



To: Town Council
Fr: Paul Bockelman
Town Manager
Dt: June 11, 2020
Re: Water and Sewer Rates

Executive Summary

I recommend that the Town Council, acting in its capacity as Water Commission and Sewer Commission, increase water rates to \$4.20/100cf and sewer rates to \$4.60/100cf.

Background and Recommendation

In conjunction with consideration of the FY21 Water and Sewer enterprise funds operating budgets, the Town Council is responsible for setting water and sewer rates for the coming year to support those operations. Even with reduced expenses and a modest use of reserves, rate increases are needed to support the operations of these two enterprise funds.

I am recommending an increase of water rates to \$4.20/100cf and sewer rates to \$4.60/100cf. This is an increase of 7.7% in the water rate and 15.0% in the sewer rate. The average Amherst homeowner water bill is projected to increase from \$468 to \$504, an average increase of \$36.00/year (\$3.00 per month). The average Amherst homeowner sewer bill is projected to increase from \$480 to \$552, an average increase of \$72/year (\$6.00 per month).

I note that, even with this increase, the Town's water and sewer rates are \$401 below the statewide average and significantly lower than neighboring communities as shown on the chart below. The FY21 rate recommendations are based on balancing four considerations:

- 1) Impact on rate-payers: Many customers who utilize the water and sewer systems are experiencing financial stress due to the economic downturn caused by COVID-19. I have taken into consideration the economic impact on users of increasing water and sewer rates. I will be presenting a budget that utilizes reduced expenditures, increased revenues through rate increases, and a strategic use of reserves to minimize the impact on customers.
- 2) Reduced consumption: Water consumption has been decreasing approximately 2% per year over the past several years. This trend creates fiscal pressure on the enterprise funds by lowering the amount billed resulting in less revenue. Basic operations must be maintained at fixed costs even when usage declines. In addition, the water and sewer systems have experience reduced water/sewer usage during the COVID-19 pandemic due to the closing of the University and two colleges, our three largest users. The closure of the colleges and University has caused consumption to drop even more dramatically beginning in March. This problem is compounded by continuing uncertainty for the Fall semester.

- 3) Maintenance of infrastructure: It is critically important that the Town maintain water and sewer services for public health and public safety (fire suppression), even when the volume of water used is reduced. Both systems have a critical need for repairs that will require significant capital improvements which will increase annual debt service costs in the fund. Here are two examples:
 - Water – Centennial in FY22 estimated at \$11 million
 - Sewer – Gravity Belt Thickener and Reuse Water in FY22 estimated at \$7.3 million.

- 4) Fiscal stability of Enterprise Funds: Maintaining adequate reserves in both the Water Enterprise Fund and the Sewer Enterprise Fund is critical to maintaining reliable and functioning water and sewer systems. These are core services provided to residents in Town. These systems must be reliable, resilient, and maintained in accordance with public health laws and standards established by the Massachusetts Department of Environmental Protection and U.S. Environmental Protection Agency.

I have attached water and sewer budget and usage projections. These tables outline the proposed budget for FY21, recent rate history, and the respective recommended rate adjustments. Those projections support the following rate increases:

Rate per 100 cubic foot			
Utility	Old Rate	New Rate	% Change
Water	\$3.90	\$4.20	7.7%
Sewer	\$4.00	\$4.60	15.0%

The average Amherst homeowner water bill is projected to increase from \$468 to \$504, an average increase of \$36.00/year (\$3.00 per month). The average Amherst homeowner sewer bill is projected to increase from \$480 to \$552, an average increase of \$72/year (\$6.00 per month).

Operating Cost Reductions/Use of Fund Balance

We have worked to reduce the Water Department budget by 2.12% from the FY20 budget. Even with that reduction, FY21 water rates will need to increase by 7.7%. Some of this year’s increase is necessary to maintain adequate operations especially given the drop in usage and water revenues experienced in March and April. The FY21 water rate increase is proposed to cover the FY21 budget without using the fund balance, and to provide a gradual increase in future water rates as future capital costs increase.

We have also worked to reduce the Sewer Department budget by 3.97% from the FY20 budget. Again, even with that reduction, the FY21 sewer rates will need to increase by 15%. The operating budget and cash capital have been reduced by \$179,000 and \$158,000 of the fund balance will be used to balance the FY21 budget.

While I would like to be able to recommend foregoing rate increases for FY21 in the interests of buffering impacts during this time of economic stress, that option is not financially advisable for the enterprise funds. Foregoing rate increases for FY21 would require dramatic, high rate increases for rate payers in FY22 and beyond as we prepare for required infrastructure improvements.

Comparison to Other Communities

Amherst water and sewer bills are among the lowest in the region. Even with these rate increases, Amherst’s rates will remain below the state average water bill of \$595 and sewer bill of \$862, utilizing the most recent comparative Water and Sewer Rate Survey from 2017 compiled by Tighe & Bond.

Locally, Hadley, Northampton and Belchertown have average water/sewer bills of \$664/698, \$633/943, and \$700/\$849 respectively.

Average Water and Sewer Bills

(Assume 120 hcf/year usage)

	Water	Sewer	Total
Easthampton	\$390	\$564	\$954
Holyoke	\$423	\$597	\$1,020
South Hadley F.D. #1	\$518	\$530	\$1,048
Amherst	\$504	\$552	\$1,056
Greenfield	\$404	\$660	\$1,064
South Hadley FD #2	\$540	\$530	\$1,070
Springfield	\$467	\$685	\$1,153
Chicopee	\$456	\$758	\$1,214
Hadley	\$664	\$698	\$1,362
State Median	\$568	\$838	\$1,406
State Average	\$595	\$862	\$1,457
Northampton	\$633	\$943	\$1,576
Belchertown	\$700	\$849	\$1,549
Montague	\$448	\$1,202	\$1,650
South Deerfield	\$409	\$1,307	\$1,716

Conclusion

After weighing the need to maintain the water and sewer systems and the impact on rate payers, I recommend the Town Council adopt the following motion:

The Town Council, serving as the Water Commission and the Sewer Commission as prescribed by Section 2.14 of the Amherst Home Rule Charter, hereby increases the water rate from \$3.90/100 cubic foot to \$4.20/100 cubic foot and increase the sewer rate from \$4.00/100 cubic foot to \$4.60/100 cubic foot, effective July 1, 2020.

WATER FUND BUDGET PROJECTIONS

UPDATED 6/12/20

	BUDGET FY20	PROJECTED FY21	PROJECTED FY22	PROJECTED FY23	PROJECTED FY24	PROJECTED FY25
OTHER REVENUE (non user charge)	210,000	210,000	210,000	210,000	210,000	210,000
APPROPRIATIONS FROM RETAINED EARNINGS	0	0	0	0	0	0
OPERATING EXPENSES	-3,362,351	-3,357,749	-3,458,481	-3,562,236	-3,669,103	-3,779,176
TRANSFERS TO GEN FUND (indirect costs)	-497,325	-496,374	-511,265	-526,603	-542,401	-558,673
CURRENT DEBT	-442,900	-460,380	-731,380	-709,412	-692,444	-675,476
PROPOSED DEBT	0	0	-49,000	-47,600	-962,867	-943,133
CAPITAL (cash funded)	-190,000	-83,000	-340,000	-265,000	-255,000	-265,000
USER CHARGE REVENUES NEEDED	-4,282,576	-4,187,503	-4,880,127	-4,900,851	-5,911,815	-6,011,459
RATE NEEDED	4.46	4.19	4.44	4.46	5.37	5.46
ACTUAL/PROPOSED RATE	3.90	4.20				
Usage (Hundreds Cu Ft)						
Total Usage (Hundreds Cu Ft)	960,000	1,000,000	1,100,000	1,100,000	1,100,000	1,100,000
Budgeted User Charge Revenues	4,282,576	4,187,503	4,880,127	4,900,851	5,911,815	6,011,459
Budgeted Other Revenues	210,000	210,000	210,000	210,000	210,000	210,000
Total Budget/Projected	4,492,576	4,397,503	5,090,127	5,110,851	6,121,815	6,221,459
Projected User Charge Revenues (to be billed)	3,744,000	4,200,000	4,880,127	4,900,851	5,911,815	6,011,459
Actual User Charge Revenues(collected)						
User Charge Surplus/(Deficit)	-538,576	12,497	0	0	0	0
FINAL BUDGET VOTED	4,492,576					
RETAINED EARNINGS	2,062,679					
PERCENT OF BUDGET	45.91%					

UPDATED 6/12/20	BUDGET FY20	PROJECTED FY21	PROJECTED FY22	PROJECTED FY23	PROJECTED FY24	PROJECTED FY25
OTHER REVENUE (non user charge)	198,000	260,000	260,000	260,000	260,000	260,000
APPROPRIATION FROM RETAINED EARNINGS	15,578	158,652	0	0	0	0
OPERATING EXPENSES	-3,311,717	-3,237,588	-3,399,467	-3,569,441	-3,747,913	-3,935,308
TRANSFERS TO GEN FUND (indirect costs)	-377,324	-280,085	-288,488	-297,142	-306,056	-315,238
CURRENT DEBT	-698,537	-710,979	-763,121	-733,376	-646,840	-685,890
PROPOSED DEBT	0	0	0	-646,667	-632,583	-618,500
CAPITAL (cash funded)	-120,000	-100,000	-250,000	-200,000	-255,000	-255,000
USER CHARGE REVENUES NEEDED	-4,294,000	-3,910,000	-4,441,076	-5,186,626	-5,328,393	-5,549,937
RATE NEEDED	4.71	4.60	4.75	5.55	5.70	5.94
ACTUAL PROPOSED RATE	4.00	4.60				
USAGE (Hundreds Cu Ft)	95%	85%	85%	85%	85%	85%
PROJECTED (% of water consumption)	912,000	850,000	935,000	935,000	935,000	935,000
<i>Budgeted User Charge Revenues</i>	4,294,000	3,910,000	4,441,076	5,186,626	5,328,393	5,549,937
<i>Budgeted Other Revenues</i>	213,578	418,652	260,000	260,000	260,000	260,000
Total Budget/Projected	4,507,578	4,328,652	4,701,076	5,446,626	5,588,393	5,809,937
<i>Projected User Charge Revenues (to be billed)</i>	3,648,000	3,910,000	4,441,076	5,186,626	5,328,393	5,549,937
<i>Actual User Charge Revenues(collected)</i>						
User Charge Surplus/(Deficit)	-646,000	0	0	0	0	0
FINAL BUDGET VOTED	4,507,578					
RETAINED EARNINGS	7/1/2019 2,147,683	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024
PERCENT OF BUDGET	47.65%					