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## MEMORANDUM

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**TO:** LCA Board of Directors  
**FROM:** Liesel Gross, CEO  
**DATE:** November 4, 2019  
**RE:** 2020 Water & Sewer Rates

**Attached:** Sample Residential Bill Calculations for Allentown and Suburban Water (historical rates)  
Lehigh Valley Water & Sewer Rate Comparison  
Proposed 2020 Water & Sewer Rate Schedules

### Important Reminders

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1. Lehigh County Authority is a non-profit, municipal authority. All revenues collected through our water and sewer rates are used for the sole benefit of the system to pay for current expenses or to fund future capital improvements. Our Board of Directors are unpaid volunteers, and LCA has no shareholders to pay.
2. While LCA operates as a single organization, the water and sewer revenues collected from our customers in Suburban communities may not and will not be used to pay for expenses associated with the Allentown Division lease agreement. Likewise, revenues from our customers in Allentown may not and will not be used to pay for expenses associated with our Suburban Division water or sewer operations. This is specified in all LCA bond documents that prohibit the mixing of revenues.
3. Across the nation, including in the Lehigh Valley, water and sewer utilities are facing a hidden crisis. Water and sewer infrastructure is buried underground, out of sight, where it is easy to forget or ignore. However, the pipes that deliver safe and reliable tap water to each home we serve, and the sewer systems that safely transport sewage to treatment centers for proper disposal, cannot be taken for granted. Caring for our aging infrastructure will take an estimated \$1 trillion nationwide. As a responsible service provider and member of the community we serve, LCA takes this responsibility very seriously. We do not raise rates because we want to. We increase rates because the responsibility to protect the public's health and our environment is so important.

### Discussion of Cost Increases

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Throughout the 2020 budget process, LCA staff presented information about the drivers for increasing costs across all areas of the organization. They are outlined below in summary form:

- **Asset Management Program** – As part of LCA's strategic plan, much greater emphasis has been placed on our preventive maintenance program. While the program is currently in a "catch up" phase to address prior deferred maintenance, we expect these program expenses to be closely monitored and will stabilize over the next several years as the program is fully implemented.

*Every drop matters. Every customer counts.*

- **Capital Financing** – Through discussion with the LCA Board, the Lehigh County Commissioners, and other key stakeholders, LCA has adopted a capital financing philosophy that will reduce our reliance on debt in the future. This will take time to achieve as current rates are structured around a more debt-intensive financing approach. Phased-in rate increases over the course of several years will be required to ensure funding for annual rehabilitation projects is available through reserves vs. increasing debt.
- **Strategy Development** – Additional expenses are increasing as LCA continues its journey toward resiliency and sustainability. In 2020, we will undertake a strategic planning effort to better define our vision for the future and develop implementation plans to achieve our organization’s goals. While this strategy work is being completed, LCA staff will also work on much-needed process improvement in critical areas such as financial management, human resources and document management. As LCA has evolved into a large, regional utility, these types of organizational improvements are necessary to allow us to operate more efficiently.
- **Payroll & Health Insurance** – LCA is experiencing significant increases in the cost of health insurance for the second year in a row. Our prior positive claims experience, which stabilized our health insurance costs in the past, has not continued and the increases we are experiencing now can be viewed as a “price correction.” Future claims experience will further impact premiums in 2021 and beyond.

### Rate Setting & Review Process

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Lehigh County Authority’s 2020 water and sewer rates are presented in the attached schedules for the Board of Director’s consideration for adoption on November 11, 2019. They will be posted on the LCA website in advance of their proposed adoption and shared with key customers directly in accordance with any existing service agreements. Should any customer or member of the general public have questions or comments about these rates prior to their effective date of January 1, 2020, we will bring them back to the Board for consideration and to record them publicly for the record.

To assist the Board and the public with reviewing the proposed rates, a summary of the proposed rate changes is shown on the table below, and all changes are highlighted / shaded grey within the rate schedule documents attached. A calculation of the impact to a typical residential customer is also attached to this memo along with a comparison of how LCA’s rates compare to other water/sewer utilities in the Lehigh Valley region.

It is important to note that these rates were discussed, reviewed and preliminarily approved as part of the 2020 budget process that began in August and was concluded in October. This submission represents formal adoption of the rates that were generated based 2020 budget calculations of revenue requirements as well as contractual requirements for rate-setting. In other words, there are “no surprises” included in the attached rate schedules.

### Water Rates

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Rate	Page #	Description / Discussion
Suburban Water Fixed & Volume Charges	1	Proposed changes in the fixed and volume rates were calculated via the water rate study conducted by Keystone Alliance Consulting in 2018. The 2020 proposed rates follow the recommendations provided by the rate consultant in November 2018.

Rate	Page #	Description / Discussion
Public Fire Protection	2	Fire hydrant and system charges for public fire service provided by the Authority were also evaluated as part of the water rate study described above.
Allentown Water Rates	9	The 2020 rates reflect increases based on the terms of the Concession Agreement with the City of Allentown. Such increases include an overall 4.1% increase in general rates, plus an updated calculation of the Capital Cost Recovery Charge per the methodology included in the agreement.

### Wastewater Rates

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Rate	Page #	Description / Discussion
Suburban Sampling & Testing Charges	5	Updates fees based on actual costs associated with sampling and analysis of high-strength wastes.
Suburban Exceptional Strength Charge	5	As calculated in the Western Lehigh Interceptor User Charge Report that was submitted to municipal signatories in October 2019. Rates are calculated by formula in compliance with municipal agreements.
Western Lehigh Interceptor & Little Lehigh Relief Interceptor User Charges	7	As calculated in the Western Lehigh Interceptor User Charge Report that was submitted to municipal signatories in October 2019. Rates are calculated by formula in compliance with municipal agreements.
Allentown Sewer Rates	9	The 2020 rates reflect increases based on the terms of the Concession Agreement with the City of Allentown. Such increases include an overall 4.1% increase in general rates, plus an updated calculation of the Capital Cost Recovery Charge and Administrative Order Fee per the methodology included in the agreement.
Allentown Exceptional Strength Charge	10	As calculated by formula and applied to the City's municipal signatories and in-City customers with high-strength waste discharges.
Allentown Industrial Pretreatment Charges	10	Fees that may apply to individual customers depending on permit parameters, based on actual costs.

### 2020 Tapping Fees / Customer Facilities Fees

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Any updates to these fees that may be required will be brought to the Board at a later date with required documentation and Resolution.

## **Lehigh County Authority - Suburban Water Division - Preliminary 2020 Rates**

**Bill Sample: Average Residential Customer, 15,000 gallons per quarter**

	<u>2000</u>	<u>2001</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Fixed Charge	\$11.70	\$11.70	\$11.70	\$11.70	\$11.70	\$11.70	\$12.78	\$12.78	\$13.05
Water Volume Charge	\$26.55	\$28.80	\$31.05	\$32.55	\$33.75	\$35.85	\$36.45	\$39.15	\$41.40
<b>Quarterly Bill</b>	<b>\$38.25</b>	<b>\$40.50</b>	<b>\$42.75</b>	<b>\$44.25</b>	<b>\$45.45</b>	<b>\$47.55</b>	<b>\$49.23</b>	<b>\$51.93</b>	<b>\$54.45</b>
<b>Annual Cost</b>	<b>\$153.00</b>	<b>\$162.00</b>	<b>\$171.00</b>	<b>\$177.00</b>	<b>\$181.80</b>	<b>\$190.20</b>	<b>\$196.92</b>	<b>\$207.72</b>	<b>\$217.80</b>
Total Annual Cost Increase (\$)		\$9.00	\$9.00	\$6.00	\$4.80	\$8.40	\$6.72	\$10.80	\$10.08
Total Cost Increase (%)		5.9%	5.6%	3.5%	2.7%	4.6%	3.5%	5.5%	4.9%
<b>Water Volume Charge per 1000 Gallons</b>	<b>\$ 1.77</b>	<b>\$ 1.92</b>	<b>\$ 2.07</b>	<b>\$ 2.17</b>	<b>\$ 2.25</b>	<b>\$ 2.39</b>	<b>\$ 2.43</b>	<b>\$ 2.61</b>	<b>\$ 2.76</b>

## Lehigh County Authority - City Division - Preliminary 2020 Rates

### Bill Sample: Average Residential Customer, 15,000 gallons per quarter

	<u>2013-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Fixed Charge	\$25.21	\$25.84	\$26.78	\$27.85	\$29.27	\$30.47
Water Volume Charge	\$46.52	\$48.37	\$50.65	\$54.58	\$58.12	\$61.72
Sewer Fixed Charge	\$8.75	\$8.97	\$9.29	\$9.66	\$10.16	\$10.57
Sewer Flow Charge	\$33.56	\$34.74	\$36.29	\$37.70	\$40.11	\$42.45
Quarterly Bill	\$114.04	\$117.91	\$123.01	\$129.79	\$137.66	\$145.22
<b>Annual Cost</b>	<b>\$456.15</b>	<b>\$471.65</b>	<b>\$492.04</b>	<b>\$519.16</b>	<b>\$550.64</b>	<b>\$580.87</b>
Total Annual Cost Increase (\$)		\$15.50	\$20.39	\$27.12	\$31.48	\$30.23
Total Cost Increase (%)		3.4%	4.3%	5.5%	6.1%	5.5%
<b>Water Volume Charge per 1000 Gallons</b>	<b>\$ 3.10</b>	<b>\$ 3.23</b>	<b>\$ 3.38</b>	<b>\$ 3.64</b>	<b>\$ 3.87</b>	<b>\$ 4.11</b>
<b>Sewer Flow Charge per 1000 Gallons</b>	<b>\$ 2.24</b>	<b>\$ 2.32</b>	<b>\$ 2.42</b>	<b>\$ 2.51</b>	<b>\$ 2.67</b>	<b>\$ 2.83</b>

Note: This calculation reflects rates that are applied to LCA revenues. The Capital Cost Recovery Charges (CCRC) is applied as a reimbursement of "Major Capital Improvement" expenses. Administrative Order fees are not considered to be LCA revenue as they are a direct reimbursement to the City of Allentown.

### Lehigh Valley Water & Sewer Rate Comparison (Data from 2017-2019)

24 communities in Lehigh Valley - average annual residential water & sewer bill (based on 5000 gallons usage per month)

