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THE COMMONWEALTH OF MASSACHUSETTS

UMASS/AMHERST

OFFICE OF THE INSPECTOR GENERAL

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Future MWRA Rates: an Analysis

SEP 5 1999
 Ernst & Young's Environmental Consulting Group's 1992 national water and sewer rate survey listed Boston as the most expensive city in the nation for water and sewer services at \$652 per year compared to a national average of \$387 per year for a typical family using 100,000 gallons of water.

Costs associated with the Boston Harbor Cleanup and other mandated projects will cause water and sewer rates to skyrocket over the next decade. According to internal MWRA "rate projection" documents obtained by the Office of the Inspector General, a family in the MWRA district now paying \$750 per year in water and sewer bills will pay \$2,600 by July of 2003. A business which pays \$10,000 in water and sewer bills today will pay more than \$34,000 per year in July of 2003, before the MWRA capital program is completed.

By the time of completion of the harbor clean-up project, water and sewer bills in the MWRA region will not just be *the most expensive* in the nation, but will be "off-the-chart" in comparison to other regions of the country. Our economic region must recognize and plan for the coming "rate shock" resulting from regionally funded MWRA projects. For persons of fixed income, families of low to moderate income, municipalities, rental housing owners and businesses large and small, the local water and sewer bill will become a major burden within the next ten years.

The shortage of straightforward public information about future water and sewer rates hinders critically needed planning efforts by public leaders. A true understanding of how high rates will climb *by the completion of the project* is an important tool to all parties concerned.

The MWRA has informed this Office that it has chosen not to publicly discuss how high rates are going to climb beyond the year 1999. Internally, however, the MWRA utilizes sophisticated computer models to project rates to the year 2005, in conjunction with its issuance of bonds. These models included best case, base case and worst case scenarios. The overwhelming portion of its future rate increases are directly related to capital projects already planned. The MWRA can make reasonable revenue requirement projections within a meaningful range.

Public information about future rate increases beyond the year 1999 must be disseminated to public leaders and MWRA customers in order to avoid misconceptions about the long term effects of the MWRA capital plan. For example, the MWRA recently announced that it had lowered its projected 1999 rate by \$89 per 90,000 gallons from \$1,296 to \$1,207. At the same time, it had raised its projected July 2003 rate by \$168, from \$1,710 to \$1,891 per 90,000 gallons. The public might get the mistaken impression from the 1999 rate projection, alone, that the rates are not going to be as bad as originally thought. In the larger perspective, postponement of scheduled projects beyond 1999, coupled with a policy of not discussing post-1999 rates, disguises the underlying rate impact associated with MWRA projects.

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Some disturbing facts to consider are these:

(i) The MWRA's spokesperson recently stated that rates will stabilize at the end of the century and "the only increase you'll see will be in the single digits, at the rate of inflation." Yet even according to its "best case" internal projections, MWRA annual rate charges will increase by more than \$400 million between 1999 (\$792 million) and July 2003 (\$1.2 billion). For comparative purposes, current MWRA rate charges are \$291 million per year.

(ii) According to the MWRA, household water consumption varies from a low of 60,000 gallons to a high of 130,000 gallons per year. Some families in the high range will be paying more than \$3,000 per year within the next ten years for water and sewer services.

(iii) By the completion of the project in 2005, the MWRA projects that its maintenance and operation budget, exclusive of any debt payment for the construction of the projects, will be \$497 million per year. By comparison, *total* rate revenues today are \$291 million. Therefore, the maintenance of the system, exclusive of the cost of the harbor clean up, will cost \$930 per year to a family using 90,000 gallons per year, not even counting the capital cost of the clean up. In other words, the rates are not going to return to anything resembling present rates, ever when the capital project is paid for in full.

(iv) Over the 30 year life of the MWRA's \$6 billion borrowing plan, the average family will pay more than \$24,000 as its share of the interest and principal owed to retire this debt.

(v) These rate projections should be given immediate attention because, as much as the public may protest and object, statutory provisions have already been implemented to protect MWRA bondholders by requiring the garnishment of local aid payments from any municipality which refuses, or is unable, to make payments to the MWRA in the future, when rates become potentially unaffordable for some ratepayers.

MWRA District Water & Sewer Rates
March, 1993 - July, 2003¹
Analysis of MWRA Rate Projections by Office of Inspector General

	90,000 gallons MWRA ² "Household"			100,000 gallons Ernst & Young Assumptions ³ "Single Family"		60,000 gallons MWRA "Household" Low Usage ⁴		130,000 gallons MWRA "Household" High Usage	
	March 1993	March 1999	July 2003	March 1993	July 2003	March 1993	July 2003	March 1993	July 2003
MWRA AVG	\$545	\$1,207	\$1,891	\$605	\$2,101	\$363	\$1,260	\$787	\$2,731
Arlington	\$678	\$1,372	\$2,081	\$753	\$2,313	\$452	\$1,388	\$979	\$3,006
Belmont	\$632	\$1,311	\$2,003	\$703	\$2,226	\$422	\$1,336	\$913	\$2,894
Boston	\$650	\$1,335	\$2,034	\$723	\$2,260	\$434	\$1,356	\$939	\$2,938
Brookline	\$552	\$1,203	\$1,866	\$613	\$2,073	\$368	\$1,244	\$797	\$2,695
Canton	\$430	\$1,039	\$1,656	\$477	\$1,840	\$286	\$1,104	\$621	\$2,393
Chelsea	\$690	\$1,388	\$2,102	\$767	\$2,335	\$460	\$1,401	\$997	\$3,036
Everett	\$444	\$1,059	\$1,681	\$493	\$1,868	\$296	\$1,121	\$641	\$2,428
Lexington	\$444	\$1,059	\$1,681	\$493	\$1,868	\$296	\$1,121	\$641	\$2,428
Malden	\$431	\$1,041	\$1,658	\$479	\$1,843	\$287	\$1,106	\$622	\$2,396
Medford	\$587	\$1,250	\$1,925	\$652	\$2,139	\$391	\$1,284	\$848	\$2,781
Melrose	\$662	\$1,351	\$2,055	\$736	\$2,283	\$442	\$1,370	\$957	\$2,968
Milton	\$738	\$1,453	\$2,184	\$820	\$2,427	\$492	\$1,456	\$1,066	\$3,154
Newton	\$460	\$1,080	\$1,708	\$511	\$1,897	\$306	\$1,138	\$664	\$2,467
Norwood	\$416	\$1,022	\$1,634	\$463	\$1,815	\$278	\$1,089	\$601	\$2,360
Quincy	\$529	\$1,173	\$1,827	\$588	\$2,030	\$353	\$1,218	\$764	\$2,639
Somerville	\$484	\$1,112	\$1,749	\$537	\$1,943	\$322	\$1,166	\$699	\$2,526
Stoneham	\$590	\$1,255	\$1,931	\$656	\$2,146	\$394	\$1,288	\$853	\$2,790
Waltham	\$444	\$1,059	\$1,681	\$493	\$1,868	\$296	\$1,121	\$641	\$2,428
Watertown	\$562	\$1,216	\$1,882	\$624	\$2,091	\$374	\$1,255	\$811	\$2,719
Wellesley	\$578	\$1,239	\$1,911	\$643	\$2,123	\$386	\$1,274	\$835	\$2,760
Winchester	\$692	\$1,392	\$2,106	\$769	\$2,340	\$462	\$1,404	\$1,000	\$3,042
Winthrop	\$715	\$1,422	\$2,145	\$795	\$2,383	\$477	\$1,430	\$1,033	\$3,098
Cents per gallon (avg):	\$0.006	\$0.013	\$0.021	\$0.006	\$0.021	\$0.006	\$0.021	\$0.006	\$0.021

¹ Based upon MWRA's Retail Rate Impact Model (RRIM) Projections, dated April 8, 1993, developed from MWRA Financial Planning Model for FY94 Proposed Budget. Individual community rates were projected by utilizing RRIM's methodology of inflating local share (by 3% per year) and adding to this increase MWRA's projected wholesale increases in accordance with the MWRA Financial Planning Model. MWRA average is derived directly from RRIM per gallon rate projections.

² The MWRA uses 90,000 gallons per year as its "household" estimate.

³ In calculating the water and sewer user charges for a single family residence as part of its 1992 Water and Sewer Rate Survey, Ernst & Young assumes that 100,000 gallons of metered water consumption occurs annually.

⁴ In its correspondence with the Massachusetts Congressional delegation, the MWRA stated that "Household water consumption ranges are broad, and may vary from 60,000 to 130,000 gallons per year."