

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: May 28, 2024

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: Proposal for Professional Services for Village Water Rate Study

PURPOSE

The Village's Water and Sewer Fund is categorized as an Enterprise Fund in governmental accounting. An Enterprise Fund is required by law to operate in a manner similar to a private business. The intent is that the cost of providing water and sewer services to the community will be recovered primarily through user charges (i.e. water bills). The rates should be sufficient to cover the ongoing costs of operations, maintenance, administration, and future capital needs within the Water and Sewer Fund. Village tax dollars are not used to pay any of the costs associated with water and sewer services.

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 and 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 all while working to ensure that the rates and potential increases are not injurious to our customers.

On January 23, 2024, the Board of Trustees approved a water rate increase passing on a 2.5% increase received from Chicago Heights, the Village's water supplier. Staff will continue to recommend passing on the annual increase from our supplier to our customers; however, a comprehensive water rate study is necessary to establish a minimum 10-year rate plan that will ensure that the current and future needs to maintain the Village's water system are met.

The rate study will be based on a comprehensive review of Homewood's water funds and budgets, customer classes, current usage data, future planned growth, capital plan, lead service line replacements, and any other information deemed necessary.

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The Consultant

Because of the various sensitivities and outcome implications of water rate studies, coupled with the fact that it has been many years since Homewood has performed this type of detailed water system analysis, compounded by the pending lead service line replacement project, Homewood requires a consultant that has experience with the Village; one that understands its residents and its water system.

PROCESS

Water Rate Study Informal Cost Comparison

The cost for a consultant to perform a Water Rate Study for a community of Homewood's should range anywhere from \$30,000 to \$50,000. The Village of Lisle, IL (population of 24,000), is similarly situated to Homewood (population of 19,868) and paid \$64,500 for a water rate study in 2020. The Village of Lemont (population of 17,000) paid \$30,000 to complete a water rate study in November of 2023.

Burns & McDonnell

Burns & McDonnell Engineering of Chicago, IL is intimately familiar with the Village of Homewood's water system. They have a trusted and proven reputation in Homewood and nationwide. Burns & McDonnell successfully engineered and oversaw the Village's \$12M self-funded Water Main Transmission Project. This project was completed on time and on budget. In March 2024, the Village Board approved Burns & McDonnell's proposal to assist the Village of Homewood in developing a Lead Service Line Replacement Plan.

The Village of Homewood is anticipating significant capital expenditures in the next two (2) to 20 years related to the lead service line replacement program to meet requirements set forth by the Illinois Environmental Protection Agency (IEPA). Burns & McDonnell will complete a water rate study to look holistically at the utility's funding requirements, not only for lead service lines but also other system improvements that may be necessary, as well as future operating costs. There are three primary tasks associated with the proposed water rate study:

Task 1: Financial Plan Development

A 20-year financial plan will be developed to forecast the water utility's future operating and capital costs for comparison to revenues under existing rates. Future capital improvements will include lead service lines as well as all other capital improvements the Village has identified. Two financial planning scenarios are envisioned, one implementing the Lead Service Line (LSL) program over 17 years and the other over 10 years. Funding strategies for the LSL program will be reviewed including reliance on IEPA loans or a combination of IEPA loans and other sources such as bonds or cash funding from future rates.

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Task 2: Cost of Service

Costs forecasted in the financial plan will be allocated to customer classes in accordance with their use of the water system. This step provides context for rate design.

Task 3: Rate Design

Rate design will sustain the existing volumetric water rate structure to recover ongoing operating and capital costs of the water system. However, cost recovery for the LSL program will evaluate three (3) potential alternatives:

- A surcharge only on residents with LSLs
- Increased rates for everyone
- A mutually agreeable third option to be determined in consultation with the Village

A comparison of Homewood's residential bill under existing and proposed rates will be performed with up to 15 neighboring water utilities.

Study results will be summarized in a draft report, which will be finalized after Village feedback. Burns & McDonnell proposes to perform the Scope of Services listed below on a lump sum basis of \$34,587, to be invoiced on a percent complete basis. It is anticipated that a draft and final rate study will be ready by fall 2024.

Meetings and Deliverables

- Meetings with Village staff to support the project
- Two (2) in-person presentations to the Village Board
- 20-Year Financial Plan delivered electronically in .pdf format
- Water Rate Study report delivered electronically in .pdf format

OUTCOME

Based on Burns & McDonnell's experience and knowledge of the Village of Homewood's water system, staff is confident that they will provide stellar services to the Village. Burns & McDonnell has an excellent professional reputation, and their proposal cost is perfectly in line with what is expected for a community of our size. Staff recommends accepting the proposal from Burns & McDonnell to perform a water rate study for the Village of Homewood.

FINANCIAL IMPACT

- **Funding Source:** Water/Sewer Fund
- **Budgeted Amount:** \$0
- **Cost:** \$34,587

LEGAL REVIEW

Not Required

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RECOMMENDED BOARD ACTION

Approve a budget amendment of \$34,587 to the Water/Sewer Fund; and, accept a proposal from Burns & McDonnell of Chicago, IL for professional services to conduct a comprehensive water rate study on a lump sum basis not to exceed \$34,587, to be invoiced on a percent-complete basis.

ATTACHMENT(S)

Burns & McDonnell Professional Services Proposal