

CITY COUNCIL WORK SESSION

Water/Sewer Rate Study

February 11, 2013 – 6:30 p.m.

Eileen Dondero Foley Council Chambers

City Council Present: Mayor Spear, Assistant Mayor Lister, Councilors Kennedy, Novelline Clayburgh, Lown, Dwyer, Smith and Thorsen

City Council Absent: Councilor Coviello

Staff Present: City Manager Bohenko, Deputy Public Works Director Peter Rice and Finance Director Judie Belanger

I. Call to Order – Mayor Spear

Mayor Spear called the Work Session to order at 6:30 p.m.

II. Introduction

City Manager Bohenko stated that Deputy Public Works Director Peter Rice, Finance Director Judie Belanger and Consultant, David Hyder, from Municipal Financial Services Group will give a brief presentation of the Water and Sewer Rate Study.

III. Presentation

Deputy Public Works Director Rice stated this meeting is a continuation of the recent informational meeting held December 4, 2012 where comments and suggestions from citizens were accepted and they will now address those comments.

He stated that currently the city uses a 2-tier model structure for setting water and sewer rates and that this model will be used for the upcoming FY14 budget and that any of the proposed changes the Council decides to make would not begin until FY15.

Consultant David Hyder began the slideshow presentation by giving a brief background of the Municipal Financial Services Group company stating they work with a wide-ranging group of municipalities from very small to very large. He continued to review the current area of the Portsmouth regional water and sewer systems which include surrounding smaller towns as customers as well. He stated that there are several reasons to update the rate model including:

- Reduction in Billable Consumption
- Changing Water and Sewer Customer Base
- Policy Questions such as Additional Tiers, Irrigation Meters
- Regulatory Requirements
- Capital Project costs
- Good Practice to update model on regular basis

Finance Director Belanger then explained Enterprise Funds stating that Enterprise Funds account for operations that are financed and operated in a manner similar to private business and must have fees and/or charge sufficient enough to cover the cost of providing goods and services, including Capital costs i.e., depreciation and debt service. She stated that property taxes do not subsidize

the water and sewer funds. She then presented an example of full accrual vs. cash requirements to illustrate the point.

Consultant Hyder stated that the Rate study components to create the financial model included: Water and Sewer system costs, Capital Costs and Financing, Technical Evaluation of Data, Customer Allocations, Develop Alternatives, Regional and National Trends and policy factors. He continued that the Principals of Rate Setting start with the Water and Sewer operations being self-supporting and the rates are set to recover cost of providing service. Also, no profit and no subsidy to or from General Fund, operations function as a business and utilities reimburse general fund for support services. He further clarified that water and sewer rates are user fees rather than taxes and therefore are designed to charge customers based on their use of the service and should be cost based and cannot be arbitrary. He concluded stating that water and sewer are set on a zero sum basis and reductions in revenues due to decreased usage, rate structure changes or other factors result in the need for rate increases. He went on to discuss water demand trends for the City of Portsmouth over the last 60 years stating that this is a Capital intensive service with an aging infrastructure and new regulatory requirements which contribute to the increase in costs. He stated that factors contributing to declining demand include water fixture change-outs to low flow, fewer people per household, economic conditions, “going green” conservation ethic and response to rate increases.

Deputy Public Works Director Rice stated that there are 6 policy issues that are being presented this evening with recommendations for the Council to consider.

Consultant Hyder presented the following:

Issue # 1 – Additional Tiers – Should additional tiers be added to the current water and sewer rate structure?

Basis for recommendation:

- Of the largest customer class (SRF), 84% of water consumption and 90% of sewer usage falls within current Tier 1 (10 units/month)
- Adding a new tier at a lower rate would provide assistance to the smallest users of the system

Recommended Action:

Include a tier to aid the small users of the system

Tier 1: 0-2 units @ 3.47 per unit for water and \$6.77 per unit for sewer (NEW TIER)

It was explained that adding the new tier at a lower rate for the first 2 units would increase the second 2 tiers to accommodate for that reduction. All users would go through the first tier, and then as the usage went up, the next fee would be implemented.

Issue # 2 – Results – Base Charges (Monthly Meter Charge) are the current base charges appropriate?

Basis for Recommendation:

- Rate modeling results calculate base charges at 21% - water and 24% - sewer

- Industry standard sets base charges for water and sewer structures at approximately 20-30%

Recommended Action:

Increase percentage of revenue collected from base charges over time.

It was explained that the water meters vary in size from 5/8" and 3/4" for the majority of customers through 10" for industrial users and that there is currently no base charge for sewer meters. Currently the City does not collect any sewer meter fees and collecting this fee would help stabilize the decreasing usage phased in over time.

Issue # 3 – Irrigation Meter Availability – Should Irrigation meters be expanded to Multi-Family and Commercial Customers?

Consideration:

- Currently there are 241 Irrigation Accounts
- Is this consistent with City's sustainable practices goals?
- Increased irrigation meter availability would result in a loss of approximately 8.7% of billed sewer usage. Lost billable usage would result in increased fees to make up the lost revenues

Recommended Action: NONE

Deputy Public Works Director Rice stated that the current structure is very successful in conservation and feels that irrigation meters are counter-intuitive. He stated that existing meters should be grandfathered and not allow any more in the future.

Issue #4 – Irrigation Tier – If irrigation meter use is expanded should irrigation be charged at an additional peak tier in the water rate structure? Should Irrigation be charged an additional peak tier in the water rate structure?

Basis for Recommendation:

- Customers with irrigation meters do not pay for the capacity they are using (do not pay the water capacity use surcharge fee)
- Irrigation use is non-essential use of water and non-irrigation customers should not subsidize cost of providing this capacity

Recommended Action:

Irrigation water should be charged at a higher tier rate.

Issue #5 – Multi-Family Condo Billing – Should Multi Family Condo accounts be provided with a usage allowance per tier, based on the number of dwelling units?

Basis for Recommendation:

- Implementing average use per dwelling unit would greatly increase administrative costs
- Implementation would shift usage to lower tiers charge, in turn decreasing overall revenues resulting in necessary higher rates

- True equity would require individual meters which is currently allowed

Recommended Action:

No implementation recommended – No action required

Issue #6 – Fire Projection Charges – Should Fire Protection Charges be increased?

Basis for Recommendation:

- Rate modeling analysis calculates 10% of water costs are due to fire protection
- Current fire protection charges only generate 3% of water revenues
- As a result, fire projection charges are currently set at a level well below the cost of providing fire protection services

Recommended Action:

Incrementally increase Hydrant Fees and Fire Line Charges to recommended levels over five years starting in FY15.

The power point presentation concluded with what are the “Next Steps”?

- Finalize Rate Model
- Develop Proposed FY14 Water and Sewer Rate
- Present Proposed Budget and Water Sewer Rate at March 13, 2013 Information Session
- Modify rate model to incorporate policy changes approved by City Council for preparation of FY 15 budget

IV. Questions

Discussion ensued regarding the conservation conundrum and the effect on the usage levels. Deputy Public Works Director Rice explained that although conservation of water is good, it means that it cost the consumers more for the water that is used. The way to alleviate this problem is to expand the customer base i.e., other towns, businesses, etc. He stated they try to be realistic with their projections to be able to manage the costs the best they can and not add too much stress to the budgets. It was clarified that these proposals are not going to be a part of the upcoming budget process for FY14 but will be further reviewed for the FY15 process going forward.

Councilor Smith asked about the mixed used buildings with restaurants and residential units and asked if there are separate meters for each of these units. Deputy Public Works Director Rice said it depends on what the developer proposes. Councilor Smith asked if it should be required that each unit has their own meter so that the user is paying for their own usage. Mr Hyder explained that each user will get the additional first tier discount and then go up to the next level as usage increases. He stated that it is currently up to the developer as to how to meter their buildings and collect the money from their occupants. Discussion ensued regarding the various water line and water meter sizes.

Discussion ensued regarding the charge being a tax versus a fee with City Manager Bohenko explaining that this is a utility and it is not a tax. He stated that we have users from other towns who are charged the fee and cannot be taxed by the City of Portsmouth. He stated that this is a user supported service and not a tax.

Councilor Dwyer stated that the idea of the conservation conundrum is interesting and important and wonders what would be the point where there would be a reduction for using less and is it possible to calculate such a number. Mr. Hyder explained that you can look at line items that do vary with usage such as chemicals, power supply, etc. but most of the costs are static and it costs what it costs to have the system operational regarding of the usage.

City Manager Bohenko stated this is why the discussion with the EPA is important to show them that we don't need the large facility they want us to have and for us to have to carry the cost of that facility over 20-30 years to plan for a "100 year event". He stated that is what is driving up the bills and if conservation occurs, then it will help prove the point of not needing such a large facility.

Councilor Lown stated that regardless of what rates go up and what go down, it is a "zero rate" game and has to even out and the only reason the rates will go up is because the cost to provide the service will go up. Mr. Hyder stated that is correct and it is a matter of how the fees are collected.

Councilor Kennedy referred to the comparison chart on Page 12 showing the average annual single family residential water bill (based on 65 units/year). The chart shows the City of Portsmouth at \$329.00 which is the 23rd highest on the chart of 34 communities with the Town of Hampton at \$498.00. She asked why the communities that are lower than us are able to provide this service at lower rates.

Deputy Public Works Director Rice explained that there are many variables as to the answer including infrastructure costs, economy of scale, available grant money, etc.

Regarding Issue 2, Base Charges, discussion ensued regarding the amount of users that would qualify for the new Tier One (0-2 units) rate. Deputy Public Works Director Rice explained that all users will get the new rate for the first 2 units then go to the next rate tier when go over 2 units, etc. He stated that there are approximately 1,515 users that use less than 2 units, 4,752 in the 2-10 units tier, and 1,914 over 10 units.

Councilor Smith asked about the irrigation water that isn't put through the chemical system and if that water can be used for other things such as golf course watering or filling pools. Deputy Public Works Director Rice stated no, any human contact with water makes it potable and there would be a significant amount of capital investment required to make this possible. He stated it would only be worth doing that if we were in an area that water was scarce.

Councilor Novelline Clayburgh asked if other communities have the sewer meter monthly charge. Public Works Director Rice stated yes.

Regarding Issue # 3, Irrigation Meters Availability, Councilor Dwyer stated we would need a lot more education on this issue to make a decision and would like to see an effort made to do so. She stated it doesn't make sense to give people a break on the water usage at this point.

Councilor Thorsen stated that water usage is a proxy for sewer usage so any water that doesn't make it to the sewer i.e., gardening etc. shouldn't have to subsidize for the sewer side. Secondly, he stated that the second tier rate is not going to be that much of a difference for homeowners but it will for industrial users and isn't sure that this is the logical thing to do.

Councilor Kennedy stated she has asked to look at allowing museums to have the irrigation meter because they keep their gardens and lawns green in order to attract visitors to the City which benefits everyone. She suggested that there could be other ways to handle this situation i.e., water trucks, but feels it needs to be addressed.

City Manager Bohenko stated this is a huge policy decision and if it is the way the Council wants to go then they need to consider it for all non-profits and not just one segment.

Mayor Spear stated he strong supports the recommendation for Issue #3, and agrees that current users should be grandfathered because they eventually will die out over time.

Regarding Issue #5, Multi-family Condo Billing – Councilor Thorsen stated the issue is whether or not it is fair to charge tenants of multi-units more than if they were metered individually. Deputy Public Works Director Rice stated that this is usually a Condo Association situation.

City Manager Bohenko stated that it is a savings for the developer to only put in one meter so they are being rewarded. He stated we would have to look at what we would want to require going forward through an ordinance change.

Councilor Dwyer stated this would be the same situation as requiring certain number of parking spaces per development.

City Manager Bohenko concluded by clarifying that these recommendations will not affect the upcoming FY14 budget but will be further explored for FY15.

VIII. Adjournment

Mayor Spear closed the Work Session at 8:10 p.m.

Respectfully submitted by:

A handwritten signature in black ink, appearing to read 'V. French', written in a cursive style.

Valerie A. French,
Deputy City Clerk