Report | September 2025

Initial Water and Sewer Rate Study Report

Village of Oak Park, IL

Prepared by:

NewGen Strategies & Solutions

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September 4, 2025

Ms. Erin Duffy
Deputy Public Works Director
Village of Oak Park Water & Sewer Utilities
201 South Blvd
Oak Park, IL 60302

Subject: **Initial Water and Sewer Rate Study Report**

Dear Ms. Duffy:

NewGen Strategies and Solutions, LLC (NewGen) is pleased to submit to the Village of Oak Park (Village) this initial report regarding the first two tasks of our Water and Sewer Rate Study for the Village. This report summarizes our findings, conclusions, and recommendations for Fiscal Year (FY) 2026 rates and guidance concerning the Village's water and sewer utilities with regard to financial sustainability, rate structure, customer billing, and other relevant issues.

We appreciate the opportunity to provide our services to the Village and would like to express our sincere appreciation to Village staff. The dedication and assistance provided by Village staff was essential to the completion of this study. It has been a distinct pleasure to work with the Village of Oak Park.

Sincerely,
NewGen Strategies and Solutions, LLC

DocuSigned by:
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Eric Callocchia
Partner

Section 1
BACKGROUND AND SCOPE OF WORK

The Village engaged NewGen to complete Tasks 1 and 2 of a four-part scope of work related to a Water and Sewer Rate study. This report describes the results of our initial evaluation of the financial performance of the Village of Oak Park's water and sewer systems (Task 1) and our initial insight and recommendations for possible changes and enhancements to the Village's utility management and other strategic approaches to long-term challenges (Task 2).

Village Background

The Village of Oak Park is located approximately eight miles west of downtown Chicago, in Cook County, Illinois. The Village is a Home Rule municipality operating under the council-manager form of government and was incorporated in 1902. The Village covers an area of 4.5 square miles with no territorial expansion. It is primarily a residential community with twelve separate business districts. The Village offers a full range of municipal services to its residents. Oak Park is a thriving community of about 52,000 people and is known for its architectural heritage and diverse population.

Village Utility Services

The Village of Oak Park purchases Lake Michigan water from the City of Chicago and provides it to its customers via four reservoirs, three pumping stations, and approximately 100 miles of distribution mains. The Village does not maintain any shallow or deep wells in its public water supply. The Village stores water in four underground reservoirs with a total capacity of 12.5 million gallons and distributes it to approximately 12,500 water accounts comprised of 600 commercial accounts and 11,900 residential accounts. The Village is responsible for the local collection of storm water and wastewater in combined sewers that is conveyed to the Metropolitan Water Reclamation District of Greater Chicago (MWRDGC). Commercial accounts are billed monthly, and residential accounts are billed quarterly.

In recent years, water and sewer rates have been adjusted to account for the increase in water supply costs from the City of Chicago. The Village utilizes a rate schedule with a fixed monthly service charge that varies by meter size and volumetric unit rates for water and sewer. Effective January 1, 2025, the water rate is $11.37 for each one thousand gallons, and the sewer rate is $3.26 per one thousand gallons of water consumed. Meter charges range from $6.00 per month for small meters to $18.00 per month for large meters.

Scope of Work

The Village engaged NewGen to complete Tasks 1 and 2 of a four-part scope of work.

Task 1 – Evaluate the Existing Financial and Operating Information, Rate Methodology, and Lead Service Line Replacement Plan

- Meet with Village Staff to review identified study goals and needs.
- Review the current financial and operating information, proposed budget, capital improvement plan and the previous rate studies prepared in 2014 and 2019.
- Review the Village's current rate methodology and billing format and evaluate current rate design for compliance with federal and state laws and equitability among customers.
- Conduct a conceptual rate design workshop to evaluate rate structure alternatives and billing formats considering current industry practice and Village input.
- Review the Village's Lead Service Line Replacement Plan and incorporate into rate structures, key strategies and actions that will affect Water & Sewer fund balance and out-year expenditures.

Task 2 – Prepare Initial Report and Presentation

- Based on findings, prepare a report that outlines current financial and operating information, rate methodology and billing format, and potential future fund impacts based on the Lead Service Line Replacement Plan.
- Describe the rational for, use of, and desirability of demand charges, minimum charges, uniform commodity rates, progressive step rates, regressive step rates, seasonable rate surcharges and charges for property benefits attributable to water service availability.
- Provide preliminary rate structure, rate methodology, and billing format recommendations.
- Work with Village staff to prepare and present a summary presentation to the Village Board.
- Collect feedback from the Village Board to inform the development of the rate model alternatives and proposed water & sewer rates.

This report summarizes our evaluation and recommendations based on the Task 1 and Task 2 scope of work.

Section 2
EVALUATION OF EXISTING INFORMATION

Information Provided

At the onset of the study, NewGen submitted to the Village a Request for Information specifying the data necessary to complete the scope of work. The information provided included, but was not limited to:

1. Budgeted and historical expenses and revenues
2. Debt service amortization schedules
3. Annual Comprehensive Financial Reports (ACFRs)
4. Asset information including historical asset purchases and depreciation schedules
5. 2014 and 2019 Rate Study reports
6. Detailed customer information including number of accounts and billable consumption for the past several years
7. FY 2025 – FY 2029 Adopted Capital Improvement Plan
8. Fund Balance policy

NewGen's services were performed in accordance with the data provided and specifications received from the Village. NewGen performed the study with the degree of skill and judgment exercised by professionals performing similar services and consistent with applicable industry best practices.

Review of Current Financial and Operating Information

The Village's Water and Sewer Fund is an Enterprise Fund. Therefore, no outside revenues (i.e., Village taxes) are intended to support the costs of the water and sewer systems. NewGen's study is predicated on the assumption that water and sewer costs are supported entirely by water and sewer rates and fees.

The Village fiscal year begins January 1 through December 31, annually. The Village works to maintain a cash reserve approximately equal to the American Water Works Association (AWWA) recommended fund balance of 25% of annual expenditures. The following sections of this report detail the operating and capital expenditures of the Village's FY 2025 and FY 2026 budgets.

Operating Costs

The Village's budgeted FY 2025 and FY 2026 Water and Sewer Fund O&M expenses are shown in Table 2-1. A key driver of the increase in O&M costs is estimated increases in the cost of the Village's purchased water from the City of Chicago. Water purchases from the City comprise approximately 68% of the Village's total operating expenses.

Table 2-1
Budgeted Operating Costs

	FY 2025	FY 2026	Change ($)	Change (%)
Water Base Program	$546,304	$561,178	$14,874	2.7%
Water Supply	$8,938,210	$9,339,948	$401,738	4.5%
Water Distribution	$1,324,272	$1,362,621	$38,349	2.9%
Sewer Base Program	$184,209	$190,252	$6,043	3.3%
Sewer Collection	$1,218,084	$1,251,399	$33,315	2.7%
Total Operating Costs	**$12,211,079**	**$12,705,397**	**$494,319**	**4.0%**

The Village's water and sewer operating costs are typical for a system of its size and are driven largely by two components – personnel and water purchases.

Capital Costs

There are two items that comprise the capital costs of the water and sewer systems. The first is the existing debt obligations payable by the Water and Sewer Fund. The second is planned capital expenditures, which can be paid on an annual basis (i.e., PAYGO funded) or with the issuance of new debt (i.e., debt-funded).

Existing Debt

As of FY 2025, the Village is obligated to pay two outstanding debt issues. Both General Obligation Bonds, Series 2020B and Series 2012A, will be paid in full by FY 2025 and FY 2026, respectively. Table 2-2 shows the projected loan payments for FY 2025 and FY 2026. After FY 2026, the Village will have no debt related to the Water and Sewer Fund.

Table 2-2
Existing Debt Service

	FY 2025	FY 2026	Change ($)	Change (%)
Series 2012A	$180,919	$74,975	($105,944)	(58.6%)
Series 2020B	$463,915	-	($463,915)	(100.0%)
Total Existing Debt	**$644,834**	**$74,975**	**($569,859)**	**(88.4%)**

Capital Improvement Plan

A major component of the Village owning and operating sustainable water and sewer utilities is the planning for the rehabilitation and replacement of the Village's water and sewer assets. The Village provided NewGen with an adopted Capital Improvement Plan (CIP) with a combined total cost of $17.8 million for the FY 2025 – FY 2026 period. Table 2-3 details the capital improvement plan provided to NewGen by Village staff.

Table 2-3
Capital Improvement Plan Detail

Project	System	FY 2025	FY 2026
Advanced Metering Infrastructure (AMI)- Software	Water	$55,000	$0
Advanced Metering Infrastructure (AMI)- Construction	Water	$150,000	$0
Central Station Generator Day Tank Replacement	Water	$0	$30,000
Central Pumping Station Generator Electrical Upgrade	Water	$0	$35,000
Central Station Roll Off Generator Plug	Water	$0	$45,000
Central Pump Station Structural Repairs	Water	$115,000	$115,000
Replace 16" and 20" Supply Valves Central Station	Water	$0	$30,000
Lead Water Service Replacement Program- Public	Water	$500,000	$525,000
Manhole/Catch Basin Rehabilitation	Sewer	$100,000	$100,000
North Marion Streetscape	Sewer	$0	$125,000
Permanent Generators at No. & So.Sta.	Water	$460,000	$0
Pumping Stations Chlorine System Upgrade	Water	$0	$32,500
Pump Stations Scada Computers (1/2)	Water	$12,000	$0
Pump Stations Scada Computers (2/2)	Water	$42,000	$0
Rain Ready Grant Program	Sewer	$100,000	$100,000
Security Improvements at Pumping Stations	Water	$35,000	$0
Sewer Backup Protection Program	Sewer	$300,000	$300,000
Water Meter Replacement (1/2)	Water	$100,000	$78,500
Water Meter Replacement (2/2)	Sewer	$100,000	$78,500
Water Valve Replacement Program	Water	$150,000	$150,000
Water and Sewer Division Equipment (1/3)	Water	$10,000	$10,000
Water and Sewer Division Equipment (2/3)	Water	$7,500	$7,500
Water and Sewer Division Equipment (3/3)	Sewer	$7,500	$37,500
Water and Sewer Main Improvements- General	Water	$0	$2,200,000
Water and Sewer Main Improvements- General	Sewer	$0	$2,200,000
Water and Sewer Main Improvements- Columbian	Sewer	$1,500,000	$0
Water and Sewer Main Improvements- Euclid	Water	$10,000	$1,200,000
Water and Sewer Main Improvements- Euclid	Sewer	$10,000	$1,500,000
Water and Sewer Main Improvements- Forest	Water	$1,200,000	$0
Water and Sewer Main Improvements- Forest	Sewer	$1,500,000	$0
Water and Sewer Main Improvements- Iowa & Spot Repairs	Sewer	$300,000	$0
Water and Sewer Main Improvements- Maple	Water	$20,000	$750,000
Water and Sewer Vehicle Replacement	Water	$370,000	$0
Water and Sewer Vehicle Replacement	Sewer	$463,000	$550,000
Total Water		**$3,236,500**	**$5,208,500**
Total Sewer		**$4,380,500**	**$4,991,000**

Table 2-4 summarizes the FY 2025 and FY 2026 CIP for the two systems. The Village's capital costs are expected to be entirely PAYGO (cash) funded.

Table 2-4
Capital Improvement Plan Summary

	FY 2025	FY 2026	Change ($)	Change (%)
Water Capital	$3,236,500	$5,208,500	$1,972,000	60.9%
Sewer Capital	$4,380,500	$4,991,000	$610,500	13.9%
Total Capital Costs	**$7,617,000**	**$10,199,500**	**$2,582,500**	**33.9%**

The CIP included in this Study does not include a major Flood Mitigation Improvement project in the Village's North End which is estimated to cost $20.9 million. This project will not occur unless and until the Village receives federal funding assistance. Therefore, the costs related to the design and construction of this project will have no impact on ratepayers.

Another key item not included in the CIP provided to NewGen is the long-term cost of the Village's Lead Water Service Replacement Program (LWSRP). While funding for routine replacements of the public side of lead service lines found in conjunction with the Village's water main replacement program is included in the CIP, the total cost of both public and private lead service line replacements is not included in the FY 2025 or FY 2026 CIP. A key component of Task 3 and 4 of this study will be to evaluate the impact of the long-term LWSRP.

Miscellaneous Non-Rate Revenues

Non-Rate revenues are revenues credited to the Water and Sewer Fund that are unrelated to the fixed and variable rates the Village charges to customers for day-to-day service. The two non-rate revenues are:

- Meter Charges: One-time fees charged to customers for new meters.
- Penalty Charges: A 5.0% penalty is applied to the outstanding balance for late payments. The Village allows for the waiving of one penalty per account per year. If a bill remains unpaid for 26 days after the due date, a late fee is assessed, and a reminder notice is sent. If the bill remains unpaid 20 days after the reminder notice, water service may be disconnected. A $50 reconnection fee is applied if the water is turned back on between 8:30 a.m. and 2:30 p.m. on weekdays. A $150 reconnection fee is applied if the water is turned back on after 2:30 p.m. on weekdays or any time on weekends or holidays. All past due amounts, including penalties and fees, must be paid before water service is restored.

The Village's policies regarding late fees and turn on fees are typical of municipal utilities. Table 2-5 shows the budgeted non-rate revenues from Meter Charges and Penalty Charges.

Table 2-5
Miscellaneous Revenues

	FY 2025	FY 2026	Change ($)	Change (%)
Meter Charges	$100,000	$100,000	$0	0.0%
Penalty Charges	$150,000	$150,000	$0	0.0%
Total Misc. Revenues	**$250,000**	**$250,000**	**$0**	**0.0%**

The revenue from miscellaneous fees is deducted from the total cost of each system to arrive at the amount of revenue needed from the Villages water and sewer rates each year.

Net Revenue Requirement

Based on the FY 2025 and FY 2026 operating, debt service, and capital expense data provided by the Village, NewGen developed each year's Net Revenue Requirement for the Village's Water and Sewer Fund. The Net Revenue Requirement is the total cash needed to be generated from water and sewer rates each year, net of miscellaneous revenues, to meet the cash flow needs of the Village's systems. Table 2-6 shows the net revenue requirement for FY 2025 and FY 2026.

Table 2-6
Water and Sewer Fund Net Revenue Requirement

	FY 2025	FY 2026	Change ($)	Change (%)
Operating Expenses	$12,211,079	$12,705,397	$494,319	4.0%
Debt Service	$644,834	$74,975	($569,859)	(88.4%)
Cash Funded Capital	$7,617,000	$10,199,500	$2,582,500	33.9%
Total Revenue Requirement	**$20,472,912**	**$22,979,872**	**$2,506,960**	**12.2%**
Less: Misc. Revenue	($250,000)	($250,000)	$0	0.0%
Net Revenue Requirement	**$20,222,912**	**$22,729,872**	**$2,506,960**	**12.4%**

Current Rate Methodology

The Village's current and sewer rate structure includes three components:

- Monthly (or Quarterly) Fixed Meter Charge that varies based on meter size in three groups of meter sizes.
- Variable water rate per 1,000 gallons (kgal) of metered water
- Variable sewer rate per kgal of metered water

Table 2-8 below shows the billing determinates and rate/fee for each component of the Village's rate structure in FY 2025. The billing determinates are simply the basis for each fee. For the meter charges, it is the number of meters in each size category. For the volumetric rates, it is the number of billable units (kgal) for each rate.

Table 2-7
FY 2025 Billing Data and Rates

	Billing Determinate	Rate	Unit
Water Connections			
1" or Under	11,488	$6.00	Monthly
1 ½" – 3"	1,138	$12.00	Monthly
4" or Larger	28	$18.00	Monthly
Total Connections	**12,654**		
Billable Water Usage	1,348,419	$11.37	per kgal
Billable Sewer Usage	1,344,995	$3.26	per kgal

The Village's water and sewer rate structure is simple and easy to administer and understand. However, there are opportunities for the Village to adopt other rate structures that achieve pricing objectives, such as increased fixed revenue recovery or encouraging water conservation. We will discuss these alternatives later in this report.

Water and Sewer Fund Cash Flow at FY 2025 Rates

If the Village were to not increase water and sewer rates in FY 2026, Table 2-9 shows NewGen's calculated cash flow and resulting Water and Sewer Fund balance.

Table 2-8
FY 2025 and FY 2026 Cash Flow at Current Rates

	FY 2025	FY 2026
Beginning of Year Fund Balance	$8,827,878	$9,318,229
Revenues	$20,963,264	$20,963,264
Expenses	$20,472,912	$22,979,872
Increase / (Decrease) in Fund Balance	**$490,351**	**($2,016,609)**
End of Year Fund Balance	**$9,318,229**	**$7,301,621**

The currently effective rates would require over $2.0 million in drawdowns from the Fund Balance to meet the FY 2026 revenue requirement. Even though the Village would continue to maintain a Fund Balance above the minimum policy, this does not set the Village on a sustainable path, as revenues are not growing to meet expenses. We will discuss our recommendations regarding FY 2026 rates to avoid this impact in the next sections of this report.

FY 2026 Rate Strategies

Part of NewGen's scope of work was to provide preliminary rate structure, rate methodology, and billing format recommendations. To develop these recommendations, we established key metrics for the Village's Water and Sewer Fund consistent with industry standards related to financial prudence and cost recovery. Given the cash flow results shown in the previous tables, NewGen recommends the Village increase water and sewer rates in FY 2026 to move towards three key financial goals:

1. Maintain a minimum Water and Sewer Fund balance consistent with industry best practices
2. Stabilize cash flow within the Water and Sewer Fund
3. Increase Fixed Revenue Recovery

Target Fund Balance Recommendation

NewGen's rationale for our recommended fund balance policy is consistent with language from the Village's Fund Balance Policy:

> *"Unassigned fund balance is an important measure of economic stability. It is essential that the Village maintains adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, protection of the Village's creditworthiness and provide for adequate cash flow needs. Fund balance provides taxpayers with a cushion against unforeseen and extraordinary events."*

NewGen follows guidelines recommended by the American Water Works Association (AWWA) that in establishing reserve policies, a utility should consider its financial leverage, operational and capital risks, regulatory risk, infrastructure risk, level of risk tolerance, governing financial requirements, future capital funding requirements, revenue, and cost volatility, as well as other ways to manage or mitigate financial risks.[1] Further guidance from the University of North Carolina Environmental Finance Center suggests short-term resilience reserves covering approximately three to four months of O&M expenses (25% - 33% of annual) and long-term resilience reserves covering up to 12 months, i.e., 100% of annual O&M expenses.[2]

Consistent with these proposed ranges, NewGen recommends the Village consider 90 days, i.e., 25% of annual O&M expenses as a minimum reserve level and 180 days, i.e., 50% of annual O&M expenses as a target reserve level. Table 2-11 shows the calculation of a 90-day minimum and 1800-day target for the Village's Water and Sewer Fund in FY 2025 and FY 2026.

[1] https://www.awwa.org/policy-statement/cash-reserves
[2] https://efc.sog.unc.edu/reserve-funds-expect-the-unexpected/

Table 2-11
Minimum and Target Water and Sewer Fund Balance Recommendation

	FY 2025	FY 2026	Note
Annual O&M	$12,211,079	$12,705,397	A
Daily O&M	$33,455	$34,809	B = A / 365
Minimum Days	90	90	C
Minimum Fund Balance Recommendation	$3,010,951	$3,132,838	B x C
Recommended Target Days	180	180	D
Recommended Target Fund Balance	$6,021,902	$6,265,675	B x D

NewGen's recommended rates are designed to maintain at least the target fund balance in any given year. As the Village's operating costs escalate in the future, the target fund balance policy will adjust to account for these increases.

Cash Flow Stabilization

Regardless of any alterations in rate structure or rate methodology, NewGen recommends the Village increase water and sewer rates to at least maintain neutral or positive cash flow for the Water and Sewer Fund. Based on our cash flow analysis discussed previously, to accomplish this in one fiscal year, the Village would need at least a 9.5 percent increase in rates in FY 2026 to fully PAYGO fund the planned CIP, as shown in the following table.

Table 2-12
FY 2026 Cash Flow Neutral Rate Increase

	FY 2026
Beginning of Year Fund Balance	$9,318,229
January 1, 2026 Rate Increase	**9.4%**
Revenues	$22,982,763
Expenses	$22,979,872
Increase / (Decrease) in Fund Balance	**$2,891**
End of Year Fund Balance	**$9,321,120**
Recommended Target Fund Balance	$6,265,675
Over / (Under) Target	**$3,055,445**

Although cash flow stabilization is a desirable rate setting outcome, an across the board 9.4% increase in both the fixed and variable rates would not result in any increase in fixed revenue recovery. NewGen recommends that the Village increase rates meet the cash flow needs of the systems while also increasing the relative amount of revenue generated from fixed fees.

Fixed Revenue Recovery

A key element of a sustainable Water and Sewer Fund is the balancing of fixed costs with fixed revenue recovery. Most of the Village's utility costs are fixed, i.e., they do not vary with the about of water sold. In fact, almost all the Village's costs except for water purchased from the City of Chicago can be considered fixed. NewGen estimates that 40% of the Village's costs are variable and 60% of its costs are fixed. However, under the Village's FY 2025 rates, approximately five percent of water and sewer revenues are generated from fixed charges, as shown in Table 2-13.

Table 2-13
FY 2025 Fixed Revenue Recovery

	FY 2025	Note
Fixed Monthly Service Charge Revenue	$997,056	A
Variable Water and Sewer Rate Revenue	$19,716,208	B
Total Revenue	**$20,713,264**	C = A + B
Fixed Revenue Recovery Percentage	4.8%	A / C

NewGen recommends that the Village phase-into increasing fixed revenue recovery to a minimum of 10 percent, with a target of 25 percent.

FY 2026 Proposed Rate Increase

To begin to implement the recommendations regarding minimum fund balance, cash flow, and fixed revenue recovery, NewGen developed the following rate increases.

Table 2-14
FY 2026 Recommended Rate Increases

(Effective January 1, 2026)	
Service Charge Increase	100.0%
Water Usage Rate Increase	5.0%
Sewer Usage Rate Increase	5.0%
Key Performance Indicators:	
Overall Rate Revenue Increase ($)	$1,982,866
Overall Rate Revenue Increase (%)	9.6%
System Cash Flow	($33,742)
End of Year Fund Balance	$9,284,487
Recommended Target Fund Balance	$6,265,675
Over / (Under) Target	$3,018,812
Fixed Revenue Recovery Percentage	8.8%

By applying a 100% increase to the fixed service charge and a 5.0% increase to the volumetric charges, the Village would increase its fixed revenue recovery percentage in FY 2026 from 4.7% to 8.8% and generate total rate revenues by 9.6%. Table 2-15 shows the rates under the proposed increase.

Table 2-15
Water and Sewer Recommended Rates

	Current FY 2025	Recommended FY 2026
Monthly Service Charge		
1" or Under	$6.00	$12.00
1 ½" – 3"	$12.00	$24.00
4" or Larger	$18.00	$36.00
Water Rate (per Kgal)	$11.37	$11.94
Sewer Rate (per Kgal)	$3.26	$3.42

By increasing the fixed service charge, the Village is on a path to achieving the three key goals of NewGen's recommendations: maintain a Water and Sewer Fund balance consistent with industry best practices, stabilize cash flow within the Water and Sewer Fund, and increase fixed revenue recovery.

Customer Impacts

If adopted, NeGen's recommended FY 2026 would have the impacts shown on typical Village residential and commercial customers. Based on the data provided to NewGen, the characteristics of the Village's average customers are:

- Average Residential Customer: Less than 1" meter, 14 kgal per quarter
- Average Commercial Customer: Less than 1" meter, 72 kgal per quarter

Table 2-16 shows the impact on these average customers of NewGen's recommended rate increase.

Table 2-16
Customer Bill Impact of FY 2026 Rate Recommendation

	FY 2025	FY 2026
Average Residential		
Service Charge	$6.00	$12.00
Water Usage Charge	$53.06	$55.71
Sewer Usage Charge	$15.21	$15.97
Total Quarterly Bill	**$74.27**	**$83.69**
$ Change		$9.41
% Change		12.7%
Average Commercial		
Service Charge	$18.00	$36.00
Water Usage Charge	$818.64	$859.57
Sewer Usage Charge	$234.72	$246.46
Total Quarterly Bill	**$1,071.36**	**$1,142.03**
$ Change		$70.67
% Change		6.6%

It is a natural consequence that increases in fixed revenue recovery impact lower-usage customers on a percentage basis than higher-usage customers. However, as shown in Figure 2-1 below, the Village's average residential bill remains in a competitive position relative to surrounding utilities even under the recommended FY 2026 rates.

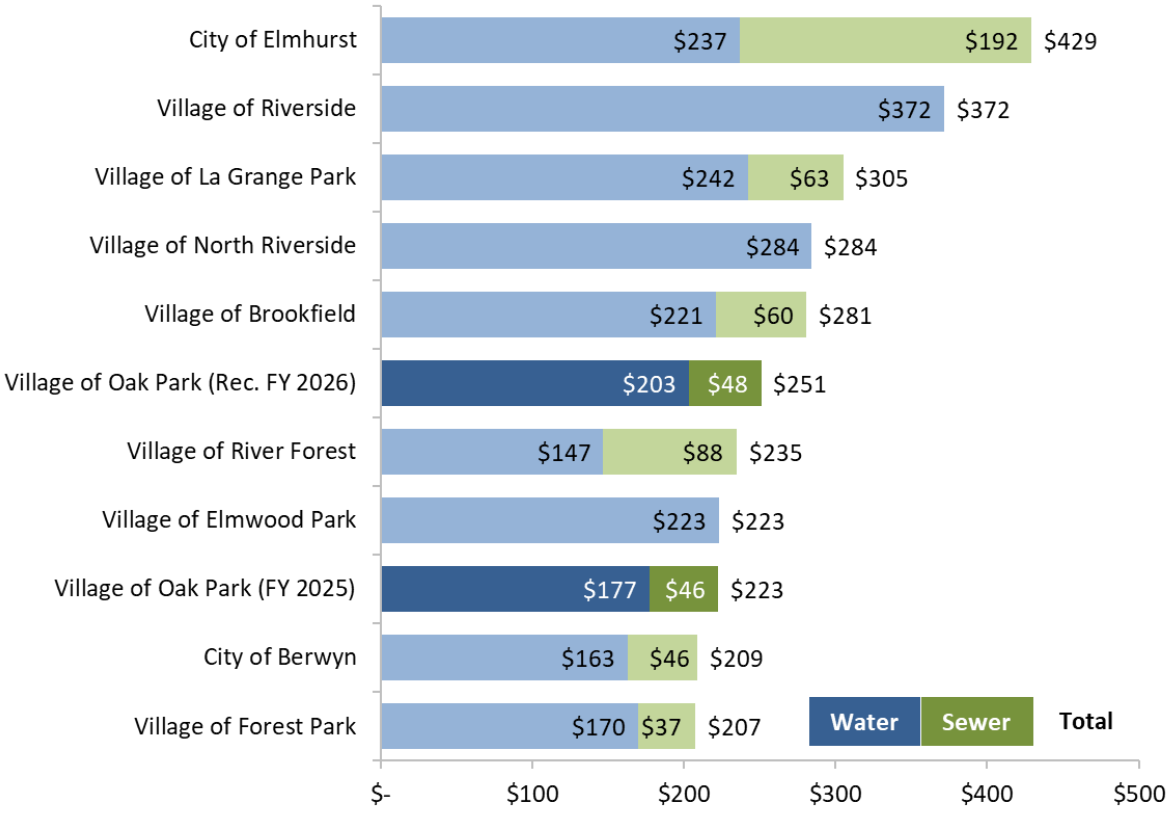

Figure 2-1: Residential Water and Sewer Bill Comparison – Quarterly Bill

While regional comparisons may provide some context, the ranking of individual customer bills is not a consideration when developing a financial plan and rate structure. The Village's cash needs are independent of the rates in the surrounding jurisdictions, and this comparison is provided for information only.

Section 3
POTENTIAL FUTURE IMPACTS

Rate Methodology and Billing Format

As discussed previously, the Village currently charges a small fixed meter fee and variable rates for water and sewer usage. While this rate structure is simple and capable of being scaled to meet the revenue needs of the systems, there are opportunities to potentially modify the Village's rate structure to meet other policy objectives.

Minimum Charges

The Village already incorporates a minimum charge in its rate structure, as discussed previously. A minimum charge provides revenue stability by ensuring that every customer contributes a baseline payment regardless of their consumption. This approach helps cover fixed costs such as infrastructure, meter reading, billing, and customer service, which do not vary with usage. It also provides low-usage customers with a more predictable monthly bill and can be easier to communicate. In addition, minimum fees avoid zero or extremely low bills, which may not cover any fixed costs.

The main drawback is that minimum charges that include usage can weaken price signals intended to encourage water conservation. Customers may use up to the included amount even if they do not need it, since the water is already "paid for." Also, the usage included in any minimum charge would still generate revenue if included in billable usage. Having a clear delineation between fixed and variable charges makes it easier to communicate why a customer is paying a certain amount based on their meter size and usage. If there is usage included in a minimum bill amount, then two users who use different amounts of service may pay the same cost, creating inequities.

Industry best practice, including guidance from the American Water Works Association (AWWA) and regulatory bodies, generally discourages minimum charges that bundle water usage. The core reasons are conservation and equity. By embedding consumption in the fixed charge, utilities reduce the marginal cost signal that would otherwise encourage customers to conserve. This runs counter to long-term resource management and sustainability objectives. Additionally, from a cost-of-service perspective, minimum charges may misalign revenue recovery with the actual cost drivers of service, since consumption-related costs are more appropriately recovered through volumetric charges. Modern industry recommendations instead support fixed charges that cover only customer-related costs (such as meter and billing expenses), while all variable system costs should be recovered through usage-based rates.

NewGen would not recommend including any amount of usage in the minimum charge. As discussed previously, NewGen recommends increasing the proportion of revenue generated by the Village's existing fixed fees.

Uniform Commodity Rates

A uniform commodity rate, where all units of water and sewer service are charged at the same price regardless of volume, has several advantages from both utility and customer perspectives.

Uniform rates are straightforward to design, implement, and explain. Customers clearly understand that every unit of water they consume costs the same, which improves transparency and reduces billing disputes. For the Village, this structure requires less administrative oversight than tiered or seasonal rate structures, which can be more complex to maintain and justify.

Uniform rates align charges more directly with usage. Every customer pays in proportion to how much water they consume, which can reduce equity concerns. Because all units are priced the same, revenues rise proportionally with demand, maintaining a stable relationship between consumption and revenue recovery. When paired with an appropriate fixed service charge to recover customer-related costs (such as meters and billing), uniform rates ensure that volumetric charges recover usage-driven system costs fairly.

Uniform rates provide a consistent price signal for all water consumed. While they do not create stronger conservation incentives at higher usage levels like inclining block rates, they also do not weaken conservation incentives by giving cheaper rates for larger volumes. The steady marginal cost encourages customers to recognize that every additional unit of water has the same financial impact.

The Village employs a uniform commodity rate for both water and sewer. There may be an opportunity to isolate the commodity rate related to repayment of City of Chicago costs to better inform the Village's customers of how much of their bill is out of the Village's control.

Progressive Step Rates

Progressive step rates, also known as inclining block rates, are a pricing structure where the cost of water increases as consumption increases. This means customers pay a higher price per unit of water for higher usage levels. This structure is designed to encourage water conservation by making it more expensive to use large amounts of water. This structure is widely used by water utilities, especially in regions concerned with demand management. The advantages can be grouped into several key areas:

Inclining block rates create stronger price signals as consumption rises. Customers face a higher marginal cost for discretionary or excessive use, which can reduce outdoor irrigation, nonessential consumption, and waste. This makes the structure especially effective in promoting water conservation and resource sustainability, particularly in drought-prone regions.

By keeping the first block of usage priced lower, inclining block rates protect essential household consumption at a more affordable level when compared to the higher usage tiers. Higher rates then apply to larger, often discretionary uses such as pools, extensive landscaping, or industrial processes. This structure can may be viewed as more equitable if higher demands place higher cost burdens on the utility.

Inclining blocks may allow utilities to recover additional revenue from high-volume customers who drive peak demand and system capacity costs. This approach helps align cost recovery with cost causation, since large users may impose greater strain on infrastructure, treatment, and supply capacity.

Many state regulators, municipalities, and water management districts use inclining block rates as part of conservation policies. They are often well received by the public when framed as both fair (protecting essential use) and environmentally responsible (discouraging waste).

By reducing high-volume consumption, inclining block rates can lower peak demand, defer capital investments in capacity expansion, and extend the life of existing infrastructure. This provides long-term financial and operational benefits to a utility that is constrained in its existing capacity.

Because inclining block rates are designed to suppress high consumption, they can create revenue instability if customers respond strongly to price signals or conservation messaging. A sudden reduction in discretionary use may lower revenues more than anticipated, making it difficult for the utility to recover its fixed costs. If tier thresholds are not set appropriately, inclining block rates may produce unintended results. For example, very high tier cutoffs may do little to encourage conservation for most customers, while tier cutoffs set too low can penalize users within a normal indoor usage profile.

Regressive Step Rates

Regressive step rates, also known as declining block rates, are a type of water tariff structure where the price per unit of water decreases as the customer's water consumption increases. This is a classic “volume discount” pricing structure.

By lowering the marginal cost of high volumes, declining block rates can attract and support water-intensive industries, potentially stimulating local economic growth. Utilities may use this structure to remain competitive with neighboring providers when seeking to retain or attract large commercial customers. Since large customers often represent a significant share of a utility’s water sales, offering them lower unit rates can encourage continued usage and provide predictable revenue streams. This can help utilities stabilize finances in regions where demand from residential customers is declining. In communities with historically high-use customers, declining block rates may reduce volatility in bills and revenues, as customers are less likely to respond with drastic reductions in consumption compared to structures that penalize high use.

The most significant drawback is that declining block rates discourage conservation. Customers face lower marginal costs as they use more water, which creates an incentive to increase consumption rather than conserve. This runs counter to sustainability objectives and can be problematic in water-scarce regions.

Declining block structures can create cross-subsidization, where small-volume residential users end up paying disproportionately higher per-unit costs while large, often industrial users benefit from lower rates. This raises fairness issues, especially when low-income households consume less water but pay more per gallon.

Encouraging high consumption through declining prices may increase peak demand and stress the system, which in turn accelerates the need for costly capacity upgrades. This reduces long-term financial flexibility and can increase system costs for all customers. Many industry groups, including AWWA, do not recommend declining block rates. They are increasingly viewed as outdated, inconsistent with conservation goals, and potentially inequitable. As a result, they are less common today and may face resistance from regulators, governing boards, and the public.

NewGen does not recommend the Village adopt a declining block rate structure.

Seasonable Rate Surcharges

Seasonal water rate structures are designed to encourage conservation. Since distribution systems are designed to meet peak demands, conservation-oriented pricing ensures that users with high seasonal variation in water consumption pay for the infrastructure necessary to meet their demands. Seasonal rates can be effective because the increased volumetric cost of water may provide incentives for customers to reduce discretionary water use, such as lawn irrigation. This rate structure charges more for

water in the summer months when discretionary water use is highest, which increases the conservation signal from low season to high season.

Higher summer rates allow utilities to collect additional revenue during periods of highest consumption, which can help stabilize finances and reduce the need for general increases. Seasonal structures can be designed to ensure that annual revenue requirements are still met despite seasonal fluctuations. By discouraging excessive irrigation and outdoor water use during critical periods, seasonal rates can help protect water supplies, reduce strain on infrastructure, and defer costly capital investments tied to peak capacity.

Customers may find seasonal rate structures harder to understand than uniform rates. Bill fluctuations between summer and winter may cause confusion or frustration, particularly if customers do not connect the higher charges to conservation goals. Seasonal rates can disproportionately affect certain customer groups. Households with large outdoor landscapes, pools, or cooling needs will pay significantly more, even if these uses are considered essential by the customer. In agricultural communities, farmers may be heavily affected depending on irrigation cycles.

Seasonal rate structures assume predictable seasonal consumption patterns. Unusually wet summers or cooler weather may reduce demand during high-rate periods, creating revenue shortfalls. Conversely, very hot or dry summers may increase revenues but can also raise concerns about fairness.

Table 3-1
Summary of Volumetric Rate Structure Alternatives

Rate Structure	Advantages	Disadvantages
Uniform Rate	• Simple to design, explain, and administer • Customers pay proportionally to usage, supporting fairness • Provides steady marginal price that encourages conservation at all levels • Aligns reasonably well with cost-of-service principles	• Conservation incentives are weaker than inclining block rates • Provides no stronger signal to curb discretionary or peak usage • May not fully recover capacity-related costs from high-volume users
Inclining Block Rate	• Strong conservation signal by raising marginal price at higher usage levels • Protects affordability by keeping basic usage at lower cost • Helps recover costs from high users who drive peak demand • Aligns with policy objectives in water-scarce regions	• More complex to design and administer • May unintentionally penalize large households • Revenue can be volatile if customers conserve more than expected • Cost-of-service justification must be stronger to demonstrate equity
Declining Block Rate	• Encourages and retains large-volume customers, supporting economic development • Provides stable and predictable revenues from industrial/commercial/ag customers • Simple to administer once established	• Sends a negative conservation signal by making additional use cheaper • Small or low-income customers pay higher per-unit costs • Misaligned with cost causation since large users often drive infrastructure needs • Increasingly disfavored by regulators and industry best practices

Seasonal Rate	• Targets peak demand, encouraging conservation during high-stress periods • Aligns with capacity cost recovery by charging more when infrastructure is most strained • Improves long-term sustainability and can defer capital investment • Viewed favorably by regulators as a proactive management tool	• Customers may not understand or accept seasonal surcharges • Can create equity issues for households or businesses with unavoidable high seasonal use • Billing and communication more complex • Revenue risk from atypical weather (wet summers or drought conditions)
Minimum Charge with Included Usage	• Provides stable baseline revenue to cover fixed costs (meters, billing, infrastructure) • Offers predictable bills for customers • Reduces administrative costs of very small accounts with negligible charges • Ensures all customers contribute a minimum payment to the system	• Weakens conservation incentives since "included" water feels free to customers • Disproportionately impacts low-use or low-income customers, who pay more per unit • Creates equity and fairness concerns • Misaligned with industry best practices, which recommend fixed charges cover only customer costs without bundled usage • Hard to justify under cost-of-service principles

In summary, uniform rates are the most straightforward and defensible, inclining block rates are the strongest tool for conservation and equity, declining block rates are largely outdated and inconsistent with conservation and equity goals, and seasonal rates are an effective but more complex way to address peak demand and cost recovery.

Lead Service Line Replacement Program

There are approximately 12,500 water service in the Village, and approximately 8,500 of those have lead on the private side. Public Act 102-0613 requires each community water supplier to begin replacing Lead water services in 2027, and it requires the Village to complete 425 services per year. As Village policy states right now, the private side service (from the water meter in the house to the shut off valve in the parkway) is paid for by the property owner. If the Village chooses to pay for the private side water service in 2027, the cost that would be associated with the required plan by Public Act 102-0613. That is the Village would need to replace 425 services per year for 20 years at an estimated cost of $9,000 per private side only. Total cost per year for the private side replacement would be $3,825,000. There is also the possibility that the cost per replacement will increase. According to the 2025 Illinois Municipal League (IML) Lead Service Line Replacement Survey, the estimated cost per lead service line (or service line of unknown material requiring replacement) in the state is $15,136, which represents a significant increase compared to the 2024 estimate of $8,288 per line.[3]

Customer Demand Variances

Reliance on volumetric charges as the primary source of revenue exposes a water utility to significant financial risk. Because water sales are highly sensitive to weather conditions, economic cycles, and customer behavior, revenues can fluctuate considerably from year to year. A hot, dry summer may generate higher revenues than expected, while cooler or wetter conditions can result in substantial shortfalls. Conservation initiatives, efficiency improvements, and changing customer expectations further reduce demand in ways that are difficult to predict. Since the majority of a utility's costs are fixed and

[3] 2025 IML Lead Service Line Replacement Survey Results: iml.org/lead2025

must be paid regardless of how much water is sold, over-reliance on volumetric charges creates the risk that revenues will fall short of covering necessary expenses, undermining financial stability.

This volatility can limit a utility's ability to plan for and invest in infrastructure, maintain creditworthiness, and set aside reserves for emergencies. Heavy dependence on volumetric rates also creates a structural tension between financial and policy objectives. Conservation, which utilities are increasingly encouraged or required to promote, directly reduces the very sales on which the utility depends for revenue recovery. This can place the utility in the position of discouraging water use for sustainability reasons while simultaneously relying on higher consumption to maintain financial health. As a result, industry guidance increasingly recommends a balanced rate structure that secures adequate fixed-cost recovery while preserving volumetric charges for cost causation and conservation purposes.

As discussed previously, the Village's fixed revenue recovery is approximately five percent in FY 2025. This creates a risk as water conservation becomes more widespread. If the Village continues to rely on water sales to drive 95 percent of Water and Sewer Fund rate revenues, it risks that any rate increases implemented do not result in the expected revenue growth. Under any rate plan, NewGen recommends increasing the proportion of fixed revenue recovery to a minimum of ten percent with a target of 25 percent.

City of Chicago Costs

As stated in this report, water purchased from Chicago comprise approximately 75 percent of the Village's water operating costs, 54 percent of total water costs, and 36 percent of Water and Sewer Fund costs. The Village has no control over this cost center and therefore is at risk of being subject to large cost increases.

The Village's complete dependence on the City of Chicago for its water supply introduces several strategic and financial risks, foremost among them the Village's lack of control over one of its largest operating expenses. As a wholesale customer, Oak Park is subject to the water rates established by Chicago, with no formal role in setting or approving those rates. This creates a situation where the Village must absorb and pass through externally imposed cost increases without the ability to influence timing, magnitude, or rationale. Any changes in Chicago's financial needs, capital investment program, or internal pricing strategy can materially affect the Village's utility costs.

This dynamic presents a challenge for long-term financial planning and rate stability. Because the cost of purchased water is not controlled locally, Oak Park cannot use operational efficiencies, conservation programs, or capital investments to meaningfully affect the wholesale price. This limits the Village's ability to manage upward rate pressure and makes it more difficult to moderate retail customer impacts. In periods of aggressive rate increases or economic strain, this pass-through arrangement may generate customer dissatisfaction, affordability concerns, or policy pressure that the Village is not structurally equipped to resolve. Over time, continued reliance on a single external supplier without contractual protections or diversification increases Oak Park's exposure to financial volatility and erodes its control over a core public service.