



Village of Lombard Water and Sewer Utilities



Water and Sewer Rate Study Discussion

March 14, 2017

Presented By:

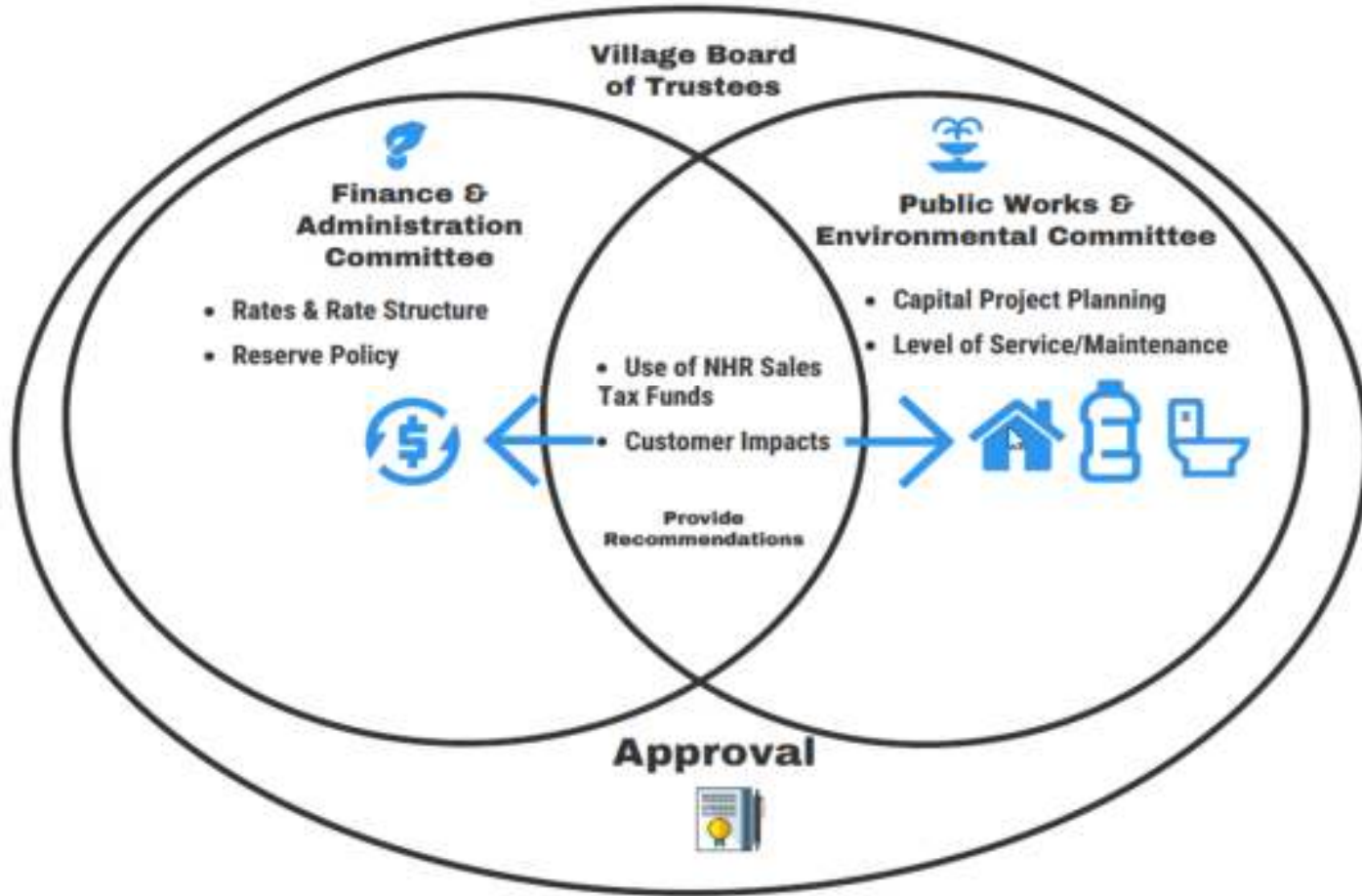
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MFSG



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Water/Sewer Rate Study Discussion Items





W&S Rate Study Implementation Schedule



Draft Implementation Schedule

- March 14, 2017 – Public Works and Environmental Concerns Committee and Finance Committee have Joint Kickoff Meeting
- August 2017 – Village Board Budget Workshop/Discuss FY 2018 Water & Sewer Rate Increase based on current rate structure
- February 2018 – Joint Public Works and Environmental Concerns Committee and Finance Committee and Village Board Workshop to provide recommendations to Village Board
- March 2018 – Village Board consideration of Water and Sewer Fund Rate Study to approve Rate Structure
- April 2018 - Village Board Approves FY 2019 W&S Sewer Rate
- May thru December 2018 – Public Outreach Communication effort on new rate/structure
- January 1, 2019 – Implementation of new Water & Sewer rate/structure based on study



State of the Industry

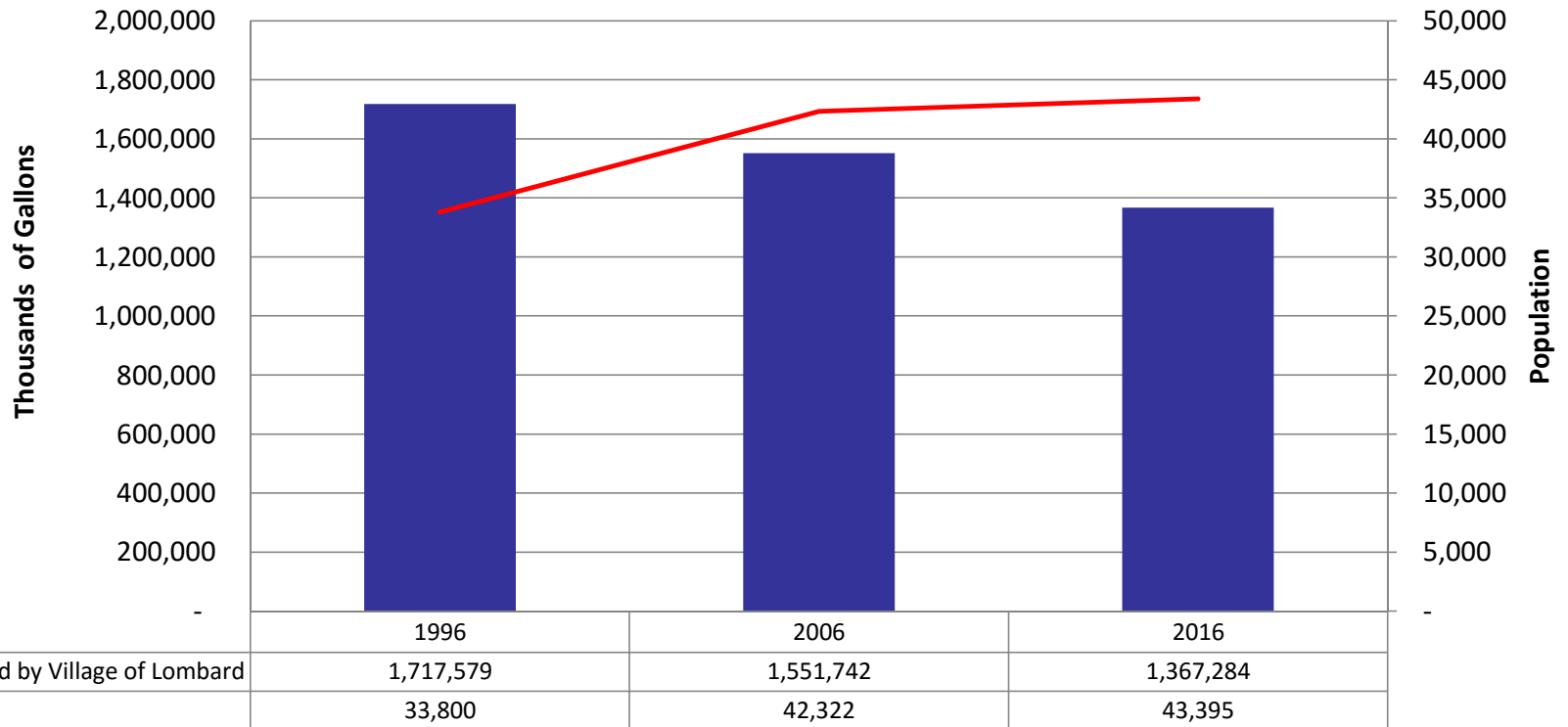
What is causing the need for utility rate increases across the Country?

- Declining Water Use - Declines of per capita consumption of 20% to 30% over the past several decades
 - ▶ Water fixture replacement
 - ▶ Declines in average household size
 - ▶ Commercial / industrial water use efficiency
 - ▶ Conservation ethic
 - ▶ Economic conditions / Affordability
- Significant Capital Investments will be needed in the future*
 - ▶ Majority of water and sewer systems were constructed 70 plus years ago
 - ▶ Nationwide estimated replacement costs over next 20 years:
 - Water systems - \$1 trillion (Current Grade: D)
 - Sewer systems - \$298 billion (Current Grade: D)

* Source: American Society of Civil Engineers, 2013 Report (www.infrastructurereportcard.org)



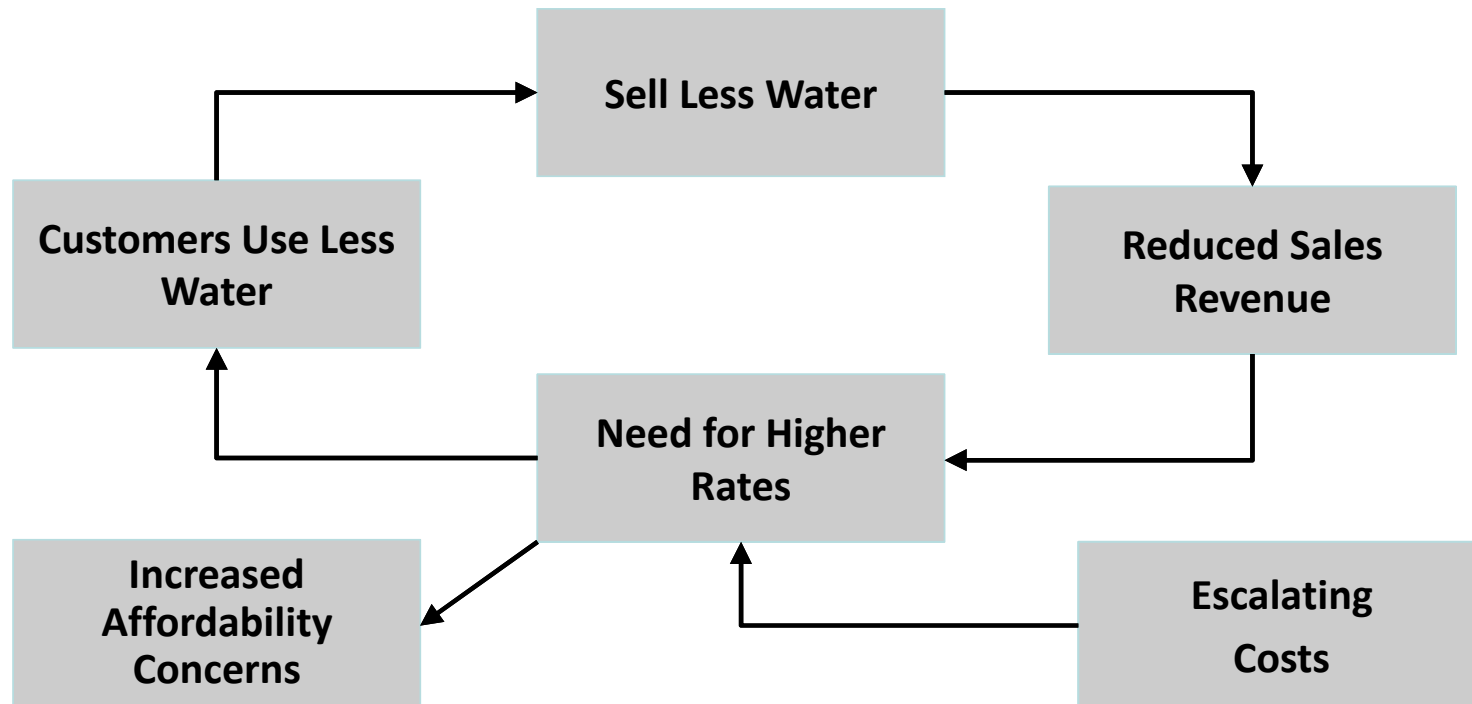
Village of Lombard Historical Data – Declining Water Usage



- The Village of Lombard's population has increased 28% from 1996 to 2016 and water usage has declined 20%.
- The Village has spent \$72,349,117 on Water & Sewer Capital Projects from 2005-2015.

State of the Industry

How do these issues influence utility rates?





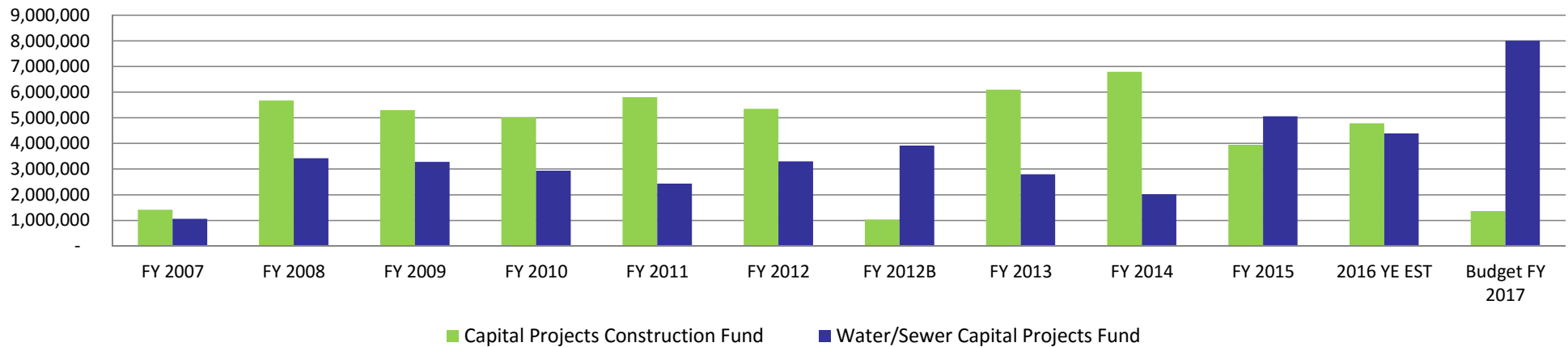
Basic Principles of Rate Setting



- Water and Sewer (W&S) Operations are self-supporting*
 - ▶ Rates and fees are set to recover cost of providing service
 - ▶ No profit to General Fund
 - ▶ Operations function as a business
 - ▶ Utilities reimburse General Fund for support services

*Village of Lombard’s model includes a subsidy from Non-Home Rule (NHR) Sales Tax for capital projects. NHR Sales Tax funds dedicated to W&S Capital Projects total \$42,645,623.

Historical Use of Non-Home Rule Sales Tax





Basic Principles of Rate Setting



- Water and Sewer Rates are user fees rather than taxes and therefore are designed to charge customers based on their use of the service.
 - ▶ Three part test for a user fee (Bolt v. City of Lansing, MI) (1988):
 - 1) Must serve a regulatory purpose rather than a revenue-raising purpose; and
 - 2) Must be proportionate to the necessary costs of the service; and
 - 3) Must be voluntary— users must be able to refuse or limit their use of the commodity or services



Overview of Rate Setting Process



Step 1 - Identify Revenue Requirements - Cost of Providing Services

Four Components: Operations, Debt, Capital and Reserves



Step 2 - Allocate Costs Among Customers



Step 3 - Design Rate Structure



Step 4 - Communication



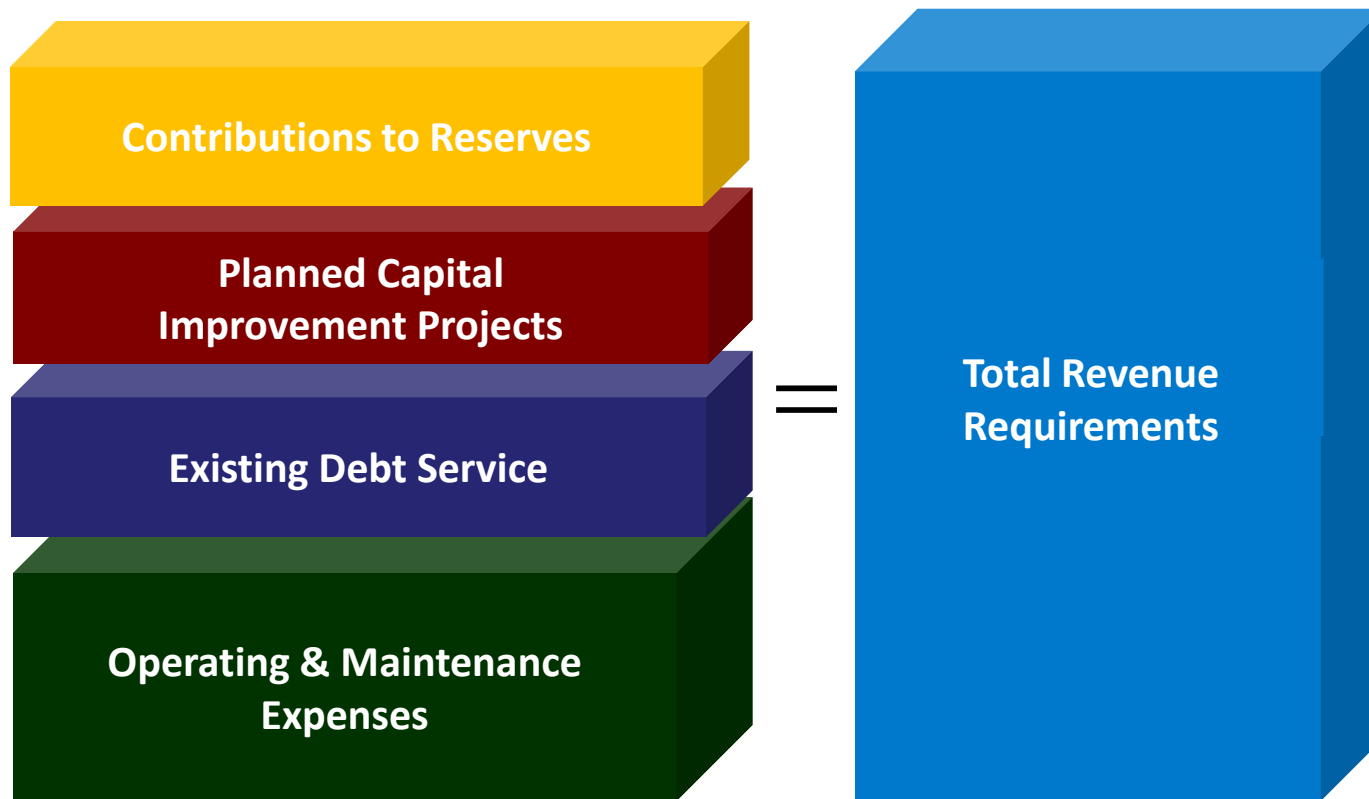
Step 5 – Implement



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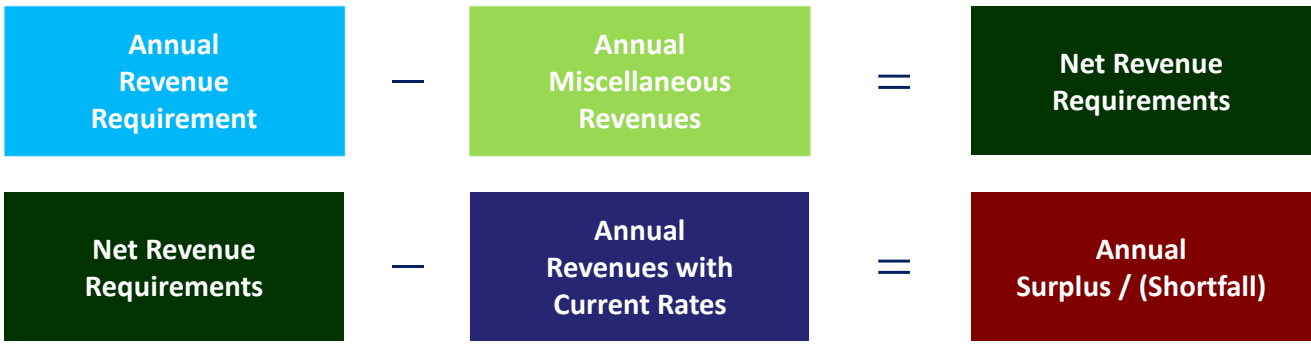
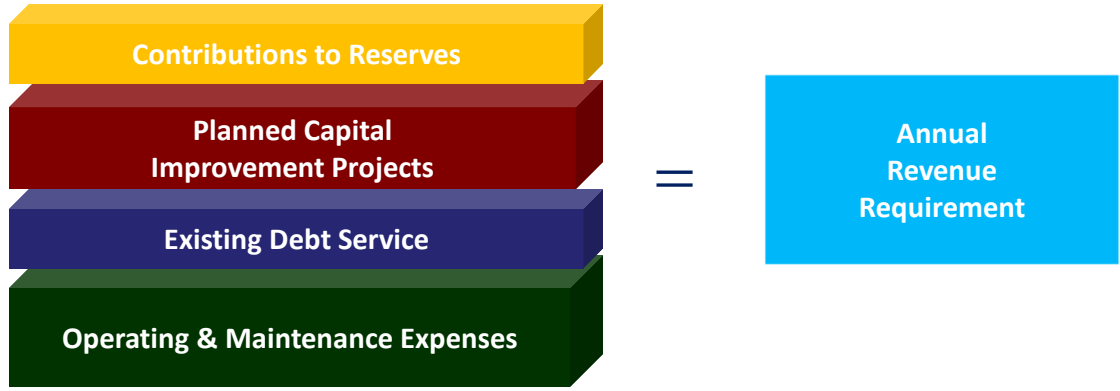


“Building Blocks” of Revenue Requirements





Basic Outline of Rate Setting Process

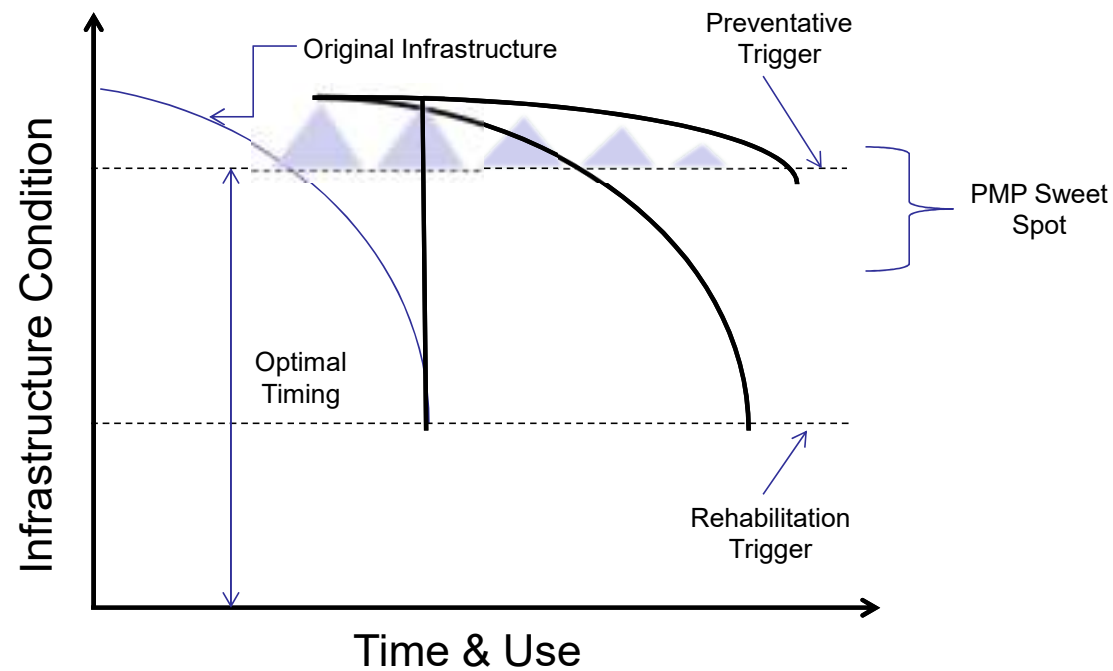


Exponential Cost of Capital Maintenance

Example of Infrastructure Life Cycle



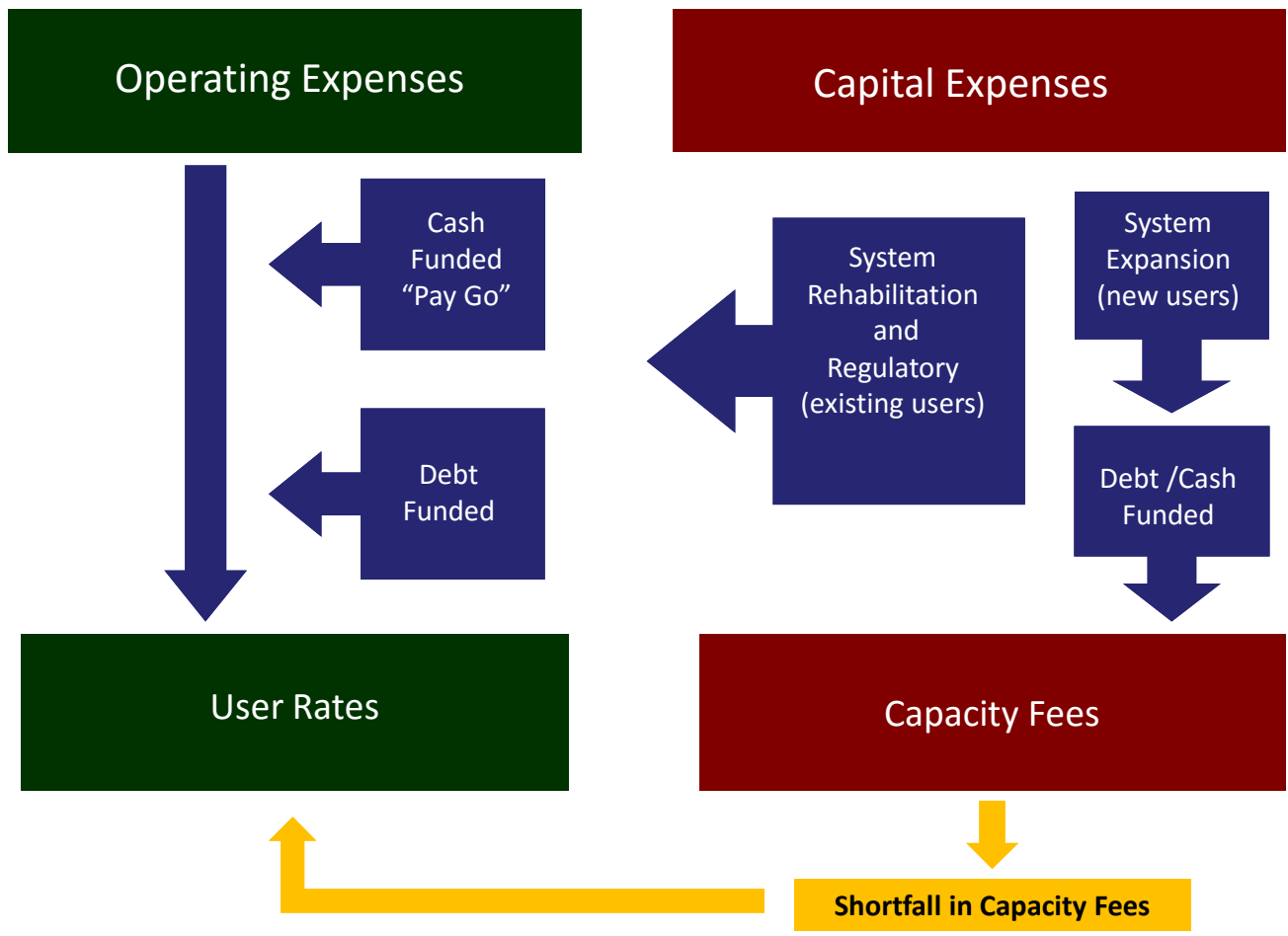
Graph of Life



Extending the useful life of infrastructure



Flow of Funds



Rate Design – Pricing the Service

Rate design is largely influenced by policy objectives of the utility.





Rate Design



Fixed Portion

- Meter Reading
- Billing & Collection
- Customer Service
- Debt Service

- Higher the fixed charge the greater the revenue stability
- Higher the fixed charge the more expensive service is for smallest user

Variable Portion

- Water Supply / Pumping
- Water / Sewer Treatment
 - Electricity
 - Chemicals
 - Etc.

- Flat Unit Rate
- Inclining or Declining Block
 - Base / Peak
 - Hybrid

Issue of Fairness and Policy Options to Consider



Implementation



- Communication - Internally and Externally
 - ▶ Board Meetings
 - ▶ Advisory Committees
 - ▶ Public Information Sessions
- Rate Maintenance
 - ▶ Annual Model Updates
 - ▶ Replacing forecasted amounts with actual data
- Public Outreach / Education
 - ▶ Information Inserts in Bill Mailings
- Customer Service / Support
 - ▶ Website FAQ Section
 - ▶ Easy Access to Customer Service Agents



Summary

- Utility rates should be set to cover the operating and capital expenses of the utility system.
- Sometimes, there is no “right” answer: Village policy can influence which rate structure is used to collect utility fees.
- Customer outreach is important in communicating the need for water and sewer rates to be set appropriately.
- Utility financing is a long term endeavor:
 - Small early increases mitigate the need for large future increases
 - Debt financing distributes costs among current / future users
 - Ultimate Goal – Keep utility rates and fees as low as possible **over time**.



Specific Discussion Items



- Specific policy direction from the Village Board
- Updating the Village's rate structure
 - Fixed vs. Variable rates
 - Operating vs. Capital expenses
 - Customer impacts
 - “Equity” among rate payers
 - Cost of Service alignment
- Establishment and maintenance of reserves
- Implementation Schedule



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Discussion

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