



To: Town Council
Fr: Paul Bockelman
Town Manager
Dt: April 19, 2022
Re: FY23 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 \$4.75/100cf and sewer rates to \$5.20/100cf.

Background and Recommendation

In conjunction with consideration of the FY23 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. Despite efforts to control costs, rate increases are needed to support major infrastructure improvements and to offset pandemic-related declines in water consumption.

I have attached water and sewer budget and usage projections. These tables outline the proposed budget for FY23, recent rate history, and the respective recommended rate adjustments. With these projections in mind, I recommend the following rate increases:

Rate per 100 cubic feet (cf)

Utility	Old Rate	New Rate	% Change
Water	\$4.60	\$4.75	3.3%
Sewer	\$4.90	\$5.20	6.1%

The average Amherst homeowner annual water bill is projected to increase from \$427 to \$441, an average increase of \$14.00/year (\$1.15 per month). The average Amherst homeowner annual sewer bill is projected to increase from \$451 to \$478, an average increase of \$27/year (\$2.25 per month).

The Town’s water and sewer rates have consistently been below the statewide average and lower than most neighboring communities. Even with this increase, the Town’s rates will be \$255 below the 2018 statewide average.

The FY23 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/price inflation caused by COVID-19. I have taken into consideration the economic impact on users of increasing water and sewer rates. Water and sewer rates are anticipated to stabilize in the coming years as seen in the attached financial summaries.
- 2) Reduced consumption: Water consumption has been decreasing by 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 as fixed costs even when usage declines.
- 3) Maintenance of infrastructure: It is critical that the Town maintain water and sewer services for public health and public safety (fire suppression), even when the volume of water used decreases. The following projects were authorized by the Town Council and have been incorporated into the attached financial summaries:
 - Water – Upgraded Centennial Water Treatment Facility authorized at \$11 million
 - Sewer – Gravity Belt Thickener and Reuse Water authorized at \$7.3 million.

The Town is exploring ways to reduce these costs. The Reuse Water project is being reevaluated to confirm that it aligns with the plans of the Town and the University. The Town is also applying for State and Federal grants to offset some of the cost of the Centennial project.

- 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, and 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.

Operating Expenditures

The proposed Water Department operating budget is projected to increase 1.0% while the budget for capital/debt is going up by 25.0% due to the initial payment for the Centennial Water Treatment Plant. Overall expenses are projected to rise 5.6%. This enterprise fund used approximately \$300,000 of reserves in FY21 to cover pandemic related reductions in water consumption. Water consumption is projected to increase now that the University and colleges have returned to regular operations but we are being more conservative in our projections of how quickly consumption will recover.

The proposed Sewer Department operating budget is about 1.0 % higher than the FY22 budget and capital/debt is up 12.5% due to the initial payment for the Gravity Belt project and restoring capital budgets that were reduced in FY22. Indirect costs, which were also reduced in FY22, were restored to their normal levels. Overall, expenses are projected to rise 6.2%. In FY21, the Town used approximately \$200,000 of American Rescue Plan Act grant funds to cover a deficit created by the pandemic. The FY23 budget proposal is balanced without using reserves or grant funds.

The financial challenges facing both enterprise funds are beginning to diminish as the colleges and University return to normal enrollment. The attached financial summaries show how the anticipated consumption in FY24 to FY27 stabilizes the projections. We do need to exercise caution and closely monitor whether the pandemic will have lasting effects on water/sewer consumption behavior.

While I would like to be able to recommend foregoing rate increases for FY23 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 FY23 would require even higher rate increases for rate payers in FY24 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 FY18 state average water bill of \$595 and average sewer bill of \$862, using 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 \$429/535, \$621/723, and \$735/\$849 respectively.

Town	Amherst Average (92 HCF / year)			State Average (120 HCF / year)		
	Water Bill	Sewer Bill	Total Bill	Water Bill	Sewer Bill	Total Bill
South Hadley F.D. #1	\$ 360.64	\$ 280.00	\$ 640.64	\$ 470.40	\$ 280.00	\$ 750.40
South Hadley F.D. #2	\$ 515.20	\$ 280.00	\$ 795.20	\$ 672.00	\$ 280.00	\$ 952.00
Easthampton	\$ 356.00	\$ 469.20	\$ 825.20	\$ 447.00	\$ 612.00	\$ 1,059.00
Holyoke	\$ 340.76	\$ 517.96	\$ 858.72	\$ 439.60	\$ 675.60	\$ 1,115.20
Amherst (FY22)	\$ 427.20	\$ 450.80	\$ 878.00	\$ 556.00	\$ 588.00	\$ 1,144.00
Greenfield	\$ 342.24	\$ 561.20	\$ 903.44	\$ 446.40	\$ 732.00	\$ 1,178.40
Amherst (FY23)	\$ 441.00	\$ 478.40	\$ 919.40	\$ 574.00	\$ 624.00	\$ 1,198.00
Hadley	\$ 429.32	\$ 535.44	\$ 964.76	\$ 540.20	\$ 698.40	\$ 1,238.60
Springfield	\$ 418.48	\$ 609.04	\$ 1,027.52	\$ 535.80	\$ 794.40	\$ 1,330.20
State Median				\$ 568.00	\$ 838.00	\$ 1,406.00
Chicopee	\$ 409.40	\$ 680.80	\$ 1,090.20	\$ 534.00	\$ 888.00	\$ 1,422.00
State Average				\$ 595.00	\$ 862.00	\$ 1,457.00
Montague	\$ 1,053.88	\$ 179.40	\$ 1,233.28	\$ 1,372.80	\$ 234.00	\$ 1,606.80
Northampton	\$ 621.44	\$ 723.12	\$ 1,344.56	\$ 791.96	\$ 943.20	\$ 1,735.16
Belchertown	\$ 734.60	\$ 849.00	\$ 1,583.60	\$ 946.00	\$ 849.00	\$ 1,795.00
South Deerfield	\$ 374.10	\$ 1,230.68	\$ 1,604.78	\$ 403.50	\$ 1,574.80	\$ 1,978.30

Note: This data includes rates valid during FY22, except for the state average and median which is from FY18.

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 7.6 of the Amherst Home Rule Charter, hereby increase the water rate from \$4.60/100

cubic feet to \$4.75/100 cubic feet and increase the sewer rate from \$4.90/100 cubic feet to \$5.20/100 cubic feet, effective July 1, 2022.

Going Forward

The Town Council expressed interest in exploring other ways to bill users including:

- **Block Rates:** This would establish tiered bands, or block rates, as a way to conduct billing. Last year, we made a presentation on block rates by the Town's consultants, Tata and Howard. A video of that presentation is here:
<https://www.youtube.com/watch?v=xaL1X5KTB3U&list=PLcnmFtV6BPFPeZpkQIHPOu83gis1YODYp&index=1>
- **Fixed Charge with Variable Charge:** This would establish a Fixed Quarterly charge in addition to variable rates that depend on the amount of water used.

A working group comprised of Finance Committee members and Town staff have begun meeting to review alternative rate structures. This group hopes to complete an analysis sometime in the next few months.

WATER FUND BUDGET PROJECTIONS

UPDATED 4.4.22

	BUDGET FY22	PROJECTED FY23	PROJECTED FY24	PROJECTED FY25	PROJECTED FY26	PROJECTED FY27
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	-3,410,574	-3,441,252	-3,544,490	-3,650,824	-3,760,349	-3,873,159
TRANSFERS TO GEN FUND (indirect costs)	-523,105	-540,248	-556,455	-573,149	-590,344	-608,054
CURRENT DEBT	-561,321	-537,250	-1,434,281	-1,419,531	-1,398,781	-1,398,781
PROPOSED DEBT		0	0	0	0	0
CAPITAL (cash funded)	-315,000	-560,000	-255,000	-365,000	-355,000	-365,000
USER CHARGE REVENUES NEEDED	-4,600,000	-4,868,750	-5,580,226	-5,798,505	-5,894,474	-6,034,995
RATE NEEDED	4.60	4.75	5.31	5.27	5.36	5.49
ACTUAL/PROJECTED RATE	4.60	4.75	5.00	5.25	5.40	5.50
Total Usage (Hundreds Cu Ft)	1,000,000	1,025,000	1,050,000	1,100,000	1,100,000	1,100,000
<i>Budgeted User Charge Revenues</i>	4,600,000	4,868,750	5,580,226	5,798,505	5,894,474	6,034,995
<i>Budgeted Other Revenues</i>	210,000	210,000	210,000	210,000	210,000	210,000
<i>Total Budget/Projected</i>	4,810,000	5,078,750	5,790,226	6,008,505	6,104,474	6,244,995
<i>Projected User Charge Revenues (to be billed)</i>	4,600,000	4,868,750	5,250,000	5,775,000	5,940,000	6,050,000
User Charge Surplus/(Deficit)	0	0	-330,226	-23,505	45,526	15,005
FINAL BUDGET VOTED	4,810,000					
RETAINED EARNINGS	7/1/2021 1,436,871	7/1/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026
PERCENT OF BUDGET	29.87%					

SEWER FUND BUDGET PROJECTIONS

UPDATED 4.4.22	FY22 BUDGET	PROPOSED FY23	PROJECTED FY24	PROJECTED FY25	PROJECTED FY26	PROJECTED FY27
OTHER REVENUE (non user charge)	260,000	260,000	260,000	260,000	260,000	260,000
APPROPRIATION FROM RETAINED EARNINGS	234,705	0	0	0	0	0
OPERATING EXPENSES	-3,414,806	-3,446,670	-3,567,303	-3,692,159	-3,821,385	-3,955,133
TRANSFERS TO GEN FUND (indirect costs)	-280,085	-419,114	-431,687	-444,638	-457,977	-471,716
CURRENT DEBT	-854,814	-790,996	-1,228,009	-1,212,019	-1,193,244	-975,694
PROPOSED DEBT	0	0	0	0	0	0
CAPITAL (cash funded)	-110,000	-293,620	-270,000	-270,000	-270,000	-270,000
USER CHARGE REVENUES NEEDED	-4,165,000	-4,690,400	-5,237,000	-5,358,816	-5,482,606	-5,412,543
RATE NEEDED	4.90	5.20	5.67	5.54	5.66	5.59
ACTUAL/PROJECTED RATE	4.90	5.20	5.40	5.50	5.60	5.60
USAGE (Hundreds Cu Ft)	85%	88%	88%	88%	88%	88%
PROJECTED (% of water consumption)	850,000	902,000	924,000	968,000	968,000	968,000
<i>Budgeted User Charge Revenues</i>	4,165,000	4,690,400	5,237,000	5,358,816	5,482,606	5,412,543
<i>Budgeted Other Revenues</i>	494,705	260,000	260,000	260,000	260,000	260,000
<i>Total Budget/Projected</i>	4,659,705	4,950,400	5,497,000	5,618,816	5,742,606	5,672,543
<i>Projected User Charge Revenues (to be billed)</i>	4,165,000	4,690,400	4,989,600	5,324,000	5,420,800	5,420,800
User Charge Surplus/(Deficit)	0	0	-247,400	-34,816	-61,806	8,257
FINAL BUDGET VOTED	4,165,000					
RETAINED EARNINGS	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026
	1,557,856					
PERCENT OF BUDGET	31.47%					