



MEMORANDUM

TO: Timothy J. Baroody, City Manager
FROM: Tripp Lawrence, Assistant Director of Finance
RE: Ordinance to Amend Water & Sewer Fees for the City of Fredericksburg
DATE: April 11, 2022 (for April 26, 2022 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

A public hearing on this ordinance was held on April 19, 2022.

This ordinance requires two reads. Staff recommends approval on first read. If approved on first read, the second reading would be May 10, 2022.

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 Fiscal Year (FY) 2023 and beyond. These projects include the Water Meter Replacement Program budgeted at \$5.3 million, Sewer System Improvements budgeted at \$15.6 million, and the Wastewater Treatment Plant Upgrade budgeted at \$101 million. These budgeted amounts span the FY 2023 – FY 2027 Capital Improvement Plan time frame.

In FY 2020, the City began a process of implementing increases in water and sewer rates each year for five years, in preparation for these and other major capital projects. The City did not increase the rates in FY 2021 because of the economic uncertainty associated with the global pandemic. In FY 2020 and FY 2022, water and sewer rates were both raised by 10%.

The budget recommends implementation of an 8% rate increase in water rates and a 10% increase in wastewater rates for FY 2023, beginning July 1, 2022.

The City Council engaged the services of NewGen Strategies and Solutions LLC) to update their study of the water and sewer rates, fees and charges, including fixed charges, consumption charges, and availability fees effective beginning in 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% in water rates per year from FY 2023 through FY 2026 will provide revenues sufficient to meet the needs of the water fund, and an 8% increase per year over that time frame will provide for the needs of the sewer fund. Therefore, staff is recommending these rate changes for FY 2023.

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.

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:

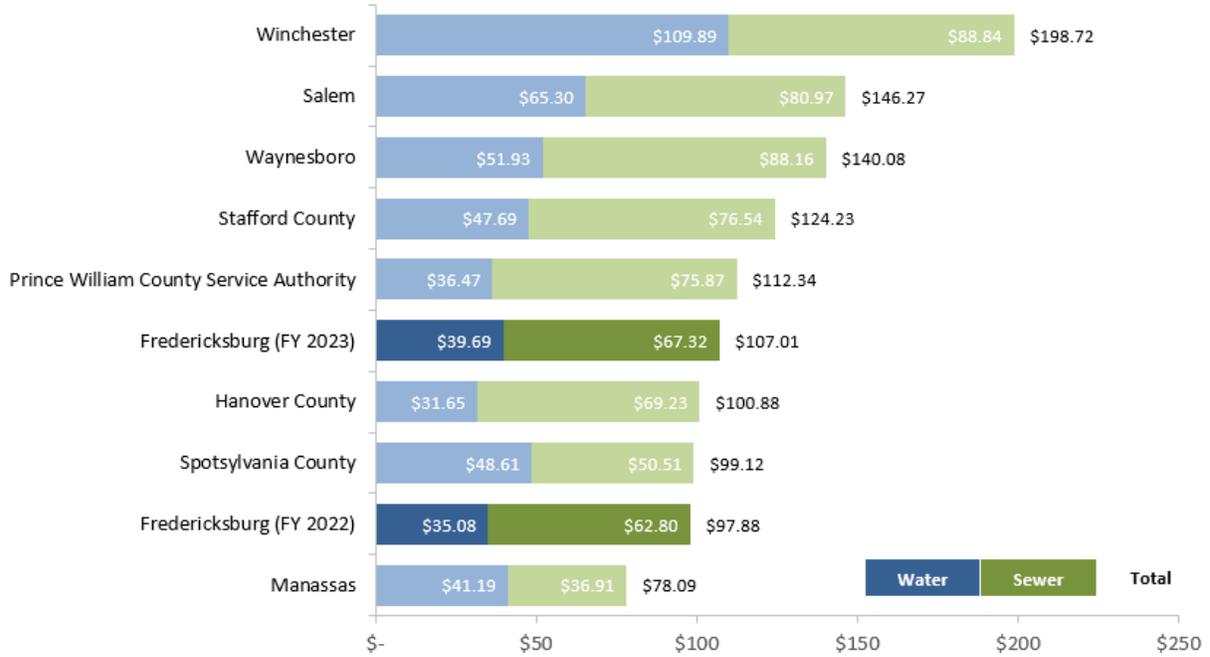
Water Utility Fees	Current	Proposed	Change
Water Base Fees (bi-monthly rates)			
5/8" Fixed Fee	\$14.95	\$16.15	\$1.20
3/4" Fixed Fee	\$19.70	\$21.28	\$1.58
1" Fixed Fee	\$38.90	\$42.01	\$3.11
1 1/4 & 1 1/2 Fixed Fee	\$86.34	\$93.25	\$6.91
2" Fixed Fee	\$155.55	\$167.99	\$12.44
3" Fixed Fee	\$368.64	\$398.13	\$29.49
4" Fixed Fee	\$622.39	\$672.18	\$49.79
6" Fixed Fee	\$1456.33	\$1572.84	\$116.51
8" Fixed Fee	\$2482.19	\$2680.77	\$198.58
Water Commodity Charge			
Per 1000 gallons	\$3.05	\$3.29	\$0.24

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	Current	Proposed	Change
Sewer Base Fees (bi-monthly rates)			
5/8" Fixed Fee	\$23.46	\$25.81	\$2.35
3/4" Fixed Fee	\$30.92	\$34.01	\$3.09
1" Fixed Fee	\$61.05	\$67.16	\$6.11
1 1/4 & 1 1/2 Fixed Fee	\$135.52	\$149.07	\$13.55
2" Fixed Fee	\$244.16	\$268.58	\$24.42
3" Fixed Fee	\$578.67	\$636.54	\$57.87
4" Fixed Fee	\$976.94	\$1074.63	\$97.69
6" Fixed Fee	\$2198.09	\$2417.90	\$219.81
8" Fixed Fee	\$3746.47	\$4121.12	\$374.65
Sewer Commodity Charge			
Per 1000 gallons	\$5.96	\$6.56	\$0.60

The proposed rates will increase the bi-monthly bill by \$9.09 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.



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.

The below table provides the details of the Recommended Capital Improvements Plan for FY 2023 through FY 2027.

WATER CAPITAL FUND (FUND 303)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Total
College Heights Water Line Replacement (Phase II)	\$ -	\$ 95,000	\$ 390,000	\$ 500,000	\$ 500,000	\$ 1,485,000
Internal System Improvements	\$ 400,000	\$ 500,000	\$ 600,000	\$ 600,000	\$ 750,000	\$ 2,850,000
Pressure Release Valve Replacement / Rehab	\$ 95,000	\$ 180,000	\$ 380,000	\$ -	\$ -	\$ 655,000
SCADA	\$ -	\$ 620,000	\$ -	\$ -	\$ -	\$ 620,000
Sewer & Water Master Plan	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ 200,000
Spotsylvania Shared Water Projects	\$ 80,000	\$ 2,725,000	\$ 2,735,000	\$ 5,740,000	\$ -	\$ 11,280,000
Telegraph Hill Loop	\$ -	\$ 340,000	\$ -	\$ -	\$ -	\$ 340,000
Water Meter Replacement	\$ 5,255,000	\$ -	\$ -	\$ -	\$ -	\$ 5,255,000
Grand Total	\$ 6,030,000	\$ 4,460,000	\$ 4,105,000	\$ 6,840,000	\$ 1,250,000	\$ 22,685,000

WASTEWATER CAPITAL FUND (FUND 304)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Total
2 & 17 Pump Station Improvements	\$ 30,000	\$ 945,000	\$ -	\$ -	\$ -	\$ 975,000
Hazel Run Sewer Improvements	\$ -	\$ -	\$ -	\$ -	\$ 13,220,500	\$ 13,220,500
NPS / Farrell Lane Line Replacement	\$ -	\$ 350,000	\$ -	\$ 2,900,000	\$ -	\$ 3,250,000
Princess Anne (Upper) Sewer Replacement	\$ -	\$ -	\$ 700,000	\$ -	\$ -	\$ 700,000
Sewer & Water Master Plan	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ 200,000
Sewer System Improvements	\$ 4,435,000	\$ 4,455,000	\$ 2,470,000	\$ 2,100,000	\$ 2,100,000	\$ 15,560,000
Spotsylvania Shared Wastewater Projects	\$ 1,300,000	\$ 85,000	\$ -	\$ -	\$ -	\$ 1,385,000
Wastewater Treatment Plant (WWTP)						
Capital Maintenance	\$ 260,000	\$ 140,000	\$ 140,000	\$ -	\$ -	\$ 540,000
Wastewater Treatment Plant Upgrade	\$101,020,000	\$ -	\$ -	\$ -	\$ -	\$101,020,000
Grand Total	\$107,245,000	\$ 5,975,000	\$ 3,310,000	\$ 5,000,000	\$ 15,320,500	\$136,850,500

The Capital Improvements Plan recommendation includes \$66.7 million in new water and sewer fund debt spread over the next five years. The largest portion -- \$43 million -- would be the debt issued for the major construction of the Wastewater Plant. The CIP also envisions other sources of funding for this project: \$3 million in ARPA funds, \$15 million in state appropriated funds, \$5 million in recovered costs, and \$34.7 million from the state's Water Quality Improvement Fund grant.

FISCAL IMPACT

The FY 2023 City Manager's Recommended Budget includes \$4.3 million budgeted in Water Sales revenue, and \$7.3 million in Sewer Charges, taking into account the proposed Utility Fee increases. As of April 12, 2022, revenue for FY 2022 totals \$3.1 million for Water and \$5.2 million for Sewer.

Attachment: Ordinance Increasing Water and Sewer Fees



April 26, 2022
Regular Meeting
Ordinance No. 22-

MOTION:

SECOND:

RE: Amending Water and Sewer Fees Rates and Charges

ACTION: APPROVED: Ayes: 0; Nays: 0

FIRST READ: _____ 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 NewGen Financial 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.

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	\$14.95	\$16.15	\$1.20
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8" Fixed Fee	\$2482.19	\$2680.77	\$198.58
Water Commodity Charge			
Per 1000 gallons	\$3.05	\$3.29	\$0.24

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)			
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8" Fixed Fee	\$3746.47	\$4121.12	\$374.65
Sewer Commodity Charge			
Per 1000 gallons	\$5.96	\$6.56	\$0.60

SEC. III. Effective date.

This ordinance shall take effect July 1, 2022.

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. 22- duly adopted the City Council meeting held Date, 2022 at which a quorum was present and voted.

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