### BUDGET RESPONSE TO CITY COUNCIL MEMBERS

No. 24-007



# To the Mayor and Members of the City Council

August 24, 2023

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## SUBJECT: WATER UTILITY FY2024 REVENUE REQUIREMENTS

The Water Utility annually completes cost-of-service studies for retail and wholesale customer classes for both water and sewer services. These studies determine the rates that will be recommended to the City Council. This Budget Response outlines the process and drivers addressed in setting rates for 2024 and provides the projected change in water and sewer revenue requirements.

### Retail Water and Sewer Rate Process

Retail rates paid by Fort Worth residents and businesses are based on the Utility's cost of service, established as part of the annual budget process using industry standards. Utility staff prepares the budget for the ensuing fiscal year and determines the cost responsibility and revenue requirements needed to recover the costs of providing water and sewer services to each of the customer classes. Staff also reviews water volume usage and sewer flows contributed by class and adjusts each class based on recent and long-term trends. This process achieves cost-of-service rates that ensure full cost recovery by class as well as equity among customer classes.

### **Budget Drivers**

The FY2024 budget is increasing 11.5% over the FY2023 Adopted Budget. This is driven primarily by increases to debt service payments and pay-go cash financing to support the City Council-adopted capital improvement plan. Totaling \$24.8 million, these increases are needed to keep pace with growth and fund capital investment in the regional system.

The FY2024 budget reflects an increase in what Fort Worth will pay to the Tarrant Regional Water District (TRWD) to buy raw water, as well as to the Trinity River Authority (TRA) for wastewater services. TRA treats a small portion of wastewater flows from the northern and eastern sections of our service area.

We expect to pay an additional \$7,882,606 in raw water costs, bringing our total cost to \$98,655,114. TRWD is raising its rate by 4.9% primarily to fund a new operations and maintenance center and to design its Cedar Creek Wetlands water supply project. The payment to TRA is increasing by \$7,950,985, for a total cost of \$24,727,210. TRA is increasing rates by 58% at its Denton Creek treatment plant, and 14% at its Central treatment plant. TRA is improving and expanding these facilities.

The FY2024 budget also reflects higher personnel costs for staff retention strategies and benefits costs, as well as adding six new positions to address growth and new regulatory requirements. These positions are partially offset by the revenue generated from their services. Costs are also going up in what we pay for contractual services for maintenance of our treatment plants, paving, pipe repair provided by third-party vendors, and a \$4.4 million increase in required transfers to the General Fund.

### Cost of Service Rates

Retail rates have not changed since 2020, but costs and water usage/sewer flows have. Staff did look at several revenue recovery options to maintain cost of service rates by class. Staff reviewed the fixed

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charges and the variable rates, and is recommending small increases in both the fixed charges for all meter sizes as well as the variable volume-based rates for all water and sewer customer classes. This does not apply to the irrigation class, which is already at the cost of service. If approved by the City Council, new retail rates will take effect on January 1, 2024.

#### Wholesale Water and Sewer Rate Process

Wholesale rates paid by the Utility's 33 water customer cities and 23 sewer customer cities are based on the cost-of-service studies performed on a three-year rotation using consultant services, alternating water and sewer, with Utility staff completing the study the alternate years. The process and methodology are established within the Uniform Wholesale Contracts for water and sewer services. Studies are based on the prior year's expenditure data, and adjusting for known and measurable changes. Volumes used to calculate the rate change are based on the prior year's actual use. Results of the cost-of-service studies and preliminary rates are presented to the Wholesale Water and Wastewater Advisory Committees, comprised of representatives of each of the customer cities. Staff met with the Cost of Service Subcommittee of the Wholesale Advisory Committees on May 11, 2023 and met with the full Wholesale Advisory Committees on June 7, 2023 to present the preliminary FY2024 wholesale water and sewer rates. Final rates were provided to the members of the Wholesale Advisory Committees on July 11, 2023. Approved new wholesale rates would take effect on October 1, 2023.

#### FY2024 Recommendations and System Adjustments

Based on the cost of service studies, staff recommends the following adjustments in system-wide revenue requirements for retail water and sewer service. These adjustments result in an increase of \$2.18 on the average monthly residential bill based on FY2022 average usage of about 7,750 gallons of water and 4.550 gallons of sewer flow per month.

Retail Water: + 3.50% Retail Sewer: + 2.90%

Based on the prescribed cost-of-service rate methodology established in the Uniform Wholesale Contracts, the following adjustments in system-wide revenue requirements are required for wholesale water and sewer rates:

Wholesale Water: - 5.53% Wholesale Sewer: + 15.84%

M&Cs for approval of FY2024 rates will be presented to the City Council for consideration on September 12, 2023.

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Should you have any questions about the retail or wholesale rate processes, or the recommended 2024 rates, please contact Chris Harder, Water Director, at 817-392-5020.

David Cooke City Manager

**ISSUED BY THE CITY MANAGER** 

**FORT WORTH, TEXAS**