

FLORIDA RURAL WATER ASSOCIATION

2970 WELLINGTON CIRCLE WEST • TALLAHASSEE, FL 32309-6885
Telephone: 850-668-2746 ~ Fax: 850-893-4581

September 15, 2016

City of Dunnellon
Utility Advisory Board
20750 River Drive
Dunnellon, Florida 34431

Re: **Rate Study Findings and Recommendations**

Florida Rural Water Association is pleased to provide this rate study and recommendations to the City of Dunnellon as a free membership benefit and through USDA Rural Development support. FRWA is dedicated to assisting water and wastewater systems provide Floridians with an ample affordable supply of high quality water and wastewater services, while protecting natural systems.

You should be congratulated for your water and wastewater system and operations staff. With unfunded mandates continuing to roll down from state and federal governments along with the aging of pipes, pumps and plants, you have risen to the challenge and continue to operate the system providing safe drinking water and consistent sewer services. To make a very difficult job, more difficult, revenues have lagged behind expenses. Utility operators have done more with less each year, as measured in real dollars. They have shouldered the responsibility of running the system in a responsible manner and in compliance with state rules and regulations.

Executive Summary. Water and wastewater revenues (rates) are adequate to meet the projected expenditure requirements for the utilities' water system. This is using a reserve fund for emergencies and future repair and replacement needs. If a truly funded depreciation schedule was utilized a 2.41% increase of water base rates would be needed. If wastewater was funded for depreciation a 23.25% increase in base rates would be needed.

1. **Finding** – No increase in water or wastewater system revenues (rates) is needed at this time to maintain status quo. However to fully fund reserves to meet future repair and replacement a full asset management study should be performed on the utility. This study would put a future cost and life span to each system component. A true depreciation schedule based on the utilities components.

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EMAIL
frwa@frwa.net

WEBSITE
www.frwa.net

Recommendation – include annual cost-of-living adjustments for the utility to keep pace with incremental costs into your rate ordinance – make this adjustment automatic based on a verifiable index. Use either the Engineering News Record (ENR) Construction Consumer Index¹ or the Florida Public Service Commission 2016 Price Index.²

1. **Recommendation** – In the future it may be prudent to hire a consulting firm to provide a detailed rate study.
2. **Recommendation** – revisit the revenue/expense predictions, current financial position and, other indicators during the annual budget approval process, adjusting the rates as needed.
3. **Recommendation** - Seasonal customers should pay base rate whether service is active or not.
4. **Recommendation** – the utility should review its financial position annually in order to assess the actual level of future rate adjustments necessary.
5. **Cost Savings.** Rate consultants charge anywhere from \$15,000 to \$50,000 for this type of report, and by using FRWA you have been prudent with ratepayer money. Consultant reports are much thicker in part to justify the fees, explain the results, and build a case for additional services, which means more consulting fees.

Accuracy of Revenue Predictions. We have relied upon such information to be accurate. Projected revenue precision is limited by the accuracy of the financial information provided – good information “in” equals good information “out”, and *vice versa*. Should you find that these recommended rates are not in-line with your needs, we suggest that you go back carefully review and update your financial records. We are always happy to return, revisit your rates, and adjust the analyses as necessary, please call me anytime.

Rate Study Objectives. Ideally utility rate setting should meet a number of goals and objectives. *The single most important goal of the study is to develop proposed utility rates that meet the projected expenditure requirements of the utility system in order to maintain sound financial operations and to fund the anticipated capital needs of the system.* The other goals and objectives considered in the study include the following:

- ✓ Proposed rates should be equitable among customer classes;
- ✓ Proposed rates should minimize “rate shock” to customers if possible;
- ✓ Proposed rates should promote the conservation of utility resources; and
- ✓ Proposed rates should maintain adequate reserves for emergencies and unforeseen capital.

¹ Engineering News Record (ENR) Construction Consumer Index is found at <http://enr.construction.com/economics/FAQ.asp>

² Florida Public Service Commission 2016 Price Index is found at <http://www.psc.state.fl.us/utilities/waterwastewater/>, click on “Price Index and Pass Through Application for Water and Wastewater Utilities”.

Current Rate Structure

Water

Section 1: Monthly water rates and charges shall be the aggregate of the following:

A. Individually Metered Residential Customers:

METER SIZE	MONTHLY AVAILABILITY CHARGE	MONTHLY GALLONS	USAGE RATE (PER THOUSAND GAL)
3/4 Inch	\$17.40	0-4,000	\$2.27
		4,001-10,000	\$4.54
		10,001-20,000	\$6.59
		20,001-30,000	\$9.22
		Greater than 30,000	\$12.91
1 Inch	\$43.50	0-10,000	\$2.27
		10,001-25,000	\$4.54
		25,001-50,000	\$6.59
		50,001-75,000	\$9.22
		Greater than 75,000	\$12.91
1 – ¼ Inch	\$52.20	0-12,000	\$2.27
		12,001-30,000	\$4.54
		30,001-60,000	\$6.59
		60,001-90,000	\$9.22
		Greater than 90,000	\$12.91
1 – ½ Inch	\$87.00	0-20,000	\$2.27
		20,001-50,000	\$4.54
		50,001-100,000	\$6.59
		100,001-150,000	\$9.22
		Greater than 150,000	\$12.91
2 Inch	\$139.20	0-32,000	\$2.27
		32,001-80,000	\$4.54
		80,001-160,000	\$6.59
		160,001-240,000	\$9.22
		Greater than 240,000	\$12.91
2 – ½ Inch	\$208.80	0-48,000	\$2.27
		48,001-120,000	\$4.54
		120,001-240,000	\$6.59
		240,001-360,000	\$9.22
		Greater than 360,000	\$12.91
3 Inch	\$278.40	0-64,000	\$2.27
		64,001-160,000	\$4.54
		160,001-320,000	\$6.59
		320,001-480,000	\$9.22
		Greater than 480,000	\$12.91
4 Inch	\$435.00	0-100,000	\$2.27
		100,001-250,000	\$4.54
		250,001-500,000	\$6.59
		500,001-750,000	\$9.22
		Greater than 750,000	\$12.91
6 Inch	\$870.00	0-200,000	\$2.27
		200,001-500,000	\$4.54
		500,001-1,000,000	\$6.59
		1,000,001-1,500,000	\$9.22
		Greater than 1,500,000	\$12.91
8 Inch	\$1,392.00	0-320,000	\$2.27
		320,001-800,000	\$4.54
		800,001-1,600,000	\$6.59
		1,600,001-2,400,000	\$9.22
		Greater than 2,400,000	\$12.91

Section 1: Monthly sewer rates and charges shall be the aggregate of the following:

A. Individually Metered Residential Customers:

METER SIZE	MONTHLY AVAILABILITY CHARGE	MONTHLY GALLONS	USAGE RATE (PER THOUSAND GAL)
3/4 Inch	\$17.11	0-4,000	\$8.46
		Greater than 4,000	\$16.92
1 Inch	\$42.78	0-10,000	\$8.46
		Greater than 10,000	\$16.92
1 – ¼ Inch	\$51.33	0-12,000	\$8.46
		Greater than 12,000	\$16.92
1 – ½ Inch	\$85.55	0-20,000	\$8.46
		Greater than 20,000	\$16.92
2 Inch	\$136.88	0-32,000	\$8.46
		Greater than 32,000	\$16.92
2 – ½ Inch	\$205.32	0-48,000	\$8.46
		Greater than 48,000	\$16.92
3 Inch	\$273.76	0-64,000	\$8.46
		Greater than 64,000	\$16.92
4 Inch	\$427.75	0-100,000	\$8.46
		Greater than 100,000	\$16.92
6 Inch	\$855.50	0-200,000	\$8.46
		Greater than 200,000	\$16.92
8 Inch	\$1,368.80	0-320,000	\$8.46
		Greater than 320,000	\$16.92

The original mission for creation and ownership public water and wastewater utilities include many compelling objectives: (1) health and safety of citizens; (2) protect most vulnerable residents (aged, young, poor health, economically disadvantaged, etc.); (3) ability to return the profit ordinarily collected by a private entity to the customer in the form of lower rates; (4) provide fire protection; (5) tool to expand the tax base; (6) ability to shape, facilitate or control growth; and (7) promotes home rule and self determination.

Rate Study Standards. FRWA uses contemporary industry standards for recommending and establishing utility rates, these include: American Water Works Association (AWWA) Manuals of Practice, Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB), and Florida Public Service Commission guidelines.

Results of Rate Study. EPA recommends that water and wastewater systems set rates to ensure that there are sufficient revenues in place to support the costs of doing business. The full-cost pricing for rates shall include the costs for operating, maintaining, repairing, rehabilitating and replacing infrastructure.

FRWA recommends an adjusted rate structure that is both fair and equitable to fit your system's needs.

The city uses a water conservation rate structure, known as an increasing block rate. As more water is used by customers the cost per thousand gallons increases. This tiered price-to-consumption ratio promotes conservation, customer responsiveness to usage, and better equity between customers. This is strongly recommended by all five Water Management Districts and will likely be required by the Southwest Florida Water Management District during your next consumptive use permit renewal. In the future Water Management Districts will be paying much more attention to per capita water use. This pricing of water is designed to:

- Reduce water consumption without negative impacts on utility revenues;
- Reward customers for making cost-effective changes in water appliances and behavior through greater savings;
- Target inefficiency in discretionary water uses such as landscape irrigation;
- Delay costly water supply expansion projects; and
- Avoid financial hardships on low-income customers.

We also recommend the new rate schedule be evaluated annually to ensure it supports the current year budget and annual rate adjustments also include the Engineering News Record (ENR) Construction Consumer Index or the Florida Public Service Commission 2016 Price Index.

We have enjoyed serving you and wish your water and wastewater system the best. Please feel free to contact me if you have any further questions at 850-668-2746 ext 163 Tom.Gustafson@frwa or Sterling Carroll at 850-668-2746 ext 118, Sterling.Carroll@frwa.net.

Sincerely,



Tom Gustafson Financial / Management Circuit Rider
Florida Rural Water Association

Copy: Sterling L. Carroll, FRWA State Engineer