



To: Transportation, Energy, and Utilities Commission

From: Megan Moir, Water Resources Division Director
Jessica Lavalette, Water Resources Customer Care and Finance Manager
Jenna Olson, Water Quality Program and Policy Manager

Date: January 26, 2020

Re: Water Resources Division Rate Restructuring and Affordability Project Restart for Fiscal Year 2022

Background

Recognizing the need for future water, sewer, and stormwater rate increases due to aging infrastructure, operational needs and new regulatory challenges, in April 2019 the Burlington City Council requested the Water Resources Division to consider alternative rate structures, revenue sources, and affordability frameworks.

The Division engaged Raftelis, their on-call financial and utility management consultant, to assist in this process. Raftelis is a leading consulting firm providing utility rate and management solutions. The Division and Raftelis worked together throughout 2019 and early 2020 to propose modified rate structures and policies. In order to gather stakeholder input about the proposed changes, several meetings and events were held including: an open house in October 2019, presentations to the Neighborhood Planning Assemblies, and meetings with City Council and Mayor Weinberger. The City Council last heard a presentation on proposed changes during a work session meeting on March 9th, 2020. The following week, the Covid-19 pandemic hit Vermont. Given the significant uncertainties presented during the early phase of the pandemic and our ability to develop a tight COVID-era FY21 budget without rate increases, we determined that we needed to temporarily suspend the rate study.

Given the importance of this project to ensuring sustainable funding for the water resources utilities while simultaneously addressing rate payer affordability, we are updating the Board of Finance and City Council on our plan to restart the project with the goal of implementation for FY 22.

Impetus for Changes to the Division's Rates

The Division of Water Resources provides water, wastewater, and stormwater service to approximately 10,000 customers and 42,000 residents. The Division provides essential services including water treatment and distribution, fire protection, water quality protection, wastewater collection and treatment, stormwater collection and pollution management, and billing and customer service. The Division is organized as three separate enterprise funds for water, wastewater, and stormwater.

The Division faces on-going financial pressure to continue providing these services at an ever higher regulatory standard while maintaining and upgrading aging infrastructure. While the Administration and City Council have supported initiating a generational reinvestment in City water resources infrastructure over the last five years, a significant infrastructure deficit remains for many water resources assets which are beyond their calculated useful life. In order to balance the need for rate increases to sustainably fund water resources services, in an April 2019 Resolution (<http://bit.ly/RateAffordability>) the City Council charged the Division with developing the following:

- Alternative rate structures, including progressively priced tiers to protect access to “essential” water;
- Alternative revenue sources;
- Affordability frameworks, including discounts for certain qualifying rate payers, water conservation programs and grants and loans for upgrades to service lines; and
- An initial stakeholder process to educate and solicit input on Water Resources rates and a follow-up stakeholder process reporting on the proposed solutions.

In addition to the direct charge from Council, the Division had some of its own goals for the study, which are as follows:

- Ensure affordability of rates
- Apply outside perspective and experience on the long-term financial health of the utilities and pursue potential cost saving and efficiency initiatives
- Develop rate structures that improve financial health and sustainability, and increase revenue predictability
- Ensure utility funds are recouping the costs of all services provided in an equitable manner and in accordance with industry standards:

- Customers receiving additional service may need to pay additional cost e.g. private fire protection (building fire suppression supply, private hydrants)
- Staff and administration costs for new/redevelopment project review (water and sewer connection review, meter sizing, stormwater management plans)

Financial Needs of the Water Resources Division

It is estimated that the FY22 revenue requirements of the water, wastewater, and stormwater utilities are approximately 6%, 7%, and 5% over current rates. Rate increases had been planned for FY21 in concert with a roll out of the new rate structure and affordability program but were not implemented in order to minimize customer impact during uncertain financial times. These increases cover required operation and maintenance of systems; debt service and bond coverage covenants; a prudent mix of cash and debt funding of capital projects; and funding for the Water Resources Assistance Program for qualifying income burdened residential and multifamily customers. As the FY22 budget is finalized, two other funding priorities will be addressed as feasible: contribution to capital reserves and seed funding for other customer assistance programs.

Proposed Rate & Policy Changes

The Division has worked with Raffelis to propose a new rate structure that accomplishes the Division’s and Council’s goals of financial health, affordability, conservation, and equity among customer classes. It has also incorporated initial community comments into its proposal. Structurally, the proposal (Table 1) is the same as that presented in March 2020, with some focused changes or enhancements to critical implementation details which are outlined below in Table 1.

Table 1. Proposed Changes to Water and Wastewater Rates

Rate Proposals	What is it?	Why do it?
Fixed Charges by Meter Size	A water and wastewater fixed charge that increases based on the size of the customer's water meter	<ul style="list-style-type: none"> • Is industry best practice – reflects cost of service • Improves revenue stability and predictability • Encouraged by bond rating agencies
Lifeline Rate Tier	"Essential" water consumption (below median usage) is charged at a lower rate, only applicable to single-family residential account holders	<ul style="list-style-type: none"> • Provides affordability assistance for customers that use “typical” amount of water (400 cf/month) • Incentivizes efficient water use
Class-Based Rates	Different rates for different classes of customers	<ul style="list-style-type: none"> • Supports all residential customers (single- & multi-family) • Can justify the strains each customer type puts on the utility's infrastructure
Irrigation Rate	A separate, higher rate for those who solely use water for irrigation (with the exception of community gardening initiatives)	<ul style="list-style-type: none"> • Irrigation often contributes to peak water use, which necessitates system expansion and associated costs • Send price signal to conserve water when use is not for basic needs
Private Fire Protection Charges	A separate, fixed, monthly charge that escalates with connection size for those who have private fire service or hydrants	<ul style="list-style-type: none"> • Water Resources has invested in system capacity to serve private properties during a fire event, thus the customers who benefit from this service should pay for that capacity
Water Resources Assistance Program (WRAP)	An affordability program that waives the proposed fixed monthly water and wastewater charge for residential customers at or below 185% of the Federal Poverty Level.	<ul style="list-style-type: none"> • Provides relief to low-income single-family residential customers • Allows greater ability to control their bill (no fixed charge)

Several adjustments and additions have been made since March in order to mitigate the magnitude of the impact on commercial customers while maintaining affordability benefits for residential customers; the impact of the fixed meter charge on fixed income seniors with low water usage; and the impact of the fixed meter charge and fire protection charge on low-income and senior multifamily housing. Those adjustments are:

1. The percentage of revenues recovered from fixed charges was reduced to 10% (from 15% proposed in original March 2020 proposal) to aid affordability by keeping the fixed portion of customer bills as low as is reasonably possible.
2. Private fire protection charges are now set to be phased in over a 5 year period to reduce “rate shock” for customers who will be charged for private fire service for the first time. We will recoup 20% of the cost of service allocated to customers with private fire protection in FY22 with each subsequent year increasing an additional 20% until the full charge is realized in FY26.
3. The commercial rate was lowered and is now equal to other non-residential rates to mitigate the magnitude of bill impacts on businesses.

4. The WRAP program was expanded to include, at a minimum, non-profit multifamily low-income and senior housing developments (e.g., Burlington Housing Authority, Champlain Housing Trust, etc.) and senior-owned single family residential properties. Eligible accounts will have their water and wastewater fixed charge waived.

Proposed FY 22 Water, Fire Protection, Wastewater, and Stormwater Rates

The proposed changes to the Division’s rates, including the increased revenue requirements for FY22, result in the rates shown in Table 2. The proposed FY22 rates are compared against the current FY21 rates. Note that currently there is no charge for private fire protection. Stormwater rates will see an estimated 5% across-the-board increase based on revenue requirements but does not have any proposed structural changes. Please note that there may be some small shifts in the final proposed rates listed as we finalize QA/QC activities on customer data and the FY22 budget.

Table 2. Current FY 21 and Proposed FY 22 Water, Wastewater, and Fire Rates

	Water		Wastewater		Private Fire
	Current FY 21	Proposed	Current FY 21	Proposed	Proposed
Fixed Charge per Month					
5/8"	\$0.00	\$3.34	\$0.00	\$4.68	\$6.70
3/4"	\$0.00	\$5.02	\$0.00	\$7.02	\$6.70
1"	\$22.73	\$8.36	\$31.67	\$11.71	\$6.70
1.5"	\$45.51	\$16.72	\$63.39	\$23.42	\$6.70
2"	\$72.68	\$26.75	\$101.23	\$37.46	\$6.70
3"	\$145.30	\$50.16	\$202.40	\$70.25	\$6.70
4"	\$248.25	\$83.60	\$345.80	\$117.08	\$6.70
6"	\$454.06	\$167.21	\$632.48	\$234.15	\$19.47
8"	\$1,044.35	\$267.53	\$1,454.73	\$374.64	\$41.49
10"	N/A	N/A	N/A	N/A	\$74.61
Private Fire Hydrant	-	-	-	-	\$19.47
Volumetric Rate (per 100 CF)					
Single-family Residential	\$4.44	-	\$6.20	-	
Tier 1 (0-400 CF)	-	\$2.49	-	\$6.08	N/A
Tier 2 (401 CF and higher)	-	\$6.23	-	\$6.08	N/A
Duplex	\$4.44	\$4.36	\$6.20	\$6.08	N/A
Triplex	\$4.44	\$4.36	\$6.20	\$6.08	N/A
Multi-Family Residential	\$4.44	\$4.36	\$6.20	\$6.08	N/A
Mixed Residential & Commercial	\$4.44	\$4.36	\$6.20	\$6.08	N/A
Commercial	\$4.44	\$4.36	\$6.20	\$6.08	N/A
City	\$4.44	\$4.36	\$6.20	\$6.08	N/A
Irrigation/Heating/Cooling	\$4.53	\$7.48	\$6.20	\$6.08	N/A

Note: 1” customers and above currently pay a fixed charge in the form of a “minimum” charge. This charge includes a usage allowance. Under the new (lower) fixed charge structure all customers would pay a “ready to serve” charge (lower for 1” and above customers than they currently pay) but will not get a usage allowance.

Customer Impacts of Proposed Rate Structure

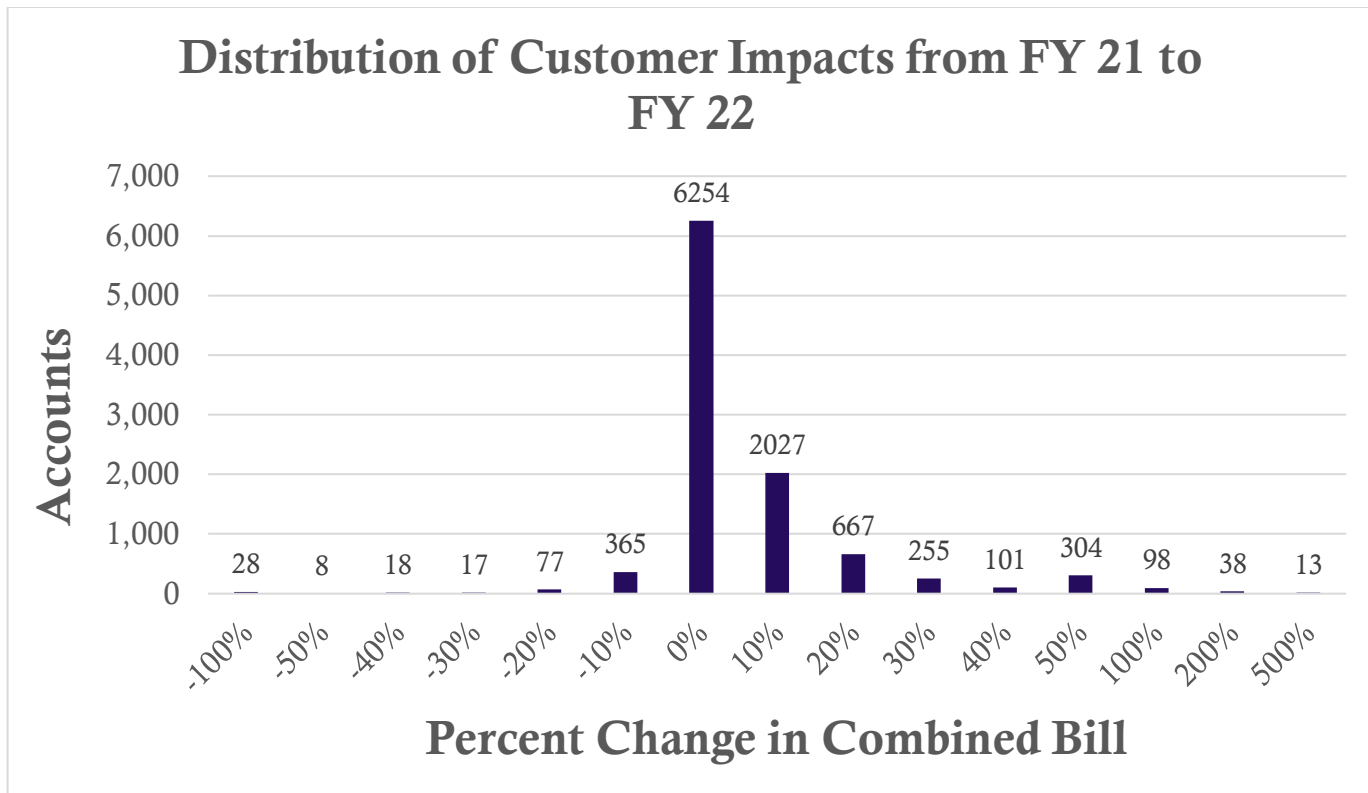
The previously identified projected need for water, wastewater and stormwater rates to increase by 6%, 7%, and 5% respectively would result in across the board overall customer bill increases *without* the proposed structural rate changes. The impact of the new structural changes will vary from customer to customer as any increases or decreases in overall bill will be determined by a combination of meter size, future water usage, eligibility for the WRAP program, customer class and the existence of private fire services or hydrants. As such, one of the critical components of our customer outreach will be the advertisement of a variety of methods for requesting an estimate of a customer’s bill under the new proposal. Overall, however, we project that the typical single family residential customer using 400 cf/month) will benefit from the structural changes and will see no increase to the water and wastewater portion of their bill. Qualifying low-income or senior owned single family residential customers will see a significant decrease on their bill with the new WRAP program (if they continue to use the same amount of water). Table 3 compares the estimated FY21 annual water, wastewater, stormwater, and fire charges to the expected FY22 totals using the proposed changes for several hypothetical customer groups using the CY19 water usage data.

Table 3. Current and Proposed Annual Water Resources Bill Under Proposed FY 22 Rates
(For non-residential customers, the bill is calculated using water usage from CY19)

Hypothetical Customer Type	FY 2021	FY 2022 Proposed		
	Bill (\$)	Bill (\$)	\$ Change	% Change
Residential				
Low Volume - 2 Ccf	\$ 343	\$ 396	\$ 52	15.2%
WRAP - Low Volume - 2 Ccf	\$ 343	\$ 299	\$ (44)	-12.8%
Median Volume - 4 Ccf	\$ 608	\$ 609	\$ 1	0.2%
WRAP - Median Volume - 4 Ccf	\$ 608	\$ 512	\$ (95)	-15.7%
High Volume - 6 Ccf	\$ 872	\$ 915	\$ 42	4.9%
WRAP - High Volume - 6 Ccf	\$ 872	\$ 818	\$ (54)	-6.2%
Multi-Family Residential				
Low Income Housing	\$ 23,646	\$ 24,905	\$ 1,259	5.3%
Senior Housing	\$ 39,239	\$ 38,841	\$ (398)	-1.0%
Commercial				
Technology Company	\$ 17,550	\$ 19,958	\$ 2,408	13.7%
Retail Company	\$ 27,313	\$ 28,495	\$ 1,181	4.3%
Institutions				
University	\$ 1,685,024	\$ 1,803,468	\$ 118,445	7.0%
Medical Center	\$ 718,016	\$ 745,075	\$ 27,060	3.8%
School District	\$ 114,845	\$ 123,299	\$ 8,454	7.4%

Table 3 represents only a sample of estimated bill impacts. As mentioned above, although this table represents many of the City's customers and customer types, there will be a variety of impacts to customers depending on the specifics of that customer. To further illustrate this, Chart 1 presents the distribution of estimated impacts by percentage change in the combined Water Resources bill.

Chart 1. Distribution of Customer Impacts



Note: This distribution will continue to be refined as we complete additional QA/QC activities on the customer data and finalize the FY22 budget and final revenue requirements. Additionally, note that the distribution above does not reflect the benefits to single family residential customers who will receive a reduced bill from the WRAP program (as customers must apply and show evidence of being qualified for other income based programs – LiHeap, 3Squares, CEDO Home Repair, Crisis Fuel etc. – they will have their fixed charge waived). The rate model does include assumptions of how many customers might qualify for these programs to ensure we are raising adequate revenue.

Next Steps

Next, the Division will continue its outreach to customers through targeted meetings and messaging materials. It is the intent to implement these changes for FY 22, or on July 1, 2021. These changes would first affect bills received by customers in August 2021.

Proposed Project Schedule

- **January - March 2021 | Public Outreach** (all meetings will be virtual)
 - NPA Meetings
 - DPW Commission
 - Transportation, Utility, Environment Committee
 - Targeted notification to customers with fire services, hydrants, & irrigation meters
 - Meet with key partners and large users
 - Open House Meeting for all rate payers
 - Online availability of presentations and web forms for feedback, questions & impact summary requests
 - Customers can request an estimate of what their new bill will be with the proposed changes.
- **March – June 2021 | Continuous Improvement & QA/QC of data**
 - Fire Service data QA/QC
 - Development of Draft WRAP policy
 - Proposed ordinance changes as necessary
- April – June 2021 | Approvals**
 - City Council vote on project specifics
 - City Council vote on FY 22 Mayoral budget & Water Resources rates
- July – August 2021 | Implementation**
 - Additional outreach to customers educating them on the upcoming changes to the bills
 - Changes effective in July and reflected on August bills