



CITY OF ROLLINGWOOD
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March 9, 2018

Dear Rollingwood Water Customers,

On February 21, 2018, the City Council adopted a water rate schedule that incorporates a new element—rather than a fixed Water Demand Charge for all customers, the new Water Demand Charge is based on meter size. There is still a separate Use Charge, which also has been changed. The current and new water rates are set forth below side by side for comparison.

| <u>Current Water Rates</u> | |
|------------------------------------|----------|
| <u>Water Demand Charge</u> | \$ 18.29 |
| <u>Use Charge (per 1,000 gal.)</u> | |
| <i>Residential</i> | |
| 0-2000 | \$ - |
| 2,001-10,000 | \$ 5.67 |
| 10,001-20,000 | \$ 5.85 |
| 20,001-35,000 | \$ 6.94 |
| 35,001-50,000 | \$ 10.23 |
| 50,001-75,000 | \$ 14.49 |
| 75,001-100,000 | \$ 21.42 |
| >100,000 | \$ 28.98 |
| <i>Commercial</i> | |
| 0-2,000 | \$ - |
| >2,000 | \$ 6.94 |
| <i>Irrigation</i> | |
| 0-35,000 | \$ 6.94 |
| 35,001-50,000 | \$ 10.23 |
| >50,000 | \$ 14.49 |

| <u>New Water Rates</u> | |
|------------------------------------|-------------|
| <u>Water Demand Charge</u> | |
| 5/8" or 3/4" Meter | \$ 20.00 |
| 1" Meter | \$ 30.00 |
| 1.5" Meter | \$ 80.00 |
| 2" Meter | \$ 128.00 |
| 3" Meter | \$ 240.00 |
| 4" Meter | \$ 400.00 |
| 6" Meter | \$ 800.00 |
| 8" Meter | \$ 1,280.00 |
| <u>Use Charge (per 1,000 gal.)</u> | |
| <i>Residential</i> | |
| 0-2000 | \$ 2.00 |
| 2,001-8,000 | \$ 5.00 |
| 8,001-13,000 | \$ 7.00 |
| 13,001-25,000 | \$ 10.00 |
| 25,001-35,000 | \$ 15.00 |
| 35,001-50,000 | \$ 21.00 |
| >50,000 | \$ 28.00 |
| <i>Commercial</i> | |
| All Gallons | \$ 6.25 |
| <i>Irrigation</i> | |
| 0-35,000 | \$ 7.25 |
| 35,001-50,000 | \$ 10.75 |
| >50,000 | \$ 15.25 |

Based on the new structure of the Water Demand Charge, the size of meter the customer has will determine the monthly base rate. For instance, if a residential customer has a 5/8" meter, the monthly Water Demand Charge will be \$20.00. If the customer has a 1" meter, then the monthly Water Demand Charge will be \$30.00. After determining the Water Demand Charge for the month, then the Use Charge will be added to it for a final bill.

A change has been made to how the Use Charge is calculated. In the past, there was no charge for the first 2,000 gallons of use. Now there will be a charge for all water used, including for the first 2,000 gallons. The rate for each 1,000 gallons used is charged based on the amount of water the customer uses within each rate usage block. For example, if a residential customer uses a total of 15,000 gallons of water in a month, then the Use Charge would be \$89.00. The \$89.00 Use Charge is calculated by adding \$4.00 (\$2.00 per thousand for the first 2,000 gallons), \$30.00 (\$5.00 per thousand for the next 6,000 gallons), \$35.00 (\$7.00 per thousand for the next 5,000 gallons), and \$20.00 (\$10.00 per thousand for the next 2,000 gallons).

Under the new water rate schedule, a resident with a 5/8" meter who used 15,000 gallons of water in a month would be charged \$20.00 as a Water Demand Charge plus \$89.00 as a Use Charge for a total of \$109.00. A customer with a 1" meter using 15,000 gallons would be charged \$30.00 as a Water Demand Charge and \$89.00 as a Use Charge for a total of \$119.00. This new rate schedule will apply beginning April 1, 2018.

Process Of Creating The Rate Structure

The City Council action to raise the rates was taken following a long period of careful analysis and deliberation. Faced with a deficit of approximately \$400,000 in the City's Water Fund, the City Council voted to budget funding for a rate study of the water utility. On October 3, 2017, the Utility Commission met to discuss recommending a new water rate structure that accomplished the following objectives:

- Raising the revenue necessary to satisfy the water fund budget and build an adequate reserve to meet current and future operating and capital expenditures;
- Providing a more stable revenue stream from year to year;
- Collecting more revenue from demand charges to cover fixed expenses;
- Incorporating the latest wholesale water rate charged by the City of Austin; and,
- Maintaining a water conservation-oriented rate structure.

How Did The Water Fund Arrive At Such A Deficit?

The Water Fund has been operating in a deficit since 2013. A capital improvements project to move water lines from backyards to front yards of residents was not sufficiently funded with bond financing and reserves were tapped to cover the expenditures. Additionally, central Texas experienced a couple of years of historical drought conditions that imposed water restrictions and encouraged customers to use less water in their households and when watering lawns, which led to a significant reduction in water sales. Finally, according to the rate analyst hired by the City, current rates are underfunding the Water Fund by 30%.

Analysis Of The New Water Rate Schedule

The rate structure is expected to be financially viable for the 2017-2018 budget year and into the future. It adjusts the current tiers of water usage to better match current usage patterns and scales the Water Demand Charge based on meter size.

The rate structure embodies the concept of placing the City's highest priority on providing essential water to both residential and commercial customers at a reasonable cost, while sending a price signal that all irrigation water is considered a lower priority use.

The City's Wholesale Water Contract

The City of Rollingwood purchases its water from the city of Austin pursuant to a long-term wholesale contract and this is the largest expenditure of the Water Fund. The contract obligates Austin to deliver to the city up to 1,000,000 gallons per day, subject to reductions in that amount under certain circumstances. The most recent month of peak usage was August 2017, in which the amount of water purchased was 16,081,000 gallons.

The wholesale price of water is determined annually by Austin using a cost of service model. One of the principal components of the model is the degree to which the city of Rollingwood minimizes its peak water usage during a month in relative comparison with the other wholesale purchasers of Austin water. The current wholesale water price for Rollingwood is \$4.65 per 1,000 gallons.

Water Conservation Rate Structure

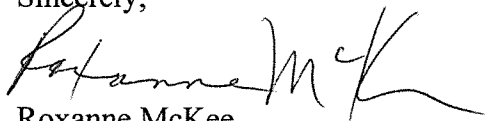
Reasons why the City Council decided to adopt a water rate structure that encourages water conservation include, but are not limited to, the following:

- Price increases are an effective means of reducing discretionary irrigation water use, and
- Residential and commercial customers that use large amounts of water during the peak summer months potentially create a higher wholesale cost for Rollingwood, which would adversely impact all residential and commercial customers.

None of us want to pay a higher water bill, but all of us have a stake in making sure that our water utility is fiscally sound and all residential and commercial customers have access to essential water needs at a reasonable cost. We believe this new water rate structure will do this.

As always, I welcome input from everyone on this, and on any other subject that relates to our wonderful City.

Sincerely,



Roxanne McKee

Mayor