



STAFF REPORT

AGENDA ITEM #: 20-36
COUNCIL MTG OF: April 7, 2020
FROM: Department of Public Works
OFFERED BY: Michael Fowler, Director of Public Works
PREPARED BY: Thomas Carrier, Deputy Director of Public Works
SUBJECT: Municipal Water Rate and Fee Adjustment – FY2021

PURPOSE: Staff requests Council approval of an increase to the Municipal Water Rates and service fees.

TOWN ADMINISTRATOR COMMENTS: The Council is encouraged to review this information and receive public input on April 28. Staff will be presenting information on phased increases of the water usage rates at the April 21 Council meeting.

BACKGROUND:

I. Derry's municipal water service fees have not been increased in 10 years. Increases in labor and materials costs are exceeding what the Town now charges for meters, meter horns and service calls. DPW has reviewed vendor pricing and current wage rates and adjusted our meter, meter horn, hydrant and customer service fees accordingly.

II. Derry's Merrimack River Source Development Charge (MSDC) is proposed to be increased to the same charge that Manchester Water Works (MWW) charges its new customers, including new capacity for Derry. The MSDC was paid by Derry to MWW for water capacity to be produced by MWW from the Merrimack River. MWW began charging Derry this fee in 1998 at a fixed rate of \$1.14 per gallon per day. In 2005 MWW began escalating the rate annually. Their current rate is \$3.79 per GPD. Over the past years Derry has purchased 800,000 GPD for a total capacity of 2.9 MGD. (Derry's original agreement with MWW prior to the MSDC gave Derry 2.1 MGD). Derry is presently charging its new customers \$2.36 per GPD.

III. Derry's water usage rates were last increased in 2017. The revenues from that 1.8% increase (or \$1.50 on the average single-family quarterly water bill) was specifically to offset a series of rate increases from MWW from 2013 to 2016. Since Derry's last increase our purchased water rate from MWW has increased an additional 7.5% with another 2-3% projected for FY2021. This equates to over \$85,000 in additional annual expense.

Further, Derry is subject to participate in certain capital improvements to MWW's system that benefit Derry. Our FY21 budget includes the first of 20 annual payments of \$69,900 toward MWW's upgrade of MWW's Cohas water booster pumping station.

Finally, Derry has not increased its water main replacement budget since 2017. Material and labor costs have significantly increased over the last 3 years. Infrastructure continues to age. Pumping station equipment is nearing, and in some cases, exceeding its useful lives. Addition funding is needed to maintain the system at current standards.

DISCUSSION:

I. The existing fee schedule is revised to account for the actual cost of materials and labor. Service fees have been calculated based on the average wage rate of water and sewer system operators plus payroll taxes. Meters, meter horn and hydrant fees are calculated using the Town's vendor cost plus an administrative cost of 10%.

II. Derry's rate payers have prepaid for added capacity for future users. New users have been reimbursing the ratepayers through their payment of Derry's MSDC. In the summer of 2016 Derry exceeded its original 2.1 MGD capacity. New customers are now using the added capacity purchased under the MSDC. It is recommended that the new users now reimburse the ratepayers at the current MSDC rate that Derry would otherwise have to pay MWW for capacity being used by these new customers.

III. DPW is recommending increasing billed usage revenues by approximately 15% or \$315,000 to offset wholesale rate increases, costs related to MWW's Cohas project, price increases for ductile iron pipe and fittings. We propose to revise the rate structure whereby the base minimum charges do not include 500 cubic feet of usage. Each customer would be charged at the usage rate for all water consumed. To partially offset the increase in a customer's billable usage, the usage retail rate is proposed to be reduced.

We are also recommending increasing water rates an additional 10% for customers in the Town of Londonderry. Under the rules of the Public Utilities Commission, a Town may increase rates up to 10% for out of town customers without being subject to PUC regulation.

Increasing usage rates is necessary to implement the Water Capital Improvement Plan. The Town has 3 pressure zones with only one storage tank which is located in Zone 1. With the booster pump stations in zones 2 and 3 aging, they are vulnerable to shut down. Storage is essential to maintain service in zones 2 and 3. Also, increased water quality standards require additional monitoring and treatment. We will be assessing the need to adjust rates again in the next budget to ensure available funding for our CIP.

FISCAL IMPACT:

I. The estimated impact of the fee increases to the FY2021 budget is \$6,300 (+22%).

II. The added revenues from the increase in Derry's MSDC are estimated at \$15,500 (+23%). These fees will be paid by new customers and the additional revenue used, in part, to offset capital expense costs required of Derry to MWW's system.

III. Water usage rates - The net impact of eliminating minimum usage and reducing the usage rate is estimated at \$8 on an average quarterly water bill (\$2.65/month). The new average bill would be \$320 a year. If approved, our new rates will remain below the average of our peer communities of \$438/year.

WATER RATE IMPACTS:	ANNUAL COST		Quarterly Bill \$ Impact this Increase	Monthly Increase to Average Bills per unit	% Increase per unit
	FY20 Current \$23.28.qtr/unit 2.55/ccf	FY21 Proposed \$23.28.qtr/unit 2.30/ccf			
Single Family Residential Customer	\$ 287.53	\$ 319.28	\$ 7.94	\$ 2.65	11%
Duplex (1"meter)	\$ 400.77	\$ 477.94	\$ 19.29	\$ 3.22	19%
6 Unit Condo Building	\$ 880.50	\$ 1,137.27	\$ 64.19	\$ 3.57	29%
24 Unit Apartment Building	\$ 3,560.88	\$ 4,584.88	\$ 256.00	\$ 3.56	29%
Industrial Building - Large User (+/- 3689 gals per day) 2 inch meter	\$ 4,632.12	\$ 4,323.12	\$ (77.25)	\$ (25.75)	-7%
Commercial Unit/Single Occupant Residential-min user 3/4 inch meter	\$ 93.12	\$ 140.12	\$ 11.75	\$ 3.92	50%
Commercial Unit 1 inch meter (1500 gpd)	\$ 1,953.67	\$ 1,858.28	\$ (23.85)	\$ (7.95)	-5%
Commercial Unit 1 1/2 inch meter (1000 gpd)	\$ 1,427.62	\$ 1,381.03	\$ (11.65)	\$ (3.88)	-3%
Commercial Unit 1 1/2 inch meter (41 GPD/2000cft/year min Usage)	\$ 234.32	\$ 281.32	\$ 11.75	\$ 3.92	20%
Pennichuck Corp.	\$ 69,112.00	\$ 76,806.00	\$ 1,923.50	\$ 0.73	11%
Londonderry	FY20 Current \$23.28.qtr/unit 2.55/ccf	FY21 Proposed \$25.60.qtr/unit 2.53/ccf	Quarterly Bill \$ Impact this Increase	Monthly Increase to Average Bills per unit	% Increase per unit
	\$ 35,830.00	\$ 41,375.00	\$ 14.59	\$ 4.86	15%

MUNICIPAL WATER & SEWER RATE COMPARISON : 1/22/2020	AVERAGE ANNUAL WATER COST*	AVERAGE ANNUAL SEWER COST*	AVERAGE ANNUAL WATER & SEWER COST
Aquarion (Hampton, North Hampton, Rye)	\$ 351.72	N/A	N/A
Bedford (Manchester Water Works/Manchester Sewer)	\$ 258.46	\$ 418.68	\$ 677.14
Bedford (Pennichuck Water Works)	\$ 561.72	\$ -	\$ 561.72
Claremont	\$ 463.44	\$ 763.92	\$ 1,227.36
Concord	\$ 243.48	\$ 433.08	\$ 676.56
Dover	\$ 479.28	\$ 820.08	\$ 1,299.36
Exeter	\$ 675.72	\$ 534.00	\$ 1,209.72
Hooksett (Hooksett Village District)	\$ 470.76	\$ 578.64	\$ 1,049.40
Hooksett (Manchester Water Works)	\$ 258.46	\$ 578.64	\$ 837.10
Hudson	\$ 445.92	\$ 206.52	\$ 652.44
Keene	\$ 462.36	\$ 708.00	\$ 1,170.36
Laconia	\$ 258.12	\$ 593.16	\$ 851.28
Londonderry, North (Manchester Water Works)	\$ 258.46	\$ 384.00	\$ 642.46
Londonderry, South (Pennichuck East Utility)	\$ 806.88	\$ 384.00	\$ 1,190.88
Manchester (Manchester Water Works/Manchester Sewer)	\$ 234.96	\$ 418.68	\$ 653.64
Merrimack (Merrimack Village District)	\$ 241.68	\$ 242.04	\$ 483.72
Merrimack (Pennichuck Water Works)	\$ 561.72	\$ 242.04	\$ 803.76
Nashua (Pennichuck Water Works)	\$ 561.72	\$ 354.96	\$ 916.68
Portsmouth	\$ 458.88	\$ 1,225.32	\$ 1,684.20
Rochester	\$ 509.16	\$ 627.60	\$ 1,136.76
Salem	\$ 355.32	\$ 451.56	\$ 806.88
Somersworth	\$ 493.20	\$ 495.55	\$ 988.75
AVERAGE ALL COMMUNITIES ABOVE	\$ 427.79	\$ 498.12	\$ 929.53
AVERAGE "PEER" COMMUNITIES	\$ 438.47	\$ 520.39	\$ 958.85
DERRY - USING PROPOSED NEW WATER & SEWER RATES	\$ 319.32	\$ 436.20	\$ 755.52

* Water usage based on 9624 cft per year. Sewer usage based on 9624 cft per year (NHDES survey assumption).
200 GPD

RECOMMENDATION: It is recommended that the Council, acting as the Water Commissioners, approve the proposed FY2021 water rates and fess schedule as presented under Resolution #2020-018.

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RESOLUTION Number 2020-018

To Approve Revised User Rate Schedules for Derry Water Customers

WHEREAS, RSA 38:17 authorizes the Town Council to enter into a supply contract with another municipality for the purposes of purchasing water for customers of the Derry Water Department; and

WHEREAS, the Town has entered into a wholesale water supply contract with Manchester Water Works to provide water for its customers; and

WHEREAS, the Town Council, on occasion and in accordance with RSA 38:28 shall review water user rates to remain in compliance with the Town's contract with Manchester Water Works, to fund necessary capital improvements and to ensure the equitable distribution of expenses across all water user classifications;

NOW, THEREFORE, BE IT RESOLVED IN COUNCIL that it is necessary to adjust water user rates as set forth on the attached schedule over a three-year period beginning in FY 21.

This Resolution shall take effect on all water usage billed on or after July 1, 2020.

Adopted: May 5, 2020

Attest:

X _____
Charles Foote, Council Chair
Date: _____

X _____
Daniel Healey, Town Clerk
Date: _____