

# Village of Lombard

## Water and Sewer Rate Structure Discussion

*Eric Callocchia, Senior Manager*

*June 12, 2018*

Presentation to the  
PW and FA  
Joint Committee Meeting



# Basic Principles of Rate Setting

## Water and Sewer Systems Must Be Self-Sufficient

- No subsidies from General Fund
- Customers pay costs of systems on basis of demand/usage

## Objective is to Keep Rates and Fees Low Over Time

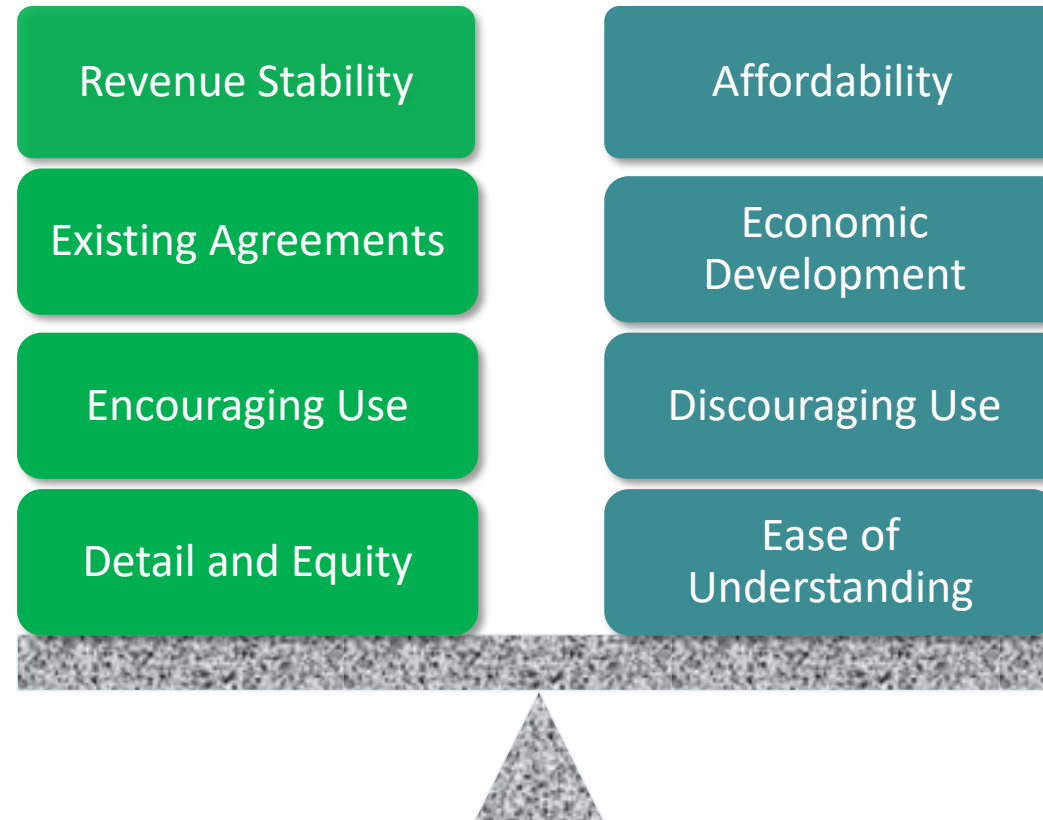
- Adequate funding to keep facilities in good condition to prolong useful life
- Adequate funding of reserves
- Rate and fee increases regularly, gradually and smoothly

## Someone Must Pay

- Most operating and capital costs are fixed
- Discounts/rebates for any group of customers means other customers pay more
- “Zero sum” game

# Rate Design – Pricing the Service

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



# System Operating Costs – Fixed vs. Variable

## Fixed Costs – Service Charge

(Do not change with consumption)

For example: Pipes must be maintained regardless of water use.

- Village Personnel
- Distribution and Collection System Maintenance
  - Meter Reading
- Billing & Collection
- Customer Service
- Debt Service

## Variable Costs – User Fees

(Change with consumption)

- Water Supply
- Sewer Treatment

- The higher the fixed charge, the greater the revenue stability
- The higher the fixed charge, the more expensive service is for smallest users



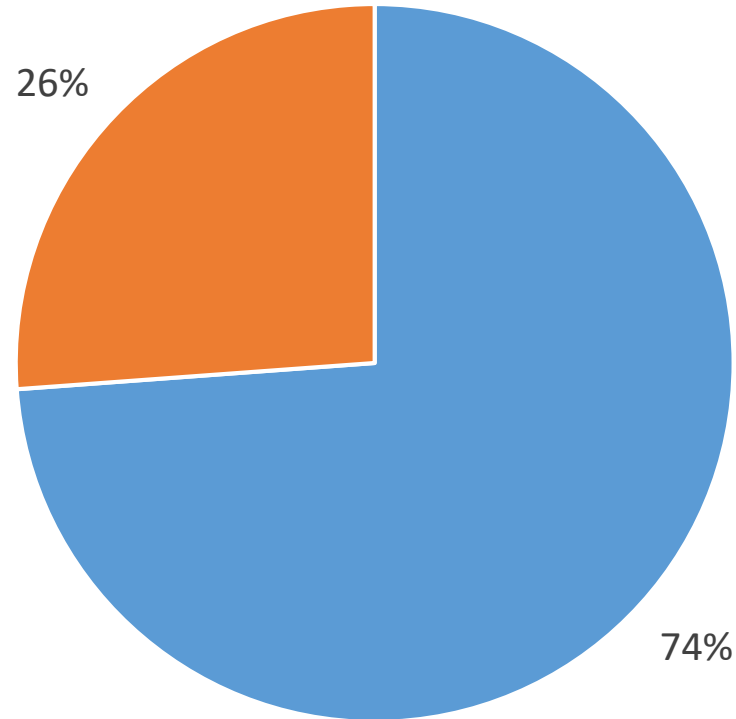
## Updates Since May 8<sup>th</sup> PW Committee Meeting

- FY 2018 Operating Expense and Revenue Budget
- Actual Customer and Consumption Data through FY 2017
  - Number of Customer Accounts
  - Purchased Water
  - Billable Water Usage
- Non-Revenue water assumption
  - 15% in FY 2018 and FY 2019
  - 10% in FY 2020 and beyond



# Expenses and Revenues – Fixed vs. Variable

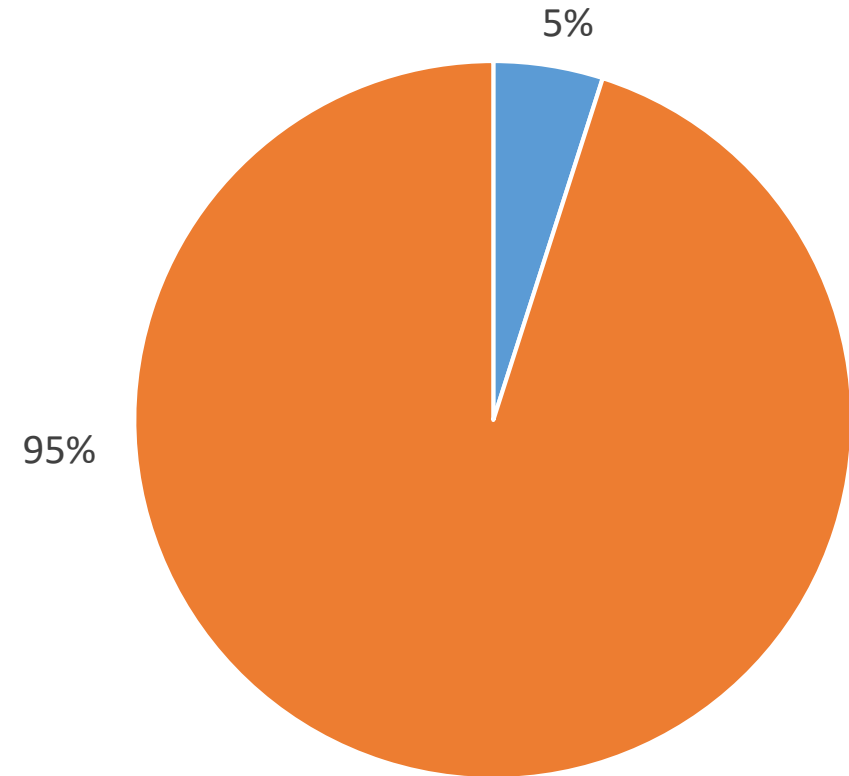
FY 2018 Expense Budget



■ Fixed Operating Expenses (O&M, Debt, and Capital)

■ Variable Expenses (Purchased Water and Sewer Treatment per 1,000 Gal.)

FY 2018 Estimated Rate Revenues



■ Fixed Revenues (Service Charge and Cross Connection)

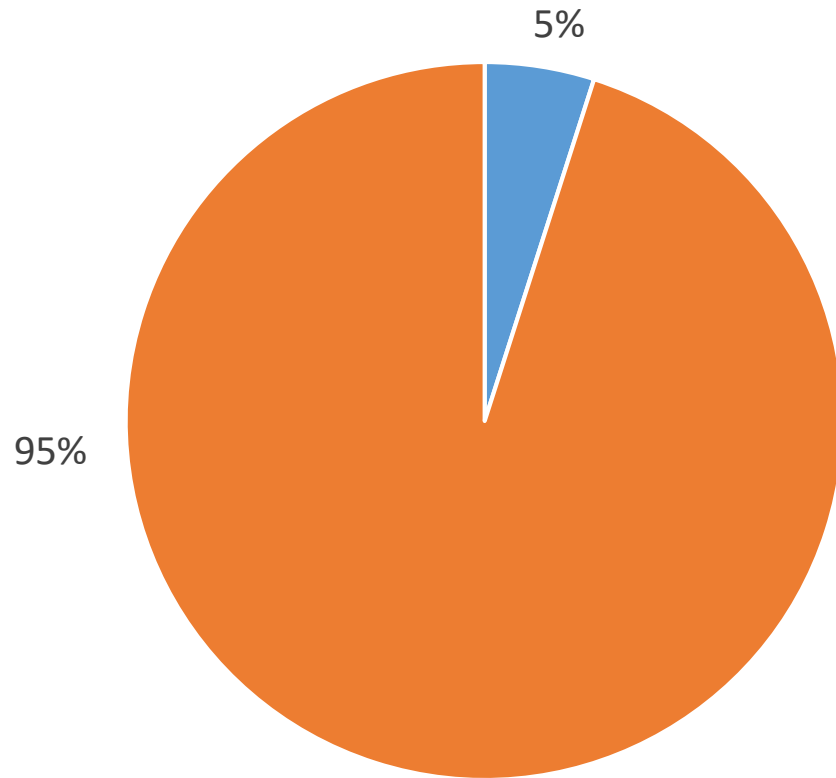
■ Variable Rate Revenues (Water & Sewer O&M, Capital Rate)

For discussion only. As the rate setting process progresses, these charts will be updated to reflect a more detailed analysis. Does not include NHR sales tax revenues, loan proceeds, or other miscellaneous revenues.



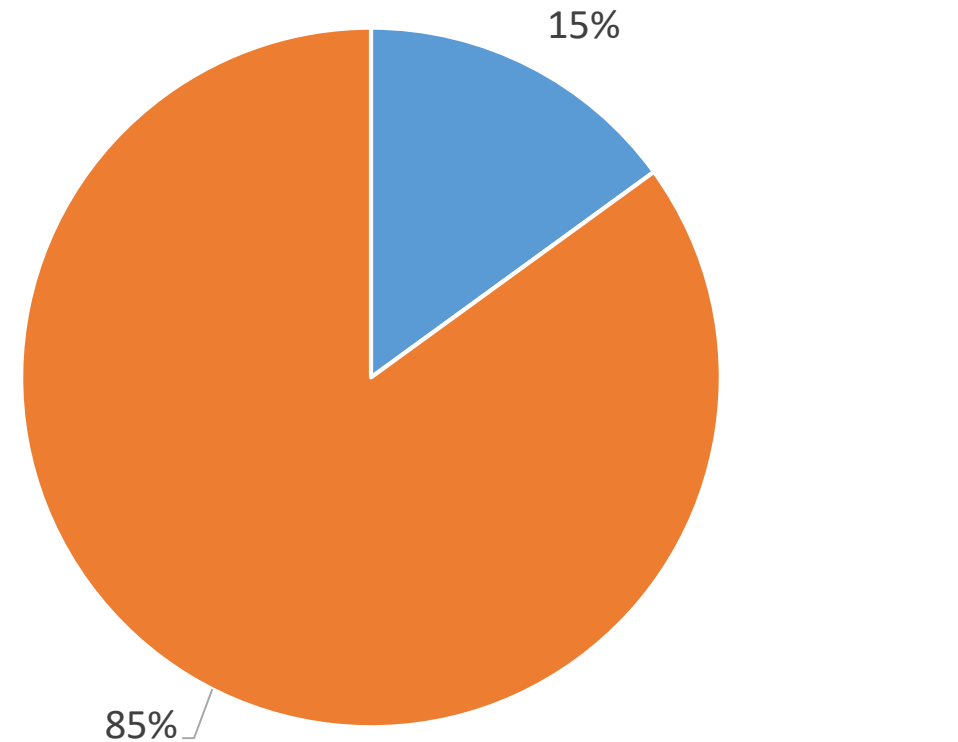
# Current and Recommended Rate Revenues – Fixed vs. Variable

FY 2018 Estimated Rate Revenues



- Fixed Revenues (Service Charge and Cross Connection)
- Variable Rate Revenues (Water & Sewer O&M, Capital Rate)

Updated Rate Structure Scenario



- Fixed Revenues (Service Charge and Cross Connection)
- Variable Rate Revenues (Water & Sewer O&M, Capital Rate)

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# 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**.



## Action Requested

The Village Board will meet on August 20, 2018 to discuss the Joint recommendations made by the Public Works and Environmental Committee and the Finance and Administration Committee. Staff is seeking a recommendation for the following:

1. Rate Structure Options: Current (no change) or Moderate (15% fixed/85% variable)
2. Billing Options: Current (bi-monthly) or Change to Monthly once all meters are exchanged
3. Bill Presentation:
  1. 2 rates (fixed and variable)
  2. Breakout each different type of rate



# Bill Impact Discussion – See Handout (handout will be provided at the meeting)

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# W&S Rate Study Tentative Implementation Schedule

## Implementation Schedule:

- ~~— March 19, 2018: Finance & Administrative Committee Meeting on Rate Structure Design~~
- ~~— May 8, 2018: Public Works and Environmental Concerns Committee Meeting on Rate Structure Analysis on CIP~~
- June 12, 2018: Public Works and Environmental Concerns Committee and Finance Committee Joint Meeting on Rate Structure Analysis on CIP
- August 2018: Village Board Budget Workshop to Approve FY 2019 Water & Sewer Rate Structure
- September 2018: Village Board Approves FY 2019 W&S Rate Ordinance
- October thru December 2018: Public Outreach Communication effort on new rate/structure
- January 1, 2019: Implementation of new Water & Sewer rate/structure based on study