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Utility Billing and Water Rate Increase FAQs

1. Why are our water rates going up?

The Public Service Commission of Wisconsin (PSC) performed a review of all our current Water Utility costs. They determined that our Water Utility had been undercharging for service and needed a 69.2% revenue increase in order to function properly and save for future maintenance needs.

2. What is the PSC and why do they have any say regarding our utility bills?

The PSC is an agency of the State of Wisconsin that regulates utilities that provide Electricity, Natural Gas, and Water. The two major components of that "regulation" that affect Merrimac are: (1) setting water utility rates and (2) reviewing all major projects. PSC has the authority to set utility rates because Electricity, Natural Gas, and Water Utilities are almost always monopolies (meaning, there's only *one* utility you can get that service from). They want to make sure customers aren't being overcharged or undercharged. So, PSC requires us to submit detailed accounting information to them every year. When we need a full rate review, PSC takes into account all costs specific to our utility (O&M, depreciation, debt service, non-routine maintenance requirements) and determines a Revenue Requirement. That is, "How much revenue does *this* utility need to provide reliable service to its customers?" Then, they determine a fair way to collect that revenue from customers. They assign charges between the **base** customer charge, **volume** of water used, and **Public Fire Protection** (PFP). The original intent of PSCs across the country in the early 1900s was to prevent *overcharging* customers. These days, another critical function of the PSC is to assure that public utilities (like Merrimac's Water Utility) aren't *undercharging* for services.

3. Why is it a problem if public utilities *under*charge their customers? Isn't it good that utilities try to keep costs low?

Although our Water Utility is public, we still are required to run it like a business. Businesses have to make sure they have enough money to keep valued employees, maintain their assets and equipment, cover their debts, and plan for future projects. Local businesses that *don't* will eventually fail. If that failed local business made widgets or toys, that's fine, because plenty of *other* businesses make widgets and toys. People can buy them from businesses that are far away. However, the *only* place water customers can get their water from is from their *local water utility*; if a water utility fails…what then? So, every year, PSC watches out for utilities that *don't seem to be charging enough or saving enough* to keep their business in good shape. When the situation at a particular utility becomes dire enough, PSC intervenes. PSC then *requires* that utility to seek a rate increase and gives them very little say in what those rates will be. Merrimac's Water Utility had *not yet* reached the point of being dire; but we were within about two years of that unenviable situation. In Merrimac's historical desire to keep costs low, we had not done the critical things that businesses have to do to flourish in the long run. We had not planned for future projects, created a sinking fund to pay for non-routine maintenance, or compensated our valued employees adequately. Because the Village chose to wait over 20 years to ask PSC to review our water rates, we now have this significant rate shock. The Village could have requested a full rate increase review a long time ago, but no one wants to be the one to raise rates.

4. What is the Public Fire Protection Charge?

The new charge on your bill for Public Fire Protection (PFP) was authorized by the PSC this fall for use in Merrimac's Water Rates. The PFP charge is to separate the cost of providing capacity in the water supply, storage, and distribution system for the purpose of fire protection. To provide capacity for fire protection, the utility installed water mains and elevated storage sized large enough to provide appropriate flow to fire hydrants. This is done to not only provide our homeowners with adequate water supply for domestic water consumption but also enough capacity for the fire department to also extinguish fires. The PSC provides separate tariffs (charges) for PFP and retail water service because of the significant added investment a water utility makes to provide capacity for fire protection.

5. Why am I paying for Public Fire Protection (PFP) now, and not before?

Up until now, the Village has used Property Tax revenue (General Fund) to pay the Water Utility for PFP. In most of the previous 8 years, the Village had applied for a simplified 3 percent water rate increase from PSC, which increases PFP by 3 percent also. However, in general, our Property Tax Revenue *does not* go up by 3 percent per year, but more like 1 percent. (See "What are Levy Limits" below.) This means that, every year that the Water Fund requests a modest rate increase, the Village Board has to try to squeeze other General Fund expenses further and further. At some point, eventually, the Village Board was going to have to completely remove PFP from the Property Tax Levy. In 2020, the General Fund paid $41,500 for PFP. With the PSC's official Water

Rate calculation performed in late summer, they determined that the Water Fund *should be* collecting about $88,000/year for Public Fire Protection. Because the General Fund has been operating at a deficit, the Board decided it was time to start "Direct Billing" for PFP, rather than paying for it out of the Property Taxes. So, you always *have been paying* for PFP, but only now is the Water Utility *directly billing* for it.

6. How have you decided who pays how much PFP?

Your PFP charge is based entirely on official Assessed Value of your parcel. If you have a multi-parcel Combo Bill, your PFP is based on the sum of the Assessed Values. For tax-exempt parcels, Assessed Value Equivalent was determined based on similar parcels and structures.

The PSC gave us a few choices in how to "allocate" how that $88,000 is paid for. Most cities and villages choose to have everyone with the same size water meter pay the same. But that didn't seem fair to us because that would mean that *all households* would be paying nearly $30/month PFP. PFP is a lot like the protection you get from insurance. If you want to protect or insure something that costs more, you should expect to pay more. We therefore chose to allocate PFP based on Assessed Property Value. It's very similar to how PFP was allocated when it was on Property Taxes. Higher value properties pay more to be protected. The biggest difference is now tax-exempt properties (like churches, our school, and Village-owned properties) also pay their fair share of PFP.

7. For renters and landlords, who should pay the Public Fire Protection charge?

PFP has historically been paid through property taxes, and it is analogous to property insurance, which is usually paid by the owner. Because of this, the Board views PFP as a cost that should be attributed directly to the owner of the property, rather than to the renter. Therefore, where the person receiving the water bill appears to be different from the owner of the property, a separate bill for the PFP charge will be sent to the <u>owner</u>.

8. What are Water Standby Charges? I didn't have a Water Standby Charge before, so why do I have one now?

For developable parcels in the Village that don't currently receive water service, PSC allows us to assess a monthly charge of half of the base water customer charge, or $6.50/month for typical parcels. For every standby parcel in the Village not receiving water service, there are fewer customers to share our overall utility costs. The Village incurs cost for the ability to provide immediate utility service to that parcel once a structure is built. In the past, the Village assessed this charge based on whether there is a lateral to that parcel. The PSC requires instead that we charge based on *whether utility service is available on one of the property's boundaries (or frontage)*. Currently, the only areas of the Village where there is not *both* water and sewer are Darwin Drive and the future Pheasant Ridge area in far northwest Merrimac. Other than those areas, all other unserved parcels with frontage on Village streets will receive a Water Standby Charge; parcels with utility frontage exceeding 199 feet may receive multiple Water Standby Charges. For now, Sewer Standby Charges will remain unchanged.

9. Will my property taxes go down, since they're no longer paying for PFP?

No. The Village's recent years' budgets depended on deficit spending and drawing down reserves, rather than being balanced. By removing the PFP from the General Fund Budget, we will now have something approaching a balanced General Fund Budget.

10. What are Levy Limits, and why is it difficult for the Board to balance the General Fund budget?

In the early 2000s, the Wisconsin Legislature passed laws significantly limiting municipalities' ability to raise property taxes. In 2011, an additional law was passed to limit Tax Levy increases to "net new construction." So, if there were no new home or business construction in the Village for 5 years, say, our General Fund Budget could not be increased *at all*, not even to keep up with inflation. So, while costs to the Village would continue to increase, our ability to pay for them would get squeezed. For the Village, net new construction has been roughly 1 percent/year. So, if staff salaries, PFP, and other expenses increase modestly by 3 percent per year, the General Fund quickly runs into a deficit. There are *very limited options* to raise tax levies. In late 2020, the Board *did* increase the Tax Levy, because we have Debt Service on the 2009 Highway Project and the Tractor Purchase; Debt service is one of the few ways that the Levy can be increased. Another option is to hold a voter Referendum.

11. I currently have my bill deducted from my bank account, through ACH. Will any new bills I receive also be deducted?

Yes, unless you call before 12/23, when the ACH transactions are being initiated.

Water and Sewer Utility Needs FAQs

12. Where do we get our water from, anyway?

Our only source of water is our Well No. 1, which was constructed in 1959. In a lot of ways, it's a great little well. We draw water from a 235' deep geological formation of gravel and sand. That water, straight out of the ground, is good quality. Our water is also naturally good tasting, and we don't have to remove anything from it, like iron. Some nearby communities had to drill their wells much deeper, and then had to treat it to improve the taste and quality.

13. I hear that the Board is planning two well projects. What are those projects?

First, Well No. 1 requires a Rehabilitation of its entire electrical system. Sometimes the well doesn't start when it's supposed to, and the electrical system no longer meets electrical codes. Second, we are planning for a water supply Well No. 2. In December, our well contractor will be drilling a test well near the elevated tank on Darwin Drive. That will tell us if that underground aquifer will provide adequate quality and quantity of water. If that test well proves out, the Board would then make a decision as to whether to proceed with constructing a Well No. 2 at that site or a test well at a second location. After both projects are complete, we can take Well No. 1 out of service for several weeks to perform critical maintenance to the geological formation inside the well itself. For both projects, our engineer has begun the application process with the DNR for grant and low interest loan funding.

14. Will this fall's Water Rate Increase cover the cost of the Well No. 1 Rehab and Wellhouse No. 2?

No, the PSC does not allow utilities to charge customers for projects until they are *in service*. This fall's water rate increase brings our Water Utility revenue where it *should have been.* The Village will likely apply for simplified 3 percent water rate increases each year until the projects are complete. After that, PSC will require the Village apply for another increase, so that we can safely cover the new debt service with the DNR and pay and save for added Operations and Maintenance costs (O&M).

15. When PSC and DNR review these projects, won't they say these projects are unnecessary because our rates are already high?

No, they won't. At our October 12 joint meeting with the PSC and DNR, both agencies agreed that *these projects are critically necessary*. DNR and PSC *are indeed* concerned about small utilities that have high costs and relatively few customers to share those costs. This is why DNR helps fund utility projects, with grants and low interest loans. DNR and PSC's bigger concern is that *everyone in Wisconsin has access to safe and reliable water and wastewater service*.

16. Why do we need a *second* well?

Part of the reason that many engineered systems work so well is that there is redundancy built-in. If you look in our wastewater Lift Station (LSs), for example, you'll see that they all have <u>two</u> pumps that alternate use. The only time they run together is when something's amiss. If one pump fails, the other one can take over while we fix or replace its companion pump. That's called "firm capacity." Village staff has come to deeply appreciate the firm capacity of our LSs. In the last 18 months, seven of our nine LSs were found to have experienced some form of failure that *would have* caused a sewage overflow into basements or into Lake Wisconsin…*if we had not had redundant pumps/firm capacity*.

<u>The village does not have firm capacity in our water system</u>. It is not wise for a *critical service* like providing water to depend entirely on ***one 62 year old well***. Wells do not have an indefinite service life. Since the 1990s, the DNR has been *urging* us to construct a second water supply well. And, because our well has had to provide nearly uninterrupted service for 62 years, we haven't been able to take care of some critical maintenance needs that require weeks to complete. If we continue to ignore this maintenance need, eventually our Well No. 1 could prematurely fail, with dire consequences for the Village.

17. Our rates have already gone up enough. Can't we <u>wait</u> to build a second well?

For several reasons, the Village believes that *<u>this</u>* is the best time to plan for and build a second well. Our options for getting grant funding are likely *far better* right now than they will be, even just a year from now. First, the American Rescue Plan Act (ARPA) provided grants to Sauk County and the State of Wisconsin; Village staff are working to secure grant commitments from those funds.

Aside from that possibility of ARPA grants, our primary source of funding is likely to be the DNR's Safe Drinking Water Loan Program (SDWLP). The SDWLP bases their Principal Forgiveness grants on population and median household income (MHI). Based on the data the State of Wisconsin has for the Village, our population and MHI are *just barely low enough* to potentially receive $500,000 in grant. For 2015-2019, the data show we have *fewer than 500 people* and *our MHI is below 116% of the statewide MHI*, which is great for getting advantageous funding. There are still <u>many</u> hoops we have to jump through to secure a grant. Our first test well is one such hoop. At a cost of $67,000, we hope it is successful such that we will not incur the cost of another and the time delay that would result. There's no guarantee we'll be given a grant until we've submitted complete applications, with designed plans and

specifications. But our staff and engineer are positioning us very well for that $500,000 grant. However, the 2020 Census data has determined that our population has risen to 537. Though this may be a pandemic year aberration, *if the State of Wisconsin incorporates that new data into the funding calculations next year, we will likely be in a much lower grant category*, or possibly *ineligible* for a grant. So the question we should be asking is: **If not now, when?**

News Flash - This just in: the recently-passed HR 3684 Infrastructure Investment and Jobs Act will be providing $50B nationally to water infrastructure programs like the SDWLP. This means that our actual grant amount, if we apply now, *may be higher than $500,000*.

18. Aside from the Water projects, is there a Sewer Rate Increase on the horizon?

Probably. Because of this fall's Water Rate increase, the Board was very wary of raising sewer rates also. However, our LSs and WWTP are approaching 20 years old and have important maintenance and upgrade needs. But there is another larger concern. In early 2019, the Village President realized that our WWTP's occasions of poor performance leaves the Village vulnerable to legal action by the DNR. In his letter of June 29, 2020, to all Village residents, he publicly stated his position:

> "Thus far, the DNR has not been heavy-handed with us…. I am concerned that the DNR may lose patience with us and place costly project requirements on us. It is far better for us to demonstrate that we are addressing these issues ourselves."

Since that time, two retired wastewater engineers who volunteer service for the Village have worked very hard with our public works staff and have improved our operations and WWTP performance. Despite these efforts, in September 2021, our DNR engineer signaled that the Village is *likely* to receive an Enforcement Action due to our effluent limit exceedances. We've stepped up our communications with DNR to show how much our effluent quality has improved in the summer 2021, due to our efforts. This *may* satisfy DNR … for a short time. Eventually the Village will have to invest in a solution to this long-standing problem, and that solution is likely to require the assistance of our engineering firm, Strand Associates. Our proposed 2022 Sewer Utility Budget only includes what we need to pay for *known* ongoing expenses, with a few planned repairs. It does not prepare to address potentially larger WWTP performance issues, nor have a lot of buffer for unanticipated problems.

19. My friends and family in other villages pay much less for water and sewer than we do in Merrimac. Why?

The biggest difference is that all of our costs are borne by relatively few customers. Even among small communities, the cost of providing water and wastewater service can vary widely from village to village. All municipal utilities share *some* of the same kinds of costs: paying bills and compensating valued employees. However, there can be *huge differences* from one village to another in other major aspects of finances. The cost of previous projects (usually in the form of debt service) and the need for future maintenance and projects are the most significant examples. For example, our 2003 Sewer Project gave us an all-new wastewater treatment plant (WWTP) and four new wastewater Lift Stations (LSs). At the time of the project, the Village was fortunate to receive a roughly 50 percent grant; we took a 40-year loan for the rest. Our debt payment has been about $72,000 per year. If we had taken a shorter duration loan, our sewer rates from 2003-2023 would have been somewhat higher; but we'd also be nearly done paying off that loan. Instead, we have about *two decades left* of that debt payment on the WWTP and LSs, with nearly $1 Million in debt principal remaining. We've tried to keep costs as low as possible for as long as possible. In the long run, that doesn't necessarily result in cost savings. On the other hand, a new resident to the Village helps long-established residents pay for earlier improvements.

20. Are there any resources available if I am having trouble paying my utility bill?

From the State of Wisconsin, there is a new program called Low Income Household Water Assistance Program (LIHWAP). To qualify for assistance, you must first be accepted into the Wisconsin Home Energy Assistance Program (WHEAP). To apply for WHEAP and LIHWAP, call Energy Services, Inc (ESI) at 1-800-506-5596 to apply.

Our local resource for assistance with paying utility bills is the Merrimac Crisis Fund. Please call Pastor Roxi at 608-415-1626 for more information. Additional area resources include St. Vincent de Paul Societies of Baraboo (608-356-4649) and of Prairie du Sac (608-644-0504). As always, the Village Office staff is readily available to discuss any questions or concerns you may have. Please feel free to call us at 608-493-2122.

21. Can I pay my bill by credit card?

Not currently. Village staff are investigating our options for providing this service. You *can* sign up for ACH to have your utility bill directly debited from your checking account each month.

How You Can Help FAQ

22. Wow, the Board, Staff, and Volunteers are trying to solve a lot of problems. How can I help support the Village?

Here are some ideas for you to contribute to the overall welfare of the Village:

Volunteer your time and skills:

- The Merrimac Volunteer Fire Department has a 70 year history of providing emergency services to the Village and nearby Towns. Help them continue that tradition. The Fire Department is always looking for people with strong physical, medical, organizational, or leadership skills.
- The Merrimac Community School welcomes trustworthy individuals who are good with kids and are willing to make a regular commitment to serve in the classroom.
- The Merrimac Community Festival has been cancelled for the past two years, in part due to the pandemic. However, the bigger problem over the years has been a shortage of volunteers, particularly those willing to lead the overall organization or major aspects of the event year after year.
- Village staff have identified grant funding programs that may help us with smaller projects, but other demands on staff time don't allow us always to follow up on these opportunities. If you're skilled with seeking grant opportunities, writing grant proposals, and following through with the details, we could use your help!
- If you are interested in diving deeply into understanding how the Village functions and addressing our needs, consider asking a friend to nominate you for a position on the Board at the Caucus in January. It's always encouraging to have new future leaders who want to learn our Village finances and ordinances, understand our utilities, and solve our most pressing needs. If you are interested in taking on a challenge and have a background in engineering, utilities, maintenance, construction, communications, management, public relations, trades, law, or accounting, your skills could be very valuable to the Board or on one of our standing Committees or Commissions.

Contribute Financially:

- The Merrimac Crisis Fund helps local families in need pay utilities and rent when they get behind on their bills. Please contact Pastor Roxi at 608-415-1626 to find out how to contribute.
- Did you know you can anonymously pay someone else's utility bill? If you want to help out a particular neighbor who's struggling, come on in to Village Hall.
- In the past, Merrimac families have made large donations to our projects, such as the 2009 Highway project.
- If you are interested in making a financial contribution to the Village, please contact Village President Phil. Contributions are tax deductible.

Even if you're unable to volunteer or make financial contributions, you still can help:

- Be thoughtful towards your neighbors.
- Stay informed by reading the monthly mailings and support the Village Board in its efforts to address our finances and infrastructure. Please show your support, based upon understanding the needs the Village is addressing.
- Say thanks to the Village Board and staff who are working hard to face our issues head on, making difficult decisions, and doing their best to keep you informed about important and complex matters.
- Attend Fire Department fundraising functions and express your appreciation for the service they render to us. Responding to 2 a.m. fire calls is much easier when you know you're appreciated.
- If you hear a neighbor or friend commenting on the cost of our monthly bills, please show support for what we're trying to accomplish. We're hoping you'll say, **"I'm just glad our stuff's getting fixed."**
- Encourage your neighbor to read the FAQs to better understand the facts.