



March 26, 2019

Mr. Edward Bean
Director of Finance
City Hall
93 Highland Avenue
Somerville, MA 02143

Mr. John DeLuca
Director of Water & Sewer
17 Franey Rd
Somerville, MA 02143

Re: **Recommended Water and Sewer Rates for FY2020 through FY2022**

Dear Mr. Bean and Mr. DeLuca:

Working with City staff, Woodard & Curran has completed the rate study update of the financial model that has been used successfully for setting rates over the past four fiscal cycles. Given the expected capital investments needed in both the water and sewer systems in the coming years, the model was updated in several ways to ensure its long-term accuracy for setting water and sewer rates:

1. A more robust projection of capital projects and the related financing costs were added to the model, which included the addition of several projects to the Capital Program.
2. Two more years of billed consumption records were incorporated into the model to allow for an updated analysis on trends in volumetric billings;
3. The Fire Suppression Charges and associated revenues from the Water Enterprise rate structure were eliminated;
4. The methodology for projecting future MWRA costs was updated using the most recent budgetary guidance from the MWRA Advisory Board;
5. The rate calculation was redesigned to allow the City to consider the institution of a new lower-cost (Discount) tier designed to help control utility costs for both the smallest use customers, such as senior households likely to be on a fixed budget, as well as all residential customers; and
6. The option to allocate infrastructure investments between sewer and stormwater infrastructure was added, allowing the City to consider a stormwater utility in the future.

Discussion of the Capital Program

Since the completion of the original rate model in 2015 and 2016, the City has substantially updated its plans for capital investments in the water and sewer systems. The financial model now contains ten-year water and sewer capital programs with expected overall spending in excess of \$300 Million in system upgrades and replacement. The programs are designed to better address long-deferred repairs, upgrades and other critical needs of the City's aged utility infrastructure as well as meet requirements for on-going growth, including development called for in SomerVision. From the standpoint of financial projections, all capital project costs are escalated to ensure the City is planning appropriately for the probable costs that will be incurred.



Impact of Eliminating the Fire Suppression Charge

As part of the rate design/revenue generation model from the original study in 2016, the City had planned to implement a fire suppression charge to be levied on water system customers who had dedicated fire suppression system connections plumbed directly into the City water mains. The intent of the original fire suppression charge was to increase equitability in the billing structure by charging for this service as well as generate additional revenue to the Water Enterprise Fund.

After further review and discussion with the community, the City has indicated that it no longer wishes to proceed with this charge, and the model has been updated to reflect this change. As this change permanently removes a revenue stream, the volumetric rates recommended in this memo have been adjusted to generate this revenue from volumetric water billings.

Lower-Cost /Discount Tier

Given the expected impact on rates of the City's capital investment plans, the City has asked that Woodard & Curran recalculate the rates structure to include a new discount tier. The new discount tier provides all residential customers a discounted rate for the first 8 units per billing cycle. The intention of the new discount tier is primarily to reduce the impact of rate increases over time on the smallest users, which often coincides with customers on fixed or limited incomes, such as seniors. Additionally, as all residential users would receive the discounted rate on their first 8 units of usage in each billing period, the rate will also reduce the overall impact of rate increases for all residential users.

Recommended Rates

The following tables provide our recommendation for the water and sewer volumetric rates needed to fully fund the operations and capital investment needs of the City's utilities for the next three fiscal years. We are recommending that the current base charges and all other fees be kept at their current levels.

		Rates - Water (\$/unit)			
Tier	Tier Range	2019	2020	2021	2022
Rate Increase (%)		0.0%	6.0%	6.0%	6.0%
Discount	0-8	n/a	\$3.95	\$4.19	\$4.44
1	9-13	\$4.14	\$4.39	\$4.65	\$4.93
2	14-67	\$5.97	\$6.33	\$6.71	\$7.11
3	68-133	\$6.26	\$6.64	\$7.03	\$7.46
4	>133	\$6.50	\$6.89	\$7.30	\$7.74



		Rates - Sewer (\$/unit)			
Tier	Tier Range	2019	2020	2021	2022
Rate Increase (%)		5.0%	7.5%	7.5%	7.5%
Discount	0-8	n/a	\$7.93	\$8.52	\$9.16
1	9-13	\$8.20	\$8.82	\$9.48	\$10.19
2	14-67	\$10.46	\$11.24	\$12.09	\$12.99
3	68-133	\$10.97	\$11.79	\$12.68	\$13.63
4	>133	\$11.36	\$12.21	\$13.13	\$14.11

In closing, the rates recommended in the tables above are projected to provide adequate revenues needed by the Water and Sewer Enterprise Funds to:

1. Fully fund operational costs;
2. Pay the City's MWRA Annual Assessments (which constitute the majority of overall water utility and sewer utility costs); and
3. Fully cover the costs of the capital programs developed by the City for both utilities.

If you have any further questions concerning the rate study or our projection of expected revenues, please contact me at tfedder@woodardcurran.com or via cell at 603-817-7441.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Toby Fedder'.

Toby Fedder, P.E.
Vice President / Senior Principal

Cc: Alex Lessin, Somerville Water and Sewer
Jessica Richard, W&C