



CITY COUNCIL CONSIDERATION ITEM
CITY OF FAIR OAKS RANCH, TEXAS
June 1, 2023

AGENDA TOPIC: Consideration and possible action approving a structure for wastewater service rates and fees

DATE: June 1, 2023

DEPARTMENT: Public Works Department

PRESENTED BY: Grant Watanabe, P.E., Director of Public Works & Engineering Services

PURPOSE:

After many budget cycles, quarterly budget updates and the recent Utility Rate Study, it has become apparent that the wastewater utility does not generate enough revenue to cover its full cost of service. The City’s consultant evaluated several structure and rate scenarios. Staff seeks City Council direction to advance a wastewater rate structure for the FY 2023-24 Budget.

INTRODUCTION/BACKGROUND:

In early 2021, the City engaged a consultant to conduct a rate study for Fair Oaks Ranch Utilities. Rate studies are conducted as a best practice to ensure that a utility’s financial health is maintained and that the utility is well prepared to meet its future financial needs. Our study included a financial policy review, development of a financial planning model, a cost-of-service analysis and design of customized rate structure options to meet our City’s unique needs.

As part of the rate study process, the Council appointed a volunteer Rate Advisory Panel to represent various interests and customer classes (combined water/wastewater, water only, residential, commercial) throughout our community. The consultant held four meetings with the Panel during the summer and fall of 2021 to gain input on the rate structure options.

This effort was put on hold from March 2022 to April 2023 while a separate Wastewater Treatment Plant (WWTP) Site Feasibility Study was conducted. That study is now complete, and a multi-phase expansion of the existing WWTP is planned instead of construction of a new greenfield WWTP.

At the March 3, 2022 and July 7, 2022 City Council meetings, a summary of existing and proposed wastewater rate scenarios was presented:

	Existing	Scenario 1	Scenario 2	Scenario 3
Service Availability (Base Charge)	\$40.86	\$62.99	\$28.94	\$28.94
Fees	\$6.47	\$6.47	\$6.47	\$0.05
Volumetric Rate (per 1000 gallons)			\$6.00	\$7.09

Each scenario was designed to cover the current wastewater cost of service. In scenario 1, the flat fee structure is maintained but the monthly rate is increased from \$47.33 to \$69.46. In scenarios 2 and 3, a volumetric rate is established based on average winter water usage (December, January, February). In scenario 2, the monthly bill for the average customer would be \$71.41 (assuming 6,000 gallons/month). In scenario 3, the monthly bill for the average customer would be \$71.53 (assuming 6,000 gallons/month). In both scenarios 2 and 3, customers who generate less wastewater than average will pay less, and those customers than generate more wastewater than average will pay more.

At the April 6th Council meeting, Staff presented estimated bill impacts related to the WWTP Phase 1 Expansion. With an estimated construction cost of \$5 million, this would increase the debt service fee by \$13.26 per month under Scenarios 1 and 2. Under Scenario 3, the debt service fee would be rolled into the volumetric rate. As a result, the volumetric fee would need to be adjusted from \$7.09 to \$9.40 per 1,000 gallons.

To advance a wastewater rate update for FY 2023-24, the Council must select a rate scenario to be included in the Proposed Budget. Staff will propose an ordinance to amend the appropriate fee schedule as part of the Budget. Staff will also generate a public outreach plan to include bill inserts and billing statement notifications, website and social media updates, a video clip, and an online bill calculator. Staff recommends Scenario 2 because it:

1. Provides a balance between fixed and variable charges (no other utilities charge a flat fee across all customers),
2. Encourages conservation by charging low users less and high users more,
3. Ensures debt service payments can be made if volumetric revenue falls (debt service fee maintained), and
4. Does not require a rate change whenever new debt is issued.

In addition, Scenario 2 was supported by the Rate Advisory Panel.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

- Supports Priority 1.4.10 of the Strategic Action Plan to Develop a Sustainable and Equitable Wastewater Rate
- Scenario 2 meets the top ranked pricing objectives identified by Council and the Rate Advisory Panel at the beginning of the Rate Study.
 - Revenue Stability – Provides balance between fixed and variable charges, generates stable and predictable revenue to meet operating and capital reserve requirements, bond covenants and other financial requirements.
 - Customer Impact – While there is no impact to water customers, there will be an impact to wastewater customers. Since wastewater rates should cover the cost of service, this is unavoidable.
 - Equity between Classes – Water customers will no longer subsidize wastewater customers; each class covers their own cost of service.
 - Conservation Pricing Signal – Implementing a volumetric rate encourages conservation by charging low users less and high users more.

LONG-TERM FINANCIAL & BUDGETARY IMPACT:

Although all scenarios evaluated generate enough revenue to cover the cost of service, Scenario 2 best meets the pricing objectives mentioned above.

LEGAL ANALYSIS:

N/A

RECOMMENDATION/PROPOSED MOTION:

I move to approve Scenario 2 of the Utility Rate Study which establishes a wastewater service availability charge, a volumetric rate per 1,000 gallons as determined by average winter consumption and maintains all current fee types.