COMMENTS OF THE INDEPENDENT CONSUMER ADVOCATE ON

2020 PROPOSED BUDGET AND RATES

NOVEMBER 13, 2019

The Independent Consumer Advocate(ICA) has reviewed the proposed 2020 Budget and rates. These comments represent the areas of greatest concern to the ICA and he asks that the Board of Finance and the District Board give them careful consideration.

The proposed increase for water usage of 14.5% is somewhat mitigated by holding the water customer charge flat. It is further and substantially mitigated by holding the Clean Water Project charge (CWP) flat. Without these mitigating factors which hold the increase in water and sewer bills to approximately 5%, an increase of such magnitude would simply not be affordable to a large number of customers.

THE PROJECTED TREND IN WATER AND SEWER COSTS TO CONSUMERS IS NOT SUSTAINABLE.

Water and sewer costs to consumers have increased substantially over the last ten years. These increases have largely been fueled by the need for capital improvements to the existing water and sewer system and the capital improvements associated with the CSO and SSO abatements. The result has been a substantial decline in water use, above and beyond what could be attributable to those factors affecting all water suppliers, e.g. more efficient appliances. From 2008 to 2019, water use declined on average by 1.9% per year, almost twice what might be attributable to water efficiencies. In 2008, MDC sold 22,297,000ccf as compared to 17,700,000 ccf in 2019.

Such a steep decline foreshadows the beginning of a 'death spiral': Water use declines as rates go up, rates need to go up even further to offset the decline in use, use declines even more due to the higher rates, and so on. Indeed, in the current proposed 2020 budget, a 14.5% increase in the water rate($3.50/ccf to $4.01/ccf) only produces a 5.6% increase in revenue over 2019 budget. (It should be noted that a portion of this difference between the 14.5 and the 5.6 percentages is due to the customer charge being held flat.).

Even if the long term integrated plan(IRP) currently being considered by the DEEP is approved, that alone, especially given the MDC preferred plan for funding, will not halt this spiral. There are several steps that the MDC must consider during 2020 that could at least ameliorate the current trends.

First, it needs to rethink its current preferred plan for funding the CSO and SSO abatement. In its IRP filing of December 2018, it proposes to shift cost burdens away from the ad valorem and toward the CWP charge borne by individual customers. That is, if it determines that a capital expenditure has any relationship to mitigating CSO and SSO, even if it also represents capital improvements to the regular sewer system, it will finance this expenditure through the CWP and not the ad valorem. The result will be a substantially higher CWP charge than it might otherwise have been.

While the CWP portion of the customers' bills are not due to the cost of providing water, from the customer perspective, each gallon of water used incurs two charges: one for water and one for CWP. Each gallon not used reduces both these charges. If the IRP is approved, then this relationship between the capital expenditures associated with ALL sewer improvements and the ad valorem charge needs to be reconsidered from that which is currently being proposed.

Second, longer durational bonds need to be considered. Currently all financing by the MDC is through 20 year bonds. While some bonding will have to remain at 20 years, the MDC does have the discretion to finance a portion of its capital needs through 30 year or longer bonds. Given that most capital expenditures are for assets with useful lives much longer than even 30 years, such longer durational bonds would be appropriate. For the same reason that many homeowners opt for 30 year mortgages, notwithstanding slightly higher interest rates, instead of 15 year mortgages, MDC must consider the affordability to customers of longer durational bonds.

Third, there needs to be a strategic use of the rate stabilization fund associated with CWP. This fund currently amounts to $100 million. If the IRP is approved and after taking the foregoing steps, it can then be determined as to how it can best be used to mitigate rates over the long run.

The MDC cannot adopt a business as usual plan. Once consumption is lost, it is unlikely to return.

THE PROPOSED BUDGET FOR PAYROLL SHOULD BE DECREASED BY AT LEAST $750,000.

During budget deliberations last year, the ICA urged a reduction in the payroll budget to take into account vacancies. While there was some accounting for retirements, the budget essentially fully funded all 485 positions. It assumed all positions would be filled every day of the year.

This assumption flies in the face of reality. It is virtually impossible to fill every position on every day of the year. Resignations, terminations, retirements, the hiring process, all lead to there being vacant positions throughout the year. In 2019, despite 485 positions being authorized, the employment count never exceeded 475 in any month (Figures through 9/30/19). The monthly average was 469 (Measured at the beginning of each month through September). Most tellingly, even though an unbudgeted 53rd payroll week was accelerated from 2020 into 2019, the total payroll (inclusive of regular pay, overtime , temporary help, etc..) was still $400,000 less than budgeted.

Budgets ought to represent the most accurate projection of what will actually be spent in any given time period. This year, 481 positions are being proposed. A vacancy factor of 3% , or 14 positons, should be adopted for budgetary purposes. At a conservative assumption of $60,000 for salary and benefits, this would equate to a reduction in the budget of $840,000. To be more conservative, the ICA adjusts this to a $750,000 reduction divided proportionately between water and sewer.

THE ALLOCATION OF SEWER COSTS NEEDS TO BE RE-EXAMINED.

Sewer revenues consist of several revenue streams. Most relevant here are ad valorem taxes, sewer user charges, and the sewer customer service charge. Ad valorem is proposed to increase by 6.9%, the sewer user charge (levied on certain commercial customers such as large apartment complexes, certain industrial users, tax exempt users, etc..) is proposed to increase by 11% from $4.64 to $5.15, and the sewer customer service charge by 16.6% from $6.00 per month to $7.00 per month. There does not appear to be any rationale for this different rates of increase. Given that the sewer user charge is often based on the amount of water billed to the customer, this charge further exacerbates the 'death spiral' discussed above. There may very well be a rational reason to differentiate these customers in this way, but it is not presented in the budget materials.

CONCLUSION

The MDC must address the unsustainability of the current rate of growth in water and sewer costs to consumers. The proposed increase in such costs to consumers for 2020 need to be adjusted as set forth here. During the coming year the MDC must address the amelioration measures discussed above and provide more affordable and sustainable costs to consumers. The alternative is an ever-decreasing consumption base from which to raise necessary revenues.

RESPECTFULLY SUBMITTED,

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The Advocate thanks Chris Martin and the finance staff for responding over the last two months to my numerous questions and comments regarding the budget. Their cooperation is appreciated.