



Date: June 21, 2021
To: Mayor Sylvester Turner
 Council Members
From: Carol Ellinger Haddock, P.E.
 Director, Houston Public Works
Subject: Water / Wastewater Questions from Council Members

The following questions regarding the Water and Wastewater Rate update were provided by various City Council Members. The questions were grouped, combined, and summarized for similar questions.

Water and Wastewater Rates

1. Why isn't the rate increase the same either amount or percent across all levels of water usage?

The water and wastewater rates are based specifically on cost of service for that customer type. Therefore, the rates are based on the actual costs to obtain, treat, and distribute water based on the customer type. For single family residential customers, this update is working to provide predictability in cost per thousand gallons. The previous rate structure was not for uniform for Water or Wastewater. The following table shows the old versus new rates (without the conservation rates) from the report:

Water

Rate Block	Existing	FYE 2022		FYE 2023	FYE 2024	FYE 2025	FYE 2026
Month of Adjustment	July 2021	April 2022	April 2023	April 2024	April 2025	April 2026	
	Rates		Future Adjustments				
Customers with usage in excess of 3,000 gallons per month:							
First 1 kgal	\$0.16						
Next 1 kgal	7.65						
Next 1 kgal	0.45	\$5.50	+\$0.60	+\$0.50	+\$0.45	+\$0.50	+\$0.45
Next 1 kgal	12.56						
Next 1 kgal	5.29						
Next 1 kgal	5.29						
Next 6 kgal	5.74						
Next 8 kgal	9.46	11.00	+0.65	+0.55	+0.60	+0.60	+0.60
Over 20 kgal	9.46	15.00	+0.65	+0.55	+0.45	+0.45	+0.40

Wastewater

Rate Block	Existing	FYE 2022		FYE 2023	FYE 2024	FYE 2025	FYE 2026
Month of Adjustment	July 2021	April 2022	April 2023	April 2024	April 2025	April 2026	
	Rates		Future Adjustments				
First 1 kgal	\$0.20						
Next 1 kgal	0.41	\$4.00	+\$1.10	+\$0.30	+\$0.60	+\$0.55	+\$0.45
Next 1 kgal	0.33						
Next 1 kgal	17.20						
Next 1 kgal	6.22	10.50	+1.60	+0.15	+0.25	+0.50	+0.35
Over 5 kgal	9.05						

Now that the proposed structure is uniform, future adjustments will be seen as similar percentage increases.

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2. Will the money go towards water and sewer? Will any go to a general fund to help pay off the pension debt?

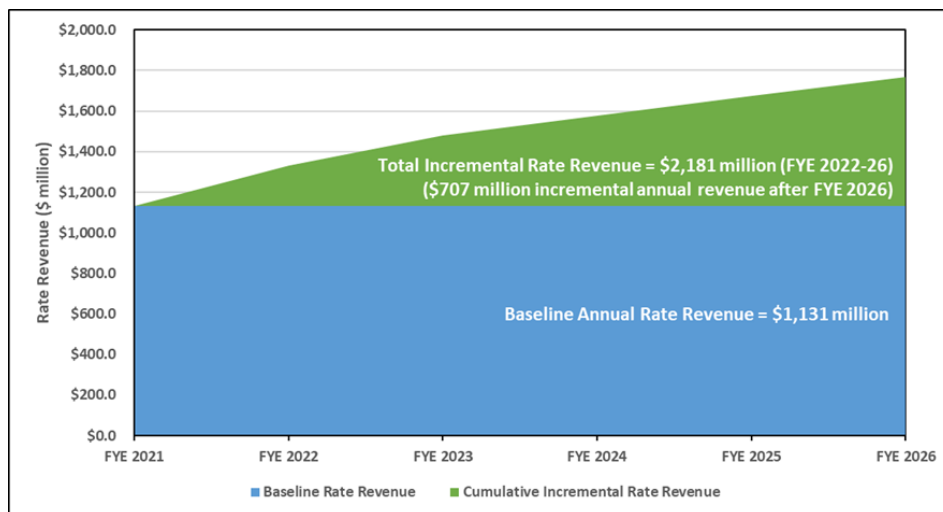
In accordance with the Master Ordinance No. 2004-299 which created the Combined Utility System (“CUS”), the CUS is an enterprise fund, which is financed primarily through the revenues from monthly bills and developer impact fees. The water and wastewater revenues from both impact fees for new connections and monthly bills for all customers, may not be commingled with other City funds and may only be used to pay for the costs of providing utility services. The CUS will continue to contribute the payments to the pension obligation debt that is directly associated with pensions related employees in the Combined Utility System.

3. Please provide the total dollar amount the City is expected to receive for each of the next 5 years and the delta of the increased dollars received due to the water rate increases?

After the proposed April 2026 increase, 12 months of revenue at the recommended rates (\$1,838 million) will generate \$707 million more than the current rates would generate (\$1,131 million). The total revenue generated from the proposed rates and rate adjustments for the period FYE 2022 through FYE 2026 is \$2,181 million higher than the revenue that would be generated from the current rates over that same period (\$1,131 million per year for the 5-year period). These projections do not include revenue from the automatic adjustments that are governed by the Master Ordinance. The projected annual revenue with the recommended rates and rate adjustments is as follows:

FYE 2022	\$1,333 million
FYE 2023	\$1,482 million
FYE 2024	\$1,578 million
FYE 2025	\$1,673 million
FYE 2026	\$1,770 million

These projections include 9 months at the previous fiscal year rates (July through March) and 3 months at the current fiscal year rates (April through June).



4. There are almost as many customers outside the City as inside. Since the outsiders do not pay property taxes to the City, can we charge them more for water than residents?

No, the City cannot charge higher rates for customers outside the City. The water and wastewater rates are based specifically on cost of service. Therefore, the rates are based on the actual costs to obtain, treat, and distribute water based on the customer type. Impact Fees are only charged to tie into the existing system, whether inside or outside the City. There are very few retail customers outside the City limits, so no Impact Fees are applicable.

5. The rate increase from 3K to 4K gallons/month, and then from 4K to 5K to 6K gallons/month is very different. There is a huge increase from 3K to 4K gallons and then decreases per thousand gallons for 5K and 6K gallon usage.

The goal was to provide a rate structure that encourages conservation by charging a lower rate for reduced household water use. HPW determined that 45% of the customers use 3000 gallons or less and a conservation rate is applied for that usage only to the extent the customer's monthly usage is remains at 3000 gallons or less.

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Month of Adjustment		July 2021	April 2022	April 2023	April 2024	April 2025	April 2026
	Rates		Future Adjustments				
Customers with usage up to 3,000 gallons per month:							
First 1 kgal	\$0.16	\$1.00	+\$0.20	+\$0.15	+\$0.15	+\$0.15	+\$0.10
Next 1 kgal	7.65						
Next 1 kgal	0.45						

** Single family residential customers who use 3,000 gallons or less per month receive a conservation credit.*

Additionally, the Rate Study recommended that we promote conservation by increasing the cost of higher water consumption. The percentage increases from the current rates to the rates that will be applied in July 2021 include a steady increase with increased usage. For example, going from 4000-gallon usage to 5000-gallon usage has an increase of 12%. For even higher consumption customers, where the higher usage is often associated with optional consumption, such as outdoor irrigation and outdoor amenities, the use of 17,000 gallons includes an overall increase of 18%.

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Customers with usage in excess of 3,000 gallons per month:							
First 1 kgal	\$0.16	\$5.50	+\$0.60	+\$0.50	+\$0.45	+\$0.50	+\$0.45
Next 1 kgal	7.65						
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Next 6 kgal	5.74	8.00	+0.65	+0.55	+0.60	+0.60	+0.60
Next 8 kgal	9.46	11.00	+0.65	+0.55	+0.60	+0.60	+0.60
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6. At what water usage amount does this make economic sense for residents to install separate Irrigation meters? What is the process and cost for getting a separate meter? Can people save money by doing this?

We recommend that the customer determine if installing an irrigation will be financially beneficial for them. We suggest that they consider completing the following before purchasing an irrigation meter:

- a. *Determine the property's outdoor water usage for a 30-day period*
 - b. *This can be used to compare the charges for the total usage on the domestic meter versus the charges for the usage split between the domestic and irrigation meters*
 - c. *Contact the Taps & Meters staff at the Houston Permitting Center located at 1002 Washington Ave, Houston, TX 77002. This staff can be reached at 832-394-8888*
 - d. *This staff will be able to assist with determining what size irrigation meter they will need, the cost for this meter, the cost of the permits, as well as provide them with a list of authorized contractors*
 - e. *It is the customer's responsibility to discuss with their contractor the costs associated with the installation of the meter.*
 - f. *Review the water/sewer rates which are available at www.houstonwater.org for the rates pertaining to the specific meter class and size to determine if it will be cost effective for them to purchase and install an irrigation meter.*
7. How much do we anticipate the cost will be for agenda Item 21: ORDINANCE AMENDING CHAPTER 47 OF THE CODE OF ORDINANCES, HOUSTON, TEXAS, relating to excessive balances remaining after leak adjustments are applied; defining and establishing billing procedures for leak adjustments for City-caused leaks, excusable defects in customers' lines, and excess usage where customers are left with a balance greater than \$3500 or greater than \$500 for eligible low income seniors; clarifying customer requirements and the role and requirements for administrative hearing officers?

Based on several recent years, the impact to revenue for the CUS is estimated to be less than \$1M annually.

Impact Fees

1. Question has come up concerning the Developer Impact Fee set for developers connecting for new water/sewer service. The maximum fee allowable is 50% of the calculated fee as controlled by state law. Did the recent Council Action set Impact Fees at the state limit?

It is important for the City of Houston to be competitive for attracting new/expanded development both within the immediate region and across the State. The City of Houston has historically adopted Developer Impact Fees well below the calculated state maximum. The state maximum is 50% of the calculated Impact Fee Capital Improvement Plan total. The previous rates were just over 20% for water and 35% for wastewater for the 2009/10 data. The proposed rates are 25% of the revised 2019/20 state maximum and 35% for wastewater which will take effect July 1, 2021. Water will increase every other year to match wastewater in 2025 and both will auto-increase each year based (defined in the attached table in the Ordinance and not separately calculated each year like the rates). Both rates will be at 38.6% of the state maximum in 2025. There is a balance between encouraging new/expanded development, protecting the public from impacts and passing along costs appropriately. Additionally, while these increases may not appear significant in percentages, they do change from just at \$2,000 per service unit to \$3,200 per service unit and will continue to incrementally increase over the next five years. The

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adopted Developer Impact Fees make significant movement toward full cost recovery while remaining competitive for new/expanded development.

2. What is “infrastructure to serve new development”? Can you provide some examples or what is, and is not, considered infrastructure to serve new development?

Infrastructure to serve new development is either excess capacity (used at a lower scale of output than what it was designed to do) in already built systems or new capacity built to support new development. The infrastructure can be anywhere in the system.

An example of excess capacity is a pipe that was built to deliver 10,000 gallons of water a day, but existing development only uses 9,000 gallons. Since the city paid for the full cost of the pipe, new development pays an impact fee for the prorated costs so they can use that part that was excess.

3. Can we further increase Impact Fees to cover the Consent Decree?

The consent decree is an agreement with the Federal Government to fix the existing wastewater system that serves existing development. Consent Decree costs can only be funded with impact fees if there is excess capacity built while bringing the system into legal compliance. Then, only this excess capacity can be funded with developer impact fees.

4. Can we charge Impact Fees outside the City?

There are very few retail customers outside the City limits, so no Impact Fees are applicable.

Other Funding Sources

1. Are there any other revenue sources that could pay for operations/maintenance, repair/replace/upgrade of existing infrastructure, aside from water/wastewater rates? Could ARPA funds legally be used for this purpose?

Other funding sources such as the Coronavirus Local Fiscal Recovery Fund (“CLFRF”, a part of the American Rescue Plan Act, “ARPA”), may be eligible to support limited CUS activities. Initial guidance is unclear. Additionally this would be a one-time investment and not address recurring annual needs.

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Consent Decree Questions

1. What are the fine associated with failure to comply with the terms of the consent decree?

Section X of the Consent Decree, which begins on page 51 of the Consent Decree scan (page 48 using page numbers of the actual CD) states which types of noncompliance with the Consent Decree will cause



stipulated penalties to accrue, and at which amounts. The final, signed Consent Decree is available at this link: https://www.publicworks.houstontx.gov/sites/default/files/assets/003-signed_consent_decree.pdf

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