

Minutes of the Board of Water/Sewer Commission
Monday, June 5, 2023 at 1:00 pm
City Hall, 60 Pleasant Street, Newburyport, MA 01950

Present Commissioners: Roger Jones, William Creelman, Daniel Simon, Kimberly Emmons, Paul Suozzo, Thomas O'Brien
Staff:

DPS Director, Wayne Amaral

Finance Director, Ethan Manning

Chief of Staff, Andrew Levine

1. Fiscal Year 24 Water and Sewer Rate Setting

Ethan Manning stated he would walk the Board through the rate recommendation for FY24. He included a number of different alternatives if the Commission wanted to recommend something to the Mayor that is different from the recommendation.

In term of setting the goals you are looking to upgrade the City's infrastructure for both water and sewer and the CIP shows intensive needs for both especially on the water side when you look the Indian Hill line and some of the improvements that will be needed to the system. Mr. Manning said he looked at the Environmental Partners study to get caught up on the work they had done. He looked to end the continued use of retained earnings which has been used a lot over the years. Lastly, trying to mitigate any large fluctuations in one year on the ratepayers.

I looked at the Environmental Partners study and what I took away from it was they conducted alternative analysis of different approaches the City take to fund water and sewer rates over the next five years or so considering the capital needs of the City ranging from a baseline approach just to fund what you absolutely have to year to year to a much more aggressive approach. Funding not only your current year budget but you are funding additional to build your retained earnings and additional that might be needed for debt service. Commissioner Simon asked when the study was done. Mr. Manning said he believed it was started in 2021 and there were a couple of updates along the way with the last being March 2022. Environmental partners looked at spending and revenue history and consumption history. They reviewed everything in our capital plan and put it together to come up with the alternatives. Commissioner Jones said he was probably the only current Commissioner on the Board at the time and they were aggressive with increasing the retained earnings. At that point we were not trying to get that high retained earnings. Mr. Manning referenced another takeaway. Environmental Partners noted the difference between the two blocks had been held constant at \$.75 over the past many years and they recommended increasing that differential between the two which makes sense. Mr. Manning said he adjusted it as a percentage difference rather than a fixed \$.75. He also stated that the study recommended ending the continuous use of retained earnings to offset the rate. They looked at increasing customer service charges which can be sensitive topic for the lower income rate payers and those using the least amount of water. The study also recommended more consistent rate increases.

Mr. Manning shared a slide showing retained earnings balances. It represents your reserve balance that turns back at the end of the year from any additional revenue that you might have collected or expenses that came in lower than budgeted. For the current year we are in water was certified just under \$1 million and sewer was certified at \$1.5 million. We are projecting to have \$595,000 left in water and around \$800 left for sewer. When you project in what we've collected in terms of revenue and what we paid out in expenses we are projecting turn backs of basically around a half million for both water and sewer. This is a very rough projection at this point in time but were projecting for FY24 just over \$1 million for water retained earnings and \$1.4 million for sewer. Commissioner Simon asked what would be an example of a pending transfer. Mr. Manning stated the bulk of those are in the Mayor's capital funding request for FY24. For example, clarifier

improvements in the sewer CIP which make up the bulk of the \$595,000 and \$250,000 for the water main replacement. This is charging the retained earnings account and setting the money aside in the capital project account so the work can be undertaken during the next fiscal year.

Mr. Manning went through the water revenue/expense projection showing the Mayor's budget proposal for FY24. Commissioner Simon stated the amount to raise through rates is \$6,020,029 and the budget proposal is \$6,520,029 and why are they not equal. Mr. Manning stated it was because of other fees coming in under revenue so it doesn't need to be captured by the rates.

The next slide shows what we are projecting for water rates for FY24. For discussion purposes I showed what rates would look like for FY25 through FY28 based on what is in the capital plan in terms of new debt service that we project. It is really a year by year decision based on how we performed in the year prior and where we are at in terms of the larger projects. Looking specifically at FY24 you will see the amount need to raise through rates and fixed charges is \$6,020,029. The fixed charge revenue is \$845,000 so the amount to raise just through the rates would be \$5,175,029. I took the consumption numbers from the Environmental Partners study. You will also see the recommendation of increasing the percentage of block 2 each year. The end result is block 2 is higher than block 1 which hits the commercial and industrial users. Mr. Manning noted the block 1 rate for FY24 to be \$6.88 and block 2 to be \$7.92 and noted the rates moving through the following fiscal years. He explained the average customer and average commercial/industrial users charges on the slide. Discussion turned to what the average increase would be over the years for the rate payers and did that align with other communities. Commissioner Simon thought it would be wise to know that information. Mr. Manning said regardless of what the other municipalities are if we want to fund our budget we need to do it. Mr. Manning said in order to moderate the rate each year he did factor in using some retained earnings. Another tool is how we issue debt service. Commissioner Simon said shouldn't there be an expectation the rate will increase 5% each year. Mr. Manning said we could be more aggressive in FY24 but he was being mindful that a lot of the projects are still in the planning stages. The rate increase includes everything in the CIP. We start to see the new debt service kick in going out over the next four years. For FY24 we are not building or using retained earnings. The FY24 water rates for block 1 results in an increase of 3% and for block 2 5.9%.

The next slide was the projection for FY24 sewer rates. Mr. Manning went through the same explanation and methodology used for water showing the FY24 rates for sewer to increase by 3% for block 1 and 4.8% for block 2. Commissioner Simon said he did not understand why we are driving down retained earnings in each case. Mr. Manning said in order to moderate the rate what would otherwise be a spike in rates to the new debt service kicking in we are using on a temporary basis retained earnings to help mitigate that increase but then reducing the amount each year as you go out eventually back to using no retained earnings once all the debt has been issued.

Mr. Manning showed the combined water/sewer rate projection slide. The current retained earnings for FY24 are frozen in time. You can see that the retained earnings are used to stabilize rates over the next few years. A few slides back I showed what we are projecting in terms of a turn back for this year. This slide does not consider any turn back at the end of the year which would be available each year to fund any one-time capital. Commissioner Jones said we have had a track record of turn back money over the last five years. Commissioner Simon said was is normal for turning back money. Mr. Manning said from a policy perspective we try to keep the balance at or around \$500,000. Once you dip below that you remove your cushion.

Mr. Manning shared the next slide which showed the recommendation in yellow along with a number of alternatives if the Commission wanted to recommend something different. Mr. Manning took the approach of not using retained earnings and no change in service charge.

Commissioner Simon asked what could go wrong with using the projections to build the rate recommendation. Mr. Amaral said we don't know what the actual cost of the capital, we have estimates. By the time the project goes out to bid costs could be higher. Mr. Manning said annual adjustments will need to be made to the plan going forward based on reality like consumption and prices and where the bids come in. Commissioner Jones said he would prefer to see retained earnings at \$1 million. Mr. Manning said these are historical balances and we've been able to fund a lot of capital and most years we have used retained earnings to set the rates and we have still maintained a healthy balance. Commissioner Jones feels in the future we should look at increasing the customer service charge. Mr. Manning said a good time to justify it to the customer is when we have infrastructure planned and we need to pass the cost on to you. If you have plans to tie it to projects you can feel better about raising it. Commissioner Jones asked where the meter replacement project is coming from. Mr. Manning said that is a bond over 10 years. Mr. Levine said that will be a FY24 project. He cautioned raising the customer service charge with the meter project. Mr. Amaral asked to go back to retained earnings. A lot of people do not like the idea of charging them more to build a large savings account. As a payer I'm looking at it as you are saving money that you don't really need right now. As a rate payer you are saying you're raising my fees and you are sitting on a \$1 million. Commissioner Suozzo felt the MWRA rates of 4% on water and 3% on sewer is our basis for comparison. I look at the rates and I see 2019 4% for water and then came COVID and we had virtually no rate change for water for 2020 and 2021. 2022 the rate increases 4.4% but in 2023 we raise the rate by 9%. The reason that is digestible is because inflation came back. We then have the rates for FY24 increasing by 3.3%, then 6%, 5.6%, 6%, and 5.9%. It was only a recommendation to do away with retained earnings. Why don't we keep it and use it to keep our water increase below 5%? I see the 6% as something the residents won't go for. Commission members were wondering why 3.3% and not higher. Mr. Levine said because of the high rate increase last year it would be nice to offer a little relief this year before we get to the big projects because we don't know what the costs will be. Commissioner Simon thought Mr. Manning's alternative C to be the sweet spot. Build a bit of retained earnings, take less risk, set the stage for a constant increase year after year. Mr. Manning said if time went on and consumption dropped or costs went up, that would be adjustment we would need to make on an annual basis. Commissioner Emmons stated this is a worst-case scenario, do you have something more realistic? Mr. Manning said you need to assume what you are turning back each year. Given that I kept consumption flat I don't feel confident to make that projection. If you look back at the years we've always used it to fund our rates and the balance has always stayed around \$1 million except for slight dips in 19-21. If we go based on this at your current recommendation we'd still have that \$1 million in there. Mr. Levine told the Commission they can update the rate every year. Mr. Manning said City Council is ultimately the ones who decide and they don't have the appetite to build retained earnings higher than you need. Mr. Manning said one tool the Commission has is the rates can be adjusted at any time, quarterly or again in January. If something catastrophic happens the Commission can recommend a January 1st increase to adjust to what has become our new reality. Commissioner Emmons said we are comfortable with your projection then if we can get what other towns are charging for customer service because \$25 seems low and that we consider that for 2025.

Commissioner Simon made a motion to approve the recommended FY24 rate in yellow as outlined on the presentation. Commissioner O'Brien seconded.

Vote: Creelman yes, Jones yes, Simon yes, Emmons yes, Suozzo yes, O'Brien yes

2. Adjournment

- Adjourned 2:00 pm.

Respectfully Submitted By: Karen Bush