

From: Owen Smith <osmith87@gmail.com>
Sent: Thursday, June 23, 2022 9:29 AM
To: Richard Jones <RJones@CityofNewburyport.com>
Cc: Bruce Vogel <bruce@vogelatlarge.com>
Subject: ORDR00363_06_13_2022

Dear City Clerk Jones:

Attached to this email are a PDF document that contains snipped images of the Water and Sewer Commission (Commission) proposal and the City Council Order (Order). I put these images alongside each other for easy comparison.

The main difference between the respective proposals is two part:

1) The Commission was opposed to using money from retained earnings for water rate subsidies. This was discussed heavily as the goal was to bring the rate foundation up to a level that can support inflation and future projects while leaving free cash available to address unforeseen catastrophic failures. We can build the rate now to mitigate the risk of even higher percentage increases in the future. If rates were raised steadily over the past 6 years (you will notice they were flat), we likely would not be having this conversation. The rate should be designed in a manner that funds all operating and debt service requirements for the fiscal year. Retained earnings should be reserved for use if there are unexpected cost overruns.

2) Consumption is variable, we have seen volatility in water consumption due to lifestyle changes associated with COVID and a general downward trend due to people using more efficient appliances and low flow devices not registering on a water meter (water meters need a certain level of steady flow to register, and as they age, the meter would be less sensitive and likely read a lower consumption). Additionally, last summer we saw lower water consumption because we had heavy precipitation and cooler weather. Irrigation is unpredictable as it is dependent on environmental conditions. A fixed collection of an additional \$10 per single family home per year (\$27.50 per quarter vs. \$25) would provide some stability in our rate collection. We also proposed increasing the fixed collection for large users (>1 inch service line) \$100 per year (\$150 per quarter vs. \$125). There are fixed costs associated with the infrastructure that should be shared equally. The rate calc. sheet does not consider the additional revenue raised from the large user accounts because it is a smaller portion of the account population.

The proposed usage rates in the Order are the same for the Tier 1 Rate (\$6.61/100CF), the Tier 2 rate differs by 1 penny (\$7.37/100CF on the Order vs. \$7.36/100CF by the Commission). The 1 penny difference is likely a rounding error in the calc. sheet because the yellow fields are variable inputs, the rates are adjusted to provide a balanced budget. I would support keeping the extra penny that the Order reflects.

In my opinion, how we design water use unit rates need to be evaluated as part of the Commission's work. Additionally, there is a need to evaluate connection charges. Development puts a strain on our water distribution lines and on our sewer collection system. Both treatment plants also would incur higher demands. Depending on the type of development, there would be additional maintenance concerns.

There is a need for a conversation about how to set rates to establish equity and sustainability. I think there is a need to develop a comprehensive strategic plan regarding our water and sewer infrastructure. This includes staffing, organization, 20 year projected needs, 5 year immediate needs, and other factors to allow us to make informed decisions. Rate setting needs to address immediate and long term needs. I also think it would be prudent to seek rate payer input on the strategic plan. I see many large public entities take this approach. Public participation helps bring buy in when the public is asked to help support a public service. Being a part of this is one reason why I joined the board, and in my year of experience on it, I think it's time we act on it.

The public is entitled to a clean, safe, and sustainable water system. I view that my position is to represent the public interest. The Commission is a group of stewards of a public asset. As such, I have advocated against subsidizing the rates with end of year surplus money. The surplus funds should be used for value-added projects. Systemic underfunding of infrastructure is a massive problem in this country. The American Society of Civil Engineers writes extensively on this topic every year on their annual Infrastructure Report Card. In the 2021 report, drinking water got a C- and wastewater got a D+.

In the work I perform professionally, I analyze systemic failures, both human factor and infrastructure. I observe that factors such as funding, training, personnel, and maintenance practices lead to systemic failures. I believe we all can agree that we need to do everything we can to ensure that we can provide for this city beyond this budget season. When I look at what we have in our water and sewer departments is a group of dedicated employees who are over extended. They are set up to operate the existing infrastructure. We need to fund resources to build and improve our infrastructure. Our water and sewer budgets should be able to provide for maintenance and develop future projects. We cannot afford to constantly fight fires, we need to invest to minimize the chance of fire occurring.

Please enter this email and the attached PDF to the record regarding ORDR00363_06_13_2022.

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Owen Smith

(631) 879-7964 ORDR00363_06_13_2022

W/S Commission elected to not use retained earnings to stabilize the rate.

$\$25 \times 4 \text{ bills} \times 8,700 \text{ accounts} = \$870,000$

$\$27.50 \times 4 \text{ bills} \times 8,700 \text{ accounts} = \$957,000$

	City Council Order Calc. Sheet	Water/Sewer Commission Calc Sheet
Water Rate Calculation		
<u>Factors</u>		
	FY2023	FY2023
Budget	\$6,268,194	\$6,268,194
Estimated Consumption	0. 71,722,454	71,955,650
Number of Accounts	0. 8,700	8,700
Less Fees	0. -\$250,000	-\$250,000
Less UFB	-\$100,000	\$0
Less PY Liens	-\$89,000	-\$89,000
Budget to Recover Through User Charges	\$5,829,194	\$5,929,194
<u>Rate Calculation</u>		
Fixed Charge (per Quarter) Customer Service	\$25.00	\$27.50
Income from Customer Service Charge	-\$870,000	-\$957,000
Budget to be Recovered Through Rate	\$4,959,194	\$4,972,194
Consumption associated with Tier 1 Rate	43,033,472	43,173,390
Rate per 100 Cubic Feet <u>Tier 1 Rate</u>	\$6.61	\$6.61
Revenue from Tier 1 Rate	\$2,844,513	\$2,853,761
Budget to be Recovered through Tier 2	\$2,114,681	\$2,118,433
Consumption associated with	28,688,982	28,782,260
Rate per Cubic Foot <u>Tier 2 Rate</u>	0.0737	0.0736
Rate per 100 Cubic Feet	\$7.37	\$7.36
Difference	\$0.76	\$0.75
<u>\$0.75</u>		
Total Rate:	\$6.91	\$6.91
7,750 cubic feet Annual Reside	\$612	\$622
YoY \$ Increase/(Decrease)	\$52	\$62
YoY % Increase/(Decrease)	9%	11%
34,596 cubic feet Annual Busi	\$2,559	\$2,566
Total Blended Ra	\$6.91	\$6.91
YoY \$ Increase/(Decrease)	\$234	\$242
YoY % Increase/(Decrease)	10%	10%

Average single family home would pay an additional \$10 per year fixed cost (4 bills*\$2.50). Average large user (>1" service line) would pay an additional \$100 year (4 bills*\$25). This rate calc. sheet does not reflect the additional revenue for large users.

Calculation Sheet in City Council Order (submitted at June 14, 2022 meeting)

Water Rate Calculation

<u>Factors</u>		<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>
Budget		\$5,472,514	\$5,396,089	\$5,421,087	\$5,751,985	\$6,268,194
Estimated Consumption	0.25%	71,037,557	68,150,000	68,151,683	72,600,224	71,722,454
Number of Accounts	0.25%	8,282	8,282	8,302	8,700	8,700
Less Fees	0.25%	-\$206,038	-\$206,038	-\$245,000	-\$250,000	-\$250,000
Less UFB		-\$100,000	-\$100,000	-\$171,322	-\$100,000	-\$100,000
Less PY Liens		-\$84,213	-\$68,371	-\$89,707	-\$89,707	-\$89,000
Budget to Recover Through User Charges		\$5,082,263	\$5,021,680	\$5,086,380	\$5,312,278	\$5,829,194

Rate Calculation

Fixed Charge (per Quarter)	Customer Service		\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
Income from Customer Service Charge			-\$828,175	-\$828,200	-\$830,200	-\$870,000	-\$870,000
Budget to be Recovered Through Rate			\$4,254,088	\$4,193,480	\$4,256,180	\$4,442,278	\$4,959,194
Consumption associated with Tier 1 Rate			42,622,534	40,890,000	40,891,010	43,560,134	43,033,472
Rate per 100 Cubic Feet	<u>Tier 1 Rate</u>		\$5.54	\$5.63	\$5.63	\$5.94	\$6.61
Revenue from Tier 1 Rate	60%		\$2,361,288	\$2,302,107	\$2,302,164	\$2,587,472	\$2,844,513
Budget to be Recovered through Tier 2			\$1,892,800	\$1,891,373	\$1,954,016	\$1,854,806	\$2,114,681
Consumption associated with			28,415,023	27,260,000	27,260,673	29,040,090	28,688,982
			0.0666	0.0694	0.0717	0.0639	0.0737
Rate per Cubic Foot	<u>Tier 2 Rate</u>						
Rate per 100 Cubic Feet	40%		\$6.29	\$6.38	\$6.38	\$6.69	\$7.37
Difference			\$0.75	\$0.75	\$0.75	\$0.75	\$0.76
<u>\$0.75</u>							
Total Rate:			\$5.84	\$5.93	\$5.93	\$6.24	\$6.91

<i>7,750 cubic feet</i>	Annual Residential	\$529	\$536	\$536	\$560	\$612
	YoY \$ Increase/(Decrease):	\$18	\$7	\$0	\$24	\$52
	YoY % Increase/(Decrease):	3%	1%	0%	4%	9%
<i>34,596 cubic feet</i>	Annual Business	\$2,186	\$2,217	\$2,217	\$2,325	\$2,559
	Total Blended Rate:	\$5.84	\$5.93	\$5.93	\$6.24	\$6.91
	YoY \$ Increase/(Decrease):	\$12	\$31	\$0	\$107	\$234
	YoY % Increase/(Decrease):	1%	1%	0%	5%	10%

Calculation Sheet in Voted on by Water/Sewer Commission at the May 31, 2022 meeting

Water Rate Calculation

<u>Factors</u>		<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>
Budget		\$5,472,514	\$5,396,089	\$5,421,087	\$5,751,985	\$6,268,194
Estimated Consumption	0.25%	71,037,557	68,150,000	68,151,683	72,600,224	71,955,650
Number of Accounts	0.25%	8,282	8,282	8,302	8,700	8,700
Less Fees	0.25%	-\$206,038	-\$206,038	-\$245,000	-\$250,000	-\$250,000
Less UFB		-\$100,000	-\$100,000	-\$171,322	-\$100,000	\$0
Less PY Liens		-\$84,213	-\$68,371	-\$89,707	-\$89,707	-\$89,000
Budget to Recover Through User Charges		\$5,082,263	\$5,021,680	\$5,086,380	\$5,312,278	\$5,929,194
<u>Rate Calculation</u>						
Fixed Charge (per Quarter)	Customer Service	\$25.00	\$25.00	\$25.00	\$25.00	\$27.50
Income from Customer Service Charge		-\$828,175	-\$828,200	-\$830,200	-\$870,000	-\$957,000
Budget to be Recovered Through Rate		\$4,254,088	\$4,193,480	\$4,256,180	\$4,442,278	\$4,972,194
Consumption associated with Tier 1 Rate		42,622,534	40,890,000	40,891,010	43,560,134	43,173,390
Rate per 100 Cubic Feet	<u>Tier 1 Rate</u>	\$5.54	\$5.63	\$5.63	\$5.94	\$6.61
Revenue from Tier 1 Rate	60%	\$2,361,288	\$2,302,107	\$2,302,164	\$2,587,472	\$2,853,761
Budget to be Recovered through Tier 2		\$1,892,800	\$1,891,373	\$1,954,016	\$1,854,806	\$2,118,433
Consumption associated with		28,415,023	27,260,000	27,260,673	29,040,090	28,782,260
		0.0666	0.0694	0.0717	0.0639	0.0736
Rate per Cubic Foot	<u>Tier 2 Rate</u>					
Rate per 100 Cubic Feet	40%	\$6.29	\$6.38	\$6.38	\$6.69	\$7.36
	Difference	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
	<u>\$0.75</u>					
	Total Rate:	\$5.84	\$5.93	\$5.93	\$6.24	\$6.91
<i>7,750 cubic feet</i>	Annual Residential	\$529	\$536	\$536	\$560	\$622
	YoY \$ Increase/(Decrease):	\$18	\$7	\$0	\$24	\$62
	YoY % Increase/(Decrease):	3%	1%	0%	4%	11%
<i>34,596 cubic feet</i>	Annual Business	\$2,186	\$2,217	\$2,217	\$2,325	\$2,566
	Total Blended Rate:	\$5.84	\$5.93	\$5.93	\$6.24	\$6.91
	YoY \$ Increase/(Decrease):	\$12	\$31	\$0	\$107	\$242
	YoY % Increase/(Decrease):	1%	1%	0%	5%	10%