Six-Month Report on the Implementation of a New Wastewater Connection Fee Methodology Based on Water Meter Size

January 07, 2013

Introduction

The change of connection fee methodology from a system based on fixture units to one based on water meter size was not without implementation challenges, and this report fulfills the request of the Board of Supervisors to present a summary of the progress and challenges of this change after six months of implementation. This report also contains recommendations to improve the process through ordinance and procedural changes.

The new connection fee methodology has been in place for six months and has provided the community with a more predictable connection fee. The new rate structure also presented lower connection fees, with residential fees seeing an average reduction of thirty percent. The methodology has shown to be quick if the proper information is available, but getting accurate information on the water meter size continues to be a hurdle in streamlining the process.

The following implementation challenges are discussed in this report:

1. Determining new water meter sizes
2. Determining existing water meter sizes for re-development
3. Determining a reasonable approach to connection fees for existing shell buildings still in build-out
4. Determining a reasonable approach to connection fees for future shell buildings
5. Evalution of multi-family sector connection fee rates
6. Evaluation of one-inch meter connection fee rates
7. Miscellaneous provisions for improvements

The continued involvement of Southern Arizona Home Builders Association, Metropolitan Pima Alliance, Arizona Multihousing Association, Tucson Water, and other stakeholder groups has been invaluable in finding solutions to individual and broader implementation challenges.

Implementation Challenges

With any significant process change, there are often unforeseen challenges during implementation. Seven sections are presented below, encompassing the major challenges of this implementation. Recommendations follow each section, with the intent that these recommendations would be developed into ordinance and procedural changes to improve the overall process.

DRAFT

1. Determining New Water Meter Size

The largest challenge facing this implementation is the lack of new water meter information on submitted plan sets prior to the building permit. The current Ordinance requires that the connection fee be paid prior to issuance of a building permit, but it was discovered that the meter size is often not established until after the building permit. The process for acquiring a new water meter is independent of the building codes review process, and occurs within the construction phase of the project when the developer's representative (engineer or contractor) is ready to have the water meter installed.

Recommendations:

A. The Applicant would be required to submit a building plan or site improvement plan indicating the design size of the water meter or the number of Fixture Unit Equivalents (FUE). A County constructed conversion chart, like the Tucson Water Meter Sizing Chart, would be used to determine the most probable meter size based on the submitted FUE, and the applicant would pay a connection fee for the probable meter size. The actual meter size would be verified by staff at a later date after it had been purchased, and any fee adjustment with the applicant would be made at that time.

2. Determining Existing Water Meter Size for Re-Development

Determining the existing water meter sizes associated with active sewer accounts for reconstruction projects has also proven to be difficult, as the details of the existing meters have not been a concern of the applicants in the past. The existing water meter size can be derived from a water bill for some water providers (e.g. Tucson Water, Oro Valley), but not all developers have direct access to that information. While communication and cooperation has developed between RWRD staff and the larger water providers, an easier evaluation and data exchange process needs to be established to assist the development community in determining the location, size, and status of existing meters. Recent submittals have also highlighted gaps in the ordinance regarding how previous connections are to be credited for new projects.

Recommendations:

A. Formal agreements should be developed with all water providers for the exchange of existing and new water meter information.

B. When a project may require an upsizing of a water meter, the applicant should submit plans or a form showing the existing water meter sizes and locations, with a reference meter number and confirmation that the meter is an active account for both water and sewer service.

   a. The definition of "Existing Meter" for determining connection fees should be established as follows:The presence of an installed water meter with an active sewer user account, regardless of actual use of the meter, is an Existing Meter.

DRAFT

b. If the water meter was removed and no active sewer user account is currently in place, the capacity for that meter is considered released and a new connection fee shall be paid with the installation of a new water meter unless 60 months of continuous sewer user fee payments can be verified within the past 10 years.
c. Relocation of a water meter with a current sewer user account is considered an Existing Meter and no additional connection fees are due unless the meter size is increased.
d. Irrigation meters and water meters without active sewer user accounts are not considered Existing Meters.

3. Determining a Reasonable Approach to Connection Fees for Existing Shell Buildings Still in Build-Out

In addition to new shell building development, there are existing shell buildings that were impacted by the new connection fee ordinance. There are approximately 27 existing shell buildings in unincorporated Pima County where the shell buildings were constructed prior to the new connection fee methodology, but are still in the build-out phase for tenant improvements (TI). It is estimated that there may be and additional 20 in incorporated jurisdictions, for a total of about 50 shell buildings still under development.

The new ordinance requires the full connection fee (minus any previously paid connection fees) to be paid by the next TI, based on the water meter size of the shell building. The standard practice was to install a 2-inch water meter to provide maximum flexibility for the future tenant demands. The new fee for a 2-inch meter is $69,790. Because the building water meter was installed prior to the adoption of the new connection fee methodology, it is recognized that the shell building owner did not have the new connection fee payment included in the project's financial plan. In addition, because of the timing, the owner had little opportunity to change the impact of new connection fee. The large connection fee owed by the next tenant was also not included in that tenant's lease agreement or budget for improvements.

Recommendations:

A. Establish criteria to define qualifying shell buildings that were constructed prior to the connection fee methodology change, and are still in the initial improvement phase. A modified connection fee payment provision would apply only to those qualifying shell buildings as approved by the Director.

B. Allow each new qualifying TI of an unimproved shell space to pay a connection fee based on the water meter size correlating to the individual fixture unit equivalents associated with the TI as defined on an established conversion chart such as the Tucson Water meter sizing chart. The total connection fee for a shell building will not exceed the connection fee for the installed shell building water meter, and no additional connection fees will be charged for that shell building until the meter is upsized.

DRAFT

C. The Director would be given the authority, on a case-by-case basis, to issue refunds to applicants who were impacted by the May 15, 2012 ordinance and who would have qualified for the reduced fee described in this recommendation, with periodic reporting to the Board of Supervisors on the refunds allowed.

4. Determining a Reasonable Approach to Connection Fees for Future Shell Buildings

The shell building development process is a two-step process where the shell building is constructed first, and the tenant improvements (TI) come later as the building space is incrementally leased out.

Under the old fixture unit methodology, the initial shell building paid nominal connection fees if any, and each new tenant paid the connection fees for their own TI when they improved the shell space for their particular use. When a tenant vacates the space, the tenant improvements, including the fixtures installed and connection fees paid, became the shell owner's for use by future tenants.

Under the new ordinance, the wastewater connection fee is due at the time of the water meter installation. The meter is installed during the shell building construction, far ahead of developing the tenant spaces. The standard meter size installed by shell buildings was a 2-inch meter, since it provided flexibility for any future tenant's needs. The new wastewater connection fee for this meter is $69,790. While the owner now has the full use of the capacity of the 2-inch meter in the future, and does not have to pay additional connection fees, it is recognized that this change in the timing of connection fee payment for shell buildings impacts the financial planning and lease agreement models for new shell buildings.

Recommendations:

A. Encourage new shell building developers to consider installing a smaller initial water meter size and upsize later if needed for the incremental tenant improvements. This opportunity depends on the policies of the water provider, and the department will also work with the water providers regarding such flexibility.

B. Allow a wastewater connection fee payment period of 36 months, without interest, for the applicant of a new shell building. The spreading out of payments over three years would approximate an average incremental increase in shell building occupancy and the actual wastewater discharged from tenant improvements.

DRAFT

5. Evaluation of Multi-Family Sector Connection Fee Rates

The Tucson Water use data for Multi-Family was evaluated over a three-year period from 2009-2011. The data showed that the Multi-Family sector for both the 1-inch meter and the 2-inch meter had a higher average total use and higher average maximum use than the other major sectors. Based on the assumption that water use directly correlates to sewer use, the data does not present evidence of the need to develop a tiered rate structure for the Multi-Family sector at this time.

Recommendations:

A. No changes will be made to the connection fees for Multi-Family at this time.

6. Evaluation of One-Inch Meter Connection Fee Rates

The present ordinance has two rates for a 1-inch water meter, depending on whether the classification is Residential, or other (e.g. Multi-Family, Commercial, and Industrial). The Tucson Water data was also evaluated for Residential use over a three-year period from 2009-2011. The data showed that Residential users with a 1-inch meter had water use at the lower half of the range of the other 1-inch meter users. The water use is even lower if you reduce that flow by the estimated 45 percent of water use going to outdoor irrigation and not to the sewer system. The graphs are found at the end of the report in Appendix A.

Recommendations:

A. Clarify the ordinance to show that Residential development will be charged a single connection fee rate of $4,066, even if the unit was sized for a 1-inch meter to meet fixture unit requirements. Residential users typically discharge less to the sewer than commercial users, and a flat residential rate will be much easier to manage for the variety of development models that just cross to a 1-inch meter due to the number of fixtures in the development plan. The Residential connection fee would apply to each meter on a residential lot, up to two meters per lot.

B. Residential meters in excess of two per lot or of greater size than 1-inch will be charge according to the non-residential fee structure.

7. Miscellaneous Provisions for Improvements

A. Remove the Administrative Fee for connection fee payment plans.

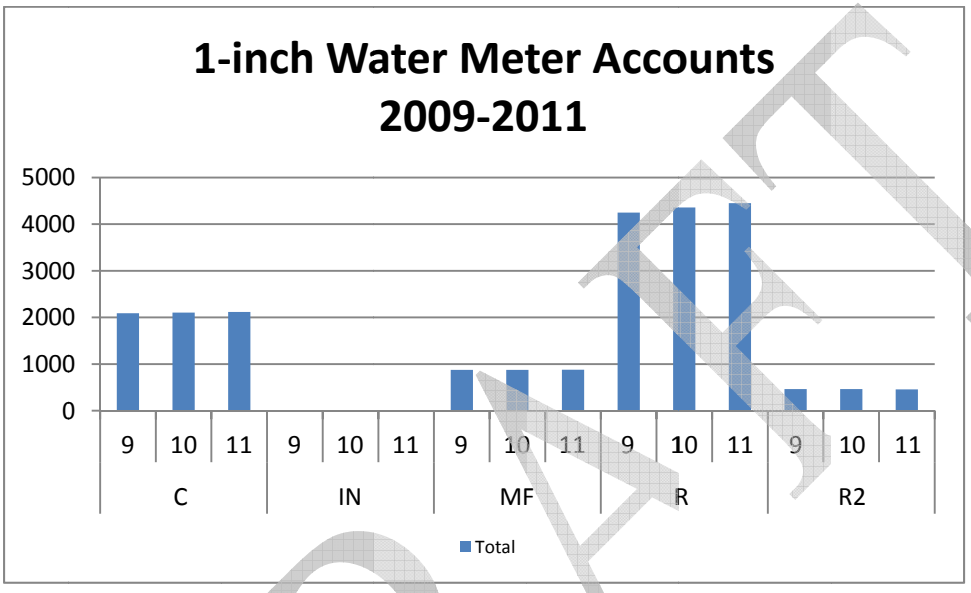
B. For buildings on well water, establish a connection fee calculation methodology using the proposed FUE and a defined conversion chart such as the current Tucson Water FUE-Water Meter size conversion chart.

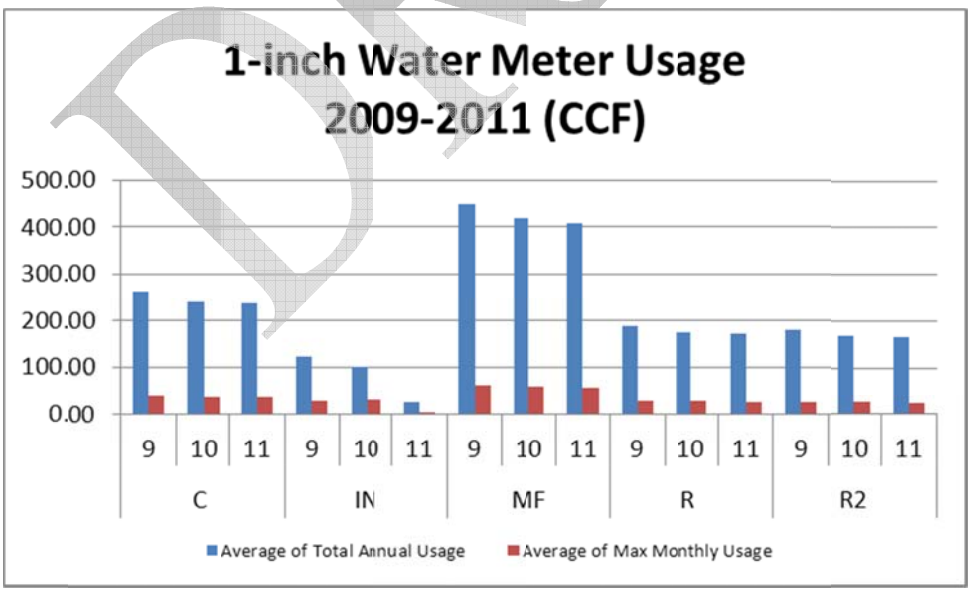
C. Provide for Director's discretion on a case-by-case basis for determining connection fees associated with water well service, 6-inch water meters, and other unique connection fee applications. The Director will report to the Board of Supervisors on a periodic basis of such allowances.

DRAFT

APPENDIX A

Two charts that follow show the Tucson Water use data for a 1-inch water meter from 2009 to 2011. The first chart is a count of the number of customers and the second chart is the flow data of both average total annual flow and average monthly maximum flow. The categories as defined by Tucson Water are Commercial (C), Industrial (IN), MultiFamily (MF), Residential (R), and Duplex/Triplex (R2). The Industrial category represents seven customers in the 1-inch meter size.





DRAFT