

Lehigh County Authority

Rate Review – Allentown Division – 5/21/18

Public Presentation Overview – 5/17/18

- **Who is LCA?** Review of municipal authority structure, purpose, mission – non-profit, local, non-taxing, public, etc.
- **Review of Lease** – Reminder that the City was trying to solve its pension problem and those debts still need to be paid
- **System Operations & Maintenance** – Significant prior project deferrals and aging infrastructure are driving up long-term costs. Continued deferral puts public health at risk!
- **Financial Performance** – Revenue increase is required to support project financing and high debt burden due to lease
- **Rate Impact** – Review of rates provided in the lease & how they impact customers. Reminder that we cannot change what's in the lease without City participation!
- **Public Input** – Can be used if City is willing to discuss alternatives!

Public Input Received

- Postcard Notification
- Spanish-language phone call
- Website Info – English & Spanish

- Online Survey – English & Spanish – 160 responses
- Comments submitted by email / written / phone – 30 responses
- Public Input Hearing – 5/17/18 – 21 speakers

Public Input Received – Major Themes

- Lease was a bad deal / LCA failed to do proper research / etc.
- Others should help pay – suburban communities, businesses, etc.
- What do we get in exchange for paying more?

- Increase in fixed charge unfairly distributes greatest increase to smallest water users
- Rate increase is on top of other bills like the new stormwater fee
- Seniors / low-income / fixed-income households impacted the most
- Increase in fixed charge means customers can't control impact by using less water

Alternative Rate Structures Possible?

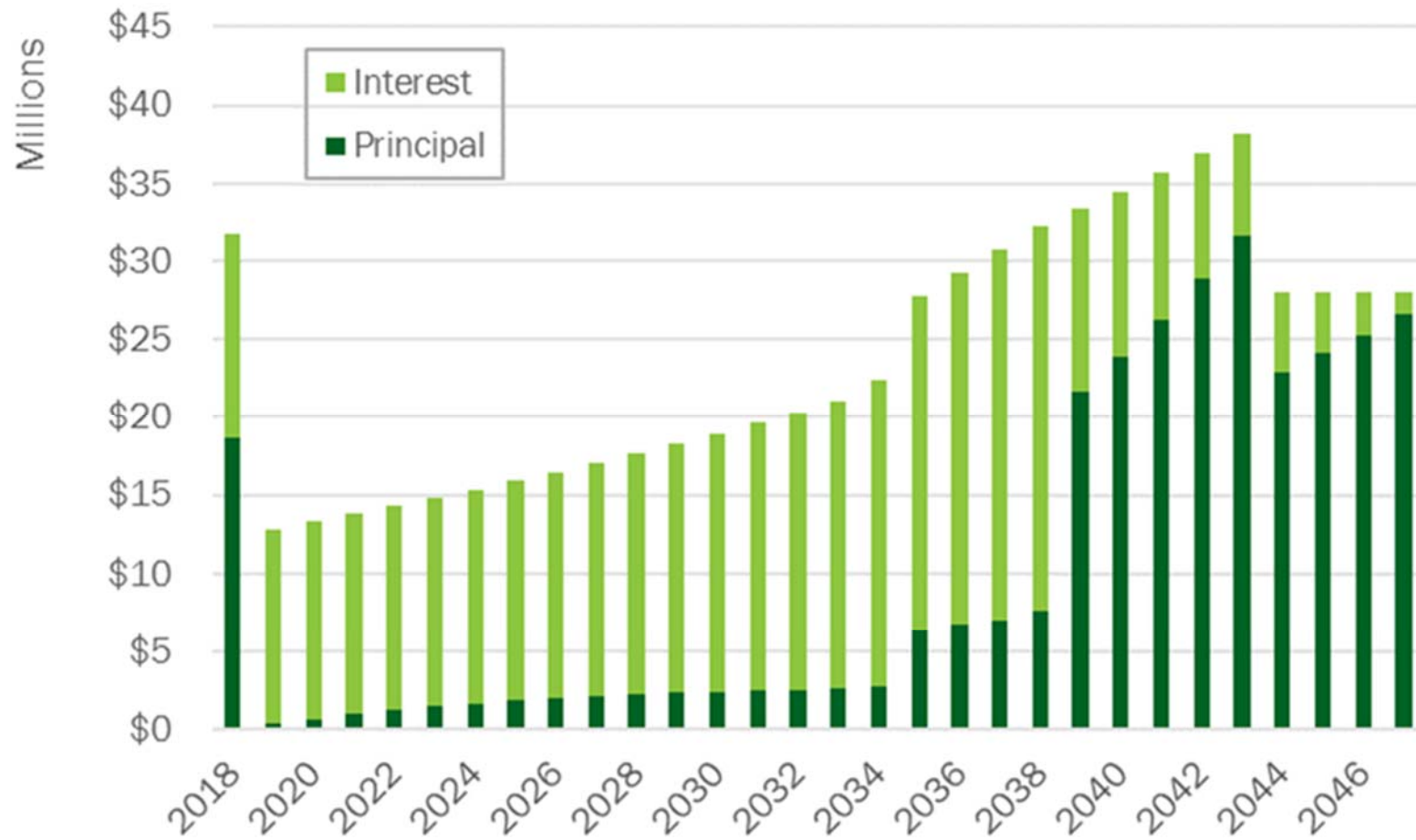
- Yes! There are other (possibly better) ways to increase rates to address revenue requirements of the system.
- However...
 - LCA financial requirements still need to be met, so change in structure simply serves to shift cost from one customer to another
 - Adding increase to fixed charges is appropriate for LCA's cost / debt structure
 - Lease Agreement defines the rates and rate structure – and doing anything other than what's in the Lease would require City agreement, bondholder and trustee review, credit rating review, etc.

Fixed Charges → Cover Fixed Costs

- Example: LCA Washington Township Sewer System

	2018 Budget
Operating Expenses	\$ 38,043
Debt Expense	\$375,483
Total 2018 Budget	\$413,526
% Debt to Total Operating Budget	90.8%
Annual Fixed Charge (sewer only)	\$496
Revenue From Fixed Charge	\$292,144
% Debt Recovered by Fixed Charge	77.8%

LCA's Lease Debt Schedule



Fixed Charges → Cover Fixed Costs

- Example: Allentown Water & Sewer System (Quarterly)

	2018 Budget
Operating Expenses	\$ 17,313,550
Debt Expense	\$ 13,047,722
Total 2018 Budget	\$30,361,272
% Debt to Total Operating Budget	43.0%
Annual Fixed Charge (average)	\$150.04
Revenue From Fixed Charge	\$5,750,000
% Debt Recovered by Fixed Charge	44.1%

Fixed Charges → Cover Fixed Costs

- Example: Allentown Water & Sewer System (Monthly)

	2018 Budget
Operating Expenses	\$ 17,313,550
Debt Expense	\$ 13,047,722
Total 2018 Budget	\$30,361,272
% Debt to Total Operating Budget	43.0%
Annual Fixed Charge (average)	\$311.04
Revenue From Fixed Charge	\$10,750,000
% Debt Recovered by Fixed Charge	82.4%

Alternative Rate Structures & Examples

- Only increase sewer rates, which are disproportionately low
- Add increase into volume charge:
 - Distributes cost to higher users
 - Allows customers to manage impact through conservation
 - Would require discussion with municipalities who pay based on volume charge
- Add increase to quarterly rates, avoid cost of monthly billing
- Conservation based rates – inclining block rate
- Income-based rate structure
- Lifeline rates

Allentown Water vs. Sewer Rates

	<u>Quarterly</u> Allentown Water	<u>Monthly</u> Allentown Water	Water Regional Average	<u>Quarterly</u> Allentown Sewer	<u>Monthly</u> Allentown Sewer	Sewer Regional Average
Annual Fixed Charge	\$111.40	\$230.76	\$136.80	\$38.64	\$80.28	\$245.22
Volume Charge per 1000 gallons	\$3.64	\$3.64	\$5.27	\$2.54	\$2.54	\$3.78

- Water fixed charge in Allentown is below average for quarterly, but well above average for monthly billing (appropriate for a highly debt-burdened system)
- Sewer fixed charges (both quarterly and monthly) in Allentown disproportionately low and far below regional average
- Both water and sewer volume charges are below regional averages

Add Increase to Quarterly Rates?

- Lower impact to customers by avoiding costs of monthly billing
- However, this option eliminates positive impacts:
 - Improved household budgeting as rates continue to increase over time
 - Water conservation / early leak detection
 - Improved cash flow for LCA
 - Improved collections performance
 - Industry best practice

	Annual Costs
Additional Direct Payroll	\$ 289,120
Overhead (insurance, equipment, maintenance, administrative)	\$ 346,944
Billing Expenses (print / postage)	\$ 130,472
Payment Processing	\$ 116,400
TOTAL ANNUAL COST	\$ 882,936
Upfront Implementation Costs	\$ 285,000

Lifeline Rates

- Mixes Fixed & Volume Charges into a single rate for small users

- Example:

- LCA Welshtown Road – water only
 - Annual Fixed Charge - \$240.00
 - Includes 32,000 gallons per year (2,667 gallons per month)
 - Excess usage - \$5.50/1000 gallons

Average customer here pays same as Allentown monthly water rate proposed, but cost burden shifted to higher users.

Alternative Rate Structures Possible?

- Yes! There are other (possibly better) ways to increase rates to address revenue requirements of the system.
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Recommendation:

- Implement monthly billing using City's existing rate schedule per the Lease
- Provides revenue increase required now to address system expenses for debt service and system improvements
- Remain open to discussion with City on alternatives for the future which could help citizens, but which requires Lease review / update

Discussion