



18.

March 16, 2015

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. I recommend that the City Council approve a 0% increase in the water consumption block rate and a 6.8% increase in the sewer use block rate, resulting in a 4.9% increase in the combined rate for the period beginning April 1, 2015 and ending March 31, 2016. This is the fifth consecutive year that the City has been able to produce a 0% increase in the water rate.

In last year's recommendation, the projected FY16 rate increases for water, sewer, and combined were 2.9%, 5.4%, and 4.6%, respectively, based on March 2014 consumption rates and projected budgets. The water rate increase is lower than estimated due to level funding the FY16 water budget by offsetting operating increases with the decrease in scheduled debt service payments. The increase in the estimated sewer rate is driven by a larger than anticipated Massachusetts Water Resources Authority (MWRA) assessment. Last year, it was projected that the FY16 MWRA assessment would be \$22,633,522. The City's estimate was based on MWRA's projections. The actual FY16 assessment is \$23,516,196 which is an \$882,674 increase.

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 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

Two major factors determine the rate necessary to generate sufficient revenues: water consumption and the budget. The total FY16 Water Budget reflects a 0% increase from FY15. Water is able to offset costs related to cost-of-living allowances, pensions, and health benefits in the salaries and wages portion of the operating budget with a decrease in debt service payments.

The planned FY16 capital allocation is \$4,900,000 using pay-as-you-go capital funding based on current revenues (\$3,400,000) and fund balance (\$1,500,000). The major project in the FY16 budget allocation is installing variable frequency drives to the raw water pump system in the amount of \$2,500,000 with an additional \$1,500,000 in FY17. The remainder of the FY16 capital allocation will be used for 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 FY15-20. Table 7 on page 8 shows actual water fund balances for FY10-14 and the projected balance for FY15.

By using \$1,850,000 from the water fund balance in FY16, the City will again support a 0% water rate increase, while providing \$1,500,000 in significant infrastructure improvements and \$350,000 to reduce the rate. We expect to eliminate the use of the fund balance in FY18, as decreases in debt service continue and as long as water consumption remains constant.

Last year, it was projected that the water fund would use \$350,000 in fund balance in order to maintain a 0% water rate. However, due to projected budget savings and a slight projected increase in revenue in FY15, it is not anticipated that the fund balance will be needed. The projected water fund balance for FY15 is \$9,898,335.

Water and sewer charges are directly linked to water consumption, with sewer costs comprising approximately 70.2% 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 similar to the previous fiscal year. This is slightly better than the consumption trend over the last three years which saw a minor reduction in consumption.

SEWER

The FY16 sewer budget reflects an 8.3% increase from FY15. This includes the MWRA assessment, debt service payments, and the sewer component of the Public Works budget. Debt service on sewer bonds and the MWRA assessment account for 90.2% of the total Sewer Budget.

FY16 estimated sewer revenues will cover the FY16 estimated MWRA assessment, which is scheduled to increase by \$1,358,439 from the FY15 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 2015. 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.

Included in the sewer budget are debt service increases attributable to the \$23,985,000 general obligation bonds issued in February 2015 and the January 2015 SRF loan for Huron B for \$13,131,390.

The following sewer projects were included in the February 2015 bond issue: Agassiz; Cherry Street / South Massachusetts Avenue; Alewife Watershed; Harvard Square; and Western Avenue projects.

The FY16 capital allotment of \$1,000,000 in sewer revenues will continue to finance the remedial reconstruction program and development.

The City Council has authorized significant investments in the 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 (FY16-20) calls for an additional investment of approximately \$121,753,312 (primarily sewer, \$101,153,312) in the water and sewer systems. 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 SRF loan program will cover only \$44,174 or 0.2% of the total debt service of \$18,010,125 for all FY16 sewer projects. The City will continue to receive state subsidies on existing debt. The FY17-20 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 and 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 FY15-20.

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

	FY15 Projected	FY16 Budget	% Change
Water	\$17,100,000	\$17,128,200	0.0%
Sewer	\$42,500,000	\$45,405,402	6.8%
Combined Water / Sewer Revenue	\$59,600,000	\$62,533,602	4.9%

FY16 projected revenues are based on FY15 projected collections and reflect our practice of conservative revenue projections.

The table below reflects the FY15 actual and FY16 proposed water and sewer rates.

TABLE 2

	Annual Consumption*	FY15 Water Rate	FY16 Proposed Water Rate	FY15 Sewer Rate	FY16 Proposed Sewer Rate
Block 1	0 – 40 CcF	\$3.02	\$3.02	\$8.62	\$9.21
Block 2	41 – 400 CcF	\$3.24	\$3.24	\$9.12	\$9.74
Block 3	401 – 2,000 CcF	\$3.44	\$3.44	\$9.79	\$10.46
Block 4	2,001 – 10,000 CcF	\$3.65	\$3.65	\$10.54	\$11.26
Block 5	Over 10,000 CcF	\$3.96	\$3.96	\$11.21	\$11.97

*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	FY15 Average	FY16 Projected	Annual Variance	% Change
Single Family	\$730	\$766	\$36	4.9%
Two Family	\$1,020	\$1,070	\$50	4.9%
Three Family	\$1,480	\$1553	\$73	4.9%

SENIOR DISCOUNT PROGRAM

There are currently 2,683 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 97 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 FY15, the income guidelines are as follows: single, income of \$24,793 with assets of \$49,584 or less; married, income of \$37,190 with assets of \$68,178 or less.

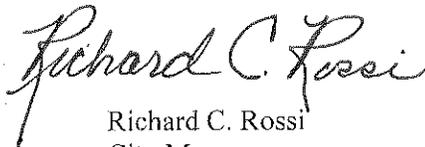
FUTURE OUTLOOK FOR RATES

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 FY11-15 period were as follows: water, 0.3%; sewer, 3.5%; and combined, 2.5%, which include both the water and sewer rates showing 0% increases in FY12 and FY13. The FY14 and FY15 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 FY15 fund balance. As can be seen in Table 6, the annual combined water / sewer rate is projected to increase by an average of approximately 5.3% for FY16-20. 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). MWRA increases are projected to be 1.5% - 6.9% in FY16-FY20. If increases in the MWRA assessment are more moderate and subsidies for new SRF 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 is 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
FY15-20

	FY15 Budget/Recap	FY15 Projected	FY16 Budget	FY17 Projected	FY18 Projected	FY19 Projected	FY20 Projected
Water Expenditures:							
Operating	10,851,970	10,620,800	11,097,610	11,541,514	12,003,175	12,483,302	12,982,634
Existing Debt	3,112,305	3,112,305	2,866,505	2,745,501	2,624,501	2,503,501	471,501
Subtotal Operating Budget	13,964,275	13,733,105	13,964,115	14,287,015	14,627,676	14,986,803	13,454,135
Capital	3,400,000	3,400,000	4,900,000	4,400,000	3,400,000	3,400,000	4,500,000
Finance	225,000	225,000	225,000	225,000	225,000	225,000	225,000
Conservation	44,875	44,875	49,085	49,085	49,085	49,085	49,085
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	18,074,150	17,842,980	19,578,200	19,401,100	18,741,761	19,100,888	18,668,220
Assumptions:							
1) Operating Budget for FY16 is based on City Manager's Submitted Budget and increases 4% for FY17-20.							
2) Capital as shown.							
3) All others remain constant from FY16-20.							
4) Debt Service decreases according to Debt Service Schedule.							
Financing Plan							
Beginning Fund Balance	9,741,315	9,741,315	9,898,335	8,048,335	7,048,335	7,048,335	7,048,335
Revenue:							
Meter Revenue	17,124,150	17,100,000	17,128,200	17,651,100	17,991,761	18,350,888	17,918,220
Miscellaneous Water Charges	600,000	900,000	600,000	750,000	750,000	750,000	750,000
From Fund Balance	350,000	-	1,850,000	1,000,000	-	-	-
Total Revenue	18,074,150	18,000,000	19,578,200	19,401,100	18,741,761	19,100,888	18,668,220
Total Expenditures	18,074,150	17,842,980	19,578,200	19,401,100	18,741,761	19,100,888	18,668,220
From Fund Balance	350,000	-	1,850,000	1,000,000	-	-	-
Ending Fund Balance	9,391,315	9,898,335	8,048,335	7,048,335	7,048,335	7,048,335	7,048,335
Projected Rate Increase			0.0%	3.1%	1.9%	2.0%	-2.4%

Table 5
Sewer Projections
FY15-20

	FY15 Budget/Recap	FY15 Projected	FY16 Budget	FY17 Projected	FY18 Projected	FY19 Projected	FY20 Projected
Sewer Expenditures:							
Public Works	3,150,080	3,150,080	3,253,755	3,383,905	3,519,261	3,660,032	3,806,433
Capital	1,650,000	1,650,000	1,000,000	1,000,000	2,000,000	2,000,000	2,000,000
Existing Debt	15,261,920	15,646,429	13,210,782	11,884,783	11,276,843	10,255,504	9,507,719
New Debt	-	-	4,799,343	8,317,969	10,680,505	13,448,875	16,139,087
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	22,189,730	22,157,757	23,516,196	24,668,490	25,038,517	26,465,712	28,291,847
Total Expenditures	42,521,230	42,873,766	46,049,576	49,524,647	52,784,626	56,099,623	60,014,586
Assumptions:							
1) The FY16 MWRA assessment is based on the preliminary estimate received from the MWRA and reflects a 6.1% increase from the revised FY15 assessment.							
FY17-20 assessments are based on annual rate increases of 4.9%, 1.5%, 5.7% and 6.9% respectively.							
2) Public Works allocation increases by 3.3% in FY16 over the FY15 Budget with increases of 4% estimated in FY17-20.							
3) Capital is funded at \$1,650,000 in FY15, \$1,000,000 in FY16, \$1,000,000 in FY17 and \$2,000,000 in FY18 -FY20							
4) Debt Service increases according to Debt Service schedule.							
5) All others remain constant.							
Financing Plan							
Revenues:							
Sewer Service Charge	41,859,054	42,500,000	45,405,402	48,880,406	52,140,319	55,455,249	59,370,146
Non- Metered Sewer Revenues	550,000	800,000	600,000	600,000	600,000	600,000	600,000
MWPAT Subsidy (existing)	112,176	112,176	44,174	44,241	44,307	44,374	44,440
Total Revenue	42,521,230	43,412,176	46,049,576	49,524,647	52,784,626	56,099,623	60,014,586
Projected Sewer Service Charge Increase			6.8%	7.7%	6.7%	6.4%	7.1%

Table 6
 Combined Water and Sewer Projections
 FY15-20

	FY15	FY15	FY16	FY17	FY18	FY19	FY20
	Budget / Recap	Projected	Budget	Projected	Projected	Projected	Projected
Metered Water Revenue	17,124,150	17,100,000	17,128,200	17,651,100	17,991,761	18,350,888	17,918,220
Metered Sewer Revenue	41,859,054	42,500,000	45,405,402	48,880,406	52,140,319	55,455,249	59,370,146
Total	58,983,204	59,600,000	62,533,602	66,531,506	70,132,080	73,806,137	77,288,366
% Increase	-	-	4.9%	6.4%	5.4%	5.2%	4.7%

Table 7
Water Fund Balances

FY10-15						
	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 (Actual)	As of 6/30/15 (Projected)
Water Fund Balance	6,312,443	6,988,537	8,410,762	9,076,357	9,741,315	9,898,335