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# Water & Sewer Rate Setting FY 2009

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Natick Board of Selectmen

May 19, 2008



# *Town of Natick*

Water/Sewer Rate Setting – May 19, 2008

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## Overview

- Rate Setting Process
- Rate Setting Model & Methodology
- Rate Options



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## Rate Setting Process

- Water & Sewer Enterprise Funds are driven by an expense-first model – that is operating & capital expenses are developed, discussed and voted upon, and revenues are raised to meet those expenses
- Began last winter with the development of the Water/Sewer Enterprise Budget
- Expenses discussed at length from January to their final approval at Town Meeting in late April 2008.



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## Rate Setting Process

- Rates are set by the Board of Selectmen in their role as the Water & Sewer Commissioners for the Town of Natick.
- Mass. Department of Revenue requires that revenues must match appropriated expenses in order to approve tax recapitulation in December for all funds – including Enterprise.



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## Rate Setting Model & Methodology

- FY 2009 Rates are based on a model which uses actual usage data from FY 2006 & 2007.
- Staff averaged the usage for the two years and then applied the rates as proposed in each option to every one of the 51,000+ reads to obtain a purely data-driven model for rate revenues.
- All rate options are shown at 93.2% of what is billed. This reduction factor is to account for the average amount that is not collected in the same Fiscal Year in which it is billed.



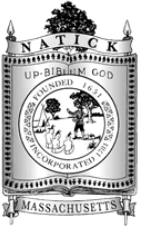
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## Rate Setting Model & Methodology

- The minimum bill has been eliminated in all rate options.
- An administrative service fee of \$5.00 has been applied to all bills in all rate options.
- Separate Sewer and MWRA rates have been combined into one rate. All rate options only raise the amount of revenue from necessary to cover the MWRA Assessment and Town sewer charges.
- Tiers have been condensed – most tiers now range 0-10, 11-20, 21-40 and 40+ HCF; these new tiers are designed to promote conservation.



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## Rate Options: Overall

- Rates are increasing in FY 2009.
- Retained Earnings are not available to provide Rate Relief (current balance insufficient).
- Usage of Water & Sewer services declined between 2006 and 2007.
- Additional Enterprise Revenue, including Investment Income, Betterments, Liens, and new Growth (totaling over \$900,000) have been accounted for and added to each rate option.



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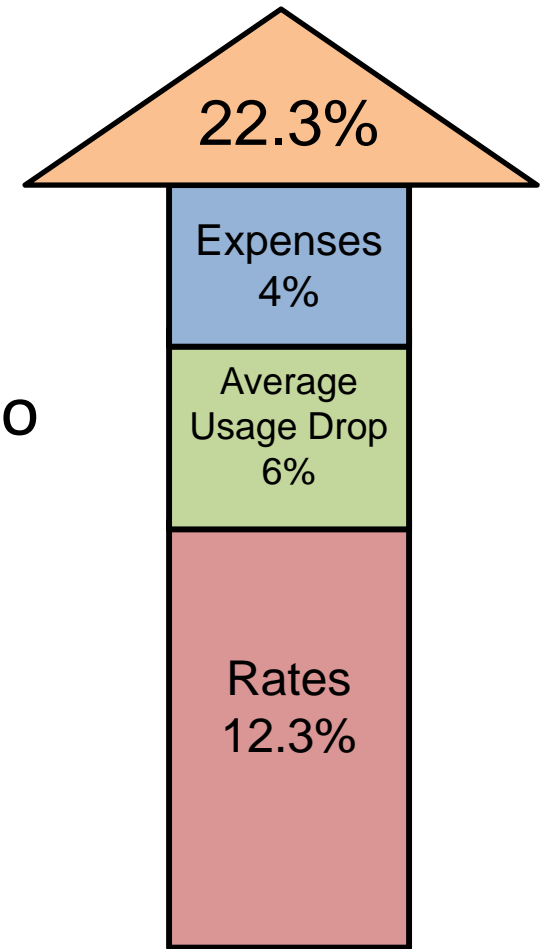
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## Rate Options: Overall

- Rates are increasing in FY 2009
- Why must rates increase 22.3%?  
Many reasons – but it comes down to simple math:

- Rate Revenue – 12.3%
- Usage dropped average of 6%
- Expenses increased 4%

→ Result:  $12.3 + 6 + 4 = 22.3\%$  ←







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## Rate Options: Option 1: Inclining Rate Increase

### Goals:

- 1) Hold average Water/Sewer User to average rate of increase – 12.3%
- 2) Provide rate relief to lower tiers
- 3) Promote Water Conservation

### Results:

- 1) 0-10 & 11-20 HCF Users see rate reductions
  - 2) 21-40 HCF Users see modest/average rate increases
  - 3) 40+ users see large rate increases
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## Rate Options: Option 1: Inclining Rate Increase

### **Pros**

- Raises sufficient revenue to meet spending
- Provides Rate Relief to the lowest tiers; arguably fostering further conservation and reducing the burden on those least able to pay more
- Holds average user to average rate of increase
- Continues discounting of elderly rates for water & sewer users for those who qualify

### **Cons**

- Raises rates considerably on upper most tiers (in some cases over 45%)
- Certainly encourages high users to use less – which may very likely result in insufficient revenues due to lack of consumption



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## Rate Options: Option 2: Leveling of Tiers

### Goals:

- 1) Hold average Water/Sewer User to average rate of increase – 12.3%
- 2) Promote Water Conservation

### Results:

- 1) 0-10 & 11-20 HCF Users see large rate increases
- 2) 21-40 HCF Users see modest/average rate increases
- 3) 40+ users see large rate increases



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## Rate Options: Option 2: Leveling of Tiers

### **Pros**

- Raises sufficient revenue to meet spending
- Holds average user to average rate of increase
- Continues discounting of elderly rates for water & sewer users for those who qualify

### **Cons**

- Raises rates considerably on upper and lower tiers (in some cases over 30%)
- Certainly encourages high users to use less – which may very likely result in insufficient revenues due to lack of consumption
- Affects lower users disproportionately at the benefit of average users – possibly encouraging the opposite of water conservation



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## Rate Options: Option 3: Level increase on all Tiers

### Goals:

- 1) Evenly distribute necessary rate increase
- 2) Promote Water Conservation

### Results:

- 1) All rate users see rate increases between 20-30%



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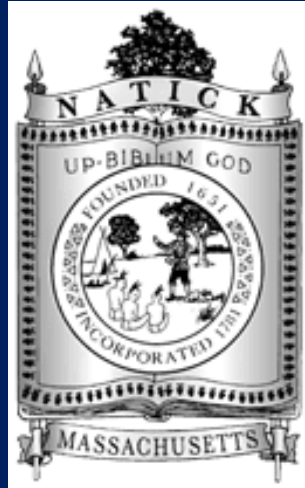
## Rate Options: Option 3: Level Increase on all Tiers

### **Pros**

- Raises sufficient revenue to meet spending
- Provides relatively equal rates of increase across all tiers
- Eases effects of eliminating the minimum bill by creating a partial tiering of Sewer rates
- Continues discounting of elderly rates for water & sewer users for those who qualify

### **Cons**

- Raises rates considerably on lower tiers (thus on those who use less/may not be able to easily afford an increase)



Thank You

*Town of Natick*

*Home of Champions*