

**BOARD OF TRUSTEES
VILLAGE OF GREENPORT
NOTICE OF PUBLIC HEARING ON A PROPOSED LOCAL LAW OF 2017
AMENDING CHAPTER 105
(SEWERS)
OF THE VILLAGE OF GREENPORT CODE**

PLEASE TAKE NOTICE that the Board of Trustees of the Village of Greenport will conduct a Public Hearing on Thursday, July 27, 2017 at 7:00 p.m. at the Third Street Fire Station, Third and South Streets, Greenport, New York, 11944 regarding a proposed local law of 2017 amending Chapter 105 (Sewers), Article IX (Fees and Charges) of the Village of Greenport Code.

The purpose and subject of the proposed local law is to adopt revised sewer rates per the report prepared and submitted by BST & Company, CPA's LLP.

The title of the local law is "Local Law of 2017 – A Local Law amending Chapter 105, Article IX – of the Village of Greenport Code – Fees and Charges".

Any interested party will be heard at the public hearing.

BY ORDER OF THE VILLAGE OF GREENPORT BOARD OF TRUSTEES
Sylvia Lazzari Pirillo, RMC
Village Clerk

1x: 06/29/2017
2 Copies of Affidavit Required



**Incorporated Village of
Greenport, New York**

Water and Sewer Rate Study
Issued June 14, 2017

Incorporated Village of Greenport, New York

Water and Sewer Rate Study
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Incorporated Village of Greenport, New York

Water and Sewer Rate Study Issued June 14, 2017

Executive Summary

BST & Co. CPAs, LLP (BST) was engaged by the Incorporated Village of Greenport, New York (Village) to analyze the Village’s water and sewer rate structure to determine whether anticipated revenues would be sufficient to fund future operations and capital needs. To finance sewer operations and ongoing capital investments, the Village should implement sewer rate increases along with a long-term capital financing plan. The Village’s water fund does not require a significant rate increase; however, we have proposed alterations to the current structure, which will impact certain customers. Below we summarize our tasks performed along with some key changes and impacts to the Village’s water and sewer rate structure.

Within this report BST has performed the following:

- Analyzed water and sewer consumption levels over the last 5 years.
- Analyzed water and sewer fund expenses, including debt service. This analysis was used to project future expenses for 2017 to 2021.
- Reviewed the current rate structure for equitability amongst rate payers. For example:
 - Water and sewer customers located within the Village are afforded lower rates when compared to users outside the Village.
 - Customers with larger pipe sizes (commercial) are generally charged more than a customer with a small pipe size (non-commercial).
- Developed a rate structure and rates that result in increases across all customer bases.
- Analyzed the impact of changing rate structures and rates on each rate class.

Included as Appendix I to this report is a detailed impact analysis by customer class. Below is a summary of changes:

- Changes in water fund rates and structure will result in a projected 2.6% increase in total revenue.

	<u>Projected</u>	<u>5/31/2016</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water Revenue	\$ 441,789	\$ 430,468	\$ 11,321	2.6%

- The customers primarily impacted by these changes include:
 - Non-Commercial Inside Village (1” or smaller) - customers that consume less than the minimum of 2,000 gallons. The average year-round non-commercial customer should expect a less than 1% increase.

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Executive Summary - Continued

- Commercial Inside Village (Greater than 1") - the minimum consumption is proposed to be 4,000 gallons per month at a price of \$36. The current commercial minimum is 9,000 gallons per month at \$36.90. This modification will impact all customers who utilize more than the minimum consumption threshold of 4,000 gallons per month.
- Changes in the sewer fund rates and structure will result in a 21.4% increase in total revenue. This increase is partially driven by the addition of 48 new connections to Peconic Landing (2.7%) and rate increases for the existing customer base of 18.7%.

	<u>Projected</u>	<u>5/31/2016</u>	<u>\$ Increase</u>	<u>% Increase</u>
Sewer Revenue	\$ 1,464,832	\$ 1,206,964	\$ 257,868	21.4%

- We believe this increase is necessary to fund operations and a portion of future capital improvements. In addition, the Village should consider the use of long-term bonds to finance a portion of capital improvements.

This report is intended solely for the information and use of the Board of Trustees and management of the Village, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to Village.

Very truly yours,

BST & Co. CPAs, LLP



Brendan K. Kennedy, Partner

BKK/emt



Incorporated Village of Greenport, New York

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Background

The Incorporated Village of Greenport, New York (Village) is governed by Village law and other general laws of the State of New York. The basic services provided by the Village include general support, recreation, electric, public safety, health, transportation, economic assistance and opportunity, culture and recreation; and home and community services.

In addition, the Village provides water and sewer services to residents of the Village, as well as to certain local communities outside Village limits (for sewer services only). Users of water and sewer services, both inside and outside of Village limits, are charged a user minimum to finance the operations of the water supply and treatment of sewer wastewaters. The results of these operations are reported within the Village's Water and Sewer Funds, respectively.

The Village reports the Water and Sewer Funds as proprietary funds in its annual audited financial statements, as well as its annual reporting to the New York State Office of the State Comptroller. Proprietary funds are self-supported through user charges to external customers/parties. The Village's Water Fund is self-supporting through charges to customers based on water usage/consumption. The Village's Sewer Fund is self-supporting through charges to customers based on 90% of water usage/consumption billed to customers. A percentage of water consumed is a commonly utilized method to determine sewer charges; this method recognizes that not all water consumed enters the sewer system.

On a periodic basis, the Village evaluates its water and sewer rates and related rate structures to ensure customer revenues are sufficient to meet the operational costs, capital improvements, and debt service requirements of these utilities. As part of this rate study effort, the Village engaged the services of BST to assist the Village with its analysis and forecast of future operating costs, capital improvement needs and related costs, and existing and future debt service obligations of the water and sewer utilities. As a result of this analysis and forecast, BST determined necessary revenue requirements to meet those needs.

In addition to determining the necessary revenue requirements for each utility, BST examined the Village's current rate structure and rate philosophies for equality amongst rate classes.

For the purposes of this analysis we disaggregated the rate structure between customers with pipes sizes equal or less than 1" and those with pipe sizes greater than 1".

<u>Water/Sewer Pipe Service Size</u>	<u>Described As</u>
Equal to or less than 1"	Non-Commercial
Greater than 1"	Commercial

Consistent with Village policy, the terms non-commercial and commercial do not dictate whether the customer resides in the property or operates a business, but rather the pipe service size and, therefore, the capacity of the user.

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Historic Water Fund Performance

The following summary reports the changes in net position and cash position of the Village's Water Fund for the five-year fiscal period May 31, 2012 through May 31, 2016 (which represents the most recent financial data available). The term "change in net position" can also be defined as the utility's net income (loss) for each fiscal period. The information below was derived from the Village's audited financial statements for each fiscal period.

	Water Fund Performance Metrics					
	5/31/2016	5/31/2015	5/31/2014	5/31/2013	5/31/2012	Total
Change in net position	\$ 18,203	\$ (6,343)	\$ 4,841	\$ 62,053	\$ 92,053	\$ 170,807
Change in cash position	\$ 83,246	\$ 73,491	\$ 34,164	\$ 118,680	\$ 126,165	\$ 435,746

As presented in this summary, the Water Fund's net position and cash position have increased approximately \$171,000 and \$436,000, respectively, during the five-year fiscal period May 31, 2012 through May 31, 2016.

In addition to these favorable results, a key metric in evaluating the health of the Water Fund's financial position lies in the ratio of unrestricted net position to total operating expenses. For purposes of this calculation, unrestricted net position removes (1) the Water Fund's long-term capital assets, (2) debt service obligations, and (3) financial resources restricted for specific purposes under law or external constraint. This ratio at May 31, 2016, as presented below, is 182.82% or 1.83 to 1.

Unrestricted net position at May 31, 2016	\$ 772,748
Total expenses, fiscal year ended May 31, 2016	<u>422,682</u>
	<u><u>182.82%</u></u>

An alternative approach to evaluating financial health lies in the ratio of total unrestricted cash held by total annual cash outlays:

Unrestricted Cash at May 31, 2016	\$ 744,869
Cash outlays, fiscal year ended May 31, 2016	<u>386,666</u>
	<u><u>192.64%</u></u>



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Historic Water Fund Performance - Continued

Finally, if the Village we were to convert the Water Fund to the modified accrual basis of accounting (a basis of accounting that is utilized by governmental fund types, similar to the Village's General Fund), the calculation of unassigned fund balance would be as follows:

Current assets	\$ 1,020,538
Inventory, non-spendable	(73,176)
Prepaid expenses, non-spendable	(4,705)
Adjusted current assets	<u>942,657</u>
Current liabilities	<u>(40,910)</u>
Unassigned fund balance	<u><u>\$ 901,747</u></u>

Adjusting total accrual basis expenses by removing depreciation and the net change in other postemployment benefits (to arrive at modified accrual expenditures), the ratio of unassigned fund balance to modified accrual expenditures, as presented below, would be 241.72% or 2.41 to 1.

Unassigned fund balance	\$ 901,747
Modified accrual expenditures	<u>373,049</u>
	<u><u>241.72%</u></u>

In summary, the financial condition of the Village's Water Fund is stable. While no significant capital improvements were required during 2016, on average the Village invests \$20,000 a year for capital related maintenance. Over the next five years, the Village has budgeted approximately \$115,000 of Water Fund related capital improvements, mostly hydrants.

Based on the above data analysis, BST has two recommendations for the Village Board and management to consider:

- 1) Establish a capital reserve for approximately \$150,000 to fund the intended five-year capital plan and unanticipated projects. Resolutions to establish such a reserve should be made at the Board level in accordance with General Municipal Law.

While a significant rate increase is not required, we have analyzed the Water Fund's rate classes and proposed changes that are described later in this document.

Historic Sewer Fund Performance

The following summary reports the changes in net position and cash position of the Village's Sewer Fund for the five-year fiscal period May 31, 2012 through May 31, 2016 (which represents the most recent financial data available). The term "change in net position" can also be defined as the utility's net income (loss) for each fiscal period. The information below was solely derived from the Village's audited financial statements for each fiscal period.



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Historic Sewer Fund Performance - Continued

	Sewer Fund Performance Metrics					
	5/31/2016	5/31/2015	5/31/2014	5/31/2013	5/31/2012	Total
Change in Net Position	\$ (226,703)	\$ 435,899	\$ (325,066)	\$ (106,931)	\$ 30,871*	\$ (191,930)
Change in Cash Position	\$ 3,613	\$ 45,381	\$ (17,846)	\$ 172,173	\$ 55,949	\$ 259,270

As presented in this summary, the Sewer Fund's net position and cash position have increased approximately \$5,166,000 and \$259,000, respectively, during the five-year fiscal period May 31, 2012 through May 31, 2016. However, during fiscal year 2012, the Village completed its wastewater treatment project, which was substantially funded by a Federal grant and Federal loan. Excluding the 2012 Federal aid of approximately \$5.4 million, the Sewer Fund's net position actually declined approximately \$234,000 for the five-year period May 31, 2012 through May 31, 2016.

A key metric in evaluating the health of the Sewer Fund's financial position lies in the ratio of unrestricted net position to total operating expenses. For purposes of this calculation, unrestricted net position removes (1) the Sewer Fund's long-term capital assets, (2) debt service obligations, and (3) financial resources restricted for specific purposes under law or external constraint. This ratio at May 31, 2016, as presented below, is 59.13% or 0.59 to 1.

Unrestricted net position	\$ 886,190
Total expenses	<u>1,498,728</u>
	<u>59.13%</u>

An alternative approach to evaluating financial health lies in the ratio of total unrestricted cash held by total annual cash outlays:

Cash	\$ 1,745,012
Cash outlays	<u>1,264,042</u>
	<u>138.05%</u>

Adjusting total accrual basis expenses by removing depreciation and the net change in other postemployment benefits and adding debt service payments (to arrive at modified accrual expenditures), is as follows:

Total expenses, accrual basis	\$ 1,464,003
Depreciation	(323,060)
OPEB	(107,104)
Debt service	<u>111,200</u>
Total expenditures, modified accrual basis	<u>\$ 1,145,039</u>



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Historic Sewer Fund Performance - Continued

Adjusting expenditures to the modified accrual basis results in a ratio of unassigned fund balance to modified accrual expenditures of 159.04% or 1.59 to 1, as show below:

Unassigned fund balance	\$ 1,821,116
Modified accrual expenditures	<u>1,145,039</u>
	<u>159.04%</u>

In summary, the financial condition of the Village's Sewer Fund is currently stable, however, over the next five years, the Village has budgeted approximately \$708,000 in Sewer Fund related capital investments. In addition, the expenses necessary to operate the facility continue to trend upward.

Based on the above discussions concerning the Sewer Fund's financial position, BST has two recommendations for the Village Board and management to consider:

- 1) Establish a capital reserve in incremental amounts each year to help fund a portion of the five-year capital plan. Resolutions to establish such a reserve should be made at the Board level in accordance with General Municipal Law.
- 2) An increase in the current sewer rates is necessary at this time to maintain sufficient resources to meet operational costs, capital improvements and related financing costs, and the establishment of capital reserves.

Similar to the Water Fund, an analysis of the Sewer Fund's rate structure was performed. Recommendations related to the Sewer Fund's rate structure are described later in this document.

Water and Sewer Revenue Needs

After analyzing the historical financial performance of the Water and Sewer Funds, we examined future operating, investing (capital improvements), and debt service outlays. While historical trend analysis may be beneficial in examining some costs, it is also important to consider known facts. Certain costs may trend similar to the Consumer Price Index, while other costs, such as health insurance and pension contributions are less predictable and, therefore, of great risk when developing rates. Below are some of the key assumptions we utilized when projecting future costs for the Water and Sewer Funds.

Expense Assumptions

- Personnel Service - Projected to increase at a rate of 2.5% per annum, given contractually negotiated salary increases.
- Administrative and Insurance Costs - Projected to increase at a rate of 2% per annum, based on estimates of previous administrative costs and insurance increases.



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Water and Sewer Revenue Needs - Continued

Expense Assumptions - Continued

- Transportation and Distribution, Sewer Treatment and Disposal Costs - Projected to increase at a rate of 4% per year given rate increases from the Suffolk County Water Authority (SCWA), in addition to general increases in costs associated with the operational distribution and treatment of water flows and wastewater.
- Employee Benefits - Anticipated to increase at a rate of 5% per year, given estimates related to increases in health insurance costs, retirement costs, and payroll related benefits. Two significant drivers of employee benefits are health insurance costs (active and retiree) and pension contributions. Historically, insurance costs have outpaced inflation and CPI. Pension contributions are dependent upon rates established by the New York State Comptroller's Office, which is the custodian for the New York State and Local Retirement System (System). To the extent financial markets outperform an assumed rate of return of 7%, the Village might expect future contributions to decline. To the extent financial markets underperform the System's 7% expected rate of return, the Village might expect pension contributions to increase.
- Capital Contributions (or Transfers) to Other Funds - Projected to remain consistent with the capital contributions (or transfers) remitted to other funds during both of the years ended May 31, 2016 and 2015.

Cash Flow Analysis

When conducting an examination of rates and rate structures, it is important to note that cash flows of the proprietary funds are of the highest importance. The Village's audited financial statements provide an excellent starting point for analyzing annual expenses. These amounts must be adjusted for cash flow considerations, such as depreciation, capital acquisition, debt service (principal payments), changes in reserve estimates, and changes in other long-term liabilities, such as Other Postemployment Benefits (OPEB) and the Village's Net Pension Liability (NPL). Accordingly, in conjunction with estimating projections of future results of operations, these non-cash items have been identified and removed from the results of operations, using the following assumptions:

Non-Cash Increases to the Change in Net Position

- Increases/Decreases in the Net Pension Liability - Given uncertainty surrounding future changes to the Net Pension Liability, the increase in the Net Pension Liability is projected to remain consistent with the increase incurred during the fiscal year ended May 31, 2016.
- Change in Reserve Estimates - Commencing in fiscal year May 31, 2015, management has performed an analysis to increase the estimated reserves of the Water and Sewer Funds. These projected non-cash expenses are added back to the change in net position.
- Depreciation - As previously discussed, the projected increase in depreciation of 2% per annum is added back to the Water and Sewer Fund projected change in cash flow. The construction of the wastewater treatment facility included grants not requiring repayment to the New York State Environmental Facilities Corporation (EFC). These funds were recognized as revenue upon receipt and used to acquire capital assets that are not being depreciated (expensed) over the useful life of the asset.



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Water and Sewer Revenue Needs - Continued

Non-Cash Increases to the Change in Net Position - Continued

- Changes to OPEB - Given uncertainty surrounding future changes in the OPEB liability, future increases are projected to be 2% per annum, based on the average of the change in the OPEB liability during the previous five fiscal years. Prospectively, the Village will adopt accounting standards requiring the full recognition of OPEB vs. the amortization method. BST has adjusted future OPEB increases to remove the anticipated non-cash amortization component of employee benefits expenses.

Non-Cash Decreases to the Change in Net Position

- Debt Principal Payments - Future debt principal payments were obtained directly from third party bond documents and NYSEFC loan agreements.
- Capital Assets - Projections of expenditures to be made related to capital asset additions are based on the Village's estimated expenditures on property, plant, and equipment as obtained from the Village's 2015/2016 Capital Budget. We have included a provision for internally financed (cash) capital assets. It is assumed that significant infrastructure improvements, particularly to the wastewater treatment facility, will be financed through the issuance of BANs and ultimately long-term bonds.

As indicated above, the Sewer Fund has experienced losses from operations during the five-year fiscal period May 31, 2012 through May 31, 2016. Based on these results, the Sewer Fund is projected to sustain increased and continuing losses from operations, and changes in net position in future periods. Further, as emphasized above using the "cash-needs" approach, future operating expenses, debt service costs, and capital expenditure requirements will result in a projected decrease in cash flows within the Water Fund, and negative cash flows within the Sewer Fund.

Water Fund Cash Needs

Taking into account the aforementioned criteria, BST has projected the Water Fund's cash needs over the next five years to be as follows:

	Water Fund Performance Metrics				
	<u>5/31/2021</u>	<u>5/31/2020</u>	<u>5/31/2019</u>	<u>5/31/2018</u>	<u>5/31/2017</u>
Total operating expenses	\$ 510,442	\$ 492,773	\$ 475,776	\$ 459,425	\$ 443,076
General Fund contribution	13,249	12,989	12,734	12,485	12,240
Non-cash expenses	(26,906)	(26,602)	(38,800)	(38,500)	(61,934)
Capital investments	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>43,000</u>
Total cash needs	<u>\$ 514,785</u>	<u>\$ 497,160</u>	<u>\$ 467,710</u>	<u>\$ 451,410</u>	<u>\$ 436,382</u>



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Water and Sewer Revenue Needs - Continued

Water Fund Cash Needs - Continued

For the period ended May 31, 2016, the Village generated total revenues within the Water Fund of approximately \$441,000. Water consumption for fiscal 2016 was relatively consistent with the five-year average. Assuming the Village continued to generate \$441,000 in revenue per year and based on the above performance metrics, we estimate that the Village would lose approximately \$162,500 in cash through 2021. Considering the Water Fund's current financial strength, these losses in cash holdings can be absorbed without detriment to the Water Fund's five-year financial position or cash flow requirements.

Water Fund Cash Projections			
May 31,	Cash Needs	Revenue	Cash Deficit
2017	\$ 436,382	\$ 441,000	\$ 4,618
2018	451,410	441,000	(10,410)
2019	467,710	441,000	(26,710)
2020	497,160	441,000	(56,160)
2021	514,785	441,000	(73,785)
	\$ 2,367,447	\$ 2,205,000	\$ (162,447)

Sewer Fund Cash Needs

Below we project the cash flow needs of the Village's Sewer Fund:

Sewer Fund Performance Metrics					
	5/31/2021	5/31/2020	5/31/2019	5/31/2018	5/31/2017
Total operating expenses	\$ 1,652,069	\$ 1,601,510	\$ 1,552,882	\$ 1,506,104	\$ 1,461,100
General Fund contribution	22,000	21,500	21,000	20,000	20,000
Non-cash expenses	(340,548)	(337,899)	(341,258)	(338,625)	(336,000)
Debt service, principal	126,923	127,278	127,396	127,285	128,013
Capital investments	71,000	-	200,000	45,500	391,500
Total cash needs	\$ 1,531,444	\$ 1,412,389	\$ 1,560,020	\$ 1,360,264	\$ 1,664,613



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Water and Sewer Revenue Needs - Continued

Sewer Fund Cash Needs - Continued

For the period ended May 31, 2016, the Village generated total revenues within the Sewer Fund of approximately \$1,254,000, which is predicated on relatively consistent consumption when compared to the five-year average. Assuming the Village continues to generate \$1,254,000 (includes non-operating sources) in revenue per year and based on the above performance metrics, we estimate that the Village would lose \$1,250,000 in cash through 2021. A significant driver of this deficit is \$708,000 in anticipated capital improvements. While the Sewer Fund's current financial position could absorb a portion of this deficit, ultimately a rate increase, combined with long-term financing, is required.

Sewer Fund Cash Projections			
May 31,	Cash Needs	Revenue	Cash Deficit
2017	\$ 1,664,613	\$ 1,254,000	\$ (410,613)
2018	1,351,522	1,254,000	(97,522)
2019	1,560,020	1,254,000	(306,020)
2020	1,412,389	1,254,000	(158,389)
2021	1,531,444	1,254,000	(277,444)
	<u>\$ 7,519,988</u>	<u>\$ 6,270,000</u>	<u>\$ (1,249,988)</u>

Review of the Current Rate Structure

The Village charges users of the Water and Sewer Funds rates which are primarily comprised of the following basic components:

- Inclined flow charges for customers within the Village corporate limits based on pipe size and consumption;
- Inclined flow charge for customers outside the Village corporate limits based on pipe size and consumption;
- Minimum usage charges;
- Penalties for late payments; and
- Connection fees and extensions.

Each component of the established user rate varies depending on the classification of the user as either non-commercial or commercial. Additionally, the Sewer Fund supports commercial users from districts outside Village limits. Users within these districts are assessed separate rates from those users residing within Village limits.



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Review of the Current Rate Structure - Continued

In performing an estimate of the future financial performance of the Water and Sewer Funds, certain significant assumptions were made to forecast anticipated revenues and expenses.

- **Water Flow and Wastewater Flow** - Projected to remain consistent with historic performance. The Village is viable but not planning any significant expansion. As the six-year Water and Wastewater Flow averages approximated 2016 performance, future revenue projections were predicated on actual 2016 results. Accordingly, if the water flows exceed 2016 actual, the Water Fund and Sewer Fund could expect beneficial results; whereas decreases in flows compared to 2016 actual, would negatively impact the Water Fund and Sewer Fund's finances.

Below is a six-year water consumption analysis (in 000 gallons):

	Usage						6-Year Average
	2011	2012	2013	2014	2015	2016	
5 Water - Flat Charge	-	-	-	-	-	-	-
22 3/4" W/Sewer (14, 14)	49,550	46,538	50,756	51,019	52,032	49,919	49,969
24 1" W/Sewer (15, 15)	4,276	4,265	4,835	5,009	5,132	4,408	4,654
26 1 & 1/2" W/Sewer (16, 16)	3,529	4,360	4,568	4,218	4,528	4,926	4,355
28 2" W/Sewer (17, 17)	11,319	11,483	10,324	5,482	8,766	9,065	9,406
30 3" W/Sewer (18, 18)	(1)	-	-	-	-	-	-
32 4" W/Sewer (19/19)	1,179	2,195	245	338	125	208	715
46 1 & 1/2 (42, 42)	218	157	219	-	30	1	104
47 2" (43, 43)	5,179	5,178	4,812	5,123	7,716	5,343	5,559
48 3/4" (44, 44)	4,050	5,675	8,885	7,454	8,213	6,768	6,841
49 Village Sewer Only (45, 45)	13	-	636	707	733	765	476
52 Fire Sprinklers	-	-	-	-	-	-	-
53 Outside Res Sewer (50, 50)	9,810	8,618	9,582	9,220	8,943	8,874	9,175
	<u>89,122</u>	<u>88,469</u>	<u>94,862</u>	<u>88,570</u>	<u>96,218</u>	<u>90,277</u>	<u>91,253</u>

Below is the six-year sewer usage analysis (in 000 gallons):

	Usage						6-Year Average
	2011	2012	2013	2014	2015	2016	
3 Sewer - Flat Charge	-	-	-	-	-	-	-
4 Sewer - Flat Charge	-	-	-	-	-	-	-
23 Sewer - 3/4" W/Sewer (14, 14)	44,013	44,848	44,995	45,697	46,092	44,504	45,025
25 Sewer - 1" W/Sewer (15, 15)	4,182	4,089	4,659	4,783	(14,974)	3,923	1,110
27 Sewer - 1 & 1/2 W/Sewer (16, 16)	3,084	3,659	3,788	3,579	3,800	4,178	3,681
29 Sewer - 2" W/Sewer (17, 17)	9,837	10,226	9,291	4,876	7,698	8,155	8,347
31 Sewer - 3" W/Sewer (18, 18)	(3)	-	-	-	-	-	(0)
33 Sewer - 4" W/Sewer (19, 19)	41	2,366	217	222	94	132	512
54 Sewer - Outside Res Sewer (50, 50)	7,311	7,450	8,873	8,316	8,214	8,074	8,040
57 Split Sewer Billing (52, 52)	571	268	163	182	20,142	636	3,660
62 Driftwood Cove 52	1,387	1,436	1,817	1,918	1,417	1,595	1,595
63 Driftwood Cove 49	1,000	1,254	1,442	1,725	1,454	1,412	1,381
64 Peconic Landing 253	9,227	8,294	9,492	9,061	7,710	7,324	8,518
65 Cliffside Condos - Sewer	651	721	1,136	1,088	972	1,311	980
69 Sewer - NSF	-	-	-	-	-	-	-
	<u>81,301</u>	<u>84,611</u>	<u>85,873</u>	<u>81,447</u>	<u>82,619</u>	<u>81,244</u>	<u>81,869</u>



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Review of the Current Rate Structure - Continued

- Interest Earnings - Projected to remain consistent with interest earnings in fiscal year May 31, 2016, as a result of stagnant interest rates.
- Other Revenues - Projected to remain consistent with the previous five-year average within the Water Fund. Other revenues are projected to remain consistent with the three-year average of the fiscal years ended May 31, 2016, 2014, and 2013 within the Sewer Fund. The fiscal years ended May 31, 2015 and 2012, reported notable one-time sewer connection fee revenues that have been excluded from future revenue projections, given the nature of this one-time cash inflow.
- State and Federal Aid - Given significant one-time State and Federal Aid received by the Sewer Fund in previous years related to the construction of the Village's wastewater treatment plant, as well as revenue received as reimbursements from EFC, no future revenues have been projected for State (EFC) and Federal Aid. There have been no previous State and Federal Aid revenues in the Water Fund and none are projected in the future.

Tier Revisions

As described earlier, the Water and Sewer Funds utilize a rate structure that requires minimum usage charges, in addition to increasing costs based on volume consumption/usage. We reviewed consumption analysis reports for the previous five years and determined that a significant number of users within the Water and Sewer Funds are obligated to pay only the minimum usage charge. We agree that minimum usage charges are important to finance the water and sewer systems. Access to these systems comes at a price regardless of the total consumption by the current resident/user. Minimum charges function similar to capital fees in helping to ensure all customers fund operating and capital costs. Accordingly, to ensure all customers are sharing the burden of increased costs to operate the system, it is necessary to increase the minimum cost per user. Due to the fluctuations in consumption among Greenport non-commercial customers, we propose adding additional tiers to the current structure for Non-commercial water rate customers, as follows:

Non-Commercial Water Tier Structure

	<u>Water</u>	<u>Rate per 1,000</u>
Tier I	0 - 2,000	\$17.00 (min)
Tier II	2,001 - 5,000	\$2.00
Tier III	5,001 - 18,000	\$3.00
Tier IV	18,001 - 25,000	\$3.50
Tier V	25,001+	\$4.00

Customers utilizing the minimum or less will experience a 10.68% increase as the minimum charge increases from \$15.36 to \$17.00. With the addition of Tier II, we have decreased the rates for gallons consumed per month to \$2.00. The average year-round non-commercial resident who consumes 4,000 to 5,000 gallons per month should expect their monthly bill to increase modestly; less than 1%. See Appendix I for the impact by consumption level.



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Tier Revisions - Continued

Non-Commercial Water Tier Structure - Continued

For Sewer Fund billing purposes, it is assumed that approximately 90% of metered water will ultimately be processed by the sewer system. Similar to most municipal organizations, sewer flow is not metered by the Village. We are proposing non-commercial sewer rate tiers similar to the newly revised water rate tiers at 90% of water consumption. We reduced the minimum consumption threshold from 4,000 gallons to 3,600 gallons (90% of 4,000). Decreasing this threshold resulted in 23 customers now exceeding the minimum usage. As a result of our analysis, the Sewer Fund requires rate increases to address current and future cash flow needs. The table below presents the proposed Sewer rate structure for residents inside and outside of the Village.

Non-commercial Sewer Inside Village and Outside Village Tier Structure

	<u>Sewer</u>	<u>Inside Village Rate per 1,000</u>	<u>Outside Village Rate per 1,000</u>
Tier I	0 - 3,600	\$39.00 (min)	\$58.50 (min)
Tier II	3,601 - 16,200	\$11.00	\$16.50
Tier III	16,201 - 22,500	\$12.00	\$18.00
Tier IV	22,501+	\$13.00	\$19.50

Commercial Water and Sewer Rates Inside Village

The number of commercial water and sewer customers within the Village is significantly less than non-commercial customers; accordingly, we believe fewer tiers are reasonable. We recommend the same number of tiers (3) as in the past; however, we are recommending increases to commercial rates. As previously indicated, the term non-commercial vs. commercial is not dependent on whether the customer is a house/apartment as compared to a business, but rather the size of the service (service pipe diameter). Historically the Village's commercial water customers have been paying less per 1,000 gallons than non-commercial customers.

	<u>Water</u>	<u>Rate per 1,000</u>	<u>Sewer</u>	<u>Rate per 1,000</u>
Tier I	0 - 4,000	\$36.00 (min)	0 - 3,600	\$42.00 (min)
Tier II	4,001 - 25,000	\$3.25	3,601 - 22,500	\$13.00
Tier III	25,000 +	\$4.00	22,501 +	\$15.50



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Tier Revisions - Continued

Commercial Water and Sewer Rates Inside Village - Continued

An important change to this rate class includes the reduction in minimum water consumption from 9,000 gallons to 4,000 gallons. This decrease in minimum consumption is necessary to align Commercial and Non-Commercial rate payers. As noted in the executive summary, this modification will impact all customers within this rate class that utilize more than the minimum consumption level. The minimum for inside village Commercial customers is calculated at 90% of water consumption. A user of 4,000 gallons of water will be charged for 3,600 gallons of sewer (4,000 x 90%).

Commercial Sewer Users - Outside Village

Outside commercial sewer users consist of four customers: Driftwood Cove (two customer numbers), Peconic Landing, and Cliffside Condo Resort. We propose sewer rate increases for commercial outside sewer users of approximately 20%, which is consistent with the overall increase in revenue needs for the Sewer Fund.

Each outside Village commercial sewer ratepayer's minimum is calculated by taking the number of standardized units multiplied by 3,600 gallons (ex., Cliffside - 70 units x 3,600 gallons = 244,800 gallons). The monthly minimum payment is calculated by multiplying \$63 per unit by the minimum gallon requirement. The table below outlines the minimum usage requirements for each outside Village commercial sewer customer and their minimum monthly bill.

<u>Customer</u>	<u>Minimum Usage (000s)</u>	<u>Monthly Minimum</u>
Cliffside	0-252	\$ 4,410
Driftwood 1	0-187	3,276
Driftwood 2	0-176	3,087
Peconic Landing 1	0-911	15,939
Peconic Landing 2	0-173	3,024

We recommend commercial outside Village customers that exceed the monthly minimum usage be charged \$20 per 1,000 gallons treated, which is commensurate with outside village non-commercial users.



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Projected Surplus and Deficits

Water Fund

With the implementation of new water rates and tier structure, we project annual cash surpluses and deficits as follows:

Water Fund Cash Projections			
May 31,	Cash Needs	Revenue	Cash Position
2017	\$ 436,382	\$ 451,489	\$ 15,107
2018	451,410	451,489	79
2019	467,710	451,489	(16,221)
2020	497,160	451,489	(45,671)
2021	514,785	451,489	(63,296)
	<u>\$ 2,367,447</u>	<u>\$ 2,257,445</u>	<u>\$ (110,002)</u>

Given the resources currently available within the Water Fund, absent any significant capital plans, we recommend the Water Fund revisit a possible rate increase during the fiscal year ending May 31, 2020.

Sewer Fund

With the implementation of the sewer rate tiers and rates, we project annual cash surpluses and deficits as follows (noting the differences in cash financed capital improvements versus debt financed capital improvements):

Sewer Fund Cash Projections			
May 31,	Cash Needs	Revenue	Cash Position
2017	\$ 1,664,613	\$ 1,493,832	\$ (170,781)
2018	1,351,522	1,493,832	142,310
2019	1,560,020	1,493,832	(66,188)
2020	1,412,389	1,493,832	81,443
2021	1,531,444	1,489,832	(41,612)
	<u>\$ 7,519,988</u>	<u>\$ 7,465,160</u>	<u>\$ (54,828)</u>

If the Village were to finance its five-year capital plan with existing rates and cash on hand, we project a cash deficit of \$55,000, which would negatively impact the Sewer Fund's financial condition. Given the Sewer Fund's strong financial condition, we do note a portion of this deficit could be absorbed. We recommend the Village finance significant capital related projects with long-term resources, such as bonds, so that those customers benefiting from the assets are financing the costs through rates. If the Village were to finance its five-year plan, we would project a cash surplus of \$653,000.



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Projected Surplus and Deficits - Continued

Sewer Fund - Continued

Similar to the Water Fund, management should analyze the financial condition of the Sewer Fund on a regular basis. It is probable that an additional rate increase will be needed during the fiscal year ending May 31, 2021.

Other Considerations

We were asked by management to consider the seasonality of water charges and the implementation of varied rates based on the time of year. As expected, water consumption increases significantly during the warmer months, commensurate with the tourist/recreation season. Whether the Village recoups more money during the warmer months as compared to year-round may not be a significant factor operationally, and could result in incremental administrative work within the Village. Ultimately we do not believe this process would result in a benefit to the Village or customer base. Higher rates during warmer months may promote an anti-business sentiment and penalize residents who enjoy the Village during the more seasonable months.

Conclusions

Currently the Village Water and Sewer Funds are in good fiscal condition. While a number of assumptions were utilized in this analysis, the Village's historically consistent amount of consumption should aid in the accuracy of these projections. A number of complex variables exist when projecting costs including the Village's dependency on SCWA, health care cost trend rates, and pension contributions, which are driven by financial markets.

Our structural changes to the Water Fund are not designed to significantly increase revenues, but rather modernize rates and help ensure equitability amongst the rate payer classes. We believe the Village should utilize the Water Fund's current net position to finance future capital costs. In addition the Water Fund should formally establish legal reserves to help minimize the amount of unrestricted resources on hand.

The Village's Sewer Fund is a more significant operation than the Water Fund, and therefore, more complex to analyze. Significant modifications to accrual based expenses were necessary to evaluate the Sewer Fund's cash needs. We considered the use of a fixed capital fee to offset the cost of debt service, but ultimately decided the same objective could be met with minimum charges. We believe the proposed rates will help ensure the fiscal stability of the Sewer Fund for the next three to five years. As the cost to do business in New York State will continue to rise, the Village should be vigilant about the financial performance of its Sewer Fund. In addition, while we previously recommended that Sewer Fund capital improvements be financed on a long-term basis, it is important to remember those costs will ultimately require repayment by future rate payers. Based on our projection, the Sewer Fund will require rate revisions in the next three years.



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Impact on Water Non-Commercial - Inside the Village					
Gallons Consumed	Monthly Invoice Old Rates	Monthly Invoice - New Rates	\$ Increase per Month	% Increase per Month	
2,000	\$ 15.36	\$ 17.00	\$ 1.64	10.68%	
4,000	20.88	21.00	0.12	0.57%	
8,000	31.93	32.00	0.07	0.23%	
15,000	51.25	53.00	1.75	3.41%	
20,000	67.58	69.00	1.42	2.11%	
50,000	188.18	186.50	(1.68)	-0.89%	

Impact on Sewer Non-Commercial - Inside the Village					
Gallons Consumed	Monthly Invoice Old Rates	Monthly Invoice - New Rates	\$ Increase per Month	% Increase per Month	
1,800	\$ 35.04	\$ 39.00	\$ 3.96	11.30%	
3,600	35.04	39.00	3.96	11.30%	
7,200	68.67	78.60	9.93	14.46%	
13,500	135.84	147.90	12.07	8.88%	
18,000	183.58	199.20	15.62	8.51%	
45,000	470.05	545.70	75.65	16.09%	

Impact on Sewer Non-Commercial - Outside the Village					
Gallons Consumed	Monthly Invoice Old Rates	Monthly Invoice - New Rates	\$ Increase per Month	% Increase per Month	
1,800	\$ 52.60	\$ 58.50	\$ 5.90	11.22%	
3,600	52.60	58.50	5.90	11.22%	
7,200	103.03	117.90	14.87	14.43%	
13,500	202.32	221.85	19.53	9.65%	
18,000	273.24	298.80	25.56	9.35%	
45,000	698.76	818.55	119.79	17.14%	

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Impact on Water Commercial - Inside the Village					
Gallons Consumed	Monthly Invoice Old Rates	Monthly Invoice - New Rates	\$ Increase per Month	% Increase per Month	
2,000	\$ 36.90	\$ 36.00	\$ (0.90)	-2.44%	
8,000	36.90	49.00	12.10	32.79%	
15,000	56.23	71.75	15.52	27.61%	
20,000	67.27	88.00	20.73	30.81%	
50,000	150.10	204.25	54.15	36.08%	

Impact on Sewer Commercial - Inside the Village					
Gallons Consumed	Monthly Invoice Old Rates	Monthly Invoice - New Rates	\$ Increase per Month	% Increase per Month	
1,800	\$ 35.04	\$ 42.00	\$ 6.96	19.86%	
7,200	68.67	88.80	20.13	29.31%	
13,500	135.84	170.70	34.87	25.67%	
18,000	183.58	229.20	45.62	24.85%	
45,000	470.05	636.45	166.40	35.40%	

Impact on Commercial - Outside Village					
	Monthly Minimums- Old Rates	Monthly Minimum - New Rate	\$ Increase per Month	% Increase per Month	
Cliffside	\$ 3,682.00	\$ 4,410.00	\$ 728.00	19.77%	
Driftwood 1	2,735.20	3,276.00	540.80	19.77%	
Driftwood 2	2,577.40	3,087.00	509.60	19.77%	
Peconic Landing 1	13,307.80	15,939.00	2,631.20	19.77%	
Peconic Landing 2	\$ 2,524.80	\$ 3,024.00	\$ 499.20	19.77%	

Gallons consumed above minimums will be charged \$20 per 1,000, which is an increase of \$4.24, or 26.9%.