



Utility Advisory Committee (UAC) Recommendation To the Bainbridge Island City Council Regarding the Proposed Sewer Treatment Plant Capital Facility Surcharge

Background

The UAC has been briefed by CBI staff on the current program of upgrades to the Wastewater Treatment Plant (WWTP) and has toured the current construction in October, 2009

The UAC has not had a specific discussion focused on the WWTP upgrade. However, in discussion focused upon rate issues, the UAC has expressed its agreement that the current construction should be brought to full and effective conclusion consistent with the current schedule.

UAC discussion included consideration for delay in completion or truncating the construction effort consistent with currently available funding. The UAC concluded that such a delay or truncation of the effort would not be in the interest of the Utility ratepayers. Significant additional and non-productive costs would be highly probable for de-mobilization, re-mobilization, liquidated damages, potential fines resulting from NPDES violations, and potential increased staff and ancillary costs resulting from cumbersome operation of an incomplete facility.

The City has asserted that it is unable to access the financial markets to provide the borrowing necessary to complete the WWTP upgrade. The City proposes to impose a surcharge on the sewer ratepayers connected to the WWTP to provide the near term financing needed to complete the upgrade project and has requested recommendations from the UAC should such a surcharge be imposed.

On October 29, 2009, the UAC was presented with City Council Agenda Bill 09-131. This agenda bill referred Ordinance No. 2009-35 to the UAC for review and requested a written recommendation by November 4, 2009 for a 2nd reading, and a public hearing on November 9, 2009.

This document provides the requested UAC recommendation.

Recommendation

1. The UAC recommends that the City Council adopt a surcharge to the January through June 2010 Sewer Utility Rates for all ratepayers connected to the WWTP in an amount sufficient to complete construction of the currently committed WWTP upgrade. This amount has been forecast by staff to be \$1,500,000.
2. Based upon the information available to the UAC at its November 5, 2009 meeting, the surcharge should be in the form of a uniform percentage of 130% applied to both the Sewer Base charge and the Sewer Volume charge for each account. The percentage is based upon a formula where the numerator is the amount required to complete the WWTP construction and the denominator is the utility estimate of sewer rate revenues estimated to be billed in January through June 2010 without the surcharge.

3. The amount of the surcharge should be reevaluated in April 2010 and adjustment made to correct for any over/under collection of the funds necessary to complete the WWTP construction.
4. An exception to the surcharge should be considered for current existing participants in the City's low-income discount program.
5. The UAC further recommends that the City Council explore reduction of the total amount of funds needed to be generated by this surcharge (and therefore reduce the percentage amount of the surcharge) by:
 - a. Refining the estimate of funds in the Sewer Fund available to fund completion of the WWTP construction project (including rate funds and system participation revenues)
 - b. Refining the estimate of funds available for additional inter-fund loans to the Sewer Fund from the Water Utility and/or the Storm Water Utility. (The water rate, even if not increased as recommended in prior UAC action, will still generate excess revenue beyond the 2010 requirements for the Water Utility.)
 - c. Considering the elimination of or deferral of collection of the City Utility tax on all three utilities (both directly increasing funds available in the Sewer Utility and funds available for loan from the Water and SWMM Utilities.)
 - d. Consideration of repayment to the Water Utility of the funds used to support the citywide groundwater study (making funds available for loan to the Sewer Utility (\$500,000).
6. Clarify and make specific in the ordinance the method where by the City would "suspend and refund the surcharges" (Section 1.S. of the Ordinance.) This clarification should commit to a timely refund or credit to each ratepayer in the same amount collected.

Discussion

The ordinance, in essence, provides a mechanism to borrow equally from each ratepayer connected to the WWTP the minimum amount necessary to most efficiently complete the current and necessary upgrade. The UAC has not had the time or the information necessary to provide more specific recommendations. The UAC has concluded that the specific recommendations in the draft ordinance did not adequately accomplish the objective and has therefore proposed the alternative above (items 2, 3 & 4). The UAC also believes that there may very well be significant opportunity to reduce the currently forecast deficiency in funds available to complete the construction and that a significant reduction, if not elimination, of the surcharge is possible. The City Council is encouraged to aggressively consider item 5, above. The UAC also believes it is imperative that the City be very clear as to how this "loan" from its utility customers will be repaid to each customer (item 6, above.) Such clarification will provide an opportunity for more ready acceptance of this regrettable surcharge by the ratepayers.

Adopted by the Utility Rate Advisory Committee on November 5, 2009.

Andrew Maron, Chair, Utility Advisory Committee

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Dated: 11/5/2009