



Town of Belmont

Department of Public Works

Memo

To: Thomas Younger, Town Administrator

From: Peter J. Castanino, Director

Date: April 5, 2011

Re: Fiscal Year 2012 Water and Sewer Rate Recommendation

Last year a comprehensive rate study was prepared by a joint venture of Woodcock & Associates and Raftelis Financial Consultants to provide a review of the rate structure and financial policies in order to meet the long term needs of funding the water, sewer and stormwater utilities. Utilizing the financial planning from that study, we had these firms review the status of the financial plan based on current information to recommend water and sewer rates for FY 12. The goals of the financial plan remain the same; customer fairness and equity, affordability, adequate funding of system operations and maintenance, adequate funding of infrastructure rehabilitation, satisfaction of requirements imposed by debt issuances and contractual obligations, maintenances of fund balances to ensure the long term financial and operational stability of the system, and compliance with environmental regulations, state and federal laws. I have attached a copy of their recommendation for your information.

Massachusetts Water Resources Authority (MWRA)

MWRA assessments are driven by the same costs that increase the Town budget as well as enormous debt from court ordered and regulated required improvements to the MWRA regional water and sewer systems. With guidance and recommendations from the MWRA Advisory Board, the MWRA has made a strong effort to minimize increases and control both capital spending and debt. For the foreseeable future it will be a challenge to address our MWRA yearly assessment and stabilize rates for our customers. The preliminary MWRA assessments for FY 2012 are 45% of the total Water Program budget and 59% of the total Sewer and Stormwater Program budget.

The balance of revenue and expenses for both the Water and Sewer Programs is affected by a variety of factors including: the MWRA assessment methodology, weather, water conservation, town capital programs and MWRA charges (including both MWRA Operating and Capital Budgets).

Water Rate Recommendation



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April 4, 2011

Mr. Peter J. Castanino, Director
Department of Public Works
Town of Belmont
19 Moore Street
Belmont, MA 02478

Dear Mr. Castanino:

The team of Raftelis Financial Consultants, Inc. and Woodcock & Associates, Inc (herein referred to as “RFC-WA”) has completed the assignment to perform an update to the water and wastewater utility rate model for fiscal year (“FY”) 2012 for the Town of Belmont (“Belmont” or the “Town”). This letter report provides a summary of the results of the study.

Overview

In May 2010, RFC-WA completed an engagement with the Town and delivered a comprehensive cost of service and rate study along with recommended water and sewer rates for FY 2011, with recommendations regarding the adoption of storm water rates. As part of the initial engagement, RFC built a rate model that calculates and projects user rates and charges, and forecasts system revenue based on customer demand and operating expenditures based on budgeted expenses, debt requirements, and capital expenditures. RFC has updated this rate model for FY 2012 to be consistent with the original methodology and the financial plan of the Town.

Assumptions

The following steps were taken and assumptions made in order to update the rate model for FY 2012:

1. Review of year-to-date (“YTD”) FY 2011 revenues to verify consistency with original projections.
2. Input of the preliminary FY 2012 operating budget for water, sewer, and storm water, as provided by Town Staff.
3. Update of the water capital budget including, total funding goals, borrowing projections from MWRA, and rate-funded projections.
4. No growth in customer accounts or demand is included for FY 2012 over budgeted amounts from FY 2011.

Results

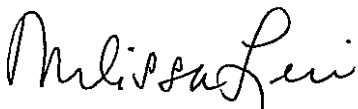
After updating the rate model with these assumptions and all data provided by the Town, RFC-WA reviewed the model for consistency and developed rate recommendations for FY 2012. Several key observations include:

1. FY 2012 water revenue requirements have been reduced from projected levels primarily due to the elimination of OPEB Trust Fund requirements (\$100,000) and reduction in the level of water main replacement funding through rates (\$210,000).
2. FY 2012 sewer revenue requirements have been reduced from projected levels primarily due to the elimination of OPEB Trust Fund requirements (\$100,000) and reduction in the level of rate funded capital, "Trucks", funded through rates (\$230,000).
3. Preliminary estimated FY 2012 costs for treatment of water and sewer by MWRA are approximately \$100,000 higher than original projection.
4. To adequately fund the cash needs of the utility, water rates are projected to increase by 3.0%, across-the-board. Detailed rate projections are shown in Attachment A. This is consistent with the original study projections.
5. To adequately fund the cash needs of the utility, sewer rates are projected to increase by 5.5%, across-the-board. Detailed rate projections are shown in Attachment A. This is consistent with the original study projections.
6. Transfers from the retained earnings funds will not be necessary under projected revenues and expenditures.

Attachment A shows the detailed rate projections under the proposed scenario and sample customer bill impacts under the proposed rates are included in Attachment B. Attachment C shows the projected operating results for the water and sewer utilities over the five-year forecast of rates, revenues, and expenditures.

RFC-WA appreciates the opportunity to work with the Town of Belmont on this engagement. If you have any questions about the information presented above or the attached schedules, please contact us at (704) 373-1199 (RFC) or (508) 393-3337 (WA).

Sincerely,



Melissa Levin
Raftelis Financial Consultants, Inc.



Chris Woodcock
Woodcock & Associates, Inc.

ATTACHMENT A:

**PROJECTED WATER AND SEWER RATE SCHEDULES
CUSTOMER BILL IMPACTS**

WATER RATES		FY 2011	FY 2012
		<i>Current</i>	<i>Proposed</i>
Volume Rates	<i>(per HCF)</i>		
Regular Rate	<i>Block Cutoffs</i>		
Block 1	30	\$ 5.19	\$ 5.35
Block 2	>30	5.97	6.15
LifeLine Rate	<i>Discount = 30%</i>	3.63	3.75
Irrigation Rate	<i>(per HCF)</i>	\$ 6.27	\$ 6.46
Customer Charges			
Lifeline Rate	<i>(per Quarter)</i>	\$ 11.51	\$ 11.85
Equivalent Meters Charge Structure			
5/8		\$ 16.44	\$ 16.93
3/4		16.46	16.95
1		17.63	18.16
1.5		21.60	22.25
2		23.95	24.67
3		25.31	26.07
4		40.67	41.89
6		54.11	55.73
8		71.39	73.53

SEWER RATES		FY 2011	FY 2012
		<i>Current</i>	<i>Proposed</i>
Volume Rates			
Regular Rate	<i>(per HCF)</i>	\$ 9.58	\$ 10.11
LifeLine Rate	<i>Discount = 30%</i>	6.71	7.08
Customer Charge	<i>(per Quarter)</i>		
Equivalent Meters Charge Option			
5/8		\$ 13.55	\$ 14.30
3/4		14.52	15.32
1		16.01	16.90
1.5		21.08	22.25
2		24.07	25.40
3		25.81	27.23
4		45.41	47.91
6		62.56	66.01
8		84.61	89.27

FIRE	FY 2011	FY 2012
	<i>Current</i>	<i>Proposed</i>
Equivalent Meters Charge Structure		
2	\$ 248.00	\$ 255.00
4	248.00	255.00
6	721.00	743.00
8	1,535.00	1,581.00
Hydrants (Private)	721.00	743.00
Hydrants (Town)	0.00	0.00

ATTACHMENT B:

CUSTOMER BILL IMPACTS

Typical Residential Bills

	FY 2011	FY 2012
	<i>Current</i>	<i>Proposed</i>
Average Residential Customer		
<i>5/8" Meter, 20 HCF per quarter</i>		
Water Bill	\$ 120.24	\$ 123.93
Sewer Bill	205.15	216.50
Irrigation Bill	-	-
Total Residential Bill: Average User	\$ 325.39	\$ 340.43
<i>Percent Change</i>		<i>4.6%</i>

	FY 2011	FY 2012
	<i>Current</i>	<i>Proposed</i>
Large Residential Customer		
<i>5/8" Meter, 40 HCF per quarter</i>		
Water Bill	\$ 231.84	\$ 238.93
Sewer Bill	396.75	418.70
Irrigation Bill	94.05	96.90
Total Residential Bill: Average User	\$ 722.64	\$ 754.53
<i>Percent Change</i>		<i>4.4%</i>

	FY 2011	FY 2012
	<i>Current</i>	<i>Proposed</i>
Lifeline Residential Customer		
<i>5/8" Meter, 17 HCF per quarter</i>		
Water Bill	\$ 99.65	\$ 102.71
Sewer Bill	127.43	134.48
Irrigation Bill	-	-
Total Residential Bill: Average User	\$ 227.08	\$ 237.18
<i>Percent Change</i>		<i>4.5%</i>

Typical Commercial Bills

	FY 2011	FY 2012
	<i>Current</i>	<i>Proposed</i>
Small Commercial Customer		
<i>1" Meter, 200 HCF per quarter</i>		
Water Bill	\$ 1,188.23	\$ 1,224.16
Sewer Bill	1,932.01	2,038.90
Irrigation Bill	-	-
Total Residential Bill: Average User	<u>\$ 3,120.24</u>	<u>\$ 3,263.06</u>
<i>Percent Change</i>		<i>4.6%</i>

	FY 2011	FY 2012
	<i>Current</i>	<i>Proposed</i>
Large Commercial Customer		
<i>3" Meter, 1,000 HCF per quarter</i>		
Water Bill	\$ 5,971.91	\$ 6,152.07
Sewer Bill	9,605.81	10,137.23
Irrigation Bill	-	-
Total Residential Bill: Average User	<u>\$ 15,577.72</u>	<u>\$ 16,289.30</u>
<i>Percent Change</i>		<i>4.6%</i>

ATTACHMENT C:

FIVE-YEAR FINANCIAL FORECAST OF OPERATING RESULTS

Water Operating Results Forecast

		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
		<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
REVENUES						
Water Rates						
Fixed Charges	(1)	\$ 503,749	\$ 519,243	\$ 545,419	\$ 572,806	\$ 615,691
Volume Charges	(2)	3,985,819	4,107,235	4,314,379	4,535,786	4,878,591
Irrigation	(2)	524,595	540,619	565,921	580,259	630,020
Subtotal		5,014,163	5,167,098	5,425,720	5,688,850	6,124,302
Fire	(3)	65,563	67,530	70,906	74,452	80,408
Total Rate Revenues		5,079,726	5,234,628	5,496,626	5,763,302	6,204,709
Non-Rate Revenues						
Other Operating Revenues	(4)	19,000	19,000	19,000	19,000	19,000
Nonoperating Revenues	(4)	4,935	5,100	5,100	5,100	5,100
Total Revenues		5,103,661	5,258,728	5,520,726	5,787,402	6,228,809
COSTS						
Water Administration						
Personal Services		(147,065)	(149,502)	(153,100)	(156,803)	(160,613)
Other Expenses		(170,673)	(175,671)	(180,453)	(185,370)	(190,425)
OPEB Trust Fund		(100,000)	-	-	-	-
Town Support Services		(157,873)	(157,873)	(161,030)	(164,251)	(167,536)
Contribution to Water Reserve		(96,800)	(96,800)	-	-	-
Offset: Withdrawal from Retained Earnings		150,000	-	345,000	280,000	220,000
Capital Outlay in O&M Budget		(121,750)	(16,800)	(17,265)	(17,739)	(18,233)
Total Water Administration		(644,161)	(596,646)	(166,849)	(244,163)	(316,808)
Water Distribution & Maintenance Services						
Personal Services		(1,112,142)	(1,162,884)	(1,194,192)	(1,226,524)	(1,259,919)
Other Expenses		(302,154)	(272,430)	(279,511)	(286,780)	(294,242)
Water Treatment		(2,136,515)	(2,236,627)	(2,368,721)	(2,426,069)	(2,719,042)
Capital Costs						
Rate-Funded CIP		(427,268)	(300,000)	(801,920)	(840,978)	(881,207)
Debt Service		(322,479)	(421,357)	(471,357)	(521,357)	(506,357)
All Other Capital		(149,222)	(153,560)	(228,171)	(232,413)	(239,386)
Total Water Dist & Maint		(4,449,779)	(4,546,858)	(5,343,873)	(5,534,120)	(5,900,153)
Total Costs		\$ (5,093,940)	\$ (5,143,504)	\$ (5,510,721)	\$ (5,778,283)	\$ (6,216,960)
Water Revenue Surplus (Deficit)		\$ 9,721	\$ 115,223	\$ 10,005	\$ 9,119	\$ 11,849
<i>Projected Water Rate Increase</i>			3.0%	5.0%	5.0%	7.5%

Sewer Operating Results Forecast

Sewer Rates

Fixed Charges	(1)	\$ 412,464	\$ 435,241	\$ 459,278	\$ 482,410	\$ 482,410
Volume Charges	(2)	6,831,297	7,209,229	7,608,553	7,993,616	7,993,616
Subtotal		7,243,761	7,644,469	8,067,831	8,476,026	8,476,026

Add:

Other Operating Revenues	(3)	27,000	27,000	27,000	27,000	27,000
Nonoperating Revenues	(3)	9,615	10,000	10,000	10,000	10,000

Total Revenues		7,280,376	7,681,469	8,104,831	8,513,026	8,513,026
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COSTS

Sanitary Sewer Maintenance

Personal Services	(905,347)	(959,111)	(984,577)	(1,010,883)	(1,038,062)
Other Expenses	(274,855)	(276,772)	(282,404)	(288,153)	(294,020)
Indirect Cost Reimb To Town	(125,000)	(125,000)	(125,000)	(125,000)	(125,000)
Transfer To OPEB Trust	(100,000)	-	-	-	-
Contribution to Sewer Reserve	(68,800)	(68,800)	(210,000)	(175,000)	-
Offset: Withdrawal from Retained Earnings	225,000	40,000	-	-	10,000
Sewer Treatment	(4,233,727)	(4,530,535)	(4,668,869)	(5,150,489)	(5,454,872)
Subtotal	(5,482,729)	(5,920,218)	(6,270,851)	(6,749,524)	(6,901,955)

Capital Costs

Rate-Funded Capital Projects	(360,000)	(360,000)	(460,000)	(390,000)	(310,000)
Debt Service	(829,539)	(859,286)	(898,130)	(892,974)	(812,731)
All Other Capital	(211,410)	(140,885)	(60,000)	(58,200)	(60,600)
Subtotal	(1,400,949)	(1,360,171)	(1,418,130)	(1,341,174)	(1,183,331)

Storm Water Maintenance

Personal Services	(181,625)	(206,496)	(210,959)	(215,528)	(220,207)
Other Expenses	(209,551)	(187,729)	(192,422)	(197,233)	(202,164)
Subtotal	(391,176)	(394,225)	(403,381)	(412,761)	(422,371)

Total Costs	(7,274,854)	(7,674,614)	(8,092,362)	(8,503,459)	(8,507,657)
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Sewer Revenue Surplus (Deficit)	\$ 5,522	\$ 6,855	\$ 12,470	\$ 9,566	\$ 5,369
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<i>Projected Sewer Rate Increase</i>		5.5%	5.5%	5.0%	0.0%
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The Water Advisory Board met on March 17, 2011 and voted to approve the recommendation from the financial review to increase all water fees by 3.0%. For FY 12 it is unnecessary to use any funds from the Water Retained Earnings account to subsidize the Water Budget. This recommendation follows the long range Water financial plan.

I request that the Board of Selectmen approve the recommendation to increase all Water fees by 3.0% for FY 12.

Sewer Rate Recommendation

I concur with the recommendation from the financial review to increase all sewer fees by 5.5%. For FY 12 it is unnecessary to use any funds from the Sewer Retained Earnings account to subsidize the Sewer Budget. This recommendation follows the long range sewer financial plan.

I request that the Board of Selectmen approve the recommendation to increase all sewer fees by 5.5% for FY 12.

Please note from the Raftelis Report that the combined impact on the customers is an increase of about 4.6%.

Thank you for your consideration of these requests.

cc: Michael Bishop, Water Division Manager
Glenn Clancy, P.E., Director, Office of Community Development