

COMMONWEALTH OF MASSACHUSETTS

CITY OF LOWELL

In City Council

ORDINANCE

An Ordinance Amending the Code of Ordinances City of Lowell, Massachusetts, with respect to Chapter 272, Article VI §272-87 entitled "Annual Sewer Use Charge".

It is necessary to amend §272-87 entitled "Annual Sewer Use Charge" with respect to fees.

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LOWELL, as follows:

"The Code of Ordinances of the City of Lowell, Massachusetts", adopted by the City Council on December 23, 2008, as amended, is hereby further amended, with respect to Chapter 272 entitled "Water and Sewers", as follows:

§272-87. **Annual Sewer Use Charge** is hereby amended as follows:

By deleting the rate schedule listed and substituting the following rates, effective July 1, 2020:

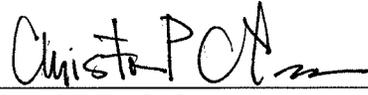
<u>Number of hundred cubic feet of wastewater discharged per quarter</u>	<u>Rate per hundred cubic feet per quarter</u>
First 50 (base rate)	4.845
51 – 100	5.115
101 – 200	5.195
201 – 500	5.282
Over 500	5.360

Minimum wastewater charge equal to rate charged for 1400 cubic feet based on above rate schedule.

All provisions of the Code of the City of Lowell, as amended, which are consistent with this Ordinance shall continue in effect but all provisions of said Code inconsistent herewith are repealed.

This Ordinance shall take effect upon its passage in accordance with the provisions of Chapter 43 of the General Laws of the Commonwealth of Massachusetts, as amended, but as specified herein, the rate provisions become effective, retroactive, to July 1, 2020.

APPROVED AS TO FORM:

Handwritten signature of Christine P. O'Connor in black ink, written over a horizontal line.

Christine P. O'Connor
City Solicitor

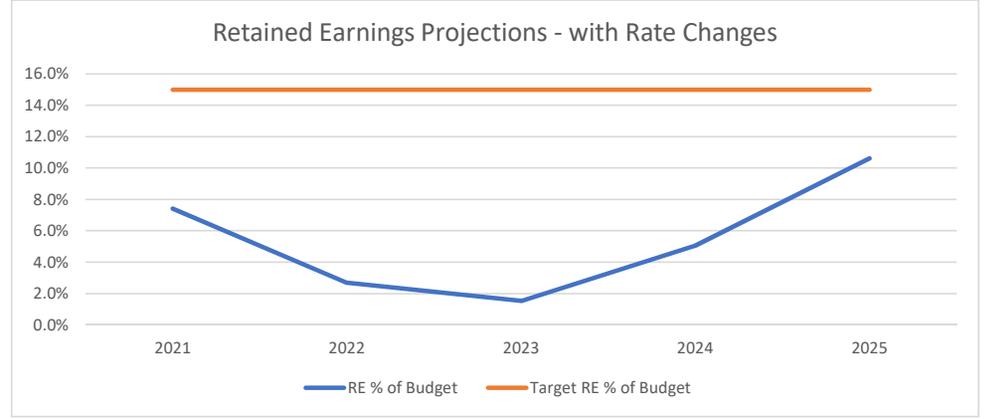
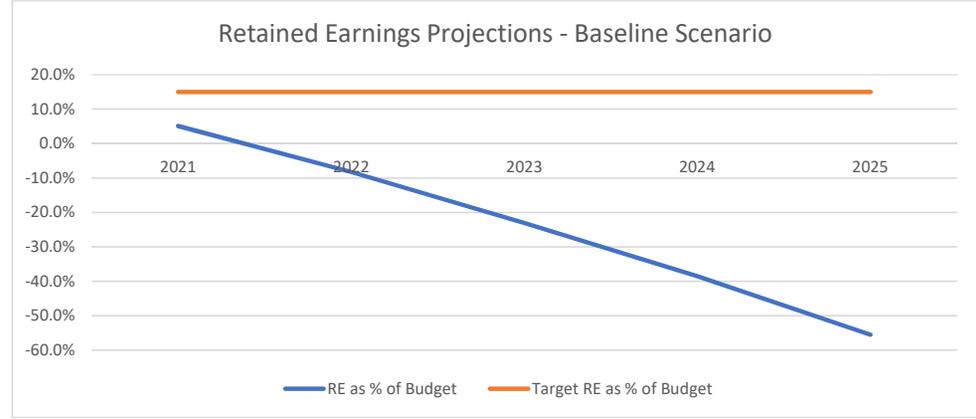
Ordin/water/wastewater-amendsewerrate

Target Retained Earnings as % of Budget:	15.0%
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Rate Increases:	3.5%	10.0%	8.0%	8.0%	8.0%
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Baseline	2021 PROJECTED	2022 PROJECTED	2023 PROJECTED	2024 PROJECTED	2025 PROJECTED
Surplus/Deficit	\$ (2,812,864)	\$ (3,533,730)	\$ (4,176,342)	\$ (4,534,264)	\$ (5,615,652)
Projected Retained Earnings	\$ 1,315,260	\$ (2,218,470)	\$ (6,394,812)	\$ (10,929,076)	\$ (16,544,728)
RE as % of Budget	5.1%	-8.3%	-23.1%	-38.5%	-55.6%
Target RE as % of Budget	15.0%	15.0%	15.0%	15.0%	15.0%

Rate Impact	2021 PROJECTED	2022 PROJECTED	2023 PROJECTED	2024 PROJECTED	2025 PROJECTED
Surplus/Deficit	\$ (2,220,955)	\$ (1,191,463)	\$ (293,759)	\$ 1,011,860	\$ 1,727,095
Projected Retained Earnings	\$ 1,907,169	\$ 715,706	\$ 421,947	\$ 1,433,807	\$ 3,160,902
RE % of Budget	7.4%	2.7%	1.5%	5.1%	10.6%
Target RE % of Budget	15.0%	15.0%	15.0%	15.0%	15.0%



	2017	2018	2019	2020	2020	2021	2022	2023	2024	2025	
Description	ACTUAL	ACTUAL	ACTUAL	BUDGETED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	COMMENTS
Revenues and Other Sources											
Usage Charges	\$ 13,989,479	\$ 15,685,090	\$ 16,478,305	\$ 15,928,595	\$ 15,928,595	\$ 15,928,595	\$ 15,928,595	\$ 15,928,595	\$ 15,928,595	\$ 15,928,595	FY20 based on budget; FY21 on, level to show possible impact of no rate changes
Liens	\$ 983,082	\$ 1,066,411	\$ 1,208,422	\$ 983,082	\$ 983,082	\$ 983,082	\$ 983,082	\$ 983,082	\$ 983,082	\$ 983,082	FY20 based on budget; FY21 on, level to show possible impact of no rate changes
Septage	\$ 1,780,842	\$ 1,926,779	\$ 2,775,745	\$ 1,875,000	\$ 1,875,000	\$ 1,975,000	\$ 2,075,000	\$ 2,175,000	\$ 2,275,000	\$ 2,375,000	FY20 from budget; FY21 on \$100,000 increase annually
Junk/Scrap Metal	\$ 1,183	\$ 1,444	\$ 5,220	\$ 1,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Nothing FY20 and on, per the five-year forecast
Laboratory Analysis	\$ 19,159	\$ 20,225	\$ 21,672	\$ 18,100	\$ 18,100	\$ 18,462	\$ 18,831	\$ 19,208	\$ 19,592	\$ 19,984	FY20 from budget; FY21 on 2% increase, per five-year forecast
Tewksbury Assessment	\$ 1,347,901	\$ 603,301	\$ 1,694,438	\$ 1,207,791	\$ 1,207,791	\$ 1,268,181	\$ 1,331,590	\$ 1,398,169	\$ 1,468,078	\$ 1,541,481	FY20 from budget; FY21 on 5% increase, per five-year forecast
Chelmsford Assessment	\$ 1,651,171	\$ 1,393,950	\$ 1,319,985	\$ 1,319,986	\$ 1,319,986	\$ 1,385,985	\$ 1,455,284	\$ 1,528,048	\$ 1,604,451	\$ 1,684,673	FY20 from budget; FY21 on 5% increase, per five-year forecast
Dracut/Tyngsborough Assessment	\$ 1,223,032	\$ 1,542,190	\$ 1,048,283	\$ 1,048,283	\$ 1,048,283	\$ 1,100,697	\$ 1,155,732	\$ 1,213,519	\$ 1,274,195	\$ 1,337,905	FY20 from budget; FY21 on 5% increase, per five-year forecast
Miscellaneous Revenue	\$ 136,694	\$ 245,973	\$ 265,874	\$ 225,000	\$ 227,000	\$ 238,350	\$ 250,268	\$ 262,781	\$ 275,920	\$ 289,716	FY20 from budget; FY21 on 5% increase, per five-year forecast; Forecast's FY20=\$227K
Sub Total	\$ 21,132,544	\$ 22,485,361	\$ 24,817,945	\$ 22,607,337	\$ 22,607,837	\$ 22,898,352	\$ 23,198,382	\$ 23,508,402	\$ 23,828,912	\$ 24,160,436	
Retained Earnings	\$ -	\$ -	\$ -	\$ 1,524,037	\$ 1,524,037	\$ -	\$ -	\$ -	\$ -	\$ -	FY20 amount as indicated in five-year forecast file
Total Revenues and Other Sources	\$ 21,132,544	\$ 22,485,361	\$ 24,817,945	\$ 24,131,374	\$ 24,131,874	\$ 22,898,352	\$ 23,198,382	\$ 23,508,402	\$ 23,828,912	\$ 24,160,436	
Expenditures and Other Uses											
Salaries and Wages	\$ 3,190,612	\$ 3,233,541	\$ 3,263,531	\$ 3,419,733	\$ 3,419,733	\$ 3,522,325	\$ 3,627,995	\$ 3,736,835	\$ 3,848,940	\$ 3,964,408	FY20 from Budget; FY21 on increased 3.0% yearly, per five-year forecast
Operations and Maintenance	\$ 5,698,526	\$ 5,760,355	\$ 5,955,550	\$ 6,797,500	\$ 6,797,500	\$ 6,933,450	\$ 7,072,119	\$ 7,213,561	\$ 7,357,833	\$ 7,504,989	FY20 from Budget; FY21 on increased 2.0% yearly, per five-year forecast
Collection	\$ 1,644,959	\$ 1,251,794	\$ 1,165,034	\$ 1,430,000	\$ 1,430,000	\$ 1,458,600	\$ 1,487,772	\$ 1,517,527	\$ 1,547,878	\$ 1,578,836	FY20 from Budget; FY21 on increased 2.0% yearly, per five-year forecast
Existing Long Term Debt Service - MCWT Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,362,983	\$ 5,368,811	\$ 5,364,483	\$ 5,116,242	\$ 5,118,079	FY21 and on from City's existing debt schedule; only includes MCWT debt FY21 and on
Existing Long Term Debt Service - GOB or All Debt	\$ 6,462,639	\$ 6,398,879	\$ 7,281,163	\$ 7,309,748	\$ 7,309,748	\$ 2,946,367	\$ 2,876,268	\$ 2,727,635	\$ 2,558,903	\$ 2,478,925	All debt here FY17-20; FY20 from budget; FY21 and on from City's existing debt schedu
New Long Term Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 697,629	\$ 1,263,504	\$ 1,875,556	\$ 3,132,312	Based on assumptions laid out on Capital Plan tab
Short Term Debt (Related to New Debt Service)	\$ -	\$ -	\$ -	\$ -	\$ 62,181	\$ 157,865	\$ 112,005	\$ 207,000	\$ 234,000	\$ -	1.25% of amount expended in the "lag" year, per the CFO; see Capital Plan tab
Sub Total	\$ 16,996,736	\$ 16,644,570	\$ 17,665,278	\$ 18,956,981	\$ 19,019,162	\$ 20,381,590	\$ 21,242,598	\$ 22,030,545	\$ 22,539,351	\$ 23,777,548	
Indirect Costs	\$ 3,050,277	\$ 4,919,831	\$ 5,023,683	\$ 5,174,393	\$ 5,174,393	\$ 5,329,625	\$ 5,489,514	\$ 5,654,199	\$ 5,823,825	\$ 5,998,540	FY20 from budget; FY21 on increased 3% yearly, based on average increase shown in f
Transfers/Adjustments	\$ 1,593,059	\$ 802,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Historical amounts included
Total Expenditures and Other Uses	\$ 21,640,072	\$ 22,366,477	\$ 22,688,961	\$ 24,131,375	\$ 24,193,556	\$ 25,711,216	\$ 26,732,112	\$ 27,684,744	\$ 28,363,176	\$ 29,776,089	
Excess (Deficiency) of Revenues and Available Funds > Expenditures and Other Uses	\$ (507,528)	\$ 118,885	\$ 2,128,984	\$ (1)	\$ (61,682)	\$ (2,812,864)	\$ (3,533,730)	\$ (4,176,342)	\$ (4,534,264)	\$ (5,615,652)	
Retained Earnings Summary											
Certified Retained Earnings as of July 1, 2019			\$ 4,189,806								
Available Retained Earnings Start of FY				\$ 4,189,806	\$ 4,128,124	\$ 1,315,260	\$ (2,218,470)	\$ (6,394,812)	\$ (10,929,076)		
Retained Earnings Appropriated				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Current Year Surplus/(Deficit)				\$ (61,682)	\$ (2,812,864)	\$ (3,533,730)	\$ (4,176,342)	\$ (4,534,264)	\$ (5,615,652)		
Projected Retained Earnings Balance				\$ 4,128,124	\$ 1,315,260	\$ (2,218,470)	\$ (6,394,812)	\$ (10,929,076)	\$ (16,544,728)		
Projected Retained Earnings Balance as % of Budget				17.1%	5.1%	-8.3%	-23.1%	-38.5%	-55.6%		

Description	2017	2018	2019	2020	2020	2021	2022	2023	2024	2025	COMMENTS
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	
Revenues and Other Sources						3.50%	10.00%	8.00%	8.00%	8.00%	
Usage Charges	\$ 13,989,479	\$ 15,685,090	\$ 16,478,305	\$ 15,928,595	\$ 15,928,595	\$ 16,486,096	\$ 18,134,705	\$ 19,585,482	\$ 21,152,320	\$ 22,844,506	FY20 based on budget; FY21 on, level to show possible impact of no rate changes
Liens	\$ 983,082	\$ 1,066,411	\$ 1,208,422	\$ 983,082	\$ 983,082	\$ 1,017,490	\$ 1,119,239	\$ 1,208,778	\$ 1,305,480	\$ 1,409,919	3-year average FY20; rate impact FY20-FY24 shown if any rate changes chosen
Septage	\$ 1,780,842	\$ 1,926,779	\$ 2,775,745	\$ 1,875,000	\$ 1,875,000	\$ 1,975,000	\$ 2,075,000	\$ 2,175,000	\$ 2,275,000	\$ 2,375,000	FY20 from budget; FY21 on \$100,000 increase annually
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Retained Earnings Summary											
Certified Retained Earnings as of July 1, 2019			\$ 4,189,806								
Available Retained Earnings Start of FY					\$ 4,189,806	\$ 4,128,124	\$ 1,907,169	\$ 715,706	\$ 421,947	\$ 1,433,807	
Retained Earnings Appropriated					\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Current Year Surplus/(Deficit)					\$ (61,682)	\$ (2,220,955)	\$ (1,191,463)	\$ (293,759)	\$ 1,011,860	\$ 1,727,095	
Projected Retained Earnings Balance					\$ 4,128,124	\$ 1,907,169	\$ 715,706	\$ 421,947	\$ 1,433,807	\$ 3,160,902	
Projected Retained Earnings Balance as % of Budget					17.1%	7.4%	2.7%	1.5%	5.1%	10.6%	

WATER ENTERPRISE SUMMARY

	FY18 Actual	FY19 Actual	FY20 Approved	FY21 Prelim. Estimate	FY21 Final Estimate
Revenues	11,012,378	11,409,254	11,321,489	11,169,258	12,106,297
	FY18 Actual	FY19 Actual	FY20 Approved	FY21 Request	FY21 Manager
Personal Services	1,972,985	2,149,155	2,541,536	2,577,695	2,579,657
Ordinary Expenses	2,860,848	3,036,117	4,122,500	4,796,500	3,951,500
Debt Service	4,619,673	4,579,372	4,714,358	4,714,358	4,714,358
Indirect Costs	2,672,026	2,948,830	2,948,830	4,149,348	3,848,378
Transfers/Adjustments	1,523,950	(97,056)			
Total Expenditures	13,649,481	12,616,418	14,327,224	16,237,901	15,093,892
Surplus/(Deficit)	(2,637,103)	(1,207,165)	(3,005,735)	(5,068,643)	(2,987,595)
Beginning Fund Balance	10,237,598	7,600,494	6,393,330	3,387,595	3,387,595
Estimated Operations			(3,005,735)	(5,068,643)	(2,987,595)
Projected Ending Fund Balance	10,237,598	7,600,494	3,387,595	(1,681,048)	400,000
Actual Operations	(2,637,103)	(1,207,165)			
Projected Ending Fund Balance (must be >0)	7,600,494	6,393,330	3,387,595	(1,681,048)	400,000

Integrated Capital Improvement Plan
Lowell Drinking Water & Wastewater Utilities
 \$112M CIP Phase 3 (2020 - 2029)

DRINKING WATER

Redundant Transmission Line (Finished Water Main)	\$4 M
Drinking Water Facility Upgrades (Ferry Crossing Facility)	\$8 M
Water Meter & Backflow Device Replacement (Water Distribution System)	\$3 M
Lead Water Service Replacement (Water Distribution System)	\$4 M
Transmission Main Vulnerabilities (Water Distribution System)	\$2 M
Finished Water Storage Tank (Underground Facility at Fort Hill)	\$15 M
Permitting, Planning, Design & Construction (Technical and Engineering Services)	\$9 M
Drinking Water Subtotal	\$45M

WASTEWATER

Wet-Weather Storage Facility (Winward/Douglas Road)	\$6 M
Wet-Weather Treatment Facility (North Bank at Read Station)	\$16 M
Wastewater Facility Upgrades (Duck Island Facility)	\$8 M
Wet-Weather Storage/Pumping Facility (Pevey/Marginal/Middlesex Corridor)	\$10 M
Satellite Station Upgrades (Various Pump/Diversion Stations)	\$6 M
Drainage, Sewerage & Green Infrastructure (Various Locations)	\$9 M
Permitting, Planning, Design & Construction (Technical and Engineering Services)	\$12 M
Wastewater Subtotal	\$67 M



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

MEMORANDUM

TO: Eileen Donoghue, City Manager

FROM: Conor Baldwin, Chief Financial Officer 

CC: Mark Young, Executive Director, Water/ Sewer Utility

DATE: August 30, 2020

RE: FY21 Enterprise Fund Rates & Forecast – Sewer Rate Recommendation

During the final preparations for the FY2021 operating budgets for the general fund and the city's three enterprise funds (water, sewer, and parking); the finance department updated the existing forecast models to incorporate oncoming debt service and other rising fixed costs. This annual process is an important component of the city's financial plan and helps assess the short and medium term fiscal health of each fund. Over the course of the past year, the finance department has worked with the management team at the water and sewer departments and with outside engineering and CPA firm to fine tune the cost projections associated with the \$45 million and \$67 million loan orders approved by the City Council in June of 2019 for water and sewer capital improvements, respectively.

Water & Sewer Enterprise Funds - Background

Based on the most recent certification by the Department of Revenue ("DOR"), the retained earnings for the water enterprise is approximately \$5.3 million and the retained earnings for the wastewater enterprise is \$4.2 million. An undesignated fund balance equal to 10% or greater of the annual revenue for the fund is a best practice according to the Government Finance Officers Association ("GFOA"). For the water fund this would be \$1.2 million and for the wastewater fund it would be \$2.5 million. The healthy accumulated balances in both funds, however, will quickly deteriorate after the additional debt service associated with utility infrastructure capital improvement plan ("CIP") comes online.

The undesignated fund balance had dropped below \$1 million in FY2016, but by carefully reducing budgeted expenses and seeking efficiencies in operations, the retained earnings have been built-up over the subsequent three fiscal years. Fiscal year 2019's budgetary results were especially favorable, with revenues exceeding expenditures by over \$2.1 million. As of the most recent certification from DOR, the retained earnings were 17.1% of the wastewater. The city must be fiscally prudent when looking to the future by taking proactive fiscal measures to avoid the need to drastically raise rates in any one single year. A series of incremental increases to the water and sewer rates will aid in mitigating the impact to local ratepayers.



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

According to the most recent *Tighe & Bond* survey, which compiles sewer rates and average annual costs for all communities in Massachusetts; the City of Lowell has among the lowest rates in the Commonwealth. The City has also been able to take advantage of low-interest financing through the Massachusetts Clean Water Trust (“MCWT”) and will continue to the work with the State Treasurer’s Office to take advantage of loan forgiveness programs for projects, both clean water and drinking water, financed through the Trust. However, the entire scope of work to be funded by the recently revised loan orders are ineligible for funding by the MCWT.

Sewer Rate – Analysis & Recommendation

Enclosed is an analysis of the sewer enterprise fund’s historic budgetary performance and the five-year financial forecast. Also attached are the preliminary budget estimate for the projects tentatively scheduled to be financed by the \$67 million loan order authorized in 2019. According to the baseline analysis, without any rate increase in the sewer enterprise, the fund will become insolvent sometime in either fiscal year 2022 or 2023, depending on annual budgetary performance. If this were to happen, annual operating deficit would need to be raised on the subsequent year’s tax rate, according to the rules established by the DOR.

The recommendation to increase revenues necessary to fund operations and build capacity for oncoming capital debt service is twofold. First, the increase to the local rate users whose sewer usage falls within the first several tiers is 3.5%. The recommended increase to the largest usage tier, which will impact primarily commercial and industrial users, is based on a comparable rates in gateway communities. Please see the attached revenue analysis.

Please let me know if you have further questions.



Eileen M. Donoghue
City Manager

August 31, 2020

Mayor John J. Leahey
And
Members of the Lowell City Council

Dear Mayor Leahey and Members of the Lowell City Council,

In 2019, the City Council approved a \$67 million loan authorization financed by the sewer enterprise fund in order to fund various capital expenses included in phase 3 of the sewer long-term capital plan. These improvements were critical to ensure the resiliency of the city's drinking water infrastructure. Clean water is an important component of public health which has—since the onset of COVID-19—become ever more important.

The COVID-19 pandemic has taken on some distressing patterns: minority communities are being infected and dying at a disproportionately high rate and hotspots of infections are emerging in some of the country's older cities, like Lowell. Underpinning these patterns is a drinking water and clean water (i.e. "wastewater") infrastructure system in the United States that is outdated, unequal, and inadequate for ensuring public health. While regular hand washing and frequent cleaning are critical to preventing the spread of COVID-19, such practices are impossible without regular, affordable access to water. The serious financial difficulties the pandemic has caused for many people, especially to communities of color, has put access to safe drinking water at greater risk. In order to safeguard access to drinking water, municipalities must commit to investing in drinking water and clean water infrastructure for those who need it most. The Lowell City Council has done this by authorizing significant capital investments to the utility infrastructure.

Thanks in large part to the renegotiation of the city's inter-municipal agreements with the surrounding towns whose water is treated at the Lowell Regional Wastewater Treatment Plant, the enterprise fund for sewer has performed well over the last few years. Revenues have increased due to a better accounting of usage and allocation of debt service costs associated with the treatment system to the towns. While the fund continues to have positive annual budgetary results; the additional debt service associated with phase 2 construction, which mostly financed sewer separation work will quickly deteriorate the accumulated retained earnings in the fund. To mitigate this impact, the city continues to work with the Massachusetts Clean Water Trust ("MCWT") to pursue low-interest financing on eligible water projects.

The proposed amendment is extremely modest and, the timing is such that the additional debt service can be incorporated—over time—without over burdening the users. The true purpose of enterprise accounting is such that the users pay for the costs of the service in a way that is



Eileen M. Donoghue
City Manager

proportional to their usage. This method is far more fair and equitable than the alternative: for the cost of the water operation to be borne by all taxpayers uniformly. By employing enterprise fund accounting, the rates are set commensurate with the operation and the city can be sure that entities which pay for utilities like water and sewer, but are exempt from taxes under state law are paying their fair share.

Attached please find a vote to amend the water rate for FY21. The change in rate is detailed in the table below:

Number of Hundred Cubic Feet Per Quarter	CURRENT - Rate Per Hundred Cubic Feet Per Quarter	NEW RATE Per Hundred Cubic Feet Per Quarter
0 – 50 (min. 14 hcf)	4.681	4.845
51-100	4.942	4.845
101-200	5.019	5.115
201-500	5.103	5.195
Over 500	5.178	5.282
* This represents an increase of \$7.66 per quarterly bill for the average residential user at 94 gallons per day, according to the AWWA.		

Sincerely,

Eileen M. Donoghue
City Manager

cc: Conor Baldwin, Chief Financial Officer
Mark Young, Executive Director, Water/ Sewer Department