

# TOWNSHIP OF LOWER MERION

## 2019 Sanitary Sewer Fund Forecast



Finance Committee  
April 3, 2019





# 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
  - 2019 Sanitary Sewer billing is based on 2018 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 16,600 accounts annually
  - Modest growth in number of accounts since 2010



# Sanitary Sewer Fund Revenues

- 2019 projected operating revenues of \$8.2 million; a decrease of \$0.2 million compared to Adopted Budget (\$8.4 million)
  - SSRF primary source of revenue (\$7.3 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
  - 2019 billable water consumption decreased marginally compared to prior year
  - 2019 billable gallons reflects water consumption for the period 1/1/2018 - 12/31/2018

Year	Billable Gallons	Gallons Inc/(Dec)	% Inc/(Dec)
2012	1.685		
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%
2019	1.600	(0.010)	-0.6%





# 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%
2019	1.600	4.51	-	0%

1993 - 2019 Compound Annual Growth Rate in SSRR is 1.8%



# Sanitary Sewer Fund Expenditures

- 2019 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 averaged \$2.4 million over the past five years
    - Projecting \$2.6 million or 31% of SSF expenditures in 2019
  - Personnel expenses (salaries and benefits) = \$1.93 million or 23.1% of SSF expenditures
  - Debt Service = \$1.9 million or 23.1%
  - General Fund Indirect Costs = \$766,500 or 9.2%
  - Utilities and Materials & Supplies = \$333,900 or 4%
  - Equipment Fund Rental = \$312,200 or 3.7%



# Sanitary Sewer Fund Financial Forecast

Sanitary Sewer Operating Fund	2018 Actual*	2019 Forecast	19 vs. 18 \$ Chg.	19 vs. 18 % Chg.
Beginning Fund Balance (Operating)	\$ 3.96	\$ 2.99	\$ (1.0)	-24%
Revenues	8.28	8.20	(0.1)	-1%
Expenses	8.25	8.34	0.1	1%
Transfer to Sewer Capital	1.00	-	(1.0)	-100%
Surplus/(Deficit)	(0.97)	(0.14)		
Ending Fund Balance (Operating)	\$ 2.99	\$ 2.85		
Fund Balance % of Expenses	36.2%	34.2%		

\*Preliminary pre-audit financial results

- Recent strong financial results have been driven by sewer connection fees, larger payments from other municipalities along with limited growth in sewer treatment expenses sewer personnel expenditures
- Modest deficit projected without fee increase for 2019
  - Revenues projected with SSRR rate of \$4.51 unchanged from 2018
  - Expenditures projected slightly higher in 2019 compared to 2018
  - Anticipate minor drawdown of fund balance reserves while retaining flexibility for further transfer to sewer capital or other actions





# Sanitary Sewer Fund Financial Forecast – Alternative Scenarios

Sanitary Sewer Operating Fund	2019 Forecast	2020 Forecast	2021 Forecast
Baseline: Surplus/(Deficit)	\$ (0.13)	\$ (0.36)	\$ (0.49)
Baseline: FB % of Exp	34.2%	29.4%	23.3%
-10% Sewer Rate: Surplus/(Deficit)	\$ (0.77)	\$ (0.94)	\$ (1.07)
-10% Sewer Rate: FB % of Exp	26.7%	15.1%	2.5%
-10% SSR & -5% usage: Surplus/(Deficit)	\$ (0.77)	\$ (1.27)	\$ (1.39)
-10% SSR & -5% usage: FB % of Exp	26.7%	11.3%	-5.0%

- Strong financial status provides options for the Board to consider; however fluctuations in consumption could complicate future rates
- 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 but transfer a portion of excess fund balance to Capital Projects Fund to lessen need for future sewer related debt issuance similar to last year



# Proposed Sanitary Sewer Rental Fee

- Lower Merion's sewer rate is on the low end when compared to other area municipalities' sewer rates that bill based on water consumption (all per 1,000 gallons):
  - \$4.51 = Lower Merion Township (2019 Proposed)
  - \$4.40 = Haverford Township
  - \$6.16 = Newtown Township
  - \$6.95 = Marple Township
  - \$7.14 = Radnor Township



# Proposed Sanitary Sewer Rental Fee

- Next Steps:
  - BOC approves advertisement of Ordinance adopting the 2019 SSRR and Public Hearing (April 17th)
  - BOC holds Public Hearing and adopts Ordinance setting the 2019 SSRR at \$4.51 (May 15th)
  - 2019 Sanitary Sewer Bills are mailed to customers (no later than May 31st)



# Sanitary Sewer Fund Financial Forecast – Alternative Scenarios

Sanitary Sewer Operating Fund	2019 Forecast	2020 Forecast	2021 Forecast
Baseline: Surplus/(Deficit)	\$ (0.13)	\$ (0.36)	\$ (0.49)
Baseline: FB % of Exp	34.2%	29.4%	23.3%
-5% Usage (2020): Surplus/(Deficit)	\$ (0.13)	\$ (0.65)	\$ (0.78)
-5% Usage (2020): FB % of Exp	34.2%	26.0%	16.5%
\$500k Transfer to Sewer Capital (2019) & -5% Usage (2020): Surplus/(Deficit)	\$ (0.63)	\$ (0.65)	\$ (0.78)
\$500k Transfer to Sewer Capital (2019) & -5% Usage (2020): FB % of Exp	28.3%	20.1%	10.8%

- Baseline scenario shows maintenance of very strong fund balance levels through 2021; another consumption decline would accelerate decline of fund balance
- Current rates but with a plan to transfer a portion (\$500k) of excess fund balance to Sewer Capital Projects later this year would again lessen need for future sewer related debt issuance while maintaining appropriate fund balance levels