



Memorandum

To: Board of Selectmen

From: Martha White, Town Administrator
 Michael Young, Deputy Town Administrator
 Robert Palmer, Finance Director

Date: June 2, 2008

Re: Answers to Requested Information regarding Water/Sewer Rates

As per your request, staff has gathered the following responses to requests for information to aide you in your decision making for the Water/Sewer Rate Setting. These are intended to answer questions which various Board members have raised over the last several meetings over a variety of topics. Each question is provided below and on succeeding pages along with staff's response.

Questions

- 1) Can a detailed demonstration of expenses be provided? What is it that is driving spending up? Can these expenses be reduced in lieu of rate increases?
 - a. The Table on the next page details all expenses as voted by Town Meeting for the Water/Sewer Enterprise Fund. Those expenses marked with an asterisk (*) are fixed and we are legally obligated to meet those appropriations in the upcoming fiscal year.

| Expenditure Summary | FY08 | FY09 | FY08 - FY09 \$\$ Difference | FY08 - FY09 %% Change |
|--|---------|---------|--------------------------------|--------------------------|
| Operational Budget | | | | |
| Sewer Expenditures <i>(Voted Motion H1 - Spring 2008 TM)</i> | | | | |
| Salaries Supervisory (1.5 staff members) | 112,404 | 116,917 | 4,513 | 4.01% |
| Salaries Operational Staff (10 staff members) | 441,495 | 443,721 | 2,226 | 0.50% |
| Salaries Temp Oper. - Police Details | 5,000 | 5,000 | - | 0.00% |
| Supervisory Additional Comp | 13,275 | 12,550 | (725) | -5.46% |

| Expenditure Summary | FY08 | FY09 | FY08 - FY09 \$\$ Difference | FY08 - FY09 %% Change |
|--|------------------|------------------|--|----------------------------------|
| Operational Staff Additional Comp | 31,485 | 31,485 | - | 0.00% |
| Operational Staff Overtime | 56,162 | 56,162 | - | 0.00% |
| <i>sub-total Personal Services</i> | <i>659,821</i> | <i>665,835</i> | <i>6,014</i> | <i>0.91%</i> |
| Repairs & Mant. Equipment | 2,000 | 2,000 | - | 0.00% |
| Repairs & Maint. Other | 3,000 | 3,000 | - | 0.00% |
| Utilities Electric | 137,000 | 137,000 | - | 0.00% |
| <i>sub-total Purchase of Services</i> | <i>142,000</i> | <i>142,000</i> | - | <i>0.00%</i> |
| Licenses - CDL & Special | 1,000 | 1,000 | - | 0.00% |
| Clothing Allowance Operational Staff | 3,500 | 3,500 | - | 0.00% |
| <i>sub-total Other Services, etc.</i> | <i>4,500</i> | <i>4,500</i> | - | <i>0.00%</i> |
| Tech & Prof Svs & MWRA Sulfide Testing | 10,000 | 10,000 | - | 0.00% |
| <i>sub-total Technical & Professional Services</i> | <i>10,000</i> | <i>10,000</i> | - | <i>0.00%</i> |
| Repairs & Maint. Misc. Constr. | 4,000 | 4,000 | - | 0.00% |
| <i>sub-total Supplies</i> | <i>4,000</i> | <i>4,000</i> | - | <i>0.00%</i> |
| Sewer Pump Station/Line Maintenance | 35,000 | 50,000 | 15,000 | 42.86% |
| MWRA Sewer Assessment | 4,550,782 | 4,052,855 | (497,927) | -10.94% |
| Water/Sewer Damage Claims | 5,000 | 5,000 | - | 0.00% |
| <i>sub-total Other Charges/MWRA</i> | <i>4,590,782</i> | <i>4,107,855</i> | <i>(482,927)</i> | <i>-10.52%</i> |
| Total Sewer Expenditures | 5,411,103 | 4,934,190 | (476,913) | -8.81% |
| Water Expenditures (Voted Motion H2 - Spring 2008 TM) | | | | |
| Salaries Supervisory (2.5 Staff members) | 189,170 | 198,002 | 8,832 | 4.67% |
| Salaries Operational Staff (13 staff members) | 569,329 | 581,853 | 12,524 | 2.20% |
| Salaries Temp Operational | 20,000 | 20,000 | - | 0.00% |
| Supervisory Additional Comp | 22,825 | 26,050 | 3,225 | 14.13% |
| Operational Staff Additional Comp | 32,650 | 32,650 | - | 0.00% |
| Operational Staff Overtime | 42,435 | 43,700 | 1,265 | 2.98% |
| <i>sub-total Personal Services</i> | <i>876,409</i> | <i>902,255</i> | <i>25,846</i> | <i>2.95%</i> |
| Repairs & Maint. Software | 10,000 | 10,000 | - | 0.00% |
| Utilities Electric | 536,000 | 551,000 | 15,000 | 2.80% |
| GIS Software & Training | 25,500 | 25,500 | - | 0.00% |
| Copy/Mail Center Fees | 12,000 | 12,000 | - | 0.00% |
| Purchased Services: Miscellaneous | 10,000 | 10,000 | - | 0.00% |
| <i>sub-total Purchase of Services</i> | <i>593,500</i> | <i>608,500</i> | <i>15,000</i> | <i>2.53%</i> |
| Licenses - CDL & Special | 5,600 | 5,600 | - | 0.00% |
| Clothing Allowance Operational Staff | 4,200 | 4,200 | - | 0.00% |
| <i>sub-total Other Services, etc.</i> | <i>9,800</i> | <i>9,800</i> | - | <i>0.00%</i> |
| Implement SDWA Amendment | 20,000 | 20,000 | - | 0.00% |
| Water Testing | 20,000 | 20,000 | - | 0.00% |
| <i>sub-total Technical & Professional Services</i> | <i>40,000</i> | <i>40,000</i> | - | <i>0.00%</i> |
| Repairs & Maint - Equipment | 3,000 | 3,000 | - | 0.00% |
| Repairs & Maint - Facilities | 2,000 | 2,000 | - | 0.00% |
| Repairs & Maint - Hydrants | 10,000 | 10,000 | - | 0.00% |
| Repairs & Maint - Misc. Repairs | 18,000 | 18,000 | - | 0.00% |
| Repairs & Maint - Misc. Constr | 18,000 | 18,000 | - | 0.00% |
| <i>sub-total Supplies</i> | <i>51,000</i> | <i>51,000</i> | - | <i>0.00%</i> |
| Chemical Supplies | 100,000 | 100,000 | - | 0.00% |

| Expenditure Summary | FY08 | FY09 | FY08 - FY09 \$\$ Difference | FY08 - FY09 %% Change |
|---|------------------|------------------|--|----------------------------------|
| Obsolete Meters | 20,000 | 20,000 | - | 0.00% |
| Service Connections | 13,000 | 13,000 | - | 0.00% |
| <i>sub-total Other Supplies</i> | <i>133,000</i> | <i>133,000</i> | <i>-</i> | <i>0.00%</i> |
| Water Well/Water Line Maint. | 35,000 | 150,000 | 115,000 | 328.57% |
| New Hydrant Installation | 10,000 | 10,000 | - | 0.00% |
| Asphalt Crushing | 9,000 | 9,000 | - | 0.00% |
| Legal Services - Litigation | - | - | - | #DIV/0! |
| DEP Assessment | 14,000 | 14,000 | - | 0.00% |
| MWRA Discharge Permit | 2,500 | 2,500 | - | 0.00% |
| <i>sub-total Other Charges/MWRA</i> | <i>70,500</i> | <i>185,500</i> | <i>115,000</i> | <i>163.12%</i> |
| Total Water Expenditures | 1,774,209 | 1,930,055 | 155,846 | 8.78% |
| <i>Total Utility Billing (Voted Motion H5 - Spring 2008 TM)</i> | | | | |
| Salaries Operational Staff (2 staff members) | 83,129 | 89,408 | 6,279 | 7.55% |
| Part-Time Operational Staff (.1 staff members) | - | 4,808 | 4,808 | #DIV/0! |
| Operational Staff - Additional Comp | - | 346 | 346 | #DIV/0! |
| Operational Staff Overtime | 165 | 2,000 | 1,835 | 1115.58% |
| <i>sub-total Personal Services</i> | <i>83,294</i> | <i>96,562</i> | <i>13,268</i> | <i>15.93%</i> |
| Repair & Maint Equipment | 378 | 4,000 | 3,623 | 959.60% |
| In State Travel/Meetings | - | 500 | 500 | #DIV/0! |
| Training & Education | 2,400 | 2,500 | 100 | 4.17% |
| Communication Telephone | 904 | 1,500 | 596 | 65.86% |
| Communication Postage | 18,444 | 20,000 | 1,556 | 8.44% |
| Collection Activities | 160 | 10,000 | 9,840 | 6150.00% |
| Copy/Mail Center Fees | 34,121 | 33,000 | (1,121) | -3.28% |
| <i>sub-total Purchase of Services</i> | <i>56,406</i> | <i>71,500</i> | <i>15,094</i> | <i>26.76%</i> |
| Audit Water/Sewer | 13,000 | - | (13,000) | -100.00% |
| Water / Sewer Rate Study | - | - | - | #DIV/0! |
| Utility Billing Software | 8,459 | 15,000 | 6,542 | 77.34% |
| Utility Billing Printing | 44,033 | 30,200 | (13,833) | -31.42% |
| <i>sub-total Technical & Professional Services</i> | <i>65,492</i> | <i>45,200</i> | <i>(20,292)</i> | <i>-30.98%</i> |
| Office Supplies | 3,632 | 4,000 | 368 | 10.14% |
| <i>sub-total Supplies</i> | <i>3,632</i> | <i>4,000</i> | <i>368</i> | <i>10.14%</i> |
| Total Utility Billing Expenditures | 208,824 | 217,262 | 8,438 | 4.04% |
| Total Operational Budgets | 7,394,135 | 7,081,507 | (312,628) | -4.23% |
| <i>Insurance (Voted Motion H4 - 2008 Spring TM)</i> | | | | |
| FICA {Medicare} | 18,000 | 13,750 | (4,250) | -23.61% |
| Insurance Group Health & Life | 390,987 | 407,532 | 16,545 | 4.23% |
| LIUNA Pension * | 31,233 | 37,018 | 5,785 | 18.52% |
| Total Insurance | 440,220 | 458,300 | 18,080 | 4.11% |
| <i>Pension (Voted Motion H4 - 2008 Spring TM)</i> | | | | |
| Funding Schedule Requirement * | 194,483 | 203,235 | 8,752 | 4.50% |
| Total Pension | 194,483 | 203,235 | 8,752 | 4.50% |
| <i>Debt & Interest (Voted Motion H3 - 2008 Spring TM)</i> | | | | |
| Principal * | 1,319,306 | 1,629,665 | 310,359 | 23.52% |
| Interest * | 586,764 | 634,898 | 48,134 | 8.20% |
| Total Debt & Interest | 1,906,070 | 2,264,563 | 358,493 | 18.81% |

| Expenditure Summary | FY08 | FY09 | FY08 - FY09 \$\$ Difference | FY08 - FY09 %% Change |
|---|----------------------|----------------------|--|----------------------------------|
| In-Kind Services (Indirects) (Accepted Motion H8 - 2008 Spring TM) | | | | |
| DPW Administration | \$ 140,922 | \$ 149,508 | 8,586 | 6.09% |
| Building Maintenance | \$ 115,671 | \$ 122,956 | 7,285 | 6.30% |
| Engineering Services | \$ 334,638 | \$ 361,715 | 27,077 | 8.09% |
| GIS Services | \$ (57,217) | \$ (56,307) | 910 | -1.59% |
| Equipment Maintenance | \$ 365,109 | \$ 389,071 | 23,962 | 6.56% |
| Highway Maintenance | \$ 137,700 | \$ 141,577 | 3,877 | 2.82% |
| Public Safety | \$ 317,591 | \$ 342,625 | 25,034 | 7.88% |
| Financial / Administrative | \$ 562,822 | \$ 596,211 | 33,389 | 5.93% |
| Debt Service | \$ 87,440 | \$ 82,811 | (4,629) | -5.29% |
| Property Insurance | \$ 153,164 | \$ 165,416 | 12,252 | 8.00% |
| Energy | \$ 221,752 | \$ 250,762 | 29,010 | 13.08% |
| Total Indirects | 2,379,592 | 2,546,345 | 166,753 | 7.01% |
| Reserves | | | | |
| Water/Sewer Reserve Fund | 200,000 | 200,000 | - | 0.00% |
| Total Reserve Fund | 200,000 | 200,000 | - | 0.00% |
| Capital | | | | |
| <i>Capital Improvements</i> | | | | |
| Air Stripper Maintenance (Voted Article 10 - Spring 2008 TM) | | 105,000 | | |
| Pressure Filter - Media Replacement (Voted Article 10 - Spring 2008 TM) | | 210,000 | | |
| I & I Removal (Voted Article 14 - Spring 2008 TM) | | 935,000 | | |
| Sewer Main Relining (**To be voted at Fall 2008 TM**) | | 150,000 | | |
| <i>sub-total Capital Improvements</i> | 975,000 | 1,400,000 | 425,000 | 43.59% |
| <i>Capital Equipment</i> | 135,000 | - | (135,000) | -100.00% |
| Total Capital | 1,110,000 | 1,400,000 | 290,000 | 26.13% |
| TOTAL WATER & SEWER EXPENDITURES | \$ 13,624,500 | \$ 14,153,950 | 529,450 | 3.89% |

All of these expenses, with the exception of the proposed \$150,000 expenditure of Sewer Main Relining have already been approved by Town Meeting. If there is a desire to reduce expenses in FY 2009 instead of raising rates to cover appropriations, Town Meeting would need to vote to reduce those expenses along with the Board's action on rates prior to the November submission of the Tax Rates to the Department of Revenue. Failure to submit a balanced Enterprise Fund budget on the Schedule A-2 to the Department of Revenue will result in rejection of the Town's tax rate submission.

2) Could we use mall mitigation monies to offset rates?

- a. No. The monies received from GGP and any other mitigation for the construction of the Natick Collection are already dedicated for specific purposes as per the Special Permit awarded and executed by the Town and various governing bodies.

3) Could we use mall permit fees to offset rates?

- a. No. Fees received as part of the Natick Collection have been deposited into one of two places as per statute and/or Town Meeting approval: the general fund and the Natick Mall Inspectional Services Revolving Fund. Any money received in permit fees must be deposited

into the general fund and can only be used to finance appropriations once the fiscal year has closed and Free Cash has been certified by the Massachusetts Department of Revenue.

- 4) What requires the Town of Natick to have inclined block rates? Is it part of the 1992 Elm Bank Agreement between Natick and Dover, perhaps? Is it a requirement of the MWRA? Is it a requirement of the Mass. Department of Environmental Protection?
 - a. Staff has spent considerable time researching exacting what governing statute requires the Town to have inclining block rates. Although the statement was made at the last meeting that being an MWRA community requires Natick to have tiered water rates, this is only partially correct. Those communities that take Water from the MWRA are required to have inclining or tiered block rates, but since Natick has its own Water Treatment Plant, this does not apply.

The only explicit regulation prohibits descending block rates for water, the opposite of what Natick employs now. The Elm Bank Agreement of 1992 and later consent agreements co-signed by the Town of Natick and the Massachusetts Department of Environmental Protection only speak of the prohibition of descending rates.

Although explicit legal mandates for inclined rates has not been uncovered to date by staff, we remain convinced that a) inclined block rates are a primarily tool used to promote water conservation and b) inclined rates will likely be mandated in the near future by the Commonwealth of Massachusetts and eventually the U.S. Government as water continues to become an increasingly protected resource.
- 5) Is it possible to have a different tier structure for some or all master meter accounts, such that the upper usage tier is different than that for non-master meter accounts?
 - a. Although multiple tiers are possible for any use group, staff strongly advises against a proliferation of multiple tiers for multiple types of meters. The more variables you have in any rate structure, the harder it becomes to implement, operate and explain to the rate payer. Staff will continue to examine the possibility of additional or different tiers to master meters in the future, while maintaining the ongoing commitment to promoting water conservation and equity within the rates.
- 6) What are the regulations which govern Natick's responsibilities to maintain a safe and efficient water system? Do those regulations also govern the costs? Will these regulations add to costs in the future?
 - a. The Town of Natick is mandated through several documents – the ongoing series of consent agreements by Mass DEP which allow us to pump water from the Elm Bank, the original agreement between Natick and Dover known as the 'Elm Bank Agreement' from 1992, etc. which regulate the specifics as to how we can pump, treat and distribute safe and clean water to Natick residents. As regulations change from the U.S. Environmental Protection Agency and the Mass DEP, Natick continues to implement them to the benefit of the Natick community.

The costs of such mandates and regulations vary depending upon their scope and complexity. Regular monitoring is usually built into annual operating budgets as a matter of course. More complicated compliance procedures, and especially those requiring significant capital investments, are programmed into the 5-year Capital Plan.

7) What did usage do in 2008? Has it stabilized? Did it go down further?

a. The chart below shows usage for Fiscal Years 2006-2008.

| Based on FY2006 Use | | | Based on FY2007 Use | | | Based on FY2008 Use | | |
|---------------------|----------------|---------|---------------------|----------------|---------|---------------------|----------------|---------|
| CODE | USE | AVERAGE | CODE | USE | AVERAGE | CODE | USE | AVERAGE |
| ELD | 7357 | 14.48 | ELD | 6972 | 13.67 | ELD | 7379 | 14.64 |
| ELW | 1768 | 15.24 | ELW | 1726 | 14.63 | ELW | 1986 | 14.71 |
| IRR | 199534 | 25.59 | IRR | 129355 | 16.33 | IRR | 229183 | 26.62 |
| PIT | 9719 | 359.96 | PIT | 12987 | 618.43 | PIT | 16186 | 735.73 |
| SEW | 15492 | 336.78 | SEW | 11607 | 154.76 | SEW | 20942 | 265.09 |
| WAT | 200574 | 35.65 | WAT | 174904 | 30.6 | WAT | 169441 | 27.8 |
| WSM | 1153965 | 31.34 | WSM | 1047889 | 26.07 | WSM | 1183085 | 29.33 |
| Totals | 1588409 | | Totals | 1385440 | | Totals | 1628202 | |

Recorded usage in FY 2008 rose when compared with FY 2007, and slightly more than FY 2006. From a trend perspective, it is important to note that although total usage rose, this appears to be driven by irrigation usage and multi-unit/PIT meter usage. The most common user of water/sewer services – category ‘WSM’ – actually is still using less water on average in FY 2008 than in FY 2006. Staff believes that the upswing in usage is attributable to the relatively dry conditions last summer and new construction.

8) What is the history of the amount and use of Retained Earnings for the Water/Sewer Enterprise Fund?

a. Please see the table below.

| Fiscal Year | Date of Effective Certification | Retained Earnings Certified | Retained Earnings Appropriated |
|-------------|---------------------------------|-----------------------------|--------------------------------|
| FY2004 | 7/1/2003 | 3,172,973 | 658,094 |
| FY2005 | 7/1/2004 | 4,835,052 | 608,000 |
| FY2006 | 7/1/2005 | 6,024,895 | 4,025,411 |
| FY2007 | 7/1/2006 | 2,791,973 | 1,194,334 |
| FY2008 | 7/1/2007 | 2,682,304 | 2,675,000 |

The amount shown as “Retained Earnings Appropriated” is that amount appropriated for the purpose supporting either capital or operations in the fiscal year shown to the far left.