

Memorandum

To: Board of Selectmen

Martha White, Town Administrator

From: Michael Walters Young, Deputy Town Administrator

Date: Saturday, March 06, 2010

Re: FY 2011 Water & Sewer TA Proposed Budget

On February 22nd, staff presented the Town Administrator's proposed budget and solicited questions from Board members regarding the proposal for FY 2011. In addition to a refined budget which captures additional savings (items such as lower MWRA appropriation, refined health care benefits and lower capital costs), this cover memorandum serves to answer some of the questions raised at your last meeting.

Overview:

The following outlines the changes made to the Water/Sewer budget from 1/1 to today.

Changes from 1/1 to today

When originally submitted, the Water & Sewer Operations budgets had several place holder numbers which were subject to change. In particular, those included the MWRA Assessment, Indirects, Health Benefits and Capital.

MWRA Assessment: Reduction (\$295,384). The reduction is based upon the initial proposal of rates from the MWRA. Staff has forecast a 7.5% increase over FY 2010 actuals - the current proposal represents a 4% increase over FY 2010 actuals.

Indirects: Reduction: (\$56,659). The reduction is attributable to a reduction in general fund operating budgets.

Benefits: Reduction: (\$9,504). The reduction is attributable to actual rates for FY 2011 provided by the West Suburban Health Group.

Capital: Reduction: (\$188,000). All General Fund and Enterprise Fund Departments were asked to revise their capital projections to only those projects which are most necessary in FY 2011. The Water and Sewer Department has done just that. The table below shows the original requests for FY 2011, and then revised requests for Spring TM, Fall TM and FY 2012.

Changes from 1/1 to today (con't)

FY 2011 Capital Requests	Original	Spring	Fall	FY 2012
REPLACE GROUND WATER WELLS	\$ 250,000		\$ 150,000	
SEWER MAIN RELINING	\$ 150,000	\$ 150,000		
WATER METER RADIO TRANSMITTERS	\$ 100,000	\$ 100,000		
VFD INSTALLS	\$ 150,000			\$ 150,000
REPLACE W-3	\$ 25,000			\$ 25,000
REPLACE W-2	\$ 26,000	\$ 26,000		
Totals	\$ 701,000	\$ 276,000	\$ 150,000	\$ 175,000

The result is a decrease in overall capital requests from \$701,000 for FY 2011 to \$426,000. From a financing cost perspective, this means a reduction from \$500,000 to \$312,000. The breakdown of capital funding is shown below.

Rates (Used to fund \$150,000 of Debt Service for wells over 5 years - annual cost - \$36,000)	\$ 36,000
I & I Funds (Used to fund \$150,000 of sewer main relining annually)	\$ 150,000
Retained Earnings (Used for transmitters & replace W-2)	\$ 126,000
Total	\$ 312,000

Summary

All told, the revised numbers result in more than \$505,000 in budget request reductions from January 1.

	1-Jan	Today	Change
MWRA Assessment	\$ 4,683,979	\$ 4,388,595	\$ (295,384)
Indirects	\$ 2,506,416	\$ 2,449,757	\$ (56,659)
Benefits	\$ 406,757	\$ 397,253	\$ (9,504)
Capital	\$ 500,000	\$ 312,000	\$ (188,000)

Total Change	\$ (549,547)
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In light of these positive changes to Water & Sewer Enterprise expenses, administration has also refined the preliminary rate proposal first shown on February 22nd. That proposal assumed a .38% rate increase and the use of \$126,000 of Retained Earnings for capital projects. However, significant rate increases are projected for future years (please see revised page X-22); these increases are primarily attributable to capital improvements and anticipated MWRA assessment increases. Accordingly, as presented by the Town Administrator at your last discussion of this budget, the administration recommends that no retained earnings be used this year but rather be saved for future needs. Such action will help mitigate rate increase spikes.

The resulting preliminary impact on rates is detailed below for the average Single-Family Home – an increase of under 1% (0.97%) or less than \$10.00 for the year.

Rate Options for the average Single-Family House (26.57 HCF/quarter)					
2010	Tier	Combined Rate	Consumption	Qtr. Cost	
Bills	0-10	\$ 5.54	10	\$ 55.40	0.97%
	011-20	\$ 9.67	10	\$ 96.70	
	021-40	\$ 15.61	6.57	\$ 102.56	
			26.57	\$ 254.66	
2011 (draft)	Tier	Combined Rate	Consumption	Qtr. Cost	
Bills	0-10	\$ 5.59	10	\$ 55.94	
	011-20	\$ 9.76	10	\$ 97.64	
	021-40	\$ 15.76	6.57	\$ 103.55	
			26.57	\$ 257.13	
Cost increase/year over FY 2010					\$ 9.88
Cost increase/quarter over FY 2010					\$ 2.47

Questions:

- 1) Detail the impact on rates in future years of the DEP decision (under appeal) to restrict the total water usage per day available to the Town.**

Unfortunately, this is not an easy question to answer. The key impact of the DEP’s decision to limit the amount of water individuals can draw daily to 65 gallons is that the most likely casualty of such a limitation is water used for irrigation. Irrigation rates, it will be remembered, are the highest of any of the Town’s rates. Not only that, but because water used for irrigation would be banned, the lost revenue would have to be raised from the remaining water used under 65 gallons/customer/day. This means only one thing: an increase in rates for standard water/sewer users.

What makes this difficult to estimate is that it is impossible to know when dry years will occur or when the water limits would be a real problem. The table to the right shows the total gallons pumped in calendar years 2003-2009. In only two of the years does the average gallons pumped per customer/day exceed 65 gallons – 2005 & 2007.

Pump Totals

Year	Gallons Pumped
2003	1231327000
2004	1212764000
2005	1357304000
2006	1244194000
2007	1333641000
2008	1271474000
2009	1168461000

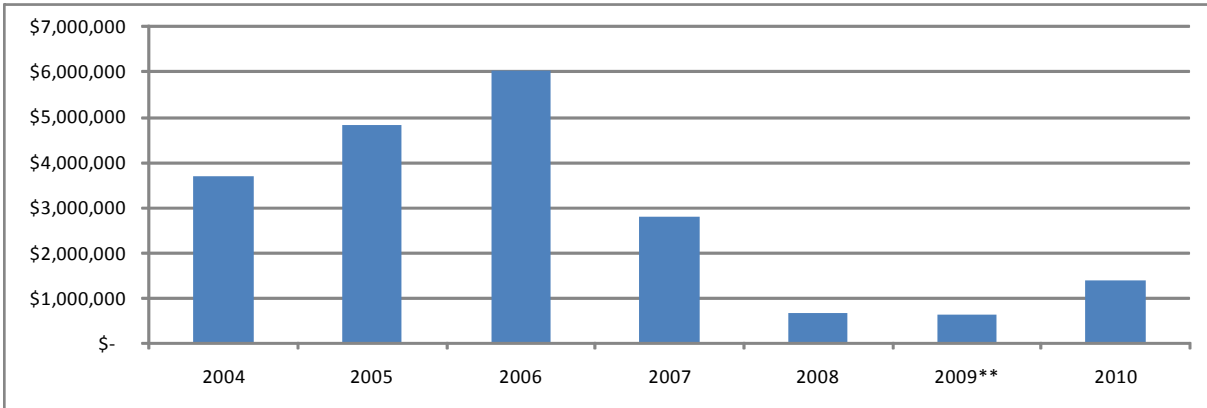
Staff will continue to refine and analyze what the impacts of the DEP decision would be on rates for individual homes. It should be stated that this decision is being appealed.

- 2) What would the impacts be on retained earnings with approval of the current TA proposed budget?**

As currently proposed (as of 3/8/2010), the FY 2011 TA Proposed budget would not use any retained earnings. Instead, capital would be financed through a mix of rate revenue and monies derived from Inflow & Infiltration work.

The current balance (FY 2010 – certification date 7/1/2009) of retained earnings is \$1,390,829. The retained earnings balances of the fund since its inception are shown below.

Retained Earnings Balances: Water Sewer Enterprise Fund: Inception to Date



Fiscal Year	2004	2005	2006	2007	2008	2009**	2010
Effective Date of Certification	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	7/1/2008	7/1/2009
Certified Retained Earnings	\$3,712,973	\$4,835,052	\$6,024,895	\$2,791,973	\$682,304	\$656,440	\$1,390,829

Finally, it should be noted that the Town Administrator’s recommended financial policies for the Water & Sewer Enterprise Fund advocate maintaining between \$1,000,000-\$2,000,000 in reserve as an operating reserve. The current amount of retained earnings falls within that threshold.

3) Please provide detail of the projects listed on the revised capital request list.

Please see further detail on capital projects below:

FY 2011 Capital Requests	Original	Spring	Fall
REPLACE GROUND WATER WELLS	\$ 250,000		\$150,000
1 This request is to begin replacing ground water wells throughout the system. The benefits of this capital improvement would be increase water flow to the treatment plant, assist in keeping the reservoirs full at peak demand time in the summer time and improve the efficiency and management of the communities 10 wells. The original request of \$250,000 can be reduced to \$150,000. This reduction is a reflection on the low contractor pricing we received during the first phase of this project and a more timely approach to the well replacements.			
SEWER MAIN RELINING	\$ 150,000	\$150,000	
2 This is a request for annual sewer main relining. Once the funding is approved, we would then TV and inspect problem sewer mains and prioritize the relining based upon need. This process helps prevent pipe collapse and stop groundwater infiltration and tree root infestation. The department is focusing on lines that cross easements where pipe replacement is difficult.			
WATER METER RADIO TRANSMITTERS	\$ 100,000	\$100,000	
3 The existing water meter radio transmitters were installed between 5-8 years ago and are beginning to reach their end of life cycle. These transmitters are crucial for maintaining timely reads of customers water usage, and thus key to the billing cycle and the ability to determine problems within the system. This proposal would begin a multi-year replacement cycle (between \$100,000-\$250,000 annually) for the next 5 years to allow the purchase, installation and replacement of all transmitters throughout Natick. The replacement transmitters should last for up to 15 years once replaced.			
REPLACE W-2	\$ 26,000	\$ 26,000	
4 W-2 is a 1999 Ford Explorer utilized daily in the operation of the Water/Sewer Division. The vehicle has 77,000 miles. The vehicle suffers from body rot and rust. The department is currently reviewing the hybrid option. Absent a grant, the hybrid is not the most cost effective option. This request is for a Ford Escape or a Ford F150.			
Totals	\$526,000	\$276,000	\$150,000

4) Please provide detail of the indirect costs and reasons for change from FY 2010 to FY 2011.

The revised indirects (in detail) are provided below. Indirect costs, as defined by the Massachusetts Department of Revenue, are “costs of a service not reflected in the operating budget of the entity providing the service.” Simply, they are charges assessed to the Water & Sewer Enterprise Fund for services performed by general fund departments. In nearly all cases,

the indirects assessed are based upon the time that general fund personnel spent on water & sewer related functions or expenses budgeted in the general fund that are directly attributable to activities of the enterprise fund.

PERCENTAGE ALLOCATIONS	PERSONNEL	FRINGE	EXPENSES	TOTAL	Percent Allocation	Function
DPW ADMINISTRATION	\$ 57,402	\$ 22,101	\$ 13,868	\$ 93,371	33.3%	DPW ADMIN. (% W&S OF TOTAL DPW BUDGETS)(NET GIS SUPPLIES)
BUILDING MAINTENANCE	48,085	18,514	57,813	124,412	12.5%	BLDG MAINT (%W&S EST GROSS OF ANNUAL TOTAL BUDGET)
ENGINEERING SERVICES	236,957	91,234	66,603	394,794	66.7%	ENGINEERING (EST AT 66% W&S SERVICES)
GIS SERVICES	(46,885)	(18,052)	-	(64,937)	25.0%	GIS ACTIVITIES SUPPORTING THE GENERAL FUND
EQUIPMENT MAINTENANCE	197,712	76,123	105,760	379,595	40.0%	EQUIPMENT MAINT. (EST % ALLOCATION FOR W&S)
HIGHWAY MAINTENANCE	61,784	23,788	87,664	173,236	5.0%	HIGHWAY
POLICE	107,173	41,264	4,561	152,998	2.0%	POLICE
FIRE	125,725	48,407	3,258	177,390	2.0%	FIRE
STREET LIGHTING	-	-	5,646	5,646	2.0%	STREETLIGHTS
PUBLIC SAFETY (sub-total)	232,898	89,671	13,465	336,034		
ASSESSING	34,162	13,153	14,475	61,790	12.5%	ASSESSING
TOWN ADMINISTRATOR	62,946	24,236	20,813	107,995	12.5%	TOWN ADMINISTRATOR
COMMUNITY DEVELOPMENT	67,547	26,007	3,320	96,874	12.5%	COMMUNITY DEVELOPMENT
INFORMATION TECHNOLOGY	27,402	10,550	77,013	114,965	12.5%	INFORMATION TECHNOLOGY
TREASURER	11,229	4,323	7,594	23,146	12.5%	TREASURER
TREASURER	19,127	7,364	-	26,491	35.0%	TREASURER
COLLECTOR	(22,294)	(8,584)	-	(30,878)	50.0%	COLLECTOR
COLLECTOR	42,549	16,382	-	58,931	35.0%	COLLECTOR
COMPTROLLER	33,911	13,056	3,144	50,111	12.5%	COMPTROLLER
ANNUAL REPORT	-	-	625	625	12.5%	ANNUAL REPORT
LEGAL SERVICES	-	-	34,188	34,188	12.5%	LEGAL SERVICES
FINANCE/ADMINISTRATION (sub-total)	276,579	106,487	161,172	544,238		
DEBT SERVICE	-	-	79,894	79,894	5.0%	MUNICIPAL COMPLEX DEBT SERVICE
PROPERTY INSURANCE	-	-	198,460	198,460	40.0%	PROPERTY INSURANCE
ELECTRIC / NATURAL GAS	-	-	38,060	38,060	5.0%	ENERGY ELECTRIC / NATURAL GAS
GASOLINE / DIESEL	-	-	152,600	152,600	40.0%	ENERGY GASOLINE / DIESEL
ENERGY (sub-total)	-	-	190,660	190,660		
INDIRECTS TOTAL	1,064,532	409,866	975,359	2,449,757		