



Date: October 13, 2011

To: Topaz Regional Wireless Cooperative (TRWC) Board of Directors
Dale Shaw, TRWC Executive Director

From: Ajay Joshi, TRWC Executive Committee Chairman

Subject: TRWC Cost Recovery Model Changes

Recommendation

The TRWC Executive Committee recommends the approval of changes to the TRWC cost recovery methodology to include a distribution of costs by proportional air-time usage of the system rather than by quantity of subscriber units. We recommend that the change to the TRWC cost recovery model be phased in, with FY 12/13 Operating and Maintenance first, using a six-month rolling average of usage as a basis for calculations of per agency billing. Implementation for Capital and other assessments may be considered for future budget periods once the approach is proofed and streamlined through the initial implementation.

Background & Discussion

During the 11/12 Fiscal Year, the TRWC Executive Committee and support staff conducted a study to of a per agency usage scenario compared to subscriber based billing to determine if a usage based cost allocation model would yield improved equitability among members. We have concluded that a usage based model should provide a more appropriate distribution of costs among members, since it is based on actual usage of the system and avoids subsidization among members. Furthermore, this approach will better support scenarios where we have infrequent users of the system within each agency.

The following table outlines the billing changes proposed:

Billing Steps	Current Billing Method	Proposed Billing Method
Step 1: Determine monthly billing total	The Administrative Manager reviews TRWC costs for the prior month to determine which dollar amounts are to be charged to the TRWC members	Same as Current Billing Method – no change.
Step 2: Determine the distribution of costs	A monthly report is used to determine the total number of units on the system, and the number of units assigned to each TRWC member agency	A monthly report is used to determine the total airtime used on the system, and the amount of airtime used by each TRWC member

		agency
Step 3: Calculation of members billing amounts	The dollar amount determined in step 1 is divided by the total number of units on the system determined in step 2 and multiplied by the number of units assigned to each TRWC member agency	The dollar amount determined in step 1 is divided by the average of the previous six months total airtime used on the system and multiplied by the previous six month rolling average amount of airtime used by each TRWC member

We recommend that this approach should first be adopted for Operating and Maintenance (O&M) cost distribution, and consider application of this methodology toward Capital and other expenditures at a later date after the process has been refined and impacts to the capital program is analyzed.

Fiscal Impact

The proposed changes will not result in a change in normally budgeted expenditures as adopted by the TRWC Board of Directors on an annual basis, but rather change the way the costs are distributed to each member agency. Individual member agency costs will vary depending on usage. The following table outlines projected impacts using historical data in comparison to current billing methods for O&M for the forecast period July 2011 thru June 2012:

Member	Current Billing Method	Proposed Billing Method	Billing Difference
Apache Junction City	\$73,502	\$97,470	+\$23,968
Apache Junction Fire	\$37,194	\$7,665	-\$29,529
Gilbert	\$301,535	\$303,833	+\$2,298
Mesa	\$1,207,911	\$1,236,223	+\$28,313
Southwest Ambulance	\$19,040	\$11,792	-\$7,248
Queen Creek	\$21,696	\$3,894	-\$17,802