

Utilities Rates Town Hall

City of Petersburg VIRGINIA

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What will town hall accomplish?



- Share information on the city's utility program – to enhance citizens' understanding
- Describe the utility rates study methodology, findings and recommendations
- Relate how the rates recommendations would affect Petersburg's consumers of utility services
- Conduct an open-ended discussion with citizens to learn their concerns and suggestions
- Determine next steps, based on input from citizens

A starting point to agree on --



IN THE CURRENT ENVIRONMENT, THERE IS **NO** ALTERNATIVE BUT TO INCREASE WATER AND WASTEWATER RATES.

IT IS UNFORTUNATE, BUT NECESSARY.

We will explain how we got into this situation, and why we need to recoup more in utilities charges -----

Background on System



- ❑ The City serves a population of approximately 38,400. There are approximately 11,800 water customers
- ❑ and 11,750 sewer customers. City customers are predominantly residential (single-family and
- ❑ multifamily) and represents 90 percent of the customers. Commercial and industrial customers
- ❑ represent 10 percent of the customers.

Background on System



- ❑ The City purchases wastewater treatment services from the South Central Wastewater Authority
- ❑ ("SCWWA"). SCWWA was incorporated on March 11, 1996, and currently provides wastewater
- ❑ treatment service to the Cities of Colonial Heights and Petersburg, and to the Counties of Chesterfield,
- ❑ Dinwiddie (through the Dinwiddie County Water Authority) and Prince George. The City's allocated
- ❑ treatment capacity is 12.08 MGD, or 52.5 percent of the total treatment capacity of 23 MGD. The
- ❑ annual treatment cost for the City is approximately \$4.5 million.
- ❑ The Petersburg Utility System consists of 260 miles of water mains, 6 water storage tanks, 2 water pump

Background on System



- ❑ The City owns and maintains a water and wastewater distribution and collection system (the “System”).
- ❑ Water is purchased from the Appomattox River Water Authority ("ARWA") in accordance with a multijurisdictional
- ❑ service agreement wherein Petersburg is allocated 16.69 percent of the plant capacity
- ❑ (16.03 MGD) with a maximum raw water allocation of 14.05 MGD. The City’s average daily use is
- ❑ 4.54 MGD and its peak day use is 7.95 MGD. The annual cost of water purchased from ARWA is approximately \$1.5 million.

Number of Customers by System By Category



Customer Category	Water	Sewer	Percentage
Residential	10,398	10,370	88%
Commercial	1195	1,157	10.1%
Industrial	23	23	0.2%
Multi Family	194	195	1.7%
Total	11,811	11,744	

Number of Water Customers by Category by Meter Size



Meter Size	Residential	Commercial	Industrial	Multifamily	Total
5/8"	8017	510	4	57	8588
3/4"	175	31	1	3	210
1"	2037	347	3	39	2426
1 1/2"	79	100	4	45	228
2"	78	170	-	43	291
3"	5	15	-	2	22
4"	3	10	4	4	21
6"	3	12	3	1	19
8"	1			1	2
10"	-	-	4	-	4
Total	10,928	1195	23	195	1811

Funding basics for utilities



- ❑ Utilities are in the **Enterprise Fund** accounting category.
- ❑ Definition: An **enterprise fund** provides goods or services to the public for a fee that makes the entity self-supporting. An example is a government-owned utility.
- ❑ **Self-supporting** means charges for utilities must produce enough revenue to cover **all** costs.
- ❑ Utilities operations are not a “moneymaker” or intended to help out with needs in other parts of city government.
- ❑ Likewise, revenues from all other sources – e.g. property taxes – cannot be tapped to support utilities.

Components of utilities budget



- ❑ Operating budget – covers day-to-day operations
 - Staff costs (payroll, benefits)
 - Operations & maintenance employees
 - Billing & collections employees
 - Purchase of treated water & wastewater treatment services
 - Equipment, supplies for maintenance & operations
 - Contractors
 - Indirect cost recovery (for support from city back office)
- ❑ Capital budget – covers infrastructure improvements
 - City water and sewer system
 - Regional authorities' projects that all members contribute to
- ❑ Balancing spending – the size of the pie is limited
 - Example – spend more on staffing, less available for maintenance

What Utility charges pay for



- Purchase of Water from ARWA (\$1.5 Million)
- Waste Water Treatment (\$4.5 Million)
- ARWA and SCVWWA Capital Program, 16.5% and 50.5 % allocation respectively
- Debt Service
- Maintenance and Repairs of System
- Operating cost

Water and Sewer Revenue



Customer Class	FY 2017 (actual)	Fy2018 (Unaudited)	FY2019 (Adopted Budget)	FY 2019 Projected
Residential	\$6,871,848	\$10,181,778	\$9,157,203	\$10,181,778
Industrial	\$631,848	\$612,645	\$536,144	\$612,645
Commercial	\$3,780,266	\$3,338,851	\$3,592,734	\$3,338,851
Total	\$1,283,962	\$14,133,274	\$13,286,081	\$14,133,274

Operating Costs



Expense	FY2018 (Unaudited)	FY2019 (Budget)	FY 2020	FY2021	FY 2022	FY2023
Salaries/ Benefits	\$1,516,462	\$2,385,210	\$2,444,840	\$2,505,961	\$2,568,610	\$2,632,826
SCWWA	\$4,710,977	\$4,80,0000	\$4920000	\$5,043,000	\$8,574551	\$8,703,778
ARWA	\$1,615,966	\$1,525,000	\$1,563,125	\$1,904,052	\$1,944,107	\$1,985164
PILOT	\$489,000	\$489,000	\$750,000	\$750,000	\$750,000	\$75000
Operating Expenses	\$2,220,002	\$2122,200	\$2,175,255	\$2,229,636	\$2,285,377	\$2342512
Total	\$10,552,407	\$1,132,1410	\$1,1853,220	\$12,432,650	\$16,122,646	\$16,414,279

Impact of recent history



- ❑ Conversion from manual to automated water meters
 - City wasn't adequately prepared
 - Slow in addressing problems
 - Mitigation efforts required additional staffing and revenues which should have been used for normal operations
- ❑ Inadequate capital budgeting/spending
 - Proposed project spending not fully funded by city
 - Considered lower priority than some other needs

Impact of poor capital program



- Maintenance challenges are considerable, given age of water & sewer systems.
- Infrastructure has degraded due to inconsistent maintenance & improvements; is highly vulnerable to failure.
- With our large stake in regional water & wastewater authorities, city's responsibilities to contribute to required system improvements is coming due.
- Jeopardy to service delivery can only be minimized by resuming a regular program of capital improvements

Impact of graduated billing



- ❑ City developed graduated rate structure based on water meter capacity (size of connection, in inches) in 1998.
- ❑ However, residential customers continued to be charged at same rate, regardless of capacity.
- ❑ Robert Bobb Group discovered in May 2017 that capacity-based billing wasn't being used; found over 1700 customers were undercharged.
- ❑ Since then, customers with larger capacity meters are being charged almost 2X what majority of residential customers pay.
- ❑ Budgets for FY 2018 & 2019 relied on the added revenue from charging more for larger capacity meters.

Capacity-based rates challenges



- ❑ Most affected customers didn't know they had larger capacity meters; caught unaware by huge increases.
- ❑ Differing points of view on graduated charges per capacity:
 - 1" customers feel shafted over something they can't control
 - 5/8" customers (majority) don't want to pay more to equalize rates across the board
- ❑ Robert Bobb Group estimated revenue impact of \$750K two years ago, based on 1700 customers w/ 1" capacity.
- ❑ Since current inventory of 1" customers is almost 2500, closing the gap could cost closer to \$1M.
- ❑ No rate scenario can avoid "winners & losers".

Why rates must increase



As we've discussed, the utilities program must be self-supporting, AND these essential, unavoidable costs must be met:

- Current operations and maintenance
- Improvements to current operations (e.g. meter replacements, billing & collections)
- Emergency repairs (e.g. water main breaks)
- Obligations to regional authorities (ARWA, SCWWA)
- Essential capital improvements (city plan, ARWA, SCWWA)
- Assurance of financial stability (required for borrowing)
- Recommended rate increase for FY 2019 not applied

Minimizing rate increases



- ❑ Raising collection rate over current 80% will reduce size of increase required to produce required revenue.
 - Continue to improve accuracy of billing & collections
 - Reinstate enforcement actions intended to increase compliance, discourage those who treat water & sewer as free services
 - Clean up delinquent accounts, close out obsolete accounts, etc.
- ❑ As capital improvements are made, operations & maintenance costs should level out or decline.
- ❑ City leaders will continue collaborating with regional partners to assure equitable cost-sharing, explore opportunities to sell excess capacity allocations.

Background on System



- If Capacity Charges eliminated
 - Water volumetric charges would need to increase 39%
 - Sewer Volumetric Charges would increase 59%

Background on Water System



❑ Capacity Charges Estimated Revenue Based on Meter Count
\$2,210,494

❑ Observations:

- Estimated Revenue is based on Meter Count as of point in time and represents about 15% of the City's FY19 water and sewer charges. •

❑ This figure provides an order of magnitude of revenues that would need to be replaced with volumetric charge increases if the City were to eliminate the Capacity Charge

❑ • If the Capacity charge were eliminated: - Water volumetric charges would have to increase by an estimated 39% -

Background on Water System



- ❑ Sewer volumetric charges would have to increase by an estimated 59% •
5/8" meter accounts represent approximately 73% of total accounts •
- ❑ 1" meter accounts represent approximately 21% of total accounts
 - Options in 3/4/2019 capacity charge memo provide an estimated revenue neutral impact to the City
 - Option 1 estimated impact - Undertaking Option 1, would INCREASE capacity charge for 5/8" meter accounts by 76% (\$8.84 to \$15.60 on a monthly basis) - \$81 annually - Undertaking Option 1, would DECREASE capacity charge for 1" meter accounts by 29% (\$22.12 to \$15.60 on a monthly basis) - \$78 annually
 - Option 3 estimated impact - Undertaking Option 3, would INCREASE capacity charge for 5/8" meter accounts by 41% (\$8.84 to \$12.48 on a monthly basis) - \$44 annually - Undertaking Option 3, would DECREASE capacity charge for 1" meter accounts by 43% (\$22.12 to \$12.48 on a monthly basis) - \$115 annually

Options for Increase



- ❑ 5/8" meters represent 73% of total accounts
- ❑ 1" meters represent 23% of all accounts
- ❑ Revenue neutral impact in address difference in capacity charge by meter size
- ❑ Option 1 would increase capacity charge for 5/8" accounts by 76% (\$8.84 to \$15.60 monthly or \$81 annually)
- ❑ Would decrease 1" meter accounts by 29% (\$22.12 to \$12.48 or \$78 annually)



• Options for Increase

Option 3 Estimated impact

- Would increase capacity charge for 5/8" accounts 41%
\$8.84 to \$12.48 on a monthly basis or \$44 annually
- Would Decrease capacity charge for 1" meter accounts by 43% (\$22.12 to \$12.48 or \$115 annually)

Rate Study

12.2% Rate increase not affected by meter count due to methodology of analysis

Rate changes being applied uniformly to all revenue based on 2018 preliminary budget

All rates and charges (capacity and volumetric for both water and sewer are raised 12.2%)