

March 23, 2022

Ms. Beth Rudolph
Acting Town Manager
Town Hall
71 Mt Vernon Street
Winchester, MA 01890

Dear Ms. Rudolph:

I am pleased to submit this report summarizing the results of our analysis of and recommended rates for the next five fiscal years of the Town of Winchester's Water & Sewer Enterprise Fund's finances.

FY 2022 IN REVIEW

As a result of our work on the FY 2022 rate study last year, the Town increased its water and sewer rates 3.0% for FY 2022. In addition to the changes for FY 2022, projections showed a need to increase rates by 3.0% for FY 2023 and by 5.0% for FY 2024 through FY 2026. The Select Board supported this rate plan via a vote in March of 2021.

After a strong revenue year in FY 2021 because of heavy outdoor water usage due to very dry warm weather months and increased indoor usage because people were home more due to the COVID-19 pandemic, water consumption has decreased significantly in recent months. Water consumption billed in FY 2022 thus far is similar to what was billed in FY 2020. Both years were impacted by wet warm weather months, which greatly impacted outdoor water usage.

Anticipated water and sewer billings for FY 2022 are just below the budgeted amount of about \$6 million, which means a small deficit is projected for FY 2022. That deficit would be covered by retained earnings, lowering the available retained earnings balance to approximately \$1.8 million, which is about 14% of the FY 2022 water and sewer budget. The Town's target for a retained earnings balance is between 8% and 10% of the budget.

FY 2023 TO FY 2027 RATES RECOMMENDATION

The FY 2023 water and sewer budget is only about 2% higher than the FY 2022 water and sewer budget. The low budgetary increase is due, in large part, to the MWRA

assessment, as the Town’s preliminary water assessment decreased by 7.1% when compared to FY 2022’s assessment and the preliminary sewer assessment increased by 2.3% when compared to FY 2022’s assessment, for a total MWRA assessment decrease of 0.7%. However, a decrease in the MWRA water assessment one year typically means a corresponding large increase the following fiscal year. We also expect the MWRA sewer assessment to increase by an amount more like the 3.3% increase the Town typically sees.

If there is no rate action for FY 2023, projections show that FY 2023 will have a deficit of over \$230,000. Retained earnings can be used to cover this anticipated deficit to supplement the budget so it is balanced. If retained earnings are used to balance the budget and used, as planned, to fund MS4 stormwater permit compliance costs of \$220,000 and a \$70,000 utility truck, the Town projects to use over \$520,000 in retained earnings of the available \$1.8 million balance in FY 2023. Projected deficits for FY 2024 to FY 2027 continue to increase year over year without rate action, further depleting retained earnings.

Projected revenues with no rate action, expenditures, and deficits from FY 2023 to FY 2027 are found in the following table:

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projected Revenues (and Other Sources)	\$ 12,340,338	\$ 12,817,884	\$ 13,205,881	\$ 13,292,063	\$ 13,554,947
Projected Expenditures (and Other Uses)	\$ 12,862,523	\$ 13,801,907	\$ 14,356,207	\$ 14,646,684	\$ 15,217,022
Surplus/(Deficit)	\$ (522,185)	\$ (984,023)	\$ (1,150,326)	\$ (1,354,621)	\$ (1,662,074)

The expenditures in the table above include those associated with the most recent capital plan, including a capital outlay purchase of \$80,000 in FY 2024 and \$70,000 in FY 2027, and additional projected debt of \$363,000 in FY 2024, \$698,000 in FY 2025, \$884,000 in FY 2026, and \$1.0 million in FY 2027. The Chapter 110 Tax Levy is the funding source for 86.45% of debt service in the Water & Sewer Enterprise Fund.

Projections show that retained earnings can cover projected deficits in FY 2023 and FY 2024, but not beyond that, and that rate action over the next few fiscal years is necessary. The rate plan options for FY 2023 to FY 2027 are similar to those proposed last year at this time for FY 2022 to FY 2026, mainly because the financial picture for the Water & Sewer Enterprise Fund has not changed significantly since then.

The following three options are rate plans for FY 2023 through FY 2027 that the Town can consider. Each of the plans has projected retained earnings trending towards the Town’s targeted retained earnings balance of 8% to 10% by the end of the fifth year in the analysis, which is FY 2027. Regardless of the rate plan selected, the Town should review the water and sewer financial analysis on an annual basis.

RATE OPTION 1			FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
		Rate Change	5.5%	5.5%	5.5%	5.5%	5.5%
		Current Bill	New Bills				
User Impact (per Bill)	Usage	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Tier 1 Residential User	15	\$ 79.05	\$ 81.75	\$ 84.59	\$ 87.60	\$ 90.76	\$ 94.11
Average Residential User	21	\$ 134.49	\$ 140.24	\$ 146.30	\$ 152.70	\$ 159.44	\$ 166.56
Average Commercial User	37	\$ 582.78	\$ 613.18	\$ 645.26	\$ 679.10	\$ 714.80	\$ 752.46
Average Irrigation User	74	\$ 777.62	\$ 818.74	\$ 862.12	\$ 907.89	\$ 956.17	\$ 1,007.11

RATE OPTION 2			FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
		Rate Change	0.0%	8.0%	8.0%	8.0%	8.0%
		Current Bill	New Bills				
User Impact (per Bill)	Usage	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Tier 1 Residential User	15	\$ 79.05	\$ 79.05	\$ 82.97	\$ 87.21	\$ 91.79	\$ 96.73
Average Residential User	21	\$ 134.49	\$ 134.49	\$ 142.85	\$ 151.88	\$ 161.63	\$ 172.16
Average Commercial User	37	\$ 582.78	\$ 582.78	\$ 627.00	\$ 674.76	\$ 726.34	\$ 782.05
Average Irrigation User	74	\$ 777.62	\$ 777.62	\$ 837.43	\$ 902.02	\$ 971.79	\$ 1,047.13

RATE OPTION 3			FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
		Rate Change	3.0%	6.5%	6.5%	6.5%	6.5%
		Current Bill	New Bills				
User Impact (per Bill)	Usage	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Tier 1 Residential User	15	\$ 79.05	\$ 80.52	\$ 83.81	\$ 87.30	\$ 91.03	\$ 94.99
Average Residential User	21	\$ 134.49	\$ 137.62	\$ 144.62	\$ 152.07	\$ 160.01	\$ 168.46
Average Commercial User	37	\$ 582.78	\$ 599.36	\$ 636.37	\$ 675.79	\$ 717.76	\$ 762.47
Average Irrigation User	74	\$ 777.62	\$ 800.05	\$ 850.10	\$ 903.41	\$ 960.18	\$ 1,020.64

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I am pleased to propose assistance 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