



# Water Account Service Fees & Construction Water Rates

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# Town of Queen Creek

November 5

# 2012

The Town of Queen Creek conducted a review of its water rates and fees. The purpose of the review is to evaluate water rates and fees related to specific services and to make recommendations to Queen Creek's Town Council. Our goal is to ensure the Town's water utility rates and fees are priced accordingly to the market and are recovering the cost to the Water Enterprise for providing those services.

## Water Account Service Fees & Construction Water Rate Review



## Background

On June 6, 2012, the Town Council approved the FY 12/13 Town Budget, which included a supplemental revenue provision related to water rate and fee modifications within the Town's Water Enterprise Fund. The following is a list of the water fees and rates being reviewed for modification:

- ✓ Late Fee
- ✓ Service Establishment Fee
- ✓ Return Check Fee (Non-sufficient funds fee)
- ✓ Account Delinquent Fee (Cut lock fee)
- ✓ Hydrant Meter Rental Fee
- ✓ Construction Water Usage Rates (Hydrant and Irrigation)
- ✓ Hydrant Meter Moving Fee
- ✓ Account Deposits

The purpose of the water fee review is to insure that the water account service fees, development related water fees and the construction water usage rate being charged by the Town are priced accordingly, comparable to other local water utility service providers near Queen Creek, and are sufficient to recover cost of service and meet the obligations of the Water Enterprise as necessary to help close an estimated budget shortfall of \$150,000.

## Scope

The scope of this rate study included the following:

- 1) Provide an overview of the NSF Housing Market
- 2) Provide demographic profile data of Queen Creek residents
- 3) Compare the Town's water rates and fees with that of water utility service providers within the Region.
- 4) Develop a "test year" and demonstrate how the proposed rate and fee modifications will increase revenues
- 5) Develop a five year financial forecasts for the new revenues derived from the rate and fee modifications and demonstrate how these modifications will close the FY12-13 budget gap.





## Service Establishment Fees

Data was collected from the Water Utility Service providers near and similar to Queen Creek's Water Utility Enterprise. Chart 5 demonstrates that Queen Creek's account establishment fee is priced at the median point when compared with water utility service providers. Account establishment fees are charged to all customers who establish Utility Services with the Town. The amount of the fee is based on the cost to set up the service for the new customer's account.

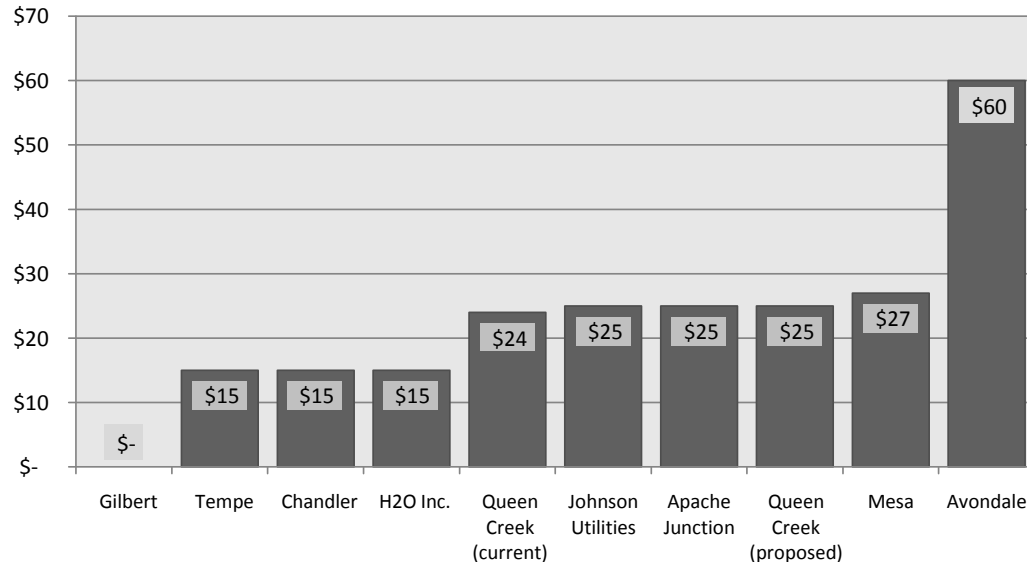
Staff is proposing to increase this fee from \$24 to \$25 per new account, an increase of \$1. This recommendation is a housekeeping measure that is necessary to keep our account establishment fee closely aligned with the pricing with neighboring utilities. The proposed fee will still be priced at the median point relative to these utilities, and our fee will continue to be less than the amount charged by the City of Mesa for account establishment. This fee increase will only impact new customers and does not represent an impact to existing ratepayers.

The additional revenues generated by adopting this fee increase will generate approximately \$2,300 of additional revenue annually, an amount that is largely dependent on the number of new customers to the Town.

**Chart 5 – Service Establishment Fees**

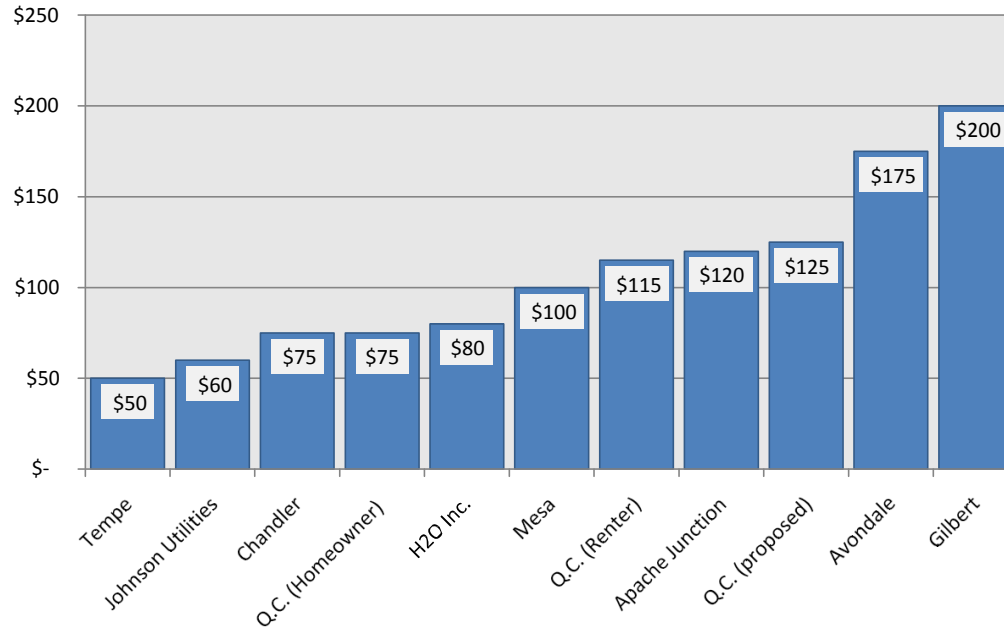
### Service Establishment Fees (Non-refundable)

3/4" Service



## Water Account Deposit (Refundable)

3/4" Service



### Late Fees

At present, the Utility Services Department does not charge a late fee on overdue accounts. On average the Town sends out approximately 1,000 overdue notices to accountholders each month. The charges on the overdue bill are for water, sewer and solid waste services provided by the Town. Staff proposes the establishment of a \$5.00 late fee on the overdue account balance in an effort to encourage accountholders to make timely payments, thus avoiding the imposition of a late fee.

The results we are hoping to obtain would reduce the number of overdue accounts each month and in turn would reduce the expenses associated with preparing and mailing out overdue notices to customers. The establishment of a late fee will also shift the burden of cost and expense of preparing and mailing out overdue notices to those accountholders who are receiving the overdue notices.

The late fee would only impact those customers, whose accounts are overdue and have received a late notice from the Town. This is a discretionary fee that can be avoided by all



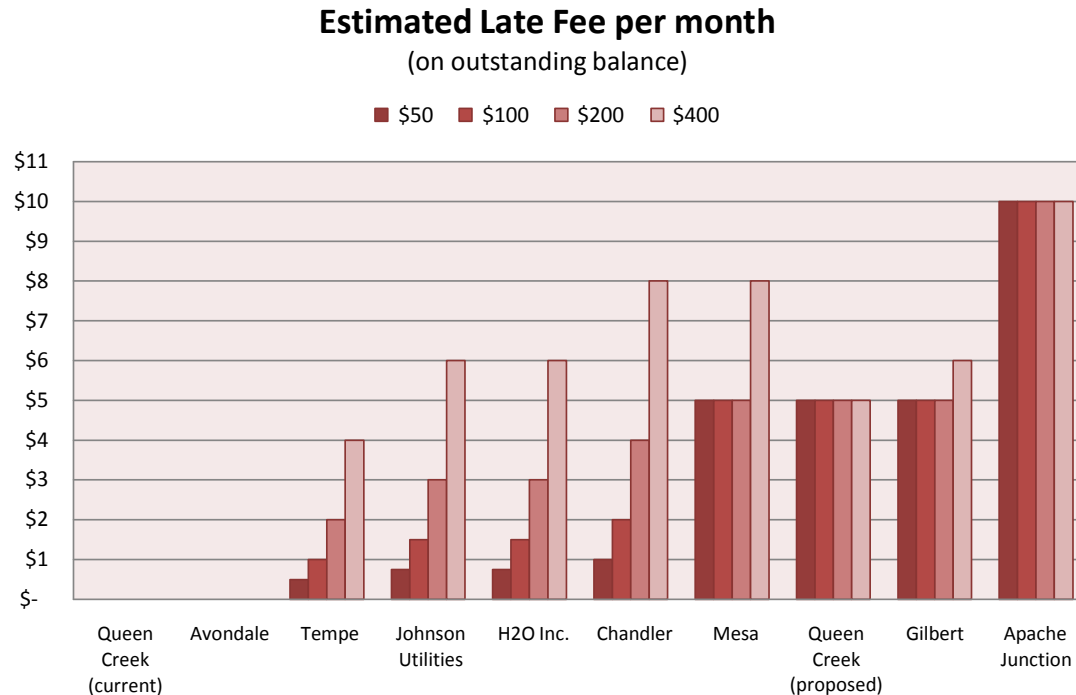


customers by making timely payments or signing up for automatic bill pay. The Town offers monthly automatic electronic payment services and the establishment of a late fee would aid in the Utility Service Department’s efforts to persuade customers to utilize the electronic payment services, which is less costly than other payment choices the Town offers.

Chart 7 below compares the late fees charged by other utility service providers in the Valley. Town staff is recommending a flat \$5.00 late fee. Other utility services providers have a flat charge, percentage basis, or a hybrid approach. The percentage approach charges a late fee amount based on the outstanding balance. The hybrid approach charges a flat fee, until the outstanding balance reaches a certain threshold, after which a percentage is applied.

We anticipate that establishment of a late fee would, over a period of time, reduce the average number overdue notices sent out by the Town by 10% from 1,000 per month to approximately 900 per month. The reduction is based on the assumption that customers would rather sign up for automatic bill pay, rather than risking the late fee. We are forecasting the \$5.00 late fee could generate approximately \$4, 500 per month in new revenue or as much as \$54,000 per year.

**Chart 7 – Late Fees Comparison per Month on Outstanding Balance**



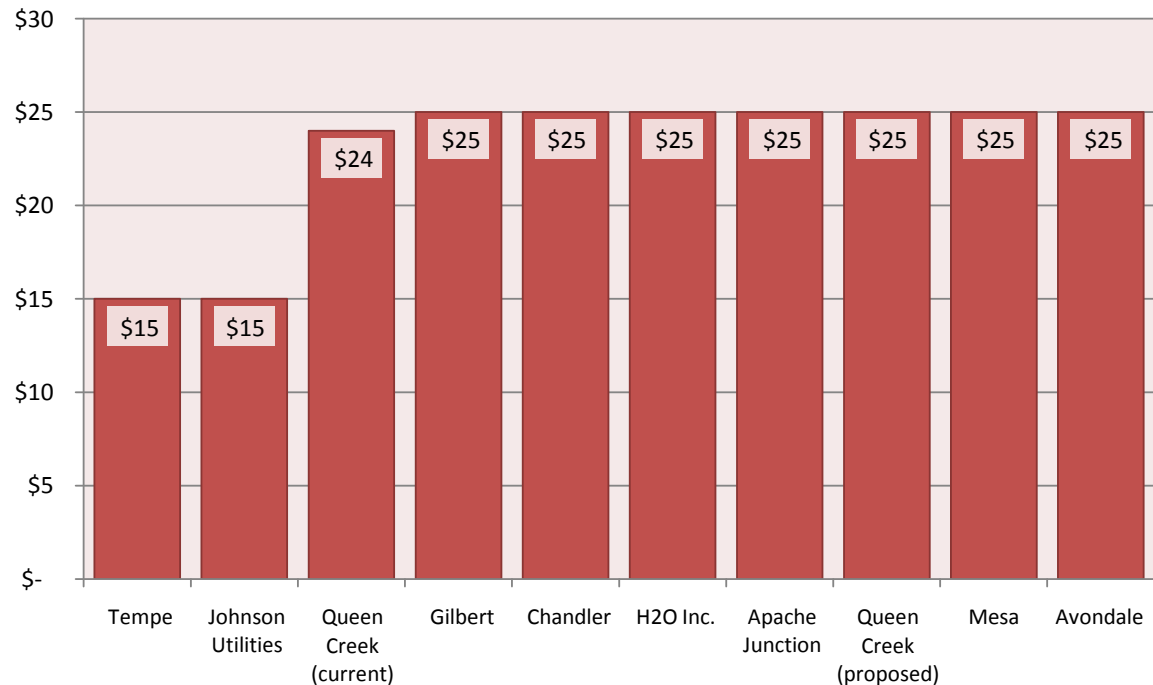
## Non-sufficient Funds (NSF) Fees (Return Check Fee)

Data was collected from the Water Utility Service providers near and similar to Queen Creek's Water Utility Enterprise. Chart 8 illustrates that Queen Creek's Non-sufficient Fund (NSF) fee, the Town's fee currently falls below the median when compared with the others utility service providers. NSF fees are charged to account holders that the present checks for payment on accounts with non-sufficient funds. Staff is recommending an increase to this fee from \$24 to \$25.

The proposed fee will be priced at the market. This fee only affects customers, who present checks for payment on accounts with non-sufficient funds. The Town receives approximately 8-15 Non-sufficient funds checks per month, therefore those affected by this fee is minimal. The \$1 increase is not a significant source of new revenue and our recommendation is merely a housekeeping measure to keep our NSF fees aligned with neighboring utility providers.

**Chart 8 – NSF Fees**

### Non-sufficient Funds (NSF) Fees



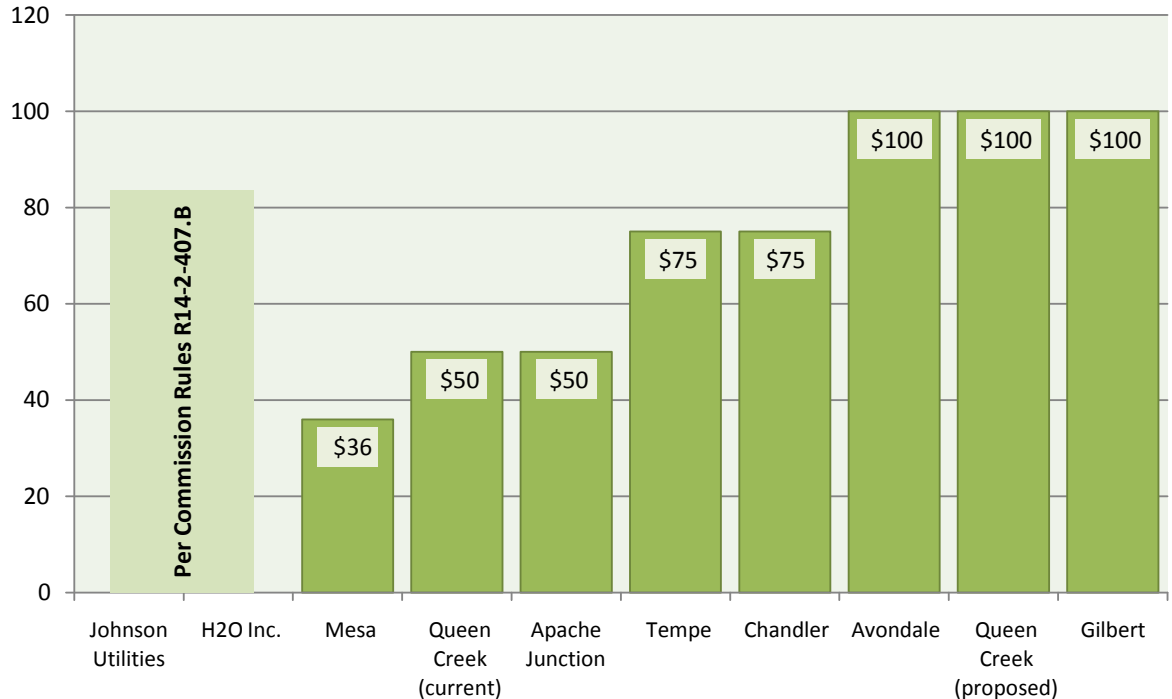
## Account Delinquent Fee (Cut Lock Fee)

When customer's account is delinquent, water service is discontinued and rendered inoperable to that accountholder's property when the Town places a seal on the water meter turn-off valve. Any individual who breaks or removes such seal (lock) to restore water services, in addition to other penalties provided by law, shall pay the cut lock fee prior to the Town's Utilities Department reinstating domestic water service.

The current cut lock fee as provided under the Town's Water Rate Schedule is \$50. We are recommending to Town Council to increase this fee to \$100 for each occurrence. This would make the fee comparable with Avondale and Gilbert. The account delinquent fee (cut lock fee) is an administrative penalty; we want to discourage customers from reinstating domestic water service prior to paying off a delinquent water account. This is a housekeeping measure and is not a significant source of new revenue.

Chart 9 – Account Delinquent Fee (Cut Lock Fee)

### Account Delinquent Fee (Cut Lock Fee)





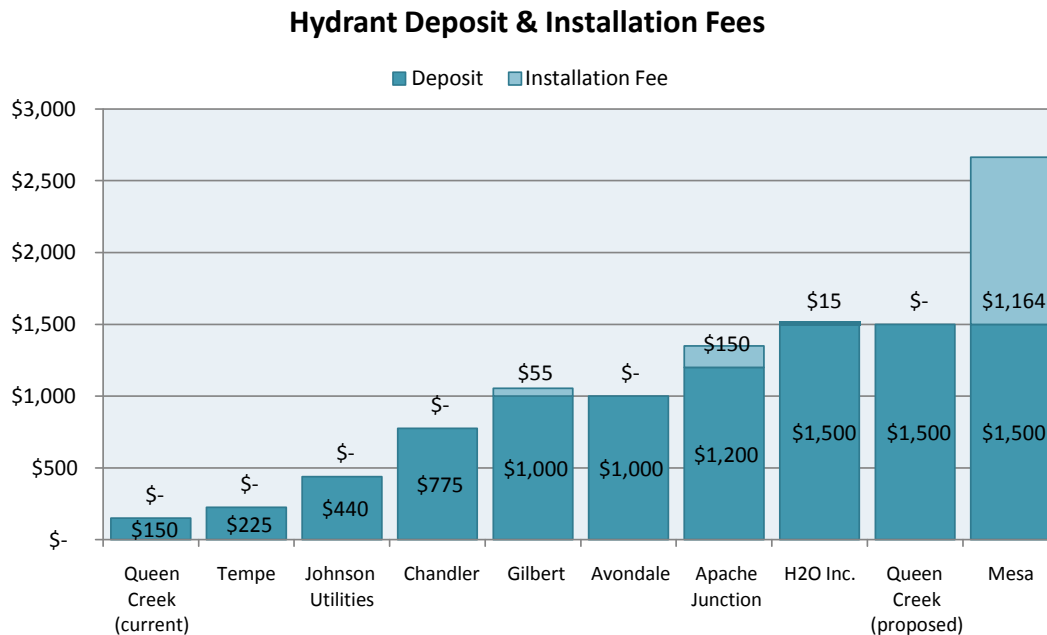
## Hydrant Deposit & Installation Fees

The Hydrant Meter Deposit the Town of Queen Creek Charges for use of its hydrant meters represents security for the return of the Hydrant meter assembly in good condition at the time the account is closed. The deposits are held by the Town as long as the account is open. The Town of Queen Creek does not charge an installation fee of the hydrant meter.

Chart 10 illustrates the deposits and installation fees as compared to other utility service providers. We are recommending that the amount of deposit be increased from \$150 to \$1,500. The Town's hydrant meter deposit is currently the lowest amount charged as compared to other utility service providers. The proposal to increase the security deposit is based on the replacement cost of the hydrant meter.

The hydrant meter deposit is designed similar to an insurance policy to guard against theft, damage and loss to the underlying asset. The security deposit is returned to the accountholder upon safe return of the hydrant meter and it represents an incentive to the accountholder to protect this asset while it is in their possession. The revenues generated by hydrant meter deposits is considered restricted revenue and in almost all cases this deposit is refunded to the customer upon the safe return of the hydrant meter.

**Chart 10 – Hydrant Deposit & Installation Fees**

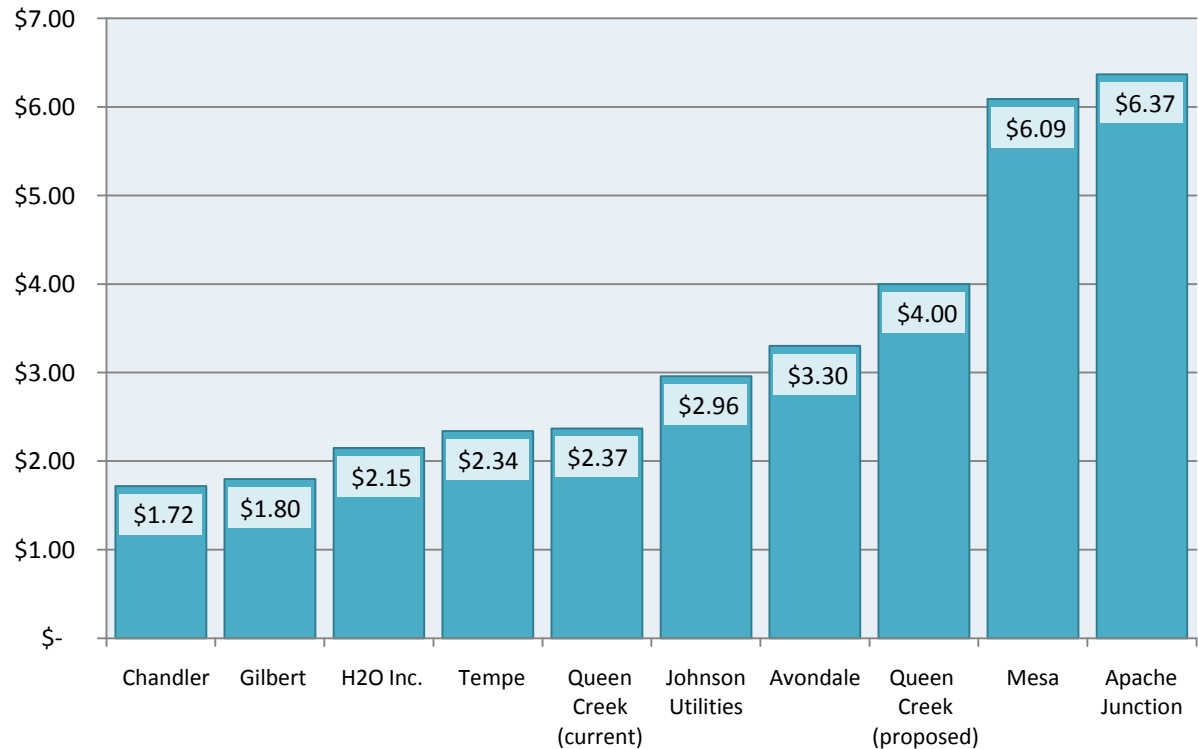


Assuming that water usage remains constant for the next year, the propose rate increase would generate approximately \$65,000 to \$80,000 in new construction water usage revenue from all sources (hydrant and irrigation) in the first year, but the total amount generated from construction water usage will vary from year to year based on new development and its corresponding water usage.

This is revenue stream for construction water is highly dependent on development activities within Queen Creek and will fluctuate based on the demand for water resources.

**Chart 11 – Construction Water Usage Charges (Hydrant)**

### Construction Water Usage Charge (Hydrant) (per 1,000 gallons)



## Hydrant Meter Rental Fees

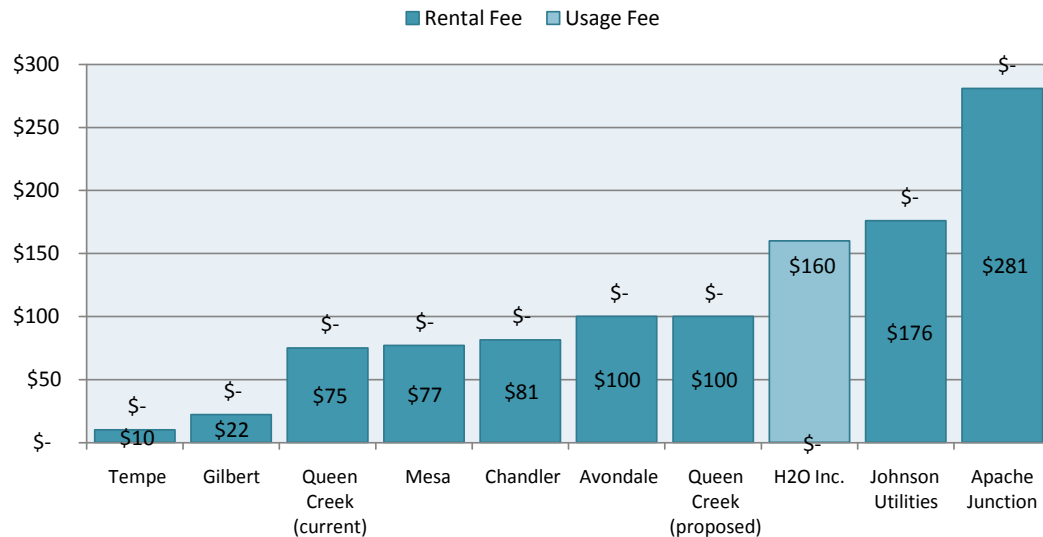
The Town's Water Enterprise owns 50 hydrant meters, which it rents out to developers to access construction water, at the time of this report; we currently have several firms on a waiting list to obtain a hydrant meter for construction purposes. The maximum of 50 hydrant meters can be utilized on our present water system, without having to add additional booster pumps to maintain water pressure within the system.

Due to increased demand from developers, we are proposing that the hydrant rental fees be increase from \$75 per month to \$100 per month. The increase in the rental rate will generate approximately \$15,000 in new revenue on an annual basis at full rental capacity. Aside from closing the budget gap in FY12-13, the additional funding might prove to be the future funding source for the Town to add additional pumping capacity; allowing for the Water Enterprise to purchase additional hydrant meters and make them available to developers for rent.

The proposed rental fee would be above the median rental rate being charged by Chandler. In reference to Chart 12 - Queen Creek's proposed hydrant fee of \$100 per month is approximately 23% greater than the fee assessed by Chandler, but 60% lower than the average monthly usage fee of \$160 per month by assessed by H2O. This proposed fee increase is aligned with the Town's philosophy that "growth should pay for itself".

**Chart 12 – Hydrant Meter Rental Fees per Month**

### Hydrant Meter Rental Fees per Month



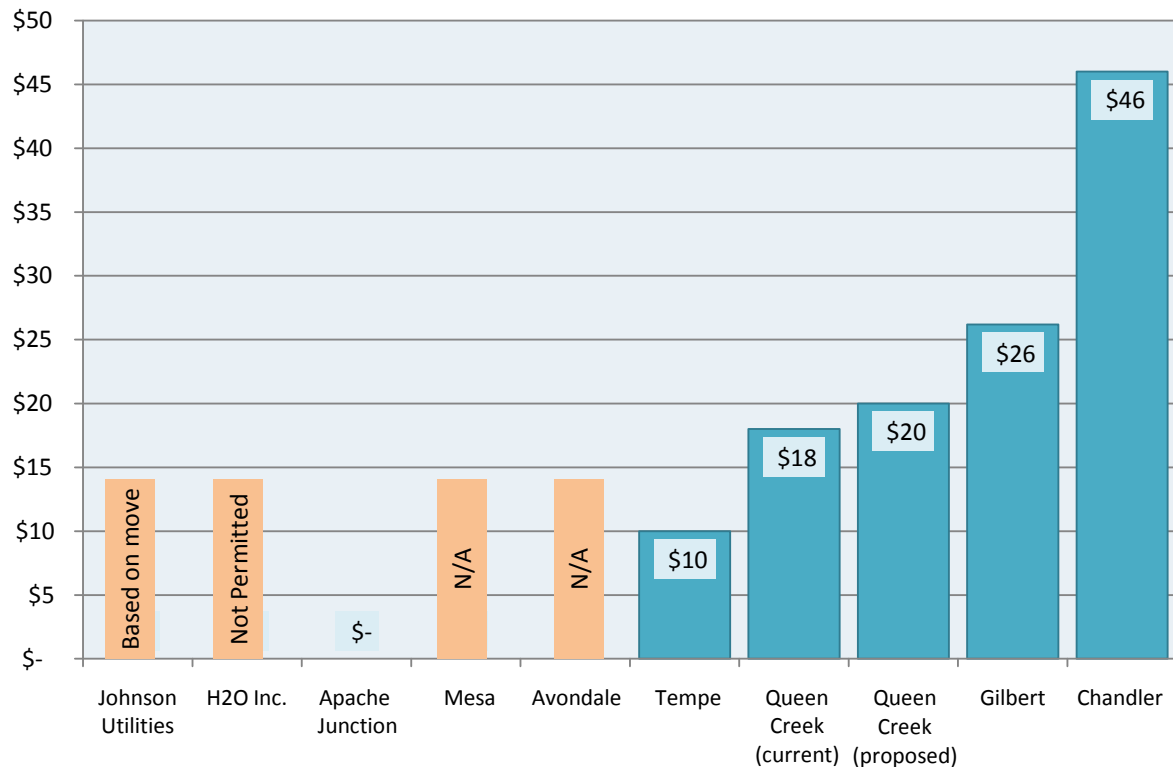
## Hydrant Meter Moving Fees

As a housekeeping measure, we are recommending an increase the hydrant moving fee from \$18 to \$20 per move. The fee increase reflects the increase in cost for staff time (wage, health care, fringe benefits) and fuel needed to move a hydrant meter from one location to another per each occurrence. The \$2 increase represents an 11% increase over the existing rate. See Chart 13 for comparison to other utility service providers. This rate increase will not generate a significant source of new revenue, but will help maintain the level of cost recovery for services provided for development related activities.

This proposed rate increase impacts new development and hydrant meter users only.

**Chart 13 – Hydrant Meter Moving Fees (per move)**

### Hydrant Meter Moving Fees (per move)



# 5 Five-Year Financial Forecast (FY13-19)

## Selected Rate and Fee Data

<b>Current</b>	<b>FY13-14</b>	<b>FY14-15</b>	<b>FY15-16</b>	<b>FY17-18</b>	<b>FY18-19</b>
New Service Establishments	2,300	2,369	2,440	2,513	2,589
Current Fee	\$ 24.00	\$ 24.00	\$ 24.00	\$ 24.00	\$ 24.00
	\$ 55,200	\$ 56,856	\$ 58,562	\$ 60,319	\$ 62,128
Late Notices	12,600	12,852	13,109	13,371	13,639
Current Fee	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -
Hydrant Construction Water Usage (1,000 gallons)	46,000	48,300	53,130	58,443	64,287
Current Rate	\$ 2.37	\$ 2.37	\$ 2.37	\$ 2.37	\$ 2.37
	\$ 109,020	\$ 114,471	\$ 125,918	\$ 138,510	\$ 152,361
Irrigation Construction Water Usage (1,000 gallons)	4,000	4,200	4,620	5,082	5,590
Current Rate	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75
	\$ 3,000	\$ 3,150	\$ 3,465	\$ 3,812	\$ 4,193
Hydrant Meter Rental (Billings)	600	600	600	600	600
Current Fee	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00
	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
<b>Forecasted Revenue (no modifications)</b>	<b>\$ 212,220</b>	<b>\$ 216,327</b>	<b>\$ 229,480</b>	<b>\$ 243,828</b>	<b>\$ 259,489</b>
<b>Proposed</b>	<b>FY13-14</b>	<b>FY14-15</b>	<b>FY15-16</b>	<b>FY17-18</b>	<b>FY18-19</b>
New Service Establishments	2,300	2,369	2,440	2,513	2,589
Proposed Fee	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
	\$ 57,500	\$ 59,225	\$ 61,002	\$ 62,832	\$ 64,717
Late Notices	10,800	11,016	11,236	11,461	11,690
Proposed Fee	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
	\$ 54,000	\$ 55,080	\$ 56,182	\$ 57,305	\$ 58,451
Construction Water Usage (1,000 gallons)	46,000	48,300	53,130	58,443	64,287
Proposed Rate	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
	\$ 184,000	\$ 193,200	\$ 212,520	\$ 233,772	\$ 257,149
Irrigation Construction Water Usage (1,000 gallons)	4,000	4,200	4,620	5,082	5,590
Current Rate	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
	\$ 8,000	\$ 8,400	\$ 9,240	\$ 10,164	\$ 11,180
Hydrant Meter Rental (Billings)	600	600	600	600	600
Proposed Fee	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
<b>Forecasted Revenue (fee modifications)</b>	<b>\$ 363,500</b>	<b>\$ 367,505</b>	<b>\$ 389,703</b>	<b>\$ 413,909</b>	<b>\$ 440,317</b>
<b>New Revenue</b>	<b>\$ 151,280</b>	<b>\$ 151,178</b>	<b>\$ 160,224</b>	<b>\$ 170,081</b>	<b>\$ 180,828</b>





Questions???

