

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: September 30, 2025

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Finance Director

Topic: Water Rate Study Acceptance and Rate Increase/Fee Schedule Adjustment

PURPOSE

Staff has been working with Burns & McDonnell of Chicago, IL since May 2024 to complete a water rate study report which may act as a guide for the Village's Water Fund over the next 10 years. Following multiple Board presentations, the Board is requested to accept the final Water Rate Study Report and approve an ordinance amending the Homewood Fee Schedule to reflect the change in the monthly fixed charge to be based on meter size and an increase in the volumetric rate billed per 1,000 gallons of water usage in both 2026 and 2027.

BACKGROUND

The Water Rate Study

On May 28, 2024, the Board of Trustees accepted a proposal from Burns & McDonnell of Chicago, IL for professional services to conduct a comprehensive water rate study. The rate study was 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.

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

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PROCESS (*Financial Plan Development and Rate Design*)

Financial Plan Development

The first part of the water rate study was the Financial Plan Development, which is where the “need” is established. The proposed financial plan was evaluated based on the following guidelines:

- The plan’s ability to mitigate rate shock through levelized increases where possible.
- The potential for the plan to provide adequate reserves for both operating and capital within the water fund.
- It would include an option to use debt to fund critical water infrastructure such as lead service line and water main replacement and the replacement of the central water tower through loans from the Illinois Environmental Protection Agency (IEPA) and potential revenue bond issuances in 2026, 2029, and 2033.

As part of the financial plan development, assumptions were necessary regarding future conditions that may impact projected water revenue increases. As a result, there are risks and opportunities.

Risks

- There could be reduced funding for IEPA loans, which is the primary funding mechanism anticipated for lead service line replacement. We currently assume that IEPA will be able to provide 0% interest loans.
- There may be periods of higher inflation on operating and capital project costs. We currently assume a 3.2% increase on operating and 5% increase on capital.
- The potential for higher interest rates on debt, including IEPA loans and other potential bonds. Currently, we assume there will be 0% on IEPA loans and 4.5% on other loans.

Opportunities

- There may be additional principal forgiveness on IEPA lead service line loans in the future; however, principal forgiveness was not relied upon beyond 2026.
- There could be a potential for a 40-year IEPA loan instead of the currently assumed term of 30 years.
- There is a possibility of regulatory relief in the form of additional time beyond 2035 to complete the lead service line replacement. The current regulation is 10 years.
- The potential for non-home rule sales tax proceeds to be used to back debt issuance. No non-home rules sales tax proceeds have been assumed. The Village Board passed an ordinance approving the implementation of the Non-Home Rules Sales tax effective January 1, 2026 at the September 9, 2025 Board meeting. As the additional tax is received throughout 2026, staff will evaluate the best use.

The financial plan was presented at the April 22, 2025 Board of Trustees meeting. It was stated that in order for the Village to meet its future funding needs, the water revenues need to

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increase by 7.75% over the next 9 years. Of that 7.75%, the lead service line replacement alone requires 3.25% increases each year.

Rate Design

Burns & McDonnell developed several rate designs that would allow the Village to meet its ongoing operations and maintenance costs and capital needs without implementing injurious and unrealistic cost increases on the 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 Tuesday, July 8, 2025 Board of Trustees meeting. All three (3) options increase the Village's water revenues by the 7.75% as 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 more from the lower rate in the block design.

At the July 22, 2025 Board of Trustees meeting, the Village Board directed staff to move forward with **Option 2** to complete the water rate study report.

Option 2 creates a more robust fixed fee based on meter size which helps with fixed cost recovery and maintains a consistent rate charged per 1,000 gallons used (volumetric rate) for both residential and non-residential customers.

FINAL WATER RATE STUDY - REPORT

Included in the water rate study report, the following recommendations were made:

- The Village should adopt the proposed 2026 and 2027 water rates.

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- During fiscal year 2027, the Village should re-evaluate the increases proposed for 2028 and beyond to confirm that the increases, as proposed, can still accommodate the funding needs.
- As part of the re-evaluation, the Village should consider supplemental rate designs that could further improve fixed cost recovery beginning in 2028.

Recommended 2026 and 2027 Rate Changes

Based on the recommendations within the final Water Rate Study Report, staff recommends the Village Board approve an ordinance adjusting the volumetric (cost per 1,000 gallons used) and fixed charge fee for 2026 and 2027. The rate changes would go into effect on January 1, 2026 and January 1, 2027. There are no immediate changes being proposed to the Village sewer rates.

Fee Schedule Description	Current Rate	2026 Rate	2027 Rate
Combined <u>water and sewer</u> service rates per 1,000 gallons	\$15.20	\$15.65	\$16.56
Water service only, rate per 1,000 gallons	\$11.29	\$11.74	\$12.65
Administrative charge for water only for each bill generated	\$ 3.77	N/A	N/A
Monthly Fixed Charge for water only – based on meter size*:			
5/8" & 3/4"	N/A	\$3.94	\$4.25
1"	N/A	\$5.52	\$5.95
1.5"	N/A	\$7.09	\$7.64
2"	N/A	\$11.43	\$12.32
3"	N/A	\$43.34	\$46.70
4"	N/A	\$55.16	\$59.43
6"	N/A	\$82.74	\$89.15

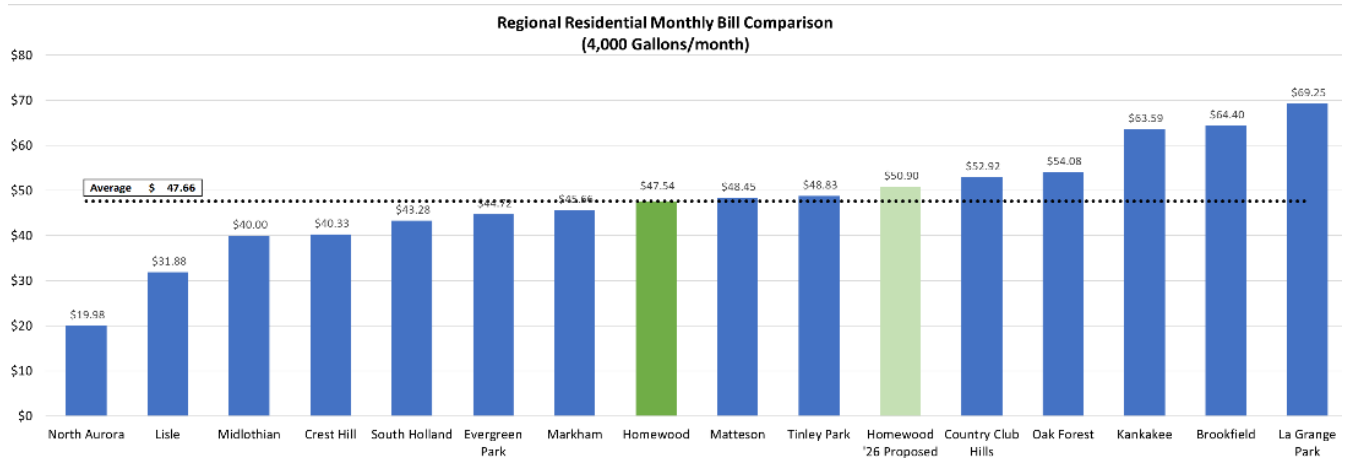
The table below reflects the meter size distribution by customer class. The majority (**98.5%**) of residential meters in Homewood are 5/8" and 3/4".

Meter Sizes	5/8 x 3/4"	3/4	1	1.5	2	3	4	6	
RESIDENTIAL	67.1%	31.4%	1.3%	0.1%	0.1%	0.1%	0.0%	0.0%	100.0%
MULTI-FAMILY	43.1%	19.3%	9.5%	17.6%	7.3%	3.2%	0.0%	0.0%	100.0%
COMMERCIAL	27.8%	26.1%	15.8%	13.9%	12.3%	2.6%	1.2%	0.3%	100.0%
RESTAURANT	19.3%	12.1%	21.3%	25.9%	21.4%	0.0%	0.0%	0.0%	100.0%
BREWERY	0.0%	0.0%	0.0%	20.0%	80.0%	0.0%	0.0%	0.0%	100.0%
INDUSTRIAL	7.6%	22.9%	7.6%	0.0%	46.5%	15.3%	0.0%	0.0%	100.0%
OTHER	23.3%	10.6%	17.0%	13.1%	23.3%	12.7%	0.0%	0.0%	100.0%

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As shown by the table below, the rate increases will keep Homewood within the regional average as it is assumed that other communities will in all likelihood increase their rates over time as well. Nationwide, the annual household water costs has consistently increased about 5% per year.



OUTCOME

An adjustment to both the volumetric water rates and the monthly fixed charge based on meter size, is a palatable outcome. Implementable in 2026 and 2027, the changes will allow the Village to meet its ongoing operation and maintenance costs and capital needs, timed well for the start of the lead service line replacement program.

With the updated rates in 2026, the average residential user (approximately 4,000 gallons per month), will see an estimated increase of \$2.50 per month/ \$30 dollars for the year.

In 2027, staff plans to reevaluate the proposed system-wide increases shown in the final water rate study for 2028 and beyond to confirm that the increases can still accommodate the funding needs, and adjust accordingly.

FINANCIAL IMPACT

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

LEGAL REVIEW

Completed

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RECOMMENDED BOARD ACTION

Accept the Water Rate Study Report completed by Burns & McDonnell of Chicago, IL and pass an ordinance amending the “Public Works Fees” section of the Homewood Fee Schedule to reflect the change in the monthly fixed charge to be based on meter size and the increase in volumetric rate billed per 1,000 gallons of water usage to \$11.74 in 2026 and an increase of 7.75% to the monthly fixed charges and volumetric rate in 2027.

ATTACHMENT(S)

- Final Water Rate Study Report
- Ordinance