STATEMENT OF THE INDEPENDENT CONSUMER ADVOCATE REGARDING BUDGET AND RATES

INTRODUCTION

The MDC has proposed an operating budget of $189 million (water and sewer) or an increase of 13.2% over 2018 budget. The capital improvement budget is proposed at $73 million. In addition, capital funds will be expended on the Clean Water Project. Customer bills will, on average increase 10.99% in member towns and 5.05% in non-member towns. Ad Valorem taxes will increase 15%.

These increases are daunting. While there are a variety of drivers for them, the biggest single one is the need for capital improvements to both water and sewer facilities. Debt service (principal and interest on bonds used for capital improvements) totals over one-third of the proposed operating budget and the increase in debt service from 2018 to 2019 represents 40% of the budget increase. In addition debt service on Clean Water Project bonds represents another $49 million in costs.

There are two drivers to these capital costs. First, for a variety of reasons, MDC underinvested in water and sewer capital improvements over the last several decades. While that had the effect of keeping water and sewer rates low, it has resulted in the need to 'catch up' now, resulting in higher increases to rates. Second, the Clean Water Project, undertaken at the behest of federal and state environmental authorities in order to reduce the amount of sewer overflows into streams and rivers, is in full swing and will require substantial investments going forward.

The MDC has designed a Long Range Integrated Plan (LRIP) to manage these two drivers over the coming decades. If that Plan is approved by the relevant federal and state agencies, the effect should be a somewhat reduced need for capital improvements from current projections and therefore a lessening of pressure on increasing debt service and the need for additional revenue. While capital spending will continue, and therefore the need for increased revenue will continue also, the increases should be more modest.

PROPOSED BUDGET REDUCTIONS

The second major budget driver is payroll related (wages and benefits). The proposed budget increases these by $11 million or one-half of the overall operating budget increase. This increase should be reduced by at least $750,000. This amount was arrived at as follows. In the presentation to the Finance Committee on November 9, 2018, (p. 11), 411 employees were in the 2018 budget. 418 employees are identified in the 2019 budget. However, the 2018 projected (i.e. actual) employees in 2018 totaled only 399 due to vacancies. On average, then, there were 12 vacancies from authorized levels in 2018. Assuming the same rate of vacancy in 2019 and an average salary of $50,000 plus benefits of 25%(health insurance, workers comp, unemply comp, social security, medicare, etc..) the amount the budget should be reduced is $750,000. While not an overwhelming amount in a budget of $189 million, it should not be ignored.

It should be emphasized that a reduction in headcount is not being suggested here. Rather, this reduction represents a more realistic total cost given the headcount increase and the time it takes to complete the hiring process.

RATE DESIGN ISSUES

After establishing the overall revenue needs of the MDC, the next significant question is how to charge customers to raise that amount of revenue. Somewhat surprising is that there is no effort to link rates to cost causation—a fundamental principle of rate design. That is, those customers who cause a utility to incur a cost ought to bear that cost. For example, all customers need to have meters read, bills prepared, bills sent out (either physically or electronically), and payments collected and posted. Therefore, every customer, regardless of size should pay at least this amount. There is no analysis to demonstrate what this cost is for the MDC or to make sure that all customers are paying at least this amount.

I do commend the MDC for revising some private fire protection rates so that those customers receiving this service are in fact paying something for it. Unfortunately there is no cost analysis to demonstrate whether the level of this charge is correct. The same comments can be made regarding the new backflow prevention inspection charge.

There are two proposed rates which are especially problematic.

Economic Development Rate.

The proposed Economic Development Rate would give a 20% discount on all water consumption over 600,000 gallons per day. There is no cost justification for such a discount. Second and perhaps more importantly, for these largest customers the clean water project charge (also known as the special sewer service charge) would no longer be based on water consumption for water in excess of this 600,000 gallon threshold but rather would be based on sewer flow associated with this excess over 600,000. The fundamental principle of linking the clean water project charge to water consumption would therefore be broken. This approach favors water customers who discharge less into the sewer than water used. This favors customers like water bottling plants, golf courses and the like.

The MDC should not be picking which types of customers get better rates for service. It should be providing service to all customers on an equitable basis. This treatment is simply not equitable. For example, a condominium association approached the MDC in the last several months and argued that it should not have to pay the clean water project charge on water it used for irrigation. It meters this irrigation water separately from domestic consumption and the irrigation water was not discharged to the sewer. The argument was rejected on the grounds that all metered water is subject to the clean water charge, whether it goes into the sewer or not. Under this proposed economic development rate, that principle is clearly violated.

The magnitude of this change in how the clean water charge is calculated will vary depending on the type of customer. It could be substantial and in all likelihood will be far in excess of a 20% discount. For example, if a customer only discharges 30% of purchased water to the sewer, the customer would be getting a discount of 70% off the clean water project charge for water useage in excess of the 600,000 gallons a day.

Sewer User Charge.

The Sewer User charge is being levied in violation of both federal regulations and the MDC's own ordinance. Part 12 of the General Sewer Ordinance established in 1981 a Sewer User Charge for certain high flow (measured by volume or strength)users and for non-municipal tax exempt water and sewer users. It was intended to act in concert with the Ad Valorem tax paid by member municipalities and more equitable spread the burden of the sewer system among all users. Section 12t of the Ordinances requires that "A 'Cost of Service Study' shall be conducted by the District in accordance with applicable Federal Water Pollution Control Regulations not less than every two years."

The budget proposal before the MDC includes a proposed Sewer User Charge of $4.64, an increase from the current $3.74 or an increase of 24%. Apparently this was calculated using total water sold in member towns and total sewerage treated at the treatment plant. This calculation assumes all of the sewerage treated at the plant in excess of water sold is attributable to these high users and non-municipal tax exempt users. This is obviously incorrect. Much of this excess flow is attributable to Infiltration and inflow which is produced throughout the sewer system when rainwater finds its way into the sewer system.

In any case this calculation is in no way consistent with Federal Water Pollution Control Regulations as required by Federal Law and the District's own Ordinances. Not only is this charge being levied without authority but it also threatens the District's ability to access federal grants should they be available.

While it is recognized that the elimination of the revenues associated with this charge will create a significant shortfall in the District's budget, it has no choice but to reject this charge unless and until there is compliance with federal law and its own Ordinances.

CLEAN WATER PROJECT

The Clean Water Project and its funding was established over ten years ago. That financing model made a variety of assumptions about cost, level of water sales, acceptable rate impacts, size of rate stabilization funds, etc. .In light of the fact that it has been ten years and especially if the Long Term Integrated Plan becomes reality, the fundamental assumptions behind this charge should be reviewed to determine if revisions are necessary.

CONCLUSION

The Independent Consumer Advocate has tried to focus on those issues of most relevance to customers of the District. As the above discussion illustrates, the budget should be reduced, the economic development rate rejected, and the Sewer User Charge should be eliminated until there is compliance with law.