

**To the Mayor and Members of the City Council****May 19, 2015**

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SUBJECT: OVERVIEW OF WATER AND SEWER RATE RECOMMENDATIONS PROCESS

Each year the Water Department completes cost of service studies for Retail and Wholesale customer classes for both water and sewer services. Those studies are used to determine the rates that will be recommended to the City Council. The purpose of this Informal Report is to outline the membership and process related to FY2016 rate recommendations.

Retail Water and Sewer Rate Process

Retail rates paid by Fort Worth residents and businesses are based on the Department's cost of service, which is established as part of the annual budget process using industry standards. Once the cost of service is determined, the preliminary rates and specific topics that might affect the rate structure are presented to the Department's Informal Water and Sewer Retail Rate Structure Stakeholder Group for input and feedback.

This group was formed by the Director in the early 1990's at the City Council's request to be a sounding board for issues related to the Water and Sewer rate structures. The group is not appointed by City Council, as representatives are not based on City Council Districts. Instead, the Informal Water and Sewer Retail Rate Structure Stakeholder Group is comprised of representatives of the various retail customer classes, which include residential, commercial, industrial, irrigation and super users. As vacancies arise, recommendations are solicited from Councilmembers to ensure representation throughout the City.

The role of the group is to provide input into how costs are allocated among customer classes. They do not provide input into the Department's budget. The group is charged with ensuring equity among customer classes and makes recommendations to the Water Director on how costs are distributed within established rate structures. This group does not address impact fees, which are regulated by state law and reviewed by the City Council-appointed Capital Improvements Advisory Committee. Representatives on the Stakeholder Group include the following:

Residential Users

Ms. Sally Burt
Mr. Rusty Fuller
Mr. Johnnie Hurst
Mr. George Johnson
Ms. La Gina Kissentaner –Thomas

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Mr. Daniel Haase – Southwestern Baptist Theological Seminary

Mr. Craig Schkade – Hillwood Properties

Industrial Users

Mr. Jesse Roberts – Alcon Laboratories

Irrigation Users

Mr. Mike Cook – Mike's Garden Center, Inc.

Super Users

Mr. Lairy Johnson – MillerCoors, LLC

Mr. Ryan Mackey – Lockheed Martin Aeronautics Company

The Stakeholder Group is scheduled to meet May 28, June 4, 11 and 18 to discuss trends and emerging issues within the Water Department for FY2016, trends in water and sewer usage, and preliminary FY2016 rates for both water and sewer service. Staff will request feedback on specific issues impacting revenue recovery and rate structure. These topics may include projected water consumption for the upcoming FY2016, and the continuation of the fixed vs. variable cost recovery plan for retail water and sewer service.

Wholesale Water and Sewer Rate Process

Wholesale rates paid by the Department's 30 water customer cities and 23 sewer customer cities are based on cost of service studies performed on a three-year rotation using consultant services, alternating water and sewer, with Department staff completing the study the alternate years. The FY2016 cost of service studies will be completed by staff for both water and sewer.

The process and methodology are established within the Uniform Wholesale Contracts for water and sewer services. By contract, studies are based on test year expenditure data, adjusting for known and measurable changes. Volumes used to calculate the rate change are based on prior year actual use.

Results of the cost of service studies and preliminary rates are presented to the Wholesale Advisory Committee, comprised of representatives of each of the customer cities. In addition to

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the Wholesale Advisory Committee, staff will work with a subcommittee of its members on cost of service issues. Subcommittee members for the FY2016 process include:

Doug Cuny, City of Grand Prairie
Scott Monaghan, DFW Airport
Brett McGuire, City of Lake Worth
Ron Haynes, City of Hurst
Kevin North/Andy McCartney, City of Burleson
Kenneth Cross, City of Richland Hills

Meetings will be held with the Cost of Service Subcommittee on May 14 and June 25. Findings and preliminary rates will be shared with the full Wholesale Advisory Committee on June 3. Final rates will be provided to the Wholesale Advisory Committee in mid-July.

Additional detailed information regarding the recommended FY2016 rates will be provided in a separate Informal Report to the City Council in late July or early August. Should you have any questions about the retail or wholesale rate processes, please contact Water Director John Carman at 817-392-8246.

David Cooke
City Manager