

# VILLAGE OF HOMEWOOD



**BOARD AGENDA MEMORANDUM**

**DATE OF MEETING: January 23, 2024**

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**To:** Village President and Board of Trustees

**Through:** Napoleon Haney, Village Manager

**From:** Amy Zukowski, Director of Finance

**Topic:** Water Rate Increase/Fee Schedule Adjustment

## **PURPOSE**

Village staff received notice from the City of Chicago Heights of a 2.5% annual CPI increase for water sale per Chicago Heights/Homewood's Water Sale and Purchase Agreement approved at the Board of Trustees meeting on July 28, 2020. Board approval is necessary to pass an ordinance amending the Homewood Fee Schedule to reflect the 2.5% water and sewer *rate increase per 1,000 gallons* for calendar year 2024. Also included as part of this amendment to the fee schedule is the Village's minimum charge for each water and sewer bill generated, including wastewater treatment. This ordinance also adjusts the 2025 rates, provided the 2025 increase is between 1% and 3% as provided in the Village's contract with Chicago Heights.

## **PROCESS**

During the July 28, 2020 Village Board of Trustees meeting, an ordinance was passed to approve the Water Sale and Purchase Agreement between the Village of Homewood and the City of Chicago Heights. The City of Chicago Heights receives their water from the City of Hammond, Indiana.

Prior to changing water suppliers to the City of Hammond through the City of Chicago Heights, Homewood purchased water from the City of Chicago through the City of Harvey. The agreement with the City of Harvey expired on December 31, 2022. Two main factors guided Homewood's decision to change water suppliers; one was the City of Chicago's practice of significantly and unpredictably raising their water rates by 15% and 25% per year, the other was the ability of Chicago Heights to offer quality water to Homewood with stable and predictable increases.

On December 29, 2023, Village staff received notice of our first annual increase from the City of Chicago Heights. The annual rate increase for 2024 is 2.5% based on the annual CPI for the preceding twelve-month period. By comparison, the City of Chicago's rates increased 5% in 2022 and 5% in 2023.

Per the Water Sale and Purchase Agreement with the City of Chicago Heights, Homewood's base rate for water is tied to the increase in the Consumer Price Index – For All Urban Consumers (CPI-U) for the preceding twelve-month period. However, the agreement language also details that

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the amount of the annual increase shall not be *less than* one percent (1%) and *shall not be more than* three percent (3%) for any given year. This language provides the Village of Homewood and its residents and businesses with a built-in rate stabilizer for the next 25 years (the length of the agreement with Chicago Heights). In short, our annual water base rate will not increase greater than 3%, even in those years when the CPI is 4%, 8%, or 9% or greater.

If approved, this year's 2.5% increase will be passed on to the Village water customers (*Homewood residents, Village of Flossmoor and Village of East Hazel Crest*) beginning with the March 1<sup>st</sup> bill, which is for January water usage. The impact to the Village's rates are below:

<u>Description</u>	<u>Old Rate</u>	<u>New Rate</u>	<u>Increase</u>
Combined <u>water and sewer</u> service rates per 1,000 gallons	\$14.41	\$14.77	\$0.36
Water service only, rate per 1,000 gallons	\$10.70	\$10.97	\$0.27
Sewer service only, rate per 1,000 gallons	\$ 3.71	\$ 3.80	\$0.09
Administrative charge for water only for each bill generated	\$ 3.57	\$ 3.66	\$0.09
Administrative charge for sewer only for each bill generated	\$ 1.24	\$ 1.27	\$0.03

## Water and Sewer Fund and Rate Setting

The Village's Water and Sewer Fund is an enterprise fund that operates 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 Village has not passed on a water rate increase to its residents and businesses since 2015. The previous rates were sufficient to cover the costs and capital needs of the Water and Sewer Fund. In order to continue to provide safe and reliable water, and maintain a balance of revenues and expenses within the Water and Sewer Fund, staff recommends passing on the annual water rate increase received from the City of Chicago Heights.

## Additional Customers – Flossmoor and East Hazel Crest

After Homewood changed water suppliers, we entered into a water sale and purchase agreement with the Village of Flossmoor in December of 2021 to continue to supply their community with safe and reliable water under the same or similar terms that Homewood has in our agreement with Chicago Heights. The 2.5% rate increase will be passed on to Flossmoor and 30-day notice, as required, has been provided to Flossmoor's administration.

The Village of East Hazel Crest and Homewood entered into a water sale and purchase agreement in May 2023. Homewood began supplying water to East Hazel Crest in December 2023. The agreement has the same terms as the agreement with the Village of Flossmoor. The 2.5% rate

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increase will be passed on to East Hazel Crest as well and 30-day notice, as required, has been provided to East Hazel Crest's administration.

## **OUTCOME**

The Agreement with Chicago Heights provides for a maximum rate increase of 3% annually. The City of Chicago's rates increased 5% in both 2022 and 2023. Rate stabilization was an important factor when switching water suppliers and it is clear that Homewood is seeing a positive outcome with the 2024 rate increase of only 2.5% from Chicago Heights.

The 2.5% rate increase to Village residents and businesses, the Village of Flossmoor, and the Village of East Hazel Crest will help to ensure that the operating and maintenance needs of the Water and Sewer fund are met and covered by the rates set by the Village Board.

It is estimated that a household using 10,000 gallons per month will see an increase to their water bill of \$3.92 per month in 2024 or approximately \$47 annually.

## **FINANCIAL IMPACT**

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

## **LEGAL REVIEW**

Completed

## **RECOMMENDED BOARD ACTION**

Pass an ordinance amending the "Public Works Fees" section of the Homewood Fee Schedule to reflect the 2.5% rate increase for 2024, and the 2025 rate increase of 1% to 3% when it is determined.

## **ATTACHMENT(S)**

- Ordinance
- Notice from City of Chicago Heights