



# Salisbury, MD



UNIVERSITY OF  
MARYLAND

ENVIRONMENTAL FINANCE CENTER



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# BACKGROUND

The City of Salisbury is located in southern Maryland and is the largest city on Maryland's eastern shore. Salisbury is a commercial hub for the Delmarva Peninsula, the county seat for Wicomico County, and the home of the University of Salisbury. The Delmarva Peninsula encompasses the majority of Delaware, and portions of Maryland and Virginia. The Wicomico River, a tributary of the Chesapeake Bay, flows through the city.

Salisbury encompasses an area of 13.9 square miles and is located on US Route 50 which is a major highway in this stretch connecting Washington, DC with the eastern shore. The population in Salisbury as of 2018 is 32,536. The median household income is \$38,645 compared to the statewide MHI of \$83,242. About 25 percent of the population of Salisbury is living below the federal poverty threshold, compared to the state's 6 percent. The City is home to Salisbury University which had an enrollment of 8,567 students for the 2018-2019 academic year and a 200-acre campus.

## Water and Wastewater System Details

The City of Salisbury owns and operates a water system consisting of two treatment plants, ten active wells, six storage reservoirs, and a distribution system with approximately 226 miles of distribution pipelines, including 1,500 fire hydrants. There are approximately 9,900 connections inside and outside the City corporate limits. The City owns and operates one wastewater treatment plant with a total permitted capacity of 8.5 MGD and a collection system consisting of approximately 234 miles of gravity sewers and force main sewers to collect and deliver wastewater to the plant for treatment. Included in the wastewater collection system are 46 sewage pump stations and 3,494 manholes.

The City charges inside rates, outside rates, and Urban Service District Rates. Outside rates are double the inside rates, and Urban Service District Rates 1.5 times the inside rates. Each of those are further broken down into three customers classes: residential and small commercial, commercial and large commercial. The City charges a quarterly base charge for residential and small commercial customers which includes a consumption allowance of 6,000 gallons. These customers are charged a uniform rate for all usage above 6,000 gallons a quarter. For the commercial and large commercial class, the City charges a fixed customer

charge per quarter that does not include any consumption plus a volumetric rate per 1,000 gallons.

The water base charge for Salisbury is \$5.61. The volumetric water rate per 1,000 gallons after 6,000 gallons is \$3.35. The wastewater base charge is \$13.86 and the volumetric wastewater rate per 1000 gallons is \$8.31. The stormwater fee per residential unit is an annual \$20.00 flat fee. The average household monthly water bill based on the 1000 gallon rate for 2020 and 4000 gallons consumption, is \$13.40, the average household monthly wastewater bill is \$33.24, and the average household monthly stormwater bill is \$1.67.

### **Affordability in Context**

Salisbury does take into consideration affordability when deciding on its water rates. In 2018 the City hired Stantec Consulting Services to do an independent study on water and wastewater rates for the city. The objectives of the study were to carry out:

- (1) Revenue Sufficiency Analysis: Develop a multi-year financial plan for the City's water and sewer systems to determine the level of annual revenue required to satisfy projected annual operating, debt service, and capital cost requirements; and to establish and maintain adequate reserves.
- (2) Rate Structure Review: Review the City's existing retail rate structures and demonstrate customer bill impacts.
- (3) Affordability Assessment - Evaluate the affordability of the proposed water and sewer bills based on several key industry measures, and
- (4) Connection Fee Analysis: Work with City staff to evaluate and update the capital charges the City currently imposes for their water and sewer system based on the cost of providing system capacity.

The City also keeps track of rates in surrounding communities and compares them to their own rates. The 2018 study included this type of comparison by looking at residential quarterly bills in neighboring utilities and comparing them to Salisbury's numbers. The study concluded that the City's water bill was at the bottom of the utilities surveyed group and the sewer bill was in the upper half: the combined residential bill for Salisbury was therefore in the middle compared to those of neighboring utilities surveyed.

Apart from affordability metrics, in order to make decisions on water rates, the City looks at the total operating revenue and compares it to total operating expenses. If for example expenses exceed revenues by 3 percent, the Mayor and the City Council are asked to consider a rate increase of 3 percent.

The City does make decisions on infrastructure costs and maintenance that are influenced by affordability concerns. The City carries out a five-year CIP and tries to balance expenses throughout the five-year period so as not to overload any one particular year. Each year, projects are evaluated for urgency, in the context of available budget. The City also seeks out other funding sources to carry out priority projects. Decisions on what to fund and how are part of a short term versus long term balancing act. For example, when interest rates are low, the City may consider borrowing funds to make improvements.

The City tracks water use and compares it to previous water readings and monitors for unusual hikes within 24 hours. The City also has a system for reducing fees when “non-beneficial water use” (or use above the average of previous bills) has occurred (i.e. due to a water leak or accidental use). If the City detects a problem, they make a courtesy call to the user, who is expected to resolve the problem as soon as possible. Users can then apply for a reduction in their water bill which can range from 60 to 90%.

The 2018 study also evaluated the City’s connection fees. The City currently assesses water and sewer connection fees that are designed to recover the cost of water and sewer capacity from new connectors to each respective system. The study recommended increases to water and sewer connection fees.

# AFFORDABILITY METRICS SUMMARY

Metric	Definition	Value for Salisbury
Residential Indicator	Annual average utility bill as % of MHI.	1.45%
Household Burden Indicator	Annual water, wastewater, and stormwater bill as % of 20th percentile household income.	4.4%
Poverty Prevalence Indicator	% of households at or below 200% of the federal poverty line.	53%
Cost of Basic Water Use as % of Upper Limit of Lowest Income Quartile	Annual water and wastewater bill, not including base charges, for the average household size for 50 gallons per person per day as a % of 20th percentile household income.	3.02%
Weighted Average Residential Index	Average annual bills as a % of MHI by census tract or census block group extrapolated to the whole service area by weighting each tract or block group by the number of households. If the average annual bill by census tract or block group is unavailable, the average bill of the entire service area is used.	2.0%
Affordability Ratio at 20th Income Percentile (AR20)	The water, wastewater, and stormwater bill as a percentage of discretionary income for the 20th percentile income household.	45.3%
Hours at Minimum Wage	The number of hours at minimum wage, before taxes, needed to pay the water and wastewater bill. Assumes 50 gallons per person per day for the average household size and does not include base charges.	4.1
Households Delinquent in Paying Bills %	The percentage of residential accounts delinquent as of March 2020.	12.2%
Poverty Rate %	The percentage of households in the census place below the federal poverty line.	25%
Living Wage %	The % of households whose hourly household income is below the minimum wage necessary to pay for all essential expenses. Calculated based on MIT living wage values at the county-level.	39%
Shelter Cost	Percentage of households in the census area paying more than 30% of their income on housing. Housing costs based on U.S. Department of Housing and Urban Development Fair Market Rate for a 2-bedroom unit.	49.6%
Households receiving public assistance %	Percentage of households in the census area receiving SNAP benefits.	24.0%

# THE UTILITY'S FEEDBACK ON THE AFFORDABILITY METRICS

The assessment of each of the affordability metrics above were reviewed with the utility. Comments and input from the utility staff were requested to evaluate whether they consider the metrics provided a reasonable assessment of actual conditions in their local community and of their customers. The utility's feedback on each of the affordability metrics is documented below.

## Residential Indicator

The water rate study by Stantec included an affordability assessment. The study looked at three affordability guidelines which included EPA's guideline that says that the water and sewer combined bills should not exceed 4 percent of the median household income-MHI, that the combined water and sewer bill should not exceed more than 10 percent of disposable income at the 20th percentile of income within a community, and that there is a goal of no more than eight hours of income per month should be necessary to pay the total combined water and sewer bill. The City's combined water and sewer bills met two of the three affordability metrics, exceeding the disposable income metric at 17.2 percent compared to the goal of only 10 percent. The study recommended that the City continue to monitor water and sewer affordability in the City and examine the opportunity to develop and offer a customer assistance program for those customers that have difficulty paying their water and sewer bills.

## HBI and PPI

The Household Burden Indicator and Poverty Prevalence Indicator show moderate-high burden in Salisbury. The metric includes how "prevalent" lower income households are in the community. The metrics that include the lower income assessment are problematic for Salisbury because of the University and the inclusion of students as "low income."

## Cost of Basic Water Use as % of Upper Limit of Lowest Income Quartile

This metric does not have a benchmark with which to compare. The City did not have comments on the metric different from those above for the HBI and PPI.

## WARi

This metric shows a low burden for Salisbury but like other municipal boundaries, the Salisbury census tract boundaries do not line up with either the City municipal boundary or the service area. Percent area of the census tract were estimated to approximate population in the municipal boundary.

Salisbury does not currently have the data to analyze residential water and wastewater usage by census tract. Therefore, the average usage for the estimated area in the municipal boundary was used to calculate WARi.

## Hours at Minimum Wage

For Salisbury hours and minimum wage metric shows a low burden for residents. The \$11.00 minimum wage is relatively high and may account for the low burden.

## Percentage of Households Below the Living Wage

This metric is high for Salisbury again, likely because the student population.

## AR20

The AR20 shows a high burden in Salisbury. This metric again may not adequately account for the student population within the city limits where parents may subsidize the income for necessary expenses.

## Percent of Households Delinquent in Paying Bills

Salisbury expressed a high number of delinquencies estimated at 1200 households (approximately 12%). This estimate is inclusive of COVID-19 impacts.

## Percentage of Household Below FPL

This metric is high for Salisbury again, likely because the student population.

## Percentage of Household Income Spent on Shelter Cost

This metric is high for Salisbury again, likely because the student population.

This metric does not include water or wastewater costs, and thus does not provide an assessment of the affordability of the rates but a general assessment of the economic conditions in the community.

## Percentage of Households Receiving Public Assistance

The percentage of households receiving public assistance provides a broad understanding of what portion of a community is experiencing some form of economic hardship. The Supplemental Nutrition Assistance Program (SNAP) is often the federal program with the highest percentage of families receiving assistance. This value may indicate that there is a need to separate out the student population from the other low-income residents as students are not typically recipients of SNAP benefits.



## COVID-19

The current estimated delinquencies are higher than delinquencies before COVID-19. The City has a hardship program where a customer can seek assistance from social services. This program has a relatively small budget. Approximately \$10,000 to \$12,000 per year is allocated jointly for water and sewer needs (respectfully), which is then targeted to the specific customers experiencing shortfalls. This helps ratepayers pay portions of their bills impacted by COVID-19 and ability to pay. In addition the customers are allowed more time to pay bills without accruing additional fees. The bill will, however, be due eventually, and federal assistance could help address this.

Additionally, the 2018 study concluded that the City's water and sewer rates would not provide sufficient revenue to meet its ongoing debt service, capital, operating, and reserve requirements over a five-year projection period. The consultant recommendations were used to develop projections for the City Council to consider. The Council and the Mayor evaluated the increased recommendations, but out of concern of keeping the rates at an affordable level for the community, they decided not to increase rates. The City was going to raise rates in 2020, but due to COVID-19 it has been delayed till next year.