RAFTELIS

City of Fair Oaks Ranch, TX

Water/Wastewater/Reuse Rate Study Council Presentation

March 3, 2022

For Council to Consider Today

1

Rate Design Scenarios

Consider Rate Design Scenarios

2

Advisory Panel Recommendation

Consider Scenario 2 as recommended by Advisory Panel

Will seek Council approval for rate design (May)

3

Rate Comparison

Review Scenario 2 against other utilities

4

Communication Plan

Next steps for Communication

Review

Project Timeline

FEB - APR

Task 1

Project Initiation / Kick-off Meetings

MAY - JUN

Task 2 / Task 3

- **Brief the Council**
- **Conduct Influencer Interviews**
- **Appoint Advisory Panel**
- **Determine Pricing Objectives**
- **Develop Financial Plan for Budget Use**

JUL - AUG

Task 3 / Task 4

- **Finalize Financial Plan and Policies and Cost of Service**
- **Conduct Advisory Panel Meetings #1 and #2**

SEP - NOV

Task 5

- **Present Financial Plan Results to Council**
- **Complete Rate Design**
- **Conduct Advisory Panel Meetings #3 and #4**
- **Complete Communication Plan**

MAR 2022

Task 5

- **Present Rate Design and Final Report to Council**

MAY 2022

Final

- **Rate Recommendation Presentation to Council**

Financial Plan findings based on Existing Rates

1

Combined Utility

FY 2022 and current forecast revenue is **sufficient** to cover costs

2

Water Utility

Water revenue is **sufficient** to cover current costs

3

Wastewater Utility

FY 2022 revenues **sufficient** to cover costs; forecast is **insufficient**

Pricing Objectives

Council Ranking of Pricing Objectives

Classification	Rank	Objective	Score
Essential	1	Revenue Stability	24
	2	Customer impact	18
Very Important	3	Equity between classes	15
	3	Conservation pricing signal	15
Important	5	Essential use affordability	14
	5	Demand management	14
	7	Equity within a class	13
Least Important	8	Customer Understanding	11
	9	Ease of adminstration/implementation	10
	10	Equity between existing and new customers	9

Panel Ranking of Pricing Objectives

Classification	Rank	Objective	Score
Essential	1	Equity between classes	24
	2	Customer impact	18
Very Important	3	Revenue Stability	15
	3	Conservation pricing signal	15
Important	5	Equity within a class	5
	6	Essential use affordability	4
	7	Demand management	3
Least Important	7	Customer Understanding	3
	7	Ease of adminstration/implementation	3
	10	Equity between existing and new customers	0

Water Rate Design Scenarios

Residential Water Rate Scenarios

Scenario 1 (Status Quo)*

Maintain existing rate structure for Service Availability Charge and Volumetric Fees.

Water Service Fees based on Oct. 2021 adoption (Surface Water Fee, TCEQ Fee, Debt Service Fee and Capital Reserve Fund Fee)

Scenario 2

Adjust service availability charges to reflect industry meter factors

Maintain all water service fees, adjust volumetric tiers by charging for all use, adjust tier levels

Scenario 3

Similar to Scenario 2 except eliminate Debt Service Fee and Capital Reserve Fund Fee**

*No change to existing rate structure and existing rates, other than recently adopted water service fees

**Does not eliminate Capital Reserve Fund

Commercial Water Rate Scenarios

Scenario 1 (Status Quo)*

Maintain existing rate structure for Service Availability Charge and Volumetric Fees.

Water Service Fees based on Oct. 2021 adoption (Surface Water Fee, TCEQ Fee, Debt Service Fee and Capital Reserve Fund Fee)

Scenario 2

Adjust service availability charges to reflect pricing by meter size

Maintain all water service fees; Adjust volumetric tiers by charging for all use,

Adjust tier levels

Scenario 3

Similar to Scenario 2 except eliminates Debt Service Fee and Capital Reserve Fund Fee**

*No change to existing rate structure and existing rates, other than recently adopted water service fees

**Does not eliminate Capital Reserve Fund

How do these scenarios meet pricing objectives?

	Equity	Revenue Stability	Minimizes Bill impacts	Incentivizes Wise Use
Existing (Status Quo)	✗	✓	✓	✗
Scenario 2	✓	✓	✗	✓
Scenario 3	✓	✓	✗	✓

Service Availability Charges

Service Availability Charges			
Meters	Scenario 1 (Status Quo)	Scenario 2	Scenario 3
3/4"	$ 26.48	$ 20.00	$ 20.00
1"	$ 28.01	$ 33.40	$ 33.40
1.5"	$ 41.02	$ 66.60	$ 66.60
2"	$ 48.33	$ 106.60	$ 106.60
3"	$ 62.94	$ 200.00	$ 200.00
4"	$ 94.42	$ 333.40	$ 333.40

Water Service Fees

Water Service Fees			
Fee	Scenario 1 (Status Quo)	Scenario 2	Scenario 3
Surface Water	$ 14.25	$ 14.25	$ 14.25
TCEQ	$ 0.20	$ 0.20	$ 0.20
Debt Service	$ 7.43	$ 7.43	$ -
Capital Reserve	$ 6.72	$ 6.72	$ -
Total	$ 28.60	$ 28.60	$ 14.45

Volumetric Rates- Residential

Residential Volumetric Rates (In KGal)					
Scenario 1 (Status Quo)		Scenario 2		Scenario 3	
0-6	$ -	0-7	$ 2.17	0-7	$ 2.95
6-12.5	$ 3.81	7-17	$ 2.82	7-17	$ 3.84
12.5-25	$ 4.76	17-30	$ 6.51	17-30	$ 8.86
25-50	$ 7.14	30-50	$ 8.67	30-50	$11.81
50-75	$ 10.72	50+	$10.84	50+	$14.76
75-100	$ 16.07				
100+	$ 24.11				

Volumetric Rates- Commercial

Commercial Volumetric Rates (In KGal)					
Scenario 1 (Status Quo)		Scenario 2		Scenario 3	
0-6	$ -	0-10	$3.28	0-10	$3.84
6-50	$ 3.81	10-30	$4.26	10-30	$4.99
50-100	$ 4.76	30+	$6.55	30+	$7.67
100-150	$ 7.14				
150+	$10.72				

Wastewater Rate Design Scenarios

Review Wastewater Rate Scenarios

Scenario 1 (Status Quo)

Maintain existing Rate Structure, including all Wastewater Service Fees (TCEQ Fee, Debt Service Fee and Capital Reserve Fund Fee)

Scenario 2

Base rate is increased to cover actual cost of billing and meters

Maintains all Wastewater Service Fees

Adds a Uniform Rate for Average Winter Consumption

Scenario 3

Similar to Scenario 2 except eliminates Debt Service Fee and Capital Reserve Fund Fee*

*Does not eliminate Capital Reserve Fund

How do these scenarios meet pricing objectives?

	Equity	Revenue Stability	Minimizes Bill impacts
Existing (Status Quo)	✗	✓	✗
Scenario 2	✓	✓	✗
Scenario 3	✓	✓	✗

Recommend: Rates based on Average Winter Consumption

- Method of billing wastewater
- Representative of Indoor Water Use
- Calculate average of water consumption in the months of December, January and February
- Assumes Outdoor Water Usage is significantly reduced in the Winter months of December, January and February
- Allows utilities to bill customers in proportion to the amount of wastewater they generate which enters the sewer system

Wastewater Rates

Wastewater Rates				
Scenarios	Existing	Scenario 1 (Status Quo)	Scenario 2	Scenario 3
Service Availability	$ 42.08	$ 62.99	$ 28.94	$ 28.94
Fees	$ 6.47	$ 6.47	$ 6.47	$ 0.05
Volumetric (Per Kgal)	$ -	$ -	$ 6.00	$ 7.09

- Volume based on Average Winter Consumption of December, January and February
- Rate Increase considers O&M reduction of $350,000 for Sludge Handling

Bill Impacts

Residential Bill Impacts Summary

	Existing	Scenario 1 Status Quo (Dollar change)	Scenario 2 (Dollar change)	Scenario 3 (Dollar change)
Low Residential (4,000 gallons)	$103.63	+21	+13	-.03
Ave Residential (8,000 gallons)	$111.25	+21	+39	+33
High Residential (15,000 gallons)	$140.30	+21	+71	+81

Commercial Bill Impacts Summary

	Existing	Scenario 1 Status Quo (Dollar change)	Scenario 2 (Dollar change)	Scenario 3 (Dollar change)
Low Commercial (8,000 gallons)	$111.25	+21	+47	+40
Ave Commercial (16,000 gallons)	$141.73	+21	+97	+103
High Commercial (30,000 gallons)	$195.07	+21	+187	+219

Bill Impacts- Low Residential

Low Residential User						
4k Gallon Winter Usage and 8k Summer Usage						
	Winter Bill			Summer Bill		
Scenario	Water	Sewer	Total	Water	Sewer	Total
Existing	$ 55.08	$ 48.55	$103.63	$ 62.70	$ 48.55	$111.25
Scenario 1 (Status Quo)	$ 55.08	$ 69.46	$124.55	$ 62.70	$ 69.46	$132.17
Scenario 2	$ 57.28	$ 59.40	$116.67	$ 66.60	$ 59.40	$126.00
Scenario 3	$ 46.26	$ 57.34	$103.60	$ 58.96	$ 57.34	$116.30

On average, 26% of customers use equal to or less than 4,000 gallons and 52% use equal to or less than 8,000

Bill Impacts- Average Residential

Average Residential User						
8k Gallon Winter Usage and 17k Summer Usage						
	Winter Bill			Summer Bill		
Scenario	Water	Sewer	Total	Water	Sewer	Total
Existing	$ 62.70	$ 48.55	$111.25	$101.27	$ 48.55	$149.82
Scenario 1 (Status Quo)	$ 62.70	$ 69.46	$132.17	$101.27	$ 69.46	$170.73
Scenario 2	$ 66.60	$ 83.38	$149.98	$ 91.97	$ 83.38	$175.36
Scenario 3	$ 58.96	$ 85.69	$144.65	$ 93.51	$ 85.69	$179.20

On average, 52% of customers use equal to or less than 8,000 gallons and 74% use equal to or less than 15,000

Bill Impacts- High Residential

High Residential User						
15k Gallon Winter Usage and 30k Summer Usage						
	Winter Bill			Summer Bill		
Scenario	Water	Sewer	Total	Water	Sewer	Total
Existing	$ 91.75	$ 48.55	$140.30	$175.05	$ 48.55	$223.60
Scenario 1 (Status Quo)	$ 91.75	$ 69.46	$161.21	$175.05	$ 69.46	$244.51
Scenario 2	$ 86.33	$125.36	$211.69	$176.54	$125.36	$301.90
Scenario 3	$ 85.83	$135.30	$221.13	$208.67	$135.30	$343.97

On average, 74% of customers use equal to or less than 15,000 gallons and 92% use equal to or less than 30,000

Bill Impacts- Low Commercial

Low Commercial User						
8k Gallon Winter Usage and 15k Summer Usage						
	Winter Bill			Summer Bill		
Scenario	Water	Sewer	Total	Water	Sewer	Total
Existing	$ 62.70	$ 48.55	$ 111.25	$ 89.37	$ 48.55	$ 137.92
Scenario 1 (Status Quo)	$ 62.70	$ 69.46	$ 132.17	$ 89.37	$ 69.46	$ 158.84
Scenario 2	$ 74.81	$ 83.38	$ 158.19	$ 102.64	$ 83.38	$ 186.03
Scenario 3	$ 65.15	$ 85.69	$ 150.84	$ 97.77	$ 85.69	$ 183.46

On average, 50% of customers use equal to or less than 8,000 gallons and 64% use equal to or less than 15,000

Bill Impacts- Average Commercial

Average Commercial User 16k Gallon Winter Usage and 30k Summer Usage						
	Winter Bill			Summer Bill		
Scenario	Water	Sewer	Total	Water	Sewer	Total
Existing	$ 93.18	$ 48.55	$ 141.73	$ 146.52	$ 48.55	$ 195.07
Scenario 1 (Status Quo)	$ 93.18	$ 69.46	$ 162.65	$ 146.52	$ 69.46	$ 215.99
Scenario 2	$ 106.90	$ 131.36	$ 238.26	$ 166.51	$ 131.36	$ 297.87
Scenario 3	$ 102.75	$ 142.39	$ 245.15	$ 172.60	$ 142.39	$ 314.99

On average, 64% of customers use equal to or less than 15,000 gallons and 79% use equal to or less than 30,000

Bill Impacts- High Commercial

High Commercial User						
30k Gallon Winter Usage and 60k Summer Usage						
	Winter Bill			Summer Bill		
Scenario	Water	Sewer	Total	Water	Sewer	Total
Existing	$ 146.52	$ 48.55	$ 195.07	$ 270.32	$ 48.55	$ 318.87
Scenario 1 (Status Quo)	$ 146.52	$ 69.46	$ 215.99	$ 270.32	$ 69.46	$ 339.79
Scenario 2	$ 166.51	$ 215.31	$ 381.82	$ 363.03	$ 215.31	$ 578.34
Scenario 3	$ 172.60	$ 241.62	$ 414.22	$ 402.84	$ 241.62	$ 644.46

On average, 79% of customers use equal to or less than 30,000 gallons and 93% use equal to or less than 60,000

Advisory Panel Recommendation

Advisory Panel Recommendations

Rate Structure Scenarios

- Scenario 2 – Rate Structure changes and maintain Service Fees, including Average Winter Consumption
- Maximize use of excess cash for cash-funding capital

Communication

- Structured communication that includes:
  - Reasons for increases
  - Clear descriptions of changes

Future Reuse Pricing Options

- Price it competitively with potable water
- Price it to cover cost of treatment

Other Advisory Panel Considerations – Use of Water Surplus

Reduce Water Rates

- Rates set to meet revenue requirement
- Capital Reserve Fund contribution limited to amount recovered through the Capital Reserve Fee
- Maintain adequate Operating Reserve

Maintain Water Rates

- Contribute additional amount to Capital Reserve to Cash-Fund more capital
  - Reduces proposed debt service

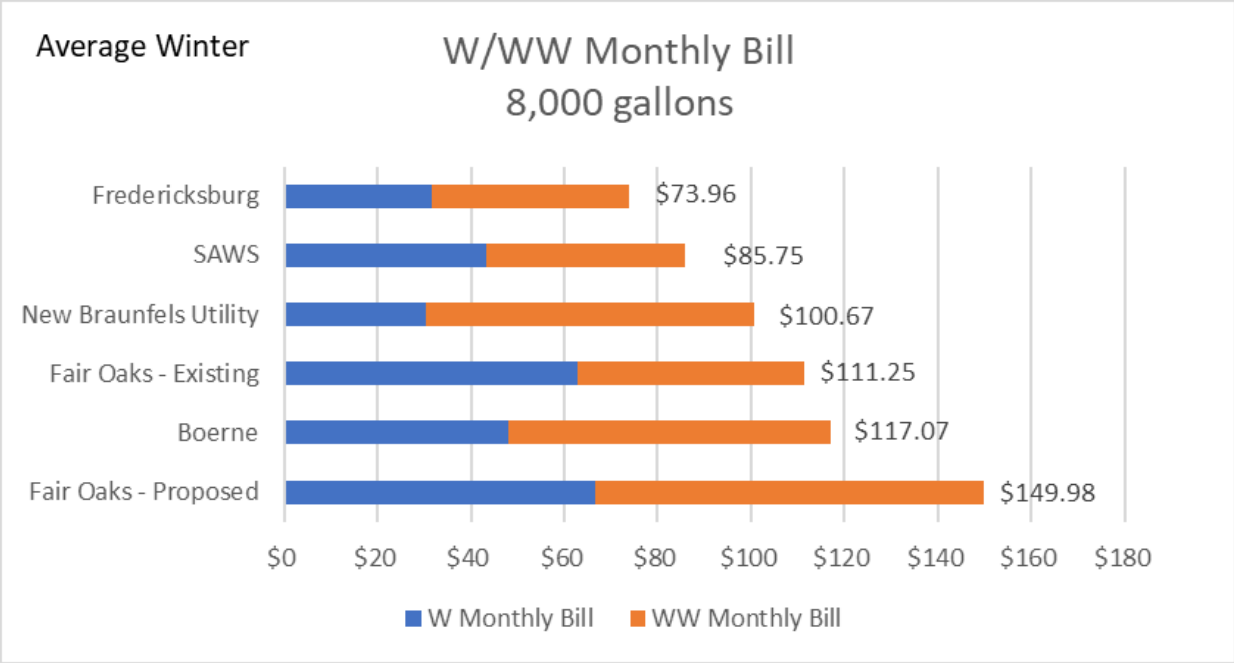
Maintain Water Rates with GF* Contribution

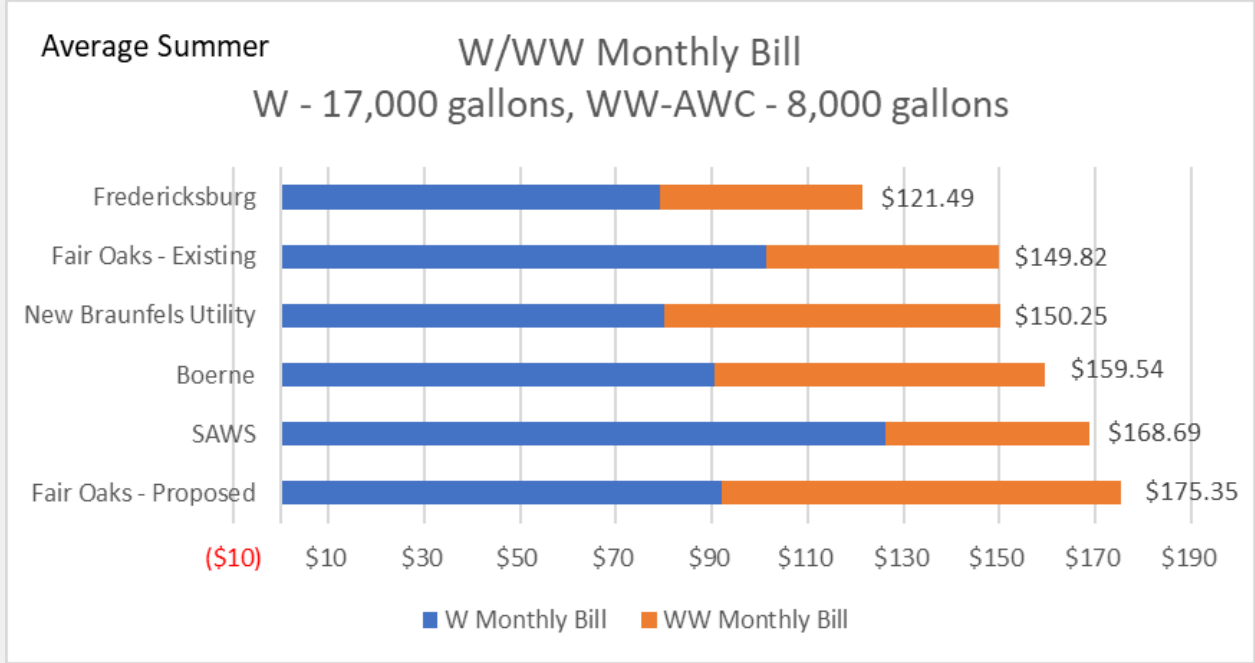
- Contribute additional amount to Capital Reserve
- Consider contribution to General Fund based on Return on Investment

*General Fund

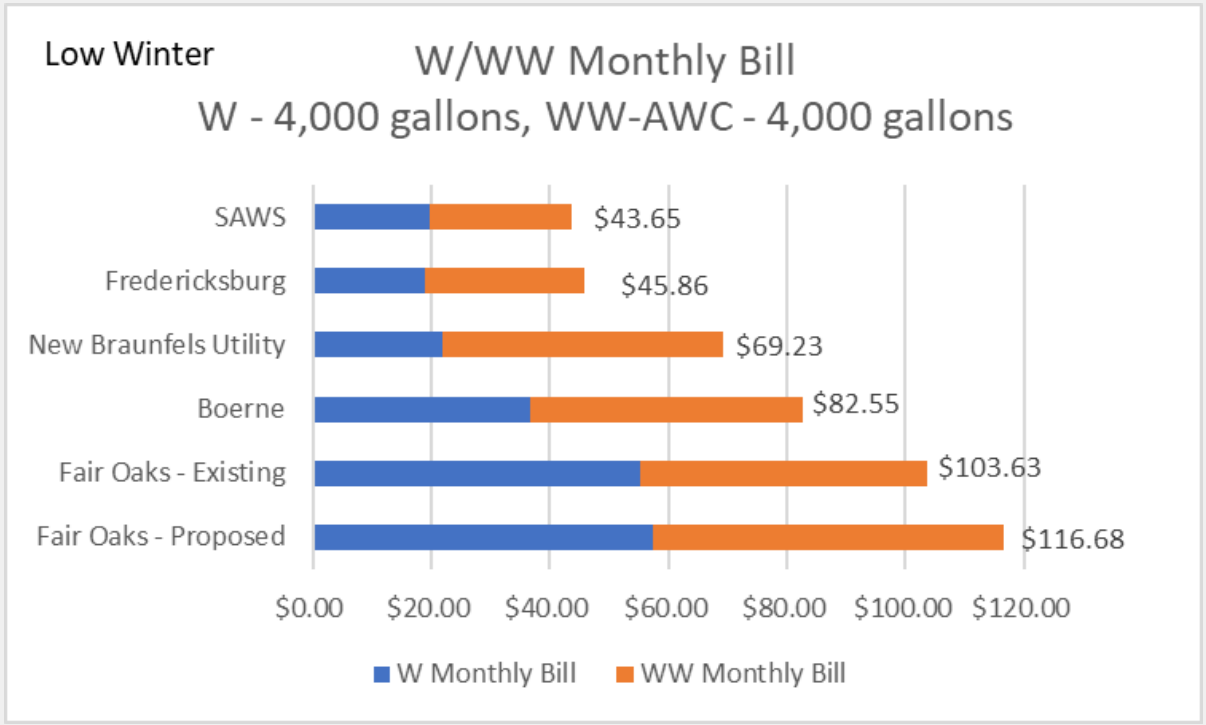
Residential Rate Comparisons

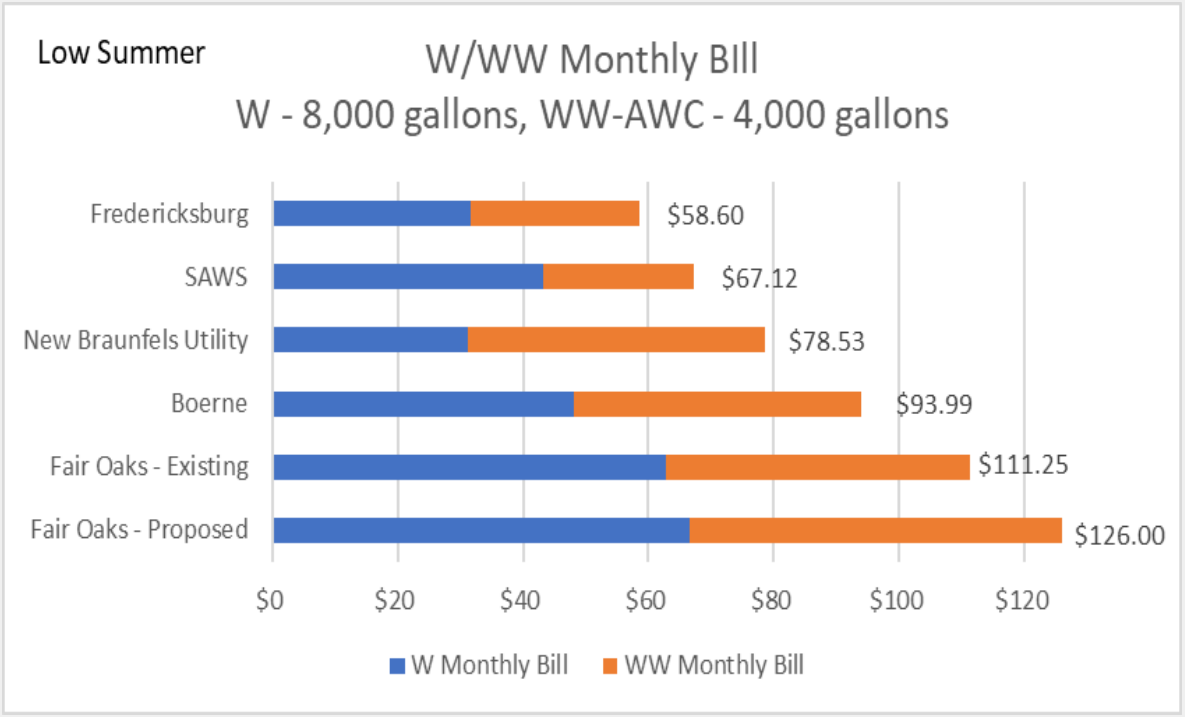
Average Winter / Summer Consumption – 8,000 gallons / 17,000 gallons



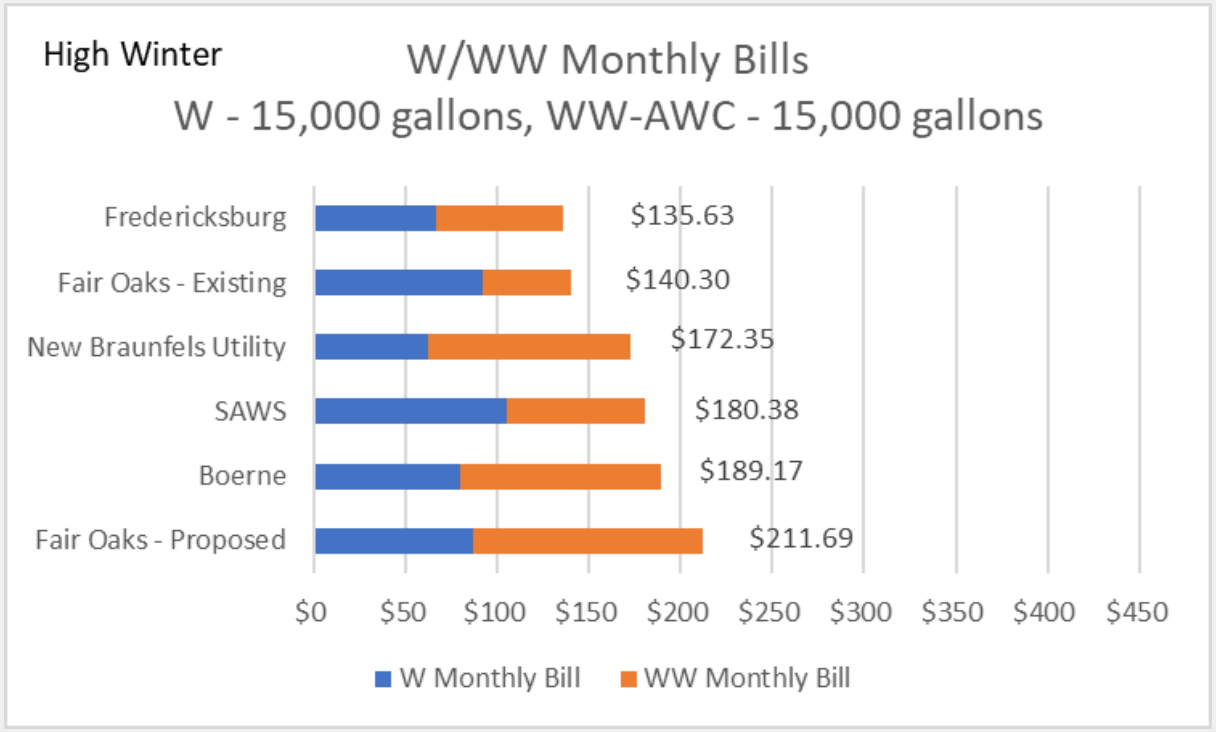


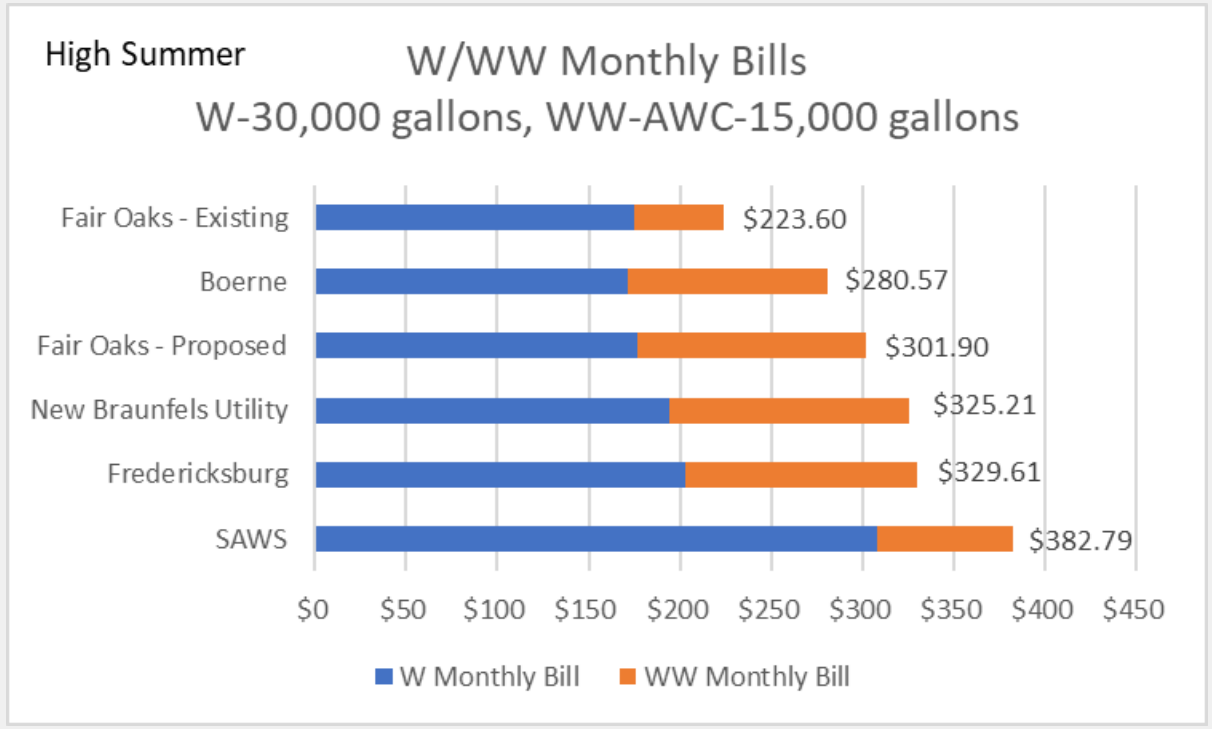
Low Winter / Summer Consumption – 4,000 gallons / 8,000 gallons



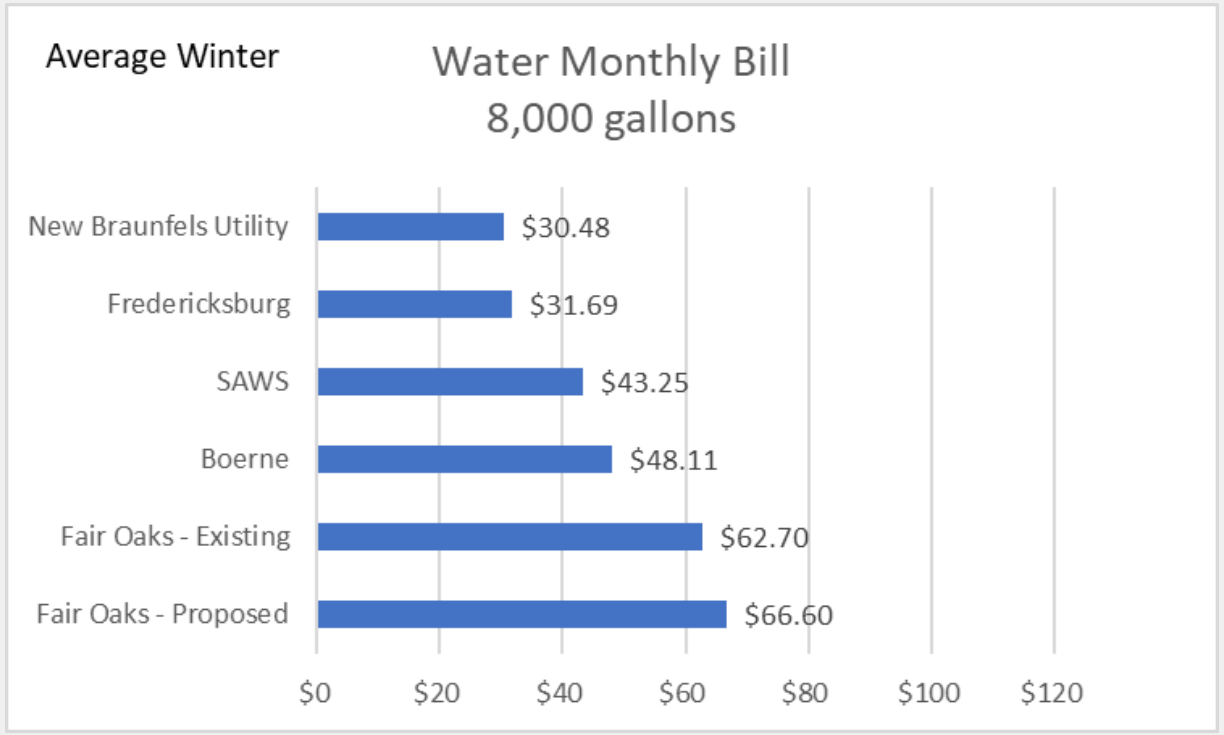


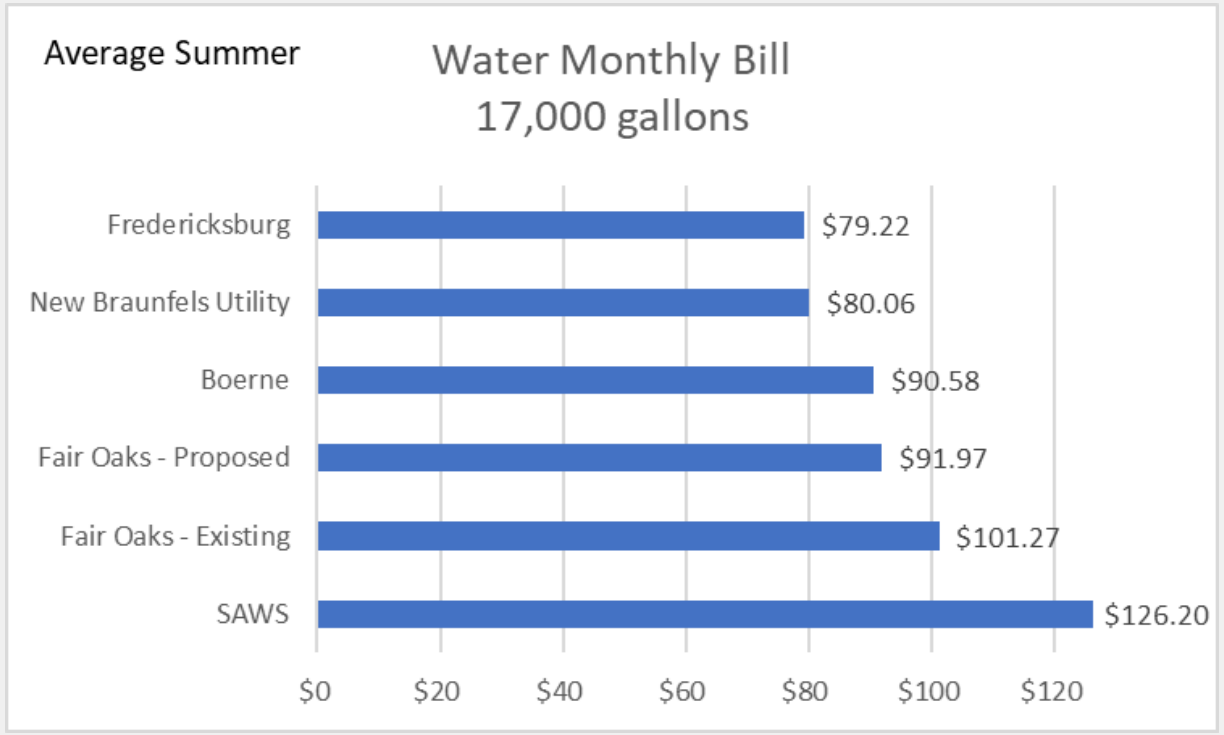
High Winter / Summer Consumption – 15,000 gallons / 30,000 gallons



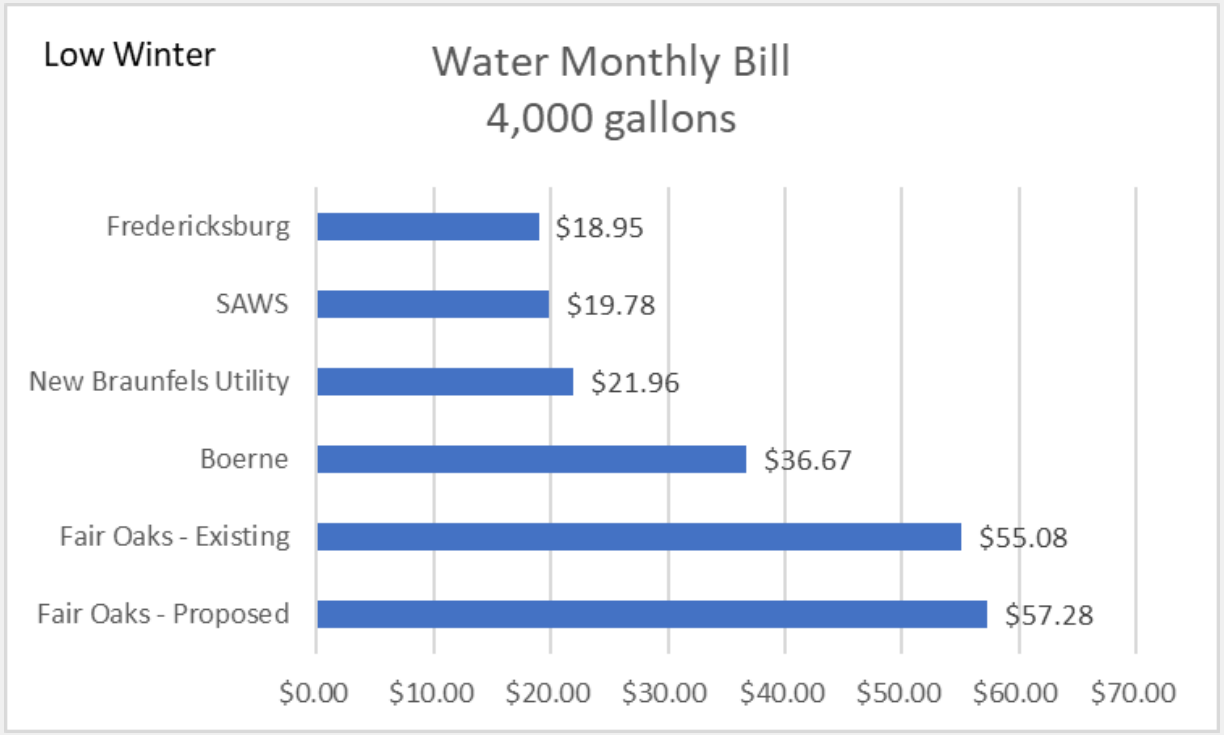


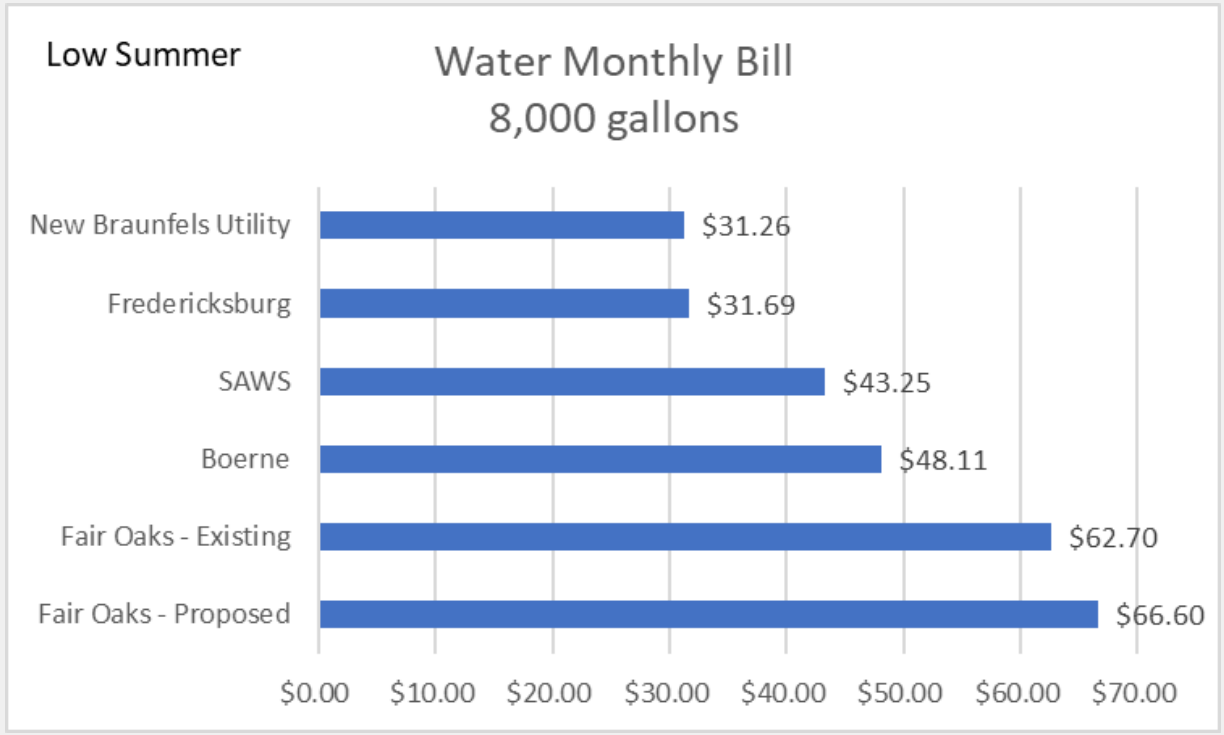
Water Only Average Winter / Summer Consumption 8,000 gallons / 17,000 gallons



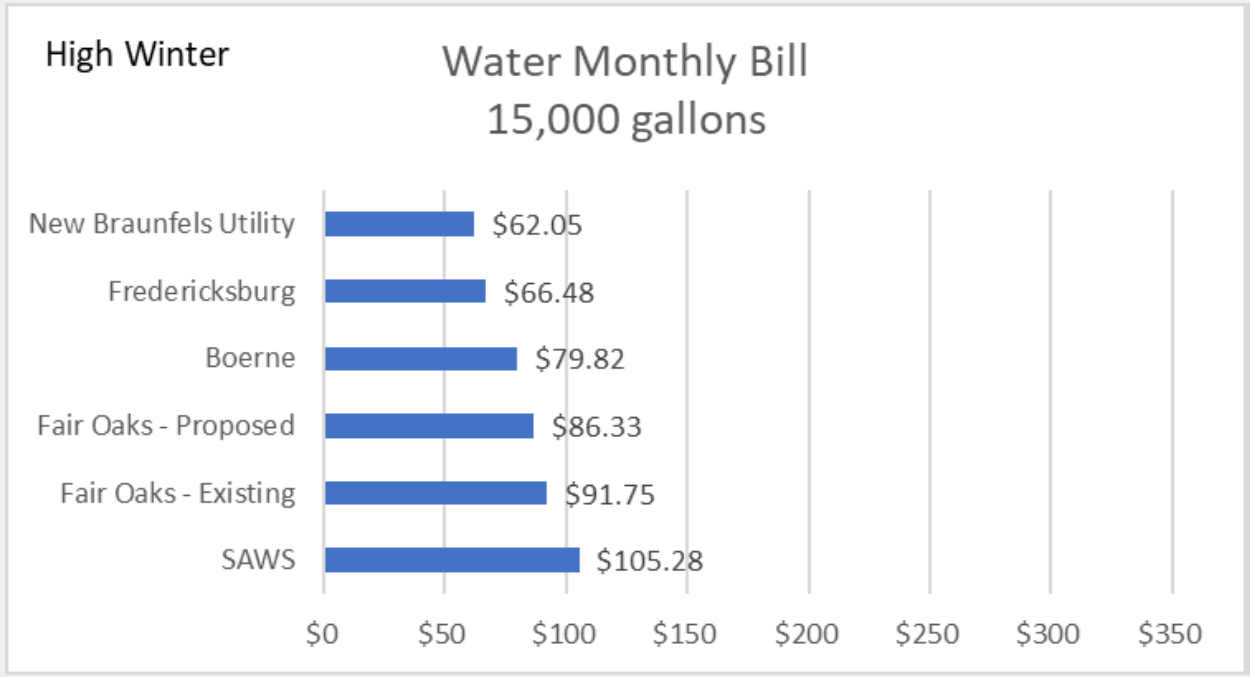


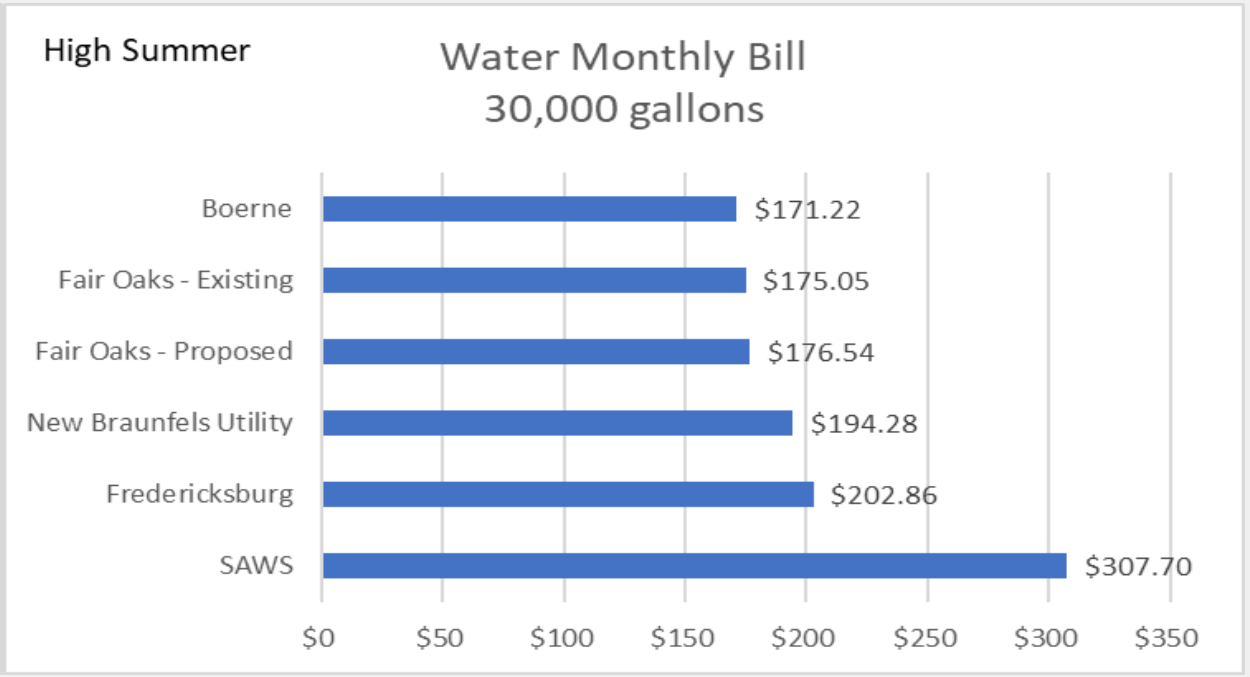
Water Only Low Winter / Summer Consumption 4,000 gallons / 8,000 gallons





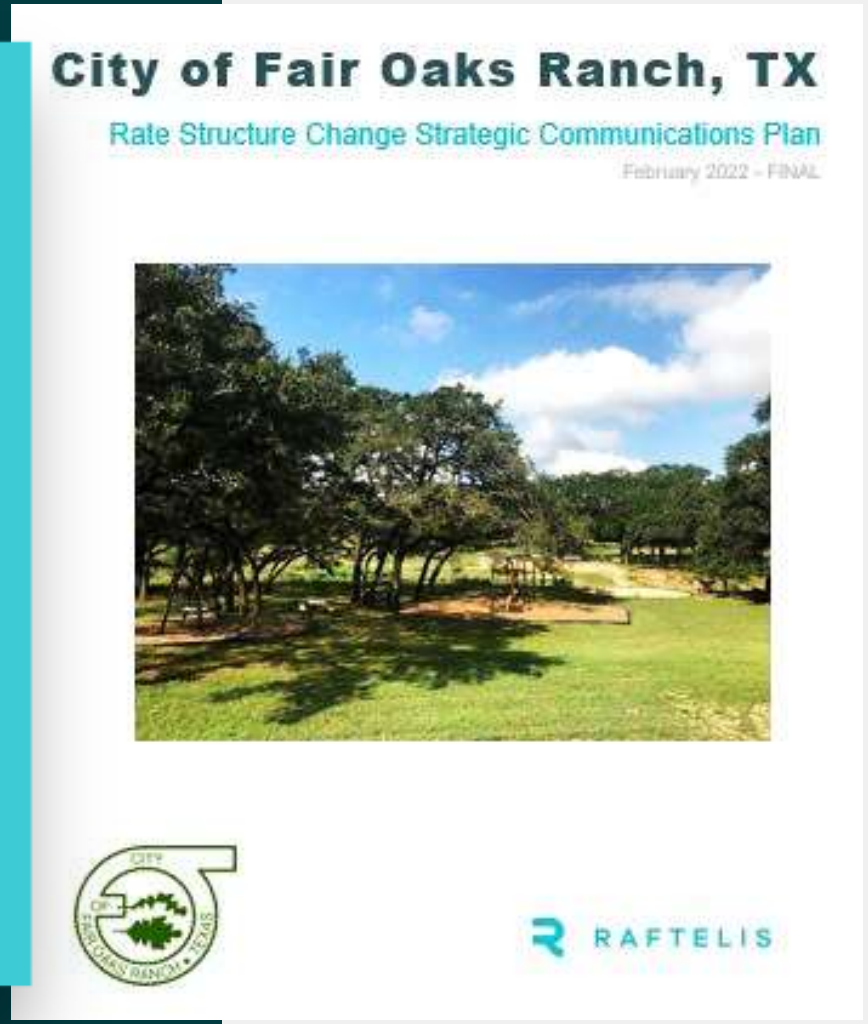
Water Only High Winter / Summer Consumption 15,000 gallons / 30,000 gallons





Communication Plan

Communications Plan



Goals and Objectives

Key channels to monitor customer feedback and sentiment are not inundated with questions and concerns.

There appears to be solid understanding of the changes needed and comments made online and in person are factual and accurate.

Rate structure and rate recommendations made by Raftelis are supported by residents, City Staff and adopted by City Council.

Insights and Challenges Identified from Interviews and Panel Members

- **Some confusion as to how water and wastewater services are funded**
  - Messaging to clarify service is funded through rates, not taxes
- **Customers focus on the "Bottom Line"; may not really understand how the bill is "built"**
  - Messaging to be simple and clear; Focus on how rates are set.
- **A desire for minimal impacts to rates, awareness of FOR rates vs neighbors**
  - Messages will explain trade offs between pricing objectives; efforts made to minimize impacts; the factors (such as service area size) that influence rates.
- **A concern that wastewater costs are being subsidized by water customers**
  - Messages to explain how the new rate structure addresses this issue to improve equity among customer groups
- **A perception of that utility investments promote growth**
  - Messages to address that **i**nfrastructure investment decisions are made after city policy decisions are made about growth

Strategies for empowering staff and Council and communicating with customers (March-May)

Channel	Audience
Meetings (using PPT)	Staff and Council
Talking points (via handout or email)	Staff and Council
Open House Events (drop-in format)	Customers
HOA/Civic Group Presentations	Customers
Website	Customers
Postcard and Mayor’s News Article	Customers
Fact sheet	Customers
Social media	Customers
Video	Customers

Strategies for communicating with customers (After Council decision)

Channel	Audience
Rate calculator	**Customers**
Meetings (using PPT)	Staff and Council
Talking Points (via handout or email)	Staff and Council
HOA/Civic Group Presentations	Customers
Website	Customers
Postcard and Mayor’s News Article	Customers
Mock Bill / Notification on Billing Statements	Customers
Local Media/HOAs (articles/news release)	Customers
Social Media	Customers

Communications Timeline


Q&A