



MEMORANDUM

TO: Timothy J. Baroody, City Manager
FROM: Mark Whitley, Assistant City Manager
RE: Ordinance to Amend Water & Sewer Fees for the City of Fredericksburg
DATE: May 5, 2021 (for May 11, 2021 Regular Meeting)

ISSUE

City Council is asked to increase water and sewer fees in order to generate revenue to support necessary capital improvements to the City's critical water & sewer infrastructure.

RECOMMENDATION

This ordinance was considered at a public hearing on April 20, 2021.

Staff recommends approval on second reading. The ordinance passed first reading on April 27, 2021.

BACKGROUND

The City provides water and sewer service through two separate enterprise funds. The public water and sewer facilities, processes, equipment and personnel costs are sustained by revenues from the fees generated by the system, not by general government revenues. The City continues to plan for major capital projects in the Water Operating Fund and the Wastewater Operating Fund in FY 2022 and beyond.

In FY 2020, the City began a process of implementing a 10% increase in water and sewer rates each year for five years, in preparation for major capital projects related to both the wastewater treatment plant and the City's share of work at the Motts Run water treatment facility. The City did not increase the rates in FY 2021 because of the economic uncertainty associated with the global pandemic.

The budget recommends implementation of a 10% rate increase, which was delayed last year due to the pandemic, starting July 1, 2021.

The City Council engaged the services of NewGen Financial (formerly Municipal and Financial Services Group) to update their study of the water and sewer rates, fees and charges, including fixed charges, consumption charges, and availability fees effective beginning in Fiscal Year (FY) 2020.

Results show that water and sewer rates must be increased in order to cover current operating costs, current debt service, and future capital needs and related debt service. The updated

model shows that an increase of 10.5% in water rates per year from FY 2022 through FY 2026 will provide revenues sufficient to meet the needs of the water fund, and an 11.5% increase per year over that time frame will provide for the needs of the sewer fund.

That said, it is very important to note that this work will need to be updated on an annual basis based on changing schedules and costs for capital projects, actual results for water and sewer sales, actual operating costs to maintain the system, and the availability of intergovernmental sources to fund portions of the capital projects.

Staff is recommending a 10% rate increase in FY 2022 for water and for sewer. This is slightly lower than the recommendation from the consultant, but it does provide for a significant increase in operating revenues from the system in preparation for the first major debt issuance for the capital improvement plan, which will need to occur in FY 2022. Increases in future years will be reevaluated and recalculated on an annual basis, utilizing the rate model.

The following charts shows the current and proposed rates and fees.

1. Water Service - For metered water service, the bi-monthly (every two months) service charge currently consists of a meter fee based upon a nominal meter size and a commodity fee based upon metered consumption. If adopted by City Council, the fees would be increased as follows:

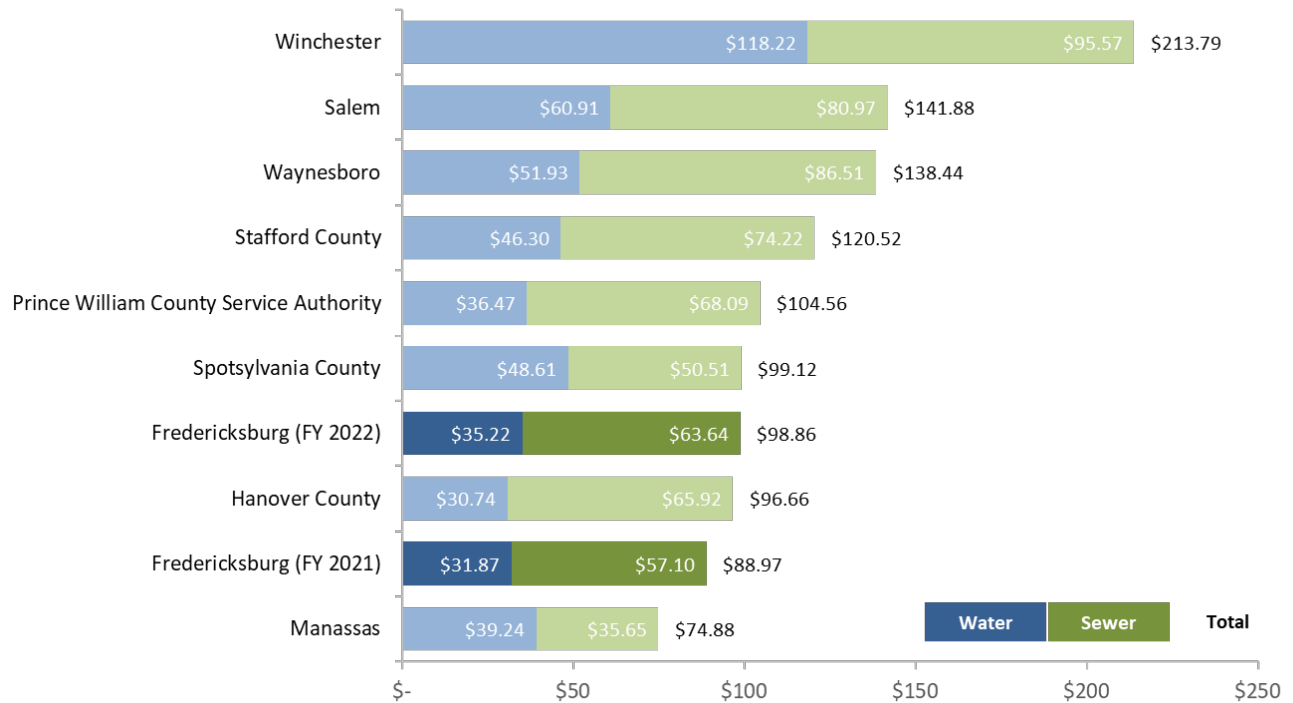
Fee Description	Current	Proposed	Change	Legal Reference
Water Utility Fees				
Water Base Fees (bi-monthly rates)				§15.2-2119 Code of Va.
5/8" Fixed Fee	\$13.59	\$14.95	\$1.36	
3/4" Fixed Fee	\$17.91	\$19.70	\$1.79	
1" Fixed Fee	\$35.36	\$38.90	\$3.54	
1 1/4 & 1 1/2 Fixed Fee	\$78.49	\$86.34	\$7.85	
2" Fixed Fee	\$141.41	\$155.55	\$14.14	
3" Fixed Fee	\$335.13	\$368.64	\$33.51	
4" Fixed Fee	\$565.81	\$622.39	\$56.58	
6" Fixed Fee	\$1323.94	\$1456.33	\$132.39	
8" Fixed Fee	\$2256.54	\$2482.19	\$225.65	
Water Commodity Charge				
Per 1000 gallons	\$2.77	\$3.05	\$0.28	§15.2-2119 Code of Va.

2. Sanitary Sewer Service - The bi-monthly sanitary sewer service charge currently consists of a meter fee based upon a nominal water meter size and a commodity fee based upon metered water consumption. If adopted by City Council, the fees would be increased as follows:

Sewer Utility Fees				
Sewer Base Fees (bi-monthly rates)				§15.2-2119 Code of Va.
5/8" Fixed Fee	\$21.33	\$23.46	\$2.13	
3/4" Fixed Fee	\$28.11	\$30.92	\$2.81	
1" Fixed Fee	\$55.50	\$61.05	\$5.55	
1 1/4 & 1 1/2 Fixed Fee	\$123.20	\$135.52	\$12.32	
2" Fixed Fee	\$221.96	\$244.16	\$22.20	
3" Fixed Fee	\$526.06	\$578.67	\$52.61	
4" Fixed Fee	\$888.13	\$976.94	\$88.81	
6" Fixed Fee	\$1998.26	\$2198.09	\$199.83	
8" Fixed Fee	\$3405.88	\$3746.47	\$340.59	
Sewer Commodity Charge				
Per 1000 gallons	\$5.42	\$5.96	\$0.54	§15.2-2119 Code of Va.

The proposed rates will increase the bi-monthly bill by \$9.89 for a customer whose bi-monthly water usage is 6,600 gallons. This is considered the "median" or average user.

The following is a comparison of Fredericksburg and peer communities. As calculated by NewGen, the bills are based on smallest meter size and 6,600 gallons of usage, which again is the median for Fredericksburg customers. Please note, the bills for the other communities are calculated using the current rates and do not reflect potential increases.



Council Member Kelly requested during a recent budget work session that additional information be provided concerning income for the localities in the above chart. The below table presents the latest estimates for median household income¹:

Jurisdiction	Median Household Income
Winchester	\$53,797
Salem	\$57,185
Waynesboro	\$45,738
Stafford County	\$106,773
Prince William County	\$103,445
Spotsylvania County	\$85,330
Fredericksburg	\$63,274
Hanover County	\$88,652
Manassas	\$78,462

Staff is not recommending an increase in availability fees at this time. This recommendation will be evaluated in future cycles based on the potential for capacity increases for the Wastewater Plant or the Motts Run Water Plant.

¹ Source: U.S. Census Bureau 2014-2018 Median Household Income in the United States By County, from 2014-2018 American Community Survey 5-Year Estimates. www.census.gov.

Additional Background – Water & Sewer Recommended Capital Improvements Plan FY 2022 through FY 2026

The below table provides the details of the Recommended Capital Improvements Plan for FY 2022 through FY 2026.² The largest project that is new to the plan is a project to replace water meters in the City during FY 2022.

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Water Improvements Fund	\$ 6,052,800	\$ 4,593,400	\$ 7,704,300	\$ 450,000	\$ 800,000	\$ 900,000
College Heights Water Line Replacement (Phase II)	\$ -	\$ -	\$ -	\$ -	\$ 350,000	\$ 450,000
Internal System Improvements	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000
Motts Run Water Plant Expansion	\$ 1,402,800	\$ 4,143,400	\$ 7,254,300	\$ -	\$ -	\$ -
Pressure Release Valve Replacement / Rehab	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Telegraph Hill Loop	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -
Water Meter Replacement	\$ 4,000,000	\$ -	\$ -	\$ -	\$ -	\$ -
Wastewater Improvements Fund	\$ 16,185,000	\$ 2,590,000	\$ 56,690,000	\$ 590,000	\$ 590,000	\$ 590,000
NPS / Farrell Lane Line Replacement	\$ 125,000	\$ 2,000,000	\$ 600,000	\$ -	\$ -	\$ -
Princess Anne (Upper) Sewer Replacement	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ -
Sewer System Improvements	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
Wastewater Treatment Plant (WWTP) Capital Maintenance	\$ 660,000	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000
Wastewater Treatment Plant Upgrade & Consolidation	\$ 15,000,000	\$ -	\$ 55,000,000	\$ -	\$ -	\$ -
Grand Total	\$ 22,237,800	\$ 7,183,400	\$ 64,394,300	\$ 1,040,000	\$ 1,390,000	\$ 1,490,000

The Capital Improvements Plan recommendation includes \$72.6 million in new water and sewer fund debt spread over the next five years, largely for the support of the Motts Run expansion and the Wastewater Treatment Plant project. The largest portion would be the debt issued for the major construction of the Wastewater Plant – currently scheduled for FY 2024. The CIP does envision an amount of fund – currently \$8 million is projected – from the state through the Water Quality Improvement Program for the WWTP project in FY 2024 – if that number were to increase, the total debt issuance could decrease.

FISCAL IMPACT

The increased rates are expected to generate new revenue of approximately \$250,000 for the water fund and \$560,000 for the sewer fund in FY 2022. The original forecast for FY 2021 included a 10% increase at that time. This was not amended during the FY 2021 budget process, so that original FY 2021 revenue forecast has been brought forward for the FY 2022 budget.

Attachment: Ordinance Increasing Water and Sewer Fees

² {Update for 2nd read: The table below reflects the Recommended CIP and the capital budget on first reading. Since then the Motts Run project has been slightly adjusted, as follows: \$1,000,000 in FY 2022, and an additional \$9.4 million between FY 2023 and FY 2025.}



May 11, 2021
Regular Meeting
Ordinance No. 21-11

MOTION:

SECOND:

RE: Amending Water and Sewer Fees Rates and Charges

ACTION: APPROVED: Ayes: 0; Nays: 0

FIRST READ: April 27, 2021 SECOND READ: _____

SEC. I. Introduction, purpose and authority.

Public water and sewer facilities, processes, equipment and personnel costs are sustained by revenues from the fees generated by the system, not by general government revenues. The City Council engaged the services of Municipal and Financial Services Group to perform a study of the water and sewer fees and charges. The conclusion of the study was that water and sewer fees and charges must be increased in order to cover current operating costs and debt service, and future capital needs and related debt service.

The Council adopts this ordinance pursuant to its authority under §15.2-2143 and §15.2-2119 of the Code of Virginia (1950), as amended. Public notice has been duly made and public hearings held in accordance with the requirements of the Code of Virginia.

SEC. II. Amending water and sewer fees and charges.

Therefore, the City Council hereby ordains that the City's *Water and Wastewater Rates and Charges*, regulations promulgated and published by the Director of Public Works, are hereby amended to incorporate the following changes.

1. Metered water service.

For metered water service, the bi-monthly service charge currently consists of a meter fee based upon a nominal meter size and a consumption fee based upon metered consumption. Both components of such charge are hereby increased, as follows:

Water Utility Fees	Current	Proposed	Change
Water Base Fees (bi-monthly rates)			
5/8" Fixed Fee	\$13.59	\$14.95	\$1.36
3/4" Fixed Fee	\$17.91	\$19.70	\$1.79
1" Fixed Fee	\$35.36	\$38.90	\$3.54
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6" Fixed Fee	\$1323.94	\$1456.33	\$132.39
8" Fixed Fee	\$2256.54	\$2482.19	\$225.65
Water Commodity Charge			
Per 1000 gallons	\$2.77	\$3.05	\$0.28

2. Sanitary sewer service rates.

The bi-monthly sanitary sewer service charge currently consists of a meter fee based upon a nominal water meter size and a consumption fee based upon metered water consumption. Both components of the charge are hereby increased, as follows:

Sewer Utility Fees	Current	Proposed	Change
Sewer Base Fees (bi-monthly rates)			
5/8" Fixed Fee	\$21.33	\$23.46	\$2.13
3/4" Fixed Fee	\$28.11	\$30.92	\$2.81
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6" Fixed Fee	\$1998.26	\$2198.09	\$199.83
8" Fixed Fee	\$3405.88	\$3746.47	\$340.59
Sewer Commodity Charge			
Per 1000 gallons	\$5.42	\$5.96	\$0.54

SEC. III. Effective date.

This ordinance shall take effect July 1, 2021.

Approved as to form:

Kathleen Dooley, City Attorney

Clerk's Certificate

I, the undersigned, certify that I am Clerk of Council of the City of Fredericksburg, Virginia, and that the foregoing is a true copy of Ordinance No. 21-11 duly adopted the City Council meeting held at which a quorum was present and voted.

***Tonya Lacey, MMC
Clerk of Council***