



To the Mayor and Members of the City Council

August 12, 2025

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SUBJECT: WATER UTILITY FY2026 RECOMMENDED BUDGET AND REVENUE REQUIREMENTS

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 2026 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 FY2026 budget is increasing by 9.3%, or \$57,208,047, over the FY2025 Adopted Budget. The goals of the FY2026 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 \$26.0 million and is driven by increases in debt service payments and pay-go cash financing to support the City Council-adopted capital improvement plan. Regulatory compliance related to the EPA adopted standards for the Lead and Copper Rule and per- and polyfluoroalkyl substances (PFAS) require an additional \$1.2M in funding in FY2026, including professional services for outside legal counsel and contract lab analysis for PFAS testing.

Increases to fund corporate decisions and partner agency obligations total \$21.7 million in FY2026. The utility will pay an additional \$5.8 million in raw water costs to the Tarrant Regional Water District, increasing the total cost to \$110.9 million; and an additional \$5.4 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 \$30.7 million. The FY2026 budget also reflects corporate decisions to fund higher personnel costs for Pay for Performance, Group Health Insurance, and Retirement, and adds ten new positions to address the utility's budget priorities. These increases total \$8.4 million. Transfers to the General Fund as well as allocations to other funds are increasing by another \$3.5 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 meters sized one and one-half inches and larger. Small increases are recommended in the variable volume-based rates for the commercial and industrial classes, with larger increases in the two irrigation class tiers to encourage conservation. Additionally, staff recommends small rate increases for sewer monthly service charges for all meter sizes as well as volume-based rates for all customer classes in line with their cost of service.

A primary goal of this year's water rate design is to further encourage conservation of water used for irrigation by the residential class. To achieve this, **staff recommends no change from current rates to either the residential volumetric rates or the monthly service charges for the smallest three meter sizes, which include residential-sized meters, for water service. Instead, staff recommends adjusting the volumes included in tiers 2, 3 and 4.**



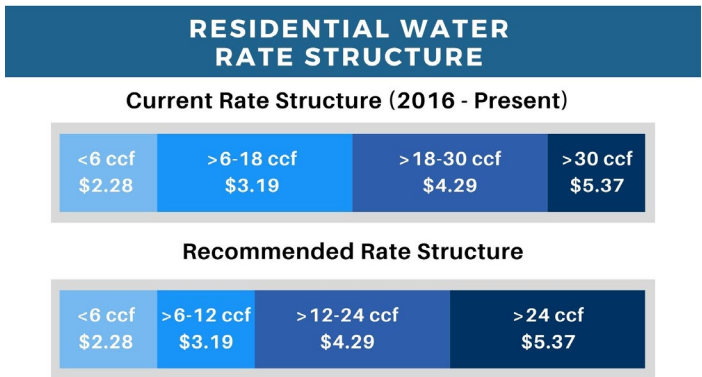
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Staff reviewed actual water usage by this class in each of its four volumetric tiers over the last three years. During this period, the average residence used between 9.68 and 10.37 CCF (7,242 to 7,758 gallons) of water monthly, staying within the first two tiers of usage. The second tier currently ends at 18 CCF, allowing approximately 8 CCF of irrigation above the average usage to occur in this lower-priced tier. To send a stronger conservation pricing signal on irrigation usage, staff recommends adjustments to the residential class tiers as shown in the graphic below.



In FY2024, the average residential customer was billed for 5.92 CCF (4,430 gallons) per month for sewer service, which is an indicator of indoor water usage without irrigation. Based on this analysis, staff recommends the first tier remain at 0-6 CCF to continue capturing only domestic, indoor water usage in the lowest tier. Tier 2 is recommended to change from 6-18 CCF to 6-12 CCF, which will continue to capture average usage of approximately 10 CCF within its tier. Tier 3 would be adjusted from 18-30 CCF down to 12-24 CCF to capture the irrigation currently occurring within tier 2; and Tier 4 would change from 30+ CCF to 24+ CCF. These

adjustments in the tier volumes allow for the rate by tier to remain flat while recovering sufficient revenue to operate the utility. The recommended tiers better reflect usage patterns, further emphasize water conservation, and align more closely with other utilities across Texas.

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 Committee, comprised of representatives of each of the customer cities. Staff met with the Cost of Service Subcommittee of the Wholesale Advisory Committee on May 29, 2025 and met with the full Wholesale Advisory Committee on June 18, 2025 to present the preliminary FY2026 wholesale water and sewer rates. Final rates were provided to the members of the Wholesale Advisory Committee on June 26, 2025.

FY2026 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 recommendations result in a small increase of \$0.64 in the average monthly residential bill based on FY2024 usage and reflect the increase in sewer rates only, with no increase for water service for the average resident. To the extent that usage differs from the FY2024 average usage, bills may be more or less than the average. If approved by the City Council, new retail rates will take effect on January 1, 2026.

Retail Water: + 2.01%
Retail Sewer: + 2.14%

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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. If approved by the City Council, new wholesale rates will take effect on October 1, 2025.

Wholesale Water: + 6.37%
Wholesale Sewer: - 1.77%

M&Cs for approval of FY2026 rates will be presented to the City Council for consideration on August 26, 2025.

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

Jesus "Jay" Chapa
City Manager