



City of Cambridge

Agenda Item #25

IN CITY COUNCIL

~~March 18, 1996~~

March 25, 1996

ORDERED: That the following block rates for water consumption and sewer use in the City of Cambridge be in effect for the period beginning April 1, 1996 and ending March 31, 1997.

	<u>Annual Consumption</u>	<u>Water Rate (Per Ccf)*</u>	<u>Sewer Rate (Per Ccf)*</u>
Block 1	0-40 Ccf	\$1.79	\$3.22
Block 2	41-400 Ccf	\$1.93	\$3.41
Block 3	401-2,000 Ccf	\$2.04	\$3.67
Block 4	2,000-10,000 Ccf	\$2.18	\$3.95
Block 5	Over 10,000	\$2.34	\$4.20

*Ccf or 100 Cubic Feet, is the unit the city uses to measure water consumption. One CcF is approximately 750 gallons; and be it further

ORDERED: That the Senior Citizen Discount Program as established in FY91 be continued. This program, gives either a 10 percent or 25 percent discount on water/sewer bills, depending upon certain qualifications. Any resident who owns and occupies his or her home and who is 65 or older on July 1 qualifies for the 10 percent discount. This discount may not exceed \$60 for the fiscal year. To qualify for the 25 percent discount, a homeowner must be 70 years of age or older and must have been granted the Clause 41C Elderly Real Estate Exemption, which is based on demonstrated financial need. This discount may not exceed \$150 for the fiscal year.

In City Council March 25, 1996

Adopted by the affirmative vote of nine members.

Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

D. Margaret Drury

D. Margaret Drury
City Clerk

City of Cambridge

MASSACHUSETTS

In City Council

3/25

, 1996

Mgt's Agenda #25

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
✓				Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms. Katherine Triantafillou
✓				Mayor Sheila T. Russell

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FY96, and projections for FY97, which are based on estimated, but not yet approved, revenue and expense levels.

Rates are usually established so that revenues generated by them cover 100% of related costs. As the City Council is aware, however, the City is about to construct a new water treatment facility. Because of the magnitude of this project, I am recommending that we build up the fund balance of the Water Fund. As debt is issued to finance the project, I am recommending that we use the accumulated fund balance as a source of funds to offset the first few years of increased debt service. By FY01, there will be significant retirement of existing debt. This will replace depletion of the fund balance as an offset to construction debt service. Thus, fund balance in the Water enterprise fund will be used to smooth out fluctuations caused by the additional debt to be issued to construct the new plant.

For FY97, water related expenses, are projected to total \$11,027,854, an increase of \$1,588,750, or 16.83% over the revised FY96 projections. This increase includes a \$954,853 contribution to fund balance. Expenses will increase 7.5% after an adjustment for this item. Sewer related expenses are projected to total \$17,421,596, an increase of \$738,921, or 4.4%. Because of fluctuations in consumption levels and an expected FY96 surplus, sewer rates will increase by only 0.1%. The combined increase that customers will pay will be 6.0%.

Table I shows that the combined water and sewer revenue requirements will increase by 6.0%, or \$1,610,346. Table II shows the impact on individual residential bills.

TABLE I
COMBINED WATER/SEWER REVENUE REQUIREMENTS

	FY96 Revised Projection	FY97 Projection	Change
Water Revenue	\$9,439,104	\$11,027,854	16.8%
Sewer Revenue	17,400,000	17,421,596	0.1%
Total Revenue	\$26,839,104	\$28,449,450	6.0%

TABLE II
AVERAGE CHANGE TO RESIDENTIAL BILLS

Residence	FY96 Average Annual Bill	FY97 Average Annual Bill	Variance	% Change
Single Family	\$529	\$561	\$32	6.0%
Two Family	\$644	\$683	\$39	6.0%
Three Family	\$953	\$1,010	\$57	6.0%
Four-Eight Family	\$1,421	\$1,506	\$85	6.0%

WATER ISSUES:

Table III below itemizes revenues and 8 categories of expenses. Water funded debt service is expected to increase by \$754,401 as a result of water supported debt issued in FY96 and an anticipated debt issuance in FY97 to fund the initial capital expenditures for the new water treatment plant. Table IV shows the impact that FY96 and FY97 will have on the Water Fund balance.

Our forecasts include issuing approximately \$50 million in debt during fiscal years 96 through 99 to fund the construction of a new water treatment plant. They further assume that the cost of MWRA water, which is needed during the construction period, is financed first by savings in operating expenses, if any, and secondly by bond proceeds. The debt is assumed to be a combination of 10- and 20-year, level principal, general obligation bonds at 5% and 6%, respectively. The City is currently exploring the use of alternative bond structures, including level debt payments, that may spread construction costs more evenly over a 20 year period and may lessen the near term upward pressure on water rates.

TABLE III
WATER FY96 & FY97 REVENUE AND EXPENSE ANALYSIS

	FY96 Original Projection	FY96 Revised Projection	FY97 Projection	Variance From Revised	% Change
Beg Fund Bal	\$2,977,865	\$2,977,865	\$3,048,019	\$70,154	2.4%
Revenues:					
Rate Revenue	9,400,050	9,439,104	11,027,854	1,588,750	16.8%
From Fund Bal	0	0	0	0	0.0%
Total Revenues	9,400,050	9,439,104	11,027,854	1,588,750	16.8%
Expenses:					
Operating	5,360,000	5,493,960	5,443,610	-50,350	-0.9%
Operating Savings	0	0	-666,667	-666,667	N/A
MWRA Water*	0	0	666,667	666,667	N/A
Capital	600,000	600,000	600,000	0	0.0%
Debt Service	3,075,000	2,909,940	3,664,341	754,401	25.9%
Public Works	147,000	147,000	147,000	0	0.0%
Finance	185,000	185,000	185,000	0	0.0%
Conservation	3,050	3,050	3,050	0	0.0%
Executive	30,000	30,000	30,000	0	0.0%
To Fund Bal	0	70,154	954,853	884,699	1,261.1%
Total Expenses	9,400,050	9,439,104	11,027,854	1,588,750	16.8%
Surplus/Deficit	0	0	0		
End Fund Bal	\$2,977,865	\$3,048,019	\$4,002,872		

* Balance of cost funded by debt

TABLE IV
WATER FUND FY96 & FY97 BALANCE ANALYSIS

Beginning Fund Balance FY96	\$2,977,865
FY 96 Projected Cash Flow	70,154
Projected Ending Fund Balance FY96	3,048,019
FY 97 Projected Cash Flow	954,853
Projected Ending Fund Balance FY97	\$4,002,872

SEWER ISSUES:

FY96 marked the introduction of a new wholesale sewer rate methodology implemented by the MWRA. The new methodology allocates MWRA costs among 43 cities and towns based primarily on wastewater flows, solids, biological oxygen demand and population. This methodology replaces the old population-based allocation. Wastewater flow in Cambridge in calendar year 1995 decreased more than in other communities and, as a result, the preliminary MWRA charge increased only 0.9% versus an average of 9.0% for all communities. As with prior years, the forecast MWRA charge is preliminary and may be adjusted prior to the adoption of the MWRA budget. Table V shows the expected cash flows for FY96 and FY97.

TABLE V
SEWER FY96 & FY97 REVENUE AND EXPENSE ANALYSIS

	FY96 Original Projection	FY96 Revised Projection	FY97 Projection	Variance From Revised	% Change
Revenues	\$17,353,196	\$17,400,000	\$17,421,596	\$21,596	0.1%
Expenses:					
Operating	1,029,000	877,580	1,023,950	146,370	16.7%
Capital	950,000	950,000	1,050,000	100,000	10.5%
Debt Serv	1,089,171	1,089,171	1,453,947	364,776	33.5%
Finance	185,000	185,000	185,000	0	0.0%
Executive	30,000	30,000	30,000	0	0.0%
MWRA	14,070,025	13,550,924	13,678,699	127,775	0.9%
Total Exp	17,353,196	16,682,675	17,421,596	738,921	4.4%
Surplus/Deficit	\$0	\$717,325	\$0	\$717,325	

SENIOR DISCOUNT PROGRAM:

The City continues to offer the Senior Citizen Discount Program for water and sewer use. This program, which was implemented in FY91, gives either a 10 percent or 25 percent discount on water/sewer bills, depending on certain qualifications. Any resident who owns and occupies his or her home and who is 65 or older on July 1st qualifies for the 10 percent discount. This discount may not exceed \$60 for the fiscal year. To qualify for the 25 percent discount, a homeowner must be 70 or older and must have been granted the Clause 41C Elderly Real Estate Exemption, which is based on demonstrated financial need. This discount may not exceed \$150 for the fiscal year. During FY95, 2,672 households took advantage of the discount programs, which will cost the City approximately \$180,000.

FUTURE OUTLOOK FOR RATES:

Tables VI, VII and VIII contain 5 year forecasts of water and sewer revenue requirements and rate changes. Water forecasts reflect the construction of a new water treatment plant. Construction of the plant has not yet begun and the City is still in the process of structuring its financing. Furthermore, the 5 year sewer revenue requirement forecasts are based on the preliminary FY97 MWRA assessment and current MWRA forecasts. These are rough estimates and may change depending on the cost of the Boston Harbor cleanup and wastewater flow in Cambridge. It is a very important component, however, since the bulk of the sewer revenue requirement is the result of MWRA charges. Water consumption and sewer abatements may also continue to have an effect on future block rates.

TABLE VI
5 YEAR FORECAST OF WATER REVENUE REQUIREMENTS

	FY97	FY98	FY99	FY00	FY01
Beg Fund Bal	\$3,048,019	\$4,002,872	\$4,067,753	\$2,613,922	\$870,326
Rate Revenue	11,027,854	11,663,665	12,134,535	13,590,150	14,694,825
From Fund Bal	0	0	1,453,831	1,743,595	0
Total Revs	11,027,854	11,663,665	13,588,366	15,333,746	14,694,825
Expenses:					
Operating	5,443,610	5,606,918	5,775,126	5,948,380	6,126,831
Op Savings	-666,667	-2,080,000	-1,982,933	0	0
MWRA water	666,667	2,080,000	1,982,933	0	0
Capital	600,000	600,000	600,000	600,000	600,000
Existing Debt	2,824,341	2,495,816	2,378,890	1,872,216	749,876
New Debt	840,000	2,531,000	4,469,300	6,548,100	6,652,400
Public Works	147,000	147,000	147,000	147,000	147,000
Finance	185,000	185,000	185,000	185,000	185,000
Conservation	3,050	3,050	3,050	3,050	3,050
Executive	30,000	30,000	30,000	30,000	30,000
To Fund Bal	954,853	64,881	0	0	200,668
Total Exp	11,027,854	11,663,665	13,588,366	15,333,746	14,694,825
Surplus/Deficit	0	0	0	0	0
End Fund Bal	\$4,002,872	\$4,067,753	\$2,613,922	\$870,326	\$1,070,995
% Rate chng	16.8%	5.8%	4.0%	12.0%	8.1%

TABLE VII
5 YEAR FORECAST OF SEWER REVENUE REQUIREMENTS

	FY97	FY98	FY99	FY00	FY01
Revenues	\$17,421,596	\$19,132,865	\$21,202,709	\$22,497,416	\$24,279,746
Expenses:					
Operating	1,023,950	1,054,669	1,086,309	1,118,898	1,152,465
Capital	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
Exist Debt	1,184,438	876,304	903,975	737,641	768,313
New Debt	269,509	334,968	579,364	661,791	834,098
Finance	185,000	185,000	185,000	185,000	185,000
Executive	30,000	30,000	30,000	30,000	30,000
MWRA	13,678,699	15,601,924	17,368,062	18,714,087	20,259,870
Total Exp	17,421,596	19,132,865	21,202,709	22,497,416	24,279,746
Srpls/Dfct	\$0	\$0	\$0	\$0	\$0
Rate Chng	0.1%	9.8%	10.8%	6.1%	7.9%

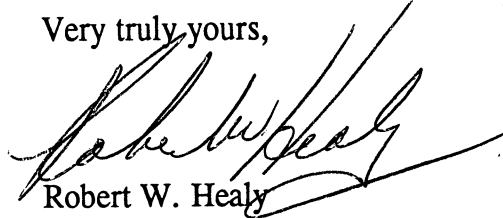
TABLE VIII
COMBINED WATER AND SEWER RATE CHANGES

Year	FY 97	FY98	FY99	FY00	FY01
Rate Change	6.0%	8.25%	8.25%	8.25%	8.0%

CONCLUSION:

We are fortunate that Cambridge is able to keep sewer rates virtually unchanged this year. Because of this we can build the Water Fund balance without a large negative affect on our customers. We plan to draw down the Water Fund balance during construction of the new water treatment plant. This flexibility appears to allow us to finance the cost of this plant without double digit increases for the combined water and sewer bill.

Very truly yours,



Robert W. Healy
City Manager

25.



CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

March 14, 1996

RICHARD C. ROSSI
Deputy City Manager

To the Honorable, The City Council:

RECOMMENDATION:

That the City Council approve the following block rates for water consumption and sewer use for the period beginning April 1, 1996 and ending March 31, 1997.

	Annual Consumption	FY96 Actual Water Rate (Per CcF)*	FY97 Proposed Water Rate (Per CcF)*	FY96 Actual Sewer Rate (Per CcF)*	FY97 Proposed Sewer Rate (Per CcF)*
Block 1	0-40 CcF	\$1.53	\$1.79	\$3.22	\$3.22
Block 2	41-400 CcF	\$1.65	\$1.93	\$3.41	\$3.41
Block 3	401-2,000 CcF	\$1.75	\$2.04	\$3.67	\$3.67
Block 4	2,001-10,000 CcF	\$1.87	\$2.18	\$3.95	\$3.95
Block 5	Over 10,000 CcF	\$2.00	\$2.34	\$4.19	\$4.20

* CcF is an abbreviation for 100 cubic feet. One CcF is approximately 750 gallons.

SUMMARY:

In March of each year the City Council establishes water and sewer rates which determine water and sewer revenues during the next fiscal year. Because the City bills retroactively on a quarterly basis for water and sewer use, rates are adjusted as of April 1st, but bills reflecting the new rates are not actually issued until after July 1st. Each year water and sewer rates are set prior to adoption of the Cambridge City budget and the MWRA budget. Once the budgets are adopted, the Finance Department updates water and sewer projections for the current fiscal year. Revenue and expenditures are monitored closely throughout the year, and projections are updated periodically. For the purposes of this presentation, three sets of numbers are shown, the original projections made prior to setting water and sewer rates last year, the most recent projections for

Consent Agenda #25

S-131

Relative to a recommendation for
approval of block rates for water
consumption and sewer use for the
period beginning April 1, 1996 and
ending March 31, 1997.

In City Council March 18, 1996

3/25/96

Order Adopted