

Chesapeake Beach Utility Rate Commission report to Town Council August 16, 2012

SLIDE 1

At the June 5, 2012 emergency town council meeting I was asked to establish a commission to evaluate utility rates for Chesapeake Beach. The commission was to report their findings tonight so that the town council could consider amending the current ordinance 12-09 based on our findings.

The commission consists of 6 members, 3 women, 3 men. Members are David Hendry, Coral Hoffman, Eunice Lin, Gary Lucket, Melanie Lovelace and me. They are geographically located (north, south, Richfield Station, Chesapeake Village and downtown business). There are 5 residential users and 1 commercial user. The years in residence range from 2 to a lifetime. We held 6 formal 2 hour meetings, had countless emails, and over 200 additional hours of study to arrive at our conclusion.

The commission used resources from the town staff for historical information and facts and figures. We had a Utility Rate Structuring consultant to give us perspectives and review our findings. We used several chapters from The American Water Works Association Manual M1. Many other articles were reviewed and are present in our notebook.

SLIDE 2

The Mission statement is to “Formulate a Utility Rate Structure that is Sustainable and Equitable for all Chesapeake Beach Rate Payers”. One of the standout features in the information we reviewed was to make sure that we considered the special circumstances that were present for Chesapeake Beach. We discussed many and centered on:

SLIDE 3

The 3 classes of utility rate payers are residential which accounts for 99.18%, multi users per meter for 0.73% and commercial/municipal for 0.09%. The residential class is further divided based on usage.

SLIDE 4

We identified these 4 users as the really large volume municipal users. Note that the waste treatment plant will be reducing its usage by 90% in FY 2015.

SLIDE 5

After considering many special circumstances we centered on 3 supporting factors for the new rate structure. This first one is that we are experiencing significant lower revenues mainly from the reduced number of tap in fees in recent years. To compensate for this we have been using up our reserves and now we need to rebuild. There is no new prospect for significant expansion or construction in the town.

SLIDE 6

The second is significantly higher costs which cannot be covered by existing tap-in revenues. Next is the new Enhanced Nutrient Removal (ENR) facility mandated by EPA and the state of Maryland which will require a 20 year bond at \$260,000 per year plus interest. Last is the fact that both the water and sewer systems are aging (some more than 25 years) and they are now requiring major repair and replacement.

SLIDE 7

The last of the supporting factors is that the current rate structure is outdated and unfair to some types of users. Use of the decreasing rate block structure does not necessarily promote

conservation. Most surrounding jurisdictions have changed to increasing or flat rates. Same rate for different users and different meter sizes regardless of purpose or usage is unfair.

SLIDE 8

For the past many number of years we have been using a decreasing block rate tier structure which means that the more water used the lower the rate goes for the next tier.

SLIDE 9

Further investigation of the tap in fees reveals that they had been used for the past many years to subsidize rate payer costs rather than being used only for capital projects. There has been a dramatic reduction in these fees in the past 3 years based on the economy and the lack of new areas to expand Chesapeake Beach. This trend is projected to continue in the future.

SLIDE 10

A new ENR (Enhanced Nutrient Removal) plant mandated by EPA and Maryland is about to be built. It will be paid for by grants, what is left from the flush tax and the owner partners. The projected cost to Chesapeake Beach rate payers is \$4,023,087.00. Knowing construction, as I do, from 30 years of building large chemical plants expect the cost to actually be more.

TABLE DEMONSTRATION

At this point I would like to show you another reason for some future increased costs. Water meters have been installed in town for many years and generally have a life expectancy of 12-15 years. 7 years ago we added a feature that allowed for remote reading. This eliminated the task of opening each water well to read the mechanical meter. The cost for this addition was \$110 and the battery life is 5-7 years. We are now running out of battery life on most of those meters. A second factor to be considered is that the removal of the existing meters from the market and the replacement with ones that have longer expected life of 20 years including the battery. The range of water meter sizes in Chesapeake Beach is 5/8 inch to 4 inch. You can see from the placards that the costs are significantly different.

NO SLIDE

The commission reviewed several different rate structures. The 3 most commonly used are:

1. Flat rate – all costs are divided by the number of rate payers.
This is totally unfair to low rate users which are the majority of the rate payers.
2. Rate per gallon used – total costs divided by number of gallons billed. This is totally unfair to higher rate users as those with no usage in a quarter would pay nothing to have the service available

SLIDE 11

3. The Commission decided on a Combination of the above – Rate for fixed costs divided by number of rate payers and rate for variable costs divided by number of gallons billed.

Combining fixed and variable costs is done by:

* Identifying all the water and sewer FIXED “Ready to Serve Costs” and dividing them by class. “Ready to Serve Costs” are those that are necessary to have a single gallon of water or sewage processed.

*Identifying all the water and sewer “Variable Costs” and dividing them by the number of gallons processed. These are also identified on the following slides. Basically they are energy, chemical and laboratory fees.

The commission determined after much study and discussions that **The COMBINED RATE STRUCTURE was EQUITABLE, SUSTAINABLE AND PREFERRED.**

Highlights of the detailed items included in water fixed costs are: Drill the 3 wells, pumps in the 3 well, 3 water tower, 3 pump and chlorination stations, many fire hydrants, miles of distribution pipes, 2200 + water meters, control and monitoring systems, depreciation, repair, back up generators etc. Highlights of the detailed items included in water variable costs are: Electricity to run the pumps, Chlorine, other chemicals, laboratory fees.

Highlights of the detailed items included in sewer fixed costs are: Pump stations (10), miles of pipe, lots of manholes, and 41% of the Waste Treatment Plant which includes lots of pumps, clarifiers, aeration tanks, solids press, chlorination system, traveling screens etc. Highlights of the detailed items included in sewer variable costs are: Electricity to run the pumps, Chlorine, Polymers, laboratory fees.

SLIDE 12

The commission collected all the expense and revenue information from the town staff and put together a spread sheet for FY 2013 to FY2017. The commission also concluded that the cash left over from FY 2012 (approx. \$320,000) should not be used in generating the proposed rates for FY2013 and beyond. This money should be set aside into a rainy day fund. The rationale here is the very volatile housing market. If we miss the projected number by 12 houses, that is \$240,000 lost income. At some point in the future when this is more stable then some of this money could be used for operating costs or to pay down some of the debt. The commission also concluded that a 15% of the fixed water and sewer costs should be added as reserve. The consultant said this was not enough. There have been many incidents recently in the aging system where emergency repairs have been needed. The calculations show that for FY 2013 we need to collect \$1,176,293. However in FY 2014 and beyond the number increases significantly with the addition of the ENR debit service and other major expenses. All basic costs were increased by a modest 3 % each year.

SLIDE 13

Debt service and interest costs will more than double between FY 2010 and FY 2016 to the point of approximately 45% of rate payer costs.

SLIDE 14

The commission proposes this amended rate schedule for FY 2013. Every rate is going up, some percentages more than others however using the same structure the percentage increase will even out within 3 years. Each year prior to a new budget ordinance the town staff will have to review the actual numbers to tweek the new rates.

SLIDE 15

Although we did not consider other jurisdictions it was interesting to see what they charged. Here is a sample of rates from 4 of the 44 that are available in our reference material.

SLIDE 16

When calculating your quarterly rate do not forget to include the Bay Restoration Fee (FLUSH TAX). It will be added to your October bill.

SLIDE 17

Completing the mission has not been particularly easy but the members rose to the challenge. We encourage you to do a careful review and act on our recommendations. The information presented tonight will be available at town hall and posted on the town web site. The power point was not finished in time to have it pre preprinted. I will leave my notebook and all other reference material at town hall for you to view. If you have any questions or comments please direct them to me.