

**Discussion of Billing Rate Increase
For
Water & Sewer Services
Effective July 1, 2019**

1. Revenues generated by water and sewer service sales have decreased over the past three years while costs of operation and maintenance of Water District facilities and programs have increased each year. Annual operation and maintenance expenses have now exceeded revenues.

2. The primary reason that sales of water utilities is down is that Tropical Storm Harvey displaced more customers than have returned to water service after the storm. Currently, there are approximately 150 fewer customers than at this date in 2017. At a billing rate of approximately \$60 per month per average customer, revenues are approximately \$108,000 per year below previous levels. To corroborate this data, District annual water sales were 314.4 million gallons in the year immediately prior to the flood, dropping to 287.4 million gallons in the year of the flood, and increasing slightly to 289.3 million gallons sold in this current fiscal year. The decrease of 25.1 million gallons of water sold represents approximately \$130,000 worth of water per year at billable rates.

3. Increased costs of operation are the result of a number of factors:
 - A. The Water District has increased its number of employees as the district has grown and work load has increased.

 - B. Two grant projects for the replacement of leaking private sewer service lines are a benefit to the District and the customers who qualify but do not come without cost. Matching funds to meet the requirements of the grant program have been funded by the District at a cost of \$110,000, and significant project management of field construction activities and administration of the grant have cost many manhours of District labor.

 - C. The Water District has significantly increased its efforts to reduce Infiltration and Inflow (I&I) of storm drainage water into the public

portion of the sanitary sewer collection system, as well. I&I creates considerable damage to the collection system, causes sewer system back-ups and overflows, reduces the quality of customer sewer service, and creates regulatory issues for the District from the Texas Commission on Environmental Quality (TCEQ). Two field crews, specialized equipment, and support staff perform the smoke testing and line repair work required by the TCEQ to reduce I&I under a mandatory agreement.

- D. The flooding from Tropical Storm Harvey inundated many of the District's Low Pressure Sewer System (LPSS) grinder pump stations located on customer properties, shortened the life span of those pumping units and resulted in numerous replacements. In addition, grinder pump stations have a usual life expectancy of about 15 years, and some of the earlier installations from about 2004 are beginning to "age-out". This is expected to be an ongoing cost of replacement.
 - E. Recent increased construction activity of other underground utilities such as gas, cable tv, and fiber optic cable communications companies has created a large increase in the calls for locating and marking of the District's water and sewer lines. These on-the-ground locating and marking activities are required and consume a great deal of District personnel manpower.
4. All water districts must periodically increase water billing rates as costs increase over time. Planning for a rate increase is not a matter of "if", but "when". The Orange County Water District No. 1 has stretched the time interval between rate increases as long as it could. The Water District has operated under the current billing rates since 2008. In 2011 a fee was added to water and sewer bills for repayment of a Revenue Bond for capital improvements to the wastewater system, but for the operation and maintenance of the District's facilities there has been no increase in the last eleven years. Over that eleven year period the costs for operation and maintenance of the District's facilities have steadily increased. Inflation alone has accounted for an average of 2.011% increase in costs per year, or a total 24.5% for the eleven years.
5. What can be done to minimize the cost to Water District customers?
There are four components to water utility bills: 1) a flat rate for account administration and the first 2,000 gallons of water used, 2) a rate per 100

gallons of water used in excess of the 2,000 gallons included in the minimum flat rate, 3) a State Regulatory Assessment fee of 0.5% applied to sales of water and sewer, and 4) a Revenue Note Payment Fee of \$8.00 for water and \$8.00 for sewer (established in 2011 and remains unchanged). Of the above four components of the water bill, three are fixed in cost and only the volume of water used in excess of the 2,000 gallon minimum can be controlled by the customer. Water conservation, therefore, would minimize the number of gallons used and would minimize the water/sewer bill.

6. What about out-of-District customers? Since those customers are charged higher rates, the impact of a rate increase will be larger for them. Out-of-District customers have two options for minimizing water bills. Water conservation as noted above will help minimize water utility bills even more so than in-District customers, and the owners of properties outside the District can voluntarily annex their properties into the District to be eligible for the lower in-District billing rates. All in-District properties are taxed by the Water District at a tax rate calculated each year to generate the funds required to pay the tax bond annual payments. No tax dollars are used for the operation and maintenance of Water District facilities. All such O&M costs are supported by monthly water utility charges only.