



November 26, 2012

Mr. Kent Songer
Superintendent
Templeton Sewer Department
33 Reservoir Rd
Baldwinville MA 01436

Dear Mr. Songer & Members of the Board

It was a pleasure meeting with you this past Monday to discuss our findings on the analysis of Templeton's sewer rates. We have summarized the findings in this letter report.

Background

Templeton's sewer collection system consists of some 181,000 feet of collection system pipe with eight pumping facilities owned by the Town. The bulk of the wastewater is transmitted to the Town's 0.6 million gallon per day (mgd) wastewater treatment facility that discharges to the Otter River. Wastewater collected in portions of eastern Templeton is pumped to the nearby City of Gardner wastewater treatment plant.

No present members of the Board or the staff can recall when Templeton last had a formal study of its sewer rates. There are no reports of such a study in its files. The Town has established a separate sewer enterprise fund that reflects the costs of the sewer operations and identifies the revenues that support the operations and capital costs. The most recent Annual Report for the Templeton Sewer Department is for the Fiscal Year 2011 (ending June 30, 2011). That report shows that the combination of sewer expenses, salaries and the share of debt paid through sewer rates exceeded the annual receipts. This required the Town to use a portion of the sewer free cash (or reserves from prior years) in order to cover the total expenses.

In authorizing debt for sewer construction, the Town has decided that 75% of the principal and interest on sewer bonds will be paid by the Town's general fund. This is in apparent

recognition of the town wide benefits that sewer projects have provided the Town of Templeton.

In February 2011, the Town had a Sewer System Expansion Master Plan prepared by Kleinfelder (SEA) Engineers. The Master Plan reported on the condition of the existing sewer system and the needs for expansion in several areas of Town. It was reported that the Town had sufficient treatment capacity at both its own facilities and at the Gardner treatment plant. In total, sewer system expansion and improvements projects of over \$26 million were identified over the next 20 years (through 2033).

Projected Expenses

Table 1 presents the historic and projected expenses of the sewer department. The fiscal year 2012 and 2013 expenses are based on the budget for the department. The projected expenses for FY 2014 - FY 2016 are our estimates considering modest annual increases in operating costs plus the schedule of current debt service payments.

Table 1 - Historic and Projected Expenses

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Salaries	\$ 291,373	\$ 291,373	\$ 298,471	\$ 298,141	\$ 304,100	\$ 310,200	\$ 316,400
Expenses	\$ 543,006	\$ 595,025	\$ 570,590	\$ 565,450	\$ 576,900	\$ 588,400	\$ 600,100
Debt Service *	<u>\$ 168,773</u>	<u>\$ 166,182</u>	<u>\$ 151,726</u>	<u>\$ 137,270</u>	<u>\$ 136,181</u>	<u>\$ 135,247</u>	<u>\$ 135,166</u>
Total	\$ 1,003,153	\$ 1,052,580	\$ 1,020,787	\$ 1,000,861	\$ 1,017,181	\$ 1,033,847	\$ 1,051,666

* Note: represents the 25% share paid through sewer rates, balance paid by Town's general fund.

As noted on this table, the annual debt service represents the 25% of the total annual debt that is paid through sewer rates and charges.

Revenues

Templeton has a number of sources of revenues that can be used to offset the sewer expenses. In addition to the sewer user charges and tipping fees for septage disposal, the Town receives revenues from sewer betterments charged to abutters of sewers, entrance fee income for new connections, and some miscellaneous revenues. While the Town did receive annual \$35,000 grants from the USRDA, that funding ended in FY 2012.

The final source of income for the sewer department is the use of reserves that have accumulated over the years. At the start of FY 2012 (July 1, 2011) the estimated sewer free cash was \$433,000. With estimated operating losses in FY 2012 it is estimated that the free

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cash available as of July 1, 2012 will be less. Free cash can be used to cover operating losses, can be dedicated to future capital projects, or can be used to help mitigate rate increases. By the end of the current fiscal year (June 30, 2013), it is estimated that the free cash will be under \$200,000. The estimated level of free cash is less than 20% of the overall expenses. We recommend that the Board of Sewer Commissioners not use these reserves, instead deferring any use for emergencies and unexpected shortfalls in revenues

Projected User Charges

To preserve the level of free cash, it will be necessary to increase the sewer rates and septage tipping fees starting in the summer of 2013 (the start of FY 2014). Recently, Templeton has switched from sewer billing based on a flat per EDU (equivalent dwelling unit) charge to a sewer user charge based on metered water use. Basing the sewer charges on water use is considered more equitable: customers that use more water will typically discharge greater volumes of sewage and should be charged more for the additional discharges. However, basing the sewer charges on water use also results in a greater degree of uncertainty regarding revenues.

If customers reduce water use, then sewer revenues decrease. Conversely, higher water use will result in increased sewer revenues. In recent years, customer water use has been decreasing for a number of reasons. The weather patterns have been such that irrigation demands for water have dropped. The slower economy has resulted in reduced water use by some customers. The national plumbing codes that require low use water fixtures have also contributed to lower water use over the past decade. In projecting sales for the determination of sewer user charges, these reduced water demands need to be understood and considered. As an example, the volatility in water use suggests the maintenance of greater free cash balances to account for decreased water sales.

To project new sewer user charges we obtained metered water use for customers with sewer service for the past three quarters (the only data available). The water sales were converted to an annual use. When we applied the current sewer rates and charges, the projected annual revenues approximated the annual revenues reported by the Town.

We also obtained the septage discharge volumes for the past three years. Because a higher rate is charged to out-of-town customers, the septage discharge was segregated between out-of-town and inside discharges. Using the current septage rates we calculated the estimated septage revenues and these too approximated the annual revenues.

Using the projected expenses, estimated revenues from other sources, and projected water and septage sales, we were able to calculate new sewer user charges projected to be sufficient to recover the Town's cost of sewer operations. We have projected that an overall increase in the sewer rates and septage charges of 35.3% is needed for FY Year 2014 (beginning July 1, 2013). Because the June billing is not collected until after the start of the fiscal year, it is recommended that the rate increase be voted this spring and made effective prior to this June's billing. Increases of approximately 4% the following two years are projected. Table 2 presents the current sewer rates and charges and those we have projected for FY 2014 through FY 2016.

Table 2 - Projected Sewer User Charges

	<u>Current</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Flat Rate (/qurt)	\$ 97.66	\$ 133.00	\$ 137.00	\$ 141.00
Minimum/quarter	\$ 75.00	\$ 102.00	\$ 105.00	\$ 108.00
8,750 - 15,000/qu	\$ 5.43	\$ 7.35	\$ 7.57	\$ 7.80
over 15,000/qu	\$ 6.79	\$ 9.19	\$ 9.47	\$ 9.75
<u>Septage</u>				
In-Town	\$ 0.0625	\$ 0.0850	\$ 0.0880	\$ 0.0900
Out-of-Town	\$ 0.0800	\$ 0.1090	\$ 0.1120	\$ 0.1150

Note: recovers 25% of overall debt

The Sewer Commission has also asked us to look at the level of increase needed should the Town decided to recover 100% of the cost of debt through sewer rates rather than recovering only 25% through the rates. This adds a substantial increase (in excess of \$400,000 per year) to the annual sewer revenue requirements. Table 3, below, shows the projected sewer rates and charges with 100% debt recovery.

Table 3 - Projected Sewer User Charges 100% Debt Recovery

	<u>Current</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Flat Rate (/qurt)	\$ 97.66	\$ 191.00	\$ 193.00	\$ 196.00
User Charge	\$ 75.00	\$ 147.00	\$ 149.00	\$ 151.00
Minimum/quarter	\$ 5.43	\$ 10.61	\$ 10.73	\$ 10.87
8,750 - 15,000/qu	\$ 6.79	\$ 13.27	\$ 13.41	\$ 13.59
<u>Septage</u>				
In-Town	\$ 0.0625	\$ 0.1240	\$ 0.1260	\$ 0.1280
Out-of-Town	\$ 0.0800	\$ 0.1580	\$ 0.1610	\$ 0.1640

Note: recovers 100% of overall debt