



TOWN OF ERIE MEMORANDUM

TO: Board of Trustees
Malcolm Fleming, Town Administrator

CC: Town Clerk's Office

FROM: Stefanie Furman, Acting Finance Director

DATE: October 27, 2020

SUBJECT: Utility Rate Study Results

The Town of Erie Financial Policies requires the Town to have a formal rate study performed on the utility fund (water, wastewater and storm drainage) charges at least every five years. Bond indentures also require the Town to ensure that its fees are adequate to ensure compliance with all bond covenants. The last formal rate study for these funds was conducted in 2014. In 2014, the Board reviewed and adopted the results of those rate studies, setting rates and fees for the period 2015-2019.

The Town began the current rate study process in early 2019, but due to the necessity of changing consulting firms the project has just reached completion. The Town contracted with Raftelis Financial Consultants ("Raftelis") in August 2019 to perform the formal rate study for water, wastewater and storm drainage monthly customer charges, water and wastewater tap fees, raw water dedication fees and storm drainage impact fees.

Summary of Rate Study

The goals of the rate study are to determine the revenue needed to cover annual operations and maintenance costs and capital improvement projects, meet debt service requirements, provide for sufficient operating reserves and maintain the utility's self-sufficiency over a 5-year period.

The key assumptions used in the rate study are as follows:

Residential growth: 400 taps per year

Target Reserves: 90 days of operations plus 1 year's depreciation expense

Debt Service Coverage: as required by the respective debt covenants

Monthly Customer Charges:

Based on the results of the study, it was determined that no **overall** revenue increases were required, with base (fixed) charges dropping and demand charges being adjusted. However, there were

changes to the rate structure for water and wastewater service that will result in increases for some customers. No changes are being proposed for monthly storm drainage charges.

The rate study develops a financial plan and a cost of providing water, wastewater and storm drainage services to its customers. The financial plan identifies the revenues and expenses over the study period and determines if the current rates generate the revenue necessary to cover operating costs, debt service payments, capital improvement projects, reserve requirements and provide the necessary revenue to meet bond covenants.

The study also develops the cost of service by customer class (residential, commercial and irrigation) and it recognizes the differing service characteristics based on the meter size and service demands. Based on the cost of service information, the study recommends a revised rate structure for water and wastewater services, which include a fixed monthly service charge and volumetric charge. These changes were proposed to ensure that each customer type covered their cost of service and to provide incentives for water conservation.

As can be seen from the following tables, the monthly fixed service charge is being decreased for virtually all customers, while the volume charges are being increased for most customers. The only customer class that will see a significant total increase are irrigation customers. It was determined that this class of customers was not covering its cost of service, requiring an increase of 16% in the volume charge component. More information will be provided on this and all other proposed changes in the Raffelis presentation.

Tables showing current and proposed fees for **residential water customers** (single-family, townhomes and multi-family) follow:

Meter Size	Water Monthly Fixed Service Charge - Single-Family, Townhomes (1) & Multi-Family					
	Current	Proposed	Proposed	Proposed	Proposed	Proposed
	2020	2021	2022	2023	2024	2025
3/4 inch	\$ 30.00	\$ 19.36	\$ 19.36	\$ 19.36	\$ 19.36	\$ 19.36
1 inch	31.51	26.83	26.83	26.83	26.83	26.83
1 1/2 inch	43.14	45.53	45.53	45.53	45.53	45.53
2 inch	70.62	67.96	67.96	67.96	67.96	67.96
3 inch	84.57	127.78	127.78	127.78	127.78	127.78
4 inch	84.57	195.08	195.08	195.08	195.08	195.08
6 inch	84.57	382.01	382.01	382.01	382.01	382.01

(1) If individually metered.

Usage Block	Gallons Used	Water Monthly Volume Charge per 1,000 Gallons -Single-Family & Townhomes (1)					
		Current	Proposed	Proposed	Proposed	Proposed	Proposed
		2020	2021	2022	2023	2024	2025
Block 1	0 - 5,000	\$ 4.44	\$ 5.53	\$ 5.53	\$ 5.53	\$ 5.53	\$ 5.53
Block 2	5,001 - 15,000	5.53	6.92	6.92	6.92	6.92	6.92
Block 3	15,001 - 25,000	8.30	10.35	10.35	10.35	10.35	10.35
Block 4	Over 25,000	12.44	15.49	15.49	15.49	15.49	15.49

(1) If individually metered.

Usage Block	Water Monthly Volume Charge per 1,000 Gallons -Multi-Family						
	Gallons Used	Current	Proposed	Proposed	Proposed	Proposed	Proposed
		2020	2021	2022	2023	2024	2025
Block 1	0 - 5,000	\$ 4.44	\$ 5.53	\$ 5.53	\$ 5.53	\$ 5.53	\$ 5.53
Block 2	5,001 - 15,000	5.53	5.53	5.53	5.53	5.53	5.53
Block 3	15,001 - 25,000	8.30	5.53	5.53	5.53	5.53	5.53
Block 4	Over 25,000	12.44	5.53	5.53	5.53	5.53	5.53

Tables showing current and proposed fees for commercial and irrigation water customers follow:

Meter Size	Water Monthly Service Charge - Commercial & Irrigation					
	Current	Proposed	Proposed	Proposed	Proposed	Proposed
	2020	2021	2022	2023	2024	2025
3/4 inch	\$ 31.51	\$ 19.36	\$ 19.36	\$ 19.36	\$ 19.36	\$ 19.36
1 inch	31.51	26.83	26.83	26.83	26.83	26.83
1 1/2 inch	43.14	45.53	45.53	45.53	45.53	45.53
2 inch	70.62	67.96	67.96	67.96	67.96	67.96
3 inch	84.57	127.78	127.78	127.78	127.78	127.78
4 inch	84.57	195.08	195.08	195.08	195.08	195.08
6 inch	84.57	382.01	382.01	382.01	382.01	382.01

Customer Class	Water Monthly Volume Charge per 1,000 Gallons - Commercial & Irrigation						
	Gallons Used	Current	Proposed	Proposed	Proposed	Proposed	Proposed
		2020	2021	2022	2023	2024	2025
Commercial	All Usage	\$ 7.12	\$ 6.57	\$ 6.57	\$ 6.57	\$ 6.57	\$ 6.57
Irrigation	All Usage	7.48	7.70	7.92	8.16	8.39	8.64

Tables showing current and proposed fees for wastewater customers of all types follow:

Customer Class	Wastewater Monthly Service Charge per 1,000 Gallons						
	Gallons Used	Current	Proposed	Proposed	Proposed	Proposed	Proposed
		2020	2021	2022	2023	2024	2025
Single-Family	All Usage	\$ 15.68	\$ 10.30	\$ 10.30	\$ 10.30	\$ 10.30	\$ 10.30
Townhomes (1)	All Usage	15.68	10.30	10.30	10.30	10.30	10.30
Multi-Family	All Usage	15.68	10.30	10.30	10.30	10.30	10.30
Commercial	All Usage	15.68	10.30	10.30	10.30	10.30	10.30

(1) If individually metered.

Customer Class	Wastewater Monthly Volume Charge per 1,000 Gallons						
	Gallons Used	Current	Proposed	Proposed	Proposed	Proposed	Proposed
		2020	2021	2022	2023	2024	2025
Single-Family	All Usage	\$ 8.20	\$ 9.45	\$ 9.45	\$ 9.45	\$ 9.45	\$ 9.45
Townhomes (1)	All Usage	8.20	8.20	8.20	8.20	8.20	8.20
Multi-Family	All Usage	8.20	8.20	8.20	8.20	8.20	8.20
Commercial	All Usage	8.20	8.20	8.20	8.20	8.20	8.20

(1) If individually metered.

The storm drainage monthly fee will remain unchanged at \$11.98 per Single Family Residential Equivalent (“SFRE”). Based on analysis performed in the previous rate study, it was determined that the average single-family residence in Erie has approximately 5,300 square feet of impervious square footage (which includes the house, driveways, sidewalks and similar surfaces), defined as an SFRE. All single-family residences will be charged the same monthly fee - \$11.98 for 2021-2025. All other customers will be charged on the basis of how many SFRE’s their property has and billed on that basis. For example, if a commercial customer has 15,900 square feet of impervious area, they will be billed \$35.94 per month in 2021 (15,300 square feet divided by 5,300 square feet = 3 times \$11.98/SFRE = \$35.94).

Summary

It is hard to determine the impact on a typical customer from all the tables above. Since 92% of the Town’s utility customers live in single-family residences (based on number of accounts), some information on the effect of the proposed rate structure changes on this customer class would be helpful.

Using 2019 data – the last full-year data available – **the average monthly utility bill (water, wastewater and storm drainage) will decrease slightly from \$127.71 per month to \$127.01 per month** as a result of the proposed changes. **64% of the Town’s single-family customers will actually see a reduction in their monthly bill.** 25% of the Town’s single-family customers will have an increase of from 0-5%, representing a monthly average increase of approximately \$3.41. The remaining 11% of the Town’s single-family customers will experience average increases of approximately 8%, or around \$17.36 per month, with some of the customers in this upper-use tier experiencing increases of as much as 21%.

But it should be noted that the customers experiencing the highest increases – 11% of the total – use 21% of the Town’s water. As noted above, one of the objectives of this rate study was to design a rate structure that would incent conservation. The Town’s sustainability programs include efforts to work with customers to help them use water more efficiently.

Permit-Related Fees:

Water and wastewater tap fees, water dedication fees and storm drainage impact fees (among other fees) are paid at the time of issuance of a building permit. The following discussion presents the proposed changes to these fees.

Water Tap Fee and Fee in Lieu of Water Dedication: These fees are collected on all new residential and non-residential construction that requires connection to the water system. These fees are a one-time charge to the customer for their proportional share of capacity of the system infrastructure in the case of the water tap fee and annual water requirements in the case of the fee in lieu of water dedication. These fees are used to defray the capital costs of expanding the system facilities and to recover the cost of growth to the system.

Below is a schedule of current and proposed water tap fee and fee in lieu of water dedication.

Meter Size	Water Tap Fee		Fee in Lieu of Water Dedication	
	Current	Proposed	Current	Proposed
3/4 inch	\$ 15,080	\$ 12,050	\$ 15,300	\$ 16,243
1 inch	25,133	20,080	(a)	(a)
1 1/2 inch	50,267	40,170	(a)	(a)
2 inch	80,427	64,270	(a)	(a)
3 inch	150,800	120,500	(a)	(a)
4 inch	251,333	200,830	(a)	(a)
6 inch	502,667	401,670	(a)	(a)

(a) Section 8-1-9 of this Code, as it may be amended, defines the manner in which the Town determines the amount of fee in lieu of water dedication.

No further changes are proposed for the years 2022-2025 at this time.

Wastewater Tap Fee: The wastewater tap fee is collected on all new residential and non-residential construction that requires connection to the wastewater system. The fee is a one-time charge to the customer for their proportional share of capacity of the system infrastructure. The fee is used to defray the capital costs of expanding the system facilities and to recover the cost of growth to the system, including a significant expansion of the Town’s North Water Reclamation Facility. Below is a schedule of current and proposed wastewater tap fees.

Meter Size	Wastewater Tap Fee	
	Current	Proposed
3/4 inch	\$ 5,200	\$ 8,860
1 inch	8,667	14,767
1 1/2 inch	17,333	29,533
2 inch	27,733	47,253
3 inch	52,000	88,600
4 inch	86,667	147,667
6 inch	173,333	295,333

Storm Drainage Impact Fee – The storm drainage impact fee is collected on all new residential and non-residential construction that requires connection to the storm drainage system. No change in these fees is being proposed. The current fee structure is as follows:

Residential Development by Type	Impact Fee Per Dwelling Unit
Single-family detached	\$1,628.00
All other dwelling units	903.00

Nonresidential Development by Type	Impact Fee Per 1,000 Sq. Ft. Floor Area
Commercial/retail/shopping center	\$1,423.00
Office/institutional	1,275.00
Industrial/manufacturing/warehousing	1,275.00

However, it should be noted that these fees are adjusted each January 1st based on an appropriate construction index.

Permit-Related Fee Summary:

Following is a table providing a summary of the various permit-related fee changes for a single-family residence:

	<u>Current</u>	<u>Proposed</u>	<u>\$ Change</u>	<u>% Change</u>
Water tap fee	\$ 15,080	\$ 12,050	\$ (3,030)	-20%
Water dedication fee	15,300	16,243	943	6%
Wastewater tap fee	5,200	8,860	3,660	70%
Storm drainage impact fee (a)	<u>1,628</u>	<u>1,628</u>	<u>-</u>	0%
Total	<u>\$ 37,208</u>	<u>\$ 38,781</u>	<u>\$ 1,573</u>	4%

(a) Impact fees are adjusted each January 1 based on appropriate construction indices.