



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December 6, 2017

TO: C.H. Huckelberry, County Administrator
THRU: Carmine DeBonis, Deputy County Administrator for Public Works
FROM: Jackson Jenkins, Director, Regional Wastewater Reclamation Department
SUBJECT: Recommendation to Adjust the High Strength Factor for the Commercial Billing Class

Background

As you know, a strength factor is built into the sewer user fee calculation to account for wastewater with concentration characteristics higher than normally expected from residential wastewater. An inherent flaw in the current rate structure is that the Commercial Billing Class is assessed the same High Strength Factor as the Residential Billing Class. This is not in alignment with the actual cost of providing service to commercial customers and is inconsistent with commercial wastewater rates industry wide.

On December 12, 2017, the Board of Supervisors will be asked to consider a 16 percent adjustment to the high strength factor for the Commercial Billing Class. This adjustment will move us towards a more fair and equitable distribution of service costs and is in compliance with industry standards.

Bill Impact Clarifications

We have used extra caution in our communications to ensure the public understands this is not a 16 percent sewer user fee increase. This is a 16 percent adjustment to the high strength factor only. The high strength factor only applies to the volumetric portion of the bill; therefore, customers who utilize less water will realize even a lesser, overall percentage increase to their bill.

Table 1 outlines the monthly bill impact for customers with various amounts of water usage. An example of a low water user would be a small office with one restroom, an average water user would be a medium to large office space with multiple restrooms and a kitchen for example, and a high water volume customer would be a larger business with consistent customer traffic utilizing facilities the majority of the day or 24 hours/day.

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Table 1. Current and Estimated Monthly Bill Impacts

	Low Volume User	Average Volume User	Higher Volume User
Current Bill			
Service Fee	\$13.00	\$13.00	\$13.00
Strength Factor	1.0	1.0	1.0
Rate (dollars per Ccf)	\$3.629	\$3.629	\$3.629
Consumption (in Ccf)	5.00	42.00	84.00
Monthly Bill	\$31.15	\$165.42	\$317.84
Bill with Recommended Adjustment			
Service Fee	\$13.00	\$13.00	\$13.00
Strength Factor	1.16	1.16	1.16
Rate (dollars per Ccf)	\$4.201	\$4.201	\$4.201
Consumption (in Ccf)	5.00	42.00	84.00
Current Monthly Bill	\$34.01	\$189.44	\$365.88
Bill Impact			
\$ Increase	\$2.86	\$24.02	\$48.04
% Increase	9.18%	14.52%	15.11%

Higher Cost of Treatment

An objective of the Rate Structure Study performed by Raftelis Financial Consultants was a cost of service analysis to ensure the fair and equitable distribution of wastewater maintenance and operation costs for each customer billing class. Through a detailed allocation of operating and capital costs to volume, strength, and administration cost units, unit rates and billing class responsibility are determined in proportion to the wastewater services rendered.

Due to the lack of dilution from bath, dishwasher, laundry, and shower wastewater, commercial wastewater is recognized throughout the industry to have higher overall Chemical Oxygen Demand (COD), Total Suspended Solids (TSS), and Total Nitrogen (TN) concentrations compared to the base residential sewage concentrations.

Industry Standard

The most commonly referenced industry standard is the American Water Works Association. As outlined in the 2016 Water and Wastewater Rate Survey, and on page 39 of the Rate Structure Study, commercial customers across the United States pay on average approximately 20 – 40 percent more than residential customers.

Economic Inequality

Commercial properties such as shopping centers often contain multiple, mixed-use businesses using a single water meter. Due to the inability to distinguish between flows from the different sources, these accounts are billed under the Commercial Bill Class, and therefore, a stand-alone restaurant with its own water meter is currently assessed a higher strength factor than a similar restaurant nearby in a commercial complex with a master meter.

Sampling Data

Utilizing sampling data conducted by the Department in 2013, 2015, and 2017, the Commercial Bill Class strength factor should be higher than the current 1.0 factor for mixed-use commercial properties (2.31), commercial properties with both mixed-use and commercial offices (1.39), and commercial offices (1.16).

C.H. Huckelberry, County Administrator

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While the 16 percent value is not strictly supported by a statistically significant number, it is a reasonable and conservative estimate.

Public Involvement

Public outreach efforts have included a public meeting, notices in the Arizona Daily Star, Daily Territorial, and social media, and postings on the Pima County and RWRD webpages. A press release on the public notice resulted in media coverage on October 12, 2017 by KGUN 9 and the Arizona Daily Star.

Further, Community Relations Staff reached out to ten local business organizations to provide information on this topic. A personal meeting and/or presentation to the organizations' constituent base were offered. The Oro Valley Chamber of Commerce responded with some questions, which we answered, and the Tucson Chamber requested a meeting for further information which was held on November 29, 2017.

Budgetary Impacts

As of November 21, 2017, the Finance and Risk Management Department has reported this 16 percent adjustment is estimated to generate an additional \$3.5 million in annual revenue from approximately 12,000 commercial customers.

Conclusion

Utilizing the most conservative data, we recommend a 16 percent adjustment to the Commercial high strength factor in order to begin to more equitably recover the cost of service for that bill class. I want to reiterate, this is **not** a 16 percent sewer user fee increase. This is a 16 percent adjustment to the high strength factor only.

Please let me know if you have any questions or if additional information is needed.

Attachment

c: Keith Dommer, Director, Finance and Risk Management Department
Jennifer C. Coyle, Special Assistant to the Director, Regional Wastewater Reclamation Department

Exhibit 5.5: 2016 RFC Survey Data

	Wastewater Charge				Wastewater Charge		
	5/8-Inch Meter		Percent Difference of Commercial to Residential Customer Bill		5/8-Inch Meter		Percent Difference of Commercial to Residential Customer Bill
	Residential 3,000 cf (22,440 gal)	Non-mfg./ Commercial 3,000 cf (22,440 gal)			Residential 3,000 cf (22,440 gal)	Non-mfg./ Commercial 3,000 cf (22,440 gal)	
All Wastewater Utilities				Western Utilities			
Average	\$106.38	\$126.66	19.1%	San Diego, CA	\$123.28	\$166.16	34.8%
Median	\$94.78	\$113.51	19.8%	San Antonio, TX	\$92.92	\$86.07	-7.4%
Number of Systems	176	170		Fort Worth, TX	\$111.20	\$136.10	22.4%
				Austin, TX	\$223.27	\$218.09	-2.3%
Pima County, AZ (existing)	\$118.23	\$118.23	0.0%	El Paso, TX	\$50.54	\$56.50	11.8%
				Oakland, CA	\$23.20	\$43.73	88.5%
California, Nevada and Arizona Utilities				San Francisco, CA	\$304.64	\$174.23	-42.8%
San Diego, CA	\$123.28	\$166.16	34.8%	Salt Lake City, UT	\$53.40	\$96.00	79.8%
Oakland, CA	\$23.20	\$43.73	88.5%	Palo Alto, CA	\$31.95	\$184.80	478.4%
San Francisco, CA	\$304.64	\$174.23	-42.8%	Tacoma, WA	\$151.79	\$182.74	20.4%
Palo Alto, CA	\$31.95	\$184.80	478.4%	Henderson, NV	\$25.78	\$57.81	124.2%
Henderson, NV	\$25.78	\$57.81	124.2%	Plano, TX	\$119.11	\$119.11	0.0%
Scottsdale, AZ	\$62.02	\$63.59	2.5%	Scottsdale, AZ	\$62.02	\$63.59	2.5%
Glendale, AZ	\$89.09	\$72.48	-18.6%	Irving, TX	\$69.81	\$71.82	2.9%
Santa Rosa, CA	\$76.55	\$322.54	321.3%	Glendale, AZ	\$89.09	\$72.48	-18.6%
North Las Vegas, NV	\$43.94	\$119.91	172.9%	Waco, TX	\$87.29	\$87.29	0.0%
Palm Desert, CA	\$24.50	\$32.10	31.0%	Tyler, TX	\$29.81	\$56.22	88.6%
Peoria, AZ	\$55.55	\$55.55	0.0%	Santa Rosa, CA	\$76.55	\$322.54	321.3%
Bellevue, WA	\$165.33	\$275.10	66.4%	North Las Vegas, NV	\$43.94	\$119.91	172.9%
Yuma, AZ	\$34.45	\$63.23	83.5%	Round Rock, TX	\$89.34	\$89.34	0.0%
Santa Barbara, CA	\$45.36	\$97.80	115.6%	Palm Desert, CA	\$24.50	\$32.10	31.0%
Rio Rancho, NM	\$230.30	\$230.30	0.0%	Denton, TX	\$100.71	\$139.32	38.3%
South Lake Tahoe, CA	\$35.34	\$36.72	3.9%	Peoria, AZ	\$55.55	\$55.55	0.0%
Gallup, NM	\$97.80	\$97.80	0.0%	Bellevue, WA	\$165.33	\$275.10	66.4%
La Crescenta, CA	\$33.75	\$123.10	264.7%	Carrollton, TX	\$52.55	\$52.55	0.0%
Running Springs, CA	\$63.28	\$86.71	37.0%	Springfield, OR	\$165.09	\$184.02	11.5%
Hollister, CA	\$265.13	\$364.20	37.4%	Yuma, AZ	\$34.45	\$63.23	83.5%
				Santa Barbara, CA	\$45.36	\$97.80	115.6%
Average	\$91.56	\$133.39	45.7%	Longview, TX	\$90.94	\$90.94	0.0%
Median	\$58.78	\$97.80	66.4%	Cheyenne, WY	\$55.52	\$159.51	187.3%
Number of Systems	20	20		Grants Pass, OR	\$29.00	\$97.35	235.7%
				Bend, OR	\$133.64	\$174.94	30.9%
				Kenmore, WA	\$141.08	\$185.78	31.7%
				San Marcos, TX	\$165.69	\$165.69	0.0%
				Rio Rancho, NM	\$230.30	\$230.30	0.0%
				Albany, OR	\$116.43	\$227.15	95.1%
				South Lake Tahoe, CA	\$35.34	\$36.72	3.9%
				Southlake, TX	\$56.16	\$87.48	55.8%
				Gallup, NM	\$97.80	\$97.80	0.0%
				Benbrook, TX	\$50.08	\$147.58	194.7%
				Milwaukie, OR	\$118.81	\$277.71	133.7%
				La Crescenta, CA	\$33.75	\$123.10	264.7%
				Mukilteo, WA	\$61.86	\$190.17	207.4%
				Canyon, TX	\$26.30	\$105.50	301.1%
				Running Springs, CA	\$63.28	\$86.71	37.0%
				Hollister, CA	\$265.13	\$364.20	37.4%
				Average	\$92.90	\$133.76	44.0%
				Median	\$73.18	\$112.31	53.5%
				Number of Systems	46	46	