



10.

March 17, 2014

To the Honorable, the City Council:

RECOMMENDATIONS

The City administration and City Council continue to recognize the importance of minimizing increases in water and sewer rates. Therefore, I am pleased to recommend that the City Council approve a 0% increase in the water consumption block rate and a 5.2% increase in the sewer use block rate, resulting in a 3.7% increase in the combined rate for the period beginning April 1, 2014 and ending March 31, 2015. This is the fourth consecutive year that the City has been able to produce a 0% increase in the water rate.

In last year's recommendation, the projected FY15 rate increases for water, sewer and combined were 2.3%, 6.1%, and 4.9%, respectively, based on March 2013 consumption rates and projected budget. We have, however, been able to produce rates lower than estimates from last year due primarily to lower operating budget projections in the Water Budget and debt service reductions in the Sewer Budget.

In March of each year, the City Council establishes water and sewer rates, which determine water and sewer revenues for the next fiscal year. Because of the timing requirements, water and sewer rates are set prior to the adoption of both the Cambridge budget and Massachusetts Water Resources Authority (MWRA) budget; therefore, revenue needs are based upon estimated expenditures. Historically, water and sewer rates have been established so that revenues generated by them, when combined with other related revenue sources, cover projected annual costs.

WATER

Last year, it was projected that the Water Fund would use \$300,000 in fund balance in order to maintain a 0% water rate. However, due to projected budget savings in FY14, it is not anticipated that the fund balance will be needed. The projected Water fund balance for FY14 is \$9,376,357.

The two major factors which determine the rate necessary to generate sufficient revenues are: water consumption and the budget. The total FY15 Water Budget reflects a decrease of 1.5% from FY14. The primary reason for the decrease is a reduction in the debt service account.

FY15 estimated water revenues will cover increases in costs related to cost-of-living allowances, pensions and health benefits in the salaries and wages portion of the operating budget, offset by a decrease in debt service.

By using \$350,000 from the Water fund balance in FY15, the City will again support a 0% water rate increase, while providing a significant amount in capital funds for infrastructure improvements. It is expected that use of the fund balance will be eliminated in FY16, as decreases in water debt service continue and as long as water consumption remains constant.

The planned capital allocation has remained level funded at \$3,400,000 in FY15 as the Water Department uses pay-as-you-go capital funding based on current revenues, instead of debt financing. The FY15 capital allocation will be used for energy reduction projects, improvements to the distribution and transmission system, treatment plant equipment replacement, consulting services and improvements to the watershed. Table 4 on page 5 indicates the details of Water fund projected revenues and expenditures for the fiscal years 2014 to 2019. Table 7 on page 8 shows actual Water fund balances for FY09-13 and the projected balance for FY14.

Water and sewer charges are directly linked to water consumption, with sewer costs comprising approximately 70% of total water and sewer expenditures. When consumption declines revenues are negatively impacted. In the current fiscal year, water is being consumed at a rate approximately 1% lower than the previous fiscal year. This is consistent with the consumption trend over the last two years.

SEWER

The FY15 Sewer Budget reflects a 4.9% increase from the FY14 Budget. This includes moderate increases in the pay-as-you-go capital budget, MWRA assessment, debt service account, and the sewer component of the Public Works Budget. Debt service on sewer bonds and the MWRA assessment account for 88.1% of the total Sewer Budget.

FY15 estimated sewer revenues will cover the FY15 estimated MWRA assessment, which is scheduled to increase by \$965,308 from the FY14 final assessment. The MWRA rate increase projected for the City is subject to change based on the MWRA budget which is adopted later in spring 2014. These changes have typically been minor in past years. Unlike the Water Budget, sewer revenues are credited to the General Fund and not to a separate Proprietary Fund that can be drawn upon if the need arises.

The sewer debt service increase is attributable to the debt service on the \$12,900,000 General Obligation Bonds issued in February 2014. The annual debt service costs attributable to these bonds are included in the Sewer Budget. The following sewer projects were included in the February 2014 bond issue: Agassiz; Cherry Street / South Massachusetts Avenue; and Alewife Watershed; Harvard Square; Western Avenue and Cambridgeport projects. The City Council has authorized significant investments in our water and sewer systems to ensure Cambridge continues to benefit from a healthy and environmentally sound water and sewer system. In addition to the projects currently under way, the City's five-year Capital Plan (FY15-19) calls for an additional investment of approximately \$136,788,000 (primarily sewer, \$119,388,000) in the water and sewer systems.

Sewer improvements are projected to continue in the following areas: Cherry Street/South Massachusetts Avenue; Agassiz Neighborhood; Alewife Watershed; Cambridgeport; Harvard Square (including installation of a public toilet) and Western Avenue. The City carefully monitors the issuance of debt to fund authorized sewer projects and makes adjustments to ensure that debt service cost increases, which impact the sewer rate, are moderate.

Subsidies from the State Revolving Loan Program will cover only \$112,176 or 0.7% of the total debt service of \$15,374,096 for all FY15 sewer projects. The City will continue to receive State subsidies on existing debt. The FY16-19 Capital Plan includes other projects that may be eligible for subsidized loans from the State. As in past years, it is not certain that these projects will receive State subsidies, the debt service on these projects has been calculated based on funding through General Obligation Bonds. If State subsidies become available to the City, they will be used to lower the sewer rate in future years. Table 5 on page 6 shows the detail of sewer related expenditures and revenues for FY14-19.

The FY15 capital allotment of \$1,650,000 in sewer revenues will continue to finance the remedial reconstruction program and development.

COMBINED WATER & SEWER

The table below reflects the projected combined water and sewer metered revenue requirements needed to cover water and sewer expenditures.

TABLE 1

	FY14 Projected	FY15 Budget	% Change
Water	\$17,100,000	\$17,123,570	0.0%
Sewer	\$39,900,000	\$41,971,226	5.2%
Combined Water / Sewer Revenue	\$57,000,000	\$59,094,796	3.7%

FY15 projected revenues are based on FY14 projected collections and reflect our practice of conservative revenue projections.

The table below reflects the FY14 actual and FY15 proposed water and sewer rates.

TABLE 2

	Annual Consumption*	FY14 Water Rate	FY15 Proposed Water Rate	FY14 Sewer Rate	FY15 Proposed Sewer Rate
Block 1	0 – 40 CcF	\$3.02	\$3.02	\$8.19	\$8.62
Block 2	41 – 400 CcF	\$3.24	\$3.24	\$8.67	\$9.12
Block 3	401 – 2,000 CcF	\$3.44	\$3.44	\$9.31	\$9.79
Block 4	2,001 – 10,000 CcF	\$3.65	\$3.65	\$10.02	\$10.54
Block 5	Over 10,000 CcF	\$3.96	\$3.96	\$10.66	\$11.21

*All rates are per CcF. CcF is an abbreviation of 100 cubic feet. One CcF is approximately 750 gallons.

The table below reflects the average change to combined water and sewer residential bills.

TABLE 3

Residential Type	FY14 Average	FY15 Projected	Annual Variance	% Change
Single Family	\$704	\$730	\$26	3.7%
Two Family	\$985	\$1,021	\$36	3.7%
Three Family	\$1,428	\$1,481	\$53	3.7%

SENIOR DISCOUNT PROGRAM

There are currently 2,485 homeowners who qualify for the age 65+ water/sewer 15% discount (not to exceed \$90 annually), which is not tied to the homeowner's income.

There are also 109 elderly homeowners who qualify for an income-based discount of 30% (not to exceed \$180 annually). To qualify for the 30% discount, a homeowner must be 65 or older and must have been granted the Clause 41C elderly real estate exemption. For FY14, the income guidelines are as follows: single, income of \$24,458 with assets of \$48,914 or less; married, income of \$36,687 with assets of \$67,257 or less.

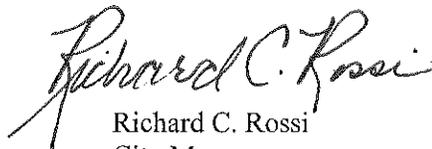
FUTURE OUTLOOK FOR RATES

Overall, the City has been extremely successful over the past five years in producing minimal water and sewer rate increases. The average annual increases for the FY10-14 period were as follows: water, 0.8%; sewer, 4.0%; and combined, 3.0%, which include both the water and sewer rates showing 0% increases in FY12 and FY13. The FY14 water rate increase was also 0%.

Tables 4, 5, 6 and 7 contain five-year forecasts for water, sewer and combined revenue estimates as well as Water fund balances for the past five years and the projected FY14 fund balance. As can be seen in Table 6, the annual combined water / sewer rate is projected to increase by an average of approximately 5.4% for FY15-19. The projected increase is the result of the City's infrastructure improvement program and increases in the MWRA assessment (based on estimates received from the MWRA) of between 2.0% - 6.4% in FY15-FY19. If increases in the MWRA assessment are more moderate and subsidies for new State Revolving Fund loans are funded, the rate increases that are shown will be lowered. If consumption increases and therefore revenues increase, rate increases will be affected positively. Conversely, if consumption decreases, there will be a negative effect on water and sewer revenues.

Our water and sewer program are structured to produce reasonable rate increases in the future. The goal of the City Administration and City Council is to minimize the effects of water and sewer rate increases on residents as much as possible, while continuing to invest in our infrastructure.

Very truly yours,


Richard C. Rossi
City Manager

Attachments

Table 4
Water Projections
FY14-19

	FY14 Budget/Recap	FY14 Projected	FY15 Budget	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Water Expenditures:							
Operating	10,690,700	10,046,425	10,851,390	11,285,446	11,736,863	12,206,338	12,694,591
Existing Debt	3,548,000	3,548,000	3,112,305	2,866,501	2,745,501	2,624,501	2,503,501
Subtotal Operating Budget	14,238,700	13,594,425	13,963,695	14,151,947	14,482,364	14,830,839	15,198,092
Capital	3,400,000	3,400,000	3,400,000	3,500,000	3,500,000	3,500,000	3,500,000
Finance	225,000	225,000	225,000	225,000	225,000	225,000	225,000
Conservation	40,575	40,575	44,875	44,875	44,875	44,875	44,875
Public Works	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Community Development	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Animal Commission	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total Expenditures	18,344,275	17,700,000	18,073,570	18,361,822	18,692,239	19,040,714	19,407,967
Assumptions:							
1) Operating Budget for FY15 is based on City Manager's Submitted Budget and increases 4% for FY16-19.							
2) Capital as shown.							
3) All others remain constant from FY15-19.							
4) Debt Service decreases according to Debt Service Schedule.							
Financing Plan							
Beginning Fund Balance	9,076,357	9,076,357	9,376,357	9,026,357	9,026,357	9,026,357	9,026,357
Revenue:							
Meter Revenue	17,444,275	17,100,000	17,123,570	17,611,822	17,942,239	18,290,714	18,657,967
Miscellaneous Water Charges	600,000	900,000	600,000	750,000	750,000	750,000	750,000
From Fund Balance	300,000	-	350,000	-	-	-	-
Total Revenue	18,344,275	18,000,000	18,073,570	18,361,822	18,692,239	19,040,714	19,407,967
Total Expenditures	18,344,275	17,700,000	18,073,570	18,361,822	18,692,239	19,040,714	19,407,967
From Fund Balance	300,000	-	350,000	-	-	-	-
Ending Fund Balance	8,776,357	9,376,357	9,026,357	9,026,357	9,026,357	9,026,357	9,026,357
Projected Rate Increase			0.0%	2.9%	1.9%	1.9%	2.0%

Table 5
Sewer Projections
FY14-19

	FY14 Budget/Recap	FY14 Projected	FY15 Budget	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Sewer Expenditures:							
Public Works	3,048,795	3,048,795	3,150,079	3,276,082	3,407,125	3,543,410	3,685,147
Capital	1,000,000	1,000,000	1,650,000	2,500,000	1,500,000	1,500,000	2,500,000
Existing Debt	14,973,590	14,973,590	13,729,346	11,340,282	10,078,783	9,535,343	8,578,504
New Debt	-	-	1,644,750	4,798,741	8,870,724	11,947,848	15,023,272
Finance	225,000	225,000	225,000	225,000	225,000	225,000	225,000
Community Development	44,500	44,500	44,500	44,500	44,500	44,500	44,500
MWRA	21,346,815	21,224,419	22,189,777	22,633,522	24,082,067	24,708,201	25,894,194
Total Expenditures	40,638,700	40,516,304	42,633,402	44,818,127	48,208,199	51,504,302	55,950,617
Assumptions:							
1) The FY15 MWRA assessment is based on the preliminary estimate received from the MWRA and reflects a 4.5% increase from the revised FY14 assessment. FY16-19 assessments are based on annual rate increases of 2.0%, 6.4%, 2.6% and 4.8%, respectively.							
2) Public Works allocation increases by 3.3% in FY15 over the FY14 Budget with increases of 4% estimated in FY16-19.							
3) Capital is funded at \$1,650,000 in FY15, \$2,500,000 in FY16, \$1,500,000 in FY17 and FY18 and \$2,500,000 in FY19.							
4) Debt Service increases according to Debt Service schedule.							
5) All others remain constant.							
Financing Plan							
Revenue:							
Sewer Service Charge	39,965,229	39,900,000	41,971,226	44,223,953	47,613,958	50,909,995	55,356,243
Non-Metered Sewer Revenues	550,000	800,000	550,000	550,000	550,000	550,000	550,000
MWPAT Subsidy (existing)	123,471	123,471	112,176	44,174	44,241	44,307	44,374
Total Revenue	40,638,700	40,823,471	42,633,402	44,818,127	48,208,199	51,504,302	55,950,617
Projected Sewer Service Charge Increase			5.2%	5.4%	7.7%	6.9%	8.7%

Table 6
 Combined Water and Sewer Projections
 FY14-19

	FY14 Budget / Recap	FY14 Projected	FY15 Budget	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Metered Water Revenue	17,444,275	17,100,000	17,123,570	17,611,822	17,942,239	18,290,714	18,657,967
Metered Sewer Revenue	39,965,229	39,900,000	41,971,226	44,223,953	47,613,958	50,909,995	55,356,243
Total	57,409,504	57,000,000	59,094,796	61,835,775	65,556,197	69,200,709	74,014,210
% Increase	-	-	3.7%	4.6%	6.0%	5.6%	7.0%

Table 7
Water Fund Balances
FY09-14

	As of 6/30/09 (Actual)	As of 6/30/10 (Actual)	As of 6/30/11 (Actual)	As of 6/30/12 (Actual)	As of 6/30/13 (Actual)	As of 6/30/14 (Projected)
Water Fund Balance	6,381,652	6,312,443	6,988,537	8,410,762	9,076,357	9,376,357