



## AGENDA ITEM ANALYSIS

Project/Issue Name: 26-10 An Ordinance of the City Council Amending Title VIII “Fees”, Chapter 805 “Fee Schedule”, Section 805.100 “Utility Administration” of the Municipal Code of the City of Republic, Missouri.

Submitted By: Bob Ford | Chief Financial Officer

Date: March 17, 2026

### Issue Statement

Approval of a modification to the currently adopted 2026 Water Rates to maintain 2025 rate levels (no increase in 2026).

### Background

In 2025, City Council approved a multi-year water rate adjustment covering 2025, 2026, and 2027. Those increases were adopted to address several long-standing structural challenges within the Water Fund:

- From 2014 through 2022, the City’s water rates remained unchanged.
  - During that same period, Water Fund operating costs increased annually due to:
    - Growth in Water Fund staffing levels.
    - Increases in employee base compensation.
    - Increased benefit costs (L1 → L3 → L6 LAGERS improvement, 457(b) Plan, 50% dependent healthcare coverage)
    - Inflationary impacts on infrastructure materials and other operating expenses.
- From 2018 through 2025, the City’s capital focus centered on the Wastewater Treatment Plant Project, resulting in limited investment in the Water Fund.
- Beginning in 2023, the City implemented two consecutive 7% rate increases, followed by a significant increase in

<b><u>EXHIBIT A - Water Rates</u></b>						
<b><u>Description</u></b>	<b><u>2016-2021</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2025</u></b>	<b><u>2026</u></b>	<b><u>2027</u></b>
Base	\$7.56	\$8.09	\$8.66	\$16.76	\$24.26	\$31.76
Increase %		7%	7%	94%	45%	31%
Surchrg/1,000 Gal	\$3.56	\$3.81	\$4.08	\$7.08	\$14.81	\$17.90
Increase %		7%	7%	74%	109%	21%

- 2025.
- The Water Fund Master Plan (Burns & McDonnell) identified approximately \$90 million in capital improvements over 17 years, including \$70 million within the City’s ten-year CIP horizon.
  - The adopted rate structure contemplated funding these improvements primarily on a cash basis.

While these rate increases technically addressed the Water Fund’s deferred needs, the cumulative impact on customers is substantial. Under the currently adopted schedule, residential and commercial water bills will increase approximately 300% or more between 2023 and 2027.

- Attempting to correct more than two decades of limited investment within a short window of time creates significant rate shock for our citizens.
- While rate adjustments are necessary and expected in a growing community, they should be steady, predictable, and aligned with our residents’ ability to absorb them into household budgets.
- For perspective, had rates increased annually beginning in 2014 at approximately 7.5% per year, the 2025 increase would have been modest and incremental rather than the one-time average increase of approximately 85% that occurred.



**Equity Considerations** - The current rate structure also produces disproportionate impacts on our customers:

- Approximately 15% of residential customers use 1,500 gallons per month or less (average use: 824 gallons), yet pay the full base amount associated with 1,500 gallons.
- In 2025, the base rate increased by 94% while the per-gallon surcharge increased by 74%, resulting in a higher proportional increase for low-usage customers. (See Exhibit B below).

<b>EXHIBIT B - Monthly Customer Water Revenue - Current Rates @ Varying Usage</b>							
<u>Gallons Per Month</u>	<u>2016-2021</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>23-27 Inc</u>
10,000	\$37.82	\$40.48	\$43.34	\$76.94	\$150.15	\$183.91	
Growth Rate		7%	7%	78%	95%	22%	354%
4,000	\$16.46	\$17.62	\$18.86	\$34.46	\$61.29	\$76.51	
Growth Rate		7%	7%	83%	78%	25%	334%
1,500	\$7.56	\$8.09	\$8.66	\$16.76	\$24.26	\$31.76	
Growth Rate		7%	7%	94%	45%	31%	293%
500	\$7.56	\$8.09	\$8.66	\$16.76	\$24.26	\$31.76	
Growth Rate		7%	7%	94%	45%	31%	293%

Customer type distribution further highlights structural imbalance:

**Residential Customers**

- 91.7% of total customers.
- 67.5% of total gallons consumed.
- Tier 1 residential customers represent 13.6% of total customers but consume only 2.1% of total gallons.

**Commercial Customers**

- 8.3% of total customers.
- 32.5% of total gallons consumed.
- Tier 5 commercial customers represent 2.3% of total customers but consume 29.2% of total gallons.

**Proposed Action**

In alignment with our Vision of “doing the Right Thing at the Right Time for the Right Reason,” staff recommends the following:

**1. Flatten the Slope of Rate Increases**

- The approved 2026 rates are scheduled to take effect January 1, 2026; however, due to billing lag, customers have not yet experienced those increases.
- Action Requested: Modify 2026 water rates to maintain 2025 rate levels (no increase for 2026).

**2. Explore a New Rate Methodology for 2027 and Beyond**

Operating and capital costs will continue to increase annually; therefore, customers should expect predictable annual rate adjustments. However, the methodology itself warrants review. Staff proposes:

- Evaluating alternative rate models (e.g., connection fee plus fixed amount per 1,000 gallons beginning with the first gallon used).
- Ensuring any revised methodology continues to generate sufficient revenue to meet:
  - Operating costs.
  - Capital investment requirements.
  - Debt service obligations.
- Simultaneously reviewing Wastewater rate methodology for structural alignment while maintaining revenue sufficiency.
- Staff will return to Council this fall during the budget process with recommendations for 2027 and beyond.



### **3. Modify the Ten-Year Capital Improvement Plan**

Reduce the Water Fund Ten-Year CIP from \$70 million to approximately \$45 million, prioritizing critical infrastructure and staging other improvements over a longer horizon.

### **4. Issue Tax-Exempt Special Obligation Bonds**

- Utilize bond financing to support the modified capital program.
- Bonds may be issued in multiple tranches (e.g., \$30 million, and \$15 million).
- The City has three years to expend at least 85% of bond proceeds.

This strategy allows the City to smooth rate increases while still addressing critical infrastructure needs responsibly.

Additional Note

The previously approved 2026 Wastewater Rate increase will proceed as adopted.

### **Recommendation**

Staff recommends approval of the proposed modification to hold 2026 water rates at 2025 levels and proceed with the outlined evaluation and financing strategy.