

WATER & SEWER ENTERPRISE FUND FINANCIAL EVALUATION

Executive Summary

On an annual basis the Water & Sewer Enterprise Funds are reviewed by Financial Advisory Associates (FAA) to insure that the rates being utilized are equitable and adequate to fund the enterprise fund activities. FAA reviewed the rates again this year and expanded the review to include revenues and expenditures for a 10 year period. As always, it is important for the Enterprise Funds to fully fund themselves as any shortfall becomes the responsibility of the General Fund. In the history of the Enterprise Funds, since their inception in 1991, the Enterprise Funds have always fully funded themselves.

The rate forecast done by FAA presents estimated annual costs for the operating budget and capital requirements of each of the Enterprise Funds over a 10 year horizon. It is a planning tool which also includes an estimate of future revenue streams from new connections to the system and revenues related to new users. FAA did a comprehensive presentation of all the factors affecting each utility based on Northborough's water & sewer policies. The FAA rate study makes rate recommendations that assure each of the Enterprise funds is fully funded.

The FY 11 budgets are taken as the starting point. Each subsequent year the labor line items were increased by 3%. O & M costs were increased at a rate of 2%. Debt costs were based on the actual debt schedules. New debt was based on projected costs.

Water Enterprise Fund

The **major pressure affecting the Water Enterprise fund at this time is the Brigham Street well reactivation**. It currently has a cost of \$4.5 million dollars and will reduce the town's dependence on the MWRA. Presently, MWRA's rates are over half of the water budget and it is expected that their rates will be increasing steadily due to their need to fund the new Carroll Water Treatment facility in Marlborough/Southborough. It is important for the Water Enterprise fund to become more self sufficient from a financial standpoint as well as a requirement of our agreement with MWRA which obligates us to maximize our own sources.

The current water usage patterns were evaluated and used to insure that the cost increases were applied in accordance with users' usage patterns. The greatest number of water users was in the lowest tier, so the greatest percentage of revenue (54.4%) comes from that group. This is still the case with the new rates. The new rates generate income in the same ratio that the consumer uses water. **The rate increase in water is an average of 7%** however; small users of fewer than 8000 cubic feet per year will see a reduction due to the elimination of the administrative fee.

- ◆ 10 year review
- ◆ Projections include anticipated capital expenditures

- ◆ No increase in staffing
- ◆ Addition of Brigham St well to reduce MWRA fees
- ◆ Increases due to added users captured
- ◆ Rate increase average 7%
- ◆ Totals for lowest users will be less than previous

Sewer Enterprise Funds

The **major pressure in the Sewer Enterprise fund is the capital costs necessary to fund Northborough's portion of the Marlborough Westerly Wastewater Treatment Plant (WWTP) construction project.** The capital costs will be incurred beginning in FY 2012 for the renovation and expansion of the Marlborough Westerly WWTP. The construction is projected to cost \$40 million, 30% of which is allocated to Northborough. The approximately \$12 million dollar cost of the construction will be an additional \$650,000 yearly in debt charges. This is a 100% increase in the debt budget. This will necessitate a **20% rate increase this year and other increases in the future.** The construction is needed to address the permit requirements of the Federal Environmental Protection Agency (EPA). Every wastewater treatment plant is required to have a discharge permit from EPA. In these permits EPA sets out requirements for treatment processes and level of treatment. The most costly of the process improvements is reduction of the plant's phosphorus discharge to the river to below 0.1 milligrams per liter. The city of Marlborough had doubled their rates in anticipation of these costs.

- ◆ 10 year review
- ◆ Projections include anticipated capital expenditures
- ◆ No increase in staffing
- ◆ Substantial increase anticipated for Westerly WWTP construction
- ◆ Increases due to added users captured
- ◆ Rate increase average 20%

The rate evaluation done by FAA is once again insuring that the Enterprise Funds generate sufficient revenues to cover projected expenditures. They have also compared the current cost of service with surrounding towns and found that Northborough has not the highest, nor the lowest cost utility services. By reviewing the rates on an annual basis the town can insure that the Enterprise Funds will continue to provide the high level of service the users have come to expect.

7/8/2010