

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: July 22, 2025

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Finance Director

Topic: Staff Direction/Water Rate Study Options

PURPOSE

Staff is requesting Board direction to complete the preparations required to implement one of the Water Rate Study design options that was presented at the July 8, 2025 Board meeting. Three (3) options were presented by Burns & McDonnell of Chicago, IL. Both staff and their consultant are recommending to move forward with Option 2. Once final direction is received from the Board, Burns & McDonnell will prepare the final Water Rate Study report.

PROCESS

The Water Rate Study

The purpose of a water rate study is to determine whether the charges to customers for water and sewer services are sufficient to cover the ongoing cost of operations and maintenance, upcoming needed replacements, debt service, and necessary capital improvements. A water rate study utilizes historical and present data, future capital needs, the Public Works budget, and other key pieces of information to determine the rate requirements to successfully operate, maintain, and sustain the Village's water utility service. The objective of the study is to identify a rate plan that will adequately fund water operations, debt service, system improvements, and capital costs, while working to ensure that the rates and potential increases are not injurious to Village customers.

On May 28, 2024, the Board of Trustees accepted a proposal from Burns & McDonnell for professional services to conduct a comprehensive water rate study. The rate study is based on a comprehensive review of Homewood's water funds and budgets, customer classes (residential, commercial, industrial), current usage data, future planned growth, capital plan, lead service line replacements, water main replacements, and any other information deemed necessary.

Financial Plan Development

The first part of the water rate study was the Financial Plan Development, which is where the "need" is established. A 20-year financial plan forecasts the water utility's future operating and capital costs compared to projected revenues received from our existing rates. Future and prominent capital improvements include lead service line, new water tower construction, and

VILLAGE OF HOMEWOOD



water main replacements, as well as all other capital improvements the Village has identified. Funding strategies for the Lead Service Line Replacement (LSLR) program were reviewed, including the use of Illinois Environmental Protection Agency (IEPA) loans or a combination of IEPA loans and other sources such as bonds or cash funding from future rates.

As the Village's capital plan became more concrete, additional clarification was gained regarding the LSLR program, and Village staff began evaluating various funding options. This prompted a necessary revision of the financial plan to establish a solid baseline for presentation.

Financial Plan

The financial plan was presented at the April 22, 2025 Board of Trustees meeting. After much analysis, the metrics revealed that in order for the Village to meet its future funding needs, water revenues need to increase by 7.75% over the next nine (9) years. Of that 7.75%, the lead service line replacement alone requires a 3.25% increase per year.

Rate Design

The next step in the water rate study was for Burns & McDonnell to develop several rate designs that allow the Village to meet its ongoing operations and maintenance costs and capital needs without implementing injurious and unrealistic cost increases on water users.

Rate design is the process of creating the rate structure that will be used to recover ongoing operating and capital costs of the water system. Key components of rate design include:

- Customer classes (residential, commercial, industrial)
- Rate Structure Types
 - Uniform rates (same price per unit of water regardless of usage)
 - Tiered rates (higher prices per unit as usage increases)
- Fixed vs. Variable Charges

Rate Design Options

Three (3) rate design options were presented by Burns & McDonnell at the July 8, 2025 Board of Trustees meeting. All three (3) options increase the Village's water revenues by the 7.75% determined in the Financial Plan Development process.

Options Presented

1. **Option 1** has no change in rate structure or design and all portions of the bill for all customers increase by 7.75% across the board.
2. **Option 2** increases our fixed (flat) rate based on meter size which in turn slightly reduces the increase needed on the volumetric rate.
3. **Option 3** also increases the fixed rate based on meter size but also implements a block rate (i.e. tiered) system. This benefits lower use customers but also provides less revenue predictability as some customers may adjust their water usage to benefit from the lower rate in the block design.

VILLAGE OF HOMEWOOD

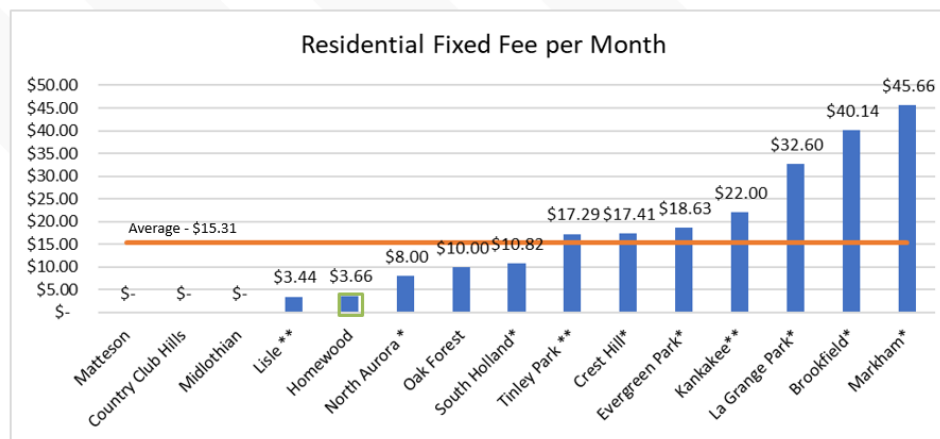


Staff's Recommendation with Support from Consultant

Staff is recommending **Option 2**. This option will create a more robust fixed fee based on meter size and maintain a consistent rate charged per 1,000 gallons used (volumetric rate) for both residential and non-residential customers.

Currently, the Village's fixed fee is just \$3.66 per month for all customers. By creating a fixed fee determined by meter size, the Village will be able to increase its fixed cost recovery. This will provide revenue stability and allows for more cost recovery from commercial and industrial customers that put more of a stress on our system due to the larger meter size.

Homewood's Fixed Fee is Relatively Low



* Fee includes usage allowance, most common about 1.5-2 kgal/mo

** Fee increased by meter size, 5/8" – 3/4" generally residential

- ▶ Fixed fees improve revenue stability
- ▶ About 50% of your utility costs don't vary with water use
- ▶ Homewood's fixed fee generates about \$300k in revenue, about 6% of total revenues

With **Option 2**, the volumetric rate (the amount charged per 1,000 gallon used) will increase slightly *less* than the 7.75% since the increased fixed cost recovery can offset this portion of the monthly bills.

VILLAGE OF HOMEWOOD



2026 Residential Bill Impacts

Monthly Billed Volume	Percent of Bills	Change vs Existing Rates			Change vs Existing Rates		
		Across the Board	Fixed Fee by Meter Size	Fixed Fee by Meter Size plus 2 Tier Residential Block Rates	Across the Board	Fixed Fee by Meter Size	Fixed Fee by Meter Size plus 2 Tier Residential Block Rates
		Option 1	Option 2	Option 3	Option 1	Option 2	Option 3
1,000 Gal							
0	8%	\$0.28	\$0.28	\$0.28	7.7%	7.7%	7.7%
1	12%	\$1.13	\$1.05	\$0.65	7.7%	7.2%	4.4%
2	17%	\$1.98	\$1.82	\$1.02	7.7%	7.1%	4.0%
3	18%	\$2.83	\$2.59	\$1.96	7.7%	7.1%	5.4%
4	15%	\$3.68	\$3.36	\$2.89	7.7%	7.1%	6.1%
5	10%	\$4.53	\$4.13	\$3.83	7.7%	7.1%	6.5%
6	7%	\$5.38	\$4.90	\$4.77	7.7%	7.1%	6.9%
7	4%	\$6.23	\$5.67	\$5.71	7.7%	7.0%	7.1%
8	2%	\$7.08	\$6.44	\$6.64	7.7%	7.0%	7.3%
9	2%	\$7.93	\$7.21	\$7.58	7.7%	7.0%	7.4%
10	1%	\$8.78	\$7.98	\$8.52	7.7%	7.0%	7.5%
200	0%	\$170.28	\$154.28	\$186.55	7.7%	7.0%	8.5%

Option 1: All ratepayers have same % increase

Option 2: Generally lower increase with higher fixed fee

Option 3: Users with 1,000 to 6,000 gallons will see benefit of lower first tier volume rate; higher volume users will see more increase

For the average residential user (approximately 4,000 gallons per month), the estimated impact to their current bills would be an increase of \$3.36 per month. Over the next five years, the average bill will have increased from \$47.54 to \$68.60 under **Option 2**.

2026 Residential Bill Impacts (by usage amount)

Monthly Billed Volume	Percent of Bills	Monthly Residential Water Bill			
		Existing 2025	Across the Board Option 1	Fixed Fee by Meter Size Option 2	Fixed Fee by Meter Size plus 2 Tier Residential Block Rates Option 3
1,000 Gal					
0	6%	\$3.66	\$3.94	\$3.94	\$3.94
1	11%	\$14.63	\$15.76	\$15.68	\$15.28
2	17%	\$25.60	\$27.58	\$27.42	\$26.62
3	19%	\$36.57	\$39.40	\$39.16	\$38.53
4	16%	\$47.54	\$51.22	\$50.90	\$50.43
5	11%	\$58.51	\$63.04	\$62.64	\$62.34
6	7%	\$69.48	\$74.86	\$74.38	\$74.25
7	4%	\$80.45	\$86.68	\$86.12	\$86.16
8	3%	\$91.42	\$98.50	\$97.86	\$98.06
9	2%	\$102.39	\$110.32	\$109.60	\$109.97
10	1%	\$113.36	\$122.14	\$121.34	\$121.88
200	0%	\$2,197.66	\$2,367.94	\$2,351.94	\$2,384.21

► These are total residential bills by usage amount

► Residential user characteristics

- 70% use 4,000 gallons or less per month
- 97% use 10,000 gallons or less per month

► On the surface, not a lot of difference between the three options in terms of total bill

Overall, **Option 2** will improve the Village's fixed cost recovery and revenue predictability. It is the option that is the easiest to understand and communicate to our customers.

VILLAGE OF HOMEWOOD



OUTCOME

Upon receiving direction from the Board, Burns & McDonnell will be able to complete the final water rate study report which will then be presented to the Board for acceptance. Approval of an ordinance to adjust the Village's water rate, and possibly the design structure, with an effective date of January 1, 2026, would be brought to the Board at a later date.

FINANCIAL IMPACT

- **Funding Source:** N/A
- **Budgeted Amount:** N/A
- **Cost:** N/A

LEGAL REVIEW

Not Required

RECOMMENDED BOARD ACTION

Direct staff to engage Burns & McDonnell of Kansas City, MO to finalize the Water Rate Study Report based on the selected water rate option and to present the final Water Rate Study to the Board at a future meeting.

ATTACHMENT(S)

Burns & McDonnell Presentation Slides