

# FY2024 Water & Sewer Rate Recommendation – June 2023

## **Rate Setting Goals**

- 1) Plan for necessary upgrades to the city's infrastructure
- 2) Begin to implement recommendations of Water/Sewer Rate Study that was conducted by Environmental Partners
- 3) End continuous use of retained earnings for annual rate setting
- 4) Mitigate impact on ratepayers to avoid any large one year fluctuations in water/sewer rates

# Environmental Partners Study

## Scope/Process

- Conducted alternatives analysis
  - Looked at five rate adjustment scenarios ranging from minimum rate increase to funding all capital, while building an additional \$500K per year in retained earnings
- Reviewed historical consumption trends
- Reviewed spending and revenue trends
- Reviewed needs identified in capital improvement program

## Main Takeaways/Recommendations

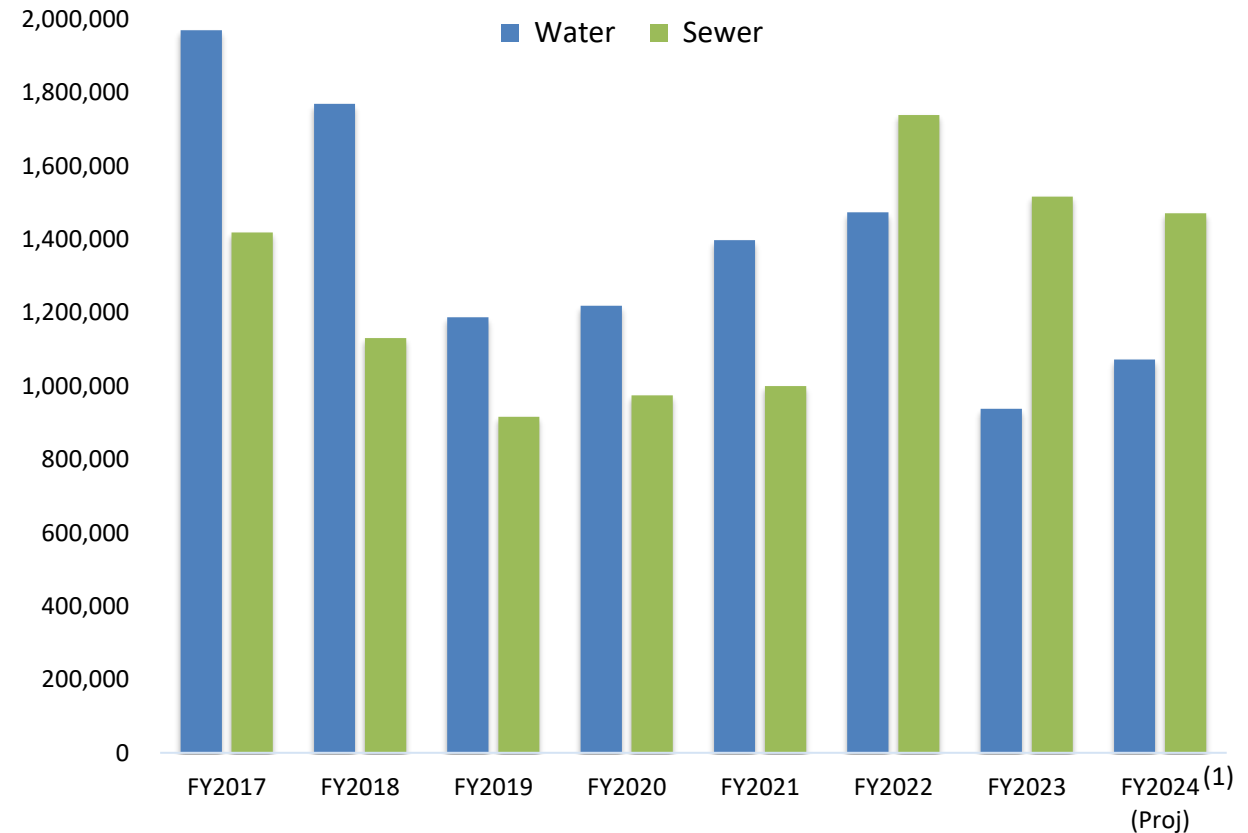
- Increase the difference between the two block rates (tiers); Newburyport's upper block is ~110% of the lower block rate, whereas similar utilities are ~150% of the lower block rate
- End continuous use of retained earnings to offset necessary rate adjustments
- Increase the amount of the fixed customer service charge
- Implement consistent rate increases based on anticipated capital needs

# FY2023 Year-End & Retained Earnings Balances

	Water	Sewer
7/1/2022 Balance	937,918	1,516,385
Approved Transfers	(86,000)	(120,000)
Current Balance	851,918	1,396,385
Pending Transfers	(255,998)	(595,616)
<b>Net Remaining</b>	<b><u>595,920</u></b>	<b><u>800,769</u></b>
<b>FY2023 Year-End Projected</b>		
Revenue	6,451,290	8,410,572
Expenses	5,974,682	7,740,369
<b>Turnback</b>	<b><u>476,608</u></b>	<b><u>670,203</u></b>
<b>FY2024 Projected<sup>(1)</sup></b>	<b><u>1,072,528</u></b>	<b><u>1,470,972</u></b>

	Water	Sewer
FY2017	1,970,192	1,419,115
FY2018	1,769,560	1,131,128
FY2019	1,188,081	916,043
FY2020	1,219,425	974,540
FY2021	1,398,128	999,799
FY2022	1,474,050	1,738,991
FY2023	937,918	1,516,385
FY2024 (Proj) <sup>(1)</sup>	1,072,528	1,470,972

**Retained Earnings**



Use of Retained Earnings to Offset Rate Increases:

Water	0	0	100,000	100,000	171,322	100,000	100,000	0
Sewer	0	675,000	375,000	300,334	321,784	100,000	300,000	0

(1) Note: FY2024 projected balance is an estimate and is shown for illustrative purposes only.

# Water Revenue/Expense Projection

	Growth Factor	Actual FY2019	Actual FY2020	Actual FY2021	Actual FY2022	Revised FY2023	Budget FY2024	Projected FY2025	Projected FY2026	Projected FY2027	Projected FY2028
<b>Revenue</b>											
Meter/CSC Revenue (Line 1)		4,829,654	4,809,726	5,265,975	5,039,260	5,534,526	6,020,029	6,651,816	7,079,564	7,511,714	7,948,398
Misc Fees		232,450	185,540	233,387	273,568	295,071	250,000	250,000	250,000	250,000	250,000
Special Assessments		195,486	156,846	215,957	149,124	150,000	150,000	150,000	150,000	150,000	150,000
Liens		84,213	68,371	89,708	61,711	90,000	70,000	70,000	70,000	70,000	70,000
Interest/Penalties		44,835	29,350	29,254	26,002	27,017	30,000	30,000	30,000	30,000	30,000
Non-Recurring Revenue		19,203	38	5,537	1,383	0	0	0	0	0	0
<b>Total</b>		<b>5,405,840</b>	<b>5,249,871</b>	<b>5,839,817</b>	<b>5,551,049</b>	<b>6,096,614</b>	<b>6,520,029</b>	<b>7,151,816</b>	<b>7,579,564</b>	<b>8,011,714</b>	<b>8,448,398</b>
<b>FY24 Mayor's Budget Proposal</b>											
<b>Expenses</b>											
Personnel Services	3.0%	2,030,480	1,990,268	2,165,568	2,208,432	2,456,395	2,572,883	2,650,069	2,729,572	2,811,459	2,895,802
Purchase of Services	3.0%	866,157	831,236	872,581	1,154,077	1,257,279	1,249,723	1,287,214	1,325,831	1,365,606	1,406,574
Supplies	3.0%	183,508	159,560	180,943	175,245	297,214	307,214	316,430	325,923	335,700	345,772
Other Charges & Expense	3.0%	92,857	96,280	94,653	101,161	109,044	111,655	115,005	118,455	122,008	125,669
Capital Outlay	3.0%	166,375	14,494	105,197	280,187	382,000	440,000	453,200	466,796	480,800	495,224
Debt Service		1,854,139	1,818,110	1,807,253	1,657,598	1,780,682	1,770,592	2,259,896	2,540,886	2,821,876	3,102,865
Existing		1,854,139	1,818,110	1,807,253	1,657,598	1,780,682	1,770,592	1,743,399	1,743,400	1,743,400	1,743,400
New		0	0	0	0	0	0	516,497	797,486	1,078,476	1,359,465
Transfers Out	3.0%	0	0	0	15,604	0	67,963	70,002	72,102	74,265	76,493
<b>Total</b>		<b>5,193,516</b>	<b>4,909,947</b>	<b>5,226,195</b>	<b>5,592,305</b>	<b>6,282,614</b>	<b>6,520,029</b>	<b>7,151,816</b>	<b>7,579,564</b>	<b>8,011,714</b>	<b>8,448,398</b>
(From Line 1) Amount to Raise Through Rates and Fixed Charge:							<u>6,020,029</u>	<u>6,651,816</u>	<u>7,079,564</u>	<u>7,511,714</u>	<u>7,948,398</u>

FY24-28 CIP  
(Increased in  
Equal  
Increments)

# Water Rate Projection

Growth Factor	Actual FY2019	Actual FY2020	Actual FY2021	Actual FY2022	Revised FY2023	Budget FY2024	Projected FY2025	Projected FY2026	Projected FY2027	Projected FY2028						
Amount to Raise Through Rates and Fixed Charge:						<u>6,020,029</u>	<u>6,651,816</u>	<u>7,079,564</u>	<u>7,511,714</u>	<u>7,948,398</u>						
Build/(Use of) Retained Earnings:						0	(217,705)	(193,148)	(145,510)	(91,166)						
Fixed Charge:						\$ 100.00	\$ 100.00	\$ 120.00	\$ 120.00	\$ 140.00						
Customers:						8,450	8,450	8,450	8,450	8,450						
Fixed Charge Revenue:						845,000	845,000	1,014,000	1,014,000	1,183,000						
Amount to Raise Through Rates:						5,175,029	5,589,111	5,872,416	6,352,203	6,674,233						
% by Tier																
68%																
32%																
Total Consumption (cf):						71,722,454	71,722,454	71,722,454	71,722,454	71,722,454						
Block 1 Consumption (cf):						48,771,269	48,771,269	48,771,269	48,771,269	48,771,269						
Block 2 Consumption (cf):						22,951,185	22,951,185	22,951,185	22,951,185	22,951,185						
Block 2 % of Block 1:						115.1%	117.5%	125.0%	127.5%	132.5%						
Fixed Charge:						\$ 100.00	\$ 100.00	\$ 120.00	\$ 120.00	\$ 140.00						
Block 1 Rate (per 100 cf):						\$ 5.54	\$ 5.63	\$ 5.63	\$ 5.94	\$ 6.61						
Block 2 Rate (per 100 cf):						\$ 6.29	\$ 6.38	\$ 6.38	\$ 6.70	\$ 7.37						
Average Customer <sup>(1)</sup> :						137 gal/day	\$472	\$478	\$478	\$498	\$543	\$562	\$595	\$628	\$666	\$705
Change to Average Customer (\$):						\$18	\$6	\$0	\$21	\$45	\$18	\$34	\$33	\$38	\$39	
Change to Average Customer (%):						4.0%	1.3%	0.0%	4.4%	9.0%	3.3%	6.0%	5.6%	6.0%	5.9%	
Average Comm/Ind <sup>(1)</sup> :						625	\$1,927	\$1,955	\$1,955	\$2,050	\$2,255	\$2,389	\$2,588	\$2,782	\$3,015	\$3,216
Change to Average Comm/Ind (\$):						\$13	\$27	\$0	\$96	\$205	\$134	\$199	\$194	\$234	\$201	
Change to Average Comm/Ind (%):						0.7%	1.4%	0.0%	4.9%	10.0%	5.9%	8.3%	7.5%	8.4%	6.7%	

<sup>(1)</sup> Source: Environmental Partners Newburyport Water & Sewer Rate Studies March 17, 2022.

# Sewer Revenue/Expense Projection

	Growth Factor	Actual FY2019	Actual FY2020	Actual FY2021	Actual FY2022	Revised FY2023	Budget FY2024	Projected FY2025	Projected FY2026	Projected FY2027	Projected FY2028	
<b>Revenue</b>												
Meter/CSC Revenue (Line 1)		6,380,565	6,655,115	7,280,386	7,032,983	6,741,981	7,571,921	8,149,022	8,399,660	8,713,668	8,925,233	
Misc Fees		136,005	125,255	142,818	155,810	215,000	250,000	250,000	250,000	250,000	250,000	
Special Assessments		415,938	258,299	341,829	231,229	360,000	150,000	150,000	150,000	150,000	150,000	
Liens		114,795	99,721	132,590	89,372	149,685	70,000	70,000	70,000	70,000	70,000	
Interest/Penalties		53,724	41,913	47,981	46,789	60,674	30,000	30,000	30,000	30,000	30,000	
Non-Recurring Revenue		9,656	35,127	29,087	287,191	0	0	0	0	0	0	
<b>Total</b>		<b>7,110,682</b>	<b>7,215,429</b>	<b>7,974,691</b>	<b>7,843,373</b>	<b>7,527,340</b>	<b>8,071,921</b>	<b>8,649,022</b>	<b>8,899,660</b>	<b>9,213,668</b>	<b>9,425,233</b>	
<b>FY24 Mayor's Budget Proposal</b>												
<b>Expenses</b>												
Personnel Services	3.0%	2,224,681	2,237,471	2,267,734	2,421,595	2,597,010	2,628,937	2,707,805	2,789,039	2,872,710	2,958,892	
Purchase of Services	3.0%	1,235,914	1,049,824	1,137,684	1,350,711	1,412,070	1,422,770	1,465,453	1,509,416	1,554,699	1,601,340	
Supplies	3.0%	442,428	471,980	441,611	485,657	609,500	621,975	640,634	659,853	679,649	700,038	
Other Charges & Expense	3.0%	94,703	80,315	84,517	91,480	105,684	108,280	111,528	114,874	118,320	121,870	
Capital Outlay	3.0%	151,859	111,767	183,913	158,091	287,000	308,500	317,755	327,288	337,106	347,219	
Debt Service		3,002,881	3,030,638	3,018,533	2,932,120	2,927,576	2,895,705	3,317,519	3,408,212	3,557,476	3,599,356	
Existing		3,002,881	3,030,638	3,018,533	2,932,120	2,907,576	2,890,705	2,876,971	2,684,168	2,684,168	2,684,168	
New		0	0	0	0	20,000	5,000	440,548	724,043	873,308	915,188	
Transfers Out	3.0%	0	0	0	18,202	0	85,755	88,328	90,977	93,707	96,518	
<b>Total</b>		<b>7,152,465</b>	<b>6,981,995</b>	<b>7,133,990</b>	<b>7,457,856</b>	<b>7,938,840</b>	<b>8,071,921</b>	<b>8,649,022</b>	<b>8,899,660</b>	<b>9,213,668</b>	<b>9,425,233</b>	
							(From Line 1) Amount to Raise Through Rates and Fixed Charge:	<u>7,571,921</u>	<u>8,149,022</u>	<u>8,399,660</u>	<u>8,713,668</u>	<u>8,925,233</u>

FY24-28 CIP  
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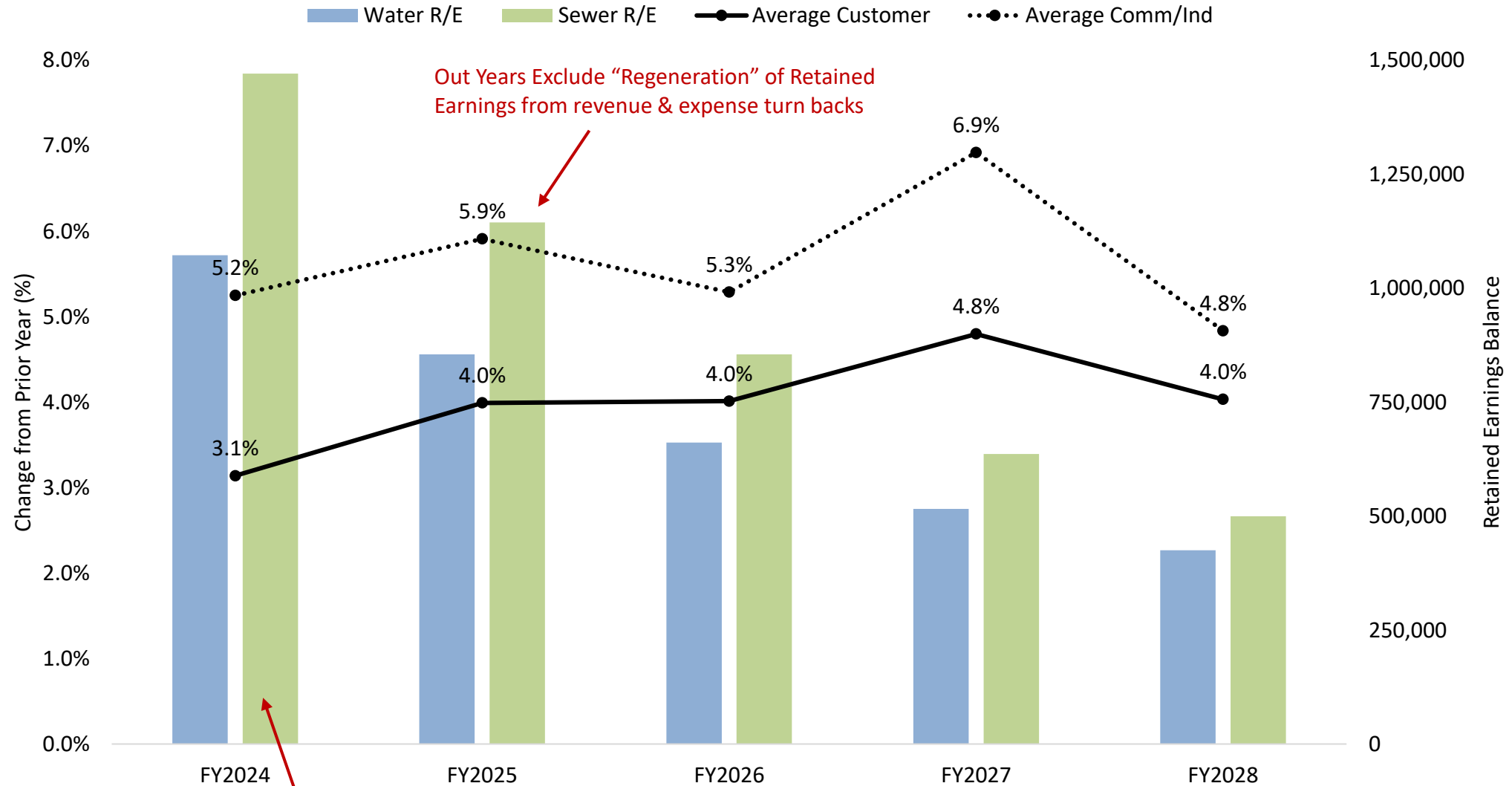
# Sewer Rate Projection

Growth Factor	Actual FY2019	Actual FY2020	Actual FY2021	Actual FY2022	Revised FY2023	Budget FY2024	Projected FY2025	Projected FY2026	Projected FY2027	Projected FY2028						
Amount to Raise Through Rates and Fixed Charge:						<u>7,571,921</u>	<u>8,149,022</u>	<u>8,399,660</u>	<u>8,713,668</u>	<u>8,925,233</u>						
Build/(Use of) Retained Earnings:						0	(326,557)	(289,722)	(218,266)	(136,749)						
Fixed Charge:						\$ 100.00	\$ 100.00	\$ 120.00	\$ 120.00	\$ 140.00						
Customers:						7,800	7,800	7,800	7,800	7,800						
Fixed Charge Revenue:						780,000	780,000	936,000	936,000	1,092,000						
Amount to Raise Through Rates:						6,791,921	7,042,465	7,173,937	7,559,402	7,696,485						
% by Tier																
68%						Total Consumption (cf):	64,598,625	64,598,625	64,598,625	64,598,625	64,598,625					
32%						Block 1 Consumption (cf):	43,927,065	43,927,065	43,927,065	43,927,065	43,927,065					
						Block 2 Consumption (cf):	20,671,560	20,671,560	20,671,560	20,671,560						
Block 2 % of Block 1:						110.2%	112.5%	117.5%	120.0%	125.0%						
Fixed Charge:						\$ 100.00	\$ 100.00	\$ 120.00	\$ 120.00	\$ 140.00						
Block 1 Rate (per 100 cf):						\$ 9.01	\$ 9.55	\$ 9.55	\$ 9.84	\$ 9.84						
Block 2 Rate (per 100 cf):						\$ 9.76	\$ 10.31	\$ 10.31	\$ 10.59	\$ 10.60						
gal/day																
Average Customer <sup>(1)</sup> :						137	\$704	\$741	\$741	\$760	\$760	\$783	\$803	\$826	\$858	\$880
Change to Average Customer (\$):							\$65	\$36	\$0	\$19	\$0	\$23	\$20	\$23	\$32	\$22
Change to Average Customer (%):							10.2%	5.1%	0.0%	2.6%	0.0%	3.0%	2.6%	2.8%	3.9%	2.6%
Average Comm/Ind <sup>(1)</sup> :						625	\$2,985	\$3,151	\$3,151	\$3,238	\$3,239	\$3,393	\$3,536	\$3,667	\$3,879	\$4,012
Change to Average Comm/Ind (\$):							\$223	\$166	\$0	\$87	\$1	\$154	\$143	\$130	\$213	\$133
Change to Average Comm/Ind (%):							8.1%	5.6%	0.0%	2.7%	0.0%	4.8%	4.2%	3.7%	5.8%	3.4%

<sup>(1)</sup> Source: Environmental Partners Newburyport Water & Sewer Rate Studies March 17, 2022.

# Combined Water/Sewer Rate Projection

## *Use of Retained Earnings to Stabilize Rates*



Projected Retained Earning Balances 7/1/2023



# FY2024 Water & Sewer Rate Recommendation

Water & Sewer Rates		FY2022 Approved	FY2023 Approved	FY2024 Recommended	FY2024 Alternative A	FY2024 Alternative B	FY2024 Alternative C	FY2024 Alternative D	Change
		Use of R/E to Offset Increase: Water \$100K & Sewer \$100K	Use of R/E to Offset Increase: Water \$100K & Sewer \$300K	No Change in Service Charge, No Use of R/E to Offset Increase	No Change in Service Charge, Build \$100K in R/E for Water Only	Increase Service Charge, No Use of R/E to Offset Increase	Increase Service Charge, Build \$250K in R/E for Water & Sewer	EP Study: Baseline (Scenario 3)	FY'24 Rec. / FY'23 Approved
<b>Water Rate</b>									
<u>Consumption per 100 cf</u>	First 3,000 cf	\$5.94	\$6.61	\$6.88	\$7.02	\$6.66	\$6.99	\$7.18	\$0.27
	3,001 cf and over	\$6.70	\$7.37	\$7.92	\$8.08	\$7.67	\$8.05	\$8.62	\$0.55
<u>Service Charge (per quarter)</u>									
Residential	Meters 1" or smaller	\$25	\$25	\$25	\$25	\$30	\$30	\$30	\$0
	Meters over 1"	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$0
Non-Residential	Meters 1" or smaller	\$30	\$30	\$30	\$30	\$30	\$30	\$35	\$0
	Meters over 1"	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$0
<b>Sewer Rate</b>									
<u>Consumption per 100 cf</u>	First 3,000 cf	\$9.84	\$9.84	\$10.18	\$10.18	\$9.95	\$10.32	\$11.16	\$0.34
	3,001 cf and over	\$10.59	\$10.60	\$11.21	\$11.21	\$10.96	\$11.37	\$12.58	\$0.61
<u>Service Charge (per quarter)</u>	Newburyport/Plum Island	\$25	\$25	\$25	\$25	\$30	\$30	\$30	\$0
	Newbury (Old Town)	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$0
<b>Water/Sewer Combined</b>									
<u>Average Customer</u> 137 gallons/day	Annual Charge	\$1,259	\$1,303	\$1,344	\$1,354	\$1,354	\$1,401	\$1,470	\$41
	Quarterly Charge	\$315	\$326	\$336	\$338	\$339	\$350	\$368	\$10
	Change from Prior Year	3.3%	3.6%	3.1%	3.9%	3.9%	7.5%	12.8%	3.1%
<u>Average Commercial/ Industrial</u> 625 gallons/day	Annual Charge	\$5,288	\$5,494	\$5,782	\$5,829	\$5,676	\$5,906	\$6,379	\$288
	Quarterly Charge	\$1,322	\$1,374	\$1,446	\$1,457	\$1,419	\$1,477	\$1,595	\$72
	Change from Prior Year	3.6%	3.9%	5.2%	6.1%	3.3%	7.5%	16.1%	5.2%

*Recommended Rates Approved by Water & Sewer Commission (6-0) June 5, 2023*

# FY2024 Rate Recommendation

- ✓ No use of retained earnings to fund rate
  - Preserves retained earnings to stabilize rate increases once the debt service kicks in for planned water/sewer capital projects
- ✓ Increases the difference between the two consumption block rates
  - Provides moderate increase for average customer with higher increase for larger users
  - Incremental change (upper block as % of lower block)
    - Water: 111% → 115%, Sewer: 108% → 110%
    - Can work to get closer to 150% EP benchmark over time
- ✓ Keeps the service charge level, which benefits users with lowest usage (e.g. small households, seniors)