

City of East Providence Budget Commission
City Hall
145 Taunton Avenue
East Providence, RI 02914
(401) 435-7500

Public Meeting – Ordinance to Increase Wastewater Rates
April 19, 2012, 6:00 PM

Members: Michael O’Keefe – present
Stephen Bannon – present
Diane Brennan – present
City Manager, Peter Graczykowski – present
Mayor Bruce Rogers – present

Other Attendees: Ellen Eggeman – City Finance Director
Christy Healey, Budget Commission Fiscal Advisor
David Eaton, Budget Commission Fiscal Advisor
Members of the Public

The meeting commenced at 6:05 pm. Michael O’Keefe presented the Wastewater Facility Improvement Program Powerpoint that was also presented to the Budget Commission on April 5, 2012 and April 10, 2012. The only change was that the Clean Water Finance Agency can do a 60 day bridge loan so there is no need for a Bond Anticipation Note. The project completion date is January 2013, which is 9 months ahead of schedule. He noted that the ordinance sets rates for 3 years because the error rate gets higher in later years, which is true of any projection over time. Mr. O’Keefe stated that the ordinance includes a requirement to study varying the rates in the future based on residential, commercial, and industrial categories. The study should take approximately 7 months to complete.

The Commission requested comments from the public, but there were no comments from the attendees.

Mayor Bruce Rogers noted that the rate study had been reviewed during a number of Budget Commission meetings and had been well researched. He stated that the rates must be increased to support the wastewater system, and that he felt the option presented was the best for the community. By keeping the fixed charge flat, residents would be able to regulate their bills by reducing consumption. He stated that the Commission had no choice but to raise the rates.

Mr. O’Keefe stated that the Commission would not adopt the rate change at this second reading, but would wait until next week to allow for a second public comment period. The

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Public Hearing for final passage of wastewater rates will be held on April 26, 2012 in City Council Chambers at 4:00 PM.

The meeting adjourned at 6:40pm.

EPBC/ceh, de

Minutes approved by the East Providence Budget Commission on April 26, 2012.

Wastewater Facility Improvement Program

April 5, 2012

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Introduction

- The Issue
- Background
- Rates
- Options

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The Issue - Background

- 1998 - Department of Environmental Management issues notice of violation to East Providence
- Chronic sewer overflow events contaminating Narragansett Bay
- Also violating nitrogen standards from Clean Water Act
- Department of Environmental Management wanted speedy resolution

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The Issue

- City entered consent agreement in 2007 to bring its wastewater treatment facilities into compliance
- City borrows funds for the capital project needed to meet the consent order
- Adopted FY 2013 rate structure is insufficient to maintain required debt service coverage

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Consent Order

- Consent Agreement – April 2007
 - City had to negotiate a consent agreement with Rhode Island Department of Environmental Management
 - Reduce chronic sewer system overflows
 - New pump station and pipeline capacity
 - Meet new permit limits for total nitrogen

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The Facility Plan

- Upgrade treatment facility by September 2012
- Complete collection system and pump station improvements by August 2013
 - New Watchemoket Pump Station with force main and sewers
 - 4 New pump stations at Boyden Boulevard, Industrial Way, Fuller Avenue, south of Stonegate Apartments
 - Upgrade existing pump stations to improve reliability
- \$65.9 million estimate

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The Contract

- Request for proposals issued May, 2009
 - United Water and Veolia Water submitted proposals
- City Council unanimously approved contract agreement with United Water January 2010
 - United Water will design and build for \$52.5 million maximum
 - Ten year agreement for operations and management
 - United Water responsible for design, permitting, construction and acceptance testing
 - United Water must meet new and current permitting
 - City has option to renew for additional 10 years

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Project Costs

Project Stage	Cost
Wastewater Treatment Facility Improvement	\$24.2
Watchemoket Pump Station	9.5
Watchemoket Pump Station Force Main	12.3
New Pump Stations	5.5
Project Costs Subtotal	\$51.5

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Total Costs

	Cost
Project Costs	\$51.5
Financing Costs	
Costs of Issuance and Fees	0.7
Capitalized Interest	1.0
Debt Service Reserve	4.3
Total Costs	\$57.5

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Financing

Lender	\$\$\$	When	Years	Rate
Clean Water Finance	\$ 10.0	Oct 2009	20	1.96%
Clean Water Finance	7.0	Jun 2010	20	3.72%
Clean Water Finance	23.0	Mar 2011	20	4.11%
Bridge Loan	3.0	[FY 2012]	4	4.00%
Bond Anticipation Note	15.3	[FY 2012]	1	4.00%
Clean Water Finance	\$ 17.5	2013	20	3.78%*
Total Financing	\$57.5			3.59%

*Projected as of March 27, 2012

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Project Status

- Project under budget (\$51.5 million) and ahead of schedule
- All construction to be substantially complete by Jan 1
- Bike path work to be complete by May 15

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Project Status

Project Stage	Due	Status
Wastewater Treatment Facility Improvement	Sep 2012	75%
Watchemoket Pump Station	Aug 2013	80%
Watchemoket Pump Station Force Main	Aug 2013	80%
New Pump Stations	Aug 2013	50%
Other Collection Systems	Aug 2013	50%

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Financing Approvals by City Council

Lender	\$\$\$	When
Clean Water Finance	\$10.0	Aug 11, 2009
Clean Water Finance	\$7.0	May 4, 2010
Clean Water Finance	\$23.0	Feb 7, 2011
Bridge Loan	\$3.0	[FY 2012]
Clean Water Finance	\$17.5	Feb 12, 2012

Project Rate Structure

- Bonds are revenue bonds
 - Debt service paid from user fees
 - Not a general obligation of the city
 - Not property tax funded
- Revenues must be sufficient to satisfy lenders that funds will be available to repay debt and pay operating costs
- Lenders and indenture require that rates provide 25 percent more than required (1.25 coverage ratio)
 - Makes bonds cheaper
 - Excess stays with project if not used

Project Rate Structure

- Revenues based on fixed charge and volume rates
- Determined through Rate Studies
- City Council must approve rates
 - 2009 rate study used by Council for initial rates for the project
 - Changes caused need for 2011 rate study
 - Adopted FY 2013 rates insufficient for remaining financing

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2009 Study

FY	Rate Study		Council Action	
	Fixed	Usage	Fixed	Usage
2009	40.00	4.40	40.00	4.40
2010	43.32	4.77	40.00	4.46
2011	58.37	6.42	60.00	6.42
2012	70.70	7.78	60.00	7.78
2013	73.55	8.09	60.00	8.09
2014	74.15	8.16		

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Council Rate Increase History

FY	Nov 5, 2008	Aug 1, 2009	May 4, 2010	Nov 6, 2010
2009	4.40			
2010		4.46		
2011		4.90	5.35	
2012		4.96	5.41	
2013		6.42	7.78	8.09

Current City Council Action

- Feb 7, 2011 - \$23.0 million loan approved
- Feb 12, 2012 - \$17.5 million loan approved
- Have not yet approved rates needed for loans
 - Feb 26, 2012 received rate study
- 2011 Rate study would be the basis

2011 Study

FY	Rate Study		Proposed	
	Fixed	Usage	Fixed	Usage
2013 Old	73.55	8.09	60.00	8.09
2013 New	66.00	8.56	60.00	8.64
2014 Old	74.15	8.16	Not adopted	Not adopted
2014 New	72.60	9.41	60.00	9.63
2015	80.22	10.40	60.00	10.74
2016	87.04	11.29	60.00	11.73
2017	89.65	11.63	60.00	12.08

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Fixed vs. Volume Rate Components

- Fixed charge improves revenue stability
- Low volume users and environmentalists typically prefer lower fixed and higher volume charges
 - Encourages conservation
 - Provides users some control over bills
- Higher volume users (such as large families and businesses) typically prefer higher fixed and lower volume charges
- Volume based is proposed

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Revised Rate Structure Impact

- Based on average residential user; actual customer cost will vary based on consumption
- 200 gallons per day per household
- 73,000 gallons minus 26,000 gallon exemption
 - Exemption expressed as cubic feet in ordinances
 - 9,579 cubic feet minus 3,500 cubic feet

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Average Impact

FY	Monthly Charge	Change
2012	\$45.59	
2013	50.08	4.49
2014	55.25	5.17
2015	61.00	5.75
2016	66.17	5.17
2017	68.00	1.83

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Other Communities

Community	Current Monthly Charge
Jamestown	\$111.05
Newport	84.56
Barrington	45.95
East Providence	45.59
Warwick	39.74
Cranston	32.08

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Why the Change

Cause	Approximate Cost (\$M)
<input type="checkbox"/> Rate recommendations from 2009 study not adopted as recommended Rates assumed to apply to full fiscal year (FY 10) Rates assumed to apply equally to volumetric rate and fixed charge Decline in consumption per account	\$3.9
NBC Costs	\$2.9
City Collection System & WWTP Expenses	\$1.6
FY 2012 Fund Balance Deficit	\$0.5

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Options

- Change Rate Structure
- Delay project
- Sell the system
- Coverage ratio

Change Rate Structure I

- Increase fixed rate and lower consumption rates
 - 2011 rate study structure
 - Somewhere in between 2011 rate study and proposed structure
 - Favors high users
- Total costs likely to be same
- Could avoid additional rate increases if consumption drops more than anticipated

Change Rate Structure II

- No bridge loan to smooth rates
- Requires higher rates initially
- Would decrease in later years

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Change Rate Structure II

FY	w/ Bridge Loan		No Bridge Loan	
	Rate	Average Monthly	Rate	Average Monthly
2012	5.41	\$45.59	5.41	\$45.59
2013	8.64	50.08	9.49	54.51
2014	9.63	55.25	10.30	58.72
2015	10.74	61.00	10.61	60.34
2016	11.73	66.17	10.93	62.00
2017	12.08	68.00	11.25	63.71

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Delay the Project

- Portions of project not required to be completed by consent agreement until Aug 2013 could be delayed
 - Potentially \$7.0 million could be delayed
 - Potential DEM issues if not completed on time
 - \$1.0 - \$2.0 million cost increase for contractor demobilization and remobilization
 - East Bay Bike Path would remain with unusable portion
- Would eventually have to be completed at possibly increased costs

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Sell the System

- Sell the waster water system to highest bidder
 - Use revenues to take out debt
- United Water still has 7 years left on contract
 - Any other bidder would have to buy that out
- Successful bidder would have to include costs of purchase in rates
- City would not have control over rates
 - Could possibly include rate limits in sell

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Coverage Ratio

- Rates based on 1.25 debt service
 - Required for bonds
- Coverage likely to occur
- Can be used for future rate stabilization or future capital costs
- Should be part of overall recommendation

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Summary

- Wastewater rates will have to increase
- There are options for lower initial rates
- Project cannot continue without rate resolution
 - Recommend 3 year rates be adopted
 - Rates can be adjusted downward in future
- Bridge loan or no bridge loan?

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