Dear Village of Merrimac Residents and Property Owners, November 23, 2021

At the beginning of December, Village residents and property-owners will be receiving modified Water/Sewer Utility bills, reflecting an increase in Water Rates. The purpose of this mailing is to explain the changes and why they were necessary.

If you have been keeping up with the Village Voice and my occasional letter inserts, you're no doubt aware of the many, many changes the Village Board has been implementing in the last 18 months: improving our staff's compensation packages, replacing our 22 year old utility truck, addressing major operational problems at seven of our nine wastewater Lift Stations (LSs), studying and improving the performance of our wastewater treatment plant (WWTP), hiring an engineering firm to help us identify other unseen problems in our water and sewer utilities *before* they become failures, and addressing our chronic budget deficits.

How We Funded our 2020-2021 Improvements

To help fund these operational improvements, in Fall 2020, the Village Board voted to increase the Village's Property Tax Levy[1] and Sewer Rates by about 25% each. We were all impacted by those increases, but they were critically necessary. For the previous 17 years, the Village had made every effort not to increase the tax levy or sewer rates, even approving tax levy and sewer rate *decreases* about 10 years ago. Endeavoring to save costs and relieve tax and rate burdens is a worthy goal. But at some point, the Village would have to catch back up, increasing the levy and utility rates. That point came in Fall 2020. Because of the pent-up needs, the increases felt quite large to all of us. My letter to you dated September 29, 2020, described these changes in some detail.

When we approved those increases in Fall 2020, the Board understood that we were only able to solve about half of the problem. There were still three important financial matters to address. First, even though the Tax Levy was increased based on the debt service, there remained a budget deficit in the General Fund. "Levy Limit" laws prevented the Board from being able to raise the levy enough to cover the deficit. Second, the Fall 2020 sewer rate increase was only about half of what we felt the sewer fund needed, which is why it was originally passed as a Two-Step Increase, with a roughly equivalent sewer rate increase anticipated in the Fall of 2021.[2]

New Direct-Billed Public Fire Protection (PFP) Charges and Metered Water Rate Increase

Third, and most critical to this mailing, our Water Utility's revenue was not nearly adequate to cover our ongoing costs and to plan for future needs. Unlike Sewer Rates (which our Board is allowed to set), Water Rates are set by the Wisconsin Public Service Commission (PSC). The last time they performed a detailed analysis of our Water Utility's financial needs and status was 1999. In Spring 2021, when the Board authorized Village staff to submit a detailed "Conventional Rate Case" (CRC) to PSC, we *preliminarily anticipated* that the water rate increase might be as high as 90%, which was described in detail in my letter to you dated June 29, 2021. The most significant effect was that the Water Utility would have to begin Direct Billing for Public Fire Protection (PFP) on the monthly utility bills. PFP is the component of a Water Utility's cost to increase the capacity of water mains, of storage, and of wells to fight fires.[3] That is, PFP, which had been entirely covered by the Tax Levy, would now have to be entirely collected through the water portion of utility bills. Because of PFP, *all* parcels in the Village (whether improved or unimproved) will now receive monthly water utility bills.

Based on the staff's preliminary calculations in June, we estimated that the Direct Billed PFP would need to generate approximately $80,000/year. If the Village applied the simplest, most commonly-used "Equivalent Meter" method for allocating PFP, *virtually all households in the Village would have seen the same PFP charge of about $26/month*, *plus the projected increase on the metered water rates*. Because these increases would have been especially burdensome on lower income households, the Board recommended that the Village instead request that PSC apply the "Property Value" method, where PFP charges are allocated based on Assessed Value, including currently unimproved properties. This method is virtually identical to the allocation when the General Fund, through the Tax Levy, was completely covering PFP.[4]

After our June submittal of the CRC, PSC evaluated our finances in detail. Based on our *existing* financials,[5] PSC determined that an overall revenue increase (both metered water and PFP) of 69.2% was required, with most of the increase on PFP (110% increase) and a roughly 50% increase on metered water rates. Specifically, they determined our Property-Value allocated PFP should be $8.51 per month per $100,000 in assessed property value.[6] So, instead of seeing a new $26/month PFP charge, a $120,000 property will see only a $10.21/month PFP charge. A $600,000 property will see a $51.06/month PFP charge. Taking into account

[1] The Property Tax Levy was increased on the basis of outstanding debt service on the 2009 Highway Project and the Village Tractor. The tax levy supports both the General Fund and the Parks Fund.

[2] At the October 2021 meetings, the Board decided not to implement the second step of the sewer rates, yet.

[3] This is separate from the approximately $26,000/year cost for Fire Protection the General Fund continues to pay to Merrimac's volunteer Fire Department.

[4] The only difference is that now, under Direct Bill, tax-exempt properties (including Merrimac Community School, our churches, and Village properties) will now also contribute to PFP. If all of this sounds familiar, you likely read this in the June 29, 2021, letter.

[5] Elements of our financials that PSC considers include: debt service; annual O&M costs; cost for major, planned non-routine maintenance (like water tower painting and production well rehabilitation); and the value of our water infrastructure (well, elevated tanks, mains, hydrants, and meters).

[6] This PSC-determined value is very close to the preliminary $8.00/mo/$100k presented by Village staff to the Board in June.

the roughly 50% metered water rate increase – there is to be no sewer rate increase this Fall – the overall increase on your monthly utility bill will range from approximately 23% for lower assessed value properties with low water consumption to approximately 80% for higher assessed value properties with low water consumption. To the extent legally allowed by the PSC, the Village Board has endeavored to minimize the impact of rates on lower valued properties.

It may be tempting to feel irritation at this current Board for these significant increases, but I would ask you to think about it differently. Aside from the long-needed improvements in our staff's compensation packages of 2021, **the charges that you will see on the next bill are charges the PSC would have recommended *years ago***. Previous Boards wanted to keep our costs as low as possible for as long as possible. In 2021, we reached the point where we had little choice, and this is what PSC determined we needed. While no one likes paying higher monthly bills, our hope is that you agree that this increase was *necessary* and was allocated *as fairly as possible*. The good news about this Water Rate increase is that, by eliminating the General Fund's 100% historical subsidy of the Water Utility's PFP cost, this enables the proposed 2022 General Fund Budget to be *balanced*. With this water rate increase we have addressed the "First" and "Third" problems above.

Other Changes to Some Customers' Utility Bills

The Village's historical utility rate structure has included relatively modest Standby Charges for both Water and Sewer on properties to do not receive water and sewer service.[7] This charge is intended to account for the cost of the Village's *readiness to provide water & sewer service* to parcels immediately after they are improved. Historically, the Village has determined whether the Standby "readiness" charges should be assessed based on whether there was a *currently existing water or sewer lateral*. Implementing the water rate increase has required us to change that *existing-lateral* basis and instead implement the *PSC's* two-part standard of "readiness" for the Water Standby charge: (1) Is utility service immediately available for an improvement on that parcel, even if it requires a "hot tap" of the main; and (2) What is the utilities' frontage length for the parcel.[8] Based on this standard, there are approximately 50 additional parcels in the Village which will now see Water Standby charges. Large parcels not receiving service that have more than 199 feet of water & sewer utility frontage may be assessed multiple Water Standby charges. For the time being, Sewer Standby Charges will remain unchanged.

Next, for newly-added parcels to our billing system, where one property owner owns *multiple adjoining parcels that could reasonably be joined into one* (and it is presumed the owner does not intend to sell off the individual parcels within the next year), an effort has been made to Combine parcels for Billing Purposes. In this way, we have reduced the number of additional accounts and number of bills. For PFP, the total Assessed Value of the individual parcels was applied. For the unimproved parcels on Combined Bills, the Standby Charge methodology was applied to both the individual parcels and the combined parcels, and the *lower* Standby Charge was applied.

For determining fair PFP charges for tax-exempt properties, effort was made to identify an Equivalent Assessment. At the next Village-wide Property Assessment, we will ask our Assessor to include those tax-exempt properties in their valuations.

Addressing Future Water Utility Needs

The Village Board continues to make progress on our most pressing Utility System needs, thus answering the imperative questions: **"If not *us*, then *who?* If not *now*, then *when?*"** In December, our well contractor, CTW Corporation, will be drilling a "Test Well" near our elevated tank on Darwin Drive, to determine if that is a suitable location for our long-needed Well No. 2. Our Village staff and our Engineer, Strand Associates, are putting measures in place to maximize our ability to get partial grant funding for that project. Based on schedules for design, DNR and PSC approvals, funding applications, and project construction, the Village of Merrimac is working to address *three critically important* water utility system needs. (1) In early 2023, we expect to pursue the Wellhouse No. 1 Electrical Rehab. (2) By mid-2024 the long needed Wellhouse No. 2 – that Wisconsin DNR has been *urging us to pursue since the 1990s* – is planned to be online. (3) In late 2024, after 65 years of nearly uninterrupted service, our humble and trusty Well No. 1 will *finally* be treated to the multi-week, deep cleaning rehabilitation of the screen and gravel pack that it has never had, which all municipal drinking water wells are supposed to receive every 20 years, in order to sustain their service lives. PSC will very likely require another rate review and increase when those projects are complete.

Conclusion

The Village of Merrimac Board and Staff are charged with overseeing provision of **reliable water and sewer service**. We dearly hope we have your understanding and support as we pursue these important changes, particularly in our addressing the critical infrastructure and financial needs of our Water Utility. The homes and the community we live in and love can *only retain their full value based on the implicit assumption that they enjoy reliable water and sewer service*. Please join me, the Board, and the Staff in supporting improving the reliability of our utilities. Sincerely, Phil Budde, President

[7] Standby Charges per standard parcel have been: Water: $2.50/month; Sewer: $9.65/mo. The Water Standby unit charge is being increased to $6.50/month.
[8] Frontage length of 100' is considered a standard parcel, and the Village is applying the standard that *both* water and sewer must be available on that frontage. Also, PSC allows utilities to consider the "buildability" of parcels. Setback requirements, parcel size and shape, existence of wetland or springs, and permanent designation as "undevelopable" with Sauk County were all carefully considered in identifying fair Standby Charges for atypical parcels.