



Town of Andover, MA

Comprehensive Water and Sewer Rate Evaluation FY2017-FY2021





Agenda



1. Goals of a Comprehensive Water & Sewer Rate Study
2. Review of the Rate Setting Process
3. Preliminary Findings of the Water & Sewer Rate Study
4. Open Discussion





Goals of a Rate Study



- Revenue Stability
- Revenue Sufficiency
- Equitable Distribution of Costs to Users
- Maintenance of Adequate Reserves
- Easy to Understand and Administer
- Affordability of critical public services
- Legally Defensible



Rate Setting Process



- Intensive review of the water and sewer financial records, billing records, and capital needs
 - Site Visits
 - Conversations with:
 - Town Manager
 - Director of Municipal Services
 - Water Treatment Superintendent
 - Water Distribution & Sewer Collection Superintendent
 - Finance Director
 - Business Manager
 - Regulatory Review (MassDEP I/I Plan, SWMI)



Rate Setting Process

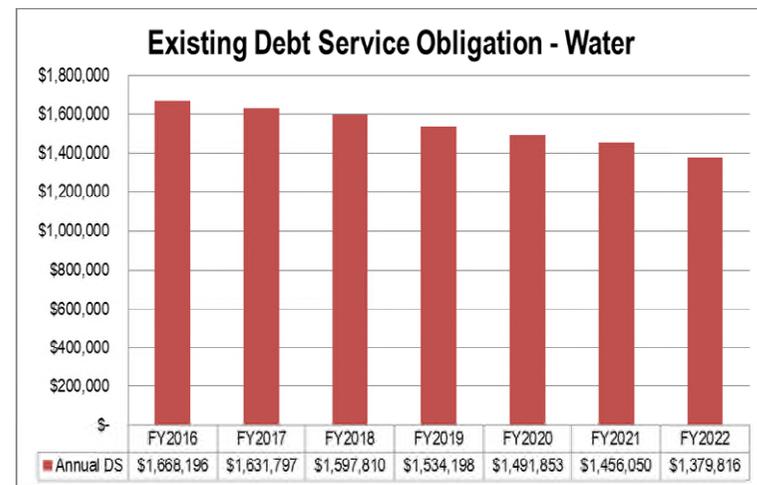
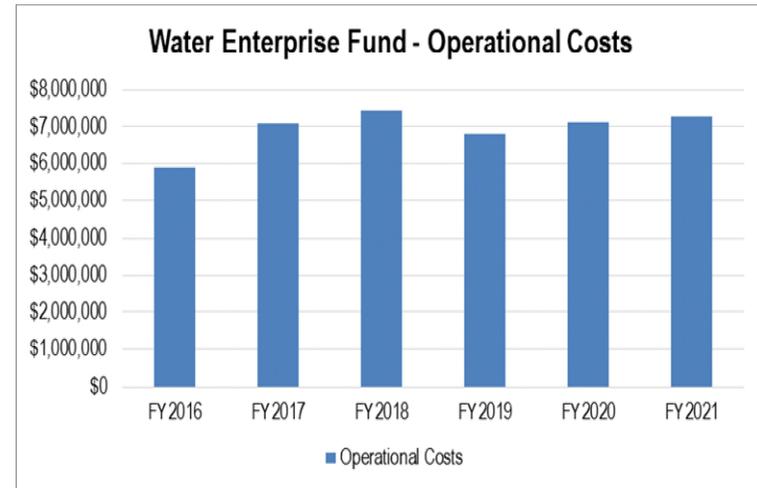


1. Establishment of a defensible projection of the costs that Andover is likely to see over the coming five years:
 - Operational Costs & Existing Debt Service
 - Capital Program Costs
2. Evaluation of historical billing records
 - Ability to project the amount of water and sewer “service” which will be sold
 - Development of rates which yield durable revenue streams
3. Discussions with Stakeholders



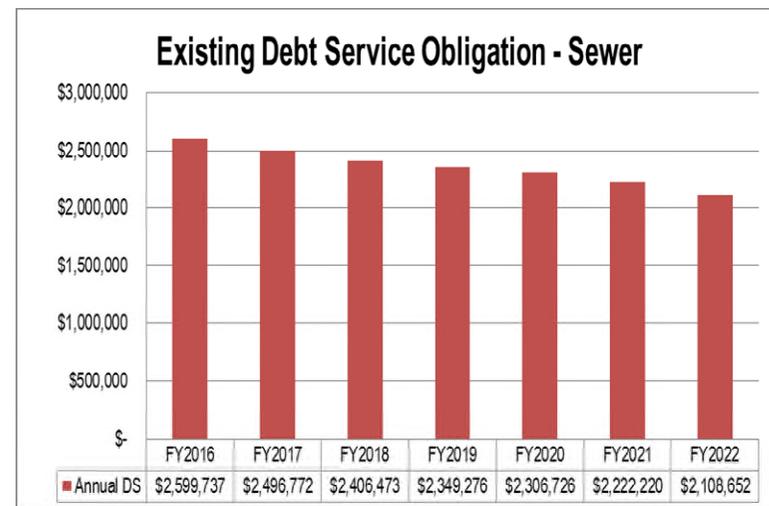
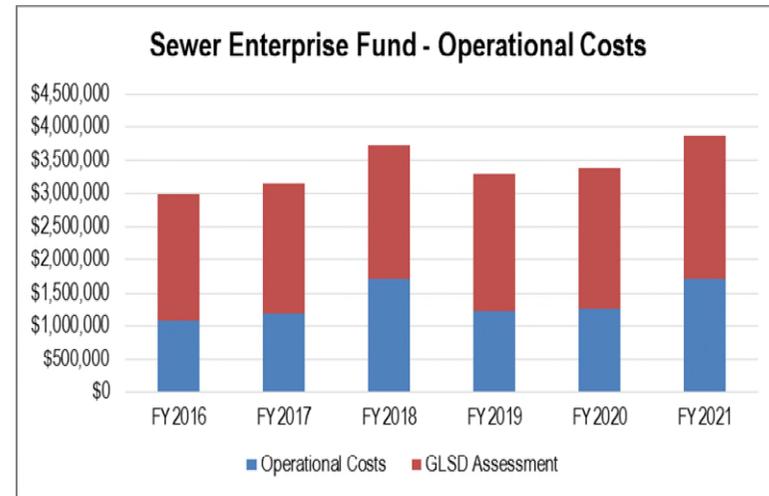
Water Operating Budget & Debt

- Based upon current budget escalated using industry norms
- Appropriated budgets likely to increase by ~ 15% over the coming 5 years
- Year to year fluctuations due to inclusion of cash funded capital projects
- Existing debt to decline modestly over same period
- Proper structuring of CIP can reduce the associated rate impact



Sewer Operating Budget & Debt

- Based upon current budget escalated using industry norms
- Appropriated budgets likely to increase at similar rate as water
- Year to year fluctuations due to inclusion of cash funded capital projects
- Existing debt to decline over projection period
- Proper structuring of CIP can reduce the associated rate impact



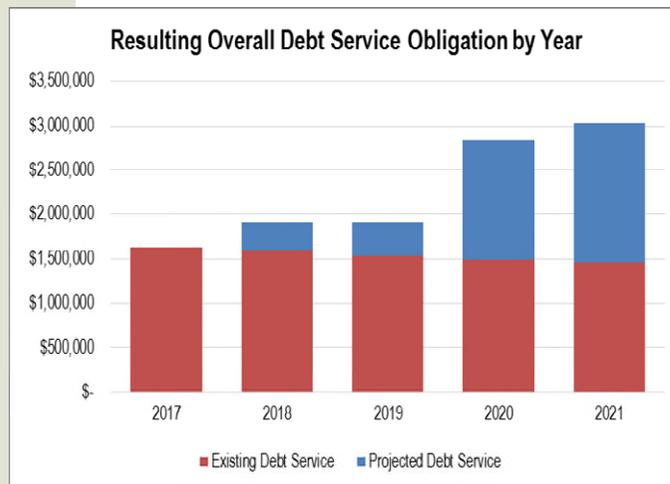
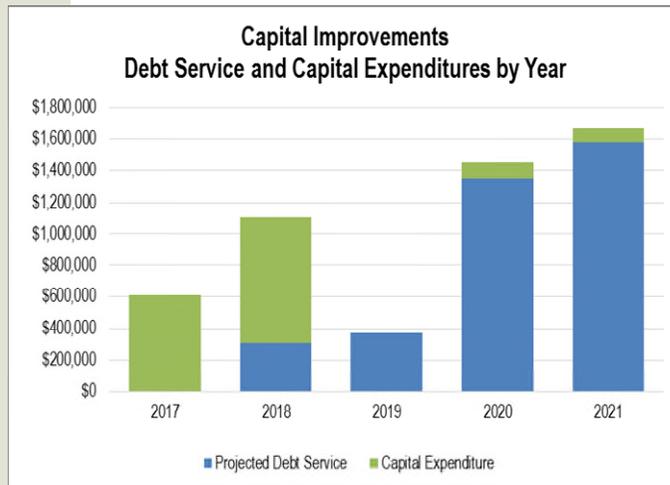
Water and Sewer System CIP



- Andover needs significant Capital Investments over the next coming 5-years (FY2016 through FY2021)
 - Water System: ~\$34.5M (unescalated cost estimate)
 - Sewer System: ~\$3.6M (unescalated cost estimate)
- Capital Improvements ensure that money is spent on the following targets:
 - Improve Water Storage
 - Distribution System Improvements
- Rate study ensures that the water and sewer utilities remain financially sound



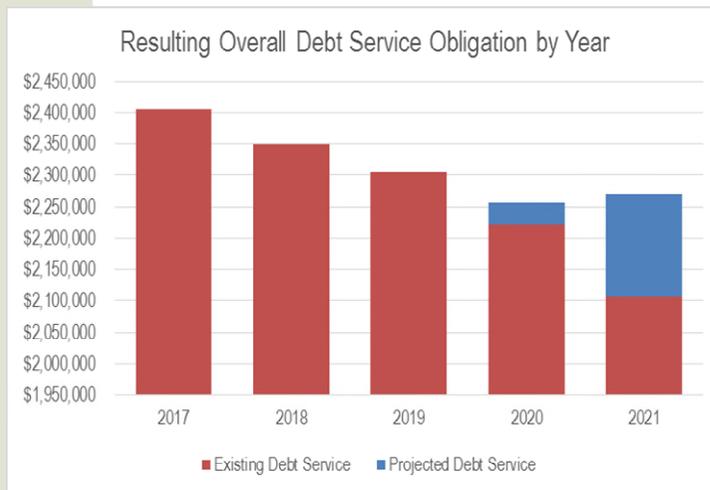
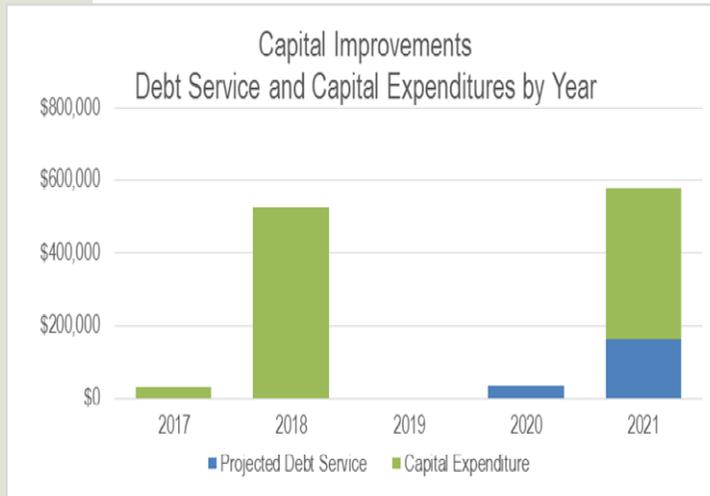
Water Capital Improvements



- 29 Projects and upgrades identified (~ \$34.5M in value)
- Partially cash financed
- Includes significant increases in water main replacement and several water storage facility improvements
- Finance CIP using a blend of cash financed projects and debt financed projects
- Use of portion of current reserves to moderate rate impacts of increased capital program



Sewer Capital Improvements



- 8 Projects and upgrades identified (~ \$3.6M in value)
- Includes MassDEP required I/I Plan and I/I Investigation
- Finance CIP using a blend of cash financed projects and debt financed projects
- Use of portion of current reserves to moderate rate impacts of increased capital program





Preliminary Findings

- Two primary objectives for the rate study:
 1. Generate sufficient revenues to cover the full cost of service of the water utility (including operating costs, existing debt service, and the cost of the CIP)
 2. Maintain sufficient reserves to cover unanticipated costs
 - Water – 25%
 - Sewer – 20%
- Preliminary Rate Expectation
 1. Adjust fire suppression fees based on AWWA equivalency factors (rates have not been reviewed since 1987)
 2. Institute a three tier block rate (review tier characteristics)
 3. Likelihood that Tier 1 & Tier 2 customers would see either a modest decrease or little change in volumetric rates
 4. Expectation of a 2.5% annual rate adjustment in future years



Preliminary Rates

Water Escalated Rates



- Decrease in T1 rates from current flat rate cost (\$3.10/hcf)
- 2.5% annual increase
- FY2020 T1 rates first to exceed current flat rate

Sewer Escalated Rates

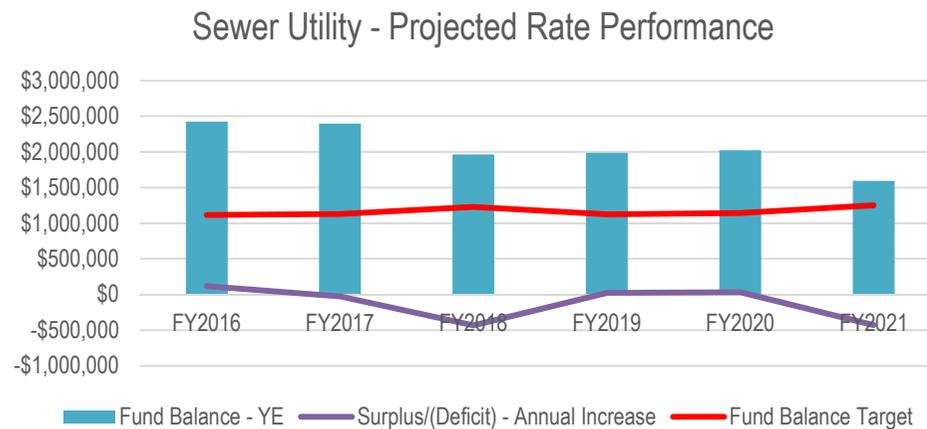
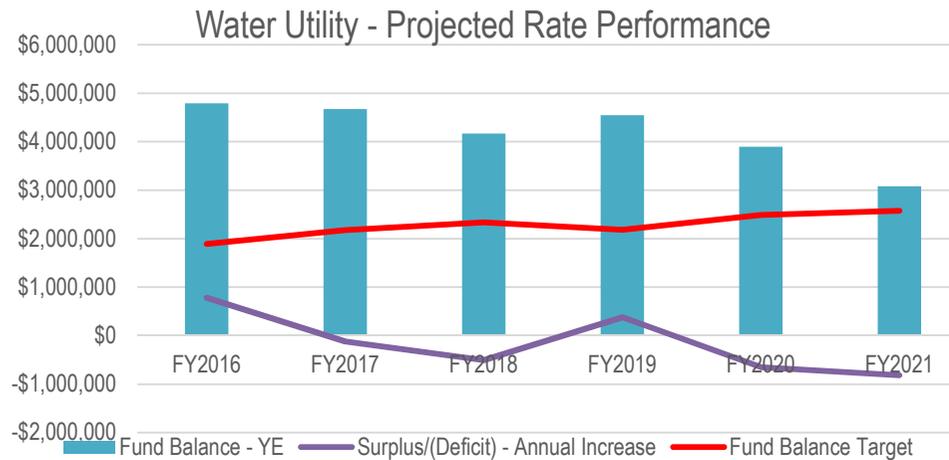


- Slight decrease in T1 rates from current flat rate cost (\$3.64/hcf)
- 2.5% annual increase



Rates shown provide revenue streams adequate to fund operations and needed capital investments
 Alternate rate structures are still under consideration – we need feedback

Preliminary Reserves Impacts



In both cases, the preliminary rates have been designed to partially offset increases with an appropriate use of current fund balances.

Water fund balance decreases towards a goal of 25% of overall budget (red line)

Sewer fund balance decreases towards the goals of 20% of overall budget





Comments/Feedback

QUESTIONS?

Toby Fedder
Vice President
978.482.7912
tfedder@woodardcurran.com

Jessica Richard
Technical Manager
978.482.7874
jrichard@woodardcurran.com

