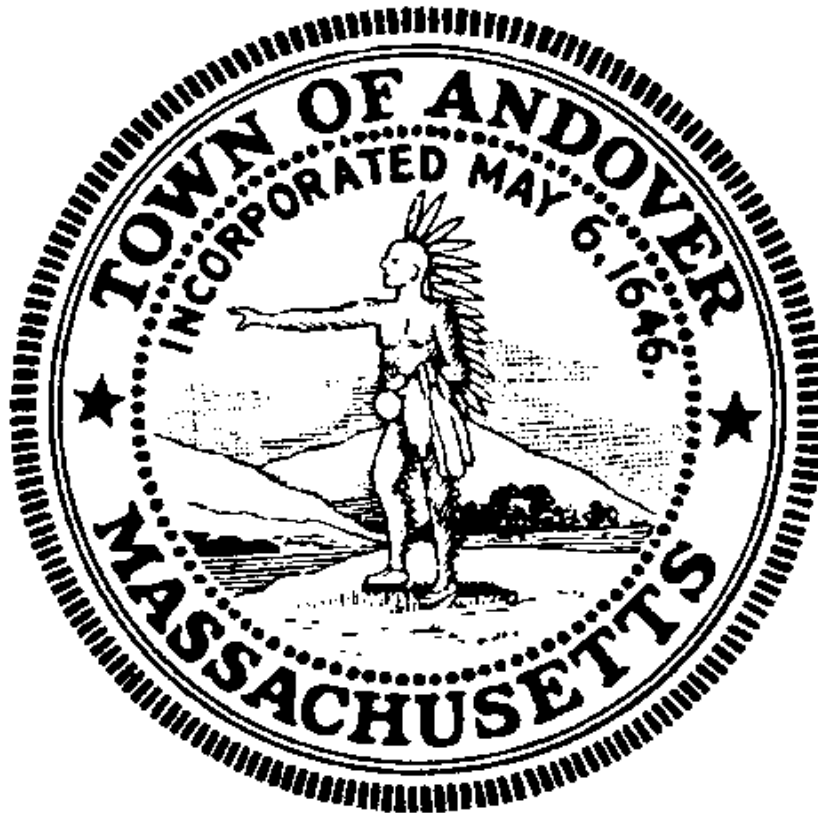


# **FINANCE COMMITTEE REPORT**



**SPECIAL TOWN MEETING  
WEDNESDAY, APRIL 4, 2018**

## SPECIAL TOWN MEETING

### **PLAN TO ARRIVE EARLY**

All Town Meeting attendees must be checked into the meeting in the lobby of the Collins Center for the Performing Arts on April 4th. Voters must check in at their precinct table. Visit the Town website at [www.andoverma.gov](http://www.andoverma.gov) and click on "Town Clerk's Office" under the "Departments" tab and click on "Elections" to search for your precinct under the "Precinct Search" tab. To avoid delays at check in, please check your precinct prior to Town Meeting.

**Voters:** Only voters who registered by the deadline (March 23rd) will be allowed to vote at this Town Meeting. Voters will receive a sticker that must be worn in a visible location on their person to vote.

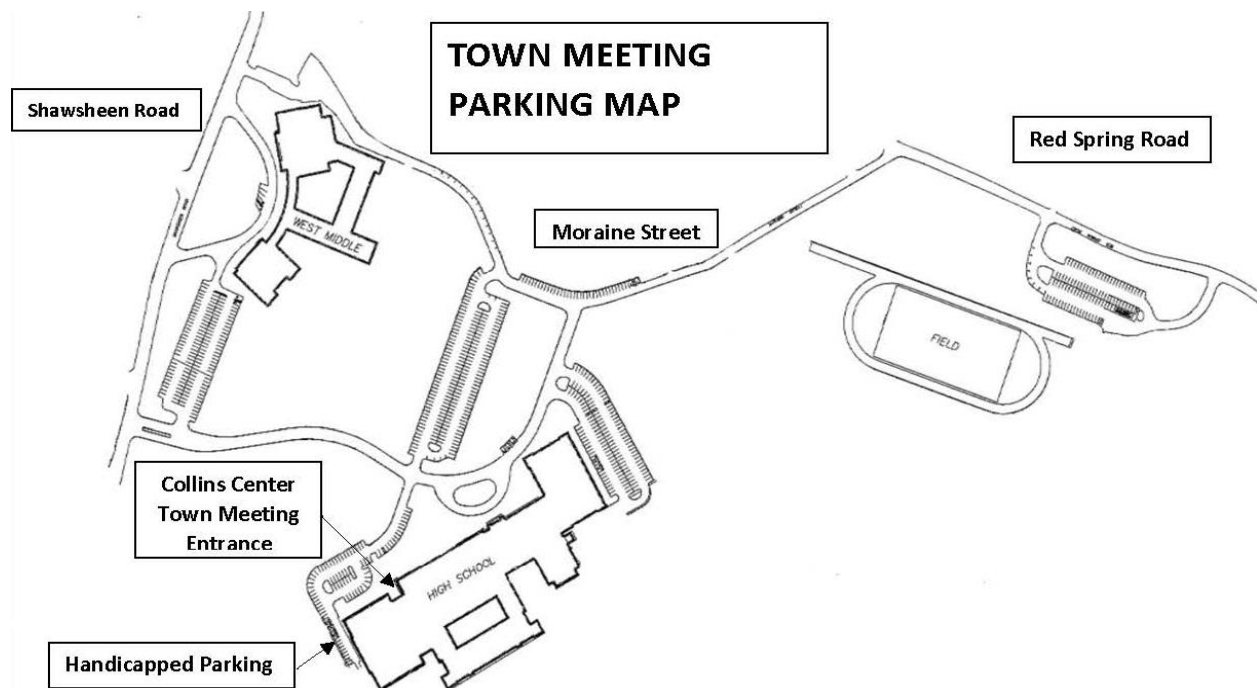
**Non-Voters:** Non-voters may attend Town Meeting and will be seated in a special section. Non-voters must check in at the Town Clerk's table in the lobby to register before being seated. Please be aware that non-voters will not be seated until after 7:00 P.M. when they are voted admittance by Town Meeting.

**Overflow Seating:** If meeting attendance exceeds the capacity of the Collins Center, voters and non-voters may be directed to sit in the High School cafeteria. The cafeteria is linked by video and audio feed to the Collins Center. Participants in both areas will be able to speak to the meeting and vote.

**Children:** Children may enter the meeting as non-voters. *See above.* Parents must attend small children during the meeting and sit with them in the designated non-voter section. Voters (with visible stickers) may vote from the non-voter section. Please notify the section counter if you are a voting member. No children or non-voters may sit in the registered voter sections.

**Parking:** There are several parking lots available:

1. Collins Center Lot
2. Main Lot at the High School
3. West Middle School Lot
4. Lot beside the Field House
5. Red Spring Road





To the Citizens of Andover:

March 19, 2018

A Special Town Meeting on April 4, 2018 will once again ask voters to allow the Board of Selectmen to proceed with a 99-year agreement to provide water to North Reading. Approval or disapproval of this article will have a significant financial impact to Andover water customers, and it is the Finance Committee's responsibility to make sure that voters fully understand the consequences of their vote.

On January 29, 2018, an identical article was proposed and passed, but with an amendment from the floor that would have allowed either municipality the option to terminate the agreement after 20 years. North Reading's voters, through their Board of Selectmen, found this unacceptable; it is important to the Town of North Reading to have the security that a 99-year agreement would provide. Unless Andover can give them that security, they will proceed with their application to purchase water from the Massachusetts Water Resources Authority (MWRA). They require a decision from Andover's Town Meeting voters in early April.

So, at this Special Town meeting, voters will be given the opportunity to approve the original article, this time without an 'opt-out' clause.

Legislative permission is needed for inter-municipal contracts lasting more than 25 years. If this article is approved, the towns of Andover and North Reading will petition the Massachusetts State Legislature to allow the two municipalities to enter into a 99-year agreement with each other. This 'Home Rule' petition will not address the specific terms of the agreement; it will only allow the towns to legally enter into a 99-year contract.

If legislative approval for the 99-year term of the agreement is obtained, it will then fall to the two municipalities to draft a mutually acceptable agreement. This article gives the Board of Selectmen the authority to draft an Intermunicipal Agreement with North Reading to supply water to them on such terms and conditions that the Board determines are in the best interests of the Town.

Andover has had several Intermunicipal Agreements (IMAs) with North Reading that explicitly define the terms under which Andover will supply water to them. The current IMA is the 'Third Andover/North Reading Water Supply Agreement' and may be found on the Town website ([www.andoverma.gov/wateragreement](http://www.andoverma.gov/wateragreement)). This IMA has been amended and extended and is valid until 2020 with an automatic extension until 2021. The

'First Amendment to Intermunicipal Agreement' is also on the Town website listed above.

North Reading's net payments to Andover are substantial and currently subsidize capital project costs associated with our water infrastructure. Without North Reading as a customer, Andover water customers would not only be responsible for funding 100% of our water supply costs, but also for 100% of the long-term maintenance, improvement, and replacement costs of the infrastructure required to reliably supply high quality water. A long-term agreement with North Reading would bring predictable stability to Andover's water revenues. It would increase retained earnings in the Water Enterprise Reserves and accelerate our ability to build capital capacity. That capacity could be used to fund future capital projects.

Right now, our water rates are increasing 2½% every year and are expected to continue to increase at that rate. Without the North Reading agreement, individual water rates are estimated to increase by 28% in 2020 and approximately 4% per year thereafter. Compounded, Andover customers would pay 42%, 154%, and 419% higher amounts over 10, 50, and 99 years, respectively, without revenue from North Reading.

While a final agreement is still to be negotiated, the proposed framework benefits water customers in both towns. It would slow future increases in Andover's water rates and North Reading would incur lower rates than those charged by the MWRA. Andover would supply North Reading with water at the wholesale rate of 95% of the Andover Tier 1 rate. Currently, North Reading residents pay more than twice what Andover residents pay across all tiers. A comparison of Andover and North Reading water rates is shown on page 9. North Reading residents would continue to pay more than Andover residents with the new agreement.

Andover currently provides North Reading with an average of 1.26 million gallons of water per day. This proposed agreement would provide an option for up to 3 million gallons per day. Some residents question the Merrimack River's ability to sustain an increased demand for water. The Merrimack River's watershed is extensive and is illustrated on page 8. Its average flow is many hundred times more than our current or projected needs. These high water flows in the Merrimack River suggest that the Merrimack is highly likely to have more than enough water to supply both Andover and North Reading for the entire 99-year term of this agreement.

Some residents are concerned that the future is too unpredictable to enter into a 99 year agreement. In the event circumstances arise that are beyond our control, the proposed water agreement is expected to have risk mitigation and other safeguard clauses to protect both towns similar to the 'Force Majeure' clause in our current North Reading IMA. The current 'Force Majeure' clause is comprehensive and can be found in its entirety on page 12.

Andover provides services to its residents commensurate with our high quality of life. Annual increases in operating expenses and rising fixed obligation costs

are impacting our tax bills. For as long as Andover will be providing water for its own residents and businesses, it makes financial sense to reduce the average cost for each gallon of water delivered.

Voters must decide how comfortable they are with a 99-year agreement. But if fear of the unknown results in disapproval of this article, it will be expensive for Andover residents now and for generations of residents to come. The Finance Committee believes entering into this agreement is in Andover's best interest and unanimously recommends approval.

For additional information, a comprehensive online presentation about this water agreement is available at [www.andoverma.gov/wateragreement](http://www.andoverma.gov/wateragreement).

The Finance Committee also encourages you to attend any one of the several public meetings scheduled to be held before the Special Town Meeting. Dates, times and locations of those public meetings are also listed on the website. Above all, we encourage your presence at the Special Town Meeting on April 4. Your vote is important.

The Finance Committee

Eugenie M. Moffitt, Chair  
John J. Barry, Jr., Vice-Chair

Margaret N. Kruse  
Linn N. Anderson  
Bonita J. Zahorik  
Blackwell O. J. Taylor

Paul Monticciolo  
Paul F. Russo  
Spiro A. Christopoulos

## NOTES

**Special Town Meeting  
Wednesday, April 4, 2018  
7:00 P.M.**

\*\*\*\*\*

<b>INTERMUNICIPAL AGREEMENT WITH THE TOWN OF NORTH READING FOR POTABLE WATER SERVICE</b>
--

**ARTICLE 1.** To see if the Town will vote to authorize the Board of Selectmen to enter into an Intermunicipal Agreement with the Town of North Reading for potable water for a term of up to 99 years on such terms and conditions that the Board determines are in the best interests of the Town; and further to see if the Town will authorize the Board of Selectmen to take any and all action necessary to effectuate such agreement including, but not limited to, petitioning the General Court for a special act authorizing said agreement, or take any other action related thereto.

~ ~ ~ ~ ~

This article authorizes the Board of Selectmen to seek a Home Rule Petition from the Massachusetts Legislature to enter into a 99-year agreement to supply water to the Town of North Reading.

The Town of North Reading has been Andover’s water customer for 44 years and its largest customer for nearly 30 years. A series of Intermunicipal Agreements between the two communities have defined the terms by which we supply water to them. The current agreement is due to expire on June 30, 2020. The outcome of the vote on this article is the first of several steps that will determine whether North Reading continues to buy water from Andover or will instead buy water from the Massachusetts Water Resource Authority (MWRA).

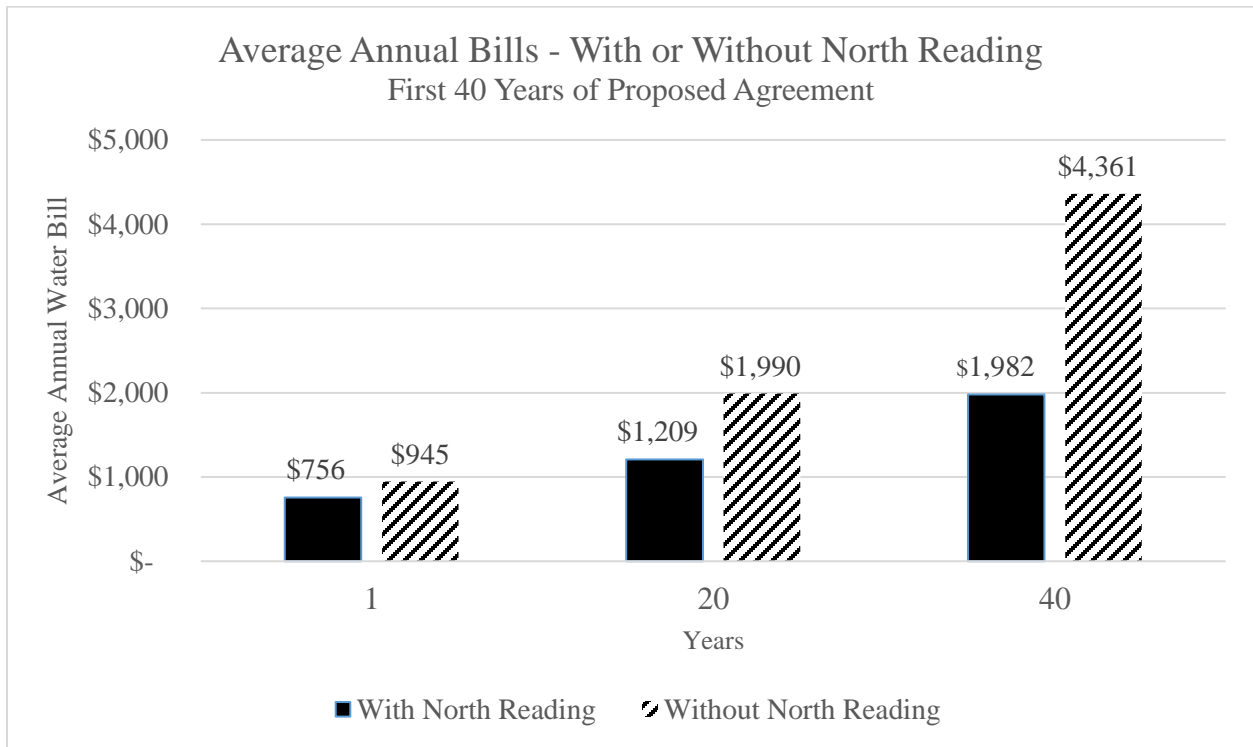
**Andover water bills will increase without North Reading as a customer**

A 2016 water rate study determined that without North Reading as a customer, Andover water rates would increase about 28% in FY2020, followed by increases of about 4% per year after that. In contrast, if North Reading remains a customer, Andover water rates are estimated to increase by about 2.5% per year. It is clear that retaining North Reading as a water customer would be financially beneficial to both municipalities.

The following table shows the effect on the average Andover resident’s annual water bill if North Reading ceases to be a water customer.

Average Annual Water Bill for Andover Resident		
	With North Reading	Without North Reading
1 Year	\$756	\$945
20 Years	\$1,209	\$1,990
40 Years	\$1,982	\$4,361
60 Years	\$3,247	\$9,555
80 Years	\$5,321	\$20,936
99 Years	\$8,506	\$44,110

Andover’s average residential water bills will be lower if North Reading continues as a water customer. The following chart shows the estimated average annual water bill in one year, twenty years, or forty years with and without North Reading:



Andover has tiered water rates, with higher tiers applying to higher volumes of water consumption. This table shows the anticipated changes in tiered water rates if North Reading ceases to buy water from Andover in FY2020.

<b>Andover Water Rates <i>without</i> North Reading as a Customer</b>				
	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
<b>Tier 1</b>	\$2.97*	\$3.05	\$3.90 (+28%)	\$4.05 (+4%)
<b>Tier 2</b>	\$3.27	\$3.35	\$4.29 (+28%)	\$4.46 (+4%)
<b>Tier 3</b>	\$3.57	\$3.66	\$4.68 (+28%)	\$4.86 (+4%)

\* Per hundred cubic feet of water consumed



**Net revenues from selling water to North Reading help fund capital improvements**

This table shows the estimated net and cumulative revenues from North Reading if Town Meeting passes this article and a 99 year agreement is signed with North Reading this fiscal year. If the agreement is signed at a later date, the numbers could change somewhat, but the same general pattern holds.

Year	Revenue from North Reading	Cost of Providing Water for North Reading	Credit	Net Revenue	Net Revenue
1	\$1,769,006	\$376,576	\$95,300	\$1,297,130	
2	\$1,813,231	\$385,990	\$95,300	\$1,331,941	
3	\$1,858,562	\$395,640	\$95,300	\$1,367,622	
4	\$1,905,026	\$405,531	\$95,300	\$1,404,195	
5	\$1,952,652	\$415,669	\$95,300	\$1,441,682	
6	\$2,001,468	\$426,061	\$95,300	\$1,480,107	
7	\$2,051,505	\$436,713	\$95,300	\$1,519,492	
8	\$2,102,792	\$447,631	\$95,300	\$1,559,862	
9	\$2,155,362	\$458,821	\$95,300	\$1,601,241	<i>10 Year Net</i>
10	\$2,209,246	\$470,292	\$95,300	\$1,643,654	\$14,646,925
11	\$2,264,477	\$482,049	\$0	\$1,782,428	
12	\$2,321,089	\$494,100	\$0	\$1,826,989	
...	...	...	...	...	<i>20 Year Net</i>
20	\$2,828,022	\$602,013	\$0	\$2,226,009	\$34,616,148
...	...	...	...	...	
30	\$3,620,106	\$770,627	\$0	\$2,849,479	
...	...	...	...	...	<i>99 Year Net</i>
99	\$19,891,526	\$4,234,395	\$0	\$15,657,131	\$585,292,171

The net revenue from selling water to North Reading constitutes about one-third of Andover’s water enterprise revenue used to fund upgrades to the Water Treatment Plant, the upkeep of over 200 miles of water mains throughout the Town of Andover, and all other water enterprise projects. This enables Andover to maintain its high quality of water while keeping costs down for residents.

<b>Projected Water Enterprise Capital Improvement Program FY2019-FY2023</b>			
Project Description	Total Cost	Andover Share	North Reading Subsidy
Capital Improvement Program – includes principal and interest payments for: Water Main Replacements Hydrant Replacements Electrical Substation Replacement Water Vehicles Filter Backwash Discharge Tank	\$14,607,356	\$9,738,237	\$4,869,119
Water-related Warrant Articles	\$1,500,000	\$1,000,000	\$500,000
<b>Total Expenses</b>	<b>\$16,107,356</b>	<b>\$10,738,237</b>	<b>\$5,369,119</b>

**Total Subsidy from North Reading, 2019-2023: \$5,369,119**

## Water capacity of the Merrimack River

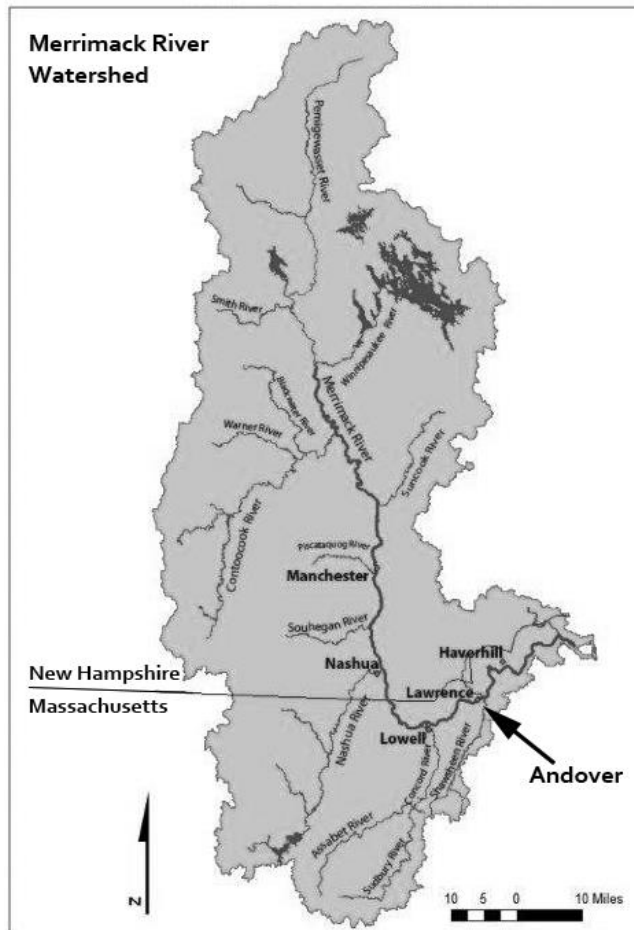
Andover gets its water primarily from the Merrimack River, and thus the water capacity of the Merrimack River is worth considering. A United States Geological Survey (USGS) study of water flow in the Merrimack River measured at a station in Lowell, MA, from 1990-2016 shows an average daily flow in the Merrimack River of 5,662 million gallons per day (MGD).

A comparison of water flow in the Merrimack River to the current Andover/North Reading withdrawal amounts is shown here:

	Average Flow in Merrimack River (MGD)	Current Average Withdrawal Andover/North Reading (MGD)
<b>Average Day</b>	5,662	7

The high water capacity in the Merrimack River is due to its extensive watershed, which enables it to collect water over a large geographical area.

The Merrimack River also does not have major metropolitan areas in its watershed.



## Preliminary discussions about a long-term agreement

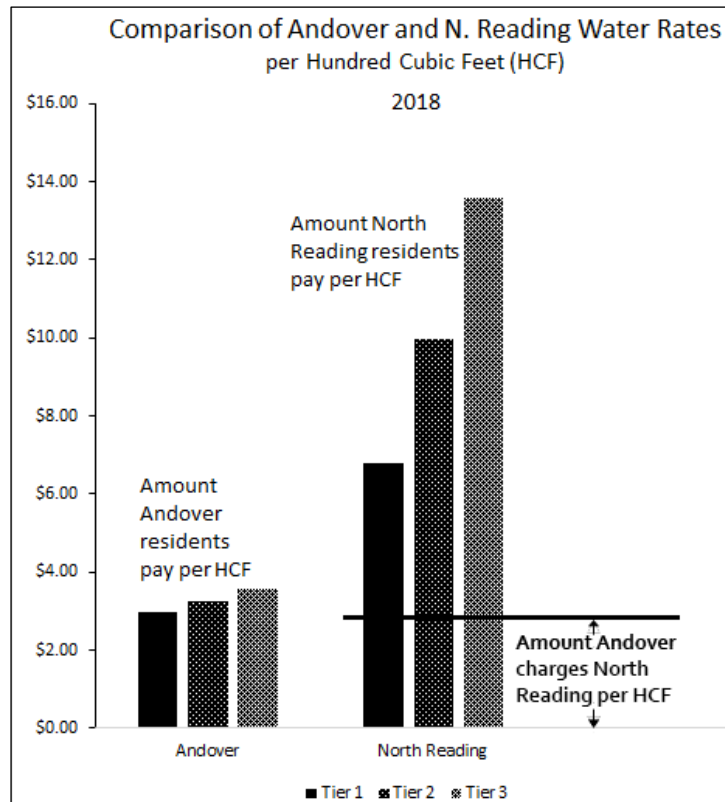
This article gives the Board of Selectmen permission to negotiate up to a 99 year water agreement with North Reading. While the long-term agreement has not been finalized, the framework of an agreement was developed over the course of dozens of meetings and was approved by Andover’s Board of Selectmen on August 28, 2017. This preliminary framework, referred to as a ‘Summary of Terms,’ is on page 10.

The highlights of this preliminary agreement are:

- A 99-year agreement.
- An increase in the amount of water sold to North Reading from 1.5 million gallons per day (MGD) to 2.6 MGD starting in July 2019 with the potential for a maximum of 3.0 MGD if a long-term agreement is signed and the DEP permits Andover to increase its allowed withdrawal amount from the Merrimack River.
- Instituting a \$95,300 annual credit to North Reading to offset MWRA costs already incurred starting in July 2018. This credit has already been approved by Andover’s Board of Selectmen. This credit will be applied for each year of the next ten years provided that North Reading remains a water customer. Note that the net revenues from North Reading far exceed the credited amount.
- Starting in July 2018, North Reading’s water rates increase to 5% for FY2019, followed by a 0% increase for the next year, and a 2.5% increase after that.
- A wholesale discount to the water rate equal to 95% of the Tier 1 rate, with increases capped at 2.5% for the first 10 years only.

Note that the 95%-of-Tier-1 rate that the Town of Andover charges the Town of North Reading is not what North Reading residents pay. The Town of North Reading adds in additional charges to cover expenses such as the costs of its water distribution system, substantially raising the rates paid by the North Reading resident.

This graph shows the tiered water rates currently paid by Andover residents, a line indicating 95% of Andover’s tier 1 rate, and the tiered water rates currently paid by North Reading residents.



## **Status of water agreements with North Reading**

On August 28, 2017, the Andover Board of Selectmen authorized the Town Manager to move forward to draft two agreements with North Reading, using the proposed Summary of Terms printed below as a framework. These two agreements are:

1. An extension to the then current Intermunicipal Agreement with North Reading.

Status: The extension to the existing Intermunicipal Agreement was approved on October 2, 2017. It extends the term of the Intermunicipal Agreement until June 30, 2020, with an automatic 1-year extension until June 30, 2021.

2. A long-term successor agreement.

Status: The first step in the long-term successor agreement is the subject of this Article at this Special Town Meeting. Subsequent steps include petitioning the MA State Legislature to approve a Home Rule petition to enter into a 99-year agreement with North Reading and the negotiation of that 99 year agreement by the Boards of Selectmen of Andover and North Reading.

### **Summary of Terms Inter-Municipal Agreement for Potable Water Service**

<b>SUPPLIER:</b>	Town of Andover, MA ("Andover")
<b>CUSTOMER:</b>	Town of North Reading, MA ("North Reading," and together with Andover, the "Towns," or, individually, a "Town")
<b>SERVICE PROVIDED:</b>	Up to 2.6 million gallons per day (MGD), maximum day demand, effective July 1, 2019. Option for up to 3.0 million gallons per day (MGD) after six years, subject to permitting and appropriation.
<b>CAPITAL EXPENSE:</b>	Andover will be responsible for capital expenses in Andover related to the delivery of potable water to the North Reading town line.
<b>COSTS INCURRED:</b>	Andover will reimburse North Reading's costs already incurred to join the MWRA, up to [\$953,000], which costs will be reimbursed by Andover through credits to North Reading's water invoices, starting July 1, 2018 in the amount of \$95,300 annually, ending on the date North Reading executes a long term agreement with the MWRA. North Reading will provide Andover with documentation acceptable to Andover for all such costs assumed.
<b>WATER RATE:</b>	95% of Andover's Tier 1 Rate, with annual increases not to exceed 2.5% for a term of 10 years.
<b>TERM:</b>	99 years pending each Town's Town Meeting and Legislative Approval.

**SERVICE QUALITY  
AND QUANTITY**

Andover to be responsible for water meeting all state and federal guidelines at time of delivery to the North Reading town line. Any reductions in water service quantities, caused by water bans/restrictions and the like, to be borne proportionately by the two Towns based on usage volumes. Both parties agree that all water limitations placed by Andover on its users will be applied equally to North Reading.

**BACK-UP WATER  
SUPPLY TO READING:**

The Towns agree to commit to working with North Reading to establish Andover as the emergency back-up water supply for the Town of Reading, to the extent feasible, through North Reading's water infrastructure (the "Reading Transaction"). Entry by Andover into any definitive agreement relating to the Reading Transaction will be contingent upon Andover being appropriately indemnified and held harmless.

**PERMITTING/  
APPROVALS:**

Each Town to be responsible for their own municipal approvals. The Towns will cooperate in obtaining any necessary "Home Rule" petition. Andover will coordinate and obtain any Andover permits to deliver water in accordance with this agreement. Andover will provide engineering and administrative support needed to obtain permits to assist North Reading with inter-basin transfer permitting.

**EXTENSION OF  
CURRENT INTER-  
MUNICIPAL  
AGREEMENT:**

The Towns will extend the current inter-municipal agreement for one-year extension of the existing agreement on the above terms, with automatic renewal to a second year unless notice is given by North Reading before November 1, 2019. All existing terms of the current Inter-Municipal Agreement between the Towns will remain in full force and effect, with the exception of the Water Rate, which shall increase by 5% beginning July 1, 2018, 0% beginning July 1, 2019, and 2.5% beginning July 1, 2020.

**NEW LONG TERM  
SUCCESSION  
AGREEMENT:**

If the parties agree to a long-term Successor Agreement, Andover agrees to set the effective rate of 95% of Andover's Tier 1 rate retroactively to the beginning of the fiscal year in which the Successor Agreement is executed.

**SEWER  
COLLABORATION:**

Andover recognizes that North Reading intends to further investigate the feasibility of connecting through Andover's sewer network to the Greater Lawrence Sanitary District sewer treatment facility. Andover is committed and will fully cooperate with this effort.

## Force Majeure clause

While the specific terms of a long-term agreement are not known yet, the current water agreement with North Reading, signed in 2015 and extended in 2017, defines and incorporates the following Force Majeure clauses:

### 1.2 Definitions

**"Force Majeure Events"** means a consequence of any Acts of God, act of public enemy, laws, blockades, insurrections, riots, epidemics, landslides, lighting, earthquakes, fires, storms, floods, washouts, arrests and restraints of rulers and people, civil disturbances, labor strikes, power failures, explosions, breakage or accident to machinery, lines or pipe, failure of water supply, regulatory requirement, restriction or limitation, the binding order of any court or governmental authority which has been resisted in good faith by all reasonable legal means, and any other cause, whether of the kind herein enumerated or otherwise, not within the reasonable control of such party, and which act, omission or circumstance such party, and which act, omission or circumstance such party is unable to prevent or overcome by the exercise of due diligence."

### 2.2 Impairment of Supply

**A. Responsibility.** The furnishing of water to North Reading under this Agreement shall not be impaired except in the case of a Force Majeure or Water Drought Warning or Emergency event which impacts customers within Andover's geographic boundaries. Andover shall not be compelled to furnish the customary amounts of water to North Reading on a continuous basis during such event.

**B. Force Majeure and Water Drought Warning/Emergency Events.** Neither Andover nor North Reading shall be liable for damages or otherwise for failure to perform any obligation under this agreement which failure is occasioned by a Force Majeure or Water Drought Warning or Emergency event. Such event affecting the performance of either Andover or North Reading, however, shall not relieve such other party of liability in the event of its negligence, intentional acts, or in the event of such party's failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch. Andover shall communicate the details of such events to North Reading, including the level/amount of flow restriction, the anticipated duration, and the remediation/management actions being taken, with as much advanced notice as possible, but not less than 72 hours, and the two parties will remain in contact with each other throughout the duration of the event.

**The BOARD OF SELECTMEN will make its recommendation at Town Meeting. YES \_\_\_\_**

**The FINANCE COMMITTEE voted 8-0 to recommend approval. NO \_\_\_\_**

On request of the Town Manager

# TOWN OF ANDOVER

## TOWN MEETING PROCEDURE AT A GLANCE

<b>To do this...</b>	<b>You say this.....</b>	<b>May you Interrupt Speaker?</b>	<b>Must you Be Seconded?</b>	<b>Is the Motion Debatable?</b>	<b>What vote is required?</b>
Request Information	Point of Information	Yes	No	No	No Vote
Complain about noise, sound, general room conditions, etc....	Point of Privilege	Yes	No	No	No vote
Object to procedure or personal affront	Point of order	Yes	No	No	No vote Chair decides
Introduce Business <i>(a primary motion)</i>	I move that.....	No	Yes	Yes	Majority
Ask for a vote count to verify a vote	I call for a standing count...	No	No	No	No Vote
Amend a motion	I move to amend this motion	No	Yes	Yes	Majority
End Debate <i>Can be denied by Moderator at his/her discretion</i>	I move the question	No	Yes	No	2/3 vote
Reconsider something already disposed of	Meeting only reconsiders a vote if an error has occurred				Chair corrects with proper vote
Recess the meeting	I move that we recess until....	No	Yes	No	Majority
Adjourn the meeting	I move we adjourn	No	Yes	No	Majority

**Town of Andover  
36 Bartlet Street  
Andover, MA 01810**

**US Postage  
PAID  
Andover, MA  
PERMIT NO. 41**

**\*\*\*ECRWSS      RESIDENTIAL CUSTOMER      ANDOVER, MA 01810**

**PLEASE BRING THIS REPORT WITH YOU  
TO SPECIAL TOWN MEETING**

**WEDNESDAY, APRIL 4, 2018  
7:00PM**

**J. EVERETT COLLINS CENTER  
ANDOVER HIGH SCHOOL AUDITORIUM**