

Date: February 2, 2024

TO: Mayor William Martin; Council President Jim Ringsaker; Council Members, Jason Robertson, Casandra Boyer, Tammy Lynn Schneegas, Vicki Jones and Johnny Boker

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 2023 (FY23)
- II. Year to Date Overview of Current Fiscal Year 2024 (FY24)
- III. Challenges for Fiscal Year 2025 (FY25)
- IV. Recommendations for Fiscal Year 2025 (FY25)
 - I. STATE OF THE WATER/SEWER SYSTEM FUND (FY23) (July 1, 2022 – June 30, 2023)

Operating Revenue: FY23 ended with the Water/Sewer System (Fund 9) operating revenue at \$7,167,671; \$176,571 above budget expectations. This increase was resulting from the Engineering Services Reimbursements.

Operating Expenses: The year-end operating expenses (less depreciation) were \$6,805,483; \$117,117 under budget expectations.

Operational Profit/Loss: The overall results were \$362,188 which was \$293,688 over budget expectations.

Capital Cost Recovery Fees (CCRF): CCRF collected for FY23 totaled \$1,942,020; \$ 299,720 above the budget expectations, and \$821,498 below what was required to meet the debt obligation.

Infrastructure Replacement Fee (IRF), Capital Bond Proceeds and State Grants: IRF for FY23 was \$788,670 which was \$13,870 above budget expectations. Receipts from the 2020 Capital Bond issues were \$5,326,601. The remain outstanding 2020 bond capacity is \$6,917,384.

Capital Improvements and Debt Expenses: Capital and Debt expenses totaled \$9,551,725. Of this amount \$2,763,518 was applied to Debt Service obligations, and \$6,788,207 to Capital Improvements. Capital Improvements were less than budget expectations by \$4,625,293 due primarily to Delayed Capital Improvements.

Total Capital Improvements and Debt Profit/Loss: Losses for FY23 were \$1,384,948 as compared to losses of \$530,142 in FY22. The primary cause of the Capital Losses is the Route 40 water main replacement.

Fund Balance: A fund balance of \$207,199 was carried into FY23 as compared to a fund balance of \$(737,763) in FY22. Fund 9 earned \$1,010,500 in fiscal 2023, resulting in an ending fund balance of \$1,217,699. Capital projects plus debt obligations totaled \$9,551,725 in FY 2023, which exceeded total CCRF, IRF Fees, bond and grant proceeds by \$1,384,948. The City will need to draw down the remaining portion of the 2020 Bond to continue meeting future infrastructure improvement needs. These needs in future years will exceed the 2020 Bond and will require additional debt. Since the city's debt capacity will not be adequate in the immediate future, the city should work with its state legislators for state funding of infrastructure repairs and improvements.

Capital Cost Recovery Fees (CCRF):

FY23 realized a total of 99 new sewer and 107 new water connections, an average of 14 greater than the 89 included in the budget as compared to 63 connections in FY21. New connections are represented by Bulle Rock and Blenheim Farm development, as well as "fill-in" construction.

While an increase from FY 22, 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.

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 FY21), 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 FISCAL YEAR 2023

The challenge of the Water / Sewer Commission is to propose ways to generate adequate revenue to: (1) Cover the \$2.6M annual debt service payment required to cover the cost of expanding the capacity of the City's owned Waste Water Treatment Plant (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 Water Treatment Plant (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 Infrastructure Replacement Fee (IRF). All combined the revenue sources from (a) and (b) historically continue to underperform the revenue necessary to meet the City's obligations for any realistic CIP. **Note: 150 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. To date \$9,679,249 has been drawn upon to fund the current CIP program.**

For FY 23 \$2,033,259 of American Rescue Plan Act of 2021 (ARPA) funds were spent on specific capital projects within the CIP program.

As stated in previous Water/Sewer Commission Reports, 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 IRF 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 and operating revenues.

The Mayor and City Council need to recognize the vulnerability of the Water/Sewer Fund and continued their planned approach to address the shortfalls by implementing 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 many park improvements: (b) our recognition as a “Safe City” and (c) 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.

Revenues from the Aberdeen water agreement will offset debt and expenses associated with the new water line construction and provide residual revenue to support Fund 9.

In summary Total capital improvement and debt losses were down resulting in a Fund 9 positive balance of \$1,217,699 in FY 2023

II. YEAR TO DATE OVERVIEW OF CURRENT FISCAL YEAR 2024 (FY24)

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 severity of the situation and viable options to correct it; (b) the continued development and prioritization of a detailed Capital Improvement Plan (CIP); (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) Adding Aberdeen as a future 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.

III CHALLENGES FOR FISCAL YEAR 2025(FY25)

The direction of the economy and hence the housing market will be a major driver of the financial outcome through CCRF and rate revenues for Fund 9 in FY25.

The City’s current efforts with the preparation of an updated Comprehensive Plan will include elements focused on development opportunities that will directly support enhanced revenue generation for Fund 9.

However; it must be noted that to support the continued implementation of a proper CIP debt is relied upon as a significant funding contribution. Using debt to continue

to fund the CIP will reach an administrative limit. The only other two funding sources to compensate for the limited debt capacity of the city are increased revenues from fees and rates or funding from the state.

IV. RECOMMENDATIONS FOR FISCAL YEAR 2025(FY25)

As required by Chapter 25 Article XI, Section 25-69B of the City Code the following are Recommendations for FY25.

The overall health and short-term outlook of Fund 9 is currently sustainable, based on the revenues generated by the IRF, metered rates and the **speculation** of an increase in CCRF connections.

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 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.
2. Debt Service - Under the current debt repayment model the intended revenue source is the CCRF. The CCRF requires 150 new connections in a fiscal period to cover debt payments. Recognizing the number of connections needed, the Administration must continue its practice of “realistic estimates for annual connections” in preparing the FY25 budget, and adjust expenses for revenues forecast.
3. Increase the IRP to help compensate for the inflation experienced by the large-scale project within the CIP. Current capital projects have experienced unprecedented inflation of up to 50%; however, these increases will not likely be sustained at such high levels going forward. Going forward Fund 9 will experience residual higher costs. Consequently, an increase to the IRF of 8% increase for each meter size classification is recommended.
4. The Director of Public Works should continue to update the CIP annually, and seek all Capital Improvement Grant opportunities

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

5. The Commission is deeply concerned with the annual cumulative effects of inflation on Fund 9 sustainable revenue requirements. To address this issue the Commission strongly recommends the implementation of a legislatively mandated annual “rate” increases to meet the annual increases in **Operating Costs** to maintain rising employee and chemical costs should be considered. Inflationary rate increases should be imposed even in years when the increase is small. This mitigates the detrimental effects of compounding inflation rates over time. Routinely increasing rates to keep up with operating cost helps avoid allocating fund intended for the CIP over to operations. The Administration should also be sensitive to any pressure to use water and sewer rate revenue to service debt.
6. The Water/Sewer Commission recommends a reevaluation of the City Ordinance establishing the Water/Sewer Commission. The structure of leadership and duties of the Commission need to be clarified. A meeting with the City Attorney, City Council President and City Administrator is requested to work these issues.
7. As a result of the city’s debt capacity limitations the Commission recommends the city work with its state legislators to pursue state funding of water and sewer infrastructure repairs and improvements.

Respectfully Submitted,

Havre de Grace Water/Sewer Commission

Johnny Boker - Council Member & Commission Chair

Jason Robertson - Council Member

James Clark - Citizen Member

Rodney Swam – Citizen Member

Fred Wills, Citizen Member

Dan Wusinich – Citizen Member

George DeHority – Director of Finance

EJ Millisor – Director of DPW

TERM ACRONYM

American Rescue Plan Act	ARPA
Capital Cost Recovery Fees	CCRF
Capital Improvement Plan	CIP
Infrastructure Replacement Fee	IRF
Waste Water Treatment Plant	WWTP
Water Treatment Plant	WTP

January 18. 2023



City of Havre de Grace Water & Sewer Commission

Annual Report & Recommendations

By Authority of
Havre de Grace City Code 25
Article XI

February 20, 2024



Fiscal Year 2023 State of the Water/Sewer Fund



Summary Of Fiscal Year 2023

• Operating Profit	\$ 362,188
• CCRF/User Benefit	\$ 1,942,020
• Infrastructure Replacement Fee	\$ 788,670
• Bond Proceeds	<u>\$ 5,326,601</u>
• Funds Available	\$ 8,419,479
• Debt Service	\$ 2,763,518
• Capital Projects	<u>\$ 6,788,207</u>
• Capital Uses	\$ 9,551,725
• Net Change in Fund Balance (Profit)	\$ 1,010,500
• Fund Balance Beginning of Year	<u>\$ 207,199</u>
• Fund Balance End of Year	\$ 1,217,699



Summary Of Connections Year 2023

	Water	Sewer
• Projected Connection	89	89
• Actual Connections	<u>107</u>	<u>99</u>
• Variance	+18	+10

Note: 150 Connections Required To Meet Debt Obligations

• Projected CCRR	\$ 1,642,300
• Actual CCRF	<u>\$ 1,942,020</u>
• Variance	\$ 299,720



Summary of Fiscal Year 2023

Funds to address revenues required are generated by three distinct revenue sources:

- a) Connection fees and CCRF
- b) Rates charged to customers for the purchase of water (inclusive of sewage rate component)
- c) Other Fees such as the Infrastructure Replacement Fee (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 any realistic Capital Improvement Plan (CIP).

- Note: 150 new connections annually are required to fully meet the current debt obligation.



Summary of Fiscal Year 2023

The Mayor and City Council recognize the vulnerability of the Water/Sewer Fund and continued to monitor City growth and where necessary to raise rates to fund required infrastructure maintenance and replacement through the following:

- 1) Public out-reach program to educate the citizens on the challenges of Fund 9
- 2) Department of Economic Development encouraged future economic growth through aggressive efforts to attract high volume water users
- 3) Focused on our available housing inventory through marketing campaigns that focus on: (a) our many park improvements: (b) our recognition as a “Safe City” and (c) our diverse offering of “family friendly” events
- 4) Supported the capital investment plan at the WTP to increase production capacity
- 5) Remained open to any negotiations with Harford County to be an available water resource



Year to Date Overview of Current Fiscal Year 2024



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- The continued endorsement of public outreach, so that the public understands the severity of the situation and viable options to correct it
- The continued development and prioritization of a detailed Capital Improvement Plan (CIP)
- Embracing the need for affordable long term debt financing to address the infrastructure in short order
- 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
- Adding Aberdeen as a future customer for excess water production capabilities
- Working with the Planning Department and creating “New Development” Legislation within the City limits to reduce red tape for developers and City residents



Challenges for Fiscal Year 2025



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- The direction of the economy and hence the housing market will be a major driver of the financial outcome through CCRF and rate revenues for Fund 9 in FY25.
- The City's current efforts with the preparation of an updated Comprehensive Plan will include elements focused on development opportunities that will directly support enhanced revenue generation for Fund 9.
- However; it must be noted that to support the continued implementation of a proper CIP debt is relied upon as a significant funding contribution. **Using debt to continue to fund the CIP will reach an administrative limit. The only other two funding sources to compensate for the limited debt capacity of the city are increased revenues from fees and rates or funding from the state.**



Recommendations for Fiscal Year 2025 (FY25)



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As required by City Code Chapter 25 Article XI, Section 25-69B, the Commission submits the following recommendations to the Administration:

- 1) We recommend the Administration 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.
- 2) Debt Service - Under the current debt repayment model the intended revenue source is the CCRF. The CCRF requires 150 new connections in a fiscal period to cover debt payments. Recognizing the number of connections needed, the Administration must continue its practice of “realistic estimates for annual connections” in preparing the FY25 budget, and adjust expenses for revenues forecast.



Recommendations for Fiscal Year 2025 (FY25)

- 3) Increase the IRF to help compensate for the inflation experienced by the large-scale project within the CIP. Current capital projects have experienced unprecedented inflation of up to 50%; however, these increases will not likely be sustained at such high levels going forward. Going forward Fund 9 will experience residual higher costs. Consequently, an increase to the IRF of 8% for each meter size classification is recommended.
- 4) The Director of Public Works should continue to update the CIP annually, and seek all Capital Improvement Grant opportunities
- 5) The Water/Sewer Commission recommends a reassessment of the City Ordinance establishing the Water/Sewer Commission. The structure of leadership and duties of the Commission need to be clarified. A meeting with the City Attorney, City Council President and City Administrator is requested to work on these issues.



Recommendations for Fiscal Year 2025 (FY25)

- 6) The Commission is deeply concerned with the annual cumulative effects of inflation on Fund 9 sustainable revenue requirements. To address this issue the Commission strongly recommends the implementation of a legislatively mandated annual “rate” increases to meet the annual increases in Operating Costs to maintain rising employee and chemical costs should be considered. Inflationary rate increases should be imposed even in years when the increase is small. This mitigates the detrimental effects of compounding inflation rates over time. Routinely increasing rates to keep up with operating cost helps avoid allocating fund intended for the CIP over to operations. The Administration should also be sensitive to any pressure to use water and sewer rate revenue to service debt.



Havre de Grace Water/Sewer Commission

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