

# Town of Saugus FY 2023 Sewer Rates Update

The Abrahams Group

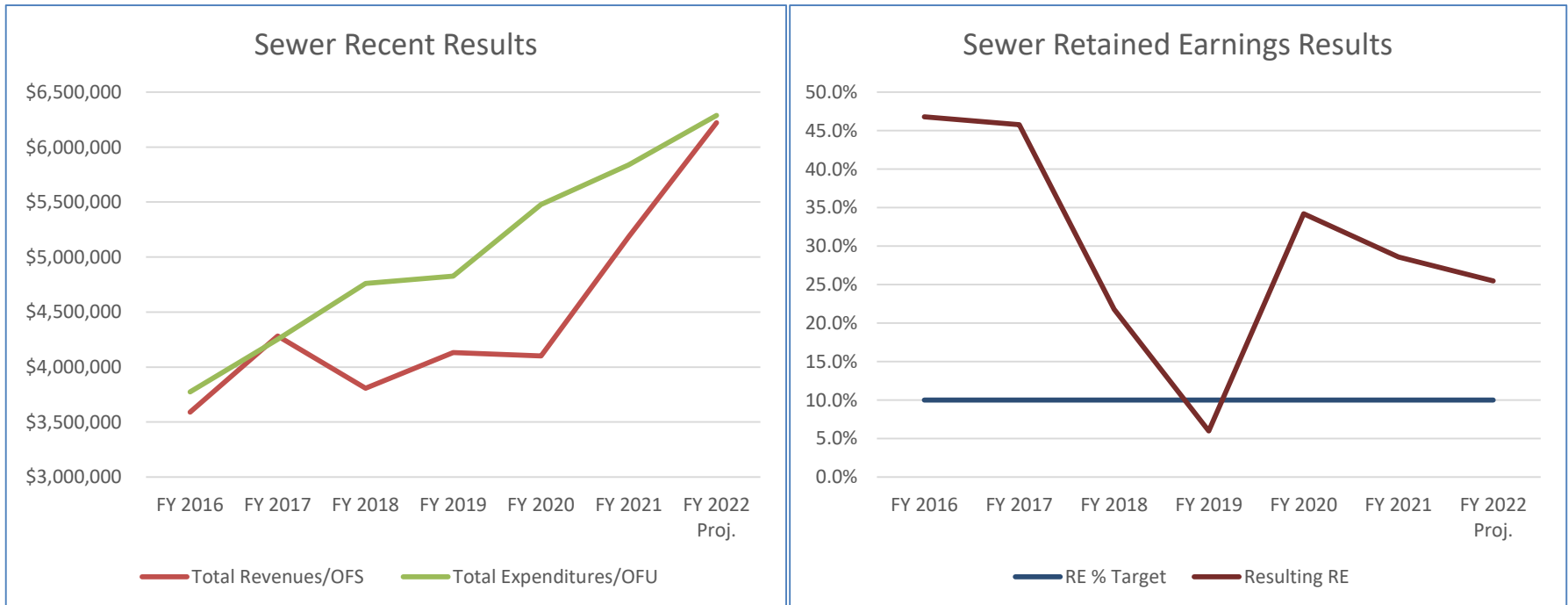
May 2022

# Seven-Year Review

The following rate changes were implemented recently:

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Recommended	N/A	10.8%	9.5%	12.5%	17.5%	10.0%	15.0%
Voted	3.0%	7.5%	2.5%	10.0%	7.0%	7.0%	8.25%

The following graphs show recent financial results:



# FY 2022 in Review

FY 2022 was impacted in the following ways:

- User charges revenue up 12% over FY 2021's, due to rate increase and large bills for heavy sewer users
- Projected expenses up ~\$200,000 (or 3%) over FY 2021's
- \$740,000 in Retained Earnings used to balance the budget; projections show \$67,000 will be needed for deficit
- Four prior fiscal years operated with a deficit greater than \$690,000

- Financial results:

	Budget	Projected
Total Revenues/OFS	\$6,449,639	\$5,959,958
Total Expenditures/OFU	\$6,449,639	\$6,027,022
Surplus/(Deficit)	\$0	\$(67,064)

Table includes retained earnings appropriated, but not encumbrances from prior year.

# FY 2022 in Review (Cont.)

	Recommended 15.0% Proj. FY22	Voted 8.25% Proj. FY22	Projected 8.25% Projected FY22
Revenues	\$6,016,013	\$5,707,455	\$5,959,958
Retained Earnings Appropriated	\$433,626	\$742,184	\$742,184
<b>Total Revenues and Available Funds</b>	<b>\$6,449,639</b>	<b>\$6,449,639</b>	<b>\$6,702,142</b>
<b>Total Expenditures</b>	<b>\$6,449,639</b>	<b>\$6,449,639</b>	<b>\$6,027,022</b>
<b>Surplus/(Deficit)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$675,120</b>
Prior year encumbrances not included in numbers in this table			
<b>Retained Earnings Projections</b>			
Retained Earnings at Start of FY22	\$1,668,320	\$1,668,320	\$1,668,320
Retained Earnings Appropriated	\$(433,626)	\$(742,184)	\$(742,184)
Surplus/(Deficit) for FY22	\$0	\$0	\$675,120
<b>Retained Earnings at End of FY22</b>	<b>\$1,234,694</b>	<b>\$926,136</b>	<b>\$1,601,256</b>
<b>Retained Earnings as % of Budget</b>	<b>19.1%</b>	<b>14.4%</b>	<b>24.8%</b>

# Rate Study Objectives

Each year, the Town focuses on a five-year rate plan with objectives to:

- Target projected retained earnings balance of 10% to 15% of operating budget.
- Eliminate shortfalls, which require retained earnings to balance the operating budget.
- Increase rates so revenue from rates covers expenditures.
- Fund capital plan for infrastructure and equipment.

# Capital Plan

The following projects and items are part of Town's five-year capital plan, to be funded via debt service.

- Sewer Rehabilitation Subsystem PS4 in FY 2023
- Lift Station Design and Improvement in FY 2024
- Water Meter Replacement Program in FY 2023
- Mini-excavator in FY 2024
- Replacement of Utility Truck in FY 2026

Total projected debt service FY 2024 to FY 2027 for these projects/items: \$1.73 million

# Rate-Setting Drivers

- Projected expenses % changes are shown here:

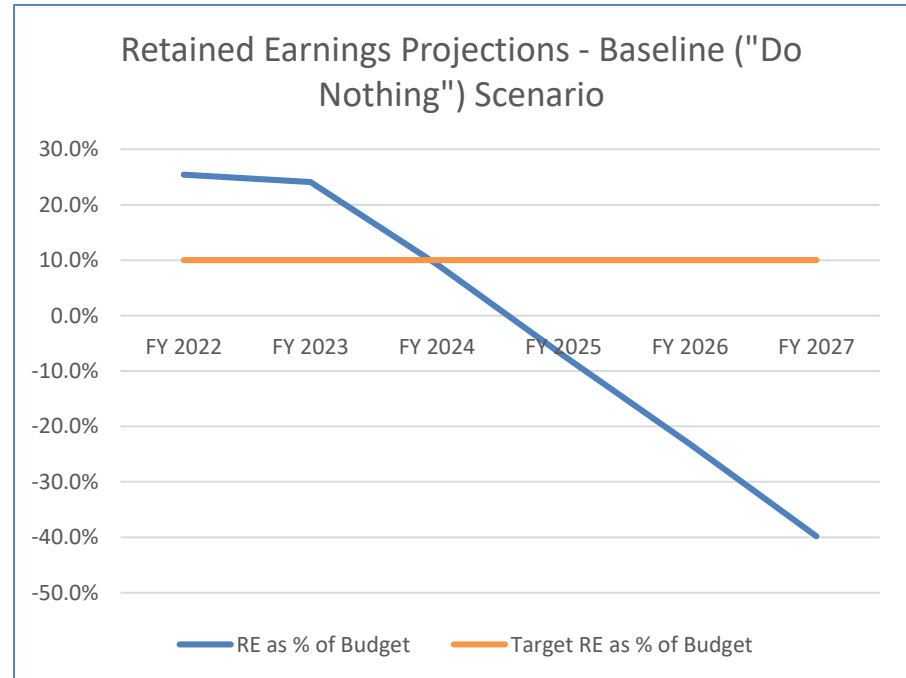
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Salaries	1.8%	2.5%	2.5%	2.5%	2.5%
Lynn W/S Assessment	3.9%	9.0%	7.7%	-0.8%	1.5%
Debt	-1.3%	16.9%	2.1%	-0.7%	0.3%
Other Expenses	1.4%	2.1%	2.1%	2.1%	2.1%
<b>Total Expenses</b>	<b>1.3%</b>	<b>9.5%</b>	<b>4.1%</b>	<b>0.1%</b>	<b>1.3%</b>

- Notable Impacts:
  - Sizable anticipated increase in Lynn Water/Sewer assessment in near future due to LWSC's capital plan and borrowing of \$40 million
  - Impact of debt service related to capital plan significant over next few years

# Where Are We Now?

Description	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027
Total Revenues and OFS	\$ 5,979,883	\$ 5,832,190	\$ 5,842,894	\$ 5,852,163	\$ 5,861,522
Total Expenditures and OFU	\$ 6,108,064	\$ 6,685,822	\$ 6,961,285	\$ 6,967,611	\$ 7,058,078
<b>Excess (Deficiency)</b>	<b>\$ (128,182)</b>	<b>\$ (853,632)</b>	<b>\$ (1,118,391)</b>	<b>\$ (1,115,448)</b>	<b>\$ (1,196,556)</b>
<b>Retained Earnings Summary</b>					
Projected RE at start of FY	\$ 1,601,257	\$ 1,473,075	\$ 619,443	\$ (498,948)	\$ (1,614,396)
Current Year Surplus (Deficit)	\$ (128,182)	\$ (853,632)	\$ (1,118,391)	\$ (1,115,448)	\$ (1,196,556)
Projected Retained Earnings Balance	\$ 1,473,075	\$ 619,443	\$ (498,948)	\$ (1,614,396)	\$ (2,810,952)
Retained Earnings % of Expenditures	24.1%	9.3%	-7.2%	-23.2%	-39.8%

- Revenues shown with no rate change
- Retained Earnings last certified at \$1.67 million, as of July 1, 2021
- \$67,000 of RE projected to be used to cover revenue shortfall in FY 2022; over \$3 million in total RE used to cover shortfalls last five fiscal years
- Rate action necessary to avoid depleting retained earnings and to avoid shortfalls; without rate action, retained earnings will deplete by FY25.



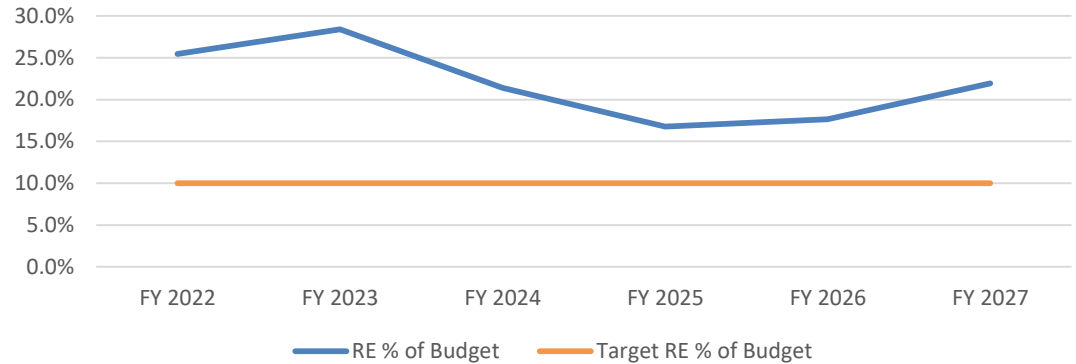


# Rate Option 1 – 5.0% Increase in FY 2023

## Five-Year Rate Plan

FY 2023	5.0%
FY 2024	5.0%
FY 2025	5.0%
FY 2026	5.0%
FY 2027	5.0%

## Retained Earnings Projections - with Rate Changes



User Impact	Usage / Bill	FY22 Bill	FY 2023		FY 2024		FY 2025	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 93	\$ 98	\$ 5	\$ 102	\$ 5	\$ 108	\$ 5
Tier 2 User	3,000	\$ 127	\$ 133	\$ 6	\$ 140	\$ 7	\$ 147	\$ 7
Avg. Residential User	4,362	\$ 190	\$ 200	\$ 10	\$ 210	\$ 10	\$ 220	\$ 10
Avg. Commercial User	24,527	\$1,766	\$ 1,854	\$ 88	\$ 1,947	\$ 93	\$ 2,045	\$ 97

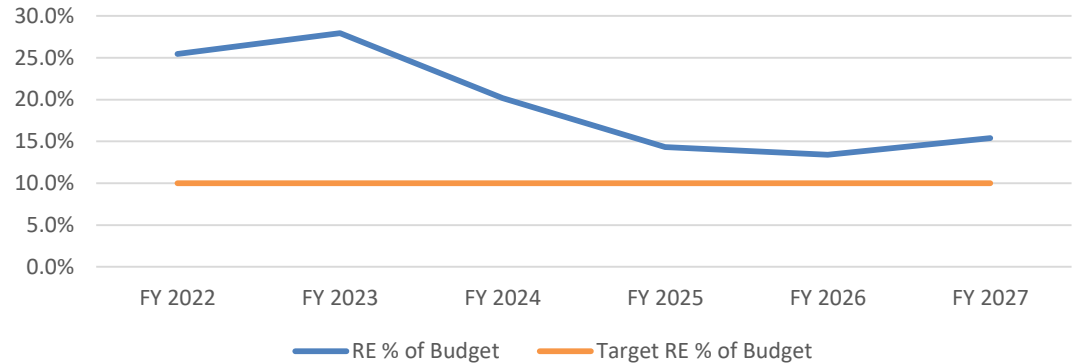
User Impact	Usage / Bill	FY22 Bill	FY 2026		FY 2027		FY 2027/FY 2022	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 93	\$ 113	\$ 5	\$ 119	\$ 6	\$ 119	\$ 26
Tier 2 User	3,000	\$ 127	\$ 154	\$ 7	\$ 162	\$ 8	\$ 162	\$ 35
Avg. Residential User	4,362	\$ 190	\$ 231	\$ 11	\$ 243	\$ 12	\$ 243	\$ 53
Avg. Commercial User	24,527	\$1,766	\$ 2,147	\$ 102	\$ 2,254	\$ 107	\$ 2,254	\$ 488

# Rate Option 2 – 4.5% Increase in FY 2023

## Five-Year Rate Plan

FY 2023	4.5%
FY 2024	4.5%
FY 2025	4.5%
FY 2026	4.5%
FY 2027	4.5%

## Retained Earnings Projections - with Rate Changes



User Impact	Usage / Bill	FY22 Bill	FY 2023		FY 2024		FY 2025	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 93	\$ 97	\$ 4	\$ 101	\$ 4	\$ 106	\$ 5
Tier 2 User	3,000	\$ 127	\$ 133	\$ 6	\$ 139	\$ 6	\$ 145	\$ 6
Avg. Residential User	4,362	\$ 190	\$ 199	\$ 9	\$ 208	\$ 9	\$ 217	\$ 9
Avg. Commercial User	24,527	\$1,766	\$ 1,846	\$ 79	\$ 1,929	\$ 83	\$ 2,016	\$ 87

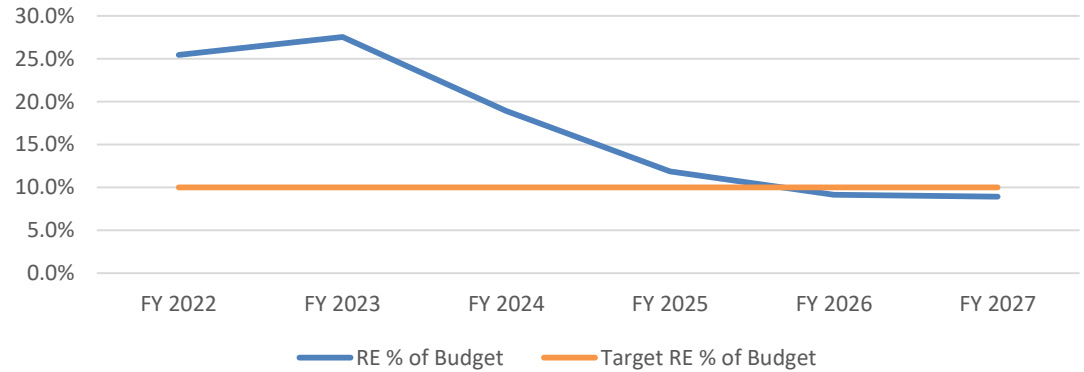
User Impact	Usage / Bill	FY22 Bill	FY 2026		FY 2027		FY 2027/FY 2022	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 93	\$ 111	\$ 5	\$ 116	\$ 5	\$ 116	\$ 23
Tier 2 User	3,000	\$ 127	\$ 151	\$ 7	\$ 158	\$ 7	\$ 158	\$ 31
Avg. Residential User	4,362	\$ 190	\$ 227	\$ 10	\$ 237	\$ 10	\$ 237	\$ 47
Avg. Commercial User	24,527	\$1,766	\$ 2,106	\$ 91	\$ 2,201	\$ 95	\$ 2,201	\$ 435

# Rate Option 3 – 4.0% Increase in FY 2023

## Five-Year Rate Plan

FY 2023	4.0%
FY 2024	4.0%
FY 2025	4.0%
FY 2026	4.0%
FY 2027	4.0%

## Retained Earnings Projections - with Rate Changes



User Impact	Usage / Bill	FY22 Bill	FY 2023		FY 2024		FY 2025	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 93	\$ 97	\$ 4	\$ 100	\$ 4	\$ 104	\$ 4
Tier 2 User	3,000	\$ 127	\$ 132	\$ 5	\$ 137	\$ 5	\$ 143	\$ 5
Avg. Residential User	4,362	\$ 190	\$ 198	\$ 8	\$ 206	\$ 8	\$ 214	\$ 8
Avg. Commercial User	24,527	\$1,766	\$ 1,837	\$ 71	\$ 1,910	\$ 73	\$ 1,987	\$ 76

User Impact	Usage / Bill	FY22 Bill	FY 2026		FY 2027		FY 2027/FY 2022	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 93	\$ 109	\$ 4	\$ 113	\$ 4	\$ 113	\$ 20
Tier 2 User	3,000	\$ 127	\$ 149	\$ 6	\$ 155	\$ 6	\$ 155	\$ 28
Avg. Residential User	4,362	\$ 190	\$ 222	\$ 9	\$ 231	\$ 9	\$ 231	\$ 41
Avg. Commercial User	24,527	\$1,766	\$ 2,066	\$ 79	\$ 2,149	\$ 83	\$ 2,149	\$ 383