



Memorandum

To: Board of Selectmen

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

Date: May 5, 2008

Re: Water/Sewer Rate Setting Part #2

The following memo is the second installment of information to be used by the Board in the FY 2009 Rate Setting process. On April 22, the Board received information summarizing major issues surrounding rate setting. This memo attempts to describe the expenses of the fund necessary to maintain operations for the next fiscal year and introduce a series of policies for the Board's future consideration. We recommend that the Board open the rate setting hearing at your May 19th meeting at which time the administration will present proposed rates for FY 2009.

Expenses

Detailed expenses are attached to this memo and shown as Attachments A thru H. As approved by Town Meeting on April 10 and 15th, 2008 and anticipated at Fall Town Meeting, FY 2009 expenses for the Water/Sewer Enterprise fund total \$14,153,350 or an increase of 3.96% over FY 2008. This is detailed on Attachment A.

Expenses are being driven by sizeable increases in indirect costs (See Attachment E), debt service (See Attachment F), and Capital Expenses (See Attachment G). Costs for operations (See Attachment A) are less than FY 2008 in large part due to a lower MWRA Assessment.

As shown in Attachment A, additional revenues will need to be raised from user fees to fund FY 2009 operations. Exact proposals will be available on May 19th. The anticipated increase in user fees is a direct result of having no available Retained Earnings in FY 2009; prior years' operating budgets have been funded by user fees combined with retained earnings. Effective July 1, 2007, Water/Sewer Enterprise Fund Retained Earnings were certified at \$682,304. To date, Town Meeting has approved the use of \$675,000 from those certified retained earnings, leaving effectively no retained earnings as of year end. Although some amount of new retained earnings is likely to be generated effective July 1, 2008 based upon the results of the current fiscal year's operations, staff does not recommend using any to reduce rates.

Policies

In the memo of April 22, 2008, staff stated that there would be a draft of recommended policies for the Water /Sewer Enterprise Fund. They are attached as attachment H.

Although these are a draft, the Board of Selectmen is in the difficult situation of having to increase rates simultaneously to a tax increase. This is not a desired situation, though the Board does have a degree of control as to the size of increase facing the community. Currently, the budget does not include monies for building retained earnings or dedicated reserves for capital or operating. Though fiscal prudence would dictate that rates should be set at a level which will grow retained earnings to allow for contingencies, the Board can choose to not do that and keep rates lower for FY 2009.

Please let us know if you have any questions.

Attachments:

- A- Summary of Expenses & Revenues
- B- Operating Costs
- C- Debt Service
- D- Indirect Costs
- E- Pensions
- F- Reserves
- G- Capital Expenses
- H- Draft Recommended Policies

