



Memorandum

To: Millwood City Council

From: Mayor Freeman

cc: Cassels / Erdal / Matkin / Werst

Date: February 3, 2025

Re: 2025 Millwood Water and Sewer Rates

Councilmembers –

Provided is the proposed final version of the 2025 Water and Sewer Rates Resolution (RES 2025-02). Resolution 2025-02 is intended for your consideration and action at the February Regular City Council Meeting. I believe the Resolution currently provides a fair and balanced approach to assessing fees, allowing for the City to meet fixed (Operating) and variable (Consumption) cost needs for both the Water and Sewer systems. As we have discussed in past meetings, our current fee schedules do not generate sufficient revenue to (1) meet fixed-cost expenditures, (2) meet variable-cost expenditures and (3) build capital improvement funds for either the water or sewer system. Provided below is an explanation of the specific system fees and the rationale for those fees.

Water System Fees

The analysis establishing the proposed 2025 Water System Rates is presented in the attached Microsoft Excel spreadsheet entitled “**2025 Water Rate Analysis_REVISED (20250117).xlsx**”. Please refer to this spreadsheet and its various workbooks for the following discussion.

Service Fees

The Service Fee consists of the Operations and Capital Improvement fees.

Operation Fees

Worksheet “**OF Analysis**” examines various increase scenarios and the resulting revenue generation.

Residential Operations Fee – The presented monthly 2025 Residential Operations Fee (\$25.88) was increased by five percent (\$1.23) from the 2024 Operations Fee (\$24.65). This five percent increase is intended to address rising fixed costs due to inflation while building a modest surplus in the water fixed-cost fund.

Commercial & Public Irrigation Operations Fee – The Commercial and Public Irrigation Operation Fees are set by meter size. Councilmember Sander provided an excellent analysis of the AWWA “meter multipliers” used to account for the cost burden that larger service supply volumes place on operation of a public water system. Mr. Sander’s analyses were generally incorporated in the evaluation of the effect of meter multipliers on Millwood’s Commercial and Public Irrigation Operation Fees.

Analysis of the effect of different meter multipliers (full AWWA, reduced AWWA, City-specific) on this and other “base rates” in comparison to the 2024 Commercial and Public Irrigation Operation fees. The 2024 rates were compared to the rates generated by the various 2025 operation rate models, taking into consideration effects on users versus revenue generation. The presented monthly 2025 Operation Fees are based on an increase of five percent (\$1.23) to the 2024 Operations Fee (\$24.65) **for a 1-inch meter**. This five percent increase is intended to address rising fixed costs due to inflation while building a modest surplus in the water fixed-cost fund.

The 1-inch Operation Fee is then used as the “base fee” for the meter multiplier applied to increasing meter sizes. The meter multiplier used for the 2025 rates is specific to Millwood (not AWWA-based) and is similar to the meter multiplier used in the previous rate resolution (see table below):

Meter Size	Current (RES 2023-09) Multiplier	AWWA (100%) Multiplier	Proposed 2025 Multiplier
1	1	1	1
1.5	1.6	2	1.6
2	2.2	3.2	2.6
3	3.4	6.4	3.6
4	4.6	10	4.6

Worksheet “**2025 OF**” summarizes the current fees and the results of the proposed changes. Worksheet “**OF Revenue**” presents the revenue generated by the 2025 rates and compares that revenue to 2025 Operations budget.

Capital Improvement Fees

Worksheet “**2025 CI Fees**” presents the proposed increase to the Capital Improvement fee; the resulting income generation is presented in worksheet “**CIF Income.**” The need for developing a more “robust” capital improvement fund, particularly for the City’s water system, has been discussed at length in previous meetings.

Residential Capital Improvement Fee – The presented monthly 2025 Capital Improvement fee includes a \$1.00 per month increase in the fee, from \$5.00 to \$6.00.

Commercial & Public Irrigation Capital Improvement Fee – The presented monthly 2025 Capital Improvement fee includes a \$1.00 per month increase in the fee, from \$5.00 to \$6.00 for 1-inch meters. The monthly increase is then scaled for increasing meter size by the 2025 meter

multiplier (i.e. a commercial unit with a 3-inch meter would pay a monthly capital improvement fee of \$3.60; \$1.00 multiplied by the 3.6 meter multiplier.).

Consumption Fees

Changes to Millwood’s consumption fees have also been discussed at length. Councilmember Beese raised several salient points regarding initially proposed changes to the consumption fees. The City has attempted to address two issues with the 2025 consumption fees: (1) what is the “base” consumption for Millwood units, particularly residences, and (2) what should charges be for consumption in excess of this “base” consumption.

Millwood’s 2024 consumption is provided in the attached Excel spreadsheet “**2024 Water Consumption Analysis**”. Analysis of the consumption indicates that median values, as opposed to mean values, are best used to discuss consumption in general. The following consumption tiers and rates are proposed in the 2025 rates based on analysis of the consumption data:

	<u>2024 Current Monthly</u>		<u>2025 Proposed Monthly</u>	
	Tier Volume	Fee	Tier Volume	Fee
<u>Residential Service</u>				
<u>Consumption, Premises</u>				
<i>Tier 1</i> per HCF	Zero – 1,600 CF	\$ 0.32	Zero – 900 CF	\$ 0.35
<i>Tier 2</i> per HCF	1,600 – 4,000 CF	\$ 0.40	900 – 1,800 CF	\$ 0.38
<i>Tier 3</i> per HCF	> 4,000 CF	\$ 0.48	1,800 – 4,500 CF	\$ 0.45
<i>Tier 4</i> per HCF	NONE		> 4,500 CF	\$ 0.50
<u>Consumption, Irrigation</u>				
<i>Tier 1</i> per HCF	Zero – 22,000	\$ 0.32	Zero – 22,000 CF	\$ 0.35
<i>Tier 2</i> per HCF	> 22,000 CF	\$ 0.40	> 22,000 CF	\$ 0.48
<u>Commercial Service</u>				
<u>Consumption, Premises</u>				
<i>Tier 1</i> per HCF	Zero – 1,600 CF	\$ 0.32	Zero – 900 CF	\$ 0.35
<i>Tier 2</i> per HCF	1,600 – 4,000 CF	\$ 0.40	900 – 1,800 CF	\$ 0.38
<i>Tier 3</i> per HCF	> 4,000 CF	\$ 0.48	1,800 – 4,500 CF	\$ 0.45

<u>Tier 4 per HCF Consumption, Irrigation</u>	NONE		> 4,500 CF	\$ 0.50
Tier 1 per HCF	Zero – 72,000 CF	\$ 0.32	Zero – 72,000 CF	\$ 0.35
Tier 2 per HCF	> 72,000 CF	\$ 0.40	> 72,000 CF	\$ 0.48
Public Irrigation Service Consumption				
Tier 1 per HCF	Zero – 72,000 CF	\$ 0.32	Zero – 72,000 CF	\$ 0.35
Tier 2 per HCF	> 72,000 CF	\$ 0.40	> 72,000 CF	\$ 0.48

The impacts to current residential consumption fees are based on the amount consumed summarized below:

<u>Revenue Ranges</u>	<u>CF</u>	<u>HCF</u>	<u>Old</u>	<u>New</u>	<u>Change per HCF</u>
0 to 900	900	9	\$ 0.32	\$ 0.35	\$ 0.03
900 to 1600	700	7	\$ 0.32	\$ 0.38	\$ 0.06
1600 to 1800	200	2	\$ 0.40	\$ 0.38	\$ (0.02)
1800 to 4000	2200	22	\$ 0.40	\$ 0.45	\$ 0.05
4000 to 4500	500	5	\$ 0.48	\$ 0.45	\$ (0.03)
4500 to 4501	Per 100	0.01	\$ 0.48	\$ 0.50	\$ 0.02

Sewer System Fees

The sewer rates were previously established in RES 2024-04. The only change is the addition of a \$1.00 sewer capital improvement fee to each unit. The City currently has no billing fee established to directly fund sewer capital improvements.