

# Town of Saugus FY 2024 Water Rates Update

The Abrahams Group

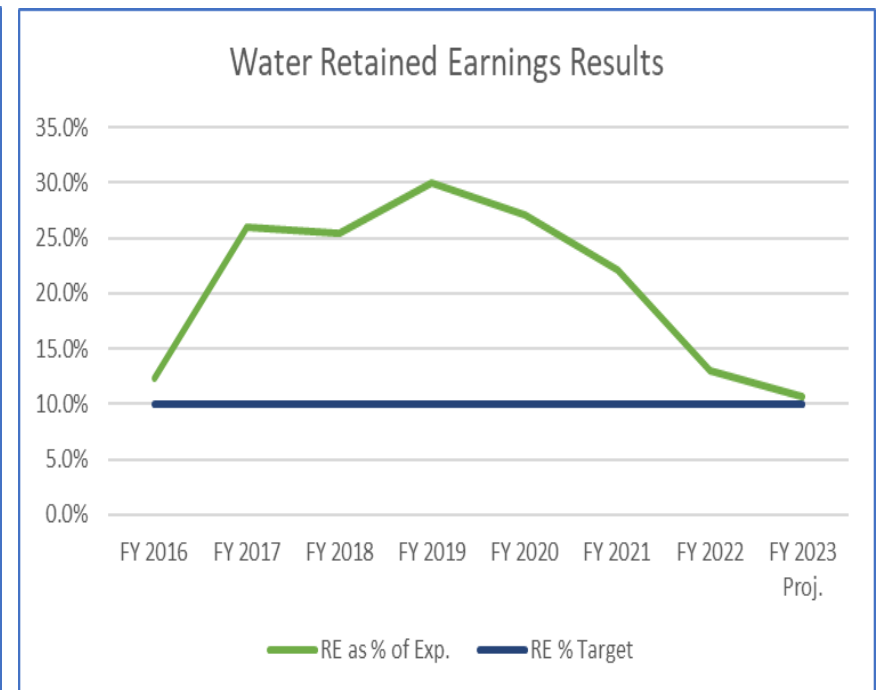
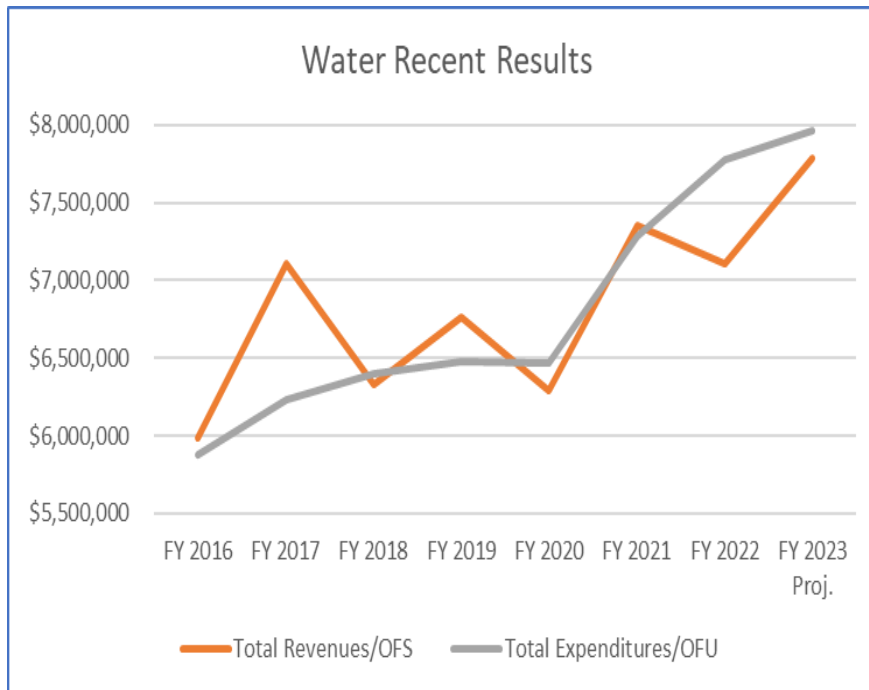
May 2023

# Eight-Year Review

The following rate changes were implemented recently:

|             | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|-------------|------|------|------|------|------|------|------|------|
| Recommended | N/A  | 9.5% | 2.5% | 3.0% | 1.5% | 4.0% | 2.5% | 6.0% |
| Voted       | 3.0% | 9.5% | 2.5% | 3.0% | 1.5% | 0.0% | 2.5% | 6.0% |

The following graphs show recent financial results:



# FY 2023 in Review

FY 2023 was impacted in the following ways:

- Projected user charges revenue up from FY 2022 by 8.9%
  - Outdoor water usage up due to dry summer in 2022
- Projected expenses up ~\$188,000 (or 2.4%) over FY 2022's
- \$205,000 in Retained Earnings used to balance the budget; projections show \$178,000 will be needed for deficit
- Financial results:

|                        | Budget      | Projected   |
|------------------------|-------------|-------------|
| Total Revenues/OFS     | \$7,963,018 | \$7,784,793 |
| Total Expenditures/OFU | \$7,963,018 | \$7,963,018 |
| Surplus/(Deficit)      | \$0         | (\$178,225) |

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

# FY 2023 in Review (Cont.)

|   | Recommended 6.0%<br>Proj. FY23 | Voted 6.0%<br>Proj. FY23 | Projected 6.0%<br>Proj. FY23 |
|---|--------------------------------|--------------------------|------------------------------|
| Revenues  | \$7,757,972                    | \$7,757,972              | \$7,784,793                  |
| Retained Earnings Appropriated                                | \$205,045                      | \$205,045                | \$205,045                    |
| <b>Total Revenues and Available Funds</b>                     | <b>\$7,963,018</b>             | <b>\$7,963,018</b>       | <b>\$7,989,838</b>           |
| <b>Total Expenditures</b>                                     | <b>\$7,963,018</b>             | <b>\$7,963,018</b>       | <b>\$7,963,018</b>           |
| <b>Surplus/(Deficit) + Close Reserves</b>                     | <b>\$0</b>                     | <b>\$0</b>               | <b>\$48,196</b>              |
| Prior year encumbrances not included in numbers in this table |                                |                          |                              |
| <b>Retained Earnings Projections</b>                          |                                |                          |                              |
| Retained Earnings at Start of FY23                            | \$1,279,963                    | \$1,279,963              | <b>\$1,009,433</b>           |
| Retained Earnings Appropriated                                | (\$205,045)                    | (\$205,045)              | (\$205,045)                  |
| Surplus/(Deficit) + Close Reserves                            | \$0                            | \$0                      | \$48,196                     |
| <b>Retained Earnings at End of FY23</b>                       | <b>\$1,074,918</b>             | <b>\$1,074,918</b>       | <b>\$852,584</b>             |
| <b>Retained Earnings as % of Budget</b>                       | <b>13.5%</b>                   | <b>13.5%</b>             | <b>10.7%</b>                 |

Starting Retained Earnings Balance lower primarily because of lower FY22 revenues than projected last year at this time.

# 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 equipment are part of Town's five-year capital plan, to be funded via debt service.

- Water mains replacement in FY 2024 and FY 2025
- Mini-excavator in FY 2024
- Replacement of dump truck in FY 2024
- Valve & Hydrant Replacement in FY 2025
- Copper Lead Rule Water Service in FY 2025
- Replacement of backhoe in FY 2026

Note: Water meter replacement program to be funded by ARPA

Total projected new debt service FY 2025 to FY 2028: \$2.8m  
(was \$1.6m in last year's analysis)

# Rate-Setting Drivers

- Projected expenses % changes are shown here:

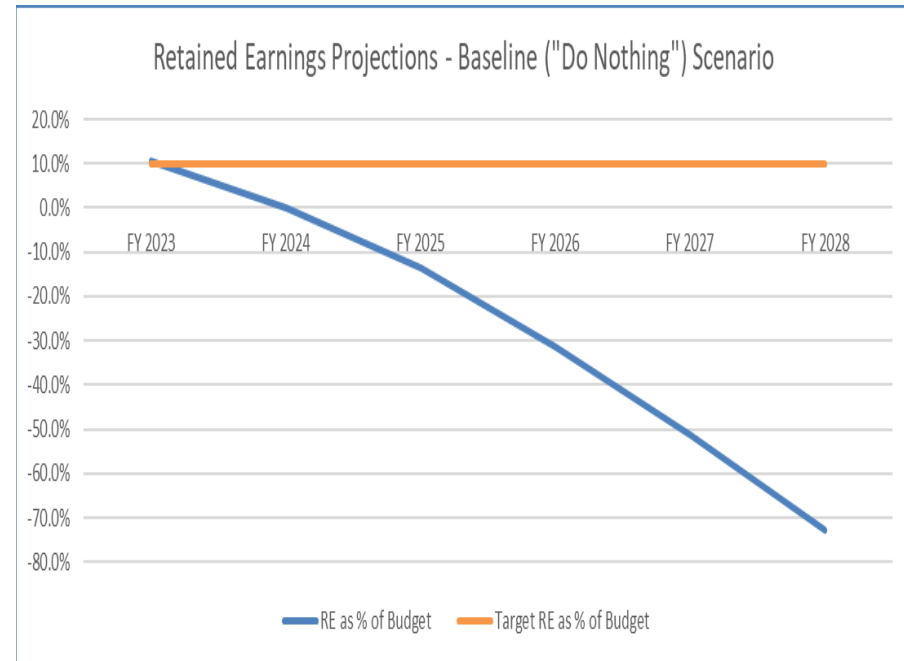
|                       | FY 2024     | FY 2025     | FY 2026     | FY 2027     | FY 2028     |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Salaries              | -6.4%       | 2.5%        | 2.5%        | 2.5%        | 2.5%        |
| MWRA Assessment       | 8.4%        | -0.4%       | 3.9%        | 3.9%        | 3.9%        |
| Debt                  | -9.8%       | 31.2%       | 21.2%       | -0.5%       | -3.7%       |
| Other Expenses        | 9.9%        | 2.1%        | 2.1%        | 2.1%        | 2.1%        |
| <b>Total Expenses</b> | <b>5.3%</b> | <b>3.9%</b> | <b>6.1%</b> | <b>2.8%</b> | <b>2.3%</b> |

- Notable Impacts:
  - MWRA assessment up significantly for FY24, after average increase of 4.9% the prior 5 years
  - Impact of debt service related to capital plan significant over next few years
  - Capital outlay up \$20k in FY24 (25%), indirects up \$30k (5%)

# Where Are We Now?

| Description                         | Projected<br>FY 2024 | Projected<br>FY 2025  | Projected<br>FY 2026  | Projected<br>FY 2027  | Projected<br>FY 2028  |
|-------------------------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Revenues and OFS              | \$ 7,523,222         | \$ 7,523,222          | \$ 7,523,222          | \$ 7,523,222          | \$ 7,523,222          |
| Total Expenditures and OFU          | \$ 8,382,980         | \$ 8,709,374          | \$ 9,238,489          | \$ 9,494,992          | \$ 9,711,360          |
| <b>Excess (Deficiency)</b>          | <b>\$ (859,758)</b>  | <b>\$ (1,186,152)</b> | <b>\$ (1,715,267)</b> | <b>\$ (1,971,770)</b> | <b>\$ (2,188,138)</b> |
| <b>Retained Earnings Summary</b>    |                      |                       |                       |                       |                       |
| Projected RE at start of FY         | \$ 852,584           | \$ (7,174)            | \$ (1,193,326)        | \$ (2,908,593)        | \$ (4,880,363)        |
| Current Year Surplus (Deficit)      | \$ (859,758)         | \$ (1,186,152)        | \$ (1,715,267)        | \$ (1,971,770)        | \$ (2,188,138)        |
| Projected Retained Earnings Balance | \$ (7,174)           | \$ (1,193,326)        | \$ (2,908,593)        | \$ (4,880,363)        | \$ (7,068,501)        |
| Retained Earnings % of Expenditures | -0.1%                | -13.7%                | -31.5%                | -51.4%                | -72.8%                |

- Revenues shown with no rate change
- Retained Earnings last certified at \$1.09 million, as of July 1, 2022
- Due to \$178,000 FY 2023 projected deficit, retained earnings projected to decrease to \$853,000 at year-end
- Rate action necessary to avoid depleting retained earnings and to avoid shortfalls; without rate action, retained earnings will deplete by FY 2024

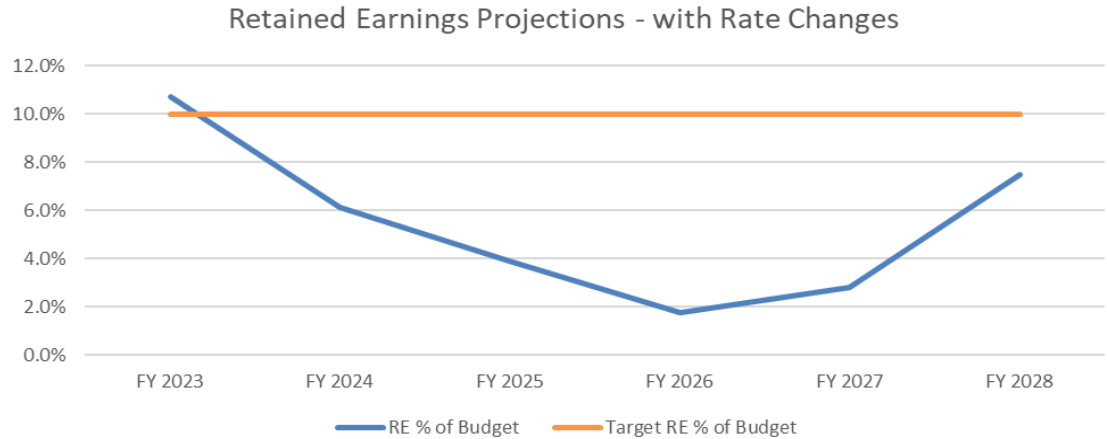




# Rate Option 1 – 7.0% Increase in FY 2024

## Five-Year Rate Plan

|         |       |
|---------|-------|
| FY 2024 | 7.00% |
| FY 2025 | 6.25% |
| FY 2026 | 6.25% |
| FY 2027 | 6.00% |
| FY 2028 | 6.00% |



| User Impact           | Usage / Bill | Current Bill | FY 2024  |         | FY 2025  |         | FY 2026  |         |
|-----------------------|--------------|--------------|----------|---------|----------|---------|----------|---------|
| User Example          |              |              | Bill     | Diff \$ | Bill     | Diff \$ | Bill     | Diff \$ |
| Tier 1 User           | 2,000        | \$ 101       | \$ 108   | \$ 7    | \$ 114   | \$ 7    | \$ 122   | \$ 7    |
| Tier 2 User           | 3,000        | \$ 154       | \$ 165   | \$ 11   | \$ 175   | \$ 10   | \$ 186   | \$ 11   |
| Avg. Residential User | 4,362        | \$ 252       | \$ 270   | \$ 18   | \$ 287   | \$ 17   | \$ 305   | \$ 18   |
| Avg. Commercial User  | 24,527       | \$2,238      | \$ 2,394 | \$ 157  | \$ 2,544 | \$ 150  | \$ 2,703 | \$ 159  |

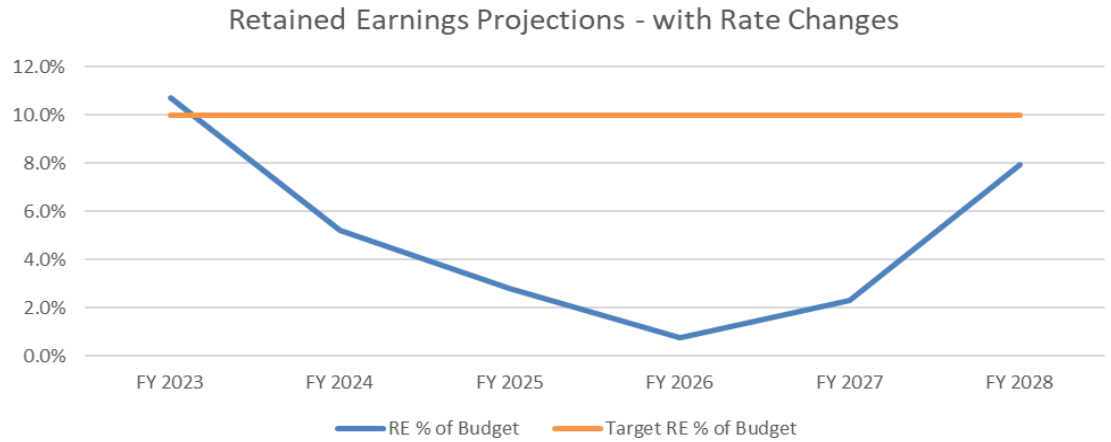
  

| User Impact           | Usage / Bill | Current Bill | FY 2027  |         | FY 2028  |         | FY 2028/FY 2023 |         |
|-----------------------|--------------|--------------|----------|---------|----------|---------|-----------------|---------|
| User Example          |              |              | Bill     | Diff \$ | Bill     | Diff \$ | Bill            | Diff \$ |
| Tier 1 User           | 2,000        | \$ 101       | \$ 129   | \$ 7    | \$ 137   | \$ 8    | \$ 137          | \$ 36   |
| Tier 2 User           | 3,000        | \$ 154       | \$ 198   | \$ 11   | \$ 209   | \$ 12   | \$ 209          | \$ 55   |
| Avg. Residential User | 4,362        | \$ 252       | \$ 323   | \$ 18   | \$ 342   | \$ 19   | \$ 342          | \$ 90   |
| Avg. Commercial User  | 24,527       | \$2,238      | \$ 2,865 | \$ 162  | \$ 3,037 | \$ 172  | \$ 3,037        | \$ 799  |

# Rate Option 2 – 6.0% Increase in FY 2024

## Five-Year Rate Plan

|         |      |
|---------|------|
| FY 2024 | 6.0% |
| FY 2025 | 7.0% |
| FY 2026 | 6.5% |
| FY 2027 | 6.5% |
| FY 2028 | 6.5% |



| User Impact           | Usage / Bill | Current Bill | FY 2024  |         | FY 2025  |         | FY 2026  |         |
|-----------------------|--------------|--------------|----------|---------|----------|---------|----------|---------|
| User Example          |              |              | Bill     | Diff \$ | Bill     | Diff \$ | Bill     | Diff \$ |
| Tier 1 User           | 2,000        | \$ 101       | \$ 107   | \$ 6    | \$ 115   | \$ 7    | \$ 122   | \$ 7    |
| Tier 2 User           | 3,000        | \$ 154       | \$ 163   | \$ 9    | \$ 175   | \$ 11   | \$ 186   | \$ 11   |
| Avg. Residential User | 4,362        | \$ 252       | \$ 267   | \$ 15   | \$ 286   | \$ 19   | \$ 304   | \$ 19   |
| Avg. Commercial User  | 24,527       | \$2,238      | \$ 2,372 | \$ 134  | \$ 2,538 | \$ 166  | \$ 2,703 | \$ 165  |

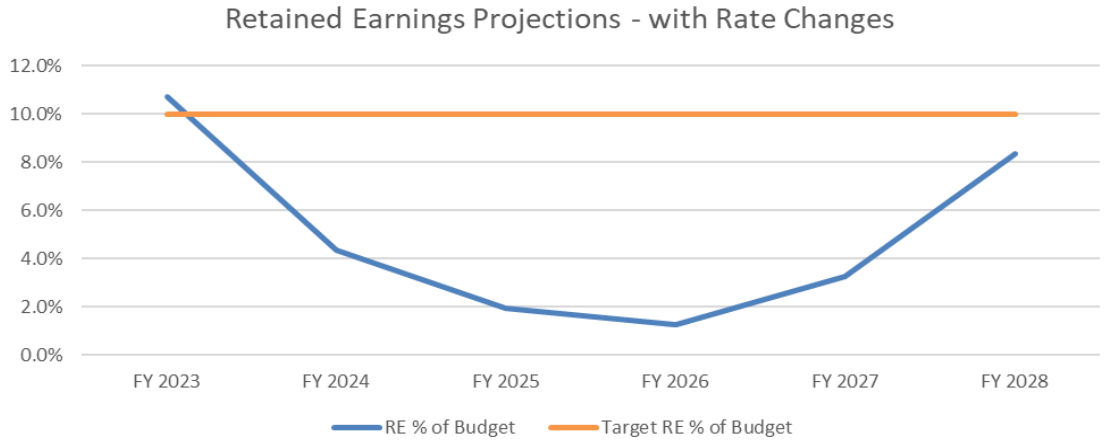
  

| User Impact           | Usage / Bill | Current Bill | FY 2027  |         | FY 2028  |         | FY 2028/FY 2023 |         |
|-----------------------|--------------|--------------|----------|---------|----------|---------|-----------------|---------|
| User Example          |              |              | Bill     | Diff \$ | Bill     | Diff \$ | Bill            | Diff \$ |
| Tier 1 User           | 2,000        | \$ 101       | \$ 130   | \$ 8    | \$ 138   | \$ 8    | \$ 138          | \$ 37   |
| Tier 2 User           | 3,000        | \$ 154       | \$ 198   | \$ 12   | \$ 211   | \$ 13   | \$ 211          | \$ 57   |
| Avg. Residential User | 4,362        | \$ 252       | \$ 324   | \$ 20   | \$ 345   | \$ 21   | \$ 345          | \$ 93   |
| Avg. Commercial User  | 24,527       | \$2,238      | \$ 2,879 | \$ 176  | \$ 3,066 | \$ 187  | \$ 3,066        | \$ 828  |

# Rate Option 3 – 5.0% Increase in FY 2024

## Five-Year Rate Plan

|         |      |
|---------|------|
| FY 2024 | 5.0% |
| FY 2025 | 8.0% |
| FY 2026 | 8.0% |
| FY 2027 | 5.5% |
| FY 2028 | 5.5% |



| User Impact           | Usage / Bill | Current Bill | FY 2024  |         | FY 2025  |         | FY 2026  |         |
|-----------------------|--------------|--------------|----------|---------|----------|---------|----------|---------|
| User Example          |              |              | Bill     | Diff \$ | Bill     | Diff \$ | Bill     | Diff \$ |
| Tier 1 User           | 2,000        | \$ 101       | \$ 106   | \$ 5    | \$ 115   | \$ 8    | \$ 124   | \$ 9    |
| Tier 2 User           | 3,000        | \$ 154       | \$ 162   | \$ 8    | \$ 175   | \$ 13   | \$ 189   | \$ 14   |
| Avg. Residential User | 4,362        | \$ 252       | \$ 265   | \$ 13   | \$ 286   | \$ 21   | \$ 309   | \$ 23   |
| Avg. Commercial User  | 24,527       | \$2,238      | \$ 2,350 | \$ 112  | \$ 2,538 | \$ 188  | \$ 2,741 | \$ 203  |

| User Impact           | Usage / Bill | Current Bill | FY 2027  |         | FY 2028  |         | FY 2028/FY 2023 |         |
|-----------------------|--------------|--------------|----------|---------|----------|---------|-----------------|---------|
| User Example          |              |              | Bill     | Diff \$ | Bill     | Diff \$ | Bill            | Diff \$ |
| Tier 1 User           | 2,000        | \$ 101       | \$ 131   | \$ 7    | \$ 138   | \$ 7    | \$ 138          | \$ 37   |
| Tier 2 User           | 3,000        | \$ 154       | \$ 199   | \$ 10   | \$ 210   | \$ 11   | \$ 210          | \$ 56   |
| Avg. Residential User | 4,362        | \$ 252       | \$ 326   | \$ 17   | \$ 344   | \$ 18   | \$ 344          | \$ 92   |
| Avg. Commercial User  | 24,527       | \$2,238      | \$ 2,892 | \$ 151  | \$ 3,051 | \$ 159  | \$ 3,051        | \$ 813  |