

## Town of Saugus Finance Committee

### ***Kenneth DePatto, Chairman***

Ronald Jepson  
Carl J. Mirabello  
Theresa Katsos

Louis Rossi  
Frank Perella

### ***George DeDomenico, Vice-Chairman***

Steven DiVirgilio  
Stephen Horlick

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**May 16, 2018 7 p.m.**  
Town Hall Conference Room

The regular meeting of the Finance Committee was held on Wednesday evening, May 16, 2018, at 7 p.m. in the Town Hall Conference Room.

**Members present:** Chairman Ken DePatto, Vice-Chairman George DeDomenico, Carl J. Mirabello, Stephen Horlick, Theresa Katsos, Ronald Jepson, and Steven DiVirgilio, and Frank Perella.

**Absent from the Meeting:** Louis Rossi.

**Minutes:** Minutes from May 2, 2018 were unanimously accepted.

**Chairman's Update:** Chairman DePatto introduced Matt Abrahams of the Abrahams Group. He will make a presentation on the water rate analysis. Chairman DePatto said the Committee will vote on two articles tonight: the proposed water fund and water rate increase. Next week, the Committee will do all remaining articles.

Mr. Abrahams told the Committee he is here to discuss water rate options. He explained the information the Committee members had in front of them, and commented Wendy for her work in assembling everything.

Below is Mr. Abrahams Presentation, as he relayed to the Committee:

#### Background

- 9,400 water connections
- The Town has increased rates in recent years. The use of retained earnings has mitigated larger rate increases over past several years and may continue to do so in the near future.
- The Town has begun addressing additional capital infrastructure or equipment, but more needs will be addressed in the near future. These needs are included in the rates analysis.

#### Objectives:

- The Town would like to develop a five-year rate plan that would:
  - Eliminate shortfalls.
  - Eliminate using retained earnings to supplement the operating budget.
  - Fund new capital infrastructure and equipment over the next five years.
  - Project resulting retained earnings balance to be a generally accepted benchmark (10 - 25% of the operating budget).

#### Methodology:

- Present baseline or the "Do Nothing" scenario that contains projections with no rate increases.
- Present multiple rate scenarios with targeted projected retained earnings balance by the fifth year of the analysis:
  - 10%
  - 15%

- Focus on an FY19 water rate increase based upon a five-year analysis.

#### Analysis Last Two Years:

- While targeting similar retained earning balances like in this year's study, water rates were increased by 9.5% in FY2017 and 2.5% in FY2018.
- Each increase was part of a multi-year plan to achieve the Town's rates-setting objectives. The following table shows the rate increases that were recommended the past two years along with the voted increases.

#### Focus of This Year's Study:

- Last year's study targeted Retained Earnings as 10% of budget at the end of FY2022. This year's study shows that target is still on track.
- Focus on a new five-year rates-setting plan to target 10% at the end of the fifth year in the study (FY2023).
- Water projections are similar to last year's, but show that projected new debt due to an updated capital plan suggests rate increases slightly higher than the adopted plan last year, in order to target 10% in FY2023.

#### Water Capital Plan:

- The Town plans to borrow for the following projects and items in the latest water capital plan.
  - \$3.1m for Water Main Replacements in FY2019
    - All but \$500,000 through 0% interest MWRA loan
  - \$2m for Water Main Replacements in FY2020
    - Entire amount through 0% interest MWRA loan
  - \$1.1m for Water Main Replacements in FY2021
    - Entire amount through 0% interest MWRA loan
  - \$60k for new truck in FY2020, \$190k for new truck in FY2021
    - Conventionally borrowed at 4.5% interest
  - \$1.5m for water meter replacement program in FY2020
    - SRF borrowed at 2% interest; \$1.5m is water's portion of program

Chairman DePatto asked if the total cost for the meter replacement program for businesses and residential is \$3 million. Mr. Abrahams said that is the cost for the whole program. Chairman DePatto asked if these meters are more expensive than the Town's last purchased meters. He also asked if they can electronically communicate. Mr. O'Regan said the previous meter replacement program was put in place 10+ years ago for \$2.4 million. Chairman DePatto said the current cost seemed to make sense then, what with inflation and new technology. Mr. O'Regan said this would be a radio reads system – the pulse would come from the meter directly to a central location so employees don't have to physically check the reading.

Mr. Horlick asked why the sewer is picking up part of the meter replacement bill. Chairman DePatto said they had discussed that already. He said years ago it was advocated for a split because the sewer cannot send out their bills without the help of the water, so there is no reason why it should not be shared between the two.

Mr. Abrahams continued with his presentation, pulling up a slide called Rates-Setting Drivers, which showed increases/decreases in projected water expenses over the next five years. He said last year he recommended and voted the same as this year. They projected a surplus last year and surplus this year. Retained earnings are slightly more healthy than anticipated last year, which is good.

Chairman DePatto asked if the surplus revenue was only \$60,717 for FY18. Mr. Abrahams said yes, but that is not complete because that fiscal year is still ongoing.

Mr. Abrahams discussed the water baseline with the Committee. According to his presentation, the water planned expenditures exceed planned revenues, resulting in a shortfall in each of the five fiscal years. Projections show that retained earnings can cover shortfalls through FY2021, but not beyond. A water rate increase is needed to eliminate the shortfalls and/or provide a reasonable retained earnings balance.

Chairman DePatto asked if the numbers are driven by an existing rate schedule now, and Mr. Abrahams answered yes. He said these figures are based on do-nothing rates. He said we look fairly healthy in FY19, FY20, but FY21 is where it begins to dwindle if we do nothing.

Mr. Abrahams gave the Committee two options: level rate increase targeting 15% retained earnings, or level rate increase targeting 10% earnings.

Mr. Mirabello asked if they analyzed revenues from the new developments in Town/coming to Town. Mr. Abrahams said they did not. Mr. Abrahams confirmed to the Committee that this would be a more conservative projection, then.

Chairman DePatto made sure the Committee knew that this 10% retained earnings target which the Finance Committee has adopted is at the end of five years. At the end of five years, they would want to have a minimum of 10%. Mr. Abrahams clarified that, by examining the projections and spreadsheets, that retained earnings will dwindle from where it is today to that 10% in the fifth year.

Mr. DiVirgilio asked if the funding of OPEB, \$64,000, is part of the general fund OPEB contribution. Chairman DePatto and the Manager said no, and explained that it is separate.

Mr. Jepson asked if the current retained earnings compared to expenditures is 24%. Mr. Abrahams answered that it is projected close to 26% at the end of the fiscal year. The Town Manager said it is 24.5% into FY19. He said you can see through the five year projection that we're in a deficit. Mr. Jepson said that could change if the amount of water use is different than projected. The Town Manager said this is a forecast. Mr. Jepson asked the Town Manager to help him understand why the Town would collect more revenue now to pay for expenses later. The Town Manager explained that looking into next year, the Town would be in a \$55,000 deficit. He said the mentality has historically been to not have a rate increase then figure out how to pay for it later. However, those rates are not enough to generate revenue to pay for expenses, operations, and debt service for infrastructure and capital needs. He explained that small percentage increases are better than a large jump. Mr. Jepson said he has been an advocate for small increases. He said he needed more information to be convinced to vote for a 3% increase. The Town Manager explained that a 2% increase is not enough revenue in the operating budget because then the next year, that will need to be an even higher increase than 3%. Rather than having the rate go up 2% this year, then 8% next year, then 5% the following year, a steady 3% increase would be best. The Town Manager told Mr. Jepson that a 2% increase wouldn't carry enough for future years. Mr. DeDomenico noted that the Finance Committee has gone through a similar exercise the last few years and historically it has proven that the methodology is pretty accurate. Mr. Jepson said the Committee has been given all worst-case scenarios. Mr. Abrahams said the analysis factors in everything. Mr. Perella said a 2% increase will still yield a positive number at the end of next year, so he thought 2% or 2.5% could work as effectively. Chairman DePatto explained that they are trying to examine things from a five-year perspective. Yes, the numbers are healthy now, but not in a couple years. To put it into perspective, the Town Manager said this is only a difference of \$14 per average residential user per year. Mr. DeDomenico said a tsunami of debt is coming in 2020 if we do not vote what we need to now. Mr.

DiVirgilio said he sees no choice other than increasing the rate. He said in 2023, we will have a \$1.8 million bond due. Chairman DePatto said a 3% increase annually over 5 years is good planning. Mr. Jepson warned that when extra money becomes available it gets spent. Chairman DePatto disagreed. Mr. Horlick supported the 3% increase as well, saying it's better to have additional money in savings in case the Town has a problem and needs it down the line. Mr. DiVirgilio asked if the Town will be on the hook for replacing the water mains at the Housing Authority, referencing a warrant. The Town Manager said it's not an article through the Town. He said he has to follow Municipal Finance Law. Since it's not on the Town's property, it's a separate entity, he cannot authorize payment for it.

A motion was made and approved to recommend the Town vote a 3.0% increase in the water rates for Fiscal Year 2019 with all receipts to be held in the Water Enterprise Fund to be used exclusively for water expenses, water maintenance, water debt and interest and water improvement programs. Upon realizing the wrong article number was said, the Committee voted unanimously to rescind the vote.

Mr. DeDomenico then made a motion for Article 10 to vote to recommend the Town vote a 3.0% increase in the water rates for Fiscal Year 2019 with all receipts to be held in the Water Enterprise Fund to be used exclusively for water expenses, water maintenance, water debt and interest and water improvement programs. Chairman DePatto seconded the motion. The motion passed 7-1 with Mr. Jepson voting against the motion.

Mr. DeDomenico made a motion to recommend that the following sums be appropriated to operate the Water Enterprise Fund: \$6,609,262.00 from Water Enterprise Fund Revenue, \$0.00 to come from Retained Earnings for a total Fiscal Year 2019 Water Enterprise Fund Appropriation of \$6,609,262.00. \$520,896.00 is to be appropriated in the General Fund funded by Water Enterprise Fund Revenue for Indirect Costs. Chairman DePatto seconded the motion. The motion passed 7-1, with Mr. Jepson opposed due to indirect costs, as he said he has done every year.

Chairman DePatto told the Committee they are just waiting on Article 7, the Sewer Enterprise Fund. Once the Sewer Commission votes, we will be able to take action on the Sewer Enterprise Fund. He hoped by next week to be able to vote all remaining articles and get a report together and get everything to Town Meeting for their June 4 meeting for the remaining articles. In the meantime, they have four financial articles for Monday's meeting that they can take up. Mr. DeDomenico asked when they would see the sewer information. Chairman DePatto said he wasn't sure, as he had not been contacted by the Selectmen Chair. He was told the vote would happen tomorrow night.

Chairman DePatto thanked Mr. Abrahams for his presentation and everyone for their attendance. The meeting adjourned at 7:57 p.m.