

Date: February 16, 2020

TO: Mayor William Martin; Council President David Glenn; Council Members Jim Ringsaker, David Martin, Jason Robertson, Casandra Boyer and Carolyn Zinner

FROM: Havre de Grace Water/Sewer Commission

SUBJECT: **Annual Report of the *State of the Havre de Grace Water/Sewer Fund 9***

REFERENCE: **City Code Chapter 25 Article XI, Section 25-69B**

Included in this Annual Report are the following elements:

- I. State of the Water /Sewer Fund and Summary for Fiscal Year 2020 (FY20)
- II. Year to Date Overview of Current Fiscal Year 2021 (FY21)
- III. Challenges for Fiscal Year 2022 (FY22)
- IV. Recommendations for Fiscal Year 2022 (FY22)
 - I. STATE OF THE WATER/SEWER SYSTEM FUND (FY20) (July 1, 2019– June 30, 2020)

Operating Revenue: FY20 ended with the Water/Sewer System (Fund 9) operating revenue at \$6,991,807; \$150,493 below budget expectations. This decrease was the result of decreases in metered service revenues.

Operating Expenses: The year-end operating expenses (less depreciation) were \$5,362,459; \$265,241 below budget expectations.

The overall results were an Operational surplus of \$1,629,348 which was \$114,748 above budget expectations.

Capital Cost Recovery Fees (CCRF): CCRF collected for FY20 totaled \$1,068,610; \$530,290 which was below the budget expectations, and \$1,244,341 below what was required to meet the debt obligation.

Infrastructure Replacement Fee (IRF), Capital Bond Proceeds and State Grants: IRF for FY20 was \$767,540 which was \$49,960 below budget expectations. Receipts from previous year Capital Bond issues were \$1,706,844 which was as expected in the budget. The budget also included a \$1,600,000 capital project grant that was not awarded.

Capital Improvements and Debt Expenses: Capital and Debt expenses totaled \$5,450,463. Of this amount \$2,312,951 was applied to Debt Service obligations, and \$3,137,512 to Capital Improvements. Capital Improvements were less than budget expectations by \$2,002,588 due primarily to (1) Unmet grant expectations and (2) Delayed Capital Improvements being carried into FY 21.

Total Capital Improvements and Debt losses for FY20 were \$1,466,529 as compared to \$1,528,059 in FY19. An additional \$350,000 was received from a converted RAD Loan and was used for the Warren St. sewer main replacement.

Fund Balance: A fund balance of \$145,736 was carried into FY20 as compared to a fund balance of \$245,979 in FY19. Fund 9 earned \$162,819 in fiscal 2020, resulting in an ending fund balance of \$308,555.

CCRF:

FY20 realized a total of 54 new connections, 26 fewer than the 80 included in the budget as compared to 76 connections in FY19. While a decrease from FY 19, there is still a robust housing market in the City (Greenway Farms, Bulle Rock and Scenic Manor) and a continued interest in “in-fill” construction. The less than expected number of connections is primarily the result of the economic impact of Covid-19.

While revenues generated from CCRF are intended to support the Capital Improvement Plan (CIP), CCRF revenues have historically been directed to support the debt obligation. Shortfalls must be supplemented either by the “Infrastructure Replacement Fee” (which was initiated in FY19), or contributions funded from Operations which rely on rates to balance its financial obligations.

Relying on CCRF revenues becomes increasingly risky as the availability of connections in future years lessens due to system capacity, which negatively impacts the availability of revenues to invest in Capital Improvements.

SUMMARY OF FY20

*Annual Report on the State of the Havre de Grace Water/Sewer Fund 9- per City Code
Chapter 25 Article XI, Section 25-69B*

The challenge of the Water / Sewer Commission is to propose ways to generate adequate revenue to: (1) Cover the \$2.4M annual debt service payment required to cover the cost of expanding the capacity of the City's owned WWTP by approximately 80% and the additional Enhanced Nutrient Removal costs needed to treat that increased capacity; (2) Cover the \$190,000 annual debt payment incurred from the bond issuance for improvements at the WTP; (3) Cover the operational costs at both the WWTP and WTP, and (4) Cover the investment necessary to maintain a healthy Capital Improvement Plan (CIP) that addresses the water distribution and waste water collection infrastructure much of which is either approaching or exceeded the end of its anticipated useful life.

Funds to address each of the aforementioned challenges are generated by four distinct revenue sources: (a) Connection fees and CCRF; (b) Rates charged to customers for the purchase of water (which includes a sewage rate component); (c) the creation of a Fee Structure of some kind and (d) the IRF. All combined the revenue sources from (a) and (b) historically continue to underperform the revenue necessary to meet the City's obligations for debt and for any realistic CIP. **Note: 128 new connections annually are required to fully meet the current debt obligation. Also note that the City received approval from the residents to incur an additional \$15,000,000 in new debt to finance water distribution infrastructure replacement in FY 20.**

As stated in previous Water/Sewer Commission Reports, in order to generate additional revenue without increases in rates and/or fees the goal is to increase both usage and connections. Although the implementation of the Infrastructure Replacement Fee infused much needed revenue into the revenue equation, it by itself only represents about 33% of the total amount of revenue needed to satisfy the current debt obligation, which then becomes dependent upon connection revenues generated from the CCRF.

The Mayor and City Council recognize the vulnerability of the Water/Sewer Fund and continued their planned approach to address the shortfalls by supporting a 6% rate increase and implemented the following measures: (1) continue the public out-reach program to educate the citizens on the challenges of Fund 9; (2) continue the strategy through the Department of Economic Development to encourage future economic growth through aggressive efforts to attract high volume water users; (3) continue to focus on our available housing inventory through marketing campaigns that focus on: (a) our new High School- Middle School: (b) our many park improvements: (c) our recognition as a "Safe City" and (d) our diverse offering of "family friendly" events; (4) continue supporting the capital investment plan at the WTP to increase

production capacity; and (5) remain open to any negotiations with Harford County to be an available water resource.

While the aforementioned measures continue to be positive steps as demonstrated by the improving financial status of Fund 9, the Mayor and City Council must continue to be creative as well as diligent in their efforts to generate sufficient funding to meet the operating requirements, the debt obligations and in investment in those capital improvements that have been neglected for so many years.

II. YEAR TO DATE OVERVIEW OF CURRENT FISCAL YEAR 2021 (FY21)

The Commission is pleased and remains confident that the challenges of the Water/Sewer Fund are both recognized and understood by the Mayor and City Council. This is most evident by the following Mayor and Councils actions: (a) the continued endorsement of public outreach, so that the public understands the brevity of the situation and viable options to correct it; (b) the continued development and prioritization of a very detailed Capital Improvement Plan (CIP); and (c) embracing the need for affordable long term debt financing to address the infrastructure in short order.

(d) Continued follow through on the Referendum on February 4, 2020 that was overwhelmingly approved by the citizens of which \$9.7 million was obtained and initiating the project to replace aging infrastructure. (e) Added Aberdeen as a customer for excess water production capabilities. (f) Working with the Planning Department and creating “*New Development*” Legislation within the City limits to reduce red tape for developers and City residents. (g) All divisions of the Public Works Department are generating work orders from the Beehive System.

The successful implementation of the Infrastructure Recovery Fee and the interactive Capital Improvement map on the Department of Public Works webpage which was completed in September of 2020 and is update every two (2) months. There was also a similar interactive Planning and Zoning map implement by the Planning Department.

III. CHALLENGES FOR FISCAL YEAR 2022(FY22)

Maintaining the momentum... The Administration must continue its marketing strategy- “Discover Havre de Grace”, as the ‘City of choice’ to own and operate a business; to relocate a family; to experience our parks and participate in our events, to experience our New Middle/Senior High School and the New Magnet Program “*Information Technology-Oracle Academy*” with a focus on Computer Science and Data Management.- while simultaneously demanding a time-sensitive and aggressive reconstruction of our WTP and high priority infrastructure projects, being completely seamless to the end users.

IV. RECOMMENDATIONS FOR FISCAL 2022 (FY22)

As required by City Code the following are Recommendations for FY19. Chapter 25 Article XI, Section 25-69B.

The overall health and short-term outlook of Fund 9 is very promising, based on the revenues generated by the IRF, metered rates and the speculation of an increase in CCRF connections as the economy recovers from the pandemic.

It is imperative that revenues continue to be allocated as efficiently and effectively as possible. This is particularly true for any borrowed revenue. The City will experience an influx of contractor services to complete many of the large-scale repairs. The Administration must hold these firms to the highest level of standards in quality of workmanship, quality of materials and timeliness of the job.

In support of these objectives the Commission submits the following recommendations to the Administration

1. We recommend the Administration ~~in~~ continue identifying failures, repairing critical components, and committing to improvements throughout Fund 9 areas, and the continued emphasis on the reductions in operating expenses using best practices.

*Annual Report on the State of the Havre de Grace Water/Sewer Fund 9- per City Code
Chapter 25 Article XI, Section 25-69B*

2. Capital investments in a secured automated monitoring and adjustment systems (i.e. SCADA System) should improve efficiency. The work was delayed due to Covid-19 shutdown and should continue until completion in FY22.
3. Debt Service - Under the current debt repayment model the intended revenue source is the CCRF. For the CCRF to service the debt it requires 128 new connections in a year in order to cover debt payment. Recognizing the number of connections needed, the Administration must continue its practice of “realistic estimates for annual connections” in preparing the FY21 budget, and adjust expenses for revenues forecast.
4. Continue the CCRF and IRF at their current rates.
5. Continue negotiations of the current Harford County/Havre de Grace Water Plant and Water Purchase Agreement with the primary focus on creating a mutually beneficial relationship.
6. The Director of Public Works should continue to update the CIP annually, and seek all Capital Improvement Grant opportunities
7. 2017 Black & Veatch recommendations: The Commission is pleased the Administration engaged Black & Veatch (B&V), a leading US based global engineering consulting and construction firm to perform a forensic review of our water and waste-water systems. Additionally, the Commission wishes to recognize the fact that several very high-level recommendations from the Black and Veatch study have been completed
 - a. Through the implementation of a comprehensive CIP and Beehive, DPW can now develop a forecast of the renewal and replacement requirements for the water and sewer infrastructure
 - b. With bond financing available, CIP priorities list can be addressed within an attainable timeline.
 - c. Collaboration between the Commission, Finance and DPW, a model that included a rate schedule and fee structure was designed.

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- d. Implementation of the CIP and the continuation of the Preventive Maintenance Program (PM) will see a decrease in costly unplanned repairs in infrastructure.
 - e. Successful implementation of the Infrastructure Recovery Fee.
8. Legislatively mandated annual “rate” increases to meet the annual increases in Operating costs to maintain rising employee and chemical costs should be considered. The Administration should be sensitive to any pressure to use water and sewer rate revenue to pay debt.
9. Continued emphasis on an Employee Succession Plan for both the Water Plant and Waste Water Plant needs to be addressed. Many current employees are certified by the State of Maryland and a possibility exists that the City could lose more of these employees’ in the near future through retirement and normal attrition. A first step should be to consider the creation of an Apprenticeship program or the like, for both facilities.
10. The Administration should get more aggressive in its efforts in the implementation of a City-wide Fats, Oil, Grease, (FOG) and “Flushable Wipes” (and other foreign matter) reduction and education program. FOG and “Flushable Wipes” are a nationwide problem that also occurs within our collection system.
11. The Administration should ~~be commended for~~ continue its pro-active approach in marketing to alternative water customers, including those outside of the City of Havre de Grace (Harford County and Aberdeen). These efforts and strategic planning should continue to include:
 - a. Aggressively marketing of new businesses that require high volume water use, and consider affordable incentives to attract the same.
 - b. Consider annexation of areas along the Route 40 corridor, Maryland Avenue neighborhood, Shawnee Brooke and residences along Chapel Road and Susquehanna River Hills.
 - c. Evaluations of current Water and Waste Water capacity allocations and consider placing time tables on Developers.
 - d. Considerations of the impacts of the future relocation of the hospital and repurposing of the current Harford Memorial Hospital

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- e. Investigation of whether a Waste-water Capacity Credit Sharing Program is viable.
- f. Evaluate the need to address “Inflow and Infiltration (I&I) throughout the City.
- g. Develop an aggressive plan to identify and eliminate Storm Water Infiltration into the Waste Water Treatment Plant,
- h. Consider alternative uses for the processed water from the Waste Water Treatment Plant.

Respectfully Submitted,

Havre de Grace Water/Sewer Commission

James Clark-Citizen Member(*newly appointed*)
Tracy Conaway-Deputy Director of Finance
Fred Cullum– Citizen Member
Steve Gamatoria, Chief of Staff
Garrett Lyttle – Citizen Member
David Martin, Council Member & Commission Chair
Harry Miller- Citizen Member
Jason Robertson- Council Member
William Russell- Citizen Member (*retiring member*)
Tim Whittie – Director of DPW
Dan Wusinich – Citizen Member