

ATTACHMENT A

BUFFALO SEWER AUTHORITY

**Report on Fiscal Year 2024-25 Rates and
Charges for Sewer Services**

January 3, 2025

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Buffalo Sewer Authority
1038 City Hall
Buffalo, NY 14202

To the Board Members of the Buffalo Sewer Authority:

I am pleased to submit my report on the adequacy of Fiscal Year July 1, 2024 – June 30, 2025 (Fiscal Year 2024-25) rates and charges for sewer service in the City of Buffalo. The report presents background information regarding the Sewer System and the anticipated cash receipts and disbursements of the Sewer System for the Fiscal Year 2024-25 as well as a mid-year analysis of actual cash receipts and disbursements through November 30, 2024 and as projected through Fiscal Year 2024-25 year end.

There will usually be differences between budgeted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. I have no responsibility to update this report for events and circumstances occurring after the date of this report.

I appreciate the opportunity to be of service to the Sewer Authority and would be pleased to answer any questions you may have regarding the rate study methodology or findings.

Lisa A Foti

Lisa A. Foti, CPA
Rate Consultant

Buffalo, New York
January 3, 2025

SECTION I – INTRODUCTION

A. Overview of the Fiscal Year 2024-25 Rates

This report presents the rate findings for the City of Buffalo Sewer System. The Report presents findings regarding the Fiscal Year 2024-25 revenue requirements of the Sewer System and the adequacy of budgeted sewer rates and charges.

The report is structured in four sections:

- I. Introduction
- II. Revenue Requirements of the Sewer System
- III. Sewer Rates and Revenues
- IV. Conclusions

Section I of the Report provides background information regarding the Sewer System, as well as an outline of the responsibilities of the Buffalo Sewer Authority (Authority) and City of Buffalo (City). This Section also summarizes several potential rate-setting objectives for consideration by the Authority and reviews the methodology, which was used in preparing the Report.

B. The Buffalo Sewer System

The Buffalo Sewer Authority, a public benefit corporation, was created by an Act of the Legislature in 1935. The Authority was given the responsibility for providing an effective means of relieving the Niagara River from pollution by sewage and waste. Operation of the sewage treatment plant serving the City of Buffalo began by the Buffalo Sewer Authority on July 1, 1938. The Bird Island Sewage Treatment Plant receives sewage from approximately 840 miles of sewer and clarifies, deodorizes and disinfects it. The effluent finally discharged into the Niagara River meets all Federal and State water quality standards. Solids removed from the sewage in its passage through the plant are disposed of by incineration. The City's wastewater generally includes liquids and waterborne solids from domestic, industrial or commercial uses, as well as other water that has been used, whose quality has been degraded and discharged to the sewage system.

C. The Roles of the Authority and the City

The Authority establishes rates and charges for sewer service and related services to provide sufficient revenue to pay the operating expenses of the system and for debt service (principal and interest) on the Authority's bonds. The Authority is responsible for financing capital improvements to the Sewer System of the City of Buffalo. The Authority also issues revenue bonds, the proceeds of which are used to pay for capital improvements to the Sewer System. The previously issued bonds and future bonds of the Authority are backed by revenues of the

Sewer System. The City has granted the Authority the right to use the agents, employees, records and equipment of the Division of Water, the Division of Treasury, Department of Audit and Control, Department of Assessment and Department of Law. The City of Buffalo charges the Authority for services rendered by City departments.

D. Rate Setting Considerations

In evaluating the rates and charges for sewer service in the City of Buffalo, there are a number of potential objectives, which should be considered by the Sewer Authority:

- Sufficient cash receipts must be raised by rates and charges and other sources of revenues to satisfy the revenue requirements of the Sewer System;
- Rates and charges should be equitable and fair, in the sense that charges levied on different users reflect the associated costs incurred as a result of serving those users;
- The rate structure should provide a reasonably stable and predictable flow of revenue;
- The rate structure should be relatively simple and inexpensive to administer; and
- The rate structure should be understandable to the customer.

Section III of this report addresses the cash receipts for Fiscal Year 23-24 and projects through Fiscal Year 24-25 based on the trends that the Authority has experienced through November, 2024.

E. Fiscal Year 2024-25 Rate Methodology and Report Structure

The Fiscal Year 2024-25 Rate analysis has two principal components:

- A determination of the budgeted cash requirements for the Sewer System in Fiscal Year 2024-25; and
- An analysis of the approved budgeted rates and charges and the anticipated annual budgeted cash receipts of the System.

Section II of the Report illustrates the cash requirements and hence revenue required from the Sewer System in Fiscal Year 2024-25. Section III summarizes the customer base, the expected cash receipts from other sources and the amounts to be raised from user charges. The conclusions are presented in Section IV.

F. Sources of Data

The information utilized in the preparation of the Report was obtained from several sources. Historical cash disbursements and cash receipts data was derived from the financial statements of the Sewer Authority and the supporting records for those statements. Current information concerning the Fiscal Year 2024-25 budget for the Sewer System, customer account data and sewer billings and anticipated cash receipts was obtained from the records of the Authority.

SECTION II – REVENUE REQUIREMENTS

This section of the report provides an overview of the current cash requirements of the Sewer System. Fiscal Year 2024-25 cash disbursements for the Sewer System can be classified into ten major categories of cost. A description of each category and the current estimates of Fiscal Year 2024-25 cash disbursements are provided below. Estimated cash requirements are provided for each category of expenditure.

Debt Service (\$7,175,000)

This category of cash disbursements includes the scheduled interest payments to the debt service trustee in Fiscal Year 2024-25 on the outstanding Sewer System Revenue Bonds. The Fiscal 2024-25 Capital Plan totals \$268MM, \$176MM of which is for treatment plant rehabilitation projects and \$92MM is for renovations to the collection system. \$10MM of the current year capital improvement projects as well as \$20MM in Fiscal Years 2025-26 and 2026-27 are expected to be funded with the Sewer Authority's 2021 Environmental Impact Revenue Bonds that were issued in June, 2021. The balance of the plan will be funded in the most cost-effective manner, either by, operating cash and use of accumulated reserves as pay-as-you-go" capital or additional indebtedness. The Authority also has access to additional funding through the Bipartisan Infrastructure Law (BIL). It is expected that the BIL funding will result in \$23MM in principal forgiveness on previously issued New York State Environmental Facilities Corporation (EFC) loans once they are converted to long term. We do not expect any conversions of EFC loans in FY2024/25 but expect that \$40MM will be converted to long term in FY2025/26. It is uncertain at this time what impact, if any, a freeze on federal funding will have on the availability of BIL funding. Finally, during 2024, the Authority's General Fund transferred \$10.6MM to the General Projects Fund to support ongoing capital projects and expenses. At June 30, 2024, financial resources restricted for acquisition, construction or renovation of capital facilities in the General Projects Fund was \$67.1MM, this includes the issuance of the EIB bonds noted above and previously committed fund balance and is net of expenditures of \$38MM for capital outlays.

The proceeds of the bond issues, together with interest earnings on available funds, are used for three purposes:

- Deposits to the construction fund – This represents the amount necessary to meet the construction needs identified in the Authority’s Capital Improvement Plan.
- Deposits to the Debt Service Reserve Fund – This is a standard requirement for revenue bond issues. The Reserve Fund is intended to protect bondholders by providing a dedicated fund which is available to pay debt service in the event the Authority fails to make its annual principal and interest payment. It is typically structured to be equal to the maximum annual debt service, which occurs during the term of the bond issue.
- Cost of issuance – These costs cover the expenses associated with bond underwriters, attorneys, consultants and related expenses.

The following bonds remain outstanding at June 30, 2024:

	Amount	Year of Issue
• Series J1	\$2,978,126	2014
• Series K1	\$1,289,142	2014
• Series L1	\$4,781,881	2015
• Series M	\$6,320,000	2014
• Series N	\$12,096,564	2012
• Series O	\$6,279,883	2021
• EIB	\$46,611,052	2021

In January 2021 the Authority converted its short-term EFC loan payable to long term debt in the amount of \$7,936,860. Series O is interest free and matures in September 2050. Debt service on outstanding issuances is included in the FY2024-25 cash requirements. Total outstanding Authority indebtedness at June 30, 2024 was \$80.4MM and \$4.7MM was available in the Debt Service Reserve Fund to provide for future and annual debt service requirements of the Authority. As part of its Capital Plan, the Authority is planning a \$50MM issuance in April 2025 to fund pump station rehabilitation improvements.

General Administration (\$2,125,000)

The management of the business and fiscal affairs of the Authority is the responsibility of the Administrative Department. In general, these affairs include all fiscal operations such as preparation and control of operating and construction budgets, keeping of accounts and books of records, billings and collections, purchasing, maintaining an insurance program against fire, theft and public liability, preparation of all matters relating to bond sales, preparation of payrolls and payroll records, handling investments of funds, and other related matters.

Actual general administration expenditures for Fiscal Year 23-24 were \$2,232,025

Wastewater Treatment Facilities (\$33,734,000)

The Sewage Treatment Department is responsible for operation, maintenance and repair of the various facilities at the Bird Island Treatment Plant and at the outlying pumping station included

in the sewerage system. All units of the plant have been maintained to insure continuous pumping, disinfection and treatment of domestic and industrial wastes in fulfillment of the Authority's basic requirements.

The Bird Island laboratory is an important plant adjunct. Personnel are continually trained to be abreast of all technological advances in the field of sanitary science.

Actual wastewater treatment expenditures for Fiscal Year 23-24 were \$33,451,280

Industrial Waste (\$1,243,000)

The Industrial Waste Section operates an industrial waste control program, which was developed and initiated on January 1, 1976. This control program was instituted to enable the Buffalo Sewer Authority (Authority) to comply with its State Pollution Discharge Elimination System (SPDES) permit and with Environment Protection Agency (EPA) requirements associated with the acceptance of federal aid by the Authority to upgrade existing facilities and to construct secondary treatment facilities. This control program has been updated and expanded to comply with the requirements of the EPA General Pretreatment Regulations.

The primary objective of the Industrial Waste Section is to monitor and control these industrial discharges, as necessary, to:

- protect the public health,
- protect the receiving stream quality (i.e., the Niagara River),
- enable the Authority to comply with its SPDES permit,
- protect the integrity of the Authority's facilities, and
- administrate Industrial Surcharges and outside service area agreements and charges.

Actual industrial waste expenditures for Fiscal Year 23-24 were \$1,240,860

Sewer System Engineering (\$2,343,000)

The Engineering Department handles engineering studies, surveys, preparation of plans and specifications, contract preparation, the construction budget and construction supervision and inspection. It continues to be actively engaged in design, and the preparation of contract drawings and specifications for needed storm water relief sewers and for sewer extension for local area development, and in other work pertinent to the Authority's operations.

Actual sewer system engineering expenditures for Fiscal Year 23-24 were \$1,386,804

Sewer Maintenance Department (\$6,557,000)

Routine inspection is made of all sewers and of appurtenances of the system such as intercepting and overflow chambers and inverted siphons. Sewers, street inlets and catch basins are cleaned both on a routine preventative maintenance basis and in response to flooding complaints. Sewer repairs are made as necessary and are usually of an emergency nature.

Actual sewer maintenance expenditures for Fiscal 23-24 were \$6,584,796

Employee Benefits (\$12,297,000)

Employee benefits include the disbursements for the fringe benefits provided to the Authority employees including hospital, dental and life insurance, social security, pension, unemployment insurance and worker's compensation. The Buffalo Sewer Authority's labor agreement with CSEA Local 815, which is the white-collar union of the Authority was settled in May 2023 and runs through June 30, 2026. The labor agreement with the Communications Workers of America (CWA), the blue-collar union was settled in January 2024 and also runs through June 30, 2026. Both agreements addressed issues surrounding wages increases, which aggregate 13% over the contract term, and increases to health insurance costs of 15% to 20%.

Actual employee benefit expenditures for Fiscal 23-24 were \$11,795,305

City of Buffalo Services (\$3,900,000)

Services provided by the City of Buffalo include Division of Water billings for sewer rent, treasury functions, assessment of properties, and billing of sewer rent based on assessed value, data processing and payroll services as well as legal and auditing services. This amount remains unchanged and is consistent with FY 2023-24.

Miscellaneous and Contingencies (\$2,090,000)

Miscellaneous disbursements include a contingency provision for judgments and claims, a sewer rent adjustment and a contingency for unanticipated expenditures not otherwise covered in the budget. There were no contingency related expenditures in FY 2023-24.

Actual miscellaneous expenditures for Fiscal 23-24 were \$704,761

Capital Improvements ~ Departmental Capital Outlays—On-Going Projects (\$1,501,000)

Departmental capital outlays are budgeted capital improvements to be made to the System from current operating revenues.

The capital improvement fund is provided to make necessary improvements to the system on an as needed basis. Expected cash disbursements must be adjusted to arrive at the cash requirements for the Sewer System.

Debt Service Coverage Provision (\$1,435,000)

Lastly, the authority has covenanted that from time to time and as often as it shall appear necessary, the rates, charges, rents and sewer rents, fees and assessments established for the Sewer System will be adjusted whenever necessary to cause revenues collected in each fiscal year from the Sewer System to be at least equal to the Minimum Revenue Requirement, which shall be equal to the sum of (i) the amount estimated to be required in the current fiscal year to

pay operating expenses and to meet debt service reserve requirements, plus (ii) 120% of debt service for such fiscal year.

Total Budgeted Operation and Maintenance Costs for the Sewer System

Based on the preceding categories of cost, the total expected operation and maintenance cash disbursements for the Sewer System in Fiscal Year 2024-25 are \$65,790,000 and includes \$1.5MM for capital outlays and on-going projects and \$2.0MM in anticipated funding for contingencies.

SECTION III SEWER RATES AND REVENUES

A. Sewer Rents

The authority has adopted a schedule of sewer rates based upon the assessed valuation of real estate and also based upon water usage. Additionally, the Authority provides for assigning sanitary sewer construction costs to benefiting property owners as a condition precedent to granting a permit to connect such facilities. Outlying communities also utilize the services of the facilities. This is provided under a separate agreement with each of the municipalities.

Largest Customers of the System

An analysis of the customer base of the Sewer System shows that the users of the System are diversified. Only a few customers, represent more than 1% of the sewer billings.

B. Comparison of Buffalo Sewer Rates with the Rates of Other Communities

A significant consideration in evaluating sewer rates is the reasonableness of current rates and charges compared to those of other communities. Rates for the City of Buffalo and other municipalities within New York State have been compared for purposes of comparison, residential user charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption namely 12,000 cubic feet or the equivalent of 89,760 gallons. Annual water use at this volume figure is used consistently for comparative purposes, recognizing that the typical customer in each class in each city may use different volumes of sewer. Finally, average assessed value in each community was considered.

The Buffalo Sewer Authority's rates have historically been low on average in comparison to other communities.

C. Rate Setting Actions of the Buffalo Sewer Authority

The total assessed value of property applicable for sewer purposes is \$12,555,137,793 and the levy of sewer rents based on assessed value for 2024-25 will be \$24,900,000. This is a \$5,100,000 increase from the prior year. This will result in an annual sewer rent of approximately \$1.99 per \$1,000 of assessed valuation. Sewer rents will increase or decrease by \$.00015673 for each \$1MM change in assessed value in order to maintain the levy. All flat and metered accounts will be assessed a capacity/drainage charge at a minimum of \$6.18 per month. The estimated user payments for Fiscal Year 2024-25 reflect these Sewer Authority actions.

D. Fiscal Year 2023-24 Receipts and Projected Fiscal Year 2024-25 Receipts

Metered and Flat Sewer Rents (\$25,137,000)

Cash receipts from user charges were \$25.8MM for Fiscal Year 2023-24. This reflects actual cash receipts for the full fiscal year through June 2024. Budgeted cash receipts in Fiscal Year 2024-25 are \$25.1MM. Cash receipts through November 2024 are \$11MM and are projecting to \$26MM through year end. There is a 3% increase to rates and charges for water usage for FY 2024-2025. The end of the Low-Income Water Assistance Program and the New York State Homeowner Assistance Fund is eventually expected to have a negative impact on cash collections. Those funds have increased cash receipts by \$4.1MM over the life of those programs. These programs helped low-income households pay for past due water and sewer services and also helped offset the decrease in cash receipt experienced during the Covid-19 pandemic.

Assessment Sewer Rent (\$24,957,000)

The Authority also charges a sewer rent based upon the assessed valuation of all real property in the City (except as exempted by law). This rate had not changed since Fiscal year 2005-2006. The total assessment sewer rent is budgeted at \$24.9MM for Fiscal Year 2024-2025 which is a \$5.1MM increase from the prior year and accomplishes the equalization of assessment revenues and consumption revenues. If the estimated assessed value of chargeable property for Fiscal Year 2024-2025, further increases, sewer rents will increase or decrease by \$.00015673 for each \$1MM change in assessed value to maintain the levy.

Actual Fiscal Year 2023-2024 cash received from assessment sewer rents were \$19.8MM

Outside City Contracts (\$15,000,000)

There are currently eight service contracts involving communities outside the corporate limits of the city from which the Authority receives and treats sanitary sewage.

The contract areas are billed in accordance with an agreement using actual measured flows that are discharged into the Authority's facilities in relation to total flow received at the Treatment Plant. Actual operating and maintenance costs and capital costs of the facilities used are applied to each billing. The charge for the ensuing fiscal year is budgeted conservatively and represents the actual capital and operating costs to the Authority over the most recently completed fiscal year of treating the estimated flow from the district.

Actual Fiscal Year 2023-2024 cash receipts from outside city contracts were \$20MM

Industrial Waste (\$3,875,000)

Industrial waste revenue accounts for less than 2.5% of Sewer Authority revenues. This category mainly includes charges for hauling and surcharges relating to industrial type waste from commercial users of the system. We expect to restrict the amount of discharges from waste haulers in Fiscal 2024-25 due to ongoing capital projects.

Actual industrial waste revenues for Fiscal year 2023-2024 were \$4.9MM

Interest Income (\$4,125,000)

Interest income includes interest on investments from both the operating and debt service funds as well as interest on delinquent sewer accounts. The Authority continues to invest based on a funding requirement that matches with cash/investment liquidity. FY 2023-2024 historical returns approximated 5% but have declined year to date through Fiscal 2024-25 by almost 1% as interest rates continue to fluctuate in response to economic conditions and the interest rate actions taken by the Federal Reserve. We also expect our available cash balances to decrease with payments used to fund ongoing projects. Nonetheless, interest income continues to trend better than budget and was \$2.3MM through November 2024 and is projected to be approximately \$5.3MM by the end of Fiscal 2024-2025.

Interest income for Fiscal Year 2023-2024 was \$5.7MM.

Miscellaneous (\$1,306,000)

Miscellaneous revenue includes user fees for specific services provided. These revenues are derived from billing services for the Buffalo Sewer Authority and also include revenues from New York State for eligible low-income resident accounts through a Homeowners Assistance Fund (HAF) and a Low-Income Household Water Affordability Program (LIHWAP) Funding for both of these state programs has ended. The Authority received \$1.4MM and \$436k in Fiscal 2023/24 in HAF and LIHWAP payments, respectively from the New York State and has received \$266k in Fiscal 2024/25 under HAF.

SECTION IV – CONCLUSIONS

Based on the information presented in Sections I through III, including the increase in the assessment on sewer rents in the Authority's Fiscal 2024-2025 budget, the estimates of cash receipts in Fiscal Year 2024-2025 and actual cash receipts through November 30, 2024 exceed the amount required for the anticipated annual budgeted cash requirements of the Authority for Fiscal 2024-2025. The current budgeted reserves for Fiscal Year 2024-2025 are \$2MM. This does not include any savings ultimately realized through efficiencies gained in System operations. Accumulated unrestricted reserves, including existing encumbrances through June 30, 2024 total \$100MM.

The consistently stated goals of the Authority are to build a reserve balance to a level expected by rating agencies for a sewer system the size of the Buffalo Sewer Authority and to support capital improvements to the System over the long term. The increase in the assessment sewer rents for Fiscal 2024-2025, the second since Fiscal 2005-2006, is necessary to ensure that rates are fair and equitable across all user groups. The Authority should continue to review its overall rate structure over the next few years, especially in light of the City's reassessment of property, and to meet those stated objectives of longer-term sustainability, making certain the anticipated improvements identified under its long-term control plan can be adequately supported. Those improvements are currently estimated to be over \$781MM.

Again, no immediate further adjustments to current rates and/or drainage/capacity charges are proposed for FY2024-25 for consideration by the Authority at this time.

January 3, 2025

Exhibit 1**ANTICIPATED FISCAL 2024-25 CASH REQUIREMENTS****Cash Requirements**

Debt Service \$ 7,175,000

Operating Disbursements:

General administration	\$ 2,125,000
Wastewater Treatment Facilities	33,734,000
Industrial Waste	1,243,000
Sewer System Engineering	2,343,000
Sewer Maintenance Department	6,557,000
Employee benefits	12,297,000
City of Buffalo and Collection Services	3,900,000
Miscellaneous and contingency	2,090,000
Capital Improvements, including Departmental capital outlays & -on-going projects	1,501,000

Total operating disbursements 65,790,000

Total cash disbursements 72,965,000

Less amounts available for use for
Capital Improvements (1,501,000)

Total anticipated cash requirements **\$71,464,000**

Minimum debt service coverage provision on outstanding indebtedness: **\$1,435,000**

Minimum Required debt service coverage: 1.20

Budgeted debt service coverage:(w/\$2MM in reserves) **2.10**

Exhibit 2

ANTICIPATED FISCAL 2024-25 CASH RECEIPTS

Cash Receipts

Operating Revenue:

Metered and Flat Sewer Rents	\$ 25,137,000
Assessment Sewer Rent	24,957,000
Outside City Contracts	15,000,000
Industrial Waste	3,875,000

Other Revenues:

Interest Income	4,125,000	
Miscellaneous	<u>1,306,000</u>	
Total anticipated cash receipts		<u>\$74,400,000</u>