



Memorandum

To: Board of Selectmen

From: Martha White, Town Administrator
Michael Young, Deputy Town Administrator
Bob Palmer, Finance Director

Date: April 22, 2008

Re: Outlining Issues for FY 2009 Water/Sewer Rate Setting

This memo is intended to outline the significant issues worthy of consideration during the Board's FY 2009 Water/Sewer Rate Setting Process discussion. Findings and recommendations from the 2007 Abrahams Group Water and Sewer Rate Study have been incorporated into this memo. Our objective on Tuesday night is to outline the issues and garner input from Board members. We will present specific rate recommendations at a subsequent meeting, tentatively planned for May 5.

We will be presenting the Board with adequate information to facilitate predictability and stability in the annual rate setting process, thus avoiding unanticipated large fluctuations in the rates through better planning.

Issues for Consideration in Setting Water and Sewer Rates

In December 2007, the Board of Selectmen received a report of The Abrahams Group¹ which examined many issues in regards to the Town's current rate structure and laid forth a series of recommended changes for FY 2009 and beyond. They include:

- a) **Minimum Bill:** Staff supports the Abrahams Group recommendation regarding elimination of the minimum bill. Not only does it not provide sufficient revenue to cover costs of the system, but it also discourages conservation of water – which the rest of the rate structure is designed to encourage.
- b) **Administrative Service Fee:** The Abrahams Group recommended replacing the minimum bill with an administrative service fee. Another option is to integrate the administrative service fee into

¹*Town of Natick: Water and Sewer Rate Study: Findings and Recommendations.* The Abrahams Group. Framingham, MA, December 2007.

the overall rate structure and decrease the number of individual charges assessed to a rate payer. Staff does not have a definitive recommendation on this matter at this time.

- c) Ascending Block Rates: Both the Abrahams Group and Staff support the continuance of the ascending block rate structure currently employed by the Town. This structure encourages water conservation through tiered rates – a higher rate is paid for greater water usage.

Staff does not have explicit recommendations as to changes in the actual rates themselves at this time, nor does it have recommendations as to modifications in the “breakpoints” between tiers. Those recommendations will be available in May. However, staff does agree with the following points from the Abrahams Group study;

- i) “Establish the first tier to be sensitive to the low volume user to ensure that low use accounts do not pay more or significantly more that they are paying now.
- ii) Maintain the second tier to capture the average residential 5/8” user at 20 HCF per quarter.
- iii) Maintain the top tiers of the water only rate structure to equal the top tiers of the irrigation rate structure.”

- d) Unified Sewer Charges vs. Separate Natick and MWRA Charges: The Abrahams Group recommends eliminating the existing two-charge sewer rate and combining both the Natick and the MWRA charge into one unified sewer charge. Staff supports this change as it will facilitate simplified water/sewer bills and be easier for users to understand their total cost for sewer service.
- e) Elderly Rate: Staff supports the maintenance of the Elderly rate, which does not begin charging income-qualified elderly users for water and sewer usage until they have used over 20HCF. It is a small enough group of users that it does not significantly impact the financial vitality of the fund while providing a quantifiable benefit to a most deserving part of the Natick community.
- f) Fire Suppression Charges: The Abrahams Report detailed many issues surrounding the charging of both the Town and private citizens a higher rate for the use of water in the course of suppressing fires. This is an area of future revenue growth which the Town could consider, but given the many complexities involved with establishing the analytical structure necessary to implement such a surcharge, staff does not recommended establishing such a surcharge at this time.
- g) Multi Unit Buildings: The Town has received inquiries requesting a different billing methodology for multi-unit properties. Presently, these properties are served by a “master meter” and are billed based on the large water usage measured by that meter. Residents have suggested that billing should be based on individual usage. Although the Abrahams Group spent considerable time to address the question of how to individually bill the residents in multi-unit structures, staff does not recommend pursuing this conversion at this time for three reasons:

- i. Significant Infrastructure Costs: Installation of individual meters presents a significant capital investment for the Town and/or homeowner. As the Abrahams Group noted “A minimum of about 3,100 meters would need to be installed at a cost of \$400 [a piece], totaling over \$1.2 million. This does not include plumbing, labor, and other costs.”
 - ii. Lack of Staff Capacity: We do not have the software or staff capacity to handle multiple unit billing absent installation of individual meters. Suggestions that we follow the Newton model of average billing would create significant inequities in that both residential and irrigation water usage would be billed at the same rate.
 - iii. Significant Loss of Revenue: As the Abrahams report stated, these multi-unit buildings account for over \$1,500,000 of revenue annually. Adjusting to individual units would reduce the amount generated by more than \$500,000 to just over \$1,000,000 annually. This loss of revenue would require rates overall to increase.
- h) Out-of-Town Rates: Out-of-Town customers are all served by a master meter. Accordingly, the same recommendations and reasons therefore apply to the out-of-town customers as to the multi-unit buildings.

Policies

Decisions with respect to the above-listed issues would be aided by a set of policies addressing, by way of example:

- Appropriate reserve levels
- Capital financing
- Promotion of water conservation

A draft of the Administration’s recommended policies will be presented at your May 5 meeting. We will not be seeking adoption of the policies at that time; rather they will be presented at a later date in the broader context of a series of financial management policies for the Town as a whole to be presented to the Board of Selectmen and Finance Committee later in the year.

We look forward to discussing these issues with you at your upcoming meeting.