



CITY OF CONCORD

New Hampshire's Main Street™

DATE: April 9, 2021

TO: Mayor and City Council

FROM: Earle M. Chesley, P.E., General Services Director

RE: Water/Wastewater Rate Structure Revision and Water/Wastewater Rate Increase

Recommendations

This Report to Mayor and City Council includes two recommendations:

1. Revising the rate structure for the water and wastewater enterprise funds effective July 1, 2021 and,
2. Increasing the water rate 3.5% and the wastewater rate 8.0% effective September 1, 2021.

Rate Structure Revision

The General Services Department recommends changing the rate structure of the Water and Wastewater Enterprise Funds so both funds have a fixed fee and variable fee components to provide rate stabilization going forward given the relatively flat rate of growth the funds are experiencing.

This recommendation is only a structural change to the rate on how individual accounts are to be computed and is revenue neutral.

The Department recommends setting a public hearing at the next regularly scheduled monthly City Council meeting to consider this recommendation as provided in the attached revisions to the City Ordinance, and upon acceptance, have these revisions effective July 1, 2021.

Water and Wastewater Rate Increases

The General Services Department recommends increasing the water rates 3.5% and the wastewater rates 8%. The rate increases are necessary for both enterprise funds to meet Fiscal Policy Advisory Committee Goals and are principally driven by needed continued capital investment to sustain their productivity. The projected rate increases would be effective

September 1, 2021. Customers would realize the impact of the proposed rate increase in their October 2021 billing.

In the past, annual rate increases have been considered as part of the annual budget process, but in this instance, it is necessary to take this matter up on a separate track that is coincident with the adoption of the City budget in order to have the rate structure revision effective July 1, 2021, in place before adjusting the rates effective September 21, 2021. Additionally, this schedule is in concert with the City's goal to move utility billing to our new financial program in the spring of 2022.

Background

Rate Structure Revision

Water and wastewater enterprises are generally composed of fixed and variable costs. In order to provide stable rates to their consumers, it is best practice to have their rate structures include both fixed and variable components to their rate structure.

The Water Fund Rate currently has a fixed fee and variable rate component. The fixed fee component is called the availability charge and is computed based upon the assessed value of the property. The variable rate component is based upon metered water consumption.

The Wastewater Fund currently does not have a fixed fee component in its rate structure, and only a variable rate component that is based upon metered water consumption. Where separate meters are present for irrigation, a credit is provided for water not discharged into the wastewater system.

The current LOGOS system has historic challenges continuously integrating with VISION. Additionally, the current LOGOS system does not equitably assess the availability charge for multi-family properties among the accounts for that specific community. This new structure will fix that issue.

The City of Concord is moving towards a new Financial Enterprise System, MUNIS, for its comprehensive financial management. The MUNIS system does not practically integrate with the City's assessing system, VISION, for the purpose of water or wastewater billing. The current MUNIS implementation schedule has water and wastewater utility billing going live in April 2022. To accomplish this deadline, it is necessary to transition away from LOGOS by this fall to perform testing and start-up.

Consequently, the City needs to revise the method to collect the fixed fee component.

Rate Increase

The General Services Department annually performs a multi-year financial analysis of the financial health of the water and wastewater enterprise funds that includes projected revenues, operating and maintenance costs, current financial debt burden and future capital needs that is distilled into a pro-forma. Attached to this report are the pro-formas for the water and

wastewater funds that indicate a 3.5% rate increase is appropriate for the water fund and an 8.0% increase for the wastewater fund.

Discussion

Rate Structure

The City retained the consulting team of Wright/Pierce and Rafetelis Financial Consultants to provide guidance and direction through this necessary revision to our rate structures due to the pending transition to MUNIS. They presented these recommendations to the Fiscal Policy Advisory Committee at their regular meeting on March 15, 2021.

They note best practices for water and wastewater utilities often use the meter size entering the property for the basis for the fixed fee component of the rate. Meter size provides a stable metric for the fixed fee component of the rate. Assessed property values are variable and dynamic since they are solely predicated on real estate market conditions which can geographically be variable across the City rate payer base. The recommendation to use meter size will provide consistency among the rate payer, will provide stable rates since they are not dynamic, and is consistent with MUNIS capabilities. Water and wastewater utility bills could be transferred to the new MUNIS system as early as this fall.

Rafetelis prepared a recommended revenue neutral revision to our rate structure and completed a financial analysis of its affect upon our rate payers. Due to the variability of assessed property values across our rate payers, each individual account will be impacted differently at the time of transition. Some will increase; others will decrease. Overall, all will pay the same total revenue in a manner that will provide more stable rates into the future. At their March 15, 2021, meeting, the Fiscal Policy Advisory Committee unanimously approved the recommendation provided the minimum use charge was eliminated from the rate structure. Further, members of the committee expressed Concord water rates must remain competitive after the change in the rate structure is put in place.

The recommended water and wastewater fixed fees, based upon meter size, are:

Water

<i>5/8 inch</i>	<i>.....</i>	<i>\$5.57</i>
<i>1 inch</i>	<i>.....</i>	<i>\$13.92</i>
<i>1.5 inch</i>	<i>.....</i>	<i>\$27.83</i>
<i>2 inch</i>	<i>.....</i>	<i>\$44.53</i>
<i>3 inch</i>	<i>.....</i>	<i>\$83.50</i>
<i>4 inch</i>	<i>.....</i>	<i>\$139.17</i>
<i>6 inch</i>	<i>.....</i>	<i>\$278.50</i>
<i>8 inch</i>	<i>.....</i>	<i>\$445.33</i>

Wastewater

<i>5/8 inch</i>	<i>.....</i>	<i>\$8.01</i>
<i>1 inch</i>	<i>.....</i>	<i>\$20.03</i>
<i>1.5 inch</i>	<i>.....</i>	<i>\$40.05</i>

2 inch\$64.08
 3 inch\$120.15
 4 inch\$200.26
 6 inch\$400.51
 8 inch\$640.82

The recommended volumetric water rate tiers are flat that is more consistent with industry standard and more closely aligns with NHDES regulations for new source development. They also include an irrigation rate at the same cost. The recommended water and wastewater recommended volumetric tiers are:

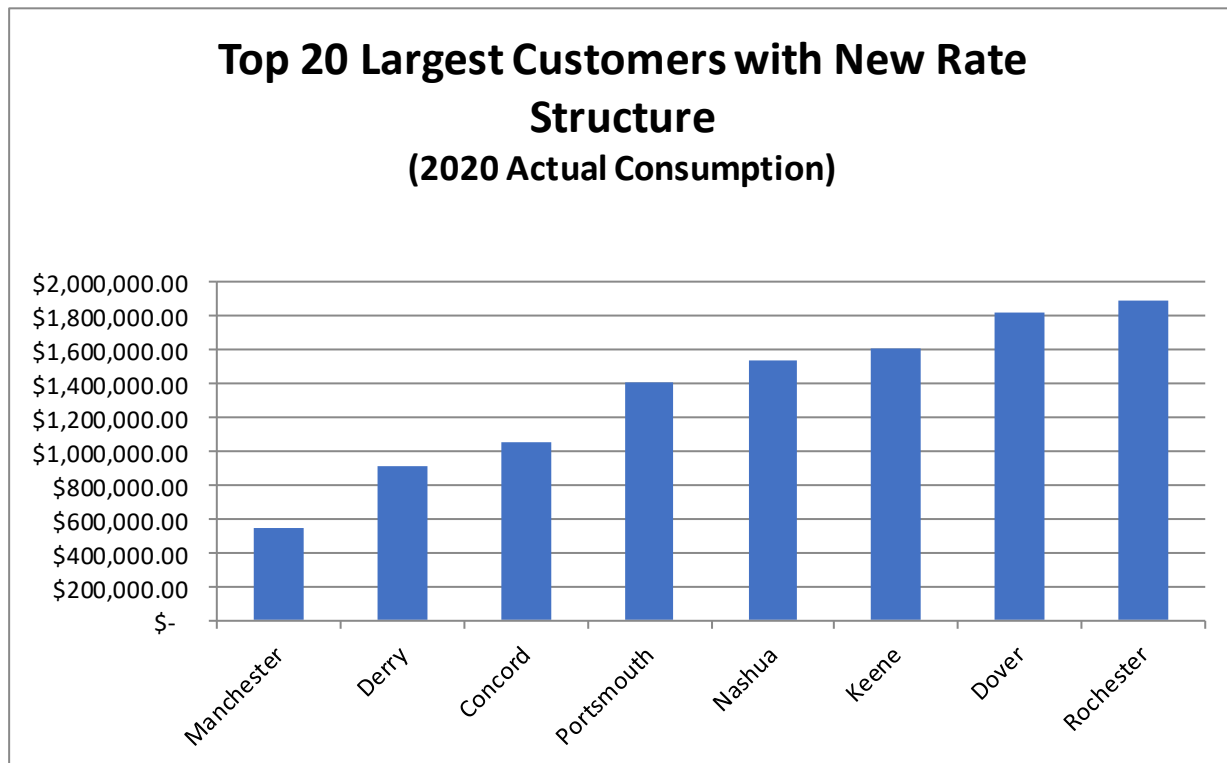
Water

Charge per 100 cu. ft. consumption.....\$2.81

Wastewater

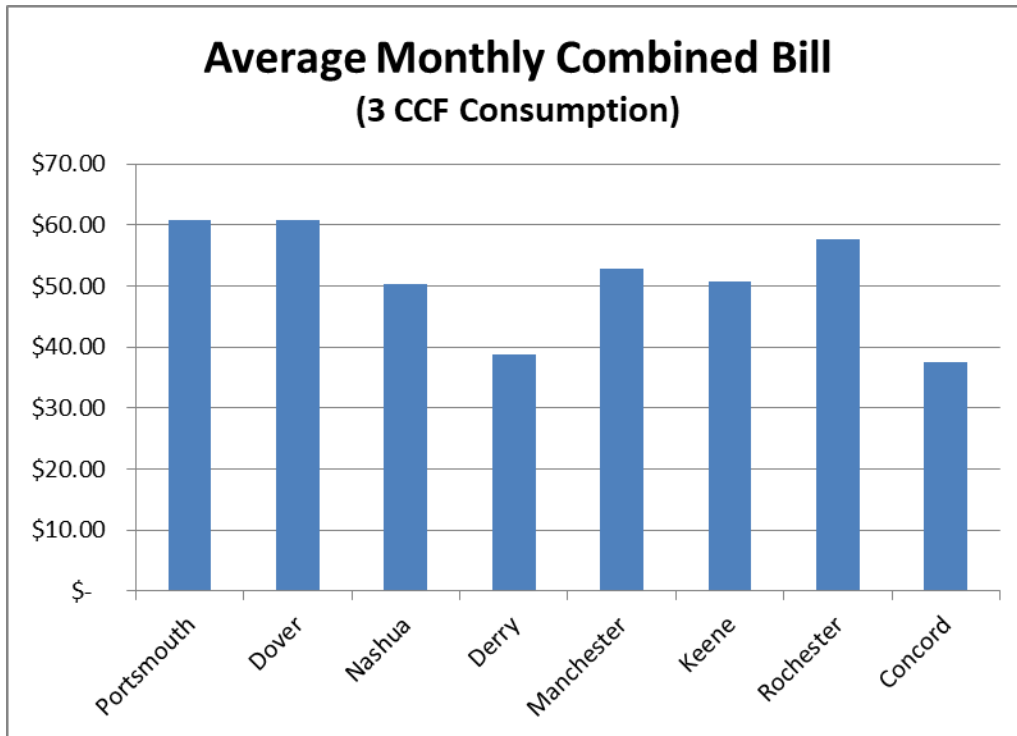
Charge per 100 cu. ft. consumption.....\$4.49

The General Services Department prepared a comparative analysis of the recommended changes to the rate structure in place with seven comparable New Hampshire communities. The analysis indicates the City would continue to maintain its competitive position within the region as demonstrated below.



Rate Increase

A key General Services goal is to provide the community competitive water and wastewater rates to provides an attractive environment for economic development and affordable rates for our residents. In assessing that goal, the department annually conducts a benchmark analysis of seven comparable New Hampshire cities. That analysis is graphically depicted on the attached graphs and demonstrates the City will continue to maintain its competitive position and affordable water rates among New Hampshire cities with the proposed rate increases.



The fixed rates with proposed increases are;

Water

- 5/8 inch\$5.57
- 1 inch\$13.92
- 1.5 inch\$27.83
- 2 inch\$44.53
- 3 inch\$83.50
- 4 inch\$139.17
- 6 inch\$278.50
- 8 inch\$445.33

**not increased with 3.5% proposed increase.*

Wastewater

- 5/8 inch\$8.65

1 inch\$21.63
1.5 inch\$43.26
2 inch\$69.21
3 inch\$129.77
4 inch\$216.28
6 inch\$432.55
8 inch\$692.09

The proposed water and wastewater recommended volumetric tiers are:

Water

Charge per 100 cu. ft. consumption.....\$2.91

Wastewater

Charge per 100 cu. ft. consumption.....\$4.85