

City of Harrington
MINUTES
Proposed Water and Sewer Rate Public Meeting
April 30, 2014

A meeting with the Harrington City Council was held at Harrington City Hall, 106 Dorman Street, on April 30, 2014 and was attended by the following: Mayor Anthony R. Moyer; Vice Mayor Cheryl Lahman; Council Member Duane E. Bivans; Council Member Fonda Coleman; Council Member Amy Minner; Council Member Charles W. Porter; Council Member Kenneth Stubbs; William Pepper, City Solicitor; Teresa Tieman, City Manager; Dean Gary, Accountant; and Rhiannon Bush, City Clerk.

Also present: Scott Hoffman, Cabe Associates; Bob Souza, Harrington Raceway and Casino; Marie Cunningham; Bill DiMondi; Jean Holloway, Delaware Rural Water Association; and Jason Dean.

The Pledge of Allegiance was given.

Proposed Water and Sewer Rates

The City Manager presented the attached slideshow.

The City Manager stated that the total annual sewer costs are one million seven hundred fifteen thousand eight hundred seventeen dollars (\$1,715,817). The sewer rate components would be the base charge, usage rate, and Kent County charge. The quarterly sewer proposed rate is eighty dollars (\$80) per equivalent dwelling unit (EDU) or billable unit, and the usage charge is proposed to be eight dollars and ten cents (\$8.10), which includes two dollars and thirty four cents (\$2.34) for the Kent County sewer treatment charge. The current minimum charge is one hundred forty dollars (\$140), and usage greater than twenty thousand gallons is six dollars and eight cents (\$6.08).

The City Manager stated that the calculation for the base bill charge includes reserves of two hundred thousand dollars (\$200,000), contingency of twenty-nine thousand three hundred dollars (\$29,300), and debt service of four hundred twenty-four thousand three hundred eighty-three dollars (\$424,383), so the total fixed costs are six hundred fifty-three thousand six hundred eighty-three dollars (\$653,683). Total fixed costs divided by the total number of EDUs (two thousand one hundred six) equals seventy-seven dollars and sixty-one cents (\$77.61) per billing unit, which was rounded to eighty dollars (\$80).

The City Manager stated that the base charge is determined by the number of EDUs used during the calendar year prior to the upcoming City fiscal year. An EDU is two hundred fifty gallons per day.

The City Manager stated that the base bill for the Delaware State Fair is based on the total gallons from 2013 of nineteen million thirty-six thousand one hundred thirty-seven. The total number of EDUs would be rounded to two hundred nine. The quarterly base bill for FY 2015 would be sixteen thousand seven hundred twenty dollars (\$16,720). The usage charge is based on actual usage during the quarter. The rate revenue required for cost recovery is one million seven hundred one thousand eight hundred seventeen dollars (\$1,701,817).

The City Manager stated that based on the usage from 2013, the estimated annual bill for the Delaware State Fair with the proposed rates would be two hundred twenty-one thousand seventy-three dollars (\$221,073). The rates do not include the usage guarantee of eighty thousand gallons per day.

Scott Hoffman asked what the reserves are based on. The City Manager stated that reserves are based on the fixed assets divided by a forty year life span. Mr. Hoffman asked if there is a wastewater facilities plan that lays out the existing infrastructure and improvements that are being done. The City Manager stated that there have been studies done and can provide them.

Mr. Hoffman asked if any reserves exist currently. The City Manager stated that there are some funds in reserve and some are restricted; the amount in each fund should appear on the audit being finalized at the next City Council Meeting.

Mr. Hoffman asked if consideration was given to the capital money and old impact fees that the Fair has contributed, which amount to about six hundred thousand dollars (\$600,000). The City Manager stated that the money was used to make improvements. Mr. Hoffman stated that in previous agreements between the City and the Fair, the Fair made capital contributions for upgrades in 1996, and now is being asked to pay on the continuing debts service. The City Manager stated that the Fair is part of the City's transmission system and are required to pay into the debt service, just like any other customer.

Bill DiMondi stated that the Delaware State Fair is a contract user and is not receiving credit for previous contributions to capital improvements. The City Manager stated that the contract states that the Fair pays in-city rates and what is being presented is the in-city rate. Mr. Hoffman stated that the 1996 contract states that the Fair paid a pro-rated share of facility improvements.

Mr. DiMondi stated that on the bottom of the first page of the contract from 2006, the contract says how fees for the Fair will be calculated. The City Manager stated that a meter is used to determine usage and calculate a bill. Mr. DiMondi stated that the agreement does not say a base charge can be used; there is only one mention of EDUs in the contract and that is for calculating impact fees. The City Manager stated that the base fee is the proportionate share of the debt service based on actual usage.

Mr. Hoffman stated that currently, the Fair is paying one hundred forty dollars (\$140) for twenty thousand gallons, and under the proposed rates, the Fair will pay sixteen thousand dollars (\$16,000) for zero gallons of flow. The City Manager stated that under the current contract, the Fair is not paying their share of debt service. With the new in-city rate, everyone pays their proportionate share of debt service.

Jean Holloway asked if all customers were paying a flat rate and if the rate structure is changing for everyone. The City Manager replied yes. Vice Mayor Lahman stated that residents have been asking for a usage based rate.

Mr. DiMondi stated that the City is not giving credit to a contract user that has contributed to capital improvements and prepaid impact fees to the system. The City Manager stated that any development requires impact fees, and developers are required to install their own transmission systems.

Mayor Moyer stated that Friendship Village was required to install a lift station and run the lines to tie into the City's system. Mr. DiMondi asked if Friendship Village apartments made any additional capital contributions in addition to impact fees for their increased flow to the wastewater treatment facility. Mayor Moyer stated that Friendship Village also pays taxes.

Mayor Moyer asked if the improvements to the wastewater facility were necessary in order to include the Fair in the City's system because of the starches, fats, oil, and grease in the Fair's wastewater. Mr. DiMondi stated that the City had regulatory issues and the system needed major improvements. The Fair was asked for its development plans and made contributions for the improvement of the wastewater treatment facility. Mr. Hoffman stated that in 1996 the Fair paid one hundred twenty-six thousand four hundred dollars (\$126,400) for an expansion of one hundred forty-three thousand gallons per day, while the Fair only contributed twenty-eight thousand five hundred gallons of flow.

Mr. DiMondi stated that the Fair made capital contributions of two hundred thirty thousand forty-eight dollars (\$230,048) for corrections and expansion of the wastewater treatment facility and three hundred ninety-seven thousand one hundred sixty dollars (\$397,167) in prepaid impact fees. The total paid to the City between 1996 and 2006 was six hundred twenty-seven thousand two hundred eight dollars (\$627,208).

Council Member Porter asked why the Fair did not create its own wastewater treatment facility.

Mr. DiMondi asked about the difference in personnel costs between the rate study and the FY 14 budget. The City Manager stated that the other personnel costs are budgeted in City Hall and Public Works, but allocated for services

rendered to wastewater and water systems. The auditors approved the amount of the allocations.

Mr. DiMondi asked if there is a goal for the accumulation of reserve funds. The City Manager replied yes, and the minimum and maximum levels have to be established. They are usually used for capital improvements. The contingency fund is for operational emergencies. It really should be more, but it is being gradually worked into in order to lessen the initial impact of the rates.

Mr. Hoffman asked where impact fees are kept. The City Manager stated that they are in a separate reserve fund and used for growth related projects. Impact fees are not involved in a rate study.

Mr. DiMondi stated that he believes the base fee violates the agreement between the City and the Fair and would like to work out all the disagreements. The Fair being established as its own sewer district is a good idea. The Fair invested more heavily than any other payer in the system and would like credit for that.

Marie Cunningham asked about a timeline. Mayor Moyer stated that it will be discussed with Council and presented to the public. The City Manager stated that rates will be voted on by Council with an ordinance and public hearing.

Council Member Bivans asked the Fair representatives what their opinion on what a fair rate would be. Mr. DiMondi stated that the allocations are subjective and there seemed to be some inconsistencies with how the numbers were calculated. Mr. Hoffman stated that every town does it differently, but Harrington's rate is one of the highest in Kent County. The City has taken on a lot of debt with the force main.

Mr. DiMondi stated that the rate increase would be almost one hundred ten thousand dollars (\$110,000), which is a lot for a non-profit and Harrington Raceway which is having major struggles.

The City Manager stated that the true-up charges that the Fair is contractually required to pay are not included in the rate presentation or included in the revenue, because it is in litigation.

The City Manager stated that the sewer rate is high, but the revenue must be collected in order to operate the system.

Ms. Cunningham asked why Harrington's costs are so much more than other municipalities. The City Manager replied that Harrington just installed an eight million dollar (\$8,000,000) force main. Vice Mayor Lahman stated that the City also has not taken care of problems as they occurred which are now more expensive to fix. The City Manager stated that there are inflow and infiltration (I &

l) issues that have not been repaired. Ms. Holloway stated that for years there has been a very inequitable way of billing with the flat rate.

Discussion occurred regarding the utility rates as compared to the median household income of Harrington and other municipalities. Vice Mayor Lahman stated that the cost to treat the wastewater is the same regardless of household income and asked if Kent County charged a lower rate for treatment because of the lower median household income in Harrington. The City Manager replied no, the cost is the same regardless of income.

Ms. Cunningham asked why the City did not connect to Kent County for sewer treatment sooner. Council Member Porter stated that the City was lead to believe that spray irrigation would extend the life of the City's wastewater treatment plant. Vice Mayor Lahman stated that running the force main was a very large investment.

Jason Dean asked how much was collected in impact fees in 2013. The City Clerk replied maybe one. Mr. Dean stated that adding ratepayers would lower the rates and asked about the personnel costs. Mr. Dean asked that the rates be as low as possible while still being able to run the utility.

The City Manager stated that many of the costs involved are variable. Mayor Moyer stated that is why the rate needs to be looked at again in six months. The City Manager stated that when customers get there first usage bill, their behavior will change in an attempt to conserve.

There being no further business, the meeting adjourned.

Respectfully Submitted,

Kelly Blanchies
Clerk of Council

Rate Study

Delaware State Fair

Harrington's Goal

- ▶ To set and maintain utility rates and fees that are FAIR and ADEQUATE to sustain our system.
- ▶ “If there is not enough money to run the business, the business won't run.”

The Proposed Rates

- ▶ Adequately cover system costs.
- ▶ Enables the system to build reserves
- ▶ Will be fair to all rate payers.
- ▶ Proportional to use versus flat rates.
- ▶ No usage allowance.

History of Rates

- ▶ Water and Sewer Rates were last changed in June, 2010 for FY11.
- ▶ That change was part of a five year phase in process.
- ▶ Rates have not changed since although there have been significant changes to operations and capital since 2010.

The Need for Rate Adjustments

- ▶ Since FY11, several factors have impacted the ability of the current rate structure to fully support the Water and Sewer Systems:
 - Implementation of Kent County Contract and related Fees
 - Increase in Debt Service
 - Establishment of Reserve and Contingency Funds
 - Change in Accounting Practices to better allocate General Fund Support to Water and Sewer(no net effect to entire budget).
 - Re-evaluation of Transfer to General Fund (budget distribution)
 - Water meter installation and desire to bill based on usage

Costs – Not Open for Debate

- ▶ Debt Service and
- ▶ Kent County Fees for Sewer.
 - Costs related to these items cannot be adjusted in the short term.
 - There is no debate as to how to apply these costs to the rate calculation as they are direct and unavoidable costs to the Water & Sewer Systems.

Increase in Sewer Fixed Costs

- ▶ Sewer Debt Service has increased by \$271,000 annually since FY11 due to the construction of Force Main Project.
- ▶ The contract with Kent County for sewage treatment has increased costs annually by \$134,000.*
- ▶ This is a total increase of \$405,000 per year.

*\$420,000 County Fees less Operations Savings of \$286,000.

*The current year's charges to Kent County are expected to be \$485,000 an additional \$65,000

Sewer Costs

| | |
|--------------------------------------|--------------------|
| Total Annual System Costs: | |
| Personnel Costs | \$367,035 |
| General Fund Expense Allocation | \$160,902 |
| Waste Water G&A Costs | \$91,741 |
| Waste Water System Ops & Maintenance | \$442,456 |
| Debt Service & Reserves Costs | \$653,683 |
| TOTAL ANNUAL SYSTEM COSTS | \$1,715,817 |

Sewer Rate Components

- ▶ Base Charge – charge required to cover the cost of:
 - Reserves
 - Contingency
 - ~~Transfer to General Fund~~
 - Sewer Debt Service
 - These costs need to be paid even if no sewer is transmitted.
 - Customers will be billed for the number of EDUs they transmitted during the calendar year prior to Harrington’s fiscal year.
- ▶ Usage Rate – Charge required to cover the cost of operating the wastewater utility which include personnel costs, insurance, general and administrative costs and costs specific to the utility such as chemicals, line repair etc.
- ▶ KCSA Charge– Charge to cover the cost of treatment at Kent County. This charge is currently \$2.34/Tgal
- ▶ Note: EDU = 250 gallons per day or 91,250 gallons per year.

Quarterly Sewer Rate

▶ Proposed

- Base Charge = \$80 per EDU
- Usage charge = \$8.10 (includes \$2.34 Kent County Sewer Treatment Charge and \$5.76 usage charge)

▶ Current

- Minimum Charge = \$140
- Usage charge greater than 20,000 TGals = \$6.08 (Commercial Only)

Calculation for Base Bill Charge

| Minimum Bill Calculation: | | <i>(this is the min</i> |
|-----------------------------------|-------------------|-------------------------|
| Fixed Costs: | | |
| Reserves | \$ 200,000 | 30.60% |
| Contingency | \$ 29,300 | 4.48% |
| Transfer to General Fund | \$ - | 0.00% |
| Total Wastewater Debt | \$ 424,383 | 64.92% |
| | | |
| TOTAL FIXED COSTS: | \$ 653,683 | 100.00% |
| | | |
| divide by # of EDU's | 2,106 | |
| | <i>Annual</i> | <i>Per Billing</i> |
| = Minimum Charge | 310.45 | 77.61 |
| | | |
| Uniform Rate Calculations: | | |
| | | |
| Minimum Charge: | | 80.00 |

Base Bill Calculations

- ▶ Base Charge – Based on the number of Equivalent Dwelling Units (EDU) or billable units consumed or transmitted during the calendar year prior to the upcoming City Fiscal Year.
 - An Equivalent Dwelling Unit (EDU) equals 250 gallons per day or 91,250 gallons per year
 - Usage from January 2013 thru December 2013

DSF Base Bill Calculation

| | Jan 2013 - Mar 2013 | Apr 2013 - Jun 2013 | Jul 2013 - Sep 2013 | Oct 2013 - Dec 2013 | Total Sewer Usage |
|---------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Gallons | 3,960,220 | 4,435,206 | 6,014,630 | 4,626,081 | 19,036,137 |

| | |
|---------------------------------|------------|
| Base Bill Calculation | |
| Total Sewer Usage | 19,036,137 |
| Annual EDU Gallons | 91,250 |
| EDU/ Billable Units | 208.62 |
| Rounded to nearest whole | 209 |
| | |
| Base Quarterly Bill for FY 2015 | \$ 16,720 |

Usage Charge

- ▶ Based on actual usage during the quarter
- ▶ Equals \$5.76 (\$8.10–\$2.34 KCTC) per 1000 gallons

Kent County Sewer Treatment Charge

- ▶ Equals \$2.34 per 1000 gallons.
- ▶ Kent County Charge to Harrington for treating sewer.

Calculation of the Usage Fee

| | |
|---|---------------------|
| NON-RATE REVENUES | |
| Capital Recovery/Impact Fees | |
| Hook Up/Connection Fees | \$ 2,000 |
| Availabilty Fees | |
| Special Assessment Revenues | |
| Fee for Services/Special Charges/Contract Work earnings | \$ 2,000 |
| Subdivision and Plan Review Fees | |
| Septage Disposal Fees | |
| Sale of Assets/Property | |
| Interest on Investments and/or Deposits | |
| Penalties, Late Fees and related charges | \$ 10,000 |
| Franchise Fees, Payments in Lieu of Taxes | |
| Transfers from Prior Years' Fund Balance | |
| Miscellaneous | |
| TOTAL NON-RATE REVENUE | \$ 14,000 |
| | |
| RATE REVENUE REQUIREMENT CALCULATION: | |
| TOTAL SYSTEM COSTS: | \$ 1,715,817 |
| LESS NON-RATE REVENUE: | \$ 14,000 |
| = RATE REVENUE REQUIRED FOR COST RECOVERY | \$ 1,701,817 |

Usage Rate of \$8.10 as Proposed

| Usage & Customer Blocks | | | | | | |
|--------------------------------|--------------|-------------------------|----------------------|----------------------------|--------------------|---------------------|
| Type | # EDU's | Min Charge Rev Per Bill | Min Chg Rev Per Year | Average Gal. Used Per Bill | Usage Rev per Year | Total Rev per Year |
| Residential | 1,531 | \$ 122,480 | \$ 489,920 | 17,871,067 | 579,022.55 | \$ 1,068,943 |
| Farmington | 86 | \$ 9,150 | \$ 36,602 | 1,296,589 | 55,872.59 | \$ 92,474 |
| Out of Town R | 9 | \$ 958 | \$ 3,830 | 114,881 | 4,950.45 | \$ 8,781 |
| Demo | - | \$ - | \$ - | - | - | \$ - |
| City | - | \$ - | \$ - | - | - | \$ - |
| Subtotal Non Commercial | 1,626 | \$ 132,588 | \$ 530,352 | 19,282,536 | 639,846 | 1,170,198 |
| Commercial | 271 | \$ 21,680 | \$ 86,720 | 4,507,826 | 146,053.56 | \$ 232,774 |
| Out Commercial (DSF) | 209 | \$ 16,689 | \$ 66,757 | 4,759,034 | 154,192.71 | \$ 220,950 |
| Subtotal Commercial | 480 | \$ 38,369 | \$ 153,477 | 9,266,860 | 300,246 | 453,723 |
| Total | 2,106 | \$ 170,957 | \$ 683,829 | 28,549,396 | 940,092 | \$ 1,623,921 |

| Revenue Check | |
|--------------------------|---------------------|
| Projected Revenue | \$ 1,623,921 |
| <i>LESS</i> | |
| Rate Revenue Required | \$ (1,735,854) |
| <i>EQUALS</i> | |
| Surplus/(Deficit) | \$ (111,933) |

This number is 102 percent of revenue requirement and allows for two percent fund balance

Estimated Billing for DSF with Comparison

Proposed \$80 Base Charge/\$8.10 Usage Charge

| Proposed Rates | Jan 2013 - Mar 2013 | Apr 2013 - Jun 2013 | Jul 2013 - Sep 2013 | Oct 2013 - Dec 2013 | Total |
|----------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Gallons | 3,960,220 | 4,435,206 | 6,014,630 | 4,626,081 | 19,036,137 |
| Base | \$ 16,720 | \$ 16,720 | \$ 16,720 | \$ 16,720 | \$ 66,880 |
| Usage | \$ 32,078 | \$ 35,925 | \$ 48,719 | \$ 37,471 | \$ 154,193 |
| Total | \$ 48,798 | \$ 52,645 | \$ 65,439 | \$ 54,191 | \$ 221,073 |
| Current Rates | | | | | |
| Flat Charge | \$ 140 | \$ 140 | \$ 140 | \$ 140 | \$ 560 |
| Usage Charge | \$ 23,957 | \$ 26,844 | \$ 36,447 | \$ 28,005 | \$ 115,253 |
| Total | \$ 24,097 | \$ 26,984 | \$ 36,587 | \$ 28,145 | \$ 115,813 |
| Difference | \$ 24,701 | \$ 25,661 | \$ 28,851 | \$ 26,046 | \$ 105,259 |

Rates do not include the usage guarantee of 80,000 per day.

Questions?

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