August 24, 2018

Cecil County Citizens:

“Those who fail to learn from the past are doomed to repeat it.”
– Sir Winston Churchill

Why am I proposing to raise the wastewater rates for users of Cecil County sewer services?

Twelve years ago, the Cecil County Commissioners at that time realized the Cecil County Wastewater Enterprise Fund was unable to generate the necessary revenue to pay the operational expenses. They understood that some action was needed.

The County Commissioners hired Municipal and Financial Services Group (MFSG) to conduct a professional wastewater rate study. The study also reviewed policy issues that should be addressed. The study stated emphatically that “the wastewater fund must be self-supporting. It is assumed that the cost of operating the wastewater system will be supported by wastewater rates, fees, charges collected from the sanitary wastewater customers, with no subsidy from the general fund.” Action was required so that the Cecil County/Wastewater Enterprise Fund was fiscally sound.

Four years later, on July 16, 2010, the first external rate study was completed and conclusions/recommendations were presented to the Cecil County Commissioners for their review and action. In response to the 2010 analysis, the Cecil County Commissioners rejected the suggested MFSG flat rate structure and refused to raise the wastewater rate as recommended. In 2011, the Cecil County Commissioners did increase the rates, but not to the level recommended by MFSG. In 2013, another independent rate study was completed. The elected officials again failed to adjust the rates to a level that would begin to reduce the projected enterprise fund deficiencies.

Below is a list of major issues and policy concerns identified by the MFSG comprehensive study of our Wastewater Enterprise Fund along with the subsequent action taken by the previous elected officials:

1. General rate setting objectives – NO ACTION TAKEN
2. Wastewater rates – DID NOT SET RECOMMENDED RATES
3. Operating & maintenance reserve – NO ACTION TAKEN
4. Repair, Renewal & Replacement (3R) – NO ACTION TAKEN
5. Wastewater major facility fees - DID NOT SET RECOMMENDED RATES
7. Septic Major Facilities fees – NO ACTION TAKEN
8. Extra Strength Wastewater surcharge – NO ACTION TAKEN

Those elected leaders, Cecil County Commissioners, rejected the rate increases and did not address policy issues. Concerning the eight findings of MFSG, Item #2, the Wastewater Rate Issue, literally jumps off the page and, to this date, remains the major point of contention. In this letter, I will limit my discussion to this single issue.

The consulting firm MFSG findings mirror the results of the in-house study performed by Cecil County Government in 2008. Both studies clearly state our wastewater rates do not produce sufficient revenues to fund operating expenses. Based on projected revenues the existing wastewater rates and fees in 2011 produced revenues approximately 30% lower than required to operate the system. From 2012 to today, there remains a funding shortfall that has exacerbated the problem.

The conclusions and recommendations by Municipal & Financial Services Group are as one would expect:

- The county should increase the wastewater rates, which was then FY 2011, to keep revenues in line with expenses.
- The study recommended rate increases through a multi-year financial plan, to smooth out rate increases and mitigate customer rate shock.
- Wastewater rates, fees and charges should be reviewed on an annual basis.
- A policy should be adopted to revise the rates and fees on a regular basis to address inflation.
- A study to include the cost-of-service for all wastewater rates and fees should be conducted every five (5) years.
- The final recommendation of the study was to change the current rate structure, which was based on flat rate per equivalent unit (ELU) for residential and nonresidential customers, to mitigate dependency on billing data from water providers.

No action was taken by the elected officials on the other issues and recommendations identified by the study.

Now, eight years after the first independent rate study, Cecil County Government is again confronted with the identical financial problem. As County Executive it is my responsibility to propose a solution. The Wastewater Enterprise Fund does not generate enough revenue to pay the current operating expenses; much less account for the many years of revenue short falls. These annual enterprise fund revenue short falls have been covered by transferring revenues from the General Fund. All taxes in the General Fund are generated by all Cecil County taxpayers. Cecil County taxpayers, through the use of Cecil County General Fund dollars, have been subsidizing the Wastewater Enterprise Fund for greater than 10 years to the tune of $3.2 million. If we fail to address this issue immediately, the deficit will only get worse and grow at a faster rate. What was once a small problem is now a large one that requires responsible action now.

The bond rating agencies, Standard & Poore and Moody’s, have already notified the Cecil County Department of Finance that our bond rating could be adversely impacted if the wastewater deficiencies are not addressed. Ms. Jennifer Diercksen, first vice-president for the Davenport Group, Cecil County Government consultant,
reiterated that message with the County Council during the August 21, 2018, work session. A reduction of our bond rating would have a profound financial impact on County Capital Projects to include school construction, transportation objectives, public utilities, bridges, parks, and libraries. If not properly addressed, some capital projects could be cancelled or delayed. A downgrading of our bond rating will result in a substantial increase in interest payments over the life of the loan. Such a downgrading would have added $1.5 million of additional interest expense to our most current borrowing.

The other policy objectives identified in the wastewater study are also important and should be addressed soon. However, the all-important wastewater rate issue must be addressed in a responsible manner to correct the problem. Again, ignoring this problem like in the past, will not make it go away. It will make it worse.

The original administration proposal, Resolution 28-2018 clearly provides a fair and equitable pathway to resolve this problem over three years. Based on 9,000 gallons/quarter, the proposed plan would increase rates from $103.20/qtr. to $106.83/qtr. -- an increase of $3.63/qtr. or 4 cents per day. For non-metered users, the proposed plan would increase rates from $154.80/qtr. to $178.05/qtr. -- an increase of $23.25/qtr. or 26 cents per day.

On Tuesday, August 21, 2018, Council person Robert Meffley proposed an amendment to Resolution 28-2018, to implement the first two years of my proposal and then re-evaluate after the second year. Depending on the analysis, after two years, appropriate subsequent action will be taken to resolve the Wastewater Enterprise Fund deficit. I support the proposed amendment as it addresses the current fund discrepancy. Re-evaluating after two years is fine as long as, based upon the review, appropriate action is taken to correct this lingering issue.

If the County Commissioners in FY 2011 had acted on the original recommendations of MFSG, Cecil County Government would have collected an additional $3,000,000. If appropriate action had been taken, this issue would not exist today.

Now is the time to address the Wastewater Enterprise Fund growing deficit. We must stand strong and do the right thing -- properly fund the Wastewater Enterprise Fund. Failure to do so will put Cecil County finances in greater peril in the future. We must act now!

Benjamin Franklin’s once said, “If you fail to plan, you are planning to fail.”

We must position Cecil County for success, not failure.

Sincerely,

Dr. Alan J. McCarthy
County Executive

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