

# Town of Saugus FY2019 Water Rates Update

The Abrahams Group

May 2018

# 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.

	Water Rate Increases	
	Recommended	Voted
<b>FY 2017</b>	9.5%	9.5%
<b>FY 2018</b>	2.5%	2.5%

# 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

# Rates-Setting Drivers

- Projected water expenses % increases/decreases are shown here:

	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
Salaries	4.31%	2.50%	2.50%	2.50%	2.50%
Debt	0.28%	13.30%	12.72%	15.51%	-6.55%
Other Expenses	1.92%	4.31%	3.53%	3.54%	3.55%
<b>Total</b>	<b>1.79%</b>	<b>5.54%</b>	<b>4.94%</b>	<b>5.52%</b>	<b>1.62%</b>



# Water FY2018 Review

<b>FISCAL YEAR 2018</b>	<b>May 2017</b>	<b>May 2017</b>	<b>May 2018</b>
<b>WATER ENTERPRISE</b>	<b>Recommended 2.5%</b>	<b>Voted 2.5%</b>	<b>Projected 2.5%</b>
<b>FUND REVIEW</b>	<b>FY 2018</b>	<b>FY 2018</b>	<b>FY 2018 to date</b>
Revenues	\$ 6,629,953	\$ 6,629,953	\$ 6,565,561
Retained Earnings Planned	\$ -	\$ -	\$ -
<b>Total Revenues and Available Funds</b>	<b>\$ 6,629,953</b>	<b>\$ 6,629,953</b>	<b>\$ 6,565,561</b>
<b>Expenditures</b>	<b>\$ 6,504,844</b>	<b>\$ 6,504,844</b>	<b>\$ 6,504,844</b>
<b>Surplus/(Deficit)</b>	<b>\$ 125,109</b>	<b>\$ 125,109</b>	<b>\$ 60,717</b>
<b>Retained Earnings Projections</b>			
Retained Earnings at Start of FY 2018	\$ 1,337,456	\$ 1,337,456	\$ 1,618,086
Surplus/(Deficit) Current FY 2018	\$ 125,109	\$ 125,109	\$ 60,717
<b>Projected Retained Earnings at End of FY</b>	<b>\$ 1,462,564</b>	<b>\$ 1,462,564</b>	<b>\$ 1,678,803</b>
<b>Retained Earnings as % of Oper. Budget</b>	<b>22.48%</b>	<b>22.48%</b>	<b>25.81%</b>
Retained Earnings at the start of FY 2018 projected in May 2017; certified amount known in May 2018.			

# Water Baseline

	Budgeted	Projected	Projected	Projected	Projected
Description	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total Revenues and OFS	\$ 6,565,561	\$ 6,565,561	\$ 6,565,561	\$ 6,565,561	\$ 6,565,561
Total Expenditures and OFU	\$ 6,621,418	\$ 6,988,145	\$ 7,333,021	\$ 7,738,144	\$ 7,863,820
<b>Excess (Deficiency)</b>	<b>\$ (55,857)</b>	<b>\$ (422,584)</b>	<b>\$ (767,460)</b>	<b>\$ (1,172,583)</b>	<b>\$ (1,298,259)</b>
<b>Retained Earnings Summary FY19-FY23</b>					
RE at start of FY	\$ 1,678,803	\$ 1,622,946	\$ 1,200,362	\$ 432,902	\$ (739,681)
Current Year Surplus (Deficit)	\$ (55,857)	\$ (422,584)	\$ (767,460)	\$ (1,172,583)	\$ (1,298,259)
Projected Retained Earnings Balance	\$ 1,622,946	\$ 1,200,362	\$ 432,902	\$ (739,681)	\$ (2,037,940)
Retained Earnings % of Expenditures	24.5%	17.2%	5.9%	-9.6%	-25.9%
<b>Retained Earnings FY17/FY18</b>					
Certified Retained Earnings June 30, 2017	\$ 1,618,086				
Projected FY18 Surplus/(Deficit)	\$ 60,717				
Projected Retained Earnings June 30, 2018	\$ 1,678,803				

- 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.

# Water Option 1 – Level Rate Increases

## Target 15% Retained Earnings

Option 1 would increase rates annually as shown on the right. It would result in a positive retained earnings balance in each of the five years, 15% retained earnings when compared to the budget in FY23, and would impact users as shown below.

Updated Rates	
Year	Rate Incr %
FY2019	3.5%
FY2020	3.5%
FY2021	3.5%
FY2022	3.5%
FY2023	3.5%

User Impact	Usage / Bill	FY18 Bill	FY19		FY20		FY21	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 89	\$ 92	\$ 3	\$ 95	\$ 3	\$ 98	\$ 3
Tier 2 User	3,000	\$ 136	\$ 141	\$ 5	\$ 146	\$ 5	\$ 151	\$ 5
Avg. Residential User	4,362	\$ 222	\$ 230	\$ 8	\$ 238	\$ 8	\$ 246	\$ 8
Avg. Commercial User	24,527	\$1,970	\$ 2,039	\$ 69	\$ 2,110	\$ 71	\$ 2,184	\$ 74
User Impact	Usage / Bill	FY18 Bill	FY22		FY23		FY23/FY18	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 89	\$ 102	\$ 3	\$ 105	\$ 4	\$ 105	\$ 17
Tier 2 User	3,000	\$ 136	\$ 156	\$ 5	\$ 161	\$ 5	\$ 161	\$ 26
Avg. Residential User	4,362	\$ 222	\$ 255	\$ 9	\$ 264	\$ 9	\$ 264	\$ 42
Avg. Commercial User	24,527	\$1,970	\$ 2,260	\$ 76	\$ 2,339	\$ 79	\$ 2,339	\$ 370

# Water Option 2 – Level Rate Increases

## Target 10% Retained Earnings

Option 2 would increase rates annually as shown on the right. It would result in a positive retained earnings balance in each of the five years, 10% retained earnings when compared to the budget in FY23, and would impact users as shown below.

Updated Rates	
Year	Rate Incr %
FY2019	3.0%
FY2020	3.0%
FY2021	3.0%
FY2022	3.0%
FY2023	3.0%

User Impact	Usage / Bill	FY18 Bill	FY19		FY20		FY21	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 89	\$ 91	\$ 3	\$ 94	\$ 3	\$ 97	\$ 3
Tier 2 User	3,000	\$ 136	\$ 140	\$ 4	\$ 144	\$ 4	\$ 149	\$ 4
Avg. Residential User	4,362	\$ 222	\$ 229	\$ 7	\$ 236	\$ 7	\$ 243	\$ 7
Avg. Commercial User	24,527	\$1,970	\$ 2,029	\$ 59	\$ 2,090	\$ 61	\$ 2,152	\$ 63
User Impact	Usage / Bill	FY18 Bill	FY22		FY23		FY23/FY18	
User Example			Bill	Diff \$	Bill	Diff \$	Bill	Diff \$
Tier 1 User	2,000	\$ 89	\$ 100	\$ 3	\$ 103	\$ 3	\$ 103	\$ 14
Tier 2 User	3,000	\$ 136	\$ 153	\$ 4	\$ 158	\$ 5	\$ 158	\$ 22
Avg. Residential User	4,362	\$ 222	\$ 250	\$ 7	\$ 257	\$ 7	\$ 257	\$ 35
Avg. Commercial User	24,527	\$1,970	\$ 2,217	\$ 65	\$ 2,283	\$ 67	\$ 2,283	\$ 314