

Discuss City Water and Sewer Retail Rate Study

REQUESTOR:

Public Works Department

BACKGROUND:

A rate model is a financial analysis method that enables decision-makers to explore various rate scenarios when setting utility base and volumetric rates. The model illustrates operational and capital infrastructure improvements and funding requirements into future years, pairing those with rate levels that cover capital infrastructure projects through cash, tax-backed General Obligation bonds, or utility system revenue bond funding options.

The model is developed to ensure that utility operations and capital improvements are scheduled and funded in a financially sound manner, considering long-term system requirements, and that customers are charged fairly for utility services. The primary goal is to determine appropriate rate levels and rate structures that generate sufficient revenue to cover annual operating costs and scheduled capital projects.

The model projects future operating expenses and capital requirements necessary to meet regulatory requirements, address aging infrastructure, and accommodate anticipated growth. It defines rates to allow for the accumulation of sufficient cash reserves to cover unexpected costs, emergencies, and future capital needs. The model examines and recommends the most appropriate rate structure (e.g., fixed fees, variable charges based on consumption) to ensure that customers pay for the services they use in a way that is understandable, equitable, and aligns with the system's financial objectives.

DISCUSSION:

Discuss upcoming changes to the FY26 Water and Sewer Retail rates.

ATTACHMENT(S):

1. Presentation



June 24, 2025

WATER AND SEWER RETAIL RATE STUDY CITY OF FARMERS BRANCH, TEXAS



DWU & TRA HISTORICAL RATES

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
<u>Purchased Water (DWU)</u>										
DWU Volume Rate	\$ 0.43	\$ 0.44	\$ 0.46	\$ 0.37	\$ 0.38	\$ 0.40	\$ 0.45	\$ 0.45	\$ 0.52	\$ 0.57
Percent Change (%)		2.33%	4.55%	(19.57%)	2.70%	5.26%	12.50%	0.00%	15.56%	9.62%
DWU Demand Rate	\$243,453	\$262,058	\$280,458	\$276,434	\$278,529	\$291,422	\$312,607	\$320,826	\$328,362	\$356,978
Percent Change (%)		7.64%	7.02%	(1.43%)	0.76%	4.63%	7.27%	2.63%	2.35%	8.71%
<u>Treated Wastewater (TRA)</u>										
TRA Rate	\$ 2.21	\$ 2.49	\$ 2.52	\$ 2.75	\$ 2.93	\$ 3.06	\$ 3.19	\$ 3.17	\$ 3.60	\$ 3.96
Percent Change (%)		12.74%	1.49%	9.16%	6.28%	4.44%	4.22%	(0.56%)	13.57%	9.92%

DWU & TRA RATES INCREASES

DWU's current projections for wholesale rate increases range from 10 to 15% annually

	FY 2024	FY 2025
Demand Charge	\$328,362	\$356,978
Volume Rate /1,000 gal.	\$0.5150	\$0.5663

TRA's current projections for wholesale rate increases range from 7 to 11% annually

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Proj. Flows (All Cities)	142.828	141.321	142.028	142.738	143.451	144.169
Total Rate (Debt & O&M)	\$3.598	\$3.955	\$4.384	\$4.835	\$5.210	\$5.547

Note: Flows are projected in MGD

WHOLESALE
PURCHASED
WATER AND
WASTEWATER
TREATMENT

Expense Ratios (% Ratio)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<u>Purchased Water (DWU)</u>						
Total O&M Expenses	\$10,328,379	\$11,301,654	\$12,155,432	\$13,084,650	\$14,076,337	\$15,152,389
Water Purchase	\$7,541,100	\$8,434,183	\$9,205,220	\$10,049,059	\$10,952,639	\$11,937,761
% of O&M Expenses	73.01%	74.63%	75.73%	76.80%	77.81%	78.78%
Total System Expenses	\$19,211,221	\$23,540,077	\$25,472,240	\$31,572,298	\$29,727,963	\$28,500,091
Total System Expenses (%)	39.25%	35.83%	36.14%	31.83%	36.84%	41.89%
<u>Treated Wastewater (TRA)</u>						
Total O&M Expenses	\$8,700,221	\$8,912,556	\$9,691,629	\$10,363,766	\$10,985,603	\$11,648,267
Wastewater Treatment	\$6,458,200	\$6,609,640	\$7,326,042	\$7,933,679	\$8,489,133	\$9,083,477
% of O&M Expenses	74.23%	74.16%	75.59%	76.55%	77.28%	77.98%
Total System Expenses	\$14,312,179	\$18,566,850	\$17,246,474	\$15,742,647	\$19,872,090	\$23,087,707
Total System Expenses (%)	45.12%	35.60%	42.48%	50.40%	42.72%	39.34%

CAPITAL IMPROVEMENT PLAN

(\$ Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total
Water	\$4.2	\$7.0	\$7.8	\$12.1	\$9.6	\$7.6	\$48.3
Wastewater	\$3.0	\$6.5	\$4.7	\$2.8	\$5.7	\$7.7	\$30.4
Total	\$7.2	\$13.5	\$12.5	\$14.9	\$15.3	\$15.3	\$78.7

CURRENT CITY CAPITAL FUNDING METHOD: All Cash Funding

- Current CIP of \$78M
- GO Bond funding of \$5.5M in 2025, as planned
- No future bonds issued
- All capital projects funded by cash, as is currently done.

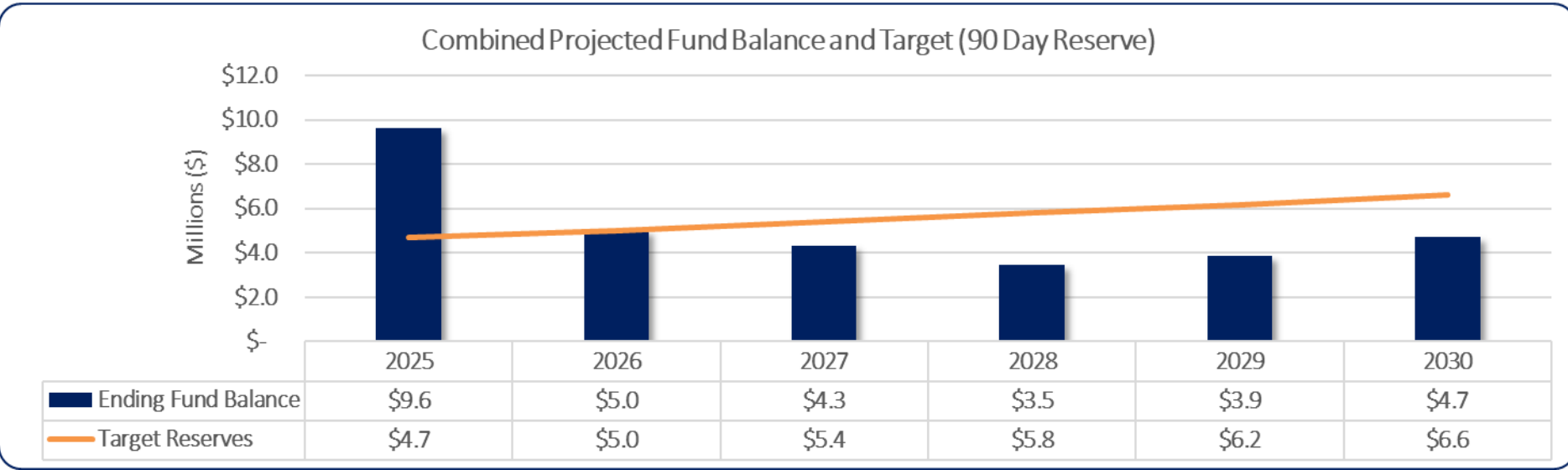


ANTICIPATED FINANCIAL PERFORMANCE UNDER PROPOSED RATES

Current City Capital
Funding Methodology
Water and Sewer

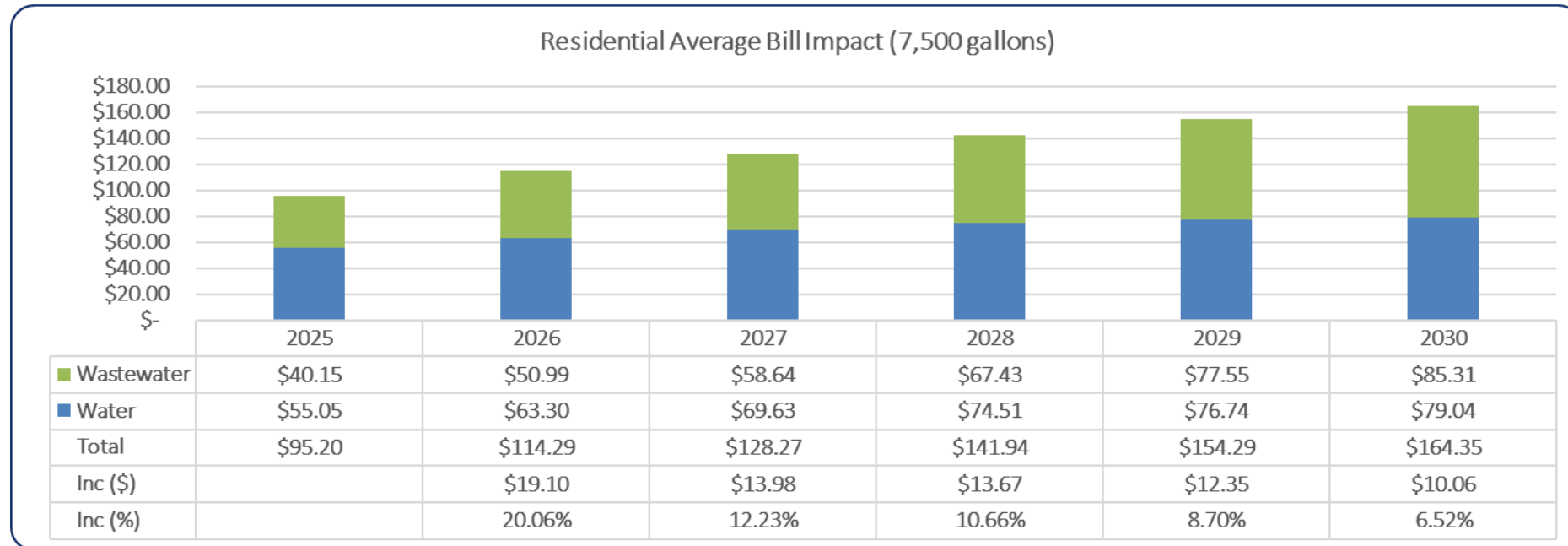
Dashboard						
Water	2025	2026	2027	2028	2029	2030
Meter Charge	0.00%	15.00%	10.00%	7.00%	3.00%	3.00%
Volumetric Charge	0.00%	15.00%	10.00%	7.00%	3.00%	3.00%
Wastewater	2025	2026	2027	2028	2029	2030
Meter Charge	0.00%	27.00%	15.00%	15.00%	15.00%	10.00%
Volumetric Charge	0.00%	27.00%	15.00%	15.00%	15.00%	10.00%

Revenues (\$)						
Water	2025	2026	2027	2028	2029	2030
Change in Net Assets	\$ 6,924,888	\$ 13,509	\$ 351,826	\$ (3,909,403)	\$ (1,312,384)	\$ 690,749
Ending Fund Balance	9,991,169	10,004,678	10,356,504	6,447,101	5,134,717	5,825,467
Wastewater	2025	2026	2027	2028	2029	2030
Change in Net Assets	\$ (3,441,506)	\$ (4,619,550)	\$ (1,060,737)	\$ 3,070,424	\$ 1,725,817	\$ 139,913
Ending Fund Balance	(375,224)	(4,994,774)	(6,055,511)	(2,985,087)	(1,259,270)	(1,119,356)
Combined	2025	2026	2027	2028	2029	2030
Change in Net Assets	\$ 3,483,382	\$ (4,606,041)	\$ (708,911)	\$ (838,979)	\$ 413,433	\$ 830,663
Ending Fund Balance	9,615,945	5,009,904	4,300,993	3,462,014	3,875,448	4,706,111



MONTHLY CUSTOMER BILL PROJECTION

Current City Capital
Funding Methodology
Residential Inside ¾”
7,500 gallons



Note: Variance represents the monthly bill impact.



QUESTIONS AND DISCUSSION

NEWGEN STRATEGIES AND SOLUTIONS
275 W. CAMPBELL ROAD, SUITE 440
RICHARDSON, TEXAS 75080

RICHARD CAMPBELL, PRINCIPAL AND MANAGING DIRECTOR - WATER
(972)528-7158
RCAMPBELL@NEWGENSTRATEGIES.NET

APPENDIX

Current Rates

Note: Rates are based on meter size and not customer class. These rates pertain to Residential, Commercial, Multi-family, Irrigation, and Fire Line.

Water Rates	FY 2025
<u>Minimum Charge</u>	
5/8" or 3/4"	\$ 21.99
1"	\$ 30.78
1.5"	\$ 39.58
2"	\$ 63.67
3"	\$ 241.47
4"	\$307.31
6"	\$ 460.90
8"	\$636.48
<u>Volumetric Charge</u>	
0 – 2,000 gallons	\$ -
2,001 – 10,000 gallons	\$6.01
10,001 – 20,000 gallons	\$6.73
20,001+ gallons	\$ 7.01

Wastewater Rates	FY 2025
<u>Minimum Charge</u>	
All	\$ 22.99
<u>Volumetric Charge</u>	
0 – 2,000 gallons	\$ -
2,001 – 10,000 gallons	\$ 3.12
10,001+ gallons	\$ 4.23
<i>Residential has a cap of 10,000 gallons</i>	

FINANCIAL SUMMARY UNDER CURRENT RATES

Combined Cash Flow

FINANCIAL SUMMARY	2025	2026	2027	2028	2029	2030
BEGINNING FUND BALANCE	\$ 6,132,563	\$ 9,564,750	\$ (771,742)	\$ (11,481,919)	\$ (26,521,249)	\$ (43,839,921)
REVENUES						
RATE REVENUE	\$ 30,966,487	\$ 31,276,050	\$ 31,508,711	\$ 31,770,191	\$ 31,770,191	\$ 31,770,191
NON-RATE REVENUE	489,100	494,385	499,825	505,425	511,189	517,122
GO BOND ISSUANCE	5,500,000	-	-	-	-	-
TOTAL REVENUES	\$ 36,955,587	\$ 31,770,434	\$ 32,008,536	\$ 32,275,616	\$ 32,281,380	\$ 32,287,313
O&M EXPENSES						
PERSONNEL	\$ 2,679,500	\$ 2,758,171	\$ 2,839,152	\$ 2,922,511	\$ 3,008,317	\$ 3,096,642
PURCHASED/CONTRACTUAL SEWER SERVICES	6,458,200	6,609,640	7,326,042	7,933,679	8,489,133	9,083,477
WATER PURCHASES	7,541,100	8,434,183	9,205,220	10,049,059	10,952,639	11,937,761
PURCHASED/CONTRACTUAL SERVICES	124,900	125,644	126,395	127,153	127,919	128,693
PRODUCTION & DISPOSAL	128,700	135,770	143,253	151,176	159,564	168,446
SUPPLIES	366,200	376,427	386,944	397,759	408,879	420,315
OTHER O&M	1,730,000	1,774,374	1,820,054	1,867,079	1,915,488	1,965,322
TOTAL O&M EXPENSES	\$ 19,028,600	\$ 20,214,209	\$ 21,847,060	\$ 23,448,416	\$ 25,061,940	\$ 26,800,655
DEBT						
EXISTING DEBT	-	-	-	-	-	-
PROJECTED DEBT	-	-	-	-	-	-
TOTAL DEBT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPITAL, TRANSFERS, AND RESERVES						
PROJECTS NOT YET ENGINEERED	1,436,150	2,699,776	2,502,293	2,973,332	3,056,331	3,068,054
CAPITAL OUTLAYS	-	-	-	-	-	-
TRANSFERS	13,058,650	19,192,941	18,369,359	20,893,197	21,481,782	21,719,090
TOTAL CAPITAL, TRANSFERS, AND RESERVES	\$ 14,494,800	\$ 21,892,717	\$ 20,871,653	\$ 23,866,530	\$ 24,538,113	\$ 24,787,143
TOTAL EXPENSES	\$ 33,523,400	\$ 42,106,926	\$ 42,718,713	\$ 47,314,946	\$ 49,600,052	\$ 51,587,799
CHANGE IN NET ASSETS	\$ 3,432,187	\$ (10,336,492)	\$ (10,710,177)	\$ (15,039,330)	\$ (17,318,672)	\$ (19,300,485)
Ending Fund Balance	\$ 9,564,750	\$ (771,742)	\$ (11,481,919)	\$ (26,521,249)	\$ (43,839,921)	\$ (63,140,406)

FINANCIAL SUMMARY UNDER CURRENT RATES

Water Cash Flow

FINANCIAL SUMMARY	2025	2026	2027	2028	2029	2030
REVENUES						
RATE REVENUE	\$ 20,405,558	\$ 20,595,665	\$ 20,737,010	\$ 20,895,863	\$ 20,895,863	\$ 20,895,863
NON-RATE REVENUE	230,550	233,192	235,912	238,712	241,594	244,561
GO BOND ISSUANCE	5,500,000	-	-	-	-	-
TOTAL REVENUES	\$ 26,136,108	\$ 20,828,857	\$ 20,972,922	\$ 21,134,575	\$ 21,137,457	\$ 21,140,424
O&M EXPENSES						
PERSONNEL	\$ 1,353,715	\$ 1,393,461	\$ 1,434,373	\$ 1,476,487	\$ 1,519,837	\$ 1,564,460
PURCHASED/CONTRACTUAL SEWER SERVICES	-	-	-	-	-	-
WATER PURCHASES	7,541,100	8,434,183	9,205,220	10,049,059	10,952,639	11,937,761
PURCHASED/CONTRACTUAL SERVICES	62,450	62,822	63,197	63,577	63,960	64,346
PRODUCTION & DISPOSAL	128,664	135,731	143,212	151,132	159,517	168,397
SUPPLIES	190,600	195,934	201,419	207,060	212,860	218,825
OTHER O&M	1,051,850	1,079,523	1,108,010	1,137,335	1,167,524	1,198,600
TOTAL O&M EXPENSES	\$ 10,328,379	\$ 11,301,654	\$ 12,155,432	\$ 13,084,650	\$ 14,076,337	\$ 15,152,389
DEBT						
EXISTING DEBT	-	-	-	-	-	-
PROJECTED DEBT	-	-	-	-	-	-
TOTAL DEBT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPITAL, TRANSFERS, AND RESERVES						
PROJECTS NOT YET ENGINEERED	841,850	1,407,986	1,569,658	2,412,875	1,921,070	1,517,386
CAPITAL OUTLAYS	-	-	-	-	-	-
TRANSFERS	8,040,992	10,830,437	11,747,150	16,074,773	13,730,556	11,830,317
TOTAL CAPITAL, TRANSFERS, AND RESERVES	\$ 8,882,842	\$ 12,238,423	\$ 13,316,808	\$ 18,487,648	\$ 15,651,626	\$ 13,347,703
TOTAL EXPENSES	\$ 19,211,221	\$ 23,540,077	\$ 25,472,240	\$ 31,572,298	\$ 29,727,963	\$ 28,500,091
CHANGE IN NET ASSETS	\$ 6,924,888	\$ (2,711,220)	\$ (4,499,318)	\$ (10,437,723)	\$ (8,590,506)	\$ (7,359,668)
Beginning Fund Balance	\$ 3,066,282	\$ 9,991,169	\$ 7,279,949	\$ 2,780,632	\$ (7,657,091)	\$ (16,247,597)
Change in Fund Balance	6,924,888	(2,711,220)	(4,499,318)	(10,437,723)	(8,590,506)	(7,359,668)
Ending Fund Balance	\$ 9,991,169	\$ 7,279,949	\$ 2,780,632	\$ (7,657,091)	\$ (16,247,597)	\$ (23,607,265)

FINANCIAL SUMMARY UNDER CURRENT RATES

Wastewater Cash Flow

FINANCIAL SUMMARY	2025	2026	2027	2028	2029	2030
REVENUES						
RATE REVENUE	\$ 10,560,929	\$ 10,680,385	\$ 10,771,701	\$ 10,874,329	\$ 10,874,329	\$ 10,874,329
NON-RATE REVENUE	258,550	261,192	263,912	266,712	269,594	272,561
GO BOND ISSUANCE	-	-	-	-	-	-
TOTAL REVENUES	\$ 10,819,479	\$ 10,941,577	\$ 11,035,614	\$ 11,141,041	\$ 11,143,923	\$ 11,146,890
O&M EXPENSES						
PERSONNEL	\$ 1,325,785	\$ 1,364,711	\$ 1,404,779	\$ 1,446,024	\$ 1,488,480	\$ 1,532,182
PURCHASED/CONTRACTUAL SEWER SERVICES	6,458,200	6,609,640	7,326,042	7,933,679	8,489,133	9,083,477
WATER PURCHASES	-	-	-	-	-	-
PURCHASED/CONTRACTUAL SERVICES	62,450	62,822	63,197	63,577	63,960	64,346
PRODUCTION & DISPOSAL	36	39	41	44	46	49
SUPPLIES	175,600	180,494	185,525	190,699	196,019	201,490
OTHER O&M	678,150	694,851	712,044	729,744	747,965	766,722
TOTAL O&M EXPENSES	\$ 8,700,221	\$ 8,912,556	\$ 9,691,629	\$ 10,363,766	\$ 10,985,603	\$ 11,648,267
DEBT						
EXISTING DEBT	-	-	-	-	-	-
PROJECTED DEBT	-	-	-	-	-	-
TOTAL DEBT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPITAL, TRANSFERS, AND RESERVES						
PROJECTS NOT YET ENGINEERED	594,300	1,291,790	932,636	560,457	1,135,261	1,550,668
CAPITAL OUTLAYS	-	-	-	-	-	-
TRANSFERS	5,017,658	8,362,504	6,622,209	4,818,424	7,751,226	9,888,773
TOAL CAPITAL, TRANSFERS, AND RESERVES	\$ 5,611,958	\$ 9,654,294	\$ 7,554,845	\$ 5,378,882	\$ 8,886,487	\$ 11,439,441
TOTAL EXPENSES	\$ 14,312,179	\$ 18,566,850	\$ 17,246,474	\$ 15,742,647	\$ 19,872,090	\$ 23,087,707
CHANGE IN NET ASSETS	\$ (3,492,700)	\$ (7,625,272)	\$ (6,210,860)	\$ (4,601,606)	\$ (8,728,167)	\$ (11,940,818)
Beginning Fund Balance	\$ 3,066,282	\$ (426,419)	\$ (8,051,691)	\$ (14,262,551)	\$ (18,864,157)	\$ (27,592,324)
Change in Fund Balance	(3,492,700)	(7,625,272)	(6,210,860)	(4,601,606)	(8,728,167)	(11,940,818)
Ending Fund Balance	\$ (426,419)	\$ (8,051,691)	\$ (14,262,551)	\$ (18,864,157)	\$ (27,592,324)	\$ (39,533,141)