

## **WATER DEPARTMENT (450)**

Interview with Sue Brown and Todd Bunzick - February 7, 2023

Finance Committee: Lynn Bruneau and Ed Mahoney

### **Background**

The Water Department provided approximately 365 million gallons of treated water (in calendar year 2021) to its more than 5,300 accounts and nearly 1,000 hydrants from 8 groundwater wells through more than 110 miles of pipes. The Water Department is subject to the federal and state drinking water regulations through the Massachusetts Department of Environmental Protection.

### **FY2024 Budget Request**

The Water Department FY2024 budget contemplates:

- Estimated revenues of \$2.862 million, up a little from FY2023 and prior years;
- FY24 Salaries \$786k, up from \$748k, driven primarily by union contracts;
- Revised operating expenses of \$617k, including an additional \$72k for electricity approved by the Select Board at their 2/15/23 meeting. This change was required because the Department could no longer directly apply the Town's solar credits to fund its electric costs; instead, the Town receives a check for these solar credits;
- Capital outlay and "other assessments" of \$45.7k, down \$7k from FY23.

The FY24 budget anticipates restrained water usage because of on-going drought conditions and the lingering impact of the post-pandemic business environment (eg, not all restaurants have returned to full-time schedules, in part due to the lack of available employees).

### **Revenue and Expense History**

Since FY2019, Water Department revenue has ranged from a high of \$3.6 million to a low of \$2.6 million, again the result of the pandemic economic slow-down and on-going drought conditions. Another consideration is that with the town-wide installation of the new water meters (begun in 2019 and substantially completed in 2020), meter readings are and thus billing is now more accurate.

Reviewing the fiscal 6/30/22 fiscal year-end and the 12/31/22 mid-year Local Receipts reports, Water Department data shows the following:

Water rates revenue	FY21	\$3.199M	FY22	\$2.818M	Mid-21	\$1.88	Mid-22	\$1.86M
Water Int & Penalties	FY21	34k	FY22	32k	Mid-21	14.6k	Mid-22	19.2k
Water Usage	FY21	2.4k	FY22	1.7k	Mid-21	1.7k	Mid-22	1.6k
Water Liens	FY21	50.5k	FY22	19.5k	Mid-21	5.1k	Mid-22	495
<u>Water Services</u>	<u>FY21</u>	<u>18.7k</u>	<u>FY22</u>	<u>12.7k</u>	<u>Mid-21</u>	<u>7k</u>	<u>Mid-22</u>	<u>5.7k</u>
Total Water Dept	FY21	\$3.3M	FY22	\$2.88M	Mid-21	\$1.9M	Mid-22	\$1.89M

Since FY2019, annual operating expenses have increased from \$368k to a budgeted \$617k. Capital outlay expenses were at a 5-year high in 2019 at \$126k with substantial spending for Site Improvements and Asset Management Plan projects. The second high was in 2020 at \$84k, with highs again in Site Improvements and Asset Management Plan projects - but both of these years included the town-wide replacement of the new cellular water meters and the billing system. Since then, these 2 line items have “stabilized” with annual capital expenses now in the range of \$30k-\$40k. The FY24 capital budget includes \$25k for well cleaning and re-development and \$10k for water main repairs/replacement.

Town Meeting in May 2022 approved 2 Warrant Articles related to water main and water quality/ drainage improvements in the Meetinghouse Pond sewer project area (\$500k and \$575k respectively). At a Select Board meeting in late September, the Select Board voted to use a combination of direct Federal ARPA funds and Barnstable County ARPA funds to off-set the cost of these 2 projects which qualified for this funding as eligible water and sewer infrastructure projects.

### **Revenues Drivers**

As referenced above, the Water Department has a two tiered quarterly billing strategy. The objectives are to:

- cover the department’s operating costs and fund capital and infrastructure projects, and
- generate a surplus annually of at least 25% of revenues or \$1.0 million. The surplus is retained in the Department’s Fund Balance and is dedicated to capital and infrastructure projects.

As outlined below, the water bill has two components: the usage fee and a fixed fee.

- The usage fee component produces approximately \$1.8 million annually (based on FY24 budget), and is used to fund operating expenses. As illustrated below, the usage fee is stepped (i.e., the more water used, the greater the cost per gallon) and is intended to encourage water conservation.
- The fixed fee component is currently \$55 per quarter and generates approximately \$1.1 million of revenue annually. This component is used to fund capital and infrastructure projects, based on the Department's long term Assets Management Plan (AMP). Projects costing less than \$500,000 are typically funded with cash. Projects costing more than \$500,000 are generally bonded.

Following a Public Hearing session on 9/7/22, the Select Board voted unanimously to approve a water rate increase of 5% to be effective with the October 2022 billing. The Basic Service rate increased from \$54 to \$55 per quarter and 3 of 4 usage-based quarterly rates also increased (all usage measures are per thousand gallons):

- 0 to 7500 gallons - increase to \$2.45 from 2.29
- 7501 to 15k gallons - increase to \$5.70 from 5.56
- 15,001 to 25k gallons - increase to \$7.70 from 7.12
- Over 25k gallons - no change - \$8.40

Water Department customers should expect rate increases in the coming years (both fixed fee and usage rates) to reverse the budget deficits and replenish the Fund Balance.

Note that in 2019, although the Department's 20-year Asset Management Plan recommended a 4% rate increase, the Board of Water & Sewer Commissioners voted to recommend a 0% increase to the Select Board. The Department contracted with industry experts for a rate study as part of its Asset Management Plan update for recommendations for future rate increases and the quarterly billing structure. A 4% rate increase and quarterly billing began with the July 1, 2020 water bills, but water revenues were down that year due to COVID impacts as

noted above. A further 4% basic rate increase began with the October 2021 billing, but at the same time the rate for top tier usage was reduced. Water revenue was again less than anticipated, this time due primarily to drought conditions.

The Water Department typically increases its fees (both fixed and usage) by up to 4% each year. The increasing cost of town water has caused some users, especially those who irrigate their lawns and gardens, to install water wells. The revenue impact is exaggerated as those who irrigate are typically in the highest cost per gallon step of the usage fee schedule.

### **Grants**

Engineers, the Commonwealth and regional agencies alert water departments of grant opportunities. The Water Department regularly reviews these notifications, applies for and receives grants when qualified.

### **Expenses Drivers**

The Water Department's Y24 Salaries Budget is \$785.7k, up from \$748k, a 5.04% increase, most of which is driven by union contracts.

As noted previously, the Town's sewer projects have triggered additional unanticipated Water Department expenses. In some locations, it was anticipated that water pipes would be replaced during the sewer construction project; however, on occasion, damage is done inadvertently (e.g., due to percussive forces causing cracks in pipes or joints). The Water Department will generally supply any new pipe, and will do the repair work, or the sewer contractor will do the work.

### **Capital Improvement Plan (CIP)**

As noted above, the Water Department has a long term AMP that schedules routine maintenance and capital and infrastructure projects by fiscal year over a rolling 20 year horizon. The asset management plan is refreshed every five years and accepted by the Select Board, with the next update scheduled for 2025.

The FY5-FY29 CIP and the FY24 Capital Budget include a number of significant Water Department capital project. The CIP material includes a detailed description, estimated cost and timing for each project. FY27-FY28 include funding for WTP

access road improvements. FY25-FY26 include funding for storage tank rehabilitation. The Vehicles & Equipment Stabilization fund for FY24 includes \$100k for a new dump truck (to replace one dating from 2007); however, we understand from Todd Bunzick that this may be hard to find.

### **Challenges and Known Staffing Changes**

The Water Department has three staff openings, including one for a recently-retired supervisor (who had worked been with the Department for 36 years). Finding qualified individuals is difficult and hiring them is challenging as competitors are offering higher compensation packages. The need for certification for water quality resources is also challenging for some new hires (who often aren't interested in studying for and taking the requisite exams).

The other concern is the not-that-far-from-now retirement of Water Department Supervisor (3-5 years) and subsequently the Assistant Supervisor. Both of these experienced and dedicated resources are fully certified and provide back-up coverage whenever needed, for whatever role needs to be filled - days, nights, weekends and/or holidays.

Over the recent Arctic blast weekend (February 3-4, 2023), over 20 residences in Orleans ended up with frozen (and then burst) water pipes. The Water Department was alerted to some of the problems with the "Eye on Water" system showing sudden up-surges in water usage (signaling a potential problem). The problem is exacerbated when the home owners are away and have not signed up for "Eye on Water". The Department may have no (easy) way of contacting the homeowners - except for a mailing address. Further - if there is no "key under the doormat" - or no Fire Department lock box on the house - the Department can't easily get in to turn off the water.

An article in the Chronicle reported that the Orleans Water Department Assistant Supervisor Sue Brown suggested that those leaving the Cape for the winter could contact the Water Department to arrange to have their water turned off and the meter disengaged. She also urged everyone to sign up for "Eye on Water" - to provide contact information - and an easy way for the homeowner to track water usage, even from out-of-town.

## **Findings and Recommendations**

Town Administration should focus on succession planning at the Water Department. Replacement candidates with the required skills, experience and certification qualifications are limited and in demand. The retirement of the Water Department Supervisor and Assistant Supervisor will be upon us before we know it.

As noted above, at the 2/15/23 Select Board meeting, during the review of the Water Department budget, the Select Board voted unanimously to increase the Department's FY24 Electricity budget from \$120.8k to \$192.8k which includes an additional \$70k for the wells and \$20k for the storage tanks. As noted, this change was required because the Department can no longer directly apply the Town's solar credits to cover Department electricity costs; rather, the Town is paid by check for these solar credits. The Select Board also approved restoring \$5k to the Capital Outlay budget for Site Improvements, restoring that total to \$25k. Even with the latter adjustment to the Capital Outlay budget, the FY24 Capital Outlay budget is still "short" of what was budgeted for FY23 (by another \$7k).

During a January Board of Water & Sewer Commissioners' (BOWSC) meeting, when the Water Department presented their FY24 budget to the BOWSC for approval, Lynn Bruneau, Fin Comm's liaison to the BOWSC, spoke with some frustration regarding the Town's "Budget Policy" with a "one size fits all" requirement for all departments to "limit overall expenditures for non-school operations to a 3.5% increase". The Water Department is highly regulated by Federal and State guidelines in providing safe drinking water for Town residents and businesses, with compliance standards becoming more complex and costly each year. Maintaining the plant, the wells, the pipelines and ensuring that the water flowing through this system continues to be safe is a costly process. The Town should consider different Budget Policy guidelines for highly regulated departments like the Water Department.