

March 1, 2010

Mayor and City Council of Havre de Grace

The City's Water / Sewer Commission, as directed by the provisions of Ordinance 896, provides the following recommendations for rates and charges to become effective on 1 July, 2010 for FY 11. In our report to you on December 21, 2009, we reviewed the status of the system based on the results of financial conditions at the end of FY 09. Therein, the commission made several recommendations regarding certain operational and capital items.

For FY 11, the commission recommends that **an increase of 5% which will include the November 2009 1.6% CPI factor**, be applied to Water Service Within The City, Bulk Water Purchases, City Sewer Service Within The City, Water Or Sewer Users Outside Of The City, Capital Cost Recovery Charges, Pre-Treatment Charges and The Base Service Charge as these items are outlined in Exhibit A to the Water / Sewer Rate Ordinance. All other charges and fees currently listed in Exhibit A could remain unchanged in FY 11.

In addition to the 5% increase the recommendations included in the December 21, 2010 report must also be adopted. If all are not adopted as recommended then a rate increase sufficient to obtain a balanced fund 9 budget as required by section 37 of the City Charter will be needed. A copy of that report is attached to this letter.

The authority for this recommendation can be found in Ordinance 887 which states "the Schedule for water and sewer service shall be adjusted, at a minimum, consistent with the change in cost of living as measured by the Consumer Price Index, All Urban Consumers, Baltimore-Washington Area, as published by the United States Department of Labor, or a succeeding nationally recognized public index. Any other changes in the Schedule as a whole, including additional changes above or below the changes resulting from a change in the cost of living as noted above, shall be limited to those necessary to balance the projected operating and capital budgets as previously noted."

The Commission also recommends that a policy be adopted whereas Capital Cost Recovery Funds are designated to service debt related to the Waste Water Plant improvements needed for the expansion of the system. For the next twenty years about two million dollars per year will be needed to pay the existing forty million dollars of debt.

Thank you
Havre de Grace Water / Sewer Commission

Fred H. Cullum Chair
Jim Miller Councilmember
Donna Geiger DPW
Carol Mathis Administration
Tracy Conaway Finance
Joe Kochenderfer Citizen
Garrett Lyttle Citizen
Douglas Wilson Citizen

Attachment: W/S Report dated 21 December, 2009

**Water/Sewer Commission Report
December 21, 2009**

As stipulated by Chapter 25 Article 10 of the City Code “Water/Sewer Commission”, the Commission is obligated to report to the Mayor and City Council its findings from the review of the revenue and expense experience information for the fiscal year completed June 30, 2009. Provide projections for the current fiscal year as well as the next fiscal year. This review is to outline any concerns, recommendations or concurrence with the following items:

1. Strategic direction of this enterprise fund
2. Capital project and rate structure coordination
3. Budgeting considerations and timing of implementation
4. Establishing and monitoring operational goals and objectives
5. Rates and charges related to ordinances which apply to users and potential users of the public water/sewer system

From a financial perspective, the following are high lights regarding the FY 09 condition and the FY 10 forecast.

FY 09 Resulted in a shortfall of \$298K which reduced the year end undesignated Fund Balance to \$327K

The rates and charges effective July 2009 as adopted by the Mayor and City Council appear to be able to generate sufficient revenue to produce a balanced budget for FY 10.

The projected increase in home starts and billed water, based on first quarter results for FY 10, should contribute greatly in achieving a balanced budget.

The forecast for FY 10 is a balanced budget.

The projections for FY 11 imply that a 10 % increase in rates and charges will be required to obtain a balanced budget.

Estimates provided by the Finance Department on (15 Dec 09) indicate that with the addition of two personnel in the wastewater treatment plant and with a 5% increase in rates and charges FY 11 is projected to end with a deficit of \$289K

However, the Commission observes that the FY 11 budget, as presently anticipated, could experience a *marginally positive* balance by;

1. Instituting a 5% increase in rates and charges. (should there be any CPI increase, it would be part of the total 5%)
2. Applying No Employee COLA - which would decrease FY 11 expenses by \$50K
3. Obtain \$100K in grant funds for sewer pipe rehab - which would decrease FY 11 expenses by \$100K
4. Cut water meter change out from \$95K to \$45K - which would decrease FY 11 expenses by \$50K
5. Divide the \$250K St. John Street pumping station task between FY11 and FY12 - which would decrease FY 11 expenses by \$125K

If the above actions were taken and assuming the estimated 100 Capital Cost Recovery Fees in FY 10 occur, along with the associated increase in billed water consumption, a balanced budget should result in FY 11.

The Water/Sewer Commission stresses however, that the deferral/reprogramming of some projects is likely to cause increases in cost projections for fiscal years beyond FY 11.

For Informational purposes: The projected impact on an “average” residential water/sewer bill with a 5% increase would result in about a (\$9 quarterly / \$36 annual) increase for FY 11 as compared to FY10.

As more data become available, the Commission will re-examine its comments relating to both FY 10 and FY 11. This information will be revisited in our March 2010 report to the Council, where we are obligated to make rate and charge recommendations for FY 11.

Respectively submitted,

Fred Cullum	Chairman
Jim Miller	Councilmember
Garrett Lyttle	Citizen member
Bill Tarello	Citizen member
Douglas Wilson	Citizen member
Tracy Conaway	Finance Dept.
Donna Geiger	DPW
Carol Mathis	Administration
Joe Kochenderfer	Contributing Citizen