



**To:** President Gardiner and Members of Council  
**From:** Town Manager  
**Date:** February 21, 2022  
**Re:** Ordinance 1857 and Ordinance 1858 to Amend Utility Rates

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### **Background**

The Town of Munster maintains three underground utilities. We are a wholesale customer of water from the Hammond Water Works Department. This means we own and operate the distribution system for water. Additionally, we are a member of the Hammond Sanitary District. The District owns and maintains all the pump stations, pressurized mains, retention basins, and the sanitary sewage treatment plant. The Town owns and maintains the gravity drains. Finally, we own and maintain our stormwater system, which manages over-land water from rain and snow melt.

Each of these different utilities should be looked at as an enterprise that we are all stakeholders in.

These utility enterprises have significant maintenance needs, particularly in our water utility. Munster has experienced over 30 water main breaks a year for the past three years. This is not normal for a system of our size, or sustainable. Additionally, all seven of our water towers are due to be reconditioned. If this necessary maintenance is deferred, it places in question not only the reliability of our water pressure but our ability to continue to deliver this resource safely and consistently.

The situation we find ourselves in is a result of the Town having under-charged for the cost of service for decades. This is understandably a very common practice. Many cities and towns do not want to charge their residents the actual cost of providing the service and therefore either subsidize their utilities from other sources or simply lower their service expectations until a catastrophic failure that will end up costing more than gradual rate increases for routine maintenance.

It is no secret that street flooding is an issue during intense rain events. These intense rain events are happening at increasingly frequent intervals. Our stormwater system was constructed with the assumption that the weather we experienced when the system was designed would be the weather that we would experience indefinitely. As it happens, that is not the case. To effectively address street flooding and other stormwater challenges, we must recalculate our stormwater fee. As it is, the current stormwater fee supplements the sewer user fees we receive from the Hamond Sanitary District to maintain our sanitary sewer collection system. If a new fee is adopted, the Town will have the capacity to improve stormwater capacity and drainage.

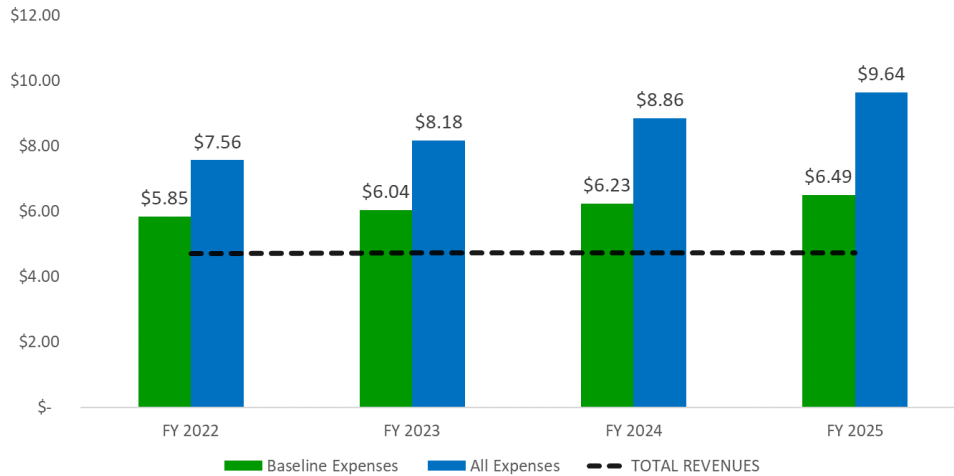
### **Methodology**

The Town engaged NewGen strategies to conduct a cost-of-service analysis on our utilities. An interdisciplinary staff team comprised of members of Public Works, Clerk-Treasurer's, and Town Manager's Offices worked with the consultant throughout 2021 to determine the revenue requirements necessary to maintain our utilities.

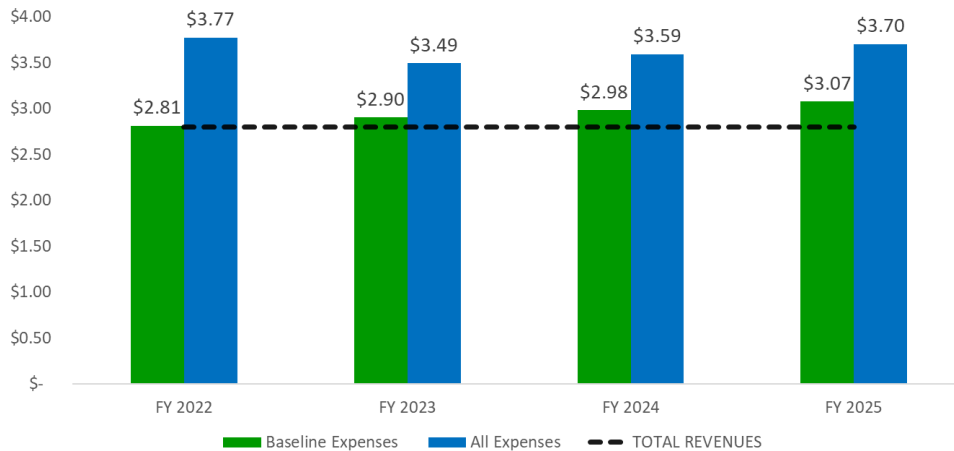
At a public work-study session last December, Town Council reviewed the first draft of the consultant's findings. In short, we learned that our current rates were insufficient not only to improve the condition of our infrastructure and our maintenance capacity, but also not enough to even maintain the systems "as is"

A summary of these findings is illustrated below.

Anticipated Financial Performance Under Current Rates: Water



Anticipated Financial Performance Under Current Rates: Sanitary and Stormwater



In these graphs, our current rates are illustrated at the dotted line. The green column is our current condition. The blue column represents investments in our infrastructure and capacity.

Council has reviewed potential rates and provided feedback on how the rate structures could be presented. To that end there are five different ordinances presented for your reference this evening – three variations of the water rate and two variations of the stormwater rate.

Option	Variation
Water A	Original Cost or Service Recommendations
Water B	\$2.5 Million in ARPA Funds Towards Water Infrastructure
Water C	\$2.5 Million in ARPA Funds Towards Water Infrastructure and 90% Cap on Sprinkler Rate
Storm A	Revised Cost of Service Recommendations
Storm B	Revised Cost of Service Recommendations with No Faith-Based Exemption

These variations are included as attachments to this memorandum.

“Water A” represents the true cost of service for each type of customer in Town: residential, commercial, and sprinkler.

Being sensitive to the increase in water rates, Council has asked that \$2.5 of the \$5 million dollars in one-time American Rescue Plan Act (ARPA) funds be used for water system improvements that otherwise would have been paid for through the new rates. This option is presented as “Water B”.

After reviewing the data, Council determined that the cost-of-service increase required for the sprinkler customer class was too high. Based on that feedback, the consultant revised the rate model to cap the sprinkler rate at no more than 90% of the previous rate. This rate also includes ARPA funds. This revision is presented as “Water C”

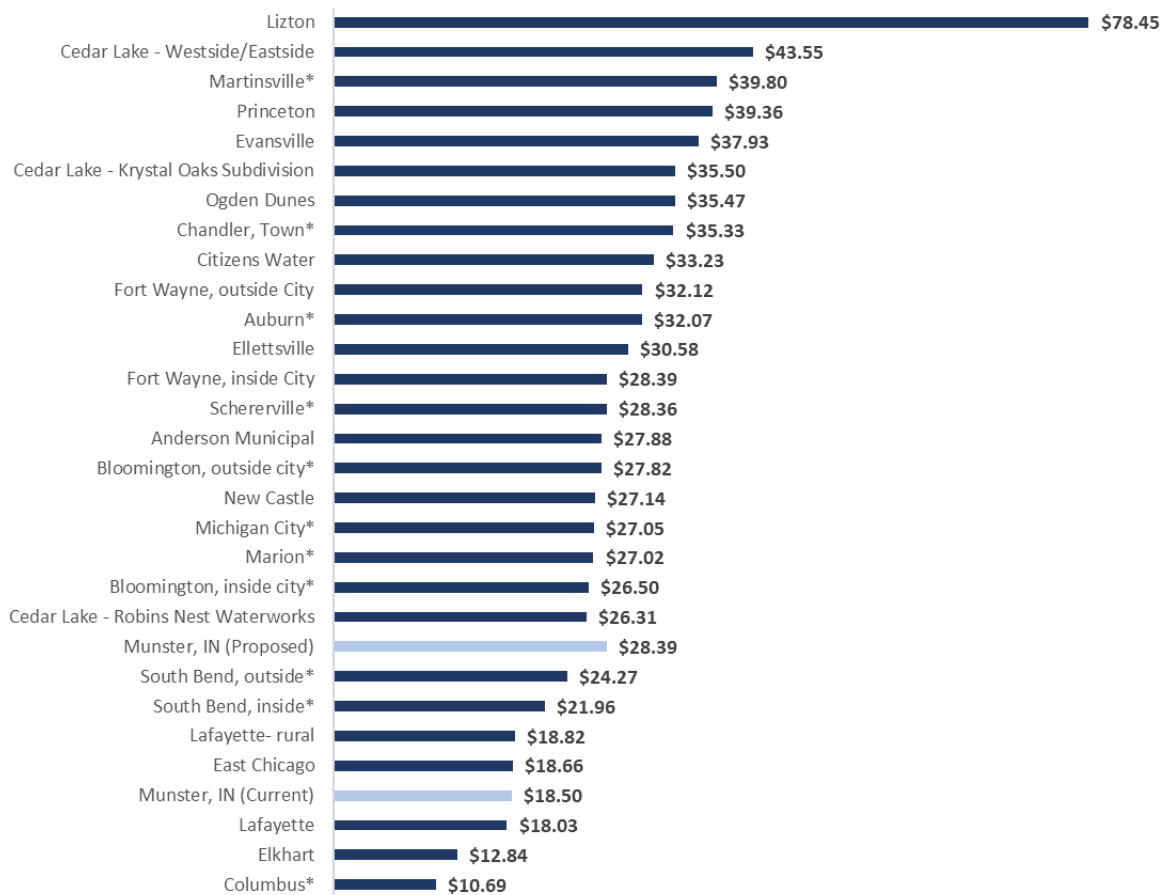
The stormwater rates that were initially shared with Council were deemed too high to reasonably consider. Staff was directed to refine the proposed capital plan. Staff significantly amended the scope of potential work, while also ensuring that the proposed rates would materially improve our infrastructure and work capacity. This revised scope is shown as “Storm A”.

During the discussion of the revised stormwater rates, there was a question raised regarding the policy decision to exempt faith-based organization from the stormwater fee. The thinking was that stormwater management is a utility just like any other function like water, sewer, etc. There is a cost to managing the stormwater runoff that these entities produce, and that is currently being subsidized by other customers. To respond to this question, a stormwater rate eliminating the faith-based exemption is presented as “Storm B”.

In each of these proposed ordinances, there will be a number of fees that listed as “TBD”. This is due to the fact that they are established as a proportion of the respective rates. Therefore, until such time as a preferred rate structure is chosen, these will be in flux. It is staff’s intention to include these figures during second read of the ordinance when that information is known.

Broadly speaking – regardless of the particular rate that is chosen – customers will experience a not insignificant increase in their monthly bill. While this may seem out of tolerance for many, the final rates that the Town may be charging will be well within the median range of Indiana municipalities.

Our proposed rates are illustrated in a state-wide context in the next illustrations.



### On Process

Tonight, the Town Council will consider on first read the proposed Ordinance 1857 “An Ordinance Amending Schedule “A,” a Non-Codified Portion of the Municipal Code, Amending Fees for Water Utilities” and Ordinance 1858 being “An Ordinance Amending Schedule ‘A,’ a Non-Codified Portion of the Municipal Code, Amending Fees for Sewer and Stormwater Utilities.”

If the Council chooses to vote in the affirmative, a public hearing will be noticed and held on March 21<sup>st</sup> prior to the second vote, potentially that evening. If at that meeting Council chooses to adopt Ordinance 1857 and Ordinance 1858, further publication will be posted, no less that 30 days prior to enacting the new rates. This means the new rates would become effective no sooner than June 15<sup>th</sup>.

### Recommendation:

Identify a preferred water rate option and by motion and rollcall consider Ordinances 1857 on first reading as presented and set for second reading at your regular meeting on March 21<sup>st</sup>.

Identify a preferred stormwater rate option and by motion and rollcall consider Ordinances 1858 on first reading as presented and set for second reading at your regular meeting on March 21<sup>st</sup>.