



# *Town of Winchester*

Town Manager's Office  
71 Mt. Vernon Street  
Winchester, MA 01890  
Phone: 781-721-7133  
Fax: 781-756-0505  
townmanager@winchester.us

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Board of Selectmen Meeting  
Monday, October 17, 2016

## BUSINESS

Docket Item G - 2:

Water / Sewer Rate Discussion – Mark Abrahams

### Supporting Documents:

G - 2:

Letter containing recommendations from  
Mark Abrahams, CPA, President of the  
Abrahams Group

### Action Required:

G - 2:

# THE ABRAHAMS GROUP

FOR BETTER GOVERNMENTS

October 14, 2016

Mr. Richard Howard  
Town Manager  
Town Hall  
71 Mt. Vernon Street  
Winchester, MA 01890

Dear Mr. Howard:

I am pleased to submit this report to discuss water and sewer rates for the Town of Winchester. This report contains results of an analysis on water/sewer projected revenues, expenditures, and retained earnings and is a supplement to the water and sewer rate study completed during FY 2016. After the completion of the most recent water and sewer rate study, the Town increased water and sewer rates by 4% for the last two billing periods of FY 2016 and an additional 4% for all of FY 2017 and planned to increase water and sewer rates by 4% for all of FY 2018.

## FY 2017 WATER/SEWER BUDGET

The following table contains the FY 2017 Water/Sewer Enterprise Fund budget that was approved by Town Meeting:

<b>Revenues</b>	
User Charges	\$ 4,863,730
Other Revenue (service charge, liens, etc.)	\$ 345,000
Chapter 110 Tax Levy (86.45% of Total Debt)	\$ 4,506,618
<b>Total Revenues</b>	<b>\$ 9,715,348</b>
Retained Earnings (to balance budget)	\$ 434,306
<b>Total Revenues and Available Funds</b>	<b>\$ 10,149,654</b>
<b>Expenditures</b>	
Operating Expenses (less MWRA O&M)	\$ 1,830,245
MWRA O&M	\$ 1,747,108
MWRA Debt	\$ 3,860,670
Existing Local Debt Service	\$ 1,352,306
Capital Outlay	\$ 152,000
Indirect Costs	\$ 1,207,324
<b>Total Expenditures</b>	<b>\$ 10,149,654</b>
<b>Surplus/(Deficit)</b>	<b>\$ 0</b>

52 FLANAGAN DRIVE • FRAMINGHAM, MA 01701

BETTERGOV@AOL.COM • WWW.THEABRAHAMSGROUP.COM • PHONE (508) 788-9172 • FAX (508) 788-6217

## **FY 2017 WATER/SEWER PROJECTIONS**

The following table contains FY 2017 Water/Sewer Enterprise Fund projections, much of which is taken from the FY 2017 budget:

<b>Revenues</b>	
User Charges	\$ 5,568,337
Other Revenue (service charge, liens, etc.)	\$ 345,000
Chapter 110 Tax Levy (86.45% of Total Debt)	\$ 4,506,618
<b>Total Revenues</b>	<b>\$ 10,419,955</b>
Retained Earnings (to balance budget)	\$ 434,306
<b>Total Revenues and Available Funds</b>	<b>\$ 10,854,261</b>
<b>Expenditures</b>	
Operating Expenses (less MWRA O&M)	\$ 1,830,245
MWRA O&M	\$ 1,747,108
MWRA Debt	\$ 3,860,670
Existing Local Debt Service	\$ 1,352,306
Capital Outlay	\$ 152,000
Indirect Costs	\$ 1,207,324
<b>Total Expenditures</b>	<b>\$ 10,149,654</b>
<b>Surplus/(Deficit)</b>	<b>\$ 704,608</b>

The projections show a user charges revenue number that is over \$700,000 higher than the budgeted amount. The user charges projection is based on the DPW's first-quarter billing in FY 2017, preliminary second-quarter billing in FY 2017, and third- and fourth-quarter billings in FY 2016. With FY 2017 billings not completed, the last two billings in FY 2016 were used to complete the projected year. A collections rate of 95%, which was used during the rate study during FY 2016, was used to produce the user charges number shown.

## **BASELINE SCENARIO**

Our discussions have outlined a baseline scenario with projected yearly deficits over the next five fiscal years. The following table contains the baseline, which includes projected results for FY 2017 to FY 2022 assuming no rate increase for FY 2018 or subsequent years:

Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Yearly Surplus/(Deficit)		\$ 704,608	\$ (350,639)	\$ (59,226)	\$(185,890)	\$(304,768)	\$(464,054)
Cumulative Surplus/(Deficit)		\$ 704,608	\$ 353,969	\$ 294,743	\$ 108,853	\$(195,915)	\$(659,969)
Retained Earnings Use		\$ 434,306	\$ 428,000	\$ 170,000	\$ -	\$ -	\$ 170,000
Retained Earnings Balance	\$1,512,611	\$1,782,913	\$1,004,274	\$ 775,048	\$ 589,158	\$ 284,390	\$(349,664)
Retained Earnings as % of Budget		17.57%	9.10%	7.78%	5.95%	2.86%	-3.36%

These projections include a positive retained earnings balance through FY 2021 and a negative retained earnings balance in FY 2022 and are based on certain assumptions, including the following:

- The FY 2017 projections include budgeted line items from the approved FY 2017 budget, except for the updated user charges projection detailed earlier in the report.
- User charges projections for FY 2018 to FY 2022 were determined using actual consumption, by account, from FY 2014. The recent rate increases were included in the calculations to determine the projections, as well as the 95% collections rate.
- FY 2018 projections for MWRA O&M and Debt are 10% higher than the FY 2017 MWRA assessment numbers. The high projections are included due to the Town's closing of the reservoir and increased reliance on MWRA's water due to the high demand for water during the extremely dry warmer months of 2016. FY 2019 projections for MWRA O&M and Debt are 4% higher than FY 2016's MWRA assessment numbers. These projections are based on FY 2016's assessment numbers since FY 2016's assessment is more in line with the Town's typical assessment than FY 2017's assessment and FY 2018's projected assessment since those are linked to atypically dry summers. MWRA projections for FY 2020 to FY 2022 are 4% higher than the projections used for the previous year.
- Long-term borrowings to fund upcoming capital projects have a 20-year term and a 3% interest rate. Other projects will be funded by MWRA loans, either with no interest or with a 25% loan/75% grant split, with the loan portion also being a no-interest loan.

Additionally, the Town has started its planning to satisfy the first year requirements for the State's MS4 Stormwater permit. Initial minimal capital expenditures related to this planning are included in these projections. Additional stormwater expenses will be identified during the planning process and will need to be included in any future Water/Sewer Fund analyses since stormwater expenses are funded within the Water/Sewer Fund. The Town will need to fund additional stormwater expenditures over the FY 2018 to FY 2022 and subsequent periods.

Mr. Richard Howard  
 Town Manager  
 October 14, 2016  
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**IMPACT OF PLANNED FY 2018 4% RATE INCREASE**

As a result of the most recent water and sewer rate study, the Town planned to increase water and sewer rates by 4% for consumption on or after July 1, 2017. The following table shows the amount of projected user charges revenue, projected surplus/deficit, and projected retained earnings, if this rate increase were to be implemented.

Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
User Charges Revenue		\$5,568,337	\$5,272,662	\$5,272,662	\$5,272,662	\$5,272,662	\$5,272,662
Yearly Surplus/(Deficit)		\$ 704,608	\$ (152,943)	\$ 138,470	\$ 11,805	\$ (107,073)	\$ (266,359)
Cumulative Surplus/(Deficit)		\$ (251,685)	\$ (404,628)	\$ (266,158)	\$ (254,353)	\$ (361,427)	\$ (627,785)
Retained Earnings Use		\$ 434,306	\$ 428,000	\$ 170,000	\$ -	\$ -	\$ 170,000
Retained Earnings Balance	\$1,512,611	\$1,782,913	\$1,201,969	\$1,170,439	\$1,182,244	\$1,075,171	\$ 638,812
Retained Earnings as % of Budget		17.57%	10.89%	11.74%	11.93%	10.82%	6.14%

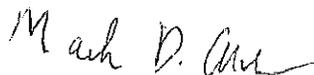
These projections include a positive retained earnings balance over the five-year period and are based on the same assumptions mentioned in the prior section. The following table contains the per-bill impact of the rate changes for certain users.

Description	Class	Usage	Current	FY18 Bill		
			Bill	\$	Diff \$	Diff %
Tier 1 User	RES	15	\$ 45.07	\$ 46.68	\$ 1.60	3.56%
Average User	RES	21	\$ 90.57	\$ 93.99	\$ 3.42	3.78%
Average User	COM	37	\$ 458.82	\$ 476.97	\$ 18.15	3.96%
Average User	IRR	74	\$ 618.19	\$ 642.72	\$ 24.53	3.97%

\* \* \* \* \*

We are pleased to provide assistance to the Town of Winchester on this important and challenging project. I will be pleased to discuss this letter with you at your earliest convenience.

Sincerely yours,



Mark D. Abrahams, CPA  
 President