



Town of Winchester

Beth Rudolph, PE
Acting Town Manager

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

October 27, 2021

Dear Town Meeting Members,

Winchester Town Meeting authorized the creation of a Water & Sewer Enterprise fund in 2002 to operate and maintain the Town's water, sewer, and drainage systems, including the Town's reservoirs and Water Treatment Plant. Generally speaking, enterprise funds allow communities to establish a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses related to the service are segregated into a fund separate from all other governmental activities.

The primary sources of revenue to Winchester's Water & Sewer Enterprise fund are usage-based water and sewer billings, and per-bill service charges. Expenditures include MWRA water and sewer assessments, operating and capital expenses, MS4 permit compliance costs, local debt service, and indirect costs.

In Spring 2021, Town Meeting members requested additional information regarding the operation of the Town's Water & Sewer Enterprise Fund. Town staff, in cooperation with our financial consultant The Abrahams Group, created the attached list of Frequently Asked Questions (FAQs) in response to this request. The Town intends to hold a public information session in early 2022 to review the FAQs and enterprise fund operation. The date and time of this meeting will be publicized to Town Meeting members.

Sincerely,

Beth Rudolph, PE
Acting Town Manager



Town of Winchester

Water & Sewer Enterprise Fund - Frequently Asked Questions

October 2021

Purpose

This document is intended as a resource to answer frequently asked questions (“FAQs”) about the Town of Winchester’s Water & Sewer Enterprise Fund.

Table of Contents

| FAQ | Page |
|---|------|
| 1. What is an enterprise fund? | 2 |
| 2. Why do communities use enterprise funds? | 2 |
| 3. When did Winchester adopt its Water & Sewer Enterprise Fund? | 3 |
| 4. What expenditures are paid out of the Town’s Water & Sewer fund? | 3 |
| 5. How is the Town’s Water & Sewer fund financed? | 3 |
| 6. What type of water and sewer infrastructure is owned and maintained by the Town? | 4 |
| 7. Why does the Town pay for drainage infrastructure out of the Water & Sewer fund? | 5 |
| 8. What are retained earnings? | 5 |
| 9. What can retained earnings be used for? | 5 |
| 10. What is the Town’s targeted retained earnings balance for the Water & Sewer fund? | 5 |
| 11. Has the Town recently maintained a retained earnings balance consistent with the target? | 6 |
| 12. What is the Chapter 110 Tax Levy? | 6 |
| 13. How does the MWRA determine the Town’s water assessment? | 7 |
| 14. How does the MWRA determine the Town’s sewer assessment? | 8 |
| 15. What are MS4 stormwater permit compliance costs? | 9 |
| 16. What are indirect costs? | 9 |
| 17. Why is there a service charge on each water and sewer bill? | 10 |
| 18. How are water and sewer user charges calculated? | 11 |
| 19. How does the Town determine if water and sewer rate/service charge increases are necessary? | 12 |
| 20. What is the process the Town uses to approve rate and service fee increases? | 13 |
| 21. How does the Town plan for water and sewer capital projects and purchases? | 14 |

FAQs

1. What is an enterprise fund?

The Department of Revenue (“DOR”) has published guidance on enterprise funds. DOR’s latest Information Guideline Release (“IGR”) on Enterprise Funds, which is IGR No. 21-11, contains the following:

An enterprise fund gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund separate from all other governmental activities. A separate legal entity is not established through the adoption of enterprise fund accounting.

Find IGR 21-11 at the following links:

<https://www.mass.gov/lists/guidelines-opinions-and-advisories>

<https://dls.gateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/760>

2. Why do communities use enterprise funds?

From the same IGR on enterprise funds, IGR No. 21-11:

A community may account for certain services in the general fund, special revenue or enterprise fund. Advantages of an enterprise fund include that it:

- *Identifies a total service cost – Consolidating direct operating, direct capital, and indirect costs (e.g., enterprise-related costs appropriated in the general fund operating budget) helps a community to readily identify a total service cost and determine funding sources. The total service cost may also include a subsidy from the general or other funds.*
- *Provides useful management information – Consolidating revenues, expenses and operating performance of the fund provides a community with useful decision-making information regarding user charges and fees and a subsidy if necessary. The community can also include the enterprise capital assets and infrastructure as assets and recognize the annual depreciation of these assets in audited financial statements.*
- *Retains investment income and surplus – All investment earnings and any operating surplus (actual revenues in excess of estimates and appropriations in excess of expenses) are retained in the enterprise fund rather than closed to the general fund at fiscal year-end. Surplus certified by the Director of Accounts (from DOR) as available is called “retained earnings”. Retained earnings require appropriation by the community’s legislative body and have certain other use restrictions (as noted in the guidelines).*

3. When did Winchester adopt its Water & Sewer Enterprise Fund?

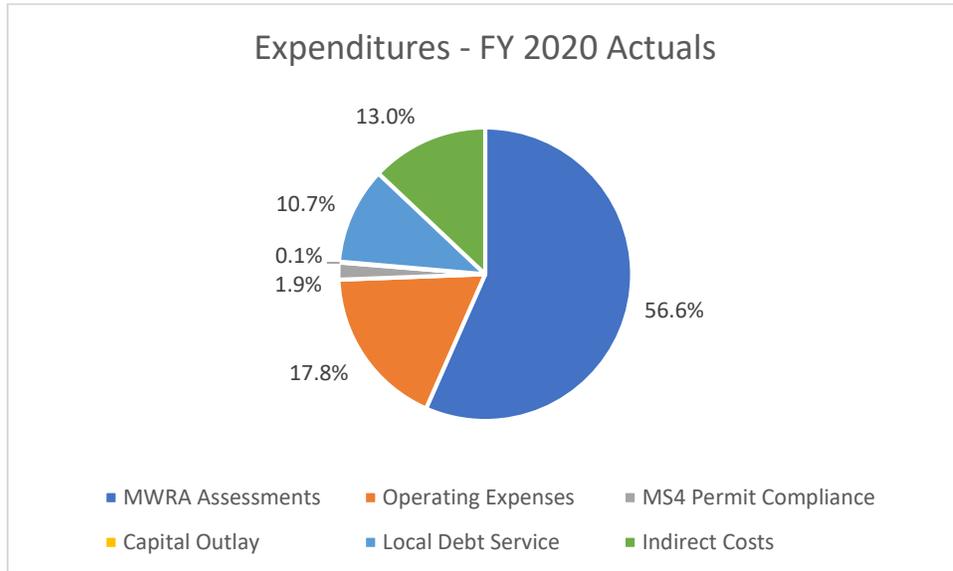
Winchester adopted its Water & Sewer Enterprise Fund at Town Meeting in May 2002, with an effective date of July 1, 2002. In addition to the Water & Sewer fund, the Town also maintains a Recreation Enterprise Fund.

4. What expenditures are paid out of the Town’s Water & Sewer fund?

Expenditures paid out of the Water & Sewer fund include:

- MWRA water and sewer assessments
- Operating expenses
- USEPA MS4 permit compliance
- Capital outlay
- Local debt service
- Indirect costs

A breakdown of these expenditures in FY 2020 is presented in the following pie chart:



Capital outlay expenditures, which are capital purchases without incurring debt, fluctuate annually based on the Town’s capital needs and the availability of retained earnings. The Town spent \$10,000 on capital outlay in FY 2020 for a mini-excavator and \$130,000 in FY 2019 for a dump truck.

Additional information on expenditures is provided in the FAQs below.

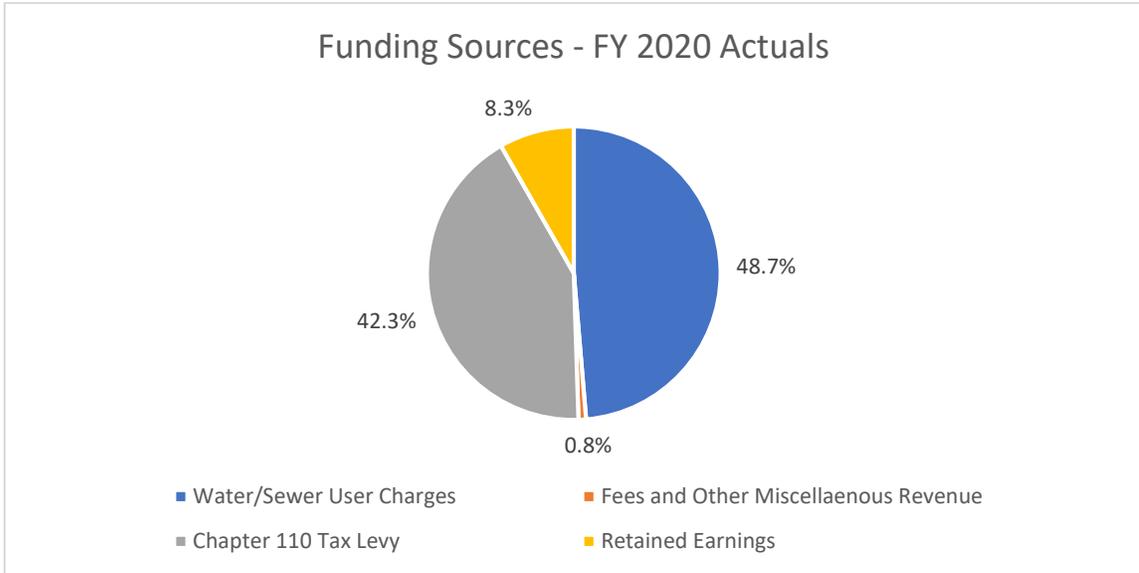
5. How is the Town’s Water & Sewer fund financed?

The Water & Sewer fund is financed through the following sources:

- Water and sewer user charges (primary funding) – Based on usage, with different rates and tiers for residential and commercial/institutional users. Includes a per-bill service charge. Penalties, interest, and liens may be incurred for bills not paid on time.

- Fees and Other Miscellaneous Revenue – Interest income, connection fees, fire protection charges, fees for water turn on/off, permits, and the like
- Chapter 110 Tax Levy – Special legislation that shifts debt service for capital projects to property tax bills
- Retained Earnings – Accumulation of the surplus of the fund’s annual revenues greater than the fund’s annual expenditures over time

A breakdown of these funding sources in FY 2020 is presented in the following pie chart:



Additional information on funding sources is provided in the FAQs below.

6. What type of water and sewer infrastructure is owned and maintained by the Town?

The Town owns and maintains the following water, sewer, and drainage infrastructure:

- Water system
 - 112 miles of water mains
 - 3 water distribution pumping stations
 - 900 fire hydrants
 - Water treatment plant
 - 3 reservoirs with 3 high-hazard dams
- Sewer system
 - 85 miles of sewer mains
 - 8 sewer pumping stations
- Drainage system
 - 84 miles of drainage pipe
 - 3,120 catch basins
 - Various stormwater BMPs, settling tanks, infiltration systems, and detention basins

7. Why does the Town pay for drainage infrastructure out of the Water & Sewer fund?

In a letter dated February 2000, DOR informed the Town that it is permissible to pay for drainage expenses out of the Water & Sewer fund. In the letter, DOR referenced Chapter 83, Section 1 of Massachusetts General Laws when mentioning that “storm or surface drains are considered part of a community’s sewerage system.”

Find Chapter 83, Section 1 of Massachusetts General Laws at this link:

<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXIV/Chapter83/Section1>

8. What are retained earnings?

Retained earnings are an accumulation of the surplus of the fund’s annual revenues greater than the fund’s annual expenditures over time, like free cash for the general fund.

9. What can retained earnings be used for?

Retained earnings can be appropriated for any legal purpose, including to fund expenditures, such as a capital investment or to balance the operating budget.

Per DOR’s IGR No. 21-11:

Retained earnings may only be appropriated to:

a. fund direct costs of the enterprise for the current fiscal year;

b. fund costs appropriated in the general fund operating budget and allocated to the enterprise for the current fiscal year;

c. reimburse to the general or other fund for subsidized capital costs of the enterprise not already reimbursed for the two full, immediately prior, fiscal years.

d. a special purpose stabilization fund established for enterprise purposes.

For example, in FY 2020, the Town appropriated \$10,000 out of retained earnings to fund a mini-excavator, \$200,000 out of retained earnings to fund MS4 stormwater permit compliance expenses, and \$210,032 out of retained earnings to balance the operating budget. When retained earnings are used to balance the operating budget, the fund’s budgeted revenues from user charges and other financing sources are not sufficient to cover budgeted expenditures that fiscal year.

Find IGR 21-11 at the following links:

<https://www.mass.gov/lists/guidelines-opinions-and-advisories>

<https://dls.gateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/760>

10. What is the Town’s targeted retained earnings balance for the Water & Sewer fund?

Although not guided by formal Town policy, the Town has historically targeted a retained earnings balance between 8% and 10% of the Water & Sewer fund’s expenditure budget. Retained earnings balances vary from year to year, in large part due to weather-related

fluctuations in revenues. A wet summer, for example, decreases revenues due to less outdoor water usage, while a dry summer typically has the opposite effect.

The Town’s Water & Sewer fund does not cover 100% of water and sewer debt service. Due to the Town’s adoption of the Chapter 110 tax levy legislation, the Town’s general fund contributes 86.45% of the Water & Sewer fund’s annual debt service. The Water & Sewer fund contributes the remaining 13.55% of debt service. Not having to fully fund debt service puts less of a burden on the fund compared to water and sewer funds in other communities, allowing the targeted retained earnings balance of between 8% and 10% of the fund’s expenditure budget to be lower than the industry’s standard of between 10% and 25% of the budget.

11. Has the Town recently maintained a retained earnings balance consistent with the target?

Generally, yes, except FY 2020’s certified retained earnings balance was well below the target due to a wet spring and summer in 2019. Water and sewer rate and service charge increases were implemented in FY 2021 to help address the below-target retained earnings balance. A very dry summer in 2020 and the COVID-19 pandemic contributed to higher revenues and an above-target retained earnings balance in FY 2021.

The breakdown of the Water & Sewer fund’s retained earnings balance for the past few fiscal years is presented in the following table:

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Expenditure Budget | \$ 10,342,590 | \$ 11,180,755 | \$ 11,204,789 | \$ 11,168,154 | \$ 11,645,616 |
| Certified RE Balance | \$ 1,765,809 | \$ 1,386,803 | \$ 1,081,534 | \$ 406,569 | \$ 1,884,053 |
| Certified RE as % of Budget | 17.1% | 12.4% | 9.7% | 3.6% | 16.2% |

12. What is the Chapter 110 Tax Levy?

From DOR’s IGR on Property Tax Increase for Water and Sewer Debt Costs, which is IGR No. 93-207:

This legislation authorizes a new debt exclusion under Proposition 2½, General Laws Chapter 59 §21C(n), which will let a city or town transfer the recovery of water and sewer debt service costs from user charges to the property tax levy. The municipality will be able to raise the additional taxes outside its levy limit under Proposition 2½ and it will have to reduce its water and sewer charges by the amount of the debt service being transferred to the tax levy. Adoption of the exclusion does not require voter approval of a referendum.

In addition, low income homeowners sixty-five or older in cities and towns that adopt the debt exclusion will be eligible for a new property tax exemption under G.L. Ch. 59 §5 Cl. 52. Eligible taxpayers will have their tax bills reduced by the difference between the increased property taxes due to adoption of the debt exclusion and the amount their water or sewer bill would have been higher if the exclusion had not been adopted, up to a maximum exemption of \$200. Subject to appropriation, cities and towns will be reimbursed by the Commonwealth for the full amount of the exempted taxes.

This legislation only applies to city or town property taxes. water and sewer districts with the power to levy property taxes are not subject to any limitations under Proposition 2½ and are able to recover debt service costs in their tax levies if they wish.

Find IGR 93-207 at this link:

<https://archives.lib.state.ma.us/bitstream/handle/2452/41747/ocm17431199-93-207.pdf?sequence=1>

Find Clause (n) of Chapter 59, Section 21C of Massachusetts General Laws, which discusses the tax assessments for water and sewer debt service charges, at this link:

<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section21C>

In December 1995, the Town's Board of Selectmen (now the Select Board) voted to transfer all residential water and sewer debt from the water and sewer rates to the tax rate. This vote increased residents' tax bills but allowed the Town to set water and sewer and sewer rates lower for residents and to consistently keep residential rates in each tier low in future years. This setup is still in effect today as water and sewer rates for residents are well below rates for commercial/institutional users.

Today, 86.45% of water and sewer debt service is shifted to the tax rate. The percentage is based on the residential billing units compared to total billing units.

13. How does the MWRA determine the Town's water assessment?

The Town supplies between one-third and two-thirds of Winchester with drinking water from its reservoir system depending on the time of year. The remainder of Winchester is served by water from the Massachusetts Water Resources Authority ("MWRA") system. The Town pays the MWRA to supply this water to Winchester through an annual assessment. The MWRA uses a complicated methodology to determine each member's annual water assessment, which ensures that its expected water expenditures for the fiscal year are covered by its members' combined water assessments.

The water assessment is based on each member's share of flow compared to all members' flow for the most recently completed calendar year. For example, FY 2022 assessments were based on calendar year 2020. Winchester's flow share for calendar year 2020 was 0.75% of the MWRA's systemwide flow. The total amount the MWRA assessed systemwide for water in FY 2022 was \$277,415,068 and 0.75% of that amount is \$2,080,613. The final water assessment for Winchester in FY 2022 was \$2,093,282, with the difference in the calculation due to rounding of the 0.75% share of systemwide flow.

The MWRA charges separate annual assessments for operation and maintenance ("O&M") and capital, each of which is based on Winchester's flow share. The O&M assessment and capital assessment breakdown is important to the Town since the capital assessment is included in the Chapter 110 tax levy calculation.

Since the water assessment is based entirely on the Town's water flow compared to other members' flow, heavy flow years or years during which other members' flow decreased result in

an increase in the Town's share of the systemwide assessment. An example is when the City of Boston's flow share greatly decreased during the COVID-19 pandemic due to less commuters and visitors during that time. In contrast, lower flow years decrease the Town's share of the systemwide assessment.

14. How does the MWRA determine the Town's sewer assessment?

The Town does not have its own sewerage treatment plant. Therefore, all sewer flows collected in the municipal system are conveyed to the MWRA and treated at the Deer Island Wastewater Treatment Plant in Boston Harbor. The MWRA charges communities for the collection and treatment of the Town's municipal sewerage. The MWRA uses a complicated methodology to determine each member's annual sewer assessment, which differs from the methodology used for the water assessment. The MWRA ensures that its expected sewer expenditures for the fiscal year are covered by its members' combined sewer assessments.

The MWRA's sewer assessments reflect water assessments in that flow fluctuations impact the assessment, but less so than for the water assessment, since the sewer assessment is based on a three-year average of flow instead of the one-year period that is used for the water assessment. The three-year average helps to mitigate the impact of year-to-year fluctuations in members' wastewater flow.

Like with the water assessment, the MWRA charges separate annual assessments for sewer operation and maintenance ("O&M") and capital. Unlike with the water assessment, the sewer O&M assessment and capital assessment are determined using different methodologies. The O&M assessment and capital assessment breakdown is important to the Town since the capital assessment is included in the Chapter 110 tax levy calculation.

Per MWRA, the sewer O&M assessment is "based on the average of the prior three calendar years' total flow, with adjustments for strength of flow." As an example, the Town's FY 2022 sewer O&M assessment was determined as follows:

- Winchester's three-year average of sewer flow from calendar year 2018 to calendar year 2020, which equals 0.76% of systemwide flow, produces an assessed amount of \$939,905.
- The same flow share is used to assess Winchester's portion of the total suspended solids (TSS) assessment, which is \$247,603.
- The same flow share is used to assess Winchester's portion of the biochemical oxygen demand (BOD) assessment, which is \$211,157.
- Add the three assessed amounts together to get the total sewer O&M assessment of \$1,398,665.

Per MWRA, the sewer capital assessment is "based on a combination of (1) average of the prior three years' peak month wastewater flow and average concentrations of total suspended solids and biochemical oxygen demand; (2) the proportion of the population of the community that is served by the local sewer system; and (3) the proportion of the community's U.S. census

population to the total census population in the sewer system.” As an example, the Town’s FY 2022 sewer capital assessment was determined as follows:

- Winchester’s three-year average of peak monthly sewer flow for calendar year 2018 to calendar year 2020, which equals 0.89% of systemwide peak monthly flow, produces an assessed amount of \$641,712.
- The same 0.76% flow share used for the sewer O&M assessment is used to assess Winchester’s portion of the total suspended solids (TSS) assessment, which is \$44,779.
- The same 0.76% flow share used for the sewer O&M assessment is used to assess Winchester’s portion of the biochemical oxygen demand (BOD) assessment, which is \$30,516.
- Winchester’s share of sewer population, which equals 0.99% of systemwide sewer population, produces an assessed amount of \$1,225,566.
- Winchester’s share of census population, which equals 0.97% of systemwide census population, produces an assessed amount of \$1,194,041.
- Add the five assessed amounts together to get the total sewer capital assessment of \$3,136,614.

Adding the sewer O&M assessment to the sewer capital assessment produces the total sewer assessment of \$4,535,279.

15. What are MS4 stormwater permit compliance costs?

The Town is required to comply with the requirements of the 2016 NPDES Phase II Municipal Separate Storm Sewer System (MS4) General Permit. The Permit requirements include the development, implementation, and enforcement of a Stormwater Management Program to reduce the discharge of pollutants to the MS4 to the maximum extent practicable. The 2016 MS4 Permit became effective on July 1, 2018.

Some MS4 stormwater permit-compliance costs, for additional sweeping of catch basins and for stormwater testing, are included in the Water & Sewer fund’s operating budget. The remaining annual MS4 stormwater permit-compliance costs, which approximate \$200,000 per year, have been funded out of retained earnings since the permit became effective, in part because retained earnings have been available for such a use and because the Town preferred not to further increase the Water & Sewer fund’s operating budget to include these costs.

16. What are indirect costs?

Indirect costs are expenditures budgeted and accounted for in the Town’s general fund on behalf of the Water & Sewer fund, which are allocated to the enterprise fund for funding. Examples of indirect costs are shared departmental costs (Engineering, DPW administration, treasury, and collections), insurances, and fringe benefits that are not budgeted and accounted for in the enterprise fund.

In October 2010, the Town adopted an indirect costs methodology consistent with DOR guidance from IGR No. 08-101, which states:

The Bureau recommends that every community with an enterprise fund establish a written, internal policy regarding indirect cost allocation and should review this policy annually. The policy should be reasonable and calculated in a fair and consistent basis. Local financial officials should understand and agree on what indirect costs are appropriated as part of the General Fund operating budget and what percentage of these costs should be allocated to the enterprise fund.

The Town's methodology is used to calculate indirect costs annually using an Excel template that was created when the methodology was adopted.

The methodology allocates indirect costs for the following general fund expenditure areas:

- Town Manager's Office
- Human Resources Department
- Comptroller's Office
- Annual Audit
- Information Technology Department
- Treasurer/Collector Department
- Engineering Department
- Legal Department
- Board of Health
- Police Department
- Fire Department
- Department of Public Works
- Energy
- Contributory Retirement
- Workers' Compensation
- Unemployment Compensation
- Health Insurance
- Medicare
- OPEB
- General Insurance

17. Why is there a service charge on each water and sewer bill?

During the Fall 2006 Town Meeting, Town Meeting approved the implementation of a service charge to recover fixed, administrative costs, with an effective date of January 1, 2007. From its implementation through FY 2020, the per-bill service charge was \$5.00. However, after a review of the Water & Sewer fund's administrative costs, Spring 2020 Town Meeting approved an increase of the per-bill service charge to \$30.00 in time for FY 2021 billings.

The Water & Sewer fund has operating costs that do not vary with consumption. These costs include meter reading, meter maintenance, billing, office support, and other general administrative costs, as well as indirect costs for collections and other shared services, that are

incurred regardless of variations in consumption levels. The service charge is in place to recover these costs. Even if users do not use a drop of water during a billing period, the Town incurs costs to provide water service. The Town must read their meter, review the reading, produce a bill, send a bill, collect on the bill, and ensure the meter is working as it should.

As part of the rate study analysis for FY 2021, DPW administration and a consultant analyzed the fund's administrative costs budgeted for FY 2021, which totaled greater than \$880,000. In FY 2021, the service charge recovered \$810,000 of the \$880,000 total administrative costs.

18. How are water and sewer user charges calculated?

The Town uses a tiered rate structure for water and sewer user charges. The water and sewer structure for residential users has three tiers and the structure for commercial/institutional users has two tiers.

Massachusetts General Laws support MWRA communities' adoption of a tiered rate structure. Per Chapter 165, Section 2B of Massachusetts General Laws, MWRA communities shall have "an increasing block rate to fairly reflect the resource demand and consumption of high volume users of water." Having increasing rates by tier promotes conservation since users that use more pay for the usage at a higher rate in the higher tiers.

The following were residential water and sewer rates in FY 2021. Rates are based on 100 cubic feet of water usage.

Water:

| | | | |
|---------|--------------------------|--------|-----|
| 0-15 | Units Per Billing Period | \$1.57 | ccf |
| 16-45 | Units Per Billing Period | \$3.90 | ccf |
| Over 45 | Units Per Billing Period | \$6.23 | ccf |

Sewer:

| | | | |
|---------|--------------------------|--------|-----|
| 0-15 | Units Per Billing Period | \$1.60 | ccf |
| 16-45 | Units Per Billing Period | \$5.07 | ccf |
| Over 45 | Units Per Billing Period | \$7.87 | ccf |

The following three user examples show how bills for users with consumption ending in each of the three tiers are calculated:

User 1 - 14 units of usage

- Tier 1 usage = 14
 - o Water charges = $14 * \$1.57 = \21.98
 - o Sewer charges = $14 * \$1.60 = \22.40
 - o Total charges = \$44.38
- Add \$30 service charge
- Total Bill = \$74.38

User 2 - 40 units of usage

- Tier 1 usage = 15
 - o Water charges = $15 * \$1.57 = \23.55
 - o Sewer charges = $15 * \$1.60 = \24.00
 - o Total charges = $\$47.55$
- Tier 2 usage = 25
 - o Water charges = $25 * \$3.90 = \97.50
 - o Sewer charges = $25 * \$5.07 = \126.75
 - o Total charges = $\$224.25$
- Add \$30 service charge
- Total Bill = $\$301.80$

User 3 - 60 units of usage

- Tier 1 usage = 15
 - o Water charges = $15 * \$1.57 = \23.55
 - o Sewer charges = $15 * \$1.60 = \24.00
 - o Total charges = $\$47.55$
- Tier 2 usage = 30
 - o Water charges = $30 * \$3.90 = \117.00
 - o Sewer charges = $30 * \$5.07 = \152.10
 - o Total charges = $\$269.10$
- Tier 3 usage = 15
 - o Water charges = $15 * \$6.23 = \93.45
 - o Sewer charges = $15 * \$7.87 = \118.05
 - o Total charges = $\$211.50$
- Add \$30 service charge
- Total Bill = $\$558.15$

Find Chapter 165, Section 2B of Massachusetts General Laws, at this link:

<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter165/Section2B>

19. How does the Town determine if water and sewer rate/service charge increases are necessary?

The Town conducts a water and sewer rate study annually. As part of the rate study, projected revenues, expenditures, and retained earnings are compiled for the upcoming five-year period. The first year in the five-year period is the next fiscal year, for which rates would be set.

Projected revenues are based on historical data and trends. Projecting user charges revenue is difficult because weather, which impacts outdoor water usage during the warmer months, is not predictable and varies year to year. Generally, conservative consumption estimates are used, which helps to ensure that a wet year does not have a detrimental impact on the Water &

Sewer fund's health. The Chapter 110 tax levy's impact is determined based on existing debt service and anticipated new debt service.

Projected expenditures are based on the latest Water & Sewer fund's budget, projected MWRA assessments, existing debt service, and anticipated new debt service. Expenditures found in the fund's budget, besides the MWRA assessments, are projected using a standard year-over-year increase. For example, O&M expenditures are projected to increase 2% year over year. MWRA assessments are projected using Winchester's typical shares of the different metrics the MWRA uses to assess and using the MWRA's anticipated increases in expenditures year over year. The MWRA publishes anticipated increases to expenditures in future years and those increases are used in the rate study's projections for MWRA assessments. Existing debt service is known at the time of the rate study and the latest debt schedule included in the study is provided by the Town Treasurer. Anticipated new debt service included in the rate study is projected debt service based on the Town's latest capital plans for water, sewer, and stormwater.

Once projected revenues and projected expenditures are compiled, retained earnings can be projected over the same five-year period. If projected retained earnings are below the Town's targeted retained earnings balance in any of the five years, multi-year rate plans that increase projected revenues and projected retained earnings are compiled.

The Town considers which of the compiled rate plan(s) is/are most sensible and recommends it/them for the Select Board's consideration.

If, via the annual rate study, the Town determines that the current service charge is not enough to cover the calculated administrative costs, as described in another FAQ in this document, the Town may also recommend a service charge increase for the Select Board's consideration. The recommended increased service charge would be designed to recover the calculated administrative costs.

20. What is the process the Town uses to approve rate and service fee increases?

The Town uses the following process to approve rate increases:

- Based on the rate study's analysis, the Town recommends at least one water and sewer rate plan for the upcoming five-year period for the Select Board's consideration. The rate study results and rate plan(s) are presented to the Select Board during one of the Board's regular meetings, typically in March.
- The Board votes which of the rate plans presented to support and to recommend for Town Meeting's consideration. Even though the rate plan is a five-year plan, the water and sewer rate increase to be presented to Town Meeting is for the upcoming fiscal year only.
- The Town prepares a Town Meeting article with the recommended water and sewer rates based on the Select Board's recommendation and background information to support the recommendation.
- Town Meeting votes on the article. If it is approved by Town Meeting, the increased water and sewer rates are adopted. If it is not approved by Town Meeting, the

increased water and sewer rates are not adopted and the current rates remain in place.

The Town shares the recommended rate increase in early spring with users prior to the Town Meeting vote. The Town Meeting article includes the date on which water consumed would first be billed at the increased water and sewer rates. That date is typically March 1, which means that all consumption billed on the first bills sent out during the new fiscal year, starting July 1, would be billed at the increased water and sewer rates. The publishing of the recommended rate increase prior to Town Meeting allows users the opportunity to alter consumption patterns, if they so choose, prior to the rate increase's implementation.

If the Town were to recommend an increased service charge, the same described process would be used for its vote and potential implementation.

21. How does the Town plan for water and sewer capital projects and purchases?

The Town maintains multi-year capital plans for water, sewer, and stormwater. The plans contain the project or capital item to purchase, its estimated cost, and the fiscal during which the project should start or the item should be purchased. Annually, the Town reviews the plans and updates them as needed with the latest information available.

The projected financial impact of the full funding of the capital plan is included in the annual rate study analysis.

Larger capital projects and purchases are typically funded via borrowing. Projected debt for anticipated borrowings is included in the financial analysis to understand the impact of the additional debt. The impact of the Chapter 110 tax levy's funding of 86.45% of the projected debt is included in the analysis as well. The Town has historically taken advantage of MWRA funding available to lessen the burden of borrowing for water and sewer capital projects. MWRA funding has been in the form of a 75% grant/25% loan with no interest and 100% loan with no interest. The Town will continue to try to take advantage of MWRA funding options available. In lieu of relying upon available MWRA funding, typically general obligation bonds (GOB) are issued for larger capital projects and purchases, with interest rates available at the time of bond closing.

Smaller capital projects and purchases are typically funded via retained earnings as capital outlay, assuming retained earnings are available to do so.

Recent capital projects authorized include:

- \$600,000 for each of two Lead Neck Removal projects
- \$340,000 for North Reservoir Dam Engineering
- \$6,050,000 for North Reservoir Dam Construction
- \$870,000 for Sewer Rehabilitation Construction Phase 2

The capital plans are subject to change based on annual reviews. As of October 2021, the capital plans contain:

- For FY 2023:
 - o \$1.21 million in water capital projects to be borrowed
 - o \$70,000 in water capital outlay (for a utility truck) to be funded via retained earnings
 - o \$2.45 million in sewer I&I capital projects to be borrowed
 - o \$750,000 in stormwater capital projects to be borrowed
- For FY 2024:
 - o \$1.5 million in water capital projects to be borrowed
 - o \$80,000 in water capital outlay (for a dump truck) to be funded via retained earnings
 - o \$1.48 million in sewer capital projects, including \$982,000 for I&I, to be borrowed
- For FY 2025:
 - o \$650,000 in water capital projects to be borrowed
 - o \$1.57 million in sewer I&I capital projects to be borrowed
- For FY 2026:
 - o \$250,000 in water capital projects to be borrowed
 - o \$332,000 in sewer I&I capital projects to be borrowed
- For FY 2027:
 - o \$4.65 million in water capital projects to be borrowed
 - o \$70,000 in water capital outlay (for a pickup truck) to be funded via retained earnings
 - o \$3.2 million in sewer capital projects, including \$2.2 million for I&I, to be borrowed
 - o \$500,000 for stormwater capital projects to be borrowed
- For FY 2028:
 - o \$65,000 in water capital outlay (for a pickup truck) to be funded via retained earnings
 - o \$553,000 in sewer I&I capital projects to be borrowed
- For FY 2029:
 - o \$150,000 in water capital outlay (for a backhoe) to be funded via retained earnings
 - o \$1.8 million in sewer I&I capital projects to be borrowed
- For FY 2030:
 - o \$881,000 in sewer I&I capital projects to be borrowed
 - o \$500,000 for stormwater capital projects to be borrowed
- For FY 2031:
 - o \$1.93 million in sewer I&I capital projects to be borrowed

- For FY 2033:
 - o \$39,000 in sewer I&I capital projects to be borrowed
- Totals, over the 11-year period of FY 2023 to FY 2033:
 - o \$435,000 in water capital outlay to be funded via retained earnings
 - o \$8.26 million in water capital projects to be borrowed
 - o \$14.24 million in sewer capital projects, including I&I, to be borrowed
 - o \$1.75 million in stormwater capital projects to be borrowed