



To: President Gardiner and Members of Council
From: Town Manager
Date: April 4, 2022
Re: Ordinance 1857 to Amend Utility Rates

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.

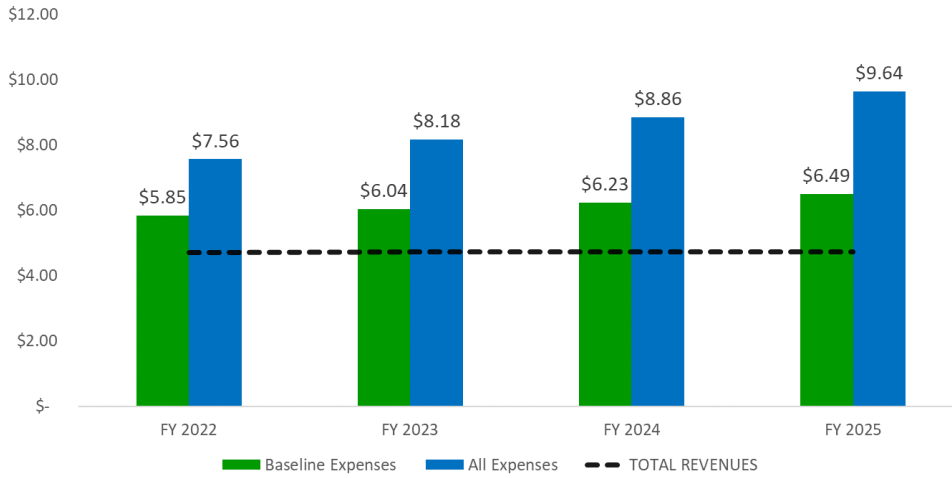
The situation we find ourselves in is a result of the Town having under-charged for the cost of service for decades. This is understandably a very common practice. Many cities and towns do not want to charge their residents the actual cost of providing the service and therefore either subsidize their 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.

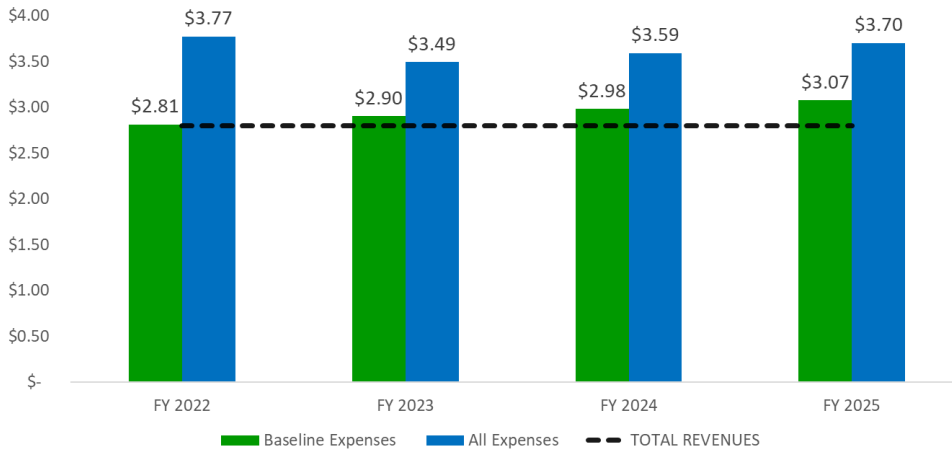
The Town engaged NewGen strategies to conduct a cost-of-service analysis on our utilities. An interdisciplinary staff team comprised of members of Public Works, Clerk-Treasurer's, and Town Manager's Offices worked with the consultant throughout 2021 to determine the revenue requirements necessary to 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 were five different ordinances presented for reference – 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 were 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 (APRA) 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 APRA 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 organizations 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”.

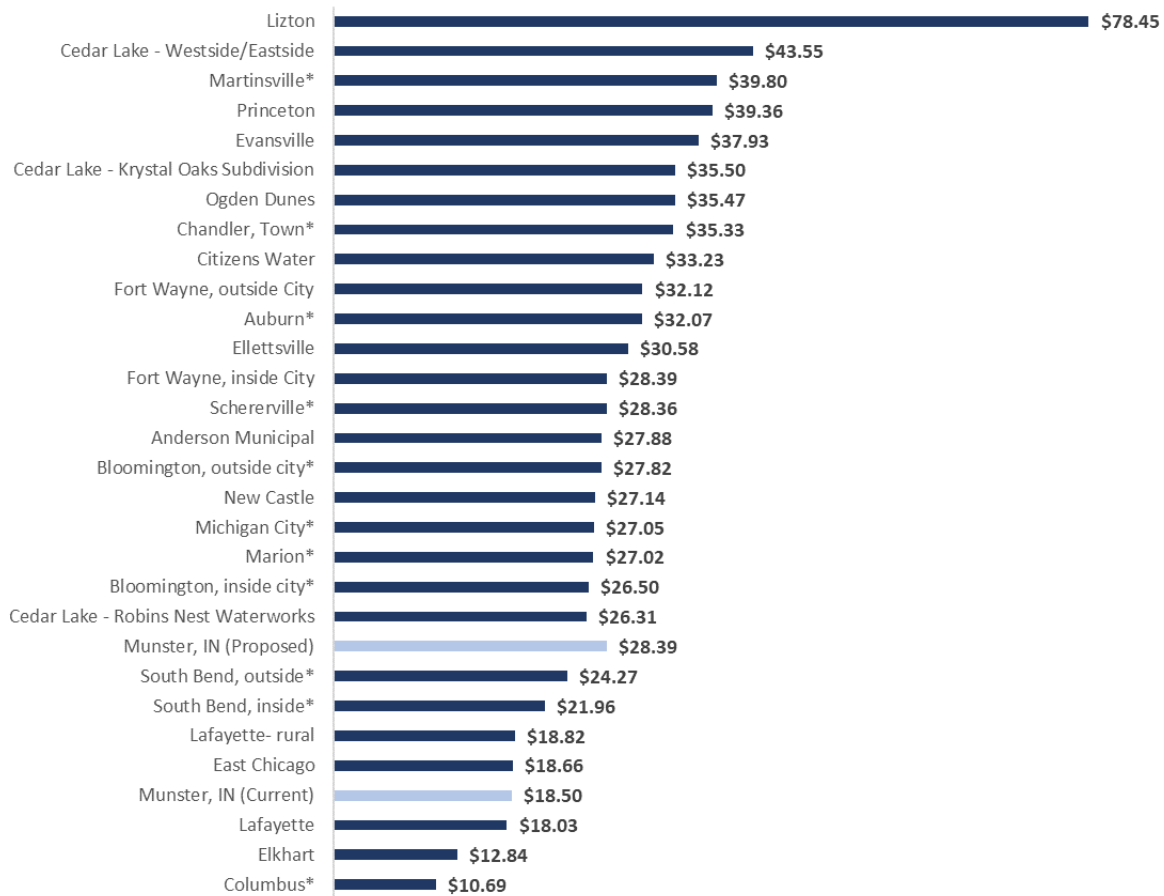
In each of these proposed ordinances, there are a number of fees that were previously listed as “TBD”. This was a result of the fact that they are established as a proportion of the respective rates. After receiving feedback on a rate preference at the last meeting, staff was able to make those necessary calculations.

At the February 21 meeting, Council indicated a preference for both Water C and Storm B.

Customer impact analysis is presented as an exhibit to this memorandum.

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 residential water rates are illustrated in a state-wide context in the next illustrations.



Methodology

At the March 21st meeting, Council adopted Ordinance 1858 amending the sanitary and stormwater rates for the Town of Munster.

There was discussion regarding the sprinkler rate for the water rate increase. At their February 7th work-study, 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 APRA funds. This revision is presented as “Water C” on February 21st and March 21st.

At the March 21st, there remained a concern that the cost-of-service rate for the sprinkler class of customer was still too high. The sprinkler rate is greater than the residential rate because when a water system is designed, it is designed in a manner that ensures that all meters can run at capacity simultaneously. That means if there is a second meter and service line at an address, all the infrastructure up stream has been designed to accommodate simultaneous usage of both lines at that address. There is a significant cost to building out the capacity to ensure reliability.

To address the concerns about affordability of the sprinkler rate, Council has asked staff to present four scenarios. They are:

Option 1: Tie the sprinkler rate to the residential rate.

Option 2: Cap the sprinkler rate increase to 90% of its current rate and tie subsequent increases to the same proportional increase in the residential rate.

Option 3: Cap the sprinkler rate increase to 75% of its current rate and tie subsequent increases to the same proportional increase in the residential rate.

Option 4: Cap the sprinkler rate increase to 50% of its current rate and tie subsequent increases to the same proportional increase in the residential rate.

In each of these scenarios, the residential and commercial rates will remain the same and will not subsidize the sprinkler cost-of-service. Council has asked that staff determine the delta in revenue between each of these scenarios and true cost-of-service. These projected deltas in revenue are presented below.

	2022	2023	2024	2025	Total
Baseline - Cost of Service					
Rate Revenues	\$ 5,532,820	\$ 6,709,315	\$ 7,792,240	\$ 8,881,250	\$ 28,915,625
Revenue Requirement	5,528,588	6,704,315	7,785,073	8,873,528	28,891,504
Over/(Under) Recovery (\$)	4,232	5,000	7,167	7,722	24,121
Scenario 1 - Residential					
Rate Revenues	\$ 5,406,074	\$ 6,522,319	\$ 7,551,691	\$ 8,591,512	\$ 28,071,596
Revenue Requirement	5,528,588	6,704,315	7,785,073	8,873,528	28,891,504
Over/(Under) Recovery (\$)	(122,514)	(181,996)	(233,382)	(282,016)	(819,908)
Scenario 2 - 90% Cap					
Rate Revenues	\$ 5,532,820	\$ 6,674,556	\$ 7,727,626	\$ 8,791,145	\$ 28,726,147
Revenue Requirement	5,528,588	6,704,315	7,785,073	8,873,528	\$ 28,891,504
Over/(Under) Recovery (\$)	4,232	(29,759)	(57,447)	(82,383)	(165,357)
Scenario 3 - 75% Cap					
Rate Revenues	\$5,498,639	\$6,630,253	\$7,673,820	\$8,730,158	\$ 28,532,870
Revenue Requirement	5,528,588	6,704,315	7,785,073	8,873,528	28,891,504
Over/(Under) Recovery (\$)	(29,949)	(74,062)	(111,253)	(143,370)	(358,634)
Scenario 4 - 50% Cap					
Rate Revenues	\$5,446,414	\$6,567,273	\$7,600,707	\$8,646,913	\$ 28,261,307
Revenue Requirement	5,528,588	6,704,315	7,785,073	8,873,528	28,891,504
Over/(Under) Recovery (\$)	(82,174)	(137,042)	(184,366)	(226,615)	(630,197)

On Process

Tonight, the Town Council will consider on second reading the proposed Ordinance 1857 as amended “An Ordinance Amending Schedule “A,” a Non-Codified Portion of the Municipal Code, Amending Fees for Water Utilities”.

If the Council chooses to vote in the affirmative, further publication of the rates will be posted, no less than 30 days prior to enacting the new rates. This means the new rates would become effective for bills due on July 20, 2022, which reflects monthly usage beginning on or about May 15, 2022.

Recommendation:

Identify a preferred water rate option and by motion and rollcall adopt Ordinances 1857 as amended on second reading as presented.