



To the Mayor and Members of the City Council

August 20, 2024

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SUBJECT: WATER UTILITY FY2025 RECOMMENDED BUDGET AND RATES

The Water Utility annually completes cost-of-service studies for retail and wholesale customer classes for both water and sewer services. These studies determine the rates that will be recommended to the City Council. Outlined below are the process and drivers addressed in developing recommended rates for 2025 and the projected change in water and sewer revenue requirements.

Retail Water and Sewer Rate Process

Retail rates paid by Fort Worth residents and businesses are based on the Utility's cost of service, established as part of the annual budget process using industry standards. Utility staff prepares the budget for the ensuing fiscal year and determines the cost responsibility and revenue requirements needed to recover the costs of providing water and sewer services to each of the customer classes. Staff also reviews meter growth, water volume usage and sewer flows contributed by class and adjusts each class based on recent and long-term trends. This process achieves cost-of-service rates that ensure full cost recovery by class as well as equity among customer classes.

Budget Drivers

The FY2025 budget is increasing by 7%, or \$42,119,221, over the FY2024 Adopted Budget. The goals of the FY2025 budget are to keep pace with growth and capital investment in the regional system, meet all regulatory requirements, and fund corporate decisions and partner agency increases. Capital investment increases by \$17.9 million and is driven by increases in capital equipment purchases, debt service payments, and pay-go cash financing to support the City Council-adopted capital improvement plan.

New regulations related to the Lead and Copper Rule Revisions take effect this October. In April 2024, the EPA adopted standards for per- and polyfluoroalkyl substances (PFAS) that take effect in a few years but require the utility to take actions now to be ready. The recommended FY2025 budget includes an additional \$1.1 million in PFAS-related increases, including professional services for outside legal counsel and contract lab analysis for PFAS testing.

Increases to fund corporate decisions and partner agency obligations total \$17.7 million in FY2025. The utility will pay an additional \$6.5 million in raw water costs to the Tarrant Regional Water District, increasing the total cost to \$105.2 million; and an additional \$0.6 million to the Trinity River Authority for treatment of a small portion of wastewater flows in the far northern and eastern sections of the service area for a total cost of \$25.3 million. The FY2025 budget also reflects corporate decisions to fund higher personnel costs for Pay for Performance and adding thirteen new positions to address the utility's budget priorities at an increase of \$5.2 million. Transfers to the General Fund as well as allocations to other funds are increasing by another \$5.4 million.

Cost-of-Service Studies and Rate Design

Utility staff reviewed several revenue recovery options to maintain cost-of-service rates by class. To maintain the balance between fixed charges and variable rates using industry standards, staff recommends small increases in the monthly service charges for all meter sizes, as well as the variable volume-based rates for most water and sewer customer classes.

A primary goal of this year's water cost-of-service study and rate design is to further encourage conservation in water used for irrigation in the tiered residential and irrigation classes. As part of the study, staff reviewed the differential in rates charged between the lowest and highest tiers of other utilities in Texas and comparable cities around the country, and found Fort Worth's to be among the lowest. To send a stronger conservation pricing signal on irrigation usage, staff recommends larger increases in the top tiers of the residential and irrigation classes; and very minimal increases in the lowest two tiers of the residential class, where water is



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used for domestic purposes such as cleaning and cooking. Even with these recommended rates, Fort Worth will continue to have a differential that is one of the lowest. Staff will review these differentials annually with an eye to increasing them over the next several years, as warranted. If approved by the City Council, new retail rates will take effect on January 1, 2025.

Wholesale Water and Sewer Rate Process

Wholesale rates paid by the Utility's 33 water customer cities and 23 sewer customer cities are based on the cost-of-service studies performed on a three-year rotation using consultant services, alternating water and sewer, with utility staff completing the study the alternate years. The process and methodology are established within the Uniform Wholesale Contracts for water and sewer services. Studies are based on the prior year's expenditure data, adjusted for known and measurable changes. Volumes used to calculate the rate change are based on the prior year's actual usage. By contract, results of the cost-of-service studies and preliminary rates are presented to the Wholesale Water and Wastewater Advisory Committees, comprised of representatives of each of the customer cities. Staff met with the Cost of Service Subcommittee of the Wholesale Advisory Committees on May 21, 2024 and met with the full Wholesale Advisory Committees on June 20, 2024 to present the preliminary FY2025 wholesale water and sewer rates. Final rates were provided to the members of the Wholesale Advisory Committees on June 27, 2024. Approved new wholesale rates would take effect on October 1, 2024.

FY2025 Recommendations and System Adjustments

Based on the cost of service studies, staff recommends the following adjustments in system-wide revenue requirements for retail water and sewer service. These adjustments result in an increase of \$1.71 on the average monthly residential bill based on FY2023 average usage of about 7,638 gallons of water and 4,444 gallons of sewer flow per month.

Retail Water:	+ 3.30%
Retail Sewer:	+ 2.30%

Based on the prescribed cost-of-service rate methodology established in the Uniform Wholesale Contracts, the following adjustments in system-wide revenue requirements are required for wholesale water and sewer rates:

Wholesale Water:	- 3.11%
Wholesale Sewer:	+3.47%

M&Cs for approval of FY2025 rates will be presented to the City Council for consideration on August 27, 2024.

Should you have any questions about the retail or wholesale rate processes, please contact Chris Harder, Water Director, at 817-392-5020.

David Cooke
City Manager