



City of Bevil Oaks

PUBLIC UTILITIES WATER & SEWER RATE REVIEW

On August 29, 2018, after reviewing our utility financial situation, as well as a rate analysis performed by then Councilman Pride, we decided to ask the Public Utilities Commission to perform a water/sewer rate review of our soon to be adopted rates. We were told that should a citizen complain to the PUC that they thought the rates that the city set were too high, the first thing they would do was ask to see our rate study or how we arrived at our rates. So rather than wait, we decided it was in everyone's best interest to just go ahead and ask for them to perform it for us. This study was approved in mid-September by the PUC. The rate study assistance was paid for by the PUC. This seemed like a common-sense approach since this was the first time that the city has been in the position of having to deal with a loss of revenue caused by the loss of connections and water sales due to a flood or natural disaster.

The rate consultant that the PUC hired to perform this study presented his findings at the February 21 city council meeting held at the Southeast Texas Regional Planning Commission office in Beaumont due to its larger seating capacity. Prior to making his presentation, he came to Beaumont and made a "draft presentation" to the Mayor, Mayor Pro Tem Fruge, Mr. Allen Pride and our CPA, Charlotte Yeates to make sure that all of the information that we had transmitted to him electronically was not only correct, but that his understanding of this information was also correct. It turned out there were some items that needed to be corrected that did, in fact, alter or change his calculations to our benefit.

He started his presentation by saying that the method that he used to analyze our rates and condition has been adopted and used nationwide by the American Water Works Association or AWWA and is considered the "Gold Standard" for setting rates. He provided a six-page colored presentation which took our adopted budget and broke down the expenses for water and sewer and then determined what the *fixed* costs are as well as the *variable* cost. The significance of this will be mentioned later. He also included the Debt User Fee in his calculations as well as a comparison without depreciation as well as one with depreciation to compare to the rates that we set. I will note here that the rates that we set do not contain depreciation cost or expense. We were aware of this last August and September. We knew that to add this additional cost or expense would be an even heavier burden for

our citizens to bear at the time on top of what is required to just stay in the “black”, so we elected to leave it out of this year’s rates knowing that it is something that has to be included in future budgets. The hope being that we would have more connections and be selling more water by the next budget cycle. Depreciation will be discussed later in this article.

Going back to the rate study, on page six of his analysis titled “OPTIONS SNAPSHOT”, (attached) is a comparison of our adopted rates of the minimum monthly bill based on 1000 gallons of water combined with the Debt User Fee (1000 gal X \$26 + \$39.90 + \$65.90 + a \$0.33 fee that we pay to the TCEQ each year but currently we are not including on the bill = \$66.23). His analysis shows a monthly minimum bill of \$104.60 without depreciation and \$153.01 with depreciation. It also compares water rates currently which are billed at \$26/1000 gallons of usage vs his calculations of \$2/1000 gallons of usage.

As it turns out, this is not really an “apples to apples” comparison as to how we arrived at our numbers compared to his methodology. The preferred AWWA method of rate study is based on recouping all of your FIXED cost in your budget in the minimum monthly bill. In this manner, you do not have to worry about water sales falling short of projections and providing less money than required. Basically, you add up all of your fixed cost for everything in your budget and divide by the number of users then by 12 months and that’s your monthly minimum bill. This is somewhat an over simplification of this process but is very close. Then, the water/sewer rate is calculated to provide the amount of money needed to cover the *variable* cost in your budget. The only problem for Bevil Oaks with this scenario is, we just don’t have enough folks to spread the cost over to keep the cost down to a manageable figure. There is much merit in this format of calculation, however. The amount of depreciation that was used in his calculation was provided by our CPA from our yearly audit. In the rate consultant’s methodology, water usage is not used except to figure the variable cost of the budget, which for utilities, normally runs in the 3% to 5% range.

It should be noted at this point that we are not required to use this method to set our rates by. There are many ways to calculate and set rates. For example, instead of using his figure (without depreciation for this example) of \$104.60 vs ours of \$66.23, we could simply say, let’s use \$85 as our minimum monthly bill and then calculate what the rate needs to be to make up the difference that we need to satisfy our budget requirements. Or, we could choose to use some type of maintenance tax on property values to fund some or all of the budget requirements. If it was decided to fund, for example, the day to day operation of the utility using a tax, then water and sewer rates would be calculated to make up the difference for the remainder of our needs. There are many ways to pay for our utility cost and the PUC doesn’t care how we go about nor will they direct us to do it in one manner or another. They do require that however we do it that it is fair to everyone across the board and that it be simple and straight forward for anyone to calculate their monthly bill when it arrives in the mail. Should someone complain to the PUC that they think rates are too high, they will use the methodology explained above to check. As long as our minimum monthly bill does not exceed their calculated monthly minimum, then there is no issue for them to consider.

In the coming months, council will be discussing all options of providing revenue to cover utility cost ahead of the next budget cycle. To check or calculate your bill each month as a check, assuming you have no other outstanding charges on your bill such as unpaid balances or fees for some service that was provided, take the amount of gallons used from your bill and divide it by 1000 gallons and then

multiply that number by \$26/1000 gallons; now add to this number the debt user fee of \$39.90 and the summation of the two figures should equal your bill. If not, call one of the ladies at city hall to inquire as to the discrepancy. Please call first as opposed to just going down there. An example calculation would look like this: say your usage for the month was 3500 gallons. Divide 3500 gallons by 1000 = 3.5 X \$26/1000 gallons = \$91 + \$39.90 user fee and your total monthly bill should be \$130.90. Assuming you have no other outstanding charges on your bill, if your bill does not equal the amount that you calculated, call the office and inquire.

DEPRECIATION

What is depreciation as it relates to our utilities and why is it important? A simple example is, consider that we have purchased a new pickup truck. This truck will depreciate each year, therefore being less valuable as each year goes by. If we keep the truck for ten years, its value will be negligible at trade-in or sales time at auction. So to plan for the time when we need to replace this vehicle, by providing extra revenue in the budget each year to offset the depreciation or build up a reserve, by the time we are ready to replace the vehicle, we will have the money in the bank to do so and not have to borrow the money. So, in essence, by providing money each year to offset depreciation, we are building a reserve of cash to replace or maintain equipment, provide preventative maintenance, provide for smoke testing, or setting money aside to replace worn out sewer lines by pipe bursting, or installing new or replacing worn out fire hydrants. All these items can either be accounted for in a budget by including a certain amount of money each year for each line item or a combination of line items as well as an additional line item for a lesser amount for depreciation. There are many ways to handle this situation. At present, we only have included money in our budget from water & sewer rates to *repair and maintain the basic elements of our water and sewer systems...nothing else*. Looking at the amount that is required just to do this is high as everyone will agree. But we cannot continue to operate by not providing money to be set aside as well as used for some or all of the purposes mentioned above.

The problems are many. First, we are selling much less water than prior to Harvey. Second, we have fewer connections to sell water thru. Many of the connections pay a minimum monthly bill and are not using any water to speak of and therefore are not generating much revenue. And third and probably one of the most significant issues is, there are just not enough people in our community to spread this cost over, whether we would have the 530 connections that we had prior to the storm or the 417 that we have at present. Assuming our water and sewer facilities were operating at conditions prior to Harvey, we could easily provide almost twice as much water, if we had the connections, for very little increase in expenses. Then the cost would be spread out over twice as many folks and would be cut in half. In addition, our water piping system as well as our sewer collection system are roughly 38 years old and at least the sewer collection system needs to be replaced at a cost of in the millions of dollars. **The only way this will ever happen is if a grant becomes available that we can qualify for.** So, until this happens, its patch and repair and try to keep our systems operational.

When the council adopted the current rates, it was stated that we would appoint a committee to review our situation every ninety days to see if conditions improved such that rates could be reduced. During our *draft* review of the rate consultant's findings, Mr. Pride commented that there was no need to have a committee to review rates due to the fact that he thought we should immediately adopt the

method of rate calculation used by the PUC. Remember that this method does not take into account how much or how little water we sell, it just simply spreads the cost of the fixed expenses out over the amount of connections. However, it is unlikely that council will change or monkey with the rate structure between now and the next budget cycle starting this summer. But, since our current rate structure is based on the amount of water sold, (14, 300,000 gallons is the amount projected to be sold that the rate was based on), as of last month, we are on track to meet that projection. Next week, Kimberly will be posting a usage chart on the city's website that will go back a few years showing water usage by the month prior to Harvey as well as current usage for the primary meters as well as the irrigation meters including the number of connections. This chart will be updated monthly as we move forward so that all can monitor usage as well as the amount of connections. This is the same information that a committee would have used in a review process.

The PUC's rate consultant left open the possibility that he could review or be part of the process if and when we decided to change rates or the manner in which we calculated them. There is the possibility that the PUC, the TCEQ or the TRWA might help us again (financially) and if not, then we would have to pay his consulting fees ourselves. That is a decision that council will have to consider at the appropriate time. The main point to take away from this rate review is that based on the amount of expenses that the city incurs to provide drinking water and sanitary services to its citizens, the current rates are by no means out of line, in fact, they barely cover what is required to keep the utility operational and nothing more. The problem is, as everyone will agree, it's just more than most can afford. Your council realized this when it set rates as they are, there was just no other choice if services are to be maintained.

There will be at least one more article forth coming regarding utility issues and then will come an update on our road situation. We hope to be hearing something from FEMA soon regarding our claim. At present, we don't have anything to share on this topic other than what has been stated in previous council meetings and that is, we don't know anything. Also, in the near future, we hope to have information that we can share with you regarding the city hall/civic center rebuild. Again, we are waiting on decisions from FEMA as to how we can move forward and what they will help us with. We do now have reason for optimism on these topics as we have met with them roughly 6 times in the last 4 or 5 weeks.

Danny Fruge
Mayor Pro Tem

OPTIONS SNAPSHOT

UTILITY : City of Bevil Oaks		RATE COMPARISONS TABLE (5/8-3/4 Inch Meter)									
NOTE: Availability Fee (Minimum Bill) includes water, sewer, Usage Fee and TCEQ fee											
OPTIONS SNAPSHOT	Gallons Billed	Availability Fee	Difference	1000	2000	3000	5000	7000	10000	15000	
Current Rates Structure	\$66.23	NA		\$66.23	\$92.36	\$118.49	\$170.75	\$223.01	\$301.40	\$432.05	
2019 Budget w/O Depreciation	\$104.60	\$38.37		\$104.60	\$106.61	\$108.62	\$114.65	\$120.68	\$132.74	\$155.36	
2019 Budget with Depreciation	\$153.01	\$86.78		\$153.01	\$155.02	\$157.03	\$163.06	\$169.09	\$181.15	\$203.76	

METER INVENTORY including EQUIVALENT FACTORS

METER INVENTORY	INSERT DATA:						
NO OF 5/8" CUST.=	100%	61	5/8" , 3/4"	EQUIV. 1	61.00		
NO OF 1" CUST.=	0%	0	1"	EQUIV. 2.5	0.00		
NO OF 1-1/2" CUST.=	0%	0	1-1/2"	EQUIV. 5	0.00		
NO OF 2" CUST.=	0%	0	2"	EQUIV. 8	0.00		
NO OF 2-1/2" CUST.=	0%	0	2-1/2"	EQUIV. 12	0.00		
NO OF 3" CUST.=	0%	0	3"	EQUIV. 15	0.00		
NO OF 4" CUST.=	0%	0	4"	EQUIV. 25	0.00		
NO OF 6" CUST.=	0%	0	6"	EQUIV. 50	0.00		
NO OF 8" CUST.=	0%	0	8"	EQUIV. 80	0.00		
NO OF 10" CUST.=	0%	0	10"	EQUIV. 115	0.00		
		61			61		

ESFC Per Water District Financial Management Guide TCEQ publication RG-080 # Revised March 2004