

Council Work Session – City of League City, Texas

2019 Water and Wastewater Rate Study and Financial Forecast

December 17, 2019



Presentation Contents

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- Customers and Volumes
- Current and Forecast Cost of Service
- Rate Plan Alternatives
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Background on Rates



Facts about Water and Wastewater Rates in the 21st Century



- Average utility has been increasing rates 5-6% per year; trend expected to continue
- AWWA forecasts that water and wastewater rates across the U.S. will triple in the next 15 years
- Rate adjustments are primarily due to reasons beyond a utility's control – inflation, Capital Improvement Plans, etc.
- 30-40% of utilities charge rates that do not cover their costs

Current Water Rate Structure



Residential Rates

Minimum Charge (All Meter Sizes)	\$	7.13
Residential Volume Rate (per 1,000 Gallons)		
0 - 3,000		1.50
3,001 - 10,000		5.50
10,001 - 25,000		7.00
25,001 - Above		8.50

Commercial, Multiple Unit, and School Rates

Minimum Charge (All Meter Sizes)	\$	7.13
Volume Rate (per 1,000 Gallons)		
0 - 3,000		3.00
3,001 - Above		5.90

Irrigation Rates

Volume Rate (per 1,000 Gallons)	\$	7.00
(For all water usage including zero usage)		

Current Wastewater Rate Structure



Residential Rates

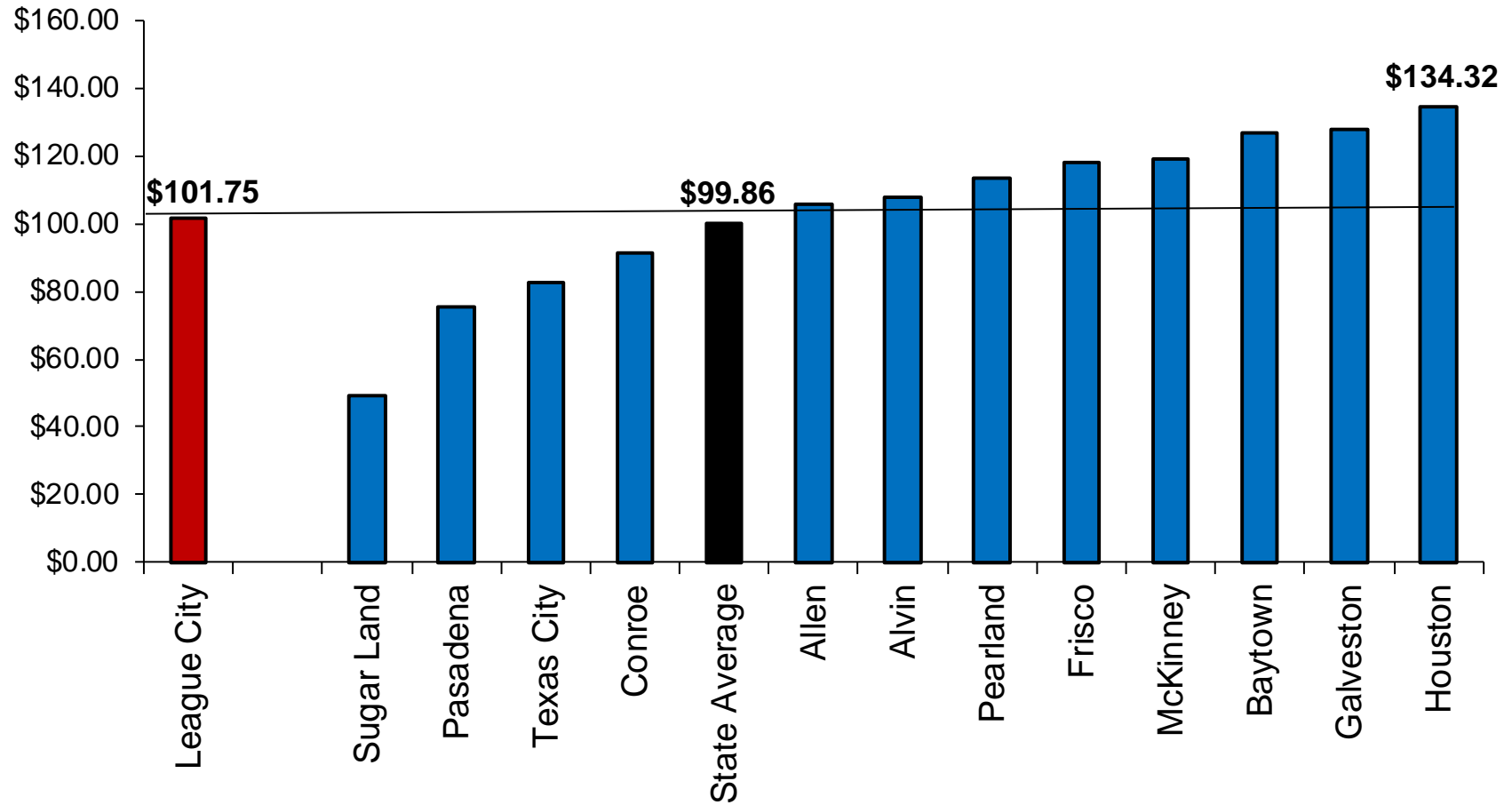
Minimum Charge (All Meter Sizes)	\$	13.88
Residential Volume Rate (per 1,000 Gallons)		
0 - 3,000		1.80
3,001 - 10,000		4.62

* Residential rates have a maximum charge cap of 10,000 gallons per month

Commercial, Multiple Unit, and School Rates

Minimum Charge (All Meter Sizes)	\$	13.88
Volume Rate (per 1,000 Gallons)		
0 - 3,000		3.00
3,001 - Above		4.62

Monthly Residential Charge Comparison 10,000 Gallons Water and Wastewater



*Rates as of September 2019

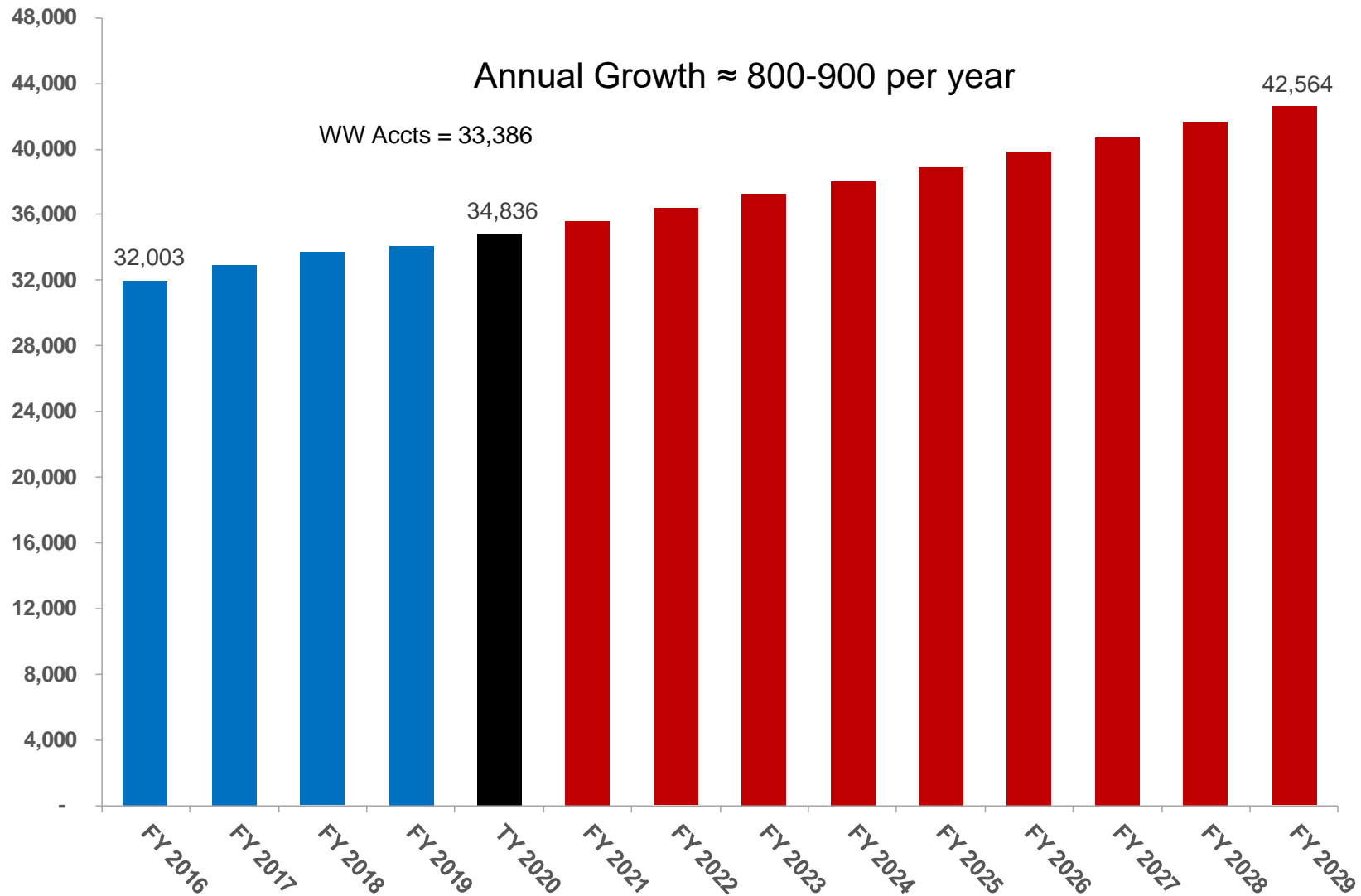
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Water and Wastewater: Customers and Volumes



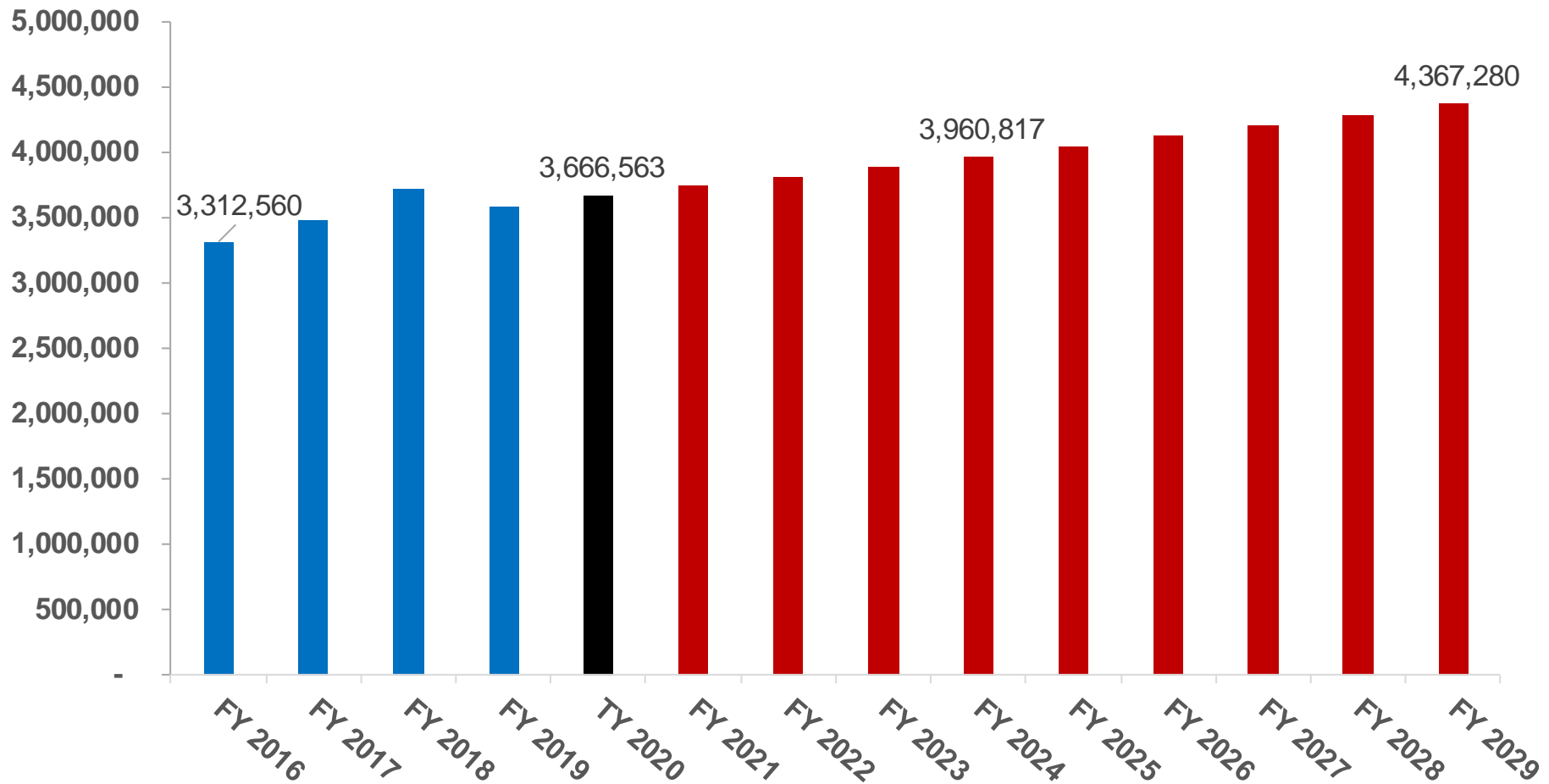
Actual and Forecast Water Accounts



Actual and Forecast Water Billed Consumption



1,000 Gallons



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Water and Wastewater: Current and Forecast Cost of Service



Components of Cost of Service

- Operating Expenses
- Capital Outlays
- Debt Principal and Interest
 - Current
 - Forecast
- Transfers



Key Assumptions Driving Forecast Financial and Rate Plan

- Most personnel and operating expenses increase 3% per year
- Certain expenses increase at higher rates and/or are tied increases in accounts/volumes
- City will implement its current Capital Improvement Plan with \$501 million in water and wastewater system improvements over the next 10 years
- Capital recovery fees projected to fund approximately 26% of CIP
- **Biggest impact on rate plan:** New debt service required to fund CIP



Long-Term Financing

Forecast Water and Wastewater Bond Issues

<u>Year</u>	<u>Amount</u>
TY 2020	\$ 13,517,000
FY 2021	6,234,000
FY 2022	14,894,000
FY 2023	62,630,000
FY 2024	21,039,000
FY 2025	27,896,000
FY 2026	42,232,000
FY 2027	19,412,000
FY 2028	70,383,000
FY 2029	12,654,000
Total	\$ 290,891,000

Term

Trmt Plant = 30 Years

Lines = 25 Years

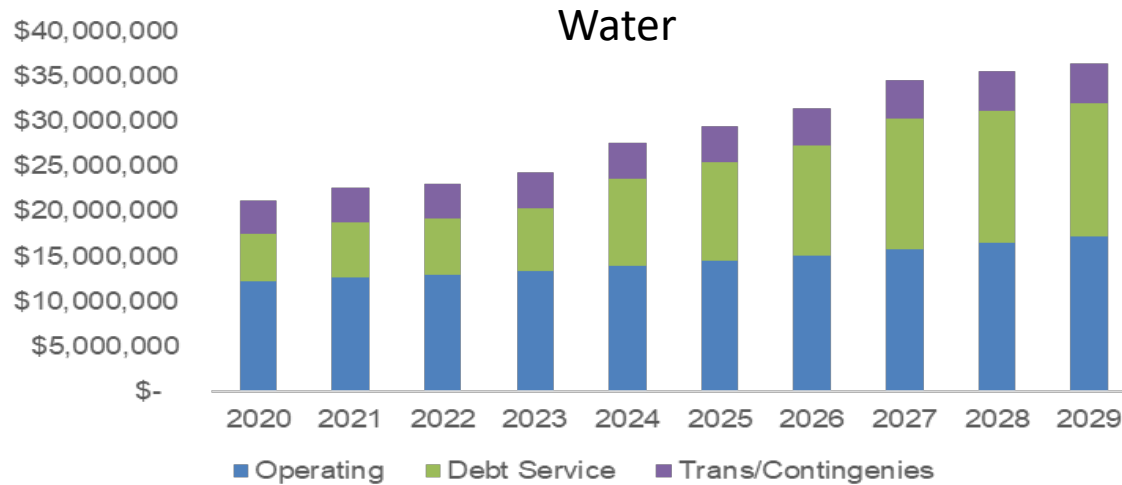
Other = 20 Years

Interest = 3.0%

Fixed P&I



Forecast Cost of Service



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Water and Wastewater: Rate Plan Scenarios



Notes on Rate Proposal

- Only moderate rate adjustments required for water and wastewater, due to the following reasons:
 - Overall financial health of utility
 - Continued strong account growth expectations
 - Prudent management of revenues and expenses
 - Retirement of some current debt
 - Favorable debt issuance terms
- Recommend implement multi-year plan but review every 2-3 years

Water Rate Plan Scenario I – Status Quo

FY 2020 – FY 2024



		Effective					
		Current	Jan-20	Oct-20	Oct-21	Oct-22	Oct-23
WATER							
Residential							
<u>Monthly Minimum Charge</u>							
All Meters		\$ 7.13	\$ 7.34	\$ 7.56	\$ 7.79	\$ 8.02	\$ 8.34
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	1.50	2.00	2.06	2.12	2.19	2.50
3,001	10,000	5.50	5.67	5.83	6.01	6.19	6.44
10,001	25,000	7.00	7.21	7.43	7.65	7.88	8.19
25,001	Above	8.50	8.76	9.02	9.29	9.57	9.95
Commercial, Multi Unit, Schools							
<u>Monthly Minimum Charge</u>							
All Meters		7.13	7.34	7.56	7.79	8.02	8.34
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	3.00	3.50	3.61	3.71	3.82	4.50
3,001	Above	5.90	6.08	6.26	6.45	6.64	6.91
Irrigation							
<u>Volume Rate Per 1,000 Gal</u>							
-	Above	7.00	7.21	7.43	7.65	7.88	8.19

Wastewater Rate Plan Scenario I – Status Quo

FY 2020 – FY 2024



		Effective					
		Current	Jan-20	Oct-20	Oct-21	Oct-22	Oct-23
WASTEWATER							
Residential							
Monthly Minimum Charge							
All Accts		\$ 13.88	\$ 14.16	\$ 14.44	\$ 14.73	\$ 15.02	\$ 15.32
Volume Rate Per 1,000 Gal							
1	3,000	1.80	2.25	2.30	2.34	2.39	2.75
3,001	10,000	4.62	4.71	4.81	4.90	5.00	5.10
Commercial, Multi Unit, Schools							
Monthly Minimum Charge							
All Accounts		13.88	14.16	14.44	14.73	15.02	15.32
Volume Rate Per 1,000 Gal							
1	3,000	3.00	3.50	3.57	3.64	3.71	4.25
3,001	Above	4.62	4.71	4.81	4.90	5.00	5.10

Rate Plan Scenario I Impact on Ratepayers

FY 2020 – FY 2024



			Effective				
		Current	Jan-20	Oct-20	Oct-21	Oct-22	Oct-23
Residential Monthly Charges -- 3/4"							
5,000 Water	5,000 WW	\$ 51.15	\$ 55.00	\$ 56.35	\$ 57.73	\$ 59.14	\$ 62.49
	Increase -- \$		3.85	1.34	1.39	1.41	3.35
10,000 Water	10,000 WW	101.75	106.89	109.56	112.30	115.10	120.18
	Increase -- \$		5.14	2.66	2.74	2.80	5.08
30,000 Water	10,000 WW	249.25	258.82	266.04	273.47	281.11	292.83
	Increase -- \$		9.57	7.22	7.44	7.64	11.72
Commercial Monthly Charges -- 2"							
20,000 Water	20,000 WW	217.85	225.92	231.65	237.53	243.56	254.03
	Increase -- \$		8.07	5.73	5.89	6.03	10.47
40,000 Water	40,000 WW	428.25	441.71	452.97	464.53	476.39	494.17
	Increase -- \$		13.46	11.26	11.56	11.86	17.78

Scen II -- Increase Water Base Charges by Meter Size

- Phased in over next decade; no change to WW rates
- Advantages:
 - Lesser increases needed for residential and small meters
 - Incentive for customers to install only the size meter needed
 - Provides more stable revenue source (fixed charges)
- Challenges:
 - Larger increase on bigger meters

Scen II -- Increase Water Base Charges by Meter Size



		Effective					
WATER		Current	Jan-20	Oct-20	Oct-21	Oct-22	Oct-23
Residential							
<u>Monthly Minimum Charge</u>							
3/4"		\$ 7.13	\$ 7.27	\$ 7.49	\$ 7.71	\$ 7.94	\$ 8.26
1"		7.13	7.27	7.49	7.71	7.94	8.26
1 1/2"		7.13	9.00	9.27	12.00	12.36	15.00
2"		7.13	11.00	11.33	15.00	15.45	20.00
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	1.50	2.00	2.06	2.12	2.19	2.50
3,001	10,000	5.50	5.61	5.78	5.95	6.13	6.38
10,001	25,000	7.00	7.14	7.35	7.57	7.80	8.11
25,001	Above	8.50	8.67	8.93	9.20	9.47	9.85
Commercial, Multi Unit, Schools							
<u>Monthly Minimum Charge</u>							
3/4"		7.13	7.27	7.49	7.71	7.94	8.26
1"		7.13	7.27	7.49	7.71	7.94	8.26
1 1/2"		7.13	9.00	9.27	12.00	12.36	15.00
2"		7.13	11.00	11.33	15.00	15.45	20.00
3"		7.13	14.00	14.42	20.00	20.60	30.00
4"		7.13	19.00	19.57	30.00	30.90	40.00
6"		7.13	25.00	25.75	50.00	51.50	65.00
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	3.00	3.50	3.61	3.71	3.82	4.50
3,001	Above	5.90	6.02	6.20	6.38	6.58	6.84
Irrigation							
<u>Volume Rate Per 1,000 Gal</u>							
-	Above	7.00	7.14	7.35	7.57	7.80	8.11

Scen II -- Increase Water Base Charges by Meter Size



		Current	Effective				
			Jan-20	Oct-20	Oct-21	Oct-22	Oct-23
WASTEWATER							
Residential							
<u>Monthly Minimum Charge</u>							
All Accts		\$ 13.88	\$ 14.16	\$ 14.44	\$ 14.73	\$ 15.02	\$ 15.32
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	1.80	2.25	2.30	2.34	2.39	2.75
3,001	10,000	4.62	4.71	4.81	4.90	5.00	5.10
Commercial, Multi Unit, Schools							
<u>Monthly Minimum Charge</u>							
All Accounts		13.88	14.16	14.44	14.73	15.02	15.32
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	3.00	3.50	3.57	3.64	3.71	4.25
3,001	Above	4.62	4.71	4.81	4.90	5.00	5.10

Scen II -- Increase Water Base Charges by Meter Size

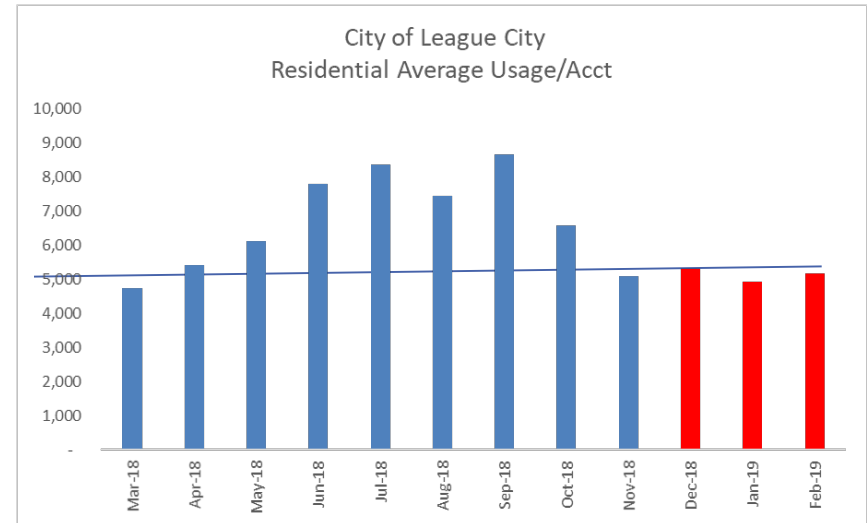


		Effective											
		Current	Jan-20	Oct-20	Oct-21	Oct-22	Oct-23						
Residential Monthly Charges -- 3/4"													
<u>5,000 Water 5,000 WW</u>													
Scen I -- Status Quo		\$	51.15	\$	55.00	\$	56.35	\$	57.73	\$	59.14	\$	62.49
Scen II -- Higher Base Chgs			51.15		54.82		56.16		57.54		58.94		62.28
<u>10,000 Water 10,000 WW</u>													
Scen I -- Status Quo		\$	101.75	\$	106.89	\$	109.56	\$	112.30	\$	115.10	\$	120.18
Scen II -- Higher Base Chgs			101.75		106.44		109.09		111.81		114.60		119.66
Commercial Monthly Charges -- 2"													
<u>40,000 Water 40,000 WW</u>													
Scen I -- Status Quo		\$	428.25	\$	441.71	\$	452.97	\$	464.53	\$	476.39	\$	494.17
Scen II -- Higher Base Chgs			428.25		443.18		454.49		469.42		481.43		503.35

Scen III -- Increase Meter Charges by Meter Size

Wastewater Winter Average

- Very popular and common form of wastewater rate design
- Advantages: most closely tied to actual customer usage
- Disadvantages: more difficult to understand/administer; not as effective in warm weather climates; large increase needed in first year



Residential Average Monthly Gallons	6,314
Residential Winter Average Gallons	5,141
Reduction in Billed Volume	18.6%
Approximate Residential WW Volume Rate Increase	14.0%

Presentation Summary

Benefits of Proposed Rate Plan



- Will enable utility to operate on a stand-alone basis and independent of general fund assistance
- Will result in financially-healthy utility that has ability to fund operations and capital needs
- Will ensure that ratepayers paying only what it costs to provide water and wastewater service
- Will allow capital investment into system to improve quality of service and provide a well-functioning system for future generations

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Questions and Discussion



Scen III – Increase Meter Charges by Meter Size Wastewater Winter Average



		Current	Jan-20	Oct-20	Oct-21	Oct-22	Oct-23
WASTEWATER							
<u>Adjustment</u>							
Minimum Charge			14.00%	2.00%	2.00%	2.00%	2.00%
Volume Rate			14.00%	2.00%	2.00%	2.00%	2.00%
Residential							
<u>Monthly Minimum Charge</u>							
3/4"		\$ 13.88	\$ 15.82	\$ 16.14	\$ 16.46	\$ 16.79	\$ 17.13
1"		13.88	15.82	16.14	16.46	16.79	17.13
1 1/2"		13.88	15.82	16.14	16.46	16.79	17.13
2"		13.88	15.82	16.14	16.46	16.79	17.13
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	1.80	2.25	2.30	2.34	2.39	2.75
3,001	10,000	4.62	5.27	5.37	5.48	5.59	5.70
Commercial, Multi Unit, Schools							
<u>Monthly Minimum Charge</u>							
3/4"		13.88	15.82	16.14	16.46	16.79	17.13
1"		13.88	15.82	16.14	16.46	16.79	17.13
1 1/2"		13.88	15.82	16.14	16.46	16.79	17.13
2"		13.88	15.82	16.14	16.46	16.79	17.13
3"		13.88	15.82	16.14	16.46	16.79	17.13
4"		13.88	15.82	16.14	16.46	16.79	17.13
6"		13.88	15.82	16.14	16.46	16.79	17.13
<u>Volume Rate Per 1,000 Gal</u>							
1	3,000	3.00	3.50	3.57	3.64	3.71	4.25
3,001	Above	4.62	5.27	5.37	5.48	5.59	5.70

Scen III -- Increase Meter Charges by Meter Size Wastewater Winter Average



Gallons	Residential Monthly Charges		
	Scenario 2	Scenario 3	Difference
1,000	\$ 25.75	\$ 27.41	\$ 1.66
2,000	30.00	31.66	1.66
3,000	34.25	35.91	1.66
4,000	44.63	46.84	2.21
5,000	55.01	57.77	2.76
6,000	65.39	68.71	3.32
7,000	75.77	74.37	(1.40)
8,000	86.15	80.04	(6.11)
9,000	96.53	85.70	(10.83)
10,000	106.91	91.37	(15.54)
11,000	114.12	98.58	(15.54)
12,000	121.33	105.79	(15.54)
13,000	128.54	113.00	(15.54)
14,000	135.75	120.21	(15.54)
15,000	142.96	127.42	(15.54)