

West University Place, Texas

Water and Wastewater Rate Study Results

SUMMARY REPORT / July 22, 2025

July 22, 2025

Ms. Marie Kalka
Finance Director
City of West University Place
3800 University Blvd.
West University Place, 77005

Subject: Rate Study Results

Dear Ms. Kalka:

Raftelis Financial Consultants, Inc. (“Raftelis”) is pleased to provide this Rate Study Summary Report for the City of West University Place, Texas (City). The purpose of this project was two-fold: 1) to determine and forecast rate revenue needs over a five-year forecast period, from fiscal year (“FY”) 2026 through FY 2030, and 2) to assess the current rate structure and evaluate rate structure modifications that may more accurately reflect the objectives and values of the City today. This report summarizes the process and results of this study and documents the rate structure preferred by the City Council. In addition to this report, a presentation was prepared and executed with the City executive staff on June 23, 2025.

It has been a pleasure working with the City, and we thank you and the rest of the City staff for the support provided throughout the project.

Sincerely,



Rocky Craley
Vice President

Table of Contents

- 1. Introduction 1**
 - 1.1. Existing Rates1**
- 2. Revenue Requirements Forecast and Financial Plan 2**
 - 2.1. Fiscal Policies2**
 - 2.1.2. Capital Project Funding 2
 - 2.2. Non-Rate Revenue and Expense Projections3**
 - 2.2.1. Non-Rate Revenue 3
 - 2.2.2. Operating and Maintenance Expenses..... 3
 - 2.2.3. Debt Service 4
 - 2.3. Cash Flow Forecast4**
- 3. Council Approved Rate Structure 6**
 - 3.1.1. Rate Structure Modifications 6
 - 3.1.2. Projected Rates..... 6
 - 3.1.3. Bill Impacts..... 7

Tables

- Table 1-1. Existing (FY 2025) Water Rates 1
- Table 2-1. O&M Expense Escalation Factors 3
- Table 2-2: Water Cash Flow Forecast..... 4
- Table 2-3: Wastewater Cash Flow Forecast..... 5
- Table 3-1. Projected User Rates and Charges 7

Figures

- Figure 3-1. FY 2026 Water Bill Impact 8
- Figure 3-2. FY 2026 Wastewater Bill Impact 8

1. Introduction

The City of West University Place (“City”) engaged Raftelis Financial Consultants, Inc. (“Raftelis”) to complete a water and wastewater rate study and prepare water and wastewater rate projections for fiscal year (“FY”) 2026 through FY 2030 (the “forecast period”). The City’s fiscal year begins on January 1 and runs through December 31. The foundational component for this study was the development of a multi-year financial plan to identify the annual rate revenue requirements over the forecast period based on the annual costs to serve City customers. The second primary component of this study was the evaluation of the current rate structure and relevant rate structure modifications to best represent the City’s objectives and the Community’s values. This summary report presents an overview of the analysis and results.

1.1. Existing Rates

The City's current rate structure includes monthly fixed charges and volumetric charges for usage. FY 2025 rates include a fixed monthly base charge for residential and commercial ¾” water customers of \$13.41 and \$39.31, respectively. Water volumetric rates throughout the tiers range from \$5.29 to \$12.14 per thousand gallons (kgals) for all customers. Usage through irrigation meters is assessed with a different set of volumetric rates. For wastewater services, residential and commercial customers pay a fixed monthly fee of \$10.10 and \$24.23, respectively. For usage, both residential and commercial customers are charged the same volumetric unit rate of \$4.49 per thousand gallons. These rates are detailed in Table 1-1.

Table 1-1. Existing (FY 2025) Water and Wastewater Rates and Rate Structure

Water Base Monthly Charges		Wastewater Charges	
Meters Serving Residential Customers:		Meters Serving Residential Customers	\$10.10
¾”	\$13.41	Meters Serving Any Other Premises	24.23
1”	29.94	Volumetric Charge	4.49
1 ½”	57.05		
Meters Serving Any Other Premises:			
¾”	\$39.31		
1”	55.30		
1 ½”	81.87		
2”	249.40		
3”	669.70		
Gallon Charges (per 1,000 gallons)			
Regular Meters			
First 3,000 gallons	\$5.29		
Next 6,000 gallons	6.43		
Next 6,000 gallons	7.63		
Next 10,000 gallons	9.14		
Each 1,000 gallons thereafter	12.14		
Water Only Meters			
First 7,500 gallons	\$7.09		
Next 7,500 gallons	9.14		
Each 1,000 gallons thereafter	12.14		

2. Revenue Requirements Forecast and Financial Plan

A customized financial plan was developed for the City to forecast the annual rate revenue requirements and to identify the rate adjustments required to meet the revenue needs in each year of the forecast. The annual rate revenue requirement per year is based on actual historical expenses, FY 2026 budgeted expenses and revenues, and forecasted expenses and revenues that escalated budgeted values by appropriate inflationary factors. They were also developed based on assumptions involving fiscal policies related to liquidity and future capital project funding. This section of the report discusses these inputs and assumptions in more detail.

2.1. Fiscal Policies

2.1.1.1. Operating and Capital Cash Reserves

Utilities maintain operating reserves to meet unexpected operating costs, provide working capital to address timing differences between cash inflows and outflows, and buffer against revenue shortfalls from weather-related declines in water usage, unforeseen economic influences, or fiscal emergencies. Similarly, utilities maintain capital reserves for emergency repairs or maintenance projects; to smooth out rate increases due to large capital project needs, and to provide cash funding for planned projects. Based on City policy, Raftelis incorporated a management target for minimum operating cash reserves equal to at least 10% of annual operating expenses into the financial plan. This target is low for utility enterprise funds in the industry, which typically range from 3-to-12 months of operating expenses. Currently, the City is above its annual operating reserve target and maintains around 6 months of operating expenses within the fund, in line with industry standard. No minimum requirement for a separate capital cash reserve was included in the forecast at this time for both utilities; however, it was a priority to allow adequate revenue for transfers to the capital funds to facilitate cash-funded capital. Capital expenditures vary more than operating expenditures, causing the capital fund balance to fluctuate throughout the study period. While there is no formal minimum balance requirement for the capital fund, the combined capital fund balance was intentionally maintained at a level exceeding one year's worth of capital transfers from the operating fund. This approach ensures sufficient working capital is available to cover annual needs in the event of revenue shortfalls.

2.1.1.2. Capital Project Funding

The City has prepared and Council accepted a 2025-2034 Capital Improvement Plan (CIP) for both the water and wastewater utilities, outlining proposed projects from FY 2025 through FY 2030.

For the six-year forecast period:

- The water utility's CIP totals approximately \$56.2 million, covering water plant upgrades, storage improvements, water line replacements, and other system enhancements.
- The wastewater utility's CIP totals approximately \$17.6 million, focused on treatment plant upgrades, clarifier rehabilitation, and related projects.

To fund these improvements, the City plans to use a combination of operating fund transfers and debt issuances. Cash funding through operating revenues ensures ongoing reinvestment in the system and helps reduce

borrowing costs. Meanwhile, issuing debt for larger projects helps mitigate rate increases by spreading the cost of long-term infrastructure across future generations of ratepayers.

The proposed debt amounts, developed in coordination with the City’s financial advisor, are specifically tied to major infrastructure projects and factor into the City’s future revenue requirements.

2.2. Non-Rate Revenue and Expense Projections

2.2.1. Non-Rate Revenue

The City’s non-rate revenues mainly consist of billing and collection fees, collections on past-due accounts, service installation/reinstallation fees, interest earnings, and other miscellaneous revenues. These revenues were projected in FY 2026 based on their preliminary budgeted amount, as reported by the City, and in FY 2027 and beyond, remain constant. Interest earnings were projected based on the average annual operating cash balance and a conservative estimated interest earnings rate of 0.5 percent.

2.2.2. Operating and Maintenance Expenses

In general, the City’s operating and maintenance (“O&M”) expenses are comprised of salaries and wages, benefits, chemicals, professional services, utilities, refuse, contracted services, insurance, and other general operating costs. O&M expenses in FY 2025 and FY 2026 were based on their budgeted and requested amounts, respectively, as reported by the City, and in FY 2027 and beyond, based on requested budget amount in FY 2026 and an annual escalation factor to account for inflation of goods, services, and labor. O&M expense categories and corresponding escalation factors are provided in Table 2-1 and were developed based on cost data as published in relevant indices, as well as guidance from City management. Overall, the City’s O&M expenses were projected to increase by about 3.9 percent to 5.1 percent per year over the forecast period.

Table 2-1. O&M Expense Escalation Factors

Expense Category	2027	2028	2029	2030
Salaries	3.00%	3.00%	3.00%	3.00%
Benefits	5.00%	5.00%	5.00%	5.00%
Repairs/Maintenance	3.00%	3.00%	3.00%	3.00%
Engineering	5.00%	5.00%	5.00%	5.00%
General	3.00%	3.00%	3.00%	3.00%
Supplies	3.00%	3.00%	3.00%	3.00%
Contracted Services	5.00%	5.00%	5.00%	5.00%
Chemicals	15.00%	10.00%	5.00%	5.00%
Electricity	3.00%	3.00%	3.00%	3.00%
All Other Utilities	3.00%	3.00%	3.00%	3.00%

Purchased Water	8.00%	6.00%	5.00%	5.00%
Transfer Out	3.00%	3.00%	3.00%	3.00%
Credit Card Charges	5.00%	5.00%	5.00%	5.00%

2.2.3. Debt Service

The City's current outstanding debt includes a 2022 General Obligation bond, which is allocated mainly to the wastewater utility based on a large proportion of the funds used for Wastewater Treatment Plant Improvements. In FY 2025 through FY 2030, the financial plan includes annual debt issuances and corresponding payment schedules provided by the City’s Financial Advisor. Over 80 million in debt is anticipated to be issued from FY 2025 to FY 2030. Issuing debt for the large projects helps mitigate rate increases and spreads the cost of capital among current and future generations.

2.3. Cash Flow Forecast

A cash flow forecast projecting the annual revenues and expenses of the City for FY 2026 through FY 2030 was prepared and is provided in Table 2-2 for water and Table 2-3 for wastewater. The rate revenues projected in the forecast reflect the following adjustments:

- 10% increase to water and wastewater in FY 2026
- 20% increase to water, and 12% increase to wastewater in FY 2027
- 16% increase to water, and 9% increase to wastewater in FY 2028
- 4% increase to water, and 6% increase to wastewater in FY 2029
- 6% increase to water, and 0% increase to wastewater in FY 2030

The resulting projected rates adjustments are preliminary and based on financial plan projected revenue requirements. Staff will annually review the financial plan during budget development, and make modifications during the annual budget process as needed in FY 2026 and future years.

Table 2-2: Water Cash Flow Forecast

Line No.	Description	Fiscal Year Ending December 31st				
		FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Water Rate Revenue	\$6,805,572	\$8,166,686	\$9,473,356	\$9,852,290	\$10,443,428
2	Water Miscellaneous Revenue	114,423	79,210	80,426	81,846	83,406
3	Total Revenues	\$6,919,995	\$8,245,897	\$9,553,782	\$9,934,137	\$10,526,833
4	Operating Expenses	\$4,680,815	\$4,937,972	\$5,166,008	\$5,378,209	\$5,599,637
5	Debt Service	1,284,812	2,647,225	3,662,397	3,812,999	4,146,411
6	Transfer to Capital Fund	450,000	450,000	450,000	450,000	450,000
7	Total Revenue Requirement	\$6,415,627	\$8,035,197	\$9,278,405	\$9,641,208	\$10,196,048
8	Revenue Over/ (Under) Expenditures	\$504,368	\$210,700	\$275,376	\$292,929	\$330,786
9	Ending Fund Balance	\$2,636,719	\$2,847,418	\$3,122,795	\$3,415,724	\$3,746,509
10	Projected Revenue Adjustment	10%	20%	16%	4%	6%

Table 2-3: Wastewater Cash Flow Forecast

Line No.	Description	Fiscal Year Ending December 31st				
		FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Wastewater Rate Revenue	\$3,764,213	\$4,215,918	\$4,595,351	\$4,871,072	\$5,358,179
2	Wastewater Miscellaneous Revenue	109,251	72,165	72,557	72,971	73,386
3	Total Revenues	\$3,873,463	\$4,288,083	\$4,667,908	\$4,944,043	\$5,431,565
4	Operating Expenses	\$2,319,915	\$2,410,245	\$2,500,241	\$2,588,509	\$2,680,087
5	Debt Service	1,225,758	1,339,807	1,648,811	1,809,134	2,231,651
6	Transfer to Capital Fund	450,000	450,000	450,000	450,000	450,000
7	Total Revenue Requirement	\$3,995,673	\$4,200,052	\$4,599,052	\$4,847,643	\$5,361,738
8	Revenue Over/ (Under) Expenditures	-\$122,209	\$88,031	\$68,856	\$96,400	\$69,827
9	Ending Fund Balance	\$1,289,026	\$1,377,057	\$1,445,914	\$1,542,313	\$1,612,140
10	Projected Revenue Adjustment	10%	12%	9%	6%	10%

3. Council Approved Rate Structure

3.1.1. Rate Structure Modifications

The City will be submitting, during the FY 2026 budget process, a request to the City Council to adjust water and wastewater rates to fund operations and capital investments in FY 2026. Additionally, based on City Council direction on July 14, 2025, the City will modify the water and wastewater base charges and rates to include both a rate revenue adjustment and changes to the rate structure. In the years following FY 2026, rate revenue adjustments are recommended to be applied evenly across all user charge components.

During the City Council meeting on March 10, 2025, Raftelis facilitated a discussion with City Council members to discuss and prioritize the City's primary pricing objectives for water and wastewater rates. Essentially, water and wastewater rate structures are designed to address certain goals or values of the City, which can be different for every utility and community. As a result, the City prioritized two key pricing objectives for water and wastewater rates: revenue stability and conservation/demand management.

Modifications for Water Charges and Rates:

- To support revenue stability, the fixed charge will be increased so that fixed charges account for 25% of total water rate revenue—up from approximately 18% previously. This adjustment brings the utility in line with the industry best practice targets of 20–40%.
 - Coupled with this adjustment to the base charge, an adjustment will be made to the Tier 1 volumetric threshold – expanding from 3 to 4 units to allow more usage within the lower cost tier, thus benefiting more customers.
- To encourage conservation, the usage of tier thresholds for tiers two through four will also be revised. The previous tier breakpoints of 3, 9, 15, and 25 units will be adjusted to 4, 8, 12, and 18 units. Except for Tier 1, all tier breakpoints were lowered to shift more consumption into higher-priced tiers, promoting conservation.
- For irrigation usage, the tier breakpoint was modified from 7.5 units in first tier to 6 units, promoting conservation. With the increase in fixed charges and the small tier modification, the rates per irrigation remained consistent.

Modifications for Wastewater Charges and Rates:

- Like water, wastewater rate structure changes were made. To promote revenue stability, the base charge will be increased to account for 25% of wastewater rate revenue. No changes to the wastewater volumetric uniform charge structure will be made since the conservation signaling is received from the water tier structure.

3.1.2. Projected Rates

The resulting projected rates and charges are shown on next page. Rates in Table 3-1 are preliminary and based on financial plan projected revenue adjustments. Staff will annually review the financial plan during budget development, and make modifications during the annual budget process as needed in FY 2026 and future years.

Table 3-1. Projected User Rates and Charges

Water-Base Monthly Charges	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Meters Serving Residential Customers:					
¾”	\$19.44	\$23.33	\$27.07	\$28.15	\$29.84
1”	43.41	52.10	60.43	62.85	66.62
1 ½”	82.72	99.27	115.15	119.76	126.94
Meters Serving Any Other Premises:					
¾”	\$57.00	\$68.40	\$79.34	\$82.52	\$87.47
1”	80.19	96.22	111.62	116.08	123.05
1 ½”	118.71	142.45	165.25	171.86	182.17
2”	361.63	433.96	503.39	523.52	554.94
3”	971.07	1,165.28	1,351.72	1,405.79	1,490.14
Gallon Charges (per 1,000 gallons)					
Regular Meters					
First 4,000 gallons (0-4)	\$4.77	\$5.72	\$6.64	\$6.91	\$7.32
Next 4,000 gallons (4-8)	5.96	7.15	8.30	8.63	9.15
Next 6,000 gallons (8-12)	7.15	8.59	9.96	10.36	10.98
Next 6,000 gallons (12-18)	9.54	11.45	13.28	13.81	14.64
Each 1,000 gallons thereafter (18+)	14.31	17.17	19.92	20.72	21.96
Water Only Meters					
First 6,000 gallons (0-6)	\$7.09	\$8.51	\$9.87	\$10.27	\$10.89
Next 9,000 gallons (6-15)	9.14	10.97	12.73	13.24	14.03
Each 1,000 gallons thereafter (15+)	12.15	14.58	16.91	17.58	18.64
Wastewater Charges					
Meters Serving Residential Customers	\$14.14	\$15.84	\$17.26	\$18.30	\$20.13
Meters Serving Any Other Premises	33.92	37.99	41.41	43.90	48.29
Volumetric Charge	4.61	5.16	5.63	5.97	6.56

3.1.3. Bill Impacts

Bill impact analyses were prepared for residential customers at various usage levels per month for both their water and wastewater services. The following figures show the residential water bill impact (Figure 3-1) and wastewater (Figure 3-2). Projected FY 2026 water and wastewater rates include the aforementioned changes to the water and wastewater rate structures.

Figure 3-1. FY 2026 Water Bill Impact

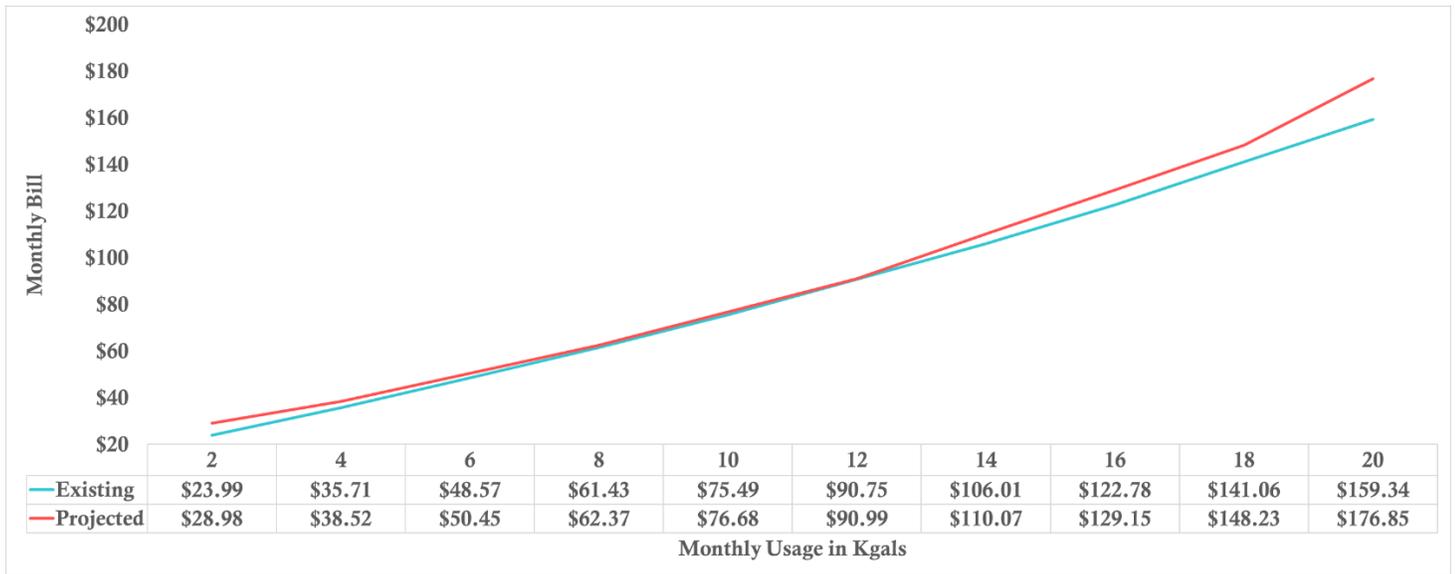
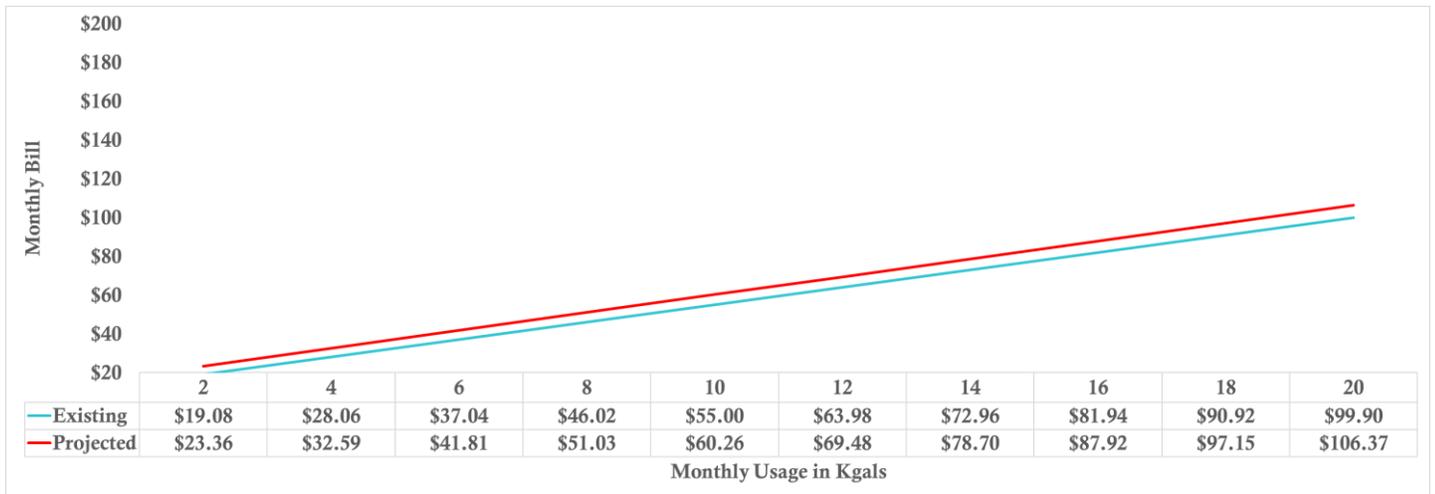


Figure 3-2. FY 2026 Wastewater Bill Impact



4. Conclusion

A financial plan is an essential step in long-term financial sustainability. The City strategically utilizes debt financing to spread the cost of long-term infrastructure improvements over time, mitigating immediate rate impacts and promoting equity by ensuring future generations contribute to these benefits. In addition to debt, cash financing is a key component of a sound financial strategy. It reduces reliance on borrowing, helps manage debt levels, and minimizes long-term interest costs. The rate increases are necessary to align revenue with financial requirements and goals. Furthermore, the analysis of rate design scenarios during this process provided additional ways to incorporate key pricing objectives into the proposed rates. With an increase in fixed charge revenue recovery, the utility is more in line with industry standards and has additional protection against revenue short falls and variability in water usage. With modified tier thresholds, the upper tiers promote conservation and the first tier captures more usage, allowing more essential use to be captured within the lower cost tier.

As discussed before, the resulting projected rates adjustments are preliminary and based on financial plan projected revenue requirements. Staff will annually review the financial plan during budget development, and make modifications during the annual budget process as needed in FY 2026 and future years.