

Village of Oak Park, Illinois

2019 Water & Sewer Rate Study Executive Summary



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EXECUTIVE SUMMARY

Baxter & Woodman has completed an analysis for Village of Oak Park water and sewer rates. The purpose of this study is to provide the Village with an assessment of the Village's Water & Sewer Fund health and various feasible scenarios for setting utilities rates to cover operating and capital improvement expenses while maintaining appropriate cash reserves in its water and sewer fund. The scope of this report includes:

- Analyzing the current water usage trends;
- Preparing a 5-year projection of water and sewer expenses, including incorporation of the Village's current and planned capital improvement projects plan;
- Preparing a 5-year projection of revenues necessary to meet water and sewer fund expenses;
- Identifying systems of equitable water and sewer rates to meet revenue requirements for the next 5 years; and
- Analyzing the projected operating reserve balance to support rate stabilization.

Historically, the American Water Works Association (AWWA) has recommended a reserve balance of 25% of a municipalities' annual expenses less capital and debt servicing. This amount roughly comes out to \$2-3 Million over the period of the forecast. The Village of Oak Park is considering to observe this recommended balance in order have adequate funds on hand to cover unexpected emergencies while minimizing the use of debt financing; however due to significant Capital Improvement Projects in future years, the balance is projected to drop below this threshold in Fiscal Year 2023. The Village has deemed this acceptable to minimize financial burden to residents and the projected operating reserve balance is expected to recover above and beyond the goal by the end of Fiscal Year 2024.

The existing rate structure is comprised of a fixed fee and volumetric rate that is billed quarterly for residential users and monthly for commercial users. The fixed fee is a three tiered rate structure: users with a 1-inch or smaller water meter, users with a 1 ½-inch to 3-inch water meter, and users with a 4-inch or larger water meter. A volumetric rate per 1,000 gallons is applied for water and sewer consumption separately. This rate structure equitably prorates Village expenses across its users and is recommended for continued use.

The following scenarios for achieving a sustainable fund balance were evaluated:

1. Baseline - No Increases: This scenario looked at the projected fund balance under the assumption that no rate increases are applied to water or sewer beyond Fiscal Year 2019

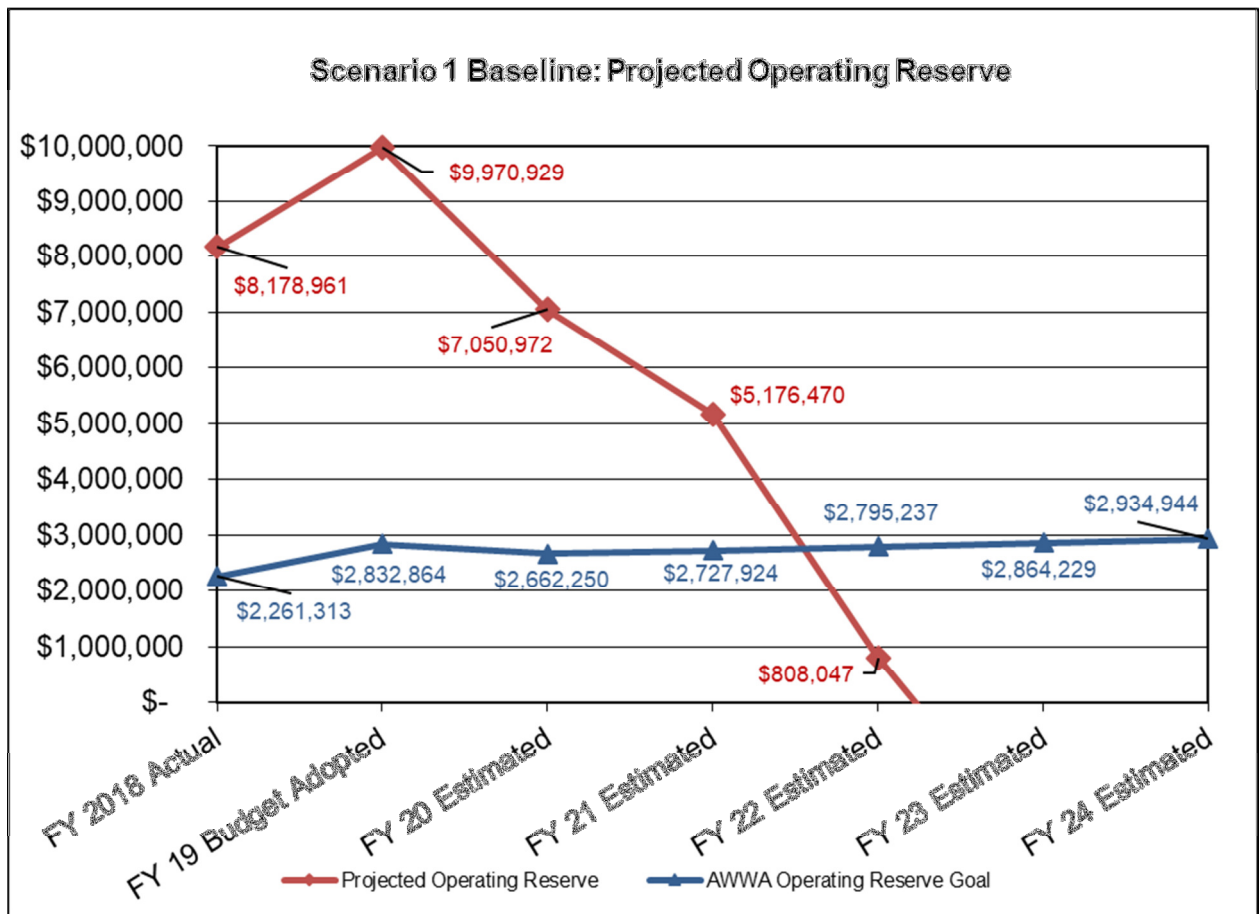
established rates. Under this scenario, the fund balance is projected to fall below the AWWA Operating Reserve Balance after Fiscal Year 2021, reaching a balance of less than \$1 Million in Fiscal Year 2022, and reaching a projected balance of zero in Fiscal Year 2023.

Under Scenario 1 Fixed and Volumetric rates remain as they are in Fiscal Year 2019:

Existing Billing Rates Structure

	Water Rate Charge	Sewer Rate Charge
Fixed Rate – 1-inch meter or smaller	\$5.00	
Fixed Rate – 1 ½-inch to 3-inch meter	\$10.00	
Fixed Rate – 4-inch or larger meter	\$15.00	
Volumetric Rate per 1,000 gal	\$9.52	\$2.73

If no rate increases are made, Scenario 1 Baseline will provide a Projected Operating Reserve Balance as shown below:



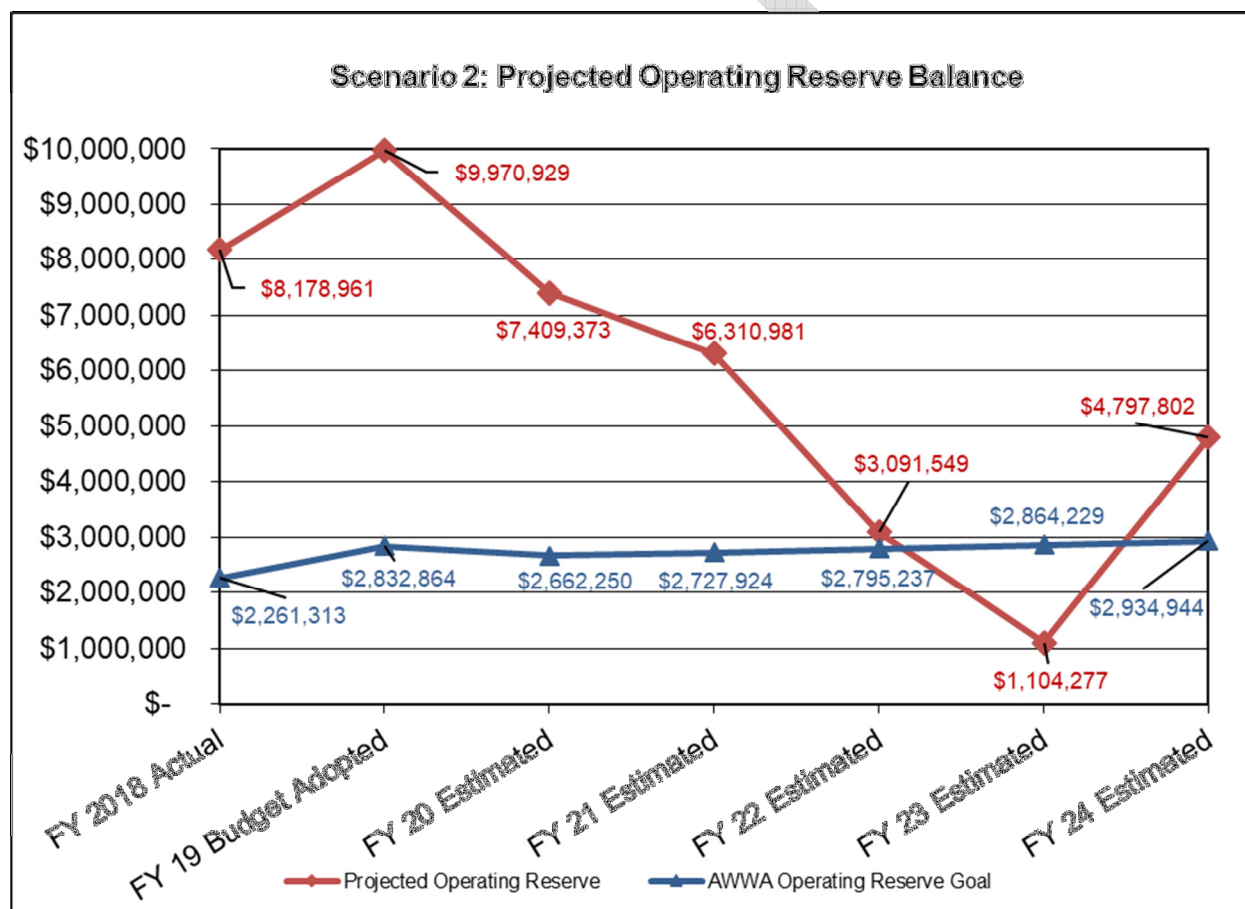
2. Fixed and Volumetric Increases – 2/2/2/2/2: This scenario looked at the fund balance with a 2% increase in the volumetric water and sewer rates each year through Fiscal Year 2024. The fixed rate would be increased by 10% in Fiscal Year 2021 and 9.1% in Fiscal Year 2023. All increases were applied uniformly to all user groups, according to water meter size. Under this scenario, the fund balance is projected to remain above the Operating Reserve Balance Goal, with an exception for Fiscal Year 2023 where the balance drops to \$1.1 Million to accommodate a large capital sewer project. The Operating Balance quickly recovers in Fiscal Year 2024 with a projected ending balance of \$4.8 Million.

Under Scenario 2: Fixed and Volumetric Increases – 2/2/2/2/2, the following rates are applied:

Scenario 2: Fixed and Volumetric Rates

	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Fixed Rate – 1-inch meter or smaller	\$5.00	\$5.00	\$5.50	\$5.50	\$6.00	\$6.00
Fixed Rate – 1 ½-inch to 3-inch meter	\$10.00	\$10.00	\$11.00	\$11.00	\$12.00	\$12.00
Fixed Rate – 4-inch or larger meter	\$15.00	\$15.00	\$16.50	\$16.50	\$18.00	\$18.00
Volumetric Water Rate per 1,000 gal	\$9.52	\$9.71	\$9.90	\$10.10	\$10.30	\$10.51
Volumetric Sewer Rate per 1,000 gal	\$2.73	\$2.78	\$2.84	\$2.90	\$2.96	\$3.01

Scenario 2 is expected to result in an Operating Reserve Balance as shown below:



A typical Residential Customer, with a usage of 4,500 gallons per month would see the following estimated bill increases under Rate Scenario 2:

Scenario 2: Sample Residential Bill

4500 gal/mo.	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Fixed Rate – 1-inch or smaller meter	\$5.00	\$5.00	\$5.50	\$5.50	\$6.00	\$6.00
Water – Volumetric	\$42.84	\$43.70	\$44.57	\$45.46	\$46.37	\$47.30
Sewer - Volumetric	\$12.29	\$12.53	\$12.78	\$13.04	\$13.30	\$13.56
Bill per month	\$60.13	\$61.23	\$62.85	\$64.00	\$65.67	\$66.86
Bill per quarter	\$180.38	\$183.68	\$188.56	\$192.00	\$197.01	\$200.59

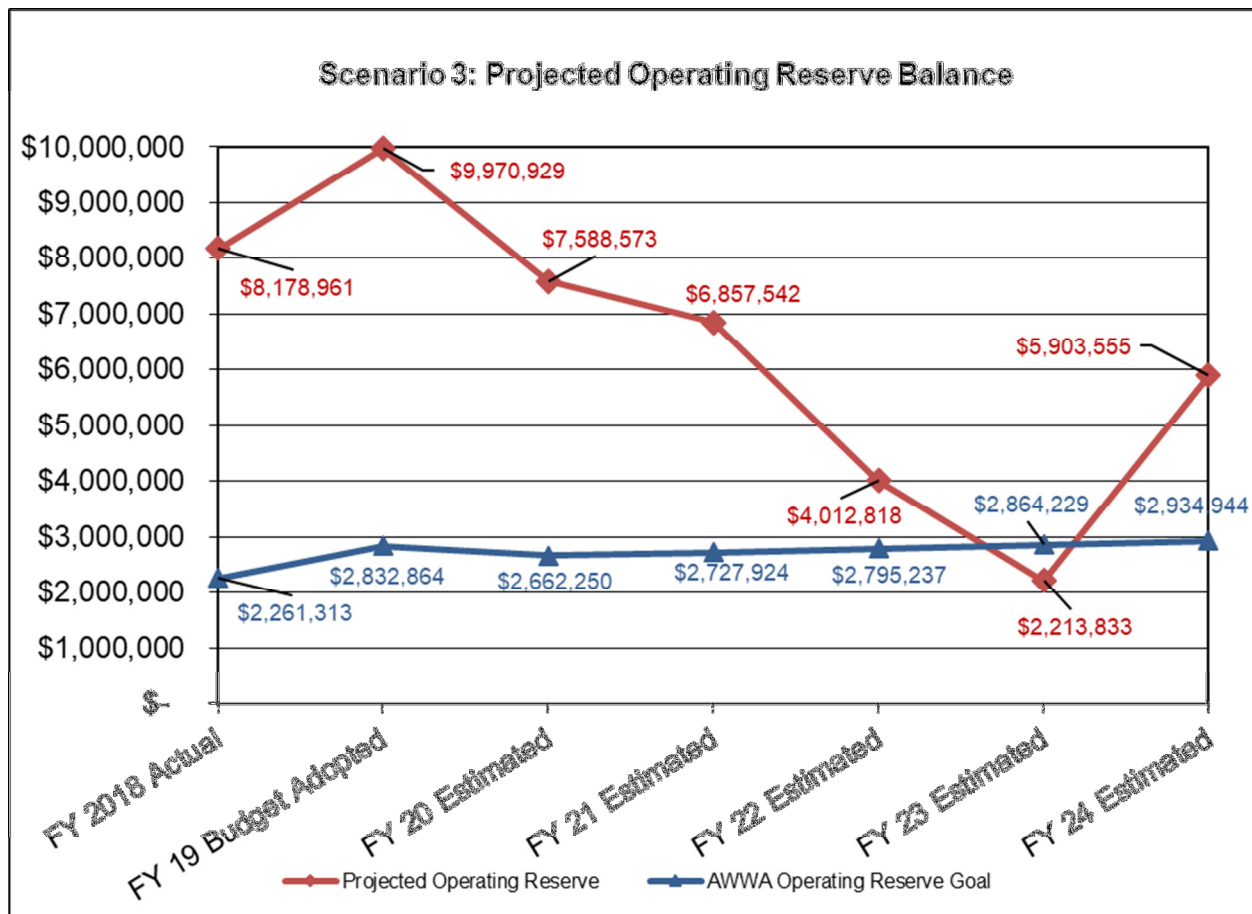
3. Fixed and Volumetric Increases – 3/3/2/1/1: This scenario looked at the fund balance with increases of 3%, 3%, 2%, 1%, and 1% in Fiscal Years 2020, 2021, 2022, 2023, and 2024 respectively. The fixed rate would be increased by 10% in Fiscal Year 2021 and 9.1% in Fiscal Year 2023. All increases were applied uniformly to all user groups, according to water meter size. Under this scenario, the fund balance is projected to remain above the Operating Reserve Balance Goal, with an exception in Fiscal Year 2023 where the balance drops to \$2.2 Million to accommodate a large capital sewer project. The Operating Balance quickly recovers in Fiscal Year 2024 with a projected ending balance of \$5.9 Million.

Under the Scenario 3: Fixed and Volumetric Increases – 3/3/2/1/1, the following rates are applied:

Scenario 3: Volumetric and Fixed Rates

	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Fixed Rate – 1-inch meter or smaller	\$5.00	\$5.00	\$5.50	\$5.50	\$6.00	\$6.00
Fixed Rate – 1 ½-inch to 3-inch meter	\$10.00	\$10.00	\$11.00	\$11.00	\$12.00	\$12.00
Fixed Rate – 4-inch or larger meter	\$15.00	\$15.00	\$16.50	\$16.50	\$18.00	\$18.00
Volumetric Water Rate per 1,000 gal	\$9.52	\$9.81	\$10.10	\$10.30	\$10.40	\$10.51
Volumetric Sewer Rate per 1,000 gal	\$2.73	\$2.81	\$2.90	\$2.95	\$2.98	\$3.01

Scenario 3 is expected to result in an Operating Reserve Balance as shown below:



A typical Residential Customer using approximately 4,500 gallons per month would see the following estimated bill increases under Rate Scenario 3.

Scenario 3: Typical Residential Bill

4500 gal/mo.	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Fixed Rate –1-inch or smaller meter	\$5.00	\$5.00	\$5.50	\$5.50	\$6.00	\$6.00
Water – Volumetric	\$42.84	\$44.13	\$45.45	\$46.36	\$46.82	\$47.29
Sewer - Volumetric	\$12.29	\$12.65	\$13.03	\$13.29	\$13.43	\$13.56
Bill per month	\$60.13	\$61.78	\$63.98	\$65.15	\$66.25	\$66.85
Bill per quarter	\$180.38	\$185.34	\$191.95	\$195.46	\$198.75	\$200.55

A rate comparison survey was conducted with neighboring communities and municipalities that were similar in size to the Village of Oak Park. It should be noted that not all communities have publically accessible water and sewer rates, and some have rate durations that extend beyond a year. In addition, the rates used below for comparison purposes from the other municipalities may be outdated and potentially higher as noted. Table 3 assumes a calculated monthly water and sewer bill for a customer consuming 4,500 gallons a month. This table is provided strictly as a frame of reference and as previously mentioned, may not be a completely accurate depiction of current rates among the comp communities.

Typical Current Residential Rate Comparison (4,500 gallons/month)

Community	Rate Published (year)	Water Bill	Sewer Bill	Total Bill
Melrose Park	2019			\$25.26
Berwyn	2019	\$37.79	\$5.41	\$43.20
Forest Park	2018			\$43.97
Brookfield	2018			\$49.69
River Grove	2018	\$46.58	\$4.51	\$51.09
Cicero	2018	\$40.07	\$13.30	\$53.37
Elmwood Park	2016			\$58.28
Oak Park	2019	\$47.84	\$12.29	\$60.13
River Forest	2019	\$40.06	\$26.41	\$66.47
Maywood	2019	\$65.39	\$3.07	\$68.46
North Riverside	2019			\$76.20
Riverside	2018			\$84.54

Rate Scenarios 2 and 3 have a similar final Residential Bill in Fiscal Year 2024, categorizing Oak Park in the middle range of neighboring communities.

Scenarios 2 and 3: Typical Residential Rate Comparison in FY 2024 (4,500 gallons/month)

Community	Rate Published (year)	Residential Bill monthly 4,500 gal/month
Melrose Park	2019	\$25.26
Berwyn	2019	\$43.20
Forest Park	2018	\$43.97
Brookfield	2018	\$49.69
River Grove	2018	\$51.09
Cicero	2018	\$53.37
Elmwood Park	2016	\$58.28
River Forest	2019	\$66.47
Oak Park	2024	\$66.86
Maywood	2019	\$68.46
North Riverside	2019	\$76.20

Riverside	2018	\$84.54
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Rate scenarios 2 and 3 result in very similar bills by the end of Fiscal Year 2024, whether rate increases are applied uniformly or start high and then taper off. In both cases, the Operating Reserve Balance drops below the AWWA Recommendation in Fiscal Year 2023, however it rebounds in Fiscal Year 2024 to provide a healthy balance for future improvements. Increases to fixed rates allow a stable income to cover Village fixed operating costs, while the volumetric rate allows Oak Park to prorate its volume-based expenses equitably to its larger water users. These rates should be evaluated annually as Fiscal Year Actuals are published and compared against estimated projections.

It is recommended that the Village of Oak Park discuss information and material contained within this report with internal or external advisors and experts that the Village deems appropriate before acting on this information. Baxter & Woodman is not acting as a financial advisor to the Village, nor does it owe a fiduciary duty pursuant to Section 15B of the Exchange Act to the Village of Oak Park with respect to the information and material contained herein.