

Water & Sewer Rate Setting FY 2012

Natick Board of Selectmen

May 9, 2011



Town of Natick

Water/Sewer Rate Setting for FY 2012 – May 9, 2011

Overview

- Overview of Enterprise Fund & Rate Setting
- Review of the Fund
- Rate Options
- Future Year Considerations
- Recommendations



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Overview of Enterprise Fund & Rate Setting:

- Rates are set by the Board of Selectmen in their role as the Water & Sewer Commissioners for the Town of Natick.
- Mass. Department of Revenue requires that revenues must match appropriated expenses in order to approve tax recapitulation in December for all funds – including Enterprise.
- Therefore rates must be set timely to ensure that sufficient revenues are planned to meet the expenses of the fund.



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Overview of Enterprise Fund & Rate Setting:

- FY 2012 Rates are based on a model which uses actual usage data from FY 2006-2010.
- Staff averaged the usage for these five years and then applied the rates as proposed in each option to every one of the 51,000+ reads to obtain a purely data-driven model for rate revenues.
- All rate options are shown at 93.2% of what is billed. This reduction factor is to account for the average amount that is not collected in the same Fiscal Year in which it is billed.



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Overview of Enterprise Fund & Rate Setting:

- Water & Sewer Enterprise Funds are driven by an expense-first model – that is operating & capital expenses are developed, discussed and voted upon, and revenues are raised to meet those expenses.
 - Began last winter with the development of the Water/Sewer Enterprise Budget.
 - Expenses discussed at length from January to their approval at Town Meeting in April 2011.
 - Overall Budget is 1.29% higher than FY 2011.
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Review of the Fund:

(pages 4-5)

- Overall Usage Slightly Lower in FY 2011 over FY 2010
- FY 2011 Revenues will not meet forecasts; due to decrease in usage
- FY 2010 Expenses will be under budget
- **Net impact: Fund should breakeven /turn slight turnback (not draw on Retained Earnings)**



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Rate Options:

Overview

FY 2012 overall expenses (operating & capital) are 1.29% higher than in FY 2011. To break even, an additional \$5,279 would be needed from rates, or 0.04%. **Effectively, no increase in rates is required.**

	2011 Appropriated	2012 Appropriated	2011 vs. 2012	
			\$	%
Water/Sewer Enterprise Fund				
Revenues				
User Charges	12,434,498	12,439,776	5,279	0.04%
Connection Fees	170,000	170,000	-	0.00%
Other Departmental Income	750,000	750,000	-	0.00%
Investment Income	45,000	45,000	-	0.00%
Capital Article Closeouts	150,000	-	(150,000)	-100.00%
Retained Earnings	-	320,000	320,000	0.00%
Total Revenues	13,549,498	13,724,776	175,279	1.29%
Expenses				
Sewer	5,257,828	5,400,762	142,934	2.72%
Water	2,081,463	2,072,570	-8,893	-0.43%
Utility Billing	222,566	224,318	1,752	0.79%
Fringe Benefits	627,468	630,025	2,558	0.41%
Debt Service	2,398,416	2,341,218	-57,198	-2.38%
Reserve Fund	200,000	200,000	0	0.00%
Indirects (included in G/F)	2,449,757	2,535,883	86,126	3.52%
Capital	312,000	320,000	8,000	2.56%
Total Expenses	13,549,498	13,724,776	175,279	1.29%



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Rate Proposal:

(pages 11-14)

Option A: Status Quo

- No increase in rates
- No change in tiers
- No increase to build retained earnings

Overall Proposed Rate Increase: 0%



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Rate Proposal:

(pages 15-18)

Option B: Leveling of Tiers

- 6.5%-10% increase in Tiers 1 & 2, nominal increase in Tier 3; 1-2% decrease in Tier 4
- Rates meet expenses
- No increase to build retained earnings

Overall Proposed Rate Increase: 0%



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Rate Proposal:

(pages 19-22)

Option C: Reserve Building

- Increase in rates across all tiers to build reserves
- No change in tiers
- Would ensure (barring a catastrophic event) rate increases no more than 4.5% for the next 3 years

Overall Proposed Rate Increase: 3.5%



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Alternatives Not Considered:

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- Expansion of Discounted Rate Programs
- Averaging of Irrigation Meters
- Averaging of Laundromats



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Future Year Considerations

FY 2013-Beyond

(page 25-26)

- MWRA Assessments, Pension costs and Debt Service all will increase (*known*)
- DEP limitations may cap available water use and thus force rate increases upon ratepayers (*unknown*)



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Future Year Considerations

Policies:

(page 58)

- The Water/Sewer Enterprise Fund should have adopted Financial Management policies.
- To follow recommended guidelines in those policies, rates would not need to be raised, but future budgeting and rate proposals would be shaped & guided by those policies.



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Rate Recommendation:

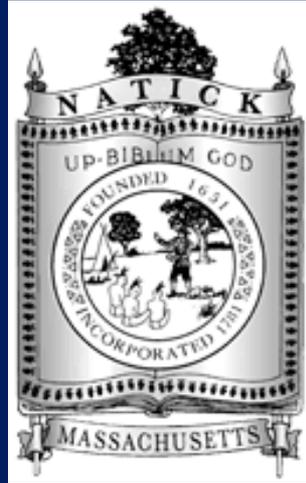
(page 28)

Staff recommends the Board of Selectmen pursue Option A for FY 2012. Although there is merit in pursuing the building of reserves so as to level out future rate increases, the fund is stable and reserves are sufficient at this point in time.

Policy Recommendation:

(page 58)

Staff strongly recommends the Board of Selectmen adopt formal financial management policies as outline on Attachment I. This will allow greater financial control of the fund and assist administration in the active management of the fund.



Thank You

Town of Natick

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