

TO: Dr. Koultourides and Members of Council

FROM: Dustin Anderson, Town Manager

SUBJECT: Water Rates

DATE: April 19, 2021

Background

Munster is a wholesale customer of the Hammond Water Works Department. This means that we pay Hammond a flat fee for clean water. The old rate we paid was \$.52/1,000 gallons. This rate hadn't been adjusted for decades. Last fall, there was an attempt to raise the rate to \$1.90/1,000 gallons. Through negotiations with the City, Munster and the other wholesale communities were able to agree with Hammond on a new rate of \$.95/1,000 gallons, effective January 1, 2021.

Methodology

The retroactive effective date to January means that when the Town raises rates to accommodate this increase, it will be more than the simple difference between \$.95 and \$.52, because we will be invoiced at \$.95 all the water we have used so far this year.

Indeed, the Town anticipates an additional invoice of \$220,000 from the City of Hammond that will represent the difference in the current and agreed-upon rates for the first six months of the year.

The Town also has costs associated with delivering that water from Hammond to our residents and business. Our current rate is \$3.13 per 1,000 gallons for the first 5,000 gallons and then a variable rate depending on volume thereafter. This rate includes both the wholesale cost of water discussed above, as well as the maintenance and operation cost of the delivery system that brings water to your tap. The Town last raised rates in 2018 by 6.8% from \$2.93 to \$3.13. This rate increase was the first in over a decade.

As of April 1, there have been over 20 water main breaks in Town. There are significant known capital improvements needed, as well as needs likely not yet identified. Providing water service in a safe, reliable, and efficient manner is of paramount importance to our community. The cost associated with providing these services is greater than our current revenue.

To address this, we have begun the process of conducting a cost of service study that will establish the engineered cost of maintenance and operations of these systems and then will devise rates based on these findings.

Further, the Town suggests including the inflation-adjusted rate to the current \$3.13 while this cost of service study is being conducted so that critical infrastructure can be repaired.

Table 1 found below illustrates the proposed changes that would accommodate the water costs for the June 2021 – January 2022 period.

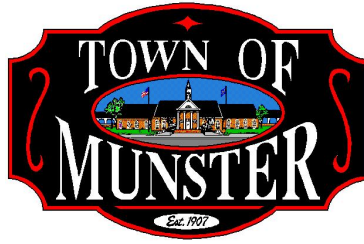


Table 1: Prospective Rates Beginning June 2021.

			Post Hammond	
	Gallons	Current	Plus CPI Adjustment	Pass Through
First	5,000	\$ 3.13	\$ 3.27	\$ 3.70
Next	10,000	\$ 2.94	\$ 3.07	\$ 3.50
Next	20,000	\$ 2.73	\$ 2.85	\$ 3.28
Next	40,000	\$ 2.54	\$ 2.65	\$ 3.08
Next	75,000	\$ 2.37	\$ 2.48	\$ 2.91
Over	150,000	\$ 2.19	\$ 2.29	\$ 2.72

These proposed rates were calculated by taking the current rates, first passed in 2018, and adjusting them for inflation from January 2019 to the most recent available Bureau of Labor Statistics figures from February of 2021 in the “Plus CPI Adjustment”. We then added the difference between our current rate and our negotiated rate to arrive at the figure in the “Pass Through” column.

Because we are anticipating the retroactive billing of our consumption for the first half of the year to be \$220,000, staff have determined what that figure would be per meter size per customer. This figure represented a significant cost per household. Staff recommends that this one-time fee to cover water expenses already incurred be broken up over the last six months of the year to better accommodate this. Table 2 found below illustrates these costs.

Table 2: Retroactive Rates

Meter Size	Projected Retroactive Increase	Six-Month Fee
5/8" - 3/4"	\$24.55	\$4.09
1"	\$27.31	\$4.55
1 1/2"	\$32.73	\$5.46
2"	\$36.83	\$6.14
3"	\$40.92	\$6.82
4"	\$40.92	\$6.82
6"	\$54.57	\$9.10
8"	\$81.88	\$13.65

The effect of these proposed rate changes are shown in Table 3, found below.

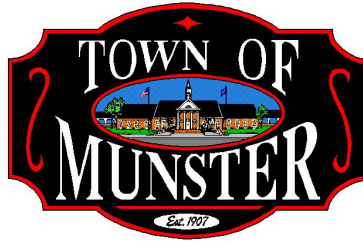


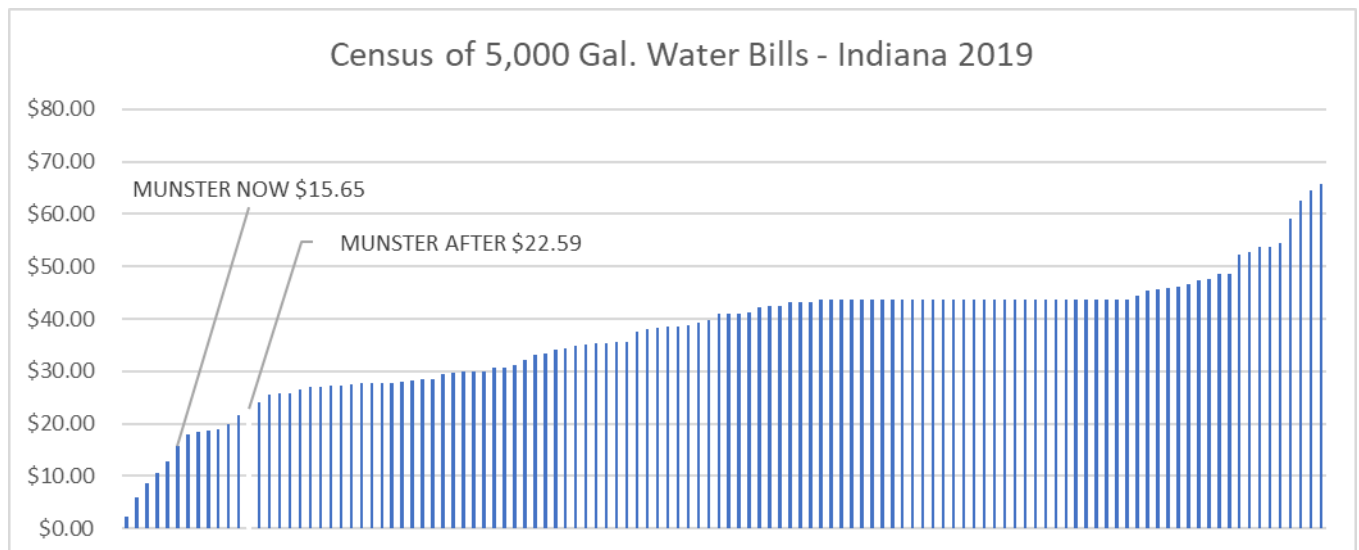
Table 3: Rate Impact

	Current Rate		New Rate	
Homeowner with 5,000 gallons of consumption and a 5/8" connection	\$	15.65	\$	22.59
Homeowner with 10,000 gallons of consumption and a 1" connection	\$	30.35	\$	37.70

As you can see, this represents a 21.58% increase over our current rates. While not insignificant, placed in a region and state context, our rates locally will still be very competitive.

Figure 1 found below places our current and future rates in scale with the rest of the state.

Figure 1: Census of 2019 5,000 Gallon Water Bills



This adjustment to our rates is necessary. As we continue to quantify the needs of our utilities through the cost of service study process, we will likely come back to review this further. It is not everywhere that a community is willing to take care of their town. Many places look to delay maintenance to save money in the short-term. But invariably, a quick win in the short-term at the expense of maintenance results in long-term costs that far eclipse any savings previously realized.

Revisions

The only change to Ordinance 1823 from first read on April 5th to the second read on April 19th is that the new minimum charges have been adjusted down to more accurately align with the rate structure the Town currently employs.

Recommendation

By motion and roll-call vote to adopt Ordinance 1823 entitled: AN ORDINANCE AMENDING SCHEDULE "A," A NON-CODIFIED PORTION OF THE MUNICIPAL CODE, AMENDING FEES FOR WATER UTILITIES on second read.