

TOWNSHIP OF LOWER MERION 2018 Sanitary Sewer Fund Forecast



Finance Committee
April 11, 2018





Overview of Sanitary Sewer Fund

- Sanitary Sewer Fund (SSF) is an enterprise fund
 - User fees (sewer rate) set at full cost recovery
- Township Code requires the Board to set annual Sanitary Sewer Rental Fee (SSRF) to cover annual projected operating expenses plus:
 - Debt service (principal and interest)
 - 10% SSF fund balance reserve (minimum)
- SSRF is based on prior year water consumption readings provided by Aqua
 - 2018 Sanitary Sewer billing is based on 2017 water consumption data



Overview of Sanitary Sewer System

- Public Works Sanitary Sewer Division maintains over 238 miles of sewer lines and 17 pumping stations throughout the Township
- Supervises and inspects all sanitary sewer construction and new lateral connections to the sewer system
- Cleans and inspects the sanitary sewer system
- Perform a wide range of maintenance activities including:
 - Grouting sewer lines to prevent water infiltration
 - Maintaining aging sewer lines via slip lining and other cost-effective methods
- Currently billing over 16,500 accounts annually
 - Modest growth in number of accounts since 2010



Sanitary Sewer Fund Revenues

- 2018 projected operating revenues of \$8.1 million; a decrease of \$0.1 million compared to Adopted Budget
 - SSRF primary source of revenue (\$7.35 million annually)
 - Strong collection rate over 80% paid in discount period; Township collects more than 100% of flat billing due to payments made during penalty period
 - SSRF billing fluctuates with water consumption and water conservation efforts
 - Credit provision for customers diverting water from sewer system (special meters)
 - Other revenue derived from charges for services (connection fees, revenue from other municipalities), investment income and other sources



Sanitary Sewer Rental Fee

- Sanitary Sewer Fund net billable water consumption
 - 2018 billable water consumption increased marginally compared to prior year
 - 2018 billable gallons reflects water consumption for the period 1/1/2017 - 12/31/2017

Year	Billable Gallons	Gallons Inc/(Dec)	% Inc/(Dec)
2011	1.837		
2012	1.685	(0.152)	-8.3%
2013	1.734	0.049	2.9%
2014	1.618	(0.116)	-6.7%
2015	1.633	0.015	0.9%
2016	1.700	0.067	4.1%
2017	1.607	(0.093)	-5.5%
2018	1.610	0.003	0.2%



Sanitary Sewer Rental Fee

- Historical Sanitary Sewer Rental Fees (SSRF) since 1993

Year	Billable Gallons	SSRR	\$ Increase	% Increase
1993-2007		\$ 2.75	\$ -	0%
2008	1.858	3.00	0.25	9%
2009	1.862	3.18	0.18	6%
2010	1.748	3.82	0.64	20%
2011	1.837	3.82	-	0%
2012	1.685	4.51	0.69	18%
2013	1.734	4.51	-	0%
2014	1.618	4.51	-	0%
2015	1.633	4.51	-	0%
2016	1.707	4.51	-	0%
2017	1.607	4.51	-	0%
2018	1.610	4.51	-	0%

1993 - 2018 Compound Annual Growth Rate in SSRR is 1.9%



Sanitary Sewer Fund Expenditures

- 2018 projected operating expenditures = \$8.3 million; reduced compared to Adopted Budget (\$8.5 million)
 - 35-year agreement (1992-2027) with Philadelphia Water Department (PWD) for wastewater treatment services
 - Township's annual operating contribution to PWD have been steady and averaged \$2.38 million or 31% of total SSF expenditures over the past five years
 - Personnel expenses (salaries and benefits) = \$1.97 million or 23.6% of SSF expenditures
 - Debt Service = \$1.93 million or 23.2%
 - General Fund Indirect Costs = \$736,700 or 8.8%
 - Utilities and Materials & Supplies = \$365,250 or 4.4%
 - Equipment Fund Rental = \$317,600 or 3.8%



Sanitary Sewer Fund Financial Forecast

Sanitary Sewer Operating Fund	2017 Actual*	2018 Forecast	18 vs. 17 \$ Chg.	18 vs. 17 % Chg.
Beginning Fund Balance (Operating)	\$ 3.2	\$ 3.6	\$ 0.4	13%
Revenues	8.3	8.1	(0.2)	-2%
Expenses	7.9	8.3	0.4	5%
Surplus/(Deficit)	0.4	(0.2)		
Ending Fund Balance (Operating)	\$ 3.6	\$ 3.4		
Fund Balance % of Expenses	45.6%	41.0%		

*Preliminary pre-audit financial results

- Recent strong financial results have been driven by sewer connection fees along with limited growth in sewer treatment expenses and increased allocation of sewer personnel costs for work on sewer capital projects
- Modest deficit projected without fee increase for 2018
 - Revenues projected with SSRR rate of \$4.51 unchanged from 2017
 - Expenditures projected slightly higher in 2018 compared to 2017
 - Anticipate minor drawdown of fund balance reserves



Sanitary Sewer Fund Financial Forecast – Alternative Scenarios

Sanitary Sewer Operating Fund	2019 Forecast	2020 Forecast	2021 Forecast
Baseline: Surplus/(Deficit)	\$ (0.28)	\$ (0.18)	\$ (0.21)
Baseline: FB % of Exp	37%	35%	32%
-10% Sewer Rate: Surplus/(Deficit)	\$ (0.86)	\$ (0.77)	\$ (0.79)
-10% Sewer Rate: FB % of Exp	30%	21%	11%
-10% SSR + -5% usage: Surplus/(Deficit)	\$ (1.10)	\$ (1.03)	\$ (1.06)
-10% SSR + -5% usage: FB % of Exp	27%	15%	2%

- Strong financial status provides options for the Board to consider; however fluctuations in consumption can further complicate matters
- Board may wish to consider the following:
 - Keep current rates as a hedge against future cost increases – Philadelphia treatment and capital costs
 - Keep current rates until full financial impact of Villanova flows is known
 - Keep current rates but transfer a portion of excess fund balance to Capital Projects Fund to lessen need for future debt issuance



Proposed Sanitary Sewer Rental Fee

- Lower Merion's sewer rate is the lowest when compared to other area municipalities' sewer rates that bill based on water consumption (all per 1,000 gallons):
 - \$4.51 = Lower Merion Township (2018 Proposed)
 - \$4.70 = Haverford Township
 - \$6.07 = Newtown Township
 - \$6.49 = Radnor Township
 - \$6.95 = Marple Township



Proposed Sanitary Sewer Rental Fee

- Next Steps:
 - BOC approves advertisement of Ordinance adopting the 2018 SSRR and Public Hearing (April 18th)
 - BOC holds Public Hearing and adopts Ordinance setting the 2018 SSRR at \$4.51 (May 16th)
 - 2018 Sanitary Sewer Bills are mailed to customers (no later than May 31st)