

**TOWN OF WESTLAKE**  
**POSITION PAPER**  
**ON**  
**2013 UTILITY RATE MODIFICATION**

**January 28, 2013**

**INTRODUCTION**

Prior to presentation of a rate study findings, Town staff thought it would be helpful to provide the following information regarding several rate making issues.

There have been Council presentations the last several years over the determination of the utility rate charges for water and sewer services. As with previous rate studies, an objective outside consultant was hired to assist staff in determining the fiscal health of the Utility Fund and the rates charged to our customers. The consultant has determined the need exists to raise some parts of our rates, while maintaining the same charges for others, and restructure our water and sewer rate tiers.

However, the Town must also have a rate structure that is perceived as “fair” in determining who should pay what for this service.

Let us make two fundamental assumptions.

First, the provision of water and sewer *service* (capacity service) to each home/business location is a fundamental Town service that must be provided to each location regardless of usage. The costs of providing that capacity service should be appropriately included in the rates paid by each user. Just as the police services or school services are provided for those who require them but paid for by all taxpayers, so should capacity service be considered and delivered.

The second fundamental assumption is that the variable input that ratepayers do have some significant control over is the amount of water that they use for irrigation, and that it is not the responsibility of the Town to provide irrigation water without being appropriately reimbursed for the cost of providing that water to the user.

**CURRENT FINANCIAL POLICY**

The Town’s Utility Fund (water and sewer operations) is not a profit center. Rather, the budget for these operations reflect only the actual costs of meeting the many obligations, demands and mandates on the Town’s water and sewer systems consistent with the health, safety and expectations of the state, as well as, the Town’s utility customers and in accordance with the Town’s Financial Policy found in the adopted FY 2012-13 on page 261 (see Policy below).

ENTERPRISE FUND RATES. Utility rates and rate structures for water and sewer services will be constructed to target full cost of service recovery. Annually the Town will review and adopt water and sewer utility rates and a rate structure that generates revenue sufficient to fully cover operating expenses, meet the legal restrictions of all applicable bond covenants, provide for an adequate level of working capital, and recover applicable general/administrative costs.

The bottom line is that there is no free lunch. The Town in each fiscal year must raise and appropriate sufficient revenues to meet its budget for water and sewer operations. Deficit financing is not an option. By all objective measures, system costs like wholesale water and sewer charges are going to continue to rise. The process of setting the rates must be open and transparent to the Town's residents so that they can have confidence a proper job is being done in maintaining the system and setting rates.

### **CURRENT RATE MODEL**

The Town of Westlake's current water and sewer rate system is comprised of two separate charges: fixed and variable costs. The monthly minimum charges assessed to each account are meant to cover the fixed costs associated with owning and operating the system. Variable charges reflect the consumption charge and vary based on the amount of water the customer consumes. The increasing block rate varies based on the consumption of water by a customer. This methodology is utilized by an overwhelming majority of municipalities in the D/FW Metroplex and is generally considered by all state and federal agencies to be a conservation promoting method since it is intended to send a pricing signal to customers to use less water.

1. Fixed Costs/Capacity Services: First, the Town delivers to every home and business (ignoring some minor exceptions) capacity for water delivery and wastewater removal; can be referred to this as the "Capacity Services." They include the installation and maintenance of infrastructure (water and sewer mains, fire hydrants, meters, water tower and so on). Capacity services are a public good, much the same as the delivery of police protection, drivable roadways, and educational services. Every user must have available to their property connections to water and sewer pipes, infrastructure for actual water use, as well as hydrant availability for fire protection. The monthly minimum should include the capacity services. Even if a home is unoccupied for a year, the infrastructure costs to be able to deliver water and sewer services do not go away. The daily charge needs to cover the capacity service costs.
2. Variable Costs/Delivery Services: In addition to the fixed costs, the Town arranges for and provides the actual delivery of clean water and the removal and treatment of wastewater from the residents and commercial customers (again, ignoring some minor exceptions). Variable charges would include the increased amount of water purchased or wastewater treated, electricity used, accelerated infrastructure depreciation, and repair costs.

## PROPOSED RATE AND MODEL CHANGES

The proposed rate changes will create a 10% difference between commercial and residential accounts which is contrary to the existing rate philosophy; residential and commercial rates are the same. Based on the current rate study, which included a comprehensive analysis of the Town's usage patterns and service demand levels, the 10% difference between residential and commercial is warranted due to:

- An average commercial account's water consumption is approximately 4 times greater than an average residential account, which increases our peak charges.
- An average commercial account's sewer usage is approximately 1 ½ times greater than an average residential account.
- Commercial accounts require more staff time on a per account basis due to meter size, type, and complexity (i.e. integration into the Town's SCADA system).
- Larger meters typically found on commercial accounts are costlier to test and maintain.
- Due to the volumes, commercial meters must be tested and/or replaced 3 times more often than a residential meter. A meter's useful life is affected by age, type, and the volume of water that flows through it.

### Residential

- Base water and base wastewater rates will not change
- Wastewater rate will increase, from \$4.00 to \$4.85, approximately 23%
- Water volume tiers (consumption categories) will be reconfigured

### Commercial

- Base water and base wastewater rates will increase to be 10% more than residential
- Water volume tiers (consumption categories) will be reconfigured
- Water and wastewater volume rates will increase to be 10% more than residential

## ALTERNATIVE RATE MODELS

1. Flat Charge. The simplest rate schedule of all, where customers are charged a fixed or "flat" charge each month regardless of the amount of water they use. Flat charges may be determined based on parameters such as yard size, building square footage, etc. This schedule is typically only used by a utility with customers that are not metered.
2. Uniform Rate. A simple volume based rate schedule. Customers on a uniform rate are charged a constant price for all usage.
3. Declining Block Rate. Customers are charged lower rates for water with increasing use. This rate schedule is often considered "anti-conservation" and is most viable in an area with plenty of water available. The example below shows a two block rate schedule with the price of water declining as usage increases.
4. A Seasonal Rate. Most commonly a peak or summer period is identified and rates are increased during this period to reflect the higher costs of meeting peak demands. At the

end of the period rates are reduced to their off-peak or winter rates. Seasonal rates are sometimes combined with increasing block rates so they are not mutually exclusive of other rate structures.

## **CONCLUSION**

Westlake's adopted Financial Policy states that water and wastewater rates "will be constructed to target full cost of service recovery." Rates from users are expected to be in proportion to their use of the system, thereby recognizing the impact of each class on system facilities and operations. Staff believes strongly that full cost recovery pricing is critical to provide adequate revenue to the Utility Fund.

Current Water and Sewer Revenues are underperforming (revenues < expenditures) by approximately 3% and 23% respectively. The proposed changes will increase water revenues to 9% above expenditures. Sewer revenues will increase; however, revenue would still be underperforming by 9%.

The Town's wholesale wastewater provider, Trinity River Authority, increased treatment costs approximately 23%, from \$3.902/1,000 gallons to \$4.788/1,000 gallons.

Town staff recommends the proposed restructuring of the water and sewer rates and having a 10% differentiation between residential and commercial customers to reflect financial and user realities and equities between these two customer classes.

With the proposed rate changes:

The average residential water charge (45,000 gallons) will be reduced by approximately 2%.

The average residential sewer charge (20,000 gallons) will increase by approximately 12%.

The average commercial water charge (251,000 gallons) will be increased by approximately 5%.

The average commercial sewer charge (33,000 gallons) will be increased by approximately 30%.