Reply to Common Council File No. 010869

From DOA-Budget and Management Division

April 12, 2002

Ref: 01013 (24)

File 010869 is an ordinance that changes the basis for how residential consumption is calculated for purposes of recovering the Milwaukee Metropolitan Sewerage District's (MMSD) sewer user charge and the City of Milwaukee's sewer maintenance charge. The file will change the basis from the current percentage of use method to a simple winter quarter method. The simple winter quarter method uses a customer's winter quarter use as the basis for sewer charges in all four quarters.

Rationale for the Winter Quarter Method

When the City sewer maintenance charge was established in 1998, residential consumption was calculated on the winter quarter method, which was also used by the Water Works for calculating residential consumption for the MMSD sewer user charge. The winter quarter method takes a resident's winter quarter consumption and uses this level of consumption for all four billing quarters in a year. The rationale for the winter quarter method is that it should more accurately approximate the actual amount of water a resident returns to the sewer system.

Problems with the Winter Quarter Method

In 2000, the Water Works recommended changing from the winter quarter method to a percentage of actual consumption method. The rationale for the change was that the winter quarter method created both billing inequities and excessive administrative costs. Regarding billing inequities, the winter quarter method resulted in significant overcharging and undercharging of some customers. The winter quarter method was not always representative of sewer usage for the entire year. For example, some customers had no or extremely low water use in the winter quarter. This resulted in either no or very minimal sewer charges for the entire year, even though their use of, and benefit from, the sewer system increased in the non-winter quarters. Alternatively, some customers had much higher water use in the winter quarter than in non-winter quarters. This resulted in annual sewer charges that overstated their use of, and benefit from, the sewer system. In the latter case, some customers called the Water Works and bill adjustments were made. These adjustments were both time-consuming and costly.

Change to the Percentage of Consumption Method

In order to improve equity and reduce administrative costs, Water Works and the Budget & Management Division recommended billing residential customers on the basis of a percentage of their actual water consumption. The Council adopted this change in December 2000. Because residents are billed based on a percentage of use, the new billing method does result in higher bills for some customers. Concerns over these higher bills prompted a proposal to return to the simple winter quarter method. The Utilities and Licenses Committee approved File 010869, which reinstates the winter quarter method for both the sewer maintenance charge and the sewer user charge beginning in 2003.

Current Rate Study

The 2002 adopted budget included funding for a study of the sewer maintenance charge. This study will evaluate the effectiveness and equity of the current rate. The study will also analyze various options for modifying the structure of the sewer fee and make recommendations, if warranted. A rate study is appropriate given the recent changes in the billing methodology and the number of years since the sewer fee was first established.

Alternatives to the Simple Winter Quarter Method

If implemented, the simple winter quarter method will result in the same billing inequities and administrative costs that previously occurred. There are several alternatives to this method that would address concerns over higher bills while improving equity and minimizing administrative costs, including:

- A percentage of consumption method that uses a lower percentage during summer months and a higher percentage during winter months. This would exclude increased water consumption in the summer months for activities that do not directly return water to the sewer system, such as watering lawns. This would address concerns about higher bills resulting from increased water use during the summer.

- Modify the simple winter quarter approach to include adjustments that bill residents with minimal or zero winter quarter use at a more appropriate level in the non-winter quarters. One option would be to bill these residents based on the citywide average winter quarter amount during the non-winter quarters. This would prevent undercharging these customers and improve equity.

- Modify the simple winter quarter approach to include adjustments that bill residents based on their actual water consumption if the winter quarter consumption amount exceeds the actual amount. This would prevent overcharging these customers and improve equity. It would also eliminate the administrative costs involved in taking complaints and manually adjusting bills.

- Modify the sewer maintenance charge to recover storm sewer costs based on the amount of impervious surface area on a customer's property. This is one of the alternatives that will be analyzed in the rate study. It is anticipated that this modification will reduce the amount of sewer costs charged to residential customers.

A simple winter quarter method for calculating residential consumption is the least preferred method for billing residential sewer charges, as it creates inequities and an administrative burden. Better alternatives exist, including a seasonally adjusted percentage of use method, a modified winter quarter method (including adjustments discussed above), and an impervious surface area method. However, each of these methods will have different impacts on both the sewer rate and how sewer charges are distributed among customer classes.

RECOMMENDATION: DO NOT ADOPT CHANGES TO THE SEWER CHARGE UNTIL AFTER THE RATE STUDY IS COMPLETED. THIS WILL ALLOW FOR A FULL ANALYSIS OF VARIOUS ALTERNATIVES FOR STRUCTURING THE SEWER CHARGE. THE ANALYSIS WILL INCLUDE IMPACTS ON THE PROJECTED 2003 SEWER RATE UNDER DIFFERENT ALTERNATIVES.

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