

Poolesville
Water and Sewer Rate Study
January 2025

Commissioners of Poolesville

Prepared by

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Purpose/Objectives of Study

1. To review current expenses and financial obligations of the Water and Sewer Enterprise Fund and the General Fund.
2. To review the Town's current water and sewer rate structure
3. To develop a new water and sewer rate model (3 categories)
 - a. To develop reasoning for a three-category rate structure
4. To recommend a rate structure(s) for the next three years that will stabilize revenues and cover water and sewer operating and maintenance (O&M), debt, and capital outlay expenses:
 - a. Provide sufficient water and sewer operating revenues and adequate cash balances in the Water and Sewer Funds
 - b. Cover rising O&M expenses associated with the operation of the water and sewer systems
 - c. Cover needed capital outlay expenses for water and sewer system infrastructure repairs and replacements
 - d. To project water and sewer rates – 2025 through 2028

Water and Sewer Revenues & Expenses

Small Towns face a challenge in funding water and sewer services due to their smaller customer base. Small Towns need to periodically evaluate water and sewer rates to ensure that revenues cover expenses.

Realizing this, several years ago the Commissioners passed a resolution to develop user fees to fund water and sewer operations and have the general fund cover capital and debt service obligations. While subsidizing capital and debt services with tax dollars works, there are governmental entities, three schools and the county pool, our largest users, that only contribute to the operations through user fees.

Other Montgomery County water suppliers' comparison rate chart.

Poolesville	\$/ 1,000	WSSC*	\$/ 1,000	Rockville	\$/ 1,000
0-7,000	12.79	0-7,290	15.57	0-3,000	17.74
7,001-15,000	14.41	7,290-14,940	17.42	3,001-6,000	21.33
15,001-25,000	17.61	14,940-24,840	21.08	6,001-7,700	27.00
25,001 and up	22.39	24,840 and up	26.55	7,700 and up	32.57
WSSC* - Have additional charges for meters, line size, etc. Poolesville's actual cost to produce and treat 1,000 gallons of water: <ul style="list-style-type: none"> • Operations only - \$19.09/1,000 Gal • Operations and capital costs - \$28.08/1,000 Gal 					

Water and sewer treatment providers across the U.S. face significant water affordability challenges. These costs are driven in part by rising operational costs, the need for substantial investments in maintenance, and infrastructure upgrades.

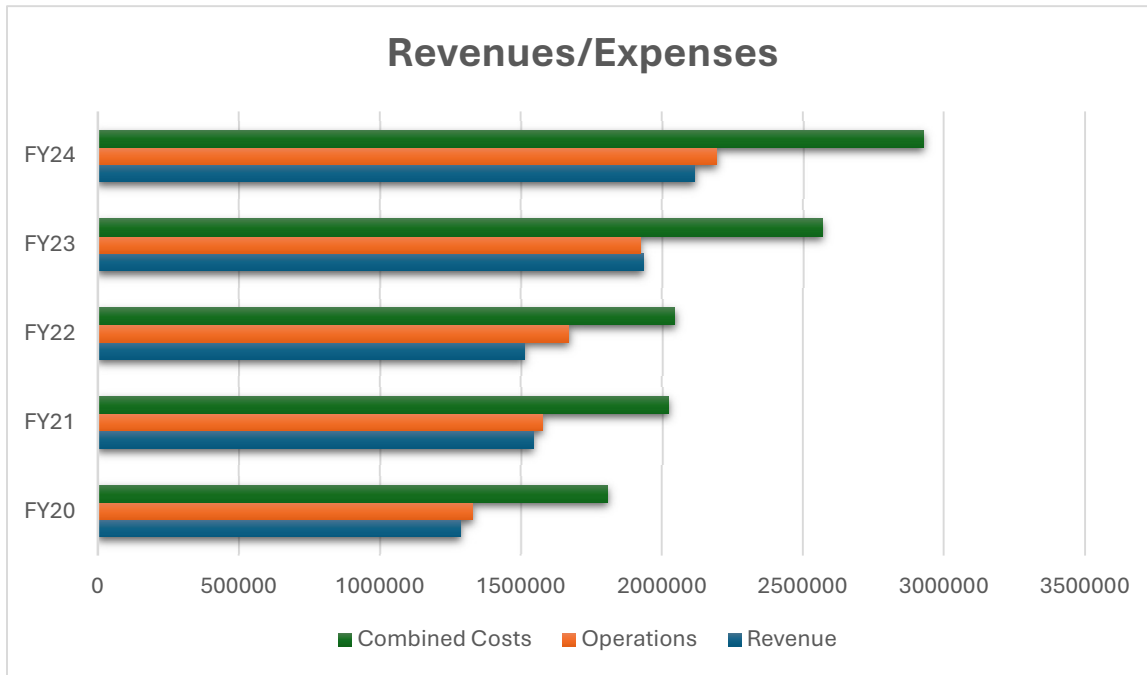
Providers face the balancing act of funding routine operation and maintenance costs and longer-term capital expenditures to replace or upgrade infrastructure. O&M cost increases are often driven by labor and supply costs and the increased maintenance needs of aging plant and pipeline infrastructure. Capital expenditure is often driven by the need to replace or upgrade infrastructure due to age and regulatory mandates.

Operating expenses include salaries, fuel, maintenance, chemicals, sludge hauling and administrative costs. Electricity, while operating off the solar array, increases through the power purchased agreement 2% annually. Many of the operations costs have increased significantly over the past several years.

Throughout the years, the Town has also done salary and benefits surveys to maintain a competitive employee market and adjusted as needed.

Historical data shows the revenue shortfall and general fund subsidy required to cover annual expenses. With PFAS filtration alone, the operations for media replacement is projected to be over \$150,000 annually.

Actual Revenue/Expense



Water and Sewer Rate Structure

Water and sewer providers use a range of rate structures to bill customers for services. Considerable variations exist in how rates are calculated and how different customer classes are charged. Regardless, the price of water and sewer services must roughly equal its cost or value to produce, store, and distribute water and/or treat wastewater if equity among customers is to be maintained, a concept principle referred to as “cost-based” or “cost of service”.

In many cases, providers establish different rates for different customer bases and for different goals. Different rate structures are also commonly used such as, fixed rate, fixed base rate with volumetric rate and volumetric rate alone (Poolesville). Providers also use a wide range of rate structures, from the basic 4 or 6 tier system to multiple tiers as used in Middletown.

Middletown Rate Structure

Gallons	Residential Users
0-25,000	80.63 for the first 3,000 Gal. and \$11.43 for each additional 1,000 Gal.
25,001-30,000	17.10
30,001-35,000	22.85
35,001-40,000	34.24
40,001-45,000	39.92
45,001-50,000	45.69
50,001-55,000	68.50*

*And the chart keeps going

While there is not an exact science in developing rate structures, goals and objectives should be the guiding principles, i.e., generating enough revenue to cover expenses while fostering conservation.

Poolesville uses the same rate structure for residential, commercial, and governmental customers, Water and sewer bills are calculated based on metered water consumption quantities. The existing rate structure provides for lower use categories (elderly & lower income) to be subsidized and encourages the high-end users (residential) to conserve.

The majority of residential users fall in the middle of the tier ranges. In the 25,001 and up category, most residential users fall in the 30,000 to 35,000 per quarter range. During the summer months, several residential users fall into the 40,000 to 50,000 range.

Gallons	Residential Users	Commercial Users
0-7,000	460	20
7,001-15,000	941	5
15,001-25,000	463	2
25,001 and up	122	12*

*The largest commercial users, which are mostly restaurants, use a range of 65,000 to 200,000 gallons per quarter.

Three Category Rate Structure System

In order to create a rate structure that provides equivalent cost share from all users and addresses the following principles, consideration should be given to a 3-user category system.

Principles: Support low/fixed income users, encourage conservation without penalizing families, support local businesses, have non-taxpaying users pay actual costs.

Category 1 Residential

The current structure is sufficient with exception to the creation of a 25,001 to 35,000 and 35,001-40,000 and 40,001 and up category. While data shows that the current “high end” users typically don’t exceed the 35,000 gallons except during the summer months, this will encourage conservation without impacting large families. The lack of conservation puts a strain on the aquifer. The past two summers, the Town asked for voluntary restrictions due to the usage being above 750,000 gallons per day for several days. The MDE permit allows for 650,000 per day and the flows at the WWTP were down to 375,000 so the data indicates excessive outdoor use.

Category 2 Commercial

The current structure in the category is sufficient as the “high end” users in this category already pay the “actual” cost of water production and treatment. Data indicates the seasonal fluctuations do not occur, so conservation is limited.

Category 3 Governmental

A new rate structure should be created to account for the true cost of operations and capital expenses. While the other two categories also pay property taxes and subsidize the water and sewer funds, the governmental entities do not.

Recommendations

Over the past 5 years, the average annual expenditure increase was approximately 10% each year. Most of this was due to revising salary structure, adding employees and improving medical benefits over these five years. Additionally, we have seen increases in operation and maintenance costs.

The FY24 Water & Sewer Budget closed out with a \$77,892 deficit and FY25 is looking the same. In this upcoming budget, there may be some additional salary structure amendments proposed. To this end, the following conservatively priced usage charges have been spread over the next three years to avoid a rate shock. Continuance of annual base percentage increases will generate stable revenue streams and improve coverage of future fixed operating expenses.

Category 1 Residential

Gallons	FY25 (Actual)	FY26 5%	FY27 5%	FY28 5%
0-7,000	12.79	13.46	14.17	14.92
7,001-15,000	14.41	15.17	15.97	16.81
15,001-25,000	17.61	18.54	19.52	20.55
25,001-35,000	22.39	23.57	24.81	26.12
35,001-40,000	22.39	34.09	35.89	37.78
40,001 and up	22.39	44.62	46.97	49.44

Category 2 Commercial

Gallons	FY25 (Actual)	FY26 5%	FY27 5%	FY28 5%
0-7,000	12.79	13.46	14.17	14.92
7,001-15,000	14.41	15.17	15.97	16.81
15,001-25,000	17.61	18.54	19.52	20.55
25,001 and up	22.39	23.57	24.81	26.12

Category 3 Governmental

Flat Rate Fee

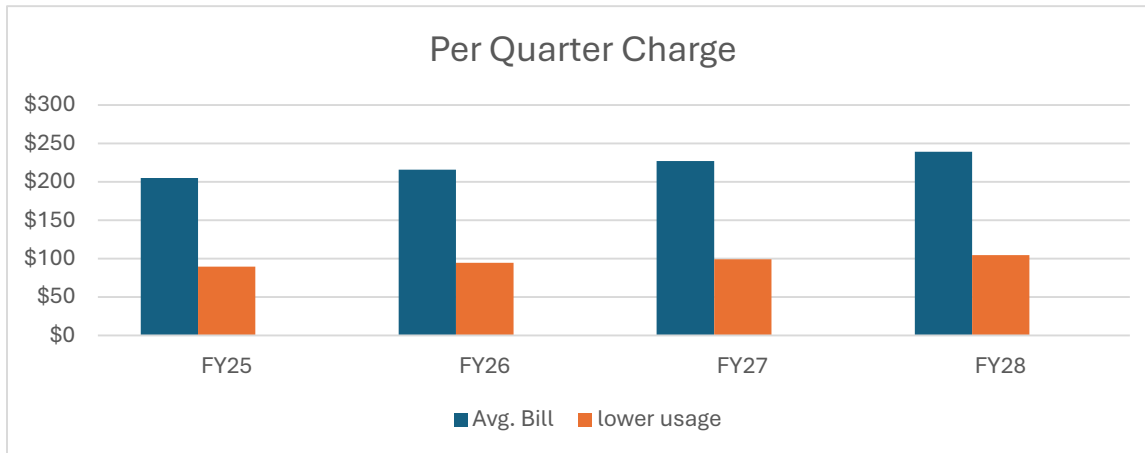
FY25 (Actual Cost)	FY26 5%	FY27 5%	FY28 5%
28.08*	29.56	31.11	32.75

*In FY24, the 4 governmental entities (3 schools and county pool) were subsidized over \$33,000.

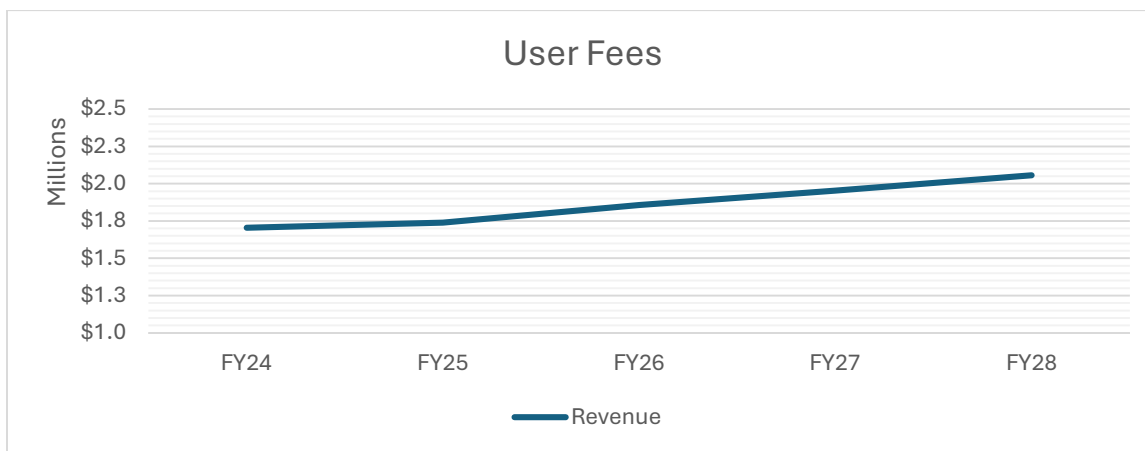
Water/Sewer Billing Projections

Adopting the recommended water and sewer rates will not dramatically impact existing residential customer water and sewer bills as shown below. Using the average water and sewer bill, the chart below depicts the projected increase. Users in the lower use categories will see even less of an increase.

Residential Bill Projections



Revenue Projections



Conclusion

The restructuring of the categories and increasing the fees is the best method for the future. Addressing the core principles of supporting low/fixed income users, encouraging conservation without penalizing families, supporting local businesses and charging non-taxpaying users the actual costs of providing water and sewer services, will provide a sensible and logical rate structure.

The proposed rates should provide reliable, stable and adequate revenue to meet the Town's financial, operational, and regulatory requirements. Rate levels should be slowly escalated from year to year - no "rate shocks". Prudent financial planning is fundamental in ensuring adequate revenues to promote financial stability.