

# Tualatin Valley Water District



## BOARD WORK SESSION AGENDA

June 7, 2016

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Board President Marilyn McWilliams

Vice President Dick Schmidt

Treasurer Jim Doane

Secretary Jim Duggan

Acting Secretary Richard Burke

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Assistive listening devices are available upon request 48 hours prior to the day of the meeting by calling (503) 848-3000. For additional questions or assistance, see the District Recorder seated near the windows.

For online meeting information, Commissioner bios and more, visit [www.tvwd.org](http://www.tvwd.org).

### VISION

Delivering the best water • service • value

### MISSION STATEMENT

To provide our community quality water and customer service

### VALUES

Reliability • Integrity • Stewardship • Excellence • Safety

**WORK SESSION – 7:00 PM**

**CALL TO ORDER**

**ANNOUNCEMENTS**

**1. DISCUSSION ITEMS**

- A. Options for Evaluating Changes to Billing Duplex Customers
- B. Discussion of the Rate Advisory Committee for the 2016-17 Water Rate Study
- C. Update on Supplemental Budget Planning

**ADJOURNMENT**

## Tualatin Valley Water District



Delivering the Best Water  Service  Value

**To:** Board of Commissioners

**From:** Paul L. Matthews, Chief Financial Officer

**Date:** June 7, 2016

**Subject:** Options for Evaluating Changes to Billing Duplex Customers

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### **Background:**

At the Board's regular meeting in March, a citizen who owns a duplex dwellings unit served by the District requested the Board consider reclassifying duplex residential customers from the single-family class to the multifamily class. The citizen contends that the current classification of duplex customers as single-family residential results in an inequitable allocation of costs.

In response to the testimony, the Chief Executive Officer (CEO) provided the Board a memorandum at the Board's April regular meeting. The memo identified options for considering the citizen's concerns. At that time, the CEO committed to presenting more details on this matter to the Board at an upcoming Board work session. This agenda item is that presentation.

Subsequent to the April Board Meeting, the CEO directed Finance staff to develop additional information about the impact of changing the customer classifications. Attached to this staff report is a memorandum from staff that documents its findings.

The analysis provided three key findings:

1. Based on the data provided and the nature of the analysis, the District's overall financial impact from the proposed change to the customer classification for duplexes would be minimal.
2. If the Board changes the customer classification for duplexes, approximately two-thirds of the bills issued to the District's duplex customers would remain unchanged. Approximately 27% of the bills issued to these customers would decrease while approximately 6% would increase. Although staff has not conducted a detailed analysis, it is likely that some duplex customers would receive bills at differing times of the year that would decrease, stay the same and/or increase.
3. Revenue from duplex customers is likely to decline by 3.5%. Because there are relatively few duplex customers, the total change in expected revenue is not significant.

June 7, 2016

Options for Evaluating Changes to Billing Duplex Customers

**Budget Impact:**

The 2015-17 biennial budget includes \$150,000 to conduct the comprehensive rate study. No addition to the existing budget is anticipated to complete this analysis. If the duplex customers are reclassified as multifamily customers, the District's revenue may be reduced by approximately \$12,000 per year.

**Staff Contact Information:**

Paul L. Matthews; Chief Financial Officer; 503-848-3017; [paul.matthews@tvwd.org](mailto:paul.matthews@tvwd.org)

**Attachments:**

Staff memorandum: Cursory Analysis on Duplex Billing as Multifamily Class

**Management Staff Initials:**

Chief Executive Officer		Customer Service Manager	
Chief Engineer	N/A	Field Operations Manager	N/A
Chief Financial Officer		Human Resources Director	N/A
General Counsel	N/A	Water Supply Program Director	N/A



## MEMO

**Date:** May 25, 2016

**To:** Mark Knudson

**From:** Paul Matthews, Joe Healy

**Re:** Cursory Analysis on Duplex Billing as Multifamily Class

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### OVERVIEW OF ISSUE

At the March Board meeting, an owner of a duplex served by one meter requested that the Board consider changing the classification of this type of account from single-family residential to multifamily residential. The customer's opinion is that the current classification is not equitable since a duplex served by one meter provides water to two families and therefore has a higher demand than a single-family residence.

The customer contends that his property should have a higher block 1 threshold based on its two unit, two family status. Changing the duplex classification from single-family to multifamily would allow duplexes to have a threshold for block 1 use of 1.4 times the rolling 12-month average water use rather than the existing block 1 threshold of 28 CCF (hundred cubic feet) every two months.

In a memo dated April 15, 2016, the Chief Executive Officer (CEO) presented the Board with two alternatives for consideration. The first alternative stated that the District would consider this customer classification issue as part of its upcoming rate study.<sup>1</sup>

The second alternative is to conduct an in-house analysis. Under this alternative, a new initiative could be launched using in-house staff to analyze the feasibility and results of moving duplexes from class 1-Residential to either class 2-Multifamily Residential or a separate class. The details and proposed steps for this alternative are outlined in the April 15 memo.

This memorandum was developed by Finance staff to help the Board determine its preferred course of action. The analysis was designed to determine the potential impacts to duplex customers and to District finances if a customer classification change were to happen. The following sections describe the process and findings of this analysis.

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<sup>1</sup> In FY2017, the District and an independent consultant will conduct a rate study. The study will include an analysis of the equity of rate design based on multiple factors including the District's customer classifications. Moving duplexes from class code 1-Residential to class code 2-Multi-Family Residential is part of the scope of work included in the request for proposals and will be analyzed as part of this study.

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## DATA REQUIREMENTS AND ANALYSIS

In order to begin its analysis, Finance staff used data on properties that would likely be affected by the proposed change. From the utility billing (UB) system, IT staff provided a four-year data set with the following fields. The four years included May 2012 through May 2016.

- Site ID
- Customer number
- Agency (jurisdiction)
- Customer class, where Class Code = 1 (Residential)
- Number of equivalent dwelling units (EDUs), where EDU = 2
- Meter size
- Bill date or Date of read
- Days of service between reads
- Consumption (quantity billed)
- Average consumption (rolling 12-month average)

This data set, extracted from UB, resulted in 8,874 bills. By combining the site ID with the customer number of each bill, staff created unique “account codes” for each record. These account codes equate to 434 duplexes that were included in this data set.

Using this data, staff calculated hypothetical bills under both scenarios described previously: duplexes as single-family residential (current) versus duplexes as multifamily residential (alternative).

### RESIDENTIAL BILL CALCULATION

By itself, this data is sufficient to calculate bills under the District’s current rate structure, with the duplexes classified as single-family residential. The process involved the following three steps:

1. For each record, determine the consumption within block 1 (i.e., 28 CCF or less). This determination also results in the consumption that exceeds block 1 and is considered block 2 (i.e., more than 28 CCF).
2. Multiply the consumption in each block by the respective block rates.<sup>2</sup>
3. Add the bi-monthly fixed charge to the consumption rate revenue.<sup>2</sup>

### MULTIFAMILY BILL CALCULATION

In order to compare bills for duplexes as multifamily customers versus their existing class, staff calculated the bills based on the multifamily block rate structure in which the first block allowance is 1.4 times the rolling 12-month average water use. Using the 1.4 multiplier, Finance staff used

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<sup>2</sup> For this initial analysis, Finance staff used the District’s current rates for all calculated bills, regardless of the year that the data was from.

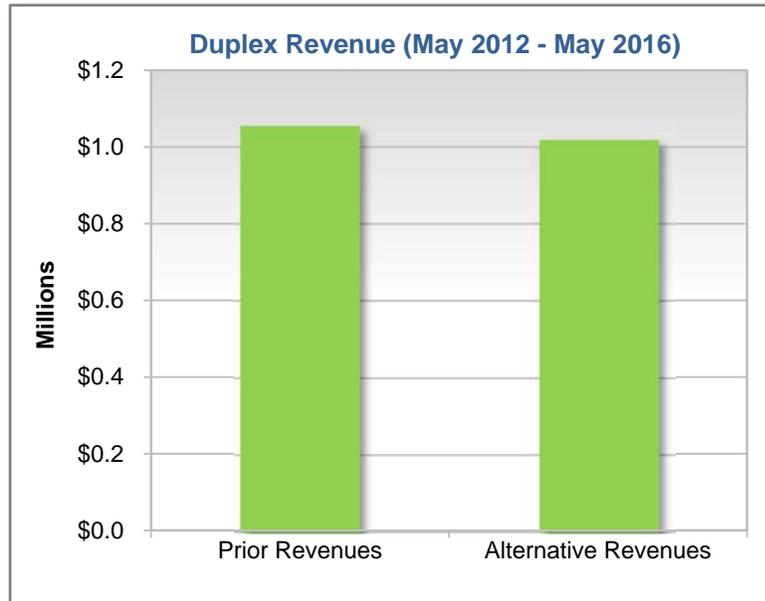
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the average consumption data to determine the block 1 allowances for each customer for each billing period in the data set. From that point, the steps were basically the same as for the single-family residential bill calculations.

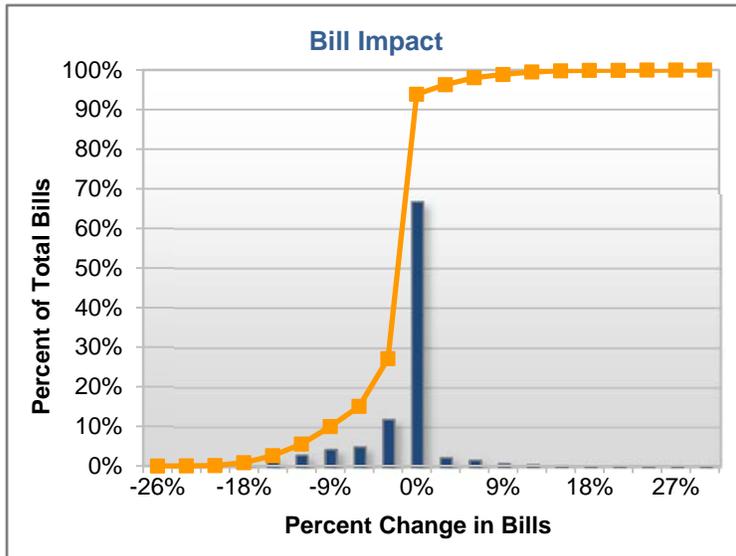
1. For each record, determine the consumption within block 1 (i.e., 1.4 times rolling average water use, or less). This determination also results in the consumption that exceeds block 1 and moves into block 2 (i.e., more than 1.4 times rolling average water use).
2. Multiply the consumption in each block by the respective block rates.<sup>3</sup>
3. Add the bi-monthly fixed charge to the consumption rate revenue.<sup>3</sup>

## PRELIMINARY RESULTS

Under current rates and customer classification, the total calculated revenue of the 434 duplexes (or 8,874 bills) over the time period analyzed was \$1,054,800. If the duplexes would have been multifamily over the same time period, the total revenue would have been approximately \$1,017,800 under current rates. This equates to a 3.5% decrease in revenue from the same total consumption. The graph compares the total dollar amounts for actual (prior) and alternative revenues.



<sup>3</sup> For this initial analysis, Finance staff used the District's current rates for all calculated bills, regardless of the year that the data was from.



Digging deeper into the numbers, staff found that 66.8% of the bills would have seen no change at all under the multifamily billing scenario. Approximately 27.1% of the bills would have been lower under the alternative than they actually were. Only 6.1% of the bills would have been higher as multifamily. A bill impact graph is provided on the left.

What this and the previous graph tell us is that under multifamily billing, duplexes

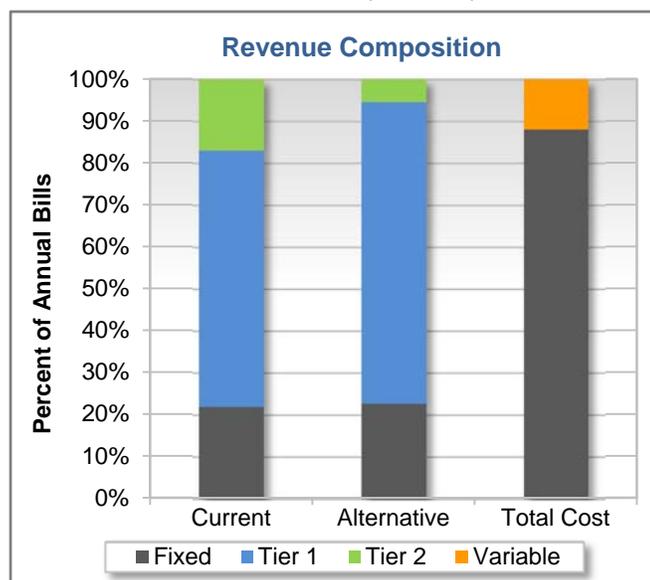
would have seen more of their consumption within block 1. Table 1 presents the rounded consumption numbers by scenario.

**Table 1: Consumption (CCF) by Block Under the Alternatives**

Block	Residential	Multi-Family
Block 2	35,000	11,000
Block 1	182,000	206,000
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Total CCF	217,000	217,000

These differing consumption profiles generate alternative revenue composition profiles of course. The graph on the right presents revenue composition under each alternative, plotted next to the District's estimated cost composition.

What is apparent in this chart is that although the total revenue under the multifamily scenario would have been less than what it actually was, the amount earned from fixed charges and block 1 consumption would have been greater. Under existing, total revenue from fixed charges and block 1 was \$876,200. If multifamily, the fixed charge plus block 1 revenue



would have been \$963,100 over this same time period, leaving less to be considered block 2, or “discretionary”.

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## LIMITATIONS OF THIS ANALYSIS

The basis for this analysis was data pulled from the District’s UB system. The data pulled included consumption records of bills for customers that are identified as single-family water customers with two sewer dwelling units. The District only has the sewer unit information for joint customers served by Clean Water Services and the City of Beaverton. Therefore, these were the only customers used in this analysis.

The District also serves customers within the cities of Hillsboro and Tigard. The District does not, however, have the sewer billing information for those water customers. This analysis did not include assumed duplexes that receive sewer service from those cities. In order to accurately assess all of the duplexes served by the District, field verification of duplex properties would need to occur. This includes all duplexes within the District’s boundaries, including those that receive sewer service from Clean Water Services and the cities of Beaverton, Hillsboro and Tigard.

Related to the limitation of duplex data, the findings and recommendation below are based, in part, on the assumption that the unknown duplexes have similar consumption and billing characteristics as the duplexes assumed for this analysis.

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## FINDINGS AND RECOMMENDATIONS

### FINDINGS

The analysis provides the following findings:

1. Based on the data provided and the nature of this analysis, the District’s overall financial impact from the proposed change to the customer classification for duplexes would be minimal.
2. Approximately two-thirds of the bills issued to the District’s duplex customers would remain unchanged. Approximately 27.1% of the bills issued to these customers would decrease while approximately 6.1% would actually increase. Although staff has not conducted a detailed analysis, it is likely that some duplex customers would receive bills at differing times of the year that would decrease, stay the same and/or increase.
3. Revenue composition would likely improve to some degree.

### RECOMMENDATIONS

It is important to consider the level of analyses presented in this memorandum is cursory in nature and subject to change as detailed information and analyses is conducted.

Because some the change in customer classification will affect customers differently, staff recommends that this issue be considered in a deliberate process as part of the District’s rate

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study, and that the Customer Service Department staff begin the task of field verification for duplexes. The rate study will allow a more thorough consideration of other issues such as system development charges, fixed charges and the overall equity of the alternatives considered.

Staff also recommends developing a comprehensive communications strategy to duplex customers once the findings from the rate study are finalized.

## Tualatin Valley Water District



Delivering the Best Water  Service  Value

**To:** Board of Commissioners

**From:** Paul L. Matthews, Chief Financial Officer  
Alex Cousins, Communications & Public Affairs Supervisor

**Date:** June 7, 2016

**Subject:** Discussion of the Rate Advisory Committee for the 2016-17 Water Rate Study

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### **Background:**

The District undertakes a comprehensive rate study about every five years. The District commissioned the most recent comprehensive rate study in 2011 and implemented the findings in 2012. The primary focus of that rate study was preparing for the future water supply program by designing rates that had less volatility in revenue and developing a new long-range financial planning tool. The study improved on the first objective, reducing volatility in revenue, by implementing changes to how the District recovers fire-related costs from customers. The Board directed staff to phase-in changes to the District's fixed charges over a three-year phase-in period to recover fire-related costs. The final year of that three-year phase-in was effective November 1, 2014. Additionally, the District's consultants delivered a 30-year financial planning model that staff has used since 2012.

The District expects investments in the Willamette Water Supply Program (WWSP) and other in-District Capital Improvement Plan (CIP) projects will continue to drive significant future rate increases.

Anticipating this concern, the District included a comprehensive rate study in the 2015-17 biennium budget.

Based on guidance from the Board at its September 1, 2015 work session, staff has issued a request for proposals for the 2016-17 rate study. In keeping with the guidance from the Board, a key objective of the rate study is to develop policy proposals for the Board on the issue of affordability of water for customers with limited financial means. With a goal of providing a transparent, inclusive and informed decision process on rates, the scope of work in the RFP includes the formation of a Rate Advisory Committee (RAC).

Staff proposes the RAC consist of up to 12 volunteer members representing a variety of constituencies that will meet approximately monthly during the rate study. The result of their deliberations will be recommendations on policies for affordability of water for customers of limited economic means. Proposed criteria for RAC membership include having specific, relevant community interests represented (e.g., key customers, low-income advocates and multi-family customers) as well as geographic and cultural diversity. A charter for the RAC will be prepared and the meetings will be conducted by the consultants. As currently proposed, RAC members will be appointed by the Board. Additionally, the RAC is anticipated to include two Board members participating as observers/advisors during the RAC meetings.

Discussion of the Rate Advisory Committee for the 2016-17 Water Rate Study

Staff will present a proposed RAC charter, options for RAC composition and request input from the Board on the RAC.

**Budget Impact:**

The District's adopted 2015-17 biennial budget includes \$150,000 in professional services for the comprehensive rate study.

**Staff Contact Information:**

Paul L. Matthews; Chief Financial Officer; 503-848-3017; [paul.matthews@tvwd.org](mailto:paul.matthews@tvwd.org)  
Alex Cousins; Communications & Public Affairs Supervisor; 503-848-3012; [alex.cousins@tvwd.org](mailto:alex.cousins@tvwd.org)

**Attachments:**

Draft RAC Charter and membership criteria

**Management Staff Initials:**

Chief Executive Officer		Customer Service Manager	N/A
Chief Engineer	N/A	Field Operations Manager	N/A
Chief Financial Officer		Human Resources Director	N/A
General Counsel	N/A	Water Supply Program Director	N/A



## MEMO

**Date:** June 7, 2016

**To:** Mark Knudson

**From:** Paul Matthews, Joe Healy, Alex Cousins

**Re:** 2017 Rate Study – Proposed Charter for the Rate Advisory Committee

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### PURPOSE

This is a proposed charter for the Rate Advisory Committee (RAC) for the District's 2017 Rate/Affordability Study. As currently envisioned, the RAC will be a special committee, appointed by the District's Board of Commissioners, purposed with overseeing the rate study process and evaluation of affordability of the District's water rates.

The RAC shall:

- Discuss TVWD customer rates and issues of ratepayer affordability in the face of future rate increases.
- Assist the District in defining criteria for affordability and providing suggestions for communicating about rates with TVWD customers.
- Serve as a sounding board for the consulting team selected to conduct the study. Also the RAC will provide the District staff and Board members an opportunity to test ideas and messages concerning relevant issues of concern to TVWD customers.
- Explore and seek out positive outcomes, drawing on the experience and expertise of committee members.
- Report in an advisory capacity to District Board of Commissioners and other participating stakeholders.

### MEMBERSHIP

The RAC is proposed to consist of up to 12 individuals, representing various District stakeholders. RAC members will be chosen and appointed by the TVWD Board, with consideration of membership selection criteria (see Appendix). Membership is anticipated to include the following **affiliations**:

- **Business** – one or more of the District's key customers (e.g., Reser's, Nike, Intel), Westside Economic Alliance, small businesses
- **Residential** – multifamily housing, Citizen Participation Organization program, established neighborhood associations
- **Community Advocates** – one or more advocates for low-income customers (e.g., Washington County Disability, Aging and Veterans Services, Vision Action Network, Community Action)

- **Latino/Multicultural** – representatives from minority communities (e.g., Centro Cultural, Adelante Mujeres, Bienestar)
- **Institutional** – schools, parks, healthcare, emergency services
- **Public Agency** – Washington County, cities of Beaverton, Hillsboro and Tigard, Clean Water Services
- **TVWD Budget Committee member**
- **Citizen-At-Large**

Under the current proposal the RAC will have no chairperson, as the committee will work with the consultant facilitator to develop group consensus recommendations during the rate study review process.

### **TVWD BOARD PARTICIPATION**

The TVWD Board of Commissioners shall assign two members to serve as RAC liaisons. These Board members will attend RAC meetings to observe, answer questions and provide input if needed, but they are not intended to be voting members of the committee.

### **MEMBERSHIP EXPECTATIONS**

- Members shall regularly attend meetings. When members cannot attend, they shall inform the facilitator and TVWD project manager.
- Members shall arrive at the meetings on time and prepared.
- Members shall inform their constituencies of the RAC's work and will relay any comments back to the committee if needed.
- Members shall choose from among the RAC membership two representatives to provide the committee's final recommendations to the TVWD Board at a regularly scheduled monthly Board meeting.

### **TVWD SUPPORT TO THE RAC**

TVWD staff and the consultant team will provide support to the RAC with its activities, such as:

- Meetings conducted by a professional facilitator
- Technical research and informational reports
- Coordination of facilities and preparation of agendas and meeting handouts
- Regular and timely meeting notifications to RAC members, TVWD staff, Board members and the public
- Staff presentations at meetings as necessary
- Meals served at each meeting
- Meeting notes/summaries

### **COMMITTEE CHARGE**

Committee members will review the consultant's findings, conclusions and recommendations on the following topics:

1. **Affordability and Rate Design** – The consultant will assess the following questions regarding water rate design and affordability:

- a. Should the District address affordability within its rate structure?
  - b. If the District addresses affordability, what are the options for doing so?
  - c. What are the other policy considerations (e.g., who will qualify individuals for affordability programs; how will lost revenue be recovered)?
2. **Common Service Consolidation** – The District charges non single-family residential customers for water use using the District’s excess-use rate structure where a higher block rate is charged for water exceeding 140% of the average annual consumption for the account. One of the non single-family customers would like to have its consumption aggregated for some connections that serve it, which would have the effect of lowering its water bill. The RAC will consider this proposal.
3. **Duplex Billing** – Currently, the District follows the definition of single-family residential customers within the American Water Works Association (AWWA) M1 Manual that includes duplexes as single-family customers. As such, the District bills duplexes as it does single-family residential customers, using a block rate structure with two blocks.

A duplex owner proposed that the District instead bill duplexes as it does multifamily residential customers. This owner’s argument is based on the total water consumption of two families (in the duplex) that is billed under the same first block constraint as a single-family residence. As a residential customer, the total consumption of this owner’s duplex includes second block consumption during every billing period. If duplexes were instead billed as multifamily residential customers, where the blocks are based on a percentage of average annual water use, this owner’s bill would be less. The RAC will consider the customer’s proposal and review the associated impacts to the all District customers of such a policy change.

4. **Hydrant Meter Calculations** – The RAC will review and make recommendations on ways in which the District can meter and recover costs for temporary use of water through a fire hydrant. This review may include recommendations for the associated deposits, fees and flow charges.

## **SCHEDULE**

The RAC will meet for two hours at a time, once a month from August 2016 to December 2016. The table below presents the RAC schedule.

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<b>Date</b>	<b>Milestone/Deliverable</b>	<b>Notes/Descriptions</b>
Tues., June 7, 2016	RAC charter to TVWD Board	Board work session
Wed., July 20, 2016	Board to appoint RAC	Regular Board meeting
Wed., Aug. 10, 2016	RAC meeting 1	Initial meeting, RAC charter, affordability/rate design
Wed., Sept. 7, 2016	RAC meeting 2	Affordability/rates and common service consolidation
Wed., Sept. 21, 2016	Draft white paper due	Affordability/rate design
Wed., Sept. 28, 2016	Draft white paper due	Common service consolidation
Wed., Oct. 5, 2016	RAC meeting 3	Review; duplexes and hydrant meters
Wed., Oct. 19, 2016	Draft white paper due	Duplexes
Wed., Oct. 26, 2016	Draft white paper due	Hydrant meters
Wed., Nov. 2, 2016	RAC meeting 4	Review; spillover from prior meetings
Wed., Nov. 16, 2016	TVWD white paper comments due	All white papers
Wed., Dec. 7, 2016	RAC meeting 5	Final RAC meeting, wrap up RAC process
Wed., Dec. 14, 2016	Final white papers due	All white papers

## **APPENDIX: RATE ADVISORY COMMITTEE SELECTION CRITERIA**

- Ability to work cooperatively and productively with a committee of diverse interests.
  - Ability to comprehend and analyze technical information and use that information to make sound recommendations (however, a background in finance is not required).
  - Ability to represent and/or understand a variety of perspectives related to a project or issue.
  - Have strong communication skills.
  - Understand TVWD's role as a service provider within Washington County.
  - Be willing to share accurate information with other RAC members and the community.
  - Geographic diversity within TVWD boundaries is desired.
  - Diversity in cultural background, age and gender is also desired.
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## Tualatin Valley Water District



Delivering the Best Water  Service  Value

**To:** Board of Commissioners

**From:** Paul L. Matthews, Chief Financial Officer

**Date:** June 7, 2016

**Subject:** Update on Supplemental Budget Planning

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### **Background:**

The District is completing the first year of its 2015-17 biennium budget and staff is developing contingency plans for a supplemental budget. At the April 5, 2016 Board Work Session, staff presented an overview of spending plans in the coming fiscal year for the Willamette Water Supply Program (WWSP) and the Willamette River Water Coalition (WRWC). Subsequent to the April 5 work session, staff presented a supplemental budget to the WRWC Board Meeting at its May 11, 2016 meeting. The WRWC Board approved the supplemental budget.

In addition to the WWSP and WRWC, staff identified other potential increases in items that may exceed the amounts appropriated in the 2015-17 biennial budget. These items include the cost of purchased water from the City of Portland and merchant fees associated with accepting more customer payments by credit card. The District may also experience a higher-than-planned increase in health insurance for the last six months of the biennium.

During the work session, staff will present a likely schedule for the consideration of a supplemental budget. As currently planned, a supplemental budget will not be required until the fall of this year.

### **Budget Impact:**

No specific budget adjustment is requested at this time. Staff will present specific proposals for a supplemental budget in the fall if a supplemental budget is warranted.

### **Staff Contact Information:**

Paul L. Matthews; Chief Financial Officer; 503-848-3017; [paul.matthews@tvwd.org](mailto:paul.matthews@tvwd.org)

### **Attachments:**

None

**Management Staff Initials:**

Chief Executive Officer		Customer Service Manager	N/A
Chief Engineer	N/A	Field Operations Manager	N/A
Chief Financial Officer		Human Resources Director	N/A
General Counsel	N/A	Water Supply Program Director	N/A