

UNDERSTANDING DRAINAGE RATES – FY 2017 & FORWARD

BOWC August 3, 2016

Today's objectives



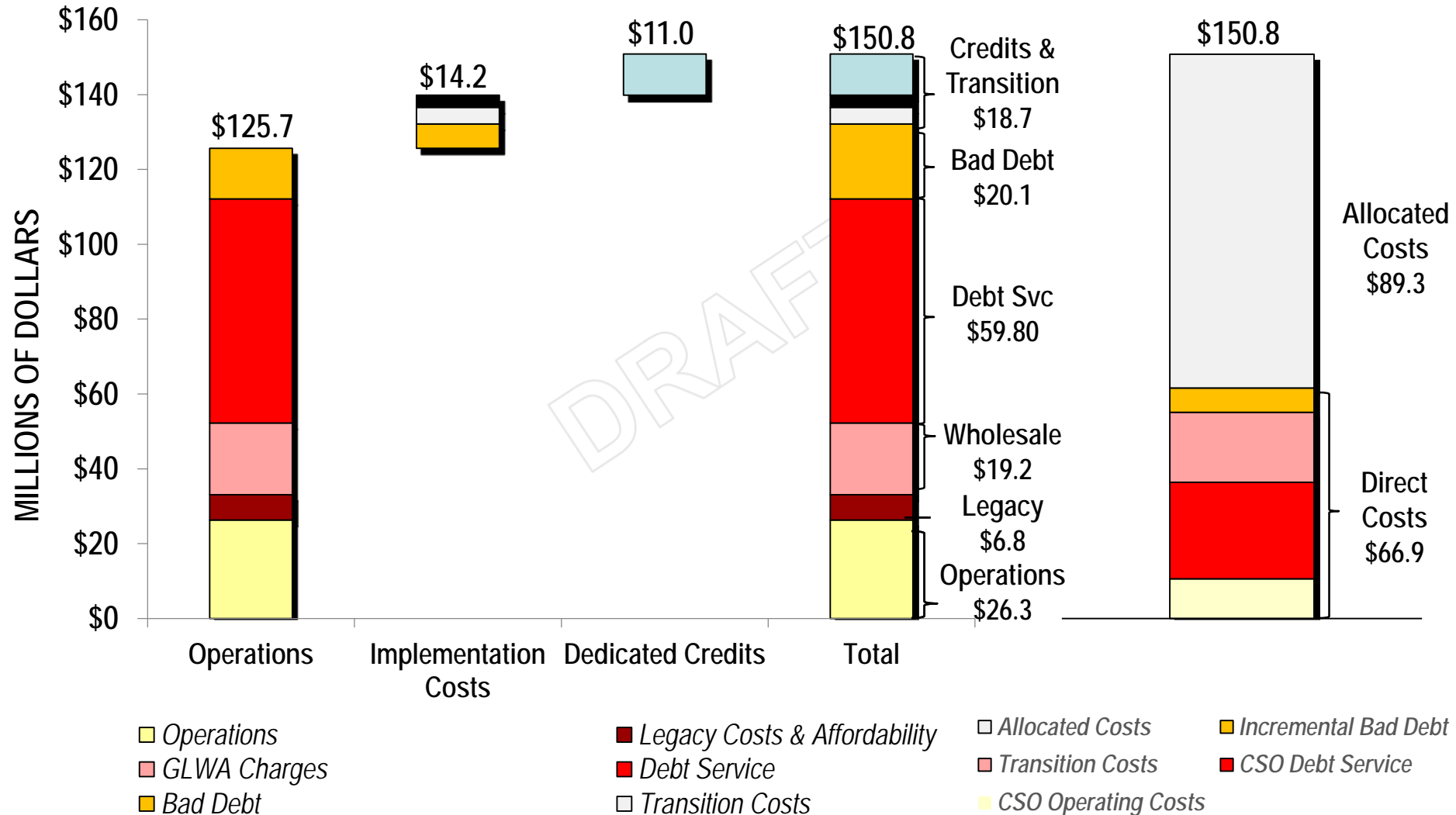
- ▶ **Provide overview of improved methodology for calculating drainage rates in FY 2017 going forward**
 - Cost build-up
 - Simplification of rate calculation

- ▶ **Provide basis for customers to determine “what does this mean for me”?**
 - Estimated initial rate and change in rates over time
 - Illustrative distribution of impact of methodology on certain customer classes

- ▶ **Identify most common questions for FAQ**

Under the revised drainage program, DWSD must recover approximately \$151 million in direct and allocated costs

DWSD DRAINAGE REVENUE REQUIREMENT



Drainage charges will be based on impervious acreage versus meter sizes or acreage classes; simplifying rate computation and promoting customer equity



Complicated Old Calculation

| | | | |
|--------------------|---|--|---|
| (1) | Residential Acreage 46,892 | Non-Residential Acreage 41,237 | State / County Acreage 1,214 |
| (2) | Residential Impervious % 44% | Non-Residential Impervious % 58% | State / County Impervious % 75% |
| (3) = (1) X (2) | Residential Impervious 20,363 | Non-Residential Impervious 23,917 | State / County Impervious 911 |
| (4) | Residential Rel. Impervious 45% | Non-Residential Rel. Impervious 53% | State / County Rel. Impervious 2% |
| (5) | <div style="display: flex; align-items: center; justify-content: center;"> <div style="border-left: 1px solid black; width: 100px; height: 100px; margin-right: 10px;"></div> <div style="text-align: center;"> $\\$150.8$ </div> <div style="border-left: 1px solid black; width: 100px; height: 100px; margin-left: 10px;"></div> </div> | | |
| (6) = (4) X (5) | Residential Cost Allocation \$67.9 | Non-Residential Cost Allocation \$79.9 | State / County Cost Allocation \$3.0 |
| (7) | Residential Cost Driver 182K Accounts | Non-Residential Cost Driver 13,400 Billable Acres | State / County Cost Driver 1,214 Acres |

(6) / (7)

ESTIMATED RATES VARY BY CLASS

Simplified New Calculation

| | | |
|--------------------------|---------------------------------|----------|
| (1) | Revenue Requirement | \$150.8 |
| (2) | State / County Recovery | \$(2.8) |
| (3) | Billable Impervious Area | 18,807 |
| (4) = [(1)+(2)] / (3) | Monthly Impervious Rate / 12 | \$655.78 |

- Classes collapsed
- Meter size eliminated as factor
- Single rate applied to all
- Costs shared by all drainage customers

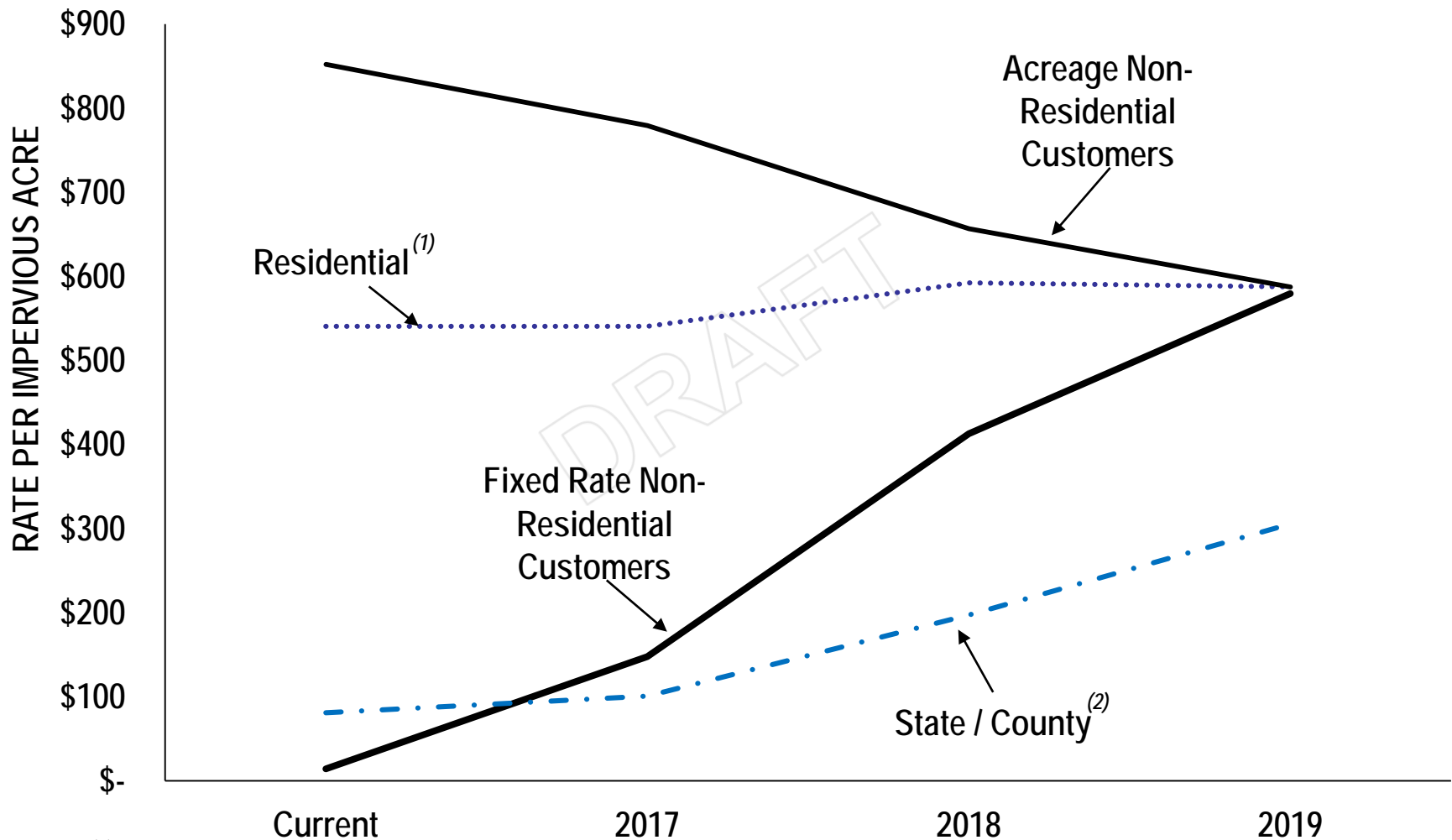
To avoid a “shock” to the system, ensure orderly implementation and to minimize bad debt, the new rate structure will be phased in over several years



- ▶ **Immediate transition to the new rate structure would cause significant increases to several groups of current customers**
- ▶ **Substantial increases in rates could be counter-productive to minimizing costs as bad debt expense is likely to increase**
- ▶ **Accordingly, we have devised a phase-in program for fully implementing the new pricing methodology**
 - State & County rates to be phased in over 3 years
 - Commercial and Industrial fixed fee customers to be phased in over 3 years beginning in FY'17
 - Residential customers to be phased in over 3 year beginning in FY '18

Price equalization across all customers is anticipated for FY '2019

Estimated Annual IA Rates for Selected Customer Groups

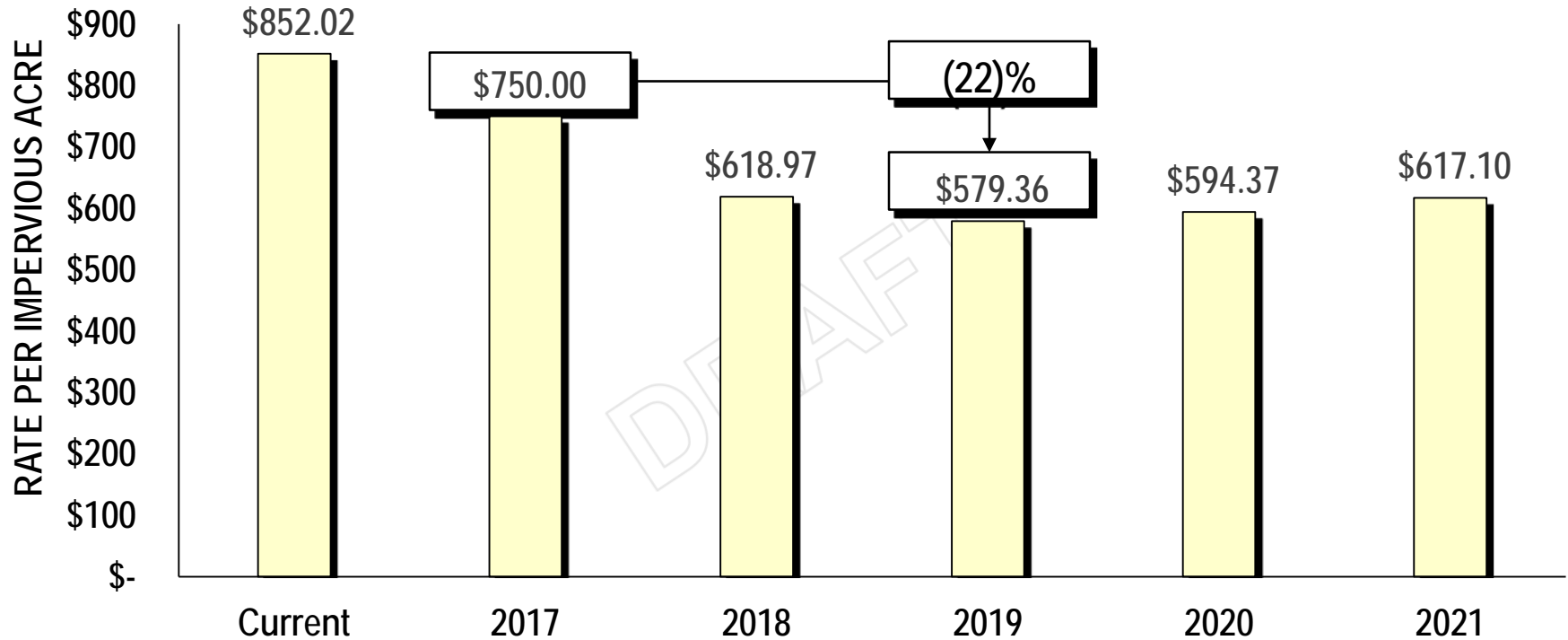


(1) Residential rates exclude 25% automatic credit to reflect typical rain drainage patterns unique to residential homes which lower effective imperviousness

(2) State and County rates calculated exclusive of local conveyances

As captured acreage increases, transition costs fade and collectability improves, we estimate the impervious rate could decrease by 32% in 3 years

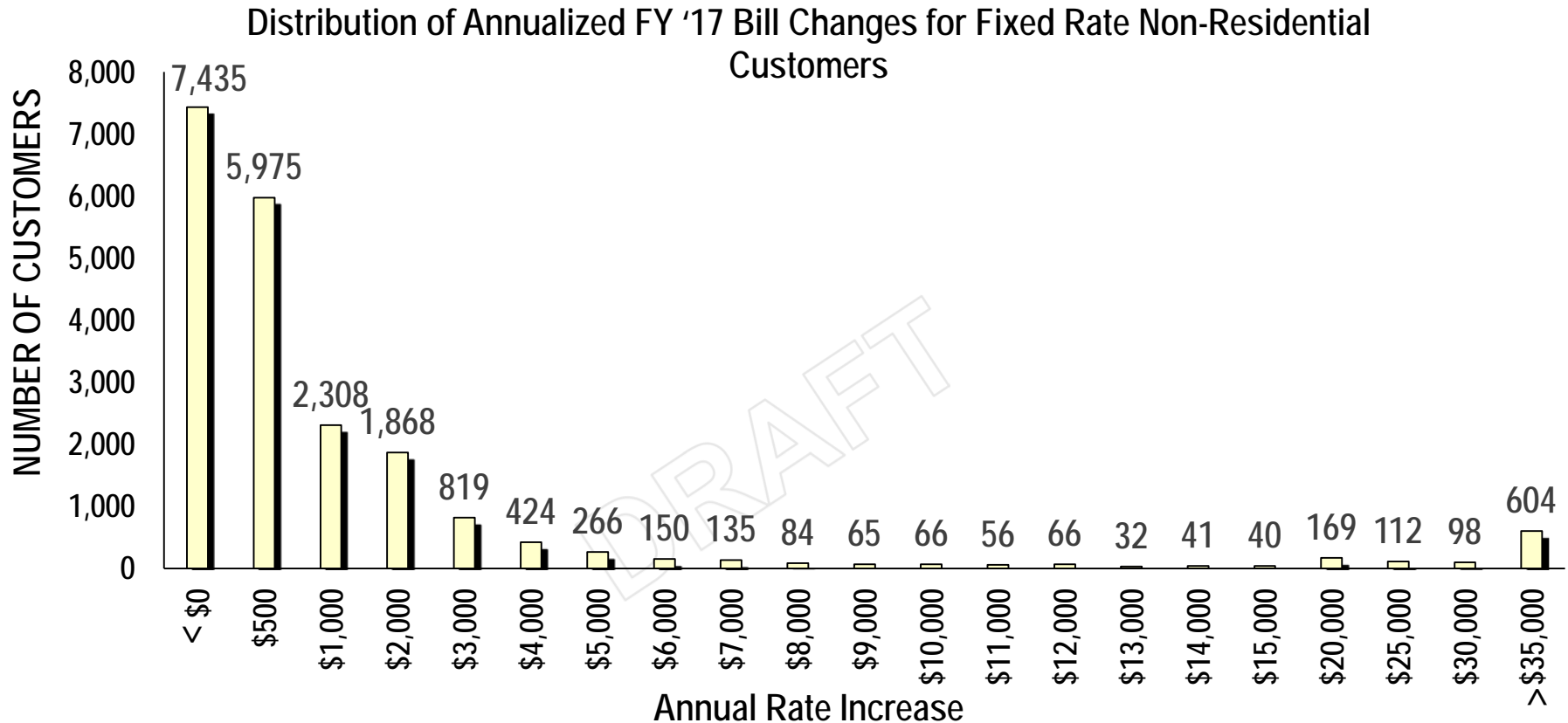
ESTIMATED IMPERVIOUS PER ACRE CHARGE FY '16 – FY '21 ⁽¹⁾



| | | | | | |
|----------------------|-------|-------|-------|-------|-------|
| Incremental Acreage | 1,937 | 4,701 | - | - | - |
| Transition Costs | \$6.5 | \$2.0 | \$0.0 | \$0.0 | \$0.0 |
| Incremental Bad Debt | \$6.5 | \$4.6 | \$4.1 | \$3.2 | \$3.4 |

(1) Before application of credits

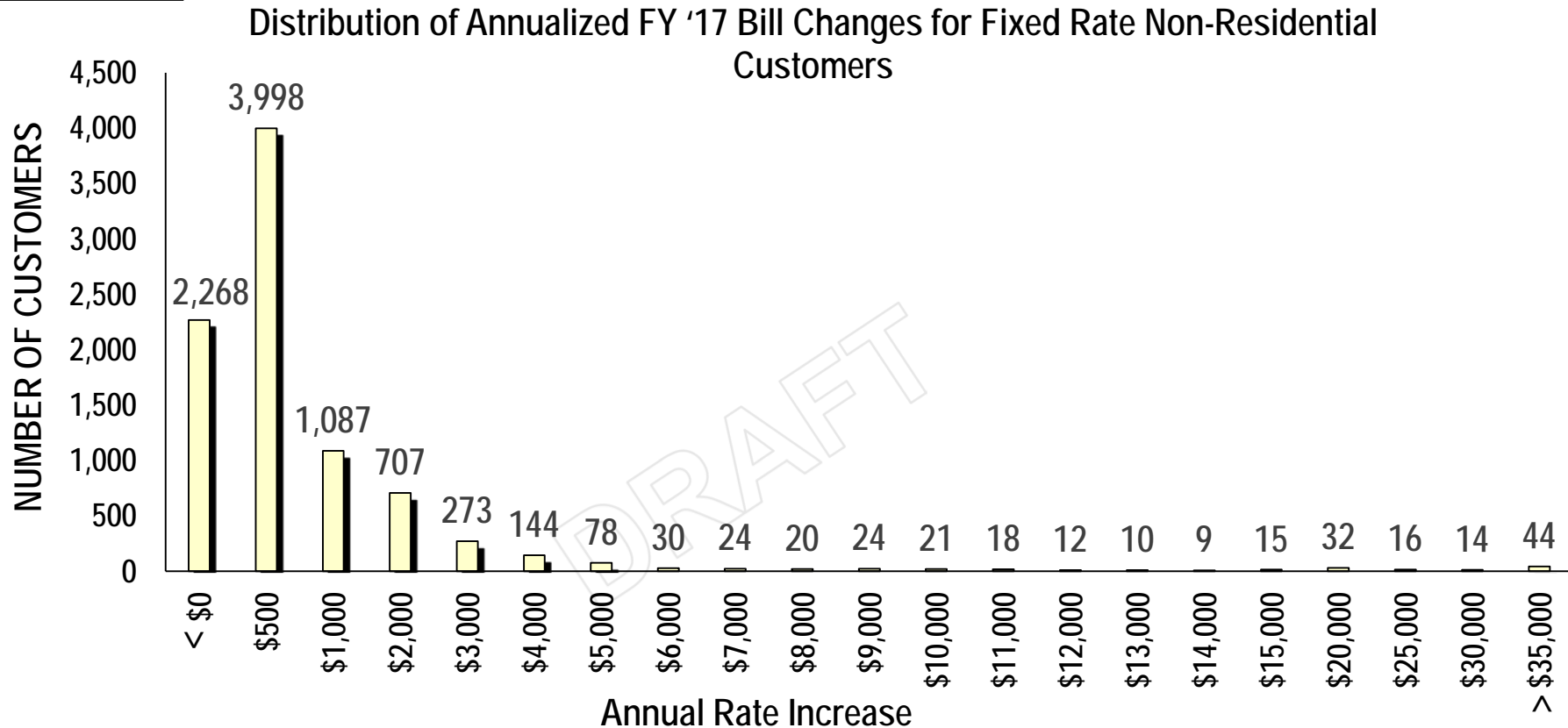
What does this mean? 63% of non-residential fixed rate customers will likely see an annual rise in their bill of less than \$500 before application of credits



Why Fixed Charge Customers Could Increase

- ▶ The rate implied by fixed charges is significantly understated for many non-residential customers
 - Lower tier rate implies .02 impervious acres – this is less than 1/5th of the typical household
 - Higher tiers rate implies .22 impervious acres
- ▶ Fixed rate parcels with more than .02 impervious acres (low rate) or .22 impervious acres (high) rate will realize a proportional rate increase

Similarly, 70% of non-residential acreage customers will likely see an annual rise in their bill of less than \$500 before application of credits



Why Acreage Based Rates Could Increase

- ▶ Impervious area lower than that recorded by the City assessor office
- ▶ Current rate on "low-end" of Class

Why Acreage Based Rates Could Decrease

- ▶ Impervious area higher than that recorded by the City assessor office
- ▶ Current rate on "high-end" of Class
- ▶ Costs spread over increased acreage