



STAFF REPORT

DATE: September 7, 2021

TO: Kent Cagle, City Manager

FROM: Jonathan Locke, Executive Director of Finance

SUBJECT: Ordinance amending water and sewer rates

BACKGROUND AND FINDINGS:

On July 7, 2020, City Council received the results of the 2020 Water and Sewer Rate Study. The study found that the City's water revenues were insufficient to fully fund the projected expenses over the next five years. It also found that sewer revenues could sufficiently fund the projected five-year sewer expenses.

To offset the projected shortfall in the Water and Sewer Fund, a water rate increase and water rate structure change was recommended in Fiscal Year 2021. In September 2020, City Council decided to defer the proposed water rate and structural changes due to the Coronavirus pandemic. The proposed Fiscal Year 2022 Budget includes the recommended water rate and structural changes.

The rate increase includes adjusting the base meter charge and volumetric rate. The base meter charge varies depending upon the meter size and is the minimum amount a customer pays monthly. The base meter charge includes 2,000 gallons of water for customer use. When a customer exceeds 2,000 gallons, a volumetric rate is charged per 1,000 gallons of water used.

Commercial customers do not have a tiered water rate structure for gallons of water used over 2,000. After the first 2,000 gallons of water use, commercial customers currently pay \$3.28 per 1,000 gallons. That rate is proposed to increase to \$3.50 per 1,000 gallons.

Residential customers have a tiered water rate structure for gallons of water used over 2,000. The proposed water rate structural change includes adding a tier to the City's current two-tier volumetric charge. The recommended three-tier volumetric charge is intended to encourage water conservation. The chart below depicts the tier change:

Gallons Used	Current Rate per 1,000 gallons	Proposed Rate per 1,000 gallons
2,001 - 15,000	\$3.17	\$3.38
15,001 - 25,000	\$3.17	\$4.03
25,001 - 30,000	\$3.78	\$4.03
30,001+	\$3.78	\$4.81

The impact to the average residential customer using 5,000 gallons monthly is \$1.47 per month. Even with the proposed water rate increase and structural changes, Killeen still has one of the lowest rates compared to our benchmark cities and the lowest rate locally.

The final adjustment in water and sewer rates concerns customers residing outside of the city limits. There are multiple water and sewer customers outside of the city limits and these customers are being charged in-city rates, which is not in compliance with the ordinance. The current ordinance sets water and sewer rates for customers outside of the city limits at the in-city rates plus one hundred percent (100%). This amendment proposes to begin charging customers outside the city limits at a rate equal to the rate for customers inside the city limits plus fifty percent (50%). After notification of this rate change, customers outside of the city limits will be charged rates in compliance with the ordinance.

THE ALTERNATIVES CONSIDERED:

Two alternatives were considered:

1. Do not amend water and sewer rates and continue using current rates; and
2. Amend water and sewer rates.

Which alternative is recommended? Why?

Option 2 is recommended. This alternative provides the needed revenue to adequately maintain the water and sewer system. If the water rates are not amended, approximately \$1.5 million in water and sewer maintenance projects will need to be removed from the proposed Fiscal Year 2022 Budget.

CONFORMITY TO CITY POLICY:

The proposed ordinance conforms to applicable City policy.

FINANCIAL IMPACT:

What is the amount of the expenditure in the current fiscal year? For future years?

N/A

Is this a one-time or recurring expenditure?

N/A

Is this expenditure budgeted?

N/A

If not, where will the money come from?

N/A

Is there a sufficient amount in the budgeted line-item for this expenditure?

N/A

RECOMMENDATION:

City Council approve the ordinance amending Chapter 30, Water, Sewers, and Sewage Disposal, of the Code of Ordinances, to amend water and sewer rates.

DEPARTMENTAL CLEARANCES:

Public Works

Finance

Legal

ATTACHED SUPPORTING DOCUMENTS:

Ordinance