



Thomas J. Tracy
Acting City Manager

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WATERTOWN
Office of the City Manager

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To: Honorable City Council

From: Thomas J. Tracy, Acting City Manager

Date: June 23, 2022

RE: Fiscal Year 2023 Water & Sewer Rates

Background

A water and sewer rate study was conducted to provide the City with recommended water and sewer rate changes which will generate sufficient revenue to fund the operational, indirect, debt service and short term and long-term capital improvement costs, while ensuring the enterprise funds continue to maintain healthy retained earnings. At the time of the study the FY2023 water and sewer budgets were not available and therefore were projected based on the FY2022 budgets.

Estimated Expenses and Revenues

Without any changes in revenue, total projected water revenues for FY 2023 are \$7,839,231 and projected expenditures are \$8,898,118, leaving a deficit of over \$1.0 million for FY 2023. In addition, the revenue total does not include liens, which is revenue from prior years that the City has already identified as revenue in those years.

Without any changes in revenue, total projected sewer revenues for FY 2023 are \$10,845,879 and projected expenditures are \$11,357,453, leaving a deficit of over \$500,000 for FY 2023. In addition, the revenue total does not include liens, which is revenue from prior years that the City has already identified as revenue in those years.

The Water Enterprise Fund and the Sewer Enterprise Fund are experiencing budgetary shortfalls because revenue recovered from rates is insufficient to cover expenditures.

Proposed Rates and Charges

In order for the City to target a healthy retained earnings of 15% by FY2027 a water rate increase of approximately 10% and a sewer rate increase of approximately 7% would need to be applied in FY 2023 if no changes to the current rate structure are made. However, we recommend that Watertown change the City's rate structure from a three-tier structure to a four-tier structure, adjust the existing tier limits and utilize funds from the American Rescue Plan Act ("ARPA") to the water and sewer enterprise funds

in to finance infrastructure improvement projects in FY 2023 and FY 2024. Doing so will decrease the FY 2023 rate increases needed to achieve the desired retained earnings.

We are recommending that Watertown allocate approximately \$5,000,000.00 in ARPA funding to the water & sewer enterprise funds, alter the existing rate structure to a 4-tier structure and increase its water and sewer rates as well as service charges by approximately 6.5%, 5.25% and 6% for FY 2023 respectively.

There are several reasons why we are recommending a revised rate structure as well as water and sewer rate increases. They are as follows:

1. The City has been using the water and sewer reserves for capital improvements. There are a number of capital projects planned in the coming years for which the reserves need to be increased and then maintained.
2. As discussed in the past, water sales are dependent on the weather and customer's irrigation needs. A wet summer as seen this past year will result in reduced sales from those we have projected and a concurrent drop in the projected revenues.
3. Covid has also led to reduced consumption, many residents have begun home improvements such as installing low flow utilities in an effort to conserve water.
4. To balance the FY 2023 budgets in order to recover sufficient revenues to support increased water and sewer operating expenses, including increased MWRA assessments.
5. By decreasing the current Tier 1 by 500cf, splitting the current Tier 2 at 5,000cf and lowering the top of Tier 3 to 25,000cf allows tier breaks to be more in line with similar communities' tier breaks. This structure allows the average residential customer to remain in Tier 1, the small commercial customer to fall into Tier 1 or Tier 2, the majority of commercial customers to fall into Tier 3, and the large commercial customer to fall into Tier 4.

Assuming the above, the quarterly water bill for a usage of 1,800cf will increase \$1.40 per quarter, from \$100.58 to \$101.98. The quarterly sewer bill for a typical resident with a usage of 1,800cf will increase \$5.91 per quarter, from \$181.98 to \$187.89. The overall or combined water and sewer bill for a typical resident with a usage of 1,800cf would increase from \$282.56 per quarter to \$289.87 per quarter; for an overall increase of \$7.31 per quarter, or 2.59%. Due to the recommended rate structure changes, the rate increases for larger commercial customers would be higher than that of the typical resident. The quarterly water bill for a commercial customer using 40,000cf with a 1" meter will increase \$1,092.45 per quarter, from 3,586.41 to \$4,678.86. The quarterly sewer bill for a commercial customer with a usage of 40,000cf with a 1" meter will increase \$860.34 per quarter, from \$5,582.20 to \$6,442.54. The overall or combined water and sewer bill for a commercial customer with a usage of 40,000cf with a 1" meter would increase from \$9,168.61 to \$11,121.4 for an overall increase of \$1,952.79 per quarter, or 21.3%.

As can be seen from the quarterly bill calculations, this four-tier structure impacts the smaller residential customers and average residential customers similarly, the smaller and mid-sized commercial customers more, and the new high demand customers the most. This cost impact on the various customer types better aligns with the stress imposed on the distribution system by each customer type.

Tables 1 and 2 below present the current and proposed water and sewer rates, as well as quarterly bill impacts for typical customers, respectively.

Table 1: Current and Proposed Water and Sewer Rates

Base Charge <i>Minimum Charge (Quarterly)</i>	FY 2022		FY 2023		Difference	
		<i>Current</i>	<i>Proposed</i>	\$	%	
5/8	\$	7.88	\$	8.35	\$ 0.47	6.0%
3/4		8.39		8.89	0.50	6.0%
1		9.91		10.50	0.59	6.0%
1 1/4		11.92		12.64	0.72	6.0%
1.5		11.92		12.64	0.72	6.0%
2		17.41		18.45	1.04	6.0%
3		57.98		61.46	3.48	6.0%
4		73.00		77.38	4.38	6.0%
6		108.07		114.55	6.48	6.0%
Volumetric Rate (per Ccf)						
<u>Water</u>						
Tier 1	\$	5.15	\$	5.20	\$ 0.05	1.0%
Tier 2		8.00		8.10	0.10	1.3%
Tier 3		12.62		10.96	2.96	37.0%
Tier 4		-		14.29	1.67	13.2%
<u>Sewer (100% of Water Consumption)</u>						
Tier 1	\$	10.11	\$	10.44	\$ 0.33	3.3%
Tier 2		13.07		13.63	0.56	4.3%
Tier 3		17.50		15.23	2.16	16.5%
Tier 4		-		18.64	1.14	6.5%
<u>Combined Rate</u>						
Tier 1	\$	15.26	\$	15.64	\$ 0.38	2.5%
Tier 2		21.07		21.73	0.66	3.1%
Tier 3		30.12		26.19	5.12	24.3%
Tier 4		-		32.93	2.81	9.3%
<u>Irrigation (all Ccf)</u>	\$	12.62		14.29	1.67	13.2%

The following Table 2 presents the impact on bills for some typical customers:

			Current			Proposed			Diff.	
<u>M. Size</u>	<u>Customer</u>	<u>Consumption (Ccf)</u>	<u>Water(\$)</u>	<u>Sewer(\$)</u>	<u>Total(\$)</u>	<u>Water(\$)</u>	<u>Sewer(\$)</u>	<u>Total(\$)</u>	<u>Diff. (\$)</u>	<u>Diff. (%)</u>
5/8"	Small User	500	33.63	50.55	84.18	34.36	52.19	86.55	2.37	3%
5/8"	Low-End User	1,000	59.38	101.10	160.48	60.37	104.39	164.75	4.27	3%
5/8"	Avg. Res. User 1	1,800	100.58	181.98	282.56	101.98	187.89	289.87	7.31	3%
5/8"	Avg. Res. User 2	2,800	152.08	283.08	435.16	162.69	301.84	464.53	29.37	7%
5/8"	Low Tier 2 User	4,000	242.38	434.00	676.38	259.89	465.35	725.24	48.86	7%
5/8"	Pizza Place	1,820	101.61	184.00	285.61	103.02	189.98	293.00	7.39	3%
5/8"	Bakery	3,553	206.62	375.58	582.20	223.68	404.44	628.12	45.93	8%
5/8"	Restaurant	4,764	303.50	533.85	837.35	321.77	569.45	891.22	53.86	6%
5/8"	Coffee Shop	7,511	523.26	892.89	1,416.15	616.10	983.94	1,600.04	183.89	13%
1"	Restaurant	14,482	1,082.97	1,804.00	2,886.97	1,382.27	2,045.38	3,427.65	540.68	19%
3/4"	Diner	23,112	1,771.85	2,931.94	4,703.79	2,326.51	3,359.43	5,685.94	982.15	21%
2"	Lg. Commercial User	39,255	3,499.89	5,451.83	8,951.72	4,580.34	6,303.69	10,884.02	1,932.31	22%
5/8"	Avg. Irrig. User	3,500	449.58	-	449.58	508.58	-	508.58	59.00	13%

Therefore, I respectfully request a First Reading on an Order establishing water and sewer rates and charges for Fiscal Year 2023 be placed on the June 28, 2022 City Council Agenda. The Public Hearing and consideration of rate schedules and fees designed to raise sufficient revenues to support the Fiscal Year 2023 operation of the services provided to customers of the City's Water/Sewer System would be scheduled for the July 12, 2022 City Council Meeting.

Thank you for your consideration in this matter.

cc: Gregory M. St. Louis, Superintendent of Public Works
Thomas P. Watkins, Director of Administration and Finance, DPW
Matthew Shuman, City Engineer
Megan Langan, Management Analyst – Water/Sewer Division
Steven Magoon, Acting Deputy City Manager/CD&P Director
Melissa A. Morrissey, City Treasurer/Collector