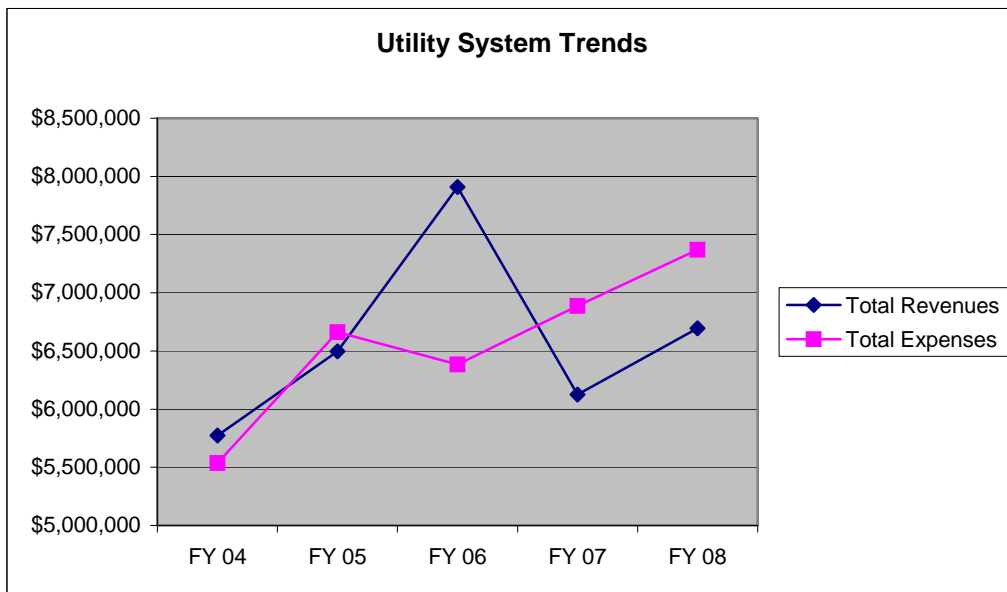


# City of Highland Village Utility Rates (September 2007)

## Rate History

A rate adjustment totaling 18% for most users is to be effective in November 2007. Since 1992, except for a minor adjustment in 1997, rates were substantially unchanged until an 18% increase in 2003. And this increase was projected to be sufficient through 2005. Accordingly, a rate study with an outside consultant was initiated in early 2006.

However, the drought of 2006 produced increased revenues – delaying a planned adjustment. Unforeseen was an extremely wet summer in 2007 which consumed reserves that were re-established somewhat in 2006 – prompting urgent action to address rates. The normalized revenue base is insufficient to provide for on-going operations. Therefore an adjustment to utility rates averaging 18% for most utility customers is needed to provide an adequate revenue base.



## Factors Associated with Rate Adjustment

### *Increased Operating Costs*

A number of Metroplex cities have also been faced with rising operating costs and have adjusted their rates. And this is even further magnified for Highland Village, being a member of the UTRWD with new facilities and corresponding higher capital costs, which are passed on to participating members. Annual costs associated with the UTRWD have increased 24% since the last rate adjustment.

Personnel costs have increased 59% since FY 2004 primarily due to the addition of four new positions (GIS Administrator, Construction inspector, and two utility technicians). This cost component should level off, as utility personnel are now expected to be sufficient for build-out of the City.

Utility Operations are also reflecting increased costs compared to just a few years ago due to increased maintenance of the system. Much of the infrastructure is now approaching an age to have replacements (i.e. pumps for wells and lift stations). And system failures have

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increased (main breaks, etc) over the past few years. In fact, the City has a utility capital improvement budget with planned expenditures totaling \$9.5M over the next 10 years.

### *Providing for Sufficient Operating Reserves*

A key objective, in addition to providing sufficient funding for on-going operations, is restoration of reserves. Given the City's level of expenditures, reserve balances should be between \$1.2 and \$1.3M. However, restoring reserve balances quickly would necessitate an increase that would be excessive. To alleviate the initial effect, a decision was made to include impact fees on hand to be included in calculation of available working capital. Previously, impact fees were segregated – used to partially offset debt service. It is however, important to note that collection of these fees will be depleted in the next four to five years. Balances will need to build to sufficient levels over this time to make up the difference.

### **Changes to Rate Structure**

#### *Residential vs. Commercial Rates*

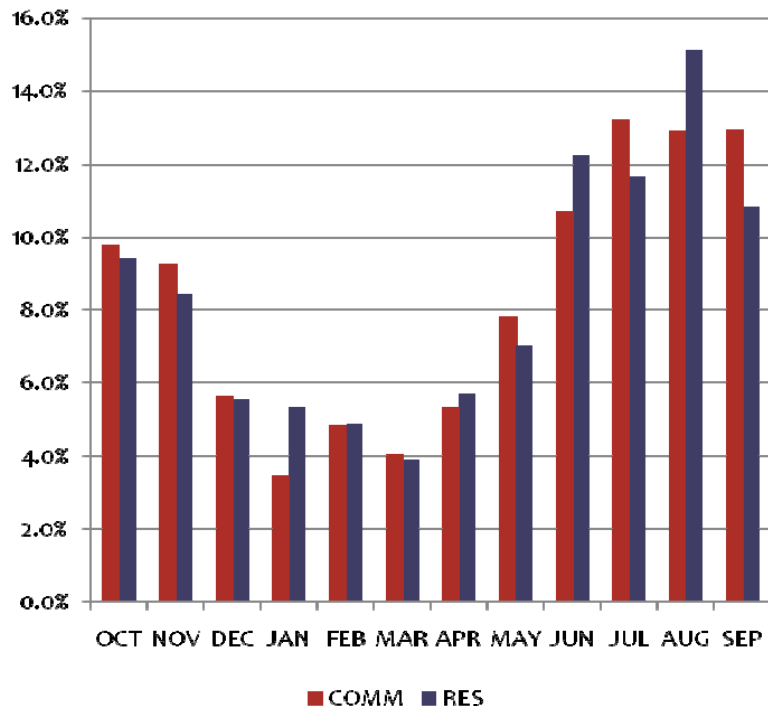
There is by design, a disparity in the rate structure between residential and commercial water customers. Residential has a steeply inverted rate structure while the commercial has a flat rate structure.

The rationale for the inverted rates is twofold:

- 1) Increased rates at higher usage levels encourage conservation. Highland Village has traditionally been environmentally conscious. And for the City's current subscribed capacity to be sufficient through build-out, it is imperative to reduce per capita water consumption.
- 2) The City has to subscribe to a capacity level to provide for peak usage. This results in a demand charge that the City incurs regardless if water is actually taken or not. Water customers with higher usage effectively increase the demand charge for the City as a whole. Thus, increased rates for higher usage levels, provides a means to more fairly distribute costs.

A flat rate structure is more indicative of consistent usage throughout the year. However, an examination of water usage for the commercial customers (primarily irrigation) indicates that the commercial customers place a near-identical summer load on the water system as does the residential customers.

### **% OF WATER USED BY MONTH**



## City of Highland Village Utility Rates (September 2007)

### *New Rate Structure for Commercial Irrigation*

Commercial irrigation users have benefited from being charged a flat rate, resulting in residential users bearing a much higher burden of paying for water costs. Thus, a rate structure will be provided for commercial irrigation that mirrors that of residential. And the effect will be significant with the new rates – doubling the cost for some heavy irrigation users.

### *Wholesale Charges*

Wholesale Costs represent just under 50% of the total System costs and are expected to rise over the next several years. Given that the City has no direct control over these costs – coupled with the magnitude of the wholesale cost component to the overall cost, wholesale costs are now to be calculated and shown separately as a pass-through charge. This will provide a fairer method of distributing wholesale costs, and more informative billing display for residents regarding their utility charges. Each year the pass-through charge will be adjusted to equal actual charges billed to the City. Thus, customers will now see their water / sewer charges split between wholesale and City related.

### *Effect on Average Bill (Residential)*

	Current	Proposed	Change	
			Amt	%
<b>Water 15,000 gal, Sewer 7,500</b>				
Wholesale Water	\$ -	\$ 26.40		
City Water usage	48.25	28.90		
<i>Total Water</i>	48.25	55.30	7.05	15%
Wholesale Sewer	-	25.58		
City Swr usage	48.00	32.05		-
<i>Total Sewer</i>	48.00	57.63	9.63	20%
<b>Total Water / Sewer</b>	<b>\$ 96.25</b>	<b>\$ 112.93</b>	<b>16.68</b>	<b>17%</b>

### *Comparison to Other Cities*

A comparison of water rates shows that Highland Village rates are fairly comparable to surrounding cities. Highland Village sewage rates however, continue to be at above-average levels. Of the cities shown below, Corinth and Lake Cities are the most comparable, as they both obtain water / wastewater from the UTRWD.

Water/Sewer Rates	Highland Village (proposed)	Southlake	Coppell	Flower Mound	Lewisville	Lake Cities	Corinth
<b>Water Rates</b>							
10,000 Gallons	37.25	48.16	35.40	31.32	34.66	38.68	39.30
20,000 Gallons	75.15	80.66	61.40	61.07	60.74	72.80	78.60
30,000 Gallons	120.95	114.41	90.65	95.37	87.34	108.30	127.90
40,000 Gallons	179.55	147.91	123.15	129.67	113.94	153.60	187.20
<b>Sewer Rates</b>							
5,000 Gallons	39.95	35.16	19.20	17.36	17.12	22.90	39.18
7,500 Gallons	57.63	42.66	23.70	23.56	24.92	30.48	50.18
10,000 Gallons	75.30	50.16	28.20	29.76	32.72	38.05	61.18